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EEI Conference: Day 3 – It Keeps Going

Price Objective Change

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The latest trends at this year's virtual mega conference

We provide our latest day of conference takeaways with our most substantive set of meetings on Tuesday. We include takes from AEE, AES, ALE, AVA, AWK, BKH, CMS, D, EVRG, FTS, IDA, NI, NWE, OGE, PEG, PNM, PNW, POR, WEC, and XEL. While there are few substantive updates we continue to stress several key themes: 1) rate cases are to be avoided as much as possible – we see delay efforts across the sector to limit scrutiny of authorized returns: examples include BKH, XEL, WEC among a litany of others that have been successful in avoiding these outcomes. 2) Expansion of contracted renewables remains a key point of discussion as this is increasingly affording latitude for companies to backfill their EPS growth with undefined project acquisitions as ratebase otherwise slows or is unable to meet the 5-7% growth contemplated. 3) Continued elevated residential trends, and *especially* sustained cost cuts from 2020 into 2021 provide substantive latitude in earnings. While we've remarked before at just how confident companies are already within their stated or implied '21 EPS guidance ranges, we reiterate this focus. By contrast, those with challenges to achieve '21 EPS appear outliers and the greater risks for performance vs utility peers. 4) Debate on sector valuations remains clear, with substantial focus on just whether there is value in gas LDCs. On balance near every executive agrees on LDC merits – in northern latitudes and central geographies so dependent on winter heating – and hence we see clear bias for consolidation whether driven by strategics or financial sponsors. See our earlier takes from Day 1 and Day 2. AVA PO to $38 (from $35) on mtm of17.3x for electric (from 16.5x) and 15.5x for gas (from 13.8x); POR to $48 (from $42) on mtm (from 16.2x).

So what about company specifics? Some high points

AES remains among the best meetings of the conference given continued discussion of positive EPS factors driving extension of EPS CAGR, further divestments, constructive sales prices on recent sales, and ultimately upside surprise on other smaller start-ups (Uplight). We saw NEE as among the better Day 1 meetings as well. A few of the key points from our meetings: AEE doesn't see '20 EPS as intermediating on its '21+ outlook; this is important to consider given recent pressures. AES see even more latitude than we realized (out to '25) and could see further halving of its coal capacity by end of '21. BKH quite confident on its ability to scale incrementally still – more upside on the come despite constructive '21 guide release. D aspires to provide *consistent* 6.5% EPS growth despite lumpy nature of its growth; see some modest positive tailwinds as roll its outlook ever deeper into the core of its offshore upside (expect ratebase likely still 7-8% if not higher). EVRG offered some caution on earned ROE trends heading into '21/'22, but affirmed updates on new executives would be forthcoming well before 4Q roll; appears confident on getting approval for ratebase wind investment of 700MW with clarity likely by YE21 to bolster confidence in stand-alone plan. NI divestment remains a key focus of debate – appears to be still interested, but not entirely clear. PNW has put together an intriguing rider package for clean energy recovery tied to economic support for impacted native American communities: positive update, but *how much* can it address lag? Finally XEL appears poised to kick out rate cases in its two core geographies – and sustain its current level too. *See company specific write-ups enclosed.*

Refer to important disclosures on page 31 to 33. Analyst Certification on page 29. Price Objective Basis/Risk on page 24. **12213850**

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Ameren (AEE)

Shares of Ameren experienced weakness following the company's Q3 report and reduction in the top end of its guidance range. Without a significant update as part of its EEI release, mgmt. reiterated its focus on executing its updated resource plan in Missouri as well as ongoing efforts to extend IL formula rates as its top priorities. Maintain Neutral on Ameren.

Focus on 6-8% growth with MO rate review filing expected by mid-2021

Mgmt flagged its upcoming MO rate filings for both its electric and gas utilities as key H1 items on the regulatory agenda, with the filing at the electric utility intended to capture the $1.2B of wind entering service by the end of 2020. We perceive some sensitivity to the overall trajectory of O&M reductions as well given the test year period for an electric filing is ongoing, and accordingly are less concerned about the 2020 guidance reduction as a sign of persistent execution issues. The bulk of 2020 Covid impacts affected the MO Electric business, mgmt. indicated that the majority of offsets were undertaken at that utility rather than across the enterprise. Looking ahead some investors are identifying natural gas demand in the key Q1 period as a potential tail wind for non-decoupled gas distribution utilities, similar to the boost seen in residential electric demand from Covid-related changes in usage patterns. AEE mgmt. see this as less of a consideration given that its larger gas business is in IL (decoupled) with a relatively small number of gas customers in MO (120k).

Constructive on ROEs, Liberty not a blueprint, Formula Rates key in IL

The MO Electric rate settlement received earlier in 2020 is seen constructively by mgmt. (and indeed led to upward estimate revisions and enthusiasm around AEE shares), though the precise ROE and equity remain part of the black box settlement. Mgmt. does not expect that the Liberty Utilities decision from earlier in the year serves as a leading indicator for the path of ROEs in MO broadly (a view echoed by other stakeholders in our previous conversations). Generally we believe that the commission maintains a constructive stance toward AEE Electric and see a pathway to a potential settlement in the upcoming 2021 filing as well. In Illinois, the extension of formula rates and corresponding increase in adder from 580 to 680 bps remains top priority – mgmt. indicates that formula-based ROEs today are lower than would otherwise be expected under a traditional rate case process, though the advantages of the formula rates in terms of stability and procedural simplification are seen as key. Remains constructive on *eventual* resolution of lingering IL extension question.

Latitude to move up coal retirements, but currently key part of gen mix

Mgmt. did not rule out further acceleration of coal plant retirements in Missouri after the resource filing in September moved forward planned shut downs at Sioux, Rush Island, and Labadie. Mgmt. sees the current planned lives of the facilities as appropriate given the plants' capacity factors, which remain high (unlike EVRG's KS facilities). Also worth noting is the significant rate base associated with coal generation at AEE's Missouri facilities – mgmt. indicated a preference for accelerating depreciation of these assets (Merrimac will be nearly depreciated when retired in 2022) over securitization, which remains uncertain at this point. While stakeholder conversations indicate a degree of momentum and support for securitization, AEE mgmt. is not indicating that the legislation is a key component of its coal strategy – we continue to see this as more of a factor for Evergy.

AES Corp (AES)

Watch Fluence Selldown with Developments Imminent

After an S&P upgrade to Investment Grade and coming off of a positive 3Q report last week, discussions with management continued to highlight pending developments around Fluence – the battery storage JV with Siemens - as the company looks to do a capital raise to establish a value marker for the biz and drive continued investment ahead of an IPO in two or three years. We continue to perceive the most likely construct as a 5% sell down each of AES/Siemens' 50% stakes. While R&D has kept the business about a $0.02 drag on AES consolidated results, latest discussions continued to stress the company as margin positive with management guiding to a 45% revenue CAGR ($500Mn in 2020) as a base case to grow to ~$3Bn in five years. Current expectations under base forecasts are for the company to yield positive earnings in a couple of years. That said, conversations suggested potential for accelerated growth given the scope of possibilities for energy storage in transmission – which could push out inflection in earnings contribution while further driving longer term value. It remains to be seen just how elevated a valuation the company can achieve with the initial sell down and how the recent acquisition of AMS contributes to driving interest and margin potential over time.

Divestments continuing and could even *accelerate* too

Meanwhile, we expect potential for additional asset sale announcements through year end to further clean the portfolio after announcing last week that that it has signed an agreement to sell a 35% interest in the Southland repowering for $424Mn (meaningfully more than our prior valuation and translating to 14x+ EV/EBITDA multiple), pushing total announced asset sales this year to $650Mn and above their full year target of $550Mn. Look for further divestments of coal by year-end and substantively more even in 2021. We could see a further halving of total coal exposure over 18-months. While EPS dilution from sales remains a clear risk.

Uplight: another efficiency emerging biz within the AES family

While likely more protracted, watch any developments overtime around Uplight – with the biz currently driving 20% top line growth and our model only incorporating the equity invested in the valuation - and other potential partnerships that could yet materialize in coming months. This remains another emerging angle to the story; we value it at book value in our SOTP. Admittedly this could see some growing enthusiasm.

Poised to Extend 7-9% EPS CAGR: *growing clarity*

Overall, we see the company as well positioned to extend their 7-9% EPS CAGR with their typical roll forward early next year to '24. While only 15% of the biz, we expect the utilities to be a key driver of EPS post 2022 with management guiding to high single digit rate base growth for DP&L and mid-single digit rate base growth for IP&L. Recall the company recently reached a constructive settlement in Ohio and has a 1.2GW renewable RFP in Indiana emerging as a potential contributor of EPS through 2025: we see potential for half of the 1.2GW to ultimately make its way in to rate base with participation through a build-own-transfer. While Panama opportunities appear the most immediate, management remains optimistic around LNG prospects broadly with potential additional contribution from the DR in the near term; Vietnam appears a bit more protracted with COD in early 2025 (more then offsets other headwinds in this year) but management sees five cents of earnings upside from LNG in the nearer term (we believe we largely reflect this already).

Meanwhile, with the change in administration, we could see potential extensions of tax credits to help further push renewables domestically – and any extension to applying the tax credits for storage could drive further benefits. With a much greater international exposure, we see renewable subsidies as less critical for AES as they look to deploy 2-3GW annually. Look for possible additional disclosures with the full year results to include a comprehensive disclosure of earnings tied to renewables across its disparate businesses. We see this as yet another angle.

We reiterate our Buy rating ahead of key upcoming catalysts.

Allete (Not Covered)

FY20 headwinds on COVID impacts, but maintaining long-term trajectory
With C&I customer exposure, discussions focused on COVID load impacts. Although ALE has only seen ~5c EPS impact through 3Q on reduced C&I load, mgmt expects 15c impact for FY20 with 4Q impact as US Steel's Keetac and Verso Paper will be idle (Keetac restarting in Dec) coupled with broader C&I load slippage. The company expects COVID impacts to have a lingering effect into 2021. As such, EPS growth for 2020 YTD is ~4% relative to FY19 EPS, below long-term EPS guidance of 5-7%. FY20 utility growth is ~3% while Allete Clean Energy (ACE) growth was ~30%. Despite FY20 headwind, ALE maintained 5-7% long-term EPS growth off 2019 as base for CAGR, 4-5% high-visibility regulated utility earnings growth and 15%+ growth from energy infrastructure & related services.

Upcoming Feb 2021 IPR filing to focus on remaining coal retirements
Discussions also focused on early expectations into the upcoming Feb 2021 IRP filing at the Minnesota Power utility subsidiary. Mgmt expressed a focus on accelerating coal unit retirements, with 7 units already retired. Only Boswell 3 and 4 coal units are remaining without defined retirement dates. As such, mgmt expects the IRP filing to also focus on most cost effective ways to retire the two remaining coal baseload units, expressing additional T&D solar, wind, storage, DSM, and gas as all within discussions. In terms of PPA vs ratebase investments for clean energy, mgmt expressed that while low cost is a priority for regulators, ratebase may get an advantage as well given state focus on local economy benefits.

Clean Energy segment facing pressured wind development returns, akin to solar
For its ACE business segment, mgmt emphasized wind energy development competition and forward curve prices pressuring return profiles. With increasingly shorter contracted PPA tenors towards 10-15 years relative to 30-yr PPA asset life, merchant pricing curves have become more critical for the return profile. Mgmt emphasized focus on a return profile of a few 100bps spread relative to its CoC. That said, with merchant curves having declined ~20% in last 12 months, mgmt expresses a 100-150bps impact on IRRs. In terms of key markets with attractive wind development still, mgmt highlighted MISO, where it holds an advantage as a Midwest utility as well as PJM. Mgmt expressed shifting from wind development into complementary renewable energy spaces including solar and storage, including coupling these at wind sites. In particular, existing commercial customers have asked to add storage to wind projects, which helps support higher returns. Mgmt expects to provide greater details in coming quarters. We view compressing wind development returns and increasingly shorter contracted tenors expressed by mgmt as unsurprising and largely in-line with similar trends across utility-scale solar development.

Avista Corp (AVA)

Our meetings with AVA discussed a range of topics from the recently filed rate case to the ongoing wildfire investigations, M&A, and the IRP. We perceive the WA rate case request to be palatable although watch the tax credit flow-back for multi-jurisdictional approval and impacts to equity needs. On wildfires, the $135-150mn of liability insurance (not wildfire specific) should be adequate to cover any damages, although we wouldn't expect an update from the Department of Natural Resources (DNR) investigation anytime soon. With the IRP filing expected in WA in fall '21, we continue to remain somber on ownership opportunities given AVA cannot take advantage of in WA (state law) and smaller developers requiring lower rate of returns making competition a higher hurdle; Purchase Power Agreements (PPAs) would allow for the ability to earn on the payment stream. Some of the more interesting commentary came from the strategic side where mgmt. acknowledged that once it achieves *earned ROEs near authorized levels it could capitulate and noted that its current size/scale was challenging; from a consolidation standpoint mgmt. was not interested in further Gas LDC exposure, although continues to evaluate Alaskan assets. Net-net we reiterate our Neutral rating given several moving pieces and unresolved items. Our PO moves to $38 (from $35) as we mark-to-market our SOTP valuation with peer multiples on '23 EPS at 17.3x for electric (from 16.5x) and 15.5x for gas (from 13.8x).*

Some interesting M&A commentary

While mgmt. continues to remain committed to improving its earned ROE toward authorized levels, it acknowledged that once it achieves this feat it could entertain those options. We think this is likely because mgmt. feels its current P/E implies a lower earnings power than what it can eventually achieve; although given more fixer-upper type deals tend to get through the finish line, we wonder if a more substantial premium offered could get mgmt. to the table. Mgmt. also acknowledged that not having the scale is challenging because it can't spread costs over a larger customer base, and that it could look for partnership opportunities on the Social side to more align with the ESG trends. While the company was previously involved in M&A in the past through the eventually failed Hydro One deal, we wonder if more attention will come its way on this front.

What about gas LDCs or Alaska?

We perceive mgmt. continues to like its gas LDC assets given the cost considerations in the NW relative to electric despite the electrification trends. Despite some of these assets being on the market (i.e. CNP and NI both disclosing it intends to divest), mgmt. did not seem interested in gaining more exposure here. Rather, similar to meetings in the past, the company highlighted that it continues to look for opportunities in Alaska and has evaluated some of TransAlta's assets, although has yet to pull the trigger.

Puts and takes of the WA rate case filing

On the regulatory front, mgmt. recently filed its rate case in WA requesting a $44.2mn increase for electric (8.3%) and $12.8mn increase for gas (7.9%) with an overall flat increase in customer bills as it requested to accelerate the flow back of the Tax Customer Credit by 2yrs (to 10yrs) to offset the increase. Mgmt. highlighted that feedback from stakeholders has been limited so far, and it would need approval from <u>all commissioners</u> (WA, ID, and OR) for the accounting changes to flow-back tax credits. To that end, mgmt. feels confident in the request as the accounting change is an IRS acceptable method. While mgmt. would get the earnings uplift (assuming commissioners agree to this solution), there would be a cash flow impact, potentially impacting the company's equity needs in '21 (which have typically ranged from $50-70mn/yr). We also note that mgmt. has requested to recover $165mn of Advanced Meter Initiative (AMI), acknowledging it needs 100% recovery of this compared to 50-60% in the past (although has had dialogue with the commission prior to this request). Net-net, while WA has been somewhat challenging in the past we perceive the overall request as palatable yet slightly cautious.

DNR fire investigation ongoing; $135-150mn insurance

AVA continues to have an open dialogue with the Department of Natural Resources (DNR), which is currently investigating the fires where AVA's equipment was involved in early September. AVA previously disclosed that the fires were caused by extremely high winds, but to date, the company has not found any evidence that the fires were caused by any deficiencies in its equipment, maintenance activities or vegetation management practices. Although there is no statutory timeline around the DNR's investigation, mgmt. reiterated that it believes the company followed protocols and was prudent. In terms of wildfire insurance, mgmt. noted that wildfires fall under its general liability insurance coverage where AVA has total coverage of $135-150mn. We expect the wildfire associated insurance costs likely trend higher going forward, especially following this recent worse than normal fire season. We would highlight that in AVA's recently filed WA rate case, the company included an O&M tracker of $5.4mn. This O&M tracker incorporated higher insurance costs along with all the other costs embedded in O&M. Wildfires are not necessarily new to the area, and we note that AVA filed a wildfire resiliency plan prior to occurrence of these recent fires. That said, given the uncertainty around regulatory treatment as it pertains to wildfires across AVA's footprint, we believe this dynamic will add an overhang for shares in the near term.

Renewable RFPs related to IRP likely lack self-build

AVA management noted it is going to have additions related to wind, solar and additional hydro upgrades associated with its latest Integrated Resource Plan (IRP). However, we think most of these will be PPAs rather than self-build. Recall, AVA issued a renewable Request for Proposal (RFP) in June for 120 MW that did not consider self-build. In its next renewable RFP, AVA noted self-build options could be again limited highlighting that there are certain tax credits AVA cannot take advantage of in its WA jurisdiction given state law and smaller developers requiring lower rate of returns makes competition more fierce. We believe further extension of tax credits would likely further limit the ability for AVA to seek self-build options in its IRP, although we could see some hydro plant upgrade opportunities. We also note there is ability to earn on PPAs in WA through legislation recently enacted that will be based on the payment stream (rather than capital deployed) of these contracts). Look for an IRP filing in the fall of 2021 in its WA jurisdiction, although we continue to remain more somber on substantial earnings opportunities from the capacity replacement needs.

American Water Works (AWK)

Ahead of their upcoming 2021 guidance, investment, and outlook roll forward, discussions with AWK management highlighted confidence across their business and their ability to execute on their strategy through both COVID and the longer term. Despite the pandemic, latest disclosures with their 3Q update brought the midpoint of full year 2020 guidance back to the original adjusted 2020 guidance on an adjusted basis – and we see the company as poised to extend expectations another year: We don't perceive a pivot from the strategy with management seemingly committed to their growth triangle and the largely regulated portfolio: *don't expect any changes to outlook with the 4q roll forward of their 5-year outlook and '21 guide.*

Muni & Legislative Tailwinds Continue Unabated

Across the US, favorable legislation continues to materialize for the water sector with particular highlights including HB254 and HB1131 in Indiana for recovery without full rate cases and fair market value, HF2452 in Iowa to allow systems to qualify as a distressed system when they don't have a certified operator and establishing a 180 day timeline to approve acquisitions, S831 in Virginia to establish FMV and authorize a water or sewer public utility acquiring a system to establish rate base through FMV, and S551 in West Virginia to allow for expanded asset valuation, combined water and wastewater ratemaking, and the expansion of how munis can utilize proceeds from the sale of a system. Across their footprint, the company now enjoys FMV legislation in ten states, consolidated tariffs in 12, and water quality accountability legislation in three.

Despite the steep discounts in valuations between AWK and even water peers, we perceive less appetite for public water acquisitions given the constructive legislation and elevated number of muni opportunities in and of itself. We see the latest pressures put on munis from the ongoing pandemic as only further accelerating consolidation in the industry.

Meanwhile, management remains confident around their ability to execute on the pending sale of NYAW to Liberty Utilities despite a somewhat protracted process on the margin and amid the latest legislation introduced in New York to hold utilities accountable – and expectations are to close on the transaction in early 2021. Despite other regulatory setbacks such as the latest decoupling developments in California, we see management as largely committed to the rest of their regulated portfolio.

While Military Wins Continue to Materialize

Recall Joint Base San Antonio and US Military Academy at West Point became operational in June with Joint-Base Lewis-McChord further awarded in September. After the latest win, the company has now won 17 military bases across the footprint with active engagement for another four military solicitations - with two expected to be awarded in the near term. After largely being driven by the Air Force and Army, interest from the Navy could yet drive further opportunities and management alluded to potential for ~70 opportunities over the next bunch of years.

Related to home services biz, mgmt. remains confident it can scale this biz further too based principally on expanding its reach through a variety of channels including its military efforts. Bottom line, no concerns on slowing on even this angle of the biz too. Limited expansion of products it would appear. Focus on owning the customer is an expanding theme in our coverage.

Overall, management continues to look to have market-based business contribute 1-2% of their EPS growth over the current plan.

We maintain our Underperform rating given the steep valuation premium.

Black Hills Corp (BKH)

Contemplating Trajectory after Latest Updates and Prior Concerns

After an early guidance cut against the uncertainty of the pandemic, management re-raised 2020 guidance to $3.60-$3.70 (with the midpoint back to the same level as the original guidance of $3.55-$3.75) and latest discussions continued to suggest confidence around their ability to navigate COVID despite the latest surge in virus cases throughout the US. While the 2021 guidance assumes no material net impact from COVID for the year despite the latest spike, management has thus far been able to execute (even aside from some favorable weather) and we stress the large resi nature of their gas biz (~55%) as likely to limit any potential headwinds as we go in to peak heating season and with moratoriums now lifted in all of their jurisdictions except for Arkansas. Rate relief, Corriedale, and rider recovery should help drive y/y earnings into 2021.

Meanwhile, we expect disclosed equity needs to be financed through the ATM next year after the successful block acceleration in 2020, with the bulk coming through in 2Q and beyond.

While FERC recently approved the Wygen PPA after a rather protracted process - helping to de-risk longer dated estimates - and the company scored a political win in Pueblo earlier this year, we critically watch prospects for higher rate base and add'l recovery mechanisms against lower potential ROEs - and if the overwhelming franchise vote at CO electric and the new aligned leadership strategy can translate to a more constructive outcome with their re-filed rate case in the state. Recall the company opted to forego consolidation after earlier pushback and re-filed a new rate review and separate docket for an integrity rider in September. While there is potential to combine the two, we ultimately expect both processes to play out over 9-10 months, putting resolution at the middle of next year (no procedural docket has been established around the outstanding items). Meanwhile, we have less concern around NE following the recent constructive settlement and hearing.

With a relatively depressed currency and given the more complicated portfolio vs. SMID-peers, we wouldn't expect the company to be too active around M&A – but we nonetheless highlight the overlap in the Arkansas jurisdiction for CNP's LDC assets given their recently noted desire to divest some of their gas assets.

Will Renewables Materialize in Rate Base with Scale?

Under the current status quo, management doesn't anticipate being a cash tax payer until 2027 or 2028. While seemingly less likely under a split government, a partial reversal of tax reform could somewhat expedite this process – accelerating any appetite for renewables. We see further extension of tax credits as more likely under current government composition expectations. Recall the latest previously announced 200MW of renewables in Colorado is being done through a PPA, but management remains confident in ability to participate in more renewables in the future. We await further developments around transition to cleaner sources following the recently released sustainability report and amid CO's (& other states outside BKH's jurisdictions) recent moves to look into gas utilities' role in de-carbonization.

Overall, we see risk/reward as balanced. Maintain Neutral.

CMS Energy (CMS)

Clear-cut confidence on positioning into '21 with reinvestment de-risking in 4Q
Mgmt emphasized strong confidence in FY20 earnings, in particular with more than substantial earnings cushion from ~$100mn cost savings (~28c) realized through 3Q, well above prior historic record of 15c cost saving EPS offset. Rather, discussions focused on ability to drive reinvestment pull-ahead spend in 4Q to de-risk '21. Further, FY21 earnings are not impacted by any pending regulatory outcomes following the upcoming Dec '20 electric order that will be in effect Jan 2021 and with the latest gas case settled with a filing stay-out through Dec '21. Mgmt expressed optimism for FY21 trajectory given leeway to manage negative weather and without full extent of COVID load impacts, with its guidance of $2.82-$2.86, *reflecting long term EPS CAGR of 6-8%*, typically rebasing off year-end results. We continue to view CMS mgmt's best-in-class ability to manage earnings, even in a pandemic-impacted year without decoupling, as underscoring confidence in shares and the forward trajectory. Reiterate Buy.

Cost savings sustained into '21+ with focus driving rate headroom as well
With cost savings materialized through FY20, mgmt emphasizes roughly half of savings is driven by the CE Way, focused on waste elimination (~$50mn), which is fully recurring savings. Additionally leveraging O&M resources during outages or when not being used for full capacity and applying it to capital projects provided another ~$20mn of savings. Additionally, non-operating savings through refinancing further provided cost savings among others. Among other cost levers highlighted include leaner supply chain and remote work by employees expected to continue to an extent post-COVID as well. Overall, mgmt emphasized sustainable cost reduction and management systems, supporting customer bill head-room to continue supporting incremental investments, with support from MPSC in proceedings around capex spend proposed. Bottom-line, mgmt emphasized O&M cost reductions as still merely scratching the surface, expecting to continue ~4% run-rate annual cost reductions.

Incremental to the broader O&M cost reduction trajectory, mgmt emphasized further ability to drive headroom through costs with ~$150mn in cost savings from the roll-off of Palisades PPA (~$90mn) along with MCV PPA expiration in 2025 (based expected extension through 2030 at lower capacity price). Additionally, mgmt expects ~$30mn O&M savings from retirements of Karn 1 and 2, among other opportunities.

IRP filing in 2Q21 to focus on acceleration in coal retirements, renewables
With its upcoming IRP filing in 2Q21, discussions express likely focus on accelerating coal retirements with Campbell 1 and 2 scheduled for 2031 and Campbell 3 scheduled for 2039 given latest state emission targets set could drive incremental renewables spend. In terms of replacing capacity with accelerated retirements, mgmt expressed IRP filing to focus upon incremental renewables beyond 6GW of solar through 2030 already approved in the last IRP as well as on battery energy storage deployment, and demand-side management. Although CMS is only required to file an IRP every 5 years, mgmt expressed a preference in filing more frequently with a voluntarily submission every 3 years, given the clarity provided from tri-annual IRP filing cycles around capital spend around resource planning. Additionally, CMS expects to propose a higher level of earning on the PPA adder towards S&P's methodology rather than weighted average cost of capital. With an IRP approval in Jun '22, we could potentially see an update for the 10-Yr capital outlook in 3Q22, albeit mgmt noting such an update requires material change.

Strategically – don't expect *anything*
With DTE pursuing a substantially back to basics effort, it appears CMS is very much set on status quo. Having achieved an excellent risk rating already despite ownership of an IPP gas asset and a bank, we see no rating agency 'upside'. Focus remains on staying the course with additional spend likely to backstop its outlook by early next year.

Dominion Energy (D)

We had a generally constructive meeting with D mgmt. where the company exuded confidence in its offshore wind permitting timeline (~27 months vs Orsted at 30 months), cost and capital expenditure timeline ($1bn in '22/23 with more substantial chunk in '24-26. Given a large part of this spending initiative will be included in mgmt.'s roll-fwd outlook on the 4Q call, we could see potential upside to VA rate base growth of 7-8% (at a min reinforcing confidence in this trajectory). Related, mgmt. remains adamant that its 6.5% annual EPS growth will indeed be consistent despite the potential lumpiness of its forthcoming Offshore build – managing other elements including cost structure through their in-service to smooth trajectory. While we do not anticipate a fully defined 10yr capex outlook, we expect mgmt. to provide some parameters on how to think about spending into the 2H of that 5yr window. Moreover, we see tailwinds to the '21 guidance range given execution of the share repurchase program and '20 tracking at the high-end of the range.

Additionally, we wouldn't expect further sell down of Cove Point LNG, despite some peers looking to go this route and interest from private capital as mgmt. likes its current 50% passive stake after executing on sales previously. Lastly, we highlight that the S.C. rate case is likely to be noisy with intervenor testimony this week where we could see recommendations for sub-9% ROEs; while this rate case remains critical to watch, mgmt. continues to bake in conservative assumptions in its outlook. Net-net, we maintain our Neutral rating as shares appear fairly valued at these levels based on our SOTP analysis.

Offshore wind angles: confidence continues

Mgmt. continues to highlight confidence in its offshore wind permitting process with a Construction of Operation Plan (COP) expected to be filed shortly with a Bureau of Ocean Management (BOEM) filing thereafter with total timeline of roughly 27 months. (~24months for the BOEM permit). Further, despite challenges faced by projects in the NE, mgmt. continues to highlight commercial shipping, fishing, environmentalist (whale migration from Nov-March), and coast guards shouldn't provide much as an impediment given the engagement with these stakeholders and project in federal waters. In terms of capex, mgmt. expects roughly $1bn of spend between late '22/23 with the more substantial chunk to occur in years '24-26 (we currently assume $5.9bn total from '22-25). On the cost front, mgmt. continues to point to slightly less than ~3% annual bill inflation, and we stress that potential for offshore wind tax credit extensions could further help with the customer bill impact. At the end of the day, we view the permitting timeline as generally in-line with Orsted (D's 3 months tighter slightly) with cost considerations largely manageable as best we can tell at this point.

What to expect on the 4Q call update?

With mgmt.'s upcoming 4Q call we expect to get the roll-forward view of the outlook ro years 2021-2025 as well as capex by year and by program (i.e. offshore wind, battery storage, solar, transmission, nuclear relicensing, S.C. spend, gas pipeline replacement, etc.) In addition, we expect to see rate base growth (potentially annually but more likely a CAGR). While we do not anticipate a fully defined 10yr capex outlook, we expect mgmt. to provide some parameters on how to think about spending into the 2H of that 5yr window. Given a large chunk of offshore wind will be included in this capex outlook, we could see potential upside to rate base growth in VA (vs. guidance of 7-8%).

Where is 2021 guidance shaping? Positive tailwinds

While '21 guidance is expected to equate to 10-11% growth, we could see some slight tailwinds to the $3.85-3.90 guidance with 2020 trending toward the top-end of guidance ($3.37-$3.63). Further given the weighted average price of the share repurchase program for the $2.1bn executed upon was done at the $77-79 range with the remaining amount likely at higher levels (shares currently trading near $85/sh), this could also create a modest tailwind. We would expect to see a clean share count from '21 going forward as buybacks are in the rear-view. Lastly, mgmt. expects to grow at 6.5% annually thereafter despite some lumpiness with capex more back half weighted through

O&M levers to help smooth out the growth trajectory. We think this would be viewed constructively similar to many of D's more aspirational peers (i.e. WEC, CMS, AEE, etc.).

Watching South Carolina: expecting some noise ahead

With the single digit rate increase requested (7.75%) in South Carolina, we perceive the case to be palatable, albeit political considerations are likely to come in the mix given the first rate request since D purchased SCANA. We would not be surprised to see a sub 9% ROE in upcoming Staff/Intervenor testimony (potentially 53% recommended cap structure) given the more consumer friendly Office of Regulatory Staff (ORS) and emotional connection from past nuclear transgressions in the state. That said, mgmt. sees a relatively straightforward case with $3bn of grid hardening related investments, equating to just 1% annualized bill inflation and continues to remain conservative in its guidance assumptions. We stress D is on track to earn low 8% ROEs this year. We also expect mgmt. to provide a full update in its SC spending on the 4Q call despite the rate case process ongoing as it has already filed its IRP in the state and continues to see grid hardening needs.

Federal renewable procurement: early, but nice exposure

Following recent Presidential elections, one potential avenue that we perceive could be a tailwind for D is through federal procurement of renewables (i.e. the President mandating federal buildings to procure renewable generation). Given D's close proximity to these buildings in VA, this could present a potential opportunity. While mgmt. highlighted it is still too early to quantify the impact, it highlighted that 10% of its sales are from government entities and continues to have conversations with its federal customers.

Evergy Inc. (EVRG)

Following recent media reports that EVRG once again rebuffed NEE's offer, mgmt. pointed out the statement in response to Elliott, highlighting that it evaluated the stand-alone plan (STP) and elected to go that route with the activist at that time. Mgmt. went further to say that it doesn't believe they are fairly valued and there is no process going on or offers in front of them. Instead, most of our meetings focused on the stand-alone plan where mgmt. discussed potential securitization with legislation in Jan., an IRP filing in April and July for MO and KS, respectively, that will provide a parallel path with the legislation, and how it intends to execute on renewable ownership, and earning its allowed ROEs while combating rate inflation in order to execute against the 6-8% growth targets. While we note the confidence from mgmt. in its ability to execute against its own targets, we wonder whether the ~13% implied premium (from the $15bn reported offer) relative to EVRG's current stock price (or ~18.8x P/E multiple) can be achieved on a stand-alone basis. Transitioning to a new CEO (internal?) by YE could potentially lead to capitulation. Still we see stand-alone prospects as attractive at current levels and look for more tangible data points in early Jan. with the MO response to the STP on 1/29 (pushed from 11/13) and securitization progress, although do acknowledge potential downside to our estimates in '21/22 to reflect lag dynamics. Maintain Buy on shares.

Securitization process marching forward

Mgmt. continues to expect securitization bill to be filed in early Jan., putting it on a parallel path with its IRP filings in MO and KS (April 1 and July 1, respectively) where the company intends to provide a path w/ and w/o securitization. Given the engaged stakeholder process with other key players in the state, including AEE, the NRDC, Sierra Club, and Staff, commissioners we continue to see momentum on this front.

Targeting 500MW of retirement w/ potential for more through securitization

In the IRP, mgmt. will likely target 500MW of coal to retire that has a modest remaining un-amortized balance that would have minimal financial impact through the loss of rate base earnings. We believe this could be La Cygne given it fits that profile. With securitization mgmt. could accelerate retirements over the next 10 years that would normally be slated for retirement in the 2030-2040 timeframe. Mgmt. further highlighted that maintenance spend for these plants are below depreciation rates so it continues to work down the life of these assets. Given the potential cost savings from these retirements and the reinvestment of proceeds into rate base renewables (700MW expected with IRP) this would likely alleviate any material earnings divot.

Rate case considerations: expect some lag in '21/22

While mgmt. expects to file a rate case in 2022 and 2023 for MO and KS, respectively, earning its authorized ROE in the interim through cost savings, we would expect some lag to build in '21 and 22 in MO and KS prior to the filings. Additionally, given EVRG does not have a rider for the contemplated renewables, it wouldn't be able to earn on these assets until placed in rates in '23/24. While our initial assumptions were that mgmt. could execute on cost savings into the rate case, we believe there could be some additional lag ahead of the ~40bps we assume for Evergy Metro, ~50bps in MO west, and ~75bps in KS Central (we had earlier thought cost synergies from the closed Westar integration could well minimize lag vs historical levels). That said, we appreciate that there is a delicate balance here and perceive this as a trade-off to ensure more constructive regulatory treatment. On balance, we see strategic updates including CEO role as key over next few months *prior* to 4Q.

Cadence of updates: 4Q expectations

While mgmt. provided capex and O&M trajectory updates at an unusual time in the past given the activist involvement, we expect 4Q will be back to the 'regularly scheduled program'. Look for a 5yr capex program to coordinate with the IRPs but <u>not</u> necessarily a roll forward of the 6-8% EPS growth rate. This will be perceived awkwardly potentially – a new CEO remains critical to providing the latest view forward.

Fortis (FTS)

Can Upside Materialize after Latest Roll Forward?

Latest discussions with management followed the recent roll forward at their Fall update when the company laid out a $19.6Bn investment plan over the next five years, translating to a slightly lower ~6% rate base CAGR (vs. ~7% previously through '24) – and as the company continues to await key regulatory updates. Commentary suggested confidence in the positioning of the company under the incoming administration, particularly given efforts around clean energy and with AZ in a prime position to capitalize on the renewable push. The company has highlighted an opportunity of $4-$6Bn at UNS from the 2020 TEP IRP while we perceive the ~6% rate base growth at ITC as potentially conservative under a Biden administration if some of his clean energy policies are able to materialize (with a small amount of associated transmission interconnection in the plan). We await further details around large-scale transmission opportunities beyond reaffirming its longer-term aspirations. Meanwhile, we view any pursuit of contract renewables to be more nimble on the margin as opposed to a larger focus area as the company is now largely T&D.

Risk from Reg Agenda Still Lingers

Management continues to anticipate a final decision in the outstanding TEP rate case in late 2020 and is awaiting next steps from FERC's notice of proposed rulemaking on incentives. With latest results weighed down by the regulatory lag as we await new rates in AZ, this remains the key data point to watch into elections and the end of the year. We continue to perceive confidence from management around a resolution in the TEP rate case for new rates to be ready to take effect in January. Recall the company's last ask was a 10% ROE (vs. 9.75% currently) compared to staff at a recommendation of 9.28% - with a further bump from the Fair Value Increment Adjustment. While we see downward bias to the current 9.75%, favorable weather has provided some further relief more recently given changing weather patterns in AZ - and we assume this could continue going forward.

While earlier action from FERC around methodology for establishing base ROEs helped de-risk returns at ITC, the future of just what the all-in returns for the biz will be are still unclear with a NOPR on incentives still outstanding. With the latest ruling, FTS's all in ROE at ITC is currently 10.77% – with the 10.02% base, 50bps for RTO participation and a 25bp independence adder. The initial NOPR contemplates a potential elimination of their independence adder – while boosting RTO participation an additional 50bp. If ultimately adopted, we see a 25bp net benefit under new incentives not currently reflected in estimates. It remains to be seen what the future of FERC just may look like under a Biden administration.

In New York, the company filed a rate case in August 2020 with the NYPSC requesting an electric rate increase of US$33 million and gas delivery rate increase of US$14 million, with a decision expected in mid-2021. Given the scrutiny in the state as of late and the recent efforts by Cuomo to hold utilities more accountable, we could yet see pressure here.

Meanwhile, the Alberta Utility Commission issued a decision in November 2020 rescinding the September 2019 order with Fortis Alberta retaining ~$400 million in transmission investments in rate base.

We reiterate our Underperform rating, seeing regulatory risk and a lack of clear cut EPS trajectory as underappreciated at the current valuation.

IDACORP (IDA)

Ratebase Growth – Robust upside opportunities ahead drives confidence

Discussions emphasized robust rate base growth with upside opportunities not included within IDA's current 5-Yr forecast including Hells Canyon re-licensing, increasing ownership of the Boardman-to-Hemingway (B2H) transmission line, and additional distribution system modernization. Additionally, mgmt emphasized that its strong balance sheet should limit any equity needs. Recall the potential for Idaho Power to acquire Bonneville Power Administration's ownership share – which would result in Idaho Power owning up to 45% of the transmission line with a normal return on the capital investment.

Mgmt expressed that they will continue to evaluate whether or not to file for a ratecase annually after having stayed out since 2011. That said, with potential for a meaningful increase in spend within a couple of years as highlighted, we see a rate case as more likely than not over the next couple of years despite the strong growth.

Overall, we remain constructive about further future rate base upside and see IDA as well positioned to execute on their NT plan. We probability-weight rate base upside opportunities from Hells Canyon relicensing and B2H ownership expansion at 75% and 50%, respectively. Reiterate Buy.

Customer load growth trends – remains elevated at 2.6% TTM

Mgmt noted load growth into Idaho from other states with increasing population due to work-from-home flexibility. In terms of customer growth trends, resi remains elevated (+3%) as with most utilities given work-from-home. Agriculture/irrigation load has been stronger this year (+1%), but mostly as a result of a return to normalized weather (colder and weather in prior years). That said, smaller commercial load has been hit harder, while large C&I load was hit earlier but has largely returned. Nonetheless, we stress overall load growth trends of 2.6% TTM even against the pandemic backdrop.

NiSource (NI)

We came away from our NI meeting with increased confidence that mgmt. is evaluating potential portfolio optimization options (i.e. Gas LDC sales) to replace a portion (or all) of the planned equity/equity-linked financing behind its renewables strategy (this remains a key debate after earlier stating it was a prospect at its Analyst Day and holding back on affirming this intention in recent weeks at it 3Q call). However, it is clear to us mgmt. does not believe the discount where Gas LDCs are currently trading is warranted. Additionally, NiSource is not in a rush to get a deal done as the company indicated its equity-linked hybrids issuance (the first portion of its renewable strategy equity financing) can be anytime in 2021. We continue to view the divestiture route as quite attractive for the NI narrative along with the broader Gas LDC subsector. We believe any M&A in the depressed subsector likely brings a re-rating higher for both NI shares and the group. We reiterate our Buy rating as we believe NI shares continue to present a unique opportunity on the wide relative discount in Gas LDCs with M&A optionality, renewables upside in rate base, and potential for positive revisions.

Portfolio optimization still an option – potential smaller Gas LDC sales in focus
Considering mgmt. commentary regarding portfolio optimization to maximize shareholder value, we think it is apparent mgmt. is looking closely at potential asset sales such as it smaller Gas LDCs in lieu of some (or all) of the equity financing behind its renewable strategy. With a sale of any Gas LDC, NI would effectively be replacing gas rate base with renewable electric rate base. Mgmt. does not agree with where Gas LDCs are currently trading (~3x discount vs electric utilities) highlighting that electrification cannot replace gas particularly in the colder climates. We continue to argue that a sale of a Gas LDC could drive the group (and specifically NI) to re-rate higher and drive a material inflection in shares. We perceive unique sensitivity for the wider sector to any M&A. Also, even excluding a potential asset sale, we flag that with NI shares now at ~$25/share, each move higher only implies less dilution in the out years, assuming it can hold these levels into next year and '22.

On the flip side, we note mgmt. affirmed during our meeting that all its Gas LDCs are earning close/at their authorized ROEs (as mentioned on the EPS call last week) – likely screening less attractive for potential buyers. Just in the last week, CNP announced its Gas LDCs are up for sale and the asset sales are baked into its financing plan. We note this is quite different from NI financing strategy, which does not include any asset sales. With the timing of NI's equity-linked hybrids issuance slated for anytime in '21, the company has a wide window of time to get a deal done (likely wider than CNP) to offset some of this financing. Note in our recent NI upgrade, our theoretical scenario analysis indicated that a potential asset sale of NI's three smaller Gas LDCs (VA, KY & MD) could offset most of the renewable equity financing in a likely accretive manner.

Renewables financing: equity-linked hybrid options with 50% equity treatment
Excluding any potential asset sale, more than half ($600-1,000mn) of NI's $1.2bn equity financing of the renewable strategy will be comprised of equity-linked hybrid securities. NiSource reiterated that the primary requirement of these equity-linked hybrids is that the company receives at least 50% equity treatment by the credit rating agencies. Mgmt. outlined that the two main types of securities under consideration at this juncture include: 1) mandatory convertibles, and 2) perpetual preferreds.

Equity-linked Hybrids: Mandatory Converts vs Perpetual Preferreds
NI noted that mandatory converts would look similar to the securities recently issued by Dominion. When assessing a utility's debt metrics, Moody's treats mandatory converts as 50% equity pre-conversion while S&P treats mandatory converts as 100% equity. For perpetual preferreds, the credit rating agencies all use 50% equity treatment. NI has issued perpetual preferreds before at 6.5% and 5.65%, but mgmt. believes it could price perpetual preferreds today at ~200bps lower rates. While perpetual preferreds obviously have greater earnings drag and lack tax deductibility, NI believes the benefit of avoided

equity dilution outweigh the income statement friendly mandatory converts. Meanwhile, NI will also have to assess the balance sheet implications when looking at the more favorable equity treatment under the mandatory converts. That said, we believe it is still early stages to make a decision here on the hybrid equity financing strategy considering that any portfolio optimization and the stock price in the interim can influence subsequent decisions.

7-9% EPS growth ('21-'24) with or without the -5c COVID impact in '21(base yr)
Mgmt. noted that that the base year (2021) of the +7-9% EPS CAGR (2021-2024) may include or exclude the -5c COVID EPS impact baked into the mid-point of 2021 EPS guidance of $1.28-1.36. This indicates that the mid-point or roughly the high-end of the guidance range can be used as the base year for the +7-9% EPS CAGR, effectively implying a wider range of EPS outcomes in the out years.

How does guidance commentary reconcile with our EPS CAGRs?
We model 2021 EPS (base year) at $1.32 (the midpoint of guidance including -5c COVID impact). Off of our 2021 EPS estimate at the midpoint of guidance, our implied EPS CAGR ('21-'24) is 10.3%, which is above NI's +7-9% EPS CAGR. However, when the -5c of COVID impact is added back to our base year estimate of $1.32, our implied '21-'24 EPS CAGR is 8.9%, which lands inside NI's +7-9% EPS CAGR. Bottom line, while mgmt. color around the LT EPS CAGR points to a wider perceived range, we believe there is a clear bias to the upside of the range given the conservatism baked into the base year guidance range. Pending execution this winter heating season, this provides potential for positive estimate revisions.

Northwestern Energy (NWE)

2021 Shy of Street but Add'l Spend on the Way

Ahead of upcoming EEI meetings, NWE reaffirmed full year 2020 EPS of $3.30-$3.45 while launching 2021 guidance of $3.40-$3.60. The initial 2021 guidance came in line with our model, but below Street estimates of $3.60 – with the midpoints of '20 and '21 implying 4% growth y/y. Drivers include 1% volumetric growth and less of an impact from COVID, with O&M largely flattish y/y. We perceive the hope from management is to tighten the range in February when we have a bit more clarity around COVID implications and how the pandemic recovery plays out over the next couple of months. Given the fluidity of the pandemic backdrop and latest spike in cases, it remains to be seen how even 4Q will shape up: recall latest load expectations factored into full year guide are +2% resi, -4% commercial, and -9% industrial. Meanwhile, we estimate another nickel at risk if the company isn't able to get a constructive outcome around COVID expense recovery. Look for an outcome in the next month or so.

With the latest update, the company also refined and rolled forward its capex forecast, adding $317Mn through '24 and an initial investment wedge of $400Mn in 2025: we estimate about ~80% of capital is T&D driven as we await clarity around potential generation spend in MT and given what we expect to be some repairs tax eligible spend, we see downward pressure to the tax rate relative to that previously communicated for 2023. Look for more clarity with full year results.

The company continues to target a 3-6% EPS growth over time after latest messaging on the 3Q call: discussions from our meeting clarified expectations for it to be somewhat lumpy with earnings on the lower end without rate relief, and rate cases to provide support to the 4-5% level. We suspect a constructive outcome around generation efforts in MT as necessary to achieve the top end of the range.

Are Cost Cuts Sustainable & Contemplating Equity Needs

We see less concern on the margin around using 2020 as a test year given what is seemingly more sustainability around the cost cuts than feared. That said, we still see a pre-approval filing as more likely if the company is ultimately able to win some generation in Montana. A firm decision around a rate case will likely be communicated with 1Q21 results.

Meanwhile, we await clarity around timing and magnitude of equity needs which we think is likely to come in February after resolution of the ongoing MT RFP. Overall, management continues to allude to the ~14% FFO/Debt threshold to keep credit metrics intact. While outcomes in MT have been more constructive over the years, we stress the Colstrip challenges and PCAM developments more recently as more concerning – and critically wait to see how the regulatory dynamics change under latest commission developments.

We maintain our Underperform rating on shares, stressing limited growth prospects without rate relief and meaningful generation spend longer term.

OGE Energy (OGE)

Following the recent 3Q update last week where OGE lowered FY20 consolidated EPS guidance to $2.00-2.06 (from $2.08-2.18) due to milder weather (-0.09 EPS impact YTD), our EEI meeting was centered mostly on strategy and the moving pieces into '21. Mgmt. continues to provide no comment on any strategic action as it relates to ENBL. We expect an update on ENBL at CNP's Analyst Day on December 7th with OGE now aligned with CNP in terms of strategic decisions at the shared Midstream entity. We flag that excluding the weather impact YTD (i.e. adding the 9c weather impact back to new guide), this implies 2021 consolidated EPS is roughly $2.16 +/- 3c at the high and low end, potentially indicating slight downside to consensus. Perhaps more importantly, mgmt. remains committed to its organic growth profile with Gas LDCs not very high on its list and do not screen well from an ESG standpoint. We maintain our Buy rating as we think OGE continues to present one of the only stocks we cover with such a pristine balance sheet (22% 2020E FFO/debt) where we can apply a 1x discount vs peers, and still arrive at such substantial upside in our SOTP.

+4-6% growth off '19 normalized EPS implies 2021EPS of ~$2.16 (cons = $2.21)
During the meeting, mgmt. reiterated that weather normalized 2019 EPS at OGE utility of $1.65 should be used as the base year for OGE's LT EPS CAGR guidance of +4-6%. Assuming midstream (ENBL) EPS in 2021 is flat y/y at the midpoint of 2020 midstream EPS guidance of $0.32-0.36 and HoldCo 2021 EPS is flat y/y at breakeven, this implies 2021 consolidated EPS is roughly $2.16 +/- 3c at the high and low end. Hence, we suspect there may be more negative estimates revisions to come given 2021 consensus EPS is currently at $2.21 and OGE's long history of providing relatively conservative guidance. We expect OGE to provide 2021 guidance alongside its 4Q update in early 2021 per typical reporting cadence. Note in 3Q, OGE reduced O&M by $20mn to offset load impacts from COVID and milder summer weather. Most of this O&M reduction will carry through into 2021 providing operating leverage tailwind into next year. However, this will be partially offset by some deferred costs that that OGE pushed out, but will have to eventually incur. Bottom line, despite potential negative revisions on the margin, we continue to expect solid execution at the utility into next year as OGE notes it is seeing improvement in its service area economy in terms of load and remains disciplined on costs.

Focus is on electric: Gas LDC M&A seems unlikely
With a number of utilities looking to monetize their gas LDCs and considering OGE's balance sheet strength, it would seem OGE could be a potential acquirer as the company was previously in the gas distribution business and some of the assets for sale are adjacent to its service territory. There is also the question of whether a Gas LDC sale at CNP would be tied into a strategic action with ENBL at OGE and CNP. Recall, Bloomberg Headlines recently stated that OGE is joining CNP in putting its ENBL stake up for sale. While mgmt. emphasized that it would never say never, the company noted its focus is on the electric business and gas LDCs would not be high on their list of potential acquisition targets. Additionally, mgmt. highlighted that Gas LDCs do not screen well

from a de-carbonization standpoint – a key consideration now at OGE. We would highlight the Gas utilities continue to trade at record-wide discounts to electric utilities. Recall, CNP stated outright on the 3Q call, that it is putting the company's gas LDCs up for sale. NI has also noted it would consider portfolio optimization via the monetization of smaller Gas LDCs to replace a portion of its equity financing of the renewables.

Renewables: Favor solar over wind – 2021 IRP filing likely includes renewables
As OGE looks to build new generation while also off-setting its carbon footprint, mgmt. noted it prefers to build solar over wind. To date, the company has built four solar farms to date and is adding a fifth in 2021, including its first in Arkansas. While OGE recognizes it needs to align with de-carbonization trends, mgmt. made clear it wants to balance this with keeping its rates at the lowest vs peers across the nation. We perceive OGE's upcoming 2021 IRP likely lends its self to more renewable generation, specifically solar, providing potential incremental capex opportunities. In the past, OGE has noted it prefers solar due to higher capacity factors and the company already has a tracker for solar. We will keep our eye out for stakeholder discussions around the upcoming IRP filing.

Public Service Enterprise Group (PEG)

We remain confident on PEG's power pivot with prospects of capturing the ESG premium (admittedly not yet seen in shares) with the divestment of its non-nuclear power business by YE-2021 in addition to a shift out of coal to be finalized by July '21 with Bridgeport Harbor's closure. While investors may voice concerns on the nuclear side (particularly given recent scrutiny of nuclear subsidies in IL and OH), we see some possibility around lower ZEC pricing but overall perceive a different regulatory backdrop in NJ, along with clear necessity for supporting clean energy targets. With election-related uncertainty largely set to the side for now, mgmt will likely make an announcement on its involvement in Orsted's 1100 MW Ocean Wind project (we anticipate a 25% equity stake). It appears that NJ Senate regulators have resolved disagreements with Orsted around economic benefits to NJ communities. At the utilities, the remaining $1bn CEF (AMI, EV, ES) will be the focus with resolutions by end of Q1 (AMI may come slightly earlier of the three). Longer term, we see potential for capex at the utilities driven by infrastructure improvements to spur NJ's economy. Maintain Buy.

Power asset sales & ESG premium

Mgmt expects to start marketing its non-nuclear assets later this year with a deal targeted by YE-2021. While not seen just yet, we continue to perceive this as a re-rating opportunity from an ESG angle. The exit from coal by July 2021 should also help benefit ESG ratings. We further highlight the benefit from improvement in FFO/debt metrics from the current ~20%; mgmt has been in multiple discussions with the rating agencies and feel comfortable in their estimates. The question will be valuation; while PEG has noted meaningful investor interest in the assets, we note the historical trend of declining transaction multiples (albeit admittedly few in recent years for comparison purposes). Separately, we note the possibility of PEG considering sale of the nuclear plants, as well, if insufficient regulatory support is received for the assets.

Offshore decision to come by end of November

PEG expects to reach a decision on a potential ~25% equity stake in Orsted's Ocean Wind project by the end of the month, with the election trajectory adding more certainty around the project. Recall that NJ Senate President Steve Sweeney and two other regulators had requested that the BPU suspend approval of Ocean Wind, arguing that Orsted had not delivered sufficient benefits to state and local communities. We believe that this disagreement between Orsted and regulators has since been resolved, and Orsted has enhanced their commitment; while Orsted had planned for more assembly to take place in Europe, they are now committed to shifting more of the work to NJ.

Nuclear, subsidies, and the clean energy transition

Mgmt continued to voice confidence in the need for the state to consider FRR (Fixed Resource Requirement) election given the alternative of paying twice for capacity under a MOPR construct in the PJM market, if offshore wind enters the mix. However, we note that given the critical role of offshore wind, any FRR election would be on a longer dated timeline (with offshore wind COD ~2025). Mgmt stated they would assume any FRR would be at least for a five-year period, for planning purposes. The further question will be whether the FERC changes/adds seats under a Biden administration and consequently makes FRR considerations less necessary. Meanwhile, the NJ BPU expects to make a final decision on ZECs in April '21; we see a range of outcomes possible between $0/MWh and $10/MWh vs. the prior round which only offered a binary outcome.

Utilities: CEF and other capex opportunities

Mgmt remains focused on the remaining $1bn CEF ($600mn AMI, $300mn EV, $100mn ES) and expects resolution by end of Q1 (AMI could come sooner, however – even by year-end, albeit likely more early '21, in our view). Longer term, we see potential for capex from infrastructure improvements in order to stimulate job growth given the state's economic circumstances. Gas distribution has potential to grow further.

PNM Resources (PNM)

Our meeting focused on the anticipated AGR/PNM merger including renewable prospects and transaction risks as well as latest NM political developments such as the ballot initiative. While PNM has never owned any wind and only has some small solar projects in rate base, their ability to own future renewable generation remains a critical question and likely a key strategy for AGR. Non-PPA renewables will be a key focus in NM and TX given limited presence of AGR at present. While we see room to expand further particularly in New Mexico, the question in our view will be whether AGR will be able to successfully navigate the RFP process in the state as PNM was recently rebuffed on its efforts to pursue ratebase investments. Key considerations for the RFP process going forward will likely be reliability (likely a greater issue now following San Juan) and cost. AGR should have a cost-of-capital advantage in addition to their expertise in development with likely lower costs. We also note opportunities for export out of New Mexico, which AGR would be in a better position to do. We note a number of regulatory hurdles including NMPRC (8-14 mo), PUCT (6-8 mo), FERC (3-6 mo), Hart-Scott Rodino (1 mo), CFIUS (3 mo), FCC (1 mo), and NRC (6-8 mo). Given a cash deal, the risk is the lack of a breakup fee for PNM in the event of a shareholder vote rejection (although a breakup fee would apply in certain other circumstances).

PinnacleWest (PNW)

We continue to view PNW as facing elevated risks associated with its pending rate case. That said it has been taking efforts to minimize the impact of the outcome. The recently-filed rebuttal testimony's inclusion of an Advanced Energy Mechanism (AEM) rider addresses questions about recovery of a significant portion of 2021-22 capex, though stakeholder and staff support for inclusion remains uncertain and in our view affects prospects for a subsequent case filing. We note the bundling of multiple revenue recoveries at once (including an economic angle to soften impacts to native communities) as particularly key to gaining support of the commission. Approval of renewables rider and recovery of environmental spend is tied to economic support to these regions. When coupled with potential for further O&M (expecting flat) into '21, this could help minimize our real lag concerns heading into next year.

While the AZ commission election points to a 3-2 Republican majority, we acknowledge uncertainty about rate case outcome persists while recent amendments to Energy Rules have largely clarified the outlook from a state policy perspective. If anything emerging anew is a (concern) around retail competition. We see this as having limited traction, but perceive this could once more gain some attention to little outcome (given the colorful, and cautious history in Western US). Maintain Underperform on PNW.

Coal commitment added in concert with AEM rider mechanism

Rebuttal testimony include a proposal for the AEM, a rider which would allow for concurrent recovery of renewable energy investments while also consolidating the existing Demand Side Management Adjustment, Renewable Energy Standard, and Lost Fixed Cost Recovery mechanisms. Among the key nuances with the proposal for the rider is the expectation for the case process to proceed to a fully litigated outcome – the previous AZ Sun renewable rider serves as a template for the new proposal, however that rider was included as part of a settlement. We think that were the AEM to not be included in the final order, the timing of the *subsequent* filing could be moved up in order to speed recovery of $600m of clean generation spend included in the 2021 spending plan. PNW is framing the inclusion of a further proposal for the Four Corners Coal Community Transition as working in concert with its AEM, with $100m in commitments to support the Navajo Nation economy impacted by the scheduled retirement of the Four Corners facility. With the inclusion of financial support for the key Native American stakeholder groups in the state, mgmt. expressed confidence in garnering support for its AEM rider along with the scrubber recovery which remains a significant portion of the rate case revenue requirement ask. We note that at this stage of the rate case process it remains unclear whether staff will support additions of these mechanisms (or whether a petition outside of the case process may be needed).

Election outcome sees Republican majority intact at 3-2

The incoming Democrat commissioner Anna Tovar received the largest individual share of votes, potentially driven by name recognition having served as mayor of Tolleson. Incumbent Rep commissioner Lea Marquez Peterson recently supported an amendment to state energy rules that calls for a transition to zero carbon – this aligns with PNW's own decarbonization goals and is a key nuance relative to the other proposals which would have required a 100% renewable goal, and overall supportive of PNW's goal to include Palo Verde as an ongoing component of its generation fleet. The third elected commissioner is Republican Jim O'Connor who waged a successful write in campaign – while his specific policy leanings remain uncertain we perceive some likelihood of alignment with Commissioner Olson. While Olson's position as in line for the title of chair suggests that the topic of retail competition may receive renewed attention in the coming months with the potential for additional proposals and workshops, we note that support among the other three commissioners is unclear given lack of majority support from the current bench (and we perceive incoming Dem Tovar is not a natural ally). Mgmt additionally noted the closing of the rate tool docket as an indicator that the relationship with the commission is improving – we look to the next round of testimony submitted by staff in response to the latest PNW proposals as the next key data point.

Portland General Electric (POR)

Trends Continue to Improve after Conservative Scale Back

After introducing 2019 as a base year for their 4-6% LT EPS CAGR with 3Q results, discussions with management continued to suggest confidence around the long term trajectory of the company despite the challenging year. Commentary noted robust opportunity from both in-migration and grid upgrades, and we continue to expect the remaining delta in capex after earlier cuts as likely to re-materialize over the next several months (recall $100Mn was added back to the plan with the 3Q update after a $180Mn cut between the first couple of quarters).

While management will launch 2021 guidance with full year results, both loads and the economy have been much better than expected and we suspect an expectation to get back to more normalized levels with trends across the board coming in above management's more conservative forecasts. We see the current base capex plan as translating to the lower end of the 4-6% LT CAGR with additional spend resulting from customer growth, generation, and electrification and storage opportunities longer term as driving a growth rate elevated from the low end of the range.

Although management hasn't clarified any rate case plans, we see less concern around their current equity layer after the trading loss shifted their capital structure – and management doesn't anticipate any equity needs under the current plan.

Recall POR also recently announced that it has permanently shuttered its Boardman Generating Station in Eastern Oregon's Morrow County, fulfilling the previous agreement with stakeholders in 2010 to significantly reduce air emissions from power production in Oregon by ending operations at Boardman 20 years ahead of schedule and transitioning to cleaner energy resources. Following the closing, their partial ownership in Colstrip (non-operating) is their only remaining coal exposure and we see potential to exit before 2030 given the latest developments.

Our PO moves to $48 (from $42) as we mark-to-market our SOTP valuation with peer electric utility multiples on '23 EPS at 17.3x (from 16.2x). We also lower the discount to 1x (from 2x) as wildfire risks dampen given seasonal change.

Board Review Still Pending Resolution

Meanwhile, we await developments from the ongoing Board Special Committee review of the energy trading losses and company procedures and controls related to trading. While a subsequent investigation following any outcome internally could still be initiated by the commission, we stress constructive developments from the OR PUC with deferral dockets around both COVID and wildfire related expenses.

We reiterate our Buy rating: we see a constructive setup after a challenging year given the deep discounted valuation and positive developments.

WEC Energy (WEC)

WEC's rolled-forward update focused on continued support for robust growth of its regulated electric and gas asset base, targeting ~7% growth in rate base through 2025, along with a meaningful acceleration of the Energy Infrastructure spending planned over the coming 5 years to $2.2B. While the non-regulated infrastructure segment remains the fastest growing at the company, mgmt. reiterated that it sees an EPS contribution of ~8% by 2025 and no more than 10% over the long run. Perhaps more meaningfully, mgmt. reiterated the opportunity to rate base its infra renewables as a way to offset the Point Beach PPA which is set to roll off in the early 2030s. We continue to see WEC as offering one of the more high-quality and low-volatility earnings profiles in the space, with both factors reflected in shares' meaningful premium to the rest of the sector. Maintain Underperform on WEC.

Framing the expanded Energy Infrastructure capex plan

The $2.2B targeted spend at the infrastructure business is evenly spread through the out years of 2022-25 as those years represent mostly whitespace spend. We note that while the *initial* iteration of the previous spending plan also included largely evenly-distributed investments, projects were largely pulled-forward into 2020. While mgmt. did not comment on specific projects it intends to announce, the company has consistently discussed to expended opportunity set seen in its pipeline of attractive investment opportunities of late. While investments have thus far focused on wind, we see potential latitude for adding solar or battery storage over time as well. Geographic mix has been largely focused on the Midwest US, and while an expansion to other regions is possible we do not expect significant expansion beyond WEC's existing territory (i.e. CA less likely). Mgmt continues to flag ~3% EPS contribution in 2020 with an expectation of the segment accounting for ~8% of consolidated EPS by 2025. *Bottom line, unclear precisely to what the investments in energy infra will be tied, but stress this appears a key component of overall growth objectives. We see this as a lingering uncertain element within mgmt's historically specific EPS targets. Mgmt appears to suggest earnings growth from energy infra will remain relatively consistent, albeit see capex bias as accelerated towards initial years suggesting front-end loaded growth. We bias towards seeing largely wind investments in upper Midwest, but could well shift to solar here too.*

Gas LDC business seen as a key in Upper Midwest
WEC's updated carbon reduction goal calls for 55% cuts vs 2005 baseline levels by 2025, while reaching 70% in 2030. Importantly, the updated emissions goals *do not* contemplate an early retirement of the Power the Future (PTF) assets which earn ROEs of 12.7% with 53% and 55% authorized equity capital – mgmt. continues to see these as a key part of the portfolio and among the most efficient coal generating facilities in the US, with coal assets in particular fully scrubbed. With the Wisconsin Governor's energy task force set to announce the recommendations of its climate plan soon, WEC mgmt. is confident that its plan will align well with state-level goals. The gas LDC business remains a key component of the long-term strategy given the cold weather states that make up WEC's service territory, electrification and more marginal solutions such as heat pumps are not seen as replacements for gas distribution over the intermediate term. The company continues to evaluate inorganic growth opportunities within the context of its 3 key criteria for M&A.

Sales forecast reduced at the margin, still see +1% or better through '25
The long-term sales guidance for electric and gas was reduced in the rolled forward 2021-25 forecast to 1.0-1.3% for electric and for gas, down from 1.2-1.5% previously. Mgmt highlights ongoing development in the SE Wisconsin industrial corridor as a key component underpinning its updated forecast – with $900m in targeted investment by industrials in the area growing to $1.3B in the current year. Also of note, the load growth forecast includes announced projects only and does not account for potential halo effects of second-order projects clustered around large development zones such as Foxconn. Transmission remains an opportunity for enhanced spend as well – though WEC reflects its pro-rata portion of ATC's investment profile which is tapered through 2025 – as WEC mgmt. sees potential need for additional buildout following the significant renewable generation put in service in recent years. *On balance, despite the shift in sales forecast, numerous levers persist to avoid a rate case in 2021. We see further delays of regulatory risk ensure their relative premium.*

Xcel Energy (XEL)

XEL's rolled-forward update focused on the incremental opportunities to its five-year regulated capex program which now targets $24B in investment through 2025, with the increment representing stimulus spend targeted at wind repowering and solar generation in MN. On the policy front, we see XEL as largely aligned with state-level initiatives in its key MN, WI, and CO jurisdictions. Over the long run we expect that XEL will be among the more aggressive utilities in terms of decarbonizing its gas LDC business, though mgmt. indicates that meaningful investments are expected on a 10-15 year timeframe, notable because of the northern US service territory which makes alternatives such as heat pumps difficult to scale. Maintain Neutral on XEL.

Election impacts in MN and NM; tax credit angle for further renewables
At the state level, MN's local elections resulted in a split state government with both the state house and senate in Republican control. We view this as largely preserving status quo in the state in terms of energy policy – while stakeholders we had previously spoken with expressed some expectation of renewable portfolio standard legislation passing, this is now more of a remote prospect given the split government. XEL has been involved in the stakeholder process around the WI governor's energy task force as well, with those recommendations expected to be published soon (company sees its strategies aligned). Last week's elections had a meaningful impact on New Mexico with that state's commission moving to an appointed from an elected body – while this is a constructive development its impact on XEL should be muted given EPS exposure (sub-5%) in the state. XEL is not making assumptions about federal policy as it relates to renewable tax credits – some proposals have been floated including cash up front in exchange for credits generated by renewables – with the principal concern around potentially accelerating more coal retirements and renewable build in its MN and CO

jurisdictions centered around customer bill impacts – watch the MN resource process which is expected to take 6-9 months to conclude.

MN stayout decision due soon, CO lag seen as manageable

The MN commission is expected to rule on XEL's proposal for an extension of its current rates sometime in December. The components of the request seen as key to an extension remain the continuation of the sale true up provision, nuclear decommissioning costs, and property tax deferral. *We see a further extension of rate case need as adding to de-risking backdrop to the company heading into 2021.* The Colorado electric utility last had rates approved in Dec 2019 with an approved ROE of 9.3%; given that filing's use of a historical 2018-19 test year there is a degree of lag relative to the filing that is expected to remain through the duration of the forecast period. Among the key open issues in Colorado is the wildfire rider which seeks ~$130m of incremental wildfire investment recovery through 2025 with the commission decision expected in mid 2021. We expect that XEL will be able to maintain earned ROEs *with a relatively consistent level of earnings lag relative to the 9.3% authorized (we est 8.8% in '21). We perceive an ability to stay out of rate case here is a key element of sustaining its outlook with less risk.*

Gas LDC a key part of the business mix, exploring RNG and hydrogen

XEL expects to make meaningful investments in reducing the emissions profile of its gas distribution business within the coming 10-15 years, seeing the overall opportunity as akin to the company's decision to embrace wind generation. While significant emissions reduction is not a major part of the spending plan right now the company is exploring hydrogen and RNG applications. Partnering with suppliers in addressing upstream emissions issues is a key area of focus as well. With additional gas LDC systems potentially for sale in contiguous territories, the company has not ruled out inorganic growth as well.

Holdco debt seen manageable, below 25% of total

XEL's $24B of capex through 2025 is underpinned by a financing strategy whereby holdco debt remains at 22-23% of total company debt through the forecast period (we see 2c increase in parent interest expense through '23); note the upper bound from Moody's perspective is 25%, leaving XEL latitude on its forecast.

Table 1: Stocks mentioned

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AES	AES US	AES Corp	US$ 21.36	B-1-7
AEE	AEE US	Ameren Corp	US$ 83.19	A-2-7
AWK	AWK US	American Water	US$ 164.98	B-3-7
AVA	AVA US	Avista Corp	US$ 37.66	B-2-7
BKH	BKH US	Black Hills	US$ 63.94	B-2-7
CMS	CMS US	CMS Energy	US$ 67.31	B-1-7
D	D US	Dominion Energy	US$ 86.16	A-2-8
EVRG	EVRG US	Evergy	US$ 57.50	B-1-7
FTS	FTS US	Fortis	US$ 42.34	A-3-7
YFTS	FTS CN	Fortis	C$ 55.35	A-3-7
IDA	IDA US	Idacorp	US$ 94.69	B-1-7
NI	NI US	NiSource Inc	US$ 24.66	B-1-7
NWE	NWE US	NorthWestern Corp	US$ 59.05	B-3-7
OGE	OGE US	OGE Energy Corp	US$ 34.15	B-1-7
PNW	PNW US	Pinnacle West Capit	US$ 91.35	B-3-7
PNM	PNM US	PNM Resources Inc.	US$ 49.24	-6-
POR	POR US	Portland General	US$ 44.56	B-1-7
PEG	PEG US	Public Service	US$ 60.81	B-1-7
WEC	WEC US	WEC Energy Group Inc	US$ 105.28	B-3-7
XEL	XEL US	Xcel Energy	US$ 75.07	B-2-7

Source: BofA Global Research

Price objective basis & risk

AES (AES)

Our price objective is $23 and is based on a sum of the parts analysis applying a blended valuation approach, the summation of 1) EV/EBITDA approach across global generation assets. We use an 8.0x group multiple for US IPPs and apply a 5.0x premium for US distributed generation for further growth expectations. Meanwhile, we value the DevCo using a 15% discount on 2.5GW of annual renewables beyond '22. In Asia, we apply various multiples based upon jurisdiction risk across the rest of the portfolio. We use mark-to-market value of publicly listed LATAM subs as well as apply a P/E methodology for US regulated utilities of 16.5x including a 1x premium multiple at IPALCO and at DPL. We also credit the company with Vietnam and its $114Mn investment in Uplight. We further apply a 5x P/Sales our '21E for AES share of Fluence.

Downside risks to our price objective are negative regulatory outcomes in the US, international currencies devaluing against the US dollar, and expensive M&A acquisitions impacting value and a reduction in emerging market power demand growth.

Ameren Corporation (AEE)

Our $88 price objective is predicated on a P/E based sum of the parts, valuing each business subsidiary relative to the 2023E ratebase weighted peer multiple of 16.6x for electric. We apply a 3.0x premium to peers at AEE Missouri to account for the improving prospects of capital spend, supplemented by a regulatory jurisdiction becoming more favorable - but lack of decoupling. We apply a 3.0x premium to peers at AEE Illinois to account for decoupling on the distribution business which aids in earnings predictability. The overall business is expected to grow at a more meaningful clip than that of peers - we see a 10% EPS CAGR at IL 2020-2024. At ATXI, we apply a 2x premium to peers to reflect the FERC ROEs. At the Parent, we assume 2.5x multiple premium reflecting average of the subs and given the healthy debt metrics with FFO/Debt at 17%+. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. The upside (downside) risks to our price objective are the utilities earning their allowed returns or better (worse), a significant increase (decrease) in 30-year U.S. Treasury bond yields, and positive (adverse) regulatory outcomes that could impact mgmt's ability to earn its allowed return

American Water Works (AWK)

Our PO for American Water Works is $139. We apply the sector average 25.7x to American Water's 2023E earnings based on the water peer multiple and a 8.1% group EPS CAGR for '18-'23E. We think this multiple is justified as in our view AWK largely drives the peer multiple as the largest publicly traded water utility. We ascribe a 3x premium for NJ, PA, and IL, and a -3x discount to the military biz. Meanwhile, we ascribe a 12x multiple to the non-regulated Retail biz. Also a -1x P/E for Cali utility. no prem/discount for 'Other' segment with smaller state exposures.

Risks to the downside are increase in market interest rates, potential impact of tax reform on utilities, operational errors, changes in valuation levels for water utilities. Risks to the upside are accelerating muni acquisitions, multiple expansion, and constructive legislation in regulatory jurisdictions.

Avista (AVA)

Avista (AVA) Our $38 PO is based on our 2023E sum-of-the-parts (SOTP) analysis, based on the large cap electric group multiple of 17.3x and the gas regulated multiple of 15.5x. Both electric and gas peer P/E multiples are grossed to reflect the group's 5% CAGR to reflect capital appreciation across the sector. We then use a blended electric and gas multiple of 77% and 23%, respectively, for AVA's WA and ID jurisdictions given the composition of its rate base. We apply the gas multiple to its OR jurisdiction as it is entirely comprised of natural gas distribution assets. Meanwhile, we apply an electric multiple to its Alaska subsidiary, AEL&P, as it is a vertically integrated electric utility. We apply a 12.0x multiple to AVA's Corp & Other businesses as we cannot apply a full utility multiple given it consists of investment funds with a lack of visibility in earnings relative to utilities. We stress that AVA does not have any HoldCo. debt, thus no need to net out debt. Lastly, we now apply a 2x discount to all AVA's utilities to capture increased uncertainty associated with fire risk. Risks to achieving our price objective are 1) execution risk, 2) improving regulatory relationships, 3) decrease in interest rates, 4) ability to deploy incremental capital spend, 5) constructive rate case outcomes in any of the jurisdictions.

Black Hills Corporation (BKH)
Our $64 PO is based on a SoTP valuation.Gas Utilities: We apply a 1x discount to the 14.2x peer P/E multiple on 2023E EPS. Electric Utilities: We apply a 1x discount to the 16.8 peer P/E multiple on 2023E EPS. Both electric and gas peer P/E multiples are grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. Coal Mine: We apply an 8x peer EV/EBITDA multiple, which is in line with other PRB coal producers. Based on our view of the strength/maintainability of different coal plant output contracts, we apply a discount/prem multiple to that portion of the mine. IPP Assets: We use the recent sale price and '23/EVEBITDA multiple for Pueblo Airport and Wygen I assets, respectively. Parent Expense, Debt, and Eliminations: We apply an average regulatory P/E multiple to this segments income. This captures some Interco revenues that are double counted as well as parent SG&A drag and debt.

Downside risks: operational errors, increasing interest rates, and difficult regulatory environments.
Upside risks: favorable weather, favorable regulatory outcomes, higher capex deployment

CMS Energy (CMS)
Our PO of $69 is based on a SotP relying on 2023E forward P/E multiples for the utility and banking business and a 2023E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 5.0x prem to the avg regulated multiple P/E of 16.5x for the electric seg and of 14.7x for the gas seg, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as cont'd favorable regulatory environment, and finally historically proven ability to consistently perform at the high end of guidance range. Both electric and gas peer P/E multiples are grossed up to 2020 by 5% to reflect capital appreciation across the sector. For CMS' merchant business we apply a 8x EV/EBITDA multiple, in line with current market value of CMS power plants (specifically DIG), moreover DIG has relatively favorable contracts for the near future which strengthen plant earnings. Finally, we apply a 15.5x P/E multiple on CMS' consumer lending subsidiary Enerbank, in line with forward P/Es other smaller regional banks with similar growth profile.

Risks are: 1) earned ROEs declining which reduce CMS utility earnings 2) execution risk on capex and cost cutting which would primarily affect the utility earnings, 3) negatives changes to market energy prices which could affect the DIG plant's ability to re-contract at the assumed prices.

Dominion Energy (D)
We use SOTP to derive our $86/sh PO. Utilities: We value VEPCO at 4x prem multiple to elec. peers of 16.6x '23 P/E and 13.9x w/ 2x prem on '23 P/E to D's portfolio of gas LDCs (East Ohio, Hope Gas (WVa), and Questar (UT)). Mults are grossed up to by 5% to reflect capital appreciation. We value Wexpro at 10x disc to gas utility peers for declining rate base/ROEs and reg. risks. We ascribe a 2x premium multiple for SCANA legacy utility assets, and a 2x disc. for the NND asset. We also net out NPV of ongoing bill credits.

Merchant: We apply an 8x FCF multiple for Millstone and separately apply a 100% wt to our NPV est of the ZCP cash flows. We include the full EBITDA from the contracted renewables with a 11x '23 EV/EBITDA multi w/ 3x prem in line with peers. Cove Point: We apply an NPV approach with to our DCF adjusted for the 50% sell-down in the facility. For remaining debt beyond that allocated to state utilities, we incl a 50% wt towards a str netting of leverage, with the remaining 50% using a P/E multiple on associated interest expense, in line with the methodology employed for more highly levered diversified utilities.

Downside risks: increase in rates, capex below assumptions, unconstructive regulatory outcomes, delays and/or cancellation of key projects vs our expectation.

Evergy, Inc (EVRG)
Our $62 price objective for EVRG shares is based on sum of the parts valuation, applying an in-line utility peer 2023E P/E of 16.6x. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We further apply a -1.0x turn discount across the Kansas Central subsidiary based on our perception of a slightly more punitive regulatory stance toward electric utilities ahead of further stakeholder engagement on the standalone plan.

Downside risks to our price objective are adverse regulatory outcomes in rate cases, higher interest rate environments, adverse and unexpected risks associated with operating a nuclear facility, the possibility that the strategic review committee does not result in a transaction recommendation and that a modified standalone plan disappoints in rate base and earnings growth when presented later in 2020.

Upside risks to our price objective are favorable regulatory outcomes in rate cases, lower interest rate environments, higher than anticipated O&M benefits and merger synergies, ability to recover capital tied to retired coal plant.

Fortis (YFTS / FTS)
Our PO is C$53 / US$39.85. We assign a 2023E forward base peer P/E multiple of 16.2x to the US utility business with a premium of 2.0x for UNS Energy (AZ), a 1.5x premium for ITC, and an in line multiple for Central Hudson (NY).
For Canadian utilities, we assign a base peer 2023E P/E multiple of 15.4x. Lower ratebase growth profiles and generally lower authorized equity layers/ROEs, paired with a more challenging regulatory environment, will continue to warrant a discount to US peers, in our view.
At Caribbean utilities, we apply 60% ownership share to the publicly listed subsidiaries' current market cap.
We assign an 8.0x EV/EBITDA multiple to FTS's non-regulated segment seeing the contracted nature of its non-regulated segment positively offset lower growth opportunities. We account for FX upside based on current spot prices

Upside risks are: 1) favorable weather 2) higher USD/CAD exchange rate given FTS has substantial unhedged exposure to the US 3) favorable regulatory actions

Downside risks are: 1)unfavorable weather 2) lower USD/CAD exchange rate given FTS has substantial unhedged exposure to the US 3) unfavorable regulatory actions

Idacorp (IDA)
Our $104 PO is based on a sum-of-the-part valuation (SOTP) of the utility and parent segments.

Our utility valuation is based on applying a 16.3x peer P/E multiple to our 2023 EPS estimates. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We apply a 3.0x premium to Idaho Power to account for acquisition premiums and ROE floor mechanism. We factor in probability-weighted opportunities for more ratebase from Hells Canyon & large-scale transmission ownership announced at EEI.

Upside risks to our PO are getting additional capital approved on expedited basis. Downsides risks are regulatory shifts or using up ADITC bank which ensures consistent ROE and earnings floor.

NiSource Inc (NI)
Our $26 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2023 forward P/E multiples of 13.9x for gas utilities and 16.6x for electric utilities with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex beginning in '22, but acknowledge industrial risk. Also, we now assign a 3x M&A premium to the VA, KY and MD gas utilities and a 0.5x premium on OH, PA and NIPSCO gas utilities to account for their embedded re-rating potential following any hypothetical sale. We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

NorthWestern Corporation (NWE)
Our $57 price objective is based on a 3.0x discounted multiple to the 2023E peer multiple of 16.6x on our 2023E EPS given higher risk and slower growth. We note that electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector.

Downside risks to our price objective are 1) adverse regulatory outcomes, 2) inability to recover costs via the traditional mechanisms, 3) changes in the Commission constructs, and 4) further equity dilution. Upside risks are 1) improvement in regulatory environment 2) capex increases.

OGE Energy Corp (OGE)
We value OGE at $35/share based on a sum of the parts, separating the utility business from the Enable stake. For the utility business we apply the peer multiple of 16.6x on 2023E EPS. Electric peer P/E multiple is grossed up for a year to 2021 by 5% to reflect capital appreciation across the sector. Note we apply a 1x discount vs peers to be conservative accounting for risks in Oklahoma reopening the state more aggressively. For the Enable Midstream stake we rely on the current market price of ENBL multiplied by the number of the shares owned by OGE to determine the equity value. We attribute no value to the GP shares, as we don't anticipate IDRs materializing over the next three years.

Downside risks are further declines in the regulatory environment possibly resulting in lower ROEs or other hurdles hindering OGE's ability to earn its authorized return. While not as exposed due to low parent interest, we see interest rate hikes as another potential downside risk. Finally, execution risk on existing capex schedule could put further pressure on earnings growth. Declines in value of ENBL share could also provide downside to our valuation.
Upside risks are shifts towards a more favorable Oklahoma regulatory environment, which could ease OGEs ability to earn its authorized return in the jurisdiction and

possibly increase capex plan as management views prospects in the state more positively. Improvements in value of ENBL share.

Pinnacle West (PNW)
Our price objective of $76 is based on a peer utility 2023E P/E multiple of 16.1x with a -2.5x discount to account for PNW's risk around its pending rate case as well as headline risk related to disconnect policy review. Electric and gas peer P/E mult is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We ascribe an in-line premium despite clear renewable capex backdrop given ongoing regulatory risk associated with the company's upcoming rate filing and 2020 election risk.

Upside risks: 1) Regulatory relationships/outcomes could improve, including changes at the elected commission 2) load growth in territory above expectations 3) Riders and capital trackers could help achieve ROE 4) positive weather helps earnings 5) interest rate risk changes cost of capital - lower rates could improve 6) Consumer advocates or utility staff could become focused on issues that improve ROE

Downside risks: 1) Regulatory relationships/outcomes could decline, including changes at the elected commission 2) load growth in territory below expectations 3) Riders and capital trackers could hurt ROE 4) negative weather hurts earnings 5) interest rate risk changes cost of capital - higher rates could worsen 6) Consumer advocates or utility staff could become focused on issues that hurt ROE 7) Solar advocates in the state have engaged in public confrontations with the utility, which could change public relations in the future.

PNM Resources Inc. (PNM)
We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

Portland General Electric Company (POR)
Our $48 price objective is based on our 2023E EPS estimate discounted back to '21. We value shares based on a 2023E P/E methodology applying a 2.0x discount multiple to the 2023 regulated utility PE multiple of 17.3x. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. Our 1.0x discount multiple is based off the near time uncertainty and lack of clarity on trajectory and negative sentiment following the Aug 2020 reported energy trading loss. While our PO is a 12-month forward projection, we use a 2023 multiple, which is reflective of a discount back to 2021.

Downside risks are 1) the ability to secure commission approval for future wind builds, 2) power market risk due to the Power Cost Adjustment Mechanism (PCAM), 3) liabilities under a negligence standard for current or future fires caused by POR equipment.
Upside risks are 1) continuation of small/midcap regulated rally, 2) better than expected weather adjusted load growth, 3) further strengthening of company balance sheet, 4) power market risk due to the PCAM.

Public Service Enterprise Group (PEG)
Our $63 PO is derived from our SOTP valuation. For the utility we use a 2x premium to the 16.3x our 23E group multiple to value the regulated and parent side of the business. Electric peer P/E multiple is grossed up by 5% to reflect capital appreciation across the sector. PSE&G has meaningful growth capex planned, and while pressure on earned ROEs exists, the regulatory environment is favorable.
Downside risks to PO 1) interest rate increases, 2) unfavorable regulatory outcome, and 3) weather, all of which could lower PEG's earnings ability, 4) we caution dilutive asset sales, capacity auction uncertainty, and overall power headwinds as potential overhangs on the stock 5) BPU approvals.

WEC Energy Group Inc (WEC)
Our $87 PO is based on a 2023E SoTP analysis, based on the large cap electric group multiple of 16.8x and the gas regulated multiple of 14.2x. Both electric and gas peer P/E multiples are grossed up for a year to reflect capital appreciation across the sector.

We apply a 4.0x premium to WEC's WI electric & gas subs to compensate for surety in earnings growth for the next two years following the Commission's affirmation of the recent settlement on above average ROE's of 10%+. We apply a 1x premium to the gas utilities, incl IL's Peoples Gas and North Shore Gas with the Gas System Modernization Program (GSMP) and capex forecasts de-risked following the ICC order. We ascribe a 2x premium vs. the group at ATC to account for the steady nature of earnings growth as well as above average ROE's that are set at a federal level by FERC. We give Power the Future (PTF) a 1.0x premium multiple given the ROE is set indefinitely on historical and new investments. We ascribe an in line multiple for the parent accounting for the interest expense which finances overall utility operations. For the HoldCo adjustment to debt, we net out 50% of HoldCo debt from equity valuation and adjust to add back the parent drag on interest exp.

Upside risks are stronger than expected execution and accelerating capital oppt'y. Downside risks are inability to achieve historical track record on cost cutting and ability to cont. to scale regulated investments given growing portion from contracted renewables.

Xcel Energy Inc (XEL)
Our PO is $72. We value Xcel Energy using a sum of the parts (SOTP) approach. Given the difference in geography, earnings strength, growth opportunity and risk profile, we divide the segments by subsidiary.

We use 2023E forward P/E multiples to derive a value for the different business segments, including the parent segment. We use a peer multiple of 16.6x . Electric peer P/E multiple is then grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We apply a 4x premium to most subsidiaries except in MN and CO where we apply a 5.0x due to additional stimulus upside. We see this multiple as appropriate as the company has growth opportunities, resolving regulatory drag and resolving uncertainty around rate cases. We stripped Mankato as a non-reg asset in our SOTP due to the sale. We also net back 50% of the parent interest expense and instead subtract out 50% of parent debt to more accurately reflect HoldCo leverage.

Downside risks are interest rate increases, regulatory risk such as lower authorized ROEs or less favorable riders/trackers for renewables and transmission, interest rate risk, execution delays, and weather anomalies.

Analyst Certification

We, Julien Dumoulin-Smith and Richard Ciciarelli, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
NEUTRAL				
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Richard Ciciarelli, CFA
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	New Jersey Resources Corp	NJR	NJR US	Richard Ciciarelli, CFA
	Northwest Natural Holdings	NWN	NWN US	Richard Ciciarelli, CFA
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

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Important Disclosures

Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	87	53.70%	Buy	64	73.56%
Hold	35	21.60%	Hold	26	74.29%
Sell	40	24.69%	Sell	21	52.50%

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	79	51.63%	Buy	59	74.68%
Hold	36	23.53%	Hold	24	66.67%
Sell	38	24.84%	Sell	25	65.79%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1749	54.79%	Buy	1114	63.69%
Hold	677	21.21%	Hold	415	61.30%
Sell	766	24.00%	Sell	386	50.39%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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November 11, 2020 | 03:26 ET | 03:26 ET~

Utilities, Power & Renewables

EEI 55th Financial Conference Takeaways

Bottom Line:

Similar to Presidential election there are still some votes to count as we finish our meetings at EEI tomorrow. **However, after two days and 18 meetings we found the conference updates from CNP, ETR and PEG to positive relative to our expectations**. And while we did not uncover any material negative surprises this year, **we believe the expectations surrounding AEP's renewable capital program and the lack of incremental clarity on AEE's own capital refresh (4Q20) and sales mix questions are likely to disappoint**. Inside we outline in more detail the broad sector themes coming out of the conference as well brief summaries of the takeaways from our meetings through today.

Key Points

We continued to be impressed by CNP's newly assembled management team in rapidly restoring investor confidence in an improving outlook. We look forward to the company's upcoming December 7th analyst day for its plans with respect to its 54% ownership in ENBL, which remains the last key piece to the re-rating of the story.

ETR continues to be one of our preferred GARP oriented names in the sector and our EEI meeting further solidified our already positive view that despite unique challenges within its service territory (Storms, Load Growth) its management team remains positioned to deliver on its 5-7% EPS growth outlook through 2023 as its cost management efforts can be tailored to near-term challenges.

We thought our meeting with PEG was one of the better meetings we had at this year's conference. The concrete steps the company has taken to resemble other premium utility companies is a result of the favorable regulatory outcomes at the BPU (recent $1 billion CEF – energy efficiency program approval) and decisive action the company has taken (planned sale of non-nuclear generation). Post asset sales, PEG may be in a position to give longer term EPS guidance that will be underpinned by 6-8% rate base growth and may result in addition improvement of its multiple.

For AEE, we had hoped to get some additional clarity on the company's 4Q20 capital refresh including the impact of the company's 2020 IRP filing. The integration of the company's 2020 IRP plan in MO added $3,000mm to its 2020-2029 pipeline of capital investments. In addition to the 700MW/$1,200mm included in its 2017 RFP, AEE sees an additional 950MW by 2024 in its preferred plan which it believes is also its least cost plan. Negotiations are ongoing as management assesses individual project attributes including cost, where they are in MISO queue, transmission interconnections, and PTC qualifications. AEE will give a full 5-year refresh to its capital expenditure program on its 4Q conference call.

Although in aggregate AEP's EEI update was largely in line with our current forecast and 6.3% EPS CAGR, after much excitement regarding its renewable spending program we think investors came away disappointed by the update and a small miss at the midpoint of its 2021 guidance. The company has included 450MW via RFP at I&M (300MW owned) to replace a portion of the capacity associated with the Rockport 2 lease. Given the net length at I&M we now do not expect the remaining capacity to be replaced but the $144mm of lease payments should provide ample headroom for future investments.

IN Fact

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Utilities, Power & Renewables

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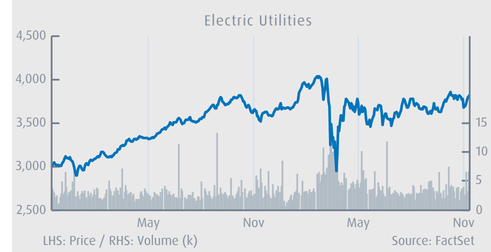

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Key Sector Themes – 55th EEI Financial Conference

1. Incremental expansion of renewable strategies across the sector as utilities seek to improve their profiles and grow regulated earnings with lower cost supply.

2. Refinancing opportunities will be a tailwind in the near-term given the sharp move lower in rates. In addition to continuous cost saving programs and the residual flow back of unprotected ADIT, this should position utilities well in aggregate to minimize rate case activity as COVID weighs on the economy and interest rates remain a risk to allowed ROEs.

3. Sales mix outlook remains robust for most into the 1H21- strength in residential sales should be a tailwind for the next few quarters but most expect this to taper into the back half of the year.

4. Lean cost practices have become a way of life and portions of the 1H20 COVID-related cost mitigation is likely to be reversed in 4Q as managements pivot to derisking 2021 and adding to headroom.

5. M&A is in headlines again, but most managements appear to prefer their own stand-alone strategies at 1x rate base relative to time-consuming, higher risk acquisitions at 1.5-2.0x. Although some see tuck-in acquisitions of gas distribution as possible, most view it on an opportunistic basis and prefer to grow their electric franchises and carbon-friendly non-regulated businesses. CNP's upcoming divestiture should prove to be an interesting valuation marker for the subsector.

6. The future of gas distribution and its associated multiple remains a debate. Although most do not see materially adding to this exposure especially inorganically, winter-peaking utilities continue be comfortable with their gas operations given heating penetration and much of the capital spending is related to reliability and safety.

7. Green hydrogen remains all the buzz and is finding its place as a more scalable storage alternative, but most agree this is likely still at least 5-10 years from a large-scale commercial roll out.

8. Corporate tax policy remains topical post the election but still viewed as potentially 12-months away. Impacts on customer bills (including EDIT balances) and marginal impacts rate base growth are the negatives while the improvement to cash flow and an associated benefit to credit metrics are the positive offsets.

9. The consensus remains that utility investment in wind, solar and battery storage should continue to grow as renewables cost come down. Tax equity is starting to play a larger role in management's ability to make the transition to cleaner supply affordable to customers.

AEE – (Outperform, $89 Price Target)

- We had hoped to get some additional clarity on the company's 4Q20 capital refresh including the impact of the company's 2020 IRP filing. The integration of the company's September 2020 IRP plan in MO added $3,000mm to its 2020-2029 pipeline of capital investments. In addition to the 700MW/$1,200mm included in its 2017 RFP, AEE sees an additional 950MW by 2024 in its preferred plan which it believes is also its least cost plan. Negotiations are ongoing as management assesses individual project attributes including cost, where they are in MISO queue, transmission interconnections, and PTC qualifications. The use of tax equity is also a consideration in this evaluation as a way to manage overall cost. As previously discussed, AEE will give a full 5-year refresh to its capital expenditure program on its 4Q conference call.
- Management still feels comfortable with rate headroom under the MO cap given the ~4% cumulative reduction in rates from the change in corporate taxes (3%) and decrease in its 2020 rate case (1%) relative to the 2.8% annual cap which began in April 2017. New renewables would be able to utilize recovery through the state's PISA mechanism (85%) but not the RESRAM mechanism (15%) as that applies only to compliance expenditures under the 2008 legislation. We will be watching for future updates from the company on what the Y-O-Y rate increases will be within the current rate cap mechanism.
- Despite management's solid operating and regulatory execution this year, the company's relative sales mix in 3Q was not as robust as some of its peers and weather reduced the end of its outlook for the year. We look to its 4Q update for a formal update on its retail sales expectations including the outlook for commercial sales impact on retail sales.

AEP – (Outperform, $99 Price Target)

- Although in aggregate the company's EEI update was largely in line with our current forecast and 6.3% EPS CAGR, after much speculation around a more robust renewable spending program we think investors came away disappointed by the incremental renewable capital plan and a small miss at the midpoint of its 2021 guidance.
- A 2021 outlook was initiated at $4.51-4.71 ($4.61 midpoint). This was a bit shy of our $4.65 estimate and represents a 6.0% increase off the midpoint of its 2020 range of $4.35 and at the top end of the company long-term CAGR. Of note, 2021 guidance assumes retail Load is 5c drag reflecting the impact of a more negative mix in 2021.
- Management sees its '21-25 capital plan at $37.4bn which is up $2.5bn from its most recent 5-year forecast. The primary changes underlying this update include $700mm in regulated renewables, $500mm at generation and $600mm in transmission. Rate base is now expected to grow at 7.4% ('19-25).
- Important to the '21-25 forecast, the Pirkey Plant will be shut down in 2023 and the turn back of the Rockport 2 lease will add the need for 450MW of capacity in the intermediate-term. The company has only specifically included ~450MW of planned replacement via an RFP at I&M (300MW of owned solar and 150MW of PPA wind) in its capital plan related to the Rockport 2 capacity.
    - Given the company's net resource length at I&M we do not expect the remaining 850MW of capacity to be replaced but the $144mm of lease payments should provide ample headroom for future investments.

- At SWEPCO, the Pirkey and Welch retirements in 2023 and 2028 represent ~$700mm of net book value which should be replaced partially through the addition of North Central Wind, the company's IRP and incremental transmission spending.

- Management outlined a slightly higher CFO outlook 21-23 while equity timing has shifted due to the timing of the Traverse acquisition. CFO is up ~ $200mm, net due to fine tuning of working capital, D&A and fuel. Although the total equity over the three- year planning horizon is still ~$2,100mm, the weighting has shifted from $1,300mm in 2022 to $1,400mm in '23 to reflect the timing of the Traverse acquisition.

AES (Not Rated)

- Our EEI meeting with AES was positive. We see the company's narrowed America's (U.S. + Latin America and Caribbean) focused strategy combined with one of the industry's most robust renewable pipeline as an attractive potential energy transition leader. The company remains focused on furthering progress to unlock value as the company still trades at a meaningful discount to pure-play U.S. utilities despite its strength across Energy Storage, Solar and Wind in multiple countries.

- Unlocking value may get a kickstart with sale of a small minority stake (10%, AES ~ 5%) of the company's Fluence energy storage business (Co-owned with Siemens AG), likely some time before year-end. Buyer will likely be a financial player that share's AES and Siemens long-term vision to continue to grow the business which will see revenues grow 40% per annum the next several years. Proceeds from salle will be reinvested into Fluence with a longer-term eye to a potential IPO as company's growth while impressive may not translate into substantial earnings that utility focus investors tend to focus on. That said for now company likes the marriage of its various renewable development arms (sPower, AES DE, etc.) with its traditional electric distribution and conventional generation businesses and investments in new energy technologies (Uplight, 5B)

- AES has numerous opportunities to leverage its extensive experience and presence in key Central and South American and Caribbean and is positive about the potential for LNG and CCGT development in Viet Nam. That said, we came away with the impression that growth in the U.S. as well as continuing to grow its 2 U.S. T&D businesses organically remains front and center in terms of management priorities as it works to become a bigger energy transition player and helps increase confidence in 7-9% EPS growth.

- AES is clearly following a road map set out by ESG investors like Norges Bank as evidenced of its de-carbonization efforts via coal shut-downs globally. We think as a result AES could start making its way into more ESG focused baskets which could provide an additional tailwind.

CMS – (Outperform, $70 Price Target)

- Management remains confident in their 6-8% LT EPS CAGR guidance given its strong capital backlog, favorable regulatory construct, and high visibility. With commercial sales continuing to slowly improve and positive sales mix remaining persistent off early 2Q20 lows, management believes sales could be upside in their plan.

- CMS doesn't anticipate any material changes to the upcoming IRP in 2Q21. Over the next five years Consumers' reliability and efficiency-based rate base growth will be supplemented by a ramping renewables investment plan funded in part by the roll-off of the Palisades Nuclear PPA in 2022 ($90mm) and savings from the retirement of Karn Units 1 &2 ($30mm). Post 2025, the expiration of the company's contract with MCV will create incremental headroom

($50-60mm) in addition to savings from the retirement of the larger Campbell units 1 & 2 (255MW and 364MW, respectively). Management continue to evaluate the cost effectiveness of energy storage opportunities which if economic could accelerate renewable development and retirements of fossil assets. If the retirement of fossil unit benefits customer affordability and reliability, management will consider other options outside of securitizing the retired assets.

- CMS's has shown its ability to identify O&M efficiency and savings through energy waste reduction of ~2% YoY as well as identifying incremental O&M and possible fuel savings from the retirement of its older fossil fleet. Management feels comfortable and optimistic about their organic capital investment opportunities and aren't likely to pursue M&A opportunities despite the recent market noise.

CNP (Market Perform, $23 Price Target)

- Our EEI meeting with CNP was positive. We continued to be impressed by CNP's newly assembled management team in rapidly restoring investor confidence in an improving outlook. We look forward to the company's upcoming December 7th analyst day for its plans with respect to its 54% ownership in ENBL, which remains the last key piece to the re-rating of the story. We are most curious on the transaction structure CNP will pursue given the current tax basis in ENBL (-$1.8 billion).

- Starting point helps. We note that the O&M savings the company is targeting will be key to help provide the necessary headroom to help facilitate its robust rate base investment CAGR of 10%/year. However, we see a few factors that will work to CNP's advantage. Investment in renewables prior to the current Indiana IRP had not been made at the legacy Vectren business and allows for lower O&M at conventional plants that will be replaced by renewable generation. Cost structure particularly in terms of supply chain management following the close of CNP's acquisition of Vectren had never really been brought to bear and likely is low hanging fruit in our opinion. Finally, operational improvements in terms of number of trips into the field are improved along with customer service should also drive costs lower. We view these as all tangible steps unlike some other cost cutting initiatives that have been more amorphous.

- Company likes its gas LDC business, but increased investment will be geared towards the electric business. The company's recently announced $3 billion increase to its 2021-2025 capital expenditure program will be geared towards its electric utilities (2/3). Although success in the upcoming Indiana IRP process will help facilitate cost savings and a more ESG friendly story it's not an overly large part of the growing electric investment. Rather we see investment in the grid and reliability as being larger components.

- Financing focus on reducing parent leverage. With the company's very limited equity needs going forward ($75MM/year starting in 2022) as being one of the takeaways we highlighted in our 3Q recap, we see CNP management turning towards reducing its prior reliance on debt at the parent level. This along with a potential divestiture of ENBL could allow CNP to eventually to enjoy a lower FFO/debt downgrade threshold.

D – (Outperform, $88 Price Target)

- Management expects a noisier rate case in South Carolina give it's the long timeframe between cases and nearly $3bn in investment associated with the case. However, the company continues to believe the outcome will not have a major impact on its 2021 earnings guidance. Above average population and economic growth in South Carolina provides

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Dominion with the opportunity to pursue robust investments in grid hardening and solar in region, which we'd expect to be recovered through a rate case review occurrence approximately every 1-2 years.

- Following the sale of it's GT&S assets to Berkshire, management can now narrow its focus on the execution of growing it's primarily regulated businesses and transition to an ESG leader in the sector.
- As it had already started a methane reduction program years ago for its LDC business, management thinks LDCs with relatively lower emissions will play an integral role in supporting the clean energy expansion
- With two large partnerships focusing of agriculture renewable natural gas, management believes there's opportunity for up to $2bn in RNG capital investments through 2025.
- Dominion is pursuing pilot hydrogen projects in 1Q21 at it's mock training town to test the level of hydrogen blend that could be used in it's existing systems. If the pilot is successful, Dominion plans to take the project into an actual town the following year. Management expects it can blend up to 5-10% of hydrogen in it's existing systems before having to make modifications to reach up to a 30% blend.

DTE – (Market Perform, $130 Price Target)

- Following the announcement of the spinoff of its midstream assets, DTE's focus turns to its regulated gas and electric businesses which now account for ~90% of earnings power and future growth. With a slightly elevated capex up front, the 7-8% growth guided to at DTE Electric and the ~9% growth at DTE Gas assumed in its 5-year forecast will be skewed higher the first few years, offsetting the dilution from equity converts in 2022. Management continues to believe the current capital plan and expected rate base growth positions DTE towards the high end of the guidance range.
- Following the spin transaction, management reduced its FFO/debt target to 16% from 18%. The lower threshold is more in-line with its purely regulated peers and it's been noted by credit agencies that this transaction is credit enhancing, supporting this lower threshold. In line with our pro-forma estimates, parent leverage is expected to decrease to 30% from 40% prior to the transaction announcement and we'd expect it to trend near that level.
- Management believes post spin its midstream business could trade in a range of 8-10x EV/EBITDA reflecting its conservative 4x leverage, 2x coverage, low maintenance capex, visible Haynesville growth profile and solid northeastern footprint. Coverage should provide some flexibility to grow its dividend but DTE also sees growth through low cost expansion capex as well as medium sized inorganic growth. Its Form 10 should be filed in the spring 2021 and this should provide some additional color on the company's outlook for initial DCF outlook that will incorporate the maintenance capex and interest expense cost of its external debt financing.
- Management continues to see its P&I and T&M as solid businesses in the portfolio post spin. RNG growth of around $7-8mm of net income per year is in line with the company's risk appetite. Although trading & marketing business not a core focus for DTE, it provides a risk management tool and generates ~$50mm/year in cash without the need to post material collateral given a facility in place to support the business.

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ES – (Outperform, $99 Price Target)

- In February we expect ES to update its capital plan which should push growth to the top end of its 5-7% LT EPS CAGR guidance. Management continues to exclude $1bn of AMI (MA & CT) as well as solar opportunities in MA in capital plan. We'd expect incremental investment opportunity to be funded with similar equity levels as in the past ~50% equity.
- CT political rhetoric has cooled since the legislation passed
- Regarding its offshore wind program, all eyes will be on the Vineyard Wind permitting updates next week. Investors will also be watching the upcoming offshore solicitation in NY where ES and Orsted submitted a bid in the 2500MW solicitation with winners determined by the end of December.
- Management sees plenty of room over next few years to earn within sharing bands in MA (electric and gas) and CT given its multi-year rate deals. O&M will provide some help we do not expect it to be as large of a driver going forward. Returns in MA are expected to be a bit more back end loaded given their historic test years vs CT's forward test year.

ETR (Outperform, $124 Price Target)

- Our EEI meeting with ETR was positive. ETR continues to be one of our preferred GARP oriented names in the sector and our EEI meeting further solidified our already positive view that despite unique challenges within its service territory (Storms, Load Growth Slowed vs Initial Estimates) that its management team remains positioned to deliver on its 5-7% EPS growth outlook through 2023 as its cost management efforts can be tailored to near-term challenges. Given that the management only recently concluded a comprehensive Analyst Day presentation with a refreshed 5-year outlook we did not expect or see much new at EEI.
- The company remains confident with respect to its upcoming Arkansas FRP extension. ETR sees talks with the Arkansas PSC staff potentially picking up ahead of a December 4th settlement deadline, particularly given that the company just settled its last FRP filing under the current FRP regime and now the focus returns towards the potential of an extension. The company remined us that this is the first-time regulators in Arkansas have had an opportunity to evaluate an extension after the initial move to FRP process so some of the noise and fits and starts to the process were expected.
- Louisiana FRP also remains on track despite the apparent need for a run-off election for 1 of 2 LAPSC commissioners who was up for re-election. ETR indicated to us that despite the need for Commissioner Eric Skrmetta (Republican) to face a run-off against Democratic challenger Allen Borne that it's sees no impact on timing of the LAPSC to take up the FRP extension.
- FFO/Debt metric path back to 15% by mid-2022 remains on track with cadence towards reaching goal determined by when storm securitization process is finalized.

EXC (Outperform, $52 Price Target)

- Our EEI meeting with EXC was neutral. Given EXC is in the midst of its process to potentially separate its EXC Generation business (we think via spin) there was not too much we gleamed in terms of incremental financial information on what the pro-forma companies may look like, particularly with respect to credit. Having said, that we think that a separation of EXC

Generation is very likely. Company will provide update on 4Q call on where the process stands.

- Company tone on IL legislation but timing or outcome will not determine fate of EXC Gen separation in our view. EXC expects energy legislation may find a new sense of urgency for Governor Prtizker since his other key legislative initiative (progressive state income tax) was defeated. In addition, company has not closed the door on the FRR option as eventually finding more support in Illinois. That said legislation will not be taken up until the start of the next legislative session and will not feature in Veto session in November/December.

- Pending CENG Put Option will not present meaningful issue in separation evaluation. Timing on resolution of the exercise price of EDF's put of its interests in its co-owned nuclear plants with EXC in MD and NY remains outstanding but company has run scenarios with and without completion of the put option and also doesn't see it as major complicating factor in evaluating EXC gen as a viable standalone entity.

LNT – (Not Rated)

- Management continues to execute its Phase 1 Clean Energy Blueprint in Wisconsin (2019) and Iowa (2020). The focus in Phase 1 has been on an evaluation of the company's whole generation fleet and distribution system. LNT management sees their Blueprint model as an iterative strategy that can be updated as they approach future retirements and to reflect the future changes in the cost of clean supply. Phase 2 will focus on repowering, storage and transmission. Its 5-year forecast assumes no equity to fund its regulated growth which drives its outlook for a consistent 6% EPS CAGR. In WI this has resulted in the addition of 1000MW of new solar through the end of 2023 (in addition to its 500MW of owned wind), incremental battery storage and the retirement of the 414MW Edgewater Station by the end of 2022. The company field in May for recovery of the six project, 670MW tranche with a 2Q21 order expected.

- In IA, the company sees adding up to 400MW of solar by 2023 (in addition to its 1,300MW of owned wind), adding incremental battery storage, the retirement of the 275MW Lansing Station, and the conversion of its Burlington Station from coal to natural gas. LNT will utilize tax equity for its 400MW of IA solar implying 60-65% of the project cost will be reflected in rate base. Looking forward, the use of tax equity should help bring forward additional retirements given the lower impact to customer.

- Management continues to work on taking costs out of the system with nearly $60mm achieved and driving headroom in rates for future investments. In IA $30mm has be taken out through lower energy efficiency costs and other $30mm from the mitigation of COVID-19 impacts and the recent Derecho as well as its transformation process which has been using automation/technology and headcount attrition (5-10%) to lower its cost structure. Looking forward LNT expects annual O&M to decline 3-5% off a $500mm base as its technology investment and distribution enhancements return efficiencies.

NEE – (Outperform, $79.25 Price Target); NEP (Outperform, $70 Price Target)

- Although NEP didn't need the assets dropdown from NEER to drive its distribution growth, we view the dropdown and deal with KKR as a win-win for all parties, allowing NEP to recapitalize while simultaneously better positioning itself for future growth. With a mandate of clean energy assets with long term contracts with credit worthy parties, we don't expect NEP to pursue incremental pipeline assets especially given their shorter expected lifespan.

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- At NEE, management remains very interested in transmission assets acquisitions given their favorable regulatory treatment and the long-term opportunity to support renewables development growth.
- With Hydrogen projects Management highlights hydrogen as the last leg to get to zero carbon emissions with the largest opportunities coming from the power generation industries push to decarbonize, followed by the transportation industry and industrial parties feeling the pressure from ESG investors.

NI – (Outperform, $27 Price Target)

- NiSource reaffirmed their 2021-'24 growth plan that drives an estimated EPS CAGR of 7-9% fueled by renewable investments replacing the retirement of fossil units.
- Management believes the compression of the LDC valuation is overdone given the support it provides to further decarbonization. Although management will continue to look at capital rotation opportunities we do not see the company actively pursuing the sale of any of its smaller LDCs at this time. If the company would undergo a strategic review of its gas distribution franchise we would look at VA, KY and MD as the most likely sale candidates.
- NiSource's current capital investment plan includes ~$1.8-2bn renewable investments which would be funded by approximately 60% equity. Timing of the dilution remains aligned with the assets in-service dates through the end of 2023. The company still expects to fund equity portion with $600-1,000mm of hybrid/mandatory convert in 2021 and the balance to be topped off with block equity sales in 2022 & 2023. Management noted that it has already received several revers inquires on the 2021 financing but has not gotten firm commitments or discussed the coupon on the product. It is expected that any structure would support at least 50% equity credit which favors a preferred host structure as well as treasury accounting to avoid dilution.

PEG (Market Perform, $61 Price Target)

- Our EEI meeting with PEG was positive. We thought our meeting with PEG was one of the better meetings we had at this year's EEI conference. The concrete steps the company has taken to resemble other premium utility companies is a result of the favorable regulatory outcomes at the BPU (recent $1 billion CEF – energy efficiency program approval) and decisive action the company has taken (planned sale of non-nuclear generation). PEG once it completes its asset sale may be in a position to give longer term EPS guidance that will be underpinned by 6-8% rate base growth and may result in addition improvement of its valuation multiple.
- Asset sale on track for close by 2H of 2021. Given the size of the portfolio, softness in gas gen sale comps and the company's receptiveness to sale of pieces of the portfolio to likely at least 2 or more buyers we had thought there could be a scenario where PEG could end up retaining some of the fossil generation assets but that is not something management is entertaining and is determined to move towards more regulated operations.
- Some noise around extension of NJ ZEC for next 3-year is possible. PEG is in the process of attempting to secure a 3-year extension of ZEC payments for its NJ nuclear plants and also advocating for an increase to the current $10/MWh payment with management keenly aware of the potential for some initial potential for blowback. However, given recent favorable outcomes and the importance for these assets to reach the state's ambitious carbon reduction goals we remain optimistic that at the least an extension is secured. The final BPU decision is

due in April of 2021 but we are waiting for a preliminary decision next month to see where the starting point will be for final negotiations. The transparency of the timing and the procedural schedule is in stark contrast to what we have seen in Illinois and what transpired in Ohio. While PEG echoed its previous statement that it felt like maintaining ownership of the nuclear assets as they request an extension of ZEC payments was the "right thing" to do by the state, we think that should an opportunity or need later down the road to re-think continued ownership, PEG would consider a sale.

- Offshore wind the wait continues but we think the company will ultimately proceed with Orsted on Ocean Wind and likely participate in other offshore solicitations in the mid-Atlantic. We had anticipated that one of the potential big reveals in an EEI conference year short of them would be PEG's formal announcement it is moving forward with its option to invest in Ocean Wind, Orsted's winning bid in the first NJ offshore wind solicitation. However, the company continues to exercise its full allotment of time for due diligence.

SRE – (Market Perform, $138 Price Target)

- We believe management is moving closer to a partial monetization or alternative structure around its LNG business – will "give update on 4Q call or before." The message to investors is management remains very committed to the LNG business and believe there is incremental value to shareholders in the platform

- Any transaction is about sourcing lowest cost of capital in market. Feel very good about LNG developments and strategy and looking at lowest cost of capital to grow business, strengthen balance sheet and highlight LNG value. Although credit rating agencies have noted that if SRE were to expand its LNG exposure in a meaningful way that it could be negative to credit quality, SRE believes that Cameron as example, has no commodity exposure and no volume exposure which offset pressures from other credit negative implications. This would be done with the purpose to grow its business, strengthen the balance sheet and crystalize the value of its LNG program. Any proceeds would not be used for the $2bn buyback authorization. This authorization remains a placeholder for opportunistic buybacks.

- SRE will provide more details of its 5-yr capital plan at the investor day in March. Management noted Oncor has the scope to increase CAPEX at least another $1bn above its $12.2Bn 5-year plan. With 100GWs of renewables in que in TX, there's plenty of opportunities to deploy capital. Even with its increases capital plan, Oncor is still expected to have the lowest rates in TX

WEC – (Not Rated)

- Management taking advantage of low interest rates to refinance $1,650mm of debt at holding company. $950mm of this was called early. In addition to extending the maturities, WEC reduced its coupon from 3.3% to 1.6% and left the $20mm+ of prepayment costs in 2020 EPS guidance while still expecting to be at the top end of the $3.74-3.76 range.

- Day-to-day cost savings initiative continuing to pay dividends with 2021 forecast calling for a 4% reduction off a ~$1,100mm base and in line with a similar decrease (~3.4%) off its 2019 base of $1,140mm.

- WI rate case cycle calls for spring 2021 filing with rates effective 1/1/22. Management is continuing to work on a strategy to potentially stay out of this upcoming case through unprotected ADIT, and cost savings and CAPEX-related deferrals. Rates have increased ~1% since 2019 and management expects a small increase should they file in 2021,

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- In addition to the 1,100MW of scheduled retirement's at Oak Creek (units 5-6 2023 and units 7-8 2024), WEC sees an additional 300MW of retirements to be identified in the next year. Its 5-year ESG plan includes ~$600mm of undepreciated book balance which represents ~2% of total assets and ~5% of WI rate base.

XEL – (Market Perform, $70 Price Target)

- Management remains very comfortable with the 5-7% LT EPS CAGR range. The incremental capex from its MN R&R proposal could drive above the range but management remains mindful of its credit position and will fund any increase with the appropriate amount of equity.
- With the possibility of several LDCs hitting the market in the next year, we think it's more likely the company will focus on organic opportunities rather than M&A. Management noted they have benefited from a higher than average P/E multiple given their focusing on growing organically and the ability to build at ~1x rate base vs purchasing at 1.5-2x rate base. Management does believe scale and consolidation led by premium companies will take place, but it remains difficult due to social and regulatory issues.
- Entering 2020 XEL forecasted a modest increase in O&M which is now down YoY led by initiatives to offset COVID-19 impacts. Management believes their O&M efforts to combat COVID-19 impacts have likely brought forward their cost program and with technology they would expect it to pay dividends long-term. YoY we should expect to see a flattish O&M profile.

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Distribution of Ratings (November 10, 2020)

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Buy	Outperform	47.9 %	29.7 %	56.1 %	49.4 %	57.7 %	57.7%
Hold	Market Perform	49.6 %	21.3 %	41.7 %	48.0 %	41.0 %	37.5%
Sell	Underperform	2.3 %	25.0 %	2.3 %	2.3 %	1.4 %	4.8%

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UTILITIES & POWER

Regulateds – Market Overweight
Integrateds – Market Overweight
IPPs – Market Overweight
Gas/Power Infrastructure – Market Overweight

November 11, 2020

UTILITIES & POWER

EEI takeaways – more conviction in bullish views

- **Premium utilities remain strong and the laggards are catching up fast**
  Nearly all of our meetings at EEI were positive this year. Rate base growth keeps rising, regulation has stayed broadly constructive and earnings growth rates are seeing upward bias – NEE, NI, CNP, SO, DUK – among others have all suggested higher EPS growth. The premium ESG friendly utility stories keep getting better. And the discount value names are becoming more and more investable. Diversified utilities are de-risking their business mix (D, PEG, PPL, EXC, DTE, CNP). Project and regulatory risk companies like SO, DUK and SRE have better visibility. The CA utilities (EIX, PCG) are nearing the end of a manageable fire season. Even the gas LDCs finally got some positive datapoints with CNP's plan to sell some of theirs and positive tone from owners and potential buyers at the conference. **Utilities have been led by the high quality ESG leaders, but it feels like the pack is starting to catch up.**
- **Is the GREEN trade still good? Yes**
  The transition to renewables from coal continues unabated. We had several announcements at EEI and earnings – AEP, WEC, LNT, etc. The GREEN trade is spreading to a broader group of companies and becoming a key part of most utilities' plans. Most see a Biden Administration and Congress being supportive even with no blue wave with potential for renewables tax credit extensions at the very least. NEE sees acceleration of general business credits as N-T stimulus driver and NEE/FTS highlight transmission as another driver of more renewables. Offshore wind will also be a key growth area for ES, D, AGR and maybe PEG – even if BOEM siting somehow goes bad this week (11/13 decision), there is a Biden "put" once he takes office.
- **Business mix de-risking a bullish theme – PEG, EXC, DTE, CNP**
  DTE and EXC both announced plans to separate their non-utility businesses this earnings season. This follows D, PEG and PPL in Q2. CNP/OGE are a matter of time and SRE is considering small steps for LNG. We are bullish as we see multiple expansion as these transactions come to fruition. PEG, DTE and D all had very positive stories at EEI. EXC is a bit early but likely has the most upside and we came away more confident they will take action on the YE call. CNP has been an amazing turnaround story even before any ENBL action which we think is just a matter of time.
- **Gas LDC debate, CA utilities, FE, and NEE/EVRG**
  The tone on gas LDCs has improved. CNP plans to sell some of theirs, which many thought was not feasible a month ago. High quality utes like XEL and WEC speak constructively of theirs and XEL said willing to buy if overlapping. This is constructive for names like NI and CNP. EIX and PCG stories sounded constructive as fire season has been noisy but with limited damage – see our PCG upgrade note. To the negative, our FE meeting left us expecting more shoes to drop – see our note here. EVRG had another noisy conference with the quickly squashed NEE merger story. And investors are getting dizzy from the monthly NEE merger rumor.
- **Ideas: EXC, PEG, EIX/PCG, CNP, NI for value; D, NEE, DTE, ES for growth**
  We see EXC and PEG re-rating as they execute on their de-risking transactions in 2021. CA is nearing the end of fire season and we think it's the right time to buy EIX and PCG. CNP continues to be a great turnaround and NI is low-risk and cheap. On the quality side, we like the growth and clean energy plays at NEE/NEP, D and ES.

Please see full report for individual company takeaways

Exhibit 1: Top Ideas

Name	Ticker	PT
High Quality / ESG		
Ameren	AEE	91
Dominion Energy	D	91
NextEra Energy Partners	NEP	78
NextEra Energy	NEE	82
DTE Energy	DTE	143
Eversource	ES	99
American Electric Power	AEP	100
Value Plays		
CenterPoint Energy	CNP	26
Edison International	EIX	73
PSEG	PEG	64
Exelon	EXC	51
NiSource	NI	27
PG&E Corp.	PCG	15
NRG Energy	NRG	47
FirstEnergy	FE	33
PPL Corp	PPL	31
Vistra Energy	VST	33
Sempre Energy	SRE	147

Source: Wolfe Utilities & Power Research

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EEI – What's Hot and What's Not

What's Hot

EEI from home – got my weekend back
Becoming pure play utilities; business mix de-risking
Everyone's an ESG winner
Gas LDCs – not going away, weakness overdone
Storage and Hydrogen
IRPs and RFPs are bigger events than rate cases
Offshore wind – concerns and delays but it's not stopping anyone
EVs and electrification
Equity needs – more to come in 2021 – NI, ETR, AEP, ED, EIX, NEE, PCG, AGR

What's Not

NEE merger stories with someone
FE and Ohio
Midstream
Diversification
Big financial impacts from COVID

EEI takeaways – one line per company

AEE – Solid story, we think EPS growth of 6-8% into mid-decade, renewables upside possible
AEP – A lot of talk on renewables opportunities; but still unclear how much will be owned
AES – Management saying all of the right things; story sounds promising, watching financial discipline
AGR – Still a lot of work to do to build credibility; financing uncertainty, weak credit metrics; worried on offshore returns
AWK – Fundamental growth story with no end in sight; recent rate case execution was key
CMS – Impressive cost cutting in '20, continued cushion in hitting numbers; committed to growth in LDC biz
CNP – Story sounds awesome; new management team making a world of difference
D – Solid meeting; management understands that consistent execution is key to re-rating the stock higher
DTE – Not missing a beat post midstream spin; still targeting high-end of 5-7% EPS growth with strong B/S
DUK – Confident tone on NC legislation; several data points coming up in the next month or two
ED – Still not much to get excited about; Midstream separation seems inevitable, timing lot less clear
EIX – Bullish tone on CA, solid defense of the stock and clear messaging
ES – EPS growth of 5-7% from core biz intact; BOEM, offshore delays NT overhang but Biden tailwind
ETR – Constructive outcomes expected from the AR and LA FRP extension requests
EVRG – Messy meeting in the midst of Elliott/NEE noise; sticking with standalone plan, but investors hesitant on STP process
EXC – Constructive tone on IL legislation in '21; our sense is ExGen spin decision will be made by YE call
FE – Downbeat meeting; seem to be bracing for more shoes to drop; confident in liquidity, but no assurances on regulatory front
FTS – Lots to like with leverage to transmission buildout around renewables in Midwest; regulatory resolution in Alberta, soon in AZ
LNT – Capex sweet spot with no equity needs and 5-7% EPS growth; lots of rate-based renewables
NEE/NEP – Ideal election outcome, focused on renewables-related policy changes in Biden admin.; more bullish on NEP; little more guarded on M&A
NI – Talked down potential LDC sale; 7-9% growth on track, confident on financing, execution
OGE – Frustratingly shy on details about ENBL
PEG – Upbeat meeting, confidence in regulated growth and asset sale execution; offshore wind decision coming soon
PCG – Reasonable job so far during wildfire season; new leadership to be announced soon
PNW – A lot of things to like but still cautious on AZ regulation

POR – Board review of trading losses still pending; will there be an equity need next year?
PPL – Announcement on UK sale in 1H21 appears on track; use of proceeds remains unknown
SO – Confident on Vogtle schedule; sees 6% EPS growth once past near-term Vogtle penalties
SRE – utility growth a highlight, comfortable with LNG/Mexico strategy, LNG financing appearing more likely
WEC – Solid as always; stepping up fleet transition with big coal to renewables shift
XEL – Rate case stay-out and capex upside in MN look promising; supportive commentary of gas LDCs

Estimate and Price Target Updates

Exhibit 2: Wolfe Research Earnings Estimates vs. Consensus

		2020E		2021E		2022E		2023E	
Company Name	**Ticker**	**New**	**Prior**	**New**	**Prior**	**New**	**Prior**	**New**	**Prior**
American Electric Power	AEP	$4.35	$4.34	$4.62	$4.68	$5.00	$5.03	N/A	N/A

Source: Wolfe Utilities & Power Research

Price target changes reflect premiums/discounts to the average sector multiple of 19x in 2022; this is up from 18.5x prior.

Exhibit 3: Wolfe Research Earnings Estimates vs. Consensus

Company Name	Ticker	Price	New PT	Old PT	Rating
AES Corp.	AES	$21.29	$21	$21	Peer Perform
Alliant Energy	LNT	$57.42	$57	$56	Peer Perform
Ameren	AEE	$82.37	$91	$89	Outperform
American Electric Power	AEP	$91.15	$100	$98	Outperform
American Water	AWK	$164.37	$165	$160	Peer Perform
Avangrid	AGR	$51.44	$47	$46	Underperform
Clearway Energy	CWEN	$30.64	$29	$29	Peer Perform
CMS Energy	CMS	$67.01	$67	$65	Peer Perform
CenterPoint Energy	CNP	$24.07	$26	$25	Outperform
Con Edison	ED	$81.72	$77	$75	Underperform
Dominion Energy	D	$85.68	$91	$90	Outperform
DTE Energy	DTE	$130.06	$143	$140	Outperform
Duke Energy	DUK	$97.31	$98	$95	Peer Perform
Edison Int'l	EIX	$62.90	$73	$70	Outperform
Entergy	ETR	$109.83	$116	$113	Peer Perform
Evergy	EVRG	$57.30	$59	$58	Peer Perform
Eversource	ES	$94.42	$99	$97	Outperform
Exelon	EXC	$43.84	$51	$50	Outperform
FirstEnergy	FE	$29.79	$33	$40	Outperform
Fortis	FTS	$42.10	$44	$41	Peer Perform
NextEra Energy	NEE	$77.54	$82	$80	Outperform
NextEra Energy Partners	NEP	$66.21	$78	$78	Outperform
NiSource	NI	$24.64	$27	$26	Outperform
NRG Energy	NRG	$32.22	$47	$47	Outperform
OGE Energy	OGE	$33.95	$38	$37	Peer Perform
PG&E	PCG	$10.71	$15	$11	Outperform
Pinnacle West	PNW	$89.59	$84	$80	Underperform
Portland General	POR	$44.57	$45	$43	Peer Perform
PPL Corp.	PPL	$29.41	$31	$31	Outperform
PSEG	PEG	$60.88	$64	$61	Outperform
Sempra Energy	SRE	$133.64	$147	$147	Peer Perform
Southern Company	SO	$63.92	$62	$61	Peer Perform
WEC Energy Group	WEC	$104.43	$101	$99	Underperform
Xcel Energy	XEL	$74.69	$73	$70	Peer Perform

Source: Wolfe Utilities & Power Research

WOLFE RESEARCH

UTILITIES & POWER

November 11, 2020

Q3 Results Takeaways; Sales Growth Update

Q3 reporting rolled right into EEI so we combine our Q3 results and sales growth data in here. Earnings for the quarter YoY ended up 3.8% better than our estimate of about flat. See Exhibit 4-5 for quarters vs. expectation and guidance changes by companies. See the actual and weather normalized sales data in Exhibits 6-7.

Exhibit 4: Wolfe Research Earnings Estimates vs. Consensus

		Q3 2020		Q3 2019A		Q3 2020		2020 Midpt	2020E		Guidance Updates
Company Name	**Ticker**	**Actual**	**Variance**	**Actual**	**Growth**	**WR**	**Cons**	**Guidance**	**WR**	**Cons**	
The AES Corporation	AES	$0.42	-5%	$0.48	-8%	$0.44	$0.44	$1.37	$1.41	$1.38	Pointing to the top-end of 2020 guidance
Alliant Energy	LNT	0.94	7%	0.94	0%	0.88	0.88	2.43	2.43	2.43	Narrowed and raised 2020 guidance, 2021 guidance in-line and continued 5-7% growth
Ameren	AEE	1.47	-2%	1.47	0%	1.47	1.50	3.48	3.47	3.46	Lowered top end of 2020 guidance by $0.05 to $3.40-3.55
American Electric	AEP	1.47	0%	1.46	1%	1.51	1.46	4.35	4.34	4.33	2021 guidance $4.51-4.71 vs $4.68 then-consensus
American Water	AWK	1.36	-2%	1.33	2%	1.39	1.38	3.89	3.90	3.88	Raised 2020 guidance on strong weather YTD
Avangrid	AGR	0.32	-21%	0.40	-20%	0.39	0.40	1.95	1.99	2.04	2020, 2021, and 2022 guidance all missed consensus; 2021/2022 matched our estimates
CenterPoint	CNP	0.34	12%	0.53	-36%	0.27	0.30	1.16	1.29	1.32	Raised the low-end of 2020 utility guidance; targeting annual utility EPS growth at top end of 5-7% target
CMS Energy	CMS	0.77	11%	0.73	5%	0.75	0.69	2.66	2.66	2.67	2021 guidance in-line and continued 6-8% growth
Con Edison	ED	1.48	-2%	1.54	-4%	1.50	1.51	4.23	4.22	4.23	Lowered the top-end of 2020 gudiance
Dominion	D	1.08	9%	1.18	-8%	1.00	0.99	3.50	3.57	3.53	
DTE Energy	DTE	2.61	28%	1.91	37%	2.15	2.03	7.00	6.98	7.00	Raised 2020 guidance, 2021 guidance in-line and 7% growth off original 2020 guidance
Duke Energy	DUK	1.87	4%	1.79	4%	1.73	1.80	5.13	5.12	5.10	Lowered 2020 guidance to $5.05-5.20 from $5.05-5.45
Edison Int'l	EIX	1.67	15%	1.50	11%	1.47	1.45	4.55	4.56	4.49	Raised low end of 2020 guidance by $0.10 to $4.47-4.62
Entergy	ETR	2.44	1%	2.52	-3%	2.38	2.41	5.65	5.59	5.61	Raised, narrowed 2020 guidance to $5.60-5.70 from $5.45-5.75
Evergy	EVRG	1.73	10%	1.57	10%	1.58	1.58	3.03	3.02	3.01	Raised low-end of 2020 guidance
Eversource Energy	ES	1.02	0%	0.98	4%	1.00	1.02	3.65	3.65	3.64	
Exelon	EXC	1.04	20%	0.92	13%	0.86	0.87	3.10	3.03	3.07	Raised 2020 guidance to $3.00-3.20 from $2.80-3.10
FirstEnergy	FE	0.84	8%	0.76	11%	0.78	0.78	2.50	2.52	2.53	
Fortis	FTS	0.65	-1%	0.66	-2%	0.67	0.66	N/A	2.55	2.56	
NextEra Energy	NEE	0.67	2%	0.60	11%	0.66	0.65	2.24	2.30	2.29	
NiSource	NI	0.09	215%	0.00	N/A	0.03	0.03	N/A	1.30	1.30	
OGE Energy	OGE	1.04	-7%	1.25	-17%	1.03	1.12	2.03	2.04	2.09	Lowered 2020 utility guidance due to unfavorable weather
PG&E	PCG	0.22	-22%	1.11	-80%	0.26	0.28	1.62	1.61	1.61	
Pinnacle West	PNW	3.07	8%	2.77	11%	3.13	2.85	5.05	5.10	5.03	Raised 2020 guidance on record summer heat
Portland General	POR	(0.19)	57%	0.61	-131%	(0.27)	(0.45)	1.50	1.55	1.56	Expecting 2020 to finish in the top half of the range
PPL Corp	PPL	0.58	-6%	0.61	-5%	0.59	0.62	2.45	2.40	2.43	Lowered 2020 guidance to $2.40-2.50 from $2.40-2.60
PSEG Corp	PEG	0.96	-1%	0.98	-2%	0.99	0.97	3.43	3.42	3.42	Raised low-end of 2020 guidance
Sempra Energy	SRE	1.31	-16%	1.50	-13%	1.46	1.56	7.50	7.72	7.65	Expecting to be at upper end of $7.20-$7.80 for 2021, reiterated 2021 of $7.50-$8.10
Southern Co.	SO	1.22	1%	1.34	-9%	1.20	1.21	3.16	3.22	3.19	Raised 2020 guidance to $3.22 from $3.10-3.22
WEC Energy Group	WEC	0.84	10%	0.74	14%	0.76	0.76	3.75	3.76	3.75	Narrowed and raised 2020 guidance, pointing to top-end
Xcel Energy	XEL	1.14	6%	1.01	13%	1.06	1.07	2.78	2.78	2.78	Narrowed 2020 guidance range, targeting the same midpoint; initial 2021 guidance in-line

Source: Wolfe Utilities & Power Research
*Q3 WR and cons estimates are what was published in our Q3 earnings preview on 10/20/20

Exhibit 5: Wolfe Research EBITDA Estimates vs. Consensus

		Q3 2020		Q3 2019A		Q3 2020		2020 Midpt	2020E		Guidance Updates
Company Name	**Ticker**	**Actual**	**Variance**	**Actual**	**Growth**	**WR**	**Cons**	**Guidance**	**WR**	**Cons**	
Clearway Energy	CWEN	$312	-2%	$300	4%	$305	$320	$1,120	$1,105	$1,114	Initial 2021 guidance a little light on new project ramp up timing
NextEra Energy Partners	NEP	312	-6%	315	-1%	325	332	1,313	1,355	1,301	
NRG Energy	NRG	752	-4%	792	-5%	770	779	2,000	2,065	2,007	2021 EBITDA tracking to lower half of range on solar delays
Vistra Energy Corp.	VST	1,185	11%	1,064	11%	1,098	1,072	3,585	3,552	3,578	

Source: Wolfe Utilities & Power Research
*Q3 WR and cons estimates are what was published in our Q3 earnings preview on 10/20/20

Exhibit 6: Nominal and Weather-adjusted Sales Growth (3Q20 vs. 3Q19)

Company	Ticker	Residential	Commercial	Industrial	Total Retail	Residential Weather Adjusted	Commercial Weather Adjusted	Industrial Weather Adjusted	Total Retail Weather Adjusted	Decoupling
Alliant Energy	LNT	2.2%	(4.6%)	(2.7%)	(1.5%)					No
Ameren Corp	AEE	(4.4%)	(8.2%)	(5.5%)	(6.2%)					No
American Electric Power	AEP	(1.0%)	(7.7%)	(9.4%)	(5.7%)	3.8%	(4.6%)	(7.8%)	(2.6%)	No
Centerpoint - CEHE	CNP	0.1%			(1.2%)					No
Centerpoint - Indiana Electric	CNP	(4.2%)			(8.6%)					No
CMS Energy	CMS	8.6%	(3.8%)	(11.7%)	(0.8%)	6.1%	(3.9%)	(11.7%)	(1.8%)	Yes
Consolidated Edison	ED	8.5%	(7.2%)	(7.2%)	(7.0%)					Yes
Dominion Energy	D									No
DTE Energy	DTE	10.1%	(6.1%)	(9.2%)	(0.5%)	8.7%	(6.4%)	(11.7%)	(2.5%)	Yes
Duke Energy	DUK	3.4%	(5.7%)	(7.4%)	(4.4%)	4.1%	(5.3%)	(7.5%)	(2.1%)	No
Entergy Corp	ETR	0.1%	(8.3%)	(6.7%)	(4.1%)	1.6%	(7.5%)	(6.7%)	(4.1%)	No
Evergy	EVRG	(2.5%)	(6.4%)	(4.2%)	(4.4%)					No
Exelon - ComEd	EXC									Yes
Exelon - PECO	EXC	9.0%	(8.4%)	(7.7%)	(1.6%)	6.4%	(9.4%)	(8.3%)	(3.2%)	No
FirstEnergy	FE	5.1%	(5.5%)	(6.3%)	(1.7%)	5.3%	(5.5%)	(6.4%)	(1.8%)	No
NextEra Energy - FPL	NEE	7.6%	(3.5%)	5.9%	2.9%				3.0%	No
NextEra Energy - Gulf	NEE	(5.2%)	(9.1%)	(9.6%)	(7.1%)				(1.0%)	No
NiSource	NI	3.8%	(7.5%)	(11.0%)	(6.3%)				(4.7%)	No
Pinnacle West	PNW	11.5%	(0.2%)	(0.2%)	6.0%	5.6%	(3.5%)	(3.5%)	1.3%	No
Portland General	POR	11.3%	(3.8%)	11.2%	5.0%	11.0%	(5.0%)	9.0%	4.0%	Partial
PPL - Kentucky	PPL					7.1%	(6.7%)	(6.7%)	(1.9%)	No
PPL - Pennsylvania	PPL					4.9%	(4.0%)	(4.0%)	(0.5%)	No
PSEG	PEG	9.0%	(5.0%)	(5.0%)	0.0%					No
Southern Company	SO	(4.1%)	(8.8%)	(7.3%)	(6.7%)	3.5%	(5.1%)	(7.3%)	(3.0%)	No
WEC Energy Group	WEC	7.1%	(2.5%)	(5.4%)	(0.3%)	4.2%	(3.3%)	(5.4%)	(1.5%)	No
Xcel Energy	XEL	9.1%	(5.0%)	(5.0%)	(0.9%)	3.7%	(4.8%)	(4.8%)	(2.4%)	Partial
Average		**3.9%**	**(5.9%)**	**(5.2%)**	**(2.5%)**	**5.4%**	**(5.4%)**	**(5.9%)**	**(1.5%)**	

Source: Wolfe Utilities & Power Research

Exhibit 7: Nominal and Weather-adjusted Sales Growth (YTD20 vs. YTD19)

Company	Ticker	Residential	Commercial	Industrial	Total Retail	Residential Weather Adjusted	Commercial Weather Adjusted	Industrial Weather Adjusted	Total Retail Weather Adjusted	Decoupling
Alliant Energy	LNT	1.0%	(4.9%)	(3.8%)	(2.8%)					No
Ameren Corp	AEE	(1.6%)	(8.2%)	(6.8%)	(5.5%)					No
American Electric Power	AEP	(0.5%)	(6.2%)	(7.3%)	(4.6%)	2.6%	(4.9%)	(7.0%)	(3.0%)	No
Centerpoint - CEHE	CNP	2.6%			(0.2%)					No
Centerpoint - Indiana Electric	CNP	10.9%			1.7%					No
CMS Energy	CMS	7.3%	(4.9%)	(18.9%)	(3.8%)	4.8%	(5.8%)	(19.1%)	(5.0%)	Yes
Consolidated Edison	ED	5.3%	(5.7%)	(5.7%)	(5.8%)					Yes
Dominion Energy	D									No
DTE Energy	DTE	9.2%	(7.8%)	(17.4%)	(3.9%)	7.7%	(7.9%)	(18.9%)	(5.6%)	Yes
Duke Energy	DUK	(0.8%)	(6.9%)	(7.5%)	(5.0%)	2.7%	(5.9%)	(7.5%)	(2.8%)	No
Entergy Corp	ETR	(0.8%)	(7.6%)	(2.3%)	(3.2%)	(2.5%)	(7.1%)	(2.3%)	(2.1%)	No
Evergy	EVRG	(0.4%)	(7.4%)	(5.5%)	(4.4%)					No
Exelon - ComEd	EXC									Yes
Exelon - PECO	EXC	2.9%	(9.8%)	(9.2%)	(5.2%)	4.5%	(8.4%)	(8.9%)	(4.2%)	No
FirstEnergy	FE	1.8%	(9.0%)	(6.9%)	(4.2%)	5.4%	(7.1%)	(6.8%)	(2.4%)	No
NextEra Energy - FPL	NEE	6.3%	(3.9%)	3.3%	1.7%				0.7%	No
NextEra Energy - Gulf	NEE	(1.8%)	(7.0%)	(8.7%)	(4.7%)				(1.1%)	No
NiSource	NI	4.1%	(5.5%)	(16.5%)	(8.8%)				(8.4%)	No
Pinnacle West	PNW	11.2%	(1.3%)	(1.3%)	4.8%	4.5%	(3.5%)	(3.5%)	0.4%	No
Portland General	POR	3.6%	(6.5%)	9.4%	0.7%	6.0%	(6.0%)	7.0%	1.6%	Partial
PPL - Kentucky	PPL									No
PPL - Pennsylvania	PPL									No
PSEG	PEG	5.0%	(7.0%)	(7.0%)	(3.0%)					No
Southern Company	SO	(3.5%)	(8.4%)	(7.8%)	(6.6%)	3.7%	(5.9%)	(7.8%)	(3.4%)	No
WEC Energy Group	WEC	6.0%	(4.4%)	(7.1%)	(2.1%)	3.6%	(5.3%)	(7.9%)	(3.4%)	No
Xcel Energy	XEL	5.8%	(5.2%)	(5.2%)	(2.2%)	3.2%	(5.5%)	(5.5%)	(3.1%)	Partial
Average		**3.3%**	**(6.4%)**	**(6.6%)**	**(3.0%)**	**3.8%**	**(6.1%)**	**(7.3%)**	**(2.8%)**	

Source: Wolfe Utilities & Power Research

Company Summaries

AEE: Waiting on MO RFP

- **2021 guidance, 2021-25 capital plan, rate base and EPS growth expected on Feb call.** AEE's 2020-24 capital plan of $16B implies 8.7% rate base growth and drives 6-8% EPS growth. However, the utility sees over $39B of investment opportunities in 2020-29. On the YE20 call in Feb, AEE will provide 2021-25 capex. AEE's preferred option in its MO Integrated Resource Plan calls for 1.2 GW of solar/wind by YE25, but whether that would be additive to its rate base and EPS growth outlook remains to be seen. Regardless, AEE's investment opportunities suggest at least 6-8% EPS growth into mid-decade.
- **MO RFP for solar/wind.** AEE currently is conducting a RFP for its solar/wind needs, considering not only the lowest cost to customers, but also execution risks, deals with landowners, MISO interconnections and other factors. AEE expects to negotiate with the bidders and will provide an update on the YE20 call, but management suggested it may be too early by then to incorporate RFP-related investments, if any. AEE does not need to wait for PSC approval of its IRP to determine which option to pursue.
- **MO rate case in 1H21 but recent regulatory outcomes have been constructive.** AEE plans to file MO rate cases sometime in 1H21, with the 700 MW ($1.2B) of wind projects expected in-service by 2Q21. AEE's last two rate cases were settled, as were other regulatory proceedings, including CCNs for said wind projects. MO constitutes just under half of AEE's rate base and over 8% rate base growth through at least 2024.
- **IL formulaic framework has provided stability but low ROEs.** The current 30Y Treasury yield is a headwind on electric distribution ROEs (every 50bp = $0.04) under IL's formulaic framework, but management believes it can mitigate the impact. Despite the low ROEs, the framework has provided stability. AEE proposed legislation that included an extension of the framework beyond its YE22 sunset and an increase in the ROE formula by 100bp. However, comprehensive energy legislation is unlikely this year. Still, AEE expects the state to address energy legislation next year, given the priorities of policymakers. Even if the framework ends, IL electric utilities have decoupling, bad debt recovery and allowed ROEs that could be in the mid-9s vs the mid-7s implied today.

AEP: What comes after the precipice?

- **Still would be disappointed if not on the upper half of 5-7% EPS growth target.** AEP introduced 2021 guidance of $4.51-4.71 vs then-consensus of $4.65, and provided 2021-25 capex of $37B, implying 7.4% rate base growth. AEP repeated that it would be disappointed if it does not achieve the upper half of 5-7% EPS growth, despite the midpoint of 2021 guidance implying 6% growth off the expected 2020E of $4.35. North Central Wind ($2B of rate base) is expected to be completely in-service by early 2022, slightly slipping from YE21 target. We updated our 2020-23E to reflect the latest disclosures; our 2020-23E are now $4.35/4.62/5.00/5.29 vs $4.34/4.68/5.03/5.29 previously.
- **AEP expects to own majority of renewables additions to system.** CEO Nick Akins last month said AEP is on the "precipice of transformational change to renewable resources." AEP now projects 8,029 MW of wind/solar resource additions onto its system in 2021-30. AEP sees the majority of those opportunities being owned by AEP, including NCW's 1,485 MW and other identified renewables projects totaling 475 MW.
- **Leadership changes reflective of strategic execution and portfolio optimization goals.** AEP recently shuffled senior management, with Lisa Barton becoming COO (from her EVP of Utilities role), Brian Tierney becoming EVP of Strategy (from his CFO role) and Julie Sloat becoming CFO (from her SVP of Treasury & Risk role). CEO Nick Akins said he plans on being around for a while, but the changes are part of a years-long succession planning. AEP believes the new leadership roles will facilitate execution on its strategy and manage/optimize

the portfolio. We anticipate underperforming subs, such as Kentucky Power, could be used to mitigate the equity needs for NCW in late 2021, early 2022.

- **Transmission needs.** Given the fleet transition and move to renewables, more transmission will be needed. AEP's transmission business is its largest segment after growing in the double-digits since 2016, and robust growth is expected to continue.
- **AEP confident that FE issues won't have negative implications on OH regulation.** Despite the headlines out of OH this year, AEP believes it is in good shape. AEP has not seen any impact on the regulatory environment or in its ongoing rate case in OH.

AES: Saying all of the right things

- **A leader in the transition to a clean energy future.** Over the past few years, AES has aggressively ramped up its growth capabilities in renewables and through other clean energy / digitization investments. Management's messaging has been extremely effective, in our view, and we think there could be more upside if the company can continue to execute and create tangible benefits through its strategic alliance with Google, investment in Uplight, etc. The one thing we remain a little wary of is financial discipline given just how much growth AES has/is pursuing and in a relatively short period of time.
- **Fluence value marker still expected by yearend.** Fluence is in the midst of a capital raise where both AES and Siemens intend to sell down a 5% stake in the company. The idea being, to provide a value marker for investors and set Fluence on the path toward an IPO in a few years. On the latter, AES mentioned adding an independent financial investor to the Board of Fluence would be beneficial from a governance standpoint and help establish Fluence as a standalone company. We recently updated our S-O-P to include value for Fluence and ascribe $1/sh. for AES' 50% stake in the company.
- **Positioned well out of the election.** Heading into the election, AES had pitched itself as a big beneficiary in the event of a Democrat sweep. For now, that doesn't appear to be the outcome, but AES still sees a lot of potential under a Biden administration. Specifically, management thinks it is likely to see an extension of the PTC/ITC and is hopeful for an ITC on standalone storage. This could all culminate in helping accelerate the adoption of renewables where AES sees itself as a big beneficiary. AES recently bought a wind team located in the US to better position itself to take advantage of future growth opportunities in both solar and now wind.
- **In the final stages of IPL's RFP.** IPL is toward the tail-end of the RFP/IRP process in Indiana where there is the potential to add 600 MW of renewables to replace retiring coal units. AES is hopeful to do most of this through rate base and expects to have clarity by the Q4 call in February.
- **Making some progress on LNG.** AES is close to signing contracts for an additional 20% of its excess LNG capacity in the Dominican Republic (another 20% remains, with more under construction). This could be worth as much as $0.02 of EPS, which would likely contribute to earnings starting in 2023. We expect to hear more hear on the Q4 call when AES rolls forward its guidance through 2024.

AGR: Big new plan, but still lacking visibility

- **Last week's Analyst Day set new 6-8% EPS growth trajectory through 2025, but funding plan uncertain.** AGR laid this out in detail just a week ago, with new CEO Dennis Arriola highly focused on execution and setting a track record of hitting financial targets. The long-term growth plan factors in accretion from the PNM deal (3%), where there was at least some transparency on assumed financing ($3.6B equity / $700M debt). However, the lack of visibility on the long-term funding plan was odd. Mgmt. seemed to indicate there would be some level of equity issuances, but was reluctant to commit to an amount.
- **Weaker credit metrics also not comforting.** AGR is targeting 14.5%+ FFO/Debt on a pro forma basis while maintaining solid investment grade credit ratings. While the PNM merger

helps move the company toward being 85% regulated, we view that as a relatively weak balance sheet for a diversified company pursuing offshore wind in a meaningful way. Mgmt. hopeful that other ratings agencies adopt S&P approach and view AGR as core holding of Iberdrola with tethered rating.

- **Focused on improving earned ROEs.** This is a key focus area after underearning in recent years. The New York rate case settlement is expected to be approved by year-end, with rate relief a big driver of growth, and vegetation management helping to deal with storms. In Maine, CMP has been under a 100bps ROE penalty, but is currently hitting all its metrics to see this lifted in September 2021. The final NECEC permit from the Army Corps was a positive and construction is expected to start imminently.
- **Offshore wind process finally set to move forward.** Unclear if BOEM issues a timely EIS later this week (11/13) or COP next month (12/18), but believe there is wide support for 1x1 nautical mile spacing and nascent industry is set to get off the ground. We're a little worried on potential returns given delays and bid prices, however improvement in turbine technology and site synergies between Vineyard/Park City helps offset. Mgmt. pointed to targeting unlevered returns that are shy of regulated rate base ROEs, but on a levered-basis would be in the 'teens.
- **Dividend growth still on hold.** AGR has been holding its dividend flat as it remains above its payout ratio target. Mgmt. is hopeful to potentially revisit growth around after the 2022 time frame.

AWK: Fundamental growth story with no end in sight

- **More upside to go?** Despite trading near all-time highs on a relative and absolute basis, management sees even more room for upside. Underpinning their confidence is decades of investment needs that support AWK's 7-10% EPS CAGR as well as a burgeoning appetite from ESG focused investors to own the stock. This is the reason that AWK has elected to hold off on issuing the $500M of equity that isn't needed until the middle of its 5-year plan.
- **Recent rate case execution has been impressive.** Heading into 2020, this was the biggest question for AWK's stock with rate cases pending in its three largest states – NJ, PA, and MO. Over the past couple of weeks AWK has made a lot of progress on this front by getting a settlement approved in NJ and reaching a settlement in PA. Through the settlements, AWK has been able to maintain its allowed ROEs and even increase its equity ratio in NJ. This hasn't been the norm for most utilities given the low rate environment.
- **M&A preference is muni acquisitions.** With a P/E multiple a lot higher than even other water utilities, we were curious to get management's view on M&A. AWK said it looks at all options, including other IOUs, but thinks the most efficient use of capital is through its municipal tuck-in strategy. While these transactions typically take 2-5 years to close from start to finish, our sense is that the pipeline could continue to grow and potentially accelerate post COVID as a lot of struggling municipalities may find themselves in need of support.
- **Watching NY sale process.** There continues to be noise around AWK's sale of its NY subsidiary to Liberty Utilities (Algonquin). This was ratcheted further by Gov. Cuomo's proposed legislation which would require the NY PSC to do a public takeover study. AWK maintains the belief that the sale will close in 1Q21 and the recent noise shouldn't derail the process.

CMS: Cost savings and capital plan upside

- **Record level O&M savings in 2020 helps build cushion.** Set to achieve $100M in operating savings in 2020, which more than offsets any COVID-related headwinds. Sets the company up to enter reinvestment mode in Q4 and build further cushion for 2021. Leveraging the "CE Way" lean operating system that still has a long runway for future cost cutting opportunities.
- **Michigan regulatory backdrop remains constructive.** Settled gas rate case earlier this year. Electric case currently pending, though ALJ recently recommended higher ROE than recent decisions (10.0% vs. 9.9%). Like being a regular rate case filer, as it gives ability to toggle based on latest sales and O&M trends.
- **Capital plan refresh coming with year-end call.** Will refresh 5-year plan with the Q4 call. Still lots of opportunity for upside spend. Somewhat limited by customer bill. Still see no need for block equity, though possible annual issuance ticks up above the previous $150M/year projection.
- **Fleet transition continues, comfortable with gas business.** Set to add 1,100 MWs of solar by 2024 and 6 GWs by 2040. Will submit next IRP in June 2021, where there could be an opportunity to further accelerate coal shutdowns and add storage to the plan. Not concerned about future of gas LDC business in Michigan – electrification is too expensive for home heating//cooking. Could also look at using gas system and storage fields for RNG and hydrogen in the future. Actually see mix of rate base shifting further to gas (40% from 35%) over time, but seem very comfortable with this.

CNP: Christmas come early

- **The dream team.** Wow, what a difference a new management team can do for a company. We continue to be very impressed with what we hear from CEO Dave Lesar, CFO Jason Wells as well as Special Advisor Tom Webb. Lesar highlighted his background managing companies with a lot more complexity than CNP, which gives him high confidence in being able to hit the top end of the 5-7% EPS growth target year after year. We can't help but recognize some of Tom Webb's blueprint from his days at CMS, which in part facilitated an environment for continuous improvement to help harvest meaningful cost savings over time. We see CNP in a position to unlock a lot of value with this management team at the helm.
- **EPS growth target contemplates a range of potential headwinds.** One of the more impressive things out of Q3 earnings/EEI is that CNP expects to grow 7% off wherever 2020 EPS lands. Our previous thought was that EPS growth would be more muted in 2021 due to equity dilution. However, CNP noted that the opportunity set to cut O&M next year is robust after seeing what the team was able to accomplish this year. Most importantly, CNP's expectation to be at the top end of its 5-7% target annually includes the ability to absorb any corporate overhead/debt that is currently allocated to ENBL.
- **Actively working on gas LDC sale(s).** CNP noted that it had received reverse inquiries with respect to its LDC sale process. The company has engaged advisors and is targeting a sale(s) to close toward the end of 2021 or early 2022. CNP will disclose which property(s) it plans to sell on December 7th. Our sense after talking to XEL is that it would not be opposed to owning an LDC property adjacent to where it currently serves (i.e., MN gas); WEC also provided a similar view.
- **ENBL process might take time.** CNP held all the details on next steps for ENBL until the December 7th Analyst Day**.** Management did caution that the process could take time given that ENBL is a standalone public company. We interpreted this to mean that an actual transaction could likely be a little way away still.
- **Confident on renewable investments.** $1.3B of CNP's new $16B capital plan relates to renewables in Indiana. Of the $3B of capex that was added to the prior 5-yr plan, a little over $500M relates to IRP capital. Management has already had a lot of dialogue with the IURC

and is very confident in getting Commission approval. Our sense is CNP will enter into contracts later this year to kick off the CPCN process at the Commission early next year.

D: Building the foundation for consistent execution

- **Focus going forward is on execution**. Management understands that for D to trade in-line with the highest quality utilities, a consistent track record of execution is needed. CFO Jim Chapman noted that under his purview, the financial outlook includes cushion such that meeting or exceeding annual guidance should be well within reach. We were encouraged to hear that management understands the importance given that, in our view, this is the one missing item D needs to move into the mega premium group.
- **Virginia capital plan is unique.** While not new, it is worth highlighting again – D's clean energy capital program in VA is the best in the sector. The reason being is because the VA Clean Economy Act was prescriptive in what amount of the offshore wind, solar and storage would be owned by D in rate base. The $34-43B of rider eligible capex over the next 15 years has all been deemed in the public interest, meaning there shouldn't be much ambiguity when D goes in for cost recovery at the SCC.
- **Confident in outcome of triennial review.** The one knock we hear on D is some concern over the 2021 and 2024 triennial reviews in VA. On the former, D will file its review next year in March and a decision will be rendered in November. Management is confident it will file a case where no refund is warranted; recall, there is a $50M rate reduction cap in place. The 2024 triennial review won't impact numbers until 2025 and we will be watching the review next year closely for any readthroughs given that there is no rate reduction cap in place at that time. That said, D has long demonstrated an ability to manage the regulatory environment in VA effectively.
- **DESC rate case data point coming.** Intervenor testimony in DESC's rate case was due on 11/10. As of this writing, it has yet to be posted given the government holiday. D maintains that it filed a very defensible case and that once new rates are finalized in March of next year, it will be close to earning its allowed return. Longer-term, D see opportunities to implement a coal transition plan similar to what is taking place in VA right now.

DTE: Not missing a beat post midstream split

- **Still targeting 5-7% EPS growth on pro-forma basis through 2025, focused on hitting high-end.** DTE believes it can continue to grow 5-7% at the remaining pure play utility company following the midstream spin. This is off a pro forma 2020 base, which merely excludes the midstream earnings contribution, and no material expected dis-synergies. Part of this is because DTE already allocated interest and other costs to the midstream segment. This seemed to quell some investor fears. Furthermore, mgmt. pointed to its track record of historically hitting the high-end of 5-7% EPS growth and hopes to continue this going forward. 2020 would mark the 12th consecutive year of exceeding original guidance.
- **Utilities are actually growing faster than 5-7%.** Sees electric operating earnings growth of 7-8% and gas growth of 9%. This exceeds earnings growth, but in the near-term is offset some by the REF roll-off and already issued equity convert ($1.3B). Capex plan largely supported by distribution and renewables investment – hoping to pull forward additional investment. May actually look at potentially accelerated remaining coal plant retirements – currently set Belle River for 2030 and Monroe for 2040.
- **Midstream spin set for mid-2021**. Believe business will be better valued on a standalone basis (as will the utility business). Didn't want to constrain midstream growth potential by trying to hold 70/30 utility/non-utility business mix. Will file Form 10 next year and then see when-issued trading, before official listing. Believe 4x leverage target screens well versus peers. Combined dividend growth of 8-10% post-spin is better than prior plan of 6%. Could do some type of Analyst Day for the RemainCo following the spin.

- **Sticking with P&I business, seeing growth in RNG/cogen**. Cogen business is all 10-15 year agreements with fixed fees and pass-through commodities exposure. Achieving higher returns compared to utilities. Renewables natural gas business is a mix of long-term offtake agreements, hedged low-carbon fuel standard/RINs (~3 years), and some open to market. Expected to achieving 3-5 year simple cash payback.
- **Balance sheet will remain strong.** At the prevailing utilities business DTE plans to maintain a strong balance sheet. Sees minimal equity needs in the 5-year plan post-2022. Currently targeting 18% FFO/Debt, but believe business mix improving to 90% regulated will allow for threshold to be relaxed to ~16%.

DUK: We just got to wait, NC

- **All eyes are on NC.** DUK is currently awaiting decisions in rate cases, a state Supreme Court ruling on coal ash, progress on its NC IRP, and reports on clean energy that could ultimately result in constructive legislation.
- **NC rate cases and coal ash.** DUK expects decisions in its DEC and DEP rate cases in early Jan and Feb, with the NCUC likely approving the settled items (e.g., 9.6% ROE) and ruling on coal ash cost recovery and accelerated D&A. The hearings went well. In a decision earlier this year, the NCUC allowed a return of coal ash spend but not a return on for Dominion. Relatedly, on 12/11 or later the NC Supreme Court is expected to issue a ruling on NCUC's 2018 decision allowing DUK a return on coal ash, which was appealed by the NC AG and NCUC Public Staff.
- **2021, equity plans intact regardless of outcome on NC coal ash.** DUK sees \$0.08-0.10 of earnings if no return is allowed on coal ash. But DUK's 2021 guidance midpoint of \$5.15 already reflects no return on coal ash. DUK committed to no new equity issuances beyond its plan to chase any credit downgrade, as at least one rating agency has suggested no return on coal ash would reduce its FFO/Debt metric. DUK may issue incremental ATM/DRIP (beyond the \$500M/yr through 2022) depending on capital plans.
- **Confident that NC Clean Energy Plan will result in legislation.** Last year, NC Gov Cooper (D) set out clean energy plan goals, including a target of 70% greenhouse gas emissions reduction by 2030 and carbon neutrality by 2050. A two-prong Clean Energy Plan initiative (carbon policy and regulatory reform) is being conducted, with reports expected around yearend or early next. DUK is confident legislation will follow in the 2021 session, even with a divided statehouse in NC, and expects to have significant capex opportunities. Last month DUK raised its 2020-24 rate base growth to 6.5% and its 2025-29 growth to 7%, assuming any scenario under its NC IRP. On DUK's Feb call, management will provide an update on the Clean Energy Plan initiative and legislative proposals.

ED: Not much to get excited about

- **Working to own utility-scale renewables in NY.** ED is working behind the scenes to be able to rate base renewables at CECONY. Management pitched it similar to its effort on energy efficiency and EV infrastructure where initially the utility didn't have a role but is now able to earn a return. This would be a big deal for ED as the state of NY needs 2,500 MW of renewables annually to meet its 70% renewable target by 2030. ED said it has started to get some traction with stakeholders, though nothing is firm, and noted that the pace at which the renewable need to be added make the most compelling argument for ED. This would need NY PSC approval and there is no active document currently exploring the idea. ED said to watch the Reforming Energy Vision (REV) docket as that would be the most likely avenues. Ultimately, it didn't sound like this would come to a head in 2021 and the process would be a bit more long dated.
- **Midstream separation seems inevitable, but timing less clear.** ED said that both MVP and Stagecoach fall in the same category as assets that have since been sold – non-core – as the

political landscape has changed dramatically for gas infrastructure investments. ED does a review of these businesses at least annually and noted that a potential transaction doesn't necessarily need to include both assets. On MVP, ED sounds keen to wait until the project is complete to maximize the value it would receive. Since Stagecoach is a JV with Crestwood Equity Partners, they would be entitled to a right of first offer; there is no contractual limitations to exiting Stagecoach.

- **Capital recycling opportunities in renewables business.** Unlike Midstream, ED sees its renewables development business as core and will continue investing there for the long haul. In the future, ED intends to fund more projects with tax equity given the amount of non-monetized tax credits that it still has to work through. ED mentioned that it would be selling projects over the next 3-5 years to recycle capital and improve returns.
- **Watching COVID impact on NY, Gov. Cuomo legislation.** Customers in arrears greater than 60 days has amounted to a $320M increase vs normal in aged receivables. ED took steps to bolster liquidity earlier in the year and the enhanced cash drag is expected to impact equity plans in 2020 (still up to $600M of block equity by YE). The earnings drag is primarily from foregone late fees that are included in its revenue requirement. This could continue into 2021, so we will be watching this closely. Gov. Cuomo recently proposed legislation which would remove caps for fines related to storm response. A second aspect was to lay out a process for potentially revoking the utilities' franchise agreements.

EIX: Bullish tone on California

- **Stock overreaction to fires given less destruction, liability caps.** EIX sounded bullish on CA, given policy-driven investments in the grid and limited wildfire risk. EIX was surprised by the stock reaction on reports of any fire in its service area, noting that the corresponding decline in the market cap assumes the fire was started by EIX's equipment, damages would exceed insurance and the reimbursement to the Wildfire Fund would equal the decline in market cap. In other words, EIX sees AB 1054 as mitigating fire risk, and the market still doesn't understand that.
- **Bobcat and Silverado fires.** EIX suggested damages from these two fires this fall would be covered by its roughly $1B of insurance. CAL Fire and the USFS continue investigations into Silverado and Bobcat, respectively**.**
- **Rate base growth of 7%, storage could be modest upside.** EIX projects 6.5-7.6% rate base growth through 2023. Storage could be modest upside, as the state accelerates the onset of additional storage. EIX has some EV (Charge Ready 2) in its plan and would participate in more if available. Electrification is the long-term driver of potential investment opportunities.
- **GRC decision expected early 2021.** EIX suggested the SCE GRC was relatively predictable. The contested items include speed and amount of overhead conductors, wildfire insurance, D&A and incentive comp. EIX expects the CPUC to issue a proposed decision after the new year, with a final decision in 1Q21.
- **Dividend payout 45-55% of SCE earnings; FFO/Debt expected to be 15-17%.** EIX still sees the dividend within 45-55% of SCE earnings. EIX sees only minimal equity needs beyond its $1B related to 2017-18 fire damages. The recent approvals of some of EIX's memo accounts was good to see from a cashflow perspective. The FFO/Debt projections should be within 15-17%.

ES: Take a load off(shore)

- **ES sees 6% EPS growth from core business, Columbia should help.** ES feels good about its 5-7% EPS growth target through 2024, and has indicated growth could be 6% just from the core business. The recent Columbia Gas acquisition should improve growth within the range. There could be upside from AMI in MA and ultimately CT, though unlikely by the YE20 call in Feb, when ES provides 2021 guidance and new 5yr capital plan. ES' growth target excludes any earnings from its offshore wind venture with Ørsted; the 50/50 JV is developing offshore wind projects in New England and NY.
- **Offshore is main focus, given delays and BOEM's final EIS on Vineyard Wind this week.** We and investors asked several questions about ES/Ørsted's 1,704 MW of projects, given the one-year delay in South Fork (130 MW) to YE23 and delays in Revolution (704 MW) and Sunrise (800 MW) to at least 2024-25. Relatedly, on 11/13 the Bureau of Ocean Energy Management is expected to issue a final EIS for AGR's Vineyard Wind offshore wind project, which will include the spacing of wind projects; developers want 1x1 nautical miles, whereas fisheries want more. The USCG is supportive of the developers' proposals. BOEM will also issue a decision next month on Vineyard Wind's COP filing, which will also have implications on ES' projects.
- **Biden administration should be more constructive on offshore; ES to continue bidding**. Under a Biden Administration, ES expects are more supportive BOEM. But offshore wind is driven by state policy, and policymakers in New England and Northeast are supportive. ES said the JV bid into the NY RFP last month; but it will only proceed with projects if ROEs are in the "mid-teens."
- **CT noise has quieted down, performance-based rates fair.** There was a lot of political pushback in CT, following the a spike in customer bills and ES' response to Tropical Storm Isaias. The CT legislature passed a bill that included refunds/penalties, but it was not as bad as feared. The bill directed CT regulators (the PURA) to implement performance-based ratemaking by mid-2021. ES' next CT rate case is expected to be filed sometime in 2H21, and ES will incorporate PBR into its filing.

ETR: Après le déluge, recovery

- **History of storm cost recovery, securitzation.** With several Hurricanes hitting ETR's region this summer/fall, storm costs will top $2B, mostly in LA. ETR expects securitization and has a lot flexibility. ETR would like to roll up all the costs and go through one proceeding. No major opposition is expected, given the history of storm cost recovery. ETR noted its customer rates are the lowest in the country, and the bulk of the storm costs are in LA, which has the lowest rates among ETR's subs. Securitization probably adds less than 1% rate increase. The rating agencies appear to understand the temporary hit to FFO/Debt.
- **Settlements on FRP extensions expected.** ETR is in settlement talks in both AR and LA for extension of the formula-rate plans. ETR anticipates some puts and takes but is confident the parties ultimately settle. In AR, the parties will file an update by 12/4. In LA, an update is expected this month or next. Final decisions are expected in 1Q21.
- **Equity needs beginning in 2H21; preferreds possible**. ETR's needs are just over 10% of 2020-24 capex, with the first issuance in 2H21. Through 2024, equity needs are expected to total $2.5B. ETR said it plans to get shareholder approval in May 2021 to authorize convertible preferreds, which ultimately become equity.
- **Continuous improvement to create headroom for accelerated capex.** ETR is focused on creating headroom for incremental capex among other things. ETR previously said $2B of post 2024 capex could be accelerated into its 2020-24 plan.

EVRG: Eventful couple of days, but sticking with the standalone plan

- **Committed to standalone STP, despite recent M&A/Elliott headlines.** We met with EVRG mgmt. latter in the day Tuesday, after a number of news headlines had hit. First on Monday, Reuters reported that EVRG rejected a recent $15B bid from NextEra. This was followed up by an Elliott statement pre-market on Tuesday, indicating that as one of EVRG's largest investors, the Board must immediately reengage with NextEra to explore the possibility of a transaction. EVRG subsequently responded to this with a statement that its Board unanimously believes the STP is the best path forward, there's been no change in circumstance, and there is currently no offer or bid for the company.
    - EVRG caveated all this that it is always open to ideas that enhance shareholder value. However, in our meeting it was very clear that the current mgmt. team believes that the Sustainability Transformation Plan is the best risk-adjusted path forward. As of this writing, we've yet to see a further response from Elliott, but it seems likely that this becomes a hostile situation. Though without an active bid for the company, it's not clear what can be done.
- **CEO search still in process and expected to conclude by year-end.** Looking at both internal and external candidates. Current CEO Terry Bassham not planning to leave until a replacement is named. New CEO not expected to revisit STP strategy and don't believe Elliott presence is impacting search.
- **STP process kicking off with no official approvals needed.** There are dockets related to the STP underway in both Kansas and Missouri. While no formal approvals are needed or expected in this process, EVRG views this as a way to get feedback on its plan. Alongside this, EVRG will file IRPs in both states next year (MO on 4/1 and KS on 7/1), which will be more focused on the future generation outlook. Primary stakeholder focus likely to be on rate levels, with EVRG planning to keep below inflation at 2%. Encouraged that KCC Staff found overall capex plan is still in the lower half of utilities.
- **Legislative initiatives focused on securitization and investment deployment.** As part of its longer-term focus, EVRG is planning to transition from its sizable amount of coal in rate base to more renewables. This will require securitization, which will be proposed in early-2021. Mgmt. believes there is stakeholder buy-in, though the near-term plan isn't reliant on this and there is capital plan flexibility from a timing perspective. Moreover, EVRG is focused not just on the cash proceeds from securitization, but being able to use this to fund any future investment growth, so as to mitigate any regulatory lag or earnings shortfall.

EXC: Separation (review) anxiety

- **Update on separation review expected in Feb.** EXC has teams reviewing a potential separation. There are many considerations and it is a complex situation. EXC will have to deal with all of its stakeholders. And the decision will have meaningful implications. Still, EXC suggested a decision is likely by the YE20 call in Feb.
- **IL energy legislation expected in 2021, not a gating issue for decision on separation.** There were 25 working group meetings on clean energy this fall. Although the veto session this month and next has been canceled, EXC expects energy legislation next year. And there is a good chance that EXC's preferred FRR option will be included, given it remains the best way to factor in carbon, which stakeholders want addressed. IL Gov Pritzker (D) had originally opposed a FRR option, but his office has not proposed an alternative. Regardless of the IL legislation, EXC does not see it as a gating issue for making a decision on separation.
- **Biden still focused on climate; but FERC unlikely to change PJM MOPR any time soon.** Biden's top four priorities include climate; that could result in clean energy provisions in a stimulus bill, given the potential for infrastructure and job creation. Under Biden, FERC is still unlikely to have a Democratic majority until after Comm Chatterjee's term ends in June. And

even then, it would take time for FERC to reverse PJM's capacity market rules assuming a presumptive-Chair Glick were to pursue that.

- **Utility segment still solid.** EXC still feels good about its utility businesses, which are wires only and generally operate under reasonable regulatory environments. Multiyear rate plans are expected in MD and DC. IL is the exception for now, given the ComEd DPA. But the regulatory model is formulaic through YE22 for now.
- **IL formulaic framework has provided stability but low ROEs.** The current 30Y Treasury yield is a headwind on ComEd ROEs under IL's formulaic framework. Still, the framework has provided stability. EXC noted the positive benefits to stakeholders, including being one of the largest employers and taxpayers in IL. Even if the framework ends, IL electric utilities have forward test years, decoupling, bad debt recovery and allowed ROEs that could be in the mid-9s vs the mid-7s implied today.

FE: This sounds like it will stay messy; waiting for more shoes to drop

- **Downbeat meeting overall.** In the wake of the termination of former CEO Chuck Jones, this meeting clearly struck a negative tone. Just hours before we met with management an 8K was filed disclosing that the top 2 legal executives at the company were "separated". No color was given on the reasoning or the difference between "termination" and separation". Mgmt. committed to provide updates in the ongoing investigations (both internal and external) and regulatory proceedings, but many investor questions simply couldn't be commented on. The independent Board review will continue to look at oversight and governance. To the positive, there was some comfort given that Acting CEO Steve Strah had distance between himself and what ultimately resulted in the termination of Chuck.
- **Taking steps to maintain financial flexibility.** Pulling back on capex and opex, while holding the dividend flat. Will reevaluate after investigations conclude. Still targeting 5-7% EPS growth through 2023. Delayed 10Q filings as company works through disclosure process – hopes to have it filed by Monday.
- **Feel good about liquidity in various scenarios.** Liquidity stands at $3.4B. Confident will be able to get any necessary waiver from bank group should anti-corruption provisions on debt be triggered. Have history of working with bank groups, including through FES bankruptcy, and believe they remain supportive. If downgraded again by ratings agencies, would see 25bps step-up provision on $4B of debt, but earnings impact is very modest.
- **Numerous proceedings pending at PUCO.** Corporate separation audit will see report published on April 21 2021. Looking at November 2016 thru October 2020 period. Been through audits like this before. Also pending 2018/2019 SEET and Quadrennial review. Continue to have discussions with regulators. Current rate deal (ESP) remains in effect through May 2024 and believe it is good for customers, but could be called in at any time.
- **Ohio legislature looking at HB6 repeal and repeal/replace.** Unclear what ultimately happens here (repeal or repeal and replace) or what the timing will be. However, for FE the loss of decoupling is manageable. Don't expect any blowback from Energy Harbor impacts – bankruptcy emergence wasn't dependent on nuke subsidies and FE only has guarantees around environment liabilities and surety bonds – worth just over $200M. Move to consolidated SEET filings was done through budget bill, but seems unlikely to impact much if reversed either – never been above Safe Harbor threshold.

FTS: No change in outlook under new CEO, strong organic growth prospects

- **Managing well through pandemic year, new 5-year outlook reflects organic growth.** Capital plan fully on track and most of sales protected by regulatory mechanisms or residential (82%). Recently unveiled new 5-year capex plan (~$20B up $800M YoY) and in process of CEO transition from Barry Perry to Dave Hutchens. Remain focused on organic growth with less interest in M&A.
- **Renewables transition and Democratic FERC should be supportive of transmission.** Seeing massive amounts of renewables sitting in MISO/SPP interconnection queues that presents big opportunity for transmission buildout. Could see changes to RTO planning process and potential for advancement of large portfolios of projects (similar to MISO MVP process). Believe focus could shift more towards incentive policies. Like their strategic location of transmission business, given incumbency and where best wind resources are.
- **Expecting Arizona rate case resolution by year-end, then attention shifts to renewables transition.** Waiting on ALJ recommended order any day now. Expecting final decision at ACC open meeting in December. Delays in case have caused regulatory lag this year, but this has been more than offset by favorable weather. Over the summer, filed IRP that laid out transition out of coal (by 2032) and significant renewables buildout. Hoping to establish renewables rider similar to what PNW has proposed in its rate case to help in recovery and avoid lag, while sharing fuel/O&M savings. Overall viewed ACC election results as a good balance (3-2 Republican majority) with continued focus on energy rules, which should align with the IRP.
- **Alberta jurisdiction turning the corner.** Pleased with recent order on transmission-related rate base (saves ~$0.03/sh). Also constructive to see cost of capital proceeding pushed out until next year.

LNT: Rate based renewables buildout continues

- **New capital plan features continued fleet transition.** Refreshed its 5-year capital plan along with Q3/EEI, with more spend continuing to be directed towards renewables as coal plants are shutdown. Mgmt. excited about the new Clean Energy Blueprint in Iowa – featuring 400 MWs of solar, 275 MW coal shutdown, and up to 100 MWs of storage. Still targeting $1.2-1.4B/year in capex (~7-8% rate base growth), which supports 5-7% EPS growth without the need for equity beyond the DRIP (~$25M/year). Indicating there is still a backlog of more renewables to add beyond the Iowa plan and 1 GW of solar in Wisconsin, in addition to ample distribution-related spend.
- **Strong 2020 results despite COVID and record storm in Iowa.** Sales metrics starting to bounce back towards pre-COVID levels now, particularly in Iowa. Derecho storm in Iowa as the worst in company's history, but negligible political/regulatory backlash. Built some conservativism around COVID sales into 2021 guidance. Pursued a number of cost cutting initiatives to hit numbers in 2020 and offset headwinds.
- **Deferred Wisconsin rate case this year and planning to file in 2021.** Pushed out planned 2020 rate filing, using tax/fuel savings to offset needed rate relief for wind and gas investments. Will file in Wisconsin next year, but period of 1-3 years (forward test-year) is still to be determined. Will address recovery of solar additions, retirement of Edgewater coal plant. Have long track record of settlements. Expecting only mid-single-digit rate increase. In Iowa, have renewables rider to recover wind investment, but similar mechanism is not yet in place for solar (though both get advanced ratemaking with higher ROEs).

NEE: Ideal election outcome, strong renewables growth tailwinds; measured M&A commentary

- **Constructive federal and state election outcomes.** Fans of divided government. Biden Presidency sets up positive tailwinds for renewables business. Focused on 3 main issues with new administration: getting rid of renewables tariffs, transmission reform at FERC, renewables/hydrogen tax ideas. Believes there will be bipartisan support for much of this. At the state level, believe Republican majority at House/Senate and PSC sets up for constructive regulatory environment.
  - Addressing unutilized tax credits via general business credits is top of the list in terms of doable bipartisan change. Hydrogen support with something like a PTC is likely longer-term. Standalone battery storage credit is also possible, but more of a "nice to have". Lots of commentary on FERC transmission – NEE likes the Texas format (CREZ) in terms of ISO reform, cost allocation. ERCOT much more efficient than MISO and SPP
  - Biden winning is bad for Mountain Valley Pipeline, but still feel good that biological opinion prevails and project is ultimately built.
- **Renewables business as good as ever.** Scale, pipeline, interconnects, customers, financing – all best in class. Still see mid-teens solar and high-teens/low-20s returns for wind. Not having any construction issues during pandemic.
- **Utility rate case coming next year.** Feel good about FPL as best run utility. Will ask for performance adder. Will try to settle at some point during the process next year.
- **More bullish than ever on NEP.** Recent deal acquired good assts for NEP and allowed NEE capital recycling through KKR. Convertible equity portfolio financing at 6.75% pre-tax IRR is a cheap form of equity.
- **M&A commentary.** Love organic growth prospects and don't have to do M&A. Same rhetoric on requirements: would have to be significantly accretive, doable, and regulatory environment that is constructive or where NEE can make a difference in. Acknowledged not easy to do and will be disciplined. Also acknowledged that following DUK merger stories became more sensitive to shrinking the renewables component of its business mix given the embedded higher valuation it garners. Note: we met with mgmt. prior to the EVRG story.

NI: Ability to execute is well within reach

- **Making the case for NI post-CMA.** With the Columbia Gas MA sale now complete, management is confident in the investment case for NI moving forward. Notably, all of NI's other subsidiaries have continued to execute despite the noise in MA over the last two years. NI highlighted all the safety enhancements that have been made since, a realignment of its management team and a robust dialogue with its revamped Board to ensure that the ability to execute going forward is well within reach. The kicker now is an expansive renewable buildout program in Indiana which is expected to help drive 7-9% EPS CAGR through 2024.
- **Portfolio optimization**. If CNP is successful in selling one or two of its gas LDCs at an attractive price, we believe this will be a nice catalyst for LDCs as a whole and a potential blueprint for NI. At this point, NI doesn't appear to be committed to asset sales in lieu of issuing equity for its renewable investments, though it is open to the idea. We continue to believe asset sales make sense given the size of equity NI needs over the next few years (~25% of current market cap).
- **Flexibility in renewables financing strategy.** Management mentioned that it has received reverse inquiries from parties that are interested in supplying capital for NI's renewable program. This level of interest gives NI confidence in its financing plan. NI does not intend to issue the hybrid financing ($600M-1B) before yearend and noted that it has a lot flexibility for when it needs to actually complete the financing in 2021.

- **Renewables plan looks locked and loaded.** We expect to see CPCN filings at the IURC for NI's recent renewable announcements over the next month or two. NI reiterated that the blueprint for the renewable additions has already been laid out – the early retirement of its Schaefer and Michigan City units were already approved in NIPSCO's last rate case and the IURC has already approved CPCNs for other renewable JV projects.

OGE: Waiting for clarity on ENBL

- **Keeping thoughts on ENBL close to the vest.** Similar to the Q3 call, management refrained from entertaining too many hypotheticals on ENBL but reiterated the recognition of investor preference for pure-play utilities. In a scenario for OGE didn't have ENBL, the sense is that OGE could target FFO/D of 15-18% to maintain the same credit. In general, management does not view a stock buyback as an ideal use of capital in the event that there were to be proceeds available from a sale of ENBL units; ideally that capital would be redeployed into rate base investments.
- **Adding an LDC seems like a non-starter**. In the spirit of theoretical scenarios where OGE had sale proceeds from ENBL and additional balance sheet capacity, we were curious to get management's thoughts on M&A – specifically gas LDCs since CNP has publicly stated the intention to sell one or two properties that would make geographic sense for OGE. Management was clear that LDCs would not be high on its list given sentiment from an ESG standpoint. OGE's focus is on growing the electric business.
- **Ice storm could lead to additional capex.** The recent ice storms that came through Oklahoma were far and away the worst in OGE's history. While the expected cost of the storm hasn't been disclosed yet, OGE has the ability to defer the capital costs and recover the O&M portion through a tracker. When asked on potential capex opportunities in grid resiliency, OGE said it was possible to see some incremental work there in light of the storm; stay tuned for the Q4 refresh. Management mentioned that the political response has generally been supportive of the company.
- **Bullish on L-T load growth.** OGE sees a lot of future sales growth being driven by the industrial sector, particularly defense/aerospace and steel mills. What is also beneficial is that it has the lowest rates in the country, helping attract a variety of businesses to the Oklahoma City area. Weather adjusted load growth north of 1% on an annual basis is still the expectation once we get beyond the impacts from COVID.

PEG: Offshore wind decision soon, confidence in regulated growth and asset sale execution

- **Decision on offshore wind is extremely close.** Originally expected to make decision by now on 25% option in Ørsted's 1.1 GW Ocean Wind project, but continuing due diligence while there have been some BOEM delays. Sees project risk with returns "sufficient, not celebratory". Would only participate if part of a bigger long-term growth opportunity, which seems likely given the direction of public policy, particularly in New Jersey.
- **Regulated growth opportunities still ample.** Sees potential incremental and accelerated capex as part of economic stimulus in state. Strong support for continued gas business investment as part of GSMP program. Recently approved energy efficiency program likely to be extended and is long-term commitment by the state. Drives 7-8% rate base growth. Only limitation seems to be customer bill.
- **Constructive tone on asset sales.** Already seeing interest for the entire portfolio of fossil and solar assets, but will launch sale process in coming weeks. Offer prices have been reasonable. No specifics, but indicating that any earnings dilution from asset sales would be very modest. Once beyond the sale, planning to give long-term earnings growth rate for regulated pure play business.

- **Transmission ROE discussion in a holding pattern.** Very small gap between company and BPU and ratepayer advocate, but have been in similar position for a while now. Bid-ask spread on ROE seems to be 9.6-10.0%. If an agreement can't be reached, expect a complaint to be filed. Seems like chances of settlement have fallen on the margin.
- **ZEC process to play out in coming months.** Recently filed second application. Believe nukes need more than $10/MWh. State unlikely to let plants shutdown, but seems possible there is a negative preliminary decision from BPU Staff in December, followed by ultimately a constructive final decision next April.

PCG: New leadership to be announced soon; like risk/reward skew

- **We are upgrading our PCG rating to Outperform from Peer Perform, as we now like the risk/reward skew.** See our accompanying upgrade note.
- **Announcement on new CEO expected soon.** PCG plans to announce the new CEO by yearend, and he or she will have a say on filling in the COO (utility president) and CFO positions. We think the selection will have utility experience. PCG's Board envisions the new CEO will pursue a back to basics approach and implement more technology into operations.
- **Good job so far this wildfire season, notwithstanding Zogg.** PCG has only had its equipment implicated in one fire – Zogg. This is notable, given all the fires this year in CA and PCG emerging from bankruptcy this past summer. There is still a few weeks left in the fire season, but the weather forecast so far is cooperating.
- **Safety certificate expected soon.** The CPUC has yet to issue a decision on PCG's 2020 wildfire safety certificate. However, PCG expects to receive a decision soon, and the 2019 certificate remains in place until the CPUC issues a decision.
- **Equity needs in 2021.** PCG sees $450-750M of equity needs, with the potential for the low end if the company is successful in some noncore asset sales. PCG said its securitization proceeding is on track and expects resolution and issuance by 2Q21.

PNW: A lot to like but still worried about AZ regulation

- **ACC election results finalized.** After sorting through several hundred thousand votes post-election day, it appears that the ACC election races have been called. There were no changes from what the results showed initially – Lea Marquez Peterson (R) won re-election, Anna Tovar (D) and Jim O'Connor (R) are the newcomers. PNW believes the results were constructive as the Republicans maintain a 3/2 majority at the ACC. It is expected that Commissioner Olson will be named Chairman, which means it is likely there will be more discussion directed on retail competition; Jim O'Connor is likely to be aligned with Commissioner Olson on that topic. There is still more work needed to finalize the clean energy rules – we will be watching to see if the new Commission steps back from the renewable portfolio standard that was tentatively agreed to by the current Commission.
- **Approval of Advanced Energy Mechanism is key**. PNW filed its rebuttal testimony in APS' rate case last week and, in our view, the most important aspect was the request for a renewable rider – Advanced Energy Mechanism (AEM). It sounded like support from Staff might be a tough ask, but the Navajo Nation agreed to support the request as part of the Coal Community Transition plan for Four Corners. Surebuttal testimony will be filed on 11/20 where will be interested to see where other parties stand. Absent approval of a renewable rider, PNW would become a serial rate case filer. Related to the rate case, prospect of a settlement still seems unlikely and PNW continues to operate down a fully litigated path.
- **A lot of opportunity for investments in renewables.** PNW is still intent on meeting its 45% renewable target by 2030. This will require the addition of 300-400 MW of wind/solar annually and 350 MW of storage annually (starting in 2022). Ownership opportunities will be decided through all-source RFPs which PNW expects to conduct annually going forward. PNW's current 6-7% rate base growth forecast includes renewable additions but there could

potentially be upside down the road once fossil units retire and the fuel savings can be used to effectively pay for the investments in renewables.
- **Load growth underpinned by robust economy.** PNW continues to expect 1-2% customer growth annually which is expected to lead to weather adjusted load growth of 0.5-1.5% each year. This is a key tenant of PNW's investment proposition as the local economy in the Phoenix area continues to grow even despite COVID challenges. Any load contribution from data centers remains upside to these numbers as well.

POR: Board review of trading losses still outstanding
- **Moving on from Q3 trading losses.** POR is unsure of when the Board's review of its energy trading losses will conclude. That said, management isn't sitting on their hands as is working to get out ahead of what might be in the report – Power Operations is now overseen by CFO Jim Lobdell (Brett Sims, VP of Strategy, Regulation and Energy Supply will take over when he retires), the former Chief Risk Officer from EXC was brought on board to help lead risk management, among other things.
- **Noncommittal on potential for equity next year.** We continue to believe that POR will file a rate case in February next year along with its Q4 earnings report. In doing so, we currently assume POR will issue ~$100M of equity to repair its balance sheet after the energy trading losses to keep its 50% authorized equity layer. Management didn't confirm or deny if this was required, saying that "it's not a black and white calculation…it's a negotiation".
- **Renewable RFP coming in the 1H of 2021.** POR will issue an RFP(s) for 150 MWa of new renewables and up to 600 MW of non-emitting capacity resources. Any capex from the RFP(s) would be upside to POR's current capex program and we expect there to be some excitement around the stock when the process nears an end in early 2022.
- **Well-aligned with the OPUC.** Management touted that the company's relationship with the OPUC, pointing to their swift action in approving their deferral request for Wildfire related costs. Further, POR said it received a lot of kudos in its handling of the Wildfires suggesting that there good be some political goodwill stored with the state.

PPL: Still don't know Union Jack about UK sale but will in 1H21
- **Mum on UK bids; sale announcement expected in 1H21.** Management did not have much to say on its UK sale process but remains optimistic based on the competitiveness and quality of potential buyers. Over the next month or so, UK's CMA will issue a final ruling, the Government will issue a White Paper that could suggest more capex for WPD, and Ofgem will give final determinations in the gas/transmission RIIO-2 and sector specific methodologies for ED. These could give positive momentum to the WPD sale. PPL still expects an announcement in 1H21, with a quick closing, and sees the sale immediately creating shareholder value and setting the company up for longer term growth, with a stronger B/S.
- **Use of proceeds**. PPL's base case with the use of proceeds is a share buyback. But management remains interested in acquiring utility assets, either directly or through a swap with a WPD buyer**.** Electric utilities remain the preferred target, but electric/gas combos would also work. And renewables could fit, especially given PPL's cash taxpayer status after the WPD sale and PPL's ESG profile.
- **KY fleet transition to take time.** The biggest fleet transition opportunity for PPL is in KY; however, the timing is not imminent. The coal plants, which came online in the 70s and early 80s have useful lives of 55 years or more. One coal plant is relatively new and efficient. and PPL will file a KY rate case this month. Parties have a history of settling rate cases.

SO: Southern charm offensive

- **SO was as charming as always and told a solid story to boot.** Continuing where it left off last month on its 3Q20 call, SO talked about its 4-6% EPS growth. SO said EPS growth is 6%, excluding temporary Vogtle penalties, and that should continue beyond 2024. SO will formalize its updated LT EPS growth target in Feb. And with the $800M of excess cash flow from Vogtle once fully in rates, SO could raise the fund incremental utility growth, raise the dividend faster, paydown debt, or buyback shares. Overall, SO sounded confident in its financial outlook.
- **High degree of confidence on Vogtle completion.** SO's next and second to last major milestone is Hot Functional Testing. SO expects to start HFT on Unit 3 in January. The test will take 45 days (including ramp down). SO expects to update investors on both the start and end of HFT. SO then has many filings (i.e., ITACs) with the NRC; the regulatory agency has suggested quick turnaround, maybe a couple of weeks, on the ITACs. From there, SO can move to fuel load for Unit 3. SO is confident Unit 3 will be in-service in 3Q21.
- **GaPSC Staff likely still adversarial.** SO still expects the GaPSC Staff to be adversarial in its 11/24 testimony in the VCM 23 proceeding. Last June, the Staff said SO's meeting the Nov 21/22 regulatory deadlines for Unit 3 and 4 is "highly unlikely." The upcoming hearings should also shed light on Staff and its experts' concerns over schedule and/or cost.
- **GaPSC commissioners could remain unchanged when prudency review.** With incumbent Comm Shaw winning reelection, and incumbent Comm McDonald in a runoff on 1/5, the likelihood is high that the Vogtle prudency review after Unit 3 is online will be heard by the same currently-seated five commissioners. Recall $3.5B of Vogtle costs have already been deemed prudent. And $2.2B on top of that is presumed prudent. Costs above $5.7B will still have to be shown prudent.

SRE – Executing well, defending diversified biz; LNG financing appears increasingly likely

- **Executing across the footprint.** Management highlighted its execution on strategic initiatives over the past couple years, including the S. American utility and renewable asset sales and successful completion of Cameron 1-3. It has also beat LT guidance numbers.
- **Utility growth is a highlight.** California momentum continues under the 5-year rate deal that gives certainty on growth investment and return for along time. On the LDC side, Sempra remains upbeat on the RNG and hydrogen opportunity as well as the need for natural gas to complement renewables penetration. At Oncor, there continues to be a lot of investment opportunity in a growing service territory. On the TX 2021 rate case, while 2020 will be an unusual test year, the company believes it is in good shape and pointed to recent earnings surveillance reports showing low-9% ROEs.
- **Comfortable with diversified strategy; talking financing alternatives for growth.** While other diversified companies are in the process of divesting their nonutility operations SRE management was clear that it sees value in the LNG and Mexico businesses with natural gas playing a big role in global energy for a long time. That said management continued to suggest the potential for a financing of the LNG operations to highlight the value disconnect between what it sees as embedded in its stock price and recent private market valuations (Cove Point, CQP). Timing and specifics remain unclear.

WEC: Upping the ante on ESG

- **Deeming new capital plan as "ESG".** Focused on efficiency, sustainability, and growth. New $16.1B capex plan over 5 years is up $1.1B versus last year's iteration and supports 7% asset base growth without the need for equity. Significant shift in resource mix – 800 MWs solar, 100 MWs wind, 600 MWs storage being added plus 100 MWs RICE gas; shutting 1,400 MWs coal and 400 MW older gas. Sees storage as more economic now and will help address peak demand periods. Targeting $1B in customer savings from O&M and fuel over 20 years from the fleet transition.
- **Still seeing strong economic growth.** Economic activity has rebounded sharply out of the pandemic. Long-term sales growth outlook down modestly from last year's iteration (1.0-1.3% over 2022-2025 vs. 1.2.1-5% over 2022-2024). However, companies like Haribo are an example of strong economic growth. Also seeing continued customer growth, particularly in the gas business. Importantly, sees very little connection between sales growth outlook and what ultimately happens with Foxconn.
- **Same M&A criteria, not ruling out LDCs.** WEC has the same view on M&A: accretive in year 1, no meaningful balance sheet degradation, EPS growth rate same of better. The latter is the most gating criteria. Wouldn't rule out interest in gas LDCs, but jurisdiction would matter. On it's own LDCs, WEC sees a long runway for the business. Natural gas heating is still necessary given the climates in its states and electrification would be meaningfully more expensive.
- **Infrastructure segment opportunities, but capped at 10%.** Seeing continued potential for contracted renewables – strong cash returns and accretive to credit metrics. Won't let it grow to more than 10% of asset base. Longer-term, could potentially rate base these assets, as WEC looks toward the huge investment need to replace the carbon-free power of the Point Beach nuclear contract in 2030/2023.

XEL: Capex upside in Minnesota looks promising; supportive of gas LDCs

- **Confident in Minnesota.** Management believes it has a pretty good shot in getting another rate case stay-out in MN. Same thing for their relief & recovery proposal that could lead to $1.4B of incremental capex for wind repowerings and solar. A decision on the stay-out request and wind repowerings is expected concurrently in mid-December. A decision on the solar proposal likely won't be until 2Q21.
- **Open to adding a gas LDC**. In light of CNP's announcement to sell one or two gas LDCs, we were interested to get management's view of potentially adding another gas LDC. XEL noted that if the price is right and the ability to get it over any regulatory hurdles was feasible, then management thinks it makes sense. More broadly, XEL doesn't believe gas LDCs are going anywhere anytime soon, particularly in their service territories as it would be prohibitively expensive to electrify home heating.
- **2021 – the year of IRPs.** Two significant IRPs will be in focus next year for XEL – MN and CO. The former has already been filed and a Commission decision is expected in Q1 or Q2. The headline in MN is a full exit of coal by 2030 and a significant amount of renewable additions (3.5 GW of solar, 2.3 GW of wind) in the back half of the decade. In CO, XEL intends to file its IRP in Q1, in which a similar picture is expected to be painted – potential accelerated retirement of the remaining coal and plans for the next renewable buildout in the state.
- **Potential rate case in Colorado next year.** XEL is hopeful to be able to stay out of an electric rate case in CO next year. However, given an ALJ's recent decision to deny its Advanced Grid Rider application, a rate case might be necessary. We expect to get a final decision on the strategy here on XEL's Q4 call in February.

WOLFE RESEARCH

UTILITIES & POWER

November 11, 2020

Comparables Tables

Exhibit 8: Regulated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2020E	P/E 2021E	P/E 2022E	P/E 2023E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Alliant Energy	LNT	$57.42	250	$14,341	23.6x	22.3x	21.1x	20.0x	2.6%	7.0%	63%	2.5x	46%
Ameren	AEE	82.37	247	20,362	23.7x	21.9x	20.5x	19.3x	2.5%	4.0%	59%	2.4x	44%
American Electric	AEP	91.15	496	45,246	21.0x	19.5x	18.1x	17.2x	3.1%	4.5%	65%	2.2x	38%
Avangrid	AGR	51.44	309	15,895	25.8x	22.9x	21.5x	20.2x	3.5%	2.5%	91%	1.0x	63%
CMS Energy	CMS	67.01	286	19,187	25.2x	23.6x	21.9x	20.4x	2.4%	6.5%	61%	3.6x	26%
Con Edison	ED	81.72	335	27,365	19.4x	18.1x	17.2x	16.5x	3.7%	3.5%	73%	1.5x	44%
Dominion	D	85.68	816	69,899	24.0x	22.1x	20.8x	19.5x	2.9%	6.0%	65%	2.9x	41%
Duke Energy	DUK	97.31	736	71,616	19.0x	18.9x	17.9x	16.9x	4.0%	2.0%	75%	1.6x	41%
Edison International	EIX	62.90	379	23,809	13.8x	14.0x	13.4x	12.5x	3.9%	0.2%	54%	1.7x	38%
Entergy	ETR	109.83	200	21,992	19.6x	18.5x	17.4x	16.7x	3.5%	2.2%	68%	2.0x	33%
Evergy	EVRG	57.30	227	12,997	19.0x	17.6x	16.6x	15.4x	3.6%	6.2%	68%	1.5x	46%
Eversource Energy	ES	94.42	343	32,369	25.9x	24.1x	22.6x	21.3x	2.4%	6.1%	62%	2.3x	46%
FirstEnergy	FE	29.79	542	16,149	11.8x	11.4x	10.9x	10.3x	5.2%	0.0%	62%	2.3x	24%
Fortis*	FTS	55.02	465	25,584	21.5x	19.3x	18.1x	17.1x	3.5%	6.0%	76%	1.5x	43%
NiSource	NI	24.64	383	9,442	19.0x	18.5x	17.2x	16.4x	3.4%	6.0%	65%	1.9x	40%
PG&E	PCG	10.71	1,985	21,255	6.7x	10.7x	9.5x	8.8x	0.0%	N/A	0%	1.0x	34%
Pinnacle West	PNW	89.59	113	10,088	17.6x	17.8x	17.1x	16.1x	3.5%	6.1%	62%	1.7x	46%
Portland General	POR	44.57	90	3,989	28.7x	17.0x	16.4x	15.9x	3.5%	1.5%	99%	1.5x	45%
PPL Corp.	PPL	29.41	769	22,611	12.3x	12.0x	11.0x	N/A	5.6%	0.6%	69%	1.7x	36%
Southern Company	SO	63.92	1,056	67,515	19.9x	19.4x	17.9x	16.6x	4.0%	4.1%	80%	2.4x	35%
WEC Energy Group	WEC	104.43	315	32,941	27.8x	26.2x	24.5x	23.0x	2.4%	7.2%	67%	3.2x	45%
Xcel Energy	XEL	74.69	525	39,246	26.9x	25.3x	23.7x	22.3x	2.3%	6.2%	62%	2.8x	38%
Average					**20.6x**	**19.1x**	**18.0x**	**17.3x**	**3.3%**	**4.2%**	**66%**	**2.1x**	**41%**
Average (ex EIX, PCG, PPL)					**22.1x**	**20.2x**	**19.0x**	**17.9x**	**3.3%**	**4.6%**	**70%**	**2.2x**	**41%**

Source: Wolfe Utilities & Power Research
*Current price shown in CAD

Exhibit 9: Gas/Power Infrastructure Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2020E	P/E 2021E	P/E 2022E	P/E 2023E	Div Yield	Div Growth	Payout Ratio
The AES Corporation	AES	$21.29	665	$14,161	15.1x	13.7x	12.7x	N/A	2.8%	5.0%	43%
CenterPoint	CNP	24.07	545	13,114	18.7x	18.1x	16.5x	15.4x	2.6%	0.9%	49%
DTE Energy	DTE	130.06	194	25,174	18.6x	18.3x	17.4x	16.3x	3.4%	7.0%	63%
NextEra Energy	NEE	77.54	1,959	151,907	33.8x	30.7x	28.7x	26.6x	2.0%	9.7%	69%
OGE Energy	OGE	33.95	200	6,791	16.7x	15.0x	14.3x	13.7x	4.8%	5.6%	80%
Sempra	SRE	133.64	288	38,551	17.3x	16.6x	15.7x	15.1x	3.4%	8.0%	58%
Average (ex AES)					**21.0x**	**19.8x**	**18.5x**	**17.4x**	**3.2%**	**6.2%**	**64%**

Source: Wolfe Utilities & Power Research

Exhibit 10: YieldCos Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2020E	2021E	2022E	2023E	Div Yield
Clearw ay Energy	CWEN	30.64	193	5,907	12.0x	11.6x	11.0x	N/A	4.2%
NextEra Energy Partners	NEP	66.21	156	10,329	9.6x	10.1x	9.6x	N/A	3.6%
Atlantica Yield*	AY	33.87	102	3,441	10.8x	9.8x	9.4x	8.3x	5.0%
Average					**10.8x**	**10.5x**	**9.6x**	**N/A**	**4.3%**

Source: Wolfe Utilities & Power Research; *Not covered by Wolfe Research, estimates based on consensus

Exhibit 11: Integrated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2020E	2021E	2022E	2023E	Implied Genco EV / EBITDA 2020E	2021E	2022E	2023E	Div Yield	Div Growth	Payout Ratio
Exelon	EXC	43.84	976	42,764	14.5x	14.9x	14.0x	N/A	3.0x	2.4x	3.4x	N/A	3.5%	5.0%	50%
PSEG	PEG	60.88	506	30,796	17.8x	17.7x	17.5x	N/A	5.2x	6.1x	6.6x	N/A	3.2%	4.3%	57%
Average					**16.1x**	**16.3x**	**15.8x**	**N/A**	**4.1x**	**4.2x**	**5.0x**	**N/A**	**3.3%**	**4.6%**	**54%**

Source: Wolfe Utilities & Power Research

Exhibit 12: IPP Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2020E	2021E	2022E	2023E	Free Cash Flow Yield 2020E	2021E	2022E	2023E
NRG Energy	NRG	32.22	244	7,869	6.4x	6.3x	6.2x	N/A	18.3%	19.9%	20.8%	N/A
Vistra Corp	VST	19.64	489	9,607	5.2x	5.4x	5.4x	N/A	24.3%	22.1%	23.8%	N/A
Average					**5.8x**	**5.9x**	**5.8x**	**N/A**	**21.3%**	**21.0%**	**22.3%**	**N/A**

Source: Wolfe Utilities & Power Research

Exhibit 13: Wolfe Research EPS Estimates for Regulated Utilities vs. Consensus

Company Name	Ticker	2020E WR	2020E Cons	2021E WR	2021E Cons	2022E WR	2022E Cons	2023E WR	2023E Cons
Alliant Energy	LNT	$2.43	$2.43	$2.58	$2.59	$2.73	$2.70	$2.87	$2.87
Ameren	AEE	3.47	3.46	3.76	3.77	4.01	4.02	4.26	4.33
American Electric	AEP	4.34	4.33	4.68	4.65	5.03	4.99	5.29	5.29
American Water	AWK	3.90	3.88	4.24	4.24	4.57	4.57	4.90	4.95
Avangrid	AGR	1.99	2.04	2.24	2.31	2.40	2.51	2.55	2.70
CMS Energy	CMS	2.66	2.67	2.84	2.85	3.07	3.06	3.29	3.27
Consolidated Edison	ED	4.22	4.23	4.53	4.50	4.76	4.71	4.95	4.95
Dominion	D	3.57	3.53	3.88	3.88	4.12	4.13	4.39	4.40
Duke Energy	DUK	5.12	5.10	5.16	5.21	5.42	5.47	5.77	5.79
Edison International	EIX	4.56	4.49	4.50	4.53	4.68	4.70	5.02	4.89
Entergy	ETR	5.59	5.61	5.95	5.95	6.30	6.32	6.59	6.72
Evergy	EVRG	3.02	3.01	3.26	3.25	3.46	3.42	3.73	3.66
Eversource Energy	ES	3.65	3.64	3.92	3.90	4.18	4.13	4.42	4.37
FirstEnergy	FE	2.52	2.53	2.62	2.62	2.74	2.75	N/A	2.87
Fortis*	FTS	2.55	2.56	2.85	2.84	3.04	3.01	3.22	3.22
NiSource	NI	1.30	1.30	1.33	1.35	1.43	1.43	1.51	1.56
PG&E	PCG	1.61	1.61	1.00	1.01	1.13	1.13	1.21	1.23
Pinnacle West	PNW	5.10	5.03	5.03	5.03	5.22	5.26	5.55	5.70
Portland General	POR	1.55	1.56	2.62	2.59	2.72	2.72	2.81	2.83
PPL Corp.	PPL	2.40	2.43	2.46	2.36	2.68	2.59	N/A	2.7
Southern Company	SO	3.22	3.19	3.30	3.32	3.57	3.55	3.85	3.81
WEC Energy Group	WEC	3.76	3.75	3.99	4.00	4.26	4.27	4.55	4.55
Xcel Energy	XEL	2.78	2.78	2.96	2.97	3.15	3.17	3.34	3.37

Source: Wolfe Utilities & Power Research, FactSet

Exhibit 14: Wolfe Research EPS Estimates for Gas/Power Infrastructure Utilities v. Consensus

Company Name	Ticker	2020E WR	2020E Cons	2021E WR	2021E Cons	2022E WR	2022E Cons	2023E WR	2023E Cons
The AES Corporation	AES	$1.41	$1.38	$1.56	$1.55	$1.68	$1.68	N/A	$1.80
CenterPoint	CNP	1.29	1.32	1.33	1.36	1.46	1.44	1.56	$1.51
DTE Energy	DTE	6.98	7.00	7.09	7.12	7.47	7.31	7.96	$7.51
NextEra Energy	NEE	2.30	2.29	2.53	2.50	2.70	2.71	2.92	$2.88
OGE Energy	OGE	2.04	2.09	2.26	2.21	2.37	2.31	2.48	$2.41
Sempra	SRE	7.72	7.65	8.05	8.03	8.49	8.45	8.88	$8.82

Source: Wolfe Utilities & Power Research, FactSet

Exhibit 15: Wolfe Research EPS Estimates for YieldCos v. Consensus

		2020E		2021E		2022E		2023E	
Company Name	**Ticker**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**
Clearway Energy	CWEN	$1,105	$1,114	$1,155	$1,142	$1,200	$1,176	N/A	N/A
NextEra Energy Partners	NEP	1,355	1,301	1,428	1,400	$1,622	1,524	N/A	1,643
Atlantica Yield*	AY		828		916		952		1,082

Source: Wolfe Utilities & Power Research, FactSet

Exhibit 16: Wolfe Research EPS Estimates for Integrateds v. Consensus

		2020E		2021E		2022E		2023E	
Company Name	**Ticker**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**
Exelon	EXC	3.03	3.07	2.95	2.97	3.12	3.03	N/A	3.09
PSEG	PEG	3.42	3.42	3.44	3.40	3.48	3.46	N/A	3.59

Source: Wolfe Utilities & Power Research, FactSet

Exhibit 17: Wolfe Research EBITDA Estimates for IPPs v. Consensus

	2020E		2021E		2022E		2023E	
Company Name	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**
NRG Energy	2,065	2,007	1,955	2,109	1,870	2,035	N/A	2,256
Vistra Corp	3,552	3,578	3,263	3,241	3,082	3,133	N/A	3,141

Source: Wolfe Utilities & Power Research, FactSet

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UBS

Global Research | 11 November 2020

First Read

Gas Distribution

Virtual EEI Conf Takeaways on CNP & NI

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Key Topics and Recent Market Dynamics

Earlier this week, we hosted virtual meetings with CNP & NI management teams and investors during the Virtual EEI Financial Conference. The investor focus was on potential divestitures of gas utilities to fund electric utility & renewable growth capex. NI also discussed potential impact on its gas utilities during the heating season as most of its residential volumes are decoupled (fixed margin) and it likely would not be able to offset potential declines in C&I volumes with higher residential volumes. That said, since the vaccine news were announced on Monday we have seen some rotation to LDCs as with the potential vaccine later this year the risk of the lower earnings due to the COVID has deteriorated. Additionally, with a potential for a GOP majority in Senate the pace of energy transition may be slower than some anticipated in the "blue wave" scenario.

Takeaways from NI Meeting

During the call with NI's management team, investors asked about the COVID impact, cost reductions and if management would consider selling a gas utility instead of previously discussed hybrid financing and equity funding. NI noted that it will evaluate all options. Management continues to monitor the COVID impact, but noted that C&I sales have been back to normal and they haven't seen any material impact on its C&I customers from any financial distress. Bad debt has increased YOY, but NI has recovery mechanisms in place if the level is above normal, but that could have near -term cash flow impact. Management spent a lot of time talking about its renewable investments, cost reductions (flat O&M going forward) and safety initiatives (also including AI).

Takeaways from CNP Meeting

During the meeting with CNP's CEO, the investor focus was on recently announced plan to sell 1-2 gas utilities to fund $3B of incremental capex without a need for an equity block offering. CNP didn't specify which LDCs they would sell but they plan to provide more colour on which LDCs they are targeting, potential tax leakage and how the post sale balance sheet would look like during the Investor Day on December 7th. Notably, management also plans to use DRIP and ATM to fund future capex. Management noted that it continues to evaluate the options with Enable, but the potential sale would not impact the announced EPS growth range. CNP emphasized strong organic growth at Houston Electric and that it continues to work on improving its relationships with Texas PUC. CNP targets 14-15% FFO/debt and it works with credit rating agencies to rebuild the credibility as it executes on its sensibly funded capital program. See changes to CNP estimates on page 2.

Figure 1: Gas Utility Comp Sheet

Ticker	UBS Rating	Unit Price Current	Unit Price Target	Mkt Cap ($MM)	Enterprise Value	Current Dividend	Dividend Yield	DPS CAGR 3-Yr Hist	DPS CAGR 3-Yr Fwd	20-'23 EPS CAGR	P/E 2019	P/E 2020	P/E 2021	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBITDA 2021	UBS PEG 2021	Rate Base CAGR
ATO	Buy	$100.52	$113.00	$12,400	$17,162	$2.10	2.2%	7.5%	8.8%	7.3%	23.1x	21.4x	20.0x	15.1x	13.6x	12.4x	2.7x	13.7%
CNP	Neutral (CBE)	$24.09	$24.00	$13,125	$27,944	$1.15	2.5%	4.2%	-19.0%	6.3%	13.5x	17.9x	17.1x	11.1x	11.7x	10.5x	2.7x	10.0%
NI	Neutral	$24.57	$25.00	$9,416	$21,053	$0.80	3.4%	-1.8%	6.4%	4.8%	18.6x	17.9x	17.7x	11.9x	11.3x	10.6x	3.7x	11.0%
NWN	Neutral	$50.21	$48.00	$1,535	$2,772	$1.90	3.7%	0.5%	0.6%	6.6%	20.9x	22.3x	19.2x	11.5x	11.3x	10.2x	2.9x	5.0%
OGS	Buy	$77.30	$83.00	$4,104	$6,027	$2.00	2.8%	15.3%	7.3%	6.6%	22.0x	21.4x	20.2x	12.7x	12.1x	11.3x	3.0x	7.0%
SWX	Buy	$72.50	$78.00	$4,094	$7,080	$2.18	3.1%	8.7%	4.4%	6.0%	18.4x	18.4x	16.5x	10.3x	9.6x	8.8x	2.7x	8.6%
UGI	Buy (CBE)	$36.37	$45.00	$7,577	$14,055	$1.15	3.5%	5.0%	8.7%	7.7%	16.0x	14.4x	12.9x	13.1x	9.9x	8.7x	1.7x	11.5%
Average							3.0%	5.6%	2.5%	6.5%	18.9x	19.1x	17.6x	12.2x	11.4x	10.4x	2.8x	9.5%

Source: UBS estimates, Company Reports

Updating Estimates

We are updating CNP estimates with 10Q and recent announcement of incremental $3B of capex in 2020-2025. As a result, we are increasing our estimates and price target to $24 from $23. Our price target is based on 2022 estimates and sum-of-the parts valuation.

Figure 2: Changes to Estimates

	Price Target		2020e EPS			2021e EPS			2022e EPS		
Ticker	New	Old	New	Old	% Change	New	Old	% Change	New	Old	% Change
CNP	$24	$23	$1.34	$1.37	-2%	$1.41	$1.37	3%	$1.52	$1.45	5%

Source: UBS estimates, Company Reports

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. We use SOTP of P/E multiples for Regulated Assets and EV/EBITDA for non-regulated assets to calculate our price targets.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	50%	31%
Neutral	FSR is between -6% and 6% of the MRA.	38%	29%
Sell	FSR is > 6% below the MRA.	12%	19%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 September 2020.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
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Company Name	Reuters	12-month rating	Price	Price date
CenterPoint Energy Inc[4,16,20]	CNP.N	Neutral (CBE)	US$24.10	10 Nov 2020

Source: UBS. All prices as of local market close
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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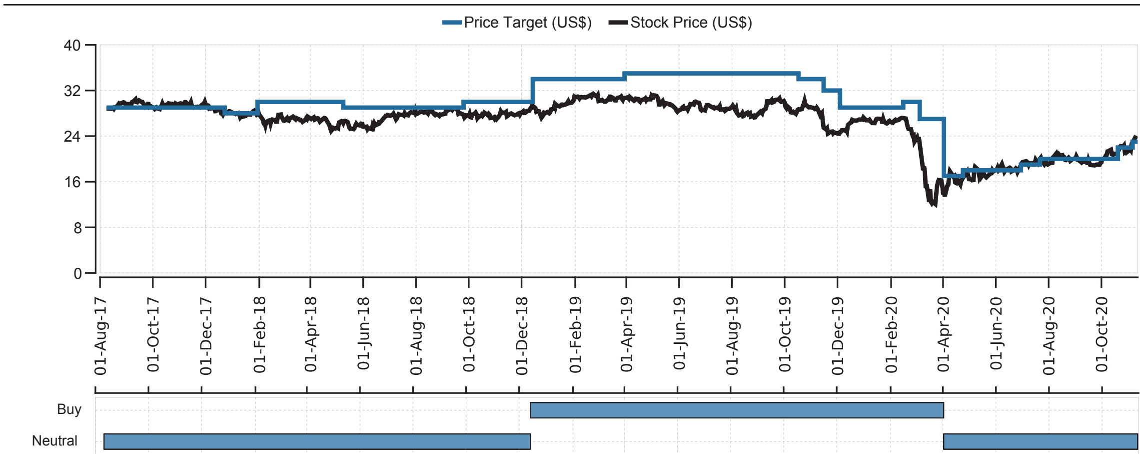
CenterPoint Energy Inc (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2017-08-10	29.13	29.00	Neutral
2017-12-22	28.07	28.00	Neutral
2018-01-29	27.73	30.00	Neutral
2018-05-08	26.55	29.00	Neutral
2018-09-24	27.82	30.00	Neutral
2018-12-13	29.34	34.00	Buy
2019-03-29	30.70	35.00	Buy
2019-10-16	28.62	34.00	Buy
2019-11-14	26.69	32.00	Buy
2019-12-03	24.40	29.00	Buy
2020-02-14	27.18	30.00	Buy
2020-03-04	23.82	27.00	Buy
2020-04-01	14.12	17.00	Neutral
2020-04-23	16.42	18.00	Neutral
2020-06-29	18.62	19.00	Neutral
2020-07-21	19.40	20.00	Neutral
2020-10-19	20.80	22.00	Neutral

Date	Stock Price (US$)	Price Target (US$)	Rating
2020-11-05	22.67	23.00	Neutral

Source: UBS; as of 10-Nov-2020

Additional Prices: ONE Gas Inc, US$77.57 (10 Nov 2020); NiSource Inc., US$25.07 (10 Nov 2020); UGI Corp, US$37.15 (10 Nov 2020); NW Natural, US$51.45 (10 Nov 2020); Enable Midstream Partners LP, US$5.01 (10 Nov 2020); Kinder Morgan Inc, US$12.89 (10 Nov 2020); Atmos Energy Corp, US$102.45 (10 Nov 2020); Southwest Gas Holdings, US$74.74 (10 Nov 2020); Source: UBS. All prices as of local market close.

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Diversified Utilities
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2020 Virtual EEI Financial Conference

Days 3 and 4 Key Takeaways from EEI Meetings

- Over the last four days we hosted interesting investor meetings with management teams from 16 utilities. In this note, we address key takeaways from days 3 and 4: we met with ED, PPL, NI, CNP, PNM, CMS, ES and ETR. For days 1 & 2 takes, see 2020 Virtual EEI Conference Day 2(Monday) Takeaways & Kicking Off EEI Meetings.
- **Sentiment Is Positive on Gas Utilities, Although Several Assets Are for Sale:** In our meetings with both electric and gas utility management teams, there was overarching theme that the bearish LDC thesis and selloff was overstated. The end LDC customers switching (to electric) timeline is very slow. The LDCs can adopt to hydrogen market via continued investment in pipe replacement. The recent selloff of the LDCs is more driven by ESG priorities than fundamentals.
- **Active M&A Market:** We came away thinking that the potential PPL deal(s) has a lot of execution risks which may be difficult to manage. As the announced PNM acquisition heads toward Feb shareholder vote, a higher bid has potential but not our base case. CenterPoint's has made process in its LDC sale process which leverages the Vectren tax position, VUHI debt, and could announce more details at analyst day for the $1.0 to $1.5B deal. The 2nd CenterPoint LDC sale is unlikely, in our view. In our view, ConEd isn't likely to sell its midstream asset anytime soon given the MVP COD isn't likely until 2022 (mgmt. guidance is 1H21) and Stagecoach partners have ROFR/ROFOs but not great balance sheets. Nisource continues to consider LDC asset sales to avoid equity capital raise, but hasn't decided yet what to do. Lastly, CenterPoint is looking to structure its midstream exit in a manner that addresses allocated corporate debt to avoid rebasing the utility EPS.
- **Election Implications:** Interestingly, the setup for offshore wind permitting is improving as Biden is likely to better staff BOEM as the E&P permitting rush slows (E&Ps rushed for permits ahead of election) – incrementally positive for Eversource and ConEd in our view. Outside of wind, PNM benefited from the ballot initiative in NM and the Biden victory. ETR remains exposed to the runoff election in Louisiana.
- **Interesting Stock Takeaways from Day 3/4:** ConEd reiterates it still plans to raise $600M of equity by YE20 despite few days left. CenterPoint's O&M plan seems credible but the $1B bonus capex (above the $3B raise) is aspirational. CMS was seeing some sign of upside to its load forecast due to indoor agriculture. Entergy may have some opportunities for PPA buyouts (why does it still have a PPA from 1968?) even though the $2B storm cost recovery was focus. NiSource's $0.05 2021 EPS COVID impact may be conservative as the new vaccine improves load outlook.
- **Stocks:** We came away marginally more positive on CNP and NI, but slightly more concerned about PPL and ED. Our meetings earlier in the week left us positive on PCG despite increased concern about the safety certificate, and more positive on DTE.

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Consolidated Edison

- **Midstream Portfolio Likely to Be Monetized but Not a Near-Term Decision:** Seems more a question of when than if. The ED team highlighted that they are waiting for the right market environment to execute on a deal, at these valuations a midstream deal doesn't seem likely. We hosted a call with regulatory expert, Brandon Barnes (Senior Energy Analyst – Litigation, Bloomberg Intelligence), today about MVP and left with the view that the earliest this could be in service is 2H 2021 but was not likely to be finished until 2022 (optimistic that it would reach completion). Until MVP is in service, we doubt ConEd would sell as it would be hard to get a good price. For Stagecoach, Crestwood, backed by First Reserve, has draft along and tag along rights for that asset. Crestwood don't have the balance sheet to buy Stagecoach currently and it is not a great market to sell to another party. If MVP sale isn't likely for a couple years, ED is in no rush to sell Stagecoach (would still be a pipeline owner).

- **Offshore Wind Transmission in Long Island:** ED submitted a bid to construct underwater transmission infrastructure for Sunrise wind 1 and onshore transmission infrastructure for Sunrise 2 as part of the NYSERDA RFP in October. ConEd is taking a conservative approach to wind development. In our research note, Global Offshore Wind - Change is in the Air, we highlight that return expectations are likely come down for off shore wind developers.

- **NYS Challenging Business Environment:** Recently, the NYS Governor issued language on utility reform. In short, the proposed legislation would remove caps on utility fines and penalties, create salary caps on executive compensation and allow for municipalization of utility infrastructure. Shareholders would be compensated to the amount of invested equity capital if a utility loses its franchise.

- **COV 19 Impact:** ED continues to fund under collections from customers via commercial paper and will issue $600m of planned equity sometime this quarter. To the degree that they cannot be made whole on the ~$200m of bad debts they would likely come to market and issue incremental equity at the regulated cap structure levels ~48%, which would likely come in 2022. Current financing plan calls for $1,100m of equity over 2021/22.

- **RNG Pilot Program and Hydrogen:** Con Ed is running a pilot program with RNG in their gas LDC. When we asked about the potential to support hydrogen, they indicated it is early days and would need to replace pipes with polyethylene.

- **Electric Vehicles:** Con Ed is allowed to have the meters and hookups in place to serve charging stations, however legislation would need to pass in order for ED to own the charging infrastructure.

CenterPoint Energy

- **BREC Objectives:** High level BREC objectives include being oriented towards electric and regulated business, 1-2% O&M decline outlook, $3B of new capex, 10% rav growth, ~7% earnings growth, and steps to improve regulatory relations. It also plans to reduce the midstream exposure and narrows its footprint by selling 1-2 LDCs.

- **Selling 1-2 LDCs for $1.0-1.5B in Tax Efficient Manner:** CNP identified one asset for sale but is staying vague to attract a good amount of inbound interest and reverse inquiries for its LDC assets in the marketplace as part of its BREC process, which should introduce more price discovery for various LDCs within its portfolio. There is little concern for the regulatory approval process towards the utility LDC M&A as management thinks the selected LDC resides in a friendly M&A regulatory environment. There will be some tax leakage expected but CNP will try to address that with strategic tax planning as the legacy Vectren assets have a higher trapped tax basis which could be used to offset tax leakage. The VUHI (Vectren Utility Holdings Inc.) debt restructuring is also part of the strategy. Remember, restructuring the VUHI was been an obstacle that CNP hasn't been successful in restructuring since the VVC deal. In our view, the PG&E restructuring was much more complex and CNP should be able to address given the new financial management. Management expects to reveal more details on the sale specifics in the upcoming December analyst day.

- **More Details on O&M Cost Reduction Plan:** CNP guided 1-2% annual O&M decline with a list of discreet and long-term opportunities to lower costs. CNP is on track to achieve a 1% cost reduction objective this year. CNP has identified a targeted list this year to lower costs. For example, conversion from coal to cleaner gas and renewables could drive lower O&M. There are also technology related cost levers to pull such as installing new grid and switch technology for the Houston electric. They were new hires including a new head of supply. Overall, management feels confident on the 1-2% reduction on costs on a yoy basis.

- **$3B Incremental Capex and Related Funding:** CNP plans a $3B incremental capex plan with a $1B additional capex, which will be included if CNP runs into challenges. CNP sees $1B additional capex as an insurance plan in case it needs to put more capex into the system, for either electric or gas side. $2B is weighted towards electric with $1B towards gas capex. With a strong regulatory approval backdrop, under $2.5B capex is subject to capital recovery mechanism and only $0.5B of Indiana IRP capex requires commission approval in 2021. Half of $3B capex will be funded through regular company debt. Sub-$1B could come from selling LDCs (selling for greater than book value). CNP plans to use DRIP and ATM issuance for $300mn over 5 years. The rest will be funded through internal CF. There will be no block equity.

- **Midstream Debt Impacts to Utility EPS:** CNP is looking at a few strategies to address the two issues such as negative tax basis and absorbing legacy debt. The allocated debt to midstream would need to be addressed as it could hurt utility earnings. CNP will try to find a solution to grow and address re-baseline utility earnings growth.

- **Capital Structure:** CNP plans to continue to shore up the balance sheet and be in a better place for the capital structure. It targets 20% parent company to total debt ratio and 14-15% AFFO to debt goal.

- **Hydrogen:** Despite being in the early days, CNP has dipped toes into renewable hydrogen pilots. CNP is planning for a few hydrogen pilots in MN and MS for the next few years (though 2023). For the LDC pipe, CNP believes the system could blend in hydrogen in the low single digit percentage. CNP will be studying and monitoring the hydrogen initiative as it replaces old vintage LDC pipes.

NiSource

- **LDC Valuation Defended:** NiSource continues to consider LDC sales, although not a foregone conclusion, and is part of its financing plan. In our meeting, NI management defended LDC valuation and its defensiveness into a low carbon future. Management argued the negative sentiment and depressed valuation for LDC is overdone with valuation disconnected from fundamentals. LDCs remain ripe for additional opportunities and investment, with RNG in the medium term and hydrogen in the long term. NI still has NOLs through mid-2020s to help with cash tax leakage and sale economics.

- **Load Forecast:** 2021 EPS guidance includes 5 cents of COVID impact, due to bad debt expense, load and O&M. ~60% of the $0.05 is from the gas business and 40% from the electric business. The gas business is less exposed to load impact in the winter than the electric business in the summer.

- **Hydrogen:** NI management thinks there are unknowns on the safety concern front. Its current view is 10-20% hydrogen blending in a modernized system to ensure safety and reliability. Plastics are relatively better positioned to blend in hydrogen, but there are no current plan to build hydrogen electrolyzers. The current focus is to understand hydrogen technology, all in cost structure and economics.

- **Election Impact:** Management views NiSource is well positioned regardless of DC policies. There is room for incremental renewable and hydrogen investment. NI plans to refresh IRP for Indiana in 2021 and 2024.

- **Guidance Reiterated:** NiSource reiterated its 2020 capex guidance of $1.7-$1.8B, and its 2021 EPS guidance of $1.28-$1.36 per share (including $0.05 COVID impact). NI continues to expect its 7-9% EPS CAGR for 2021-2024 (5-7% CAGR for 2021-2023), $1.9-$2.2B of annual capex and $1.8-$2.0B of renewable investments through 2023.

PPL Corp

- **Execution Risk with WPD Divestiture and Use of Proceeds:** In our view, there is significant execution for PPL given they need to find a buy(ers) for WPD, get regulatory approval in 30-60 days so deal closes ahead of RIIO-2, and find a US regulated utility(ies) to acquire, get approvals, and close on that deal without a large timing lag as it become expensive for shareholders to be underlevered for a period of time. There are a large number of potential acquisition targets but management indicated that they would be more inclined to buy an LDC if it is associated with an electric T&D business.

- **Tax Position** – A Biden tax plan unlikely goes through before the closing of the UK business. The management team did point out that the tax basis in the asset is not high, however they will utilize their $1.5B of NOLs and a to-be-disclosed tax strategy to mitigate the tax leakage of the proposed deal.

- **WPD Sale Plan if Standalone Event:** PPL discussed the benefits of a broadly marketed sale of WPD, highlighting the creativity that financial buyers and strategics could offer as consideration. The use of proceeds will likely include buying back equity if there are no other viable alternatives. The hurdle rate of value creation, from management's perspective, is the ability to derive accretion beyond a stock buy- back. The math would ultimately determine whether or not they pursue an acquisition post close. Management opined that they would not be interested in a special dividend at this time. Additionally, PPL would have to make whole ~$1B of callable hybrid debt and $750m of other debt maturing in 2022/24 time frame.

- **Pension Funded Status:** The under-funded status of the pension overall remains unchanged from YE'2019 given the changes in interest rates and broader market dynamics. We would note that the UK pension would part from PPL with the respective UK assets once the transaction closes.
- **Growth Strategy in Kentucky:** A primary objective for the Kentucky business is to transition away from coal to alternative energy. PPL will file its 15-year IRP in Kentucky likely in Q3'2021. Additional opportunities for growth in Kentucky are AMI and grid modernization.
- **UK Regulatory Regime:** CMA decision on water was recently announced. There remains RIIO developments before year end and energy whitepaper for OFGEM. These data points will help inform the buyer universe.
- **Talen Montana Litigation:** Not much new to report. There remains a deposition in Delaware and timing of any settlement is uncertain.

PNM Resources

- **Citi's Take:** We think the value of the PNM business increased since the deal was announced (Biden, NM ballot initiative, vaccine news, etc) and there is a possibility of a new buyer stepping in to top the existing offer ahead of the February 2021 shareholder vote but it is unclear if any strategic will step up. There are a lot of potential US acquisition targets (CNP's LDC, NI assets?, AEP Kentucky, etc) so not clear if strategics involved in the PNM process earlier in 2020 would still be interested. Management continues to work toward the closing of this transaction, believes it is likely to get approval from regulators and shareholders, and selected the AGR offer on the table because it was cash, credible, and had a lower risk of closing.
- **Reason for the Sale of the Company:** We discussed in depth the rationale for the sale of the business. The company continues to point out the balance sheet weakness and its heavy dependence on the equity capital markets to fund its growth, and the advancement of ESG.
- **Why Sell to AGR?** The attractiveness of the offer on the table came down to a perceived ability of the buyer (AGR) to close on the deal. AGR has a strong balance sheet, sponsor support, track record in New Mexico and Texas which some add synergies, the buyer's management experience with Sempra, and the deal being viewed as credit positive for the business. We were concerned that it was negative signal that PNM accepted a cash offer over stock, but management discussed the buyer's preferences and the motivation of their sponsor, which led to this deal structure.
- **Regulatory Approvals Risk:** In our view, there is some risk that the deal closes with the two states, New Mexico and Texas. New Mexico is a net customer benefit state and there is history of approvals with El Paso. The recent ballot initiative and future changes at the commission, in theory, should not impact the decision making process but practically there might be some new risks. We

would expect to see some noise with interveners and other parties. Also in New Mexico, there is a 600MW project owned by the buyer but that should not matter from a market power perspective. In Texas, we have more concern given PUCT history with M&A, preference for local ownership, Texas utility industry history with bankruptcies, and ring fences issues the past. This deal has unique elements but Texas isn't always the easiest market to navigate.

- **Dividends Likely to Increase:** One attribute of the deal for the sellers is that PNM could potentially raise its dividend in 2021 consistent with prior guidance despite the deal being as cash deal.

CMS Energy

- **Long-term Load Expectations:** CMS continues to guide long term load as flat to down. There are wildcards to this thesis such as electric vehicle adoption and indoor agriculture. The state of Michigan recently passed legislation allowing for commercial grow operations of marijuana. There is implication on both of these fronts for future electricity demand.
- **Political Landscape of Michigan:** Post the election, the political environment of Michigan remains largely unchanged with the same split in the legislature. The Governor has two years left in her term. Management believes it to be unlikely that we see any major infrastructure bill in 2021, as the political agenda is more focused on roads, schools and public works.
- **Rate Design in Michigan:** CMS will file its electric rate case in Q1 next year. The rate case is predicated on a forward test year, in this instance it will model rates for 2022. This a positive, given the challenging environment of 2020. Additionally CMS has decoupling on the gas side of the business for about 4 months of the year, this does not occur in the peak months of gas utilization.
- **Aviator Deal – New Customers Coming:** The Aviator Wind acquisition earlier this year was sourced with existing relationship and there is a line of sight to growth with new customers.
- **Early Days Is an Understatement for Hydrogen:** CMS views the hydrogen campaign as something 10- 20 years away. In order to implement use of 100% hydrogen gas, virtually all customers would need to convert their furnaces, hot water heaters and other home utilities. Management believes the more expeditious way to decarbonize and use less natural gas is through incentivizing 95% efficient furnaces and insulating residences with newer windows and doors.
- **Hosting Meeting with Utility Commission:** We are hosting a meeting with the Michigan Public Service Commission please reach out to your respective sales contact to attend.

Eversource

- **US Election Implications:** Ahead of the election, BOEM was busy with offshore E&P permitting as the gulf of Mexico E&P producers were accelerating permit application in fear of a Biden executive order. This was slowing down the permitting timeline for off shore wind. Now that the election is over, the E&P related workload for BOEM is likely to slow which increase capacity for BOEM to handle off shore wind project. In addition, the Biden administration is likely to improve the resourcing for BOEM, which is also positive. This dynamic is positive for Eversource in our view.

- **Solar to Be Added to Rate Base at NSTAR Electric:** Recent legislation in MA will allow for rate based solar generation at NSTAR. ES plans to add 230MW of solar which is budgeted to be ~$400-$500m investment and will take place over the next 4-5 years. We would note that the legislation has not yet been signed into law but has been approved by both the House and Senate in the Commonwealth.

- **International Oil Companies (IOCs) Enter Offshore Wind Conversation, ES Pledges Discipline:** The recent NYS RFP included bids from AGR, ES and Equinor. In our premium research report (Global Offshore Wind - Change is in the Air), we argue that the competition is likely to drive down returns for all offshore wind developers. In our meeting with ES management, they reiterated their disciplined approach and they are not going to bid for the sake of gaining market share. The Vineyard wind decision due this Friday will be a good read through for ES projects. In 2021 management is hopeful they get NOIs for Revolution and Sunrise Wind projects.

- **Supply Chain Considerations and the Jones Act:** Offshore construction will involve a combination of European construction vessels while using US barges for material deliveries from the Deepwater Port in New London. The sea floor lease is also ~70 miles from the port of New London, which is closer proximity relative to competitor leases. As for the turbine technology, the wind turbines will likely be upgraded to 11MW turbines from the originally planned 6MW.

- **MA Gas Economics** – There is good visibility for earnings power at MA Gas. As part of the transaction approval process, the regulator approved rate increases in Nov. 2021 and 2022 as well as a true-up to rate base in 2024.

Entergy

- **Company-Wide Storm Costs ~$2B YTD:** The bulk of the $2B is in LA, some is from Zeta, a small amount is in Texas and very small amount is in Arkansas and Mississippi. ETR is in the process of collecting invoices and gathering information around the damages of Hurricanes Laura and Zeta. By Q1'21 they will file for approval for recovery of these damages in hopes to securitize the costs and minimize the impact to customer bills. As it stands now, storm escrow accounts in LA have been used up and will need to be replenished. In the near term the storm escrows are being replenished with callable debt issuances, so that they may be taken out once securitization is in place. In Texas it will likely be the case that ETR seeks cost recovery through T&D riders.

- **Equity Plan – ATM Focused Future:** ETR's financing plan does not call for equity until the end of 2021. Traditionally they have issued equity in blocks but they intend to issue ATM on their next issue. They will also be soliciting shareholders via proxy to seek approval for preferred or hybrid issuances in the future.

- **Louisiana PSC Election:** The biggest impact of the Election is the in Louisiana were a runoff remains. District 1 - Incumbent Eric Skrmetta (Republican) will face off Allen Borne Jr (Democrat) in a run-off election on Dec. 5.

- **PPA Buyouts:** While it has not been talked about for ETR, peers are buying out high cost PPAs. Our view is that rate basing legacy PPAs could prove to be a viable option of growing their business while keeping customer bills low. Below we detail the legacy PPA projects. It might not drive material accretion for ETR, but we wonder why they have a PPA in service since 1968.

Figure 1. Entergy Legacy PPAs

PPA Projects - Pre 2020

Plant	Capacity (MW)	In Service
Toledo Bend (LA)	41.0	1968
Vidalia Hydro (LA)	114.0	1990
Agrilectric (biomass) (LA)	9.0	2013
Rain CII (waste heat) (LA)	27.0	2013
Montauk (biomass) (LA)	3.0	2014
Blakely Degray Hydro (AR)	160.0	2016
Stuttgart Solar (AR)	81.0	2017

Source: Citi Research, Company Filings

- **Hydrogen Is Real Commercial Opportunity for Entergy:** Given the industry user base in the USGC, it is logical that the industrial customers in ETR service territory are inclined to exposure increased consumption of hydrogen.

- **Cost Management through Challenging Load Environment:** ETR highlighted their ability to manage load decline through cost management and the various levers they can pull to achieve their earnings targets. Some of these levers they included are the continuity of remote through June of 2021 and deferrals of plant outages. Recall that on the Q1'20 earnings call the management team illustrated $100m of O&M savings for 2020. Management believes the majority of these savings to be sustainable.

- **Rating Agency Discussions:** Following the storms, ETR had discussions with the rating agencies. Moody's has opined that they do not expect ETR to hit target credit ratios until 2022, while S&P upgraded their business risk profile and lowered FFO/Debt threshold to 13% from 14%.

- **Renewal of FRP** – ETR benefits from forward test years and true-up mechanisms in ARK and LA through their annual Formula Rate Plan Filings. In Arkansas, they plan to file a settlement for new rates by Dec. 4th. There remains a run-off election for a seat on LA public service commission and that has delayed the FRP process. The commission will rule in February on the FRP, once the election has concluded.

Covered companies mentioned: (CMS.N; US$67.01; 2; 11 Nov 20; 16:00); (CNP.N; US$24.07; 2; 11 Nov 20; 16:00); (DTE.N; US$130.06; 1; 11 Nov 20; 16:00); (ED.N; US$81.72; 2; 11 Nov 20; 16:00); (ES.N; US$94.42; 2; 11 Nov 20; 16:00); (ETR.N; US$109.83; 2; 11 Nov 20; 16:00); (NI.N; US$24.64; 2; 11 Nov 20; 16:00); (PCG.N; US$10.71; 1H; 11 Nov 20; 16:00); (PNM.N; US$49.09; 1; 11 Nov 20; 16:00); (PPL.N; US$29.41; 2; 11 Nov 20; 16:00); (AEP.O; US$91.15; 2; 11 Nov 20; 16:00)

Appendix A-1

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NiSource Inc

Awaiting key PA rate case outcome & other renewable strategy updates

Reiterate Rating: BUY | PO: 25.00 USD | Price: 22.22 USD

PA rate case order possible this Thurs (2/4)

We are flagging that an order may be issued on NI's PA rate case (Columbia Gas of PA) at the PA PUC meeting this Thurs. (2/4) – look for Thursday's official PA PUC agenda released on Weds (2/3) after 3pm ET. If the order is *not* issued on Thurs, it will likely be announced at the Feb. 25th meeting, subsequent to NI's 4Q EPS call on Feb 17th, barring a settlement. Hence, we perceive mgmt. is likely pushing to have this case resolved ahead of the EPS call driving or a resolution sooner than later (at Thursday's meeting or via settlement). To recap the latest on the PA case: after the ALJ's recent denial of NI's rate increase request in PA, which was a essentially a broad statement against raising rates amid a pandemic, NI filed an exception letter with the PUC rebutting the ALJ's denial rec. NI's exception letter offered a softened request, including a 9.86% ROE (vs 10.95% ROE requested inclusive of 20bps mgmt. performance adder) and added the phasing in of rates in '21 (50% in Jan & 50% in July) to appease the ALJ's concerns around a rate hike all at once amid COVID. NI also included an alternative revenue program, allowing revenue bookings in line with the total revenue requirement despite the phase in of rates creating no EPS impact, but small CF impact. Bottom line, NI's revised rate request in the exception letter is roughly in line with Staff's original rec of $76mn rate increase, which Staff reinforced by also submitting its own exception letter to the commission reiterating Staff's previous rec. Critically, other utilities such as UGI and AWK have had rate increases authorized in PA in 2020 during the pandemic.

$50-60mn rate increase baked into '21 guide

We continue to estimate ~$50-60mn rate increase is baked into NI's '21 guidance (vs original $100mn requested & Staff's $76mn rec) given NI's history of receiving 50-60% of rate requests in PA rate cases. However, we acknowledge that if the commission's order aligns with the ALJ there would be clear risk to '21 EPS – <u>a maximum of 10c of '21 EPS at risk excluding likely O&M partial offsets vs '21 EPS guidance midpoint of $1.32</u> (every $5mn less of revenue requirement = -1c of EPS ex offsets). This implies a risk of up to 9% negative revisions to consensus EPS estimates. Note PUC has four commissioners with two republicans and two democrats. Net net, we still believe the fact pattern favors NI in this rate case. Reiterate Buy as we believe NI shares continue to present a differentiated play on the wide relative discount in Gas LDCs with M&A optionality, and renewables upside in rate base. We still arrive at >17% total return potential in our SOTP where we apply 2x discount (vs. peers) to Columbia Gas of PA to account for ongoing rate case risk.

1st two renewable projects online & await more BOT JVs

Separately, we highlight NI's subsidiary, NIPSCO Electric announced that it's first two wind projects in IN are online – Rosewater Wind (102MW BoT JV with EDP Renewables and TE) and Jordan Creek Wind (400MW 20-yr PPA). NIPSCO now has seven remaining renewables projects to bring online as part of the renewable strategy plus those yet to be announced. Note NI has procured a total of 2,445 MW (1,930MW net to NIPSCO), and we estimate this equates to ~$1.25bn in capex net to NIPSCO out of the guided $1.8-2.0bn of renewable strategy capex implying several renewable projects (primarily BOT JVs) likely announced in the coming months (potentially some ahead of 4Q call).

Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.
12242948

Timestamp: 02 February 2021 06:47AM EST

02 February 2021

Equity

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Stock Data

Price	22.22 USD
Price Objective	25.00 USD
Date Established	29-Jan-2021
Investment Opinion	B-1-7
52-Week Range	19.56 USD - 30.46 USD
Mrkt Val (mn) / Shares Out (mn)	8,515 USD / 383.2
Average Daily Value (mn)	68.30 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2020E)	9.4%
Net Dbt to Eqty (Dec-2019A)	158.6%

PA PUC = Pennsylvania Public Utility Commission

NIPSCO = Northern Indiana Public Service Company

Price objective basis & risk

NiSource Inc (NI)

Our $25 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2023 forward P/E multiples of 14.3 for gas utilities and 16.2x for electric utilities with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex beginning in '22, but acknowledge industrial risk. Also, we now assign a 3x M&A premium to the VA, KY and MD gas utilities to account for their M&A premium. We apply a -2x discount to PA to account for rate case risk in the next few weeks after ALJ denied the company's request late last year. We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Disclosures

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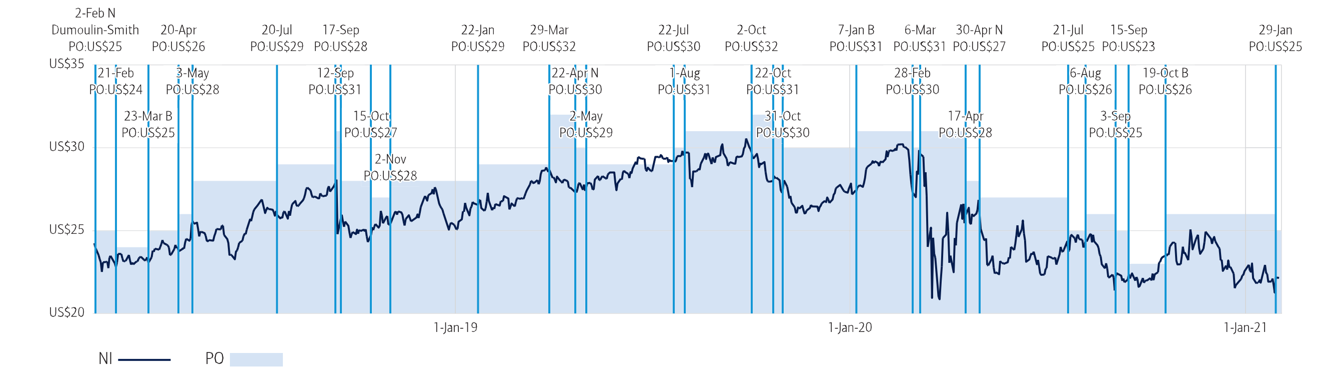
NiSource Inc (NI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	90	57.69%	Buy	69	76.67%
Hold	37	23.72%	Hold	24	64.86%
Sell	29	18.59%	Sell	15	51.72%

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	80	51.61%	Buy	58	72.50%
Hold	37	23.87%	Hold	28	75.68%
Sell	38	24.52%	Sell	22	57.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1863	56.90%	Buy	1185	63.61%
Hold	686	20.95%	Hold	426	62.10%
Sell	725	22.14%	Sell	358	49.38%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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* Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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What stood out from Day 1 of Virtual AGA?

We present our takeaways from Day 1 of the Virtual American Gas Association (AGA) conference, including **AEE, D, DTE, ED, MDU, MGEE, NJR, NWE, SJI, SO, WEC, WTRG and UTL**. Among the key concerns quelled at the conference was around the effects of inflationary pressures on its core business. Considering the fixed wages under existing labor contracts, and relatively elevated prevailing wage rates, mgmts. from across the industry exhibited clear comfort in addressing these potential opex pressures. Further, commodity related inflation appears also modest given long lead time for procurement of many items- as well as corresponding ability to defer capex projects to maintain an appropriate bill trajectory. We stress gas Local Distribution Company (LDC) focus on replacing steel with plastics also helps to mitigate potential concerns. Meanwhile, load considerations across the sector remain robust – with many reaffirming the positive statements from 1Q. We see a clear bias that despite inflationary pressure elsewhere in the economy, results could very well prove *better* than otherwise perceived heading into 2Q & for FY21 guidance. Overall tone for sector was surprisingly positive. Among most constructive meetings were **AEE**, **MDU**, and **WTRG**.

Load growth strong while inflation at bay

AEE continues to work with key stakeholders on a comprehensive energy legislation bill in IL, with the May 31 legislative session deadline fast approaching – we note greater focus on the electric side of things suggests less risk on balance for **WEC**'s gas business. **DTE** continues to work toward the spin of its midstream business by mid-year, with revolving credit lines and a note issuance in the works, while near-term sustained residential sales should get a boost from quickly recovering industrial and commercial load. **ED** likewise forecasts higher demand y/y, with the possibility of a rate filing at its Steam business next year along with the triennial filings for electric and gas at its NYC opco. **MDU** awaits FERC action on gas pipeline expansions with permits for its North Bakken Expansion still pending, with expectations for sustained margins at its construction businesses suggesting inflationary pressures held broadly in check. In Wisconsin, **WEC** and **MGEE** are likely to announce additional collaborations on generation assets (possibly including storage) over time to backfill lost Columbia generation; while WEC is in a rate stayout until 2022 we expect MGEE's latest rate filing to receive a constructive reception given renewable expansion and modest rate increases. **NJR** continues to work through the early stages of its rate case and is not seeing any impact of inflation on its solar business because materials are procured through '22. **SO**'s meeting was spent entirely on the delay of Hot Functional Testing (HFT) and the shift in COD timeline to 1Q22 – the company is in a key testing phase; we see scope for continued volatility through this process on any small concerns. Meanwhile, successful testing would be a positive catalyst for a rerate. SJI built on the plan outlined during the investor day at the beginning of the month and added more detail on its expansion into Renewable Natural Gas (RNG). We see the potential for shares to rerate in time based on execution of the plan. **UTL** plans to outline a path for decarbonization this year and sees strong recovery across its service territory.

FERC: Federal Energy Regulatory Commission

Company Name	BofA Ticker
Ameren Corp	AEE
Consolidated Edison	ED
Dominion Energy	D
DTE Energy	DTE
Essential Utilities	WTRG
MDU Resources	MDU
MGE Energy	MGEE
New Jersey Resources	NJR
NorthWestern Corp	NWE
South Jersey	SJI
Southern Company	SO
Unitil Corp	UTL
WEC Energy Group Inc	WEC

Contents

Ameren (AEE; A-1-7 PO: $91.00)

Our meeting with AEE mgmt covered upside from Midcontinent Independent System Operator (MISO) transmission planning, the latest on IL legislation, and the latest passage of securitization in Missouri. We maintain our Buy rating on AEE.

MISO planning key to transmission future

We continue to view Ameren as among the best-positioned utilities in our coverage universe to capture upside from what is expected to be a multi-year acceleration in transmission spend. The MISO Transmission Expansion Planning (MTEP) process remains key to the long-run upside, in our view, with the Future 1-3 scenarios pegging potential investment opportunities at between $30-100B. The bulk of transmission investment upside is expected to accrue in the second half of the decade given long run planning involved. Further details including just what projects will be included in MISO's latest MTEP iteration will likely be detailed later in the year – note Ameren's mgmt team expressed confidence that at least some of the projects included under the Future 1 scenario will be included given regional needs, particularly given the need to interconnect renewable generation projects.

In particular, we see North-South integration as among the key factors to watch into 2022 as part of wider MTEP integration given considerable congestion issues in recent years as part of Entergy integration into MISO. We stress this large-scale project is likely among the most pressing of the wider review process. Related we see considerable east-west integration across its service territory to interconnect renewables.

IL legislation remains a work in progress ahead of May 31

Work continues by IL lawmakers on several competing energy bills – AEE mgmt affirmed that the downstate bill is the best solution for its ratepayers. We see a possibility that a comprehensive energy bill may not be established during the current session. Further possibilities in the calendar include a special session or potentially a veto session (typically in Nov following election day). On the most recent earnings call mgmt talked down the potential for a "grand bargain" whereby the several competing bills are reconciled into one. We continue to see state labor unions as a key constituency as well, and perceive the union-backed bill as more palatable than proposals such as the Clean Energy Jobs Act (CEJA) from Ameren's perspective given implications for ratepayers.

While management was less than outspoken on implications we see this as a relatively constructive backdrop for shares considering implications for future rate cases. We remain constructive on shares heading into summer months ahead. Further, still not clear what legislation could entail with respect to further ratebase opportunities as well in IL.

Sep next milestone for MO rate case; securitization a plus

With IL rate making an open question, the next key data points in Ameren's MO rate case will likely come in September with the filing of intervener and staff testimony. On balance we view this as a generally constructive jurisdiction for utilities, with AEE's last rate order issued in early 2020 resulting in an earnings uplift. With the SR intervener testimony providing a recent data point – staff came in 60 bps below the company's ask on ROE with unchanged cap structure – we view the backdrop as constructive on balance. Furthermore, the state's proposed securitization bill was signed in to law, giving the company an additional tool in continuing its efforts to transform its coal-heavy generation fleet. Note that Ameren has consistently characterized securitization as not key to its resource plan in MO, but rather a useful tool in mitigating bill impacts. On balance an incremental positive.

A further twist? Note that the securitization legislation in Missouri would allow the company to avoid a separate parallel certificates of convenience and necessity (CCNs) filing for related renewable build to replace any contemplated coal plant retirements. This is a small de-risking factor to consider – effectively creating a process to streamline replacement and securitization in one.

Dominion Energy (D; A-1-8; PO: $86.00)

Our meeting with D mgmt. including EVP, CFO, & Treasurer Jim Chapman, EVP & COO Diane Leopold, and other members of the mgmt. team centered around D's execution on its industry-leading decarbonization plan, offshore wind development, the VA triennial review and rider filings, strong load trends, contracted asset strategy, and inflationary pressures. Management remains substantially on track regarding its earlier and narrow 6.5% EPS growth despite some gyrations therein. We look for critical input on July 30th form Staff on its triennial review, which could well show a relatively wider spread on recommended outcomes on how to apply the audit to the historical period. We remain relatively less concerned considering earlier failure to amend process in legislature as well as bounded outcomes in the VCEA. Items to offset income remain our focus.

As far as SC is concerned, its other jurisdiction ahead with a key case following earlier nuclear challenges remains promising too to de-risk its backdrop into a mid-July update on its rate case docket. Given this is the first case since its acquisition, this remains key in establishing the new norm in SC. Further, no securitization legislation was passed in session this year– while the company is not opposed, risks have been side-stepped here too around proposal to amend its existing nuclear regulatory asset. On balance, upcoming months remain to key de-risk the backdrop on this still new acquisition for D.

Finally, consistent with peers, load trends remain an interesting backdrop to support its overall EPS backdrop. While already assuming a relatively healthy 1.5% in its 5-yr outlook this too would appear to provide nascent support as offset to other factors. We remain relatively surprised that further renewable filings for corporate & government counterparties remains a relatively modest potential. We maintain our Buy with key debates ahead this summer.

Triennial review key to watch this year as await Staff this summer

The triennial review continues to move through the regulatory process with key milestones being respondent testimony on July 30, staff report on Aug. 16, company rebuttal on Aug. 30, evidentiary hearing on Sep. 20, and a final order in Nov. We continue to believe that the filing showing no need for customer refund is well-bounded by the VCEA. As a reminder, the triennial review filing details FY17-FY20 performance and reflects base rate revenues matched closely with cost to provide service. The filing reflects Earned ROE of 10.04% after removing the uncollected revenue related to customer arrears forgiveness, and 10.85% including uncollected revenue related to customer arrears forgiveness.

The SCC only reviews the base portion of DEV's operations and assets keeping VA riders outside the scope of the proceeding. D forecasts a $19M annual revenue deficiency with a requested base ROE of 10.8%. Importantly, we think the triennial review will become less of a factor over time because D is rapidly expanding its rider base at around 18% CAGR through 2025E while base investment is only growing at around 6%. As base rates become a smaller % of the total, D will be less exposed to an unfavorable outcome in a triennial review.

Related we look for a fall update to its Integrated Resource Plan (IRP) this fall which could very well provide the latest perspective on its coal transition – and related amortizations to which to apply to future such reviews. We anticipate this could receive growing attention as a risk mitigant.

Renewables progress ongoing

D provided an update on its industry-leading de-carbonization plan, admittedly among the most ambitious authorized for its large-cap peers largely in ratebase. We stress its inaugural filing therein, CE1 for initial solar build was approved. CVOW receives the most attention from investors given it is the largest single project in DEV's plan (even though the aggregate investment opportunity for solar, onshore wind, and storage is much larger). Mgmt. is positive on the progress that the project has made, and we believe the Biden Administration's advocacy for the industry will be supportive of the timeline. Currently, the FAST 41 published target date for BOEM notice of intent is scheduled for June 2021, which would kick off a two-year review process before BOEM issues its record of decision in June 2023. DEV now expects to file the CPCN/Rider in fall of 2021 which is ahead of previous expectations of the beginning of 2022 - we expect to see more detail on capacity factor assumptions, suppliers, transmission planning, etc. when the filing is made.

The SCC recently approved DEV's most recent clean energy filing for 500 MW of solar (80 MW utility-owned). DEV issued another RFP for 1000 MW of solar and onshore wind, 100 MW of storage, 100 MW of small-scale solar, and 8 MW of solar to support the community solar program. It is important to note that renewables procurement will lean more toward PPA vs utility-owned in the early part of the plan before switching in the latter half of the plan to more utility-owned as DEV works to the allowed 65% target for solar, onshore wind, and storage. These investments will be rider-eligible which is key when assessing the risk of a triennial review (see section above). DEV put another 30k acres under option for solar buildout, bringing the total to 100k, which is enough to support 10GW of solar.

DTE Energy (DTE; B-3-7; PO:$131.00)

Our meeting with DTE mgmt focused on the pending spin of the midstream segment, potential to accelerate coal retirements beyond those articulated previously, dynamics around the Renewable Natural Gas (RNG) business, and growth in demand as well as for its voluntary renewables product. We maintain our Underperform rating on DTE.

Latitude to accelerate coal retirements?

After 2022, DTE is currently scheduled to keep its remaining coal assets including its 80% stake in Belle River (1,000 MW) and Monroe (3,100 MW) operating until 2030 and 2040, respectively. We note that the company has recently indicated a willingness to speed its exit from coal, most recently with the acceleration of River Rouge to 2021. Following our latest meeting with mgmt. we see some latitude to potentially accelerate one or both of the later retirement dates. Moreover, the decisions to potentially retire coal plants could be linked to forthcoming infrastructure legislation including proposed tax incentives for renewable generation. On balance we are not entirely surprised that DTE mgmt is considering moving forward the retirement dates of one or both of its large coal plants as the company has stood out among peers with its plans to continue operating multi thousand-MW coal-burning generation for up to two more decades.

Midstream spin is on track for midyear

DTE mgmt affirmed that it continues to target midyear for the spin of its midstream business, DT Midstream. The company announced the private placement of $2.1B of notes to fund the new spin, the proceeds of which will be used to pay off short term DTE holdco debt. Additionally DT Midstream recently established a term loan facility of up to $1B and a revolver of $750m, which will further go to paying off DTE parent debt and also to pay a dividend to DTE. Growth opportunities at DT Midstream are expected to principally come in the form of expansions and compression on existing lines including the LEAP pipeline in the Haynesville basin which could potentially expand capacity from the current 1 bcf to as much as 2 bcf. Overall the portfolio remains well contracted with no material roll offs in the near term.

RNG remains core to non-reg side of the business

Despite growing investor enthusiasm of late around the growth prospects for RNG and biofuels, we do not expect a material acceleration in DTE's business in the near term. Mgmt. indicated that it remains happy with the current pace of project additions whereby the company invests in new projects annually that generate approximately $7-10m of new earnings annually. While acknowledging that RNG could comprise a larger share of its overall non-regulated Power & Industrial business, mgmt reaffirmed that it expects the segment to account for around 10% of earnings over the long run. Returns per project are currently in the mid teens on an unlevered basis, providing strong cash flows and payback periods in the 3-4 year range. The key short term factor affecting earnings in the segment will be a loss of Reduced Emissions Fuel (REF) credits at the end of 2021, after which we expect the segment to return to an around10% earnings contribution over time as new projects are added on both the RNG and cogeneration side.

Consolidated Edison (ED; A-2-7; PO:$76)

Our meeting with ED mgmt focused on key regulatory concerns including the company's ongoing relationship with the New York Public Service Commission (PSC) and recent filing for recovery of lost fee income stemming from COVID, as well as future regulated and non-regulated investment opportunities. While management's attitude around the new PSC was still preliminary we remain more upbeat on potential new start for an improved regulatory backdrop. We maintain our Neutral rating on ED.

Stagecoach update expected soon

We expect ED to provide an update on its strategic process for its share of the Stagecoach gas storage JV sometime during Q2. Mgmt. indicated at our meeting that of the sale proceeds, approximately ~$500m would be earmarked for the retirement of project-level debt with any remaining proceeds allocated for general corporate purposes. We assume in turn this is likely slightly dilutive. On recent Clean Energy Business (CEB) renewable sales mgmt. reaffirmed no change in its strategy with the expectation of continuing to invest in new projects, with an expected pivot toward additional design-build-transfer opportunities given robust demand for renewables nationally.

Lost income filing driven by length of pandemic impact

ED recently filed with the PSC for a special accounting treatment to defer for eventual recovery the lost fee income associated with late payments and disconnects that has not been charged since the outbreak of the COVID pandemic. Recall that initially the company had talked down the prospects of recovering this lost income given its rate plan Change in Law provision is intended for expenses and not revenues. However, given the duration of the pandemic and aggregate financial impact, ED mgmt. affirmed that filing for a recovery was in the company's best interest. Note we do not perceive recent changes at the PSC as driving the timing or the decision to file based on mgmt's comments.

Steam recovery following most demand-sensitive quarter

Company mgmt struck a cautiously optimistic note regarding the Steam business. Although smaller than both Gas and Electric, the Steam business experienced disproportionate declines in demand for most of 2020 due to its lack of decoupling, first in Q1 as a result of historically mild weather and followed by lost demand due to COVID. Notable in mgmt.'s comments on the business was the constructive stance taken around its emissions profile – among the most efficient when viewed on an emissions per unit of energy generated; in keeping with the company's ESG-leading stance of late. Mgmt. also suggested a possible filing for new rates in the steam business, likely at the same time as the electric and gas filing if indeed the company goes ahead.

MDU Resources (MDU; B-1-7; PO: $39.00)

Our meeting with MDU mgmt focused on the impact of inflation on the company's diversified businesses – particularly Construction Services and Materials, as well as key regulatory updates centered around the recent WA rate case decision and its pending application for the North Bakken expansion. Look for updates today at the FERC meeting on pipeline policy. We maintain our Buy rating on MDU.

North Bakken not on agenda, but other expansions are

The North Bakken Expansion project is not part of the May Federal Energy Regulatory Commission (FERC) agenda, increasing the risk that the project's in-servicing date gets pushed to late 2021 or early 2022. We note that MDU mgmt. has already petitioned the FERC for expedited consideration of its permit request, thus the timing around when it gets considered remains an open question at this point. The core issue appears to be the FERC's consideration of greenhouse gas (GHG) emissions as part of its EIS for new projects – note Bakken Expansion should screen well on this metric from an upstream perspective given its demonstrated impact on Bakken gas flaring, though how the FERC determines the downstream impact remains a key consideration. Note two expansion projects on the May 20 agenda should give an indication to the FERC's sentiment, if not a direct read-through.

On balance, new FERC policy is unclear on pipelines. We look critically at these upcoming meetings to establish further direction on just how stringent of a GHG review will be established. We see this as likely more of a delay than a fundamental impediment to the project.

Inflationary pressures not showing up in construction biz

MDU mgmt. affirmed its expectation for keeping margins at its Construction Services and Construction Materials businesses at or better than last year's levels, in-line with its full-year guidance. Despite inflationary pressures, the mgmt team sees multiple pathways to maintaining or growing its margins. On the Services side, contracts could be structured as cost-plus of fixed cost, though in the instance of the latter some allowance for inflation could be built in to the initial bid. At the materials business Q2 is the key quarter for bidding activities – thus we see mgmt's affirmation as coming halfway through the quarter as informed by the bids seen thus far.

All in, given MDU's diversified construction business we remain less concerned about inflationary pressures in 2021, particularly given the strong start to the year in both segments.

Cascade revenue reduction makes new filing likely

Reduction of $0.4m relative to an increase in annual revenues of $7.4m which was requested and which represented a +2.8% increase in base rates. The commission maintained Cascade's existing equity ratio at 49.1% and authorized ROE at 9.4%. While the commission accepted pro forma adjustments to base rates reflecting investment through Oct 2020, it rejected additions for projects coming in service at a later date citing "longstanding" commission principles. The order also rejected recovery of 2021 wage increases through rates indicating that these are not yet known and measurable. On the latter point we note mgmt. indicated that it has good visibility into its authorized pay increases for 2021. On balance we expect the order to likely lead to the filing of a new rate case in Washington in relatively short order in order to resolve both the wage increase issue and to add projects that had been completed since the Oct 2020 cutoff. Note we do not expect the order to materially alter the company's outlook on 2021 (having increased guidance already post Q1), as the annualized impact of the full increase requested would result in a ~3c EPS contribution

New Jersey Resources (NJR; B-2-7 PO:$43)

Our meeting with NJR mgmt. including SVP & CFO Pat Migliaccio, SVP & COO (Non-Regulated) Amy Cradic, and Manager – Investor Relations Mark Aydin follows the 2Q update where NJR raised guidance for the second time this year. CEV's pipeline is well insulated from inflationary impacts with materials procured through '22, and expansion into other states continues at returns that are generally consistent with NJ. NJNG rate case is progressing with staff testimony the next item to watch for likely in late-Jun./early-Jul. Mgmt. is very conservative on the RNG/Hydrogen opportunity with no capital in plan outside of two pilot projects. We reiterate our Neutral rating as we still perceive ability to execute at Clean Energy Ventures as a risk, especially with expansion out of NJ and a pending transition of the current Transition Renewable Energy Certificates (TREC) program. Valuation also reinforces our Neutral rating as shares appear fairly priced on a SOTP analysis.

CEV protected from inflationary impacts

Mgmt. does not foresee any inflationary impact to Clean Energy Ventures' (CEV) pipeline given materials have been contracted through '22 – mgmt. sees more positive impact from the ITC extension (that was passed after NJR outlined its plan for CEV). As a reminder, the capital plan shifted modestly as certain in-service dates for Clean Energy Ventures (CEV) projects shift to FY22 given permitting and production delays related to the pandemic. Mgmt. now expects to spend between $96M and $118M in CEV vs prior expectation of ~$165M. CEV is also beginning to expand out of NJ in line with mgmt.'s plan announced during the Nov. 2020 Investor Day. CEV completed a solar project in CT and 1/3 of the FY21 & FY22 project pipeline capacity is expected by mgmt. to be out-of-state. Mgmt. sees out-of-state returns through PPAs that are similar to those of NJ's Transition Renewable Energy Certificate (TREC) program.

NJNG rate case remains key to watch in '21

We stress that the New Jersey Natural Gas (NJNG) rate cases through 2024 will be critical to the outlook as mgmt. is looking to recover 14c in IT spend, 27c related to the SRL pipeline, and 41c of maintenance, and cost of removal expenses. The '21 case is largely focused on recovery of the Southern Reliability Link (SRL) pipe. NJNG filed for a proposed rate base of $2.3B which excludes $308M related to SRL. SRL will be filed as a post-test year adjustment within six months of an order, but mgmt. noted the project could be completed by the time an order is received and be included in normal rate base. We believe there will be little contention on the pipe as it has received approval from the Board of Public Utilities (BPU) already and NJR has worked with the commission throughout the construction. A constructive outcome on this front is likely critical to helping assuage regulatory risks, in our view.

PennEast will likely remain upside until all items needed for Phase 1 are secured

NJR continues to exclude PennEast from its plan as the project's path forward is still uncertain (partners SJI and UGI still include at least phase one). We are more comfortable with the case in front of the Supreme Court on state's rights and eminent domain following support from the Biden Administration and the Solicitor General. The high court is expected to rule on the case by the end of June, and a FERC bifurcation decision is expected to follow – PennEast would also need Delaware River Basin approval for Phase One. We do not see mgmt. adding Phase One of PennEast back into plan until these items are secured. We note the project is already removed from guidance, so to the extent the project moves forward it could be a modest positive to EPS.

On energy services, the company highlighted that the assets that drove the outperformance this year were storage assets and not transportation assets, and suggested to take out the outperformance years to get a more normalized expectation – a Net Financial Earnings (NFE or adj. earnings) contribution of $18-22m.

NorthWestern Corp (NWE; B-2-7PO: $71)

We found our meeting with NWE to be especially interesting given the resource adequacy challenges of the West. While wildfires could very well pressure shares of smid-caps regionally once more this year, we see the backdrop of shortages across the reason and NWE's sharp lack of owned resources suggest potential for inflationary pressures to future procurement activity. Look for more robust discussion in coming months around impacts from Uri as well as Western activity. Nascent sales recovery trends appear a positive for shares with among the highest load sensitivity. On balance, given still modest ratebase growth, we maintain our Neutral rating but see an upward bias – offset by risk of acute forthcoming wildfire focus.

On track after strong 1Q and Generation Win

Latest discussions with management stressed confidence in its plan after both previously firming up the formal capex plan and with winning incremental spend from the MT generation RFP: We see the company on track following the strong start to the year to achieve their full year results of $3.40-$3.60. Management noted that new connections are up substantially with strong customer growth across their jurisdictions, but we see some lag still from C&I driven by a labor shortage as opposed to more discrete COVID concerns.

MT Preapproval Filing Imminent

We expect an imminent filing for preapproval in MT following the earlier RFP results for 325MW of dispatchable capacity – with the filing to include both the 175MW Laurel Generating Station Rice unit plant to be owned by NWE and the 50MW battery storage PPA. Recall the additional investment by the company is expected to drive an incremental $250Mn of spend over their current five year plan (with incremental equity of around $125Mn likely to keep credit ratings intact): we see the spend largely in '22-23 with in service likely towards the beginning of '24. If ultimately approved, this should elevate the company's 4-5% rate base growth and put NWE more comfortably in the 3-6% EPS growth target longer term. The filing is expected to exclude the five year hydro PPA that was the third component of the latest capacity RFP. Following the filing, the commission has 45 days to determine if the application is adequate – with potential for up to nine months until resolution: management is looking for an answer by the end of the year. If approved, we see the additional hydro and battery projects as further improving sentiment around NWE's carbon footprint in addition to the more quantitative benefits from the higher spend.

Our conversations this week further stressed the broader need for capacity in the state – particularly against the Colstrip uncertainty – and we see additional upside to owned generation out of subsequent RFPs as the critical question. We see governmental support for state owned generation, with forward prices up and expensive capacity in the broader Pacific Northwest. The thesis on capacity transition has been out there for some time; the question is whether we are on the edge of seeing a capacity 'catchup' be authorized in MT.

Outside of the pending preapproval filing, we further highlight regulatory efforts in connection with both adjustments to their PCAM and further delaying the implementation of their fixed cost recovery mechanism pilot in their Montana jurisdiction for another year until July 2022 (or beyond). While we see less concern around Colstrip after legislative efforts to revise coal fired generation laws in MT were tabled in committee earlier, watch the arbitration process for Colstrip too as it plays out.

We maintain our Neutral rating on shares, seeing a balanced risk/reward at the current valuation.

South Jersey Industries (SJI; B-1-7; PO: $27)

We met with SJI mgmt. including President & CEO Mike Renna, SVP & CFO Steve Cocchi, and other members of the executive team to dive deeper on a litany of items following SJI's update at its recent investor day. Mgmt. provided additional detail on how investors should be thinking about the robust nonregulated investment opportunity in RNG and fuel cells as well as an update on regulatory items including the Infrastructure Investment Program (IIP) and Liquified Natural Gas (LNG) redundancy project. We reiterate our Buy rating and continue to see a positive revision to shares as SJI begins to execute on its new plan.

Path toward an infrastructure company w/ utility at core

SJI's new long-term plan with significant investments in RNG expecting to spend $500M on RNG through its five-year forecast broken down by $280M in SJI's RNG DevCo to develop dairy farms and the remaining capital used to acquire more equity in REV LNG as it reaches EBITDA milestones. Mgmt. expects to own 100% of REV LNG by 2025 based on EBITDA growth forecasts. To the extent that REV is able to meet its EBITDA targets sooner than forecasted, SJI could see a positive revision in EPS given, contractually, the acquisition of more equity would be automatic once the threshold is hit (i.e. there is no discretion timing). Mgmt. is confident in its strategy on RNG given the market is not saturated and compared the RNG to the shale boom in the Marcellus – rig count climbed sharply and the market became saturated quickly whereas RNG has longer lead times and more steps before being able to bring fuel to market. SJI's strategy at its core will remain focused on the utility, but believes there are ample opportunities to invest in projects that provide returns well in excess of regulated returns and SJI is positioned well to capitalize on the opportunities.

What about legislation? A Senate Bill, S3526, in NJ would allow for rate basing of RNG at the utility. Mgmt. was very positive on the support that the bill has seen so far with two influential sponsors behind it. We note that it could be difficult to get the bill passed this session given the volume of other bills that are in front of the legislature. Mgmt. again highlighted that if the bill were to pass, it would reassess the amount of capital being deployed in unregulated projects and potentially shift some over to the regulated business. Mgmt. is cognizant of the delta between regulated and unregulated returns and will have to wait and see final bill language and regulatory implementation to make that decision. It is possible that mgmt. would have both regulated and unregulated investment. We will also be watching how the end markets for RNG grow and evolve. To be seen.

Fuel Cell investment will be the focus for renewables

Priority on the renewables business will be on fuel cells with a contract structure similar to NY's Value of Distributed Energy Resources (VDER) program with a counterparty that is willing to take the technology risk. SJI's fuel cell investment in 2020 has 75% of its revenues contracted under the VDER program and SJI's counterparty (Bloom) has guaranteed 95% availability. Mgmt continues to emphasize that the primary driver for investment in the space is to align with NJ state and local clean energy goals.

We anticipate the partnership with BE could very well prove upsized and could see further investments under this NY state structure. We note Bloom has announced multiple project partners under this program. We look to understand the nature of SJI's potentially expanded role with BE in coming months.

IIP and LNG redundancy remain key to watch from regulatory perspective

South Jersey Gas' (SJG) pending $742.5mn 5yr Infrastructure Investment Program (IIP) filing is still ongoing before the NJ Board of Public Utilities (BPU), and we model 60% of ask vs. SJI implied 50%. We think we could potentially see a higher approval % given the state's advocacy for safety and reliability investment as well as the need for supportive programs in the wake of the pandemic. As a reminder, SJG and Elizabethtown Gas (ETG) were recently approved for $133mn and $83mn, respectively, of energy efficiency over a three year period (nearly 80% of request). In total, 50% of utility investment earns a timely return. The LNG redundancy project is included in plan now that mgmt. has a clearer line of sight to commission approval by year-end and start of construction by the end of '22. Mgmt. noted recent events in TX and with the Colonial Pipeline strengthen their case for the project as they have limited connection points for supply.

Southern Company (SO; B-1-7; PO: $72)

Our meeting with SO mgmt. including EVP & CFO Drew Evans, SVP Finance & Treasurer Robin Boren, and Director of IR Scott Gammill revolved almost entirely around the progress at Vogtle Unit 3 following SO's announcement of a three week delay in HFT at Vogtle Unit 3 and the shift of the expected in-service date to 1Q22. We maintain our Buy rating as we see upside potential to our SOTP valuation, and see potential for further capex through fleet transition at core utilities. The company is in a key testing phase; we see scope for continued volatility through this process on any small concerns. Meanwhile, successful testing would be a positive catalyst for a rerate.

Delay in HFT; goal posts for completion shifted

Our meeting centered on the recent testimony from Southern Company (SO) in front of the Georgia Public Service Commission (GA PSC) on VCM 24. As a reminder, SO provided an update on the progress with Hot Functional Testing (HFT) at the hearing, and due to concerns of pipe spacing to structural support with thermal expansion, HFT has been delayed three weeks which in turn pushes fuel load to Sep. (from Aug.) and expected Commercial Operation Date (COD) officially into Jan '22 though this is assuming no more delays in the project – mgmt., more realistically, expects COD at some point in 1Q22. SO has taken temperature back down to be able to put up scaffolding, remove insulation, and reconfigure the structural support for the pipes to allow more room for thermal expansion. Though SO did not see thermal expansion outside of the limit, it is focused on completing work correctly rather than quickly and preemptively decided on the fix. After work is completed, SO will have to take the temperature back up again, but will not have to spend as much time at each threshold because data has already been collected. The plant will have to remain at the ~550 degree level for two weeks before the test can be deemed complete – as a point of reference, SO was operating at about half of that before taking the temperature down to make the adjustments for thermal expansion.

Some work on peripheral items (coating, HVAC, etc.) will be pulled forward while the thermal expansion fix takes place. SO has fully funded Unit 3 through the end of Dec., so each month COD is delayed after Dec. would add an incremental $25M to the project cost.

Another reason for the delay was the need to update control system logic for the reactor coolant pumps (RCP). SO had successfully ran each RCP individually, but when all were turned on, there was an issue with having them operate in tandem. The work took 5-6 days and has already been completed.

What about the spent fuel pond leak? SO will not be able to take delivery of any more fuel until the leak is repaired (1/3 of the fuel is currently on site), and site engineers believe they have identified the issue as a welding problem and have scheduled work to be completed by June, well in advance of the start of fuel load in Sep. What's next to track? Staff testimony on VCM 24 is due June 7 before a hearing on June 24. Staff will likely provide a timely update during the hearing on where SO stands in HFT. This appears the next critical timeline of relevant discussion for the project, especially with June 24th aligning roughly with current HFT completion timeline.

ITAAC NRC requirements appear more of an outcome of HFT than a risk themselves...

ITAAC completion is less of a concern for us at this point. The process at the Nuclear Regulatory Commission (NRC) only takes 2-3 weeks, and SO only submits an ITAAC if it fits within the parameters of the test – all but one ITAAC has been returned to SO for adjustment to date. Approx. 25% of the remaining ITAACs deal with HFT, while the remaining deal with fuel load or auxiliary items (i.e. HVAC, security, etc.).

After HFT and leading up to fuel load (currently scheduled for Aug.), what are the next critical items to watch? Work related to nuclear fuel and support systems (i.e. HVAC, communications, security, etc.). While there is still risk in completing these processes on time, only 10% or less of the work required between HFT and fuel load is safety-related and complex vs 60% for the work leading up to the start of HFT. SO has budgeted 130 days for fuel load but is aiming to complete the process in 110 days (vs Chinese fastest of around 112 days) - this could provide some extra buffer to the new expected COD though we note again SO's focus on completing work correctly rather than quickly.

Inflation more of a concern over the LT

What about concerns on inflation? Mgmt. is watching it very closely for the LT. In the near-term, there is less of a concern because the materials that are needed for Vogtle construction are on site and workers are already paid top decile wages. Mgmt. pointed to an example of a longer term impact in coal ash expenditures – SO has long-term assumptions for spending programs like coal ash, and any shift in inflation would impact that assumption.

WEC Energy (WEC; B-3-7; PO: $95.00) and MGE Energy (MGEE; A-3-7; PO: $69.00)

We held separate meetings with the mgmt. teams of WEC and MGEE and present our consolidated takeaways below given both companies' exposure to the state of Wisconsin and collaboration on generation + storage projects. We maintain our Underperform rating on both MGEE and WEC given high valuations we view as unsupported by each company's respective fundamentals.

Different rate review approaches in WI

MGEE and WEC recently made their latest rate filings, reflecting different cycles (and levels of reg risk in our view). WEC remains the most de-risked of the WI utilities having filed a stay-out through next year with status-quo ROEs (10.0% electric, 10.2% gas) and authorized equity at 50-55%, while reducing its earnings sharing band by 20 bps for 2022 only. MGEE recently filed a 2-year rate application with a 5.9% electric base rate increase and 3% for gas in 2022. Note the MGEE filing also includes a reopener for 2023 given several renewable generation projects are pending approval at the commission – we expect the reopener to be utilized upon approval of projects with an in-service target date in 2023 – these include the Paris Solar-Battery and Darien Solar-Battery projects, which in aggregate are expected to account for $88m of capex for MGEE. Note that given WEC's stayout filing, we expect its rate application filed in 2022 to include the same projects given its 90% stake, with MGEE a 10% partner.

Still runway for gen investment following Columbia

Both WEC and MGEE are partners in the Columbia coal plant which is scheduled to retire its Units 1 and 2 in 2023 and 2024. In contrast to WEC which has articulated a multi-year plan of generating capacity additions, MGEE has not disclosed its plans for generation needs beyond the projects that have been announced to date. Note that the four projects announced in late 2020 and early 2021 that are co-owned between WEC and MGEE account for ~120 MW of the 217 MW that account for MGEE's share of Columbia, leaving meaningful runway left for additional projects. MGEE's mgmt. has also discussed retiring its 50 MW combustion turbines and 100 MW Blount facility – while the time frame is not certain we note these extend the pathway for future renewable investments. While MGEE has not exercised its West Riverside option for a 50 MW stake and has until 2025 to do so, we see a clear preference for renewables given the company's track record over the past several years.

Inflation risks relatively muted for renewables

WEC's mgmt. sees little exposure to inflationary pressures – both from a labor and a materials standpoint – in its nonregulated Energy Infrastructure renewables projects. Contracts with developers are done on a fixed price, turnkey basis, with the developers bearing most risks from inflationary pressures. Note this largely echoes commentary across our coverage indicating inflationary pressures being generally in check.

Essential Utilities (WTRG; B-1-7; PO: $54)

We had a very constructive meeting with WTRG, focused on reconciling both its near-term debates as well as more critically understanding the company's hesitations around providing a 5-year view (akin to many of its peers) vs 3-years despite its de-risked backdrop. We see this simply as a matter of transition for CEO Franklin who has been in the role since 2015. Following years of transition with repairs tax and integration of the Peoples gas utility business, we see a period of relatively lower risk approaching. Specifically, we see few noticeable resets in earnings outside of potential gyrations in earned ROEs near authorized levels. We stress transitioning to a 5-year program would appear more of a discussion around simply developing a longer-term perspective on capital spending than addressing any core issues. We believe next Peoples Gas case could very well serve to provide this latest certainty on ROE at among its largest segments. We viewed this conversation as our most constructive of the conference despite no specific timeline on offering an extended view on its 5-7% EPS growth.

Muni Acquisition Opportunity Robust despite Protracted DELCORA process

Latest discussions with management continued to highlight the robust magnitude of municipal tuck in acquisition opportunities - and we do not see any slowdown in discussions despite potential for some federal relief. Pending transactions currently contemplate ~$450Mn of rate base with signed APAs expected to generate ~$22.5Mn of incremental annual earnings potential (with one additional deal that they have been selected as the winning bidder and are working to sign an APA). The magnitude of opportunities should limit concerns around the protracted DELCORA process, with resolution seemingly less likely by the end of the year. That said, we do expect management to pull on their equity forward that is coming due in August to finance the additional acquisitions with or without clarity around DELCORA. Despite the legal setbacks, management remains firmly confident around their ability to see the transaction to close.

The current acquisition pipeline outlined by the company contemplates pursuit of ~395K customers – with the majority municipal wastewater systems. While WTRG already enjoys FMV legislation across their entire water footprint, we think we could yet see expansion beyond the current states in which they operate: we see an appetite to potentially expand to KY given their gas operations in the state and constructive legislation that was just passed similarly allowing the company to buy assets at 1x rate base (with discussions suggesting other states too as possibly providing an attractive initial entry point given the backdrop). Meanwhile, we highlight legislation in PA similar to the Water Accountability Act in NJ that would put muni's under the Pennsylvania Utility Commission if they are out of compliance. Other states to watch for developments in coming months include OH with a new team in place and TX given a backdrop of robust growth (albeit with a bit more competitive of a dynamic).

While we do not see a particular desire from management to offer up a longer guidance trajectory than their current three year outlook, we nonetheless see a long tailwind of acquisition opportunities further supporting the long term growth outlook.

Watch PFAs Developments too under the new administration

We see potential developments from the Biden administration around a maximum level of PFAs with current status quo only contemplating a health advisory (as opposed to a strict enforceable standard) in place at the federal level of 70ppt. WTRG has already put in a stricter standard across their jurisdictions of 13ppt – the standard in New Jersey at the state level. While it remains less clear how quickly the EPA will act for a firmer threshold nationally, we see stricter standards and the burden on smaller utilities as only further driving acquisition opportunities for muni tuck ins.

We reiterate our Buy rating on shares of WTRG with increasing conviction in management's ability to consistently deliver and see the company as a prime beneficiary of further consolidation across the water industry. Meanwhile, we struggle to reconcile the sharp discount to peer AWK and stress the pipeline of water opp's to further dilute gas as a percentage of their biz. With a growing focus on ESG – and mgmt.'s proactive action around PFAs and emission reductions – we see this an underappreciated angle not reflected at the current valuation.

Unitil Corporation (UTL; B-3-7; PO: $49)

We met with UTL mgmt. including Chairman, President, and CEO Tom Meissner, SVP, Treasurer, and CFO Bob Hevert, and Director of Finance Todd Diggins to discuss the important electric and gas rate cases in NH, decarbonization across the footprint, and strategic opportunities. We reiterate our Underperform despite positive data points given very premium valuation – our impression is there is an M&A premium built into shares, however find any transaction to be challenging during a rate case.

Positive on NH rate cases, key to watch into '22

On the regulatory front, UTL is active with a multi-year rate case ongoing at its NH electric business, Unitil Energy Systems (UES), with new rates expected to be effective in 1H22. Mgmt. highlighted stipulation on temporary rates of $4.45m (vs ask of $5.8M). There has been a positive and complimentary response to the rate case, in particular with the transparency and clarity with all the effort to reduce bill impact. The staff overall feel positive about the case, with no unexpected or contentious on top of the usual technical issues associated with rate base or cost of capital. On UTL's NH gas business, Northern Utilities NH (NU NH), an earlier timeframe than 2H21 and simpler case with fewer issues is expected.

From a regulatory standpoint, UTL believes the focus right now is firstly – in terms of decoupling – by the time the rates are in effect, around 80% of their meters will be decoupled, and around 75% of their non-growth related capital investments will be recovered over the next three years, either through a tracking mechanism or though multiyear rate plans. They are therefore trying to obtain more certainty on cash flow and accelerate the recovery of their capital investments – in order to reduce the lag and difference between rate base growth and earnings growth over time. With regards to the multi-year rate plan, UTL believes this is a much quicker and more efficient process than filing serial rate cases, however they highlight one consideration with the plan where the incremental revenue requirements are limited to 2.5% of prior year's revenue.

No specific incremental investments on capital plan; growth rates on high-end

In respect to the capital plan, no specific incremental investments were called out so far but the company is looking at opportunities in renewable energy and sustainability. UTL highlighted their corporate goals for greenhouse gas emissions, with plans discussed for 2030-2050, and the investments required such as decarbonization of their fleet, their buildings and electricity usage etc. These investments are not currently reflected in their current capital plan which they aim to fully develop as part of their sustainability strategy in 2021.

Speaking about the range in growth rates (5-7% EPS/6.5-8.5% rate base growth), UTL highlights that they mostly expect growth rates on the higher-end of the range in the short-term through a combination of the recovery from the pandemic, increase in customer count, and improved recovery of rate base investments. Customer growth has been strong particularly in gas, with organic growth in in new construction and projects being permitted creating a pipeline for several years. Beyond this, UTL sees a lot of scope for gas conversions, especially in Maine, where 75% of the population are still using fuel oil or propane, and UTL intent to ramp up these conversions as well as expand into new cities going forward.

Decarbonization through RNG; work continues on legislative and regulatory front

UTL highlighted their commitment to use natural gas and RNG as part of their future energy supply considering the environmental benefits (especially vs fuel oil and propane). Electrification remains economically challenged in UTL's service territories given already high electricity costs – mgmt. highlighted studies that show 35 degrees is the breakeven point at which electrification matches the economics of fuel oil, however noted that electricity prices would have upward pressure if electrification were to expand causing the breakeven point to increase.

UTL expects to be able to implement long range supply planning to address the supply of RNG and to also ensure appropriate review and recovery of costs through legislation and/or regulation. Before UTL would look at potential investments in RNG (regulated or nonregulated), UTL would want implementation of tariffs to allow for recovery of supply costs. Once mechanisms are established UTL would then look into investing and developing these projects. There is a bill pending in Maine that may or may not go forward in the current legislative session that would enable them to move forward with this.

Consolidation remains a possibility in time; private money looks more willing to stomach high valuations

We note a unique fact pattern with respect to Caisse de Depot et Placement du Quebec (CDP), a Quebec government pension fund, owning ~6.3% of UTL as well as adjacent Vermont Gas (under its wider ownership of Energir, the Montreal based parent which also runs the Gas Metro LDC in Montreal).

We caution against immediate expectations around what this latest stake (December disclosure) implies. We see any further consolidation between these two entities as challenging to carry out during its more meaningful pending NH electric rate case given the process and drag on earned ROEs presumably.

Again, UTL expects new rates expected to be effective in 1H22 for UES and 2H22 for NU NH, so we think it could be difficult to conduct anything strategic until the processes are complete. A good example of this dynamic is with the failed Avista and Hydro One deal. It will likely take Avista until 2023, four years after the termination of the deal, to return closer to their authorized ROE. On the other hand, we have seen private interest in the space tick up with Summit Utilities acquisition of Centerpoint's (CNP) Oklahoma and Arkansas gas utilities and GIC's minority stake acquisition of Duke Energy Indiana so some puts and takes indeed. We do not see UTL as a buyer at recent high valuations.

In terms of the targeted dividend payout ratio (55-65%), UTL is comfortable with that range as well as maintaining the dividend growth rate and capital investment plan currently in place. As for FFO/Debt metrics, UTL is focused on this and has some incremental equity in plan though the vehicle for the equity is still undecided.

Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AEE	AEE US	Ameren Corp	US$ 84.21	A-1-7
ED	ED US	Consolidated Edison	US$ 77.98	A-2-7
D	D US	Dominion Energy	US$ 76.98	A-1-8
DTE	DTE US	DTE Energy	US$ 138.8	B-3-7
WTRG	WTRG US	Essential Utilities	US$ 46.42	B-1-7
MDU	MDU US	MDU Resources	US$ 33.53	B-1-7
MGEE	MGEE US	MGE Energy	US$ 74.74	A-3-7
NJR	NJR US	New Jersey Resources	US$ 42.51	B-2-7
NWE	NWE US	NorthWestern Corp	US$ 62.96	B-2-7
SJI	SJI US	South Jersey	US$ 25.74	B-1-7
SO	SO US	Southern Company	US$ 63.98	B-1-7
UTL	UTL US	Unitil Corp	US$ 55.63	B-3-7
WEC	WEC US	WEC Energy Group Inc	US$ 94.87	B-3-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Ameren Corporation (AEE)

Our $91 price objective is predicated on a P/E based sum of the parts, valuing each business subsidiary relative to the 2023E ratebase weighted peer multiple of 17.9x for electric.

We apply a 2.0x premium to peers at AEE Missouri to account for the improving prospects of capital spend, supplemented by a regulatory jurisdiction becoming more favorable - but lack of decoupling.

We apply a 2.0x premium to peers at AEE Illinois to account for decoupling on the distribution business which aids in earnings predictability. The overall business is expected to grow at a more meaningful clip than that of peers - we see a 10% EPS CAGR at IL 2020-2024. At ATXI, we apply a 4.0x premium to peers to reflect the FERC ROEs.

At the Parent, we assume 2.0x multiple premium reflecting average of the subs and given the healthy debt metrics with FFO/Debt at 17%+. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector.

The risks to our price objective are the utilities earning their allowed returns or worse, a significant change in 30-year U.S. Treasury bond yields, and adverse regulatory outcomes that could impact mgmt's ability to earn its allowed return

Consolidated Edison (ED)

Our $76 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples 18.0x/16.5x for electric/gas respectively with a -3.0x disc. to Electric, Steam, & Gas to reflect Covid recovery overhang and Steam for lack of decoupling. Both electric and gas peer P/E multiples are grossed up to 2023E by 5% to reflect capital appreciation across the sector. We further apply an EV/EBITDA approach on 2023E EBITDA to the CEB business using a 10.0x multiple for both the legacy portfolio and the renewables portfolio seeing it as having higher quality returns. Downside risks: ED, like all utility stocks, is also sensitive to changes in the market level of interest rates. Utilities historically underperform if bond yields rise, and outperform when they fall. Further downside risks are the inability to recontract storage, adverse regulatory outcomes, a deteriorating regulatory environment, or unforeseen disasters such as the Harlem gas explosion, the SRE transaction not being completed. Customer inflation is also a downside risk. PCG related counterparty exposure is among the nearest exposures to watch.

Dominion Energy (D)

We use SOTP to derive our $86/sh PO. Utilities: We value VEPCO at 4x prem multiple to elec. peers of 18.1x '23 P/E and 16.5x w/ 3x prem on our '23E P/E to D's portfolio of gas LDCs (East Ohio, Hope Gas (WVa), and Questar (UT)). Mults are grossed up to by 5% to reflect capital appreciation. We value Wexpro at 10x disc to gas utility peers for declining rate base/ROEs and reg. risks. We ascribe a 3x premium multiple for SCANA legacy utility assets, and a 2x disc. for the NND asset. We also net out NPV of ongoing bill credits. Merchant: We apply an 8x FCF multiple for Millstone and separately apply a 100% wt to our NPV est of the ZCP cash flows. We include the full EBITDA from the contracted renewables with a 16x '23 EV/EBITDA multi in line with peers. Cove Point: We apply an NPV approach with to our DCF adjusted for the 50% sell-down in the facility. For remaining debt beyond that allocated to state utilities, we incl a 50% wt towards a str netting of leverage, with the remaining 50% using a P/E multiple on associated interest expense, in line with the methodology employed for more highly levered diversified utilities.

Downside risks: increase in rates, capex below assumptions, unconstructive regulatory outcomes, delays and/or cancellation of key projects vs our expectation.

DTE Energy (DTE)

We value DTE Energy at $131 using an SOTP approach.
We value the utility segment on a 2023E forward P/E multiple basis and the non-utility seg. on a 2023E forward EV/EBITDA multiple basis. For the utility segment we apply a 3x premium to both our reg. electric and gas utility peer multiples (of 17.9x and 16.4x, respectively). Both electric and gas peer P/E multiples are grossed up for a year to 2021 by 5% to reflect capital appreciation across the sector. We subtract out Corp & Other expense excl. interest rate.
For GSP we use a midstream peer group multiple of 9.0x. P&I, we apply an 8x EV/EBITDA multiple, despite the lower quality of these earnings and opaque disclosures, as mgmt has been able to execute on new project origination. We value the reduced emissions fuel (REF) tax credits separately using a DCF methodology at 6% discount rate.

Upside risks to our PO are capex expansions, higher authorized ROEs, and strong performance in the ET segment. Downside risks are interest rate hikes, execution risk on organic growth initiatives at the nonregulated business, and less favorable regulatory environment.

Essential Utilities (WTRG)

Our price objective is $54 based on our SOTP approach, applying a peer multiple to the water utility and gas utility, respectively and accounting for expected growth for each sector. These peer multiples are 28.2x and 16.5x. We apply a 3.0x premium to Peoples Gas given the organic growth opportunities, while applying a variety of premiums to its water (2x previously) subsidiaries: +4x to PA, +3x to IL, +2x to OH, +2x for TX, +2x for OH, and no premium for balance of biz. We net out parent debt and parent interest expense associated with parent debt 50/50 weighed basis.

Risks to the downside are acquisition risk, deteriorating regulatory outcomes, and risks from a lower rerating following the diversification into gas.

MDU Resources Group, Inc. (MDU)

Our $39 PO is derived from SOTP. At the regulated electric and gas utilities, we use a P/E approach on our 2023 estimates and use peer multiples of 18.0x for electric and 16.5x for gas, respectively with a -1.0x discount for each reflecting below-peer rate base growth of 5% through 2025, we then gross this multiple by +5% to account for sectorwide EPS growth to derive a 12-month forward PO. We value the Construction Materials business using a '23 EV/EBITDA estimate, applying a multiple of 9.7x based on an average of several publicly-traded peers in the cement, asphalt, and aggregates business. We value the Construction Services business using a '23 EV/EBITDA estimate, applying a multiple of 9.7x based on an average of several publicly-traded specialty construction services peers. We also apply a -1.0x valuation discount reflecting the high level of competition in the space. We value the Pipeline business using a '23 EV/EBITDA est., applying a multiple of 10.0x based on an average of several publicly-traded midstream peers. We also apply a -1.0x valuation discount reflecting execution risk around the North Bakken expansion which is slated for construction in 2021. We net out total parent drag and add back the remaining parent interest expense with a 50% weighting. Upside risks are higher utility capex, improving margins at the construction business, and infrastructure stimulus. Downside risks are a macro downturn pressuring construction margins, and rate case outcomes.

MGE Energy (MGEE)
Our $69 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples (18.2x/16.7x for electric/gas respectively) with a 3.0x premium on WI regulated gas and electric to reflect the constructive regulatory mechanism, and a 3.0x premium on Transmission assets. We note that both electric and gas peer P/E multiples are grossed up for a year to 2021 by 5% to reflect capital appreciation across the sector. We apply utility premiums to the non-regulated Elm Road and West Campus assets as these are leased under long-term contractual arrangements. Downside risks: MGEE, like all utility stocks, is sensitive to changes in the market level of interest rates. Utilities historically underperform if bond yields rise, and outperform when they fall. Further downside risks are the inability to secure further renewable rate base investments, adverse regulatory outcomes, a deteriorating regulatory environment, or adverse weather leading to less consumption of electricity and gas. Upside risks are acceleration of renewable gen investment, legacy coal asset early retirement, and enactment of further pro-renewable state policies.

New Jersey Resources Corp (NJR)
Our $43 PO is off our 2023E SOTP, based on gas peers of 16.5x. For non-reg biz, we apply a 12.0x multiple plus a 1.0x premium to account for the derisked nature of the AMAs. For Midstream, we capitalize EBITDA at 9.0x while weighting PennEast by 0% given uncertainty on full project execution (as mgmt. has removed this from its outlook). For CEV, we value CEV PowerCo for existing assets and DevCo assets to be deployed separately. We separately value DevCo assets to be deployed for '21 through '25 at NPV of unlevered FCF including upfront system install cost and ITC value for new deployment. We also value SREC balance that CEV has yet to monetize. We apply a 4.5% unlevered discount rate to project level CFs in-line with our discount rate for resi solar service providers. We incl. three additional years of DevCo NPV ('26-'29) with terminal value based on post-ITC step-down trough volumes/economics in '29 ('27 prior) and maintain our 4x terminal value. We also attribute a 75% weighting for the full value of DevCo NPV for '24+. We assume 75% based on a likelihood of some action on ITCs. For parent, we apply a 50/50 weighting for holdco debt/interest expense for re-capitalization purposes.

Upside risks: Constructive regulatory outcomes, decrease in interest rates, incremental capex opportunities, and extension of subsidies

Downside risks: Poor regulatory outcomes, increase in interest rates, and lower capex.

NorthWestern Corporation (NWE)

Our $71 price objective is based on a 1.0x discounted multiple to the 2023E peer multiple of 17.9x on our 2023E EPS given higher risk and slower growth. We note that electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector.

Downside risks to our price objective are 1) adverse regulatory outcomes, 2) inability to recover costs via the traditional mechanisms, 3) changes in the Commission constructs, and 4) further equity dilution. Upside risks are 1) improvement in regulatory environment 2) capex increases.

South Jersey Industries (SJI)

Our $27 PO is premised upon our SOTP analysis where we utilize a 16.5x peer Gas LDC utility P/E to SJG and ETG on '23E EPS. We apply a 12x P/E to SJEG/SJES non-regulated earnings stream given variability and limited transparency. For the solar investments we utilize a NPV of investment tax credits at a 4.5% discount rate (in line with peers) to capture the transitory nature and eventual roll-off. We apply a 9x EV/EBITDA to PennEast and assume full project economics in our EPS assumptions, although net out 50% weighting. We utilized a DCF for RNG with NPV of cash flows at 7.4% discount rate. For parent debt we net out 50/50 weighting for re-capitalization and add back 50% of parent interest expense.

Downside risks: Interest rates move higher, poor regulatory outcomes, lower capex levels.
Upside risks: Interest rates move lower, constructive regulatory outcomes, incremental capex opportunities, further credit latitude.

Southern Company (SO)

Our $72 PO is derived from a SOTP. We use a P/E val approach on 2023 and use peer multiples of 17.8x for electric and 16.4x for gas, respectively (with dis/prem applied per asset depending on growth/risk): we then gross this multiple by +5% to account for sectorwide EPS growth to derive a 12-month forward PO. We subtract 50% of the 2023 parent interest expense multiple by an electric P/E peer multiple to reflect parent lev supporting the utilities. We net out total parent drag and add back the remaining parent interest expense with a 50% weighting. Both electric and gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector.

Upside risks are: 1) Regulatory outcomes or RO's could be better vs expectations, as exposed to multiple state jurisdictions 2) Additional riders and capital trackers can help the company achieve better than expected ROE, but failure to get riders would hurt SO 3) The nat. gas related biz are relatively new and could prove more or less able to earn an ROE in line with or different from their allowed ROE, 4) high capital forecasts and subsequent earnings streams vs our assumptions.

Downside risks are: 1) Regulatory outcomes or ROE's could be worse than expectations, particularly since exposed to mult. state jurisdictions, 2) SO has exposure to Vogtle which could shift earnings, 3) Weather patterns could influence usage or natural disasters could affect system reliability 4) Utilities are subject to interest rate risk.

Unitil Corporation (UTL)

We value UTL at a $49 PO based on a 2023e forward P/E basis using a utility group multiple of 17.8x for electric and 16.3x for gas. Also, we apply a 1x premium to our weighted peer multiples to align with MA comps and capture electrification upside. Both electric and gas peer P/E multiples are grossed up for a year to 2023 by 5% each to reflect capital appreciation across the sector.

Risks to our price objective on the upside are capex updates around MA gas pipeline replacement, regulatory asks around ROEs, and M&A. On the downside, risks are interest rate risk which could reduce the appetite for M&A, regulatory challenges and mild weather.

WEC Energy Group Inc (WEC)

Our $95 PO is based on 2023E SoTP, with a large cap electric group multiple of 18.2x and gas regulated multiple of 16.7x. Electric and gas peer P/E multiples are grossed up for a year to reflect capital appreciation across the sector. We apply a 3.0x premium to WEC's WI electric & gas subs for surety in earnings growth for the next two years following the Commission's recent settlement on above avg ROEs of 10%+. We apply a 1x premium to the gas utilities, incl IL's Peoples Gas and North Shore Gas with the Gas System Modernization Program (GSMP) and capex forecasts de-risked following the ICC order. We ascribe a 3x premium vs. the group at ATC to account for steady earnings growth as well as above avg ROE's that are set at a federal level by FERC. We give Power the Future (PTF) a 1.0x premium multiple as the ROE is set indefinitely on historical and new investments. We ascribe an in line multiple for the parent accounting for the interest expense which finances overall utility operations. We value Energy Infrastructure investments on a net present value basis using a WACC of 3.5%, in line with other renewable asset operators. We net out 50% of HoldCo debt from equity valuation and adjust to add back the parent drag on interest exp. Upside risks: stronger than expected execution and accelerating capital oppty. Downside risks: inability to achieve historical track record on cost cutting and to scale regulated investments given growing portion from contracted renewables.

Analyst Certification

We, Julien Dumoulin-Smith and Dariusz Lozny, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Aric Li
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
NEUTRAL				
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	77	48.43%	Buy	56	72.73%
Hold	43	27.04%	Hold	31	72.09%
Sell	39	24.53%	Sell	23	58.97%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1909	58.54%	Buy	1218	63.80%
Hold	653	20.02%	Hold	395	60.49%
Sell	699	21.44%	Sell	356	50.93%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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What stood out from Day 2 of Virtual AGA?

21 May 2021

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We present detailed takeaways from Day 1 of the Virtual American Gas Association (AGA) conference, including presentations by **AQN, ATO, AVA, BKH, CMS, DUK, ES, NWN, OGS, SR, SWX, UGI & XEL**. Notably positive meetings included **BKH, SR** as well as confidence from **ES** on an improving backdrop in CT, if not with the PURA directly. We still see numerous challenges and need to see execution confidence, but we see the overall tone yesterday as an improvement. See our report on Day 1 takeaways including: **AEE, D, DTE, ED, MDU, MGEE, NJR, NWE, SJI, SO, WEC, WTRG** and **UTL.** We expect additional positive 2Q updates to drive FY21 guidance higher after clear success in 1Q.

Load growth strong while inflation at bay - continues

CMS reiterated that it sees '21 as off to a very strong start with meaningful upside vs. its plan with latitude to de-risk '22; in the near term the much-anticipated resource plan is expected in June with expectations for additional renewables and accelerated coal. **XEL** indicated improving and constructive regulatory relationships, with the expectation of filing a rate case in CO along with constructive staff testimony in its pending NM rate review; look also for additional data points on MISO transmission upside later in the year. **DUK** again addressed the challenges of Elliott's proposal to split the company into three publically traded holdcos, including regulatory concerns, credit implications and the need for incremental equity, the dis-synergies, and the impact on the dividend. Mgmt. continues to see positive momentum on comprehensive energy legislation in NC – look to the summer to see something introduced. For **ATO** and **OGS**, focus near-term is on the successful passage of securitization in TX. The TX Senate Committee on Natural Resources & Economic Development heard HB1520 yesterday evening and plans to vote on the bill in the lt. governor's press room at 9:00AM CT today. We expect the bill to pass through committee given positive commentary during the hearing. **AVA** provided an update on the Department of Natural Resources report on the Babb Road Fire, and mgmt. was not surprised by the Staff recommendation in its Washington rate case – this case, and others, will be key for AVA's near-term guidance. **NWN** continues to assess RNG projects in Oregon pursuant to SB98 and is conservative in what it bakes into its capital plan. There is clear upside to mgmt.'s target, but by how much? We continue to await more clarity and more on the strategy for water expansion. **SR** received the staff recommendation in its Missouri rate case that we believe sets them up well for settlement negotiations. We will be watching the strategy for RNG expansion closely, especially given the recent passage of legislation in MO that allows them to rate base RNG investments. **SWX** is gearing up for its tracker filing later this month. We continue to see Arizona as a particularly negative jurisdiction and remain cautious on SWX's ability to recover costs. **We resume coverage of UGI** following the announcement of the equity units and are bullish on the renewables opportunities in front, although we remain Neutral as we await more concrete details on how the investment affects the LT growth target and more detail on each segments' contribution to the growth target. One question came up repeatedly in our meetings: is there any ability to monetize scrap metal from pipe replacement at elevated price levels? And the short answer is no, the pipes remain in the ground when being replaced.

Stock Symbols:

AQN: Algonquin Power
ATO: Atmos Energy
AVA: Avista Corp.
BKH: Black Hills Corp.
CMS: CMS Energy
DUK: Duke Energy
ES: Eversource Energy
NWN: Northwest Natural
OGS: ONE Gas
SR: Spire
SWX: Southwest Gas
UGI: UGI Corp.
XEL: Xcel Energy
AEE: Ameren Corp.
D: Dominion Energy
DTE: DTE Energy
ED: Consolidated Edison
MDU: MDU Resources
MGEE: MGE Energy
NJR: New Jersey Resources
NWE: NorthWestern Corp.
SJI: South Jersey Industries
SO: Southern Companies
WEC: WEC Energy
WTRG: Essential Utilities
UTL: Until Corp.

See abbreviations of industry terms on page 2.

Timestamp: 21 May 2021 02:49PM EDT

Contents

Abbreviations:
PURA: Public Utility Regulatory Authority
FERC: Federal Energy Regulatory Commission
LDC: local distribution company
IRP: independent resource plan
MISO: Midcontinent Independent System Operator
RNG: renewable natural gas
PPA: power purchase agreement

Algonquin Power & Utilities (AQN)

Inflationary pressures not apparent in the renewables business just yet

Latest discussions with management suggest that inflationary pressures are not yet apparent in the renewables business – echoing the commentary from other developers throughout the conference. Commentary suggested more concerns about delays from interconnection as opposed to higher freight costs or logistic complications. Overall, we perceived few concerns – with expectations to pass on any higher input costs at the regulated business and higher offtake prices for PPAs while they see the Biden administration as further enabling opportunities for their business overall. While management doesn't expect returns to be diluted, we watch competitive dynamics critically and see the direct pay component from any legislation as potentially adding further pressure to competition.

Commentary from management further stressed confidence in the LT plan to grow EPS at 8-10%, with the bulk of the capital front-end loaded and projects thus far coming in on time. Any further complications in supply chain appear more likely to impact the development pipeline if sustained. While potential projects could get pushed back, we highlight the enhanced latitude given the tax credit extension providing some support. Execution remains our principle concern for AQN in particular.

With management previously noting that they recently advanced four Permian projects from the evaluation phase through the development phase related to their Chevron partnership, watch for additional developments later this year with the projects not formally contemplated in their $9.4bn plan.

Despite the latest affirmation by AQN, we remain concerned about the ability to achieve '21 EPS guidance of 71-76c after the challenging start to the year (albeit management maintains the ability to self-monetize tax credits) and given the protracted NYAW (New York American Water) process (recall the Winter Storm Uri impact is already excluded from adjusted results). Management nonetheless remains confident that the deal will close: this remains a key swing factor to EPS, in our opinion.

Following the CNP (CenterPoint Energy) transaction at 2.5x rate base, it remains less clear if AQN will continue to pursue acquisitions at the same pace if elevated valuations continue. Despite the recent Chilean acquisition, we would believe the bulk of focus will be more North American oriented but limited commentary was provided about how to think about the partnership with AY (Atlantica Sustainable Infrastructure).

Contemplating Uri Recovery

After the company previously announced ~$200mn of elevated costs at their utilities with the bulk of it in Missouri, management shied away from commenting on any recovery period as they start initial discussions with regulators – but we stress the magnitude relative to the number of customers and highlight securitization potential in Missouri. Watch both implications from credit agencies through the rest of the year and overall cap structure given potential scrutiny at the holdco level.

Meanwhile, the company is in discussions about mitigating the ~$50mn impact at the regulated business after asserting *force majeure* – albeit we would expect a years-long process if they ultimately enter into dispute and generally see mitigation efforts as an uphill battle.

We maintain our Underperform rating: consistency & quality of EPS execution remains a key focus of improvement to drive the track record.

Atmos Energy (ATO) & ONE Gas (OGS)

We consolidate our comments on ATO and OGS given the overlap in regulatory jurisdictions and similar current events/considerations following Winter Storm Uri. We met with (1) ATO senior mgmt. including President & CEO Kevin Akers, SVP & CFO Chris Forsythe, VP of IR and Treasury Dan Meziere, and VP of Pipeline Safety John McDill; and (2) OGS President & CEO Pierce Norton, SVP & CFO Caron Lawhorn, SVP & CCO Curtis Dinan, SVP & COO Sid McAnnally, and Director of IR Brandon Lohse to discuss the latest on TX securitization, which was heard in Senate committee last night and will be voted on this AM (we believe the legislation will go through given testimony from parties at the committee hearing), ratings agencies treatment of the debt, potential incremental capex opportunities from reliability and resiliency, and sustainability and RNG. All around, positive momentum on legislation and de-risking of impacts from Winter Storm Uri, but we continue to see Neutral as an appropriate rating for ATO given our view that risk/reward is balanced at the current 0.6x premium to gas LDC peers. We maintain our Underperform rating for OGS given the relative gas costs and slight premium to the group.

TX bill to be voting out of Committee this AM

The TX Senate Committee on Natural Resources & Economic Development heard HB1520 (LDC securitization of extraordinary gas costs from Winter Storm Uri) yesterday evening and plans to vote on the bill in the lt. governor's press room at 9:00AM CT today. The Senate committee made a couple of tweaks to the bill that was passed in the House, including allowing more time for the Texas Public Finance Authority (TPFA) to issue the financing, more clearly defines each agency's role in implementation, limits the scope to just the extraordinary costs from Winter Storm Uri, and orders a study by the Railroad Commission (RRC) to analyze the advantages and disadvantages of spot market gas purchases during a catastrophic weather event that may contribute to volatile customer rates. We expect the legislation to be voted out of committee and onto the Senate floor given there was no objection from any party during the hearing. Much of the hearing was more of an educational process to discuss why securitization is beneficial for customers. As a reminder, the RRC will have 90 days to review the prudency of the costs before the TPFA will start the process of issuing the bonds. In OK and KS, the Oklahoma Corporation Commission and the Kansas Corporation Commission will each have 180 days to review the costs before the process to issue the bonds will begin.

What about the recovery period? We think that given the securitization, the recovery period will be on the longer-end in TX and OK (for OGS) (20+ years), but not the full 30 years that is allowed by the legislation as customer bill impact does not change as much as the time period is extended on the long-end. In KS for both ATO and OGS, we believe the recovery timeframe could be a little bit shorter given the utilities are the ones issuing the bonds.

The ratings agencies' treatment of the securitized bonds will be particularly relevant to track considering implications on potential dilution. S&P already does not include securitized debt in its credit metric calculations, but Moody's will look through special purpose entities and pull the securitized debt into its metrics. However, with the TPFA issuing the bonds, and ATO just collecting for the bond, there is no special purpose entity to look through. It remains to be seen if Moody's will still include the debt in its calculations, but discussions will kick off after the legislation is passed.

The equity portion of the capital structure is expected to be improved after securitization, which is important given ATO earns on actual capital structure in many of its jurisdictions. For ATO, the securitized bonds will replace the $2.2B Winter Storm Uri financing, and the equity cap would move back to ~60%. OGS is on track with their Oklahoma rate case to be filed by June 30, which will be a 2020 test year and therefore not directly impacted by the storms.

Capital plans solidified w/ potential upside in time from reliability

Given our view that securitization will allow for an extended recovery period, we believe both ATO and OGS' capital plans are not at risk. Both companies highlighted their post-mortem review of their own operations to minimize supply issues and extreme pricing in the event of future severe weather. With considerations such as whether they need additional storage, have all interconnects in place, making sure they have high enough supply of gas, LNG/CNG (liquefied natural gas/compressed natural gas), possibility of bidirectional flow and others, ATO and OGS have been looking to harden their supply and therefore fare better as a result during those conditions. OGS highlighted that they have a review in process in place that could evaluate their system and response to any extraordinary event in the industry, in order to compare practices and processes and identify learning opportunities or optimization in both short and long term.

Expansion of RNG likely to remain focused on integrating supply into the system

ATO continues to evaluate the RNG market for additional blending into the system; currently, only ~2% of ATO's volumes are RNG. While we are very bullish on RNG in general, we do not see any unregulated investment at this time; rather the only incremental investment would be for interconnections with producers and spending to integrate the fuel into the system.

OGS is exploring RNG with its recent partnership announcement with Vanguard Renewables. The alliance is currently assessing both the supply-side (i.e., dairy farms in OGS territory) and the demand-side. While we are very bullish on RNG in general, we did not get the sense that mgmt. was seeking any unregulated investment at this time; rather the only incremental investment would be for interconnections with producers and spending to integrate the fuel into the system - OGS is weighted heavily toward residential, so there is less opportunity to provide large volumes of RNG to C&I (commercial & industrial) customers. This stance on unregulated RNG investment may change as the market develops, but we do not expect an announcement on any projects in the near term.

Avista Corp (AVA)

Our meeting with AVA mgmt., including President & CEO Dennis Vermillion, VP, Controller & Principal Accounting Officer Ryan Krasselt, and IR Manager John Wilcox, to discuss the recent DNR (Department of Natural Resources) report on the Babb Road Fire, the ongoing rate case at WA and the staff recommendation that we see as relatively less constructive, the supportive MYRP (multi-year rate plan) legislation that was recently passed in WA, the lawsuit challenging MT statute on Colstrip, and the WA gas and electric IRP. We reiterate our Underperform rating given valuation, regulatory execution risk, and relatively more restrictive jurisdictions – shares trade at a 0.4x premium to SMID cap peers on FY23 despite having relatively higher regulatory risk and relatively lower growth (4-6% absent the improvement of earned ROEs).

Babb Road Fire updates

Mgmt. provided an update on the Washington Department of Natural Resources' (DNR) report on the Babb Road Fire that covered ~15,266 acres and destroyed 223 structures. As a reminder, there was no injuries or deaths caused by the fire. The report found that (1) the fire was ignited by a tree branch falling onto an AVA distribution line; (2) the tree was 30 feet from the center of AVA's distribution line and was 20 feet beyond AVA's right-of-way; and (3) the tree showed damage from porcupines, scarring from a lateral branch/leader breaking off in the past, and some past signs of Gall Rust disease. The DNR concluded, "It is my opinion that because of the unusual configuration of the tree, and its proximity to the powerline, a closer inspection was warranted. A nearer inspection of the tree should have revealed the cut LBL ends and its previous failure, and necessitated determination of the failure potential of the adjacent LBL, implicated in starting the Babb Road Fire." AVA's investigation is still ongoing, and there has been no assertion of negligence on AVA's end at this point. Also, no material claims have been made as a result of the fire. We are headed into what could be another very active fire season, and while the PacNW is positioned slightly better than Cali, we remain cautious on the ongoing fire risk for AVA.

UTC Staff low on ask but expected by mgmt.; MYRP is potentially supportive

AVA has two large rate cases in front of them in WA and ID, where progress is in the early stages, but we see the ultimate outcome as crucial to near-term guidance. The Washington Utilities and Transportation Commission staff recently recommended a rate increase of $7.23M based on an ROE of 9.3% and equity layer of 48.5% (vs ask of $44.183M rate increase based on a 9.9% ROE and 50% equity layer) – the staff also recommended a number of pro forma rate base disallowances. We believe that, while the ROE looks fair, the equity layer and rate base disallowances are negative – mgmt. stated that the staff's recommendation was expected.

AVA will file in OR in 2H21 and must file at AEL&P by Aug. 30, 2022.

We perceive execution risk to regulatory outlook that is crucial to AVA's medium-term guidance, although see the passage of the multi-year rate plan (MYRP) legislation (SB 5295) to potentially help enable ability to earn closer to authorized ROE levels. As a reminder, SB 5295 will move utilities to two to four year MYRP, takes the first steps toward PBR, and could help reduce regulatory lag. Still with WA a historically restrictive jurisdiction, we await further detail as the Commission works through the rulemaking process.

We stress while the multi-year rate plan path is constructive; the key risk is establishing an appropriate baseline. We could see more frequent cases despite newfound latitude of MYRP if upfront ask is not granted at appropriate level. We stress commission support for MYRP structure altogether is admittedly a positive backdrop to the case despite the more punitive staff recommendation.

IRP outlines de-carbonization path

In early Apr., AVA filed its 2021 electric IRP in both WA and ID with a goal to serve customers with carbon neutral electricity by 2027 and 100% renewables by 2040 - 55% of AVA's current generation mix is hydropower, biomass, wind, and solar. Pursuant to the IRP and 2020 RFP for up to 300 MW of clean, existing or new, generation resources, AVA signed a PPA with Chelan County Public Utility District (PUD) to take 5% of the hydropower output from two of PUD's Columbia River projects for the years 2024-2033. AVA continues to evaluate projects that were submitted to the 2020 renewables RFP.

Mgmt. spoke on RNG as a pathway for decarbonizing their gas footprint, but stated they are only looking at it as a utility resource to integrate into the distribution and not as an opportunity for unregulated investment in production. We will monitor if this commentary changes as the market develops, especially in the PacNW where RNG has strong political support.

Lawsuit on MT Statute around Colstrip?

Mgmt. discussed the ongoing legal action over the recently signed legislation (SB 265 and 266) that could harm AVA's ability to exit Colstrip by 2025. The bills would (1) impose a $100k/day fine for not investing the required capital or share in the operating costs of an electrical generating facility; and (2) change any arbitration hearing on a MT generation facility to the state of MT – essentially granting home field advantage. Mgmt. believes both bills are unconstitutional and we will continue to track progress on this front.

Black Hills Corp (BKH)

Contemplating Colorado & the Outlook from Here

After their earlier rehearing-reargument-or reconsideration request in Colorado was denied, latest discussions with BKH management suggested optimism about the ability to reach constructive outcomes in the state. We believe discussions in the state have been constructive thus far, with the company filing a similar case as previously filed, albeit with the integrity rider isolated and currently under review: watch for a decision about the rider toward the end of June for an initial sense of the overall regulatory and political backdrop given the new commission members and more alignment with the governor as of late. Recall the company is abandoning consolidation efforts, which should further simplify the rate case. While the case covers capital through 2020, authorization of the rider would cover eligible capital retroactive to the beginning of this year and remains critical to reducing lag. Meanwhile, the company is also getting ready to file a rate case in Iowa.

We continue to highlight the elevated rate base opportunities and best in class SMID-cap EPS CAGR of 5-7% over time with management confident in achieving a run rate of \$600mn plus in annual capex (for a total of ~\$3bn vs. the formal base plan of ~\$2.7bn). The bulk of the incremental spend above the base is related to programmatic spend at the gas utilities – and with upcoming ERPs for SD and WY in July, we perceive potential for some years of the current plan to further surpass \$600Mn and provide longer trajectory of opportunities too. Meanwhile, a transmission pathway remains another novel angle after the earlier filing by XEL and with management keen to connect their three utilities. Expect more on this in subsequent quarters.

Overcoming the Storm Impact & Regulatory Processes from Here

With their 1Q update, management reaffirmed their full year guidance for both 2021 and 2022 of \$3.80 to \$4.00 & \$3.95-\$4.15, respectively, despite a challenging quarter and ~15c adverse impact from Winter Storm Uri. The company expects a 5c pickup through regulatory initiatives, with filings in all of their states except KS so far given prioritization of the rate case request in the state. Critical questions remain around the carrying cost for recovery (WACC or debt) and ultimate recovery period. While the recovery period for SD is over 12 months, we perceive some much longer timelines up to five years for KS and AR.

That said, management remains quite confident that it doesn't change their financing plans around equity needs, with rating agencies understanding the unique nature of the event and noting a 13% FFO/Debt threshold. Look for the company to replace their ST debt with more permanent notes after better clarity on the full recovery periods across their jurisdictions.

We see confidence in the overall strategy and the company's LT 5-7% EPS growth beyond '22 coupled with a 5%+ annual dividend growth over time: Maintain Buy given best in class SMID CAGR and elevated rate base opportunities.

CMS Energy (CMS)

Our meeting with CMS mgmt covered load trends in the Upper Midwest, latitude in the current plan following a strong Q1, energy efficiency and demand response measures, as well as the outlook for tax reform. See clear latitude to EPS in '21 with contingency build into '22 quite possible. Maintain our Buy rating on CMS.

Strong demand across territory, latitude into '22

While the state of MI experienced a COVID resurgence during Q1 that drove commercial sales to -4% y/y, mgmt still sees demand as on track to reach pre-pandemic levels. Interconnections (new customer hookups) for both gas and electric were reported at +27% y/y in Q1, suggesting slid momentum for sustained customer growth. Customer growth is one of multiple prongs that creates latitude in the current plan – note mgmt.'s Q1 report updated expectations from customer rate uplift to +48c y/y (including 26c in Q1) relative to initial guidance of +41c, while the comparable metrics on the O&M side were -20c vs initial guidance of -30c. While the early results suggest upside to the current 2021 guidance range of $2.83-2.87, note that Q3 remains a key swing quarter and mgmt may choose to pull forward costs from future periods in order to build contingency – overall a positive setup into the second half of the year.

Wyden tax proposal attractive on tax credits

Mgmt indicated support for the tax proposal put forward by Sen Wyden. Neutrality between Investment Tax Credits (ITCs) and Production Tax Credits (PTCs) is a key differentiator of the proposal, along with 100% refundability of direct pay taxes. Note also that the Edison Electric Institute (EEI) is a supporter of the bill though the group has stopped short of formally endorsing it, factors seen as key in securing a formal endorsement from the group are support for transmission tax credits and a form of PTCs for existing nuclear generation; note the inclusion of these would likely be a net neutral for CMS given its business mix.

Inflation manageable, labor costs largely contracted

Echoing similar comments from much of our regulated coverage of late, inflationary pressures and expectations are not expected to be a significant source of drag for CMS. Labor costs remain a key input, though CMS mgmt sees this as broadly de-risked given the company has signed contracts with its unionized labor force that run over a 5 year period, with the most recent renewal in 2020. Fuel costs will offset inflationary pressures in coming years with the pending retirements of Palisades as well as Karn 1 and 2. On the materials front mgmt. confirmed seeing some impacts (steel and copper) though given its staged renewable generation additions, the overall effect on the long term plan is expected to be modest.

Business mix intact, Enerbank not a source of cash

Despite very strong Q1 results and robust bank valuations, mgmt reiterated its commitment to a 90-10 business mix. Importantly mgmt affirmed that it does not use Enerbank as a source of cash to fund the capex-intensive utility part of the business. We continue to expect full-year results at the upper end of the guidance range following a strong start to the year.

Duke Energy (DUK)

We met with DUK mgmt. including EVP & CFO Steve Young, EVP, EVP & Chief Strategy & Commercial Officer Brian Savoy, and CP of IR Jack Sullivan, and discussed the challenges and considerations of Elliott's plan to break the company into three publically-traded, utility holdcos, NC legislation and its prospects heading into the summer, decarbonization with the NC IRP that has been filed and the forthcoming IN IRP, and the gas LDC portfolio's position within the company. We maintain our Neutral rating given shares seem to us to be fairly balanced from a risk/reward perspective (slight premium to the group).

Elliott's proposal is challenging to see follow through

Mgmt. reiterated its comments outlined in its letter in response to Elliott Investment Management's proposal to separate DUK into three regionally-focused, publically traded utility holding companies (the Carolinas, Florida, and the Midwest). Mgmt. clearly finds the proposal unworkable given (1) intervention from regulators/legislators, especially in NC, that are supportive of DUK in its current state and cautious of hedge fund involvement – as a reminder, Gov. Cooper and NC Legislative leaders responded to the situation stating, "There are natural concerns that come with putting our state's energy future in the hands of a Wall Street hedge fund, and we would expect the North Carolina Utilities Commission to strictly scrutinize any such arrangement"; (2) the credit implications of smaller scale and scope companies – mgmt. highlighted it has the lowest downgrade threshold of any BBB-rated utility and splitting the company would result in a likely 100bps raise in the threshold for FL (constructive regulatory environment offset by hurricane risks and a robust capital plan) and a 100-200bps raise in the Midwest (smaller scale and ESG risk); (3) the incremental equity needed to support the B/S; (4) the dis-synergies that come with standing up two new companies – mgmt. highlighted the $600M in synergies from the Progress transaction and $300M in synergies from the Piedmont transaction implying that those would essentially be reversed out; and (5) the impact to the dividend – mgmt. believes payout ratio will increase to 80% and would likely need to be right-sized. All said, the proposal has been rejected, but mgmt. remains willing to talk with Elliott on other strategies to drive value for shareholders. On balance, see little changed from our earlier views in our May 18 report.

We find Elliott's plan to split up the company to be challenging, but continue to believe that Elliott's involvement could potentially drive additional efficiencies and, in turn, additional investments in the grid and renewables. Specifically, we think that the involvement puts a spotlight on opportunities beyond just the Carolinas and pending legislation. The questions are just how much investment can be added under the recently approved rate agreement in FL, is mgmt. already crafting a plan in IN to drive higher growth through coal retirements and renewables, and how much upside exists in Cinergy (largely OH). On balance, NC legislation still matters most for the shares, in our view.

NC energy legislation is *still* likely to be introduced

We are still awaiting comprehensive energy policy to be introduced in NC, however, we are not concerned by the timing given recent constructive data points on the progress of the discussions. Bill implications of any legislation is top of mind for lawmakers and industrial customers which may be holding the process up, but it is positive that parties remain in discussion on key issues. Ultimately, the timing of a bill is in the hands of legislative leadership and can be wrapped into a shell bill any time after the crossover date (like HB589 in 2017).

One potential nuance to watch will be around carbon policy and the timeframe included in legislation given DUK's gas build in the latter half of the decade. We also wonder whether we could see a carve out for coal retirement and replacement generation outside of the IRP process itself where there would be a legislative mandate; we believe in exchange DUK could get more utility ownership. Rate basing of renewables will also be a key consideration - the NC Energy Regulatory Process used VA and CO as examples for competitive procurement, and utilities in those states are permitted to own 65% and 50% of new renewables, respectively. Mgmt. noted that multi-year rate plans (MYRP) makes a lot of sense for both DUK and stakeholders because it helps DUK avoid regulatory lag as it deploys capital to meet the state's clean energy goals and allows for clarity on the capital being spent and where rates are going over time – there is also discussion of Performance Incentive Mechanisms (PIMs) that would reward DUK, or hold them accountable, for safety, reliability, and other key metrics.

All of these tools would be positive for DUK, but there are a number of steps it will take to get there as past efforts stalled/failed. With that said, we see both increased confidence from the company and corresponding stakeholder commentary as supportive for DUK's legislative prospects in the 2021 long session.

We continue to perceive Street as overly cautious on legislative prospect amidst the ongoing discussions. While investors are clearly willing to accept prospects for yet another year's delay, we note ongoing discussions with stakeholders remain active into the summer. We stress the bulk of our near-term focus remains squarely on regulatory reform rather than necessarily immediate capital opportunities. This is more about de-risking its EPS runway than necessarily adding to EPS or capex opportunities in the near-term. Beyond the latest Elliott angle to shares we see this as a clear focus of upside vs doubtful Street expectations.

IRPs driving decarbonization across footprint

NC IRP is working through the regulatory process hand-in-hand with discussions on energy legislation. As a reminder, Duke Energy Carolinas (DEC) and Duke Energy Progress (DEP) outlined six paths for the generation fleet with different carbon reduction targets and different customer bill impacts ranging from 1.0%-2.5%. The scenarios include a swath of resources such as solar, new natural gas, onshore and offshore wind, small modular reactors, and battery storage.

We will be watching the IN IRP that will be filed in the fall of this year, and we note one nuance on Duke Energy Indiana coal fleet that differs from peers is the amount of control equipment that has been installed therefore any retirement that would likely come with accelerated depreciation or potentially securitization. Mgmt. is working with legislators and regulators to determine the mechanisms necessary to enable the transition to clean energy.

Eversource Energy (ES)

Upside Opportunities Remain After Latest Re-affirmation

After reaffirming the upper half of their 5-7% trajectory LT despite latest CT setbacks with their 1Q update, discussions with management this week continued to reflect confidence in the plan. We stress some latitude particularly given grid mod, AMI, and EV (electric vehicle) infra efforts that currently are not in the formal investment and rate base outlook and seemingly appear more likely to materialize. Watch for developments around ongoing efforts in coming months; we perceive some upside from transmission interconnect as well. Discussions further stressed confidence in maintaining their credit metrics despite punitive actions taken by PURA, while we don't see a particular limit to offshore as a % of the overall biz (with offshore remaining yet another kicker to the overall CAGR).

After most recently executing on their acquisition of Columbia Gas, management didn't shy away from further pursuits under the right circumstances – and we expect a growing focus on water tuck-ins to further boost the biz as an overall larger part of the portfolio.

Offshore Clarity to Drive LT Boost Too

Amid the latest puts and takes, management affirmed confidence around their current offshore projects driving mid teen ROEs, and they expect to have more clarity later this year around a more definitive schedule and ability to ultimately roll those into their formal plan (we perceive a fair bit of supply was already priced at earlier levels against the backdrop of inflationary fears). Recall BOEM recently filed a schedule for Revolution Wind Friday, with expectations to issue an NOA in July of 2022 and a final environmental impact statement available to the public expected in March 2023.

In addition to the direct contribution, conversations suggested some benefit from the need for interconnect from competitor offshore projects as well. Ultimate contribution should push the company above the 5-7% CAGR outlined for the core biz: *we model a 44c full run rate from current projects*.

What is next in CT? Discussions suggest efforts to settle...

Following the punitive order by PURA at the end of April, discussions with management suggested optimism around their ability to reestablish a better relationship and dialogue with regulators and legislators in the state. Recall the commission's final decision in the storm response docket was particularly critical of ES's CL&P following Tropical Storm Isaias and will require a 90bp slash to ROEs to better align management performance in future storm response efforts with the utility's financial performance. The proceeding to determine civil penalties and enforcement action is ongoing (July resolution), but management already wrote off ~$30Mn with their 1Q results related to the outcome.

Both a Phase II decision on the annual CL&P tracker review and a decision on interim rate decrease topics are due in September – and we perceive the ongoing rate design docket as the likely forum to implement the 90bp decrease to ROEs. A critical question is when and how this will ultimately be removed. With a docket on performance based ratemaking design to be opened by the beginning of June, this could ultimately prove the angle to drive returns higher again. While management remains optimistic, we still see a settlement around their formal rate case filing early next year as unlikely with PURA more likely to take up a vigorous review.

Maintain Neutral given the balanced risk/reward at the current valuation.

Northwest Natural Holding (NWN)

We met with NWN mgmt., including President & CEO David Anderson, SVP & CFO Frank Burkhartsmeyer, SVP Ops and Chief Marketing Officer Kim Heiting, VP Business Development and CEO of NW Natural Water Justin Palfreyman, VP Controller & Treasurer Brody Wilson, and Director of IR Nikki Sparley, and the discussion focused on RNG and hydrogen prospects for the company as well as the path for further expansion into water distribution. We continue to view shares as a surprising premium with a ~3x premium to gas LDC peers despite relatively low EPS growth of 3-5%. We reiterate our Underperform rating and continue to watch for more detail around water/RNG.

Upside to RNG plan available, incrementally over time

Regarding the small placeholder for RNG in the capital plan (Tyson projects), mgmt. commented that investing in renewable natural gas is a new undertaking under SB98 so they are currently only putting in five year forecast for projects where they have both line of sight and that they know how it will work through their internal IRP process. That said, mgmt. recognize the investment potential under SB98 – with the requirement cap of 5% of the annual revenue – stating that there could be a 200-250m of RNG investment into the five year timeframe. Currently the mgmt. still need to put more progress on the business development side and hence haven't put any additional capital into their projection. Mgmt. didn't comment on the timeline for increment, but said that 10-14months is a good estimate for development and construction timeline for most of the projects. For the procurement cost, similar to how the company's Purchased Gas Adjustment (PGA) works, it will fall under the cap on cost of service basis instead of rate base investment. NWN expects the majority of the projects to be direct investment as it's still a maturing market and mgmt. believes that the more cost effective opportunities are the ones that they can invest directly in.

NWN is taking a regulated strategy on RNG currently, using SB98 to turn the RNG investments similar to their other utility investments. Mgmt. stressed that as they are claiming the environmental attributes to their customers, they aren't able to double dip and monetize RINs and LCFs credits. NWN also reiterated 6% rate base growth for RNG.

Hydrogen: mid-/long-term target

In terms of hydrogen, despite the longer timeframe, NWN has been trying to push at the White House level for additional support. That said, mgmt. mentioned that Secretary of the Department of Energy commented at the AGA board meeting on Tuesday that the Biden administration is still very behind on hydrogen currently. The three application of hydrogen NWN sees in their system – (1) dedicated hydrogen system: building out the pipes, components, and equipment to be hydrogen ready; (2) renewable hydrogen: take hydrogen produced from the power to gas process, apply waste CO_2 to methanate, and then put it directly into the gas system; and (3) blue hydrogen: hydrogen produced using natural gas but paired with carbon capture and storage.

Water business getting up to speed

On water business, NWN is relatively new and getting up to speed - mgmt. highlighted that one of water utilities grew 4% last year in terms of customer growth. Mgmt.'s ideal target for water expansion is a utility that has the right regulation in place to allow for recovery of incremental spending, or at least a target that has a pathway to receiving the necessary mechanisms to allow for solid recovery of investments. As a reminder, NWN has not acquired any "fixer-upper" water systems to date - we expect that over time, mgmt. will take on more inefficient systems to prove capable in extracting more synergies (albeit our experience suggests reinvestment requirements can offset these benefits).

Spire (SR)

Our meeting with SR mgmt. including COO Steve Lindsey, CFO Steve Rasche, Managing Director of IR Scott Dudley, and Treasurer Adam Woodward revolved around the ongoing rate case in MO that recently received a constructive recommendation from Staff, impacts of Winter Storm Uri and efforts to recoup revenue from suppliers, positive legislation that bans natural gas bans across SR's service territory, and RNG opportunity especially in light of legislation that is at the Gov.'s desk in MO. Reiterate Buy on healthy, low-risk capital spending driving solid rate base and EPS growth paired with a discounted valuation (1.0x+ on FY23E P/E vs gas peers). We see positive Street EPS revisions & rate case de-risking in MO as key to further re-rating shares higher. Further, we see Feb events as actually successful (& with mgmt. vigorously pursuing litigation on behalf of its customers), we perceive an advantaged position in rate case vs peer LDCs. Overall, very constructive backdrop for meeting considering key rate case appears very well setup.

MO rate case set up well for settlement in our view

Mgmt. provided detail on the ongoing MO rate case. Intervenors in the case including MO Public Service Commission Staff (MoPSC), the Office of the Public Counsel (OPC), Vicinity Energy Kansas City, and Legal Services of Eastern Missouri filed revenue requirement testimony. Staff recommended a ROE of 9.37% and equity layer of 54.25% (vs ask ROE of 9.95% and equity layer of 54.25%). The OPC recommended a 9.25% ROE and 47.36% equity layer (based on Spire holdco cap structure). Mgmt. was not surprised that the OPC recommended the lower capital structure given what the group has recommended in peer rate cases. The last rate case used SR MO's standalone capital structure as the approved capital structure and we would not expect the Commission to move back to applying holdco capital structure in this case. Next item to watch is the Cost of Service (i.e., rate design) intervenor testimony due May 26. **We think the recommended ROEs set a solid floor to start settlement negotiations.** We see timing for a settlement, or partial settlement, leading up to hearings in late Jul./Aug.

Mgmt. discussed litigation efforts to recoup gas costs on behalf of customers. There is two factors to think about (1) the cost component; and (2) the penalties under the tariff. SR is working with counterparties and should have a better estimate on the net impact to customers by the end of the summer.

Upside to FY21 EPS on conservative recoup assumption for marketing revenues

We see the potential for upside to EPS numbers on mgmt.'s conservative estimates on the recoup of revenues from Gas Marketing customers. As a reminder, the strong performance from Gas Marketing drove mgmt. to raise its FY21 adj. EPS guidance to \$4.30-\$4.50 (from \$4.00-\$4.20). Longer-term, mgmt. expected to Gas Marketing to be in the ~\$20M/year in adjusted earnings range.

RNG represents a palpable investment opportunity for SR following MO leg.

Legislation was recently passed in MO that allows SR to invest in, purchase, and deliver RNG to its customers which is very supportive of SR's goal to reach carbon neutrality by 2050 (an in-depth progress report and broader ESG (environmental, social and corporate governance) update was recently issued with SR's 2020 Corporate Social Responsibility (CSR) report. The legislation is on the governor's desk awaiting signature. SR is clearly interested in investing in RNG whether that be under the legislation in MO or non-regulated investment to the extent there are projects that meet their return threshold. SR is also discussing supply of RNG with large industrial customers.

Southwest Gas Holdings (SWX)

We met with SWX mgmt including SVP & CFO Greg Peterson, SVP & General Counsel Justin Brown, EVP & Chief Legal and Admin Officer Karen Haller, VP/Finance/Treasurer Ken Kenny, and other members of the team to discuss, principally, the upcoming reconciliation filing for tracker programs in AZ. Mgmt. also discussed outlook for Centuri and the protection from inflationary pressures. SWX also continues to be active in RNG and H2 efforts across its service territory and has multiple projects in progress and development. We remain Underperform rating on SWX given the challenging regulatory backdrop in AZ. With likely accelerated filings in the AZ and seemingly an overall restrictive commission, we still see downside risk to consensus estimates.

Tracker filing top-of-mind for investors

SWX mgmt. is expected to file a reconciliation filing for tracker programs and rate base disallowances of $127M with a total revenue requirement ask of $74M. This filing expected in May, and if we assume the same timeline as previous filings (4-5 months), we would expect resolution by roughly Oct. However, mgmt. noted that this case is looking at spending over two years (for 2019 *and* 2020) so it may take a little bit longer. Mgmt. discussed differences between their filing and APS' petition simply to reflect the latest increase under its existing LFCRM mechanism, which was rejected by the Arizona Corporation Commission (ACC). SWX's filing will not have the opportunity for settlement given its structure. Staff will file their recommendation and the Commission will consider both sides before coming to a conclusion. Mgmt. remains confident in their ability to recover these costs. SWX will be filing another general rate case at the end of 2021 or early 2022.

We note this filing is in conjunction with the higher gas purchase costs that would result in an increase in customer bills of 5-8% depending on timeframe of recovery (3-5yrs?). While unclear of the outcome in these proceedings we remain cautious given the commissions prior denial of the rider in the most recent rate case (although part of a negotiated settlement in the prior case) and the customer rate impact coming out of a pandemic.

We maintain our caution on the backdrop following latest decisions from the ACC. While rejecting recovery of basic cost recovery rider for energy efficiency for SWX's electric peer APS, we perceive another difficult year in persuading the commission on merits of peer trackers, particularly considering the overall bill commitments commented on by the ACC in recent months. Mitigating these comments we stress more of the ire of the commission appears focused on APS rather than SWX thus far.

Centuri set up pos. given severe weather forecasts; limited inflation impact

Centuri has performed well YTD and we see the potential for even more outperformance given the forecasts on severe weather as we head into the start of hurricane season. Mgmt. noted goal posts of a more normal year of earnings in 2019 ($13M) vs the very active hurricane season in 2020 ($86M). While it is impossible to predict the impact of storms, we see bias toward another strong year.

Centuri is not seeing an impact from supply or wage inflation because the material costs are borne by the utility and much of the labor is unionized so the rate will not be impacted until that contract comes up for renewal. Mgmt. highlighted the positive trend of market share gains on the electric side of the business – we see this likely continuing as Centuri grows. Watch trends in coming quarters as offset to potential utility pressures.

UGI Corp (UGI)

We resume coverage of UGI following its latest equity unit offering and highlight our meeting with UGI mgmt. including incoming President & CEO Roger Perreault, CFO Ted Jastrzebski, EVP Natural Gas & CEO, UGI Utilities Bob Beard, CFO, UGI Utilities Dan Platt. Our discussion included developments on its $1B investment plan for renewables and an update on ongoing transformation and cost reduction at global LPG. We see a range of potential avenues for expansion in renewables given the numerous end markets UGI operates in domestically and abroad, but we stay Neutral for now as we await further details on exactly how the expansion into renewables plays into the LT EPS growth rate and more visibility on growth rate contribution from each segment. This remains key in our view as details on geographies, ramp strategies ongoing.

Renewables investment was front and center

UGI continues to make progress on the renewables front and recently announced an agreement to develop dairy farm digester projects to produce RNG in upstate NY - GHI will be the exclusive off-taker and marketer for Cayuga RNG (a JV between UGI Energy Services and Global Common Energy). The project will incorporate an existing anaerobic digester that generates biogas used for electricity generation - the proposed project will upgrade the biogas to produce ~50M cubic feet of RNG annually and is expected to be completed in 2H22. We expect to see UGI continue its early momentum in renewables and expand its platform with a 2021-2025 targeted renewables pathway that includes ~$1B of anticipated investment over the next five years.

The $1B in investment consists of a number of smaller size investments and operations/assets which involves converting waste in to biomolecules and distributing these to the customers. They also see many opportunities nationally in developing RNG into their infrastructure. mgmt. continues to target (only) high-single-digit to low-double-digit unlevered returns and is currently working through 12 projects in the pipeline and we expect an update on progress during the F2Q call; we stress given project economics for many peers, we suspect this has material upside but see mgmt positioning this as more against a longer-term view of RINS & LCFS credits today. As such, we bias towards higher ROEs altogether, especially for projects already in development (Idaho) that conceivably could come online in time to monetize these credits.

Renewable energy market outside the US; SHV JV announcement

Mgmt. commented on the announcement of its JV with SHV Energy to advance the production and distribution of Renewable Dimethyl Ether (rDME). This low carbon solution can be dropped into existing infrastructure so it is more affordable than some other technologies in the market. Mgmt. continues to be focused on the Scandanavian area in Europe and discussed the different demand/incentives of renewable energy, which although is different across in Europe, is made up of a combination of increasing consumer demand and maximum pricing/return on renewable energy. These are typically 1-5 years contracts.

Growth opportunities in RNG at the utility

For RNG on the utility side, UGI has already entered into an agreement with Archaea in Pennsylvania taking delivery of a large volume of gas every day as part of their supply. They are also looking at opportunities from a regulatory perspective to introduce more RNG, including other companies in other states which are pending approval from the Commission. UGI sees two opportunities for growth: one in moving RNG for producers on the system and second offering a tariff provision for customers to access RNG. This would be a voluntary tariff which UGI believes would not be very contentious.

Transformation on track at Global LPG

The transformation initiatives at both Amerigas (US) and UGI International (Europe) are key to watch in the short term and mgmt. highlighted that the efforts are on track to deliver planned cost savings and operational efficiencies by the end of '22. As a reminder, UGI is differentiating its propane business by optimizing and digitizing its logistics and supply chain. Mgmt. planned to establish continuous improvement to customer experience through technology improvements, centralizing customer service capabilities, and reducing corporate overhead through synergies with recent acquisitions to achieve these savings and drive growth. We expect these transformation initiatives will also help to fuel further tuck-in acquisitions as part of mgmt.'s growth strategy as it looks to seamlessly integrate new businesses.

Xcel Energy (XEL)

Our meeting with XEL mgmt covered the latest key regulatory data points including the company's pending rate case in New Mexico, intention to file in Colorado, and pending recoveries of excess fuel costs stemming from storm Uri, along with the status of the Colorado transmission build out proposed earlier in the year. Maintain our Neutral rating on XEL.

CO case filing coming in June as reg backdrop improves

Given XEL had previously indicated the possibility of staying out of a rate case in Colorado in 2021, we view the company's decision to file a case (expected around midyear) as an indicator of improved sentiment around the regulatory backdrop. Key drivers behind the rate case filing include ongoing advanced grid investments along with inclusion of the company's wildfire mitigation plan. Recall that the wildfire mitigation plan had received positive responses from the CO authorities, despite the rider that was proposed by XEL being rejected. XEL's CO transmission build proposal remains in early stages though early indications appear a positive reception by state regulators. Note that the $0.5-1.0B of additional opportunity identified represents necessary but as-yet not identified investments rather than add-on proposals, further increasing the likelihood of inclusion of some of the amount into the formal plan. Management notably does not perceive this case to be particularly concerning despite the new CO PUC backdrop given largely approved spending being reflected through the case.

New Mexico testimony constructive on revenue, ROE

The Southwestern Power Service (SPS) rate case testimony was submitted earlier in the week with staff and key interveners including the large industrials group and state attorney general's office broadly proposing ROEs in the low 9s along with cap structures at or slightly below XEL's ask of 54.72% (unch). The staff proposal for the overall revenue increase at $62m was incrementally lower than SPS' ask of $88m, attributable largely to the lower proposed ROE. Staff also broadly accepted proposed changes to SPS' depreciation schedule including aligning the depreciable life of Tolk with its 2032 proposed abandonment date, abandoning and depreciating Plant X fully by 2022, and fully depreciating Harrington's coal-specific assets. On balance a constructive set up in NM in our view.

MISO transmission upside in Dakotas, Minnesota

XEL holds rights of first refusal (ROFR) on transmission projects running through its service territory in the Dakotas and Minnesota, putting it in good position to capture upside opportunities from MISO's multi-year planning process under either of the Future 1-3 scenarios recently put forward. Large transmission in the MISO footprint is not new to the company as XEL currently owns and operates a high voltage direct current (HVDC) line running from Canada into its MN service territory. Note that with the FERC considering removal of the 50 bps RTO adder, this will likely have a modest impact on XEL given a normalization mechanism in MN whereby its transmission assets refund the delta between the FERC ROE and state ROE to customers.

Exhibit 1: Stocks mentioned
Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AQN	AQN US	Algonquin Power	US$ 15.48	B-3-8
YAQN	AQN CN	Algonquin Power	C$ 18.67	A-3-8
ATO	ATO US	Atmos Energy	US$ 98.32	A-2-7
AVA	AVA US	Avista Corp	US$ 45.62	B-3-7
BKH	BKH US	Black Hills	US$ 66.21	B-1-7
CMS	CMS US	CMS Energy	US$ 63.74	B-1-7
DUK	DUK US	Duke Energy	US$ 102.27	B-2-7
ES	ES US	Eversource Energy	US$ 83.76	B-2-7
NWN	NWN US	Northwest Natural	US$ 53.64	B-3-7
OGS	OGS US	ONE Gas, Inc.	US$ 73.61	A-3-7
SWX	SWX US	Southwest Gas	US$ 66.97	B-3-7
SR	SR US	Spire	US$ 72.92	A-1-7
UGI	UGI US	UGI Corp.	US$ 44.18	B-2-7
XEL	XEL US	Xcel Energy	US$ 71.58	B-2-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Algonquin Power & Utilities Corp (AQN / YAQN)

Our SOTP PO is $16.00 (C$19.36). We assign P/E multiples on 2023E (18.0x for electric, 16.6x for gas, and 27.1x for water, respectively) earnings of its regulated seg based on expected 2024 breakdown. We value the utility seg at a 0.5x disc to the US peer avg 22E P/Es. We back out future tax differential stemming out of tax rate normalization.
We value AQN's non-reg seg on EV/EBITDA basis. We assign Hydro at 8x prem to the peer multiple of 10.0x given the stable nature of the biz. We value Wind and Solar seg at a 3x & 4x prem to peer multiple too. We assign a 2.0x disc to the thermal biz given the lack of growth prospects.
We valued AQN's 44.2% stake in AY on MtM basis and net out Debt at Liberty Power. Our assumed shares o/s numbers reflect our estimated equity issuance including the DRIP between now and 2023E
Upside risks: 1) Higher USD/CAD F/X rate, 2) Constructive regulatory outcomes, 3) Lower interest rate, 4) Execution on the capital plan, 5) Dividend Growth from AY
Downside risks: 1) Higher interest rates, 2) Lower USD/CAD F/X rate depending upon the exposure to the US, 3) Dilution risk associated with substantial equity issuance to finance capex, 4) Unfavorable regulatory actions, 5) Increase in Tax rate, 6) AY may not be able to sustain its current dividend levels, 6) Exposure in CA Renewables, 7) Balance Sheet quality, and 8) Natural disasters which could impact utility operating systems.

Atmos Energy Corporation (ATO)

Our $101 PO is based on our 2023E sum-of-the-parts (SOTP) analysis, based on the gas LDC peer group multiple of 16.1x. Our gas peer P/E multiple is grossed up to reflect the group's 5% CAGR to reflect capital appreciation across the sector. We then apply a 2x premium (aside from TX/KS) to the base gas LDC multiple to reflect the high-quality nature of the assets given a sustainable runway for capex/EPS underpinned by constructive regulatory mechanisms and jurisdictions. For the Pipeline & Storage segment we apply a 9x EV/EBITDA multiple as a base to our '23E EBITDA. We then apply a 2x premium to the assets given their fully regulated nature and unique ability for APT to benefit from the spread differentials.

Upside risks: 1) improving regulatory relationships, 2) decrease in interest rates, 3) incremental capital spending, 4) constructive rate case outcomes, 5) less equity needs.

Downside risks: 1) deteriorating regulatory relationship, 2) increase in interest rates, 3) less or deferred capital spending, 4) poor rate case outcomes, 5) more equity needs.

Avista (AVA)

Our $44 PO is based on our 2023E sum-of-the-parts (SOTP) analysis, based on the large cap electric group multiple of 17.8x and the gas regulated multiple of 16.3x. Both electric and gas peer P/E multiples are grossed to reflect the group's 5% CAGR to reflect capital appreciation across the sector. We then use a blended electric and gas multiple of 77% and 23%, respectively, for AVA's WA and ID jurisdictions given the composition of its rate base. We apply the gas multiple to its OR jurisdiction as it is entirely comprised of natural gas distribution assets. Meanwhile, we apply an electric multiple to its Alaska subsidiary, AEL&P, as it is a vertically integrated electric utility. We apply a 12.0x multiple to AVA's Corp & Other businesses as we cannot apply a full utility multiple given it consists of investment funds with a lack of visibility in earnings relative to utilities. We stress that AVA does not have any HoldCo. debt, thus no need to net out debt. Lastly, we apply a 1x discount to all AVA's utilities to capture increased uncertainty associated with fire risk and regulatory risk. Risks to upside are 1) improving regulatory relationships, 2) decrease in interest rates, 3) constructive rate case outcomes in any of the jurisdictions. Risks to downside are principally wildfire events in West, which have increasingly spread to PacNW. Risks to downside are 1) operational risks 2) gas regulations attempting to phase out gas LDC usage over time impede growth.

Black Hills Corporation (BKH)

Our $76 PO is based on a SoTP valuation. Gas Utilities: We apply the 16.5x peer P/E multiple on 2023E EPS. Electric Utilities: We apply the 18.0x peer P/E multiple on 2023E EPS. Both electric and gas peer P/E multiples are grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. Coal Mine: We apply an 8x peer EV/EBITDA multiple, which is in line with other PRB coal producers. Based on our view of the strength/maintainability of different coal plant output contracts, we apply a discount/prem multiple to that portion of the mine. IPP Assets: We use the recent sale price and '23/EVEBITDA multiple for Pueblo Airport and Wygen I assets, respectively. Parent Expense, Debt, and Eliminations: We apply an average regulatory P/E multiple to this segments income. This captures some Interco revenues that are double counted as well as parent SG&A drag and debt.

Downside risks: operational errors, increasing interest rates, and difficult regulatory environments.
Upside risks: favorable weather, favorable regulatory outcomes, higher capex deployment

CMS Energy (CMS)

Our PO of $69 is based on a SotP relying on 2023E forward P/E multiples for the utility and banking business and a 2023E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 3.0x prem to the avg regulated multiple P/E of 18.1x for the electric seg and of 16.6x for the gas seg, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as cont'd favorable regulatory environment, and finally historically proven ability to consistently perform at the high end of guidance range. Both electric and gas peer P/E multiples are grossed up to 2020 by 5% to reflect capital appreciation across the sector. For CMS' merchant business we apply a 8x EV/EBITDA multiple, in line with current market value of CMS power plants (specifically DIG), moreover DIG has relatively favorable contracts for the near future which strengthen plant earnings. Finally, we apply a 15.5x P/E multiple on CMS' consumer lending subsidiary Enerbank, in line with forward P/Es other smaller regional banks with similar growth profile. Risks are: 1) earned ROEs declining which reduce CMS utility earnings 2) execution risk on capex and cost cutting which would primarily affect the utility earnings, 3) negatives changes to market energy prices which could affect the DIG plant's ability to re-contract at the assumed prices.

Duke Energy (DUK)

Our $105 PO is derived from a sum-of-the-parts valuation. We value the Electric and Gas utilities using peer 2023E P/E multiples. We apply a 3.0x multiple premium to Duke's operations in FL and 2x in IN to reflect more favorable regulatory environments (and recent sale valuation marker). We apply a 2x multiple to the Carolinas given upside to spending in improving regulatory construct combined with latest IRP & wider legislative reforms into 2021. We value the other regulated electric utilities at 18.2x and the gas utilities at peer group multiples of 16.7x 2023E P/E, respectively. Both electric and gas peer P/E multiples are grossed up by 5% for the groups CAGR to reflect capital appreciation across the sector. The commercial midstream, and transmission are valued on a 2023E EV/EBITDA basis. We use a 9.0x multiple for midstream and transmission segment. We add the net present value of renewable segment using an 8% discount rate. We subtract out the impact of commercial debt, and add back for the renewable debt.

Upside risks: constructive rate case results, higher capital expenditure additions vs our assumptions, lower interest rates. Downside risks: poor rate case results, operating errors, and negative changes in the regulatory environment, Macro risks: Increases in interest rates and decreases in equity market valuations.

Eversource Energy (ES)
Our sum of the parts based price objective of $93 uses P/E multiples on 2023E earnings. For electric utilities, we attribute a 3x premium NSTAR, 3x premium to PSNH, and a 2x discount for CL&P to peer 18.2x multiple, reflecting future potential positive revisions to capex and earnings and the latest challenges in CT. For gas, we apply a 3x premium to the peer 16.7x multiple, given capex upside particularly in MA and a 2x for Columbia Gas. Both electric and gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We value Aquarion at the 27.2x water multiple. We reflect ES's 50% ownership in Revolution and South Fork offshore wind sites on an NPV basis. We further reflect a devco value with an assumption of an additional 3GW through 2031. We take out 50% of parent debt, and 50% of interest to accurately reflect parent leverage.

Upside risks to our price objective are additional capex announcements on the T&D side, as well as success in offshore wind RFPs.

Downside risks are reduction in authorized ROEs, inability to meet earned ROE expectations, as well as failure to receive permitting on incremental capex opportunities.

Northwest Natural Holdings (NWN)
Our $51 PO is based on our 2023E sum-of-the-parts (SOTP) analysis, based on the gas LDC peer group '23 P/E multiple of 16.5x applied to WA and OR natural gas distribution and regulated storage assets. We further gross up the gas LDC multiple by 5% to reflect capital appreciation across the group. We use a 1x premium in OR to capture upside from RNG and benefits from decoupling, although we believe the long-term outlook is more uncertain. For NWN's gas storage (unregulated), appliance, and asset management business, we apply a 10x EV/EBITDA multiple, in line with comparable asset class, and net out debt. We apply a water utility peer P/E multiple of 27.4x to NWN's water earnings and then net out corporate & other drag (largely SG&A) using a weighted average multiple of 18.8x on '23.

Downside risks to our PO: higher interest rate environment that makes new capital more expensive, contraction of utility valuations, slower economic recovery, and a sustained economic downturn preventing customer growth, de-carbonization efforts, lower capex, poor regulatory outcomes.
Upside risks to our PO: faster economic recovery contributing to customer growth, lower interest rates, constructive regulatory outcomes, and increased capex.

ONE Gas, Inc. (OGS)
We use a sum-of-the-parts analysis to calculate our $74 for OGS, applying a FY23E Gas LDC peer multiple of 16.5x (grossed up by 5% to reflect capital appreciation across the space) with a 1.0x discount for OK given risk associated with the upcoming rate case and outsized gas costs related to the winter storm. We use in-line multiple for TX and KS given uncertainty with the recovery timeframe for substantial gas purchase costs and impacts to the balance sheet.

Upside risks: lower interest rates, constructive regulatory outcomes, increased capital expenditure opportunities.
Downside risks: higher interest rates, unconstructive regulatory outcomes, decreased capex spending, ban on fracking, decarbonization efforts.

Southwest Gas Holdings (SWX)
Our $67 PO is based on our 2023E Sum-of-the-parts (SOTP) analysis. We apply a 16.5x peer Gas LDC utility P/E to the utility EPS across the company's three major jurisdictions, which include Arizona, Nevada and California. We gross this peer multiple up by 5% to reflect capital appreciation across the sector. For AZ, we apply a 3x discount to the jurisdiction given lack of fwd looking rate treatment/alternative rate making mechanisms. Additionally, we value the FERC regulated Pauite Pipeline separately on a midstream peer group average EV/EBITDA multiple of 9.0x and net out associated debt. For the non-utility business, Centuri, we apply 6.2x multiple, which is in-line with the business' closest industrial comps given Centuri's relatively insulated utility customers. Lastly, for parent debt in the Corp & Other segment, we net out 50/50 weighting for re-capitalization and add back 50% of parent interest expense.

Upside risks: higher than expected infrastructure services earnings growth, increasing construction project margins, better than expected rate case results. Downside risks: Unfavorable regulatory outcomes and increased volatility at Centuri, disproportionately high foreclosure rates in SWX's territories, timing and execution of rate cases, rate base growth, underperformance at Centuri and expansion or contraction of sector valuations.

Spire (SR)
Our $85 PO for SR is based on a sum-of-the-parts analysis, applying a Gas LDC multiple of 16.5x on '23E with a for 2x premium for Missouri/Mississippi/Gulf and AL assets given their location and de-risked nature. For the midstream assets, we use a base 9x EV/EBITDA multiple with a 1x premium for the STL pipeline given it is the one of the only new greenfield pipes in-service, a 4x discount for storage given uncertainty, and a 4x discount for marketing due to volatility.

Upside risks: 1) improving regulatory relationships, 2) decrease in interest rates, 3) incremental capital spending, 4) constructive rate case outcomes, 5) less equity needs.

Downside risks: 1) deteriorating regulatory relationship, 2) increase in interest rates, 3) less or deferred capital spending, 4) poor rate case outcomes, 5) more equity needs.

UGI Corp. (UGI)
Our $47 PO is derived from our SOTP analysis, applying specific multiples and premiums to assets. For the gas utility, we utilize a 16.5x P/E multiple +1x premium given its de-risked backdrop, and an in-line electric multiple of 18.0x. For U.S./international propane, we utilize an 8.9x EBITDA, in line with other publicly traded comps, 0.5x discount applied to international given ESG considerations. We use a 9x EBITDA multiple at midstream w/ a premium/discount depending on the asset & CMG expansion/PennEast weighted at 50%/25%, respectively, given uncertainty associated with expansion opportunities/project execution. We take the NPV of future renewable solutions cash flows, implying a 11+x EV/EBITDA multiple (in line with our valuation to peers biz mix, such as SJI). Lastly, for parent debt in the Corp & Other segment, we net out 50/50

weighting for recapitalization and add back 50% of parent interest expense.

Downside risk: unfavorable weather, propane logistics issues and shortages domestically or in Europe, reduced conversion rates or slower new home construction within PA, and unfavorable currency exchange rates. Macroeconomic concerns are rising interest rates, volatile and rising natural gas prices, and a general economic slowdown. Upside risk: favorable weather, incremental demand for propane, rebound in oil&gas prices driving higher volumes at midstream, favorable regulatory outcomes, favorable forex rates, lower interest rates, and economic expansion.

Xcel Energy Inc (XEL)
Our PO is $71. We value Xcel Energy using a sum of the parts (SOTP) approach. Given the difference in geography, earnings strength, growth opportunity and risk profile, we divide the segments by subsidiary. We use 2023E forward P/E multiples to derive a value for the different business segments, including the parent segment. We use a peer multiple of 18.1x. Electric peer P/E multiple is then grossed up for a year to 2021 by 5% to reflect capital appreciation across the sector. We apply a 2x premium to most subsidiaries except in MN where we apply a 3.0x due to additional stimulus upside. We see this multiple as appropriate as the company has growth opportunities, resolving regulatory drag and resolving uncertainty around rate cases. We stripped Mankato as a non-reg asset in our SOTP due to the sale. We also net back 50% of the parent interest expense and instead subtract out 50% of parent debt to more accurately reflect HoldCo leverage. Downside risks are interest rate increases, regulatory risk such as lower authorized ROEs or less favorable riders/trackers for renewables and transmission, interest rate risk, execution delays, and weather anomalies.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Aric Li
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
NEUTRAL				
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	75	54.74%	Buy	60	80.00%
Hold	34	24.82%	Hold	24	70.59%
Sell	28	20.44%	Sell	11	39.29%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	77	48.43%	Buy	56	72.73%
Hold	43	27.04%	Hold	31	72.09%
Sell	39	24.53%	Sell	23	58.97%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1909	58.54%	Buy	1218	63.80%
Hold	653	20.02%	Hold	395	60.49%
Sell	699	21.44%	Sell	356	50.93%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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21 May 2021
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Gas Utilities

American Gas Association (AGA) Conference - Full Takeaways

Gas Utilities | Comment

We hosted management teams from Utilities ED, NWE, SO, CMS, SR, BKH, AGR, D, NI, WEC, DTE, and CNP at the 2021 American Gas Association (AGA) virtual financial conference. We include our full takeaways below.

- **Takeaways:** The utilities sector has been under pressure on concerns about higher cost of capital, input commodity cost inflation, and yield competition from the 10-year Treasury. Gas utilities suffered the worst underperformance in 1H20 with investors under the impression that natural gas system growth may be impaired during a long-term shift toward electrification of heating, cooking, and transportation. However, gas utilities have largely recovered from their 2-3x discount to the electrics that the group traded under as recently as 4Q20. At the conference this year, we heard from management teams across the board citing plenty of long-term investment opportunity, including continued pipeline replacement, safety, and the blending of renewable natural gas (RNG) and hydrogen into systems to become carbon neutral or negative. We also note the impact of this year's Winter Storm Uri, which highlighted the importance of natural gas pipeline and storage infrastructure.
- **Stocks:** **ED** expects to come to a decision on Stagecoach in 2Q, but regardless of outcome, no significant changes to the equity financing plan are expected. The company no longer views natural gas as a bridge fuel to decarbonization, and these midstream assets are now definitively non-core. **SO** notes that Vogtle is on "aggressive" track for a January in-service, but we see further tweaks during testing as likely, with 1Q22 more a realistic expectation. **BKH** emphasizes they expect to fully offset the $0.15 EPS hit this year from Storm Uri, with no incremental equity needed to fund related regulatory assets. **AGR's** acquisition of PNM is on track for 2H21 close as the company continues to bring along other parties to the settlement in NM. **D** continues to make a strong case for why the cost of its coal retirements won't be rejected in the Triennial rate review. NI issued three Indiana RFPs for a mix of dispatchable resources, batteries, and localized micro-grid solutions. **CNP** expects to offset taxable gains from the sale of ET shares (4Q21 earliest) using repairs tax deductions.
- **RNG on the back burner for now:** These are early days for the renewable natural gas (RNG) industry, with <0.5% of gas demand in production nationally at present. Over the next 20-30 years, most gas utilities are planning to blend increasing amounts of cleaned RNG into their systems as a way to remove methane from the atmosphere and achieve net GhG-zero status (we figure ~15% would do the job in most places, but this is impossible now with only a few hundred farms and landfills harvesting the gas). We see this as well as hydrogen blending eventually becoming a meaningful source of capital investment in 10+ years. Furthest along so far (among companies we spoke with) are **WEC** (pilot projects), **NI, SR** (Ohio and MO legislation and dockets establish tariffs with gas quality requirements), and **DTE's** non-regulated RNG production business in California.

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2021 American Gas Association (AGA) virtual financial conference Schedule

ED, NWE, SO, CMS, SR, BKH, AGR, D, NI, WEC, DTE, CNP

Figure 1: AGA Schedule

Times	Wednesday May 19
9:00-9:30 AM	
9:30-10:05 AM	ED
10:15-10:50 AM	
11:00-11:35 AM	NWE
12:00-12:35 PM	
12:45-1:45 PM	
1:30-2:05 PM	SO
2:15-2:50 PM	
3:00-3:35 PM	CMS
3:45-4:20 PM	
4:30-5:05 PM	SR
5:15-5:50	

Times	Thursday May 20
9:00-9:30 AM	
9:30-10:05 AM	BKH
10:15-10:50 AM	AGR
11:00-11:35 AM	D
12:00-12:45 PM	
12:45-1:45 PM	
1:30-2:05 PM	NI
2:15-2:50 PM	WEC
3:00-3:35 PM	
3:45-4:20 PM	DTE
4:30-5:05 PM	
5:15-5:50	CNP

Source: Company data, Credit Suisse estimates

Recent Company Notes

- BKH: 5/6 Growth Plans on Track after the Storm
- CMS: 4/30 Green Plans Remain in Focus
- ED: 5/11 Strong 1Q as Residential Sales Jump
- D: 5/5 Steady Progress; Growth Plans on Track
- DTE: 4/28 Midstream Spin on Track, and So is the Rest
- NI: 5/6 Renewable Buildout Pushes Forward
- NWE: 4/23 Plans for Montana Generation Advance
- SO: 4/30 Nuclear Delays were Expected, with Growth Plan on Track
- SR: 5/11 Staying Ahead of the Storm
- CNP: 5/7 Delivering Above Plan
- WEC: 5/4 Decarbonization Acceleration

Recent Sector Notes

- 5/18 AGA Question Bank
- 5/17 CS Renewables & Utilities Conference – Full Takeaways
- 4/26 Alternative Energy: Key topics for Q1 - Supply shortages and a Biden Plan
- 4/5 Hydrogen Economy: Part 4: A Primer on the Americas Value Chain
- 4/27 Direct Currents - Rising Renewable PPAs

21 May 2021

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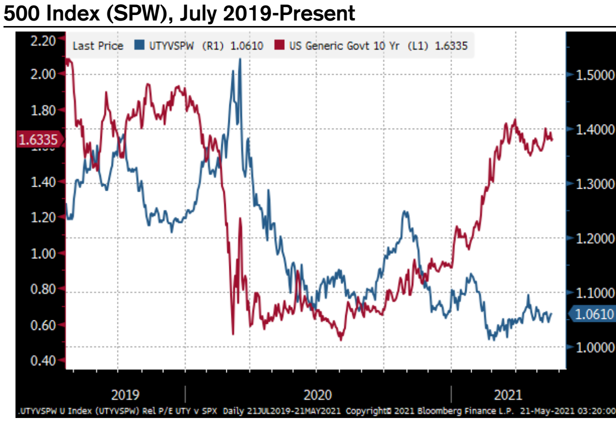
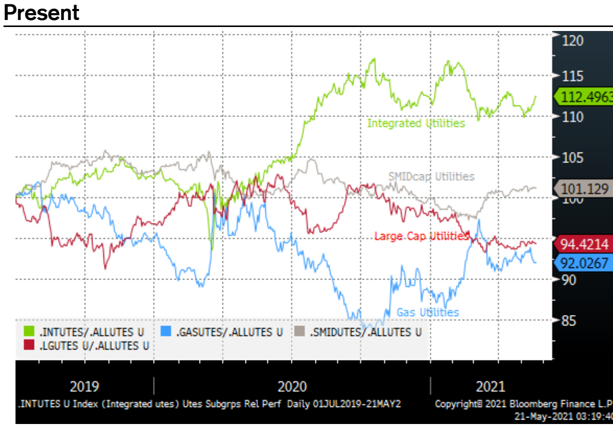
Figure 2: Relative Forward P/E – UTY vs Equal-Weighted S&P 500 Index (SPW), July 2019-Present



Source: Bloomberg LP, Credit Suisse custom indices. The sector is fairly valued after the recent rise in 10-Year bond yields, trading at a +6% premium forward P/E vs an equal-weighted S&P 500 Index (SPW). We see this as appropriately in-line with our regression of relative P/E vs the 10-Year based on the CS House view for a 2.0% 10-Year yield within 12 months.

Figure 3: Utility Subsector Relative Performance, July 2019-Present



Source: Bloomberg LP, Credit Suisse custom indices. Gas utilities currently trade at parity with Electrics after outperformance since 4Q20.

Avangrid (AGR) – Not Covered

Dennis Arriola, CEO, Bob Kump, Deputy CEO, Doug Stuver, CFO, Alejandro de Hoz, CEO Renewables, Catherine Stempien, CEO Networks, Patricia Cosgel, VP IR, Michelle Hanson – Manager IR

- **Offshore Wind: "BOEM staff has been very supportive over the last few years" - Vineyard Wind project (1,800MW) on track to begin construction in 2H21.** The Biden administration has been supportive, and the company expects to apply lessons learned from the Vineyard Wind approvals process to the next projects. AGR received BOEM's Final Environmental Impact Statement (FEIS) for Vineyard Wind (1,800MW); on track to begin construction in 2H21. AGR's ~5GW offshore wind pipeline (with 4.2GW remaining capacity) currently has ~690 MW under construction and ~630MW are starting 2022. The Vineyard Wind project recently received Final Environmental Impact Statement (FEIS) from BOEM. The company expects to arrange financing in the next few months and start construction later this year. The 804MW Park City Wind project expects COD by 2025 and the company's Kitty Hawk project with 2,500MW of total capacity filed COP in 2020 and expects CODs after 2025.
- **Planned merger with PNM on-track to close in 2H21, according to management. Private Placement financing announced on 5/12 to be used for capital investments and the pending PNM acquisition.** The company announced the sale agreements of $740M common stock to Qatar Investment Authority and another $3.26B to the prior majority shareholder Iberdrola, with closing expected May 18. The Iberdrola stake is intended to maintain proportional, majority ownership. AGR recently filed its revised stipulation agreement as part of the company's planned merger with PNM. The company also added three new parties: Walmart, Inc., the Interwest Energy Alliance, and Onward Energy Holdings, Inc as signatories. The customer benefits in the agreement are expected to include: $50M in customer rate credits (over three years); $6M in COVID arrearages relief for customers; $15M for low-income customer energy-efficiency assistance; and $2M for electricity to low-income, remote customers. The merger is also expected to include additional economic development for New Mexico resulting in 150 new full-time jobs, $7.5M in additional economic development funds; and $12.5M in economic development contributions to community groups.
- **Green hydrogen – AGR expects to leverage Iberdrola's experience in Europe to implement a long-term hydrogen strategy.** AGR is optimistic about green hydrogen and is looking at some pilots. The company expects to produce hydrogen through electrolysis, as well as for decarbonizing transportation, (such as heavy-duty transportation, marine transport, or aviation), and for C&I (e.g. high-temperature processes) renewables to decarbonize areas that are difficult to electrify.
- **Cost inflation on the radar:** Management has seen the cost of renewable projects increase on account of higher steel and other commodity prices. Higher commodity costs are offset by hedges in some cases and are passed down to end customers too. However, customer are not delaying projects, and in fact many want to complete the projects sooner to meet their decarbonization goals.
- **Project returns** are competitive. But management sees double-digit levered returns against a lower cost of capital, with AGR's size relative to competitors bringing advantageous economies of scale. The company is targeting a low-end of 13 GWs renewable development projects by 2025.
- **2021 guidance recently raised by $0.10 to $2.25 - $2.45** (from $2.15-$2.35), vs cons $2.29. AGR raised net income in Q1 to $696M-$758M (from $665M-$727M). Key assumptions include $0.5 (~5%) rate base increase, adding >700MW of wind & solar capacity, and FY new rates in NYSEG, RG&E and CMP, as well as average wind PPA pricing of ~$40-$42 for both existing & new. Lastly, AGR plans to reduce emissions by 50-52% by 2030 (vs. 2005 levels).

- **Tax equity financing could be supplemented with a direct pay option.** The Biden administration has been considering options for renewable owners to monetize ITCs and PTCs, including proposals for both 100% direct pay and 85% refundability of tax credits currently held in inventory. As would be expected for a major developer with deep financing relationships, AGR nevertheless reports ample access to tax equity markets this year despite a scarcity of investors (typically banks) due to economic uncertainty over available taxable income.
- **Transmission development.** With the current system of blanket RTO incentives being reconsidered at FERC, management sees a more selective approach likely to come out of the process. In any event, AGR thinks that streamlining the approvals process could be more important than ROE (saving more money) towards incentivizing new project development.
- **Onshore Wind Update.** AGR has 1.3GW projects under construction in 2021-22, which includes ~390 MW wind & ~915 MW solar. Solar projects in construction currently include Bakeoven (265MW), Montague (221MW) and Mohawk (125MW), while wind projects in construction include Golden Hills (201MW), Midland (106MW), and Roaring Brook (80MW).
- **AGR business mix.** Management sees the current 75%-85% regulated utility networks vs 15%-25% renewables optimal for now in terms of maintaining overall holdco balance sheet and credit metrics.

CREDIT SUISSE

Black Hills Corporation (BKH) – Outperform, TP $78

Linn R Evans, President and CEO, Rich Kinzley, SVP and CFO, Marne Jones – VP Regulatory and Finance, Todd Jacobs – Vice President Natural Gas Utilities, Jerome Nichols – Director of IR, Dave Soderquist – Principal Financial Analyst

- **Winter Storm Uri Impact - expect to receive full recovery of gas costs, and to fully offset the -$0.15 EPS hit in 2021.** Winter Storm Uri's impact resulted in a pretax charge of ($12.5M), or net ($0.15) impact to EPS, which included a $555.8M impact to the balance sheet through regulatory asset for utility fuel costs. Additionally the majority of the loss came from unrecoverable fuel costs from Energy Services contractual arrangements with customers. Management reaffirmed at our conference that they expect to fully offset the $0.15 drag with mitigating actions through the course of 2021. See table below.

Figure 4: Winter Storm Uri Impacts

Winter Storm Uri Impacts				Notes
Regulatory asset for utility fuel costs	$558.8M			Expected to be recoverable without securitization and without incremental secondary equity required. Asking for full WACC in AR and KS.
	$M pretax	$M after-tax	EPS	
Wholesale power margin sharing	$3.2	$2.5	$0.04	$2.4M of this is approved for recovery in SD through 2022. Rest is in CO under sharing.
Term loan interest expense	$0.7	$0.6	$0.01	Expect to recover these costs with regulatory assets above. Not ongoing.
Power generation storm benefit	($1.7)	($1.3)	($0.02)	Helps offset large industrial cust non-fuel clause customer losses (see below)
Black Hills Energy Services fuel costs	$8.2	$6.5	$0.10	Choice gas program; will offset with marketing profits bal of 2021
Regulated utility fuel costs	$2.1	$1.7	$0.03	Some large industrial customers without a fuel clause
Total impact in 2021 (fully mitigated)	**$12.5**	**$9.9**	**$0.15**	

Source: Company data, Credit Suisse estimates

- **Colorado Gas phase I & II filing expected in Q2.** BKH filed a request for phase 1 rehearing on 1/26 for Colorado Gas, but that request was rejected verbally which led to a refile. The Colorado Gas ratecase filling requested a $13.5M revenue increase based on 50% equity and a 9.95% ROE in order to recover the investments incurred in upgrading and expanding its natural gas infrastructure. A phase 1 & 2 filing is expected in Q2.
- **Kansas Gas was filed last week and an Iowa Gas ratecase is expected to be filed in Q2**, plus a winter Storm Uri cost recovery filing. Additionally management reiterated consideration for a new Arkansas filing based on strong load growth (where most growth is). We expect a filing probably in the next 12 months.
- **Capital Plan (2021-2025) of $3B+ unchanged**, **expect an update in Q3 call in November** after the SD/WY Integrated Resource Plan is filed in July 2021. The capital plan includes an expectation of $600M+ annually for $3B+ through 2025. Recall BKH previously raised the capital plan by another ~$100M to >$3B (from $2.9B).

  IRP, what lessons can we learn from URI? Will be submitted in July to SD/WY. Modeling through renewables to meet ESG goals. We see opportunities with storage.
- **Equity needs "spread evenly through next few quarters".** BKH continues to target 2021 equity issuance of $100M-$120M through At-the-Market (ATM) program, which is now likely to be executed "evenly" through remaining quarters. Furthermore, BKH is targeting 2022 equity issuance of $60M to $80M in ATM program.
- **2021 guidance and 2022 guidance reaffirmed.** BKH reaffirmed 2021 guidance of $3.80-$4.00, vs CS/cons $3.86/$3.89, after reporting 1Q21 with adj. EPS of $1.54 vs CS/cons $1.65/$1.69 and vs 1Q20 $1.59. Recall that BKH had previously raised 2021 guidance a nickel to $3.80-$4.00 (from $3.75-3.95). Additionally 2022 guidance was also reaffirmed at $3.95 - $4.15, vs CS/cons $4.05/$4.06**.**
- **More focus on ESG.** For electric operations, BKH expects to reduce greenhouse gas emissions intensity 40% by 2030 and 70% by 2040. At the gas utilities, BKH expects to reduce greenhouse gas emissions 50% by 2035. The goals are based on 2005 baseline levels. Additionally, Colorado's electric utility is on track to reach 80% by 2030, and the

company expects generation investments to save customers $4B over 30 years and reduce GHG 90% by 2030.

CMS Energy (CMS) – Outperform, TP $70

Rejji Hayes, EVP & CFO; Travis Uphaus IR

- **New electric Integrated Resource Plan (IRP) filing is expected June 30th - Will make some announcement of what it looks like a week prior.** Expect more storage as costs come down and batteries make increasing sense as a replacement for peakers to do the work of voltage support, frequency response, and other ancillary services. The IRP provides details on the next 20 years of fuel diversity for customers, RPS fulfillment, reliability, EE, and demand response. The IRP ultimately results in either approval for a three-year forward plan or rejection or return for consideration of changes. Under Michigan energy law, IRPs are required every five years, with the next filing due in 2023.
- **On Inflation, tax rates and Enerbank.** With a renewed five-year union labor contract, the company sees inflation as a manageable risk. Enerbank's business model is generally not sensitive to interest rates, while Enterprise's net parent losses would benefit from a higher tax rate (consensus seems to be that a 24%-25% rate is possible later this year under democratic proposals).
- **Electric ratecase is on-track for final order by December.** CMS filed an electric ratecase (U-20697) on 3/1(test year ending Dec 2022), seeking recovery for investments in system reliability, and IRP solar & clean energy transformation of $225M, which translates to a 10.5% ROE and 52% equity ratio. Staff commentary is expected in June, with final order expected in Q4. **The next gas ratecase** is expected to be filed in Dec.
- **Equity needs unchanged with $50M already contracted, rest expected in "back half of the year".** CMS continues to expect to issue $250M of equity in 2021 and up to $250 per year in the company's long-term plan. With $50M already contracted, CMS mentioned that the rest of 2021 equity needs will probably be in back half of the year.
- **2021 Guidance Reaffirmed $2.83 - $2.87,** in-line vs. CS/cons $2.85/$2.86, (which reflects 6%-8% growth off 2020 midpoint) after CMS reported 1Q21 adj. EPS $1.21 vs. CS/cons $1.16/$0.97, and vs 1Q20 $0.86. Longer-term adjusted EPS and DPS growth remains at 6%-8% with a strong bias towards the midpoint.
- **Reaffirmed annual cost savings >$200M through 2031.** CMS reaffirmed its previously announced expectation to achieve > $200M in annual cost savings (excluding incremental O&M savings) through 2031. This includes $90M from Palisades in 2022, $30M for Karn 1&2 coal unit retirements in 2023, $50M for MCV contract change in 2025, and $60M for retiring the Campbell coal unit in 2031+.
- **RNG – having dialogue with MPSC.** CMS has been doing some pilot project work in coordination with the Electric Power Research Institute (EPRI) around Renewable Natural Gas (RNG). Recall CMS is targeting net zero methane emissions by 2030 and net zero carbon emissions by 2040. RNG is expected to play a role, but is currently only ~0.3 bcf for now at a cost 3-4x natural gas.
- **A 10-year, $25B plan, with $3-$4B of opportunities.** The 10-year capital plan continues to stand at $25B of firmly identified projects through 2028 plus possible $3-$4B upside opportunity in the latter half for electric reliability, grid modernization, gas distribution, and pipelines. ~85% of projects are less than $200M. To firm up the upside spending, management remains focused on customer affordability (keeping rate increases below inflation) and needs to see future ratecase outcomes, balance sheet strength, progress on cost reduction, and feasible employee levels needed to support additional work, among many factors. For example, to achieve $1.5B of electric grid modernization upside, annual spending would have to ramp up from $200M to $300M, which would likely require a significant hiring ramp. Ultimately, the company remains committed to work with regulators to ensure all parties "buy in" before any incremental moves. As noted at the 2018 analyst day, there is a long pipeline of capital work to be done and management identifies greater than $50B over the next few decades, with investment pacing limited only by CMS's desire to keep rate increases below inflation. Even with the retirements of Karn 1&2, we estimate

that the plan still implies above-average overall electric and gas ratebase growth at a >7% CAGR from $17.5B in 2019 to ~$24.5B in 2024, with gas ratebase expected to grow from 30% of total in 2018 to >40% by 2024.

- **A new electric Integrated Resource Plan (IRP) filing is due in late June** as part of the 2019 electric rate settlement. Expect more storage as costs come down and batteries make increasing sense as a replacement for peakers to do the work of voltage support, frequency response, and other ancillary services. Recall that in March 2019, CMS filed a settlement agreement with the MPSC for the Integrated Resource Plan (IRP). Consistent with the previously approved Renewable Energy Plan, the settlement leads to a 90% reduction in carbon and 90% clean energy supply by 2040, with the elimination of all coal fired plants as well. It calls for the replacement of Palisades PPA and Karn 1&2 with energy efficiency, demand response, and renewable resources. A relative paucity of battery storage in the planning (450 MW, but only after 2030) is explained by the presence in the state of the large-scale 2,200-MW Ludington Pumped Storage facility, which is co-owned by CMS and DTE. CMS also plans to procure 1.1 GW of new solar resources through 2024 through a competitive bidding process with 550 MW to be owned by the company and the rest will be done through PPAs. Additionally, the settlement also allows the company to earn on the PPAs at the weighted cost of capital (5.88% vs. the company's earlier ask for 10%-20%). The issue with PURPA avoided costs will be dealt with using the competitive process in which the avoided cost rates for a PURPA PPA will be the highest proposal cleared in the competitive bidding process. The IRP provides details on the next 20 years of fuel diversity for customers, RPS fulfillment, reliability, EE, and demand response. The IRP ultimately results in either approval for a three-year forward plan or rejection or return for consideration of changes. Under Michigan energy law, IRPs are required every five years, with the next filing due in 2023.

CenterPoint Energy (CNP) – Outperform, TP $28

Dave Lesar (Chief Executive Officer), Jason Wells (EVP and Chief Financial Officer), Scott Doyle (EVP of Natural Gas), Phil Holder (SVP of Strategic Planning and Investor Relations), Jackie Richert (Director, Investor Relations), Panpim Lohachala (Manager, Investor Relations)

- **CNP repairs tax benefits.** CNP expects to refile for repairs tax deductions back through 2017, which in combination with other tax strategies, should help partially offset the expected taxable gain on the forthcoming sale of Energy Transfer shares. These are currently held at approximately -$1.75B cost basis and we currently include a -$1/sh hit within our valuation for taxes on the sale (at 75% probability of sale, so we figure -$1/sh could be the actual impact at 100% given some mitigation).
- **Enable / Energy Transfer update - FTC and regulatory approvals as well as closing of transaction are expected in mid-summer.** In April CNP and OGE delivered written consents, with FTC, regulatory approvals, and closing expected in mid-summer. We then expect a relatively quick moving plan to exit this legacy midstream asset over the next year or two at most. Any sales of stock would have to wait for registration two to three months after closing (sometime in 4Q21 earliest).
- **Impacts from Texas Storm –expecting ~$2.2B incremental gas cost (vs prior estimate $2.5B), and reaffirming no direct impact from the storm to guidance based utility EPS.** The company expects a ~$2.2B incremental gas cost which includes $1.1B Texas, $463M in Minnesota, $335M in Arkansas and $83M in Oklahoma. CNP is estimating ~$500M-$600M remaining balance 12 months from the storm assuming current cost recovery mechanisms in place (Indiana, Mississippi, South Louisiana – recovery through existing cost recovery mechanisms over 12 months; North Louisiana – recovery through existing cost recovery mechanism over 3 years) and securitization of winter storm-related gas costs in Texas.
- **Arkansas and Oklahoma LDC sale to Summit Utilities to bring in ~$300M more than planned; going into 2022 capex.** CNP previously announced the sale of Arkansas and Oklahoma gas assets for $1.725B plus $425M cash for storm costs (2.5x of 2020 ratebase and 38x of 2020 earnings) and in our view, the sale was better than expectations ~1.5x-2.1x. CNP expects $1.325B of net proceeds (after taxes and transaction costs) to partially fund $3B incremental capex at its Indiana and Texas electric franchises. At AGA, CNP reiterated that their decision to sell LDCs revolved around a funding need of $1B and a sale was the best way to accomplish the funding gap. The sale is expected to close by end of 2021 (subject to regulatory approvals).
- **2021 Utility guidance reaffirmed at $1.24 - $1.26** after CNP reported 1Q21 beat with adj. EPS of $0.59 vs cons $0.50, in-line with CS 0.61 and vs. 1Q20 $0.60, driven by rate recovery, customer growth and O&M management, partially offset by one-time CARES Act impact and 2020 equity issuance. Additionally, CNP reaffirmed a 6%-8% LT annual growth rate (annual, not a CAGR, off a 2021 base).
- **O&M Savings: $16M in net savings achieved 1Q21.** CNP reaffirmed prior plans to achieve annual cost reduction of 1%-2%, or >$110M through 2025 plus net savings of $44M (~3%) in 2021, with $16M YTD. Management expects the cost variance to be largest in Q1 with net savings decreasing gradually through the year to achieve $44M.
- **No additional equity needs in 2021 (other than ~$25M of DRIP)** CNP previously announced $1.4B of new equity capital ($725M from 12-month mandatory convertible preferred stock, and $675M of common stock) to reduce debt and eliminate further equity needs through 2022. We expect ~$25M/year of DRIP equity in 2021 and small ATMs of ~$50M/year starting in 2022 through 2025, although the ATM program may be reduced further as a result of ~$300M more proceeds from the LDC sale than had been planned.
- **Capital Plan (2021-2025) Unchanged at $16B with $1B+ potential upside.** CNP rolled forward the capital plan a year in 3Q20, and their current (2021-2025) plan is now

$16B vs $13.2B previously (2020-2024). The additional ~$3B capital investment opportunities (to be funded through the upcoming sale of Oklahoma and Arkansas natural gas LDCs) split two-thirds into new investment opportunities in Houston and Indiana's electric businesses, and one-third gas with $2.5B more or less tracked with $500M for renewables in Indiana, which will bring the 2021E to ~$6B and will drive rate base CAGR target of 10%. **Additionally, management has also cited an additional $1B of capital spending opportunities not yet included in the plan**, with the budget providing enough flexibility to handle changing technological choices. CNP plans to ramp up on renewables with $950M wind and solar generation in Indiana, while advancing RNG and hydrogen renewables in Minnesota.

Dominion Energy (D) – Outperform, TP $90

James Chapman, Executive Vice President, CFO & Treasurer, Diane Leopold EVP & COO, Steven Ridge, Vice President, IR, David McFarland, Director, IR

- **Triennial review filing.** Next steps include respondent testimony on July 30, followed by the staff report on August 16. A final order is expected by November 2021. Recall D submitted its Triennial review application to Virginia's State Corporation Commission (SCC) on 3/31 covering a four-year period (future reviews are truly triennial) from January 1, 2017 to December 31, 2020. The filing includes ~$5B rate base investment and >$300M of CCRO eligible investment which reflects $206M of customer arrears forgiveness as ordered by the Virginia General Assembly.
- **Offshore Wind Remains on track – interaction with BOEM has been "positive and frequent."** Next steps include BOEM notice of intent in June 2021, CPCN filing in fall 2021, and a BOEM record of decision in June 2023. D's 2.6GW Coastal Virginia Offshore Wind (CVOW) project is on track and projected installed cost remains ~$8B (~$3,000/kW inclusive of transmission), and the company's estimate for project LCOE are unchanged at ~ $90MW/hr.
- **Santee Cooper –** contract work continues under the radar. The SC state legislature has authorized Santee Cooper to work with neighboring utilities on efficiency and cost reduction, and Dominion continues to pitch in on a contract basis. Recall that NEE recently withdrew its own offer to acquire Santee Cooper on 4/28 after the state Senate voted 36-8 against soliciting further bids.
- **South Carolina electric ratecase;** focused on getting through the ratecase there and working in decarbonization in VA. Hearings are expected to resume in July 2021 and final decision is expected in August. Recall on Jan 11, regulators granted a six-month pause to allow parties to further discuss a settlement given pandemic-related hardships. As part of the pause, the commission has ordered the parties to report on monthly basis on their progress. D previously filed for a $178M increase in Aug 2020, with Staff recommending only a $10M increase in November based on an 8.9% ROE on 50% of $5.744B ratebase using a year-end 2019 test year. Absent settlement, hearings are expected to resume in July 2021 with a final order by August 16, 2021.
- **2021 guidance reaffirmed at $3.70-$4.00** (CS $3.85, cons $3.87), 10% above 2020, after D reported 1Q21 Adj. EPS in-line of $1.09 vs. CS/cons $1.07/$1.07, in line with company guidance $1.00-$1.15, and vs. 1Q20 $0.92 driven by operating earnings at DEV and Gas Distribution, partially offset by corporate & other. Additionally, D is guiding 2Q21 with adj. EPS of $0.70 - $0.80.
- **Capital plan (2021-2025) unchanged at ~$32B** with 80%+ focused on decarbonization and 70%+ eligible for riders. Additionally, D continues to identify ~$72B of green investment opportunities through 2035.
- **Equity needs unchanged.** Equity requirements remain at $300M of DRiP with no ATM equity until 2022. Starting in 2022, D is expecting $0-$200M through ATM program, between $100-$300M in 2023 and in the range of $300M-$500M in 2024 and 2025. Altogether, D is projecting $2.2B - $3.0B in equity through 2025 with $1.5B of DRiP and $0.7B-$1.5B through ATM.
- **Net zero emissions target by 2050.** D previously announced a target to achieve net zero emissions including both carbon dioxide and methane emissions across all businesses by 2050. Additionally, D expects reductions of 70%-80% by 2035 with ~95% of the company's owned generation to be either zero or low-emitting.

DTE Energy (DTE) – Neutral, TP $133

Dave Ruud, SVP & CFO; David Slater - President & COO, Gas Storage & Pipelines; Trevor Lauer - President & COO - DTE Electric; Barbara Tuckfield – Dir. IR; John Dermody – Manager IR

- **Investor feedback has been positive on spin of DTE Midstream - still on track for July 1.** DTE noted that feedback from investors regarding the upcoming spin of midstream has been generally positive. The company is on track to achieve targeted adj. EBITDA 2021 of $710M-$750M and a ~2x dividend coverage ratio (subject to midstream board support). An investor roadshow is planned for Q2 and the Form 10 process is advancing. Recall DTE previously announced its intention to spin-off Gas Storage & Pipelines in Q3, with Spinco expected to assume a 4.0x debt/EBITDA credit profile with a combined dividend of the two companies that is higher than DTE's current dividend. Additionally, the spin-off is designed to be tax-free and DTE shareholders are expected to receive a pro-rata dividend of midstream spinco shares upon closing.
- **Next steps?** Next steps include public filing of Form 10 (announced last week), effectiveness being declared by SEC, followed by debt raise which the company is currently in, followed by an equity IPO roadshow for analyst and investor outreach. Trading is expected to start two weeks before spin.
- **Equity plans – doesn't see a need for 2021 and targeting low-end for 2023.** DTE is planning up to $200M for 2021 although management noted that they don't see a need to issue equity this year. DTE is also targeting $1.3B of convertible equity units in 2022, followed by up to $200M of equity in 2023 (targeting low-end in 2023).
- **2021 guidance reaffirmed after a strong 1Q beat at $6.88 - $7.26 (vs. CS $7.15).** DTE remains on track to achieve 2021 operating EPS guidance after reporting 1Q21 adj. EPS of 2.44 vs. CS/cons $2.29/$2.06, and vs 1Q20 $1.66, driven by higher rates at DTE electric and DTE Gas, favorable colder weather in 2021 and LEAP in-service and other pipeline earnings, partially offset by timing of taxes and net interest. Additionally, DTE reaffirmed 5%-7% LT operating EPS growth target off 2020 original guidance.
- **DTE Gas ratecase – commission/staff recommendations are due soon**. DTE expects a settlement. DTE Gas filed a ratecase (U-20940) in Feb 2021 with ratebase of $5.6B and rate recovery of $195M which translates into a 10.25% ROE and 52% equity ratio with rates effective Jan 1, 2022.
- **Emissions offsets and RNG initiatives.** DTE announced the CleanVision Natural Gas Balance, a program to include both carbon offsets and renewable natural gas, with execution of an agreement to secure forestry carbon offsets. The gas utility received an order approving a Voluntary Emissions Offset Plan (U-20839) in October 2020. The plan includes both carbon reduction and offsets (95%) and Renewable Natural Gas RNG (5%).
- **Net zero emissions by 2050. DTE Electric** is targeting carbon emissions reductions to 32% by 2023, 50% by 2030, 80% by 2040, and net zero by 2050. Since 2009, the company has invested $3B in renewable energy and the investment is expected to reach nearly $5B by 2024. Renewables is expected to account for 25%-30% of energy generation by 2030.
    - **DTE Gas** is targeting carbon emissions reduction of 45% by 2020, 65% by 2030, 80% by 2040, and net zero by 2050. DTE Gas is working towards lowering greenhouse gas emissions by more than 6M metric tons annually, incorporating emissions reductions as purchasing criteria, continuing main renewal upgrades and operational improvements, and working with suppliers to enhance operations.

Consolidated Edison (ED) – Underperform, TP $74

Timothy Cawley, President & CEO, Yukari Saegusa, VP & Treasurer, Jan Childress, Director, Investor Relations, Kiley Kemelman, Section Manager, Investor Relations & Sustainability, Jared Lee, Manager, Investor Relations & Sustainability

- **Challenging time but bouncing back.** Management is more optimistic on 2021 after a strong 1Q21 report & with residential load improving. ED is seeing increased residential demand in the outer boroughs and expects to see improvement this summer as well.
- **Natural gas is no longer a transition fuel. Stagecoach "in the throes of the review process"** ED reports being deep into the strategic review process for its midstream assets held in a JV with Crestwood Partners (which holds a right of first refusal on any purchase of stake), with a decision is expected this quarter around the end of July. Management emphasizes that regardless of whether they decide to hold or divest the assets at this time, the company does not consider midstream gas a part of the core business anymore. Recall that in 2015, the acquisition was pursued under an earlier belief that natural gas would be a transition fuel between coal and renewables. ED's equity plans already bake in a range of possible outcomes, so no significant changes are expected under any outcome. Remaining book value is $670M and there is still ~$500M debt associated.
- **Update on late payment charges and allowances for uncollectibles.** Aged receivables >60 days are now ~$1B (vs $400M pre pandemic) funded with CP, with the amount associated with COVID19 increasing $153M to $625M during 1Q21, while the allowance for uncollectible customer accounts increased $34M to $181M. Approximately $110M of expense from reserves are being deferred under authority granted in 2020 legislation. There were $18M of estimated unbilled late payment charges and fees in the quarter as well. We continue to include a $500M pretax expense placeholder in our SoTP for a possible future writeoff of uncollectibles. In April 2021, CECONY filed a petition with regulators to establish a $52M surcharge mechanism to collect for 2020 late payment charges and fees beginning in Sept 2021 through Dec 2022.
- **"No set timing" on equity needs.** ED plans to file the next three-year rate plan for CECONY in early 2022 for rates in 2023. With a 12MT equity ratio at CECONY of 46.1% vs authorized 48.0%, the company is planning additional equity issuances to bring the balance sheet in line with the upcoming filing (historic three-year lookback stands at ~47%). The $1B of arrears >60 days now being financed with CP are not included in this equity ratio, but could reduce it further if termed out. Management reiterated plans to issue of up to $800M of common equity in 2021 and ~$700M in aggregate of common equity during 2022 and 2023 (in addition to equity under its dividend reinvestment, employee stock purchase and long-term incentive plans). Additionally ED expects to issue $1.9B - $2.6B of long-term debt, (including for maturing securities), in 2021 and ~$1.4B aggregate of long-term debt at the utilities during 2022 and 2023.
- **Renewables unaffected by higher steel and commodity inputs**: At the competitive energy business, ED noted that higher commodity costs haven't been a big issue thus far. Supplier relationships are strong and ED plans to do some more build-own-transfer of new renewable projects for third parties, which is more fee based without commodity exposure. Overall, the renewables business is expected to grow in-line with the utilities at a capex plan of ~$400M/year (was higher in 2020 at $600M due to pull forward).
- **Isaias response review.** An Administrative Law Judge (ALJ) has been appointed and hearings have been scheduled to begin in Sept 2021 in connection with show-cause orders issued earlier. ED has not booked any reserves for this yet.
- **Capital Plan (2021-2023) increased ~500M to ~$12.67B (from $12.1B).** ED's capex was increased in Q1 by $30M, $264M and $284M in 2021, 2022 and 2023, respectively, and the company now expects investments of $4,048M in 2021 (vs. 4,018M previously), $4,207M in 2022 (vs. prior $3,943M) and $4,419M in 2023 (vs. prior 4,171M).

- **2021 Guidance reaffirmed at $4.15 - $4.35**, in line with CS/cons $4.25/$4.25 after ED reported a 1Q21 beat with adj. EPS of $1.44 vs cons/CS $1.39/$1.26 and vs 1Q20 $1.35, driven by lower-than-expected COVID-related expenses, a higher-than expected (13%) non-weather jump in residential electric revenues, and impact from the annual stepup in rates under CECONY's three-year rate plan. High end of the 2021 guidance depends on reinstituting the recovery of late fees, but not the $52m from 2020. For the T12M, CECONY has earned an 8.5% ROE. ED previously projected a 5-yr CAGR of 4%-6% (based off 2021 adj. EPS and ~6.1% ratebase growth).

NiSource Inc. (NI) – Outperform, TP $29

Joseph Hamrock, President/CEO, Don E Brown, CFO, Pablo A Vegas, COO, Shawn Anderson, Senior VP/Chief Strategy & Risk Officer, Randy Hulen, VP of IR & Treasurer; Chris Turnure, Director of IR

- **Latest RFPs.** On May 20, NIPSCO announced three separate RFPs for wind resources, solar resources, and one for thermal, standalone storage, emerging technologies, and other capacity resources. The total expected range across all target areas is 400 MW to 650 MW of unforced capacity. The RFPs are intended to satisfy capacity requirements beginning in 2024, 2025 and 2026 through a combination of owned and contracted resources in coordination with the 2021 Integrated Resource Plan (IRP) process. RFP proposals are due June 30 with bid evaluation completed Aug 20 followed by signed agreements from Aug 2021-July 2022.
- **2021 Integrated Resource Plan (IRP).** Meetings throughout 2021 and completion is targeted for fall. The process includes RFP solicitation for new resources, (similar to 2018 IRP) and focuses on three primary considerations: (1) ability to meet reserve margins in all seasons (not just summer), (2) have an amount of firm, flexible/dispatchable capacity to handle increasing renewable penetration, and (3) assess ancillary service value of resources and ensure transmission implications are considered. The 1,780-MW Schahfer coal-fired plant is expected to retire in 2023 under all scenarios. However, management indicated that if presented with the right combination of new technological capabilities at attractive pricing (batteries, distributed fuel cells and local generation, and micro grids), it may be possible to retire the 469-MW Michigan City plant earlier than planned in 2028.
  - **Renewable projects were laid out in the 2018 IRP**. Recall CPCN filings were made on Feb 1, 2019 seeking approvals to develop three wind farms consistent with the IRP filed in the fall of 2018. Orders approving the PPAs on these filings were received on June 5, 2019. The 2019 RFP represents replacement ~1,400MW of coal capacity through 2023.
- **Columbia Gas of Pennsylvania - a final order is expected by end of the year.** Columbia Gas of Pennsylvania filed a 2021 base rate case in March requesting a $98.3M annual revenue increase. Next steps include staff/intervenor testimony and a final order is expected by end of the year. The ratecase has a different ALJ than the one involved in the prior ratecase in Pennsylvania that had recommended no increase at all. An order for Columbia Gas of Kentucky was received on 4/30 (new rates effective May 2021) allowing for $40M cost recovery of 2021 capex.
- **Sale of an LDC?** NI looks at strategic options as a matter of routine whenever considering financing plan options, but this year's review concluded that the convertible issuance in April was the best way forward, especially given the higher growth rates and capex opportunities across the company's utilities.
- **Convertible issuance eliminates block equity needs through 2024.** On 4/19, NI issued $862.5M convertible equity units at 7.75% yield (8.625M units), with proceeds to support renewables investment. The units are expected to receive 100% equity credit from S&P and Moody's, with full dilution hitting now (to diluted EPS) although shares won't be issued through the convert until the end of 2023. The 7.75% yield is paid from cash flow below the income statement (OCI). Recall that the company subsequently updated its financing strategy for 2021-2024, eliminating the original plan for $500M - $700M block equity and reducing the expected ATM for 2023 to $0 - $150M (from $200 - $300M).
- **Financing strategy reaffirmed.** The company previously updated its financing strategy for 2021-2024, eliminating the original plan for $500M - $700M block equity and reducing the expected ATM for 2023 to $0 - $150M (from $200 - $300M).
- **2021 Guidance reaffirmed at $1.32-$1.36.** NI raised guidance in Q1 to $1.32-$1.36 (from $1.28-$1.36) vs CS/cons $1.34/$1.33, after NI reported 1Q21 in-line with Adj.

EPS $0.77 vs CS/cons 0.76/$0.76, and vs 1Q20 $0.76, driven by increased investments in safety and asset modernization (excluding Columbia Gas of Massachusetts). NI also reaffirmed long-term (2021-2024) EPS CAGR of 7%-9% and near-term EPS CAGR of 5%-7% through 2023. NI expects investments to drive rate base growth of 10-12% CAGR through 2024, and we expect the company to attain at least the midpoint of a 7%-9% EPS CAGR (vs 2021) for 2024-25 after Indiana renewables are in service.

- **Prior Pennsylvania rate order received on 2/19 "right down the fairway."** NI received a rate order on 2/19 for $63.5M revenue based on 54% equity and 9.86% ROE. This is a positive outcome vs. investor concerns over earlier ALJ recommendation for no increase at all. The commission also approved a single step increase, which is more favorable than the company's request for two steps.

NorthWestern Corporation (NWE) – Neutral, TP $67

Bob Rowe (CEO), Brian Bird (Pres and COO), Crystal Lail (VP and CFO) and Travis Meyer (IRO and Dir. Corp. Finance).

- **Regulatory relationships improving in Montana.** NWE continues to cultivate productive discussions with two new commissioners: Jennifer Fielder (R) and James Brown (R), which replaced Bob Lake (R) and Roger Koopman (R), respectively. Fielder is from Western Montana and favors hydroelectric power, while Chairman Brown, is a lawyer focused on due process and procedure.
- **Longer term, NWE guides to 4%-5% annualized ratebase growth generating 3%-6% annualized EPS growth.** Additionally, the company is maintaining a 60%-70% targeted dividend payout target, with $2.48 annualized dividend likely to be at the upper end of the range this year with growth in line with EPS going forward, and is also targeting debt to capitalization ratio of 50%-55% with liquidity of $100M or greater.
- **Equity plans.** NWE initiated a $200M ATM offering during 2Q21 and the company reiterated that any equity issuances will be sized in such a way to allow the company to maintain current credit ratings. Due to Moody's outlook change, the company anticipates accelerating from what was previously noted as "over three years," but still spread out over time. Montana RFP generation is not included in this plan, with additional equity likely needed (50% equity/50% debt) if self-build wins approvals later in 2021.
- **RFP project selection.** NWE announced in Q1 that it had chosen a self-build generation option as a preferred option in the utility's request for proposals (RFP) for up to 280 MWs new generating resources. The Laurel Generating Station (175MW) RICE units would be owned by NWE, with the remainder filled with a five-year power purchase agreement with Powerex for 100MW of capacity. Laurel is expected to cost ~$250M in 2022/23 (financed 50/50 debt/equity at that time) and become available for operational use by late 2023/early 2024. Additionally, the company expects to finalize an agreement for an energy storage contract to fill a 5-hr duration. NWE expects file for formal MPSC approval in May 2021 with a final order six to nine months after filing. We expect another RFP for additional resources after the approval process is completed.
- **All quiet on the (North)Western front – Guidance Reaffirmed.** NWE reaffirmed 2021 guidance at $3.40-$3.60 (CS and consensus $3.50), after NWE reported a 1Q21 beat with adj. EPS of 1.26 vs. CS/cons $1.13/$1.12, and vs 1Q20 $1.06, driven largely by improved gross margin from higher electric and natural gas retail volumes and lower opex costs, partially offset by higher Montana Electric supply costs and depreciation expense. We continue to expect 2021 guidance to be narrowed, but we don't see this happening until Q2 or Q3 earliest**.**
- **Regulatory Update – No ratecase filings expected in 2021.** NWE does not expect to file any base ratecases in any of their jurisdictions in 2021. Furthermore, the company filed a request on 4/15 to delay implementation of the fixed cost recovery mechanism pilot in Montana for another year until July 2022 or beyond as a result of continued COVID-19 uncertainty. The company also filed on 4/21 for approval to increase revenues for the Montana Power Cost and Credit Adjustment Mechanism (PCCAM) by $17M.
- **Capital Plan (2021-2025) unchanged at $2.1B.** NWE introduced a new capital plan in Nov 2020 for 2021-2025 with $2.1B of total capital investment throughout the next five years, a $300M increase over prior plan. Capex remains $451M, $456M and $418M for 2021, 2022 and 2023 respectively, and $400M in 2004 and 2025.

Southern Company (SO) – Outperform, TP $74

Andrew Evans, EVP & CFO; Robin Boren, SVP & Treasurer; Scott Gammill, Dir. IR

- **Vogtle Unit 3 nearing completion, but Hot Functional Testing (HFT) sequence is now expected to "take a couple of weeks longer" than the company's initial plan of 6-8 weeks.** Investors should not be surprised to see more delays, which are insignificant to our TP and Outperform thesis. The latest delay is from the need to bring down system temperatures while shims are adjusted on pressurizer equipment before reheating. These adjustments so far are not considered serious defects, but rather the expected tweaks typically done during a HFT. The company's previous plan was for the plant to begin operations in December 2021, but since more testing is needed, new completion date is now expected in 1Q22 with 8-10 weeks for HFT. Testing of control systems began on 4/25 (the last major test) and fuel load is now expected in September with best case scenario now a Jan 2022 in-service date (vs. prior Dec 2021). Important to note that Jan 2022 is on the "aggressive" schedule; we think 1Q22 is more accurate, with each month ~$25M (eating into $175M contingency remaining 3/31/21). Major remaining risks include successful completion of construction, and testing and system turnovers. **Unit 4 is now ~80% complete, and still targeting 3Q22 in-service date**, but we continue to envision some modest slippage and higher contingency cost here too as work crews assist with Unit 3.
- **Vogtle total projected capital cost unchanged at $8,755M** (after it was previously increased by $48M, from $8,707M), and remaining estimate to complete is unchanged at $1,195M although delays may result in an incremental $25M/month in cost although this is covered by the company's $175M contingency remaining as of 3/31. Unit 4 schedule cost margin remaining to Nov 2022 deadline is $39M (vs prior update of $64M). As of 3/31 SO has invested $7,560M in Vogtle (vs. $7,246M in prior update).
- **Vogtle cost recovery path.** During construction, $4.4B of plant capital is earning a 5.3% penalty ROE as agreed to under a 2017 settlement. Another $2.3B is earning only a debt return at 3.2% (including the low cost from DOE loan guarantees). We estimate that once Unit 3 is in service, the $4.4B will be restored to Georgia Power's 10.5% ROE (a $0.05 EPS impact mostly on 2022 results). A review of penalties on the remainder of the asset will be deferred until both units are in service (an incremental $0.16 annualized impact that we estimate shows up in 2023). This >$200M net income improvement is a major driver of 100 bps higher EPS growth to 5%-7% through the end of Vogtle construction.
  - **On prudency determinations**, $3.5B of costs have already been deemed prudent in the 2017 settlement. Spending above this and up to $5.68B has already been considered "reasonable", with the burden on opponents to prove imprudence. Anything over $5.68B (to $7.3B settled cap) will have to be shown prudent by the company. Prudency determinations are expected 130 days following Unit 4 in-service.
  - **A new ROE for Georgia Power is likely determined in the next general rate order**, which is also expected around the same time as Unit 4 in-service. After Vogtle, we estimate that this level of EPS growth is sustained by incremental decarbonization capex and strong cash flows that strongly mitigate the need for secondary equity. We also think Georgia Power is likely to request recovery of COVID19 costs and other contingency funds used during Vogtle construction, although regulatory support for this could be difficult to obtain.
  - **Customer rate impact.** Since inception over a decade ago, the plant is expected to cost customers a 10% increase in rates. However, roughly half of this is already in rates through the NCCR tariff. Upon unit 3 in-service, rates can be expected to increase 3%+, with a similar increase after Unit 4 is in service.
  - **Prior commentary on cash flows.** Management has previously stated that Vogtle (once fully embedded in rates) should add ~$850M of annual cash flow. While the company has not decided what it plans to do with cash flows in 2024 -2026, it

expects to potentially grow dividends faster or pay down debt to improve credit quality. Dividend growth has typically been slightly behind the company's expected income growth in an "effort to move payout ratio down a little closer to industry"

- **More renewables coming.** SO now owns ~5,000MW of renewables and expects to continue to add to the portfolio with the recently announced acquisitions of 300MW Deuel Harvest facility in SD, and the 118MW Glass Sands facility (currently under construction) in OK, plus 160MW Tranquility and Garland battery storage projects (also under construction) in CA. SO now owns 15 wind projects and ~2,500MWs of solar plus ~160MW of battery storage across the US.
- **2021 guidance unchanged at \$3.25 - \$3.35** vs. CS/cons 3.30/\$3.31, after SO reported 1Q21 Adj. EPS of \$0.98 vs. CS/cons \$0.82/\$0.82, vs guidance \$0.84, and vs. \$0.78 in 1Q20, driven by customer growth, higher residential sales, favorable weather and investment in regulated utilities, partially offset by COVID19 impacts. Additionally, SO is guiding 2Q21 adj. EPS at \$0.78.
- **2021 outlook**. SO is estimating 2021 weather-norm total retail kW/hr sales to increase by 2%-3% vs prior year. Additionally, the company is projecting for their electric service territory to reach the pre-pandemic employment peak in 2022.
- **Equity needs unchanged.** SO continues to expect no secondary equity through at least 2025. As of 3/31, SO has > \$7.7B in committed credit facilities and \$7.2B available liquidity.
- **Capital Plan (2021-2025) unchanged at \$39.9B.** SO's 5-yr capex is unchanged at \$39.9B, (slightly higher than prior \$39.5B 2020-2024 plan), with capex of \$7.7B in 2025. Recall SO expects 95% of capital plan to be deployed into state-regulated utilities and the company is projecting a 4% annual capital growth in electric utilities to \$64B in 2025 (off \$52B in 2020), driven by modernization and resilience initiatives. Additionally, SO is projecting 10% annual rate base growth in Gas LDCs to \$13B in 2025 (off \$8B in 2020), driven by "substantial" pipeline replacement.
- **Decarbonization efforts.** SO plans to achieve 50% reduction in greenhouse gas emissions by 2025 (ahead of prior 2030 goal) and achieve net-zero by 2050. YTD, the company's generation mix includes, 15% renewables (unchanged vs. Q4), 22% coal (vs. 17% in 2020) 16% nuclear (vs. 17% in Q4), and 47% natural gas (down from 51% in 2020).

Spire Inc, (SR), Outperform, TP $83

Steve Lindsey (EVP and COO), Steve Rasche (EVP and CFO), Adam Woodard (VP, Treasurer), Scott Dudley (MD IR), Nana Appah-Sampong (Sr. Analyst-IR)

- **Impact From Uri:** Gas marketing results improved ~$35M from extreme market conditions and storage monetization during Winter Storm Uri. This was a bit more than we anticipated, but less than the high end of possibilities considering the company entered 2021 with a 26 BCF storage position potentially worth multiples of that at the peak of the storm
    - **Color on Storm Uri effects on Spire gas customers from our** 5/10 EXC note: SR reported that Exelon's (EXC) ExGen power and gas marketing business was one of three marketers that may be subject to penalties in Missouri after SR acted as a provider of last resort (POLR) to ExGen's natural gas customers. SR noted about $196M at stake (a portion associated with ExGen) and has launched litigation against ExGen, while the Missouri Public Service Commission is also considering if any part ExGen's costs should be waived (cost of gas plus 1.5x penalties). In our view, it seems possible that penalties could be waived but unlikely that regulators would choose to allow marketers to pass along the cost of high-priced gas to any fixed-cost retail customers.
    - **Likely to see some small net incremental benefit in 3Q as remaining unresolved contracts and payments are settled**.
- **Missouri ratecase filed in Dec, next steps include submission of testimony on rate design on 5/26. We continue to see room for a favorable settlement.** As expected, staff/intervenor testimony was provided on 5/12, a standalone cap structure was recognized, and recommendations called for a 9.37% ROE and a 54.25% equity ratio. Next steps include submission of testimony on rate design on 5/26. Local public hearings are scheduled for late June, with MPSC hearing in July and August. Recall the rate case was filed on 12/11, seeking recovery of costs and >$850M in capital investment. The filing requests a base rate increase of $64.2M, (which is net of $47.3 million already being collected through ISRS) based on ratebase of $2,780M, a 9.95% ROE and a 54.25% equity ratio.
- **Settled outcome in the Missouri ratecase seems likely.** We continue to expect a relatively non-contentious settled outcome, with the Infrastructure System Replacement Surcharge (ISRS) resolved by legislation and less controversy now over prior ratecase issues with tax reform, capital structure, and prepaid interest expense.
- **SR reaffirmed a long term NEE per share growth target 5-7%** off a pre-COVID-19 2019 base of $3.73, driven by consistent growth of its gas utilities. SR's LT growth target assumes annual rate base growth of 7-8% driven by investment in pipeline and technology upgrades, and new business.
- **2021 Guidance raised to $4.30-$4.50** (from previous range of $4.00-$4.20) vs CS $4.10 vs consensus $4.16) after SR reported a 2Q21 strong beat with NEE of $3.71 vs. CS/cons $3.08/$3.03, and vs 2Q20 $2.75, driven by strong performance from Spire Marketing, and improved earnings from Gas utilities and lower interest expense.
- **Capital plan (2021-2025) reaffirmed at $3B and on track for FY21.** SR's 2021 capex is on-track at $590M (560 Gas Utility, $30M Pipelines, storage & other) with $304M in 1H21 (vs $346M in FY20), which includes $148M for pipeline replacement and $75M for new business at Gas Utility, Capex is expected to be $580M in 2022, $590M in 2023, $600M in 2024, and $610M in 2025.
- **Financing update – 2021 Equity needs satisfied.** On 3/23, SR entered into a 364-day term loan for $250M in order to maintain financial flexibility amid the Winter Storm Uri in February. Also, on 2/18, SR completed an equity units offering for gross proceeds of $175M (initially recorded as LT debt). The company used the net proceeds, in part, to

repay ST debt under its commercial paper program. The offering resolved the need for SR planned equity needs for fiscal 2021.

WEC Energy Group (WEC), Underperform, TP $91

Scott Lauber, Sr. EVP & COO, Xia Liu, EVP & CFO, Beth Straka, SVP Corporate Communications & Investor Relations

- **Moving along in Wisconsin electric ratecase - A Commission review and consideration is expected over the next 60 days.** WEC filed on 3/30 to stay out one year (as a result of COVID-economic impacts) and maintain current authorized ROE: 10% for Wisconsin Electric and Wisconsin Public Service, and 10.2% at Wisconsin Gas, and to maintain a 50%-55% equity ratio at all three utilities. Management noted that "things are moving along well and we are optimistic that will hear something soon." WEC expects a commission review and consideration within the next couple months and will file next rate reviews no later than May 1, 2022.
- **Moving faster on decarbonization – "resonating with stakeholders".** WEC previously announced new greenhouse gas reduction targets – to reduce emissions by 60% (vs 55% previously) below 2005 levels by end of 2025 and 80% by 2030 (vs 70% previously). Still targeting net carbon neutral by 2050 and net zero methane emissions by the end of 2030 too. Furthermore, the company estimates that less than 10% of WEC revenues and assets will be tied to coal by the end of 2025; essentially just the Weston 3&4 and Oak Creek units after retiring Oak Creek 5-8 (1.1 GW) and Columbia 1-2 (300 MW) from 2023-2024. Investors have been pleased thus far with WEC's accelerated targets.
- **No delays in energy infrastructure progress.** Jayhawk Wind Farm is still expected to be commercially operational by late 2021**.** Within the non-regulated Energy Infrastructure segment, WEC acquired a 90% stake in Jayhawk Wind Farm for $302M, which will be built in Kansas and consists of 70 wind turbines with a capacity of ~190MWs. The project also incorporates a long-term offtake agreement with Facebook and is expected to be commercially operational by late 2021. Additionally, the 300MW Thunderhead project is expected to go in-service by year-end. Even though Thunderhead had been expected previously to be connected to the grid by end of 2020, a "several-month delay" was due to a permit issue related to a substation being built by Nebraska Public Power District. It is expected to begin commercial operations by year-end; management emphasizes that the delay should not change the trajectory of company's earnings growth for 2021.
- **New LNG storage facilities on-track**. We Energies is seeking approval for two LNG facilities in order to obtain additional natural gas in Wisconsin. WEC is expected to invest $370M into the projects which have an in-service date of late 2023. Approval is expected in Q4 of this year, and construction would begin soon after if approved.
- **2021 Guidance Reaffirmed at adj. EPS $3.99 - $4.03 (CS/cons $4.00/$4.02) with an emphasis towards top end**, after WEC reported a strong 1Q21 beat with adj. EPS of $1.61 vs CS/cons $1.47/$1.45, vs company guidance $1.45-$1.47, and vs 1Q20 $1.43. 2021 guidance reflects 7%-8% off $3.73 base (midpoint 2020) and supports WEC's long term 5%-7% annual growth. Additionally WEC is guiding 2Q21 adj. EPS of $0.75 – $0.77 (vs CS $0.80 and 2Q20 $0.76). Lastly, WEC continues to guide to 2%-3% incremental cost reduction in 2021 vs a 3% reduction in 2020.
- **Utility decarbonization investment.** As part of a $1.9B, 1.8-GW renewable investment plan for the utilities, the 100MW, $130M Badger Hollow Solar Park I and II projects are targeting in-service dates of summer 2021 and Dec 2022, respectively. The company has also announced $1.5B of investment in 675 MW solar, 316 MW battery, and 82 MW of wind from shares in four large scale renewable projects (Paris, Darien, Koshkonong Solar-Battery, Red Barn Wind) expected to be in service from 2022-2024. The utilities are also replacing 400 MW of older gas turbines with 100 MW of efficient gas-fired RICE units and 200 MW of new CCGT for $180M from 2023-2024. Furthermore, they are proposing to build 128 MW of efficient gas-fired RICE units at the Weston site in 2023 for $170M.
- **WEC's Capital Plan $16.1B (2021-2025) is unchanged**. WEC's capital plan is unchanged after it was previously rolled forward a year in 3Q20 call and increased by $1.1B (7.3%) to $16.1B vs. previous $15B (2020-2024) capital plan.

- **No equity financing is anticipated**. WEC does not expect any equity needs and expects FFO/debt between 16%-18% (potentially high end or above) for the next five years without the need to issue additional equity.
- **Retail electric and natural gas (w/o power gen) annual forecasts unchanged.** WEC is forecasting a 1.4% increase in total retail sales volumes in 2021 (vs 2020), which also represents a 1.5% reduction from 2019 levels. For natural gas, WEC continues to project weather normalized retail gas deliveries to decrease by 2.4% vs. 2019, and for residential and C&I to improve 0.5% and 0.8% respectively vs 2020.

Valuation Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Black Hills Corp (BKH.N)

Method: We arrive at our $78 price target using a sum of the parts valuation methodology; applying multiples specific to the individual businesses that BKH operates in. We apply a 1.0x premium to the average peer 2022 P/E multiple to the electric utility business (ex. Colorado) and an average for the CO segment. We apply a 1.0x premium to the average peer 2022 P/E multiple to the gas utilities. We then apply an average electric P/E multiple to the power generation business since it is under long-term contracts to te utilities. Our valuation also includes the probability weighted outcome for the Wyodak coal contracts. Our OUTPERFORM rating reflects a forecast total return materially above its peer group average.

Risk: Risks to our $78 target price and OUTPERFORM rating on BKH: (a) earnings dependent on regulatory relationships; we would highlight Colorado as their most challenging jurisdiction, (b) success at the utilities in funding the next newbuild cycle, (c) COVID19 load reduction and bad debt, (d) repricing risk in 2023 for the Pacificorp coal contract, (e) upside/downside risk for the capital plan, with 1-2 incremental ~$50M projects typically announced each year above and beyond the plan, (f) interest rate risk.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for CMS Energy Corp (CMS.N)

Method: We arrive at our $70 price target and OUTPERFORM rating for CMS by applying a 3.0x premium to average peer 2022E P/E multiples for electric and gas, respectively and an average utility P/E multiple for the enterprises business, reflecting above-average EPS growth and a favorable regulatory environment. We also assume 50% realization of upside from $3-4B of incremental capex through 2028. Our OUTPERFORM rating reflects a forecast total return above the group average.

Risk: Risks to our price target of $70 and OUTPERFORM rating for CMS are 1) risks related to implementation of Michigan energy legislation 2) regulatory risk, 3) legislative risk, 4) commodity risk, 5) interest rate risk, 6) derivate risk, 7) load growth risk, 8) weather risk, 9) environmental and climate change risk, 10) physical infrastructure and cyber security risk.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for CenterPoint Energy Inc (CNP.N)

Method: Our $28 target price and Outperform rating for CNP are derived from our sum of the parts analysis. We expect its total return to be above peers within our coverage universe. Our target price is based on (1) a 2.0x premium to the average peer 2022E P/E multiple for the electric segment (primarily for the Indiana jurisdiction) and 2.0x premium to the average multiple for the gas segment, respectively and; (2) market price for Energy Transfer shares minus a 50% probability of incurring a tax loss (-$1.75B cost basis) on a possible sale.

Risk: Risks to our $28 target price and Outperform rating for CNP include regulatory risk at the utilities, particularly in Texas after a disappointing 2019 rate decision for Houston Electric, COVID19 load reduction and cost, operational risk at the both the electric and gas utilities, capital plan execution risk, and a lower valuation as investors discount commodity price head winds or if the outlook for midstream deteriorates in the service areas where its assets are located.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Consolidated Edison (ED.N)

Method: We calculate our $74 target price on Consolidated Edison based on a sum-of-the part methodology. We apply a -2.0x discount to the 2022 peer average P/E to the NY utilities for low earned ROEs (below-average authorized ROE of 8.8% base plus 50 bps upside before sharing) and a difficult-to-achieve incentive program under the three-year rate plan is in place through 2022, despite slightly above-average ratebase growth of 6%. The renewable segment is valued using the cash flow yield approach with a 9.5% yield while the transmission and midstream segment is valued using a 5.0x EV/EBITDA multiple due to its negligible growth. As a placeholder assumption, we subtract $500M pretax ($1/sh) of value for possible writedown of bad debt and lost fee income as a result of COVID19. The UNDERPERFORM rating reflects our expectation for the stock to lag peers with a below average earnings growth profile.

Risk: Risks to our $74 target price and the UNDERPERFORM rating on ED are: (1) ROE risk related to REV approvals and future growth coming out of the program, (2) a significant increase in interest rates, particularly given the formulaic ROE approach in NY, ED's primary jurisdiction, (3) ability to finance capital expenditures, and (4) the impact of COVID19 pandemic response on bad debt and lower late fee collections.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for DTE Energy (DTE.N)

Method: We arrive at our $133 price target for DTE using a 2022E P/E multiple relative to the group average. We value the Detroit Edison (Electric business) and MichCon (gas) using a 3x premium to the respective average peer electric and gas 2022E P/E multiples to reflect the constructive regulatory environment in the state along with a strong legislative backdrop. While GS&P's spin is pending, we also value the non-utility businesses on an EV/EBITDA basis, using 8.0x consistent with our treatment of other utilities with similar midstream exposure. We also assume there is some risk related to recontracting and expansion on Nexus as well as a reduction of revenue in the Haynesville once the current 13-year above-market contracts expire. Our NEUTRAL rating for DTE reflects a forecast total return at the group average.

Risk: Risks to our $133 price target and NEUTRAL rating for DTE are 1) oil and gas industry risk in the Haynesville and Marcellus/Utica, 2) execution and operational risk for the utility's long-term capital plan, 3) regulatory risk, 4) commodity risk, 5) derivative risk, 6) load growth risk, 7) weather risk, 8) environmental and climate change risk, and 9) physical infrastructure and cyber security risk.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Dominion Energy (D.N)

Method: Our $90 TP and OUTPERFORM rating are based on a sum-of-the-parts valuation methodology. We include partial credit for 5.1 GW of offshore wind through 2035 (EPS based on 50% equity, 9.6% ROE, and discounted to 2022). We apply a 3.0x premium P/E multiple for the Virginia utility given the triennial rate review system that provides rate stability through at least 2024 and a 1.0x premium for the gas utilities. We assume a 50% probability of a $50M revenue reduction in 2022 and a 90% probability that the company will be required to make an incremental $265M of annualized CCRO investment in 2025+ for which investors only realize 30% of the value. We assume the peer electric and gas group P/E multiples for Dominion Energy South Carolina given a balance between above-average ratebase growth opportunities and lower earned ROEs with the need for a rate filing in 2021. We apply the average peer electric utility P/E multiple to long-term contracted generation, including Millstone nuclear, and the company's 50% ownership of the contracted Cove Point LNG export terminal.

Risk: Risks to our $90 target price and OUTPERFORM rating for Dominion are 1) removal of D's rate freeze in Virginia 2) regulatory risk, 3) legislative risk 4) commodity price risk and power market/power price risk 5) interest rate risk 6) derivative risk, 7) load growth risk 8) weather risk, 9) environmental and climate change risk, 10) physical infrastructure and cyber security risk, and 11) execution risk on the major ongoing capital projects.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Energy Transfer LP (ET.N)

Method: Our target price of $13 for ET is based on a 8.9x EV multiple on our FY22 EBITDA estimate. We rate ET Outperform as we expect it to return more than its peers.

Risk: Risks to our $13 target price and Outperform rating for ET are DAPL, project delays, and lower production volumes.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: We arrive at our $29 target price for NI by applying a 1.0x premium to the gas segment peer 2022E P/E to reflect the constructive regulatory environments with capex trackers in place in the jurisdictions that NI operates. We also apply a 1.0x premium to the average peer electric utility 2022E P/E multiple for NIPSCO Electric utility in Indiana to reflect the favorable ratebase growth profile and regulatory environment in the state. Our OUTPERFORM rating reflects a forecast total return that is above the group average.

Risk: Risks to our $29 target price and OUTPERFORM rating are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particularly in the non-decoupled jurisdictions, 7) weather risk, and 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety after the 2018 explosion incident in Mass., and 11) COVID19 load reductions.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for NorthWestern Energy (NWE.OQ)

Method: Our $67 target price for NWE is based on a -0.25x discount to the average peer electric utility 2022E P/E multiple (no discount to the average gas utility multiple) to account for regulatory risk in Montana, especially an aversion in the state to ratebased ownership of generating assets. We rate NWE NEUTRAL as we expect its total return to be above its peer group.

Risk: Risks to our $67 target price and NEUTRAL rating for NWE are 1) approval of a potential decoupling mechanism to deal with lost load, 2) regulatory approvals to add new generation units in ratebase, particularly in Montana, and 3) changes in the regulatory environment in Nebraska, Montana or South Dakota, (4) COVID19 load reductions

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Southern Company (SO.N)

Method: We derived our $74 TP for SO using a SOTP methodology. For the regulated utilities segments, we value the segments separately by applying a 3x premium group P/E target multiple to the Alabama and Georgia segment's 2022E earnings to derive the segment's value while taking into account the risks in these segments. We apply a 0.0x (no adjustment to average) for Mississippi. We use an

EV/ EBITDA multiple approach to value Southern Power segment whose earnings is derived from long-term PPAs of contracted merchant assets. An EV/ EBITDA multiple of 10x is applied to the segment's 2022E EBITDA to derived the total value of the segment. We use a peer group average EV/EBITDA of 9.5x to value the gas midstream segment and use a 12x P/E to derive the value of the gas marketing segment. Our Outperform rating reflects a forecast total return above the group average.

Risk: Risks to our Outperform rating and TP of $74 are: 1) Vogtle construction execution, and 2) potentially lower ROEs out of ratecase filings across the Gas LDCs, along with general business risks in the utility industry: 1) regulation, 2) legislation, 3) commodity prices, 4) interest rates, 5) derivative risk, 6) load growth, 7) weather, 8) environmental and climate change, 9) physical infrastructure and cyber security, and 10) COVID19 load reduction and unpaid bills.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Spire Inc. (SR.N)

Method: We arrive at our $83 price target for SR by applying an average peer gas utility 2022 P/E multiple to the Missouri utility, and a 1.5x premium is given to the other gas utility businesses given more favorable regulatory jurisdictions. For the gas marketing business, we apply a 12x 2022 P/E multiple reflecting the increased risk and volatility of the marketing business relative to the gas utility business. We rate SR OUTPERFORM as we expect its total return to exceed peers.

Risk: Risks to our $83 price target and the OUTPERFORM rating for SR are: 1) regulatory risk, 2) commodity risk, 3) interest rate risk, 4) derivative risk, 5) load growth risk, 6) weather risk, 7) environmental and climate change risk, 8) physical infrastructure and cybersecurity risk, and 9) COVID-19-related load reductions in winter 2020-2021.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for WEC Energy (WEC.N)

Method: Our $91 target price and UNDERPERFORM rating for WEC are based on the sum-of-the-parts methodology. In our valuation of the Wisconsin segment, we apply a 3.0x premium to the blended average peer 2022 P/E multiple of the electric and gas groups to account for the opportunity set in Wisconsin and for a lower beta than peers. A 3.0x P/E premium is also applied to the Illinois and other states segments. A 2.0x premium over the electric group P/E multiple is used in our valuation of the ATC and the non-utility segments We rate WEC Underperform as we expect its total return to be below its peers.

Risk: Risks to our $91 target price and UNDERPERFORM rating for WEC are ratecase outcomes, deterioration in regulatory environment in WI, IL, MI, and MN, and failure to execute its investment plan.

Companies Mentioned *(Price as of 20-May-2021)*
Avangrid (AGR.N, $52.29)
Black Hills Corp (BKH.N, $66.21)
CMS Energy Corp (CMS.N, $63.74)
CenterPoint Energy Inc (CNP.N, $24.7)
Consolidated Edison (ED.N, $78.42)
DTE Energy (DTE.N, $140.36)
Dominion Energy (D.N, $77.24)
Energy Transfer LP (ET.N, $10.02)
NiSource Inc. (NI.N, $25.32)
NorthWestern Energy (NWE.OQ, $63.31)
Southern Company (SO.N, $64.06)
Spire Inc. (SR.N, $72.92)
WEC Energy (WEC.N, $95.52)

Disclosure Appendix

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Underperform/Sell*	10%	(19% banking clients)
Restricted	1%	

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2021 AGA Meeting Takeaways

In this note, we briefly summarize takeaways from each of our 12 meetings at the American Gas Association (AGA) Conference over the past two days.

Utes remain close to fair value/modestly cheap in our bond model. After strong relative performance in Sep/Oct 2020 (Uts +7% vs S&P500 -7%) the group materially underperformed the market since Nov 2020 (Uts up 10% vs S&P500 up +27%) as the S&P rallied with a cyclical/risk-on rotation. Utilities are now modestly expensive in our bond model on '21 dividend yields and ~3% cheap on '22 yields (page 8). The group is discounting 10yr at ~1.6% one year forward. NTM relative P/Es still show a discount at 0.94x versus a 1.09x average since 2006 – but notably in the 08/09 recession it took close to 18 months since the trough to get back to normal levels. The recent valuation trough was mid-20, see page 9. We foresee the group continuing to lag the market in the near term and prefer value (energy exposed/more cyclical names) over quality (CNP, EVRG, ETR, OGE and SRE are outperform rated names within the regulated value bucket). Within diversified names we like AES (top pick) and EXC. Long term we are more constructive due to valuation support and view the Biden presidency as a major tailwind. We are outperformed rated AEE, AEP (top pick) and D within the quality bucket, (see our 2021 outlook here).

Ameren Corp. (AEE), Outperform rating, $90 price target

- **Illinois Downstate Clean Energy Act:** AEE remains at the table with stakeholders. The legislation session ends May 31, 2021 but the bill could also be brought up in subsequent veto sessions; the Act presents possibility of solar/storage/EV capex, plus $0.07 annual EPS upside given a potential modification of the allowed ROE formula.
- **Missouri securitization:** legislation passed the House and Senate last week and the governor usually signs bills in late June; then they become law, effective Aug. 28 if they don't have an emergency clause. AEE says legislation does not have an immediate impact on how it is thinking about its Missouri IRP, but it provides greater flexibility to address acceleration of coal retirements. Management said passage of the legislation is also another sign that Missouri legislation is constructive, as evident with PISA as well.
- **Incremental wind capex:** Ameren will file CCNs by end of year for the 1,200 MW of incremental wind projects in the Missouri IRP that are not currently in the five-year capex plan.
- **Incremental MISO transmission capex**: "sizable" investment opportunities primarily in the latter half of the decade that would be incremental to the $40+ billion ten-year capex plan. Some could come in 2024-2025 timeframe under five-year plan but not likely to be material. More clarity on MISO opportunities will come in December 2021 when they put forth their first portfolio
- **Callaway outage**: Ameren does not foresee any major risks to bringing the nuclear plant back online in July. Still no significant impact on financial results expected.

See inside for takeaways on the remaining companies.

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Ameren (AEE) Takeaways continued…

- **FERC incentive adder**: comments and reply comment due dates were extended. Comments are now due by June 25, 2021 versus May 26, 2021 previously. Reply comments are now due by July 26, 2021 versus June 10, 2021 previously. If the 50bp incentive adder were removed, it would have a $0.04 EPS impact.
- **What AEE is excited about:** Long-term infrastructure investment points to extended runway of growth beyond five-year plan, particularly as it relates to MISO transmission, grid modernization and the clean energy transition including EV-related spending.

CenterPoint Energy (CNP), Outperform rating, $26 price target

- **Tax repairs**: CNP is looking to use tax repairs, which will allow for expensing a portion of capex, to mitigate tax leakage from one-time taxable gains on the gas LDC sales, as well as potential ET unit gains when it disposes of them. CenterPoint expects to have the ability to carry back the deduction several years.
- **Capital a priority for excess cash:** CenterPoint continued to highlight that the $300mm of incremental proceeds from gas LDC sale versus plan will be primarily used for reinvestment (likely electric) to improve utility performance without burdening customers. The next priority is delaying or eliminating the ATM program, and the potential opportunity to use anything left to de-lever.
- **Excess cash versus plan**: we project over $1 billion of excess cash versus the plan primarily driven by ET share price appreciation and lower-expected cash taxes on gain on sale with deployment of tax repairs. That translates into 2023 EPS upside of $0.16-0.17 or 10% vs our current projection if all were reinvested assuming the excess cash is deployed at 10% ROE in the utility business. We would not expect all of the cash to be reinvested; as mentioned, we would see it eliminating equity needs and used for de-levering as well.
- **ET unit sell-down**: CNP reiterated its plan to sell the ET units expeditiously (more quickly than five years) after the transaction closes, expected 2H21.
- **Regulatory relationships:** CNP said it spent a day in Austin this week with about three-quarters of the time at the Capitol advocating for legislation and the remainder at the Texas PUC with two commissioners. CenterPoint said the commissioners recognize there is a clear platform for change but likely not a major change to the wholesale markets in TX. Conversations centered on incremental transmission, battery storage and other tools to minimize the impacts of widespread outages. CNP is looking to build on the conversation in the future.

CMS Energy (CMS), In Line rating, $64 price target

- **Electric rate case:** we believe the pending rate case filing is relatively plain vanilla and it should not have any majorly controversial issues. Michigan ROEs have been sticky and remained well above the national averages even as the 10-year treasury rate has declined more significantly over the past several years. CMS said it will make the case that equity thickness should increase in light of tax reform enacted in 2017, as other jurisdictions outside of Michigan increased it to mitigate the cash flow impact.
- **IRP filing:** CMS will file its IRP on June 30th. We believe there are two key items to focus on: 1) accelerated coal retirements from the 2030s, and 2) a more rapid solar build-out with higher portion of owned resources. CMS said there will be a sharp focus on resiliency and reliability (we expect a fair amount of gas) in light of the Texas winter event this year. The company will seek to balance affordability and not burden ratepayers as well, and look to backfill any earnings loss from retirements.
- **Long-term growth rate**: CMS remains focused on delivering (and managing around) 6-8% EPS growth per year, with a bias to the midpoint, as it has consistently done for several years.
- **Cost savings:** CMS has identified >$200mm of future cost savings from the 2022 Palisades retirement, Karn 1&2 coal unit retirements in 2023, MCV contract change in 2025, and the Campbell coal unit retirements in 2031 and beyond. Every $1 of savings creates headroom for $6-8 of capex.

- **Hydrogen pilot programs:** CMS is in discussion mode about hydrogen pilots and would consider opportunities. The company said it does not feel a major need to rush and do pilots because there are plenty out there that they could learn from, and there is a lot of ability to share knowledge in the utility space.

Consolidated Edison (ED), Underperform rating, $72 price target

- **Surcharge recovery mechanism filing – range of outcomes assumed in 2021 EPS guidance**: ED is assuming a range of outcomes in 2021 EPS guidance for this filing, for which ED requested a decision in September 2021 but said is an uncertain process. Con Ed is comfortable with its long-term EPS growth rate of 4-6% in 2021 through 2025. As a reminder, in April 2021, CECONY filed a petition with the NYSPSC to timely establish a surcharge recovery mechanism for $52 million of late payment charges and fees, offset for related savings, for the year ended December 31, 2020 to begin in September 2021 and end in December 2022. The petition also requests a surcharge recovery or credit mechanism for any fee deferrals for 2021 and 2022 starting in January of the subsequent year over a twelve-month period, respectively.
- **Stagecoach potential sale could be imminent**: ED said it is in the throes of a process of strategic alternatives and an announcement could come in Q2.
- **Transmission investment will receive AFUDC**: Con Ed will receive AFUDC on the $780mm of transmission investment that was recently approved to replace peaker units that do not meet NOx requirements. The first project is expected to go into service in 2023, with the next two in service in 2025.
- **Catalysts include Covid recovery and clean energy transition**: Key catalysts aside from strategic alternatives for Stagecoach include recovery from Covid and clean energy transition under Biden administration, which is likely to provide funding for EV-related investments, in particular.
- **Financing plan assumes Stagecoach sale**: Con Ed previously disclosed it expects to issue $800mm of equity this year, which contemplates a range of proceeds from a Stagecoach sale. The company said proceeds from Stagecoach will first be used to pay down $500mm of debt there. We estimate $600-700mm of proceeds from Stagecoach at 10.0-12.0x our estimated EBITDA.
- **Mountain Valley Pipeline does not fit into long-term portfolio**: management's current thinking is that it does not fit into the long-term portfolio at ED and it is still considering monetizing it, though the Stagecoach process is much more actively underway. Con Ed remains optimistic in the permitting and regulatory processes for MVP getting approved and the project ultimately going into service. As a reminder, its investment has been capped at $530mm and any additional cost to the project dilutes its ownership stake.
- **CECONY incentives still hard to achieve, under current thinking**: management's current thinking remains that earnings adjustment mechanisms (for energy efficiency, EVs and heat pumps) under the rate agreement are difficult to achieve but ED believes it will have some success this year.
- **CEB projects on track**: CEBs have three projects under construction this year, with one likely to go into service in Q2 and other two likely in Q3 or possibly Q4. Con Ed said it has not had any supply chain issues to date.
- **Second ESG Investor Day planned**: Con Ed said it will host another ESG webinar in August 2021.

Dominion Energy (D), Outperform rating, $82 price target

- **VA Triennial review:** Dominion remains confident in a balanced outcome from the ongoing triennial review. The hearings are expected to take place through September and a final decision expected in November 2021. While the maximum refund per the statute is 15MM or $0.01 EPS investors will focus on the regulators stance towards ROE (9.9% allowed currently) and other adjustments which will be read through for company's future earnings power and growth prospects 2024+.
- **SC Rate Case:** All parties are actively engaged in settlement negotiations, absent a settlement in the meantime hearing will re-commence on July 12 with an order due in August 2021. On the earnings call earlier in the month D stated that any reasonable outcome in the pending South Carolina rate case would be within the guidance range.

- **Offshore update:** D highlighted the public/private support for its 2.6GW offshore wind project. While inflation/fuel costs are headwinds, wind resources/capacity factors are coming in better than expected such that company remains confident in delivering levelized cost of energy (LCOEs) in the $80-$90/mwh range. The next catalyst to monitor is a Notice of Intent (issued by BOEM), which is expected by June 2021. A final decision (also issued by BOEM) is expected by June 2023.

DTE Energy (DTE), In Line rating, $140 price target

- **Midstream spin on track for July 1st:** DTE initiated the Form 10 process with the SEC back in February; the form will become public in the second quarter and will include three years and first quarter 2021 actual standalone financials as well as pro-forma financials for the full-year 2021. DTE expects to get the green light from the SEC in then June timeframe, then the company will host a roadshow, and DTM will start to trade pre-spin in two week timeframe before the spin, which DTE says is on track for July 1st.
- **Midstream C-Corp is not expected to pay material cash taxes in the near term**: DTE said the post-spin midstream C-Corp will not pay cash taxes over the next few years given NOL balances.
- **DTE said the midstream C-Corp has a path to investment grade credit:** DTE said size is a gating factor and it needs to reach $1 billion of EBITDA. Guidance for EBITDA this year is $710-750mm.
- **Utility and rate base growth expectations through 2025 and beyond:** The long-term plan through 2025 assumes 6-7% electric rate base growth, driving 7-8% expected electric operating earnings growth. For the gas business, it assumes 8% rate base growth, driving 9% expected gas operating earnings growth over the same time period. Both of the operating earnings growth forecasts are based off of the original 2020 guidance. DTE still anticipates delivering higher-than-targeted five-year average utility operating earnings growth in the early years of the plan. Beyond 2025, there is potential for even higher electric rate base growth with opportunities for additional coal retirements and replacement of it with solar; DTE specifically highlighted one 1,200 MW coal plant that could be replaced with 2,000 MW of solar investment.
- **Impact on utility customer rates from potentially higher tax rate:** At the utilities, DTE said if the federal income tax rate were raised to 28% from 21% it would have a 1.5% impact on customer rates.
- **Renewable development plans dominated by solar:** DTE expects solar to dominate its renewable development plans for the foreseeable future. The company has $2 billion of capex planned for renewables in its five-year 2021-2025 plan. The outlook includes 900 MW of renewables signed plus additional expected to be signed.
- **How the non-regulated businesses fit into the portfolio over the long term**: DTE reiterated that it currently expects its P&I and Energy Trading businesses to comprise 10% of earnings over the long term.
- **O&M management below inflation:** annual O&M increases are expected to increase 1% or less going forward, as they have in the past.
- **Power & Industrials outlook**: Recall there is the sun-setting of the REF business after 2021, so we will see a trough in P&I earnings in 2022 before it builds back up. DTE assumes an additional $15mm of earnings per year from RNG and co-generation growth opportunities after the re-basing. DTE has issued P&I earnings guidance for 2025 of $135-150mm versus an early 2021 outlook of $147-163mm.

Essential Utilities (WTRG), In Line rating, $49 price target

- **Delcora:** Despite delays Management remains confident in closing the deal. On the Q1 earnings call earlier in the month WTRG stated that Delcora acquisition ($0.03 annual EPS contribution ~2% of consolidated earnings by our estimate) could take up to six months to close vs previous expectation of mid-2021.
- **Water/Waste Water acquisition pipeline.** WTRG continues to see a robust pipeline of opportunities and they are in active discussion in several states. Management highlighted the potential of sizable rate base opportunity (>Delcora) that could be announced by year end. Any new announcement would be incremental to company's current EPS growth target of 5-7% through 2023 but the timing and approval process could be lengthy and go beyond the current planning horizon.

- **PA Water rate case:** The company plans on filing a general water rate case application in PA later in the year for rates effective in 2022
- **Peoples Gas update**: Earlier in the year the PA commission approved company's proposal to apply the repairs catch-up benefit adjustment towards customer bills over a five-year period and the peoples gas subsidiary will file its next base rate case before the end of 2023 for rates effective in 2024. Management pointed to solid execution since the acquisition in 2020 and remains committed to their long term rate base and earnings growth plans.
- **PFOS/PFAS:** Stricter federal/state mandates on PFOS/PFAS (potentially harmful chemicals in the water stream) could provide organic (capex) and M&A opportunities, that could further bolster rate base growth outlook in WTRG's plan.

Eversource Energy (ES), In Line rating, $91 price target

- **CT Storm Investigation:** The docket established by the CT Commission to review the penalty related to company's response to Isaias is scheduled to run through mid-July of this year. Q1 results included a $0.07 charge associated with customer credits and related assessment that CT regulators announced on May 6, 2021.
- **90 bps lower ROE:** Recall that on Apr 28, the CT regulators concluded that the company failed to comply with certain applicable performance standards and manage its preparation for and response to the storm and ordered the company to lower its allowed ROE by 90 bps in pending/future rate proceedings. The lower ROE could be reflected in rates starting in October this year impacting 2021 EPS by a penny and we estimate ~$0.07 or 2% annual EPS headwind to our FY EPS 2022 projection. Other parties to the storm investigation proceedings have advocated for lowering the equity layer in their capital structure currently at 51%.
- **2022 RC filing in CT:** Per the statute ES would have to file a CT general rate case in 2022 unless they are granted an exception by the Commission.
- **FERC Incentive rider:** FERC recently extended their comment period on their notice of proposed rate making concerning transmission incentives, a of 10 bps reduction in transmission ROE results in a penny EPS hit for ES. We expect an update by year end.
- **Offshore wind update:** They continue to make progress on ~1.8GW of previously announced projects and are considering submitting a bid for additional MW's in MA RFP (05/10) seeking to add up to 1.6GW of offshore wind capacity.

NiSource (NI), In Line rating, $27 price target

Indiana IRP: NiSource has begun the IRP process that would update long-term generation plans, including the planned retirement of Michigan City Generating Station, and could create additional capex opportunities beyond its current four-year plan; that process will include RFP solicitation of resources similar to the 2018 IRP and will involve meetings throughout 2021 with expected filing with the Indiana commission by November 1, 2021.

Pennsylvania rate case: We expect the pending rate case to be relatively routine. The issues with the ALJ in the last rate case (ultimately there was a constructive outcome) were primarily due to concerns about raising rates in the heart of the pandemic. The requested revenue increase in the pending rate case is virtually all capital-driven given that NI is expecting to manage relatively flat O&M, which is reflected in the forward-looking test year.

Flat O&M management: NiSource's "Next" initiative is expected to drive "relatively flat" O&M in 2021 through 2024. Cost initiatives under way include voluntary separation program savings and the following improvements identified: streamlined organization structure, evolved business services, work standardization, greater field mobility and connected customer experience. Modernization-driven fuel and cost reductions are also under way.

Renewable projects: There are a total of 14 projects, with two complete and operational, seven approved and five pending, with all expected to have outcome in 2H21. All projects are expected to be online and operating by 2023.

Gas assets valuation: NiSource believes its gas utilities are significantly undervalued in the share price, especially in light of the recently announced CenterPoint gas LDC asset sales (Arkansas and Oklahoma) that were valued at 38x 2020 earnings and 2.5x 2020 rate base.

Southern Company (SO), Underperform rating, $61 price target

- **Vogtle seeing another two to three week delay:** Southern had to take a pause in hot functional testing to bring unit 3 down to ambient temperature. This is expected to add two to three weeks to the hot functional testing schedule (originally scheduled for six to eight weeks), so it is likely to take eight to eleven weeks now. SO said every one month of delays adds $25mm to capex (so up $18mm for three weeks) and has a half a penny impact to EPS due to the ROE penalty (up to $0.0035 for three weeks).
- **Missouri IRP:** the filing specifies closure of Plant Daniel, the last coal plant in Mississippi coal fleet. Mississippi has a generation surplus, SO is unlikely to build any capacity anytime soon.
- **Regulatory agenda:** Electric Power Effluent Limitation Guidelines (ELG) will be filed in October 2021. Georgia Power rate case will be filed in January 2022.
- **Non-core asset sales**: Southern said it is always considering non-core asset sales, as it has done in the past, but its remaining portfolio of non-core assets is even smaller than Sequent, small enough that SO does not disclose it in regulatory filings. As a reminder, SO recently reached an agreement to sell its wholesale gas trading and services business comprising Sequent Energy Management, and expects to complete the transaction in 3Q21. Southern does not expect a material gain or loss on sale, though it will provide a return of the associated working capital and the elimination of certain credit supports of ~$1Bn. SO has always excluded Sequent earnings from its adjusted results due to its quarterly variability.

WEC Energy (WEC), In Line rating, $96 price target

- **WI Rate Case:** Management highlighted strong support for its request filed on Mar 30th with the Public Service Commission of Wisconsin to allow the company to forego requests to increase electric and gas base rates effective 01/01/22. Per the agreement filed, WEC Utilities expect to file full test year 2023-2024 base rate cases by no later than May 1, 2022. The commission is expected to rule over the petition by June 2021.
- **MISO transmission capex opportunity:** more clarity on MISO opportunities will come in December 2021 when they put forth their first portfolio. WEC through their 60% ownership in American Transmission Company (ATC) could pursue opportunities in the Wisconsin and Michigan likely in the back half of the decade
- **FERC incentive adder**: comments and reply comment due dates were extended. Comments are now due by June 25, 2021 versus May 26, 2021 previously. Reply comments are now due by July 26, 2021 versus June 10, 2021 previously. If the 50bp incentive adder were removed, it would have a $0.02 (0.5%) annual impact on EPS.

Xcel Energy (XEL), In Line rating, $70 price target

- **MISO transmission capex opportunity:** more clarity on MISO opportunities will come in December 2021 when they put forth their first portfolio. Xcel has ROFR in Minnesota and the Dakotas. The MISO capex opportunities are likely for the back half of the decade and a 50/50% equity / debt financing is expected.
- **Management thoughts on Elliott proposal for DUK**: Xcel management said there are significant benefits to having multiple diverse operating companies through economies of scale.
- **Management thoughts on CenterPoint gas LDC announced sale:** Xcel says the transaction demonstrates that there is significant terminal value to LDC businesses.
- **Equity needs**: Xcel has previously guided to $600mm of equity needs in addition to $410mm of DRIP over the next five years. The company said tax reform could potentially reduce or eliminate equity needs.
- **Minnesota resource plan**: Intervenor testimony in early February was supportive of both renewables additions and coal plant retirements. There were some comments about retiring the plants earlier, and some support for

nuclear and some opposition. Reply comments are due at the end of June and the commission should decide in 2H21.

- **Colorado resource plan**: Xcel believes parties are likely to be supportive of renewable additions. One item that is expected to be controversial is the timing of Comanche 3 retirement; Xcel has proposed a 2040 date. The anticipated decision is in Q4 2021.
- **Upcoming rate case filings**: Xcel plans to file an electric rate case in Colorado in late June or early July; it will include advanced grid, wildfire mitigation program. The company also plans to file a rate case in Minnesota in December 2021, likely for a multi-year plan with interim rates in January.

EVERCORE ISI

Utilities Look Modestly Cheap on ’22 Yields Assuming Yields Remain Unchanged

Utility Valuation			10 YR	1.66%
5/18/21			Baa	3.66%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2021 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	0.80%	1.19%	51.4x	159.7%
	1.02%	1.35%	45.5x	130.2%
	1.24%	1.50%	40.9x	106.7%
	1.46%	1.65%	37.1x	87.6%
	1.68%	1.81%	34.0x	71.7%
	1.90%	1.96%	31.3x	58.3%
- 68% Confidence Interval	2.12%	2.11%	29.0x	46.8%
	2.34%	2.27%	27.1x	36.9%
	2.56%	2.42%	25.4x	28.2%
	2.78%	2.57%	23.9x	20.6%
	3.00%	2.73%	22.5x	13.8%
	3.22%	2.88%	21.3x	7.8%
Current Valuation	3.44%	3.03%	20.2x	2.3%
Predicted Valuation	3.66%	3.18%	19.3x	-2.6%
	3.88%	3.34%	18.4x	-7.0%
	4.10%	3.49%	17.6x	-11.1%
	4.32%	3.64%	16.8x	-14.9%
	4.54%	3.80%	16.2x	-18.3%
	4.76%	3.95%	15.5x	-21.5%
+ 68% Confidence Interval	4.98%	4.10%	15.0x	-24.4%
	5.20%	4.26%	14.4x	-27.1%
	5.42%	4.41%	13.9x	-29.6%
	5.64%	4.56%	13.5x	-32.0%
	5.86%	4.72%	13.0x	-34.2%
	6.08%	4.87%	12.6x	-36.3%
+ 95% Confidence Interval	6.30%	5.02%	12.2x	-38.2%

Utility Valuation			10 YR	1.66%
5/18/21			Baa	3.66%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2022 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	0.80%	1.19%	51.4x	174.5%
	1.02%	1.35%	45.6x	143.3%
	1.24%	1.50%	40.9x	118.5%
	1.46%	1.65%	37.1x	98.3%
	1.68%	1.81%	34.0x	81.5%
	1.90%	1.96%	31.3x	67.3%
- 68% Confidence Interval	2.12%	2.11%	29.1x	55.2%
	2.34%	2.27%	27.1x	44.7%
	2.56%	2.42%	25.4x	35.6%
	2.78%	2.57%	23.9x	27.5%
	3.00%	2.73%	22.5x	20.3%
	3.22%	2.88%	21.3x	13.9%
	3.44%	3.03%	20.3x	8.2%
Predicted AND Current Valuation	3.66%	3.18%	19.3x	3.0%
	3.88%	3.34%	18.4x	-1.7%
	4.10%	3.49%	17.6x	-6.0%
	4.32%	3.64%	16.9x	-10.0%
	4.54%	3.80%	16.2x	-13.6%
	4.76%	3.95%	15.5x	-17.0%
+ 68% Confidence Interval	4.98%	4.10%	15.0x	-20.1%
	5.20%	4.26%	14.4x	-22.9%
	5.42%	4.41%	13.9x	-25.6%
	5.64%	4.56%	13.5x	-28.1%
	5.86%	4.72%	13.0x	-30.4%
	6.08%	4.87%	12.6x	-32.6%
+ 95% Confidence Interval	6.30%	5.02%	12.2x	-34.7%

Regulated utilities now look modestly expensive on current yields

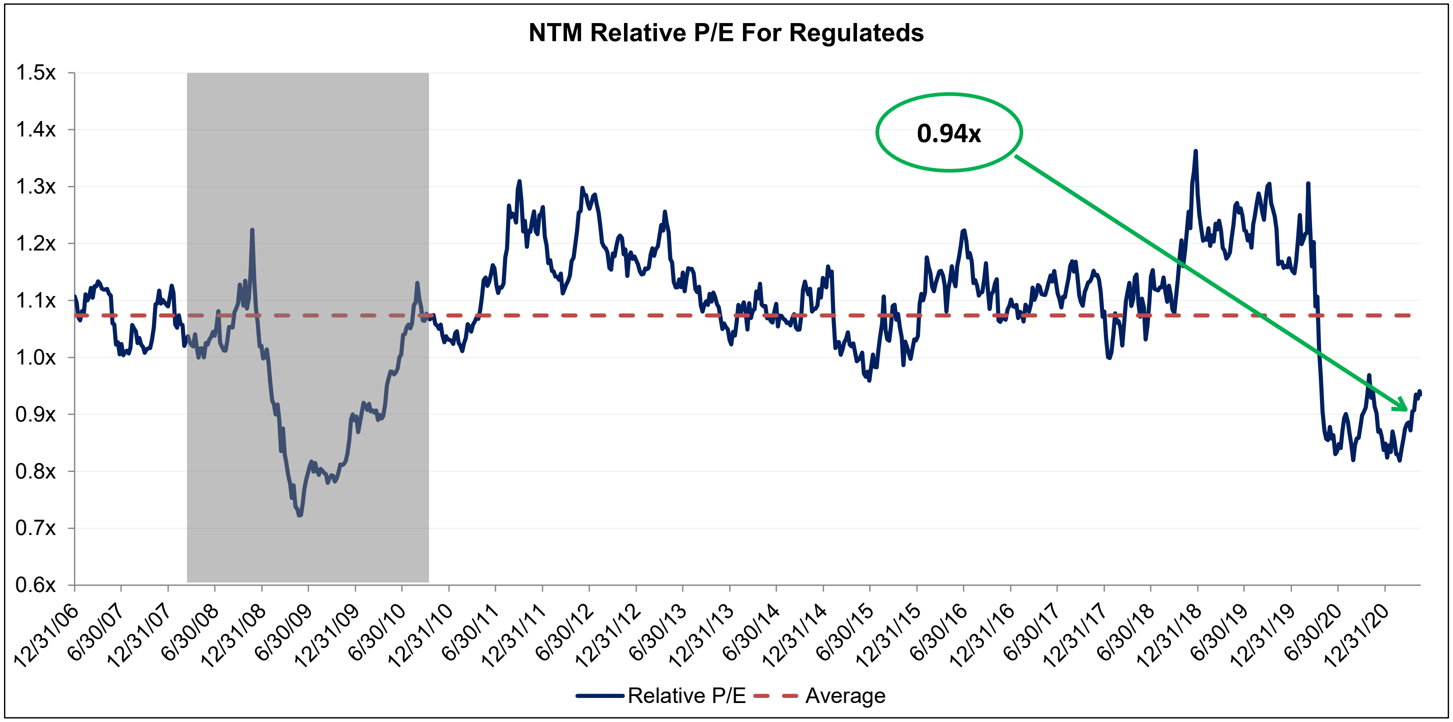
If rates stay unchanged for the next 12 months, regulated utilities now ~3% cheap

Updated as of 5/18/21

Source: FactSet, Evercore ISI Research

NTM Relative P/E Below Historical Average

- The average relative P/E since 2006 is 1.09x. Since ’95 it is 0.93x.
- On 5/18/21, the relative P/E was **0.94x** and 1.17x level at YE ’19.
- The relative P/E post Brexit vote was 1.17x, which we hit again in mid November ’18.
- It was 1.36x on 12/23/18 when we were pricing in recession risk at a high probability.



Updated as of 5/18/21

Source: FactSet, Evercore ISI Research

EVERCORE ISI

Regulated Utility Valuation Goes To ~17.8x ’23 EPS

Regulated Utilities

Ticker	Company Name	5/18/21 Price	ISI Rating	Shares Out	Market Cap	2021 Div Yld	2021 Payout	ISI EPS Estimate 2021	ISI EPS Estimate 2022	ISI EPS Estimate 2023	P/E Multiple 2021	P/E Multiple 2022	P/E Multiple 2023	'19-'23 EPS Growth	Price to Book	Prem. to Group
NEE	NextEra Energy, Inc.	$72.29	In Line	1,984	143,416	2.1%	62%	2.50	2.70	2.95	28.9x	26.8x	**24.5x**	8.9%	3.6x	39%
XEL	Xcel Energy Inc	$70.81	In Line	535	37,898	2.5%	60%	3.00	3.15	3.35	23.6x	22.5x	**21.1x**	6.1%	2.3x	20%
WEC	WEC Energy Group	$95.40	In Line	317	30,213	2.7%	64%	4.01	4.27	4.57	23.8x	22.3x	**20.9x**	6.3%	2.6x	19%
HE	Hawaiian Electric Industries, Inc.	$44.31	In Line	111	4,899	3.1%	69%	1.98	2.06	2.20	22.4x	21.5x	**20.1x**	3.2%	1.9x	14%
AEE	Ameren Corp	$83.93	Outperform	252	21,117	2.6%	58%	3.75	4.00	4.30	22.4x	21.0x	**19.5x**	6.4%	2.1x	11%
CMS	CMS Energy Corp	$63.30	In Line	290	18,386	2.7%	61%	2.85	3.06	3.27	22.2x	20.7x	**19.4x**	7.1%	2.8x	10%
ES	Eversource Energy	$84.27	In Line	347	29,244	2.9%	62%	3.90	4.15	4.44	21.6x	20.3x	**19.0x**	6.5%	1.9x	8%
DUK	Duke Energy Corp	$102.49	In Line	750	76,900	3.8%	75%	5.20	5.45	5.80	19.7x	18.8x	**17.7x**	3.4%	1.6x	0%
D	Dominion Resources Inc	$77.16	Outperform	828	63,918	3.2%	65%	3.85	4.12	4.40	20.0x	18.7x	**17.5x**	0.9%	2.3x	0%
DTE	DTE Energy Co	$137.84	In Line	201	27,666	3.0%	57%	7.15	7.50	7.95	19.3x	18.4x	**17.3x**	5.9%	1.7x	-1%
NI	NiSource Inc	$25.25	In Line	449	11,345	3.5%	67%	1.32	1.40	1.48	19.1x	18.0x	**17.1x**	2.9%	2.2x	-3%
SO	Southern Company Inc	$64.16	Underperform	1,078	69,167	4.1%	79%	3.30	3.55	3.85	19.4x	18.1x	**16.7x**	5.6%	2.2x	-5%
EVRG	Evergy	$62.29	Outperform	228	14,171	3.5%	63%	3.45	3.50	3.75	18.1x	17.8x	**16.6x**	6.9%	1.9x	-6%
AEP	American Electric Power Co Inc	$85.75	Outperform	507	43,504	3.4%	62%	4.70	5.00	5.35	18.2x	17.1x	**16.0x**	6.0%	1.8x	-9%
SRE	Sempra Energy	$137.35	Outperform	313	42,963	3.2%	56%	8.00	8.25	8.60	17.2x	16.7x	**16.0x**	3.3%	1.7x	-9%
ETR	Entergy Corp	$105.53	Outperform	201	21,258	3.7%	64%	6.00	6.35	6.70	17.6x	16.6x	**15.7x**	5.6%	1.8x	-11%
PNW	Pinnacle West Capital Corp	$85.54	In Line	117	9,969	3.9%	66%	5.00	5.20	5.45	17.1x	16.4x	**15.7x**	3.3%	1.6x	-11%
CNP	CenterPoint Energy Inc	$24.70	Outperform	589	14,537	2.5%	45%	1.35	1.50	1.60	18.3x	16.4x	**15.5x**	-2.6%	2.4x	-12%
ED	Consolidated Edison Inc	$77.74	Underperform	353	27,406	4.1%	74%	4.25	4.93	5.09	18.3x	15.8x	**15.3x**	3.8%	1.3x	-13%
OGE	OGE Energy Corp	$33.53	Outperform	200	6,716	4.9%	78%	2.12	2.26	2.38	15.8x	14.9x	**14.1x**	2.4%	1.8x	-20%
FE	FirstEnergy Corp	$37.67	In Line	552	20,797	4.3%	65%	2.50	2.60	2.70	15.1x	14.5x	**13.9x**	1.2%	2.3x	-21%
EIX	Edison International	$57.56	In Line	404	23,274	4.5%	57%	4.50	4.65	4.90	12.8x	12.4x	**11.7x**	1.0%	1.0x	-33%
PPL	PPL Corp	$29.33	In Line	775	22,722	5.7%	67%	2.50	2.60	2.70	11.7x	11.3x	**10.9x**	2.5%	1.5x	-38%
PCG	PG&E Corp	$10.77	Rating Suspended	529	5,697	0.0%	0%	4.30	4.65	4.95	2.5x	2.3x	**2.2x**	5.4%	0.4x	-88%
Regulated Group Average (Excludes PCG for Div Values)						**3.5%**	**64.2%**				**18.5x**	**17.5x**	**16.4x**	**4.3%**	**1.94x**	
Regulated Group Average (Excluding Stocks: PPL, EIX, and PCG)						3.3%	64.4%				19.9x	18.7x	17.6x	4.5%	2.08x	
Regulated Group Max (Excludes PCG for Div Values)						5.7%	79.3%				28.9x	26.8x	24.5x	8.9%	3.6x	
Regulated Group Min (Excludes PCG for Div Values)						2.1%	45.3%				2.5x	2.3x	2.2x	-2.6%	0.4x	

Diversified Utilities

Ticker	Company Name	5/18/21 Price	ISI Rating	Shares Out	Market Cap	2021 Div Yld	2021 Payout	ISI EPS Estimate 2021	ISI EPS Estimate 2022	ISI EPS Estimate 2023	P/E Multiple 2021	P/E Multiple 2022	P/E Multiple 2023	'19-'23 EPS Growth	Price to Book	Prem. to Group
PEG	Public Service Enterprise Group	$62.11	In Line	508	31,552	3.3%	60%	3.40	3.55	3.70	18.3x	17.5x	**16.8x**	3.0%	1.8x	3%
EXC	Exelon Corp	$45.65	Outperform	984	44,928	3.5%	57%	2.80	3.00	3.10	16.3x	15.2x	**14.7x**	-1.0%	1.3x	-10%
AES	AES Corp	$24.89	Outperform	665	16,561	2.4%	39%	1.55	1.70	1.80	16.0x	14.7x	**13.8x**	6.8%	3.4x	-15%
Diversified Group Average						**3.1%**	**52%**				**16.9x**	**15.8x**	**15.1x**	**3.0%**	**2.2x**	
Diversified Group Max						3.5%	60%				18.3x	17.5x	16.8x	6.8%	3.4x	
Diversified Group Min						2.4%	39%				16.0x	14.7x	13.8x	-1.0%	1.3x	

Updated as of 5/18/21

Source: FactSet, Evercore ISI Research

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: May 20 2021 06:45 PM ET

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The analysts, Durgesh Chopra, Tulkin Niyazov, Michael Lonegan, primarily responsible for the preparation of this research report attest to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

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Ratings Definitions

Current Ratings Definition

Evercore ISI's recommendations are based on a stock's total forecasted return over the next 12 months. Total forecasted return is equal to the expected percentage price return plus gross dividend yield. We divide our stocks under coverage into three primary ratings categories, with the following return guidelines:

Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's universe
Coverage Suspended- the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
Rating Suspended- Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*

*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell" to equate their own ratings to these categories. For this purpose, and in the Evercore ISI ratings distribution below, our Outperform, In Line, and Underperform ratings can be equated to Buy, Hold and Sell, respectively.

Historical Ratings Definitions

Prior to March 2, 2017, Evercore ISI's recommendations were based on a stock's total forecasted return over the next 12 months:

Buy- the total forecasted return is expected to be greater than 10%

Hold- the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell -the total forecasted return is expected to be less than 0%

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy- Return > 20%
Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight- the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight- the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight -the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

Ratings Definitions for Portfolio-Based Coverage

Evercore ISI utilizes an alternate rating system for companies covered by analysts who use a model portfolio-based approach to determine a company's investment recommendation. Covered companies are included or not included as holdings in the analyst's Model Portfolio, and have the following ratings:

Long- the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.
Short- the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
No Position- the stock is not included in the model portfolio.
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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.

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Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	476	57	Buy	116	24
Hold	293	35	Hold	35	12
Sell	26	3	Sell	2	8
Coverage Suspended	21	3	Coverage Suspended	7	33
Rating Suspended	12	1	Rating Suspended	5	42

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Americas Utilities

AGA virtual conference takeaways - improving gas utility valuations, potential for accelerated fleet transformation

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We highlight key takeaways from our virtual meetings at the annual American Gas Association (AGA) conference. Key themes included renewed gas utility assets, more muted raw material inflation impact near-term, favorable YoY demand trends, and fleet transformation acceleration. Among those that we met with, we remain positive on Buy-rated WTRG (on CL) for clean energy exposure, CMS for quality at a reasonable price, and CNP for value with multiple expansion potential.

Our key thematic takeaways include:

1. **Strength of gas utility valuations.** Most companies see recently announced robust gas utility transaction values not as an opportunity to unload assets, but rather proof to support the value of natural gas assets as a key long-term component of the future energy mix.
2. **Raw material inflation less impactful...for now.** From wires to renewables, pressure from higher costs remain more muted for current projects, although a potential risk longer-term.
3. **Demand trends are favorable.** Companies are seeing favorable residential demand persist along with rebounding C&I load.
4. **Potential for fleet transformation acceleration.** Most vertically integrated utilities pointed to potential for accelerating remaining coal plant retirement, incremental renewable development.

Takeaways at the company level include:

Ameren (AEE, Buy)

- **Robust transmission investment potential remains longer-term,** with the recent outlook by the Midwest Independent Systems Operator (MISO) confirming the company's views. While AEE does sees the bulk of the opportunity beyond the 2025 time frame, these investments - along with continued fleet transformation spend and renewable build-out - would help support continued robust rate base growth (8% currently).
- **Passage of securitization legislation in MO offers another option to help**

accelerate coal plant retirements, which would allow for recovery of undepreciated costs while pulling forward new renewable power. This could potentially serve as a tool for a couple of its plants - Rush Island and Labadie - currently in the appeals process regarding the district court's ruling and order to install environmental retrofits to continue running the units. With a ruling by the court of appeals expected this year per the company, we note the company has the opportunity to make further appeals to the broader panel at the appeals court, as well as to the US Supreme Court.

- **AEE sees its gas utilities in IL/MO as a core part of its portfolio,** continuing to emphasize the reliability, economic, and environmental benefits of gas distribution asset investments. In addition, management pointed to significant dis-synergies - including common billings, inventory, employees - that would exist in a potential divestiture, even though recently announced gas utility peer sale valuations may screen attractive.

Atmos Energy (ATO, Buy)

- **ATO looks for constructive outcome in the Texas gas cost securitization bill.** A bill to securitize elevated gas costs related to Winter Storm Uri has passed the Texas House but remains in committee within the Senate. The current legislative session ends May 31, but the company remains positive on the bill's successful passage given seemingly bipartisan support - per company comments - for a measure that could benefit both the customers and the state's gas utilities.
- **ATO continues to view current profile of assets as favorable.** Management noted that favorable valuations - and robust interest - garnered in the recently announced CNP gas utilities sale highlights the value of gas assets and its longevity in the country's energy mix longer-term. However, ATO is not looking to divest assets given 1) its presence in multiple state jurisdictions provides geographic and load profile diversification, and 2) all of its jurisdictions offer constructive regulation that allow for timely recovery of investments with minimal regulatory lag.
- **ATO continues to make the case for the longevity of natural gas systems and their role within the fuel environment.** ATO continues to believe that their natural gas assets serve a purpose within the energy ecosystem, given electrification will place high demands on many rare minerals that are in short supply in the US, which could add to the relative cost pressures versus gas. Additionally, the Texas governor recently signed a bill to preserve customer choice which recognizes the need for all types of fuel within the state, which they see as further support for gas in the long-term energy mix.

Avangrid (AGR, Sell)

- **Offshore wind remains on track with little impact from raw material inflation.** Vineyard Wind construction is set to begin later this year after receiving a key federal approval. Offshore wind contracts do have some level of variability in terms of costs; however, AGR expects the recent increase in steel cost to be within their contingencies and represents less than 10% of the overall project cost.

- **Full construction commencing on the clean energy transmission line.** With the recent lifting of the court injunction on a portion of the line for the $1bn New England Clean Energy Connect (NECEC) project, AGR continues to expect a 2023 completion. They acknowledge that the November referendum remains outstanding in Maine, while noting public support for the project has increased since commencing construction earlier this year.
- **Recent private placement offering highlights strength of investor interest.** AGR's recent $4bn equity offering - including $740mn to a subsidiary of Qatar Investment Authority, secures financing required for the proposed PNM Resources acquisition and other investments. Management recognizes the desire to increase the public float of their shares and continues to assess the opportunity going forward; however, they viewed this specific opportunity as too attractive to pass up.

Centerpoint Energy (CNP, Buy)

- **A number of potential incremental capex opportunities exist on the electric side.** Management views coal-to-renewable transition as a longer term opportunity in Indiana, with potential to pull forward remaining retirements earlier. In Texas, several bills in progress offer potential for further upside, including (1) SB 1281 would make a case to introduce more transmission to reduce congestion, also given ERCOT's report highlighting three transmission projects needed in CNP's service territory over the next decade; this attempt to mitigate congestion could pull forward 2028-30 capital spend into the mid-2020s; (2) SB 415 would allow for TDUs to own battery storage and put into rate base — potentially CNP's share (~25MW) of owned storage, (3) HB 2483 would allow T&D companies to own small scale generation (battery storage, fuel cells) to help in case of outages and also can be added to rate base.
- **...as well as at the gas utilities.** Beyond the ongoing infrastructure replacement/modernization investments, CNP sees opportunities to develop a favorable construct for the future of clean gas, including renewable natural gas (RNG) and hydrogen, along with potential to invest in gas storage.
- **Potential use of tax repair deduction on regulated operations could offset tax implications of the proposed midstream transaction.** With CNP's plans to aggressively eliminate its midstream exposure and become a fully regulated entity, we note the company would need to account for its meaningful negative tax basis at its owned midstream units. However, management believes the use of tax repairs deduction, specifically a catch-up deduction, could offer a meaningful offset and a reduction to the potentially dilutive impact. CNP noted that its 6-8% annual EPS growth forecast already embeds the various options in its midstream exposure elimination strategy.

CMS Energy (CMS, Buy)

- **COVID reopening in Michigan looks on track.** The state is seeing improving vaccination rates while CMS has seen a meaningful pickup in interconnection activity amongst businesses and residential customers, typically a leading indicator for increased demand usage.

- **Ample headroom remains for O&M cost cutting over the next decade.** Aside from PPA contract roll offs and savings from coal retirements, CMS still sees plenty of opportunities to further reduce O&M spend. The company continues to employ its LEAN operating system and has identified opportunities to reduce inventory days, streamline processes, reduce pension contributions as its workforce retires and seek opportunities to refinance debt.
- **CMS is accessing renewables both via direct ownership and through contracting.** The Michigan Commission is open to both renewables through direct ownership and through PPA contracts. CMS recently received approval of the first 300MW of its IRP which is split 50%/50% between direct ownership and contracting. While there is a price gap between the two, federal level proposals such as tax credit refundability and PTCs for solar could help reduce that gap in the future, if passed.

Consolidated Edison (ED, Sell)

- **Aged receivables and bad debt continue to climb in NY/NJ, but show signs of moderating.** Aged receivables stand at $600m higher versus the pre-COVID run rate of $400m. The company funds aged accounts receivables through LT debt and expects no change to equity at this time.
- **Opportunities exist for potential upside to capital plan at the electric side in the mid-2020s but gas investments remain key as well.** ED expects investments in distribution infrastructure for undergrounding, automation and smart grid for storm resiliency, but also views gas pipeline investments for identifying leaks through the use of technology as necessary. Management notes that a switch from gas to electric would likely need a regulatory mandate as customers wouldn't make the choice willingly, given economics. In terms of RNG, hydrogen and EV charging infrastructure, the company remains committed and open to increase investment, while looking to work with stakeholders on a constructive long-term plan.
- **Thoughts on under-appreciated renewables business, opportunity for regulated expansion, transmission.** Management recognizes its renewables business seems undervalued despite high quality off-takers and remains invested with plans for growth, but noted they could evaluate other alternatives if this becomes a permanent structural issue. On the regulated side, the company expressed openness to consider diversifying its regulated footprint, although currency and strategic fit are key considerations. Finally, ED remains selective in its transmission investment opportunities, recently deciding not to participate in NY's proposal for a clean energy transmission highway; they do remain active in considering NY's proposal to connect offshore wind.

DTE Energy (DTE, Buy)

- **Voluntary Renewables Program continues to see strong interest.** DTE's current forecast is $2bn of investment for the voluntary renewables portfolio through 2025, but subscriptions have been accelerating and the company is looking at potential opportunities to retire coal plants sooner than currently scheduled in the IRP. Large automakers have signed up for the voluntary renewables program which flows down to their supply chain as they look to green their overall production operations.

- **Midstream Spinoff progressing as planned.** The spinoff of DT Midstream remains on track for a July 1st close. DT Midstream is currently in the middle of a debt raise and plans to spin at roughly 4x leverage.
- **EV charging investment opportunity flows through rate base.** DTE received approval for EV charging investment which receives traditional rate base treatment. In the near term, investment will likely continue in small chunks; however there is room for significant demand and investment ramp up in out years, per management.

Essential Utilities (WTRG, Buy-CL)

- **Remain confident in 5-7% EPS CAGR despite DELCORA approval delay.** While management does not expect the proposed municipal wastewater system acquisition to close until early next year given the ongoing legal process with the Delaware County Council, they noted the delay would not meaningfully impact planned capex through 2023, as the bulk of the planned investments for DELCORA do not ramp up until the mid-2020's. Combined with the collection of other municipal deals in process and cost management, WTRG does not see any change in the 3-year growth plan.
- **Continued focus on pursuing larger muni acquisitions while shortening timeline of deal completion.** Despite the DELCORA delay, WTRG's acquisition strategy remains unchanged and sees growing opportunities for further expansion. Staffing remains a primary limiting factor from accelerating the pace of deals, but something that could be resolved. Given all of their operational states have Fair Market Value (FMV) legislation - allowing WTRG to rate base the acquired system at the purchase price - management continues to see the M&A strategy as accretive for the company's long-term growth.
- **No plans to expand gas footprint inorganically.** WTRG continues to see its Peoples Gas utilities - especially in PA - offering robust growth in a constructive regulatory environment, but management reiterated their strategy to only grow the water segment via acquisitions. In Kentucky, where FMV legislation recently passed, the company will look to expand the water footprint there while utilizing synergies from its gas utility operations.

Eversource Energy (ES, Neutral)

- **Connecticut regulation uncertainty remains.** While the CT PURA has broad legal authority, the company believes a rate decrease is best addressed in a rate case filing process. There is some uncertainty on the timing of the 90bps ROE penalty associated with Tropical Storm Isaias; however, ES reiterated its confidence in hitting the upper half of the 5%-7% EPS CAGR range, with contributions from offshore wind, further transmission investments, potential grid modification dockets and O&M cost management as potential levers to offset ROE headwinds.
- **Expect little to no impact from rising steel costs on current offshore wind project returns.** Although steel prices have increased meaningfully in the past year, ES's offshore wind contracts generally ask equipment manufacturers to procure

materials when the contract is signed. For near-term offshore wind projects, materials are already procured with price locked in.

NiSource Inc (NI, Neutral)

- **Gas utility portfolio remains attractive given robust rate base growth, regulatory construct.** The company noted that it always looks at monetization to maximize shareholder value, but views opportunities on a more strategic basis versus as a financial need, especially following the recent equity units offering that eliminated bulk equity needs through 2024. Management acknowledged recently announced peer sale valuations screen attractive, but again pointed to their strong rate base growth and return profile, driven by constructive regulatory mechanisms.
- **NI expressed confidence in its 5-7% EPS CAGR through 2023, with potential to achieve the upper half** with strong execution, O&M discipline.
- **RNG opportunity remains compelling but still early innings.** NI sees upside with RNG as part of its longer term energy transition, given RNG requires less change on customers' end (i.e., appliances) and could be more cost-efficient versus cost of full electrification longer-term.

WEC Energy (WEC, Sell)

- **The company anticipates retiring almost 2 GW of coal units in the coming years – likely relying on just the Elm Road/Oak Creek plants and 1 unit at Weston – significantly helping the company meet its goal of reducing emissions, from 2005 levels, by 80% or so.** Coal retirements will not only lower emissions levels, but also reduce operating costs given (1) fuel expenses for coal and (2) labor and other O&M costs for coal plants.
- **...and WEC remains ahead of target in meeting its clean energy deployment at its non-regulated infrastructure business.** In the company's capital plan, which will get revised and updated in late 2021, WEC likely could boost its targets for wind/solar capacity at its non-regulated segment, given project announcements made to date already imply being ahead of plan. The regulated investment profile could see upside related to renewables as well – while distribution spend levels will grow at a steady pace.
- **Transmission could emerge as another growth engine, although not likely till after 2025+.** The company remains optimistic that new federal policies in the American Jobs Plan could stimulate incremental transmission investment – especially in rural areas of its service territory – but siting and permitting challenges will likely remain and material increases in capital spend on transmission may remain multiple years down the road.

Xcel Energy (XEL, Neutral)

- **XEL continues its leadership in regulated clean energy investments,** utilizing a combination of coal-to-renewables strategy – with coal in rate base to decline from 8% currently to 4% by 2025 and with only two plants remaining by 2030 – as well as opportunities for repowering and/or PPA buyouts. While XEL continues to monitor the recent increase in raw materials costs like steel, management sees minimal impact to the projects currently in the works, while longer-term if these levels persist, certain mitigating items could exist including increased performance and potential for extended tax credits.

- **Transmission could comprise a bigger portion of future regulated growth,** with XEL's internal analysis largely aligned with the outlook recently published by the Midwest Independent Systems Operator (MISO) on the need to connect the growing renewable development in the region. That said, while some project opportunities could exist by the mid-2020's in XEL's operating territories, management views the investments comprising a larger portion of the overall mix to be in the late 2020's and early 2030's.
- **Gas utilities remain core to XEL's overall portfolio mix,** with rate base growth for this segment higher than the consolidated 6.5-7.0% CAGR. The company sees stakeholders in its operational states recognizing the long-term need for gas in the overall energy mix, with attractive methane reduction strategies including infrastructure replacement, renewable natural gas (RNG), and hydrogen as longer-term growth opportunities. The utilities continue to look to engage in dialogue regarding balancing the utilities' role in investing in clean gas while structuring the right financial incentives that could further expand investments.

Price target methodologies and key risks

Exhibit 1: Price Target Methodologies and Key Risks

12-month price targets

Price Target Methodologies and Key Risks

Ticker	Price Target Methodology	Rating	Price Target	5/20/2021	Dividend Yield	Total Return (%)	Key Risks Relate To
AEE	22x P/E multiple on 2022E EPS	Buy	$90	$85	2.6%	9%	regulation, project awards, and financing.
ATO	20x P/E multiple on 2022E EPS	Buy	$110	$98	2.5%	14%	Texas customer/demand growth, higher gas fuel costs, unfavorable regulation, and continued negative market sentiment on gas utility businesses.
AGR	SOTP: 18x P/E on Regulated Utilities & Corporate & Other on 2022E EPS and 9.0x EV/EBITDA for the Renewables segment.	Sell	$45	$52	3.4%	-11%	1) approvals to defer all COVID-19 related costs 2) incremental O&M savings, and 3) NECEC and offshore wind projects proceed according to schedule and budget.
CNP	SOTP 19x P/E on Regulated Utilities & Parent 2022E EPS, 20% tax/liquidity discount on CNP's stake of ENBL market value	Buy	$28	$25	2.6%	16%	1) gas utilities do not receive deferral treatment for Uri financing costs, 2) customer/demand growth slows in regulated jurisdictions, & 3) Vectren's Indiana electric utility fails to secure utility-owned generation opportunities.
CMS	23x P/E mulitiple on 2022E EPS	Buy	$71	$64	2.7%	14%	1) Michigan's regulatory environment turns negative, & 2) CMS's ability to achieve consistent cost savings slows, reducing bill headroom for future investments.
ED	15x P/E multiple on 2022E EPS estimate.	Sell	$67	$78	4.0%	-11%	1) NY utility commission authorizes recovery of bulk of COVID-19 related costs & increased bad debt expense, 2) economic conditions in NYC improve, & 3) ED's contracted renewable segment sees more robust growth.
DTE	SOTP 23x P/E on 2022 Utility EPS; 9x EV/EBITDA on GSP Adjusted 2022 EBITDA; 12x EV/EBITDA on Energy Trading/Corporate; DCF of P&I	Buy	$150	$140	3.1%	10%	transaction execution, regulatory changes, unfavorable legislation, demand imbalances, and cost management.
WTRG	SOTP: 35x P/E multiple on 2022E regulated water EPS, 21x P/E multiple on 2022E regulated gas EPS, 29.93x blended P/E on Other segment 2022E EPS	CL Buy	$54	$47	2.2%	17%	1) PA regulation turns less constructive, 2) water system acquisitions do not receive necessary approvals for completion, & 3) longer-term growth concerns about the gas utility segment compresses WTRG's valuation.
ES	23x P/E multiple on 2022E EPS	Neutral	$96	$84	2.9%	17%	Upside risks: improved offshore wind return forecasts, reduced permitting/construction hurdles, additional rate base investments. Downside risks: ineffective cost management, slowing rate base growth, & delays/cost overruns in offshore wind.
NI	19x P/E multiple on 2022E EPS	Neutral	$27	$25	3.5%	10%	Upside risks: 1) increased ability to lower O&M expenses, 2) plans to further accelerate retirement of its remaining coal fleet. Downside risks: 1) regulatory approval process for the planned renewable investments in Indiana, 2) cash impact due to COVID-19.
WEC	21x PE multiple on 2022E EPS	Sell	$90	$96	2.8%	-3%	higher than expected capital spend and rate base growth for 2021+, lower than expected operating costs, and better than expected power/gas demand.
XEL	23x P/E multiple on 2022E EPS	Neutral	$74	$72	2.6%	6%	Upside risks: 1) upward revisions to rate base/EPS growth, 2) sustained O&M savings, 3) extension of federal renewable tax credits. Downside risks: 1) negative rate case outcomes, 2) less generation into rate base vs. PPA, 3) PPA buyouts do not materialize, & 4) COVID-19 meaningfully impacts non-decoupled demand in addition to increased cash drag from customer bill non-payment.

Source: FactSet, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

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Power, Utilities & Alternative Energy May 20, 2021

AGA: Day 1 Flash Recap…

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Ticker	Price	Rating
CNP	24.48	Buy
D	76.98	Buy
DUK	101.16	Buy
ES	83.25	Neutral
LNT	57.70	Buy
NI	25.18	Buy
NWN	53.77	Sell
SJI	25.74	Buy
SO	63.98	Neutral
WEC	94.87	Neutral

Key Message: Enclosed please find our brief AGA Day 1 recap, featuring updates from 9 utilities – DUK, ES, WEC, NI, D, SJI, NWN, SO, and CNP. Conversations have generally focused on iterative items from the 1Q21 calls, with several names focused on legislation legislative efforts (IL, NC, NJ) as summer quickly approaches. While some names were more focused on straightforward capex and regulatory execution (D, SO, WEC), others remain activist topics (DUK, NI). See below for our full schedule of Day 2 meetings.

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SAVE THE DATE

2021 AGA Virtual Financial Forum

The Guggenheim Utilities Research Team will be hosting virtual meetings with company management

Dates

May 19 – 20, 2021

Company Meetings

More companies to be added and meeting schedule to follow

- Ameren Corp. (AEE)
- Avista Corp. (AVA)
- CMS Energy Corp. (CMS)
- CenterPoint Energy, Inc. (CNP)
- Chesapeake Utilities Corp. (CPK)
- Dominion Energy, Inc. (D)
- DTE Energy Co. (DTE)
- Duke Energy Corp. (DUK)
- Eversource Energy (ES)
- NiSource, Inc. (NI)
- New Jersey Resources Corp. (NJR)
- NorthWestern Corp. (NWE)
- Northwest Natural Gas Company (NWN)
- ONE Gas, Inc. (OGS)
- Southern Company (SO)
- Spire Inc. (SR)
- WEC Energy Group, Inc. (WEC)

Wednesday, May 19th		Thursday, May 20th	
Time	Co.	Time	Co.
8:00AM	DUK	8:00AM	AEE
9:30AM	ES	9:30AM	OGS
10:15AM	WEC	10:15AM	DTE
11:00AM	NI	11:00AM	SR
11:45AM	D	11:45AM	CPK
3:00PM	NWN	12:45PM	CMS
3:45PM	SO	3:00PM	NWE
4:30PM	CNP	3:45PM	NJR
		4:30PM	AVA

Participating Guggenheim Analyst

Shar Pourreza, *Managing Director, Equity Research Analyst – Power, Utilities & Alternative Energy*

Continued on the next page…

DUKE: ACTIVIST AND LEGISLATION

Our conversations with DUK senior management (CFO, etc.) focused heavily on the recent activist headlines, with management again laying out in great detail its rationale for why a fracturing of the conglomerate is in their view, illogical. Chief among the reasons is the credit impact, with management highlighting its current ~12% FFO/Debt as in danger under a breakup scenario as smaller utilities demand better profiles. The holdco debt issue is intertwined with this in their view, with the combination of the credit issues requiring billions of equity to repair the balance sheets – before dissynergies. Management indicated, as it did previously, that it took ~$600mm out of Progress and $300mm from Piedmont, indicative of the kinds of costs that could flow back to each company in a split scenario. **The company also indicated to us that it had previously looked at the potential sale of Florida internally,** however there are several issues, including: 1) substantial tax leakage ($5bn+), 2) the need for a substantial (30x+) premium/multiple to keep the remainco whole under the ensuing credit metric impacts, and 3) Florida is the fastest growing and best credit of the utility groups. While management indicated that the Board is aware of the proposals and has been involved, our overall impression of the situation remains consistent – there are large gaps between the parties here, to say nothing of the regulatory challenges. The next proxy season is in the January/February time frame.

See our prior note on this HERE.

Turning to the utilities, our conversations generally focused on the legislative process in NC and the potential outcomes therein. **Management cautioned that legislators are generally in the sausage-making phase right now with limited external visibility for stakeholders (next data point likely draft legislation), but they remain optimistic on the prospects for the overall process.** The company continues to look for directional alignment between the parties on a coal exit pathway, renewables, and regulatory reform, with management speaking highly of both decoupling (the LDCs already do it) and MYPs (already used at DEF). With regards to timing of some of these initiatives and interaction with the current growth guide, management generally deferred on details, given where the process is, although they did note that coal retirement accelerations could begin to show towards the end of the current plan in the ’24-25 timeframe. Legislation that could yield renewable rate base growth opportunities, multiyear rate plan yielding regulatory lag and acceleration of renewable spend etc. could be accretive to Mgmt’s 5-7% growth guide. Finally, current customer/load growth trends are slightly outpacing internal planning assumptions.

EVERSOURCE: FENCE MENDING AND OSW

Our conversations with ES senior management (full C-Suite) generally focused on the fallout from the recent decisions by PURA in CT, with management laying out its ongoing and planned efforts to improve dialogue in the state. The company secured the AG's first in-person meeting in over a year to discuss its work to improve, supported by frequent lawmaker meetings and outreach. The company is looking forward to the impending start of the PBR discussions at PURA, with a docket expected by ~June. The company already operates under PBRs in other states, so the concepts are familiar – management expects the process to be collaborative and constructive. In line with the 1Q call, the company expects the 90bps ROE reduction to potentially come in 4Q21 with a low income/economic development docket already open. **While the reduction appears to be indefinite, management noted that it has not changed its growth outlook as a result.** Some investors also probed the team on their FERC ROE policy thoughts; however, the conversation was generally in line with prior/recent dialogues we have had with them. The balance of our meeting was focused on offshore wind updates, with status checks on South Fork, Revolution, and Sunrise largely unchanged from the 1Q21 call. **The company reiterated its intentions to remain a disciplined bidder in the numerous ongoing RFPs underway,** with a particular focus on the non-MA processes that have some additional weighting towards non-cost metrics (e.g., local dev). Finally, while the next capex roll remains very far off, we got the impression that the current plan retains ample opportunities for traditional utility spend, in addition to things like: 1) grid mod (AMI is a big thread in CT and MA, potentially $400mm in each), 2) ratebased solar in MA (current approval for 280MW), and 3) OSW interconnections among other drivers.

WEC: EXECUTION AS IL VIEWS SOFTEN

Our conversations with WEC senior management (Chair, COO, CFO, etc.) generally focused on economic development, regulatory activity, and Illinois policy perspectives, in addition to more straightforward execution updates. Management echoed its 1Q21 sentiment that the year is off to a good start, with robust economic activity and growth across the footprint, including a new relocation by Milwaukee Tools [SEHK: 669] and potential EV manufacturing opportunities. On the regulatory front, management highlighted its recent stay out agreement in WI. **We also asked for their views on LNT's recent settlement, including readthrough from the coal recovery plan to WEC's own units like Weston.** Management had two key takes on this: 1) the settlement is a testament to the quality of the regulatory and stakeholder environment as it was incredibly quick (as was WEC's), and 2) the recovery on coal is a very interesting approach that they are looking into further – a good marker for how intervenors feel about coal and recovery in their view, and slightly different than the small securitization tested in the Pleasant Prairie process. **On Illinois policy**

See pages 8 - 9 for analyst certification and important disclosures.

prospects, management sounded marginally more optimistic, with the process coming down the wire in their view. The chances for a broad package remain challenged in their view given all of the moving pieces, **but there is potentially room for something skinnier to advance – perhaps nuclear subsidies + ethics/FRPs.** In their view, gas utilities and the QIP remain tertiary items in the overall process, which we generally agree with. The work at Peoples replacing bare steel and wooden Civil War era components still needs to get done. Finally, we note that the capex plan remains on track, with infrastructure still running ahead of schedule. Based on our conversation, we expect future roles to remain weighted towards storage and solar, with federal tax credits an unknown variable in the equation to monitor. Point Beach dialogue remains nascent but ongoing.

NISOURCE: STRATEGY AND THE INDIANA IRP

With MA sold, equity done, and the plan solidified, our update with NI senior management (CEO, CFO, etc.) was largely straightforward, with a strategic tone in light of recent activist actions and LDC sales. We and others asked management about potentially getting smaller or optimizing assets, with management highlighted the significant number of dissynergies involved in such processes. The company is eyeing 10% growth at each of its utilities and has gotten the equity out of the way, but management still noted that it is always exploring opportunities. The confidence in the current plan and portfolio comes from the constructive environments in its jurisdictions, with supportive mechanisms and policies (e.g., bans on gas bans). The IRP in Indiana was the other key point of discussion, with a meeting today (5/20) and the launch of the RFP process. Management sees ~3 channels, including solar/wind+storage and new technologies for Schaefer’s replacement. The RFP does present the opportunity to a higher proportion of utility-owned projects, but management indicated it is far too early to think about the IRP opps and the growth rate. The IRP will also help illuminate the potential to accelerate the coal exit. With equity needs solved in the NT, any asset optimization opportunities on the gas LDC side could come in time with incremental spending arising from the new ’21 IRP.

DOMINION: EXECUTION

Dominion’s messaging was well defined; they’re focused on the blockbuster renewables buildout underway and managing the associated regulatory processes. Senior management’s (CFO, etc.) update was built around that narrative, with few incremental data points from the 1Q21 call. The Fast 41 schedule was reiterated, while management again sounded a positive tone on the underlying post-COVID growth trends. The company continues to work through the onshore wind and solar tranches (CE1/CE2), with 110k+ acres under option. Investors in our meeting queried on whether the ~$17bn in planned offshore wind investment could see some shrinkage based on bids in the northeast; however, management noted that the comparison is not direct given some key differences (some projects don't have transmission included, different capacity factors, etc.). The company remains active on the RNG front and looking at agriculture opportunities. To the south, the settlement process remains ongoing in South Carolina during the pause, **with management sounding a positive tone on the prospects for a settlement.** While we asked on Santee Cooper, there were no new thoughts. Finally, we asked about the noncore nature of assets like Millstone, however management noted that it is comfortable with such a small non-regulated portion of the business (<10%), which will only shrink further as the regulated side continues to grow. No material updates around the VA triennial review though, we continue to believe the process should run smoothly given the construct and legislative mandates in place.

SJI: GROWTH AND NJ LEGISLATION IN FOCUS

Coming off its recent analyst day, SJI's senior management (CEO,CFO, etc.) update was generally focused on execution and ongoing legislative conversations. The company continues to see solid growth as the state recovers from COVID, with ETG a particular area of strength. Management struck a very comfortable tone with the current ~1.5% customer growth guide. The company also continues to navigate legislative opportunities around rate treatment of RNG investments (e.g., ratebasing RNG projects, link HERE). We asked about ratebasing projects vs. keeping them non-regulated, with management acknowledging that current returns are quite healthy on the nonreg side—they continue to evaluate all options. We also asked about the drivers of management's slightly wider 5-8% EPS growth rate guidance, with the company pointing to some flexibility on regulatory items (it has multiple cases built in to the current plan) and the potential investment opportunities. Management did note that a federal biogas ITC could be an earnings game changer if some iteration of it were to come to pass. The company also continues to work through its current ~$743mm infrastructure ask, with discovery expected to finish within a week and potential settlement discussion thereafter. The plan does not assume the whole ~$743 ask. Finally, our conversation also touched on PennEast, with management largely reiterating the process data points and timelines.

NW NATURAL: RNG AND EXECUTION

Our conversations with NWN senior management (CEO, CFO, etc.) largely centered on execution and decarbonization, with the company working through its first tranche of RNG procurements and looking ahead to meeting the aggressive goals under SB98. While the company has already made strong progress on decarbonization to date (no bare steel

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left in system and a strong visibility on EE), there remains ample opportunity to add RNG under the existing constructs. The current ~$38mm in spend will help meet roughly 1.6% of NWN's OR sales volume and represents only projects with a clear line of sight. Under the SB98 caps, the company could approach another $162mm in spend over the 5 year period, however the procurement process remains in its early days. With regard to policy, the company continues to work with stakeholders in somewhat hostile localities like Eugene to educate on the value of gas and the company's decarbonization plans, however some noise may continue in our view given the regional dynamics. Based on our conversations, we expect the water business to continue its expansion, with management pointing to a pickup in overall activity post-COVID. Finally, we note that the WA MYP case remains ongoing, with management pointing to the potential for some resolution in the coming month or two based on current conversations.

SOUTHERN COMPANY: VOGTLE, VOGTLE, VOGTLE

Hot off Tuesday's construction news, our conversations with SO senior management (CFO, etc.) were decidedly focused on the HFT process and the prospects for schedule slippage. Management provided additional color on the process and what had been seen to date, with the pressurize bracket alignment the chief bottleneck in the process. The support for the pressurizer wasn't perfectly centered, leading to some misaligned thermal expansion. This and other thermal expansion items were somewhat expected (the Chinese also dealt with them), however the pressurizer situation required cooling the system given the limited clearances for worker access, adding ~2-3 weeks to the process. The schedule shift will cost a little bit of the contingency, however management continued to strike an upbeat tone on the prospects for the Unit 4 schedule once 3 is complete. Remaining items post-HFT at unit 3 are largely minor mechanical systems (emergency lighting, potable water, etc.). With regard to prudency, the company reiterated it expects to pursue all ~$700mm, but it is also cognizant of other processes in the state that will be ongoing by that time (rate case, IRP). We asked about LDC M&A and other noncore assets at the company given the recent Sequent sale, with management acknowledging healthy multiples while simultaneously re-emphasizing its own lack of equity needs in the NT.

CENTERPOINT: LONGER DATED UPDATES

We sat down with CNP's CFO and other senior leaders for the latest updates on a story we have been *very* close to for several quarters, with most data points focused on longer-term items like outer year capex and decarbonization opportunities. The company is taking a closer look at its decarbonization narrative and how it will fit into future net zero economies, **including the potential for a longer term 10-year capex outlook and**

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conversations on longer-dated asset replacements (e.g., coal transitions). For example, at the moment the company has no EV infrastructure in its current plan despite nascent favorable policy positioning in places like Houston. Management is also looking at potential opportunities for limited rate base storage in Texas on the distribution system (~25MW). We asked about potential disclosures around such a long-dated outlook, with management reiterating no block equity. What about RNG? Opportunities remain pretty nascent based on our conversation, with Minnesota presenting the most immediate application as the state takes an interest in the resource. **We note that the team also recently sat down with the newly constituted PUCT** to reestablish the relationships that had been severed after the February storms prompted a bench-clearing, with management noting a concerted interest in reliability during the dialogue. **Finally, we also touched on the ongoing IN IRP, with hearings on the first tranche coming in June and a filing for a gas peaker in the same time frame.** The balance of the filings and processes will run through next year. Note – when Mgmt. discloses their longer-term CapEx update around decarbonization in Q3, they continue to believe they will not need block equity, with funding in time being sourced from OCF, O&M levers and further asset optimization opportunities.

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Power, Utilities & Alternative Energy

May 21, 2021

The Guggenheim Daily Transmission: AGA, EXC, IL, POR, RGGI, PA, PNW, PJM

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Ticker	Price	Rating
EXC	45.74	Neutral
PNW	85.37	Buy
POR	48.89	Buy

For details on our Guggenheim Hosted Client Utility Events, including our OGE Virtual NDR, ALE Virtual NDR, SHLS Virtual NDR, LNT Virtual NDR, EVRG Virtual NDR, SO Virtual NDR, and more, scroll down…

AGA: Day 2 Flash Recap… (see our note HERE)

EXC/IL – Details on IL report redactions and process emerge

POR – OPUC adopts temporary rules on PSPS

RGGI/PA – DEP releases data on consumer cost modeling

PNW – Bright Canyon inks 25MW Navy microgrid contract

PJM – Summer outlook points to plentiful supply

EXC/IL – Details on IL report redactions and process emerge

- Byron and Dresden employed ~1,300 people in 2020 according to a review of the unredacted report, as EXC continues to push its case for subsidies higher than the consultant's recommendations
- More from Crain's HERE

Guggenheim takeaway: *For your awareness. The process is frustratingly opaque at this point, and while we remain of the view that a comprehensive package could be an uphill lift in the remaining week of the session, we note that some of our AGA conversations were slightly more open to the potential for a slimmer 'subisidy+ethics' package to emerge. Stay tuned… As a reminder, we hosted two different experts recently for their views on the situation in Springfield – see our note on the first conversation HERE and the second HERE.* ***We also discussed the issue in our AGA meetings – see above for AEE and HERE for WEC's updated thoughts.***

POR – OPUC adopts temporary rules on PSPS

- Docket and OPUC Staff presentation on the PSPS HERE

Guggenheim takeaway: *Zero surprise given the wildfire docket process we have been tracking for some time, and something POR has already been a leader on in the state.*

RGGI/PA – DEP releases data on consumer cost modeling

- "Residential electricity bills are slightly higher with RGGI participation with bill impacts declining to just $.84- $1.19 per month by 2030" - DEP
- Presentation HERE, more HERE

Guggenheim takeaway: *Minor FYI.*

NOAA – NOAA predicts another active hurricane season

- "For 2021, a likely range of 13 to 20 named storms (winds of 39 mph or higher), of which 6 to 10 could become hurricanes (winds of 74 mph or higher), including 3 to 5 major hurricanes (category 3, 4 or 5; with winds of 111 mph or higher) is expected. NOAA provides these ranges with a 70% confidence. The Atlantic hurricane season extends from June 1 through November 30." - NOAA
- More HERE

Guggenheim takeaway: *Heads up.*

PNW – Bright Canyon inks 25MW Navy microgrid contract

- More HERE

Guggenheim takeaway: *Interesting heads up, and exactly the kind of project management has indicated in the past the nascent segment was targeting.*

PJM – Summer outlook points to plentiful supply

- "PJM power system operators have forecasted a peak demand for electricity this summer at approximately 149,000 MW but have performed reliability studies at even higher loads – in excess of 155,000 MW – for the region that includes 13 states and the District of Columbia. PJM has over 185,000 MW of installed generating capacity available to meet customer needs, with sufficient resources available in reserve to cover generation that is unexpectedly unavailable, or for other unanticipated changes in demand." - PJM
- More HERE

Guggenheim takeaway: *Zero surprise - PJM remains oversupplied.*

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OGE Energy Corp. (OGE)

Bryan Buckler, *Chief Financial Officer*
Jason Bailey, *Director, Investor Relations*
Casey Strange, *Manager, Investor Relations*

Date
Monday, May 24, 2021

Meeting Format
Virtual NDR - 1:1 Meetings & Group Meeting

Company Information
Market Cap: $6.7bn
OGE Energy Corp. (OGE) is a holding company, which engages in the provision of physical delivery and related services for both electricity and natural gas. It operates through the Electric Utility and Natural Gas Midstream Operations segments. The Electric Utility segment generates, transmits, distributes, and sells electric energy in Oklahoma and Western Arkansas. The Natural Gas Midstream Operations segment involves gathering, processing, transporting, storing, and marketing of natural gas. The company was founded in August 1995 and is headquartered in Oklahoma City, OK. (Source: FactSet)

Participating Guggenheim Analyst
Shar Pourreza, *Senior Managing Director, Equity Research Analyst – Power, Utilities & Alternative Energy*

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ALLETE, Inc. (ALE)

Bethany Owen, *President & Chief Executive Officer*
Bob Adams, *Chief Financial Officer*
Steven Morris, *Controller & Chief Accounting Officer*

Date

Thursday, May 27, 2021

Meeting Format

Virtual NDR - 1:1 Meetings & Group Meeting

Company Information

Market Cap: $3.67bn

ALLETE, Inc. (ALE) engages in the provision of electric and natural gas utility services. It operates through the following business segments: Regulated Operations, ALLETE Clean Energy, and U.S. Water Services. The Regulated Operations segment includes regulated utilities; Minnesota Power; SWL&P; and investment in ATC, which regulates utilities that owns and maintains electric transmission assets. The ALLETE Clean Energy segment develops, acquires, and operates clean and renewable energy projects. The U.S. Water Services segment provides integrated water management for industry by combining chemical, equipment, engineering, and service for customized solutions to reduce water and energy usage and improve efficiency. The company was founded in 1906 and is headquartered in Duluth, MN. (Source: FactSet)

Participating Guggenheim Analyst

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Shoals Technologies Group, Inc. (SHLS)

Jason Whitaker, *President & Chief Executive Officer*
Philip Garton, *Chief Financial Officer*

Date
Tuesday, June 1, 2021

Meeting Format
Virtual NDR - 1:1 Meetings & Group Meeting

Company Information
Market Cap: $4.75bn
Shoals Technologies (SHLS) provides electrical balance of system solutions for solar energy projects. Its EBOS components include cable assemblies, inline fuses, combiners, disconnects, recombiners, wireless monitoring systems, junction boxes, transition enclosures and splice boxes. The company was founded by Dean Solon in November 1996 and is headquartered in Portland, TN. (Source: FactSet)

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Alliant Energy Corp (LNT)

John Larsen, *Chair, President & Chief Executive Officer*
Robert Durian, *EVP & Chief Financial Officer*

Date
June 2 - 3, 2021

Meeting Format
Virtual NDR - 1:1 Meetings & Group Meeting

Company Information
Market Cap: $14.31bn
Alliant Energy Corp (LNT) is a regulated investor-owned public utility holding company that engages in the provision of regulated electricity and natural gas service to natural gas customers in the Midwest through its two public utility subsidiaries. It operates its business through following segments: utility electric operations, utility gas operations; and utility other. The company was founded in 1981 and is headquartered in Madison, WI. (Source: FactSet)

Participating Guggenheim Analyst
Shar Pourreza*, Senior Managing Director, Equity Research Analyst – Power, Utilities & Alternative Energy*

Guggenheim's Power & Utility Comp Sheet

Updated as of 5/20/2021

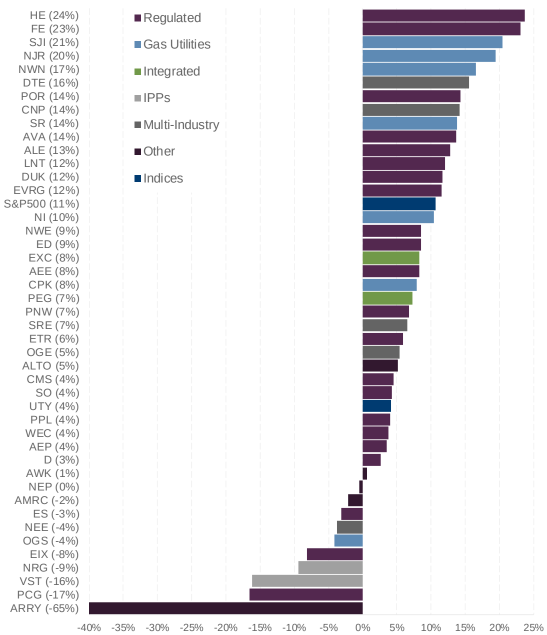
									Guggenheim						Consensus		
Regulated Electric Utilities[1]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	Earnings Per Share '21E	'22E	'23E	Price / Earnings '21E	'22E	'23E	Price / Earnings '21E	'22E	'23E
AEE	Ameren	21.6	Buy	$90	$84.50	2.6%	59%	256	3.73	4.02	4.30	22.7	21.0	19.7	22.5	21.0	19.5
AEP	American Electric Power	43.1	Buy	$98	$86.26	3.5%	65%	500	4.65	5.03	5.30	18.6	17.1	16.3	18.5	17.3	16.4
ALE	ALLETE	3.6	Neutral	$65	$69.85	3.7%	81%	52	3.18	3.85	3.98	22.0	18.1	17.6	21.9	18.1	17.4
AVA	Avista	3.2	Sell	$32	$45.62	3.7%	82%	69	2.06	2.26	2.47	22.1	20.2	18.5	21.6	19.8	18.3
CMS	CMS Energy	18.5	Neutral	$63	$63.74	2.7%	61%	289	2.86	3.06	3.26	22.3	20.8	19.6	22.3	20.8	19.5
D	Dominion	62.4	Buy	$89	$77.24	3.2%	65%	807	3.86	4.15	4.44	20.0	18.6	17.4	19.9	18.7	17.7
DUK	Duke Energy	78.7	Buy	$107	$102.27	3.9%	77%	769	5.17	5.48	5.81	19.8	18.7	17.6	19.7	18.8	17.8
ED	Consolidated Edison	26.9	Neutral	$77	$78.42	4.0%	73%	343	4.25	4.42	4.63	18.5	17.7	16.9	18.4	17.4	16.6
EIX	Edison International	21.9	Buy	$79	$57.68	4.7%	60%	379	4.51	4.76	5.04	12.8	12.1	11.4	12.7	12.2	11.5
ES	Eversource Energy	28.8	Neutral	$87	$83.76	2.9%	63%	343	3.83	4.12	4.36	21.9	20.3	19.2	21.8	20.4	19.1
ETR	Entergy	21.2	Buy	$120	$105.74	3.7%	65%	201	6.01	6.33	6.79	17.6	16.7	15.6	17.7	16.8	15.8
EVRG	Evergy	14.2	Buy	$70	$61.90	3.5%	66%	229	3.29	3.43	3.71	18.8	18.0	16.7	18.7	17.8	16.5
FE	FirstEnergy	20.5	Neutral	NA	$37.69	4.1%	62%	544	2.50	2.60	2.71	15.1	14.5	13.9	15.0	14.5	14.1
HE	Hawaiian Electric	4.8	Sell	$37	$43.80	3.2%	69%	109	2.01	1.96	2.11	21.8	22.3	20.8	22.4	21.7	20.2
LNT	Alliant Energy	14.5	Buy	$64	$57.76	2.8%	63%	250	2.57	2.72	2.87	22.5	21.2	20.1	22.5	21.1	20.0
NWE	NorthWestern	3.2	Neutral	$62	$63.31	3.9%	72%	51	3.46	3.64	3.84	18.3	17.4	16.5	18.1	17.2	16.3
PCG	PG&E Corporation	20.6	Buy	$17	$10.40	NA	NA	1985	1.03	1.13	1.25	10.1	9.2	8.3	10.3	9.3	8.4
PNW	Pinnacle West	9.7	Buy	$97	$85.37	4.0%	68%	113	5.05	5.23	5.49	16.9	16.3	15.6	17.1	16.6	15.9
POR	Portland General Electric	4.4	Buy	$54	$48.89	3.4%	62%	90	2.71	2.75	2.84	18.0	17.8	17.2	18.4	17.8	17.0
PPL	PPL Corporation	22.6	Buy	$32	$29.34	5.2%	115%	769	1.34	1.65	1.84	21.9	17.8	15.9	12.2	11.8	11.1
SO	Southern Company	67.7	Neutral	$63	$64.06	4.1%	79%	1059	3.32	3.59	3.85	19.3	17.8	16.6	19.3	18.0	16.6
WEC	WEC Energy	30.2	Neutral	$92	$95.52	2.8%	67%	315	4.03	4.26	4.50	23.7	22.4	21.2	23.7	22.3	20.9
***Average (Excl. EIX, PCG, and PPL for P/E)**						**3.5%**	**68.3%**					**20.0**	**18.8**	**17.7**	**20.0**	**18.7**	**17.7**
Regulated Gas Utilities[2]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
CPK	Chesapeake Utilities	2.0	Neutral	$108	$116.82	1.5%	37%	18	4.59	4.98	5.35	25.5	23.5	21.8	25.5	23.7	22.0
NI	NiSource	9.9	Buy	$27	$25.32	3.6%	67%	392	1.35	1.43	1.53	18.8	17.7	16.5	18.8	17.9	16.7
NJR	New Jersey Resources	4.1	Neutral	$39	$42.49	3.2%	65%	96	2.09	2.28	2.35	20.3	18.6	18.1	20.5	18.7	17.6
NWN	NW Natural Gas	1.6	Sell	$38	$53.64	3.6%	77%	31	2.50	2.64	2.73	21.5	20.3	19.6	21.2	20.4	19.3
OGS	ONE Gas	3.9	Neutral	$80	$73.61	3.2%	61%	53	3.82	4.12	4.43	19.3	17.9	16.6	19.4	17.9	16.9
SJI	South Jersey Industries	2.9	Buy	$28	$25.97	4.5%	73%	112	1.61	1.71	1.85	16.1	15.2	14.0	16.1	15.6	15.0
SR	Spire	3.8	Buy	$84	$72.92	3.6%	60%	52	4.43	4.41	4.67	16.5	16.5	15.6	16.7	16.5	15.7
Average						**3.3%**	**62.7%**					**18.7**	**17.7**	**16.8**	**18.8**	**17.9**	**16.9**
Integrated Utilities[3]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
EXC	Exelon	44.7	Neutral	$45	$45.74	3.4%	56%	977	2.80	2.98	3.02	16.3	15.3	15.1	16.6	15.5	14.9
PEG	PSEG	31.6	Buy	$67	$62.58	3.3%	59%	505	3.52	3.51	3.61	17.8	17.8	17.3	18.1	17.9	17.3
Average						**3.4%**	**57%**					**17.1**	**16.6**	**16.2**	**17.3**	**16.7**	**16.1**
Independent Power Producers (IPPs)[4]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
NRG	NRG Energy	8.3	Neutral	NA	$34.04	3.8%	-	245	2,412	2,471	2,472	6.6	5.8	5.4	9.2	6.3	6.0
VST	Vistra Energy	7.9	Neutral	NA	$16.48	3.6%	-	482	1,678	3,230	3,107	9.9	5.0	4.9	10.8	5.3	5.0
Average												**8.2**	**5.4**	**5.2**	**10.0**	**5.8**	**NA**
Multi-Industry Utilities[5]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
CNP	CenterPoint	14.2	Buy	$27	$24.70	2.5%	44%	580	1.41	1.50	1.62	17.5	16.5	15.2	17.8	17.1	15.9
DTE	DTE Energy	27.2	Buy	$148	$140.36	3.1%	60%	194	7.20	7.62	7.84	19.5	18.4	17.9	19.5	18.9	18.0
NEE	NextEra	145.7	Buy	$90	$74.29	1.9%	56%	1961	2.56	2.77	2.95	29.0	26.8	25.2	29.5	27.2	25.4
OGE	OGE Energy	6.7	Buy	$39	$33.58	5.1%	78%	200	2.17	2.27	2.38	15.5	14.8	14.1	15.3	15.7	15.1
SRE	Sempra Energy	41.1	Buy	$167	$135.74	3.4%	56%	303	8.16	8.58	9.21	16.6	15.8	14.7	16.7	15.9	15.1
Average						**3.2%**	**58.9%**					**19.6**	**18.5**	**17.4**	**19.8**	**18.9**	**17.9**
Other		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
AWK	American Water Works	28.0	Neutral	$146	$154.42	1.4%	50%	181	4.24	4.63	4.99	36.4	33.4	30.9	36.4	33.5	31.0
ALTO	Alto Ingredients, Inc.	0.4	Buy	$9	$5.71	-	-	73	0.62	0.66	0.80	9.2	8.7	7.1	9.4	6.1	7.1
		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
AMRC	Ameresco, Inc. Class A	2.6	Buy	$67	$51.12	-	-	50	146	163	184	NA	NA	NA	NA	NA	NA
ARRY	Array Technologies	1.9	Buy	$51	$15.24	-	-	127	174	198	224	13.2	11.6	10.3	20.9	12.9	10.0
CWEN	Clearway Energy	6.1	Suspended	NA	$26.35	NA	-	183	NA	NA	NA	NA	NA	NA	10.5	9.7	9.7
NEP	NextEra Energy Partners	5.1	Buy	$88	$66.75	4.0%	-	76	1,532	1,660	1,775	7.2	6.8	6.3	10.3	9.6	9.3
SHLS	Shoals Technologies Group, Inc	3.9	Buy	$46	$23.45	-	-	167	77.2	125.8	195.7	52.0	31.3	19.6	52.0	31.8	20.2

(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.
(2) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).
(3) Integrated utilities own and operate regulated T&D franchises, as well as un-regulated power generation with commodity exposure.
(4) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.
(5) Mult-Industry Utilities operate some comibination of regulated electric and/or gas utilities, in addtion to substantial non-power unregulated activities (i.e. midstream, renewable development, energy trading, etc.).

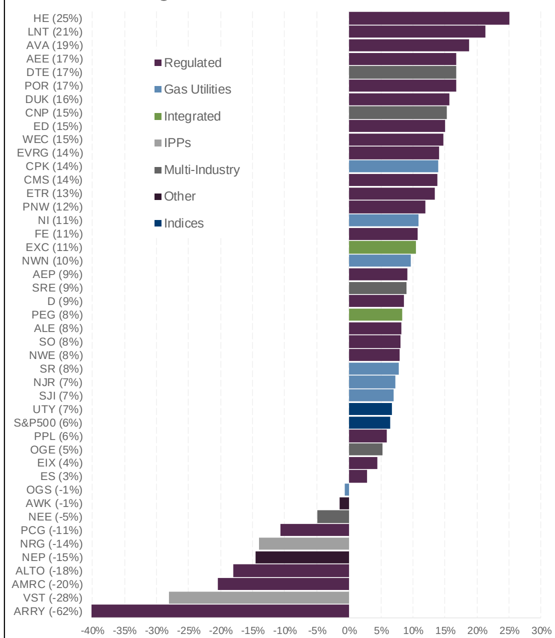
Source: Bloomberg, FactSet, Guggenheim Securities, LLC estimates.

Share Price Performance (Year-to-Date, Three-Month, & One-Month Trailing)

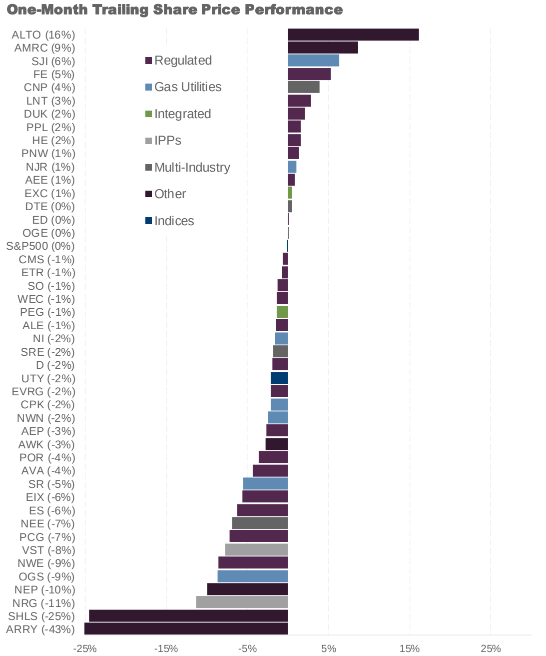
Year-to-Date Trailing Share Price Performance



Three-Month Trailing Share Price Performance



One-Month Trailing Share Price Performance



(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.
(2) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).
(3) Integrated
(4) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.

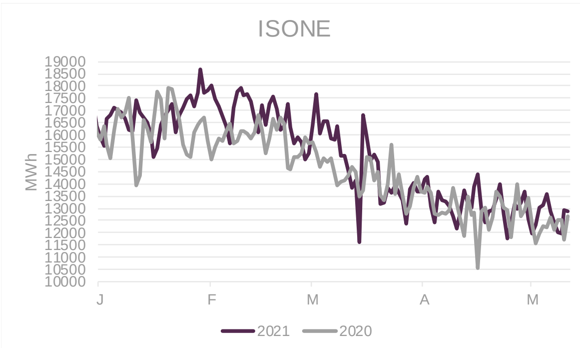
Source: Bloomberg, Guggenheim Securities, LLC estimates.

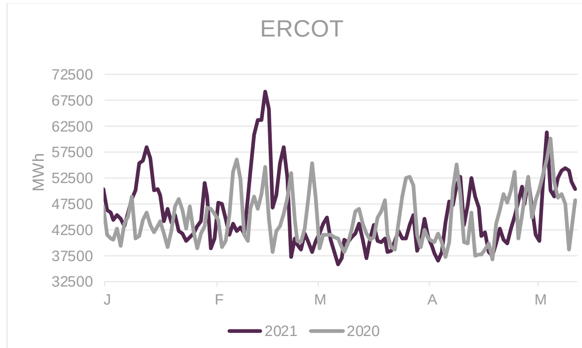
Guggenheim 2021 Client and Corporate Access Utility Events

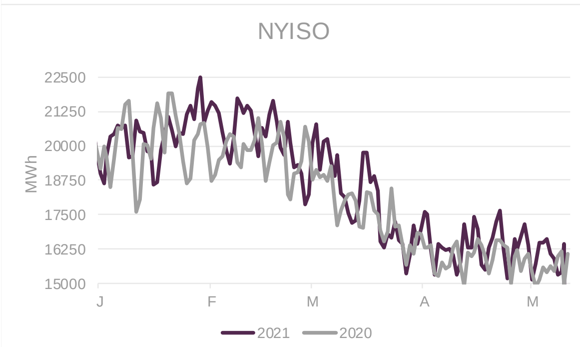
Ticker	Dates	Regions	Ticker	Dates	Regions
EIX	1/8	NYC	**CMS**	5/12-5/13	Multiple
’21 Utilities Call	1/21 – 8:15AM ET	Call	**POR**	5/12-5/13	Multiple
Investor Discussion	1/25 – 4:30PM ET	Virtual	**ARRY**	5/14	Multiple
PNW	1/26-1/27	Multiple	**OGE**	5/25-5/26	Multiple
SRE	1/27 – 4:30PM ET	Virtual	**ALE**	5/27	Multiple
WEC	2/16-2/17	Multiple	**SHLS**	6/1	Multiple
DUK	2/18	Multiple	**LNT**	6/2-6/3	Multiple
D	2/19	NYC	**PEG**	6/8-6/9	Multiple
AWK	3/10	Multiple	**EVRG**	6/10	Multiple
PPL	3/23	West Coast	**NWE**	6/16	Multiple
AEP	3/30	Multiple	**DTE**	6/29	Multiple
VST	3/31	Multiple	**ES**	TBD	Multiple
ETR	4/8	Multiple	**SO**	8/9-8/10	Multiple
SR	4/15	Multiple	**SO** (CEO Fireside)	8/10	Multiple
PCG	5/5	Multiple	**NEE**	8/30-9/2	West Coast
CNP	5/10	Multiple			

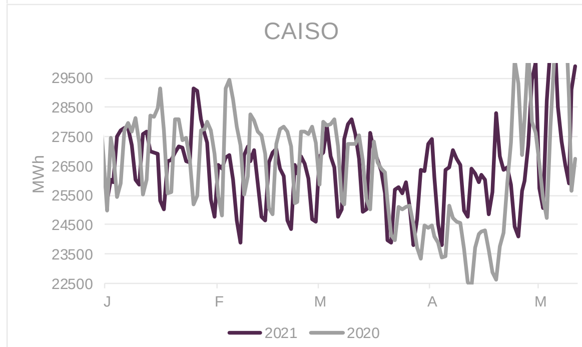
MORE TO BE ADDED…

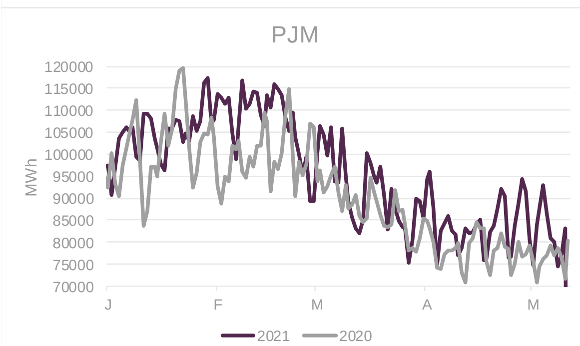
Peak Load

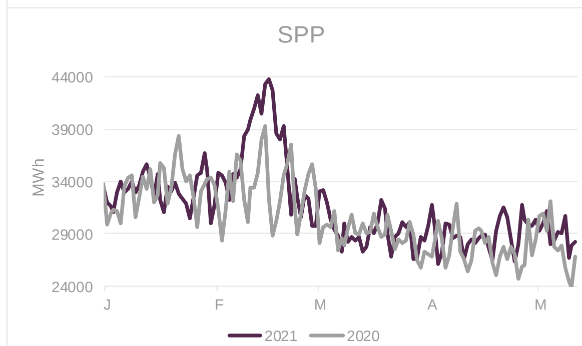


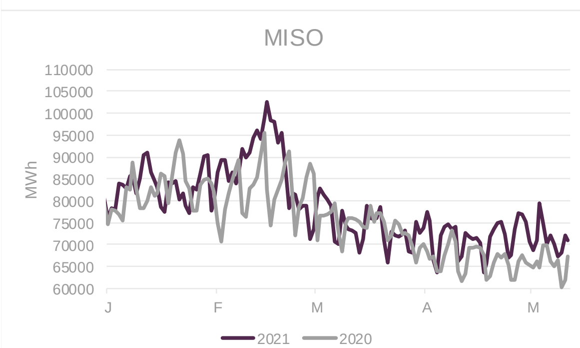










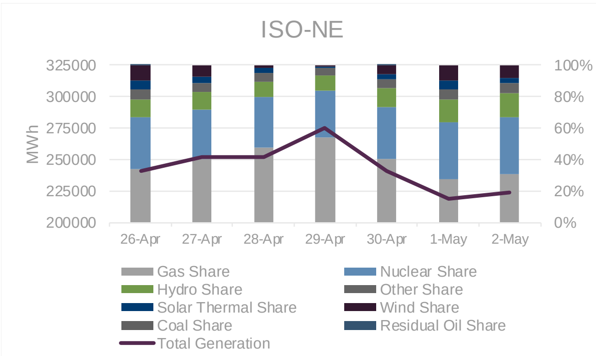


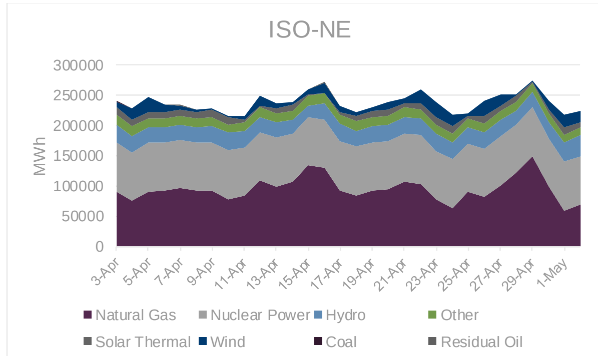
Average Deviation in Peak Load vs Prior Year

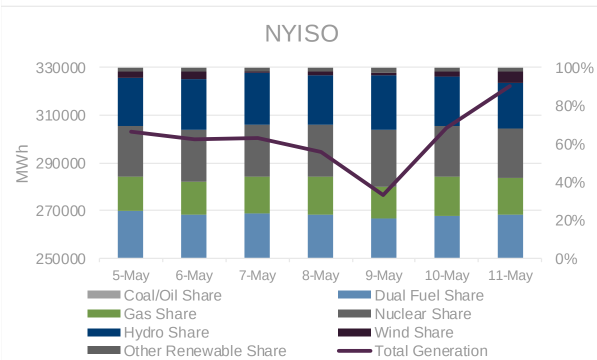
RTO/ISO	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
ISONE	-5.1%	0.1%	2.4%	2.4%	4.1%	2.5%
NYISO	-5.8%	-3.8%	0.0%	0.0%	2.5%	3.0%
PJM	-6.9%	-4.7%	-1.8%	-1.8%	6.1%	8%
MISO	-4.7%	-5.2%	-3.7%	-3.7%	4.3%	8.1%
CAISO	-1.7%	1.4%	3.2%	3.4%	0.4%	3.6%
ERCOT	2.7%	1.7%	-4.1%	3.0%	2.8%	2.8%
SPP	-4.6%	0.0%	-4.4%	-4.4%	4.1%	5.3%

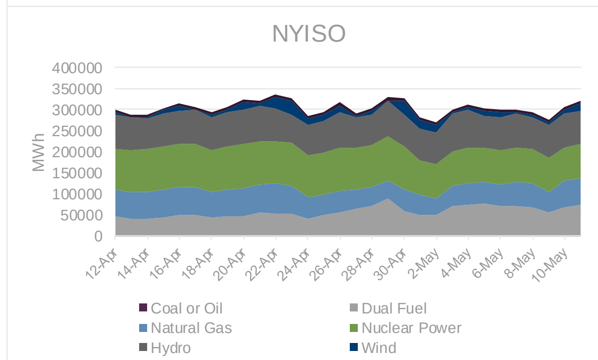
Source: S&P Global Platts, Guggenheim Securities, LLC.

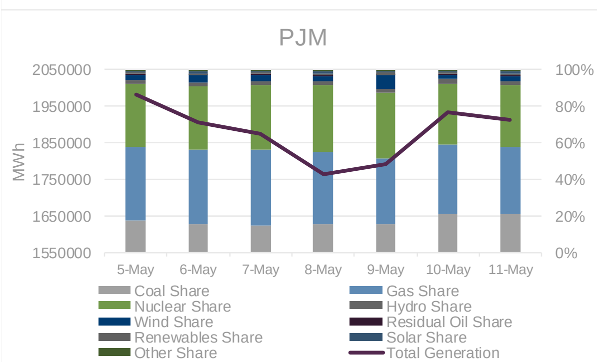
Generation and Mix

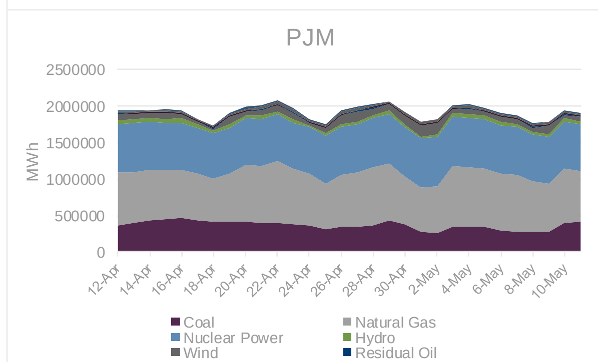


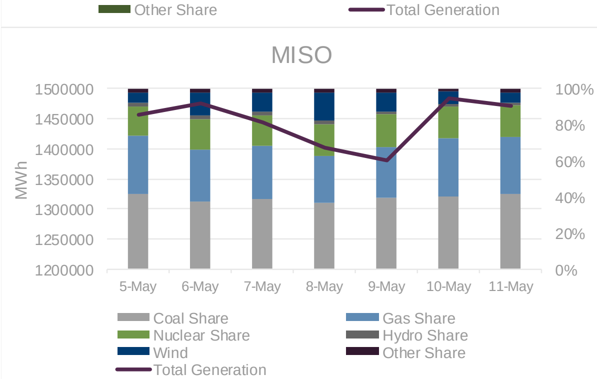


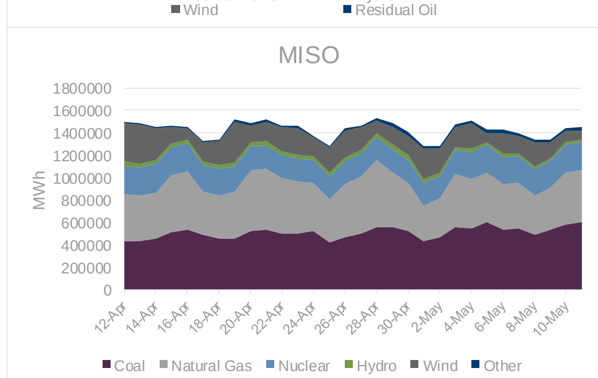




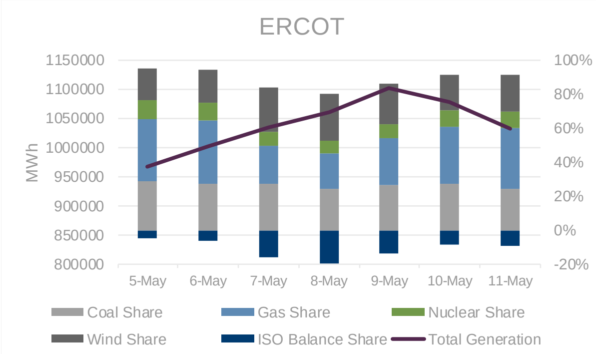


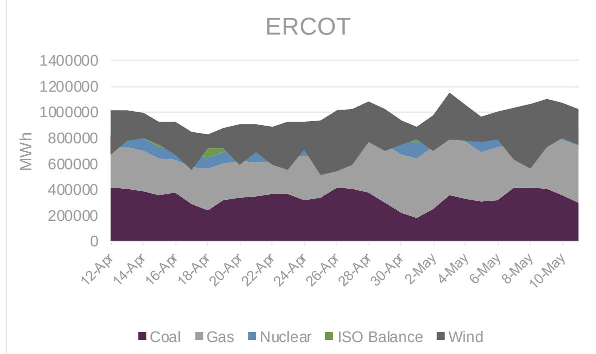


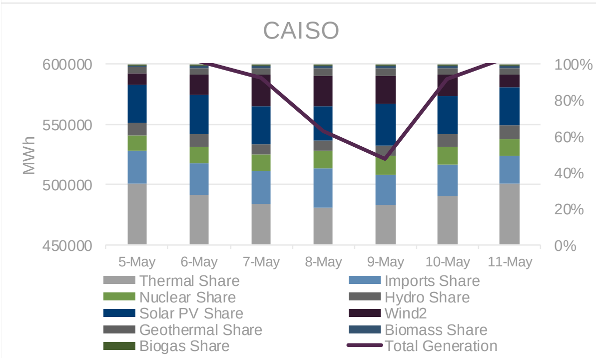


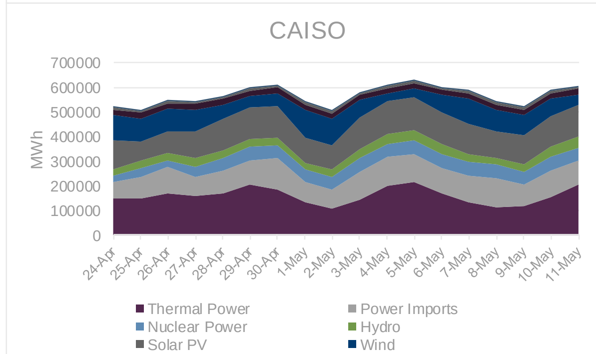


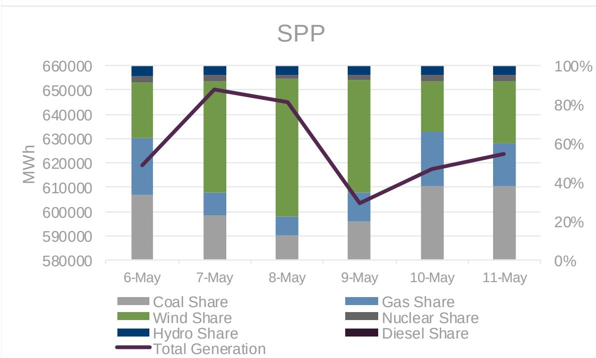
Source: S&P Global Platts, Guggenheim Securities, LLC.

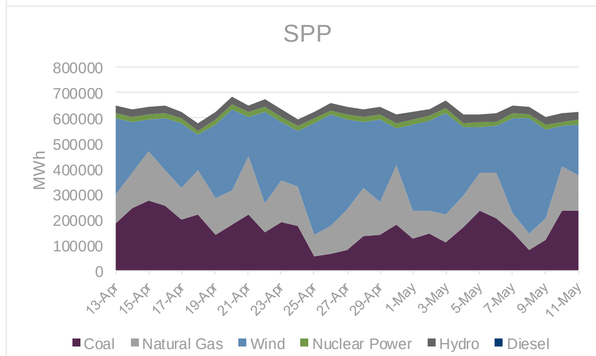








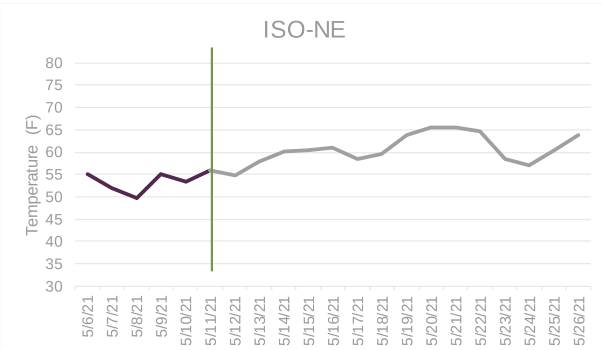


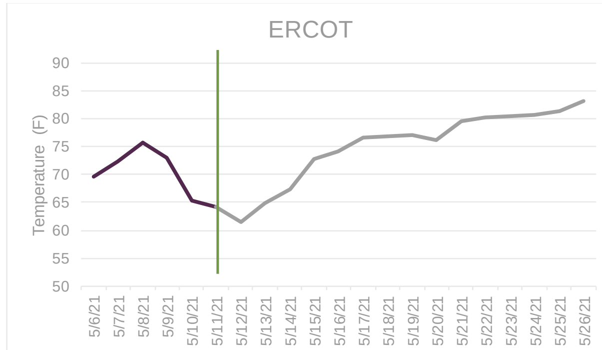


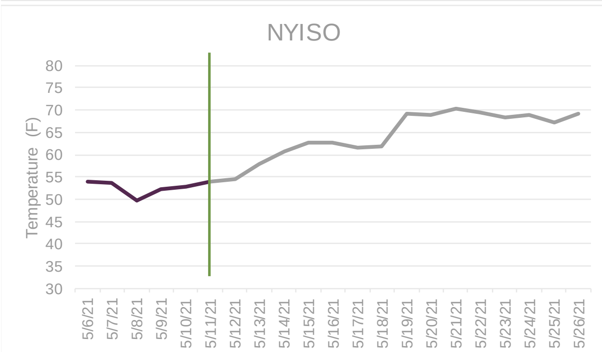
Source: S&P Global Platts, Guggenheim Securities, LLC.

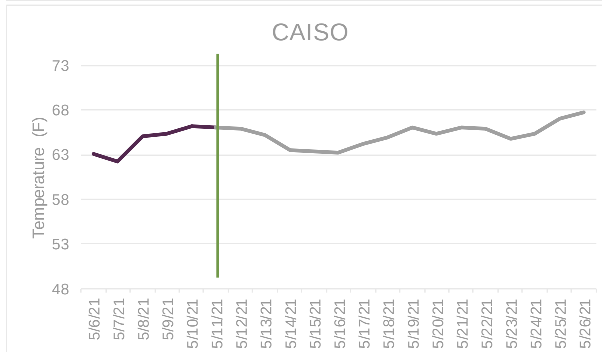
 See pages 18 - 20 for analyst certification and important disclosures.

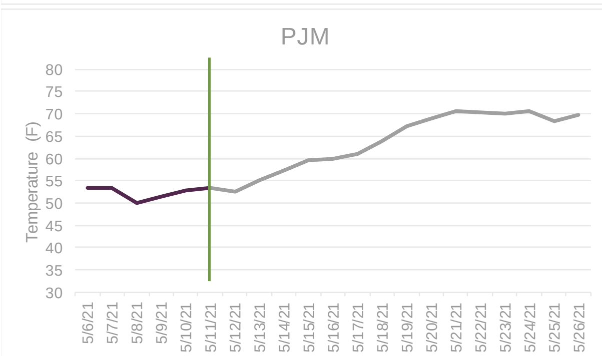
Weather

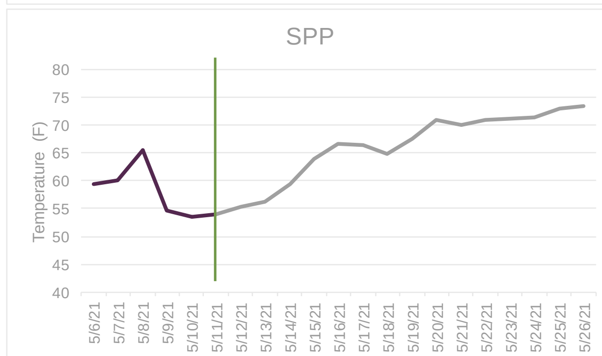


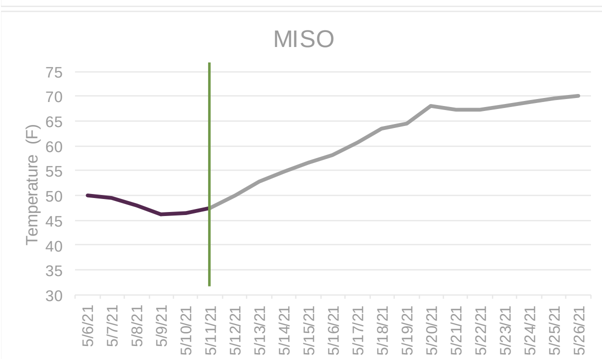












Source: S&P Global Platts, Guggenheim Securities, LLC.

Regulatory Calendar

Power and Utilities: Coverage Calendar (5/15/2021 - 8/15/2021)

Date	State	Ticker	Utility/Event	Docket	Description
3/1/2021-6/30/2021	DC	EXC	Potomac Electric Power Co.	FC-1156	Commission decision may be issued in electric rate proceeding
4/15/2021-5/15/2021	PA	EXC	PECO Energy Co.	D-R-2020-3018929	ALJ recommendation expected in rate case in late April-early May
5/1/2021-6/30/2021	TX	SRE	Oncor Electric Delivery Co.		Rate case filing expected
5/17/2021	NJ	EXC	Atlantic City Electric Co.	D-ER20120746	Settlement meeting scheduled in rate case
5/18/2021-5/19/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00251 (RAC-EE)	Hearings scheduled in RAC-EE proceeding
5/19/2021	ID	AVA	Avista Corp.	C-AVU-E-21-01	Settlement conference scheduled
5/19/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-E-0074	PSC staff and intervenor testimony due
5/19/2021-5/28/2021	TX	AEP	Southwestern Electric Power Co	D-51415	Hearings scheduled in rate case
5/19/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-G-0073	PSC staff and intervenor testimony due
5/19/2021	ID	AVA	Avista Corp.	C-AVU-G-21-01	Settlement conference scheduled
5/21/2021	WA	NWN	Northwest Natural Holding Co.	D-UG-200994	Deadline for staff and intervenor opening testimony
5/21/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00258 (E-RAC)	Rebuttal testimony due in E-RAC proceeding
5/21/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00013 (Rider E)	Rebuttal testimony due in Rider E proceeding
5/21/2021	MD	EXC	Potomac Electric Power Co.	C-9655	Initial briefs due in rate case
5/24/2021	IN	CNP	Indiana Gas Co.	Ca-45468	Hearing to begin in rate proceeding
5/26/2021	MO	SR	Spire Missouri Inc.	C-GR-2021-0108	Intervenor testimony on class cost of service due in rate proceeding
5/28/2021	WA	AVA	Avista Corp.	D-UG-200901	Deadline for company reply testimony; staff and intervenor cross-answering testimony
5/28/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00259 (BC-RAC)	SCC staff testimony due in BC-RAC proceeding
5/28/2021	WA	AVA	Avista Corp.	D-UE-200900	Deadline for company reply testimony; staff and intervenor cross-answering testimony
6/1/2021-6/15/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00251 (RAC-EE)	Hearing examiner's report may be issued in RAC-EE proceeding
6/1/2021-6/30/2021	OK		Oklahoma Natural Gas Co		Rate case filing expected
6/1/2021-6/30/2021	KY	PPL	Louisville Gas & Electric Co.	C-2020-00350 (gas)	Decision possible in rate proceeding
6/1/2021	MD	EXC	Potomac Electric Power Co.	C-9655	Reply briefs due in rate case
6/1/2021-6/30/2021	OH	AEP	Ohio Power Co.	C-20-0585-EL-AIR	Decision possible in rate proceeding
6/1/2021-6/30/2021	KY	PPL	Kentucky Utilities Co.	C-2020-00349	Decision possible in rate proceeding
6/1/2021-6/30/2021	VA		Virginia Natural Gas Inc.	C-PUR-2020-00095	Hearing Examiner's report may be issued in base rate case
6/1/2021-6/30/2021	OK		Oklahoma Natural Gas Co	Ca-PUD202100063	Rate case filing expected
6/1/2021-6/30/2021	KY	PPL	Louisville Gas & Electric Co.	C-2020-00350 (elec.)	Decision possible in rate proceeding
6/3/2021	MI	DTE	DTE Gas Co.	C-U-20940	Staff and intervenor testimony due
6/4/2021	NJ	EXC	Atlantic City Electric Co.	D-ER20120746	Intervening parties to file testimony in rate case
6/8/2021	IL	SO	Northern Illinois Gas Co.	D-21-0098	Company rebuttal testimony due in rate proceeding
6/9/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-G-0073	Rebuttal testimony to be filed in rate case
6/9/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-E-0074	Rebuttal testimony to be filed in rate case
6/17/2021	MO	SR	Spire Missouri Inc.	C-GR-2021-0108	Rebuttal testimony due in rate proceeding
6/17/2021	TX	AEP	Southwestern Electric Power Co	D-51415	Initial briefs due in rate case
6/17/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00045 (Rider CCR)	Intervening parties to file testimony in Rider CCR proceeding
6/21/2021	FL	NEE	Florida Power & Light Co.	D-20210015-EI	Intervenor testimony due
6/22/2021	MI	CMS	Consumers Energy Co.	C-U-20963	Staff, intervenor testimony due
6/22/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00045 (Rider CCR)	Staff to file testimony in Rider CCR proceeding
6/23/2021	ID	AVA	Avista Corp.	C-AVU-G-21-01	Staff, intervenor testimony due
6/23/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00258 (E-RAC)	Hearing scheduled in E-RAC proceeding
6/23/2021	WA	NWN	Northwest Natural Holding Co.	D-UG-200994	Settlement conference
6/23/2021	MI	DTE	DTE Gas Co.	C-U-20940	Rebuttal testimony due
6/23/2021	ID	AVA	Avista Corp.	C-AVU-E-21-01	Staff, intervenor testimony due
6/25/2021	DE	EXC	Delmarva Power & Light Co.	D-20-0149	Hearing examiner report due in rate proceeding
6/28/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-G-0073	Evidentiary hearings to commence in rate case
6/28/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-E-0074	Evidentiary hearings to commence in rate case
6/30/2021	NH				Commissioner Kate Bailey — term expires
6/30/2021	KY				Commissioner Talina Rose Mathews — term expires
6/30/2021	MD				Commissioner Anthony J. O'Donnell — term expires
6/30/2021	MD	EXC	Potomac Electric Power Co.	C-9655	Decision expected in muulti-year rate plan proceeding
6/30/2021	PA	EXC	PECO Energy Co.	D-R-2020-3018929	Decision likely in gas rate case
6/30/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2020-00197 (Rider RBB)	Decision expected in rural broadband pilot proceeding (Rider RBB)
6/30/2021	WV				Commissioner Brooks McCabe — term expires
6/30/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00251 (RAC-EE)	Decision expected in RAC-EE proceeding
6/30/2021	NC				Commissioner Lyons Gray — term expires
7/1/2021	TX	AEP	Southwestern Electric Power Co	D-51415	Reply briefs due in rate case
7/1/2021-7/31/2021	VA	D	Virginia Electric & Power Co.	PUR-2020-00231 (Rider US-2)	Decision expected in Rider US-2 update proceeding
7/1/2021	IL	SO	North Shore Gas Co.	D-20-0810	ALJ recommendation due in rate proceeding
7/1/2021-7/31/2021	OK	CNP	CenterPoint Energy Resources	Ca-PUD202100054	Decision expected in PBR proceeding
7/1/2021-7/31/2021	IN	CNP	Indiana Gas Co.	Ca-45468	Decision possible in rate proceeding
7/1/2021-7/31/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2020-00230 (Rider BW)	Decision expeced in Rider BW update proceeding
7/2/2021	MI				Commissioner Katherine Peretick — term expires
7/6/2021	FL	NEE	Florida Power & Light Co.	D-20210015-EI	Staff testimony due in electric rate case
7/7/2021-7/9/2021	WA	AVA	Avista Corp.	D-UG-200901	Hearing in rate case
7/7/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00045 (Rider CCR)	Rebuttal testimony due in Rider CCR proceeding
7/7/2021-7/9/2021	WA	AVA	Avista Corp.	D-UE-200900	Hearing in rate case
7/12/2021	FL	NEE	Florida Power & Light Co.	D-20210015-EI	Rebuttal testimony due in electric rate case
7/12/2021	MI	CMS	Consumers Energy Co.	C-U-20963	Rebuttal tesimony due
7/15/2021-8/15/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00013 (Rider E)	Hearing Examiner report may be issued in Rider E proceeding
7/16/2021	WA	NWN	Northwest Natural Holding Co.	D-UG-200994	Deadline for company reply testimony; staff and intervenor cross-answering testimony
7/19/2021	ID	AVA	Avista Corp.	C-AVU-E-21-01	Company rebuttal testimony due
7/19/2021	ID	AVA	Avista Corp.	C-AVU-G-21-01	Company rebuttal testimony due
7/21/2021	IL	SO	Northern Illinois Gas Co.	D-21-0098	Hearing to begin in rate proceeding
7/26/2021	MO	SR	Spire Missouri Inc.	C-GR-2021-0108	Hearing to begin in rate proceeding
7/27/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00045 (Rider CCR)	Public hearing scheduled on Rider CCR proceeding
7/30/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00058	Intervening parties to file testimony in triennial review proceeding
7/31/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2020-00274 (Rider DSM)	Decision expected in Rider DSM proceeding
7/31/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2020-00169 (Rider RGGI)	Decision expected in Rider RGGI proceeding
8/1/2021-8/31/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00259 (BC-RAC)	Hearing Examiner recommendation expected in BC-RAC proceeding
8/1/2021	MO	SR			Commissioner Maida Coleman — term expires
8/5/2021	DE	EXC	Delmarva Power & Light Co.	D-20-0149	Commission decision expected to be issued
8/5/2021	MI	DTE	DTE Gas Co.	C-U-20940	Briefs due in gas rate case
8/10/2021-8/17/2021	NJ	DTE	Atlantic City Electric Co.	D-ER20120746	Hearings scheduled in rate case
8/13/2021	TX	AEP	Southwestern Public Service Co	D-51802	Parties to file testimony in rate case

Source: SNL, Company Filings, Guggenheim Securities, LLC.

Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM and Weekly Commentary

Key Company Research

1. VST NDR: Past Is Prologue
2. SRE: SIP 20% Sale Announced at ~13x EV/EBITDA; Above Our Range, With Opportunity for Earnings Accretion
3. AEP – C-Suite NDR: On the Precipice of Change and It's a Wonderful View from Here
4. PPL NDR: Hard Part Is Done, Now the Real Work Begins – Transformation Path, Further Re-Rating Set
5. ETR – FERC ALJ Issues Initial Decision on SERI ROE and Cap Structure; 9.32% ROE; 48.15% ER
6. SRE – San Diego Opens Utility Franchise Bidding Under Expanded Criteria; Allow for Negotiated Outcome
7. PPL: WPD Sells at "Very" Healthy Multiple in Key First Step, Despite Previous Media Reports
8. NRG: Post-Call Management Catch Up
9. NRG/VST: Stepping to the Sidelines for Now as ERCOT's Collateral Damage Continues to Propagate
10. FE Reaches Agreement with Icahn
11. SHLS – 4Q Earnings; Category Killer Makes Public Market Debut; Tees Up Conservative Guide and Accelerates EV Infrastructure Development
12. AWK NDR: "When the Levee Breaks" American Water Keeps Flowing
13. AEP – Healthy AEP Ohio Rate Case Settlement Supports Thesis; Construct Still Attractive
14. PCG: C-Suite Builds on Operational Improvement for Turnaround Success; Hands-on CEO Is a Tailwind
15. ARRY – 4Q Earnings; Investing Now for Wallet Share Later; FY21 Guidance Comes In Strong
16. WEC NDR: Cutting Through the Noise; Dependable Growth and LT Decarbonization Define Our Meetings
17. D – C-Suite NDR; Strategy Equals Execution; Execution Equals Decarbonization…
18. DUK – CEO NDR; NC Legislation Finally Has Momentum; Driving Decarbonization, Higher Growth
19. AMRC – 2020 Closes with a Beat as 2021 Guidance Points to Continued Growth
20. NRG – Surprise, Surprise: Guidance Intact After Strong Storm Performance; Transformation Continues
21. OGS – 4Q Earnings; Fundamentals Remain Stout Despite Old Man Winter's Best Efforts
22. PEG – 2020 FY In Line; Fossil Sale On Track; LT Business Mix Gains Traction
23. VST – Is the Integrated Model Broken? No, But the Sandbox Might Be
24. EVRG – Coming Out Swinging: EPS Beat, Healthy '21 Guide, Higher CapEx, New Mgmt. Bench & Key Investor Infusion
25. EIX: In-Line 2020; No Major Updates - Holding Pattern Ahead of GRC
26. AEP – Better Load Recovery and Cost Mitigation; Long Renewables Runway w/ Potential Financing From Asset Rotation
27. SRE: '21 Guide Reaffirmed w/Upside Post Transaction; Utility CapEx Increased – Focus Remains on SIP Transaction
28. OGE: No Surprises as 2020 Closes; 2021 Winter Storms Costs Large but Fundamentals Strong
29. CNP: We Aren't Sweating the Details; Managing Storm Event; LDC Sales on Track, Midstream Full Exit on the Forefront
30. PNW – In Line 2020 as Capex Gets a Shuffle – a Consistent Message Following Our NDR
31. EXC – End of an Era: Exelon Loses a Neutron
32. ETR – 2020FY EPS Beat; 2021 Guidance Reaffirmed, Biased to a Strong Midpoint; Arkansas Concerns? No Cracks Here
33. AVA – 4Q Earnings Not as Bad as Some Thought; Guidance Largely In Line With Our Expectations
34. LNT – Ol' Reliable: Inline 2020 as Focus Pivots to PSCW
35. SHLS: Plug-n-"Growth"; Initiating Coverage with a Buy Rating and $48 PT
36. AEE – 4Q Earnings; Callaway Cause For Concern? Not in Our View; Base Plan Remains Strong
37. POR – 2021 Kicks Off on the Right Foot
38. DTE – Continues Strong Execution; 4Q Earnings Beat, '21 Reaffirmed, GS&P Spin Is the Next Major Potential Catalyst
39. FE – Righting the Ship as the DOJ Overhang Persists; Icahn Makes a Splash and Shifts Investor Focus
40. ED – 4Q EPS in Line, 2021 a Reset Year; Capex Roll Points to Higher Quality L-T Recovery
41. SO – 4Q Earnings; Telegraphed LT Growth Rate Raise with Incremental Opportunities on the Horizon
42. PPL: Straightforward Update as WPD Process Forges On
43. ES – 4Q Earnings; Healthy Capex Raise Drives Guidance to the Top Half of Growth Range
44. NI – 4Q Earnings; Straightforward Update With Renewables Projects Continuing to Take Shape
45. ALE – A Transitional Year Comes with a Focus on Execution at ACE
46. DUK – 4Q20 Earnings; Foundation Set With Eye on NC Legislation – We See Pathway to Overachieve Expectations
47. AEP – Racine Hydro Sale; Very in Line with Our Thesis and Potentially More on the Horizon – Reiterate BUY
48. WEC – 2020 Closes with A Beat as Management Evaluates Case Optionality in WI
49. CMS – 4Q Earnings In-Line; Capex/Equity Increase, O&M Flex to Carry Into '21; We See Smooth Sailing to Firm "7%" Growth
50. NJR – F1Q21 Earnings; NJRES AMAs Drive FY22 Guidance Raise, Though Focus Remains on Core Utility and CEV Segments
51. SR – F1Q21 Earnings; Progressing on Regulatory Matters as Mgmt. Has Eyes Set on Sustainability
52. FE/OH: Yost Holds Press Conference on HB6; Reaches Agreement With FE on Decoupling
53. PNW NDR: All Quiet on the Southwestern Front…
54. DUK – Healthy Indiana Equity Sale Highlights Private Infrastructure Appetite for US Assets
55. AMRC: A Unique Blend of Familiar Businesses – Finding a Decarbonization Niche; Initiating Coverage at BUY, $63 PT
56. PEIX Initiation: A Rising Tide Lifts All Ships - Decoupling from Fuel Ethanol, '21 an Inflection Year for Strong CF Story

57. SRE: CEO Catch Up - Value Upside to SIP Deal; Constructive Guidance Forthcoming; Remains Distinctive on Catalysts
58. NEE/NEP: NEE EPS Beats, MVP Takes Write-Down; Organic Growth and FPL Rate Case Are the Next Leg of Growth
59. DUK – Settlement Reached on Coal Ash; Overhang Removed with Allowance for Return on Expenditures – Time to Move On
60. EIX – Another WF Settlement Bites the Dust; Total Expected Loss Unchanged
61. NEE: Starting 2021 with a Bang: FPL Files Rate Case – 11% Base ROE, 50bp Adder, and SOBRA Adds
62. FE/OH: Ohio Situation Continues to Deteriorate
63. DUK – Coal Ash Thoughts Post Our Call With Duke C-Suite This AM
64. FE: JCP&L Creditworthiness Hearing Recap
65. PCG-EIX: Cali Dreamin' on a Winter Day – We're Back and Under a New Utility Construct: Resuming EIX, PCG w/ BUY Ratings
66. EXC: Exelon Divests Distributed Solar Assets
67. CNP: Analyst Day Sets New 6-8% EPS Plan; AR/OK LDC Sale Announced, ENBL Advisor, OGE on Board; Keep the Hits Coming
68. PNW: Staff/Intervenor Surrebuttal Testimony Lands
69. SRE: IENOVA Buyout, Combination with LNG for an SRE Infrastructure Offering – Favorable Setup for Next Steps
70. FE: Payment Fallout Continues – Revolver Draw Potentially Hedges Against New DOJ Outcomes
71. AEP – Upgrading to NEUTRAL from SELL; Risk/Reward Finds Balance Post Our Original Thesis
72. FE: 10-Q and Amended K May Point to Potential PUCO Linkages; Possible Connection to Randazzo Search
73. FE: PUCO Chair Has Home Searched by FBI
74. SRE NDR: Catch Up With SRE Mgmt. Puts Light on Commitment to Value and NorAm Strategy
75. EXC – Integrated Platform Increasingly Endangered as Exelon "Formally" Announces Strategic Review
76. NEP: 2020 KKR Deal; New Assets Accretive to Growth, Cheap Financing Deal Sets Up 4x Investment Capacity
77. FE – Darkest Before the Dawn? A New Day Will Come…
78. PNW – No Surprises as Summer Heat Drives Beat
79. POR – Putting a Rough Quarter to Rest – Update Checks Most Boxes
80. PEG – 3Q In-line; PSE&G Growth Set to 7-8%; Strategic Shuffle Continues on Fossil, Offshore Wind
81. POR – Putting a Rough Quarter to Rest – Update Checks Most Boxes
82. PNW – No Surprises as Summer Heat Drives Beat
83. FE: CEO and Two Other Executives Terminated over Internal Investigation
84. NWE – Colstrip Transaction Terminated; What's Next? NWE Is Left Severely Short of Peak
85. EXC: Downgrading to Neutral, Lowering PT – Taking the Spring out of Springfield
86. SRE– Franchise "Sale" Saga Next Step? San Diego Releases ITB Q&A, City Maintains Strict Tone, No Upsets Yet, in Our View
87. ETR NDR – C Suite Event Highlights Conservative Planning & Incremental Opportunities; "Premium" View Reinforced
88. DUK – CEO Group Call; Alignment with Stakeholders Driving Capital Growth While Setting Manageable Expectations
89. FE: Incremental Details on DOJ Probe Emerge; Energy Harbor Executives in Focus
90. AEE – CEO Client Event; Environmental Stewardship in MO; Navigating the Policy Environment in IL
91. FE: Incremental Details on DOJ Probe Emerge; Energy Harbor Executives in Focus
92. DUK – ESG Investor Day; A Win-Win for ESG and Fundamental Investors
93. NEE-DUK: "Spreadsheet Exercises" Aside – Easily EPS Accretive, But Value/Credit Risk, Regulatory Hurdles Are High Risk
94. ES - CT House Passes Bill in Special Session to Reform Utilities' Construct
95. OGS NDR – Simple Story, Covid Recovery, Supportive Jurisdictions and Capex Ahead of Plan; RNG, Hydrogen on the Radar
96. NI Investor Day – Robust Update, Though Mostly In Line with Expectations
97. VST: A Platform Evolves, a Platform Matures
98. EVRG NDR: Smooth Sailing to 2024? Standalone Course to Top Tier Growth Follows Well-Worn Routes
99. AEE – MO IRP Brings Step Function Increase in Renewable Energy Investments
100. ETR Analyst Day– Expanding Capex with Equity Needs; EPS Growth Remains 5-7%, but ETR May Become a "Premium" Utility
101. SRE – Cat Out of the Bag: San Diego Issues ITB, Minimum Fee, Balanced by City's Right to Reject; No Upsets at This Point
102. SRE – San Diego Franchise Deep Dive; Competitive Process? Yes; Benefits to Transfer? No! Downside Risk Appears Minimal
103. POR NDR: Upgrading to BUY on CEO Conversations; Clarity on Wildfires Implies Sound Entry Point
104. ED – Upgrade to NEUTRAL; COVID Bites a Hole in the Big Apple; ED's Return to Normal Limits Downside From Here
105. POR: Where There Is Smoke, There Is Fire, But Not Likely in This Case – Additional Fire Details
106. EVRG: KCC Staff file Report and Recommendation Regarding Evergy's Pre-STP Capital Plan
107. AWK NDR: Thirst Quencher - Top Tier Growth Platform Built to Last
108. EXC: No Pressure, No Diamonds…
109. POR: CAISO's Collateral Damage - Losses Contained, L-T Fundamentals Intact Post Mgmt. Call
110. ES – Downgrading to NEUTRAL on Valuation; Want Offshore Wind Exposure? Try Dominion…
111. EXC: Neutrons Starting to Flow in Springfield; Criticality Still Far from Certain
112. OGE – Anticipated Alignment of Views on ENBL Causes Us to Upgrade; Strategic Optionality Becoming More Apparent
113. PPL: The Long Goodbye – PPL Initiates WPD Sale Process

Key Industry Research

1. ERCOT: PUCT Declines to Reprice Energy Market – Consistent with Our Expectations
2. ERCOT: Lone Star State Remains 'Out of Phase'
3. ERCOT: Who's Exposed? Generator-Owner Data Set
4. ERCOT: Deep Freeze Precipitates Rolling Blackouts in Heartland
5. IL: CEJA Re-emerges; Take with a Grain of Salt - More Iterations to Come
6. '21 Utilities Outlook: Getting Ready for Another Bumpy Ride

7. Congress Reaches Deal on Stimulus Package and Appropriations; Clean Energy Boosted With Tax Credit Extension
8. ERCOT CDR Preview: More Solar Points to Slightly Looser CDR; Caveats Remain the Same
9. EEI – An EEI Unlike Any Other...
10. Guggenheim EEI Takeaways - Day One
11. Guggenheim EEI Takeaways - Day Two
12. Guggenheim EEI Takeaways - Day Three
13. Li-Ion the End-All-Be-All Battery Storage Solution? Not in Our Book – Zinc-Based Battery Presents Compelling Alternative
14. Ohio Policy Call Part Two – Federal and Political, Not State and Regulatory
15. Ohio Policy Call Part One – Investigation Churns On
16. Guggenheim Call Series: Power Gen Economics Expert Confirms Robust Solar/Wind Demand as Tech Moves to Parity with Fossil
17. FERC - Life's Absolutes: Death, Taxes, and Transmission ROE Complaints
18. 2020 LCOE Update – Nothing Is Constant but Change: Renewable Economics Point to Persistent Disruptions
19. FERC: Commission Revisits Base ROE Methodology, Boosts MISO Allowed
20. ERCOT: Another CDR to Take with a Grain of Salt
21. PJM: Proposed Auction Timeline Features State Policy Accommodation
22. FERC ROE Policy Call: Different Commissioner, Similar Expectations
23. FERC ROEs: Former Commissioner Policy Call Points to No Easy Answers
24. Illinois Policy Call: Too Clean to Drain the Swamp? Will Springfield Lawmakers Reach Criticality? Still Too Early to Say…
25. PJM: As Fluid as It Gets - Expert Call Highlights Still-Challenging Auction Dynamics

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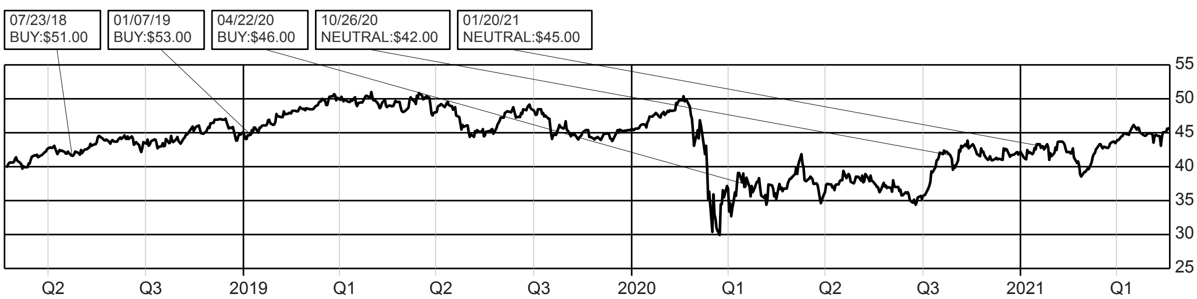

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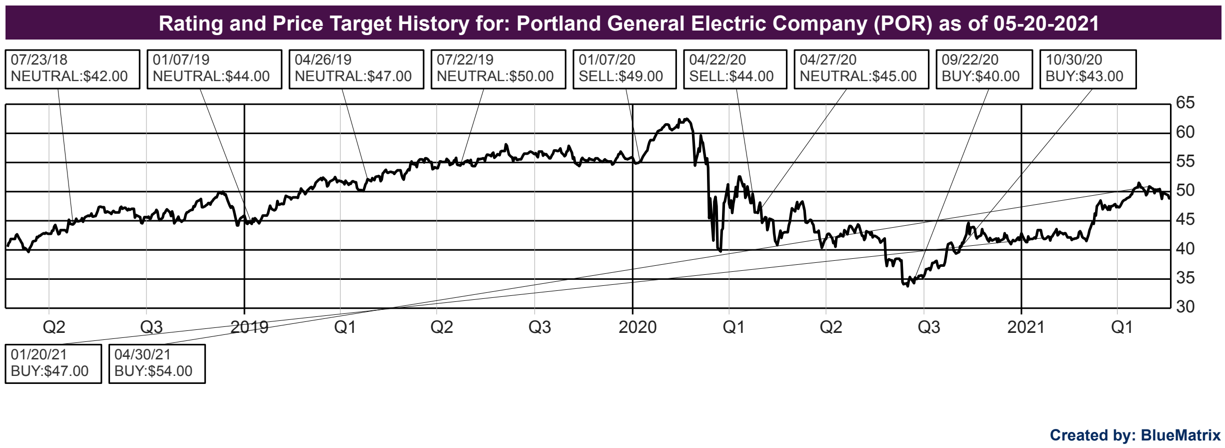

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Gas Distribution
AGA Conference Takeaways

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Key Takeaways

Last week, we hosted several virtual meetings with management teams of covered gas utilities (ATO, CNP, NI, NWN, OGS, SR, SWX and UGI) and investors. Main topics included the post pandemic recovery, M&A, decarbonization of gas systems (RNG, hydrogen, etc), securitization bills post the Winter Storm Uri, equity needs, and cybersecurity. Multiple management teams flagged that several states have passed the Energy Choice bills which should stop the bans on natural gas in new construction. Investor sentiment towards gas utilities has improved this year driven by four factors, 1) Winter Storm Uri showed the importance of natural gas during the peak heating demand, 2) the impact from the pandemic was lower than expected, 3) potential for system decarbonization with RNG and hydrogen, and 4) high valuations for CNP's LDCs in Oklahoma and Arkansas.

Near Term Catalysts & Regulatory Updates to Watch

CNP's management plans to provide a long-term capex update (up to 10 years) later this year as well as announce its ESG Strategy. CNP also noted it does not intend to be a long term holder of ET units post ENBL transaction close. The securitization bill in TX will likely be passed into law later this year with potential proceeds from securitization bonds in early calendar 2022 and it could be a positive catalyst for ATO, CNP and OGS. SWX plans to file the adjustment for VSP and COYL in AZ by the end of May, with an estimated requested rate increase of $74MM. There is a potential that the recovery will be split over 3 years. OGS will file a general rate case in OK by June 30th based on 2020 test year and in OK, typically the process takes 180 days so the new rates will likely be effective in January 2022. NI announced RFP in Indiana and we will continue to monitor the process. On the Penn East project, UGI said that it waits for a decision from the Supreme Court in late June which will be very important and not just for this project.

Hydrogen & RNG

In every meeting management teams discussed the potential for future investments in RNG or hydrogen. Many noted that RNG is a near term opportunity but some also added slides to provide more colour on hydrogen (for example OGS). OGS established two hydrogen working groups and is a stakeholder in the U.S. Department of Energy's funded project "Demonstration and Framework for H2@scale in Texas and Beyond." CNP said that in Minnesota, they see an opportunity to incorporate hydrogen and renewable supplies into their portfolio. Management will look to expand its hydrogen pilot/demonstration from Minnesota to Indiana and Texas. In its RFP in Indiana, NI's management plans to look at different storage options, including hydrogen. On its hydrogen pilot project, NWN's management noted that it plans to provide next steps by the end of the year. UGI said that hydrogen is the main topic at a federal level; however, noted that today it is too expensive, but it can shift very quickly with supportive regulations.

Cybersecurity

Multiple management teams discussed cybersecurity post the recent hack on the Colonial Pipeline. OGS' management noted that they don't feel they share any vulnerabilities the Colonial pipeline attack seemed to highlight. NWN highlighted that AGA has been spending a lot of time on cyber issues and notably NWN could run their system manually if needed.

COMPANY SPECIFIC HIGHLIGHTS

ATO - Management said they are very pleased with their asset base and will not look to sell any LDCs. ATO will continue to use ATM to finance its equity needs. The company will finish cast iron pipeline replacement by the end of the year, but ATO noted that the way their mechanisms work are not specific to any material type and they use their risk modeling assessment to determine which pipelines to replace. Management sees a long runway of pipeline replacement capex ahead. On the energy transition, ATO said that they work with the regulators to put appropriate tariffs in place for RNG, don't see themselves investing on the other side of the meter. With the system modernization, ATO said it will be able to accommodate future hydrogen blending. Management expects the securitization bill in TX to be passed later this year with potential proceeds from securitization bonds in early calendar 2022 which would take the impact of higher cost of gas from ATO's balance sheet.

CNP - Management plans to provide a long term capex update (up to 10 years) later this year. Last week, CNP's management team went to Austin to meet with new regulators and noted the tone of the discussion was positive and very constructive. Management plans to reduce its midstream stake as soon as possible. It will likely take 2-3 months to register new units post closing of the transaction with ET and then likely a quarter to meaningfully reduce the positon. Later this year, CNP will provide more colour on how it can reduce its effective tax rate on a sale of ET units. Once CNP reduces its stake in ET, it will enhance its credit profile as they will no longer have non-regulated exposure which should reduce the FFO/debt downgrade threshold and provide management with more cushion. In Minnesota, CNP sees an opportunity to incorporate hydrogen and renewable supplies into their portfolio (based on the proposed Clean Energy Hydrogen Innovation Act). Management will look to expand its hydrogen pilot/demonstration from Minnesota to Indiana and Texas. With all the future investments, CNP will be primarily focused on regulated growth. Management is currently happy with CNP's footprint but if they have the opportunity to deploy incremental capital for customers, they could consider selling 1 or 2 gas LDCs to fund growth. Incremental opportunities in Texas could include battery storage and transmission investments (longer lead time of up to 3 years).

NI - Most of the discussion was focused on RFP in Indiana and management said they are open minded as they start the process. On May 20th, NI announced it opened three requests for proposals (RFPs): one for wind (& wind plus storage), one for solar (& solar plus storage) and one for thermal, stand-alone storage, emerging technologies, and other capacity. Management plans to look at different storage options, including hydrogen. Management noted that its operations are in constructive jurisdictions and that Indiana has just passed the bill preventing cities from being able to ban any fuel (e.g. natural gas ban). Earlier this year, NI filed a general rate case in PA and going forward plans to file rate cases on an annual basis. Management monitors the proposed changes to the tax code and noted that current NOLs go through 2026. Despite the inflation NI continues to expect flat O&M beyond 2021.

NWN - Total capex related to RNG is roughly $200MM-$250MM and only $38MM is currently included in the plan so there is capex upside potential. On the hydrogen project, management noted that it plans to provide next steps by the end of the year. Earlier this year, in Washington state cap-and-trade law was passed and it would require gas utilities and other industries to reduce emissions or pay the carbon price; however, utilities will receive a declining number of free allowances, in order to avoid bidding in the auctions. NWN's CEO is Chairman of AGA's Board of Directors and noted AGA has been in discussion with the Biden administration and that they are very keen on hydrogen and pipeline replacement. On cybersecurity, NWN also noted that AGA likely is spending way more money than they would like to on cyber issues and NWN noted that they can run their system manually if needed.

OGS - The company will file a general rate case in OK by June 30th based on 2020 test year and in OK typically the process takes 180 days so the new rates will likely be effective in January 2022. The rate case will be a separate docket from securitization proceedings so management doesn't expect the impact from higher cost of gas on approval of future rates based on the rate case. Additionally, management doesn't plan to change its long term capex program. Management discussed the securitization bills in different states and we will monitor how credit rating agencies will treat the securitization bonds issues by OGS in KS as there may be some differences in treatment between agencies. On RNG, OGS will only focus on regulated investments and could invest capital to bring RNG on its system and blend into gas stream. OGS added a new slide on hydrogen to its presentation, but noted the much longer runway for hydrogen investments. OGS established two hydrogen working groups and is a stakeholder in the U.S. Department of Energy funded project "Demonstration and Framework for H2@scale in Texas and Beyond." On cybersecurity, management noted that they don't feel they share any vulnerabilities the Colonial pipeline attack seemed to highlight.

SWX - Management plans to file the adjustment for VSP and COYL in AZ by the end of May, with estimated requested rate increase of $74MM. There is a potential that the recovery will be split over 3 years. The filing will use the currently authorized ROE and capital structure and the process should take 5-6 months. On cybersecurity, management noted they are working with outside experts, share peer practices and reviews with AGA. SWX added 37,000 new customers in 2020 which is a near time record and customer growth remains strong as people migrate to NV and AZ. SWX plans to continue to use ATM for its equity needs with annual capex around $700MM. Management noted that is customers are looking at options to decarbonize their businesses, including RNG or full hydrogen systems. Growth at Centuri remains strong, but they expect slower growth YOY due to the benefit from emergency work in 2020.

SR - On Missouri rate case, management noted that the rate increase recommended by staff was based on 9.37% ROE and 54.25% equity to capital structure which they view as a positive. Per SNL, total recommended rate increase was $65MM vs requested $111.5MM and typically the final outcome is above the staff recommendations. New rates are expected to go into effect in November. Management noted that during the pandemic and the Winter Storm Uri they worked closely with the Commission which gives them good momentum as they head into this rate case. On energy transition and carbon neutrality by 2050, management noted that the most important driver of lower emissions is pipeline replacement and the rest will be bridged with RNG, hydrogen and other offsets. In Missouri, a new legislation has been just passed (soon should be signed into law) which will allow gas utilities to bring RNG into supply and it provides a rider for immediate recognition. After the Winter Storm Uri, management looks at further diversifying the supply for its gas utilities with potential interconnections on the West side as well as storage. Spire has a history of being an acquirer but its current plan doesn't include any M&A and it doesn't require acquisitions for solid earnings growth.

UGI - Management noted that the recent hybrid equity offering of roughly $200MM was the last piece of the puzzle to finance the Mountaineer Gas transaction and it will only modestly impact the income statement for the next three years as they will not see the dilution until the units convert to common shares. The closing of the acquisition is expected around the end of the fiscal year and they don't see any barriers to complete the transaction. Management expects the LPG business will provide cash to fund the future growth gas utility capex for pipeline replacement. Management spent a lot of time discussing its recent renewable investments, including RNG, bio-LPG and rDME. All these products can use the existing distribution systems that UGI operates which improves project returns and helps decarbonize its system. On a strong 1H21 and guidance revision, management noted that in a normal year UGI earns 110%-115% of earnings in FY1H and reports a loss of 10-15% in FY2H. On hydrogen, UGI noted that it's the main topic at a federal level and that today it is too expensive, but it can shift very quickly with supportive regulations. On the Penn East project, management waits for a decision from the Supreme Court in late June which will be very important and not just for this project. Management continues to look at attractive M&A opportunities.

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Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. We use SOTP of P/E multiples for Regulated Assets and EV/EBITDA for non-regulated assets to calculate our price targets.

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Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2021.
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Company Name	Reuters	12-month rating	Price	Price date
Atmos Energy Corp[16]	ATO.N	Buy	US$98.18	21 May 2021
CenterPoint Energy Inc[16,20]	CNP.N	Neutral (CBE)	US$24.71	21 May 2021
NW Natural[16]	NWN.N	Neutral	US$53.07	21 May 2021
NiSource Inc.[13,16]	NI.N	Buy	US$25.42	21 May 2021
ONE Gas Inc[16]	OGS.N	Neutral	US$74.01	21 May 2021
Southwest Gas Holdings[16]	SWX.N	Buy	US$66.25	21 May 2021
Spire Inc[16]	SR.N	Buy	US$72.74	21 May 2021
UGI Corp[16,20]	UGI.N	Buy (CBE)	US$44.54	21 May 2021

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UBS

Equity Research

Industry Update — May 20, 2021

Utilities

Virtual AGA Financial Forum Takeaways

Our Call

On 5/19 & 5/20, we met with 25 utility companies at the 2021 AGA Virtual Financial Forum. The tone of the meetings was much different than last year's conference as COVID impacts have proven manageable and anti-gas concerns have abated, at least to a large degree. Further, the heavy capex cycle continues with support for infrastructure investment across the board (resiliency, de-carbonization, growth, etc.). Please see the body of the note for company-specific takeaways.

What A Difference A Year Makes. We sensed a clear shift from defense to offense in comparing the 2020 AGA Financial Forum to this year's conference. Gas utilities appear to be on much more solid footing as (1) winter storm Uri highlighted the value of the gas distribution system, (2) CNP's LDC sale delivered a bullish valuation marker and confirmed private equity interest, (3) gas emission strategies are advancing with growing momentum for RNG and hydrogen, and (4) it's been a good year for energy choice legislation.

System Redundancy/Supply Diversity. The February cold snap has elevated discussions around investment opportunities to improve system resiliency, which could include LNG projects along with pipeline and storage investments. While mgmt. teams were not necessarily touting meaningful upside to near-term capex plans, there's no shortage of investment opportunities.

Federal Legislation. Utility executives remain somewhat reserved as legislative proposals are fluid, with most of the attention on potential changes to clean energy tax credits (direct pay credits would be bullish) and changes to the corporate tax rate. Front-runners appear to be broader ITC eligibility for battery storage and support for hydrogen. We did not sense as much momentum for RNG tax credits though substantially all of the gas utilities are exploring and/or pursuing opportunities.

Capital Recycling? Investors were keen to get mgmt. teams' reactions to the CNP LDC sale price and, more so, whether the nearly 2.5X rate base multiple has Boards reevaluating their own gas utility assets. While we sensed a general openness toward divestitures among some of the mid/large cap companies, it was more characterized as a good option to have at some point in the future.

Rate Cases Still Sensitive. While executives are seeing a lot of support for infrastructure investment, we still sensed a heightened sensitivity to seeking base rate increases in light of lingering customer hardships tied to COVID. Companies with notable rate case activity this year include the following: AEE (MO), AQN (MO), BKH (CO/IA/KS), D (SC/VA), NI (KY/OH/PA/MD), NJR (NJ), OGS (OK), SR (MO), WTRG (PA) and XEL (CO).

Inflation Arises as Potential Concern. Investors pushed companies on inflationary pressures on operating expenses and, perhaps more so, capital costs (particularly on renewable projects). The near-term risk seems manageable as many costs are already locked-in but could prove problematic longer-term, particularly in terms of capex budgets and the upward pressure on rates, if inflation does not prove to be transitory. Further, more ROEs could be pegged to long-term interest rates - DUK was able to do this in FL and XEL will likely consider it in the upcoming NSP MN rate filing.

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Algonquin Power & Utilities Corp. (AQN/Equal Weight/$15.48) (Kalton)

Per usual, lots going on at AQN. Mgmt. expressed strong confidence in achieving the 5-yr 8-10% EPS CAGR target noting that the underlying $9.4B of capital investment that supports the growth is front-end loaded (quite a bit locked in). Regulated utility M&A remains an important growth lever although it sounds like the company is currently standing down from the natural gas LDC market owing to a bias towards cleaner energy (ESG). Conversely, AQN will entertain acquiring electric utilities that own fossil fuels if mgmt. perceives there to be a viable path towards "greening the fleet" (mgmt. pointed to the Empire District Electric acquisition as a successful example of this strategy).

Switching to contracted renewables, AQN acknowledged that competition is intensifying driven, in part, by increasing oil major activity. This is particularly true on the asset acquisition front. As a result, AQN has pivoted to a primarily greenfield development strategy (AQN's pipeline is 3.4 GW) vs. a prior strategy that also included project acquisitions. Mgmt. believes experience and skill matter and pointed out that there could be opportunities to bring new entrants in as partners on various projects—the company pointed to the existing Chevron relationship as one example of this.

Ameren Corp. (AEE/Overweight/$84.50) (Kalton)

Transmission was front and center in our meeting. First, while Ameren Missouri's IRP is still pending, we continue to think there is a fair amount of smoke around the Grain Belt Express (GBE). It is our understanding that Invenergy is bidding the $2.5B GBE into the IRP (the project would wheel high capacity factor KS-located wind into MO and points east). Proposed legislation that would have eliminated GBE's ability to use eminent domain did not pass in '21 (the bill stalled in the MO senate once again). AEE indicated that state support could continue to grow should MO-based utilities become involved in the project. We continue to think that the IRP could result in BOT transfer agreements for KS wind + an equity ownership stake in GBE. That being said, we will just have to wait and see as other renewable options could prove to be better.

As for MISO, while the longer-term transmission investment opportunities appear to be enormous, we pressed mgmt. a bit on the competitive process considering AEE does not have a ROFR in MO or IL. Mgmt. noted that the ROFR only applies to new transmission lines; pointing out that some of the solutions could involve expanding capacity on existing rights of way (preferable from a siting/permitting standpoint). Separately, not much new to report on IL legislation (AEE is pushing for continuation of rider recovery plus a change in the formulaic ROE construct for the electric operations). Lastly, recent MO securitization legislation is viewed as a positive development that will provide AEE more flexibility going forward as the company assesses the planned exit from coal—but we do not anticipate any nearer-term implications.

Atmos Energy Corporation (ATO/Overweight)/$98.32) (Akers)

With the TX legislative session set to wrap up at the end of May, we did not sense a lot of consternation regarding the fate of the securitization bill. The Senate version allows a little more time for the Finance Authority to issue the bonds (so a small reconciliation would be necessary), but mgmt. continues to believe there's a lot of support. Assuming passage and timely execution, proceeds could be in hand in early calendar 2022. Beyond securitization, the storm highlighted the value of the company's robust infrastructure investment program and mgmt. expects to see continued support for investments (though likely not material upside from current spending levels). Outside of February storm items, it was the same ATO story characterized by strong rate base growth with a long capex runway, external equity needs targeted via the ATM, and above-average customer growth, particularly in the DFW metroplex. Like many peers, the company is also actively pursuing RNG projects, which would be procured on behalf of customers under the regulated model (mgmt. noted landfills as being a good opportunity for the service territory).

Avangrid, Inc. (AGR/Overweight/$52.29) (Kalton)

Mgmt. expressed optimism across the board siting the recent TX approval of the pending PNM acquisition, substantial progress on the Vineyard Wind 1 offshore wind project, ongoing development of NECEC and the completion of the $4B equity offering (mostly associated with PNM). Mgmt. did not appear to be surprised by the NM Hearing Examiner's comments on the PNM deal including criticism related to performance issues/penalties in several of AGR's northeast utilities. AGR chalked it up, in part, to differences in regulatory "nomenclature" in the various jurisdictions that can be successfully addressed. AGR touted the strong support underlying the contested settlement in NM including from the Governor and Attorney General.

Shifting to offshore wind, AGR indicated that steel costs represent <10% of total project cost and that the pending Park City wind project is exposed to inflationary pressures until FID. That being said, mgmt. remains comfortable with the return profile pointing to embedded contingencies along with positive factors such as a higher than expected ITC and ongoing technology improvements. Long-term, AGR wants to be a major player in the U.S. offshore wind market and is likely to participate in future seabed lease auctions, including the New York Bight. While acknowledging growing competition from the oil majors, we got the sense that, in totality, mgmt. views recent European offshore wind auctions as still being supportive of reasonable returns.

Black Hills Corp. (BKH/Equal Weight/$66.21) (Akers)

Mgmt. expressed confidence in the $600mm annual capex target, which already contemplates some level of upside projects. While there is good line-of-sight on the gas side, the electric generation investment outlook is subject to the upcoming IRP (early July) and subsequent RFP/CPCN processes. Our understanding is that the base plan contemplates running the coal plants through their engineered lives (WY & SD are coal-friendly), but that the IRP will include an option that complies with the Biden plan (retire by 2035). Beyond discrete projects, BKH discussed strong customer growth across the service territory with a recent uptick tied to urban flight (particularly Rapid City, CO, northwest AR).

Shifting to thewinter storms, we discussed the ~$560mm regulatory asset tied to commodity purchases, which the company intends to recover over a 3-5 year horizon on the gas side and 1-2 years for electric power costs; in the meantime, mgmt. does not expect rating agencies to penalize BKH for the debt (and once recovery kicks in, FFO/Debt metrics rebound). On the non-utility side, mgmt. noted that losses at Energy Services (gas marketing) were an anomaly tied to the extreme gas prices as that business is highly hedged. Lastly, the weather event provides further support for the company's robust gas infrastructure investment program.

CenterPoint Energy, Inc. (CNP/Overweight/$24.70) (Akers)

Our meeting with CNP was one of our most constructive discussions at AGA. The company remains highly focused on consistency while also discussing positive developments since the 6-8% growth plan was initiated in December. These include a better-than-expected LDC sale price and a material move up in ET's unit price (+47% since mid-February vs. S&P 500 6%). Further, the company is exploring tax strategies to offset midstream tax leakage and the TX legislature is considering bills that could drive incremental investment opportunities tied to battery storage and economic transmission projects. In the near term, we expect mgmt. will continue to drive to the mid-point of the 6-8% range, though there could be some positive movement should the aforementioned items fully play out. At the very least, we sensed a high degree of confidence in the plan.

We also discussed the strategic landscape. Mgmt. is happy with the pro-forma 60/40 electric/gas split noting that the company's LDC service territories are very constructive. That said, the AR/OK takeout price was compelling and the company characterized future LDC sales as a good option to have.

Chesapeake Utilities Corporation (CPK/Underweight/$116.82) (Akers)

For a small company, CPK has a lot going on, but there is a common theme…growth! Starting with the regulated segment, the company highlighted the FL GRIP and ESNG capital cost surcharge as examples of constructive regulatory treatment for steady investment needs as the Delmarva/FL service territory experiences well above-average growth, which have only been accelerated by market dynamics over the past 6-12 months. While cognizant of high level anti-gas sentiment and potential hurdles at the FERC for large expansion projects, the company is seeing extremely strong support in FL along with local support for service expansions in the Delmarva footprint. The growth opportunities do not stop at the regulated segment as Marlin Gas, the propane/Autogas businesses and Aspire also have a lot of momentum, which includes acquisitions.

We spent a lot of time discussing RNG as CPK is an early mover in that space, which mgmt. attributes, in part, to a local need for Delmarva to deal with the environmental problem tied to the poultry industry. The company discussed a holistic approach to RNG with an emphasis on driving environmental benefits at the source level such that RNG is somewhat of a byproduct (along with organic fertilizer in the case of poultry facilities as we learned). The third driver of the company's involvement in RNG projects is a tie to CPK's infrastructure, which could include Marlin and/or the pipeline/distribution systems. CPK pegged new RNG investment opportunities in the $50-75mm range, which may not fully capture equity options in CleanBay; for context, the 2021 capex forecast is $175-200mm. On that point, the team is open to a wide variety of ownership structures, but emphasized a disciplined approach (target returns, earnings accretive, geographic proximity, etc.).

CMS Energy Corporation (CMS/Overweight/$63.74) (Kalton)

A typically solid update from CMS. Given limited near-term concerns/issues our discussion touched on some of the longer-term considerations around de-carbonization as it relates to CMS's generation fleet; specifically how to maintain reliability. Hydrogen and carbon capture and sequestration (CCS) were both offered as potential options for the natural gas plants (no CCS for coal) but mgmt. correctly noted that they have plenty of time to figure out the 2035 and beyond resource plan. In the nearer term, mgmt. noted that a potential solar PTC could have positive implications for CMS, but more around customer bill savings vs. investment opportunities. CMS does not anticipate deviating much from the anticipated regulated solar mix of 50/50 self-ownership vs. PPA. Last, CMS's financing plan contemplates up to $250mm of new equity annually. In the event of a federal corporate tax rate increase, which could improve the FFO/Debt ratio by 50-100 bp (assuming a 25-28% rate), mgmt. would not rule out simply maintaining the annual equity guidance. All told, a very solid story and a highly visible path toward the 7% annual EPS CAGR through at least '25.

Consolidated Edison, Inc. (ED/Equal Weight/$78.42) (Akers)

We walked away from our ED meeting with a greater understanding of the assumptions in the EPS guidance and growth outlook. The company has filed for a surcharge to recover lost fees as a result of the COVID-related moratorium. Should the NYPSC grant the company's request this year, it is our understanding that $50mm of lost fees from 2020 would drive recovery of $52mm, or an estimated $0.12 of EPS, and up to ~$70mm, or $0.15, in 2021. However, the 2021 EPS guidance range of $4.15-4.35 already contemplates a range of outcomes on the timing and treatment of lost fees. As such, we'd expect any success on this front to drive EPS toward the upper end of the range. The company is requesting a decision in September, but the timeline and outcome remain question marks; favorably, mgmt. believes the Staff is at least open to considering the proposal. If the filing is denied and the moratorium on fees extends throughout 2021, then we expect EPS would fall near the lower end of the guidance range, all else equal. In that scenario—and assuming fees resume in 2022—we'd expect an outsized increase in 2022 EPS, which would become the base year for the CAGR (currently 4-6% but 3-5% prior to COVID-related EPS impacts). Separately, the EPS, financing and growth guidance also contemplates a range of outcomes on the Stagecoach strategic review—our main takeaway there is that we should not think of potential sale proceeds as being a one-for-one offset to stated equity needs.

The other main topic of conversation was the various growth avenues tied to NY's de-carbonization goals. ED continues to advocate for utility-ownership of renewables though it remains an uphill battle. The company is well-positioned to participate on the T&D side and mgmt. expects more transmission solicitations to come with the Long Island opportunity shaping up near-term (technical conferences followed by an RFP for solutions). Smaller opportunities exist tied to EV infrastructure ($350mm committed with future investments subject to market forces) and storage.

Dominion Energy Inc. (D/Overweight/$77.24) (Akers)

Mgmt. continues to highlight the company's clean energy growth story and the importance of executing on both the financial plan and the investment pipeline (offshore wind, solar program, etc.). Thus far, everything remains on track and potential federal legislation aligns well with the company's priorities. On the regulatory front, mgmt. expects the triennial review to be a robust process that could have a wide bid-ask spread with potential differences arising on the allowed ROE and treatment of fossil retirement expenses, among other items. As a reminder, consistent with past practice, D is requesting period expensing of fossil retirements. While the commission denied such treatment for AEP, D noted that the specific facts and circumstances are unique. More broadly, the company is encouraged by the recent clean energy approvals in VA including substantial solar additions. Shifting to SC, no change from the Q1 update on the rate case—the company believes parties are motivated to settle, but nothing concrete yet. And on the IRP, a final determination is expected on 6/18 with any generation resource needs likely sequencing in the back half of the decade. Lastly, on the LDC side, mgmt. views the gas utilities as part of the overall de-carbonization story and continues to like the growth profile.

We also discussed the lingering sale process on the remaining ~20% of the gas transmission/storage assets, which includes Questar Pipeline Group. The FTC approval process has proven challenging, which could result in a need to shift to a different buyer. As a reminder, proceeds have been received and the larger slug of assets has already traded hands.

Duke Energy Corporation (DUK/Equal Weight/$102.27) (Kalton)

Mgmt. articulated their argument as to why Elliott Management's "shrink the company" proposal is not in the best interests of shareholders or customers—namely, balance sheet considerations. DUK believes that in order to maintain the desired BBB/Baa2 credit ratings the newly spun-off entities (Carolinas, Florida & Midwest) would need to increase the FFO/Debt ratings at the new entities by 100-200 bp each; requiring ~$6.5B of new equity to eliminate holding company debt (8% dilution). In addition, mgmt. believes there would be dis-synergies related to IT, cyber and back-office functions that could materially impact the value of the proposal. Notably, mgmt. believes NC would be able to assert regulatory jurisdiction over the spins. We are unclear what the next steps are in the process. Mgmt. and the Board have made it clear that they are not amenable to a strategic review or granting Board seats to Elliott.

Mgmt. remains optimistic about the prospects for NC energy legislation (our sense is the Elliott proposal could be helpful in a "circle the wagons" kind of way). As a reminder, the key components are (1) the pace of coal unit retirements, (2) ownership of replacement generation (DUK vs. independent developers) and (3) the regulatory construct (rider mechanisms, etc.). The legislative outcome will shape the pending IRP process in the Carolinas (natural gas generation vs. solar/battery storage vs. offshore). Lastly, offshore wind. DUK continues to take a deliberate approach to offshore with the high cost to customers being the stumbling block (offshore wind plus long haul transmission to the load centers). That being said, our sense is that mgmt. is warming up to offshore (perhaps taking their cues from growing state interest) and has, not surprisingly, engaged in discussions with AGR (owns the Kitty Hawk lease area) and other European developers around potential future partnerships to pursue likely new lease areas off the coast of NC.

Essential Utilities (WTRG/Overweight/$46.86) (Reeder)

We considered the tone of our WTRG meeting to be upbeat. Mgmt reiterated confidence in (1) the longer-term sustainability of the 5-7% growth rate, (2) the constructiveness of the PA regulatory environment, (3) getting the DELCORA deal closed and (4) the M&A pipeline continuing to bear fruit.

The PaPUC is scheduled to take up WTRG's appeal of the ALJ's 4/16 stay of the DELCORA approval proceeding next week (5/26). Mgmt believes commissioners may be willing to act prior to the appeals court process playing out in Delaware County's challenge of the validity of the sale agreement—though deal approval may be contingent on appellate success. In addition, the PaPUC may have a full 5-person slate of commissioners in the not too distant future. The vacancy plus Commissioner Sweet's recently expired term may be on the cusp of being filled in a brokered deal between Gov. Wolf and the senate. The two names that have been floated have good backgrounds which mgmt believes would bode well for the continuation of PA's historically constructive regulatory environment, including the ultimate outcome of WTRG's planned water/wastewater rate case filing in the state later this summer.

Finally, at the federal level, mgmt reiterated that whatever sort of stimulus dollars might ultimately be directed towards water/wastewater, it is not expected to meaningfully impact the growing municipal M&A opportunities. But if the corporate tax rate is increased, it would increase the PA repair tax deduction benefit which could flow to WTRG's bottom line until trued up as part of the next rate case.

Eversource Energy (ES/Overweight/$83.76) (Kalton)

Coming on the heels of the recent (and surprising) CT PURA decision to impose an indefinite 90 bps ROE penalty on CL&P, we spent a fair amount of time discussing ES's CT regulatory strategy going forward. Options could include an appeal and ultimately legal recourse. That being said, mgmt. is treading carefully with the top priority simply being improving the public perception of CL&P. To that end, new CEO Joe Nolan characterized his ongoing outreach, including with Gov. Lamont, as constructive. We will have to wait and see how this ultimately plays out, but it is possible that ES will work to improve the regulatory construct over time vs. opting for a more contentious path (appeal/legal strategy). In the near-term, it would be helpful if PURA provided criteria as to how CL&P

could earn its way out of the ROE penalty—perhaps a possibility is when the ROE penalty is formally imposed in an upcoming proceeding?

Switching to offshore wind, ES does not appear to be interested in the upcoming seabed lease area auction for portions of the New York Bight; characterizing the area as challenging from a development standpoint (the offshore and onshore components). Mgmt. remains highly content with the company's 2,000 MW lease area (~45% secured under contract) and strongly believes offshore wind demand in the Northeast will outstrip supply for the foreseeable future. The implication – ES and project partner Ørsted will remain disciplined in their bidding approach.

New Jersey Resources Corp. (NJR/Equal Weight/$42.49) (Akers)

NJR remains highly focused on the utility and CEV businesses with attractive growth plan at both. Starting with CEV, expansion outside of NJ is going well and potential federal legislation in support of solar (further extension of tax credits, direct pay scheme, etc.) could be beneficial. Of note, if tax credits sitting on the balance sheet become eligible for cash refunds—which mgmt. is not necessarily expecting – then the company could be looking at a $190mm cash influx/acceleration. On the state level, NJR is engaged in the next iteration of SREC pricing—the straw proposal includes a meaningful haircut (net metered projects $85/MWh) and a reset after 3 years, but mgmt. views this as a starting point in a long process.

At NJNG, the company forecasts double-digit rate base and sees legislative (NJ bill voted out of committee) and regulatory avenues for RNG and hydrogen initiatives. Also top of mind is the pending rate increase—while the proposed ~25% increase is likely to face scrutiny, we expect the NJ BPU will continue to be supportive with a reasonable rate increase, equity ratio and ROE (recent LDC outcomes of ~54%/9.6%). Lastly, we sensed some openness to tightening the 6-10% EPS CAGR target, particularly as the company gets greater line of sight on the timing and outcome of rate case resolution, which could come later this year.

NiSource Inc. (NI/Overweight/$25.32) (Akers)

Coming off a challenging few years, mgmt. struck an optimistic tone as the company embraces the execution story ahead. While the 10-12% rate base CAGR is elevated by the current round of renewable projects, the core gas utility growth of 10%+ has a long runway and there could be a second wave of electric generation investments tied to the next IRP. While the absolute resource needs will likely be lower this time around (Michigan City retirement is roughly one-third the size of Shafer), we suspect the mix of contracted/owned generation could favor the rate base model for the next round of projects, which include capacity/peaking needs. With the financing plan de-risked and a strong start to Q1, we are increasingly confident in the outlook and look for positive multiple re-rating as NI rebuilds the track record.

In terms of capital recycling opportunities, we didn't get the sense that potential divestitures are ripe, but mgmt. noted that they are not off the table. Any sale would need to beat the organic plan and/or de-risk the business; that said, the company is currently seeing a lot of support for natural gas across their jurisdictions with energy choice legislation being implemented in IN and considered in KY, OH & PA (that leaves MD and VA).

Northwest Natural Holding Co. (NWN/Equal Weight/$53.64) (Akers)

Our meeting with NWN further highlighted that the company is at the forefront of all things RNG and hydrogen. While these opportunities are not necessarily driving large investment dollars in the near term, that could change over the next decade. The company is pursuing these opportunities under the regulated umbrella with RNG offering more near-term opportunities, but high hopes for hydrogen over the long term—on that note, the company senses a lot of support for hydrogen from the Biden administration. Mgmt. outlined a few different use cases for hydrogen, including a general system blend likely up to ~20%, dedicated hydrogen for industrial processes and new communities and "methanated" hydrogen in which carbon dioxide is added to the power-to-gas process in creating green hydrogen with the end product being compatible with the pipe system (no blend limit). Lastly, mgmt. highlighted the opportunity to use existing gas storage—such as the Mist facility—for both methanated hydrogen and RNG.

Mgmt. expressed optimism regarding investment opportunities at the core utility operations, but continues to expect a 3-5% EPS CAGR with potential upside tied to a ramp of the water acquisition strategy. Activity slowed during COVID, but conversations are picking up and the company remains focused on achieving scale.

NorthWestern Corp. (NWE/Overweight/$63.31) (Reeder)

MT generation was at the forefront of our AGA discussion. Mgmt believes key constituents, aided by recent events that have changed the narrative around relying on power markets, are supportive of NWE's plan to address MT's capacity shortage. This bodes well as NWE seeks MPSC pre-approval of the Laurel gas plant ($250M). Importantly, mgmt indicated Laurel was the key resource in all the scenarios the recent RFP considered and that the plant is scalable beyond the current proposal (could factor into future RFPs). It sounds like the next RFP (launch around YE2021) may be of similar size (around 300 MW?) while a third RFP may be needed to (1) replace the 5-yr 100 MW hydro PPA selected in the recent RFP as well as (2) perhaps address early retirement of Colstrip Unit 4 (NWE's CU4 stake is 222 MW). NWE continues to consider CU4 a critical resource for the region and would like to stave off a premature shutdown later this decade, if possible. That said, NWE would need to be afforded many of the protections that some of the failed Colstrip legislation would have provided if the company is to take on additional ownership. NWE is not actively looking at any Colstrip-related deal.

Two non-generation items of interest. (1) Inflationary pressures—'21 prices are locked in but could impact '22 & '23 if current pressures persist with concerns far greater on the capital deployment side versus operating costs. (2) We believe the key '21 regulatory proceedings in MT (PCCAM baseline reset, further deferral of the electric decoupling pilot effective date and Laurel pre-approval), the challenges of using a '20 test year and pandemic related rate sensitivities add up to the next MT electric rate case likely being filed in '22.

ONE Gas, Inc. (OGS/Overweight/$73.61) (Akers)

Securitization is still top of mind as the company works in tandem with OK and KS to move through the process toward timely issuances. While legislation is still pending in TX, the company believes there is a lot of support for the bill, which awaits action in the state Senate. Aside from gas purchase cost recovery, the storm has bolstered discussions on system resiliency/redundancy opportunities including, for example, LNG investments on the core system or on-site for customers, such as military bases or large industrial customers. The February weather event also served to fortify support for natural gas, particularly from customers—such as critical care facilities—that value reliability.

On the emissions front, OGS is taking a deliberate approach to long-term targets with a goal of articulating an actual plan rather than simply aspirational goals. The company is currently evaluating both the supply (landfill and wastewater treatment facility projects along with farm-based opportunities via the alliance with Vanguard Renewables) and demand (customer driven and, potentially, broader regulatory support) picture with more detailed plans to follow. We view this as being consistent with OGS' conservative and thoughtful approach.

South Jersey Industries, Inc. (SJI/Equal Weight/$25.97) (Akers)

AGA provided a good opportunity to dive deeper into the dynamics behind SJI's recent capex and growth (5-8% EPS CAGR target) refresh. Mgmt. is very bullish on the outlook for both REV LNG, LLC and RNG opportunities, which combine to drive $500mm of the $800mm non-utility spending plan ($3.5B consolidated capex plan '21-25E). The company touted REV's largely fee-based model with exposure to secular growth areas, such as maritime RNG/LNG opportunities and virtual pipeline services. In terms of new RNG investments, mgmt. is comfortable that the low carbon fuel standard (LCFS) market is stable and potentially expanding to additional states; the company is also looking at opportunities to layer in 3-5 year LCFS hedges.

While bullish on the competitive RNG market, mgmt. is also encouraged by activities in the NJ legislature to allow for the rate basing of RNG investments, which would likely shift some dollars to the regulated entity. Sticking with the utility, the company is seeing strong demand for natural gas and good support for gas infrastructure investments. While the SJG supply redundancy project has been held up, the company is confident that a decision will be issued by year-end.

Southwest Gas Corp. (SWX/Equal Weight/$66.97) (Akers)

Mgmt. was upbeat on both the regulated and construction sides of the house. While acknowledging regulatory lag as an issue this year, the company has a strategy to improve the earned ROE via the upcoming $74mm rider catch-up filing in AZ and rate case filing in AZ and NV planned for 2H'21 or early '22. Regarding the rider filing, we were encouraged to hear that the ACC actually advised the company to make such a filing during the last rate case. As such, it may not be as contentious as we previously feared. Separately, the company is seeing signs of a strong economic rebound with further re-opening ahead.

Shifting to construction, SWX highlighted the strong spending trends among utility customers along with an openness to acquire, particularly in the unionized electric segment. This could push construction's mix to above the 30% mark, which seemed to be a consideration but not necessarily a concern. In terms of valuation, mgmt. sees a disconnect between SWX's stock price and the sum-of-the-parts value, but endorsed a patient approach (not looking to fix near-term valuation disconnect with permanent strategic change).

Southern Company (SO/Overweight/$64.06) (Kalton)

We were satisfied by SO's explanation of why Vogtle 3 in-service has officially slipped to Q1'22 (from Dec. '21). It has nothing to do with design flaws or equipment failures. Rather, it turns out the pressurizer was set off by a few inches, and so it was shifting a little askew as the plant was being heated up. There was concern that once HFT reached more normal operating temperatures, it could come in contact with the structure that houses it. In order to access the pressurizer and set it in the precise position to accommodate the expected expansion, SO had to take the temperature down. This is easier done now when the temp was only at about half of full operating temp. The good news is that SO will not have to restart the test but can instead ramp the temp up fairly quickly and continue the test from where they were.

SO expects to start heating Unit 3 back up next week and, including the ramp down and back up, the remediation is expected to add 2-3 weeks onto the "in a perfect world" 6-8 week HFT process. The fix does not require a lot of manpower so it is in no way compromising the efforts to ramp up Unit 4 productivity or the Nov. '22 in-service date. SO continues to stress quality over schedule and believes GA regulators share that mindset even if it would ultimately cause additional slippage into Q2'22. We continue to be of the opinion that additional issues are likely to arise between now and fuel load, but we do not think they will be overly disruptive to the project timeline in the broad scheme of things (weeks vs. quarters).

The balance of our discussion was on SO's gas utilities—after all, it's AGA! SO believes the roughly 10% rate base growth is sustainable for years to come and that gas will continue to play a critical role in the U.S. energy mix for decades more. That said (and in response to our question on recent gas LDC takeout multiples), mgmt would be willing to consider the monetization of various gas assets if for some reason equity was needed down the road.

Spire Inc. (SR/Equal Weight/$72.92) (Akers)

Mgmt. was squarely focused on the organic growth story as acquisitions are not of particular interest at recent LDC takeout multiples. In the near term that includes the MO rate case where initial Staff testimony, which includes adoption of the operating company capital structure, provides a reasonable starting point for negotiations. While still early in the process, mgmt. appeared hopeful that a settlement could be ultimately reached noting a continued focus on regulatory relationships. Outside of the regulatory process, the company discussed the value of redundancy/supply diversity investments including the STL Pipeline with additional opportunities being evaluated for western MO and AL. Lastly, the company discussed opportunities tied to RNG, which could include rate base and commercial options. Within SR's footprint, MO appears to be the most supportive at this stage (legislative and regulatory proposals) though the company is also seeing signs of industrial interest in AL.

WEC Energy Group Inc. (WEC/Overweight/$95.52) (Kalton)

Mgmt. characterized the long-term investment opportunities as being as robust as they can remember. Upside drivers heading into the 5-yr capex refresh, which is rolled out in conjunction with Q3 earnings and the EEI Financial conference, include solar/battery storage (no surprise) and generation resiliency-type spend (mgmt. indicated that the recent polar vortex is prompting the company to critically evaluate winter generation needs). Separately, WEC indicated that a federal proposal to allow solar developers to opt for a PTC could open up both regulated and non-regulated investment opportunities (to date, solar only qualifies for the ITC). On the regulated side, such a move would remove the tax normalization impediment associated with the ITC and allow regulated utilities to accelerate the flow back of tax credit savings to customers (under the ITC, utilities must flow back the savings over the 25-30 year life of the asset). As for Energy Infrastructure, mgmt. indicated that they have turned down several attractive contracted solar opportunities because the earnings profile did not align with the company's preference (the PTC option would eliminate this concern).

Lastly, we spent several minutes discussing the long-term outlook for the company's newer coal facilities at the Oak Creek site (the 1,400 MW Elm Road Generating Station). Mgmt. views the baseload plant as sitting in a critical position on the grid and believes there is a future for the facility even in a de-carbonized world. Long-term options could include conversion to natural gas (and ultimately hydrogen) or carbon capture and sequestration.

Xcel Energy Inc. (XEL/Equal Weight/$71.58) (Kalton)

Mgmt. expressed confidence in the timeline and stakeholder support for the proposed Colorado Transmission Expansion ($1.7B base spend with $0.5-1.0B upside). Permitting/siting is not expected to be a major issue as most of the project is located in highly rural areas. XEL expects PSCo will rate base a portion of the 5,500 MW of new renewables associated with the project—rough target of 50% ownership and the renewables could begin to phase in as early as the latter years of the '21-25 period (depends on the transmission build). On the rate case front, XEL is prepping for filings in CO (June/July) and MN (late '21). Mgmt. thinks both cases will be relatively straightforward with CO being a one-year filing (currently the preferred course in the state) and MN a three-year plan. While the allowed ROEs are always a key issue, XEL pointed out that the current levels of 9.3% (CO) and 9.2% (MN) are already at or slightly below the national average. Given growing inflationary concerns, XEL could potentially seek to peg the ROE to long-term interest rates.

Last, in response to our question regarding the recent strong multiple CNP received for their OK & AR gas LDCs (2.5X rate base), mgmt. expressed content with the current portfolio of XEL's operating utilities as they believe in the long-term viability and growth prospects for natural gas utilities; particularly in cold climates (XEL owns gas LDCs in CO, WI, MN & ND). That being said, we did not get the sense that there would be meaningful logistical constraints in divesting the gas LDCs should mgmt. and the Board ever decide to pursue such a course.

Acronyms:

ACC – Arizona Corporation Commission

AGA – American Gas Association

ALJ – Administrative Law Judge

ATM – At-the-Market

BPU – Board of Public Utilities

CEV – Clean Energy Ventures

CECONY - Consolidated Edison of New York

CPCN – Certificate of Public Convenience and Necessity

DELCORA – Delaware Country Regional Water Quality Control Authority

ESNG – Eastern Shore Natural Gas

EV - Electric Vehicle

FID – Final Investment Decision

FTC - Federal Trade Commission

GRIP – Gas Reliability Infrastructure Program

HFT – Hot Functional Testing

IRP – Integrated Resource Plan

ITC – Investment Tax Credit

IT – Information Technology

LDC – Local Distribution Company

LNG – Liquefied Natural Gas

MISO – Midcontinent Independent System Operator

MPSC – Montana Public Service Commission

MW – Megawatt

NECEC – New England Clean Energy Connect

NJNG – New Jersey Natural Gas

PaPUC – Pennsylvania Public Utility Commission

PCCAM – Power Cost and Credit Adjustment Mechanism

PPA – Power Purchase Agreement

PSC – Public Service Commission

PTC - Production Tax Credit

PURA - Public Utilities Regulatory Authority

RFP – Request for Proposals

RNG – Renewable Natural Gas

ROFR – Right of First Refusal

SJG – South Jersey Gas

SREC – Solar Renewable Energy Certificate

T&D - Transmission & Distribution

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Regulateds – Market Overweight
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May 20, 2021

UTILITIES & POWER

AGA conference takeaways; gas LDCs here to stay

The bans on bans exceed the bans; no whiff of inflation
We hosted virtual meetings with 14 utilities as part of the American Gas Association (AGA) this week. Companies had a more constructive tone on the future of their gas utilities. More states are pursuing bans on gas bans than gas bans themselves. Managements better clarified the drastic logistical challenges of full electrification while highlighting actions to reduce gas emissions such as methane reduction and renewable natural gas. RNG was a hot topic as a way to decarbonize natural gas that is more near-term viable than hydrogen. On the electric side, fleet transitions to renewables from coal keep accelerating and transmission growth is increasing LT focus. While we asked about inflationary pressures, the only whiff at this conference was gas, not inflation.

Top stocks from the conference – CNP, NI, PEG
CNP management tells a great story with 6-8% growth driven by 2% sales growth, declining costs and a lot of capex needs. Asset sales and tax shields may yield $1B+ more than initially expected and CNP sees more rate base growth opportunities to put that money to work, especially in TX. An ESG plan and new capex plan later in the year could be a catalyst. NI management finally seems to be exiting the MA overhang and going back to the old NI, including a recent guide-up for 2021. Equity overhang is resolved, regulatory risks appear modest and the IN renewables program is huge and may get even bigger. NI's 7-9% growth is at the top end of the sector and it trades at a meaningful discount. Finally, PEG is nearing the completion of their asset sale plans with the fossil sale expected in July. We see more visible LT earnings and dividend growth once this is done, constructive NJ regulation, and some offshore wind upside. With no coal exposure, we see PEG re-rating to a premium.

Exhibit 1: Attending Companies

Ticker	Company	Rating
AEE	Ameren	Outperform
AGR	Avangrid	Underperform
CMS	CenterPoint Energy	Outperform
CNP	CMS Energy	Peer Perform
ED	Con Edison	Underperform
D	Dominion Energy	Outperform
DTE	DTE Energy	Peer Perform
DUK	Duke Energy	Peer Perform
ES	Eversource Energy	Outperform
NI	NiSource	Outperform
PEG	PSEG	Outperform
SO	Southern Company	Peer Perform
WEC	WEC Energy Group	Underperform
XEL	Xcel Energy	Peer Perform

Source: Wolfe Utilities & Power Research

<u>**One-liner takeaways:**</u>

AEE – Renewables and transmission upsides possible as year goes on.
AGR – Equity done. Sticking w/ CT settlement. Offshore returns intact w/ inflation.
CMS – IRP next month, focus on coal retirement acceleration w/o securitization.
CNP – Strong tone; tax strategies sound promising; TX rate base upsides
ED – Hoping for higher growth via clean capex; Stagecoach resolution not far off.
D – Laser focused on execution; offshore wind on track despite inflation concerns
DTE – Spin 7/1. DTM sees $1.5B capex driving ~$1B in EBITDA needed for IG.
DUK – Confident on its outlook; no interest in pursuing any part of Elliott plan.
ES – Working on improving CT reg relations; sees mid-teen offshore wind ROEs.
NI – More confident tone on plan, starting to sound like NI of old
PEG – Convicted in fossil sale outcome. Feel good on fed/state nuke support.
SO – Slippage in Vogtle Unit 3 COD schedule but expects by end of 1Q22.
WEC – Renewable adds ahead of plan. Potential EPS upside after '22 WI cases.
XEL – Feel good about getting all incremental capex put in the base plan.

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Utilities & Power

May 20, 2021

Company Summaries

Ameren (AEE – OP): Busy rest of year

- AEE anticipates key updates on all of its businesses over the remainder of the year, starting with IL legislation this month, MO renewables filing sometime this year, intervenor testimony in MO rate case this Sep and a MISO MTEP report in Dec that could include potentially new transmission projects for AEE.
- The main focus was on transmission. AEE does not know which projects will be in the annual MTEP report this Dec, but the company is optimistic and saw some “no regrets” projects in MISO’s preliminary report earlier this year. Some projects in the MTEP report could clearly be AEE’s – in its service territory and not up for competitive bid. But at this point AEE can’t say which projects or the magnitude of the investment. Expect more clarity by yearend or early 2022.
- On IL legislation, AEE is working on getting energy policy done by the session deadline of 5/31. AEE has its proposal to extend and modify performance-based ratemaking (Downstate Clean Energy Affordability). AEE said energy policy broadly is a priority for lawmakers.
- AEE continues to negotiate with developers on incremental renewables included in its 2020 MO IRP and subsequent RFP; AEE still expects to file by yearend CCNs for some of the ~$3B of new renewable investment opportunities in 2021-30.
- AEE’s in the early days of its MO rate case ($299M rate increase, 9.9% requested ROE, 52% equity); intervenor testimony is on 9/3. AEE has settled the past few rate cases; they have tended to come after intervenor testimony. Although there is no guarantee parties will settle this year, we are optimistic given the trend.

Avangrid (AGR – UP): Equity overhang over and PNM progress; Still working on CT resolution

- Last week AGR secured its $4B of equity needs at no discount – Iberdrola took the majority ($3.26B) to maintain its 81.5% stake in the stock, while top-Iberdrola shareholder Qatar Investment Authority took the remainder ($740M). To the positive, this removes an overhang and was done at a good price. The only downside is it does nothing to improve the liquidity of the stock. Equity needs are now satisfied through 2022. Longer-term, AGR is looking at “non-debt” financing of $2B in 2023-2025 that could include more equity, hybrids, renewables asset recycling.
- On the PNM merger specifically, the deal is approved in Texas. In New Mexico, AGR already has 11 parties on board and just responded to the NMPRC Hearing Examiner with information on past customer service issues. Closing is still on track for 2H21.
- The comprehensive rate settlement in CT that was rejected by the PURA has been a focus area. The settling parties, which include the CT Governor and AG, filed a reiteration yesterday that the terms are in the best interest of ratepayers. A response from the PURA is expected by the end of Q2.
- With inflation in focus, AGR believes it is well-positioned, particularly with Vineyard Wind. The company is able to leverage Iberdrola’s procurement capabilities. Steel is also only about 10% of total cost. In two months time the project should be in a position where costs are largely locked in. With positives like better tax credits and larger turbines, mgmt. still feels good about the project economics. FID and construction start are both expected in 2H21.
- NECEC transmission is also on track, with construction underway, and a court decision last week lifting a stoppage on one-third of the line.

CenterPoint (CNP – OP): A lot to like about where this company is headed

- CEO Lesar added a few interesting anecdotes re the recent LDC sales. After talking with leading bidders to get a sense of their view on the gas LDC business generally, there were three things in common: 1) great assets with great cashflow and long-dated capex plans; 2) scarcity value given challenges to permit and build new systems; 3) will play a big role in a hydrogen economy. He also noted that there were four final bids right on top of each other, suggesting that the 2.5x rate base valuation was not an outlier by any means.

- CNP provided some more color into tax strategies that the company is working on to help reduce tax leakage on future ENBL/ET sales. Management spoke specifically to repairs tax deductions which CNP previously didn't avail itself to. Effectively, CNP will be able to realize a large one-time catch-up deduction for capex that was previously capitalized but was eligible to be expensed during the 2018-21 period. No specific level of tax savings was provided, but management said they wouldn't be talking about it if it wasn't meaningful.
- In total CNP could be looking at close to $1B of extra proceeds from the LDC sales, ENBL/ET monetization and from tax savings vs what was originally contemplated at last year's Analyst Day. Most of this would go toward funding the $1B of contingency capex that is above the current $16B capital plan. CNP expects to have more clarity on where the capex will go in company after the TX legislative session, where several bills are pending that could accelerate growth at CEHE. We expect a robust 10-year capex outlook later this year when CNP unveils its net-zero plan.
- There are three bills we are watching at the TX legislature which could impact future capex at CEHE: 1) HB 1607 which would adopt an economic dimension required to site new transmission; 2) SB 415 which would allow TDUs in TX to own 100 MW of storage collectively; 3) HB 2483 for which would allow TDUs to lease and earn a return on facilities used for emergency power restoration (e.g., fuel cells, batteries, generators, etc.). Relatedly, on the TX securitization bill CNP still feels optimistic about it passing in the current session.
- Commentary on the ability to reduce O&M 1-2% annually for the foreseeable future sounded promising. CEO Lesar noted it is something that is "absolutely doable" at CNP.

CMS Energy (CMS – PP): Everyone's waiting on the IRP filing

- The much-awaited Integrated Resource Plan in Michigan is expected to be filed by June 30. CMS is continuing to look at ways to accelerate the retirement of its remaining coal units at the Campbell site. That said, mgmt. is cognizant of any impacts on reliability, rates, and the balance sheet. On the flip side, CMS is looking to further ramp-up renewables replacement capacity, where it feels it may be able to own more in rate base than the last IRP's 50/50 split with PPAs (that get a financial compensation mechanism). A final decision on the IRP is expected in mid-2022.
- Michigan regulation remains constructive and stable. That said, a recent credit downgrade by Moody's pointed to weakening allowed equity ratios. This may help the company make its case in future proceedings. Securitization has been a tool used for coal retirements historically, however this has weighed on the balance sheet as well, with Moody's imputing over $1B in debt related to Karn and Classic 7. So that being said, CMS seems to be looking at other ways to go about any additional coal plant retirement accelerations this time.
- Mostly status quo on the non-utility businesses. Enterprises is well-contracted and Enerbank is seeing steady origination growth. CMS wants the non-utility growth to keep up with the regulated utilities, while also maintaining a 90/10 business mix split.
- Financially the year is off to a strong start. EPS growth is primarily being driven by already decided rate relief and cost performance seems to be tracking ahead of plan thus far.

Con Edison (ED – UP): Looking for a leading role in the clean energy future

- Under new CEO Tim Cawley, he noted ED's strategy would largely remain the same as those under his predecessor. Tim is most focused on participating in the clean energy future in NY through energy efficiency, EVs and hopefully utility ownership of renewables/storage. Consistent dividend growth and potentially a higher earnings growth profile are also a focus.
- The biggest variable in ED's 2021 guidance will be whether the PSC approves its petition for a surcharge mechanism to recoup $52M foregone late payment revenue from 2020. ED made the filing because it has conviction on getting approval, though its unclear how/when the PSC will issue a decision (ED requested by Sept.). Given that the legislature just extended the moratorium for collecting late payment fees through YE, it's possible ED will finish somewhere in the lower half of its range absent approval from the PSC on the surcharge mechanism.
- ED expects to provide a formal update on the Stagecoach sale process in the next six weeks or so. Proceeds from a sale, which likely will be close to the $667M book value after the recent write down, aren't expected

to materially impact this year's equity plans (up to $800M, timing uncertain). $500M of debt at Stagecoach would need to be paid down. Relatedly, ED will also look to move on from MVP too once/if it gets completed in 2022.

- Given the aggressive push for electrification in NY, Tim addressed implications for ED's gas LDCs. He noted the transition would take some time and that the company is looking to non-wire solutions (EE, heat pumps, etc.) to help offset increasing demand given supply constraints. That said, ED's electric business would be a big beneficiary given the significant buildout of electric infrastructure that would need to take place to facilitate all the new load.

Dominion Energy (D – OP): Name of the game is execution

- There weren't any major updates from D's Q1 earnings call. The big focus for management continues to be consistent financial execution on a quarterly/yearly basis. The biggest part of the investment proposition for D is the size and visibility of its green/decarbonization capex plan – potential for $72B over the next 15 years, most of which is eligible for recovery under riders.
- With a heightened focus on inflationary pressures, we asked management how this might be impacting D's 2.6 GW offshore wind project. While spot prices for steel and other inputs are up, D believes higher capacity factors vs what was initially projected could help offset some inflationary pressures. Ultimately, D remains confident on meeting its $80-90/MWh LCOE target for the project, which is well below the $125/MWh cap per VA law (anything under shall be presumed prudent in the eyes of the SCC).
- Management provided some helpful perspective to the pushback that we most often receive on D's stock – i.e., that the VA legislative/regulatory environment isn't as constructive as it has been historically. Management pointed to the fact that despite headline noise at the legislature, the end results have been constructive (e.g., GTSA in 2018, VCEA in 2020). D sees no evidence of that changing and believes VEPCO's current triennial case is a very strong and defendable filing.
- Management said it took note of the CNP LDC sales (2.5x rate base) but that it is happy with D's current asset mix. D likes its gas LDCs given natural tailwinds from customer growth and their constructive regulatory constructs.
- One frustrating item has been the delay in closing the Q-Pipe transaction. If it were to not get HSR approval, D is confident that it will be able to remarket and sell Q-Pipe to another party this year. D sees no impact to operating earnings under any scenario.

DTE Energy (DTE – PP): Steady as she goes for RemainCo; showtime for SpinCo

- DTE Energy is off to a strong start this year and is already starting to build contingency for 2022-2023. The regulatory calendar is light this year. Voluntary renewables customer interest remains robust. Once beyond the midstream spin, DTE expects to tell the same story – highly achievable 5-7% EPS and dividend growth. Later this year we could potentially start to hear on accelerated coal retirement potential.
- As expected, much of the focus is now on DT Midstream. The spin date is targeted for July 1, with the stock starting when-issued trading two weeks prior. Once the SEC gives the green light, DTM should be able to give more forward-looking guidance during the pre-spin roadshow.
- DTM is in the midst of a debt raise and the rating agencies just came out with a sub-IG credits (BB+/Ba1). The company seemed to be expecting this, as the lack of scale was the primary inhibiting factor. That said, mgmt. sees the business as self-funding – at least 2x dividend coverage, minimal maintenance capex ($30-40M/year), and no new debt needs after starting just north of 4x leverage.
- The goal is to get to an IG rating and mgmt. believes the necessary scale is ~$1B in EBITDA. While this implies over 30% growth of the midpoint of 2021 guidance, DTM believes this is achievable based on its $1.2-1.7B organic capital plan (implying a ~6x EBITDA multiple)
- In terms of where this growth is coming from, DTM pointed to offshoot opportunities tied to the recently placed in-service LEAP pipeline. The company sees significant drilling across a number of producers in the Haynesville, as well as demand strength driven by LNG exports (Sabine and Global Venture) and industrials in the Gulf Coast. LEAP is currently contracted up to 1 Bcf/d, but DTM sees the opportunity for this to double.

There also seems to be growth specifically tied to Indigo, as well as smaller organic opportunities in both the Haynesville and Appalachia.

Duke Energy (DUK – PP): Digging in their Tar Heels

- DUK elaborated on its response to Elliott Investments' letter earlier this week, highlighting its accomplishments and confidence in its outlook, while describing the significant hurdles to Elliott's proposal to split the company into three.
- DUK argued a breakup would have credit quality implications: a higher downgrade threshold for each of the smaller companies than DUK's current parent rating (12-13%).
- DUK also pointed to dis-synergies; standing up two new companies with corporate functions would require $500M per company; coupled with the higher downgrade thresholds, more equity would be needed, potentially reducing EPS by around 20% and raising the dividend payout.
- DUK noted agreements in the Carolinas dating back to its Progress merger that give NC/SC the right to block actions if there is risk to Carolinas operations; DUK generally sees an extensive regulatory approval process.
- On NC legislation, DUK continues to feel optimistic about a first draft bill this summer, but there is no legislative deadline. The key items expected in the legislation are 1) the pace of retirement of coal (how many MW and by when); 2) ownership of the replacement power (how much will utility own); and 3) regulatory framework.

Eversource (ES – OP): Not going to CT and run from improving relations

- ES CEO Joe Nolan is working to improve regulatory relations in CT, meeting with key state leaders and regulators. The temperature has dropped considerably since last summer, and he expects progress.
- A 90bp ROE penalty is expected in the interim rate decrease proceeding this summer. PURA staff last month recommended a 6.10-8.41% ROE and 40.5% equity ratio (later corrected to 47.1%) vs ES' current 9.25% ROE and 53% equity ratio. A hearing is set for 5/26, with a proposed interim decision on 8/20. After this case, ES anticipates moving on to the state's other priorities.
- ES reliability is still top decile in CT and sees alignment in the state's policy priorities – grid mod, AMI, etc. – and wants to do a better job highlighting the cost of delivering clean energy.
- On offshore wind, ES recently conducted a review of its three pending projects with Ørsted and still sees mid-teen equity returns; the delays in siting last year were not all bad, given progress on wind turbine size and the supply chain in the US, as well as the tax credit extensions last Dec. The project materials have largely been locked in and prices have been hedged. Higher costs were incorporated in ES' recent review.
- The Biden Administration has taken supportive action on offshore wind, and ES meets with BOEM regularly. ES will get more visibility from BOEM on the pending projects' EIS and COP schedules. ES anticipates future bids in CT, NY and RI. ES will not deviate from its return targets.
- ES will include offshore wind earnings in its EPS growth outlook once the schedules are firmed up, which should be known later this year. We anticipate offshore wind will be in ES' EPS growth target on the YE21 call.

NiSource (NI – OP): Got its mojo back

- The tone from NI's management was the best we have heard in years. Recent positive developments include minimal COVID impacts in Q1 resulting in revised 2021 guidance to the upper half, PA rate case which was resolved constructively and a significant de-risking of the company's financing strategy following the recent equity unit offering. CEO Hamrock noted he "couldn't be more confident than I am right now looking forward" and sees the company getting back to the NI of old where meeting/beating financial expectations was the norm.
- On the topic of asset sales, management said that it is always actively exploring opportunities. That said, each LDC is growing rate base at 10%+ currently and NI no longer has a block equity need. As such, we don't expect any action here in the current planning period. Management said it is an option that will certainly

stay on the table and we think would likely be more opportune when the time comes to add replacement capacity for Michigan City in the second half of the decade.

- NI launched an RFP earlier today which will help identify replacement capacity options for Michigan City. The Michigan City unit has 469 MW of capacity to replace, which is about 1/3 of the size of Schafer. NI noted it hopes to own more than half or all the replacement capacity.
- When the time comes to remarket the convert in late 2023, NI said its expectation is that the existing equity unit holders would participate again. This was encouraging to hear given that it would remove the possibility for an equity overhang on the stock when the time comes.
- NI said it was seeing limited inflationary pressures in its business at this point. For the renewables, cost overrun risk isn't really borne by NI since the projects are being developed by third parties.

PSEG (PEG – OP): Lots in the hopper, but some near-term resolutions upcoming

- Most in focus at PEG is the pending asset sales, with the solar portion recently announced for $500-600M. Closing is expected in the next few months. The bigger and more important fossil sale is still pending and going as expected. Mgmt. anticipates second round bids in June and a likely sale announcement in July. The upcoming PJM auction will be a data point for some of these assets (4 of 6 CCGTs), but this doesn't appear to be a concern. The CCGTs also have value based on their spark spreads and the PJM auction dynamic beyond this one remains fluid as it relates to the MOPR.
- PEG is acknowledging that the asset sales will result in taxable gains due to bonus depreciation on some of the new assets. However, it continues not expect significant dilution. From a use of proceeds standpoint, PEG continues to point towards debt paydown at Power, the utility capital program, future offshore wind investment, and parent debt paydown.
- Once beyond the sale, PEG should be in a position to lay out a longer-term outlook as it is 80-90% utility earnings (we sense near the high-end pre-offshore wind). Serious consideration is being given to providing a long-term earnings and dividend growth rate.
- The recent unanimous decision by the NJ BPU to extend the nuclear ZECs another 3 years was constructive and less controversial. There seems to be solid interest in the state for a longer-term solution. An PJM FRR study is also due at the end of the month. However, PEG's commentary on federal interest in nuclear support also sounded constructive. It seems that there is a general acceptance in Washington, with the debate more around the details/structure.
- PEG still feels good on returns on its Ocean Wind offshore wind investment. As of now, they are not part of the second New Jersey offshore wind solicitation. However, the company does figure to participate in the offshore transmission competitive solicitation. Mgmt. pointed to the potential investment as being in the hundreds of millions rather than billions.
- Not much new on the transmission front. PEG is still in discussions with the BPU on an ROE agreement. FERC Chairman Glick doesn't seem to be backing off the recent disappointing NOPR to end the RTO adder, but PEG expects RTOs/TOs to make the case otherwise.

Southern Company (SO – PP): One day, the AGA meeting won't be focused on Vogtle

- As has been the case at any investor conference/call for years, most of the focus at AGA was on Vogtle 3 and 4 construction. This AGA meeting was focused particularly on SO's recent VCM testimony, which included a delay in Unit 3 COD to Jan 2022 at the earliest.
- SO provided detail on the recent slippage of its Unit 3 schedule (was Dec 2021 last month). Hot Functional Test began on 4/25 and was expected to take 45 days but now will take 2-3 weeks longer, as the team identified something anomalous related to the pressurizer, leading to a reduction in the temperature during the test. Still, SO plans to increase the temperature in about a week and eventually get to the max temperature (over 500 degrees).
- SO previously identified remediation work; about 60% was completed before HFT began and the remaining 40% will be completed during HFT and before fuel load this fall. SO also pointed to an issue with the spent fuel pools, but it is not critical path to HFT and will be corrected before fuel load.

- SO expects the GaPSC Staff testimony next month to focus on the remediation work that is left to do on the electrical commodity work. But SO believes there will be some convergence on the deadlines.
- SO anticipates providing more visibility into its fleet transition with the GA IRP filing in Jan 2022 and discussions in AL.

WEC Energy Group (WEC – UP): More convicted than ever coming off strong Q1

- WEC was one of the few utilities to already point to the high-end of guidance in Q1, as a result of strong operational/financial execution, particularly during the extreme winter temperatures. In Wisconsin, WEC has reached a well-supported rate case stay-out agreement. The WI PSC has been encouraging of settlements and will vote on this agreement in the coming months. Once beyond the rate cases scheduled for next year, it seems that WEC's growth rate could have an upward bias.
- Part of the driver for the upward bias in the growth plan, has been ahead of schedule renewables investments. WEC has already laid out $2B in rate-based renewables investments at the WI PSC. Further, the company is ahead of schedule on its non-regulated contracted wind farm plan, while returns have remained steady or even gotten better.
- WEC is also very focused on the ESG front after recently laying out more aggressive CO2 and methane reduction goals. Importantly, WEC now sees a path to coal being less than 10% of assets/revenues by 2025. At the gas utility, WEC is looking to invest in pipelines that will accommodate renewable natural gas to reduce methane, though investment in RNG production itself doesn't seem to be of interest just yet.
- Finally, WEC is not overly concerned on the looming end of the Illinois legislative session. There is a bill proposed that would end the QIP rider for gas utilities, however nuclear subsidies and lobbying reform have been much more in focus. Further, WEC sees annual rate case filings in Illinois with forward test-years as a workable solution as well.

Xcel Energy (XEL – PP): Incremental capex case starting to sound like the new base case

- We got a chance to chat with incoming CEO Bob Frenzel. Bob noted that he and current CEO Ben Fowke are very aligned on the strategy for XEL and there should be no expectation of a pivot under his leadership. Bob sees a lot of pent-up demand for capital across XEL's footprint, but his focus is to pace it such that customer bills stay manageable. We got a sense of high confidence on XEL's 5-7% EPS growth rate over the long-term. Once Ben retires in August, he will stay on as executive chair where his focus will be on federal policy initiatives.
- XEL feels good about getting approval for some of the items that currently represent upside to its base capex plan. On the CO Pathway transmission project, its likely that XEL will own the entire project ($700M of incremental capex). XEL also feels good about getting its Sherco solar proposal ($575M) and the Allete wind powering ($210M) approved. If all is rolled into XEL's base forecast, we estimate its rate base CAGR could move to 7.2% vs 6.6% currently. XEL would finance the incremental capex with 50% equity likely through an ATM program.
- On transmission more broadly, XEL expects to have a lot more clarity on capex size by YE or 1Q22 at the latest for future projects in MISO. Being one of the two largest transmission owners in the Upper Midwest, XEL expects to own a substantial portion (has ROFRs in MN and Dakotas). XEL also sees a lot of opportunity in the SPP RTO too at SPS, though SPP is not as far along as MISO in the planning process. Related transmission capex is beyond the current 5-yr window.
- In light of recent asset sales in the sector, XEL mentioned that it is content with its current asset portfolio. Management is pleased with the company's robust organic growth opportunities and external equity needs are manageable within the context of the size of the company. And if certain proposals on the policy front are enacted (e.g., direct payments for tax credits), XEL could see its current equity needs move lower.

Comparables Tables

Exhibit 2: Regulated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2021E	P/E 2022E	P/E 2023E	P/E 2024E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Alliant Energy	LNT	$57.76	250	$14,448	22.4x	21.1x	20.1x	19.1x	2.8%	5.9%	62%	2.5x	46%
Ameren	AEE	84.50	256	21,594	22.5x	20.8x	19.5x	18.4x	2.6%	7.0%	59%	2.4x	42%
American Electric	AEP	86.26	500	43,108	18.6x	17.2x	16.3x	15.3x	3.4%	5.7%	64%	2.1x	37%
Avangrid	AGR	52.29	309	16,177	21.8x	21.8x	20.5x	N/A	3.4%	0.0%	73%	1.1x	58%
CenterPoint Energy	CNP	24.70	580	14,338	19.8x	18.5x	17.3x	15.9x	2.5%	7.0%	50%	2.1x	36%
CMS Energy	CMS	63.74	289	18,450	22.3x	20.8x	19.4x	18.2x	2.7%	6.7%	61%	3.2x	27%
Con Edison	ED	78.42	343	26,883	18.4x	16.8x	16.3x	15.7x	4.0%	1.3%	73%	1.4x	43%
Dominion	D	77.24	807	62,296	19.9x	18.7x	17.6x	16.4x	3.3%	6.0%	65%	2.6x	41%
Duke Energy	DUK	102.27	769	78,668	19.9x	18.8x	17.8x	16.8x	3.8%	2.0%	77%	1.7x	42%
Edison International	EIX	57.68	379	21,886	12.8x	12.3x	11.5x	N/A	4.6%	4.0%	59%	1.6x	38%
Emera*	EMA	56.60	254	14,359	20.4x	17.7x	16.9x	16.0x	4.5%	4.0%	93%	1.7x	38%
Entergy	ETR	105.74	201	21,218	17.8x	16.8x	15.7x	N/A	3.8%	6.0%	68%	1.9x	30%
Evergy	EVRG	61.90	229	14,192	18.7x	17.7x	16.3x	15.5x	3.5%	6.0%	66%	1.6x	44%
Eversource Energy	ES	83.76	343	28,769	21.7x	20.2x	19.0x	17.9x	2.9%	6.2%	62%	2.0x	44%
Exelon	EXC	45.74	977	44,696	16.3x	20.3x	19.2x	18.1x	3.3%	0.0%	55%	1.4x	43%
FirstEnergy	FE	37.69	544	20,500	15.2x	14.3x	13.7x	N/A	4.1%	0.0%	63%	2.8x	23%
Fortis*	FTS	55.29	469	25,953	19.8x	18.6x	17.5x	16.7x	3.7%	6.0%	73%	1.5x	43%
NiSource	NI	25.32	392	9,931	19.0x	18.0x	16.7x	14.9x	3.5%	6.0%	67%	1.9x	40%
PG&E	PCG	10.40	1,985	20,645	10.2x	9.2x	8.4x	7.7x	0.0%	N/A	0%	1.0x	33%
Pinnacle West	PNW	85.37	113	9,626	17.3x	17.1x	16.4x	15.6x	3.8%	2.0%	66%	1.7x	44%
Portland General	POR	48.89	90	4,381	18.6x	17.7x	17.1x	16.7x	3.5%	7.1%	65%	1.6x	45%
PPL Corp.	PPL	29.34	769	22,575	14.9x	16.5x	16.1x	N/A	5.7%	0.0%	84%	2.0x	42%
PSEG	PEG	62.58	505	31,609	18.3x	18.1x	17.2x	N/A	3.3%	4.1%	60%	1.9x	48%
Southern Company	SO	64.06	1,059	67,816	19.5x	18.1x	16.7x	15.6x	4.1%	3.9%	80%	2.4x	35%
WEC Energy Group	WEC	95.52	315	30,130	23.7x	22.3x	20.9x	19.7x	2.8%	7.1%	67%	2.8x	42%
Xcel Energy	XEL	71.58	538	38,525	24.2x	22.6x	21.3x	20.1x	2.5%	6.0%	62%	2.6x	38%
Average					**19.0x**	**18.1x**	**17.1x**	**16.5x**	**3.4%**	**4.4%**	**64%**	**2.0x**	**40%**
Average (ex EIX & PCG)					**19.6x**	**18.8x**	**17.7x**	**17.0x**	**3.5%**	**4.4%**	**67%**	**2.0x**	**40%**

Source: Wolfe Utilities & Power Research

Exhibit 3: Gas/Power Infrastructure Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2021E	P/E 2022E	P/E 2023E	P/E 2024E	Div Yield	Div Growth	Payout Ratio
The AES Corporation	AES	$25.35	666	$16,890	16.5x	15.2x	14.2x	13.4x	2.4%	5.0%	39%
DTE Energy	DTE	140.36	194	27,192	19.8x	18.8x	17.6x	16.6x	3.1%	7.0%	62%
NextEra Energy	NEE	74.29	1,961	145,716	29.3x	27.5x	25.4x	N/A	2.1%	9.7%	61%
OGE Energy	OGE	33.58	200	6,722	15.2x	15.8x	15.1x	14.5x	4.8%	5.6%	73%
Sempra	SRE	135.74	303	41,097	17.0x	16.0x	15.3x	N/A	3.3%	8.0%	56%
Average					**19.5x**	**18.7x**	**17.5x**	**14.8x**	**3.1%**	**7.0%**	**58%**

Source: Wolfe Utilities & Power Research

Exhibit 4: YieldCo Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBITDA 2023E	EV/EBITDA 2024E	Div Yield
Clearway Energy	CWEN	26.35	193	5,080	11.3x	10.3x	10.7x	11.4x	5.0%
NextEra Energy Partners	NEP	66.75	156	10,413	9.1x	7.6x	7.5x	N/A	3.8%
Atlantica Yield*	AY	36.83	107	3,929	10.6x	9.7x	9.0x	8.4x	4.7%
Average					**10.3x**	**7.6x**	**7.5x**	**N/A**	**4.2%**

Source: Wolfe Utilities & Power Research
*Not covered by Wolfe Research, estimates based on consensus

Exhibit 7: IPP Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBITDA 2023E	EV/EBITDA 2024E	Free Cash Flow Yield 2021E	Free Cash Flow Yield 2022E	Free Cash Flow Yield 2023E	Free Cash Flow Yield 2024E
NRG Energy	NRG	34.04	245	8,331	8.6x	6.2x	N/A	N/A	9.1%	19.6%	N/A	N/A
Vistra Corp	VST	16.48	482	7,944	10.5x	5.5x	N/A	N/A	5.5%	25.4%	N/A	N/A
Average					**9.6x**	**5.9x**	**N/A**	**N/A**	**7.3%**	**22.5%**	**N/A**	**N/A**

Source: Wolfe Utilities & Power Research

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BofA GLOBAL RESEARCH

BofA SECURITIES

What stood out from Day 1 of Virtual AGA?

We present our takeaways from Day 1 of the Virtual American Gas Association (AGA) conference, including **AEE, D, DTE, ED, MDU, MGEE, NJR, NWE, SJI, SO, WEC, WTRG and UTL**. Among the key concerns quelled at the conference was around the effects of inflationary pressures on its core business. Considering the fixed wages under existing labor contracts, and relatively elevated prevailing wage rates, mgmts. from across the industry exhibited clear comfort in addressing these potential opex pressures. Further, commodity related inflation appears also modest given long lead time for procurement of many items- as well as corresponding ability to defer capex projects to maintain an appropriate bill trajectory. We stress gas Local Distribution Company (LDC) focus on replacing steel with plastics also helps to mitigate potential concerns. Meanwhile, load considerations across the sector remain robust – with many reaffirming the positive statements from 1Q. We see a clear bias that despite inflationary pressure elsewhere in the economy, results could very well prove *better* than otherwise perceived heading into 2Q & for FY21 guidance. Overall tone for sector was surprisingly positive. Among most constructive meetings were **AEE**, **MDU**, and **WTRG**.

Load growth strong while inflation at bay

AEE continues to work with key stakeholders on a comprehensive energy legislation bill in IL, with the May 31 legislative session deadline fast approaching – we note greater focus on the electric side of things suggests less risk on balance for **WEC**'s gas business. **DTE** continues to work toward the spin of its midstream business by mid-year, with revolving credit lines and a note issuance in the works, while near-term sustained residential sales should get a boost from quickly recovering industrial and commercial load. **ED** likewise forecasts higher demand y/y, with the possibility of a rate filing at its Steam business next year along with the triennial filings for electric and gas at its NYC opco. **MDU** awaits FERC action on gas pipeline expansions with permits for its North Bakken Expansion still pending, with expectations for sustained margins at its construction businesses suggesting inflationary pressures held broadly in check. In Wisconsin, **WEC** and **MGEE** are likely to announce additional collaborations on generation assets (possibly including storage) over time to backfill lost Columbia generation; while WEC is in a rate stayout until 2022 we expect MGEE's latest rate filing to receive a constructive reception given renewable expansion and modest rate increases. **NJR** continues to work through the early stages of its rate case and is not seeing any impact of inflation on its solar business because materials are procured through '22. **SO**'s meeting was spent entirely on the delay of Hot Functional Testing (HFT) and the shift in COD timeline to 1Q22 – the company is in a key testing phase; we see scope for continued volatility through this process on any small concerns. Meanwhile, successful testing would be a positive catalyst for a rerate. SJI built on the plan outlined during the investor day at the beginning of the month and added more detail on its expansion into Renewable Natural Gas (RNG). We see the potential for shares to rerate in time based on execution of the plan. **UTL** plans to outline a path for decarbonization this year and sees strong recovery across its service territory.

20 May 2021

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FERC: Federal Energy Regulatory Commission

Company Name	BofA Ticker
Ameren Corp	AEE
Consolidated Edison	ED
Dominion Energy	D
DTE Energy	DTE
Essential Utilities	WTRG
MDU Resources	MDU
MGE Energy	MGEE
New Jersey Resources	NJR
NorthWestern Corp	NWE
South Jersey	SJI
Southern Company	SO
Unitil Corp	UTL
WEC Energy Group Inc	WEC

Timestamp: 20 May 2021 12:39PM EDT

Contents

Ameren (AEE; A-1-7 PO: $91.00)

Our meeting with AEE mgmt covered upside from Midcontinent Independent System Operator (MISO) transmission planning, the latest on IL legislation, and the latest passage of securitization in Missouri. We maintain our Buy rating on AEE.

MISO planning key to transmission future

We continue to view Ameren as among the best-positioned utilities in our coverage universe to capture upside from what is expected to be a multi-year acceleration in transmission spend. The MISO Transmission Expansion Planning (MTEP) process remains key to the long-run upside, in our view, with the Future 1-3 scenarios pegging potential investment opportunities at between $30-100B. The bulk of transmission investment upside is expected to accrue in the second half of the decade given long run planning involved. Further details including just what projects will be included in MISO's latest MTEP iteration will likely be detailed later in the year – note Ameren's mgmt team expressed confidence that at least some of the projects included under the Future 1 scenario will be included given regional needs, particularly given the need to interconnect renewable generation projects.

In particular, we see North-South integration as among the key factors to watch into 2022 as part of wider MTEP integration given considerable congestion issues in recent years as part of Entergy integration into MISO. We stress this large-scale project is likely among the most pressing of the wider review process. Related we see considerable east-west integration across its service territory to interconnect renewables.

IL legislation remains a work in progress ahead of May 31

Work continues by IL lawmakers on several competing energy bills – AEE mgmt affirmed that the downstate bill is the best solution for its ratepayers. We see a possibility that a comprehensive energy bill may not be established during the current session. Further possibilities in the calendar include a special session or potentially a veto session (typically in Nov following election day). On the most recent earnings call mgmt talked down the potential for a "grand bargain" whereby the several competing bills are reconciled into one. We continue to see state labor unions as a key constituency as well, and perceive the union-backed bill as more palatable than proposals such as the Clean Energy Jobs Act (CEJA) from Ameren's perspective given implications for ratepayers.

While management was less than outspoken on implications we see this as a relatively constructive backdrop for shares considering implications for future rate cases. We remain constructive on shares heading into summer months ahead. Further, still not clear what legislation could entail with respect to further ratebase opportunities as well in IL.

Sep next milestone for MO rate case; securitization a plus

With IL rate making an open question, the next key data points in Ameren's MO rate case will likely come in September with the filing of intervener and staff testimony. On balance we view this as a generally constructive jurisdiction for utilities, with AEE's last rate order issued in early 2020 resulting in an earnings uplift. With the SR intervener testimony providing a recent data point – staff came in 60 bps below the company's ask on ROE with unchanged cap structure – we view the backdrop as constructive on balance. Furthermore, the state's proposed securitization bill was signed in to law, giving the company an additional tool in continuing its efforts to transform its coal-heavy generation fleet. Note that Ameren has consistently characterized securitization as not key to its resource plan in MO, but rather a useful tool in mitigating bill impacts. On balance an incremental positive.

A further twist? Note that the securitization legislation in Missouri would allow the company to avoid a separate parallel certificates of convenience and necessity (CCNs) filing for related renewable build to replace any contemplated coal plant retirements. This is a small de-risking factor to consider – effectively creating a process to streamline replacement and securitization in one.

Dominion Energy (D; A-1-8; PO: $86.00)

Our meeting with D mgmt. including EVP, CFO, & Treasurer Jim Chapman, EVP & COO Diane Leopold, and other members of the mgmt. team centered around D's execution on its industry-leading decarbonization plan, offshore wind development, the VA triennial review and rider filings, strong load trends, contracted asset strategy, and inflationary pressures. Management remains substantially on track regarding its earlier and narrow 6.5% EPS growth despite some gyrations therein. We look for critical input on July 30th form Staff on its triennial review, which could well show a relatively wider spread on recommended outcomes on how to apply the audit to the historical period. We remain relatively less concerned considering earlier failure to amend process in legislature as well as bounded outcomes in the VCEA. Items to offset income remain our focus.

As far as SC is concerned, its other jurisdiction ahead with a key case following earlier nuclear challenges remains promising too to de-risk its backdrop into a mid-July update on its rate case docket. Given this is the first case since its acquisition, this remains key in establishing the new norm in SC. Further, no securitization legislation was passed in session this year– while the company is not opposed, risks have been side-stepped here too around proposal to amend its existing nuclear regulatory asset. On balance, upcoming months remain to key de-risk the backdrop on this still new acquisition for D.

Finally, consistent with peers, load trends remain an interesting backdrop to support its overall EPS backdrop. While already assuming a relatively healthy 1.5% in its 5-yr outlook this too would appear to provide nascent support as offset to other factors. We remain relatively surprised that further renewable filings for corporate & government counterparties remains a relatively modest potential. We maintain our Buy with key debates ahead this summer.

Triennial review key to watch this year as await Staff this summer

The triennial review continues to move through the regulatory process with key milestones being respondent testimony on July 30, staff report on Aug. 16, company rebuttal on Aug. 30, evidentiary hearing on Sep. 20, and a final order in Nov. We continue to believe that the filing showing no need for customer refund is well-bounded by the VCEA. As a reminder, the triennial review filing details FY17-FY20 performance and reflects base rate revenues matched closely with cost to provide service. The filing reflects Earned ROE of 10.04% after removing the uncollected revenue related to customer arrears forgiveness, and 10.85% including uncollected revenue related to customer arrears forgiveness.

The SCC only reviews the base portion of DEV's operations and assets keeping VA riders outside the scope of the proceeding. D forecasts a $19M annual revenue deficiency with a requested base ROE of 10.8%. Importantly, we think the triennial review will become less of a factor over time because D is rapidly expanding its rider base at around 18% CAGR through 2025E while base investment is only growing at around 6%. As base rates become a smaller % of the total, D will be less exposed to an unfavorable outcome in a triennial review.

Related we look for a fall update to its Integrated Resource Plan (IRP) this fall which could very well provide the latest perspective on its coal transition – and related amortizations to which to apply to future such reviews. We anticipate this could receive growing attention as a risk mitigant.

Renewables progress ongoing

D provided an update on its industry-leading de-carbonization plan, admittedly among the most ambitious authorized for its large-cap peers largely in ratebase. We stress its inaugural filing therein, CE1 for initial solar build was approved. CVOW receives the most attention from investors given it is the largest single project in DEV's plan (even though the aggregate investment opportunity for solar, onshore wind, and storage is much larger). Mgmt. is positive on the progress that the project has made, and we believe the Biden Administration's advocacy for the industry will be supportive of the timeline. Currently, the FAST 41 published target date for BOEM notice of intent is scheduled for June 2021, which would kick off a two-year review process before BOEM issues its record of decision in June 2023. DEV now expects to file the CPCN/Rider in fall of 2021 which is ahead of previous expectations of the beginning of 2022 - we expect to see more detail on capacity factor assumptions, suppliers, transmission planning, etc. when the filing is made.

The SCC recently approved DEV's most recent clean energy filing for 500 MW of solar (80 MW utility-owned). DEV issued another RFP for 1000 MW of solar and onshore wind, 100 MW of storage, 100 MW of small-scale solar, and 8 MW of solar to support the community solar program. It is important to note that renewables procurement will lean more toward PPA vs utility-owned in the early part of the plan before switching in the latter half of the plan to more utility-owned as DEV works to the allowed 65% target for solar, onshore wind, and storage. These investments will be rider-eligible which is key when assessing the risk of a triennial review (see section above). DEV put another 30k acres under option for solar buildout, bringing the total to 100k, which is enough to support 10GW of solar.

DTE Energy (DTE; B-3-7; PO:$131.00)

Our meeting with DTE mgmt focused on the pending spin of the midstream segment, potential to accelerate coal retirements beyond those articulated previously, dynamics around the Renewable Natural Gas (RNG) business, and growth in demand as well as for its voluntary renewables product. We maintain our Underperform rating on DTE.

Latitude to accelerate coal retirements?

After 2022, DTE is currently scheduled to keep its remaining coal assets including its 80% stake in Belle River (1,000 MW) and Monroe (3,100 MW) operating until 2030 and 2040, respectively. We note that the company has recently indicated a willingness to speed its exit from coal, most recently with the acceleration of River Rouge to 2021. Following our latest meeting with mgmt. we see some latitude to potentially accelerate one or both of the later retirement dates. Moreover, the decisions to potentially retire coal plants could be linked to forthcoming infrastructure legislation including proposed tax incentives for renewable generation. On balance we are not entirely surprised that DTE mgmt is considering moving forward the retirement dates of one or both of its large coal plants as the company has stood out among peers with its plans to continue operating multi thousand-MW coal-burning generation for up to two more decades.

Midstream spin is on track for midyear

DTE mgmt affirmed that it continues to target midyear for the spin of its midstream business, DT Midstream. The company announced the private placement of $2.1B of notes to fund the new spin, the proceeds of which will be used to pay off short term DTE holdco debt. Additionally DT Midstream recently established a term loan facility of up to $1B and a revolver of $750m, which will further go to paying off DTE parent debt and also to pay a dividend to DTE. Growth opportunities at DT Midstream are expected to principally come in the form of expansions and compression on existing lines including the LEAP pipeline in the Haynesville basin which could potentially expand capacity from the current 1 bcf to as much as 2 bcf. Overall the portfolio remains well contracted with no material roll offs in the near term.

RNG remains core to non-reg side of the business

Despite growing investor enthusiasm of late around the growth prospects for RNG and biofuels, we do not expect a material acceleration in DTE's business in the near term. Mgmt. indicated that it remains happy with the current pace of project additions whereby the company invests in new projects annually that generate approximately $7-10m of new earnings annually. While acknowledging that RNG could comprise a larger share of its overall non-regulated Power & Industrial business, mgmt reaffirmed that it expects the segment to account for around 10% of earnings over the long run. Returns per project are currently in the mid teens on an unlevered basis, providing strong cash flows and payback periods in the 3-4 year range. The key short term factor affecting earnings in the segment will be a loss of Reduced Emissions Fuel (REF) credits at the end of 2021, after which we expect the segment to return to an around10% earnings contribution over time as new projects are added on both the RNG and cogeneration side.

Consolidated Edison (ED; A-2-7; PO:$76)

Our meeting with ED mgmt focused on key regulatory concerns including the company's ongoing relationship with the New York Public Service Commission (PSC) and recent filing for recovery of lost fee income stemming from COVID, as well as future regulated and non-regulated investment opportunities. While management's attitude around the new PSC was still preliminary we remain more upbeat on potential new start for an improved regulatory backdrop. We maintain our Neutral rating on ED.

Stagecoach update expected soon

We expect ED to provide an update on its strategic process for its share of the Stagecoach gas storage JV sometime during Q2. Mgmt. indicated at our meeting that of the sale proceeds, approximately ~$500m would be earmarked for the retirement of project-level debt with any remaining proceeds allocated for general corporate purposes. We assume in turn this is likely slightly dilutive. On recent Clean Energy Business (CEB) renewable sales mgmt. reaffirmed no change in its strategy with the expectation of continuing to invest in new projects, with an expected pivot toward additional design-build-transfer opportunities given robust demand for renewables nationally.

Lost income filing driven by length of pandemic impact

ED recently filed with the PSC for a special accounting treatment to defer for eventual recovery the lost fee income associated with late payments and disconnects that has not been charged since the outbreak of the COVID pandemic. Recall that initially the company had talked down the prospects of recovering this lost income given its rate plan Change in Law provision is intended for expenses and not revenues. However, given the duration of the pandemic and aggregate financial impact, ED mgmt. affirmed that filing for a recovery was in the company's best interest. Note we do not perceive recent changes at the PSC as driving the timing or the decision to file based on mgmt's comments.

Steam recovery following most demand-sensitive quarter

Company mgmt struck a cautiously optimistic note regarding the Steam business. Although smaller than both Gas and Electric, the Steam business experienced disproportionate declines in demand for most of 2020 due to its lack of decoupling, first in Q1 as a result of historically mild weather and followed by lost demand due to COVID. Notable in mgmt.'s comments on the business was the constructive stance taken around its emissions profile – among the most efficient when viewed on an emissions per unit of energy generated; in keeping with the company's ESG-leading stance of late. Mgmt. also suggested a possible filing for new rates in the steam business, likely at the same time as the electric and gas filing if indeed the company goes ahead.

MDU Resources (MDU; B-1-7; PO: $39.00)

Our meeting with MDU mgmt focused on the impact of inflation on the company's diversified businesses – particularly Construction Services and Materials, as well as key regulatory updates centered around the recent WA rate case decision and its pending application for the North Bakken expansion. Look for updates today at the FERC meeting on pipeline policy. We maintain our Buy rating on MDU.

North Bakken not on agenda, but other expansions are

The North Bakken Expansion project is not part of the May Federal Energy Regulatory Commission (FERC) agenda, increasing the risk that the project's in-servicing date gets pushed to late 2021 or early 2022. We note that MDU mgmt. has already petitioned the FERC for expedited consideration of its permit request, thus the timing around when it gets considered remains an open question at this point. The core issue appears to be the FERC's consideration of greenhouse gas (GHG) emissions as part of its EIS for new projects – note Bakken Expansion should screen well on this metric from an upstream perspective given its demonstrated impact on Bakken gas flaring, though how the FERC determines the downstream impact remains a key consideration. Note two expansion projects on the May 20 agenda should give an indication to the FERC's sentiment, if not a direct read-through.

On balance, new FERC policy is unclear on pipelines. We look critically at these upcoming meetings to establish further direction on just how stringent of a GHG review will be established. We see this as likely more of a delay than a fundamental impediment to the project.

Inflationary pressures not showing up in construction biz

MDU mgmt. affirmed its expectation for keeping margins at its Construction Services and Construction Materials businesses at or better than last year's levels, in-line with its full-year guidance. Despite inflationary pressures, the mgmt team sees multiple pathways to maintaining or growing its margins. On the Services side, contracts could be structured as cost-plus of fixed cost, though in the instance of the latter some allowance for inflation could be built in to the initial bid. At the materials business Q2 is the key quarter for bidding activities – thus we see mgmt's affirmation as coming halfway through the quarter as informed by the bids seen thus far.

All in, given MDU's diversified construction business we remain less concerned about inflationary pressures in 2021, particularly given the strong start to the year in both segments.

Cascade revenue reduction makes new filing likely

Reduction of $0.4m relative to an increase in annual revenues of $7.4m which was requested and which represented a +2.8% increase in base rates. The commission maintained Cascade's existing equity ratio at 49.1% and authorized ROE at 9.4%. While the commission accepted pro forma adjustments to base rates reflecting investment through Oct 2020, it rejected additions for projects coming in service at a later date citing "longstanding" commission principles. The order also rejected recovery of 2021 wage increases through rates indicating that these are not yet known and measurable. On the latter point we note mgmt. indicated that it has good visibility into its authorized pay increases for 2021. On balance we expect the order to likely lead to the filing of a new rate case in Washington in relatively short order in order to resolve both the wage increase issue and to add projects that had been completed since the Oct 2020 cutoff. Note we do not expect the order to materially alter the company's outlook on 2021 (having increased guidance already post Q1), as the annualized impact of the full increase requested would result in a ~3c EPS contribution

New Jersey Resources (NJR; B-2-7 PO:$43)

Our meeting with NJR mgmt. including SVP & CFO Pat Migliaccio, SVP & COO (Non-Regulated) Amy Cradic, and Manager – Investor Relations Mark Aydin follows the 2Q update where NJR raised guidance for the second time this year. CEV's pipeline is well insulated from inflationary impacts with materials procured through '22, and expansion into other states continues at returns that are generally consistent with NJ. NJNG rate case is progressing with staff testimony the next item to watch for likely in late-Jun./early-Jul. Mgmt. is very conservative on the RNG/Hydrogen opportunity with no capital in plan outside of two pilot projects. We reiterate our Neutral rating as we still perceive ability to execute at Clean Energy Ventures as a risk, especially with expansion out of NJ and a pending transition of the current Transition Renewable Energy Certificates (TREC) program. Valuation also reinforces our Neutral rating as shares appear fairly priced on a SOTP analysis.

CEV protected from inflationary impacts

Mgmt. does not foresee any inflationary impact to Clean Energy Ventures' (CEV) pipeline given materials have been contracted through '22 – mgmt. sees more positive impact from the ITC extension (that was passed after NJR outlined its plan for CEV). As a reminder, the capital plan shifted modestly as certain in-service dates for Clean Energy Ventures (CEV) projects shift to FY22 given permitting and production delays related to the pandemic. Mgmt. now expects to spend between $96M and $118M in CEV vs prior expectation of ~$165M. CEV is also beginning to expand out of NJ in line with mgmt.'s plan announced during the Nov. 2020 Investor Day. CEV completed a solar project in CT and 1/3 of the FY21 & FY22 project pipeline capacity is expected by mgmt. to be out-of-state. Mgmt. sees out-of-state returns through PPAs that are similar to those of NJ's Transition Renewable Energy Certificate (TREC) program.

NJNG rate case remains key to watch in '21

We stress that the New Jersey Natural Gas (NJNG) rate cases through 2024 will be critical to the outlook as mgmt. is looking to recover 14c in IT spend, 27c related to the SRL pipeline, and 41c of maintenance, and cost of removal expenses. The '21 case is largely focused on recovery of the Southern Reliability Link (SRL) pipe. NJNG filed for a proposed rate base of $2.3B which excludes $308M related to SRL. SRL will be filed as a post-test year adjustment within six months of an order, but mgmt. noted the project could be completed by the time an order is received and be included in normal rate base. We believe there will be little contention on the pipe as it has received approval from the Board of Public Utilities (BPU) already and NJR has worked with the commission throughout the construction. A constructive outcome on this front is likely critical to helping assuage regulatory risks, in our view.

PennEast will likely remain upside until all items needed for Phase 1 are secured

NJR continues to exclude PennEast from its plan as the project's path forward is still uncertain (partners SJI and UGI still include at least phase one). We are more comfortable with the case in front of the Supreme Court on state's rights and eminent domain following support from the Biden Administration and the Solicitor General. The high court is expected to rule on the case by the end of June, and a FERC bifurcation decision is expected to follow – PennEast would also need Delaware River Basin approval for Phase One. We do not see mgmt. adding Phase One of PennEast back into plan until these items are secured. We note the project is already removed from guidance, so to the extent the project moves forward it could be a modest positive to EPS.

On energy services, the company highlighted that the assets that drove the outperformance this year were storage assets and not transportation assets, and suggested to take out the outperformance years to get a more normalized expectation – a Net Financial Earnings (NFE or adj. earnings) contribution of $18-22m.

NorthWestern Corp (NWE; B-2-7PO: $71)

We found our meeting with NWE to be especially interesting given the resource adequacy challenges of the West. While wildfires could very well pressure shares of smid-caps regionally once more this year, we see the backdrop of shortages across the reason and NWE's sharp lack of owned resources suggest potential for inflationary pressures to future procurement activity. Look for more robust discussion in coming months around impacts from Uri as well as Western activity. Nascent sales recovery trends appear a positive for shares with among the highest load sensitivity. On balance, given still modest ratebase growth, we maintain our Neutral rating but see an upward bias – offset by risk of acute forthcoming wildfire focus.

On track after strong 1Q and Generation Win

Latest discussions with management stressed confidence in its plan after both previously firming up the formal capex plan and with winning incremental spend from the MT generation RFP: We see the company on track following the strong start to the year to achieve their full year results of $3.40-$3.60. Management noted that new connections are up substantially with strong customer growth across their jurisdictions, but we see some lag still from C&I driven by a labor shortage as opposed to more discrete COVID concerns.

MT Preapproval Filing Imminent

We expect an imminent filing for preapproval in MT following the earlier RFP results for 325MW of dispatchable capacity – with the filing to include both the 175MW Laurel Generating Station Rice unit plant to be owned by NWE and the 50MW battery storage PPA. Recall the additional investment by the company is expected to drive an incremental $250Mn of spend over their current five year plan (with incremental equity of around $125Mn likely to keep credit ratings intact): we see the spend largely in '22-23 with in service likely towards the beginning of '24. If ultimately approved, this should elevate the company's 4-5% rate base growth and put NWE more comfortably in the 3-6% EPS growth target longer term. The filing is expected to exclude the five year hydro PPA that was the third component of the latest capacity RFP. Following the filing, the commission has 45 days to determine if the application is adequate – with potential for up to nine months until resolution: management is looking for an answer by the end of the year. If approved, we see the additional hydro and battery projects as further improving sentiment around NWE's carbon footprint in addition to the more quantitative benefits from the higher spend.

Our conversations this week further stressed the broader need for capacity in the state – particularly against the Colstrip uncertainty – and we see additional upside to owned generation out of subsequent RFPs as the critical question. We see governmental support for state owned generation, with forward prices up and expensive capacity in the broader Pacific Northwest. The thesis on capacity transition has been out there for some time; the question is whether we are on the edge of seeing a capacity 'catchup' be authorized in MT.

Outside of the pending preapproval filing, we further highlight regulatory efforts in connection with both adjustments to their PCAM and further delaying the implementation of their fixed cost recovery mechanism pilot in their Montana jurisdiction for another year until July 2022 (or beyond). While we see less concern around Colstrip after legislative efforts to revise coal fired generation laws in MT were tabled in committee earlier, watch the arbitration process for Colstrip too as it plays out.

We maintain our Neutral rating on shares, seeing a balanced risk/reward at the current valuation.

South Jersey Industries (SJI; B-1-7; PO: $27)

We met with SJI mgmt. including President & CEO Mike Renna, SVP & CFO Steve Cocchi, and other members of the executive team to dive deeper on a litany of items following SJI's update at its recent investor day. Mgmt. provided additional detail on how investors should be thinking about the robust nonregulated investment opportunity in RNG and fuel cells as well as an update on regulatory items including the Infrastructure Investment Program (IIP) and Liquified Natural Gas (LNG) redundancy project. We reiterate our Buy rating and continue to see a positive revision to shares as SJI begins to execute on its new plan.

Path toward an infrastructure company w/ utility at core

SJI's new long-term plan with significant investments in RNG expecting to spend $500M on RNG through its five-year forecast broken down by $280M in SJI's RNG DevCo to develop dairy farms and the remaining capital used to acquire more equity in REV LNG as it reaches EBITDA milestones. Mgmt. expects to own 100% of REV LNG by 2025 based on EBITDA growth forecasts. To the extent that REV is able to meet its EBITDA targets sooner than forecasted, SJI could see a positive revision in EPS given, contractually, the acquisition of more equity would be automatic once the threshold is hit (i.e. there is no discretion timing). Mgmt. is confident in its strategy on RNG given the market is not saturated and compared the RNG to the shale boom in the Marcellus – rig count climbed sharply and the market became saturated quickly whereas RNG has longer lead times and more steps before being able to bring fuel to market. SJI's strategy at its core will remain focused on the utility, but believes there are ample opportunities to invest in projects that provide returns well in excess of regulated returns and SJI is positioned well to capitalize on the opportunities.

What about legislation? A Senate Bill, S3526, in NJ would allow for rate basing of RNG at the utility. Mgmt. was very positive on the support that the bill has seen so far with two influential sponsors behind it. We note that it could be difficult to get the bill passed this session given the volume of other bills that are in front of the legislature. Mgmt. again highlighted that if the bill were to pass, it would reassess the amount of capital being deployed in unregulated projects and potentially shift some over to the regulated business. Mgmt. is cognizant of the delta between regulated and unregulated returns and will have to wait and see final bill language and regulatory implementation to make that decision. It is possible that mgmt. would have both regulated and unregulated investment. We will also be watching how the end markets for RNG grow and evolve. To be seen.

Fuel Cell investment will be the focus for renewables

Priority on the renewables business will be on fuel cells with a contract structure similar to NY's Value of Distributed Energy Resources (VDER) program with a counterparty that is willing to take the technology risk. SJI's fuel cell investment in 2020 has 75% of its revenues contracted under the VDER program and SJI's counterparty (Bloom) has guaranteed 95% availability. Mgmt continues to emphasize that the primary driver for investment in the space is to align with NJ state and local clean energy goals.

We anticipate the partnership with BE could very well prove upsized and could see further investments under this NY state structure. We note Bloom has announced multiple project partners under this program. We look to understand the nature of SJI's potentially expanded role with BE in coming months.

IIP and LNG redundancy remain key to watch from regulatory perspective

South Jersey Gas' (SJG) pending $742.5mn 5yr Infrastructure Investment Program (IIP) filing is still ongoing before the NJ Board of Public Utilities (BPU), and we model 60% of ask vs. SJI implied 50%. We think we could potentially see a higher approval % given the state's advocacy for safety and reliability investment as well as the need for supportive programs in the wake of the pandemic. As a reminder, SJG and Elizabethtown Gas (ETG) were recently approved for $133mn and $83mn, respectively, of energy efficiency over a three year period (nearly 80% of request). In total, 50% of utility investment earns a timely return. The LNG redundancy project is included in plan now that mgmt. has a clearer line of sight to commission approval by year-end and start of construction by the end of '22. Mgmt. noted recent events in TX and with the Colonial Pipeline strengthen their case for the project as they have limited connection points for supply.

Southern Company (SO; B-1-7; PO: $72)

Our meeting with SO mgmt. including EVP & CFO Drew Evans, SVP Finance & Treasurer Robin Boren, and Director of IR Scott Gammill revolved almost entirely around the progress at Vogtle Unit 3 following SO's announcement of a three week delay in HFT at Vogtle Unit 3 and the shift of the expected in-service date to 1Q22. We maintain our Buy rating as we see upside potential to our SOTP valuation, and see potential for further capex through fleet transition at core utilities. The company is in a key testing phase; we see scope for continued volatility through this process on any small concerns. Meanwhile, successful testing would be a positive catalyst for a rerate.

Delay in HFT; goal posts for completion shifted

Our meeting centered on the recent testimony from Southern Company (SO) in front of the Georgia Public Service Commission (GA PSC) on VCM 24. As a reminder, SO provided an update on the progress with Hot Functional Testing (HFT) at the hearing, and due to concerns of pipe spacing to structural support with thermal expansion, HFT has been delayed three weeks which in turn pushes fuel load to Sep. (from Aug.) and expected Commercial Operation Date (COD) officially into Jan '22 though this is assuming no more delays in the project – mgmt., more realistically, expects COD at some point in 1Q22. SO has taken temperature back down to be able to put up scaffolding, remove insulation, and reconfigure the structural support for the pipes to allow more room for thermal expansion. Though SO did not see thermal expansion outside of the limit, it is focused on completing work correctly rather than quickly and preemptively decided on the fix. After work is completed, SO will have to take the temperature back up again, but will not have to spend as much time at each threshold because data has already been collected. The plant will have to remain at the ~550 degree level for two weeks before the test can be deemed complete – as a point of reference, SO was operating at about half of that before taking the temperature down to make the adjustments for thermal expansion.

Some work on peripheral items (coating, HVAC, etc.) will be pulled forward while the thermal expansion fix takes place. SO has fully funded Unit 3 through the end of Dec., so each month COD is delayed after Dec. would add an incremental $25M to the project cost.

Another reason for the delay was the need to update control system logic for the reactor coolant pumps (RCP). SO had successfully ran each RCP individually, but when all were turned on, there was an issue with having them operate in tandem. The work took 5-6 days and has already been completed.

What about the spent fuel pond leak? SO will not be able to take delivery of any more fuel until the leak is repaired (1/3 of the fuel is currently on site), and site engineers believe they have identified the issue as a welding problem and have scheduled work to be completed by June, well in advance of the start of fuel load in Sep. What's next to track? Staff testimony on VCM 24 is due June 7 before a hearing on June 24. Staff will likely provide a timely update during the hearing on where SO stands in HFT. This appears the next critical timeline of relevant discussion for the project, especially with June 24th aligning roughly with current HFT completion timeline.

ITAAC NRC requirements appear more of an outcome of HFT than a risk themselves...

ITAAC completion is less of a concern for us at this point. The process at the Nuclear Regulatory Commission (NRC) only takes 2-3 weeks, and SO only submits an ITAAC if it fits within the parameters of the test – all but one ITAAC has been returned to SO for adjustment to date. Approx. 25% of the remaining ITAACs deal with HFT, while the remaining deal with fuel load or auxiliary items (i.e. HVAC, security, etc.).

After HFT and leading up to fuel load (currently scheduled for Aug.), what are the next critical items to watch? Work related to nuclear fuel and support systems (i.e. HVAC, communications, security, etc.). While there is still risk in completing these processes on time, only 10% or less of the work required between HFT and fuel load is safety-related and complex vs 60% for the work leading up to the start of HFT. SO has budgeted 130 days for fuel load but is aiming to complete the process in 110 days (vs Chinese fastest of around 112 days) - this could provide some extra buffer to the new expected COD though we note again SO's focus on completing work correctly rather than quickly.

Inflation more of a concern over the LT

What about concerns on inflation? Mgmt. is watching it very closely for the LT. In the near-term, there is less of a concern because the materials that are needed for Vogtle construction are on site and workers are already paid top decile wages. Mgmt. pointed to an example of a longer term impact in coal ash expenditures – SO has long-term assumptions for spending programs like coal ash, and any shift in inflation would impact that assumption.

WEC Energy (WEC; B-3-7; PO: $95.00) and MGE Energy (MGEE; A-3-7; PO: $69.00)

We held separate meetings with the mgmt. teams of WEC and MGEE and present our consolidated takeaways below given both companies' exposure to the state of Wisconsin and collaboration on generation + storage projects. We maintain our Underperform rating on both MGEE and WEC given high valuations we view as unsupported by each company's respective fundamentals.

Different rate review approaches in WI

MGEE and WEC recently made their latest rate filings, reflecting different cycles (and levels of reg risk in our view). WEC remains the most de-risked of the WI utilities having filed a stay-out through next year with status-quo ROEs (10.0% electric, 10.2% gas) and authorized equity at 50-55%, while reducing its earnings sharing band by 20 bps for 2022 only. MGEE recently filed a 2-year rate application with a 5.9% electric base rate increase and 3% for gas in 2022. Note the MGEE filing also includes a reopener for 2023 given several renewable generation projects are pending approval at the commission – we expect the reopener to be utilized upon approval of projects with an in-service target date in 2023 – these include the Paris Solar-Battery and Darien Solar-Battery projects, which in aggregate are expected to account for $88m of capex for MGEE. Note that given WEC's stayout filing, we expect its rate application filed in 2022 to include the same projects given its 90% stake, with MGEE a 10% partner.

Still runway for gen investment following Columbia

Both WEC and MGEE are partners in the Columbia coal plant which is scheduled to retire its Units 1 and 2 in 2023 and 2024. In contrast to WEC which has articulated a multi-year plan of generating capacity additions, MGEE has not disclosed its plans for generation needs beyond the projects that have been announced to date. Note that the four projects announced in late 2020 and early 2021 that are co-owned between WEC and MGEE account for ~120 MW of the 217 MW that account for MGEE's share of Columbia, leaving meaningful runway left for additional projects. MGEE's mgmt. has also discussed retiring its 50 MW combustion turbines and 100 MW Blount facility – while the time frame is not certain we note these extend the pathway for future renewable investments. While MGEE has not exercised its West Riverside option for a 50 MW stake and has until 2025 to do so, we see a clear preference for renewables given the company's track record over the past several years.

Inflation risks relatively muted for renewables

WEC's mgmt. sees little exposure to inflationary pressures – both from a labor and a materials standpoint – in its nonregulated Energy Infrastructure renewables projects. Contracts with developers are done on a fixed price, turnkey basis, with the developers bearing most risks from inflationary pressures. Note this largely echoes commentary across our coverage indicating inflationary pressures being generally in check.

Essential Utilities (WTRG; B-1-7; PO: $54)

We had a very constructive meeting with WTRG, focused on reconciling both its near-term debates as well as more critically understanding the company's hesitations around providing a 5-year view (akin to many of its peers) vs 3-years despite its de-risked backdrop. We see this simply as a matter of transition for CEO Franklin who has been in the role since 2015. Following years of transition with repairs tax and integration of the Peoples gas utility business, we see a period of relatively lower risk approaching. Specifically, we see few noticeable resets in earnings outside of potential gyrations in earned ROEs near authorized levels. We stress transitioning to a 5-year program would appear more of a discussion around simply developing a longer-term perspective on capital spending than addressing any core issues. We believe next Peoples Gas case could very well serve to provide this latest certainty on ROE at among its largest segments. We viewed this conversation as our most constructive of the conference despite no specific timeline on offering an extended view on its 5-7% EPS growth.

Muni Acquisition Opportunity Robust despite Protracted DELCORA process

Latest discussions with management continued to highlight the robust magnitude of municipal tuck in acquisition opportunities - and we do not see any slowdown in discussions despite potential for some federal relief. Pending transactions currently contemplate ~$450Mn of rate base with signed APAs expected to generate ~$22.5Mn of incremental annual earnings potential (with one additional deal that they have been selected as the winning bidder and are working to sign an APA). The magnitude of opportunities should limit concerns around the protracted DELCORA process, with resolution seemingly less likely by the end of the year. That said, we do expect management to pull on their equity forward that is coming due in August to finance the additional acquisitions with or without clarity around DELCORA. Despite the legal setbacks, management remains firmly confident around their ability to see the transaction to close.

The current acquisition pipeline outlined by the company contemplates pursuit of ~395K customers – with the majority municipal wastewater systems. While WTRG already enjoys FMV legislation across their entire water footprint, we think we could yet see expansion beyond the current states in which they operate: we see an appetite to potentially expand to KY given their gas operations in the state and constructive legislation that was just passed similarly allowing the company to buy assets at 1x rate base (with discussions suggesting other states too as possibly providing an attractive initial entry point given the backdrop). Meanwhile, we highlight legislation in PA similar to the Water Accountability Act in NJ that would put muni's under the Pennsylvania Utility Commission if they are out of compliance. Other states to watch for developments in coming months include OH with a new team in place and TX given a backdrop of robust growth (albeit with a bit more competitive of a dynamic).

While we do not see a particular desire from management to offer up a longer guidance trajectory than their current three year outlook, we nonetheless see a long tailwind of acquisition opportunities further supporting the long term growth outlook.

Watch PFAs Developments too under the new administration

We see potential developments from the Biden administration around a maximum level of PFAs with current status quo only contemplating a health advisory (as opposed to a strict enforceable standard) in place at the federal level of 70ppt. WTRG has already put in a stricter standard across their jurisdictions of 13ppt – the standard in New Jersey at the state level. While it remains less clear how quickly the EPA will act for a firmer threshold nationally, we see stricter standards and the burden on smaller utilities as only further driving acquisition opportunities for muni tuck ins.

We reiterate our Buy rating on shares of WTRG with increasing conviction in management's ability to consistently deliver and see the company as a prime beneficiary of further consolidation across the water industry. Meanwhile, we struggle to reconcile the sharp discount to peer AWK and stress the pipeline of water opp's to further dilute gas as a percentage of their biz. With a growing focus on ESG – and mgmt.'s proactive action around PFAs and emission reductions – we see this an underappreciated angle not reflected at the current valuation.

Unitil Corporation (UTL; B-3-7; PO: $49)

We met with UTL mgmt. including Chairman, President, and CEO Tom Meissner, SVP, Treasurer, and CFO Bob Hevert, and Director of Finance Todd Diggins to discuss the important electric and gas rate cases in NH, decarbonization across the footprint, and strategic opportunities. We reiterate our Underperform despite positive data points given very premium valuation – our impression is there is an M&A premium built into shares, however find any transaction to be challenging during a rate case.

Positive on NH rate cases, key to watch into '22

On the regulatory front, UTL is active with a multi-year rate case ongoing at its NH electric business, Unitil Energy Systems (UES), with new rates expected to be effective in 1H22. Mgmt. highlighted stipulation on temporary rates of $4.45m (vs ask of $5.8M). There has been a positive and complimentary response to the rate case, in particular with the transparency and clarity with all the effort to reduce bill impact. The staff overall feel positive about the case, with no unexpected or contentious on top of the usual technical issues associated with rate base or cost of capital. On UTL's NH gas business, Northern Utilities NH (NU NH), an earlier timeframe than 2H21 and simpler case with fewer issues is expected.

From a regulatory standpoint, UTL believes the focus right now is firstly – in terms of decoupling – by the time the rates are in effect, around 80% of their meters will be decoupled, and around 75% of their non-growth related capital investments will be recovered over the next three years, either through a tracking mechanism or though multiyear rate plans. They are therefore trying to obtain more certainty on cash flow and accelerate the recovery of their capital investments – in order to reduce the lag and difference between rate base growth and earnings growth over time. With regards to the multi-year rate plan, UTL believes this is a much quicker and more efficient process than filing serial rate cases, however they highlight one consideration with the plan where the incremental revenue requirements are limited to 2.5% of prior year's revenue.

No specific incremental investments on capital plan; growth rates on high-end

In respect to the capital plan, no specific incremental investments were called out so far but the company is looking at opportunities in renewable energy and sustainability. UTL highlighted their corporate goals for greenhouse gas emissions, with plans discussed for 2030-2050, and the investments required such as decarbonization of their fleet, their buildings and electricity usage etc. These investments are not currently reflected in their current capital plan which they aim to fully develop as part of their sustainability strategy in 2021.

Speaking about the range in growth rates (5-7% EPS/6.5-8.5% rate base growth), UTL highlights that they mostly expect growth rates on the higher-end of the range in the short-term through a combination of the recovery from the pandemic, increase in customer count, and improved recovery of rate base investments. Customer growth has been strong particularly in gas, with organic growth in in new construction and projects being permitted creating a pipeline for several years. Beyond this, UTL sees a lot of scope for gas conversions, especially in Maine, where 75% of the population are still using fuel oil or propane, and UTL intent to ramp up these conversions as well as expand into new cities going forward.

Decarbonization through RNG; work continues on legislative and regulatory front

UTL highlighted their commitment to use natural gas and RNG as part of their future energy supply considering the environmental benefits (especially vs fuel oil and propane). Electrification remains economically challenged in UTL's service territories given already high electricity costs – mgmt. highlighted studies that show 35 degrees is the breakeven point at which electrification matches the economics of fuel oil, however noted that electricity prices would have upward pressure if electrification were to expand causing the breakeven point to increase.

UTL expects to be able to implement long range supply planning to address the supply of RNG and to also ensure appropriate review and recovery of costs through legislation and/or regulation. Before UTL would look at potential investments in RNG (regulated or nonregulated), UTL would want implementation of tariffs to allow for recovery of supply costs. Once mechanisms are established UTL would then look into investing and developing these projects. There is a bill pending in Maine that may or may not go forward in the current legislative session that would enable them to move forward with this.

Consolidation remains a possibility in time; private money looks more willing to stomach high valuations

We note a unique fact pattern with respect to Caisse de Depot et Placement du Quebec (CDP), a Quebec government pension fund, owning ~6.3% of UTL as well as adjacent Vermont Gas (under its wider ownership of Energir, the Montreal based parent which also runs the Gas Metro LDC in Montreal).

We caution against immediate expectations around what this latest stake (December disclosure) implies. We see any further consolidation between these two entities as challenging to carry out during its more meaningful pending NH electric rate case given the process and drag on earned ROEs presumably.

Again, UTL expects new rates expected to be effective in 1H22 for UES and 2H22 for NU NH, so we think it could be difficult to conduct anything strategic until the processes are complete. A good example of this dynamic is with the failed Avista and Hydro One deal. It will likely take Avista until 2023, four years after the termination of the deal, to return closer to their authorized ROE. On the other hand, we have seen private interest in the space tick up with Summit Utilities acquisition of Centerpoint's (CNP) Oklahoma and Arkansas gas utilities and GIC's minority stake acquisition of Duke Energy Indiana so some puts and takes indeed. We do not see UTL as a buyer at recent high valuations.

In terms of the targeted dividend payout ratio (55-65%), UTL is comfortable with that range as well as maintaining the dividend growth rate and capital investment plan currently in place. As for FFO/Debt metrics, UTL is focused on this and has some incremental equity in plan though the vehicle for the equity is still undecided.

Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AEE	AEE US	Ameren Corp	US$ 84.21	A-1-7
ED	ED US	Consolidated Edison	US$ 77.98	A-2-7
D	D US	Dominion Energy	US$ 76.98	A-1-8
DTE	DTE US	DTE Energy	US$ 138.8	B-3-7
WTRG	WTRG US	Essential Utilities	US$ 46.42	B-1-7
MDU	MDU US	MDU Resources	US$ 33.53	B-1-7
MGEE	MGEE US	MGE Energy	US$ 74.74	A-3-7
NJR	NJR US	New Jersey Resources	US$ 42.51	B-2-7
NWE	NWE US	NorthWestern Corp	US$ 62.96	B-2-7
SJI	SJI US	South Jersey	US$ 25.74	B-1-7
SO	SO US	Southern Company	US$ 63.98	B-1-7
UTL	UTL US	Unitil Corp	US$ 55.63	B-3-7
WEC	WEC US	WEC Energy Group Inc	US$ 94.87	B-3-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Ameren Corporation (AEE)

Our $91 price objective is predicated on a P/E based sum of the parts, valuing each business subsidiary relative to the 2023E ratebase weighted peer multiple of 17.9x for electric.

We apply a 2.0x premium to peers at AEE Missouri to account for the improving prospects of capital spend, supplemented by a regulatory jurisdiction becoming more favorable - but lack of decoupling.

We apply a 2.0x premium to peers at AEE Illinois to account for decoupling on the distribution business which aids in earnings predictability. The overall business is expected to grow at a more meaningful clip than that of peers - we see a 10% EPS CAGR at IL 2020-2024. At ATXI, we apply a 4.0x premium to peers to reflect the FERC ROEs.

At the Parent, we assume 2.0x multiple premium reflecting average of the subs and given the healthy debt metrics with FFO/Debt at 17%+. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector.

The risks to our price objective are the utilities earning their allowed returns or worse, a significant change in 30-year U.S. Treasury bond yields, and adverse regulatory outcomes that could impact mgmt's ability to earn its allowed return

Consolidated Edison (ED)

Our $76 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples 18.0x/16.5x for electric/gas respectively with a -3.0x disc. to Electric, Steam, & Gas to reflect Covid recovery overhang and Steam for lack of decoupling. Both electric and gas peer P/E multiples are grossed up to 2023E by 5% to reflect capital appreciation across the sector. We further apply an EV/EBITDA approach on 2023E EBITDA to the CEB business using a 10.0x multiple for both the legacy portfolio and the renewables portfolio seeing it as having higher quality returns. Downside risks: ED, like all utility stocks, is also sensitive to changes in the market level of interest rates. Utilities historically underperform if bond yields rise, and outperform when they fall. Further downside risks are the inability to recontract storage, adverse regulatory outcomes, a deteriorating regulatory environment, or unforeseen disasters such as the Harlem gas explosion, the SRE transaction not being completed. Customer inflation is also a downside risk. PCG related counterparty exposure is among the nearest exposures to watch.

Dominion Energy (D)

We use SOTP to derive our $86/sh PO. Utilities: We value VEPCO at 4x prem multiple to elec. peers of 18.1x '23 P/E and 16.5x w/ 3x prem on our '23E P/E to D's portfolio of gas LDCs (East Ohio, Hope Gas (WVa), and Questar (UT)). Mults are grossed up to by 5% to reflect capital appreciation. We value Wexpro at 10x disc to gas utility peers for declining rate base/ROEs and reg. risks. We ascribe a 3x premium multiple for SCANA legacy utility assets, and a 2x disc. for the NND asset. We also net out NPV of ongoing bill credits. Merchant: We apply an 8x FCF multiple for Millstone and separately apply a 100% wt to our NPV est of the ZCP cash flows. We include the full EBITDA from the contracted renewables with a 16x '23 EV/EBITDA multi in line with peers. Cove Point: We apply an NPV approach with to our DCF adjusted for the 50% sell-down in the facility. For remaining debt beyond that allocated to state utilities, we incl a 50% wt towards a str netting of leverage, with the remaining 50% using a P/E multiple on associated interest expense, in line with the methodology employed for more highly levered diversified utilities.

Downside risks: increase in rates, capex below assumptions, unconstructive regulatory outcomes, delays and/or cancellation of key projects vs our expectation.

DTE Energy (DTE)

We value DTE Energy at $131 using an SOTP approach.
We value the utility segment on a 2023E forward P/E multiple basis and the non-utility seg. on a 2023E forward EV/EBITDA multiple basis. For the utility segment we apply a 3x premium to both our reg. electric and gas utility peer multiples (of 17.9x and 16.4x, respectively). Both electric and gas peer P/E multiples are grossed up for a year to 2021 by 5% to reflect capital appreciation across the sector. We subtract out Corp & Other expense excl. interest rate.
For GSP we use a midstream peer group multiple of 9.0x. P&I, we apply an 8x EV/EBITDA multiple, despite the lower quality of these earnings and opaque disclosures, as mgmt has been able to execute on new project origination. We value the reduced emissions fuel (REF) tax credits separately using a DCF methodology at 6% discount rate.

Upside risks to our PO are capex expansions, higher authorized ROEs, and strong performance in the ET segment. Downside risks are interest rate hikes, execution risk on organic growth initiatives at the nonregulated business, and less favorable regulatory environment.

Essential Utilities (WTRG)

Our price objective is $54 based on our SOTP approach, applying a peer multiple to the water utility and gas utility, respectively and accounting for expected growth for each sector. These peer multiples are 28.2x and 16.5x. We apply a 3.0x premium to Peoples Gas given the organic growth opportunities, while applying a variety of premiums to its water (2x previously) subsidiaries: +4x to PA, +3x to IL, +2x to OH, +2x for TX, +2x for OH, and no premium for balance of biz. We net out parent debt and parent interest expense associated with parent debt 50/50 weighed basis.

Risks to the downside are acquisition risk, deteriorating regulatory outcomes, and risks from a lower rerating following the diversification into gas.

MDU Resources Group, Inc. (MDU)

Our $39 PO is derived from SOTP. At the regulated electric and gas utilities, we use a P/E approach on our 2023 estimates and use peer multiples of 18.0x for electric and 16.5x for gas, respectively with a -1.0x discount for each reflecting below-peer rate base growth of 5% through 2025, we then gross this multiple by +5% to account for sectorwide EPS growth to derive a 12-month forward PO. We value the Construction Materials business using a '23 EV/EBITDA estimate, applying a multiple of 9.7x based on an average of several publicly-traded peers in the cement, asphalt, and aggregates business. We value the Construction Services business using a '23 EV/EBITDA estimate, applying a multiple of 9.7x based on an average of several publicly-traded specialty construction services peers. We also apply a -1.0x valuation discount reflecting the high level of competition in the space. We value the Pipeline business using a '23 EV/EBITDA est., applying a multiple of 10.0x based on an average of several publicly-traded midstream peers. We also apply a -1.0x valuation discount reflecting execution risk around the North Bakken expansion which is slated for construction in 2021. We net out total parent drag and add back the remaining parent interest expense with a 50% weighting. Upside risks are higher utility capex, improving margins at the construction business, and infrastructure stimulus. Downside risks are a macro downturn pressuring construction margins, and rate case outcomes.

MGE Energy (MGEE)
Our $69 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples (18.2x/16.7x for electric/gas respectively) with a 3.0x premium on WI regulated gas and electric to reflect the constructive regulatory mechanism, and a 3.0x premium on Transmission assets. We note that both electric and gas peer P/E multiples are grossed up for a year to 2021 by 5% to reflect capital appreciation across the sector. We apply utility premiums to the non-regulated Elm Road and West Campus assets as these are leased under long-term contractual arrangements. Downside risks: MGEE, like all utility stocks, is sensitive to changes in the market level of interest rates. Utilities historically underperform if bond yields rise, and outperform when they fall. Further downside risks are the inability to secure further renewable rate base investments, adverse regulatory outcomes, a deteriorating regulatory environment, or adverse weather leading to less consumption of electricity and gas. Upside risks are acceleration of renewable gen investment, legacy coal asset early retirement, and enactment of further pro-renewable state policies.

New Jersey Resources Corp (NJR)
Our $43 PO is off our 2023E SOTP, based on gas peers of 16.5x. For non-reg biz, we apply a 12.0x multiple plus a 1.0x premium to account for the derisked nature of the AMAs. For Midstream, we capitalize EBITDA at 9.0x while weighting PennEast by 0% given uncertainty on full project execution (as mgmt. has removed this from its outlook). For CEV, we value CEV PowerCo for existing assets and DevCo assets to be deployed separately. We separately value DevCo assets to be deployed for '21 through '25 at NPV of unlevered FCF including upfront system install cost and ITC value for new deployment. We also value SREC balance that CEV has yet to monetize. We apply a 4.5% unlevered discount rate to project level CFs in-line with our discount rate for resi solar service providers. We incl. three additional years of DevCo NPV ('26-'29) with terminal value based on post-ITC step-down trough volumes/economics in '29 ('27 prior) and maintain our 4x terminal value. We also attribute a 75% weighting for the full value of DevCo NPV for '24+. We assume 75% based on a likelihood of some action on ITCs. For parent, we apply a 50/50 weighting for holdco debt/interest expense for re-capitalization purposes.

Upside risks: Constructive regulatory outcomes, decrease in interest rates, incremental capex opportunities, and extension of subsidies

Downside risks: Poor regulatory outcomes, increase in interest rates, and lower capex.

NorthWestern Corporation (NWE)
Our $71 price objective is based on a 1.0x discounted multiple to the 2023E peer multiple of 17.9x on our 2023E EPS given higher risk and slower growth. We note that electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector.

Downside risks to our price objective are 1) adverse regulatory outcomes, 2) inability to recover costs via the traditional mechanisms, 3) changes in the Commission constructs, and 4) further equity dilution. Upside risks are 1) improvement in regulatory environment 2) capex increases.

South Jersey Industries (SJI)
Our $27 PO is premised upon our SOTP analysis where we utilize a 16.5x peer Gas LDC utility P/E to SJG and ETG on '23E EPS. We apply a 12x P/E to SJEG/SJES non-regulated earnings stream given variability and limited transparency. For the solar investments we utilize a NPV of investment tax credits at a 4.5% discount rate (in line with peers) to capture the transitory nature and eventual roll-off. We apply a 9x EV/EBITDA to PennEast and assume full project economics in our EPS assumptions, although net out 50% weighting. We utilized a DCF for RNG with NPV of cash flows at 7.4% discount rate. For parent debt we net out 50/50 weighting for re-capitalization and add back 50% of parent interest expense.

Downside risks: Interest rates move higher, poor regulatory outcomes, lower capex levels.
Upside risks: Interest rates move lower, constructive regulatory outcomes, incremental capex opportunities, further credit latitude.

Southern Company (SO)
Our $72 PO is derived from a SOTP. We use a P/E val approach on 2023 and use peer multiples of 17.8x for electric and 16.4x for gas, respectively (with dis/prem applied per asset depending on growth/risk): we then gross this multiple by +5% to account for sectorwide EPS growth to derive a 12-month forward PO. We subtract 50% of the 2023 parent interest expense multiple by an electric P/E peer multiple to reflect parent lev supporting the utilities. We net out total parent drag and add back the remaining parent interest expense with a 50% weighting. Both electric and gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector.

Upside risks are: 1) Regulatory outcomes or RO's could be better vs expectations, as exposed to multiple state jurisdictions 2) Additional riders and capital trackers can help the company achieve better than expected ROE, but failure to get riders would hurt SO 3) The nat. gas related biz are relatively new and could prove more or less able to earn an ROE in line with or different from their allowed ROE, 4) high capital forecasts and subsequent earnings streams vs our assumptions.

Downside risks are: 1) Regulatory outcomes or ROE's could be worse than expectations, particularly since exposed to mult. state jurisdictions, 2) SO has exposure to Vogtle which could shift earnings, 3) Weather patterns could influence usage or natural disasters could affect system reliability 4) Utilities are subject to interest rate risk.

Unitil Corporation (UTL)
We value UTL at a $49 PO based on a 2023e forward P/E basis using a utility group multiple of 17.8x for electric and 16.3x for gas. Also, we apply a 1x premium to our weighted peer multiples to align with MA comps and capture electrification upside. Both electric and gas peer P/E multiples are grossed up for a year to 2023 by 5% each to reflect capital appreciation across the sector.

Risks to our price objective on the upside are capex updates around MA gas pipeline replacement, regulatory asks around ROEs, and M&A. On the downside, risks are interest rate risk which could reduce the appetite for M&A, regulatory challenges and mild weather.

WEC Energy Group Inc (WEC)
Our $95 PO is based on 2023E SoTP, with a large cap electric group multiple of 18.2x and gas regulated multiple of 16.7x. Electric and gas peer P/E multiples are grossed up for a year to reflect capital appreciation across the sector. We apply a 3.0x premium to WEC's WI electric & gas subs for surety in earnings growth for the next two years following the Commission's recent settlement on above avg ROEs of 10%+. We apply a 1x premium to the gas utilities, incl IL's Peoples Gas and North Shore Gas with the Gas System Modernization Program (GSMP) and capex forecasts de-risked following the ICC order. We ascribe a 3x premium vs. the group at ATC to account for steady earnings growth as well as above avg ROE's that are set at a federal level by FERC. We give Power the Future (PTF) a 1.0x premium multiple as the ROE is set indefinitely on historical and new investments. We ascribe an in line multiple for the parent accounting for the interest expense which finances overall utility operations. We value Energy Infrastructure investments on a net present value basis using a WACC of 3.5%, in line with other renewable asset operators. We net out 50% of HoldCo debt from equity valuation and adjust to add back the parent drag on interest exp. Upside risks: stronger than expected execution and accelerating capital oppty. Downside risks: inability to achieve historical track record on cost cutting and to scale regulated investments given growing portion from contracted renewables.

Analyst Certification

We, Julien Dumoulin-Smith and Dariusz Lozny, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Aric Li
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
NEUTRAL				
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	77	48.43%	Buy	56	72.73%
Hold	43	27.04%	Hold	31	72.09%
Sell	39	24.53%	Sell	23	58.97%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1909	58.54%	Buy	1218	63.80%
Hold	653	20.02%	Hold	395	60.49%
Sell	699	21.44%	Sell	356	50.93%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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BofA GLOBAL RESEARCH

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What stood out from Day 2 of Virtual AGA?

We present detailed takeaways from Day 1 of the Virtual American Gas Association (AGA) conference, including presentations by **AQN, ATO, AVA, BKH, CMS, DUK, ES, NWN, OGS, SR, SWX, UGI & XEL**. Notably positive meetings included **BKH, SR** as well as confidence from **ES** on an improving backdrop in CT, if not with the PURA directly. We still see numerous challenges and need to see execution confidence, but we see the overall tone yesterday as an improvement. See our report on Day 1 takeaways including: **AEE, D, DTE, ED, MDU, MGEE, NJR, NWE, SJI, SO, WEC, WTRG** and **UTL.** We expect additional positive 2Q updates to drive FY21 guidance higher after clear success in 1Q.

Load growth strong while inflation at bay - continues

CMS reiterated that it sees '21 as off to a very strong start with meaningful upside vs. its plan with latitude to de-risk '22; in the near term the much-anticipated resource plan is expected in June with expectations for additional renewables and accelerated coal. **XEL** indicated improving and constructive regulatory relationships, with the expectation of filing a rate case in CO along with constructive staff testimony in its pending NM rate review; look also for additional data points on MISO transmission upside later in the year. **DUK** again addressed the challenges of Elliott's proposal to split the company into three publically traded holdcos, including regulatory concerns, credit implications and the need for incremental equity, the dis-synergies, and the impact on the dividend. Mgmt. continues to see positive momentum on comprehensive energy legislation in NC – look to the summer to see something introduced. For **ATO** and **OGS**, focus near-term is on the successful passage of securitization in TX. The TX Senate Committee on Natural Resources & Economic Development heard HB1520 yesterday evening and plans to vote on the bill in the lt. governor's press room at 9:00AM CT today. We expect the bill to pass through committee given positive commentary during the hearing. **AVA** provided an update on the Department of Natural Resources report on the Babb Road Fire, and mgmt. was not surprised by the Staff recommendation in its Washington rate case – this case, and others, will be key for AVA's near-term guidance. **NWN** continues to assess RNG projects in Oregon pursuant to SB98 and is conservative in what it bakes into its capital plan. There is clear upside to mgmt.'s target, but by how much? We continue to await more clarity and more on the strategy for water expansion. **SR** received the staff recommendation in its Missouri rate case that we believe sets them up well for settlement negotiations. We will be watching the strategy for RNG expansion closely, especially given the recent passage of legislation in MO that allows them to rate base RNG investments. **SWX** is gearing up for its tracker filing later this month. We continue to see Arizona as a particularly negative jurisdiction and remain cautious on SWX's ability to recover costs. **We resume coverage of UGI** following the announcement of the equity units and are bullish on the renewables opportunities in front, although we remain Neutral as we await more concrete details on how the investment affects the LT growth target and more detail on each segments' contribution to the growth target. One question came up repeatedly in our meetings: is there any ability to monetize scrap metal from pipe replacement at elevated price levels? And the short answer is no, the pipes remain in the ground when being replaced.

21 May 2021

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United States
Electric Utilities

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Stock Symbols:

AQN: Algonquin Power
ATO: Atmos Energy
AVA: Avista Corp.
BKH: Black Hills Corp.
CMS: CMS Energy
DUK: Duke Energy
ES: Eversource Energy
NWN: Northwest Natural
OGS: ONE Gas
SR: Spire
SWX: Southwest Gas
UGI: UGI Corp.
XEL: Xcel Energy
AEE: Ameren Corp.
D: Dominion Energy
DTE: DTE Energy
ED: Consolidated Edison
MDU: MDU Resources
MGEE: MGE Energy
NJR: New Jersey Resources
NWE: NorthWestern Corp.
SJI: South Jersey Industries
SO: Southern Companies
WEC: WEC Energy
WTRG: Essential Utilities
UTL: Until Corp.

See abbreviations of industry terms on page 2.

Contents

Abbreviations:
PURA: Public Utility Regulatory Authority
FERC: Federal Energy Regulatory Commission
LDC: local distribution company
IRP: independent resource plan
MISO: Midcontinent Independent System Operator
RNG: renewable natural gas
PPA: power purchase agreement

Algonquin Power & Utilities (AQN)

Inflationary pressures not apparent in the renewables business just yet

Latest discussions with management suggest that inflationary pressures are not yet apparent in the renewables business – echoing the commentary from other developers throughout the conference. Commentary suggested more concerns about delays from interconnection as opposed to higher freight costs or logistic complications. Overall, we perceived few concerns – with expectations to pass on any higher input costs at the regulated business and higher offtake prices for PPAs while they see the Biden administration as further enabling opportunities for their business overall. While management doesn't expect returns to be diluted, we watch competitive dynamics critically and see the direct pay component from any legislation as potentially adding further pressure to competition.

Commentary from management further stressed confidence in the LT plan to grow EPS at 8-10%, with the bulk of the capital front-end loaded and projects thus far coming in on time. Any further complications in supply chain appear more likely to impact the development pipeline if sustained. While potential projects could get pushed back, we highlight the enhanced latitude given the tax credit extension providing some support. Execution remains our principle concern for AQN in particular.

With management previously noting that they recently advanced four Permian projects from the evaluation phase through the development phase related to their Chevron partnership, watch for additional developments later this year with the projects not formally contemplated in their $9.4bn plan.

Despite the latest affirmation by AQN, we remain concerned about the ability to achieve '21 EPS guidance of 71-76c after the challenging start to the year (albeit management maintains the ability to self-monetize tax credits) and given the protracted NYAW (New York American Water) process (recall the Winter Storm Uri impact is already excluded from adjusted results). Management nonetheless remains confident that the deal will close: this remains a key swing factor to EPS, in our opinion.

Following the CNP (CenterPoint Energy) transaction at 2.5x rate base, it remains less clear if AQN will continue to pursue acquisitions at the same pace if elevated valuations continue. Despite the recent Chilean acquisition, we would believe the bulk of focus will be more North American oriented but limited commentary was provided about how to think about the partnership with AY (Atlantica Sustainable Infrastructure).

Contemplating Uri Recovery

After the company previously announced ~$200mn of elevated costs at their utilities with the bulk of it in Missouri, management shied away from commenting on any recovery period as they start initial discussions with regulators – but we stress the magnitude relative to the number of customers and highlight securitization potential in Missouri. Watch both implications from credit agencies through the rest of the year and overall cap structure given potential scrutiny at the holdco level.

Meanwhile, the company is in discussions about mitigating the ~$50mn impact at the regulated business after asserting *force majeure* – albeit we would expect a years-long process if they ultimately enter into dispute and generally see mitigation efforts as an uphill battle.

We maintain our Underperform rating: consistency & quality of EPS execution remains a key focus of improvement to drive the track record.

Atmos Energy (ATO) & ONE Gas (OGS)

We consolidate our comments on ATO and OGS given the overlap in regulatory jurisdictions and similar current events/considerations following Winter Storm Uri. We met with (1) ATO senior mgmt. including President & CEO Kevin Akers, SVP & CFO Chris Forsythe, VP of IR and Treasury Dan Meziere, and VP of Pipeline Safety John McDill; and (2) OGS President & CEO Pierce Norton, SVP & CFO Caron Lawhorn, SVP & CCO Curtis Dinan, SVP & COO Sid McAnnally, and Director of IR Brandon Lohse to discuss the latest on TX securitization, which was heard in Senate committee last night and will be voted on this AM (we believe the legislation will go through given testimony from parties at the committee hearing), ratings agencies treatment of the debt, potential incremental capex opportunities from reliability and resiliency, and sustainability and RNG. All around, positive momentum on legislation and de-risking of impacts from Winter Storm Uri, but we continue to see Neutral as an appropriate rating for ATO given our view that risk/reward is balanced at the current 0.6x premium to gas LDC peers. We maintain our Underperform rating for OGS given the relative gas costs and slight premium to the group.

TX bill to be voting out of Committee this AM

The TX Senate Committee on Natural Resources & Economic Development heard HB1520 (LDC securitization of extraordinary gas costs from Winter Storm Uri) yesterday evening and plans to vote on the bill in the lt. governor's press room at 9:00AM CT today. The Senate committee made a couple of tweaks to the bill that was passed in the House, including allowing more time for the Texas Public Finance Authority (TPFA) to issue the financing, more clearly defines each agency's role in implementation, limits the scope to just the extraordinary costs from Winter Storm Uri, and orders a study by the Railroad Commission (RRC) to analyze the advantages and disadvantages of spot market gas purchases during a catastrophic weather event that may contribute to volatile customer rates. We expect the legislation to be voted out of committee and onto the Senate floor given there was no objection from any party during the hearing. Much of the hearing was more of an educational process to discuss why securitization is beneficial for customers. As a reminder, the RRC will have 90 days to review the prudency of the costs before the TPFA will start the process of issuing the bonds. In OK and KS, the Oklahoma Corporation Commission and the Kansas Corporation Commission will each have 180 days to review the costs before the process to issue the bonds will begin.

What about the recovery period? We think that given the securitization, the recovery period will be on the longer-end in TX and OK (for OGS) (20+ years), but not the full 30 years that is allowed by the legislation as customer bill impact does not change as much as the time period is extended on the long-end. In KS for both ATO and OGS, we believe the recovery timeframe could be a little bit shorter given the utilities are the ones issuing the bonds.

The ratings agencies' treatment of the securitized bonds will be particularly relevant to track considering implications on potential dilution. S&P already does not include securitized debt in its credit metric calculations, but Moody's will look through special purpose entities and pull the securitized debt into its metrics. However, with the TPFA issuing the bonds, and ATO just collecting for the bond, there is no special purpose entity to look through. It remains to be seen if Moody's will still include the debt in its calculations, but discussions will kick off after the legislation is passed.

The equity portion of the capital structure is expected to be improved after securitization, which is important given ATO earns on actual capital structure in many of its jurisdictions. For ATO, the securitized bonds will replace the $2.2B Winter Storm Uri financing, and the equity cap would move back to ~60%. OGS is on track with their Oklahoma rate case to be filed by June 30, which will be a 2020 test year and therefore not directly impacted by the storms.

Capital plans solidified w/ potential upside in time from reliability

Given our view that securitization will allow for an extended recovery period, we believe both ATO and OGS' capital plans are not at risk. Both companies highlighted their post-mortem review of their own operations to minimize supply issues and extreme pricing in the event of future severe weather. With considerations such as whether they need additional storage, have all interconnects in place, making sure they have high enough supply of gas, LNG/CNG (liquefied natural gas/compressed natural gas), possibility of bidirectional flow and others, ATO and OGS have been looking to harden their supply and therefore fare better as a result during those conditions. OGS highlighted that they have a review in process in place that could evaluate their system and response to any extraordinary event in the industry, in order to compare practices and processes and identify learning opportunities or optimization in both short and long term.

Expansion of RNG likely to remain focused on integrating supply into the system

ATO continues to evaluate the RNG market for additional blending into the system; currently, only ~2% of ATO's volumes are RNG. While we are very bullish on RNG in general, we do not see any unregulated investment at this time; rather the only incremental investment would be for interconnections with producers and spending to integrate the fuel into the system.

OGS is exploring RNG with its recent partnership announcement with Vanguard Renewables. The alliance is currently assessing both the supply-side (i.e., dairy farms in OGS territory) and the demand-side. While we are very bullish on RNG in general, we did not get the sense that mgmt. was seeking any unregulated investment at this time; rather the only incremental investment would be for interconnections with producers and spending to integrate the fuel into the system - OGS is weighted heavily toward residential, so there is less opportunity to provide large volumes of RNG to C&I (commercial & industrial) customers. This stance on unregulated RNG investment may change as the market develops, but we do not expect an announcement on any projects in the near term.

Avista Corp (AVA)

Our meeting with AVA mgmt., including President & CEO Dennis Vermillion, VP, Controller & Principal Accounting Officer Ryan Krasselt, and IR Manager John Wilcox, to discuss the recent DNR (Department of Natural Resources) report on the Babb Road Fire, the ongoing rate case at WA and the staff recommendation that we see as relatively less constructive, the supportive MYRP (multi-year rate plan) legislation that was recently passed in WA, the lawsuit challenging MT statute on Colstrip, and the WA gas and electric IRP. We reiterate our Underperform rating given valuation, regulatory execution risk, and relatively more restrictive jurisdictions – shares trade at a 0.4x premium to SMID cap peers on FY23 despite having relatively higher regulatory risk and relatively lower growth (4-6% absent the improvement of earned ROEs).

Babb Road Fire updates

Mgmt. provided an update on the Washington Department of Natural Resources' (DNR) report on the Babb Road Fire that covered ~15,266 acres and destroyed 223 structures. As a reminder, there was no injuries or deaths caused by the fire. The report found that (1) the fire was ignited by a tree branch falling onto an AVA distribution line; (2) the tree was 30 feet from the center of AVA's distribution line and was 20 feet beyond AVA's right-of-way; and (3) the tree showed damage from porcupines, scarring from a lateral branch/leader breaking off in the past, and some past signs of Gall Rust disease. The DNR concluded, "It is my opinion that because of the unusual configuration of the tree, and its proximity to the powerline, a closer inspection was warranted. A nearer inspection of the tree should have revealed the cut LBL ends and its previous failure, and necessitated determination of the failure potential of the adjacent LBL, implicated in starting the Babb Road Fire." AVA's investigation is still ongoing, and there has been no assertion of negligence on AVA's end at this point. Also, no material claims have been made as a result of the fire. We are headed into what could be another very active fire season, and while the PacNW is positioned slightly better than Cali, we remain cautious on the ongoing fire risk for AVA.

UTC Staff low on ask but expected by mgmt.; MYRP is potentially supportive

AVA has two large rate cases in front of them in WA and ID, where progress is in the early stages, but we see the ultimate outcome as crucial to near-term guidance. The Washington Utilities and Transportation Commission staff recently recommended a rate increase of $7.23M based on an ROE of 9.3% and equity layer of 48.5% (vs ask of $44.183M rate increase based on a 9.9% ROE and 50% equity layer) – the staff also recommended a number of pro forma rate base disallowances. We believe that, while the ROE looks fair, the equity layer and rate base disallowances are negative – mgmt. stated that the staff's recommendation was expected.

AVA will file in OR in 2H21 and must file at AEL&P by Aug. 30, 2022.

We perceive execution risk to regulatory outlook that is crucial to AVA's medium-term guidance, although see the passage of the multi-year rate plan (MYRP) legislation (SB 5295) to potentially help enable ability to earn closer to authorized ROE levels. As a reminder, SB 5295 will move utilities to two to four year MYRP, takes the first steps toward PBR, and could help reduce regulatory lag. Still with WA a historically restrictive jurisdiction, we await further detail as the Commission works through the rulemaking process.

We stress while the multi-year rate plan path is constructive; the key risk is establishing an appropriate baseline. We could see more frequent cases despite newfound latitude of MYRP if upfront ask is not granted at appropriate level. We stress commission support for MYRP structure altogether is admittedly a positive backdrop to the case despite the more punitive staff recommendation.

IRP outlines de-carbonization path

In early Apr., AVA filed its 2021 electric IRP in both WA and ID with a goal to serve customers with carbon neutral electricity by 2027 and 100% renewables by 2040 - 55% of AVA's current generation mix is hydropower, biomass, wind, and solar. Pursuant to the IRP and 2020 RFP for up to 300 MW of clean, existing or new, generation resources, AVA signed a PPA with Chelan County Public Utility District (PUD) to take 5% of the hydropower output from two of PUD's Columbia River projects for the years 2024-2033. AVA continues to evaluate projects that were submitted to the 2020 renewables RFP.

Mgmt. spoke on RNG as a pathway for decarbonizing their gas footprint, but stated they are only looking at it as a utility resource to integrate into the distribution and not as an opportunity for unregulated investment in production. We will monitor if this commentary changes as the market develops, especially in the PacNW where RNG has strong political support.

Lawsuit on MT Statute around Colstrip?

Mgmt. discussed the ongoing legal action over the recently signed legislation (SB 265 and 266) that could harm AVA's ability to exit Colstrip by 2025. The bills would (1) impose a $100k/day fine for not investing the required capital or share in the operating costs of an electrical generating facility; and (2) change any arbitration hearing on a MT generation facility to the state of MT – essentially granting home field advantage. Mgmt. believes both bills are unconstitutional and we will continue to track progress on this front.

Black Hills Corp (BKH)

Contemplating Colorado & the Outlook from Here

After their earlier rehearing-reargument-or reconsideration request in Colorado was denied, latest discussions with BKH management suggested optimism about the ability to reach constructive outcomes in the state. We believe discussions in the state have been constructive thus far, with the company filing a similar case as previously filed, albeit with the integrity rider isolated and currently under review: watch for a decision about the rider toward the end of June for an initial sense of the overall regulatory and political backdrop given the new commission members and more alignment with the governor as of late. Recall the company is abandoning consolidation efforts, which should further simplify the rate case. While the case covers capital through 2020, authorization of the rider would cover eligible capital retroactive to the beginning of this year and remains critical to reducing lag. Meanwhile, the company is also getting ready to file a rate case in Iowa.

We continue to highlight the elevated rate base opportunities and best in class SMID-cap EPS CAGR of 5-7% over time with management confident in achieving a run rate of \$600mn plus in annual capex (for a total of ~\$3bn vs. the formal base plan of ~\$2.7bn). The bulk of the incremental spend above the base is related to programmatic spend at the gas utilities – and with upcoming ERPs for SD and WY in July, we perceive potential for some years of the current plan to further surpass \$600Mn and provide longer trajectory of opportunities too. Meanwhile, a transmission pathway remains another novel angle after the earlier filing by XEL and with management keen to connect their three utilities. Expect more on this in subsequent quarters.

Overcoming the Storm Impact & Regulatory Processes from Here

With their 1Q update, management reaffirmed their full year guidance for both 2021 and 2022 of \$3.80 to \$4.00 & \$3.95-\$4.15, respectively, despite a challenging quarter and ~15c adverse impact from Winter Storm Uri. The company expects a 5c pickup through regulatory initiatives, with filings in all of their states except KS so far given prioritization of the rate case request in the state. Critical questions remain around the carrying cost for recovery (WACC or debt) and ultimate recovery period. While the recovery period for SD is over 12 months, we perceive some much longer timelines up to five years for KS and AR.

That said, management remains quite confident that it doesn't change their financing plans around equity needs, with rating agencies understanding the unique nature of the event and noting a 13% FFO/Debt threshold. Look for the company to replace their ST debt with more permanent notes after better clarity on the full recovery periods across their jurisdictions.

We see confidence in the overall strategy and the company's LT 5-7% EPS growth beyond '22 coupled with a 5%+ annual dividend growth over time: Maintain Buy given best in class SMID CAGR and elevated rate base opportunities.

CMS Energy (CMS)

Our meeting with CMS mgmt covered load trends in the Upper Midwest, latitude in the current plan following a strong Q1, energy efficiency and demand response measures, as well as the outlook for tax reform. See clear latitude to EPS in '21 with contingency build into '22 quite possible. Maintain our Buy rating on CMS.

Strong demand across territory, latitude into '22

While the state of MI experienced a COVID resurgence during Q1 that drove commercial sales to -4% y/y, mgmt still sees demand as on track to reach pre-pandemic levels. Interconnections (new customer hookups) for both gas and electric were reported at +27% y/y in Q1, suggesting slid momentum for sustained customer growth. Customer growth is one of multiple prongs that creates latitude in the current plan – note mgmt.'s Q1 report updated expectations from customer rate uplift to +48c y/y (including 26c in Q1) relative to initial guidance of +41c, while the comparable metrics on the O&M side were -20c vs initial guidance of -30c. While the early results suggest upside to the current 2021 guidance range of $2.83-2.87, note that Q3 remains a key swing quarter and mgmt may choose to pull forward costs from future periods in order to build contingency – overall a positive setup into the second half of the year.

Wyden tax proposal attractive on tax credits

Mgmt indicated support for the tax proposal put forward by Sen Wyden. Neutrality between Investment Tax Credits (ITCs) and Production Tax Credits (PTCs) is a key differentiator of the proposal, along with 100% refundability of direct pay taxes. Note also that the Edison Electric Institute (EEI) is a supporter of the bill though the group has stopped short of formally endorsing it, factors seen as key in securing a formal endorsement from the group are support for transmission tax credits and a form of PTCs for existing nuclear generation; note the inclusion of these would likely be a net neutral for CMS given its business mix.

Inflation manageable, labor costs largely contracted

Echoing similar comments from much of our regulated coverage of late, inflationary pressures and expectations are not expected to be a significant source of drag for CMS. Labor costs remain a key input, though CMS mgmt sees this as broadly de-risked given the company has signed contracts with its unionized labor force that run over a 5 year period, with the most recent renewal in 2020. Fuel costs will offset inflationary pressures in coming years with the pending retirements of Palisades as well as Karn 1 and 2. On the materials front mgmt. confirmed seeing some impacts (steel and copper) though given its staged renewable generation additions, the overall effect on the long term plan is expected to be modest.

Business mix intact, Enerbank not a source of cash

Despite very strong Q1 results and robust bank valuations, mgmt reiterated its commitment to a 90-10 business mix. Importantly mgmt affirmed that it does not use Enerbank as a source of cash to fund the capex-intensive utility part of the business. We continue to expect full-year results at the upper end of the guidance range following a strong start to the year.

Duke Energy (DUK)

We met with DUK mgmt. including EVP & CFO Steve Young, EVP, EVP & Chief Strategy & Commercial Officer Brian Savoy, and CP of IR Jack Sullivan, and discussed the challenges and considerations of Elliott's plan to break the company into three publically-traded, utility holdcos, NC legislation and its prospects heading into the summer, decarbonization with the NC IRP that has been filed and the forthcoming IN IRP, and the gas LDC portfolio's position within the company. We maintain our Neutral rating given shares seem to us to be fairly balanced from a risk/reward perspective (slight premium to the group).

Elliott's proposal is challenging to see follow through

Mgmt. reiterated its comments outlined in its letter in response to Elliott Investment Management's proposal to separate DUK into three regionally-focused, publically traded utility holding companies (the Carolinas, Florida, and the Midwest). Mgmt. clearly finds the proposal unworkable given (1) intervention from regulators/legislators, especially in NC, that are supportive of DUK in its current state and cautious of hedge fund involvement – as a reminder, Gov. Cooper and NC Legislative leaders responded to the situation stating, "There are natural concerns that come with putting our state's energy future in the hands of a Wall Street hedge fund, and we would expect the North Carolina Utilities Commission to strictly scrutinize any such arrangement"; (2) the credit implications of smaller scale and scope companies – mgmt. highlighted it has the lowest downgrade threshold of any BBB-rated utility and splitting the company would result in a likely 100bps raise in the threshold for FL (constructive regulatory environment offset by hurricane risks and a robust capital plan) and a 100-200bps raise in the Midwest (smaller scale and ESG risk); (3) the incremental equity needed to support the B/S; (4) the dis-synergies that come with standing up two new companies – mgmt. highlighted the \$600M in synergies from the Progress transaction and \$300M in synergies from the Piedmont transaction implying that those would essentially be reversed out; and (5) the impact to the dividend – mgmt. believes payout ratio will increase to 80% and would likely need to be right-sized. All said, the proposal has been rejected, but mgmt. remains willing to talk with Elliott on other strategies to drive value for shareholders. On balance, see little changed from our earlier views in our May 18 report.

We find Elliott's plan to split up the company to be challenging, but continue to believe that Elliott's involvement could potentially drive additional efficiencies and, in turn, additional investments in the grid and renewables. Specifically, we think that the involvement puts a spotlight on opportunities beyond just the Carolinas and pending legislation. The questions are just how much investment can be added under the recently approved rate agreement in FL, is mgmt. already crafting a plan in IN to drive higher growth through coal retirements and renewables, and how much upside exists in Cinergy (largely OH). On balance, NC legislation still matters most for the shares, in our view.

NC energy legislation is *still* likely to be introduced

We are still awaiting comprehensive energy policy to be introduced in NC, however, we are not concerned by the timing given recent constructive data points on the progress of the discussions. Bill implications of any legislation is top of mind for lawmakers and industrial customers which may be holding the process up, but it is positive that parties remain in discussion on key issues. Ultimately, the timing of a bill is in the hands of legislative leadership and can be wrapped into a shell bill any time after the crossover date (like HB589 in 2017).

One potential nuance to watch will be around carbon policy and the timeframe included in legislation given DUK's gas build in the latter half of the decade. We also wonder whether we could see a carve out for coal retirement and replacement generation outside of the IRP process itself where there would be a legislative mandate; we believe in exchange DUK could get more utility ownership. Rate basing of renewables will also be a key consideration - the NC Energy Regulatory Process used VA and CO as examples for competitive procurement, and utilities in those states are permitted to own 65% and 50% of new renewables, respectively. Mgmt. noted that multi-year rate plans (MYRP) makes a lot of sense for both DUK and stakeholders because it helps DUK avoid regulatory lag as it deploys capital to meet the state's clean energy goals and allows for clarity on the capital being spent and where rates are going over time – there is also discussion of Performance Incentive Mechanisms (PIMs) that would reward DUK, or hold them accountable, for safety, reliability, and other key metrics.

All of these tools would be positive for DUK, but there are a number of steps it will take to get there as past efforts stalled/failed. With that said, we see both increased confidence from the company and corresponding stakeholder commentary as supportive for DUK's legislative prospects in the 2021 long session.

We continue to perceive Street as overly cautious on legislative prospect amidst the ongoing discussions. While investors are clearly willing to accept prospects for yet another year's delay, we note ongoing discussions with stakeholders remain active into the summer. We stress the bulk of our near-term focus remains squarely on regulatory reform rather than necessarily immediate capital opportunities. This is more about de-risking its EPS runway than necessarily adding to EPS or capex opportunities in the near-term. Beyond the latest Elliott angle to shares we see this as a clear focus of upside vs doubtful Street expectations.

IRPs driving decarbonization across footprint

NC IRP is working through the regulatory process hand-in-hand with discussions on energy legislation. As a reminder, Duke Energy Carolinas (DEC) and Duke Energy Progress (DEP) outlined six paths for the generation fleet with different carbon reduction targets and different customer bill impacts ranging from 1.0%-2.5%. The scenarios include a swath of resources such as solar, new natural gas, onshore and offshore wind, small modular reactors, and battery storage.

We will be watching the IN IRP that will be filed in the fall of this year, and we note one nuance on Duke Energy Indiana coal fleet that differs from peers is the amount of control equipment that has been installed therefore any retirement that would likely come with accelerated depreciation or potentially securitization. Mgmt. is working with legislators and regulators to determine the mechanisms necessary to enable the transition to clean energy.

Eversource Energy (ES)

Upside Opportunities Remain After Latest Re-affirmation

After reaffirming the upper half of their 5-7% trajectory LT despite latest CT setbacks with their 1Q update, discussions with management this week continued to reflect confidence in the plan. We stress some latitude particularly given grid mod, AMI, and EV (electric vehicle) infra efforts that currently are not in the formal investment and rate base outlook and seemingly appear more likely to materialize. Watch for developments around ongoing efforts in coming months; we perceive some upside from transmission interconnect as well. Discussions further stressed confidence in maintaining their credit metrics despite punitive actions taken by PURA, while we don't see a particular limit to offshore as a % of the overall biz (with offshore remaining yet another kicker to the overall CAGR).

After most recently executing on their acquisition of Columbia Gas, management didn't shy away from further pursuits under the right circumstances – and we expect a growing focus on water tuck-ins to further boost the biz as an overall larger part of the portfolio.

Offshore Clarity to Drive LT Boost Too

Amid the latest puts and takes, management affirmed confidence around their current offshore projects driving mid teen ROEs, and they expect to have more clarity later this year around a more definitive schedule and ability to ultimately roll those into their formal plan (we perceive a fair bit of supply was already priced at earlier levels against the backdrop of inflationary fears). Recall BOEM recently filed a schedule for Revolution Wind Friday, with expectations to issue an NOA in July of 2022 and a final environmental impact statement available to the public expected in March 2023.

In addition to the direct contribution, conversations suggested some benefit from the need for interconnect from competitor offshore projects as well. Ultimate contribution should push the company above the 5-7% CAGR outlined for the core biz: *we model a 44c full run rate from current projects*.

What is next in CT? Discussions suggest efforts to settle...

Following the punitive order by PURA at the end of April, discussions with management suggested optimism around their ability to reestablish a better relationship and dialogue with regulators and legislators in the state. Recall the commission's final decision in the storm response docket was particularly critical of ES's CL&P following Tropical Storm Isaias and will require a 90bp slash to ROEs to better align management performance in future storm response efforts with the utility's financial performance. The proceeding to determine civil penalties and enforcement action is ongoing (July resolution), but management already wrote off ~$30Mn with their 1Q results related to the outcome.

Both a Phase II decision on the annual CL&P tracker review and a decision on interim rate decrease topics are due in September – and we perceive the ongoing rate design docket as the likely forum to implement the 90bp decrease to ROEs. A critical question is when and how this will ultimately be removed. With a docket on performance based ratemaking design to be opened by the beginning of June, this could ultimately prove the angle to drive returns higher again. While management remains optimistic, we still see a settlement around their formal rate case filing early next year as unlikely with PURA more likely to take up a vigorous review.

Maintain Neutral given the balanced risk/reward at the current valuation.

Northwest Natural Holding (NWN)

We met with NWN mgmt., including President & CEO David Anderson, SVP & CFO Frank Burkhartsmeyer, SVP Ops and Chief Marketing Officer Kim Heiting, VP Business Development and CEO of NW Natural Water Justin Palfreyman, VP Controller & Treasurer Brody Wilson, and Director of IR Nikki Sparley, and the discussion focused on RNG and hydrogen prospects for the company as well as the path for further expansion into water distribution. We continue to view shares as a surprising premium with a ~3x premium to gas LDC peers despite relatively low EPS growth of 3-5%. We reiterate our Underperform rating and continue to watch for more detail around water/RNG.

Upside to RNG plan available, incrementally over time

Regarding the small placeholder for RNG in the capital plan (Tyson projects), mgmt. commented that investing in renewable natural gas is a new undertaking under SB98 so they are currently only putting in five year forecast for projects where they have both line of sight and that they know how it will work through their internal IRP process. That said, mgmt. recognize the investment potential under SB98 – with the requirement cap of 5% of the annual revenue – stating that there could be a 200-250m of RNG investment into the five year timeframe. Currently the mgmt. still need to put more progress on the business development side and hence haven't put any additional capital into their projection. Mgmt. didn't comment on the timeline for increment, but said that 10-14months is a good estimate for development and construction timeline for most of the projects. For the procurement cost, similar to how the company's Purchased Gas Adjustment (PGA) works, it will fall under the cap on cost of service basis instead of rate base investment. NWN expects the majority of the projects to be direct investment as it's still a maturing market and mgmt. believes that the more cost effective opportunities are the ones that they can invest directly in.

NWN is taking a regulated strategy on RNG currently, using SB98 to turn the RNG investments similar to their other utility investments. Mgmt. stressed that as they are claiming the environmental attributes to their customers, they aren't able to double dip and monetize RINs and LCFs credits. NWN also reiterated 6% rate base growth for RNG.

Hydrogen: mid-/long-term target

In terms of hydrogen, despite the longer timeframe, NWN has been trying to push at the White House level for additional support. That said, mgmt. mentioned that Secretary of the Department of Energy commented at the AGA board meeting on Tuesday that the Biden administration is still very behind on hydrogen currently. The three application of hydrogen NWN sees in their system – (1) dedicated hydrogen system: building out the pipes, components, and equipment to be hydrogen ready; (2) renewable hydrogen: take hydrogen produced from the power to gas process, apply waste CO_2 to methanate, and then put it directly into the gas system; and (3) blue hydrogen: hydrogen produced using natural gas but paired with carbon capture and storage.

Water business getting up to speed

On water business, NWN is relatively new and getting up to speed - mgmt. highlighted that one of water utilities grew 4% last year in terms of customer growth. Mgmt.'s ideal target for water expansion is a utility that has the right regulation in place to allow for recovery of incremental spending, or at least a target that has a pathway to receiving the necessary mechanisms to allow for solid recovery of investments. As a reminder, NWN has not acquired any "fixer-upper" water systems to date - we expect that over time, mgmt. will take on more inefficient systems to prove capable in extracting more synergies (albeit our experience suggests reinvestment requirements can offset these benefits).

Spire (SR)

Our meeting with SR mgmt. including COO Steve Lindsey, CFO Steve Rasche, Managing Director of IR Scott Dudley, and Treasurer Adam Woodward revolved around the ongoing rate case in MO that recently received a constructive recommendation from Staff, impacts of Winter Storm Uri and efforts to recoup revenue from suppliers, positive legislation that bans natural gas bans across SR's service territory, and RNG opportunity especially in light of legislation that is at the Gov.'s desk in MO. Reiterate Buy on healthy, low-risk capital spending driving solid rate base and EPS growth paired with a discounted valuation (1.0x+ on FY23E P/E vs gas peers). We see positive Street EPS revisions & rate case de-risking in MO as key to further re-rating shares higher. Further, we see Feb events as actually successful (& with mgmt. vigorously pursuing litigation on behalf of its customers), we perceive an advantaged position in rate case vs peer LDCs. Overall, very constructive backdrop for meeting considering key rate case appears very well setup.

MO rate case set up well for settlement in our view

Mgmt. provided detail on the ongoing MO rate case. Intervenors in the case including MO Public Service Commission Staff (MoPSC), the Office of the Public Counsel (OPC), Vicinity Energy Kansas City, and Legal Services of Eastern Missouri filed revenue requirement testimony. Staff recommended a ROE of 9.37% and equity layer of 54.25% (vs ask ROE of 9.95% and equity layer of 54.25%). The OPC recommended a 9.25% ROE and 47.36% equity layer (based on Spire holdco cap structure). Mgmt. was not surprised that the OPC recommended the lower capital structure given what the group has recommended in peer rate cases. The last rate case used SR MO's standalone capital structure as the approved capital structure and we would not expect the Commission to move back to applying holdco capital structure in this case. Next item to watch is the Cost of Service (i.e., rate design) intervenor testimony due May 26. **We think the recommended ROEs set a solid floor to start settlement negotiations.** We see timing for a settlement, or partial settlement, leading up to hearings in late Jul./Aug.

Mgmt. discussed litigation efforts to recoup gas costs on behalf of customers. There is two factors to think about (1) the cost component; and (2) the penalties under the tariff. SR is working with counterparties and should have a better estimate on the net impact to customers by the end of the summer.

Upside to FY21 EPS on conservative recoup assumption for marketing revenues

We see the potential for upside to EPS numbers on mgmt.'s conservative estimates on the recoup of revenues from Gas Marketing customers. As a reminder, the strong performance from Gas Marketing drove mgmt. to raise its FY21 adj. EPS guidance to \$4.30-\$4.50 (from \$4.00-\$4.20). Longer-term, mgmt. expected to Gas Marketing to be in the ~\$20M/year in adjusted earnings range.

RNG represents a palpable investment opportunity for SR following MO leg.

Legislation was recently passed in MO that allows SR to invest in, purchase, and deliver RNG to its customers which is very supportive of SR's goal to reach carbon neutrality by 2050 (an in-depth progress report and broader ESG (environmental, social and corporate governance) update was recently issued with SR's 2020 Corporate Social Responsibility (CSR) report. The legislation is on the governor's desk awaiting signature. SR is clearly interested in investing in RNG whether that be under the legislation in MO or non-regulated investment to the extent there are projects that meet their return threshold. SR is also discussing supply of RNG with large industrial customers.

Southwest Gas Holdings (SWX)

We met with SWX mgmt including SVP & CFO Greg Peterson, SVP & General Counsel Justin Brown, EVP & Chief Legal and Admin Officer Karen Haller, VP/Finance/Treasurer Ken Kenny, and other members of the team to discuss, principally, the upcoming reconciliation filing for tracker programs in AZ. Mgmt. also discussed outlook for Centuri and the protection from inflationary pressures. SWX also continues to be active in RNG and H2 efforts across its service territory and has multiple projects in progress and development. We remain Underperform rating on SWX given the challenging regulatory backdrop in AZ. With likely accelerated filings in the AZ and seemingly an overall restrictive commission, we still see downside risk to consensus estimates.

Tracker filing top-of-mind for investors

SWX mgmt. is expected to file a reconciliation filing for tracker programs and rate base disallowances of $127M with a total revenue requirement ask of $74M. This filing expected in May, and if we assume the same timeline as previous filings (4-5 months), we would expect resolution by roughly Oct. However, mgmt. noted that this case is looking at spending over two years (for 2019 *and* 2020) so it may take a little bit longer. Mgmt. discussed differences between their filing and APS' petition simply to reflect the latest increase under its existing LFCRM mechanism, which was rejected by the Arizona Corporation Commission (ACC). SWX's filing will not have the opportunity for settlement given its structure. Staff will file their recommendation and the Commission will consider both sides before coming to a conclusion. Mgmt. remains confident in their ability to recover these costs. SWX will be filing another general rate case at the end of 2021 or early 2022.

We note this filing is in conjunction with the higher gas purchase costs that would result in an increase in customer bills of 5-8% depending on timeframe of recovery (3-5yrs?). While unclear of the outcome in these proceedings we remain cautious given the commissions prior denial of the rider in the most recent rate case (although part of a negotiated settlement in the prior case) and the customer rate impact coming out of a pandemic.

We maintain our caution on the backdrop following latest decisions from the ACC. While rejecting recovery of basic cost recovery rider for energy efficiency for SWX's electric peer APS, we perceive another difficult year in persuading the commission on merits of peer trackers, particularly considering the overall bill commitments commented on by the ACC in recent months. Mitigating these comments we stress more of the ire of the commission appears focused on APS rather than SWX thus far.

Centuri set up pos. given severe weather forecasts; limited inflation impact

Centuri has performed well YTD and we see the potential for even more outperformance given the forecasts on severe weather as we head into the start of hurricane season. Mgmt. noted goal posts of a more normal year of earnings in 2019 ($13M) vs the very active hurricane season in 2020 ($86M). While it is impossible to predict the impact of storms, we see bias toward another strong year.

Centuri is not seeing an impact from supply or wage inflation because the material costs are borne by the utility and much of the labor is unionized so the rate will not be impacted until that contract comes up for renewal. Mgmt. highlighted the positive trend of market share gains on the electric side of the business – we see this likely continuing as Centuri grows. Watch trends in coming quarters as offset to potential utility pressures.

UGI Corp (UGI)

We resume coverage of UGI following its latest equity unit offering and highlight our meeting with UGI mgmt. including incoming President & CEO Roger Perreault, CFO Ted Jastrzebski, EVP Natural Gas & CEO, UGI Utilities Bob Beard, CFO, UGI Utilities Dan Platt. Our discussion included developments on its $1B investment plan for renewables and an update on ongoing transformation and cost reduction at global LPG. We see a range of potential avenues for expansion in renewables given the numerous end markets UGI operates in domestically and abroad, but we stay Neutral for now as we await further details on exactly how the expansion into renewables plays into the LT EPS growth rate and more visibility on growth rate contribution from each segment. This remains key in our view as details on geographies, ramp strategies ongoing.

Renewables investment was front and center

UGI continues to make progress on the renewables front and recently announced an agreement to develop dairy farm digester projects to produce RNG in upstate NY - GHI will be the exclusive off-taker and marketer for Cayuga RNG (a JV between UGI Energy Services and Global Common Energy). The project will incorporate an existing anaerobic digester that generates biogas used for electricity generation - the proposed project will upgrade the biogas to produce ~50M cubic feet of RNG annually and is expected to be completed in 2H22. We expect to see UGI continue its early momentum in renewables and expand its platform with a 2021-2025 targeted renewables pathway that includes ~$1B of anticipated investment over the next five years.

The $1B in investment consists of a number of smaller size investments and operations/assets which involves converting waste in to biomolecules and distributing these to the customers. They also see many opportunities nationally in developing RNG into their infrastructure. mgmt. continues to target (only) high-single-digit to low-double-digit unlevered returns and is currently working through 12 projects in the pipeline and we expect an update on progress during the F2Q call; we stress given project economics for many peers, we suspect this has material upside but see mgmt positioning this as more against a longer-term view of RINS & LCFS credits today. As such, we bias towards higher ROEs altogether, especially for projects already in development (Idaho) that conceivably could come online in time to monetize these credits.

Renewable energy market outside the US; SHV JV announcement

Mgmt. commented on the announcement of its JV with SHV Energy to advance the production and distribution of Renewable Dimethyl Ether (rDME). This low carbon solution can be dropped into existing infrastructure so it is more affordable than some other technologies in the market. Mgmt. continues to be focused on the Scandanavian area in Europe and discussed the different demand/incentives of renewable energy, which although is different across in Europe, is made up of a combination of increasing consumer demand and maximum pricing/return on renewable energy. These are typically 1-5 years contracts.

Growth opportunities in RNG at the utility

For RNG on the utility side, UGI has already entered into an agreement with Archaea in Pennsylvania taking delivery of a large volume of gas every day as part of their supply. They are also looking at opportunities from a regulatory perspective to introduce more RNG, including other companies in other states which are pending approval from the Commission. UGI sees two opportunities for growth: one in moving RNG for producers on the system and second offering a tariff provision for customers to access RNG. This would be a voluntary tariff which UGI believes would not be very contentious.

Transformation on track at Global LPG

The transformation initiatives at both Amerigas (US) and UGI International (Europe) are key to watch in the short term and mgmt. highlighted that the efforts are on track to deliver planned cost savings and operational efficiencies by the end of '22. As a reminder, UGI is differentiating its propane business by optimizing and digitizing its logistics and supply chain. Mgmt. planned to establish continuous improvement to customer experience through technology improvements, centralizing customer service capabilities, and reducing corporate overhead through synergies with recent acquisitions to achieve these savings and drive growth. We expect these transformation initiatives will also help to fuel further tuck-in acquisitions as part of mgmt.'s growth strategy as it looks to seamlessly integrate new businesses.

Xcel Energy (XEL)

Our meeting with XEL mgmt covered the latest key regulatory data points including the company's pending rate case in New Mexico, intention to file in Colorado, and pending recoveries of excess fuel costs stemming from storm Uri, along with the status of the Colorado transmission build out proposed earlier in the year. Maintain our Neutral rating on XEL.

CO case filing coming in June as reg backdrop improves

Given XEL had previously indicated the possibility of staying out of a rate case in Colorado in 2021, we view the company's decision to file a case (expected around midyear) as an indicator of improved sentiment around the regulatory backdrop. Key drivers behind the rate case filing include ongoing advanced grid investments along with inclusion of the company's wildfire mitigation plan. Recall that the wildfire mitigation plan had received positive responses from the CO authorities, despite the rider that was proposed by XEL being rejected. XEL's CO transmission build proposal remains in early stages though early indications appear a positive reception by state regulators. Note that the $0.5-1.0B of additional opportunity identified represents necessary but as-yet not identified investments rather than add-on proposals, further increasing the likelihood of inclusion of some of the amount into the formal plan. Management notably does not perceive this case to be particularly concerning despite the new CO PUC backdrop given largely approved spending being reflected through the case.

New Mexico testimony constructive on revenue, ROE

The Southwestern Power Service (SPS) rate case testimony was submitted earlier in the week with staff and key interveners including the large industrials group and state attorney general's office broadly proposing ROEs in the low 9s along with cap structures at or slightly below XEL's ask of 54.72% (unch). The staff proposal for the overall revenue increase at $62m was incrementally lower than SPS' ask of $88m, attributable largely to the lower proposed ROE. Staff also broadly accepted proposed changes to SPS' depreciation schedule including aligning the depreciable life of Tolk with its 2032 proposed abandonment date, abandoning and depreciating Plant X fully by 2022, and fully depreciating Harrington's coal-specific assets. On balance a constructive set up in NM in our view.

MISO transmission upside in Dakotas, Minnesota

XEL holds rights of first refusal (ROFR) on transmission projects running through its service territory in the Dakotas and Minnesota, putting it in good position to capture upside opportunities from MISO's multi-year planning process under either of the Future 1-3 scenarios recently put forward. Large transmission in the MISO footprint is not new to the company as XEL currently owns and operates a high voltage direct current (HVDC) line running from Canada into its MN service territory. Note that with the FERC considering removal of the 50 bps RTO adder, this will likely have a modest impact on XEL given a normalization mechanism in MN whereby its transmission assets refund the delta between the FERC ROE and state ROE to customers.

Exhibit 1: Stocks mentioned
Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AQN	AQN US	Algonquin Power	US$ 15.48	B-3-8
YAQN	AQN CN	Algonquin Power	C$ 18.67	A-3-8
ATO	ATO US	Atmos Energy	US$ 98.32	A-2-7
AVA	AVA US	Avista Corp	US$ 45.62	B-3-7
BKH	BKH US	Black Hills	US$ 66.21	B-1-7
CMS	CMS US	CMS Energy	US$ 63.74	B-1-7
DUK	DUK US	Duke Energy	US$ 102.27	B-2-7
ES	ES US	Eversource Energy	US$ 83.76	B-2-7
NWN	NWN US	Northwest Natural	US$ 53.64	B-3-7
OGS	OGS US	ONE Gas, Inc.	US$ 73.61	A-3-7
SWX	SWX US	Southwest Gas	US$ 66.97	B-3-7
SR	SR US	Spire	US$ 72.92	A-1-7
UGI	UGI US	UGI Corp.	US$ 44.18	B-2-7
XEL	XEL US	Xcel Energy	US$ 71.58	B-2-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Algonquin Power & Utilities Corp (AQN / YAQN)

Our SOTP PO is $16.00 (C$19.36). We assign P/E multiples on 2023E (18.0x for electric, 16.6x for gas, and 27.1x for water, respectively) earnings of its regulated seg based on expected 2024 breakdown. We value the utility seg at a 0.5x disc to the US peer avg 22E P/Es. We back out future tax differential stemming out of tax rate normalization.
We value AQN's non-reg seg on EV/EBITDA basis. We assign Hydro at 8x prem to the peer multiple of 10.0x given the stable nature of the biz. We value Wind and Solar seg at a 3x & 4x prem to peer multiple too. We assign a 2.0x disc to the thermal biz given the lack of growth prospects.
We valued AQN's 44.2% stake in AY on MtM basis and net out Debt at Liberty Power. Our assumed shares o/s numbers reflect our estimated equity issuance including the DRIP between now and 2023E
Upside risks: 1) Higher USD/CAD F/X rate, 2) Constructive regulatory outcomes, 3) Lower interest rate, 4) Execution on the capital plan, 5) Dividend Growth from AY
Downside risks: 1) Higher interest rates, 2) Lower USD/CAD F/X rate depending upon the exposure to the US, 3) Dilution risk associated with substantial equity issuance to finance capex, 4) Unfavorable regulatory actions, 5) Increase in Tax rate, 6) AY may not be able to sustain its current dividend levels, 6) Exposure in CA Renewables, 7) Balance Sheet quality, and 8) Natural disasters which could impact utility operating systems.

Atmos Energy Corporation (ATO)

Our $101 PO is based on our 2023E sum-of-the-parts (SOTP) analysis, based on the gas LDC peer group multiple of 16.1x. Our gas peer P/E multiple is grossed up to reflect the group's 5% CAGR to reflect capital appreciation across the sector. We then apply a 2x premium (aside from TX/KS) to the base gas LDC multiple to reflect the high-quality nature of the assets given a sustainable runway for capex/EPS underpinned by constructive regulatory mechanisms and jurisdictions. For the Pipeline & Storage segment we apply a 9x EV/EBITDA multiple as a base to our '23E EBITDA. We then apply a 2x premium to the assets given their fully regulated nature and unique ability for APT to benefit from the spread differentials.

Upside risks: 1) improving regulatory relationships, 2) decrease in interest rates, 3) incremental capital spending, 4) constructive rate case outcomes, 5) less equity needs.

Downside risks: 1) deteriorating regulatory relationship, 2) increase in interest rates, 3) less or deferred capital spending, 4) poor rate case outcomes, 5) more equity needs.

Avista (AVA)

Our $44 PO is based on our 2023E sum-of-the-parts (SOTP) analysis, based on the large cap electric group multiple of 17.8x and the gas regulated multiple of 16.3x. Both electric and gas peer P/E multiples are grossed to reflect the group's 5% CAGR to reflect capital appreciation across the sector. We then use a blended electric and gas multiple of 77% and 23%, respectively, for AVA's WA and ID jurisdictions given the composition of its rate base. We apply the gas multiple to its OR jurisdiction as it is entirely comprised of natural gas distribution assets. Meanwhile, we apply an electric multiple to its Alaska subsidiary, AEL&P, as it is a vertically integrated electric utility. We apply a 12.0x multiple to AVA's Corp & Other businesses as we cannot apply a full utility multiple given it consists of investment funds with a lack of visibility in earnings relative to utilities. We stress that AVA does not have any HoldCo. debt, thus no need to net out debt. Lastly, we apply a 1x discount to all AVA's utilities to capture increased uncertainty associated with fire risk and regulatory risk. Risks to upside are 1) improving regulatory relationships, 2) decrease in interest rates, 3) constructive rate case outcomes in any of the jurisdictions. Risks to downside are principally wildfire events in West, which have increasingly spread to PacNW. Risks to downside are 1) operational risks 2) gas regulations attempting to phase out gas LDC usage over time impede growth.

Black Hills Corporation (BKH)

Our $76 PO is based on a SoTP valuation. Gas Utilities: We apply the 16.5x peer P/E multiple on 2023E EPS. Electric Utilities: We apply the 18.0x peer P/E multiple on 2023E EPS. Both electric and gas peer P/E multiples are grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. Coal Mine: We apply an 8x peer EV/EBITDA multiple, which is in line with other PRB coal producers. Based on our view of the strength/maintainability of different coal plant output contracts, we apply a discount/prem multiple to that portion of the mine. IPP Assets: We use the recent sale price and '23/EVEBITDA multiple for Pueblo Airport and Wygen I assets, respectively. Parent Expense, Debt, and Eliminations: We apply an average regulatory P/E multiple to this segments income. This captures some Interco revenues that are double counted as well as parent SG&A drag and debt.

Downside risks: operational errors, increasing interest rates, and difficult regulatory environments.
Upside risks: favorable weather, favorable regulatory outcomes, higher capex deployment

CMS Energy (CMS)

Our PO of $69 is based on a SotP relying on 2023E forward P/E multiples for the utility and banking business and a 2023E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 3.0x prem to the avg regulated multiple P/E of 18.1x for the electric seg and of 16.6x for the gas seg, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as cont'd favorable regulatory environment, and finally historically proven ability to consistently perform at the high end of guidance range. Both electric and gas peer P/E multiples are grossed up to 2020 by 5% to reflect capital appreciation across the sector. For CMS' merchant business we apply a 8x EV/EBITDA multiple, in line with current market value of CMS power plants (specifically DIG), moreover DIG has relatively favorable contracts for the near future which strengthen plant earnings. Finally, we apply a 15.5x P/E multiple on CMS' consumer lending subsidiary Enerbank, in line with forward P/Es other smaller regional banks with similar growth profile. Risks are: 1) earned ROEs declining which reduce CMS utility earnings 2) execution risk on capex and cost cutting which would primarily affect the utility earnings, 3) negatives changes to market energy prices which could affect the DIG plant's ability to re-contract at the assumed prices.

Duke Energy (DUK)

Our $105 PO is derived from a sum-of-the-parts valuation. We value the Electric and Gas utilities using peer 2023E P/E multiples. We apply a 3.0x multiple premium to Duke's operations in FL and 2x in IN to reflect more favorable regulatory environments (and recent sale valuation marker). We apply a 2x multiple to the Carolinas given upside to spending in improving regulatory construct combined with latest IRP & wider legislative reforms into 2021. We value the other regulated electric utilities at 18.2x and the gas utilities at peer group multiples of 16.7x 2023E P/E, respectively. Both electric and gas peer P/E multiples are grossed up by 5% for the groups CAGR to reflect capital appreciation across the sector. The commercial midstream, and transmission are valued on a 2023E EV/EBITDA basis. We use a 9.0x multiple for midstream and transmission segment. We add the net present value of renewable segment using an 8% discount rate. We subtract out the impact of commercial debt, and add back for the renewable debt.

Upside risks: constructive rate case results, higher capital expenditure additions vs our assumptions, lower interest rates. Downside risks: poor rate case results, operating errors, and negative changes in the regulatory environment, Macro risks: Increases in interest rates and decreases in equity market valuations.

Eversource Energy (ES)
Our sum of the parts based price objective of $93 uses P/E multiples on 2023E earnings. For electric utilities, we attribute a 3x premium NSTAR, 3x premium to PSNH, and a 2x discount for CL&P to peer 18.2x multiple, reflecting future potential positive revisions to capex and earnings and the latest challenges in CT. For gas, we apply a 3x premium to the peer 16.7x multiple, given capex upside particularly in MA and a 2x for Columbia Gas. Both electric and gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We value Aquarion at the 27.2x water multiple. We reflect ES's 50% ownership in Revolution and South Fork offshore wind sites on an NPV basis. We further reflect a devco value with an assumption of an additional 3GW through 2031. We take out 50% of parent debt, and 50% of interest to accurately reflect parent leverage.

Upside risks to our price objective are additional capex announcements on the T&D side, as well as success in offshore wind RFPs.

Downside risks are reduction in authorized ROEs, inability to meet earned ROE expectations, as well as failure to receive permitting on incremental capex opportunities.

Northwest Natural Holdings (NWN)
Our $51 PO is based on our 2023E sum-of-the-parts (SOTP) analysis, based on the gas LDC peer group '23 P/E multiple of 16.5x applied to WA and OR natural gas distribution and regulated storage assets. We further gross up the gas LDC multiple by 5% to reflect capital appreciation across the group. We use a 1x premium in OR to capture upside from RNG and benefits from decoupling, although we believe the long-term outlook is more uncertain. For NWN's gas storage (unregulated), appliance, and asset management business, we apply a 10x EV/EBITDA multiple, in line with comparable asset class, and net out debt. We apply a water utility peer P/E multiple of 27.4x to NWN's water earnings and then net out corporate & other drag (largely SG&A) using a weighted average multiple of 18.8x on '23.

Downside risks to our PO: higher interest rate environment that makes new capital more expensive, contraction of utility valuations, slower economic recovery, and a sustained economic downturn preventing customer growth, de-carbonization efforts, lower capex, poor regulatory outcomes.
Upside risks to our PO: faster economic recovery contributing to customer growth, lower interest rates, constructive regulatory outcomes, and increased capex.

ONE Gas, Inc. (OGS)

We use a sum-of-the-parts analysis to calculate our $74 for OGS, applying a FY23E Gas LDC peer multiple of 16.5x (grossed up by 5% to reflect capital appreciation across the space) with a 1.0x discount for OK given risk associated with the upcoming rate case and outsized gas costs related to the winter storm. We use in-line multiple for TX and KS given uncertainty with the recovery timeframe for substantial gas purchase costs and impacts to the balance sheet.

Upside risks: lower interest rates, constructive regulatory outcomes, increased capital expenditure opportunities.
Downside risks: higher interest rates, unconstructive regulatory outcomes, decreased capex spending, ban on fracking, decarbonization efforts.

Southwest Gas Holdings (SWX)

Our $67 PO is based on our 2023E Sum-of-the-parts (SOTP) analysis. We apply a 16.5x peer Gas LDC utility P/E to the utility EPS across the company's three major jurisdictions, which include Arizona, Nevada and California. We gross this peer multiple up by 5% to reflect capital appreciation across the sector. For AZ, we apply a 3x discount to the jurisdiction given lack of fwd looking rate treatment/alternative rate making mechanisms. Additionally, we value the FERC regulated Pauite Pipeline separately on a midstream peer group average EV/EBITDA multiple of 9.0x and net out associated debt. For the non-utility business, Centuri, we apply 6.2x multiple, which is in-line with the business' closest industrial comps given Centuri's relatively insulated utility customers. Lastly, for parent debt in the Corp & Other segment, we net out 50/50 weighting for re-capitalization and add back 50% of parent interest expense.

Upside risks: higher than expected infrastructure services earnings growth, increasing construction project margins, better than expected rate case results. Downside risks: Unfavorable regulatory outcomes and increased volatility at Centuri, disproportionately high foreclosure rates in SWX's territories, timing and execution of rate cases, rate base growth, underperformance at Centuri and expansion or contraction of sector valuations.

Spire (SR)

Our $85 PO for SR is based on a sum-of-the-parts analysis, applying a Gas LDC multiple of 16.5x on '23E with a for 2x premium for Missouri/Mississippi/Gulf and AL assets given their location and de-risked nature. For the midstream assets, we use a base 9x EV/EBITDA multiple with a 1x premium for the STL pipeline given it is the one of the only new greenfield pipes in-service, a 4x discount for storage given uncertainty, and a 4x discount for marketing due to volatility.

Upside risks: 1) improving regulatory relationships, 2) decrease in interest rates, 3) incremental capital spending, 4) constructive rate case outcomes, 5) less equity needs.

Downside risks: 1) deteriorating regulatory relationship, 2) increase in interest rates, 3) less or deferred capital spending, 4) poor rate case outcomes, 5) more equity needs.

UGI Corp. (UGI)

Our $47 PO is derived from our SOTP analysis, applying specific multiples and premiums to assets. For the gas utility, we utilize a 16.5x P/E multiple +1x premium given its de-risked backdrop, and an in-line electric multiple of 18.0x. For U.S./international propane, we utilize an 8.9x EBITDA, in line with other publicly traded comps, 0.5x discount applied to international given ESG considerations. We use a 9x EBITDA multiple at midstream w/ a premium/discount depending on the asset & CMG expansion/PennEast weighted at 50%/25%, respectively, given uncertainty associated with expansion opportunities/project execution. We take the NPV of future renewable solutions cash flows, implying a 11+x EV/EBITDA multiple (in line with our valuation to peers biz mix, such as SJI). Lastly, for parent debt in the Corp & Other segment, we net out 50/50 weighting for recapitalization and add back 50% of parent interest expense.

Downside risk: unfavorable weather, propane logistics issues and shortages domestically or in Europe, reduced conversion rates or slower new home construction within PA, and unfavorable currency exchange rates. Macroeconomic concerns are rising interest rates, volatile and rising natural gas prices, and a general economic slowdown. Upside risk: favorable weather, incremental demand for propane, rebound in oil&gas prices driving higher volumes at midstream, favorable regulatory outcomes, favorable forex rates, lower interest rates, and economic expansion.

Xcel Energy Inc (XEL)
Our PO is $71. We value Xcel Energy using a sum of the parts (SOTP) approach. Given the difference in geography, earnings strength, growth opportunity and risk profile, we divide the segments by subsidiary. We use 2023E forward P/E multiples to derive a value for the different business segments, including the parent segment. We use a peer multiple of 18.1x. Electric peer P/E multiple is then grossed up for a year to 2021 by 5% to reflect capital appreciation across the sector. We apply a 2x premium to most subsidiaries except in MN where we apply a 3.0x due to additional stimulus upside. We see this multiple as appropriate as the company has growth opportunities, resolving regulatory drag and resolving uncertainty around rate cases. We stripped Mankato as a non-reg asset in our SOTP due to the sale. We also net back 50% of the parent interest expense and instead subtract out 50% of parent debt to more accurately reflect HoldCo leverage. Downside risks are interest rate increases, regulatory risk such as lower authorized ROEs or less favorable riders/trackers for renewables and transmission, interest rate risk, execution delays, and weather anomalies.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Aric Li
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
NEUTRAL				
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	75	54.74%	Buy	60	80.00%
Hold	34	24.82%	Hold	24	70.59%
Sell	28	20.44%	Sell	11	39.29%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	77	48.43%	Buy	56	72.73%
Hold	43	27.04%	Hold	31	72.09%
Sell	39	24.53%	Sell	23	58.97%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1909	58.54%	Buy	1218	63.80%
Hold	653	20.02%	Hold	395	60.49%
Sell	699	21.44%	Sell	356	50.93%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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21 May 2021
Equity Research
Americas | United States

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Gas Utilities

American Gas Association (AGA) Conference - Full Takeaways

Gas Utilities | Comment

We hosted management teams from Utilities ED, NWE, SO, CMS, SR, BKH, AGR, D, NI, WEC, DTE, and CNP at the 2021 American Gas Association (AGA) virtual financial conference. We include our full takeaways below.

- **Takeaways:** The utilities sector has been under pressure on concerns about higher cost of capital, input commodity cost inflation, and yield competition from the 10-year Treasury. Gas utilities suffered the worst underperformance in 1H20 with investors under the impression that natural gas system growth may be impaired during a long-term shift toward electrification of heating, cooking, and transportation. However, gas utilities have largely recovered from their 2-3x discount to the electrics that the group traded under as recently as 4Q20. At the conference this year, we heard from management teams across the board citing plenty of long-term investment opportunity, including continued pipeline replacement, safety, and the blending of renewable natural gas (RNG) and hydrogen into systems to become carbon neutral or negative. We also note the impact of this year's Winter Storm Uri, which highlighted the importance of natural gas pipeline and storage infrastructure.
- **Stocks:** **ED** expects to come to a decision on Stagecoach in 2Q, but regardless of outcome, no significant changes to the equity financing plan are expected. The company no longer views natural gas as a bridge fuel to decarbonization, and these midstream assets are now definitively non-core. **SO** notes that Vogtle is on "aggressive" track for a January in-service, but we see further tweaks during testing as likely, with 1Q22 more a realistic expectation. **BKH** emphasizes they expect to fully offset the $0.15 EPS hit this year from Storm Uri, with no incremental equity needed to fund related regulatory assets. **AGR's** acquisition of PNM is on track for 2H21 close as the company continues to bring along other parties to the settlement in NM. **D** continues to make a strong case for why the cost of its coal retirements won't be rejected in the Triennial rate review. NI issued three Indiana RFPs for a mix of dispatchable resources, batteries, and localized micro-grid solutions. **CNP** expects to offset taxable gains from the sale of ET shares (4Q21 earliest) using repairs tax deductions.
- **RNG on the back burner for now:** These are early days for the renewable natural gas (RNG) industry, with <0.5% of gas demand in production nationally at present. Over the next 20-30 years, most gas utilities are planning to blend increasing amounts of cleaned RNG into their systems as a way to remove methane from the atmosphere and achieve net GhG-zero status (we figure ~15% would do the job in most places, but this is impossible now with only a few hundred farms and landfills harvesting the gas). We see this as well as hydrogen blending eventually becoming a meaningful source of capital investment in 10+ years. Furthest along so far (among companies we spoke with) are **WEC** (pilot projects), **NI, SR** (Ohio and MO legislation and dockets establish tariffs with gas quality requirements), and **DTE's** non-regulated RNG production business in California.

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2021 American Gas Association (AGA) virtual financial conference Schedule

ED, NWE, SO, CMS, SR, BKH, AGR, D, NI, WEC, DTE, CNP

Figure 1: AGA Schedule

Times	Wednesday May 19
9:00-9:30 AM	
9:30-10:05 AM	ED
10:15-10:50 AM	
11:00-11:35 AM	NWE
12:00-12:35 PM	
12:45-1:45 PM	
1:30-2:05 PM	SO
2:15-2:50 PM	
3:00-3:35 PM	CMS
3:45-4:20 PM	
4:30-5:05 PM	SR
5:15-5:50	

Times	Thursday May 20
9:00-9:30 AM	
9:30-10:05 AM	BKH
10:15-10:50 AM	AGR
11:00-11:35 AM	D
12:00-12:45 PM	
12:45-1:45 PM	
1:30-2:05 PM	NI
2:15-2:50 PM	WEC
3:00-3:35 PM	
3:45-4:20 PM	DTE
4:30-5:05 PM	
5:15-5:50	CNP

Source: Company data, Credit Suisse estimates

Recent Company Notes

- BKH: 5/6 Growth Plans on Track after the Storm
- CMS: 4/30 Green Plans Remain in Focus
- ED: 5/11 Strong 1Q as Residential Sales Jump
- D: 5/5 Steady Progress; Growth Plans on Track
- DTE: 4/28 Midstream Spin on Track, and So is the Rest
- NI: 5/6 Renewable Buildout Pushes Forward
- NWE: 4/23 Plans for Montana Generation Advance
- SO: 4/30 Nuclear Delays were Expected, with Growth Plan on Track
- SR: 5/11 Staying Ahead of the Storm
- CNP: 5/7 Delivering Above Plan
- WEC: 5/4 Decarbonization Acceleration

Recent Sector Notes

- 5/18 AGA Question Bank
- 5/17 CS Renewables & Utilities Conference – Full Takeaways
- 4/26 Alternative Energy: Key topics for Q1 - Supply shortages and a Biden Plan
- 4/5 Hydrogen Economy: Part 4: A Primer on the Americas Value Chain
- 4/27 Direct Currents - Rising Renewable PPAs

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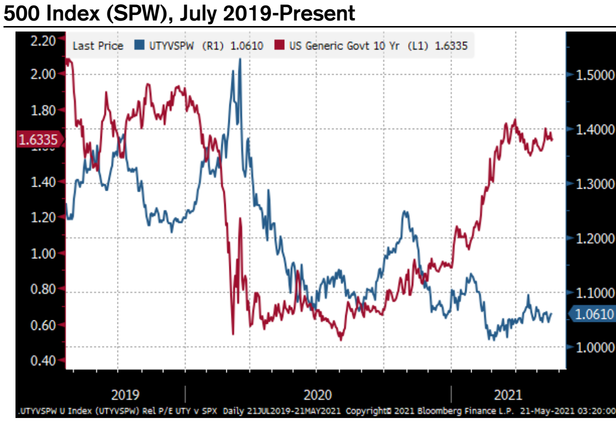
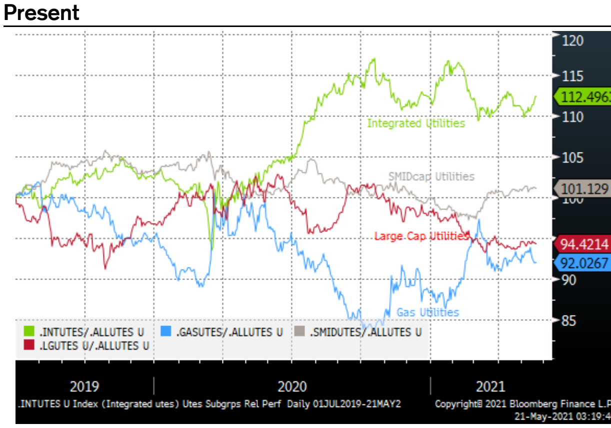
Figure 2: Relative Forward P/E – UTY vs Equal-Weighted S&P 500 Index (SPW), July 2019-Present



Source: Bloomberg LP, Credit Suisse custom indices. The sector is fairly valued after the recent rise in 10-Year bond yields, trading at a +6% premium forward P/E vs an equal-weighted S&P 500 Index (SPW). We see this as appropriately in-line with our regression of relative P/E vs the 10-Year based on the CS House view for a 2.0% 10-Year yield within 12 months.

Figure 3: Utility Subsector Relative Performance, July 2019-Present



Source: Bloomberg LP, Credit Suisse custom indices. Gas utilities currently trade at parity with Electrics after outperformance since 4Q20.

Avangrid (AGR) – Not Covered

Dennis Arriola, CEO, Bob Kump, Deputy CEO, Doug Stuver, CFO, Alejandro de Hoz, CEO Renewables, Catherine Stempien, CEO Networks, Patricia Cosgel, VP IR, Michelle Hanson – Manager IR

- **Offshore Wind: "BOEM staff has been very supportive over the last few years" - Vineyard Wind project (1,800MW) on track to begin construction in 2H21.** The Biden administration has been supportive, and the company expects to apply lessons learned from the Vineyard Wind approvals process to the next projects. AGR received BOEM's Final Environmental Impact Statement (FEIS) for Vineyard Wind (1,800MW); on track to begin construction in 2H21. AGR's ~5GW offshore wind pipeline (with 4.2GW remaining capacity) currently has ~690 MW under construction and ~630MW are starting 2022. The Vineyard Wind project recently received Final Environmental Impact Statement (FEIS) from BOEM. The company expects to arrange financing in the next few months and start construction later this year. The 804MW Park City Wind project expects COD by 2025 and the company's Kitty Hawk project with 2,500MW of total capacity filed COP in 2020 and expects CODs after 2025.

- **Planned merger with PNM on-track to close in 2H21, according to management. Private Placement financing announced on 5/12 to be used for capital investments and the pending PNM acquisition.** The company announced the sale agreements of $740M common stock to Qatar Investment Authority and another $3.26B to the prior majority shareholder Iberdrola, with closing expected May 18. The Iberdrola stake is intended to maintain proportional, majority ownership. AGR recently filed its revised stipulation agreement as part of the company's planned merger with PNM. The company also added three new parties: Walmart, Inc., the Interwest Energy Alliance, and Onward Energy Holdings, Inc as signatories. The customer benefits in the agreement are expected to include: $50M in customer rate credits (over three years); $6M in COVID arrearages relief for customers; $15M for low-income customer energy-efficiency assistance; and $2M for electricity to low-income, remote customers. The merger is also expected to include additional economic development for New Mexico resulting in 150 new full-time jobs, $7.5M in additional economic development funds; and $12.5M in economic development contributions to community groups.

- **Green hydrogen – AGR expects to leverage Iberdrola's experience in Europe to implement a long-term hydrogen strategy.** AGR is optimistic about green hydrogen and is looking at some pilots. The company expects to produce hydrogen through electrolysis, as well as for decarbonizing transportation, (such as heavy-duty transportation, marine transport, or aviation), and for C&I (e.g. high-temperature processes) renewables to decarbonize areas that are difficult to electrify.

- **Cost inflation on the radar:** Management has seen the cost of renewable projects increase on account of higher steel and other commodity prices. Higher commodity costs are offset by hedges in some cases and are passed down to end customers too. However, customer are not delaying projects, and in fact many want to complete the projects sooner to meet their decarbonization goals.

- **Project returns** are competitive. But management sees double-digit levered returns against a lower cost of capital, with AGR's size relative to competitors bringing advantageous economies of scale. The company is targeting a low-end of 13 GWs renewable development projects by 2025.

- **2021 guidance recently raised by $0.10 to $2.25 - $2.45** (from $2.15-$2.35), vs cons $2.29. AGR raised net income in Q1 to $696M-$758M (from $665M-$727M). Key assumptions include $0.5 (~5%) rate base increase, adding >700MW of wind & solar capacity, and FY new rates in NYSEG, RG&E and CMP, as well as average wind PPA pricing of ~$40-$42 for both existing & new. Lastly, AGR plans to reduce emissions by 50-52% by 2030 (vs. 2005 levels).

- **Tax equity financing could be supplemented with a direct pay option.** The Biden administration has been considering options for renewable owners to monetize ITCs and PTCs, including proposals for both 100% direct pay and 85% refundability of tax credits currently held in inventory. As would be expected for a major developer with deep financing relationships, AGR nevertheless reports ample access to tax equity markets this year despite a scarcity of investors (typically banks) due to economic uncertainty over available taxable income.
- **Transmission development.** With the current system of blanket RTO incentives being reconsidered at FERC, management sees a more selective approach likely to come out of the process. In any event, AGR thinks that streamlining the approvals process could be more important than ROE (saving more money) towards incentivizing new project development.
- **Onshore Wind Update.** AGR has 1.3GW projects under construction in 2021-22, which includes ~390 MW wind & ~915 MW solar. Solar projects in construction currently include Bakeoven (265MW), Montague (221MW) and Mohawk (125MW), while wind projects in construction include Golden Hills (201MW), Midland (106MW), and Roaring Brook (80MW).
- **AGR business mix.** Management sees the current 75%-85% regulated utility networks vs 15%-25% renewables optimal for now in terms of maintaining overall holdco balance sheet and credit metrics.

21 May 2021

CREDIT SUISSE

Black Hills Corporation (BKH) – Outperform, TP $78

Linn R Evans, President and CEO, Rich Kinzley, SVP and CFO, Marne Jones – VP Regulatory and Finance, Todd Jacobs – Vice President Natural Gas Utilities, Jerome Nichols – Director of IR, Dave Soderquist – Principal Financial Analyst

- **Winter Storm Uri Impact - expect to receive full recovery of gas costs, and to fully offset the -$0.15 EPS hit in 2021.** Winter Storm Uri's impact resulted in a pretax charge of ($12.5M), or net ($0.15) impact to EPS, which included a $555.8M impact to the balance sheet through regulatory asset for utility fuel costs. Additionally the majority of the loss came from unrecoverable fuel costs from Energy Services contractual arrangements with customers. Management reaffirmed at our conference that they expect to fully offset the $0.15 drag with mitigating actions through the course of 2021. See table below.

Figure 4: Winter Storm Uri Impacts

Winter Storm Uri Impacts				Notes
Regulatory asset for utility fuel costs	$558.8M			Expected to be recoverable w ithout securitization and w ithout incremental secondary equity required. Asking for full WACC in AR and KS.
	$M pretax	$M after-tax	EPS	
Wholesale pow er margin sharing	$3.2	$2.5	$0.04	$2.4M of this is approved for recovery in SD through 2022. Rest is in CO under sharing.
Term loan interest expense	$0.7	$0.6	$0.01	Expect to recover these costs w ith regulatory assets above. Not ongoing.
Pow er generation storm benefit	($1.7)	($1.3)	($0.02)	Helps offset large industrial cust non-fuel clause customer losses (see below)
Black Hills Energy Services fuel costs	$8.2	$6.5	$0.10	Choice gas program; w ill offset w ith marketing profits bal of 2021
Regulated utility fuel costs	$2.1	$1.7	$0.03	Some large industrial customers w ithout a fuel clause
Total impact in 2021 (fully mitigated)	**$12.5**	**$9.9**	**$0.15**	

Source: Company data, Credit Suisse estimates

- **Colorado Gas phase I & II filing expected in Q2.** BKH filed a request for phase 1 rehearing on 1/26 for Colorado Gas, but that request was rejected verbally which led to a refile. The Colorado Gas ratecase filling requested a $13.5M revenue increase based on 50% equity and a 9.95% ROE in order to recover the investments incurred in upgrading and expanding its natural gas infrastructure. A phase 1 & 2 filing is expected in Q2.

- **Kansas Gas was filed last week and an Iowa Gas ratecase is expected to be filed in Q2**, plus a winter Storm Uri cost recovery filing. Additionally management reiterated consideration for a new Arkansas filing based on strong load growth (where most growth is). We expect a filing probably in the next 12 months.

- **Capital Plan (2021-2025) of $3B+ unchanged**, **expect an update in Q3 call in November** after the SD/WY Integrated Resource Plan is filed in July 2021. The capital plan includes an expectation of $600M+ annually for $3B+ through 2025. Recall BKH previously raised the capital plan by another ~$100M to >$3B (from $2.9B).

  IRP, what lessons can we learn from URI? Will be submitted in July to SD/WY. Modeling through renewables to meet ESG goals. We see opportunities with storage.

- **Equity needs "spread evenly through next few quarters".** BKH continues to target 2021 equity issuance of $100M-$120M through At-the-Market (ATM) program, which is now likely to be executed "evenly" through remaining quarters. Furthermore, BKH is targeting 2022 equity issuance of $60M to $80M in ATM program.

- **2021 guidance and 2022 guidance reaffirmed.** BKH reaffirmed 2021 guidance of $3.80-$4.00, vs CS/cons $3.86/$3.89, after reporting 1Q21 with adj. EPS of $1.54 vs CS/cons $1.65/$1.69 and vs 1Q20 $1.59. Recall that BKH had previously raised 2021 guidance a nickel to $3.80-$4.00 (from $3.75-3.95). Additionally 2022 guidance was also reaffirmed at $3.95 - $4.15, vs CS/cons $4.05/$4.06**.**

- **More focus on ESG.** For electric operations, BKH expects to reduce greenhouse gas emissions intensity 40% by 2030 and 70% by 2040. At the gas utilities, BKH expects to reduce greenhouse gas emissions 50% by 2035. The goals are based on 2005 baseline levels. Additionally, Colorado's electric utility is on track to reach 80% by 2030, and the company expects generation investments to save customers $4B over 30 years and reduce GHG 90% by 2030.

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CMS Energy (CMS) – Outperform, TP $70

Rejji Hayes, EVP & CFO; Travis Uphaus IR

- **New electric Integrated Resource Plan (IRP) filing is expected June 30th - Will make some announcement of what it looks like a week prior.** Expect more storage as costs come down and batteries make increasing sense as a replacement for peakers to do the work of voltage support, frequency response, and other ancillary services. The IRP provides details on the next 20 years of fuel diversity for customers, RPS fulfillment, reliability, EE, and demand response. The IRP ultimately results in either approval for a three-year forward plan or rejection or return for consideration of changes. Under Michigan energy law, IRPs are required every five years, with the next filing due in 2023.
- **On Inflation, tax rates and Enerbank.** With a renewed five-year union labor contract, the company sees inflation as a manageable risk. Enerbank's business model is generally not sensitive to interest rates, while Enterprise's net parent losses would benefit from a higher tax rate (consensus seems to be that a 24%-25% rate is possible later this year under democratic proposals).
- **Electric ratecase is on-track for final order by December.** CMS filed an electric ratecase (U-20697) on 3/1(test year ending Dec 2022), seeking recovery for investments in system reliability, and IRP solar & clean energy transformation of $225M, which translates to a 10.5% ROE and 52% equity ratio. Staff commentary is expected in June, with final order expected in Q4. **The next gas ratecase** is expected to be filed in Dec.
- **Equity needs unchanged with $50M already contracted, rest expected in "back half of the year".** CMS continues to expect to issue $250M of equity in 2021 and up to $250 per year in the company's long-term plan. With $50M already contracted, CMS mentioned that the rest of 2021 equity needs will probably be in back half of the year.
- **2021 Guidance Reaffirmed $2.83 - $2.87,** in-line vs. CS/cons $2.85/$2.86, (which reflects 6%-8% growth off 2020 midpoint) after CMS reported 1Q21 adj. EPS $1.21 vs. CS/cons $1.16/$0.97, and vs 1Q20 $0.86. Longer-term adjusted EPS and DPS growth remains at 6%-8% with a strong bias towards the midpoint.
- **Reaffirmed annual cost savings >$200M through 2031.** CMS reaffirmed its previously announced expectation to achieve > $200M in annual cost savings (excluding incremental O&M savings) through 2031. This includes $90M from Palisades in 2022, $30M for Karn 1&2 coal unit retirements in 2023, $50M for MCV contract change in 2025, and $60M for retiring the Campbell coal unit in 2031+.
- **RNG – having dialogue with MPSC.** CMS has been doing some pilot project work in coordination with the Electric Power Research Institute (EPRI) around Renewable Natural Gas (RNG). Recall CMS is targeting net zero methane emissions by 2030 and net zero carbon emissions by 2040. RNG is expected to play a role, but is currently only ~0.3 bcf for now at a cost 3-4x natural gas.
- **A 10-year, $25B plan, with $3-$4B of opportunities.** The 10-year capital plan continues to stand at $25B of firmly identified projects through 2028 plus possible $3-$4B upside opportunity in the latter half for electric reliability, grid modernization, gas distribution, and pipelines. ~85% of projects are less than $200M. To firm up the upside spending, management remains focused on customer affordability (keeping rate increases below inflation) and needs to see future ratecase outcomes, balance sheet strength, progress on cost reduction, and feasible employee levels needed to support additional work, among many factors. For example, to achieve $1.5B of electric grid modernization upside, annual spending would have to ramp up from $200M to $300M, which would likely require a significant hiring ramp. Ultimately, the company remains committed to work with regulators to ensure all parties "buy in" before any incremental moves. As noted at the 2018 analyst day, there is a long pipeline of capital work to be done and management identifies greater than $50B over the next few decades, with investment pacing limited only by CMS's desire to keep rate increases below inflation. Even with the retirements of Karn 1&2, we estimate

that the plan still implies above-average overall electric and gas ratebase growth at a >7% CAGR from $17.5B in 2019 to ~$24.5B in 2024, with gas ratebase expected to grow from 30% of total in 2018 to >40% by 2024.

- **A new electric Integrated Resource Plan (IRP) filing is due in late June** as part of the 2019 electric rate settlement. Expect more storage as costs come down and batteries make increasing sense as a replacement for peakers to do the work of voltage support, frequency response, and other ancillary services. Recall that in March 2019, CMS filed a settlement agreement with the MPSC for the Integrated Resource Plan (IRP). Consistent with the previously approved Renewable Energy Plan, the settlement leads to a 90% reduction in carbon and 90% clean energy supply by 2040, with the elimination of all coal fired plants as well. It calls for the replacement of Palisades PPA and Karn 1&2 with energy efficiency, demand response, and renewable resources. A relative paucity of battery storage in the planning (450 MW, but only after 2030) is explained by the presence in the state of the large-scale 2,200-MW Ludington Pumped Storage facility, which is co-owned by CMS and DTE. CMS also plans to procure 1.1 GW of new solar resources through 2024 through a competitive bidding process with 550 MW to be owned by the company and the rest will be done through PPAs. Additionally, the settlement also allows the company to earn on the PPAs at the weighted cost of capital (5.88% vs. the company's earlier ask for 10%-20%). The issue with PURPA avoided costs will be dealt with using the competitive process in which the avoided cost rates for a PURPA PPA will be the highest proposal cleared in the competitive bidding process. The IRP provides details on the next 20 years of fuel diversity for customers, RPS fulfillment, reliability, EE, and demand response. The IRP ultimately results in either approval for a three-year forward plan or rejection or return for consideration of changes. Under Michigan energy law, IRPs are required every five years, with the next filing due in 2023.

CenterPoint Energy (CNP) – Outperform, TP $28

Dave Lesar (Chief Executive Officer), Jason Wells (EVP and Chief Financial Officer), Scott Doyle (EVP of Natural Gas), Phil Holder (SVP of Strategic Planning and Investor Relations), Jackie Richert (Director, Investor Relations), Panpim Lohachala (Manager, Investor Relations)

- **CNP repairs tax benefits.** CNP expects to refile for repairs tax deductions back through 2017, which in combination with other tax strategies, should help partially offset the expected taxable gain on the forthcoming sale of Energy Transfer shares. These are currently held at approximately -$1.75B cost basis and we currently include a -$1/sh hit within our valuation for taxes on the sale (at 75% probability of sale, so we figure -$1/sh could be the actual impact at 100% given some mitigation).
- **Enable / Energy Transfer update - FTC and regulatory approvals as well as closing of transaction are expected in mid-summer.** In April CNP and OGE delivered written consents, with FTC, regulatory approvals, and closing expected in mid-summer. We then expect a relatively quick moving plan to exit this legacy midstream asset over the next year or two at most. Any sales of stock would have to wait for registration two to three months after closing (sometime in 4Q21 earliest).
- **Impacts from Texas Storm –expecting ~$2.2B incremental gas cost (vs prior estimate $2.5B), and reaffirming no direct impact from the storm to guidance based utility EPS.** The company expects a ~$2.2B incremental gas cost which includes $1.1B Texas, $463M in Minnesota, $335M in Arkansas and $83M in Oklahoma. CNP is estimating ~$500M-$600M remaining balance 12 months from the storm assuming current cost recovery mechanisms in place (Indiana, Mississippi, South Louisiana – recovery through existing cost recovery mechanisms over 12 months; North Louisiana – recovery through existing cost recovery mechanism over 3 years) and securitization of winter storm-related gas costs in Texas.
- **Arkansas and Oklahoma LDC sale to Summit Utilities to bring in ~$300M more than planned; going into 2022 capex.** CNP previously announced the sale of Arkansas and Oklahoma gas assets for $1.725B plus $425M cash for storm costs (2.5x of 2020 ratebase and 38x of 2020 earnings) and in our view, the sale was better than expectations ~1.5x-2.1x. CNP expects $1.325B of net proceeds (after taxes and transaction costs) to partially fund $3B incremental capex at its Indiana and Texas electric franchises. At AGA, CNP reiterated that their decision to sell LDCs revolved around a funding need of $1B and a sale was the best way to accomplish the funding gap. The sale is expected to close by end of 2021 (subject to regulatory approvals).
- **2021 Utility guidance reaffirmed at $1.24 - $1.26** after CNP reported 1Q21 beat with adj. EPS of $0.59 vs cons $0.50, in-line with CS 0.61 and vs. 1Q20 $0.60, driven by rate recovery, customer growth and O&M management, partially offset by one-time CARES Act impact and 2020 equity issuance. Additionally, CNP reaffirmed a 6%-8% LT annual growth rate (annual, not a CAGR, off a 2021 base).
- **O&M Savings: $16M in net savings achieved 1Q21.** CNP reaffirmed prior plans to achieve annual cost reduction of 1%-2%, or >$110M through 2025 plus net savings of $44M (~3%) in 2021, with $16M YTD. Management expects the cost variance to be largest in Q1 with net savings decreasing gradually through the year to achieve $44M.
- **No additional equity needs in 2021 (other than ~$25M of DRIP)** CNP previously announced $1.4B of new equity capital ($725M from 12-month mandatory convertible preferred stock, and $675M of common stock) to reduce debt and eliminate further equity needs through 2022. We expect ~$25M/year of DRIP equity in 2021 and small ATMs of ~$50M/year starting in 2022 through 2025, although the ATM program may be reduced further as a result of ~$300M more proceeds from the LDC sale than had been planned.
- **Capital Plan (2021-2025) Unchanged at $16B with $1B+ potential upside.** CNP rolled forward the capital plan a year in 3Q20, and their current (2021-2025) plan is now

$16B vs $13.2B previously (2020-2024). The additional ~$3B capital investment opportunities (to be funded through the upcoming sale of Oklahoma and Arkansas natural gas LDCs) split two-thirds into new investment opportunities in Houston and Indiana's electric businesses, and one-third gas with $2.5B more or less tracked with $500M for renewables in Indiana, which will bring the 2021E to ~$6B and will drive rate base CAGR target of 10%. **Additionally, management has also cited an additional $1B of capital spending opportunities not yet included in the plan**, with the budget providing enough flexibility to handle changing technological choices. CNP plans to ramp up on renewables with $950M wind and solar generation in Indiana, while advancing RNG and hydrogen renewables in Minnesota.

Dominion Energy (D) – Outperform, TP $90

James Chapman, Executive Vice President, CFO & Treasurer, Diane Leopold EVP & COO, Steven Ridge, Vice President, IR, David McFarland, Director, IR

- **Triennial review filing.** Next steps include respondent testimony on July 30, followed by the staff report on August 16. A final order is expected by November 2021. Recall D submitted its Triennial review application to Virginia's State Corporation Commission (SCC) on 3/31 covering a four-year period (future reviews are truly triennial) from January 1, 2017 to December 31, 2020. The filing includes ~$5B rate base investment and >$300M of CCRO eligible investment which reflects $206M of customer arrears forgiveness as ordered by the Virginia General Assembly.
- **Offshore Wind Remains on track – interaction with BOEM has been "positive and frequent."** Next steps include BOEM notice of intent in June 2021, CPCN filing in fall 2021, and a BOEM record of decision in June 2023. D's 2.6GW Coastal Virginia Offshore Wind (CVOW) project is on track and projected installed cost remains ~$8B (~$3,000/kW inclusive of transmission), and the company's estimate for project LCOE are unchanged at ~ $90MW/hr.
- **Santee Cooper –** contract work continues under the radar. The SC state legislature has authorized Santee Cooper to work with neighboring utilities on efficiency and cost reduction, and Dominion continues to pitch in on a contract basis. Recall that NEE recently withdrew its own offer to acquire Santee Cooper on 4/28 after the state Senate voted 36-8 against soliciting further bids.
- **South Carolina electric ratecase;** focused on getting through the ratecase there and working in decarbonization in VA. Hearings are expected to resume in July 2021 and final decision is expected in August. Recall on Jan 11, regulators granted a six-month pause to allow parties to further discuss a settlement given pandemic-related hardships. As part of the pause, the commission has ordered the parties to report on monthly basis on their progress. D previously filed for a $178M increase in Aug 2020, with Staff recommending only a $10M increase in November based on an 8.9% ROE on 50% of $5.744B ratebase using a year-end 2019 test year. Absent settlement, hearings are expected to resume in July 2021 with a final order by August 16, 2021.
- **2021 guidance reaffirmed at $3.70-$4.00** (CS $3.85, cons $3.87), 10% above 2020, after D reported 1Q21 Adj. EPS in-line of $1.09 vs. CS/cons $1.07/$1.07, in line with company guidance $1.00-$1.15, and vs. 1Q20 $0.92 driven by operating earnings at DEV and Gas Distribution, partially offset by corporate & other. Additionally, D is guiding 2Q21 with adj. EPS of $0.70 - $0.80.
- **Capital plan (2021-2025) unchanged at ~$32B** with 80%+ focused on decarbonization and 70%+ eligible for riders. Additionally, D continues to identify ~$72B of green investment opportunities through 2035.
- **Equity needs unchanged.** Equity requirements remain at $300M of DRiP with no ATM equity until 2022. Starting in 2022, D is expecting $0-$200M through ATM program, between $100-$300M in 2023 and in the range of $300M-$500M in 2024 and 2025. Altogether, D is projecting $2.2B - $3.0B in equity through 2025 with $1.5B of DRiP and $0.7B-$1.5B through ATM.
- **Net zero emissions target by 2050.** D previously announced a target to achieve net zero emissions including both carbon dioxide and methane emissions across all businesses by 2050. Additionally, D expects reductions of 70%-80% by 2035 with ~95% of the company's owned generation to be either zero or low-emitting.

DTE Energy (DTE) – Neutral, TP $133

Dave Ruud, SVP & CFO; David Slater - President & COO, Gas Storage & Pipelines; Trevor Lauer - President & COO - DTE Electric; Barbara Tuckfield – Dir. IR; John Dermody – Manager IR

- **Investor feedback has been positive on spin of DTE Midstream - still on track for July 1.** DTE noted that feedback from investors regarding the upcoming spin of midstream has been generally positive. The company is on track to achieve targeted adj. EBITDA 2021 of $710M-$750M and a ~2x dividend coverage ratio (subject to midstream board support). An investor roadshow is planned for Q2 and the Form 10 process is advancing. Recall DTE previously announced its intention to spin-off Gas Storage & Pipelines in Q3, with Spinco expected to assume a 4.0x debt/EBITDA credit profile with a combined dividend of the two companies that is higher than DTE's current dividend. Additionally, the spin-off is designed to be tax-free and DTE shareholders are expected to receive a pro-rata dividend of midstream spinco shares upon closing.
- **Next steps?** Next steps include public filing of Form 10 (announced last week), effectiveness being declared by SEC, followed by debt raise which the company is currently in, followed by an equity IPO roadshow for analyst and investor outreach. Trading is expected to start two weeks before spin.
- **Equity plans – doesn't see a need for 2021 and targeting low-end for 2023.** DTE is planning up to $200M for 2021 although management noted that they don't see a need to issue equity this year. DTE is also targeting $1.3B of convertible equity units in 2022, followed by up to $200M of equity in 2023 (targeting low-end in 2023).
- **2021 guidance reaffirmed after a strong 1Q beat at $6.88 - $7.26 (vs. CS $7.15).** DTE remains on track to achieve 2021 operating EPS guidance after reporting 1Q21 adj. EPS of 2.44 vs. CS/cons $2.29/$2.06, and vs 1Q20 $1.66, driven by higher rates at DTE electric and DTE Gas, favorable colder weather in 2021 and LEAP in-service and other pipeline earnings, partially offset by timing of taxes and net interest. Additionally, DTE reaffirmed 5%-7% LT operating EPS growth target off 2020 original guidance.
- **DTE Gas ratecase – commission/staff recommendations are due soon**. DTE expects a settlement. DTE Gas filed a ratecase (U-20940) in Feb 2021 with ratebase of $5.6B and rate recovery of $195M which translates into a 10.25% ROE and 52% equity ratio with rates effective Jan 1, 2022.
- **Emissions offsets and RNG initiatives.** DTE announced the CleanVision Natural Gas Balance, a program to include both carbon offsets and renewable natural gas, with execution of an agreement to secure forestry carbon offsets. The gas utility received an order approving a Voluntary Emissions Offset Plan (U-20839) in October 2020. The plan includes both carbon reduction and offsets (95%) and Renewable Natural Gas RNG (5%).
- **Net zero emissions by 2050. DTE Electric** is targeting carbon emissions reductions to 32% by 2023, 50% by 2030, 80% by 2040, and net zero by 2050. Since 2009, the company has invested $3B in renewable energy and the investment is expected to reach nearly $5B by 2024. Renewables is expected to account for 25%-30% of energy generation by 2030.
    - **DTE Gas** is targeting carbon emissions reduction of 45% by 2020, 65% by 2030, 80% by 2040, and net zero by 2050. DTE Gas is working towards lowering greenhouse gas emissions by more than 6M metric tons annually, incorporating emissions reductions as purchasing criteria, continuing main renewal upgrades and operational improvements, and working with suppliers to enhance operations.

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Consolidated Edison (ED) – Underperform, TP $74

Timothy Cawley, President & CEO, Yukari Saegusa, VP & Treasurer, Jan Childress, Director, Investor Relations, Kiley Kemelman, Section Manager, Investor Relations & Sustainability, Jared Lee, Manager, Investor Relations & Sustainability

- **Challenging time but bouncing back.** Management is more optimistic on 2021 after a strong 1Q21 report & with residential load improving. ED is seeing increased residential demand in the outer boroughs and expects to see improvement this summer as well.
- **Natural gas is no longer a transition fuel. Stagecoach "in the throes of the review process"** ED reports being deep into the strategic review process for its midstream assets held in a JV with Crestwood Partners (which holds a right of first refusal on any purchase of stake), with a decision is expected this quarter around the end of July. Management emphasizes that regardless of whether they decide to hold or divest the assets at this time, the company does not consider midstream gas a part of the core business anymore. Recall that in 2015, the acquisition was pursued under an earlier belief that natural gas would be a transition fuel between coal and renewables. ED's equity plans already bake in a range of possible outcomes, so no significant changes are expected under any outcome. Remaining book value is $670M and there is still ~$500M debt associated.
- **Update on late payment charges and allowances for uncollectibles.** Aged receivables >60 days are now ~$1B (vs $400M pre pandemic) funded with CP, with the amount associated with COVID19 increasing $153M to $625M during 1Q21, while the allowance for uncollectible customer accounts increased $34M to $181M. Approximately $110M of expense from reserves are being deferred under authority granted in 2020 legislation. There were $18M of estimated unbilled late payment charges and fees in the quarter as well. We continue to include a $500M pretax expense placeholder in our SoTP for a possible future writeoff of uncollectibles. In April 2021, CECONY filed a petition with regulators to establish a $52M surcharge mechanism to collect for 2020 late payment charges and fees beginning in Sept 2021 through Dec 2022.
- **"No set timing" on equity needs.** ED plans to file the next three-year rate plan for CECONY in early 2022 for rates in 2023. With a 12MT equity ratio at CECONY of 46.1% vs authorized 48.0%, the company is planning additional equity issuances to bring the balance sheet in line with the upcoming filing (historic three-year lookback stands at ~47%). The $1B of arrears >60 days now being financed with CP are not included in this equity ratio, but could reduce it further if termed out. Management reiterated plans to issue of up to $800M of common equity in 2021 and ~$700M in aggregate of common equity during 2022 and 2023 (in addition to equity under its dividend reinvestment, employee stock purchase and long-term incentive plans). Additionally ED expects to issue $1.9B - $2.6B of long-term debt, (including for maturing securities), in 2021 and ~$1.4B aggregate of long-term debt at the utilities during 2022 and 2023.
- **Renewables unaffected by higher steel and commodity inputs**: At the competitive energy business, ED noted that higher commodity costs haven't been a big issue thus far. Supplier relationships are strong and ED plans to do some more build-own-transfer of new renewable projects for third parties, which is more fee based without commodity exposure. Overall, the renewables business is expected to grow in-line with the utilities at a capex plan of ~$400M/year (was higher in 2020 at $600M due to pull forward).
- **Isaias response review.** An Administrative Law Judge (ALJ) has been appointed and hearings have been scheduled to begin in Sept 2021 in connection with show-cause orders issued earlier. ED has not booked any reserves for this yet.
- **Capital Plan (2021-2023) increased ~500M to ~$12.67B (from $12.1B).** ED's capex was increased in Q1 by $30M, $264M and $284M in 2021, 2022 and 2023, respectively, and the company now expects investments of $4,048M in 2021 (vs. 4,018M previously), $4,207M in 2022 (vs. prior $3,943M) and $4,419M in 2023 (vs. prior 4,171M).

- **2021 Guidance reaffirmed at $4.15 - $4.35**, in line with CS/cons $4.25/$4.25 after ED reported a 1Q21 beat with adj. EPS of $1.44 vs cons/CS $1.39/$1.26 and vs 1Q20 $1.35, driven by lower-than-expected COVID-related expenses, a higher-than expected (13%) non-weather jump in residential electric revenues, and impact from the annual stepup in rates under CECONY's three-year rate plan. High end of the 2021 guidance depends on reinstituting the recovery of late fees, but not the $52m from 2020. For the T12M, CECONY has earned an 8.5% ROE. ED previously projected a 5-yr CAGR of 4%-6% (based off 2021 adj. EPS and ~6.1% ratebase growth).

NiSource Inc. (NI) – Outperform, TP $29

Joseph Hamrock, President/CEO, Don E Brown, CFO, Pablo A Vegas, COO, Shawn Anderson, Senior VP/Chief Strategy & Risk Officer, Randy Hulen, VP of IR & Treasurer; Chris Turnure, Director of IR

- **Latest RFPs.** On May 20, NIPSCO announced three separate RFPs for wind resources, solar resources, and one for thermal, standalone storage, emerging technologies, and other capacity resources. The total expected range across all target areas is 400 MW to 650 MW of unforced capacity. The RFPs are intended to satisfy capacity requirements beginning in 2024, 2025 and 2026 through a combination of owned and contracted resources in coordination with the 2021 Integrated Resource Plan (IRP) process. RFP proposals are due June 30 with bid evaluation completed Aug 20 followed by signed agreements from Aug 2021-July 2022.
- **2021 Integrated Resource Plan (IRP).** Meetings throughout 2021 and completion is targeted for fall. The process includes RFP solicitation for new resources, (similar to 2018 IRP) and focuses on three primary considerations: (1) ability to meet reserve margins in all seasons (not just summer), (2) have an amount of firm, flexible/dispatchable capacity to handle increasing renewable penetration, and (3) assess ancillary service value of resources and ensure transmission implications are considered. The 1,780-MW Schahfer coal-fired plant is expected to retire in 2023 under all scenarios. However, management indicated that if presented with the right combination of new technological capabilities at attractive pricing (batteries, distributed fuel cells and local generation, and micro grids), it may be possible to retire the 469-MW Michigan City plant earlier than planned in 2028.
  - **Renewable projects were laid out in the 2018 IRP**. Recall CPCN filings were made on Feb 1, 2019 seeking approvals to develop three wind farms consistent with the IRP filed in the fall of 2018. Orders approving the PPAs on these filings were received on June 5, 2019. The 2019 RFP represents replacement ~1,400MW of coal capacity through 2023.
- **Columbia Gas of Pennsylvania - a final order is expected by end of the year.** Columbia Gas of Pennsylvania filed a 2021 base rate case in March requesting a $98.3M annual revenue increase. Next steps include staff/intervenor testimony and a final order is expected by end of the year. The ratecase has a different ALJ than the one involved in the prior ratecase in Pennsylvania that had recommended no increase at all. An order for Columbia Gas of Kentucky was received on 4/30 (new rates effective May 2021) allowing for $40M cost recovery of 2021 capex.
- **Sale of an LDC?** NI looks at strategic options as a matter of routine whenever considering financing plan options, but this year's review concluded that the convertible issuance in April was the best way forward, especially given the higher growth rates and capex opportunities across the company's utilities.
- **Convertible issuance eliminates block equity needs through 2024.** On 4/19, NI issued $862.5M convertible equity units at 7.75% yield (8.625M units), with proceeds to support renewables investment. The units are expected to receive 100% equity credit from S&P and Moody's, with full dilution hitting now (to diluted EPS) although shares won't be issued through the convert until the end of 2023. The 7.75% yield is paid from cash flow below the income statement (OCI). Recall that the company subsequently updated its financing strategy for 2021-2024, eliminating the original plan for $500M - $700M block equity and reducing the expected ATM for 2023 to $0 - $150M (from $200 - $300M).
- **Financing strategy reaffirmed.** The company previously updated its financing strategy for 2021-2024, eliminating the original plan for $500M - $700M block equity and reducing the expected ATM for 2023 to $0 - $150M (from $200 - $300M).
- **2021 Guidance reaffirmed at $1.32-$1.36.** NI raised guidance in Q1 to $1.32-$1.36 (from $1.28-$1.36) vs CS/cons $1.34/$1.33, after NI reported 1Q21 in-line with Adj.

EPS $0.77 vs CS/cons 0.76/$0.76, and vs 1Q20 $0.76, driven by increased investments in safety and asset modernization (excluding Columbia Gas of Massachusetts). NI also reaffirmed long-term (2021-2024) EPS CAGR of 7%-9% and near-term EPS CAGR of 5%-7% through 2023. NI expects investments to drive rate base growth of 10-12% CAGR through 2024, and we expect the company to attain at least the midpoint of a 7%-9% EPS CAGR (vs 2021) for 2024-25 after Indiana renewables are in service.

- **Prior Pennsylvania rate order received on 2/19 "right down the fairway."** NI received a rate order on 2/19 for $63.5M revenue based on 54% equity and 9.86% ROE. This is a positive outcome vs. investor concerns over earlier ALJ recommendation for no increase at all. The commission also approved a single step increase, which is more favorable than the company's request for two steps.

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NorthWestern Corporation (NWE) – Neutral, TP $67

Bob Rowe (CEO), Brian Bird (Pres and COO), Crystal Lail (VP and CFO) and Travis Meyer (IRO and Dir. Corp. Finance).

- **Regulatory relationships improving in Montana.** NWE continues to cultivate productive discussions with two new commissioners: Jennifer Fielder (R) and James Brown (R), which replaced Bob Lake (R) and Roger Koopman (R), respectively. Fielder is from Western Montana and favors hydroelectric power, while Chairman Brown, is a lawyer focused on due process and procedure.
- **Longer term, NWE guides to 4%-5% annualized ratebase growth generating 3%-6% annualized EPS growth.** Additionally, the company is maintaining a 60%-70% targeted dividend payout target, with $2.48 annualized dividend likely to be at the upper end of the range this year with growth in line with EPS going forward, and is also targeting debt to capitalization ratio of 50%-55% with liquidity of $100M or greater.
- **Equity plans.** NWE initiated a $200M ATM offering during 2Q21 and the company reiterated that any equity issuances will be sized in such a way to allow the company to maintain current credit ratings. Due to Moody's outlook change, the company anticipates accelerating from what was previously noted as "over three years," but still spread out over time. Montana RFP generation is not included in this plan, with additional equity likely needed (50% equity/50% debt) if self-build wins approvals later in 2021.
- **RFP project selection.** NWE announced in Q1 that it had chosen a self-build generation option as a preferred option in the utility's request for proposals (RFP) for up to 280 MWs new generating resources. The Laurel Generating Station (175MW) RICE units would be owned by NWE, with the remainder filled with a five-year power purchase agreement with Powerex for 100MW of capacity. Laurel is expected to cost ~$250M in 2022/23 (financed 50/50 debt/equity at that time) and become available for operational use by late 2023/early 2024. Additionally, the company expects to finalize an agreement for an energy storage contract to fill a 5-hr duration. NWE expects file for formal MPSC approval in May 2021 with a final order six to nine months after filing. We expect another RFP for additional resources after the approval process is completed.
- **All quiet on the (North)Western front – Guidance Reaffirmed.** NWE reaffirmed 2021 guidance at $3.40-$3.60 (CS and consensus $3.50), after NWE reported a 1Q21 beat with adj. EPS of 1.26 vs. CS/cons $1.13/$1.12, and vs 1Q20 $1.06, driven largely by improved gross margin from higher electric and natural gas retail volumes and lower opex costs, partially offset by higher Montana Electric supply costs and depreciation expense. We continue to expect 2021 guidance to be narrowed, but we don't see this happening until Q2 or Q3 earliest**.**
- **Regulatory Update – No ratecase filings expected in 2021.** NWE does not expect to file any base ratecases in any of their jurisdictions in 2021. Furthermore, the company filed a request on 4/15 to delay implementation of the fixed cost recovery mechanism pilot in Montana for another year until July 2022 or beyond as a result of continued COVID-19 uncertainty. The company also filed on 4/21 for approval to increase revenues for the Montana Power Cost and Credit Adjustment Mechanism (PCCAM) by $17M.
- **Capital Plan (2021-2025) unchanged at $2.1B.** NWE introduced a new capital plan in Nov 2020 for 2021-2025 with $2.1B of total capital investment throughout the next five years, a $300M increase over prior plan. Capex remains $451M, $456M and $418M for 2021, 2022 and 2023 respectively, and $400M in 2004 and 2025.

Southern Company (SO) – Outperform, TP $74

Andrew Evans, EVP & CFO; Robin Boren, SVP & Treasurer; Scott Gammill, Dir. IR

- **Vogtle Unit 3 nearing completion, but Hot Functional Testing (HFT) sequence is now expected to "take a couple of weeks longer" than the company's initial plan of 6-8 weeks.** Investors should not be surprised to see more delays, which are insignificant to our TP and Outperform thesis. The latest delay is from the need to bring down system temperatures while shims are adjusted on pressurizer equipment before reheating. These adjustments so far are not considered serious defects, but rather the expected tweaks typically done during a HFT. The company's previous plan was for the plant to begin operations in December 2021, but since more testing is needed, new completion date is now expected in 1Q22 with 8-10 weeks for HFT. Testing of control systems began on 4/25 (the last major test) and fuel load is now expected in September with best case scenario now a Jan 2022 in-service date (vs. prior Dec 2021). Important to note that Jan 2022 is on the "aggressive" schedule; we think 1Q22 is more accurate, with each month ~$25M (eating into $175M contingency remaining 3/31/21). Major remaining risks include successful completion of construction, and testing and system turnovers. **Unit 4 is now ~80% complete, and still targeting 3Q22 in-service date**, but we continue to envision some modest slippage and higher contingency cost here too as work crews assist with Unit 3.
- **Vogtle total projected capital cost unchanged at $8,755M** (after it was previously increased by $48M, from $8,707M), and remaining estimate to complete is unchanged at $1,195M although delays may result in an incremental $25M/month in cost although this is covered by the company's $175M contingency remaining as of 3/31. Unit 4 schedule cost margin remaining to Nov 2022 deadline is $39M (vs prior update of $64M). As of 3/31 SO has invested $7,560M in Vogtle (vs. $7,246M in prior update).
- **Vogtle cost recovery path.** During construction, $4.4B of plant capital is earning a 5.3% penalty ROE as agreed to under a 2017 settlement. Another $2.3B is earning only a debt return at 3.2% (including the low cost from DOE loan guarantees). We estimate that once Unit 3 is in service, the $4.4B will be restored to Georgia Power's 10.5% ROE (a $0.05 EPS impact mostly on 2022 results). A review of penalties on the remainder of the asset will be deferred until both units are in service (an incremental $0.16 annualized impact that we estimate shows up in 2023). This >$200M net income improvement is a major driver of 100 bps higher EPS growth to 5%-7% through the end of Vogtle construction.
  - **On prudency determinations**, $3.5B of costs have already been deemed prudent in the 2017 settlement. Spending above this and up to $5.68B has already been considered "reasonable", with the burden on opponents to prove imprudence. Anything over $5.68B (to $7.3B settled cap) will have to be shown prudent by the company. Prudency determinations are expected 130 days following Unit 4 in-service.
  - **A new ROE for Georgia Power is likely determined in the next general rate order**, which is also expected around the same time as Unit 4 in-service. After Vogtle, we estimate that this level of EPS growth is sustained by incremental decarbonization capex and strong cash flows that strongly mitigate the need for secondary equity. We also think Georgia Power is likely to request recovery of COVID19 costs and other contingency funds used during Vogtle construction, although regulatory support for this could be difficult to obtain.
  - **Customer rate impact.** Since inception over a decade ago, the plant is expected to cost customers a 10% increase in rates. However, roughly half of this is already in rates through the NCCR tariff. Upon unit 3 in-service, rates can be expected to increase 3%+, with a similar increase after Unit 4 is in service.
  - **Prior commentary on cash flows.** Management has previously stated that Vogtle (once fully embedded in rates) should add ~$850M of annual cash flow. While the company has not decided what it plans to do with cash flows in 2024 -2026, it

expects to potentially grow dividends faster or pay down debt to improve credit quality. Dividend growth has typically been slightly behind the company's expected income growth in an "effort to move payout ratio down a little closer to industry"

- **More renewables coming.** SO now owns ~5,000MW of renewables and expects to continue to add to the portfolio with the recently announced acquisitions of 300MW Deuel Harvest facility in SD, and the 118MW Glass Sands facility (currently under construction) in OK, plus 160MW Tranquility and Garland battery storage projects (also under construction) in CA. SO now owns 15 wind projects and ~2,500MWs of solar plus ~160MW of battery storage across the US.
- **2021 guidance unchanged at $3.25 - $3.35** vs. CS/cons 3.30/$3.31, after SO reported 1Q21 Adj. EPS of $0.98 vs. CS/cons $0.82/$0.82, vs guidance $0.84, and vs. $0.78 in 1Q20, driven by customer growth, higher residential sales, favorable weather and investment in regulated utilities, partially offset by COVID19 impacts. Additionally, SO is guiding 2Q21 adj. EPS at $0.78.
- **2021 outlook**. SO is estimating 2021 weather-norm total retail kW/hr sales to increase by 2%-3% vs prior year. Additionally, the company is projecting for their electric service territory to reach the pre-pandemic employment peak in 2022.
- **Equity needs unchanged.** SO continues to expect no secondary equity through at least 2025. As of 3/31, SO has > $7.7B in committed credit facilities and $7.2B available liquidity.
- **Capital Plan (2021-2025) unchanged at $39.9B.** SO's 5-yr capex is unchanged at $39.9B, (slightly higher than prior $39.5B 2020-2024 plan), with capex of $7.7B in 2025. Recall SO expects 95% of capital plan to be deployed into state-regulated utilities and the company is projecting a 4% annual capital growth in electric utilities to $64B in 2025 (off $52B in 2020), driven by modernization and resilience initiatives. Additionally, SO is projecting 10% annual rate base growth in Gas LDCs to $13B in 2025 (off $8B in 2020), driven by "substantial" pipeline replacement.
- **Decarbonization efforts.** SO plans to achieve 50% reduction in greenhouse gas emissions by 2025 (ahead of prior 2030 goal) and achieve net-zero by 2050. YTD, the company's generation mix includes, 15% renewables (unchanged vs. Q4), 22% coal (vs. 17% in 2020) 16% nuclear (vs. 17% in Q4), and 47% natural gas (down from 51% in 2020).

Spire Inc, (SR), Outperform, TP $83

Steve Lindsey (EVP and COO), Steve Rasche (EVP and CFO), Adam Woodard (VP, Treasurer), Scott Dudley (MD IR), Nana Appah-Sampong (Sr. Analyst-IR)

- **Impact From Uri:** Gas marketing results improved ~$35M from extreme market conditions and storage monetization during Winter Storm Uri. This was a bit more than we anticipated, but less than the high end of possibilities considering the company entered 2021 with a 26 BCF storage position potentially worth multiples of that at the peak of the storm
    - **Color on Storm Uri effects on Spire gas customers from our 5/10 EXC note**: SR reported that Exelon's (EXC) ExGen power and gas marketing business was one of three marketers that may be subject to penalties in Missouri after SR acted as a provider of last resort (POLR) to ExGen's natural gas customers. SR noted about $196M at stake (a portion associated with ExGen) and has launched litigation against ExGen, while the Missouri Public Service Commission is also considering if any part ExGen's costs should be waived (cost of gas plus 1.5x penalties). In our view, it seems possible that penalties could be waived but unlikely that regulators would choose to allow marketers to pass along the cost of high-priced gas to any fixed-cost retail customers.
    - **Likely to see some small net incremental benefit in 3Q as remaining unresolved contracts and payments are settled**.
- **Missouri ratecase filed in Dec, next steps include submission of testimony on rate design on 5/26. We continue to see room for a favorable settlement.** As expected, staff/intervenor testimony was provided on 5/12, a standalone cap structure was recognized, and recommendations called for a 9.37% ROE and a 54.25% equity ratio. Next steps include submission of testimony on rate design on 5/26. Local public hearings are scheduled for late June, with MPSC hearing in July and August. Recall the rate case was filed on 12/11, seeking recovery of costs and >$850M in capital investment. The filing requests a base rate increase of $64.2M, (which is net of $47.3 million already being collected through ISRS) based on ratebase of $2,780M, a 9.95% ROE and a 54.25% equity ratio.
- **Settled outcome in the Missouri ratecase seems likely.** We continue to expect a relatively non-contentious settled outcome, with the Infrastructure System Replacement Surcharge (ISRS) resolved by legislation and less controversy now over prior ratecase issues with tax reform, capital structure, and prepaid interest expense.
- **SR reaffirmed a long term NEE per share growth target 5-7%** off a pre-COVID-19 2019 base of $3.73, driven by consistent growth of its gas utilities. SR's LT growth target assumes annual rate base growth of 7-8% driven by investment in pipeline and technology upgrades, and new business.
- **2021 Guidance raised to $4.30-$4.50** (from previous range of $4.00-$4.20) vs CS $4.10 vs consensus $4.16) after SR reported a 2Q21 strong beat with NEE of $3.71 vs. CS/cons $3.08/$3.03, and vs 2Q20 $2.75, driven by strong performance from Spire Marketing, and improved earnings from Gas utilities and lower interest expense.
- **Capital plan (2021-2025) reaffirmed at $3B and on track for FY21.** SR's 2021 capex is on-track at $590M (560 Gas Utility, $30M Pipelines, storage & other) with $304M in 1H21 (vs $346M in FY20), which includes $148M for pipeline replacement and $75M for new business at Gas Utility, Capex is expected to be $580M in 2022, $590M in 2023, $600M in 2024, and $610M in 2025.
- **Financing update – 2021 Equity needs satisfied.** On 3/23, SR entered into a 364-day term loan for $250M in order to maintain financial flexibility amid the Winter Storm Uri in February. Also, on 2/18, SR completed an equity units offering for gross proceeds of $175M (initially recorded as LT debt). The company used the net proceeds, in part, to

repay ST debt under its commercial paper program. The offering resolved the need for SR planned equity needs for fiscal 2021.

WEC Energy Group (WEC), Underperform, TP $91

Scott Lauber, Sr. EVP & COO, Xia Liu, EVP & CFO, Beth Straka, SVP Corporate Communications & Investor Relations

- **Moving along in Wisconsin electric ratecase - A Commission review and consideration is expected over the next 60 days.** WEC filed on 3/30 to stay out one year (as a result of COVID-economic impacts) and maintain current authorized ROE: 10% for Wisconsin Electric and Wisconsin Public Service, and 10.2% at Wisconsin Gas, and to maintain a 50%-55% equity ratio at all three utilities. Management noted that "things are moving along well and we are optimistic that will hear something soon." WEC expects a commission review and consideration within the next couple months and will file next rate reviews no later than May 1, 2022.
- **Moving faster on decarbonization – "resonating with stakeholders".** WEC previously announced new greenhouse gas reduction targets – to reduce emissions by 60% (vs 55% previously) below 2005 levels by end of 2025 and 80% by 2030 (vs 70% previously). Still targeting net carbon neutral by 2050 and net zero methane emissions by the end of 2030 too. Furthermore, the company estimates that less than 10% of WEC revenues and assets will be tied to coal by the end of 2025; essentially just the Weston 3&4 and Oak Creek units after retiring Oak Creek 5-8 (1.1 GW) and Columbia 1-2 (300 MW) from 2023-2024. Investors have been pleased thus far with WEC's accelerated targets.
- **No delays in energy infrastructure progress.** Jayhawk Wind Farm is still expected to be commercially operational by late 2021**.** Within the non-regulated Energy Infrastructure segment, WEC acquired a 90% stake in Jayhawk Wind Farm for $302M, which will be built in Kansas and consists of 70 wind turbines with a capacity of ~190MWs. The project also incorporates a long-term offtake agreement with Facebook and is expected to be commercially operational by late 2021. Additionally, the 300MW Thunderhead project is expected to go in-service by year-end. Even though Thunderhead had been expected previously to be connected to the grid by end of 2020, a "several-month delay" was due to a permit issue related to a substation being built by Nebraska Public Power District. It is expected to begin commercial operations by year-end; management emphasizes that the delay should not change the trajectory of company's earnings growth for 2021.
- **New LNG storage facilities on-track**. We Energies is seeking approval for two LNG facilities in order to obtain additional natural gas in Wisconsin. WEC is expected to invest $370M into the projects which have an in-service date of late 2023. Approval is expected in Q4 of this year, and construction would begin soon after if approved.
- **2021 Guidance Reaffirmed at adj. EPS $3.99 - $4.03 (CS/cons $4.00/$4.02) with an emphasis towards top end**, after WEC reported a strong 1Q21 beat with adj. EPS of $1.61 vs CS/cons $1.47/$1.45, vs company guidance $1.45-$1.47, and vs 1Q20 $1.43. 2021 guidance reflects 7%-8% off $3.73 base (midpoint 2020) and supports WEC's long term 5%-7% annual growth. Additionally WEC is guiding 2Q21 adj. EPS of $0.75 – $0.77 (vs CS $0.80 and 2Q20 $0.76). Lastly, WEC continues to guide to 2%-3% incremental cost reduction in 2021 vs a 3% reduction in 2020.
- **Utility decarbonization investment.** As part of a $1.9B, 1.8-GW renewable investment plan for the utilities, the 100MW, $130M Badger Hollow Solar Park I and II projects are targeting in-service dates of summer 2021 and Dec 2022, respectively. The company has also announced $1.5B of investment in 675 MW solar, 316 MW battery, and 82 MW of wind from shares in four large scale renewable projects (Paris, Darien, Koshkonong Solar-Battery, Red Barn Wind) expected to be in service from 2022-2024. The utilities are also replacing 400 MW of older gas turbines with 100 MW of efficient gas-fired RICE units and 200 MW of new CCGT for $180M from 2023-2024. Furthermore, they are proposing to build 128 MW of efficient gas-fired RICE units at the Weston site in 2023 for $170M.
- **WEC's Capital Plan $16.1B (2021-2025) is unchanged**. WEC's capital plan is unchanged after it was previously rolled forward a year in 3Q20 call and increased by $1.1B (7.3%) to $16.1B vs. previous $15B (2020-2024) capital plan.

- **No equity financing is anticipated**. WEC does not expect any equity needs and expects FFO/debt between 16%-18% (potentially high end or above) for the next five years without the need to issue additional equity.
- **Retail electric and natural gas (w/o power gen) annual forecasts unchanged.** WEC is forecasting a 1.4% increase in total retail sales volumes in 2021 (vs 2020), which also represents a 1.5% reduction from 2019 levels. For natural gas, WEC continues to project weather normalized retail gas deliveries to decrease by 2.4% vs. 2019, and for residential and C&I to improve 0.5% and 0.8% respectively vs 2020.

Valuation Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Black Hills Corp (BKH.N)

Method: We arrive at our $78 price target using a sum of the parts valuation methodology; applying multiples specific to the individual businesses that BKH operates in. We apply a 1.0x premium to the average peer 2022 P/E multiple to the electric utility business (ex. Colorado) and an average for the CO segment. We apply a 1.0x premium to the average peer 2022 P/E multiple to the gas utilities. We then apply an average electric P/E multiple to the power generation business since it is under long-term contracts to te utilities. Our valuation also includes the probability weighted outcome for the Wyodak coal contracts. Our OUTPERFORM rating reflects a forecast total return materially above its peer group average.

Risk: Risks to our $78 target price and OUTPERFORM rating on BKH: (a) earnings dependent on regulatory relationships; we would highlight Colorado as their most challenging jurisdiction, (b) success at the utilities in funding the next newbuild cycle, (c) COVID19 load reduction and bad debt, (d) repricing risk in 2023 for the Pacificorp coal contract, (e) upside/downside risk for the capital plan, with 1-2 incremental ~$50M projects typically announced each year above and beyond the plan, (f) interest rate risk.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for CMS Energy Corp (CMS.N)

Method: We arrive at our $70 price target and OUTPERFORM rating for CMS by applying a 3.0x premium to average peer 2022E P/E multiples for electric and gas, respectively and an average utility P/E multiple for the enterprises business, reflecting above-average EPS growth and a favorable regulatory environment. We also assume 50% realization of upside from $3-4B of incremental capex through 2028. Our OUTPERFORM rating reflects a forecast total return above the group average.

Risk: Risks to our price target of $70 and OUTPERFORM rating for CMS are 1) risks related to implementation of Michigan energy legislation 2) regulatory risk, 3) legislative risk, 4) commodity risk, 5) interest rate risk, 6) derivate risk, 7) load growth risk, 8) weather risk, 9) environmental and climate change risk, 10) physical infrastructure and cyber security risk.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for CenterPoint Energy Inc (CNP.N)

Method: Our $28 target price and Outperform rating for CNP are derived from our sum of the parts analysis. We expect its total return to be above peers within our coverage universe. Our target price is based on (1) a 2.0x premium to the average peer 2022E P/E multiple for the electric segment (primarily for the Indiana jurisdiction) and 2.0x premium to the average multiple for the gas segment, respectively and; (2) market price for Energy Transfer shares minus a 50% probability of incurring a tax loss (-$1.75B cost basis) on a possible sale.

Risk: Risks to our $28 target price and Outperform rating for CNP include regulatory risk at the utilities, particularly in Texas after a disappointing 2019 rate decision for Houston Electric, COVID19 load reduction and cost, operational risk at the both the electric and gas utilities, capital plan execution risk, and a lower valuation as investors discount commodity price head winds or if the outlook for midstream deteriorates in the service areas where its assets are located.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Consolidated Edison (ED.N)

Method: We calculate our $74 target price on Consolidated Edison based on a sum-of-the part methodology. We apply a -2.0x discount to the 2022 peer average P/E to the NY utilities for low earned ROEs (below-average authorized ROE of 8.8% base plus 50 bps upside before sharing) and a difficult-to-achieve incentive program under the three-year rate plan is in place through 2022, despite slightly above-average ratebase growth of 6%. The renewable segment is valued using the cash flow yield approach with a 9.5% yield while the transmission and midstream segment is valued using a 5.0x EV/EBITDA multiple due to its negligible growth. As a placeholder assumption, we subtract $500M pretax ($1/sh) of value for possible writedown of bad debt and lost fee income as a result of COVID19. The UNDERPERFORM rating reflects our expectation for the stock to lag peers with a below average earnings growth profile.

Risk: Risks to our $74 target price and the UNDERPERFORM rating on ED are: (1) ROE risk related to REV approvals and future growth coming out of the program, (2) a significant increase in interest rates, particularly given the formulaic ROE approach in NY, ED's primary jurisdiction, (3) ability to finance capital expenditures, and (4) the impact of COVID19 pandemic response on bad debt and lower late fee collections.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for DTE Energy (DTE.N)

Method: We arrive at our $133 price target for DTE using a 2022E P/E multiple relative to the group average. We value the Detroit Edison (Electric business) and MichCon (gas) using a 3x premium to the respective average peer electric and gas 2022E P/E multiples to reflect the constructive regulatory environment in the state along with a strong legislative backdrop. While GS&P's spin is pending, we also value the non-utility businesses on an EV/EBITDA basis, using 8.0x consistent with our treatment of other utilities with similar midstream exposure. We also assume there is some risk related to recontracting and expansion on Nexus as well as a reduction of revenue in the Haynesville once the current 13-year above-market contracts expire. Our NEUTRAL rating for DTE reflects a forecast total return at the group average.

Risk: Risks to our $133 price target and NEUTRAL rating for DTE are 1) oil and gas industry risk in the Haynesville and Marcellus/Utica, 2) execution and operational risk for the utility's long-term capital plan, 3) regulatory risk, 4) commodity risk, 5) derivative risk, 6) load growth risk, 7) weather risk, 8) environmental and climate change risk, and 9) physical infrastructure and cyber security risk.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Dominion Energy (D.N)

Method: Our $90 TP and OUTPERFORM rating are based on a sum-of-the-parts valuation methodology. We include partial credit for 5.1 GW of offshore wind through 2035 (EPS based on 50% equity, 9.6% ROE, and discounted to 2022). We apply a 3.0x premium P/E multiple for the Virginia utility given the triennial rate review system that provides rate stability through at least 2024 and a 1.0x premium for the gas utilities. We assume a 50% probability of a $50M revenue reduction in 2022 and a 90% probability that the company will be required to make an incremental $265M of annualized CCRO investment in 2025+ for which investors only realize 30% of the value. We assume the peer electric and gas group P/E multiples for Dominion Energy South Carolina given a balance between above-average ratebase growth opportunities and lower earned ROEs with the need for a rate filing in 2021. We apply the average peer electric utility P/E multiple to long-term contracted generation, including Millstone nuclear, and the company's 50% ownership of the contracted Cove Point LNG export terminal.

Risk: Risks to our $90 target price and OUTPERFORM rating for Dominion are 1) removal of D's rate freeze in Virginia 2) regulatory risk, 3) legislative risk 4) commodity price risk and power market/power price risk 5) interest rate risk 6) derivative risk, 7) load growth risk 8) weather risk, 9) environmental and climate change risk, 10) physical infrastructure and cyber security risk, and 11) execution risk on the major ongoing capital projects.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Energy Transfer LP (ET.N)

Method: Our target price of $13 for ET is based on a 8.9x EV multiple on our FY22 EBITDA estimate. We rate ET Outperform as we expect it to return more than its peers.

Risk: Risks to our $13 target price and Outperform rating for ET are DAPL, project delays, and lower production volumes.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: We arrive at our $29 target price for NI by applying a 1.0x premium to the gas segment peer 2022E P/E to reflect the constructive regulatory environments with capex trackers in place in the jurisdictions that NI operates. We also apply a 1.0x premium to the average peer electric utility 2022E P/E multiple for NIPSCO Electric utility in Indiana to reflect the favorable ratebase growth profile and regulatory environment in the state. Our OUTPERFORM rating reflects a forecast total return that is above the group average.

Risk: Risks to our $29 target price and OUTPERFORM rating are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particularly in the non-decoupled jurisdictions, 7) weather risk, and 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety after the 2018 explosion incident in Mass., and 11) COVID19 load reductions.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for NorthWestern Energy (NWE.OQ)

Method: Our $67 target price for NWE is based on a -0.25x discount to the average peer electric utility 2022E P/E multiple (no discount to the average gas utility multiple) to account for regulatory risk in Montana, especially an aversion in the state to ratebased ownership of generating assets. We rate NWE NEUTRAL as we expect its total return to be above its peer group.

Risk: Risks to our $67 target price and NEUTRAL rating for NWE are 1) approval of a potential decoupling mechanism to deal with lost load, 2) regulatory approvals to add new generation units in ratebase, particularly in Montana, and 3) changes in the regulatory environment in Nebraska, Montana or South Dakota, (4) COVID19 load reductions

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Southern Company (SO.N)

Method: We derived our $74 TP for SO using a SOTP methodology. For the regulated utilities segments, we value the segments separately by applying a 3x premium group P/E target multiple to the Alabama and Georgia segment's 2022E earnings to derive the segment's value while taking into account the risks in these segments. We apply a 0.0x (no adjustment to average) for Mississippi. We use an

EV/ EBITDA multiple approach to value Southern Power segment whose earnings is derived from long-term PPAs of contracted merchant assets. An EV/ EBITDA multiple of 10x is applied to the segment's 2022E EBITDA to derived the total value of the segment. We use a peer group average EV/EBITDA of 9.5x to value the gas midstream segment and use a 12x P/E to derive the value of the gas marketing segment. Our Outperform rating reflects a forecast total return above the group average.

Risk: Risks to our Outperform rating and TP of $74 are: 1) Vogtle construction execution, and 2) potentially lower ROEs out of ratecase filings across the Gas LDCs, along with general business risks in the utility industry: 1) regulation, 2) legislation, 3) commodity prices, 4) interest rates, 5) derivative risk, 6) load growth, 7) weather, 8) environmental and climate change, 9) physical infrastructure and cyber security, and 10) COVID19 load reduction and unpaid bills.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Spire Inc. (SR.N)

Method: We arrive at our $83 price target for SR by applying an average peer gas utility 2022 P/E multiple to the Missouri utility, and a 1.5x premium is given to the other gas utility businesses given more favorable regulatory jurisdictions. For the gas marketing business, we apply a 12x 2022 P/E multiple reflecting the increased risk and volatility of the marketing business relative to the gas utility business. We rate SR OUTPERFORM as we expect its total return to exceed peers.

Risk: Risks to our $83 price target and the OUTPERFORM rating for SR are: 1) regulatory risk, 2) commodity risk, 3) interest rate risk, 4) derivative risk, 5) load growth risk, 6) weather risk, 7) environmental and climate change risk, 8) physical infrastructure and cybersecurity risk, and 9) COVID-19-related load reductions in winter 2020-2021.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for WEC Energy (WEC.N)

Method: Our $91 target price and UNDERPERFORM rating for WEC are based on the sum-of-the-parts methodology. In our valuation of the Wisconsin segment, we apply a 3.0x premium to the blended average peer 2022 P/E multiple of the electric and gas groups to account for the opportunity set in Wisconsin and for a lower beta than peers. A 3.0x P/E premium is also applied to the Illinois and other states segments. A 2.0x premium over the electric group P/E multiple is used in our valuation of the ATC and the non-utility segments We rate WEC Underperform as we expect its total return to be below its peers.

Risk: Risks to our $91 target price and UNDERPERFORM rating for WEC are ratecase outcomes, deterioration in regulatory environment in WI, IL, MI, and MN, and failure to execute its investment plan.

Companies Mentioned *(Price as of 20-May-2021)*
Avangrid (AGR.N, $52.29)
Black Hills Corp (BKH.N, $66.21)
CMS Energy Corp (CMS.N, $63.74)
CenterPoint Energy Inc (CNP.N, $24.7)
Consolidated Edison (ED.N, $78.42)
DTE Energy (DTE.N, $140.36)
Dominion Energy (D.N, $77.24)
Energy Transfer LP (ET.N, $10.02)
NiSource Inc. (NI.N, $25.32)
NorthWestern Energy (NWE.OQ, $63.31)
Southern Company (SO.N, $64.06)
Spire Inc. (SR.N, $72.92)
WEC Energy (WEC.N, $95.52)

Disclosure Appendix

Analyst Certification

Michael Weinstein, ERP, and Maheep Mandloi each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.
Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

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2021 AGA Meeting Takeaways

In this note, we briefly summarize takeaways from each of our 12 meetings at the American Gas Association (AGA) Conference over the past two days.

Utes remain close to fair value/modestly cheap in our bond model. After strong relative performance in Sep/Oct 2020 (Uts +7% vs S&P500 -7%) the group materially underperformed the market since Nov 2020 (Uts up 10% vs S&P500 up +27%) as the S&P rallied with a cyclical/risk-on rotation. Utilities are now modestly expensive in our bond model on '21 dividend yields and ~3% cheap on '22 yields (page 8). The group is discounting 10yr at ~1.6% one year forward. NTM relative P/Es still show a discount at 0.94x versus a 1.09x average since 2006 – but notably in the 08/09 recession it took close to 18 months since the trough to get back to normal levels. The recent valuation trough was mid-20, see page 9. We foresee the group continuing to lag the market in the near term and prefer value (energy exposed/more cyclical names) over quality (CNP, EVRG, ETR, OGE and SRE are outperform rated names within the regulated value bucket). Within diversified names we like AES (top pick) and EXC. Long term we are more constructive due to valuation support and view the Biden presidency as a major tailwind. We are outperformed rated AEE, AEP (top pick) and D within the quality bucket, (see our 2021 outlook here).

Ameren Corp. (AEE), Outperform rating, $90 price target

- **Illinois Downstate Clean Energy Act:** AEE remains at the table with stakeholders. The legislation session ends May 31, 2021 but the bill could also be brought up in subsequent veto sessions; the Act presents possibility of solar/storage/EV capex, plus $0.07 annual EPS upside given a potential modification of the allowed ROE formula.
- **Missouri securitization:** legislation passed the House and Senate last week and the governor usually signs bills in late June; then they become law, effective Aug. 28 if they don't have an emergency clause. AEE says legislation does not have an immediate impact on how it is thinking about its Missouri IRP, but it provides greater flexibility to address acceleration of coal retirements. Management said passage of the legislation is also another sign that Missouri legislation is constructive, as evident with PISA as well.
- **Incremental wind capex:** Ameren will file CCNs by end of year for the 1,200 MW of incremental wind projects in the Missouri IRP that are not currently in the five-year capex plan.
- **Incremental MISO transmission capex**: "sizable" investment opportunities primarily in the latter half of the decade that would be incremental to the $40+ billion ten-year capex plan. Some could come in 2024-2025 timeframe under five-year plan but not likely to be material. More clarity on MISO opportunities will come in December 2021 when they put forth their first portfolio
- **Callaway outage**: Ameren does not foresee any major risks to bringing the nuclear plant back online in July. Still no significant impact on financial results expected.

See inside for takeaways on the remaining companies.

Ameren (AEE) Takeaways continued…

- **FERC incentive adder**: comments and reply comment due dates were extended. Comments are now due by June 25, 2021 versus May 26, 2021 previously. Reply comments are now due by July 26, 2021 versus June 10, 2021 previously. If the 50bp incentive adder were removed, it would have a $0.04 EPS impact.
- **What AEE is excited about:** Long-term infrastructure investment points to extended runway of growth beyond five-year plan, particularly as it relates to MISO transmission, grid modernization and the clean energy transition including EV-related spending.

CenterPoint Energy (CNP), Outperform rating, $26 price target

- **Tax repairs**: CNP is looking to use tax repairs, which will allow for expensing a portion of capex, to mitigate tax leakage from one-time taxable gains on the gas LDC sales, as well as potential ET unit gains when it disposes of them. CenterPoint expects to have the ability to carry back the deduction several years.
- **Capital a priority for excess cash:** CenterPoint continued to highlight that the $300mm of incremental proceeds from gas LDC sale versus plan will be primarily used for reinvestment (likely electric) to improve utility performance without burdening customers. The next priority is delaying or eliminating the ATM program, and the potential opportunity to use anything left to de-lever.
- **Excess cash versus plan**: we project over $1 billion of excess cash versus the plan primarily driven by ET share price appreciation and lower-expected cash taxes on gain on sale with deployment of tax repairs. That translates into 2023 EPS upside of $0.16-0.17 or 10% vs our current projection if all were reinvested assuming the excess cash is deployed at 10% ROE in the utility business. We would not expect all of the cash to be reinvested; as mentioned, we would see it eliminating equity needs and used for de-levering as well.
- **ET unit sell-down**: CNP reiterated its plan to sell the ET units expeditiously (more quickly than five years) after the transaction closes, expected 2H21.
- **Regulatory relationships:** CNP said it spent a day in Austin this week with about three-quarters of the time at the Capitol advocating for legislation and the remainder at the Texas PUC with two commissioners. CenterPoint said the commissioners recognize there is a clear platform for change but likely not a major change to the wholesale markets in TX. Conversations centered on incremental transmission, battery storage and other tools to minimize the impacts of widespread outages. CNP is looking to build on the conversation in the future.

CMS Energy (CMS), In Line rating, $64 price target

- **Electric rate case:** we believe the pending rate case filing is relatively plain vanilla and it should not have any majorly controversial issues. Michigan ROEs have been sticky and remained well above the national averages even as the 10-year treasury rate has declined more significantly over the past several years. CMS said it will make the case that equity thickness should increase in light of tax reform enacted in 2017, as other jurisdictions outside of Michigan increased it to mitigate the cash flow impact.
- **IRP filing:** CMS will file its IRP on June 30th. We believe there are two key items to focus on: 1) accelerated coal retirements from the 2030s, and 2) a more rapid solar build-out with higher portion of owned resources. CMS said there will be a sharp focus on resiliency and reliability (we expect a fair amount of gas) in light of the Texas winter event this year. The company will seek to balance affordability and not burden ratepayers as well, and look to backfill any earnings loss from retirements.
- **Long-term growth rate**: CMS remains focused on delivering (and managing around) 6-8% EPS growth per year, with a bias to the midpoint, as it has consistently done for several years.
- **Cost savings:** CMS has identified >$200mm of future cost savings from the 2022 Palisades retirement, Karn 1&2 coal unit retirements in 2023, MCV contract change in 2025, and the Campbell coal unit retirements in 2031 and beyond. Every $1 of savings creates headroom for $6-8 of capex.

- **Hydrogen pilot programs:** CMS is in discussion mode about hydrogen pilots and would consider opportunities. The company said it does not feel a major need to rush and do pilots because there are plenty out there that they could learn from, and there is a lot of ability to share knowledge in the utility space.

Consolidated Edison (ED), Underperform rating, $72 price target

- **Surcharge recovery mechanism filing – range of outcomes assumed in 2021 EPS guidance**: ED is assuming a range of outcomes in 2021 EPS guidance for this filing, for which ED requested a decision in September 2021 but said is an uncertain process. Con Ed is comfortable with its long-term EPS growth rate of 4-6% in 2021 through 2025. As a reminder, in April 2021, CECONY filed a petition with the NYSPSC to timely establish a surcharge recovery mechanism for $52 million of late payment charges and fees, offset for related savings, for the year ended December 31, 2020 to begin in September 2021 and end in December 2022. The petition also requests a surcharge recovery or credit mechanism for any fee deferrals for 2021 and 2022 starting in January of the subsequent year over a twelve-month period, respectively.
- **Stagecoach potential sale could be imminent**: ED said it is in the throes of a process of strategic alternatives and an announcement could come in Q2.
- **Transmission investment will receive AFUDC**: Con Ed will receive AFUDC on the $780mm of transmission investment that was recently approved to replace peaker units that do not meet NOx requirements. The first project is expected to go into service in 2023, with the next two in service in 2025.
- **Catalysts include Covid recovery and clean energy transition**: Key catalysts aside from strategic alternatives for Stagecoach include recovery from Covid and clean energy transition under Biden administration, which is likely to provide funding for EV-related investments, in particular.
- **Financing plan assumes Stagecoach sale**: Con Ed previously disclosed it expects to issue $800mm of equity this year, which contemplates a range of proceeds from a Stagecoach sale. The company said proceeds from Stagecoach will first be used to pay down $500mm of debt there. We estimate $600-700mm of proceeds from Stagecoach at 10.0-12.0x our estimated EBITDA.
- **Mountain Valley Pipeline does not fit into long-term portfolio**: management's current thinking is that it does not fit into the long-term portfolio at ED and it is still considering monetizing it, though the Stagecoach process is much more actively underway. Con Ed remains optimistic in the permitting and regulatory processes for MVP getting approved and the project ultimately going into service. As a reminder, its investment has been capped at $530mm and any additional cost to the project dilutes its ownership stake.
- **CECONY incentives still hard to achieve, under current thinking**: management's current thinking remains that earnings adjustment mechanisms (for energy efficiency, EVs and heat pumps) under the rate agreement are difficult to achieve but ED believes it will have some success this year.
- **CEB projects on track**: CEBs have three projects under construction this year, with one likely to go into service in Q2 and other two likely in Q3 or possibly Q4. Con Ed said it has not had any supply chain issues to date.
- **Second ESG Investor Day planned**: Con Ed said it will host another ESG webinar in August 2021.

Dominion Energy (D), Outperform rating, $82 price target

- **VA Triennial review:** Dominion remains confident in a balanced outcome from the ongoing triennial review. The hearings are expected to take place through September and a final decision expected in November 2021. While the maximum refund per the statute is 15MM or $0.01 EPS investors will focus on the regulators stance towards ROE (9.9% allowed currently) and other adjustments which will be read through for company's future earnings power and growth prospects 2024+.
- **SC Rate Case:** All parties are actively engaged in settlement negotiations, absent a settlement in the meantime hearing will re-commence on July 12 with an order due in August 2021. On the earnings call earlier in the month D stated that any reasonable outcome in the pending South Carolina rate case would be within the guidance range.

- **Offshore update:** D highlighted the public/private support for its 2.6GW offshore wind project. While inflation/fuel costs are headwinds, wind resources/capacity factors are coming in better than expected such that company remains confident in delivering levelized cost of energy (LCOEs) in the $80-$90/mwh range. The next catalyst to monitor is a Notice of Intent (issued by BOEM), which is expected by June 2021. A final decision (also issued by BOEM) is expected by June 2023.

DTE Energy (DTE), In Line rating, $140 price target

- **Midstream spin on track for July 1st:** DTE initiated the Form 10 process with the SEC back in February; the form will become public in the second quarter and will include three years and first quarter 2021 actual standalone financials as well as pro-forma financials for the full-year 2021. DTE expects to get the green light from the SEC in then June timeframe, then the company will host a roadshow, and DTM will start to trade pre-spin in two week timeframe before the spin, which DTE says is on track for July 1st.
- **Midstream C-Corp is not expected to pay material cash taxes in the near term**: DTE said the post-spin midstream C-Corp will not pay cash taxes over the next few years given NOL balances.
- **DTE said the midstream C-Corp has a path to investment grade credit:** DTE said size is a gating factor and it needs to reach $1 billion of EBITDA. Guidance for EBITDA this year is $710-750mm.
- **Utility and rate base growth expectations through 2025 and beyond:** The long-term plan through 2025 assumes 6-7% electric rate base growth, driving 7-8% expected electric operating earnings growth. For the gas business, it assumes 8% rate base growth, driving 9% expected gas operating earnings growth over the same time period. Both of the operating earnings growth forecasts are based off of the original 2020 guidance. DTE still anticipates delivering higher-than-targeted five-year average utility operating earnings growth in the early years of the plan. Beyond 2025, there is potential for even higher electric rate base growth with opportunities for additional coal retirements and replacement of it with solar; DTE specifically highlighted one 1,200 MW coal plant that could be replaced with 2,000 MW of solar investment.
- **Impact on utility customer rates from potentially higher tax rate:** At the utilities, DTE said if the federal income tax rate were raised to 28% from 21% it would have a 1.5% impact on customer rates.
- **Renewable development plans dominated by solar:** DTE expects solar to dominate its renewable development plans for the foreseeable future. The company has $2 billion of capex planned for renewables in its five-year 2021-2025 plan. The outlook includes 900 MW of renewables signed plus additional expected to be signed.
- **How the non-regulated businesses fit into the portfolio over the long term**: DTE reiterated that it currently expects its P&I and Energy Trading businesses to comprise 10% of earnings over the long term.
- **O&M management below inflation:** annual O&M increases are expected to increase 1% or less going forward, as they have in the past.
- **Power & Industrials outlook**: Recall there is the sun-setting of the REF business after 2021, so we will see a trough in P&I earnings in 2022 before it builds back up. DTE assumes an additional $15mm of earnings per year from RNG and co-generation growth opportunities after the re-basing. DTE has issued P&I earnings guidance for 2025 of $135-150mm versus an early 2021 outlook of $147-163mm.

Essential Utilities (WTRG), In Line rating, $49 price target

- **Delcora:** Despite delays Management remains confident in closing the deal. On the Q1 earnings call earlier in the month WTRG stated that Delcora acquisition ($0.03 annual EPS contribution ~2% of consolidated earnings by our estimate) could take up to six months to close vs previous expectation of mid-2021.
- **Water/Waste Water acquisition pipeline.** WTRG continues to see a robust pipeline of opportunities and they are in active discussion in several states. Management highlighted the potential of sizable rate base opportunity (>Delcora) that could be announced by year end. Any new announcement would be incremental to company's current EPS growth target of 5-7% through 2023 but the timing and approval process could be lengthy and go beyond the current planning horizon.

- **PA Water rate case:** The company plans on filing a general water rate case application in PA later in the year for rates effective in 2022
- **Peoples Gas update**: Earlier in the year the PA commission approved company's proposal to apply the repairs catch-up benefit adjustment towards customer bills over a five-year period and the peoples gas subsidiary will file its next base rate case before the end of 2023 for rates effective in 2024. Management pointed to solid execution since the acquisition in 2020 and remains committed to their long term rate base and earnings growth plans.
- **PFOS/PFAS:** Stricter federal/state mandates on PFOS/PFAS (potentially harmful chemicals in the water stream) could provide organic (capex) and M&A opportunities, that could further bolster rate base growth outlook in WTRG's plan.

Eversource Energy (ES), In Line rating, $91 price target

- **CT Storm Investigation:** The docket established by the CT Commission to review the penalty related to company's response to Isaias is scheduled to run through mid-July of this year. Q1 results included a $0.07 charge associated with customer credits and related assessment that CT regulators announced on May 6, 2021.
- **90 bps lower ROE:** Recall that on Apr 28, the CT regulators concluded that the company failed to comply with certain applicable performance standards and manage its preparation for and response to the storm and ordered the company to lower its allowed ROE by 90 bps in pending/future rate proceedings. The lower ROE could be reflected in rates starting in October this year impacting 2021 EPS by a penny and we estimate ~$0.07 or 2% annual EPS headwind to our FY EPS 2022 projection. Other parties to the storm investigation proceedings have advocated for lowering the equity layer in their capital structure currently at 51%.
- **2022 RC filing in CT:** Per the statute ES would have to file a CT general rate case in 2022 unless they are granted an exception by the Commission.
- **FERC Incentive rider:** FERC recently extended their comment period on their notice of proposed rate making concerning transmission incentives, a of 10 bps reduction in transmission ROE results in a penny EPS hit for ES. We expect an update by year end.
- **Offshore wind update:** They continue to make progress on ~1.8GW of previously announced projects and are considering submitting a bid for additional MW's in MA RFP (05/10) seeking to add up to 1.6GW of offshore wind capacity.

NiSource (NI), In Line rating, $27 price target

Indiana IRP: NiSource has begun the IRP process that would update long-term generation plans, including the planned retirement of Michigan City Generating Station, and could create additional capex opportunities beyond its current four-year plan; that process will include RFP solicitation of resources similar to the 2018 IRP and will involve meetings throughout 2021 with expected filing with the Indiana commission by November 1, 2021.

Pennsylvania rate case: We expect the pending rate case to be relatively routine. The issues with the ALJ in the last rate case (ultimately there was a constructive outcome) were primarily due to concerns about raising rates in the heart of the pandemic. The requested revenue increase in the pending rate case is virtually all capital-driven given that NI is expecting to manage relatively flat O&M, which is reflected in the forward-looking test year.

Flat O&M management: NiSource's "Next" initiative is expected to drive "relatively flat" O&M in 2021 through 2024. Cost initiatives under way include voluntary separation program savings and the following improvements identified: streamlined organization structure, evolved business services, work standardization, greater field mobility and connected customer experience. Modernization-driven fuel and cost reductions are also under way.

Renewable projects: There are a total of 14 projects, with two complete and operational, seven approved and five pending, with all expected to have outcome in 2H21. All projects are expected to be online and operating by 2023.

Gas assets valuation: NiSource believes its gas utilities are significantly undervalued in the share price, especially in light of the recently announced CenterPoint gas LDC asset sales (Arkansas and Oklahoma) that were valued at 38x 2020 earnings and 2.5x 2020 rate base.

Southern Company (SO), Underperform rating, $61 price target

- **Vogtle seeing another two to three week delay:** Southern had to take a pause in hot functional testing to bring unit 3 down to ambient temperature. This is expected to add two to three weeks to the hot functional testing schedule (originally scheduled for six to eight weeks), so it is likely to take eight to eleven weeks now. SO said every one month of delays adds $25mm to capex (so up $18mm for three weeks) and has a half a penny impact to EPS due to the ROE penalty (up to $0.0035 for three weeks).
- **Missouri IRP:** the filing specifies closure of Plant Daniel, the last coal plant in Mississippi coal fleet. Mississippi has a generation surplus, SO is unlikely to build any capacity anytime soon.
- **Regulatory agenda:** Electric Power Effluent Limitation Guidelines (ELG) will be filed in October 2021. Georgia Power rate case will be filed in January 2022.
- **Non-core asset sales**: Southern said it is always considering non-core asset sales, as it has done in the past, but its remaining portfolio of non-core assets is even smaller than Sequent, small enough that SO does not disclose it in regulatory filings. As a reminder, SO recently reached an agreement to sell its wholesale gas trading and services business comprising Sequent Energy Management, and expects to complete the transaction in 3Q21. Southern does not expect a material gain or loss on sale, though it will provide a return of the associated working capital and the elimination of certain credit supports of ~$1Bn. SO has always excluded Sequent earnings from its adjusted results due to its quarterly variability.

WEC Energy (WEC), In Line rating, $96 price target

- **WI Rate Case:** Management highlighted strong support for its request filed on Mar 30th with the Public Service Commission of Wisconsin to allow the company to forego requests to increase electric and gas base rates effective 01/01/22. Per the agreement filed, WEC Utilities expect to file full test year 2023-2024 base rate cases by no later than May 1, 2022. The commission is expected to rule over the petition by June 2021.
- **MISO transmission capex opportunity:** more clarity on MISO opportunities will come in December 2021 when they put forth their first portfolio. WEC through their 60% ownership in American Transmission Company (ATC) could pursue opportunities in the Wisconsin and Michigan likely in the back half of the decade
- **FERC incentive adder**: comments and reply comment due dates were extended. Comments are now due by June 25, 2021 versus May 26, 2021 previously. Reply comments are now due by July 26, 2021 versus June 10, 2021 previously. If the 50bp incentive adder were removed, it would have a $0.02 (0.5%) annual impact on EPS.

Xcel Energy (XEL), In Line rating, $70 price target

- **MISO transmission capex opportunity:** more clarity on MISO opportunities will come in December 2021 when they put forth their first portfolio. Xcel has ROFR in Minnesota and the Dakotas. The MISO capex opportunities are likely for the back half of the decade and a 50/50% equity / debt financing is expected.
- **Management thoughts on Elliott proposal for DUK**: Xcel management said there are significant benefits to having multiple diverse operating companies through economies of scale.
- **Management thoughts on CenterPoint gas LDC announced sale:** Xcel says the transaction demonstrates that there is significant terminal value to LDC businesses.
- **Equity needs**: Xcel has previously guided to $600mm of equity needs in addition to $410mm of DRIP over the next five years. The company said tax reform could potentially reduce or eliminate equity needs.
- **Minnesota resource plan**: Intervenor testimony in early February was supportive of both renewables additions and coal plant retirements. There were some comments about retiring the plants earlier, and some support for

nuclear and some opposition. Reply comments are due at the end of June and the commission should decide in 2H21.

- **Colorado resource plan**: Xcel believes parties are likely to be supportive of renewable additions. One item that is expected to be controversial is the timing of Comanche 3 retirement; Xcel has proposed a 2040 date. The anticipated decision is in Q4 2021.
- **Upcoming rate case filings**: Xcel plans to file an electric rate case in Colorado in late June or early July; it will include advanced grid, wildfire mitigation program. The company also plans to file a rate case in Minnesota in December 2021, likely for a multi-year plan with interim rates in January.

EVERCORE ISI

Utilities Look Modestly Cheap on ’22 Yields Assuming Yields Remain Unchanged

Utility Valuation			10 YR	1.66%
5/18/21			Baa	3.66%
Confidence Intervals	**BBB Yield %**	**Expected Defensive Index Yld**	**Implied 2021 P/E**	**Upside / (Downside) for Index**
- 95% Confidence Interval	**0.80%**	**1.19%**	**51.4x**	**159.7%**
	1.02%	1.35%	45.5x	130.2%
	1.24%	1.50%	40.9x	106.7%
	1.46%	1.65%	37.1x	87.6%
	1.68%	1.81%	34.0x	71.7%
	1.90%	1.96%	31.3x	58.3%
- 68% Confidence Interval	**2.12%**	**2.11%**	**29.0x**	**46.8%**
	2.34%	2.27%	27.1x	36.9%
	2.56%	2.42%	25.4x	28.2%
	2.78%	2.57%	23.9x	20.6%
	3.00%	2.73%	22.5x	13.8%
	3.22%	2.88%	21.3x	7.8%
Current Valuation	3.44%	3.03%	20.2x	2.3%
Predicted Valuation	3.66%	3.18%	19.3x	-2.6%
	3.88%	3.34%	18.4x	-7.0%
	4.10%	3.49%	17.6x	-11.1%
	4.32%	3.64%	16.8x	-14.9%
	4.54%	3.80%	16.2x	-18.3%
	4.76%	3.95%	15.5x	-21.5%
+ 68% Confidence Interval	**4.98%**	**4.10%**	**15.0x**	**-24.4%**
	5.20%	4.26%	14.4x	-27.1%
	5.42%	4.41%	13.9x	-29.6%
	5.64%	4.56%	13.5x	-32.0%
	5.86%	4.72%	13.0x	-34.2%
	6.08%	4.87%	12.6x	-36.3%
+ 95% Confidence Interval	**6.30%**	**5.02%**	**12.2x**	**-38.2%**

Utility Valuation			10 YR	1.66%
5/18/21			Baa	3.66%
Confidence Intervals	**BBB Yield %**	**Expected Defensive Index Yld**	**Implied 2022 P/E**	**Upside / (Downside) for Index**
- 95% Confidence Interval	**0.80%**	**1.19%**	**51.4x**	**174.5%**
	1.02%	1.35%	45.6x	143.3%
	1.24%	1.50%	40.9x	118.5%
	1.46%	1.65%	37.1x	98.3%
	1.68%	1.81%	34.0x	81.5%
	1.90%	1.96%	31.3x	67.3%
- 68% Confidence Interval	**2.12%**	**2.11%**	**29.1x**	**55.2%**
	2.34%	2.27%	27.1x	44.7%
	2.56%	2.42%	25.4x	35.6%
	2.78%	2.57%	23.9x	27.5%
	3.00%	2.73%	22.5x	20.3%
	3.22%	2.88%	21.3x	13.9%
	3.44%	3.03%	20.3x	8.2%
Predicted AND Current Valuation	3.66%	3.18%	19.3x	3.0%
	3.88%	3.34%	18.4x	-1.7%
	4.10%	3.49%	17.6x	-6.0%
	4.32%	3.64%	16.9x	-10.0%
	4.54%	3.80%	16.2x	-13.6%
	4.76%	3.95%	15.5x	-17.0%
+ 68% Confidence Interval	**4.98%**	**4.10%**	**15.0x**	**-20.1%**
	5.20%	4.26%	14.4x	-22.9%
	5.42%	4.41%	13.9x	-25.6%
	5.64%	4.56%	13.5x	-28.1%
	5.86%	4.72%	13.0x	-30.4%
	6.08%	4.87%	12.6x	-32.6%
+ 95% Confidence Interval	**6.30%**	**5.02%**	**12.2x**	**-34.7%**

Regulated utilities now look modestly expensive on current yields

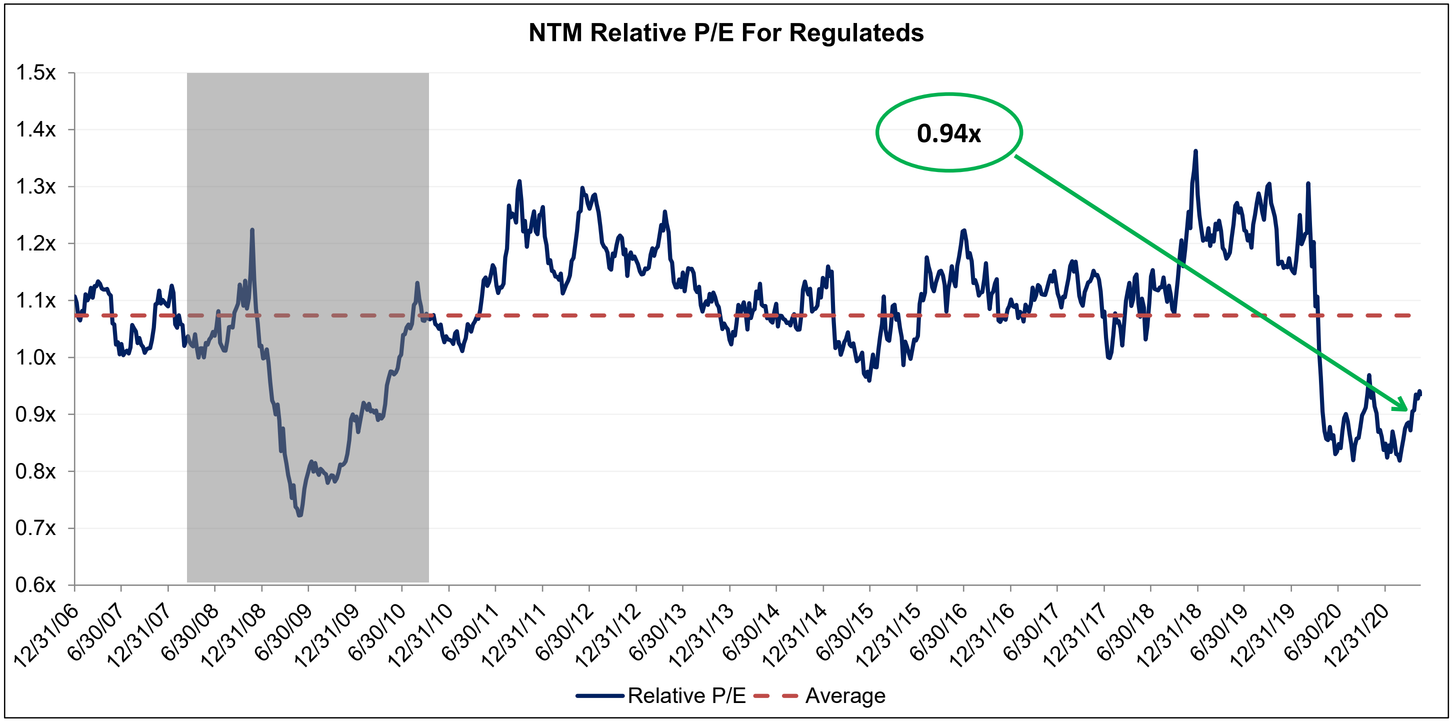
If rates stay unchanged for the next 12 months, regulated utilities now ~3% cheap

Updated as of 5/18/21

Source: FactSet, Evercore ISI Research

NTM Relative P/E Below Historical Average

- The average relative P/E since 2006 is 1.09x. Since ’95 it is 0.93x.
- On 5/18/21, the relative P/E was **0.94x** and 1.17x level at YE ’19.
- The relative P/E post Brexit vote was 1.17x, which we hit again in mid November ’18.
- It was 1.36x on 12/23/18 when we were pricing in recession risk at a high probability.



Updated as of 5/18/21

Source: FactSet, Evercore ISI Research

EVERCORE ISI

Regulated Utility Valuation Goes To ~17.8x ’23 EPS

Regulated Utilities

Ticker	Company Name	5/18/21 Price	ISI Rating	Shares Out	Market Cap	2021 Div Yld	2021 Payout	ISI EPS Estimate 2021	ISI EPS Estimate 2022	ISI EPS Estimate 2023	P/E Multiple 2021	P/E Multiple 2022	P/E Multiple 2023	'19-'23 EPS Growth	Price to Book	Prem. to Group
NEE	NextEra Energy, Inc.	$72.29	In Line	1,984	143,416	2.1%	62%	2.50	2.70	2.95	28.9x	26.8x	24.5x	8.9%	3.6x	39%
XEL	Xcel Energy Inc	$70.81	In Line	535	37,898	2.5%	60%	3.00	3.15	3.35	23.6x	22.5x	21.1x	6.1%	2.3x	20%
WEC	WEC Energy Group	$95.40	In Line	317	30,213	2.7%	64%	4.01	4.27	4.57	23.8x	22.3x	20.9x	6.3%	2.6x	19%
HE	Hawaiian Electric Industries, Inc.	$44.31	In Line	111	4,899	3.1%	69%	1.98	2.06	2.20	22.4x	21.5x	20.1x	3.2%	1.9x	14%
AEE	Ameren Corp	$83.93	Outperform	252	21,117	2.6%	58%	3.75	4.00	4.30	22.4x	21.0x	19.5x	6.4%	2.1x	11%
CMS	CMS Energy Corp	$63.30	In Line	290	18,386	2.7%	61%	2.85	3.06	3.27	22.2x	20.7x	19.4x	7.1%	2.8x	10%
ES	Eversource Energy	$84.27	In Line	347	29,244	2.9%	62%	3.90	4.15	4.44	21.6x	20.3x	19.0x	6.5%	1.9x	8%
DUK	Duke Energy Corp	$102.49	In Line	750	76,900	3.8%	75%	5.20	5.45	5.80	19.7x	18.8x	17.7x	3.4%	1.6x	0%
D	Dominion Resources Inc	$77.16	Outperform	828	63,918	3.2%	65%	3.85	4.12	4.40	20.0x	18.7x	17.5x	0.9%	2.3x	0%
DTE	DTE Energy Co	$137.84	In Line	201	27,666	3.0%	57%	7.15	7.50	7.95	19.3x	18.4x	17.3x	5.9%	1.7x	-1%
NI	NiSource Inc	$25.25	In Line	449	11,345	3.5%	67%	1.32	1.40	1.48	19.1x	18.0x	17.1x	2.9%	2.2x	-3%
SO	Southern Company Inc	$64.16	Underperform	1,078	69,167	4.1%	79%	3.30	3.55	3.85	19.4x	18.1x	16.7x	5.6%	2.2x	-5%
EVRG	Evergy	$62.29	Outperform	228	14,171	3.5%	63%	3.45	3.50	3.75	18.1x	17.8x	16.6x	6.9%	1.9x	-6%
AEP	American Electric Power Co Inc	$85.75	Outperform	507	43,504	3.4%	62%	4.70	5.00	5.35	18.2x	17.1x	16.0x	6.0%	1.8x	-9%
SRE	Sempra Energy	$137.35	Outperform	313	42,963	3.2%	56%	8.00	8.25	8.60	17.2x	16.7x	16.0x	3.3%	1.7x	-9%
ETR	Entergy Corp	$105.53	Outperform	201	21,258	3.7%	64%	6.00	6.35	6.70	17.6x	16.6x	15.7x	5.6%	1.8x	-11%
PNW	Pinnacle West Capital Corp	$85.54	In Line	117	9,969	3.9%	66%	5.00	5.20	5.45	17.1x	16.4x	15.7x	3.3%	1.6x	-11%
CNP	CenterPoint Energy Inc	$24.70	Outperform	589	14,537	2.5%	45%	1.35	1.50	1.60	18.3x	16.4x	15.5x	-2.6%	2.4x	-12%
ED	Consolidated Edison Inc	$77.74	Underperform	353	27,406	4.1%	74%	4.25	4.93	5.09	18.3x	15.8x	15.3x	3.8%	1.3x	-13%
OGE	OGE Energy Corp	$33.53	Outperform	200	6,716	4.9%	78%	2.12	2.26	2.38	15.8x	14.9x	14.1x	2.4%	1.8x	-20%
FE	FirstEnergy Corp	$37.67	In Line	552	20,797	4.3%	65%	2.50	2.60	2.70	15.1x	14.5x	13.9x	1.2%	2.3x	-21%
EIX	Edison International	$57.56	In Line	404	23,274	4.5%	57%	4.50	4.65	4.90	12.8x	12.4x	11.7x	1.0%	1.0x	-33%
PPL	PPL Corp	$29.33	In Line	775	22,722	5.7%	67%	2.50	2.60	2.70	11.7x	11.3x	10.9x	2.5%	1.5x	-38%
PCG	PG&E Corp	$10.77	Rating Suspended	529	5,697	0.0%	0%	4.30	4.65	4.95	2.5x	2.3x	2.2x	5.4%	0.4x	-88%
Regulated Group Average (Excludes PCG for Div Values)						**3.5%**	**64.2%**				**18.5x**	**17.5x**	**16.4x**	**4.3%**	**1.94x**	
Regulated Group Average (Excluding Stocks: PPL, EIX, and PCG)						3.3%	64.4%				19.9x	18.7x	17.6x	4.5%	2.08x	
Regulated Group Max (Excludes PCG for Div Values)						5.7%	79.3%				28.9x	26.8x	24.5x	8.9%	3.6x	
Regulated Group Min (Excludes PCG for Div Values)						2.1%	45.3%				2.5x	2.3x	2.2x	-2.6%	0.4x	

Diversified Utilities

Ticker	Company Name	5/18/21 Price	ISI Rating	Shares Out	Market Cap	2021 Div Yld	2021 Payout	ISI EPS Estimate 2021	ISI EPS Estimate 2022	ISI EPS Estimate 2023	P/E Multiple 2021	P/E Multiple 2022	P/E Multiple 2023	'19-'23 EPS Growth	Price to Book	Prem. to Group
PEG	Public Service Enterprise Group	$62.11	In Line	508	31,552	3.3%	60%	3.40	3.55	3.70	18.3x	17.5x	16.8x	3.0%	1.8x	3%
EXC	Exelon Corp	$45.65	Outperform	984	44,928	3.5%	57%	2.80	3.00	3.10	16.3x	15.2x	14.7x	-1.0%	1.3x	-10%
AES	AES Corp	$24.89	Outperform	665	16,561	2.4%	39%	1.55	1.70	1.80	16.0x	14.7x	13.8x	6.8%	3.4x	-15%
Diversified Group Average						**3.1%**	**52%**				**16.9x**	**15.8x**	**15.1x**	**3.0%**	**2.2x**	
Diversified Group Max						3.5%	60%				18.3x	17.5x	16.8x	6.8%	3.4x	
Diversified Group Min						2.4%	39%				16.0x	14.7x	13.8x	-1.0%	1.3x	

Updated as of 5/18/21

Source: FactSet, Evercore ISI Research

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: May 20 2021 06:45 PM ET

ANALYST CERTIFICATION

The analysts, Durgesh Chopra, Tulkin Niyazov, Michael Lonegan, primarily responsible for the preparation of this research report attest to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

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Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

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Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	476	57	Buy	116	24
Hold	293	35	Hold	35	12
Sell	26	3	Sell	2	8
Coverage Suspended	21	3	Coverage Suspended	7	33
Rating Suspended	12	1	Rating Suspended	5	42

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Price Charts

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21 May 2021 | 11:19AM EDT

Americas Utilities

AGA virtual conference takeaways - improving gas utility valuations, potential for accelerated fleet transformation

We highlight key takeaways from our virtual meetings at the annual American Gas Association (AGA) conference. Key themes included renewed gas utility assets, more muted raw material inflation impact near-term, favorable YoY demand trends, and fleet transformation acceleration. Among those that we met with, we remain positive on Buy-rated WTRG (on CL) for clean energy exposure, CMS for quality at a reasonable price, and CNP for value with multiple expansion potential.

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Our key thematic takeaways include:

1. **Strength of gas utility valuations.** Most companies see recently announced robust gas utility transaction values not as an opportunity to unload assets, but rather proof to support the value of natural gas assets as a key long-term component of the future energy mix.
2. **Raw material inflation less impactful...for now.** From wires to renewables, pressure from higher costs remain more muted for current projects, although a potential risk longer-term.
3. **Demand trends are favorable.** Companies are seeing favorable residential demand persist along with rebounding C&I load.
4. **Potential for fleet transformation acceleration.** Most vertically integrated utilities pointed to potential for accelerating remaining coal plant retirement, incremental renewable development.

Takeaways at the company level include:

Ameren (AEE, Buy)

- **Robust transmission investment potential remains longer-term,** with the recent outlook by the Midwest Independent Systems Operator (MISO) confirming the company's views. While AEE does sees the bulk of the opportunity beyond the 2025 time frame, these investments - along with continued fleet transformation spend and renewable build-out - would help support continued robust rate base growth (8% currently).
- **Passage of securitization legislation in MO offers another option to help**

accelerate coal plant retirements, which would allow for recovery of undepreciated costs while pulling forward new renewable power. This could potentially serve as a tool for a couple of its plants - Rush Island and Labadie - currently in the appeals process regarding the district court's ruling and order to install environmental retrofits to continue running the units. With a ruling by the court of appeals expected this year per the company, we note the company has the opportunity to make further appeals to the broader panel at the appeals court, as well as to the US Supreme Court.

- **AEE sees its gas utilities in IL/MO as a core part of its portfolio,** continuing to emphasize the reliability, economic, and environmental benefits of gas distribution asset investments. In addition, management pointed to significant dis-synergies - including common billings, inventory, employees - that would exist in a potential divestiture, even though recently announced gas utility peer sale valuations may screen attractive.

Atmos Energy (ATO, Buy)

- **ATO looks for constructive outcome in the Texas gas cost securitization bill.** A bill to securitize elevated gas costs related to Winter Storm Uri has passed the Texas House but remains in committee within the Senate. The current legislative session ends May 31, but the company remains positive on the bill's successful passage given seemingly bipartisan support - per company comments - for a measure that could benefit both the customers and the state's gas utilities.
- **ATO continues to view current profile of assets as favorable.** Management noted that favorable valuations - and robust interest - garnered in the recently announced CNP gas utilities sale highlights the value of gas assets and its longevity in the country's energy mix longer-term. However, ATO is not looking to divest assets given 1) its presence in multiple state jurisdictions provides geographic and load profile diversification, and 2) all of its jurisdictions offer constructive regulation that allow for timely recovery of investments with minimal regulatory lag.
- **ATO continues to make the case for the longevity of natural gas systems and their role within the fuel environment.** ATO continues to believe that their natural gas assets serve a purpose within the energy ecosystem, given electrification will place high demands on many rare minerals that are in short supply in the US, which could add to the relative cost pressures versus gas. Additionally, the Texas governor recently signed a bill to preserve customer choice which recognizes the need for all types of fuel within the state, which they see as further support for gas in the long-term energy mix.

Avangrid (AGR, Sell)

- **Offshore wind remains on track with little impact from raw material inflation.** Vineyard Wind construction is set to begin later this year after receiving a key federal approval. Offshore wind contracts do have some level of variability in terms of costs; however, AGR expects the recent increase in steel cost to be within their contingencies and represents less than 10% of the overall project cost.

- **Full construction commencing on the clean energy transmission line.** With the recent lifting of the court injunction on a portion of the line for the $1bn New England Clean Energy Connect (NECEC) project, AGR continues to expect a 2023 completion. They acknowledge that the November referendum remains outstanding in Maine, while noting public support for the project has increased since commencing construction earlier this year.
- **Recent private placement offering highlights strength of investor interest.** AGR's recent $4bn equity offering - including $740mn to a subsidiary of Qatar Investment Authority, secures financing required for the proposed PNM Resources acquisition and other investments. Management recognizes the desire to increase the public float of their shares and continues to assess the opportunity going forward; however, they viewed this specific opportunity as too attractive to pass up.

Centerpoint Energy (CNP, Buy)

- **A number of potential incremental capex opportunities exist on the electric side.** Management views coal-to-renewable transition as a longer term opportunity in Indiana, with potential to pull forward remaining retirements earlier. In Texas, several bills in progress offer potential for further upside, including (1) SB 1281 would make a case to introduce more transmission to reduce congestion, also given ERCOT's report highlighting three transmission projects needed in CNP's service territory over the next decade; this attempt to mitigate congestion could pull forward 2028-30 capital spend into the mid-2020s; (2) SB 415 would allow for TDUs to own battery storage and put into rate base — potentially CNP's share (~25MW) of owned storage, (3) HB 2483 would allow T&D companies to own small scale generation (battery storage, fuel cells) to help in case of outages and also can be added to rate base.
- **...as well as at the gas utilities.** Beyond the ongoing infrastructure replacement/modernization investments, CNP sees opportunities to develop a favorable construct for the future of clean gas, including renewable natural gas (RNG) and hydrogen, along with potential to invest in gas storage.
- **Potential use of tax repair deduction on regulated operations could offset tax implications of the proposed midstream transaction.** With CNP's plans to aggressively eliminate its midstream exposure and become a fully regulated entity, we note the company would need to account for its meaningful negative tax basis at its owned midstream units. However, management believes the use of tax repairs deduction, specifically a catch-up deduction, could offer a meaningful offset and a reduction to the potentially dilutive impact. CNP noted that its 6-8% annual EPS growth forecast already embeds the various options in its midstream exposure elimination strategy.

CMS Energy (CMS, Buy)

- **COVID reopening in Michigan looks on track.** The state is seeing improving vaccination rates while CMS has seen a meaningful pickup in interconnection activity amongst businesses and residential customers, typically a leading indicator for increased demand usage.

- **Ample headroom remains for O&M cost cutting over the next decade.** Aside from PPA contract roll offs and savings from coal retirements, CMS still sees plenty of opportunities to further reduce O&M spend. The company continues to employ its LEAN operating system and has identified opportunities to reduce inventory days, streamline processes, reduce pension contributions as its workforce retires and seek opportunities to refinance debt.
- **CMS is accessing renewables both via direct ownership and through contracting.** The Michigan Commission is open to both renewables through direct ownership and through PPA contracts. CMS recently received approval of the first 300MW of its IRP which is split 50%/50% between direct ownership and contracting. While there is a price gap between the two, federal level proposals such as tax credit refundability and PTCs for solar could help reduce that gap in the future, if passed.

Consolidated Edison (ED, Sell)

- **Aged receivables and bad debt continue to climb in NY/NJ, but show signs of moderating.** Aged receivables stand at $600m higher versus the pre-COVID run rate of $400m. The company funds aged accounts receivables through LT debt and expects no change to equity at this time.
- **Opportunities exist for potential upside to capital plan at the electric side in the mid-2020s but gas investments remain key as well.** ED expects investments in distribution infrastructure for undergrounding, automation and smart grid for storm resiliency, but also views gas pipeline investments for identifying leaks through the use of technology as necessary. Management notes that a switch from gas to electric would likely need a regulatory mandate as customers wouldn't make the choice willingly, given economics. In terms of RNG, hydrogen and EV charging infrastructure, the company remains committed and open to increase investment, while looking to work with stakeholders on a constructive long-term plan.
- **Thoughts on under-appreciated renewables business, opportunity for regulated expansion, transmission.** Management recognizes its renewables business seems undervalued despite high quality off-takers and remains invested with plans for growth, but noted they could evaluate other alternatives if this becomes a permanent structural issue. On the regulated side, the company expressed openness to consider diversifying its regulated footprint, although currency and strategic fit are key considerations. Finally, ED remains selective in its transmission investment opportunities, recently deciding not to participate in NY's proposal for a clean energy transmission highway; they do remain active in considering NY's proposal to connect offshore wind.

DTE Energy (DTE, Buy)

- **Voluntary Renewables Program continues to see strong interest.** DTE's current forecast is $2bn of investment for the voluntary renewables portfolio through 2025, but subscriptions have been accelerating and the company is looking at potential opportunities to retire coal plants sooner than currently scheduled in the IRP. Large automakers have signed up for the voluntary renewables program which flows down to their supply chain as they look to green their overall production operations.

- **Midstream Spinoff progressing as planned.** The spinoff of DT Midstream remains on track for a July 1st close. DT Midstream is currently in the middle of a debt raise and plans to spin at roughly 4x leverage.
- **EV charging investment opportunity flows through rate base.** DTE received approval for EV charging investment which receives traditional rate base treatment. In the near term, investment will likely continue in small chunks; however there is room for significant demand and investment ramp up in out years, per management.

Essential Utilities (WTRG, Buy-CL)

- **Remain confident in 5-7% EPS CAGR despite DELCORA approval delay.** While management does not expect the proposed municipal wastewater system acquisition to close until early next year given the ongoing legal process with the Delaware County Council, they noted the delay would not meaningfully impact planned capex through 2023, as the bulk of the planned investments for DELCORA do not ramp up until the mid-2020's. Combined with the collection of other municipal deals in process and cost management, WTRG does not see any change in the 3-year growth plan.
- **Continued focus on pursuing larger muni acquisitions while shortening timeline of deal completion.** Despite the DELCORA delay, WTRG's acquisition strategy remains unchanged and sees growing opportunities for further expansion. Staffing remains a primary limiting factor from accelerating the pace of deals, but something that could be resolved. Given all of their operational states have Fair Market Value (FMV) legislation - allowing WTRG to rate base the acquired system at the purchase price - management continues to see the M&A strategy as accretive for the company's long-term growth.
- **No plans to expand gas footprint inorganically.** WTRG continues to see its Peoples Gas utilities - especially in PA - offering robust growth in a constructive regulatory environment, but management reiterated their strategy to only grow the water segment via acquisitions. In Kentucky, where FMV legislation recently passed, the company will look to expand the water footprint there while utilizing synergies from its gas utility operations.

Eversource Energy (ES, Neutral)

- **Connecticut regulation uncertainty remains.** While the CT PURA has broad legal authority, the company believes a rate decrease is best addressed in a rate case filing process. There is some uncertainty on the timing of the 90bps ROE penalty associated with Tropical Storm Isaias; however, ES reiterated its confidence in hitting the upper half of the 5%-7% EPS CAGR range, with contributions from offshore wind, further transmission investments, potential grid modification dockets and O&M cost management as potential levers to offset ROE headwinds.
- **Expect little to no impact from rising steel costs on current offshore wind project returns.** Although steel prices have increased meaningfully in the past year, ES's offshore wind contracts generally ask equipment manufacturers to procure

materials when the contract is signed. For near-term offshore wind projects, materials are already procured with price locked in.

NiSource Inc (NI, Neutral)

- **Gas utility portfolio remains attractive given robust rate base growth, regulatory construct.** The company noted that it always looks at monetization to maximize shareholder value, but views opportunities on a more strategic basis versus as a financial need, especially following the recent equity units offering that eliminated bulk equity needs through 2024. Management acknowledged recently announced peer sale valuations screen attractive, but again pointed to their strong rate base growth and return profile, driven by constructive regulatory mechanisms.
- **NI expressed confidence in its 5-7% EPS CAGR through 2023, with potential to achieve the upper half** with strong execution, O&M discipline.
- **RNG opportunity remains compelling but still early innings.** NI sees upside with RNG as part of its longer term energy transition, given RNG requires less change on customers' end (i.e., appliances) and could be more cost-efficient versus cost of full electrification longer-term.

WEC Energy (WEC, Sell)

- **The company anticipates retiring almost 2 GW of coal units in the coming years – likely relying on just the Elm Road/Oak Creek plants and 1 unit at Weston – significantly helping the company meet its goal of reducing emissions, from 2005 levels, by 80% or so.** Coal retirements will not only lower emissions levels, but also reduce operating costs given (1) fuel expenses for coal and (2) labor and other O&M costs for coal plants.
- **...and WEC remains ahead of target in meeting its clean energy deployment at its non-regulated infrastructure business.** In the company's capital plan, which will get revised and updated in late 2021, WEC likely could boost its targets for wind/solar capacity at its non-regulated segment, given project announcements made to date already imply being ahead of plan. The regulated investment profile could see upside related to renewables as well – while distribution spend levels will grow at a steady pace.
- **Transmission could emerge as another growth engine, although not likely till after 2025+.** The company remains optimistic that new federal policies in the American Jobs Plan could stimulate incremental transmission investment – especially in rural areas of its service territory – but siting and permitting challenges will likely remain and material increases in capital spend on transmission may remain multiple years down the road.

Xcel Energy (XEL, Neutral)

- **XEL continues its leadership in regulated clean energy investments,** utilizing a combination of coal-to-renewables strategy – with coal in rate base to decline from 8% currently to 4% by 2025 and with only two plants remaining by 2030 – as well as opportunities for repowering and/or PPA buyouts. While XEL continues to monitor the recent increase in raw materials costs like steel, management sees minimal impact to the projects currently in the works, while longer-term if these levels persist, certain mitigating items could exist including increased performance and potential for extended tax credits.

- **Transmission could comprise a bigger portion of future regulated growth,** with XEL's internal analysis largely aligned with the outlook recently published by the Midwest Independent Systems Operator (MISO) on the need to connect the growing renewable development in the region. That said, while some project opportunities could exist by the mid-2020's in XEL's operating territories, management views the investments comprising a larger portion of the overall mix to be in the late 2020's and early 2030's.
- **Gas utilities remain core to XEL's overall portfolio mix,** with rate base growth for this segment higher than the consolidated 6.5-7.0% CAGR. The company sees stakeholders in its operational states recognizing the long-term need for gas in the overall energy mix, with attractive methane reduction strategies including infrastructure replacement, renewable natural gas (RNG), and hydrogen as longer-term growth opportunities. The utilities continue to look to engage in dialogue regarding balancing the utilities' role in investing in clean gas while structuring the right financial incentives that could further expand investments.

Price target methodologies and key risks

Exhibit 1: Price Target Methodologies and Key Risks
12-month price targets

Price Target Methodologies and Key Risks

Ticker	Price Target Methodology	Rating	Price Target	5/20/2021	Dividend Yield	Total Return (%)	Key Risks Relate To
AEE	22x P/E multiple on 2022E EPS	Buy	$90	$85	2.6%	9%	regulation, project awards, and financing.
ATO	20x P/E multiple on 2022E EPS	Buy	$110	$98	2.5%	14%	Texas customer/demand growth, higher gas fuel costs, unfavorable regulation, and continued negative market sentiment on gas utility businesses.
AGR	SOTP: 18x P/E on Regulated Utilities & Corporate & Other on 2022E EPS and 9.0x EV/EBITDA for the Renewables segment.	Sell	$45	$52	3.4%	-11%	1) approvals to defer all COVID-19 related costs 2) incremental O&M savings, and 3) NECEC and offshore wind projects proceed according to schedule and budget.
CNP	SOTP 19x P/E on Regulated Utilities & Parent 2022E EPS, 20% tax/liquidity discount on CNP's stake of ENBL market value	Buy	$28	$25	2.6%	16%	1) gas utilities do not receive deferral treatment for Uri financing costs, 2) customer/demand growth slows in regulated jurisdictions, & 3) Vectren's Indiana electric utility fails to secure utility-owned generation opportunities.
CMS	23x P/E mulitiple on 2022E EPS	Buy	$71	$64	2.7%	14%	1) Michigan's regulatory environment turns negative, & 2) CMS's ability to achieve consistent cost savings slows, reducing bill headroom for future investments.
ED	15x P/E multiple on 2022E EPS estimate.	Sell	$67	$78	4.0%	-11%	1) NY utility commission authorizes recovery of bulk of COVID-19 related costs & increased bad debt expense, 2) economic conditions in NYC improve, & 3) ED's contracted renewable segment sees more robust growth.
DTE	SOTP 23x P/E on 2022 Utility EPS; 9x EV/EBITDA on GSP Adjusted 2022 EBITDA; 12x EV/EBITDA on Energy Trading/Corporate; DCF of P&I	Buy	$150	$140	3.1%	10%	transaction execution, regulatory changes, unfavorable legislation, demand imbalances, and cost management.
WTRG	SOTP: 35x P/E multiple on 2022E regulated water EPS, 21x P/E multiple on 2022E regulated gas EPS, 29.93x blended P/E on Other segment 2022E EPS	CL Buy	$54	$47	2.2%	17%	1) PA regulation turns less constructive, 2) water system acquisitions do not receive necessary approvals for completion, & 3) longer-term growth concerns about the gas utility segment compresses WTRG's valuation.
ES	23x P/E multiple on 2022E EPS	Neutral	$96	$84	2.9%	17%	Upside risks: improved offshore wind return forecasts, reduced permitting/construction hurdles, additional rate base investments. Downside risks: ineffective cost management, slowing rate base growth, & delays/cost overruns in offshore wind.
NI	19x P/E multiple on 2022E EPS	Neutral	$27	$25	3.5%	10%	Upside risks: 1) increased ability to lower O&M expenses, 2) plans to further accelerate retirement of its remaining coal fleet. Downside risks: 1) regulatory approval process for the planned renewable investments in Indiana, 2) cash impact due to COVID-19.
WEC	21x PE multiple on 2022E EPS	Sell	$90	$96	2.8%	-3%	higher than expected capital spend and rate base growth for 2021+, lower than expected operating costs, and better than expected power/gas demand.
XEL	23x P/E multiple on 2022E EPS	Neutral	$74	$72	2.6%	6%	Upside risks: 1) upward revisions to rate base/EPS growth, 2) sustained O&M savings, 3) extension of federal renewable tax credits. Downside risks: 1) negative rate case outcomes, 2) less generation into rate base vs. PPA, 3) PPA buyouts do not materialize, & 4) COVID-19 meaningfully impacts non-decoupled demand in addition to increased cash drag from customer bill non-payment.

Source: FactSet, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

We, Insoo Kim, CFA and Michael Lapides, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Power, Utilities & Alternative Energy

May 20, 2021

AGA: Day 1 Flash Recap…

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Ticker	Price	Rating
CNP	24.48	Buy
D	76.98	Buy
DUK	101.16	Buy
ES	83.25	Neutral
LNT	57.70	Buy
NI	25.18	Buy
NWN	53.77	Sell
SJI	25.74	Buy
SO	63.98	Neutral
WEC	94.87	Neutral

Key Message: Enclosed please find our brief AGA Day 1 recap, featuring updates from 9 utilities – DUK, ES, WEC, NI, D, SJI, NWN, SO, and CNP. Conversations have generally focused on iterative items from the 1Q21 calls, with several names focused on legislation legislative efforts (IL, NC, NJ) as summer quickly approaches. While some names were more focused on straightforward capex and regulatory execution (D, SO, WEC), others remain activist topics (DUK, NI). See below for our full schedule of Day 2 meetings.

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SAVE THE DATE

2021 AGA Virtual Financial Forum

The Guggenheim Utilities Research Team will be hosting virtual meetings with company management

Dates

May 19 – 20, 2021

Company Meetings

More companies to be added and meeting schedule to follow

- Ameren Corp. (AEE)
- Avista Corp. (AVA)
- CMS Energy Corp. (CMS)
- CenterPoint Energy, Inc. (CNP)
- Chesapeake Utilities Corp. (CPK)
- Dominion Energy, Inc. (D)
- DTE Energy Co. (DTE)
- Duke Energy Corp. (DUK)
- Eversource Energy (ES)
- NiSource, Inc. (NI)
- New Jersey Resources Corp. (NJR)
- NorthWestern Corp. (NWE)
- Northwest Natural Gas Company (NWN)
- ONE Gas, Inc. (OGS)
- Southern Company (SO)
- Spire Inc. (SR)
- WEC Energy Group, Inc. (WEC)

Wednesday, May 19th		Thursday, May 20th	
Time	*Co.*	*Time*	*Co.*
8:00AM	DUK	8:00AM	AEE
9:30AM	ES	9:30AM	OGS
10:15AM	WEC	10:15AM	DTE
11:00AM	NI	11:00AM	SR
11:45AM	D	11:45AM	CPK
3:00PM	NWN	12:45PM	CMS
3:45PM	SO	3:00PM	NWE
4:30PM	CNP	3:45PM	NJR
		4:30PM	AVA

Participating Guggenheim Analyst

Shar Pourreza, *Managing Director, Equity Research Analyst – Power, Utilities & Alternative Energy*

Continued on the next page…

DUKE: ACTIVIST AND LEGISLATION

Our conversations with DUK senior management (CFO, etc.) focused heavily on the recent activist headlines, with management again laying out in great detail its rationale for why a fracturing of the conglomerate is in their view, illogical. Chief among the reasons is the credit impact, with management highlighting its current ~12% FFO/Debt as in danger under a breakup scenario as smaller utilities demand better profiles. The holdco debt issue is intertwined with this in their view, with the combination of the credit issues requiring billions of equity to repair the balance sheets – before dissynergies. Management indicated, as it did previously, that it took ~$600mm out of Progress and $300mm from Piedmont, indicative of the kinds of costs that could flow back to each company in a split scenario. **The company also indicated to us that it had previously looked at the potential sale of Florida internally,** however there are several issues, including: 1) substantial tax leakage ($5bn+), 2) the need for a substantial (30x+) premium/multiple to keep the remainco whole under the ensuing credit metric impacts, and 3) Florida is the fastest growing and best credit of the utility groups. While management indicated that the Board is aware of the proposals and has been involved, our overall impression of the situation remains consistent – there are large gaps between the parties here, to say nothing of the regulatory challenges. The next proxy season is in the January/February time frame.

See our prior note on this HERE.

Turning to the utilities, our conversations generally focused on the legislative process in NC and the potential outcomes therein. **Management cautioned that legislators are generally in the sausage-making phase right now with limited external visibility for stakeholders (next data point likely draft legislation), but they remain optimistic on the prospects for the overall process.** The company continues to look for directional alignment between the parties on a coal exit pathway, renewables, and regulatory reform, with management speaking highly of both decoupling (the LDCs already do it) and MYPs (already used at DEF). With regards to timing of some of these initiatives and interaction with the current growth guide, management generally deferred on details, given where the process is, although they did note that coal retirement accelerations could begin to show towards the end of the current plan in the ’24-25 timeframe. Legislation that could yield renewable rate base growth opportunities, multiyear rate plan yielding regulatory lag and acceleration of renewable spend etc. could be accretive to Mgmt’s 5-7% growth guide. Finally, current customer/load growth trends are slightly outpacing internal planning assumptions.

EVERSOURCE: FENCE MENDING AND OSW

Our conversations with ES senior management (full C-Suite) generally focused on the fallout from the recent decisions by PURA in CT, with management laying out its ongoing and planned efforts to improve dialogue in the state. The company secured the AG's first in-person meeting in over a year to discuss its work to improve, supported by frequent lawmaker meetings and outreach. The company is looking forward to the impending start of the PBR discussions at PURA, with a docket expected by ~June. The company already operates under PBRs in other states, so the concepts are familiar – management expects the process to be collaborative and constructive. In line with the 1Q call, the company expects the 90bps ROE reduction to potentially come in 4Q21 with a low income/economic development docket already open. **While the reduction appears to be indefinite, management noted that it has not changed its growth outlook as a result.** Some investors also probed the team on their FERC ROE policy thoughts; however, the conversation was generally in line with prior/recent dialogues we have had with them. The balance of our meeting was focused on offshore wind updates, with status checks on South Fork, Revolution, and Sunrise largely unchanged from the 1Q21 call. **The company reiterated its intentions to remain a disciplined bidder in the numerous ongoing RFPs underway,** with a particular focus on the non-MA processes that have some additional weighting towards non-cost metrics (e.g., local dev). Finally, while the next capex roll remains very far off, we got the impression that the current plan retains ample opportunities for traditional utility spend, in addition to things like: 1) grid mod (AMI is a big thread in CT and MA, potentially $400mm in each), 2) ratebased solar in MA (current approval for 280MW), and 3) OSW interconnections among other drivers.

WEC: EXECUTION AS IL VIEWS SOFTEN

Our conversations with WEC senior management (Chair, COO, CFO, etc.) generally focused on economic development, regulatory activity, and Illinois policy perspectives, in addition to more straightforward execution updates. Management echoed its 1Q21 sentiment that the year is off to a good start, with robust economic activity and growth across the footprint, including a new relocation by Milwaukee Tools [SEHK: 669] and potential EV manufacturing opportunities. On the regulatory front, management highlighted its recent stay out agreement in WI. **We also asked for their views on LNT's recent settlement, including readthrough from the coal recovery plan to WEC's own units like Weston.** Management had two key takes on this: 1) the settlement is a testament to the quality of the regulatory and stakeholder environment as it was incredibly quick (as was WEC's), and 2) the recovery on coal is a very interesting approach that they are looking into further – a good marker for how intervenors feel about coal and recovery in their view, and slightly different than the small securitization tested in the Pleasant Prairie process. **On Illinois policy**

prospects, management sounded marginally more optimistic, with the process coming down the wire in their view. The chances for a broad package remain challenged in their view given all of the moving pieces, **but there is potentially room for something skinnier to advance – perhaps nuclear subsidies + ethics/FRPs.** In their view, gas utilities and the QIP remain tertiary items in the overall process, which we generally agree with. The work at Peoples replacing bare steel and wooden Civil War era components still needs to get done. Finally, we note that the capex plan remains on track, with infrastructure still running ahead of schedule. Based on our conversation, we expect future roles to remain weighted towards storage and solar, with federal tax credits an unknown variable in the equation to monitor. Point Beach dialogue remains nascent but ongoing.

NISOURCE: STRATEGY AND THE INDIANA IRP

With MA sold, equity done, and the plan solidified, our update with NI senior management (CEO, CFO, etc.) was largely straightforward, with a strategic tone in light of recent activist actions and LDC sales. We and others asked management about potentially getting smaller or optimizing assets, with management highlighted the significant number of dissynergies involved in such processes. The company is eyeing 10% growth at each of its utilities and has gotten the equity out of the way, but management still noted that it is always exploring opportunities. The confidence in the current plan and portfolio comes from the constructive environments in its jurisdictions, with supportive mechanisms and policies (e.g., bans on gas bans). The IRP in Indiana was the other key point of discussion, with a meeting today (5/20) and the launch of the RFP process. Management sees ~3 channels, including solar/wind+storage and new technologies for Schaefer's replacement. The RFP does present the opportunity to a higher proportion of utility-owned projects, but management indicated it is far too early to think about the IRP opps and the growth rate. The IRP will also help illuminate the potential to accelerate the coal exit. With equity needs solved in the NT, any asset optimization opportunities on the gas LDC side could come in time with incremental spending arising from the new '21 IRP.

DOMINION: EXECUTION

Dominion's messaging was well defined; they're focused on the blockbuster renewables buildout underway and managing the associated regulatory processes. Senior management's (CFO, etc.) update was built around that narrative, with few incremental data points from the 1Q21 call. The Fast 41 schedule was reiterated, while management again sounded a positive tone on the underlying post-COVID growth trends. The company continues to work through the onshore wind and solar tranches (CE1/CE2), with 110k+ acres under option. Investors in our meeting queried on whether the ~$17bn in planned offshore wind investment could see some shrinkage based on bids in the northeast; however, management noted that the comparison is not direct given some key differences (some projects don't have transmission included, different capacity factors, etc.). The company remains active on the RNG front and looking at agriculture opportunities. To the south, the settlement process remains ongoing in South Carolina during the pause, **with management sounding a positive tone on the prospects for a settlement.** While we asked on Santee Cooper, there were no new thoughts. Finally, we asked about the noncore nature of assets like Millstone, however management noted that it is comfortable with such a small non-regulated portion of the business (<10%), which will only shrink further as the regulated side continues to grow. No material updates around the VA triennial review though, we continue to believe the process should run smoothly given the construct and legislative mandates in place.

SJI: GROWTH AND NJ LEGISLATION IN FOCUS

Coming off its recent analyst day, SJI's senior management (CEO,CFO, etc.) update was generally focused on execution and ongoing legislative conversations. The company continues to see solid growth as the state recovers from COVID, with ETG a particular area of strength. Management struck a very comfortable tone with the current ~1.5% customer growth guide. The company also continues to navigate legislative opportunities around rate treatment of RNG investments (e.g., ratebasing RNG projects, link HERE). We asked about ratebasing projects vs. keeping them non-regulated, with management acknowledging that current returns are quite healthy on the nonreg side—they continue to evaluate all options. We also asked about the drivers of management's slightly wider 5-8% EPS growth rate guidance, with the company pointing to some flexibility on regulatory items (it has multiple cases built in to the current plan) and the potential investment opportunities. Management did note that a federal biogas ITC could be an earnings game changer if some iteration of it were to come to pass. The company also continues to work through its current ~$743mm infrastructure ask, with discovery expected to finish within a week and potential settlement discussion thereafter. The plan does not assume the whole ~$743 ask. Finally, our conversation also touched on PennEast, with management largely reiterating the process data points and timelines.

NW NATURAL: RNG AND EXECUTION

Our conversations with NWN senior management (CEO, CFO, etc.) largely centered on execution and decarbonization, with the company working through its first tranche of RNG procurements and looking ahead to meeting the aggressive goals under SB98. While the company has already made strong progress on decarbonization to date (no bare steel

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left in system and a strong visibility on EE), there remains ample opportunity to add RNG under the existing constructs. The current ~$38mm in spend will help meet roughly 1.6% of NWN's OR sales volume and represents only projects with a clear line of sight. Under the SB98 caps, the company could approach another $162mm in spend over the 5 year period, however the procurement process remains in its early days. With regard to policy, the company continues to work with stakeholders in somewhat hostile localities like Eugene to educate on the value of gas and the company's decarbonization plans, however some noise may continue in our view given the regional dynamics. Based on our conversations, we expect the water business to continue its expansion, with management pointing to a pickup in overall activity post-COVID. Finally, we note that the WA MYP case remains ongoing, with management pointing to the potential for some resolution in the coming month or two based on current conversations.

SOUTHERN COMPANY: VOGTLE, VOGTLE, VOGTLE

Hot off Tuesday's construction news, our conversations with SO senior management (CFO, etc.) were decidedly focused on the HFT process and the prospects for schedule slippage. Management provided additional color on the process and what had been seen to date, with the pressurize bracket alignment the chief bottleneck in the process. The support for the pressurizer wasn't perfectly centered, leading to some misaligned thermal expansion. This and other thermal expansion items were somewhat expected (the Chinese also dealt with them), however the pressurizer situation required cooling the system given the limited clearances for worker access, adding ~2-3 weeks to the process. The schedule shift will cost a little bit of the contingency, however management continued to strike an upbeat tone on the prospects for the Unit 4 schedule once 3 is complete. Remaining items post-HFT at unit 3 are largely minor mechanical systems (emergency lighting, potable water, etc.). With regard to prudency, the company reiterated it expects to pursue all ~$700mm, but it is also cognizant of other processes in the state that will be ongoing by that time (rate case, IRP). We asked about LDC M&A and other noncore assets at the company given the recent Sequent sale, with management acknowledging healthy multiples while simultaneously re-emphasizing its own lack of equity needs in the NT.

CENTERPOINT: LONGER DATED UPDATES

We sat down with CNP's CFO and other senior leaders for the latest updates on a story we have been *very* close to for several quarters, with most data points focused on longer-term items like outer year capex and decarbonization opportunities. The company is taking a closer look at its decarbonization narrative and how it will fit into future net zero economies, **including the potential for a longer term 10-year capex outlook and**

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conversations on longer-dated asset replacements (e.g., coal transitions). For example, at the moment the company has no EV infrastructure in its current plan despite nascent favorable policy positioning in places like Houston. Management is also looking at potential opportunities for limited rate base storage in Texas on the distribution system (~25MW). We asked about potential disclosures around such a long-dated outlook, with management reiterating no block equity. What about RNG? Opportunities remain pretty nascent based on our conversation, with Minnesota presenting the most immediate application as the state takes an interest in the resource. **We note that the team also recently sat down with the newly constituted PUCT** to reestablish the relationships that had been severed after the February storms prompted a bench-clearing, with management noting a concerted interest in reliability during the dialogue. **Finally, we also touched on the ongoing IN IRP, with hearings on the first tranche coming in June and a filing for a gas peaker in the same time frame.** The balance of the filings and processes will run through next year. Note – when Mgmt. discloses their longer-term CapEx update around decarbonization in Q3, they continue to believe they will not need block equity, with funding in time being sourced from OCF, O&M levers and further asset optimization opportunities.

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Power, Utilities & Alternative Energy | May 21, 2021

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Ticker	Price	Rating
EXC	45.74	Neutral
PNW	85.37	Buy
POR	48.89	Buy

The Guggenheim Daily Transmission: AGA, EXC, IL, POR, RGGI, PA, PNW, PJM

For details on our Guggenheim Hosted Client Utility Events, including our OGE Virtual NDR, ALE Virtual NDR, SHLS Virtual NDR, LNT Virtual NDR, EVRG Virtual NDR, SO Virtual NDR, and more, scroll down…

AGA: Day 2 Flash Recap… (see our note HERE)

EXC/IL – Details on IL report redactions and process emerge

POR – OPUC adopts temporary rules on PSPS

RGGI/PA – DEP releases data on consumer cost modeling

PNW – Bright Canyon inks 25MW Navy microgrid contract

PJM – Summer outlook points to plentiful supply

EXC/IL – Details on IL report redactions and process emerge

- Byron and Dresden employed ~1,300 people in 2020 according to a review of the unredacted report, as EXC continues to push its case for subsidies higher than the consultant's recommendations
- More from Crain's HERE

Guggenheim takeaway: *For your awareness. The process is frustratingly opaque at this point, and while we remain of the view that a comprehensive package could be an uphill lift in the remaining week of the session, we note that some of our AGA conversations were slightly more open to the potential for a slimmer 'subisidy+ethics' package to emerge. Stay tuned… As a reminder, we hosted two different experts recently for their views on the situation in Springfield – see our note on the first conversation HERE and the second HERE.* ***We also discussed the issue in our AGA meetings – see above for AEE and HERE for WEC's updated thoughts.***

POR – OPUC adopts temporary rules on PSPS

- Docket and OPUC Staff presentation on the PSPS HERE

Guggenheim takeaway: *Zero surprise given the wildfire docket process we have been tracking for some time, and something POR has already been a leader on in the state.*

RGGI/PA – DEP releases data on consumer cost modeling

- "Residential electricity bills are slightly higher with RGGI participation with bill impacts declining to just $.84- $1.19 per month by 2030" - DEP
- Presentation HERE, more HERE

Guggenheim takeaway: *Minor FYI.*

NOAA – NOAA predicts another active hurricane season

- "For 2021, a likely range of 13 to 20 named storms (winds of 39 mph or higher), of which 6 to 10 could become hurricanes (winds of 74 mph or higher), including 3 to 5 major hurricanes (category 3, 4 or 5; with winds of 111 mph or higher) is expected. NOAA provides these ranges with a 70% confidence. The Atlantic hurricane season extends from June 1 through November 30." - NOAA
- More HERE

Guggenheim takeaway: *Heads up.*

PNW – Bright Canyon inks 25MW Navy microgrid contract

- More HERE

Guggenheim takeaway: *Interesting heads up, and exactly the kind of project management has indicated in the past the nascent segment was targeting.*

PJM – Summer outlook points to plentiful supply

- "PJM power system operators have forecasted a peak demand for electricity this summer at approximately 149,000 MW but have performed reliability studies at even higher loads – in excess of 155,000 MW – for the region that includes 13 states and the District of Columbia. PJM has over 185,000 MW of installed generating capacity available to meet customer needs, with sufficient resources available in reserve to cover generation that is unexpectedly unavailable, or for other unanticipated changes in demand." - PJM
- More HERE

Guggenheim takeaway: *Zero surprise - PJM remains oversupplied.*

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OGE Energy Corp. (OGE)

Bryan Buckler, *Chief Financial Officer*
Jason Bailey, *Director, Investor Relations*
Casey Strange, *Manager, Investor Relations*

Date
Monday, May 24, 2021

Meeting Format
Virtual NDR - 1:1 Meetings & Group Meeting

Company Information
Market Cap: $6.7bn
OGE Energy Corp. (OGE) is a holding company, which engages in the provision of physical delivery and related services for both electricity and natural gas. It operates through the Electric Utility and Natural Gas Midstream Operations segments. The Electric Utility segment generates, transmits, distributes, and sells electric energy in Oklahoma and Western Arkansas. The Natural Gas Midstream Operations segment involves gathering, processing, transporting, storing, and marketing of natural gas. The company was founded in August 1995 and is headquartered in Oklahoma City, OK. (Source: FactSet)

Participating Guggenheim Analyst
Shar Pourreza, *Senior Managing Director, Equity Research Analyst – Power, Utilities & Alternative Energy*

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ALLETE, Inc. (ALE)

Bethany Owen, *President & Chief Executive Officer*
Bob Adams, *Chief Financial Officer*
Steven Morris, *Controller & Chief Accounting Officer*

Date

Thursday, May 27, 2021

Meeting Format

Virtual NDR - 1:1 Meetings & Group Meeting

Company Information

Market Cap: $3.67bn

ALLETE, Inc. (ALE) engages in the provision of electric and natural gas utility services. It operates through the following business segments: Regulated Operations, ALLETE Clean Energy, and U.S. Water Services. The Regulated Operations segment includes regulated utilities; Minnesota Power; SWL&P; and investment in ATC, which regulates utilities that owns and maintains electric transmission assets. The ALLETE Clean Energy segment develops, acquires, and operates clean and renewable energy projects. The U.S. Water Services segment provides integrated water management for industry by combining chemical, equipment, engineering, and service for customized solutions to reduce water and energy usage and improve efficiency. The company was founded in 1906 and is headquartered in Duluth, MN. (Source: FactSet)

Participating Guggenheim Analyst

Shar Pourreza, *Senior Managing Director, Equity Research Analyst – Power, Utilities & Alternative Energy*

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Shoals Technologies Group, Inc. (SHLS)

Jason Whitaker, *President & Chief Executive Officer*
Philip Garton, *Chief Financial Officer*

Date
Tuesday, June 1, 2021

Meeting Format
Virtual NDR - 1:1 Meetings & Group Meeting

Company Information
Market Cap: $4.75bn
Shoals Technologies (SHLS) provides electrical balance of system solutions for solar energy projects. Its EBOS components include cable assemblies, inline fuses, combiners, disconnects, recombiners, wireless monitoring systems, junction boxes, transition enclosures and splice boxes. The company was founded by Dean Solon in November 1996 and is headquartered in Portland, TN. (Source: FactSet)

Participating Guggenheim Analyst
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Alliant Energy Corp (LNT)

John Larsen, *Chair, President & Chief Executive Officer*
Robert Durian, *EVP & Chief Financial Officer*

Date
June 2 - 3, 2021

Meeting Format
Virtual NDR - 1:1 Meetings & Group Meeting

Company Information
Market Cap: $14.31bn
Alliant Energy Corp (LNT) is a regulated investor-owned public utility holding company that engages in the provision of regulated electricity and natural gas service to natural gas customers in the Midwest through its two public utility subsidiaries. It operates its business through following segments: utility electric operations, utility gas operations; and utility other. The company was founded in 1981 and is headquartered in Madison, WI. (Source: FactSet)

Participating Guggenheim Analyst
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Guggenheim's Power & Utility Comp Sheet

Updated as of 5/20/2021

Regulated Electric Utilities[1]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	Guggenheim Earnings Per Share '21E	'22E	'23E	Guggenheim Price / Earnings '21E	'22E	'23E	Consensus Price / Earnings '21E	'22E	'23E
AEE	Ameren	21.6	Buy	$90	$84.50	2.6%	59%	256	3.73	4.02	4.30	22.7	21.0	19.7	22.5	21.0	19.5
AEP	American Electric Power	43.1	Buy	$98	$86.26	3.5%	65%	500	4.65	5.03	5.30	18.6	17.1	16.3	18.5	17.3	16.4
ALE	ALLETE	3.6	Neutral	$65	$69.85	3.7%	81%	52	3.18	3.85	3.98	22.0	18.1	17.6	21.9	18.1	17.4
AVA	Avista	3.2	Sell	$32	$45.62	3.7%	82%	69	2.06	2.26	2.47	22.1	20.2	18.5	21.6	19.8	18.3
CMS	CMS Energy	18.5	Neutral	$63	$63.74	2.7%	61%	289	2.86	3.06	3.26	22.3	20.8	19.6	22.3	20.8	19.5
D	Dominion	62.4	Buy	$89	$77.24	3.2%	65%	807	3.86	4.15	4.44	20.0	18.6	17.4	19.9	18.7	17.7
DUK	Duke Energy	78.7	Buy	$107	$102.27	3.9%	77%	769	5.17	5.48	5.81	19.8	18.7	17.6	19.7	18.8	17.8
ED	Consolidated Edison	26.9	Neutral	$77	$78.42	4.0%	73%	343	4.25	4.42	4.63	18.5	17.7	16.9	18.4	17.4	16.6
EIX	Edison International	21.9	Buy	$79	$57.68	4.7%	60%	379	4.51	4.76	5.04	12.8	12.1	11.4	12.7	12.2	11.5
ES	Eversource Energy	28.8	Neutral	$87	$83.76	2.9%	63%	343	3.83	4.12	4.36	21.9	20.3	19.2	21.8	20.4	19.1
ETR	Entergy	21.2	Buy	$120	$105.74	3.7%	65%	201	6.01	6.33	6.79	17.6	16.7	15.6	17.7	16.8	15.8
EVRG	Evergy	14.2	Buy	$70	$61.90	3.5%	66%	229	3.29	3.43	3.71	18.8	18.0	16.7	18.7	17.8	16.5
FE	FirstEnergy	20.5	Neutral	NA	$37.69	4.1%	62%	544	2.50	2.60	2.71	15.1	14.5	13.9	15.0	14.5	14.1
HE	Hawaiian Electric	4.8	Sell	$37	$43.80	3.2%	69%	109	2.01	1.96	2.11	21.8	22.3	20.8	22.4	21.7	20.2
LNT	Alliant Energy	14.5	Buy	$64	$57.76	2.8%	63%	250	2.57	2.72	2.87	22.5	21.2	20.1	22.5	21.1	20.0
NWE	NorthWestern	3.2	Neutral	$62	$63.31	3.9%	72%	51	3.46	3.64	3.84	18.3	17.4	16.5	18.1	17.2	16.3
PCG	PG&E Corporation	20.6	Buy	$17	$10.40	NA	NA	1985	1.03	1.13	1.25	10.1	9.2	8.3	10.3	9.3	8.4
PNW	Pinnacle West	9.7	Buy	$97	$85.37	4.0%	68%	113	5.05	5.23	5.49	16.9	16.3	15.6	17.1	16.6	15.9
POR	Portland General Electric	4.4	Buy	$54	$48.89	3.4%	62%	90	2.71	2.75	2.84	18.0	17.8	17.2	18.4	17.8	17.0
PPL	PPL Corporation	22.6	Buy	$32	$29.34	5.2%	115%	769	1.34	1.65	1.84	21.9	17.8	15.9	12.2	11.8	11.1
SO	Southern Company	67.7	Neutral	$63	$64.06	4.1%	79%	1059	3.32	3.59	3.85	19.3	17.8	16.6	19.3	18.0	16.6
WEC	WEC Energy	30.2	Neutral	$92	$95.52	2.8%	67%	315	4.03	4.26	4.50	23.7	22.4	21.2	23.7	22.3	20.9
***Average (Excl. EIX, PCG, and PPL for P/E)**						**3.5%**	**68.3%**					**20.0**	**18.8**	**17.7**	**20.0**	**18.7**	**17.7**

Regulated Gas Utilities[2]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
CPK	Chesapeake Utilities	2.0	Neutral	$108	$116.82	1.5%	37%	18	4.59	4.98	5.35	25.5	23.5	21.8	25.5	23.7	22.0
NI	NiSource	9.9	Buy	$27	$25.32	3.6%	67%	392	1.35	1.43	1.53	18.8	17.7	16.5	18.8	17.9	16.7
NJR	New Jersey Resources	4.1	Neutral	$39	$42.49	3.2%	65%	96	2.09	2.28	2.35	20.3	18.6	18.1	20.5	18.7	17.6
NWN	NW Natural Gas	1.6	Sell	$38	$53.64	3.6%	77%	31	2.50	2.64	2.73	21.5	20.3	19.6	21.2	20.4	19.3
OGS	ONE Gas	3.9	Neutral	$80	$73.61	3.2%	61%	53	3.82	4.12	4.43	19.3	17.9	16.6	19.4	17.9	16.9
SJI	South Jersey Industries	2.9	Buy	$28	$25.97	4.5%	73%	112	1.61	1.71	1.85	16.1	15.2	14.0	16.1	15.6	15.0
SR	Spire	3.8	Buy	$84	$72.92	3.6%	60%	52	4.43	4.41	4.67	16.5	16.5	15.6	16.7	16.5	15.7
Average						**3.3%**	**62.7%**					**18.7**	**17.7**	**16.8**	**18.8**	**17.9**	**16.9**

Integrated Utilities[3]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
EXC	Exelon	44.7	Neutral	$45	$45.74	3.4%	56%	977	2.80	2.98	3.02	16.3	15.3	15.1	16.6	15.5	14.9
PEG	PSEG	31.6	Buy	$67	$62.58	3.3%	59%	505	3.52	3.51	3.61	17.8	17.8	17.3	18.1	17.9	17.3
Average						**3.4%**	**57%**					**17.1**	**16.6**	**16.2**	**17.3**	**16.7**	**16.1**

Independent Power Producers (IPPs)[4]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
NRG	NRG Energy	8.3	Neutral	NA	$34.04	3.8%	-	245	2,412	2,471	2,472	6.6	5.8	5.4	9.2	6.3	6.0
VST	Vistra Energy	7.9	Neutral	NA	$16.48	3.6%	-	482	1,678	3,230	3,107	9.9	5.0	4.9	10.8	5.3	5.0
Average												**8.2**	**5.4**	**5.2**	**10.0**	**5.8**	**NA**

Multi-Industry Utilities[5]		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
CNP	CenterPoint	14.2	Buy	$27	$24.70	2.5%	44%	580	1.41	1.50	1.62	17.5	16.5	15.2	17.8	17.1	15.9
DTE	DTE Energy	27.2	Buy	$148	$140.36	3.1%	60%	194	7.20	7.62	7.84	19.5	18.4	17.9	19.5	18.9	18.0
NEE	NextEra	145.7	Buy	$90	$74.29	1.9%	56%	1961	2.56	2.77	2.95	29.0	26.8	25.2	29.5	27.2	25.4
OGE	OGE Energy	6.7	Buy	$39	$33.58	5.1%	78%	200	2.17	2.27	2.38	15.5	14.8	14.1	15.3	15.7	15.1
SRE	Sempra Energy	41.1	Buy	$167	$135.74	3.4%	56%	303	8.16	8.58	9.21	16.6	15.8	14.7	16.7	15.9	15.1
Average						**3.2%**	**58.9%**					**19.6**	**18.5**	**17.4**	**19.8**	**18.9**	**17.9**

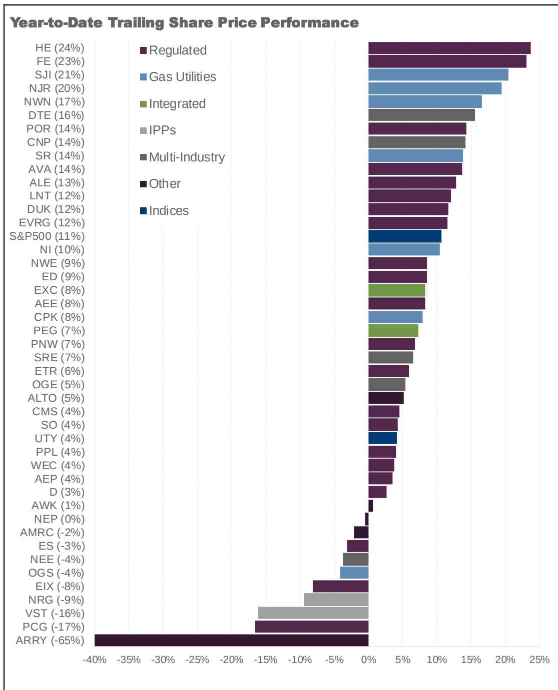
Other		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
AWK	American Water Works	28.0	Neutral	$146	$154.42	1.4%	50%	181	4.24	4.63	4.99	36.4	33.4	30.9	36.4	33.5	31.0
ALTO	Alto Ingredients, Inc.	0.4	Buy	$9	$5.71	-	-	73	0.62	0.66	0.80	9.2	8.7	7.1	9.4	6.1	7.1

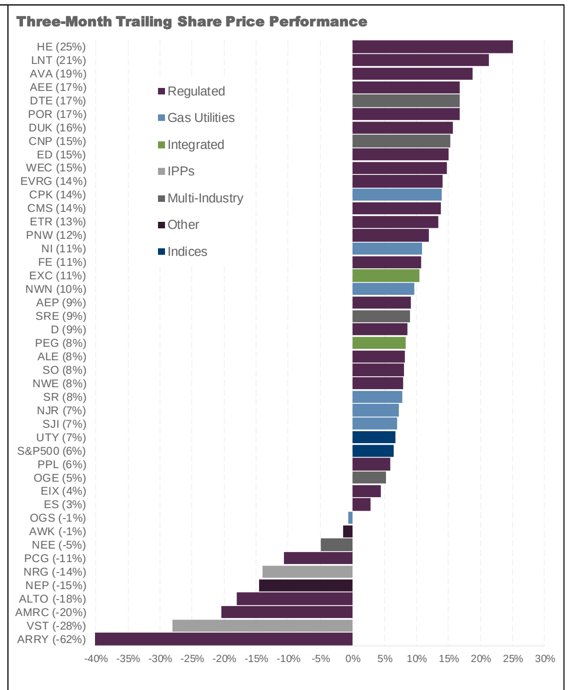
		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
AMRC	Ameresco, Inc. Class A	2.6	Buy	$67	$51.12	-	-	50	146	163	184	NA	NA	NA	NA	NA	NA
ARRY	Array Technologies	1.9	Buy	$51	$15.24	-	-	127	174	198	224	13.2	11.6	10.3	20.9	12.9	10.0
CWEN	Clearway Energy	6.1	Suspended	NA	$26.35	NA	-	183	NA	NA	NA	NA	NA	NA	10.5	9.7	9.7
NEP	NextEra Energy Partners	5.1	Buy	$88	$66.75	4.0%	-	76	1,532	1,660	1,775	7.2	6.8	6.3	10.3	9.6	9.3
SHLS	Shoals Technologies Group, Inc	3.9	Buy	$46	$23.45	-	-	167	77.2	125.8	195.7	52.0	31.3	19.6	52.0	31.8	20.2

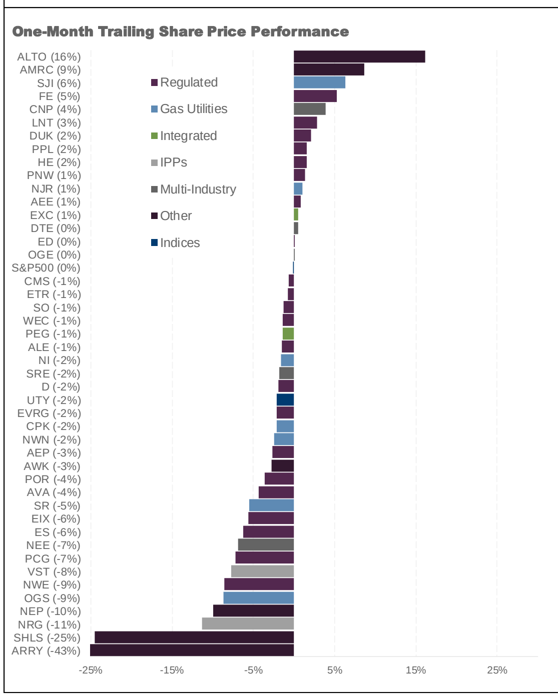
(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.
(2) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).
(3) Integrated utilities own and operate regulated T&D franchises, as well as un-regulated power generation with commodity exposure.
(4) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.
(5) Mult-Industry Utilities operate some comibination of regulated electric and/or gas utilities, in addtion to substantial non-power unregulated activities (i.e. midstream, renewable development, energy trading, etc.).

Source: Bloomberg, FactSet, Guggenheim Securities, LLC estimates.

Share Price Performance (Year-to-Date, Three-Month, & One-Month Trailing)







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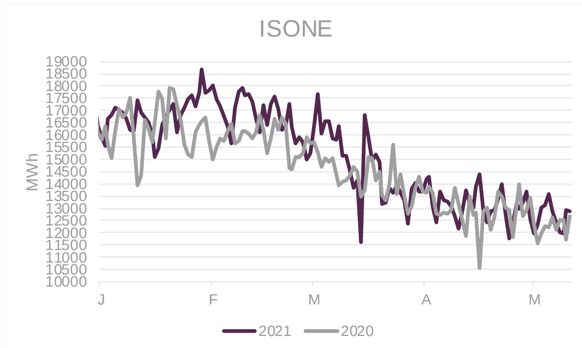
(3) Integrated
(4) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.
Source: Bloomberg, Guggenheim Securities, LLC estimates.

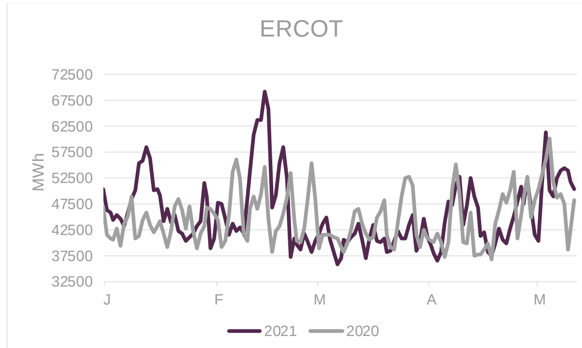
Guggenheim 2021 Client and Corporate Access Utility Events

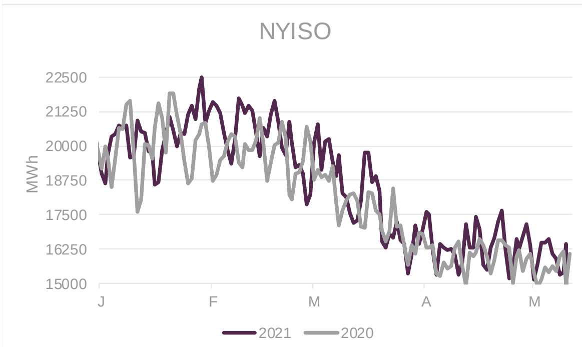
Ticker	Dates	Regions	Ticker	Dates	Regions
EIX	1/8	NYC	**CMS**	5/12-5/13	Multiple
'21 Utilities Call	1/21 – 8:15AM ET	Call	**POR**	5/12-5/13	Multiple
Investor Discussion	1/25 – 4:30PM ET	Virtual	**ARRY**	5/14	Multiple
PNW	1/26-1/27	Multiple	**OGE**	5/25-5/26	Multiple
SRE	1/27 – 4:30PM ET	Virtual	**ALE**	5/27	Multiple
WEC	2/16-2/17	Multiple	**SHLS**	6/1	Multiple
DUK	2/18	Multiple	**LNT**	6/2-6/3	Multiple
D	2/19	NYC	**PEG**	6/8-6/9	Multiple
AWK	3/10	Multiple	**EVRG**	6/10	Multiple
PPL	3/23	West Coast	**NWE**	6/16	Multiple
AEP	3/30	Multiple	**DTE**	6/29	Multiple
VST	3/31	Multiple	**ES**	TBD	Multiple
ETR	4/8	Multiple	**SO**	8/9-8/10	Multiple
SR	4/15	Multiple	**SO** (CEO Fireside)	8/10	Multiple
PCG	5/5	Multiple	**NEE**	8/30-9/2	West Coast
CNP	5/10	Multiple			

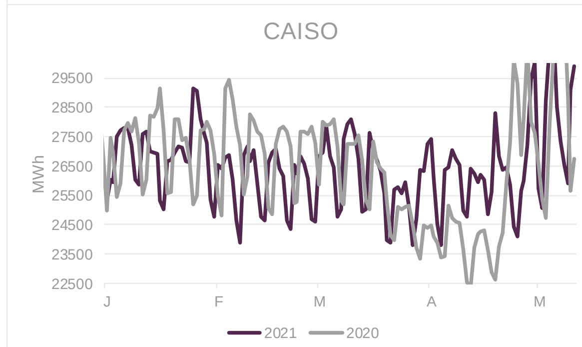
MORE TO BE ADDED…

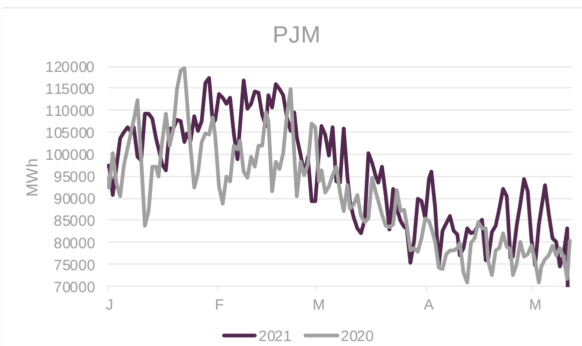
Peak Load

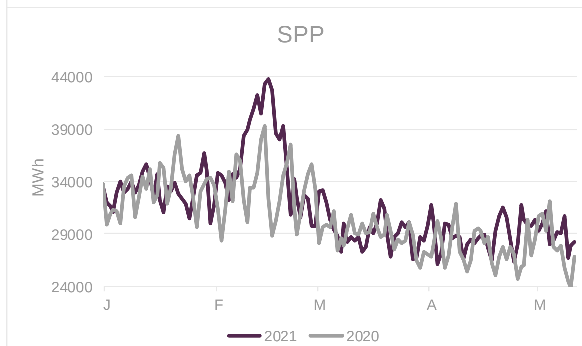


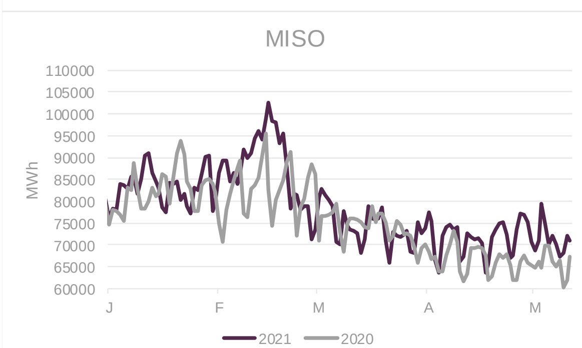










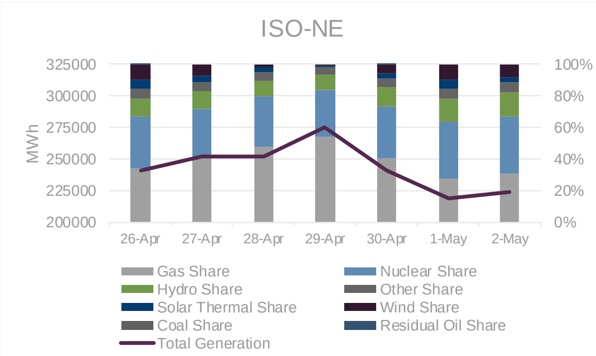


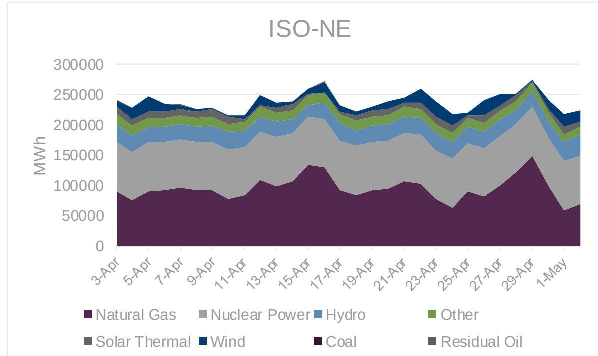
Average Deviation in Peak Load vs Prior Year

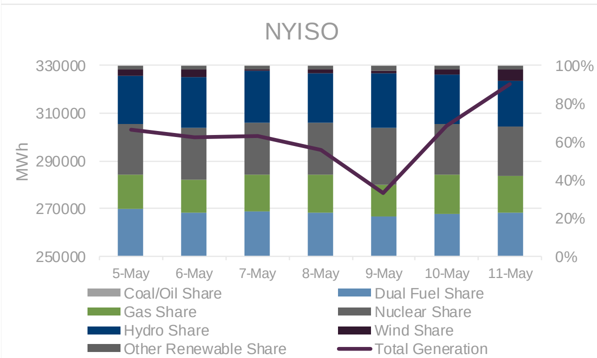
RTO/ISO	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
ISONE	-5.1%	0.1%	2.4%	2.4%	4.1%	2.5%
NYISO	-5.8%	-3.8%	0.0%	0.0%	2.5%	3.0%
PJM	-6.9%	-4.7%	-1.8%	-1.8%	6.1%	8%
MISO	-4.7%	-5.2%	-3.7%	-3.7%	4.3%	8.1%
CAISO	-1.7%	1.4%	3.2%	3.4%	0.4%	3.6%
ERCOT	2.7%	1.7%	-4.1%	3.0%	2.8%	2.8%
SPP	-4.6%	0.0%	-4.4%	-4.4%	4.1%	5.3%

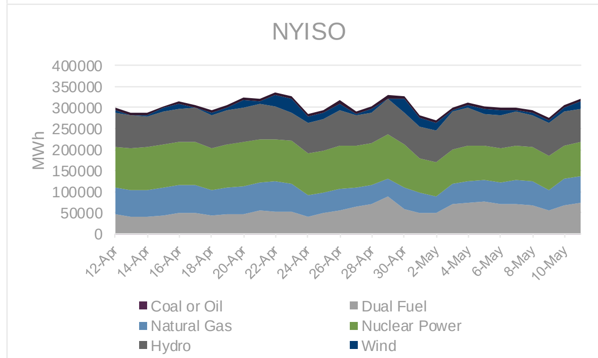
Source: S&P Global Platts, Guggenheim Securities, LLC.

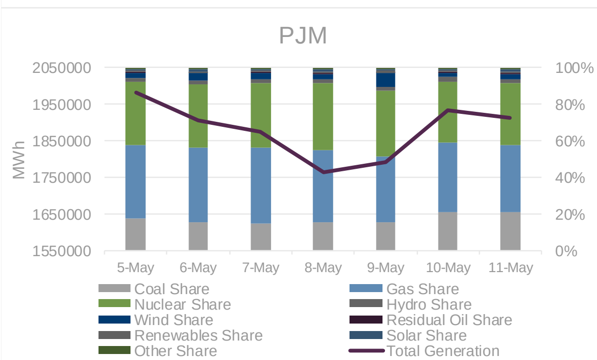
Generation and Mix

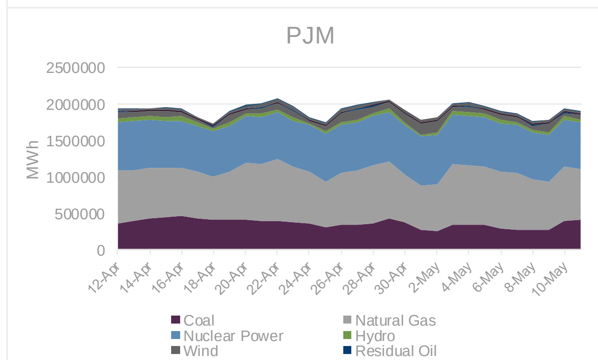


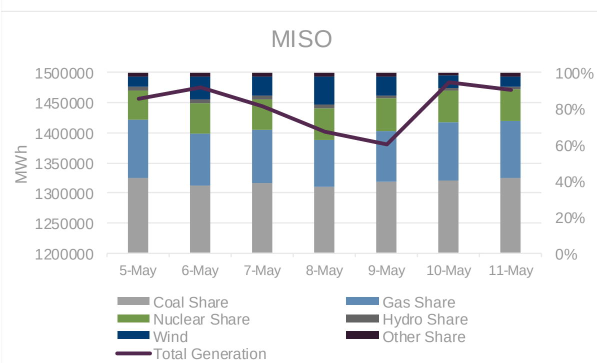


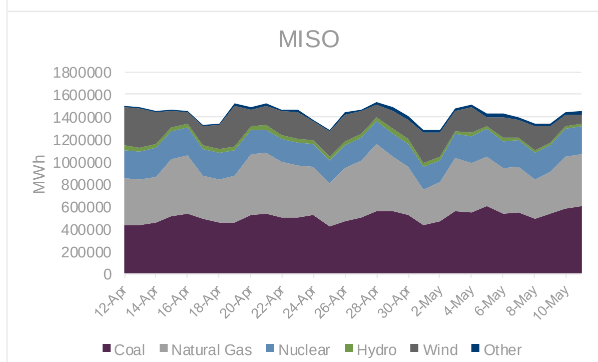




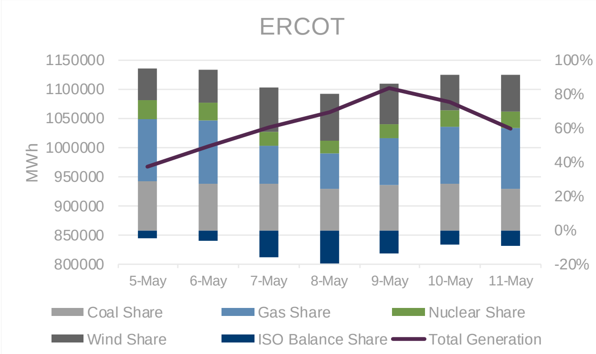


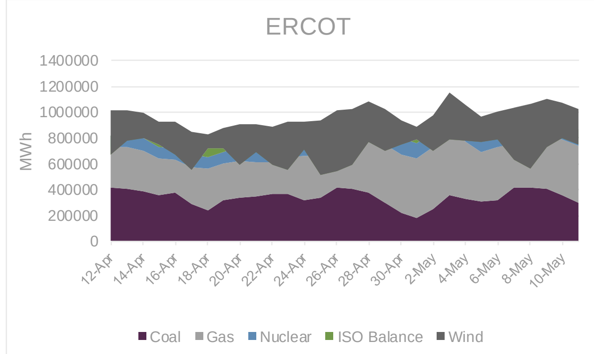


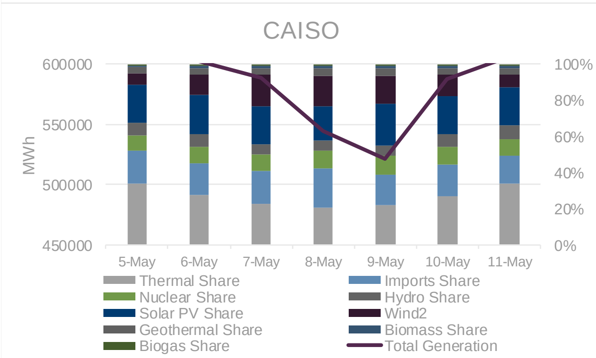


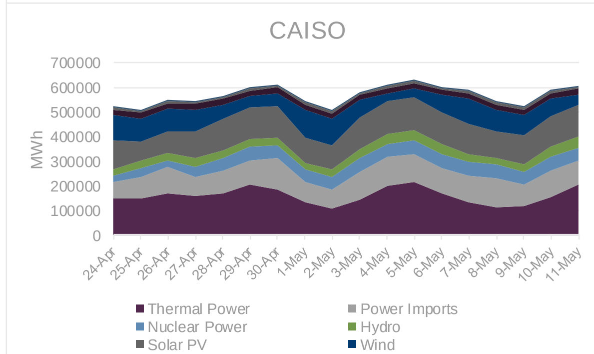


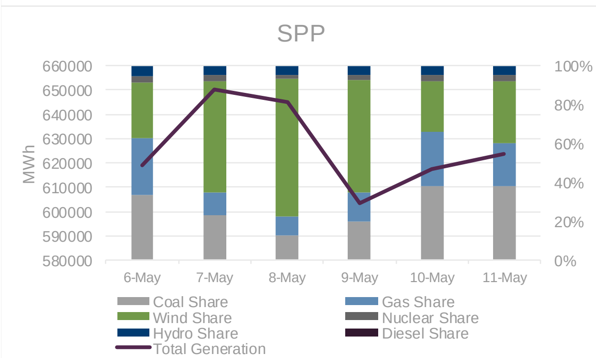
Source: S&P Global Platts, Guggenheim Securities, LLC.

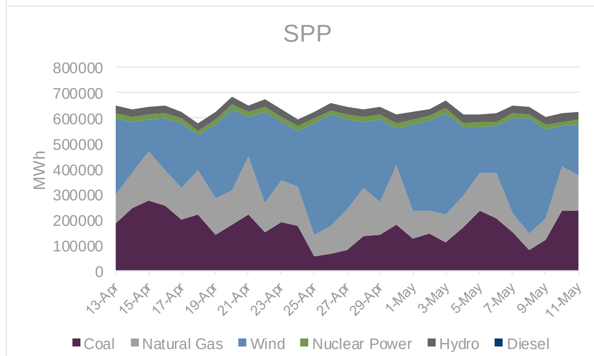






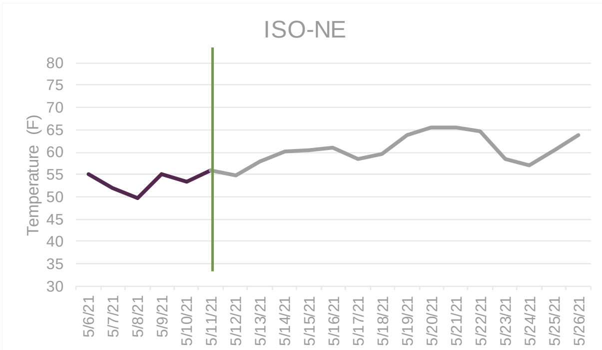


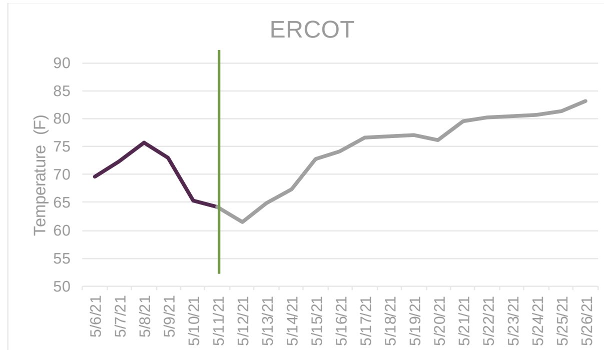


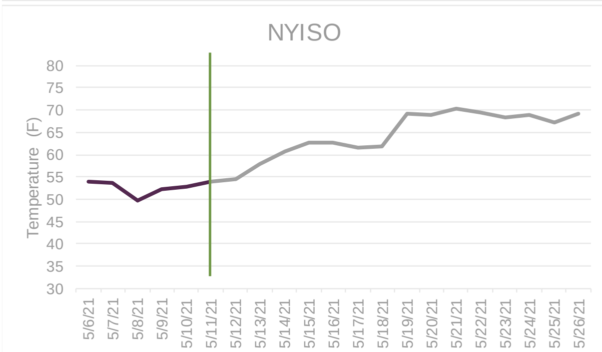


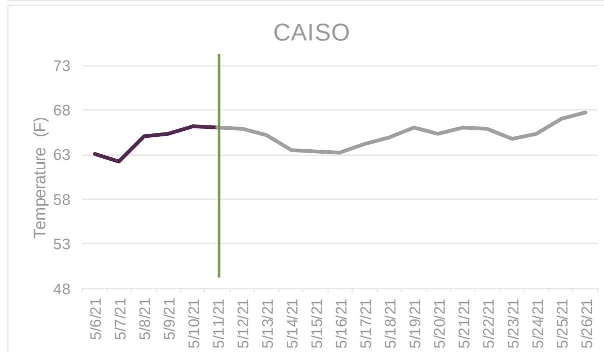
Source: S&P Global Platts, Guggenheim Securities, LLC.

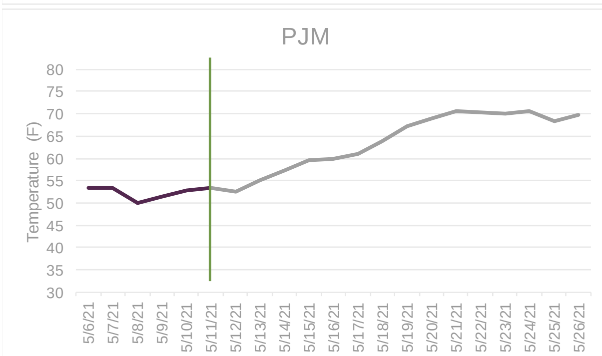
Weather

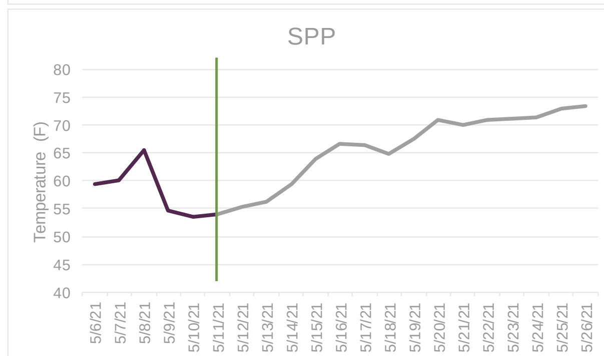


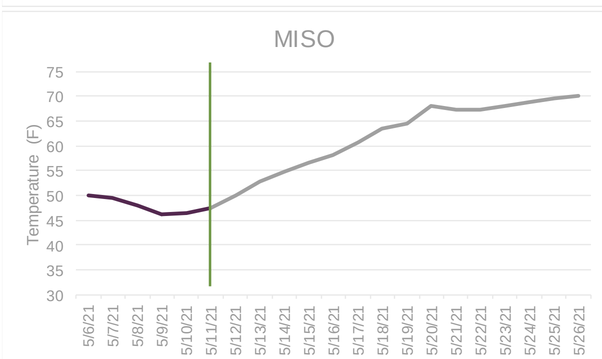












Source: S&P Global Platts, Guggenheim Securities, LLC.

POWER, UTILITIES & ALTERNATIVE ENERGY

May 21, 2021

Regulatory Calendar

Power and Utilities: Coverage Calendar (5/15/2021 - 8/15/2021)

Date	State	Ticker	Utility/Event	Docket	Description
3/1/2021-6/30/2021	DC	EXC	Potomac Electric Power Co.	FC-1156	Commission decision may be issued in electric rate proceeding
4/15/2021-5/15/2021	PA	EXC	PECO Energy Co.	D-R-2020-3018929	ALJ recommendation expected in rate case in late April-early May
5/1/2021-6/30/2021	TX	SRE	Oncor Electric Delivery Co.		Rate case filing expected
5/17/2021	NJ	EXC	Atlantic City Electric Co.	D-ER20120746	Settlement meeting scheduled in rate case
5/18/2021-5/19/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00251 (RAC-EE)	Hearings scheduled in RAC-EE proceeding
5/19/2021	ID	AVA	Avista Corp.	C-AVU-E-21-01	Settlement conference scheduled
5/19/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-E-0074	PSC staff and intervenor testimony due
5/19/2021-5/28/2021	TX	AEP	Southwestern Electric Power Co	D-51415	Hearings scheduled in rate case
5/19/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-G-0073	PSC staff and intervenor testimony due
5/19/2021	ID	AVA	Avista Corp.	C-AVU-G-21-01	Settlement conference scheduled
5/21/2021	WA	NWN	Northwest Natural Holding Co.	D-UG-200994	Deadline for staff and intervenor opening testimony
5/21/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00258 (E-RAC)	Rebuttal testimony due in E-RAC proceeding
5/21/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00013 (Rider E)	Rebuttal testimony due in Rider E proceeding
5/21/2021	MD	EXC	Potomac Electric Power Co.	C-9655	Initial briefs due in rate case
5/24/2021	IN	CNP	Indiana Gas Co.	Ca-45468	Hearing to begin in rate proceeding
5/26/2021	MO	SR	Spire Missouri Inc.	C-GR-2021-0108	Intervenor testimony on class cost of service due in rate proceeding
5/28/2021	WA	AVA	Avista Corp.	D-UG-200901	Deadline for company reply testimony; staff and intervenor cross-answering testimony
5/28/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00259 (BC-RAC)	SCC staff testimony due in BC-RAC proceeding
5/28/2021	WA	AVA	Avista Corp.	D-UE-200900	Deadline for company reply testimony; staff and intervenor cross-answering testimony
6/1/2021-6/15/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00251 (RAC-EE)	Hearing examiner's report may be issued in RAC-EE proceeding
6/1/2021-6/30/2021	OK		Oklahoma Natural Gas Co		Rate case filing expected
6/1/2021-6/30/2021	KY	PPL	Louisville Gas & Electric Co.	C-2020-00350 (gas)	Decision possible in rate proceeding
6/1/2021	MD	EXC	Potomac Electric Power Co.	C-9655	Reply briefs due in rate case
6/1/2021-6/30/2021	OH	AEP	Ohio Power Co.	C-20-0585-EL-AIR	Decision possible in rate proceeding
6/1/2021-6/30/2021	KY	PPL	Kentucky Utilities Co.	C-2020-00349	Decision possible in rate proceeding
6/1/2021-6/30/2021	VA		Virginia Natural Gas Inc.	C-PUR-2020-00095	Hearing Examiner's report may be issued in base rate case
6/1/2021-6/30/2021	OK		Oklahoma Natural Gas Co	Ca-PUD202100063	Rate case filing expected
6/1/2021-6/30/2021	KY	PPL	Louisville Gas & Electric Co.	C-2020-00350 (elec.)	Decision possible in rate proceeding
6/3/2021	MI	DTE	DTE Gas Co.	C-U-20940	Staff and intervenor testimony due
6/4/2021	NJ	EXC	Atlantic City Electric Co.	D-ER20120746	Intervening parties to file testimony in rate case
6/8/2021	IL	SO	Northern Illinois Gas Co.	D-21-0098	Company rebuttal testimony due in rate proceeding
6/9/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-G-0073	Rebuttal testimony to be filed in rate case
6/9/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-E-0074	Rebuttal testimony to be filed in rate case
6/17/2021	MO	SR	Spire Missouri Inc.	C-GR-2021-0108	Rebuttal testimony due in rate proceeding
6/17/2021	TX	AEP	Southwestern Electric Power Co	D-51415	Initial briefs due in rate case
6/17/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00045 (Rider CCR)	Intervening parties to file testimony in Rider CCR proceeding
6/21/2021	FL	NEE	Florida Power & Light Co.	D-20210015-EI	Intervenor testimony due
6/22/2021	MI	CMS	Consumers Energy Co.	C-U-20963	Staff, intervenor testimony due
6/22/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00045 (Rider CCR)	Staff to file testimony in Rider CCR proceeding
6/23/2021	ID	AVA	Avista Corp.	C-AVU-G-21-01	Staff, intervenor testimony due
6/23/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00258 (E-RAC)	Hearing scheduled in E-RAC proceeding
6/23/2021	WA	NWN	Northwest Natural Holding Co.	D-UG-200994	Settlement conference
6/23/2021	MI	DTE	DTE Gas Co.	C-U-20940	Rebuttal testimony due
6/23/2021	ID	AVA	Avista Corp.	C-AVU-E-21-01	Staff, intervenor testimony due
6/25/2021	DE	EXC	Delmarva Power & Light Co.	D-20-0149	Hearing examiner report due in rate proceeding
6/28/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-G-0073	Evidentiary hearings to commence in rate case
6/28/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-E-0074	Evidentiary hearings to commence in rate case
6/30/2021	NH				Commissioner Kate Bailey — term expires
6/30/2021	KY				Commissioner Talina Rose Mathews — term expires
6/30/2021	MD				Commissioner Anthony J. O'Donnell — term expires
6/30/2021	MD	EXC	Potomac Electric Power Co.	C-9655	Decision expected in muulti-year rate plan proceeding
6/30/2021	PA	EXC	PECO Energy Co.	D-R-2020-3018929	Decision likely in gas rate case
6/30/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2020-00197 (Rider RBB)	Decision expected in rural broadband pilot proceeding (Rider RBB)
6/30/2021	WV				Commissioner Brooks McCabe — term expires
6/30/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00251 (RAC-EE)	Decision expected in RAC-EE proceeding
6/30/2021	NC				Commissioner Lyons Gray — term expires
7/1/2021	TX	AEP	Southwestern Electric Power Co	D-51415	Reply briefs due in rate case
7/1/2021-7/31/2021	VA	D	Virginia Electric & Power Co.	PUR-2020-00231 (Rider US-2)	Decision expected in Rider US-2 update proceeding
7/1/2021	IL	SO	North Shore Gas Co.	D-20-0810	ALJ recommendation due in rate proceeding
7/1/2021-7/31/2021	OK	CNP	CenterPoint Energy Resources	Ca-PUD202100054	Decision expected in PBR proceeding
7/1/2021-7/31/2021	IN	CNP	Indiana Gas Co.	Ca-45468	Decision possible in rate proceeding
7/1/2021-7/31/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2020-00230 (Rider BW)	Decision expeced in Rider BW update proceeding
7/2/2021	MI				Commissioner Katherine Peretick — term expires
7/6/2021	FL	NEE	Florida Power & Light Co.	D-20210015-EI	Staff testimony due in electric rate case
7/7/2021-7/9/2021	WA	AVA	Avista Corp.	D-UG-200901	Hearing in rate case
7/7/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00045 (Rider CCR)	Rebuttal testimony due in Rider CCR proceeding
7/7/2021-7/9/2021	WA	AVA	Avista Corp.	D-UE-200900	Hearing in rate case
7/12/2021	FL	NEE	Florida Power & Light Co.	D-20210015-EI	Rebuttal testimony due in electric rate case
7/12/2021	MI	CMS	Consumers Energy Co.	C-U-20963	Rebuttal tesimony due
7/15/2021-8/15/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00013 (Rider E)	Hearing Examiner report may be issued in Rider E proceeding
7/16/2021	WA	NWN	Northwest Natural Holding Co.	D-UG-200994	Deadline for company reply testimony; staff and intervenor cross-answering testimony
7/19/2021	ID	AVA	Avista Corp.	C-AVU-E-21-01	Company rebuttal testimony due
7/19/2021	ID	AVA	Avista Corp.	C-AVU-G-21-01	Company rebuttal testimony due
7/21/2021	IL	SO	Northern Illinois Gas Co.	D-21-0098	Hearing to begin in rate proceeding
7/26/2021	MO	SR	Spire Missouri Inc.	C-GR-2021-0108	Hearing to begin in rate proceeding
7/27/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00045 (Rider CCR)	Public hearing scheduled on Rider CCR proceeding
7/30/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00058	Intervening parties to file testimony in triennial review proceeding
7/31/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2020-00274 (Rider DSM)	Decision expected in Rider DSM proceeding
7/31/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2020-00169 (Rider RGGI)	Decision expected in Rider RGGI proceeding
8/1/2021-8/31/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00259 (BC-RAC)	Hearing Examiner recommendation expected in BC-RAC proceeding
8/1/2021	MO	SR			Commissioner Maida Coleman — term expires
8/5/2021	DE	EXC	Delmarva Power & Light Co.	D-20-0149	Commission decision expected to be issued
8/5/2021	MI	DTE	DTE Gas Co.	C-U-20940	Briefs due in gas rate case
8/10/2021-8/17/2021	NJ	DTE	Atlantic City Electric Co.	D-ER20120746	Hearings scheduled in rate case
8/13/2021	TX	AEP	Southwestern Public Service Co	D-51802	Parties to file testimony in rate case

Source: SNL, Company Filings, Guggenheim Securities, LLC.

Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM and Weekly Commentary

Key Company Research

1. VST NDR: Past Is Prologue
2. SRE: SIP 20% Sale Announced at ~13x EV/EBITDA; Above Our Range, With Opportunity for Earnings Accretion
3. AEP – C-Suite NDR: On the Precipice of Change and It's a Wonderful View from Here
4. PPL NDR: Hard Part Is Done, Now the Real Work Begins – Transformation Path, Further Re-Rating Set
5. ETR – FERC ALJ Issues Initial Decision on SERI ROE and Cap Structure; 9.32% ROE; 48.15% ER
6. SRE – San Diego Opens Utility Franchise Bidding Under Expanded Criteria; Allow for Negotiated Outcome
7. PPL: WPD Sells at "Very" Healthy Multiple in Key First Step, Despite Previous Media Reports
8. NRG: Post-Call Management Catch Up
9. NRG/VST: Stepping to the Sidelines for Now as ERCOT's Collateral Damage Continues to Propagate
10. FE Reaches Agreement with Icahn
11. SHLS – 4Q Earnings; Category Killer Makes Public Market Debut; Tees Up Conservative Guide and Accelerates EV Infrastructure Development
12. AWK NDR: "When the Levee Breaks" American Water Keeps Flowing
13. AEP – Healthy AEP Ohio Rate Case Settlement Supports Thesis; Construct Still Attractive
14. PCG: C-Suite Builds on Operational Improvement for Turnaround Success; Hands-on CEO Is a Tailwind
15. ARRY – 4Q Earnings; Investing Now for Wallet Share Later; FY21 Guidance Comes In Strong
16. WEC NDR: Cutting Through the Noise; Dependable Growth and LT Decarbonization Define Our Meetings
17. D – C-Suite NDR; Strategy Equals Execution; Execution Equals Decarbonization…
18. DUK – CEO NDR; NC Legislation Finally Has Momentum; Driving Decarbonization, Higher Growth
19. AMRC – 2020 Closes with a Beat as 2021 Guidance Points to Continued Growth
20. NRG – Surprise, Surprise: Guidance Intact After Strong Storm Performance; Transformation Continues
21. OGS – 4Q Earnings; Fundamentals Remain Stout Despite Old Man Winter's Best Efforts
22. PEG – 2020 FY In Line; Fossil Sale On Track; LT Business Mix Gains Traction
23. VST – Is the Integrated Model Broken? No, But the Sandbox Might Be
24. EVRG – Coming Out Swinging: EPS Beat, Healthy '21 Guide, Higher CapEx, New Mgmt. Bench & Key Investor Infusion
25. EIX: In-Line 2020; No Major Updates - Holding Pattern Ahead of GRC
26. AEP – Better Load Recovery and Cost Mitigation; Long Renewables Runway w/ Potential Financing From Asset Rotation
27. SRE: '21 Guide Reaffirmed w/Upside Post Transaction; Utility CapEx Increased – Focus Remains on SIP Transaction
28. OGE: No Surprises as 2020 Closes; 2021 Winter Storms Costs Large but Fundamentals Strong
29. CNP: We Aren't Sweating the Details; Managing Storm Event; LDC Sales on Track, Midstream Full Exit on the Forefront
30. PNW – In Line 2020 as Capex Gets a Shuffle – a Consistent Message Following Our NDR
31. EXC – End of an Era: Exelon Loses a Neutron
32. ETR – 2020FY EPS Beat; 2021 Guidance Reaffirmed, Biased to a Strong Midpoint; Arkansas Concerns? No Cracks Here
33. AVA – 4Q Earnings Not as Bad as Some Thought; Guidance Largely In Line With Our Expectations
34. LNT – Ol' Reliable: Inline 2020 as Focus Pivots to PSCW
35. SHLS: Plug-n-"Growth"; Initiating Coverage with a Buy Rating and $48 PT
36. AEE – 4Q Earnings; Callaway Cause For Concern? Not in Our View; Base Plan Remains Strong
37. POR – 2021 Kicks Off on the Right Foot
38. DTE – Continues Strong Execution; 4Q Earnings Beat, '21 Reaffirmed, GS&P Spin Is the Next Major Potential Catalyst
39. FE – Righting the Ship as the DOJ Overhang Persists; Icahn Makes a Splash and Shifts Investor Focus
40. ED – 4Q EPS in Line, 2021 a Reset Year; Capex Roll Points to Higher Quality L-T Recovery
41. SO – 4Q Earnings; Telegraphed LT Growth Rate Raise with Incremental Opportunities on the Horizon
42. PPL: Straightforward Update as WPD Process Forges On
43. ES – 4Q Earnings; Healthy Capex Raise Drives Guidance to the Top Half of Growth Range
44. NI – 4Q Earnings; Straightforward Update With Renewables Projects Continuing to Take Shape
45. ALE – A Transitional Year Comes with a Focus on Execution at ACE
46. DUK – 4Q20 Earnings; Foundation Set With Eye on NC Legislation – We See Pathway to Overachieve Expectations
47. AEP – Racine Hydro Sale; Very in Line with Our Thesis and Potentially More on the Horizon – Reiterate BUY
48. WEC – 2020 Closes with A Beat as Management Evaluates Case Optionality in WI
49. CMS – 4Q Earnings In-Line; Capex/Equity Increase, O&M Flex to Carry Into '21; We See Smooth Sailing to Firm "7%" Growth
50. NJR – F1Q21 Earnings; NJRES AMAs Drive FY22 Guidance Raise, Though Focus Remains on Core Utility and CEV Segments
51. SR – F1Q21 Earnings; Progressing on Regulatory Matters as Mgmt. Has Eyes Set on Sustainability
52. FE/OH: Yost Holds Press Conference on HB6; Reaches Agreement With FE on Decoupling
53. PNW NDR: All Quiet on the Southwestern Front…
54. DUK – Healthy Indiana Equity Sale Highlights Private Infrastructure Appetite for US Assets
55. AMRC: A Unique Blend of Familiar Businesses – Finding a Decarbonization Niche; Initiating Coverage at BUY, $63 PT
56. PEIX Initiation: A Rising Tide Lifts All Ships - Decoupling from Fuel Ethanol, '21 an Inflection Year for Strong CF Story

57. SRE: CEO Catch Up - Value Upside to SIP Deal; Constructive Guidance Forthcoming; Remains Distinctive on Catalysts
58. NEE/NEP: NEE EPS Beats, MVP Takes Write-Down; Organic Growth and FPL Rate Case Are the Next Leg of Growth
59. DUK – Settlement Reached on Coal Ash; Overhang Removed with Allowance for Return on Expenditures – Time to Move On
60. EIX – Another WF Settlement Bites the Dust; Total Expected Loss Unchanged
61. NEE: Starting 2021 with a Bang: FPL Files Rate Case – 11% Base ROE, 50bp Adder, and SOBRA Adds
62. FE/OH: Ohio Situation Continues to Deteriorate
63. DUK – Coal Ash Thoughts Post Our Call With Duke C-Suite This AM
64. FE: JCP&L Creditworthiness Hearing Recap
65. PCG-EIX: Cali Dreamin' on a Winter Day – We're Back and Under a New Utility Construct: Resuming EIX, PCG w/ BUY Ratings
66. EXC: Exelon Divests Distributed Solar Assets
67. CNP: Analyst Day Sets New 6-8% EPS Plan; AR/OK LDC Sale Announced, ENBL Advisor, OGE on Board; Keep the Hits Coming
68. PNW: Staff/Intervenor Surrebuttal Testimony Lands
69. SRE: IENOVA Buyout, Combination with LNG for an SRE Infrastructure Offering – Favorable Setup for Next Steps
70. FE: Payment Fallout Continues – Revolver Draw Potentially Hedges Against New DOJ Outcomes
71. AEP – Upgrading to NEUTRAL from SELL; Risk/Reward Finds Balance Post Our Original Thesis
72. FE: 10-Q and Amended K May Point to Potential PUCO Linkages; Possible Connection to Randazzo Search
73. FE: PUCO Chair Has Home Searched by FBI
74. SRE NDR: Catch Up With SRE Mgmt. Puts Light on Commitment to Value and NorAm Strategy
75. EXC – Integrated Platform Increasingly Endangered as Exelon "Formally" Announces Strategic Review
76. NEP: 2020 KKR Deal; New Assets Accretive to Growth, Cheap Financing Deal Sets Up 4x Investment Capacity
77. FE – Darkest Before the Dawn? A New Day Will Come…
78. PNW – No Surprises as Summer Heat Drives Beat
79. POR – Putting a Rough Quarter to Rest – Update Checks Most Boxes
80. PEG – 3Q In-line; PSE&G Growth Set to 7-8%; Strategic Shuffle Continues on Fossil, Offshore Wind
81. POR – Putting a Rough Quarter to Rest – Update Checks Most Boxes
82. PNW – No Surprises as Summer Heat Drives Beat
83. FE: CEO and Two Other Executives Terminated over Internal Investigation
84. NWE – Colstrip Transaction Terminated; What's Next? NWE Is Left Severely Short of Peak
85. EXC: Downgrading to Neutral, Lowering PT – Taking the Spring out of Springfield
86. SRE– Franchise "Sale" Saga Next Step? San Diego Releases ITB Q&A, City Maintains Strict Tone, No Upsets Yet, in Our View
87. ETR NDR – C Suite Event Highlights Conservative Planning & Incremental Opportunities; "Premium" View Reinforced
88. DUK – CEO Group Call; Alignment with Stakeholders Driving Capital Growth While Setting Manageable Expectations
89. FE: Incremental Details on DOJ Probe Emerge; Energy Harbor Executives in Focus
90. AEE – CEO Client Event; Environmental Stewardship in MO; Navigating the Policy Environment in IL
91. FE: Incremental Details on DOJ Probe Emerge; Energy Harbor Executives in Focus
92. DUK – ESG Investor Day; A Win-Win for ESG and Fundamental Investors
93. NEE-DUK: "Spreadsheet Exercises" Aside – Easily EPS Accretive, But Value/Credit Risk, Regulatory Hurdles Are High Risk
94. ES - CT House Passes Bill in Special Session to Reform Utilities' Construct
95. OGS NDR – Simple Story, Covid Recovery, Supportive Jurisdictions and Capex Ahead of Plan; RNG, Hydrogen on the Radar
96. NI Investor Day – Robust Update, Though Mostly In Line with Expectations
97. VST: A Platform Evolves, a Platform Matures
98. EVRG NDR: Smooth Sailing to 2024? Standalone Course to Top Tier Growth Follows Well-Worn Routes
99. AEE – MO IRP Brings Step Function Increase in Renewable Energy Investments
100. ETR Analyst Day– Expanding Capex with Equity Needs; EPS Growth Remains 5-7%, but ETR May Become a "Premium" Utility
101. SRE – Cat Out of the Bag: San Diego Issues ITB, Minimum Fee, Balanced by City's Right to Reject; No Upsets at This Point
102. SRE – San Diego Franchise Deep Dive; Competitive Process? Yes; Benefits to Transfer? No! Downside Risk Appears Minimal
103. POR NDR: Upgrading to BUY on CEO Conversations; Clarity on Wildfires Implies Sound Entry Point
104. ED – Upgrade to NEUTRAL; COVID Bites a Hole in the Big Apple; ED's Return to Normal Limits Downside From Here
105. POR: Where There Is Smoke, There Is Fire, But Not Likely in This Case – Additional Fire Details
106. EVRG: KCC Staff file Report and Recommendation Regarding Evergy's Pre-STP Capital Plan
107. AWK NDR: Thirst Quencher - Top Tier Growth Platform Built to Last
108. EXC: No Pressure, No Diamonds…
109. POR: CAISO's Collateral Damage - Losses Contained, L-T Fundamentals Intact Post Mgmt. Call
110. ES – Downgrading to NEUTRAL on Valuation; Want Offshore Wind Exposure? Try Dominion…
111. EXC: Neutrons Starting to Flow in Springfield; Criticality Still Far from Certain
112. OGE – Anticipated Alignment of Views on ENBL Causes Us to Upgrade; Strategic Optionality Becoming More Apparent
113. PPL: The Long Goodbye – PPL Initiates WPD Sale Process

Key Industry Research

1. ERCOT: PUCT Declines to Reprice Energy Market – Consistent with Our Expectations
2. ERCOT: Lone Star State Remains 'Out of Phase'
3. ERCOT: Who's Exposed? Generator-Owner Data Set
4. ERCOT: Deep Freeze Precipitates Rolling Blackouts in Heartland
5. IL: CEJA Re-emerges; Take with a Grain of Salt - More Iterations to Come
6. '21 Utilities Outlook: Getting Ready for Another Bumpy Ride

7. Congress Reaches Deal on Stimulus Package and Appropriations; Clean Energy Boosted With Tax Credit Extension
8. ERCOT CDR Preview: More Solar Points to Slightly Looser CDR; Caveats Remain the Same
9. EEI – An EEI Unlike Any Other...
10. Guggenheim EEI Takeaways - Day One
11. Guggenheim EEI Takeaways - Day Two
12. Guggenheim EEI Takeaways - Day Three
13. Li-Ion the End-All-Be-All Battery Storage Solution? Not in Our Book – Zinc-Based Battery Presents Compelling Alternative
14. Ohio Policy Call Part Two – Federal and Political, Not State and Regulatory
15. Ohio Policy Call Part One – Investigation Churns On
16. Guggenheim Call Series: Power Gen Economics Expert Confirms Robust Solar/Wind Demand as Tech Moves to Parity with Fossil
17. FERC - Life's Absolutes: Death, Taxes, and Transmission ROE Complaints
18. 2020 LCOE Update – Nothing Is Constant but Change: Renewable Economics Point to Persistent Disruptions
19. FERC: Commission Revisits Base ROE Methodology, Boosts MISO Allowed
20. ERCOT: Another CDR to Take with a Grain of Salt
21. PJM: Proposed Auction Timeline Features State Policy Accommodation
22. FERC ROE Policy Call: Different Commissioner, Similar Expectations
23. FERC ROEs: Former Commissioner Policy Call Points to No Easy Answers
24. Illinois Policy Call: Too Clean to Drain the Swamp? Will Springfield Lawmakers Reach Criticality? Still Too Early to Say…
25. PJM: As Fluid as It Gets - Expert Call Highlights Still-Challenging Auction Dynamics

ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

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Guggenheim Securities, LLC makes a market in the securities of Pinnacle West Capital Corporation and Portland General Electric Company.

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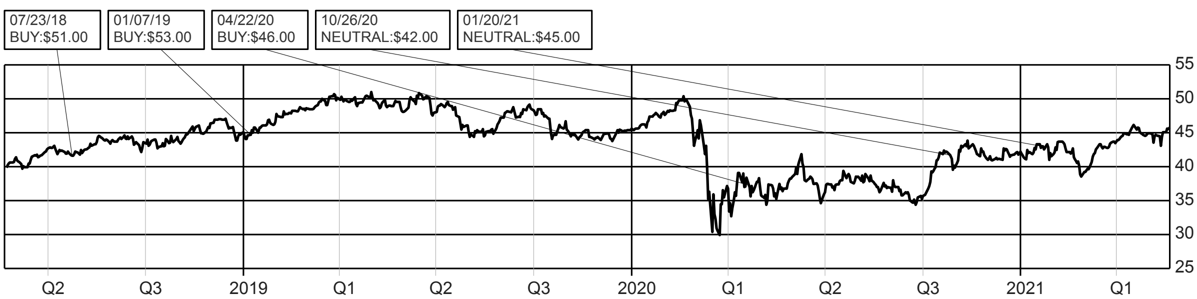
Rating and Price Target History for: Exelon Corporation (EXC) as of 05-20-2021



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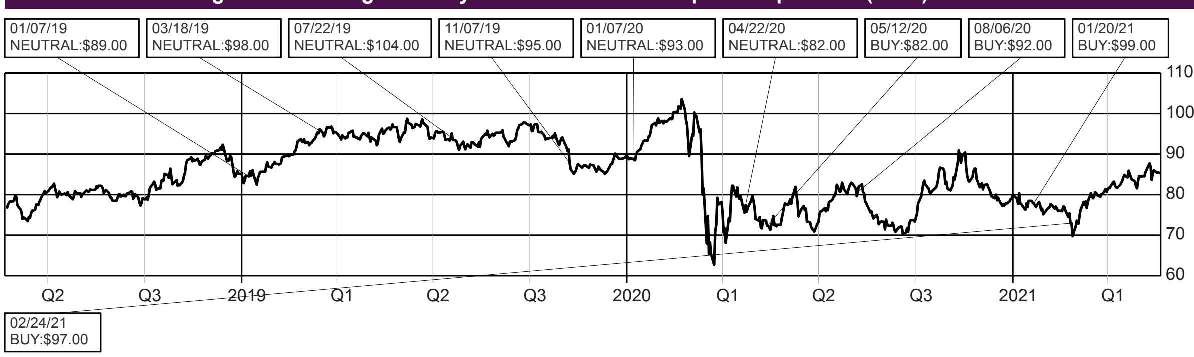
Rating and Price Target History for: Pinnacle West Capital Corporation (PNW) as of 05-20-2021



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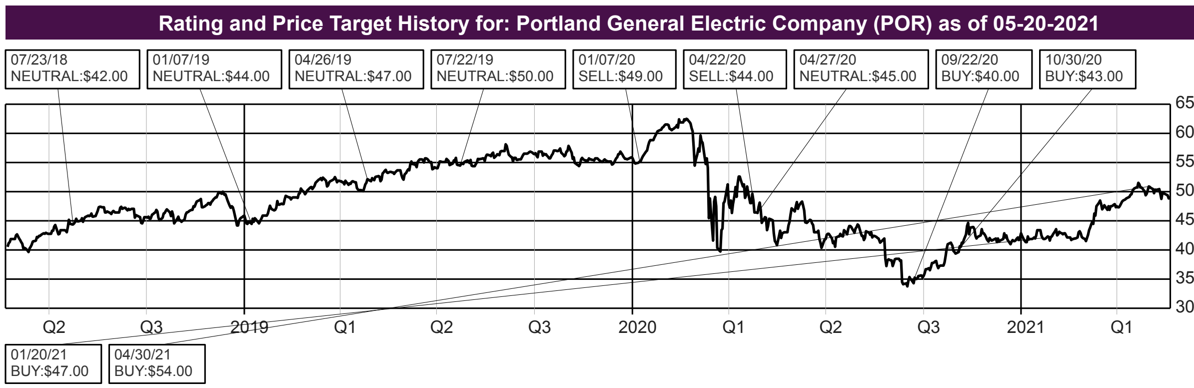

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RATINGS EXPLANATION AND GUIDELINES

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of between plus 10% and minus 10% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

CS - Coverage Suspended. Guggenheim Securities, LLC has suspended coverage of this company.

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Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Under Review (UR) - Following the release of significant news from this company, the rating has been temporarily placed under review until sufficient information has been obtained and assessed by the analyst.

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Gas Distribution

AGA Conference Takeaways

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Key Takeaways

Last week, we hosted several virtual meetings with management teams of covered gas utilities (ATO, CNP, NI, NWN, OGS, SR, SWX and UGI) and investors. Main topics included the post pandemic recovery, M&A, decarbonization of gas systems (RNG, hydrogen, etc), securitization bills post the Winter Storm Uri, equity needs, and cybersecurity. Multiple management teams flagged that several states have passed the Energy Choice bills which should stop the bans on natural gas in new construction. Investor sentiment towards gas utilities has improved this year driven by four factors, 1) Winter Storm Uri showed the importance of natural gas during the peak heating demand, 2) the impact from the pandemic was lower than expected, 3) potential for system decarbonization with RNG and hydrogen, and 4) high valuations for CNP's LDCs in Oklahoma and Arkansas.

Near Term Catalysts & Regulatory Updates to Watch

CNP's management plans to provide a long-term capex update (up to 10 years) later this year as well as announce its ESG Strategy. CNP also noted it does not intend to be a long term holder of ET units post ENBL transaction close. The securitization bill in TX will likely be passed into law later this year with potential proceeds from securitization bonds in early calendar 2022 and it could be a positive catalyst for ATO, CNP and OGS. SWX plans to file the adjustment for VSP and COYL in AZ by the end of May, with an estimated requested rate increase of $74MM. There is a potential that the recovery will be split over 3 years. OGS will file a general rate case in OK by June 30th based on 2020 test year and in OK, typically the process takes 180 days so the new rates will likely be effective in January 2022. NI announced RFP in Indiana and we will continue to monitor the process. On the Penn East project, UGI said that it waits for a decision from the Supreme Court in late June which will be very important and not just for this project.

Hydrogen & RNG

In every meeting management teams discussed the potential for future investments in RNG or hydrogen. Many noted that RNG is a near term opportunity but some also added slides to provide more colour on hydrogen (for example OGS). OGS established two hydrogen working groups and is a stakeholder in the U.S. Department of Energy's funded project "Demonstration and Framework for H2@scale in Texas and Beyond." CNP said that in Minnesota, they see an opportunity to incorporate hydrogen and renewable supplies into their portfolio. Management will look to expand its hydrogen pilot/demonstration from Minnesota to Indiana and Texas. In its RFP in Indiana, NI's management plans to look at different storage options, including hydrogen. On its hydrogen pilot project, NWN's management noted that it plans to provide next steps by the end of the year. UGI said that hydrogen is the main topic at a federal level; however, noted that today it is too expensive, but it can shift very quickly with supportive regulations.

Cybersecurity

Multiple management teams discussed cybersecurity post the recent hack on the Colonial Pipeline. OGS' management noted that they don't feel they share any vulnerabilities the Colonial pipeline attack seemed to highlight. NWN highlighted that AGA has been spending a lot of time on cyber issues and notably NWN could run their system manually if needed.

COMPANY SPECIFIC HIGHLIGHTS

ATO - Management said they are very pleased with their asset base and will not look to sell any LDCs. ATO will continue to use ATM to finance its equity needs. The company will finish cast iron pipeline replacement by the end of the year, but ATO noted that the way their mechanisms work are not specific to any material type and they use their risk modeling assessment to determine which pipelines to replace. Management sees a long runway of pipeline replacement capex ahead. On the energy transition, ATO said that they work with the regulators to put appropriate tariffs in place for RNG, don't see themselves investing on the other side of the meter. With the system modernization, ATO said it will be able to accommodate future hydrogen blending. Management expects the securitization bill in TX to be passed later this year with potential proceeds from securitization bonds in early calendar 2022 which would take the impact of higher cost of gas from ATO's balance sheet.

CNP - Management plans to provide a long term capex update (up to 10 years) later this year. Last week, CNP's management team went to Austin to meet with new regulators and noted the tone of the discussion was positive and very constructive. Management plans to reduce its midstream stake as soon as possible. It will likely take 2-3 months to register new units post closing of the transaction with ET and then likely a quarter to meaningfully reduce the positon. Later this year, CNP will provide more colour on how it can reduce its effective tax rate on a sale of ET units. Once CNP reduces its stake in ET, it will enhance its credit profile as they will no longer have non-regulated exposure which should reduce the FFO/debt downgrade threshold and provide management with more cushion. In Minnesota, CNP sees an opportunity to incorporate hydrogen and renewable supplies into their portfolio (based on the proposed Clean Energy Hydrogen Innovation Act). Management will look to expand its hydrogen pilot/demonstration from Minnesota to Indiana and Texas. With all the future investments, CNP will be primarily focused on regulated growth. Management is currently happy with CNP's footprint but if they have the opportunity to deploy incremental capital for customers, they could consider selling 1 or 2 gas LDCs to fund growth. Incremental opportunities in Texas could include battery storage and transmission investments (longer lead time of up to 3 years).

NI - Most of the discussion was focused on RFP in Indiana and management said they are open minded as they start the process. On May 20th, NI announced it opened three requests for proposals (RFPs): one for wind (& wind plus storage), one for solar (& solar plus storage) and one for thermal, stand-alone storage, emerging technologies, and other capacity. Management plans to look at different storage options, including hydrogen. Management noted that its operations are in constructive jurisdictions and that Indiana has just passed the bill preventing cities from being able to ban any fuel (e.g. natural gas ban). Earlier this year, NI filed a general rate case in PA and going forward plans to file rate cases on an annual basis. Management monitors the proposed changes to the tax code and noted that current NOLs go through 2026. Despite the inflation NI continues to expect flat O&M beyond 2021.

NWN - Total capex related to RNG is roughly $200MM-$250MM and only $38MM is currently included in the plan so there is capex upside potential. On the hydrogen project, management noted that it plans to provide next steps by the end of the year. Earlier this year, in Washington state cap-and-trade law was passed and it would require gas utilities and other industries to reduce emissions or pay the carbon price; however, utilities will receive a declining number of free allowances, in order to avoid bidding in the auctions. NWN's CEO is Chairman of AGA's Board of Directors and noted AGA has been in discussion with the Biden administration and that they are very keen on hydrogen and pipeline replacement. On cybersecurity, NWN also noted that AGA likely is spending way more money than they would like to on cyber issues and NWN noted that they can run their system manually if needed.

OGS - The company will file a general rate case in OK by June 30th based on 2020 test year and in OK typically the process takes 180 days so the new rates will likely be effective in January 2022. The rate case will be a separate docket from securitization proceedings so management doesn't expect the impact from higher cost of gas on approval of future rates based on the rate case. Additionally, management doesn't plan to change its long term capex program. Management discussed the securitization bills in different states and we will monitor how credit rating agencies will treat the securitization bonds issues by OGS in KS as there may be some differences in treatment between agencies. On RNG, OGS will only focus on regulated investments and could invest capital to bring RNG on its system and blend into gas stream. OGS added a new slide on hydrogen to its presentation, but noted the much longer runway for hydrogen investments. OGS established two hydrogen working groups and is a stakeholder in the U.S. Department of Energy funded project "Demonstration and Framework for H2@scale in Texas and Beyond." On cybersecurity, management noted that they don't feel they share any vulnerabilities the Colonial pipeline attack seemed to highlight.

SWX - Management plans to file the adjustment for VSP and COYL in AZ by the end of May, with estimated requested rate increase of $74MM. There is a potential that the recovery will be split over 3 years. The filing will use the currently authorized ROE and capital structure and the process should take 5-6 months. On cybersecurity, management noted they are working with outside experts, share peer practices and reviews with AGA. SWX added 37,000 new customers in 2020 which is a near time record and customer growth remains strong as people migrate to NV and AZ. SWX plans to continue to use ATM for its equity needs with annual capex around $700MM. Management noted that is customers are looking at options to decarbonize their businesses, including RNG or full hydrogen systems. Growth at Centuri remains strong, but they expect slower growth YOY due to the benefit from emergency work in 2020.

SR - On Missouri rate case, management noted that the rate increase recommended by staff was based on 9.37% ROE and 54.25% equity to capital structure which they view as a positive. Per SNL, total recommended rate increase was $65MM vs requested $111.5MM and typically the final outcome is above the staff recommendations. New rates are expected to go into effect in November. Management noted that during the pandemic and the Winter Storm Uri they worked closely with the Commission which gives them good momentum as they head into this rate case. On energy transition and carbon neutrality by 2050, management noted that the most important driver of lower emissions is pipeline replacement and the rest will be bridged with RNG, hydrogen and other offsets. In Missouri, a new legislation has been just passed (soon should be signed into law) which will allow gas utilities to bring RNG into supply and it provides a rider for immediate recognition. After the Winter Storm Uri, management looks at further diversifying the supply for its gas utilities with potential interconnections on the West side as well as storage. Spire has a history of being an acquirer but its current plan doesn't include any M&A and it doesn't require acquisitions for solid earnings growth.

UGI - Management noted that the recent hybrid equity offering of roughly $200MM was the last piece of the puzzle to finance the Mountaineer Gas transaction and it will only modestly impact the income statement for the next three years as they will not see the dilution until the units convert to common shares. The closing of the acquisition is expected around the end of the fiscal year and they don't see any barriers to complete the transaction. Management expects the LPG business will provide cash to fund the future growth gas utility capex for pipeline replacement. Management spent a lot of time discussing its recent renewable investments, including RNG, bio-LPG and rDME. All these products can use the existing distribution systems that UGI operates which improves project returns and helps decarbonize its system. On a strong 1H21 and guidance revision, management noted that in a normal year UGI earns 110%-115% of earnings in FY1H and reports a loss of 10-15% in FY2H. On hydrogen, UGI noted that it's the main topic at a federal level and that today it is too expensive, but it can shift very quickly with supportive regulations. On the Penn East project, management waits for a decision from the Supreme Court in late June which will be very important and not just for this project. Management continues to look at attractive M&A opportunities.

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Company Name	Reuters	12-month rating	Price	Price date
Atmos Energy Corp[16]	ATO.N	Buy	US$98.18	21 May 2021
CenterPoint Energy Inc[16,20]	CNP.N	Neutral (CBE)	US$24.71	21 May 2021
NW Natural[16]	NWN.N	Neutral	US$53.07	21 May 2021
NiSource Inc.[13,16]	NI.N	Buy	US$25.42	21 May 2021
ONE Gas Inc[16]	OGS.N	Neutral	US$74.01	21 May 2021
Southwest Gas Holdings[16]	SWX.N	Buy	US$66.25	21 May 2021
Spire Inc[16]	SR.N	Buy	US$72.74	21 May 2021
UGI Corp[16,20]	UGI.N	Buy (CBE)	US$44.54	21 May 2021

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Industry Update — May 20, 2021

Utilities

Virtual AGA Financial Forum Takeaways

Our Call

On 5/19 & 5/20, we met with 25 utility companies at the 2021 AGA Virtual Financial Forum. The tone of the meetings was much different than last year's conference as COVID impacts have proven manageable and anti-gas concerns have abated, at least to a large degree. Further, the heavy capex cycle continues with support for infrastructure investment across the board (resiliency, de-carbonization, growth, etc.). Please see the body of the note for company-specific takeaways.

What A Difference A Year Makes. We sensed a clear shift from defense to offense in comparing the 2020 AGA Financial Forum to this year's conference. Gas utilities appear to be on much more solid footing as (1) winter storm Uri highlighted the value of the gas distribution system, (2) CNP's LDC sale delivered a bullish valuation marker and confirmed private equity interest, (3) gas emission strategies are advancing with growing momentum for RNG and hydrogen, and (4) it's been a good year for energy choice legislation.

System Redundancy/Supply Diversity. The February cold snap has elevated discussions around investment opportunities to improve system resiliency, which could include LNG projects along with pipeline and storage investments. While mgmt. teams were not necessarily touting meaningful upside to near-term capex plans, there's no shortage of investment opportunities.

Federal Legislation. Utility executives remain somewhat reserved as legislative proposals are fluid, with most of the attention on potential changes to clean energy tax credits (direct pay credits would be bullish) and changes to the corporate tax rate. Front-runners appear to be broader ITC eligibility for battery storage and support for hydrogen. We did not sense as much momentum for RNG tax credits though substantially all of the gas utilities are exploring and/or pursuing opportunities.

Capital Recycling? Investors were keen to get mgmt. teams' reactions to the CNP LDC sale price and, more so, whether the nearly 2.5X rate base multiple has Boards reevaluating their own gas utility assets. While we sensed a general openness toward divestitures among some of the mid/large cap companies, it was more characterized as a good option to have at some point in the future.

Rate Cases Still Sensitive. While executives are seeing a lot of support for infrastructure investment, we still sensed a heightened sensitivity to seeking base rate increases in light of lingering customer hardships tied to COVID. Companies with notable rate case activity this year include the following: AEE (MO), AQN (MO), BKH (CO/IA/KS), D (SC/VA), NI (KY/OH/PA/MD), NJR (NJ), OGS (OK), SR (MO), WTRG (PA) and XEL (CO).

Inflation Arises as Potential Concern. Investors pushed companies on inflationary pressures on operating expenses and, perhaps more so, capital costs (particularly on renewable projects). The near-term risk seems manageable as many costs are already locked-in but could prove problematic longer-term, particularly in terms of capex budgets and the upward pressure on rates, if inflation does not prove to be transitory. Further, more ROEs could be pegged to long-term interest rates - DUK was able to do this in FL and XEL will likely consider it in the upcoming NSP MN rate filing.

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Algonquin Power & Utilities Corp. (AQN/Equal Weight/$15.48) (Kalton)

Per usual, lots going on at AQN. Mgmt. expressed strong confidence in achieving the 5-yr 8-10% EPS CAGR target noting that the underlying $9.4B of capital investment that supports the growth is front-end loaded (quite a bit locked in). Regulated utility M&A remains an important growth lever although it sounds like the company is currently standing down from the natural gas LDC market owing to a bias towards cleaner energy (ESG). Conversely, AQN will entertain acquiring electric utilities that own fossil fuels if mgmt. perceives there to be a viable path towards "greening the fleet" (mgmt. pointed to the Empire District Electric acquisition as a successful example of this strategy).

Switching to contracted renewables, AQN acknowledged that competition is intensifying driven, in part, by increasing oil major activity. This is particularly true on the asset acquisition front. As a result, AQN has pivoted to a primarily greenfield development strategy (AQN's pipeline is 3.4 GW) vs. a prior strategy that also included project acquisitions. Mgmt. believes experience and skill matter and pointed out that there could be opportunities to bring new entrants in as partners on various projects—the company pointed to the existing Chevron relationship as one example of this.

Ameren Corp. (AEE/Overweight/$84.50) (Kalton)

Transmission was front and center in our meeting. First, while Ameren Missouri's IRP is still pending, we continue to think there is a fair amount of smoke around the Grain Belt Express (GBE). It is our understanding that Invenergy is bidding the $2.5B GBE into the IRP (the project would wheel high capacity factor KS-located wind into MO and points east). Proposed legislation that would have eliminated GBE's ability to use eminent domain did not pass in '21 (the bill stalled in the MO senate once again). AEE indicated that state support could continue to grow should MO-based utilities become involved in the project. We continue to think that the IRP could result in BOT transfer agreements for KS wind + an equity ownership stake in GBE. That being said, we will just have to wait and see as other renewable options could prove to be better.

As for MISO, while the longer-term transmission investment opportunities appear to be enormous, we pressed mgmt. a bit on the competitive process considering AEE does not have a ROFR in MO or IL. Mgmt. noted that the ROFR only applies to new transmission lines; pointing out that some of the solutions could involve expanding capacity on existing rights of way (preferable from a siting/permitting standpoint). Separately, not much new to report on IL legislation (AEE is pushing for continuation of rider recovery plus a change in the formulaic ROE construct for the electric operations). Lastly, recent MO securitization legislation is viewed as a positive development that will provide AEE more flexibility going forward as the company assesses the planned exit from coal—but we do not anticipate any nearer-term implications.

Atmos Energy Corporation (ATO/Overweight)/$98.32) (Akers)

With the TX legislative session set to wrap up at the end of May, we did not sense a lot of consternation regarding the fate of the securitization bill. The Senate version allows a little more time for the Finance Authority to issue the bonds (so a small reconciliation would be necessary), but mgmt. continues to believe there's a lot of support. Assuming passage and timely execution, proceeds could be in hand in early calendar 2022. Beyond securitization, the storm highlighted the value of the company's robust infrastructure investment program and mgmt. expects to see continued support for investments (though likely not material upside from current spending levels). Outside of February storm items, it was the same ATO story characterized by strong rate base growth with a long capex runway, external equity needs targeted via the ATM, and above-average customer growth, particularly in the DFW metroplex. Like many peers, the company is also actively pursuing RNG projects, which would be procured on behalf of customers under the regulated model (mgmt. noted landfills as being a good opportunity for the service territory).

Avangrid, Inc. (AGR/Overweight/$52.29) (Kalton)

Mgmt. expressed optimism across the board siting the recent TX approval of the pending PNM acquisition, substantial progress on the Vineyard Wind 1 offshore wind project, ongoing development of NECEC and the completion of the $4B equity offering (mostly associated with PNM). Mgmt. did not appear to be surprised by the NM Hearing Examiner's comments on the PNM deal including criticism related to performance issues/penalties in several of AGR's northeast utilities. AGR chalked it up, in part, to differences in regulatory "nomenclature" in the various jurisdictions that can be successfully addressed. AGR touted the strong support underlying the contested settlement in NM including from the Governor and Attorney General.

Shifting to offshore wind, AGR indicated that steel costs represent <10% of total project cost and that the pending Park City wind project is exposed to inflationary pressures until FID. That being said, mgmt. remains comfortable with the return profile pointing to embedded contingencies along with positive factors such as a higher than expected ITC and ongoing technology improvements. Long-term, AGR wants to be a major player in the U.S. offshore wind market and is likely to participate in future seabed lease auctions, including the New York Bight. While acknowledging growing competition from the oil majors, we got the sense that, in totality, mgmt. views recent European offshore wind auctions as still being supportive of reasonable returns.

Black Hills Corp. (BKH/Equal Weight/$66.21) (Akers)

Mgmt. expressed confidence in the $600mm annual capex target, which already contemplates some level of upside projects. While there is good line-of-sight on the gas side, the electric generation investment outlook is subject to the upcoming IRP (early July) and subsequent RFP/CPCN processes. Our understanding is that the base plan contemplates running the coal plants through their engineered lives (WY & SD are coal-friendly), but that the IRP will include an option that complies with the Biden plan (retire by 2035). Beyond discrete projects, BKH discussed strong customer growth across the service territory with a recent uptick tied to urban flight (particularly Rapid City, CO, northwest AR).

Shifting to thewinter storms, we discussed the ~$560mm regulatory asset tied to commodity purchases, which the company intends to recover over a 3-5 year horizon on the gas side and 1-2 years for electric power costs; in the meantime, mgmt. does not expect rating agencies to penalize BKH for the debt (and once recovery kicks in, FFO/Debt metrics rebound). On the non-utility side, mgmt. noted that losses at Energy Services (gas marketing) were an anomaly tied to the extreme gas prices as that business is highly hedged. Lastly, the weather event provides further support for the company's robust gas infrastructure investment program.

CenterPoint Energy, Inc. (CNP/Overweight/$24.70) (Akers)

Our meeting with CNP was one of our most constructive discussions at AGA. The company remains highly focused on consistency while also discussing positive developments since the 6-8% growth plan was initiated in December. These include a better-than-expected LDC sale price and a material move up in ET's unit price (+47% since mid-February vs. S&P 500 6%). Further, the company is exploring tax strategies to offset midstream tax leakage and the TX legislature is considering bills that could drive incremental investment opportunities tied to battery storage and economic transmission projects. In the near term, we expect mgmt. will continue to drive to the mid-point of the 6-8% range, though there could be some positive movement should the aforementioned items fully play out. At the very least, we sensed a high degree of confidence in the plan.

We also discussed the strategic landscape. Mgmt. is happy with the pro-forma 60/40 electric/gas split noting that the company's LDC service territories are very constructive. That said, the AR/OK takeout price was compelling and the company characterized future LDC sales as a good option to have.

Chesapeake Utilities Corporation (CPK/Underweight/$116.82) (Akers)

For a small company, CPK has a lot going on, but there is a common theme…growth! Starting with the regulated segment, the company highlighted the FL GRIP and ESNG capital cost surcharge as examples of constructive regulatory treatment for steady investment needs as the Delmarva/FL service territory experiences well above-average growth, which have only been accelerated by market dynamics over the past 6-12 months. While cognizant of high level anti-gas sentiment and potential hurdles at the FERC for large expansion projects, the company is seeing extremely strong support in FL along with local support for service expansions in the Delmarva footprint. The growth opportunities do not stop at the regulated segment as Marlin Gas, the propane/Autogas businesses and Aspire also have a lot of momentum, which includes acquisitions.

We spent a lot of time discussing RNG as CPK is an early mover in that space, which mgmt. attributes, in part, to a local need for Delmarva to deal with the environmental problem tied to the poultry industry. The company discussed a holistic approach to RNG with an emphasis on driving environmental benefits at the source level such that RNG is somewhat of a byproduct (along with organic fertilizer in the case of poultry facilities as we learned). The third driver of the company's involvement in RNG projects is a tie to CPK's infrastructure, which could include Marlin and/or the pipeline/distribution systems. CPK pegged new RNG investment opportunities in the $50-75mm range, which may not fully capture equity options in CleanBay; for context, the 2021 capex forecast is $175-200mm. On that point, the team is open to a wide variety of ownership structures, but emphasized a disciplined approach (target returns, earnings accretive, geographic proximity, etc.).

CMS Energy Corporation (CMS/Overweight/$63.74) (Kalton)

A typically solid update from CMS. Given limited near-term concerns/issues our discussion touched on some of the longer-term considerations around de-carbonization as it relates to CMS's generation fleet; specifically how to maintain reliability. Hydrogen and carbon capture and sequestration (CCS) were both offered as potential options for the natural gas plants (no CCS for coal) but mgmt. correctly noted that they have plenty of time to figure out the 2035 and beyond resource plan. In the nearer term, mgmt. noted that a potential solar PTC could have positive implications for CMS, but more around customer bill savings vs. investment opportunities. CMS does not anticipate deviating much from the anticipated regulated solar mix of 50/50 self-ownership vs. PPA. Last, CMS's financing plan contemplates up to $250mm of new equity annually. In the event of a federal corporate tax rate increase, which could improve the FFO/Debt ratio by 50-100 bp (assuming a 25-28% rate), mgmt. would not rule out simply maintaining the annual equity guidance. All told, a very solid story and a highly visible path toward the 7% annual EPS CAGR through at least '25.

Consolidated Edison, Inc. (ED/Equal Weight/$78.42) (Akers)

We walked away from our ED meeting with a greater understanding of the assumptions in the EPS guidance and growth outlook. The company has filed for a surcharge to recover lost fees as a result of the COVID-related moratorium. Should the NYPSC grant the company's request this year, it is our understanding that $50mm of lost fees from 2020 would drive recovery of $52mm, or an estimated $0.12 of EPS, and up to ~$70mm, or $0.15, in 2021. However, the 2021 EPS guidance range of $4.15-4.35 already contemplates a range of outcomes on the timing and treatment of lost fees. As such, we'd expect any success on this front to drive EPS toward the upper end of the range. The company is requesting a decision in September, but the timeline and outcome remain question marks; favorably, mgmt. believes the Staff is at least open to considering the proposal. If the filing is denied and the moratorium on fees extends throughout 2021, then we expect EPS would fall near the lower end of the guidance range, all else equal. In that scenario—and assuming fees resume in 2022—we'd expect an outsized increase in 2022 EPS, which would become the base year for the CAGR (currently 4-6% but 3-5% prior to COVID-related EPS impacts). Separately, the EPS, financing and growth guidance also contemplates a range of outcomes on the Stagecoach strategic review—our main takeaway there is that we should not think of potential sale proceeds as being a one-for-one offset to stated equity needs.

The other main topic of conversation was the various growth avenues tied to NY's de-carbonization goals. ED continues to advocate for utility-ownership of renewables though it remains an uphill battle. The company is well-positioned to participate on the T&D side and mgmt. expects more transmission solicitations to come with the Long Island opportunity shaping up near-term (technical conferences followed by an RFP for solutions). Smaller opportunities exist tied to EV infrastructure ($350mm committed with future investments subject to market forces) and storage.

Dominion Energy Inc. (D/Overweight/$77.24) (Akers)

Mgmt. continues to highlight the company's clean energy growth story and the importance of executing on both the financial plan and the investment pipeline (offshore wind, solar program, etc.). Thus far, everything remains on track and potential federal legislation aligns well with the company's priorities. On the regulatory front, mgmt. expects the triennial review to be a robust process that could have a wide bid-ask spread with potential differences arising on the allowed ROE and treatment of fossil retirement expenses, among other items. As a reminder, consistent with past practice, D is requesting period expensing of fossil retirements. While the commission denied such treatment for AEP, D noted that the specific facts and circumstances are unique. More broadly, the company is encouraged by the recent clean energy approvals in VA including substantial solar additions. Shifting to SC, no change from the Q1 update on the rate case—the company believes parties are motivated to settle, but nothing concrete yet. And on the IRP, a final determination is expected on 6/18 with any generation resource needs likely sequencing in the back half of the decade. Lastly, on the LDC side, mgmt. views the gas utilities as part of the overall de-carbonization story and continues to like the growth profile.

We also discussed the lingering sale process on the remaining ~20% of the gas transmission/storage assets, which includes Questar Pipeline Group. The FTC approval process has proven challenging, which could result in a need to shift to a different buyer. As a reminder, proceeds have been received and the larger slug of assets has already traded hands.

Duke Energy Corporation (DUK/Equal Weight/$102.27) (Kalton)

Mgmt. articulated their argument as to why Elliott Management's "shrink the company" proposal is not in the best interests of shareholders or customers—namely, balance sheet considerations. DUK believes that in order to maintain the desired BBB/Baa2 credit ratings the newly spun-off entities (Carolinas, Florida & Midwest) would need to increase the FFO/Debt ratings at the new entities by 100-200 bp each; requiring ~$6.5B of new equity to eliminate holding company debt (8% dilution). In addition, mgmt. believes there would be dis-synergies related to IT, cyber and back-office functions that could materially impact the value of the proposal. Notably, mgmt. believes NC would be able to assert regulatory jurisdiction over the spins. We are unclear what the next steps are in the process. Mgmt. and the Board have made it clear that they are not amenable to a strategic review or granting Board seats to Elliott.

Mgmt. remains optimistic about the prospects for NC energy legislation (our sense is the Elliott proposal could be helpful in a "circle the wagons" kind of way). As a reminder, the key components are (1) the pace of coal unit retirements, (2) ownership of replacement generation (DUK vs. independent developers) and (3) the regulatory construct (rider mechanisms, etc.). The legislative outcome will shape the pending IRP process in the Carolinas (natural gas generation vs. solar/battery storage vs. offshore). Lastly, offshore wind. DUK continues to take a deliberate approach to offshore with the high cost to customers being the stumbling block (offshore wind plus long haul transmission to the load centers). That being said, our sense is that mgmt. is warming up to offshore (perhaps taking their cues from growing state interest) and has, not surprisingly, engaged in discussions with AGR (owns the Kitty Hawk lease area) and other European developers around potential future partnerships to pursue likely new lease areas off the coast of NC.

Essential Utilities (WTRG/Overweight/$46.86) (Reeder)

We considered the tone of our WTRG meeting to be upbeat. Mgmt reiterated confidence in (1) the longer-term sustainability of the 5-7% growth rate, (2) the constructiveness of the PA regulatory environment, (3) getting the DELCORA deal closed and (4) the M&A pipeline continuing to bear fruit.

The PaPUC is scheduled to take up WTRG's appeal of the ALJ's 4/16 stay of the DELCORA approval proceeding next week (5/26). Mgmt believes commissioners may be willing to act prior to the appeals court process playing out in Delaware County's challenge of the validity of the sale agreement—though deal approval may be contingent on appellate success. In addition, the PaPUC may have a full 5-person slate of commissioners in the not too distant future. The vacancy plus Commissioner Sweet's recently expired term may be on the cusp of being filled in a brokered deal between Gov. Wolf and the senate. The two names that have been floated have good backgrounds which mgmt believes would bode well for the continuation of PA's historically constructive regulatory environment, including the ultimate outcome of WTRG's planned water/wastewater rate case filing in the state later this summer.

Finally, at the federal level, mgmt reiterated that whatever sort of stimulus dollars might ultimately be directed towards water/wastewater, it is not expected to meaningfully impact the growing municipal M&A opportunities. But if the corporate tax rate is increased, it would increase the PA repair tax deduction benefit which could flow to WTRG's bottom line until trued up as part of the next rate case.

Eversource Energy (ES/Overweight/$83.76) (Kalton)

Coming on the heels of the recent (and surprising) CT PURA decision to impose an indefinite 90 bps ROE penalty on CL&P, we spent a fair amount of time discussing ES's CT regulatory strategy going forward. Options could include an appeal and ultimately legal recourse. That being said, mgmt. is treading carefully with the top priority simply being improving the public perception of CL&P. To that end, new CEO Joe Nolan characterized his ongoing outreach, including with Gov. Lamont, as constructive. We will have to wait and see how this ultimately plays out, but it is possible that ES will work to improve the regulatory construct over time vs. opting for a more contentious path (appeal/legal strategy). In the near-term, it would be helpful if PURA provided criteria as to how CL&P

could earn its way out of the ROE penalty—perhaps a possibility is when the ROE penalty is formally imposed in an upcoming proceeding?

Switching to offshore wind, ES does not appear to be interested in the upcoming seabed lease area auction for portions of the New York Bight; characterizing the area as challenging from a development standpoint (the offshore and onshore components). Mgmt. remains highly content with the company's 2,000 MW lease area (~45% secured under contract) and strongly believes offshore wind demand in the Northeast will outstrip supply for the foreseeable future. The implication – ES and project partner Ørsted will remain disciplined in their bidding approach.

New Jersey Resources Corp. (NJR/Equal Weight/$42.49) (Akers)

NJR remains highly focused on the utility and CEV businesses with attractive growth plan at both. Starting with CEV, expansion outside of NJ is going well and potential federal legislation in support of solar (further extension of tax credits, direct pay scheme, etc.) could be beneficial. Of note, if tax credits sitting on the balance sheet become eligible for cash refunds—which mgmt. is not necessarily expecting – then the company could be looking at a $190mm cash influx/acceleration. On the state level, NJR is engaged in the next iteration of SREC pricing—the straw proposal includes a meaningful haircut (net metered projects $85/MWh) and a reset after 3 years, but mgmt. views this as a starting point in a long process.

At NJNG, the company forecasts double-digit rate base and sees legislative (NJ bill voted out of committee) and regulatory avenues for RNG and hydrogen initiatives. Also top of mind is the pending rate increase—while the proposed ~25% increase is likely to face scrutiny, we expect the NJ BPU will continue to be supportive with a reasonable rate increase, equity ratio and ROE (recent LDC outcomes of ~54%/9.6%). Lastly, we sensed some openness to tightening the 6-10% EPS CAGR target, particularly as the company gets greater line of sight on the timing and outcome of rate case resolution, which could come later this year.

NiSource Inc. (NI/Overweight/$25.32) (Akers)

Coming off a challenging few years, mgmt. struck an optimistic tone as the company embraces the execution story ahead. While the 10-12% rate base CAGR is elevated by the current round of renewable projects, the core gas utility growth of 10%+ has a long runway and there could be a second wave of electric generation investments tied to the next IRP. While the absolute resource needs will likely be lower this time around (Michigan City retirement is roughly one-third the size of Shafer), we suspect the mix of contracted/owned generation could favor the rate base model for the next round of projects, which include capacity/peaking needs. With the financing plan de-risked and a strong start to Q1, we are increasingly confident in the outlook and look for positive multiple re-rating as NI rebuilds the track record.

In terms of capital recycling opportunities, we didn't get the sense that potential divestitures are ripe, but mgmt. noted that they are not off the table. Any sale would need to beat the organic plan and/or de-risk the business; that said, the company is currently seeing a lot of support for natural gas across their jurisdictions with energy choice legislation being implemented in IN and considered in KY, OH & PA (that leaves MD and VA).

Northwest Natural Holding Co. (NWN/Equal Weight/$53.64) (Akers)

Our meeting with NWN further highlighted that the company is at the forefront of all things RNG and hydrogen. While these opportunities are not necessarily driving large investment dollars in the near term, that could change over the next decade. The company is pursuing these opportunities under the regulated umbrella with RNG offering more near-term opportunities, but high hopes for hydrogen over the long term—on that note, the company senses a lot of support for hydrogen from the Biden administration. Mgmt. outlined a few different use cases for hydrogen, including a general system blend likely up to ~20%, dedicated hydrogen for industrial processes and new communities and "methanated" hydrogen in which carbon dioxide is added to the power-to-gas process in creating green hydrogen with the end product being compatible with the pipe system (no blend limit). Lastly, mgmt. highlighted the opportunity to use existing gas storage—such as the Mist facility—for both methanated hydrogen and RNG.

Mgmt. expressed optimism regarding investment opportunities at the core utility operations, but continues to expect a 3-5% EPS CAGR with potential upside tied to a ramp of the water acquisition strategy. Activity slowed during COVID, but conversations are picking up and the company remains focused on achieving scale.

NorthWestern Corp. (NWE/Overweight/$63.31) (Reeder)

MT generation was at the forefront of our AGA discussion. Mgmt believes key constituents, aided by recent events that have changed the narrative around relying on power markets, are supportive of NWE's plan to address MT's capacity shortage. This bodes well as NWE seeks MPSC pre-approval of the Laurel gas plant ($250M). Importantly, mgmt indicated Laurel was the key resource in all the scenarios the recent RFP considered and that the plant is scalable beyond the current proposal (could factor into future RFPs). It sounds like the next RFP (launch around YE2021) may be of similar size (around 300 MW?) while a third RFP may be needed to (1) replace the 5-yr 100 MW hydro PPA selected in the recent RFP as well as (2) perhaps address early retirement of Colstrip Unit 4 (NWE's CU4 stake is 222 MW). NWE continues to consider CU4 a critical resource for the region and would like to stave off a premature shutdown later this decade, if possible. That said, NWE would need to be afforded many of the protections that some of the failed Colstrip legislation would have provided if the company is to take on additional ownership. NWE is not actively looking at any Colstrip-related deal.

Two non-generation items of interest. (1) Inflationary pressures—'21 prices are locked in but could impact '22 & '23 if current pressures persist with concerns far greater on the capital deployment side versus operating costs. (2) We believe the key '21 regulatory proceedings in MT (PCCAM baseline reset, further deferral of the electric decoupling pilot effective date and Laurel pre-approval), the challenges of using a '20 test year and pandemic related rate sensitivities add up to the next MT electric rate case likely being filed in '22.

ONE Gas, Inc. (OGS/Overweight/$73.61) (Akers)

Securitization is still top of mind as the company works in tandem with OK and KS to move through the process toward timely issuances. While legislation is still pending in TX, the company believes there is a lot of support for the bill, which awaits action in the state Senate. Aside from gas purchase cost recovery, the storm has bolstered discussions on system resiliency/redundancy opportunities including, for example, LNG investments on the core system or on-site for customers, such as military bases or large industrial customers. The February weather event also served to fortify support for natural gas, particularly from customers—such as critical care facilities—that value reliability.

On the emissions front, OGS is taking a deliberate approach to long-term targets with a goal of articulating an actual plan rather than simply aspirational goals. The company is currently evaluating both the supply (landfill and wastewater treatment facility projects along with farm-based opportunities via the alliance with Vanguard Renewables) and demand (customer driven and, potentially, broader regulatory support) picture with more detailed plans to follow. We view this as being consistent with OGS' conservative and thoughtful approach.

South Jersey Industries, Inc. (SJI/Equal Weight/$25.97) (Akers)

AGA provided a good opportunity to dive deeper into the dynamics behind SJI's recent capex and growth (5-8% EPS CAGR target) refresh. Mgmt. is very bullish on the outlook for both REV LNG, LLC and RNG opportunities, which combine to drive $500mm of the $800mm non-utility spending plan ($3.5B consolidated capex plan '21-25E). The company touted REV's largely fee-based model with exposure to secular growth areas, such as maritime RNG/LNG opportunities and virtual pipeline services. In terms of new RNG investments, mgmt. is comfortable that the low carbon fuel standard (LCFS) market is stable and potentially expanding to additional states; the company is also looking at opportunities to layer in 3-5 year LCFS hedges.

While bullish on the competitive RNG market, mgmt. is also encouraged by activities in the NJ legislature to allow for the rate basing of RNG investments, which would likely shift some dollars to the regulated entity. Sticking with the utility, the company is seeing strong demand for natural gas and good support for gas infrastructure investments. While the SJG supply redundancy project has been held up, the company is confident that a decision will be issued by year-end.

Southwest Gas Corp. (SWX/Equal Weight/$66.97) (Akers)

Mgmt. was upbeat on both the regulated and construction sides of the house. While acknowledging regulatory lag as an issue this year, the company has a strategy to improve the earned ROE via the upcoming $74mm rider catch-up filing in AZ and rate case filing in AZ and NV planned for 2H'21 or early '22. Regarding the rider filing, we were encouraged to hear that the ACC actually advised the company to make such a filing during the last rate case. As such, it may not be as contentious as we previously feared. Separately, the company is seeing signs of a strong economic rebound with further re-opening ahead.

Shifting to construction, SWX highlighted the strong spending trends among utility customers along with an openness to acquire, particularly in the unionized electric segment. This could push construction's mix to above the 30% mark, which seemed to be a consideration but not necessarily a concern. In terms of valuation, mgmt. sees a disconnect between SWX's stock price and the sum-of-the-parts value, but endorsed a patient approach (not looking to fix near-term valuation disconnect with permanent strategic change).

Southern Company (SO/Overweight/$64.06) (Kalton)

We were satisfied by SO's explanation of why Vogtle 3 in-service has officially slipped to Q1'22 (from Dec. '21). It has nothing to do with design flaws or equipment failures. Rather, it turns out the pressurizer was set off by a few inches, and so it was shifting a little askew as the plant was being heated up. There was concern that once HFT reached more normal operating temperatures, it could come in contact with the structure that houses it. In order to access the pressurizer and set it in the precise position to accommodate the expected expansion, SO had to take the temperature down. This is easier done now when the temp was only at about half of full operating temp. The good news is that SO will not have to restart the test but can instead ramp the temp up fairly quickly and continue the test from where they were.

SO expects to start heating Unit 3 back up next week and, including the ramp down and back up, the remediation is expected to add 2-3 weeks onto the "in a perfect world" 6-8 week HFT process. The fix does not require a lot of manpower so it is in no way compromising the efforts to ramp up Unit 4 productivity or the Nov. '22 in-service date. SO continues to stress quality over schedule and believes GA regulators share that mindset even if it would ultimately cause additional slippage into Q2'22. We continue to be of the opinion that additional issues are likely to arise between now and fuel load, but we do not think they will be overly disruptive to the project timeline in the broad scheme of things (weeks vs. quarters).

The balance of our discussion was on SO's gas utilities—after all, it's AGA! SO believes the roughly 10% rate base growth is sustainable for years to come and that gas will continue to play a critical role in the U.S. energy mix for decades more. That said (and in response to our question on recent gas LDC takeout multiples), mgmt would be willing to consider the monetization of various gas assets if for some reason equity was needed down the road.

Spire Inc. (SR/Equal Weight/$72.92) (Akers)

Mgmt. was squarely focused on the organic growth story as acquisitions are not of particular interest at recent LDC takeout multiples. In the near term that includes the MO rate case where initial Staff testimony, which includes adoption of the operating company capital structure, provides a reasonable starting point for negotiations. While still early in the process, mgmt. appeared hopeful that a settlement could be ultimately reached noting a continued focus on regulatory relationships. Outside of the regulatory process, the company discussed the value of redundancy/supply diversity investments including the STL Pipeline with additional opportunities being evaluated for western MO and AL. Lastly, the company discussed opportunities tied to RNG, which could include rate base and commercial options. Within SR's footprint, MO appears to be the most supportive at this stage (legislative and regulatory proposals) though the company is also seeing signs of industrial interest in AL.

WEC Energy Group Inc. (WEC/Overweight/$95.52) (Kalton)

Mgmt. characterized the long-term investment opportunities as being as robust as they can remember. Upside drivers heading into the 5-yr capex refresh, which is rolled out in conjunction with Q3 earnings and the EEI Financial conference, include solar/battery storage (no surprise) and generation resiliency-type spend (mgmt. indicated that the recent polar vortex is prompting the company to critically evaluate winter generation needs). Separately, WEC indicated that a federal proposal to allow solar developers to opt for a PTC could open up both regulated and non-regulated investment opportunities (to date, solar only qualifies for the ITC). On the regulated side, such a move would remove the tax normalization impediment associated with the ITC and allow regulated utilities to accelerate the flow back of tax credit savings to customers (under the ITC, utilities must flow back the savings over the 25-30 year life of the asset). As for Energy Infrastructure, mgmt. indicated that they have turned down several attractive contracted solar opportunities because the earnings profile did not align with the company's preference (the PTC option would eliminate this concern).

Lastly, we spent several minutes discussing the long-term outlook for the company's newer coal facilities at the Oak Creek site (the 1,400 MW Elm Road Generating Station). Mgmt. views the baseload plant as sitting in a critical position on the grid and believes there is a future for the facility even in a de-carbonized world. Long-term options could include conversion to natural gas (and ultimately hydrogen) or carbon capture and sequestration.

Xcel Energy Inc. (XEL/Equal Weight/$71.58) (Kalton)

Mgmt. expressed confidence in the timeline and stakeholder support for the proposed Colorado Transmission Expansion ($1.7B base spend with $0.5-1.0B upside). Permitting/siting is not expected to be a major issue as most of the project is located in highly rural areas. XEL expects PSCo will rate base a portion of the 5,500 MW of new renewables associated with the project—rough target of 50% ownership and the renewables could begin to phase in as early as the latter years of the '21-25 period (depends on the transmission build). On the rate case front, XEL is prepping for filings in CO (June/July) and MN (late '21). Mgmt. thinks both cases will be relatively straightforward with CO being a one-year filing (currently the preferred course in the state) and MN a three-year plan. While the allowed ROEs are always a key issue, XEL pointed out that the current levels of 9.3% (CO) and 9.2% (MN) are already at or slightly below the national average. Given growing inflationary concerns, XEL could potentially seek to peg the ROE to long-term interest rates.

Last, in response to our question regarding the recent strong multiple CNP received for their OK & AR gas LDCs (2.5X rate base), mgmt. expressed content with the current portfolio of XEL's operating utilities as they believe in the long-term viability and growth prospects for natural gas utilities; particularly in cold climates (XEL owns gas LDCs in CO, WI, MN & ND). That being said, we did not get the sense that there would be meaningful logistical constraints in divesting the gas LDCs should mgmt. and the Board ever decide to pursue such a course.

Acronyms:

ACC – Arizona Corporation Commission

AGA – American Gas Association

ALJ – Administrative Law Judge

ATM – At-the-Market

BPU – Board of Public Utilities

CEV – Clean Energy Ventures

CECONY - Consolidated Edison of New York

CPCN – Certificate of Public Convenience and Necessity

DELCORA – Delaware Country Regional Water Quality Control Authority

ESNG – Eastern Shore Natural Gas

EV - Electric Vehicle

FID – Final Investment Decision

FTC - Federal Trade Commission

GRIP – Gas Reliability Infrastructure Program

HFT – Hot Functional Testing

IRP – Integrated Resource Plan

ITC – Investment Tax Credit

IT – Information Technology

LDC – Local Distribution Company

LNG – Liquefied Natural Gas

MISO – Midcontinent Independent System Operator

MPSC – Montana Public Service Commission

MW – Megawatt

NECEC – New England Clean Energy Connect

NJNG – New Jersey Natural Gas

PaPUC – Pennsylvania Public Utility Commission

PCCAM – Power Cost and Credit Adjustment Mechanism

PPA – Power Purchase Agreement

PSC – Public Service Commission

PTC - Production Tax Credit

PURA - Public Utilities Regulatory Authority

RFP – Request for Proposals

RNG – Renewable Natural Gas

ROFR – Right of First Refusal

SJG – South Jersey Gas

SREC – Solar Renewable Energy Certificate

T&D - Transmission & Distribution

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1=Overweight: Total return on stock expected to be 10%+ over the next 12 months. BUY

2=Equal Weight: Total return on stock expected to be 0-10% over the next 12 months. HOLD

3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

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WOLFE RESEARCH

ELECTRIC UTILITIES

Regulateds – Market Overweight
IPPs – Market Weight
Gas/Power Infrastructure – Market Overweight

May 20, 2021

UTILITIES & POWER

AGA conference takeaways; gas LDCs here to stay

The bans on bans exceed the bans; no whiff of inflation

We hosted virtual meetings with 14 utilities as part of the American Gas Association (AGA) this week. Companies had a more constructive tone on the future of their gas utilities. More states are pursuing bans on gas bans than gas bans themselves. Managements better clarified the drastic logistical challenges of full electrification while highlighting actions to reduce gas emissions such as methane reduction and renewable natural gas. RNG was a hot topic as a way to decarbonize natural gas that is more near-term viable than hydrogen. On the electric side, fleet transitions to renewables from coal keep accelerating and transmission growth is increasing LT focus. While we asked about inflationary pressures, the only whiff at this conference was gas, not inflation.

Top stocks from the conference – CNP, NI, PEG

CNP management tells a great story with 6-8% growth driven by 2% sales growth, declining costs and a lot of capex needs. Asset sales and tax shields may yield $1B+ more than initially expected and CNP sees more rate base growth opportunities to put that money to work, especially in TX. An ESG plan and new capex plan later in the year could be a catalyst. NI management finally seems to be exiting the MA overhang and going back to the old NI, including a recent guide-up for 2021. Equity overhang is resolved, regulatory risks appear modest and the IN renewables program is huge and may get even bigger. NI's 7-9% growth is at the top end of the sector and it trades at a meaningful discount. Finally, PEG is nearing the completion of their asset sale plans with the fossil sale expected in July. We see more visible LT earnings and dividend growth once this is done, constructive NJ regulation, and some offshore wind upside. With no coal exposure, we see PEG re-rating to a premium.

One-liner takeaways:

AEE – Renewables and transmission upsides possible as year goes on.

AGR – Equity done. Sticking w/ CT settlement. Offshore returns intact w/ inflation.

CMS – IRP next month, focus on coal retirement acceleration w/o securitization.

CNP – Strong tone; tax strategies sound promising; TX rate base upsides

ED – Hoping for higher growth via clean capex; Stagecoach resolution not far off.

D – Laser focused on execution; offshore wind on track despite inflation concerns

DTE – Spin 7/1. DTM sees $1.5B capex driving ~$1B in EBITDA needed for IG.

DUK – Confident on its outlook; no interest in pursuing any part of Elliott plan.

ES – Working on improving CT reg relations; sees mid-teen offshore wind ROEs.

NI – More confident tone on plan, starting to sound like NI of old

PEG – Convicted in fossil sale outcome. Feel good on fed/state nuke support.

SO – Slippage in Vogtle Unit 3 COD schedule but expects by end of 1Q22.

WEC – Renewable adds ahead of plan. Potential EPS upside after '22 WI cases.

XEL – Feel good about getting all incremental capex put in the base plan.

Exhibit 1: Attending Companies

Ticker	Company	Rating
AEE	Ameren	Outperform
AGR	Avangrid	Underperform
CMS	CenterPoint Energy	Outperform
CNP	CMS Energy	Peer Perform
ED	Con Edison	Underperform
D	Dominion Energy	Outperform
DTE	DTE Energy	Peer Perform
DUK	Duke Energy	Peer Perform
ES	Eversource Energy	Outperform
NI	NiSource	Outperform
PEG	PSEG	Outperform
SO	Southern Company	Peer Perform
WEC	WEC Energy Group	Underperform
XEL	Xcel Energy	Peer Perform

Source: Wolfe Utilities & Power Research

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Company Summaries

Ameren (AEE – OP): Busy rest of year

- AEE anticipates key updates on all of its businesses over the remainder of the year, starting with IL legislation this month, MO renewables filing sometime this year, intervenor testimony in MO rate case this Sep and a MISO MTEP report in Dec that could include potentially new transmission projects for AEE.
- The main focus was on transmission. AEE does not know which projects will be in the annual MTEP report this Dec, but the company is optimistic and saw some "no regrets" projects in MISO's preliminary report earlier this year. Some projects in the MTEP report could clearly be AEE's – in its service territory and not up for competitive bid. But at this point AEE can't say which projects or the magnitude of the investment. Expect more clarity by yearend or early 2022.
- On IL legislation, AEE is working on getting energy policy done by the session deadline of 5/31. AEE has its proposal to extend and modify performance-based ratemaking (Downstate Clean Energy Affordability). AEE said energy policy broadly is a priority for lawmakers.
- AEE continues to negotiate with developers on incremental renewables included in its 2020 MO IRP and subsequent RFP; AEE still expects to file by yearend CCNs for some of the ~$3B of new renewable investment opportunities in 2021-30.
- AEE's in the early days of its MO rate case ($299M rate increase, 9.9% requested ROE, 52% equity); intervenor testimony is on 9/3. AEE has settled the past few rate cases; they have tended to come after intervenor testimony. Although there is no guarantee parties will settle this year, we are optimistic given the trend.

Avangrid (AGR – UP): Equity overhang over and PNM progress; Still working on CT resolution

- Last week AGR secured its $4B of equity needs at no discount – Iberdrola took the majority ($3.26B) to maintain its 81.5% stake in the stock, while top-Iberdrola shareholder Qatar Investment Authority took the remainder ($740M). To the positive, this removes an overhang and was done at a good price. The only downside is it does nothing to improve the liquidity of the stock. Equity needs are now satisfied through 2022. Longer-term, AGR is looking at "non-debt" financing of $2B in 2023-2025 that could include more equity, hybrids, renewables asset recycling.
- On the PNM merger specifically, the deal is approved in Texas. In New Mexico, AGR already has 11 parties on board and just responded to the NMPRC Hearing Examiner with information on past customer service issues. Closing is still on track for 2H21.
- The comprehensive rate settlement in CT that was rejected by the PURA has been a focus area. The settling parties, which include the CT Governor and AG, filed a reiteration yesterday that the terms are in the best interest of ratepayers. A response from the PURA is expected by the end of Q2.
- With inflation in focus, AGR believes it is well-positioned, particularly with Vineyard Wind. The company is able to leverage Iberdrola's procurement capabilities. Steel is also only about 10% of total cost. In two months time the project should be in a position where costs are largely locked in. With positives like better tax credits and larger turbines, mgmt. still feels good about the project economics. FID and construction start are both expected in 2H21.
- NECEC transmission is also on track, with construction underway, and a court decision last week lifting a stoppage on one-third of the line.

CenterPoint (CNP – OP): A lot to like about where this company is headed

- CEO Lesar added a few interesting anecdotes re the recent LDC sales. After talking with leading bidders to get a sense of their view on the gas LDC business generally, there were three things in common: 1) great assets with great cashflow and long-dated capex plans; 2) scarcity value given challenges to permit and build new systems; 3) will play a big role in a hydrogen economy. He also noted that there were four final bids right on top of each other, suggesting that the 2.5x rate base valuation was not an outlier by any means.

- CNP provided some more color into tax strategies that the company is working on to help reduce tax leakage on future ENBL/ET sales. Management spoke specifically to repairs tax deductions which CNP previously didn't avail itself to. Effectively, CNP will be able to realize a large one-time catch-up deduction for capex that was previously capitalized but was eligible to be expensed during the 2018-21 period. No specific level of tax savings was provided, but management said they wouldn't be talking about it if it wasn't meaningful.
- In total CNP could be looking at close to $1B of extra proceeds from the LDC sales, ENBL/ET monetization and from tax savings vs what was originally contemplated at last year's Analyst Day. Most of this would go toward funding the $1B of contingency capex that is above the current $16B capital plan. CNP expects to have more clarity on where the capex will go in company after the TX legislative session, where several bills are pending that could accelerate growth at CEHE. We expect a robust 10-year capex outlook later this year when CNP unveils its net-zero plan.
- There are three bills we are watching at the TX legislature which could impact future capex at CEHE: 1) HB 1607 which would adopt an economic dimension required to site new transmission; 2) SB 415 which would allow TDUs in TX to own 100 MW of storage collectively; 3) HB 2483 for which would allow TDUs to lease and earn a return on facilities used for emergency power restoration (e.g., fuel cells, batteries, generators, etc.). Relatedly, on the TX securitization bill CNP still feels optimistic about it passing in the current session.
- Commentary on the ability to reduce O&M 1-2% annually for the foreseeable future sounded promising. CEO Lesar noted it is something that is "absolutely doable" at CNP.

CMS Energy (CMS – PP): Everyone's waiting on the IRP filing

- The much-awaited Integrated Resource Plan in Michigan is expected to be filed by June 30. CMS is continuing to look at ways to accelerate the retirement of its remaining coal units at the Campbell site. That said, mgmt. is cognizant of any impacts on reliability, rates, and the balance sheet. On the flip side, CMS is looking to further ramp-up renewables replacement capacity, where it feels it may be able to own more in rate base than the last IRP's 50/50 split with PPAs (that get a financial compensation mechanism). A final decision on the IRP is expected in mid-2022.
- Michigan regulation remains constructive and stable. That said, a recent credit downgrade by Moody's pointed to weakening allowed equity ratios. This may help the company make its case in future proceedings. Securitization has been a tool used for coal retirements historically, however this has weighed on the balance sheet as well, with Moody's imputing over $1B in debt related to Karn and Classic 7. So that being said, CMS seems to be looking at other ways to go about any additional coal plant retirement accelerations this time.
- Mostly status quo on the non-utility businesses. Enterprises is well-contracted and Enerbank is seeing steady origination growth. CMS wants the non-utility growth to keep up with the regulated utilities, while also maintaining a 90/10 business mix split.
- Financially the year is off to a strong start. EPS growth is primarily being driven by already decided rate relief and cost performance seems to be tracking ahead of plan thus far.

Con Edison (ED – UP): Looking for a leading role in the clean energy future

- Under new CEO Tim Cawley, he noted ED's strategy would largely remain the same as those under his predecessor. Tim is most focused on participating in the clean energy future in NY through energy efficiency, EVs and hopefully utility ownership of renewables/storage. Consistent dividend growth and potentially a higher earnings growth profile are also a focus.
- The biggest variable in ED's 2021 guidance will be whether the PSC approves its petition for a surcharge mechanism to recoup $52M foregone late payment revenue from 2020. ED made the filing because it has conviction on getting approval, though its unclear how/when the PSC will issue a decision (ED requested by Sept.). Given that the legislature just extended the moratorium for collecting late payment fees through YE, it's possible ED will finish somewhere in the lower half of its range absent approval from the PSC on the surcharge mechanism.
- ED expects to provide a formal update on the Stagecoach sale process in the next six weeks or so. Proceeds from a sale, which likely will be close to the $667M book value after the recent write down, aren't expected

to materially impact this year's equity plans (up to $800M, timing uncertain). $500M of debt at Stagecoach would need to be paid down. Relatedly, ED will also look to move on from MVP too once/if it gets completed in 2022.

- Given the aggressive push for electrification in NY, Tim addressed implications for ED's gas LDCs. He noted the transition would take some time and that the company is looking to non-wire solutions (EE, heat pumps, etc.) to help offset increasing demand given supply constraints. That said, ED's electric business would be a big beneficiary given the significant buildout of electric infrastructure that would need to take place to facilitate all the new load.

Dominion Energy (D – OP): Name of the game is execution

- There weren't any major updates from D's Q1 earnings call. The big focus for management continues to be consistent financial execution on a quarterly/yearly basis. The biggest part of the investment proposition for D is the size and visibility of its green/decarbonization capex plan – potential for $72B over the next 15 years, most of which is eligible for recovery under riders.
- With a heightened focus on inflationary pressures, we asked management how this might be impacting D's 2.6 GW offshore wind project. While spot prices for steel and other inputs are up, D believes higher capacity factors vs what was initially projected could help offset some inflationary pressures. Ultimately, D remains confident on meeting its $80-90/MWh LCOE target for the project, which is well below the $125/MWh cap per VA law (anything under shall be presumed prudent in the eyes of the SCC).
- Management provided some helpful perspective to the pushback that we most often receive on D's stock – i.e., that the VA legislative/regulatory environment isn't as constructive as it has been historically. Management pointed to the fact that despite headline noise at the legislature, the end results have been constructive (e.g., GTSA in 2018, VCEA in 2020). D sees no evidence of that changing and believes VEPCO's current triennial case is a very strong and defendable filing.
- Management said it took note of the CNP LDC sales (2.5x rate base) but that it is happy with D's current asset mix. D likes its gas LDCs given natural tailwinds from customer growth and their constructive regulatory constructs.
- One frustrating item has been the delay in closing the Q-Pipe transaction. If it were to not get HSR approval, D is confident that it will be able to remarket and sell Q-Pipe to another party this year. D sees no impact to operating earnings under any scenario.

DTE Energy (DTE – PP): Steady as she goes for RemainCo; showtime for SpinCo

- DTE Energy is off to a strong start this year and is already starting to build contingency for 2022-2023. The regulatory calendar is light this year. Voluntary renewables customer interest remains robust. Once beyond the midstream spin, DTE expects to tell the same story – highly achievable 5-7% EPS and dividend growth. Later this year we could potentially start to hear on accelerated coal retirement potential.
- As expected, much of the focus is now on DT Midstream. The spin date is targeted for July 1, with the stock starting when-issued trading two weeks prior. Once the SEC gives the green light, DTM should be able to give more forward-looking guidance during the pre-spin roadshow.
- DTM is in the midst of a debt raise and the rating agencies just came out with a sub-IG credits (BB+/Ba1). The company seemed to be expecting this, as the lack of scale was the primary inhibiting factor. That said, mgmt. sees the business as self-funding – at least 2x dividend coverage, minimal maintenance capex ($30-40M/year), and no new debt needs after starting just north of 4x leverage.
- The goal is to get to an IG rating and mgmt. believes the necessary scale is ~$1B in EBITDA. While this implies over 30% growth of the midpoint of 2021 guidance, DTM believes this is achievable based on its $1.2-1.7B organic capital plan (implying a ~6x EBITDA multiple)
- In terms of where this growth is coming from, DTM pointed to offshoot opportunities tied to the recently placed in-service LEAP pipeline. The company sees significant drilling across a number of producers in the Haynesville, as well as demand strength driven by LNG exports (Sabine and Global Venture) and industrials in the Gulf Coast. LEAP is currently contracted up to 1 Bcf/d, but DTM sees the opportunity for this to double.

There also seems to be growth specifically tied to Indigo, as well as smaller organic opportunities in both the Haynesville and Appalachia.

Duke Energy (DUK – PP): Digging in their Tar Heels

- DUK elaborated on its response to Elliott Investments' letter earlier this week, highlighting its accomplishments and confidence in its outlook, while describing the significant hurdles to Elliott's proposal to split the company into three.
- DUK argued a breakup would have credit quality implications: a higher downgrade threshold for each of the smaller companies than DUK's current parent rating (12-13%).
- DUK also pointed to dis-synergies; standing up two new companies with corporate functions would require $500M per company; coupled with the higher downgrade thresholds, more equity would be needed, potentially reducing EPS by around 20% and raising the dividend payout.
- DUK noted agreements in the Carolinas dating back to its Progress merger that give NC/SC the right to block actions if there is risk to Carolinas operations; DUK generally sees an extensive regulatory approval process.
- On NC legislation, DUK continues to feel optimistic about a first draft bill this summer, but there is no legislative deadline. The key items expected in the legislation are 1) the pace of retirement of coal (how many MW and by when); 2) ownership of the replacement power (how much will utility own); and 3) regulatory framework.

Eversource (ES – OP): Not going to CT and run from improving relations

- ES CEO Joe Nolan is working to improve regulatory relations in CT, meeting with key state leaders and regulators. The temperature has dropped considerably since last summer, and he expects progress.
- A 90bp ROE penalty is expected in the interim rate decrease proceeding this summer. PURA staff last month recommended a 6.10-8.41% ROE and 40.5% equity ratio (later corrected to 47.1%) vs ES' current 9.25% ROE and 53% equity ratio. A hearing is set for 5/26, with a proposed interim decision on 8/20. After this case, ES anticipates moving on to the state's other priorities.
- ES reliability is still top decile in CT and sees alignment in the state's policy priorities – grid mod, AMI, etc. – and wants to do a better job highlighting the cost of delivering clean energy.
- On offshore wind, ES recently conducted a review of its three pending projects with Ørsted and still sees mid-teen equity returns; the delays in siting last year were not all bad, given progress on wind turbine size and the supply chain in the US, as well as the tax credit extensions last Dec. The project materials have largely been locked in and prices have been hedged. Higher costs were incorporated in ES' recent review.
- The Biden Administration has taken supportive action on offshore wind, and ES meets with BOEM regularly. ES will get more visibility from BOEM on the pending projects' EIS and COP schedules. ES anticipates future bids in CT, NY and RI. ES will not deviate from its return targets.
- ES will include offshore wind earnings in its EPS growth outlook once the schedules are firmed up, which should be known later this year. We anticipate offshore wind will be in ES' EPS growth target on the YE21 call.

NiSource (NI – OP): Got its mojo back

- The tone from NI's management was the best we have heard in years. Recent positive developments include minimal COVID impacts in Q1 resulting in revised 2021 guidance to the upper half, PA rate case which was resolved constructively and a significant de-risking of the company's financing strategy following the recent equity unit offering. CEO Hamrock noted he "couldn't be more confident than I am right now looking forward" and sees the company getting back to the NI of old where meeting/beating financial expectations was the norm.
- On the topic of asset sales, management said that it is always actively exploring opportunities. That said, each LDC is growing rate base at 10%+ currently and NI no longer has a block equity need. As such, we don't expect any action here in the current planning period. Management said it is an option that will certainly

stay on the table and we think would likely be more opportune when the time comes to add replacement capacity for Michigan City in the second half of the decade.

- NI launched an RFP earlier today which will help identify replacement capacity options for Michigan City. The Michigan City unit has 469 MW of capacity to replace, which is about 1/3 of the size of Schafer. NI noted it hopes to own more than half or all the replacement capacity.
- When the time comes to remarket the convert in late 2023, NI said its expectation is that the existing equity unit holders would participate again. This was encouraging to hear given that it would remove the possibility for an equity overhang on the stock when the time comes.
- NI said it was seeing limited inflationary pressures in its business at this point. For the renewables, cost overrun risk isn't really borne by NI since the projects are being developed by third parties.

PSEG (PEG – OP): Lots in the hopper, but some near-term resolutions upcoming

- Most in focus at PEG is the pending asset sales, with the solar portion recently announced for $500-600M. Closing is expected in the next few months. The bigger and more important fossil sale is still pending and going as expected. Mgmt. anticipates second round bids in June and a likely sale announcement in July. The upcoming PJM auction will be a data point for some of these assets (4 of 6 CCGTs), but this doesn't appear to be a concern. The CCGTs also have value based on their spark spreads and the PJM auction dynamic beyond this one remains fluid as it relates to the MOPR.
- PEG is acknowledging that the asset sales will result in taxable gains due to bonus depreciation on some of the new assets. However, it continues not expect significant dilution. From a use of proceeds standpoint, PEG continues to point towards debt paydown at Power, the utility capital program, future offshore wind investment, and parent debt paydown.
- Once beyond the sale, PEG should be in a position to lay out a longer-term outlook as it is 80-90% utility earnings (we sense near the high-end pre-offshore wind). Serious consideration is being given to providing a long-term earnings and dividend growth rate.
- The recent unanimous decision by the NJ BPU to extend the nuclear ZECs another 3 years was constructive and less controversial. There seems to be solid interest in the state for a longer-term solution. An PJM FRR study is also due at the end of the month. However, PEG's commentary on federal interest in nuclear support also sounded constructive. It seems that there is a general acceptance in Washington, with the debate more around the details/structure.
- PEG still feels good on returns on its Ocean Wind offshore wind investment. As of now, they are not part of the second New Jersey offshore wind solicitation. However, the company does figure to participate in the offshore transmission competitive solicitation. Mgmt. pointed to the potential investment as being in the hundreds of millions rather than billions.
- Not much new on the transmission front. PEG is still in discussions with the BPU on an ROE agreement. FERC Chairman Glick doesn't seem to be backing off the recent disappointing NOPR to end the RTO adder, but PEG expects RTOs/TOs to make the case otherwise.

Southern Company (SO – PP): One day, the AGA meeting won't be focused on Vogtle

- As has been the case at any investor conference/call for years, most of the focus at AGA was on Vogtle 3 and 4 construction. This AGA meeting was focused particularly on SO's recent VCM testimony, which included a delay in Unit 3 COD to Jan 2022 at the earliest.
- SO provided detail on the recent slippage of its Unit 3 schedule (was Dec 2021 last month). Hot Functional Test began on 4/25 and was expected to take 45 days but now will take 2-3 weeks longer, as the team identified something anomalous related to the pressurizer, leading to a reduction in the temperature during the test. Still, SO plans to increase the temperature in about a week and eventually get to the max temperature (over 500 degrees).
- SO previously identified remediation work; about 60% was completed before HFT began and the remaining 40% will be completed during HFT and before fuel load this fall. SO also pointed to an issue with the spent fuel pools, but it is not critical path to HFT and will be corrected before fuel load.

- SO expects the GaPSC Staff testimony next month to focus on the remediation work that is left to do on the electrical commodity work. But SO believes there will be some convergence on the deadlines.
- SO anticipates providing more visibility into its fleet transition with the GA IRP filing in Jan 2022 and discussions in AL.

WEC Energy Group (WEC – UP): More convicted than ever coming off strong Q1

- WEC was one of the few utilities to already point to the high-end of guidance in Q1, as a result of strong operational/financial execution, particularly during the extreme winter temperatures. In Wisconsin, WEC has reached a well-supported rate case stay-out agreement. The WI PSC has been encouraging of settlements and will vote on this agreement in the coming months. Once beyond the rate cases scheduled for next year, it seems that WEC's growth rate could have an upward bias.
- Part of the driver for the upward bias in the growth plan, has been ahead of schedule renewables investments. WEC has already laid out $2B in rate-based renewables investments at the WI PSC. Further, the company is ahead of schedule on its non-regulated contracted wind farm plan, while returns have remained steady or even gotten better.
- WEC is also very focused on the ESG front after recently laying out more aggressive CO2 and methane reduction goals. Importantly, WEC now sees a path to coal being less than 10% of assets/revenues by 2025. At the gas utility, WEC is looking to invest in pipelines that will accommodate renewable natural gas to reduce methane, though investment in RNG production itself doesn't seem to be of interest just yet.
- Finally, WEC is not overly concerned on the looming end of the Illinois legislative session. There is a bill proposed that would end the QIP rider for gas utilities, however nuclear subsidies and lobbying reform have been much more in focus. Further, WEC sees annual rate case filings in Illinois with forward test-years as a workable solution as well.

Xcel Energy (XEL – PP): Incremental capex case starting to sound like the new base case

- We got a chance to chat with incoming CEO Bob Frenzel. Bob noted that he and current CEO Ben Fowke are very aligned on the strategy for XEL and there should be no expectation of a pivot under his leadership. Bob sees a lot of pent-up demand for capital across XEL's footprint, but his focus is to pace it such that customer bills stay manageable. We got a sense of high confidence on XEL's 5-7% EPS growth rate over the long-term. Once Ben retires in August, he will stay on as executive chair where his focus will be on federal policy initiatives.
- XEL feels good about getting approval for some of the items that currently represent upside to its base capex plan. On the CO Pathway transmission project, its likely that XEL will own the entire project ($700M of incremental capex). XEL also feels good about getting its Sherco solar proposal ($575M) and the Allete wind powering ($210M) approved. If all is rolled into XEL's base forecast, we estimate its rate base CAGR could move to 7.2% vs 6.6% currently. XEL would finance the incremental capex with 50% equity likely through an ATM program.
- On transmission more broadly, XEL expects to have a lot more clarity on capex size by YE or 1Q22 at the latest for future projects in MISO. Being one of the two largest transmission owners in the Upper Midwest, XEL expects to own a substantial portion (has ROFRs in MN and Dakotas). XEL also sees a lot of opportunity in the SPP RTO too at SPS, though SPP is not as far along as MISO in the planning process. Related transmission capex is beyond the current 5-yr window.
- In light of recent asset sales in the sector, XEL mentioned that it is content with its current asset portfolio. Management is pleased with the company's robust organic growth opportunities and external equity needs are manageable within the context of the size of the company. And if certain proposals on the policy front are enacted (e.g., direct payments for tax credits), XEL could see its current equity needs move lower.

WOLFE RESEARCH

Utilities & Power

May 20, 2021

Comparables Tables

Exhibit 2: Regulated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2021E	P/E 2022E	P/E 2023E	P/E 2024E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Alliant Energy	LNT	$57.76	250	$14,448	22.4x	21.1x	20.1x	19.1x	2.8%	5.9%	62%	2.5x	46%
Ameren	AEE	84.50	256	21,594	22.5x	20.8x	19.5x	18.4x	2.6%	7.0%	59%	2.4x	42%
American Electric	AEP	86.26	500	43,108	18.6x	17.2x	16.3x	15.3x	3.4%	5.7%	64%	2.1x	37%
Avangrid	AGR	52.29	309	16,177	21.8x	21.8x	20.5x	N/A	3.4%	0.0%	73%	1.1x	58%
CenterPoint Energy	CNP	24.70	580	14,338	19.8x	18.5x	17.3x	15.9x	2.5%	7.0%	50%	2.1x	36%
CMS Energy	CMS	63.74	289	18,450	22.3x	20.8x	19.4x	18.2x	2.7%	6.7%	61%	3.2x	27%
Con Edison	ED	78.42	343	26,883	18.4x	16.8x	16.3x	15.7x	4.0%	1.3%	73%	1.4x	43%
Dominion	D	77.24	807	62,296	19.9x	18.7x	17.6x	16.4x	3.3%	6.0%	65%	2.6x	41%
Duke Energy	DUK	102.27	769	78,668	19.9x	18.8x	17.8x	16.8x	3.8%	2.0%	77%	1.7x	42%
Edison International	EIX	57.68	379	21,886	12.8x	12.3x	11.5x	N/A	4.6%	4.0%	59%	1.6x	38%
Emera*	EMA	56.60	254	14,359	20.4x	17.7x	16.9x	16.0x	4.5%	4.0%	93%	1.7x	38%
Entergy	ETR	105.74	201	21,218	17.8x	16.8x	15.7x	N/A	3.8%	6.0%	68%	1.9x	30%
Evergy	EVRG	61.90	229	14,192	18.7x	17.7x	16.3x	15.5x	3.5%	6.0%	66%	1.6x	44%
Eversource Energy	ES	83.76	343	28,769	21.7x	20.2x	19.0x	17.9x	2.9%	6.2%	62%	2.0x	44%
Exelon	EXC	45.74	977	44,696	16.3x	20.3x	19.2x	18.1x	3.3%	0.0%	55%	1.4x	43%
FirstEnergy	FE	37.69	544	20,500	15.2x	14.3x	13.7x	N/A	4.1%	0.0%	63%	2.8x	23%
Fortis*	FTS	55.29	469	25,953	19.8x	18.6x	17.5x	16.7x	3.7%	6.0%	73%	1.5x	43%
NiSource	NI	25.32	392	9,931	19.0x	18.0x	16.7x	14.9x	3.5%	6.0%	67%	1.9x	40%
PG&E	PCG	10.40	1,985	20,645	10.2x	9.2x	8.4x	7.7x	0.0%	N/A	0%	1.0x	33%
Pinnacle West	PNW	85.37	113	9,626	17.3x	17.1x	16.4x	15.6x	3.8%	2.0%	66%	1.7x	44%
Portland General	POR	48.89	90	4,381	18.6x	17.7x	17.1x	16.7x	3.5%	7.1%	65%	1.6x	45%
PPL Corp.	PPL	29.34	769	22,575	14.9x	16.5x	16.1x	N/A	5.7%	0.0%	84%	2.0x	42%
PSEG	PEG	62.58	505	31,609	18.3x	18.1x	17.2x	N/A	3.3%	4.1%	60%	1.9x	48%
Southern Company	SO	64.06	1,059	67,816	19.5x	18.1x	16.7x	15.6x	4.1%	3.9%	80%	2.4x	35%
WEC Energy Group	WEC	95.52	315	30,130	23.7x	22.3x	20.9x	19.7x	2.8%	7.1%	67%	2.8x	42%
Xcel Energy	XEL	71.58	538	38,525	24.2x	22.6x	21.3x	20.1x	2.5%	6.0%	62%	2.6x	38%
Average					**19.0x**	**18.1x**	**17.1x**	**16.5x**	**3.4%**	**4.4%**	**64%**	**2.0x**	**40%**
Average (ex EIX & PCG)					**19.6x**	**18.8x**	**17.7x**	**17.0x**	**3.5%**	**4.4%**	**67%**	**2.0x**	**40%**

Source: Wolfe Utilities & Power Research

Exhibit 3: Gas/Power Infrastructure Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2021E	P/E 2022E	P/E 2023E	P/E 2024E	Div Yield	Div Growth	Payout Ratio
The AES Corporation	AES	$25.35	666	$16,890	16.5x	15.2x	14.2x	13.4x	2.4%	5.0%	39%
DTE Energy	DTE	140.36	194	27,192	19.8x	18.8x	17.6x	16.6x	3.1%	7.0%	62%
NextEra Energy	NEE	74.29	1,961	145,716	29.3x	27.5x	25.4x	N/A	2.1%	9.7%	61%
OGE Energy	OGE	33.58	200	6,722	15.2x	15.8x	15.1x	14.5x	4.8%	5.6%	73%
Sempra	SRE	135.74	303	41,097	17.0x	16.0x	15.3x	N/A	3.3%	8.0%	56%
Average					**19.5x**	**18.7x**	**17.5x**	**14.8x**	**3.1%**	**7.0%**	**58%**

Source: Wolfe Utilities & Power Research

Exhibit 4: YieldCo Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBITDA 2023E	EV/EBITDA 2024E	Div Yield
Clearway Energy	CWEN	26.35	193	5,080	11.3x	10.3x	10.7x	11.4x	5.0%
NextEra Energy Partners	NEP	66.75	156	10,413	9.1x	7.6x	7.5x	N/A	3.8%
Atlantica Yield*	AY	36.83	107	3,929	10.6x	9.7x	9.0x	8.4x	4.7%
Average					**10.3x**	**7.6x**	**7.5x**	**N/A**	**4.2%**

Source: Wolfe Utilities & Power Research
*Not covered by Wolfe Research, estimates based on consensus

Exhibit 7: IPP Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBITDA 2023E	EV/EBITDA 2024E	Free Cash Flow Yield 2021E	Free Cash Flow Yield 2022E	Free Cash Flow Yield 2023E	Free Cash Flow Yield 2024E
NRG Energy	NRG	34.04	245	8,331	8.6x	6.2x	N/A	N/A	9.1%	19.6%	N/A	N/A
Vistra Corp	VST	16.48	482	7,944	10.5x	5.5x	N/A	N/A	5.5%	25.4%	N/A	N/A
Average					**9.6x**	**5.9x**	**N/A**	**N/A**	**7.3%**	**22.5%**	**N/A**	**N/A**

Source: Wolfe Utilities & Power Research

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Peer Perform:	37%	3% Investment Banking Clients
Underperform:	10%	0% Investment Banking Clients

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Begin forwarded message:

From: Steve Fleishman <utilities@wolferesearch.com>
Date: May 20, 2021 at 8:03:39 PM CDT
To:
Subject: Utilities & Power - AGA conference takeaways; gas LDCs here to stay

WOLFE RESEARCH

Utilities & Power

Regulateds - Market Overweight
IPPs - Market Weight
Gas/Power Infrastructure - Market Overweight

5/20/2021

Utilities & Power
AGA conference takeaways; gas LDCs here to stay

Click here to view our complete note [PDF]

Click here to view our models [XLS]

Exhibit 1: Attending Companies

Ticker	Company	Rating
AEE	Ameren	Outperform
AGR	Avangrid	Underperform
CMS	CenterPoint Energy	Outperform
CNP	CMS Energy	Peer Perform
ED	Con Edison	Underperform
D	Dominion Energy	Outperform
DTE	DTE Energy	Peer Perform
DUK	Duke Energy	Peer Perform
ES	Eversource Energy	Outperform
NI	NiSource	Outperform
PEG	PSEG	Outperform
SO	Southern Company	Peer Perform
WEC	WEC Energy Group	Underperform
XEL	Xcel Energy	Peer Perform

Source: Wolfe Utilities & Power Research

The bans on bans exceed the bans; no whiff of inflation
We hosted virtual meetings with 14 utilities as part of the American Gas Association (AGA) this week. Companies had a more constructive tone on the future of their gas utilities. More states are pursuing bans on gas bans than gas bans themselves. Managements better clarified the drastic logistical challenges of full electrification while highlighting actions to reduce gas emissions such as methane reduction and renewable natural gas. RNG was a hot topic as a way to decarbonize natural gas that is more near-term viable than hydrogen. On the electric side, fleet transitions to renewables from coal keep accelerating and transmission growth is increasing LT focus. While we asked about inflationary pressures, the only whiff at this conference was gas, not inflation.

Top stocks from the conference – CNP, NI, PEG
CNP management tells a great story with 6-8% growth driven by 2% sales growth, declining costs and a lot of capex needs. Asset sales and tax shields may yield $1B+ more than initially expected and CNP sees more rate base growth opportunities to put that money to work, especially in TX. An ESG plan and new capex plan later in the year could be a catalyst. NI management finally seems to be exiting the MA overhang and going back to the old NI, including a recent guide-up for 2021. Equity overhang is resolved, regulatory risks appear modest and the IN renewables program is huge and may get even bigger. NI's 7-9% growth is at the top end of the sector and it trades at a meaningful discount. Finally, PEG is nearing the completion of their asset sale plans with the fossil sale expected in July. We see more visible LT earnings and dividend growth once this is done, constructive NJ regulation, and some offshore wind upside. With no coal exposure, we see PEG re-rating to a premium.

One-liner takeaways:

AEE – Renewables and transmission upsides possible as year goes on.

AGR – Equity done. Sticking w/ CT settlement. Offshore returns intact w/ inflation.

CMS – IRP next month, focus on coal retirement acceleration w/o securitization.

CNP – Strong tone; tax strategies sound promising; TX rate base upsides

ED – Hoping for higher growth via clean capex; Stagecoach resolution not far off.

D – Laser focused on execution; offshore wind on track despite inflation concerns

DTE – Spin 7/1. DTM sees $1.5B capex driving ~$1B in EBITDA needed for IG.

DUK – Confident on its outlook; no interest in pursuing any part of Elliott plan.

ES – Working on improving CT reg relations; sees mid-teen offshore wind ROEs.

NI – More confident tone on plan, starting to sound like NI of old

PEG – Convicted in fossil sale outcome. Feel good on fed/state nuke support.

SO – Slippage in Vogtle Unit 3 COD schedule but expects by end of 1Q22.

WEC – Renewable adds ahead of plan. Potential EPS upside after '22 WI cases.

XEL – Feel good about getting all incremental capex put in the base plan.

Read more...[PDF]

Thanks,

Steve

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If you would like to follow-up with any questions, please email us at Utilities@WolfeResearch.com.

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From: Steve Fleishman <utilities@wolferesearch.com>
Date: May 21, 2021 at 8:18:38 AM CDT
To:
Subject: The Fleishman Daily 5/21/21 - AGA Takeaways, FTS, NI, ETR, EIC Takeaways
Reply-To: utilities@wolferesearch.com

The Fleishman Daily 5/21/21

Utilities: AGA Takeaways, FTS, NI, ETR
Midstream: EIC Takeaways
WEBCAST: Fleish on Fridays, TODAY at 11:00am ET; register here

Utilities

Utilities & Power – AGA conference takeaways; gas LDCs here to stay

FTS – MISO soup bowl full of transmission; mgmt. meetings

NI – Launches RFP to satisfy capacity needs starting in 2024-26, anticipates adding 400-650 MW

ETR – LaPSC approves settlement on FRP extension for ETR; expected

ETR – FERC reverses ALJ recommendation to cut ROE for a system agreement; good reminder

Midstream

Midstream – EIC conference takeaways and tidbits

Wolfe Utility & Midstream Materials: Utility Comps, Utility Stock Charts, Midstream Comps, Midstream Stock Charts, Valuation Charts, Models, Arb Spreads

Utilities

Utilities & Power – AGA conference takeaways; gas LDCs here to stay

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The bans on bans exceed the bans; no whiff of inflation
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FTS – MISO soup bowl full of transmission; mgmt. meetings

Click here to view our complete note

Massive transmission opportunity at ITC, but exact size/timing vague
We recently hosted meetings for Australian investors with FTS CEO Dave Hutchens and CFO Jocelyn Perry. There remains a keen focus on the U.S. transmission opportunity for ITC, as the Biden administration looks to spark the renewables build-out. Interest further heightened after MISO, ITC's core footprint, laid out a $30-100B long-term investment potential. More details are expected in late-2021, with the MTEP filing. ITC's share/size of opportunity is less clear and timing is likely in the latter half of the decade. For perspective, ITC's share of the MVP lines a decade ago and of current MISO transmission line miles are both just shy of 25%. It remains to be seen if this is a good proxy for the future, but suffice it to say the investment opportunity is robust. In the meantime, there is still a lot to work through on siting, planning, and cost allocation. Taking this all into account, we see valuation as fair. Peer Perform.

NI – Launches RFP to satisfy capacity needs starting in 2024-26, anticipates adding 400-650 MW

- Yesterday, NI launched an RFP as part of its 2021 Integrated Resource Plan
- NI will consider all sources in the RFP process to satisfy its capacity needs beginning in 2024, 2025 and 2026
- The anticipated range across all target areas is 400-650 MWs; NI reserves the right to transact more or less than the target
- The new capacity is expected to replace NI's Michigan City coal unit (469 MW), which is currently scheduled to retire in 2028 though could be accelerated further
- After the Michigan City retirement, NI's electric business will be coal free
- Bid evaluation is tentatively to be completed by 8/20

In our recent AGA meeting with NI, management mentioned that it hoped to own over half or all of the replacement capacity from the RFP.

ETR – LaPSC approves settlement on FRP extension for ETR; expected

- At its meeting this week, the LaPSC approved the FRP settlement between ETR and LaPSC Staff, which was filed last month.
- The settlement among other things extends the FRP by 3 years, sets the allowed ROE at 9.5% with a 50bp band, adds a distribution rider, and caps cumulative FRP base revenue increases for 2022 and 2023 at $70M (excluding riders).
- The final written order has yet to be posted on the LaPSC website.

The approval was expected but is still good to see. LA is about half of ETR. We see multiyear rate certainty for several years both at LA and AR. See our **note** on the FRP settlement for more.

ETR – FERC reverses ALJ recommendation to cut ROE for a system agreement; good reminder

- On 5/20, FERC issued an order on the tariff that governs sales of energy and capacity among ETR's operating companies, reversing the ALJ's initial decision.
- The case dates back to the first half of last decade.
- In an initial decision in 2015, a FERC ALJ found the 10.37% ROE was not just and reasonable.
- FERC's decision yesterday applies FERC's revised base ROE methodology as adopted in more recent Opinions (Nos. 569, 569-A, and 569-B) to the ETR Operating Companies. The order reverses the FERC ALJ's initial decision.
- Separately, earlier this year another ALJ issued a proposed decision cutting ETR SERI's ROE and equity ratio to 9.32% and 48.15% equity ratio after finding SERI's 10.94% ROE and 65% equity ratio were unjust and unreasonable.
- A final decision in the SERI case by FERC has yet to be issued.

We believe the order is a good reminder that FERC does not always approve ALJ recommendations. But it may be a stretch to suggest they'll do the same with SERI, which is less than 10% of ETR's earnings. ETR said in March that the ALJ's recommendation on SERI, were it to be finalized, would be a $0.03 hit to their outlook.

Midstream

Midstream – EIC conference takeaways and tidbits

Click here to view our complete note

Building on constructive Q1 tailwinds. Management teams stayed on message this week at the Energy Infrastructure Council (EIC) conference which followed one of the better earnings seasons we can recall. Companies are optimistic on a return to volume growth but don't see a need to raise capex outlooks given spare capacity on major pipelines. This drove conversations heavily to return of capital decisions – debt paydown, buybacks, and even growing dividends again. The Colonial pipeline was a big topic and largely a reminder of the importance of cyber security. Several companies spoke to efforts to rationalize Permian crude pipeline overbuild but acknowledged this could take a long time to play out. Managements appear to be more seriously assessing ways to participate in energy evolution projects.

Wolfe Events

May 25-26: EVRG non-deal roadshow in Australia

May 26: EIX non-deal roadshow in California

June 8: OGE non-deal roadshow in NYC

June 9: OGE non-deal roadshow in Boston

June 15: NEE fireside chat with CEO Jim Robo

August 10: WEC non-deal roadshow in Boston

August 11: WEC non-deal roadshow in Midwest

August 24: LNT non-deal roadshow in Europe

August 30-31: LNT non-deal roadshow in Australia

September 28-30: Wolfe Utilities & Energy Conference

October 1: AEE non-deal roadshow in Boston

December 6: PNW non-deal roadshow in Australia

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Utility Pension Review

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Midstream Leverage Report

Utility Proxy Review
Wolfe Midstream Primer

Wolfe Utility Primer

Calendar

Date	Ticker	Event	Case Docket Number	Description
5/28/21	EIX/PCG/SRE	Cost Effectiveness Analysis Results Provided to Parties		NEM 3.0
5/24/21	EXC	Intervenor testimony	21-E-0130	NYPSC SpinCo approval
5/25/21	NYSE	Short Interest Release		
5/26/21	ES/AGR	Hearings; 5/26-28		CT Interim Rate Decrease
6/2/21	ORSTED	Capital Markets Day		
6/2/21	PCG	Alsup status conference re SRV		
6/3/21	EIX/PCG/SRE	CPUC Voting meeting		
6/7/21	SO	Staff recommendation		VCM 24
6/9/21	NYSE	Short Interest Release		
6/9/21	XEL	Rebuttal testimony		SPS rate case - New Mexico
6/18/21	EIX/PCG/SRE	Opening testimony on Issues 2-6		NEM 3.0
6/21/21	NEE	Intervenor Testimony	20210015	FP&L Rate Case
6/21/21	FE	Corporate Separation	17-0974-EL-UNC	Audit Report Due
6/21/21	FE	DCR Audit	20-1629-EL-RDR	Draft Audit Report Due
6/23/21	AGR	Final interim decision	17-12-03RE11	Proposed UI Settlement
6/23/21	XEL	Deadline to file settlement		SPS rate case - New Mexico
6/23/21	ES/AGR	Hearings (second set); 6/23-24		CT Interim Rate Decrease
6/24/21	NYSE	Short Interest Release		
6/24/21	EIX/PCG/SRE	CPUC Voting meeting		
6/24/21	SO	Hearing on Staff testimony		VCM 24

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BofA SECURITIES

05 May 2021

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North America
Gas Utilities

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NI first take: In-line Q; raise in midpoint of '21 guidance

NI reported 1Q21 adj. EPS of $0.77 (vs BofAe of $0.77, street at $0.77, and compared to 1Q20 of $0.76). NI narrowed its FY21 EPS guidance to $1.32-$1.36 (vs BofAe of $1.30 and street estimate of $1.33) which is the top-half of the original guidance range of $1.28-$1.36 – we noted this as a possibility given our view that mgmt.'s assumption on COVID impacts was highly conservative. LT EPS growth expectations of 7-9% through '24 and 5-7% through '23 remains unchanged. NIPSCO has executed agreement on $2.0B of renewable generation investment representing half of the total generation called for in the 2018 IRP with the remainder coming through PPA. The 2021 IRP process at NIPSCO started in Mar., discussions with stakeholders will take place through Nov. when NIPSCO will submit the report to the commission. We believe the IRP could show that it is more economical to pull forward the retirement of the Michigan City Coal Plant and replace the capacity with renewables.

On the regulatory front, NIPSCO filed to terminate the Electric Transmission, Distribution and Storage Improvement Charge (TDSIC) plan and will file a new TDISC plan on or after Jun. 1. Columbia Gas of PA had new rates implemented in Jan. of this year and filed another rate case in Mar. to support safety and modernization investment – we believe this case will be less contentious than the prior case given timing and the economy rebounding from the pandemic. We reiterate our Buy rating given capital market risks were taken off the table following the $750M mandatory convertible in '24 as well as $750M 'reverse' forward equity offering in Apr, With shares trading at a discount on '23 EPS, we see '24 as compounding the attractive backdrop for shares. Watch for nuances on its '24 EPS as it could very well reposition EPS CAGR ex-Covid impacts and still achieve towards top end or better. On balance, Street EPS remains seemingly too low. We see the setup as particularly attractive; execution and specifically operational performance as key to re-rating at this point. Maintain Buy rating.

NWN first take: Beat with water expansion continuing

Northwest Natural (NWN) reported 1Q21 adj. EPS of $1.94 (vs BofAe of $1.88 and street estimate of $1.83). This compares to 1Q20 adj. EPS of $1.58 with the increase driven by new rates in OR effective Nov. 1, 2020 partially offset by an increase in loss from the gas cost incentive sharing mechanism as a result of Feb. gas prices, higher O&M, depreciation, and interest expense, and increased tax expense related to the net effect of the Oregon Corporate Activity tax and ongoing amortization of tax benefits from TCJA. NWN reaffirmed FY21 EPS guidance of $2.40-$2.60 (vs BofAe of $2.55 and street estimate of $2.51. Higher gas costs were seen in Feb., but NWN's third=party marketer provided incremental asset management revenues that led to a net benefit to customers of $6.5M. The balance is deferred as a regulatory asset. Impacts of COVID were $1.5M after-tax which is modest given NWN's exposure to resi and commercial and a majority of the business is decoupled. Water expansion continues – NWN recently closed a transaction near its Idaho Falls utility and is signing agreements for three more acquisition. We continue to view shares as overvalued at a ~3x premium to gas LDC peers despite relatively low EPS growth of 3-5%. Therefore we maintain our Underperform rating.

AVA first take: Beat and affirmation of '21-'23 guidance

AVA reported 1Q21 EPS of $0.98 (vs BofAe of $0.83 and street estimates of $0.84). This compares to 1Q20 EPS of $0.72 with the YoY increase driven on the electric side by the rate case in WA, customer growth, and benefits under the Energy Recovery Mechanism. On the gas side, the YoY increase was driven by rate cases in OR and WA, customer growth, and refund related to the 2015 WA rate case. AVA affirmed FY21-FY23 EPS guidance ranges of $1.96 to $2.16, $2.18 to $2.38, and $2.42 to $2.62, respectively. As a reminder, AVA filed its 2021 electric integrated resource plan earlier this year that outlines steps to more toward the goal of carbon neutral supply of electricity by 2027. We view shares as pricey especially considering regulatory risks as AVA files rate cases in relatively more restrictive jurisdictions to return to an earned ROE closer to the allowed by '23 and ongoing fire risks in WA/OR. Maintain Underperform rating.

NJ BPU grants SJG's request to extend IIP procedural schedule to make way for settlement discussions

The NJ Board of Public Utilities (BPU) granted South Jersey Gas' request to modify and extend the Infrastructure Investment Program's procedural schedule as it would allow parties to conduct more discovery and discuss settlement. Docket GR20110726

We look forward to SJI's investor day tomorrow where we expect to see a refreshed 5-year capital plan, rate base CAGR, and LT EPS CAGR. We expect that SJG will make a reasonable assumption on the % of the requested IIP that is actually approved. As a reminder, the request is for a 5-year, $742.5M program – we model SJG receiving 60% of ask which could be conservative given where other recent programs have shaken out.

Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AVA	AVA US	Avista Corp	US$ 46.06	B-3-7
NI	NI US	NiSource Inc	US$ 25.94	B-1-7
NWN	NWN US	Northwest Natural	US$ 54.04	B-3-7
SJI	SJI US	South Jersey	US$ 25.33	B-1-7

Source: BofA Global Research

Price objective basis & risk

Avista (AVA)

Our $44 PO is based on our 2023E sum-of-the-parts (SOTP) analysis, based on the large cap electric group multiple of 18.0x and the gas regulated multiple of 16.5x. Both electric and gas peer P/E multiples are grossed to reflect the group's 5% CAGR to reflect capital appreciation across the sector. We then use a blended electric and gas multiple of 77% and 23%, respectively, for AVA's WA and ID jurisdictions given the composition of its rate base. We apply the gas multiple to its OR jurisdiction as it is entirely comprised of natural gas distribution assets. Meanwhile, we apply an electric multiple to its Alaska subsidiary, AEL&P, as it is a vertically integrated electric utility. We apply a 12.0x multiple to AVA's Corp & Other businesses as we cannot apply a full utility multiple given it consists of investment funds with a lack of visibility in earnings relative to utilities. We stress that AVA does not have any HoldCo. debt, thus no need to net out debt. Lastly, we apply a 1x discount to all AVA's utilities to capture increased uncertainty associated with fire risk and de-carbonization. Risks to upside are 1) improving regulatory relationships, 2) decrease in interest rates, 3) constructive rate case outcomes in any of the jurisdictions. Risks to downside are principally wildfire events in West, which have increasingly spread to PacNW. Risks to downside are 1) operational risks 2) gas regulations attempting to phase out gas LDC usage over time impede growth.

NiSource Inc (NI)

Our $29 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2023 forward P/E multiples of 16.6x for gas and 18.0x for electric with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex beginning in '22, but acknowledge industrial risk. Also, we removed M&A premium and now assign an in-line multiple to the VA, KY and MD gas utilities as we see gas LDC sale unlikely in the near future. We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.
Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, financing plan updates, unforeseen costs associated with the MA incident, and challenging steel production economics in Indiana.

Northwest Natural Holdings (NWN)

Our $50 PO is based on our 2023E sum-of-the-parts (SOTP) analysis, based on the gas LDC peer group '23 P/E multiple of 16.3x applied to WA and OR natural gas distribution and regulated storage assets. We further gross up the gas LDC multiple by 5% to reflect capital appreciation across the group. We use a 1x premium in OR to capture decoupling benefits (relatively in line to where the pure-play companies trade), although we believe the long-term outlook is more uncertain. For NWN's gas storage (unregulated), appliance, and asset management business, we apply a 10x EV/EBITDA multiple, in line with comparable asset class, and net out debt. We apply a water utility peer P/E multiple of 27.0x to NWN's water earnings and then net out corporate & other drag (largely SG&A) using a weighted average multiple of 18.6x on '23.

Downside risks to our PO: higher interest rate environment that makes new capital more expensive, contraction of utility valuations, slower economic recovery, and a sustained economic downturn preventing customer growth, de-carbonization efforts, lower capex, poor regulatory outcomes.
Upside risks to our PO: faster economic recovery contributing to customer growth, lower interest rates, constructive regulatory outcomes, and increased capex.

South Jersey Industries (SJI)

Our $27 PO is premised upon our SOTP analysis where we utilize a 16.6x peer Gas LDC utility P/E to SJG and ETG on '23E EPS. We apply a 12x P/E to SJEG/SJES non-regulated earnings stream given variability and limited transparency. For the solar investments we utilize a NPV of investment tax credits at a 4.5% discount rate (in line with peers) to capture the transitory nature and eventual roll-off. We apply a 9x EV/EBITDA to PennEast and assume full project economics in our EPS assumptions, although net out 25% weighting. We utilized a DCF for RNG with NPV of cash flows at 7.4% discount rate. For parent debt we net out 50/50 weighting for re-capitalization and add back 50% of parent interest expense.

Downside risks: Interest rates move higher, poor regulatory outcomes, lower capex levels.
Upside risks: Interest rates move lower, constructive regulatory outcomes, incremental capex opportunities, further credit latitude.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
NEUTRAL				
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Aric Li
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith

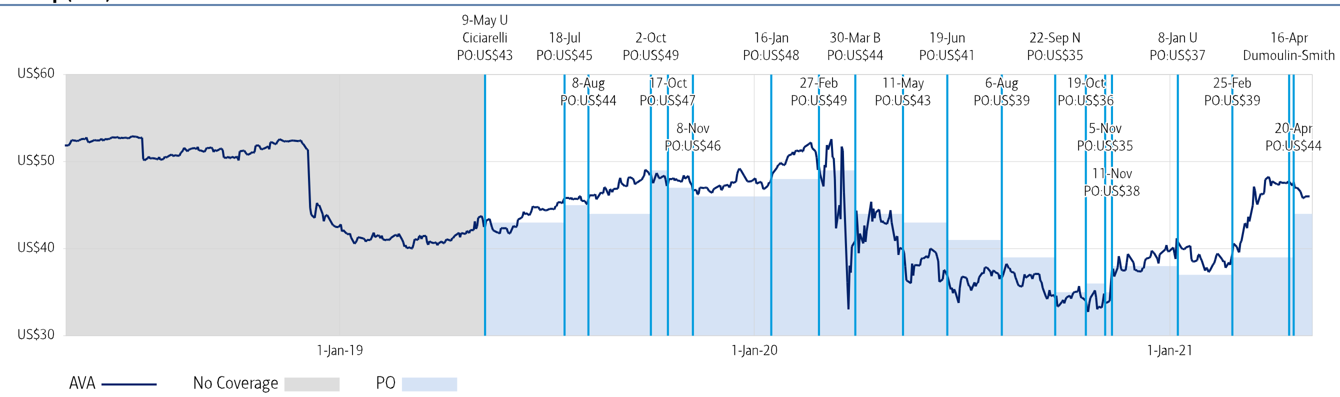
NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

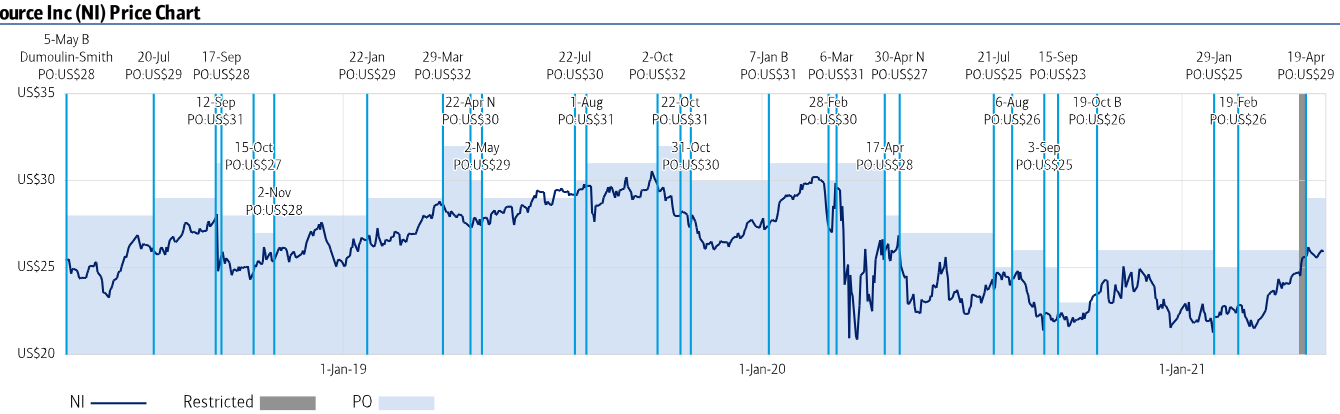
Avista Corp (AVA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

NiSource Inc (NI) Price Chart



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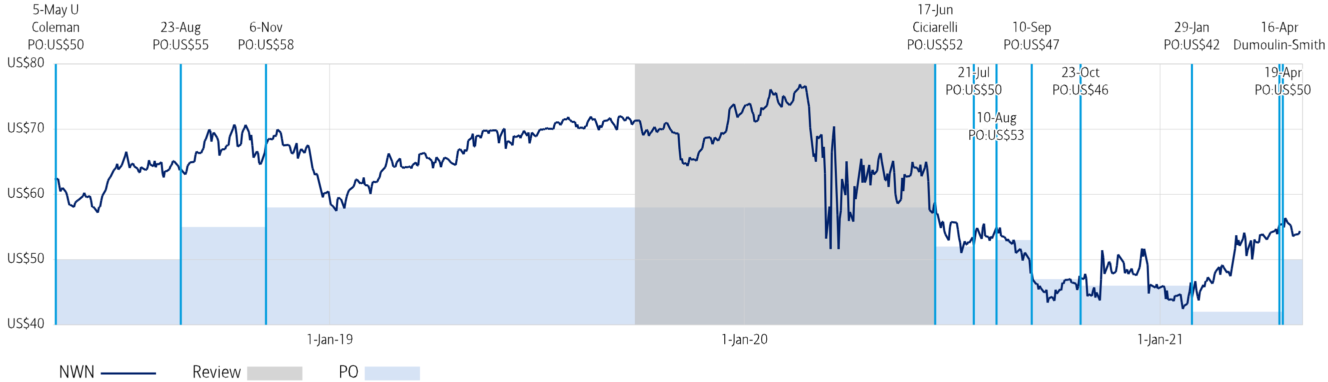
Northwest Natural (NWN) Price Chart



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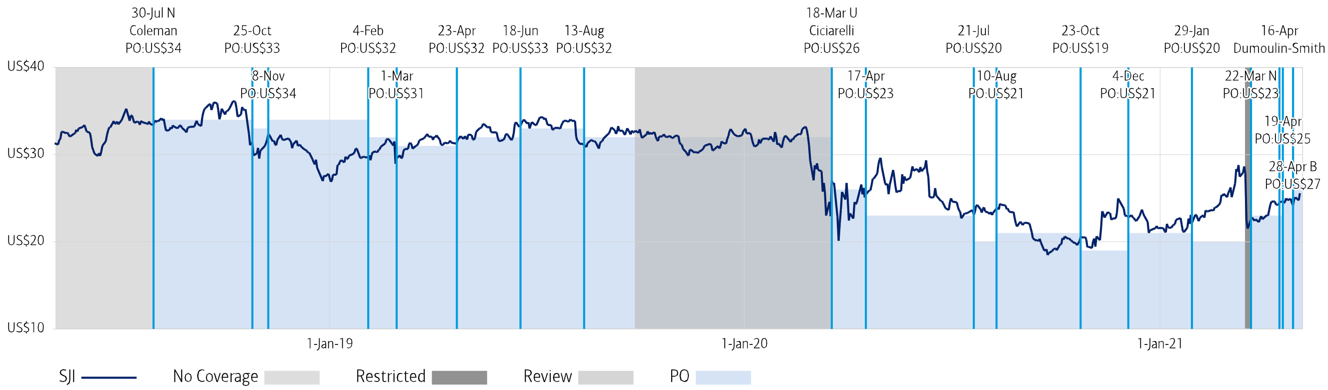
South Jersey (SJI) Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	75	54.74%	Buy	60	80.00%
Hold	34	24.82%	Hold	24	70.59%
Sell	28	20.44%	Sell	11	39.29%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	77	48.43%	Buy	56	72.73%
Hold	43	27.04%	Hold	31	72.09%
Sell	39	24.53%	Sell	23	58.97%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1909	58.54%	Buy	1218	63.80%
Hold	653	20.02%	Hold	395	60.49%
Sell	699	21.44%	Sell	356	50.93%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	**Total return expectation (within 12-month period of date of initial rating)**	**Ratings dispersion guidelines for coverage cluster***
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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5 May 2021

NiSource, Inc.

NI: Favorable Financing Solidifies Growth Prospects

NI reported in-line Q1 results, narrowed FY21 EPS guidance to the top half of the range, and discussed its hybrid convertible offering and growth initiatives on the Q1 call. We reiterate our Overweight rating and $26 price target as growth plans solidify and the focus shifts towards execution.

Find our Q1 earnings recap on Page 3.

We have updated our estimates to incorporate the hybrid convert issuance, refreshed financing plans, increased spending on renewables, and other general housekeeping.

NI: Quarterly and Annual EPS (USD)

	2020	2021			2022			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2021	2022
Q1	0.76A	0.78E	0.77A	0.77E	0.81E	0.81E	0.78E	1%	5%
Q2	0.13A	0.13E	0.13E	0.12E	0.14E	0.14E	0.16E	0%	8%
Q3	0.09A	0.09E	0.09E	0.09E	0.10E	0.10E	0.10E	0%	11%
Q4	0.34A	0.35E	0.36E	0.36E	0.36E	0.39E	0.37E	6%	8%
Year	1.32A	1.35E	1.36E	1.33E	1.41E	1.44E	1.40E	3%	6%
P/E	19.6		19.0			18.0			

Source: Barclays Research.
Consensus numbers are from Bloomberg received on 05-May-2021; 12:50 GMT

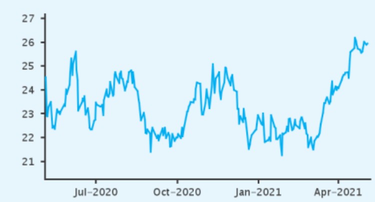
Stock Rating	OVERWEIGHT Unchanged
Industry View	POSITIVE Unchanged
Price Target	USD 26.00 Unchanged

Price (04-May-2021)	USD 25.94
Potential Upside/Downside	+0.2%
Tickers	NI

Market Cap (USD mn)	10172
Shares Outstanding (mn)	392.13
Free Float (%)	99.50
52 Wk Avg Daily Volume (mn)	3.4
Dividend Yield (%)	3.39
Return on Equity TTM (%)	-1.46
Current BVPS (USD)	12.44

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 26.30-21.09



Source: IDC; Link to Barclays Live for interactive charting

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North America Power & Utilities | **Industry View: POSITIVE**

NiSource, Inc. (NI)

Stock Rating: OVERWEIGHT

Income statement ($mn)	2020A	2021E	2022E	2023E	CAGR
Revenue	4,682	4,778	4,962	5,177	3.4%
EBITDA (adj)	1,655	1,937	2,082	2,242	10.6%
EBIT (adj)	1,141	1,128	1,209	1,282	4.0%
Pre-tax income (adj)	-31	841	925	989	N/A
Net income (adj)	508	570	632	680	10.2%
EPS (adj) ($)	1.32	1.36	1.44	1.53	5.0%
Diluted shares (mn)	384.3	418.6	439.3	444.3	5.0%
DPS ($)	0.84	0.89	0.94	1.00	6.0%

Margin and return data					Average
EBITDA (adj) margin (%)	35.4	40.5	42.0	43.3	40.3
EBIT (adj) margin (%)	11.8	25.0	25.7	26.0	22.1
Pre-tax (adj) margin (%)	-0.7	17.6	18.6	19.1	13.7
Net (adj) margin (%)	10.8	11.9	12.7	13.1	12.2
ROIC (%)	3.5	7.4	7.9	8.3	6.8
ROA (%)	2.2	2.6	2.7	2.9	2.6
ROE (%)	8.5	9.8	9.9	9.9	9.5

Balance sheet and cash flow ($mn)					CAGR
Tangible fixed assets	16,620	16,858	17,432	18,919	4.4%
Cash and equivalents	117	872	730	-378	N/A
Total assets	22,041	23,034	23,467	23,845	2.7%
Short and long-term debt	9,723	9,752	9,148	8,967	-2.7%
Other long-term liabilities	4,704	4,675	4,646	4,617	-0.6%
Total liabilities	16,203	16,674	16,565	16,566	0.7%
Shareholders' equity	5,838	6,360	6,902	7,279	7.6%
Net debt/(funds)	9,606	8,880	8,418	9,345	-0.9%
Change in working capital	1,272	787	-666	-1,319	N/A
Cash flow from operations	1,104	1,810	1,935	2,071	23.3%
Capital expenditure	-1,758	-2,131	-2,531	-3,531	N/A
Free cash flow	-654	-321	-596	-1,460	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	19.6	19.0	18.0	17.0	18.4
EV/EBITDA (adj) (x)	11.8	9.7	8.8	8.6	9.8
EV/EBIT (adj) (x)	17.2	16.7	15.2	15.1	16.0
FCF yield (%)	-3.3	-1.7	-3.2	-7.6	-4.0
P/BV (x)	1.7	1.7	1.7	1.6	1.7
Dividend yield (%)	3.2	3.4	3.6	3.9	3.5
Net debt/EBITDA (adj) (x)	5.8	4.6	4.0	4.2	4.6

Selected operating metrics					Average
Payout ratio (%)	63.6	65.4	65.6	65.4	65.0
Interest cover (x)	1.5	3.1	3.3	3.5	2.9
Regulated (%)	100.0	100.0	100.0	100.0	100.0

Price (04-May-2021)	USD 25.94
Price Target	USD 26.00

Why Overweight? We view NI as a quality utility with a well-defined rate base growth strategy from gas and electric infrastructure modernization, which we see as relatively low risk. We believe execution on renewables investment initiatives holds the potential to drive above-average EPS growth and a premium valuation.

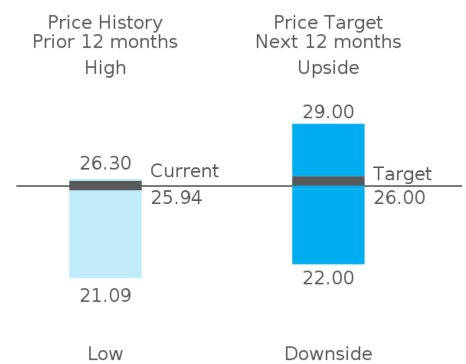
Upside case **USD 29.00**

Our upside case reflects a 10% premium to the 2023 utility group average P/E multiple applied to higher earnings driven by additional rate base growth and favorable rate case outcomes.

Downside case **USD 22.00**

Our downside case reflects a 10% discount to the 2023 utility group average P/E multiple applied to lower earnings driven by slower rate base growth and unfavorable rate case outcomes.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

Q1 Earnings Recap

The Numbers

NI reported Q1 adj EPS of $0.77, in line with consensus expectations of $0.77, and reiterated expectations of 5-7% EPS CAGR from 2021-2023 and 7-9% EPS CAGR for the 2021-2024 period, driven by electric rate increase expected to be effective mid-2023. Growth is based off refreshed FY21 guidance.

2021 Guidance

Management narrowed FY21 adj EPS guidance to $1.32-$1.36 (from $1.28-$1.36), removing the ($0.05) headwind from COVID-19 that had been included in guidance. Management notes that COVID-19 did not have a material impact on Q1 results, and while there continues to be some risk from uncollectible accounts, management does not believe it will be material to FY21 results.

NIPSCO 2021 Integrated Resource Plan

NI has begun the 2021 NIPSCO IRP process, which will include an RFP, similar to the 2018 IRP. Management expects to submit the plan for approval by November. The IRP will look at generation strategy post-2024, including replacement power opportunities for the planned retirement of Michigan City Generating Station (~470 MW).

M&A Commentary

When asked about M&A given the strong recent comps for LDCs, management continues to have an open mind but also sees peer valuations as signs of strength in the business. Current plans imply 10%+ rate base growth at each utility, and management will continue to evaluate where the best value would be for shareholders, but imparts no sense of particular urgency regarding monetization opportunities.

Convertible Issuance

In mid-April, NI announced a hybrid offering to finance its renewables investment plan. NI sold 8.625m units of the hybrid convertible at $100 each. Each unit contains a forward purchase contract and a 10% interest in mandatory convertible preferred stock. The effects of dilution are reduced as the underlying stock price appreciates until December 2023, at which point NI may remarket the mandatory convert preferred stock for an additional $863m in proceeds. Each unit pays a 7.75% cash distribution; given how this instrument was created, there is no interest hitting the income statement, only impacts are on the balance sheet and cash flow statement. The offering is given 100% equity content treatment from ratings agencies. It is expected to satisfy all previous block equity ($500-$700m) and convertible needs ($600-$1,000m) through 2024. NI additionally reduced the size of the ATM program in 2023 to $0-$150m (from $200-$300m).

Renewables Plan

NI increased the expected spend on renewables from $1.8-$2.0 billion to the top end of the range at $2.0bn. Management indicated that a direct pay option for renewables tax credits may provide some upside to current plans, primarily by avoiding the need for tax equity financing, but would be highly dependent on timing.

Valuation

Our unchanged $26 price target is derived using the 2023 regulated utility group average P/E of 17x applied to our 2023 EPS estimate of $1.53 (previously $1.52).

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 04-May-2021, USD 25.94), Overweight/Positive, A/CD/CE/D/J/K/L/M

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North America Power & Utilities

Alliant Energy Corporation (LNT)	Ameren Corp. (AEE)	American Electric Power Company, Inc. (AEP)
American Water Works Company, Inc. (AWK)	Brookfield Infrastructure Partners LP (BIP)	Brookfield Infrastructure Partners LP (BIP_u.TO)
CenterPoint Energy, Inc. (CNP)	CMS Energy Corporation (CMS)	Consolidated Edison, Inc. (ED)

IMPORTANT DISCLOSURES

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Edison International (EIX)	Essential Utilities, Inc. (WTRG)	Eversource Energy (ES)
Exelon Corporation (EXC)	FirstEnergy Corp. (FE)	NextEra Energy, Inc. (NEE)
NiSource, Inc. (NI)	NorthWestern Corporation (NWE)	OGE Energy Corp. (OGE)
PG&E Corporation (PCG)	Pinnacle West Capital Corporation (PNW)	PNM Resources, Inc. (PNM)
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IMPORTANT DISCLOSURES

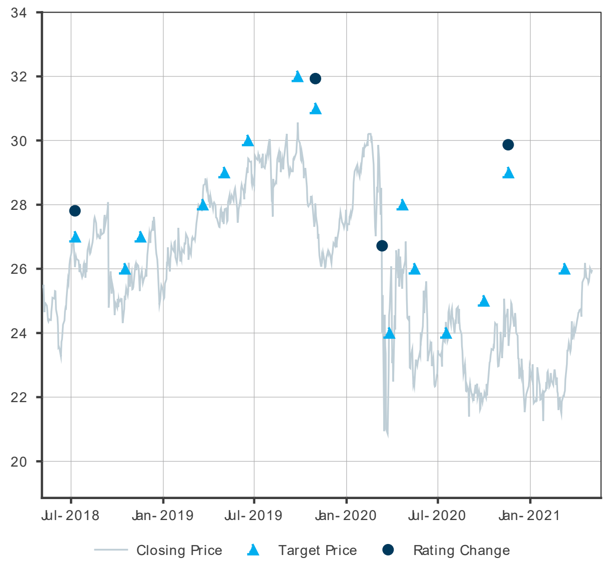
NiSource, Inc. (NI / NI)

USD 25.94 (04-May-2021)

Stock Rating **OVERWEIGHT**

Industry View **POSITIVE**

Rating and Price Target Chart - USD (as of 04-May-2021)



Source: IDC, Barclays Research

Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
10-Mar-2021	22.13		26.00
18-Nov-2020	23.96	Overweight	29.00
30-Sep-2020	22.00		25.00
17-Jul-2020	24.34		24.00
15-May-2020	22.37		26.00
21-Apr-2020	25.38		28.00
26-Mar-2020	24.55		24.00
12-Mar-2020	24.02	Equal Weight	
31-Oct-2019	28.04	Overweight	31.00
25-Sep-2019	30.07		32.00
18-Jun-2019	28.99		30.00
02-May-2019	27.58		29.00
20-Mar-2019	27.95		28.00
16-Nov-2018	25.69		27.00
16-Oct-2018	25.16		26.00
09-Jul-2018	26.06	Equal Weight	27.00

Source: Bloomberg, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Link to Barclays Live for interactive charting

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Valuation Methodology: Our $26 price target is derived using the 2023 regulated utility group average P/E of 17x applied to our 2023 EPS estimate of $1.53. This reflects our view that NiSource, despite near-term headwinds, is a quality utility with above-average medium-term rate base growth strategy from coal replacement power and gas and electric infrastructure modernization.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Major risks to the company are: the ability to obtain fair and timely rate recovery, regional economic impacts driving lower-than-expected usage, and cost controls to manage customer rates.

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May 5, 2021 | 19:13 ET | 19:13 ET~

NiSource

NI-NYSE	Rating	Price: May-5	Target	Total Rtn
	Outperform	$25.78	$28.00	12%

NI 1Q21 - Progressing on a Cleaner Story

Bottom Line:

NiSource reported 1Q21 EPS of $0.77, in line with consensus of $0.77 and $0.01 above our $0.76 estimate. Management raised the bottom end of the 2021 guidance range by $0.04, now $1.32-1.36, reflecting lower-than-expected COVID-19 impacts. **The company's outlook remains unchanged from its September Investor Day with a NOEPS CAGR of 5-7% through 2023, rising to 7-9% including the full-year impact of its renewable investment in rate base in 2024 at NIPSCO.** Additionally, the convertible equity offering last month resolves all discrete equity needs through the 2024 forecast.

Key Points

NIPSCO has begun its 2021 Integrated Resource Plan (IRP) process, which is expected to fuel its decarbonization and renewable strategy beyond 2023. We'd expect the IRP to address the resource needs of replacing the retirement of the ~455MW Michigan City Generating Station by 2028, which could bring incremental renewable investment opportunities. We'd expect more updates as the company engages with stakeholders throughout the year with the expected filing of the new IRP with the IURC in November.

Given recent transaction multiples, we expect management to continue to remain open to all options for strengthening the balance sheet and financing incremental capital investment opportunities including asset rotation/ optimization. However, given each of the company's utilities in its six-state footprint rate base grows at ~10% (Exhibit 2) and given the potential tax leakage, dis-synergies, and necessary regulatory approvals, we see any monetizations as more strategic in nature. We believe the most probable candidates would be CGVA, CGKY, and CGMD given the relative size of their rate bases ($905mm, $372mm, and $173mm, respectively). However, we would expect any decision to be based on a risk-adjusted cost of capital to other financing alternatives as even the sale of all three assets would not materially change NI's business mix materially (~3-4% change in gas).

NiSource's April equity unit offering removed all discrete block equity needs through 2024 while still allowing the company to participate in share price appreciation. The offering received 100% equity credit from all three agencies and fully funds its ~$2B renewable investment (2/3 already approved and online 2023). The equity unit structure combined a forward common equity offering of ~$862mm (8.625mm units) and a Series C Mandatory convertible preferred stock product of ~ $750mm. Importantly, given the accounting of the forward contract payment, the income statement will not reflect the interest of convertible preferred.

For disclosure statements, including the Analyst Certification, please refer to page(s) 5 to 8.

BMO Capital Markets

IN Fact

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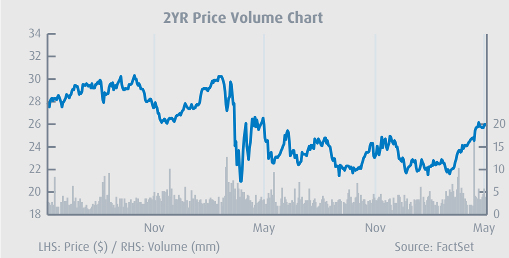


Company Data			in $
Dividend	$0.88	Shares O/S (mm)	392.1
Yield	3.4%	Market Cap (mm)	$10,109
P/BV	1.5x	Net Debt (mm)	$8,942

BMO Estimates			in $
(FY-Dec.)	2020A	2021E	2022E
EPS	$1.32	$1.33	$1.40
DPS	$0.84	$0.88	$0.93
EBIT	$1,064	$1,158	$1,292
EBITDA	$1,789	$1,944	$2,111

Consensus Estimates			
	2020A	2021E	2022E
EPS		$1.33	$1.40

Valuation			
	2020A	2021E	2022E
P/E	19.5x	19.4x	18.5x
Div. Yield (%)	3.3%	3.4%	3.6%

QTR. EPS	Q1	Q2	Q3	Q4
2020A	$0.76	$0.13	$0.09	$0.34
2021E	$0.77a	$0.06	$0.05	$0.44
2022E	$0.85	$0.06	$0.05	$0.43

Our Thesis

We like several aspects of NI following the sale of Columbia Gas of Massachusetts and removal of the previously guided $500-700mm equity issuance overhang, which we believe meaningfully de-risked the story.

BMO Capital Markets

NiSource - Block Summary Model

Income Statement	2020A	2021E	2022E
Electric Operations	361.9	429.9	510.4
Gas Distribution	668	704	757
Parent & Other	2	2	2
Consolidated EBIT	1,064	1,158	1,292
Depreciation & Amortization	726	786	819
EBITDA	1,789	1,944	2,111
Interest Expense	371	366	406
Income Tax	127	141	163
Income from continuing operations	508	556	627
Weighted Average Shares Outstanding	384	419	449
Diluted Operating EPS	$1.32	$1.33	$1.40
Dividends per Share	$0.84	$0.88	$0.93
Cash Flow Statement	**2020A**	**2021E**	**2022E**
Operating Cash Flow	1,681	1,410	1,520
Investing Cash Flow	(879)	(2,050)	(2,500)
Financing Cash Flow	(100)	587	906
Net Change in Cash Flow	701	(54)	(74)
EOP Cash on Balance Sheet	804	750	676
Common stock (net)	360	1,211	348
Net debt issued/(repaid)	82	(200)	1,032
Dividends paid	(323)	(369)	(419)
Balance Sheet	**2020A**	**2021E**	**2022E**
Common Equity	5,735.1	7,172.5	7,768.7
Preferred Equity	880.0	880.0	880.0
Total Debt	9,746	9,546	10,578
Enterprise Value	$20,351	$21,683	$23,214
Common equity %	35.1%	40.8%	40.4%
Preferred equity %	5.4%	5.0%	4.6%
Total Debt %	59.6%	54.2%	55.0%
Book Value per Share	$17.21	$19.21	$19.27

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

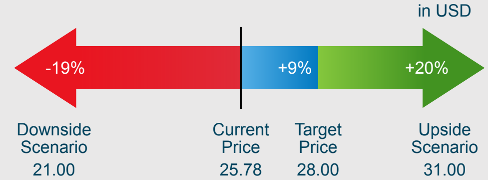
Our target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2023E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook.

Upside Scenario $31.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile.

Downside Scenario $21.00

Our downside scenario reflects a tightening monetary policy and a deceleration of the company's rate base growth.



Key Catalysts

Use of proceeds from CMA sale. Potential for further asset rotation.

Company Description

NiSource, Inc. is a regulated utility holding company, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states. Through its Columbia Gas and NIPSCO brands, it provides natural gas, electricity, and other products and services. The company was founded in 1987 and is headquartered in Merrillville, Indiana.

NI-NYSE Research

Glossary

Company Models

BMO Capital Markets

Exhibit 1: Model Summary

NI Model Summary	2019	2020	2021	2022	2023	2024
EPS By Segment						
Electric Operations	$0.76	$0.63	$0.72	$0.82	$1.01	$1.15
Gas Distribution	$1.12	$1.17	$1.05	$1.08	$1.19	$1.24
Corporate & Other	($0.56)	($0.48)	($0.44)	($0.50)	($0.66)	($0.67)
Consolidated E.P.S.	**$1.32**	**$1.32**	**$1.33**	**$1.40**	**$1.54**	**$1.72**
Dividend per share	**$0.80**	**$0.84**	**$0.88**	**$0.93**	**$0.99**	**$1.05**
Payout Ratio total	60.8%	63.6%	66.4%	66.8%	64.3%	61.0%
Dividend Yield	2.9%	2.9%	3.0%	3.2%	3.4%	3.6%
Valuation Metrics						
Price to Earnings	21.2x	22.2x	22.1x	21.0x	19.1x	17.1x
Price to Book Value	1.7x	1.7x	1.5x	1.5x	1.5x	1.4x
Funding Sources						
Cash Flow from Operations	$1,750	$1,681	$1,410	$1,520	$1,621	$1,822
Total Debt Financings	$750	$2,974	$0	$1,080	$1,800	$0
Total Equity Financings	$34	$360	$1,211	$348	$198	$911
Credit Metrics						
Total Debt/Capitlization	61%	60%	54%	55%	58%	54%
FFO/Total Debt	14%	13%	15%	14%	13%	15%

Source: BMO Capital Markets estimates, Company Filings

Exhibit 2: Key Assumptions

Key Model Assumptions	2019	2020	2021	2022	2023	2024	5-Year
Total Capital Expenditures by Segment							
Electric Operations	$469	$422	$650	$1,100	$1,650	$500	**$4,322**
Gas Distribution	$1,380	$1,267	$1,400	$1,400	$1,700	$1,500	**$7,267**
Consolidated Capital Expenditures	**$1,849**	**$1,689**	**$2,050**	**$2,500**	**$3,350**	**$2,000**	**$11,589**
YE Rate Base Estimates							
NIPSCO Electric	$4,866	$5,240	$5,747	$6,515	$7,814	$7,931	*10.3%*
Columbia Gas of Ohio	$3,106	$3,412	$3,803	$4,182	$4,674	$5,080	*10.3%*
Columbia Gas of Pennsylvania	$1,883	$2,069	$2,306	$2,536	$2,834	$3,081	*10.3%*
NIPSCO Gas	$1,660	$1,824	$2,033	$2,236	$2,499	$2,716	*10.3%*
Columbia Gas of Virginia	$789	$867	$966	$1,063	$1,188	$1,291	*10.3%*
Columbia Gas of Kentucky	$338	$371	$413	$454	$508	$552	*10.3%*
Columbia Gas of Maryland	$136	$150	$167	$184	$206	$224	*10.4%*
Total Rate Base	**$12,778**	**$13,932**	**$15,437**	**$17,171**	**$19,722**	**$20,874**	***10.3%***

Source: BMO Capital Markets estimates, Company Filings

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Exhibit 3: SOTP Valuation

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Regulated, Corporate & Other	Valuation Metric	2023E EPS	Sector Comp	Sector Multiple	Prem/ (Discount)	Base Multiple	BMO Low Case P/E Multiple	BMO Low Case Implied Value ($ MM)	BMO Base Case P/E Multiple	BMO Base Case Implied Value ($ MM)	BMO High Case P/E Multiple	BMO High Case Implied Value ($ MM)
Electric Operations	EPS	$1.01	Electric	18.1x	+0.0%	18.1x	15.6x	$16	18.1x	$18	20.1x	$20
Gas Distribution	EPS	$1.19	Natural Gas	17.1x	+5.0%	18.0x	14.6x	$17	18.0x	$21	20.0x	$24
Coporate & Other	EPS	($0.66)	Blend	18.0x	+0.0%	18.0x	18.0x	($12)	18.0x	($12)	20.0x	($13)
Utility & Parent Value		**$1.54**					13.8x	**$21**	18.0x	**$28**	20.0x	**$31**
Total NiSource Inc.								**$21**		**$28**		**$31**
Upside/(Downside)								(18%)		7%		19%
Current Yield								3%		3%		3%
Total Return								**(14%)**		**11%**		**23%**

Source: BMO Capital Markets estimates, Company Filings

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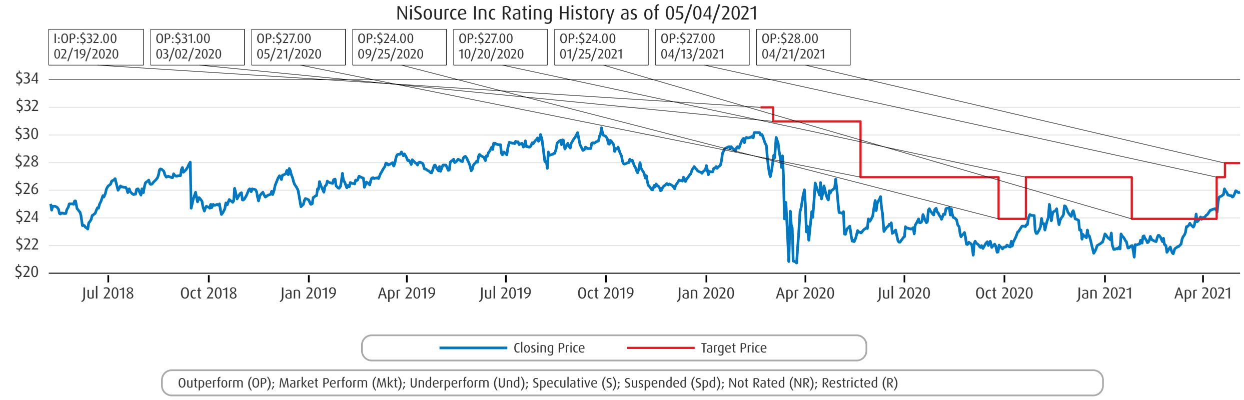
NiSource Inc Rating History as of 05/04/2021



Source: FactSet, BMO Capital Markets

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Disclosure 9B: BMO Capital Markets makes a market in NiSource Inc in United States.

Methodology and Risks to Target Price/Valuation for NiSource Inc (NI-NYSE)

Methodology: Our target price is the product of a P/E-based sum-of-the-parts (SOTP) analysis of the company's primary regulated operating companies. We utilize a regulated group-average multiple based on 2023E EPS as our initial basis for valuation and then make adjustments specific to each jurisdiction to reflect our current view of the fundamental outlook.

Risks: NI's regulated profile exposes the company to business risk including but not limited to federal and state regulatory risk, federal and state political risk, environmental policy, interest rate risk, access to capital markets, construction risk, changes in customer demand trends, changes in customer affordability, extreme weather, natural disaster, and equipment failure.

Distribution of Ratings (May 04, 2021)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	51.0 %	28.4 %	54.3 %	52.9 %	58.6 %	57.7%
Hold	Market Perform	46.8 %	24.0 %	42.1 %	44.8 %	39.2 %	37.5%
Sell	Underperform	2.1 %	36.4 %	2.9 %	2.0 %	1.6 %	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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~ As of April 1, 2019.

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(S) = Speculative investment;
Spd = Suspended - Coverage and rating suspended until coverage is reinstated;
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(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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5 May 2021
Equity Research
Americas | United States

CREDIT SUISSE

NiSource Inc.

1Q21 In line; 2021 EPS Guidance Raised

Natural Gas | Research Bulletin

NI

Target price (12M, US$)
29.00
Outperform

Price (4 May 21, US$)	25.94
52-week price range	26.18 - 21.26
Enterprise value (US$ m)	19,686

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- **NI reported 1Q21 in-line with Adj. EPS $0.77** vs CS/cons 0.76/$0.76, and vs 1Q20 $0.76, driven by increased earnings from investment in safety and asset modernization and its business profile excluding Columbia Gas of Massachusetts.
- **2021 Guidance raised to $1.32-$1.36** (from $1.28-$1.36) vs CS/cons $1.30/$1.33. NI also and reaffirmed long-term (2021-2024) EPS CAGR of 7%-9% and near-term EPS CAGR of 5%-7% through 2023. NI expects investments to drive rate base growth of 10-12% CAGR through 2024, and we expect the company to attain at least the midpoint of a 7%-9% EPS CAGR (vs 2021) for 2024-25 after Indiana renewables are in service.
- **Convertible issuance eliminates block equity needs.** NI issued $862.5M convertible equity unit at 7.75% yield, (securing 100% equity credit with all three agencies), thus resolving all block equity needs. This is expected to allow NI to retain upside for share price and use proceeds to support renewables investment needs. Recall, NI announced on 4/14 that it had priced its offering of 7.5M equity units, plus an underwriter's option for an incremental 1.125M (each with a stated amount of $100). The sale officially closed on 4/19.
- **Financing strategy recently updated.** The company previously updated its financing strategy for 2021-2024, eliminating the original plan for $500M - $700M block equity and reducing the expected ATM for 2023 to $0 - $150M (from $200 - $300M).
- **2023's Capex raised slightly to $3.4B-$3.7B (from $3.3B-$3.6B).** NI's capital forecasted remain unchanged for 2021, 2022, and 2024 at $1.9B-$2.1B, $2.4B-$2.7B, and $1.9B-$2.2B respectively. NI slightly increased 2023 capex to $3.4B-$3.7B (vs prior forecast $3.3B-$3.6B) as rate case is targeted for H2 2023. Overall NI expects investments of $1.9-$2.2B in annual growth, plus an additional ~$2.0B for renewable generation.
- **Pennsylvania rate order received on 2/19 "right down the fairway."** NI received a rate order on 2/19 for $63.5M revenue based on 54% equity and 9.86% ROE. This is a positive outcome vs. investor concerns over earlier ALJ recommendation for no increase at all. The commission also approved a single step increase, which is more favorable than the company's request for two steps. Additionally, in Mar 2021, Columbia Gas of Pennsylvania also filed 2021 base rate case requesting a $98.3M annual revenue increase to continue to support its safety and modernization program.
- **Columbia Gas of Kentucky - Order received on 4/30 (new rates effective May 2021).** The Order allows for $40M cost recovery for 2021 capital investments to support continued replacement of aging pipelines and adoption of pipeline safety upgrades. Recall, a Safety Modification and Replacement Program (SMRP) Annual Rider Update was filed on 10/15/2020 requesting $50M for 2021 capital investments to support continued replacement of aging pipelines and adoption of pipeline safety upgrades.
- **Renewable Generation JV update**. Construction is moving along on Indiana Crossroads

wind and the project is expected to be in-service by end of 2021. IURC order for Dunns / Cavalry is expected in 2Q21.

- **Renewable generation / PPA updates.** NI's renewable generation projects are advancing with now a total of 14 renewable energy projects announced as part of its "Your Energy, Your Future" initiative, including the generation transition plan at NIPSCO. Regulatory approval for Gibson and Green River solar projects are expected by 2Q21 while regulatory approval for Indiana Crossroads II is expected in late 2021.
- **Liquidity.** NI's net liquidity available is ~$1.9B as of Mar 31st, (vs. ~$1.7B on Dec 31st). Total long-term debt is ~$9.9B with a weighted average maturity of ~15 years and a 3.68 % interest rate as of 3/31.
- **ESG goals.** NI is targeting to retire 100% of coal assets by 2028 (and replace with renewables), and the company is also driving towards 90% GHG emissions reduction by 2030.
- **See our recent reports:** 4/16 NI 1Q21 Earnings Preview, 2/2 NI 4Q20 Earnings Preview, 11/11 2020 EEI Conference – Day 3 & Full Takeaways, 11/3 NI: Clean Infrastructure Plans Progressing, 10/15 Earnings Preview, 9/30 Investor Day Takeaways, 9/27 Investor Day Preview, 8/7 Indiana Turning Green,
- **Call today at 11AM ET,** dial 833-350-1312, passcode 1929142

Valuation Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: We arrive at our $29 target price for NI by applying a 1.0x premium to the gas segment peer 2022E P/E to reflect the constructive regulatory environments with capex trackers in place in the jurisdictions that NI operates. We also apply a 1.0x premium to the average peer electric utility 2022E P/E multiple for NIPSCO Electric utility in Indiana to reflect the favorable ratebase growth profile and regulatory environment in the state. Our OUTPERFORM rating reflects a forecast total return that is above the group average.

Risk: Risks to our $29 target price and OUTPERFORM rating are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particulary in the non-decoupled jurisdictions, 7) weather risk, and 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety after the 2018 explosion incident in Mass., and 11) COVID19 load reductions.

Companies Mentioned *(Price as of 04-May-2021)*
NiSource Inc. (NI.N, $25.94, OUTPERFORM, TP $29.0)

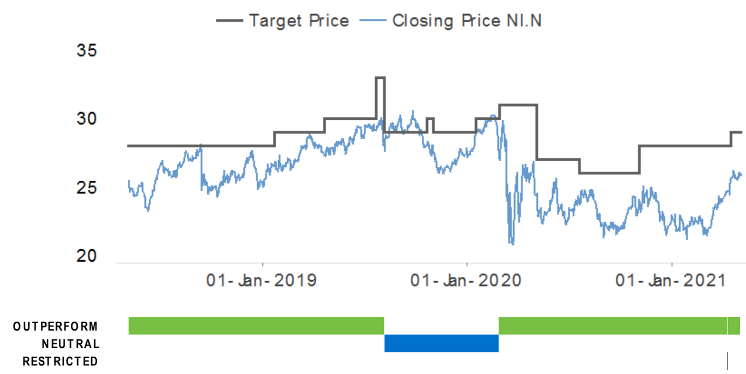
Disclosure Appendix

Analyst Certification

Michael Weinstein, ERP, and Maheep Mandloi each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
06-May-18	25.41	28.00	O
23-Jan-19	26.83	29.00	
21-Apr-19	27.56	30.00	
22-Jul-19	29.14	33.00	
07-Aug-19	27.63	29.00	N
21-Oct-19	28.05	30.00	
01-Nov-19	27.65	29.00	
17-Jan-20	29.04	30.00	
28-Feb-20	27.02	31.00	O
05-May-20	24.53	27.00	
20-Jul-20	23.75	26.00	
03-Nov-20	24.03	28.00	
13-Apr-21	24.51		R
14-Apr-21	24.51	28.00	O
16-Apr-21	25.62	29.00	



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Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European (excluding Turkey) ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin America, Turkey and Asia (excluding Japan and Australia), stock ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*

Restricted (R) : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

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Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.
Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.
Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

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Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	54%	(31% banking clients)
Neutral/Hold*	34%	(25% banking clients)
Underperform/Sell*	10%	(19% banking clients)
Restricted	2%	

Please click here to view the MAR quarterly recommendations and investment services report for fundamental research recommendations.

**For purposes of the NYSE and FINRA ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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This research report is authored by:

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6 May 2021
Equity Research
Americas | United States

CREDIT SUISSE

NiSource Inc.

Renewable Buildout Pushes Forward

NI

Target price (12M, US$)
29.00
Outperform

Natural Gas | Forecast Increase

- **2021 Guidance raised to $1.32-$1.36** (from $1.28-$1.36) vs CS/cons $1.34/$1.33, after NI reported 1Q21 in-line with Adj. EPS $0.77 vs CS/cons 0.76/$0.76, and vs 1Q20 $0.76, driven by increased investments in safety and asset modernization (excluding Columbia Gas of Massachusetts). NI also reaffirmed long-term (2021-2024) EPS CAGR of 7%-9% and near-term EPS CAGR of 5%-7% through 2023. NI expects investments to drive rate base growth of 10-12% CAGR through 2024, and we expect the company to attain at least the midpoint of a 7%-9% EPS CAGR (vs 2021) for 2024-25 after Indiana renewables are in service.
- **Convertible issuance eliminates block equity needs through 2024.** On 4/19, NI issued $862.5M convertible equity units at 7.75% yield (8.625M units), with proceeds to support renewables investment. The units are expected to receive 100% equity credit from S&P and Moody's, with full dilution hitting now (to diluted EPS) although shares won't be issued through the convert until the end of 2023. The 7.75% yield is paid from cash flow below the income statement (OCI). Recall that the company subsequently updated its financing strategy for 2021-2024, eliminating the original plan for $500M - $700M block equity and reducing the expected ATM for 2023 to $0 - $150M (from $200 - $300M).
- **Columbia Gas of Pennsylvania filed a 2021 base rate case** in March requesting a $98.3M annual revenue increase. An order for Columbia Gas of Kentucky was received on 4/30 (new rates effective May 2021) allowing for $40M cost recovery of 2021 capex.
- **2023's Capex raised slightly to $3.4B-$3.7B (from $3.3B-$3.6B)** as rate case is targeted for H2 2023. Overall NI expects to make investments of ~$10B through 2024 which includes $1.9-$2.2B in annual growth, plus ~$2.0B for renewable generation.
- **Valuation:** We've raised our 2021 estimate $0.04 for lower COVID costs, but our 2022-2023 estimates continue to reflect dilution from the convert. Our $29 TP is unchanged within a SoTP based on 2022 peer utility P/Es. We see EPS in 2024 consistent with 7%-9% CAGR vs 2021 and we continue to include $3.50/sh value for ~$0.21 from renewable projects once they are in service in 2024. Risks include regulatory, capital plan execution.

Price (5 May 21, US$)	25.78
52-week price range	26.18 - 21.26
Enterprise value (US$ m)	19,704

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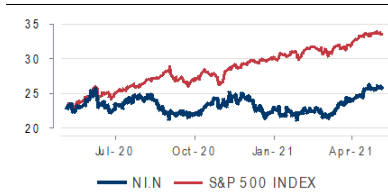
Share price performance



On 05-May-2021 the S&P 500 INDEX closed at 4167.59Daily May06, 2020 - May05, 2021, 05/06/20 = US$22.92

Quarterly EPS	Q1	Q2	Q3	Q4
2020A	0.76	0.13	0.09	0.34
2021E	0.77	0.12	0.05	0.43
2022E	0.74	0.15	0.10	0.34

Financial and valuation metrics

Year	12/20A	12/21E	12/22E	12/23E
EPS (CS adj.) (US$)	1.32	1.34	1.31	1.46
Prev. EPS (US$)	-	1.30	-	-
Revenue (US$ m)	5,979.0	5,801.1	6,227.5	6,668.5
EBITDA (US$ m) 1	1,790.3	1,814.3	1,929.4	2,145.3
P/OCF (x)	4.1	6.0	5.9	5.4
EV/EBITDA (current)	11.1	10.9	10.3	9.2
Net debt (US$ m)	9,630	9,595	10,805	12,957
ROIC (%)	5.32	5.04	4.80	4.79

Number of shares (m)	392.13	IC (current, US$ m)	15,467.40
Net debt (Next Qtr., US$ m) 1	9,149.3	Dividend (current, US$)	0.76
Net debt/tot eq (Next Qtr.,%)	132.4		

Source: Company data, Refinitiv, Credit Suisse estimates

6 May 2021

CREDIT SUISSE

NiSource Inc. (NI)

Price (05 May 2021): **US$25.78** Target Price: **29.00**

Analyst: **Michael Weinstein**
Rating: **Outperform**

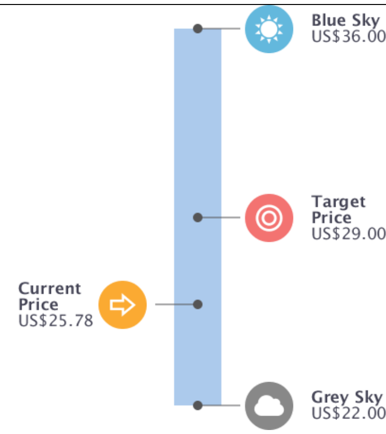
Income Statement	12/20A	12/21E	12/22E	12/23E
Revenue (US$ m)	**5,979.0**	**5,801.1**	**6,227.5**	**6,668.5**
EBITDA (US$ m)	**1,790**	**1,814**	**1,929**	**2,145**
Depr. & amort.	(762)	(759)	(805)	(866)
EBIT (US$)	**1,028**	**1,055**	**1,125**	**1,279**
Net interest exp	(418)	(415)	(444)	(417)
PBT (US$)	**634**	**699**	**732**	**830**
Income taxes	(127)	(139)	(154)	(174)
Minorities	-0	-0	-0	-0
Net profit (US$)	**508**	**560**	**579**	**656**
Reported net income (US$)	**508**	**560**	**579**	**656**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**508**	**560**	**579**	**656**
Cash Flow	**12/20A**	**12/21E**	**12/22E**	**12/23E**
EBIT	1,028	1,055	1,125	1,279
Net interest	(418)	(415)	(444)	(417)
Change in working capital	(249)	(100)	0	0
Cash flow from operations	**2,146**	**1,781**	**1,929**	**2,145**
CAPEX	(2,179)	(1,912)	(2,550)	(3,450)
Free cashflow to the firm	**(33)**	**(130)**	**(621)**	**(1,305)**
Acquisitions	-	-	-	-
Divestments	1,116	0	0	0
Cash flow from investments	**(879)**	**(2,035)**	**(2,550)**	**(3,450)**
Net share issue(/repurchase)	211	1,130	290	115
Dividends paid	(377)	(335)	(334)	(339)
Changes in Net Cash/Debt	**(126)**	**35**	**(1,210)**	**(2,152)**
Balance Sheet (US$)	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Assets				
Cash & cash equivalents	117	89	89	89
Account receivables	791	795	795	795
Other current assets	560	662	662	662
Total current assets	**1,659**	**1,594**	**1,594**	**1,594**
Total fixed assets	16,620	17,895	19,641	22,224
Investment securities	-	-	-	-
Total assets	**22,041**	**23,253**	**24,998**	**27,582**
Liabilities				
Total current liabilities	**2,279**	**2,176**	**3,386**	**5,538**
Total liabilities	**16,203**	**16,086**	**17,296**	**19,448**
Total liabilities and equity	**22,041**	**23,253**	**24,998**	**27,582**
Net debt	9,630	9,595	10,805	12,957
Per share	**12/20A**	**12/21E**	**12/22E**	**12/23E**
No. of shares (wtd avg)	384	417	441	448
CS adj. EPS	1.32	1.34	1.31	1.46
Prev. EPS (US$)	-	1.30	-	-
Dividend (US$)	0.80	0.85	0.90	0.96
Free cash flow per share	(0.09)	(0.31)	(1.41)	(2.91)
Earnings	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Sales growth (%)	15.3	(3.0)	7.3	7.1
EBIT growth (%)	(1.8)	2.6	6.6	13.7
Net profit growth (%)	2.6	10.4	3.3	13.3
EPS growth (%)	0.0	1.8	(2.3)	11.6
EBITDA margin (%)	29.9	31.3	31.0	32.2
EBIT margin (%)	17.2	18.2	18.1	19.2
Pretax margin (%)	10.6	12.0	11.8	12.4
Net margin (%)	8.5	9.7	9.3	9.8
Valuation	**12/20A**	**12/21E**	**12/22E**	**12/23E**
EV/Sales (x)	3.30	3.40	3.36	3.46
P/E (x)	19.5	19.2	19.6	17.6
Price to book (x)	1.9	1.7	1.6	1.6
Asset turnover	0.3	0.2	0.2	0.2
Returns	**12/20A**	**12/21E**	**12/22E**	**12/23E**
ROE stated-return on (%)	9.7	9.8	8.7	9.2
ROIC (%)	5.3	5.0	4.8	4.8
Gearing	**12/20A**	**12/21E**	**12/22E**	**12/23E**
Net debt/equity (%)	165.0	133.9	140.3	159.3
Interest coverage ratio (X)	2.5	2.5	2.5	3.1
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2020A	0.76	0.13	0.09	0.34
2021E	0.77	0.12	0.05	0.43
2022E	0.74	0.15	0.10	0.34

Source: Company data, Refinitiv, Credit Suisse estimates

Company Background

NiSource Inc. is energy holding company whose subsidiaries provide natural gas, electricity & other products & services. It operates in 3 segments: Gas Distribution Operations; Gas Transmission & Storage Operations, & Electric Operations.

Blue/Grey Sky Scenario



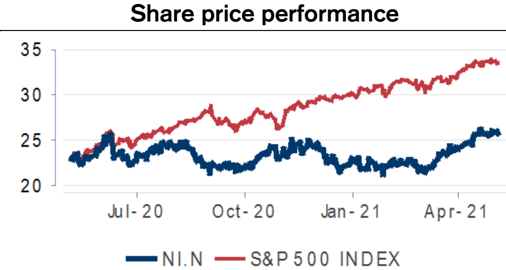
Our Blue Sky Scenario (US$) **(from 35.00) 36.00**

In our $36 blue sky scenario we assume favorable regulatory outcomes across NI's jurisdictions, successful execution of their capital plan, and growth of infrastructure replacement program backlog, with capex at the high end of $1.9-$2.1B before renewables and ratebase growth at the high end of 8-10% range earnings growth at the high end of 5-7% range through 2023 and 7%-9% through 2025. We assume a 5.0x premium to the average peer 2022 P/E.

Our Grey Sky Scenario (US$) **(from 21.00) 22.00**

In our $22 grey sky scenario we assume unfavorable regulatory outcomes across NI's jurisdictions, only partial execution of their capital plan, and a decline in the infrastructure replacement program backlog. We assume that capex is below $1.8-$1.9B and that ratebase grows below the low end of 8-10% and earnings grow below the 5-7% range. We assume a -1.5x discount to the average peer 2022 P/E.

Share price performance



On 05-May-2021 the S&P 500 INDEX closed at 4167.59
Daily May06, 2020 - May05, 2021, 05/06/20 = US$22.92

Additional comment

- **See our recent reports:** 4/16 NI 1Q21 Earnings Preview, 2/2 NI 4Q20 Earnings Preview, 11/11 2020 EEI Conference – Day 3 & Full Takeaways, 11/3 NI: Clean Infrastructure Plans Progressing, 10/15 Earnings Preview, 9/30 Investor Day Takeaways, 9/27 Investor Day Preview, 8/7 Indiana Turning Green,
- **2021 Guidance raised to $1.32-$1.36** (from $1.28-$1.36) vs CS/cons $1.30/$1.33. New guidance reflects lower than previously expected COVID19 impacts and more certainty with regulatory outcomes (partially offset by higher diluted share count from equity unit issuance). NI also and reaffirmed long-term (2021-2024) EPS CAGR of 7%-9% and near-term EPS CAGR of 5%-7% through 2023. NI expects investments to drive rate base growth of 10-12% CAGR through 2024, and we expect the company to attain at least the midpoint of a 7%-9% EPS CAGR (vs 2021) for 2024-25 after Indiana renewables are in service.
- **Pennsylvania rate order received on 2/19 "right down the fairway."** NI received a rate order on 2/19 for $63.5M revenue based on 54% equity and 9.86% ROE. This is a positive outcome vs. investor concerns over earlier ALJ recommendation for no increase at all. The commission also approved a single step increase, which is more favorable than the company's request for two steps. Additionally, in Mar 2021, **Columbia Gas of Pennsylvania also filed 2021 base rate case** requesting a $98.3M annual revenue increase to continue to support its safety and modernization program.
- **Columbia Gas of Kentucky - Order received on 4/30 (new rates effective May 2021).** The Order allows for $40M cost recovery for 2021 capital investments to support continued replacement of aging pipelines and adoption of pipeline safety upgrades. Recall, a Safety Modification and Replacement Program (SMRP) Annual Rider Update was filed on 10/15/2020 requesting $50M for 2021 capital investments to support continued replacement of aging pipelines and adoption of pipeline safety upgrades.
- **Financing strategy recently updated.** The company previously updated its financing strategy for 2021-2024, eliminating the original plan for $500M - $700M block equity and reducing the expected ATM for 2023 to $0 - $150M (from $200 - $300M).

Figure 1: NI Financing Strategy 2021-2024

Planned Annual Safety & Mod Investments	2021E	2022E	2023E	2024E
ATM (At-the Market)	$200-$300M	$200-$300M	0 - $150M	
ESPP/401K/Other	$30-$50M	$30-$50M	$30-$50M	$30-$50M
Long Term Debt				
Incremental LT - Debt	$500 - $700M	$500 - $700M	$500 - $700M	$500 - $700M

Planned Renewable Generation Investments	2021E	2022E - 2023E
Common Equity Block	$0	$0
Long Term Debt		
Incremental LT - Debt		~800M
Other Financing	*Satisfied*	
Convertible	$600-$1,000M	

Source: Company data, Credit Suisse estimates

- **2023's Capex raised slightly to $3.4B-$3.7B (from $3.3B-$3.6B).** NI's capital forecasted remain unchanged for 2021, 2022, and 2024 at $1.9B-$2.1B, $2.4B-$2.7B, and $1.9B-$2.2B respectively. NI slightly increased 2023 capex to $3.4B-$3.7B (vs prior forecast $3.3B-$3.6B) as rate case is targeted for H2 2023. Overall NI expects investments of $1.9-$2.2B in annual growth, plus an additional ~$2.0B for renewable generation.

Figure 2: NI's Capital Forecast

NI new Capital Forecast ($B)	Low	High
2021	$ 1.9	$ 2.1
2022	$ 2.4	$ 2.7
2023	$ 3.4	$ 3.7
2024	$ 1.9	$ 2.2
Total	**$ 9.6**	**$ 10.7**

NI prior Capital Forecast ($B)	Low	High
2021	$ 1.9	$ 2.1
2022	$ 2.4	$ 2.7
2023	$ 3.3	$ 3.6
2024	$ 1.9	$ 2.2
Total	**$ 9.5**	**$ 10.6**

Dif ($B)	Low	High
2021	$ -	$ -
2022	$ -	$ -
2023	$ 0.1	$ 0.1
2024	$ -	$ -
Total	**$ 0.1**	**$ 0.1**

Source: Company data, Credit Suisse estimates

- **NI reported 1Q21 in-line with Adj. EPS $0.77** vs CS/cons 0.76/$0.76, and vs 1Q20 $0.76, driven by increased earnings from investment in safety and asset modernization and its business profile excluding Columbia Gas of Massachusetts.

Figure 3: NI Earning Drivers

Gas Distribution Operations ($M)	4Q20	4Q19	Dif	FY20	FY19	Dif
Operating Revenues	833.9	995.3	-161.4	3168.4	3503.2	-334.8
Operating Expenses	640.9	781.4	140.5	2500.7	2871.2	370.5
Total Adj. Earnings	**193.0**	**213.9**	**-20.9**	**667.7**	**632.0**	**35.7**

Electric Operations ($M)	4Q20	4Q19	Dif	FY20	FY19	Dif
Operating Revenues	371.3	393.3	-22.0	1532.3	1694.0	-161.7
Operating Expenses	311.7	308.4	3.3	1170.4	1292.5	122.1
Total Adj. Earnings	**59.6**	**84.9**	**-25.3**	**361.9**	**401.5**	**-39.6**

Source: Company data, Credit Suisse estimates

- **Renewable Generation JV update**. Construction is moving along on Indiana Crossroads wind and the project is expected to be in-service by end of 2021. IURC order for Dunns / Cavalry is expected in 2Q21.
- **Renewable generation / PPA updates.** NI's renewable generation projects are advancing with now a total of 14 renewable energy projects announced as part of its "Your Energy, Your Future" initiative, including the generation transition plan at NIPSCO. Regulatory approval for Gibson and Green River solar projects are expected by 2Q21 while regulatory approval for Indiana Crossroads II is expected in late 2021.
- **Liquidity.** NI's net liquidity available is ~$1.9B as of Mar 31st, (vs. ~$1.7B on Dec 31st). Total long-term debt is ~$9.9B with a weighted average maturity of ~15 years and a 3.68 % interest rate as of 3/31.
- **ESG goals.** NI is targeting to retire 80% of coal assets by 2023, and 100% of coal assets by 2028 (and replace with renewables). The company is also driving towards 90% GHG emissions reduction by 2030.

Regulatory Update - Gas

- **Pennsylvania 2020 rate order received on 2/19 "right down the fairway."** NI received a rate order on 2/19 for $63.5M revenue based on 54% equity and 9.86% ROE. This is a positive outcome vs. investor concerns over earlier ALJ recommendation for no increase at all. The commission also approved a single step increase, which is more favorable than the company's request for two steps. New rates retroactive to Jan 23rd 2021.

- **Pennsylvania 2021 base rate case.** Additionally, Columbia Gas of Pennsylvania recently (3/30/21) filed a 2021 base rate case requesting a $98.3M annual revenue increase to continue to support its safety and modernization program and adoption of pipelines safety upgrades.
- **Columbia Gas of Kentucky - Order received on 4/30 (new rates effective May 2021).** The Order approved $40M of cost recovery for 2021 capital investments to support continued replacement of aging pipelines and adoption of pipeline safety upgrades. Recall, a Safety Modification and Replacement Program (SMRP) Annual Rider Update was filed on 10/15/2020 requesting $50M for 2021 capital investments to support continued replacement of aging pipelines and adoption of pipeline safety upgrades.
- **NIPSCO Gas System Modernization Program.** The company's latest tracker update was approved in Dec 2020. The update includes $26M in incremental capital invested under the program (between Jan and June of 2020). The new rates became effective in January of 2021. Furthermore, Indiana's URC approved a 6-yr extension of the program, including ~$950M in planned capital investments through 2025 to be "recovered through semiannual adjustments to the existing gas Transmission, Distribution and Storage Improvement Charge or TDSIC tracker".
- **Columbia Gas of Virginia Steps to Advance Virginia's Energy (SAVE)** Annual Rider update was filed on 7/24 and covers $46.4M for 2021 capex in order to continue support and adoption of pipeline safety upgrades under SMS. A final order was received on 11/18/2020 with new rates effective Jan 2021.

Regulatory Update – Electric Operations

- **2021 IRP.** Meetings throughout 2021 and completion is targeted for fall. The process will include RFP solicitation for new resources, (similar to 2018 IRP). **Renewable projects were originally laid out in the 2018 IRP**. Recall CPCN filings were made on Feb 1st, 2019 seeking approvals to develop 3 wind farms consistent with the IRP filed in the fall of 2018. Orders approving the PPAs on these filings were received on June 5, 2019. The latest RFP represents replacement ~1,400MW of coal capacity through 2023.
- **New 5-yr TDSIC and termination of 7-yr TDSIC.** The company expects a new filing around June 1st for new 5-yr TDSIC to include LT investments to modernize the electric infrastructure. NI filed termination notice on 4/1 for the TDSIC 7 semi-annual tracker (previously filed for $122.3M in investments from July 2019-July 2020).
- **Renewable Generation JV update**. CPCNs with IURC pending for Dunns Bridge Solar I, Dunns Bridge Solar II and Cavalry Solar JVs. IURC order for Dunns / Cavalry is expected in 2Q21. BKH announced new build-transfer agreements for Indiana Crossroads solar park, Fairbanks solar & Elliot Solar. Additionally, construction is moving along on Indiana Crossroads wind and the project is expected to be in-service by end of 2021. Recall a Build-Transfer Agreement BTA was filed in Oct 2019 for Indiana Crossroads (300MW) JV between NIPSCO and EDP Renewables (302 MW).
- **Renewable generation / PPA updates.** NI's renewable generation projects are advancing with now a total of 14 renewable energy projects announced as part of its "Your Energy, Your Future" initiative. NI announced new PPA for Indiana Crossroads II. Regulatory approval for Gibson and Green River solar projects are expected in 2Q21, and regulatory approval for Indiana Crossroads II is expected late 2021.

Valuation

- **Valuation.** We've raised our 2021 estimates $0.04 for lower COVID and other costs, but our 2022-2023 estimates and $29 TP are unchanged within a SoTP. Our TP includes the discounted value of $0.21 uplift in 2024 (worth $4/sh) from expected earnings from $2.0B

Indiana renewables that will not benefit from AFUDC and will not receive a rate increase until 2024. Meanwhile, our 2022 estimate includes ~$0.10 dilution drag from convertible equity issued for these projects. Ultimately, we expect the company to accelerate to a 7%-9% EPS CAGR through 2025 off a 2021 base. We apply a 1.0x premium to the gas utilities for favorable regulatory jurisdictions and lower operational risk since the explosion incident in Lawrence Mass in 2018. We value the electric operation in Indiana at a 1.0x premium for solid operations, supportive regulation, and strong renewables investment opportunities. Risks include 1) ROE risk related to the ongoing ratecases, 2) continued approvals relating to infrastructure replacement/grid modernization programs, 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particularly in the non-decoupled jurisdictions, 7) weather risk, 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety, and 11) COVID-19 pandemic response load reduction, particularly at the electric utility.

Figure 4: NI Target Price

		BASE CASE			
	2022 EPS	**Prem / Disc**	**Effective P/E**	**Equity**	**Equity / Sh**
Electric	$0.60	1.0x	19.2x	$4,816	$11.55
Gas	$1.08	1.0x	19.6x	$8,849	$21.23
Earnings on renewables in 2024 (discounted to 2022) - need to account here as equity dilution hits first in 2021 but no AFUDC as these are turnkey projects	$0.21		19.5x	$1,704	$4.09
Other	($0.39)		19.5x	($3,194)	($7.66)
Total EPS	**$1.31**			**$12,175**	**$29.00**
Diluted Shares Outstanding					416.8
Dividend					$0.85
Implied Yield					2.9%
Current Yield					3.3%
Implied P/E					22.1x
Prem / (Disc) To Group					18.8%
Upside/ (Downside) to Current Price					12.5%
Total return					15.8%

Source: Company data, Credit Suisse estimates

Valuation Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Black Hills Corp (BKH.N)

Method: We arrive at our $75 price target using a sum of the parts valuation methodology; applying multiples specific to the individual businesses that BKH operates in. We apply a 1.0x premium to the average peer 2022 P/E multiple to the electric utility business (ex. Colorado) and an average for the CO segment. We apply a 1.0x premium to the average peer 2022 P/E multiple to the gas utilities. We then apply an average electric P/E multiple to the power generation business since it is under long-term contracts to te utilities. Our valuation also includes the probability weighted outcome for the Wyodak coal contracts. Our OUTPERFORM rating reflects a forecast total return materially above its peer group average.

Risk: Rsks to our $75 target price and OUTPERFORM rating on BKH: (a) earnings dependent on regulatory relationships; we would highlight Colorado as their most challenging jurisdiction, (b) success at the utilities in funding the next newbuild cycle, (c) COVID19 load reduction and bad debt, (d) repricing risk in 2023 for the Pacificorp coal contract, (e) upside/downside risk for the capital plan, with 1-2 incremental ~$50M projects typically announced each year above and beyond the plan, (f) interest rate risk.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: We arrive at our $29 target price for NI by applying a 1.0x premium to the gas segment peer 2022E P/E to reflect the constructive regulatory environments with capex trackers in place in the jurisdictions that NI operates. We also apply a 1.0x premium to the average peer electric utility 2022E P/E multiple for NIPSCO Electric utility in Indiana to reflect the favorable ratebase growth profile and regulatory environment in the state. Our OUTPERFORM rating reflects a forecast total return that is above the group average.

Risk: Risks to our $29 target price and OUTPERFORM rating are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particulary in the non-decoupled jurisdictions, 7) weather risk, and 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk, 10) continued improvement to gas system operations safety after the 2018 explosion incident in Mass., and 11) COVID19 load reductions.

Companies Mentioned *(Price as of 05-May-2021)*
Black Hills Corp (BKH.N, $67.42)
NiSource Inc. (NI.N, $25.78, OUTPERFORM, TP $29.0)

Disclosure Appendix

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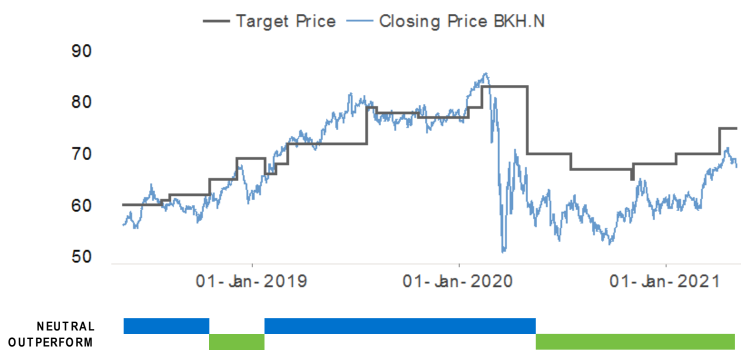
Michael Weinstein, ERP, and Maheep Mandloi each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Black Hills Corp (BKH.N)

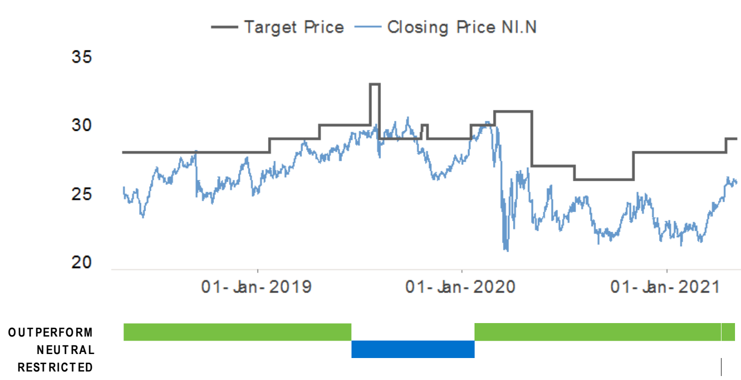
BKH.N Date	Closing Price (US$)	Target Price (US$)	Rating
18-May-18	56.18	60.00	N
24-Jul-18	60.15	61.00	
08-Aug-18	60.18	62.00	
17-Oct-18	61.41	65.00	O
04-Dec-18	67.81	69.00	
23-Jan-19	65.59	66.00	N
11-Feb-19	70.31	68.00	
04-Mar-19	72.00	72.00	
22-Jul-19	79.29	79.00	
09-Aug-19	76.40	78.00	
21-Oct-19	78.53	77.00	
17-Jan-20	81.03	79.00	
10-Feb-20	84.47	83.00	
01-May-20	59.73	70.00	
18-May-20	59.26	70.00	O
16-Jul-20	59.37	67.00	
01-Nov-20	56.66	65.00	
04-Nov-20	59.75	68.00	
18-Jan-21	61.97	70.00	
06-Apr-21	67.79	75.00	



** Asterisk signifies initiation or assumption of coverage.*

3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
06-May-18	25.41	28.00	O
23-Jan-19	26.83	29.00	
21-Apr-19	27.56	30.00	
22-Jul-19	29.14	33.00	
07-Aug-19	27.63	29.00	N
21-Oct-19	28.05	30.00	
01-Nov-19	27.65	29.00	
17-Jan-20	29.04	30.00	
28-Feb-20	27.02	31.00	O
05-May-20	24.53	27.00	
20-Jul-20	23.75	26.00	
03-Nov-20	24.03	28.00	
13-Apr-21	24.51		R
14-Apr-21	24.51	28.00	O
16-Apr-21	25.62	29.00	



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Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
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Restricted	2%	

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EVERCORE ISI

Energy | Power & Utilities

May 05, 2021

NiSource Inc

NI | $25.94
In Line | TARGET PRICE: $27.00
Company Update

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Staying on the Sidelines

Q1 adjusted EPS in line with consensus. 2021 guidance narrowed and raised to upper half of prior range. Four-year capex program through 2024 increased by ~1% due to higher 2023 renewables. NiSource posted $0.77 in Q1'21 operating EPS, which was in line with consensus of $0.77 and modestly below our estimate of $0.80; it compared to Q1'20 of $0.76. The company narrowed and raised 2021 EPS guidance to the upper half of the prior range to $1.32-1.36 versus $1.28-1.36 previously, which reflects better-than-previously expected Covid-related impacts and constructive regulatory outcomes, partially offset by slightly higher share dilution. NI maintained its 2021 capex program of $1,900-2,100mm, but raised its 2023 capex forecast by $100 million and consequently its full four-year 2021-2024 program by the same amount to $9.6-10.7 billion versus $9.5-10.6 billion previously driven by an increase in renewables to $2.0 billion from $1.8-2.0 billion previously. This spending is still expected to drive rate base growth of 10-12% CAGR in 2021-2024 under an unchanged financing plan that was updated following the equity unit offering announcement on April 13th (see our note). NI still expects to deliver long-term EPS outlook of 5-7% per year in 2021-2023 and 7-9% CAGR in 2021-2024, but now off of the new modestly higher 2021 baseline. NIPSCO has begun the IRP process that would update long-term generation plans, including the planned retirement of Michigan City Generating Station, and could create additional capex opportunities; that process will include RFP solicitation of resources similar to the 2018 IRP and will involve meetings throughout 2021 with expected filing with the Indiana commission by November 2021. NiSource did not comment meaningfully on potential asset sales, just saying that it is always evaluating value-enhancing opportunities.

On April 22nd, we downgraded NI to In Line from Outperform. We are staying on the sidelines and maintaining our price target of $27/share, which applies a premium gas LDC multiple of 18.0x 2023 EPS in our SOTP (Gas LDC's are trading at 17.5x 23E). We are raising our 2021-2023 EPS estimates to $1.34 / $1.42 / $1.51 versus $1.32 / $1.40 / $1.48 previously. NI stock is up 15% YTD materially outperforming peer group up 10% and it currently trades roughly in line/modest discount with electric utility peers at 18.0x 2023 EPS. Now with the Massachusetts divestiture behind the company, we believe the re-rate we had been expecting is already reflected in the stronger growth expectations (5-7% per year in 2021-2023 and 7-9% CAGR in 2021-2024) that have been reset off of a 2021 baseline. We also believe the benefits of the removed overhang of the equity unit financing transaction is reflected in the stock price, as well as NiSource's above-average positioning under the Biden administration as a 100% regulated utility, given that a potential higher FIT rate (eventually) would not lower profitability and would generate meaningful cash flow due to the regulatory construct. NiSource also has sizable coal exposure in Indiana and could see benefit under Biden's climate proposals with its plan to convert to renewables. With that said, we see limited near term upside, see our bull/bear case valuation of $29/$23 on page 2.

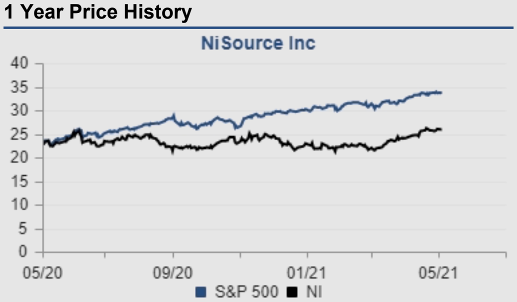
Company Statistics

Market Capitalization (M)	$11,403
Shares Outstanding (M)	392
Dividend	0.84
Dividend Yield	2.9%
Payout Ratio	63.6%
Expected Total Return	(4.3)%
Fiscal Year End	Dec

Earnings Summary

	2021E	2022E	2023E
EPS	$1.34	$1.42	$1.51
P/E	22.0	20.7	19.7
EPS vs Consensus	(0.7)%	(0.0)%	(1.7)%
Consensus EPS	$1.33	$1.40	$1.51
Consensus P/E	21.9	20.7	19.3

1 Year Price History



Source: FactSet

EPS Estimates and Price Target Derivation

Raising our 2021-2023 EPS estimates modestly: We are raising our 2021-2023 EPS estimates to $1.34 / $1.42 / $1.51 versus $1.32 / $1.40 / $1.48 previously. Our 2021 EPS estimate is the midpoint of new $1.32-1.36 guidance and our 2022 EPS forecast is within the 5-7% annual growth forecast through 2023. After NIPSCO electric took the brunt of the COVID in 2020, we see its earned ROE increasing to 9.4% this year before modestly under-earning its authorized 9.75% by 2022-2023. For the gas segment, we assume the company modestly under-earns its blended ~10% ROE in 2021 through 2023

Our price target of $27/share is unchanged. Our bear case derives a $23 target while our bull case is $29/share. See Exhibit 1 below. Our base case assumes 2023 EPS of $1.48/share, which is roughly 6% annual EPS growth (vs. 5-7% guidance) over the midpoint of 2021 guidance of $1.32-1.36/share. For the electric business, we assign a 10% premium to our anchor 2023 P/E target multiple of 17.5x derived using our dividend discount model. For the gas segment, we apply a 18.0x P/E multiple, a premium multiple current comparable LDC trading multiples (17.5x). We apply a blended multiple for parent drag.

Exhibit 1: NiSource SOTP Valuation

Base Case	'23 EPS	P/E	Val/Shr
Gas EPS	$1.16	18.0x	$20.74
Electric EPS	$0.67	19.3x	$12.80
Parent/Other	($0.33)	18.2x	($6.09)
Consolidated 2022 EPS	**$1.51**	18.2x	**$27.00**

Bull Case	'23 EPS	P/E	Val/Shr
Gas EPS	$1.19	18.3x	$21.85
Electric EPS	$0.68	19.3x	$13.16
Parent/Other	($0.33)	18.7x	($6.14)
Consolidated 2022 EPS	**$1.55**	18.7x	**$29.00**

Bear Case	'23 EPS	P/E	Val/Shr
Gas EPS	$1.09	15.8x	$17.24
Electric EPS	$0.63	17.5x	$11.09
Parent/Other	($0.33)	16.4x	($5.39)
Consolidated 2022 EPS	**$1.39**	16.4x	**$23.00**

Source: Evercore ISI

Equity Unit Offering

On April 14th, NiSource priced the offering of 7.5mm of equity units, plus an over-allotment option of 1.125mm units. Each equity unit has essentially two components that is expected to ultimately raise a total of $1.5 billion of proceeds: 1) ~$730mm of proceeds raised this year upon completion of the offering with a contract to purchase NI common stock in the future with a settlement date of December 1, 2023, and 2) $730mm of mandatory convertible stock that will be remarketed upon the contract settlement date with a mandatory conversion date three months later, on or about March 1, 2024. The units will receive 100% equity treatment by the rating agencies. The issuance of the units will replace the company's previously planned issuances of $800mm of hybrids this year, for which they were targeting 50% equity treatment, and $600mm of planned block equity in 2022-2023. The company also now expects $0-150mm of ATM issuance in 2023 versus its prior plan for $200-300mm that year. The rest of NiSource's financing plan remains unchanged. NI says the offering is consistent with meeting its near and long-term financial plan through 2024 and they expect to be in their targeted FFO to debt range of 14-15% by the end of the planning period (we estimate 13% this year). The company intends to the use the proceeds from the offering for its renewable generation investments and general corporate purposes, including additions to working capital and repayment of existing debt. Note we had previously been modeling a combined $1.5 billion of common equity and hybrid issuance through our 2023 forecast period. So while this announcement removes an overhang, it is over time ultimately relatively consistent with our projections and the company's previous financing plans. With that said, some investors were expecting NiSource to be able to lower its equity needs in part funded by portfolio optimization / other measures.

Positioning for Biden Administration

NI also has sizable coal exposure in Indiana and could see benefit under Biden climate policies with its plan to convert to renewables. NiSource has plans to spend an estimate $1.8-2.0 billion of renewable capex primarily in 2022 and 2023, which represents roughly 20% (vs. our peer average 15%) of its five-year $9.9-10.5 billion total capex program.

We see NI benefitting from a potential tax rate increase under Biden. Biden's tax proposal calls for raising federal income tax (FIT) rate from 21% to 28%. NI is a 100% regulated utility, so a higher FIT rate doesn't lower profitability and should be passed through to customers in the form of higher rates. This increase in tax collections would raise holding company cash flow. This will lower parent financing costs and strengthen credit metrics. A higher FIT rate results in lower parent because of a larger tax shield. In our Biden note we estimated increase in the FIT rate under the Biden presidency could result in 3.0% EPS accretion in 2022 (vs group average of 0.7% accretion).

VALUATION METHODOLOGY

To arrive at our price target we use a SOTP analysis.

RISKS

Risks to our thesis include an inability to deploy capital at the company's expected rate resulting in a lower rate base and regulatory pressure resulting in lower allowed ROEs

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2021-05-05)	Evercore ISI Target
AEE	Ameren Corp.	Outperform	$85.19	$90.00
AEP	American Electric Power	Outperform	$88.38	$99.00
AES	The AES Corporation	Outperform	$26.71	$30.00
AWK	American Water Works Company, Inc.	Outperform	$155.29	$157.00
AWR	American States Water Company	Underperform	$79.97	$60.00
CMS	CMS Energy Corp.	In Line	$65.20	$64.00
CNP	CenterPoint Energy, Inc.	Outperform	$24.56	$26.00
CWEN	Clearway Energy	In Line	$28.45	$25.00
CWT	California Water Service Group	In Line	$58.89	$40.00
D	Dominion Energy, Inc	Outperform	$79.41	$82.00
DTE	DTE Energy Co.	In Line	$140.63	$140.00
DUK	Duke Energy Corp.	In Line	$100.78	$96.00
ED	Consolidated Edison Inc.	Underperform	$78.12	$72.00
EIX	Edison International	In Line	$59.61	$73.00
ES	Eversource Energy	In Line	$86.12	$91.00
ETR	Entergy Corp.	Outperform	$109.11	$110.00
EVRG	Evergy	Outperform	$64.25	$62.00
EXC	Exelon Corp.	Outperform	$44.78	$47.00
FE	FirstEnergy Corp.	In Line	$37.79	$35.00
HE	Hawaiian Electric Industries Inc.	Underperform	$43.72	$35.00
NEE	NextEra Energy Inc	In Line	$75.69	$78.00
NI	NiSource Inc	In Line	$25.94	$27.00
NRG	NRG Energy Inc.	In Line	$35.15	$42.00
OGE	OGE Energy Corp	Outperform	$33.41	$35.00
PCG	PG&E Corp.	Rating Suspended	$11.32	
PEG	Public Service Enterprise Group	In Line	$63.19	$61.00
PNW	Pinnacle West Capital Corp.	In Line	$84.63	$81.00
PPL	PPL Corp.	In Line	$29.08	$31.00
SJW	SJW Group	In Line	$64.66	$60.00
SO	Southern Co.	Underperform	$66.42	$61.00
SRE	Sempra Energy	Outperform	$137.98	$143.00
VST	Vistra Energy Corp	Outperform	$16.29	$23.00
WEC	WEC Energy Group, Inc.	In Line	$97.86	$96.00
WTRG	Essential Utilities Inc.	In Line	$46.93	$49.00
XEL	Xcel Energy Inc.	In Line	$71.84	$70.00

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: May 05 2021 03:19 PM ET

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*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

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Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

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Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	474	57	Buy	114	24
Hold	299	36	Hold	34	11
Sell	27	3	Sell	3	11
Coverage Suspended	14	2	Coverage Suspended	6	43
Rating Suspended	12	1	Rating Suspended	5	42

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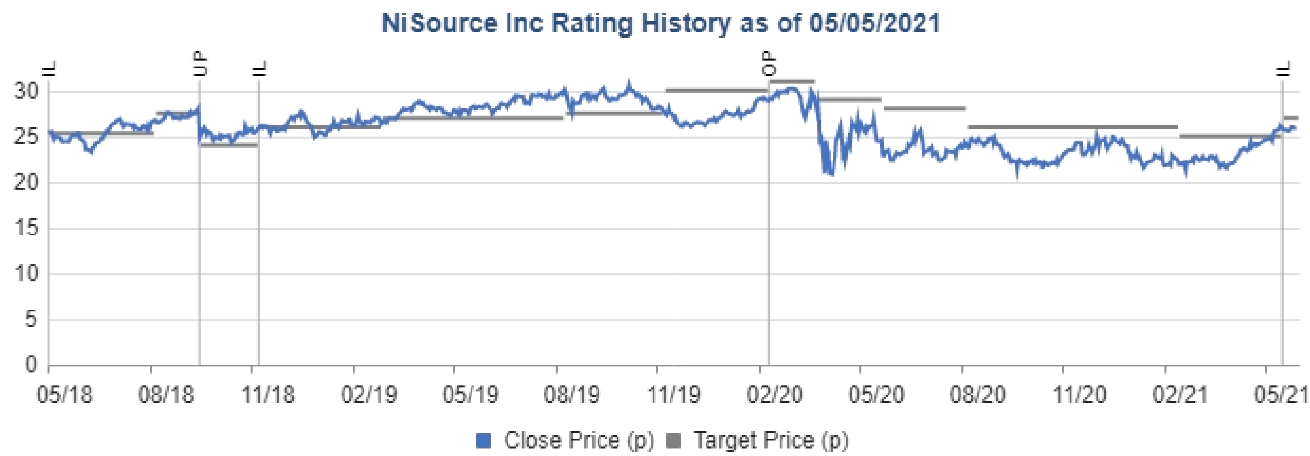

Ratings Key

B	Buy	OP	Outperform	L	Long	CS	Coverage Suspended
H	Hold	IL	In Line	NP	No Position	RS	Rating Suspended
S	Sell	UP	Underperform	S	Short		

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Goldman Sachs | Equity Research

5 May 2021 | 8:33AM EDT

NiSource Inc. (NI): First Take: 1Q2021 in-line; 2021 guidance narrowed to upper half

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NiSource (NI, Neutral) reported 1Q21 operating EPS of $0.77, inline with GS/FactSet consensus at $0.76/$0.77, driven largely by lower O&M offsetting lower gross margin versus our estimate. The company narrowed its 2021 guidance from $1.28-$1.36 (midpoint $1.32) to $1.32-$1.36 (midpoint $1.34) versus GS/consensus of $1.32/$1.33. NI continues to expect EPS to grow 7 to 9% from 2021-2024 and 5 to 7% through 2023 as highlighted at its September investor day; our current estimates reflect a ~6.4% CAGR from 2021-2024, or 6.0% based on the mid-point of management's 2021 guidance of $1.34.

Key takeaway: We view the 2021 guidance raise positively, as the company continues to build on its recent execution track record. On the earnings call, we look for latest thoughts on potential asset monetization opportunities, in light of the recent equity unit offering.

Key takeaways from NI's release and slides include:

- **1Q21 beat largely driven on lower operations and maintenance cost** that were partially offset by lower gross margin. On a consolidated basis, O&M came in ~$70M lower than our forecast, with the better cost management driven at the gas segment.
- **NI recorded weather-adjusted electric/gas demand of -0.6%/-10.7% YoY in 1Q2021;** residential electric sales increased 6.5% (including weather impact) offset by lower C&I and wholesale demand.
- **Capital plan remains largely unchanged from Analyst Day & 4Q20,** including $2bn on renewable generation. With the recent equity units offering, NI does not forecast any additional bulk equity needs, while reiterating $200-$300mn of annual ATM equity financing through 2022 and up to $150mn in 2023.
- **The PA gas utility** filed a subsequent base rate case requesting a $98M increase with new rates beginning in Dec of 2021, on the heels of the recent constructive base rate case outcome.

Key topics to monitor on NI's earnings call include 1) latest thoughts on potential monetization of any of its regulated utilities, 2) timing/thoughts on the upcoming IRP filing at NIPSCO including potential for faster fleet transition to renewables, and 3) updated trajectory of EPS growth through 2024 given recent equity unit financing.

Our 12-month price target of $25 embeds an 18x P/E multiple (1x discount to our target P/E) to our 2022 EPS estimate of $1.40 (unchanged). **Key upside risks include** 1) increased ability to lower O&M expenses, and 2) plans to further accelerate retirement of its remaining coal fleet. **Key downside risks include** 1) regulatory approval process for the planned renewable investments in Indiana, and 2) earnings/cash impact due to COVID-19.

NI	12m Price Target: **$25.00**	Price: **$25.94**	Downside: **3.6%**

Neutral

Market cap: $9.9bn
Enterprise value: $20.5bn
3m ADTV: $104.5mn
United States
Americas Utilities
M&A Rank: 3

GS Forecast

	12/20	12/21E	12/22E	12/23E
Revenue ($ mn)	4,681.7	4,648.4	4,842.9	5,081.2
EBITDA ($ mn)	1,687.3	1,834.4	2,005.5	2,221.1
EBIT ($ mn)	961.4	1,077.0	1,177.5	1,296.2
EPS ($)	1.32	1.32	1.40	1.52
P/E (X)	18.6	19.6	18.5	17.0
EV/EBITDA (X)	11.9	11.5	11.5	11.3
FCF yield (%)	(6.9)	(6.5)	(8.8)	(15.9)
Dividend yield (%)	3.4	3.4	3.6	3.8
Net debt/EBITDA (X)	5.7	5.2	5.4	5.6

	12/20	3/21E	6/21E	9/21E
EPS ($)	0.34	0.76	0.15	0.11

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4 May 2021 close.

Disclosure Appendix

Reg AC

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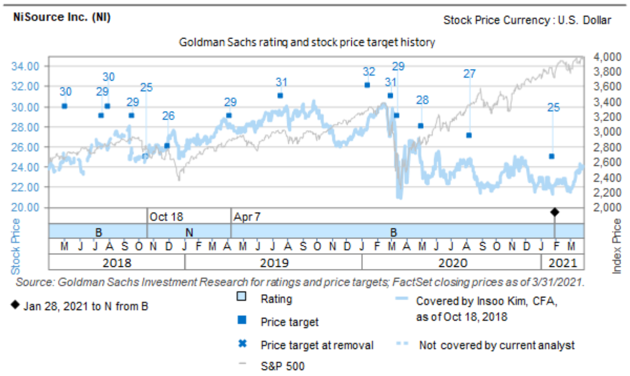

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J.P.Morgan

North America Equity Research
05 May 2021

NiSource Inc.

1Q21 Results Match Estimates; 2021 Guidance Narrowed Amid Otherwise Quiet Update

Overweight

NI, NI US
Price: $25.94
04 May 2021

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- **1Q21 EPS matches estimates.** NiSource reported 1Q21 adj EPS of $0.77, largely in-line with the JPM/Street median estimate of $0.76. Gas distribution operating earnings fell -$17.6mm YoY, while electric operating earnings increased +$10.6mm. NI benefitted from new base rates, infrastructure replacement program recoveries, and lower operating expenses, with lost CMA earnings mostly offsetting growth on the quarter.

- **2021 guidance narrowed to new $1.32-1.36.** NI narrowed its 2021 EPS guidance to $1.32-1.36 (JPMe/Street median $1.35/$1.33), raising the low end +4c versus the company's prior $1.28-1.36 range. NI also affirmed its long-term outlook, including 7-9% 2021-2024 EPS CAGR.

- **Few questions follow recent equity raise and renewables update.** Quarterly updates are consistent with financing and capex revisions from the company's recent equity raise, notably 1) satisfying discrete renewables equity financing with the $862.5mm equity units offering, and 2) raising renewables capex to $2.0bn, or the high end of NI's initial $1.8-2.0bn range. We continue to see this progress and shift towards plan execution as positive. NI has added its latest renewables project announcements to quarterly disclosures, showing all company-owned and PPA project statuses. Across projects, $550mm of NI investment is under construction or complete and $1.5bn remains subject to commission approval.

- **Conference call details.** NI will host a webcast to discuss 1Q21 results on Wednesday, May 5 at 11:00 AM EDT.

Table 1: NI 1Q21 Results

Income Statement:	Actual 1Q20	Actual 1Q21	JPM 1Q21E	% Chg Y/Y	% Chg vs JPMe	YoY Drivers
Operating Earnings	463	465	500	0%	-7%	CMA sale impacts; new base and infra replacement program rates
Net Income	291	305	300	5%	1%	Low er short-term debt interest
Share Count	383	393	393	3%	0%	
Operating EPS	**$0.76**	**$0.77**	**$0.76**	**N/A**	**2%**	

Source: Company reports and J.P. Morgan estimates.

See page 2 for analyst certification and important disclosures.

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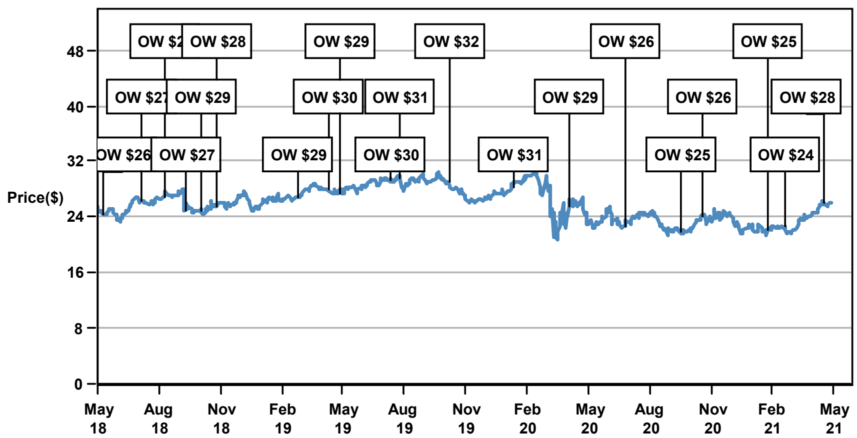
NiSource Inc. (NI, NI US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
17-May-18	OW	24.40	26
11-Jul-18	OW	26.24	27
15-Aug-18	OW	26.96	28
17-Sep-18	OW	24.79	27
09-Oct-18	OW	25.05	29
01-Nov-18	OW	25.36	28
01-Mar-19	OW	26.98	29
15-Apr-19	OW	28.07	30
02-May-19	OW	27.40	29
15-Jul-19	OW	29.34	30
01-Aug-19	OW	29.69	31
13-Oct-19	OW	29.14	32
15-Jan-20	OW	28.18	31
09-Apr-20	OW	25.47	29
01-Jul-20	OW	22.74	26
21-Sep-20	OW	21.98	25
23-Oct-20	OW	24.04	26
29-Jan-21	OW	22.17	25
22-Feb-21	OW	22.84	24
22-Apr-21	OW	26.03	28

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IB clients**	54%	48%	38%
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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group
25.94 USD	28.50 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Approval of Two Thirds of Renewable Energy Investment Increases Our Confidence in NiSource's Growth

Charles Fishman, CFA
Equity Analyst
Morningstar

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The primary analyst covering this company does not own its stock.

Research as of 05 May 2021
Estimates as of 05 May 2021
Pricing data through 04 May 2021 00:00
Rating updated as of 04 May 2021 00:00

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 05 May 2021

We are reaffirming our $28.50 per share fair value estimate after NiSource reported solid 2021 first-quarter operating EPS, increased and narrowed 2021 earnings guidance to the upper end of its previous range, and increased its planned four-year renewable energy investments. Management also reaffirmed its near- and long-term EPS growth rates established at the September 2020 Investor Day meeting.

NiSource upsized its planned renewable energy investments from 2021-24 to $2 billion, the upper end of its guidance range of $1.9 billion to $2 billion established in August 2020. During the conference call with investors, management indicated three more renewable energy projects received pre-approval by the Indiana Utility Regulatory Commission that day.

Two thirds of the $2 billion renewable energy investment has now been approved prior to the Indiana base rate case final decision expected in 2023. This increases our confidence in NiSource's ability to achieve its EPS growth target.

We believed the increase and narrowing of the 2021 earnings guidance range to $1.32-$1.36 from $1.28-$1.36 was especially positive due to the larger amount of equity to be recognized on the balance sheet and earlier issuance of the convertible securities than we assumed. In addition, the ongoing impact of COVID-19 on commercial and industrial customers is expected to be less than the $0.05 per share impact originally contemplated by management.

We increased our 2021 EPS estimate to $1.34 from $1.30 based on the revised outlook. NiSource also indicated that its 7%-9% targeted EPS growth rate from 2021 to 2024 is now anchored by the midpoint of the revised guidance, or $1.34. Our 2024 EPS estimate increased by $0.02 to $1.68,

Vital Statistics

Market Cap (USD Mil)	10,172
52-Week High (USD)	26.30
52-Week Low (USD)	21.09
52-Week Total Return %	9.8
YTD Total Return %	15.0
Last Fiscal Year End	31 Dec 2020
5-Yr Forward Revenue CAGR %	7.0
5-Yr Forward EPS CAGR %	6.1
Price/Fair Value	0.91

Valuation Summary and Forecasts

Fiscal Year:	2019	2020	*2021(E)*	*2022(E)*
Price/Earnings	21.1	17.4	*19.4*	*18.7*
EV/EBITDA	10.4	12.1	*11.4*	*10.4*
EV/EBIT	16.1	21.2	*18.4*	*17.0*
Free Cash Flow Yield %	-2.1	-7.3	*-5.6*	*-7.8*
Dividend Yield %	2.9	3.7	*3.4*	*3.6*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2019	2020	*2021(E)*	*2022(E)*
Revenue	5,209	4,682	*5,207*	*5,491*
Revenue YoY %	1.9	-10.1	*11.2*	*5.5*
EBIT	1,305	961	*1,123*	*1,216*
EBIT YoY %	936.7	-26.3	*16.8*	*8.3*
Net Income, Adjusted	495	508	*558*	*617*
Net Income YoY %	6.8	2.6	*9.9*	*10.6*
Diluted EPS	1.32	1.32	*1.34*	*1.39*
Diluted EPS YoY %	1.2	0.4	*1.3*	*3.5*
Free Cash Flow	-75	468	*154*	*-516*
Free Cash Flow YoY %	-94.4	-728.1	*-67.2*	*-435.9*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewables.

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but our average annual growth rate estimate from the new 2021 guidance midpoint declined to 7.8% from 8%.

For more detail on our view of the future of NiSource's natural gas utilities and its renewable energy investment plan, see our November 2020 report, "Is Natural Gas Heating Going the Way of Buggy Whips?"

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2018	2019	2020	*2021* (Forecast)	*2022* (Forecast)	*5-Year Proj. CAGR*
Revenue	*-1.3*	4.9	1.9	-10.1	*11.2*	*5.5*	*7.0*
EBIT	*1.6*	-86.3	936.7	-26.3	*16.8*	*8.3*	*10.9*
EBITDA	*4.3*	-51.2	178.8	-16.6	*7.9*	*9.0*	*9.3*
Net Income	*8.3*	16.0	6.8	2.6	*9.9*	*10.6*	*11.3*
Diluted EPS	*3.0*	7.6	1.2	0.4	*1.3*	*3.5*	*6.1*
Earnings Before Interest, after Tax	*10.7*	-118.4	-1,098.1	-26.4	*22.8*	*10.7*	*11.3*
Free Cash Flow	—	37.7	-94.4	-728.1	*-67.2*	*-435.9*	*-6.3*

Profitability	3-Year Hist. Avg	2018	2019	2020	*2021*	*2022*	*5-Year Proj. Avg*
Operating Margin %	*16.0*	2.5	25.1	20.5	*21.6*	*22.1*	*23.1*
EBITDA Margin %	*29.7*	14.2	38.8	36.0	*35.0*	*36.1*	*37.7*
Net Margin %	*9.8*	9.1	9.5	10.8	*10.7*	*11.2*	*12.0*
Free Cash Flow Margin %	*-5.9*	-26.1	-1.4	10.0	*3.0*	*-9.4*	*-3.2*
ROIC %	*3.2*	-0.6	6.3	3.9	*5.8*	*6.3*	*6.1*
Adjusted ROIC %	*3.5*	-0.7	6.9	4.2	*6.3*	*6.9*	*6.7*
Return on Assets %	*0.3*	-0.3	1.5	-0.3	*2.4*	*2.5*	*2.6*
Return on Equity %	*1.2*	-1.4	6.6	-1.5	*10.0*	*9.4*	*9.8*

Leverage	3-Year Hist. Avg	2018	2019	2020	*2021*	*2022*	*5-Year Proj. Avg*
Debt/Capital	*0.62*	0.61	0.62	0.63	*0.56*	*0.57*	*0.56*
Total Debt/EBITDA	*7.71*	12.59	4.77	5.78	*5.08*	*5.16*	*4.94*
EBITDA/Interest Expense	*3.98*	2.05	5.34	4.55	*4.91*	*5.09*	*5.21*

Valuation Summary and Forecasts

	2019	2020	*2021(E)*	*2022(E)*
Price/Fair Value	1.01	0.80	—	—
Price/Earnings	21.1	17.4	*19.4*	*18.7*
EV/EBITDA	10.4	12.1	*11.4*	*10.4*
EV/EBIT	16.1	21.2	*18.4*	*17.0*
Free Cash Flow Yield %	-2.1	-7.3	*-5.6*	*-7.8*
Dividend Yield %	2.9	3.7	*3.4*	*3.6*

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	6.1
Long-Run Tax Rate %	25.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	71.4
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-783	-4.0	-1.79
Present Value Stage II	3,007	15.4	6.87
Present Value Stage III	17,366	88.6	39.66
Total Firm Value	**19,591**	**100.0**	**44.74**
Cash and Equivalents	1,278	—	2.92
Debt	-9,746	—	-22.26
Preferred Stock	-880	—	-2.01
Other Adjustments	2,097	—	4.79
Equity Value	**12,340**	**—**	**28.18**
Projected Diluted Shares	438		
Fair Value per Share (USD)	**28.50**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group
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Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2018	2019	2020	*2021*	*2022*
Revenue	**5,115**	**5,209**	**4,682**	***5,207***	***5,491***
Cost of Goods Sold	1,761	1,535	1,109	*1,562*	*1,647*
Gross Profit	**3,353**	**3,674**	**3,572**	***3,645***	***3,843***
Selling, General & Administrative Expenses	2,353	1,355	1,586	*1,517*	*1,543*
Other Operating Expense (Income)	275	297	299	*307*	*316*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	600	717	726	*698*	*769*
Operating Income (ex charges)	**126**	**1,305**	**961**	***1,123***	***1,216***
Restructuring & Other Cash Charges	1	415	411	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**125**	**891**	**551**	***1,123***	***1,216***
Interest Expense	353	379	371	*370*	*390*
Interest Income	-2	-5	-211	—	—
Pre-Tax Income	**-231**	**507**	**-31**	***752***	***826***
Income Tax Expense	-180	124	-17	*135*	*149*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	-3	*-4*	*-5*
(Preferred Dividends)	-15	-55	-55	*-55*	*-55*
Net Income	**-66**	**328**	**-73**	***558***	***617***
Weighted Average Diluted Shares Outstanding	357	376	384	*417*	*445*
Diluted Earnings Per Share	**-0.18**	**0.87**	**-0.19**	***1.34***	***1.39***
Adjusted Net Income	463	495	508	*558*	*617*
Diluted Earnings Per Share (Adjusted)	**1.30**	**1.32**	**1.32**	***1.34***	***1.39***
Dividends Per Common Share	0.78	0.80	0.84	*0.88*	*0.92*
EBITDA	**724**	**1,608**	**1,277**	***1,820***	***1,985***
Adjusted EBITDA	**726**	**2,023**	**1,687**	***1,820***	***1,985***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)
Fiscal Year Ends in December

	2018	2019	2020	*Forecast 2021*	*Forecast 2022*
Cash and Equivalents	121	148	126	*340*	*335*
Investments	—	—	—	—	—
Accounts Receivable	1,059	857	791	*927*	*978*
Inventory	423	425	401	*492*	*519*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	453	424	341	*425*	*450*
Current Assets	**2,055**	**1,854**	**1,659**	***2,184***	***2,281***
Net Property Plant, and Equipment	15,543	16,912	16,620	*17,932*	*19,673*
Goodwill	1,691	1,486	1,486	*1,486*	*1,486*
Other Intangibles	221	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	2,002	2,014	1,795	*1,931*	*1,931*
Long-Term Non-Operating Assets	293	394	481	*481*	*481*
Total Assets	**21,804**	**22,660**	**22,041**	***24,013***	***25,851***
Accounts Payable	884	666	589	*642*	*677*
Short-Term Debt	2,027	1,787	526	*500*	*500*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,126	1,293	1,164	*1,350*	*1,450*
Current Liabilities	**4,037**	**3,746**	**2,279**	***2,492***	***2,627***
Long-Term Debt	7,105	7,856	9,220	*8,750*	*9,750*
Deferred Tax Liabilities (Long-Term)	1,331	1,485	1,471	*1,631*	*1,832*
Other Long-Term Operating Liabilities	2,519	2,352	1,904	*2,500*	*2,500*
Long-Term Non-Operating Liabilities	1,061	1,234	1,329	*1,329*	*1,329*
Total Liabilities	**16,053**	**16,673**	**16,203**	***16,702***	***18,038***
Preferred Stock	880	880	880	*880*	*880*
Common Stock	4	4	4	*4*	*4*
Additional Paid-in Capital	6,404	6,666	6,890	*8,043*	*8,333*
Retained Earnings (Deficit)	-1,399	-1,371	-1,765	*-1,574*	*-1,367*
(Treasury Stock)	-100	-100	-100	*-100*	*-100*
Other Equity	-37	-93	-157	*-41*	*-46*
Shareholder's Equity	**5,751**	**5,987**	**5,752**	***7,211***	***7,704***
Minority Interest	—	—	86	*100*	*110*
Total Equity	**5,751**	**5,987**	**5,838**	***7,311***	***7,814***

NiSource Inc NI (NYSE) | ★★★★

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2018	2019	2020	Forecast 2021	Forecast 2022
Net Income	-51	383	-14	*617*	*677*
Depreciation	600	717	726	*698*	*769*
Amortization	—	—	—	—	—
Stock-Based Compensation	29	26	17	*38*	*39*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-188	118	-29	*161*	*201*
Other Non-Cash Adjustments	42	399	660	—	—
(Increase) Decrease in Accounts Receivable	-186	188	-4	*-136*	*-51*
(Increase) Decrease in Inventory	41	-2	-2	*-91*	*-27*
Change in Other Short-Term Assets	-14	54	-221	*-84*	*-25*
Increase (Decrease) in Accounts Payable	268	-300	-30	*53*	*35*
Change in Other Short-Term Liabilities	—	—	—	*186*	*100*
Cash From Operations	**540**	**1,583**	**1,104**	***1,442***	***1,718***
(Capital Expenditures)	-1,818	-1,802	-1,758	*-2,010*	*-2,510*
Net (Acquisitions), Asset Sales, and Disposals	—	—	—	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-108	-120	879	*460*	—
Cash From Investing	**-1,926**	**-1,922**	**-879**	***-1,550***	***-2,510***
Common Stock Issuance (or Repurchase)	844	244	211	*1,153*	*290*
Common Stock (Dividends)	-273	-299	-322	*-367*	*-410*
Short-Term Debt Issuance (or Retirement)	772	-204	-1,270	*-26*	—
Long-Term Debt Issuance (or Retirement)	-742	681	1,106	*-470*	*1,000*
Other Financing Cash Flows	868	-56	27	*-83*	*-89*
Cash From Financing	**1,469**	**366**	**-248**	***207***	***792***
Exchange Rates, Discontinued Ops, etc. (net)	0	0	0	*116*	*-5*
Net Change in Cash	**83**	**27**	**-23**	***214***	***-5***

Research Methodology for Valuing Companies

Qualitative Equity Research Overview
At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

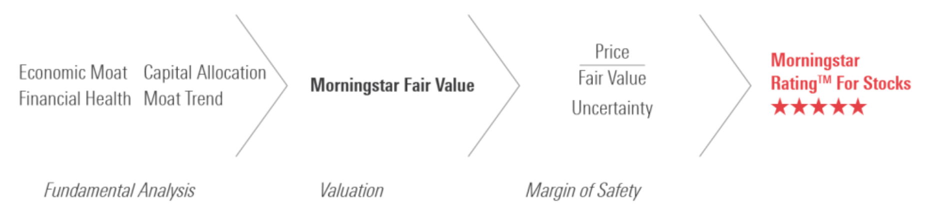
Morningstar's equity research group (“we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat
The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

Morningstar Research Methodology for Valuing Companies



When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm’s economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value
Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.
Our model is divided into three distinct stages:

Stage I: Explicit Forecast
In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

3. Uncertainty Around That Fair Value Estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to

Research Methodology for Valuing Companies

assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

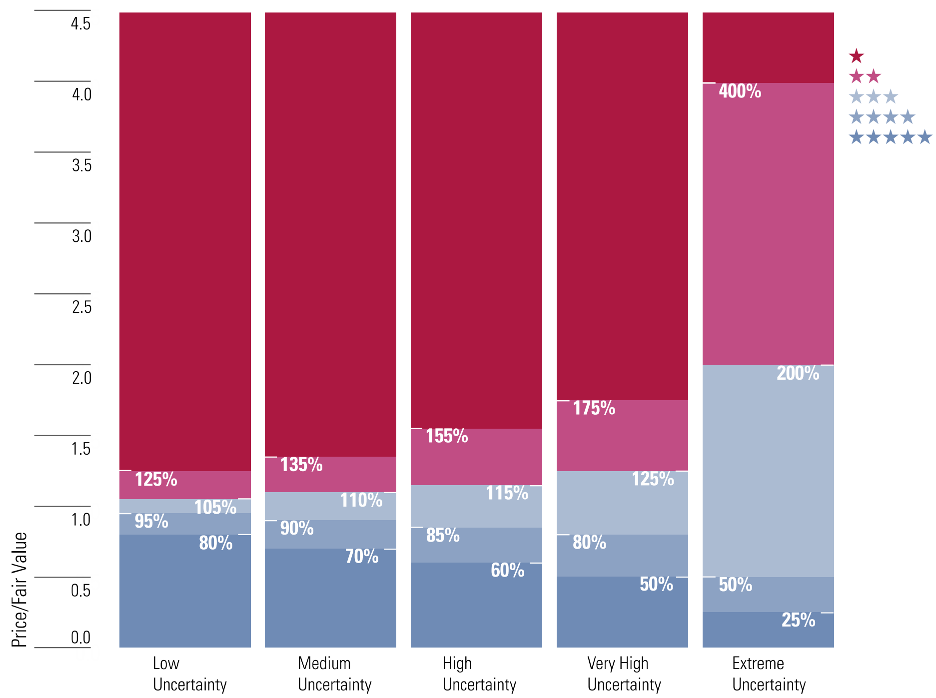
- ► Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ► Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ► High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ► Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ► Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

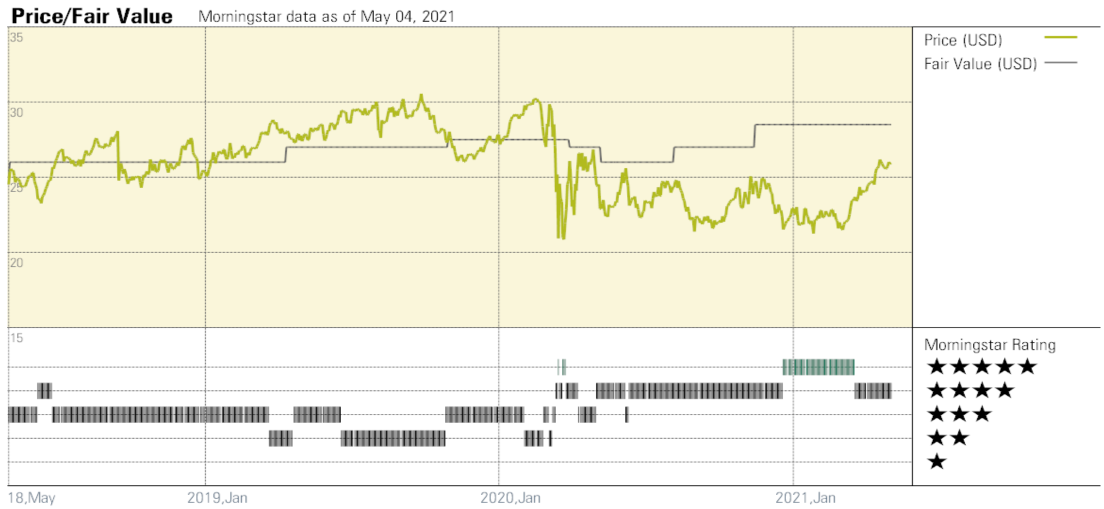
Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ► Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- ► Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- ► Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group
25.94 USD	28.50 USD	Low	Narrow	Stable	Standard	Utilities - Regulated



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NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group
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NiSource Inc NI (NYSE) | ★★★★

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NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group
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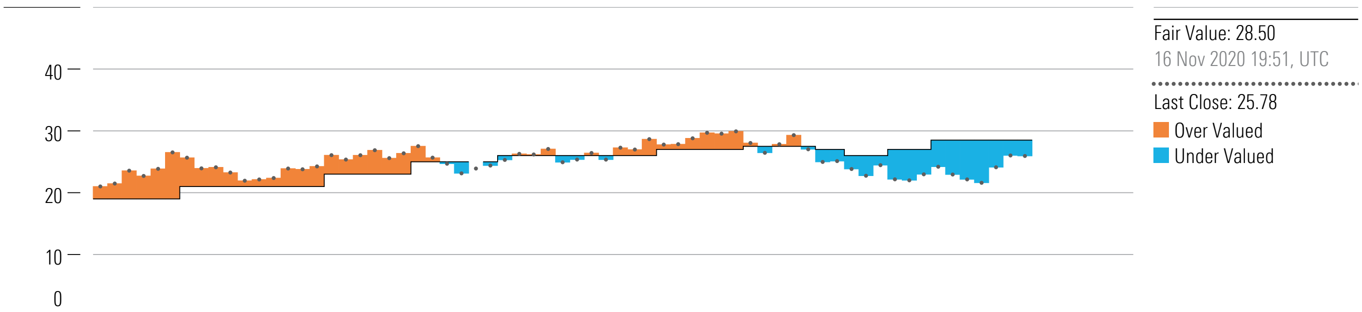
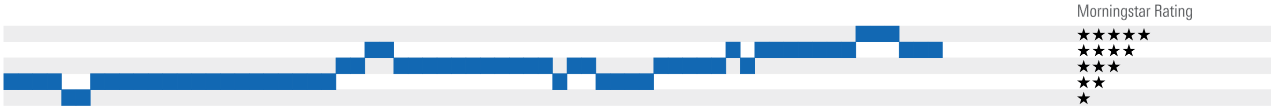
NiSource Inc NI ★★★★ 4 May 2021 21:21, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation
25.78 USD 5 May 2021	28.50 USD 16 Nov 2020 19:51, UTC	0.90	10.17 USD Bil 4 May 2021	Narrow	Stable	Low	Standard

Price vs. Fair Value



	2016	2017	2018	2019	2020	YTD	
	1.05	1.03	0.98	1.01	0.80	0.90	Price/Fair Value
	16.76	19.11	1.79	12.98	-14.58	15.00	Total Return %



Total Return % as of 4 May 2021. Last Close as of 5 May 2021. Fair Value as of 16 Nov 2020 19:51, UTC.

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Approval of Two Thirds of Renewable Energy Investment Increases Our Confidence in NiSource's Growth

Analyst Note Charles Fishman, CFA, Equity Analyst, 5 May 2021

We are reaffirming our $28.50 per share fair value estimate after NiSource reported solid 2021 first-quarter operating EPS, increased and narrowed 2021 earnings guidance to the upper end of its previous range, and increased its planned four-year renewable energy investments. Management also reaffirmed its near- and long-term EPS growth rates established at the September 2020 Investor Day meeting.

NiSource upsized its planned renewable energy investments from 2021-24 to $2 billion, the upper end of its guidance range of $1.9 billion to $2 billion established in August 2020. During the conference call with investors, management indicated three more renewable energy projects received pre-approval by the Indiana Utility Regulatory Commission that day.

Two thirds of the $2 billion renewable energy investment has now been approved prior to the Indiana base rate case final decision expected in 2023. This increases our confidence in NiSource's ability to achieve its EPS growth target.

We believed the increase and narrowing of the 2021 earnings guidance range to $1.32-$1.36 from $1.28-$1.36 was especially positive due to the larger amount of equity to be recognized on the balance sheet and earlier issuance of the convertible securities than we assumed. In addition, the ongoing impact of COVID-19 on commercial and industrial customers is expected to be less than the $0.05 per

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Sector	Industry
Utilities	Utilities - Regulated Gas

Business Description

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewables.

share impact originally contemplated by management.

We increased our 2021 EPS estimate to $1.34 from $1.30 based on the revised outlook. NiSource also indicated that its 7%-9% targeted EPS growth rate from 2021 to 2024 is now anchored by the midpoint of the revised guidance, or $1.34. Our 2024 EPS estimate increased by $0.02 to $1.68, but our average annual growth rate estimate from the new 2021 guidance midpoint declined to 7.8% from 8%.

Business Strategy & Outlook Charles Fishman, CFA, Equity Analyst, 5 May 2021

NiSource completed its separation from Columbia Pipeline Group in 2015 and now derives all of its operating revenue from its regulated electric and natural gas distribution utilities. About 60% of operating income comes from its six natural gas distribution utilities. The remaining 40% comes from its electric utility business in Indiana.

NiSource's utilities have regulatory frameworks that include automatic rate tracker mechanisms, with over 75% of planned capital expenditures, providing recovery of investments in less than 18 months. As a result of the favorable regulation and renewable energy investments in Indiana, we expect NiSource to step up its capital expenditures to almost $12 billion over the next five years, almost 40% higher than the previous five years.

Over the next 20 years, NiSource plans to invest about $40 billion in infrastructure improvements. Roughly 50% of these investments are expected to be for replacing steel and cast-iron pipe with plastic at its natural gas distribution utilities. Almost all of these investments receive rate tracker treatment. This allows NiSource to earn returns on these investments near allowed returns and consistently above its cost of capital.

In September 2018, a natural gas explosion killed one person north of Boston on NiSource's Columbia Gas of Massachusetts system. Insurance should cover roughly half of the almost $2 billion of claims, penalties, and other expenses, but the event was a public relations nightmare. In October 2020, NiSource sold the Massachusetts utility for proceeds of $1.1 billion that will be used to strengthen the balance sheet and for regulated utility infrastructure investments.

Although the economic impact from the COVID-19 pandemic pressured earnings in 2020 due in large part to NiSource's high share of commercial and industrial customers, we expect a rebound in average annual EPS growth near 8% from 2021 to 2024 and strong dividend growth averaging about 6% annually.

Bulls Say Charles Fishman, CFA, Equity Analyst, 5 May 2021

- We expect dividend growth near the midpoint of management's target for the forseeable future.
- We believe the separation of Columbia Pipeline Group from NiSource was good allocation of capital, as

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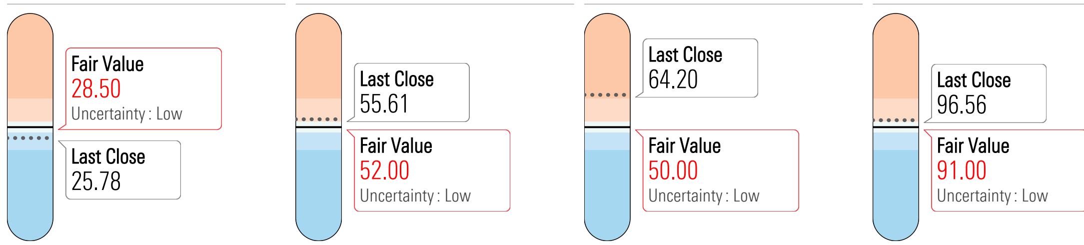
Competitors



	NiSource Inc NI	Alliant Energy Corp LNT	CMS Energy Corp CMS	WEC Energy Group Inc WEC
Economic Moat	Narrow	Narrow	Narrow	Narrow
Moat Trend	Stable	Stable	Stable	Stable
Currency	USD	USD	USD	USD
Fair Value	28.50 16 Nov 2020 19:51, UTC	52.00 3 Nov 2020 17:35, UTC	50.00 4 May 2021 14:27, UTC	91.00 3 Nov 2020 23:20, UTC
1-Star Price	35.63	65.00	62.50	113.75
5-Star Price	22.80	41.60	40.00	72.80
Assessment	Under Valued 4 May 2021	Over Valued 4 May 2021	Significantly Over Valued 4 May 2021	Over Valued 4 May 2021
Morningstar Rating	★★★★4 May 2021 21:21, UTC	★★4 May 2021 21:21, UTC	★4 May 2021 21:21, UTC	★★4 May 2021 21:21, UTC
Analyst	Charles Fishman, Equity Analyst	Andrew Bischof, Senior Equity Analyst	Travis Miller, Strategist	Andrew Bischof, Senior Equity Analyst
Capital Allocation	Standard	Standard	Standard	Standard
Price/Fair Value	0.90	1.07	1.28	1.06
Price/Sales	2.13	4.12	2.71	3.96
Price/Book	2.09	2.49	3.30	2.87
Price/Earning	50.75	22.89	21.73	24.65
Dividend Yield	3.32%	2.77%	2.54%	2.63%
Market Cap	10.17 Bil	14.14 Bil	18.87 Bil	30.87 Bil
52-Week Range	21.09—26.30	44.36—58.10	52.35—67.98	80.55—106.85
Investment Style	Mid Value	Mid Value	Mid Core	Mid Core

the market valued the individual businesses more highly at the time of the separation.

- New legislation has improved the regulatory framework in Indiana for NiSource's electric and natural gas distribution utilities.

Bears Say Charles Fishman, CFA, Equity Analyst, 5 May 2021

- Industrial customers account for over half of NiSource's electric sales, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- NiSource's electric and natural gas distribution businesses have substantial commercial and industrial customer exposure, increasing the impact of the COVID-19 pandemic.
- NiSource issued almost $2 billion of common and preferred shares in 2018 and 2019 and $862 million of convertible preferred securities in 2021. The additional shares will be a headwind to near-term EPS growth.

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Economic Moat Charles Fishman, CFA, Equity Analyst, 5 May 2021

Service territory monopolies and efficient scale advantages are the primary moat sources for NiSource's regulated utilities. State and federal regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their infrastructure. In exchange for regulated utilities' service territory monopolies, state and federal regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow NiSource's regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing.

NiSource derives roughly 60% of its operating earnings from the regulated distribution of natural gas. For natural gas distribution service, regulators set distribution rates and the commodity price for customers purchasing natural gas from NiSource. NiSource recovers its costs for natural gas that it sells with a pass-through charge to customers. Thus, NiSource has no commodity price risk that could weaken its moat. Customers may elect to purchase natural gas from independent retail energy suppliers and use and pay for distribution services only. NiSource exited the no-moat retail energy supply business in 2010.

Electricity generation, which contributes about 40% of operating earnings, is from operations in Indiana and is also regulated. The rates for this service are combined with regulated customer rates for transmission and distribution service. In exchange for its monopoly position, state and federal regulators set NiSource's electric rates.

Fair Value and Profit Drivers Charles Fishman, CFA, Equity Analyst, 5 May 2021

Our fair value estimate of $28.50 per share is due in large part to our increased confidence in the investment plan NiSource management presented at its September 2020 Investor Day.

NiSource plans to make infrastructure investments of $40 billion over the next 20 years, roughly half for pipeline and safety-related investments at its gas distribution utilities. Although the market is concerned about the future of natural gas, we believe there are significant technical and economic obstacles for the electrification of building space and water heating.

Investment in the gas distribution systems, primarily for pipeline replacement, is expected to accelerate over the next five years. We expect safety concerns will drive regulators to approve NiSource’s capital expenditure plan.

NiSource’s electric utility plans to close its last coal-fired power plant in 2028 and replace the capacity

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Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation
25.78 USD 5 May 2021	28.50 USD 16 Nov 2020 19:51, UTC	0.90	10.17 USD Bil 4 May 2021	Narrow	Stable	Low	Standard

with wind, solar, and energy storage. Renewable energy and gas distribution infrastructure investment should result in better than 7% earnings growth, strong dividend growth, a better ESG profile, and lower risk for investors.

We use a 6.1% cost of capital in our discounted cash flow valuation, which incorporates a 7.5% cost of equity. Our cost of equity is lower than the 9% rate of return we expect investors will demand of a diversified equity portfolio. We believe our cost of equity reflects the risk associated with regulated electric and natural gas distribution utilities operating in states that have average to above-average regulatory frameworks.

Although our long-term pretax cost of debt assumption is 5.8%, recent debt financings have driven the weighted-average long-term interest rate on NiSource's long-term debt to under 3.7%, boosting our fair value estimate. We incorporate a normalized long-term real rate environment and normalized credit spreads in our long-term view of interest rates, including a 2.25% long-term inflation outlook.

Our fair value estimate implies a 21 times multiple on 2021 earnings. Although this price/earnings multiple is historically high, we note that NiSorce's near-term earnings are depressed due to the impact of dilution from a recent convertible issuance to provide funding for future investment in renewable energy. We expect 10% average annual EPS growth in 2023 and 2024 when Indiana electric rates reflect recent renewable energy investment.

Risk and Uncertainty Charles Fishman, CFA, Equity Analyst, 5 May 2021
Regulatory risk remains the key uncertainty; however, NiSource's regulatory exposure is diversified, owing to operations in six states and its federal-regulated electric transmission system. NiSource has reduced some of the regulatory uncertainty related to its planned natural gas distribution and electric utilities investments by securing preapprovals and favorable rate mechanisms that provide for automatic rate increases as infrastructure investments are made.

In 2020, NiSource announced it would eliminate all coal-fired generation from its power plant fleet by 2028. This transition will require signing power purchase agreements for renewable energy, building new solar and wind farms, and making modifications to its electric grid. There is a modest amount of execution risk to this dramatic transition from coal.

Capital Allocation Charles Fishman, CFA, Equity Analyst, 5 May 2021
We assign NiSource a Standard capital allocation rating due in large part to the fact that future capital spending is for low-risk regulated operations in constructive regulatory jurisdictions.

We think management's decision to form Columbia Pipeline Partners and execute Columbia Pipeline Group's tax-free separation exhibited excellent allocation of capital. However, NiSource's former CEO,

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who oversaw those decisions, left NiSource to go with CPG before retiring.

The National Transportation Safety Board found NiSource responsible for the gas explosion north of Boston. The incident had a negative effect on shareholder value and has been a public relations nightmare. However, Eversource Energy purchased the Massachusetts gas utility in October 2020 at an attractive purchase price that generated $1.1 billion in cash proceeds. We believe this was also good allocation of capital following the accident.

Joe Hamrock became CEO following the separation. He has been with NiSource since 2012 and previously ran the natural gas distribution business. Before joining NiSource, he was with American Electric Power. CFO Donald Brown joined NiSource in April 2015. Previously, he was with UGI Utilities and Constellation Energy. These individuals have significant utility experience, and we believe they will not stray from the strategy that has benefited shareholders.

Most of the executives and members of NiSource's board of directors were involved in the separation of CPG and oversight of investment decisions. Given this, we are confident that the solid capital allocation is likely to continue.

Analyst Notes Archive

NiSource Reaffirms 2021 Earnings Guidance and Hints Renewable Energy Investments Could Go Higher Charles Fishman, CFA, Equity Analyst, 17 Feb 2021

We are reaffirming our $28.50 per share fair value estimate after NiSource reported solid 2020 operating EPS, reaffirmed 2021 guidance, and provided an update on its renewable energy projects in Indiana. The update on the utility’s wind, solar, and energy storage projects increased our confidence in NiSource’s investment plan.

The three solar-plus-storage projects announced in October are now awaiting approval by the Indiana Utility Regulatory Commission. Wholly owned Northern Indiana Public Service Company, or NIPSCO, plans to invest approximately $850 million in the joint ventures. Including the $400 million NIPSCO contributed to one operating wind farm and one wind farm under construction, NIPSCO is more than halfway to meeting its $1.8 billion to $2 billion renewable energy investment target.

In addition to the $2 billion of planned projects, we thought it was especially positive that management indicated that its 2021 integration resource plan could create additional investment opportunities. NIPSCO plans to submit the IRP to Indiana regulators in the fourth quarter.

NiSource reported 2020 operating earnings of $1.32 per share, $0.02 higher than our estimate and the consensus estimate. The earnings were especially impressive when considering the $0.10 headwind due to lower commercial and industrial revenues and increased bad debt expense due to COVID-19.

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NiSource reaffirmed its 2021 EPS guidance range of $1.28-$1.36 and our estimate of $1.32 at the midpoint of the range is unchanged. On Jan. 27, NiSource's board declared a 4.8% increase in its quarterly dividend that results in an annualized dividend of $0.88 per share. We forecast similar increases in 2022 and 2023 then accelerating growth when its Indiana renewable energy investments are recognized in rates in 2024.

Biden's Green Agenda Offers Growth Potential for Utilities Charles Fishman, CFA, Equity Analyst, 22 Jan 2021
We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for U.S. utilities after President Joe Biden kicked off his environmental policymaking efforts. We consider the sector fairly valued.

We believe tighter environmental regulations are a net positive for most utilities. Growth investments in renewable energy, grid modernization, and electric vehicles should outweigh higher regulatory, operational, and financial risk. We forecast that the U.S. utilities we cover will invest $656 billion over the next five years, more than consensus expects and up from the $541 billion spent in the past five years. This supports our 5.5% average annual industry earnings growth outlook through 2024.

Biden's recommitment to the 2015 Paris Agreement won't have a material near-term impact on utilities. Most utilities' investment plans already reflect similar climate goals with support from state regulators and policymakers.

Investors should watch Biden's approach as the third president this decade to propose power plant emissions regulations. Courts have set a narrow path between Barack Obama's Clean Power Plan, which the Supreme Court stayed in 2016, and Donald Trump's Affordable Clean Energy rule, which was vacated by appeal on Jan. 19. We think it will be even tougher to get emissions legislation through Congress.

We expect emissions-reduction investments will remain a key growth driver for utilities because of state policies and demand from customers and investors. As the federal government has dithered, power plant carbon emissions have fallen 25% during the last decade due to economics and state policymaking. We forecast that natural gas generation will continue stealing market share from coal and renewable energy will double its market share by 2030.

We agree with consensus that Biden's interim goal of net-zero carbon emissions for the power industry by 2035 is unachievable with current technology and potential cost. A 2050 goal is more reasonable.

NiSource Reports Solid Third-Quarter Results; Indiana Renewable Energy Investments on Track
Charles Fishman, CFA, Equity Analyst, 3 Nov 2020

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25.78 USD 5 May 2021	28.50 USD 16 Nov 2020 19:51, UTC	0.90	10.17 USD Bil 4 May 2021	Narrow	Stable	Low	Standard

We are reaffirming our $27 per share fair value estimate after NiSource reported solid 2020 third-quarter operating EPS of $0.09 versus breakeven last year and reaffirmed 2021 and long-term earnings guidance. On Oct. 21, wholly owned Northern Indiana Public Service Company announced an agreement with NextEra Energy Resources LLC for the construction of three renewable energy projects totaling 900 MW of solar and 135 MW of battery storage.

The new projects will require a NIPSCO investment totaling $850 million. Combined with the $400 million of wind energy projects currently under construction, the utility will be more than 50% of the way to meeting its $1.8 billion to $2 billion renewable energy investment target initiated during its second-quarter earnings call on Aug. 5.

We estimate NIPSCO will invest $1.9 billion in renewable energy, which we expect will be included in rate base before the next electric general rate case filing planned for 2023. Indiana regulation has been constructive in the past and the commission has expressed support for renewable energy with NIPSCO and other Indiana utilities in recent integrated resource plans. Thus, we are confident that regulators will approve the investment and allow constructive regulatory treatment.

We estimate this renewable energy investment and other capital expenditures in electric and natural gas distribution will allow annual EPS growth exceeding 7% from 2021-24, in line with management's 7%-9% guidance initiated at the Sept. 29 Investor Day.

NiSource management indicated during the earnings conference call that the estimated impact of COVID-19 was only $0.01 per share in the recently ended quarter and reaffirmed that its 2021 EPS guidance range of $1.28-$1.36 includes a negative impact of $0.05 per share. This gives us additional confidence in the fading impact of the pandemic and our unchanged $1.32 full-year EPS estimate.

NiSource Plans to Increase Renewable Energy Investment by $2 Billion Charles Fishman, CFA, Equity Analyst, 6 Aug 2020

We are increasing our fair value estimate to $27 per share from $26 after NiSource reported 2020 second-quarter operating earnings per share of $0.13 versus $0.05 last year, initiated 2021 earnings guidance, and announced plans to invest an additional $1.8 billion-$2 billion in renewable energy through 2023.

The results were solid in what is normally a weak quarter for a utility that derives over 60% of its operating earnings from natural gas distribution.

We increased our five-year capital expenditure forecast by $2.9 billion, to $12.1 billion, based in large part on NiSource’s projecting that its combined gas and electric rate base will increase to $20.7 billion by 2024 from $13.9 billion at the end of this year. We are a little more conservative than management and estimate a 2024 year-end rate base of $19.9 billion, but this would still represent an impressive

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average annual growth rate of 9.4% over the four-year period.

NiSource management had previously announced it would close its last Indiana coal-fired power plant in 2028, but the almost $2 billion investment in renewable energy through 2024 was more than we had anticipated. We had assumed the majority of the needed generating capacity to replace the retiring coal units would come from purchased power agreements. However, NiSource plans to have joint venture ownership in 50% of the additional renewable capacity, requiring the larger investment and driving rate base growth.

NiSource initiated a 2021 EPS guidance range of $1.28-$1.36, with a midpoint higher than our estimate of $1.30. We increased our 2021 EPS estimate to $1.32, the midpoint of the range, and also increased our 2022-24 estimates by $0.02-$0.09 per share. The increase in our earnings estimates were due to the higher rate base projections and was the primary driver of our higher fair value estimate.

Safety-Related O&M, COVID-19, and Weak Industrial Demand Pressure NiSource's Earnings Growth

Charles Fishman, CFA, Equity Analyst, 7 May 2020

We are reducing our fair value estimate to $26 per share from $27 after NiSource reported 2020 first-quarter operating EPS of $0.76 versus $0.82 last year, reduced its 2020 capital expenditure forecast by $100 million, and made comments less supportive of future earnings growth.

The weak results were due in large part to higher safety-related operating and maintenance costs, mild weather, and weaker industrial electricity demand. COVID-19-related costs were not material in the recently ended quarter.

In March, we reduced our five-year capital expenditure estimate by $500 million, approximately 5%, to $9.5 billion due to our assumption of the impact of COVID-19 on investment. Driven by the lower 2020 guidance and our assumption of the continuing impact of COVID-19, we reduced our five-year investment forecast by another $250 million, to approximately $9.25 billion.

Although NiSource had previously indicated earnings guidance would not be provided until after the closing of the Columbia of Massachusetts transaction later this year, it was disappointing that management declined to support previous comments that 2021 operating earnings would be at least equal to the lower end of the previous range for 2020, or $1.36 per share.

Driven by lower capital investment and our assumption that higher O&M and weak industrial electricity demand will drag into next year, we reduced our 2021 EPS estimate to $1.30 from $1.35. Management did reaffirm that when 2021 guidance is established later this year, it will be the base for long-term annual EPS growth of 5%-7%. We estimate annual EPS growth of 6% from our new 2021 estimate, in line with this guidance.

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NiSource Inc NI ★★★★ 4 May 2021 21:21, UTC

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However, starting from a lower 2021 earnings base reduces our annual earnings growth for 2019-24 to 3.3% from our previous estimate of 4.8%. This lower earnings growth was the primary driver for our lower fair value estimate.

Coronavirus and Utilities: Listening For Answers Andrew Bischof, CFA, CPA, Senior Equity Analyst, 22 Apr 2020

Utilities' first-quarter earnings rarely offer much excitement, but this year will be different. We expect lively coronavirus commentary from utilities starting this week. We are maintaining our fair value estimates, moats, and moat trends.

We expect to hear commentary from management teams on numerous COVID-19 concerns. Utilities with large commercial-industrial customers could see record-breaking demand drops. Rate structures are critical, and we expect earnings cuts for utilities with usage-based rates. Utilities have issued a surge of debt in March, providing plenty of near-term liquidity, but investors will look to see if it is enough to get them through the year. Dividends appear secure throughout the sector and offer good income value relative to fixed-income alternatives. Capital programs are key drivers for utility growth amid stalled supply chains, workforce shortages, or financing. Renewable energy programs are the least at risk in our view. Finally, higher operating costs will likely affect utilities. The key will be which regulators adapt their natural disaster recovery programs for COVID-19 costs.

We highlight two lists of utilities that investors should watch this earnings season, value and quality. Atypical volatility among utilities stocks during the last month has created a wide spread between the overloved and the underloved. Value stocks could get an outsize lift if management commentary pushes the market toward our more positive outlook. We highlight AES, Edison International, Duke Energy, Vistra Energy, and First Solar as value stocks to watch.

We expect the most consistency from high-quality utilities; if the market were to turn down, like in mid-March, investors should be ready to pounce. We think high-quality Dominion Energy, NextEra Energy, Southern Co., and WEC Energy Group are the best positioned to weather COVID-19.

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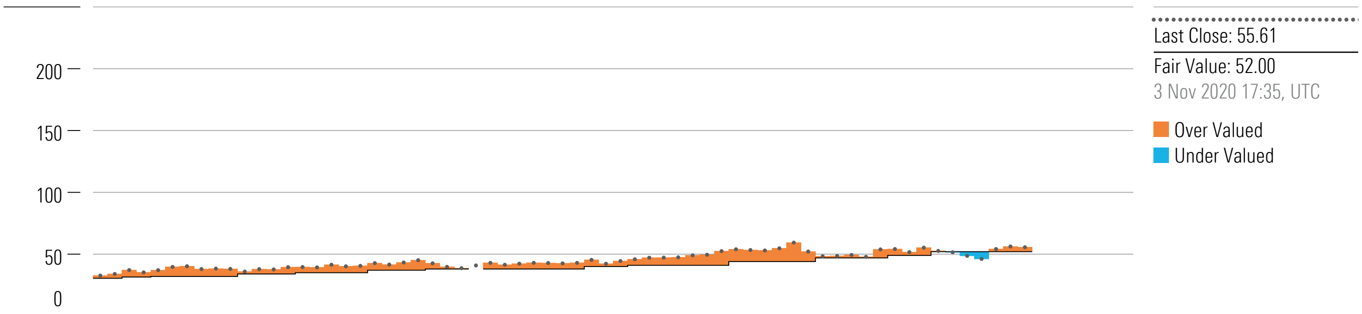
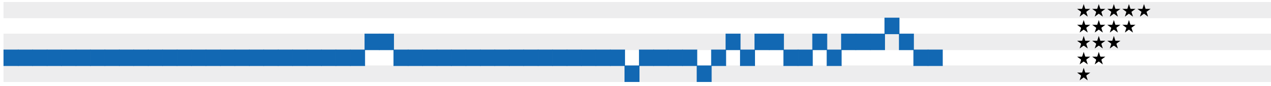
Competitors Price vs. Fair Value

Alliant Energy Corp LNT



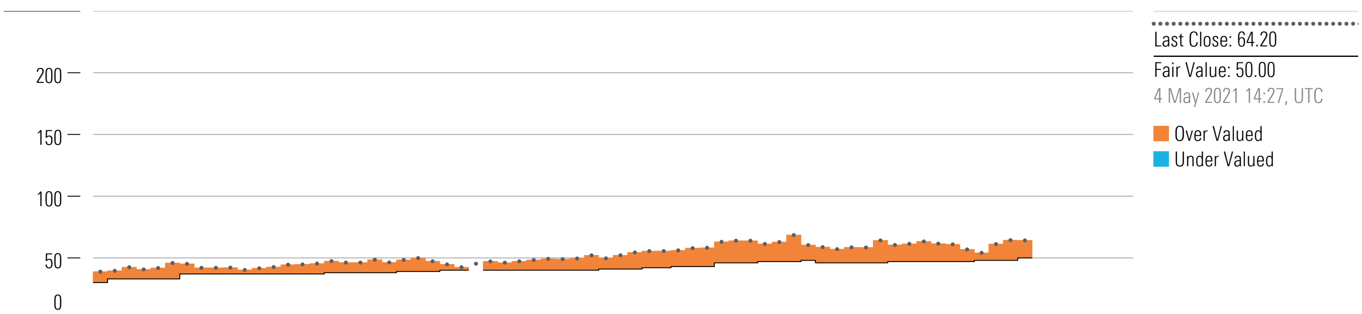
	2016	2017	2018	2019	2020	YTD	
	1.11	1.12	1.06	1.24	0.99	1.07	Price/Fair Value
	25.11	15.78	2.30	32.88	-3.05	11.27	Total Return %

Morningstar Rating



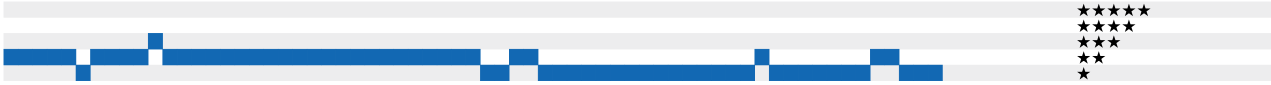
Total Return % as of 4 May 2021. Last Close as of 5 May 2021. Fair Value as of 3 Nov 2020 17:35, UTC.

CMS Energy Corp CMS



	2016	2017	2018	2019	2020	YTD	
	1.12	1.21	1.21	1.34	1.30	1.28	Price/Fair Value
	18.79	16.84	7.99	29.65	-0.32	7.58	Total Return %

Morningstar Rating



Total Return % as of 4 May 2021. Last Close as of 5 May 2021. Fair Value as of 4 May 2021 14:27, UTC.

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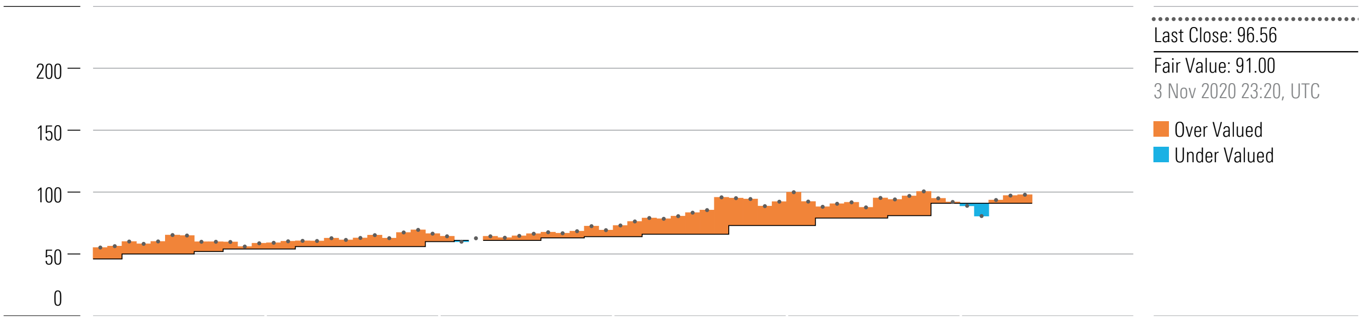
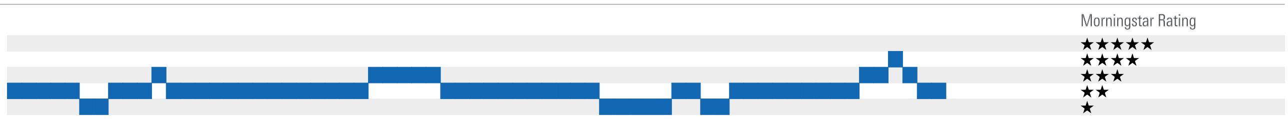
NiSource Inc NI ★★★★ 4 May 2021 21:21, UTC

WEC Energy Group Inc WEC



	2016	2017	2018	2019	2020	YTD
Price/Fair Value	1.09	1.11	1.08	1.26	1.01	1.06
Total Return %	18.16	16.81	7.59	36.57	2.53	7.07



Total Return % as of 4 May 2021. Last Close as of 5 May 2021. Fair Value as of 3 Nov 2020 23:20, UTC.

Morningstar Equity Analyst Report | Report as of 5 May 2021 21:21, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

NiSource Inc NI ★★★★ 4 May 2021 21:21, UTC

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Morningstar Historical Summary

Financials as of 31 Dec 2020

Fiscal Year, ends 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	TTM
Revenue (USD Mil)	5,751	5,031	4,625	5,272	4,652	4,493	4,875	5,115	5,209	4,682	4,682	4,682
Revenue Growth %	-9.7	-12.5	-8.1	14.0	-11.8	-3.4	8.5	4.9	1.8	-10.1	-10.1	-10.1
EBITDA (USD Mil)	1,383	1,583	1,149	1,268	1,227	1,405	1,364	720	1,587	1,047	1,047	1,047
EBITDA Margin %	24.1	31.5	24.9	24.0	26.4	31.3	28.0	14.1	30.5	22.4	22.4	22.4
Operating Income (USD Mil)	917	1,004	699	792	802	865	927	126	1,305	961	961	961
Operating Margin %	15.9	20.0	15.1	15.0	17.2	19.3	19.0	2.5	25.1	20.5	20.5	20.5
Net Income (USD Mil)	299	416	532	530	287	332	129	-51	383	-18	-18	-18
Net Margin %	5.2	8.3	11.5	10.1	6.2	7.4	2.6	-1.3	6.3	-1.6	-1.6	-1.6
Diluted Shares Outstanding (Mil)	289	300	314	317	320	324	331	357	376	384	384	384
Diluted Earnings Per Share (USD)	1.03	1.39	1.70	1.67	0.90	1.02	0.39	-0.18	0.87	-0.19	-0.19	-0.19
Dividends Per Share (USD)	0.92	0.94	0.98	1.02	0.83	0.64	0.70	0.78	0.80	0.84	0.84	0.84

Valuation as of 30 Apr 2021

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Recent Qtr	TTM
Price/Sales	1.1	1.5	1.9	2.1	1.0	1.7	1.7	1.8	2.0	1.8	2.0	2.1
Price/Earnings	21.6	18.2	21.6	25.3	12.8	23.3	31.3	-87.7	22.6	-29.4	-126.6	-137.0
Price/Cash Flow	5.7	5.9	7.3	10.8	3.8	9.0	10.5	7.8	12.3	7.2	8.4	9.1
Dividend Yield %	3.86	3.78	2.98	2.4	4.25	2.89	2.73	3.08	2.87	3.66	3.53	3.31
Price/Book	1.3	1.4	1.8	2.2	1.6	1.9	2.0	2.0	2.1	2.0	1.9	2.1
EV/EBITDA	10.3	10.0	16.3	18.2	10.5	10.6	12.7	25.8	13.2	19.5	0.0	0.0

Operating Performance / Profitability as of 31 Dec 2020

Fiscal Year, ends 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	TTM
ROA %	1.5	2.0	2.4	2.2	1.4	1.8	0.7	-0.3	1.5	-0.3	-0.3	-0.3
ROE %	6.1	7.9	9.3	8.8	5.7	8.4	3.1	-1.4	6.6	-1.5	-1.5	-1.5
ROIC %	4.3	5.1	5.4	4.8	3.7	4.8	2.7	1.4	4.2	1.2	1.2	1.2
Asset Turnover	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2

Financial Leverage

Fiscal Year, ends 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Recent Qtr	TTM
Debt/Capital %	55.6	55.1	56.3	56.9	60.8	59.8	63.5	55.3	56.8	61.6	61.6	—
Equity/Assets %	24.1	25.4	26.0	25.1	22.0	21.8	21.6	22.3	22.5	22.1	22.1	—
Total Debt/EBITDA	5.8	5.1	7.7	7.9	5.7	5.6	6.6	15.0	7.1	11.0	11.0	—
EBITDA/Interest Expense	3.7	4.0	3.3	3.5	3.4	4.1	3.9	2.1	4.4	3.0	3.0	3.0

Morningstar Analyst Historical/Forecast Summary as of 05 May 2021

Financials

Fiscal Year, ends 31 Dec	2019	2020	Estimates 2021	2022	2023
Revenue (USD Mil)	5,209	4,682	5,207	5,491	5,899
Revenue Growth %	1.8	-10.1	11.2	5.5	7.4
EBITDA (USD Mil)	2,023	1,687	1,820	1,985	2,235
EBITDA Margin %	38.8	36.0	35.0	36.1	37.9
Operating Income (USD Mil)	1,305	961	1,123	1,216	1,359
Operating Margin %	25.1	20.5	21.6	22.1	23.0
Net Income (USD Mil)	495	508	558	617	701
Net Margin %	9.5	10.8	10.7	11.2	11.9
Diluted Shares Outstanding (Mil)	376	384	417	445	469
Diluted Earnings Per Share(USD)	1.32	1.32	1.34	1.39	1.49
Dividends Per Share(USD)	0.80	0.84	0.88	0.92	0.97

Forward Valuation

	2019	2020	Estimates 2021	2022	2023
Price/Sales	2.0	1.9	2.0	1.9	1.7
Price/Earnings	21.1	17.4	19.4	18.7	17.4
Price/Cash Flow	-48.6	-13.7	-17.9	-12.8	-7.1
Dividend Yield %	2.87	3.66	3.39	3.55	3.74
Price/Book	—	—	—	—	—
EV/EBITDA	10.4	12.1	11.4	10.4	9.3

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

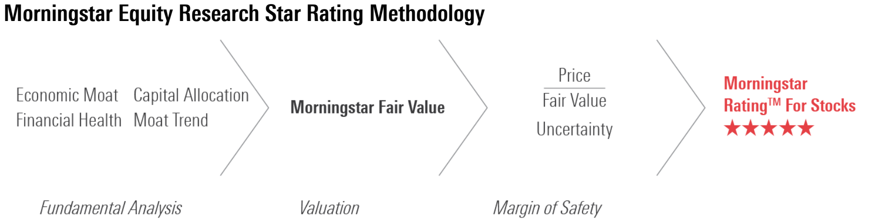
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to

Morningstar Equity Research Star Rating Methodology



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bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

Qualitative Analysis Uncertainty Ratings	Margin of Safety ★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

4. Market Price

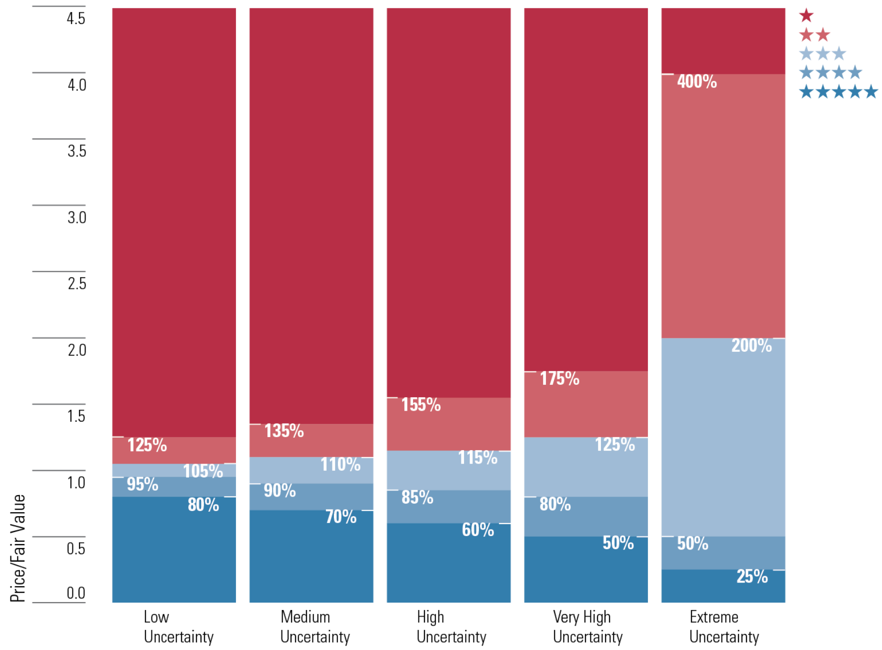
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close

Morningstar Equity Research Star Rating Methodology



tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

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plary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

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The Fleishman Daily 5/5/21

Utilities: EXC, EXC/PEG, NI, PEG, SRE, PNW, FTS, PCG, AGR, D, AWK
Midstream: PAA, LNG, MPLX, WMB, ETRN

Utilities

EXC – Q1 miss already preannounced; 2021 guidance affirmed; all about IL legislation

EXC/PEG – Nuclear production tax credits likely to be included in Biden infra plan according to press reports; positive

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PNW – Q1 beats; not a lot new, 2021 guidance and other updates not till after APS' rate case concludes

FTS – Q1 EPS beats; 6% dividend growth and 6-6.5% rate base growth reaffirmed

PCG – Probation Judge says cannot extend probation or appoint overseer for PCG's role in Kincade; expected

AGR – A new hope? Or just a Texas two-step?

D – Another notch on the execution belt

AWK – Well on track but watching issues in NY

Midstream

PAA – Asset sales are a needed catalyst

LNG – Capitalizing on tighter markets

MPLX – Growth, buybacks, and a top tier balance sheet

WMB – Foot on the gas accelerates deleverages

ETRN – MVP still stuck in the station

Quarterly data: Weather, Forward Prices, Spot Prices, Nuke Outages

Wolfe Utility & Midstream Materials: Utility Comps, Utility Stock Charts, Midstream Comps, Midstream Stock Charts, Valuation Charts, Models, Arb Spreads

Utilities

EXC – Q1 miss already preannounced; 2021 guidance affirmed; all about IL legislation

- **1Q21 miss expected.** -$0.06 vs $0.36 consensus and $0.40 WRe (last updated 4/20); EXC pre-announced Q1 earnings on 4/28; the TX winter storm in Feb was the key driver of $0.85 reduction in ExGen's market and portfolio conditions.
- **2021 guidance affirmed, including segment guidance.** $2.60-3.00 vs $2.79 consensus and $2.82 WRe.
    - Utility guidance: $1.90-2.30 vs $2.09 WRe.
    - ExGen guidance: $0.55-0.85 vs $0.72 WRe.
- **IL legislation update.** There are 6 major bills on decarbonization and grid mod pending at state legislature; they include provisions for carbon mitigation credits, FRR authorization, carbon pricing mechanism, transition to traditional ratemaking and more. Session ends 5/31.
- **Federal legislation update.** This morning, *Reuters* reported the White House signaled privately to lawmakers and stakeholders in recent weeks that it supports nuclear PTCs, which would likely be included in Biden's infrastructure legislation (see below).
- **ExGen tax-free spin on track, closing still targeted for 1Q22:**
    - NYPSC: intervenor testimony on spin approval expected 5/24.
    - FERC and NRC also must approve the spin. NRC decision expect 11/30.
    - S&P last week said it expects SpinCo/ExGen to meet its metrics.
- **ExGen 2021 gross margins using 3/31/21 vs 12/31/20 pricing.** 2021 GMs are $5.75B (vs $5.9B previously) with TX hit, $6.7B without (same as before); the $5.75B excludes mitigation efforts.
- **TX hit to margins of $850-1,050M pretax.** Excludes bad debt and other P&L offsets.

The Q1 loss was pre-announced last week. ExGen/SpinCo results included the big losses from TX, but the utility segment continues to perform well. ExGen/SpinCo regulatory process is on track, with intervenor testimony due later this month. The focus remains on clean energy legislation in IL. With several proposals, including one from Gov Pritzker (D), action is expected. But we believe ExGen/SpinCo needs more support than currently in the Pritzker proposal (HB 4074) by the legislative session's end to avert shutdowns this fall of Byron and Dresden nuclear plants. The report of federal nuke PTCs is encouraging but would not be sufficient from a time perspective to save the two nukes (though it would still benefit EXC's remaining fleet, including outside of IL). We remain bullish on EXC because we expect a reasonable resolution in IL by or around month's end.

EXC/PEG – Nuclear production tax credits likely to be included in Biden infra plan according to press reports; positive

- On 5/5, *Reuters* reported the White House signaled privately to lawmakers and stakeholders in recent weeks that it supports nuclear PTCs, which would likely be included in Biden's infrastructure legislation.
- "There's a deepening understanding within the administration that it needs nuclear to meet its zero-emission goals," a source engaged in the talks and familiar with the White House thinking told *Reuters*. The White House had no comment for *Reuters*.
- Sen. Manchin (D) last month said he supported credits for nuclear.
- Biden targets zero emissions from the power industry by 2035. Biden has proposed extending existing wind and solar tax credits and adding a storage tax credit.

ExGen/SpinCo is the largest nuclear operator in the US and is the most levered to any federal nuclear support. The nuke PTCs would be positive. Although they would not likely save Byron and Dresden from early retirement this fall, the federal support would benefit ExGen/SpinCo's other 14+ GW of nuclear capacity and the wider merchant nuclear fleet in the US. PEG, VST, NRG, NEE, and D would benefit, though to a much lesser extent than ExGen/SpinCo.

NI – Q1 in-line; low end of 2021 guidance raised, 7-9% EPS CAGR through 2024 reaffirmed; positive

- **Q1 in-line**. NI reported 1Q21 EPS of $0.77 – matching consensus (WRe $0.76)
- **Low end of 2021 guidance raised**. NI raised FY21 guidance to $1.32-1.36 vs $1.28-1.36 prior; the new $1.34 midpoint is a penny ahead of us and consensus at $1.33
    - We believe this reflects a less than feared impact from COVID in Q1; recall, NI baked $0.05 of COVID related headwinds into original 2021 guidance
- **7-9% EPS CAGR through 2021 reaffirmed**. The 7-9% CAGR is for the period 2021-24; NI expects annual EPS growth of 5-7% through 2023
    - Our current 2024E of $1.70 implies an 8.3% CAGR off the $1.34 base
- **All renewable projects now identified, total investment of $2B.** NI has announced 14 renewable projects – total investment is now firm at $2B vs $1.8-2.0B range previously
    - All other capex is unchanged vs prior disclosures
- **Financing plan unchanged after convert offering; still mentions potential portfolio optimization opportunities.** Proceeds from the recent convert were $862.5M, which eliminated all discrete block equity needs
    - Mechanics of the convert structure are shown on slide 21 of NI's Q1 deck
- **2021 IRP process.** A final report is due in November – this will start to frame a replacement plan for NI's last remaining coal units (Michigan City) after Schahfer is retired in 2023

NI's results look good, with the headline item being the 2021 guidance raise as the impact from COVID in Q1 was presumably a lot less than initially feared. Importantly, this also takes into account NI's ability to absorb the dilution from the convert offering which wasn't initially planned. We also believe the new $1.34 midpoint is the base for the 7-9% CAGR through 2024 (our 2024E of $1.70 implies an 8.3% CAGR). More broadly, we are encouraged to see NI get back to its pre-CMA event practice of at least meeting or beating initial expectations. We believe a key topic on the call will be management's messaging on potential portfolio optimization opportunities given the great price that CNP just received for its AR/OK LDCs (2.5x rate base).

<u>PEG – Q1 EPS big beat w/ some timing items, 2021 guidance affirmed; solar portfolio sold to LS Power but price not disclosed, fossil sale still pending</u>

- **Reports Q1 2021 operating EPS of $1.28 vs. $1.03 last year – big beat** versus consensus $1.12 and or $1.10 estimate
    - PSE&G +$0.07 YoY – driven by transmission rate base, gas riders, electric sales, pension, and taxes (expected to reverse); offset some by higher O&M and depreciation
    - Power +$0.15 YoY – driven by higher capacity payments, higher generation from absence of Salem 1 outage, favorable weather, and higher gas send-outs (expected to reverse in Q3 due to absence of one-time gain from last year), lower O&M (absence of Bergen 2 / Salem 1 outages), and lower depreciation/interest; lower hedge prices are expected to become a more pronounced negative driver in future quarters
    - Parent +$0.03 YoY – driven by taxes (expected to reverse) and interest income from prior IRS audit settlement
- **Reaffirms 2021 guidance of $3.35-3.55** (consensus: $3.44; WRe: $3.45)
    - No changes to segments
- **Announces sale of 437 MW solar portfolio to LS Power. Fossil sale still pending with "contract stage" expected around mid-year.**
    - No sale price disclosed. Expected to close in Q2/Q3 with $500M carrying value.
- **Rate base growth CAGR of 6.5-8% through 2025 reaffirmed** driven by $14-16B capex plan (90% to PSE&G)
- **No equity reaffirmed**
- **Electric/gas sales** -2%/+1% weather-normal over last 12 months

PEG is off to solid start, though there are a number of timing-related items, such that the year appears on track rather than ahead of plan. It's good to see progress on the solar sale, but it would be helpful to know the proceeds if material. More important is the pending fossil sale, which is expected to fetch a much higher price and we will know more around the middle of this year. The recent decision by the NJ BPU to extend PEG's nuclear ZECs at the full amount was helpful and removed an overhang.

SRE – Q1 strong even without marketing benefits; good but full picture coming at analyst day

- SRE reported Q1 EPS of $2.95 vs. $2.47 last year. This was above our $2.68 estimate and the $2.53 consensus
- The result was up on a combination of Oncor (growth and weather), the full operation of Cameron, gas marketing gains from the Q1 volatility ($69M or $0.22) and lower parent costs partially offset by the absence of South American earnings.
- Infrastructure transactions underway. Per previous updates, the 20% sell down of Sempra Infrastructure Partners for $3.37B is on track to close by mid-2021 and the IEnova tender will resolve by the end of May
- No change to guidance. SRE maintained 2021 EPS guidance of $7.50-$8.10

The quarter was stronger than expected, even if the gas marketing benefits were excluded. There were not a lot of new announcements in the release or slides as expected. This will be the first time that management will be in a position to publicly discuss the infrastructure sell down to KKR that was announced a few weeks ago, though mgmt may be constrained on how much it can say given the pending IEnova tender offer. Instead, we expect the full picture sometime next month when it holds its annual investor meeting.

PNW – Q1 beats; not a lot new, 2021 guidance and other updates not till after APS' rate case concludes

- **Q1 beats.** PNW reported 1Q21 EPS of $0.32 – ahead us/consensus at $0.24/$0.26
    - The beat appears to be driven by pension (+$0.09), weather (+$0.03) and taxes (+$0.03)
- **No 2021 guidance pending outcome of APS rate case.** No surprise here
    - Key drives remain unchanged; this includes weather-adj sales growth of 0.5-1.5%; 2021-23 sales growth expectations unchanged (1-2% on average)
- **No change to capex plan.** PNW still expects to invest $1.5B annually 2021-23; rate base CAGR through 2023 (off 2019A) is ~6%
- **Summer peak.** PNW noted in its release that it is projecting peak demand of 7,521 MW this year – below last year's record of 7,660 MW but 406 MW higher than 2019
- **Weather adj. sales growth of 0.5% in Q1.** Residential was up 2.2%, C&I was down 0.9%; customer growth during Q1 was 2.1%

The Q1 beat appears to be driven by a few items, though we would note that Q1 isn't a particularly meaningful quarter for PNW. The focus for the stock continues to be the outcome of APS' rate case, which is currently targeted for mid-year. After the rate case concludes, PNW plans to hold an investor briefing to issue formal 2021 guidance, detail financing plans as well as provide the expected timing of its next rate case. Of note, on the ACC's docket today is a discussion and a possible vote to reopen the evidentiary hearing in APS' rate case to allow for testimony/documentation to address Commissioner

Kennedy's questions on the use of adjustor mechanisms. Doing so would be a negative datapoint as it would further prolong the case.

FTS – Q1 EPS beats; 6% dividend growth and 6-6.5% rate base growth reaffirmed

- **FTS reported adjusted Q1 2021 EPS of $0.77 vs. $0.68 last year – beat** versus $0.75 consensus and our $0.74
    - UNS Energy +0.04 on new rates, pension losses last year; partially offset by higher operating costs
    - ITC +0.02 on rate base growth
    - Western Canada Utilities +0.02 on rate base growth
    - FX = -$0.02
    - Corporate/Dilution +0.01 on FX contract losses last year; offset some by dilution
- No 2021 guidance as expected (consensus: $2.77, WRe: $2.79)
- **Reaffirms 6% dividend growth target through 2025**
- **Five-year capex plan reaffirmed at $19.6B**
    - Notes that higher capex expected to offset weaker FX rate in 2021
- **Rate base growth reaffirmed at 6.5% and 6.0%** respectively for 3 and 5 years (2023/2025 rate base of $36.4/40.3B unchanged)
- **FX.** Continues to assume USD/CAD FX = $1.32 vs. $1.23 current rate (every $0.05 in FX change = $0.06 EPS and $400M capex)
- **Sales.** Arizona/UNS: Residential up 3% in Q1, C&I down 3%; overall sales down 1% (weather not material impact)
    - (83% of overall revenues covered or from residential)
- **Lake Erie Connector Transmission.** Canada Infrastructure Bank announced 40% funding in April. Fully permitted, but still negotiating transmission service agreements before construction can start
    - Not included in capital plan = $1.7B
- **Tax Reform.** Notes higher tax rate is EPS and cash flow positive, transmission tax credits are EPS neutral and cash flow positive

FTS is off to a solid start, as it looks like weaker FX rates can be mostly offset by higher capex. On the call, we'll be most interested in latest thoughts around transmission growth opportunities tied to renewables, particularly in MISO, the Lake Erie project that now seems primed to move forward and views on FERC transmission ROE proposed rule.

PCG – Probation Judge says cannot extend probation or appoint overseer for PCG's role in Kincade; expected

- Judge Alsup, PCG's federal probation judge, said at a hearing on PCG's role in the 2019 Kincade Fire that he has no power to extend the utility's probation term when it ends Jan 2022.

- Federal probation officer alleged that Kincade violated PCG's probation (which stems from the 2010 San Bruno gas pipeline explosion). Sonoma County prosecutors last month filed 33 criminal charges against PCG for causing Kincade.
- And Michael Aguirre, a lawyer who has represented some plaintiffs against CA utilities in the past, asked Judge Alsup to appoint an overseer; however, given an appointed trustee or receiver would lose power in Jan 2022 when the probation term ends.
- PCG previously said it will accept that its power line sparked Kincade, but denies that it was a crime.
- Judge Alsup noted PCG will "be rid of me" in less than a year, but he added: "I do have eight or nine more months to go, and I plan to use that as fairly as I can," reported *The Associated Press*.
- He will consider imposing additional probation conditions because of Kincade. Another hearing is set for 6/2.

Judge Alsup's comments on his inability to extend the probation term are not surprising. His court still remains a key venue to follow for PCG investors, as he can still impose rules on the utility over the next 9 months, including the 2021 wildfire season.

UBS

First Read

NiSource Inc.

2021 EPS Guidance Revised Higher

Solid 1Q and 2021 Guidance Midpoint Revised Higher

NI reported 1Q EPS roughly inline with the Street expectations and revised higher its 2021 EPS guidance to $1.32-$1.36 ($1.34 midpoint) up from $1.28-$1.36 ($1.32 midpoint) vs. UBSe/Cons of 1.34/1.33, respectively. Additionally, NI revised higher renewable capex to ~$2B, up from $1.8B-$2B and maintained long term adj EPS CAGR of 7%-9% (2021-2024). NI filed rate case in PA and requested $98.3mm revenue increase with expected new rates effective in Dec 2021. During the call, we will listen for an update on 1) renewable projects, 2) 2021 IRP filing, 3) details on the recent equity offering, and 4) expected impact from the pandemic on 2021 earnings. We expect investors will react positively to the solid qtr and revised higher '21 EPS and renewable capex guidance.

Results: 1Q21 EPS Roughly Inline with UBSe & Consensus

NI reported 1Q adj EPS of $0.77, roughly inline with UBSe/Cons of $0.76/$0.77, respectively. Gas utilities op. income was 7.7% below UBSe, while electric op. income was 3% above UBSe. Interest expense was 6% below UBS expectations and other income of $10.5mm was above UBSe loss of $2.5mm.

Estimates

As 1Q results were roughly in-line with UBSe, we are maintaining our 2021+ EPS estimates roughly unchanged.

Valuation: Increasing PT to $29

We maintain Buy rating, but we are increasing our PT to $29 from $27 as we removed 5% discount related to expected hybrid/equity offering as it was announced in April (click here). Our price target is based on sum-of-the-parts P/E valuation and 2022 EPS of $1.45. We are increasing LDC P/E to 21x from 20x and electric P/E to 18x from 17x.

Equities

Americas
Gas Utilities

12-month rating	**Buy**
12m price target	**US$29.00**
	Prior US$27.00
Price (04 May 2021)	**US$25.94**
RIC: NI.N **BBG:** NI US	

Trading data and key metrics

52-wk range	US$26.18-21.26
Market cap.	US$10.2b
Shares o/s	394m (COM)
Free float	99%
Avg. daily volume ('000)	1,205
Avg. daily value (m)	US$28.6
Common s/h equity (12/21E)	US$6.22b
P/BV (12/21E)	1.8x
Net debt to EBITDA (12/21E)	5.5x

EPS (UBS, diluted) (US$)

	12/21E			
	From	To	% ch	Cons.
Q1	0.76	0.77	1	0.77
Q2E	0.14	0.13	-1	0.13
Q3E	0.11	0.11	-2	0.09
Q4E	0.36	0.36	1	0.37
12/21E	1.34	1.34	1	1.33
12/22E	1.44	1.45	1	1.40
12/23E	1.54	1.54	0	1.51

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Highlights (US$m)	12/18	12/19	12/20	12/21E	12/22E	12/23E	12/24E	12/25E
Revenues	5,095	5,184	4,697	4,912	5,182	5,434	5,750	5,958
EBIT (UBS)	942	1,047	1,031	1,112	1,239	1,352	1,514	1,607
Net earnings (UBS)	463	495	507	568	643	689	773	828
EPS (UBS, diluted) (US$)	1.30	1.32	1.32	1.34	1.45	1.54	1.71	1.82
DPS (net) (US$)	0.79	0.84	0.88	0.90	0.96	1.02	1.08	1.14
Net (debt) / cash	(9,892)	(10,374)	(10,501)	(10,504)	(11,680)	(13,922)	(14,593)	(15,244)
Profitability/valuation	**12/18**	**12/19**	**12/20**	**12/21E**	**12/22E**	**12/23E**	**12/24E**	**12/25E**
EBIT (UBS) margin %	18.5	20.2	22.0	22.6	23.9	24.9	26.3	27.0
ROIC (EBIT) %	7.7	7.9	7.5	7.7	7.8	7.5	7.6	7.6
EV/EBITDA (UBS core) x	10.6	10.6	9.9	10.0	9.5	8.7	8.0	7.6
P/E (UBS, diluted) x	19.4	21.2	18.6	19.3	17.8	16.9	15.1	14.2
Equity FCF (UBS) yield %	(14.5)	(1.6)	(6.0)	(5.8)	(9.6)	(18.4)	(2.3)	(1.8)
Dividend yield (net) %	3.1	3.0	3.6	3.5	3.7	3.9	4.1	4.4

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$ 25.94 on 04-May-2021

Figure 1: 1Q Results vs UBSe

$ in millions	Actual 1Q21	UBSe 1Q21e	% variance	Actual 1Q20	YoY % change
Financial Data					
Revenues	$1,554.6	$1,739.5	*(10.6%)*	$1,631.8	*(4.7%)*
Cost of Sales	($476.8)	($511.5)	*(6.8%)*	($462.4)	*3.1%*
Operating & Maintenance Expenses	($346.2)	($421.0)	*(17.8%)*	($436.5)	*(20.7%)*
Depreciation & Amortization	($185.0)	($192.3)	*(3.8%)*	($184.3)	*0.4%*
Total Expenses	($613.2)	($744.3)	*(17.6%)*	($706.7)	*(13.2%)*
Interest Expense	($84.6)	($90.3)	*(6.3%)*	($92.9)	*(8.9%)*
Net Income	$304.8	$297.9	*2.3%*	$290.9	*5%*
EPS	$0.77	$0.76	*1.3%*	$0.76	*2%*
Diluted Shares Outstanding	$393.9	$390.1	*1.0%*	$383.1	*2.8%*
Dividend Per Share	$0.220	$0.220	*0.0%*	$0.220	*0.0%*
Segment Operating Income					
Gas Distribution	$374.0	$405.4	*(7.7%)*	$391.6	*(4.5%)*
Electric Operations	$90.6	$88.1	*2.9%*	$80.0	*13.3%*
Total	$464.6	$483.7	*(3.9%)*	$462.7	*0.4%*

Source : UBS estimates, Company Reports

Figure 2: NI Summary Model

NiSource Inc (NI) ($ in Millions)	2019	2020	1Q21	2Q21e	3Q21e	4Q21e	2021e	2022e	2023e	2024e	2025e
Operating Data											
Customers (000)											
Gas Utilities Customers	3,510	3,213	3,224	3,558	3,552	3,242	3,242	3,272	3,302	3,333	3,363
Electric Customers	476	479	480	481	482	483	483	487	491	495	499
Income Statement											
Revenues	**$ 5,184.1**	**$ 4,696.7**	**$ 1,554.6**	**$ 1,067.8**	**$ 996.4**	**$ 1,293.7**	**$ 4,912.4**	**$ 5,181.6**	**$ 5,433.6**	**$ 5,750.3**	**$ 5,958.3**
Operating costs & expenses											
(Cost of Sales)	$ (1,534.8)	$ (1,109.3)	$ (476.8)	$ (263.8)	$ (209.3)	$ (337.8)	$ (1,287.7)	$ (1,373.3)	$ (1,436.3)	$ (1,521.2)	$ (1,573.6)
(Operating & Maintenance Expenses)	$ (1,588.3)	$ (1,494.8)	$ (346.2)	$ (342.4)	$ (349.6)	$ (377.0)	$ (1,415.2)	$ (1,423.3)	$ (1,430.8)	$ (1,437.8)	$ (1,444.4)
(Depreciation & Amortization)	$ (717.4)	$ (762.3)	$ (185.0)	$ (205.9)	$ (204.2)	$ (192.8)	$ (787.9)	$ (825.1)	$ (883.8)	$ (936.4)	$ (981.9)
Gain on the Sale of Assets	$ -	$ -	$ (1.2)	$ (4.9)	$ 2.7	$ -	$ (3.3)	$ (2.1)	$ (2.1)	$ (2.1)	$ (2.1)
(Other Taxes)	$ (296.8)	$ (298.9)	$ (80.8)	$ (71.1)	$ (73.0)	$ (81.1)	$ (306.0)	$ (319.2)	$ (328.4)	$ (338.3)	$ (349.2)
Equity Earnings in Unconsolidated Affilates	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	**$ (2,602.5)**	**$ (2,556.0)**	**$ (613.2)**	**$ (624.3)**	**$ (624.1)**	**$ (650.8)**	**$ (2,512.4)**	**$ (2,569.7)**	**$ (2,645.1)**	**$ (2,714.6)**	**$ (2,777.6)**
Operating Income By Division											
Gas Distribution	$ 632.0	$ 667.7	$ 374.0	$ 83.9	$ 18.5	$ 232.0	$ 708.3	$ 804.9	$ 851.7	$ 905.2	$ 965.0
Transmission & Storage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Electric Operations	$ 401.5	$ 361.9	$ 90.6	$ 95.4	$ 141.3	$ 72.1	$ 399.3	$ 435.5	$ 508.4	$ 622.6	$ 660.7
Corporate & Eliminations	$ 13.3	$ 1.8	$ (0.0)	$ 0.5	$ 3.2	$ 1.0	$ 4.7	$ (1.9)	$ (7.9)	$ (13.4)	$ (18.4)
Total Operating Income	**$ 1,046.8**	**$ 1,031.4**	**$ 464.6**	**$ 179.7**	**$ 163.0**	**$ 305.0**	**$ 1,112.3**	**$ 1,238.5**	**$ 1,352.2**	**$ 1,514.4**	**$ 1,607.2**
EBITDA	**$ 1,764.2**	**$ 1,793.7**	**$ 649.6**	**$ 385.6**	**$ 367.2**	**$ 497.8**	**$ 1,900.2**	**$ 2,063.6**	**$ 2,236.0**	**$ 2,450.8**	**$ 2,589.0**
Other expenses											
Interest Expense	$ (378.9)	$ (370.7)	$ (84.6)	$ (90.5)	$ (86.1)	$ (88.6)	$ (349.7)	$ (359.1)	$ (414.6)	$ (471.1)	$ (494.5)
Other Expense (Income)	$ (5.2)	$ 28.7	$ 9.5	$ (2.5)	$ (2.5)	$ (2.5)	$ 2.0	$ (10.0)	$ (10.0)	$ (10.0)	$ (10.0)
Total Other Expenses	**$ (384.1)**	**$ (342.0)**	**$ (75.1)**	**$ (93.0)**	**$ (88.6)**	**$ (91.1)**	**$ (347.7)**	**$ (369.1)**	**$ (424.6)**	**$ (481.1)**	**$ (504.5)**
Income from Before Income Taxes	**$ 607.6**	**$ 634.3**	**$ 375.7**	**$ 72.9**	**$ 60.7**	**$ 200.2**	**$ 709.5**	**$ 814.3**	**$ 872.5**	**$ 978.2**	**$ 1,047.5**
Income Taxes	$ (112.9)	$ (126.8)	$ (70.9)	$ (15.3)	$ (12.7)	$ (42.0)	$ (141.0)	$ (171.0)	$ (183.2)	$ (205.4)	$ (220.0)
Effective Tax Rate	18.6%	20.0%	18.9%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Net income	**$ 494.7**	**$ 507.5**	**$ 304.8**	**$ 57.6**	**$ 47.9**	**$ 158.2**	**$ 568.5**	**$ 643.3**	**$ 689.3**	**$ 772.8**	**$ 827.5**
Diluted Weighted Avg Number of Common Uni	$ 374.7	$ 384.4	$ 393.9	$ 429.1	$ 433.2	$ 437.0	$ 423.3	$ 442.6	$ 448.0	$ 451.3	$ 454.5
EPS	**$ 1.32**	**$ 1.32**	**$ 0.77**	**$ 0.13**	**$ 0.11**	**$ 0.36**	**$ 1.34**	**$ 1.45**	**$ 1.54**	**$ 1.71**	**$ 1.82**
Balance Sheet Summary											
Assets											
Cash and Cash Equivalents	$ 148.4	$ 125.6	$ 96.7	$ 59.9	$ 89.8	$ 119.8	$ 119.8	$ 239.6	$ 359.4	$ 414.5	$ 469.6
Property, Plant and Equipment	$ 16,912.2	$ 16,619.5	$ 16,836.7	$ 17,175.1	$ 17,515.3	$ 17,866.8	$ 17,866.8	$ 19,591.7	$ 22,257.9	$ 23,371.6	$ 24,489.7
Investment in affiliates	$ 163.7	$ 228.9	$ 237.7	$ 237.7	$ 237.7	$ 237.7	$ 237.7	$ 237.7	$ 237.7	$ 237.7	$ 237.7
Total Assets	**$ 22,659.8**	**$ 22,040.5**	**$ 22,194.5**	**$ 22,496.1**	**$ 22,866.2**	**$ 23,247.7**	**$ 23,247.7**	**$ 25,092.4**	**$ 27,878.4**	**$ 29,047.1**	**$ 30,220.4**
Liabilities & Partners' Capital											
Long Term Debt	$ 7,856.2	$ 9,219.8	$ 9,202.3	$ 8,362.4	$ 8,661.7	$ 8,877.7	$ 8,877.7	$ 10,176.8	$ 12,445.2	$ 13,161.0	$ 13,859.0
Partners' Equity	$ 5,986.7	$ 5,837.8	$ 6,025.7	$ 6,820.5	$ 6,864.7	$ 7,011.7	$ 7,011.7	$ 7,440.7	$ 7,745.8	$ 8,133.4	$ 8,545.1
Total Liabilities & Partners' Capital	**$ 22,659.8**	**$ 22,040.5**	**$ 22,194.5**	**$ 22,496.1**	**$ 22,866.2**	**$ 23,247.7**	**$ 23,247.7**	**$ 25,092.4**	**$ 27,878.4**	**$ 29,047.1**	**$ 30,220.4**
Cash Flow Summary											
Changes in Working Capital	$ (75.1)	$ (249.1)	$ (100.0)	$ -	$ -	$ -	$ (100.0)	$ -	$ -	$ -	$ -
Net cash provided by operating activities	$ 1,583.3	$ 1,104.0	$ 448.3	$ 277.3	$ 265.9	$ 364.7	$ 1,356.2	$ 1,523.5	$ 1,628.2	$ 1,764.2	$ 1,864.5
Capital Expenditues	$ (1,802.4)	$ (1,758.1)	$ (367.0)	$ (544.3)	$ (544.3)	$ (544.3)	$ (2,000.0)	$ (2,550.0)	$ (3,550.0)	$ (2,050.0)	$ (2,100.0)
Net cash provided by investing activities	$ (1,922.4)	$ (879.1)	$ (401.8)	$ (544.3)	$ (544.3)	$ (544.3)	$ (2,034.8)	$ (2,550.0)	$ (3,550.0)	$ (2,050.0)	$ (2,100.0)
Net cash provided by financing activities	$ 366.4	$ (247.7)	$ (75.4)	$ 230.2	$ 308.4	$ 209.6	$ 672.8	$ 1,146.3	$ 2,041.6	$ 340.9	$ 290.6
Net change in cash	**$ 27.3**	**$ (22.8)**	**$ (28.9)**	**$ (36.8)**	**$ 29.9**	**$ 29.9**	**$ (5.8)**	**$ 119.8**	**$ 119.8**	**$ 55.1**	**$ 55.1**
Dividend											
Dividend Per Share	**$ 0.84**	**$ 0.88**	**$ 0.22**	**$ 0.22**	**$ 0.22**	**$ 0.24**	**$ 0.90**	**$ 0.96**	**$ 1.02**	**$ 1.08**	**$ 1.14**
Payout Ratio	63.3%	66.7%	28.4%	163.9%	198.9%	64.9%	66.6%	65.7%	66.0%	62.8%	62.3%

Source : UBS estimates, Company Reports

Forecast returns

Forecast price appreciation	+11.8%
Forecast dividend yield	3.6%
Forecast stock return	+15.4%
Market return assumption	5.2%
Forecast excess return	+10.2%

Company Description

NiSource is an investment-grade rated energy company engaged in natural gas distribution and electric generation, transmission, and distribution. NiSource's operating companies deliver natural gas and electric service to approximately four million customers located across seven states, including IN, KY, MA, MD, OH, PA, and VA. Local utilities are Columbia Gas and NIPSCO. NiSource has a plan to spend ~$30bn over the next 20+ years on infrastructure enhancements to meet safety and reliability needs and comply with environmental requirements.

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. Our price target is derived using a sum-of-the-parts P/E valuation.

Required Disclosures

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	52%	31%
Neutral	FSR is between -6% and 6% of the MRA.	36%	28%
Sell	FSR is > 6% below the MRA.	12%	22%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2021.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. In some cases, this yield may be based on accrued dividends. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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UBS Securities LLC: Aga Zmigrodzka, CFA, Brian Reynolds, Shneur Z. Gershuni, CFA.

Company Disclosures

Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Buy	US$25.94	04 May 2021

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date
16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

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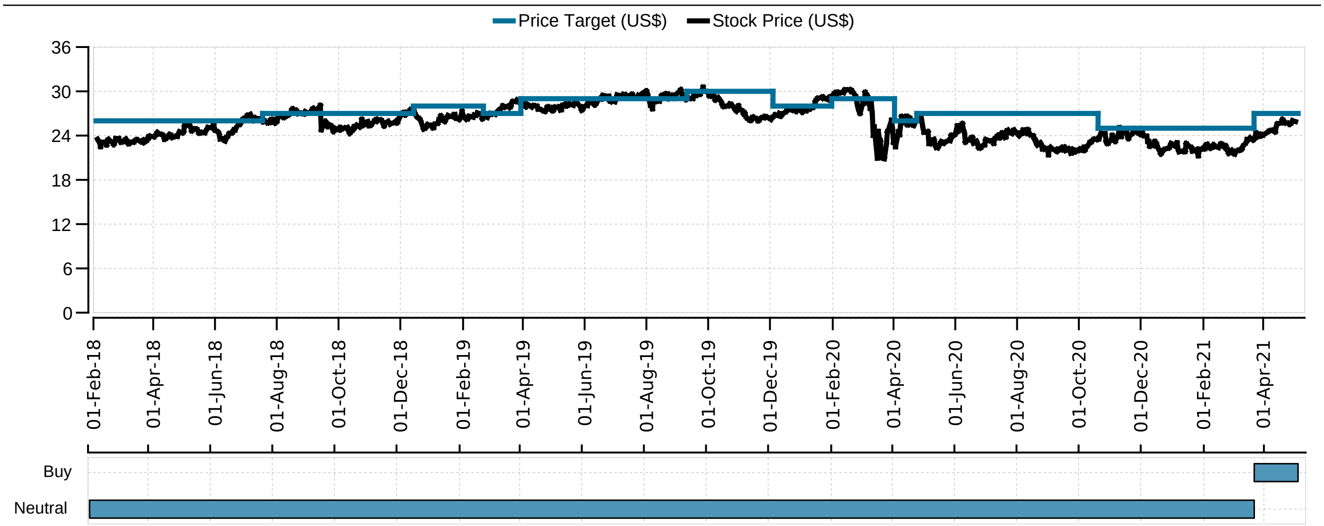
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2018-02-02	23.97	26.00	Neutral
2018-07-17	26.12	27.00	Neutral
2018-12-13	27.62	28.00	Neutral
2019-02-20	26.28	27.00	Neutral
2019-03-29	28.66	29.00	Neutral
2019-09-09	28.91	30.00	Neutral
2019-12-03	26.41	28.00	Neutral
2020-01-30	29.10	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral
2020-10-19	23.47	25.00	Neutral
2021-03-22	23.42	27.00	Buy

Source: UBS; as of 04-May-2021

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Price Target Change — May 5, 2021

Diversified Electric Utilities
Natural Gas LDCs
Regulated Electric Utilities

Earnings Takeaways: EXC, FTS, NI, NWN, PEG, PNW & SRE

Our Call

We provide thoughts on seven of the utilities that provided Q1 updates on 5/5. Each of the companies affirmed 2021 EPS guidance though NI narrowed to the high end of the range and FTS and PNW have not provided guidance. As is typically the case with Q1, updates were relatively straightforward with emission reduction strategies taking center stage (hydrogen and EV pilot programs, RNG initiatives, renewable and battery projects, etc.) and Q&A discussion bringing in executives' views on potential infrastructure/tax code policy developments along with portfolio optimization questions.

Call takeaways for EXC, FTS, NI, NWN, PEG, PNW and SRE are included in the body of the note.

We are updating price targets for NWN, PNW & SRE, as well as our earnings estimates for EXC, NI, and PNW. Please see the subsequent pages for details.

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Financials

C$ Company Name (Ticker)	Rating Curr.	Rating Prior	Price 05/05/21	FY EPS 2020A	FY EPS 2021E Curr.	FY EPS 2021E Prior	FY EPS 2022E Curr.	FY EPS 2022E Prior	FY P/E 2021	FY P/E 2022	Price Target To	Price Target From
Diversified Electric Utilities												
Exelon Corporation (EXC)	1	NC	$43.53	3.22	2.70	2.80	3.10	NC	16.1x	14.1x	$54.00	NC
Public Service Enterprise Group Incorporated (PEG)	1	NC	$61.31	3.43	3.45	NC	3.45	NC	17.8x	17.8x	$71.00	NC
Sempra Energy (SRE)	1	NC	$135.48	8.03	7.90	NC	8.32	NC	17.1x	16.3x	$148.00	$139.00
Natural Gas LDCs												
NiSource Inc. (NI)	1	NC	$25.78	1.32	1.34	1.32	1.42	1.40	19.2x	18.2x	$29.00	NC
Northwest Natural Holding Co. (NWN)	2	NC	$54.01	2.30	2.50	NC	2.55	NC	21.6x	21.2x	$58.00	$49.00
Regulated Electric Utilities												
Fortis Inc. (FTS)	1	NC	C$54.50	2.57	2.71	NC	2.95	NC	20.1x	18.5x	C$60.00	NC
Pinnacle West Capital Corporation (PNW)	1	NC	$84.50	5.04	4.80	4.85	5.05	NC	17.6x	16.7x	$92.00	$82.00

Source: Company data and Wells Fargo Securities, LLC estimates, and Refinitiv.
1 = Overweight, 2 = Equal Weight, 3 = Underweight, NR = Not Rated, SR = Suspended
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful

EXC. We trim our 21E EPS to $2.70 from $2.80 in light of EXC's revised guidance of the impact of the TX weather event on ExGen. EXC maintained '21 EPS guidance of $2.60-3.00 as mgmt. continues to believe that they can substantially offset the TX earnings impact via several measures including one-time cost savings efforts (deferred maintenance, etc.). No change to our 22-25E EPS of $3.10, $3.30, $3.40 & $3.50. Not much new to report on the IL legislative front as this will likely go down to the very end of the general session (ends 5/31). Not surprisingly, mgmt. sounded underwhelmed by Governor Pritzker's recent carbon tax proposal – the additional revenues generated by the $8/ton carbon tax would likely fall well short of the amount EXC deems necessary to continue operating the four at-risk nuclear power plants. That being said, it sounds like negotiations are ongoing. For its part, mgmt. reiterated that in the absence of constructive legislation in the general session, EXC will proceed with the planned retirements of the Dresden and Byron nuclear plants – an outcome we firmly believe IL policymakers would like to avoid. With that said, EXC remains optimistic that the legislature will pass a bill that provides sufficient economic support to the fleet. We reiterate our Overweight rating and price target of $54/sh. For further details on our base, bull and bear case scenarios please refer to our recent note titled Nuclear Legislation – Third Time's A Charm?

FTS-CA. FTS is off to a good start in '21 as Q1 EPS showed a C$0.09 improvement y/o/y despite a C$0.02 foreign exchange (fx) headwind. While early, we think the results suggest our 21E EPS of C $2.71 could be a little light ('20 adjusted EPS was C$2.57). That being said, there are still a number of variables that could meaningfully impact full year results. These include: (1) USD/CAD fx rate – the USD continues to weaken against the CAD as the current fx rate is 1.23 vs. our full year estimate of 1.28 and 1.34 in '20, (2) FERC RTO adder – the FERC could issue a final decision on the effective elimination of the 50 bps RTO adder during Q3'21, which, to our understanding would be applied on a go-forward basis (we estimate the annualized risk to FTS is C$0.05-0.07 with the upper end reflecting uncertainty around the continuation of the 25 bps independence adder) and (3) AZ Summer Weather – Q2 & Q3 are seasonally important quarters for FTS's AZ electric utilities ('20 was abnormally hot).

No change to our 21-25E EPS of C$2.71, C$2.95, C$3.10, C$3.23 & C$3.40. Notably, our estimates reflect no change to ITC's current allowed ROE of 10.77%, which is clearly increasingly at risk. In addition, we assume a USD/CAD fx rate of 1.28 in '21 and 1.30 thereafter (again, the current rate is 1.23). On the positive side, we do not assume any change to the U.S. corporate income tax rate of 21% (we estimate that a move up to 28% could have a +C$0.03 impact on annual EPS power as a result of a higher tax shield for FTS's U.S. non-utility debt). Last, we think growing capital investment opportunities could mitigate potential EPS headwinds related to FERC ROE/fx rate. However, we caution that ITC's substantial opportunities related to a needed grid build-out in the Midwest are unlikely to sequence until the second half of the decade.

NI. The company is off to a good start as mgmt. narrowed 2021 EPS guidance to $1.32-$1.36 from $1.28-$1.36 driven by a combination of lower than expected COVID impacts and clarity on regulatory outcomes (PA rate case and rider/program proceedings) partially offset by higher share count expectations. NI affirmed the 7-9% EPS CAGR goal through '24 off the revised '21 base (still expect 5-7% annual growth through 2023). While the guidance change is modest at 1.5% (mid-point to mid-point), it is meaningful nonetheless, in our view, as execution and delivering on financial targets is key to the re-rating story. NI has also shown good progress on renewable initiatives – in fact, there are now agreements in place in support of the entire $2B investment opportunity. As a reminder, the 2018 IRP calls for nearly 80% of the company's coal generation to be retired by 2023 and 100% by the end of 2028, which is integral to achieving the targeted 90% GHG emission reduction by 2030 (vs. 2005 levels). NIPSCO's 2021 IRP process, which commenced in March and includes a final submission planned for November, could drive new investment opportunities tied to the Michigan City retirement. These would likely fall outside the planning horizon but would serve to extend the growth runway.

We slightly increase our '21-23E EPS to/from $1.34/1.32, $1.42/1.40 & $1.50/1.48 and maintain our '24E & '25E of $1.66 & $1.75, respectively. With shares trading at 2-3% P/E discounts to blended gas/electric peers on our '22E & '23E EPS and with block equity needs fully addressed, we reiterate our Overweight rating and $29/sh price target (19.3X our '23E EPS). We see a path to NI garnering a premium multiple as the company rebuilds the growth and safety track record. Our positive thesis does not assume any strategic portfolio optimization, though mgmt. expressed an openness in the Q&A discussion on the heels of CNP's AR/OK LDCs fetching a 2.5X rate base multiple.

NWN. Q1 EPS of $1.94 exceeded our $1.81 and the consensus estimate of $1.82 due, in large part, to a 9 cent benefit tied to asset optimization opportunities during the February winter weather event. Other positive drivers that supported the 23% year-over-year increase include new rates in OR, customer growth and, to a lesser extent, a growing contribution from the water/wastewater utilities; these were partially offset by COVID impacts ($0.05) and higher operating expenses. NWN's gas system performed well during the February weather event and although purchased gas costs were higher than expected, the customer impact was more than offset by asset management revenues in concert with third party marketer agreements. The net effect was a $6.5mm customer benefit deferred as a regulatory liability. This was separate from the aforementioned $2.8mm after-tax (9 cent) net benefit at the Other segment from optimization opportunities. NWN affirmed 2021 EPS guidance of $2.40-2.60, which already embedded some level of benefit from February marketing conditions. No change to our '21-25E EPS of $2.50, $2.55, $2.88, $2.95 and $3.12, respectively. We increase our price target to $58/sh (20X our 23E EPS) from $49/sh on higher peer group multiples.

Other notable updates on the Q1 call included mgmt's optimism toward a settlement in the pending WA rate case (requesting multi-year step-up), the continuation of strong gas customer growth including 1.4% in the first quarter, and a strong commitment to both RNG/hydrogen initiatives and water M&A, though no material updates on either.

PEG. Our positive investment thesis remains intact following the Q1'21 results. No change to our 21-25E EPS of $3.45, $3.45, $3.58, $3.77 & $4.00. We reiterate our Overweight rating and price target of $71/sh. The most meaningful incremental development around PEG's Q1 earnings release was the announced sale of the 467 MW Solar Source portfolio to LS Power (pre-tax proceeds of $500-600mm). We continue to model net proceeds from the sale of PSEG Power's fossil fuel fleet + Solar Source of $2B, which we think could be somewhat conservative. Separately, mgmt. acknowledged that transmission owners face "an uphill battle" in persuading the FERC to reverse an initial decision to eliminate the 50 bp RTO adder after three years in an RTO. We estimate the decision poses an EPS risk of $0.06, or 1.5%, to our 22E EPS. A final FERC order could come as early as Q3'21.

Looking ahead, the calendar remains busy: (1) Fossil Fuel Generation Sale –PEG characterized interest in the fleet as robust and the sale remains on track for 2H'21. Once completed, PEG should be able to provide better granularity on the longer-term EPS outlook. (2) NJ Offshore Wind – the results of NJ's 2nd offshore wind (OSW) solicitation for up to 2,400 MW is expected in Q2'21. Ørsted is bidding in the remaining capacity in the Ocean Wind 2 lease area in a head-to-head competition with Atlantic Shores (EDF & Shell). PEG has expressed a strong intention in participating with Ørsted in future OSW opportunities beyond the 25% stake in Ocean Wind 1. As an aside, we do not believe Ørsted's recently announced cable issues have any bearing on Ocean Wind 1 as the cable protection system practice that caused the issue is no longer standard industry practice (see our Ørsted note for more details). (3) Nuclear – Policy Changes? Both the federal government and NJ are considering policy initiatives that could prove to be meaningfully positive for the long-term outlook of PEG's nuclear fleet (NJ is in the early stages of evaluating a number of options including the FRR). At this point, It is very difficult to assess (a) how this all plays out and (b) the timeframe. That said, we expect additional data points over the coming months. Securing longer-term economic certainty for the nuclear fleet is a key element of our positive thesis.

PNW. The year is off to a solid start though the pending rate case remains the most important driver of near-to-intermediate term EPS power. The case is crawling along with the next key data point being an ALJ recommendation this summer with an anticipated order in Q3 (keep in mind the case was originally filed in late 2019). We lower our '21E EPS to $4.80 from $4.85 to better account for potential delays in the final rate case outcome, which has been the pattern in AZ. While we've been discouraged by the fact pattern at the ACC (including Commissioner Kennedy's most recent inquiry into existing adjustment mechanisms), we reiterate our Overweight rating on valuation as shares trade at 10%+ discounts to Regulated Electric peers on our '22E & '23E EPS of $5.05 & $5.25, respectively. Though regulatory matters have dominated the story, we continue to like the company's strong customer growth (2.1% in Q1), above-average credit metrics and sizable clean energy opportunity. We increase our forward price target to $92/sh (19.2X our '22E EPS) from $82/sh on higher peer group multiples.

SRE. Adjusted Q1 EPS of $2.95 exceeded our $2.62 and consensus of $2.61; most of the delta vs. our estimate appears to be at the LNG segment where the company noted a $69mm, or $0.22/sh, pickup from marketing operations with the remainder relating to better-than-expected results at SoCalGas and, less so, Oncor. Though we expected a potential guidance raise (given better-than-expected 2020 results combined with comments that the recent strategic moves are accretive), SRE affirmed 2021 EPS guidance of $7.50-8.10. We could get an update on '21 along with the initiation of '22 EPS guidance in conjunction with the virtual analyst day, which is planned June 29th. We maintain our '21-23E EPS of $7.90, $8.32 & $8.72; our '24E & '25E are $9.25 & $9.72, respectively. We reiterate our Overweight rating as shares appear attractively valued relative to our sum-of-the-parts analysis. We are cognizant that diversified stories in the utility space often struggle to trade at the full SOTP and, as such, have introduced a 3-5% discount into our analysis. Even so, we see ample room for outperformance. We raise our forward price target to $148/sh (see Exhibit 1) from $139/sh primarily reflecting higher peer group utility multiples.

Beyond the Q1 beat, highlights from the update included a constructive proposed decision (PD) for SDG&E's and SoCalGas' 2022/2023 attribution rates (3.7-4.5%), continued strong customer growth at Oncor, and updates on the company's sustainability strategy including two hydrogen pilot projects at SDG&E along with investments in batteries and a vehicle-to-grid pilot program and, separately, SoCalGas' plans to deliver 20% RNG in the gas mix by 2030. These initiatives are part of the recently unveiled net zero GHG by 2050 goal (2045 at SDG&E and SoCalGas). Shifting to Sempra Infrastructure Partners (SIP), we look for the KKR deal (20% stake in SIP) to close in mid-21 and the exchange offer for shares of IEnova to be completed by the end of May. On the project front, ECA phase 1 is progressing well, Cameron Phase 2 is subject to technical design work ahead of engineering and EPC conversations and, for Port Arthur, the company is focused on reducing the GHG profile and competitive positioning with FID now targeted for 2022. Of note, mgmt. expressed a lot of excitement at Cameron expansion, which now appears to be ahead of Port Arthur.

Exhibit 1: SRE Sum-of-the-Parts Analysis

SDG&E 22E EPS		$2.83
21E Regulated Electric Median	Discounted multiple reflects lingering risks related to CA's inverse condemnation policy and highly politicized regulatory environment, partially offset by a highly supportive 5-year rate plan and, separately, constructive FERC regulation	19.8x
Premium (Discount)		-13%
Adjusted P/E		17.2x
SDG&E Forward Value		**$48.74**
Oncor 22E EPS		$2.07
21E Regulated Electric Median	Premium multiple reflects relatively low risk electric T&D platform, attractive rate base growth outlook, above-average customer growth trends and rider mechanisms	19.8x
Premium (Discount)		5%
Adjusted P/E		20.8x
Oncor Forward Value		**$43.08**
SoCalGas 22E EPS		$2.28
21E Gas LDC Median	Slightly discounted multiple vs. Gas LDC peers reflecting at least commensurate growth prospects and generally constructive regulatory treatment offset by higher political risk.	20.3x
Premium (Discount)		-3%
Adjusted P/E		19.8x
SoCalGas Forward Value		**$44.96**
U.S. Utilities Forward Value		**$136.77**
Infrastructure Partners Adj. EBITDA 22E		$1,799
Applied Multiple	12X EV/EBITDA multiple based on a blended contracted LNG multiple of 14-15X (attempts to capture some level of future growth opportunities) and Mexico infrastructure of 10X; multiple applied to our '22E EBITDA estimate to arrive at an enterprise value before backing out debt. Value adjusted for assumed non-controlling interest of ~20%.	12.0x
Enterprise Value (mm)		$21,636
Adjusted Debt (mm) 22E		$8,081
Equity Value (mm)		$13,554
22E Share Count (mil.)		325
Forward Value (Infrastructure Partners)		$41.70
SRE Ownership Stake		80%
Infrastructure Partners Forward Value		**$33.36**
Parent/Other 22E EPS	Blend of segment P/E multiples	($0.89)
Blended P/E Multiple		18.6x
Parent/Other Forward Value		**($16.45)**
3-5% SOTP Discount		**($6.15)**
12-18 Month Price Target		**$148**

Source: Wells Fargo Securities, LLC Estimates

Company	Ticker	Closing Price (5/5/21)	2021E EPS Q1A	Q2E	Q3E	Q4E	EPS 2021E	2022E	2023E	Rating
Exelon Corporation	EXC	$43.53	($0.06)	$0.60	$1.24	$0.92	$2.70	$3.10	$3.30	Overweight
Fortis Inc.	FTS	$44.44	$0.77	$0.58	$0.66	$0.70	$2.71	$2.95	$3.10	Overweight
NiSource Inc.	NI	$25.78	$0.77	$0.08	$0.08	$0.41	$1.34	$1.42	$1.50	Overweight
Northwest Natural Holding Co.	NWN	$54.01	$1.94	($0.22)	($0.66)	$1.44	$2.50	$2.55	$2.88	Equal Weight
Public Service Enterprise Group	PEG	$61.31	$1.28	$0.70	$0.88	$0.59	$3.45	$3.45	$3.58	Overweight
Pinnacle West Capital Corp.	PNW	$84.50	$0.32	$1.33	$2.68	$0.47	$4.80	$5.05	$5.25	Overweight
Sempra Energy	SRE	$135.48	$2.95	$1.49	$1.51	$1.95	$7.90	$8.32	$8.72	Overweight

Source: FactSet and Wells Fargo Securities, LLC estimates

Acronyms

ACC – Arizona Corporation Commission

ALJ – Adminstrative Law Judge

ECA – Energia Costa Azul

EPC – Engineering, Procurement, Construction

FERC – Federal Energy Regulatory Commission

FID – Final Investment Decision

FRR – Fixed Resource Requirement

GHG – Greenhouse Gas

IRP – Integrated Resource Plan

LNG – Liquefied Natural Gas

RNG – Renewable Natural Gas

SIP – Sempra Infrastructure Partners

SOTP – Sum-of-the-Parts

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ELECTRIC UTILITIES

Regulateds – Market Overweight
Gas/Power Infrastructure – Market Overweight

May 5, 2021

NISOURCE

(NI US Equity – $25.78 – Outperform)

Getting back to the NI of old

- **2021 guidance raised, 7-9% CAGR reaffirmed off higher base**. This morning, NI reported 1Q21 EPS of $0.77 which was in-line with consensus. NI raised the low-end of 2021 guidance by $0.04, now targeting a range of $1.32-1.36. Management noted that the guidance raise came after seeing a very limited COVID impact in Q1 and getting greater regulatory certainty (i.e., in PA). We thought this might be the case heading into earnings, but it was still good to see considering NI is absorbing the dilution from the recent convert offering which wasn't originally anticipated when guidance was first issued. Further, NI's 7-9% EPS CAGR through 2024 was reaffirmed off the higher $1.34 midpoint. Our 2024E of $1.70 implies an 8.3% CAGR off that base. We reiterate our Outperform rating on NI and raise our PT to $29 from $28 on higher utility multiples.

- **Open to potential portfolio optimization but doesn't sound imminent**. This was a hot topic on the call given the price that CNP got last week for its AR/OK gas LDCs (2.5x rate base). Management's tone didn't change much, saying that they are open minded and regularly reviewing the asset portfolio. Key considerations in NI's analysis are that each subsidiary is growing rate base at a 10%+ clip and under constructive regulatory frameworks. Given that NI no longer has a block equity need in its plan, we think it is unlikely to see action on this front over the near term. However, the topic could become a little more front and center as NI works through its 2021 IRP (due in November) to identify replacement capacity for its Michigan City coal unit (469 MW). The current timeline for retirement is 2028, though it is possible that could be pulled forward – at which time, NI will be coal-free.

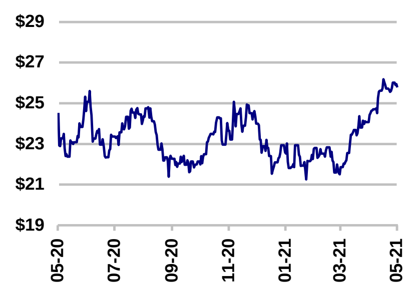
- **Renewable projects progressing well.** Just today, the IURC approved three more CPCN filings for renewable projects. This means that about 2/3s of the capex for the renewable program has effectively been blessed by the Commission. Total capex for the entire program was firmed up at $2B (vs the $1.8-2.0B range prior). Staying on the regulatory front, NI plans to file a new TDISC plan in Indiana in June to incorporate changes from recent legislation which will allow for a more enhanced mix of investments to be included. Finally, we note that NI is due to file a rate case in OH later this summer.

- **Raising 2021E**. We are raising our 2021E by $0.01 to $1.34 given mgmt.'s commentary around COVID impacts. Outyear estimates remain unchanged.

Estimates / Valuation				
(US$)	**2021E**	**2022E**	**2023E**	**2024E**
EPS	$1.34	$1.41	$1.51	$1.70
Consensus	$1.33	$1.41	$1.51	$1.70
P/E	19.3x	18.3x	17.0x	15.2x
Dividend Yield	3.5%	3.7%	3.9%	4.1%

Trading and Fundamental Data	
Price Target	**$ 29**
Current Price	25.78
52-Week Range	$21-$26
Market Cap. (MM)	10,110
Enterprise Value (MM)	20,740
Shares Out. (MM)	392.1
Dividend Yield	3.29%
Dividend Payout Ratio	63.7%
ROE	-1.5%
Debt to Cap	63%
Avg. Daily Vol. (000)	4,921

Price Performance	YTD	LTM
NI US Equity	12%	6%
Utility Index	4%	17%
S&P 500	11%	47%



Source: FactSet/Wolfe Research

Key Changes		
Year	**New**	**Old**
Price Target	$29	$28
2021E	$1.34	$1.33

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NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2021E	2022E	2023E	2024E
EPS	$1.34	$1.41	$1.51	$1.70
Diluted Shares Outstanding	415	443	451	477
Dividends Per Share	$0.89	$0.94	$1.00	$1.06
Dividend Yield	3.5%	3.7%	3.9%	4.1%
Dividend Payout Ratio	67%	67%	66%	62%
Equity Ratio	38%	38%	36%	36%
FFO/Net Debt	15%	15%	14%	15%
Valuation Metrics				
P/E	19.3x	18.3x	17.0x	15.2x
Price/Book	2.0x	2.0x	1.9x	1.9x
EV/rate base	1.4x	1.3x	1.2x	1.2x
Segment EPS				
Gas Distribution	$1.08	$1.12	$1.21	$1.26
NIPSCO Electric	0.54	0.55	0.60	0.72
Parent & Other	(0.29)	(0.27)	(0.30)	(0.29)
Total EPS	**$1.34**	**$1.41**	**$1.51**	**$1.70**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2021E	2022E	2023E	2024E
Capital Spending by Segment ($M)				
Gas Distribution	$1,385	$1,435	$1,535	$1,535
Electric	590	1,090	1,940	490
Parent	25	25	25	25
Total Capex	**$2,000**	**$2,550**	**$3,500**	**$2,050**
Financings ($M)				
Total Equity Issued/(Repurchased)	$290	$290	$115	$40
Total Hybrids Issued/(Repurchased)	$863	$0	$863	$0
Total Debt Issued/(Repurchased)	$0	$650	$1,650	$400

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland and Massachusetts.

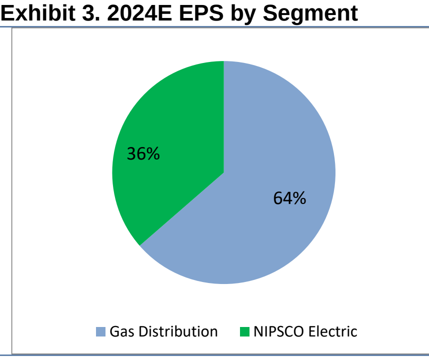
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $40B backlog of capital investment with recovery largely through trackers in mostly constructive regulatory environments. The dramatic shift toward renewables at NI's Indiana electric utility and fact that it will be coal-free by 2028 is also helpful from an ESG perspective.

Valuation

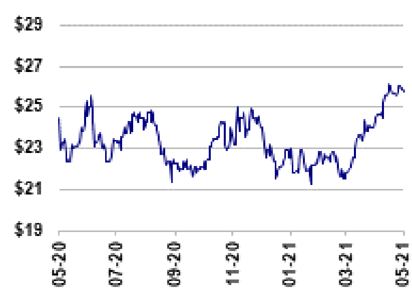
Our $29 price target is derived by applying average P/E multiples on NI's electric earnings and on its gas LDC earnings in 2024 (to capture the full earnings uplift from NI's renewable investments); both are near 17x. Risks for NiSource are 1) bad regulatory outcomes; 2) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer/sales growth

Exhibit 3. 2024E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: FactSet

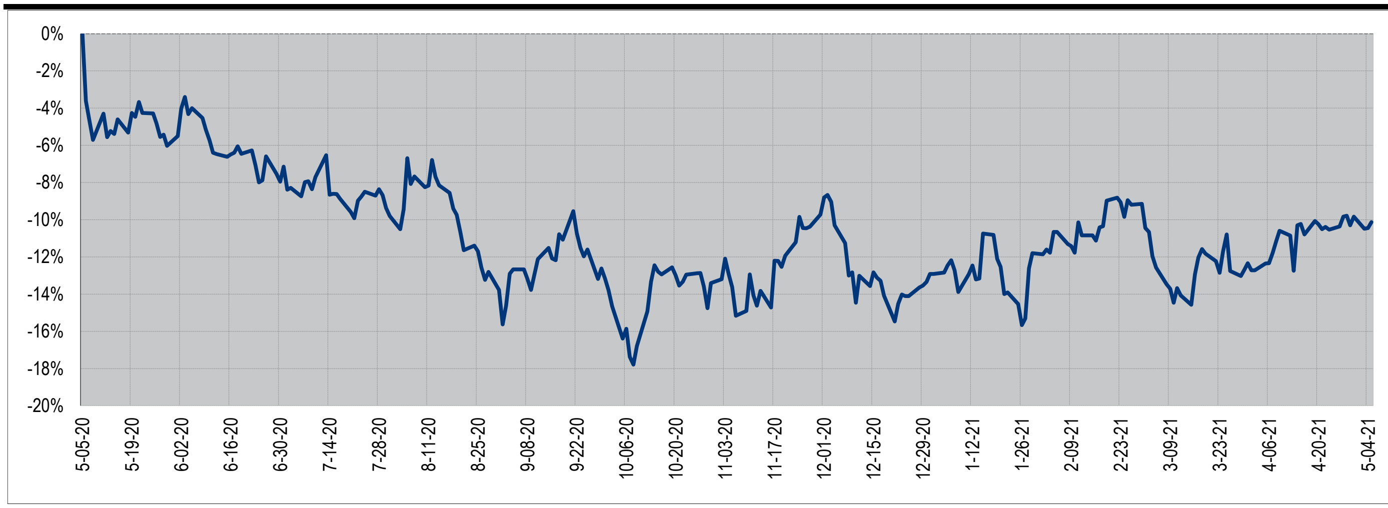
WOLFE RESEARCH

May 5, 2021

Investment conclusion

NI's rate base growth of 10-12% and EPS growth of 7-9%, on average, through 2024 (off a now higher 2021 base year) places it amongst the best growth stories in the sector. The dramatic shift toward renewables at NI's Indiana electric utility and fact that it will be coal-free by 2028 (or earlier) is also helpful from an ESG perspective. We believe the recent equity unit offering removed a key near-term overhang; it was also helpful in lowering future equity needs. NI's stock currently trades at ~2.5x discount to the regulated average in 2024 once its renewable capex is fully reflected in earnings. We believe NI deserves to trade near an average as its story is the cleanest that it has been in recent years. We also see CNP's recent gas LDC sales as a very constructive value marker (2.5x rate base) for NI and gas LDC companies generally.

Exhibit 5: NI vs the Mid-Cap Average



Source: Wolfe Utilities & Power Research, FactSet

Exhibit 6: Gas LDC Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E Multiple 2021E	2022E	2023E	2024E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Atmos Energy	ATO	$102.53	128	$13,140	20.3x	19.0x	17.8x	NA	2.4%	7.5%	49%	1.9x	59%
ONE Gas	OGS	77.77	53	4,141	20.4x	18.9x	17.8x	16.8x	3.0%	6.8%	63%	1.9x	52%
NiSource	**NI**	**25.78**	**392**	**10,109**	**19.3x**	**18.3x**	**17.0x**	**15.2x**	**3.5%**	**6.0%**	**67%**	**2.1x**	**37%**
Northwest Natural Gas	NWN	54.01	31	1,656	21.5x	20.7x	19.4x	18.6x	3.6%	0.6%	83%	1.9x	40%
Pure-play Average					**20.4x**	**19.2x**	**18.0x**	**16.9x**	**3.1%**	**5.2%**	**66%**	**1.9x**	**47%**
New Jersey Resources	NJR	42.03	96	4,045	22.0x	18.6x	17.6x	16.9x	3.2%	6.4%	61%	2.2x	42%
South Jersey Industries	SJI	25.19	111	2,801	15.2x	14.9x	14.6x	13.1x	4.8%	2.6%	71%	1.5x	32%
Southwest Gas	SWX	69.33	57	3,971	16.7x	16.3x	14.8x	15.1x	4.2%	4.7%	70%	1.5x	47%
Spire Inc.	SR	75.30	52	3,890	18.1x	17.2x	16.3x	15.3x	3.5%	5.6%	66%	1.7x	44%
Diversified Average					**18.0x**	**16.7x**	**15.8x**	**15.1x**	**3.9%**	**4.8%**	**67%**	**1.7x**	**41%**
Average - electric utilities (ex PCG and EIX)					**19.6x**	**18.6x**	**17.6x**	**16.9x**	**3.5%**	**4.4%**	**67%**	**2.0x**	**40%**

Source: Wolfe Utilities & Power Research, FactSet

WOLFE RESEARCH

NiSource

May 5, 2021

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Important Disclosures:

Price Chart(s) with Ratings and Target Price History

Note: OP = Outperform; PP = Peer Perform; UP = Underperform

Wolfe Research, LLC Fundamental Valuation Methodology:

Company:	Fundamental Valuation Methodology:
NI US Equity	Forward P/E

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:	Risks That May Impede Achievement of the Recommendation, Rating or Target Price:
NI US Equity	Weak economy/sales, negative regulatory outcomes, pipeline safety accidents

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
NI US Equity	None

Other Disclosures:

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Outperform (OP):	The security is projected to outperform analyst's industry coverage universe over the next 12 months.
Peer Perform (PP):	The security is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.
Underperform (UP):	The security is projected to underperform analyst's industry coverage universe over the next 12 months.

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Market Weight (MW):	Expect the industry to perform approximately in line with the primary market index for the region (S&P 500 in the U.S.) over the next 12 months.
Market Underweight (MU):	Expect the industry to underperform the primary market index for the region (S&P 500 in the U.S.) by at least 10% over the next 12 months.

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Outperform:	53%	4% Investment Banking Clients
Peer Perform:	37%	2% Investment Banking Clients
Underperform:	10%	0% Investment Banking Clients

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Barclays Equity Research

Power & Utilities

4 August 2021

NiSource, Inc.

NI: Progressing According to Plan

NI reported Q2 result in line with expectations and discussed execution on IRPs and regulatory reviews on the call. We reiterate our Overweight as plans continue to fall in line, though future execution remains key.

NI reported Q2 adj EPS of $0.13 (in line with consensus $0.12 and Barclays $0.13).

Management reaffirmed FY21 guidance of $1.32-$1.36 and 7-9% CAGR over 2021-2024 with near-term 5-7% CAGR through 2023.

Capex: $1.9-$2.2 billion SMS investments over 2021-2024; ~$2bn in renewables investments over 2022-2023.

Management has already achieved 39% methane emissions reduction vs 2005 levels via infrastructure replacement. The goal remains 50% methane emissions reduction by 2025.

Rate Cases

NI filed general rate cases in OH, MD, and KY in Q2, in addition to PA in Q1.

Ohio Rate Case: $221m request net of trackers, proposed effective mid-2022.

Maryland Rate Case: $5m request net of trackers, proposed effective in December 2021.

Kentucky Rate Case: $27m request net of trackers.

Pennsylvania Rate Case: $98m request net of trackers. In advanced settlement talks.

NIPSCO

Indiana TDSIC

Filed a new 5-year TDSIC plan which includes a total of $1.64 billion in infrastructure modernization investments over 2021-2026. Management expects an order in December 2021.

2018 IRP

IURC has approved 13/14 proposed projects. Management reiterates confidence in completion on time and on budget despite industry concerns on supply chain cost inflation.

2021 IRP

Received over 180 proposals for 78 individual projects across a range of technologies. Outcome of IRP will inform post-2023 generation replacement strategy.

Management continues to evaluate the planned retirement of Michigan City Generating Station in 2028 in light of MISO changes, resource adequacy needs, affordability, and RFP results.

NI received two actionable proposals related to hydrogen, though there may need to be more market depth for those to be realistic at this moment.

Management expects to share IRP modeling analysis and results with stakeholders in September and to communicate a preferred plan incorporating stakeholder feedback in October, before submitting the IRP to the IURC in November.

Financing

Financing plan remains unchanged. Management has already satisfied this year's $200m-$300m ATM equity need. Management expects to issue $200-$300m in 2022 and up to $150m via ATM in 2023.

Management will not rely on asset monetization to satisfy financing needs. It continues to eye asset monetization as a way of maximizing long-term shareholder value and continues to evaluate market conditions and opportunities.

Offline Report

BofA SECURITIES
BofA GLOBAL RESEARCH

NiSource Inc

In-line quarter as LT targets are reiterated; focus is centered on IRP later this year

04 August 2021 | Equity | United States | Natural Gas-Local Distribution Companies

NI US

Reiterate Rating	Price	Price Objective	Upside	Market Cap	Average Daily Value	ESGMeter ™
BUY	25.31	28.00	10.6%	9,927	77.25	High
	USD	USD		USD(mn)	USD(mn)	

all data as of 4 August 2021

Key takeaways

- NI reports in-line 2Q21 EPS of $0.13 (vs BofAe at $0.15 and street at $0.13) driven by investment and offset by CMA sale
- FY21 EPS guidance $1.32-$1.36 and all of mgmt. LT targets (growth, capital, financing) were reiterated. BofA at high-end FY21
- All but one renewable project has been approved; RFP received robust interest, and IRP remains on track to be filed in Nov.

EDP: Energias De Portugal

NIPSCO: Northern Indiana Public Service Company

In-line Q and LT targets reiterated; renewables progress

NI reported 2Q21 EPS of $0.13, in-line with Street, flat YoY, and a small miss versus $0.15 BofA.an in-line 2Q21 EPS of $0.13. Returns on increased safety/modernization investments and lower COVID-19 impacts were offset by the sale of Columbia Gas of Massachusetts. NI reiterated its FY21 EPS guidance range of $1.32-$1.36 ($1.35 Street/$1.36 BofA), its capital and financing plans through 2024, and its EPS CAGR expectations of 5-7% through '23 and 7-9% through '24 (off of '21). Interestingly in the slides, mgmt. dropped the language around the financing plan not including potential portfolio optimization opportunities. *We have stated in the past that potential further asset rotation could support additional renewables capex related to the 2021 IRP, thereby becoming more electric/renewables: this would be multiple accretive.*

Renewables additions at NIPSCO related to the 2018 integrated resource plan (IRP) remain on track with all of the planned joint-venture projects totaling $2.0B in capex in '22 and '23 and 5 out of 6 planned PPA projects receiving approval from the Indiana Utility Regulatory Commission (IURC). *There has been some concern on whether renewables supply chain issues will impact NI's planned capex - expect mgmt. to address this during the call, but we believe given strong counterparties (i.e. NextEra, Capital Dynamics, EDP, and others), that NIPSCO is in a good position.*

IRP top-of-mind; still see potential extended runway

The immediate focus for investors is the NIPSCO 2021 IRP and the request for proposal (RFP) issued earlier this year that received robust interest (180 proposals). The stakeholder engagement process will continue into the IRP filing in Nov. (previously targeted completion for the fall), followed by additional engagement and evaluation into 2022. *Healthy interest as indicated by mgmt. and meetings that have been held recently will likely lead to attractive joint venture opportunities - watch for more during the call.*

Reiterate Buy as we see the potential for an extended high-growth runway based on the 2021 IRP and the recently issued RFP for 400-650 MW of generation capacity in 2024-2026. We see the potential for an accelerated retirement of NI's last remaining coal plant, Michigan City, given the state's move toward renewables and the timing of the IRP vs current stated retirement date of 2028.

Estimates & Valuation | Quarterly Estimates | Stock Data

Estimates (Dec) (US$)	2019A	2020A	2021E	2022E	2023E
EPS	1.32	1.32	1.36	1.40	1.58
GAAP EPS	0.87	1.33	1.31	1.40	1.58
EPS Change (YoY)	1.5%	0%	3.0%	2.9%	12.9%
Consensus EPS (Bloomberg)			1.35	1.41	1.53
DPS	0.83	0.88	0.94	0.99	1.05
Valuation (Dec)					
P/E	19.2x	19.2x	18.6x	18.1x	16.0x
GAAP P/E	29.1x	19.0x	19.3x	18.1x	16.0x
Dividend Yield	3.3%	3.5%	3.7%	3.9%	4.2%
EV / EBITDA*	15.4x	14.1x	12.8x	11.9x	10.5x
Free Cash Flow Yield*	-2.2%	-6.6%	-5.1%	-9.6%	-16.9%

BofA SECURITIES

BofA GLOBAL RESEARCH

Rate cases secondary to IRP, but a lot of activity to watch

Rate cases will likely be a secondary focus to renewables and the IRP through the remainder of the year, but there are key processes ongoing in OH, PA, KY, and MD (OH and PA most crucial to watch). In OH, mgmt. filed its first case since 2008 in the beginning of July for an increase of $221.4M net of the Capital Expenditure Program (CEP) and Infrastructure Replacement Program (IRP) riders - a decision is expected in '22. The PA case is the furthest along at this point, and while the 2020/early 2021 was somewhat contentious, more recent peer utility cases point to this process as being more streamlined. NI is working through rate cases in both KY and MD, but we note these utilities are relatively small vs OH and PA and therefore outcomes are less impactful to consolidated financial results. NI also filed for a new five-year electric Transmission, Distribution and Storage Improvement Charge (TDSIC) Plan - an order is expected from the IURC in Dec.

*iQprofile*SM NiSource Inc

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

Our Buy rating on NI is underpinned by 1) likely positive revisions given ultra conservative EPS CAGR guidance baked into consensus, 2) renewable rate base upside, and 3) the ability to re-rate higher following any gas LDC asset sale.

iQ*method SM - Bus Performance

(US$ Millions)	2019A	2020A	2021E	2022E	2023E
Return on Capital Employed	3.3%	4.1%	4.3%	4.4%	4.8%
Return on Equity	9.9%	10.2%	10.5%	9.9%	10.8%
Operating Margin	17.1%	22.0%	20.7%	22.0%	24.6%
Free Cash Flow	(219)	(654)	(510)	(956)	(1,682)

iQ*method SM - Quality of Earnings

(US$ Millions)	2019A	2020A	2021E	2022E	2023E
Cash Realization Ratio	3.2x	2.2x	2.6x	2.5x	2.5x
Asset Replacement Ratio	2.5x	2.4x	2.6x	3.1x	4.0x
Tax Rate	24.4%	18.3%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	158.6%	167.4%	133.6%	143.4%	164.3%
Interest Cover	2.4x	2.8x	3.1x	3.2x	3.0x

Income Statement Data (Dec)

(US$ Millions)	2019A	2020A	2021E	2022E	2023E
Sales	5,209	4,697	5,541	5,692	5,993
% Change	2.5%	-9.8%	18.0%	2.7%	5.3%
Gross Profit	3,674	3,587	3,929	4,055	4,332
% Change	10.5%	-2.4%	9.5%	3.2%	6.8%
EBITDA	1,608	1,757	1,928	2,081	2,350
% Change	5.0%	9.3%	9.7%	7.9%	12.9%
Net Interest & Other Income	(384)	(339)	(371)	(390)	(491)
Net Income (Adjusted)	**495**	**508**	**579**	**627**	**723**
% Change	**6.8%**	**2.6%**	**14.1%**	**8.4%**	**15.3%**

Free Cash Flow Data (Dec)

(US$ Millions)	2019A	2020A	2021E	2022E	2023E
Net Income from Cont Operations (GAAP)	328	511	557	627	723
Depreciation & Amortization	717	726	783	827	874
Change in Working Capital	(75)	(249)	0	0	0
Deferred Taxation Charge	118	(29)	130	145	186
Other Adjustments, Net	495	145	21	0	0
Capital Expenditure	(1,802)	(1,758)	(2,001)	(2,555)	(3,464)
Free Cash Flow	**-219**	**-654**	**-510**	**-956**	**-1,682**
% Change	**82.9%**	**-198.5%**	**22.1%**	**-87.4%**	**-76.0%**

Balance Sheet Data (Dec)

(US$ Millions)	2019A	2020A	2021E	2022E	2023E
Cash & Equivalents	148	117	126	126	126
Trade Receivables	905	825	825	825	825
Other Current Assets	800	718	718	718	718
Property, Plant & Equipment	16,912	16,620	17,837	19,565	22,156
Other Non-Current Assets	3,894	3,762	3,762	3,762	3,762
Total Assets	**22,660**	**22,041**	**23,267**	**24,995**	**27,586**
Short-Term Debt	1,787	526	517	583	696
Other Current Liabilities	1,959	1,753	1,753	1,753	1,753
Long-Term Debt	7,856	9,220	9,027	10,177	12,148
Other Non-Current Liabilities	5,071	4,704	4,834	4,979	5,165
Total Liabilities	**16,673**	**16,203**	**16,131**	**17,492**	**19,761**
Total Equity	**5,987**	**5,752**	**7,051**	**7,418**	**7,739**
Total Equity & Liabilities	**22,660**	**21,955**	**23,182**	**24,910**	**27,501**

* Click for full definitions of *iQmethod*SM measures .

Price Objective Basis & Risk

BofA SECURITIES
BofA GLOBAL RESEARCH

NiSource Inc (NI)
Our $28 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2023 forward P/E multiples that are marked-to-market to the lates peer utility multiples of 15.7x for gas and 17.6x for electric with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex potentially beginning in '24, but acknowledge industrial risk. We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.
Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, higher natural gas prices, and inability to execute on renewables additions.

Coverage Cluster

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Aric Li
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
NEUTRAL				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA

Goldman Sachs | Equity Research

4 August 2021 | 7:38AM EDT

NiSource Inc. (NI): First Take: 2Q2021 largely in-line, 2021 guidance and growth rate reiterated

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NiSource (NI, Neutral) reported 2Q21 operating EPS of $0.13, largely in-line with GS/FactSet consensus of $0.14/$0.13 and flat versus 2Q20 of $0.13. The company reiterated its 2021 guidance $1.32-$1.36 (midpoint $1.34) versus GS/consensus of $1.35/$1.35. NI continues to expect EPS to grow 7 to 9% from 2021-2024 and 5 to 7% through 2023; our current estimates reflect a ~6.6% CAGR from 2021-2024, or 6.8% based on the mid-point of management's 2021 guidance of $1.34.

Key takeaway: No real surprises this quarter, with most metrics and guidance measures in-line, although we note a fairly robust recovery in industrial electric demand YoY. We look for color on any changes to future demand growth outlook, expectations for the recently filed Ohio gas rate case, thoughts on potential cost inflation on NI's renewable generation investments, and updates on potential asset monetization opportunities.

Key takeaways from NI's release and slides include:

- **NI reported moderately better results at the Gas and Corporate segments** versus our estimates, offset by lower operating income at Electric. Higher diluted share count also attributed to $0.01 in lower EPS versus our forecast. Gross margins were largely lower but offset by higher other income some operating expense items.
- **NI recorded weather-adjusted electric demand growth of 23% YoY in 2Q2021,** driven by a strong rebound in commercial/industrial usage - up 9%/47%, respectively - partly offset by a 1.6% decrease residential electric sales (including weather). Cooling degree-days were 33% above normal and also above 2Q20 levels, but with only a modest impact to EPS YoY.
- **Capital plan remains unchanged at $10bn total through 2024,** with roughly $1.9-$2.2bn of annual base investments as well as $2bn on renewable generation (largely in 2022 and 2023) that all have received approval from the Indiana utility commission. NI reiterated their forecast of no bulk equity needs through 2024 (given the recent equity units offering), while reiterating $200-$300mn of annual ATM equity financing through 2022 and up to $150mn in 2023.

- **Columbia Gas of Ohio filed its gas rate case on June 30,** the first case in over a decade, requesting $221.4mn revenue increase net of the various rider mechanisms into base rates, on $3.6bn of rate base.

Key topics to monitor on NI's earnings call (11am ET) include: 1) update on the Ohio gas rate case and what's embedded in the company's EPS growth guidance, 2) latest thoughts on potential monetization opportunities at its various regulated utilities, 3) thoughts on the upcoming IRP filing (expected in November) at NIPSCO including potential for faster fleet transition to renewables - with current plan proposing retiring all coal by 2028, and 4) updated thoughts on trajectory of EPS growth through 2024.

Our $27 12 month price target reflects an industry-average 19x P/E applied to our 2022E EPS. Key risks include regulatory approvals for the planned renewable investments in Indiana, cost management, and rate case overhang in Ohio and Pennsylvania.

NI	12m Price Target: **$27.00**	Price: **$25.31**	Upside: **6.7%**

Neutral

Market cap: $9.7bn
Enterprise value: $20.3bn
3m ADTV: $84.7mn
United States
Americas Utilities
M&A Rank: 3

GS Forecast

	12/20	12/21E	12/22E	12/23E
Revenue ($ mn)	4,681.7	4,603.4	4,808.9	5,050.2
EBITDA ($ mn)	1,687.3	1,816.5	2,000.9	2,217.9
EBIT ($ mn)	961.4	1,057.5	1,172.9	1,293.0
EPS ($)	1.32	1.35	1.41	1.54
P/E (X)	18.6	18.8	18.0	16.5
EV/EBITDA (X)	11.9	11.5	11.5	11.2
FCF yield (%)	(6.9)	(7.0)	(9.0)	(16.3)
Dividend yield (%)	3.4	3.5	3.7	3.9
Net debt/EBITDA (X)	5.7	5.3	5.4	5.6

	3/21	6/21E	9/21E	12/21E
EPS ($)	0.77	0.14	0.13	0.31

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3 Aug 2021 close.

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Power & Utilities

August 4, 2021

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Ticker	Price	Rating
AEP	89.09	Buy
ALE	71.60	Neutral
ALTO	5.66	Buy
AVA	44.24	Sell
AWK	175.30	Neutral
CNP	25.87	Buy
ETR	103.97	Buy
EXC	47.38	Neutral
FE	38.54	Neutral
NI	25.31	Buy
OGS	74.88	Neutral
PCG	8.99	Buy
PEG	63.51	Buy
WEC	95.61	Neutral

The Guggenheim Daily Transmission: PEG, WEC, AWK, OGS, ALTO, ETR, AVA, EXC, ALE, NI, FE, OH, AEP, Power, EPA, ERCOT, PCG, CNP

For details on our Guggenheim Hosted Client Utility Events, including our SO NDR, SO CEO Video Call w/Clients, NEE NDR, EEI Financial Conference Schedule, and more, scroll down…

PEG – 2Q EPS In-Line; 2Q Notches Further De-Risking; Upcoming Analyst Day Looks to Provide Catalyst Update (see our note HERE)

WEC – Strong Quarter Comes with Guidance Raise; Textbook WEC (see our note HERE)

AWK: Straightforward 2Q; Guidance Reaffirmed as NYAW Process Grinds On (see our note HERE)

OGS – 2Q EPS Beat; Customer and Margin Growth Materializes, Regulatory Constructs Support Growth (see our note HERE)

ALTO: 2Q Miss on Commodity Woes, But 2022 Specialty Contracting and Strategic Expansion Looks to Set a Path for Success (see our note HERE)

ETR - reports 2Q miss, largely from weather impact; 2021-2023 guidance reiterated and now anticipated at the top end

AVA - reports 2Q Miss; 2022 guidance adjusted down, but 2023 remains intact

EXC – Exelon reports 2Q21 earnings

ALE – ALLETE reports 2Q21 earnings

NI – NiSource reports 2Q21 earnings

FE/OH – PUCO releases DCR audit; DOJ subpoenaed PCUO for Randazzo records

AEP – Stakeholders oppose new cost scenarios for Mitchell plant

Power – Talen partners with bitcoin miner to use Susquehanna nuclear plant's output

EPA – EPA settles upwind suit with northeast states

ERCOT – GIS report points to almost 600MW of resources entering commercial operation

PCG – Dixie fire growth slows, but drought and fire conditions prompt continued evacuation orders; fire grows to 254,000 acres and remains 35% contained

CNP – Enable Midstream sales get scrutiny by FTC with potential delays in approval

ETR reports 2Q miss, largely from weather impact; 2021-2023 guidance reiterated and now anticipated at the top end

- Entergy reports 2Q adjusted EPS of $1.34, vs. consensus $1.40 and our $1.37 estimate.
- 2Q results included -$0.09 of weather vs. normal, bringing normalized results ahead of our estimates and consensus.
- ETR reaffirms 2021-2023 EPS guidance of $5.80–$6.10, $6.15–$6.45, $6.55–$6.85, respectively.
- ETR now anticipates being in the top half of the range in 2021-2023; vs. our EPS expectation of $6.79 for 2023 EPS.

AVA reports 2Q Miss; 2022 guidance adjusted down, but 2023 remains intact

- AVA reported 2Q EPS of $0.20 vs. $0.25 consensus and our $0.30 estimate.
- In 2Q, AVA experienced increases in net power supply costs, and lower hydro generation due to drought conditions.
- AVA confirmed 2021 earnings guidance of $1.96 to $2.16, adjusting 2021 segment ranges to lower Avista Utilities by $0.10 and raise other businesses by $0.10.
- AVA lowered 2022 EPS guidance by $0.15 per diluted share to a range of $2.03 to $2.23 for the same reasons.
- AVA reiterated 2023 EPS guidance of $2.42 to $2.62.

EXC – Exelon reports 2Q21 earnings

- Reported 2Q21 EPS of $0.89 vs. Gugg $0.72 and Street $0.67.
- Results at the utilities were $0.17 higher at EXC Utilities, $0.14 at ExGen, and $0.03 at parent.
- ExGen results included $0.10 of favorable gains on equity investments vs. 2Q20 and $0.04 of NDT gains.
- AVA lowered 2022 guidance by $0.15 per diluted share to a range of $2.03 to $2.23 for the same reasons.
- AVA reiterated 2023 EPS guidance of $2.42 to $2.62.
- EXC Utilities TTM ROE improved to 9.4% from 8.9%, attributed to 2020 storms rolling off.
- EXC Utilities announces net zero by 2050 goal, 50% reduction by 2030 goal.

ALE – ALLETE reports 2Q21 earnings

- Reported 2Q21 earnings of $0.53 vs. Gugg $0.47 and Street $0.52.
- Reaffirms 2021 EPS guidance of $3.00 to $3.30 range.
- Results reflect higher earnings at MN Power and ACE, partially offset by parent drag from marketable securities and higher tax.

NI – NiSource reports 2Q21 earnings

- Reported 2Q21 EPS of $0.13 vs. Gugg $0.14 and street $0.12.
- Reaffirmed 2021 EPS guidance of $1.32 to $1.36.
- Reaffirmed 10-12% rate base growth guidance through 2024.

FE/OH – PUCO releases DCR audit; DOJ subpoenaed PCUO for Randazzo records

- The 215-page third party audit calls for a $6.6mm refund to customers.
- "Today the Public Utilities Commission of Ohio's (PUCO) issued an expanded audit report of FirstEnergy's Ohio electric distribution companies' delivery capital recovery rider for the 2020 calendar year. The audit report recommends $6.6 million should be returned to customers…The audit report examined expenses identified by FirstEnergy Corp. in its Feb. 18, 2021 report to the Securities and Exchange Commission (SEC) to be improperly classified, misallocated, or lacked supporting documentation. The audit examined payments to 17 vendors over a 10-year period, totaling $24.5 million." - report
- The audit report identifies $6.6 million of the $24.5 million total that were included in customer bills and should be refunded.
- "Based on information reviewed, and except for the recommendations noted above, Blue Ridge concludes that the Companies' controls were adequate and not unreasonable." – consultant
- Audit HERE, press release HERE.
- The DOJ has also reportedly subpoenaed PUCO for records related to former Chair Randazzo and his involvement in the 2024 ESP – more HERE.

Guggenheim takeaway: *Yet more noise in the process, but also not altogether surprising to us. The Randazzo linkage is not new at this point, although we remain on the lookout for any other data points that could come from the regulatory investigations or DOJ criminal charges against individuals. Still, we believe the new team at FE is working hard to reset its relationships –* ***see our note from last week's lunch with CEO/CFO and TreasurerHERE for more****.*

AEP – Stakeholders oppose new cost scenarios for Mitchell plant

- A series of stakeholders, including consumer advocate groups are opposed to the provision of new cost scenarios on the grounds that they would deprive stakeholders of due process.
- More HERE

Guggenheim takeaway: *Zero surprise to us given the parties in question and the initial decision by the KY PSC.*

Power – Talen partners with bitcoin miner to use Susquehanna nuclear plant's output

- Talen [PRIVATE] has "entered into a Joint Venture with TeraWulf Inc. ("TeraWulf") [PRIVATE], a U.S.-based bitcoin mining company, to develop up to 300 Megawatts of zero-carbon bitcoin mining capacity. The Joint Venture, named Nautilus Cryptomine will leverage the strengths of both Talen and TeraWulf as they collectively work to advance the convergence of clean energy sources and digital infrastructure assets. Phase I of the Nautilus Cryptomine facility is a 180-megawatt bitcoin mining facility which will be built on Talen's digital infrastructure campus adjacent to its Susquehanna nuclear power generation station." - release
- More HERE.

Guggenheim takeaway: *Interesting heads up.*

EPA – EPA settles upwind suit with northeast states

- "The agreement announced today with the Biden-Harris Administration's EPA resolves the coalition's lawsuit and ends the EPA's illegal delay by establishing deadlines for action. The agreement requires the EPA to approve or reject Good Neighbor SIPs from the upwind states by April 30, 2022." – AG James
- More HERE.

Guggenheim takeaway: *Minor ICYMI from last week and not a surprise to us.*

ERCOT – GIS report points to almost 600MW of resources entering commercial operation

- Just over 500MW of wind and 40MW of storage was approved for commercial operation in July.
- More HERE.

Guggenheim takeaway: *Minor FYI as the ISO and PUCT continue to weight tweaks to support dispatchability.*

PCG – Dixie fire growth slows, but drought and fire conditions prompt continued evacuation orders; fire grows to 254,000 acres and remains 35% contained

- The Dixie fire in northern California slowed expansion but weather conditions continue to threaten further expansion.
- The fire is currently estimated at 254,000 acres burned with 35% containment.
- Evacuation orders are continued to be considered in the affected areas.
- Damage assessments are currently estimating 67 structures destroyed.
- The Butte county DA along with CalFire is investigating the incident.

Guggenheim takeaway: *FYI. We continue to monitor the report for datapoints on structure damage and potential future liabilities. While current estimates may be incomplete due to access, no major population centers have reported damage, and 67 structures destroyed is a very small number relative to the overall size of the fire, which speaks to the unpopulated nature of the terrain and CalFire efforts to guide the fire away from population centers.*

CNP – Enable Midstream sales get scrutiny by FTC with potential delays in approval

- The FTC continues issuing requests for information and extending the approval timeline for antitrust clearance in the Enable Midstream deal (ENBL).
- Energy Transfer (ET) addressed the deal with CNP on the quarterly call, still expecting to close in the second half of 2021.

- The ET team does not see antitrust issues for the ENBL footprint since there is adequate competition in the area.

Guggenheim takeaway: *FYI. The delays were not anticipated by us or the ET mgmt. team, per comments on the call, given the relatively straight forward nature of the sale, but FTC's extensions have moved the timeline twice. We continue to monitor but do not anticipate any delays beyond 2021.*

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Equity Research | Corporate Access

Southern Company (SO)

Drew Evans, *Chief Financial Officer*
Scott Gammill, *Director, Investor Relations*

Date
Wednesday, August 4, 2021

Meeting Format
Virtual NDR - 1:1 Meetings & Group Meeting

Company Information
Market Cap: $65.67bn
Southern Co (SO) is a holding company. The firm engages in the sale of electricity. It operates through the following segments: Traditional Electric Operating Companies, Southern Power and Southern Company Gas. The Traditional Electric Operating Companies segment refers to vertically integrated utilities that own generation, transmission and distribution facilities, and supplies electric services in the states of Alabama, Georgia, Florida, and Mississippi. The Southern Power segment constructs, acquires, owns, and manages generation assets such as renewable energy projects and sells electricity in the wholesale market. The Southern Company Gas segment distributes natural gas through natural gas distribution facilities in the states of Illinois, Georgia, Virginia, New Jersey, Florida, Tennessee, and Maryland. The company was founded on November 9, 1945 and is headquartered in Atlanta, GA. (Source: FactSet)

Equity Research | Corporate Access

Southern Company (SO)

Tom Fanning, *Chairman, President & Chief Executive Officer*

Please join Guggenheim Research Analyst Shar Pourreza for a discussion with Southern Company's Tom Fanning.

Date and Time

Friday, August 13, 2021
12:00PM ET | Group Call

Company Information

Market Cap: $65.67bn

Southern Co (SO) is a holding company. The firm engages in the sale of electricity. It operates through the following segments: Traditional Electric Operating Companies, Southern Power and Southern Company Gas. The Traditional Electric Operating Companies segment refers to vertically integrated utilities that own generation, transmission and distribution facilities, and supplies electric services in the states of Alabama, Georgia, Florida, and Mississippi. The Southern Power segment constructs, acquires, owns, and manages generation assets such as renewable energy projects and sells electricity in the wholesale market. The Southern Company Gas segment distributes natural gas through natural gas distribution facilities in the states of Illinois, Georgia, Virginia, New Jersey, Florida, Tennessee, and Maryland. The company was founded on November 9, 1945 and is headquartered in Atlanta, GA. (Source: FactSet)

Participating Guggenheim Analyst

Shar Pourreza, *Senior Managing Director, Equity Research Analyst – Power & Utilities*

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NextEra Energy, Inc. (NEE)

Rebecca Kujawa, *Chief Financial Officer*
Jessica Aldridge, *Head of Investor Relations*

Dates & Locations

September 13 | Los Angeles
September 14 | San Francisco

Meeting Format

1:1 Meetings & Small Group Meeting

Company Information

Market Cap: $145.87bn

NextEra Energy, Inc. (NEE) is an electric power and energy infrastructure company. It operates through the following segments: FPL & NEER. The FPL segment engages primarily in the generation, transmission, distribution and sale of electric energy in Florida. The NEER segment produces electricity from clean and renewable sources, including wind and solar. It provides full energy and capacity requirements services; engages in power and gas marketing and trading activities; participates in natural gas production and pipeline infrastructure development; and owns a retail electricity provider. The company was founded in 1984 and is headquartered in Juno Beach, FL. (Source: FactSet)

 See pages 19 - 20 for analyst certification and important disclosures.

Save the Date: 56th EEI Financial Conference

Dates

November 7 - 9, 2021

Company Dinners (Hosted by Guggenheim)

Sunday, November 7, 2021
6:00 p.m. | Cocktail Reception with full Guggenheim Securities Team & corporate utility clients

7:00 p.m. | Dinner with **Duke Energy Corp (DUK)** CEO & CEO of Duke Carolinas
Lynn Good, *Chairman, President & Chief Executive Officer*
Julie Janson, *EVP & Chief Executive Officer, Duke Energy Carolinas*
Location TBD

Monday, November 8, 2021
6:00 p.m. | Cocktail Reception with full Guggenheim Securities Team & corporate utility clients

7:30 p.m. | Dinner with **Entergy (ETR)** CEO, Group President & CFO
Leo Denault, *Chief Executive Officer*
Rod West, *Group President, Utility Operations*
Andrew Marsh, *Chief Financial Officer*
Location TBD

Guggenheim Hosted Utilities Investor Discussion Panel with Mark McLain and Shar Pourreza
Tuesday, November 9, 2021
7:30 p.m. | Location TBD

Company Meetings

More Utilities may be added and we will update schedule accordingly

Sunday, November 7th	
Time	*Co.*
11:00AM	LNT
12:00PM	POR
2:00PM	WEC
3:00PM	CNP
4:00PM	AWK
5:00PM	ALE

Monday, November 8th	
Time	*Co.*
8:00AM	PCG
9:00AM	OGE
10:00AM	PNW
11:00AM	DTE
12:00PM	CMS
1:00PM	PPL
2:00PM	FE
3:00PM	AEP
4:00PM	D
5:00PM	NI

Tuesday, November 9th	
Time	*Co.*
8:00AM	EVRG
9:00AM	EIX
10:00AM	NEE
11:00AM	EXC
12:00PM	PEG
1:00PM	SO
2:00PM	NWE
2:00PM	SRE
3:00PM	ES
4:00PM	AEE
5:00PM	ED
6:00PM	AVA

Participating Guggenheim Analyst
Shar Pourreza, *Senior Managing Director, Senior Equity Research Analyst – Power & Utilities*

Guggenheim's Power & Utility Comp Sheet

Updated as of 8/3/2021

Regulated Electric Utilities (1)		Market Cap ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	Guggenheim Earnings Per Share '21E	'22E	'23E	Guggenheim Price / Earnings '21E	'22E	'23E	Consensus Price / Earnings '21E	'22E	'23E
AEE	Ameren	21.8	Buy	$90	$85.61	NA	#VALUE!	256	3.73	4.02	4.30	23.0	21.3	19.9	22.7	21.2	19.8
AEP	American Electric Power	44.5	Buy	$98	$89.09	NA	#VALUE!	500	4.70	5.03	5.30	19.0	17.7	16.8	19.0	17.9	16.9
ALE	ALLETE	3.7	Neutral	$65	$71.60	NA	#VALUE!	52	3.18	3.85	3.98	22.5	18.6	18.0	22.6	18.5	18.0
AVA	Avista	3.1	Sell	$32	$44.24	NA	#VALUE!	69	2.06	2.26	2.47	21.5	19.6	17.9	21.0	19.4	17.9
CMS	CMS Energy	18.3	Neutral	$63	$63.24	NA	#VALUE!	290	2.69	2.88	3.14	23.5	22.0	20.1	23.1	21.9	20.2
D	Dominion	60.8	Buy	$89	$75.50	3.3%	65%	807	3.86	4.15	4.44	19.6	18.2	17.0	19.5	18.3	17.3
DTE	DTE Energy	22.7	Buy	$126	$118.13	3.6%	74%	194	5.80	5.95	6.19	20.4	19.9	19.1	20.6	20.2	19.2
DUK	Duke Energy	81.8	Buy	$107	$106.61	NA	#VALUE!	769	5.17	5.48	5.81	20.6	19.5	18.3	20.5	19.5	18.4
ED	Consolidated Edison	26.4	Neutral	$77	$74.85	NA	#VALUE!	353	4.25	4.42	4.63	17.6	16.9	16.2	17.6	16.6	15.8
EIX	Edison International	21.0	Buy	$79	$55.39	NA	NA	380	4.51	4.76	5.04	12.3	11.6	11.0	12.2	11.9	11.2
ES	Eversource Energy	30.1	Neutral	$87	$87.80	NA	#VALUE!	343	3.83	4.12	4.36	22.9	21.3	20.1	22.9	21.4	20.1
ETR	Entergy	20.9	Buy	$120	$103.97	NA	#VALUE!	201	6.01	6.33	6.79	17.3	16.4	15.3	17.4	16.5	15.5
EVRG	Evergy	15.2	Buy	$70	$66.38	NA	#VALUE!	229	3.29	3.43	3.71	20.2	19.4	17.9	19.9	19.0	17.6
FE	FirstEnergy	20.9	Neutral	NA	$38.54	NA	#VALUE!	544	2.53	2.60	2.71	15.2	14.8	14.2	15.2	14.9	14.3
HE	Hawaiian Electric	4.8	Sell	$37	$43.83	NA	#VALUE!	109	2.01	1.96	2.11	21.8	22.4	20.8	22.0	21.3	20.2
LNT	Alliant Energy	15.0	Buy	$64	$59.98	NA	#VALUE!	250	2.57	2.72	2.87	23.3	22.1	20.9	23.4	21.9	20.7
NWE	NorthWestern	3.2	Neutral	$62	$62.47	4.0%	71%	52	3.51	3.64	3.84	17.8	17.2	16.3	17.7	17.1	16.3
PCG	PG&E Corporation	17.8	Buy	$17	$8.99	NA	NA	1985	1.03	1.13	1.25	8.7	8.0	7.2	8.9	8.2	7.3
PNW	Pinnacle West	9.1	Buy	$97	$80.98	4.2%	68%	113	5.05	5.23	5.49	16.0	15.5	14.8	16.3	15.9	15.2
POR	Portland General Electric	4.5	Buy	$54	$50.22	3.3%	60%	89	2.78	2.75	2.84	18.1	18.3	17.7	18.3	18.0	17.3
PPL	PPL Corporation	21.8	Buy	$32	$28.56	5.4%	115%	769	1.34	1.65	1.84	21.3	17.3	15.5	12.6	17.0	15.3
SO	Southern Company	67.8	Neutral	$63	$64.13	4.1%	79%	1059	3.32	3.59	3.85	19.3	17.9	16.7	19.3	18.1	16.7
WEC	WEC Energy	30.3	Neutral	$92	$95.61	2.8%	67%	315	4.03	4.26	4.50	23.7	22.4	21.2	23.7	22.2	20.9
Average (Excl. EIX, PCG, and PPL for P/E)						**3.6%**	**#VALUE!**					**20.2**	**19.1**	**18.0**	**20.1**	**19.0**	**17.9**

Regulated Gas Utilities (2)		Market ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
CPK	Chesapeake Utilities	2.3	Neutral	$108	$128.55	1.3%	37%	18	4.59	4.98	5.35	28.0	25.8	24.0	28.0	26.1	24.1
NI	NiSource	9.9	Buy	$27	$25.31	3.6%	67%	392	1.35	1.43	1.53	18.7	17.7	16.5	18.8	17.9	16.5
NJR	New Jersey Resources	3.7	Neutral	$39	$39.24	3.4%	65%	96	2.09	2.28	2.35	18.8	17.2	16.7	18.5	17.4	16.2
NWN	NW Natural Gas	1.7	Sell	$38	$54.06	3.6%	77%	31	2.50	2.64	2.73	21.6	20.5	19.8	21.3	20.5	19.3
OGS	ONE Gas	4.0	Neutral	$80	$74.88	3.1%	61%	53	3.82	4.12	4.43	19.6	18.2	16.9	19.6	18.2	17.1
SJI	South Jersey Industries	2.9	Buy	$28	$25.67	4.6%	73%	112	1.61	1.71	1.85	15.9	15.0	13.9	15.8	15.1	14.4
SR	Spire	3.7	Buy	$84	$73.15	3.6%	60%	52	4.43	4.41	4.67	16.5	16.6	15.7	16.4	16.5	15.6
Average						**3.3%**	**62.7%**					**18.5**	**17.5**	**16.6**	**18.4**	**17.6**	**16.5**

Integrated Utilities (3)		Market ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
EXC	Exelon	46.3	Neutral	$45	$47.38	3.3%	56%	977	2.80	2.98	3.02	16.9	15.9	15.7	17.3	15.8	15.5
PEG	PSEG	32.0	Buy	$66	$63.51	3.2%	59%	505	3.52	3.51	3.61	18.0	18.1	17.6	18.2	18.3	17.9
Average						**3.3%**	**57%**					**17.5**	**17.0**	**16.6**	**17.8**	**17.1**	**16.7**

Independent Power Producers (IPPs) (4)		Market ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
NRG	NRG Energy	10.2	Neutral	NA	$41.64	3.1%	-	245	2,412	2,471	2,472	7.3	6.6	6.2	9.2	6.9	6.6
VST	Vistra Energy	9.1	Buy	$24	$18.95	3.2%	-	482	1,672	3,375	3,141	10.6	5.1	5.2	11.4	5.4	5.5
Average												**9.0**	**5.8**	**5.7**	**10.3**	**6.2**	**NA**

Multi-Industry Utilities (5)		Market ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
CNP	CenterPoint	14.9	Buy	$27	$25.87	2.4%	44%	580	1.41	1.50	1.62	18.3	17.2	16.0	18.4	18.1	16.8
NEE	NextEra	155.3	Buy	$90	$79.42	1.8%	56%	1962	2.56	2.77	2.95	31.0	28.7	26.9	31.5	29.2	27.2
OGE	OGE Energy	6.9	Buy	$39	$34.34	5.0%	78%	200	2.17	2.27	2.38	15.8	15.1	14.4	15.6	16.0	15.3
SRE	Sempra Energy	42.1	Buy	$167	$131.98	3.5%	57%	319	8.11	8.50	9.05	16.3	15.5	14.6	16.2	15.6	14.8
Average						**3.2%**	**58.8%**					**20.4**	**19.1**	**18.0**	**20.4**	**19.7**	**18.5**

Other		Market ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
AWK	American Water Works	31.8	Neutral	$146	$175.30	1.2%	50%	181	4.24	4.63	4.99	41.3	37.9	35.1	41.3	38.1	35.2
ALTO	Alto Ingredients, Inc.	0.4	Buy	$9	$5.66	-	-	73	0.62	0.66	0.80	9.1	8.6	7.1	9.3	6.1	7.1

		Market ($bn)	Rating	Target Price	Current Price	Dividend ('21E) Yield	Payout Ratio	Diluted Shares	'21E	'22E	'23E	'21E	'22E	'23E	'21E	'22E	'23E
AMRC	Ameresco, Inc. Class A	3.2	Buy	$67	$62.02	-	-	53	146	163	184	NA	NA	NA	23.9	21.1	18.8
ARRY	Array Technologies	1.7	Buy	$51	$13.46	-	-	127	157	198	224	13.3	10.5	9.3	22.9	14.4	9.0
IEA	Infrastructure & Energy Alterna	0.6	Buy	$17	$12.13	NA	-	183	141	162	178	7.1	6.1	5.3	NA	NA	NA
NEP	NextEra Energy Partners	6.0	Buy	$88	$79.77	3.3%	-	77	1,532	1,660	1,775	7.8	7.4	6.9	12.1	11.1	10.7
SHLS	Shoals Technologies Group, I	5.3	Buy	$46	$30.51	-	-	175	77.2	125.8	195.7	70.6	42.7	26.9	70.1	44.0	27.5

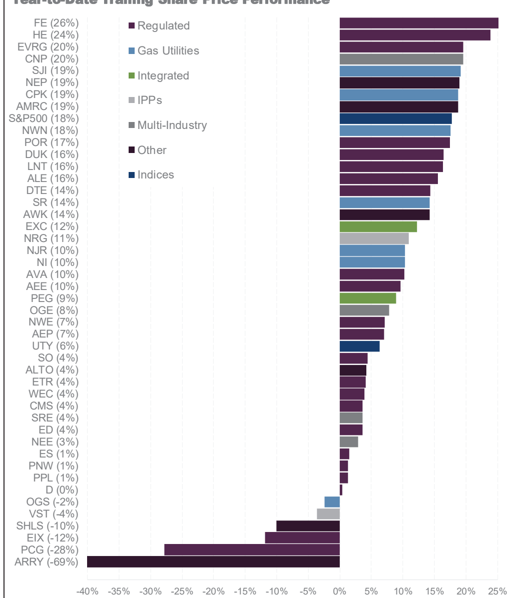
(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.
(2) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).
(3) Integrated utilities own and operate regulated T&D franchises, as well as un-regulated power generation with commodity exposure.
(4) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.
(5) Mult-Industry Utilities operate some combination of regulated electric and/or gas utilities, in addtion to substantial non-power unregulated activities (i.e. midstream, renewable development, energy trading, etc.).

Source: FactSet

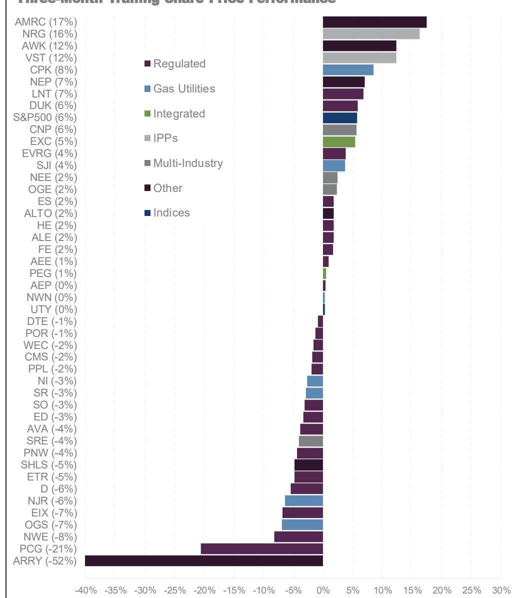
See pages 19 - 20 for analyst certification and important disclosures.

Share Price Performance (Year-to-Date, Three-Month, & One-Month Trailing)

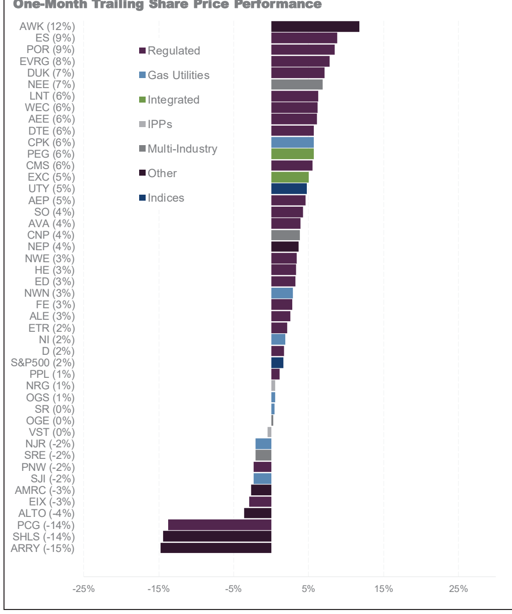
Year-to-Date Trailing Share Price Performance



Three-Month Trailing Share Price Performance



One-Month Trailing Share Price Performance



(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.

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utilities own and

(4) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

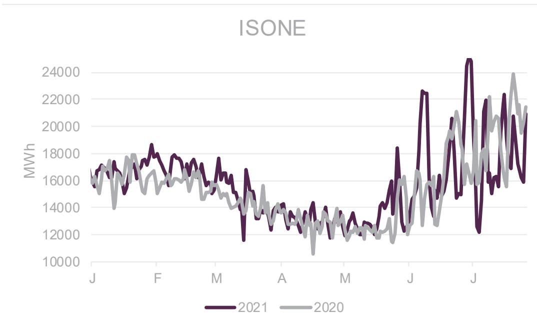
Guggenheim 2021 Client and Corporate Access Utility Events

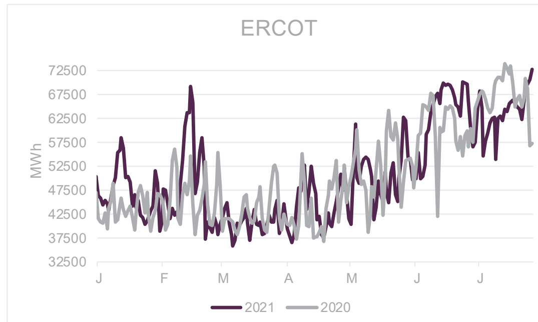
Ticker	Dates	Regions	Ticker	Dates	Regions
EIX	1/8	NYC	ARRY	5/14	Multiple
'21 Utilities Call	1/21 – 8:15AM ET	Call	OGE	5/24	Multiple
Investor Discussion	1/25 – 4:30PM ET	Virtual	SHLS	6/1	Multiple
PNW	1/26-1/27	Multiple	LNT	6/2-6/3	Multiple
SRE	1/27 – 4:30PM ET	Virtual	EVRG	6/10	Multiple
WEC	2/16-2/17	Multiple	NWE	6/16	Multiple
DUK	2/18	Multiple	ALE	6/17	Multiple
D	2/19	NYC	DTE	6/29	Multiple
AWK	3/10	Multiple	PEG	7/13-7/14	Multiple
PPL	3/23	West Coast	SRE	7/15	Multiple
AEP	3/30	Multiple	Investor Dinner	8/2	NYC
VST	3/31	Multiple	EIX	8/3	NYC
ETR	4/8	Multiple	SO	8/4	Multiple
SR	4/15	Multiple	SO (CEO Fireside)	8/13	Multiple
PCG	5/5	Multiple	NEE	9/13-14	West Coast
CNP	5/10	Multiple	ES	10/7	Multiple
CMS	5/12-5/13	Multiple	ETR	10/11-10/12	NYC/Boston
POR	5/12-5/13	Multiple	EEI	11/7-11/9	-

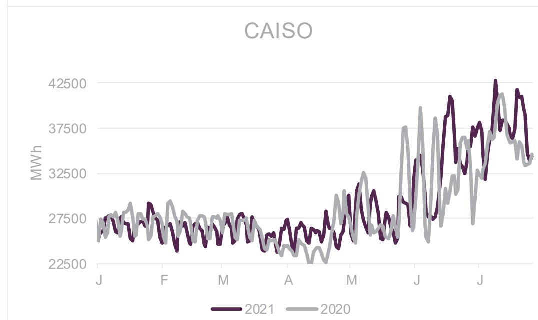
MORE TO BE ADDED…

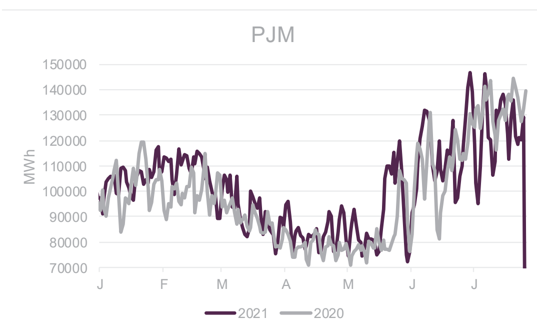
 See pages 19 - 20 for analyst certification and important disclosures.

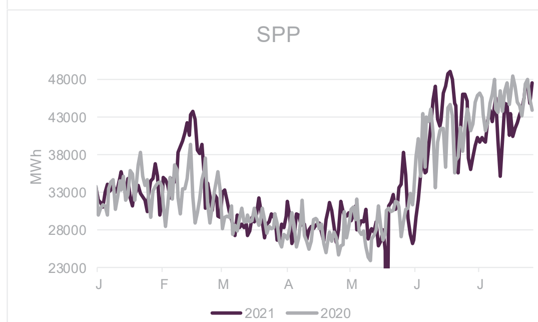
Peak Load

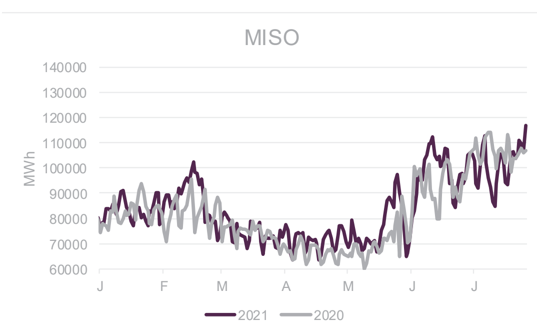










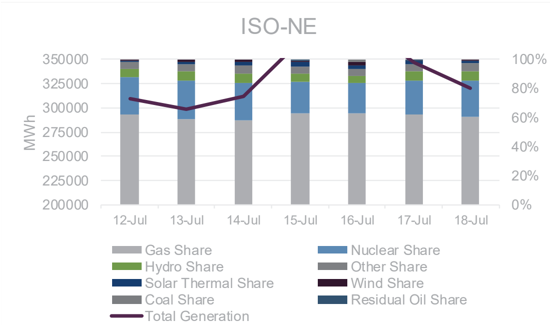


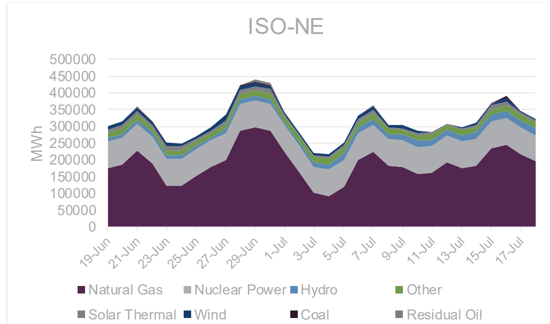
Average Deviation in Peak Load vs Prior Year

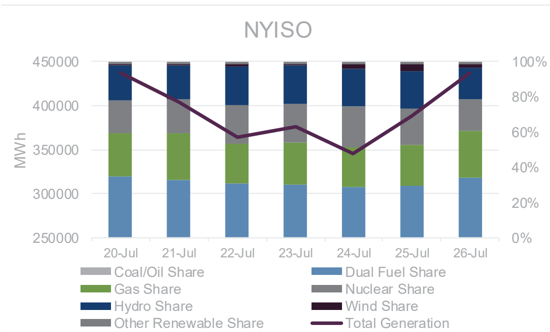
RTO/ISO	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
ISONE	-5.1%	0.1%	2.4%	2.4%	4.1%	6.2%
NYISO	-5.8%	-3.8%	0.0%	0.0%	2.5%	6.1%
PJM	-6.9%	-4.7%	-1.8%	-1.8%	5.0%	8%
MISO	-4.7%	-5.2%	-3.7%	-3.7%	3.6%	7.2%
CAISO	-1.7%	1.4%	3.2%	3.4%	2.0%	4.0%
ERCOT	2.7%	1.7%	-4.1%	3.0%	1.4%	1.9%
SPP	-4.6%	0.0%	-4.4%	-4.4%	2.2%	3.2%

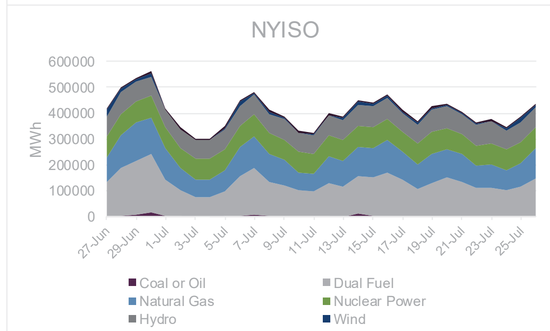
Source: S&P Global Platts, Guggenheim Securities, LLC.

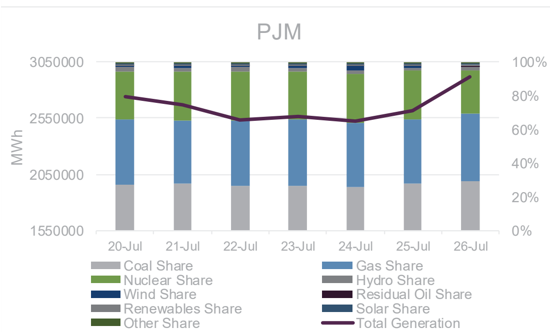
Generation and Mix

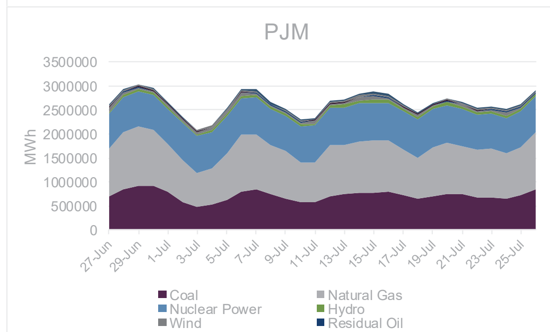


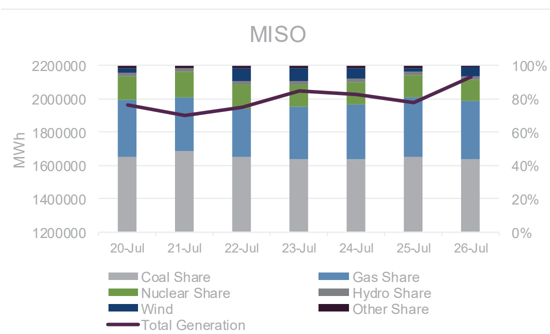


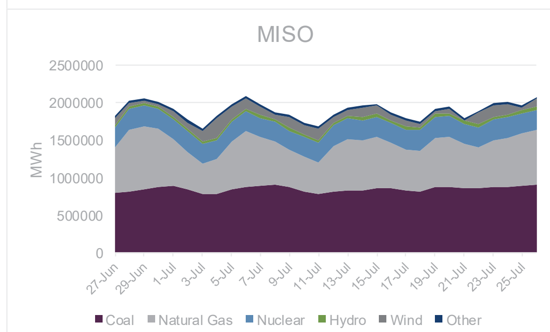




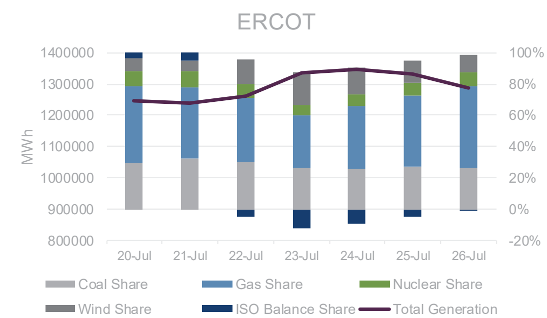


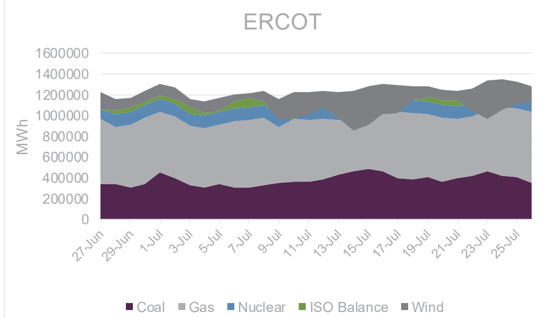


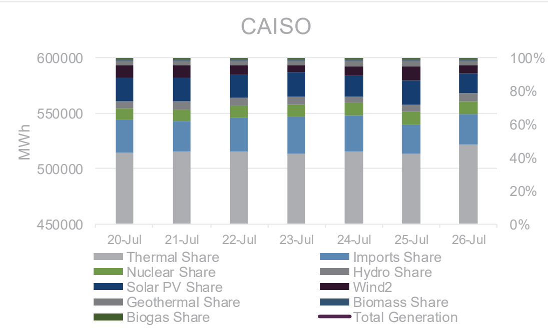


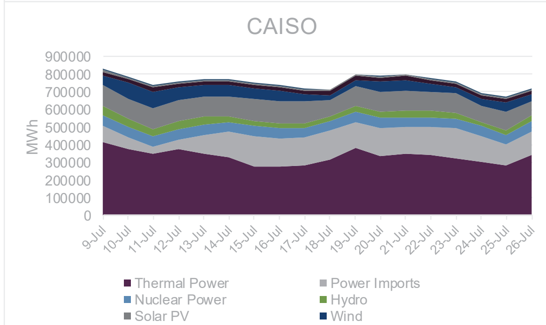


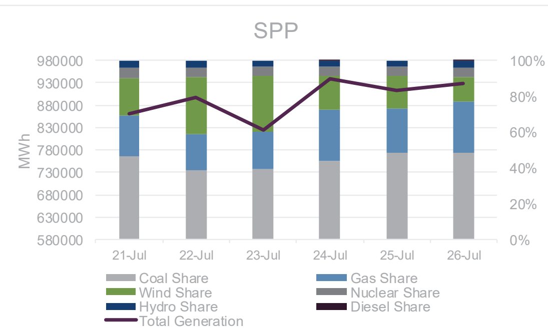
Source: S&P Global Platts, Guggenheim Securities, LLC.

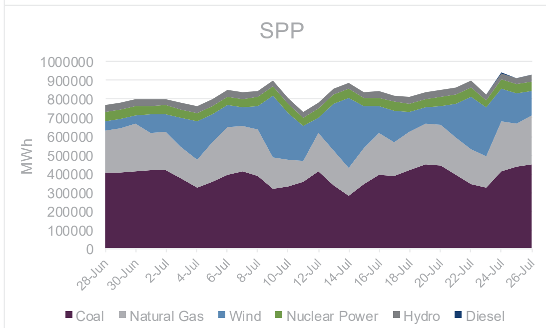












Source: S&P Global Platts, Guggenheim Securities, LLC.

Weather

Source: S&P Global Platts, Guggenheim Securities, LLC.

Regulatory Calendar

Power and Utilities: Coverage Calendar (5/15/2021 - 8/15/2021)

Date	State	Ticker	Utility/Event	Docket	Description
3/1/2021-6/30/2021	DC	EXC	Potomac Electric Power Co.	FC-1156	Commission decision may be issued in electric rate proceeding
4/15/2021-5/15/2021	PA	EXC	PECO Energy Co.	D-R-2020-3018929	ALJ recommendation expected in rate case in late April-early May
5/1/2021-6/30/2021	TX	SRE	Oncor Electric Delivery Co.		Rate case filing expected
5/17/2021	NJ	EXC	Atlantic City Electric Co.	D-ER20120746	Settlement meeting scheduled in rate case
5/18/2021-5/19/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00251 (RAC-EE)	Hearings scheduled in RAC-EE proceeding
5/19/2021	ID	AVA	Avista Corp.	C-AVU-E-21-01	Settlement conference scheduled
5/19/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-E-0074	PSC staff and intervenor testimony due
5/19/2021-5/28/2021	TX	AEP	Southwestern Electric Power Co	D-51415	Hearings scheduled in rate case
5/19/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-G-0073	PSC staff and intervenor testimony due
5/19/2021	ID	AVA	Avista Corp.	C-AVU-G-21-01	Settlement conference scheduled
5/21/2021	WA	NWN	Northwest Natural Holding Co.	D-UG-200994	Deadline for staff and intervenor opening testimony
5/21/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00258 (E-RAC)	Rebuttal testimony due in E-RAC proceeding
5/21/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00013 (Rider E)	Rebuttal testimony due in Rider E proceeding
5/21/2021	MD	EXC	Potomac Electric Power Co.	C-9655	Initial briefs due in rate case
5/24/2021	IN	CNP	Indiana Gas Co.	Ca-45468	Hearing to begin in rate proceeding
5/26/2021	MO	SR	Spire Missouri Inc.	C-GR-2021-0108	Intervenor testimony on class cost of service due in rate proceeding
5/28/2021	WA	AVA	Avista Corp.	D-UG-200901	Deadline for company reply testimony; staff and intervenor cross-answering testimony
5/28/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00259 (BC-RAC)	SCC staff testimony due in BC-RAC proceeding
5/28/2021	WA	AVA	Avista Corp.	D-UE-200900	Deadline for company reply testimony; staff and intervenor cross-answering testimony
6/1/2021-6/15/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00251 (RAC-EE)	Hearing examiner's report may be issued in RAC-EE proceeding
6/1/2021-6/30/2021	OK		Oklahoma Natural Gas Co		Rate case filing expected
6/1/2021-6/30/2021	KY	PPL	Louisville Gas & Electric Co.	C-2020-00350 (gas)	Decision possible in rate proceeding
6/1/2021	MD	EXC	Potomac Electric Power Co.	C-9655	Reply briefs due in rate case
6/1/2021-6/30/2021	OH	AEP	Ohio Power Co.	C-20-0585-EL-AIR	Decision possible in rate proceeding
6/1/2021-6/30/2021	KY	PPL	Kentucky Utilities Co.	C-2020-00349	Decision possible in rate proceeding
6/1/2021-6/30/2021	VA		Virginia Natural Gas Inc.	C-PUR-2020-00095	Hearing Examiner's report may be issued in base rate case
6/1/2021-6/30/2021	OK		Oklahoma Natural Gas Co	Ca-PUD202100063	Rate case filing expected
6/1/2021-6/30/2021	KY	PPL	Louisville Gas & Electric Co.	C-2020-00350 (elec.)	Decision possible in rate proceeding
6/3/2021	MI	DTE	DTE Gas Co.	C-U-20940	Staff and intervenor testimony due
6/4/2021	NJ	EXC	Atlantic City Electric Co.	D-ER20120746	Intervening parties to file testimony in rate case
6/8/2021	IL	SO	Northern Illinois Gas Co.	D-21-0098	Company rebuttal testimony due in rate proceeding
6/9/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-G-0073	Rebuttal testimony to be filed in rate case
6/9/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-E-0074	Rebuttal testimony to be filed in rate case
6/17/2021	MO	SR	Spire Missouri Inc.	C-GR-2021-0108	Rebuttal testimony due in rate proceeding
6/17/2021	TX	AEP	Southwestern Electric Power Co	D-51415	Initial briefs due in rate case
6/17/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00045 (Rider CCR)	Intervening parties to file testimony in Rider CCR proceeding
6/21/2021	FL	NEE	Florida Power & Light Co.	D-20210015-EI	Intervenor testimony due
6/22/2021	MI	CMS	Consumers Energy Co.	C-U-20963	Staff, intervenor testimony due
6/22/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00045 (Rider CCR)	Staff to file testimony in Rider CCR proceeding
6/23/2021	ID	AVA	Avista Corp.	C-AVU-G-21-01	Staff, intervenor testimony due
6/23/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00258 (E-RAC)	Hearing scheduled in E-RAC proceeding
6/23/2021	WA	NWN	Northwest Natural Holding Co.	D-UG-200994	Settlement conference
6/23/2021	MI	DTE	DTE Gas Co.	C-U-20940	Rebuttal testimony due
6/23/2021	ID	AVA	Avista Corp.	C-AVU-E-21-01	Staff, intervenor testimony due
6/25/2021	DE	EXC	Delmarva Power & Light Co.	D-20-0149	Hearing examiner report due in rate proceeding
6/28/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-G-0073	Evidentiary hearings to commence in rate case
6/28/2021	NY	ED	Orange & Rockland Utlts Inc.	C-21-E-0074	Evidentiary hearings to commence in rate case
6/30/2021	NH				Commissioner Kate Bailey — term expires
6/30/2021	KY				Commissioner Talina Rose Mathews — term expires
6/30/2021	MD				Commissioner Anthony J. O'Donnell — term expires
6/30/2021	MD	EXC	Potomac Electric Power Co.	C-9655	Decision expected in muulti-year rate plan proceeding
6/30/2021	PA	EXC	PECO Energy Co.	D-R-2020-3018929	Decision likely in gas rate case
6/30/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2020-00197 (Rider RBB)	Decision expected in rural broadband pilot proceeding (Rider RBB)
6/30/2021	WV				Commissioner Brooks McCabe — term expires
6/30/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00251 (RAC-EE)	Decision expected in RAC-EE proceeding
6/30/2021	NC				Commissioner Lyons Gray — term expires
7/1/2021	TX	AEP	Southwestern Electric Power Co	D-51415	Reply briefs due in rate case
7/1/2021-7/31/2021	VA	D	Virginia Electric & Power Co.	PUR-2020-00231 (Rider US-2)	Decision expected in Rider US-2 update proceeding
7/1/2021	IL	SO	North Shore Gas Co.	D-20-0810	ALJ recommendation due in rate proceeding
7/1/2021-7/31/2021	OK	CNP	CenterPoint Energy Resources	Ca-PUD202100054	Decision expected in PBR proceeding
7/1/2021-7/31/2021	IN	CNP	Indiana Gas Co.	Ca-45468	Decision possible in rate proceeding
7/1/2021-7/31/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2020-00230 (Rider BW)	Decision expeced in Rider BW update proceeding
7/2/2021	MI				Commissioner Katherine Peretick — term expires
7/6/2021	FL	NEE	Florida Power & Light Co.	D-20210015-EI	Staff testimony due in electric rate case
7/7/2021-7/9/2021	WA	AVA	Avista Corp.	D-UG-200901	Hearing in rate case
7/7/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00045 (Rider CCR)	Rebuttal testimony due in Rider CCR proceeding
7/7/2021-7/9/2021	WA	AVA	Avista Corp.	D-UE-200900	Hearing in rate case
7/12/2021	FL	NEE	Florida Power & Light Co.	D-20210015-EI	Rebuttal testimony due in electric rate case
7/12/2021	MI	CMS	Consumers Energy Co.	C-U-20963	Rebuttal tesimony due
7/15/2021-8/15/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00013 (Rider E)	Hearing Examiner report may be issued in Rider E proceeding
7/16/2021	WA	NWN	Northwest Natural Holding Co.	D-UG-200994	Deadline for company reply testimony; staff and intervenor cross-answering testimony
7/19/2021	ID	AVA	Avista Corp.	C-AVU-E-21-01	Company rebuttal testimony due
7/19/2021	ID	AVA	Avista Corp.	C-AVU-G-21-01	Company rebuttal testimony due
7/21/2021	IL	SO	Northern Illinois Gas Co.	D-21-0098	Hearing to begin in rate proceeding
7/26/2021	MO	SR	Spire Missouri Inc.	C-GR-2021-0108	Hearing to begin in rate proceeding
7/27/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00045 (Rider CCR)	Public hearing scheduled on Rider CCR proceeding
7/30/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00058	Intervening parties to file testimony in triennial review proceeding
7/31/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2020-00274 (Rider DSM)	Decision expected in Rider DSM proceeding
7/31/2021	VA	D	Virginia Electric & Power Co.	C-PUR-2020-00169 (Rider RGGI)	Decision expected in Rider RGGI proceeding
8/1/2021-8/31/2021	VA	AEP	Appalachian Power Co.	C-PUR-2020-00259 (BC-RAC)	Hearing Examiner recommendation expected in BC-RAC proceeding
8/1/2021	MO	SR			Commissioner Maida Coleman — term expires
8/5/2021	DE	EXC	Delmarva Power & Light Co.	D-20-0149	Commission decision expected to be issued
8/5/2021	MI	DTE	DTE Gas Co.	C-U-20940	Briefs due in gas rate case
8/10/2021-8/17/2021	NJ	DTE	Atlantic City Electric Co.	D-ER20120746	Hearings scheduled in rate case
8/13/2021	TX	AEP	Southwestern Public Service Co	D-51802	Parties to file testimony in rate case

Source: SNL, Company Filings, Guggenheim Securities, LLC.

Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM and Weekly Commentary

Key Company Research

1. DTE NDR: Post Spin DTE To Redouble MI Decarbonization Efforts – Value Remains To Be Unlocked
2. SRE: Show Me the Upside… Analyst Day Brings Guidance and Capex Raises, Tone Remains Disciplined and Conservative But In Line w/Guggenheim
3. ALE NDR: Deep in Execution Amid a Transitional Year
4. NWE NDR: Consistent Messaging as Potential Generation Needs Power the LT Growth Narrative
5. EVRG NDR: Familiar Faces at a New Place; Management Looks to Build on LT Growth Visibility
6. LNT NDR: Straightforward Update Underscores Consistent Execution
7. OGE NDR: Regulated Story Takes Center Stage, Balance Sheet Capacity and Reinvestment Point to Growth Upside
8. CMS NDR – Simple, Modular Growth Story Leaves Investors with No Surprises, Upcoming IRP Updates Already ESG Story
9. ARRY NDR: L-T Fundamentals Intact but Management Still Working Through N-T Impacts of COGS Shock…
10. POR NDR: 5-7% Growth in Stumptown? Not Yet, But Things Are Looking Up…
11. CNP NDR – CNP Leaning into Organic Capex and O&M Savings, with a Few Tweaks to Business Mix, ESG, and Tax Efficiency
12. PCG NDR: Finding Sure Footing in Familiar Places… Operational Improvement on Mgmt.'s Mind
13. SR NDR: Storage, Marketing Pay Off as SR Escapes February Relatively Unscathed; L-T Plans Unchanged
14. VST NDR: Past Is Prologue
15. SRE: SIP 20% Sale Announced at ~13x EV/EBITDA; Above Our Range, With Opportunity for Earnings Accretion
16. AEP – C-Suite NDR: On the Precipice of Change and It's a Wonderful View from Here
17. PPL NDR: Hard Part Is Done, Now the Real Work Begins – Transformation Path, Further Re-Rating Set
18. ETR – FERC ALJ Issues Initial Decision on SERI ROE and Cap Structure; 9.32% ROE; 48.15% ER
19. SRE – San Diego Opens Utility Franchise Bidding Under Expanded Criteria; Allow for Negotiated Outcome
20. PPL: WPD Sells at "Very" Healthy Multiple in Key First Step, Despite Previous Media Reports
21. NRG: Post-Call Management Catch Up
22. NRG/VST: Stepping to the Sidelines for Now as ERCOT's Collateral Damage Continues to Propagate
23. FE Reaches Agreement with Icahn
24. AWK NDR: "When the Levee Breaks" American Water Keeps Flowing
25. AEP – Healthy AEP Ohio Rate Case Settlement Supports Thesis; Construct Still Attractive
26. PCG: C-Suite Builds on Operational Improvement for Turnaround Success; Hands-on CEO Is a Tailwind
27. ARRY – 4Q Earnings; Investing Now for Wallet Share Later; FY21 Guidance Comes In Strong
28. WEC NDR: Cutting Through the Noise; Dependable Growth and LT Decarbonization Define Our Meetings
29. D – C-Suite NDR; Strategy Equals Execution; Execution Equals Decarbonization…
30. DUK – CEO NDR; NC Legislation Finally Has Momentum; Driving Decarbonization, Higher Growth
31. AMRC – 2020 Closes with a Beat as 2021 Guidance Points to Continued Growth
32. NRG – Surprise, Surprise: Guidance Intact After Strong Storm Performance; Transformation Continues
33. OGS – 4Q Earnings; Fundamentals Remain Stout Despite Old Man Winter's Best Efforts
34. PEG – 2020 FY In Line; Fossil Sale On Track; LT Business Mix Gains Traction
35. VST – Is the Integrated Model Broken? No, But the Sandbox Might Be
36. EVRG – Coming Out Swinging: EPS Beat, Healthy '21 Guide, Higher CapEx, New Mgmt. Bench & Key Investor Infusion
37. EIX: In-Line 2020; No Major Updates - Holding Pattern Ahead of GRC
38. AEP – Better Load Recovery and Cost Mitigation; Long Renewables Runway w/ Potential Financing From Asset Rotation
39. SRE: '21 Guide Reaffirmed w/Upside Post Transaction; Utility CapEx Increased – Focus Remains on SIP Transaction
40. OGE: No Surprises as 2020 Closes; 2021 Winter Storms Costs Large but Fundamentals Strong
41. CNP: We Aren't Sweating the Details; Managing Storm Event; LDC Sales on Track, Midstream Full Exit on the Forefront
42. PNW – In Line 2020 as Capex Gets a Shuffle – a Consistent Message Following Our NDR
43. EXC – End of an Era: Exelon Loses a Neutron
44. ETR – 2020FY EPS Beat; 2021 Guidance Reaffirmed, Biased to a Strong Midpoint; Arkansas Concerns? No Cracks Here
45. AVA – 4Q Earnings Not as Bad as Some Thought; Guidance Largely In Line With Our Expectations
46. LNT – Ol' Reliable: Inline 2020 as Focus Pivots to PSCW
47. AEE – 4Q Earnings; Callaway Cause For Concern? Not in Our View; Base Plan Remains Strong
48. POR – 2021 Kicks Off on the Right Foot
49. DTE – Continues Strong Execution; 4Q Earnings Beat, '21 Reaffirmed, GS&P Spin Is the Next Major Potential Catalyst
50. FE – Righting the Ship as the DOJ Overhang Persists; Icahn Makes a Splash and Shifts Investor Focus
51. ED – 4Q EPS in Line, 2021 a Reset Year; Capex Roll Points to Higher Quality L-T Recovery
52. SO – 4Q Earnings; Telegraphed LT Growth Rate Raise with Incremental Opportunities on the Horizon
53. PPL: Straightforward Update as WPD Process Forges On
54. ES – 4Q Earnings; Healthy Capex Raise Drives Guidance to the Top Half of Growth Range
55. NI – 4Q Earnings; Straightforward Update With Renewables Projects Continuing to Take Shape
56. ALE – A Transitional Year Comes with a Focus on Execution at ACE

57. DUK – 4Q20 Earnings; Foundation Set With Eye on NC Legislation – We See Pathway to Overachieve Expectations
58. AEP – Racine Hydro Sale; Very in Line with Our Thesis and Potentially More on the Horizon – Reiterate BUY
59. WEC – 2020 Closes with A Beat as Management Evaluates Case Optionality in WI
60. CMS – 4Q Earnings In-Line; Capex/Equity Increase, O&M Flex to Carry Into '21; We See Smooth Sailing to Firm "7%" Growth
61. NJR – F1Q21 Earnings; NJRES AMAs Drive FY22 Guidance Raise, Though Focus Remains on Core Utility and CEV Segments
62. SR – F1Q21 Earnings; Progressing on Regulatory Matters as Mgmt. Has Eyes Set on Sustainability
63. FE/OH: Yost Holds Press Conference on HB6; Reaches Agreement With FE on Decoupling
64. PNW NDR: All Quiet on the Southwestern Front…
65. DUK – Healthy Indiana Equity Sale Highlights Private Infrastructure Appetite for US Assets
66. AMRC: A Unique Blend of Familiar Businesses – Finding a Decarbonization Niche; Initiating Coverage at BUY, $63 PT
67. PEIX Initiation: A Rising Tide Lifts All Ships - Decoupling from Fuel Ethanol, '21 an Inflection Year for Strong CF Story
68. SRE: CEO Catch Up - Value Upside to SIP Deal; Constructive Guidance Forthcoming; Remains Distinctive on Catalysts
69. NEE/NEP: NEE EPS Beats, MVP Takes Write-Down; Organic Growth and FPL Rate Case Are the Next Leg of Growth
70. DUK – Settlement Reached on Coal Ash; Overhang Removed with Allowance for Return on Expenditures – Time to Move On
71. EIX – Another WF Settlement Bites the Dust; Total Expected Loss Unchanged
72. NEE: Starting 2021 with a Bang: FPL Files Rate Case – 11% Base ROE, 50bp Adder, and SOBRA Adds
73. FE/OH: Ohio Situation Continues to Deteriorate

Key Industry Research

1. AGA: Day 2 Flash Recap…
2. AGA: Day 1 Flash Recap…
3. IL: Second Opinion Confirms Grim Prognosis
4. IL: Groundhog Day for Energy Policy in Springfield?
5. ERCOT: PUCT Declines to Reprice Energy Market – Consistent with Our Expectations
6. ERCOT: Lone Star State Remains 'Out of Phase'
7. ERCOT: Who's Exposed? Generator-Owner Data Set
8. ERCOT: Deep Freeze Precipitates Rolling Blackouts in Heartland
9. IL: CEJA Re-emerges; Take with a Grain of Salt - More Iterations to Come
10. '21 Utilities Outlook: Getting Ready for Another Bumpy Ride
11. Congress Reaches Deal on Stimulus Package and Appropriations; Clean Energy Boosted With Tax Credit Extension
12. ERCOT CDR Preview: More Solar Points to Slightly Looser CDR; Caveats Remain the Same
13. EEI – An EEI Unlike Any Other...
14. Guggenheim EEI Takeaways - Day One
15. Guggenheim EEI Takeaways - Day Two
16. Guggenheim EEI Takeaways - Day Three
17. Li-Ion the End-All-Be-All Battery Storage Solution? Not in Our Book – Zinc-Based Battery Presents Compelling Alternative
18. Ohio Policy Call Part Two – Federal and Political, Not State and Regulatory
19. Ohio Policy Call Part One – Investigation Churns On
20. Guggenheim Call Series: Power Gen Economics Expert Confirms Robust Solar/Wind Demand as Tech Moves to Parity with Fossil
21. FERC - Life's Absolutes: Death, Taxes, and Transmission ROE Complaints
22. 2020 LCOE Update – Nothing Is Constant but Change: Renewable Economics Point to Persistent Disruptions
23. FERC: Commission Revisits Base ROE Methodology, Boosts MISO Allowed
24. ERCOT: Another CDR to Take with a Grain of Salt
25. PJM: Proposed Auction Timeline Features State Policy Accommodation

EVERCORE ISI

Energy | Power & Utilities

August 04, 2021

NiSource Inc

NI | $25.31
In Line | TARGET PRICE: $27.00
Company Update

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Company Statistics

Market Capitalization (M)	$11,403
Shares Outstanding (M)	392
Dividend	0.84
Dividend Yield	2.9%
Payout Ratio	63.6%
Expected Total Return	(4.3)%
Fiscal Year End	Dec

Earnings Summary

	2021E	2022E	2023E
EPS	$1.34	$1.42	$1.51
P/E	22.0	20.7	19.7
EPS vs Consensus	(0.7)%	(0.0)%	(1.7)%
Consensus EPS	$1.33	$1.40	$1.51
Consensus P/E	21.9	20.7	19.3

1 Year Price History

Source: FactSet

Sitting on the Sidelines

Q2 adjusted EPS in line with consensus. All guidance unchanged. NiSource posted $0.13 in Q2'21 operating EPS, which was in line with consensus and our estimate of $0.13/share. Earnings in 2Q20 were also $0.13/share. The flat YoY EPS reflected safety & modernization investments and lower COVID impact during the quarter as well as the profile of the business without Columbia Gas of Massachusetts. NI maintained its 2021 EPS guidance of $1.32-1.36. The company also reaffirmed its four-year 2021-2024 program of $9.6-10.7 billion under an unchanged financing plan. This level of spending is still expected to drive rate base growth of 10-12% CAGR in 2021-2024 under an unchanged financing plan. NiSource continues to expect to deliver long-term EPS outlook of 5-7% per year in 2021-2023 and 7-9% CAGR in 2021-2024. The company's renewable transition remains ahead of original schedule with planned retirements. NiSource has now received Indiana regulatory approval of all 14 renewable JV projects included in total estimated $2 billion investment planned for 2021-2023. The 2021 Indiana IRP and RFP processes continue, with the RFP initiated in May, yielding more than 180 total proposals for 78 individual projects. Next steps include incorporating RFP results into the IRP modeling and analysis in August, sharing IRP modeling analysis and results with stakeholders in September, communicating the IRP preferred plan incorporating stakeholder feedback in October, and submitting the IRP to the Indiana commission in November; any potential projects and investments that emerge will likely be announced in 2022.

We maintain our In Line rating. We are staying on the sidelines with an unchanged price target of $27/share, which applies a premium gas LDC multiple of 18.0x 2023 EPS in our SOTP (Gas LDC's are trading at ~16.5x 23E). We are maintaining our 2021-2023 EPS estimates of $1.34, $1.42 and $1.51. NI stock has outperformed since the end of January, up 20% versus the group up 12% since January 26th, and it currently trades roughly in line/modest discount with electric utility peers at 18.0x 2023 EPS. With the Massachusetts divestiture behind the company, we believe the re-rate we had been expecting is mostly reflected in NI's stronger growth expectations (5-7% per year in 2021-2023 and 7-9% CAGR in 2021-2024) that were reset off of a 2021 baseline. We also believe the benefits of the removed overhang of the equity unit financing transaction is reflected in the stock price, as well as NiSource's above-average positioning under the Biden administration as a 100% regulated utility, given that a potential higher FIT rate (eventually) would not lower profitability and would generate meaningful cash flow due to the regulatory construct. NiSource also has sizable coal exposure in Indiana and could see benefit under Biden administration climate proposals with its plan to convert to renewables. We lay out our bull/bear case valuation of $29 / $23 on page 2.

EPS Estimates and Price Target Derivation

Maintaining our 2021-2023 EPS estimates: We reaffirm our 2021-2023 EPS estimates of $1.34 / $1.42 / $1.51. Our 2021 EPS estimate is the midpoint of $1.32-1.36 guidance and our 2022 EPS forecast is within the 5-7% annual growth forecast through 2023. After NIPSCO electric took the brunt of the COVID in 2020, we see its earned ROE increasing to 9.4% this year before modestly under-earning its authorized 9.75% by 2022-2023. For the gas segment, we assume the company modestly under-earns its blended ~10% ROE in 2021 through 2023

Our price target of $27/share is unchanged. Our bear case derives a $23 target while our bull case is $29/share. See Exhibit 1 below. Our base case assumes 2023 EPS of $1.48/share, which is roughly 6% annual EPS growth (vs. 5-7% guidance) over the midpoint of 2021 guidance of $1.32-1.36/share. For the electric business, we assign a 10% premium to our anchor 2023 P/E target multiple of 17.5x derived using our dividend discount model. For the gas segment, we apply a 18.0x P/E multiple, a premium multiple current comparable LDC trading multiples (17.5x). We apply a blended multiple for parent drag.

Exhibit 1: NiSource SOTP Valuation

Base Case	'23 EPS	P/E	Val/Shr
Gas EPS	$1.16	18.0x	$20.74
Electric EPS	$0.67	19.3x	$12.80
Parent/Other	($0.33)	18.2x	($6.09)
Consolidated 2022 EPS	$1.51	18.2x	$27.00

Bull Case	'23 EPS	P/E	Val/Shr
Gas EPS	$1.19	18.3x	$21.85
Electric EPS	$0.68	19.3x	$13.16
Parent/Other	($0.33)	18.7x	($6.14)
Consolidated 2022 EPS	$1.55	18.7x	$29.00

Bear Case	'23 EPS	P/E	Val/Shr
Gas EPS	$1.09	15.8x	$17.24
Electric EPS	$0.63	17.5x	$11.09
Parent/Other	($0.33)	16.4x	($5.39)
Consolidated 2022 EPS	$1.39	16.4x	$23.00

Source: Evercore ISI

VALUATION METHODOLOGY

To arrive at our price target we use a SOTP analysis.

RISKS

Risks to our thesis include an inability to deploy capital at the company's expected rate resulting in a lower rate base and regulatory pressure resulting in lower allowed ROEs

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2021-04-08)	Evercore ISI Target
AEE	Ameren Corp.	Outperform	$85.61	$90.00
AEP	American Electric Power	Outperform	$89.09	$99.00
AES	The AES Corporation	Outperform	$23.92	$30.00
AWK	American Water Works Company, Inc.	Outperform	$175.30	$175.00
AWR	American States Water Company	Underperform	$89.13	$60.00
CMS	CMS Energy Corp.	In Line	$63.24	$62.00
CNP	CenterPoint Energy, Inc.	Outperform	$25.87	$26.00
CWEN	Clearway Energy	In Line	$29.84	$25.00
CWT	California Water Service Group	In Line	$64.25	$40.00
D	Dominion Energy, Inc	Outperform	$75.50	$82.00
DTE	DTE Energy Co.	In Line	$118.13	$119.00
DUK	Duke Energy Corp.	In Line	$106.61	$96.00
ED	Consolidated Edison Inc.	Underperform	$74.85	$72.00
EIX	Edison International	In Line	$55.39	$73.00
ES	Eversource Energy	In Line	$87.80	$91.00
ETR	Entergy Corp.	Outperform	$103.97	$110.00
EVRG	Evergy	Outperform	$66.38	$67.00
EXC	Exelon Corp.	Outperform	$47.38	$47.00
FE	FirstEnergy Corp.	In Line	$38.54	$40.00
HE	Hawaiian Electric Industries Inc.	In Line	$43.83	$40.00
NEE	NextEra Energy Inc	In Line	$79.42	$78.00
NI	NiSource Inc	In Line	$25.31	$27.00
NRG	NRG Energy Inc.	In Line	$41.64	$42.00
OGE	OGE Energy Corp	Outperform	$34.34	$35.00
PCG	PG&E Corp.	Rating Suspended	$8.99	
PEG	Public Service Enterprise Group	In Line	$63.51	$61.00
PNW	Pinnacle West Capital Corp.	In Line	$80.98	$81.00
PPL	PPL Corp.	In Line	$28.56	$31.00
SJW	SJW Group	In Line	$69.35	$60.00
SO	Southern Co.	Underperform	$64.13	$61.00
SRE	Sempra Energy	Outperform	$131.98	$143.00
VST	Vistra Energy Corp	Outperform	$18.95	$23.00
WEC	WEC Energy Group, Inc.	In Line	$95.61	$96.00
WTRG	Essential Utilities Inc.	In Line	$49.65	$49.00
XEL	Xcel Energy Inc.	In Line	$68.70	$70.00

J.P.Morgan

North America Equity Research
04 August 2021

NiSource Inc.

2Q21 Results in Line; Fairly Quiet Renewables Update as the IRP/RFP Process Continues

Overweight

NI, NI US

Price: $25.31

03 Aug 2021

North American Utilities

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J.P. Morgan Securities LLC

- **2Q21 earnings match estimates.** NI reported 2Q21 adj EPS of $0.13, matching the $0.13 JPM/Street median estimate. Gas distribution and electric operating earnings declined -$7.5mm and -$4.8mm YoY, respectively. NI benefitted from new base rates and infrastructure replacement program recoveries, offset by higher employee and administrative expenses, outside services, and other expenses. Moreover, unfavorable COLI performance also impacted Corp and Other results. Earnings appear consistent with expectations, with growth weighted toward the back half of 2021, particularly upon the 4Q conclusion of lost CMA earnings headwinds. Separately, the company reaffirmed its $1.32-1.36 2021 EPS guidance (JPMe/Street median $1.35).

- **Fairly quiet renewables update as NI's IRP/RFP process continues into the fall and 2022.** Updates across NI's generation transition include 1) the company now has IN approval of all renewables JV projects ($2bn investment), 2) NI received 180 proposals for 78 projects in its RFP solicitation, and 3) the IRP process continues to work towards a November filing. This IRP/RFP work will inform NI's next round of renewables investment, where the company expects incremental project clarity in 2022. We see recent progress as positive, although larger milestones remain over the balance of 2021 into 2022, and look for management's expectations based on ongoing IRP feedback and overall project composition in the RFP. While insight into the RFP is fairly limited, the scope of new technologies proposed could draw interest given NI's broad approach in considering standalone storage, hydrogen, carbon capture, and microgrids, among others. The company expects to commence commercial negotiations on RFP projects after finalizing its IRP Preferred Plan in October.

- **Conference call details.** NI will host a webcast to discuss 2Q21 results on Wednesday, August 4 at 11:00 AM EDT.

Table 1: NI 2Q21 Results

Income Statement:	Actual 2Q20	Actual 2Q21	JPM 2Q21E	% Chg Y/Y	% Chg vs JPMe	YoY Drivers
Operating Earnings	165	151	177	-9%	-15%	CMA sale impacts; new base and infra replacement program rates
Net Income	50	53	55	5%	-5%	Low er interest expense on short-term and long-term debt; unfavorable COLI impacts
Share Count	384	423	430	10%	-2%	
Operating EPS	**$0.13**	**$0.13**	**$0.13**	**0%**	**0%**	

Source: Company reports and J.P. Morgan estimates.

See page 2 for analyst certification and important disclosures.

Equity Research

WELLS FARGO

Earnings Revised — August 4, 2021

Natural Gas LDCs

NiSource Inc. (NI)

NI: Positive Momentum Continues—Reiterate Overweight Rating

Our Call

NI is an execution story and every solid quarterly report is a step in the right direction. As such, we were pleased with the Q2 update, which kept both EPS and key initiatives on the right track. With shares still trading at discounts (2-3%) to blended gas/electric utility peers, we reiterate our Overweight rating and $29/sh price target (19X on our '23E).

Generation Transformation Advancing. We have been very encouraged by the progress on NI's renewable strategy. The renewable slide shows eight additional project approvals since the Q1 deck bringing the total number of approvals to 13 out of 14. As the first wave of projects is well underway, the 2021 IRP process has commenced and is expected to culminate in a filing by 11/1/21. In conjunction with the IRP, NI issued an all-resource RFP which attracted over 180 proposals for 78 individual projects. The IRP and RFP bids will inform the timing of the Michigan City retirement (prior analysis supported a 2028 retirement date) and the replacement technologies for the post-2023 generation outlook. Mgmt. expects to be able to discuss IRP details in conjunction with the Q3/EEI updates, but a formal capex and growth outlook refresh is not likely before year-end.

EPS Outlook. Our '21-25E EPS remain $1.34, $1.42, $1.50, $1.66 & $1.75. Our estimates support a 7.5% CAGR through '24E off the '21E base, which compares with NI's 7-9% target. We see modest upside to our estimates should NI be able to achieve earned ROE's north of our 8.8-9.0% assumption—every 25 basis point change in the earned ROE has a $0.04-0.05 EPS impact. In addition to sales growth and cost controls, we look to the outcomes of four pending rate cases as key drivers of the EPS outlook. NI filed a PA rate case ($98mm) in Q1 and additional cases in OH ($221mm), KY ($27mm) and MD ($5mm) in Q2. Favorably, mgmt. noted that the company is in advanced settlement discussions in the PA case.

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Rating	Overweight
Ticker	**NI**
Price Target/Prior:	**$29.00/NC**
Upside/(Downside) to Target	**14.6%**
Price (08/03/2021)	**$25.31**
52 Week Range	$21.09 - 26.60
Shares Outstanding	392,217,046
Market Cap (MM)	$9,927
Enterprise Value (MM)	$19,548
Average Daily Volume	3,301,969
Average Daily Value (MM)	$84
Dividend (NTM)	$0.88
Dividend Yield	3.5%
Net Debt (MM) - last reported	$9,621
ROIC - Current year est.	10%
3 Yr EPS CAGR from current year (unless otherwise noted)	4%

$ EPS	2020A	2021E Curr.	2021E Prior	2022E Curr.	2022E Prior
Q1 (Mar)	0.76 A	0.77 A	NC	-	NC
Q2 (Jun)	0.13 A	0.13 A	0.08E	-	NC
Q3 (Sep)	0.09 A	0.06 E	0.08E	-	NC
Q4 (Dec)	0.34 A	0.38 E	0.41E	-	NC
FY	1.32 A	1.34 E	NC	1.42 E	NC
P/E	19.2x	18.8x		17.8x	

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

Financials

NI Earnings Model ($ millions except per share data)	2020	2021E	2022E	2023E	2024E	2025E
Revenues	**$4,697**	**$4,650**	**$4,822**	**$5,014**	**$5,331**	**$5,524**
Expenses						
Cost of Gas, Purchased Power & Fuel	1,109	1,065	1,071	1,078	1,085	1,091
O&M	1,495	1,392	1,397	1,431	1,436	1,451
Depreciation & Amortization	762	751	807	886	969	1,024
Other	299	303	308	312	316	321
Total Expenses	**$3,665**	**$3,511**	**$3,583**	**$3,707**	**$3,807**	**$3,888**
EBIT	**$1,031**	**$1,139**	**$1,238**	**$1,307**	**$1,524**	**$1,635**
EBITDA	**$1,794**	**$1,890**	**$2,046**	**$2,193**	**$2,494**	**$2,660**
Other Income	32	34	34	34	34	34
Interest Expense	371	349	365	360	401	431
Income Taxes	127	198	218	235	278	297
Tax Rate	*18%*	*24%*	*24%*	*24%*	*24%*	*24%*
Earnings						
Net Operating Earnings	$566	$627	$689	$746	$880	$941
Preferred Dividends	55	55	55	55	55	55
Noncontrolling Interest	3	3	3	3	3	3
Income from Continuing Operations	**$508**	**$568**	**$631**	**$687**	**$822**	**$883**
Avg. Diluted Shares Outstanding	384	423	445	458	494	503
Ongoing EPS	**$1.32**	**$1.34**	**$1.42**	**$1.50**	**$1.66**	**$1.75**
Q1A EPS	0.76	0.77				
Q2A EPS	0.13	0.13				
Q3A/Q3E EPS	0.09	0.06				
Q4A/Q4E EPS	0.34	0.38				

NI Supplemental Information	2020	2021E	2022E	2023E	2024E	2025E
Dividend Information						
Dividends Per Share - YE Rate	$0.84	$0.88	$0.93	$0.99	$1.06	$1.14
Dividends Paid Per Share	0.84	0.88	0.93	0.99	1.06	1.14
Payout Ratio	64%	66%	66%	66%	64%	65%
Cash Flow & Balance Sheet Items						
Capital Expenditures (millions)	$1,758	$1,982	$2,517	$3,703	$2,223	$2,290
Book ROE	10.1%	9.5%	8.7%	8.6%	9.3%	9.7%
FFO/Debt	11%	15%	15%	14%	16%	16%
Debt/EBITDA	5.7x	5.2x	5.3x	5.5x	5.0x	4.9x
Common Equity as % of Total Capitalization	32%	40%	40%	41%	41%	41%

Source: Wells Fargo Securities, LLC estimates and company filings

Acronyms

EEI – Edison Electric Institute
IRP – Integrated Resource Plan

RFP – Request for Proposals

Price Target Basis and Risk

Price Target for NI: $29.00 from NC

Our $29/sh price target is based on a P/E multiple analysis (19X—a 5% premium to the '22 blended gas/electric peer group multiple of 18X—on our '23E EPS).

Risk for NI

Risks include lower-than-expected sales growth, unfavorable regulatory developments, unexpected cost pressures and incidents on the gas system, which could result in shareholder liabilities.

Investment Thesis

NI
We rate shares Overweight as we do not think NI's robust long-term infrastructure growth opportunities and supportive regulatory treatment are properly reflected in the current share price.

August 4, 2021 | 18:25 ET | 18:25 ET~

NiSource

BMO Capital Markets — IN Fact

Utilities, Power & Renewables

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Legal Entity: BMO Capital Markets Corp.

NI-NYSE	Rating	Price: Aug-4	Target	Total Rtn
	Outperform	$25.25	$28.00	14%

NI 2Q21 - 2021 IRP to Shine on New Opportunities

Bottom Line:

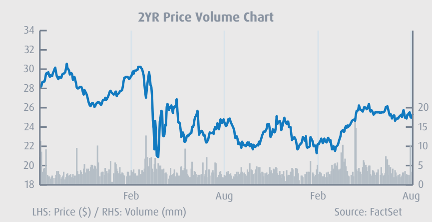
NiSource reported 2Q21 NOEPS of $0.13, matching our and consensus estimates of $0.13. Management reiterated the 2021 guidance range of $1.32-1.36 after raising the bottom end by $0.04 with 1Q21 results. The company's growth outlook remains unchanged with a NOEPS CAGR of 5-7% through 2023 and rising to 7-9% with the full-year inclusion of its $2bn in renewable investments in 2024. **After receiving over 180 proposals, NiSource continues to be on track for a November IRP filing which will define its thermal generation replacement strategy in Indiana beyond 2023.**

Key Points

The 2021 IRP to address the timing of the retirement of Michigan City Generation Station currently planned for 2028, as well as the ownership structures and technology used to replace MI City. Similar to the 2018 IRP process, NiSource completed a request for proposal solicitation which resulted in over 180 different proposals. NIPSCO will share the IRP analysis with stakeholders at public advisory meetings occurring in 3Q21 and expects to develop a preferred resource plan to submit to the IURC before November 1. Projects identified as a result of the IRP process would be incremental to the current $2bn renewable energy capital spend embedded in the 2021-'24 plan. **Management is expected to give an update during 3Q21 following the filing and provide investment expectations associated with the IRP in 1H21.**

NiSource has received regulatory approval for 13 of the 14 proposed renewable energy projects to advance the replacement of the retiring Schafer generating station in 2023. Given contractual protections for customers and shareholders in the event of project delays that could arise from supply chain issues as well as incentives for developers to remain on track, management is confident in the ability for current projects to meet in-service and budget expectations.

Current financing plans satisfy the renewable energy capital spend of ~$2bn through 2024. We expect management to remain open to all options for strengthening the balance sheet and financing incremental investment opportunities including asset rotation and/or optimization. However, given each of the company's utilities in its footprint, rate base grows at ~10% and given the potential tax leakage, dis-synergies, and necessary regulatory approvals, we see any monetization as more strategic in nature. **We expect any incremental capital spend identified in the 2021 IRP would be funded similarly to the 2018 IRP spend.**



Company Data			in $
Dividend	$0.88	Shares O/S (mm)	392.2
Yield	3.5%	Market Cap (mm)	$9,904
P/BV	1.5x	Net Debt (mm)	$8,942

BMO Estimates (FY-Dec.)	2020A	2021E	2022E
EPS	$1.32	$1.33	$1.40
DPS	$0.84	$0.88	$0.93
EBIT	$1,064	$1,158	$1,292
EBITDA	$1,789	$1,944	$2,111

Consensus Estimates	2020A	2021E	2022E
EPS		$1.35	$1.41

Valuation	2020A	2021E	2022E
P/E	19.1x	19.0x	18.1x
Div. Yield (%)	3.3%	3.5%	3.7%

QTR. EPS	Q1	Q2	Q3	Q4
2020A	$0.76	$0.13	$0.09	$0.34
2021E	$0.77a	$0.13a	$0.05	$0.37
2022E	$0.85	$0.06	$0.05	$0.43

Our Thesis

We like several aspects of NI following the sale of Columbia Gas of Massachusetts and removal of the previously guided $500-700mm equity issuance overhang, which we believe meaningfully de-risked the story.

For disclosure statements, including the Analyst Certification, please refer to page(s) 6 to 8.

BMO Capital Markets

NiSource - Block Summary Model

Income Statement	2020A	2021E	2022E
Electric Operations	362	430	510
Gas Distribution	668	704	757
Parent & Other	2	2	2
Consolidated EBIT	1,064	1,158	1,292
Depreciation & Amortization	726	786	819
EBITDA	1,789	1,944	2,111
Interest Expense	371	366	406
Income Tax	127	141	163
Income from continuing operations	508	556	627
Weighted Average Shares Outstanding	384	419	449
Diluted Operating EPS	$1.32	$1.33	$1.40
Dividends per Share	$0.84	$0.88	$0.93
Cash Flow Statement	**2020A**	**2021E**	**2022E**
Operating Cash Flow	1,681	1,410	1,520
Investing Cash Flow	(879)	(2,050)	(2,500)
Financing Cash Flow	(100)	587	906
Net Change in Cash Flow	701	(54)	(74)
EOP Cash on Balance Sheet	804	750	676
Common stock (net)	360	1,211	348
Net debt issued/(repaid)	82	(200)	1,032
Dividends paid	(323)	(369)	(419)
Balance Sheet	**2020A**	**2021E**	**2022E**
Common Equity	5,735.1	7,172.5	7,768.7
Preferred Equity	880.0	880.0	880.0
Total Debt	9,746	9,546	10,578
Enterprise Value	$20,351	$21,683	$23,214
Common equity %	35.1%	40.8%	40.4%
Preferred equity %	5.4%	5.0%	4.6%
Total Debt %	59.6%	54.2%	55.0%
Book Value per Share	$17.21	$19.21	$19.27

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

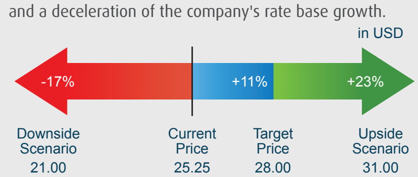
Our target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2023E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook.

Upside Scenario $31.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile.

Downside Scenario $21.00

Our downside scenario reflects a tightening monetary policy and a deceleration of the company's rate base growth.



Key Catalysts

Use of proceeds from CMA sale. Potential for further asset rotation.

Company Description

NiSource, Inc. is a regulated utility holding company, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states. Through its Columbia Gas and NIPSCO brands, it provides natural gas, electricity, and other products and services. The company was founded in 1987 and is headquartered in Merrillville, Indiana.

NI-NYSE Research

Glossary

Company Models

BMO Capital Markets

NI 2Q21 – 2021 IRP to Shine on New Opportunities

NiSource reported 2Q21 NOEPS of $0.13, matching our and consensus estimates of $0.13. Management reiterated its 2021 guidance range of $1.32-1.36 after raising the bottom end by $0.04 with its 1Q21 results. The company's outlook remains unchanged with a NOEPS CAGR of 5-7% through 2023, and 7-9% when including its $2bn of renewable investments in rate base in 2024 at NIPSCO. NiSource continues to be on track to file its formal 2021 IRP in November with the IURC, which after receiving over 180 proposals, will outline its coal generation replacement strategy in Indiana beyond 2023.

The 2021 IRP is expected to address the timing of the retirement of the ~455MW Michigan City Generation Station currently planned for 2028, as well as the ownership structures and technology used to replace MI City. Similar to the 2018 IRP process, NiSource's request for proposal solicitation resulted in over 180 different proposal submissions, including two actionable projects related to hydrogen. NIPSCO will share the IRP analysis and data from the RFP solicitations with stakeholders at public advisory meetings occurring in 3Q21 and expects to develop a preferred resource plan to submit to the IURC before November 1. Any projects identified as a result of the IRP process would be incremental to its current 14 renewable projects and the $2bn renewable energy capital spend embedded in the 2021-'24 capital plan. **Management is expected to give an update in 3Q21 following the filing and will provide capital spending expectations associated with the IRP in the first half of 2022.**

NiSource has now received regulatory approval for 13 of the 14 proposed renewable energy projects at NIPSCO to advance the replacement of the retiring Schafer generating station in 2023. Given the contractual protections for customers and shareholders in the event of project delays that could arise from supply chain issues as well as contractual incentives for developers to remain on track, management is confident in meeting its in-service and budget expectations for its projects.

Reiterating financing plans through 2024. NiSource's current financing plans satisfy the renewable energy capital spend of ~$2bn through 2024, which is funded by ~60% equity. We expect management to continue to remain open to all options for strengthening the balance sheet and financing incremental capital investment opportunities including asset rotation/optimization. However, given each of the company's utilities in its six-state footprint, rate base grows at ~10% (Exhibit 2) and potential tax leakage, dis-synergies, and necessary regulatory approvals, we see any monetization as more strategic in nature instead of a need to finance near-term equity funding. **We expect any incremental capital spend identified in the 2021 IRP would be funded similarly to the 2018 IRP spend.**

BMO Capital Markets

Exhibit 1: Model Summary

NI Model Summary	2019	2020	2021	2022	2023	2024	5-Year
EPS By Segment							
Electric Operations	$0.76	$0.63	$0.72	$0.82	$1.01	$1.15	*13%*
Gas Distribution	$1.12	$1.17	$1.05	$1.08	$1.19	$1.24	*1%*
Corporate & Other	($0.56)	($0.48)	($0.44)	($0.50)	($0.66)	($0.67)	*7%*
Consolidated E.P.S.	**$1.32**	**$1.32**	**$1.33**	**$1.40**	**$1.54**	**$1.72**	**7%**
Dividend per share	**$0.80**	**$0.84**	**$0.88**	**$0.93**	**$0.99**	**$1.05**	
Payout Ratio total	60.8%	63.6%	66.4%	66.8%	64.3%	61.0%	
Dividend Yield	2.9%	2.9%	3.0%	3.2%	3.4%	3.6%	
Valuation Metrics							
Price to Earnings	21.2x	22.2x	22.1x	21.0x	19.1x	17.1x	
Price to Book Value	1.7x	1.7x	1.5x	1.5x	1.5x	1.4x	
Funding Sources							
Cash Flow from Operations	$1,750	$1,681	$1,410	$1,520	$1,621	$1,822	*0.8%*
Total Debt Financings	$750	$2,974	$0	$1,080	$1,800	$0	
Total Equity Financings	$34	$360	$1,211	$348	$198	$911	
Credit Metrics							
Total Debt/Capitlization	61%	60%	54%	55%	58%	54%	
FFO/Total Debt	14%	13%	15%	14%	13%	15%	
Regulated Operations Performance - Realized ROE							
NIPSCO Electric ROE	12.3%	9.5%	11.0%	12.1%	13.2%	14.7%	
Columbia Gas of Ohio ROE	9.4%	9.1%	9.2%	9.2%	9.3%	9.5%	
Columbia Gas of Pennsylvania ROE	9.4%	9.1%	9.2%	9.2%	9.3%	9.5%	
NIPSCO Gas ROE	9.4%	9.2%	9.2%	9.2%	9.3%	9.5%	
Columbia Gas of Virginia ROE	9.4%	9.1%	9.2%	9.2%	9.3%	9.5%	
Columbia Gas of Kentucky ROE	9.3%	9.0%	9.1%	9.1%	9.2%	9.4%	
Columbia Gas of Maryland ROE	9.7%	9.3%	9.0%	9.0%	9.1%	9.3%	

All out years represent estimates.

Source: BMO Capital Markets, Company Filings

BMO Capital Markets

Exhibit 2: Key Assumptions

Key Model Assumptions	2019	2020	2021	2022	2023	2024	5-Year
Total Capital Expenditures by Segment							
Electric Operations	$469	$422	$650	$1,100	$1,650	$500	**$4,322**
Gas Distribution	$1,380	$1,267	$1,400	$1,400	$1,700	$1,500	**$7,267**
Consolidated Capital Expenditures	**$1,849**	**$1,689**	**$2,050**	**$2,500**	**$3,350**	**$2,000**	**$11,589**
YE Rate Base Estimates							
NIPSCO Electric	$4,866	$5,240	$5,747	$6,515	$7,814	$7,931	*10.3%*
Columbia Gas of Ohio	$3,106	$3,412	$3,803	$4,182	$4,674	$5,080	*10.3%*
Columbia Gas of Pennsylvania	$1,883	$2,069	$2,306	$2,536	$2,834	$3,081	*10.3%*
NIPSCO Gas	$1,660	$1,824	$2,033	$2,236	$2,499	$2,716	*10.3%*
Columbia Gas of Massachusetts	$1,098	$1,207	$0	$0	$0	$0	
Columbia Gas of Virginia	$789	$867	$966	$1,063	$1,188	$1,291	*10.3%*
Columbia Gas of Kentucky	$338	$371	$413	$454	$508	$552	*10.3%*
Columbia Gas of Maryland	$136	$150	$167	$184	$206	$224	*10.4%*
Total Rate Base	**$13,876**	**$15,138**	**$15,437**	**$17,171**	**$19,722**	**$20,874**	***8.5%***

All out years represent estimates.

Source: BMO Capital Markets, Company Filings

Exhibit 3: SOTP Valuation

							BMO Low Case		BMO Base Case		BMO High Case	
Regulated, Corporate & Other	Valuation Metric	2023E EPS	Sector Comp	Sector Multiple	Prem/ (Discount)	Base Multiple	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)
Electric Operations	EPS	$1.01	Electric	18.1x	+0.0%	18.1x	15.6x	$16	18.1x	$18	20.1x	$20
Gas Distribution	EPS	$1.19	Natural Gas	16.7x	+7.5%	18.0x	14.2x	$17	18.0x	$21	20.0x	$24
Corporate & Other	EPS	($0.66)	Blend	18.0x	+0.0%	18.0x	18.0x	($12)	18.0x	($12)	20.0x	($13)
Utility & Parent Value		**$1.54**					13.5x	**$21**	18.0x	**$28**	20.0x	**$31**
Total NiSource Inc.								**$21**		**$28**		**$31**
Upside/(Downside)								(18%)		10%		22%
Current Yield								3%		3%		3%
Total Return								**(14%)**		**13%**		**25%**

Source: BMO Capital Markets, Company Filings

NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
25.31 USD	28.50 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Indiana Renewable Energy Investment Approval Provides Increased Confidence in NiSource's EPS Growth

Charles Fishman, CFA
Equity Analyst
Morningstar

Important Disclosure

The conduct of Morningstar's analysts is governed by Code of Ethics/Code of Conduct Policy, Personal Security Trading Policy (or an equivalent of), and Investment Research Policy. For information regarding conflicts of interest, visit http://global.morningstar.com/equitydisclosures

The primary analyst covering this company does not own its stock.

Research as of 04 Aug 2021
Estimates as of 04 Aug 2021
Pricing data through 03 Aug 2021 00:00
Rating updated as of 03 Aug 2021 00:00

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.
Rating as of 04 Aug 2021 00:00

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Analyst Note 04 Aug 2021

We are reaffirming our $28.50 per share fair value estimate after NiSource reported flat 2021 second-quarter operating EPS, reaffirmed operating earnings guidance, and provided an update to its planned renewable energy investment. Operating EPS in the recently ended quarter were $0.13, the same as in the second quarter of 2020.

We have reaffirmed our 2021 EPS estimate of $1.34, at the midpoint of NiSource's $1.32-$1.36 guidance. We believe flat second-quarter EPS was particularly positive, given the large equity issuance in April that increased average diluted common shares by 10%, to 423 million versus the same period last year. In addition, operating EPS in the second quarter excludes earnings from Columbia Gas of Massachusetts, which was sold in October 2020.

We also have increased confidence in our 7.9% annual EPS growth rate from 2021-24, near the midpoint of NiSource's 7%-9% target. Our increased confidence is due in large part to the fact that the eight renewable energy joint venture projects, which will require $2 billion from NiSource, have now all been approved by the Indiana Utility Regulatory Commission.

Although we think a tracking mechanism for the renewable projects would be more favorable for shareholders, pre-approval is a positive. Indiana regulation has been constructive and relatively consistent for investors with allowed returns modestly above industry averages. Assuming a favorable Indiana rate-case outcome, our 2024 EPS estimate of $1.68 is 12% higher than our 2023 EPS estimate of $1.50 due in large part to higher electric rates from the 2023 Indiana base rate case.

For more detail on our view of the future of NiSource's natural gas utilities and its renewable energy investment

Vital Statistics

Market Cap (USD Mil)	9,927
52-Week High (USD)	26.60
52-Week Low (USD)	21.09
52-Week Total Return %	9.2
YTD Total Return %	13.2
Last Fiscal Year End	31 Dec 2020
5-Yr Forward Revenue CAGR %	7.0
5-Yr Forward EPS CAGR %	6.1
Price/Fair Value	0.89

Valuation Summary and Forecasts

Fiscal Year:	2019	2020	*2021(E)*	*2022(E)*
Price/Earnings	21.1	17.4	*18.9*	*18.1*
EV/EBITDA	10.4	12.1	*11.3*	*10.3*
EV/EBIT	16.1	21.2	*18.2*	*16.8*
Free Cash Flow Yield %	-2.1	-7.3	*-5.8*	*-8.1*
Dividend Yield %	2.9	3.7	*3.5*	*3.6*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2019	2020	*2021(E)*	*2022(E)*
Revenue	5,209	4,682	*5,207*	*5,491*
Revenue YoY %	1.9	-10.1	*11.2*	*5.5*
EBIT	1,305	961	*1,123*	*1,216*
EBIT YoY %	936.7	-26.3	*16.8*	*8.3*
Net Income, Adjusted	495	508	*560*	*622*
Net Income YoY %	6.8	2.6	*10.4*	*11.1*
Diluted EPS	1.32	1.32	*1.34*	*1.40*
Diluted EPS YoY %	1.2	0.4	*1.8*	*3.9*
Free Cash Flow	-75	468	*144*	*-528*
Free Cash Flow YoY %	-94.4	-728.1	*-69.3*	*-468.1*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewables.

NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
25.31 USD	28.50 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

plan, see our November 2020 report, "Is Natural Gas Heating Going the Way of Buggy Whips?"

NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
25.31 USD	28.50 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2018	2019	2020	2021 (Forecast)	2022 (Forecast)	5-Year Proj. CAGR
Revenue	-1.3	4.9	1.9	-10.1	11.2	5.5	7.0
EBIT	1.6	-86.3	936.7	-26.3	16.8	8.3	10.9
EBITDA	4.3	-51.2	178.8	-16.6	7.9	9.0	9.3
Net Income	8.3	16.0	6.8	2.6	10.4	11.1	11.3
Diluted EPS	3.0	7.6	1.2	0.4	1.8	3.9	6.1
Earnings Before Interest, after Tax	10.7	-118.4	-1,098.1	-26.4	21.7	10.6	11.1
Free Cash Flow	—	37.7	-94.4	-728.1	-69.3	-468.1	-7.0

Profitability	3-Year Hist. Avg	2018	2019	2020	2021	2022	5-Year Proj. Avg
Operating Margin %	16.0	2.5	25.1	20.5	21.6	22.1	23.1
EBITDA Margin %	29.7	14.2	38.8	36.0	35.0	36.1	37.7
Net Margin %	9.8	9.1	9.5	10.8	10.8	11.3	12.1
Free Cash Flow Margin %	-5.9	-26.1	-1.4	10.0	2.8	-9.6	-3.4
ROIC %	3.2	-0.6	6.3	3.9	5.7	6.2	6.1
Adjusted ROIC %	3.5	-0.7	6.9	4.2	6.3	6.8	6.6
Return on Assets %	0.3	-0.3	1.5	-0.3	2.4	2.5	2.7
Return on Equity %	1.2	-1.4	6.6	-1.5	10.0	9.5	9.8

Leverage	3-Year Hist. Avg	2018	2019	2020	2021	2022	5-Year Proj. Avg
Debt/Capital	0.62	0.61	0.62	0.63	0.56	0.57	0.56
Total Debt/EBITDA	7.71	12.59	4.77	5.78	5.00	5.09	4.89
EBITDA/Interest Expense	3.98	2.05	5.34	4.55	4.95	5.17	5.26

Valuation Summary and Forecasts

	2019	2020	2021(E)	2022(E)
Price/Fair Value	1.01	0.80	—	—
Price/Earnings	21.1	17.4	18.9	18.1
EV/EBITDA	10.4	12.1	11.3	10.3
EV/EBIT	16.1	21.2	18.2	16.8
Free Cash Flow Yield %	-2.1	-7.3	-5.8	-8.1
Dividend Yield %	2.9	3.7	3.5	3.6

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	6.1
Long-Run Tax Rate %	25.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	71.4
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-834	-4.3	-1.91
Present Value Stage II	2,988	15.4	6.82
Present Value Stage III	17,290	88.9	39.49
Total Firm Value	**19,444**	**100.0**	**44.41**
Cash and Equivalents	1,278	—	2.92
Debt	-9,746	—	-22.26
Preferred Stock	-880	—	-2.01
Other Adjustments	2,093	—	4.78
Equity Value	**12,189**	—	**27.84**
Projected Diluted Shares	438		
Fair Value per Share (USD)	**28.50**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
25.31 USD	28.50 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2018	2019	2020	*2021 (Forecast)*	*2022 (Forecast)*
Revenue	**5,115**	**5,209**	**4,682**	***5,207***	***5,491***
Cost of Goods Sold	1,761	1,535	1,109	*1,562*	*1,647*
Gross Profit	**3,353**	**3,674**	**3,572**	***3,645***	***3,843***
Selling, General & Administrative Expenses	2,353	1,355	1,586	*1,517*	*1,543*
Other Operating Expense (Income)	275	297	299	*307*	*316*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	600	717	726	*698*	*769*
Operating Income (ex charges)	**126**	**1,305**	**961**	***1,123***	***1,216***
Restructuring & Other Cash Charges	1	415	411	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**125**	**891**	**551**	***1,123***	***1,216***
Interest Expense	353	379	371	*367*	*384*
Interest Income	-2	-5	-211	—	—
Pre-Tax Income	**-231**	**507**	**-31**	***755***	***832***
Income Tax Expense	-180	124	-17	*136*	*150*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	—	-3	*-4*	*-5*
(Preferred Dividends)	-15	-55	-55	*-55*	*-55*
Net Income	**-66**	**328**	**-73**	***560***	***622***
Weighted Average Diluted Shares Outstanding	357	376	384	*417*	*445*
Diluted Earnings Per Share	**-0.18**	**0.87**	**-0.19**	***1.34***	***1.40***
Adjusted Net Income	463	495	508	*560*	*622*
Diluted Earnings Per Share (Adjusted)	**1.30**	**1.32**	**1.32**	***1.34***	***1.40***
Dividends Per Common Share	0.78	0.80	0.84	*0.88*	*0.92*
EBITDA	**724**	**1,608**	**1,277**	***1,820***	***1,985***
Adjusted EBITDA	**726**	**2,023**	**1,687**	***1,820***	***1,985***

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NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
25.31 USD	28.50 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2018	2019	2020	Forecast 2021	Forecast 2022
Cash and Equivalents	121	148	126	*182*	*169*
Investments	—	—	—	—	—
Accounts Receivable	1,059	857	791	*927*	*978*
Inventory	423	425	401	*492*	*519*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	453	424	341	*425*	*450*
Current Assets	**2,055**	**1,854**	**1,659**	***2,027***	***2,116***
Net Property Plant, and Equipment	15,543	16,912	16,620	*17,932*	*19,673*
Goodwill	1,691	1,486	1,486	*1,486*	*1,486*
Other Intangibles	221	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	2,002	2,014	1,795	*1,931*	*1,931*
Long-Term Non-Operating Assets	293	394	481	*481*	*481*
Total Assets	**21,804**	**22,660**	**22,041**	***23,856***	***25,686***
Accounts Payable	884	666	589	*642*	*677*
Short-Term Debt	2,027	1,787	526	*500*	*500*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,126	1,293	1,164	*1,350*	*1,450*
Current Liabilities	**4,037**	**3,746**	**2,279**	***2,492***	***2,627***
Long-Term Debt	7,105	7,856	9,220	*8,600*	*9,600*
Deferred Tax Liabilities (Long-Term)	1,331	1,485	1,471	*1,621*	*1,810*
Other Long-Term Operating Liabilities	2,519	2,352	1,904	*2,500*	*2,500*
Long-Term Non-Operating Liabilities	1,061	1,234	1,329	*1,329*	*1,329*
Total Liabilities	**16,053**	**16,673**	**16,203**	***16,542***	***17,865***
Preferred Stock	880	880	880	*880*	*880*
Common Stock	4	4	4	*4*	*4*
Additional Paid-in Capital	6,404	6,666	6,890	*8,043*	*8,333*
Retained Earnings (Deficit)	-1,399	-1,371	-1,765	*-1,572*	*-1,360*
(Treasury Stock)	-100	-100	-100	*-100*	*-100*
Other Equity	-37	-93	-157	*-41*	*-46*
Shareholder's Equity	**5,751**	**5,987**	**5,752**	***7,214***	***7,711***
Minority Interest	—	—	86	*100*	*110*
Total Equity	**5,751**	**5,987**	**5,838**	***7,314***	***7,821***

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NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
25.31 USD	28.50 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in December

				Forecast	
	2018	2019	2020	*2021*	*2022*
Net Income	-51	383	-14	*619*	*682*
Depreciation	600	717	726	*698*	*769*
Amortization	—	—	—	—	—
Stock-Based Compensation	29	26	17	*38*	*39*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-188	118	-29	*151*	*188*
Other Non-Cash Adjustments	42	399	660	—	—
(Increase) Decrease in Accounts Receivable	-186	188	-4	*-136*	*-51*
(Increase) Decrease in Inventory	41	-2	-2	*-91*	*-27*
Change in Other Short-Term Assets	-14	54	-221	*-84*	*-25*
Increase (Decrease) in Accounts Payable	268	-300	-30	*53*	*35*
Change in Other Short-Term Liabilities	—	—	—	*186*	*100*
Cash From Operations	**540**	**1,583**	**1,104**	***1,434***	***1,710***
(Capital Expenditures)	-1,818	-1,802	-1,758	*-2,010*	*-2,510*
Net (Acquisitions), Asset Sales, and Disposals	—	—	—	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-108	-120	879	*460*	—
Cash From Investing	**-1,926**	**-1,922**	**-879**	***-1,550***	***-2,510***
Common Stock Issuance (or Repurchase)	844	244	211	*1,153*	*290*
Common Stock (Dividends)	-273	-299	-322	*-367*	*-410*
Short-Term Debt Issuance (or Retirement)	772	-204	-1,270	*-26*	—
Long-Term Debt Issuance (or Retirement)	-742	681	1,106	*-620*	*1,000*
Other Financing Cash Flows	868	-56	27	*-83*	*-89*
Cash From Financing	**1,469**	**366**	**-248**	***57***	***792***
Exchange Rates, Discontinued Ops, etc. (net)	0	0	0	*116*	*-5*
Net Change in Cash	**83**	**27**	**-23**	***57***	***-13***

Research Methodology for Valuing Companies

Qualitative Equity Research Overview
At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group (“we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

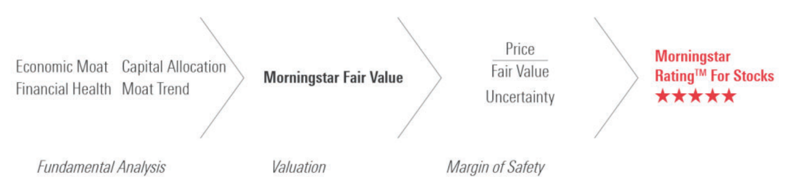
1. Economic Moat
The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm’s economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

Morningstar Research Methodology for Valuing Companies



2. Estimated Fair Value
Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.
Our model is divided into three distinct stages:

Stage I: Explicit Forecast
In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

3. Uncertainty Around That Fair Value Estimate
Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to

Research Methodology for Valuing Companies

assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

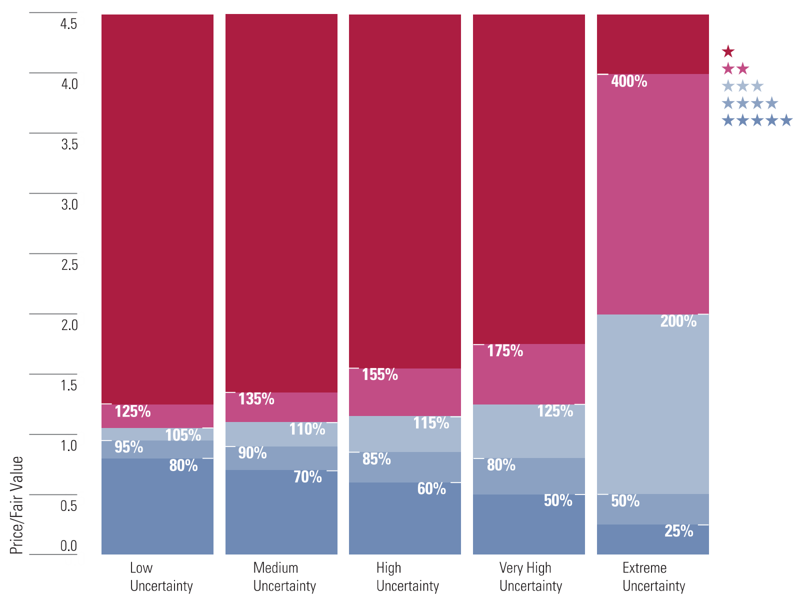
- Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environmental, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/.

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ► Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- ► Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- ► Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

GUGGENHEIM

August 4, 2021

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NI – In-line Quarter as Management Focuses on Rate Cases and IRP

Key Message: NiSource reported 2Q21 earnings generally in line with Guggenheim and consensus estimates while reiterating LT EPS growth of 7-9% to '24 and its FY21 EPS guidance. The otherwise straightforward update hewed closely to our expectations for ongoing execution, with management focused on the NIPSCO IRP/RFP and recent regulatory activities across the footprint. While the financing plan is well charted through 2023, management indicated that it remains open to portfolio optimization in the right circumstances.

NI BUY

NiSource Inc.
Sector: Power & Utilities

Earnings Release

Share Price	$25.25
Price Target	$27.00

EPS ($) (FY DEC)	1Q	2Q	3Q	4Q	FY
2021	0.77	0.13	0.05E	0.40E	1.35E
Prior	—	*0.14*	*0.03E*	*0.42E*	—
P/E					18.8x
2022	0.85E	0.14E	0.04E	0.40E	1.43E
P/E					17.7x
2023	0.88E	0.17E	0.08E	0.41E	1.53E
Prior	*0.89E*	*0.16E*	*0.07E*	*0.42E*	—
P/E					16.5x

Market Data

52-Week Range	$21.09 - $26.60
Dividend	$1.60
Dividend Yield	6.3%
Market Cap (M)	$9,908
Shares Out (M)	392.4
ADV (3 mo; 000)	3,364

IRP/RFP and regulatory activity in focus. NIPSCO's 2021 IRP remains on schedule following its 1Q21 kickoff, with management currently working through some 180 proposals (78 projects) it received in response to the RFP. The details of those bids will be incorporated into the IRP process for an eventual November submission to the IURC and potential resource selections/decision in 2022. As a reminder, the current buildout based on the 2018 IRP functioned in a similar manner. **On the regulatory side,** NI filed 3 new base rate cases since the 1Q21 release, including the sizable OH case ($221.4mm increase net of riders, $3.6bn RB, 10.95% ROE request), and smaller filings in KY ($26.7mm on ~$450mm RB) and MD ($5mm on $185mm RB). These filings are further supported by NI's significant number of available riders, with the $1.6bn TDISC ESMP filed in June for the '21-26 time period.

NI reported 2Q21 adj. EPS of $0.13 slightly below our estimate of $0.14 and just above consensus of $0.12. Results were flat YoY; however, 2021 does not include Columbia Gas of Massachusetts, which contributed to $28mm in lower operating revenues at the gas segment. **Mgmt. also reiterated the FY21-FY24 annual base capital spending guidance of $1.9B-$2.2B while reiterating the renewables investment of ~$2bn.** EPS growth of 5-7% and 7-9% from 2021-2023 and 2021-2024, respectively, was also reaffirmed – consistent with our model. Finally, the company also reaffirmed its previously-narrowed 2021 guidance of $1.32 to $1.36, versus our $1.35, which remains unchanged.

Valuation: We apply our base 18.5x multiple on the electric utility and add a 1x premium to account for additional renewables opportunities and our base 18.5x multiple on the gas LDCs. We arrive at our valuation utilizing a sum-of-the parts analysis, based on: (1) ~$11/share for the regulated electric utility; (2) ~$18/share value for the regulated gas segment given the limited spread from LDCs after recent market volatility; and (3) (~$-2)/share for other adjustments for Corp and Other. We use this sum of the parts to arrive at our $27 valuation.

Risks: The primary risks on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

ELECTRIC UTILITIES

Regulateds – Market Overweight

Gas/Power Infrastructure – Market Overweight

August 4, 2021

NISOURCE

(NI US Equity – $25.25 – Outperform)

All systems go

- **2021 on track, company executing well**. This morning, NI reported Q2 EPS of $0.13 which matched consensus. FY21 guidance of $1.32-1.36 was reaffirmed and so was NI's L-T EPS growth rates – 7-9% CAGR 2021-24, 5-7% annually 2021-23. So far 2021 is off to a solid start and NI is executing well on all its initiatives – most notable being the generation transition plan in Indiana, where the company now has CPCN approvals for all its JV projects. We reiterate our Outperform rating on NI and $29 PT and believe a re-rating toward a group average is achievable over time. The investment case becomes even more compelling once the market turns to a 2024 valuation year later this year/early next; we still see NI at over a 2x discount in 2024 on our numbers once the renewable earnings are fully reflected.

- **All renewable projects approved, on track/budget**. NI now has regulatory approval for all 8 of its JV projects (only 1 PPA to go). Approval of the CPCNs effectively deems the projects as prudent and in the best interest of customers. Management noted that it is in constant contact with the developers of its projects – big players like NEE, EDPR and Invenergy – and all are currently on schedule and budget. NI is confident that will remain the case going forward but did mention if something were to go awry, protections are in the contracts for customers and shareholders.

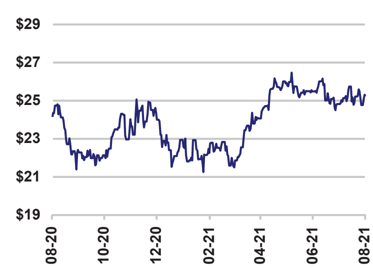
- **Preferred IRP plan coming in the fall**. Details of NI's 2021 IRP should start to become more clear in Sept. when a narrowed list of projects is shared with stakeholders; NI's preferred plan will then be communicated in Oct. and formally submitted to the IURC around its Q3 call. The focus will be the timing of the Michigan City retirement – currently 2028, but we think there is a chance that is accelerated – and the likely replacement options. NI noted there was a robust response to its RFP with over 180 proposals for 78 different projects. Ownership potential of the projects likely won't be known until 2022. Separately, if NI were to consider asset sales in the future, we think it would most likely be timed to help fund incremental generation capex out of the IRP.

- **Progress in the PA rate case.** NI is currently in advanced settlement talks in its PA rate case. This was particularly encouraging to hear given what happened in the previous case. The OH rate case is still early days, but is a focus given that its NI's largest LDC and first base rate case in 13 years.

Estimates / Valuation				
(US$)	**2021E**	**2022E**	**2023E**	**2024E**
EPS	$1.34	$1.41	$1.51	$1.70
Consensus	$1.35	$1.42	$1.53	$1.69
P/E	18.9x	17.9x	16.7x	14.9x
Dividend Yield	3.5%	3.7%	4.0%	4.2%

Trading and Fundamental Data	
Price Target	**$ 29**
Current Price	25.25
52-Week Range	$21-$27
Market Cap. (MM)	9,900
Enterprise Value (MM)	20,550
Shares Out. (MM)	392.2
Dividend Yield	3.52%
Dividend Payout Ratio	66.1%
ROE	-1.5%
Debt to Cap	62.2%
Avg. Daily Vol. (000)	3,851

Price Performance	YTD	LTM
NI US Equity	10%	5%
Utility Index	6%	12%
S&P 500	17%	34%



Source: FactSet/Wolfe Research

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NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2021E	2022E	2023E	2024E
EPS	$1.34	$1.41	$1.51	$1.70
Diluted Shares Outstanding	415	443	451	477
Dividends Per Share	$0.89	$0.94	$1.00	$1.06
Dividend Yield	3.5%	3.7%	4.0%	4.2%
Dividend Payout Ratio	67%	67%	66%	62%
Equity Ratio	38%	38%	36%	36%
FFO/Net Debt	15%	15%	14%	15%
Valuation Metrics				
P/E	18.9x	17.9x	16.7x	14.9x
Price/Book	2.0x	1.9x	1.8x	1.8x
EV/rate base	1.4x	1.3x	1.2x	1.2x
Segment EPS				
Gas Distribution	$1.08	$1.12	$1.21	$1.26
NIPSCO Electric	0.54	0.55	0.60	0.72
Parent & Other	(0.29)	(0.27)	(0.30)	(0.29)
Total EPS	**$1.34**	**$1.41**	**$1.51**	**$1.70**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2021E	2022E	2023E	2024E
Capital Spending by Segment ($M)				
Gas Distribution	$1,385	$1,435	$1,535	$1,535
Electric	590	1,090	1,940	490
Parent	25	25	25	25
Total Capex	**$2,000**	**$2,550**	**$3,500**	**$2,050**
Financings ($M)				
Total Equity Issued/(Repurchased)	$290	$290	$115	$40
Total Hybrids Issued/(Repurchased)	$863	$0	$863	$0
Total Debt Issued/(Repurchased)	$0	$650	$1,650	$400

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland and Massachusetts.

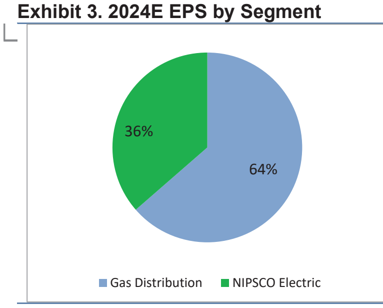
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $40B backlog of capital investment with recovery largely through trackers in mostly constructive regulatory environments. The dramatic shift toward renewables at NI's Indiana electric utility and fact that it will be coal-free by 2028 is also helpful from an ESG perspective.

Valuation

Our $29 price target is derived by applying average P/E multiples on NI's electric earnings and on its gas LDC earnings in 2024 (to capture the full earnings uplift from NI's renewable investments); both are near 17x. Risks for NiSource are 1) bad regulatory outcomes; 2) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer/sales growth

Exhibit 3. 2024E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart

Source: FactSet

WOLFE RESEARCH

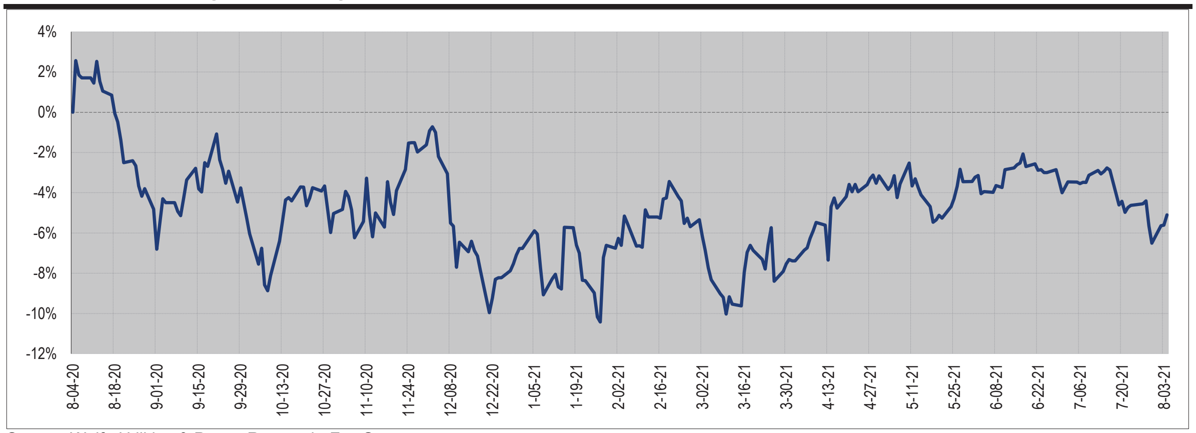
NiSource

August 4, 2021

Investment conclusion

NI's rate base growth of 10-12% and EPS growth of 7-9%, on average, through 2024 places it amongst the best growth stories in the sector. The dramatic shift toward renewables at NI's Indiana electric utility and fact that it will be coal-free by 2028 (or earlier) is also helpful from an ESG standpoint. We believe the recent equity unit offering removed a key overhang on the stock; it was also helpful in lowering future equity needs. NI's stock currently trades at ~2.0x discount to the regulated average in 2024 once its renewable capex is fully reflected in earnings. We believe NI deserves to trade near an average as its story is the cleanest that it has been in recent years. We also see CNP's gas LDC sales earlier this year as a very constructive value marker (2.5x rate base) for NI and gas LDC companies generally.

Exhibit 5: NI vs the Regulated Average



Source: Wolfe Utilities & Power Research, FactSet

Exhibit 6: Gas LDC Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E Multiple 2021E	2022E	2023E	2024E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Atmos Energy	ATO	$99.39	131	$12,999	19.5x	18.4x	17.2x	16.1x	2.5%	8.2%	49%	1.8x	59%
ONE Gas	OGS	73.82	53	3,931	19.4x	18.0x	16.9x	16.0x	3.1%	6.8%	63%	1.8x	52%
NiSource	NI	25.25	392	9,903	18.9x	17.9x	16.7x	14.9x	3.5%	6.0%	67%	2.0x	37%
Northw est Natural Gas	NWN	53.79	31	1,649	21.2x	20.4x	19.2x	18.2x	3.6%	0.6%	83%	1.9x	40%
Pure-play Average					**19.7x**	**18.7x**	**17.5x**	**16.3x**	**3.2%**	**5.4%**	**66%**	**1.9x**	**47%**
New Jersey Resources	NJR	38.33	96	3,693	18.1x	17.0x	15.9x	13.1x	3.5%	6.4%	61%	2.0x	42%
South Jersey Industries	SJI	25.28	112	2,842	15.5x	14.9x	14.2x	13.5x	4.8%	2.5%	71%	1.5x	32%
Southw est Gas	SWX	71.98	58	4,175	17.3x	16.5x	15.3x	15.5x	3.3%	4.5%	57%	1.5x	47%
Spire Inc.	SR	72.92	52	3,768	16.4x	16.5x	15.6x	14.9x	3.6%	4.9%	66%	1.7x	44%
Diversified Average					**16.8x**	**16.2x**	**15.2x**	**14.3x**	**3.8%**	**4.6%**	**64%**	**1.7x**	**41%**
Average - electric utilities (ex PCG and EIX)					**19.6x**	**19.0x**	**17.9x**	**17.1x**	**3.5%**	**4.5%**	**67%**	**2.0x**	**41%**

Source: Wolfe Utilities & Power Research, FactSet

Barclays Equity Research

Power & Utilities

4 August 2021

NiSource, Inc.

NI: Progressing According to Plan

NI reported Q2 result in line with expectations and discussed execution on IRPs and regulatory reviews on the call. We reiterate our Overweight as plans continue to fall in line, though future execution remains key.

NI reported Q2 adj EPS of $0.13 (in line with consensus $0.12 and Barclays $0.13).

Management reaffirmed FY21 guidance of $1.32-$1.36 and 7-9% CAGR over 2021-2024 with near-term 5-7% CAGR through 2023.

Capex: $1.9-$2.2 billion SMS investments over 2021-2024; ~$2bn in renewables investments over 2022-2023.

Management has already achieved 39% methane emissions reduction vs 2005 levels via infrastructure replacement. The goal remains 50% methane emissions reduction by 2025.

Rate Cases

NI filed general rate cases in OH, MD, and KY in Q2, in addition to PA in Q1.

Ohio Rate Case: $221m request net of trackers, proposed effective mid-2022.

Maryland Rate Case: $5m request net of trackers, proposed effective in December 2021.

Kentucky Rate Case: $27m request net of trackers.

Pennsylvania Rate Case: $98m request net of trackers. In advanced settlement talks.

NIPSCO

Indiana TDSIC

Filed a new 5-year TDSIC plan which includes a total of $1.64 billion in infrastructure modernization investments over 2021-2026. Management expects an order in December 2021.

2018 IRP

IURC has approved 13/14 proposed projects. Management reiterates confidence in completion on time and on budget despite industry concerns on supply chain cost inflation.

2021 IRP

Received over 180 proposals for 78 individual projects across a range of technologies. Outcome of IRP will inform post-2023 generation replacement strategy.

Management continues to evaluate the planned retirement of Michigan City Generating Station in 2028 in light of MISO changes, resource adequacy needs, affordability, and RFP results.

NI received two actionable proposals related to hydrogen, though there may need to be more market depth for those to be realistic at this moment.

Management expects to share IRP modeling analysis and results with stakeholders in September and to communicate a preferred plan incorporating stakeholder feedback in October, before submitting the IRP to the IURC in November.

Financing

Financing plan remains unchanged. Management has already satisfied this year's $200m-$300m ATM equity need. Management expects to issue $200-$300m in 2022 and up to $150m via ATM in 2023.

Management will not rely on asset monetization to satisfy financing needs. It continues to eye asset monetization as a way of maximizing long-term shareholder value and continues to evaluate market conditions and opportunities.

Offline Report

BofA SECURITIES
BofA GLOBAL RESEARCH

North American Gas Utilities

Gas LDC 2Q21 Preview: Looking for a Bump up to FY21 Outlooks

Price Objective Change | 22 July 2021 | Equity | North America | Gas Utilities

Key takeaways

- We provide our 1Q20/fiscal 2Q21 Gas LDC preview for ATO, NI, NJR, NWN, OGS, SJI, SR, SWX, and UGI. Bounce continues?
- Favorable FY21 guidance updates from ATO/NI likely plus NWN, UGI, and SJI. OGS more cautious backdrop with rate case.
- Reiterate Buy on SJI and UGI with premium growth prospects tied to high-return unregulated. Upside from additional disclosure

Exhibit 1: Price Objective changes
We lower our POs for some stocks

Ticker	Rating	Prior PO	New PO
ATO	Neutral	$106.0	$102.00
NI	Buy	$29.0	$28.00
NJR	Underperform	$39.0	$39.00
NWN	Underperform	$51.0	$49.00
OGS	Underperform	$74.0	$73.00
SR	Buy	$78.0	$77.00
SWX	Neutral	$69.0	$69.00
SJI	Buy	$27.0	$27.00
UGI	Buy	$51.0	$51.00
UTL	Underperform	$49.0	$48.00

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Gas LDCs: few wrinkles in otherwise normal spring Q

We provide our gas LDC 2Q21/fiscal 3Q21 preview for ATO, NI, NJR, NWN, OGS, SJI, SR, SWX, UGI, and UTL. Overall, we see a somewhat quieter quarter especially following the very active 1Q updates across the sector with extreme weather. The focus is on (1) securitization of Uri costs for ATO and OGS which looks derisked; (2) probable FY21 guidance increases; (3) key rate cases in MO, OK, NJ, and PA; (4) updates on RNG, hydrogen, and other decarbonization efforts; (5) pipeline developments following STL Pipeline and PennEast updates; and (6) thoughts on divestitures following CenterPoint Energy (CNP) sales. We revise our POs in the sector (details inside).

FY21 guidances largely moving up in a constructive year

With **ATO** and **NI** both already pointing to the upper-half of their respective FY21 EPS guidance ranges we see increases as probable and largely expected by Street. **NWN, UGI, and SJI** all are tracking well in their respective ranges and appears to have latitude to point toward the upper-half as well. **NJR** has already significant increased its FY21 expectations after favorable weather benefits so we anticipate a reaffirmation. We highlight **OGS** where we estimate FY21 'only' around the midpoint as well as a quarterly miss as having a cautious backdrop relative to the aforementioned peers who will be increasing guidance and pointing higher in the range. Between this unfavorable outlook comparison and the pending Oklahoma rate case, we reiterate our restrained stance. **SR** similarly seems to be tracking toward the midpoint and we do not expect a FY21 change particularly at this stage in the Missouri rate case.

Let's talk specific names…

ATO: We expect fiscal 3Q to slightly miss on costs but could increase guidance. Watch for details around recent explosions in ATO's territory as well as an update on securitization.
OGS: Cautious backdrop with quarterly miss and lack of upside to guidance.
SR: Earnings will be overshadowed by STL pipeline and rate case commentary
NI: Renewables additions continue to be top-of-mind with the ongoing RFP process and upcoming Integrated Resource Plan (IRP) filing. We see a beat vs consensus as well as the latitude for NI to raise guidance driven by stronger load and better cost efficiencies.
NWN: Relatively quiet update as management works through the development process with the Tyson RNG plants. We see a modest beat.
SWX: Focus on the recent Riggs Distler acquisition where questions center no the strategic rationale. AZ regulatory remains a focus for us with the ongoing tracker reconciliation filing and upcoming rate case expected to be filed at YE21.
SJI: We expect some detail on the recent fuel cell acquisition announcement and hope to see some progress on the RNG front. Watch the NJ legislature into the fall as RNG is likely to pick up steam. Similar to UGI, appreciate requires execution and disclosure.
NJR: Investors remain skeptical on the plan to diversify renewable development outside of NJ. Questions will center on supply chain constraints and pressures on margins with the company disadvantaged versus larger peers.
UGI: Continued enhancement of disclosures on renewable growth ambitious and returns. With one of the best EPS CAGRs (~9%), upside is tied to providing comfort in outlook.
UTL: Focus will be on the NH rate cases where progress is positive, but premium valuation keeps us Underperform.

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PM Summaries

ATO: Expect an overall positive update with cost recovery progress and likely FY21 guidance increase but expected. Uri recovery derisked post legislation. Mgmt has downplayed Local Distribution Companies (LDCs) to mitigate equity but remains a top investor focus.
NI: Upside to FY21 guidance on a quiet execution quarter post-financing. IN generation ownership mix remains the key question. PA/OH rate cases still matter and a focus after last rocky PA case.

<u>NJR:</u> Small local renewable developer is the type of firm that could see supply chain squeeze. We remain cautious on the expansion outside of NJ.
<u>NWN:</u> Progress on RNG and water diversification strategies need to show progress to support elevated multiple.
<u>OGS:</u> Small quarterly miss and weaker in FY21 range than many peers at the top-end. OK rate case looms large particularly with Uri rate pressures.
<u>SJI:</u> Attractive risk/reward at discounted valuation where success in NJ regulatory applications (infrastructure and rate case) and RNG can build confidence. 7% BofA EPS CAGR vs Street 3% (5-8% guidance).
<u>SR:</u> Expect a passionate defense of STL Pipeline which represents ~4% EPS. STL remains an overhang but also watch MO rate case for potential settlement in near-term.
<u>SWX</u>: Details of the strategic logic of RDC infrastructure deal and effectively doubling-down on the diversified strategy. AZ case will be a renewed overhang.
<u>UGI:</u> Investors continue to call for additional disclosures into renewable pipeline but details are frustratingly scarce at these early stages. Top-tier 9% EPS CAGR undervalued despite unregulated business mix.
<u>UTL</u>: Signs of progress in NH not enough to justify lofty premium on overly bullish Street estimates.

BofA Global Research Reports

Select 2Q21 Earnings Previews	Primary Author	Date Published
North American Electric Utilities: 2Q21 Regulated Preview: One Year Post Covid Who is Stronger? (https://rsch.baml.com/r?q=f8mXzJsjOd0AdWW2iVOSyw)	Julien Dumoulin-Smith	19 July 2021
US Electric Utilities & IPPs: 2Q21 SMID-Cap Preview: Part II: Opportunities abound? (https://rsch.baml.com/r?q=DKk6UcDvkXfuiYV3RuJxrA)	Julien Dumoulin-Smith	19 July 2021
US Electric Utilities & IPPs: 2Q21 PacNW SMID-Cap Preview: Pacific HOT West (https://rsch.baml.com/r?q=K-r2rpEY3VGAPmb9lSJABQ)	Julien Dumoulin-Smith	16 July 2021
US Electric Utilities & IPPs: 2Q21 Power Preview: Power Makes a Comeback (NRG/VST) (https://rsch.baml.com/r?q=tJxJPCbiA2EZaF8H9xjgog)	Julien Dumoulin-Smith	21 July 2021

Summary of Key Changes

Exhibit 2: PO & Estimate Changes
Our EPS estimates broadly remain unchanged for the gas utilities

				Prior					New				Delta vs Prior. (%)				Delta vs Consensus (%)			
Company	Ticker	Rating	Prior PO	2021E	2022E	2023E	2024E	New PO	2021E	2022E	2023E	2024E	2021E	2022E	2023E	2024E	2021E	2022E	2023E	2024E
Atmos Energy Corp	ATO	Neutral	$106.0	5.07	5.41	5.77	6.18	$102.00	5.07	5.41	5.77	6.18	0.0%	0.0%	0.0%	0.0%	-0.2%	0.1%	-0.4%	0.0%
NiSource Inc	NI	Buy	$29.0	1.36	1.40	1.58	1.76	$28.00	1.36	1.40	1.58	1.76	0.0%	0.0%	0.0%	0.0%	1.0%	-1.2%	3.3%	4.0%
New Jersey Resources Corp	NJR	Underperform	$39.0	2.09	2.24	2.33	2.58	$39.00	2.09	2.24	2.33	2.58	0.0%	0.0%	0.0%	0.0%	-1.0%	-0.9%	-3.7%	-11.5%
Northwest Natural Gas Co	NWN	Underperform	$51.0	2.55	2.63	2.79	2.91	$49.00	2.55	2.63	2.79	2.91	0.0%	0.0%	0.0%	0.0%	0.4%	0.0%	0.3%	-1.4%
ONE Gas Inc	OGS	Underperform	$74.0	3.82	4.14	4.40		$73.00	3.82	4.14	4.40		0.0%	0.0%	0.0%		0.4%	0.9%	1.0%	NA
Spire Inc	SR	Buy	$78.0	4.42	4.56	4.79	4.90	$77.00	4.42	4.56	4.79	4.90	0.0%	0.0%	0.0%	0.0%	-0.5%	2.9%	2.4%	-0.3%
Southwest Gas Holdings Inc	SWX	Neutral	$69.0	3.96	4.32	4.75	5.12	$69.00	3.96	4.35	4.76	5.13	0.0%	0.7%	0.2%	0.2%	-4.4%	0.1%	0.9%	NA
South Jersey Industries Inc	SJI	Buy	$27.0	1.63	1.74	1.90	2.03	$27.00	1.63	1.74	1.90	2.03	0.0%	0.0%	0.0%	0.0%	0.6%	2.8%	6.8%	7.4%
UGI Corp	UGI	Buy	$51.0	2.97	3.15	3.46	3.87	$51.00	2.97	3.15	3.46	3.87	0.0%	0.0%	0.0%	0.0%	-1.0%	-2.7%	1.5%	NA
Unitil Corp	UTL	Underperform	$49.0	2.32	2.49	2.63	2.79	$48.00	2.32	2.49	2.63	2.79	0.0%	0.0%	0.0%	0.0%	-8.8%	-7.9%	-7.4%	NA

Source: Company Filings, Bloomberg, and BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 3: BofA Estimates vs Consensus
We see a mixed bag of results on the quarter

			2Q21/F3Q21 EPS Estimates			
Company	Ticker	Rating	BofAe	Cons	Expectations	% Beat/Miss
Atmos Energy Corp	ATO	Neutral	0.74	0.73	Beat	1%
NiSource Inc	NI	Buy	0.15	0.12	Beat	24%
New Jersey Resources Corp	NJR	Underperform	-0.12	-0.08	Miss	54%
Northwest Natural Gas Co	NWN	Underperform	-0.11	-0.14	Beat	-24%
ONE Gas Inc	OGS	Underperform	0.49	0.52	Miss	-6%
Spire Inc	SR	Buy	-0.02	0.01	Miss	NM
Southwest Gas Holdings Inc	SWX	Neutral	0.50	0.45	Beat	12%
South Jersey Industries Inc	SJI	Buy	0.00	-0.02	Beat	NM
UGI Corp	UGI	Buy	0.08	0.11	Miss	-24%
Unitil Corp	UTL	Underperform	0.21	0.20	Beat	8%

Source: Company Filings, Bloomberg, and BofA Global Research estimates

BofA GLOBAL RESEARCH

PennEast path is still uncertain

The PennEast Pipeline has implications for NJR, SJI, and UGI (each are 20% owners of the pipe) and the US Supreme Court (SCOTUS) recently ruled in favor of the pipeline in an eminent domain suit. SO and ENB CN are also owners but the project is immaterial. **Despite the SCOTUS victory, NJ water permitting challenges still remain and in our view threaten the viability of the project.**

For Phase One (the PA portion) to progress, the PennEast partners have requested Federal Energy Regulatory Commission (FERC) to approve the bifurcation plan that would split the project into two phases, a PA phase and a NJ phase. The bifurcation application has been in pending at FERC for some time who was seemingly awaiting a decision from SCOTUS before ruling. Although there is no timeline for a ruling, the companies broadly expect a decision within weeks/months. As a matter of law, because PennEast still has the original FERC certificate in place, the ownership group consisting of UGI Corp (UGI), South Jersey Industries (SJI), New Jersey Resources (NJR), Southern Company (SO), and Enbridge (ENB) could technically move forward with Phase One, but we find this unlikely due to the associated risks.

While the bifurcation process at FERC should be procedural given that FERC has already signed off on the certificate, we note the process could be slightly more challenging now given the Democratic shift in the Commission and Chairman Glick's dissent on the issuance of the pipe's certificate of public convenience and necessity (CPCN) in March 2020. Key to FERC's decision, in our view, is twofold: (1) can Phase One be viable (stand on its own) if Phase

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Two does not move forward; and (2) what are the optics on viability of Phase Two? Phase One can likely 'stand on its own' because of the need for natural gas in that portion of PA, but more generally we find that the recent negativity on pipelines increases the risk of PennEast not receiving the necessary FERC approvals to support Phase Two. Also watch the fact that Commissioner Chatterjee's term expired and he will be replaced by another Democratic Commissioner soon, which potentially adds more risk to the bifurcation process. While timing is dependent on FERC, the owners could start construction on Phase One this fall/winter and have it completed by the end of '22.

PennEast remains a small contributor to future spending and earnings for each owner. **SJI** has $110M in spending on Phase One split between '21 and '22, with the majority of the spending based in '22 (this compares to the overall capital spending plan of $3.5B over the next five years). For **UGI**, the spending is similar. **NJR** removed PennEast completely from its guidance at the November 2020 Analyst Day, as it viewed the project as non-core and the path to completion challenging. Management has talked about adding the project back to its plan if there was a clearer path to completion, and if FERC approves the bifurcation, we could see Phase One added back later this year. That said, it would only represent a modest +$0.05 EPS to our estimates.

For more on the SCOTUS decision, comparisons to STL, and prospects for Phase Two see our note - North American Gas Utilities: PennEast clears SCOTUS; FERC bifurcation next w/ path to full completion still unclear 01 July 2021 (https://rsch.baml.com/r?q=ipZyaMpMtxmQuKPkKBfISQ)

Atmos Energy (ATO)

ATO: Recent explosions could cloud update

Reiterate Neutral on limited upside to our SOTP analysis after recovery from the February lows. ATO has returned moved more back to its historical premium with additional visibility around Winter Storm Uri gas cost recovery. See much of the focus centered on recent explosions of, or near, ATO assets and securitization during the call - the rest of the update will likely be light. Expect an overall positive update with cost recovery progress and likely FY21 guidance increase.

Key Call Topics: Explosions, securitization, strategic opps., incremental capex?

Explosions cause for concern? Likely no, but we will learn more during the call

Per media reports there have been two recent explosions of, or near, ATO assets. In late June the Atmos Pipeline and Transmission (APT) had an explosion that killed two subcontractors and injured two others. The incident occurred in a rural area and the company believes it was maintenance related. The other incident took place on July 19 at 4:40PM CT in a residential area where six people were injured, and by 9:30PM CT, ATO and others determined it safe to turn the system back on. On July 20th the local fire dept. determined the probable cause of the blast to be an isolated gas leak within the home and that no other homes are in danger. *While these recent explosions are negative on the surface, they differ from the 2018 North Dallas explosion that killed one and led to a $1.6M fine from TX because ATO failed to detect the leak in the days ahead the explosion. We will learn more on the explosions as the investigations progress, but, at this point, we are less concerned than if it were a distribution related explosion. With that in mind, these recent events re-highlights the risks inherent in LDCs and emphasizes the need for diligent operations and maintenance expense (O&M).*

Uri securitization the still a topic of interest

Uri securitization will likely be the topic of interest during the call given the magnitude. The process is significantly derisked after passage of securitization legislation and the respective Commissions general supportive comments/actions. In TX, The Railroad Commission (RRC) will have 90 days to review the prudency of ~$2Bn costs before the Texas Public Finance Authority (TPFA) starts the process of issuing the bonds. We will be watching the recovery timeframe and duration closely where we expect 20+ years with the longer-term frame helping mitigate the customer bill impact. With the debt effectively issued by the State of Texas rather than ATO it will not burden Atmos' balance sheet. ATO would simply act as an agent and collect from customers on behalf of the state. Even with a long recovery period there will be a customer rate impact but we do not believe it will be material enough to influence the $11-$12B five-year capital plan. ATO is working through the regulatory process in KS as well, where the regulatory asset stands at a very modest $77M, securitization has been passed, but ATO is still working through the items to file with the Commission. Securitized bonds are issued at the company level in KS, so *we think the recovery timeframe may be shorter than TX, and capital structure could be scrutinized more closely.*

Strategic opportunities still unlikely despite high equity needs/sales prices

We continue to believe that given management's fairly robust annual equity plan and recent very healthy transactions, strategic questions will continue to be prevalent from investors. *Based on our most recent discussions with management and their focus on the organic growth plan, we do not get the sense that management would be interested in divesting any of its utilities despite the extremely healthy multiple paid for CNP's LDCs.*

Potential upside to spending for reliability? Still too early in our view

Atmos and LDC systems across the US generally had strong operationally performance during the extreme February weather event but we ultimately expect some degree of reinvestment opportunities. The post-mortem analyses could lead to additional safety and reliability spending with updates more likely later in 2021. *Although ATO's system performed well during the storm, there could be additional investments on this front.*

ATO F3Q21 Earnings Walk: Miss and Reaffirm

We forecast F3Q21 adjusted EPS of $0.74, slightly below $0.75 Street and representing a modest contraction YoY from $0.75 2Q20. On the fiscal 2Q call management indicated that they would be at the upper-end of the $4.90-$5.10 guidance range, consistent with BofA $5.07/Street $5.09. **Based upon the revenue cadence after the winter, management should have a high degree of visibility in FY21 and the main question will be the degree to which O&M is executed to derisk future periods.**

- **Key Drivers:** Utility rate relief (+$0.20), customer growth (+$0.03), and rate implementation at pipeline and storage (+$0.05). These are more than offset by higher D&A (-$0.09), higher O&M (-$0.05), other/tax (-$0.11), and dilution (-$0.05).
- **Swing factors:** Some O&M was deferred from calendar 1H21 due to covid safety concerns which will lead to more of a drag. Customer growth has been strong of late and we could see that continue into this quarter. There is low visibility into the reversal of favorable tax timing from 1H21 over the remaining two quarters.

Exhibit 4: ATO F3Q21 Earnings Walk
We see modest miss

ATO Fiscal 3Q21 Earnings Walk	EPS
ATO Fiscal 3Q20 EPS	$0.79
Utilities	**$0.09**
Weather - normalize from Fiscal 2Q20	$0.00
Weather- Fiscal 2Q21	$0.00
Rate implementation:	
Riders and GRC	0.20
D&A	-0.08
O&M	-0.04
Customer Growth	0.03
Covid/Volume impact	-0.02
Pipeline & Storage	**$0.03**
Rate implementation:	
APT GRIP	0.05
D&A	-0.01
O&M	-0.01
Other	**-$0.17**
Interest expense	-0.01

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Other		-0.11
Dilution		-0.05
BofAe Fiscal 3Q21 EPS		**$0.74**
Consensus		0.75
BofAe 2021 EPS	**5.07**	
Guidance		**4.90-5.10**
2021 Consensus		5.09
ATO Fiscal 3Q21 Shares Outstanding		131
ATO Fiscal 3Q20 Shares Outstanding		123

Source: Company Filings, Bloomberg, and BofA Global Research estimates

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EPS estimates unchanged

We still see the LT CAGR near the mid-point of management's 6-8% range with our estimates at 7.0% from '20-'24 (at the midpoint of 6-8% LT EPS guidance).

Exhibit 5: ATO EPS Estimates
EPS estimates remain unchanged

		2019A	2020A	2021E	2022E	2023E	2024E	2025E
Distribution		**2.80**	**3.22**	**3.38**	**3.68**	**3.97**	**4.28**	**4.60**
Guidance (midpoint)		**2.81**	**3.18**	**3.22-3.41**				
Mid-Tex				*1.83*	*2.01*	*2.19*	*2.39*	*2.58*
West Texas				*0.32*	*0.35*	*0.38*	*0.41*	*0.44*
Louisiana				*0.35*	*0.38*	*0.40*	*0.43*	*0.46*
Mississippi				*0.27*	*0.29*	*0.31*	*0.34*	*0.36*
Kentucky/Mid-States				*0.23*	*0.24*	*0.24*	*0.26*	*0.27*
Tennessee				*0.20*	*0.22*	*0.23*	*0.24*	*0.26*
Kansas				*0.10*	*0.10*	*0.10*	*0.11*	*0.11*
Colorado				*0.07*	*0.08*	*0.08*	*0.09*	*0.09*
Virginia				*0.02*	*0.02*	*0.02*	*0.02*	*0.02*
Pipeline & Storage		**1.55**	**1.50**	**1.68**	**1.73**	**1.80**	**1.90**	**1.99**
Guidance (midpoint)		**1.49**	**1.48**	**1.56-1.71**				
Consolidated EPS		**4.35**	**4.72**	**5.07**	**5.41**	**5.77**	**6.18**	**6.59**
Guidance		**4.25-4.35**	**4.58-4.73**	**4.90-5.10**		**5.40-5.80**	**5.90-6.30**	**6.30-6.70**
Prior Estimate				**5.07**	**5.41**	**5.77**	**6.18**	**6.59**
Mgmt. Guidance 6-8% Annual Growth	*High End*		*4.73*	*5.10*	*5.51*	*5.95*	*6.42*	*6.94*
	Mid Point		*4.66*	*5.00*	*5.35*	*5.73*	*6.13*	*6.56*
	Low End		*4.58*	*4.90*	*5.19*	*5.51*	*5.84*	*6.19*
Consensus EPS Estimates			***4.71***	***5.09***	***5.41***	***5.79***	***6.18***	***6.60***
BofAe '20-24 CAGR		**7.0%**						

Source: Company Filings, Bloomberg, and BofA Global Research estimates

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ATO Recent Research	**Primary Author**	**Date Published**
Atmos Energy Corporation: Back to the premium low following Uri? No Reason not after state supports (https://rsch.baml.com/r?q=hjACtfzaHUujuWxe-UnnIA)	Julien Dumoulin-Smith	07 June 2021
US Electric Utilities & IPPs: AGA Conference Takes Day 2: Don't Even Worry About Inflation Here? Pos 2Q Setup (https://rsch.baml.com/r?q=Jrlpsgna0sF-Q9Efpv-xBw)	Julien Dumoulin-Smith	21 May 2021
Atmos Energy Corporation: Revisiting Shares Post-1Q, Remain Neutral as Uri Overhang Continues (https://rsch.baml.com/r?q=Mw4khgpwQg4Voy1mS1-gAA)	Julien Dumoulin-Smith	13 May 2021

Valuation; PO to $102; reiterate Neutral

We move our PO to $102 (from $106) driven entirely by reflecting our latest mark-to-market using the latest Gas LDC multiple of 15.7x (from 16.7x) with estimates unchanged. We continue to add a +1.0x premium for the TX distribution territories given our view that Uri storm recovery is largely de-risked post-securitization legislation.

With earnings more derisked, the key debate is if ATO can return to a larger relative premium to peers over time. Some positive re-rating is possible but we continue to see a balanced risk/reward here. That said, we see 5.4% total return potential with a 17.7x implied P/E multiple (2x implied premium to peers).

Exhibit 6: ATO SOTP Analysis
Our PO moves to $102 (from $106) on our latest MtM

Atmos Energy	**Metric 2023E**		**P/E Multiple Low**	**Peer**	**Prem/Disc**	**Equity Value Base**	**High**					**Low**	**Base**	**High**
Gas				**15.7x**										
Group EPS '19-'23 CAGR - Gas				*5.0%*										
Assigned Multiple				**16.5x**										
Distribution	**EPS**													
Mid-Tex	*$2.19*		16.5x	16.5x	*1.0x*	17.5x	18.5x					$36	$38	$41
West Texas	*$0.38*		16.5x	16.5x	*1.0x*	17.5x	18.5x					$6	$7	$7
Louisiana	*$0.40*		17.5x	16.5x	*2.0x*	18.5x	19.5x					$7	$7	$8
Mississippi	*$0.31*		17.5x	16.5x	*2.0x*	18.5x	19.5x					$5	$6	$6
Kentucky/Mid-States	*$0.24*		17.5x	16.5x	*2.0x*	18.5x	19.5x					$4	$5	$5
Tennessee	*$0.23*		17.5x	16.5x	*2.0x*	18.5x	19.5x					$4	$4	$4
Kansas	*$0.10*		15.5x	16.5x	*0.0x*	16.5x	17.5x					$2	$2	$2
Colorado	*$0.08*		17.5x	16.5x	*2.0x*	18.5x	19.5x					$1	$2	$2
Virginia	*$0.02*		17.5x	16.5x	*2.0x*	18.5x	19.5x					$0	$0	$0
Total Distribution	***$3.97***											**$67**	**$71**	**$75**
Pipeline & Storage	**EPS**	*EBITDA ($Mn)*	**Low**	**Peer EV/EBITDA**	*Prem/Disc*	**Base**	**High**	**Enterprise Value**			**Net Debt**	**Low**	**Base**	**High**
Total Pipeline & Storage	*$1.80*	**553**	10.0x	**9.0x**	*2.0x*	11.0x	12.0x	**$5,529**	**$6,082**	**$6,635**	**($1,653)**	**$27**	**$31**	**$35**
Total Equity Value	**$5.77**											**$94.00**	**$102.00**	**$110.00**
Shares O/S													*141*	

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Implied Consolidated P/E	*17.7x*
Current Price	$98.95
Dividend Yield	2.3%
Total Return Potential	**5.4%**

Source: Company Filings, Bloomberg, and BofA Global Research estimates

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NiSource (NI)

NI: Shoulder gas Q with eyes on renewables additions

We reiterate Buy as we see the potential for an extended high-growth runway based on the Northern Indiana Public Service Company (NIPSCO) Electric 2021 IRP and the recently issued RFP for 400-650 MW of generation capacity in 2024-2026. We see the potential for an accelerated retirement of NI's last remaining coal plant, Michigan City, given the state's move toward renewables and the timing of the IRP vs current stated retirement date of 2028. As a reminder, NI's LT EPS growth rate guidance range is 5-7% from FY21-FY23 and 7-9% from FY21-FY24 with the delta driven by renewables investment in '22 and '23 being rolled into rates in '24. The increasing visibility on renewables development could lead to the 7-9% EPS CAGR further extended depending on how much NIPSCO will own vs PPA.

Key Call Topics: Renewables additions, ongoing RFP & upcoming IRP, rate cases
Incremental renewables investments could sustain a higher growth trajectory

Expect management to discuss latest on renewables strategy ahead of the 2021 IRP that will be filed in the fall as well as the 400-650MW RFP that was recently issued. It is too early in the process for management to adjust the plan ahead of asset and regulatory clarity: size, generation type, ownership percentage, etc. are still to be determined. The RFP results should come in mid-late-August and with the most important update coming deeper into the process when NI files with the Indiana Utility Regulatory Commission (IURC) on the proposed ownership split.

What would the investment opportunity look like? It comes down to the amount of generation that NI would be able to own. We see the opportunity for NI to own more than 50% of the generation given the makeup of the 2018 IRP project portfolio and utilities propensity to own the generation in their portfolio. We also see bias to the top-half of the 400-650 MW solicitation range because of the size of Michigan City (455 MW coal plant that we believe could retire earlier than its current 2028 date) and the fact that utilities commonly procure more in renewables capacity than the fossil asset they are replacing to account for the intermittent nature. *It is difficult to compare ownership splits between IRPs given different resource types and capacity values ascribed but we would expect ~60%+ ownership/~40% PPA as a base case. See our note for more detail and potential capex and EPS impact from the RFP -* NiSource Inc: Reiterating Buy; More Renewables, Longer Runway at a Particularly Attractive Val 25 May 2021 (https://rsch.baml.com/r?q=dr5v9HH0otsjufcWEk7cTQ)

Project regulatory approvals highly likely at this point

Management will provide the latest on where it stands with regulatory approvals for the projects that have been announced. As a reminder, NI has received approval of ~80% of the projects so far and recent filings have been going through the approval process with ease as the projects were stipulated in NI's 2018 IRP.

Rate cases in progress: PA and OH have the scale to matter

Rate cases will be a secondary focus to renewables and the IRP through the remainder of the year but we do expect a regulatory update from management on the call. NI is in four rate cases at this time in PA, OH, KY, and MD. The previous PA rate case process was somewhat contentious in 2020/early 2021 given the timing around the pandemic and a negative ALJ proposal. Following peer rate cases in the state (UGI and EXC) we do not expect this following PA case to be as contentious. Watch the recently filed OH rate case as it is the first base rate case for the utility since 2008, and we note Commissioners have been interested in looking at the construct and whether more frequent cost of capital updates are needed. NI is working through rate cases in both KY and MD, but we note these utilities are relatively small vs OH and PA and therefore outcomes are less impactful to consolidated financial results.

NI 2Q21 Earnings Walk: Beat and Reaffirm though perceive latitude to revise higher later this year

2Q21 $0.15 is a large percentage beat vs $0.12 Street but 2Q21 is a less meaningful **Our FY21 EPS estimate remains at the top-end of management's revised guidance range ($1.36 BofA vs $1.28-$1.36 Street and $1.31 Consensus) and we see the ability for management to revise higher as NI's assumptions on load and economic recovery seem conservative in our view.**

- **Key Drivers:** We forecast an increase in EPS YoY driven by new rates in PA (+$0.02), other/COVID load and volume impact reversal (+$0.06), and lower interest expense of (+$0.01). This is partially offset by loss of CMA (-$0.04), higher O&M (-$0.03), and higher D&A (-$0.02).
- **Swing factors:** Load and volumes as the economy rebounds are variables going into the quarter. We will be watching how O&M is trending as well.

Exhibit 7: NI 2Q21 Earnings Walk
We see a beat on reversal of COVID impacts from last year

NI 2Q21 Earnings Walk	**EPS**
NI 2Q20 EPS	**0.13**
Weather - normalize from 2Q20 (excluded from Non-GAAP)	0.00
Weather - 2Q21 (excluded from Non-GAAP)	0.00
CMA sale closing - full quarter without CMA	-0.04
Gas Utilities	**0.00**
Rate/Rider Implementation:	
NIPSCO Gas	0.00
Columbia Gas of OH	0.01
Columbia Gas of PA	0.02
Columbia Gas of VA	0.00
Columbia Gas of MD	0.00
Columbia Gas of KY	0.00
D&A	-0.01
O&M	-0.02
Electric Utility	**0.00**
Rate Implementation:	
NIPSCO Electric	0.01
D&A	-0.01
O&M	-0.01
Parent & Other	**0.07**
Interest expense	0.01

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Pension expense (some favorability)	0.01
Dilution	-0.01
Other/COVID impact	0.06
2Q21 BofAe Adjusted EPS	**0.15**
Consensus	0.12
BofAe 2021 EPS	1.36
Guidance	1.28-1.36
2021 Consensus	1.31
Shares Outstanding (2Q21)	432
Shares Outstanding (2Q20)	384

Source: Company Filings, Bloomberg, and BofA Global Research estimates

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EPS estimates; modestly lower in outer years, top of range

We maintain our FY21-FY25 EPS estimates and see BofAe 2023/2024 as 3-4% above Street. We do not believe Consensus is appropriately reflecting the meaningfully de-risked backdrop after the 2021 financings. **We see this as among the most important 'show me' stories in the space considering the need for management to simply execute against the plan after years of minimal EPS growth post Merrimack Valley.** We see EPS CAGR at the top-end of management's guidance range through '24 (9%). Look for yet further opportunities in the 2025+ outlook with a further NIPSCO Electric IRP/RFP to be articulated later this year too - potentially enabling a further extension of 5-year outlook at sustained EPS CAGR. We stress this angle is likely the next focus to shares - albeit remains cheap even on our near-term outlook.

Exhibit 8: NI EPS Estimates
Our EPS estimates remain unchanged and we continue to see EPS CAGR at the top of mgmt.'s guidance range

NI EPS Estimates		**2019A**	**2020A**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Gas		1.04	1.03	1.07	1.13	1.23	1.23	1.28
Electric		0.59	0.55	0.54	0.55	0.63	0.79	0.84
Electric Renewables - BOTs from RFP 1 & 2 (incl. in Electric EPS)					0.00	0.08	0.15	0.14
Parent/Other		-0.33	-0.33	-0.30	-0.28	-0.28	-0.25	-0.25
BofA EPS		**1.32**	**1.32**	**1.36**	**1.40**	**1.58**	**1.76**	**1.88**
Previous EPS		1.32	1.32	1.36	1.40	1.58	1.76	1.88
Guidance		**1.27-1.33**		**1.32-1.36**				
Consensus		1.30	1.31	1.35	1.42	1.53	1.69	
BofA '21-'24 EPS CAGR	9.0%							
Guidance '21-24 EPS CAGR	7-9%							
Consensus '21-'24 EPS CAGR	7.9%							
BofA '21-'23 EPS CAGR	7.9%							
Near Term Guidance '21-'23 EPS CAGR	5-7%							
Consensus '21-'23 EPS CAGR	6.5%							
Implied EPS Guidance by Yr given New +7-9% EPS CAGR ('21-'24)	High End			1.36	1.48	1.62	1.76	1.92
	Mid-Point			1.34	1.45	1.56	1.69	1.83
	Low End			1.32	1.41	1.51	1.62	1.73
BofA DPS		**0.83**	**0.88**	**0.94**	**0.99**	**1.05**	**1.12**	**1.18**
Share Count (mn shares)		**376**	**384**	**426**	**447**	**456**	**495**	**502**

Source: BofA Global Research estimates, company report, Bloomberg

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Valuation; PO to $28

Our PO moves to $28 (from $29) based on our FY23E mark-to-market P/E multiples for peer group of 15.7x for gas (from 16.1x) and 17.6x for electric (from 17.8x), with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex potentially beginning in '24.

We remain conservative and continue to base our PO on a '23 base year, even though we think investors are likely to increasingly focus on '24 EPS valuation as the baseline year given the issuance and timing of renewables contribution to EPS - which looks ever more appealing even with adjusted multiples. We see our SOTP as fundamentally conservative given the meaningful uptick in '24 tied to renewables growth. Reiterate Buy.

Exhibit 9: NI SOTP Analysis
PO to $28 (from $29) on latest MtM

NI SOTP Valuation	**Metric**		**P/E Multiple**						
	2023E EPS	Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Gas	-	-	**15.7x**	-	-	-	-	-	-
Group EPS '19-'23 CAGR - Gas	-	-	**5.00%**	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
Gas Utilities		- -	**16.5x**	-	-	-	-	-	-
Columbia Gas of OH	$0.56	15.5x	16.5x	**0.0x**	16.5x	17.5x	$8.64	$9.19	$9.75
Columbia Gas of PA	$0.28	15.5x	16.5x	**0.0x**	16.5x	17.5x	$4.37	$4.65	$4.93
NIPSCO Gas	$0.23	15.5x	16.5x	**0.0x**	16.5x	17.5x	$3.61	$3.84	$4.07
Columbia Gas of VA	$0.09	15.5x	16.5x	**0.0x**	16.5x	17.5x	$1.34	$1.43	$1.52
Columbia Gas of KY	$0.05	15.5x	16.5x	**0.0x**	16.5x	17.5x	$0.75	$0.80	$0.85
Columbia Gas of MD	$0.02	15.5x	16.5x	**0.0x**	16.5x	17.5x	$0.30	$0.32	$0.34
Group Peer Multiple - Electric			**17.6x**						
Group EPS '18-'22 CAGR - Electric			**5.00%**						
Electric Utilities			**18.5x**						
NIPSCO Electric	$0.63	19.5x	18.5x	**2.0x**	20.5x	21.5x	$12.34	$12.97	$13.61
Total Utility	**$1.86**	*16.8x*			*17.8x*	*18.8x*	**$31.34**	**$33.20**	**$35.06**
-Parent EPS Drag (ex-Interest Expense)	-$0.12	16.8x	0.0x		17.2x	18.2x	-$2.03	-$2.07	-$2.19
Total EPS *(incl. debt drag)*	**$1.58**								
Midpoint of 5-7% EPS	*$1.56*								
Holdco Debt @ Parent, *not* allocated to Utilities									
(50% Netting out parent debt + assumed converts)				-$1,600	50%		-$800	-$800	-$800
(50% P/E multiple on Interest Exp)				5.6%	50%		-$596	-$632	-$667
Grand Total Equity Value							**$26.25**	**$27.99**	**$29.65**

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Shares Outstanding 2023E	456
Total Equity Value	**$26.00 $28.00 $30.00**
Implied Consolidated P/E	
Current Price	$25.75
Dividend Yield (2020E)	3.4%
Total Return Potential	**12.2%**

Source: BofA Global Research estimates, company report, Bloomberg

BofA GLOBAL RESEARCH

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
NiSource Inc: Reiterating Buy; More Renewables, Longer Runway at a Particularly Attractive Val (https://rsch.baml.com/r?q=dr5v9HH0otsjufcWEk7cTQ)	Julien Dumoulin-Smith	25 May 2021
NiSource Inc: Healthy Raise in Midpoint of Guidance; Underappreciated LT Growth (https://rsch.baml.com/r?q=bzvvDnHXQNWdVy8bJ1atBQ)	Julien Dumoulin-Smith	06 May 2021

New Jersey Resources (NJR)

NJR: Execution still a concern at CEV; NJNG rate case

We reiterate our Underperform as we believe that 1) the NJNG rate case will prove difficult; and 2) execution at Clean Energy Ventures (CEV) is uncertain due to the limited track record from management on the path for the business outlined during the investor Day. For example, shortly after the Investor Day, management pushed CEV capex from '21 to '22 driven by permitting delays from the pandemic. The top question for FQ 3Q call is around the global supply chain issues in solar and how that is impacting NJR. We see the smaller developers like NJR as more at risk than the larger developers like NEE and AES. We are also cautious on the upcoming vote on the Solar Successor program on July 28. NJNG rate case is also a risk given the magnitude but management has had constructive outcomes in recent proceedings and we model authorized ROEs in the 9.6% range already. Southern Reliability Link pipeline overruns could be an intervenor focus.

Key Call Topics: Clean Energy Ventures, solar successor), NJNG rate case

Clean Energy Ventures likely to receive increased attention around supply chain

Clean Energy Ventures (CEV) is a major focus of management's LT plan and is critical to the valuation, but we view execution of the plan outlined during the Investor Day as a risk. As a reminder, the capital plan shifted as certain in-service dates for CEV's projects moved to FY22 given permitting and production delays related to the pandemic. Management expects to spend $96M-$118M FY21 down from ~$165Mn prior expectation. While impacts of the pandemic are hard to foresee, we find it troubling that management will only be deploying ~65% of its original plan that was set during a particularly virulent wave of the virus in Nov. 2020. Supply chain and logistics issues are another factor that could drive inability to execute on the plan,

Management will likely state that nothing fundamental has changed with the business, but we are cautious about the potential longer-term impacts of this dynamic for a smaller developer like NJR. While other utilities leave opportunity for upside or incremental spending in certain areas, it is the opposite for CEV in our view - there is potential difficulty with even hitting the announced, aggressive, target of ~$850M over the next four years. In addition to volume deployment concerns, we look to see if there is compression on returns from inflationary pressures that a smaller developer will face more acutely.

Solar incentives coming down in NJ? Quite possible; watch vote next week

The solar successor program is set to be voted on by the NJ Board of Public Utilities (BPU) on July 28. We find this as somewhat worrying given the level of reduction in solar incentive values proposed. The straw proposal outlines an incentive value of $85/MWh for net metered resi and non-resi, $70/MWh for community solar non-low-and-moderate income (LMI) and $90/MWh for community solar LMI vs the current transition renewable energy credit (TREC) of $152/MWh with other, lower incentives for different market segments. This risk of incentive cuts is somewhat mitigated by CEV expanding outside of NJ. In F2Q, CEV completed a solar project in CT and 1/3 of the FY21 & FY22 project pipeline capacity is expected by management to be out-of-state. Management sees out-of-state returns through PPAs that are similar to those of NJ's Transition Renewable Energy Certificate (TREC) program, so likely more favorable than if the straw proposal was adopted. *We will continue to watch how this trends as any CEV is still relatively unproven outside of NJ.*

Recent NJ rate proceedings have been constructive but always a risk

The NJNG rate case is also a risk to estimates in our view though we already assume a 9.6% authorized ROE (commiserate with South Jersey Gas and Elizabethtown Gas' most recent rate cases). Inability to earn a fair return as a result of the rate case outcome would drive down estimates. *The largest driver in the rate case is recovery of the Southern Reliability Link (SRL) pipeline which has experienced notable cost overruns that could lead to a more contentious proceeding than recent cases.*

NJR F3Q21 Earnings Walk: Miss and Reaffirm

Fiscal 3Q results are not overly meaningful with NJR historically losing money in the shoulder period. We forecast 3Q21 adjusted net financial earnings (loss) per share of ($0.12) down from loss compared to 2Q20 ($0.06) and slightly worse than Street ($0.08) and consensus estimates of -$0.14. Our FY21 EPS estimate remain slightly below the midpoint of management revised guidance range which was increased multiple times on the strength of weather.

- **Key Drivers:** We forecast a decrease in EPS YoY driven by trackers at NJNG (+$0.02), customer growth (+$0.01), improvement in CEV (+$0.08). This is more than offset by higher O&M (-$0.05), higher D&A (-$0.05), higher costs at energy services (-$0.02), and interest expense (-$0.04)
- **Swing Factors:** Non-utility remains somewhat of a swing factor, albeit minor. O&M could be a swing factor as well.

Exhibit 10: NJR F3Q21 Earnings Walk
3Q shoulder period is not overly insightful

NJR Fiscal 3Q21 Earnings Walk	**EPS**
NJR Fiscal 3Q20 Adjusted EPS	($0.06)
Weather - normalize from Fiscal 3Q20	$0.00
Weather- Fiscal 3Q21	$0.00
Utilities	**-$0.07**
Rate implementation and/or trackers:	
NJNG	0.02
D&A	-0.05
O&M/Pension/IT	-0.05
Customer Growth	0.01
COVID/Bad Debt Impact	0.00
Non-regulated	**$0.06**
Energy Services	-0.02
Storage & Transportation (formerly Midstream)	0.00
CEV	0.08
Home Services & Other	0.00
Other	**-$0.04**
Interest expense	-0.04
Other	0.00
Dilution	0.00

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NJR Fiscal 1Q21 Adj. EPS (BofAe)	**-$0.12**
Fiscal 3Q21 Consensus	-0.08
Fiscal 2021 Adj. EPS (BofAe)	**$2.09**
2021 Consensus	2.11
Mgmt. Guidance Range	**2.05-2.15**
Fiscal 3Q21 Shares Outstanding	97
Fiscal 3Q20 Shares Outstanding	96

Source: Company Filings, Bloomberg, and BofA Global Research estimates

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EPS estimates; unchanged

We maintain our FY21-FY25 EPS estimates. As a reminder, we recently lowered our FY23-FY25 EPS estimates on assumed earned ROEs at NJNG. We model an improvement in earned ROEs starting in 2022 driven by new rates from the pending rate case and approved infrastructure and energy efficiency programs. FY23 should have additional lag driven by utility IT spending without accelerated recovery although give credit for new rates in FY24. **We remain meaningfully below Street in FY23/FY24.**

Exhibit 11: NJR EPS Estimates
Our EPS estimates remain unchanged

EPS Estimates	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
New Jersey Natural Gas (NJNG)	$0.87	$1.33	$1.15	$1.46	$1.54	$1.74	$1.85
Midstream	$0.16	$0.19	$0.18	$0.25	$0.31	$0.32	$0.33
Clean Energy Ventures (CEV)	$0.86	$0.56	$0.25	$0.37	$0.34	$0.38	$0.38
Energy Services (ES)	$0.03	($0.08)	$0.50	$0.14	$0.13	$0.13	$0.13
Home Services & Other (HS&O)	$0.02	$0.06	$0.01	$0.01	$0.01	$0.01	$0.01
TOTAL Consolidated EPS	**$1.95**	**$2.07**	**$2.09**	**$2.24**	**$2.33**	**$2.58**	**$2.69**
Guidance Low			$2.05	$2.05	$2.17	$2.30	$2.44
Guidance High			$2.15	$2.15	$2.37	$2.60	$2.86
Guidance Mid			$2.10	$2.10	$2.27	$2.45	$2.65
Guidance - EPS Growth Rate - Long Term					*6-10%*		
Shares O/S	*89.62*	*95.11*	*96.51*	*97.06*	*97.60*	*98.15*	*98.69*
Prior Estimate		2.07	2.09	2.24	2.33	2.58	2.69
Consensus	**1.97**	**2.08**	**2.11**	**2.26**	**2.42**	**2.92**	**2.85**
BofA CAGR 2022-2025	**7.8%**						
Guidance	***6-10%***						

Source: Company Filings, Bloomberg, and BofA Global Research estimates

BofA GLOBAL RESEARCH

BofA Global Research Reports

New Jersey Resources	**Primary Author**	**Date Published**
New Jersey Resources Corp: D/G to Underperform: cloudy skies on solar segment, rate case could be challenging (https://rsch.baml.com/r?q=e3bMwO1d6PKFdIMxZ0YzIA)	Julien Dumoulin-Smith	25 June 2021
New Jersey Resources Corp: A Very Busy Summer at the Jersey Shore: PennEast, Solar Reform & Key Rate Case (https://rsch.baml.com/r?q=jkBFnuQDGmUBFuKuX6bkzw)	Julien Dumoulin-Smith	18 June 2021

Valuation; PO unchanged

Our PO remains at $39 as we mark to market (MtM) to latest peer gas utility FY23 P/E multiple at 15.7x (from 15.8x). Though we see some upside from a total return perspective, we see more downside risk than upside to estimates if NJNG is unable to improve earned ROEs, solar supply chain issues are more impactful than we foresee, and/or the outcome on pricing of the Solar Successor program is worse than our expectations.

We stress our valuation yields a cautious setup for shares even without applying a discount to the utility given outsized rate case ask. We appreciate the above industry norm EPS growth contemplated, but see execution challenges therein still.

Risks to the upside remain a further acceleration of renewable efforts - and raising of targets, likely tied to solar project development outside of NJ. We could still see this, but see challenges in executing against targets already on CEV as indicating this is less likely.

Exhibit 12: NJR SOTP Analysis
Our PO remains unchanged at $39 on latest mark

NJR	**2023E**		**Low**	**Peer**	**Prem/ Discount**	**Base**	**High**		**Low**	**Base**	**High**
Gas Group EPS		-	-	**15.7x**	-	-	-	-	-	-	-
'19-'23 CAGR - Gas		-	-	**5.0%**	-	-	-	-	-	-	-
		-	-	**16.5x**	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-
New Jersey Natural Gas (NJNG) -> Utility Portion	**$1.54**		**15.5x**	**16.5x**	**0.0x**	**16.5x**	**17.5x**		**$24**	**$25**	**$27**
% Regulated Utility EPS	*69%*										
Non-Reg Components			*Low*	*Peer*	*Prem/ Discount*	*Base*	*High*				
Energy Services	$0.13		12.0x	**12.0x**	**1.0x**	13.0x	14.0x		$2	$2	$2
Home Services	$0.01		11.0x	12.0x	**0.0x**	12.0x	13.0x		$0	$0	$0
Total NJR Value Per Share									**$25**	**$27**	**$29**
Midstream	**Metric**				**EV/EBITDA**					**Equity Value**	
	FY23 EBITDA	*EBITDA % Contribution*	*Low*	*Peer*	*Prem/ Discount*	*Base*	*High*	-	*Low*	*Base*	*High*
Midstream - Pipeline, Strorage & Marketing		-	-	**9.5x**							
Midstream (*Ex-* Penn East)	$62	86%	8.5x	9.5x	**0.0x**	9.5x	10.5x		$529	$591	$653
PennEast (Assume no contribution)	$10	14%			*0%*				$0	$0	$0
Total Midstream	$72	100%							**$529**	**$591**	**$653**
Less Net Debt									($476)	($476)	($476)

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Add Back 50% PennEast Debt								$0	$0	$0
Total Midstream								**$53**	**$115**	**$177**
Net Midstream Value Per Share								**$0.5**	**$1.2**	**$1.8**
Clean Energy Ventures		**Metric**							**Equity Value**	
		NPV Values (Unlevered)								
	Commercial-Grid	**Comm-NEM**	**Resi-NEM**			**Total Equity Value ($mn)**			**Equity Value ($/sh)**	
Power (NPV of remaining unlevered CFs)	$335	$84	$193			$613			**$6.31**	
Discount Rate Assumed on Cash Flows	4.5%									
		Levered NPV Values ($mn) - Discounted			**Levered NPV ($/sh)**					
	Commercial-Grid	**Comm-NEM**	**Resi-NEM**	**Commercial-Grid**	**Comm-NEM**	**Resi-NEM**			**Equity Value ($/sh)**	
DevCo 2021: NPV	$9	$6	$7	$0.09	$0.06	$0.07			**$0.23**	
DevCo 2022: NPV	$59	$10	$7	$0.61	$0.10	$0.07			**$0.78**	
DevCo 2023: NPV	$73	$12	$7	$0.75	$0.12	$0.07			**$0.94**	
DevCo 2024: NPV	$66	$15	$7	$0.68	$0.16	$0.07			**$0.91**	
DevCo 2025: NPV	$65	$15	$6	$0.66	$0.15	$0.07			**$0.88**	
Total DevCo Value									**$3.74**	
Assumed Discount Rate on DevCo NPVs		**11.0%**								
SREC Inventory Balance as of	**# of SRECs**	**Pricng Assume ($/SREC)**	**Total Value $Mn**						**Equity Value ($/sh)**	
Fiscal 4Q20E	**44,281**	**$226**	**$10**						**$0.10**	
		Levered NPV Values ($mn) - Discounted			**Levered NPV ($/sh)**					
Post '26+ Value + Terminal Value	**Commercial-Grid**	**Comm-NEM**	**Resi-NEM**	**Commercial-Grid**	**Comm-NEM**	**Resi-NEM**				
DevCo 2026: NPV	$65	$16	$6	$0.67	$0.16	$0.06				
DevCo 2027: NPV	$65	$17	$6	$0.67	$0.17	$0.06				
DevCo 2028: NPV	$65	$18	$6	$0.67	$0.18	$0.06				
DevCo 2029: NPV	$43	$12	$4	$0.44	$0.13	$0.05				
Terminal Value Multiple	**5.0x**	**5.0x**	**5.0x**							
	$213	$62	$22	$2.19	$0.64	$0.23			**Equity Value ($/sh)**	
Total Post '26+ Value (Assuming 3-Yr ITC Extension) + Terminal Value				**$4.64**	**$1.29**	**$0.46**	**Weighting** 75%		**$4.80**	
Total CEV Value Per Share									**$14.96**	
			$ Mn		Weight					
HoldCo Debt 2023E			$1,352		*50%*			($676)	($676)	($676)
Parent Interest Exp 2023E			$33	16.5x	*50%*			$273	$273	$273
Total Parent								**($403)**	**($403)**	**($403)**
$/share basis								($4)	($4)	($4)
Grand Total Equity Value Per Share								**$37**	**$39**	**$41**
Shares Outstanding 2023E									97	
Total Equity Value								**$37.00**	**$39.00**	**$41.00**
Current Price									$39.22	
NTM Dividend Yield									3.4%	
Total Return Potential									**2.8%**	

Source: Company Filings, Bloomberg, and BofA Global Research estimates

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Northwest Natural (NWN)

NWN: RNG is intriguing but still unable to justify multiple

We continue to view NWN as expensive with the ~3x premium a contrast to gas LDC peers despite relatively low EPS growth of 3-5%. We reiterate our Underperform rating and continue to watch for more detail around water/RNG.

Key Call Topics: RNG, water business, WA rate case settlement

Mgmt. still includes minor investments in RNG relative to budget under SB98

Investing in RNG is still a new undertaking for NWN under Oregon SB98 so management continues to be conservative on what is included in plan. NWN only includes projects where there is both line of sight and knowledge of how internal IRP process (i.e. Tyson projects). We expect management will update us on the progress of the Tyson projects, but we believe they are still in the development phase. As a reminder, under SB98, NWN could deploy 5% of the annual revenue, or $200M-$250M, but securing contracts for RNG offtake for NWN's system will count towards the budget. We think management will use a higher percentage of the cap on direct investment given prior commentary.

More work needs to be done on prospecting and development before management puts any additional capital into their projections, and we do not foresee management announcing any additional RNG projects during this update as they work through the projects with Tyson.

Water growth aspirations represents an area of upside

We expect management to update progress on the water business and pending and upcoming regulatory proceedings. We could see activity on M&A accelerate as the country recovers from the pandemic, and, as a reminder, acquisitions need to be accretive in the first year and need to maintain a 50/50 capital structure. *While disclosures around the potential earnings outlook have still yet to materialize, we see short-term upside risk to valuation from a SOTP perspective given the relative spread of water vs gas if management can continue to scale the water biz and provide more concrete earnings guidance.*

Continuing to work toward settlement in WA multi-year rate case

NWN and intervenors in the WA rate case continue to work towards a settlement which we find positive vs the fully litigated route. As a reminder, NWN filed a multi-year rate plan (MYRP) with the first increase of \$6.3mn (8%) expected by management in Nov '21 and the second of \$3.2mn (3.7%) in '22 based on a 49% equity cap and 9.4% ROE. The company is also looking to offset rates by \$2.2mn (3%) in the first year through the suspension of the amortization of a regulatory asset associated with energy efficiency programs and the sale of property in OR that would offset the rate increase by another 5%, essentially equating to a flat customer bills in year 1. *Given 1) WA represents ~10% of NWN's rate base, 2) parties are active in settlement negotiations, and 3) the creative solution to offset the customer rate impact, we are less concerned on the margin.*

NWN 2Q21 Earnings Walk: Beat and Reaffirm

Fiscal 2Q results are not overly meaningful with NJR historically losing money in the shoulder period. We forecast 2Q21 adjusted loss per share of (\$0.11) compared to 2Q20 loss of (\$0.17) and Consensus estimates of (\$0.14). Our FY21 EPS estimate remains toward the top-end of management guidance range.

- **Key Drivers:** New rates in OR (+\$0.20), reversal of COVID impact (\$5M pre-tax; +\$0.12), and minor improvement at the water utilities (+\$0.01). This is more than offset by higher O&M (-\$0.17), higher D&A (-\$0.06), and taxes (-\$0.02).
- **Swing factors:** Non-utility remains somewhat of a uncertainty, albeit minor. O&M could be a swing factor as well.

Exhibit 13: NWN 2Q21 Earnings Walk
We forecast a beat and FY21 EPS toward the top-end of management's guidance range

NWN 2Q21 Earnings Walk	**EPS**
NWN 2Q20 EPS	(0.17)
Utilities	**0.08**
Weather - normalize from 2Q20	0.00
Weather - 2Q21	0.00
Rate implementation/rate base growth:	
Gas LDCs:	
OR	0.20
WA	0.00
Water Utilities	0.01
D&A	(0.06)
OR O&M (Headquarters and IT)	(0.10)
O&M	(0.07)
General Taxes	(0.02)
Customer Growth	0.00
Other/COVID impact	0.12
Non-Utility	**0.00**
Gas Storage	0.00
Asset Mgmt.	0.00
Retail Appliance	0.00
Other	**(0.02)**
Interest expense	(0.02)
Other	0.00
Dilution	0.00
NWN 2Q BofA Adjusted EPS	**(0.11)**
Consensus	(0.14)
BofA 2021 EPS	**2.55**
Guidance	**2.40-2.60**
2021 Consensus	2.54
NWN 2Q21 Shares Outstanding	31.3
NWN 2Q20 Shares Outstanding	30.5

Source: Company Filings, Bloomberg, and BofA Global Research estimates

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EPS estimates; unchanged

We maintain our FY21-FY25 EPS estimates. We continue to see ~5% growth through our forecast period off of the '20 midpoint of \$2.35 - the top-end of management LT EPS growth guidance range of 3-5% which is largely consistent with Street forecasting.

Exhibit 14: NWN EPS Estimates
Our EPS estimates remain unchanged and we continue to forecast growth at the top-end of mgmt. guidance range

Earnings Per Share	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Natural Gas Distribution	\$1.99	\$2.04	**\$2.31**	**\$2.39**	**\$2.48**	**\$2.63**	**\$2.74**	**\$2.84**
Other (NW Natural) - Appliance, Gas Storage, Asset mgmt.	\$0.37	\$0.27	**\$0.23**	**\$0.21**	**\$0.19**	**\$0.18**	**\$0.17**	**\$0.16**
Other (NW Holdings) - Water Utility & Corp.	-\$0.03	-\$0.12	**-\$0.08**	**-\$0.06**	**-\$0.04**	**-\$0.02**	**\$0.00**	**\$0.03**
Total NW Holdings Operating EPS	**\$2.33**	**\$2.41**	**\$2.30**	**\$2.55**	**\$2.63**	**\$2.79**	**\$2.91**	**\$3.00**
BofA YoY Growth		3%	-5%	11%	3%	6%	4%	3%
BofAe CAGR ('20-25)								**5.0%**
Prior EPS estimates		2.41	2.30	2.55	2.63	2.79	2.91	3.00
Mgmt CAGR Guidance								
Guidance - low		**2.25**	**2.25**	**2.40**	**2.49**	**2.57**	**2.64**	**2.72**
Guidance - high		**2.45**	**2.45**	**2.60**	**2.59**	**2.72**	**2.86**	**3.00**
Guidance - midpoint		**2.35**	**2.35**	**2.50**	**2.54**	**2.64**	**2.75**	**2.86**
+3-5% growth (2020 base year mdpt of \$2.35)								

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Consensus EPS estimates			**2.30**	**2.54**	**2.63**	**2.78**	**2.95**	
DPS	1.89	1.90	1.91	1.93	1.95	1.97	1.99	2.01
DPS growth (% Y/Y)		0.5%	0.6%	1.0%	1.0%	1.0%	1.0%	1.0%
Payout Ratio	**81%**	**79%**	**83%**	**76%**	**74%**	**70%**	**68%**	**67%**

Source: Company Filings, Bloomberg, and BofA Global Research estimates

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Valuation; PO to $49

Our PO moves to $49 (from $51) based on our latest estimates and mark-to-market gas utility peer FY23E multiple of 15.7x (from 16.5x) and water utility peer FY23 multiple of 28.6x (from 27.4x). We continue to view the relative premium as unjustified for the growth profile considering relatively lower growth and the sharp focus on energy transition in its core states (even when accounting for & reflecting elevated multiple for water exposed assets).

Exhibit 15: NWN SOTP Analysis
Our PO moves to $49 (from $51) on latest MtM

NWN Sum-of-the- Parts Valuation (SOTP)
Bank of America Securities

	Metric		Multiple					Equity Value		
	P/E	EBITDA								
NW Natural Holding Co.	*2023E*		*Low*	*Peer P/E*	*Prem/ Discount*	*Base*	*High*	*Low*	*Base*	*High*
Gas Utility Group Multiple				**15.7x**						
Group EPS '19-'23 CAGR - Gas				**5%**						
NWN Utility Multiple				16.5x						
NW Natural										
Oregon - Utilities (Gas)	$2.14		16.5x	16.5x	**1.0x**	17.5x	18.5x	**$35.31**	**$37.46**	**$39.60**
Washington - Utilities (Gas)	$0.31		16.5x	16.5x	**1.0x**	17.5x	18.5x	**$5.19**	**$5.51**	**$5.82**
North Mist - Storage Facility	$0.17		16.5x	16.5x	**1.0x**	17.5x	18.5x	**$2.87**	**$3.04**	**$3.21**
Total Natural Gas Distribution	**$2.63**							**$43.37**	**$46.00**	**$48.63**
EV/EBITDA Multiple			*Low*	*Peer EV/EBITDA*	*Prem/ Discount*	*Base*	*High*			
Other (NW Natural) - Gas Storage, Appliance, Asset mgmt	$0.18	$10	9.0x	**10.0x**	**0.0x**	10.0x	11.0x	86	96	105
Less: Net Debt								(25)	(25)	(25)
Implied Equity Value								62	71	81
Equity Value Per Share								**$1.90**	**$2.20**	**$2.50**
Total NW Natural	**$2.81**							**$45.28**	**$48.20**	**$51.13**
			Low	*Peer P/E*	*Prem/ Discount*	*Base*	*High*			
Water Utility Group Multiple				**28.6x**						
Group EPS '19-'23 CAGR - Water				**7%**						
NWN Water Utility Multiple				30.6x						
Water Utility Operations	$0.07		29.6x	30.6x	**0.0x**	30.6x	31.6x	**$2.13**	**$2.21**	**$2.28**
				Weighted Avg.						
Corporate & Other	-$0.09		17.1x	**18.1x**	**0.0x**	18.1x	19.1x	-$1.51	-$1.60	-$1.69
Grand Total Equity Value	**$2.79**							**$46.00**	**$49.00**	**$52.00**
2023E S/O									32	
Implied Consolidated P/E									*17.5x*	
Current Price									$52.29	
NTM Dividend Yield									3.66%	
Total Return Potential									**-2.6%**	

Source: Company Filings, Bloomberg, and BofA Global Research estimates

BofA GLOBAL RESEARCH

BofA Global Research Reports

Northwest Natural Holdings	Primary Author	Date Published
US Electric Utilities & IPPs: AGA Conference Takes Day 2: Don't Even Worry About Inflation Here? Pos 2Q Setup (https://rsch.baml.com/r?q=Jr!psgna0sF-Q9Efpv-xBw)	Julien Dumoulin-Smith	21 May 2021
Northwest Natural Holdings: Beat as Tuck-In Water Acquisitions Continue; Eye on RNG (https://rsch.baml.com/r?q=5BNKtq3kClX1jjQOaBHjbg)	Julien Dumoulin-Smith	10 May 2021

ONE Gas (OGS)

OGS: Quiet Q outside of securitization, OK rate case

We see this update as being relatively quiet outside of two regulatory proceedings: 1) filing of a financing order to securitize the costs related to Winter Storm Uri and 2) the OK rate case. RNG is likely more of a supply opportunity rather than an investment opportunity at this point, but we will be curious to see if there has been any updates on management's views on market potential since American Gas Association (AGA) Financial Conference. We note this will be new CEO Sid McAnnally's first earnings call at the helm - we will be watching for any change in messaging, but are not expecting any given his long operations tenure with the company. We reiterate Underperform on the premium valuation in shares despite regulatory risk in the OK rate case.

Key Call Topics: Securitization, OK rate case, RNG?

Mgmt. still includes minor investments in RNG relative to budget under SB98

Uri securitization will likely be the topic of interest during the call given the magnitude. The process is significantly derisked after passage of securitization legislation and the respective Commissions general supportive comments/actions. In TX, The Railroad Commission (RRC) will have 90 days to review the prudency of ~$295Mn costs before the Texas Public Finance Authority (TPFA) starts the process of issuing the bonds. We will be watching the recovery timeframe and duration closely where we expect 20+ years with the longer-term frame helping mitigate the customer bill impact. Similarly, in OK, the Oklahoma Corporation Commission (OCC) will have 180 days to review the prudency of the costs before the OK Development Finance Authority issues the bonds (costs stand at $1.3B).

We will be watching the recovery timeframe closely, and given the bonds are issued by the state, we think the amortization period could be 20+ years because the debt would be off the utility balance sheet. We are less concerned on bill impacts, and therefore are not concerned about the capital plan being shifted. OGS is working through the process in KS (costs stand at $381M). Securitized bonds are issued at the company level in KS, so we think the recovery timeframe may be shorter than OK and TX, and capital structure could be scrutinized more closely. With securitization in play, our attention shifts to the regulatory process for issuance of a financing order,

OK rate case will likely get attention

OGS filed a rate case in OK at the end of May and is still in the very early stages. As a reminder, OGS is seeking a +$29Mn revenue based on a rate base of $1.72B, 9.95% ROE and an equity layer of 58.55%. *This rate case is key to watch as it is OGS' first rate case in the state since the company split from ONEOK in 2014.*

RNG dialogue likely to stay focused on integrating into system

OGS is exploring RNG with its partnership announcement with Vanguard Renewables. The alliance is currently assessing both the supply-side (i.e., dairy farms in OGS territory) and the demand-side. While we are bullish on RNG in general, we do not get the sense that management is seeking any unregulated investment at this time; rather the only incremental investment would be for interconnections with producers and spending to integrate the fuel into the system. *OGS demand is heavily weighted toward residential, so there is less opportunity to provide large volumes of RNG to C&I (commercial & industrial) customers. This stance on unregulated RNG investment may change as the market develops, but we do not expect an announcement on any development projects in the near term.*

OGS 2Q21 Earnings Walk: Miss and Reaffirm

2Q21 BofA adjusted EPS $0.49 is -6% below $0.52 Street and approximately flat YoY.

- **Key Drivers:** We forecast an increase in EPS YoY driven by new rates in all jurisdictions (+$0.07) and customer growth (+$0.02). This is partially offset by higher O&M (-$0.01), higher D&A (-$0.03), and bad debt (-$0.03)
- **Swing factors:** O&M and customer growth are the largest swing factors in our view. Specifically bad debt could be more of favorable comparison than we forecast.

Exhibit 16: OGS 2Q21 Earnings Walk
We see a slight miss on the quarter

OGS 2Q21 Earnings Walk	**EPS**
OGS 2Q20 EPS	0.48
Utilities	**0.02**
Weather - normalize from 2Q20	0.00
Weather- 2Q21	0.00
Rate implementation/rate base growth:	
OK	0.02
TX	0.03
KS	0.02
D&A	(0.03)
O&M	(0.01)
Customer Growth	0.02
Bad Debt	(0.03)
Pension	0.00
Parent	**(0.01)**
Interest expense	0.00
Other	0.00
Dilution	(0.01)
OGS 2Q21 BofA Adjusted EPS	**0.49**
Consensus	0.52
BofA 2021 EPS	**3.82**
Guidance	**3.68-3.92**
2021 Consensus	3.81
OGS 2Q21 Shares Outstanding	54.0
OGS 2Q20 Shares Outstanding	53.3

Source: Company Filings, Bloomberg, and BofA Global Research estimates

BofA GLOBAL RESEARCH

EPS estimates unchanged. Still +1% above Street '22-'23

BofA EPS estimates remain unchanged and continue to align with ~5.9% through 2025. ~1% EPS upside compared with Street exists in 2022/2023.

Exhibit 17: OGS EPS Estimates
Our EPS estimates remain unchanged; forecast 5.9% growth through '25

EPS Estimates	**2017A**	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
One Gas - Utilities									
Kansas				$0.86	$0.90	$0.94	$0.98	$1.04	$1.09
Oklahoma				$1.62	$1.59	$1.74	$1.83	$1.90	$1.98
Texas				$1.21	$1.33	$1.47	$1.59	$1.72	$1.84
Consolidated	**$3.08**	**$3.25**	**$3.51**	**$3.69**	**$3.82**	**$4.14**	**$4.40**	**$4.66**	**$4.91**
YoY EPS Growth (%)				5.1%	3.5%	8.5%	6.3%	5.8%	
Guidance Low			$3.49	$3.66	$3.68				
Guidance High			$3.53	$3.70	$3.92				
Implied Guidance									
Guidance Low			$3.49	$3.66	$3.68	$4.06	$4.26	$4.47	$4.70
Guidance High			$3.53	$3.70	$3.92	$4.21	$4.51	$4.82	$5.16
Guidance Midpoint (off 2020 midpoint)			$3.51	$3.68	$3.80	$4.14	$4.38	$4.65	$4.93
Previous EPS				***3.68***	***3.82***	***4.14***			
Consensus			**3.51**	**3.66**	**3.81**	**4.11**	**4.36**		
BofA EPS CAGR '20-'25			**5.9%**						

OGS EPS CAGR '20-'25 Guidance	5-7%

Source: Company Filings, Bloomberg, and BofA Global Research estimates

BofA GLOBAL RESEARCH

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Valuation; PO to $73

Our PO moves to $73 (from $74) on our latest mark-to-market of the gas peer multiple of 15.7x (from 16.5x). While our PO implies a modest 1.8% return potential, we remain Underperform given potential downside from regulatory proceedings.

Exhibit 18: OGS SOTP Analysis
Our PO moves to $73 (from $74) on latest MtM

	Metric			P/E Multiple						Equity Value	
<u>One Gas</u>	*2023E*		*Low*	*Peer*	*Prem/ Discount*	*Base*	*High*		*Low*	*Base*	*High*
Gas		-	-	**15.7x**	-	-	-	-	-	-	-
Group EPS '19-'23 CAGR - Gas		-	-	**5.0%**	-	-	-	-	-	-	-
		-	-	**16.5x**	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-
Kansas	$0.98		15.5x	16.5x	**0.0x**	16.5x	17.5x		$15	$16	$17
Oklahoma	$1.83		15.5x	16.5x	**0.0x**	16.5x	17.5x		$28	$30	$32
Texas	$1.59		15.5x	16.5x	**0.0x**	16.5x	17.5x		$25	$26	$28
Total OGS Utilities	**$4.40**		*15.5x*			*16.5x*	*17.5x*		**$68**	**$73**	**$77**
Grand Total Equity Value									**$68.00**	**$73.00**	**$77.00**
Shares Outstanding 2023E										56	
Total Equity Value									**$68.00**	**$73.00**	**$77.00**
Implied Consolidated P/E										*16.6x*	
Current Price										$73.64	
NTM Dividend Yield										2.7%	
Total Return Potential										**1.8%**	

Source: Company Filings, Bloomberg, and BofA Global Research estimates

BofA GLOBAL RESEARCH

BofA Global Research Reports

ONE Gas	Primary Author	Date Published
US Electric Utilities & IPPs: AGA Conference Takes Day 2: Don't Even Worry About Inflation Here? Pos 2Q Setup (https://rsch.baml.com/r?q=Jrlpsgna0sF-Q9Efpv-xBw)	Julien Dumoulin-Smith	21 May 2021
ONE Gas, Inc.: The Uri Overhang on Rates: Reiterate Underperform (https://rsch.baml.com/r?q=YtSuGgEuL!5v6Aa9lCaQdQ)	Julien Dumoulin-Smith	05 May 2021

South Jersey Industries (SJI)

SJI: Execution mode post 1Q investor day

We reiterate Buy as we see the positive revision to shares as SJI begins to execute on the plan that was outlined during its robust 1Q investor day update. Look for commentary on the progress for the still ongoing South Jersey Gas (SJG) Infrastructure Investment Program (IIP) filing. The recently announced acquisition of a 5MW fuel cell in NY nearly satisfies the $50M in capex on fuel cells/solar for the year, impressively investing ahead of plan. We are also keen to hear any updates on the progress with RNG, but believe that comments will be light at this preliminary stage of their plan. LNG redundancy should pick up more steam following IIP conclusion. Watch NJ RNG bill into the fall ahead of the gubernatorial election.

Key Call Topics: Renewables (fuel cell/RNG), IIP, ETG rate case, NJ RNG bill

Mgmt. already executing on new plan with fuel cell announcement; RNG update?

Management's strategy on fuel cells (& solar to a lesser extent), RNG, and blocking-and-tackle utility capex (with a healthy percentage of which earning accelerated recovery) proves our positive thesis for shares. To that end, SJI mostly fulfilled its $50M annual capital budget for fuel cells/solar with the acquisition of a 5 MW fuel cell in NY. SJI did not disclose cost, but we forecast it was ~$45M. The remaining ~$5M will likely be spent on solar facilities on company buildings or landfills. *While the investment in fuel cells is somewhat unorthodox for utilities under our coverage, we note the returns are superior to solar, and the delta will likely widen going forward as the Solar Successor program is implemented.*

Regulatory items still to watch; RNG bill could pick up steam in the fall

The New Jersey Board of Public Utilities (BPU) recently issued an order approving South Jersey Gas' motion to suspend the procedural schedule in its IIP filing to allow for further settlement discussions. Parties will work to develop a revised procedural schedule within the next few weeks. As a reminder, the schedule was modified in May to make way for more settlement discussion. SJG's IIP request is for a five-year program totaling $742.5M in investment. *While the process is taking additional time, we see continued settlement discussions as positive.*

Watch for Elizabeth Town Gas (ETG) to file a rate case around the YE21 based on historical timing where we watch for the there is opportunity to boost the equity layer to SJG levels. It is unclear if management will be in a position to file for increased the equity layer in this application, but see opportunity over the course of the plan.

We believe NJ legislation that would establish a RNG program and allow utilities to rate base RNG investments (S3562 and A5655) will pick up steam in the fall when legislators return. RNG is fairly bipartisan, so it could be an easy win for the Governor who is looking to advance clean energy goals ahead of the election in Nov. *Passage of this bill could shift spending from the unregulated to the utility - while it could receive lower returns, we think it would be valued at a premium by investors given low-risk on returns.*

SJI 2Q21 Earnings Walk: Beat and Reaffirm

Fiscal 2Q results are not overly meaningful with SJI historically losing money or breaking even in the shoulder period. We forecast 2Q21 adjusted EPS of $0.00 compared to 2Q20 EPS of -$0.01 and consensus estimates of -$0.02. Our FY21 EPS estimate is toward the top-end of management guidance range.

- **Key Drivers:** We forecast an increase in EPS YoY driven by new rates at SJG (+$0.04), customer growth (+$0.01), and minor improvement in energy services (+$0.01). This is partially offset by higher O&M (-$0.03) and higher D&A (-$0.03). Note that there is no dilution dispute the higher share count with no underlying net income in the period.
- **Swing factors:** There is not a lot of clarity on performance of SJI's non-regulated segments, therefore, we could see a swing in either direction based on performance (any difference would likely be minor). O&M is also an unknown YoY.

Exhibit 19: SJI 2Q21 Earnings Walk
We see modest beat and FY21 EPS toward the top of management's guidance range

SJI 2Q21 Earnings Walk	EPS
SJI 2Q20 EPS	-$0.01
Weather - normalize YoY	$0.00

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Weather- Current quarter	$0.00
Utilities	**-$0.01**
Rate/Rider implementation:	
ETG	0.00
SJG	0.04
D&A	-0.03
O&M	-0.03
Customer Growth	0.01
Non-regulated	**$0.01**
Midstream	0.00
Energy Group	0.00
Energy Services	0.01
Other	**$0.01**
Interest expense	0.01
Other	0.00
Dilution	0.00
BofAe Adjusted EPS	**$0.00**
Consensus	-0.02
BofAe 2021 EPS	**$1.63**
Guidance	**$1.55-$1.65**
2021 Consensus	1.62
SJI 2Q21 Shares Outstanding	109
SJI 2Q20 Shares Outstanding	94

Source: Company Filings, Bloomberg, and BofA Global Research estimates

BofA GLOBAL RESEARCH

EPS estimates; unchanged

We maintain our EPS estimates from FY21-FY25 and reflect management's recently updated capital spending plan, rate base growth targets, and guidance. Our estimates imply a 6.9% EPS CAGR which is above the midpoint of 5-8% growth. We believe this forecast could be conservative given the RNG market is still in its nascent stages and there could be incremental opportunities to increase investment in the space. RNG bill in NJ could drive incremental spending as well. We forecast consolidated EPS modestly above management's illustrative FY25 guidance of $2.00-$2.10 at $2.12 based on these positive tailwinds.

Exhibit 20: SJI EPS Estimates
Our EPS estimates remain unchanged

EPS Estimates	**2018A**	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
SJI - Utilities								
SJG	$0.98	$0.95	$1.13	$1.08	$1.06	$1.11	$1.09	$1.13
Elizabethtown	$0.00	$0.38	$0.49	$0.53	$0.53	$0.57	$0.58	$0.59
Total Utilities	**$0.98**	**$1.32**	**$1.62**	**$1.61**	**$1.60**	**$1.67**	**$1.68**	**$1.72**
Guidance								
Non-Utility								
SJEG	$0.50	$0.10	$0.25	$0.18	$0.16	$0.16	$0.15	$0.15
SJES	($0.01)	$0.00	$0.02	$0.02	$0.02	$0.02	$0.02	$0.02
SJES - Solar			$0.16	$0.09	$0.08	$0.07	$0.05	$0.04
RNG				$0.10	$0.18	$0.26	$0.33	$0.39
Midstream		$0.05	$0.04	$0.06	$0.06	$0.08	$0.08	$0.07
Total Energy	**$0.50**	**$0.10**	**$0.47**	**$0.45**	**$0.50**	**$0.58**	**$0.62**	**$0.66**
Guidance								
Parent & Other	($1.33)	($0.91)	($0.42)	($0.44)	($0.36)	($0.35)	($0.26)	($0.26)
Guidance								
Consolidated	**$1.38**	**$1.12**	**$1.68**	**$1.63**	**$1.74**	**$1.90**	**$2.03**	**$2.12**
Prior Estimate			**1.68**	**1.63**	**1.74**	**1.90**	**2.03**	**2.12**
Consensus		**1.11**	**1.58**	**1.62**	**1.69**	**1.78**	**1.89**	
Consensus '21-24 CAGR		***3.0%***						
BofA CAGR '21-25		**6.9%**						

Source: Company Filings, Bloomberg, and BofA Global Research estimates

BofA GLOBAL RESEARCH

Valuation; PO remains at $27

Our PO remains unchanged at $27 as we mark-to-market our most recent FY23 peer utility P/E multiple of 15.7x (from 16.5x) and now apply a 1x premium to the NJ utilities to account for likely constructive IIP result driven by continued settlement discussion as well as the potential for incremental spending. Our assumed ROE for RNG remains at 21.5% based on SJI's math - $7M in capex, assume 50/50 capital structure, and net income of $0.75M equals ROE of 21.5%. Our implied EV/EBITDA for RNG remains at ~12x. We continue to model phase one of PennEast and maintain the probability of completion at 50% given the favorable SCOTUS decision.

Exhibit 21: SJI SOTP Analysis
PO remains at $27 on latest tweaks

South Jersey Industries (SJI)	**Metric**				**P/E Multiple**					**Equity Value**	
South Jersey Industries (SJI)	*2023E EPS*		*Low*	*Peer*	*Prem/ Discount*	*Base*	*High*	-	*Low*	*Base*	*High*
Gas	-	-	-	**15.7x**	-	-	-	-	-	-	-
Group EPS '19-'23 CAGR - Gas	-	-	-	**5.0%**	-	-	-	-	-	-	-
	-	-	-	**16.5x**	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-
South Jersey Gas (SJG)	$1.11	138	16.5x	16.5x	**1.0x**	17.5x	18.5x		$18.3	$19.4	$20.5
Elizabethtown Gas (ETG)	$0.57	71	16.5x	16.5x	**1.0x**	17.5x	18.5x		$9.3	$9.9	$10.5
Total SJI Utilities	**$1.67**		*16.5x*			*17.5x*	*18.5x*		**$27.6**	**$29.3**	**$31.0**
				Peer	*Prem/ Discount*	*Base*	*High*	-	*Low*	*Base*	*High*
				12.0x							
	2023E EPS										
Energy Group	$0.16		11.0x		**0.0x**	12.0x	13.0x		$1.8	$1.9	$2.1
Energy Services	$0.02		11.0x		**0.0x**	12.0x	13.0x		$0.2	$0.2	$0.2
Solar	$0.07										
	NPV										
Solar NPV of tax credits @ 4.5% discount rate	$99								$0.8	$0.8	$0.8

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	2023E EBITDA			*EV/EBITDA*			*Discount Rate*		*NPV of Cash Flows*	
RNG	$45	**Implied Multiple -- -->**		12.0x			7.4%		$541.4	
Total SJI Energy Group and Services	**$0.25**		*28.7x*			*29.5x*	*30.2x*	**$7.08**	**$7.26**	**$7.44**
SJI Midstream	**Metric**				**EV/EBITDA**				**Equity Value**	
	EBITDA		*Low*	*Peer*	*Prem/ Discount*	*Base*	*High*	*Low*	*Base*	*High*
		-	-	**9.5x**						
		-	8.5x	9.5x	**0.0x**	9.5x	10.5x			
Midstream - Penn East	$21		Probability		*50%*			$90	$100	$111
Less Net Debt								($38)	($38)	($38)
Total Midstream	**$21**							**$51**	**$62**	**$72**
Net Midstream Value Per Share								**$0.4**	**$0.5**	**$0.6**
		($Mn)			*Weight*					
Parent Net Debt		$2,072			*50%*			($1,036)	($1,036)	($1,036)
Add back: Parent Interest Exp	$0.35	$43	16.5x	17.5x	*50%*	17.5x	18.5x	$379	$379	$379
Parent SG&A drag	-$0.28	($35)	16.5x	17.5x	*100%*	17.5x	18.5x	($608)	($608)	($608)
Total Parent								**($1,265)**	**($1,265)**	**($1,265)**
Grand Total Equity Value								**$25.0**	**$27.0**	**$29.0**
Shares Outstanding 2023E									125	
Total Equity Value								**$25.00**	**$27.00**	**$29.00**
Current Price									$25.24	
NTM Dividend Yield									4.7%	
Total Return Potential									**11.7%**	

Source: Company Filings, Bloomberg, and BofA Global Research estimates

BofA GLOBAL RESEARCH

BofA Global Research Reports

South Jersey Industries	Primary Author	Date Published
US Electric Utilities & IPPs: AGA Conference Takes: Affirming Demand Upside; Hold the Inflation Concerns (https://rsch.baml.com/r?q=0zH8VrGvKd4j4YgTvzUVDQ)	Julien Dumoulin-Smith	20 May 2021
South Jersey Industries: LT Plan Outlined with Robust RNG Spend... Now we Turn to Execution (https://rsch.baml.com/r?q=YcDXM5qOI3SdJkVUlGhOug)	Julien Dumoulin-Smith	07 May 2021
South Jersey Industries: Upgrade to Buy: Analyst Day Reboot Should Highlight NJ's RNG Angle & More (https://rsch.baml.com/r?q=ugn6kbCUeTcuqxPK1GG2PQ)	Julien Dumoulin-Smith	28 April 2021

Spire (SR)

SR: A good platform to tout STL pipeline benefits

We expect management to dedicate a significant portion of the call to address the recent DC Circuit Court decision to vacate and remand the FERC certificate for STL pipeline, and tout the benefits of supply diversity (much like they did in front of the Missouri Public Service Commission [MoPSC] recently). SR could file for rehearing by the call and we expect that they would argue to include data since the pipeline has been online. The MO rate case is ongoing and hearings will start prior to the call where we continue to see the potential for at least a partial settlement. Though STL will likely be an overhang on shares for now, we reiterate Buy on a 12-month horizon as we could still see positive Street EPS revisions and rate case de-risking in MO re-rating shares higher on balance, further supported by incremental opportunities as management rolls out its RNG strategy.

Key Call Topics: STL Pipeline; MO rate case

STL pipeline has a cloudy path ahead; management will likely pitch the benefits

Management will likely spend time addressing the DC Circuit Court of Appeals opinion vacating the certificate of public convenience and necessity (CPCN) for SR's STL Pipeline and remanding the case back to FERC for further proceedings. SR must file for rehearing with the DC Circuit Court by Aug. 6, and we believe the company will file prior to that date to provide an opportunity to discuss the filing, the case, and the benefits that the pipe has provided since it was placed in service on their F3Q21 earnings call on Aug. 5. The debate will remain whether new facts are considered in appellate venue.

There are two paths on the Court's decision on rehearing, 1) the Court accepts SR's request and the stay remains in effect (i.e. the pipeline remains operational), or 2) the court rejects the request and the vactaur takes effect after seven days and the pipeline would have to cease operations. In the event of the latter, SR would have to file for an emergency certificate from FERC to keep the pipeline open. Based upon FERC Chairman Glick's public comments on natural gas pipelines, that will be a difficult venue.

We find that it will be critical for SR to build a coalition of supporters to show FERC that there is need for the pipe as evidenced by SR's recent presentation on the benefits and criticality of the pipe. SR continues to tout the diversity of supply that the pipe brings to the region and the support that it provided the system during the Feb. winter freeze. The MoPSC could be a strong advocate which could lead to support from FERC. We continue to believe that historical opposition from Chair Glick that the affiliate/need issues will be addressed prospectively rather than via STL given the more disruptive implications of shutting an operating pipeline. STL shutdown remains a risk but we emphasize the relatively low contribution vs consolidated (see below).

MO rate case is the other key watch item and is more important to the outlook

We continue to believe that there is an opportunity for settlement in SR's MO rate case, or partial settlement, ahead of hearings that start next Monday, July 26. The bid/ask on ROE and cap structure between SR's request and Staff/Office of Public Counsel's position is narrow. Staff recommends a 9.37% ROE and 54.25% equity layer while the OPC recommends a 9.25% ROE and 47.37% equity layer (vs ask of 9.95% ROE and 54.25% equity layer). *We find the low delta as supportive of a potential full settlement between parties in time.*

SR F3Q21 Earnings Walk: Miss and Reaffirm

Fiscal 3Q results are not overly meaningful with SR historically losing money or breaking even in the shoulder period. We forecast F3Q21 adjusted loss per share of -$0.02 compared to 2Q20 EPS of $0.07, consensus estimates of $0.01.

- **Key Drivers:** We forecast a decrease in EPS YoY with higher D&A (-$0.11) and the drag from Gas Marketing as management rebuilds reserves from Uri (-$0.05) too large to overcome with utility rate relief in the shoulder period.
- **Swing factors:** Customer growth has been a factor of late especially in the south. Given Winter Storm Uri and SR's monetization of reserves, we expect marketing to be a drag (-$0.05) on the quarter as SR rebuilds its reserves at higher gas prices YoY, but the exact impact is unclear.

Exhibit 22: SR F3Q21 Earnings Walk
We forecast a miss on marketing drag YoY

SR Fiscal 3Q21 Earnings Walk	EPS
SR Fiscal 3Q20 EPS	$0.07

BofA SECURITIES
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Utilities	**-$0.05**
Weather - normalize from fiscal 1Q20	$0.00
Weather- fiscal 1Q21	$0.00
Rate implementation/rate base growth:	
MO	0.07
AL	0.01
Gulf/MS	0.005
D&A	-0.11
O&M	-0.03
Lost Fees	0.00
Customer Growth	0.01
Taxes & Other	0.00
Storage and Pipeline	**$0.01**
STL Pipeline	0.00
Storage	0.01
Marketing	**-$0.05**
Marketing	-0.05
Parent	**$0.00**
Interest expense	0.00
Equity Units	-0.01
Dilution	0.00
SR Fiscal 3Q21 BofA Adjusted EPS	**-$0.02**
Fiscal 2Q21 Consensus	0.01
BofA 2021 EPS	**$4.42**
Guidance	**4.30-4.50**
2021 Consensus	4.44
SR Fiscal 3Q21 Shares Outstanding	51.9
SR Fiscal 3Q20 Shares Outstanding	51.2

Source: Company Filings, Bloomberg, and BofA Global Research estimates

BofA GLOBAL RESEARCH

EPS estimates unchanged. Street conservative '22-'23

Our EPS estimates remain unchanged as we do not assume that STL pipeline will be taken out of service at this time. This poses downside risk to our estimates at roughly $0.20/year (or -1.7% of our consolidated EPS estimate in '21 assuming worst case scenario it is taken offline in mid-August and ~4.4% and ~4.2% in '22 and '23, respectively). We await further clarity on whether or not the pipe is actually taken out of service, but, again, note that we believe taking supply offline would spark a sharp response from Missouri among other states exposed post winter storm Uri, especially through the winter season where more severe weather could pose increased risks to the system without adequate and diversified supply.

We see growth toward the midpoint of the LT EPS CAGR range of 5-7%, but could see this revised higher through incremental spending opportunities.

Exhibit 23: SR EPS Estimates
Our EPS estimates remain unchanged on our latest tweaks - still see growth near the midpoint

EPS Estimates	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Spire - Utilities							
Spire Missouri			$2.77	$3.11	$3.24	$3.30	$3.35
Spire Alabama			$1.34	$1.41	$1.48	$1.52	$1.57
Spire Gulf			$0.23	$0.24	$0.25	$0.25	$0.26
Spire Mississippi			$0.03	$0.03	$0.03	$0.03	$0.03
Total Utilities	**$3.93**	**$4.16**	**$4.37**	**$4.78**	**$4.99**	**$5.10**	**$5.21**
Spire - Marketing	**$0.38**	**$0.18**	**$0.65**	**$0.36**	**$0.36**	**$0.35**	**$0.33**
Spire - STL Pipeline			$0.20	$0.20	$0.20	$0.19	$0.18
Spire - STL Storage			$0.00	($0.00)	$0.00	$0.00	$0.00
Other Parent			($0.80)	($0.78)	($0.77)	($0.74)	($0.69)
Total Other	**($0.59)**	**($0.58)**	**($0.59)**	**($0.58)**	**($0.57)**	**($0.54)**	**($0.51)**
Consolidated	**$3.73**	**$3.76**	**$4.42**	**$4.56**	**$4.79**	**$4.90**	**$5.03**
Guidance			4.30-4.50				
Previous EPS	***$3.73***	***$3.76***	***$4.42***	***$4.56***			
Implied Mgmt EPS Guidance 5-7% (2019 base)							
Guidance Low (implied off '19)			$4.00	$4.32	$4.53	$4.76	
Guidance High (implied off '19)			$4.20	$4.57	$4.89	$5.23	
Guidance Midpoint			$4.10	$4.44	$4.71	$5.00	
Consensus	**3.75**	**3.74**	**4.44**	**4.43**	**4.68**	**4.92**	
Consensus '19-'24 CAGR	***5.7%***						
BofAe CAGR 2019-2024	**5.6%**						
DPS	**2.37**	**2.49**	**2.61**	**2.74**	**2.88**	**3.02**	**3.18**
Share Count	**51**	**51**	**52**	**53**	**54**	**56**	**58**

Source: Company Filings, Bloomberg, and BofA Global Research estimates

BofA GLOBAL RESEARCH

Valuation; PO to $77

Our PO moves to $77 (from $78) as we mark to market (MtM) '23E peer utility P/E multiples of 15.7x (from 15.9x). We continue to probability weight the STL pipeline by 50% in our valuation on an uncertain path forward. Fully-weighted, STL pipeline accounts for ~$4.24/share in our valuation. We continue to apply a 1x premium on MO to account for growth potential and supportive ISRS recovery partially offset by potential supply risk from STL being offline.

We continue to see attractive 12%+ potential total return on our SOTP analysis following the recent STL-related weakness and reiterate our Buy rating on healthy, low-risk capital spending driving solid rate base and EPS growth.

Exhibit 24: SR SOTP Analysis
Our PO moves to $77 (from $78) on latest MtM

	Metric		**P/E Multiple**						**Equity Value**		
Spire	*2023E*		*Low*	*Peer*	*Prem/ Discount*	*Base*	*High*	-	*Low*	*Base*	*High*
Gas		-	-	**15.7x**	-	-	-	-	-	-	-
Group EPS '19-'23 CAGR - Gas		-	-	**5.0%**	-	-	-	-	-	-	-
		-	-	**16.5x**	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-
Spire - MO	$3.24		16.5x	16.5x	**1.0x**	17.5x	18.5x		$53	$57	$60
Spire - AL	$1.48		17.5x	16.5x	**2.0x**	18.5x	19.5x		$26	$27	$29
Spire - MS	$0.25		17.5x	16.5x	**2.0x**	18.5x	19.5x		$4	$5	$5
Spire - Gulf	$0.03		17.5x	16.5x	**2.0x**	18.5x	19.5x		$1	$1	$1

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Total Spire Utilities	**$4.99**		*16.8x*			*17.8x*	*18.8x*	**$84**	**$89**	**$94**
Spire Midstream	**Metric**				**EV/EBITDA**				**Equity Value**	
	EBITDA	*Prob*	*Low*	*Peer*	*Prem/ Discount*	*Base*	*High*	*Low*	*Base*	*High*
Midstream - Pipeline, Storage & Marketing		-	-	**9.5x**						
Spire STL Pipeline	$24	50%	8.5x	9.5x	**0.0x**	9.5x	10.5x	$102	$114	$126
Spire Storage	$3	100%	4.5x	9.5x	**-4.0x**	5.5x	6.5x	$16	$19	$22
Spire Marketing	$24	100%	4.5x	9.5x	**-4.0x**	5.5x	6.5x	$110	$134	$158
Less Net Debt	-							($103)	($103)	($103)
Total Midstream	**$52**							**$124**	**$164**	**$204**
Net Midstream Value Per Share								**$2**	**$3**	**$4**
		($Mn)			*Weight*					
Parent Net Debt		**$637**			*50%*				($319)	
Parent & Other Drag	-$0.77	($41)		17.8x					($738)	-
Add back: Parent Interest Expense	$0.47	$25		17.8x	*50%*				$227	-
Total Parent								**($829)**	**($829)**	**($829)**
Grand Total Equity Value								**$71.00**	**$77.00**	**$83.00**
Shares Outstanding 2023E									54	
Total Equity Value								**$71.00**	**$77.00**	**$83.00**
Current Price									$71.26	
NTM Dividend Yield									3.7%	
Total Return Potential									**11.7%**	

Source: Company Filings, Bloomberg, and BofA Global Research estimates

BofA GLOBAL RESEARCH

BofA Global Research Reports

Spire	**Primary Author**	**Date Published**
Spire: STL Saga: It's early with a lot of hypotheticals out there (https://rsch.baml.com/r?q=8NGGqTRopVSfNjwMRmXLHg)	Julien Dumoulin-Smith	30 June 2021
Spire: DC Circuit vacates STL Pipe certificate: disappointing, path ahead unclear (https://rsch.baml.com/r?q=X7wj8Dk!wTI2H0Agtx3aXQ)	Julien Dumoulin-Smith	23 June 2021
Spire: Emerges as an industry leading LDC thru Feb events; May should de-risk further (https://rsch.baml.com/r?q=ZLIjlZ1Rnk931fY7Zg15wg)	Julien Dumoulin-Smith	10 May 2021

Southwest Gas Holdings (SWX)

SWX: Focus on RDC deal though details sparse until close

We reiterate Neutral based on the recently announced Riggs Distler (RDC) deal and our view that the AZ tracker reconciliation filing will not be as much of a contentious point as we previously thought. Our focus for AZ, SWX's largest jurisdiction, is the upcoming rate case to be filed in late '21 or early '22 and the Commission process to evaluate their treatment of post-test year plant (PTYP). Success could be constructive by reducing utilities' regulatory lag and the frequency of rate cases but the Commission has been too unpredictable to ascribe credit. We expect focus on the call to be centered on the recently announced acquisition of infrastructure services company, RDC, but caution investors from expecting incremental disclosure from what was detailed with deal announcement as they await transaction close.

Key Call Topics: Riggs Distler acquisition, AZ regulatory

Await additional disclosure around the RDC deal, but find

In late June SWX announced the acquisition of Riggs Distler (RDC), an infrastructure services company that serves utilities, for $855M in cash **100% funded by Centuri debt**. Management sees ~$600M in revenue growth at RDC from 2020 to 2024, or 22% CAGR with growth supported at the core by its electric utility transmission and distribution (T&D) work, which has a tailwind in the Northeast and Mid-Atlantic as utilities look to modernize and harden the grid following a number of recent, devastating storm, and has a number of intriguing additional opportunities for growth in 5G and renewables projects, specifically in the burgeoning offshore wind industry. Expect more detail and clarification on the drivers behind the growth assumptions during the call.

We think the deal improves the optionality for a spin or other strategic opportunity. For example it is clear from the modest upside we see in our SOTP that SWX may not be getting full credit for the business in its valuation. That said, we do not see management acting on this in the short-to-medium-term given as the company likely wants to realize some of the benefits of the deal and integrate the company with its legacy infrastructure services company, Centuri, prior to a potential divestiture. *See more details on our assumptions and thoughts in our recent upgrade note -* Southwest Gas Holdings: Move to Neutral: Infra acquisition lowers AZ exposure, increases strategic opps 30 June 2021 (https://rsch.baml.com/r?q=dKs5mq1TNF05mR!29PnjWA)

AZ continues to be key to watch; puts and takes here

At the end of May, SWX filed applications to recover outstanding revenue requirement for both the Customer-Owned Yardline (COYL) Program and Vintage Steel Pipe (VSP) Replacement Program. Staff will file their recommendation in the summer and the Commission will consider both sides before coming to a conclusion (potentially in the ~Oct. timeframe). *We are less concerned on the immediate filing given the capital has already been spent and Staff asked them to defer recovery of the spending during the pandemic to seek recovery of it when it would have less of an impact on customers.*

We note the parallel process initiated by Chairwomen Peterson to look at the Commission's treatment of PTYP and, as a reminder, comments were recently filed and all were to be expected from parties. SWX will be filing another general rate case around the end of the year, initiating a renewed period of uncertainty.

We maintain our caution on the AZ backdrop following latest decisions from the ACC. While rejecting recovery of basic cost recovery rider for energy efficiency for SWX's electric peer APS, we see another difficult year in persuading the commission on merits of trackers, particularly considering the overall bill commitments commented on by the ACC in recent months.

SWX 2Q21 Earnings Walk: Beat and No Guidance

We forecast 2Q21 adjusted EPS of $0.50 -10% vs $0.45 Street and meaningfully lower YoY from 2Q20 EPS $0.68. We note management removed FY21 EPS guidance when they announced the acquisition of RDC as they await details on the impact for the year.

- **Key Drivers:** We forecast a decrease in EPS YoY driven by new rates in all jurisdictions (+$0.13) and customer growth (+$0.05), and lower interest expense of (+$0.01). This is more offset by loss of COLI (-$0.17), higher O&M (-$0.07), and higher D&A (-$0.05).
- **Swing factors:** COLI impact for the quarter is unknown, but going forward, the volatility and change YoY should be reduced based on management move toward more fixed income vs equities.

Exhibit 25: SWX 2Q21 Earnings Walk
See beat but continue to see lower '21 EPS on the RDC deal

SWX 2Q21 Earnings Walk	**EPS**
SWX 2Q20 EPS	0.68
Weather - normalize from 4Q19	$0.00
Weather- 4Q20	$0.00
Utilities	**-$0.11**
Rate implementation:	

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AZ	0.07
NV	0.05
CA	0.01
Riders	0.00
D&A	-0.05
O&M	-0.07
COLI	-0.17
Customer Growth	0.05
Centuri	**-$0.01**
Operating Margin	0.01
NCI	-0.02
Other	**-$0.06**
Interest expense	-0.02
Dilution	-0.04
SWX 2Q BofAe Adjusted EPS	**$0.50**
Consensus	0.45
BofAe 2021 EPS	**3.96**
2021 Guidance	**N/A**
2021 Consensus	4.14
SWX 2Q21 Shares Outstanding	59
SWX 2Q20 Shares Outstanding	56
Tax Rate	22%

Source: Company Filings, Bloomberg, and BofA Global Research estimates

BofA GLOBAL RESEARCH

EPS estimates; modestly higher in outer years

Our EPS estimates increase by the contribution from RDC. Execution on regulatory matters and growth for RDC will be key to EPS estimates going forward. We include RDC into our estimates, but note that we are still awaiting detail on some key assumptions, specifically more detail on the financing, depreciation, capex outlook, etc.). **We see $0.36 of EPS in '22 (or ~9% accretion to our previous estimates) as we model management** assumptions around revenue growth and EBITDA. In the cases where we do not have detail (debt balance and D&A) we use reasonable assumptions based on market rates and use Centuri as a proxy. We await key detail on multiple assumptions that will allow us to fine tune our estimates - expect more clarity in Q3 on deal close. BofA is well below Street in 2021, likely due to timing considerations on the acquisition, but is in-line FY22-23.

Additionally, we stress that timing of the next full rate case filing will also be a key driver to 2022/2023 EPS, although we currently assume new rates into late-2022/2023 based on a ~12 month proceeding following a late 2021 filing.

Exhibit 26: SWX EPS Estimates
Our EPS estimates increase modestly over the forecast period based on improved earned ROEs at AZ vs prior assumption

EPS Estimates	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Southwest Gas Holdings, Inc. (SWX)								
Arizona			1.19	1.37	1.22	1.42	1.50	1.58
Nevada			1.13	1.11	1.10	1.15	1.28	1.33
California			0.27	0.34	0.39	0.44	0.49	0.53
Pauite Pipeline Company			0.15	0.16	0.16	0.16	0.17	0.17
Total Utility (Gas LDC & Pipeline)	**2.81**	**3.00**	**2.84**	**2.97**	**2.86**	**3.18**	**3.43**	**3.61**
Non-Utility (Utility Infrastructure Services)	**0.91**	**0.96**	**1.34**	**1.12**	**1.58**	**1.68**	**1.80**	**1.91**
Other - Corporate & Administrative	**(0.03)**	**(0.03)**	**(0.03)**	**(0.12)**	**(0.10)**	**(0.10)**	**(0.10)**	**(0.11)**
Consolidated EPS	**3.68**	**3.94**	**4.14**	**3.96**	**4.35**	**4.76**	**5.13**	**5.41**
Mgmt EPS Guidance								
Guidance Low		$3.60	$3.75					
Guidance High		$3.80	$4.00					
Guidance Midpoint		$3.70	$3.88					
Prior Estimate			**4.14**	**3.96**	**4.32**			
Consensus			**3.95**	**4.14**	**4.35**	**4.72**		
BofA RB CAGR 2020-2024		**8.1%**						
RB CAGR 2020-2024 Guidance		**+8.6%**						
Consensus '19-'22 EPS CAGR		***3.3%***						
BofA '19-'22 EPS CAGR		**3.4%**						
BofA '20-'23 EPS CAGR		**4.7%**						
BofA '20-'24 EPS CAGR		**5.5%**						

Source: Company Filings, Bloomberg, and BofA Global Research estimates

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Valuation; PO remains at $69

Our PO remains at $69 as we adjust our HoldCo debt assumptions. We see ~$0.36 of EPS from RDC in '22, or 9% accretion to our est. prior to the announcement. We mark-to-market of FY23E peer utility P/E multiples of 15.7x (from 15.9x). We continue to apply a 2.5x discount to AZ as we view the tracker filing as likely less contentious than previously thought though we continue to view the state as one of the most customer-centric, utility-restrictive jurisdictions. We mark our Centuri valuation to peers PWR and MTZ FY23 EV/EBITDA of 8.8x (from 9.2x).

Exhibit 27: SWX SOTP Analysis
Our PO remains at $69 on our latest tweaks

Southwest Gas Holdings, Inc. (SWX)	**Metric**			**P/E Multiple**					**Equity Value**	
	2023E		**Low**	**Peer**	**Prem (Disc)**	**Base**	**High**	**Low**	**Base**	**High**
Gas Utility				**15.7x**						
Group EPS '19-'23 CAGR - Gas				*5.0%*						
Assigned Multiple				**16.5x**						
Natural Gas Operations (Utility)	**EPS**									
Arizona	$ 1.42		13.0x	16.5x	-2.5x	14.0x	15.0x	$18.49	$19.92	$21.34
Nevada	$ 1.15		14.5x	16.5x	-1.0x	15.5x	16.5x	$16.73	$17.88	$19.04
California	$ 0.44		14.5x	16.5x	-1.0x	15.5x	16.5x	$6.36	$6.80	$7.24
Total State Regulated Utilities	**$ 3.02**		**13.8x**			**14.8x**	**15.8x**	**$41.58**	**$44.60**	**$47.62**
				Peer EV/EBITDA						
Pipeline (FERC Regulated)	**EPS**	**EBITDA ($mn)**	Low	**Peer**	Prem (Disc)	Base	High			
Pauite Pipeline Company	$ 0.16	27.9	8.5x	**9.5x**	0.0x	9.5x	10.5x	237	265	293
Less: Net Debt								(71)	(71)	(71)
Implied Equity Value								**166**	**194**	**222**
Implied Equity Value Per Share								**$2.63**	**$3.07**	**$3.51**

Total Natural Gas Operations	**$ 3.18**							**$44.21**	**$47.67**	**$51.13**
Utility Infrastructure Services (Non-Regulated)		**EBITDA**	Low	**Peer**	Prem (Disc)	Base	High			
Utility Infrastructure Services	$ 1.68	361.2	7.8x	**8.8x**	0.0x	8.8x	9.8x	2,818	3,179	3,540
Less: Net Debt								(1,617)	(1,617)	(1,617)
Implied Equity Value								**1,200**	**1,561**	**1,923**
Infrastructure Equity Value Per Share								**$19.02**	**$24.74**	**$30.47**
Other - Corporate & Admin.										
Other - Corporate & Admin.	$ (0.10)		13.8x	**16.5x**	0.0x	14.8x	15.8x	-$1.41	-$1.51	-$1.62
				Weight						
Parent Net Debt	348.0			*50%*				($2.8)	($2.8)	($2.8)
Parent Interest Exp	$ 0.17			*50%*	15.5x			$1.3	$1.3	$1.3
Total Parent								**-$2.82**	**-$2.92**	**-$3.03**
Shares O/S (mn)									63	
SWX Total Equity Value	$ 4.76							**$60.0**	**$69.0**	**$79.0**
Implied Consolidated P/E									*14.5x*	
Current Price									*$69.42*	
Dividend Yield									3.2%	
Total Return Potential									**2.6%**	

Source: Company Filings, Bloomberg, and BofA Global Research estimates

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BofA Global Research Reports

Southwest Gas Holdings	**Primary Author**	**Date Published**
Southwest Gas Holdings: Move to Neutral: Infra acquisition lowers AZ exposure, increases strategic opps (https://rsch.baml.com/r?q=dKs5mq1TNF05mR!29PnjWA)	Julien Dumoulin-Smith	30 June 2021
Southwest Gas Holdings: AZ Overhang Continues: Can The Construct Improve? To Be Seen (https://rsch.baml.com/r?q=TwIlc-lEll51wAKHkbm4YA)	Julien Dumoulin-Smith	14 June 2021

UGI Corp (UGI)

UGI: Mild updated following investor day

We are expecting a mild update post-investor day in late-Jun. We will be watching for 1) increased clarity around UGI's renewables pipeline where we see a range of potential avenues for expansion in renewables above the $1B+ target given the numerous end markets UGI operates in domestically and abroad and 2) any additional clarity around ROE assumptions of 10%+. We would like to see more clarity on the segment level contribution to management's growth projections, but understand the difficultly therein. The Mountaineer Gas transaction is progressing through the regulatory process with many parties citing their perceived benefits of the deal - we find this supportive. Reiterate Buy.

Key Call Topics: Renewables, Mountaineer

Renewables are key to the story from here

UGI recently announced a proposed JV with SHV Energy to advance the production and distribution of Renewable Dimethyl Ether (rDME) which is working through formal regulatory process with ~YE21 expected close. *Expect some update on how the regulatory process is proceeding here.* There is good line of sight on the first project of six over the next five years totaling $1B in investment (split 50/50 between partners with the ability for third-party investment as desired), and as the first project starts to crystalize, the other five will gain some clarity. These rDME agreements are typically 1-5 years contracts. On balance, rDME is less sensitive to market dynamics such as RINS credits and appears to produce a potentially better long-term return.

We have seen increased momentum of late and expect this to only accelerate through time, though management has stated it is difficult to pin down the exact timeline for investment. We expect to have more clarity on this in time as UGI gains experience and projects become more predictable. This remains a key question into 2022 and 2023 as we look towards initial project contributions. We also watch the risk profile of renewable investments here too - as management looks towards contracting RNG vs selling more spot on Renewable Identification Numbers (RINS) and Low Carbon Fuel Standard (LCFS) credits.

See our most recent note for more detail on the renewables strategy - UGI Corp.: Upgrading to Buy: Renewable Gas Upsides of All Flavors Drive Highest Growth 23 June 2021 (https://rsch.baml.com/r?q=AMDarYS-iACP9MIvT!OkRA)

Parties are complementary of Mountaineer transaction

Generally supportive testimony was filed in the WV pending UGI-Mountaineer Gas acquisition docket in early July from important parties including the West Virginia Public Service Commission Staff, energy groups, and workers advocates. UGI's ability to attract lower cost capital and accelerate infrastructure replacement spending to support job growth was highlighted in particular. Other parties highlighted that there be no adverse impact to customers from the transaction (i.e. no transaction-related costs be recovered in rates). *The UGI-Mountaineer transaction was viewed as low risk and we are incrementally favorable following better than expected intervenor testimony. We think adding low risk regulated utility earnings to the diversified UGI mix should dampen weather volatility and support broader credit considerations, in addition to earnings accretion.*

UGI F3Q21 Earnings Walk: Miss and Reaffirm

We forecast F3Q21 adjusted EPS of $0.08 compared to F3Q20 EPS of $0.08, consensus estimates of $0.10. Our FY21 EPS estimate remains at the top-end of management's revised guidance range $2.97 BofA/$3.00 Street vs $2.90-$3.00 guidance.

- **Key Drivers:** We forecast flat EPS YoY driven by new rates in PA (+$0.04), other/COVID impact reversal (+$0.07), and improvement in UGI Intl. driven by return to more normal weather (+$0.01). This is completely offset by return to more normal weather at the utilities (-$0.04), higher O&M (-$0.03), and higher D&A (-$0.02).
- **Swing factors:** Where weather will come in will impact our estimates as we forecast mild/normal heating degree days (HDD) for the quarter. Margins at LPG should be slightly better given propane prices, but we feel this will be offset by lower volumes and cylinders with some degree of reopening normalization. We will be watching O&M more generally as well.

Exhibit 28: UGI F3Q21 Earnings Walk
We see a slight miss driven by seasonality of LPG and weather

UGI Fiscal 3Q21 Earnings Walk	**EPS**
UGI Fiscal 3Q20 EPS	0.08
Weather - normalize from Fiscal 3Q20	-$0.04
Weather- Fiscal 3Q21	$0.00
Utility	**$0.00**
Rate implementation:	
PA	0.04
WV (acquired in fiscal 2Q21)	0.00
Riders	0.00
D&A	-0.02
O&M	-0.03
Customer Growth	0.01

BofA SECURITIES
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Amerigas (US Propane)	**-$0.02**
Operating Income	-0.02
Interest Expense/Other	0.00
UGI International (Intl Propane)	**$0.01**
UGI INTL	0.01
Interest Expense/Other	0.00
Midstream & Marketing	**-$0.02**
Operating Income	-0.02
Interest Expense/Other	0.00
Renewables	**$0.00**
Operating Income	0.00
Interest Expense/Other	0.00
Other	**$0.07**
Interest expense	0.00
Dilution	0.00
Other/COVID	0.07
Fiscal 3Q21 BofAe Adjusted EPS	**$0.08**
Consensus	0.10
BofAe 2021 EPS	**$2.97**
2021 Guidance	**2.90-3.00**
2021 Consensus	3.00
UGI Fiscal 3Q21 Shares Outstanding	126
UGI Fiscal 3Q20 Shares Outstanding	120

Source: Company Filings, Bloomberg, and BofA Global Research estimates

BofA GLOBAL RESEARCH

EPS estimates; unchanged at top of range

Our EPS estimates for FY21-FY25 remain unchanged following our most recent updated post-investor day. We continue to see a ~9.3% EPS CAGR through the FY20-FY25 forecast period using the midpoint of original FY20 EPS guidance of $2.75 vs guidance of +6-10%. We acknowledge that our long-term EPS CAGR is at the high end of guidance, but our estimates include an 11% EPS CAGR (more weighted to the out years) at midstream that is driven by execution at Columbia Midstream Group (CMG) and PennEast and our bullish assumption on growth at the renewables segment.

We stress that ROEs on these renewables investments could see upward bias based on market prices for LCFS credits and RINs. We also still see bias towards higher ROEs given our view that management is being conservative on its pricing assumptions altogether, especially for projects already in the works (Idaho, NY) that conceivably could come online in time to monetize higher-priced credits.

At the utility, we continue to assume LT EPS growth of ~9% given elevated rate base growth with minimal bill inflation. At the propane businesses, we see a 6% LT EPS CAGR at Amerigas and 2% EPS CAGR at UGI International.

Our 9.3% LT EPS CAGR is among the best for any LDC or utility peer out there, we see this underpinned by strong growth at the utility and an aggressive push into renewables.

Exhibit 29: UGI EPS Estimates
Our EPS estimates remain unchanged following our most recent update post-investor day

EPS Estimates	**2019A**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
AmeriGas Propane		$0.74	$0.87	$0.78	$0.76	$0.89	$1.01
UGI International		$0.82	$0.83	$0.85	$0.87	$0.89	$0.91
Midstream & Marketing		$0.44	$0.54	$0.60	$0.67	$0.70	$0.73
UGI Utilities		$0.65	$0.69	$0.75	$0.83	$0.91	$1.01
Renewable Energy Solutions (RNG)			$0.07	$0.20	$0.35	$0.51	$0.66
Corporate & Other		$0.02	($0.02)	($0.02)	($0.02)	($0.02)	($0.02)
TOTAL Consolidated EPS	**$2.28**	**$2.67**	**$2.97**	**$3.15**	**$3.46**	**$3.87**	**$4.30**
Guidance Low		$2.45	$2.90	$3.09	$3.28	$3.50	$3.68
Guidance High		$2.55	$3.00	$3.33	$3.66	$4.00	$4.43
Midpoint			$2.95	$3.21	$3.47	$3.75	$4.05
Guidance - EPS Growth Rate - Long Term				*6-10%*			
Shares O/S	181.1	209.9	212.5	212.5	212.5	212.5	212.5
Prior Estimate		2.67	2.96	3.11	3.37	3.75	4.15
Consensus	**2.34**	**2.48**	**3.00**	**3.23**	**3.42**		
Consensus '20-'23 CAGR	***7.5%***						
BofAe CAGR 2020-2025 (off '20 $2.75 original mid-point)	**9.3%**						
Guidance LT EPS CAGR	6-10%						
DPS	**1.15**	**1.31**	**1.35**	**1.40**	**1.46**	**1.51**	**1.58**
Guidance - DPS Growth Rate - Long Term				4% DPS CAGR Target			
Dividend Pay-out	**50%**	**49%**	**45%**	**44%**	**42%**	**39%**	**37%**
Guidance - Payout				35%-45% Target			

Source: Company Filings, Bloomberg, and BofA Global Research estimates

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Valuation; PO unchanged at $51

Our PO remains at $51 after marking to market the UGI utilities in our SOTP valuation with '23E peer P/E multiples to 15.7x (from 16.4x) for gas and 17.6x (from 17.8x) for electric with a 1x premium on gas given derisked backdrop post rate case and healthy rate base growth.

For US and International propane, we apply an 8.7x EBITDA multiple (unchanged), in line with other propane comps and add a 0.5x premium on International given our view that the push into bioLPG and rDME will assuage broader decarbonization concerns and potentially drive outsized growth. We apply a 9.2x EV/multiple (from 9.5x) on the Midstream segment with premiums depending on the asset and we now include a 1x premium for CMG given management's constructive comments on the investor day. Note that we continue to weight CMG and PennEast at 50% and 50% probability, respectively, given the uncertainty around execution.

For the renewables business, we take the NPV of future cash flows, which implies about a 13+x EV/EBITDA multiple (in line to slightly higher than our valuation to peers such as SJI and the small sample set of publicly-traded RNG). We see the renewables growth as the single largest driver of the story and we see shares rerating higher as UGI integrates the renewables spending into its medium-term EPS guidance and starts to execute on renewables projects.

Exhibit 30: UGI SOTP Analysis
PO remains at $51 on latest tweaks

UGI Corp SOTP Analysis										
UGI Utilities	**Metric**		**P/E Multiple**						**Equity Value**	
-	2023 EPS	Low	Peer	Prem/ Discount	Base	High	-	Low	Base	High
Gas Utility	-	-	**15.7x**	-	-	-	-	-	-	-

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Group EPS '19-'23 CAGR - Gas				**5%**						
UGI Utilities (Gas LDC)	$0.75		16.5x	**16.5x**	**1.0x**	17.5x	18.5x	**$2,639**	**$2,799**	**$2,959**
Electric Utility				**17.6x**						
Group EPS '19-'23 CAGR - Electric				**5%**						
UGI Utilities (Electric <10% of Utility EPS)	$0.07		17.5x	**18.5x**	**0.0x**	18.5x	19.5x	**$277**	**$293**	**$308**
UGI Utilities - Equity Value Per Share	**$0.83**		16.6x			17.6x	18.6x	**$14**	**$15**	**$15**
Global LPG	**Metric**			**EV/EBITDA**					**Equity Value**	
Amerigas Propane (U.S. Propane)										
	2023 EBITDA		Low	Peer	Prem/ Discount	Base	High	Low	Base	High
				8.7x						
	$651		7.7x	8.7x	**0.0x**	8.7x	9.7x			
AmeriGas Propane - Equity Value								$5,016	$5,668	$6,319
Less: Amerigas Propane Debt								($3,162)	($3,162)	($3,162)
Amerigas Propane - Equity Value								$1,854	$2,506	$3,157
Amerigas Propane - Equity Value Per Share								**$9**	**$12**	**$15**
UGI International (European Propane)										
	2023 EBITDA		Low	Peer	Prem/ Discount	Base	High	Low	Base	High
				8.7x						
	$407		8.2x	8.7x	**0.5x**	9.2x	10.2x			
UGI International								$3,338	$3,745	$4,152
Less: UGI International Debt								($922)	($922)	($922)
UGI International - Equity Value								**$2,417**	**$2,824**	**$3,231**
UGI International - Equity Value per Share								**$11**	**$13**	**$15**
Midstream & Marketing	**Metric**			**EV/EBITDA**					**Equity Value**	
	2023 EBITDA		Low	Peer	Prem/ Discount	Base	High	Low	Base	High
			Midstream Peer Group ->	**9.2x**						
			8.2x	9.2x	**0.0x**	9.2x	10.2x			
Legacy Midstream (Gathering & Processing, Marketing)	$56		9.2x	9.2x	**1.0x**	10.2x	11.2x	$518	$575	$631
Auburn Pipeline	$10		8.2x	9.2x	**0.0x**	9.2x	10.2x	$79	$88	$98
Columbia Midstream Group (CMG - gathering & processing)	$138		9.2x	9.2x	**1.0x**	10.2x	11.2x	$1,270	$1,408	$1,546
Bethlehem LNG (regas facility)	$17		11.2x	9.2x	**3.0x**	12.2x	13.2x	$194	$211	$228
					Probability					
CMG - Expansion	$40				*50%*			$164	$204	$0
Penn East	$24				*50%*			$100	$112	$124
Total Midstream & Marketing	**$286**							**$2,325**	**$2,599**	**$2,628**
Less: UGI Midstream Debt								($953)	($953)	($953)
Total Midstream Equity Value								**$1,372**	**$1,646**	**$1,675**
Midstream - Equity Value per Share								**$6**	**$8**	**$8**
Renewable Energy Solutions	**Metric**			**EV/EBITDA**					**Equity Value**	
	2023 EBITDA						Discount Rate		NPV of Cash Flows	
RNG/Hydrogen/Other	$93		**Implied Multiple ---->**		13.2x		8%	**$1,223**	**$1,223**	**$1,223**
Renewables- Equity Value per Share								**$6**	**$6**	**$6**
Parent	**Metric**			**P/E Multiple**					**Equity Value**	
		($Mn)			*Weight*					
Parent Net Debt		$721			*50%*			($360)	($360)	($360)
Parent Interest Exp	-$0.09	($20)	17.6x	18.6x	*50%*	18.6x	19.6x	($185)	($185)	($185)
Total Parent								**($546)**	**($546)**	**($546)**
Total Parent Equity Value per Share								**($3)**	**($3)**	**($3)**
Grand Total Equity Value								**$9,237**	**$10,744**	**$12,008**
Shares Outstanding 2023E									213	
Total Equity Value								**$43**	**$51**	**$57**
Current UGI Share Price									$45.37	
NTM Dividend Yield									3.0%	
Total Return Potential									15.4%	

Source: BofA Global Research estimates, company report, Bloomberg

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BofA Global Research Reports

UGI	Primary Author	Date Published
UGI Corp.: Upgrading to Buy: Renewable Gas Upsides of All Flavors Drive Highest Growth (https://rsch.baml.com/r?q=AMDarYS-iACP9MIvT!OkRA)	Julien Dumoulin-Smith	23 June 2021
US Electric Utilities & IPPs: AGA Conference Takes Day 2: Don't Even Worry About Inflation Here? Pos 2Q Setup (https://rsch.baml.com/r?q=Jr!psgna0sF-Q9Efpv-xBw)	Julien Dumoulin-Smith	21 May 2021
UGI Corp.: Core Business Healthy as Renewable Gas Strategy Continue to Take Shape (https://rsch.baml.com/r?q=HWjyVp9V8iK2xcgGK3iy!g)	Julien Dumoulin-Smith	10 May 2021
UGI Corp.: Transitioning to Renewables of All Flavors with Execution Top-of-Mind (https://rsch.baml.com/r?q=efFbPwUglwhMbPIGuRMmBw)	Julien Dumoulin-Smith	03 May 2021

Unitil Corp (UTL)

UTL: NH rate cases still key; prem. val. keeps us U/P

We reiterate our Underperform despite continued positive data points in the ongoing rate case given very premium valuation. There seems to be some investor perception of M&A potential; however, we believe a transaction will be challenging at this valuation with regulatory uncertainty. In our view, the fundamentals of the business, 6.5-8.5% rate base growth driving 5-7% EPS growth and slightly above average regulatory jurisdictions, do not screen "top-tier" as the multiple might suggest. UTL is among the single highest valued electric and/or gas name under coverage (+2.5x premium to regulated peers). We continue to see downside to the current valuation as UTL rerates closer to its implied multiple based on our view of the fundamentals.

Key Call Topics: NH rate case, customer growth, decarbonization

UES rate case in NH progressing positively; NU NH details forthcoming

UTL is active with a multi-year rate case ongoing at its NH electric business, Unitil Energy Systems (UES), with new rates expected to be effective in 1H22. An interim rate increase of +$4.45M effective June 1st. Key dates in the UES rate case include Staff/OCA/Intervenor Testimony on Nov. 18, 2021, settlement conferences on Jan. 11 and Jan. 13, 2022, and hearing dates during the month of Feb. 2022. UTL has filed a notice of intent to file at its NH gas sub, Northern Utilities NH (NU NH), for an increase of $7.7M - the notice was silent on ROE, capital structure, etc., and management expects new rates effective in 2H22.

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We note there has been a positive and complimentary response to the rate case, in particular with the transparency and clarity with all the effort to reduce bill impact. The staff overall seem to feel positive about the case, with no unexpected or contentious on top of the usual technical issues associated with rate base or cost of capital.

Decoupling is the largest driver of the case and we do not view it as a contentious point because the Commission required them to file for the mechanism. When rates are in effect at UES and NU NH, around 80% of UTL meters will be decoupled, and around 75% of UTL's non-growth related capital investments will be recovered over the next three years, either through a tracking mechanism or though multiyear rate plans. There will be more certainty around cash flow and accelerated recovery of capital investments that will drive EPS growth closer to rate base growth. As a reminder, multi-year rate plans are capped at 2.5% increase over prior years.

Customer growth/load trends seem healthy

Expect an update on the trend of a healthier economic backdrop across UTL's service territory. UTL could see a summer influx as their territories are located next to the coast, and new housing permits are strong which is indicative of the broader trend of people moving out of cities to the suburbs. Altogether backdrop reduces risks on more volumetrically sensitive utility.

Decarbonization

Recently, UTL announced to reduce its *direct* greenhouse gas emissions (company buildings, vehicles, and pipelines) by at least 50% from 2019 levels by 2030, and net-zero emissions by 2050 (remember, UTL does not generate electricity). This goal will be achieved in part by RNG blending in its gas distribution system. *We see this as consistent with many peer utilities and gas utilities providing formal targets. We look to understand blending prospects as a piece of this - and how and to what extent the utility will seek to procure these sources of gas.*

UTL 2Q21 Earnings Walk: In-line and Reaffirm

We forecast 2Q21 adjusted EPS of $0.21 compared to 2Q20 EPS of $0.21, consensus estimates of $0.20.

- **Key Drivers:** We forecast flat EPS YoY driven by the implementation of interim rates at UES starting Jun. 1 (+$0.02), other rate relief (+$0.02), reversal of COVID impact (+$0.04), and customer growth (+$0.02). This is offset by higher D&A (-$0.05), higher O&M (-$0.04), and incremental interest expense (-$0.01).
- **Swing factors:** Customer growth and load will be crucial to watch this quarter - our view is that management's commentary on the 1Q call and the continuation of positive trends will be supportive of results.

Exhibit 31: UTL 2Q21 Earnings Walk
We see slight beat driven by customer growth

Unitil Corp 2Q21 Earnings Walk	**EPS**
EPS 2Q20	$0.21
Weather	
Return to normal (2Q20)	$0.01
Current quarter (2Q21)	($0.01)
Rate Changes (Base rates and Capital Trackers)	
Northern Utilities New Hampshire	$0.00
Northern Utilities Maine	$0.01
Unitil Energy	$0.02
Fitchburg Electric	$0.00
Fitchburg Gas	$0.01
Granite Pipeline (ME and NH)	$0.00
Other	
D&A	($0.05)
O&M	($0.04)
COVID Impact	$0.04
Interest & debt issuances	($0.01)
Property tax abatement	$0.00
Customer Growth	$0.02
Dilution	($0.00)
2Q21E Adjusted EPS	**$0.21**
2Q21 Consensus	$0.20
2021 BofA EPS	**$2.32**
2021 Consensus	$2.55
Shares Outstanding 2Q21	15.1
Shares Outstanding 2Q20	14.9

Source: Company Filings, Bloomberg, and BofA Global Research estimates

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EPS estimates; unchanged

We provide our EPS estimates below, which remain unchanged. Continue to see EPS growth of ~6.2% through 2025, See reasonable growth vs peers, but still difficult to warrant the substantial premium. *Consensus estimates are thin with only 1-2 non BofA inputs in most periods.*

Exhibit 32: UTL EPS Estimates
Our EPS estimates remain unchanged

EPS Estimates	**2018A**	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Consolidated EPS	**2.23**	**2.31**	**2.15**	**2.32**	**2.49**	**2.63**	**2.79**	**2.95**
Consensus				*2.55*	*2.71*	*2.84*		
Previous Ests			*2.15*	*2.32*	*2.49*	*2.63*	*2.79*	*2.95*
Y/Y Change in Published Estimates	8%	3%	-7%	8%	7%	5%	6%	6%
BofA CAGR '20-'25						0.069716		
BofA CAGR '21-'25								
UTL CAGR '12-'19 (actual)								
ROE (GAAP)	*9.6%*	*12.1%*	*8.4%*	*8.6%*	*8.7%*	*8.8%*	*9.0%*	*9.1%*
+5-7% LT EPS Growth			2.15	2.28	2.42	2.56	2.71	2.88
Low				2.26	2.37	2.49	2.61	2.74
High				2.30	2.46	2.63	2.82	3.02

Source: Company Filings, Bloomberg, and BofA Global Research estimates

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Valuation; PO to $48

Our PO moves to $48 (from $49) given our most recent mark-to-market of FY23 peer P/E multiples of 17.6x for electric (from 17.8x) and 15.7x for gas (from 16.3x). We continue to use a 1.0x premium to account for higher confidence in constructive rate case outcomes in NH.

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Exhibit 33: UTL SOTP Analysis
Our PO moves to $48 (from $49) on latest MtM

	Net Income	EPS	P/E Multiple					Equity Value ($/Sh)		
			Downside	*Peer*	*Prem/ Discount*	*Base*	*Upside*	*Downside*	*Base*	*Upside*
Consolidated	40.5	$2.63	17.1x	17.1x	**1.0x** 50	**18.1x**	19.1x	$ 45.06	$ 47.68	$ 50.31
Equity Value per Share								**$ 45.00**	**$ 48.00**	**$ 50.00**
UTL Share Price As of Close 07/21/21									$52.12	
Implied Upside (Downside)									*(7.9%)*	
2020E Dividend Yield									2.9%	
Total Return Potential									**-5.0%**	

	2023 P/E	*Ratebase Weighting for Valuation Multiple Purposes*
Group Peer Multiple - Electric	**17.6x**	
Group EPS '19-'23 CAGR - Electric	**5.00%**	
Group Peer Multiple - Gas	**15.7x**	
Group EPS '19-'23 CAGR - Gas	**5.00%**	
Avg. Regulated Electric	18.5x	33.2%
Avg. Gas LDC	16.5x	66.8%
Weighted Average	**17.1x**	**100.0%**

Source: Company Filings, Bloomberg, and BofA Global Research estimates

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BofA Global Research Reports

UTL Recent Research	Primary Author	Date Published
US Electric Utilities & IPPs: AGA Conference Takes: Affirming Demand Upside; Hold the Inflation Concerns (https://rsch.baml.com/r?q=0zH8VrGvKd4j4YgTvzUVDQ)	Julien Dumoulin-Smith	20 May 2021
Unitil Corporation: Downgrading to Underperform on Premium Valuation: NH Rate Cases Key into '22 (https://rsch.baml.com/r?q=Pf2g-zWjIgc781hnzr3OcA)	Julien Dumoulin-Smith	06 May 2021

Exhibit 34: Stocks mentioned
Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ATO	ATO US	Atmos Energy	US$ 97.74	A-2-7
NJR	NJR US	New Jersey Resources	US$ 38.59	B-3-7
NI	NI US	NiSource Inc	US$ 24.86	B-1-7
NWN	NWN US	Northwest Natural	US$ 51.05	B-3-7
OGS	OGS US	ONE Gas, Inc.	US$ 72.4	A-3-7
SJI	SJI US	South Jersey	US$ 25	B-1-7
SWX	SWX US	Southwest Gas	US$ 69.41	B-2-7
SR	SR US	Spire	US$ 68.78	A-1-7
UGI	UGI US	UGI Corp.	US$ 45.37	B-1-7
UTL	UTL US	Unitil Corp	US$ 51.86	B-3-7

Source: BofA Global Research

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Price Objective Basis & Risk

Atmos Energy Corporation (ATO)

Our $102 PO is based on our 2023E sum-of-the-parts (SOTP) analysis, based on the gas LDC peer group multiple of 15.7x.

Our gas peer P/E multiple is grossed up to reflect the group's 5% CAGR (2019-23E) to reflect capital appreciation across the sector. We then apply a 1x premium to the TX gas distribution utilities and 2x premium (aside from KS) to the other base gas LDC multiple to reflect the high-quality nature of the assets given a sustainable runway for capex/EPS underpinned by constructive regulatory mechanisms and jurisdictions.

For the Pipeline & Storage segment we apply a 9x EV/EBITDA multiple as a base to our '23E EBITDA. We then apply a 2x premium to the assets given their fully regulated nature and unique ability for APT to benefit from the spread differentials.

Upside risks: 1) improving regulatory relationships, 2) decrease in interest rates, 3) incremental capital spending, 4) constructive rate case outcomes, 5) less equity needs.

Downside risks: 1) deteriorating regulatory relationship, 2) increase in interest rates, 3) less or deferred capital spending, 4) poor rate case outcomes, 5) more equity needs.

New Jersey Resources Corp (NJR)

Our $39 PO is off our 2023E SOTP, based on gas peers of 15.7x. For non-reg biz, we apply a 12.0x multiple plus a 1.0x premium to account for the derisked nature of the AMAs. For Midstream, we capitalize EBITDA at 9.5x while weighting PennEast by 0% given uncertainty on full project execution (as mgmt. has removed this from its outlook). For CEV, we value CEV PowerCo for existing assets and DevCo assets to be deployed separately. We separately value DevCo assets to be deployed for '21 through '25 at NPV of unlevered FCF including upfront system install cost and ITC value for new

deployment. We also value SREC balance that CEV has yet to monetize. We apply a 4.5% unlevered discount rate to project level CFs in-line with our discount rate for resi solar service providers. We incl. three additional years of DevCo NPV ('26-'29) with terminal value based on post-ITC step-down trough volumes/economics in '29 and maintain our 5x terminal value. We also attribute a 75% weighting for the full value of DevCo NPV for '24+. We assume 75% based on a likelihood of some action on ITCs. For parent, we apply a 50/50 weighting for holdco debt/interest expense for re-capitalization purposes.

Upside risks: Constructive regulatory outcomes, decrease in interest rates, incremental capex opportunities, extension of subsidies and further

Upside risks: Constructive regulatory outcomes, decrease in interest rates, incremental capex opportunities, extension of subsidies and further renewables acceleration

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Downside risks: Poor regulatory outcomes, increase in interest rates, and lower capex.

NiSource Inc (NI)
Our $28 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2023 forward P/E multiples that are marked-to-market to the lates peer utility multiples of 15.7x for gas and 17.6x for electric with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex potentially beginning in '24, but acknowledge industrial risk. We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.
Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, higher natural gas prices, and inability to execute on renewables additions.

Northwest Natural Holdings (NWN)
Our $49 PO is based on our 2023E sum-of-the-parts (SOTP) analysis, based on the gas LDC peer group '23 P/E multiple of 15.7x applied to WA and OR natural gas distribution and regulated storage assets. We further gross up the gas LDC multiple by 5% to reflect capital appreciation across the group. We use a 1x premium in OR to capture upside from RNG and benefits from decoupling, although we believe the long-term outlook is more uncertain. For NWN's gas storage (unregulated), appliance, and asset management business, we apply a 10x EV/EBITDA multiple, in line with comparable asset class, and net out debt. We apply a water utility peer P/E multiple of 28.6x to NWN's water earnings and then net out corporate & other drag (largely SG&A) using a weighted average multiple of 18.1x on '23.

Downside risks to our PO: higher interest rate environment that makes new capital more expensive, contraction of utility valuations, slower economic recovery, and a sustained economic downturn preventing customer growth, de-carbonization efforts, lower capex, poor regulatory outcomes.
Upside risks to our PO: faster economic recovery contributing to customer growth, lower interest rates, constructive regulatory outcomes, and increased capex.

ONE Gas, Inc. (OGS)
We use a sum-of-the-parts analysis to calculate our $73 for OGS, applying a FY23E Gas LDC peer multiple of 15.7x (grossed up by 5% to reflect capital appreciation across the space). We use in-line multiple for TX and KS given uncertainty with the recovery timeframe for substantial gas purchase costs and impacts to the balance sheet.

Upside risks: lower interest rates, constructive regulatory outcomes, increased capital expenditure opportunities.
Downside risks: higher interest rates, unconstructive regulatory outcomes, decreased capex spending, ban on fracking, decarbonization efforts.

South Jersey Industries (SJI)
Our $27 PO is premised upon our SOTP analysis where we utilize a 15.7x peer Gas LDC utility P/E to SJG and ETG on '23E EPS. We apply a 1x to the NJ utilities based on our view that SJI will continue to receive constructive regulatory treatment and upside to spending on RNG. We apply a 12x P/E to SJEG/SJES non-regulated earnings stream given variability and limited transparency. For the solar investments we utilize a NPV of investment tax credits at a 4.5% discount rate (in line with peers) to capture the transitory nature and eventual roll-off. We apply a 9x EV/EBITDA to PennEast and assume full project economics in our EPS assumptions, although net out 50% weighting. We utilized a DCF for RNG with NPV of cash flows at 7.4% discount rate. For parent debt we net out 50/50 weighting for re-capitalization and add back 50% of parent interest expense.

Downside risks: Interest rates move higher, poor regulatory outcomes, lower capex levels.
Upside risks: Interest rates move lower, constructive regulatory outcomes, incremental capex opportunities, further credit latitude.

Southwest Gas Holdings (SWX)
Our $69 PO is based on our 2023E Sum-of-the-parts (SOTP) analysis. We apply a 15.7x peer Gas LDC utility P/E to the utility EPS across the company's three major jurisdictions, which include Arizona, Nevada and California. We gross this peer multiple up by 5% to reflect capital appreciation across the sector. For AZ, we apply a 2.5x discount to the jurisdiction given lack of fwd looking rate treatment/alternative rate making mechanisms. We apply a 1.0x discount to NV and CA as we take a more negative view on the jurisdictions' LT viability. Additionally, we value the FERC regulated Pauite Pipeline separately on a midstream peer group average EV/EBITDA multiple of 9.5x and net out associated debt. For the infrastructure services segment, Centuri, we apply 8.8x EV/EBITDA multiple, which is in-line with the business' closest industrial comps given Centuri's relatively insulated utility customers. Lastly, for parent debt in the Corp & Other segment, we net out 50/50 weighting for re-capitalization and add back 50% of parent interest expense.

Upside risks: higher than expected infrastructure services earnings growth, increasing construction project margins, better than expected rate case results.

Downside risks: Unfavorable regulatory outcomes and increased volatility at Centuri, disproportionately high foreclosure rates in SWX's territories, timing and execution of rate cases, rate base growth, underperformance at Centuri and expansion or contraction of sector valuations.

Spire (SR)
Our $77 PO for SR is based on a sum-of-the-parts analysis, applying a Gas LDC multiple of 15.7x on '23E with a 1x premium for Missouri and a 2x premium for Mississippi/Gulf and AL assets given their location and de-risked nature. For the midstream assets, we use a base 9.5x EV/EBITDA multiple with a 4x discount for storage given uncertainty, and a 4x discount for marketing due to volatility. We weight STL pipeline as 50% in our valuation given uncertainty with the pipe's future.

Upside risks: 1) improving regulatory relationships, 2) decrease in interest rates, 3) incremental capital spending, 4) constructive rate case outcomes, 5) less equity needs. Downside risks: 1) deteriorating regulatory relationship, 2) increase in interest rates, 3) less or deferred capital spending, 4) poor rate case outcomes, 5) more equity needs.

UGI Corp. (UGI)
Our $51 PO is derived from our SOTP analysis, applying specific multiples and premiums to assets. For the gas utility, we utilize a 23E 15.7x P/E multiple +1x premium given its de-risked backdrop, and an in-line electric multiple of 17.6x. For U.S./international propane, we utilize an 8.7x EBITDA, in line with other publicly traded comps. We use a 9.2x EBITDA multiple at midstream w/ a premium/discount depending on the asset & CMG expansion/PennEast both weighted at 50%, respectively, given uncertainty associated with expansion opportunities/project execution. We take the NPV of future renewable solutions cash flows, implying a 13+x EV/EBITDA multiple (in line to slightly higher than our valuation to peers biz mix, such as SJI). Lastly, for parent debt in the Corp & Other segment, we net out 50/50 weighting for recapitalization and add back 50% of parent interest expense.

Downside risk: unfavorable weather, propane logistics issues and shortages domestically or in Europe, reduced conversion rates or slower new home construction within PA, and unfavorable currency exchange rates. Macroeconomic concerns are rising interest rates, volatile and rising natural gas prices, and a general economic slowdown.

Unitil Corporation (UTL)
We value UTL at a $48 PO based on a 2023e forward P/E basis using a utility group multiple of 17.6x for electric and 15.7x for gas. Also, we apply a 1x premium to our weighted peer multiples to align with MA comps and capture electrification upside. Both electric and gas peer P/E multiples are grossed up for a year to 2023 by 5% each to reflect capital appreciation across the sector.
Risks to our price objective on the upside are capex updates around MA gas pipeline replacement, regulatory asks around ROEs, and M&A. On the downside, risks are interest rate risk which could reduce the appetite for M&A, regulatory challenges and mild weather.

Coverage Cluster

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

BofA SECURITIES

BofA GLOBAL RESEARCH

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Aric Li
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
NEUTRAL				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
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	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
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	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

Analyst Certification

BofA SECURITIES

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I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Disclosures

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Report

The Flow Show
(https://rsch.baml.com/r?q=vOAfjZYSf2ATI1z8yB99Pw&e=cturnure%40nisource.com

Feel the Yield in Me

Michael Hartnett 2021-Jul-22

Report

BofA on USA
(https://rsch.baml.com/r?q=XxS0yAbh&iETRA8yB99Pw&e=cturnure%40nisource.com

The World Tour: not quite yet

Michelle Meyer 2021-Jul-22

Timestamp: 22 July 2021 04:30PM EDT

prd - amrs - node2 - dxp

Offline Report

BofA SECURITIES

BofA GLOBAL RESEARCH

NiSource Inc

In-line quarter as LT targets are reiterated; focus is centered on IRP later this year

04 August 2021 | Equity | United States | Natural Gas-Local Distribution Companies

NI US

Reiterate Rating	Price	Price Objective	Upside	Market Cap	Average Daily Value	ESGMeter TM
BUY	25.31 USD	28.00 USD	10.6%	9,927 USD(mn)	77.25 USD(mn)	High

all data as of 4 August 2021

Key takeaways

- NI reports in-line 2Q21 EPS of $0.13 (vs BofAe at $0.15 and street at $0.13) driven by investment and offset by CMA sale
- FY21 EPS guidance $1.32-$1.36 and all of mgmt. LT targets (growth, capital, financing) were reiterated. BofA at high-end FY21
- All but one renewable project has been approved; RFP received robust interest, and IRP remains on track to be filed in Nov.

EDP: Energias De Portugal

NIPSCO: Northern Indiana Public Service Company

In-line Q and LT targets reiterated; renewables progress

NI reported 2Q21 EPS of $0.13, in-line with Street, flat YoY, and a small miss versus $0.15 BofA.an in-line 2Q21 EPS of $0.13. Returns on increased safety/modernization investments and lower COVID-19 impacts were offset by the sale of Columbia Gas of Massachusetts. NI reiterated its FY21 EPS guidance range of $1.32-$1.36 ($1.35 Street/$1.36 BofA), its capital and financing plans through 2024, and its EPS CAGR expectations of 5-7% through '23 and 7-9% through '24 (off of '21). Interestingly in the slides, mgmt. dropped the language around the financing plan not including potential portfolio optimization opportunities. *We have stated in the past that potential further asset rotation could support additional renewables capex related to the 2021 IRP, thereby becoming more electric/renewables: this would be multiple accretive.*

Renewables additions at NIPSCO related to the 2018 integrated resource plan (IRP) remain on track with all of the planned joint-venture projects totaling $2.0B in capex in '22 and '23 and 5 out of 6 planned PPA projects receiving approval from the Indiana Utility Regulatory Commission (IURC). *There has been some concern on whether renewables supply chain issues will impact NI's planned capex - expect mgmt. to address this during the call, but we believe given strong counterparties (i.e. NextEra, Capital Dynamics, EDP, and others), that NIPSCO is in a good position.*

IRP top-of-mind; still see potential extended runway

The immediate focus for investors is the NIPSCO 2021 IRP and the request for proposal (RFP) issued earlier this year that received robust interest (180 proposals). The stakeholder engagement process will continue into the IRP filing in Nov. (previously targeted completion for the fall), followed by additional engagement and evaluation into 2022. *Healthy interest as indicated by mgmt. and meetings that have been held recently will likely lead to attractive joint venture opportunities - watch for more during the call.*

Reiterate Buy as we see the potential for an extended high-growth runway based on the 2021 IRP and the recently issued RFP for 400-650 MW of generation capacity in 2024-2026. We see the potential for an accelerated retirement of NI's last remaining coal plant, Michigan City, given the state's move toward renewables and the timing of the IRP vs current stated retirement date of 2028.

Estimates & Valuation | Quarterly Estimates | Stock Data

Estimates (Dec) (US$)	2019A	2020A	2021E	2022E	2023E
EPS	1.32	1.32	1.36	1.40	1.58
GAAP EPS	0.87	1.33	1.31	1.40	1.58
EPS Change (YoY)	1.5%	0%	3.0%	2.9%	12.9%
Consensus EPS (Bloomberg)			1.35	1.41	1.53
DPS	0.83	0.88	0.94	0.99	1.05
Valuation (Dec)					
P/E	19.2x	19.2x	18.6x	18.1x	16.0x
GAAP P/E	29.1x	19.0x	19.3x	18.1x	16.0x
Dividend Yield	3.3%	3.5%	3.7%	3.9%	4.2%
EV / EBITDA*	15.4x	14.1x	12.8x	11.9x	10.5x
Free Cash Flow Yield*	-2.2%	-6.6%	-5.1%	-9.6%	-16.9%

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Rate cases secondary to IRP, but a lot of activity to watch

Rate cases will likely be a secondary focus to renewables and the IRP through the remainder of the year, but there are key processes ongoing in OH, PA, KY, and MD (OH and PA most crucial to watch). In OH, mgmt. filed its first case since 2008 in the beginning of July for an increase of $221.4M net of the Capital Expenditure Program (CEP) and Infrastructure Replacement Program (IRP) riders - a decision is expected in '22. The PA case is the furthest along at this point, and while the 2020/early 2021 was somewhat contentious, more recent peer utility cases point to this process as being more streamlined. NI is working through rate cases in both KY and MD, but we note these utilities are relatively small vs OH and PA and therefore outcomes are less impactful to consolidated financial results. NI also filed for a new five-year electric Transmission, Distribution and Storage Improvement Charge (TDSIC) Plan - an order is expected from the IURC in Dec.

*iQprofile*SM NiSource Inc

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

Our Buy rating on NI is underpinned by 1) likely positive revisions given ultra conservative EPS CAGR guidance baked into consensus, 2) renewable rate base upside, and 3) the ability to re-rate higher following any gas LDC asset sale.

iQmethod SM - Bus Performance*

(US$ Millions)	2019A	2020A	2021E	2022E	2023E
Return on Capital Employed	3.3%	4.1%	4.3%	4.4%	4.8%
Return on Equity	9.9%	10.2%	10.5%	9.9%	10.8%
Operating Margin	17.1%	22.0%	20.7%	22.0%	24.6%
Free Cash Flow	(219)	(654)	(510)	(956)	(1,682)

iQmethod SM - Quality of Earnings*

(US$ Millions)	2019A	2020A	2021E	2022E	2023E
Cash Realization Ratio	3.2x	2.2x	2.6x	2.5x	2.5x
Asset Replacement Ratio	2.5x	2.4x	2.6x	3.1x	4.0x
Tax Rate	24.4%	18.3%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	158.6%	167.4%	133.6%	143.4%	164.3%
Interest Cover	2.4x	2.8x	3.1x	3.2x	3.0x

Income Statement Data (Dec)

(US$ Millions)	2019A	2020A	2021E	2022E	2023E
Sales	5,209	4,697	5,541	5,692	5,993
% Change	2.5%	-9.8%	18.0%	2.7%	5.3%
Gross Profit	3,674	3,587	3,929	4,055	4,332
% Change	10.5%	-2.4%	9.5%	3.2%	6.8%
EBITDA	1,608	1,757	1,928	2,081	2,350
% Change	5.0%	9.3%	9.7%	7.9%	12.9%
Net Interest & Other Income	(384)	(339)	(371)	(390)	(491)
Net Income (Adjusted)	**495**	**508**	**579**	**627**	**723**
% Change	**6.8%**	**2.6%**	**14.1%**	**8.4%**	**15.3%**

Free Cash Flow Data (Dec)

(US$ Millions)	2019A	2020A	2021E	2022E	2023E
Net Income from Cont Operations (GAAP)	328	511	557	627	723
Depreciation & Amortization	717	726	783	827	874
Change in Working Capital	(75)	(249)	0	0	0
Deferred Taxation Charge	118	(29)	130	145	186
Other Adjustments, Net	495	145	21	0	0
Capital Expenditure	(1,802)	(1,758)	(2,001)	(2,555)	(3,464)
Free Cash Flow	**-219**	**-654**	**-510**	**-956**	**-1,682**
% Change	**82.9%**	**-198.5%**	**22.1%**	**-87.4%**	**-76.0%**

Balance Sheet Data (Dec)

(US$ Millions)	2019A	2020A	2021E	2022E	2023E
Cash & Equivalents	148	117	126	126	126
Trade Receivables	905	825	825	825	825
Other Current Assets	800	718	718	718	718
Property, Plant & Equipment	16,912	16,620	17,837	19,565	22,156
Other Non-Current Assets	3,894	3,762	3,762	3,762	3,762
Total Assets	**22,660**	**22,041**	**23,267**	**24,995**	**27,586**
Short-Term Debt	1,787	526	517	583	696
Other Current Liabilities	1,959	1,753	1,753	1,753	1,753
Long-Term Debt	7,856	9,220	9,027	10,177	12,148
Other Non-Current Liabilities	5,071	4,704	4,834	4,979	5,165
Total Liabilities	**16,673**	**16,203**	**16,131**	**17,492**	**19,761**
Total Equity	**5,987**	**5,752**	**7,051**	**7,418**	**7,739**
Total Equity & Liabilities	**22,660**	**21,955**	**23,182**	**24,910**	**27,501**

* Click for full definitions of *iQmethod*SM measures .

Price Objective Basis & Risk

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NiSource Inc (NI)

Our $28 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2023 forward P/E multiples that are marked-to-market to the lates peer utility multiples of 15.7x for gas and 17.6x for electric with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex potentially beginning in '24, but acknowledge industrial risk. We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.
Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, higher natural gas prices, and inability to execute on renewables additions.

Coverage Cluster

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
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	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA

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Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
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WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Disclosures

Trending

Report

Asian Credit Strategy (https://rsch.baml.com/r?q=0CKT5RF2AToTI1z8yB99Pw&e=cturnure%40nisource.com

China HY property, what next?

Joyce Liang 2021-Aug-1

Report

Amazon.com (https://rsch.baml.com/r?q=is0qr4ZCjDiD8fT+3BbyB99Pw&e=cturnure%40nisource.com

Reopening pressuring sales, but just a blip in long-term penetration trend; Buy

Justin Post 2021-Jul-30

Timestamp: 04 August 2021 10:07AM EDT

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VIEWPOINT

21 Jul 2021 16:00:00 ET | 31 pages

North America Diversified Utilities

On the Road Again… Top Investor Debates into Earnings

Ryan Levine AC
Willard A Grainger

CITI'S TAKE

After a week of in-person marketing, our investor survey, and our quant analysis, we highlight some of the top investor debates into earnings.

Will Utilities Work? — Sentiment was negative overall, with focus on near-term headwinds (storms, fires, inflation, renewable delays, politics, ROEs), ESG, fund mandates, while most generally believe that the sector is well positioned longer term. Citi's equity strategy upgraded utilities from underweight to neutral (see Utility Upgrade note).

Citi's Proprietary Investor Survey — US Utilities - The Survey Says… Diving into Catalyst-Rich 2H21-New Projects, M&A, Fires, Div Cuts, Storm Penalties, Fed Bill.

Citi's Quant Screen — See pages 19-22 in this note for July 2021 crowding scores**. Sempra and Xcel are becoming much less crowded, while Power is becoming more popular**.

Sempra Energy — SRE is a debate stock, with bulls pointing to SOTP valuation, Cameron expansion, Oncor growth, and wildfire management. Bears worry about the next Oncor GRC (June 2022), new CoC proceeding, KKR delay, EPS guidance, fires, and B/S, but the most common pushback is the SIP ownership (we argue that it makes sense to keep SIP through LNG growth/Top 5 Mgmt Dinner Takes).

PCG — The catalysts include 1) election of grantor trust timing – impacts S&P index inclusion, 2) ~$250M equity issuance, 2) August analyst day (update on fire management and potentially equity issuances), 3) victim trust sale – potential partial block sale to derisk equity overhang?, 4) wildfire season, and 5) Newsom recall vote.

NiSource — The most common debate topic is the potential for its renewable projects to get delayed. These projects contribute ~11% of 2024 earnings, and the supply chain disruption threatens execution. See link. NextEra, Capital Dynamics, and Invenergy are developers. The debate is how these projects would be prioritized.

Xcel Energy — Debate points focus on management changes, the CO Pathways, and IRP (we are bullish on Pathways approval; see Xcel: Colorado Politically Supporting Electric Growth over Gas), Minnesota, and permitting worries.

PNM/AGR — There is an active investor debate about whether this deal will close. We believe that it will, but the NM review of the buyer's chairman scandal investigation, storm handling, and other issues raise questions (see link). The buyer prefunded the deal.

CenterPoint — We are cautious on CNP now, as expectations are very high on new PUCT, favorable TX laws, tax strategy, O&M, and LDC private values (see link).

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

Contents

And the Survey Says…

Investor favorite stocks into Q2 earnings: EXC, NI, NEE, and VST are the favorite near-term stocks, and longer term, CNP, NEE, VST, and SRE are favored.

Least favorite stocks: SO and ED are tied for least favorite stocks, followed by NEE and DUK. Longer term, ED, DUK, NEE, and PPL are least favored stocks.

New project announcements/changing capex is top of mind for Q2 releases: Investors are focused on capex changes, load trends, and regulatory updates.

Gas utility debates: Interestingly, everyone surveyed thinks that the private markets would pay more for LDC assets than the public market. ~60% think that gas utilities should invest in RNG projects and take LCFS/credit price risk, but only ~30% think that higher gas prices will negatively impact gas utility stocks in 2H21.

Deal-making expectations: One or two utility mergers are expected in 2H 2021. NEE, PPL, RWE, and SRE are favorites as buyers, and FE, AEP KY, POR, NI, and NRG are favorites as investor targets. ~1 more utility is expected to exit midstream.

~80% think that the federal infrastructure bill will pass: If the bill passes, the ITC/PTC extension beyond three years is most likely, followed by electric transmission support, and the group is undecided about whether EV support will break $50B.

California utilities are perceived as better positioned into wildfire season: In comparison with our survey 12 months ago, investors think that PCG has ~42% chance of a new 2021 liability (down from ~50%), EIX has only 19% (down from 26%), and only ~8% think that Sempra will have a new 2021 wildfire liability (down from ~21%).

E in ESG still matters: Battery developments are the important for 2H 2021 stock selections, while NEE and ETR are viewed as top picks on the hydrogen theme.

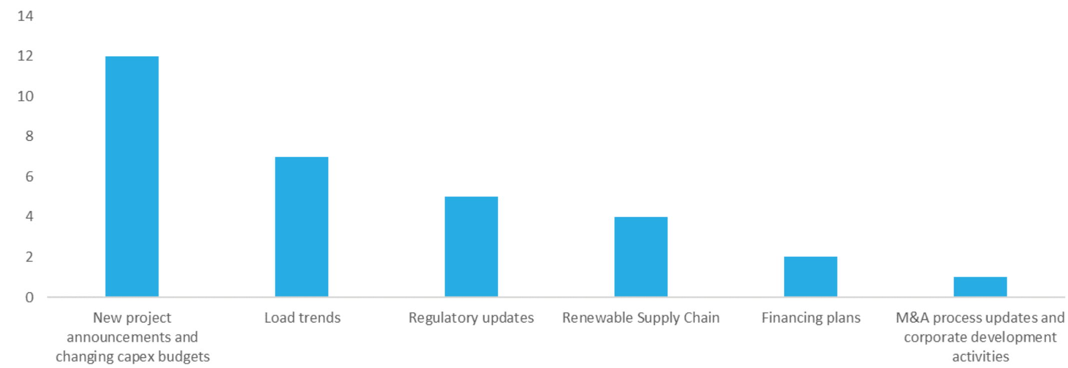
Most likely utility to cut its dividend: PPL followed by AGR were most picked.

What's going to get the utility space to work? The survey says lower rates, load recovery, tech stock weakness, or robinhooders finding the space.

Eversource CT penalty expectations are wide, while NRG hopes are high.

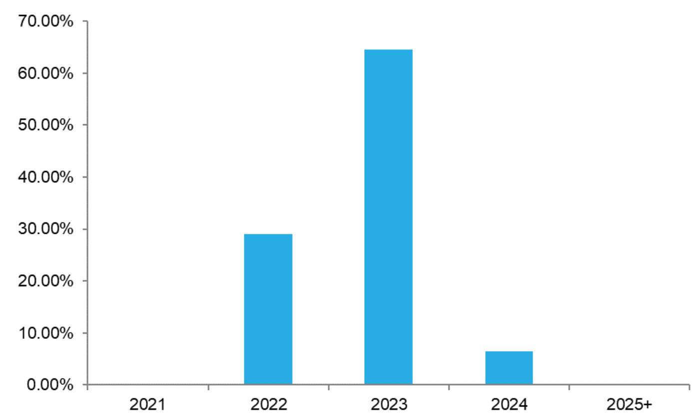
Swimming is the favorite sport to watch in the Olympics, … there are few Boxing fans.

Figure 1. What is most important factor to focus on for Q2 utility earnings besides headline EPS for the quarter



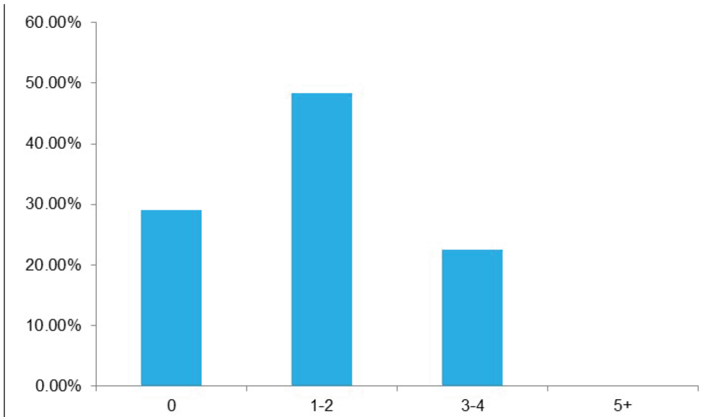
Source: Citi Research

Figure 2. What time period are you focused on when you consider PE multiple?



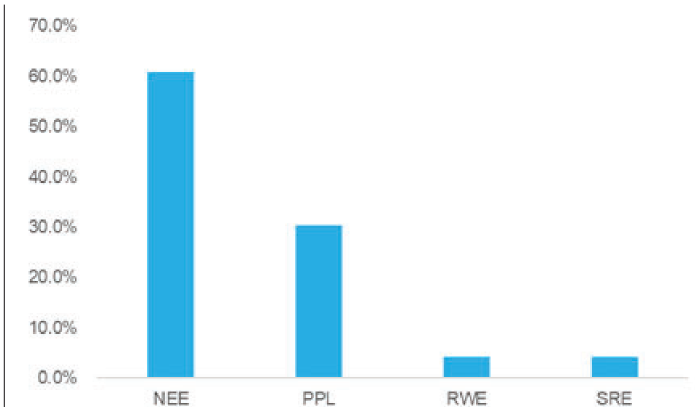
Source: Citi Research

Figure 3. How many North American utility mergers or acquisition will happen in 2H21?



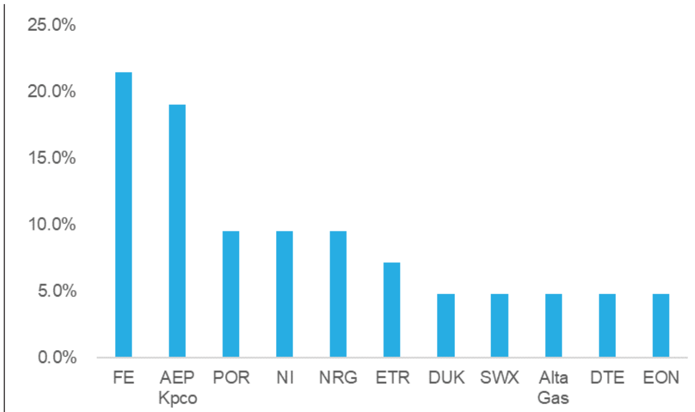
Source: Citi Research

Figure 4. Most likely utility to acquire a target?



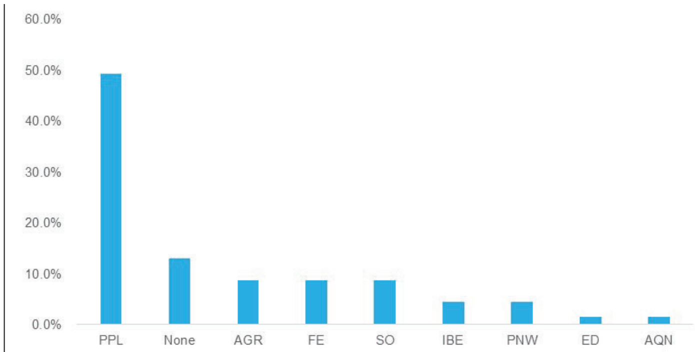
Source: Citi Research

Figure 5. Which utility do you think will most likely be acquired?



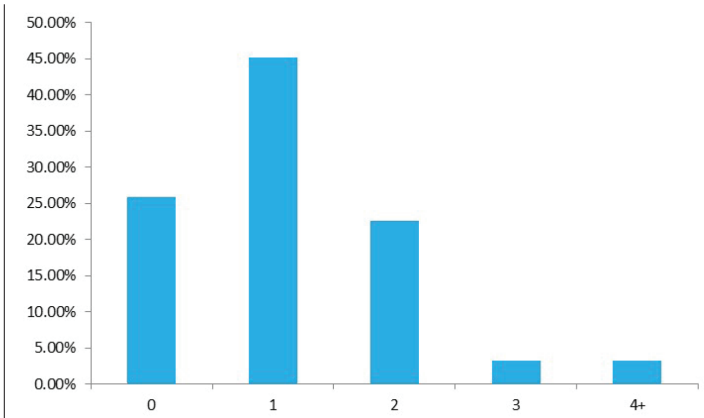
Source: Citi Research

Figure 6. What is the next utility to cut its dividend?



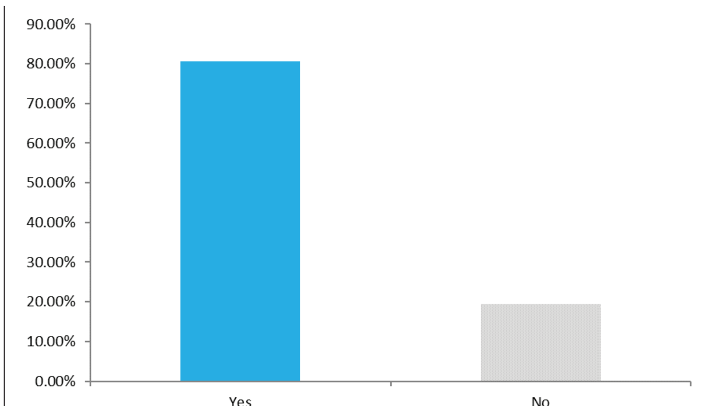
Source: Citi Research

Figure 7. How many additional North American utilities will acquire or divest a midstream business in 2H'21?



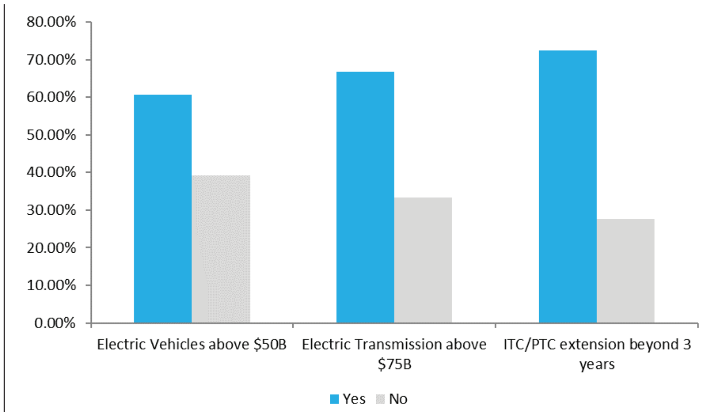
Source: Citi Research

Figure 8. Do you think that the federal infrastructure bill will pass?



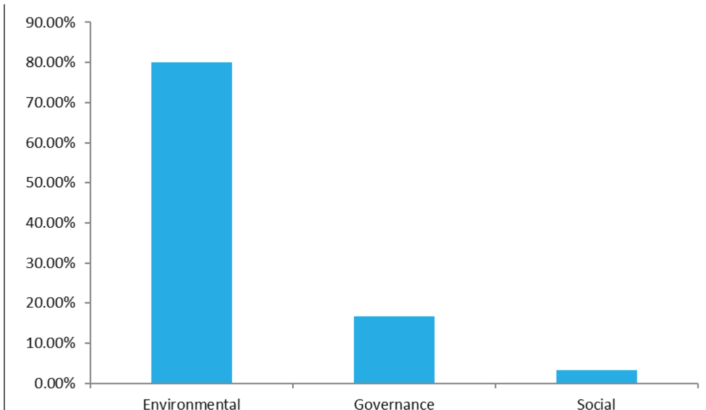
Source: Citi Research

Figure 9. Will a final bill include support for …



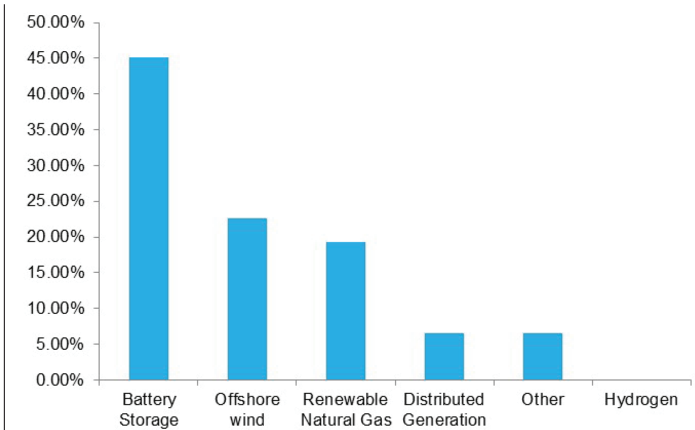
Source: Citi Research

Figure 10. What is most important? E, S, or G for utility investment decisions?



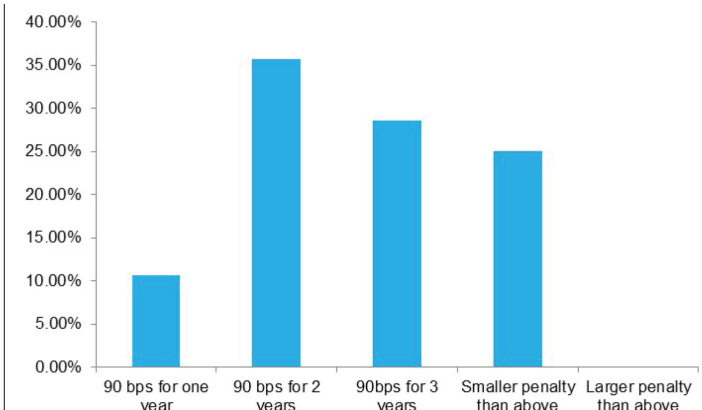
Source: Citi Research

Figure 11. What is most disruptive renewable technology that will impact utility stocks in 2H'21?



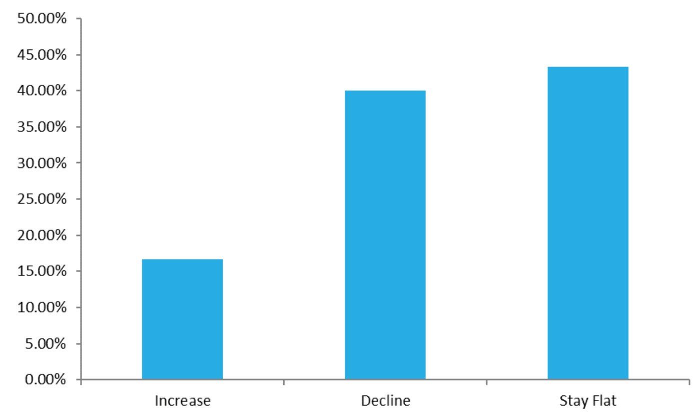
Source: Citi Research

Figure 12. What will be the effective penalty for ES Storm Handling?



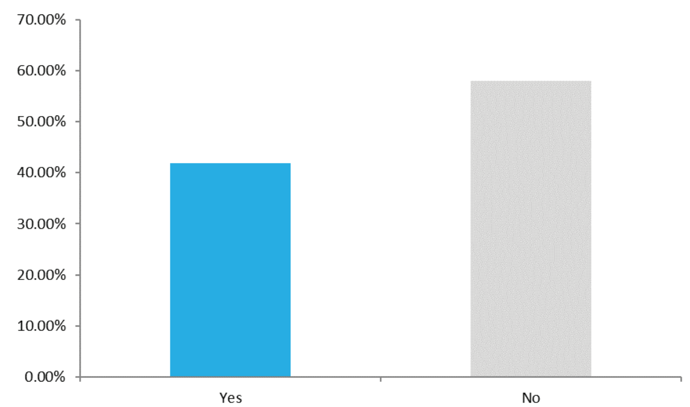
Source: Citi Research

Figure 13. In 2H'21, utility ROEs are likely to ...



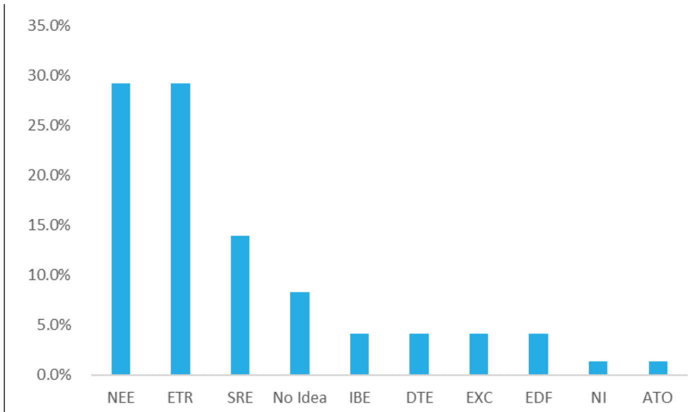
Source: Citi Research

Figure 14. Will global supply chain disruption (polysilicon, tariffs, China) disrupt the pace of US utility scale solar development and growth?



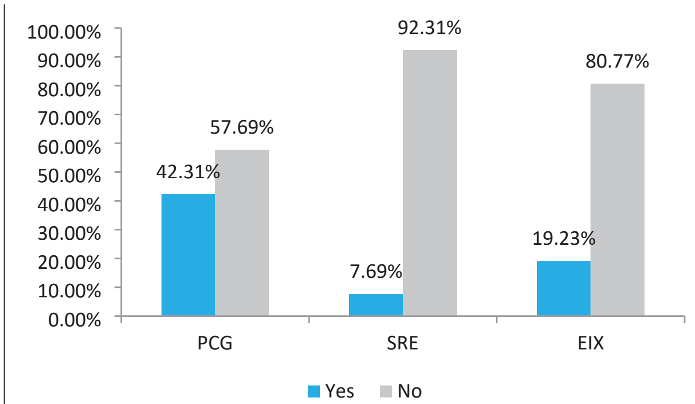
Source: Citi Research

Figure 15. What utility stock is most exposed to the hydrogen outlook?



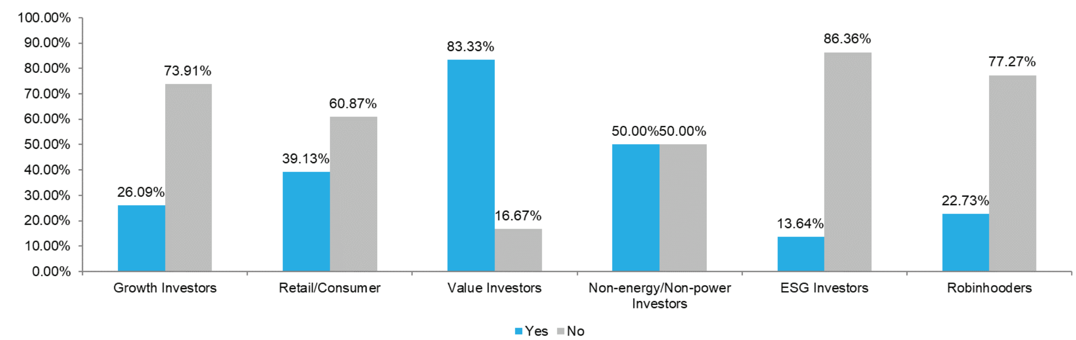
Source: Citi Research

Figure 16. Will California utility shareholders be liable for 2021 wildfires above what is covered in the wildfire fund?



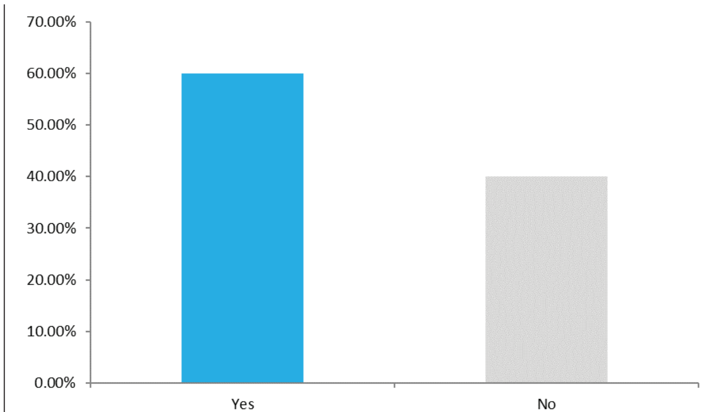
Source: Citi Research

Figure 17. Will NRG's new strategic direction and investor marketing strategy attract ...



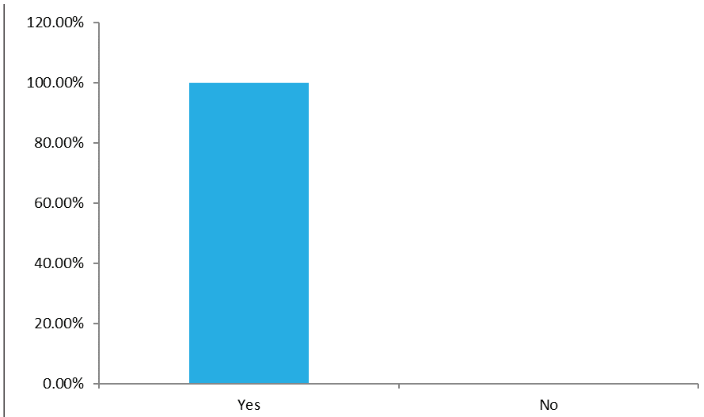
Source: Citi Research

Figure 18. Should gas utilities invest in RNG projects and take RIN or LCFS price exposure to support their ESG objectives?



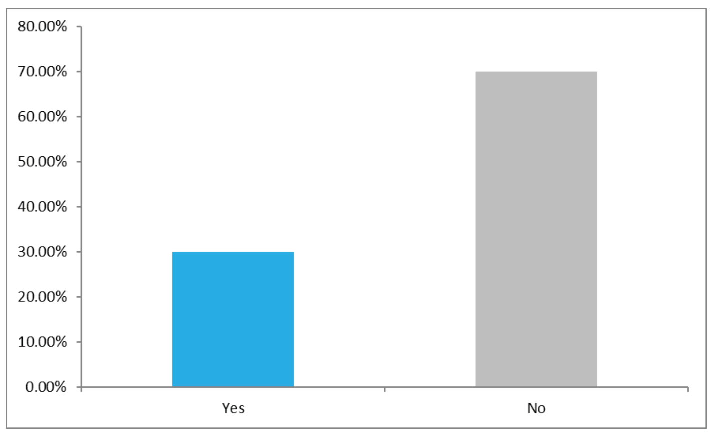
Source: Citi Research

Figure 19. Are gas utility assets worth more in the private markets than public markets?



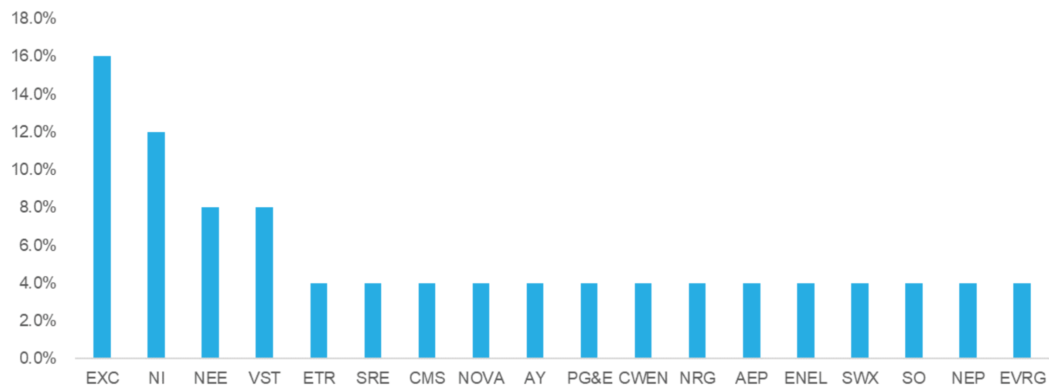
Source: Citi Research

Figure 20. Will natural gas prices spike and drive negative implications for the LDC space in 2H'21?



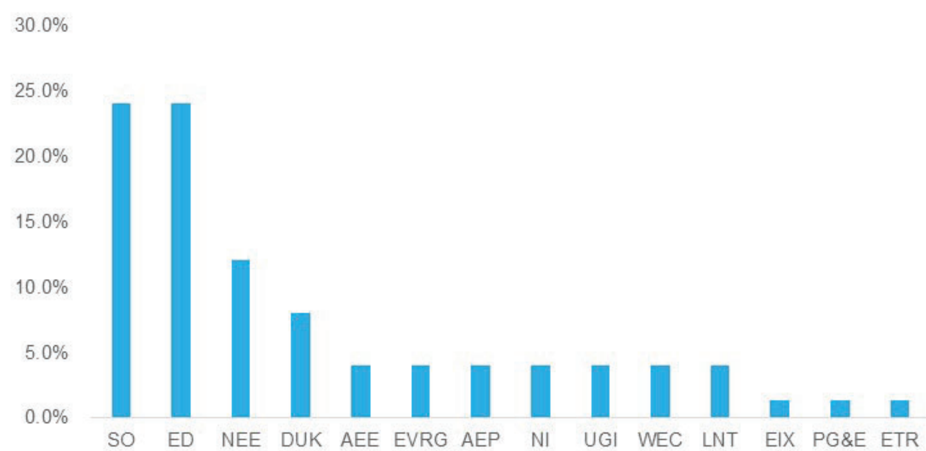
Source: Citi Research

Figure 21. What is your favorite utility stock for the next 3 months?



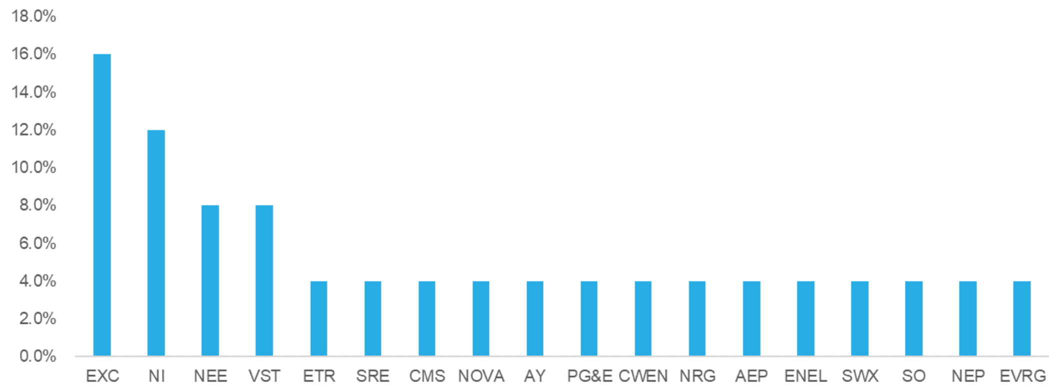
Source: Citi Research

Figure 22. What is your least favorite utility stock for the next 3 months?



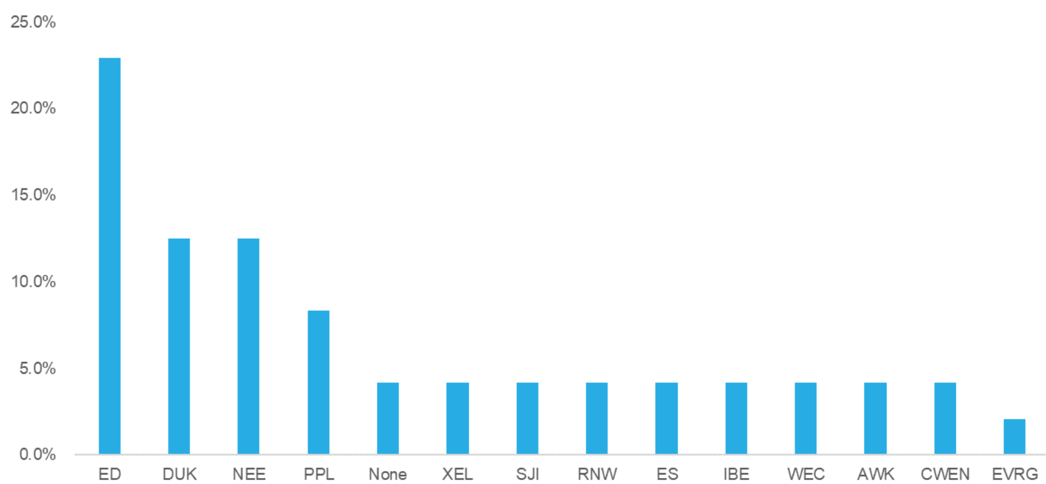
Source: Citi Research

Figure 23. What is your favorite utility stock for the next 12 months?



Source: Citi Research

Figure 24. What is your least favorite utility stock for the next 12 months?



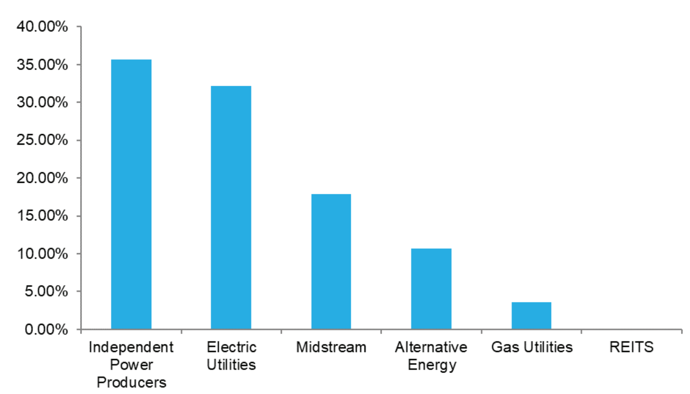
Source: Citi Research

Figure 25. What's going to get the utility space to work?

Responses
Broader market correction
10-yr below 1.6% and the group rips
relative valuations
Bottoms up to matter. Less 30k foot.
Slower economic growth
When 2022E EPS for the S&P 500 shows lower yoy growth than it currently does for 2021 vs. 2020.
Consistency
Focus on 2022 earnings
Infrastructure bill
positive legislation
Rise in demand and electrification
Gamma squeeze in megacap tech comes to and end
Load demand recovery
Very tough. Perhaps a collapse in ether growth or value would support Utilities performance.
Investor focus on defensives
Nothing
Clarity on final business model pursued : specialized or integrated.
Robinhooders discover it
rate stabilization
infation expectations moderating
Profitless tech, fake hydrogen stocks, other high fliers come down to earth and investors focus on real companies.
Macro
no idea

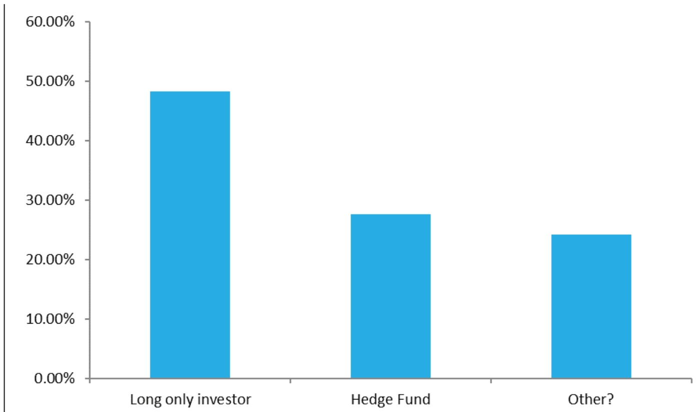
Source: Citi Research

Figure 26. What sector do you expect to perform best over the next 3-6 months?



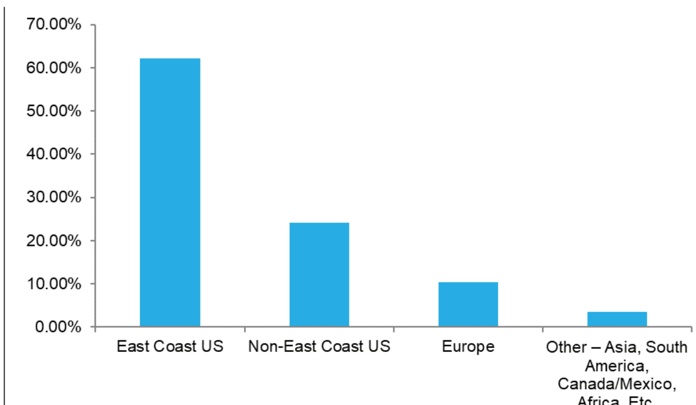
Source: Citi Research

Figure 27. What is your affiliation?



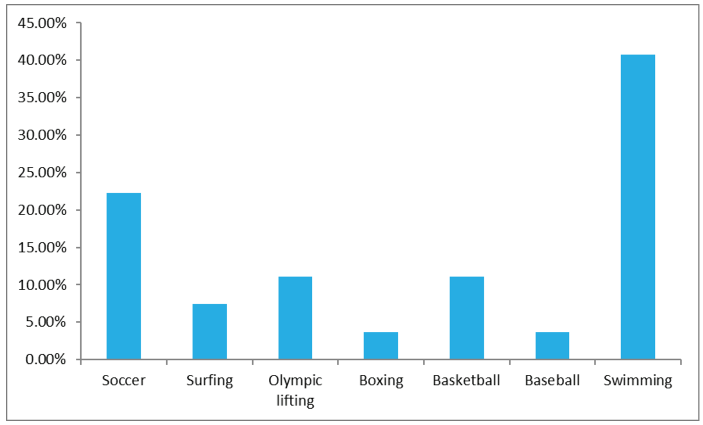
Source: Citi Research

Figure 28. What location are you based in?



Source: Citi Research

Figure 29. What sport are you most excited to watch in the Olympics?



Source: Citi Research

Utilities Crowding Takeaways

Utilities remain the most out-of-favor sector. Power and gas price-exposed names, such as PEG and VST, became more crowded, while AWK, EIX, SRE, XEL, AGR, and EXC became more out of favor.

Most crowded stocks — Some of most crowded stocks include BIP, CWEN, VST, NEE, NOVA, and ETR. It is interesting to see that BIP became more crowded on the economic reopening trade.

Least crowded stocks — The least crowded stocks are AVA, ALE, AGR, HE, PNW, IDA, ATO, SWX, and PG&E. AGR has PNM deal break risk, while SWX, ED, and PNW operate in challenging regulatory states, and PCG has fire and stock overhang risk.

Stocks that increased crowding the most — PEG, VST, BIP, WEC, DTE, and EVRG are most improved since we published our note in April.

Largest decline in crowding score — AWK, EIX, SRE, XEL, NFG, and EXC are least improved since we last published our crowding note. We are warming up to Sempra and Xcel recently. On Xcel, we believe that the proposed Colorado Pathways project will be successfully executed (Colorado Politically Supporting Electric over Gas). On Sempra (Top 5 Management Dinner Takeaways), we believe that keeping the SIP stake for the next few years is in the best interest of long-term shareholders, the company guidance is fine with material upside, and the Cameron expansion is well positioned if there is any additional LNG demand.

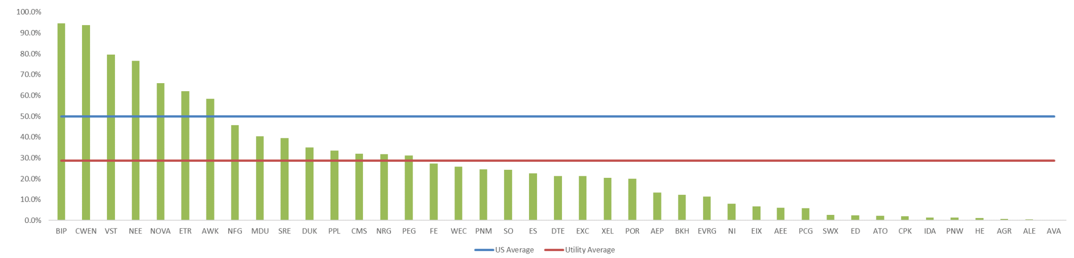
Short interest — Names with the highest short interest are NOVA, PG&E, NRG, AGR, PNM, and FE. PG&E's catalysts include new fires, grantor trust election, S&P index, ~$250M equity issuance, analyst day, victim trust stock sale, new CoC proceeding, capex increase, and NEM outcome. For PNM/AGR, catalysts include NM testimony and approvals, info on European investigation, and deal timeline changes (Deal Still on Track, Despite New Concerns in Spain). For NRG, we like the stock even after the recent rally, but there are new concerns of new TX blackouts and growth execution.

Changes in our short interest since our last note — Short interest has increased for NI, VST, PCG, PNW, NFG, and ATO since our last note. For NI, we argue that there is risk to in-service dates for its large renewable development timelines (Solar Supply Chain Disruption May Impact EPS Growth). ATO has gas price exposure.

Crowding Scores

Most crowded names are BIP, CWEN, VST, NEE, NOVA, and ETR. These names continue to be crowded. Brookfield Infrastructure Partners is largely viewed as a bellwether for the global GDP growth. With the COVID-19 emergence trade top of mind, so is BIP. Stocks exposed to infrastructure legislation also show as well positioned, such as MDU. On higher power and gas prices, sellers of the commodity, such as Vistra and NRG, are crowded, and buyers of gas, such as ATO and SWX, are lower on the list.

Figure 30. Crowding Scores as of July 12, 2021

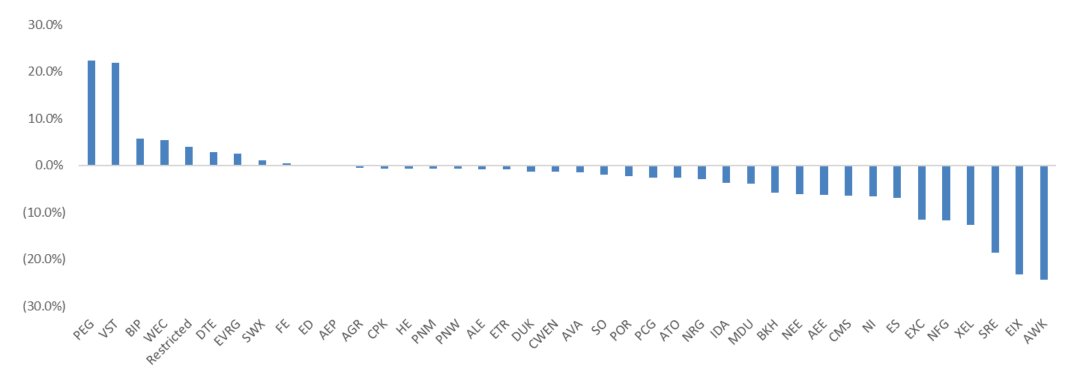


Source: Citi Research

Change in Crowding Since our Last Note

Merchant power companies increased in crowding, while California fell significantly. It is interesting to see Sempra Energy (SRE.N) - Top 5 Management Dinner Takeaways fall so far. Investor sentiment was so positive into the analyst day, but now investors' negativity centers on longer-term plans for the infrastructure business, KKR deal delay, uses of capital, and the future-of-gas debate.

Figure 31. Change in Crowding Since April 2021

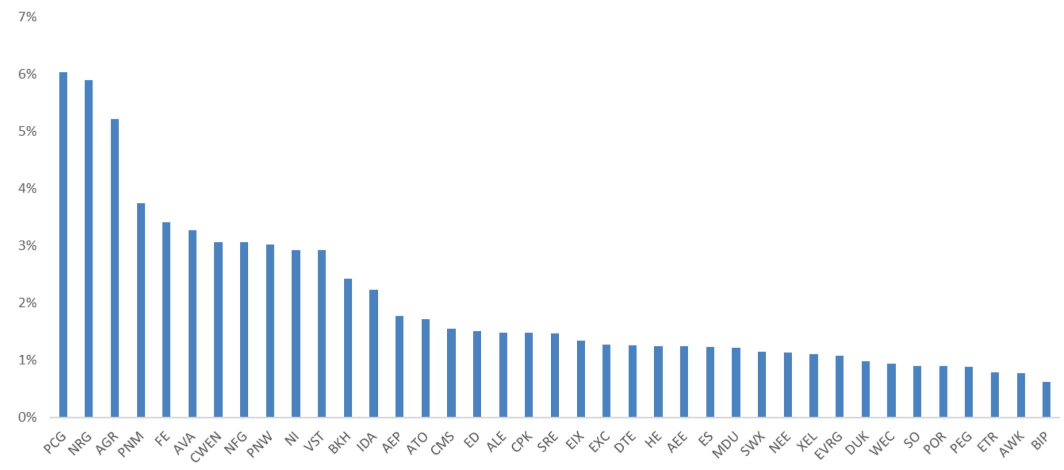


Source: Citi Research

Short Interest

PG&E's high short interest is understandable given the equity overhang concern and wildfire risk. Beyond these issues, it is interesting to see PNM and AGR toward the top of the list. We still think that the deal will close without changes, but it is a real risk given the NM approval questions around the chairman investigation (storm handling, Four Corners, etc.) also raised.

Figure 32. Short Interest as % of Market Cap

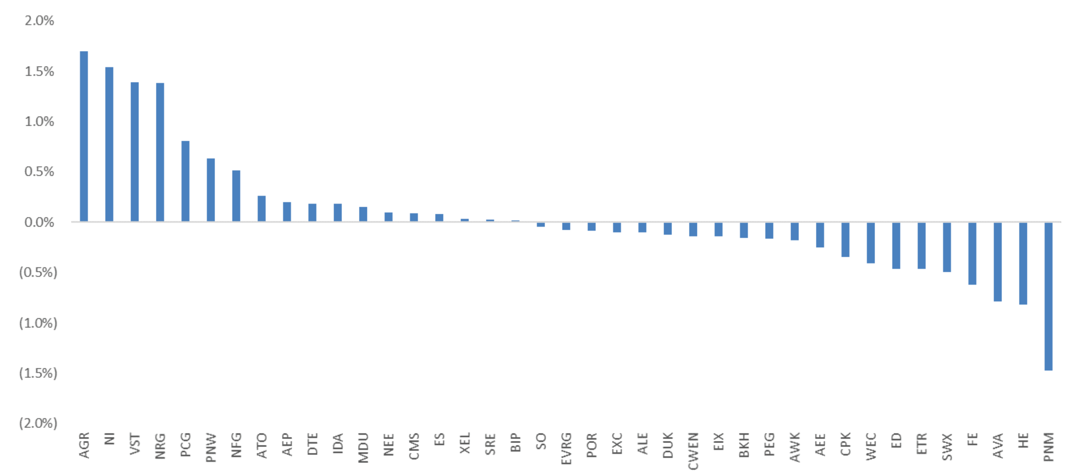


Source: Citi Research, FactSet

Change in Short Interest Since Our Last Note

Towards the top of the short interest change list is NiSource, for which we recently highlighted the risk that its inflight renewable development project may get delayed. These projects account for ~11% of earnings in 2024. The global solar supply chain is experiencing challenges with shipping, polysilicon, etc. In addition, Atmos Energy is up on the list due to rising gas prices, which could create headwinds for the company.

Figure 33. Change in Short Interest Since Our Last Note



Source: Citi Research, FactSet

Companies Mentioned:

Algonquin Power & Utilities Corp (AQN.TO; C$19.11; Not Rated; 20 Jul 21; 16:00) | RWE (RWEG.DE; €28.64; 1; 20 Jul 21; 17:30) | AltaGas Ltd (ALA.TO; C$26.02; Not Rated; 20 Jul 21; 16:00) | ENEL SpA (ENEI.MI; €7.61; 3; 20 Jul 21; 17:30) | Iberdrola (IBE.MC; €10.14; 3; 20 Jul 21; 17:30) | NRG (NRG.N; US$39.45; 1; 20 Jul 21; 16:00) | Hawaiian Electric Company Inc (HAWEL.PK; US$25.0; Not Rated; 20 Jul 21; 17:00) | American Electric Power Co Inc (AEP.O; US$85.74; 2; 20 Jul 21; 16:00) | Atmos Energy Corp (ATO.N; US$99.49; 2; 20 Jul 21; 16:00) | CMS Energy Corporation (CMS.N; US$61.94; 2; 20 Jul 21; 16:00) | DTE Energy Co (DTE.N; US$116.12; 1; 20 Jul 21; 16:00) | Duke Energy Corp (DUK.N; US$103.74; Not Rated; 20 Jul 21; 16:00) | Consolidated Edison, Inc. (ED.N; US$73.57; 2; 20 Jul 21; 16:00) | Entergy Corporation (ETR.N; US$102.35; 2; 20 Jul 21; 16:00) | NextEra Energy (NEE.N; US$77.17; Not Rated; 20 Jul 21; 16:00) | Hawaiian Electric Industries Inc (HE.N; US$43.23; Not Rated; 20 Jul 21; 16:00) | CenterPoint Energy Inc (CNP.N; US$25.24; 2; 20 Jul 21; 16:00) | Idacorp Inc (IDA.N; US$104.28; Not Rated; 20 Jul 21; 16:00) | Evergy LLC (EVRG.N; US$64.0; Not Rated; 20 Jul 21; 16:00) | MDU Resources Group Inc (MDU.N; US$31.29; 2; 20 Jul 21; 16:00) | ALLETE Inc (ALE.N; US$70.32; Not Rated; 20 Jul 21; 16:00) | National Fuel Gas Co (NFG.N; US$50.71; Not Rated; 20 Jul 21; 16:00) | NiSource Inc (NI.N; US$25.17; 2; 20 Jul 21; 16:00) | Xcel Energy (XEL.O; US$68.16; 2; 20 Jul 21; 16:00) | Eversource Energy (ES.N; US$85.94; 2; 20 Jul 21; 16:00) | PG&E Corp (PCG.N; US$9.42; 1H; 20 Jul 21; 16:00) | Public Service Enterprise Group Inc (PEG.N; US$60.67; Not Rated; 20 Jul 21; 16:00) | Exelon Corp (EXC.O; US$46.06; Not Rated; 20 Jul 21; 16:00) | PNM Resources (PNM.N; US$48.72; 2; 20 Jul 21; 16:00) | Pinnacle West Capital Corp (PNW.N; US$84.87; Not Rated; 20 Jul 21; 16:00) | PPL Corp (PPL.N; US$28.2; 2; 20 Jul 21; 16:00) | Edison International (EIX.N; US$56.85; 1; 20 Jul 21; 16:00) | South Jersey Industries Inc (SJI.N;

US$25.24; Not Rated; 20 Jul 21; 16:00) | Southern Co (SO.N; US$62.95; Not Rated; 20 Jul 21; 16:00) | Southwest Gas Holdings Inc (SWX.N; US$70.99; 2; 20 Jul 21; 16:00) | UGI Corp (UGI.N; US$46.2; Not Rated; 20 Jul 21; 16:00) | WEC Energy Group (WEC.N; US$93.82; Not Rated; 20 Jul 21; 16:00) | Alliant Energy Corp (LNT.OQ; US$58.31; Not Rated; 20 Jul 21; 16:00) | Avista Corp (AVA.N; US$43.54; Not Rated; 20 Jul 21; 16:00) | Vistra Corp (VST.N; US$18.19; Not Rated; 20 Jul 21; 16:00) | Chesapeake Energy Corp (CHK.N^F20; Delisted) | FirstEnergy Corp (FE.N; US$37.62; Not Rated; 20 Jul 21; 16:00) | Sempra Energy (SRE.N; US$131.92; 2; 20 Jul 21; 16:00) | NuStar Energy, L.P. (NS.N; US$17.24; 1; 20 Jul 21; 16:00) | Portland General Electric Co (POR.N; US$47.84; Not Rated; 20 Jul 21; 16:00) | EDF Renouvelables SA (EEN.PA^H11; Delisted) | EON Electric Ltd (EONE.NS; Not Rated; 20 Jul 21; 15:30) | Brookfield Infrastructure Partners (BIP.N; US$54.24; 2; 20 Jul 21; 16:00) | Four Corners Inc (FCNE.PK; US$2.1; Not Rated; 20 Jul 21; 17:00) | American Water Works Company, Inc. (AWK.N; US$166.7; Not Rated; 20 Jul 21; 16:00) | KKR & Co Inc (KKR.N; US$58.56; 1; 20 Jul 21; 16:00) | ERG Capital 3 ADSITS (BGERG.BB; Not Rated; 20 Jul 21; 17:00) | Clearway Energy, Inc. (CWEN.N; US$26.3; Not Rated; 20 Jul 21; 16:00) | Phillips 66 Partners LP (PSXP.N; US$38.09; 1; 20 Jul 21; 16:00) | TransAlta Renewables Inc (RNW.TO; C$21.21; Not Rated; 20 Jul 21; 16:00) | Atlantica Sustainable Infrastructure PLC (AY.O; US$37.78; Not Rated; 20 Jul 21; 16:00) | PBF Logistics LP (PBFX.N; US$13.51; 1; 20 Jul 21; 16:00) | Nextera Energy Partners LP (NEP.N; US$74.57; Not Rated; 20 Jul 21; 16:00) | Shell Midstream Partners (SHLX.N; US$14.11; 1; 20 Jul 21; 16:00) | Avangrid Inc. (AGR.N; US$52.36; Not Rated; 20 Jul 21; 16:00) | Vistra Energy Corp. (VST.N; US$18.19; Not Rated; 20 Jul 21; 16:00) | Evergy Inc (EVRG.N; US$64.0; Not Rated; 20 Jul 21; 16:00) | Sunnova (NOVA.N; US$35.02; Not Rated; 20 Jul 21; 16:00) | NOVA Technology Corp Ltd (300921.SZ; Rmb25.51; Not Rated; 21 Jul 21; 15:00)

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Appendix A-1

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Give it Time – Utes Q2 2021 Preview

We have been cautious on the group going into 2021, see our outlook note here and the group continued to lag the market in the second quarter. Falling yields (10YR/Baa form 1.7%/3.8% to 1.3%/3.2% respectively during Q2) did not boost multiples for the group as Utes were up a modest 1% materially underperforming S&P500 +8%. We attribute the lackluster second quarter group performance to historical underperformance of the group in early/mid recovery cycle. The group generally tends to trade at discount to the market during early business cycle, see relative P/E chart on page 40. We also think investor skepticism on long term utility growth prospects and future cash flows given the surge in distributed/non-regulated generation is moderating multiple expansion in the near term.

Where do we stand? Give it time. Despite attractive relative valuations for the group we remain on the side line in the near term. While we try hard it's difficult to identify a positive catalyst to turn around investor sentiment over the next few months. An infrastructure bill (discussed on page 2) could materially boost capex and rate base growth profile for our coverage universe but we think that is a longer dated opportunity which will be reflected in company capex plans and earnings growth projections over next 12-18 months. We continue to be bullish long term due to relative valuation support and accelerated de-carbonization providing tailwind to sector earnings and cash flow growth. As noted in our recently published Transmission and Distribution capex study here, we believe the continued proliferation of distributed energy resources, the supposed necessity of grid resiliency and "smart grid" spending, and, electric vehicle infrastructure continuing, will drive an upward bias in already robust transmission & distribution spending. Long term we see the sector well poised to deliver strong shareholder return backed by runway of investments earning close to 10% return well-above the low-to-mid single digit cost of equity for the foreseeable future.

Utes remain attractive on relative valuation metrics. Utilities are now 8% inexpensive in our bond model on '21 dividend yields and ~15% cheap on '22 yields versus 2% cheap as of end of Q1. The group is discounting 10yr at 1.75% one year forward. NTM relative P/Es also show a discount at 0.90x (roughly no change from end of Q1) versus a 1.09x average since 2006 – but notably in the 08/09 recession it took close to 18 months since the trough to get back to normal levels. The recent valuation trough was mid-20, see page 40. We foresee the group continuing to lag the market in the near term against the backdrop of rising inflation/rates and prefer value (energy exposed/more cyclical names) over quality (CNP, EVRG, ETR, OGE and SRE are outperform rated names within the regulated value bucket). Within diversifieds we like AES (top pick) and EXC. Long term we are more constructive due to relative valuation support (see page 9) and view the Biden presidency as a major tailwind. We are outperformed rated AEE, AEP (top pick) and D within the quality bucket.

Within, we include company-specific tear sheets with our / consensus second quarter 2021 EPS estimates along with discussion on key investor debates going into earnings.

Q2 Preview – Nearly 70% of companies are expected to meet or exceed expectations. Our conversations with ~30 companies in our coverage universe centered upon COVID sales trends, weather, M&A, legislation, updates on Winter Storm Uri cost recovery, and the infrastructure bill. Generally speaking, not surprisingly total sales trends in Q2 2021 are expected to increase meaningfully YoY after the trough in Q2 2020 at the heart of the pandemic, with an improvement in lower-margin commercial & industrial load given the reopening of the economy and a modest reduction in higher-margin residential sales as some people return to work but many continue to work from home. Weather in Q2 2021 is expected to be a tailwind over the comparable period last year as we detail with degree days on page 32; you can see that while April heating degree days were modestly below normal, May cooling degree days were moderately above and June cooling degree days were significantly above. Portfolio optimization and pro-forma business mix is a popular topic in light of: CMS' divestiture of Enerbank, DTE's midstream spin-off, AEP's potential sale of Kentucky, DUK's divestiture of a minority interest in Indiana, CNP's sale of two gas LDCs, CNP and OGE's announced merger of ENBL-ET and plan to sell down ET units, ETR's potential asset monetization, SRE's part divestiture of SIP, ED's sale of Stagecoach, PEG's sale of non-nuclear non-regulated assets, D's Questar Pipeline cancellation, and EXC's spinning of its generation business. Several states have passed securitization laws during the past few months, and there is also activist involvement at FE, EVRG and DUK. We are looking for updated views on regulatory filings and the timeline of recovery of Winter Storm Uri costs and the outlook for improving credit metrics. We also expect utilities to discuss the benefits of the infrastructure bill (more details below). We anticipate nearly 70% of companies to beat or exceed expectations and are positive on DUK, PNW and cautious on AEE going into the quarter. We expect most companies to wait to revisit 2021 EPS guidance until the third quarter, the biggest driver for the year given summer load impacts.

Bipartisan physical infrastructure bill and reconciliation bill present tailwinds for utilities. The $579 billion bipartisan infrastructure bill in total includes $300 billion of spending on transportation infrastructure and $266 billion on "other infrastructure" over eight years, including the direct benefit for utilities of $73 billion for power grid upgrades. In addition, the proposal also includes ancillary benefits for utilities that could require build-out of the grid with $200 billion in spending for roads, rail and bridges, plus $7.5 billion for electric vehicles to accomplish the goal of building 500,000 charging stations, and another $7.5 billion for electric buses/transit. Alongside the bipartisan infrastructure bill, Democrats are proposing a $3.5 trillion reconciliation bill that would notably include climate change programs that could benefit utilities, as well as spending for health care, child care and higher education access. The Democrats' goal is to push the legislation through before the August recess. The infrastructure bill is expected to be financed through a combination of closing the IRS tax gap, redirecting unspent emergency relief funds, targeted corporate user fees, and the macroeconomic impact of infrastructure investment. Notably, it would not include corporate tax increases, which would drive an increase in cash flow for utilities through collection from customers under the regulatory construct but at the same time it would raise customer bills. It also does not include the extension of renewable tax credits. However, funding of the reconciliation bill alongside the infrastructure bill could result in the corporate tax increases and also collapse dozens of tax benefits aimed at oil & gas firms into categories focused on renewable energy and energy efficiency. The reconciliation bill would also be expected to be funded by a hike in taxes on foreign operations of multi-national companies.

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- **Q2 EPS Bridge:** We project year-over-year EPS to increase by $0.05 (or ~20%) to $0.30 mostly driven by higher electricity demand ($0.02), organic growth initiatives across AES's platform ($0.02) and interest as well as cost saving initiatives ($0.01). We expect AES will reiterate its previously provided FY21 EPS guidance range of $1.50-$1.58/sh.

- **What to look for in the earnings report (Key debates/themes):**
  - **Update on renewable backlog.** In the first quarter, AES signed a 10yr supply agreement with Google for 500MW of 24/7 carbon free energy in VA. In total during the quarter, management signed over 1GW of new PPAs for renewables and energy storage and executed on a 20yr agreement for 34 TBTU of excess LNG throughput capacity in Central America. They expect to be at the top end of previously announced 3-4GW renewable contracts target for 2021.
  - **Supply chain risks.** In the near term, management does not expect supply chain disruptions to impacts its operations, however it could have long-term impacts and management is pro-actively taking steps to alleviate potential concerns.
  - **Chile coal fleet retirement.** Chile could close its coal-fired plants by 2025 if a draft bill is successfully passed in the National Congress. The bill was passed by the chamber and now awaits Senate approval. On 07/06/21 AES announced ~1GW of coal plant retirements by 2025 in Chile while maintaining 2021 and long term earnings expectations. As per current plans post 2025 AES will have ~900MW of coal capacity in operating in Chile contributing 50-70MM in annual EBITDA representing ~2% of consolidated EBITDA.
  - **OH related risks.** Some investors are concerned about the regulatory risk in the state of Ohio given ongoing federal investigation into FirstEnergy's political activities and its relationship with the state regulators. In our view, this risk is isolated to FE alone and would not impact other utilities in the state including AES Ohio. Moreover, the company generated only 2% of its total adjusted pretax earnings contribution in OH last year. Hence, the Ohio risk is not significant or material to AES corp**.**
  - **On track to achieve third IG rating in 2021/2022.** The company achieved targeted credit metrics of 4.0x recourse debt to parent FCF before interest and 20% of FFO/Debt in 2020. Consequently, the company was upgraded to an investment grade credit rating at Fitch (BBB-) and the outlook was raised to positive at S&P where they were rated (BB+). On November 2, 2020, S&P rating upgraded AES Corp rating to BBB- from BB+ with a stable outlook. A second IG upgrade came in in line with management's expectation to secure IG ratings from two rating agencies by year-end 2020. They expect an upgrade from Moody's sometime in the near future. Moreover, the migration to investment grade credit quality and validation by the ratings agencies should be supportive of further P/E multiple expansion.

- **Positioning into Qtr : Neutral.**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$1.36**	**$1.44**	**$0.28**	**$0.30**	**$1.55**	**$1.70**	**$1.80**
Consensus				0.30	1.55	1.67	1.80
% diff.				*0%*	*0%*	*2%*	*0%*

Source: Evercore ISI, Factset as of 7/14/21

Ameren

Outperform **TP $90**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year over year EPS to decline $0.18 to $0.80/share. Last year in 2Q20, weather was relatively normal and we expect similar this year. Given the nature of the Missouri rate design, we expect AEE to see a -$0.20 EPS impact for this quarter and a rebound next quarter. We are also adjusting out $0.04 given the absence of the impact of the FERC order addressing the MISO allowed base ROE. In terms of positive YoY drivers, we expect to see higher Missouri sales volumes given a rebound from the trough in 2Q20 last year from Covid. We also expect the new $600mm High Prairie wind project to contribute positively under PISA, and anticipate seeing a benefit from higher transmission rate base, increased Illinois electric rate base plus a higher 30-year treasury rate, as well as a pick-up in Illinois gas from QIP rider-qualifying capex. In terms of negative YoY drivers, we anticipate higher O&M when compared to the cuts the same period last year during the heart of Covid. The amortization of the previous Callaway outage costs plus share dilution will also contribute negatively.

- **What to look for in the earnings report (Key debates/themes):**
  - **Callaway refueling outage update:** All indications are that the Callaway nuclear plant will return to service in July with no significant financial impact expected. Recall the company made a decision to move forward with a $65mm capex project to replace certain key components of the generator and is pursuing recovery of costs through applicable warranties and insurance policies.
  - **Missouri rate cases**: Staff testimony is scheduled for September 3rd. For the electric case, AEE is requesting a $299mm revenue increase with a 9.9% ROE and 51.9% equity ratio on a rate base of $10 billion (Sept. 2021 estimate). Notably, Ameren is requesting a tracker to recover costs associated with the Meramec Energy Center, which is scheduled to be retired in 2022 over a five-year period from the date new rates become effective. The electric case would also incorporate the 700 MW of wind projects and includes accelerated depreciation from advancing the retirement dates of Sioux and Rush Island coal plants consistent with the Missouri IRP filed in September 2020. Separately, the gas rate case request is for a $9 million revenue increase with a 9.8% ROE and 51.9% equity ratio on a rate base of $310 million (Sept. 2021 estimate). Final decisions in both rate cases is expected by January 2022 for new rates effective March 1, 2022.
  - **Wind projects**: The remaining 300 MW Atchison wind project (~$500mm) is now 99% complete and is ahead of the latest schedule that called for full completion by September 30th. Recall the project was originally expected to be completed by year-end 2020 but has seen delays and not progressed as originally planned because of weather and vendor issues with the turbine blades.
  - **Incremental renewable capex in five-year plan**: No CCNs have been filed yet. Recall the Missouri IRP outlined 1,200 MW of incremental renewable projects over the next five years, including 800 MW of solar and 400 MW of wind that are not yet in the five-year capex plan. Ameren plans to file CCNs this year for the projects and will incorporate them into the plan with more line of sight.
  - **Illinois Downstate Clean Energy Affordability Act:** The Act passed the House committee so far but has not moved further than that yet. It can be brought up in a special session or a veto session. The Act would extend formula rates and potentially modify the ROE formula to increase the basis point adder to average 30-year treasury rate from 580 to 680bps. It would also allow for utility-owned solar / storage investment and EV-related spending.
  - **Securitization**: the securitization law has been passed and signed in Missouri. The company has said it does not need securitization to execute its plan through 2025.
  - **MISO transmission:** Ameren has spoken about the potential for incremental MISO transmission projects. More details on incremental capex are likely to come with Ameren's Q4 update after MISO announces the projects in December 2021.
  - **Equity issuances:** Ameren still plans to issue $150mm of additional equity on top of the DRIP, and established an ATM program in May 2021 to support expected equity needs through 2023; the company expects to issue ~$300mm per year in 2022-2025 on top of the DRIP.

- **Positioning into Qtr: Negative.** As shown below, our $0.80 EPS estimate is lower than the $0.88 consensus. We believe the Street is not currently incorporating the Missouri rate design properly but could potentially lower its estimate after conservations with the company.

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$2.09**	**$2.31**	**$0.91**	**$0.80**	**$3.75**	**$4.00**	**$4.30**
Consensus				0.88	3.77	4.04	4.33
% diff.				*-9%*	*-1%*	*-1%*	*-1%*

Source: Evercore ISI, FactSet as of 7/13/21

AMERICAN ELECTRIC POWER

Outperform **TP $99**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year-over-year EPS to increase $0.05 to $1.13/share. Last year in 2Q20, weather was relatively normal and we expect the same this year in 2Q21. Positive YoY drivers include new rates (notably Kentucky), plus the benefit of the TCOS and DCRF riders in Texas, and transmission true-ups. We expect a rebound in lower-margin commercial & industrial sales to largely be offset by a reduction to higher-margin residential sales when compared to the same period last year during the heart of the pandemic. We anticipate that these items will be partially offset by higher O&M when compared to the steep cuts in 2Q20 last year, plus higher depreciation, interest expense and property taxes.

- **What to look for in the earnings report (Key debates/themes):**
    - **Asset sales**: with Q1 results, management announced a strategic review (to be addressed this year) of its Kentucky assets to mitigate equity needs, which is unsurprising (management had signaled asset sales) given previous indications for that asset and sizable regulatory lag with an earned ROE of just 4.8% in 12 months ending 3/31/21. We think a buyer could pay a multiple up to ~22x 2023 EPS (our estimate is $0.10/share), which would be in line with the valuation that DUK is selling its 20% stake in its Indiana asset; however, we note that AEP's Kentucky Power is a slower growing asset than DUK Indiana, on our estimates. We estimate pretax sales proceeds of up to $1,000mm would lower AEP's equity needs by $700mm through 2025.
    - **OH risks/HB 6 Investigation**. On June 8th, AEP disclosed that it recently received a subpoena from the Securities and Exchange Commission, Division of Enforcement (SEC) seeking various documents relating to the benefits to the company from the passage of H.B. 6 and documents relating to AEP's financial processes and controls. The company is cooperating with the subpoena and in a statement issued that day stated that "Although we cannot predict the outcome of the SEC's inquiry, we do not believe the results of this inquiry will have a material impact on our financial condition, results of operations, or cash flows". Our view is that we continue to foresee no meaningful near term and long term earnings impact for AEP with the repeal of HB6. While we acknowledge and have previously discussed the risk around potential fines/liabilities, the stock already trades at a large discount to peers (~10%), we continue to view AEP as one of the best risk/rewards in the space and would be buyers on the pullback today.
    - **Credit metrics**: AEP's equity issuance plans are unchanged as it continues to target mid-teens FFO to debt over the long term; however, AEP expects to see temporary pressure in 2021 with the current trailing 12-month Moody's metric at 9.1% (and 12.9% adjusted for Storm Uri) as of March 31st as it works through the regulatory process at PSO and SWEPCO to recover Uri's significant $1.2 billion ($825mm at PSO and $375mm at SWEPCO) of fuel and purchase power costs funded by related incurrence of debt.
    - **Ohio rate case final decision on settlement**: awaiting a final Commission order, now expected in 3Q21 versus previous expectation for mid-year 2021. The Commission is expected to approve the settlement as is. We view the settlement reached by 14 parties in March as constructive overall as the authorized ROE of 9.7% agreed upon is well above the 9.27% midpoint recommended by Staff and also higher than the ~9.4% nationwide electric average over the past 12 months. The equity ratio of 54.43% was in line with the Staff recommendation and AEP's request. There were no surprises to rate base with little difference between the requested and agreed upon amount.
    - **Virginia rate case appeal**: in December 2020, AEP requested a rehearing on the disappointing decision (incorporated in 2021 guidance and LT targets) and the commission earlier this year upheld the same decision to keep rates flat (which is reflected in the company's current plan). AEP made an appeal with the Supreme Court, for which the process could get resolved in early 2022, we believe. The company said roughly 60% of investment in VA is recovered in base rates, with 40% in rate adjustment clauses, so they see opportunity to do more grid modernization, generation, and other opportunities through the various mechanisms in place.
    - **Other rate cases**: the SWEPCO Texas rate case hearing was on May 19th with an expected final order in 4Q21. The SWEPCO Louisiana rate case was filed in December 2020 and the next step is intervenor testimony on July 21st. A final decision in that case is expected in 2Q or 3Q next year. Separately, in April 2021, AEP filed an Oklahoma rate case where the regulatory process is typically quick. The next step is intervenor testimony on August 13th with a commission order expected in 4Q21. Lastly, the company plans to file an Arkansas rate case sometime this year, likely sooner rather than later.
    - **North Central Wind update**: AEP has said the projects are moving along well. The smaller Sundance project began commercial operation mid-April 2021, the Maverick project is on track to be in service by the end of this year, and the Traverse project is on track for commercialization by the end of this year or 1Q22.
    - **Financing plan:** AEP has said its disclosed financing plan covers all of its equity needs, so there should be no expectation by investors for any additional on top of that. Recall the financing plan last updated at EEI reduces 2021 equity needs by $800MM and raised 2022 issuance by $800MM related to modestly delayed in service of Traverse wind project.

    - **Positioning into Qtr : Neutral.**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$4.24**	**$4.44**	**$1.15**	**$1.13**	**$4.70**	**$5.00**	**$5.35**
Consensus				1.13	4.67	4.97	5.26
% diff.				*0%*	*1%*	*1%*	*2%*

Source: Evercore ISI, Factset consensus as of 7/13/21

CenterPoint Energy

Outperform **TP $26**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year-over-year EPS to increase by $0.05 to $0.26/share. A good starting point for the YoY drivers from 2Q20 includes a $0.18 contribution from the utilities and $0.03 contribution from ENBL midstream. We expect weather this year to be more mild than usual. In terms of positive YoY drivers, we anticipate higher electric sales volumes following a weak 2Q20 due to Covid, and also due to customer growth in both the electric and gas businesses. We also expect rate relief to contribute positively and anticipate a stronger ENBL midstream contribution. On the negative side, we see higher O&M after strong reductions last year in 2Q20, increased depreciation and property taxes, as well as the impact of share dilution.

- **What to look for in the earnings report (Key debates/themes):**
  - **Quiet quarter ahead of its Analyst Day in September:** we expect a relatively routine quarterly update in Q2 ahead of CenterPoint's September 23, 2021 Analyst Day, where we expect the company to provide more material updates on its strategy and outlook. Recall CNP hosted an Analyst Day in December 2020, where highlights included raising its long-term EPS growth rate, material planned cost reductions, and a meaningfully higher capex plan driving an increased long-term rate base outlook. At that prior Analyst Day, CNP also disclosed that it would be selling its Oklahoma and Arkansas gas LDCs (later announced) and spoke to imminent value-enhancing strategies for ENBL, for which an ET-ENBL merger was also subsequently announced.
  - **ET-ENBL**: We could potentially get more thoughts from management on its plan to sell ET units over time, though we see that update more likely to come at the Analyst Day. All indications are that the merger is on track to be completed in 2H21.
  - **Gas LDC sale closure**: all indications are that the Oklahoma and Arkansas gas LDC asset sales are on track to close by year-end 2021.
  - **Texas legislation**: A number of constructive bills were passed through the TX legislature and were signed in June by Governor Abbot, reflecting continued political and regulatory support for utilities in Texas. The bills include HB 1520 for extraordinary gas cost securitization, HB 2483 for TDU toolkit for widespread outages, SB 415 for TDU lease battery storage assets, and SB 1281 economic test for transmission.
  - **Severe winter storm cost recovery**: Nearly 80% of the incremental gas costs now have approved cost recovery mechanisms, with the only one outstanding being Minnesota ($500mm).
  - **Cost reductions and customer growth:** CenterPoint plans to cut annual O&M by a strong 1-2% in 2021-2025, and reductions could be as high as 2-3% this year. The 1-2% target is driven by an average of 3-4% annual reductions in both electric and gas O&M per customer, which will be coupled with strong 2%+ electric customer growth and 1% gas customer growth as previously disclosed.
  - **Indiana IRP and de-carbonization**: CenterPoint filed the CPCN for the 400 MW of solar in February 2021, which is likely to take 6-12 months to complete from that date. That was followed by a CPCN filing for the 460 MW gas combustion turbine portion in Q2, which would likely require a 12-18 month approval process. The remaining CPCN filing for additional renewables (wind + solar) is expected in the summer 2021 with a 6-12 month approval period.

- **Positioning into Qtr: Neutral**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$1.79**	**$1.40**	**$0.59**	**$0.26**	**$1.35**	**$1.50**	**$1.60**
Consensus				0.24	1.40	1.45	1.57
% diff.				*6%*	*-4%*	*3%*	*2%*

Source: Evercore ISI, Factset as of 7/13/21

Clearway Energy

In Line **TP $25**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year-over-year adjusted EBITDA to increase by $34mm to $350mm primarily driven by growth projects and interest savings. We expect CAFD to come in at $145mm, within management's Q2 guidance range of 38-46% of the full-year $325mm outlook. We see the possibility that the company delivers the upper half of the guidance range if renewable resource returns to normal compared to a relatively weak quarter during the same period last year. Specifically, in 2Q20 the wind production index was 95% and the solar was 98%.

- **What to look for in the earnings report (Key debates/themes):**
  - **Strong path to long-term DPS growth target:** Management has said that even if no new projects were announced that it is already on a path to deliver the low end of its targeted 5-8% DPS growth through 2023 using its planned 80-85% payout ratio.
  - **Renewables acceleration and growth projects.** Management could speak more to Biden administration's impact on renewables development and how it could potentially impact CWEN's growth prospects.
  - **Contract expiration.** Clearway has three PPAs in California that are expiring in 2023. Investors are focused on potential next steps as it relates to contract extension or potential sale of those assets. We also will look for an update on risks around contract renewal and review of alternatives for those assets.

- **Positioning into Qtr: Neutral**

Adj. EBIDTA	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**963**	**1,082**	**198**	**350**	**1,130**	**1,200**	**1,300**
Consensus				344	1,182	1,257	1,256
% diff.				*2%*	*-4%*	*-5%*	*4%*

Source: Evercore ISI, Factset as of 7/13/21

CMS ENERGY

In Line **TP $62**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project EPS to decrease -$0.04 YoY to $0.45/share, an estimate that includes Enerbank, which was announced to be sold. Last year in 2Q20, the company saw $0.10 of favorable weather, including $0.06 from electric and $0.04 from gas. This year in 2Q21, weather appears to be favorable as well (we estimate -$0.04). We expect positive YoY benefits primarily from new electric and gas rates, and a modest increase from Enerbank. We anticipate these benefits to be partially offset by higher O&M from reinvestment, increased property taxes, interest and D&A at the utility, and modest share dilution. We also expect a moderate YoY benefit from Enterprises.

- **What to look for in the earnings report (Key debates/themes):**
  - **Electric rate case filing:** on March 1st, CMS filed a rate case requesting a $225mm revenue increase with a 10.5% ROE and 42.80% equity ratio (incl. deferred taxes) on a rate base of $12.9 billion with a 12/2022 test year. Staff recommended an $85mm revenue increase with a 9.7% ROE (vs. current 9.9%) and 41.84% equity layer (vs. current 41.50%). The equity layer development is a positive data point as they have been thinning in recent rate cases, most recently in 2020 rate case from 52.5% to 51.1% excluding deferred taxes (41.9% to 41.5% including). Most of the investment laid out in the rate case has been recommended for approval by Staff. Note in Michigan, ROEs have only declined slightly as interest rates have fallen, most recently to 9.9% in the last rate case from 10% previously.
  - **Next gas rate case filing:** CMS has a gas rate case stay-out and will file its next one in December 2021.
  - **IRP filing:** CMS filed an IRP on June 30th, primarily outlining 1) accelerated coal retirements and exit from coal by 2025, 2) solar new build of 7.8 GW by 2040, and 3) the purchase of 2.2 GW of existing Michigan-based gas plants, including CMS Enterprises' DIG facility, both of which could add $1.3 billion of incremental rate base to CMS' plan by 2025. The Staff position is likely to come out in late 2021 and the commission will provide a preliminary order 10 months (around April or May 2022) from the filing date.
  - **Enerbank announced sale**: On June 8th, CMS announced the sale of EnerBank to Regions Bank. The transaction value of $960MM translates to P/TBV of 3x and P/22E of ~14x, which was a premium multiple to peer small/mid-size banks trading at ~2x on P/TBV and in line on a P/E basis with peers at 14-15x. CMS reaffirmed its consolidated 2021 EPS guidance range of $2.83-$2.87. The company introduced 2022 adjusted EPS guidance range of $2.85-$2.87 incorporating the above-mentioned sale of EnerBank and projects earnings to grow 6-8% long term using 2022 as the starting point. The company maintained its dividend at $1.74 and management is targeting 60% payout ratio as they look to grow the dividend in line with earnings over the long term. The company highlighted $1B in capex upside, which could be earnings accretive to the current plan in 2023 and beyond. Pro Forma CMS expects to maintain its targeted FFO to Debt of mid-teens. Despite the near-term earnings dilution we view the transaction as a net positive for CMS long term, as it improves the company's risk profile with ~95% of pro forma earnings being contributed from regulated assets vs <90% today. We attribute the stock reaction on the announcement day (-4% vs peers -1%) to earnings dilution from the transaction and investors/street applying a premium multiple (18-19x) to EnerBank earnings in valuing CMS as a consolidated entity vs ~14x as implied by the deal price.
  - **2021 equity needs:** CMS recently issued $230mm of preferred stock, which will receive 50% equity treatment at the credit rating agencies. We see this as a tailwind that could potentially reduce the $250mm of equity needs planned for this year.
  - **Enterprises:** it is likely a quiet year for Enterprises with no new notable projects. CMS is guiding to $0.12-0.13 of EPS for this segment this year after delivering $0.12 of adjusted EPS last year.

- **Positioning into Qtr: Neutral**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$2.49**	**$2.67**	**$1.21**	**$0.45**	**$2.85**	**$2.86**	**$3.09**
Consensus				0.42	2.77	2.89	3.14
% diff.				*7%*	*3%*	*-1%*	*-2%*

Source: Evercore ISI and FactSet as of 7/13/21

conEdison

Underperform **TP $72**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year-over-year EPS to increase by $0.03 to $0.60/share. Last year in 2Q20, the company saw $0.01 of favorable weather for steam, and based on NOAA heating degree days, we expect weather for Steam (electric and gas are decoupled) to be relatively neutral this year. Positive YoY drivers primarily include new rates under the multi-year rate agreements in CECONY and O&R, and an improvement in bad debt expense given deferrals that started this year. Negative YoY drivers include higher other O&M (e.g. health care) after lower amounts the same period last year, increased interest expense, share dilution from 7.2mm of common equity issued in Dec. 2020, plus increased depreciation and property taxes. Con Ed Transmission (CET) should be lower due to the removal of Mountain Valley Pipeline AFUDC income.

- **What to look for in the earnings report (reminder that ED does not host a conference call):**
  - **Surcharge recovery mechanism filing**: ED has said it is assuming a range of outcomes in 2021 EPS guidance for this filing, for which the company requested a decision in September 2021 but has said is an uncertain process. Con Ed is comfortable with its long-term EPS growth rate of 4-6% in 2021 through 2025. As a reminder, in April 2021, CECONY filed a petition with the NYSPSC to timely establish a surcharge recovery mechanism for $52 million of late payment charges and fees, offset for related savings, for the year ended December 31, 2020 to begin in September 2021 and end in December 2022. The petition also requests a surcharge recovery or credit mechanism for any fee deferrals for 2021 and 2022 starting in January of the subsequent year over a twelve-month period, respectively.
  - **Equity financing needs**: In June 2021, Con Ed issued roughly $800mm of common equity this year, satisfying this year's needs per guidance aside from the $100mm annual DRIP. The company currently plans to issue a combined $700mm in 2022-2023, in addition to the DRIP. We suspect there could be an increase to the 2022-2023 equity needs given the approval of $780mm of three transmission projects that was added to the five-year capex plan with Q1 results.
  - **Stagecoach sale closure:** The first piece of the sale closed earlier this month. Recall the agreement is subject to two closing periods, with the first closing consisting of the transfer of the Stagecoach subsidiaries (with the exception of Twin Tier Pipeline) valued at ~$1,195 million, and is expected to occur following approval under just Hart-Scott-Rodino during the third quarter of 2021. The next piece ($30 million) for Twin Tier is subject to NYPSC approval given it is an intrastate pipeline and is likely to take longer; for example, when Con Ed announced the purchase of Stagecoach in 2016 it took 9 months for approval.
  - **CECONY incentives:** Management's thinking has been that earnings adjustment mechanisms under the current rate agreement are difficult to achieve, but ED believes it will have some success this year. We note the improving Covid environment in NYC should help on this front given that some of the incentives are achieved in person door-to-door, for energy efficiency, demand-side management and distributed resources targets.
  - **O&R rate case:** Con Ed is currently engaged in settlement discussions. New York PSC Staff recommended an 8.75% ROE and 48% equity layer. Recall in January 2021, O&R filed requests with the NYSPSC for an increase in electric & gas rates, effective January 1, 2022, of $24.5mm and $9.8mm, respectively. The filing reflects an ROE of 9.5% and equity ratio of 50%. O&R represented about ~5% of consolidated EPS in 2020 and its current electric & gas rates are based on 9.0% ROE and 48% equity ratio.
  - **Renewable supply chain and projects**: ED said it has procured all materials and supplies for its renewable program this year and has not seen any major supply chain issues. Roughly 400 MW of three projects are under construction in 2021, with one expected to have gone in service in Q2 and the other two likely in Q3 or possibly Q4.

- **Positioning into Qtr: Neutral**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$4.38**	**$4.18**	**$1.44**	**$0.60**	**$4.25**	**$4.60**	**$4.80**
Consensus				0.60	4.26	4.52	4.73
% diff.				*0%*	*0%*	*2%*	*1%*

Source: Evercore ISI, Factset as of 7/13/21

Dominion Energy®

Outperform **TP $82**
Analyst: Durgesh Chopra

- **Q'2 EPS Bridge:** We project year over year EPS decrease of $0.07 (~9%) to $0.75, as an accretive share count (+$0.03), as well as organic growth across D's platform are more than offset by lower capacity prices at Millstone (-$0.01) and higher interest (-$0.02) and depreciation expense/other costs (-$0.05). On the last earnings call, management provided Q'2 operating EPS guidance range of $0.70-$0.80.

- **What to look for in the earnings call (Key debates/themes):**
  - **VA Triennial Review.** On 3/31/2021, Dominion submitted its Triennial review application to the Virginia State Corporation, as previously expected. Staff testimony is expected on September 17 with hearings expected take place in October and a final decision will be rendered in December 2021/January 2022. The company anticipates issuing no refunds as a result (maximum allowable rate refund is 50MM or 5c (1%) over the second triennial period of 2021 through 2023). They requested a base ROE of 10.8%, which would be applicable to both on-going and new riders as well as the base rate for second Triennial period. This filing was pretty much in line with management's previous guidance and street's expectations. We think investors will continue to focus on this proceeding going forward.
  - **SC rate case settlement.** On July 2nd Dominion announced that it has filed a settlement in its ongoing rate case in South Carolina and reiterated its financial guidance. The proposed settlement supports an ROE of 9.5% (vs 10.25% currently) and equity layer of 51.62% equity (vs 52.6% currently), revenue increase of $61.6 million (representing a net revenue increase of $35.6 million after accounting for accelerated return of excess deferred income taxes) and ~$5.8B rate base. A final commission decision is expected by late summer.
  - **Questar Pipeline sale**. On July 12th Dominion announced termination of the Questar Pipelines sale agreement with Berkshire Hathaway effective 07/09/21. The company cited uncertainty associated with achieving clearance from the Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and expects to complete the sale to another buyer by year end 2021. Questar results will continue to be reported as discontinued operations with no change to D's current financial guidance. The company will use proceeds from a term loan to repay the approximately $1.3 billion transaction deposit made by Berkshire. That loan is expected to be repaid by year-end 2021 with proceeds from the sale of Questar Pipelines to an alternative buyer Questar Pipeline is an interstate natural gas pipeline company that provides transportation and underground storage services in Utah, Wyoming and Colorado. D's agreement with Berkshire valued the company at $1.7B enterprise value comprised of $1.3B in equity and $400MM in debt, see our note on this topic here.

- **Positioning into Qtr: Neutral**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$4.24**	**$3.54**	**$1.09**	**$0.75**	**$3.85**	**$4.12**	**$4.40**
Consensus				0.80	3.88	4.12	4.38
% diff.				*-7%*	*-1%*	*0%*	*1%*

Source: Evercore ISI, Factset as of 7/14/21

DTE

In Line **TP $119**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge**: We project year-over-year EPS to increase $0.15 to $1.45 (incl. midstream). Recall last year in 2Q20, there was $0.09 of favorable weather at the electric utility and $0.05 of favorable weather at the gas utility. We expect weather to be similarly favorable for electric this year and modestly unfavorable for gas. Positive YoY drivers for electric include new rates effective in May 2021. This benefit should be more than offset by higher D&A, property taxes and interest expense, as well as lost earnings from the River Rouge coal plant retirement. On the gas side, positive YoY drivers for gas includes a rate increase, while negative drivers are primarily higher D&A, property taxes and interest expense. We expect O&M at both the electric and gas utilities to be relatively flat. At GSP, Energy Trading and the corporate segments, we arrive at our 2Q21 estimates assuming an even contribution per quarter from Q2 through Q4 that is implied by full-year guidance. At P&I, we also use full-year guidance as a benchmark but assume just 15-20% of the full year amount comes in Q2 given that Q3 is typically the largest contributor.

- **What to look for in the earnings report (Key debates/themes):**
  - **We are updating our EPS estimates and PT**: We are removing the midstream segment from our 2021-2023 EPS estimates now that the spin has been completed. Our updated 2021-2023 EPS estimates are now $5.55 / $5.90 / $6.25 versus $7.15 / $7.50 / $7.95 previously. We arrive at our new SOTP valuation of $119 (versus $140/share previously) using a 10% premium multiple (vs. 20% previously) to 2023 EPS for the regulated electric and gas utilities to our peer utility target multiple of 17.5x derived using our dividend discount model. We believe a premium is warranted given the very constructive regulatory environment in Michigan and above-average operating earnings growth profile at the utilities. We assign 17.5x multiple of 2023 EPS to the P&I and Energy Trading Businesses.
  - **Midstream reporting**: DTE plans to report the recently spun-off (July 1st) Gas Storage & Pipeline segment in its results for the second quarter, so it will be reflected in the first half of this year before being removed in the second half.
  - **Pending gas rate case**: in February 2021, DTE filed a gas rate case requesting $195mm with a 10.25% ROE and 39.9% equity ratio (incl. deferred taxes) on a rate base of $5.6 billion with a 12/2021 test year for new rates to be effective January 1, 2022. A final decision is expected in December 2021.
  - **Next electric rate case**: the current plan is to file the next electric rate case after October 2021.
  - **Financing plan**: DTE has said it expects to issue minimal equity this year, specifically the low end of $0-200mm. The company still anticipates issuing $1.3 billion of convertible equity in 2022. Equity issuance plans for 2023 total $0-200mm.
  - **Power & Industrials**: Recall there is the sun-setting of the REF business after 2021, so we will see a trough in P&I earnings in 2022 before it builds back up. DTE currently assumes an additional $15mm of earnings per year from RNG and co-generation growth opportunities after the re-basing. DTE issued P&I earnings guidance for 2025 of $135-150mm versus a 2021 outlook of $147-163mm.
  - **O&M mitigation**: annual O&M increases are expected to increase 1% or less going forward, as they have in the past.

- **Positioning into Qtr: Neutral.** As shown below, we are well above consensus EPS estimates, but we believe this is because some of the Street estimates are excluding the midstream segment, which DTE has indicated it will include in its actual reported result.

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$6.30**	**$7.19**	**$2.08**	**$1.45**	**$5.55**	**$5.90**	**$6.25**
Consensus				1.23	5.45	6.16	6.51
% diff.				*18%*	*2%*	*-4%*	*-4%*

Source: Evercore ISI and FactSet as of 7/13/21

DUKE ENERGY

In Line **TP $96**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year-over-year EPS to increase +$0.09 to $1.17/share. Last year in 2Q20, weather was $0.01 unfavorable. This year in 2Q21, weather is expected to be favorable (we assume +$0.07). In terms of positive drivers YoY for the electric utilities, we expect to see a sales volume increase YoY when compared to the depth of the pandemic last year in 2Q20. Duke will also see the benefit of new rates in DEC and DEP (interim), Florida and Indiana, plus the positive impact of Midwest riders. On the negative side for the electric utilities, we expect higher O&M after strong cuts during the same period last year, plus higher depreciation and property taxes. For the gas utilities, the cancellation of ACP will be the primary driver in the YoY decrease that we foresee. We expect the Commercial Renewables segment to be down YoY after a particularly strong 2020. At the parent, we anticipate there will be a drag when compared to last year when there was the benefit of tax optimization.

- **What to look for in the earnings report (Key debates/themes):**
  - **North Carolina energy legislation:** On June 15, 2021, House Bill 951 was released in the General Assembly. The proposed legislation outlines an energy transition for North Carolina that: 1) mandates the retirement of 4,940 MW of coal generation capacity by December 2030, 2) leverages an "all of the above" strategy for replacement generation, adding almost 4,700 MW of new renewables and opportunities for dispatchable generation, energy storage and advanced nuclear, 3) facilitates CO2 emissions reductions of at least 61% by 2030 (from 2005 levels), 4) permits the North Carolina Utilities Commission (NCUC) to utilize modernized ratemaking mechanisms (multiyear rate plans, a performance incentive mechanism and residential revenue decoupling) to better align utility investments to customer and state needs, and provide customers improved rate certainty, and, 5) improves existing customer-facing solar programs such as Green Source Advantage, and creates new opportunities for customers through the Shared Solar and Community Solar Gardens programs. Note the 61% CO2 emissions reduction goal by 2030 is roughly the midpoint of Duke's current target of "at least" 50% and Governor Cooper's goal of 70%. Hearings were recently held to get comments from interested parties. We expect the bill to progress and be debated through the legislature within the next few months.
  - **Carolinas IRP**: the SC commission recently rejected the IRP, asking for more information, which was expected given historical precedent. Duke is expected to re-file by Sept. 1st for approval or denial. The NC commission will review and provide comments on the IRP, expected in the fall 2021, with no official order.
  - **Elliott activism**: In May, Elliott disclosed that it is a top 10 investor in DUK and has been engaged with Duke since July 2020, proposing a tax-free separation into three regionally oriented utility holding companies – the Carolinas, Florida and the Midwest – to unlock $12-15 billion of value. Elliott urged Duke to appoint new independent Board members and create a strategic review committee in pursuit of this goal. Duke issued a statement saying Elliott's proposal is not in the best interests of shareholders and other stakeholders, highlighting a strategy in place that has driven an increase in its long-term growth rate and outperformance in its stock price over the past several months.
  - **GIC transaction closure:** The $2.05 billion in proceeds from the DUK Indiana minority interest (19.9%) divestiture to GIC is expected to be received in a staggered, two-phase closing, structured in evenly split payments. The first closing was expected to occur in the second quarter of 2021 but has not been completed yet and is awaiting FERC approval; there are no indications that there are any impediments to this deal closing. Under the terms of the agreement, Duke Energy has the discretion to determine the timing of the second closing, but it will occur no later than January 2023.

- **Positioning into Qtr : Positive**. We derive an above-consensus YoY EPS of $1.17 primarily driven by favorable weather. We expect constructive messaging on the NC legislation that was introduced, which as it stands now we would see as supporting or bolstering the ten-year capex plan and growth rate, and lead to more rapid de-carbonization at DUK.

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$5.06**	**$5.12**	**$1.26**	**$1.17**	**$5.20**	**$5.45**	**$5.80**
Consensus				1.10	5.19	5.47	5.79
% diff.				*7%*	*0%*	*0%*	*0%*

Source: Evercore ISI and FactSet as of 7/13/21

Entergy.

Outperform **TP $110**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year-over-year EPS to increase by $0.05 to $1.42/share driven by rate actions and an assumption of normal weather, primarily offset by higher O&M, depreciation and property taxes. Recall, first quarter of last year had negative $0.02 unfavorable weather impact, which we think for the most part would reverse as suggested by normal weather during the quarter.

- **What to look for in the earnings report (Key debates/themes):**

  - **SERI update:** the ALJ came out with their decision related to the SERI's ROE complaint and a final decision is expected in late 2022. They recommended an ROE of 9.32% and equity ratio of 48%, significantly lower vs. company's current earnings profile (10.94%/65%). With Q1 results, management said the decision was slightly worse than expectation (-$0.03 EPS relative to expectations) and if it was affirmed by FERC they would have to take one time ~$20-25m of additional reserves. Separately, there was a complaint filed a few months ago related to prudence of upgrades at SERI.
  - **Storm securitization proceedings:** all indications are that the securitization proceedings are progressing as expected. The company is filing for $2 billion in Louisiana and $400 million in Texas for three storms last year. Legislation in TX and LA allows securitization off balance sheet (ultimately credit remote). ETR is still looking at end of year securitization approval of costs with proceeds expected in Q2 / Q3 next year.
  - **Balance sheet & credit metrics / equity issuance.** Parent debt to total debt as of Q'1 was at 22.3% vs. a 25% threshold and FFO to debt came in at 8.2% vs. targeted 15%. Excluding one-time items, FFO/Debt would have been 8.7%, still materially below targeted levels due to storm impacts; Entergy projects to achieve 15% by the end of 2022 with the expectation that they would be able to get securitization of storm costs by that timeframe. Management believes rating agencies will be patient given company's financing plan to shore up the balance sheet. ETR has been guiding to $2.5 billion of equity issuance over the next four years and recently secured a $1 billion ATM program, which allows them to issue equity from time to time. The company has spoken about potentially getting creative and issuing a more shareholder-friendly preferred equity instead.
  - **Asset monetization:** ETR has spoken about the potential sale of a portion of equity from an operating company. The company has said there is a difference between obviously the cost of equity at the operating company and where it is trading today. So that is something that ETR has been looking closely at but is still very much a long-term, strategic decision rather than an immediate financing decision given that closure of a potential deal in the regulatory jurisdictions would take 18-24 months.

- **Positioning into Qtr:** Neutral.

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$5.40**	**$5.66**	**$1.47**	**$1.42**	**$6.00**	**$6.35**	**$6.70**
Consensus				1.42	5.97	6.32	6.71
% diff.				*0%*	*1%*	*0%*	*0%*

Source: Evercore ISI and FactSet as of 7/13/21

EVERSOURCE

In Line **TP $91**
Analyst: Durgesh Chopra

- **Q2 EPS Bridge:** We project year-over-year EPS to increase $0.04 to $0.80 driven by rate increases at state utilities and transmission investments. We expect these items to be partially offset by share dilution, higher depreciation, interest and taxes. Weather-related and COVID impacts are relatively muted for ES with the benefits of revenue decoupling for over 90% of its business and constructive mechanisms that allow for more immediate recovery of everything from certain capital expenditures to pension and bad debt expense.

- **What to look for in the earnings report (Key debates/themes):**
  - **Storm Isaias penalty charge.** Q1 results included a $0.07 charge associated with customer credits and related assessment that CT regulators announced on May 6 with a final order on July 14. The charge relates to company's performance restoring power following storm Isaias in August 2020. Subsequently ES paired back earnings expectations for 2021 to be towards the lower end of previously announced 2021 EPS Guidance range of $3.81 - $3.93.
  - **Temporary rate reduction proceeding.** On Apr 28, the CT regulators concluded that the company failed to comply with certain applicable performance standards and manage its preparation for and response to the storm and ordered the company to lower its allowed ROE by 90 bps in pending/future rate proceedings. Other parties to the case have also made the case for substantially lower equity layer, ES current ROE/Equity layer is 9%/53% respectively. The lower ROE could be reflected in rates starting in October this year impacting 2021 EPS by a penny and we estimate ~$0.07 or 2% annual EPS headwind to our FY EPS 2022 projection. A draft order is expected on Aug 20 with a final decision scheduled for Sep 15.
  - **CT Legislation on storm preparedness.** On 10/02/20**,** Connecticut Governor Ned Lamont signed a legislation (HB7006) that addresses utilities' storm preparation and response. The bill lays out new requirements as well as penalties regarding utilities' performance in event of a storm. More specifically, The Connecticut Public Utilities Regulatory Authority (PURA) has to initiate a proceeding (was expected in mid this year) that would enable performance based regulation framework by mid-2022. Under the bill, the electric distribution companies have to give $25-per-day credit for any outage that last longer than four days. Utilities would not be able to recover those cost through rates. Moreover, Utilities would have to compensate their customers' up-to $250 for any spoiled food or medication. Going forward, The PURA will determine minimum staffing level standards related to particular storm event and utilities have to report their preparation efforts and staffing preparedness.
  - **Offshore wind.** We will also look for any updates or developments on company's offshore projects. The South Fork Wind project successfully received the environmental permit from NY earlier in the year, they expect BOEM to issue a final Environmental Impact Statement (EIS) in the fall and final approval by Jan 2022 with late 2023 targeted in service. Revolution Wind BOEM filing was made in March last year and the company received a review schedule in April calling for final approval by Q3 2023, in service expected in 2024 at the earliest. Sunrise Wind's BOEM review schedule is expected this year with expected in service in 2025 at the earliest.

- **Positioning into Qtr: Neutral**

Adjusted EPS

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$3.45**	**$3.64**	**$1.08**	**$0.80**	**$3.83**	**$4.15**	**$4.44**
Consensus				0.81	3.83	4.10	4.37
% diff.				*0%*	*0%*	*1%*	*2%*

Source: Evercore ISI, Factset as of 07/14/21

evergy™

Outperform **TP $67**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** we project year-over-year EPS to increase by $0.03 to $0.71/share. Weather last year in 2Q20 was $0.06 favorable. This year in 2Q21, it was also favorable but likely not as much as last year (we estimate $0.03). On the positive side, Evergy should benefit from an improvement in sales volumes when compared to the trough in 2Q20 last year. We also expect the company to see positive impacts from higher FERC revenue and PISA recovery. We anticipate the COLI contribution will be relatively flat. On the negative side, we expect to see higher O&M after cuts the same period last year (EVRG is guiding to flat O&M for the FY 2021) and increased depreciation and property taxes.

- **What to look for in the earnings report (Key debates/themes):**
  - **Quiet quarter ahead of Analyst Day:** Evergy has not yet rolled forward its rate base and EPS growth outlooks (they are still through 2024) this year and has been operating under the same Sustainability Transformation Plan (STP) that calls for rate base and EPS growth forecasts of 5-6% and 6-8% CAGRs in 2019 through 2024, respectively. That being said, the company has issued a 2021 through 2025 capex program of $9.2 billion. We expect this second quarter 2021 to be relatively quiet with a more comprehensive update to come at the Analyst Day in September (date to be announced) that could include refreshes / roll-forwards to capex, rate base and EPS growth outlooks.
  - **Bluescape and Elliott update**: with Q4 results, Evergy announced agreements with Bluescape Energy Partners and Elliott Management to add two new directors to its Board, and all indications by the company are that Elliott agreed to execute the Sustainability Transformation Plan (STP). Bluescape has invested $115mm by purchasing newly issued Evergy shares, with an option to purchase additional shares over the next three years at a price 20% higher than the current share price. In its most recent 13F filing, Elliott disclosed ownership of ~10.5mm shares of EVRG as of March 31, 2021.
  - **Securitization**: Securitization legislation has passed and been signed in both Kansas and Missouri. Evergy has said it does not need securitization to execute its plan through 2024, but we see passage of it as a tailwind that could represent potential upside. In its five-year outlook, Evergy is currently assuming securitization for one ~500 MW coal plant in 2024, for which we estimate a book value of $300mm and a $0.07 - $0.10 ongoing EPS contribution (<3% of our '22EPS projection) that we believe could be offset with the backlog of investments or through cost cutting if not approved. EVRG said up to 3,000 MW of coal plant retirements beyond the current five-year plan carry enough asset value on the books that they would require legislation, such as securitization; the retirements could be pulled forward with passage of the law.
  - **IRPs**: On May 28th, Evergy filed its first IRP in Kansas that includes the retirement of 1,200 MW of coal and the addition of 3,200 MW of renewable generation in the next 10 years. The filing includes the same forecasted generation additions and retirements announced in April 2021 when Evergy filed its IRP with the Missouri Public Service Commission on April 30th. The transition toward more sustainable energy sources advances Evergy's goal to reduce carbon emissions 70% by 2030 (relative to 2005 levels) and achieve net-zero carbon emissions by 2045, assuming technology, regulatory, and legislative enablers have advanced to facilitate this goal. Within the next three years, the company will retire its Lawrence (KS) Energy Center and add 700 MW of solar energy.
  - **STP dockets**: In Missouri, there was a workshop in early June, which was the final step in the process. Evergy will file quarterly reports with the commission if there are any material changes to the STP. In Kansas, the STP workshop was in late May and that was the main remaining step in the schedule. For all intensive purposes, the STP dockets in are complete with the opportunity for intervenors to provide final comments in the coming weeks. As a reminder, in both Kansas and Missouri the STP is simply acknowledged and neither approved or disapproved.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$2.89**	**$3.10**	**$0.55**	**$0.71**	**$3.30**	**$3.50**	**$3.75**
Consensus				0.75	3.35	3.50	3.76
% diff.				*-6%*	*-2%*	*0%*	*0%*

Source: Evercore ISI and FactSet as of 7/13/21

Exelon

Outperform **TP $47**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year-over-year EPS to increase $0.12 to $0.67/share. Last year in 2Q20, Exelon saw a -$0.04 hit from a major storm. Weather for 2Q20 and 2Q21 was both relatively normal. We see the primarily drivers of the YoY increase to be new rates, a higher 30-year treasury driving an increased ROE in Illinois, reduced O&M at the Genco because of fewer planned outages, higher ZEC prices in New York, and a tax benefit at the Holdco that should come as part of a reversal of the loss seen in Q1 over the remaining course of the year.

- **What to look for in the earnings report (Key debates/themes):**

  - **EXC is spinning off its generation business.** The RemainCo will be comprised of the regulated utility businesses and the parent, while the SpinCo will be the generation and retail-facing businesses. The spin-off is designed to be tax-free. The RemainCo will target a 60% dividend payout ratio with the expectation that the dividend will grow in line with earnings. Management reaffirmed its utility EPS CAGR of 6-8%. They plan is to deploy $27 billion of capex over the next four years and grow rate base by 7.6%. The RemainCo plans to issue ~$1bn equity through 2024, which reflects a $0.05 reduction to utility EPS guidance in 2022-2023. Parent debt will stay at the RemainCo. The SpinCo will prioritize capital allocation to the support the balance sheet, return value to shareholders and invest in clean energy solutions. Management plans to maintain its investment grade rating metrics at both the RemainCo and SpinCo. The transaction requires approvals from FERC, NRC, and the NY PSC and is expected to close in 1Q22.
  - **PJM capacity auction results:** EXC cleared slightly more MW, but at significantly lower prices. The company cleared a total of ~13.0GW at a weighted average clearing price of ~$88/MW-d vs. ~12.8GW / $177/MW-d in the last auction. We calculate base capacity revenues for the 2022-2023 period of $420mm versus $825mm for 2021-2022. We expect 2022 EBITDA impact to be $656mm versus $925mm in 2021 (or $269mm lower) accounting for delivery year versus calendar year. EXC did not clear its Byron, Dresden and Quad Cities nuclear plants. Note Byran and Dresden are scheduled for early retirement. Quad Cities will continue to operate given it receives ZECs in Illinois. Management also said Braidwood and LaSalle nuclear plants cleared the auction, but face economic challenges due to unfavorable market rules and could potentially retire early. The company said PJM's recently introduced the Minimum Offer Price Rule (MOPR) prevented Quad Cities from the clearing in the auction. PJM is currently considering to make changes to the MOPR rule to accommodate state resource preferences.
  - **Illinois Nuclear subsidy:** Investors continue to focus on IL legislation that could provide financial support to Exelon's nuclear fleet.
  - **Rate case decisions:** in June, Exelon received rate case orders in Pepco DC, Pepco MD and PECO electric.

- **Positioning into Qtr: Neutral**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$3.22**	**$3.22**	**($0.06)**	**$0.67**	**$2.80**	**$3.00**	**$3.10**
Consensus				0.60	2.73	2.96	3.06
% diff.					*2%*	*1%*	*1%*

Source: Evercore ISI and FactSet as of 7/15/21

FirstEnergy

In Line **TP $35**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year-over-year EPS to increase by $0.02 to $0.55/share. Last year in 2Q20, weather was relatively normal, and this year we expect a modest benefit after a normal April/May and hot end of June. We expect new rates at JCP&L plus riders to provide a modest benefit YoY, and also expect to see a positive contribution from transmission revenues and lack of Covid-related expenses incurred in 2Q20. In terms of negative YoY drivers, we expect a moderate reversal of the net benefit from Covid sales in the same period last year driven by higher-margin residential load; in addition, the absence of lost distribution revenues in Ohio, increased interest expense, and higher D&A and property taxes should also contribute negatively. In summary, we expect FE to deliver $0.55, or modestly above the $0.53 midpoint of the company's $0.48-$0.58 guidance range for the quarter, largely driven by a modest weather benefit.

- **What to look for in the earnings report (Key debates/themes):**
    - **Ohio Investigation:** Investors will focus on the latest developments in OH related to bribery investigation and what the next steps are. We would expect to hear management's thoughts on House Bill 6 (HB6) and any other pending legislations that could impact company's earnings ability in the state of OH. As of last update, FE had begun discussions with the DOJ and could reach a deferred prosecution agreement. They started working with the government but could not predict the outcome, timing and potential fines, which are not baked into their current guidance. Management instituted a number of changes into their political and legislative engagement processes such as stopping all contributions to 501(c), suspending various political consulting relationships and others. FE also said that the Board's internal investigation has not revealed any material issues, between the 4Q20 and 1Q21 earnings call. They are actively working on FE forward initiatives that they laid out on the 4Q20 call. FE hired a few senior executives to enhance its compliance bench and Jesse Lynn/Andrew Teno joined the Board from Icahn Capital since last earnings call. Management also had early conversations with rating agencies regarding addressing material weaknesses and improving governance and culture. We think the company is taking a comprehensive approach to resolve and put behind current challenges.
    - **Regulatory Agenda:** We also expect additional color on Pending PUCO investigations as well as timeline for PUCO final determination of the SEET/ROE test (hearings were in May) post the Supreme Court ruling to exclude Distribution modernization rider (DMR) revenue.
    - **Equity issuance and asset sales:** First Energy currently has $600mm of equity issuance per year in its plan for 2022 and 2023. The company is considering alternative paths to raise capital, such as pursuing a minority interest divestiture, similar to the one DUK has done with a 19.9% stake in Indiana.

- **Positioning into Qtr: Neutral**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$2.58**	**$2.39**	**$0.69**	**$0.55**	**$2.50**	**$2.60**	**$2.70**
Consensus				0.57	2.51	2.61	2.69
% diff.				*-4%*	*0%*	*0%*	*0%*

Source: Evercore ISI and FactSet as of 7/13/21

HEI

In Line **TP $40**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year-over-year EPS to increase $0.05 to $0.50/share. HE operated under mostly pre-PBR mechanisms for April/May with more PBR items going into effect on June 1st. In terms of positive YoY drivers, we primarily expect lower O&M from the management audit cost savings program and improved bank provisioning. The revenue line will be impacted by a return (to customers) of some of the cost savings achieved to date, under the PBR framework. On the negative side, interest expense could be modestly higher given additional debt financing, plus there will be increased depreciation, property tax expense and likely lower AFUDC.

- **What to look for in the earnings report (Key debates/themes):**
  - **Performance Based Regulation implementation and finalization of PIMs:** On June 1st, additional PBR elements and tariffs became effective, including the Annual Revenue Adjustment (ARA), Advanced Metering Infrastructure (AMI) utilization and Low-to-moderated income (LMI) energy efficiencies, Performance Incentive Mechanisms (PIMs), Pilot project approval process, Symmetrical earnings sharing, plus scorecards and their associated reporting metrics. The Hawaiian commission also recently finalized the PIM framework with the overall headlines about the same with no major surprises, but we still expect more detail on that and potentially what HE expects to achieve.
  - **Utility regulatory lag:** Hawaiian has said it expects to earn an allowed ROE of 7.8% in 2021 versus an allowed 9.5% given a transition year for the PBR framework. Regulatory lag has been a persistent problem for the company. All things considered, we think the PIMs will enable Hawaiian to close the earned versus allowed ROE gap considerably over time.
  - **American Savings Bank**: Recall HE raised its bank guidance with Q1 results to $0.67-0.74 from $0.52-0.62 previously. Updates to guidance included a lower net interest margin (NIM to 2.80-3.00% from 2.90-3.15% previously), reduced provision expense (to $0-10mm from $17-25mm previously), higher ROA (to >0.85 from >0.70 previously) and increased dividends to HEI (to $50-60mm from $35-40mm previously). Interest rates were expected to increase further at the time of the last update, but have surprisingly fallen. Mortgage banking has been very strong and is expected to remain strong.
  - **Hawaiian economy / tourism:** the Hawaiian economy is very dependent on tourism, which has obviously taken a huge hit during Covid but has been coming back. We expect an update on the current state of the economy and outlook for the remainder of the year and beyond. The University of Hawaii Economic Research Organization recently accelerated its economic recovery outlook for the state, which would have positive implications certainly for the bank, but also for the utility and its Covid-related expenses (utilities are revenue decoupled).
  - **Utility capex**: Capex for the first quarter 2021 was ~$60 million lower than planned due to extended repairs being made at one of the substations, limiting work that could be done on other parts of the electric system. HE also experienced delays due to additional design work required for T&D projects, COVID travel limitations and meter deployment delays that impacted its grid modernization work. Despite this, HE maintained its capex forecast of $1,085-1,255mm in 2021-2023 with all three years unchanged.
  - **Status of cost savings**: HE has a management audit savings commitment of $6.6 million per year in 2021 through 2025. At the utility, the company is guiding to 1% lower O&M excluding pension this year.
  - **Stage 2 RFP**: Hawaiian filed 10 PPAs for solar and storage and two self-build storage application. The PUC has approved 5 PPAs from December 2020 to April 2021. The Stage 2 RFP has the potential to add 382 MW of solar and 2 GWh of storage by the end of 2023.

- **Positioning into Qtr: Neutral**.

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$1.99**	**$1.81**	**$0.59**	**$0.50**	**$1.98**	**$2.06**	**$2.20**
Consensus				0.47	1.99	2.05	2.17
% diff.				*6%*	*-1%*	*0%*	*2%*

Source: Evercore ISI, FactSet as of 7/13/21

NEXTera ENERGY

In Line **TP $78**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We expect year-over-year EPS to be up $0.05 to $0.70/share. We anticipate that Florida Power & Light will utilize its depreciation reserve ($578mm balance) to offset any sales declines and any weather impacts to earn the top end of its 9.6-11.6% allowed ROE band on rate base growth of 9-10%. At Gulf Power, where there is no depreciation reserve, we expect modest COVID sales declines to be offset by planned O&M reductions as Gulf earns the top half of its 9.25-11.25% ROE. Note that Gulf Power is only one-tenth the size of FPL. In general, we note that the Florida economy is has been open for months. In the Energy Resources segment, we anticipate growth to be driven by new projects added, plus existing projects; note that the wind production was a 99% index score in 2Q20 (every 1% change in the index is $0.01-0.02 of EPS). At NEER, there was the planned nuclear outage of Seabrook last year in 2Q20 that did not occur this year; this provides an offset to the retirement of Duane Arnold that occurred in 1Q21. Lastly, Mountain Valley Pipeline AFUDC (we estimate just $0.02) has been removed this year following the halt of the project.

- **What to look for in the earnings report (Key debates/themes):**
  - **Rate case**: the combined FPL-Gulf Power rate case was filed in March for new rates effective January 2022. NextEra is requesting a 11.5% allowed ROE, which includes a 50 basis point performance incentive, and equity ratio of 59.6% excluding deferred taxes (~45% including). In 2024-2025, they requested 900 MW per year of the solar base rate adjustment mechanism (SOBRA) recovery. NEE believes the company is in a strong position with arguably the strongest utility performance in the country (e.g. low customer bills, high reliability, clean emissions profile, high customer satisfaction.). Rebuttal testimony is due July 14th, then hearings will start August 16th through the 27th with a decision expected in Q4 with new rates effective January 1, 2021. In the last FPL rate case, a settlement was reached in October.
  - **Sales trends and amount of utilization of FPL's depreciation reserve**: Recall that FPL has the depreciation reserve that it can use to offset any negative sales impact on earnings. NEE had a robust $578mm reserve balance as of the end of the first quarter 2021. We note that the Florida economy has been open for months. Every 1% impact to sales is roughly a $70mm annual hit to FPL revenue. The company has previously said that they have sufficient depreciation reserve to earn the top end of their allowed 9.6-11.6% ROE band through 2021, after which new rates are expected to go into effect from an upcoming rate case filing. At Gulf Power, where there is no depreciation reserve, every 1% change in Gulf Power sales volumes results in a $0.008/share annualized impact to EPS.
  - **M&A**: A number of months ago NextEra made an undisclosed bid for a York wastewater treatment plant. The company has said it believes it has competitive advantages that it could leverage to bring value to water utilities. NEE said it could pursue water acquisitions but the caveat is that most water utilities are not needle moving. The company said over time water may grow in its portfolio depending on value of synergies but it will probably remain a very small component for an extended period of time. NEE plans to also continue to build out its FERC transmission portfolio. The company completed the $1 billion Transbay Cable acquisition in 2019 and the $660mm GridLiance at the end of the first quarter. NextEra says the returns on these assets are attractive and believes there is a lot of growth potential to support the renewable build-out across the country. NextEra says it is always evaluating regulated utility transactions in constructive Southeast and Midwest jurisdictions (a lot of coal it can transition to renewables there) where a purchase would be immediately accretive to earnings. They pursue opportunities where they believe they implement their FPL "playbook", which includes making smart investments that lead to lower costs for customers, plus a retooling of the generation fleet and environmental footprint. Lastly, NEE rescinded its bid for Santee Cooper. The company also reportedly made an offer for the full Duke Energy Company, as well as separately for its Florida subsidiary.
  - **Renewable origination and supply chain**: Renewable origination has remained robust and there is no indication it will slow down. NEE's capital projects have so far remained on track through Covid. We believe NEE's extensive experience, scale, and relationships with customer suppliers, contractors and financers separates it from smaller developers who have less buying power and access to tax equity.
  - **Major project update**: the 409 MW Manatee Energy Storage Center, which is the world's largest integrated solar-powered battery system, is expected to be placed into service later this year. The $550mm North Florida Resiliency Connections is expected to be in service in 2022.
  - **Hydrogen**: NEE announced a $65mm renewable hydrogen pilot subject to Florida PSC approval. The company anticipates hydrogen to play a significant role beyond 2030.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$2.09**	**$2.31**	**$0.67**	**$0.70**	**$2.50**	**$2.70**	**$2.95**
Consensus				0.68	2.52	2.73	2.91
% diff.				*3%*	*-1%*	*-1%*	*1%*

Source: Evercore ISI, FactSet as of 7/13/21

NiSource®

In Line **TP $27**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year-over-year EPS to be flat at $0.13/share. Recall that NI adjusts weather out of its non-GAAP EPS results. In terms of positive drivers, we expect to see the benefit of rate relief, reversal of Covid load declines, and lower interest expense from debt pay-down with the proceeds from the Massachusetts divestiture. On the negative side, there will be the loss of Massachusetts earnings, higher O&M expense after significant cuts the same period last year during the heart of the pandemic, and share dilution from the equity unit offering.

- **What to look for in the earnings report (Key debates/themes):**
  - **Pennsylvania gas rate case:** NiSource filed a new PA gas rate case on March 31st this year requesting a $98mm revenue increase with a 10.95% equity ratio and ROE of 54.34% on a rate base of $2,673mm with a 12/2022 test year. Testimony was filed by intervening parties (documents not made public) on June 17th. The hearings are scheduled for August 3rd-5th. We note that the ALJ is different in this case than in the prior one where he recommended no rate increase given that he felt it was not just and reasonable during the pandemic; NI ultimately received a $64mm revenue increase in that case.
  - **Asset sales:** NiSource has not commented meaningfully on portfolio optimization that it first alluded to the possibility of at its Analyst Day in September 2020, but said it is always evaluating options to maximize shareholder value. With the subsequent equity unit offering, NI eliminated its planned block equity issuance of $500-700mm for 2022-2023 and reduced its 2023 ATM equity offering plan to $0-150mm from $200-300mm.
  - **Renewable projects**: NiSource has three projects pending decision in Indiana, including two 200 MW build-on-transfer and one 200 MW PPA. The company expects a decision sometime in early August. If the three pending projects are approved, all of NiSource's 14 planned renewables will have then been approved.
  - **Ohio rate case**: on June 30th, NiSource filed on Ohio rate case, requesting a $221mm revenue increase with a 10.95% ROE and 50.6% equity ratio on a rate base of $3,560mm with a 12/2021 test year. No procedural schedule has been laid out yet. The rate case was required as part of a settlement in 2016 for one of the rider mechanisms.
  - **Next Indiana IRP and coal retirements**: In November 2021, NIPSCO will submit an IRP that would update long-term generation plans, including the planned retirement of Michigan City Generating Station, and could create additional capex opportunities. NI said in evaluation of economics it decided to initiate retirements of two (Unit 14 and 15) of the four Schafer coal units by the end of 2021 with no impact to earnings; recall all four of which have been planned to be retired by May 2023 per the 2018 IRP**.** The RFP in this process was introduced in May and NI has now received all the bids. By October 2021, a directional preferred plan should be laid that is narrower than the RFP document but likely will not include the full MWs or owned versus PPA breakdown.

- **Positioning into Qtr: Neutral**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$1.32**	**$1.32**	**$0.77**	**$0.13**	**$1.34**	**$1.42**	**$1.51**
Consensus				0.13	1.35	1.41	1.53
% diff.				*0%*	*-1%*	*1%*	*-1%*

Source: Evercore ISI, FactSet as of 7/13/21

nrg

In Line **TP $42**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EBITDA Bridge:** We project NRG's Q2 EBITDA to be $575MM. Post the Direct energy acquisition we project VST to generate ~20% of annual EBITDA in the second quarter, historically NRG has generated 25-30% of annual EBITDA in the second quarter. Our $575 MM estimate is ~20% of NRG's adjusted 2021 EBITDA guidance range.

- **What to look for in the earnings call (Key debates/themes):**
    - **Analyst Day highlights:** NRG hosted an investor day on June 17 laying out its key priorities and growth strategy through 2025. The company projects 15-20% growth in free cash flow per share from 2020 through 2025. Direct energy acquisition (announced 07/2020), $2B in investments at 12-15% unlevered pretax return and $2.7B share buyback program are the major components of the cash flow/share growth offset by asset sales and 1.6GW of PJM coal capacity to be retired in 2022. NRG projects to achieve ~3x net debt to EBITDA by year end not including the Uri impact. They still target 2.50x-2.75x net debt to EBITDA in 2022 with a goal to achieve investment grade ratings sometime in the future. Dividend is still expected to grow 7-9% using 2020 starting point of $1.20.
    - **Storm Uri impact.** Estimated 2021 loss from winter Storm Uri was unchanged at $975MM on the Analyst Day with potential offsets in the range of $275-$475m including bad debt mitigation, bilateral contract non-performance, securitization, and one-time cost savings.
    - **Forward Power Prices.** Forward price curves in both ERCOT and PJM have moved materially higher but given NRG's matched retail load book we don't expect material upside to our forward looking estimates.
    - **PJM Auction results.** The PJM capacity auction prices for the '22/'23 Base residual auction (BRA) were lower in all zones vs. last auction – RTO the most negative surprise, down nearly $90/MW-d / or >64%. Within our coverage universe PEG, NRG & VST cleared significantly less capacity at materially lower prices. EXC cleared slightly more MW, but at a significantly lower price. We estimated $84MM EBITDA (3% of consolidated EBITDA) hit versus last auction for NRG, see out note here.

- **Positioning into Qtr: Neutral.**

Adj. EBITDA	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$1,977**	**$2,004**	**$567**	**$575**	**$2,400**	**$2,500**	**$2,600**
Consensus				608	1,889	2,481	2,500
% diff.				*-5%*	*27%*	*1%*	*4%*

Source: Evercore ISI, Factset as of 07/14/21

Outperform **TP $35**
Analyst: Durgesh Chopra / Michael Lonegan

OG/E

- **Q2 EPS Bridge:** We project year-over-year adjusted EPS to increase $0.02 to $0.53/share. Last year in 2Q20, weather was $0.01 unfavorable and this year in 2Q21 we expect it to be $0.02 unfavorable. We expect positive YoY drivers to include load growth when compared to the same period last year during the trough of the pandemic. We also anticipate positive contributions from the Oklahoma Grid Enhancement mechanism, higher Arkansas formula rates, and an improvement at the parent (guidance for the year is $0.00). In terms of negative YoY drivers, we expect higher depreciation and property taxes. We see O&M and interest expense as relatively flat.

- **What to look for in the earnings report (Key debates/themes):**
  - **ET-ENBL merger**: We could potentially get more thoughts from management on its plan to sell ET units over time, though we see that commentary as more likely after transaction closure, which is expected in 2H21. After closure of the deal, OGE will own roughly 3% of Energy Transfer common units that is likely to be opportunistically sold over time. Assuming OGE sells its stake ratably over five years, we see the transaction at 3-4% value accretive ($1.05-1.40/share) to our price target of $35. We assume OGE uses the proceeds to satisfy its negative -$850mm tax basis with the remaining amount to be invested in the utility at a 9.5% ROE, or for buying back shares. OGE will lose about $73mm of cash distribution from ENBL, partially offset by receipt of $57mm from ET, based on current distribution levels. In the scenario where OGE reinvests, we see the $0.04-0.08 of EPS accretion in 2022-2023. If OGE were to buy back shares, we estimate $0.03-0.07 of EPS accretion in 2022-2023. As with CNP, we estimate ET's value to OGE based on its pre-transaction trading price on 2/15/21 close, and assume OGE's stake is 1.5% in 2023.
  - **Securitization filing**: both Oklahoma and Arkansas have passed securitization laws. OGE has a pending securitization filing in Oklahoma for $830mm of the total $930mm ($100mm is in AR) of the total Winter Storm Uri costs. OGE filed testimony about a month ago and responsive testimony is due August 23rd, with rebuttal testimony on September 13th. In Arkansas, the company has a 10-year recovery amortization at the customer deposit rate, which approximates the cost of financing. OGE suspended the docket requesting the WACC recovery to focus on the Oklahoma docket first. The company has said it will turn its attention back to Arkansas after it gets through the Oklahoma process.
  - **Credit rating and financing**: following the winter event, OGE was placed on Negative outlook by Moody's for its Baa1 rating. OGE has said it is targeting FFO to debt of 18.0-20.0% in 2021-2023 versus a high teens downgrade threshold; the company has said it would not issue equity to sustain its rating. We note that the downgrade threshold could be lowered after the ET-ENBL transaction is completed and there is line of sight into a more de-risked business.
  - **O&M management**: Management has said there is about $20mm of costs that it has structurally removed from the business. However, note they did defer some maintenance activities and plant work that will pick up in 2021.
  - **Customer growth**: customer growth has remained strong even through the pandemic where the company saw a ~1.4% increase YoY in 1Q21 and 1.1% increase in 4Q20.
  - **Next Oklahoma rate case**: Recall in the Oklahoma Grid Enhancement Mechanism settlement, OGE agreed to file a base rate case on or before the end of 1Q22. The company has indicated that it plans to file by the end of 2021.
  - **IRPs:** due by October 1st in both Oklahoma and Arkansas. OGE will filed draft IRPs a few months before that to kick off the review process.

- **Positioning into Qtr : Neutral**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$2.16**	**$2.08**	**$0.26**	**$0.53**	**$2.12**	**$2.26**	**$2.38**
Consensus				0.53	2.19	2.15	2.23
% diff.				*0%*	*-3%*	*5%*	*7%*

Source: Evercore ISI, FactSet as of 7/13/21

PINNACLE WEST
CAPITAL CORPORATION

In Line **TP $81**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year-over-year EPS to increase $0.04 to $1.75/share. Recall that weather was favorable ($37mm pre-tax benefit) and we expect favorable weather this year after a hot June (see weather data on its website). We see the primary driver of the YoY increase being the favorable weather, sales / customer growth, a pension benefit, plus modestly positive contributions from the LFCR and TCA riders. In terms of negative drivers, we expect higher O&M after cuts last year (goal is to keep O&M flat per kWh this year), as well as increased D&A and property taxes, and higher interest expense.

- **What to look for in the earnings report (Key debates/themes):**
  - **Rate case:** An opinion and order from the ALJ is expected any day now and the Arizona commission will likely vote on it in the third quarter. In May 2021, the Commission decided not to reopen the evidentiary record to include additional evidence regarding adjusted cost recovery mechanisms. Rates will not be retroactive. Pinnacle West has been saying it will not issue 2021 EPS guidance until after the rate case concludes, when it will likely update its financing plans as well. Historically, the Arizona commission has issued ROEs that are 25-50 basis points above Tucson Electric's in acknowledgement of APS' higher risk given its ownership and operation of the Palo Verde nuclear plant. As a reminder, Tucson was granted a 9.15% ROE and 0.2% return on fair value increment; it received an equity ratio of ~53% that was in line with its request. Despite the historical ROE premium APS has received in the past, things are more uncertain now because there are two new commissioners on the bench following the November 2020 election. APS is also seeking regulatory approval for an adjustor mechanism to enable more timely recovery of sizable clean investments; Staff has opposed it, while some intervenors including Navajo Nation and renewable energy groups have been in strong support. PNW has said it believes the mechanism is complementary to what the majority of what the commissioners want, but we believe the likelihood of approval is low on the first request in a historically challenging jurisdiction. PNW has said they will continue to seek a mechanism if it is not approved in the rate case as they believe it is appropriate way to recover costs and minimize regulatory lag while managing cash flow and credit metrics. The company has also said it will continue forward with its clean energy capex forecast to align with the Commission's energy rules. If PNW is not granted the mechanism that would just mean they would have to go in for more rate cases and seek alternatives to manage their cash flows and credit metrics. We estimate the Arizona Corporation Commission (ACC) jurisdiction accounts for 85% of consolidated earnings for Pinnacle West.
    EPS guidance to be issued after the rate case: PNW has said that it will not issue 2021 EPS guidance until after its Arizona rate case concludes. Key items to consider aside from the rate case outcome are the 0.5-1.5% load growth this year, the LFCR rider, TCA adjustor, AFUDC and expectation for flat O&M per kWh sales, excluding planned outages. It is also important to note that there are $110mm of existing costs to offset the revenue increase from the rate case; these include costs related to depreciation rate changes, Four Corners SCR and Ocotillo Modernization project deferred costs and deferral amortization.
  - **Customer growth**: the economic backdrop in Arizona has remained strong with new business announcements and housing expansions. The company expects to average 1.5-2.5% retail customer growth in 2021-2023, which would translate to weather-normalized retail sales growth of 1.0-2.0%, on average for 2021-2023.
  - **Equity issuance plans**: PNW has said it still plans to issue $300-400mm of equity to balance its capital structure before its next rate case (after the current one). The company added the timing and need for equity obviously depends on the outcome of the current rate case, in addition to any potential tax reform under Biden's administration.
  - **Deregulation proceeding**: No workshops are currently scheduled. We view the likelihood of deregulation as a low probability outcome given that it was previously deemed unconstitutional and support of it does not seem very strong.

- **Positioning into Qtr : Positive**: We project an above-consensus $1.75 EPS versus the Street's $1.57 primarily due to favorable weather.

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**4.77**	**4.87**	**0.32**	**1.75**	**5.00**	**5.20**	**5.45**
Consensus				1.57	4.97	5.10	5.33
% diff.				*12%*	*1%*	*2%*	*2%*

Source: Evercore ISI, Factset as of 7/13/21

100 ppl
A century of people powering life.

In Line **TP $31**
Analyst: Durgesh Chopra

- **Q'2 EPS Bridge:** We project year-over-year ongoing EPS to be $0.02 higher to $0.24 driven by higher electric demand and return on transmission investments, partially offset by higher D&A/other costs. Given pending Narragansett Electric Company transaction, we don't expect management will provide near- or long-term guidance on the upcoming earnings call.

- **What to look for in the earnings report (Key debates/themes):**
  - **UK Sale:** On 06/14/21, PPL announced that they completed the previously announced sale of its UK subsidiary to National grid. The company received $10.4bn in net cash proceeds in line with previous disclosures.
  - **PPL acquisition of Narragansett Electric Company from National Grid for $3.8bn.** The transaction implies a 22x LTM earnings or 1.7x rate base. Management expects the net equity purchase price of $3.3bn, after $500m tax benefits, will be funded with the sale of the UK business. They will also assume $1.5bn of Narragansett debt at closing, which is expected by first quarter 2022. Narragansett is a largest electricity T&D and gas distribution company in Rhode Island with $2.8bn rate base as of 2020. They have been growing rate base at an average CAGR of 9% for the last five years, significantly higher vs. peers due to favorable regulatory regime (multi-year framework, riders, decoupling, FERC formula rate) supporting company's capex programs and related infrastructure improvements. Management did not specify future growth targets (expected to be announced post acquisition close projected to be in Q1 2022), but they sounded confident they could maintain robust earnings growth prospects in line with utility peers.
  - **PPL plans to use remaining ~$6Bbn to strengthen its balance sheet and growth opportunities.** Management plans to repay $3-$3.5bn of the parent debt with the residual cash proceeds to reach FFO-to-Debt of 16-18% and parent debt to total debt to less than 25%. Management targets debt-to-total capitalization ratio of 45-55%. They do not plan to issue external equity and target dividend payout ratio of 60-65% of earnings post-closing of transactions. Management plans to deploy remaining capital (~$3B) for incremental organic and strategic growth opportunities. An update on PPL's long term earnings growth targets is expected by Q1 2022.
  - **KY rate decision:** On June 30, 2021, the Kentucky Public Service Commission ("KPSC") issued orders approving increases in annual electricity revenues of $73 million and $106 million at LG&E and KU, respectively, and an increase in annual gas revenues of $20 million at LG&E. The orders include an authorized 9.425% (vs 9.55% currently) return on equity in such base rate calculations and an authorized 9.35% return on equity for environmental compliance recovery and gas line tracker mechanisms. The orders approved annual revenue amounts that represent increases of approximately 6.4%, 6.5% and 5.7%, respectively, from LG&E and KU annual electricity revenues and LG&E annual gas revenue. The order also calls for PPL to refrain from effective base rate increases before July 1, 2025, including certain exceptions subject to KPSC review.

- **Positioning into Qtr: Neutral**. We note that our annual estimates (to be updated) still include the UK business which was recently sold to National grid on 06/14/21.

Adj. EPS	2019A	2020E	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$2.45**	**$2.40**	**$0.28**	**$0.24**	**$2.50**	**$2.60**	**$2.70**
Consensus				0.40	2.31	1.71	1.86
% diff.					*8%*	*52%*	*45%*

Source: Evercore ISI, Factset consensus as of 7/14/21

PSEG
We make things work for you.

In Line **TP $61**
Analyst: Durgesh Chopra

- **Q'2 EPS Bridge:** We project year-over-year EPS to decrease by $0.07/sh (~10%) to $0.72 mostly driven lower earnings at Genco due to one-time $0.05 tax benefit and $0.03 re contracting and marketing benefit booked in Q2 2020. At the utility, we expect earnings to be higher driven by transmission investment and lower pension expense offset by higher depreciation and other expenses.

- **What to look for in the earnings report (Key debates/themes):**

  - **PJM Auction results.** The PJM capacity auction prices for the '22/'23 Base residual auction (BRA) were lower in all zones vs. last auction – RTO the most negative surprise, down nearly $90/MW-d / or >64%. Within our coverage universe PEG, NRG & VST cleared significantly less capacity at materially lower prices. EXC cleared slightly more MW, but at a significantly lower price. We estimated $100MM EBITDA (2% of consolidated EBITDA) hit versus last auction for PEG, see our note here.
  - **Progress on separating the GenCo business:** Management entered into agreement to sell its solar portfolio (467MW) to LS Power. The economics of transaction were not disclosed, but management believes it would be value and earnings accretive. They expect the transaction to close in Q'2/Q'3 of '21. Management continues to work on the fossil asset sale transaction and believes the deal could be reached in the second half of 2021. We previously estimate the deal could be $2/sh-$4/sh value accretive.
  - **Zero Emission Credits (ZEC) filing in focus.** NJ BPU recently extended PEG's ZEC $10/MWh credit through May 2025. We will look for management commentary on steps they could take at the federal and state level to ensure long term support for their nuclear fleet.
  - **Regulatory Agenda:** BPU recently approved PEG's EE filing as well as AMI/EV filings. So from regulatory perspective they have light agenda. A new docket reviewing the FRR option at NJ is ongoing; we think investor would like to get more color on that docket and potential implications as it relates to the offshore wind project.
  - **FERC ROE.** On 07/14/21 PEG announced an agreement with various parties which if approved by the FERC would lower its allowed ROE from 11.18% to 9.9% (in line with recent FERC recent decisions). The financial impact of this settlement agreement is expected to lower PSE&G's net income by approximately $50M to $60M, or $0.10 per share to $0.12 per share, on an annual basis in the first 12 months, once implemented

- **Positioning into Qtr: Neutral.**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$3.28**	**$3.43**	**$1.28**	**$0.72**	**$3.40**	**$3.55**	**$3.70**
Consensus				0.68	3.46	3.48	3.58
% diff.				*6%*	*-2%*	*2%*	*3%*

Source: Evercore ISI, FactSet as of 7/14/21

Sempra Energy

Outperform **TP $143**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year-over-year EPS to decline by $0.08 to $1.57/share driven primarily by reduced contributions across most of the business lines: SDG&E, SoCal Gas, Chile (sold) and Mexico.

- **What to look for in the earnings report (Key debates/themes):**
    - **Quiet quarter following June 29th Investor Day**: At its Investor Day, Sempra increased its full-year adjusted 2021 EPS guidance range to $7.75-8.35 from $7.50-8.10, which at the $8.05 midpoint was roughly in line with consensus of $8.08. The company also issued 2022 EPS guidance of $8.10-8.70, which at the $8.40 midpoint was modestly below the Street's $8.47 estimate. Sempra also reaffirmed its front-loaded (management said the back end could be conservative) $32 billion capex program for 2021 through 2025, for which roughly 90% will still be directed to US utilities. This spending is still expected to drive consolidated rate base CAGR of ~8.6% in 2020 through 2025. However, the company highlighted ~$2-3 billion of incremental capex opportunities for which the vast majority could be spent at the utilities and present upside to the rate base CAGR to 9.0-9.5%, on our estimates. In summary, we view SRE's Investor Day update as neutral compared to the most recent Q1 update.
    - **Oncor rate case extension request filing**: Sempra recently filed a request with the PUCT to extend the Oncor rate case filing deadline from 10/1/21 to 6/1/22 in the wake of the severe winter event in February 2021 given that investigations and rulemakings will occupy much of the remainder of 2021 and beyond. The filing has received broad stakeholder support and SRE is waiting for the Commission to provide a decision in the coming weeks.
    - **Closure of sale of 20% of SIP likely on track**: Sempra said at its Investor Day on June 29th that the sale of a 20% interest in SIP is expected to close "in the coming weeks," which is relatively consistent with management's previously-stated mid-2021 target. All indications are that it remains on track to close in that timeframe.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$6.78**	**$8.03**	**$2.95**	**$1.57**	**$8.10**	**$8.50**	**$9.00**
Consensus				1.59	8.08	8.46	8.94
% diff.				*-1%*	*0%*	*1%*	*1%*

Source: Evercore ISI, FactSet as of 7/13/21

Southern Company

Underperform **TP $61**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year-over-year EPS to increase $0.01 to $0.79/share versus guidance of $0.78/share. Last year in 2Q20, weather was $0.03 unfavorable. This year in 2Q21, we expect weather to be relatively neutral to a slight benefit (+$0.01). In terms of positive YoY drivers, SO should see Covid sales improvements and the benefit of rate increases (+$0.12). For negative drivers, we expect the company to see higher O&M in the electric, gas and Southern Power businesses after substantial cuts last year during the heart of Covid. We also expect there to be a drag at the parent due to increased interest expense and higher O&M there as well.

- **What to look for in the earnings report (Key debates/themes):**
  - **Vogtle update**: Southern is currently working through Hot Functional Testing on Vogtle unit 3 with the expectation now that it will be completed by the end of July 2021 for an in-service date in the first quarter of 2022. The prior expectation as of Q1 results was that the Hot Functional Testing would be completed 45 days from the April 25th start date, then subsequently there were delays to bring the unit down to ambient temperature, among other issues. Risks remaining include 1) successful completion of Hot Functional Testing, 2) completion of construction, testing, and system turnovers leading to Fuel Load, 3) an orderly transition from Fuel Load to an efficient unit start-up. There will be a vote on Vogtle cost monitoring proceeding in the August 2021 timeframe. SO has said every one month of delays adds $25mm to capex (so up $18mm for three weeks) and has a half a penny impact to EPS due to the ROE penalty.
  - **Mississippi IRP**: filed in April 2021. Mississippi is notably long generation, so Southern is not asking to build any new plants (i.e. no incremental capex) and is just retiring the remaining coal units and a few other inefficient gas-fired plants. If the IRP is not challenged, it will become law and SO can proceed with the retirements, as planned.
  - **Other regulatory updates:** A final decision in the Virginia rate case is expected by the end of July; the Staff recommendation recently came out on March 31st and there were no surprises. SO's Nicor rate case is going through the hearing process; the filing is largely to flow riders (which are capped on amounts) into rate base, which will enable more investment in the riders going forward. A final decision is expected by the end of this year. Next year, Southern has a busy regulatory calendar in Georgia given that it will file a rate case, an IRP and have a prudency review of Vogtle.
  - **Sequent transaction closure**: On July 1st, SO closed the sale of its wholesale gas trading and services business comprising Sequent Energy Management. Southern did not achieve a material gain or loss on sale, though it will provide a return of the associated working capital and the elimination of certain credit supports of ~$1Bn. The company has always excluded Sequent earnings from its adjusted results due to its quarterly variability.

- **Positioning into Qtr: Neutral**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$3.11**	**$3.25**	**$0.98**	**$0.79**	**$3.30**	**$3.55**	**$3.85**
Consensus				0.79	3.33	3.55	3.85
% diff.				*0%*	*-1%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 7/13/21

Outperform **TP $23**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project VST's Q2 EBITDA to be $870MM. Historically VST generates 20-25% of annual EBITDA in the second quarter. Our $870MM estimate is ~20% of VST's pre Uri 2021 EBITDA guidance range adjusted higher for roughly 1/3rd of $450MM in self-help opportunities to mitigate winter storm Uri Impact.

- **What to look for in the earnings report (Key debates/themes):**

    - **Forward Power Prices.** Forward power price curves in both ERCOT and PJM have moved materially higher since company's Q1 update. With 2021 mostly hedged we see upside to the magnitude of 15% to our 2022 EBITDA estimates.
    - **Storm Uri impact and self-help measures:** On 04/26 management updated it previously provided storm impact from ($0.9)-($1.3) bn to $2.075bn. Separately, management identified self-help opportunities (monetization of certain commercial positions, O&M/SG&A savings, others) in the range of $450-$500m to offset some of the storm impact. In addition, VST is pursuing legal actions on two fronts: 1) The company is challenging the validity of the PUCT's pricing order on February 15/16th. 2) The company is challenging force majeure and curtailment notices from its gas suppliers. Management acknowledges these potential opportunities for recovery could take some time to play out, hence they don't include them into their updated guidance
    - **PJM Auction results.** The PJM capacity auction prices for the '22/'23 Base residual auction (BRA) were lower in all zones vs. last auction – RTO the most negative surprise, down nearly $90/MW-d / or >64%. Within our coverage universe PEG, NRG & VST cleared significantly less capacity at materially lower prices. EXC cleared slightly more MW, but at a significantly lower price. We estimated $107MM EBITDA (3% of consolidated EBITDA) hit versus last auction for VST, see out note here.
    - **Capital Allocation:** VST hosted a virtual analyst day last year where they discussed two main themes: 1) Capital Allocation. 2) Portfolio Transition. At the end of the day, VST has to put up cash flows that are in fact somewhat resilient to wholesale price declines. They understand this and that is part of the reason for the LT Outlook. They must also maintain capital discipline by keeping capex low sticking to conservative debt/EBITDA targets, and buying back stock, and keep optimizing their fleet. We also need to see some evidence that power market and capacity market conditions will stabilize.

- **Positioning into Qtr:** **Neutral.**

Adj. EBITDA	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$3,325**	**$3,685**	**($1,241)**	**$870**	**$1,600**	**$3,200**	**$3,250**
Consensus				839	1,638	3,270	3,088
% diff.				*4%*	*-2%*	*-2%*	*5%*

Source: Evercore ISI, FactSet of 07/14/21

WEC Energy Group

In Line **TP $95**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year-over-year EPS to increase $0.03 to $0.79. We model $0.03 weather favorability in our Q2 estimates putting us higher than WEC's weather normal Q2 2021 guidance range of $0.75-$0.77.

- **What to look for in the earnings report (Key debates/themes):**
  - **WI Rate Case**. On March 30, 2021 WEC filed a request with the Public Service Commission of Wisconsin to allow the company to forego requests to increase electric, natural gas and steam base rates effective 01/01/22. Per the agreement filed, WEC Utilities expect to file full test year 2023-2024 base rate cases by no later than May 1, 2022. The commission is expected to rule over the petition in the coming months.
  - **Infrastructure segment update**. On March 1, WEC announced its intent to purchase 90% interest in Jayhawk Wind farm for $302MM. The project is under development by Apex clean energy and will be co-owned and operated by Invenergy. The project consists of 70 wind turbines located in Kansas with a total capacity of 190MW. Jayhawk is expected to be in commercial service late 2021 and has secured a long term offtake agreement with Facebook. Jayhawk and previously announced Thunderhead make up roughly $700MM of the expected $2.1B investment in the infrastructure segment over the five year period ending in 2025.
  - **Regulatory matters**. WEC has two open rate cases in IL and MI with combined total rate increase request of $23MM, final decisions are expected in 2H 2021. We would also expect discussion around IL gas infrastructure rider (in place through 2023) which has been a topic of debate amongst investors after Governor Pritzker issued a proposal last year which could end monthly infrastructure investment surcharges (Rider QIP) for gas companies. Instead, gas infrastructure spending would be approved through the Illinois Commerce Commission's traditional ratemaking process.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$3.58**	**$3.79**	**$1.61**	**$0.79**	**$4.01**	**$4.27**	**$4.57**
Consensus				0.78	4.03	4.30	4.57
% diff.				*1%*	*0%*	*-1%*	*0%*

Source: Evercore ISI, Factset as of 01/28/21

Xcel Energy®

In Line **TP $70**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q2 EPS Bridge:** We project year-over-year EPS to grow $0.02 to $0.56/share. Weather last year in 2Q20 was modestly favorable, and we estimate weather this year to also be moderately favorable. Positive YoY drivers include higher sales volumes when compared to the drop in Q2 2020 during the heart of Covid, as well as capital riders, a sales true-up in Minnesota, as well as new rates in Colorado, New Mexico plus interim rates in North Dakota. In terms of negative drivers, O&M should be higher YoY (despite flat full-year guidance) after reductions during the same period last year. Depreciation expense, interest, property taxes and share dilution should also contribute negatively.

- **What to look for in the earnings report (Key debates/themes):**
    - **Minnesota Relief & Recovery:** In December 2020, the MN commission approved the wind repowering of four owned farms for $750mm of capex. The Commission also recently approved the Allete wind PPA buyout ($210mm). For the additional 460MW of Sherco solar ($575mm), the company expects a decision in 2H 2021. Xcel expects to finance these investments with 50% equity / 50% debt. The investments are expected to be eligible for the renewable rider recovery.
    - **Incremental Colorado transmission investments**: XEL made a CPCN filing in March 2021 for a $1.7 billion in transmission backbone investment in Colorado, including $1.3 billion ($700mm incremental to current base plan) in 2021-2025 and $400mm in 2026-2027. The investment would enable 5,500 MW of renewable generation, through 560 miles of 345 kV lines with three new and four expanded substations. A final decision is expected in 1Q2022.
    - **Colorado Resource Plan:** the Plan was filed in March 2021 and is currently in the discovery phase. It will address remaining coal unit retirements of Comanche 3 (500 MW) by 2040 with reduced operations beginning in 2030, Pawnee (505 MW) conversion to gas by 2028, and Hayden 1&2 (233 MW) retirements in 2028 / 2027, respectively. Targets will be consistent with the company's goal to reduce carbon emissions by 85% by 2030 and coal exit by 2040.
    - **Minnesota Resource Plan**: XEL filed an alternative Minnesota IRP recently following controversy over a combined cycle plant as Sherco. Key changes in the alternative plan versus the original one include adding an 800 MW of a gas combustion turbine plant, building additional transmission lines from the site of retiring coal units and an increased amount of renewables.
    - **Rate cases:** On July 2nd, Xcel filed a Colorado electric rate case that primarily reflects investment in distribution infrastructure, wildfire mitigation improvements, investment in an Advanced Grid Intelligence and Security (AGIS) initiative, transmission expansion projects to enable renewable integration in Colorado, and the 500 MW Cheyenne Ridge wind farm. XEL also has a pending Texas rate case that was filed in February 2021 (required for Sagamore wind project), for which it is scheduled to get intervenor testimony in August. On July 1st, Xcel reached an uncontested settlement in its North Dakota case; note ND is a very small jurisdiction and the settlement only includes a $7mm revenue increase. On July 2nd, XEL reached a settlement in its Wisconsin rate case, which incorporates capex in renewables, and other generation, transmission and distribution system infrastructure planned for 2021-2023. In addition, NSP-Wisconsin is making considerable natural gas distribution investments to ensure safe and reliable service. On June 23rd, Xcel reached an uncontested comprehensive stipulation in its New Mexico rate case that was required for the Sagamore wind project.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2019A	2020A	1Q21A	2Q21E	2021E	2022E	2023E
EVR ISI	**$2.64**	**$2.79**	**$0.67**	**$0.56**	**$3.00**	**$3.15**	**$3.35**
Consensus				0.55	2.97	3.17	3.37
% diff.				*2%*	*1%*	*-1%*	*-1%*

Source: Evercore ISI, FactSet as of 7/13/21

EVERCORE ISI

Q2 Estimates vs. Consensus and Positioning for Quarter

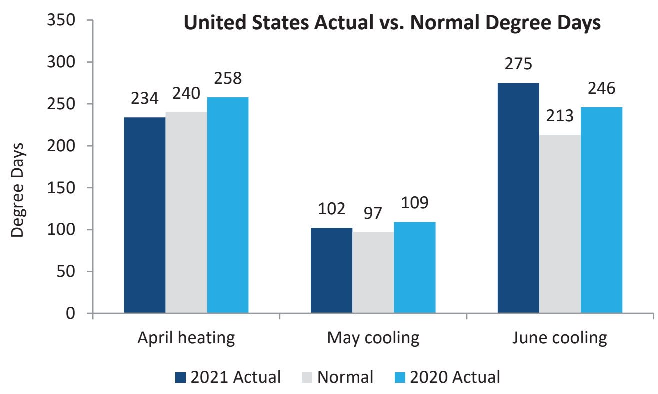
Q2'21 EPS Estimates vs. Consensus				
Ticker	Evercore ISI	Consensus	% Diff	Positioning for Q2
AEE	0.80	0.88	-9.4%	Negative
AEP	1.13	1.13	0.4%	Neutral
AES	0.30	0.30	-1.6%	Neutral
CMS	0.45	0.42	7.1%	Neutral
CNP	0.26	0.24	6.2%	Neutral
D	0.75	0.80	-6.4%	Neutral
DTE	1.45	1.23	18.3%	Neutral
DUK	1.17	1.10	6.5%	Positive
ED	0.60	0.60	0.4%	Neutral
ES	0.80	0.81	-1.1%	Neutral
ETR	1.42	1.42	-0.2%	Neutral
EVRG	0.71	0.75	-5.7%	Neutral
EXC	0.67	0.60	12.1%	Neutral
FE	0.55	0.57	-4.3%	Neutral
HE	0.50	0.47	6.4%	Neutral
NEE	0.70	0.68	2.8%	Neutral
NI	0.13	0.13	0.0%	Neutral
OGE	0.53	0.53	-0.3%	Neutral
PEG	0.72	0.68	6.0%	Neutral
PNW	1.75	1.57	11.5%	Positive
PPL	0.24	0.40	-39.9%	Neutral
SO	0.79	0.79	0.3%	Neutral
SRE	1.57	1.59	-1.0%	Neutral
WEC	0.79	0.78	1.2%	Neutral
XEL	0.56	0.55	2.2%	Neutral
Average			**0.5%**	

Q2'21 EBITDA Estimates vs. Consensus ($mm)				
Ticker	Evercore ISI	Consensus	% Diff	Positioning for Q2
CWEN	350	344	1.7%	Neutral
NRG	575	608	-5.4%	Neutral
VST	870	839	3.7%	Neutral
Average			**0.0%**	

Source: Everocre ISI, FactSet. Consensus as of 4/14/21

Weather should provide a boost to utilities earnings in 2Q21, based on NOAA degree day data

- US degree days in 2Q21 were higher than normal but roughly in line with the same period last year. We looked at April heating, May cooling and June cooling degree data from NOAA, and found that US degree days were roughly 11% higher versus normal (boosting Q2 earnings) and roughly in line with last year after a hot June. Specifically, April 2021 heating degree days were -3% below normal and -9% lower YoY. May 2021 cooling degree days were +5% above normal and -6% lower YoY. Meanwhile, June cooling degree days were +29% above normal and +12% higher YoY. For the full second quarter 2021, all nine regions in the US had higher degree days than normal. Versus last year, the New England, Middle Atlantic, NE Central, NW Central, SW Central and Mountain regions were lower YoY. In contrast, the South Atlantic and Pacific regions were higher YoY while the SE Central was roughly in line.



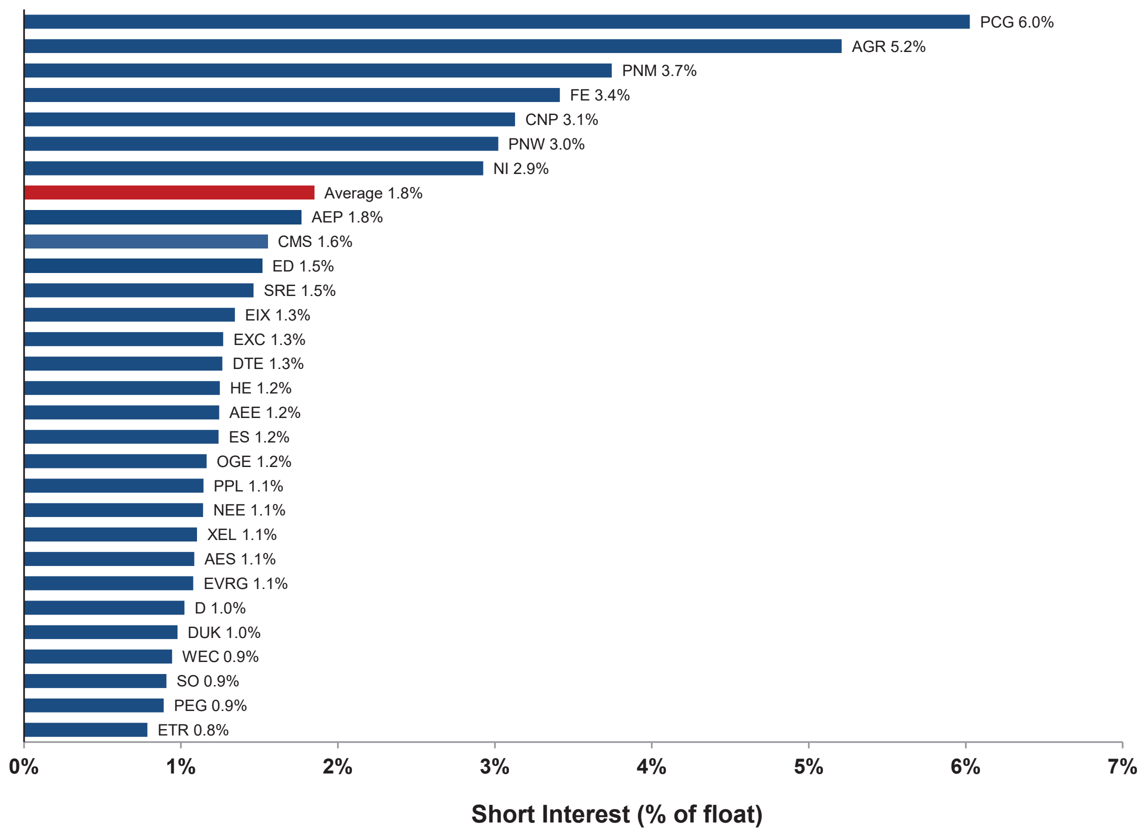
Region	April heating 2021 actual	April heating 2020 actual	April heating norm	% change vs. year-ago	% change vs. norm
New England	499	623	568	-20%	-12%
Middle Atlantic	423	529	491	-20%	-14%
NE Central	438	538	491	-19%	-11%
NW Central	462	509	447	-9%	3%
South Atlantic	136	136	132	0%	3%
SE Central	248	252	217	-2%	14%
SW Central	117	106	87	10%	34%
Mountain	256	309	314	-17%	-18%
Pacific	316	347	344	-9%	-8%
United States	**234**	**258**	**240**	**-9%**	**-3%**

Region	May cooling 2021 actual	May cooling 2020 actual	May cooling norm	% change vs. year-ago	% change vs. norm
New England	24	24	6	0%	300%
Middle Atlantic	39	29	23	34%	70%
NE Central	58	51	49	14%	18%
NW Central	56	42	65	33%	-14%
South Atlantic	209	193	177	8%	18%
SE Central	143	152	136	-6%	5%
SW Central	233	280	252	-17%	-8%
Mountain	95	132	96	-28%	-1%
Pacific	12	44	36	-73%	-67%
United States	**102**	**109**	**97**	**-6%**	**5%**

Region	June cooling 2021 actual	June cooling 2020 actual	June cooling norm	% change vs. year-ago	% change vs. norm
New England	163	129	63	26%	159%
Middle Atlantic	194	174	117	11%	66%
NE Central	226	196	147	15%	54%
NW Central	275	266	192	3%	43%
South Atlantic	355	352	319	1%	11%
SE Central	324	314	296	3%	9%
SW Central	451	455	431	-1%	5%
Mountain	316	234	229	35%	38%
Pacific	177	96	100	84%	77%
United States	**275**	**246**	**213**	**12%**	**29%**

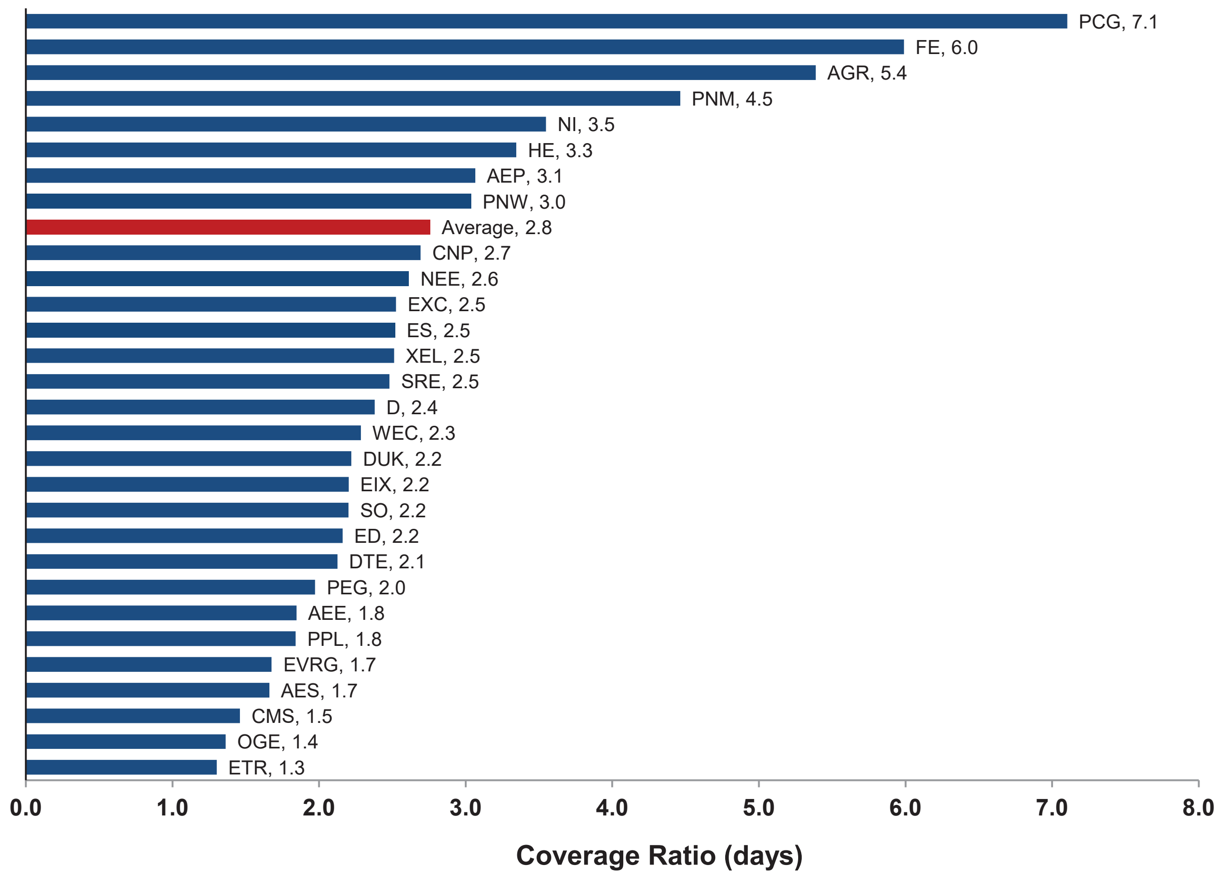
Source: NOAA, Evercore ISI Research

Short Interest as Percentage of Float



Source: Factset as of 7/14/21

Coverage Ratio (Days)



Source: Factset as of 7/14/21

EVERCORE ISI

Regulated Utility Valuation Goes To ~17.2x '23 EPS

Regulated Utilities

Ticker	Company Name	7/14/21 Price	ISI Rating	Shares Out	Market Cap	2021 Div Yld	2021 Payout	ISI EPS Estimate 2021	ISI EPS Estimate 2022	ISI EPS Estimate 2023	P/E Multiple 2021	P/E Multiple 2022	P/E Multiple 2023	'19-'23 EPS Growth	Price to Book	Prem. to Group
NEE	NextEra Energy, Inc.	$75.70	In Line	1,984	150,181	2.0%	62%	2.50	2.70	2.95	30.2x	28.0x	**25.6x**	8.9%	3.7x	49%
WEC	WEC Energy Group	$93.15	In Line	317	29,501	2.7%	64%	4.01	4.27	4.57	23.3x	21.8x	**20.4x**	6.3%	2.6x	18%
XEL	Xcel Energy Inc	$68.09	In Line	535	36,442	2.6%	60%	3.00	3.15	3.35	22.7x	21.6x	**20.3x**	6.1%	2.3x	18%
AEE	Ameren Corp	$83.22	Outperform	261	21,743	2.6%	59%	3.75	4.00	4.30	22.2x	20.8x	**19.3x**	6.4%	2.1x	12%
HE	Hawaiian Electric Industries, Inc	$42.00	In Line	111	4,644	3.2%	69%	1.98	2.06	2.20	21.2x	20.4x	**19.1x**	3.2%	1.8x	11%
ES	Eversource Energy	$84.04	In Line	347	29,164	2.9%	62%	3.90	4.15	4.44	21.5x	20.3x	**18.9x**	6.5%	1.9x	10%
CMS	CMS Energy Corp	$60.48	In Line	296	17,897	2.9%	61%	2.85	3.06	3.27	21.2x	19.7x	**18.5x**	7.1%	2.7x	7%
DUK	Duke Energy Corp	$102.70	In Line	750	77,057	3.8%	75%	5.20	5.45	5.80	19.7x	18.9x	**17.7x**	3.4%	1.6x	3%
D	Dominion Resources Inc	$75.24	Outperform	828	62,327	3.3%	65%	3.85	4.12	4.40	19.5x	18.3x	**17.1x**	0.9%	2.2x	-1%
NI	NiSource Inc	$25.18	In Line	447	11,249	3.5%	67%	1.32	1.40	1.48	19.1x	17.9x	**17.0x**	2.9%	2.2x	-1%
EVRG	Evergy	$62.31	Outperform	228	14,176	3.5%	63%	3.45	3.50	3.75	18.1x	17.8x	**16.6x**	6.9%	1.9x	-4%
AEP	American Electric Power Co Inc	$86.18	Outperform	508	43,783	3.6%	65%	4.70	5.00	5.35	18.3x	17.2x	**16.1x**	6.1%	1.8x	-7%
SO	Southern Company Inc	$61.89	Underperform	1,078	66,720	4.2%	79%	3.30	3.55	3.85	18.7x	17.4x	**16.1x**	5.6%	2.1x	-7%
CNP	CenterPoint Energy Inc	$24.77	Outperform	589	14,578	2.5%	45%	1.35	1.50	1.60	18.3x	16.5x	**15.5x**	-2.6%	2.4x	-10%
PNW	Pinnacle West Capital Corp	$84.14	In Line	117	9,803	3.9%	66%	5.00	5.20	5.45	16.8x	16.2x	**15.4x**	3.4%	1.5x	-10%
SRE	Sempra Energy	$132.17	Outperform	313	41,343	3.4%	56%	8.00	8.25	8.60	16.5x	16.0x	**15.4x**	3.3%	1.6x	-11%
ETR	Entergy Corp	$102.53	Outperform	201	20,654	3.8%	64%	6.00	6.35	6.70	17.1x	16.1x	**15.3x**	5.6%	1.7x	-11%
ED	Consolidated Edison Inc	$73.19	Underperform	358	26,179	4.2%	73%	4.25	4.60	4.80	17.2x	15.9x	**15.3x**	2.2%	1.2x	-11%
DTE	DTE Energy Co	$114.90	In Line	198	22,782	3.8%	62%	7.15	7.50	7.95	16.1x	15.3x	**14.4x**	6.0%	1.4x	-16%
OGE	OGE Energy Corp	$33.47	Outperform	200	6,704	5.0%	78%	2.12	2.26	2.38	15.8x	14.8x	**14.1x**	2.4%	1.8x	-18%
FE	FirstEnergy Corp	$37.05	In Line	552	20,455	4.4%	65%	2.50	2.60	2.70	14.8x	14.2x	**13.7x**	1.2%	2.3x	-20%
EIX	Edison International	$57.24	In Line	404	23,144	4.5%	57%	4.50	4.65	4.90	12.7x	12.3x	**11.7x**	1.0%	1.0x	-32%
PPL	PPL Corp	$28.07	In Line	775	21,746	5.9%	67%	2.50	2.60	2.70	11.2x	10.8x	**10.4x**	2.5%	1.5x	-40%
PCG	PG&E Corp	$9.92	Rating Suspended	529	5,248	0.0%	0%	4.30	4.65	4.95	2.3x	2.1x	**2.0x**	5.4%	0.3x	-88%
Regulated Group Average (Excludes PCG for Div Values)						**3.6%**	**64.5%**				**18.1x**	**17.1x**	**16.1x**	**4.2%**	**1.89x**	
Regulated Group Average (Excluding Stocks: PPL, EIX, and PCG)						3.4%	64.7%				19.5x	18.3x	17.2x	4.4%	2.03x	
Regulated Group Max (Excludes PCG for Div Values)						5.9%	79.3%				30.2x	28.0x	25.6x	8.9%	3.7x	
Regulated Group Min (Excludes PCG for Div Values)						2.0%	45.3%				2.3x	2.1x	2.0x	-2.6%	0.3x	

Diversified Utilities

Ticker	Company Name	7/14/21 Price	ISI Rating	Shares Out	Market Cap	2021 Div Yld	2021 Payout	ISI EPS Estimate 2021	ISI EPS Estimate 2022	ISI EPS Estimate 2023	P/E Multiple 2021	P/E Multiple 2022	P/E Multiple 2023	'19-'23 EPS Growth	Price to Book	Prem. to Group
PEG	Public Service Enterprise Group	$60.39	In Line	508	30,678	3.4%	60%	3.40	3.55	3.70	17.8x	17.0x	**16.3x**	3.0%	1.8x	2%
EXC	Exelon Corp	$45.14	Outperform	984	44,426	3.6%	57%	2.80	3.00	3.10	16.1x	15.0x	**14.6x**	-1.0%	1.3x	-9%
AES	AES Corp	$24.95	Outperform	665	16,601	2.4%	39%	1.55	1.70	1.80	16.1x	14.7x	**13.9x**	6.8%	3.4x	-13%
Diversified Group Average						**3.1%**	**52%**				**16.6x**	**15.6x**	**14.9x**	**3.0%**	**2.1x**	
Diversified Group Max						3.6%	60%				17.8x	17.0x	16.3x	6.8%	3.4x	
Diversified Group Min						2.4%	39%				16.1x	14.7x	13.9x	-1.0%	1.3x	

Updated as of 7/14/21

Source: FactSet, Evercore ISI Research

Utilities are trading roughly in line with our Case 1. Post COVID valuations should diverge towards Case 2 longer term.

- Our historic base case ("case 1") assumed an orderly transition to higher interest rates, with authorized ROEs falling to 9.25% from 9.75%, and 10- year Treasury yields rising over the next several years, resulting at the end in a **2.25%** spread between the return on equity and the calculated cost of equity.
  - When you look at the current valuation of 17.2x '23, roughly in line with our "case 1" scenario of 17.5x, which as described above implies moderation in authorized ROEs and gradual increase in treasury yields.
- The perceived "best in class" earnings compounders and COVID-19 immune names (WEC, NEE, ES, XEL, CMS) trade a multiple that discounts both a more or less status quo authorized ROE regime and a longer runway for sustained rate base growth. That is "case 3".
- In our "case 4" scenario we assume authorized ROEs moderate and interest rates rise more rapidly, resulting in a more meaningful near-term reduction in profitability, along with a steeper decline in rate base growth, which drives utilities back to a P/E multiple that is closer to long-term historic averages.
- We set our target prices on "market-agnostic" basis using an anchor P/E multiple of ~17.5x '22 EPS so investors can better see where we see good relative value. Near term we could see some pressure on multiples if spreads widen, long term we see multiples diverging back towards Case 2 as the economy recovers.

DDM Model Summary	Case 1	Case 2	Case 3	Case 4
ROE and Cost of Equity Assumptions	Base Case	Rates Low Long Time	Rates Low Long Time	ROEs Fade Rates Rise
ROE (Year 1)	9.75%	9.75%	9.75%	9.75%
Annual ROE Change (+/-)	-0.10%	-0.10%	-0.10%	-0.10%
Final ROE	9.25%	9.25%	9.25%	9.25%
Years Until LT Cost of Equity Spread	5	5	5	5
Implied Annual Cost of Equity Change (+/-)	0.47%	0.37%	0.37%	0.52%
LT ROE / Cost of Equity Spread	2.25%	2.75%	2.75%	2.00%
LT Cost of Equity	7.00%	6.50%	6.50%	7.25%
Growth Assumptions	Base Case	Base Case	Higher Growth	Lower Growth
RB Growth (Year 1-5)	5.50%	5.50%	6.50%	4.00%
RB Growth (Year 6-10)	2.50%	3.50%	5.50%	2.00%
RB Growth (Year 11+ and Terminal)	1.50%	2.50%	3.00%	1.25%
Terminal Value (Yes/No)	No	Yes	Yes	Yes
35 Year Average Payout Ratio - Implied	71.2%	71.2%	67.5%	82.6%
'23 P/E Multiple	17.5x	19.5x	22.0x	15.0x

Source: Evercore ISI Research

EVERCORE ISI

Utilities Look Cheap Assuming Yields Remain Unchanged

Utility Valuation			10 YR	1.34%
7/14/21			Baa	3.33%
Confidence Intervals	**BBB Yield %**	**Expected Defensive Index Yld**	**Implied 2021 P/E**	**Upside / (Downside) for Index**
- 95% Confidence Interval	**0.47%**	**0.97%**	**65.1x**	**231.0%**
	0.69%	1.12%	56.2x	185.7%
	0.91%	1.27%	49.4x	151.3%
	1.13%	1.42%	44.1x	124.3%
	1.35%	1.58%	39.8x	102.5%
	1.57%	1.73%	36.3x	84.6%
- 68% Confidence Interval	**1.79%**	**1.88%**	**33.4x**	**69.6%**
	2.01%	2.04%	30.8x	56.9%
	2.23%	2.19%	28.7x	45.9%
	2.45%	2.34%	26.8x	36.4%
	2.67%	2.50%	25.2x	28.0%
	2.89%	2.65%	23.7x	20.6%
	3.11%	2.80%	22.4x	14.0%
Predicted Valuation	**3.33%**	**2.95%**	**21.3x**	**8.1%**
Current Valuation	3.55%	3.11%	20.2x	2.8%
	3.77%	3.26%	19.3x	-2.0%
	3.99%	3.41%	18.4x	-6.4%
	4.21%	3.57%	17.6x	-10.4%
	4.43%	3.72%	16.9x	-14.1%
+ 68% Confidence Interval	**4.65%**	**3.87%**	**16.2x**	**-17.5%**
	4.87%	4.03%	15.6x	-20.7%
	5.09%	4.18%	15.0x	-23.6%
	5.31%	4.33%	14.5x	-26.3%
	5.53%	4.49%	14.0x	-28.8%
	5.75%	4.64%	13.5x	-31.1%
+ 95% Confidence Interval	**5.97%**	**4.79%**	**13.1x**	**-33.3%**

Regulated utilities now look 8% cheap on current yields

Utility Valuation			10 YR	1.34%
7/14/21			Baa	3.33%
Confidence Intervals	**BBB Yield %**	**Expected Defensive Index Yld**	**Implied 2022 P/E**	**Upside / (Downside) for Index**
- 95% Confidence Interval	**0.47%**	**0.97%**	**65.2x**	**252.3%**
	0.69%	1.12%	56.3x	204.1%
	0.91%	1.27%	49.5x	167.5%
	1.13%	1.42%	44.2x	138.7%
	1.35%	1.58%	39.9x	115.6%
	1.57%	1.73%	36.4x	96.5%
- 68% Confidence Interval	**1.79%**	**1.88%**	**33.4x**	**80.5%**
	2.01%	2.04%	30.9x	67.0%
	2.23%	2.19%	28.7x	55.3%
	2.45%	2.34%	26.9x	45.1%
	2.67%	2.50%	25.2x	36.2%
	2.89%	2.65%	23.8x	28.4%
	3.11%	2.80%	22.5x	21.3%
Predicted Valuation	**3.33%**	**2.95%**	**21.3x**	**15.1%**
	3.55%	3.11%	20.2x	9.4%
	3.77%	3.26%	19.3x	4.3%
Current Valuation	3.99%	3.41%	18.4x	-0.4%
	4.21%	3.57%	17.6x	-4.7%
	4.43%	3.72%	16.9x	-8.6%
+ 68% Confidence Interval	**4.65%**	**3.87%**	**16.2x**	**-12.2%**
	4.87%	4.03%	15.6x	-15.6%
	5.09%	4.18%	15.1x	-18.6%
	5.31%	4.33%	14.5x	-21.5%
	5.53%	4.49%	14.0x	-24.2%
	5.75%	4.64%	13.6x	-26.7%
+ 95% Confidence Interval	**5.97%**	**4.79%**	**13.1x**	**-29.0%**

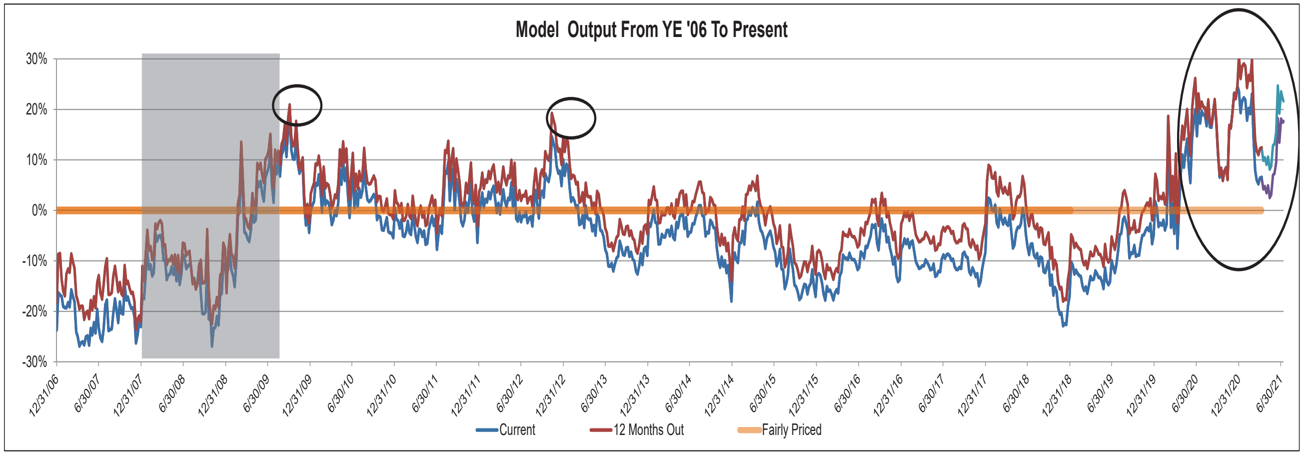
If rates stay unchanged for the next 12 months, regulated utilities now look ~15% inexpensive

Updated as of 7/14/21

Source: FactSet, Evercore ISI Research

EVERCORE ISI

There were only three instances in the last 14 years when the model signaled similar level of cheapness for the utility sector.



Date	Bond Model Output - Utes Cheapness	Absolute PE	Relative PE	Relative Performance			Absolute Performance			Absolute PE			PE Expansion		
				3 month	6 month	9 month	3 month	6 month	9 month	3 month	6 month	9 month	3 month	6 month	9 month
10/4/2009	21.2%	11.2x	0.79x	(0.0%)	(9.5%)	(1.6%)	8.8%	5.4%	(1.4%)	12.6x	12.3x	11.9x	12.8%	10.2%	6.9%
11/11/2012	19.2%	14.3x	1.18x	(4.2%)	(3.5%)	(9.3%)	5.8%	14.9%	13.7%	15.2x	16.8x	16.5x	6.3%	18.0%	15.7%
6/26/2020	26.2%	17.6x	0.83x	(3.2%)	(12.5%)	(16.6%)	4.7%	10.1%	13.4%	18.4x	19.1x	19.1x	4.1%	8.1%	0.08x
12/11/2020	21.9%	19.0x	0.87x	(8.6%)	(9.9%)	NA	(1.1%)	5.3%	NA	19.1x	19.1x	NA	0.1%	0.1%	NA

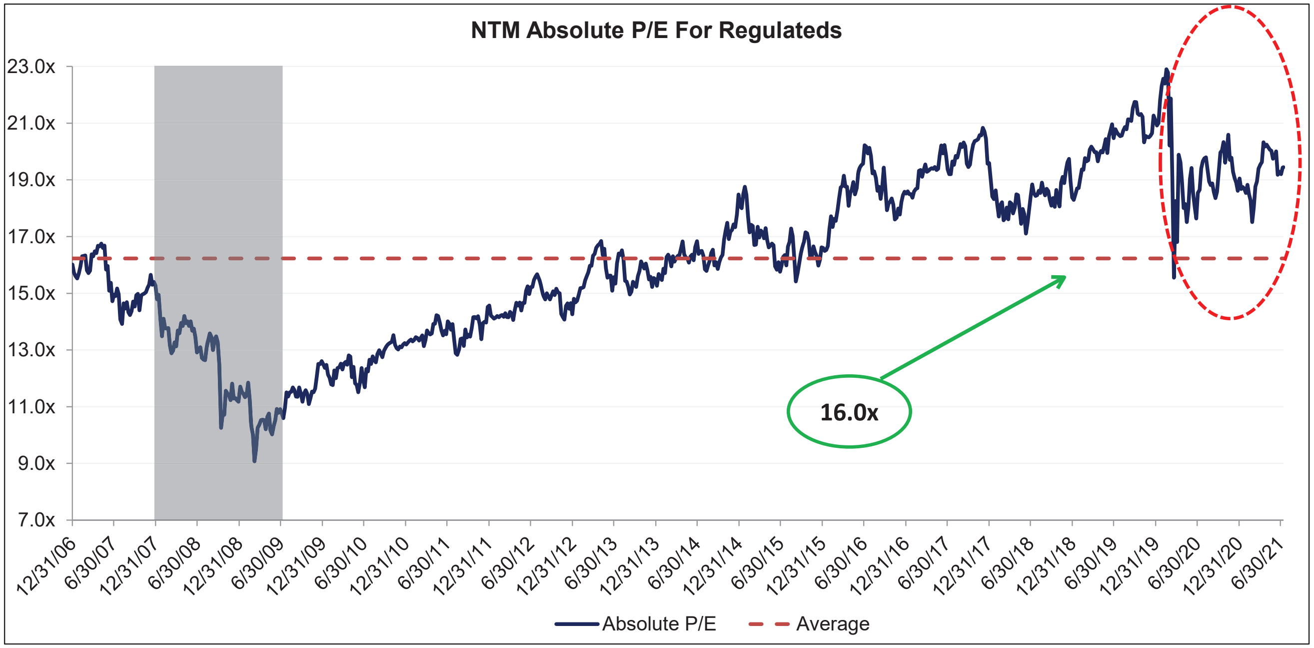
Updated as of 7/14/21

Source: FactSet, Evercore ISI Research

EVERCORE ISI

Utility valuation has a ~3.5x potential downside to reach historical average

- On 7/15/21, NTM absolute P/E was **19.5x** using FactSet consensus. The NTM absolute P/E had peaked on 02/16/20 at ~22.9x and on 7/15/16 (post-Brexit) at 19.93x.
- Since ’06 the average NTM absolute P/E is ~16.1x. Since ’95 it is ~14.4x.

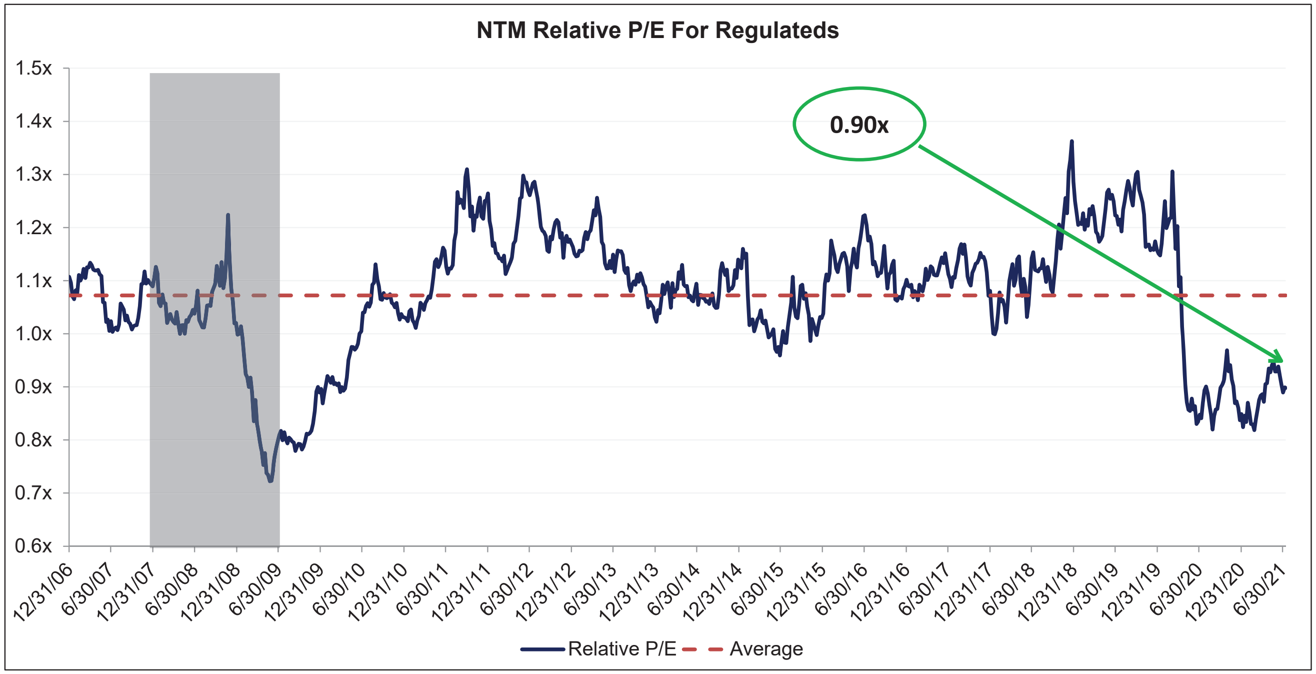


Updated as of 7/14/21

Source: FactSet, Evercore ISI Research

NTM Relative P/E Below Historical Average

- The average relative P/E since 2006 is 1.09x. Since '95 it is 0.93x.
- On 7/15/21, the relative P/E was **0.90x**, and 1.17x level at YE '19.
- The relative P/E post Brexit vote was 1.17x, which we hit again in mid November '18.
- It was 1.36x on 12/23/18 when we were pricing in recession risk at a high probability.



Updated as of 7/14/21

Source: FactSet, Evercore ISI Research

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: July 15 2021 9:41 PM ET

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Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's universe
Coverage Suspended- the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
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*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell" to equate their own ratings to these categories. For this purpose, and in the Evercore ISI ratings distribution below, our Outperform, In Line, and Underperform ratings can be equated to Buy, Hold and Sell, respectively.

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Buy- the total forecasted return is expected to be greater than 10%
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Sell -the total forecasted return is expected to be less than 0%

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy- Return > 20%
Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight- the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight- the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight -the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

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Short- the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.

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Evercore ISI rating (as of 07/15/2021)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	493	60	Buy	124	25
Hold	286	35	Hold	38	13
Sell	23	3	Sell	2	9
Coverage Suspended	11	1	Coverage Suspended	4	36
Rating Suspended	11	1	Rating Suspended	3	27

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Price Charts

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Goldman Sachs | Equity Research

4 August 2021 | 7:38AM EDT

NiSource Inc. (NI): First Take: 2Q2021 largely in-line, 2021 guidance and growth rate reiterated

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NiSource (NI, Neutral) reported 2Q21 operating EPS of $0.13, largely in-line with GS/FactSet consensus of $0.14/$0.13 and flat versus 2Q20 of $0.13. The company reiterated its 2021 guidance $1.32-$1.36 (midpoint $1.34) versus GS/consensus of $1.35/$1.35. NI continues to expect EPS to grow 7 to 9% from 2021-2024 and 5 to 7% through 2023; our current estimates reflect a ~6.6% CAGR from 2021-2024, or 6.8% based on the mid-point of management's 2021 guidance of $1.34.

Key takeaway: No real surprises this quarter, with most metrics and guidance measures in-line, although we note a fairly robust recovery in industrial electric demand YoY. We look for color on any changes to future demand growth outlook, expectations for the recently filed Ohio gas rate case, thoughts on potential cost inflation on NI's renewable generation investments, and updates on potential asset monetization opportunities.

Key takeaways from NI's release and slides include:

- **NI reported moderately better results at the Gas and Corporate segments** versus our estimates, offset by lower operating income at Electric. Higher diluted share count also attributed to $0.01 in lower EPS versus our forecast. Gross margins were largely lower but offset by higher other income some operating expense items.
- **NI recorded weather-adjusted electric demand growth of 23% YoY in 2Q2021,** driven by a strong rebound in commercial/industrial usage - up 9%/47%, respectively - partly offset by a 1.6% decrease residential electric sales (including weather). Cooling degree-days were 33% above normal and also above 2Q20 levels, but with only a modest impact to EPS YoY.
- **Capital plan remains unchanged at $10bn total through 2024,** with roughly $1.9-$2.2bn of annual base investments as well as $2bn on renewable generation (largely in 2022 and 2023) that all have received approval from the Indiana utility commission. NI reiterated their forecast of no bulk equity needs through 2024 (given the recent equity units offering), while reiterating $200-$300mn of annual ATM equity financing through 2022 and up to $150mn in 2023.

- **Columbia Gas of Ohio filed its gas rate case on June 30,** the first case in over a decade, requesting $221.4mn revenue increase net of the various rider mechanisms into base rates, on $3.6bn of rate base.

Key topics to monitor on NI's earnings call (11am ET) include: 1) update on the Ohio gas rate case and what's embedded in the company's EPS growth guidance, 2) latest thoughts on potential monetization opportunities at its various regulated utilities, 3) thoughts on the upcoming IRP filing (expected in November) at NIPSCO including potential for faster fleet transition to renewables - with current plan proposing retiring all coal by 2028, and 4) updated thoughts on trajectory of EPS growth through 2024.

Our $27 12 month price target reflects an industry-average 19x P/E applied to our 2022E EPS. Key risks include regulatory approvals for the planned renewable investments in Indiana, cost management, and rate case overhang in Ohio and Pennsylvania.

NI	12m Price Target: **$27.00**	Price: **$25.31**	Upside: **6.7%**

Neutral

Market cap: $9.7bn
Enterprise value: $20.3bn
3m ADTV: $84.7mn
United States
Americas Utilities
M&A Rank: 3

GS Forecast

	12/20	12/21E	12/22E	12/23E
Revenue ($ mn)	4,681.7	4,603.4	4,808.9	5,050.2
EBITDA ($ mn)	1,687.3	1,816.5	2,000.9	2,217.9
EBIT ($ mn)	961.4	1,057.5	1,172.9	1,293.0
EPS ($)	1.32	1.35	1.41	1.54
P/E (X)	18.6	18.8	18.0	16.5
EV/EBITDA (X)	11.9	11.5	11.5	11.2
FCF yield (%)	(6.9)	(7.0)	(9.0)	(16.3)
Dividend yield (%)	3.4	3.5	3.7	3.9
Net debt/EBITDA (X)	5.7	5.3	5.4	5.6

	3/21	6/21E	9/21E	12/21E
EPS ($)	0.77	0.14	0.13	0.31

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3 Aug 2021 close.

Disclosure Appendix

Reg AC

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

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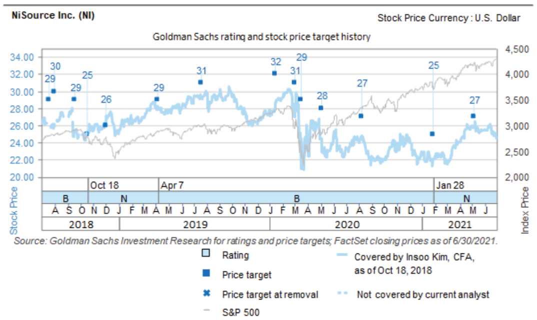

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Americas Utilities: Adjusting 2Q estimates ahead of earnings for a few Regulated Utilities; regulatory items in focus

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We adjust 2Q2021 estimates for a few Neutral-rated regulated utilities - Eversource (ES), NiSource (NI), Portland General (POR) - ahead of earnings, primarily to reflect intra-year movements in various gross margin and operating expense items; our annual estimates remain largely unchanged. We also highlight below key topics to consider for each company.

- **Eversource (ES) - 2Q2021 EPS: $0.81 GSe vs $0.80 FactSet consensus.** We lower our 2Q2021 EPS estimate from $0.85 to $0.81, primarily to reflect the intra-year re-allocation of revenue increases for its gas utilities. **Topics to consider:** (1) latest thoughts on the ongoing regulatory proceedings in Connecticut, including the docket on potential interim rate decrease (17-12-03RE11) that leaves open the possibility of changes to authorized ROEs and/or equity ratio (53% currently) prior to ES's next CT distribution rate case filing (due by 1Q2022); we note the state commission has extended the discovery process with a final decision unlikely until mid-October, or a one-month delay; (2) commodity cost inflation and potential impacts to their offshore wind projects, both from a timing and returns perspective.
- **NiSource (NI) - 2Q2021 EPS: $0.14 GSe vs $0.13 FactSet consensus.** We lower our 2Q2021 EPS estimate from $0.18 to $0.14 (versus 2Q2020 EPS of $0.13), primarily to reflect changes to timing of O&M expense within the year, with higher expenses this year offsetting the absence of 2Q2020 COVID-related margin impact this quarter. **Topics to consider:** (1) additional color on the recently filed Ohio gas rate case, the first filing in over a decade, and what's embedded in the company's EPS growth guidance; (2) any color on the upcoming Integrated Resource Plan (IRP) filing expected in Indiana this fall, including potential for incremental generation spend.
- **Portland General Electric (POR) - 2Q2021 EPS: $0.38 GSe vs $0.36 FactSet consensus.** We raise our 2Q2021 EPS estimate from $0.22 to $0.38, primarily to reflect some weather-related benefit in the quarter as well as less unfavorable net variable power costs (NVPC) on a YoY basis. We, however, largely normalize this quarterly benefit in 2H2021 to account for future power and O&M management; we do raise our 2021 EPS estimate to $2.69 from $2.67 prior, remaining toward the upper end of management's guidance range of $2.55-$2.70. **Topics to consider:** (1) the latest Oregon wildfires (geographically

distant to POR's service territory) and potential net impact to power delivery and purchase costs; (2) net financial impact from the summer heat wave, including additional margins and/or outage-related costs; (3) PGE's electric rate case in Oregon, potential benefits of proposed changes to de-coupling and storm cost accrual mechanisms, and guidance on what's embedded in company's 4-6% EPS growth forecast.

Our $86 price target on ES reflects a 2x (10%) P/E premium to our industry base target multiple of 19x on 2022E EPS; the calculation of the premium stems from blending a 10% P/E discount to roughly 15% of the EPS that represents CL&P's distribution business, while applying a 15% premium to the remaining utilities. Key risks include CT regulatory outcomes, operational costs, and permitting/construction of offshore wind projects.

Our $27 price target on NI reflects an industry-average 19x P/E applied to our 2022E EPS. Key risks include regulatory approvals for the planned renewable investments in Indiana, cost management, and rate case overhang in Ohio and Pennsylvania.

Our $52 price target on POR reflects an industry-average 19x P/E applied to our 2022E EPS. Key risks include rate case overhang, power costs, and financing.

Disclosure Appendix

Reg AC

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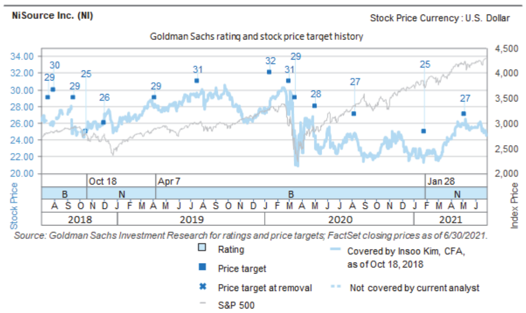

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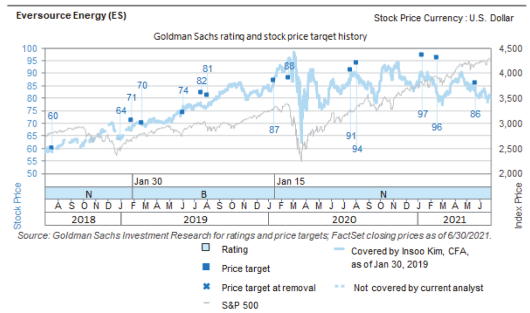

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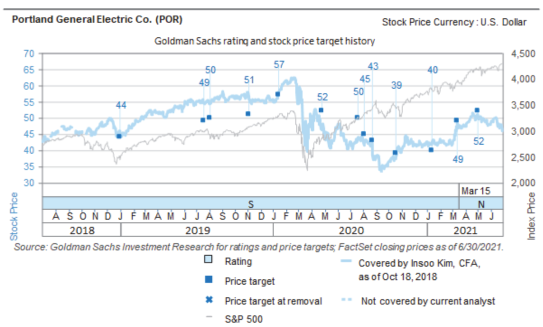

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EVERCORE ISI

Energy | Power & Utilities

August 04, 2021

NiSource Inc
NI | $25.31
In Line | TARGET PRICE: $27.00
Company Update

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Company Statistics

Market Capitalization (M)	$11,403
Shares Outstanding (M)	392
Dividend	0.84
Dividend Yield	2.9%
Payout Ratio	63.6%
Expected Total Return	(4.3)%
Fiscal Year End	Dec

Earnings Summary

	2021E	2022E	2023E
EPS	$1.34	$1.42	$1.51
P/E	22.0	20.7	19.7
EPS vs Consensus	(0.7)%	(0.0)%	(1.7)%
Consensus EPS	$1.33	$1.40	$1.51
Consensus P/E	21.9	20.7	19.3

1 Year Price History

Source: FactSet

Sitting on the Sidelines

Q2 adjusted EPS in line with consensus. All guidance unchanged. NiSource posted $0.13 in Q2'21 operating EPS, which was in line with consensus and our estimate of $0.13/share. Earnings in 2Q20 were also $0.13/share. The flat YoY EPS reflected safety & modernization investments and lower COVID impact during the quarter as well as the profile of the business without Columbia Gas of Massachusetts. NI maintained its 2021 EPS guidance of $1.32-1.36. The company also reaffirmed its four-year 2021-2024 program of $9.6-10.7 billion under an unchanged financing plan. This level of spending is still expected to drive rate base growth of 10-12% CAGR in 2021-2024 under an unchanged financing plan. NiSource continues to expect to deliver long-term EPS outlook of 5-7% per year in 2021-2023 and 7-9% CAGR in 2021-2024. The company's renewable transition remains ahead of original schedule with planned retirements. NiSource has now received Indiana regulatory approval of all 14 renewable JV projects included in total estimated $2 billion investment planned for 2021-2023. The 2021 Indiana IRP and RFP processes continue, with the RFP initiated in May, yielding more than 180 total proposals for 78 individual projects. Next steps include incorporating RFP results into the IRP modeling and analysis in August, sharing IRP modeling analysis and results with stakeholders in September, communicating the IRP preferred plan incorporating stakeholder feedback in October, and submitting the IRP to the Indiana commission in November; any potential projects and investments that emerge will likely be announced in 2022.

We maintain our In Line rating. We are staying on the sidelines with an unchanged price target of $27/share, which applies a premium gas LDC multiple of 18.0x 2023 EPS in our SOTP (Gas LDC's are trading at ~16.5x 23E). We are maintaining our 2021-2023 EPS estimates of $1.34, $1.42 and $1.51. NI stock has outperformed since the end of January, up 20% versus the group up 12% since January 26th, and it currently trades roughly in line/modest discount with electric utility peers at 18.0x 2023 EPS. With the Massachusetts divestiture behind the company, we believe the re-rate we had been expecting is mostly reflected in NI's stronger growth expectations (5-7% per year in 2021-2023 and 7-9% CAGR in 2021-2024) that were reset off of a 2021 baseline. We also believe the benefits of the removed overhang of the equity unit financing transaction is reflected in the stock price, as well as NiSource's above-average positioning under the Biden administration as a 100% regulated utility, given that a potential higher FIT rate (eventually) would not lower profitability and would generate meaningful cash flow due to the regulatory construct. NiSource also has sizable coal exposure in Indiana and could see benefit under Biden administration climate proposals with its plan to convert to renewables. We lay out our bull/bear case valuation of $29 / $23 on page 2.

EPS Estimates and Price Target Derivation

Maintaining our 2021-2023 EPS estimates: We reaffirm our 2021-2023 EPS estimates of $1.34 / $1.42 / $1.51. Our 2021 EPS estimate is the midpoint of $1.32-1.36 guidance and our 2022 EPS forecast is within the 5-7% annual growth forecast through 2023. After NIPSCO electric took the brunt of the COVID in 2020, we see its earned ROE increasing to 9.4% this year before modestly under-earning its authorized 9.75% by 2022-2023. For the gas segment, we assume the company modestly under-earns its blended ~10% ROE in 2021 through 2023

Our price target of $27/share is unchanged. Our bear case derives a $23 target while our bull case is $29/share. See Exhibit 1 below. Our base case assumes 2023 EPS of $1.48/share, which is roughly 6% annual EPS growth (vs. 5-7% guidance) over the midpoint of 2021 guidance of $1.32-1.36/share. For the electric business, we assign a 10% premium to our anchor 2023 P/E target multiple of 17.5x derived using our dividend discount model. For the gas segment, we apply a 18.0x P/E multiple, a premium multiple current comparable LDC trading multiples (17.5x). We apply a blended multiple for parent drag.

Exhibit 1: NiSource SOTP Valuation

Base Case	'23 EPS	P/E	Val/Shr
Gas EPS	$1.16	18.0x	$20.74
Electric EPS	$0.67	19.3x	$12.80
Parent/Other	($0.33)	18.2x	($6.09)
Consolidated 2022 EPS	**$1.51**	18.2x	**$27.00**

Bull Case	'23 EPS	P/E	Val/Shr
Gas EPS	$1.19	18.3x	$21.85
Electric EPS	$0.68	19.3x	$13.16
Parent/Other	($0.33)	18.7x	($6.14)
Consolidated 2022 EPS	**$1.55**	18.7x	**$29.00**

Bear Case	'23 EPS	P/E	Val/Shr
Gas EPS	$1.09	15.8x	$17.24
Electric EPS	$0.63	17.5x	$11.09
Parent/Other	($0.33)	16.4x	($5.39)
Consolidated 2022 EPS	**$1.39**	16.4x	**$23.00**

Source: Evercore ISI

VALUATION METHODOLOGY

To arrive at our price target we use a SOTP analysis.

RISKS

Risks to our thesis include an inability to deploy capital at the company's expected rate resulting in a lower rate base and regulatory pressure resulting in lower allowed ROEs

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2021-04-08)	Evercore ISI Target
AEE	Ameren Corp.	Outperform	$85.61	$90.00
AEP	American Electric Power	Outperform	$89.09	$99.00
AES	The AES Corporation	Outperform	$23.92	$30.00
AWK	American Water Works Company, Inc.	Outperform	$175.30	$175.00
AWR	American States Water Company	Underperform	$89.13	$60.00
CMS	CMS Energy Corp.	In Line	$63.24	$62.00
CNP	CenterPoint Energy, Inc.	Outperform	$25.87	$26.00
CWEN	Clearway Energy	In Line	$29.84	$25.00
CWT	California Water Service Group	In Line	$64.25	$40.00
D	Dominion Energy, Inc	Outperform	$75.50	$82.00
DTE	DTE Energy Co.	In Line	$118.13	$119.00
DUK	Duke Energy Corp.	In Line	$106.61	$96.00
ED	Consolidated Edison Inc.	Underperform	$74.85	$72.00
EIX	Edison International	In Line	$55.39	$73.00
ES	Eversource Energy	In Line	$87.80	$91.00
ETR	Entergy Corp.	Outperform	$103.97	$110.00
EVRG	Evergy	Outperform	$66.38	$67.00
EXC	Exelon Corp.	Outperform	$47.38	$47.00
FE	FirstEnergy Corp.	In Line	$38.54	$40.00
HE	Hawaiian Electric Industries Inc.	In Line	$43.83	$40.00
NEE	NextEra Energy Inc	In Line	$79.42	$78.00
NI	NiSource Inc	In Line	$25.31	$27.00
NRG	NRG Energy Inc.	In Line	$41.64	$42.00
OGE	OGE Energy Corp	Outperform	$34.34	$35.00
PCG	PG&E Corp.	Rating Suspended	$8.99	
PEG	Public Service Enterprise Group	In Line	$63.51	$61.00
PNW	Pinnacle West Capital Corp.	In Line	$80.98	$81.00
PPL	PPL Corp.	In Line	$28.56	$31.00
SJW	SJW Group	In Line	$69.35	$60.00
SO	Southern Co.	Underperform	$64.13	$61.00
SRE	Sempra Energy	Outperform	$131.98	$143.00
VST	Vistra Energy Corp	Outperform	$18.95	$23.00
WEC	WEC Energy Group, Inc.	In Line	$95.61	$96.00
WTRG	Essential Utilities Inc.	In Line	$49.65	$49.00
XEL	Xcel Energy Inc.	In Line	$68.70	$70.00

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: August 04 2021 1:49 PM ET

ANALYST CERTIFICATION

The analysts, Durgesh Chopra, Michael Lonegan, primarily responsible for the preparation of this research report attest to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

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Current Ratings Definition

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Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's universe
Coverage Suspended- the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
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*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell" to equate their own ratings to these categories. For this purpose, and in the Evercore ISI ratings distribution below, our Outperform, In Line, and Underperform ratings can be equated to Buy, Hold and Sell, respectively.

Historical Ratings Definitions

Prior to March 2, 2017, Evercore ISI's recommendations were based on a stock's total forecasted return over the next 12 months:

Buy- the total forecasted return is expected to be greater than 10%

Hold- the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell -the total forecasted return is expected to be less than 0%

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy- Return > 20%
Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight- the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight- the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight -the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

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Evercore ISI utilizes an alternate rating system for companies covered by analysts who use a model portfolio-based approach to determine a company's investment recommendation. Covered companies are included or not included as holdings in the analyst's Model Portfolio, and have the following ratings:

Long- the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.
Short- the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
No Position- the stock is not included in the model portfolio.
Coverage Suspended- the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company, and in certain other circumstances; a stock in the model portfolio is removed.
Rating Suspended - Evercore ISI has suspended the rating and/or target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon; a stock in the model portfolio is removed.

Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.

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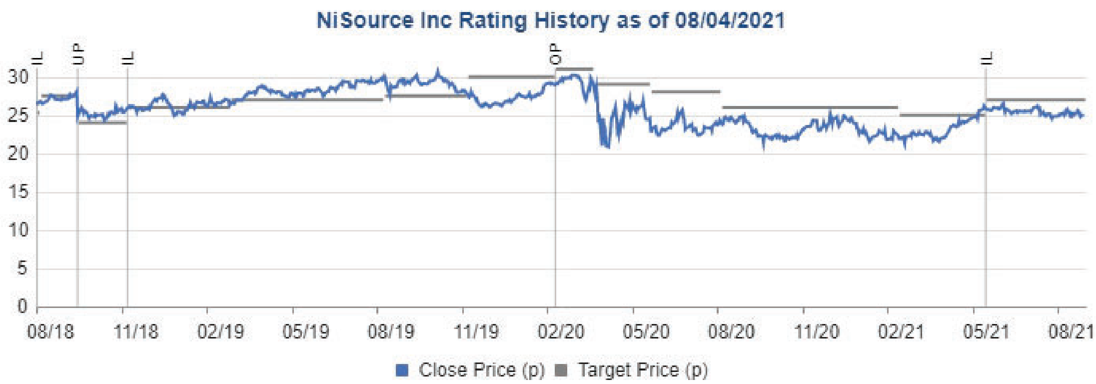
Evercore ISI rating (as of 08/04/2021)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	502	60	Buy	129	26
Hold	288	34	Hold	35	12
Sell	22	3	Sell	2	9
Coverage Suspended	12	1	Coverage Suspended	3	25
Rating Suspended	12	1	Rating Suspended	5	42

Issuer-Specific Disclosures (as of August 04, 2021)

Evercore ISI or an affiliate expects to receive or intends to seek compensation for investment banking services from NiSource Inc within the next three months.

Price Charts



Ratings Key

B	Buy	OP	Outperform	L	Long	CS	Coverage Suspended
H	Hold	IL	In Line	NP	No Position	RS	Rating Suspended
S	Sell	UP	Underperform	S	Short		

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J.P.Morgan

North America Equity Research
23 July 2021

NiSource Inc.

2Q21 Earnings Preview: Spotlight on the IRP/RFP

Overweight

NI, NI US

Price (22 Jul 21): $24.88

Price Target (Dec-21): $28.00

We tighten our estimates into 2Q. With attention focused on NI's IRP/RFP progress, we expect fairly qualitative commentary this quarter in advance of the company's November IRP filing. Incremental investment clarity appears biased toward a 2022 update, with initial color potentially as early as 3Q earnings. We include our detailed takeaways below.

- **Attention on IRP/RFP commentary, although process timeline indicates a mostly qualitative update.** We await IRP/RFP updates as NI works through both tracks in advance of its pending November IRP filing. Incremental investment clarity appears biased toward a 2022 update, with initial color potentially as early as 3Q earnings. As a result, we expect fairly qualitative commentary this quarter as NI works through each process. NI is seeking solar/wind (plus storage) and thermal/standalone storage/new technologies to address replacement generation for the company's 2028 Michigan City retirement. Targeted 400-650MW of unforced capacity could yield at least double that figure in gross MW, with the company likely pursuing at least 50% ownership. Considerations around new technologies appear broad overall across stand-alone storage, hydrogen, carbon capture, and microgrids, among others. Additionally, the IRP will inform some potential to advance the Michigan City retirement.
- **JPMe $0.13 2Q21 EPS, flat YoY.** Similar to 1Q results, we expect flat earnings YoY with higher expenses offsetting rate increases and sales recovery from the pandemic. Growth appears weighted toward the back half of 2021, particularly upon the 4Q conclusion of lost CMA earnings headwinds. JPMe 2021 EPS of $1.35 remains in the top half of NI's $1.32-1.36 range.

North American Utilities

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J.P. Morgan Securities LLC

Quarterly Forecasts (FYE Dec)

Adj. EPS ($)

	2020A	2021E	2022E
Q1	0.76	0.77A	
Q2	0.13	0.13	
Q3	0.09	0.10	
Q4	0.34	0.39	
FY	1.32	1.35	1.43

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	44	41	49	42	64
Growth	54	26	22	58	26
Momentum	42	79	60	49	13
Quality	88	89	68	73	61
Low Vol	34	32	33	39	100
ESGQ	1	29	32	4	11

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

See page 5 for analyst certification and important disclosures.

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North America Equity Research
23 July 2021

J.P.Morgan

Price Performance

	YTD	1m	3m	12m
Abs	8.5%	-1.1%	-3.9%	1.0%
Rel	-7.8%	-3.9%	-9.6%	-32.3%

Company Data

Shares O/S (mn)	408
52-week range ($)	26.60-21.09
Market cap ($ mn)	10,147.11
Exchange rate	1.00
Free float(%)	99.5%
3M - Avg daily vol (mn)	3.44
3M - Avg daily val ($ mn)	87.8
Volatility (90 Day)	17
Index	S&P 500
BBG BUY|HOLD|SELL	9|3|0

Key Metrics (FYE Dec)

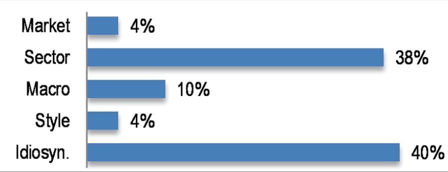
$ in millions	FY20A	FY21E	FY22E	FY23E
Financial Estimates				
Revenue	4,697	5,115	5,551	5,755
Adj. EBITDA	1,826	1,889	2,076	2,264
Adj. EBIT	1,064	1,141	1,286	1,417
Adj. net income	508	572	636	692
Adj. EPS	1.32	1.35	1.43	1.53
BBG EPS	1.31	1.35	1.42	1.53
Cashflow from operations	1,104	1,261	1,514	1,610
FCFF	(351)	(446)	(846)	(1,301)
Margins and Growth				
Revenue growth	(9.4%)	8.9%	8.5%	3.7%
EBITDA margin	38.9%	36.9%	37.4%	39.3%
EBITDA growth	3.8%	3.5%	9.9%	9.1%
EBIT margin	22.6%	22.3%	23.2%	24.6%
Net margin	10.8%	11.2%	11.5%	12.0%
Adj. EPS growth	(0.0%)	2.1%	5.8%	7.1%
Ratios				
Adj. tax rate	18.3%	21.4%	24.2%	23.7%
Interest cover	4.9	5.5	5.5	5.2
Net debt/Equity	1.6	1.3	1.4	1.6
Net debt/EBITDA	5.3	5.1	5.3	5.7
ROCE	5.6%	5.5%	5.5%	5.5%
ROE	8.6%	8.8%	8.6%	8.9%
Valuation				
FCFF yield	(3.7%)	(4.2%)	(7.6%)	(11.5%)
Dividend yield	3.4%	3.5%	3.7%	4.0%
EV/Revenue	3.5	3.3	3.3	3.7
EV/EBITDA	9.1	8.9	8.8	9.3
Adj. P/E	18.8	18.4	17.4	16.3

Summary Investment Thesis and Valuation

With renewables driving ~20% of the five-year capital plan, NI's "green hue" stands unique among LDCs. We expect this dynamic to capture increased attention should LDC weakness persist and electric vs gas multiples continue to diverge. Additionally, the company's potential portfolio optimization efforts could accelerate a relative re-weighting toward NI's electric operations should the company divest a smaller LDC jurisdiction to fund renewables investment. We remain constructive on NI's long-term outlook given its attractive growth, subject to manageable execution risk, and relative positioning vs LDC peers.

We base our December 2021 price target of $28/per share on a sum-of-the-parts analysis using our 2022 electric and gas segment EPS forecasts. We value the gas and electric segments using 18.7x and 20.8x P/E multiples, respectively.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.20	0.30
Sect: Utilities	0.67	0.67
Ind: Utilities	0.67	0.67
Macro:		
Credit Spread	-0.29	-0.25
Economic Surprise	-0.22	-0.16
Non-Energy Commodity	0.26	0.08
Quant Styles:		
Momentum	-0.29	-0.35
Growth	-0.17	-0.31
Value	0.13	0.28

Source: J.P. Morgan Quantitative and Derivatives Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact

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Investment Thesis, Valuation and Risks

NiSource Inc. *(Overweight; Price Target: $28.00)*

Investment Thesis

With renewables driving ~20% of the five-year capital plan, NI's "green hue" stands unique among LDCs. We expect this dynamic to capture increased attention should LDC weakness persist and electric vs gas multiples continue to diverge. Additionally, the company's potential portfolio optimization efforts could accelerate a relative re-weighting toward NI's electric operations should the company divest a smaller LDC jurisdiction to fund renewables investment. We remain constructive on NI's long-term outlook given its attractive growth, subject to manageable execution risk, and relative positioning vs LDC peers.

Valuation

We maintain our December 2021 price target of $28/share. We base our price target on a sum-of-the-parts analysis using our 2022 electric and gas segment EPS forecasts. We value the gas and electric segments using 18.7x and 20.8x P/E multiples, respectively. This represents a premium to peers on account of NI's coal generation transition, incremental renewables investment, and above-average growth as a result.

Risk to Rating and Price Target

- Gas pipeline accidents in the industry have heightened the importance of pipeline safety and integrity management. These accidents can result in significant financial strains related to pipeline replacement, accident investigations, life and property claims, regulatory fines, and disallowances.
- Achievement of NiSource's long-term rate base and EPS CAGR targets are heavily dependent on robust capital investments, regulatory support, and favorable ratemaking mechanism. Any deferral of spending could put the company at risk of falling short of the LT rate base and earnings growth CAGR in any one year.
- Regulated electric and gas utilities are subject to federal and state regulations, including determinations of allowed revenues. Negative changes to the regulatory environments may cause future earnings to be materially lower than current expectations.

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NiSource Inc.: Summary of Financials

Income Statement - Annual	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	**5,184**	**4,697**	**5,115**	**5,551**	**5,755**
COGS	(1,535)	(1,109)	(1,512)	(1,760)	(1,760)
Gross profit	**3,649**	**3,587**	**3,604**	**3,792**	**3,995**
SG&A	(1,885)	(1,794)	**(1,724)**	**(1,716)**	**(1,731)**
Adj. EBITDA	**1,759**	**1,826**	**1,889**	**2,076**	**2,264**
D&A	(717)	(762)	(748)	(790)	(847)
Adj. EBIT	**1,042**	**1,064**	**1,141**	**1,286**	**1,417**
Net Interest	(379)	(371)	(342)	(374)	(437)
Adj. PBT	**663**	**693**	**799**	**911**	**980**
Tax	(113)	(127)	(171)	(220)	(233)
Minority Interest	(55)	(59)	(56)	(55)	(55)
Adj. Net Income	**495**	**508**	**572**	**636**	**692**
Reported EPS	1.32	1.32	1.35	1.43	1.53
Adj. EPS	**1.32**	**1.32**	**1.35**	**1.43**	**1.53**
DPS	**0.80**	**0.84**	**0.88**	**0.93**	**0.99**
Payout ratio	60.6%	63.6%	65.2%	65.4%	64.7%
Shares outstanding	375	384	424	446	453

Income Statement - Quarterly	1Q21A	2Q21E	3Q21E	4Q21E
Revenue	**1,555A**	**1,101**	**990**	**1,469**
COGS	(477)A	(313)	(222)	(500)
Gross profit	**1,078A**	**788**	**768**	**970**
SG&A	(427)A	(425)	(420)	(451)
Adj. EBITDA	**660A**	**363**	**348**	**519**
D&A	(185)A	(185)	(188)	(190)
Adj. EBIT	**475A**	**177**	**160**	**329**
Net Interest	(85)A	(86)	(85)	(87)
Adj. PBT	**391A**	**92**	**75**	**242**
Tax	(71)A	(23)	(19)	(59)
Minority Interest	(15)A	(14)	(14)	(14)
Adj. Net Income	**305A**	**55**	**43**	**169**
Reported EPS	0.77A	0.13	0.10	0.39
Adj. EPS	**0.77A**	**0.13**	**0.10**	**0.39**
DPS	**0.22A**	**0.22**	**0.22**	**0.22**
Payout ratio	28.4%A	171.2%	223.7%	56.9%
Shares outstanding	394A	430	434	438

Balance Sheet & Cash Flow Statement	FY19A	FY20A	FY21E	FY22E	FY23E
Cash and cash equivalents	148	126	0	0	0
Accounts receivable	857	791	795	795	795
Other current assets	849	743	783	915	1,077
Current assets	**1,854**	**1,659**	**1,577**	**1,709**	**1,872**
PP&E	16,912	16,620	17,882	19,736	22,133
Other non current assets	3,894	3,762	3,802	3,802	3,802
Total assets	**22,660**	**22,041**	**23,261**	**25,247**	**27,806**
Short term borrowings	1,773	503	45	484	1,642
Payables	666	589	555	555	555
Other short term liabilities	1,307	1,187	1,140	1,140	1,140
Current liabilities	**3,746**	**2,279**	**1,739**	**2,179**	**3,336**
Long-term debt	7,856	9,220	9,565	10,415	11,265
Other long term liabilities	5,071	4,704	4,808	5,028	5,261
Total liabilities	**16,673**	**16,203**	**16,113**	**17,623**	**19,863**
Shareholders' equity	5,987	5,838	7,148	7,624	7,943
Minority interests	-	-	-	-	-
Total liabilities & equity	**22,660**	**22,041**	**23,261**	**25,247**	**27,806**
BVPS	**15.67**	**14.90**	**17.71**	**18.38**	**17.47**
y/y Growth	*1.4%*	*(4.9%)*	*18.9%*	*3.8%*	*(5.0%)*
Net debt/(cash)	9,481	9,597	9,610	10,900	12,907
Cash flow from operating activities	**1,583**	**1,104**	**1,261**	**1,514**	**1,610**
o/w Depreciation & amortization	717	726	748	790	847
o/w Changes in working capital	(75)	(249)	(170)	(132)	(162)
Cash flow from investing activities	**(1,922)**	**(879)**	**(2,010)**	**(2,644)**	**(3,244)**
o/w Capital expenditure	(1,802)	(1,758)	(1,975)	(2,644)	(3,244)
as % of sales	*34.8%*	*37.4%*	*38.6%*	*47.6%*	*56.4%*
Cash flow from financing activities	**366**	**(248)**	**1,099**	**690**	**477**
o/w Dividends paid	(299)	(322)	(358)	(383)	(422)
o/w Net debt issued/(repaid)	494	82	330	850	850
Net change in cash	**27**	**(23)**	**350**	**(440)**	**(1,157)**
Adj. Free cash flow to firm	**95**	**(351)**	**(446)**	**(846)**	**(1,301)**
y/y Growth	*(109.6%)*	*(469.3%)*	*26.9%*	*89.8%*	*53.8%*

Ratio Analysis	FY19A	FY20A	FY21E	FY22E	FY23E
Gross margin	70.4%	76.4%	70.4%	68.3%	69.4%
EBITDA margin	33.9%	38.9%	36.9%	37.4%	39.3%
EBIT margin	20.1%	22.6%	22.3%	23.2%	24.6%
Net profit margin	9.5%	10.8%	11.2%	11.5%	12.0%
ROE	8.4%	8.6%	8.8%	8.6%	8.9%
ROA	2.2%	2.3%	2.5%	2.6%	2.6%
ROCE	5.7%	5.6%	5.5%	5.5%	5.5%
SG&A/Sales	36.4%	38.2%	33.7%	30.9%	30.1%
Net debt/equity	1.6	1.6	1.3	1.4	1.6
P/E (x)	18.8	18.8	18.4	17.4	16.3
P/BV (x)	1.6	1.7	1.4	1.4	1.4
EV/EBITDA (x)	9.3	9.1	8.9	8.8	9.3
Dividend Yield	3.2%	3.4%	3.5%	3.7%	4.0%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	4.6	4.9	5.5	5.5	5.2
Operating leverage	496.0%	(22.1%)	81.7%	149.0%	278.3%
Revenue y/y Growth	2.0%	(9.4%)	8.9%	8.5%	3.7%
EBITDA y/y Growth	13.6%	3.8%	3.5%	9.9%	9.1%
Tax rate	17.1%	18.3%	21.4%	24.2%	23.7%
Adj. Net Income y/y Growth	6.8%	2.6%	12.7%	11.1%	8.9%
EPS y/y Growth	1.6%	(0.0%)	2.1%	5.8%	7.1%
DPS y/y Growth	2.6%	5.0%	4.8%	6.0%	6.0%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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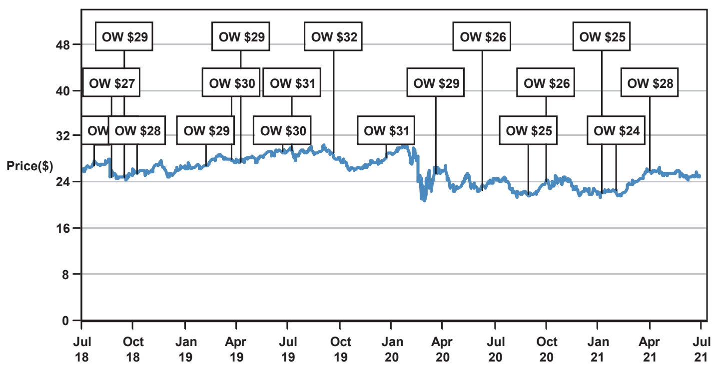
NiSource Inc. (NI, NI US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
15-Aug-18	OW	26.96	28
17-Sep-18	OW	24.79	27
09-Oct-18	OW	25.05	29
01-Nov-18	OW	25.36	28
01-Mar-19	OW	26.98	29
15-Apr-19	OW	28.07	30
02-May-19	OW	27.40	29
15-Jul-19	OW	29.34	30
01-Aug-19	OW	29.69	31
13-Oct-19	OW	29.14	32
15-Jan-20	OW	28.18	31
09-Apr-20	OW	25.47	29
01-Jul-20	OW	22.74	26
21-Sep-20	OW	21.98	25
23-Oct-20	OW	24.04	26
29-Jan-21	OW	22.17	25
22-Feb-21	OW	22.84	24
22-Apr-21	OW	26.03	28

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North America Equity Research
04 August 2021

NiSource Inc.

2Q21 Results in Line; Fairly Quiet Renewables Update as the IRP/RFP Process Continues

Overweight

NI, NI US

Price: $25.31

03 Aug 2021

North American Utilities

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- **2Q21 earnings match estimates.** NI reported 2Q21 adj EPS of $0.13, matching the $0.13 JPM/Street median estimate. Gas distribution and electric operating earnings declined -$7.5mm and -$4.8mm YoY, respectively. NI benefitted from new base rates and infrastructure replacement program recoveries, offset by higher employee and administrative expenses, outside services, and other expenses. Moreover, unfavorable COLI performance also impacted Corp and Other results. Earnings appear consistent with expectations, with growth weighted toward the back half of 2021, particularly upon the 4Q conclusion of lost CMA earnings headwinds. Separately, the company reaffirmed its $1.32-1.36 2021 EPS guidance (JPMe/Street median $1.35).

- **Fairly quiet renewables update as NI's IRP/RFP process continues into the fall and 2022.** Updates across NI's generation transition include 1) the company now has IN approval of all renewables JV projects ($2bn investment), 2) NI received 180 proposals for 78 projects in its RFP solicitation, and 3) the IRP process continues to work towards a November filing. This IRP/RFP work will inform NI's next round of renewables investment, where the company expects incremental project clarity in 2022. We see recent progress as positive, although larger milestones remain over the balance of 2021 into 2022, and look for management's expectations based on ongoing IRP feedback and overall project composition in the RFP. While insight into the RFP is fairly limited, the scope of new technologies proposed could draw interest given NI's broad approach in considering standalone storage, hydrogen, carbon capture, and microgrids, among others. The company expects to commence commercial negotiations on RFP projects after finalizing its IRP Preferred Plan in October.

- **Conference call details.** NI will host a webcast to discuss 2Q21 results on Wednesday, August 4 at 11:00 AM EDT.

Table 1: NI 2Q21 Results

Income Statement:	Actual 2Q20	Actual 2Q21	JPM 2Q21E	% Chg Y/Y	% Chg vs JPMe	YoY Drivers
Operating Earnings	165	151	177	-9%	-15%	CMA sale impacts; new base and infra replacement program rates
Net Income	50	53	55	5%	-5%	Lower interest expense on short-term and long-term debt; unfavorable COLI impacts
Share Count	384	423	430	10%	-2%	
Operating EPS	**$0.13**	**$0.13**	**$0.13**	**0%**	**0%**	

Source: Company reports and J.P. Morgan estimates.

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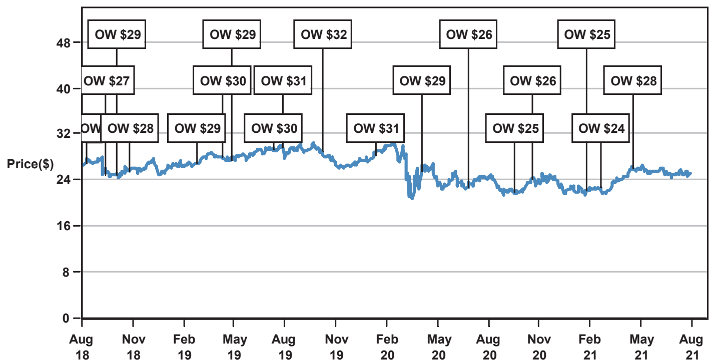
NiSource Inc. (NI, NI US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
15-Aug-18	OW	26.96	28
17-Sep-18	OW	24.79	27
09-Oct-18	OW	25.05	29
01-Nov-18	OW	25.36	28
01-Mar-19	OW	26.98	29
15-Apr-19	OW	28.07	30
02-May-19	OW	27.40	29
15-Jul-19	OW	29.34	30
01-Aug-19	OW	29.69	31
13-Oct-19	OW	29.14	32
15-Jan-20	OW	28.18	31
09-Apr-20	OW	25.47	29
01-Jul-20	OW	22.74	26
21-Sep-20	OW	21.98	25
23-Oct-20	OW	24.04	26
29-Jan-21	OW	22.17	25
22-Feb-21	OW	22.84	24
22-Apr-21	OW	26.03	28

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UBS

Global Research | 19 July 2021

The Gas Meter

CY2Q21 Earnings Playbook

Equities

Americas

Gas Utilities

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Company Specifics - What to Listen For

With CY 2Q earnings season ahead, we look for the following updates. With CNP, while more meaningful commentary will likely have to wait for the Investor Day, we look to see if CNP has been able to quantify the potential one time tax adjustment around repairs tax that was initially touched on during the 1Q21 call. We view this as a potential positive as the tax benefit can be used to help offset some of the tax hit that would come from its sale of ET units following the close of the ET/ENBL merger, which should be an incremental positive as the tax impact has been an investor question. On UGI we look for an update on the Mountaineer acquisition and any additional colour on timing of the close. We also wonder if there is room to move up the mid-point of guidance for the year as UGI thus far has outperformed expectations and hasn't recorded the full talked about tax benefit. However, at the same while it didn't occur last year during Covid onset the expectations was for 2H earnings to be -10% of full year vs. 110% in 1H.

Regulatory Updates

With the Texas securitization bill passed during the quarter, we look for next steps from ATO, OGS and CNP. There were also a number of positive bills signed in Texas during the quarter that CNP likely discusses in more detail including TDU lease battery storage assets, TDU toolkit for widespread outages as well as the Economic test for transmission. For NWN we look for additional colour on the Washington rate case as the docket was suspended. For SR we look for an update on the Missouri rate case, hearings expected to start end of July. The STL pipeline will also likely be topical and we listen for the next steps, we estimate roughly $0.24/EPS from the pipeline. For OGS we look for color on the OK rate case. NI filed a rate case in Ohio, and we look for additional colour and what estimates it has for rate recovery in its guidance.

Where we are Different from Consensus

For NI we estimate 2Q21 EPS of $0.13 slightly above consensus estimate of $0.12. We would not be surprised to see some consensus estimates move higher, and a couple lower to end up around the $0.13 range, modestly higher from where it sits today. OGS we sit above consensus.

Atmos Energy (ATO)

Expectations: UBSe FY3Q21 EPS of $0.75 roughly in-line with consensus estimate. For the full year we are at $5.10, the top end of ATO's guidance range. We expect the quarter to benefit from rate hikes in both the regulated distribution and pipeline segment, however we expect that to be offset by higher O&M expense as well as a ~ $0.06 impact from lower revenues following the $0.11 benefit in 2Q, the remainder we estimate will reverse in 4Q. That said ATO has not provided color on the cadence of the reversal between 3Q/4Q.

What to Listen For: We look for an update on ATO's expectations for the back half of the year, specifically O&M as business travel has not yet fully returned. On the regulatory side, we expect to hear updates on any new filings expected in FY2021. We will also listen for an update on long term customer growth. We expect an update on its progress to minimize its carbon footprint, especially on the RNG front. With the Texas securitization bill signed, we look for the next steps, we expect likely an early 2022 event for when its fully resolved.

CenterPoint Energy (CNP)

Expectations: UBSe 2Q21 EPS of $0.25 in-line with consensus estimate. We note YoY earnings to be higher as 2Q21 was impacted by a roughly $0.06 COVID impact and CNP should benefit from customer growth and some rate recovery, partially offset by higher D&A. With a low starting point on O&M, we don't expect a meaningful benefit similar to 1Q this quarter, but still expect a roughly 1-2% decline YoY. UBSe full year utility EPS of $1.25.

What to Listen For: While more meaningful commentary will likely have to wait for the Investor Day, we look to see if CNP has been able to quantify the potential one time tax adjustment around repairs tax that was initially spoken about on the 1Q21 call, we view this as a potential positive as the tax benefit can be used to help offset some of the tax hit that would come from its sale of ET units following the close of the ET/ENBL merger, which should be an incremental positive as the tax impact had been an investor question. We note following some FTC noise with the Dominion sale of the Questar pipeline, investor questions slowed down on the issue post the press release issued. There were a number of positive bills that were signed in Texas, including the securitization bill and we expect additional color during the call. We are also looking for any incremental color on the cadence of the capital deployment post the LDC and ENBL/ ET asset sale close.

NiSource Inc (NI)

Expectations: UBSe 2Q21 EPS of $0.13 slightly above consensus estimate of $0.12. We would not be surprised to see some consensus estimates move higher, and a couple lower to end up around the $0.13 range, modestly higher from where it sits today. We would expect YoY earnings to be driven by volume growth and some rate increases. That said we expect this to be partially offset by higher O&M costs as well as an increase in shares outstanding. We also note a slight interest benefit.

What to Listen For: We look for colour on the Ohio rate case that was filed as well as where the PA rate case stands. The IRP process is likely topical, but we may have to wait for additional colour until the RFP short list is filed.

Northwest Natural (NWN):

Expectations: UBSe 2Q21 EPS of ($0.10) above consensus estimate of ($0.13) and up YoY. We expect YoY earnings to be driven by lower COVID related expenses and an increase in rates, but note we don't except commercial operations to return to normal yet.

What to Listen For: During the call we look for an update on NWN's business, specifically on the commercial side. We look for colour on the Washington rate case as the docket was suspended. We expect an update on the M&A pipeline on the water side of the business as well as any additional color on RNG contracting. In June the Eugene city council voted to continue the franchise program and we look for additional colour. We also look for color on customer growth.

ONE Gas (OGS):

Expectations: UBSe 2Q21 EPS of $0.53 above consensus estimate of $0.51. We expect EPS to be up YoY driven by an increase in rates, customer growth and lower YoY COVID expenses, partially offset by an increase in D&A and Taxes.

What to Listen For: With the Texas securitization bill having passed we look for color on timing of when OGS plans to file the financing order. We also look for an update on the OK general rate case that was filed in late May. RNG will also be topical and projects OGS is working on.

Spire (SR)

Expectations: UBSe FY3Q21 EPS of $0.02 roughly in-line with consensus estimate, but we would highlight a very wide consensus range for the quarter (are some expecting a carry-over from marketing earnings from 1Q in their models?). We would expect YoY earnings to be impacted by higher O&M partially offset by recovery from spend. We expect lower marketing earnings as we see more opportunities shifted towards storage which will be winter month weighted.

What to Listen For: During the call we look for an update on the Missouri rate case, hearings expected to start end of July. The STL pipeline will also likely be topical and we listen for the next steps, we estimate roughly $0.24/EPS from the pipeline. We expect RNG to be topical on the call and note that Missouri passed Energy Choice and Alabama and Mississippi have Energy Choice as well. We also look for an update on where the current outstanding commercial disputes stand.

UGI (UGI)

Expectations: UBSe EPS of $0.03 below consensus estimate, but we note a wide range within consensus. YoY we expect slight headwinds from a warmer April domestically, however UGI International saw a colder April. UGI Utilities should see the benefit of the recent rate increase YoY. UGI has noted a 2021 weighting of earnings as 110% in 1H and -10% in 2H (that was the expectation for '20 pre Covid, however it didn't play out that way last year but is still expected to be the case this year and may explain the wide range in guidance). We also highlight some COVID headwinds will continue into 2H offset by tax benefits.

What to Listen For: We look for an update on the Mountaineer acquisition and any additional colour on timing of the close. RNG, BioLPG and rDME will all likely be topical following its Investor Day in late June and we listen for any new developments on this front. With a $0.12 tax benefit and a $0.10 COVID impact expected in FY21 we look for an update on what has been realized thus far. With the recent positive Supreme Court ruling on Penn East, next steps will be topical. There are likely questions around propane margins given the increase see thus far this year.

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth.

We use SOTP of P/E multiples for Regulated Assets and EV/EBITDA for non-regulated assets to calculate our price targets.

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Buy	FSR is > 6% above the MRA.	53%	32%
Neutral	FSR is between -6% and 6% of the MRA.	36%	30%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2021.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
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Company Name	Reuters	12-month rating	Price	Price date
Atmos Energy Corp[16]	ATO.N	Buy	US$98.95	19 Jul 2021
CenterPoint Energy Inc[16,20]	CNP.N	Neutral (CBE)	US$24.87	19 Jul 2021
NW Natural[16]	NWN.N	Neutral	US$51.65	19 Jul 2021
NiSource Inc.[13,16]	NI.N	Buy	US$24.96	19 Jul 2021
ONE Gas Inc[16]	OGS.N	Neutral	US$73.03	19 Jul 2021
Spire Inc[16]	SR.N	Buy	US$70.74	19 Jul 2021
UGI Corp[16,20]	UGI.N	Buy (CBE)	US$45.02	19 Jul 2021

Source: UBS. All prices as of local market close.
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UBS

Equity Research

Earnings Revised — August 4, 2021

Natural Gas LDCs

NiSource Inc. (NI)

NI: Positive Momentum Continues—Reiterate Overweight Rating

Our Call

NI is an execution story and every solid quarterly report is a step in the right direction. As such, we were pleased with the Q2 update, which kept both EPS and key initiatives on the right track. With shares still trading at discounts (2-3%) to blended gas/electric utility peers, we reiterate our Overweight rating and $29/sh price target (19X on our '23E).

Generation Transformation Advancing. We have been very encouraged by the progress on NI's renewable strategy. The renewable slide shows eight additional project approvals since the Q1 deck bringing the total number of approvals to 13 out of 14. As the first wave of projects is well underway, the 2021 IRP process has commenced and is expected to culminate in a filing by 11/1/21. In conjunction with the IRP, NI issued an all-resource RFP which attracted over 180 proposals for 78 individual projects. The IRP and RFP bids will inform the timing of the Michigan City retirement (prior analysis supported a 2028 retirement date) and the replacement technologies for the post-2023 generation outlook. Mgmt. expects to be able to discuss IRP details in conjunction with the Q3/EEI updates, but a formal capex and growth outlook refresh is not likely before year-end.

EPS Outlook. Our '21-25E EPS remain $1.34, $1.42, $1.50, $1.66 & $1.75. Our estimates support a 7.5% CAGR through '24E off the '21E base, which compares with NI's 7-9% target. We see modest upside to our estimates should NI be able to achieve earned ROE's north of our 8.8-9.0% assumption—every 25 basis point change in the earned ROE has a $0.04-0.05 EPS impact. In addition to sales growth and cost controls, we look to the outcomes of four pending rate cases as key drivers of the EPS outlook. NI filed a PA rate case ($98mm) in Q1 and additional cases in OH ($221mm), KY ($27mm) and MD ($5mm) in Q2. Favorably, mgmt. noted that the company is in advanced settlement discussions in the PA case.

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Rating	Overweight
Ticker	**NI**
Price Target/Prior:	**$29.00/NC**
Upside/(Downside) to Target	**14.6%**
Price (08/03/2021)	**$25.31**
52 Week Range	$21.09 - 26.60
Shares Outstanding	392,217,046
Market Cap (MM)	$9,927
Enterprise Value (MM)	$19,548
Average Daily Volume	3,301,969
Average Daily Value (MM)	$84
Dividend (NTM)	$0.88
Dividend Yield	3.5%
Net Debt (MM) - last reported	$9,621
ROIC - Current year est.	10%
3 Yr EPS CAGR from current year (unless otherwise noted)	4%

$ EPS	2020A	2021E Curr.	2021E Prior	2022E Curr.	2022E Prior
Q1 (Mar)	0.76 A	0.77 A	NC	-	NC
Q2 (Jun)	0.13 A	0.13 A	0.08E	-	NC
Q3 (Sep)	0.09 A	0.06 E	0.08E	-	NC
Q4 (Dec)	0.34 A	0.38 E	0.41E	-	NC
FY	1.32 A	1.34 E	NC	1.42 E	NC
P/E	19.2x	18.8x		17.8x	

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

Financials

NI Earnings Model ($ millions except per share data)	2020	2021E	2022E	2023E	2024E	2025E
Revenues	**$4,697**	**$4,650**	**$4,822**	**$5,014**	**$5,331**	**$5,524**
Expenses						
Cost of Gas, Purchased Power & Fuel	1,109	1,065	1,071	1,078	1,085	1,091
O&M	1,495	1,392	1,397	1,431	1,436	1,451
Depreciation & Amortization	762	751	807	886	969	1,024
Other	299	303	308	312	316	321
Total Expenses	**$3,665**	**$3,511**	**$3,583**	**$3,707**	**$3,807**	**$3,888**
EBIT	**$1,031**	**$1,139**	**$1,238**	**$1,307**	**$1,524**	**$1,635**
EBITDA	**$1,794**	**$1,890**	**$2,046**	**$2,193**	**$2,494**	**$2,660**
Other Income	32	34	34	34	34	34
Interest Expense	371	349	365	360	401	431
Income Taxes	127	198	218	235	278	297
Tax Rate	*18%*	*24%*	*24%*	*24%*	*24%*	*24%*
Earnings						
Net Operating Earnings	$566	$627	$689	$746	$880	$941
Preferred Dividends	55	55	55	55	55	55
Noncontrolling Interest	3	3	3	3	3	3
Income from Continuing Operations	**$508**	**$568**	**$631**	**$687**	**$822**	**$883**
Avg. Diluted Shares Outstanding	384	423	445	458	494	503
Ongoing EPS	**$1.32**	**$1.34**	**$1.42**	**$1.50**	**$1.66**	**$1.75**
Q1A EPS	0.76	0.77				
Q2A EPS	0.13	0.13				
Q3A/Q3E EPS	0.09	0.06				
Q4A/Q4E EPS	0.34	0.38				

NI Supplemental Information	2020	2021E	2022E	2023E	2024E	2025E
Dividend Information						
Dividends Per Share - YE Rate	$0.84	$0.88	$0.93	$0.99	$1.06	$1.14
Dividends Paid Per Share	0.84	0.88	0.93	0.99	1.06	1.14
Payout Ratio	64%	66%	66%	66%	64%	65%
Cash Flow & Balance Sheet Items						
Capital Expenditures (millions)	$1,758	$1,982	$2,517	$3,703	$2,223	$2,290
Book ROE	10.1%	9.5%	8.7%	8.6%	9.3%	9.7%
FFO/Debt	11%	15%	15%	14%	16%	16%
Debt/EBITDA	5.7x	5.2x	5.3x	5.5x	5.0x	4.9x
Common Equity as % of Total Capitalization	32%	40%	40%	41%	41%	41%

Source: Wells Fargo Securities, LLC estimates and company filings

Acronyms

EEI – Edison Electric Institute
IRP – Integrated Resource Plan

RFP – Request for Proposals

Price Target Basis and Risk

Price Target for NI: $29.00 from NC

Our $29/sh price target is based on a P/E multiple analysis (19X—a 5% premium to the '22 blended gas/electric peer group multiple of 18X—on our '23E EPS).

Risk for NI

Risks include lower-than-expected sales growth, unfavorable regulatory developments, unexpected cost pressures and incidents on the gas system, which could result in shareholder liabilities.

Investment Thesis

NI
We rate shares Overweight as we do not think NI's robust long-term infrastructure growth opportunities and supportive regulatory treatment are properly reflected in the current share price.

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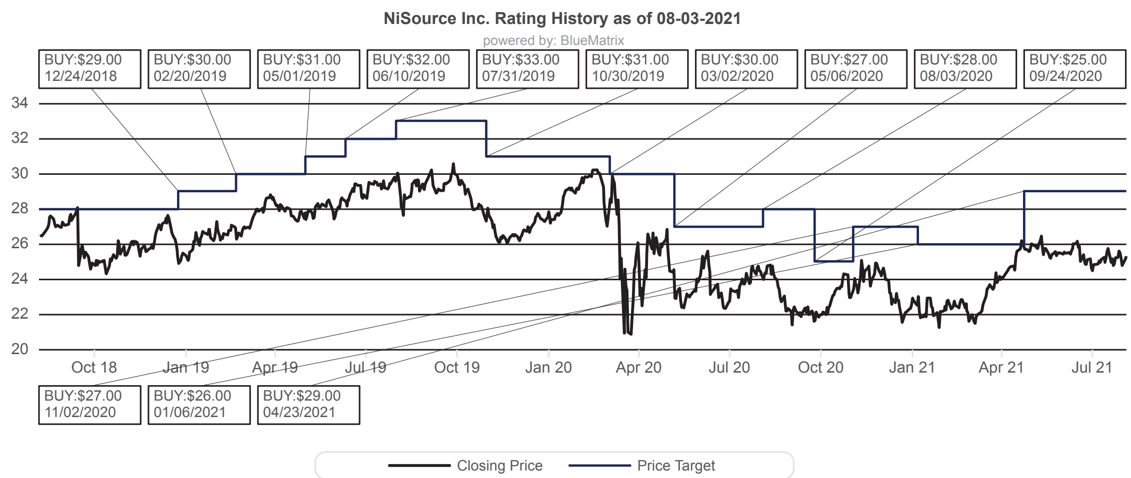

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July 20, 2021

UTILITIES & POWER

Q2 preview: setting the table for a better 2H

- **Solid Q2 and positive tailwinds hopefully bode well for utility turnaround**
  After the worst first half performance since 1997, utilities have rallied to start the 2H but they have a long way to go to catch up. We expect a solid Q2 up 2.4%, expect a few guide-ups (DTE and WEC) and see more tailwinds building. These include hot weather, economic recovery, higher power prices, strong ratebase growth and constructive regulation. We continue to see 21/22 earnings for the sector up 4.9%/5.5%.
- **Key topics: Renewables, Inflation, Transmission, Nukes, Asset sales, CA**
  Renewables backlog growth should again be strong and we expect a lot of focus on potential benefits of the Infra Bill. Concerns include supply chains, inflation risk, and TX slowdown but we expect these to be manageable. We will especially watch how NEE trades post their quarter, will it be another sell the good news or is the stock past that? Transmission is a mixed bag – lot of LT growth potential but also FERC ROE risks. The Preserving Nuke theme remains in play and we will be listening closely for IL law and nuke PTC updates from EXC, PEG and others. Finally, simplifications and asset sales remain a key theme and we will be watching for updates from FE, AEP, PEG and CWEN on sales, and CNP on their company transition. CA looks like same story – cheap stocks but a lot of headline risks into fire season plus ROE pressure.
- **Raising power deck – higher estimates at VST, EXC, PEG**
  We have raised our power price deck to better reflect the runup in power and gas prices. We are still below current market though especially in ERCOT where prices keep going up. We expect a positive tone and consensus revisions for power names given these trends.

Positives:

CNP – Positive progress on asset sales, ratebase upside; set table for Sept A.D.

CWEN – Potential progress on asset sales, CA re-contracting; cheap renewables play.

DTE– Q2 beat and likely raise 2021 guidance; first call post DTM spin.

FE – Potential asset sale plan and/or DOJ settlement.

POR – 2021 ahead of plan, possible guidance raise.

VST– TX law and structure improvements; power price outlook tailwind.

Negatives:

AEE – Q2 miss on timing, Calloway still down for now, waiting on regulatory updates.

OGE – Q2 miss, weak weather; ‘21 utility guide now under even more pressure.

EIX/PCG – EIX GRC bit weak, PCG Dixie Fire; ROE risks, heading into fire season.

Other notables:

DUK – Latest thoughts on potential NC clean energy bill and Elliott response.

EXC – Nuclear support updates in IL and Federal. What is deadline?

NEE – Renewables growth/inflation; rate case; will stock go up or down on good news.

PEG – Fossil sale update, transmission settlement and any color on the “new PEG”.

SO – Vogtle Hot Functional Testing and NRC investigation updates.

Please see individual company write-ups on page 8

Ex. 1: 2Q21 Beats/Misses

	2Q21 Estimate	
Ticker	**WR**	**Cons**
Beats		
DTE	$1.39	$1.34
EVRG	$0.77	$0.73
EXC	$0.78	$0.66
PNW	$1.75	$1.62
Misses		
AEE	$0.76	$0.83
DUK	$1.03	$1.11
ETR	$1.34	$1.41
OGE	$0.50	$0.55

Source: Wolfe Utilities & Power Research, FactSet

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Quarterly Estimates

Exhibit 2: Wolfe Research Earnings Estimates vs. Consensus

					Q2 2021E		Q2 2020	2021E		2022E		2023E		2024E	
Company Name	**Ticker**	**Price**	**PT**	**Rating**	**WR**	**Cons**	**Actual**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**
The AES Corporation	AES	$24.10	$29	PP	$0.29	$0.30	$0.25	$1.54	$1.55	$1.67	$1.67	$1.79	$1.80	$1.89	$1.90
Alliant Energy	LNT	58.31	61	OP	0.57	0.55	0.54	2.58	2.57	2.73	2.74	2.87	2.89	3.03	3.06
Ameren	AEE	83.98	90	OP	0.76	0.83	0.98	3.77	3.77	4.08	4.04	4.36	4.33	4.61	4.59
American Electric Power	AEP	85.74	93	PP	1.15	1.14	1.08	4.65	4.67	5.01	4.98	5.30	5.27	5.62	5.61
American Water	AWK	166.70	156	PP	1.09	1.08	0.97	4.24	4.24	4.58	4.60	4.95	4.98	5.34	5.33
Avangrid	AGR	52.36	47	UP	0.45	0.38	0.32	2.40	2.33	2.40	2.47	2.55	2.60	N/A	2.86
CMS Energy	CMS	61.94	62	PP	0.46	0.46	0.49	2.85	2.75	2.87	2.88	3.16	3.13	3.48	3.39
CenterPoint	CNP	25.24	28	OP	0.22	0.25	0.18	1.25	1.41	1.34	1.43	1.43	1.54	1.55	1.55
Con Edison	ED	73.57	73	UP	0.62	0.63	0.57	4.26	4.26	4.67	4.52	4.80	4.74	5.01	4.90
Dominion	D	75.67	88	OP	0.77	0.78	0.73	3.87	3.88	4.14	4.12	4.38	4.38	4.72	4.64
DTE Energy	DTE	116.12	112	PP	1.39	1.34	1.53	7.09	5.60	5.81	5.89	6.24	6.19	6.62	6.60
Duke Energy	DUK	103.74	106	PP	1.03	1.11	1.08	5.14	5.19	5.40	5.46	5.74	5.78	6.13	6.14
Edison Int'l	EIX	56.85	71	OP	0.99	1.02	1.00	4.54	4.54	4.71	4.69	5.09	4.96	N/A	5.17
Emera*	EMA	57.94	60	PP	0.54	0.54	0.48	2.77	2.83	3.19	3.08	3.35	3.22	3.53	3.47
Entergy	ETR	102.35	120	OP	1.34	1.41	1.37	5.98	5.97	6.30	6.32	6.72	6.71	7.08	7.03
Evergy	EVRG	64.00	69	OP	0.77	0.73	0.68	3.31	3.33	3.50	3.50	3.80	3.76	4.00	3.99
Eversource Energy	ES	85.94	94	OP	0.81	0.81	0.76	3.80	3.83	4.08	4.10	4.35	4.38	4.60	4.69
Exelon	EXC	46.06	52	OP	0.78	0.66	0.55	2.81	2.73	2.26	2.99	2.38	3.06	2.52	3.16
FirstEnergy	FE	37.62	42	OP	0.56	0.57	0.57	2.49	2.51	2.63	2.60	2.76	2.69	N/A	2.74
Fortis*	FTS	44.36	44	PP	0.59	0.59	0.56	2.79	2.75	2.98	2.93	3.16	3.11	3.30	3.27
NextEra Energy	NEE	77.17	91	OP	0.70	0.70	0.65	2.53	2.52	2.70	2.72	2.92	2.91	N/A	3.11
NiSource	NI	25.17	29	OP	0.14	0.13	0.13	1.34	1.35	1.41	1.42	1.51	1.53	1.70	1.69
OGE Energy	OGE	33.89	39	PP	0.50	0.55	0.51	2.21	2.20	2.13	2.15	2.23	2.23	2.32	2.32
PG&E	PCG	9.42	15	OP	0.26	0.28	1.03	1.01	1.01	1.13	1.11	1.23	1.24	1.36	1.33
Pinnacle West	PNW	84.87	80	UP	1.75	1.62	1.71	4.93	4.95	4.99	5.09	5.22	5.34	5.47	5.56
Portland General	POR	47.84	49	PP	0.37	0.35	0.43	2.69	2.67	2.77	2.75	2.87	2.87	2.93	2.96
PPL Corp	PPL	28.20	31	PP	0.23	0.29	0.55	1.97	2.27	1.77	1.68	1.82	1.87	N/A	1.97
PSEG Corp	PEG	60.67	65	OP	0.69	0.70	0.79	3.42	3.47	3.41	3.47	3.57	3.55	N/A	3.74
Sempra Energy	SRE	131.92	153	OP	1.56	1.57	1.65	8.00	8.10	8.35	8.44	8.80	8.95	N/A	9.33
Southern Co.	SO	62.95	64	PP	0.79	0.80	0.78	3.29	3.33	3.48	3.55	3.76	3.84	4.10	4.15
WEC Energy Group	WEC	93.82	95	UP	0.79	0.79	0.76	4.03	4.03	4.29	4.30	4.57	4.57	4.86	4.88
Xcel Energy	XEL	68.16	73	PP	0.54	0.56	0.54	2.96	2.97	3.17	3.17	3.37	3.36	3.57	3.58

Source: Wolfe Research Utilities & Power Research, FactSet
*EPS estimates in $CAD
**AGR reported 2Q21 EPS of $0.35 on 7/20/21
***CNP 2Q20 actual is utility only EPS and does not include midstream earnings

Exhibit 3: Wolfe Research EBITDA Estimates vs. Consensus

					Q2 2021E		Q2 2020	2021E		2022E		2023E		2024E	
Company Name	**Ticker**	**Price**	**PT**	**Rating**	**WR**	**Cons**	**Actual**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**
Clearway Energy	CWEN	$26.30	$33	OP	$350	$348	$316	$1,195	$1,181	$1,264	$1,258	$1,188	$1,257	$1,097	$1,178
NextEra Energy Partners	NEP	74.57	101	OP	376	378	349	$1,446	1,465	$1,603	1,613	$1,703	1,773	N/A	1,913
NRG Energy	NRG	39.45	41	PP	600	569	574	$1,900	1,889	$2,340	2,483	$2,400	2,500	N/A	2,497
Vistra Energy	VST	18.19	25	OP	840	847	929	$1,643	1,649	$3,498	3,309	$3,080	3,094	N/A	3,119

Source: Wolfe Research Utilities & Power Research, FactSet

Wolfe Research Estimate and Target Price Revisions

See company-specific commentary on estimate changes later in this report where we discuss each company in more depth. Please see our revisions summary below.

Exhibit 4: Wolfe Research Earnings Estimate Revisions – Regulateds / Diversified

		2021E		2022E		2023E		2024E	
Company Name	Ticker	New	Prior	New	Prior	New	Prior	New	Prior
Portland General	POR	$2.69	$2.63	N/A	N/A	N/A	N/A	N/A	N/A
PSEG Corp	PEG	N/A	N/A	$3.41	$3.40	$3.57	$3.55	N/A	N/A

Source: Wolfe Research Utilities & Power Research

Exhibit 5: Wolfe Research Price Target Revisions – Regulateds / Diversified

Company Name	Ticker	Price	New PT	Old PT	Rating
Exelon	EXC	$46.06	$52	$51	OP

Source: Wolfe Research Utilities & Power Research

Exhibit 6: Wolfe Research EBITDA Estimate Revisions – IPPs / YieldCos

		2021E		2022E		2023E		2024E			
Company Name	Ticker	New	Prior	New	Prior	New	Prior	New	Prior	New PT	Old PT
ExGen SpinCo	EXC	N/A	N/A	$2,067	$1,933	$1,716	$1,713	N/A	N/A	N/A	N/A
Vistra Energy	VST	N/A	N/A	$3,498	$3,150	$3,080	$2,879	N/A	N/A	N/A	N/A

Source: Wolfe Research Utilities & Power Research

Average Spot Prices

In Exhibit 5 below, we highlight the year over year change in the average spot power price in different regions. As compared to 2Q20, spot prices were up considerably in every region. Most notably, ERCOT spot prices were up 60-70% on average, as was PJM and NE/NY; Spot gas averaged $2.98 (+68%)

Exhibit 7: Average 7x24 Spot Prices

Northeast	**Q221**	**Q220**	**% Change**
Mass Hub	$28.82	$17.94	61%
Connecticut	28.38	17.47	62%
SE Mass	28.93	18.13	60%
NY Zone A	18.25	16.46	11%
NY Zone G	27.45	15.93	72%
NY Zone - J	28.06	16.51	70%
PJM West	28.04	17.50	60%
Pepco Zone	24.84	15.73	58%
Midwest	**Q221**	**Q220**	**% Change**
Cinergy	$29.27	$20.25	45%
NI Hub	26.31	15.63	68%
AD Hub	27.09	17.81	52%
South Central	**Q221**	**Q220**	**% Change**
ERCOT North	$30.39	$18.21	67%
ERCOT South	29.91	18.51	62%
ERCOT West	27.18	16.69	63%
ERCOT Houston	33.35	19.25	73%
West	**Q221**	**Q220**	**% Change**
Palo Verde	$44.69	$19.94	124%
NP 15	40.93	21.67	89%
SP 15	36.61	19.89	84%
Mid-Columbia	43.32	11.17	288%
Natural Gas	**$2.98**	**$1.77**	**68%**

Source: Wolfe Utilities & Power Research, SNL

Wolfe Research Prices vs. Market Prices

We revised our power price deck given the latest changes in forwards. We're revising assumptions up pretty much across the board, as forwards ripped in Q2, most notably in ERCOT. This is particularly having an impact on our 2022-2023 estimates where generators are less hedged. For conservatism, we've maintained our deck at slightly below market in key regions – 5%/3% below in ERCOT 2022/2023 and 3% below in PJM 2022. Thus, our MTM estimates still imply upside to our published estimates. Net-net, we're seeing our VST estimates up most materially, while the changes for NRG/EXC/PEG are less impactful.

Exhibit 8: Wolfe 7x24 power price estimates

	2021	2022	2023
PJM West	$26.75	$31.62	$29.29
PJM East	$27.75	$32.62	$30.29
NEPOOL	$33.35	$45.38	$43.02
NY Zone A	$23.84	$28.15	$26.54
NY Zone G	$27.80	$40.26	$38.20
NY Zone J	$30.05	$43.27	$41.52
A/D Hub	$26.54	$31.82	$28.60
NI Hub	$23.68	$28.94	$26.15
Indiana Hub	$27.85	$32.78	$30.45
ERCOT (Houston)	$29.61	$39.14	$33.32
ERCOT (South)	$28.07	$35.02	$29.69
ERCOT (North)	$28.26	$36.58	$31.36
ERCOT (West)	$24.79	$32.00	$26.15
NP-15	$42.39	$50.62	$44.21
SP-15	$42.48	$50.73	$43.40
Mid-C	$30.71	$44.54	$41.86
Palo Verde	$48.76	$64.01	$51.80
Nymex Gas ($/Mcf)	$2.77	$3.20	$2.81
CAPP Coal ($/ton)	$60.00	$60.00	$60.00
PRB Coal ($/ton)	$12.00	$12.00	$12.00

Source: Platts, Wolfe Research Utilities & Power Research

Exhibit 9: Market 7x24 power price estimates

	2021	2022	2023
PJM West	$31.64	$32.66	$29.40
PJM East	$32.64	$33.66	$30.40
NEPOOL	$43.11	$45.50	$43.14
NY Zone A	$23.94	$28.27	$26.66
NY Zone G	$27.92	$40.36	$38.30
NY Zone J	$38.12	$43.39	$41.65
A/D Hub	$31.71	$31.94	$28.71
NI Hub	$29.13	$29.06	$26.26
Indiana Hub	$33.56	$32.91	$30.56
ERCOT (Houston)	$175.23	$41.16	$34.40
ERCOT (South)	$172.32	$37.01	$30.76
ERCOT (North)	$173.25	$38.60	$32.45
ERCOT (West)	$169.89	$34.01	$27.22
NP-15	$56.40	$50.77	$44.29
SP-15	$56.88	$51.18	$43.79
Mid-C	$46.33	$44.73	$42.00
Palo Verde	$68.73	$68.39	$54.59
Nymex Gas ($/Mcf)	$3.66	$3.20	$2.81
CAPP Coal ($/ton)	$60.00	$60.00	$60.00
PRB Coal ($/ton)	$12.00	$12.00	$12.00

Source: Platts, Wolfe Research Utilities & Power Research

Exhibit 10: Market 7x24 vs. Wolfe 7x24

	2021	2022	2023
PJM West	15.5%	3.2%	0.4%
PJM East	15.0%	3.1%	0.4%
NEPOOL	22.6%	0.3%	0.3%
NY Zone A	0.4%	0.4%	0.4%
NY Zone G	0.4%	0.2%	0.3%
NY Zone J	21.2%	0.3%	0.3%
A/D Hub	16.3%	0.4%	0.4%
NI Hub	18.7%	0.4%	0.4%
Indiana Hub	17.0%	0.4%	0.4%
ERCOT (Houston)	83.1%	4.9%	3.1%
ERCOT (South)	83.7%	5.4%	3.5%
ERCOT (North)	83.7%	5.2%	3.3%
ERCOT (West)	85.4%	5.9%	3.9%
NP-15	24.8%	0.3%	0.2%
SP-15	25.3%	0.9%	0.9%
Mid-C	33.7%	0.4%	0.3%
Palo Verde	29.1%	6.4%	5.1%
Nymex Gas ($/Mcf)	24.3%	0.0%	0.0%
CAPP Coal ($/ton)	0.0%	0.0%	0.0%
PRB Coal ($/ton)	0.0%	0.0%	0.0%

Source: Platts, Wolfe Research Utilities & Power Research

Market Power Prices (03/31/21 vs. 06/30/21)

In Exhibits 6-8 we show market 7x24 power and commodity prices at March 31, 2021 and June 30, 2021. 2021 and 2022 contracts were mostly up significantly across the board compared to marks at 03/31/21. ERCOT contracts were up the most – 30-35% in 2022 and 10-15% in 2023. PJM contracts were up 15% in 2022 and 10% in 2023.

Exhibit 11: 03/31/21 Market 7x24

	2021	2022	2023
PJM West	$27.74	$28.37	$27.47
PJM East	$28.74	$29.37	$28.47
NEPOOL	$36.27	$37.28	$37.23
NY Zone A	$24.16	$24.79	$25.52
NY Zone G	$26.73	$32.93	$33.49
NY Zone J	$33.59	$36.07	$36.81
A/D Hub	$27.82	$27.52	$26.40
NI Hub	$25.44	$24.79	$23.82
Indiana Hub	$32.54	$29.21	$28.71
ERCOT (Houston)	N/A	$30.61	$30.09
ERCOT (South)	N/A	$28.32	$27.80
ERCOT (North)	N/A	$28.96	$27.75
ERCOT (West)	N/A	$23.26	$21.44
NP-15	$49.64	$43.21	$39.27
SP-15	$51.69	$44.73	$39.95
Mid-C	$34.15	$32.95	$31.30
Palo Verde	$66.31	$50.63	$44.13
Nymex Gas ($/Mcf)	$2.77	$2.64	$2.54
CAPP Coal ($/ton)	$60.00	$60.00	$60.00
PRB Coal ($/ton)	$12.00	$12.00	$12.00

Source: Wolfe Utilities & Power Research, Platts

Exhibit 12: 06/30/21 Market 7x24

	2021	2022	2023
PJM West	$31.64	$32.78	$29.89
PJM East	$32.64	$33.78	$30.89
NEPOOL	$43.77	$46.76	$44.28
NY Zone A	$24.08	$28.44	$27.39
NY Zone G	$29.07	$41.18	$39.50
NY Zone J	$38.46	$44.21	$42.85
A/D Hub	$31.72	$32.13	$29.13
NI Hub	$29.03	$29.16	$26.60
Indiana Hub	$33.54	$33.19	$31.30
ERCOT (Houston)	N/A	$41.42	$34.38
ERCOT (South)	N/A	$37.27	$30.74
ERCOT (North)	N/A	$38.85	$32.43
ERCOT (West)	N/A	$34.27	$27.20
NP-15	$56.84	$49.42	$42.38
SP-15	$57.18	$50.04	$41.88
Mid-C	$47.58	$43.04	$40.27
Palo Verde	$67.58	$66.76	$52.71
Nymex Gas ($/Mcf)	$3.67	$3.14	$2.79
CAPP Coal ($/ton)	$60.00	$60.00	$60.00
PRB Coal ($/ton)	$12.00	$12.00	$12.00

Source: Wolfe Utilities & Power Research, Platts

Exhibit 13: 03/31/21 vs. 06/30/21 Market 7x24

	2021	2022	2023
PJM West	14.1%	15.6%	8.8%
PJM East	13.6%	15.0%	8.5%
NEPOOL	20.7%	25.4%	18.9%
NY Zone A	(0.3%)	14.7%	7.3%
NY Zone G	8.8%	25.0%	17.9%
NY Zone J	14.5%	22.6%	16.4%
A/D Hub	14.0%	16.7%	10.3%
NI Hub	14.1%	17.6%	11.7%
Indiana Hub	3.1%	13.6%	9.0%
ERCOT (Houston)		35.3%	14.3%
ERCOT (South)		31.6%	10.6%
ERCOT (North)		34.2%	16.8%
ERCOT (West)		47.3%	26.9%
NP-15	14.5%	14.4%	7.9%
SP-15	10.6%	11.9%	4.8%
Mid-C	39.3%	30.6%	28.7%
Palo Verde	1.9%	31.9%	19.4%
Nymex Gas ($/Mcf)	32.4%	18.8%	9.8%
CAPP Coal ($/ton)	0.0%	0.0%	0.0%
PRB Coal ($/ton)	0.0%	0.0%	0.0%

Source: Wolfe Utilities & Power Research, Platts

Earnings Call Calendar

Below, we have provided the 2nd quarter 2021 earnings call calendar for companies in our coverage universe. Please note all times are in Eastern Daylight Time.

July 2021

Monday	Tuesday	Wednesday	Thursday	Friday
19	20	21 10am: AGR 12pm: Wolfe Utilities & Midstream Q2 Earnings Preview Lunch	22 9am: AEP 2pm: Wolfe Utilities & Midstream Q2 Earnings Preview Webcast (Virtual)	23 9am: NEE/NEP 10am: FE
26	27 9am: DTE	28	29 8:30am: FTS 9:30am: CMS 10am: XEL 11am: PCG 1pm: SO 4:30pm: EIX	30 9am: ES 11am: POR

August 2021

Monday	Tuesday	Wednesday	Thursday	Friday
2	3 8am: CWEN 9am: AWK (tent.) 11am: PEG 2pm: WEC	4 10am: EXC 11am: ETR, NI (tent.)	5 8am: CNP, EVRG, VST 9am: AES, NRG, OGE 10am: DUK 11am: PPL 12pm: PNW, SRE 4pm: ED*	6 10am: AEE, D, LNT
9	10	11 8:30am: EMA	12	13

*No earnings call

Highlights and lowlights

AEE: Slow MO in Q2 but will pick up in second half of year

- We estimate 2Q21 EPS of $0.76, below consensus likely due to rate design in MO (-$0.20) which will be reversed in 3Q21. We expect AEE to affirm 2021 guidance of $3.65-3.85.
- The main investor focus is transmission, which AEE suggested could be a meaningful investment opportunity later this decade. The level of incremental capex depends on the MISO MTEP report anticipated this Dec. Every $100M of MISO transmission capex adds $0.02 in 2023. AEE receives a 50bp RTO/ISO adder on all of its FERC-regulated transmission; we project a $0.04 EPS hit if that is removed.
- AEE's IL utility could be impacted by the proposed IL clean energy legislation, likely positively given the ROE would be north of the low 8s implied under the status quo. But there has not been much movement since a special session last month.
- AEE's MO rate case remains quiet until the intervenor testimony on 9/3. AEE is seeking a 5% rate increase based on 9.9% ROE. AEE has settled the past few important regulatory cases, including rate cases. Settlements have tended to be reached before evidentiary hearings; in the instant case, those start in late Nov.
- AEE MO is also expected to file for CCNs for new renewables projects (up to 1,200 MW). AEE has not said any associated capex would be incremental to its 5yr plan, but we suspect it would be mostly upside to AEE's outlook.
- And lastly we expect to get an update on the Callaway outage, which as of early this week was still not online; AEE targeted late June or early July for the plant to return to service.

AEP: Focused on KY sale decision, renewables in AEP West in 2H21

- We estimate 2Q21 EPS of $1.15, in line with consensus. We believe AEP will affirm its 2021 guidance of $4.55-4.75. AEP will narrow its 2021 guidance on the Q3 call (in the fall) and provide next year's guidance and its typical capital and financing outlooks at EEI in Nov.
- On the 2Q21 call, we anticipate the focus to be on the recovery and load growth, as C&I growth is coming back strong.
- We also expect an update on AEP's renewables opportunities, namely its 3.3 GW RFP for SWEPCo and a planned RFP this quarter for PSO (OK). Most of AEP's incremental renewables in the near-term will be at those two subs. More color on the opportunities at other subs is expected at EEI.
- AEP remains committed to announcing a sale of its KY Power sub or no sale by yearend; transaction closing would be aligned with the timing of $1.4B equity needs in 2022 (on top of $600M this year) for the pending North Central Wind project.
- On transmission, AEP receives a 50bp RTO/ISO adder on all of its FERC-regulated rate base; we project a $0.05 EPS hit if that is removed.

AES: Fundamentals intact despite recent stock weakness

- We forecast 2Q21 EPS of $0.29, in-line with consensus at $0.30. We believe results will be up $0.04 YoY with contributions from Southlands Repowering, corporate cost cuts and better demand at the US utilities more than offsetting FX headwinds and lost PTC from asset sales.
- We expect that AES will reaffirm its 2021 guidance of $1.50-1.58. Our 2021E of $1.54 is a penny behind consensus. Recovery from COVID pressures faced in 2020 appears to be going as planned.
- Our sense is that AES is on track to meet its 4 GW target for signed renewable PPAs in 2021. From a cost perspective, AES is fairly insulated from inflationary pressures as most costs locked in for 2022 and 2023 projects. We don't believe AES has faced or expects to face

supply chain issues; AES has been assured its solar panels are not coming from the Xinjiang province in China.
- AES' stock has been under pressure recently. This has coincided with weakness in some of other clean-tech names (TAN, euro renewables, etc.). We believe the recent stock performance has been more macro-driven than anything, particularly as concerns on the delta variant/new COVID cases have risen across the globe. From a fundamental perspective, AES appears on track.
- Other items to watch on the earnings call include any progress on further monetization of excess LNG capacity in MCAC and any updates with Fluence or Uplight.

AWK: Quiet quarter; looking for updates out of NY
- We see 2Q21 EPS of 1.09, which is in-line with consensus at $1.08. We expect YoY results in Q2 to be up $0.12, driven by traditional rate relief/rider mechanisms and the absence of COVID impacts on demand. Higher O&M, depreciation and property taxes will be partial offsets.
- Our expectation is that AWK will reaffirm its 2021 guidance of 4.18-4.28. We note there could be a one-time tailwind to 2021 guidance from the delay in closing the NY Am. Water sale as AWK is not booking depreciation on the held-for-sale assets (worth ~$0.02/q); it's not clear what AWK assumed in guidance, but the targeted close date originally was midyear.
- Items we hope to get more color on when AWK reports include the NY sale process/most likely path forward and the grand jury subpoena received at AWK's Homeowner Services business. The latter was first disclosed in Q1 and is specific to operations in NYC.
- With the recent major rate cases now resolved (NJ, PA and MO), it is fairly quiet for AWK on the regulatory front. Cases are still pending in CA, WV and IA but these are less consequential.

CMS: Aftermath of big Enerbank and IRP news
- We forecast Q2 EPS of $0.46 – in-line with consensus and down versus $0.49 last year. Rate relief is the primary positive driver, offset by investment costs and one-time COVID savings last year. Our estimate also excludes Enerbank, which contributed $0.03 in 2Q20. We expect 2021 guidance of $2.61-2.65 and 2022 guidance of $2.83-2.87 to be reaffirmed, both of which exclude Enerbank. That said, we believe the company is tracking favorably within these ranges.
- A lot has happened since the Q1 call. First, CMS announced a sale of Enerbank that resulted in a re-base lower of its EPS trajectory. We thought the decision made sense long-term and it's possible the $960M sale price goes up given strong performance this year. As a reminder, the Enerbank sale also eliminated equity needs.
- The second big event was CMS' Integrated Resource Plan filing. This laid out a coal exit by 2025. More importantly, it filled in the $1B rate base upside opportunity discussed on the Enerbank call, as CMS looks to rate base two existing gas plants in 2023 and 2025. We believe this positions the company to grow at the high-end of the 6-8% EPS CAGR.
- Mgmt's perspective on intervenor responses to the IRP will be important to hear. CMS is also in a pending electric rate case.

CNP: Positive set up into earnings and the September Analyst Day
- We forecast 2Q21 utility EPS of $0.22. We don't believe our estimate is directly comparable to consensus which appears to have estimates that still include midstream. For the utilities, we see EPS growth of $0.04 YoY, largely driven by better sales volumes/customer growth and rate relief. Partial offsets include share dilution and higher O&M (CNP reduced O&M materially in 2Q20 due to COVID impacts on demand).

- We expect CNP to reaffirm its 2021 utility guidance of $1.24-1.26. Our current 2021E for utility EPS is $1.25. Our sense is CNP is right on track for the FY as COVID impacts have largely dissipated and cost savings initiatives are bearing fruit.
- We expect that most major updates held for the September 23rd Analyst Day. That said, the management team has history of providing a preview of sorts, particularly when there is a lot of good news to share. We recently reiterated our Outperform rating on CNP (here) alongside our Midstream team's upgrade of ET to Outperform (here). We see several compounding tailwinds for CNP that should lead to much higher earnings power going forward. We ultimately think the Analyst Day will serve as a positive catalyst for the stock.

CWEN: Looking for color on next portfolio drop; thermal sale possible?

- **Q2 estimate.** Our 2Q21 EBITDA estimate of $350M is slightly ahead of consensus and higher than the $316M reported in the year ago period. Key YoY drivers are the acquisition of the additional interest in Aqua Caliente and our assumption of normal weather vs. weaker conditions a year ago. CWEN's CAFD guidance implies $124M - $150M for Q2.
- **Key call topics – CA gas plant re-contracting update; Possible offer for next portfolio drop down.** The big news last quarter was CWEN's re-contracting of 100 MW of its 1.75 GW of gas-fired capacity in CA for 7.5 years at constructive terms. We're hoping for an update on any further progress on the call and thoughts on California's recent capacity procurement efforts. On future growth, CWEN has been working with its sponsor on a second portfolio co-investment in 1.1 – 1.7 GW of renewable assets and it's possible a formal offer could be made and more details provided by the Q2 call. The first portfolio drop-down involved CWEN investing $215M in a 1.6 GW portfolio over 2021-22. Lastly, we expect questions on potential PUCT initiatives in Texas that could burden renewable assets with incremental reliability costs – it's a small market for CWEN but an important industry topic.
- **Is a thermal sale on the table?** CWEN has been asked about this after news reports of a potential sale and Brookfield's recent $4.1B sale of its thermal business. CWEN discloses that 9% of 2020 CAFD before corporate interest came from the thermal assets, which implies $35-40M of CAFD. We think it's possible that a potential sale could be done at a very attractive multiple (mid-single digit type yield), potentially generating in the range of $700M of net equity proceeds. While CAFD would then be lower post a sale, this would give CWEN a lot of capital flexibility with the ability to invest in growth without issuing equity for several years. We see this as a potential positive catalyst for the stock.

D: Execution mode v2

- Our 2Q21 estimate of $0.77 is in-line with consensus at $0.78 and in the upper half of D's $0.70-0.80 guidance range. We see Q2 up $0.04 YoY (recast for Gas T&S sale), largely driven by a return to more normal weather, tracked investments, and a lower share count. Partial offsets include higher O&M, depreciation and interest expense.
- We believe that D will reaffirm its 2021 guidance of $3.70-4.00. Our 2021E of $3.87 is in-line with consensus at $3.88.
- Like Q1, we expect a fairly short and sweet Q2 call. D remains hyper-focused on hitting numbers each quarter in an effort to build a consistent track record of execution, similar to the highest quality names in the sector.
- The next datapoint in VEPCO's triennial review will be on September 17th when the SCC's Staff report is filed. We generally expect this to be negative as Staff is likely to have differing views with Dominion (D believes no refund is warranted). However, it is important to remember that there is a $50M rate reduction cap per VA law. We will be most interested to get Staff's view on D's use of period expensing.

- The S.C. PSC has a statutory deadline to issue an order by August 16th in DESC's rate case. Its possible D could get a directive from the PSC well before that date and in time for its earnings call (Aug. 6th). Commissioner comments on the settlement at hearings last week were constructive.
- D's 2.6 GW Coast Virginia Offshore Wind Project remains on track. D received the NOI for the project in July and still expects to make its rider filing with the State Corporation Commission before yearend. On the cost side of things, D remains confident in bringing the project online well under the $125/MWh cost cap.

DTE: Strength out of the spin

- We forecast Q2 EPS at $1.39 – a small beat versus consensus, but below $1.53 last year. Key drivers include rate relief at the utilities and the LEAP pipeline in-service at midstream. Note that the GSP segment will be included in Q2 EPS, but will be adjusted out of full-year guidance and numbers going forward. DTE's 2021 guidance is $5.36-5.66 ex-midstream and we see the potential for this to be revised higher (our estimate is $5.52). Q1 got DTE off to a really strong start and prior to COVID in 2Q20, DTE had raised guidance in every Q2 since 2014.
- Much of the attention recently has been on the now spun-off midstream entity and we expect a reversion in focus back to the core utilities story. DTE will remain 90% regulated, though is now lacking a comparable following moves by CMS to become fully-regulated, so mgmt's commitment to this business mix will likely be asked. Opportunities within RNG remain a focus.
- DTE is currently in a gas rate case with the potential for a settlement. An electric rate case has been pushed out several times now, with the earliest filing now being October.
- We don't expect any updates on 2022 or the long-term outlook until DTE's usual Q3/EEI disclosures.

DUK: Active(ist) summer for DUK with NC legislation and Elliott fight

- We estimate 2Q21 EPS of $1.03, below consensus possibly due to absence of ACP earnings, tougher O&M comp, lower renewables earnings or higher D&A. Still, we expect DUK to affirm 2021 guidance of $5.00-5.30.
- There are two big catalysts to watch: NC legislation and activism.
- On NC energy legislation (HB 951), the House passed the bill last week largely on partisan lines, and it currently sits with the Senate Rules and Operations committee. There is no deadline to vote on the bill.
    - HB 951 includes multiyear performance-based ratemaking, with a 50bp ROE band; competitive renewables procurement, including DUK's ability to own 55% of the 777 MW AC annual procurement through 2026; and a schedule of coal plant retirements by 2030 with securitization options and in some cases mandated gas or renewables replacement capacity.
    - HB 951 has a carbon-reduction target of 63% by 2030, below Gov Cooper's 70% reduction.
- Gov Cooper (D) and certain stakeholders oppose the bill; Republicans hold majorities in each chamber but are two and three votes short in the Senate and House, respectively, to override a veto. We are concerned the partisanship could impact the bill's chances of passing in its current form.
- Meanwhile, this week Elliott Management and DUK traded scathing public letters that suggest they may not find an amicable way to end the activism. Elliott wants changes at mgmt. and the Board, while DUK claims Elliott's ideas to increase shareholder value are neither concrete nor specific.

ED: Storm penalties present pressure to 2021

- We estimate 2Q21 EPS of $0.62 which is in-line with consensus at $0.63. We project YoY results up $0.05, mostly driven by rate relief at CECONY. Partial offsets include higher O&M, depreciation, and property taxes. We expect a ~$0.04 benefit from the ability to defer bad debts this quarter whereas in 2Q20 it was a drag.
- We believe that ED will reaffirm its 2021 guidance of $4.15-4.30. Our 2021E of $4.26 is in-line with consensus. An incremental pressure to 2021 is the $0.06-0.07 headwind associated with the recent settlement for Tropical Storm Isaias penalties. Our sense is that ED expects to be able to offset most of this with cost controls.
- One item to watch for is ED's petition at the NY PSC to establish a surcharge mechanism to begin recovering 2020's foregone late payment charges/other fees, starting in September. So far, it's been radio silent since ED made the request in April. If the PSC were to approve, it would be a benefit that wasn't contemplated when ED originally gave guidance (worth $0.01/mo.).
- With the Stagecoach sale complete, focus now turns to when ED can exit its stake in MVP so it can be free of midstream exposure. We still believe that is unlikely to occur until the project is complete, which is currently targeted for mid-2022.

EIX: Well at least a PD on the GRC was issued finally

- We estimate 2Q21 EPS of $0.99, below consensus (quarterly estimates are typically not meaningful for EIX, especially before new rates are in place).
- EIX will not provide 2021 guidance until a final decision is issued by the CPUC in EIX's GRC; that will not be issued before the 7/29 call, given the earliest a vote can take place is 8/19.
- The proposed decision in EIX's GRC had a little lower implied 2023 rate base than expected: $39.3B vs $41.1B requested; that was just below EIX's "range" case of $39.5B. That difference is roughly $0.10/sh in 2023. Some O&M was disallowed, but it remains unclear whether EIX can find incremental O&M savings under the PD.
- Utility bond yields are near 2021 lows, and CA's CoC mechanism is poised to be triggered unless yields average over 75bp through 9/30/21. The ROE for 2022 will be cut by at least 50bp (59bp if yields remain at current levels). Every 50bp is about $0.20/sh in 2022.
- EIX has already issued $1.25B of perpetual preferred equity, satisfying $625M of EIX's target of up to $1B of equity content issued this year. EIX's internal (DRIP/ESOP) programs have the capacity for about $100M/yr of equity, and EIX's existing ATM/DRIBBLE program is for over $1B. We anticipate the remaining equity content this year to come from more preferreds or EIX's ATM/DRIBBLE.
- The stock seems to degrading back to its relative lows vs peers, and it is unclear what gets it to turnaround near-term, given it appears to fall with fire headlines in the state, even those outside of its territory (e.g., stock fell 3% earlier this week, possibly related to PCG's stock decline following Dixie Fire).

EMA-TSX: More headwinds than tailwinds in 2021

- We forecast 2Q21 EPS of C$0.54, in-line with consensus at C$0.55. We believe YoY results will be up $0.06 driven by better performance at Emera Energy, rate relief/customer growth at PGS and reversal of preferred dividend timing that impacted 2Q20 (double pmt. last year). Partial offsets include FX and the reversal of an amortization surplus benefit at TECO.
- EMA does not provide annual EPS guidance. Our 2021E of $2.77 is below consensus at $2.83. Generally, we see more headwinds than tailwinds so far in 2021 – FX (though it's gotten better recently), unfavorable weather at Nova Scotia Power in Q1 and expectation that TECO will earn near the low end of its band during its rate case test year.

- The biggest focal point for EMA stock this year remains the eventual outcome of TECO's rate case. EMA is currently in the period where a potential settlement could be filed (July/Aug.), so we hope to get management's latest thoughts here on the call. FPL's case is ahead of TECO, so we continue to watch that case closely for potential readthroughs.
- We don't expect any major updates to the capital plan. These are often held for the annual refresh of the 3-yr plan in the fall. Things have been quiet on the Atlantic Loop project, but EMA still hopes to be able to provide more color on the project later this year. As a reminder, roughly half of EMA's C$1.2B capex opportunities under development are for Atlantic Loop/something similar; the remaining is mostly for projects at TECO.
- During Q2, the NM PRC approved EMA's proposal to recover its incremental $110M of gas costs from Storm Uri, starting in July and over a 30-month period.

ES: Hoping to be a CT above the rest

- We estimate 2Q21 EPS of $0.81, in line with consensus. We believe ES will affirm the low end of its 2021 guidance of $3.81-3.93. Our 2021E is $3.80, a little below consensus.
- The investor focus remains on CT, which finally saw some constructive developments after months of unfavorable regulatory actions. First, AGR/UI settled with key intervenors on a 2-yr rate plan, averting any cuts to the ROE or equity ratio and setting a precedent for ES.
- Briefs are due in the interim rate decrease proceeding 7/30; the usual intervenors did not ask many questions of ES during hearings, making the briefs important to gauge whether a settlement could be reached before the 8/20 draft decision. A final decision is expected in Sep.
- Regarding offshore, ES/Ørsted received a schedule for Revolution and awaits one on Sunrise; they have the Dominion ship in 2024-25, so they hope to have both Revolution and Sunrise completed by YE25. ES still sees levered ROEs in the mid-teens.

ETR: Just do it

- We estimate 2Q21 EPS of $1.34, below consensus possibly on higher O&M, D&A or interest costs. But we believe ETR will reaffirm 2021 guidance of $5.80-6.10 and possibly indicate tracking ahead; ETR had a strong 1Q21 and said then "we are very comfortable in our range right now. But since it's only the first quarter, we're not making any adjustments just yet." Our 2021E is $5.98 vs consensus of $5.97.
- ETR resolved its FRP extensions in AR and LA constructively and is well-positioned for the economic recovery in the Gulf region, as well as hydrogen in its service territory.
- ETR also received legislation in LA and TX that should help with securitization of 2020 storm costs, which totaled over $2B and have weakened temporarily ETR's balance sheet.
- We believe ETR stock has lagged peers because of equity needs, which are $2.5B through 2024. ETR said it will begin to meet those needs this year, but has not specified how much. ETR has a $1B ATM/DRIBBLE program and received shareholder authorization in May to issue preferreds.
- We think the stock can perform better once the equity overhang is removed.

EVRG: Waiting on the Analyst Day Update

- We forecast Q2 EPS of $0.77 – modestly ahead of consensus and above $0.68 last year. We expect the quarter to be driven by sales/costs given COVID last year plus FERC transmission; offset by depreciation, property taxes, and small dilution from the Bluescape shares. We expect 2021 guidance of $3.20-3.40 to be reaffirmed. As a reminder this excludes the $0.41/sh gain realized in Q1 from Storm Uri.
- The news flow has quieted down in recent months, as EVRG received constructive reviews of its Sustainability Transformation Plan in Missouri/Kansas and saw securitization legislation

pass in both states as well. EVRG also filed its long-awaited Integrated Resource Plan that also laid out a transition plan to scale down coal and add more renewables.

- EVRG will hold its Analyst Day on September 21 and we're not expecting any incremental disclosures ahead of this. This will be the new mgmt. team's first opportunity to refresh their long-term plan. We expect more visibility on a path to maintaining 6-8% EPS growth through 2025 while continuing to move up the capital plan and rate base growth trajectory. Customer bills remain a focus point, but we think it can be managed. **We remain buyers into this event.**

EXC: What it meant to EXC will eventually be a memory…

- We estimate 2Q21 EPS of $0.78, above consensus. The drivers include mitigation that EXC expects following the 1Q21 TX weather hit, absence of storm costs, and rate adjustments.
    - A wildcard is the mark-to-market unrealized gains from investments in EXC's Constellation Technology Ventures. CTV has interests in Proterra and Stem, both of which IPO'd during 2Q21. It also has interests in CHPT and OUST, both IPO'd in 1Q21; and C3.ai and XL both IPO'd in 2020. However, EXC's shares outstanding in each is unknown. EXC's 2021 guidance includes $400M in "Other" for ExGen. While that includes other items like NDTF earnings, it also reflects EXC's assumed earnings from CTV interests. In 1Q21, CTV unrealized gains were $95M.
    - We expect EXC to affirm 2021 guidance of $2.60-3.00, assuming no outsized unrealized gain (or loss) at CTV.
- But the focus of the call will be on IL energy legislation and nuclear PTC proposal in DC. In IL, there has not been much movement since a special session last month. The reported holdup is timing of coal retirements, which unions want pushed out beyond the 2035 date backed by environmentalists and Gov Pritzker.
- In DC, nuke PTC legislation was introduced last month, while a Clean Energy Standard is expected in the budget reconciliation. Either would benefit EXC's nuclear fleet. The PTC would set a tax credit at $15/MWh less 80% of "gross receipts" over a $25/MWh baseline energy price.
- The ExGen spin is being reviewed by NY regulators, as well as NRC and FERC. This will be the first call since comments were filed in NY. The intervenor comments were largely expected.
- We are raising our 2022-23 ExGen EBITDA estimates, reflecting our latest price deck, to $2.1B/1.7B from $1.9B/1.7B; these estimates assume no IL legislation (i.e., Byron/Dresden shut) this year.
    - If last month's IL bill were approved, our 2023E would rise $2.1B. See our note on IL bill.
- On a m-t-m basis, our 2022-23 EBITDA are $2.1/1.7B. Our 2023 m-t-m EBITDA is ~$300M lower than our last published m-t-m estimate in our Weekly Mark, as we now use 2023 market forwards as opposed to keeping them flat with 2022 forwards. 2023 forwards are 7-10% lower than 2022 in EXC's key markets.
- Our PT rises $1 to $52 using our new price deck, with the utility still worth $43 and ExGen now worth $9 as a base case (neither IL law nor federal support).
- ExGen margins as of 6/30/21 could be higher than those using 3/31/21 pricing, given higher pricing in EXC's key markets. Pricing for 2021, rose 14% in NiHub and PJM; however, ExGen is nearly fully hedged. See below:

Wolfe Projected EXC Total and Open Gross Margin	
	2021
6/30/2021	
Total Gross Margin Est ($950M TX)	5,750
Open Gross Margin Est	4,000
	-
3/31/2021	
Total Gross Margin ($950M TX)	5,750
Open Gross Margin	3,500

FE: Big call – looking for updates on DoJ and asset sales

- We project Q2 EPS of $0.56 – in-line with consensus, close to $0.57 last year, and above the midpoint of $0.48-0.58 guidance. The loss of decoupling/EE in Ohio was previously quantified as a $0.03/sh hit in Q2, which is the primary negative driver along with increased financing costs; offset some by rate relief. We expect 2020 guidance of $2.40-2.60 to be reaffirmed. This is all very much a sidebar relative to everything else going on at the company.
- One of the big questions will be the latest on the DoJ process as it relates to the investigation in Ohio. Investor expectations seem to have been building that a deferred prosecution agreement will be reached by the call, after mgmt. indicated it was in early discussions back in Q1. We think this is a possibility, but tough to know with conviction. We assume a $500M fine in our estimates.
- The second big question is where FE is on asset sales. Mgmt. has pointed to an interest in selling a 20% stake to help with funding needs and balance sheet stabilization. While a completed sale seems unlikely at this point, we believe FE could announce a process for a particular subsidiary. Ultimately this should help resolve an equity overhang in a much more accretive way than issuing FE shares at a discount.
- The regulatory situation in Ohio is the other big lingering item, however we sense it is still early days there for any sort of resolution. There are still a number of audits pending (corporation separation, political/charitable spending, DMR funds usage, and the DCR mechanism), along with the SEET/Quadrennial review, and none of them are close to concluding. We believe FE is working towards a more comprehensive agreement that addresses many of the open items, but this is still many months away. Recall FE also "separated" its head of Regulatory Affairs Eileen Mikkelsen since the Q1 call.

FTS: Still a lot of focus on transmission at FERC

- We project Q2 EPS of $0.59 – in-line with consensus and above $0.56 last year. We expect Q2 to be driven by Arizona rate relief and weather, along with ITC rate base growth and a lack of COVID costs; offset primarily by FX. As a reminder, FTS doesn't give annual guidance.
- As one of the biggest transmission players, this remains a keen focus at ITC. Last week, FERC laid out an ANOPR to address cost allocation and planning for transmission with the hopes of spurring more development to assist the country's renewables buildout. Similarly, MISO is also looking at long-term planning with an update expected later this year. This should all provide robust long-term opportunities. However, the near-term commentary from FERC as it relates to ROEs has been bothersome. FERC backed up the supplemental NOPR seeking to remove the 50bps RTO adder by enforcing this on DP&L in a one-off case. Further, recent commentary in ETR/EXC cost of service cases that used similar transmission ROE methodologies, implied FERC views base ROEs in the 9% area as appropriate, which could imply further downside.

- The FX rate has remained a headwind, averaging $1.23 in Q2 versus $1.39 last year. We assume $1.28 in our estimates though, which is close to current pricing. FTS' plan assumes $1.32, but has pointed to incremental capex as an offset. Every $0.01 move is roughly $0.01 of EPS.
- In New York, FTS remains in rate case settlement talks. News on the regulatory front in Canada is quiet for the time-being.
- We expect FTS to host an annual investor update some time in the Fall where it will refresh its five-year outlook as has been customary.

LNT: Riding into earnings following ESG day

- We forecast Q2 EPS of $0.57 – just above consensus and $0.54 last year. The quarter should be driven by more favorable weather and rate relief; offset by higher depreciation and lower AFUDC. <u>We expect LNT to reaffirm 2021 guidance of $2.50-2.64, but potentially point to the upper-half of the range</u>.
- The Wisconsin rate case settlement in May was the big news, which featured constructive terms that maintained the allowed ROE and raised the equity ratio while allowing for recovery of the retiring Edgewater coal plant. The settlement featured all key parties and we expect approval some time later this year.
- LNT continues to highlight its position as an ESG leader, which became even more clear at today's "ESG Day". LNT is already at 20% renewables rate base today and set to move to 24% by 2024. Similarly, LNT will essentially exit all coal except for joint-owned plants with Mid-American by 2024 and reduce coal in rate base to 4%. There's more runway as well, with 1.1 GWs and 400 MWs of total planned solar in Wisconsin and Iowa respectively. Approvals have been relatively straightforward thus far and has allowed LNT to maintain its position as the third largest owner/operator of regulated renewables.

NEE/NEP: Renewables and rate case in focus

- We estimate Q2 NEE earnings of $0.70 – in-line with consensus and above $0.65 last year. <u>We expect NEE's annual guidance ranges out to 2023 to be reaffirmed</u>, which reflect 6-8% growth off 2021. Mgmt. continues to indicate it would be disappointed if the top-end of the range isn't achieved and our estimates are similarly aligned. Wind conditions were close to normal last year (99%), but new Resources projects online and and FP&L rate base growth should be key drivers.
- We estimate Q2 NEP EBITDA of $376M – also in-line with consensus, but up versus $349M last year. Wind conditions were normal last year (100%). The primary driver will be the impact of the late-2020 dropdown of 1,100 MWs of renewables assets that contribute $80M/year in EBITDA. We expect NEP to reaffirm it is tracking toward the upper-end of YE21 EBITDA/CAFD ranges following the Brookfield acquisition.
- In focus will be the pending FP&L rate case. Intervenor testimony came out last month, but we are still waiting on Staff recommendations in the Fall, and hearings in August. Mgmt's conviction on the possibility of settlement under constructive terms will be important.
- On renewables, the competitive environment has gotten a lot of focus, along with inflationary pressures. NEE has maintained confidence in hitting its returns targets while maintaining market share, but progress on new contracts and the backlog will be worth monitoring.
- As has recently been the case, NEE's latest take on the Biden infrastructure and tax plan will also likely garner attention.

NI: Executing well on renewable projects

- We estimate 2Q21 EPS of $0.14, in-line with consensus and up a penny vs the prior year. We see results being driven higher primarily from rate relief, customer growth and interest savings.

Partial offsets include higher O&M and dilution from the convert offering completed earlier this year.

- Our expectation is that NI will reaffirm its 2021 guidance. Similar to Q1, we didn't get the sense that COVID impacted Q2 in a material way.
- In June, NI got IURC approval of another CPCN filing for one of its BoT renewable projects. About 80% of the $2B in renewable capex now has approved CPCNs and we believe NI could receive the two final approvals needed before or soon after its Q2 earnings call.
- NI recently made a rate case filing in OH (largest gas LDC) – its first in 13 years. About half of the 220M net revenue request was for O&M and $40M is related to capex that would've been recovered through riders absent the case. OH has typically been a constructive state, so we think there is a decent possibility of parties being able to reach a settlement.
- We hope to get more color on NI's IRP/RFP processes in Indiana. The RFP could wrap up some time next month, while NI's preferred option in its IRP won't be known until October. We get the sense that NI might look to accelerate the retirement of its Michigan City coal plant (currently 2028). After Michigan City is retired, NI will be coal free. NI expects to own at least half of the replacement capacity needed for Michigan City.

NRG: Emphasizing the retail strategy; New CFO's first call

- **Expecting an in line Q2.** Our 2Q21 EBITDA estimate of $600M is ahead of consensus and up vs. EBITDA of $574M a year ago. Key YoY drivers include the contribution from Direct Energy partially offset by less favorable market conditions as the year ago period had higher residential load and low power prices. Note, Direct has more of a winter seasonal skew given the gas retail business so our assumed Q2 contribution is relatively lower.
- **Winter storm Uri and capital allocation.** While there has been solid progress made in the Texas legislature, we think NRG's net expected impact from the storm of $500-700M will be reiterated, albeit with more confidence and visibility on offsets with the legislation. But there is likely still some variability in the final outcome. We don't expect much new on capital allocation as storm offset cash hasn't been finalized and the ArcLight sale closes in Q4. However, it's still possible NRG does some modest buybacks this year.
- **Other topics for the call.** This will be the first call with new CFO Alberto Fornaro participating – we'll be looking for color on his priorities. We'll also be interested in the potential impact of a big move higher in 2022 gas and power prices in Texas and what that might mean for NRG's more balanced fleet. Lastly, we'll be interested in color on potential future ERCOT market reforms, including things the PUCT might consider in response to Governor Abbott's letter looking for incremental changes.
- **No estimate changes pending clarity on commodity sensitivity and growth investment plans.** We are maintaining our 2021-23 EBITDA estimates of $1.9B, $2.34B, and $2.4B. Our 2021E differs from guidance as it includes net storm impacts. While higher ERCOT power prices put upward pressure on our estimates, we have offset this with lower assumed retail margins given NRG's more matched profile. Additionally, it's possible the company looks to invest modestly in growth next year which could come in the form of higher operating expenses instead of capex, and thus impact EBITDA. So we hold our estimates and target price flat pending more details.

OGE: Weak Q2 weather pressures an already stressed 2021 guidance

- Our 2Q21 estimate of $0.50 is below consensus at $0.55. We see results down $0.01 YoY, largely due to unfavorable weather and the reversal of a timing benefit at the parent in 2Q20. Partial offsets include rate relief in AR and rebound in sale volumes.
- We believe OGE will maintain its expectation to finish in the lower half of its utility guidance of $1.76-1.86; our 2021E for OG&E is $1.77. That said, we see the unfavorable weather in Q2 as

an additional headwind and think OGE is trending toward the low end or even below the range. However, we wouldn't expect OGE to adjust guidance before seeing Q3 results given its outsized impact on the full year.

- OGE has hinted at upsides to capex recently, but we aren't expecting a material refresh ahead of the rate case process in Oklahoma. We do think OGE adds some capex to 2021 so that it can be captured in the rate case test year.
- We do expect OGE to file a rate case in Oklahoma at some point in Q3 or early Q4. Exact timing will be known once OGE provides notice (required 45 days in advance). Messaging from management is that the case will be straightforward, with a relatively modest ask given some O&M savings that will be passed back to customers.
- The other items to keep an eye for is OGE's IRP filings in OK/AR later this year in October. However, it is likely that drafts are filed some time next month, which could provide a preview of potential incremental investment opportunities for OGE toward the middle of the decade.

PEG: Asset sale likely won't answer everything

- We see Q2 EPS of $0.69 – in-line with consensus, but below $0.79 last year. We expect transmission/infrastructure investment and higher capacity revenues to be key positive drivers. However, this will be more than offset by a number of tax-related one-timers last year totaling $0.06/sh, as well as a step-down in hedge pricing. That said, we expect 2021 guidance of $3.35-3.55 to be affirmed.
- We've also our updated our commodities deck to reflect the latest upward move in forwards, which in PJM is impactful for PEG, though its nuclear plants are well-hedged. As such, our 2022-2023 estimates (pro forma fossil sale) move up to $3.41/3.57 from $3.40/3.55 previously.
- The primary question investors are asking right now is the result of the fossil fleet sale process. Our sense is that an announcement could come any day and expectations are relatively low. We assume a $2.5B pre-tax price for fossil and $2.7B after-tax price for fossil/solar combined. It's possible our estimate ends up being optimistic, however every $300M change in proceeds is only worth $0.02-0.03 in our view. The latest PJM auction result and future uncertainty around the MOPR didn't do PEG any favors in this process.
- However, once the sale is done, we believe focus can start shifting to PEG's 80-90% regulated story. We expect an Analyst Day to be held in the Fall that lays out the pro forma financial outlook and includes a long-term growth rate.
- In addition to fossil sale clarity, PEG also just recently resolved its FERC transmission ROE overhang that had been outstanding for well over a year. The 9.90% headline base ROE seemed reasonable relative to expectations and was more or less embedded in our estimates. PEG also embedded a partial year hit in its 2021 guidance, which may actually end up being favorable given the effective date is in August.
- Beyond all of these items, we also expect some focus on a longer-term nuclear support structure either at the federal level or within NJ/PJM, as well as PEG's latest thoughts on future offshore wind investment (including associated transmission).

PCG: Stock ain't just whistlin' Dixie

- We estimate 2Q21 of $0.26, a little below consensus. We anticipate PCG will reaffirm 2021 guidance of $0.95-1.05. Though we see slightly higher than the midpoint; our 2021E is $1.01 vs consensus of $1.00.
- The Q2 call was expected to be relatively quiet, given PCG's Analyst Day on 8/9. Earlier this year PCG updated 2021-25 capex and guided to 10% EPS growth.
- However, the Dixie Fire that started last week may have been caused by PCG's equipment; it has burned over 40k acres, with only 15% containment. The DAs of Butte and Plumas Counties have begun an investigation into PCG's role, as has the CPUC Staff.

- PCG stock underperformed after the company filed an incident report on 7/18, which said a utility worker found two broken fuses on a 12 kV distribution circuit and a healthy green tree. CAL Fire collected the 12 kV line, including conductor, jumpers, insulators, and fuse cutouts, as well as portions of the tree.
- Dixie comes a few months after the CPUC placed PCG into Step 1 of an enhanced oversight and enforcement process. And for some time Judge Alsup, PCG's probation judge, has pushed for the utility to do everything needed to prevent wildfires.
- Utility bond yields are near 2021 lows, and CA's CoC mechanism is poised to be triggered unless yields average over 75bp through 9/30/21. The ROE for 2022 will be cut by at least 50bp (59bp if yields remain at current levels). Every 50bp is about $0.06/sh in 2022.
- This month, PCG and the Fire Victims Trust agreed on the Grantor Trust Election. The election will require a $1.3B non-cash write-down at some point, potentially impacting the stock's eligibility for inclusion into S&P 500 Index this year.
- We anticipate an update on the Q2 call on PCG's $7.5B securitization proposal, which was approved but cannot be executed until all rehearings/appeals are completed; PCG last said 2021 equity needs are up to $400M.

PNW: Q2 beat but rate case is still lingering

- Our 2Q21 EPS estimate of $1.75 is a beat vs consensus at $1.62. We see YoY results up modestly, driven by very favorable weather (CDDs 20% above normal in June), pension and sales growth. Partial offsets primarily include higher O&M and depreciation expense.
- PNW will refrain from providing 2021 guidance until APS' rate case concludes. And as of now, that isn't expected to be until some point in Q3. We are currently waiting for the ALJ recommendation, which could come any day. The earliest the Commission can take up the case at an Open Meeting is 20 days after the ALJ rec is issued. We continue to have a cautious view on the outcome of the rate case.
- Major updates are on hold pending the outcome of the rate case. PNW intends to hold an investor briefing once a final order is out to provide formal 2021 guidance, future financing plans and the expected timing if its next rate case. We also believe PNW would like to provide an EPS growth target to better align with peers, but that could be tricky without better regulatory certainty in Arizona.

POR: Managed well through a challenging quarter; 2021 guidance raise?

- We estimate 2Q21 EPS of $0.37, a small beat vs consensus at $0.35. We see YoY results down $0.06 mostly due to backing out favorable net variable power costs in 2Q20. Our sense is that POR operated quiet well through a challenging quarter (heat wave, elevated power prices, etc.) – we expect the company to see a net benefit from the elevated load despite the high power costs witnessed in the Mid-C region.
- We believe there is a decent chance that POR raises its 2021 guidance of $2.50-2.75. As such, we are raising our 2021E to $2.69 from $2.63. We believe the COVID recovery is tracking well in Oregon and POR has previously noted the expectation for power cost tailwinds for the FY. Also, recall that POR saw an expected $0.09 tax benefit in Q1.
- A big focal point for POR going forward will be its recently filed rate case. The company believes it filed a very defensible case with a modest ask (+2.9% rate increase). Parties are currently working to agree on a procedural schedule, which will likely be available some time in August.
- The recent passage of HB 2021 in Oregon is beneficial for POR as it makes the company's aspirational emissions/ESG goals a state requirement. We would expect this to manifest into incremental rate base opportunities to POR over time as it works through future IRP processes.

- Given the drought conditions out West, we would note that POR currently doesn't have any burning in its service territory. The company has taken several actions to better prepare for wildfires since last year. These include enhanced coordination efforts between state and federal officials, expanded PSPS zones (16 now vs 1 a year ago) and the addition of a team of foresters and meteorologists to better predict/react to dangerous conditions.

PPL: Cash rich, catalyst poor?

- For 2021, PPL estimates exclude earnings from the UK, whose sale closed last month, and do not include the NEC acquisition in RI, which we assume closes in 2022. Therefore, our estimate may not compare to consensus.
- PPL has not provided 2021 guidance and likely will not until the NEC acquisition closes, which is expected no earlier than Nov and potentially in 2022.
- The stock remains near lows relative to peers, as the market is focused on the use of the remaining UK sale proceeds net of debt reduction. There are some assets up for sale, including adjacent KY Power; however, it is unclear whether PPL will pull the trigger anytime soon. A buyback is the base case.
- PPL's KY rate case settlement was approved, with a 12.5bp reduction in the settled ROE; still, the decision included a recovery mechanism for coal retirements. PPL is reviewing bids for the KY RFP and will file with regulators this summer. In Oct, PPL will file its KY IRP; we will be looking for any incremental fleet transition.
- On FERC transmission, PPL is in settlement talks over the ROE challenge, but timing of any resolution is uncertain. If FERC eliminates the 50bp RTO/ISO adder, we project a $0.02 EPS hit.

SO: What is your major (mal)Functional?

- We estimate 2Q21 EPS of $0.79, in line with consensus and a penny north of SO's guidance. We anticipate SO will reaffirm 2021 guidance of $3.25-3.35, despite likely tracking ahead on a TTM basis. It's SO's practice to wait until after Q3 to address guidance.
- The market is focused on Hot Functional Testing for Unit 3, which SO has delayed several times, with end of this being the latest target to complete the last major milestone before fuel load and in-service.
- SO is targeting fuel load in Oct and in-service by end of 1Q22; the GaPSC Staff sees in-service in the Jun-Aug 2022 timeframe at the earliest.
- Also, the NRC is conducting a special investigation and will issue a report 45 days after leaving the project site. SO believes that will be wrapped before fuel load in Oct; but notably NRC approval is required before fuel load.
- While the faster economic recovery is a tailwind for sales growth, SO's guidance expected improvement. The recovery also is contributing to staffing challenges (e.g., electricians at the Vogtle site).
- By the end of October, SO anticipates a compliance filing for the EPA's Effluent Limitation Guidelines. The filing could preview further fleet transition in SO's territory, which will be detailed in its GA IRP filing in Jan 2022.

SRE: SIP transactions half done; honing the post analyst day messaging

- Our Q2 EPS estimate is $1.56 vs. $1.65 last year, in line with consensus. We expect a lower result due to the lack of one-time regulatory tax gains in 2020, the sale of the South American assets and a higher share count, offset by Texas growth, the full operation of Cameron LNG, and lower parent drag.
- **Focus on messaging post analyst day.** Sempra did a full refresh of its outlook at its 6/29 investor day so we are not looking for much new in the way of announcements. However we

do expect management to hone in on the messaging at the meeting of three platforms with the utilities growing rate base at nearly 10% and fully funded by cash from Sempra Infrastructure Partners with no need for equity.

- **Main upcoming events - SIP selldown, Oncor budget, remaining IEnova rollup.** In the near term we are looking for a few events - the successful close of 20% of SIP to KKR which should happen in the coming weeks; the updated (higher) Oncor capital plan likely on the Q3 call, and by the end of the year the potential delisting and full rollup of IEnova.

VST: Trying to finally turn the page on Uri

- We're forecasting Q2 EBITDA of \$840M – just below consensus and well-below \$929M last year. While we see mostly stability at the Retail segment, the Generation segment is expected to be down given more attractive ERCOT hedging and PJM/NE capacity revenues in the year-ago quarter. To be clear, Q2 last year was remarkably strong, thus the comp is very difficult. We expect guidance of \$1,475-1,875M to be reaffirmed. As a reminder, this embeds a \$1.6B hit from Winter Storm Uri – netting \$2,075M in impact against \$450-500M in offsets.
- We've also updated our commodities deck, which reflects a meaningfully higher move in forwards across the cruve, particularly so in VST's key market of ERCOT. As such, we're increasing our 2022/2023 EBITDA estimates to \$3,498/3,080M from \$3,150/2,879M previously. We've conservatively kept our commodities deck slightly below current forwards still, which implies another \$100M in upside when marking to market.
- We don't expect VST to formally give 2022 guidance, but we do anticipate mgmt. will directionally discuss the outlook in a favorable light given the move in forwards. EBITDA in 2022 tracking around \$3.5B would be consistent with prior commentary that the year could fall within the range of 2020 results and original 2021 guidance.
- In ERCOT, we believe the legislative session resulted in constructive bills that addressed some of the key headwinds from Winter Storm Uri. First, the securitization law should alleviate the short pay related to co-ops like Brazos, for which VST booked a \$189M liability. There should also be some improvement related to uplift charges that occurred during the final 32 hours of the storm resulting from ORDC reserve adders and ancillaries – though we don't expect an amount to be quantified here. We'll also be interested in mgmt's thoughts on the recent push by Governor Abbott and ERCOT to better incentivize dispatchable generation and what this might look like – VST seems likely to benefit from any market structure changes in this regard.
- Capital allocation in 2022 and beyond is also coming into focus again. However, with everything on hold for now, we don't expect more visibility on this just yet. Ultimately, we believe VST can return to an attractive profile of ~\$2B/year in FCF generation going towards a mix of buybacks, debt paydown, and dividends.
- Near-term, we may get an update on VST's solar/storage growth plan, as it has previously alluded to looking at financing options. Over the long-term, the company continues to transition out of its coal sites and towards more renewables.

WEC: Continuing the strong start

- We forecast Q2 EPS of \$0.79 – in-line with consensus and just above \$0.75-0.77 guidance. Drivers include a hot start to summer, rate relief, O&M/interest savings, and infrastructure PTCs; mainly offset by depreciation and a one-time transmission ROE gain last year. WEC already pointed to the high-end of \$3.99-4.03 guidance in Q1 and we expect this range to potentially move higher in Q2.
- WEC is still waiting on approval of its Wisconsin rate case stay-out, but we see this as highly likely to ultimately be approved. The next case will be filed in May 2022 for 2023-2024 rates.

- WEC has continued to add both regulated and contracted renewables to its portfolio and we will be looking for more updates on this front. WEC is already tracking well-ahead of its plan with $1.9B spent on regulated renewables and $683M spent on its energy infrastructure segment.

XEL: End of an era

- We estimate 2Q21 EPS of $0.54, which is in-line with consensus at $0.56. We expect YoY results to be flat vs 2Q20. Positive drivers include rate relief/rider revenue and sales growth; offsets include higher depreciation/O&M/property tax expense and lower AFUDC equity.
- We believe XEL will reaffirm its 2021 guidance of $2.90-3.00. Our 2021E of $2.96 is in-line with consensus. We believe that things are tracking as planned with respect to any COVID effects (XEL's guidance assumes a "modest" impact).
- We aren't expecting any major updates as XEL's 5-year refresh and 2022 guidance will be provided along with Q3 results. However, we would note that it will be CEO Ben Fowke's final earnings call after an impressive 10-year run leading the company. COO Bob Frenzel will officially take over as CEO on August 18th.
- XEL does have a number of pending regulatory items for which we expect to get the latest on. The most notable of which is the electric rate case recently filed in CO – the 12% increase is a relatively large ask, so we will be curious to hear what management thinks could be sticking points with intervenors. XEL also has a pending case in TX and recently filed settlements in NM, ND and WI. We would also note that XEL is due to file an electric case in MN in the fall.
- XEL recently filed an alternative proposal in MN for its pending IRP. It is now looking to build two 400 MW gas CTs vs a larger 800 MW CCGT that was planned originally and to add more renewables. From a capex perspective for XEL, the changes are expected to be about a wash. However, it would result in further carbon reduction by 2030 compared to 2005 levels (86% vs 80% prior). A decision from the MN PUC is expected in the 2H of 2021.

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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Overweight
IPPs – Market Weight
Gas/Power Infrastructure – Market Overweight

August 1, 2021

THE UTILITY TRADER

Utilities finally bottom; Mgmt change, activism is working

- **Utilities finally find a relative floor as virus concerns re-emerge**
  The Delta variant was the story in July reviving a slight defensive bid for the first time in several months. Utilities rose 4.2% beating the overall market gain of 2.3%. While it was nice to see utilities finally find a relative floor, they still trail the market by 1200bps YTD (up 5% vs market up 17%). Whether its Growth or Value, the market just seems to keep going up. This is now the 3rd year in a row of outsized S&P 500 returns – remember this year's 17% rise follows an 18% total return in 2020 and over 31% in 2019. We have not seen a bull market like this other than the tech bubble, when stocks posted 20%+ total returns 5 yrs in a row. We continue to view this as an opportune time for long-term investors to buy utilities; they are cheap vs the market (10%-20% discount to normal), out-of-favor and will provide stability when the bull market inevitably ends.

- **Does management/activism matter for utilities? The market says yes**
  The one common thread among 2021 top performers is management change and/or activism. Among the mid-to-large utilities, 7 of the top 8 performers fit this theme (see Ex 2 on right). Here's a quick rundown: FE – Icahn, new internal CEO; CNP – Elliott/Bluescape, new external CEO/CFO; EVRG - Elliott/Bluescape, new external CEO/CFO; DUK – Elliott; AGR – new external CEO; POR – new external CFO; and DTE – Elliott. Common themes among these include asset sales, business simplification, cost cutting, and better execution and investor communication. This begs the obvious question of who could be next. Discount utilities with no big externality risks that may fit include AEP, ETR, NI, OGE, PPL, and SRE (again).

- **PCG is one exception; what will it take for CA utilities to rebound?**
  Management change has not worked yet for PCG stock even with a very strong new team. Both EIX and PCG ended the month at new relative lows and are now heading into the main fire season. ROEs are likely to trigger lower, Newsom is in a recall election and of course we have to monitor the Dixie Fire. All that said, we still have not had any high-damage fires (beyond insurance) since 2018 and the actions being taken by the companies and state keep reducing this risk despite the drought. EIX's covered conductor program (which we think gets fully supported by the PUC) and PCG's undergrounding work provide a path to much lower risk in a few years. PCG will talk more about their strategy at their Aug 9 Analyst Day. Nonetheless, investors will likely want to see how this fire season progresses before stepping into the stocks.

- **Events names for August: EXC, PNW, ES, PEG/CNP/EVRG into Sept A.D.**
  EXC is in triple OT on an IL nuke bill to keep Byron and Dresden running. There's been little progress in recent weeks, but Byron shuts in early Sept without a bill and we think chances are better than 50/50% a bill passes. PNW is still waiting for an ALJ on its 2-yr old rate case. We remain cautious on the outcome and on regulatory lag risks for the company. ES has hearings on its CT interim rate review and has become more hopeful about potential settlement. PEG will announce its fossil sale this month; the market already expects a tepid outcome and we think the stock sets up well to hear the new PEG story at its Sept AD. We expect positive Sept ADs for CNP and EVRG. CNP may give some preview on its Q2 call this week, EVRG not likely.

Source for all exhibits in this report: FactSet, Wolfe Research; prices as of 7/30/21

Ex 1: 2021 Income Sectors Perf

Sector	Performance
MLP Index (AMZ)	31.5%
XLE Index	30.3%
REIT Index (FNER)	24.5%
S&P 500	17.0%
S&P Pharma	12.7%
S&P Consumer Staples	6.1%
S&P Utility	**5.0%**
WR IPP Index	3.6%
WR YieldCo Index	3.4%
Wolfe GREEN Basket	**(0.1%)**
S&P Telecom	(0.7%)

Source: FactSet, Wolfe Research

Ex 2: 2021 Utilities Perf

Company	Ticker	YTD Perf
Top 10	**Top 10**	
FirstEnergy	FE	25.2%
Hawaiian Electric	HE	22.5%
CenterPoint	CNP	17.7%
Evergy	EVRG	17.5%
NextEra Energy Partners	NEP	15.6%
Duke Energy	DUK	14.8%
Avangrid	AGR	14.7%
Portland General	POR	14.3%
Alliant Energy	LNT	13.6%
DTE Energy	DTE	13.6%
Bottom 10	**Bottom 10**	
NextEra Energy	NEE	1.0%
AES Corp.	AES	0.9%
PPL Corp	PPL	0.6%
Eversource Energy	ES	(0.3%)
PNM Resources	PNM	(0.4%)
Dominion	D	(0.4%)
Vistra Energy	VST	(2.6%)
Clearway Energy	CWEN	(10.2%)
Edison Intl	EIX	(13.2%)
PG&E Corp.	PCG	(29.5%)

Source: FactSet, Wolfe Research

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WOLFE RESEARCH

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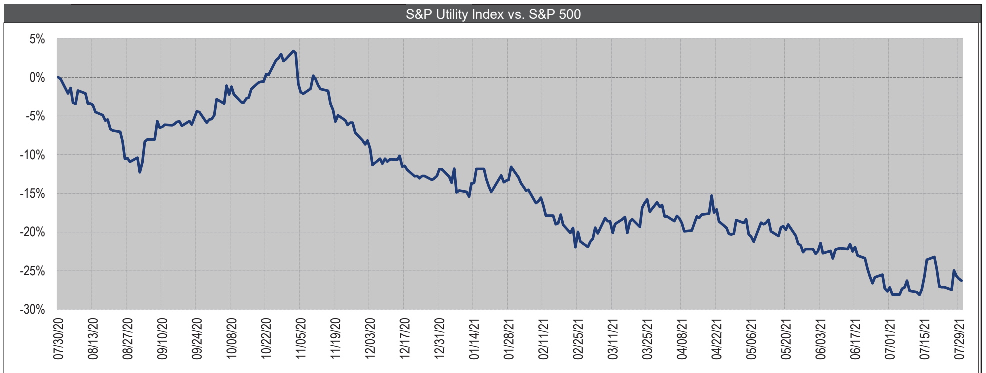
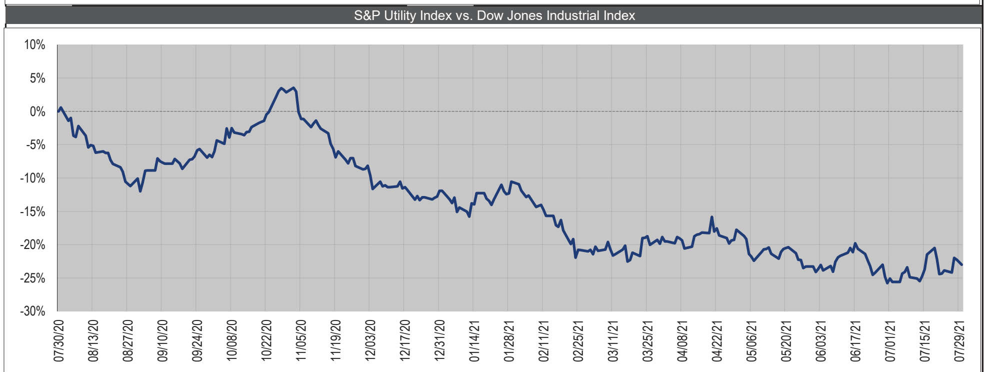
S&P Utility Index vs Market

Utilities outperformed the S&P 500 by 190bps in July and now trail by 1200bps YTD. Renewed COVID fears from the delta variant coupled with mildly positive Q2 earnings spurred the utilities sector to show some signs of resurgence. The combination of the continued decline in the US 10Y and respite from growth/recovery stocks caused by renewed COVID concerns from the delta variant incentivized investors to flee to defensive stocks and income sectors, thereby benefitting utilities. Thus far, utility earnings have been characterized by mostly small beats with a couple of guidance raises and clearly improving sales growth with residential fall-off not as much as feared. Renewables inflation has not been as much an issue as feared either.

S&P Utility Index vs. S&P 500



S&P Utility Index vs. Dow Jones Industrial Index

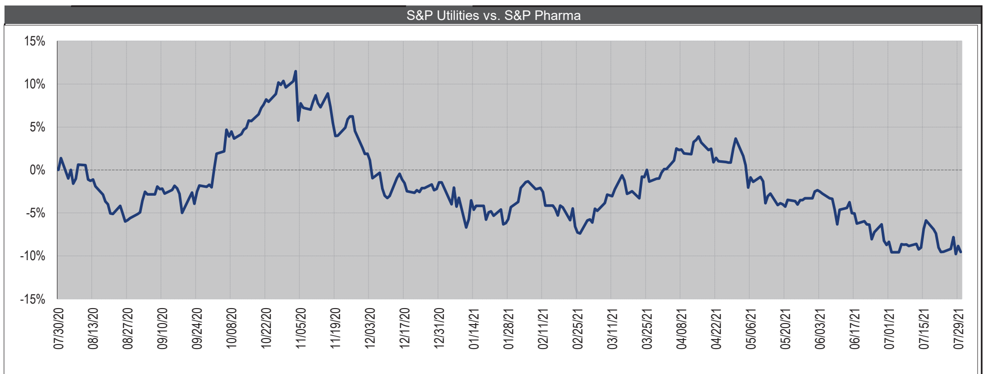


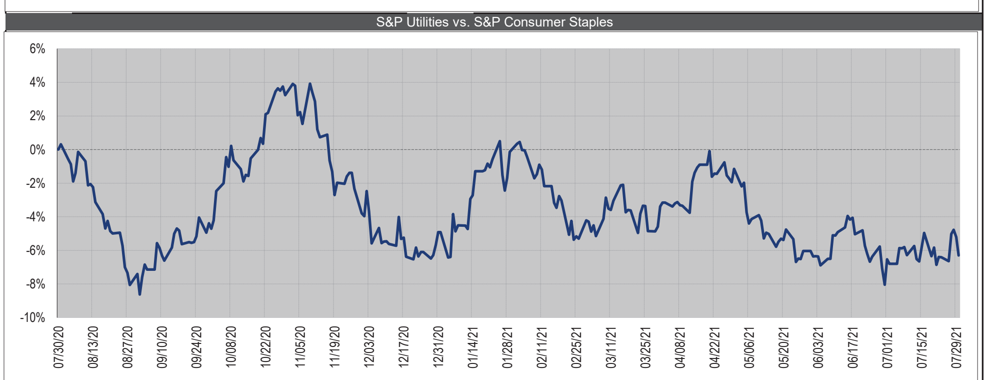
8/1/2021

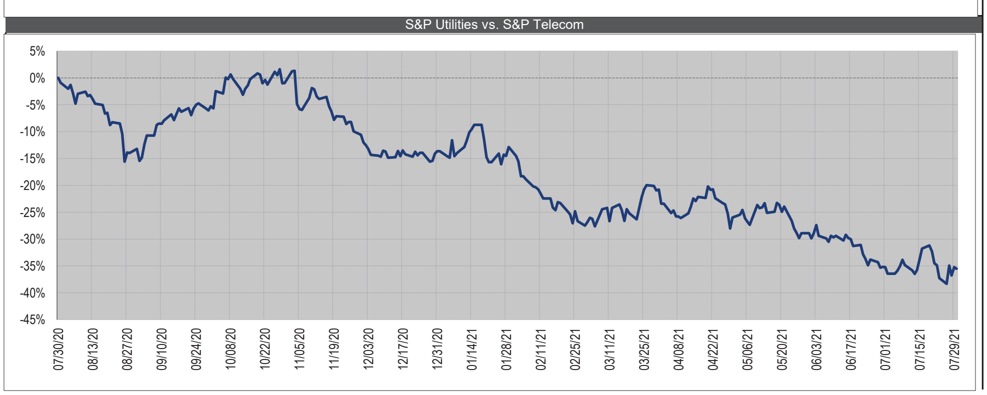
WOLFE RESEARCH

Utilities vs Other Sectors

In July, utilities (+4.2) outperformed Consumer Staples (+2.4%) and Telecom (-0.8%). On the other hand, utilities underperformed Pharma (+4.6%) in July





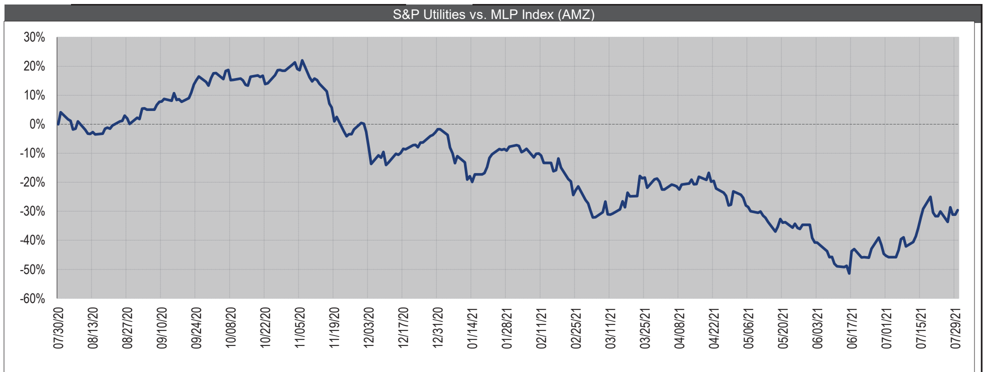


WOLFE RESEARCH

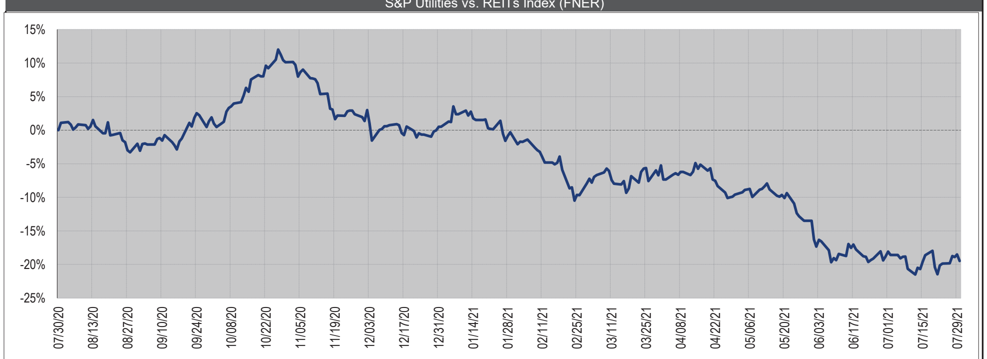
Utilities vs Other Sectors continued

The AMZ Index (-7.1%) and Wolfe C-corp Basket (-2.9%) both underperformed the S&P 500 (+2.3%) in July, marking the first month of 2021 where the midstream group underperformed the market. We credit the underperformance to a broader thematic shift – we think investors are becoming more concerned that we've reach a cyclical peak with commodity prices trading near 5-year highs and the demand recovery having mostly played out. On top of this, renewed COVID concerns and a return of growth over value with falling interest rates have added further headwinds to energy stocks in the near-term. For a more thorough discussion of July stock performance, see our Midstream of Consciousness here. However, REITs (+4.1% in July) have continued to trade well through Q2 earnings.

S&P Utilities vs. MLP Index (AMZ)



S&P Utilities vs. REITs Index (FNER)

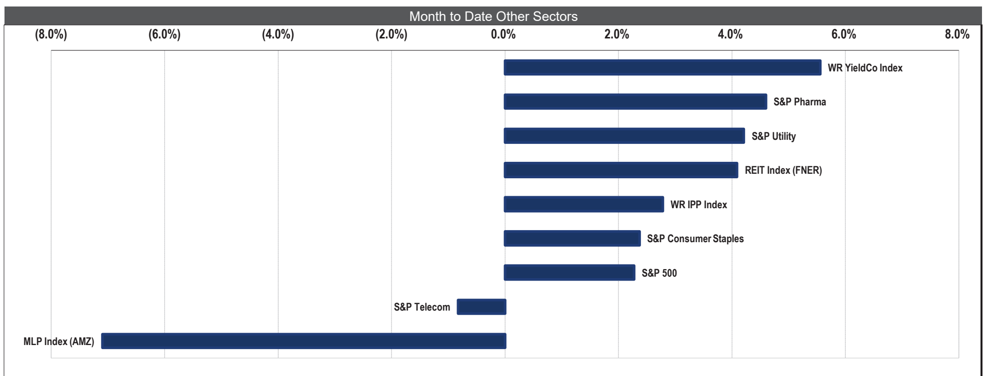


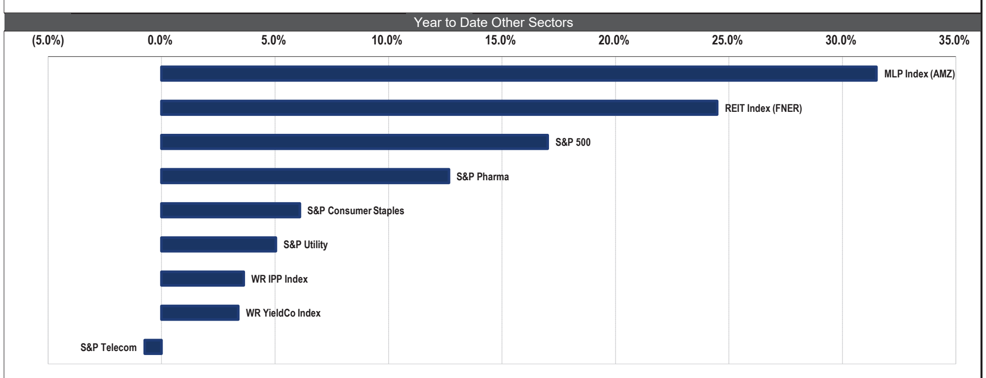
8/1/2021

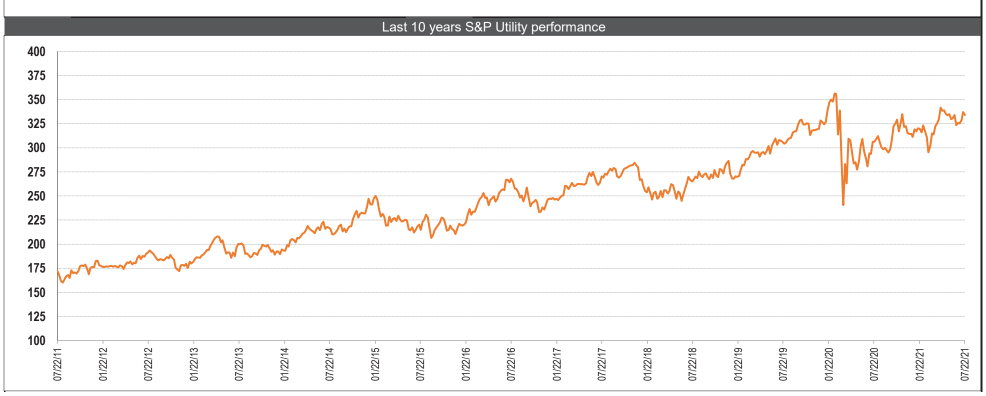
WOLFE RESEARCH

Month to Date and Year to Date performance of income sectors

The YieldCos led the way in July, rising 5.6% as a result of renewables inflation not being as much an issue as feared. Within the income sectors, Pharma and Utilities also performed well as renewed COVID apprehension of an economic downturn caused by the delta variant grappled investors. While Midstream, Telecom, and Consumer Staples are at the bottom of the board for July, Telecom, the YieldCos, and the IPPs occupy the bottom positions YTD. The defensive sectors (Consumer Staples, Utilities, and Telecom) remain laggards for 2021.







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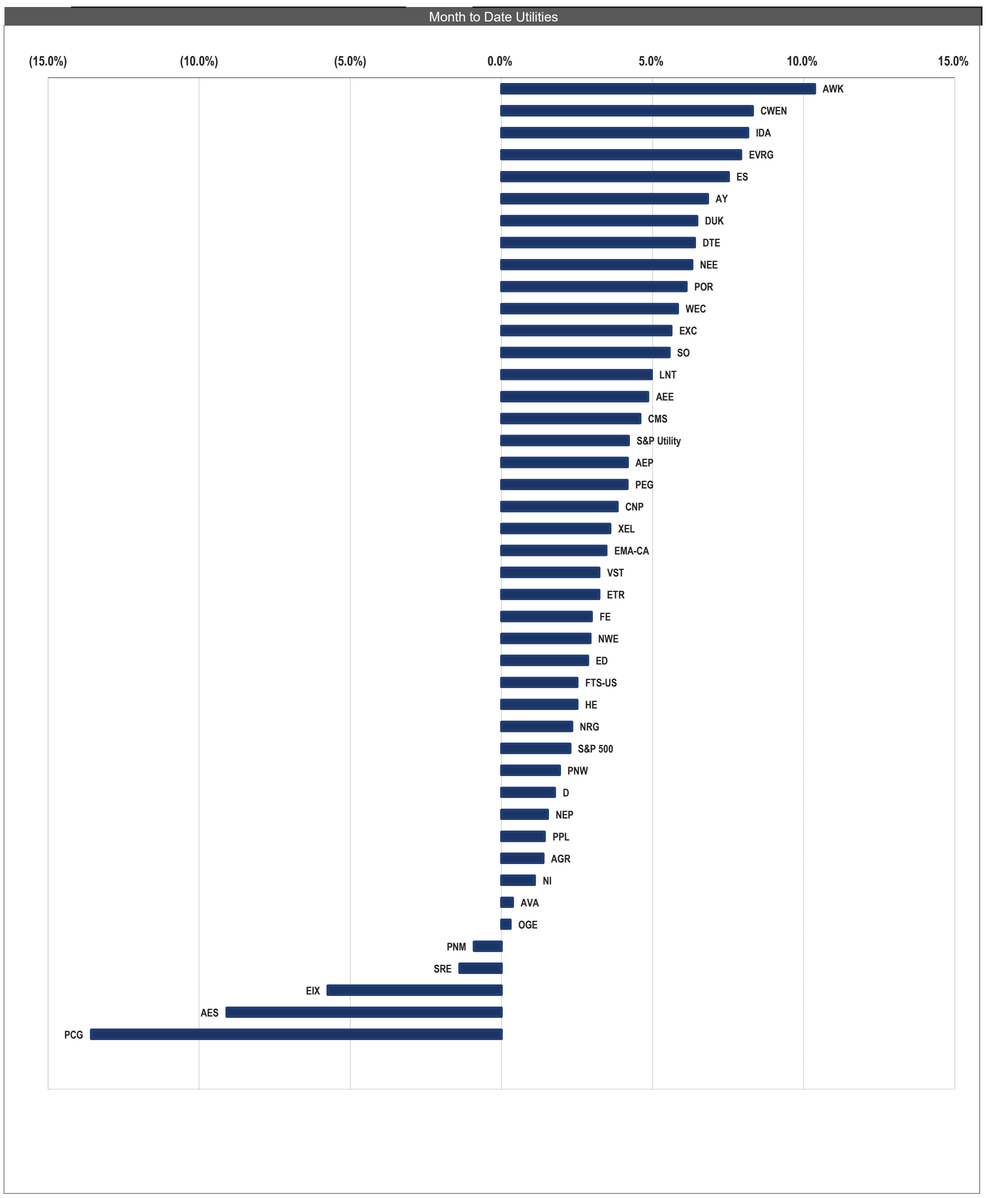
WOLFE RESEARCH

Month to Date performance of Utilities Group

AWK was the top-performer in July on no notable news with the overall resurgence of utility stocks as the US 10Y continued to decrease and investors took respite from growth / recovery stocks on COVID fears from the delta variant. CWEN also outperformed in July after recent investor attention has been focused on the potential of the company to sell its thermal business at an accretive valuation that would recycle capital and provide funding for new growth. EVRG was an outperformer in July on no notable news as momentum builds into the September Analyst Day that should better highlight the long-term plan under new mgmt. PCG was the worst-performer in July, after its reported involvement in the Dixie Fire and a possible ROE cut in 2022 appeared increasingly likely. AES also lagged in July despite no notable news. However, we mostly attribute the underperformance to inflation / supply chain concerns for renewable developers and perhaps some around renewed COVID fears given AES' exposure in emerging markets. EIX was an underperformer in July and hit new relative lows post Q2 earnings due to lower rate base recommendation in its GRC and possibly a ROE cut in 2022.



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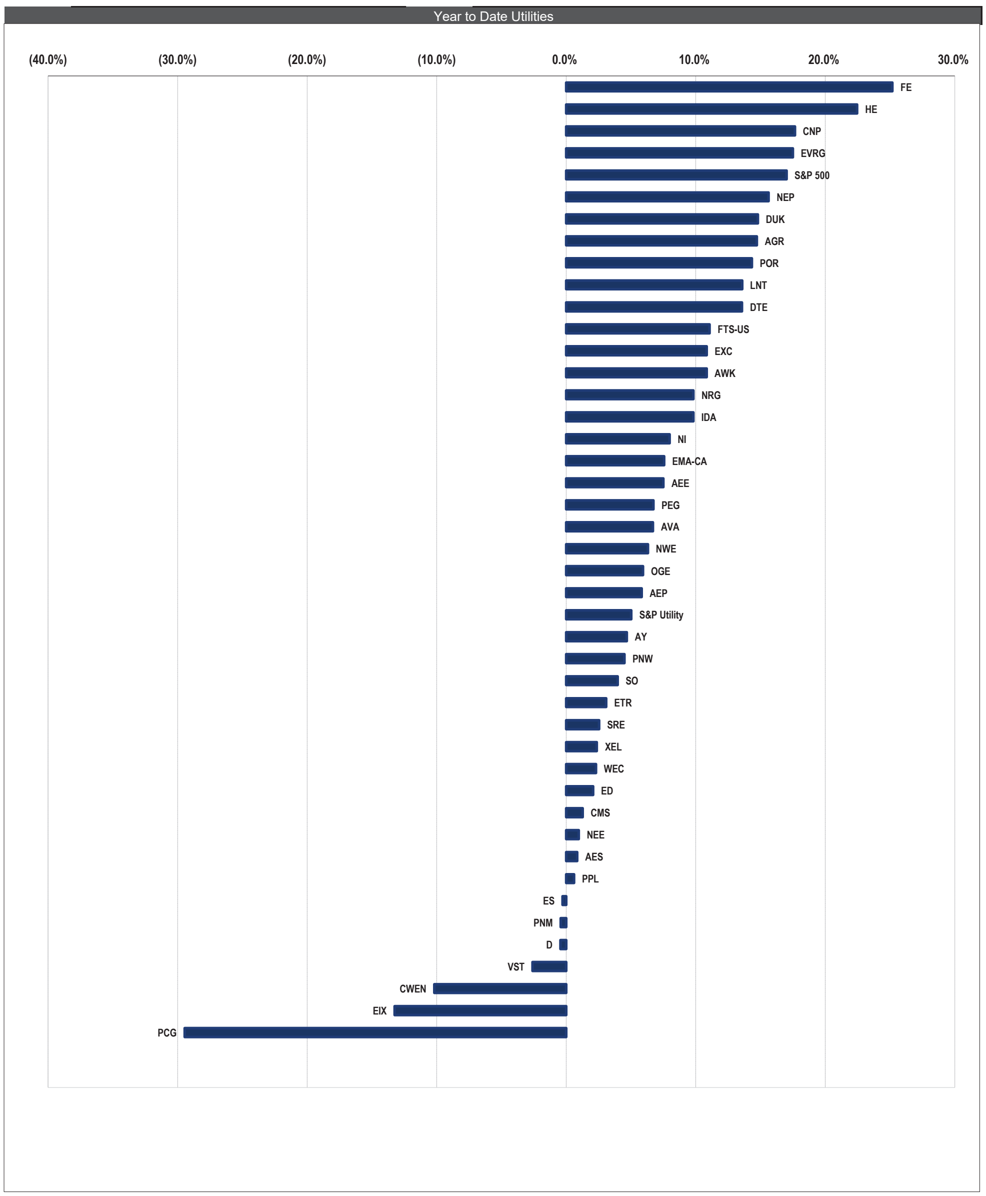
WOLFE RESEARCH

Year to Date performance of Utilities Group

FE maintained the top spot YTD. FE began its march higher earlier this year after it was revealed that activist Carl Icahn had taken a stake in the company. HE remains a top performer as small caps generally have fared well in 2021. CNP is still a top performer following its landmark gas LDC sales (2.5x rate base) in May and with the new management team pitching an effective story. PCG remains the worst performer YTD. Sentiment on both CA utes (EIX too) remains negative mostly due to wildfire risk overhang. CWEN remains a worst-performer YTD despite being one of the best performers in the broader utility group in July and outperforming its YieldCo peers.



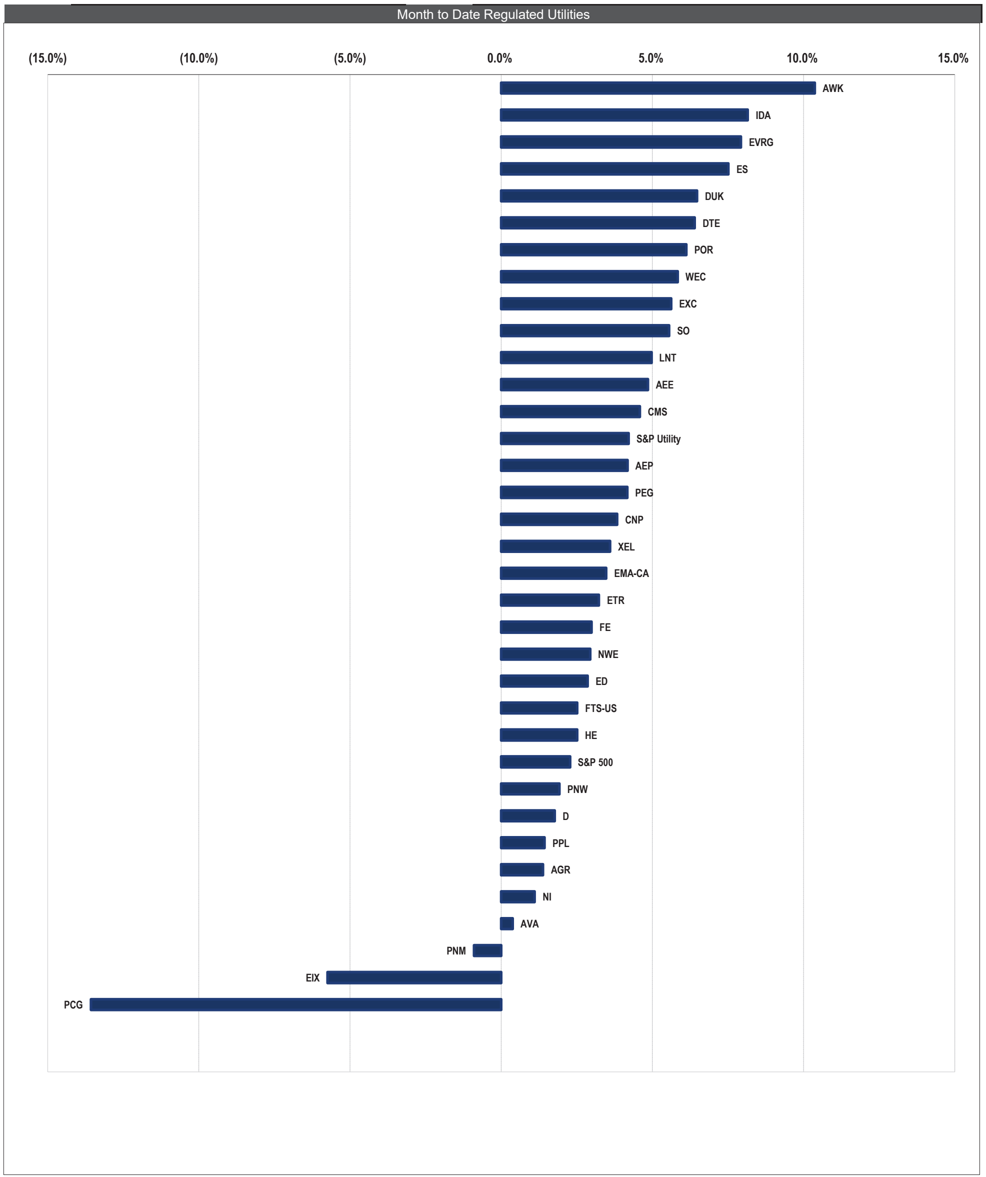
8/1/2021

WOLFE RESEARCH

Month to Date performance of Regulated Utilities

Despite no notable news, AWK was the top-performer in July as, generally, utility stocks recovered with the US 10Y continuing to drop off and investors fled from growth / recovery stocks due to COVID fears from the delta variant. EVRG was an outperformer in July on no notable news as momentum builds into the September Analyst Day that should better highlight the long-term plan under new mgmt. ES also outperformed its peers for the second straight month in July, bouncing off its 52-week lows in early June, as there was more positive tone on a potential settlement in CT over rates, and likely ROE and capital structure. The California utilities, PCG and EIX, were the worst-performers in July mostly as a result of fire risk. NI also lagged in July on little notable news except the company filing a rate case at its largest gas LDC on June 30th – the subsidiary's first base rate case filing in Ohio in 13 years.

Month to Date Regulated Utilities

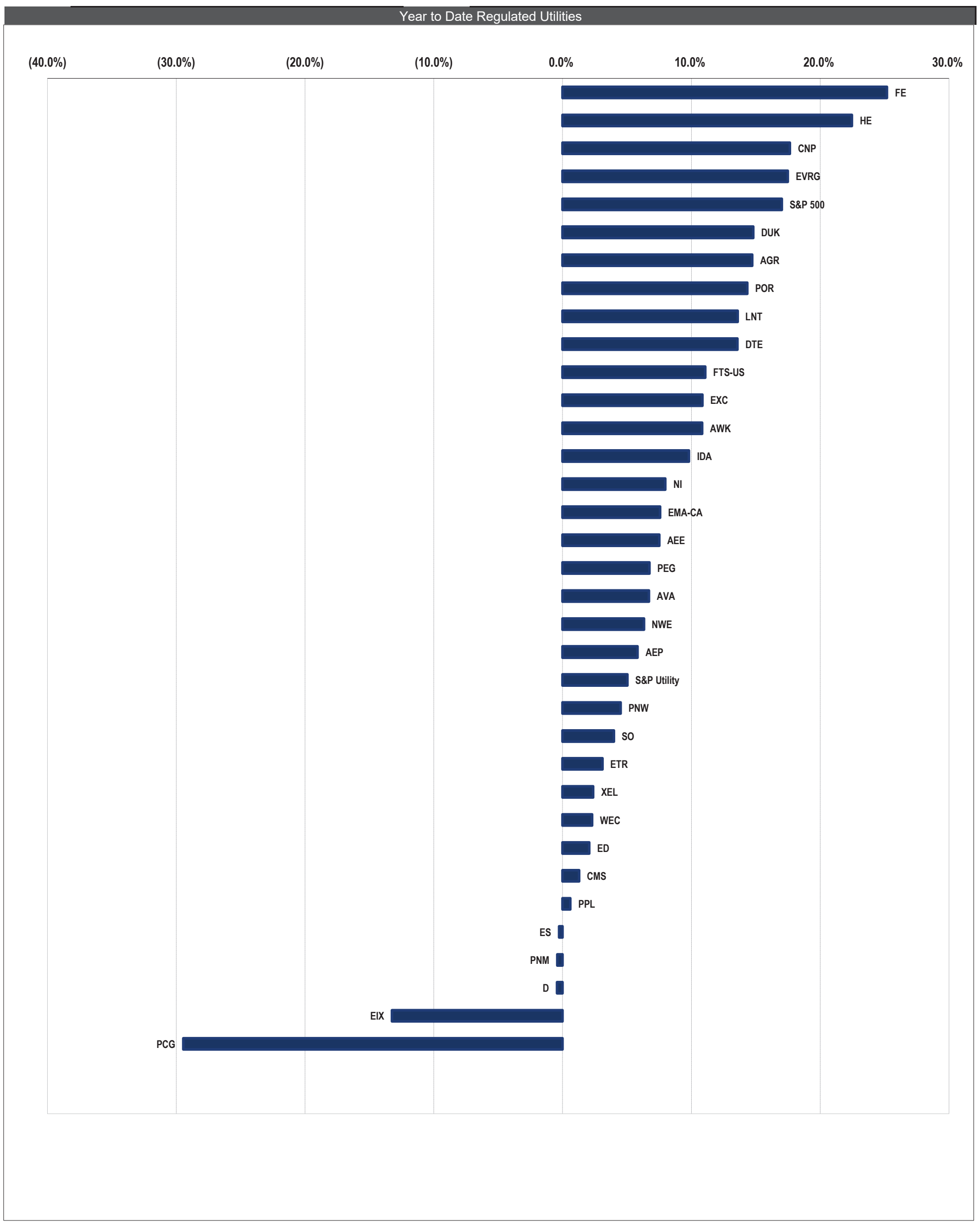


8/1/2021

WOLFE RESEARCH

Year to Date performance of Regulated Utilities

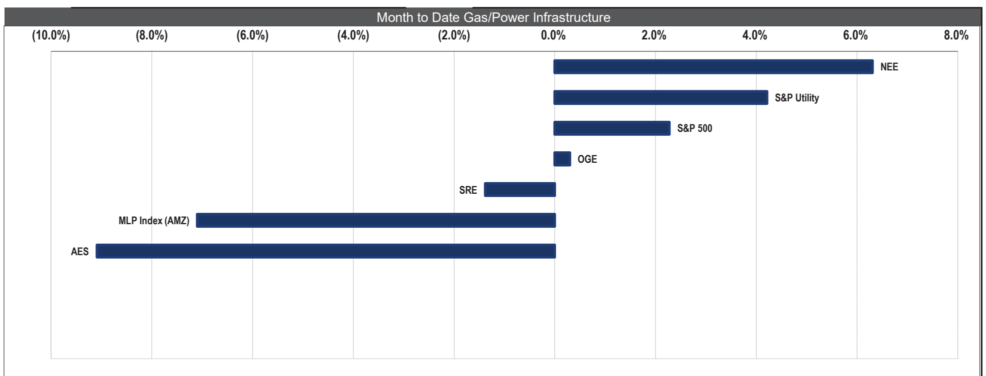
FE maintained the top spot YTD. FE began its march higher earlier this year after it was revealed that activist Carl Icahn had taken a stake in the company. HE remains a top performer – some of this was on HE being named a new candidate for the ICLN index in March as well as a potential unwind of some short positions earlier in the year. CNP is now a top performer as the new management team continues to pitch a compelling story; CNP's upcoming September Analyst Day should also be a positive catalyst for the stock. The California utilities, PCG and EIX, continue to trail mostly because of wildfire risk overhang. D is now a bottom performer as the stock seems to continue to get hit by the same issue – concerns over VEPCO's triennial review.

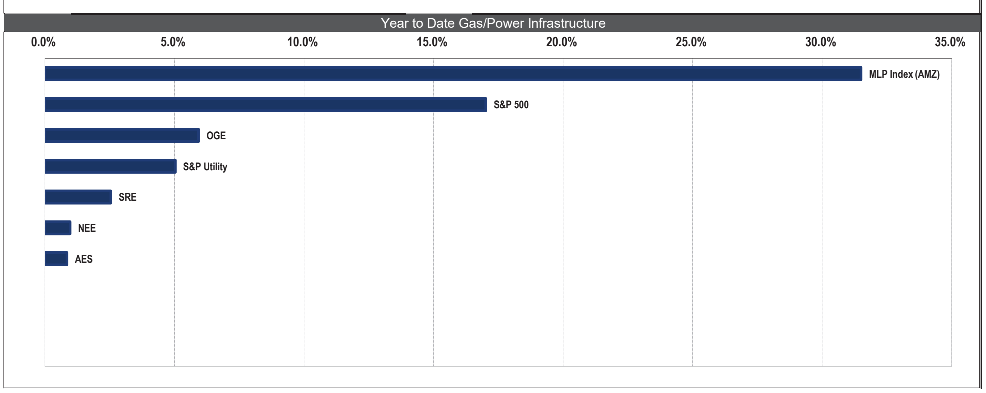


WOLFE RESEARCH

Month to Date and Year to Date performance of Gas/Power Infrastructure

NEE was the top-performer in the Gas/Power Infrastructure group in July as it continued to bounce off of relative lows in mid-June, after renewables inflation fears weighed on the stock, with Q2 earnings so far suggesting that renewables inflation has not been as much an issue as feared. AES was the worst-performer in July and YTD despite no notable news. However, we mostly attribute the weakness to inflation / supply chain concerns for renewable developers and perhaps some around renewed COVID fears given AES' exposure in emerging markets. NEE continues to remain the big underperformer in the group YTD despite no fundamental issues with the company reporting just in-line earnings for Q2.

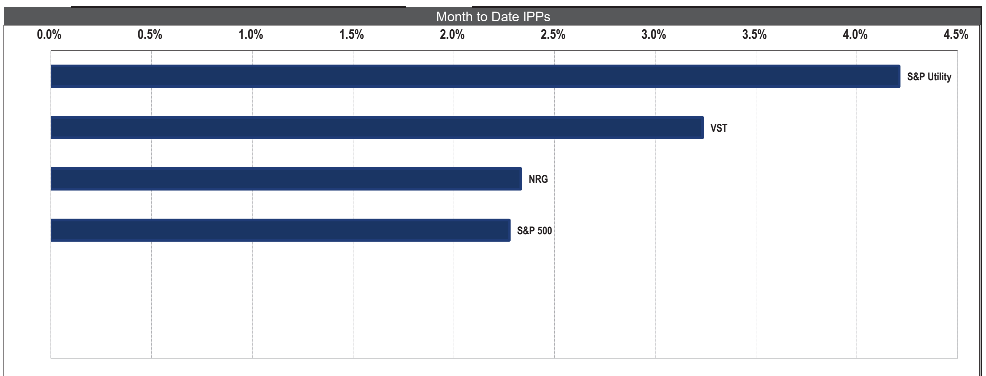


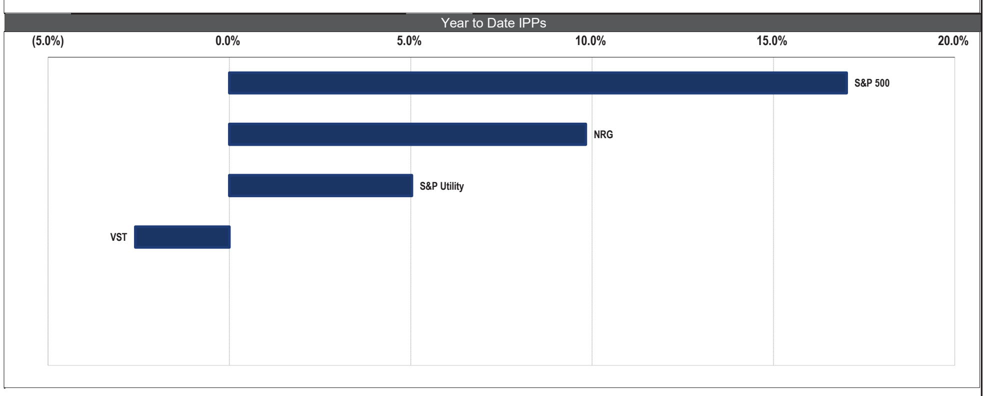


WOLFE RESEARCH

Month to Date and Year to Date performance of IPPs

The IPPs traded slightly ahead of the market in July as energy prices continued to rally throughout the month. Despite gas and power prices continuing to rip up higher, VST remains considerably lagging the broader utilities sector and the S&P 500 YTD.





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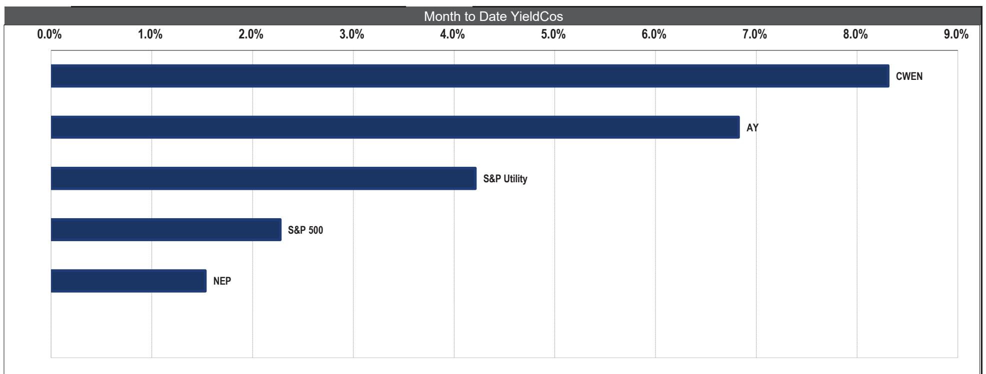
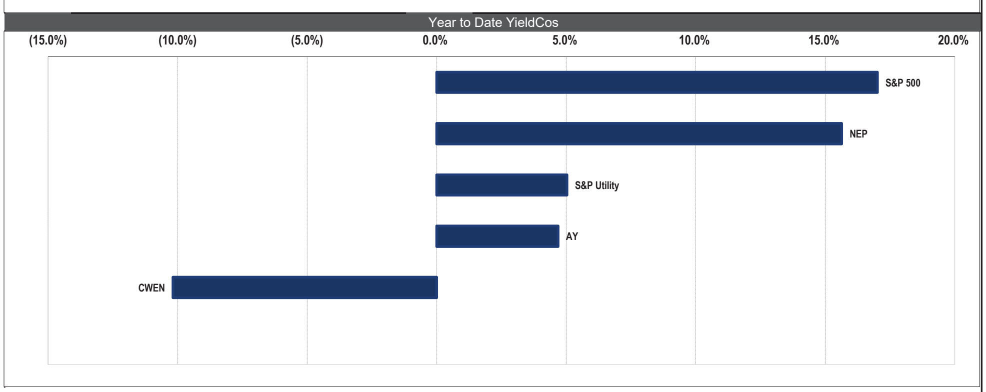
WOLFE RESEARCH

Month to Date and Year to Date performance of YieldCos

The YieldCos traded well in July with CWEN and AY outperforming both the broader utilities sector and the S&P 500, but the YieldCos are still lagging the market YTD. CWEN was the top-performer in the group and narrowed its YTD trailing margin. Recent investor attention has been focused on the potential for the company to sell its thermal business at an accretive valuation that would recycle capital and provide funding for new growth. On the other hand, NEP underperformed both the broader utilities sector and the market in July due to slightly disappointing Q2, as EBITDA missed and the latest drop from NEE was done at the weakest CAFD yield yet (8.0%).





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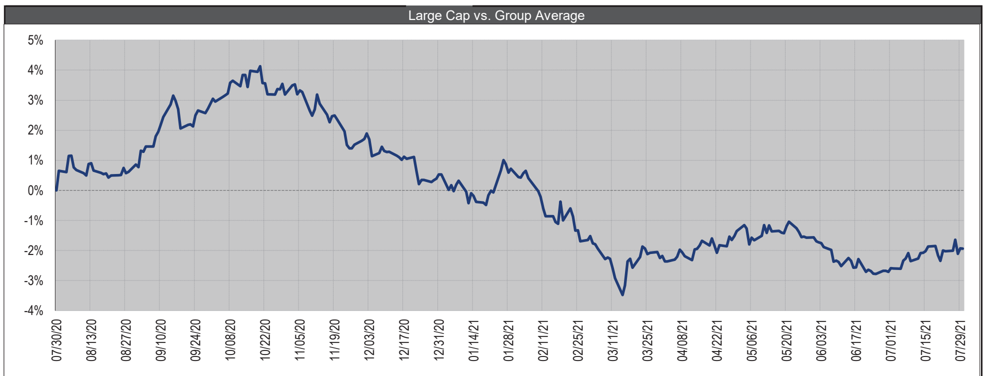
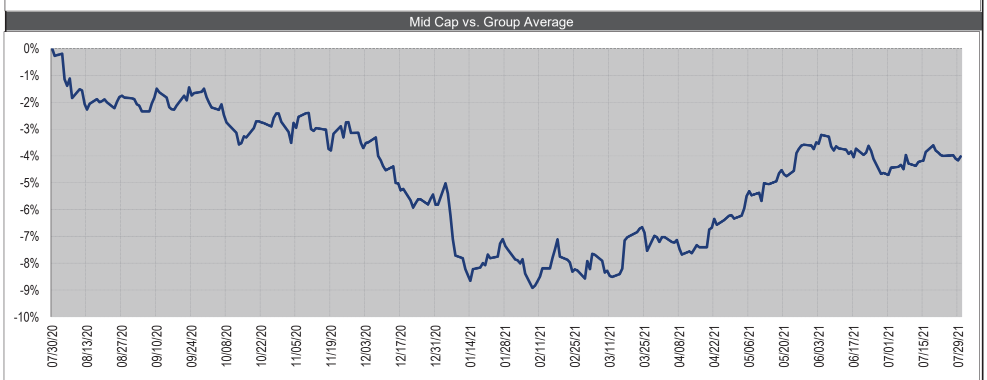
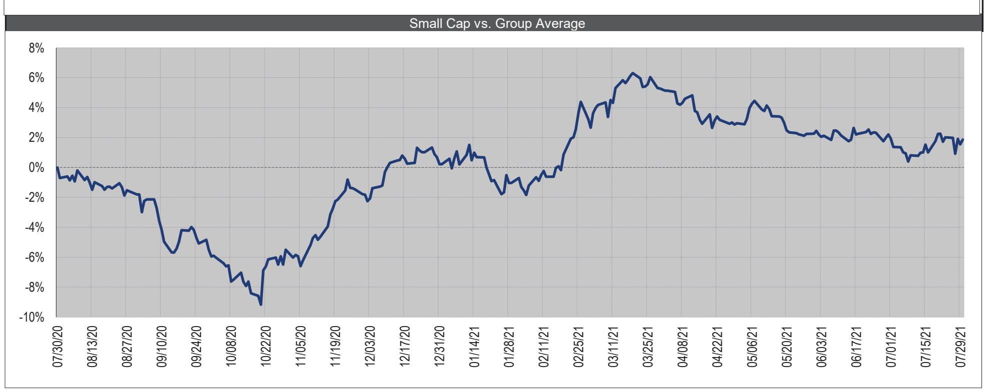
WOLFE RESEARCH

Utilities Performance by Market Cap

•Large-caps underperformed the utility average in July, led by PCG (-13.6%) and EIX (-5.7%).
•Mid-caps underperformed the group average in July, led down by OGE (0.3%) and NI (1.1%).
•Small-caps outperformed the group average in July, led up by IDA (8.2%) and POR (6.1%).







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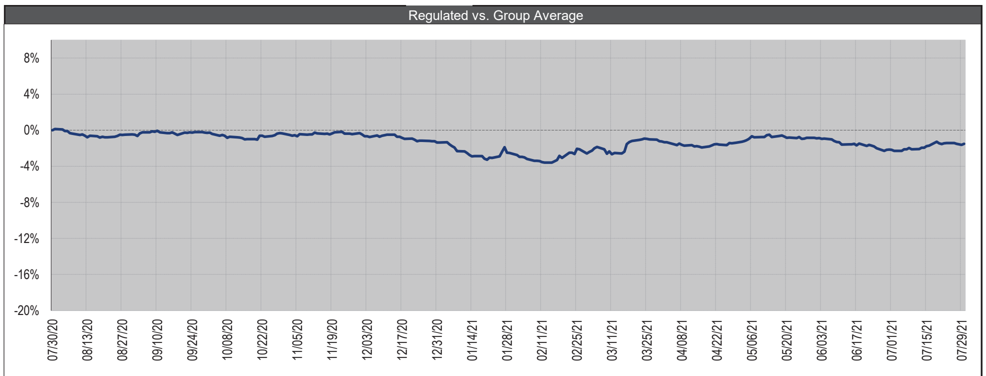
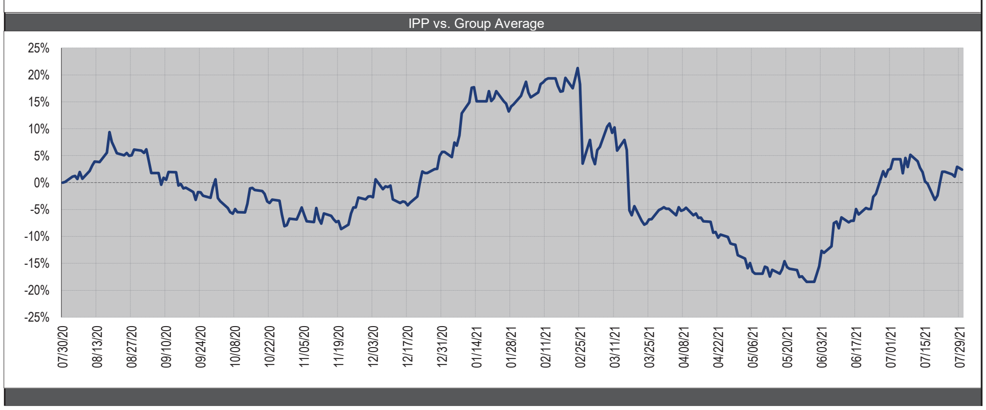
WOLFE RESEARCH

Utilities Performance by Segment

•Regulateds underperformed the utility average in July, led down by PCG (-13.6%) and EIX (-5.7%).
•IPPs outperformed the group average in July, led up by VST (3.2%) and NRG (2.3%).



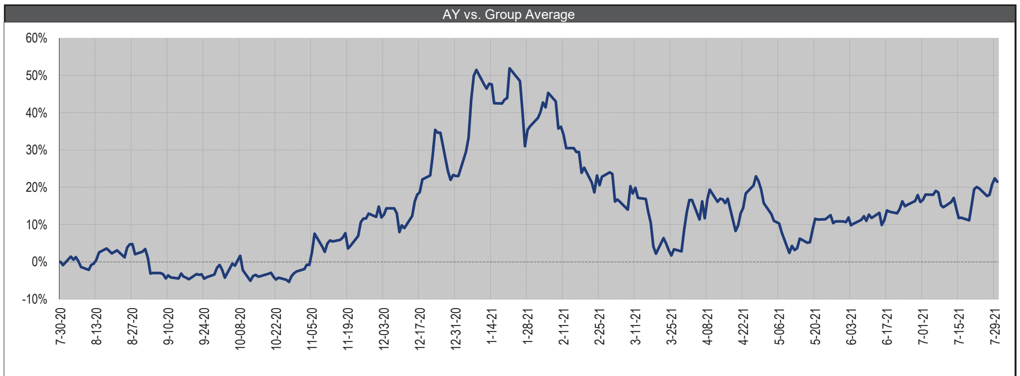


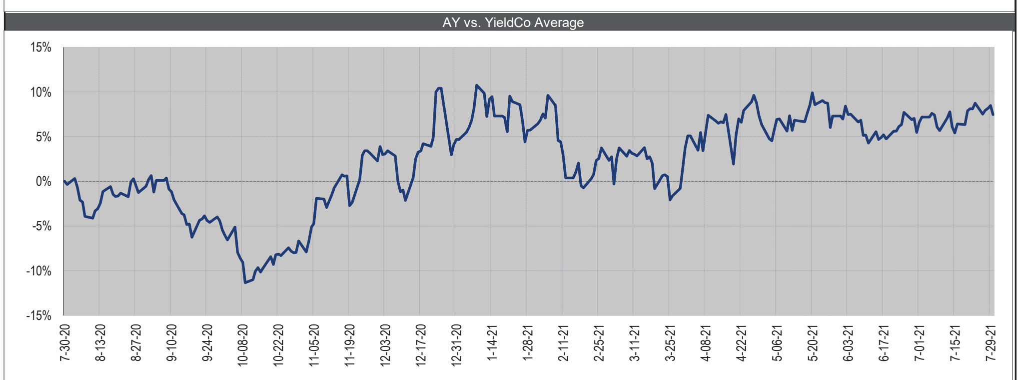
8/1/2021

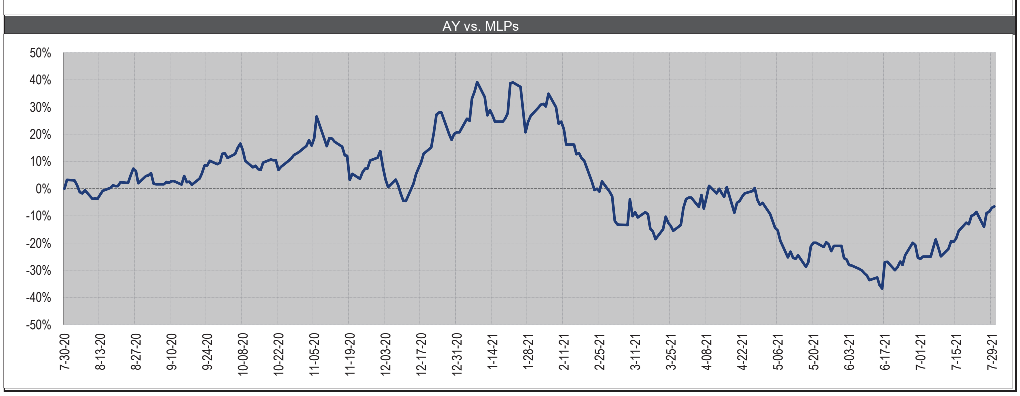
WOLFE RESEARCH

Atlantica Yield (AY) $39.76, NR

Atlantica Sustainable Infrastructure had a strong month in July and has performed about in line YTD. There was no notable news during the month.





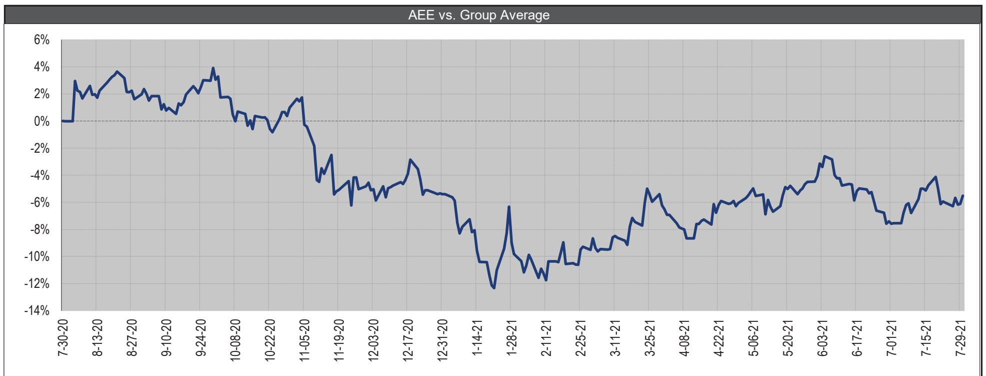


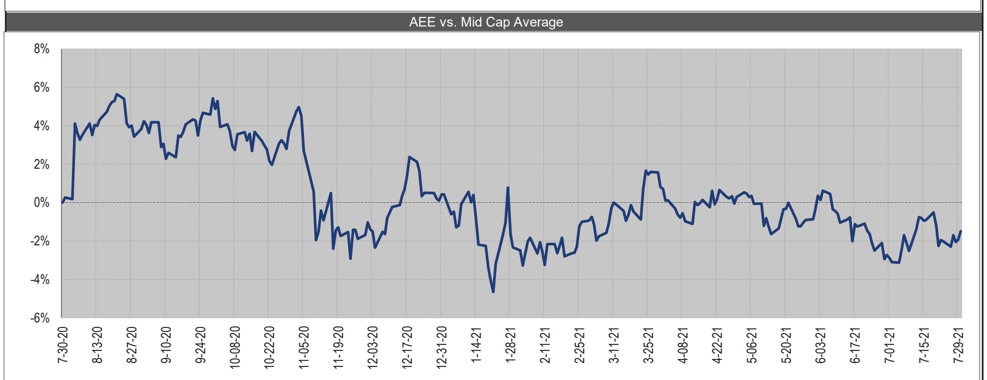
8/1/2021

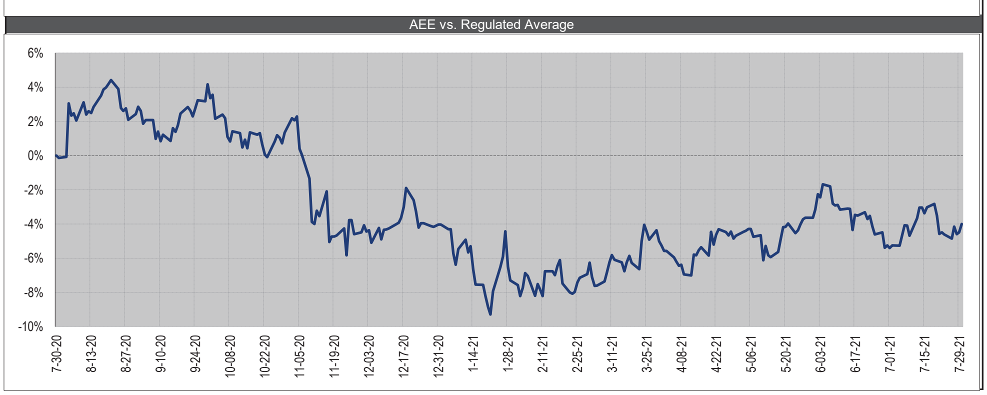
WOLFE RESEARCH

Ameren (AEE) $83.92, Outperform, $90 PT

AEE modestly outperformed peers on little company-specific news in Jul, as Q2 earnings and possibly IL legilation is expected in Aug.







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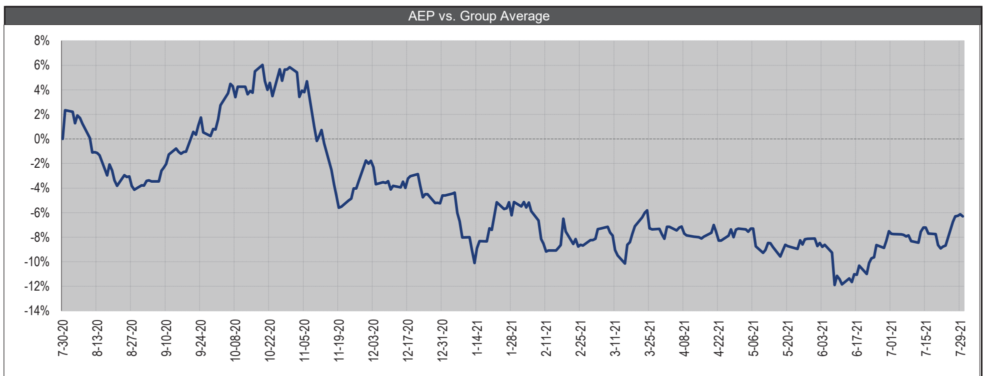
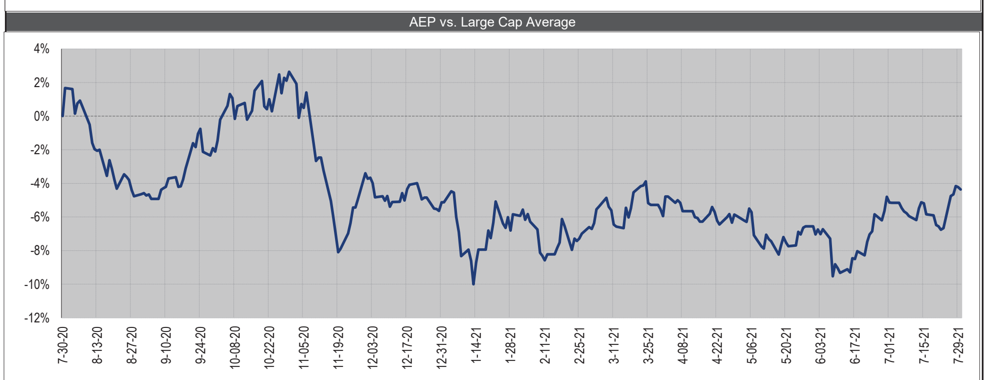
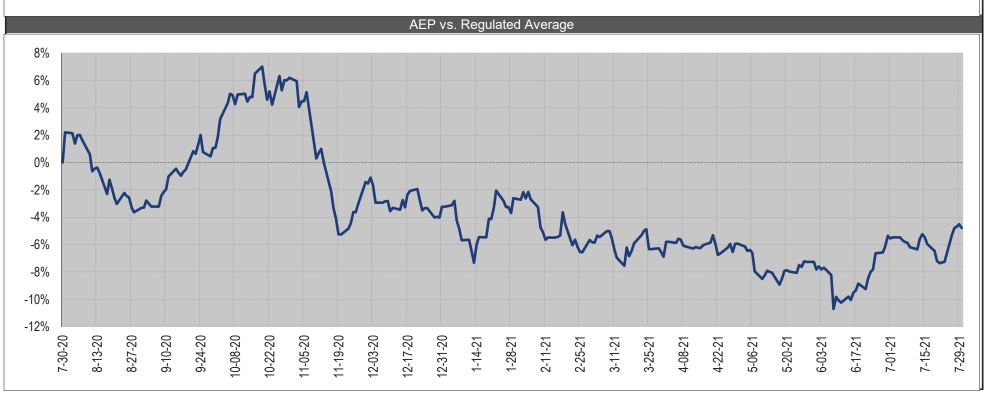
WOLFE RESEARCH

American Electric Power (AEP) $88.12, Peer Perform, $93 PT

AEP continued its rebound that started after hitting 52-week lows in mid-June, including in line Q2 earnings results in late Jul.





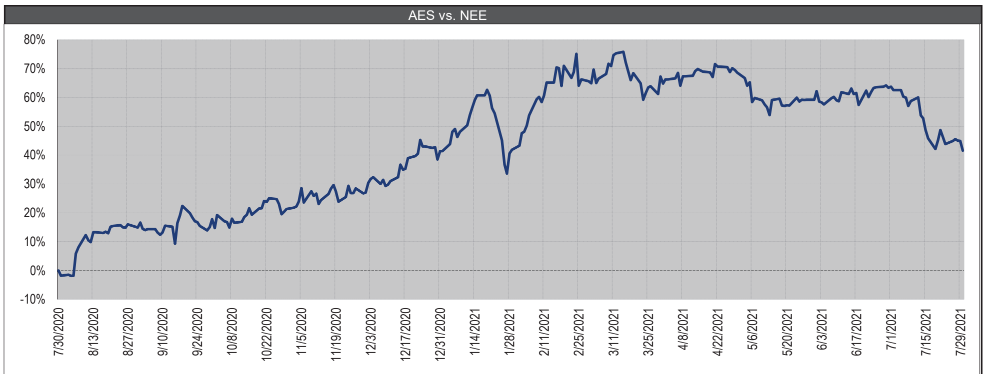


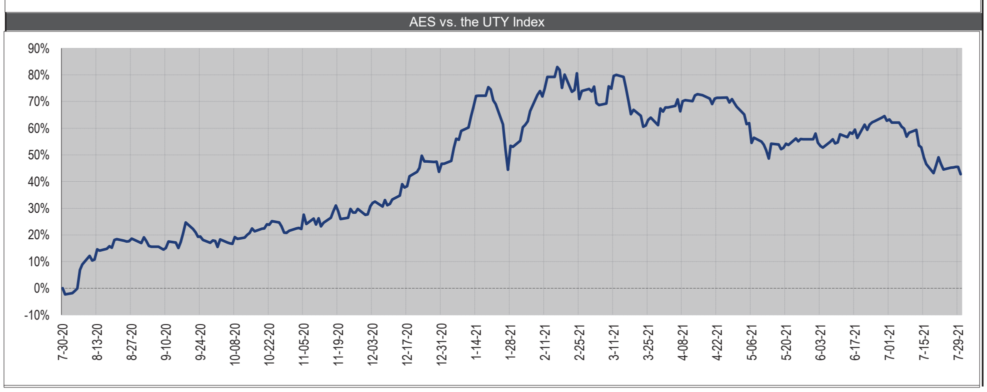
8/1/2021

WOLFE RESEARCH

AES Corporation (AES) $23.70, Peer Perform, $29 PT

AES was the second worst performer in the group in July and underperformed the utilities index by over 1,300 bps. We saw no company specific news that would explain the underperformance. We mostly attribute the weakness to inflation / supply chain concerns for renewable developers and perhaps some around renewed COVID fears given AES' exposure in emerging markets.



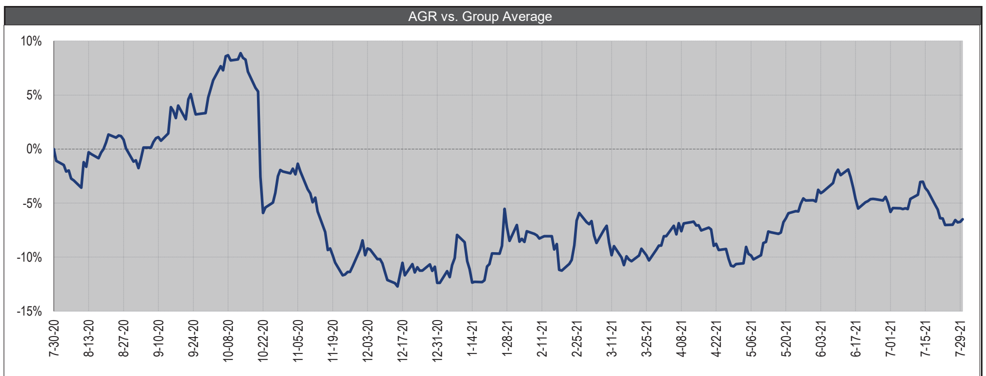


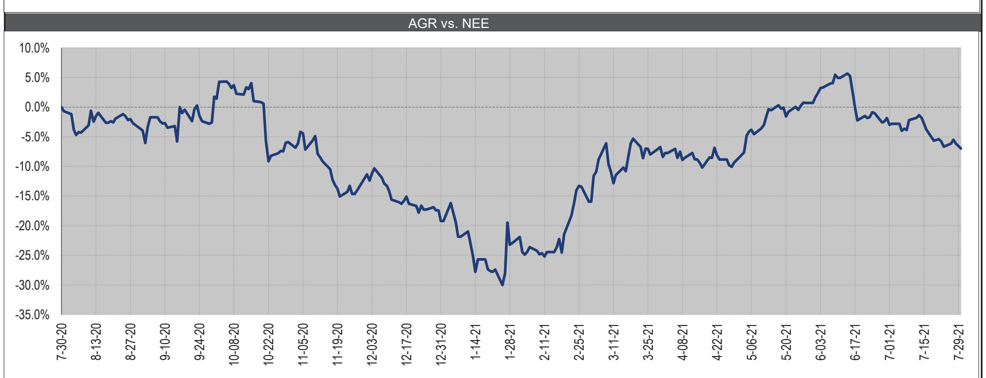
8/1/2021

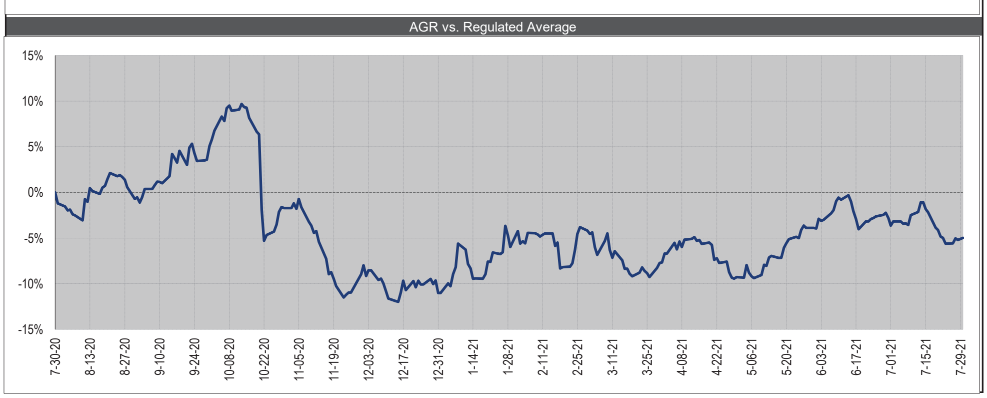
WOLFE RESEARCH

Avangrid (AGR) $52.14, Underperform, $47 PT

AGR underperformed into its earnings call in the back-half of the month. That said, the stock is still outperforming on the year. The Q2 update was a bit messy, as AGR raised its net income guidance, but lowered its EPS guidance to reflect the share issuance associated with the PNM merger (without the PNM earnings contribution). Given the Winter Storm Uri benefit in Q1 of $0.27/sh, our sense is that the business is on track (not ahead or behind) for the year when adjusting for that the dilution.







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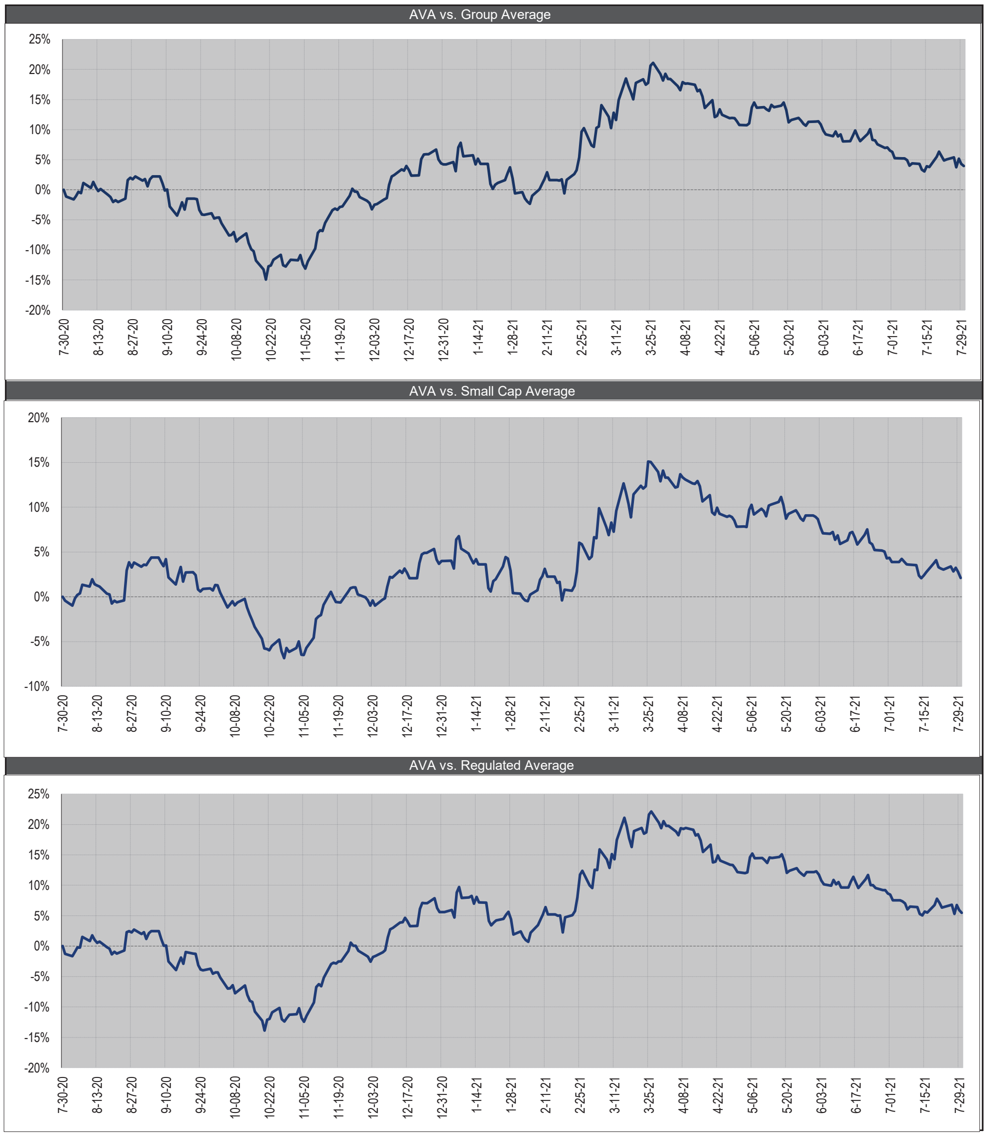
WOLFE RESEARCH

Avista Corporation (AVA) $42.83, NR

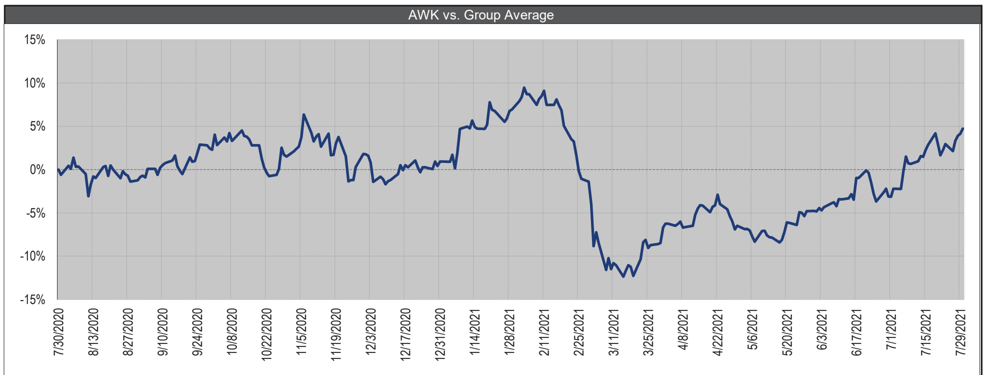


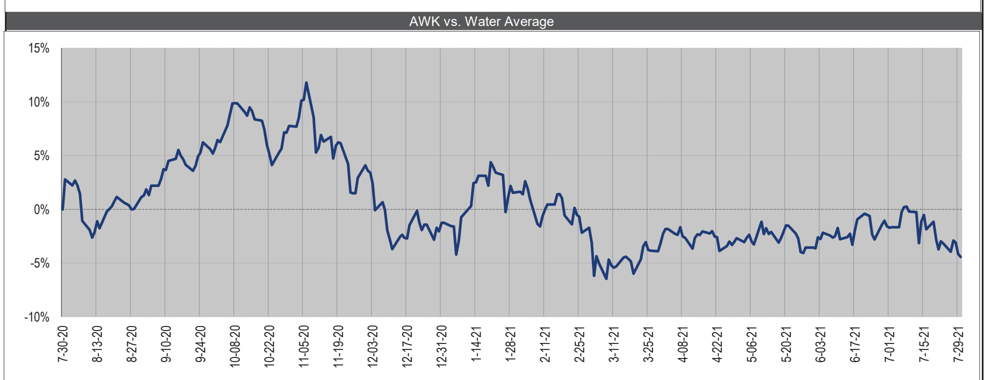
8/1/2021

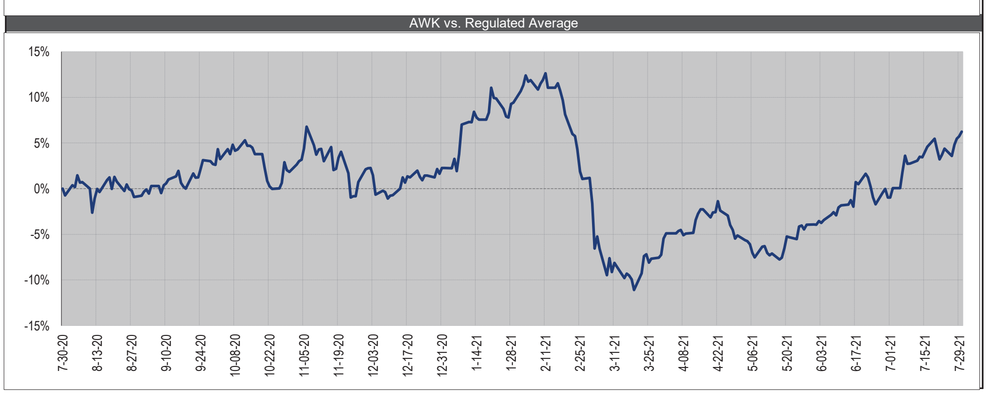
WOLFE RESEARCH

American Water Works (AWK) $170.11, Peer Perform, $156 PT

AWK was the top performer in the group during the month of July. That said, AWK still underperformed its water utility peers (MSEX was up big after being added to the S&P Small Cap Index). It was a relatively quiet month for AWK, we attribute the outperformance to the revival of utility stocks generally – the US 10Y continued to fall and growth / recovery stocks took a breather on COVID fears from the delta variant.





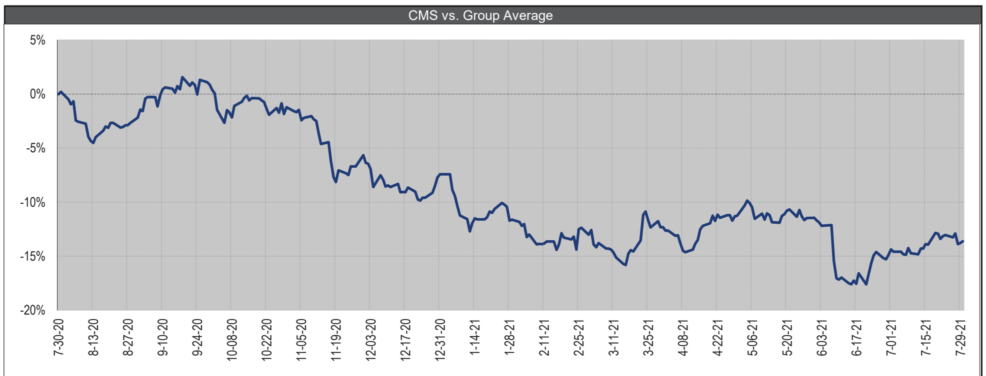


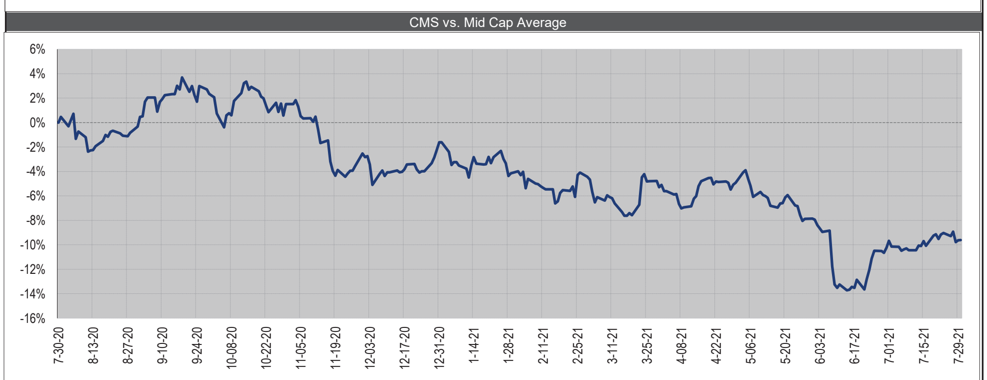
8/1/2021

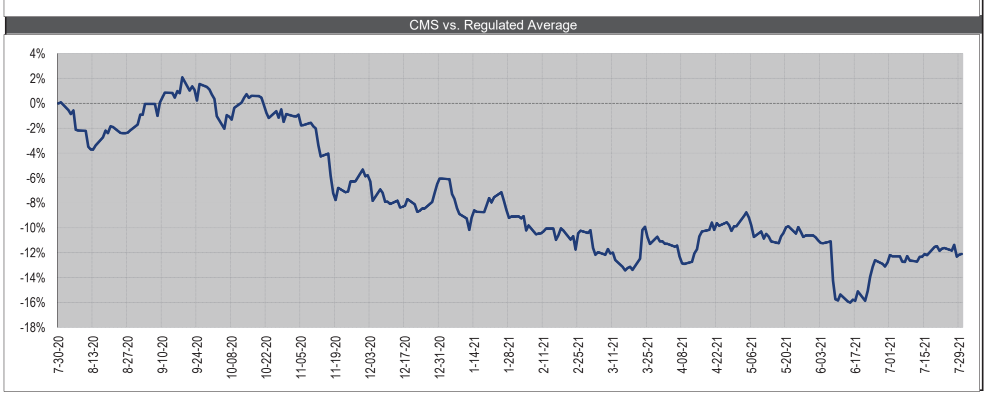
WOLFE RESEARCH

CMS Energy (CMS) $61.79, Peer Perform, $64 PT

CMS traded in-line with peers for the month, but is trailing most of the sector in 2021. After a busy June that featured the Enerbank sale and IRP filing, news flow was a bit quieter in July. CMS set the record straight with a bullish tone on its Q2 call near month-end – pointing to the high-end of 2021 guidance and the 6-8% L-T EPS CAGR, with confidence in IRP approval that should result in $1B+ in incremental rate base opportunities tied to two existing gas plants.





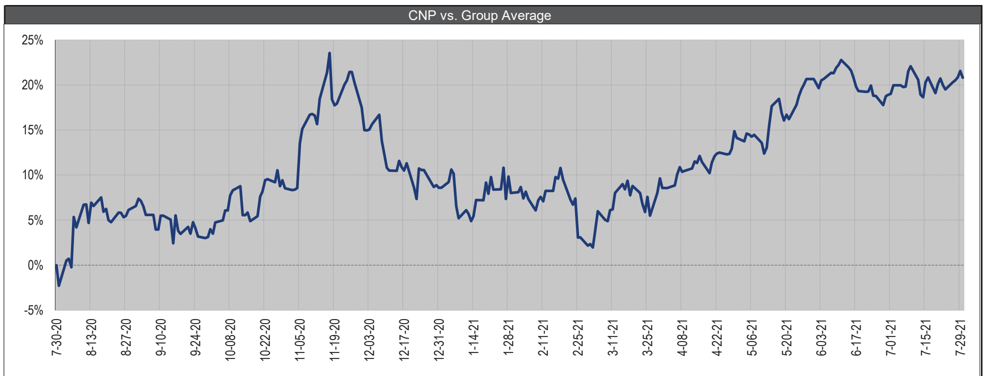


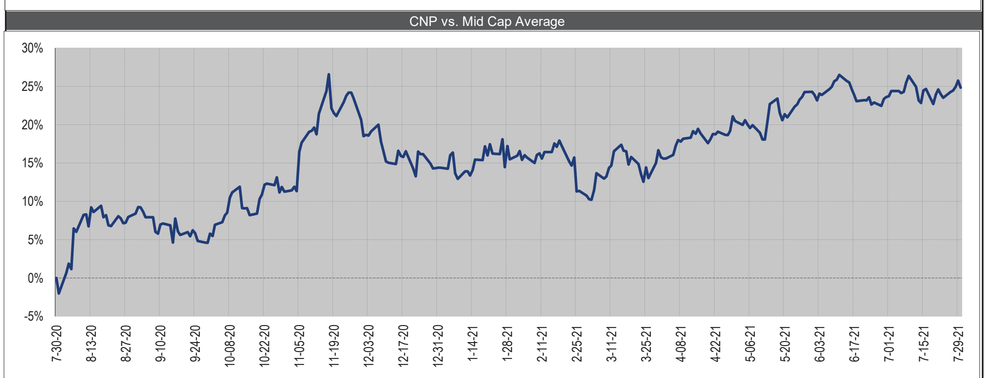
8/1/2021

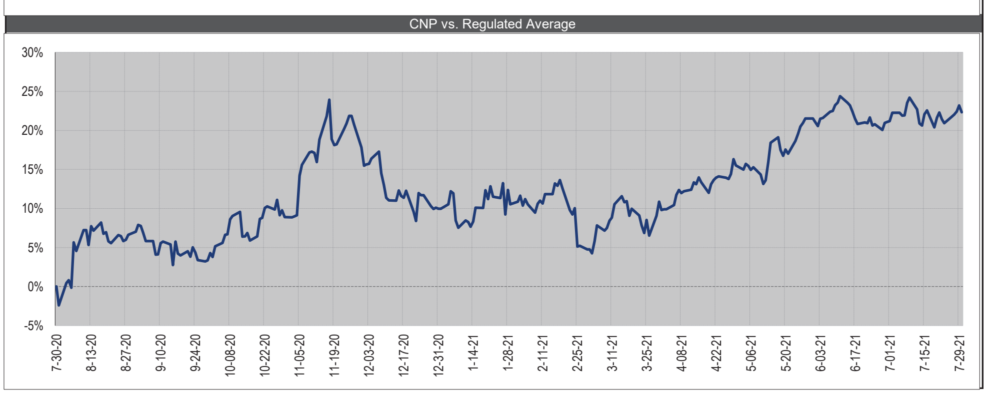
WOLFE RESEARCH

CenterPoint Energy (CNP) $25.46, Outperform, $28 PT

CNP modestly underperformed the group in July. During the month, CNP announced several changes to its Board and governance structure. Most notable of which being that longtime Executive Chair, Milton Carroll, was leaving the company and that his position was being eliminated entirely in favor of new independent leadership. CEO Dave Lesar was also given a multi-year retention grant (1M shares over two years).







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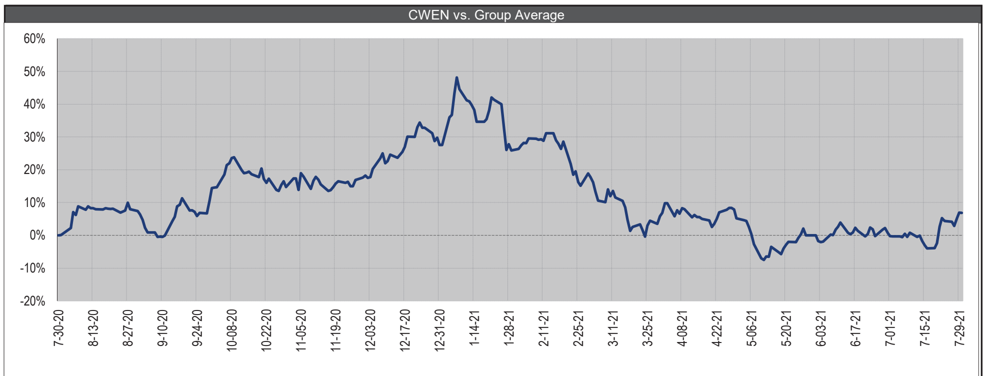
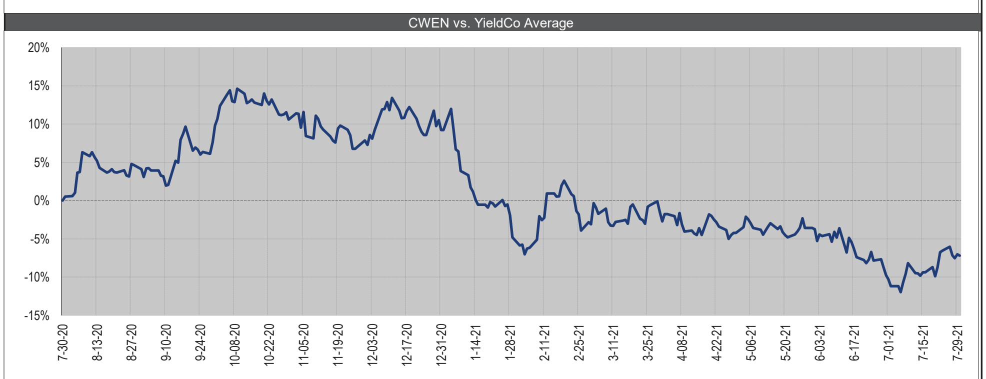
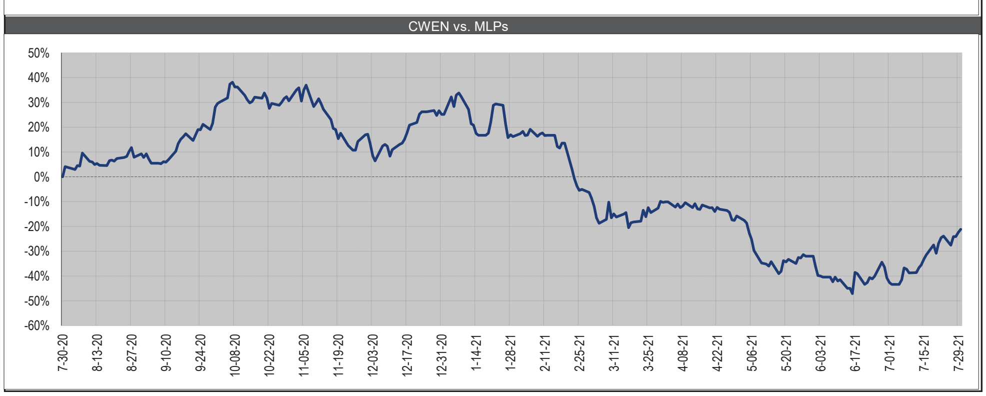
WOLFE RESEARCH

Clearway Energy (CWEN) $28.68, Outperform, $33 PT

CWEN was one of the best performers in the broader group in July and outperformed YieldCo peers, although it still remains the worst performing YieldCo YTD. Recent attention has been on the potential for the company to sell its thermal business at an accretive valuation that would recycle capital and provide funding for new growth.







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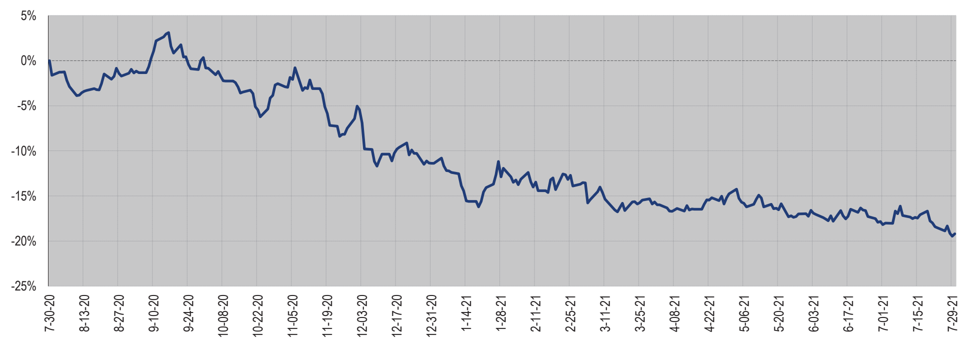
WOLFE RESEARCH

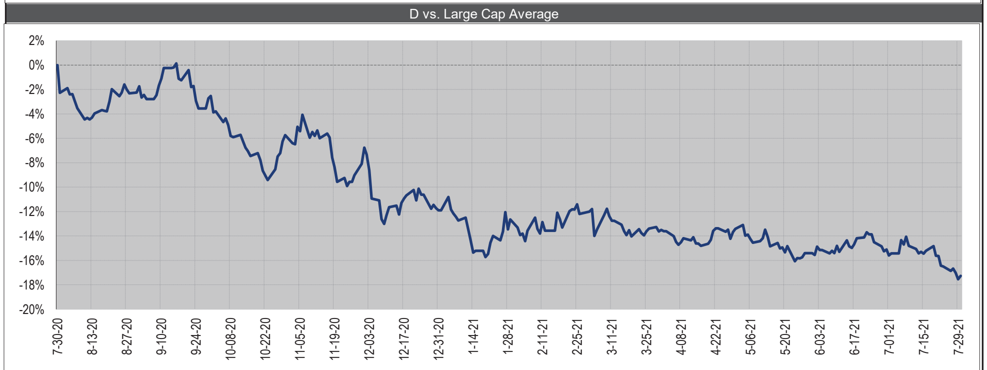
Dominion Energy (D) $74.87, Outperform, $88 PT

D underperformed the utility average in July and is now the worst performing regulated utility YTD (ex-CA utilities PCG and EIX). During the month, D terminated its Q-Pipe transaction with Berkshire due to ongoing uncertainty associated with achieving the requisite HSR clearance from the FTC; but D is targeting a sale by YE to an alternative buyer. D did receive some good news out of South Carolina when the PSC approved DESC's rate case settlement.

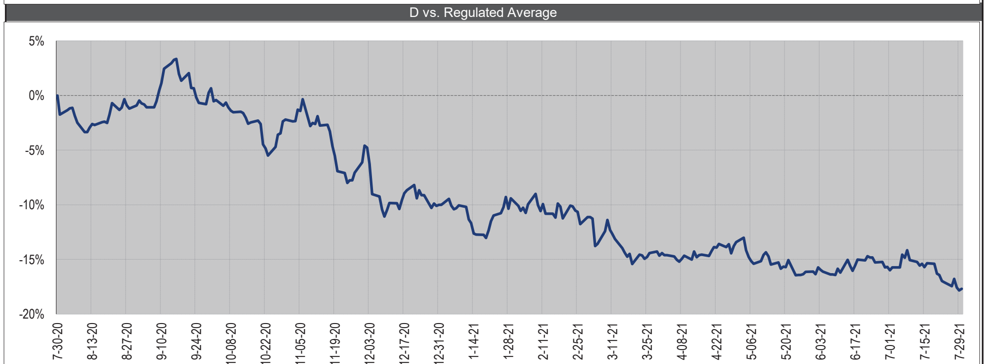
D vs. Group Average



D vs. Large Cap Average



D vs. Regulated Average

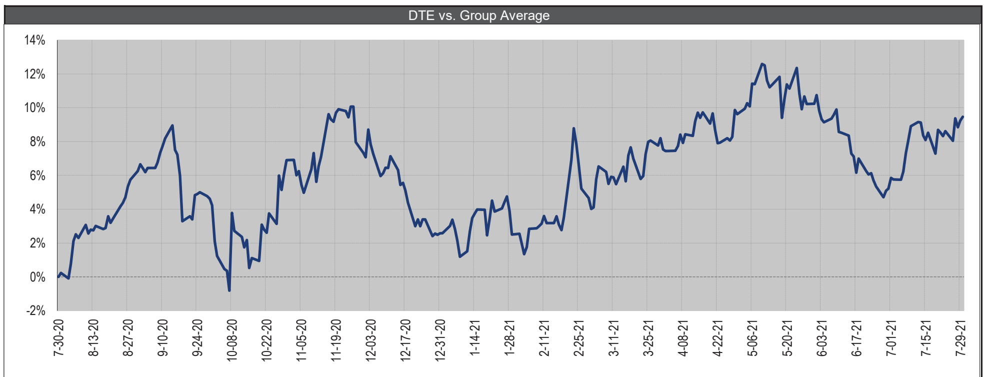


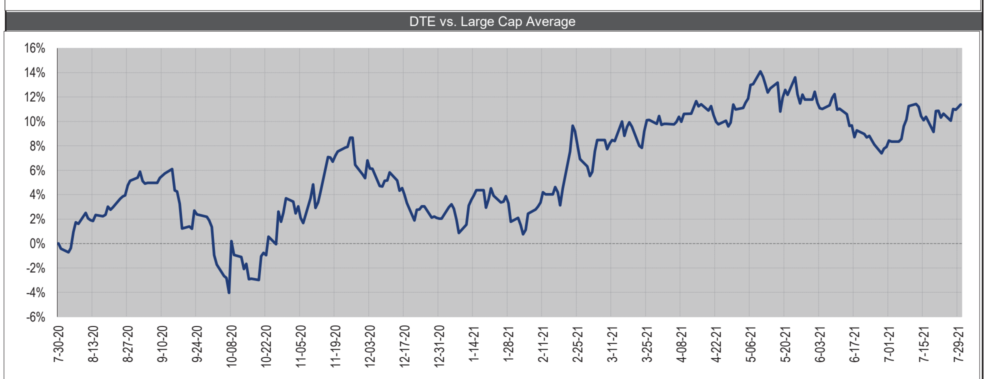
8/1/2021

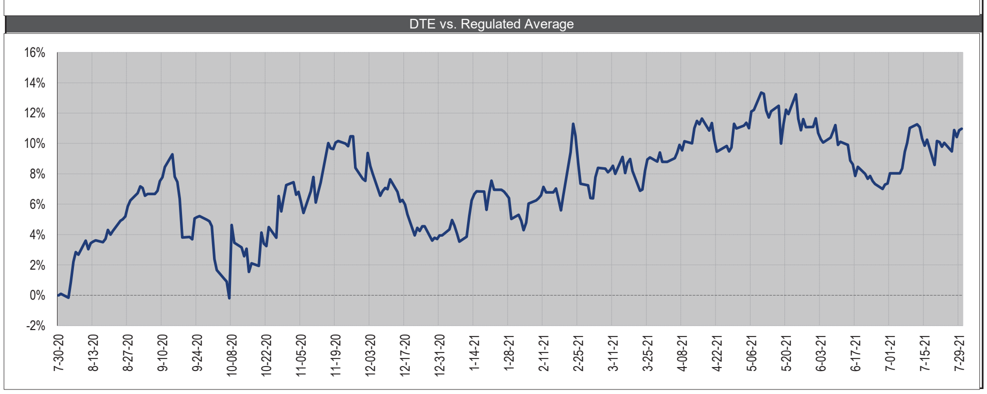
WOLFE RESEARCH

DTE Energy (DTE) $117.32, Peer Perform, $119 PT

DTE returned to outperforming in July, as the company completed its spin of DT Midstream. Earnings were strong as expected – Q2 beat consensus, 2021 guidance was raised, and mgmt. reiterated confidence in the L-T 5-7% EPS CAGR.





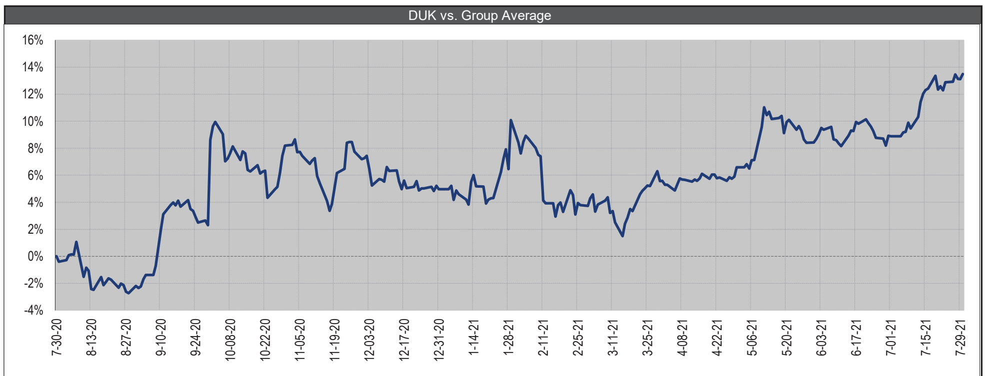


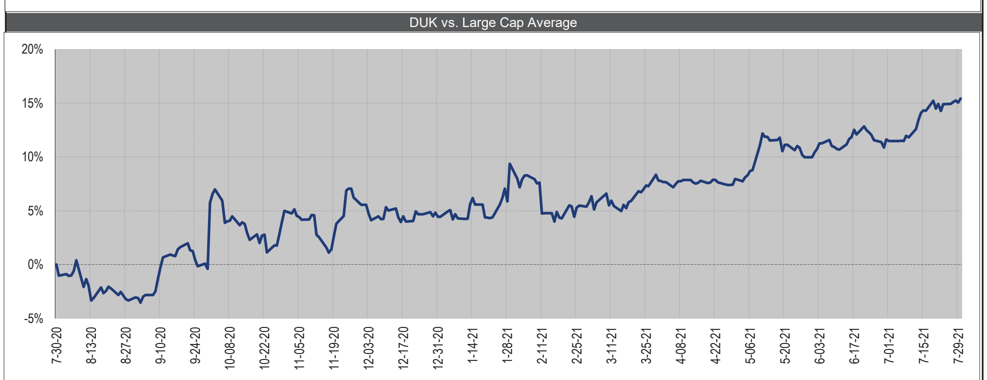
8/1/2021

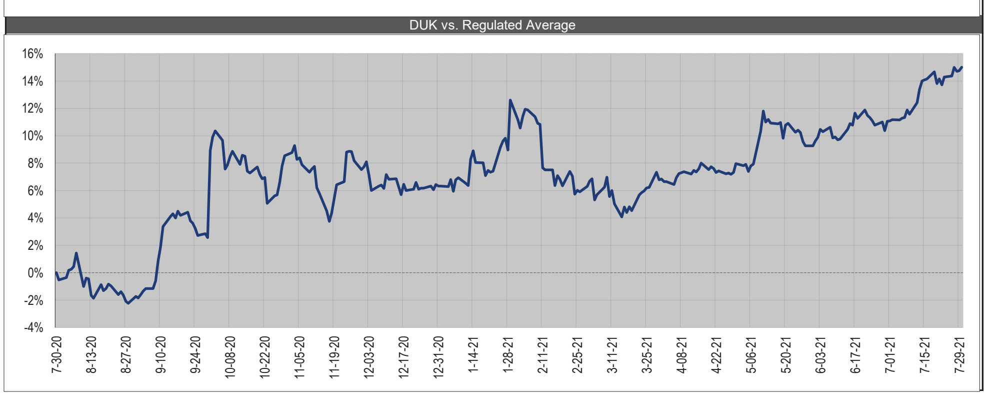
WOLFE RESEARCH

Duke Energy (DUK) $105.11, Peer Perform, $106 PT

DUK again reached 52-week highs relative to peers, as legislation advanced in the NC House on a partisan vote (Gov still opposes) and activism continued with a letter exchange between Elliott and mgmt.







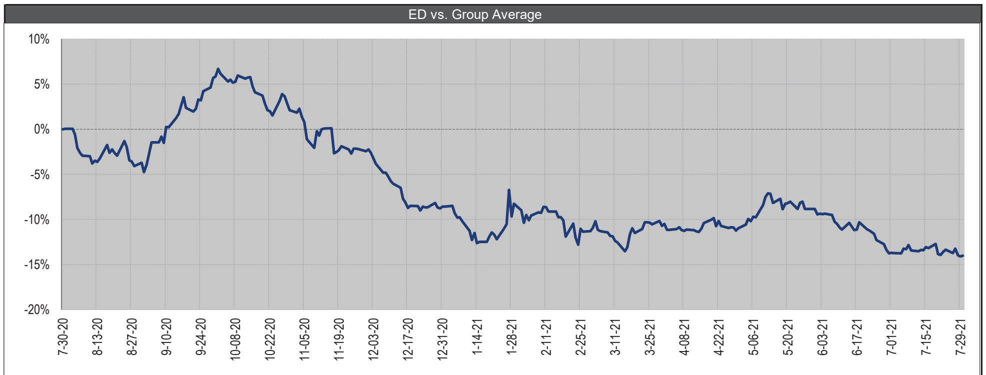
8/1/2021

WOLFE RESEARCH

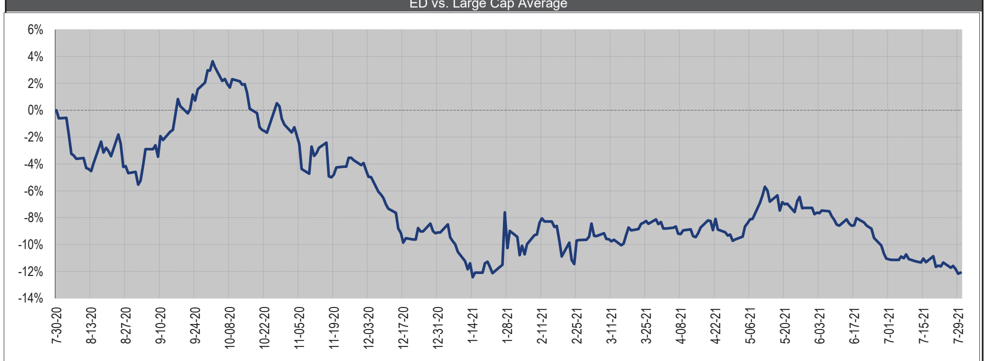
Consolidated Edison (ED) $73.77, Underperform, $73 PT

ED modestly underperformed the utility average in July. During the month, the NY PSC accepted settlement terms for alleged violations primarily associated with Tropical Storm Isaias. ED's CECONY and O&R utilities agreed to pay $82M in fines/penalties. Only $30-35M of that has yet to be spent or run through the P&L though. ED expects to find cost control offsets for the $0.07-0.08 EPS headwind.

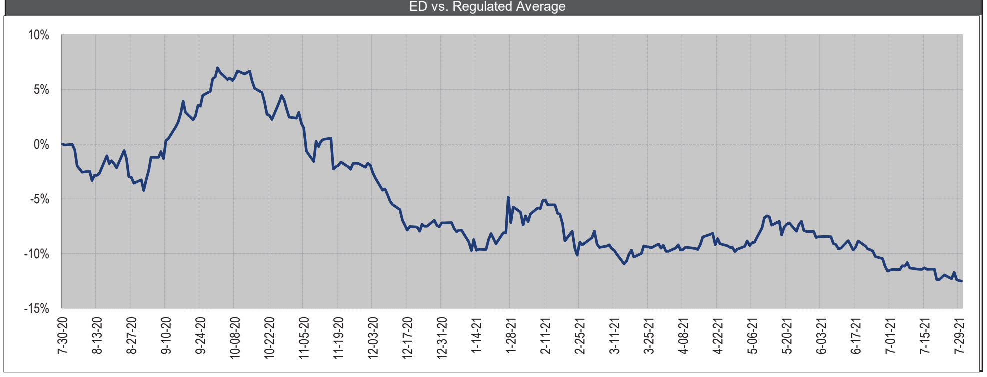
ED vs. Group Average



ED vs. Large Cap Average



ED vs. Regulated Average

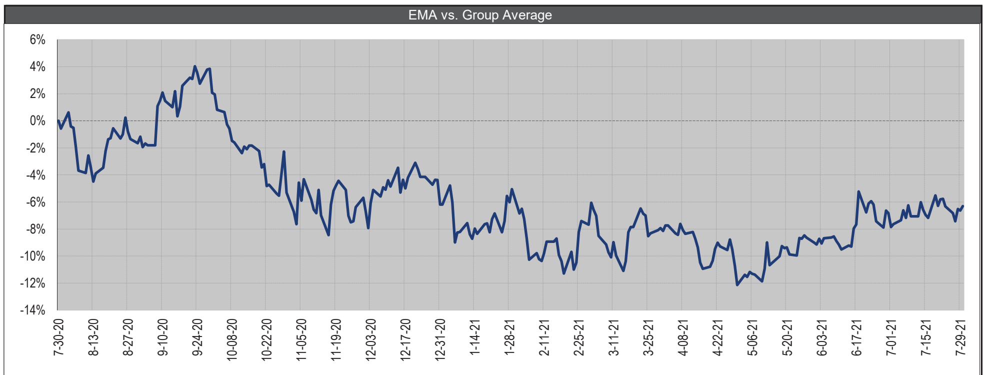


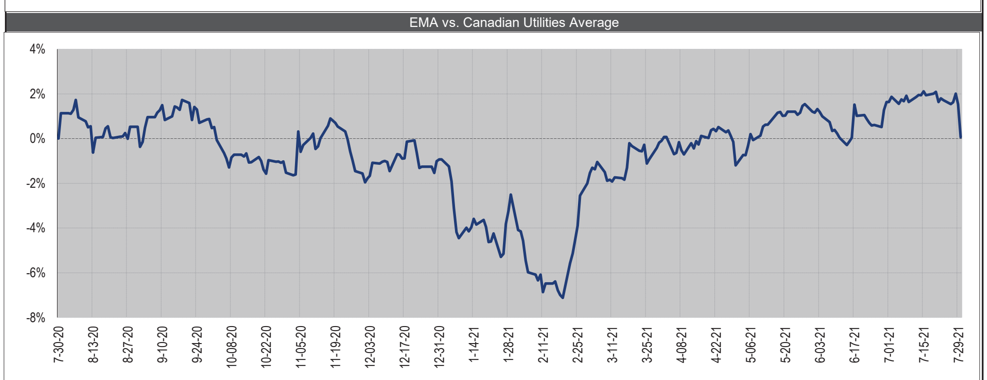
8/1/2021

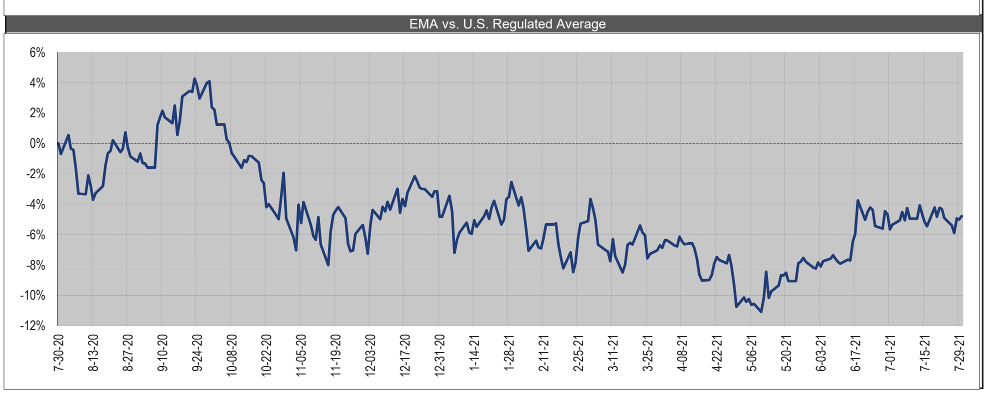
WOLFE RESEARCH

Emera (EMA) $58.19, Peer Perform, $60 PT

EMA finished about in line with the US utility average in July and slightly ahead of its closest Canadian peer FTS. In July, the Premier in Nova Scotia announced a more aggressive renewable standard for the province during the month – 80% of all energy to now come from renewables by 2030.





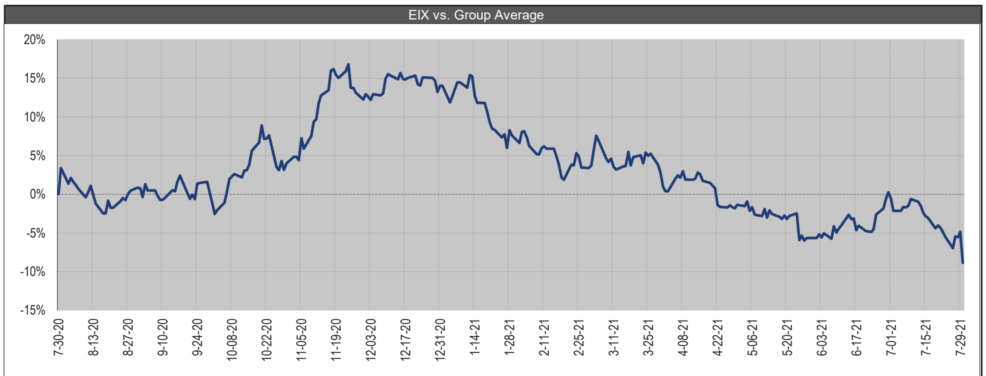


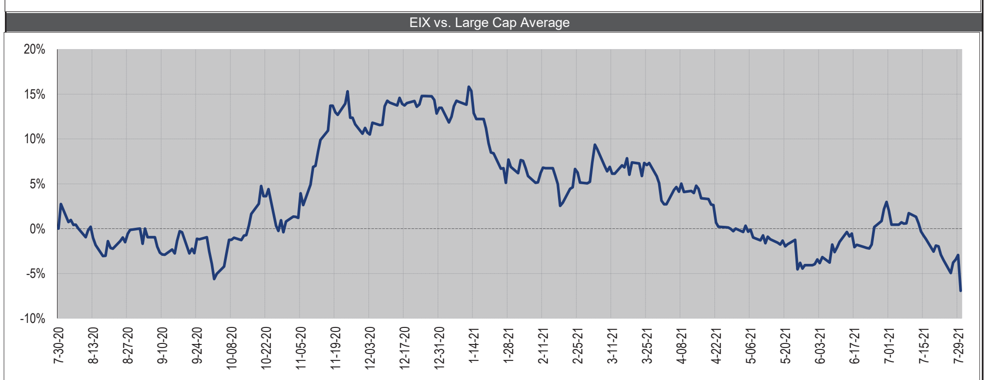
8/1/2021

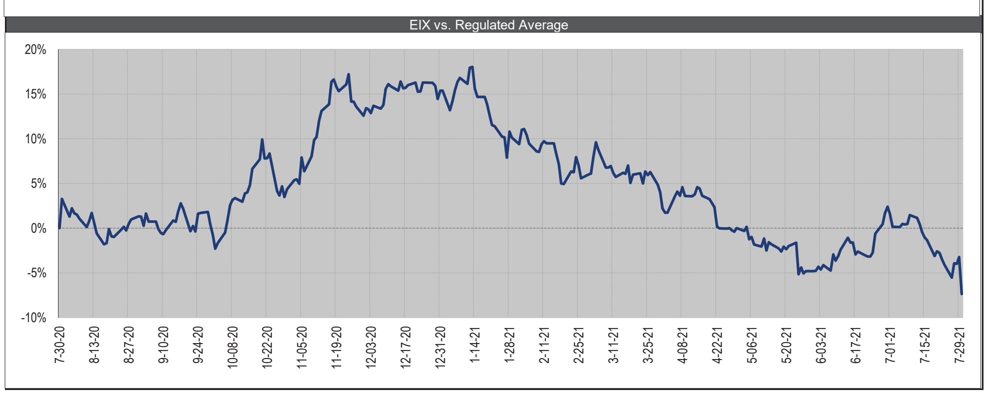
WOLFE RESEARCH

Edison International (EIX) $54.50, Outperform, $66 PT

EIX gave back all of its outperformance from the previous month and then hit new relative lows after Q2 earnings, which included a lower rate base recommendation in its GRC and possibly a ROE cut in 2022.







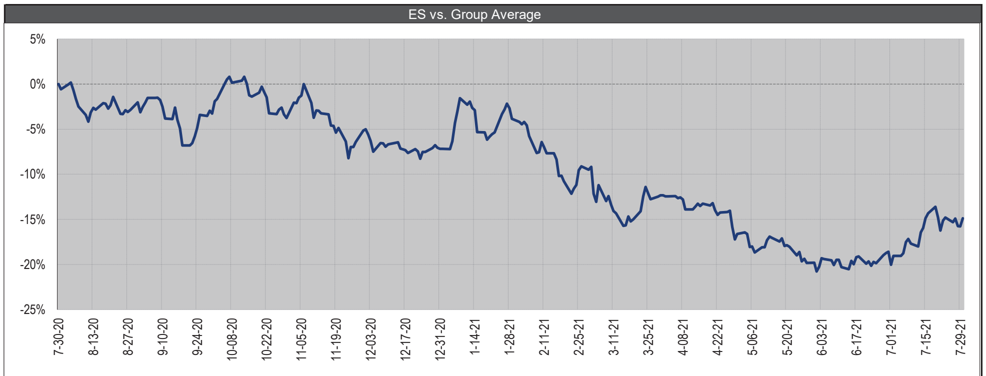
8/1/2021

WOLFE RESEARCH

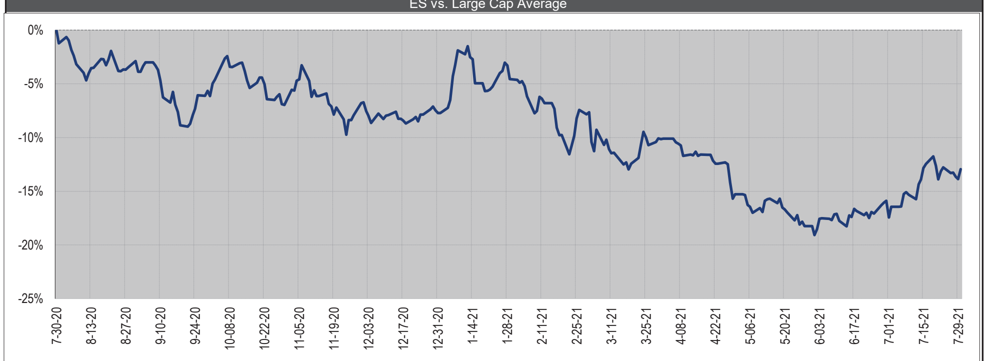
Eversource Energy (ES) $86.27, Outperform, $94 PT

ES outperformed peers for a second straight month after hitting 52-week lows in early Jun, as there was more positive tone on a potential settlement in CT over rates, and likely ROE and capital structure.

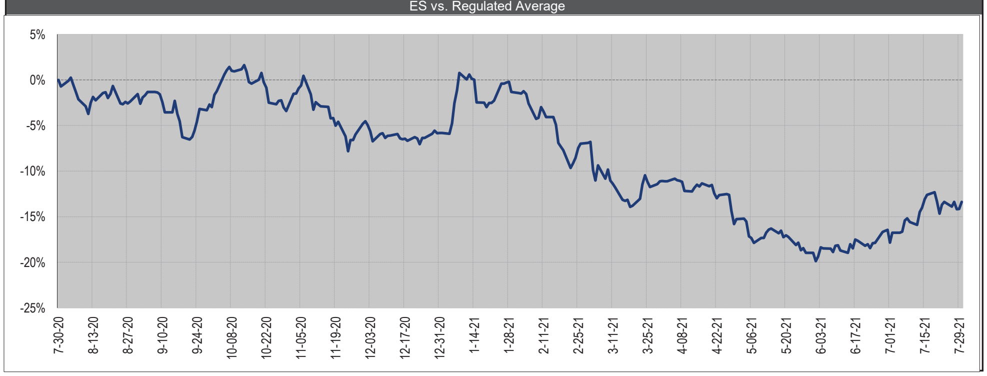
ES vs. Group Average



ES vs. Large Cap Average



ES vs. Regulated Average

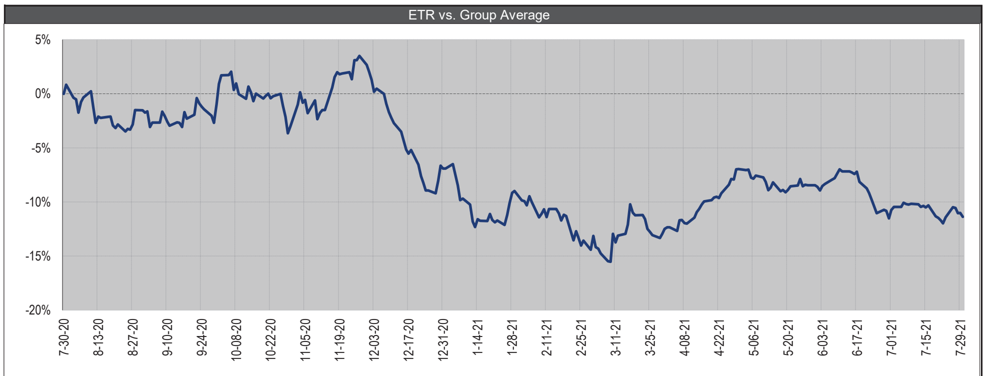


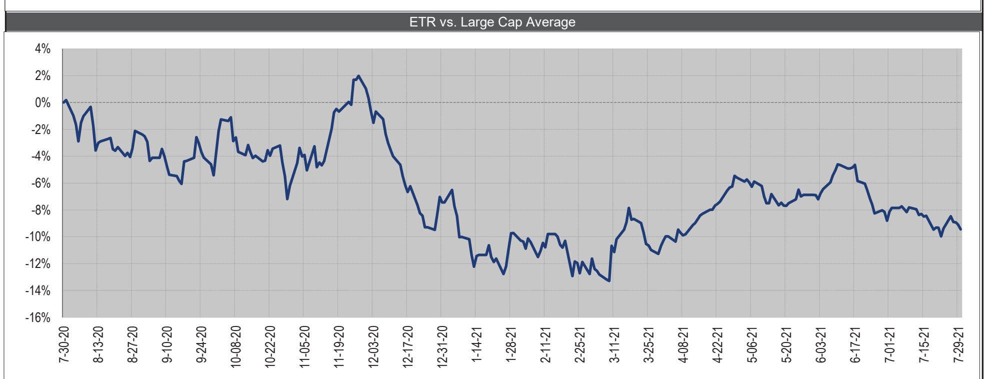
8/1/2021

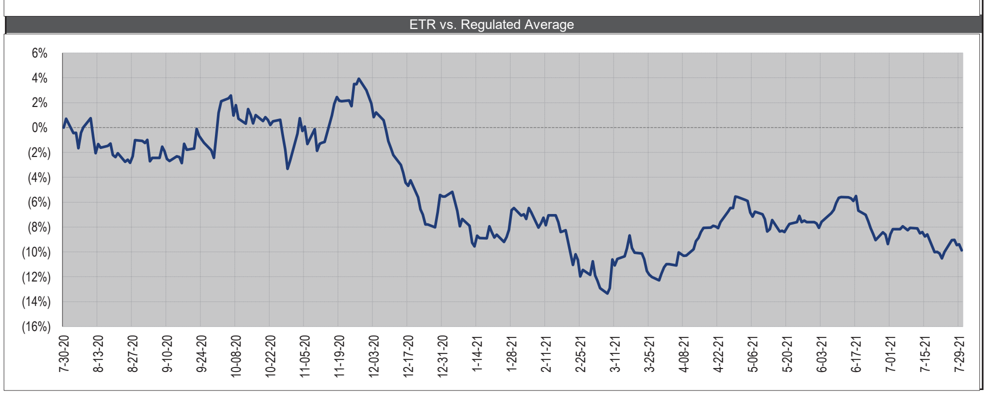
WOLFE RESEARCH

Entergy (ETR) $102.92, Outperform, $120 PT

ETR underperformed peers in Jul on little news, possible on concerns over equity or preferred equity issuances in 2H21.



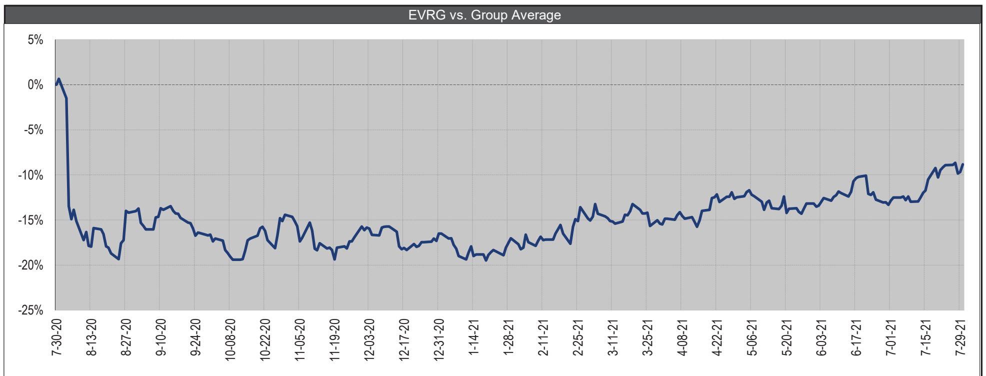


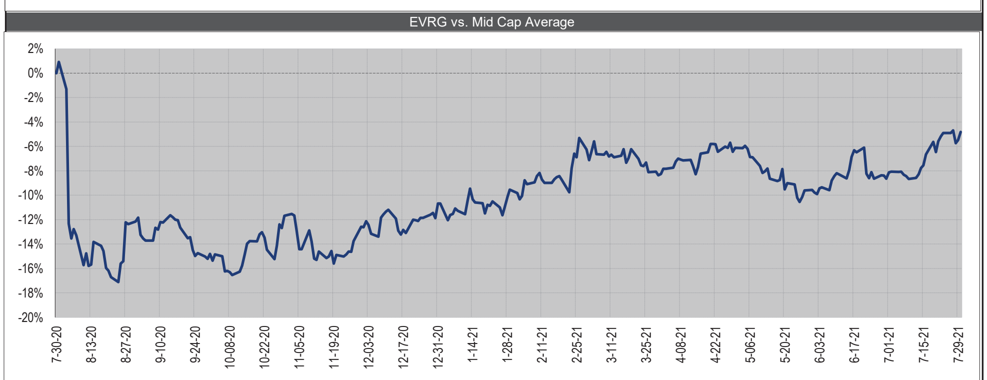


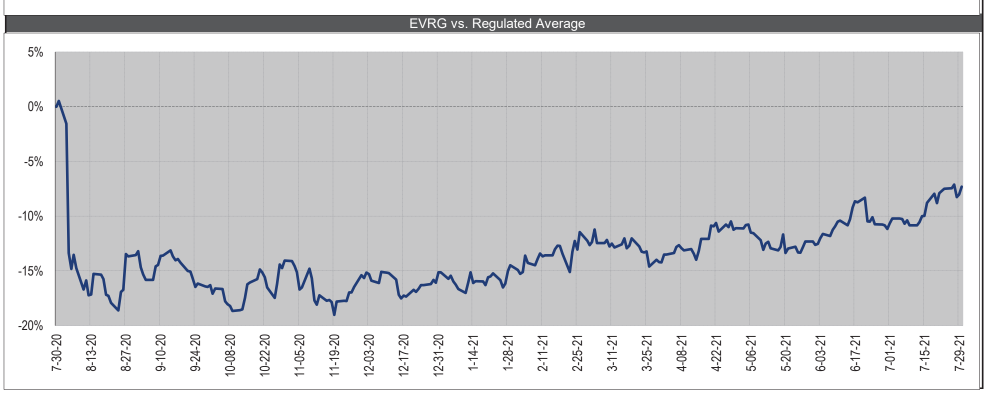
WOLFE RESEARCH

Evergy (EVRG) $65.22, Outperform, $69 PT

EVRG was one of the top-performers in July on no real news. This stock is also towards the top of the leaderboard for 2021. We see Q2 earnings as being relatively uneventful, but are buyers into the September Analyst Day that should better highlight the long-term plan under new mgmt.





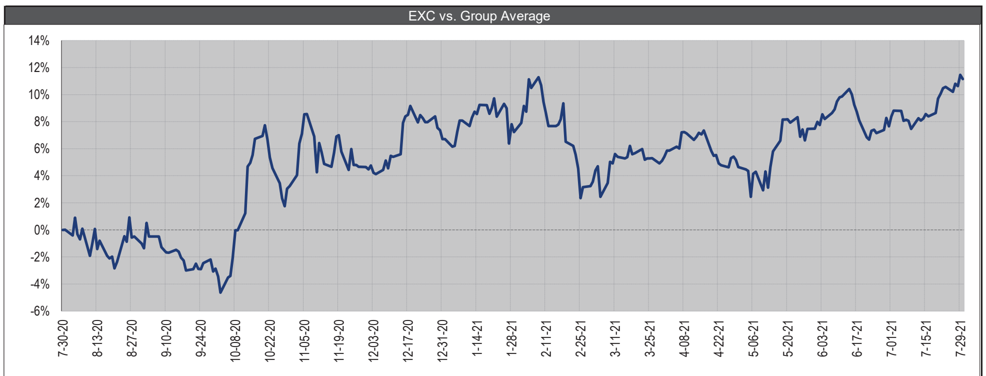


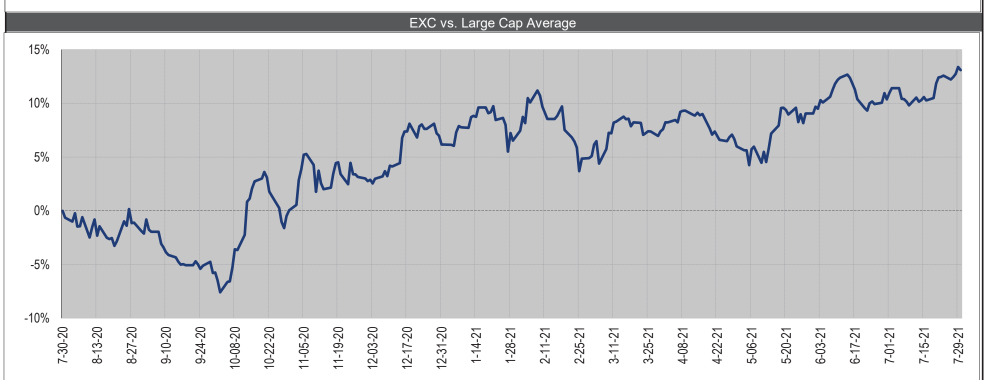
8/1/2021

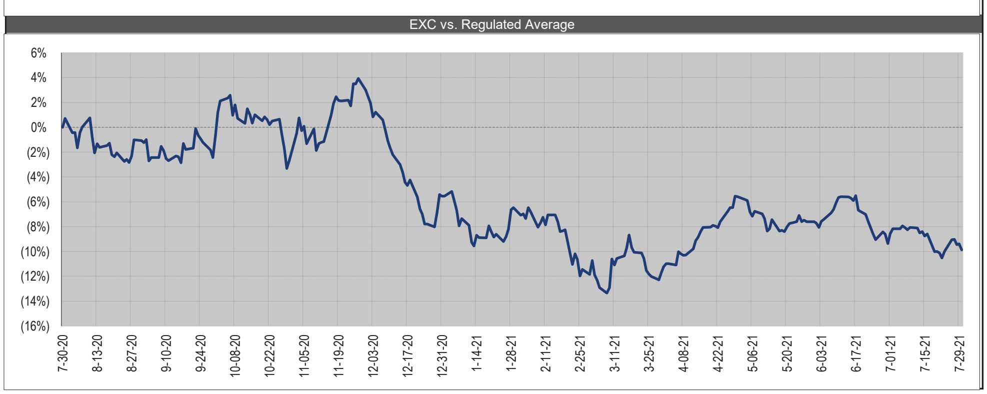
WOLFE RESEARCH

Exelon (EXC) $46.80, Outperform, $52 PT

EXC hit 52-week highs relative to large cap peers, despite no progress on IL legislation (for now) as federal nuke PTCs gained momentum and now looks poised to be included in the infra or reconciliation legislation.





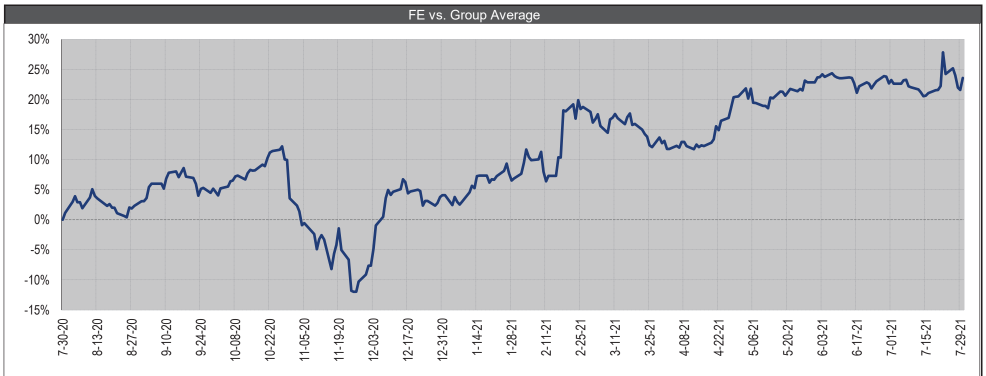


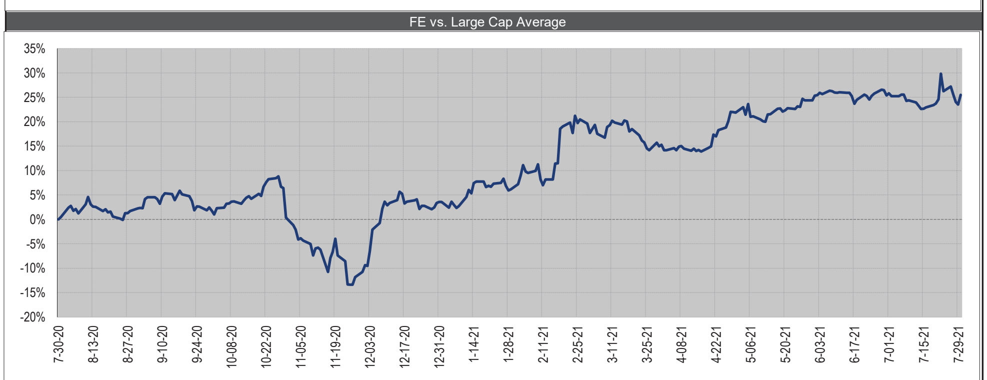
8/1/2021

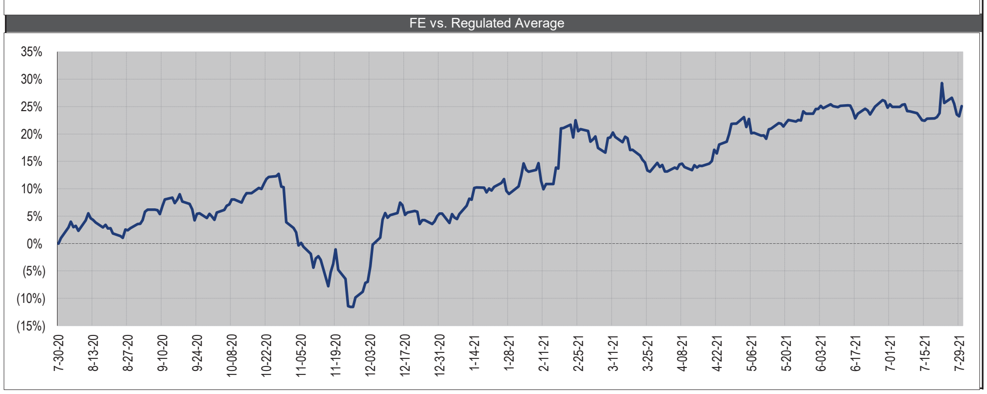
WOLFE RESEARCH

FirstEnergy (FE) $38.32, Outperform, $43 PT

FE traded sideways for most of the month, before popping on the announcement of a deferred prosecution agreement with the DoJ that resulted in a $230M fine. From there the stock quickly gave back the gains, as attention and concern shifted to resolution in Ohio where we see less earnings downside than some of the bears. FE is still the top performer on the year though.





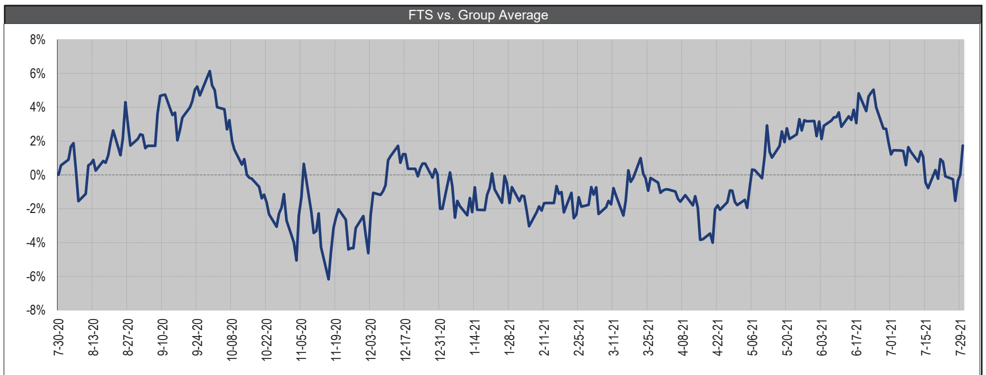


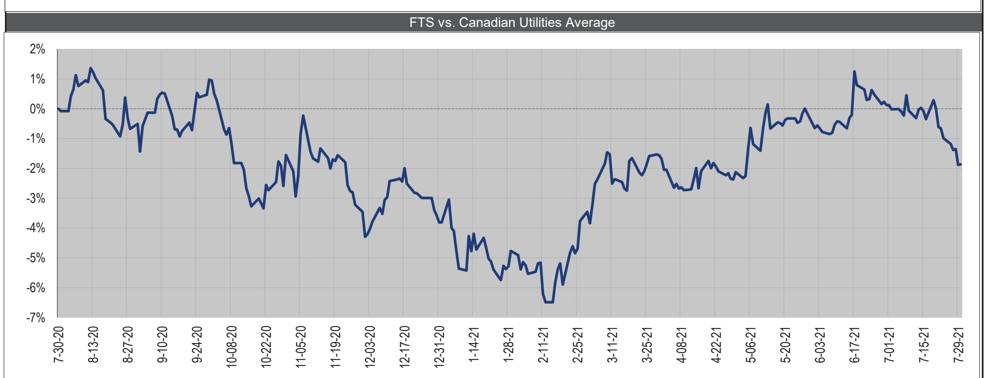
8/1/2021

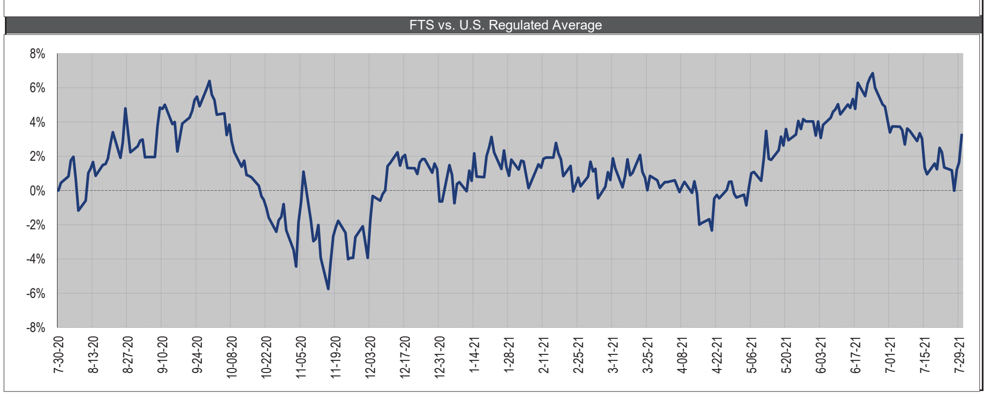
WOLFE RESEARCH

Fortis (FTS) $45.34, Peer Perform, $44 PT

FTS continued to underperform in July, after touching relative highs in mid-June. There was more news flow on FERC transmission – some good in terms of long-term opportunities, and some not so good in terms of ROEs and adders. Then the company reported a Q2 miss on weaker FX.



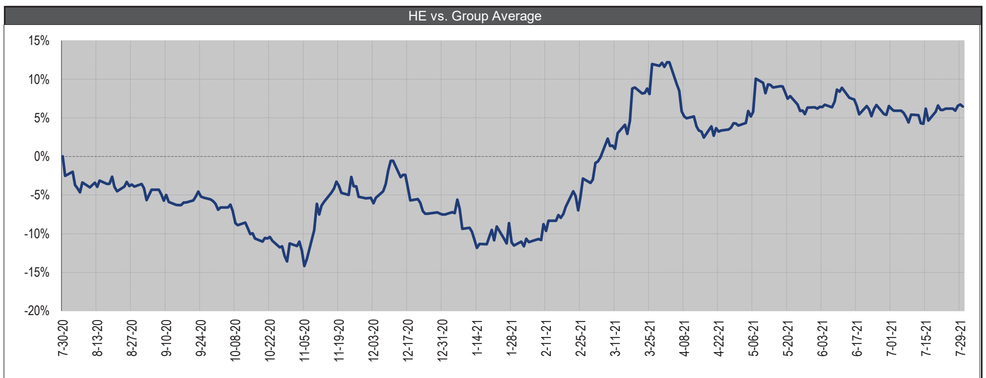


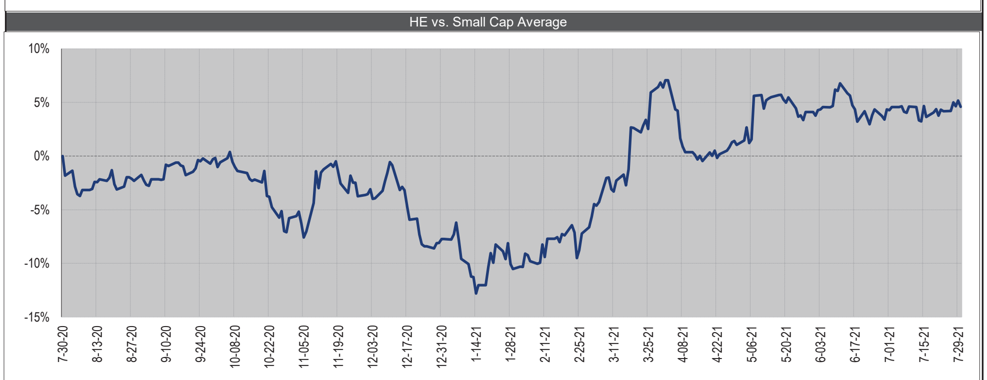


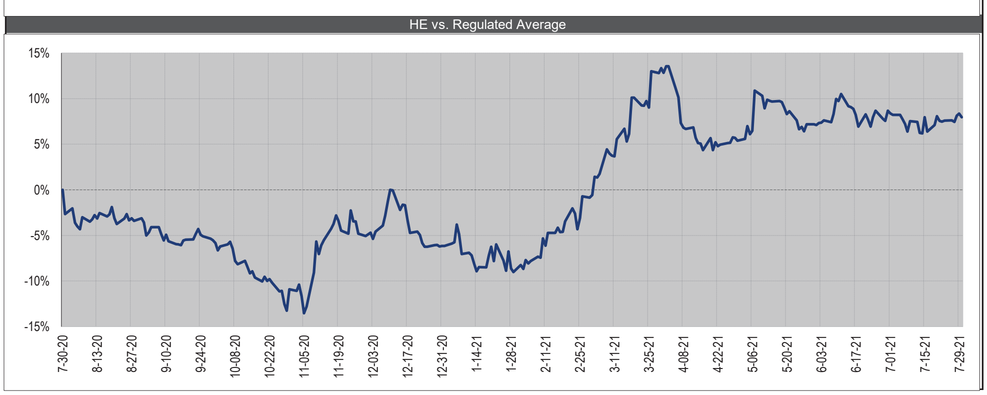
8/1/2021

WOLFE RESEARCH

Hawaiian Electric (HE) $43.34, NR







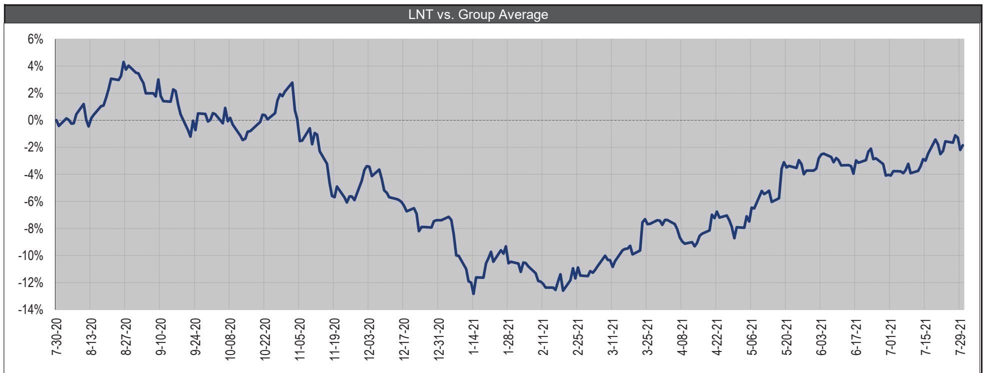
8/1/2021

WOLFE RESEARCH

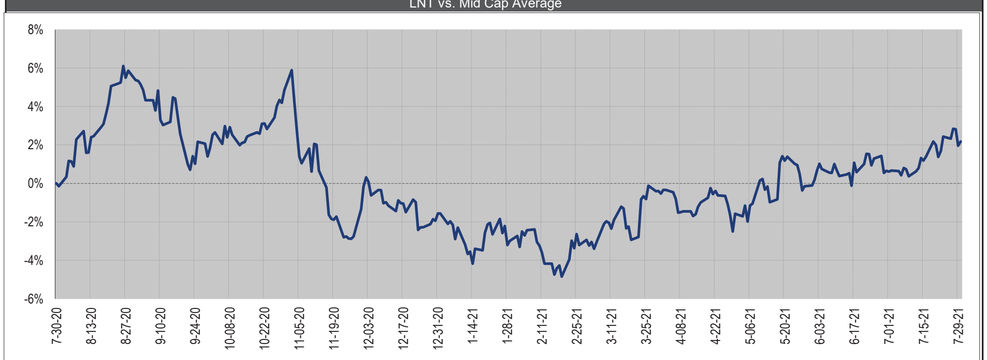
Alliant Energy (LNT) $58.53, Outperform, $61 PT

LNT resumed its outperformance in July and set fresh relative highs. The company hosted an ESG Investor Day that re-highlighted its attractive positioning in terms of minimal coal exposure and sector-leading renewables in rate base with plans to add more.

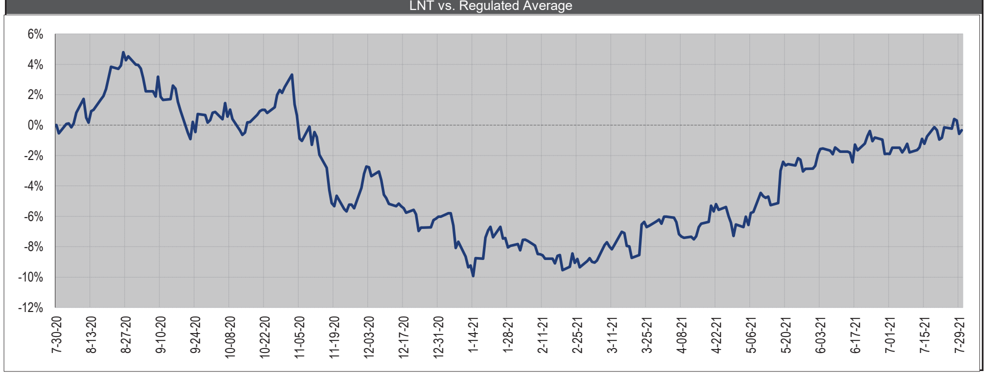
LNT vs. Group Average



LNT vs. Mid Cap Average



LNT vs. Regulated Average

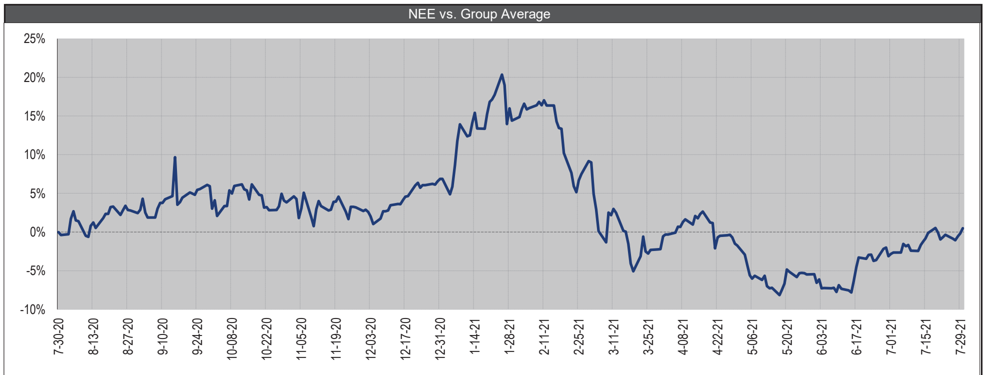


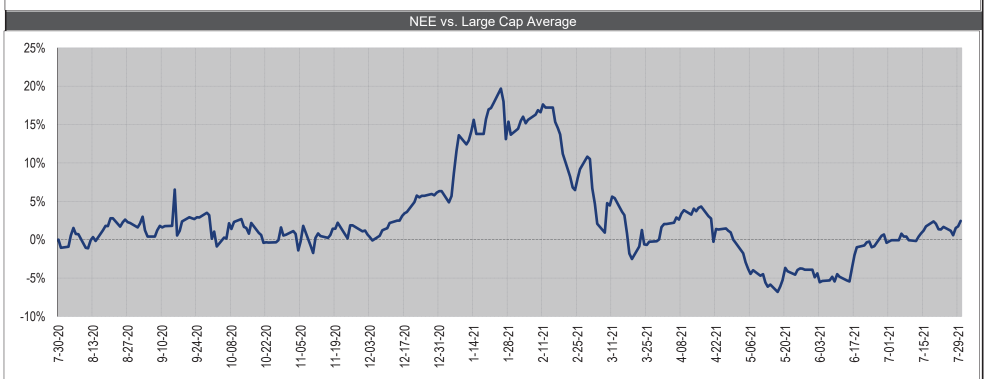
8/1/2021

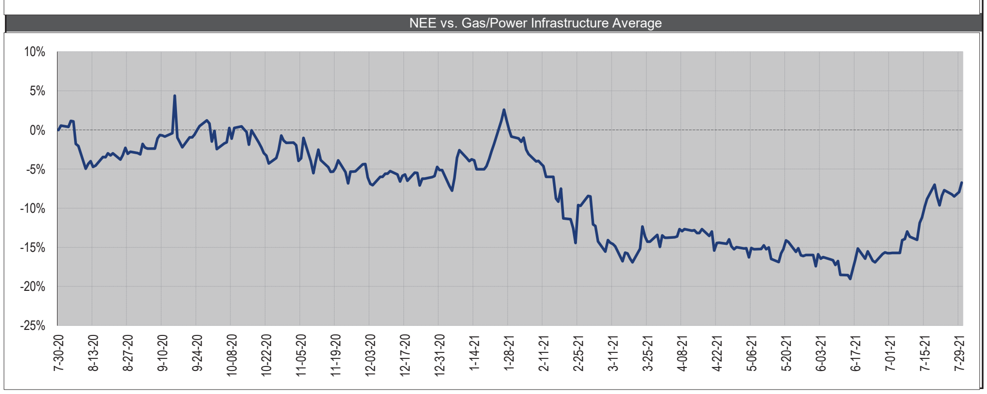
WOLFE RESEARCH

NextEra Energy (NEE) $77.90, Outperform, $91 PT

NEE continued its bounce off of relative lows set in mid-June, after renewables inflation fears weighed on the stock. In a bit of an opposite day, the company reported just in-line earnings for Q2, but outperformed. NEE is still in the rare position of underperforming on the year.



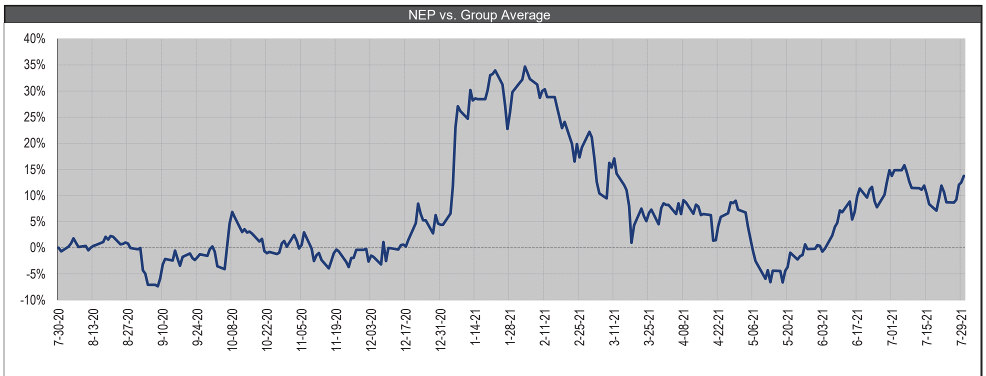


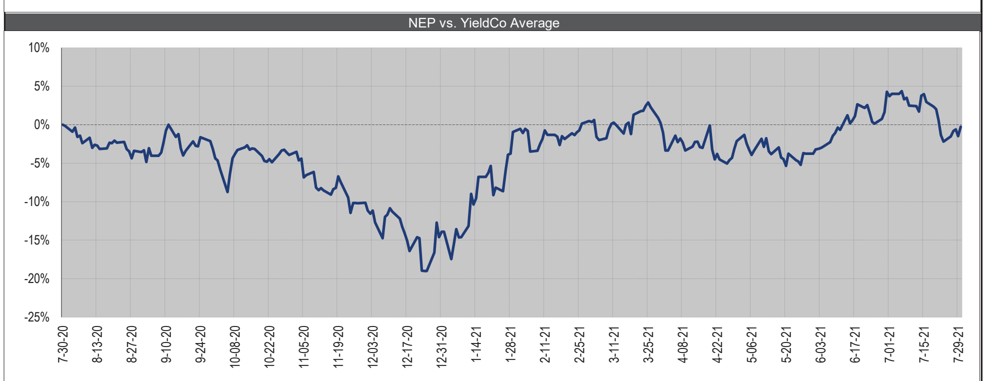


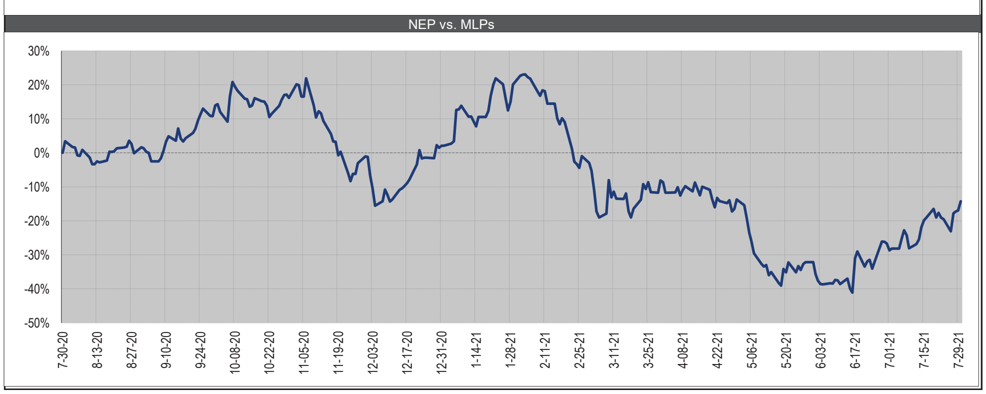
WOLFE RESEARCH

NextEra Energy Partners (NEP) $77.53, Outperform, $95 PT

NEP is in the opposite position from NEE – it underperformed on the month, but is still leading on the year. Q2 was a bit disappointing for them, as EBITDA missed and the latest drop from NEE was done at the weakest CAFD yield yet (8.0%).



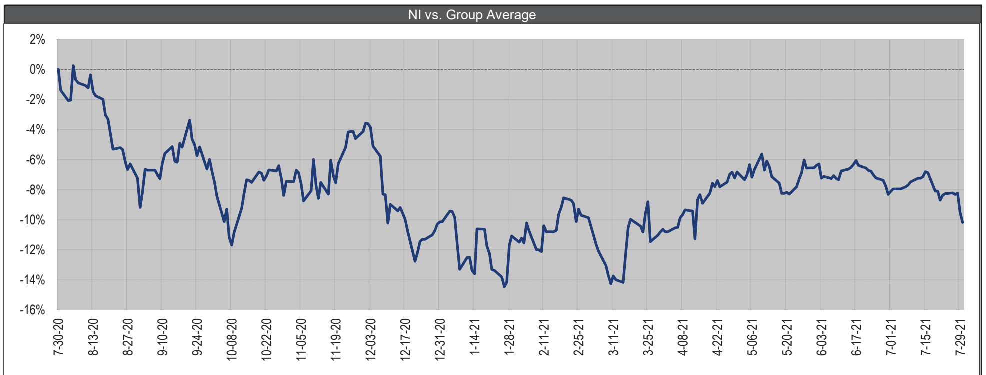


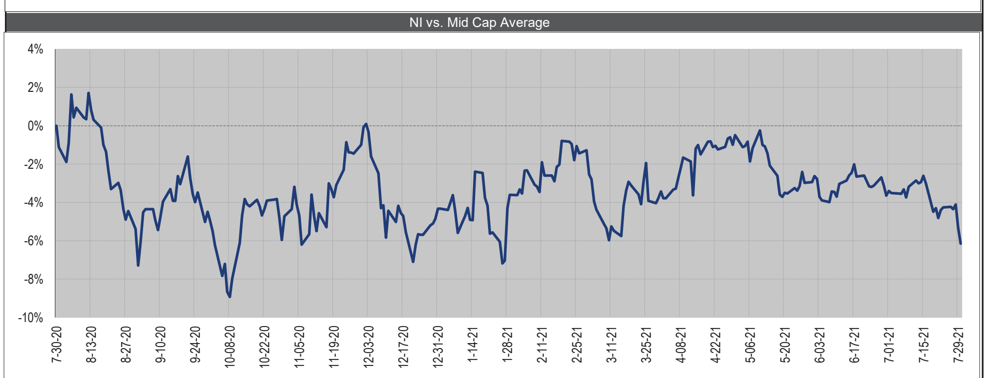


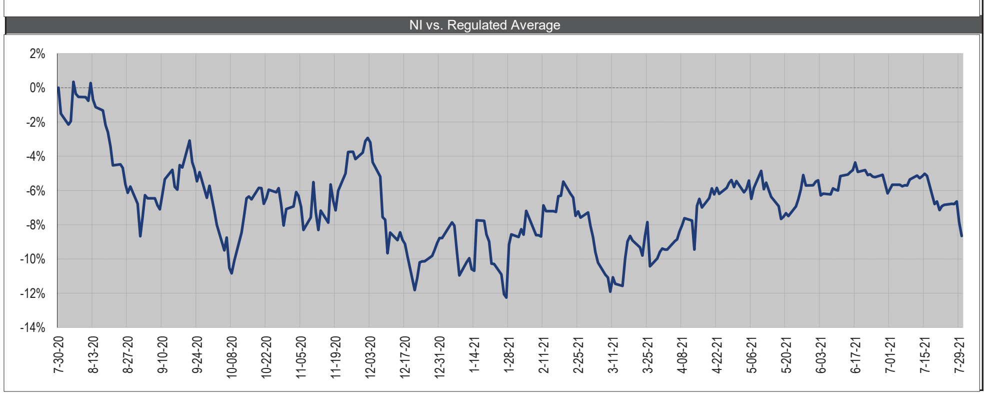
WOLFE RESEARCH

NiSource (NI) $24.77, Outperform, $29 PT

NI underperformed the utility average in July. There was little news on the company during the month. NI did file a rate case at its largest gas LDC (Ohio) on the final day of June, where it's the subsidiary's first base rate case filing in 13 years.







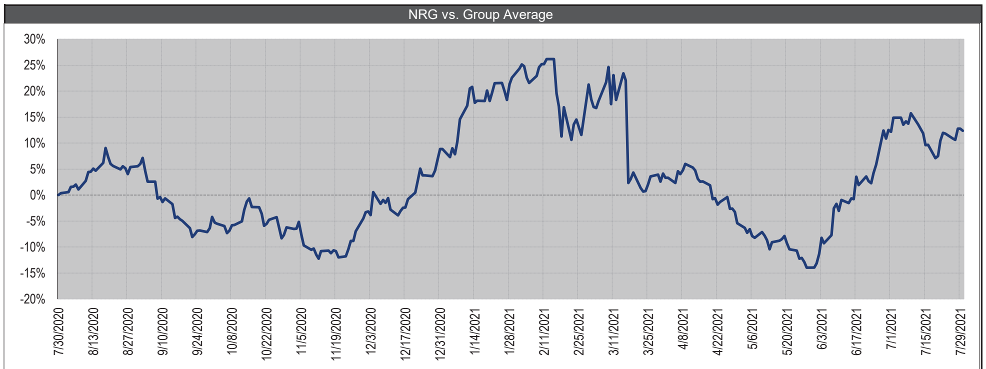
8/1/2021

WOLFE RESEARCH

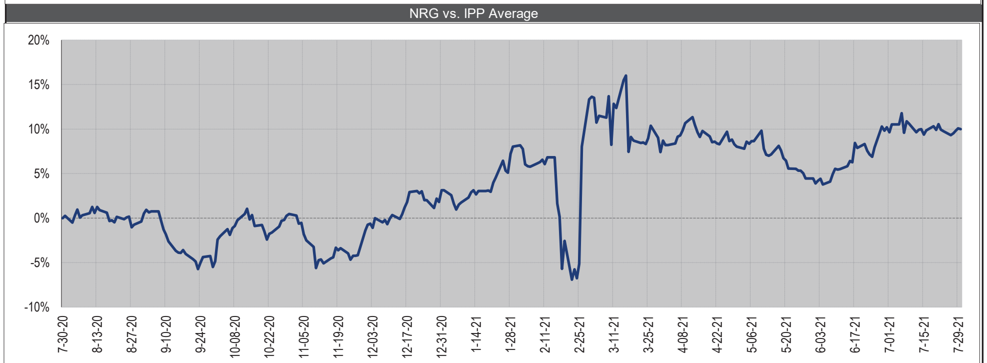
NRG Energy (NRG) $41.24, Peer Perform, $41 PT

NRG performed in line with the market in July on limited news post the analyst day. The stock has materially outperformed peer VST YTD.

NRG vs. Group Average



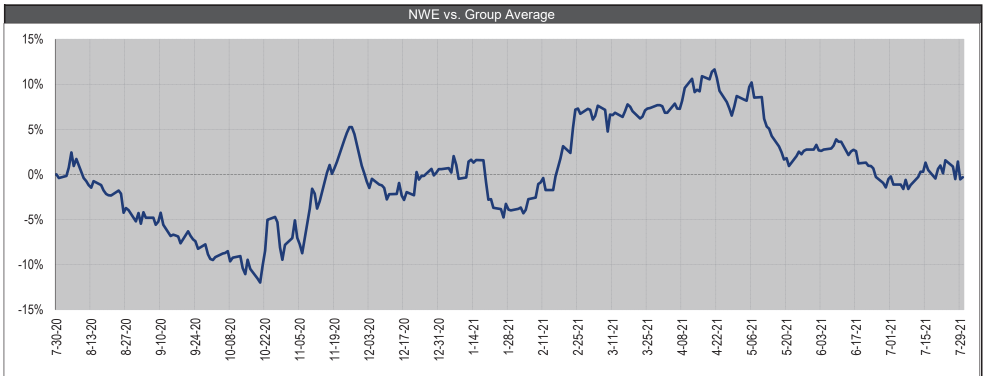
NRG vs. IPP Average

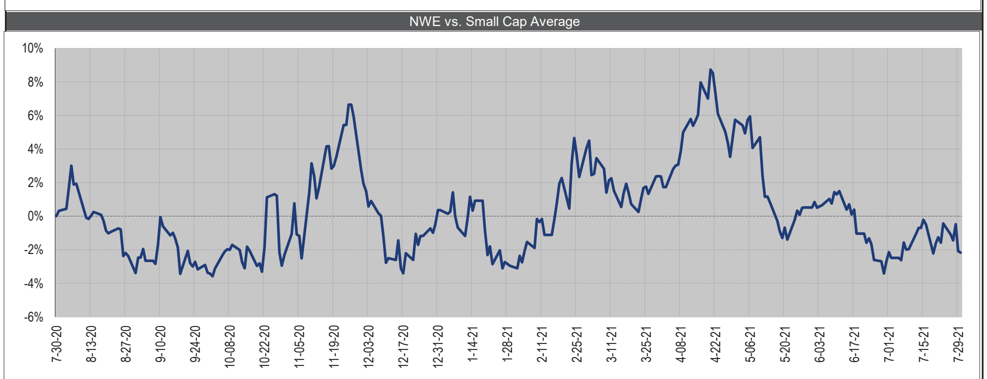


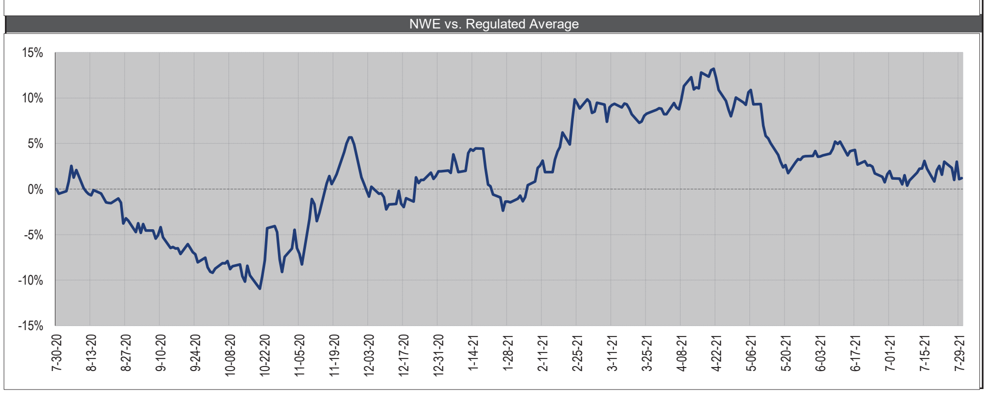
8/1/2021

WOLFE RESEARCH

NorthWestern Corp (NWE) $61.99, NR



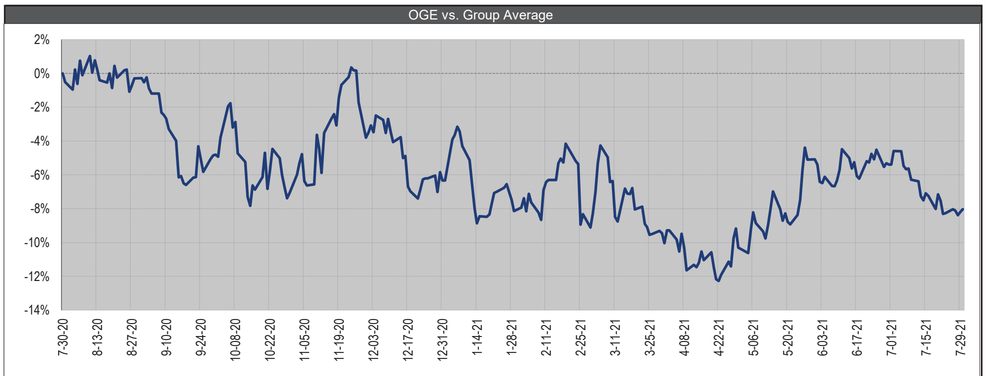


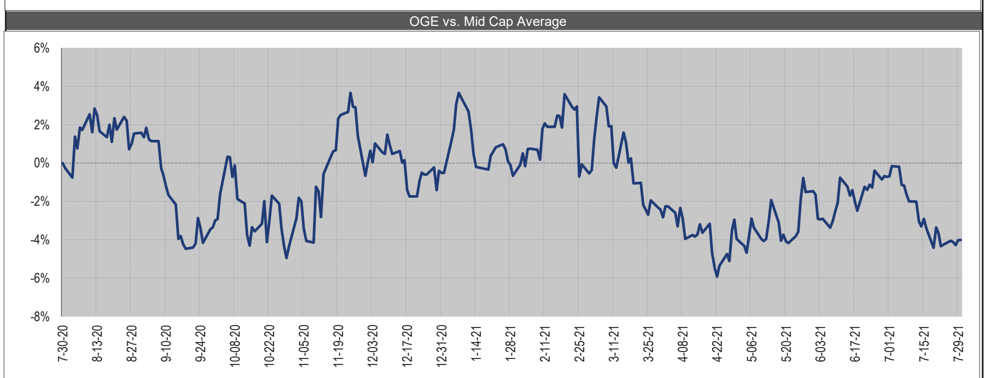


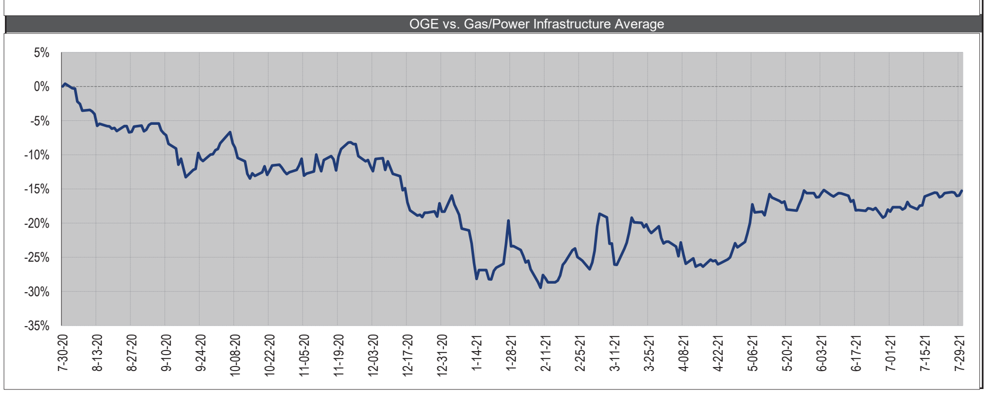
WOLFE RESEARCH

OGE Energy (OGE) $33.75, Peer Perform, $39 PT

OGE underperformed the utilities index in July. It was a quiet month for OGE. Perhaps the underperformance was explained by the weakness in ET/ENBL stocks – down -8.7%/-8.2% (the XLE was down similarly). There could also have been some concerns over the ENBL/ET merger given D's cancelation of its Q-Pipe Deal; we still believe the ENBL/ET merger will close, likely in late Q3 or early Q4.





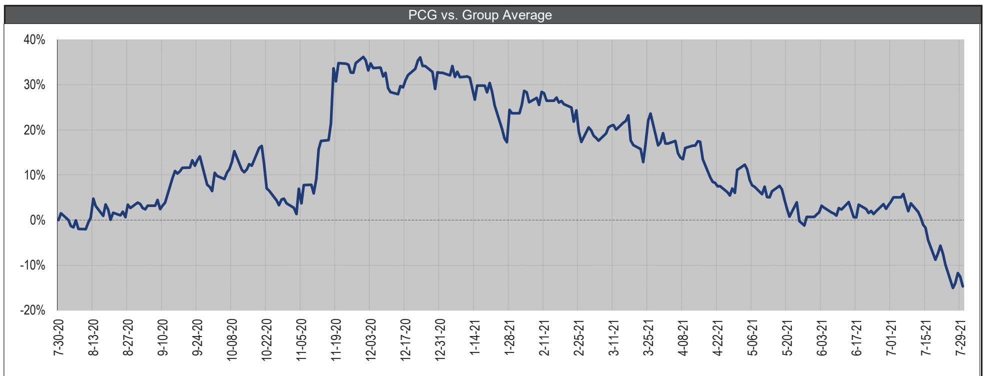


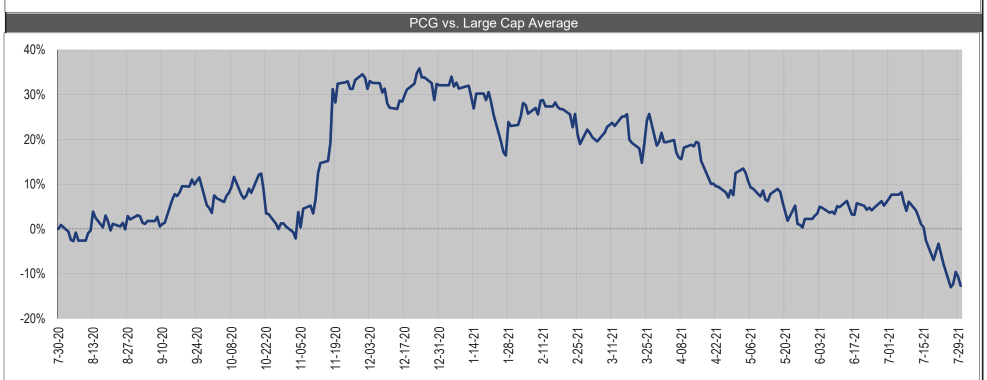
8/1/2021

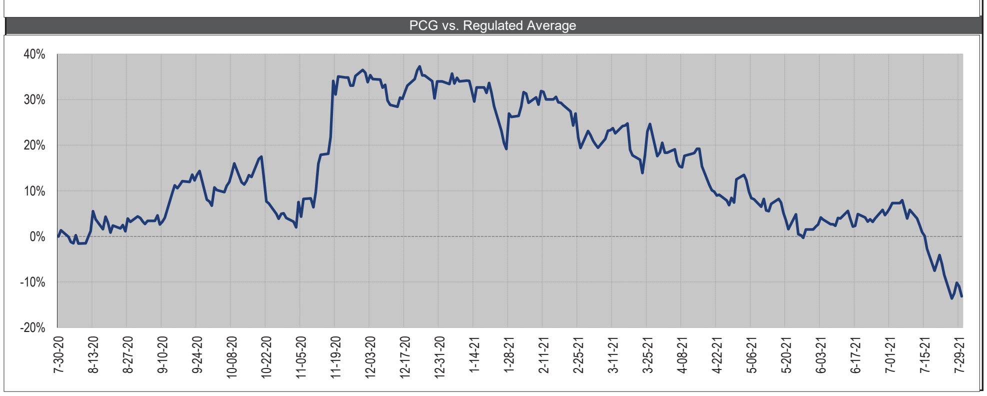
WOLFE RESEARCH

PG&E Corporation (PCG) $8.79, Outperform, $14 PT

PCG lost over 1,500bp relative to peers in Jul, after its reported involvement in the Dixie Fire and a possible ROE cut in 2022 appeared increasingly likely.







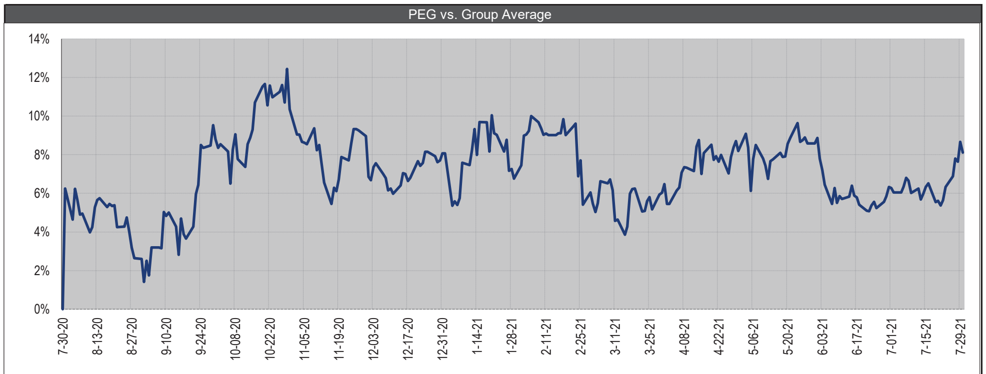
8/1/2021

WOLFE RESEARCH

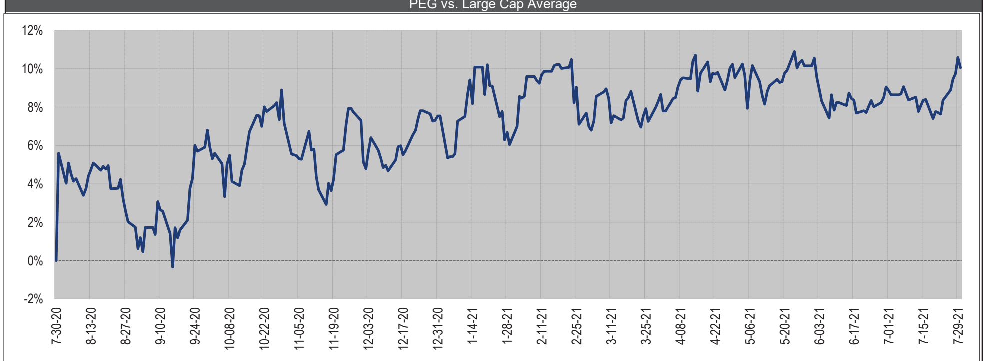
Public Service Enterprise Group (PEG) $62.23, Outperform, $65 PT

PEG started rallying sharply into the end of the month and towards the top-end of its recent trading range. Anticipation continues to build for its fossil sale announcement, long-term earnings outlook, plus potential nuclear support in the Biden infrastructure bill.

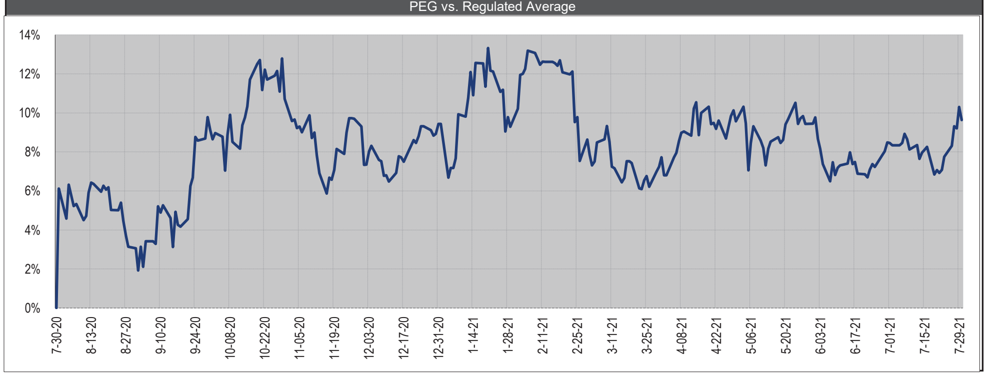
PEG vs. Group Average



PEG vs. Large Cap Average



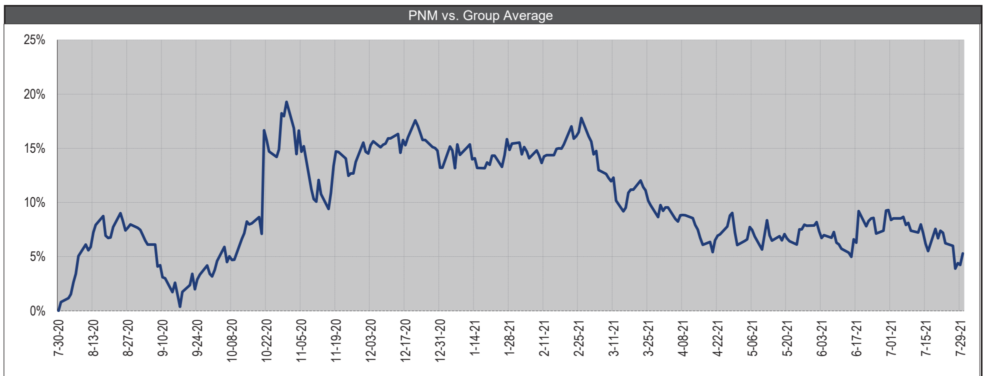
PEG vs. Regulated Average

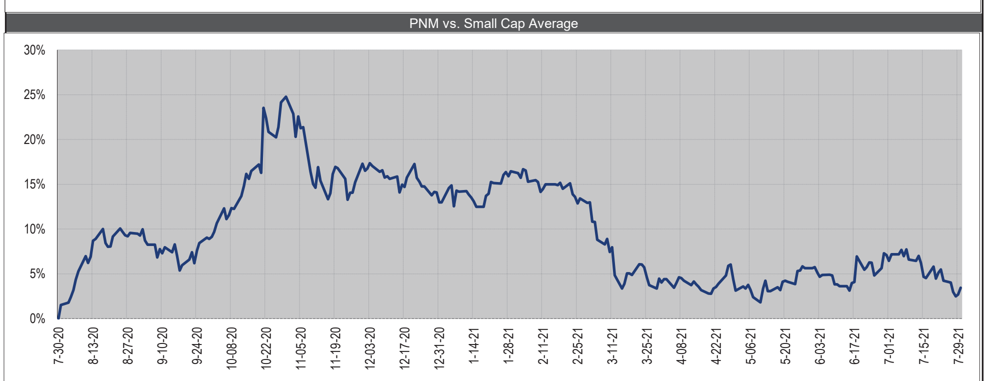


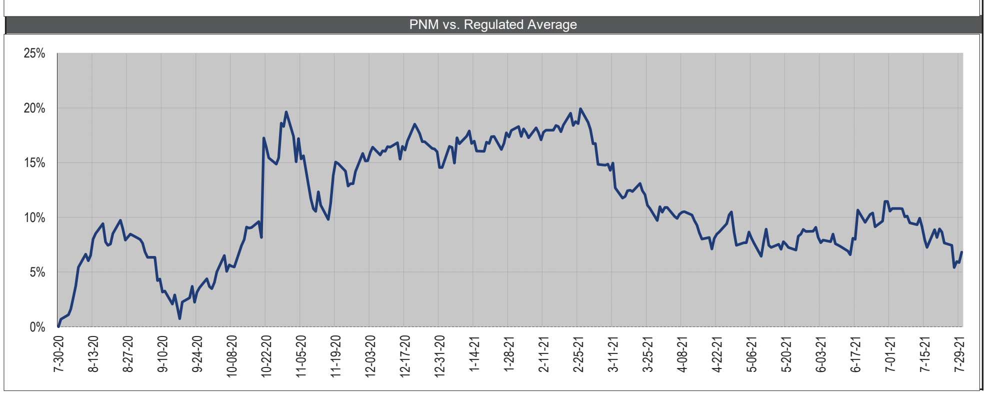
8/1/2021

WOLFE RESEARCH

PNM Resources (PNM) $48.33, NR





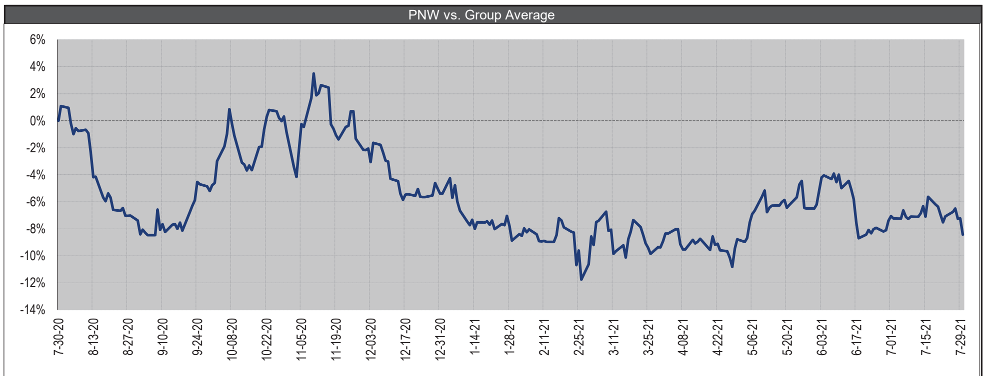


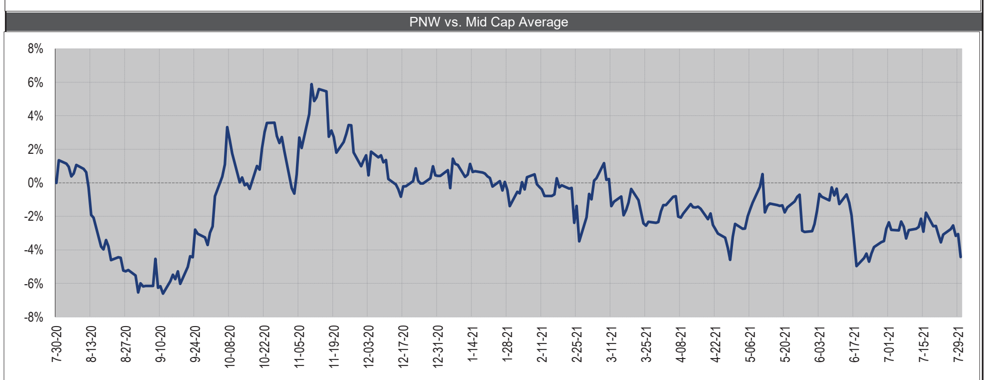
8/1/2021

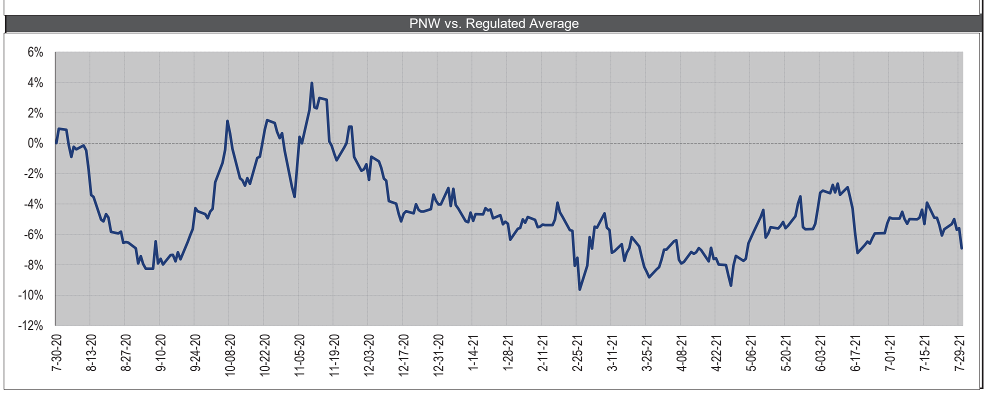
WOLFE RESEARCH

Pinnacle West Capital (PNW) $83.55, Underperform, $80 PT

PNW underperformed the utility index in July as APS' rate case continues to linger. We are still waiting on an ALJ recommendation which could come any day (have been saying that since early June). We continue to have a cautious view on the eventual outcome of the case.





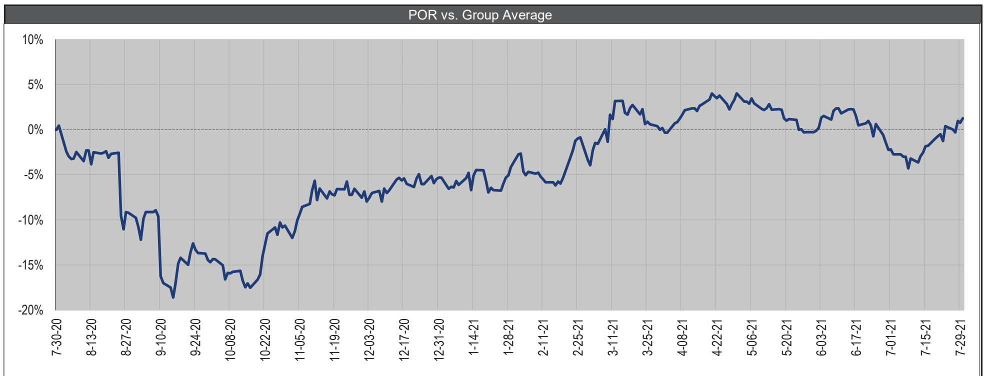


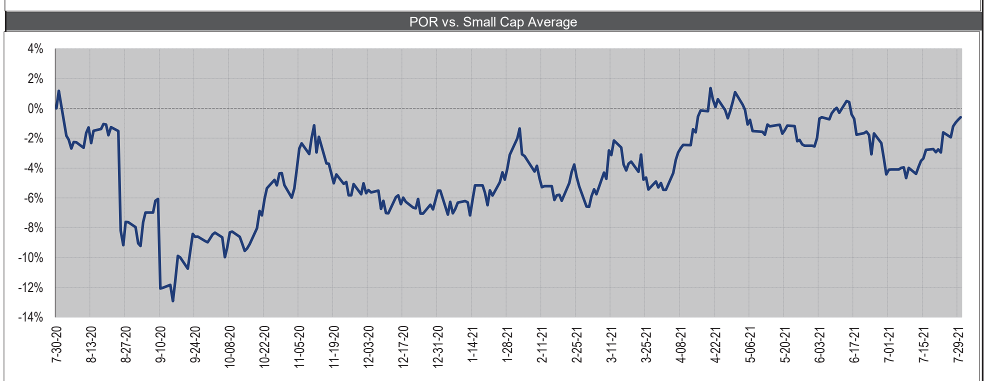
8/1/2021

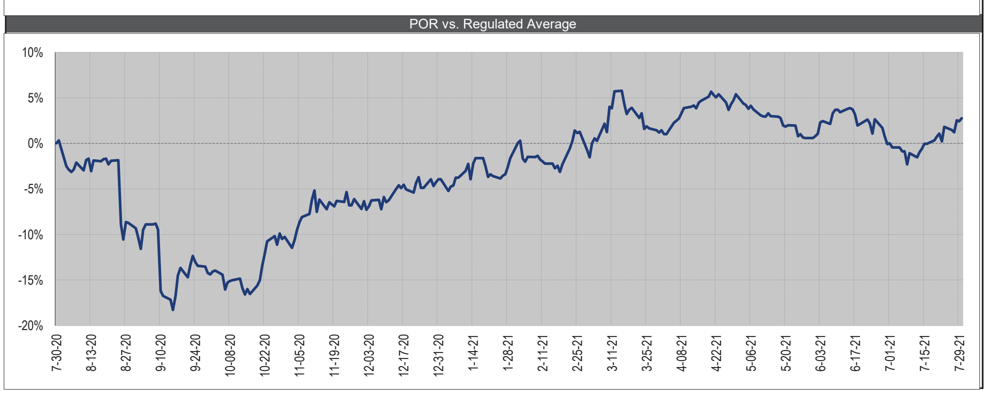
WOLFE RESEARCH

Portland General (POR) $48.90, Peer Perform, $52 PT

POR outperformed the utility average as well as its small-cap peers in July. It was a busy month for POR – formally filing its rate case early in the month, then disclosing that it reached a $6.75M settlement (covered by insurance) to fully resolve its putative securities class action related to last year's energy trading losses. The month was capped off by a positive earnings report where POR raised its FY21 guidance range on stronger than expected sales growth.





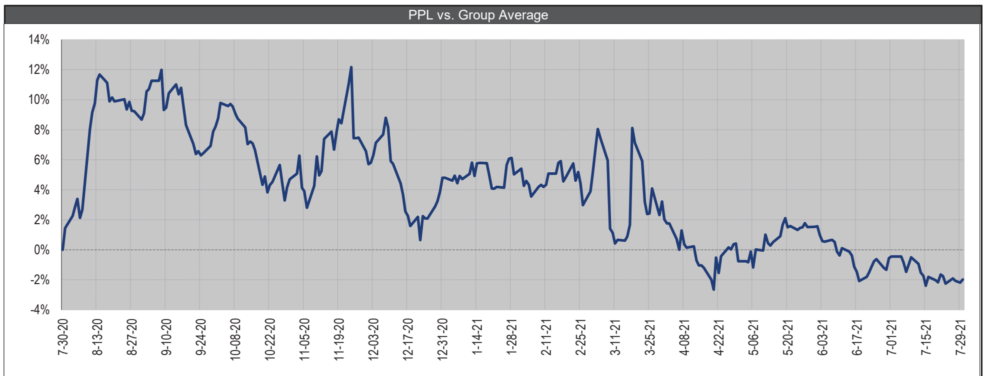


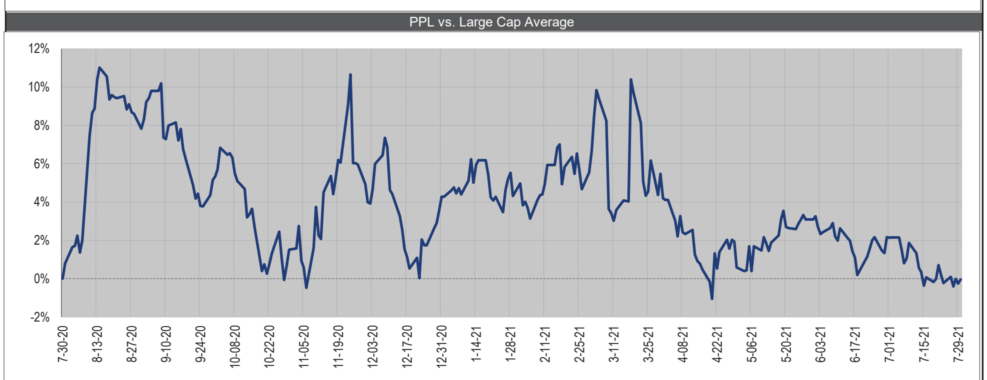
8/1/2021

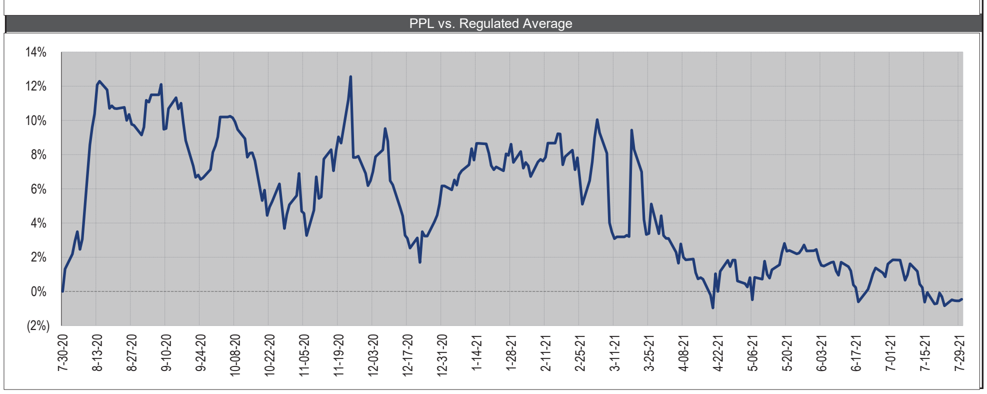
WOLFE RESEARCH

PPL Corporation (PPL) $28.37, Peer Perform, $31 PT

PPL underperformed peers in Jul but remains in a trading range, as investors await a decision on what to do with over $3B of residual proceeds from its UK sale.





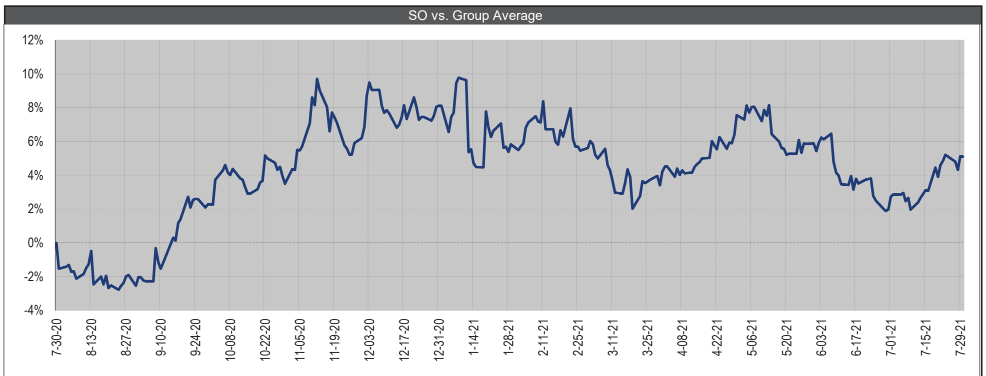


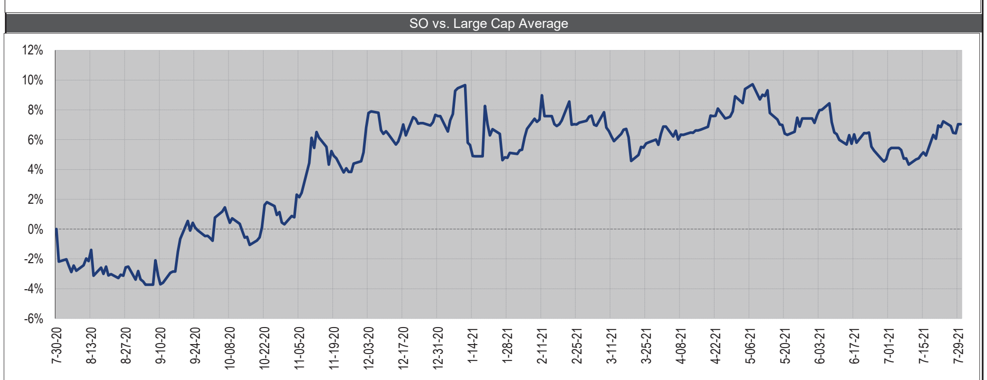
8/1/2021

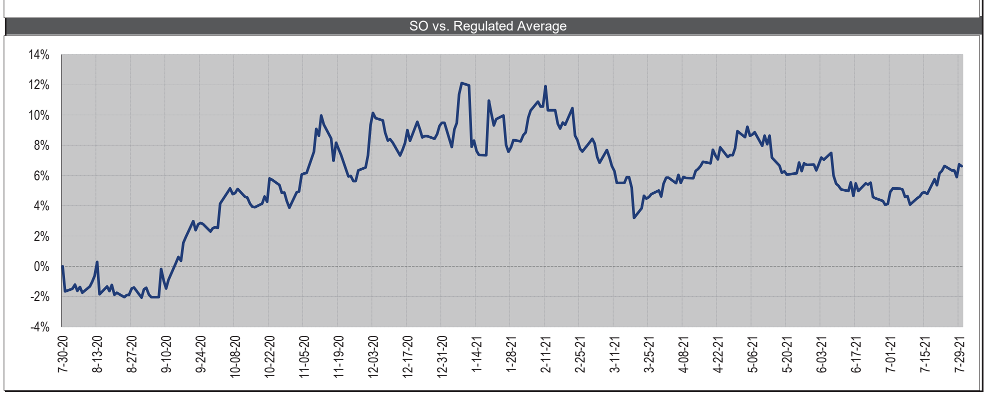
WOLFE RESEARCH

Southern Company (SO) $63.87, Peer Perform, $64 PT

In Jul, SO recovered most of the weakness that followed GaPSC Staff's May/Jun prediction that Vogtle would be delayed; at end of month, SO announced a delay/overrun and the stock outperformed.







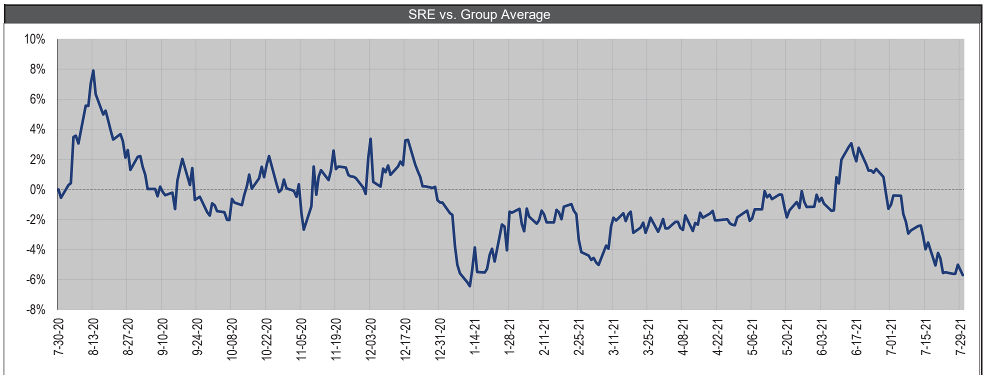
8/1/2021

WOLFE RESEARCH

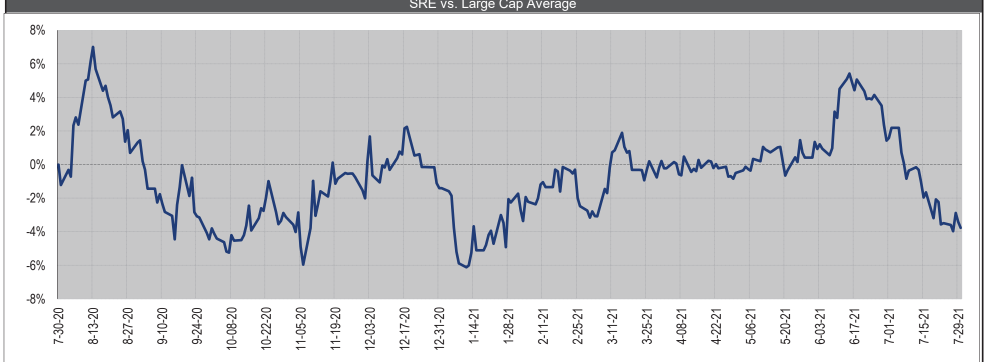
Sempra Energy (SRE) $130.65, Outperform, $153 PT

Shares of SRE were down 1.4% in July, the fourth worst performance in the sector last month and second worst in the gas/power infrastructure group. We attribute it to a few factors - California attributes as PCG and EIX were down as well and carry through from an analyst meeting at the end of June that had mixed feedback from investors that are concerned with the company's utility plus infrastructure strategy.

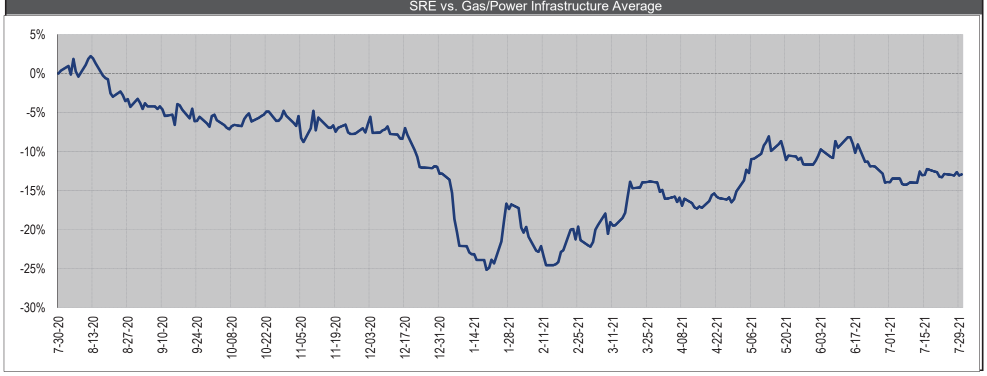
SRE vs. Group Average



SRE vs. Large Cap Average



SRE vs. Gas/Power Infrastructure Average

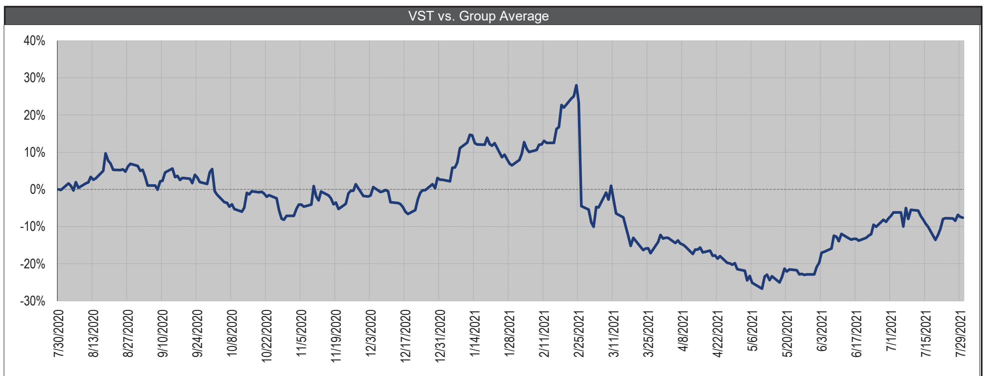


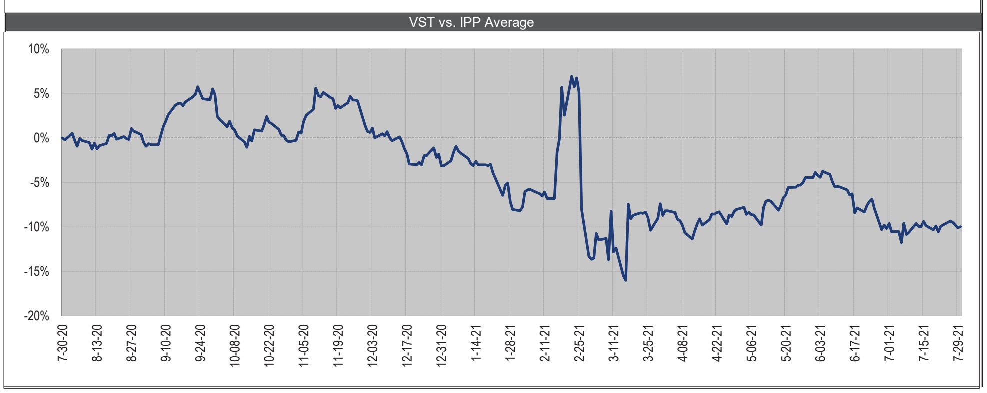
8/1/2021

WOLFE RESEARCH

Vistra Corporation (VST) $19.15, Peer Perform, $25 PT

VST traded in-line with the broader sector and slightly ahead of the S&P 500 in July, despite gas and power continuing to rip higher. The stock remains one of the worst performers on the year.



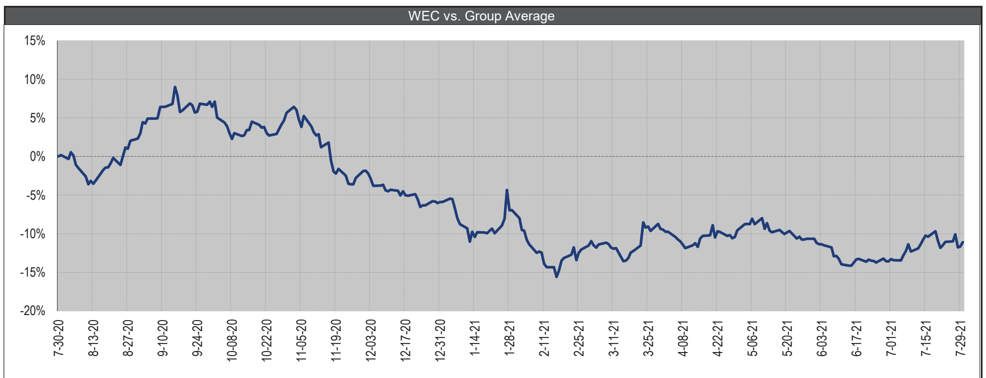


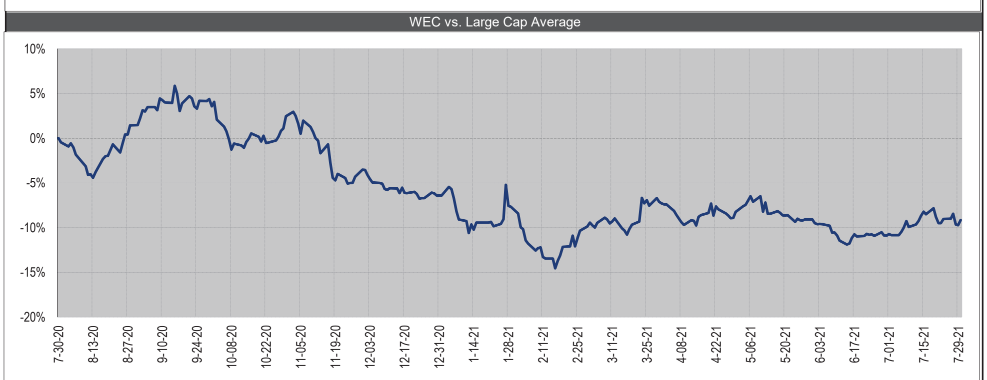
8/1/2021

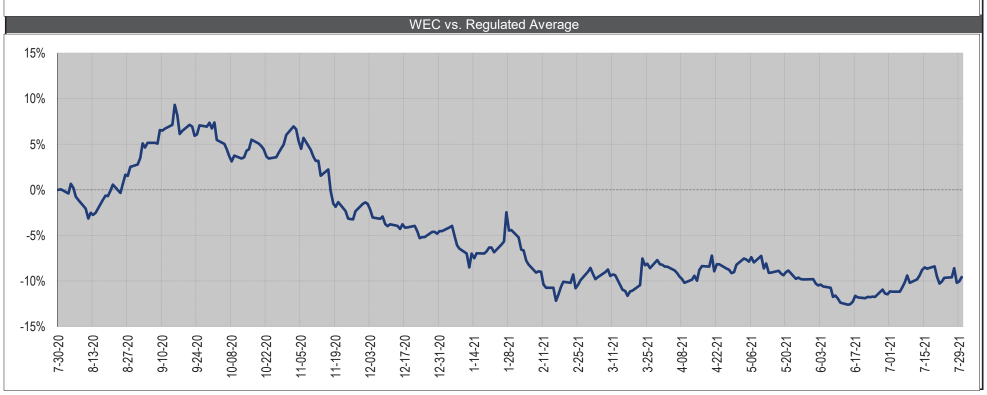
WOLFE RESEARCH

WEC Energy Group (WEC) $94.14, Underperform, $95 PT

WEC outperformed some in July, but is still an underperformer on the year. It was a quiet month for the company, other than another energy infrastructure investment announcement.



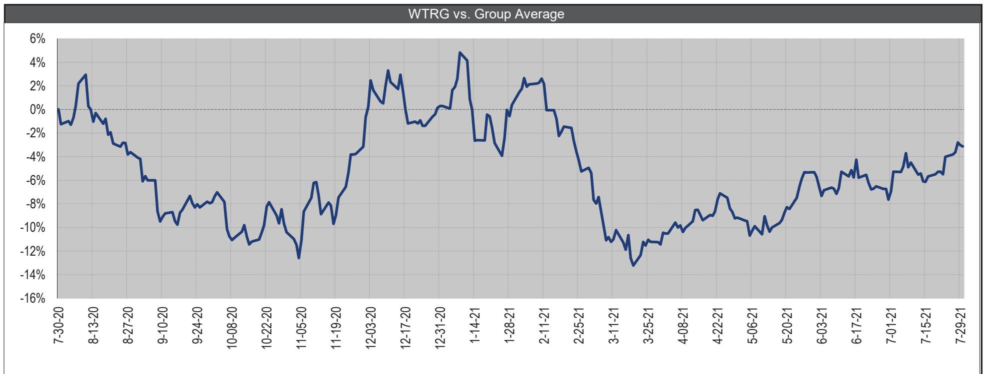


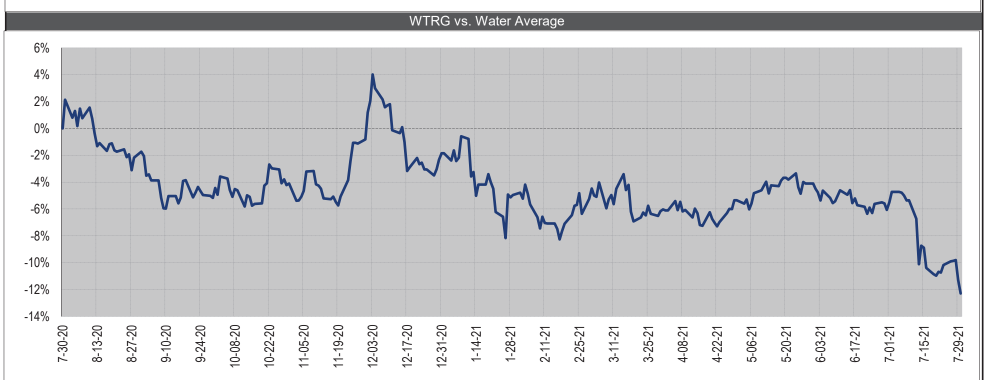


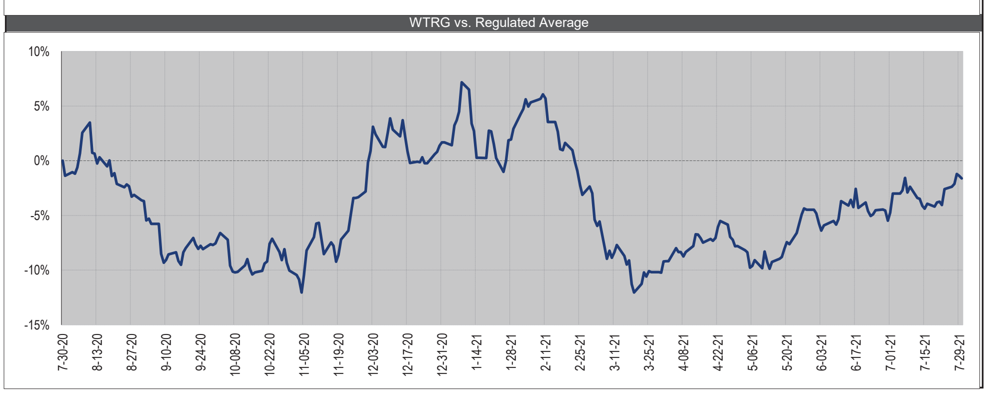
8/1/2021

WOLFE RESEARCH

Essential Utilities (WTRG) $49.12, NR







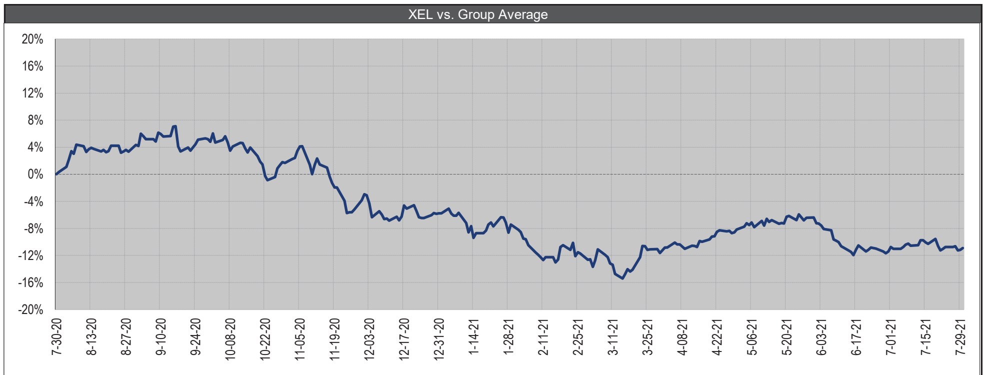
8/1/2021

WOLFE RESEARCH

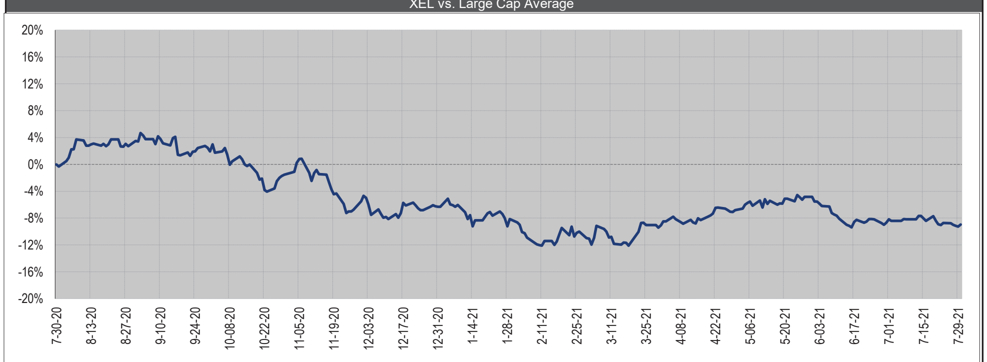
Xcel Energy (XEL) $68.25, Peer Perform, $73 PT

XEL modestly underperformed the utility average in July. Early in the month XEL filed an electric rate case at PSCo. Then toward the end of the month, XEL reported Q2 earnings where it posted a small Q2 beat and reaffirmed FY21 guidance. We got the sense that XEL is ahead of plan through the 1H and that the company is tracking to deliver EPS in the upper half or toward the top end of its guidance range.

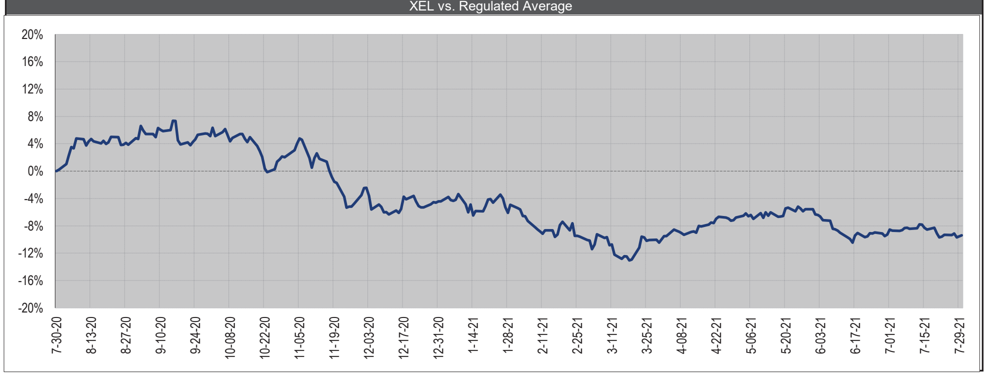
XEL vs. Group Average



XEL vs. Large Cap Average



XEL vs. Regulated Average



Comparable Tables

Exhibit 3: Regulated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2021E	P/E 2022E	P/E 2023E	P/E 2024E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Alliant Energy	LNT	$58.53	250	$14,640	22.7x	21.4x	20.4x	19.3x	2.8%	5.9%	62%	2.5x	46%
Ameren	AEE	83.92	256	21,446	22.3x	20.6x	19.3x	18.2x	2.6%	7.0%	58%	2.3x	42%
American Electric	AEP	88.12	500	44,082	19.0x	17.6x	16.6x	15.7x	3.4%	5.7%	64%	2.1x	37%
Avangrid	AGR	52.14	387	20,188	23.2x	21.8x	20.4x	N/A	3.4%	0.0%	78%	1.0x	58%
CenterPoint Energy	CNP	25.46	580	14,779	20.4x	19.0x	17.8x	16.4x	2.5%	7.0%	50%	2.2x	36%
CMS Energy	CMS	61.79	290	17,898	21.5x	21.5x	19.6x	17.8x	2.8%	6.7%	61%	3.1x	27%
Con Edison	ED	73.77	353	26,046	17.3x	15.8x	15.4x	14.7x	4.2%	1.3%	73%	1.3x	43%
Dominion	D	74.87	807	60,384	19.3x	18.1x	17.1x	15.9x	3.4%	6.0%	65%	2.5x	41%
DTE Energy	DTE	117.32	194	22,731	16.0x	20.2x	18.8x	17.7x	3.8%	7.2%	60%	1.8x	35%
Duke Energy	DUK	105.11	769	80,853	20.5x	19.5x	18.3x	17.2x	3.7%	2.0%	77%	1.7x	42%
Edison International	EIX	54.50	379	20,679	12.0x	11.6x	10.7x	N/A	4.9%	4.0%	58%	1.5x	38%
Emera*	EMA	58.19	254	14,763	21.0x	18.2x	17.4x	16.5x	4.4%	4.0%	93%	1.8x	38%
Entergy	ETR	102.92	201	20,652	17.2x	16.3x	15.3x	14.5x	3.9%	6.0%	67%	1.9x	30%
Evergy	EVRG	65.22	229	14,953	19.7x	18.6x	17.2x	16.3x	3.3%	6.0%	66%	1.7x	44%
Eversource Energy	ES	86.27	343	29,631	22.7x	21.1x	19.8x	18.7x	2.8%	6.2%	63%	2.1x	44%
Exelon	EXC	46.80	977	45,732	16.7x	20.7x	19.7x	18.6x	3.3%	0.0%	54%	1.4x	43%
FirstEnergy	FE	38.32	544	20,854	15.2x	14.5x	13.8x	N/A	4.1%	0.0%	62%	2.8x	23%
Fortis*	FTS	56.58	469	26,559	20.7x	19.4x	18.3x	17.5x	3.6%	6.0%	75%	1.5x	43%
NiSource	NI	24.77	392	9,715	18.6x	17.6x	16.4x	14.6x	3.6%	6.0%	67%	1.9x	40%
PG&E	PCG	8.79	1,985	17,449	8.7x	7.8x	7.1x	6.5x	0.0%	N/A	0%	0.8x	33%
Pinnacle West	PNW	83.55	113	9,420	16.9x	16.7x	16.0x	15.3x	3.9%	2.0%	66%	1.7x	44%
Portland General	POR	48.90	90	4,382	17.6x	17.6x	17.0x	16.6x	3.5%	7.1%	61%	1.6x	45%
PPL Corp.	PPL	28.37	769	21,829	14.4x	16.0x	15.6x	N/A	5.9%	0.0%	84%	1.9x	42%
PSEG	PEG	62.23	505	31,456	18.2x	18.3x	17.4x	N/A	3.3%	4.1%	60%	1.9x	48%
Southern Company	SO	63.87	1,059	67,615	19.4x	18.3x	17.0x	15.6x	4.1%	3.9%	80%	2.4x	35%
WEC Energy Group	WEC	94.14	315	29,695	23.4x	21.9x	20.6x	19.4x	2.9%	7.1%	67%	2.8x	42%
Xcel Energy	XEL	68.25	538	36,733	22.9x	21.5x	20.3x	19.1x	2.7%	6.4%	62%	2.5x	38%
Average					**18.8x**	**18.2x**	**17.2x**	**16.5x**	**3.4%**	**4.5%**	**64%**	**2.0x**	**40%**
Average (ex EIX & PCG)					**19.5x**	**18.9x**	**17.8x**	**16.9x**	**3.5%**	**4.5%**	**67%**	**2.0x**	**40%**

Source: Wolfe Utilities & Power Research

Exhibit 4: Gas Power Infrastructure Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2021E	P/E 2022E	P/E 2023E	P/E 2024E	Div Yield	Div Growth	Payout Ratio
The AES Corporation	AES	$23.70	666	$15,790	15.4x	14.2x	13.2x	12.6x	2.5%	5.0%	39%
NextEra Energy	NEE	77.90	1,962	152,821	30.7x	28.8x	26.7x	N/A	2.0%	9.7%	61%
OGE Energy	OGE	33.75	200	6,756	15.3x	15.9x	15.2x	14.6x	4.7%	5.6%	72%
Sempra	SRE	130.65	319	41,720	16.3x	15.6x	14.8x	N/A	3.5%	8.0%	56%
Average					**19.4x**	**18.6x**	**17.5x**	**13.6x**	**3.2%**	**7.1%**	**57%**
Average Regulated (ex EIX and PCG)					*19.5x*	*18.9x*	*17.8x*	*16.9x*	*3.5%*	*4.5%*	*67%*

Source: Wolfe Utilities & Power Research

Exhibit 5: YieldCo Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBITDA 2023E	EV/EBITDA 2024E	Div Yield
Clearway Energy	CWEN	28.68	193	5,529	11.6x	10.7x	11.1x	11.8x	4.6%
NextEra Energy Partners	NEP	77.53	156	12,095	10.2x	8.6x	8.5x	8.9x	3.4%
Atlantica Yield*	AY	39.76	111	4,405	10.9x	10.1x	9.7x	9.7x	4.3%
Average					**10.9x**	**8.6x**	**8.5x**	**8.9x**	**3.9%**

Source: Wolfe Utilities & Power Research
*Not covered by Wolfe Research, estimates based on consensus

Exhibit 6: IPP Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBITDA 2023E	EV/EBITDA 2024E	Free Cash Flow Yield 2021E	Free Cash Flow Yield 2022E	Free Cash Flow Yield 2023E	Free Cash Flow Yield 2024E
NRG Energy	NRG	41.24	245	10,094	9.0x	6.8x	6.1x	N/A	9.1%	16.7%	19.7%	N/A
Vistra Corp	VST	19.15	482	9,231	11.4x	5.1x	5.6x	N/A	4.2%	25.4%	22.4%	N/A
Average					**10.2x**	**5.9x**	**5.9x**	**N/A**	**6.7%**	**21.0%**	**21.1%**	**N/A**

Source: Wolfe Utilities & Power Research

Group Classifications

Group:

AEE	AEP	AES	ALE	AVA	CMS	CNP	CWEN	D	DTE	DUK	ED	EIX	EMA
ES	ETR	EVRG	EXC	FE	FTS	HE	IDA	LNT	NEE	NI	NRG	NWE	OGE
PCG	PEG	PNM	PNW	POR	PPL	SO	SRE	WEC	XEL				

Large Cap:

AEP	D	DTE	DUK	ED	EIX	ES	ETR	EXC	FE	NEE	PCG	PEG	PPL	SO	SRE
WEC	XEL														

Mid Cap:

AEE	CMS	CNP	EMA	EVRG	LNT	NI	PNW	OGE

Small Cap:

ALE	AVA	EE	HE	IDA	NWE	PNM	POR

Regulated:

AEE	AEP	ALE	AVA	CMS	D	DUK	ED	EIX	EMA	ES	ETR	EVRG	EXC	FE
FTS	HE	IDA	LNT	NI	NWE	PCG	PEG	PNM	PNW	POR	PPL	SO	WEC	XEL

Gas/Power Infrastructure:

AES	DTE	NEE	OGE	SRE

IPPs:

NRG	VST

YieldCos:

AY	NEP	CWEN

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Peer Perform (PP):	The security is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.
Underperform (UP):	The security is projected to underperform analyst's industry coverage universe over the next 12 months.

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Goldman Sachs | Equity Research

12 April 2021 | 7:02PM EDT

NiSource Inc. (NI): Announces convertible equity offering, eliminates bulk equity needs

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NiSource (NI, Neutral) announced the issuance of equity units with forward purchase contracts totaling 7.5mn units - or ~8.63mn including the greenshoe - with the common stock to be delivered on March 1, 2024 (subject to certain early settlements). The $100 stated amount implies proceeds of $750mn, or ~$863mn including the greenshoe. The company expects to use the proceeds for its renewable generation investments, debt repayment, and for other general corporate purposes.

With this issuance, NI no longer expects a need to issue the previously guided $500-$700mn in bulk equity in 2022-2023, while also reducing its 2023 ATM equity needs to $0-$150mn (from $200-$300mn prior). Our published estimates embedded $990mn of convertible debt in 3Q2021 (converting in 4Q2024) along with $700mn of bulk equity in 1Q2023. Finally, the company expects its renewable capital investment requirement to total $2bn, versus its $1.8-$2.0bn guidance.

Our 12-month price target of $25 embeds an 18x P/E multiple to our 2022 EPS estimate of $1.40 (unchanged). Key upside risks include (1) reduced debt/equity financing needs via accretive monetization of one or more of its gas utilities, (2) increased ability to lower O&M expenses, and (3) plans to further accelerate retirement of its remaining coal fleet.

NI	12m Price Target: **$25.00**	Price: **$24.75**	Upside: **1.0%**

Neutral

Market cap: $9.5bn
Enterprise value: $20.9bn
3m ADTV: $85.6mn
United States
Americas Utilities
M&A Rank: 3

GS Forecast

	12/20	12/21E	12/22E	12/23E
Revenue ($ mn)	4,681.7	4,638.6	4,833.0	5,065.9
EBITDA ($ mn)	1,687.3	1,831.2	2,002.3	2,212.4
EBIT ($ mn)	961.4	1,073.8	1,174.3	1,290.8
EPS ($)	1.32	1.32	1.40	1.49
P/E (X)	18.6	18.7	17.7	16.6
EV/EBITDA (X)	11.9	11.6	11.3	11.2
FCF yield (%)	(6.9)	(7.3)	(10.6)	(15.4)
Dividend yield (%)	3.4	3.6	3.8	4.0
Net debt/EBITDA (X)	5.7	5.7	5.8	5.8

	12/20	3/21E	6/21E	9/21E
EPS ($)	0.34	0.69	0.18	0.12

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12 Apr 2021 close.

Disclosure Appendix

Reg AC

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

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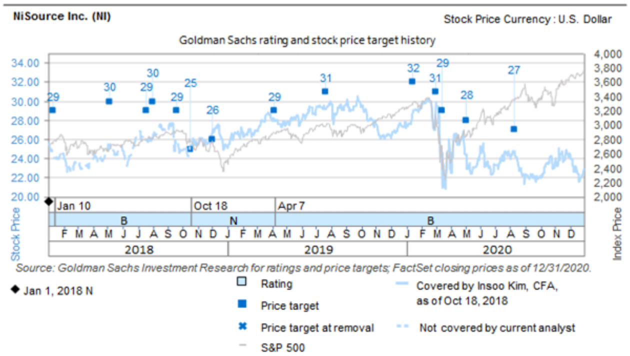

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NiSource Inc. (NI): First Take: 3Q2021 beats consensus; guidance and growth rate a positive

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NiSource (NI, Buy) reported 3Q21 operating EPS of $0.11, versus GS/FactSet consensus of $0.13/$0.10 and 3Q2020 EPS of $0.09. The company guided to the top end of its 2021 guidance range of $1.32-$1.36 (midpoint $1.34) versus GS/consensus of $1.33/$1.34. NI initiated 2022 guidance of $1.42-$1.48 ($1.45 mid-point) largely in-line with GSe ($1.44) but higher than consensus ($1.42).

Key takeaway: We view the results and guidance as a positive, noting the reaffirmed 7-9% EPS CAGR through 2024 now utilizes the revised top-end of the 2021 guidance as the base, while the 2023 growth of 5-7% is based off of the mid-point of 2022 guidance. This re-based growth implies 2024 EPS off $1.68-$1.71 versus GSe of $1.66. We also see favorably the identified ~$750mn of incremental capital opportunities from the upcoming IRP filing.

Key takeaways from NI's release and slides include:

- **NIPSCO expects to file its formal Integrated Resource Plan (IRP) by mid-November with investments in new generation capacity presenting potential capital upside of $750mn.** In our recent NI upgrade note, based on the four preferred scenarios for replacement capacity additions assuming 2026 retirement of the Michigan City coal plant, and assuming 50% split between company owned and PPA, we calculated potential for up to $600mn in incremental capital, or ~4% of 2021E rate base. We believe these potential investments could support visibility for robust growth beyond the 2024 time frame.
- **Capital plan remains unchanged at $10bn total through 2024**, with roughly $1.9-$2.2bn of annual base investments as well as $2bn on renewable generation (largely in 2022 and 2023) that all have received approval from the Indiana utility commission. NI reiterated their forecast of no bulk equity needs through 2024 (given the equity units offering earlier this year), while reiterating $200-$300mn of annual ATM equity financing through 2022 and up to $150mn in 2023. They also guided to issuing up to $800mn of additional debt through 2023 while targeting FFO/debt ratio of 14-15%.
- **3Q2021 missed versus GSe on operating income at Electric and Gas Distribution** segments driven largely by higher O&M expenses.

- **Around 77% of NI's gas needs for 2021/2022 winter season is hedged**, largely through storage, for half of residential/commercial gas customers that utilize NiSource procured supply. The other half - choice participants (using 3rd party gas procurement), could see a range of prices based on gas purchase options.

Key topics to monitor on NI's earnings call (11am ET) include: 1) update on the Ohio gas rate case and what's embedded in the company's EPS growth guidance, 2) latest thoughts on potential monetization opportunities at its various regulated utilities, 3) thoughts on the upcoming IRP filing (expected on mid-November) and recently concluded RFP solicitation at NIPSCO including potential for faster fleet transition to renewables - with current plan proposing retiring all coal by 2026-2028, and 4) assumptions behind EPS growth trajectory through 2024.

Our 12-month price target of $29 embeds an 18x P/E on the gas segment 2023 EPS estimate, in line with our baseline multiple, while applying a 19x P/E on the electric segment 2023E EPS, a 1x premium to our baseline multiple to reflect the segment's above-average (versus peers) growth through 2024E.

Key downside risks include regulatory approvals for the planned renewable investments in Indiana, cost management, and rate case overhang in Ohio and Maryland.

NI	12m Price Target: **$29.00**	Price: **$24.74**	Upside: **17.2%**

Buy

Market cap: $9.7bn
Enterprise value: $21.1bn
3m ADTV: $81.0mn
United States
Americas Utilities
M&A Rank: 3

GS Forecast

	12/20	12/21E	12/22E	12/23E
Revenue ($ mn)	4,681.7	4,627.5	4,897.8	5,146.2
EBITDA ($ mn)	1,687.3	1,777.2	2,064.4	2,231.0
EBIT ($ mn)	961.4	1,019.1	1,236.3	1,306.1
EPS ($)	1.32	1.33	1.44	1.57
P/E (X)	18.6	18.6	17.2	15.8
EV/EBITDA (X)	11.9	11.4	11.3	11.3
FCF yield (%)	(6.9)	(6.9)	(8.6)	(16.4)
Dividend yield (%)	3.4	3.6	3.8	4.0
Net debt/EBITDA (X)	5.7	5.4	5.2	5.5

	6/21	9/21E	12/21E	3/22E
EPS ($)	0.12	0.13	0.30	0.76

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2 Nov 2021 close.

Disclosure Appendix

Reg AC

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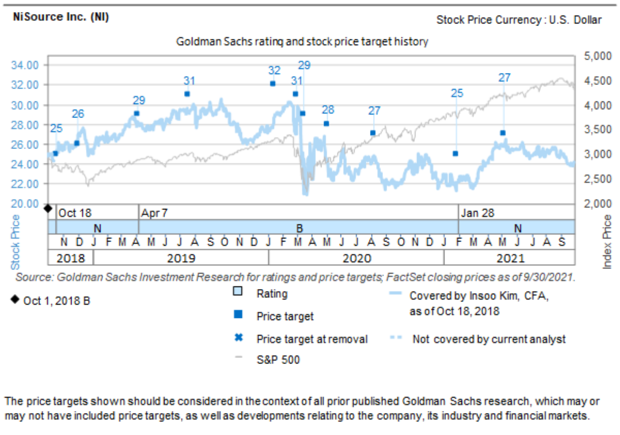

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Beat with healthy FY21 and FY22 guidance

NI reported 2Q21 EPS of $0.11, beating BofAe of $0.10, Street of $0.09, and 3Q20 EPS of $0.09. Returns on increased safety/modernization investments and lower COVID-19 impacts were offset by the sale of Columbia Gas of Massachusetts. Mgmt. pointed to the top end of FY21 EPS guidance of $1.32-$1.36, albeit no guidance raise, but now in line with our FY21 EPS estimate of $1.36. Mgmt. initiated FY22 EPS guidance of $1.42-$1.48 which implies 6.5% growth off of the top-end of FY21 of $1.36 and is in the upper half of the near-term (through '23) EPS growth rate of 5-7%. Also better than our est and Street too ($1.40/1.42, respectively). NI reiterated its capital and financing plan.

Framing the future renewables capex above our ests.

NIPSCO recently outlined its preferred future generation portfolio stemming from its 2021 IRP. While we did not expect a formal update to the capital plan or growth rate just yet, mgmt. highlighted that investments of up to $750M will be necessary to replace the Michigan City Coal Plant and the gas peaking units at the Schahfer Generating Station site - this compares favorably to our prelim estimates for capex of ~$430M-$800M. Remember, we calculated a wide range because NIPSCO chose a potential combination of two preferred resource paths and only assume 50% ownership of renewables.

Solid progress on renewables additions at NIPSCO related to the 2018 integrated resource plan (IRP) with all of the projects totaling $2B in capex receiving approval from the Indiana Utility Regulatory Commission (IURC). There continues to be some concern on whether renewables supply chain issues will impact NI's planned capex, and we do not believe that given strong counterparties (i.e. NextEra, Capital Dynamics, EDP, and others), NIPSCO is in a good position.

Reiterate Buy as we see the potential for an extended high-growth runway based on the 2021 IRP with the new generation capex estimates providing support for the thesis. We expect a further update on the growth path and refinement of the capex estimates as the request for proposals (RFP) takes shape in 1H22 (during an analyst day). We also see the potential for NI to point to a longer-term capex and growth profile (like AEE, DUK, and CNP) which should help give investors comfort on the long growth runway. A coal-free NI should open the door for a new group of ESG-focused investors and support the re-rating.

Estimates (Dec) (US$)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EPS	1.32	1.32	1.36	1.40	1.58
GAAP EPS	0.87	1.33	1.28	1.40	1.58
EPS Change (YoY)	1.5%	0%	3.0%	2.9%	12.9%
Consensus EPS (Bloomberg)			1.34	1.42	1.53
DPS	0.83	0.88	0.94	0.99	1.05
Valuation (Dec)					
P/E	18.7x	18.7x	18.2x	17.7x	15.7x
GAAP P/E	28.4x	18.6x	19.3x	17.7x	15.7x
Dividend Yield	3.4%	3.6%	3.8%	4.0%	4.3%
EV / EBITDA*	15.2x	13.9x	12.9x	11.9x	10.5x
Free Cash Flow Yield*	-2.3%	-6.7%	-5.4%	-10.0%	-17.5%

* For full definitions of *IQmethod* SM measures, see page 6.

03 November 2021

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Stock Data

Price	24.74 USD
Price Objective	28.00 USD
Date Established	22-Jul-2021
Investment Opinion	B-1-7
52-Week Range	21.09 USD - 26.60 USD
Mrkt Val (mn) / Shares Out (mn)	9,708 USD / 392.4
Average Daily Value (mn)	87.38 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2021E)	10.3%
Net Dbt to Eqty (Dec-2020A)	167.4%
ESGMeter™	**High**

ESGMeter is a proprietary metric based on quantitative analysis and fundamental analyst inputs that reflects our assessment of a company's ESG-related attributes. It is intended to indicate a company's likelihood of experiencing stronger financial stability (higher ROE and lower earnings and price volatility) over the next three years relative to its peer group. There are three ESGMeter levels – Low, Medium, and High. Refer to "BofA ESGMeter Methodology". **ESGMeter is not intended to be indicative of a company's future stock price performance and is independent of the BofA Global Research fundamental equity analyst's investment rating, volatility risk rating, income rating or price objective for that company.**

NIPSCO: Northern Indiana Public Service Co.

IRP: integrated resource plan

Timestamp: 03 November 2021 08:50AM EDT

iQprofile SM NiSource Inc

iQ**method* SM **– Bus Performance

(US$ Millions)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on Capital Employed	3.3%	4.1%	4.2%	4.4%	4.7%
Return on Equity	9.9%	10.2%	10.3%	9.7%	10.5%
Operating Margin	17.1%	22.0%	20.3%	21.8%	24.3%
Free Cash Flow	(219)	(654)	(520)	(970)	(1,703)

iQ**method* SM **– Quality of Earnings

(US$ Millions)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Cash Realization Ratio	3.2x	2.2x	2.6x	2.6x	2.5x
Asset Replacement Ratio	2.5x	2.4x	2.6x	3.1x	4.0x
Tax Rate	24.4%	18.3%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	158.6%	167.4%	133.6%	143.6%	164.8%
Interest Cover	2.4x	2.8x	3.0x	3.2x	3.0x

Income Statement Data (Dec)

(US$ Millions)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales	5,209	4,697	5,516	5,676	5,970
% Change	2.5%	-9.8%	17.4%	2.9%	5.2%
Gross Profit	3,674	3,587	3,904	4,039	4,309
% Change	10.5%	-2.4%	8.8%	3.5%	6.7%
EBITDA	1,608	1,757	1,904	2,065	2,327
% Change	5.0%	9.3%	8.3%	8.5%	12.7%
Net Interest & Other Income	(384)	(339)	(371)	(390)	(490)
Net Income (Adjusted)	**495**	**508**	**569**	**615**	**705**
% Change	**6.8%**	**2.6%**	**12.2%**	**8.1%**	**14.7%**

Free Cash Flow Data (Dec)

(US$ Millions)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Net Income from Cont Operations (GAAP)	328	511	537	615	705
Depreciation & Amortization	717	726	783	827	874
Change in Working Capital	(75)	(249)	0	0	0
Deferred Taxation Charge	118	(29)	126	143	182
Other Adjustments, Net	495	145	34	0	0
Capital Expenditure	(1,802)	(1,758)	(2,001)	(2,555)	(3,464)
Free Cash Flow	**-219**	**-654**	**-520**	**-970**	**-1,703**
% Change	**82.9%**	**-198.5%**	**20.5%**	**-86.5%**	**-75.5%**

Balance Sheet Data (Dec)

(US$ Millions)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Cash & Equivalents	148	117	126	126	126
Trade Receivables	905	825	825	825	825
Other Current Assets	800	718	718	718	718
Property, Plant & Equipment	16,912	16,620	17,837	19,565	22,156
Other Non-Current Assets	3,894	3,762	3,762	3,762	3,762
Total Assets	**22,660**	**22,041**	**23,267**	**24,995**	**27,586**
Short-Term Debt	1,787	526	517	583	697
Other Current Liabilities	1,959	1,753	1,753	1,753	1,753
Long-Term Debt	7,856	9,220	9,031	10,186	12,168
Other Non-Current Liabilities	5,071	4,704	4,829	4,972	5,154
Total Liabilities	**16,673**	**16,203**	**16,131**	**17,495**	**19,772**
Total Equity	**5,987**	**5,752**	**7,051**	**7,415**	**7,728**
Total Equity & Liabilities	**22,660**	**21,955**	**23,182**	**24,910**	**27,501**

* For full definitions of *iQmethod* SM measures, see page 6.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

Our Buy rating on NI is underpinned by 1) likely positive revisions given ultra conservative EPS CAGR guidance baked into consensus, 2) renewable rate base upside, and 3) the ability to re-rate higher following any gas LDC asset sale.

Stock Data

Average Daily Volume	3,554,680

Quarterly Earnings Estimates

	2020	**2021**
Q1	0.76A	0.77A
Q2	0.13A	0.13A
Q3	0.09A	0.10E
Q4	0.34A	0.39E

Progress on the regulatory front; OH key to watch

NI continues to make progress on the regulatory front, coming to agreements with stakeholders in PA and KY. Recently, the administrative law judge in the Columbia Gas of PA case recommended the rate case settlement be accepted as filed. Constructive that NI was able to return to its settlement ways in the state following the contentious 2020 rate case. On Oct. 27, Columbia Gas of KY filed a settlement with stakeholders in its rate case, and Columbia Gas of MD received an Administrative Law Judge (ALJ) recommendation in late Oct.

OH continues to be the case to watch as NI's largest gas utility. Not a lot of progress has been made as we are still awaiting a procedural schedule, but we note other circumstances at the Commission, namely FE, is the center of attention for now, and are not concerned about any delays at the point.

NIPSCO Gas also filed a rate case recently for a $115M increase net of trackers based on a 10.5% ROE and 57.68% equity layer. New rates are proposed effective Sep. '22 and Mar. '23.

What else are we watching? Gas costs and RNG

Expect mgmt. to address concerns on the rising gas costs going into the winter. A large percentage of Columbia Gas' customers are under the CHOICE program, Columbia Gas has storage across its footprint, and percentage of the supply is hedged. The gas market has caused gas utilities to underperform electric peers, and while we are cautious on the backdrop for many, we see this as short-term phenomenon, and believe that longer-term, gas utilities can re-rate closer to their electric peers.

Renewable Natural Gas? While we have not heard mgmt. talk a lot about the potential for renewable natural gas (RNG) investments and supply into the system, we could see this pick up as mgmt. seems to be more focused on the alternative fuel. We expect this dynamic to pick up with potential legislation in states to backstop and pilot partnerships upcoming.

Price objective basis & risk

NiSource Inc (NI)

Our $28 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2024 forward P/E multiples that are marked-to-market to the lates peer utility multiples of 13.6x for gas and 16.0x for electric with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex potentially beginning in '24, but acknowledge industrial risk. We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.
Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, higher natural gas prices, and inability to execute on renewables additions.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Aric Li
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Ryan Greenwald
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	EVgo Inc.	EVGO	EVGO US	Ryan Greenwald
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Adhok Bellurkar
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith

***iQ*method℠ Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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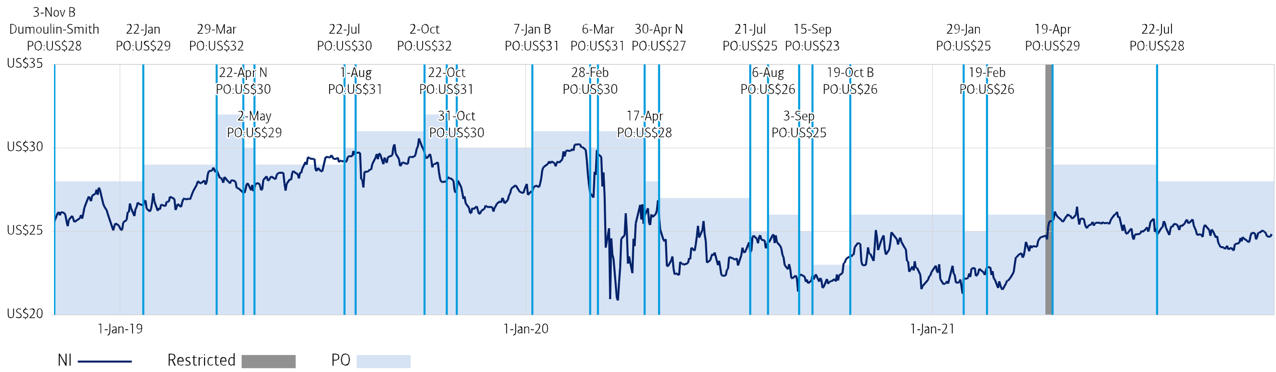
Disclosures

Important Disclosures

NiSource Inc (NI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	86	62.32%	Buy	65	75.58%
Hold	27	19.57%	Hold	15	55.56%
Sell	25	18.12%	Sell	15	60.00%

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	79	50.32%	Buy	56	70.89%
Hold	37	23.57%	Hold	30	81.08%
Sell	41	26.11%	Sell	27	65.85%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1973	59.66%	Buy	1254	63.56%
Hold	665	20.11%	Hold	404	60.75%
Sell	669	20.23%	Sell	343	51.27%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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UBS

Global Research I 3 November 2021

First Read

NiSource Inc.
Positive '21/'22 Guides

Equities

Americas
Gas Utilities

12-month rating	**Buy**
12m price target	**US$29.00**
Price (02 Nov 2021)	**US$24.74**
RIC: NI.N **BBG:** NI US	

Trading data and key metrics

52-wk range	US$26.47-21.26
Market cap.	US$10.5b
Shares o/s	423m (COM)
Free float	99%
Avg. daily volume ('000)	843
Avg. daily value (m)	US$20.8
Common s/h equity (12/21E)	US$5.05b
P/BV (12/21E)	2.1x
Net debt to EBITDA (12/21E)	6.4x

EPS (UBS, diluted) (US$)

	12/21E			
	From	To	% ch	Cons.
Q1	0.77	0.77	0	0.77
Q2	0.13	0.13	0	0.13
Q3E	0.10	0.11	4	0.10
Q4E	0.37	0.38	4	0.36
12/21E	1.34	1.36	1	1.34
12/22E	1.42	1.45	2	1.42
12/23E	1.52	1.54	1	1.53

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2021 EPS Top End of Range; 2022 Midpoint EPS Above Consensus/UBS

NI reported 3Q EPS above UBS/Consensus estimates and noted it expects 2021 to come in at the upper end of its $1.32-$.36 range vs. consensus estimate of $1.34. Further NI initiated 2022 EPS of $1.42-$1.48 vs. consensus estimate of $1.42. NI expects 7-9% NOEPS growth through 2024 on a compounded annual growth rate basis from top end of 2021 guidance, which includes 5-7% annual growth in the near term through 2023. On capital investments, NI noted it expects to spend ~$2B in 2021 and $2.4-$2.7B in 2022 with 10-12% compound annual rate base growth for each of its businesses through 2024. Overall a quarter beat, 2021 guide at the top end of its range above the street's estimates, and a 2022 mid-point above the street, we expect today's results to be viewed favourably.

3Q EPS Above UBS/Consensus; Rate Case Updates

NI reported 3Q EPS of $0.11 above UBS/Consensus estimate of $0.10. NI expects its preferred plan from its IRP to be submitted by mid-November to the Indiana Utility Regulatory Commission; it announced its preferred plan on October 21st, which refines the timeline of the Michigan City Generating Station coal fired generation to be retired to between 2026 and 2028. Columbia Gas Ohio rate case continues to progress (order expected in 2022), NIPSCO Gas filed a rate case for a $115MM increase on Sept. 29th. The ALJ recommended the Pennsylvania PUC approve a settlement on the PA rate case which would increase revenue by $58.5MM (above UBSe of ~$49MM). In Kentucky a joint stipulation settlement agreement and recommendation was filed with the Kentucky Public Service Commission in late October; if approved it would be a $18.6MM increase (vs. UBSe of $13.4MM) and in Maryland a final order is expected in December.

Updating Estimates

We are raising our 2021E EPS to $1.36 from $1.34 on the quarter beat and lower than expected costs. We are increasing 2022E EPS to $1.45 from $1.42 on settlements higher than UBSe.

Valuation:

We maintain our Buy rating and our $29 PT. Our price target is based on sum-of-the-parts P/E valuation and 2022 EPS of $1.45

Highlights (US$m)	12/18	12/19	12/20	12/21E	12/22E	12/23E	12/24E	12/25E
Revenues	5,095	5,184	4,697	4,757	5,044	5,339	5,585	5,772
EBIT (UBS)	942	1,047	1,031	1,071	1,259	1,390	1,526	1,608
Net earnings (UBS)	463	495	507	571	637	684	747	791
EPS (UBS, diluted) (US$)	1.30	1.32	1.32	1.36	1.45	1.54	1.66	1.75
DPS (net) (US$)	0.79	0.84	0.88	0.90	0.96	1.02	1.08	1.14
Net (debt) / cash	(9,892)	(10,374)	(10,501)	(11,616)	(12,835)	(15,101)	(15,840)	(16,572)
Profitability/valuation	**12/18**	**12/19**	**12/20**	**12/21E**	**12/22E**	**12/23E**	**12/24E**	**12/25E**
EBIT (UBS) margin %	18.5	20.2	22.0	22.5	25.0	26.0	27.3	27.9
ROIC (EBIT) %	7.7	7.9	7.5	7.5	8.0	7.7	7.6	7.6
EV/EBITDA (UBS core) x	10.6	10.6	9.9	10.8	10.2	9.4	8.7	8.2
P/E (UBS, diluted) x	19.4	21.2	18.6	18.2	17.1	16.1	14.9	14.1
Equity FCF (UBS) yield %	(14.5)	(1.6)	(6.0)	(6.0)	(9.7)	(18.3)	(2.9)	(2.5)
Dividend yield (net) %	3.1	3.0	3.6	3.6	3.9	4.1	4.3	4.6

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$ 24.74 on 02-Nov-2021

Forecast returns

Forecast price appreciation	+17.2%
Forecast dividend yield	3.8%
Forecast stock return	+21.0%
Market return assumption	5.4%
Forecast excess return	+15.6%

Company Description

NiSource is an investment-grade rated energy company engaged in natural gas distribution and electric generation, transmission, and distribution. NiSource's operating companies deliver natural gas and electric service to approximately four million customers located across seven states, including IN, KY, MA, MD, OH, PA, and VA. Local utilities are Columbia Gas and NIPSCO. NiSource has a plan to spend ~$30bn over the next 20+ years on infrastructure enhancements to meet safety and reliability needs and comply with environmental requirements.

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. Our price target is derived using a sum-of-the-parts P/E valuation.

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Neutral	FSR is between -6% and 6% of the MRA.	36%	30%
Sell	FSR is > 6% below the MRA.	10%	23%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
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Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

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Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[13,16]	NI.N	Buy	US$24.74	02 Nov 2021

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date.

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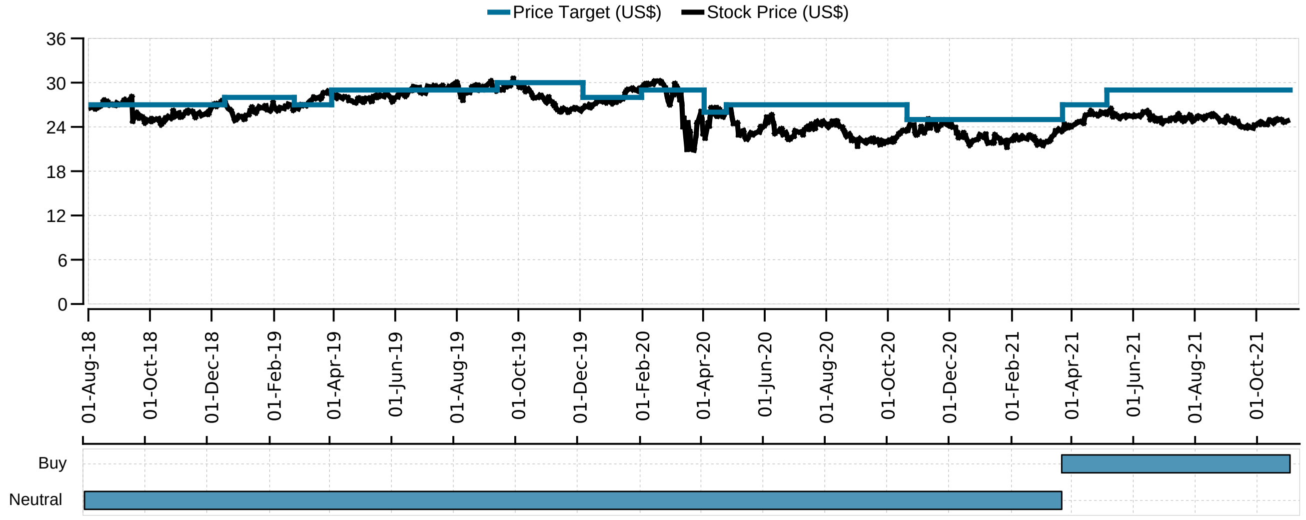
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2018-08-02	26.29	27.00	Neutral
2018-12-13	27.62	28.00	Neutral
2019-02-20	26.28	27.00	Neutral
2019-03-29	28.66	29.00	Neutral
2019-09-09	28.91	30.00	Neutral
2019-12-03	26.41	28.00	Neutral
2020-01-30	29.10	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral
2020-10-19	23.47	25.00	Neutral
2021-03-22	23.42	27.00	Buy
2021-05-05	25.78	29.00	Buy

Source: UBS; as of 02-Nov-2021

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Utilities: NI, AWK, ETR, EXC, ES, EVRG, FERC, PNW, EIX, WEC, PEG
Midstream: TRGP, Midstream
Clean Energy: Ørsted, NOVA, FSLR, AES, SEDG

Elections

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D – VA elects Republic Governor and House of delegates appears to switch Republican too; worries on surface but won't change anything on energy
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AES – Partnering with Microsoft to bring 24/7 renewable energy to its VA data centers
SEDG – N-T margin pressures, but storage upside

Wolfe Utility, Midstream & Clean Energy Materials: Utility Comps, Utility Stock Charts, Midstream Comps, Midstream Stock Charts, Clean Energy Comps, Valuation Charts, Models, Arb Spreads

Quarterly Data: Weather, Forward Prices, Spot Prices, Nuke Outages

Elections

Biden clean energy credits – Democrats election losses may give further impetus to get the Build Back Better infra plan passed

- Sweeping Democrat losses across state elections yesterday will likely be a wake up call into the 2022 midterm elections
- What are implications for the Biden Build Back Better infra plan and associated clean energy credits? We could argue both ways.

  - Bull case – these losses will motivate the Dems to get a compromise passed across their party – the clean energy credits have not been a sticking point so will likely survive
  - Bear case – the losses strengthen the hand of moderate Dems, and shrinking support from Independents leads to a more slimmed down and targeted bill
- We take the Bull case view that the Dems losses increase their motivation to compromise and get a bill passed by YE.

D – VA elects Republic Governor and House of delegates appears to switch Republican too; worries on surface but won't change anything on energy

- Republican Glen Youngkin won the Governor election in VA.
- The House of Delegates appears to have switched to majority Republican as well (51-49) from prior Democrat control (55-45)

D may initially be weak on this news, but we think it means very little for D and the Clean Energy law in the state. First there is no change in Senate which is still Democrat controlled. Second, energy was not a focus of the race and we don't see the Republicans looking to scrap the Clean Energy law even if they take over the Senate in the future. Third, the legislature decides on SCC appointments, not the Governor. And finally, the small subset of anti-Dominion legislators that make noise every legislative session are actually Democrats who ended up losing most of their seats yesterday.

AGR – Maine votes against NECEC transmission in referendum; negative

- Maine voters have voted "Yes" to a referendum vote against AGR's NECEC transmission line – press reports this morning indicate the margin was 60-40
- The "Yes" vote would prohibit the construction of electric transmission lines defined as *high-impact* in the Upper Kennebec Region, including the NECEC, and require a two-thirds vote of each state legislative chamber to approve *high-impact* electric transmission line projects
  - The law is expected to take effect around January 3 assuming the Secretary of State and Governor affirm the results
- Clean Energy Matters (an AGR political action committee) issued a release last night that it plans to challenge the decision in court (recall the Maine Supreme Court last year originally ruled against there being a referendum)
- AGR disclosed on its call last week that it has already spent ~$400M on the project or roughly 40% of total costs, construction was expected to be completed in 2023
- There are also pending challenges at the Maine courts related to a one-mile section, at FERC between AGR and NEE, and at the Maine DEP

Not a good two days for AGR after the PNM recommendation Monday night. We're a bit surprised here. A lot of money was spent on both sides, but NECEC had the backing of Governor Mills (D), former Governor LePage (R), local newspapers, labor leaders, and the chamber of commerce. We expect AGR to challenge this in court, but it's possible construction continues in the meantime, which could be risk. We include NECEC transmission in our estimates – AFUDC on the project is worth $0.06/sh in 2022 guidance and escalates until the project is in-service, after which the earnings power temporarily dips and then rises over time to mimic a levelized ROE of a rate-based transmission project – ie: steady-state earnings power of $0.14/sh in our estimation.

PEG/FE/EXC – New Jersey gubernatorial race too close to call, but projections indicate incumbent Murphy (D) prevails

- As of this morning, incumbent New Jersey Governor Phil Murphy (D) and challenger Jack Ciatterelli (R) are in a dead heat, though press reports indicate the remaining votes to be counted (~12%) are primarily absentees and in Democrat areas of the state
- Additionally, Senate President Steve Sweeney (D), who has held that position since 2010 and is the longest-serving legislative leader in state history, was initially declared the winner in his race before it was retracted and now seems poised to lose
- New Jersey has one of the most ambitious climate agendas of any state – laying out an energy master plan that featured nuclear support for decades, 7.5 GWs offshore wind by 2035, EV support, etc.

ETRN – Election of Youngkin in Virginia boosts chances of MVP water permit approval

- The election of Republican Glenn Youngkin will likely mean higher chances of approval of MVP's required water permits
- The Democratic candidate, Terry McAuliffe, had supported the pipeline during his previous term, but had stayed away from talking about the pipeline during the campaign

We felt that chances were high for state water permit approval with their candidate but we believe there is less uncertainty with Youngkin. For ETRN the main question at this point is probably still the Fourth Circuit.

Utilities

NI – Q3 in-line, FY21 now to be at top end; 2022 guidance beats big; EPS growth targets re-based off higher 2021; positive

- **Q3 in-line**. NI reported EPS of $0.11 which was in-line with us/cons at $0.10

- **FY21 now to be at the top end**. NI expects 2021 to finish at the top end of its $1.32-1.36 range vs cons/us currently at $1.34
- **2022 guidance beats big**. Guidance range of $1.42-1.48 – well above us/cons at $1.42; the $1.45 midpoint implies 6.6% growth off the top end of NI's 2021 guidance
    - NI still sees 5-7% annal EPS growth through 2023, 7-9% CAGR through 2024
    - **Using the higher 2021 base and growth target midpoints, this implies $1.54 in 2023 (cons = $1.53, WRe $1.51) and $1.72 in 2024 (cons = $1.69, WRe $1.70)**
- **NIPSCO preferred IRP = investments of up to $750M.** Any potential projects and investments that emerge will likely being to be announced in 2022
- **2021-24 capex forecast and financing plan unchanged.**
- **Mitigating gas cost pressures.** Only 50% of resi and commercial customers are supplied gas by NI; 77% of procured supply needs for 2021/22 winter season are hedged; this means only 10-15% of the customers' bill where NI procures the gas is actually exposed to S-T nat gas volatility

This is a very good update from NI – 2021 is now expected to be at the top end of the range, but more importantly, the L-T EPS growth targets re-based off the higher 2021. Also, the company is outlining up to $750M of investment through its preferred IRP portfolio which would be incremental to any base plan. The key question for the IRP/RFP is how much of the replacement generation NI will ultimately be able to own in rate base. We will also be interested to get an update on the pending gas rate cases in OH and IN.

AWK – Q3 in-line, FY21 reaffirmed; 2022 guide misses on HOS sale, EPS CAGR lowered to 7-9%; $6B of capex added to 10-yr plan; mixed

- **Q3 in-line**. AWK reported EPS of $1.53 which matched cons (WRe $1.50)
- **FY21 reaffirmed**. Guidance range of $4.18-4.28 vs cons at $4.25 (WRe $4.24)
- **2022 guidance misses on HOS sale**. Guidance range of $4.39-4.49 vs cons at $4.61 (WRe $4.58)
    - Growing EPS 8.5% (midpt of prior range) off FY21 midpoint implies ~$0.15 dilution next year from the HOS sale which we think moderates over time given the added capex
- **EPS CAGR lowered to 7-9%**. AWK's new EPS CAGR is down from 7-10% previously and is anchored off 2022 guidance midpoint through 2026
    - Dividends still expected to growth at the high end of 7-10%; targeted payout of 55-60%
- **$3.1B of capex added to 5-yr plan, $6B to 10-yr plan**. Reflective of redeployment of HOS sale proceeds; AWK's rate base CAGR is now 8-9% vs 7-8% previously
- **$1.1B of equity in 5-yr plan**. To support elevated capex plan; timing of the issuance shifted one year out vs prior plan which we believe means in 2023 or 2024
- **$1B of after-tax proceeds from HOS sale**. AWK entered into a Cooperation Agreement where, for 39 months after deal close, AWK will compensate the buyer for any monetary losses that result from the pending grand jury subpoena regarding HOS operations in NYC

This is a big update from AWK following the news of the HOS sale earlier this week. Our initial view is mixed. We like the juiced capex plan for the regulated utilities and the 100% regulated/regulated-like earnings profile of the company moving forward. But as we expected, the HOS sale is dilutive and this wasn't a business that ever got a discount from investors. While the range for the EPS CAGR is lower, it is still one of the best within the sector. On the call, we will be interested to get more details on the HOS sale, including how meaningful the revenue sharing agreement is, what the elevated capex plan might mean in terms of more frequent rate cases or if most can be recovered through existing trackers and specific timing for the $1.1B of equity.

ETR – Q3 meets, FY21 guidance raised, 2022-23 outlook unchanged, new 2024 outlook consistent with 5-7%; slightly positive

- **3Q21 in line:** $2.45 vs consensus $2.44, WRe $2.31.
- **Raises 2021 guidance to top half of range, reaffirms 2022-23 outlooks, gives new 2024; maintains 5-7% EPS growth off 2020 of $5.60:** Guidance vs consensus and WRe:
    - 2021: $5.80-6.10 vs $5.91 consensus; $5.94 WRe
    - 2022: $6.15-6.45 vs $6.36; $6.32
    - 2023: $6.55-6.85 vs $6.72; $6.80
    - 2024: $6.95-7.25 vs $7.11; $7.11
- **EEI disclosures**: At the EEI conference this weekend, ETR will provide preliminary 2022 drivers, rate base estimates through 2024, 2022-24 capex, a renewable update and LT opportunities.
- **Storm restoration, Uri costs continue to weigh on B/S but expects over 14% by 2023**: Once the 2020-21 storm costs are securitized, ETR targets FFO/Debt over 14% on a Moody's basis (14-16% on a S&P basis) by 2023. Equity plans of $1.23B through 2024 announced in Sep appear unchanged.
- **3Q21 weather-adj sales grow 2.8%, with industrial again strong**: For 3Q21, +2.8% sales growth (Resi -2.9%, Comm +0.5%, Ind +9.9%). ETR sees FY21 growth of 1% (was +2.2% previously but Hurricane Ida impacted ~1.5%).

We view the results as slightly positive given the FY21 guidance raise to top half of the original range and 2024 outlook consistent with 5-7% LT EPS growth. We are happy to see ETR remove its current FFO/D metric from the slides which was a useless number if one believes they will get hurricane recovery cost recovery as in the past. On the call, we expect investor focus on LT EPS growth, equity needs, renewables opportunities, sales growth and any updates from the SERI proceedings at FERC.

EXC – Q3 in line, FY21 guidance narrowed; focus is on spin, nuke PTCs; in line

- **3Q21 in line.** $1.09 vs $1.09 consensus and $1.19 WRe. Unrealized losses on equity investments were -$0.10 (we had estimated -$0.03).
- **2021 guidance narrowed but same midpoint.** To $2.70-2.90 from $2.60-3.00 vs $2.78 consensus and $2.89 WRe. By segment:
  - Utility net parent guidance: $2.15-2.35 vs $2.09 WRe.
  - ExGen guidance: $0.55-0.75 vs $0.80 WRe.

- **ExGen tax-free spin on track to close 1Q22.** Last month, a notice of impending settlement negotiations was filed with the NYPSC; NRC expected to complete its review by 11/30; and FERC has already approved the spin.
- **ExGen 2021 gross margins rise $500M on addition of EDF's share of CENG and including Byron/Dresden, but unchanged ex those items, using 9/30/21 vs 6/30/21 pricing.** 2021 GM rises $500M to $7.2B on the inclusion of said items but remains flat with last quarter at $5.75B with TX hit or $6.7B without TX (same as before). ExGen now sees adjusted O&M of $4.075B vs $3.7B last quarter, reflecting inclusion of same items.
- **EXC utilities TTM ROE slightly declines**. 9.3% through 3Q21 vs 9.4% through 2Q21.

The narrowing of FY21 guidance appears to reflect lower expected unrealized gains from equity investments and the inclusion of Byron, Dresden and EDF's share of CENG. The ExGen/Constellation spin is on track for approval within the next few months. On the call, we believe the main investor focus will be on potential upside from federal nuclear PTCs, which have been proposed in the impending reconciliation bill; the upside is meaningful. We also anticipate questions on timing of the spin and Constellation's 2021 gross margins or EBITDA with a full run rate for Byron/Dresden and EDF's share of CENG. We also expect questions on EXC legacy's LT financial outlook and utility rate base growth.

ES – Q3 miss but no longer points to low end of FY21 guidance; still sees upper half of 5-7% LT EPS growth ex offshore; in line

- **3Q21 ongoing EPS misses:** $1.02 vs. $1.05 consensus, $1.04 WRe. Excludes $0.20 of non-recurring charges, which includes the CT settlement (see below).
- **Reaffirms 2021 guidance but no longer points to low end:** ES' $3.81-3.93 excludes non-recurring charges. Consensus is $3.83 and WRe is $3.87.
- **Still targeting upper half of 5-7% LT EPS growth through 2025:** Growth off 2020A of $3.64 implies 2024E within $4.60-4.77, in line with consensus of $4.66 and WRe of $4.65.
- **Offshore wind earnings excluded from targeted EPS growth but they would raise it above 5-7%:** ES and Ørsted are developing three projects totaling 1,758 MW:
  - South Fork: 130 MW into NY; in-service targeted for late 2023; COP decision due mid-Jan 2022.
  - Revolution: 704 MW into RI (400 MW) and CT (304 MW); in-service targeted for 2025; COP expected in in 3Q23.
  - Sunrise: 924 MW into NY; in-service now targeted in late 2025; COP expected in in 3Q23.
- **CT settlement approved; EV, grid mod and AMI in MA/CT:** ES noted the key elements of the CT settlement, including $65M credit, $10M customer assistance funding, stayout through at least 1/1/24 and no change to allowed ROE or capital structure. ES is seeking EV and AMI capex in both CT; ES filed a compliance filing on the former. ES sees AMI capex of ~$475M by YE25. In MA, ES filed for a ~$200M grid mod capex over 2022-25 and $575M capex for AMI in 2022-27.

The Q3 results and outlook are in line with expectations. With CT settled, we anticipate questions on today's call will mostly focus on the pending offshore wind projects and their potential upside to EPS growth, as well as upcoming auctions in which ES/Ørsted will participate (e.g., NY Bight, next NY RFP, etc).

EVRG – Q3 EPS beats big and big 2021 guidance raise, but all on weather and one-timers

- **Q3 2021 adjusted EPS of $1.98 vs. $1.73 last year – big beat** vs. consensus $1.77 and our $1.76 estimate
  - Drivers: weather (+0.20), transmission margin (+0.06), lower taxes (+0.04); partially offset by weather-normal sales (-0.06)
- **Raised 2021 adjusted EPS guidance to $3.50-3.60 from top-half of $3.20-3.40** (consensus: $3.36; WRe: $3.35)
  - Driven by warm weather (+0.18) and one-timers (+0.05); more than offsetting weaker weather-normal sales (-0.14)
- **Reaffirms 2022 EPS guidance of $3.43-3.63** (consensus: $3.52; WRe: $3.54)
  - Drivers unchanged outside of reversion in weather (-0.18) and one-timers (-0.05)
- **Increasing dividend 7.0% to $2.29/sh annualized**
- **Reaffirms 6-8% EPS growth target through 2025** off original 2021 midpoint of $3.30
- **Weather-normal sales -1.2% in Q3** (R/C/I = -3%/+1%/flat)
  - YTD +0.9%
- Rate base growth, capex, and zero equity plans from Analyst Day all unchanged

A massive beat and raise, as EVRG keeps the good news coming after its late-September Analyst Day, though it's almost entirely due to weather and one-timers. It's still good to see solid evidence that the new mgmt. team is poised to execute well going forward.

FERC – Senate Energy committee unanimously votes in favor of DC PSC Chair Willie Phillips appointment

- Yesterday, the Senate Energy Committee unanimously voted in favor DC PSC Chairman Willie Phillips (D) nomination to fill the open FERC seat
- Phillips will now go before the Senate floor for final confirmation
- Phillips would fill the seat left vacant by Neil Chatterjee (R) and give the Democrats a 3-2 majority at FERC

This was mostly expected, as it appears this is close to a done deal. FERC will soon again be fully staffed. Most in focus at FERC have been transmission ROEs and planning, the former of which has seemed to take a more pro-consumer bent recently and could be further exacerbated by a Democratic majority.

PNW – I am speechless, I am without speech

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ACC votes to approve rate case, no changes; slashing estimates. Post close, the ACC issued a final vote on APS's rate case. With a 3-2 vote (Olson & Kennedy voted no because they wanted an even worse outcome), the ACC approved the amended ROO without any changes to the version that was discussed last week. Key provisions include partial recovery of the SCRs, an 8.7% ROE (lowest of any vertically integrated utility) and several disallowances for expenses that were previously recovered in rates. This outcome was not the worst case, but it is still very bad. With the rate case now finalized, we are reducing our 2022/2023 by $0.38/$0.45 to reflect the amendments that were passed since the initial ALJ ROO was proposed (we prev. assumed the SCRs were fully recovered too). Our PT moves to $63 from $69 on our lower estimates. We embed a 20% discount vs our group avg to account for the acutely challenging regulatory environment in AZ. We remain Underperform rated.

EIX – Flashbacks in way of brighter future

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2021 guidance cut but LT outlook intact; best est. of 17/18 damages rises. After close 11/2, EIX's 3Q21 of $1.69 missed $1.75 consensus on timing of GRC decision, and EIX cut its recently disclosed 2021 guidance to $4.42-4.52 from $4.42-4.62, below then-consensus of $4.54. But EIX kept its 5-7% EPS growth target based on $4.52 in 2021. EIX also added $500M of storage capex to its 2021-25 plan and raised its rate base growth to 7-9% from 6-8%. EIX announced a $550M settlement with the CPUC's Safety Enforcement Division related to enforcement action over the 2017/18 wildfire/mudslides. However, EIX raised its best estimate of total 17/18 damages to $7.5B from $6.2B, with $2.2B remaining to be resolved (that was $1.4B in 2Q21), which is a little disappointing. Although the results were mixed, we see higher rate base growth and no new equity to fund the higher 17/18 damages estimate. Still, the stock trades at a 27% discount to peers. We view that as particularly steep because EIX has not been found imprudent in any of the past wildfires in its territory. And if EIX can maintain its currently allowed ROE, that would add another $0.22 to our 2023E. We raise our PT $1 to $69 on the incremental rate base.

WEC – Making it official

Click here to view our complete note

Formally raising EPS growth rate to 6-7% from upper-half of 5-7%

WEC refreshed its five-year capital plan today and with it, officially raised its EPS growth rate to 6-7%. WEC had in place a 5-7% EPS CAGR since the TEG deal and most recently was noting a strong bias to the upper-half of the range. However, WEC's track record has already been 7% growth and we expect this to continue. WEC also pointed to the direct pay provision of the Biden clean energy bill as nice benefit to cash flow (50-100bps FFO/Debt).

PEG – Nuclear option is nice to have

Click here to view our complete note

Q3 EPS beats nicely, 2021 guidance raised again

PEG reported Q3 EPS of $0.98 – ahead of consensus/us at $0.92. Q3 was up versus $0.96 last year, driven by PSE&G rate base growth and some one-time items, offset some by Power's weaker hedge pricing and taxes/O&M at Parent. PEG again raised 2021 guidance to $3.55-3.70 from $3.50-3.65 previously. This still reflects the absence of depreciation on the held-for-sale fossil assets and Power debt-related interest savings. We continue to like PEG's core utilities story with an upside option from a potential federal nuclear PTC. Outperform.

Midstream

TRGP – Moody's upgrades the credit to Ba1

- This morning, Moody's upgraded Targa's credit rating to Ba1 from Ba2. TRGP had previously been put on positive outlook.
- Moody's cited "remarkable" improvement in credit metrics given an improving outlook, strong FCF, and debt reduction
- Moody's expects TRGP to buy in the DevCo in early 2022 for $925M using cash and revolver borrowings
- The rating could be further upgraded to investment grade if TRGP continues to demonstrate conservative financial policies, further simplifies its capital and organizational structures, keeps leverage below 4x, and decreases exposure to commodity prices

Targa is now a notch away from investment grade ratings at both Moody's and S&P. At our conference a month ago, Moody's indicated it could take 12-15 months post going to Ba1 for Targa to be upgraded again to investment grade as they'd like to see more of a track record and further simplification of the story (DevCo, prefs, and possibly more). The irony here is that Targa is already in the top tier balance sheet group for midstream with 2022 Debt / EBITDA of 3.4x already comparable to EPD and MMP (Baa1) and MPLX (Baa2). So we think further credit improvement for Targa is only a matter of time, and not based on any further improvements needed in the balance sheet.

Midstream – Off to a good start…key earnings takes in 1 concise report

Click here to view our complete note

Election day earnings marathon. Literally half our midstream coverage reported today so we thought it would be more useful to give our views in 1 report. Overall, Q3 updates were better than expected with 4 of 5 that give 2021 guidance raising it and some constructive capital allocation updates. EPD stood out as having a less positive call.

Clean Energy

Ørsted – Q3 beats, FY21 guidance unchanged as CHP plants mitigate impact of wind speeds; in line

- **3Q21 EBITDA beats consensus:** DKK 2,984 vs. DKK 2,810 consensus, DKK 3,065 WRe. Wind speeds hit EBITDA by DKK 800M vs 3q20 (DKK 600M vs normal), while CHP plants in Bioenergy segment added DKK 700M compared to last year on higher realized power prices, ancillary sales and generation.
  - The consensus of detailed estimates provided to the company ahead of participating analysts was coincidently DKK 3,065. Below is the segment detail provided by participating analysts (may not add up to total):
  - Offshore: DKK 1,304 vs DKK 2,106 consensus; DKK 2,032 WRe
  - Onshore: DKK 413 vs DKK 420; DKK 723
  - Bio/other: DKK 1,206 vs DKK 390; DKK 310
- **2021 EBITDA guidance remains low end of DKK 15-16B (ex new partnerships):** While EBITDA guidance was unchanged, the company points to "significantly higher" Bioenergy/other vs "higher" before. Consensus is DKK 24,215 and WRe is DKK 21,501.
  - New Partnerships added DKK 5.3B for YTD21; that is excluded from guidance.
  - Similar to above, the consensus of estimates provided by participating analysts was DKK 24,528 including new partnerships and DKK 15,387 ex new partnerships. Below is the segment detail (may not add up to total):
  - Offshore: DKK 20,950 consensus vs DKK 17,352 WRe
  - Onshore: DKK 1,554 vs DKK 2,134
  - Bio/other: DKK 1,900 vs DKK 2,016
- **Still targeting 12% EBITDA growth through 2027:** Growth off 2020A implies 2027E of DKK 37,361, in line with DKK 41,001 consensus and DKK 38,013 WRe.
- **New offshore wind project in VN:** The company proposed to conduct a research and survey in Haiphong, Vietnam. The VN city government said that Ørsted plans for a 3,900 MW offshore wind project (built in 3 phases)and to invest up to $13.6B.
- **FFO/adj net debt falls to 42% but still above 25% target:** The metric fell to 42% on 9/30/21 from 80% on 9/30/20.

The results are largely in line, particularly given several warnings about the impact from lower wind speeds and potential benefit in the Bioenergy segment (CHP plants) from higher commodity prices. On the call, we expect investor questions on the potential impact Biden's proposed clean energy incentives would have on management's LT outlook, particularly for its Onshore business, which is mostly US-based. We also anticipate questions on the potential VN offshore wind project and expectations for the MD and JPN auction results due this quarter or early next. The stock is down around 5% (as of 8:30am EDT), likely being pulled down by fellow Danish-based wind-turbine maker Vestas (not covered), whose stock is down 15% reportedly on a guidance cut from high commodity prices and supply chain concerns.

NOVA – ECP files to sell 6M shares, will bring total ownership of NOVA just below 10%

- Late Monday, Energy Capital Partners (ECP) filed to sell 6M shares of NOVA through a secondary offering
- Per FactSet and as of 6/30, ECP held 16.9M shares of NOVA (~15% of total OS); following the sale, ECP is expected to own under 10% and will only have one board seat (currently has two)
- ECP was an early investor in NOVA pre-IPO and actually owned over 50% of the company when it initially came public in 2019
- NOVA's stock finished down 6.1% yesterday – well below resi solar peers and the TAN index

This is not a surprise as ECP is not a natural L-T holder of NOVA shares. ECP has also made a fantastic return on its investment, so perhaps this is being done to redeploy money into other investment opportunities. We don't believe ECP will rush to sell its remaining shares (last time it sold some was about a year ago).

FSLR – U.S. ITC to hold hearing today on Section 201 tariffs

- The U.S. International Trade Commission will hear arguments today on Section 201 tariffs prior to an expected early December recommendation to President Biden on whether to extend, revise, or end the tariffs
- The Section 201 tariffs currently impose an 18% tariff on imports of crystalline silicon solar cells and modules on major producing countries. We estimate the tariffs add $0.04-$0.05/watt of cost. They are set to expire in February.

Much attention has rightfully been on the reconciliation bill given very significant support for U.S. solar manufacturers like FSLR in the House bill last week. However, the Section 201 tariffs are the next issue to keep an eye on with a U.S. ITC recommendation expected next month on what to do with the tariffs. We continue to view the issues as intertwined. If the reconciliation bill passes with currently proposed provisions that give huge subsidies to domestic manufacturers like FSLR, we don't see much of a need to extend the Section 201 tariffs as American manufacturers would still be much better off on a net basis. However, if the reconciliation bill fails, then we think it's likely Section 201 is extended in some way as it would be undesirable to adversely affect U.S. manufacturers at a time when the U.S. is looking to ramp up solar development and geopolitical tensions with China remain high.

AES – Partnering with Microsoft to bring 24/7 renewable energy to its VA data centers

- This morning, AES announced that it signed a 15-year agreement with MSFT to support the company in achieving its 100/100/0 by 2030 goal
- Under the agreement, AES will supply 24/7 renewable energy to MSFT's data centers located in Virginia
- AES will source the energy from a 576 MW portfolio utilizing existing renewables under L-T contract to MSFT, while also adding additional resources in the region

This looks very similar to the agreement that AES already has with Google in VA and is another example of the company offering highly specialized 24/7 renewable solutions for its customers. AES views this as a key differentiator vs a lot peers who tend to mostly do more plain vanilla PPAs. We believe this announcement is already reflected in AES' outlook.

SEDG – N-T margin pressures, but storage upside
Click here to view our complete note
Mixed Q3, raising PT to $380. Q3 sales were in line with consensus, but the Q4 guide came in a little light on lower e-Mobility sales. The biggest update was on margins – SEDG guided Q4 solar margins down considerably from Q3 due to a Vietnam plant closure and higher associated costs. That said, SEDG pointed to a stronger storage ramp up into 2022, and pointed to a record 4 GW order backlog for Q4/Q1. Of note, SEDG will not increase prices which makes ENPH an outlier here. Overall, we think the L-T thesis is intact, but caution the quarter missed the higher bar set by ENPH on the N-T margin headwinds.

Wolfe Events
November 7-10: EEI Conference meetings
December 6: PNW non-deal roadshow in Australia

Most Popular Reports
Wolfe Clean Energy Initiation
Utilities Top 10 for 2021
Midstream Top 10 for 2021
Power Supply Outlook 2020
Utility Proxy Review
Midstream Proxy Review
PJM Auction Postview
Utilities Credit Metrics Outlook
Midstream Credit Metrics Outlook
Utilities 2020 Election Preview
Utility Pension Review
Utility Liquidity Review
Midstream Leverage Report
Wolfe Midstream Primer
Wolfe Utility Primer

Calendar

Date	Ticker	Event	Case Docket Number	Description
11/4/21	EIX/PCG/SRE	CPUC Voting meeting		
11/5/21	AEE	Surrebuttal testimony	ER-2021-0240	MO rate case
11/9/21	NYSE	Short Interest Release		
11/15/21	SO	Hearing on company testimony		VCM 25
11/18/21	EIX/PCG/SRE	CPUC Voting meeting		
11/19/21	FE	Supplemental Audit on Brown Stadium Naming	20-1629-EL-RDR	DCR Audit
11/24/21	NYSE	Short Interest Release		
11/24/21	AEE	Final reconciliation	ER-2021-0240	MO rate case
11/29/21	AEE	Hearings begin	ER-2021-0240	MO rate case
12/1/21	SO	Intervenor testimony		VCM 25
12/2/21	EIX/PCG/SRE	CPUC Voting meeting		
12/2/21	FE	DMR Audit	17-2474-EL-RDR	Draft Audit Report Due
12/9/21	EIX/PCG/SRE	Proposed decision deadline (90 days after reply briefs)		NEM 3.0
12/9/21	AEE/FTS/MISO	MISO Board of Directors Open Session (maybe discuss MTEP)		MISO MTEP
12/9/21	NYSE	Short Interest Release		

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J.P.Morgan

North America Equity Research
03 November 2021

NiSource Inc.

3Q21 Tops Estimates; '21/'22 Guidance Directional Raise/Initiated; High Level IRP Update Shows $750mm Capex Potential

Overweight

NI, NI US

Price: $24.74

02 Nov 2021

North American Utilities

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J.P. Morgan Securities LLC

- **3Q21 earnings beat estimates.** NI reported 3Q21 adj EPS of $0.11, ahead of the $0.10 JPM/Street median estimate. Gas distribution operating earnings increased +$8.3mm while electric operating earnings declined -$2.8mm YoY. NI benefitted from new base rates, infrastructure replacement program recoveries, and customer growth, among other items. Meanwhile, unfavorable COLI performance continued to impact Corporate and Other. NI now anticipates achieving the top end of its $1.32-1.36 2021 guidance (JPMe/Street median $1.35/$1.34), which implies 4Q21 EPS of $0.38 versus $0.34 in 4Q20.

- **2022 EPS guidance introduced, as higher 2021 expectations lifts outlook.** NI introduced 2022 earnings guidance of $1.42-1.48 (JPMe/Street median $1.42), representing ~7% YoY growth from the high end of NI's 2021 range. This implied 2022 growth stands at the high end of NI's 5-7% near-term EPS CAGR. Additionally, the company's strong anticipated 2021 results, in targeting the guidance range's top end, also raise expected outer-year earnings power off this base (for 7-9% EPS growth through 2024). We see these guidance updates as a clear positive and continuing recent company trends of strengthening its growth outlook on the back of near-term and long-term plan execution in 2021.

- **IRP update remains high level with up to $750mm investment potential.** Progress continues towards the company's IRP filing by mid-November. NI's message remains relatively high level in advance of the formal filing, with the company highlighting investments in replacement resources of up to $750mm across solar, standalone battery storage, and natural gas peaking. With NI's preferred resource plan now identified, the range of megawatt and capex outcomes has meaningfully narrowed, in our view, and we expect further refinements into next year as the company works towards a likely 2022 plan refresh to formally incorporate the IRP. In the interim, we await management commentary on potential ownership options as informed by the associated RFP process.

- **Conference call details.** NI will host a webcast to discuss 3Q21 results on Wednesday, November 3 at 11:00 AM EDT.

Table 1: NI 3Q21 Results

Income Statement:	Actual 3Q20	Actual 3Q21	JPM 3Q21E	% Chg Y/Y	% Chg vs JPMe	YoY Drivers
Operating Earnings	148	144	161	-3%	-10%	New rates from base rate proceedings and regulatory capital programs; CMA impacts
Net Income	36	47	44	30%	8%	Higher non-service pension benefits; lower interest expense on ST and LT debt; unfavorable COLI impacts
Share Count	384	430	431	12%	0%	
Operating EPS	**$0.09**	**$0.11**	**$0.10**	**22%**	**10%**	

Source: Company reports and J.P. Morgan estimates.

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Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
01-Mar-19	OW	26.98	29
15-Apr-19	OW	28.07	30
02-May-19	OW	27.40	29
15-Jul-19	OW	29.34	30
01-Aug-19	OW	29.69	31
13-Oct-19	OW	29.14	32
15-Jan-20	OW	28.18	31
09-Apr-20	OW	25.47	29
01-Jul-20	OW	22.74	26
21-Sep-20	OW	21.98	25
23-Oct-20	OW	24.04	26
29-Jan-21	OW	22.17	25
22-Feb-21	OW	22.84	24
22-Apr-21	OW	26.03	28
31-Aug-21	OW	24.76	29
14-Oct-21	OW	24.69	28

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*Please note that the percentages might not add to 100% because of rounding.
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NI BUY

NiSource Inc.
Sector: Power & Utilities

Earnings Release

Share Price	$24.74
Price Target	$27.00

EPS ($) (FY DEC)	1Q	2Q	3Q	4Q	FY
2021	0.77	0.13	0.11	0.41E	1.36E
Prior	—	—	*0.05*	*0.40E*	*1.35E*
P/E					18.2x
2022	0.87E	0.14E	0.04E	0.40E	1.45E
Prior	*0.85E*	—	—	—	*1.43E*
P/E					17.1x
2023	0.88E	0.17E	0.08E	0.41E	1.53E
P/E					16.2x

Market Data

52-Week Range	$21.09 - $26.60
Dividend	$1.60
Dividend Yield	6.5%
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Shares Out (M)	392.4
ADV (3 mo; 000)	3,261

NI: Rebasing EPS CAGR Off Top End of 2021; IRP Updates

Key Message: NiSource pointed to the top end of its reaffirmed 2021 NOEPS guidance range of $1.34-$1.36 and rebased its 5%-7% (through 2023) and 7%-9% (through 2024) EPS CAGRs off of the top end of 2021 guidance. The company also introduced 2022 NOEPS guidance of $1.42-$1.48 ($1.45) and reaffirmed its prior capex forecast of $2.4bn-$2.7bn for 2022, $3.4bn-$3.7bn for 2023, and $1.9bn-$2.2bn for 2024. Management sees the potential for $750m of capital investment coming out of the IRP, but how much of that will be NI's will not be known until the RFP review process concludes in early 2022. We reiterate our Buy rating and are raising 2021/2022 estimates to reflect management's increased confidence in its guidance.

NI expects to submit the NIPSCO IRP by mid-November and indicated that the preferred plan refines the timeline to retire coal-fired generation at the Michigan City Generating Station to between 2026-2028, while supporting NI's emissions reduction target of 90% by 2030. **Up to $750m of investment** will be required to replace Michigan City and two peaking units at Schahfer, and the company expects to have more visibility on its potential stake of that spend **once the RFP process concludes in early 2022**. More color for investors is expected to be provided at an Analyst Day to be held towards the end of 1H22. Also, on the near-term regulatory front, **NIPSCO's $1.64bn proposed TDSIC plan** for 2021-2026 is pending before the IURC, with a **final order expected in Jan 2022**.

NI reported 3Q21 adj. EPS of $0.11 vs us/consensus at $0.05/$0.12, and up $0.02 vs $0.09 in 3Q20. **We are raising our 2021 estimate to $1.36** from $1.35 to reflect management's revised guidance of the top end of the $1.34-$1.36 range, and **raising our 2022 estimate to $1.45**, the midpoint of NI's newly introduced 2022 guidance range, up from $1.43 previously. Our estimates for 2023/2024 remain unchanged.

Valuation

We apply our base 18.5x multiple on the electric utility and add a 1x premium to account for additional renewables opportunities and our base 18.5x multiple on the gas LDCs. We arrive at our valuation utilizing a sum-of-the parts analysis, based on: (1) ~$11/share for the regulated electric utility; (2) ~$18/share value for the regulated gas segment given the limited spread from LDCs after recent market volatility; and (3) (~$-2)/share for other adjustments for Corp and Other. We use this sum of the parts to arrive at our $27 valuation.

Risks

The primary risks on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

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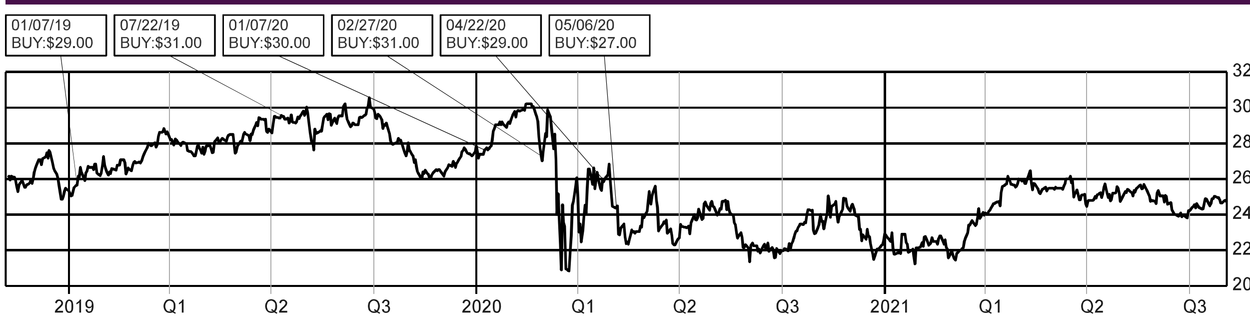
Rating and Price Target History for: NiSource Inc. (NI) as of 11-02-2021



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NEUTRAL	114	30.56%	9	7.89%
SELL	7	1.88%	1	14.29%

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NI BUY

NiSource Inc.
Sector: Power & Utilities

Earnings Release

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Risks

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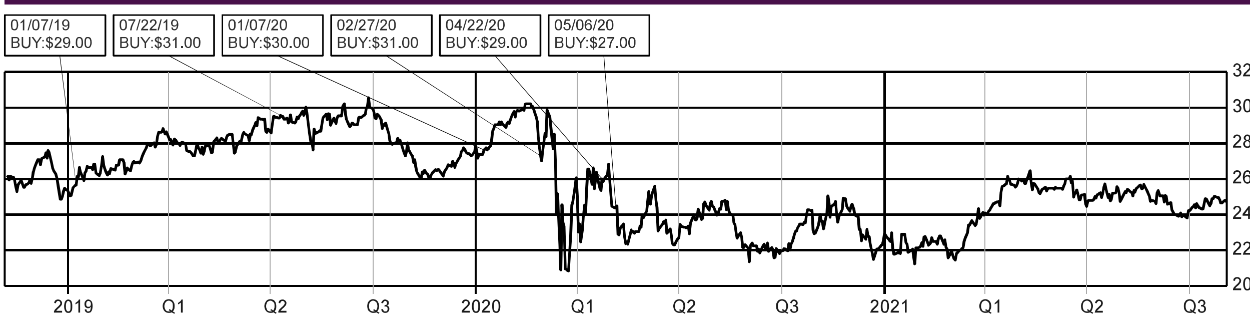
Rating and Price Target History for: NiSource Inc. (NI) as of 11-02-2021



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SELL	7	1.88%	1	14.29%

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EVERCORE ISI

Energy | Power & Utilities

November 03, 2021

NiSource Inc

NI | $24.74

In Line | Target Price/Base Case: $27.00

Company Update

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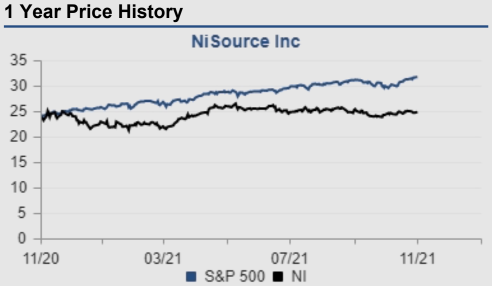
Company Statistics

Market Capitalization (M)	$9,712
Shares Outstanding (M)	392
Dividend	0.84
Dividend Yield	3.4%
Payout Ratio	61.8%
Expected Total Return	12.5%
Fiscal Year End	Dec

Earnings Summary

	2021E	2022E	2023E
EPS	$1.36	$1.45	$1.53
P/E	18.2	17.1	16.2
EPS vs Consensus	1.3%	2.1%	(0.1)%
Consensus EPS	$1.34	$1.42	$1.53
Consensus P/E	18.4	17.4	16.2

1 Year Price History



Source: FactSet

Robust Results

Q3 adjusted EPS in line with consensus. 2021 adjusted EPS guidance increased to top end of range. 2022 EPS guidance issued above consensus and our estimate. NiSource posted $0.11 in 3Q21 operating EPS, which was in line with consensus of $0.10, our estimate of $0.11/share, and compared to 3Q20 of $0.09. NI now expects to deliver the top end of its 2021 adjusted EPS guidance of $1.32-1.36 and issued 2022 EPS guidance of $1.42-1.48, above consensus and our estimate of $1.42 at the midpoint. In addition, NiSource now expects to deliver an EPS CAGR of 7-9% through 2024 off of the top end of 2021 guidance versus the midpoint previously, including 5-7% annual growth through 2023. The Company refined its 2021 capex plan to the midpoint of its prior $1.9-2.1 billion range and maintained its spending level outlooks of $2.4-2.7, $3.4-3.7 and $1.9-2.2 billion for 2022-2024. This level of capex is still expected to drive rate base growth of 10-12% CAGR in 2021-2024 under an unchanged financing plan. The 2021 Indiana IRP will be filed in mid-November, and NI estimates that investments of up to $750 million will be necessary to replace the entire retiring coal capacity (which could be through PPAs or owned) associated with Michigan City Generating Station, as well as gas peaking units 16A and 16B at the Schafer Generating Station site. The NIPSCO portion of this investment will be better understood as bids in the RFPs are further evaluated. NiSource expects to begin project-specific identification of 2021 preferred pathway in the first half of 2022. The preferred plan refines the timeline to retire coal-fired generation at the Michigan City Generating Station to between 2026 and 2028, and it supports NI's targeted 90% reduction in greenhouse gases by 2030. Separately, NiSource plans to host an Analyst Day at the end of the first half of 2022. 50% ownership of the $750 million replacement would translate into $0.04 annual EPS (or 3% of our 23E) upside in 2026+.

Raising our 2021-2023 EPS estimates: We are increasing our 2021-2023 EPS estimates to $1.36 / $1.45 / $1.53 versus $1.34 / $1.42 / $1.51 previously. Our updated 2021 EPS estimate is top end of $1.32-1.36 guidance, while our 2022 forecast is at the midpoint of guidance, and our 2023 estimate is within the 5-7% annual growth forecast. After NIPSCO electric took the brunt of the COVID in 2020, we see its earned ROE increasing to 9.4% this year before modestly under-earning its authorized 9.75% by 2022-2023. For the gas segment, we assume the company modestly under-earns its blended ~10% ROE in 2021 through 2023

We maintain our In Line rating and target price of $27/share. Our unchanged bear case in Exhibit 1 inside derives a $23 while bull case remains $30/share. Our base case now assumes 2023 EPS of $1.54/share, which is roughly 6% annual EPS growth (vs. 5-7% guidance) over the top end of 2021 guidance of $1.32-1.36/share. For the electric business, we assign a 10% premium to our anchor 2023 P/E target multiple of 17.5x derived using our dividend discount model. For the gas segment, we apply a ~16x P/E multiple (down from 18x), a premium multiple current comparable LDC trading multiples (now ~15x versus17.5x in our last update). We apply a blended multiple for parent drag.

Target Price Derivation

We maintain our target price of $27/share. Our bear case in Exhibit 1 below derives an unchanged $23 while our bull case is $29/share. Our base case assumes 2023 EPS of $1.54/share, which is roughly 6% annual EPS growth (vs. 5-7% guidance) over the top end of 2021 guidance of $1.32-1.36/share. For the electric business, we assign a 10% premium to our anchor 2023 P/E target multiple of 17.5x derived using our dividend discount model. For the gas segment, we apply a ~16x P/E multiple, a premium multiple current comparable LDC trading multiples (~15x). We apply a blended multiple for parent drag

Exhibit 1: NiSource SOTP Valuation

Base Case	'23 EPS	P/E	Val/Shr
Gas EPS	$1.22	16.2x	$19.74
Electric EPS	$0.69	19.3x	$13.19
Parent/Other	($0.37)	17.0x	($6.35)
Consolidated 2023 EPS	**$1.53**	17.0x	**$27.00**

Bull Case	'23 EPS	P/E	Val/Shr
Gas EPS	$1.24	18.3x	$22.74
Electric EPS	$0.70	19.3x	$13.46
Parent/Other	($0.37)	18.5x	($6.89)
Consolidated 2023 EPS	**$1.57**	18.5x	**$29.00**

Bear Case	'23 EPS	P/E	Val/Shr
Gas EPS	$1.14	15.8x	$18.01
Electric EPS	$0.65	17.5x	$11.36
Parent/Other	($0.37)	16.2x	($6.04)
Consolidated 2023 EPS	**$1.42**	16.2x	**$23.00**

Source: Evercore ISI

VALUATION METHODOLOGY

To arrive at our price target we use a SOTP analysis.

RISKS

Risks to our thesis include an inability to deploy capital at the company's expected rate resulting in a lower rate base and regulatory pressure resulting in lower allowed ROEs

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2021-03-11)	Evercore ISI Target
AEE	Ameren Corp.	Outperform	$84.33	$90.00
AEP	American Electric Power	Outperform	$85.30	$99.00
AES	The AES Corporation	Outperform	$25.37	$30.00
AWK	American Water Works Company, Inc.	Outperform	$176.80	$175.00
AWR	American States Water Company	Underperform	$90.74	$70.00
CMS	CMS Energy Corp.	In Line	$60.44	$62.00
CNP	CenterPoint Energy, Inc.	Outperform	$26.19	$27.00
CWT	California Water Service Group	In Line	$62.25	$50.00
D	Dominion Energy, Inc	Outperform	$75.49	$82.00
DTE	DTE Energy Co.	In Line	$113.08	$119.00
DUK	Duke Energy Corp.	In Line	$102.45	$96.00
ED	Consolidated Edison Inc.	Underperform	$76.44	$72.00
EIX	Edison International	In Line	$63.54	$73.00
ES	Eversource Energy	In Line	$84.55	$91.00
ETR	Entergy Corp.	Outperform	$103.80	$111.00
EVRG	Evergy	Outperform	$63.91	$70.00
EXC	Exelon Corp.	Outperform	$53.74	$53.50
FE	FirstEnergy Corp.	In Line	$39.30	$40.00
HE	Hawaiian Electric Industries Inc.	In Line	$40.70	$38.00
NEE	NextEra Energy Inc	In Line	$85.42	$78.00
NI	NiSource Inc	In Line	$24.74	$27.00
NRG	NRG Energy Inc.	In Line	$39.54	$42.00
OGE	OGE Energy Corp	Outperform	$34.48	$35.00
PCG	PG&E Corp.	Rating Suspended	$11.34	
PEG	Public Service Enterprise Group	In Line	$63.98	$63.00
PNW	Pinnacle West Capital Corp.	In Line	$64.79	$66.00
PPL	PPL Corp.	In Line	$29.24	$31.00
SJW	SJW Group	In Line	$70.54	$67.00
SO	Southern Co.	Underperform	$62.49	$61.00
SRE	Sempra Energy	Outperform	$128.03	$143.00
VST	Vistra Energy Corp	Outperform	$19.87	$23.00
WEC	WEC Energy Group, Inc.	In Line	$90.89	$96.00
WTRG	Essential Utilities Inc.	In Line	$47.27	$52.00
XEL	Xcel Energy Inc.	In Line	$64.71	$70.00

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

Time of dissemination: November 03 2021 5:08 PM ET

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In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's universe
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*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

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Sell -the total forecasted return is expected to be less than 0%

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Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%

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Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
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Hold	289	34	Hold	29	10
Sell	17	2	Sell	0	0
Coverage Suspended	17	2	Coverage Suspended	4	24
Rating Suspended	12	1	Rating Suspended	6	50

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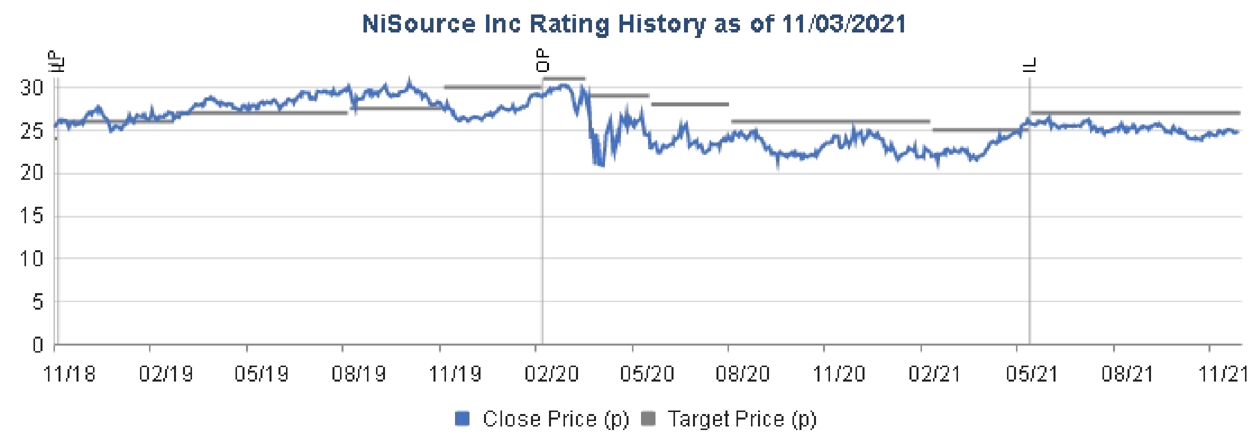

Ratings Key

B	Buy	OP	Outperform	L	Long	CS	Coverage Suspended
H	Hold	IL	In Line	NP	No Position	RS	Rating Suspended
S	Sell	UP	Underperform	S	Short		

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ELECTRIC UTILITIES

Regulateds – Market Overweight
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November 3, 2021

NISOURCE

(NI US Equity – $25.29 – Outperform)

We are back baby, we are back!

- **Old NI is back – 2022 guide beats and L-T outlook raised.** NI reported Q3 EPS of $0.11 which was in-line with us/cons and now expects to finish at the top end of its FY21 range of $1.32-1.36; we and cons were at $1.34. But more importantly, NI re-based its annual 5-7% EPS growth target (through 2023) and 7-9% EPS CAGR (through 2024) off the higher 2021. Along that vein, initial 2022 guidance of $1.42-1.48 was well-above prior cons of $1.42 and represents YoY growth of 6.6% off the top end of 2021. Gone are the days of financial disappointments that were experienced over the last couple years. Management sounded very confident in being able to execute on the plan going forward. NI went on to outperform the UTY index by 260bps on the day. We still see more upside; reiterate our Outperform rating and $29 PT.

- **$750M of capex identified in NIPSCO IRP.** NI unveiled its preferred IRP portfolio in late Oct showing 600-800 MW of generation needs to replace Michigan City coal (469 MW) and two vintage gas peakers at Schahfer (155 MW). Most of the replacement capacity will be solar (100-250 MW) and battery storage (135-370 MW) as well as up to 300 MW for a hydrogen-enabled gas peaker. NI sees up to $750M of potential incremental investment (incl transmission opportunities). What is less clear is the company's ownership portion and exact timing of the investments. NI will lay this out in detail and extend the growth outlook in 1H 2022 at an Analyst Day.

- **Direct pay option would provide flexibility.** Absent a reconciliation package, NI would expect to fund future generation investments with 50% equity content. However, mgmt confirmed that a direct pay option for PTC/ITC would create additional flexibility that would likely lessen any future equity needs resulting from the IRP.

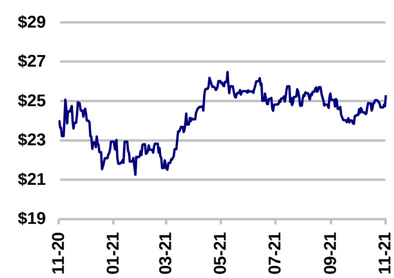
- **Rate cases progressing well**. Most in focus are the gas cases in OH, PA and IN. OH is likely the first case to resolve with new rates expected mid-2022. NI has historically executed well on the regulatory front.

- **Raising estimates**. We are raising our 2021-24E by $0.02-0.04 to reflect NI's revised outlook – see a summary on the right. Our new 2023E represents YoY growth just below 6%; our new 2024E implies an 8.5% CAGR off the 2021 base. Our PT remains $29 as gas LDC multiples have compressed.

Estimates / Valuation				
(US$)	2021E	2022E	2023E	2024E
EPS	$1.36	$1.45	$1.53	$1.74
Consensus	$1.34	$1.42	$1.53	$1.69
P/E	18.6x	17.5x	16.5x	14.6x
Dividend Yield	3.5%	3.7%	4.0%	4.2%

Trading and Fundamental Data	
Price Target	**$ 29**
Current Price	25.29
52-Week Range	$21-$27
Market Cap. (MM)	9,920
Enterprise Value (MM)	20,890
Shares Out. (MM)	392.4
Dividend Yield	3.35%
Dividend Payout Ratio	63.2%
ROE	-1.5%
Debt to Cap	58.6%
Avg. Daily Vol. (000)	3,337

Price Performance	YTD	LTM
NI US Equity	10%	8%
Utility Index	7%	5%
S&P 500	24%	41%



Source: FactSet/Wolfe Research

Key Changes		
Year	New	Old
2021E	$1.36	$1.34
2022E	$1.45	$1.42
2023E	$1.53	$1.51
2024E	$1.74	$1.70

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NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2021E	2022E	2023E	2024E
EPS	$1.36	$1.45	$1.53	$1.74
Diluted Shares Outstanding	415	443	451	477
Dividends Per Share	$0.89	$0.94	$1.00	$1.06
Dividend Yield	3.5%	3.7%	4.0%	4.2%
Dividend Payout Ratio	65%	65%	65%	61%
Equity Ratio	38%	38%	36%	37%
FFO/Net Debt	15%	15%	14%	16%
Valuation Metrics				
P/E	18.6x	17.5x	16.5x	14.6x
Price/Book	2.0x	1.9x	1.8x	1.8x
EV/rate base	1.4x	1.3x	1.2x	1.2x
Segment EPS				
Gas Distribution	$1.09	$1.14	$1.23	$1.28
NIPSCO Electric	0.55	0.58	0.59	0.74
Parent & Other	(0.29)	(0.27)	(0.29)	(0.28)
Total EPS	**$1.36**	**$1.45**	**$1.53**	**$1.74**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2021E	2022E	2023E	2024E
Capital Spending by Segment ($M)				
Gas Distribution	$1,385	$1,435	$1,585	$1,535
Electric	590	1,090	1,940	490
Parent	25	25	25	25
Total Capex	**$2,000**	**$2,550**	**$3,550**	**$2,050**
Financings ($M)				
Total Equity Issued/(Repurchased)	$290	$290	$115	$40
Total Hybrids Issued/(Repurchased)	$863	$0	$863	$0
Total Debt Issued/(Repurchased)	$0	$650	$1,400	$500

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, Maryland and Massachusetts.

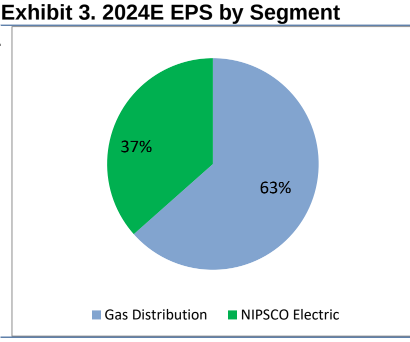
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $40B backlog of capital investment with recovery largely through trackers in mostly constructive regulatory environments. The dramatic shift toward renewables at NI's Indiana electric utility and fact that it will be coal-free by 2026 or 2028 is also helpful from an ESG perspective.

Valuation

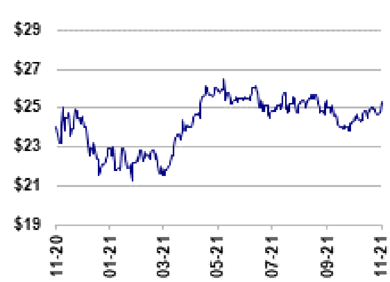
Our $29 price target is derived by applying average P/E multiples on NI's electric earnings and on its gas LDC earnings in 2024 (to capture the full earnings uplift from NI's renewable investments); electrics are near 17x, we think LDCs should be around 1x discount to electrics. Risks for NiSource are 1) bad regulatory outcomes; 2) pipeline safety incidents. Upsides are 1) additional growth projects and 2) customer/sales growth

Exhibit 3. 2024E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart

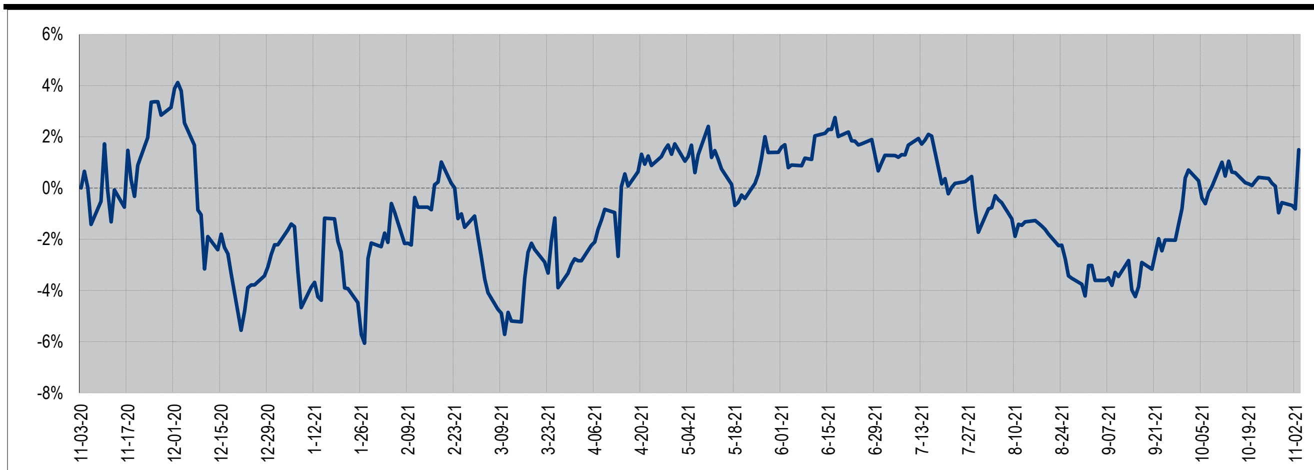


Source: FactSet

Investment conclusion

NI's rate base growth of 10-12% and EPS growth of 7-9%, on average, through 2024 places it amongst the best growth stories in the sector. The dramatic shift toward renewables at NI's Indiana electric utility and fact that it will be coal-free by 2026 or 2028 is also helpful from an ESG standpoint. After the 3Q21 update, we believe that NI is back to the old NI – back to beating/raising its outlook after a couple years of financial disappointments following the Merrimack Valley incident. NI's stock currently trades at ~2.5x discount to the regulated electric average in 2024 once its renewable capex is fully reflected in earnings. We believe NI deserves to trade near an average as its story is the cleanest that it has been in recent years. There is also identifiable capex upside toward the middle of the decade from NIPSCO's pending IRP/RFP. We also see CNP's gas LDC sales earlier this year as a very constructive value marker (2.5x rate base) for NI and gas LDC companies generally.

Exhibit 5: NI vs the Regulated Average



Source: Wolfe Utilities & Power Research, FactSet

Exhibit 6: Gas LDC Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E Multiple 2021E	2022E	2023E	2024E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Atmos Energy	ATO	$93.24	131	$12,195	18.3x	17.2x	16.1x	15.3x	2.7%	7.5%	49%	1.7x	59%
ONE Gas	OGS	68.27	54	3,652	17.8x	16.7x	15.8x	14.8x	3.4%	6.8%	63%	1.6x	52%
NiSource	NI	25.21	392	9,893	18.6x	17.4x	16.5x	14.5x	3.5%	6.0%	67%	2.0x	37%
Northwest Natural Gas	NWN	46.03	31	1,412	18.1x	17.5x	16.5x	15.9x	4.2%	0.8%	83%	1.6x	40%
Pure-play Average					**18.2x**	**17.2x**	**16.2x**	**15.1x**	**3.4%**	**5.3%**	**66%**	**1.7x**	**47%**
New Jersey Resources	NJR	38.73	96	3,734	17.9x	17.1x	16.0x	11.6x	3.4%	7.0%	61%	2.0x	42%
South Jersey Industries	SJI	23.01	112	2,587	14.1x	13.8x	12.9x	12.2x	5.3%	2.7%	71%	1.4x	32%
Southwest Gas	SWX	70.45	59	4,163	16.8x	15.6x	14.6x	14.1x	3.4%	5.0%	57%	1.5x	47%
Spire Inc.	SR	63.43	52	3,278	14.2x	14.4x	13.8x	13.0x	4.1%	4.9%	66%	1.4x	44%
Diversified Average					**15.8x**	**15.2x**	**14.3x**	**12.7x**	**4.0%**	**4.9%**	**64%**	**1.6x**	**41%**
Average - electric utilities (ex PCG and EIX)					**19.4x**	**18.8x**	**17.7x**	**16.9x**	**3.5%**	**4.6%**	**67%**	**2.0x**	**41%**

Source: Wolfe Utilities & Power Research, FactSet

DISCLOSURE SECTION

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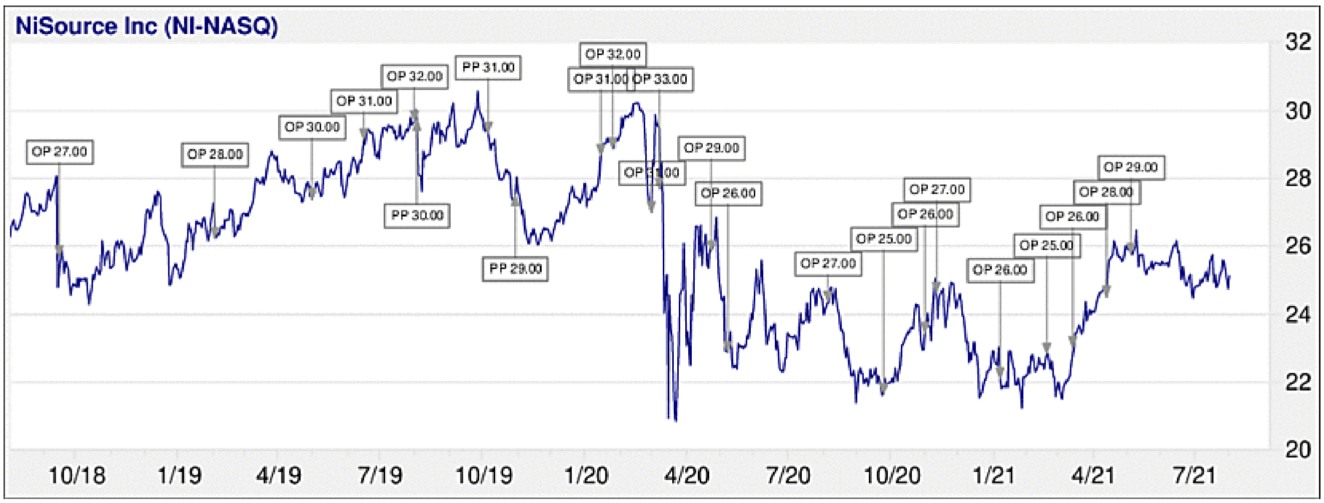
Important Disclosures:

Price Chart(s) with Ratings and Target Price History



Note: OP = Outperform; PP = Peer Perform; UP = Underperform

Wolfe Research, LLC Fundamental Valuation Methodology:

Company:	Fundamental Valuation Methodology:
NI US Equity	Forward P/E

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:	Risks That May Impede Achievement of the Recommendation, Rating or Target Price:
NI US Equity	Weak economy/sales, negative regulatory outcomes, pipeline safety accidents

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
NI US Equity	None

Other Disclosures:

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Outperform (OP):	The security is projected to outperform analyst's industry coverage universe over the next 12 months.
Peer Perform (PP):	The security is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.
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Market Underweight (MU):	Expect the industry to underperform the primary market index for the region (S&P 500 in the U.S.) by at least 10% over the next 12 months.

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Outperform:	55%	5% Investment Banking Clients
Peer Perform:	38%	4% Investment Banking Clients
Underperform:	7%	0% Investment Banking Clients

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November 3, 2021 | 20:52 ET | 20:52 ET~

NiSource

NI-NYSE	Rating	Price: Nov-3	Target ↑	Total Rtn
	Outperform	$25.29	$28.00	14%

Hoosier Your New Favorite Growth Utility?

Bottom Line:

NiSource initiated better-than-expected 2022 guidance of $1.42-1.48, which implies 8% growth midpoint-to-midpoint and 6.6% off the high end of 2021. Management reiterated its 5-7% NT growth EPS CAGR ('21-23) and its 7-9% EPS CAGR through 2024, which is now based off the high end of its 2021 guidance range. **We believe this is a very important data point for the company as it returns to its traditional annual growth guidance model which is rebased off the previous year's operating results. Reiterate Outperform rating and raising target too $28/ share.**

Key Points

NI reported 3Q21 NOEPS of $0.11, just above our own and consensus estimates of $0.10 and $0.09, respectively. Management is now targeting the "upper end" of its $1.32-1.36 NOEPS range, its second functional raise for the year after increasing its outlook with its equity financing transaction earlier this year.

NiSource initiated better-than-expected 2022 guidance of $1.42-1.48 which was above both our own and the Street's estimates at $1.40/1.42, respectively. **Management again reiterated its 5-7% NT growth EPS CAGR ('21-23) and its 7-9% EPS CAGR through 2024, which is now based off the high end of its 2021 guidance. This implies 2024 EPS of ~$1.71 which is in line with our $1.72 estimate.**

Through its year-long RFP process NI has initially identified ~$750mm of incremental investment related to the retirement of its Michigan City coal facility as well as Schahfer peaking units. The initial scope of the preferred plan would include a Sugar Creek upgrade (30-53MW), solar (100-250MW), standalone battery storage (135-370MW), some gas peaking capacity (300MW), a hydrogen pilot (20MW) as well as transmission upgrades. The timing, final combination of capacity replacement and ownership percentage (50%+) will be finalized in the first half of 2022.

NiSource is planning to hold an Analyst Day in the first half of 2022 to discuss the extension of its current growth outlook across both its electric and gas operations. With its current '21-24 capital forecast of $9.7-10.6B driving an expected rate base growth of 10-12% and over $40B of identified investments, management is looking to further outline the depth and extension of its investment opportunities which could allow the company to extend its peer-leading growth rate.

We raise our 2021 and 2022 EPS to $1.36 and $1.46 from $1.33 and $1.40, respectively. Our '23 and '24 estimates remain unchanged at $1.54 and $1.72, respectively.

Key Changes

Target	Estimates	Q4 / 21E	2021E	2022E
$28.00↑	EPS	$0.35	$1.36	$1.46
$27.00	*Previous*	*$0.33*	*$1.33*	*$1.40*
	EBIT		$1,173	$1,324
	Previous		*$1,158*	*$1,292*

For disclosure statements, including the Analyst Certification, please refer to page(s) 7 to 9.

BMO Capital Markets

IN Fact

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Legal Entity: BMO Capital Markets Corp.

2YR Price Volume Chart

LHS: Price ($) / RHS: Volume (mm) Source: FactSet

Company Data			in $
Dividend	$0.88	Shares O/S (mm)	392.4
Yield	3.5%	Market Cap (mm)	$9,924
P/BV	1.5x	Net Debt (mm)	$8,942

BMO Estimates (FY-Dec.) in $	2020A	2021E	2022E	2023E
EPS	$1.32	$1.36↑	$1.46↑	$1.54↑
DPS	$0.84	$0.88	$0.93	$0.99
EBIT	$1,064	$1,173↑	$1,324↑	$1,482↑
EBITDA	$1,789	$1,959↑	$2,143↑	$2,345↑

Consensus Estimates	2020A	2021E	2022E	2023E
EPS		$1.35	$1.41	$1.52

Valuation	2020A	2021E	2022E	2023E
P/E	19.2x	18.7x	17.4x	16.4x
Div. Yield (%)	3.3%	3.5%	3.7%	3.9%

QTR. EPS	Q1	Q2	Q3	Q4
2020A	$0.76	$0.13	$0.09	$0.34
2021E	$0.77a	$0.13a	$0.11a	$0.35
2022E	$0.89	$0.07	$0.06	$0.45
2023E	$0.94	$0.07	$0.06	$0.47

Our Thesis

We like several aspects of NI following the sale of Columbia Gas of Massachusetts and removal of the previously guided $500-700mm equity issuance overhang, which we believe meaningfully de-risked the story.

BMO Capital Markets

NiSource - Block Summary Model

Income Statement	2020A	2021E	2022E	2023E
Electric Operations	362	430	510	625
Gas Distribution	668	704	757	831
Parent & Other	2	2	2	2
Consolidated EBIT	1,064	1,173	1,324	1,482
Depreciation & Amortization	726	786	819	862
EBITDA	1,789	1,959	2,143	2,345
Interest Expense	371	366	406	483
Income Tax	127	143	169	196
Income from continuing operations	508	568	653	708
Weighted Average Shares Outstanding	384	419	449	459
Diluted Operating EPS	$1.32	$1.36	$1.46	$1.54
Dividends per Share	$0.84	$0.88	$0.93	$0.99
Cash Flow Statement	**2020A**	**2021E**	**2022E**	**2023E**
Operating Cash Flow	1,681	1,422	1,546	1,623
Investing Cash Flow	(879)	(2,050)	(2,500)	(3,350)
Financing Cash Flow	(100)	587	906	1,709
Net Change in Cash Flow	701	(41)	(48)	(18)
EOP Cash on Balance Sheet	804	763	715	697
Common stock (net)	360	1,211	348	198
Net debt issued/(repaid)	82	(200)	1,032	2,020
Dividends paid	(323)	(369)	(419)	(454)
Balance Sheet	**2020A**	**2021E**	**2022E**	**2023E**
Common Equity	5,735	7,185	7,808	8,300
Preferred Equity	880	880	880	880
Total Debt	9,746	9,546	10,578	12,598
Enterprise Value	$20,351	$21,671	$23,175	$25,455
Common equity %	35.1%	40.8%	40.5%	38.1%
Preferred equity %	5.4%	5.0%	4.6%	4.0%
Total Debt %	59.6%	54.2%	54.9%	57.8%
Book Value per Share	$17.21	$19.24	$19.36	$19.98

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

Our target price is the product of a P/E-based sum of the parts. We utilize a regulated average multiple using 2023E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook.

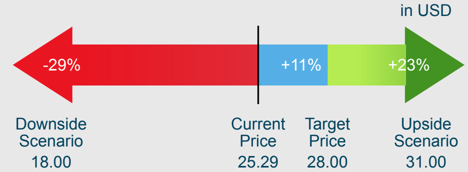
Upside Scenario $31.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile.

Downside Scenario $18.00

Our downside scenario reflects a tightening monetary policy and a deceleration of the company's rate base growth.

in USD



Key Catalysts

Use of proceeds from CMA sale. Potential for further asset rotation.

Company Description

NiSource, Inc. is a regulated utility holding company, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states. Through its Columbia Gas and NIPSCO brands, it provides natural gas, electricity, and other products and services. The company was founded in 1987 and is headquartered in Merrillville, Indiana.

NI-NYSE Research

Glossary

Company Models

BMO Capital Markets

Positive 2022 Outlook, IRP Update and Growth Rate Rebase Support Strong Growth Outlook Through 2024

NiSource reported 3Q21 NOEPS of $0.11, just above our own and consensus estimates of $0.10 and $0.09, respectively. Gas distribution operating income improved ~$8 million reflecting increased infrastructure investments, which were partially offset by the sale of Columbia Gas of Massachusetts in October 2020. Operating income at the electric segment was down ~$3 million net as operating revenues declined with lower residential usage but was partially offset by increased TDSIC revenues. **Given year-to-date performance, management is now targeting the "upper end" of its $1.32-1.36 NOEPS range, its second functional raise for the year after increasing its outlook with its equity financing transaction earlier this year.**

NiSource initiated better-than-expected 2022 guidance of $1.42-1.48, which implies 8.0% growth midpoint-to-midpoint and 6.6% growth off the high end of its 2021 range. This was above both our own and the Street's estimates at $1.40/1.42, respectively, and reflects both the company's tracked investments as well as the outcomes of its pending gas rate cases in Ohio (mid 2022), Kentucky, Maryland (December 2021), Pennsylvania (December 2021), and Indiana (September 2022). **Management again reiterated their 5-7% NT growth EPS CAGR ('21-23) and the 7-9% EPS CAGR through 2024, which is now based off the high end of its 2021 guidance range. This implies 2024 EPS of ~$1.71 which is in line with our $1.72 estimate. We believe this is a very important datapoint for the company as it returns to its traditional annual growth guidance model which is rebased off the previous year's operating results.**

On the call NiSource gave a preliminary view on the scope of its 2021 IRP. Specifically, NIPSCO Electric through its year-long RFP process has initially identified ~$750 million of incremental investment related to the retirement of its Michigan City Unit 12 coal facility (2026 to 2028) as well as peaking units 16A & 16B at its Schahfer facility. The initial scope of the preferred plan would include a Sugar Creek upgrade (30-53MW), solar (100-250MW), standalone battery storage (135-370MW), some gas peaking capacity (300MW), and a hydrogen pilot (20MW) as well as transmission upgrades. Although the timing, final combination of capacity replacement (subject to MISO seasonal capacity needs) and ownership percentage (50%+) will be finalized in the first half of 2022, management expects the initial spending on transmission to begin immediately given at least a three-year time frame to complete. **Additionally, the company's current preferred plan could allow it to bring forward the retirement of the Michigan City facility to as early as 2026 which would not only make NIPSCO coal free two years early, but could also accelerate the investment opportunity for the company into the 2025 time frame and add to its current 5-7% growth rate expected beyond the 2024 time frame.**

Management continues to see an extended growth runway beyond the significant EPS step up in 2024 as its $2 billion in renewable investments come fully into service. In addition to the additional rate base associated with its 2021 IRP at NIPSCO Electric (up to $750mm related to the Michigan City retirement), NiSource is planning to hold an Analyst Day in the first half of 2022 to discuss the extension of its current growth outlook across both its electric and gas operations. With its current '21-24 capital forecast of $9.7-10.6 billion driving an expected rate base growth of 10-12% and over $40 billion of identified investments, NiSource is looking to further outline the depth and extension of its investment opportunities that could allow the company to extend its peer-leading growth rate.

The company expects to update its dividend outlook in January. The company's current policy is centered around a 60-70% payout ratio which given our current EPS forecast through 2023 suggests a payout in the 64-66% range assuming a 5% annual growth rate or at the lower end of its 5-7% EPS CAGR through 2023. Given the company's confidence in its outlook for a 7-9% growth rate through 2024, which would

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result in a low 60% payout through the end of the current forecast, we believe management is likely to accelerate its dividend growth with the update early next year.

Reiterating financing plans through 2024. NiSource's current financing plans satisfy the renewable energy capital spend of ~$2 billion through 2024, which is funded by ~60% equity. As the company's current program strengthens the balance sheet into 2023, any equity financing related to its 2021 IRP would likely be similar to its current regulatory capital structure of 50% equity. Moreover, given some of the tax provisions outlined in the current Democratic Reconciliation bill including direct pay, NI may have some additional flexibility in how it finances its next round of renewable investments. That said, management said it continues to remain open to all options to finance its incremental capital investment opportunities including asset rotation/ optimization. However, given each of the company's utilities in its six-state footprint rate base grows at ~10% (Exhibit 2) and potential tax leakage, dis-synergies, and necessary regulatory approvals, we see any monetization as more strategic in nature rather than as a need to finance near-term equity funding.

We are raising our 2021 and 2022 EPS to $1.36 and $1.46 from $1.33 and $1.40, respectively, to reflect the company's strong year-to-date earnings and 2022 outlook. Our '23-24 estimates remain unchanged at $1.54 and $1.72, respectively. **We are raising our target price to $28/share to reflect the MTM or our peer utility group multiples and the incrementally more visible growth outlook discussed on today's call.**

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Exhibit 1: Model Summary

NI Model Summary	2019	2020	2021	2022	2023	2024	5-Year
EPS By Segment							
Electric Operations	$0.76	$0.63	$0.72	$0.82	$1.01	$1.15	*13%*
Gas Distribution	$1.12	$1.17	$1.08	$1.14	$1.19	$1.24	*1%*
Corporate & Other	($0.56)	($0.48)	($0.44)	($0.50)	($0.66)	($0.67)	*7%*
Consolidated E.P.S.	**$1.32**	**$1.32**	**$1.36**	**$1.46**	**$1.54**	**$1.72**	**6%**
Dividend per share	**$0.80**	**$0.84**	**$0.88**	**$0.93**	**$0.99**	**$1.05**	*5%*
Payout Ratio total	60.8%	63.6%	64.9%	64.1%	64.2%	60.9%	
Dividend Yield	2.9%	2.9%	3.0%	3.2%	3.4%	3.6%	
Valuation Metrics							
Price to Earnings	21.2x	22.2x	21.6x	20.1x	19.0x	17.0x	
Price to Book Value	1.7x	1.7x	1.5x	1.5x	1.5x	1.4x	
Funding Sources							
Cash Flow from Operations	$1,750	$1,681	$1,422	$1,546	$1,623	$1,824	*0.8%*
Total Debt Financings	$750	$2,974	$0	$1,080	$1,800	$0	
Total Equity Financings	$34	$360	$1,211	$348	$198	$911	
Credit Metrics							
Total Debt/Capitlization	61%	60%	54%	55%	58%	54%	
FFO/Total Debt	14%	13%	15%	15%	13%	15%	
Regulated Operations Performance - Realized ROE							
NIPSCO Electric ROE	12.3%	9.5%	11.0%	12.1%	13.2%	14.7%	
Columbia Gas of Ohio ROE	9.4%	9.1%	9.5%	9.7%	9.3%	9.5%	
Columbia Gas of Pennsylvania ROE	9.4%	9.1%	9.5%	9.7%	9.3%	9.5%	
NIPSCO Gas ROE	9.4%	9.2%	9.5%	9.7%	9.3%	9.5%	
Columbia Gas of Virginia ROE	9.4%	9.1%	9.5%	9.7%	9.3%	9.5%	
Columbia Gas of Kentucky ROE	9.3%	9.0%	9.4%	9.6%	9.2%	9.4%	
Columbia Gas of Maryland ROE	9.7%	9.3%	9.3%	9.5%	9.2%	9.3%	

Source: BMO Capital Markets, Company Filings

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Exhibit 2: Key Assumptions

Key Model Assumptions	2019	2020	2021	2022	2023	2024	5-Year
Total Capital Expenditures by Segment							
Electric Operations	$469	$422	$650	$1,100	$1,650	$500	**$4,322**
Gas Distribution	$1,380	$1,267	$1,400	$1,400	$1,700	$1,500	**$7,267**
Consolidated Capital Expenditures	**$1,849**	**$1,689**	**$2,050**	**$2,500**	**$3,350**	**$2,000**	**$11,589**
YE Rate Base Estimates							
NIPSCO Electric	$4,866	$5,240	$5,747	$6,515	$7,814	$7,931	*10.3%*
Columbia Gas of Ohio	$3,106	$3,412	$3,803	$4,182	$4,674	$5,080	*10.3%*
Columbia Gas of Pennsylvania	$1,883	$2,069	$2,306	$2,536	$2,834	$3,081	*10.3%*
NIPSCO Gas	$1,660	$1,824	$2,033	$2,236	$2,499	$2,716	*10.3%*
Columbia Gas of Massachusetts	$1,098	$1,207	$0	$0	$0	$0	
Columbia Gas of Virginia	$789	$867	$966	$1,063	$1,188	$1,291	*10.3%*
Columbia Gas of Kentucky	$338	$371	$413	$454	$508	$552	*10.3%*
Columbia Gas of Maryland	$136	$150	$167	$184	$206	$224	*10.4%*
Total Rate Base	**$13,876**	**$15,138**	**$15,437**	**$17,171**	**$19,722**	**$20,874**	***8.5%***

Source: BMO Capital Markets, Company Filings

Exhibit 3: SOTP Valuation

Regulated, Corporate & Other	Valuation Metric	2023E EPS	Sector Comp	Sector Multiple	Prem/ (Discount)	Base Multiple	BMO Low Case P/E Multiple	BMO Low Case Implied Value ($ MM)	BMO Base Case P/E Multiple	BMO Base Case Implied Value ($ MM)	BMO High Case P/E Multiple	BMO High Case Implied Value ($ MM)
Electric Operations	EPS	$1.01	Electric	17.6x	+7.5%	18.9x	15.1x	$15	18.9x	$19	20.9x	$21
Gas Distribution	EPS	$1.19	Natural Gas	15.2x	+15.0%	17.5x	12.7x	$15	17.5x	$21	19.5x	$23
Corporate & Other	EPS	($0.66)	Blend	18.1x	+0.0%	18.1x	18.1x	($12)	18.1x	($12)	20.1x	($13)
Utility & Parent Value		**$1.54**					11.9x	**$18**	18.1x	**$28**	20.1x	**$31**
Total NiSource Inc.								**$18**		**$28**		**$31**
Upside/(Downside)								(27%)		11%		23%
Current Yield								3%		3%		3%
Total Return								**(24%)**		**14%**		**26%**

Source: BMO Capital Markets, Company Filings

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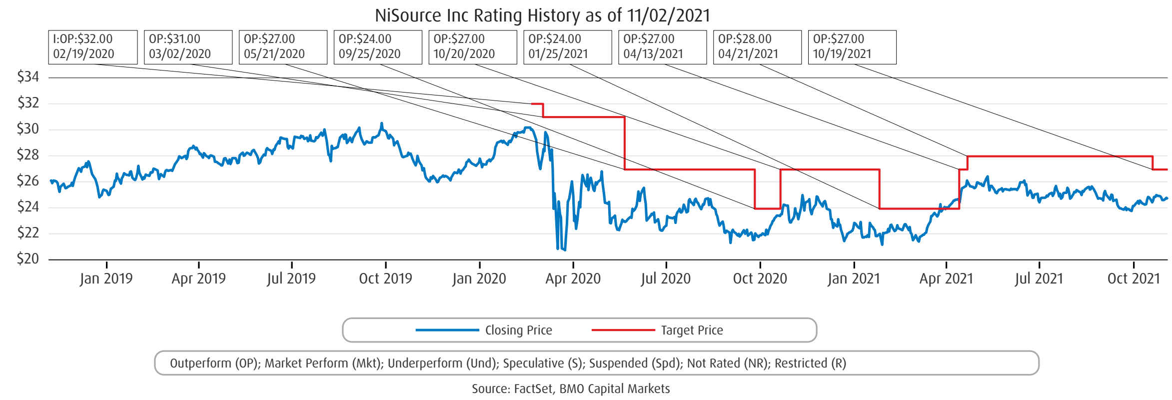

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Methodology and Risks to Target Price/Valuation for NiSource Inc (NI-NYSE)

Methodology: Our target price is the product of a P/E-based sum-of-the-parts (SOTP) analysis of the company's primary regulated operating companies. We utilize a regulated group-average multiple based on 2023E EPS as our initial basis for valuation and then make adjustments specific to each jurisdiction to reflect our current view of the fundamental outlook.

Risks: NI's regulated profile exposes the company to business risk including but not limited to federal and state regulatory risk, federal and state political risk, environmental policy, interest rate risk, access to capital markets, construction risk, changes in customer demand trends, changes in customer affordability, extreme weather, natural disaster, and equipment failure.

Distribution of Ratings (November 02, 2021)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	51.8 %	29.1 %	58.8 %	54.3 %	60.1 %	57.7%
Hold	Market Perform	46.9 %	20.9 %	38.2 %	44.4 %	38.5 %	37.5%
Sell	Underperform	1.3 %	57.1 %	2.9 %	1.3 %	1.3 %	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;
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(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

(January 2010 - April 2013)
http://researchglobal.bmocapitalmarkets.com/documents/2013/prior_rating_system.pdf

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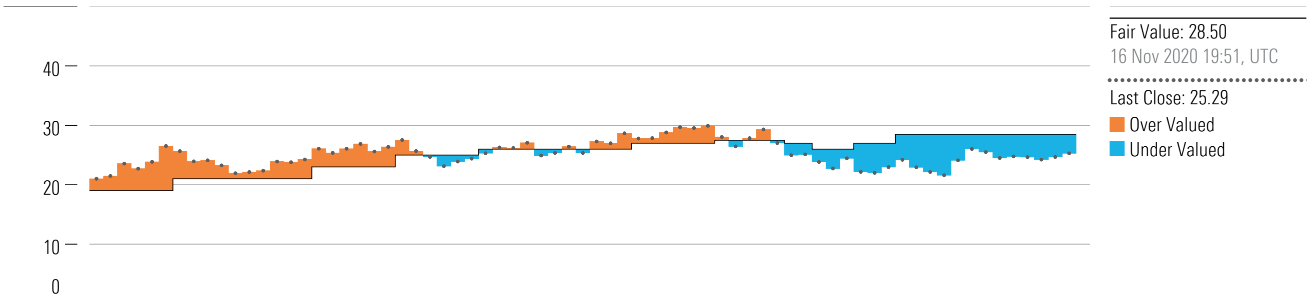
NiSource Inc NI ★★★★ 3 Nov 2021 21:24, UTC

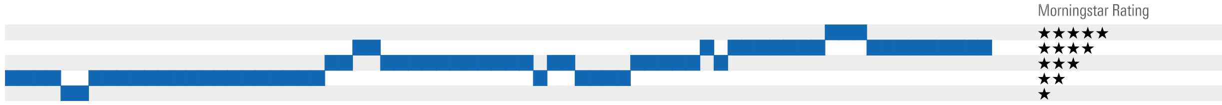
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
25.29 USD 3 Nov 2021	28.50 USD 16 Nov 2020 19:51, UTC	0.89	9.92 USD Bil 3 Nov 2021	Narrow	Stable	Low	Standard	3 Nov 2021 05:00, UTC

Price vs. Fair Value



	2016	2017	2018	2019	2020	YTD	
	1.05	1.03	0.98	1.01	0.80	0.89	Price/Fair Value
	16.76	19.11	1.79	12.98	-14.58	14.08	Total Return %

Morningstar Rating



Total Return % as of 3 Nov 2021. Last Close as of 3 Nov 2021. Fair Value as of 16 Nov 2020 19:51, UTC.

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The primary analyst covering this company does not own its stock.

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

NiSource Keeps Filling in Pieces of Its Long-Term Growth Plan

Analyst Note Travis Miller, Strategist, 4 Nov 2021

We are reaffirming our $28.50 per share fair value estimate after NiSource reported $0.11 earnings per share in the third quarter and $0.98 EPS for the first nine months on an adjusted basis. Earnings are on track to meet our full-year estimate within management's $1.32 to $1.36 guidance range. We are reaffirming our narrow moat and stable moat trend ratings.

Year-to-date earnings are flat from 2020 primarily reflecting the sale of Columbia Gas of Massachusetts in October 2020 and the $835 million of equity units NiSource issued in April. We expect growth to pick up in 2022 and accelerate beyond 2022. Management initiated 2022 earnings guidance of $1.42 to $1.48 per share, slightly above our estimate. Our 8% average annual earnings growth estimate beyond 2022 is in line with management's 7%-9% target.

NiSource continues to gain regulatory support for its long-term growth plan. NiSource's preferred integrated resource plan at its Indiana electric utility includes an opportunity for $750 million of investment to continue transitioning its coal generation fleet to renewable energy. Most of NiSource's planned $2 billion renewable energy investments will come in 2022 and 2023, setting up sizable revenue growth in 2023 and 2024.

NiSource's gas utilities continue reaching constructive regulatory outcomes that support our estimate for $1.5 billion of annual capital investment systemwide. The outcome of rate increase requests in Ohio and Indiana, NiSource's two largest gas utilities, will be a good indication of regulatory support for its

Morningstar Equity Analyst Report | Report as of 4 Nov 2021 11:44, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 2 of 17

NiSource Inc NI ★★★★ 3 Nov 2021 21:24, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
25.29 USD 3 Nov 2021	28.50 USD 16 Nov 2020 19:51, UTC	0.89	9.92 USD Bil 3 Nov 2021	Narrow	Stable	Low	Standard	3 Nov 2021 05:00, UTC

Sector
Utilities

Industry
Utilities - Regulated Gas

Business Description

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewables.

growth plan. We expect constructive outcomes based on ratemaking structures that minimize the time between NiSource's capital investments and customer rate adjustments.

Regulatory support enhances cash flow and should allow NiSource to pay a robust and growing dividend even as it executes its growth plan. We expect the board to approve at least a 5% dividend increase early next year.

Business Strategy & Outlook Charles Fishman, CFA, Equity Analyst, 4 Aug 2021

NiSource completed its separation from Columbia Pipeline Group in 2015 and now derives all of its operating revenue from its regulated electric and natural gas distribution utilities. About 60% of operating income comes from its six natural gas distribution utilities. The remaining 40% comes from its electric utility business in Indiana.

NiSource's utilities have regulatory frameworks that include automatic rate tracker mechanisms, with over 75% of planned capital expenditures, providing recovery of investments in less than 18 months. As a result of the favorable regulation and renewable energy investments in Indiana, we expect NiSource to step up its capital expenditures to almost $12 billion over the next five years, almost 40% higher than the previous five years.

Over the next 20 years, NiSource plans to invest about $40 billion in infrastructure improvements. Roughly 50% of these investments are expected to be for replacing steel and cast-iron pipe with plastic at its natural gas distribution utilities. Almost all of these investments receive rate tracker treatment. This allows NiSource to earn returns on these investments near allowed returns and consistently above its cost of capital.

In September 2018, a natural gas explosion killed one person north of Boston on NiSource's Columbia Gas of Massachusetts system. Insurance covered roughly half of the almost $2 billion of claims, penalties, and other expenses, but the event was a public relations nightmare. In October 2020, NiSource sold the Massachusetts utility for proceeds of $1.1 billion that will be used to strengthen the balance sheet and for regulated utility infrastructure investments.

Although the economic impact from the COVID-19 pandemic pressured earnings in 2020 due in large part to NiSource's high share of commercial and industrial customers, we expect a rebound in average annual EPS growth near 8% from 2021 to 2024 and strong dividend growth averaging about 6% annually.

Bulls Say Charles Fishman, CFA, Equity Analyst, 4 Aug 2021

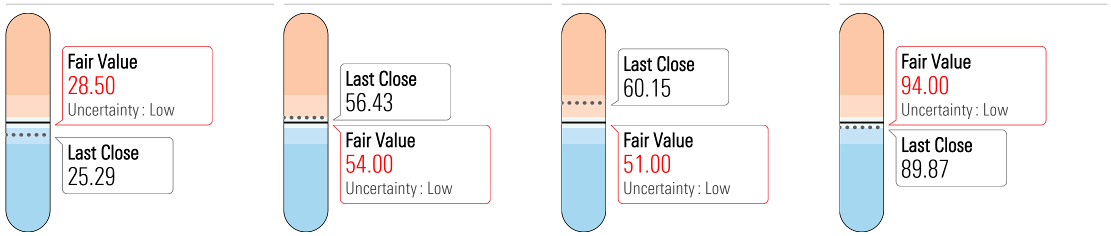
- We expect dividend growth near the midpoint of management's 5%-7% target over the next five years.
- We believe the separation of Columbia Pipeline Group from NiSource was good allocation of capital, as

Morningstar Equity Analyst Report | Report as of 4 Nov 2021 11:44, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

NiSource Inc NI ★★★★ 3 Nov 2021 21:24, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
25.29 USD 3 Nov 2021	28.50 USD 16 Nov 2020 19:51, UTC	0.89	9.92 USD Bil 3 Nov 2021	Narrow	Stable	Low	Standard	3 Nov 2021 05:00, UTC

Competitors



	NiSource Inc NI	Alliant Energy Corp LNT	CMS Energy Corp CMS	WEC Energy Group Inc WEC
Economic Moat	Narrow	Narrow	Narrow	Narrow
Moat Trend	Stable	Stable	Stable	Stable
Currency	USD	USD	USD	USD
Fair Value	28.50 16 Nov 2020 19:51, UTC	54.00 10 Aug 2021 14:17, UTC	51.00 28 Oct 2021 20:45, UTC	94.00 2 Nov 2021 20:21, UTC
1-Star Price	35.63	67.50	63.75	117.50
5-Star Price	22.80	43.20	40.80	75.20
Assessment	Under Valued 3 Nov 2021	Fairly Valued 3 Nov 2021	Over Valued 3 Nov 2021	Fairly Valued 3 Nov 2021
Morningstar Rating	★★★★3 Nov 2021 21:24, UTC	★★★3 Nov 2021 21:24, UTC	★★3 Nov 2021 21:24, UTC	★★★3 Nov 2021 21:24, UTC
Analyst	Charles Fishman, Equity Analyst	Andrew Bischof, Senior Equity Analyst	Travis Miller, Strategist	Andrew Bischof, Senior Equity Analyst
Capital Allocation	Standard	Standard	Standard	Standard
Price/Fair Value	0.89	1.04	1.18	0.96
Price/Sales	2.16	4.09	2.38	3.53
Price/Book	2.07	2.43	1.89	2.60
Price/Earning	50.58	22.57	21.11	21.66
Dividend Yield	3.48%	2.85%	2.85%	2.97%
Market Cap	9.92 Bil	14.12 Bil	17.43 Bil	28.35 Bil
52-Week Range	21.09—26.60	45.99—62.35	53.19—67.98	80.55—106.85
Investment Style	Mid Value	Mid Value	Mid Value	Mid Value

the market valued the individual businesses more highly at the time of the separation.

▶ New legislation has improved the regulatory framework in Indiana for NiSource's electric and natural gas distribution utilities.

Bears Say Charles Fishman, CFA, Equity Analyst, 4 Aug 2021

▶ Industrial customers account for over half of NiSource's electric sales, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.

▶ NiSource's electric and natural gas distribution businesses have substantial commercial and industrial customer exposure, increasing the impact of economic downturns.

▶ NiSource issued almost $2 billion of common and preferred shares in 2018 and 2019 and $862 million of convertible preferred securities in 2021. The additional shares will be a headwind to near-term EPS growth.

Economic Moat Charles Fishman, CFA, Equity Analyst, 4 Aug 2021

Service territory monopolies and efficient scale advantages are the primary moat sources for NiSource's regulated utilities. State and federal regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their infrastructure. In exchange for regulated utilities' service territory monopolies, state and federal regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow NiSource's regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing.

NiSource derives roughly 60% of its operating earnings from the regulated distribution of natural gas. For natural gas distribution service, regulators set distribution rates and the commodity price for customers purchasing natural gas from NiSource. NiSource recovers its costs for natural gas that it sells with a pass-through charge to customers. Thus, NiSource has no commodity price risk that could weaken its moat. Customers may elect to purchase natural gas from independent retail energy suppliers and use and pay for distribution services only. NiSource exited the no-moat retail energy supply business in 2010.

Electricity generation, which contributes about 40% of operating earnings, is from operations in Indiana and is also regulated. The rates for this service are combined with regulated customer rates for transmission and distribution service. In exchange for its monopoly position, state and federal regulators set NiSource's electric rates.

Fair Value and Profit Drivers Charles Fishman, CFA, Equity Analyst, 4 Aug 2021

Our fair value estimate is $28.50 per share.

We assume NiSource invests $40 billion in its electric and gas system the next 20 years, roughly half for pipeline and safety-related investments at its gas distribution utilities. Although the market is concerned about the future of natural gas, we believe there are significant technical and economic obstacles for the electrification of building space and water heating.

Investment in the gas distribution systems, primarily for pipeline replacement, is expected to accelerate over the next five years. We expect safety concerns will drive regulators to approve NiSource’s capital expenditure plan.

NiSource’s electric utility plans to close its last coal-fired power plant in 2028 and replace the capacity with wind, solar, and energy storage. Renewable energy and gas distribution infrastructure investment should result in better than 7% earnings growth, strong dividend growth, a better ESG profile, and lower risk for investors.

We use a 6.1% cost of capital in our discounted cash flow valuation, which incorporates a 7.5% cost of equity. Our cost of equity is lower than the 9% rate of return we expect investors will demand of a diversified equity portfolio. We believe our cost of equity reflects the risk associated with regulated electric and natural gas distribution utilities operating in states that have average to above-average regulatory frameworks.

Although our long-term pretax cost of debt assumption is 5.8%, recent debt financings have driven the weighted-average long-term interest rate on NiSource's long-term debt to under 3.7%. We incorporate a normalized long-term real rate environment and normalized credit spreads in our long-term view of interest rates, including a 2.25% long-term inflation outlook.

Our fair value estimate implies a 21 times multiple on 2021 earnings. Although this price/earnings multiple is historically high, we note that NiSorce's near-term earnings are depressed due to the impact of dilution from a recent convertible issuance to provide funding for future investment in renewable energy. We expect 12% EPS growth in 2024 when Indiana electric rates fully reflect recent and planned renewable energy investment.

Risk and Uncertainty Charles Fishman, CFA, Equity Analyst, 4 Aug 2021

Regulatory risk remains the key uncertainty; however, NiSource's regulatory exposure is diversified, owing to operations in six states and its federal-regulated electric transmission system. NiSource has reduced some of the regulatory uncertainty related to its planned natural gas distribution and electric utilities investments by securing preapprovals and favorable rate mechanisms that provide for automatic rate increases as infrastructure investments are made.

In 2020, NiSource announced it would eliminate all coal-fired generation from its power plant fleet by 2028, significantly reducing ESG risk. This transition will require signing power purchase agreements for renewable energy, building new solar and wind farms, and making modifications to its electric grid. There is a modest amount of execution risk to this dramatic transition from coal.

Capital Allocation Charles Fishman, CFA, Equity Analyst, 4 Aug 2021

We assign NiSource a Standard capital allocation rating due in large part to the fact that future capital spending is for low-risk regulated operations in constructive regulatory jurisdictions.

We think management's decision to form Columbia Pipeline Partners and execute Columbia Pipeline Group's tax-free separation exhibited excellent allocation of capital. However, NiSource's former CEO, who oversaw those decisions, left NiSource to go with CPG before retiring.

The National Transportation Safety Board found NiSource responsible for the gas explosion north of Boston. The incident had a negative effect on shareholder value and has been a public relations

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nightmare. However, Eversource Energy purchased the Massachusetts gas utility in October 2020 at an attractive purchase price that generated $1.1 billion in cash proceeds. We believe this was a good decision for shareholders and demonstrated good allocation of capital.

Joe Hamrock became CEO following the separation. He has been with NiSource since 2012 and previously ran the natural gas distribution business. Before joining NiSource, he was with American Electric Power. CFO Donald Brown joined NiSource in April 2015. Previously, he was with UGI Utilities and Constellation Energy. These individuals have significant utility experience, and we believe they will not stray from the strategy that has benefited shareholders.

Most of the executives and members of NiSource's board of directors were involved in the separation of CPG and oversight of investment decisions. Given this, we are confident that the solid capital allocation is likely to continue.

Analyst Notes Archive

Indiana Renewable Energy Investment Approval Provides Increased Confidence in NiSource's EPS Growth Charles Fishman, CFA, Equity Analyst, 4 Aug 2021

We are reaffirming our $28.50 per share fair value estimate after NiSource reported flat 2021 second-quarter operating EPS, reaffirmed operating earnings guidance, and provided an update to its planned renewable energy investment. Operating EPS in the recently ended quarter were $0.13, the same as in the second quarter of 2020.

We have reaffirmed our 2021 EPS estimate of $1.34, at the midpoint of NiSource's $1.32-$1.36 guidance. We believe flat second-quarter EPS was particularly positive, given the large equity issuance in April that increased average diluted common shares by 10%, to 423 million versus the same period last year. In addition, operating EPS in the second quarter excludes earnings from Columbia Gas of Massachusetts, which was sold in October 2020.

We also have increased confidence in our 7.9% annual EPS growth rate from 2021-24, near the midpoint of NiSource's 7%-9% target. Our increased confidence is due in large part to the fact that the eight renewable energy joint venture projects, which will require $2 billion from NiSource, have now all been approved by the Indiana Utility Regulatory Commission.

Although we think a tracking mechanism for the renewable projects would be more favorable for shareholders, pre-approval is a positive. Indiana regulation has been constructive and relatively consistent for investors with allowed returns modestly above industry averages. Assuming a favorable Indiana rate-case outcome, our 2024 EPS estimate of $1.68 is 12% higher than our 2023 EPS estimate of $1.50 due in large part to higher electric rates from the 2023 Indiana base rate case.

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NiSource Inc NI ★★★★ 3 Nov 2021 21:24, UTC

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Approval of Two Thirds of Renewable Energy Investment Increases Our Confidence in NiSource's Growth Charles Fishman, CFA, Equity Analyst, 5 May 2021

We are reaffirming our $28.50 per share fair value estimate after NiSource reported solid 2021 first-quarter operating EPS, increased and narrowed 2021 earnings guidance to the upper end of its previous range, and increased its planned four-year renewable energy investments. Management also reaffirmed its near- and long-term EPS growth rates established at the September 2020 Investor Day meeting.

NiSource upsized its planned renewable energy investments from 2021-24 to $2 billion, the upper end of its guidance range of $1.9 billion to $2 billion established in August 2020. During the conference call with investors, management indicated three more renewable energy projects received pre-approval by the Indiana Utility Regulatory Commission that day.

Two thirds of the $2 billion renewable energy investment has now been approved prior to the Indiana base rate case final decision expected in 2023. This increases our confidence in NiSource's ability to achieve its EPS growth target.

We believed the increase and narrowing of the 2021 earnings guidance range to $1.32-$1.36 from $1.28-$1.36 was especially positive due to the larger amount of equity to be recognized on the balance sheet and earlier issuance of the convertible securities than we assumed. In addition, the ongoing impact of COVID-19 on commercial and industrial customers is expected to be less than the $0.05 per share impact originally contemplated by management.

We increased our 2021 EPS estimate to $1.34 from $1.30 based on the revised outlook. NiSource also indicated that its 7%-9% targeted EPS growth rate from 2021 to 2024 is now anchored by the midpoint of the revised guidance, or $1.34. Our 2024 EPS estimate increased by $0.02 to $1.68, but our average annual growth rate estimate from the new 2021 guidance midpoint declined to 7.8% from 8%.

NiSource Reaffirms 2021 Earnings Guidance and Hints Renewable Energy Investments Could Go Higher Charles Fishman, CFA, Equity Analyst, 17 Feb 2021

We are reaffirming our $28.50 per share fair value estimate after NiSource reported solid 2020 operating EPS, reaffirmed 2021 guidance, and provided an update on its renewable energy projects in Indiana. The update on the utility's wind, solar, and energy storage projects increased our confidence in NiSource's investment plan.

The three solar-plus-storage projects announced in October are now awaiting approval by the Indiana Utility Regulatory Commission. Wholly owned Northern Indiana Public Service Company, or NIPSCO, plans to invest approximately $850 million in the joint ventures. Including the $400 million NIPSCO contributed to one operating wind farm and one wind farm under construction, NIPSCO is more than halfway to meeting its $1.8 billion to $2 billion renewable energy investment target.

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In addition to the $2 billion of planned projects, we thought it was especially positive that management indicated that its 2021 integration resource plan could create additional investment opportunities. NIPSCO plans to submit the IRP to Indiana regulators in the fourth quarter.

NiSource reported 2020 operating earnings of $1.32 per share, $0.02 higher than our estimate and the consensus estimate. The earnings were especially impressive when considering the $0.10 headwind due to lower commercial and industrial revenues and increased bad debt expense due to COVID-19.

NiSource reaffirmed its 2021 EPS guidance range of $1.28-$1.36 and our estimate of $1.32 at the midpoint of the range is unchanged. On Jan. 27, NiSource's board declared a 4.8% increase in its quarterly dividend that results in an annualized dividend of $0.88 per share. We forecast similar increases in 2022 and 2023 then accelerating growth when its Indiana renewable energy investments are recognized in rates in 2024.

Biden's Green Agenda Offers Growth Potential for Utilities Charles Fishman, CFA, Equity Analyst, 22 Jan 2021

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for U.S. utilities after President Joe Biden kicked off his environmental policymaking efforts. We consider the sector fairly valued.

We believe tighter environmental regulations are a net positive for most utilities. Growth investments in renewable energy, grid modernization, and electric vehicles should outweigh higher regulatory, operational, and financial risk. We forecast that the U.S. utilities we cover will invest $656 billion over the next five years, more than consensus expects and up from the $541 billion spent in the past five years. This supports our 5.5% average annual industry earnings growth outlook through 2024.

Biden's recommitment to the 2015 Paris Agreement won't have a material near-term impact on utilities. Most utilities' investment plans already reflect similar climate goals with support from state regulators and policymakers.

Investors should watch Biden's approach as the third president this decade to propose power plant emissions regulations. Courts have set a narrow path between Barack Obama's Clean Power Plan, which the Supreme Court stayed in 2016, and Donald Trump's Affordable Clean Energy rule, which was vacated by appeal on Jan. 19. We think it will be even tougher to get emissions legislation through Congress.

We expect emissions-reduction investments will remain a key growth driver for utilities because of state policies and demand from customers and investors. As the federal government has dithered, power plant carbon emissions have fallen 25% during the last decade due to economics and state

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policymaking. We forecast that natural gas generation will continue stealing market share from coal and renewable energy will double its market share by 2030.

We agree with consensus that Biden's interim goal of net-zero carbon emissions for the power industry by 2035 is unachievable with current technology and potential cost. A 2050 goal is more reasonable.

NiSource Reports Solid Third-Quarter Results; Indiana Renewable Energy Investments on Track

Charles Fishman, CFA, Equity Analyst, 3 Nov 2020

We are reaffirming our $27 per share fair value estimate after NiSource reported solid 2020 third-quarter operating EPS of $0.09 versus breakeven last year and reaffirmed 2021 and long-term earnings guidance. On Oct. 21, wholly owned Northern Indiana Public Service Company announced an agreement with NextEra Energy Resources LLC for the construction of three renewable energy projects totaling 900 MW of solar and 135 MW of battery storage.

The new projects will require a NIPSCO investment totaling $850 million. Combined with the $400 million of wind energy projects currently under construction, the utility will be more than 50% of the way to meeting its $1.8 billion to $2 billion renewable energy investment target initiated during its second-quarter earnings call on Aug. 5.

We estimate NIPSCO will invest $1.9 billion in renewable energy, which we expect will be included in rate base before the next electric general rate case filing planned for 2023. Indiana regulation has been constructive in the past and the commission has expressed support for renewable energy with NIPSCO and other Indiana utilities in recent integrated resource plans. Thus, we are confident that regulators will approve the investment and allow constructive regulatory treatment.

We estimate this renewable energy investment and other capital expenditures in electric and natural gas distribution will allow annual EPS growth exceeding 7% from 2021-24, in line with management's 7%-9% guidance initiated at the Sept. 29 Investor Day.

NiSource management indicated during the earnings conference call that the estimated impact of COVID-19 was only $0.01 per share in the recently ended quarter and reaffirmed that its 2021 EPS guidance range of $1.28-$1.36 includes a negative impact of $0.05 per share. This gives us additional confidence in the fading impact of the pandemic and our unchanged $1.32 full-year EPS estimate.

NiSource Plans to Increase Renewable Energy Investment by $2 Billion Charles Fishman, CFA, Equity Analyst, 6 Aug 2020

We are increasing our fair value estimate to $27 per share from $26 after NiSource reported 2020 second-quarter operating earnings per share of $0.13 versus $0.05 last year, initiated 2021 earnings guidance, and announced plans to invest an additional $1.8 billion-$2 billion in renewable energy

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through 2023.

The results were solid in what is normally a weak quarter for a utility that derives over 60% of its operating earnings from natural gas distribution.

We increased our five-year capital expenditure forecast by $2.9 billion, to $12.1 billion, based in large part on NiSource's projecting that its combined gas and electric rate base will increase to $20.7 billion by 2024 from $13.9 billion at the end of this year. We are a little more conservative than management and estimate a 2024 year-end rate base of $19.9 billion, but this would still represent an impressive average annual growth rate of 9.4% over the four-year period.

NiSource management had previously announced it would close its last Indiana coal-fired power plant in 2028, but the almost $2 billion investment in renewable energy through 2024 was more than we had anticipated. We had assumed the majority of the needed generating capacity to replace the retiring coal units would come from purchased power agreements. However, NiSource plans to have joint venture ownership in 50% of the additional renewable capacity, requiring the larger investment and driving rate base growth.

NiSource initiated a 2021 EPS guidance range of $1.28-$1.36, with a midpoint higher than our estimate of $1.30. We increased our 2021 EPS estimate to $1.32, the midpoint of the range, and also increased our 2022-24 estimates by $0.02-$0.09 per share. The increase in our earnings estimates were due to the higher rate base projections and was the primary driver of our higher fair value estimate.

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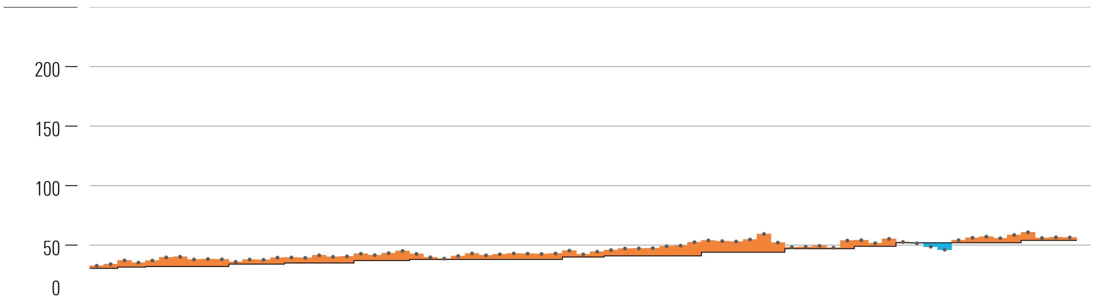
NiSource Inc NI ★★★★ 3 Nov 2021 21:24, UTC

Competitors Price vs. Fair Value

Alliant Energy Corp LNT



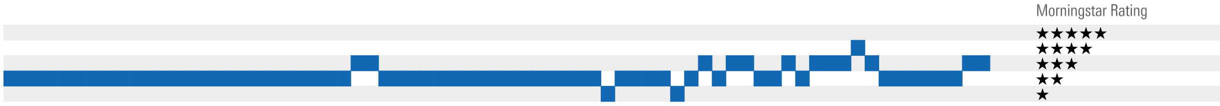
Last Close: 56.43

Fair Value: 54.00
10 Aug 2021 14:17, UTC

Over Valued
Under Valued

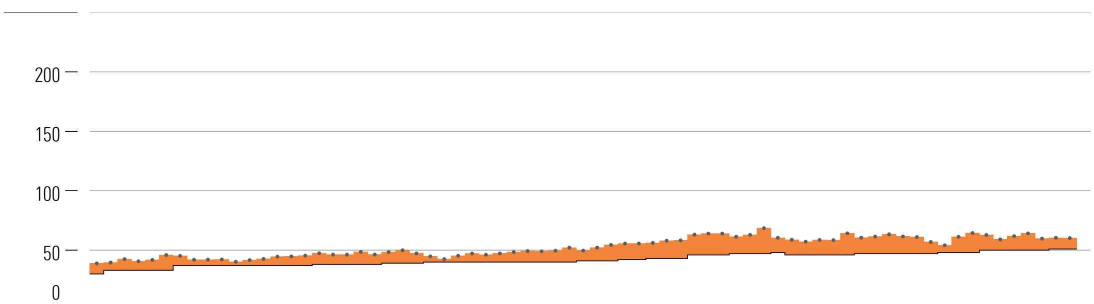
	2016	2017	2018	2019	2020	YTD
Price/Fair Value	1.11	1.12	1.06	1.24	0.99	1.04
Total Return %	25.11	15.78	2.30	32.88	-3.05	12.63

Morningstar Rating



Total Return % as of 3 Nov 2021. Last Close as of 3 Nov 2021. Fair Value as of 10 Aug 2021 14:17, UTC.

CMS Energy Corp CMS



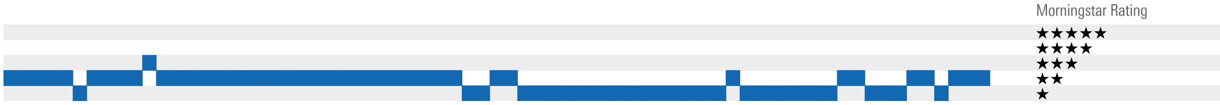
Last Close: 60.15

Fair Value: 51.00
28 Oct 2021 20:45, UTC

Over Valued
Under Valued

	2016	2017	2018	2019	2020	YTD
Price/Fair Value	1.12	1.21	1.21	1.34	1.30	1.18
Total Return %	18.79	16.84	7.99	29.65	-0.32	0.73

Morningstar Rating



Total Return % as of 3 Nov 2021. Last Close as of 3 Nov 2021. Fair Value as of 28 Oct 2021 20:45, UTC.

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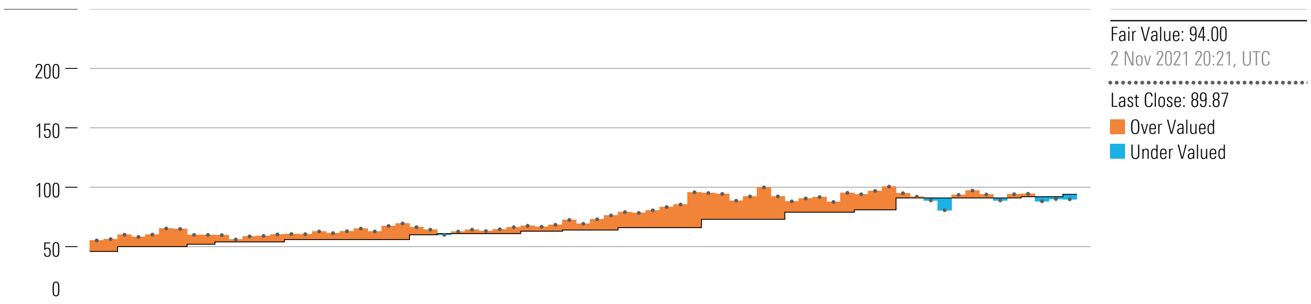
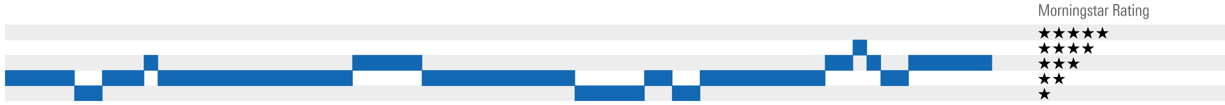
NiSource Inc NI ★★★★ 3 Nov 2021 21:24, UTC

WEC Energy Group Inc WEC



	2016	2017	2018	2019	2020	YTD
Price/Fair Value	1.09	1.11	1.08	1.26	1.01	0.96
Total Return %	18.16	16.81	7.59	36.57	2.53	-0.14

Morningstar Rating



Total Return % as of 3 Nov 2021. Last Close as of 3 Nov 2021. Fair Value as of 2 Nov 2021 20:21, UTC.

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NiSource Inc NI ★★★★ 3 Nov 2021 21:24, UTC

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Morningstar Historical Summary

Financials as of 30 Sep 2021

Fiscal Year, ends 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	TTM
Revenue (USD Mil)	5,751	5,031	4,625	5,272	4,652	4,493	4,875	5,115	5,209	4,682	3,491	4,702
Revenue Growth %	-9.7	-12.5	-8.1	14.0	-11.8	-3.4	8.5	4.9	1.8	-10.1	0.6	-3.4
EBITDA (USD Mil)	1,385	1,583	1,161	1,278	1,239	1,417	1,377	734	1,595	1,057	1,320	1,725
EBITDA Margin %	24.1	31.5	25.1	24.3	26.6	31.5	28.2	14.4	30.6	22.6	37.8	36.7
Operating Income (USD Mil)	917	1,004	699	792	802	865	927	126	1,305	961	729	958
Operating Margin %	15.9	20.0	15.1	15.0	17.2	19.3	19.0	2.5	25.1	20.5	20.9	20.4
Net Income (USD Mil)	299	416	532	530	287	332	129	-51	383	-18	419	503
Net Margin %	5.2	8.3	11.5	10.1	6.2	7.4	2.6	-1.3	6.3	-1.6	10.8	9.5
Diluted Shares Outstanding (Mil)	289	300	314	317	320	324	331	357	376	384	416	409
Diluted Earnings Per Share (USD)	1.03	1.39	1.70	1.67	0.90	1.02	0.39	-0.18	0.87	-0.19	0.91	1.09
Dividends Per Share (USD)	0.92	0.94	0.98	1.02	0.83	0.64	0.70	0.78	0.80	0.84	0.66	0.87

Valuation as of 29 Oct 2021

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Recent Qtr	TTM
Price/Sales	1.1	1.5	1.9	2.1	1.0	1.7	1.7	1.8	2.0	1.8	2.1	2.1
Price/Earnings	21.6	18.2	21.6	25.3	12.8	23.3	31.3	-87.7	22.6	-29.4	48.5	49.3
Price/Cash Flow	5.7	5.9	7.3	10.8	3.8	9.0	10.5	7.8	12.3	7.2	8.7	8.9
Dividend Yield %	3.86	3.78	2.98	2.4	4.25	2.89	2.73	3.08	2.87	3.66	3.59	3.57
Price/Book	1.3	1.4	1.8	2.2	1.6	1.9	2.0	2.0	2.1	2.0	2.0	2.0
EV/EBITDA	10.3	10.0	16.1	18.1	10.4	10.5	12.5	25.3	13.1	19.3	0.0	0.0

Operating Performance / Profitability as of 30 Sep 2021

Fiscal Year, ends 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	TTM
ROA %	1.5	2.0	2.4	2.2	1.4	1.8	0.7	-0.3	1.5	-0.3	—	2.0
ROE %	6.1	7.9	9.3	8.8	5.7	8.4	3.1	-1.4	6.6	-1.5	—	9.6
ROIC %	4.3	5.1	5.4	4.9	3.8	4.9	2.7	1.4	4.2	1.3	—	4.7
Asset Turnover	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	—	0.2

Financial Leverage

Fiscal Year, ends 31 Dec	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Recent Qtr	TTM
Debt/Capital %	55.6	55.1	56.3	56.9	60.8	59.8	63.5	55.3	56.8	61.6	58.6	—
Equity/Assets %	24.1	25.4	26.0	25.1	22.0	21.8	21.6	22.3	22.5	22.1	21.0	—
Total Debt/EBITDA	5.7	5.1	7.6	7.8	5.6	5.6	6.5	14.7	7.1	10.9	9.9	—
EBITDA/Interest Expense	3.7	4.0	3.2	3.5	3.3	4.0	3.8	2.0	4.3	2.9	5.2	5.2

Morningstar Analyst Historical/Forecast Summary as of 04 Aug 2021

Financials

Fiscal Year, ends 31 Dec	2019	2020	2021 (Estimates)	2022 (Estimates)	2023 (Estimates)
Revenue (USD Mil)	5,209	4,682	5,207	5,491	5,899
Revenue Growth %	1.8	-10.1	11.2	5.5	7.4
EBITDA (USD Mil)	2,023	1,687	1,820	1,985	2,235
EBITDA Margin %	38.8	36.0	35.0	36.1	37.9
Operating Income (USD Mil)	1,305	961	1,123	1,216	1,359
Operating Margin %	25.1	20.5	21.6	22.1	23.0
Net Income (USD Mil)	495	508	560	622	706
Net Margin %	9.5	10.8	10.8	11.3	12.0
Diluted Shares Outstanding (Mil)	376	384	417	445	469
Diluted Earnings Per Share(USD)	1.32	1.32	1.34	1.40	1.50
Dividends Per Share(USD)	0.80	0.84	0.88	0.92	0.97

Forward Valuation

	2019	2020	2021 (Estimates)	2022 (Estimates)	2023 (Estimates)
Price/Sales	2.0	1.9	1.9	1.8	1.7
Price/Earnings	21.1	17.4	18.9	18.1	16.9
Price/Cash Flow	-48.6	-13.7	-17.2	-12.4	-6.8
Dividend Yield %	2.87	3.66	3.48	3.64	3.84
Price/Book	—	—	—	—	—
EV/EBITDA	10.4	12.1	11.4	10.5	9.3

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

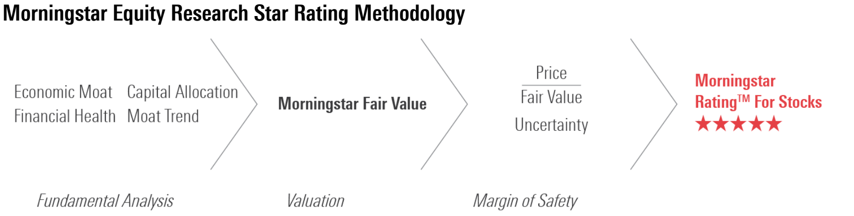
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to

Morningstar Equity Research Star Rating Methodology



Morningstar Equity Analyst Report | Report as of 4 Nov 2021 11:44, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 15 of 17

Research Methodology for Valuing Companies

bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

Qualitative Analysis Uncertainty Ratings	Margin of Safety ★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

4. Market Price

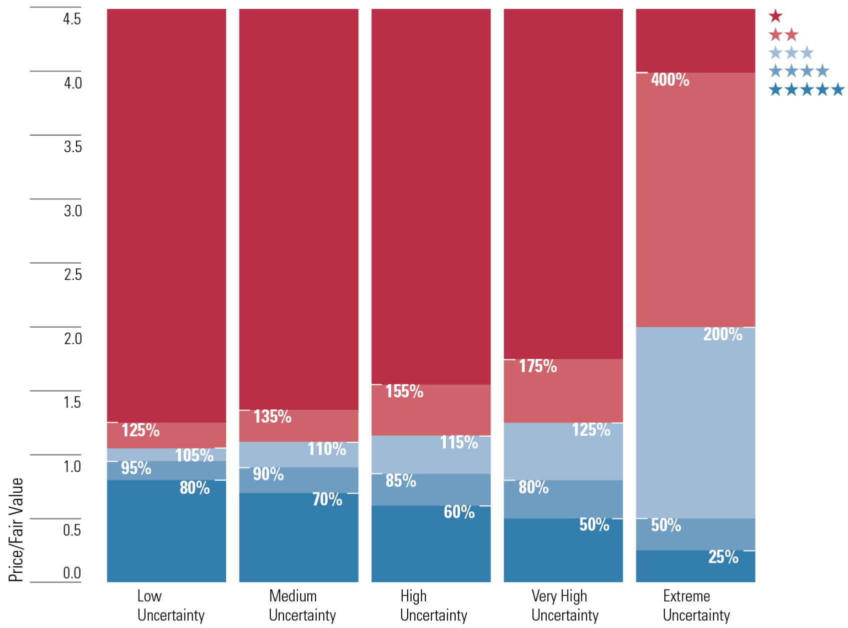
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close

Morningstar Equity Research Star Rating Methodology



tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exem-

Research Methodology for Valuing Companies

plary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

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Goldman Sachs | Equity Research

3 November 2021 | 8:12AM EDT

NiSource Inc. (NI): First Take: 3Q2021 beats consensus; guidance and growth rate a positive

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NiSource (NI, Buy) reported 3Q21 operating EPS of $0.11, versus GS/FactSet consensus of $0.13/$0.10 and 3Q2020 EPS of $0.09. The company guided to the top end of its 2021 guidance range of $1.32-$1.36 (midpoint $1.34) versus GS/consensus of $1.33/$1.34. NI initiated 2022 guidance of $1.42-$1.48 ($1.45 mid-point) largely in-line with GSe ($1.44) but higher than consensus ($1.42).

Key takeaway: We view the results and guidance as a positive, noting the reaffirmed 7-9% EPS CAGR through 2024 now utilizes the revised top-end of the 2021 guidance as the base, while the 2023 growth of 5-7% is based off of the mid-point of 2022 guidance. This re-based growth implies 2024 EPS off $1.68-$1.71 versus GSe of $1.66. We also see favorably the identified ~$750mn of incremental capital opportunities from the upcoming IRP filing.

Key takeaways from NI's release and slides include:

- **NIPSCO expects to file its formal Integrated Resource Plan (IRP) by mid-November with investments in new generation capacity presenting potential capital upside of $750mn.** In our recent NI upgrade note, based on the four preferred scenarios for replacement capacity additions assuming 2026 retirement of the Michigan City coal plant, and assuming 50% split between company owned and PPA, we calculated potential for up to $600mn in incremental capital, or ~4% of 2021E rate base. We believe these potential investments could support visibility for robust growth beyond the 2024 time frame.
- **Capital plan remains unchanged at $10bn total through 2024**, with roughly $1.9-$2.2bn of annual base investments as well as $2bn on renewable generation (largely in 2022 and 2023) that all have received approval from the Indiana utility commission. NI reiterated their forecast of no bulk equity needs through 2024 (given the equity units offering earlier this year), while reiterating $200-$300mn of annual ATM equity financing through 2022 and up to $150mn in 2023. They also guided to issuing up to $800mn of additional debt through 2023 while targeting FFO/debt ratio of 14-15%.
- **3Q2021 missed versus GSe on operating income at Electric and Gas Distribution** segments driven largely by higher O&M expenses.

- **Around 77% of NI's gas needs for 2021/2022 winter season is hedged**, largely through storage, for half of residential/commercial gas customers that utilize NiSource procured supply. The other half - choice participants (using 3rd party gas procurement), could see a range of prices based on gas purchase options.

Key topics to monitor on NI's earnings call (11am ET) include: 1) update on the Ohio gas rate case and what's embedded in the company's EPS growth guidance, 2) latest thoughts on potential monetization opportunities at its various regulated utilities, 3) thoughts on the upcoming IRP filing (expected on mid-November) and recently concluded RFP solicitation at NIPSCO including potential for faster fleet transition to renewables - with current plan proposing retiring all coal by 2026-2028, and 4) assumptions behind EPS growth trajectory through 2024.

Our 12-month price target of $29 embeds an 18x P/E on the gas segment 2023 EPS estimate, in line with our baseline multiple, while applying a 19x P/E on the electric segment 2023E EPS, a 1x premium to our baseline multiple to reflect the segment's above-average (versus peers) growth through 2024E.

Key downside risks include regulatory approvals for the planned renewable investments in Indiana, cost management, and rate case overhang in Ohio and Maryland.

NI	12m Price Target: **$29.00**	Price: **$24.74**	Upside: **17.2%**

Buy

Market cap: $9.7bn
Enterprise value: $21.1bn
3m ADTV: $81.0mn
United States
Americas Utilities
M&A Rank: 3

GS Forecast

	12/20	12/21E	12/22E	12/23E
Revenue ($ mn)	4,681.7	4,627.5	4,897.8	5,146.2
EBITDA ($ mn)	1,687.3	1,777.2	2,064.4	2,231.0
EBIT ($ mn)	961.4	1,019.1	1,236.3	1,306.1
EPS ($)	1.32	1.33	1.44	1.57
P/E (X)	18.6	18.6	17.2	15.8
EV/EBITDA (X)	11.9	11.4	11.3	11.3
FCF yield (%)	(6.9)	(6.9)	(8.6)	(16.4)
Dividend yield (%)	3.4	3.6	3.8	4.0
Net debt/EBITDA (X)	5.7	5.4	5.2	5.5

	6/21	9/21E	12/21E	3/22E
EPS ($)	0.12	0.13	0.30	0.76

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2 Nov 2021 close.

Disclosure Appendix

Reg AC

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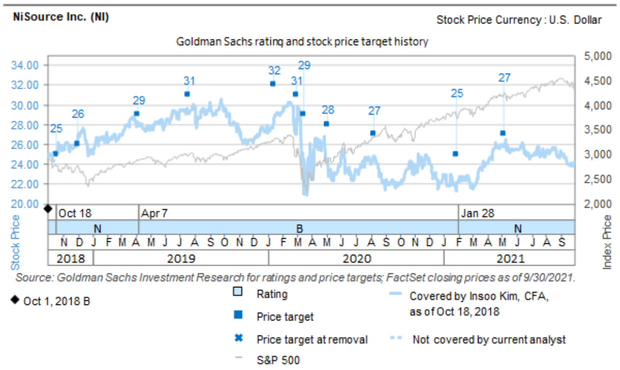
Price target and rating history chart(s)



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Accessible version

BofA GLOBAL RESEARCH

BofA SECURITIES

Beat with healthy FY21 and FY22 guidance

NI reported 2Q21 EPS of $0.11, beating BofAe of $0.10, Street of $0.09, and 3Q20 EPS of $0.09. Returns on increased safety/modernization investments and lower COVID-19 impacts were offset by the sale of Columbia Gas of Massachusetts. Mgmt. pointed to the top end of FY21 EPS guidance of $1.32-$1.36, albeit no guidance raise, but now in line with our FY21 EPS estimate of $1.36. Mgmt. initiated FY22 EPS guidance of $1.42-$1.48 which implies 6.5% growth off of the top-end of FY21 of $1.36 and is in the upper half of the near-term (through '23) EPS growth rate of 5-7%. Also better than our est and Street too ($1.40/1.42, respectively). NI reiterated its capital and financing plan.

Framing the future renewables capex above our ests.

NIPSCO recently outlined its preferred future generation portfolio stemming from its 2021 IRP. While we did not expect a formal update to the capital plan or growth rate just yet, mgmt. highlighted that investments of up to $750M will be necessary to replace the Michigan City Coal Plant and the gas peaking units at the Schahfer Generating Station site - this compares favorably to our prelim estimates for capex of ~$430M-$800M. Remember, we calculated a wide range because NIPSCO chose a potential combination of two preferred resource paths and only assume 50% ownership of renewables.

Solid progress on renewables additions at NIPSCO related to the 2018 integrated resource plan (IRP) with all of the projects totaling $2B in capex receiving approval from the Indiana Utility Regulatory Commission (IURC). There continues to be some concern on whether renewables supply chain issues will impact NI's planned capex, and we do not believe that given strong counterparties (i.e. NextEra, Capital Dynamics, EDP, and others), NIPSCO is in a good position.

Reiterate Buy as we see the potential for an extended high-growth runway based on the 2021 IRP with the new generation capex estimates providing support for the thesis. We expect a further update on the growth path and refinement of the capex estimates as the request for proposals (RFP) takes shape in 1H22 (during an analyst day). We also see the potential for NI to point to a longer-term capex and growth profile (like AEE, DUK, and CNP) which should help give investors comfort on the long growth runway. A coal-free NI should open the door for a new group of ESG-focused investors and support the re-rating.

Estimates (Dec) (US$)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EPS	1.32	1.32	1.36	1.40	1.58
GAAP EPS	0.87	1.33	1.28	1.40	1.58
EPS Change (YoY)	1.5%	0%	3.0%	2.9%	12.9%
Consensus EPS (Bloomberg)			1.34	1.42	1.53
DPS	0.83	0.88	0.94	0.99	1.05
Valuation (Dec)					
P/E	18.7x	18.7x	18.2x	17.7x	15.7x
GAAP P/E	28.4x	18.6x	19.3x	17.7x	15.7x
Dividend Yield	3.4%	3.6%	3.8%	4.0%	4.3%
EV / EBITDA*	15.2x	13.9x	12.9x	11.9x	10.5x
Free Cash Flow Yield*	-2.3%	-6.7%	-5.4%	-10.0%	-17.5%

* For full definitions of *IQmethod* SM measures, see page 6.

03 November 2021

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Stock Data

Price	24.74 USD
Price Objective	28.00 USD
Date Established	22-Jul-2021
Investment Opinion	B-1-7
52-Week Range	21.09 USD - 26.60 USD
Mrkt Val (mn) / Shares Out (mn)	9,708 USD / 392.4
Average Daily Value (mn)	87.38 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2021E)	10.3%
Net Dbt to Eqty (Dec-2020A)	167.4%
ESGMeter™	**High**

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NIPSCO: Northern Indiana Public Service Co.

IRP: integrated resource plan

iQprofile ℠ NiSource Inc

iQ**method* ℠ **– Bus Performance

(US$ Millions)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on Capital Employed	3.3%	4.1%	4.2%	4.4%	4.7%
Return on Equity	9.9%	10.2%	10.3%	9.7%	10.5%
Operating Margin	17.1%	22.0%	20.3%	21.8%	24.3%
Free Cash Flow	(219)	(654)	(520)	(970)	(1,703)

iQ**method* ℠ **– Quality of Earnings

(US$ Millions)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Cash Realization Ratio	3.2x	2.2x	2.6x	2.6x	2.5x
Asset Replacement Ratio	2.5x	2.4x	2.6x	3.1x	4.0x
Tax Rate	24.4%	18.3%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	158.6%	167.4%	133.6%	143.6%	164.8%
Interest Cover	2.4x	2.8x	3.0x	3.2x	3.0x

Income Statement Data (Dec)

(US$ Millions)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales	5,209	4,697	5,516	5,676	5,970
% Change	2.5%	-9.8%	17.4%	2.9%	5.2%
Gross Profit	3,674	3,587	3,904	4,039	4,309
% Change	10.5%	-2.4%	8.8%	3.5%	6.7%
EBITDA	1,608	1,757	1,904	2,065	2,327
% Change	5.0%	9.3%	8.3%	8.5%	12.7%
Net Interest & Other Income	(384)	(339)	(371)	(390)	(490)
Net Income (Adjusted)	**495**	**508**	**569**	**615**	**705**
% Change	**6.8%**	**2.6%**	**12.2%**	**8.1%**	**14.7%**

Free Cash Flow Data (Dec)

(US$ Millions)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Net Income from Cont Operations (GAAP)	328	511	537	615	705
Depreciation & Amortization	717	726	783	827	874
Change in Working Capital	(75)	(249)	0	0	0
Deferred Taxation Charge	118	(29)	126	143	182
Other Adjustments, Net	495	145	34	0	0
Capital Expenditure	(1,802)	(1,758)	(2,001)	(2,555)	(3,464)
Free Cash Flow	**-219**	**-654**	**-520**	**-970**	**-1,703**
% Change	**82.9%**	**-198.5%**	**20.5%**	**-86.5%**	**-75.5%**

Balance Sheet Data (Dec)

(US$ Millions)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Cash & Equivalents	148	117	126	126	126
Trade Receivables	905	825	825	825	825
Other Current Assets	800	718	718	718	718
Property, Plant & Equipment	16,912	16,620	17,837	19,565	22,156
Other Non-Current Assets	3,894	3,762	3,762	3,762	3,762
Total Assets	**22,660**	**22,041**	**23,267**	**24,995**	**27,586**
Short-Term Debt	1,787	526	517	583	697
Other Current Liabilities	1,959	1,753	1,753	1,753	1,753
Long-Term Debt	7,856	9,220	9,031	10,186	12,168
Other Non-Current Liabilities	5,071	4,704	4,829	4,972	5,154
Total Liabilities	**16,673**	**16,203**	**16,131**	**17,495**	**19,772**
Total Equity	**5,987**	**5,752**	**7,051**	**7,415**	**7,728**
Total Equity & Liabilities	**22,660**	**21,955**	**23,182**	**24,910**	**27,501**

* For full definitions of *iQmethod* ℠ measures, see page 6.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

Our Buy rating on NI is underpinned by 1) likely positive revisions given ultra conservative EPS CAGR guidance baked into consensus, 2) renewable rate base upside, and 3) the ability to re-rate higher following any gas LDC asset sale.

Stock Data

Average Daily Volume	3,554,680

Quarterly Earnings Estimates

	2020	**2021**
Q1	0.76A	0.77A
Q2	0.13A	0.13A
Q3	0.09A	0.10E
Q4	0.34A	0.39E

Progress on the regulatory front; OH key to watch

NI continues to make progress on the regulatory front, coming to agreements with stakeholders in PA and KY. Recently, the administrative law judge in the Columbia Gas of PA case recommended the rate case settlement be accepted as filed. Constructive that NI was able to return to its settlement ways in the state following the contentious 2020 rate case. On Oct. 27, Columbia Gas of KY filed a settlement with stakeholders in its rate case, and Columbia Gas of MD received an Administrative Law Judge (ALJ) recommendation in late Oct.

OH continues to be the case to watch as NI's largest gas utility. Not a lot of progress has been made as we are still awaiting a procedural schedule, but we note other circumstances at the Commission, namely FE, is the center of attention for now, and are not concerned about any delays at the point.

NIPSCO Gas also filed a rate case recently for a $115M increase net of trackers based on a 10.5% ROE and 57.68% equity layer. New rates are proposed effective Sep. '22 and Mar. '23.

What else are we watching? Gas costs and RNG

Expect mgmt. to address concerns on the rising gas costs going into the winter. A large percentage of Columbia Gas' customers are under the CHOICE program, Columbia Gas has storage across its footprint, and percentage of the supply is hedged. The gas market has caused gas utilities to underperform electric peers, and while we are cautious on the backdrop for many, we see this as short-term phenomenon, and believe that longer-term, gas utilities can re-rate closer to their electric peers.

Renewable Natural Gas? While we have not heard mgmt. talk a lot about the potential for renewable natural gas (RNG) investments and supply into the system, we could see this pick up as mgmt. seems to be more focused on the alternative fuel. We expect this dynamic to pick up with potential legislation in states to backstop and pilot partnerships upcoming.

Price objective basis & risk

NiSource Inc (NI)

Our $28 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2024 forward P/E multiples that are marked-to-market to the lates peer utility multiples of 13.6x for gas and 16.0x for electric with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex potentially beginning in '24, but acknowledge industrial risk. We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos. We believe NI's 5-7% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are under-estimated given its discounted multiple versus peers.
Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, higher natural gas prices, and inability to execute on renewables additions.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Aric Li
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Ryan Greenwald
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	EVgo Inc.	EVGO	EVGO US	Ryan Greenwald
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Adhok Bellurkar
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith

***iQ**method* SM **Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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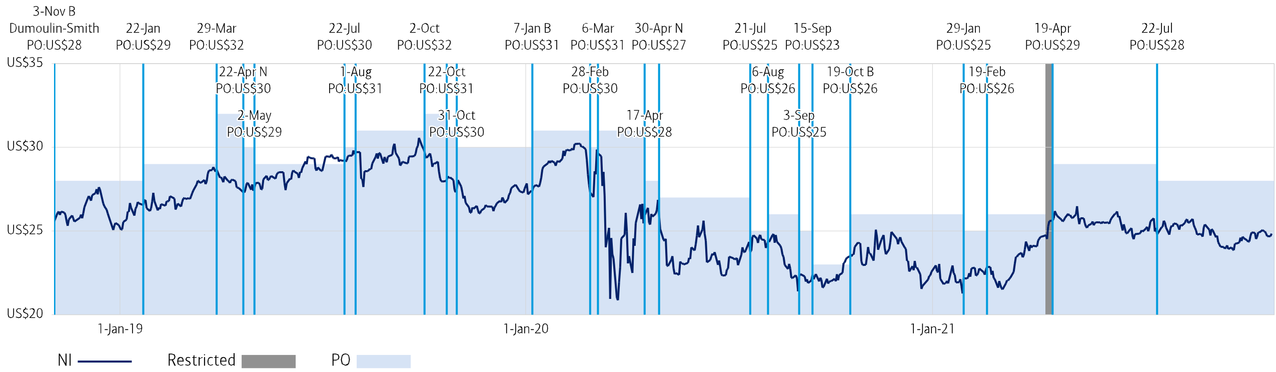
Important Disclosures

NiSource Inc (NI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	86	62.32%	Buy	65	75.58%
Hold	27	19.57%	Hold	15	55.56%
Sell	25	18.12%	Sell	15	60.00%

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	79	50.32%	Buy	56	70.89%
Hold	37	23.57%	Hold	30	81.08%
Sell	41	26.11%	Sell	27	65.85%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1973	59.66%	Buy	1254	63.56%
Hold	665	20.11%	Hold	404	60.75%
Sell	669	20.23%	Sell	343	51.27%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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UBS

Global Research | 3 November 2021

First Read

NiSource Inc.
Positive '21/'22 Guides

2021 EPS Top End of Range; 2022 Midpoint EPS Above Consensus/UBS

NI reported 3Q EPS above UBS/Consensus estimates and noted it expects 2021 to come in at the upper end of its $1.32-$.36 range vs. consensus estimate of $1.34. Further NI initiated 2022 EPS of $1.42-$1.48 vs. consensus estimate of $1.42. NI expects 7-9% NOEPS growth through 2024 on a compounded annual growth rate basis from top end of 2021 guidance, which includes 5-7% annual growth in the near term through 2023. On capital investments, NI noted it expects to spend ~$2B in 2021 and $2.4-$2.7B in 2022 with 10-12% compound annual rate base growth for each of its businesses through 2024. Overall a quarter beat, 2021 guide at the top end of its range above the street's estimates, and a 2022 mid-point above the street, we expect today's results to be viewed favourably.

3Q EPS Above UBS/Consensus; Rate Case Updates

NI reported 3Q EPS of $0.11 above UBS/Consensus estimate of $0.10. NI expects its preferred plan from its IRP to be submitted by mid-November to the Indiana Utility Regulatory Commission; it announced its preferred plan on October 21st, which refines the timeline of the Michigan City Generating Station coal fired generation to be retired to between 2026 and 2028. Columbia Gas Ohio rate case continues to progress (order expected in 2022), NIPSCO Gas filed a rate case for a $115MM increase on Sept. 29th. The ALJ recommended the Pennsylvania PUC approve a settlement on the PA rate case which would increase revenue by $58.5MM (above UBSe of ~$49MM). In Kentucky a joint stipulation settlement agreement and recommendation was filed with the Kentucky Public Service Commission in late October; if approved it would be a $18.6MM increase (vs. UBSe of $13.4MM) and in Maryland a final order is expected in December.

Updating Estimates

We are raising our 2021E EPS to $1.36 from $1.34 on the quarter beat and lower than expected costs. We are increasing 2022E EPS to $1.45 from $1.42 on settlements higher than UBSe.

Valuation:

We maintain our Buy rating and our $29 PT. Our price target is based on sum-of-the-parts P/E valuation and 2022 EPS of $1.45

Equities

Americas
Gas Utilities

12-month rating	**Buy**
12m price target	**US$29.00**
Price (02 Nov 2021)	**US$24.74**
RIC: NI.N **BBG:** NI US	

Trading data and key metrics

52-wk range	US$26.47-21.26
Market cap.	US$10.5b
Shares o/s	423m (COM)
Free float	99%
Avg. daily volume ('000)	843
Avg. daily value (m)	US$20.8
Common s/h equity (12/21E)	US$5.05b
P/BV (12/21E)	2.1x
Net debt to EBITDA (12/21E)	6.4x

EPS (UBS, diluted) (US$)

	12/21E			
	From	To	% ch	Cons.
Q1	0.77	0.77	0	0.77
Q2	0.13	0.13	0	0.13
Q3E	0.10	0.11	4	0.10
Q4E	0.37	0.38	4	0.36
12/21E	1.34	1.36	1	1.34
12/22E	1.42	1.45	2	1.42
12/23E	1.52	1.54	1	1.53

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Highlights (US$m)	12/18	12/19	12/20	12/21E	12/22E	12/23E	12/24E	12/25E
Revenues	5,095	5,184	4,697	4,757	5,044	5,339	5,585	5,772
EBIT (UBS)	942	1,047	1,031	1,071	1,259	1,390	1,526	1,608
Net earnings (UBS)	463	495	507	571	637	684	747	791
EPS (UBS, diluted) (US$)	1.30	1.32	1.32	1.36	1.45	1.54	1.66	1.75
DPS (net) (US$)	0.79	0.84	0.88	0.90	0.96	1.02	1.08	1.14
Net (debt) / cash	(9,892)	(10,374)	(10,501)	(11,616)	(12,835)	(15,101)	(15,840)	(16,572)
Profitability/valuation	**12/18**	**12/19**	**12/20**	**12/21E**	**12/22E**	**12/23E**	**12/24E**	**12/25E**
EBIT (UBS) margin %	18.5	20.2	22.0	22.5	25.0	26.0	27.3	27.9
ROIC (EBIT) %	7.7	7.9	7.5	7.5	8.0	7.7	7.6	7.6
EV/EBITDA (UBS core) x	10.6	10.6	9.9	10.8	10.2	9.4	8.7	8.2
P/E (UBS, diluted) x	19.4	21.2	18.6	18.2	17.1	16.1	14.9	14.1
Equity FCF (UBS) yield %	(14.5)	(1.6)	(6.0)	(6.0)	(9.7)	(18.3)	(2.9)	(2.5)
Dividend yield (net) %	3.1	3.0	3.6	3.6	3.9	4.1	4.3	4.6

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$ 24.74 on 02-Nov-2021

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Forecast returns

Forecast price appreciation	+17.2%
Forecast dividend yield	3.8%
Forecast stock return	+21.0%
Market return assumption	5.4%
Forecast excess return	+15.6%

Company Description

NiSource is an investment-grade rated energy company engaged in natural gas distribution and electric generation, transmission, and distribution. NiSource's operating companies deliver natural gas and electric service to approximately four million customers located across seven states, including IN, KY, MA, MD, OH, PA, and VA. Local utilities are Columbia Gas and NIPSCO. NiSource has a plan to spend ~$30bn over the next 20+ years on infrastructure enhancements to meet safety and reliability needs and comply with environmental requirements.

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. Our price target is derived using a sum-of-the-parts P/E valuation.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	54%	32%
Neutral	FSR is between -6% and 6% of the MRA.	36%	30%
Sell	FSR is > 6% below the MRA.	10%	23%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 September 2021.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
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UBS Securities LLC: Michelle Kenel, CFA, Shneur Z. Gershuni, CFA.

Company Disclosures

Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[13,16]	NI.N	Buy	US$24.74	02 Nov 2021

Source: UBS. All prices as of local market close.
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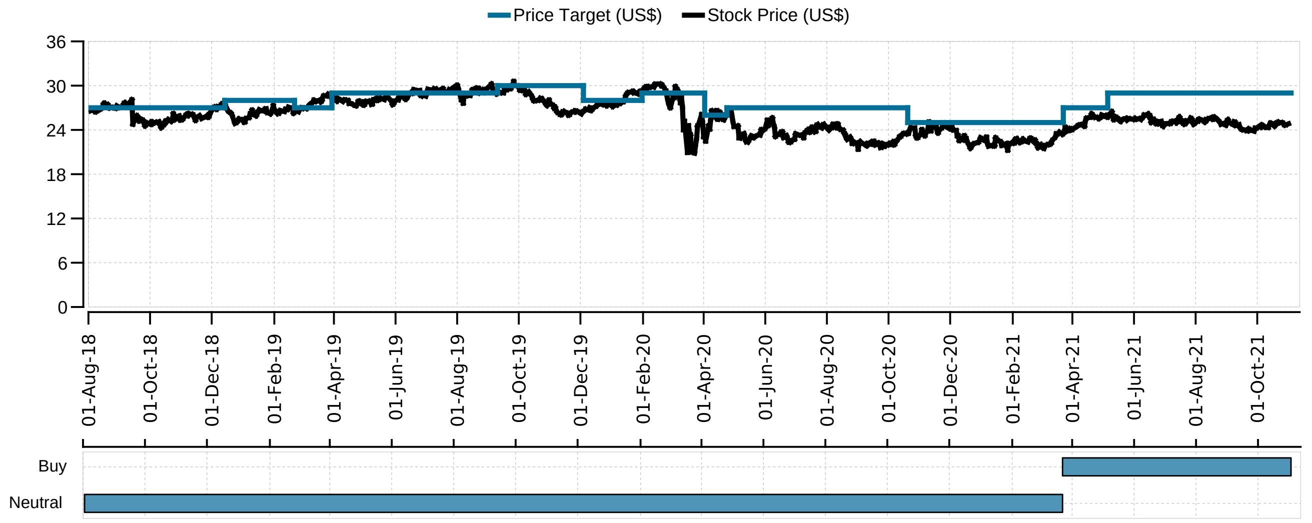
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2018-08-02	26.29	27.00	Neutral
2018-12-13	27.62	28.00	Neutral
2019-02-20	26.28	27.00	Neutral
2019-03-29	28.66	29.00	Neutral
2019-09-09	28.91	30.00	Neutral
2019-12-03	26.41	28.00	Neutral
2020-01-30	29.10	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral
2020-10-19	23.47	25.00	Neutral
2021-03-22	23.42	27.00	Buy
2021-05-05	25.78	29.00	Buy

Source: UBS; as of 02-Nov-2021

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WOLFE RESEARCH

The Fleishman Daily 11/3/21

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Utilities: NI, AWK, ETR, EXC, ES, EVRG, FERC, PNW, EIX, WEC, PEG
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D – VA elects Republic Governor and House of delegates appears to switch Republican too; worries on surface but won't change anything on energy
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ETRN – Election of Youngkin in Virginia boosts chances of MVP water permit approval

Utilities

NI – Q3 in-line, FY21 now to be at top end; 2022 guidance beats big; EPS growth targets re-based off higher 2021; positive
AWK – Q3 in-line, FY21 reaffirmed; 2022 guide misses on HOS sale, EPS CAGR lowered to 7-9%; $6B of capex added to 10-yr plan; mixed
ETR – Q3 meets, FY21 guidance raised, 2022-23 outlook unchanged, new 2024 outlook consistent with 5-7%; slightly positive
EXC – Q3 in line, FY21 guidance narrowed; focus is on spin, nuke PTCs; in line
ES – Q3 miss but no longer points to low end of FY21 guidance; still sees upper half of 5-7% LT EPS growth ex offshore; in line
EVRG – Q3 EPS beats big and big 2021 guidance raise, but all on weather and one-timers
FERC – Senate Energy committee unanimously votes in favor of DC PSC Chair Willie Phillips appointment
PNW – I am speechless, I am without speech
EIX – Flashbacks in way of brighter future
WEC – Making it official
PEG – Nuclear option is nice to have

Midstream

TRGP – Moody's upgrades the credit to Ba1
Midstream – Off to a good start…key earnings takes in 1 concise report

Clean Energy

Ørsted – Q3 beats, FY21 guidance unchanged as CHP plants mitigate impact of wind speeds; in line
NOVA – ECP files to sell 6M shares, will bring total ownership of NOVA just below 10%
FSLR – U.S. ITC to hold hearing today on Section 201 tariffs
AES – Partnering with Microsoft to bring 24/7 renewable energy to its VA data centers
SEDG – N-T margin pressures, but storage upside

Wolfe Utility, Midstream & Clean Energy Materials: Utility Comps, Utility Stock Charts, Midstream Comps, Midstream Stock Charts, Clean Energy Comps, Valuation Charts, Models, Arb Spreads

Quarterly Data: Weather, Forward Prices, Spot Prices, Nuke Outages

Elections

Biden clean energy credits – Democrats election losses may give further impetus to get the Build Back Better infra plan passed

- Sweeping Democrat losses across state elections yesterday will likely be a wake up call into the 2022 midterm elections
- What are implications for the Biden Build Back Better infra plan and associated clean energy credits? We could argue both ways.

- Bull case – these losses will motivate the Dems to get a compromise passed across their party – the clean energy credits have not been a sticking point so will likely survive
- Bear case – the losses strengthen the hand of moderate Dems, and shrinking support from Independents leads to a more slimmed down and targeted bill

- We take the Bull case view that the Dems losses increase their motivation to compromise and get a bill passed by YE.

D – VA elects Republic Governor and House of delegates appears to switch Republican too; worries on surface but won't change anything on energy

- Republican Glen Youngkin won the Governor election in VA.
- The House of Delegates appears to have switched to majority Republican as well (51-49) from prior Democrat control (55-45)

D may initially be weak on this news, but we think it means very little for D and the Clean Energy law in the state. First there is no change in Senate which is still Democrat controlled. Second, energy was not a focus of the race and we don't see the Republicans looking to scrap the Clean Energy law even if they take over the Senate in the future. Third, the legislature decides on SCC appointments, not the Governor. And finally, the small subset of anti-Dominion legislators that make noise every legislative session are actually Democrats who ended up losing most of their seats yesterday.

AGR – Maine votes against NECEC transmission in referendum; negative

- Maine voters have voted "Yes" to a referendum vote against AGR's NECEC transmission line – press reports this morning indicate the margin was 60-40
- The "Yes" vote would prohibit the construction of electric transmission lines defined as *high-impact* in the Upper Kennebec Region, including the NECEC, and require a two-thirds vote of each state legislative chamber to approve *high-impact* electric transmission line projects
  - The law is expected to take effect around January 3 assuming the Secretary of State and Governor affirm the results
- Clean Energy Matters (an AGR political action committee) issued a release last night that it plans to challenge the decision in court (recall the Maine Supreme Court last year originally ruled against there being a referendum)
- AGR disclosed on its call last week that it has already spent ~$400M on the project or roughly 40% of total costs, construction was expected to be completed in 2023
- There are also pending challenges at the Maine courts related to a one-mile section, at FERC between AGR and NEE, and at the Maine DEP

Not a good two days for AGR after the PNM recommendation Monday night. We're a bit surprised here. A lot of money was spent on both sides, but NECEC had the backing of Governor Mills (D), former Governor LePage (R), local newspapers, labor leaders, and the chamber of commerce. We expect AGR to challenge this in court, but it's possible construction continues in the meantime, which could be risk. We include NECEC transmission in our estimates – AFUDC on the project is worth $0.06/sh in 2022 guidance and escalates until the project is in-service, after which the earnings power temporarily dips and then rises over time to mimic a levelized ROE of a rate-based transmission project – ie: steady-state earnings power of $0.14/sh in our estimation.

PEG/FE/EXC – New Jersey gubernatorial race too close to call, but projections indicate incumbent Murphy (D) prevails

- As of this morning, incumbent New Jersey Governor Phil Murphy (D) and challenger Jack Ciatterelli (R) are in a dead heat, though press reports indicate the remaining votes to be counted (~12%) are primarily absentees and in Democrat areas of the state
- Additionally, Senate President Steve Sweeney (D), who has held that position since 2010 and is the longest-serving legislative leader in state history, was initially declared the winner in his race before it was retracted and now seems poised to lose
- New Jersey has one of the most ambitious climate agendas of any state – laying out an energy master plan that featured nuclear support for decades, 7.5 GWs offshore wind by 2035, EV support, etc.

ETRN – Election of Youngkin in Virginia boosts chances of MVP water permit approval

- The election of Republican Glenn Youngkin will likely mean higher chances of approval of MVP's required water permits
- The Democratic candidate, Terry McAuliffe, had supported the pipeline during his previous term, but had stayed away from talking about the pipeline during the campaign

We felt that chances were high for state water permit approval with their candidate but we believe there is less uncertainty with Youngkin. For ETRN the main question at this point is probably still the Fourth Circuit.

Utilities

NI – Q3 in-line, FY21 now to be at top end; 2022 guidance beats big; EPS growth targets re-based off higher 2021; positive

- **Q3 in-line**. NI reported EPS of $0.11 which was in-line with us/cons at $0.10

- **FY21 now to be at the top end**. NI expects 2021 to finish at the top end of its $1.32-1.36 range vs cons/us currently at $1.34
- **2022 guidance beats big**. Guidance range of $1.42-1.48 – well above us/cons at $1.42; the $1.45 midpoint implies 6.6% growth off the top end of NI's 2021 guidance
  - NI still sees 5-7% annal EPS growth through 2023, 7-9% CAGR through 2024
  - **Using the higher 2021 base and growth target midpoints, this implies $1.54 in 2023 (cons = $1.53, WRe $1.51) and $1.72 in 2024 (cons = $1.69, WRe $1.70)**
- **NIPSCO preferred IRP = investments of up to $750M.** Any potential projects and investments that emerge will likely being to be announced in 2022
- **2021-24 capex forecast and financing plan unchanged.**
- **Mitigating gas cost pressures.** Only 50% of resi and commercial customers are supplied gas by NI; 77% of procured supply needs for 2021/22 winter season are hedged; this means only 10-15% of the customers' bill where NI procures the gas is actually exposed to S-T nat gas volatility

This is a very good update from NI – 2021 is now expected to be at the top end of the range, but more importantly, the L-T EPS growth targets re-based off the higher 2021. Also, the company is outlining up to $750M of investment through its preferred IRP portfolio which would be incremental to any base plan. The key question for the IRP/RFP is how much of the replacement generation NI will ultimately be able to own in rate base. We will also be interested to get an update on the pending gas rate cases in OH and IN.

AWK – Q3 in-line, FY21 reaffirmed; 2022 guide misses on HOS sale, EPS CAGR lowered to 7-9%; $6B of capex added to 10-yr plan; mixed

- **Q3 in-line**. AWK reported EPS of $1.53 which matched cons (WRe $1.50)
- **FY21 reaffirmed**. Guidance range of $4.18-4.28 vs cons at $4.25 (WRe $4.24)
- **2022 guidance misses on HOS sale**. Guidance range of $4.39-4.49 vs cons at $4.61 (WRe $4.58)
  - Growing EPS 8.5% (midpt of prior range) off FY21 midpoint implies ~$0.15 dilution next year from the HOS sale which we think moderates over time given the added capex
- **EPS CAGR lowered to 7-9%**. AWK's new EPS CAGR is down from 7-10% previously and is anchored off 2022 guidance midpoint through 2026
  - Dividends still expected to growth at the high end of 7-10%; targeted payout of 55-60%
- **$3.1B of capex added to 5-yr plan, $6B to 10-yr plan**. Reflective of redeployment of HOS sale proceeds; AWK's rate base CAGR is now 8-9% vs 7-8% previously
- **$1.1B of equity in 5-yr plan**. To support elevated capex plan; timing of the issuance shifted one year out vs prior plan which we believe means in 2023 or 2024
- **$1B of after-tax proceeds from HOS sale**. AWK entered into a Cooperation Agreement where, for 39 months after deal close, AWK will compensate the buyer for any monetary losses that result from the pending grand jury subpoena regarding HOS operations in NYC

This is a big update from AWK following the news of the HOS sale earlier this week. Our initial view is mixed. We like the juiced capex plan for the regulated utilities and the 100% regulated/regulated-like earnings profile of the company moving forward. But as we expected, the HOS sale is dilutive and this wasn't a business that ever got a discount from investors. While the range for the EPS CAGR is lower, it is still one of the best within the sector. On the call, we will be interested to get more details on the HOS sale, including how meaningful the revenue sharing agreement is, what the elevated capex plan might mean in terms of more frequent rate cases or if most can be recovered through existing trackers and specific timing for the $1.1B of equity.

ETR – Q3 meets, FY21 guidance raised, 2022-23 outlook unchanged, new 2024 outlook consistent with 5-7%; slightly positive

- **3Q21 in line:** $2.45 vs consensus $2.44, WRe $2.31.
- **Raises 2021 guidance to top half of range, reaffirms 2022-23 outlooks, gives new 2024; maintains 5-7% EPS growth off 2020 of $5.60:** Guidance vs consensus and WRe:
  - 2021: $5.80-6.10 vs $5.91 consensus; $5.94 WRe
  - 2022: $6.15-6.45 vs $6.36; $6.32
  - 2023: $6.55-6.85 vs $6.72; $6.80
  - 2024: $6.95-7.25 vs $7.11; $7.11
- **EEI disclosures**: At the EEI conference this weekend, ETR will provide preliminary 2022 drivers, rate base estimates through 2024, 2022-24 capex, a renewable update and LT opportunities.
- **Storm restoration, Uri costs continue to weigh on B/S but expects over 14% by 2023**: Once the 2020-21 storm costs are securitized, ETR targets FFO/Debt over 14% on a Moody's basis (14-16% on a S&P basis) by 2023. Equity plans of $1.23B through 2024 announced in Sep appear unchanged.
- **3Q21 weather-adj sales grow 2.8%, with industrial again strong**: For 3Q21, +2.8% sales growth (Resi -2.9%, Comm +0.5%, Ind +9.9%). ETR sees FY21 growth of 1% (was +2.2% previously but Hurricane Ida impacted ~1.5%).

We view the results as slightly positive given the FY21 guidance raise to top half of the original range and 2024 outlook consistent with 5-7% LT EPS growth. We are happy to see ETR remove its current FFO/D metric from the slides which was a useless number if one believes they will get hurricane recovery cost recovery as in the past. On the call, we expect investor focus on LT EPS growth, equity needs, renewables opportunities, sales growth and any updates from the SERI proceedings at FERC.

EXC – Q3 in line, FY21 guidance narrowed; focus is on spin, nuke PTCs; in line

- **3Q21 in line.** $1.09 vs $1.09 consensus and $1.19 WRe. Unrealized losses on equity investments were -$0.10 (we had estimated -$0.03).
- **2021 guidance narrowed but same midpoint.** To $2.70-2.90 from $2.60-3.00 vs $2.78 consensus and $2.89 WRe. By segment:
  - Utility net parent guidance: $2.15-2.35 vs $2.09 WRe.
  - ExGen guidance: $0.55-0.75 vs $0.80 WRe.

- **ExGen tax-free spin on track to close 1Q22.** Last month, a notice of impending settlement negotiations was filed with the NYPSC; NRC expected to complete its review by 11/30; and FERC has already approved the spin.
- **ExGen 2021 gross margins rise $500M on addition of EDF's share of CENG and including Byron/Dresden, but unchanged ex those items, using 9/30/21 vs 6/30/21 pricing.** 2021 GM rises $500M to $7.2B on the inclusion of said items but remains flat with last quarter at $5.75B with TX hit or $6.7B without TX (same as before). ExGen now sees adjusted O&M of $4.075B vs $3.7B last quarter, reflecting inclusion of same items.
- **EXC utilities TTM ROE slightly declines**. 9.3% through 3Q21 vs 9.4% through 2Q21.

The narrowing of FY21 guidance appears to reflect lower expected unrealized gains from equity investments and the inclusion of Byron, Dresden and EDF's share of CENG. The ExGen/Constellation spin is on track for approval within the next few months. On the call, we believe the main investor focus will be on potential upside from federal nuclear PTCs, which have been proposed in the impending reconciliation bill; the upside is meaningful. We also anticipate questions on timing of the spin and Constellation's 2021 gross margins or EBITDA with a full run rate for Byron/Dresden and EDF's share of CENG. We also expect questions on EXC legacy's LT financial outlook and utility rate base growth.

ES – Q3 miss but no longer points to low end of FY21 guidance; still sees upper half of 5-7% LT EPS growth ex offshore; in line

- **3Q21 ongoing EPS misses:** $1.02 vs. $1.05 consensus, $1.04 WRe. Excludes $0.20 of non-recurring charges, which includes the CT settlement (see below).
- **Reaffirms 2021 guidance but no longer points to low end:** ES' $3.81-3.93 excludes non-recurring charges. Consensus is $3.83 and WRe is $3.87.
- **Still targeting upper half of 5-7% LT EPS growth through 2025:** Growth off 2020A of $3.64 implies 2024E within $4.60-4.77, in line with consensus of $4.66 and WRe of $4.65.
- **Offshore wind earnings excluded from targeted EPS growth but they would raise it above 5-7%:** ES and Ørsted are developing three projects totaling 1,758 MW:
  - South Fork: 130 MW into NY; in-service targeted for late 2023; COP decision due mid-Jan 2022.
  - Revolution: 704 MW into RI (400 MW) and CT (304 MW); in-service targeted for 2025; COP expected in in 3Q23.
  - Sunrise: 924 MW into NY; in-service now targeted in late 2025; COP expected in in 3Q23.
- **CT settlement approved; EV, grid mod and AMI in MA/CT:** ES noted the key elements of the CT settlement, including $65M credit, $10M customer assistance funding, stayout through at least 1/1/24 and no change to allowed ROE or capital structure. ES is seeking EV and AMI capex in both CT; ES filed a compliance filing on the former. ES sees AMI capex of ~$475M by YE25. In MA, ES filed for a ~$200M grid mod capex over 2022-25 and $575M capex for AMI in 2022-27.

The Q3 results and outlook are in line with expectations. With CT settled, we anticipate questions on today's call will mostly focus on the pending offshore wind projects and their potential upside to EPS growth, as well as upcoming auctions in which ES/Ørsted will participate (e.g., NY Bight, next NY RFP, etc).

EVRG – Q3 EPS beats big and big 2021 guidance raise, but all on weather and one-timers

- **Q3 2021 adjusted EPS of $1.98 vs. $1.73 last year – big beat** vs. consensus $1.77 and our $1.76 estimate
  - Drivers: weather (+0.20), transmission margin (+0.06), lower taxes (+0.04); partially offset by weather-normal sales (-0.06)
- **Raised 2021 adjusted EPS guidance to $3.50-3.60 from top-half of $3.20-3.40** (consensus: $3.36; WRe: $3.35)
  - Driven by warm weather (+0.18) and one-timers (+0.05); more than offsetting weaker weather-normal sales (-0.14)
- **Reaffirms 2022 EPS guidance of $3.43-3.63** (consensus: $3.52; WRe: $3.54)
  - Drivers unchanged outside of reversion in weather (-0.18) and one-timers (-0.05)
- **Increasing dividend 7.0% to $2.29/sh annualized**
- **Reaffirms 6-8% EPS growth target through 2025** off original 2021 midpoint of $3.30
- **Weather-normal sales -1.2% in Q3** (R/C/I = -3%/+1%/flat)
  - YTD +0.9%
- Rate base growth, capex, and zero equity plans from Analyst Day all unchanged

A massive beat and raise, as EVRG keeps the good news coming after its late-September Analyst Day, though it's almost entirely due to weather and one-timers. It's still good to see solid evidence that the new mgmt. team is poised to execute well going forward.

FERC – Senate Energy committee unanimously votes in favor of DC PSC Chair Willie Phillips appointment

- Yesterday, the Senate Energy Committee unanimously voted in favor DC PSC Chairman Willie Phillips (D) nomination to fill the open FERC seat
- Phillips will now go before the Senate floor for final confirmation
- Phillips would fill the seat left vacant by Neil Chatterjee (R) and give the Democrats a 3-2 majority at FERC

This was mostly expected, as it appears this is close to a done deal. FERC will soon again be fully staffed. Most in focus at FERC have been transmission ROEs and planning, the former of which has seemed to take a more pro-consumer bent recently and could be further exacerbated by a Democratic majority.

PNW – I am speechless, I am without speech
Click here to view our complete note
ACC votes to approve rate case, no changes; slashing estimates. Post close, the ACC issued a final vote on APS's rate case. With a 3-2 vote (Olson & Kennedy voted no because they wanted an even worse outcome), the ACC approved the amended ROO without any changes to the version that was discussed last week. Key provisions include partial recovery of the SCRs, an 8.7% ROE (lowest of any vertically integrated utility) and several disallowances for expenses that were previously recovered in rates. This outcome was not the worst case, but it is still very bad. With the rate case now finalized, we are reducing our 2022/2023 by $0.38/$0.45 to reflect the amendments that were passed since the initial ALJ ROO was proposed (we prev. assumed the SCRs were fully recovered too). Our PT moves to $63 from $69 on our lower estimates. We embed a 20% discount vs our group avg to account for the acutely challenging regulatory environment in AZ. We remain Underperform rated.

EIX – Flashbacks in way of brighter future
Click here to view our complete note
2021 guidance cut but LT outlook intact; best est. of 17/18 damages rises. After close 11/2, EIX's 3Q21 of $1.69 missed $1.75 consensus on timing of GRC decision, and EIX cut its recently disclosed 2021 guidance to $4.42-4.52 from $4.42-4.62, below then-consensus of $4.54. But EIX kept its 5-7% EPS growth target based on $4.52 in 2021. EIX also added $500M of storage capex to its 2021-25 plan and raised its rate base growth to 7-9% from 6-8%. EIX announced a $550M settlement with the CPUC's Safety Enforcement Division related to enforcement action over the 2017/18 wildfire/mudslides. However, EIX raised its best estimate of total 17/18 damages to $7.5B from $6.2B, with $2.2B remaining to be resolved (that was $1.4B in 2Q21), which is a little disappointing. Although the results were mixed, we see higher rate base growth and no new equity to fund the higher 17/18 damages estimate. Still, the stock trades at a 27% discount to peers. We view that as particularly steep because EIX has not been found imprudent in any of the past wildfires in its territory. And if EIX can maintain its currently allowed ROE, that would add another $0.22 to our 2023E. We raise our PT $1 to $69 on the incremental rate base.

WEC – Making it official
Click here to view our complete note
Formally raising EPS growth rate to 6-7% from upper-half of 5-7%
WEC refreshed its five-year capital plan today and with it, officially raised its EPS growth rate to 6-7%. WEC had in place a 5-7% EPS CAGR since the TEG deal and most recently was noting a strong bias to the upper-half of the range. However, WEC's track record has already been 7% growth and we expect this to continue. WEC also pointed to the direct pay provision of the Biden clean energy bill as nice benefit to cash flow (50-100bps FFO/Debt).

PEG – Nuclear option is nice to have
Click here to view our complete note
Q3 EPS beats nicely, 2021 guidance raised again
PEG reported Q3 EPS of $0.98 – ahead of consensus/us at $0.92. Q3 was up versus $0.96 last year, driven by PSE&G rate base growth and some one-time items, offset some by Power's weaker hedge pricing and taxes/O&M at Parent. PEG again raised 2021 guidance to $3.55-3.70 from $3.50-3.65 previously. This still reflects the absence of depreciation on the held-for-sale fossil assets and Power debt-related interest savings. We continue to like PEG's core utilities story with an upside option from a potential federal nuclear PTC. Outperform.

Midstream

TRGP – Moody's upgrades the credit to Ba1

- This morning, Moody's upgraded Targa's credit rating to Ba1 from Ba2. TRGP had previously been put on positive outlook.
- Moody's cited "remarkable" improvement in credit metrics given an improving outlook, strong FCF, and debt reduction
- Moody's expects TRGP to buy in the DevCo in early 2022 for $925M using cash and revolver borrowings
- The rating could be further upgraded to investment grade if TRGP continues to demonstrate conservative financial policies, further simplifies its capital and organizational structures, keeps leverage below 4x, and decreases exposure to commodity prices

Targa is now a notch away from investment grade ratings at both Moody's and S&P. At our conference a month ago, Moody's indicated it could take 12-15 months post going to Ba1 for Targa to be upgraded again to investment grade as they'd like to see more of a track record and further simplification of the story (DevCo, prefs, and possibly more). The irony here is that Targa is already in the top tier balance sheet group for midstream with 2022 Debt / EBITDA of 3.4x already comparable to EPD and MMP (Baa1) and MPLX (Baa2). So we think further credit improvement for Targa is only a matter of time, and not based on any further improvements needed in the balance sheet.

Midstream – Off to a good start…key earnings takes in 1 concise report

Click here to view our complete note

Election day earnings marathon. Literally half our midstream coverage reported today so we thought it would be more useful to give our views in 1 report. Overall, Q3 updates were better than expected with 4 of 5 that give 2021 guidance raising it and some constructive capital allocation updates. EPD stood out as having a less positive call.

Clean Energy

Ørsted – Q3 beats, FY21 guidance unchanged as CHP plants mitigate impact of wind speeds; in line

- **3Q21 EBITDA beats consensus:** DKK 2,984 vs. DKK 2,810 consensus, DKK 3,065 WRe. Wind speeds hit EBITDA by DKK 800M vs 3q20 (DKK 600M vs normal), while CHP plants in Bioenergy segment added DKK 700M compared to last year on higher realized power prices, ancillary sales and generation.
  - The consensus of detailed estimates provided to the company ahead of participating analysts was coincidently DKK 3,065. Below is the segment detail provided by participating analysts (may not add up to total):
  - Offshore: DKK 1,304 vs DKK 2,106 consensus; DKK 2,032 WRe
  - Onshore: DKK 413 vs DKK 420; DKK 723
  - Bio/other: DKK 1,206 vs DKK 390; DKK 310
- **2021 EBITDA guidance remains low end of DKK 15-16B (ex new partnerships):** While EBITDA guidance was unchanged, the company points to "significantly higher" Bioenergy/other vs "higher" before. Consensus is DKK 24,215 and WRe is DKK 21,501.
  - New Partnerships added DKK 5.3B for YTD21; that is excluded from guidance.
  - Similar to above, the consensus of estimates provided by participating analysts was DKK 24,528 including new partnerships and DKK 15,387 ex new partnerships. Below is the segment detail (may not add up to total):
  - Offshore: DKK 20,950 consensus vs DKK 17,352 WRe
  - Onshore: DKK 1,554 vs DKK 2,134
  - Bio/other: DKK 1,900 vs DKK 2,016
- **Still targeting 12% EBITDA growth through 2027:** Growth off 2020A implies 2027E of DKK 37,361, in line with DKK 41,001 consensus and DKK 38,013 WRe.
- **New offshore wind project in VN:** The company proposed to conduct a research and survey in Haiphong, Vietnam. The VN city government said that Ørsted plans for a 3,900 MW offshore wind project (built in 3 phases)and to invest up to $13.6B.
- **FFO/adj net debt falls to 42% but still above 25% target:** The metric fell to 42% on 9/30/21 from 80% on 9/30/20.

The results are largely in line, particularly given several warnings about the impact from lower wind speeds and potential benefit in the Bioenergy segment (CHP plants) from higher commodity prices. On the call, we expect investor questions on the potential impact Biden's proposed clean energy incentives would have on management's LT outlook, particularly for its Onshore business, which is mostly US-based. We also anticipate questions on the potential VN offshore wind project and expectations for the MD and JPN auction results due this quarter or early next. The stock is down around 5% (as of 8:30am EDT), likely being pulled down by fellow Danish-based wind-turbine maker Vestas (not covered), whose stock is down 15% reportedly on a guidance cut from high commodity prices and supply chain concerns.

NOVA – ECP files to sell 6M shares, will bring total ownership of NOVA just below 10%

- Late Monday, Energy Capital Partners (ECP) filed to sell 6M shares of NOVA through a secondary offering
- Per FactSet and as of 6/30, ECP held 16.9M shares of NOVA (~15% of total OS); following the sale, ECP is expected to own under 10% and will only have one board seat (currently has two)
- ECP was an early investor in NOVA pre-IPO and actually owned over 50% of the company when it initially came public in 2019
- NOVA's stock finished down 6.1% yesterday – well below resi solar peers and the TAN index

This is not a surprise as ECP is not a natural L-T holder of NOVA shares. ECP has also made a fantastic return on its investment, so perhaps this is being done to redeploy money into other investment opportunities. We don't believe ECP will rush to sell its remaining shares (last time it sold some was about a year ago).

FSLR – U.S. ITC to hold hearing today on Section 201 tariffs

- The U.S. International Trade Commission will hear arguments today on Section 201 tariffs prior to an expected early December recommendation to President Biden on whether to extend, revise, or end the tariffs
- The Section 201 tariffs currently impose an 18% tariff on imports of crystalline silicon solar cells and modules on major producing countries. We estimate the tariffs add $0.04-$0.05/watt of cost. They are set to expire in February.

Much attention has rightfully been on the reconciliation bill given very significant support for U.S. solar manufacturers like FSLR in the House bill last week. However, the Section 201 tariffs are the next issue to keep an eye on with a U.S. ITC recommendation expected next month on what to do with the tariffs. We continue to view the issues as intertwined. If the reconciliation bill passes with currently proposed provisions that give huge subsidies to domestic manufacturers like FSLR, we don't see much of a need to extend the Section 201 tariffs as American manufacturers would still be much better off on a net basis. However, if the reconciliation bill fails, then we think it's likely Section 201 is extended in some way as it would be undesirable to adversely affect U.S. manufacturers at a time when the U.S. is looking to ramp up solar development and geopolitical tensions with China remain high.

AES – Partnering with Microsoft to bring 24/7 renewable energy to its VA data centers

- This morning, AES announced that it signed a 15-year agreement with MSFT to support the company in achieving its 100/100/0 by 2030 goal
- Under the agreement, AES will supply 24/7 renewable energy to MSFT's data centers located in Virginia
- AES will source the energy from a 576 MW portfolio utilizing existing renewables under L-T contract to MSFT, while also adding additional resources in the region

This looks very similar to the agreement that AES already has with Google in VA and is another example of the company offering highly specialized 24/7 renewable solutions for its customers. AES views this as a key differentiator vs a lot peers who tend to mostly do more plain vanilla PPAs. We believe this announcement is already reflected in AES' outlook.

SEDG – N-T margin pressures, but storage upside
Click here to view our complete note
Mixed Q3, raising PT to $380. Q3 sales were in line with consensus, but the Q4 guide came in a little light on lower e-Mobility sales. The biggest update was on margins – SEDG guided Q4 solar margins down considerably from Q3 due to a Vietnam plant closure and higher associated costs. That said, SEDG pointed to a stronger storage ramp up into 2022, and pointed to a record 4 GW order backlog for Q4/Q1. Of note, SEDG will not increase prices which makes ENPH an outlier here. Overall, we think the L-T thesis is intact, but caution the quarter missed the higher bar set by ENPH on the N-T margin headwinds.

Wolfe Events
November 7-10: EEI Conference meetings
December 6: PNW non-deal roadshow in Australia

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Utilities 2020 Election Preview
Utility Pension Review
Utility Liquidity Review
Midstream Leverage Report
Wolfe Midstream Primer
Wolfe Utility Primer

Calendar

Date	Ticker	Event	Case Docket Number	Description
11/4/21	EIX/PCG/SRE	CPUC Voting meeting		
11/5/21	AEE	Surrebuttal testimony	ER-2021-0240	MO rate case
11/9/21	NYSE	Short Interest Release		
11/15/21	SO	Hearing on company testimony		VCM 25
11/18/21	EIX/PCG/SRE	CPUC Voting meeting		
11/19/21	FE	Supplemental Audit on Brown Stadium Naming	20-1629-EL-RDR	DCR Audit
11/24/21	NYSE	Short Interest Release		
11/24/21	AEE	Final reconciliation	ER-2021-0240	MO rate case
11/29/21	AEE	Hearings begin	ER-2021-0240	MO rate case
12/1/21	SO	Intervenor testimony		VCM 25
12/2/21	EIX/PCG/SRE	CPUC Voting meeting		
12/2/21	FE	DMR Audit	17-2474-EL-RDR	Draft Audit Report Due
12/9/21	EIX/PCG/SRE	Proposed decision deadline (90 days after reply briefs)		NEM 3.0
12/9/21	AEE/FTS/MISO	MISO Board of Directors Open Session (maybe discuss MTEP)		MISO MTEP
12/9/21	NYSE	Short Interest Release		

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J.P.Morgan

North America Equity Research
03 November 2021

NiSource Inc.

3Q21 Tops Estimates; '21/'22 Guidance Directional Raise/Initiated; High Level IRP Update Shows $750mm Capex Potential

Overweight

NI, NI US

Price: $24.74

02 Nov 2021

North American Utilities

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J.P. Morgan Securities LLC

- **3Q21 earnings beat estimates.** NI reported 3Q21 adj EPS of $0.11, ahead of the $0.10 JPM/Street median estimate. Gas distribution operating earnings increased +$8.3mm while electric operating earnings declined -$2.8mm YoY. NI benefitted from new base rates, infrastructure replacement program recoveries, and customer growth, among other items. Meanwhile, unfavorable COLI performance continued to impact Corporate and Other. NI now anticipates achieving the top end of its $1.32-1.36 2021 guidance (JPMe/Street median $1.35/$1.34), which implies 4Q21 EPS of $0.38 versus $0.34 in 4Q20.

- **2022 EPS guidance introduced, as higher 2021 expectations lifts outlook.** NI introduced 2022 earnings guidance of $1.42-1.48 (JPMe/Street median $1.42), representing ~7% YoY growth from the high end of NI's 2021 range. This implied 2022 growth stands at the high end of NI's 5-7% near-term EPS CAGR. Additionally, the company's strong anticipated 2021 results, in targeting the guidance range's top end, also raise expected outer-year earnings power off this base (for 7-9% EPS growth through 2024). We see these guidance updates as a clear positive and continuing recent company trends of strengthening its growth outlook on the back of near-term and long-term plan execution in 2021.

- **IRP update remains high level with up to $750mm investment potential.** Progress continues towards the company's IRP filing by mid-November. NI's message remains relatively high level in advance of the formal filing, with the company highlighting investments in replacement resources of up to $750mm across solar, standalone battery storage, and natural gas peaking. With NI's preferred resource plan now identified, the range of megawatt and capex outcomes has meaningfully narrowed, in our view, and we expect further refinements into next year as the company works towards a likely 2022 plan refresh to formally incorporate the IRP. In the interim, we await management commentary on potential ownership options as informed by the associated RFP process.

- **Conference call details.** NI will host a webcast to discuss 3Q21 results on Wednesday, November 3 at 11:00 AM EDT.

Table 1: NI 3Q21 Results

Income Statement:	Actual 3Q20	Actual 3Q21	JPM 3Q21E	% Chg Y/Y	% Chg vs JPMe	YoY Drivers
Operating Earnings	148	144	161	-3%	-10%	New rates from base rate proceedings and regulatory capital programs; CMA impacts
Net Income	36	47	44	30%	8%	Higher non-service pension benefits; lower interest expense on ST and LT debt; unfavorable COLI impacts
Share Count	384	430	431	12%	0%	
Operating EPS	**$0.09**	**$0.11**	**$0.10**	**22%**	**10%**	

Source: Company reports and J.P. Morgan estimates.

See page 2 for analyst certification and important disclosures.

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Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
01-Mar-19	OW	26.98	29
15-Apr-19	OW	28.07	30
02-May-19	OW	27.40	29
15-Jul-19	OW	29.34	30
01-Aug-19	OW	29.69	31
13-Oct-19	OW	29.14	32
15-Jan-20	OW	28.18	31
09-Apr-20	OW	25.47	29
01-Jul-20	OW	22.74	26
21-Sep-20	OW	21.98	25
23-Oct-20	OW	24.04	26
29-Jan-21	OW	22.17	25
22-Feb-21	OW	22.84	24
22-Apr-21	OW	26.03	28
31-Aug-21	OW	24.76	29
14-Oct-21	OW	24.69	28

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November 3, 2021

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NI: Rebasing EPS CAGR Off Top End of 2021; IRP Updates

Key Message: NiSource pointed to the top end of its reaffirmed 2021 NOEPS guidance range of $1.34-$1.36 and rebased its 5%-7% (through 2023) and 7%-9% (through 2024) EPS CAGRs off of the top end of 2021 guidance. The company also introduced 2022 NOEPS guidance of $1.42-$1.48 ($1.45) and reaffirmed its prior capex forecast of $2.4bn-$2.7bn for 2022, $3.4bn-$3.7bn for 2023, and $1.9bn-$2.2bn for 2024. Management sees the potential for $750m of capital investment coming out of the IRP, but how much of that will be NI's will not be known until the RFP review process concludes in early 2022. We reiterate our Buy rating and are raising 2021/2022 estimates to reflect management's increased confidence in its guidance.

NI expects to submit the NIPSCO IRP by mid-November and indicated that the preferred plan refines the timeline to retire coal-fired generation at the Michigan City Generating Station to between 2026-2028, while supporting NI's emissions reduction target of 90% by 2030. **Up to $750m of investment** will be required to replace Michigan City and two peaking units at Schahfer, and the company expects to have more visibility on its potential stake of that spend **once the RFP process concludes in early 2022**. More color for investors is expected to be provided at an Analyst Day to be held towards the end of 1H22. Also, on the near-term regulatory front, **NIPSCO's $1.64bn proposed TDSIC plan** for 2021-2026 is pending before the IURC, with a **final order expected in Jan 2022**.

NI reported 3Q21 adj. EPS of $0.11 vs us/consensus at $0.05/$0.12, and up $0.02 vs $0.09 in 3Q20. **We are raising our 2021 estimate to $1.36** from $1.35 to reflect management's revised guidance of the top end of the $1.34-$1.36 range, and **raising our 2022 estimate to $1.45**, the midpoint of NI's newly introduced 2022 guidance range, up from $1.43 previously. Our estimates for 2023/2024 remain unchanged.

Valuation

We apply our base 18.5x multiple on the electric utility and add a 1x premium to account for additional renewables opportunities and our base 18.5x multiple on the gas LDCs. We arrive at our valuation utilizing a sum-of-the parts analysis, based on: (1) ~$11/share for the regulated electric utility; (2) ~$18/share value for the regulated gas segment given the limited spread from LDCs after recent market volatility; and (3) (~$-2)/share for other adjustments for Corp and Other. We use this sum of the parts to arrive at our $27 valuation.

Risks

The primary risks on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

NI — BUY

NiSource Inc.
Sector: Power & Utilities

Earnings Release

Share Price	$24.74
Price Target	$27.00

EPS ($) (FY DEC)	1Q	2Q	3Q	4Q	FY
2021	0.77	0.13	0.11	0.41E	1.36E
Prior	—	—	*0.05*	*0.40E*	*1.35E*
P/E					18.2x
2022	0.87E	0.14E	0.04E	0.40E	1.45E
Prior	*0.85E*	—	—	—	*1.43E*
P/E					17.1x
2023	0.88E	0.17E	0.08E	0.41E	1.53E
P/E					16.2x

Market Data

52-Week Range	$21.09 - $26.60
Dividend	$1.60
Dividend Yield	6.5%
Market Cap (M)	$9,708
Shares Out (M)	392.4
ADV (3 mo; 000)	3,261

See pages 2 - 3 for analyst certification and important disclosures.

POWER & UTILITIES

NISOURCE INC. **November 3, 2021**

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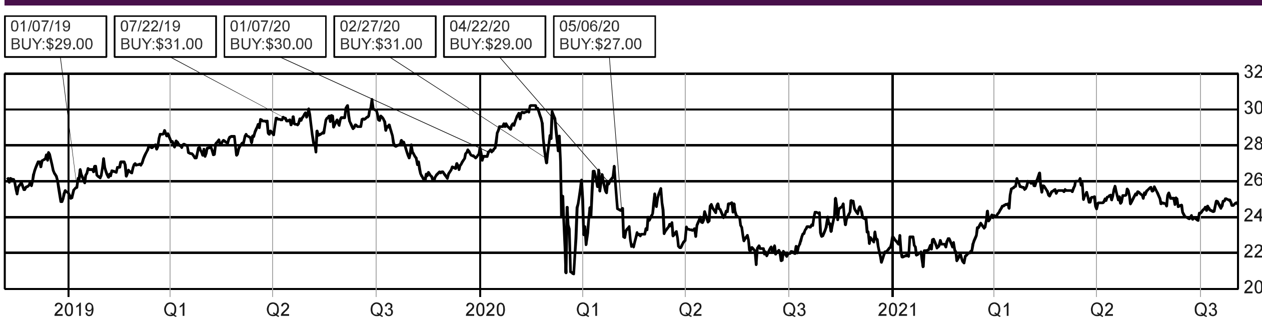
Rating and Price Target History for: NiSource Inc. (NI) as of 11-02-2021



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NiSource Inc

Top-tier growth off a particularly healthy base; LT opps. drive further pos. revision

05 November 2021 | Equity | United States | Natural Gas-Local Distribution Companies

NI US

Maintain Rating	Price	Price Objective	Upside	Market Cap	Average Daily Value	2021E EPS	2022E EPS	2023E EPS	ESGMeter
BUY	25.07 USD	28.00 USD	11.7%	9,845 USD(mn)	93.81 USD(mn)	1.37 ▲ from 1.36 USD	1.44 ▲ from 1.40 USD	1.56 ▼ from 1.58 USD	High

all data as of 5 November 2021

Key takeaways

- 3Q yielded better '22 guide- $1.42-1.48, we are raising to $1.44- good trajectory ahead of even better '24+ CAGR still
- Room to re-rate; shares still discounted vs peers despite execution. Intact on NT renewables & yet more coming on LT thru '26
- $28 PO remains; watch the percentage owned by NI as key upside lever still to shares (assume only 50%). Reconciliation helps.

NIPSCO: Northern Indiana Public Service Co.

IRP: integrated resource plan

Rebasing higher, a sign of strength and LT outlook coming

NI reported 3Q21 earnings beating estimates, narrowed FY21 EPS to the top-end of the prior guidance range ($1.36), and re-based growth in the near-term (i.e. 5-7% through '23) and longer-term (7-9% through '24) off of the top-end of '21 guidance. Re-basing on a higher number is a signal of strength and confidence in the growth plan, further highlighted by the *very* healthy, newly initiated FY22 EPS guidance range of $1.42-$1.48.

Shares of NI have re-rated higher relative to a weighted average peer multiple (see page 2). Nonetheless, we believe there is still room to move higher as mgmt. executes on the renewables projects and growth in the near term and provides what we expect be a very healthy long-term growth outlook at their analyst day in ~May 2022. Yes, renewables drive a lot of the rate base and earnings growth contemplated in the plan, but the gas utilities continue to see very strong 10%+ rate base growth. Over-time, as cash flows are recognized from renewables and the balance sheet is in a better position from the equity unit issuance, we see NI closing the gap between rate base and earnings growth. This should support a continued, elevated growth rate. NI will be ex-coal in the 2026-2028 timeframe (with bias to 2026) which could attract interest from a new set of ESG-focused investors. Maintain Buy.

Initial thoughts on gen. opp. healthy; watch ownership

NIPSCO recently outlined its preferred future generation portfolio stemming from its 2021 IRP, and mgmt. highlighted that investments of *up to* $750M will be necessary to replace the retiring fossil plants. This compares favorably to our prelim estimates for capex of ~$430M-$800M. Remember, we calculated a wide range because NIPSCO chose a potential combination of two preferred resource paths and we only assume 50% ownership of renewables. The ownership percentage (see bias to own more) and, to a lesser extent, project selection will determine what percentage of the opportunity NI can capture - reconciliation bill could help ownership with direct pay.

PO remains at $28; FY21-FY23 EPS estimates tweaked

Our PO remains unchanged at $28 as we MtM on latest peer utility P/E multiple. We tweak our FY21-FY23 EPS estimates while FY24-FY25 remain unchanged and materially higher than street. We see healthy 15%+ upside on our SOTP and maintain our Buy rating.

Estimates & Valuation | Quarterly Estimates | Key Changes | Stock Data

Estimates (Dec) (US$)	2019A	2020A	2021E	2022E	2023E
EPS	1.32	1.32	1.37	1.44	1.56
GAAP EPS	0.87	1.33	1.29	1.44	1.56
EPS Change (YoY)	1.5%	0%	3.8%	5.1%	8.3%
Consensus EPS (Bloomberg)			1.35	1.43	1.53
DPS	0.83	0.88	0.94	0.99	1.05
Valuation (Dec)					
P/E	19.0x	19.0x	18.3x	17.4x	16.1x
GAAP P/E	28.8x	18.8x	19.4x	17.4x	16.1x
Dividend Yield	3.3%	3.5%	3.7%	4.0%	4.2%
EV / EBITDA*	15.3x	14.0x	12.9x	11.8x	10.6x
Free Cash Flow Yield*	-2.2%	-6.6%	-5.2%	-9.6%	-17.4%

* Click for full definitions of *iQmethod*SM measures.

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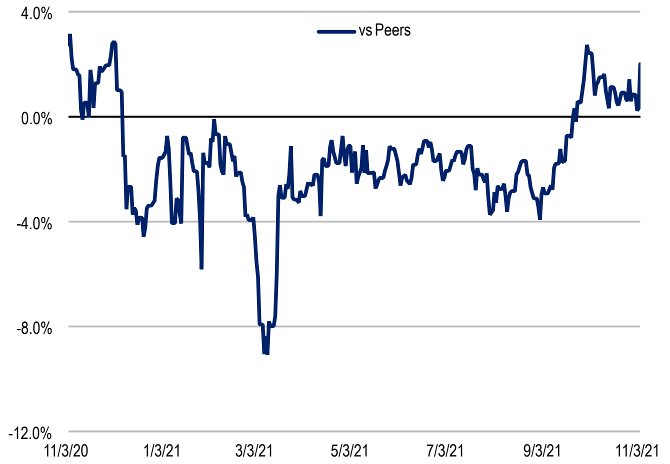
Starting to re-rate higher; still see room to go

As we noted above, we see the ability for shares to re-rate even higher based on our view that mgmt. will execute on the current growth plan outlined through '24 and outline a robust long-term spending plan that supports extended and elevated EPS growth.

We use a weighted average multiple to highlight NI relative value. Specifically, we take the average gas utility multiple and weight it by 60% and the average electric multiple and weight it by 40% to represent NI business mix. We find this is a better representation than simply comping NI to gas peers (where we would show shares trading at a premium) and electric peers (where we would show shares trading at a discount).

Exhibit 1: NI FY23 P/E vs Weighted Average P/E of Electric and Gas Utility Peers
While NI is now trading at a premium to a weighted average peer multiple, we see further room to re-rate higher on execution of mgmt.'s robust growth plan and an extension of the high growth runway



Source: BofA Global Research, Bloomberg

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Current renewables projects are moving along

Solid progress on renewables additions at NIPSCO related to the 2018 integrated resource plan (IRP) with all of the projects totaling $2B in capex receiving approval from the Indiana Utility Regulatory Commission (IURC). Concern remains on whether renewables supply chain issues will impact NI's planned capex, and we do not believe that given strong counterparties (i.e. NextEra, Capital Dynamics, EDP, and others), NIPSCO is in a good position.

EPS Estimates; FY22 higher on new outlook

We tweak our FY21-FY25 EPS estimates and continue see BofAe for FY23 and beyond above Street. Our FY21 EPS estimate moves to $1.37, above mgmt.'s guidance of $1.36, as we update for 3Q actuals that outperformed our expectations by 1c. We raise our FY22 EPS estimate as we reflect mgmt. updated expectations. We lower our FY23 EPS estimate as we take a more conservative view on regulatory lag from renewables spending entering rates and are now aligned with mgmt. commentary on 5-7% EPS CAGR to FY23 off of the FY21 EPS base of $1.36.

We continue to see NI as among the most important 'show me' stories in the space considering the need for management to execute against the plan after years of minimal EPS growth post Merrimack Valley. We see EPS CAGR at the top-end of management's guidance range through '24 (9%). Look for further opportunities in the 2025+ outlook with a further NIPSCO Electric IRP/RFP to be articulated at the spring 2022 analyst day too - potentially enabling a further extension of 5-year outlook at sustained EPS CAGR.

Exhibit 2: NI EPS Estimates
We tweak our EPS estimates for FY21-FY23; we see top-end of mgmt. contemplated guidance range even off of a healthy FY21 base

NI EPS Estimates		**2019A**	**2020A**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Gas		1.04	1.03	1.08	1.15	1.24	1.24	1.30
Electric		0.59	0.55	0.56	0.57	0.59	0.78	0.84
Parent/Other		-0.33	-0.33	-0.28	-0.29	-0.28	-0.26	-0.25
BofA EPS		**1.32**	**1.32**	**1.37**	**1.44**	**1.56**	**1.76**	**1.88**
Previous EPS		1.32	1.32	1.36	1.40	1.58	1.76	1.88
Guidance				**1.36**	**1.42-1.48**			
Consensus		1.30	1.31	1.35	1.43	1.53	1.71	
BofA '21-'24 EPS CAGR	8.9%							
Guidance '21-24 EPS CAGR	7-9%							
Consensus '21-'24 EPS CAGR	8.1%							
BofA '21-'23 EPS CAGR	6.7%							
Near Term Guidance '21-'23 EPS CAGR	5-7%							
Consensus '21-'23 EPS CAGR	6.6%							
Implied EPS Guidance by Yr given New +7-9% EPS CAGR ('21-'24)	High End			1.36	1.48	1.62	1.76	1.92
	Mid-Point				1.47	1.59	1.71	1.85
	Low End				1.46	1.56	1.67	1.78
BofA DPS		**0.83**	**0.88**	**0.94**	**0.99**	**1.05**	**1.12**	**1.18**
Share Count (mn shares)		**376**	**384**	**420**	**441**	**450**	**489**	**496**

Source: BofA Global Research estimates, company report, Bloomberg

BofA GLOBAL RESEARCH

Valuation; PO unchanged on latest MtM

Our PO remains at $28 as we mark-to-market FY24 P/E multiples for peer group of 13.7x for gas (from 13.6x) and 16.1x for electric (from 16.0x), with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout with capex potentially beginning in the '24 timeframe. While we estimate the potential capex for the 2021 IRP, we do not embed any additional capex in our figures as we wait additional detail on the ownership % of new renewables and the specific projects. We see attractive 15%+ total return potential and maintain our Buy.

Exhibit 3: NI SOTP Valuation
PO remains at $28 on latest MtM; see attractive 15%+ return and maintain our Buy rating

NI SOTP Valuation	**Metric**	**P/E Multiple**							
	2024E EPS	Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Gas			**13.7x**						
Group EPS '19-'23 CAGR - Gas			**5.00%**						
Gas Utilities			**14.4x**						
Columbia Gas of OH	$0.56	13.4x	14.4x	**0.0x**	14.4x	15.4x	$7.56	$8.13	$8.69
Columbia Gas of PA	$0.29	13.4x	14.4x	**0.0x**	14.4x	15.4x	$3.82	$4.11	$4.40
NIPSCO Gas	$0.24	13.4x	14.4x	**0.0x**	14.4x	15.4x	$3.16	$3.39	$3.63

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Columbia Gas of VA	$0.09	13.4x	14.4x	**0.0x**	14.4x	15.4x	$1.16	$1.24	$1.33
Columbia Gas of KY	$0.05	13.4x	14.4x	**0.0x**	14.4x	15.4x	$0.65	$0.69	$0.74
Columbia Gas of MD	$0.02	13.4x	14.4x	**0.0x**	14.4x	15.4x	$0.26	$0.28	$0.30
Group Peer Multiple - Electric			**16.1x**						
Group EPS '18-'22 CAGR - Electric			**5.00%**						
Electric Utilities			**16.9x**						
NIPSCO Electric	$0.78	17.9x	16.9x	**2.0x**	18.9x	19.9x	$13.95	$14.73	$15.51
Total Utility	**$2.02**	*15.1x*			*16.1x*	*17.1x*	**$30.55**	**$32.57**	**$34.59**
-Parent EPS Drag (ex-Interest Expense)	-$0.11	15.1x	0.0x		15.4x	16.4x	-$1.71	-$1.73	-$1.84
Total EPS *(incl. debt drag)*	**$1.56**								
Midpoint of 5-7% EPS	*$1.59*								
Holdco Debt @ Parent, *not* allocated to Utilities									
(50% Netting out parent debt + assumed converts)				-$1,600	50%		-$800	-$800	-$800
(50% P/E multiple on Interest Exp)				5.6%	50%		-$535	-$571	-$606
Grand Total Equity Value							**$26.12**	**$28.04**	**$29.87**
Shares Outstanding 2024E								489	
Total Equity Value							**$26.00**	**$28.00**	**$30.00**
Implied Consolidated P/E									
Current Price								$25.07	
Dividend Yield (2021E)								3.7%	
Total Return								**15.4%**	

Source: BofA Global Research estimates, company report, Bloomberg

BofA GLOBAL RESEARCH

BofA Global Research Reports - see links below

NI Research	**Primary Author**	**Date Published**
NiSource Inc: More Capex on next IRP than we thought.. and '22 guide comes out swinging: Buy (https://rsch.baml.com/r?q=2ISiqiv25ZXzBXWIUF4G2g)	Julien Dumoulin-Smith	03 November 2021
US Electric Utilities & IPPs: 3Q21 'Value' Preview: In Person EEI More Important Than Ever for Critical Updates (https://rsch.baml.com/r?q=L6hwDJuLq3GQ7ZscHJRaRw)	Julien Dumoulin-Smith	18 October 2021
NiSource Inc: Fireside Chat: confidence in an extension of growth runway, avenues for growth (https://rsch.baml.com/r?q=!thyVk-loWfxy68cp-yTEg)	Julien Dumoulin-Smith	29 September 2021

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*iQprofile*SM NiSource Inc

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving approximately 3.5mn natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

Our Buy rating on NI is underpinned by 1) likely positive revisions given ultra conservative EPS CAGR guidance baked into consensus, 2) renewable rate base upside, and 3) the ability to re-rate higher following any gas LDC asset sale.

iQ*method SM - Bus Performance

(US$ Millions)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on Capital Employed	3.3%	4.1%	4.3%	4.5%	4.7%
Return on Equity	9.9%	10.2%	10.4%	10.0%	10.4%
Operating Margin	17.1%	22.0%	20.4%	22.2%	24.3%
Free Cash Flow	(219)	(654)	(513)	(946)	(1,709)

iQ*method SM - Quality of Earnings

(US$ Millions)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Cash Realization Ratio	3.2x	2.2x	2.6x	2.5x	2.5x
Asset Replacement Ratio	2.5x	2.4x	2.6x	3.1x	4.0x
Tax Rate	24.4%	18.3%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	158.6%	167.4%	133.5%	142.8%	164.3%
Interest Cover	2.4x	2.8x	3.0x	3.2x	2.9x

Income Statement Data (Dec)

(US$ Millions)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales	5,209	4,697	5,524	5,701	5,965
% Change	2.5%	-9.8%	17.6%	3.2%	4.6%
Gross Profit	3,674	3,587	3,912	4,064	4,304
% Change	10.5%	-2.4%	9.0%	3.9%	5.9%
EBITDA	1,608	1,757	1,912	2,090	2,322
% Change	5.0%	9.3%	8.8%	9.3%	11.1%
Net Interest & Other Income	(384)	(339)	(371)	(390)	(491)
Net Income (Adjusted)	**495**	**508**	**574**	**635**	**701**
% Change	**6.8%**	**2.6%**	**13.1%**	**10.6%**	**10.4%**

Free Cash Flow Data (Dec)

(US$ Millions)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Net Income from Cont Operations (GAAP)	328	511	543	635	701
Depreciation & Amortization	717	726	783	827	874
Change in Working Capital	(75)	(249)	0	0	0

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Deferred Taxation Charge	118	(29)	127	147	181
Other Adjustments, Net	495	145	34	0	0
Capital Expenditure	(1,802)	(1,758)	(2,001)	(2,555)	(3,464)
Free Cash Flow	**-219**	**-654**	**-513**	**-946**	**-1,709**
% Change	**82.9%**	**-198.5%**	**21.6%**	**-84.5%**	**-80.6%**

Balance Sheet Data (Dec)

(US$ Millions)	2019A	2020A	2021E	2022E	2023E
Cash & Equivalents	148	117	126	126	126
Trade Receivables	905	825	825	825	825
Other Current Assets	800	718	718	718	718
Property, Plant & Equipment	16,912	16,620	17,837	19,565	22,156
Other Non-Current Assets	3,894	3,762	3,762	3,762	3,762
Total Assets	**22,660**	**22,041**	**23,267**	**24,995**	**27,586**
Short-Term Debt	1,787	526	517	582	696
Other Current Liabilities	1,959	1,753	1,753	1,753	1,753
Long-Term Debt	7,856	9,220	9,026	10,162	12,152
Other Non-Current Liabilities	5,071	4,704	4,831	4,978	5,158
Total Liabilities	**16,673**	**16,203**	**16,126**	**17,474**	**19,759**
Total Equity	**5,987**	**5,752**	**7,055**	**7,436**	**7,741**
Total Equity & Liabilities	**22,660**	**21,955**	**23,182**	**24,910**	**27,501**

* Click for full definitions of *iQmethod*SM measures .

Price Objective Basis & Risk

NiSource Inc (NI)

Our $28 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2024 forward P/E multiples that are marked-to-market to the latest peer utility multiples of 13.7x for gas and 16.1x for electric with a 2.0x premium for the electric utility's strong growth rates and incremental renewable buildout, with capex potentially beginning in '24, but acknowledge industrial risk.

We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, higher natural gas prices, and inability to execute on renewables additions.

Coverage Cluster

NA Utilities, Alt Energy, Charging Infrastructure and LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Enphase Energy	ENPH	ENPH US	Aric Li
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Aric Li
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith

BofA SECURITIES
BofA GLOBAL RESEARCH

	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Ryan Greenwald
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	EVgo Inc.	EVGO	EVGO US	Ryan Greenwald
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Adhok Bellurkar
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Disclosures

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The RIC Report (https://rsch.baml.com/r?q=5lpxurTj7MkTI1z8yB99Pw&e=cturnure%40n[illegible]

Build your portfolio back better

Research Investment Committee 2021-Nov-8

Research Summary

Global Research Highlights (https://rsch.baml.com/r?[illegible]9Pw&e=cturnure%40nisource.cor

Balancing Year End Variables

Derek Harris 2021-Nov-5