Columbia Gas of Pennsylvania, Inc.
Standard Data Request
Rate of Return

Question No. GAS-ROR-010:

Please provide copies of all securities analysts' reports relating to the Company and/or its parent issued within the past 2 years.

Response: Columbia Gas of Pennsylvania, Inc.

Columbia Gas of Pennsylvania, Inc. (Company) is a wholly owned subsidiary of NiSource Gas Distribution, Inc. (NGD), which is a subsidiary of NiSource Inc. (Parent). There are no securities analysts reports that relate to the Company or NGD that are separate from such reports relating to the Parent.

Response: NiSource Inc.

Security analysts' reports issued within the past 2 years are attached in Attachment A – Attachment L.

Year	Attachment	Folder Name	Documents Included
2016	A	1Q	Jeffries 1Q – 2016 – Target/Estimate Change Citi 1Q – 2016 – Model Update J.P. Morgan 1Q – 2016 – Model Update Barclays 1Q – 2016 Credit Suisse 1Q – 2016 Hilliard 1Q – 2016 Jeffries 1Q – 2016 KeyBanc 1Q – 2016 Morningstar 1Q – 2016 UBS 1Q – 2016 Wolfe 1Q – 2016 UBS 1Q – 2016 – Update J.P. Morgan 1Q – 2016 – Valuation Update
	B	2Q	Barclays 2Q – 2016 Citi 2Q – 2016 Evercore ISI 2Q – 2016 Hilliard 2Q – 2016 Jeffries 2Q – 2016 J.P. Morgan 2Q – 2016 KeyBanc 2Q – 2016 Morningstar 2Q – 2016 UBS 2Q – 2016 Wolfe 2Q – 2016 Credit Suisse 2Q – 2016 Morningstar 2Q – 2016 – Valuation Update Evercore ISI 2Q – 2016 – Target Update UBS 2Q – 2016 – Valuation Update Wolfe 2Q – 2016 – Earnings Preview Jeffries 2Q – 2016 – Target/Estimate Change

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	C	3Q	Credit Suisse 3Q – 2016 – Valuation Update Barclays 3Q – 2016 – Precall Bank of America 3Q – 2016 Credit Suisse 3Q – 2016 Hilliard 3Q – 2016 Jeffries 3Q – 2016 J.P. Morgan 3Q – 2016 KeyBanc 3Q – 2016 Morningstar 3Q – 2016 Wolfe 3Q – 2016 Barclays 3Q – 2016 Postcall Evercore ISI 3Q – 2016 UBS 3Q – 2016
	D	4Q	Bank of America Initiating Coverage 4Q – 2016 Guggenheim Initiating Coverage 4Q – 2016 U.S. Capital Advisors 4Q – 2016 – Valuation Update Citi 4Q – 2016 – Update Goldman Sachs 4Q – 2016 – Valuation Update Barclays 4Q – 2016 Credit Suisse 4Q – 2016 Evercore ISI 4Q – 2016 Guggenheim 4Q – 2016 Hilliard 4Q – 2016 Jeffries 4Q – 2016 J.P. Morgan 4Q – 2016 – Model Update KeyBanc 4Q – 2016 Morningstar 4Q – 2016 UBS 4Q – 2016 Wolfe 4Q – 2016
	E	Settlement	KeyBanc – Alert: Indiana Electric Settlement
	F	AGA Conference	J.P. Morgan – 2016 – AGA Conference KeyBanc – 2016 – AGA Conference UBS – 2016 – AGA Conference Morningstar – 2016 – AGA Conference Wolfe – 2016 – AGA Conference
	G	Misc.	WCG – 2016 – WCG Conference Summary KeyBanc – 2016 – NIPSCO IRP Barclays – 2016 – NIPSCO IRP Evercore ISI – 2016 – NIPSCO IRP UBS – 2016 Conference Preview
2017	H	1Q	U.S. Capital Advisors 1Q – 2017 – Valuation Update Bank of America 1Q – 2017 Barclays 1Q – 2017 Citi 1Q – 2017 Evercore ISI 1Q – 2017 Guggenheim 1Q – 2017 Hilliard 1Q – 2017 Jeffries 1Q – 2017 KeyBanc 1Q – 2017 UBS 1Q – 2017 Wolfe 1Q – 2017 Morningstar 1Q – 2017

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	I	2Q	Ladenburg Thalmann Initiating Coverage 2Q – 2017 Evercore ISI 2Q – 2017 – Valuation Update U.S. Capital Advisors 2Q – 2017 – Earnings Preview Wolfe 2Q – 2017 – Earnings Preview Guggenheim 2Q – 2017 – Earnings Preview Barclays 2Q – 2017 Citi 2Q – 2017 Guggenheim 2Q – 2017 Jeffries 2Q – 2017 KeyBanc 2Q – 2017 Ladenburg Thalmann 2Q – 2017 UBS 2Q – 2017 Wolfe 2Q – 2017 Hilliard 2Q – 2017 KeyBanc 2Q – 2017 – Valuation Update Morningstar 2Q – 2017 – Valuation Update Bank of America 2Q – 2017
	J	3Q	Wells Fargo Initiating Coverage 3Q – 2017 Credit Suisse 3Q – 2017 – Valuation Update Evercore ISI 3Q – 2017 – EPS Estimate Update Credit Suisse 3Q – 2017 – Target Price Increase UBS 3Q – 2017 Credit Suisse 3Q – 2017 Guggenheim 3Q – 2017 Hilliard 3Q – 2017 Jeffries 3Q – 2017 KeyBanc 3Q – 2017 Morningstar 3Q – 2017 Wells Fargo 3Q – 2017 Wolfe 3Q – 2017
	K	4Q	Bank of America 4Q – 2017 – Valuation Update
	L	Misc.	Guggenheim 1Q – 2017 – Sector Update Morningstar 1Q – 2017 – Electric Update Evercore ISI 1Q – 2017 – Tax Reform UBS 1Q – 2017 – Tax Reform Barclays 3Q – 2017 – NIPSCO Gas Filing Guggenheim 4Q – 2017 – Management Meeting Wolfe 4Q – 2017 – Sector Update Morningstar 4Q – 2017 – Management Meeting

INDUSTRY NOTE

Target | Estimate Change

USA | Energy | Natural Gas

March 2, 2016

Jefferies

EQUITY RESEARCH AMERICAS

Natural Gas
4Q Updates: APU, NFG, NI, OGS, STR, SWX, UGI

Key Takeaway

After digesting 4Q results, conference call takeaways, and regulatory filings, we are adjusting models & revising assumptions for the following companies: NFG, NI, OGS, STR, SWX, UGI, and APU. Additional updates will be forthcoming.

National Fuel Gas. NFG posted F1Q EPS of 79¢, after items, slightly below our 81¢ forecast & in-line with the 79¢ Street estimate. Seneca is cutting back drilling operations to one rig through '17; as a result, mgmt delayed the in-service date of Northern Access 2016 to Nov. '17. We now project '16-'18 EPS of $2.78, $2.65, & $4.05 & trim our PT to $56, from $60.

NiSource. NI realized 4Q recurring EPS of 31¢ (ex items), slightly above our 29¢ est. & the 30¢ Street mean forecast; EBITDA of $388mm also outpaced our $375mm forecast. Mgmt affirmed its 2016 non-GAAP EPS guidance of $1.00-$1.10, $1.4B 2016 capex, & 4-6% long-term EPS & DPS growth rates. On 2.19, NIPSO reached a settlement on its electric rate case which includes $72.5mm in rate increases & a 9.975% allowed ROE. We now project '16-'18 EPS of $1.06, $1.17 & $1.21; we are raising our PT to $20, from $19.

ONE Gas. OGS realized 4Q EPS of 74¢, in-line with our 75¢ forecast. Mgmt affirmed its 2016 net income & capex guidance of $127-$137mm & $305mm. Mgmt now expects annual EPS growth of 5-8%, permitting average annual DPS growth of 8-10% over the period. We now project 2016-18 EPS of $2.55, $2.74, & $2.90; we are lifting our PT to $51, from $50.

Questar. STR posted 4Q EPS of 39¢, in-line with our 40¢ estimate. Mgmt initiated '16 EPS & capex guidance of $1.25-$1.35 & $375mm, in-line with our forecasts. On Feb 1st, Dominion Resources (D) & STR announced their intention to combine in an all-cash transaction worth $25/shr to STR shareholders; closure is expected by YE. In addition, mgmt intends to sell its Southern Trails pipeline by YE. We are lifting our PT to $25 to align with the D deal terms.

Southwest Gas. SWX posted 4Q EPS of $1.33 (ex-COLI), in-line with our $1.32 estimate. Mgmt refined its 2016 guidance, projecting Natural Gas op income growth of 4-6%, while Centuri revs are expected to climb 3-7%, with op income expected to be 5.5-6% of segment revs. We now project '16-'18 EPS of $3.10, $3.47, & $3.60; we lift our PT to $60, from $57.

AmeriGas Partners. APU had adj. F1Q EBITDA of $178mm, below our $192mm forecast & the $188mm Street mean estimate; weak weather (~17% warmer y/y) caused retail sales to fall ~12.5% y/y. F1Q DCF of $125mm also fell short of our $137mm projection. Now in the 50% IDR splits, APU's LP coverage for the seasonably strong F1Q period was ~1.35x, translating into ~1.06x TTM coverage. We maintain our $52 PT.

UGI Corp. UGI posted adj F1Q EPS of 64¢ (ex items), above our 58¢ EPS forecast. F1Q operational performance was mixed as APU and the Utilities fell short of our expectations while Int'l Propane and Midstream & Marketing outperformed our estimates. In Jan., UGI filed its first rate case since '95, requesting a $58.9mm annual base rate increase to fund system improvements & reliability. We are lifting our PT to $37, from $36.

Coverage terminations. Due to their respective acquisitions by MPLX (closed on 12.4.15) & TRGP (closed on 2.17.16), we have suspended coverage of MWE & NGLS.

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Company Name	Ticker	Mkt. Cap (MM)	Rating	Price	Price Target	Cons. Next FY	Current EPS Estimates 2016	2017	2018	Previous Est. 2017	2018
AmeriGas Partners	APU	$3,873.0	BUY	$41.69	$52.00	--	$2.43	$2.39	$2.79	$2.85	$2.93
National Fuel Gas Company	NFG	$3,919.9	BUY	$45.16	$56.00▼	--	$2.78	$2.65	$4.05	$2.95	--
NiSource Inc.	NI	$6,873.6	HOLD	$21.50	$20.00▲	--	$1.06	$1.17	$1.21	$1.09	--
ONE Gas Inc.	OGS	$3,040.7	HOLD	$58.14	$51.00▲	--	$2.55	$2.74	$2.90	$2.71	--
Questar Corp.	STR	$4,296.3	HOLD	$24.55	$25.00▲	--	$1.32	$1.30	$1.29	$1.31	--
Southwest Gas	SWX	$2,885.2	HOLD	$60.74	$60.00▲	--	$3.10	$3.47	$3.60	$3.44	--
UGI Corporation	UGI	$6,427.3	HOLD	$37.39	$37.00▲	--	$2.08	$2.35	$2.43	$2.29	$2.41

Jefferies does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Jefferies may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Please see analyst certifications, important disclosure information, and information regarding the status of non-US analysts on pages 10 to 14 of this report.

Exhibit 1: APU Consolidated Statement of Income

Consolidated Income Statement ('000s)	2011	2012	2013	2014	Dec-1Q	Mar-2Q	Jun-3Q	Sep-4Q	2015	Dec-1Q	Mar-2QE	Jun-3QE	Sep-4QE	2016E	2017E	2018E	2019E	2020E
Mt. Belvieu Propane Price ($/gallon)	**$1.41**	**$1.14**	**$0.92**	**$1.15**	$0.76	$0.53	$0.46	$0.41	**$0.54**	$0.42	$0.37	$0.38	$0.43	**$0.40**	**$0.51**	**$0.63**	**$0.90**	**$1.01**
Propane Revenue / Gallon	$2.36	$2.38	$2.14	$2.51	$2.29	$2.21	$1.94	$1.73	$2.11	$1.85	$2.05	$1.86	$1.75	$1.91	$2.02	$2.14	$2.41	$2.52
Propane Cost / Gallon	$1.55	$1.46	$1.17	$1.48	$1.24	$1.05	$0.88	$0.67	$1.01	$0.72	$0.90	$0.82	$0.70	$0.80	$0.91	$1.01	$1.27	$1.37
Propane Margin / Gallon	**$0.82**	**$0.92**	**$0.975**	**$1.034**	$1.051	$1.166	$1.061	$1.060	**$1.098**	$1.134	$1.154	$1.042	$1.055	**$1.111**	**$1.114**	**$1.128**	**$1.142**	**$1.158**
Y/Y Gross Margin Growth	**1.9%**	**13.2%**	**5.6%**	**6.1%**	6.1%	7.3%	3.3%	5.8%	**6.1%**	7.9%	-1.0%	-1.8%	-0.5%	**1.2%**	**0.3%**	**1.2%**	**1.3%**	**1.3%**
VOLUMES (gallons in 000's)	**-2.3%**	**12.4%**	**19.9%**	**1.6%**	-13.9%	-8.9%	-5.4%	-6.9%	**-9.5%**	-12.5%	3.0%	5.2%	7.1%	**-0.4%**	**3.9%**	**0.75%**	**0.50%**	**0.50%**
Retail	874,200	1,017,500	1,245,200	1,275,600	340,200	448,000	202,200	193,900	1,184,300	295,100	452,500	213,300	208,400	1,169,300	1,215,000	1,224,477	1,230,722	1,236,999
Wholesale	124,800	105,600	101,800	93,400	14,200	16,600	11,300	12,300	54,400	14,900	26,100	11,400	12,400	64,800	67,200	67,351	67,520	67,688
Total Gallons Sold (000's)	999,000	1,123,100	1,347,000	1,369,000	354,400	464,600	213,500	206,200	1,238,700	310,000	478,600	224,700	220,800	1,234,100	1,282,200	1,291,828	1,298,241	1,304,687
REVENUES																		
Retail Propane	$2,173,500	$2,536,300	$2,775,800	$3,307,600	$797,600	$1,014,400	$407,400	$351,300	$2,570,700	$565,100	$929,177	$396,529	$364,987	$2,255,793	$2,454,459	$2,617,434	$2,963,360	$3,120,710
Wholesale Propane	$186,953	$141,300	$108,966	$133,268	15,135	13,680	6,746	6,140	$41,701	8,800	53,595	21,193	21,717	$105,304	$136,025	$144,241	$163,211	$171,014
Total Propane Revenues	$2,360,439	$2,677,631	$2,884,766	$3,440,868	812,735	1,028,080	414,146	357,440	$2,612,401	573,904	982,772	417,721	386,704	$2,361,101	$2,590,484	$2,761,676	$3,126,571	$3,291,723
Other	$177,520	$243,985	$281,777	$272,067	76,057	72,237	63,831	60,796	$272,921	70,194	72,779	64,310	61,252	$268,534	$271,220	$275,288	$279,417	$283,609
Total Revenues	$2,537,959	$2,921,616	$3,166,543	$3,712,935	$888,792	$1,100,317	$477,977	$418,236	$2,885,322	$644,098	$1,055,550	$482,031	$447,956	$2,629,636	$2,861,704	$3,036,964	$3,405,989	$3,575,332
COSTS & EXPENSES																		
Propane Costs	1,546,161	1,642,658	1,571,574	2,025,097	440,311	486,484	187,616	138,915	1,253,326	222,289	430,665	183,480	153,759	990,194	1,162,229	1,305,124	1,643,473	1,781,223
Propane Gross Profit	814,278	1,034,973	1,313,192	1,415,771	372,424	541,596	226,530	218,525	1,359,075	351,615	552,106	234,241	232,945	1,370,907	1,428,255	1,456,552	1,483,099	1,510,500
Cost of Other Sales	59,126	77,071	88,479	81,982	22,040	18,822	23,745	22,031	86,638	20,867	18,519	23,363	22,496	85,246	86,098	87,389	88,700	90,031
Depreciation & Amortization Expenses	94,710	169,123	202,871	197,215	49,368	48,115	48,036	49,361	194,880	49,206	49,206	49,206	49,206	196,824	199,236	201,735	204,292	206,848
Operating & Administrative Expenses	620,576	846,223	917,389	963,963	246,651	257,346	223,306	225,980	953,283	230,889	268,465	223,842	226,931	950,127	950,127	952,574	952,431	951,964
Other Income, net	(25,563)	(26,521)	(32,503)	(27,450)	(10,148)	(7,392)	(5,548)	(8,267)	(31,355)	(8,907)	(7,577)	(5,687)	(9,968)	(32,139)	(33,103)	(34,179)	(35,375)	(36,790)
Total Costs & Expenses	2,295,010	2,708,554	2,747,810	3,240,807	748,222	803,375	477,155	428,020	2,456,772	514,344	759,279	474,205	442,423	2,190,252	2,364,587	2,512,643	2,853,521	2,993,276
Total Operating Income / (Loss)	242,949	213,062	418,733	472,128	140,570	296,942	822	(9,784)	428,550	129,754	296,272	7,826	5,533	439,384	497,117	524,321	552,468	582,056
EBITDA	**$335,258**	**$380,539**	**$617,735**	**$664,795**	**$188,535**	**$342,088**	**$48,871**	**$39,696**	**$619,190**	**$177,690**	**$342,509**	**$57,017**	**$54,825**	**$632,041**	**$691,541**	**$721,003**	**$751,524**	**$783,498**
	-1%	14%	62%	8%					-7%					2%	9%	4%	4%	4%
Interest Expense	(63,518)	(142,641)	(165,432)	(165,581)	(41,034)	(41,096)	(40,274)	(40,438)	(162,842)	(41,025)	(41,447)	(40,814)	(41,538)	(164,824)	(169,770)	(176,238)	(184,702)	(193,998)
Other Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pretax Earnings	179,431	70,421	253,301	306,547	99,536	255,846	(39,452)	(50,222)	265,708	88,729	254,825	(32,988)	(36,005)	274,560	327,347	348,083	367,766	388,058
Income Tax (Expense) / Benefit	(390)	(1,931)	(1,671)	(2,611)	(870)	(806)	(802)	(420)	(2,898)	(910)	(374)	(739)	(329)	(2,352)	(2,902)	(2,873)	(2,880)	(2,846)
Net Income before Minority Interest	179,041	68,490	251,630	303,936	98,666	255,040	(40,254)	(50,642)	262,810	87,819	254,451	(33,728)	(36,334)	272,208	324,445	345,210	364,886	385,212
Less: Minority Interest	(2,401)	(1,646)	(3,869)	(4,548)	(1,403)	(2,969)	13	119	(4,240)	(1,270)	(2,968)	(15)	86	(4,167)	(4,812)	(5,052)	(5,236)	(5,406)
Net Income before Accounting Changes	176,640	66,844	247,761	299,388	97,263	252,071	(40,241)	(50,523)	258,570	86,549	251,482	(33,743)	(36,248)	268,041	319,633	340,157	359,650	379,806
Less: Cumulative Effect of Acctg Changes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	**176,640**	**66,844**	**247,761**	**299,388**	**97,263**	**252,071**	**(40,241)**	**(50,523)**	**258,570**	**86,549**	**251,482**	**(33,743)**	**(36,248)**	**268,041**	**319,633**	**340,157**	**359,650**	**379,806**
Less: General Partner's Interest	(6,422)	(13,119)	(21,498)	(26,749)	(6,137)	(9,795)	(8,389)	(8,148)	(32,469)	(9,455)	(9,598)	(13,319)	(13,319)	(45,690)	(60,605)	(75,376)	(89,682)	(103,058)
Net Income Available to Limited Partners	170,218	53,725	226,263	272,639	91,126	242,276	(48,630)	(58,671)	226,101	77,094	241,884	(47,061)	(49,566)	222,350	259,029	264,782	269,968	276,748
Net Income per Limited Partner Unit	**$2.98**	**$0.66**	**$2.44**	**$2.93**	**$0.98**	**$2.61**	**($0.52)**	**($0.63)**	**$2.43**	**$0.83**	**$2.60**	**($0.51)**	**($0.53)**	**$2.39**	**$2.79**	**$2.85**	**$2.90**	**$2.98**
% Change from Prior Comparable Period	*-5%*	*-78%*	*269%*	*20%*	*-29%*	*4%*	*18%*	*26%*	*-17%*	*-15%*	*0%*	*-3%*	*-16%*	*-2%*	*16%*	*2%*	*2%*	*3%*
LP Units owned by UGI	24,691	23,992	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757
Average # of Units Outstanding	57,146	81,459	92,869	92,913	92,893	92,963	92,918	92,918	92,923	93,004	93,004	93,004	93,004	93,004	93,004	93,004	93,004	93,004

Source: Company reports, Jefferies estimates

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Please see important disclosure information on pages 10 - 14 of this report.

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Exhibit 2: UGI Consolidated Statement of Income

Consolidated Income Statement	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Revenues	$6,091.3	$6,519.2	$7,191.6	$8,277.3	$2,004.6	$2,455.6	$1,148.1	$1,082.8	$6,691.1	$1,606.6	$2,482.9	$1,216.1	$1,100.1	$6,405.6	$6,721.3	$6,778.6	$7,149.4	$7,339.1
(Cost of Sales)	($4,019.0)	($4,111.2)	($4,332.7)	($5,175.7)	($1,404.6)	($1,205.5)	($586.4)	($540.0)	($3,736.5)	($734.0)	($1,206.5)	($618.6)	($547.0)	($3,106.0)	($3,394.8)	($3,426.0)	($3,786.6)	($3,923.3)
Gross Margin	$2,072.3	$2,408.0	$2,859.0	$3,101.7	$600.0	$1,250.1	$561.7	$542.8	$2,954.7	$872.6	$1,276.4	$597.4	$553.1	$3,299.6	$3,326.4	$3,352.6	$3,362.8	$3,415.7
(Operating & Administrative)	($1,253.9)	($1,591.7)	($1,693.5)	($1,752.6)	($435.7)	($458.6)	($414.8)	($442.2)	($1,751.3)	($464.1)	($558.8)	($450.2)	($429.1)	($1,902.1)	($1,825.3)	($1,817.1)	($1,782.0)	($1,776.5)
(Depreciation & Amortization)	($227.9)	($316.0)	($360.3)	($362.9)	($91.0)	($88.0)	($92.5)	($102.6)	($374.1)	($100.6)	($100.7)	($101.5)	($103.0)	($405.8)	($416.5)	($422.6)	($433.4)	($444.8)
Other Income (Loss)	$25.6	$16.4	$17.9	$19.5	$10.0	$6.5	$6.7	$5.1	$28.3	($2.4)	$5.8	$3.9	$7.4	$14.7	$27.6	$29.7	$30.9	$32.3
Operating Income	$616.0	$516.7	$823.1	$1,005.6	$83.4	$710.0	$61.1	$3.1	$857.6	$305.5	$622.8	$49.7	$28.4	$1,006.4	$1,112.3	$1,142.5	$1,178.2	$1,226.8
(Income from Equity Investees)	($0.9)	($0.3)	($0.4)	($0.1)	($1.0)	($0.1)	$0.0	($0.1)	($1.2)	($0.1)	($0.1)	($0.1)	($0.1)	($0.4)	$1.4	$7.1	$7.7	$8.2
(Extraordinary Items)	($26.8)	$11.9	$10.1	$11.8	$81.9	($30.8)	($4.9)	$7.1	$53.3	($2.2)				($2.2)	$0.0	$0.0	$0.0	$0.0
(Interest Expense)	($138.0)	($221.5)	($239.1)	($237.7)	($59.0)	($58.2)	($57.2)	($57.2)	($231.6)	($57.9)	($59.0)	($56.5)	($58.9)	($232.4)	($248.5)	($255.9)	($264.9)	($272.9)
(Minority Interest, prnc. in AmeriGas)	($74.7)	$13.2	($147.7)	($195.4)	$33.9	($235.7)	$25.5	$43.3	($133.0)	($53.3)	($170.7)	$21.6	$23.0	($179.3)	($213.6)	($220.4)	($226.6)	($233.7)
Income before Taxes	$375.6	$320.0	$446.0	$584.3	$139.1	$385.2	$24.5	($3.7)	$545.1	$192.0	$392.9	$14.7	($7.5)	$592.1	$651.6	$673.3	$694.4	$728.5
(Income Tax Expense)	($137.4)	($105.5)	($163.9)	($235.2)	($23.1)	($164.4)	($10.0)	$5.8	($191.7)	($79.6)	($147.3)	($5.5)	$2.8	($229.6)	($247.6)	($255.8)	($263.9)	($276.8)
(Preferred Dividends)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Income before Other Items	$238.3	$214.5	$282.1	$349.1	$116.0	$220.8	$14.5	$2.1	$353.4	$112.4	$245.6	$9.2	($4.7)	$362.5	$404.0	$417.4	$430.5	$451.7
Net Income - Recurring	$238.3	$214.5	$282.1	$349.1	$116.0	$220.8	$14.5	$2.1	$353.4	$112.4	$245.6	$9.2	($4.7)	$362.5	$404.0	$417.4	$430.5	$451.7
EPS (Adjusted Diluted)	**$1.41**	**$1.27**	**$1.63**	**$2.00**	$0.66	$1.26	$0.08	$0.01	**$2.02**	$0.64	$1.41	$0.05	($0.03)	**$2.08**	**$2.35**	**$2.43**	**$2.49**	**$2.60**
Shares Outstanding - Basic	168.0	168.9	170.9	172.7	172.9	173.2	173.1	173.3	173.1	172.9	172.3	171.8	171.2	172.1	169.8	169.7	170.8	171.9
Shares Outstanding - Diluted	168.7	169.5	172.7	174.6	175.8	175.6	175.6	173.3	175.1	175.2	174.8	174.3	171.2	173.9	171.7	171.6	172.7	173.8
EBIT	$541.3	$529.9	$675.4	$810.2	$117.3	$474.3	$86.6	$46.4	$724.6	$252.2	$452.1	$71.3	$51.5	$827.1	$898.6	$922.1	$951.6	$993.1
EBITDA	$769.3	$845.9	$1,035.7	$1,173.2	$208.2	$562.3	$179.1	$149.0	$1,098.7	$352.8	$552.7	$172.8	$154.4	$1,232.9	$1,315.2	$1,344.7	$1,385.0	$1,437.9

Source: Company reports, Jefferies estimates

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Please see important disclosure information on pages 10 - 14 of this report.

Jefferies

Exhibit 3: NFG Consolidated Statement of Income

Consolidated Income Statement ($MM)	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Revenues	$1,778.8	$1,626.9	$1,829.6	$2,113.1	$523.9	$596.1	$339.8	$301.1	$1,939.0	$375.2	$623.1	$382.0	$342.9	$1,723.2	$1,801.5	$2,408.7	$2,452.2	$2,674.5
OPERATING INCOME by DIVISION																		
Utility	$127.7	$117.2	$121.4	$121.0	$42.3	$68.9	$15.6	($6.6)	$120.1	$34.3	$59.4	$15.6	($6.6)	$102.8	$112.1	$112.7	$113.3	$113.9
Pipeline & Storage	$74.2	$120.4	$126.1	$149.4	$39.9	$44.6	$34.8	$32.5	$151.8	$40.5	$44.7	$40.0	$33.0	$158.2	$161.5	$224.1	$223.4	$223.4
Gathering			$25.8	$57.9	$20.7	$11.4	$12.4	$13.6	$58.1	$12.2	$16.1	$16.0	$15.9	$60.2	$53.3	$136.8	$133.8	$131.4
Exploration & Production	$230.7	$211.2	$249.0	$247.4	$55.4	$38.2	$37.6	$54.1	$185.2	$47.1	$35.8	$47.2	$56.9	$187.0	$175.1	$264.1	$295.1	$498.1
Timber	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Energy Marketing	$13.1	$5.9	$6.8	$10.1	$4.6	$5.4	$2.3	($0.2)	$12.0	$1.8	$5.7	$2.4	($0.2)	$9.6	$12.6	$12.6	$12.6	$12.6
Corporate	($4.6)	$1.3	($11.4)	($12.1)	($2.2)	($3.8)	($3.1)	($2.8)	($12.0)	($1.7)	($3.4)	($2.7)	($2.9)	($10.8)	($10.2)	($10.0)	($9.6)	($9.3)
Total Operating Income	**$441.2**	**$455.9**	**$517.8**	**$573.8**	**$160.6**	**$164.7**	**$99.498**	**$90.5**	**$515.2**	**$134.227**	**$158.2**	**$118.5**	**$96.1**	**$507.0**	**$504.4**	**$740.2**	**$768.5**	**$970.1**
Depreciation	$226.5	$271.5	$326.8	$383.8	$102.7	$82.7	$79.9	$70.9	$336.2	$70.6	$59.1	$55.2	$51.7	$236.6	$228.7	$369.6	$367.1	$313.7
Other Income / (Expenses)	$5.9	$5.1	$4.7	$5.2	$1.2	$1.4	$2.1	$3.2	$7.9	$4.2	$1.5	$1.5	$0.3	$7.5	$7.5	$7.5	$7.5	$7.5
Interest Expense	($75.2)	($82.6)	($89.9)	($89.5)	($21.8)	($23.9)	($22.9)	($26.7)	($95.4)	($31.8)	($30.9)	($30.0)	($29.7)	($122.4)	($122.1)	($138.1)	($146.7)	($143.0)
Earnings before Taxes	**$371.9**	**$378.5**	**$432.6**	**$489.5**	**$139.9**	**$142.2**	**$78.7**	**$67.0**	**$427.7**	**$106.7**	**$128.8**	**$90.0**	**$66.6**	**$392.1**	**$389.8**	**$609.7**	**$629.3**	**$834.7**
Income Taxes	($144.9)	($152.1)	($172.8)	($198.0)	($55.2)	($56.0)	($32.0)	($32.1)	($175.2)	($40.2)	($51.4)	($37.3)	($27.9)	($156.7)	($157.7)	($246.7)	($253.6)	($337.3)
Effective Tax Rate	39.0%	40.2%	39.9%	40.4%	39.4%	39.4%	40.6%	47.9%	41.0%	37.7%	*39.9%*	*41.5%*	*41.8%*	40.0%	*40.5%*	*40.5%*	*40.3%*	*40.4%*
Net Income	$227.0	$226.5	$259.8	$291.5	$84.8	$86.1	$46.7	$34.9	$252.5	$66.5	$77.4	$52.7	$38.8	$235.4	$232.1	$363.0	$375.7	$497.4
Recurring Diluted Earnings Per Share	**$2.71**	**$2.70**	**$3.08**	**$3.43**	$1.00	$1.01	$0.55	$0.41	**$2.97**	$0.79	$0.91	$0.62	$0.46	**$2.78**	**$2.65**	**$4.05**	**$4.19**	**$5.55**
	2.0%	*-0.3%*	*14.0%*	*11.4%*					*-13.5%*					*-6.4%*	*-4.8%*	*53.2%*	*3.4%*	*32.3%*
Average number of diluted shares outstanding	83,648	83,728	84,249	84,883	85,119	85,133	85,248	84,570	85,016	84,651	84,693	84,731	84,765	84,710	87,701	89,515	89,601	89,684
Average number of basic shares outstanding	82,514	83,128	83,519	83,930	84,209	84,318	84,454	84,570	84,388	84,651	84,693	84,731	84,765	84,710	87,701	89,515	89,601	89,684
Dividend	$1.40	$1.44	$1.48	$1.52	$0.39	$0.39	$0.40	$0.40	$1.56	$0.40	$0.40	$0.41	$0.41	$1.60	$1.64	$1.68	$1.72	$1.76
Payout Ratio	52%	53%	48%	44%	39%	38%	72%	96%	53%	50%	43%	65%	89%	58%	62%	41%	41%	32%
Payout Ratio of Regulated EPS	124%	102%	89%	75%	60%	48%	114%	147%	77%	75%	53%	106%	167%	86%	93%	62%	65%	67%

Source: Company reports, Jefferies estimates

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Please see important disclosure information on pages 10 - 14 of this report.

Jefferies

Exhibit 4: NI Consolidated Statement of Income

Consolidated Income Statement	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1QE	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Revenues	$5,795.7	$5,099.9	$5,659.3	$6,456.3	$2,127.5	$1,175.8	$821.1	$1,124.9	$4,593.6	$2,040.1	$931.2	$860.3	$1,243.2	$5,074.8	$5,323.8	$5,462.6	$5,632.2	$5,775.2
(Cost of Sales)	($2,334.1)	($1,525.2)	($1,815.5)	($2,224.2)	($806.0)	($218.6)	($209.1)	($336.4)	($1,569.9)	($1,019.7)	($252.9)	($214.3)	($406.1)	($1,893.0)	($1,991.3)	($2,021.9)	($2,097.6)	($2,145.0)
Net Revenue	$3,461.6	$3,574.7	$3,843.8	$4,232.1	$1,321.5	$957.2	$612.0	$788.5	$3,023.7	$1,020.4	$678.2	$646.0	$837.2	$3,181.8	$3,332.5	$3,440.8	$3,534.7	$3,630.2
(Operating & Maintenance Expenses)	($1,688.1)	($1,674.6)	($1,873.9)	($2,117.1)	($553.6)	($520.6)	($310.0)	($347.3)	($1,409.3)	($420.7)	($355.3)	($322.4)	($360.0)	($1,458.4)	($1,505.7)	($1,548.1)	($1,587.1)	($1,624.6)
(Depreciation & Amortization)	($542.8)	($563.9)	($577.3)	($605.5)	($157.5)	($167.4)	($132.5)	($133.4)	($524.4)	($134.8)	($134.5)	($133.5)	($133.3)	($536.1)	($542.0)	($549.2)	($556.3)	($563.2)
(Other Taxes)	($293.3)	($287.8)	($300.6)	($320.3)	($102.4)	($79.1)	($53.7)	($58.9)	($256.1)	($90.5)	($63.4)	($58.2)	($67.3)	($279.4)	($287.9)	($297.9)	($305.6)	($313.9)
(Gain on Sale of Assets)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
OPERATING INCOME BY DIVISION																		
Gas Distribution	$438.7	$450.2	$448.8	$498.4	$305.8	$55.6	$21.6	$184.8	$567.8	$317.3	$72.6	$34.0	$198.2	$622.0	$658.3	$691.4	$713.0	$733.4
Columbia Pipeline	$360.4	$397.8	$422.8	$456.2	$157.7	$100.3	$0.0	$0.0										
Electric Operations	$195.1	$237.6	$265.3	$287.7	$67.2	$56.6	$101.6	$54.1	$282.1	$63.5	$60.0	$104.5	$72.4	$300.3	$350.9	$367.8	$386.1	$409.2
Corporate & Eliminations	($42.2)	($5.0)	($9.0)	($6.5)	($7.3)	($8.7)	($7.4)	$10.0	($13.4)	($5.8)	($6.9)	($6.0)	$6.7	($12.0)	($10.3)	($11.7)	($11.5)	($12.2)
Total Recurring Operating Income	**$952.0**	**$1,080.6**	**$1,127.9**	**$1,235.8**	**$523.4**	**$203.8**	**$115.8**	**$248.9**	**$836.5**	**$375.0**	**$125.7**	**$132.6**	**$277.2**	**$910.4**	**$999.0**	**$1,047.5**	**$1,087.6**	**$1,130.5**
Other Income / (Loss)	($7.3)	$2.4	$24.2	$22.3	$7.1	$6.5	$5.8	$5.8	$25.2	$3.5	$3.5	$3.5	$3.5	$14.0	$14.0	$14.0	$14.0	$14.0
Interest Expense - Net	($376.8)	($418.3)	($414.8)	($443.6)	($111.0)	($117.1)	($94.9)	($94.3)	($417.3)	($93.8)	($94.6)	($100.1)	($102.7)	($391.2)	($419.8)	($442.5)	($464.2)	($490.8)
Minority Interest (CPPL Public LP Units)					($6.9)	($8.7)	$0.0	$0.0	($15.6)					$0.0				
Pretax Income	$567.9	$664.7	$737.3	$814.5	$412.6	$84.5	$26.7	$160.4	$684.2	$284.7	$34.7	$36.0	$178.0	$533.3	$593.1	$619.0	$637.4	$653.7
(Provision)/Benefit for Income Taxes	($196.2)	($231.8)	($254.8)	($293.5)	($147.7)	($33.0)	($8.6)	($60.9)	($250.3)	($101.5)	($12.6)	($13.2)	($64.9)	($192.2)	($213.5)	($222.8)	($229.5)	($235.3)
Effective Tax Rate	*34.6%*	*34.9%*	*34.6%*	*36.0%*	*35.8%*	*39.1%*	*32.2%*	*38.0%*	*36.6%*	*35.6%*	*36.3%*	*36.7%*	*36.5%*	*36.0%*	*36.0%*	*36.0%*	*36.0%*	*36.0%*
Net Income (from Continuing Operations)	$371.7	$432.9	$482.5	$521.0	$174.9	$6.5	$18.1	$99.5	$298.9	$183.2	$22.1	$22.8	$113.0	$341.1	$379.6	$396.1	$408.0	$418.4
Recurring Diluted EPS	**$1.29**	**$1.44**	**$1.54**	**$1.65**	$0.55	$0.02	$0.06	$0.31	**$0.94**	$0.57	$0.07	$0.07	$0.35	**$1.06**	**$1.17**	**$1.21**	**$1.23**	**$1.25**
Average # of diluted shares outstanding	288.5	300.4	313.6	316.3	317.4	317.5	321.5	321.1	319.4	321.5	322.2	322.8	323.4	322.5	325.3	328.3	331.4	334.7
Average # of basic shares outstanding	280.4	291.9	312.4	315.1	316.6	317.5	318.1	318.8	317.8	319.2	319.9	320.5	321.1	320.2	323.0	326.0	329.1	332.4
Dividends per Share	**$0.92**	**$0.94**	**$0.98**	**$1.02**	$0.260	$0.260	$0.155	$0.155	**$0.83**	$0.155	$0.16	$0.17	$0.17	**$0.64**	**$0.68**	**$0.72**	**$0.76**	**$0.80**
Payout Ratio	**71%**	**65%**	**64%**	**62%**	47%	1275%	275%	50%	**89%**	27%	226%	234%	47%	**61%**	**58%**	**60%**	**62%**	**64%**

GAAP Revenue	$5,797.5	$5,067.3	$5,657.6	$6,470.6	$2,149.7	$1,169.0	$817.2	$1,097.1	$5,233.0
GAAP Operating Expense	($2,565.2)	($2,526.2)	($2,754.9)	($3,062.1)	($834.3)	($807.3)	($497.3)	($540.8)	($2,679.7)
Non-GAAP Asset Sale Adjustments	($1.5)	$0.1	$18.7	$34.8	$5.3	$8.3	($0.8)	$0.0	$12.8
GAAP Asset Sale Adjustments	($15.5)	$3.5	$0.3	($3.3)	$0.0	$0.2	($0.3)	($0.4)	($0.5)
Total Asset Sale Adjustments	($17.0)	$3.6	$19.0	$31.5	$5.3	$8.5	($1.1)	($0.4)	$12.3
GAAP Operating Margin	$3,463.4	$3,542.1	$3,842.1	$4,246.4	$1,343.7	$950.4	$608.1	$760.7	$3,662.9
Equity Earnings from Unconsolidated Affiliates	$14.6	$32.2	$35.9	$46.6	$15.4	$13.7	$0.0	$0.0	$0.0
GAAP Op Income	$827.1	$1,051.7	$1,142.1	$1,262.4	$530.1	$165.3	$109.7	$219.5	$1,024.6
Tax Effects & Other Adjusting Items	$36.3	($2.8)	$0.3	($10.9)	($0.7)	($48.8)	$2.8	($5.7)	($52.4)
GAAP Net Income	$283.1	$401.2	$497.0	$536.7	$277.8	($35.8)	$14.8	$64.4	$321.1
GAAP Basic EPS from Continuing Ops	$1.01	$1.37	$1.59	$1.70	$0.88	($0.11)	$0.05	$0.20	$1.01

Source: Company reports, Jefferies estimates

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Please see important disclosure information on pages 10 - 14 of this report.

Jefferies

Exhibit 5: OGS Consolidated Statement of Income

Income Statement ($MM)	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1QE	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Gas Sales	$1,493	$1,252	$1,559	$1,680	$636.8	$229.0	$197.9	$354.2	$1,418	$717.7	$310.9	$226.9	$433.0	$1,688	$1,681	$1,803	$1,848	$1,934
Transportation Revenue	$91	$89	$99	$102	$31.4	$20.6	$20.9	$25.9	$99	$32.0	$23.0	$21.8	$26.4	$103	$105	$108	$110	$113
Other revenue	$38	$36	$33	$37	$8.4	$7.1	$6.4	$9.1	$31	$8.7	$7.9	$6.8	$9.1	$32	$32	$32	$33	$34
Total Revenue	**$1,621**	**$1,377**	**$1,690**	**$1,819**	$676.5	$256.8	$225.2	$389.1	**$1,547.700**	$758.3	$341.8	$255.5	$468.5	**$1,824**	**$1,818**	**$1,943**	**$1,991**	**$2,080**
Cost of gas	($870)	($620)	($877)	($992)	($413.6)	($79.9)	($54.7)	($157.7)	($706)	($483.8)	($142.7)	($71.3)	($228.2)	($926)	($875)	($962)	($974)	($1,025)
Net Margin	**$752**	**$756**	**$813**	**$827**	$263.0	$176.8	$170.5	$231.4	**$842**	$274.6	$199.1	$184.2	$240.3	**$898**	**$943**	**$980**	**$1,017**	**$1,055**
(O&M)	($422)	($411)	($393)	($414)	($106.6)	($99.4)	($98.7)	($109.8)	($414)	($110.3)	($102.9)	($102.2)	($113.6)	($429)	($436)	($443)	($452)	($461)
(D&A)	($132)	($130)	($145)	($133)	($31.6)	($33.0)	($34.0)	($34.4)	($133)	($35.0)	($35.6)	($36.2)	($36.9)	($144)	($155)	($166)	($178)	($190)
(General Taxes)	$0	$0	($55)	($55)	($15.8)	($13.1)	($12.9)	($13.3)	($55)	($14.9)	($16.4)	($15.6)	($11.7)	($58)	($65)	($67)	($67)	($69)
Operating Income (EBIT)	**$198**	**$216**	**$220**	**$224**	$109.0	$31.3	$25.0	$73.9	**$239**	$114	$44	$30	$78	**$267**	**$287**	**$303**	**$320**	**$334**
Other	($1)	$2	$2	($3)	$0.4	($0.4)	($1.7)	($0.8)	($3)	($1.0)	($0.4)	($0.4)	($0.4)	($2)	($3)	($4)	($5)	($5)
(Interest Expense)	($54)	($61)	($61)	($46)	($11.2)	($11.2)	($11.2)	($11.0)	($45)	($10.9)	($10.9)	($11.3)	($11.8)	($45)	($47)	($48)	($55)	($57)
(Income Taxes)	($56)	($60)	($62)	($68)	($37.8)	($7.6)	($4.6)	($23.0)	($73)	($39)	($13)	($7)	($25)	($85)	($91)	($97)	($100)	($105)
Net Income	$87	$96	$99	$108	$60.4	$12.1	$7.4	$39.2	$119	$63.1	$20.3	$11.5	$40.6	$135	$146	$154	$160	$167
Earnings Per Share (EPS)	**$1.61**	**$1.83**	**$1.93**	**$2.08**	$1.13	$0.23	$0.14	$0.74	**$2.24**	$1.19	$0.38	$0.22	$0.76	**$2.55**	**$2.74**	**$2.90**	**$3.00**	**$3.13**
Shares Outstanding (Diluted)	53.6	52.7	52.4	52.8	53.4	53.4	53.1	53.1	53.3	53.1	53.1	53.1	53.1	53.1	53.2	53.3	53.4	53.5
Shares Outstanding (Basic)	52.3	51.5	51.7	52.2	52.7	52.8	52.4	52.4	52.6	52.4	52.5	52.5	52.5	52.5	52.6	52.6	52.7	52.8
Dividend - Qtrly				**$1.12**	$0.30	$0.30	$0.30	$0.30	**$1.20**	$0.35	$0.35	$0.35	$0.35	**$1.40**	**$1.60**	**$1.76**	**$1.88**	**$2.00**
									7.1%					16.7%	14.3%	10.0%	6.8%	6.4%
Annual Dividend Run Rate				$1.12	$1.20	$1.20	$1.20	$1.20	$1.20	$1.40	$1.40	$1.40	$1.40	$1.40	$1.60	$1.76	$1.88	$2.00
EBIT	$198	$216	$220	$224	$109	$31	$25	$74	$239	$114	$44	$30	$78	$267	$287	$303	$320	$334
General Tax Rate			19.9%	19.7%	12.6%	29.6%	34.1%	15.2%	18.7%	11.5%	27.0%	34.0%	13.0%	18.0%	18.4%	18.1%	17.3%	17.2%
Income Tax Rate	39.2%	38.3%	38.6%	38.8%	38.5%	38.5%	38.6%	36.9%	38.0%	38.5%	38.5%	38.5%	38.5%	38.5%	38.5%	38.5%	38.5%	38.5%
Dividend Payout Ratio				**53.8%**					**53.7%**				16.7%	**54.9%**	**58.4%**	**60.8%**	**62.7%**	**63.9%**
EBITDA	**$330**	**$346**	**$365**	**$357**	$141	$64	$59	$108	**$372**	$149	$80	$67	$115	**$411**	**$442**	**$470**	**$498**	**$524**
Natural Gas Margin	**41.7%**	**50.5%**	**43.7%**	**41.0%**	35.1%	65.1%	72.3%	55.5%	**50.2%**	32.6%	54.1%	68.6%	47.3%	**45.2%**	**47.9%**	**46.6%**	**47.3%**	**47.0%**
Gas Sales Margin Growth	34.0%	20.9%	(13.3%)	(6.3%)	16.4%	19.2%	11.6%	41.7%	22.6%	(7.0%)	(16.9%)	(5.2%)	(14.7%)	(10.1%)	6.1%	(2.7%)	1.5%	(0.7%)
Charged Natural Gas Price	**$1.73**	**$1.85**	**$1.84**	**$1.81**	$1.60	$2.36	$2.63	$1.93	**$1.98**	$1.59	$2.30	$2.60	$1.91	**$2.07**	**$2.17**	**$2.23**	**$2.29**	**$2.35**
Rate increase										$0.08	$0.16	$0.16	$0.09	$0.12	$0.08	$0.04	$0.04	$0.04
New Rates	**$1.73**	**$1.85**	**$1.84**		$1.60	$2.36	$2.63	$1.93		$1.67	$2.46	$2.76	$1.99					
Y/Y Change	*2.3%*	*7.2%*	*-0.7%*	-1.6%	9.9%	9.3%	5.7%	11.0%	9.5%	*-1.0%*	*-2.5%*	*-1.0%*	*-1.0%*	4.5%	4.6%	2.8%	2.6%	2.6%

Source: Company reports, Jefferies estimates

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Please see important disclosure information on pages 10 - 14 of this report.

Jefferies

Exhibit 6: SWX Consolidated Statement of Income

Consolidated Statement of Income ($MM)	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1QE	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Gas Utility Revenues	$1,403.4	$1,321.7	$1,300.2	$1,382.1	$553.1	$286.6	$219.4	$395.5	$1,454.6	$536.3	$292.9	$233.5	$410.4	$1,473.1	$1,523.0	$1,560.8	$1,597.6	$1,628.8
Cost of Gas	$613.5	$479.6	$436.0	$505.4	$253.8	$109.0	$64.3	$136.8	$563.8	$228.5	$108.6	$71.9	$143.9	$552.8	$578.4	$593.2	$607.1	$618.9
Net Utility Operating Margin	$789.9	$842.1	$864.2	$876.7	$299.4	$177.6	$155.2	$258.7	$890.8	$307.8	$184.4	$161.6	$266.5	$920.3	$944.6	$967.6	$990.5	$1,009.9
Construction Revenues	$483.8	$606.1	$650.6	$739.6	$181.1	$252.0	$286.0	$289.9	$1,009.0	$177.1	$254.2	$290.4	$349.7	$1,071.5	$1,130.4	$1,198.5	$1,239.2	$1,287.9
Construction Expenses	$423.7	$541.5	$573.3	$647.9	$174.9	$225.8	$246.8	$251.3	$898.8	$166.1	$223.7	$250.9	$310.8	$951.5	$1,005.3	$1,068.9	$1,105.9	$1,151.3
Net Construction Operating Margin	$60.1	$64.5	$77.3	$91.8	$6.2	$26.1	$39.2	$38.7	$110.2	$11.0	$30.5	$39.5	$39.0	$120.0	$125.1	$129.6	$133.3	$136.6
Operation and maintenance	$358.5	$370.0	$384.9	$383.7	$95.5	$99.3	$100.1	$98.2	$393.2	$95.5	$99.3	$100.1	$98.2	$393.2	$396.1	$402.1	$408.1	$414.2
Depreciation and amortization	$200.5	$223.4	$236.8	$253.0	$67.5	$67.0	$66.5	$69.2	$270.1	$72.0	$72.5	$73.3	$74.0	$291.8	$281.1	$281.3	$292.1	$297.1
Taxes other than income	$40.9	$41.7	$45.6	$47.3	$13.0	$12.4	$11.7	$12.3	$49.4	$12.6	$12.3	$12.3	$12.8	$50.1	$50.4	$51.4	$52.1	$52.6
Total Operating Expenses	$599.9	$635.1	$667.3	$684.0	$176.0	$178.7	$178.2	$179.8	$712.7	$180.1	$184.1	$185.7	$185.1	$735.1	$727.6	$734.8	$752.4	$763.9
Other Income (Expense)	($6.1)	($2.2)	($0.1)	$1.8	$1.0	$0.2	$0.2	$1.0	$2.4	$1.3	$0.5	$0.8	$0.0	$2.6	$2.2	$2.5	$2.4	$2.5
Income before Interest and Taxes	$244.0	$269.3	$274.1	$286.3	$130.5	$25.2	$16.4	$118.6	$290.7	$139.9	$31.3	$16.1	$120.4	$307.7	$344.2	$364.9	$373.8	$385.1
Interest Expense	$69.6	$68.0	$63.7	$72.1	$18.0	$17.7	$18.4	$17.8	$71.9	$18.2	$17.5	$18.4	$19.4	$73.5	$82.1	$92.3	$100.7	$104.5
Income before Taxes	$174.4	$201.3	$210.4	$214.2	$112.6	$7.5	($2.0)	$100.8	$218.8	$121.6	$13.8	($2.3)	$101.0	$234.2	$262.2	$272.6	$273.1	$280.6
Income Taxes	$63.3	$75.3	$77.9	$78.4	$42.0	$2.4	($1.7)	$37.2	$79.9	$44.7	$5.2	($2.4)	$37.8	$85.3	$95.0	$99.2	$99.8	$102.2
Net Income	**$111.1**	**$126.0**	**$132.5**	**$135.8**	**$70.6**	**$5.1**	**($0.3)**	**$63.6**	**$138.9**	**$76.9**	**$8.6**	**$0.1**	**$63.2**	**$148.9**	**$167.1**	**$173.3**	**$173.4**	**$178.5**
Minority Interests	($0.5)	($0.7)	($0.4)	$0.0	($0.1)	$0.1	$0.5	$0.6	$1.1	($0.1)	$0.3	$0.5	$0.5	$1.1	$1.2	$1.3	$1.4	$1.5
Net Income to Common	$111.6	$126.7	$132.9	$135.8	$70.683	$4.9	($0.8)	$63.0	$137.8	$77.1	$8.3	($0.4)	$62.7	$147.8	$165.9	$172.0	$172.0	$177.0
Avg. Diluted Common Shares	46.3	46.3	46.8	46.9	47.0	47.3	47.1	47.4	47.2	47.6	47.7	47.4	47.8	47.6	47.8	47.8	47.8	47.8
Avg. Basic Common Shares			46.3	46.5	46.6	46.9	47.1	47.0	46.9	47.2	47.3	47.4	47.4	47.3	47.4	47.4	47.4	47.4
Recurring Earnings per share	**$2.41**	**$2.74**	**$2.84**	**$2.89**	**$1.50**	**$0.10**	**($0.02)**	**$1.33**	**$2.92**	**$1.62**	**$0.17**	**($0.01)**	**$1.31**	**$3.10**	**$3.47**	**$3.60**	**$3.60**	**$3.70**
Excluded Items (non-recurring or discontinued operations)	$0.7	$6.6	$12.4	$5.3	$1.3	$0.0	($3.9)	$2.1	($0.5)					$0.0	$0.0	$0.0	$0.0	$0.0
EPS impact of excluded items	0.01	0.14	0.27	0.11	0.03	0.00	(0.08)	0.04	(0.01)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reported Earnings per share (diluted)	$2.43	$2.88	$3.11	$3.01	$1.53	$0.10	($0.10)	$1.37	$2.91	$1.62	$0.17	($0.01)	$1.31	$3.10	$3.47	$3.60	$3.60	$3.70
Dividends paid per share	**$1.05**	**$1.15**	**$1.29**	**$1.43**	$0.37	$0.41	$0.41	$0.41	**$1.58**	$0.41	$0.45	$0.45	$0.45	**$1.76**	**$1.92**	**$2.08**	**$2.23**	**$2.38**
Dividend Growth Rate	**5.8%**	**10.0%**	**12.2%**	**10.5%**					**10.9%**		11.1%			**11.1%**	**9.4%**	**8.3%**	**7.3%**	**6.4%**
Payout Ratio (on recurring earnings)	**43.4%**	**42.0%**	**45.4%**	**49.3%**					**54.1%**					**56.6%**	**55.3%**	**57.8%**	**62.0%**	**64.1%**
Tax Rate	**36.3%**	**37.4%**	**37.0%**	**36.6%**	37.3%	32.4%	84.6%	36.9%	**36.5%**	36.8%	37.5%	106.3%	37.4%	**36.4%**	**36.3%**	**36.4%**	**36.5%**	**36.4%**
Change in Net Income	**19%**	**13%**	**5%**	**3%**	1%	-31%	-114%	13%	**2%**	9%	71%	-146%	-1%	**7%**	**12%**	**4%**	**0%**	**3%**
Change in Common Equity	**5.0%**	**6.8%**	**7.9%**	**5.2%**	5.6%	5.8%	1.4%	7.1%	**7.1%**		180.0%			**5.7%**	**4.8%**	**4.5%**	**3.9%**	**3.7%**

Source: Company reports, Jefferies estimates

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Please see important disclosure information on pages 10 - 14 of this report.

Jefferies

Exhibit 7: STR Consolidated Statement of Income

Consolidated Income Statement ($MM)	2010	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1QE	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Period Days	365	365	366	365	365	90	91	92	92	365	91	91	92	92	366	365	365	365	366
Revenues	**$1,123.6**	**$1,194.4**	**$1,098.9**	**$1,220.0**	**$1,189.3**	**$428.6**	**$199.3**	**$142.3**	**$364.7**	**$1,134.9**	**$495.7**	**$248.4**	**$190.8**	**$425.8**	**$1,360.7**	**$1,392.3**	**$1,423.1**	**$1,454.7**	**$1,489.0**
Operating Income by Segment																			
WEXPRO	$133.7	$145.8	$155.7	$167.9	$183.3	$41.7	$41.8	$40.7	$35.3	$159.5	$41.1	$40.3	$39.5	$38.5	$159.4	$145.8	$137.2	$130.5	$125.9
Questar Pipeline Company	$130.0	$125.6	$121.3	$116.1	$117.6	$27.4	$29.3	$28.8	$28.9	$114.4	$27.6	$29.4	$28.7	$30.1	$115.8	$116.5	$116.7	$117.2	$117.1
Questar Gas Company	$88.6	$94.1	$92.9	$101.9	$109.5	$76.6	$1.4	($8.9)	$53.5	$122.6	$81.4	$1.0	($8.2)	$57.9	$132.1	$141.2	$149.5	$158.4	$167.9
Corporate & Other	$1.7	$1.2	$0.7	$0.7	($5.0)	$1.3	$1.4	$1.6	$1.0	$5.3	$1.4	$1.4	$1.4	$1.4	$5.5	$5.8	$6.0	$6.3	$6.3
Depreciation	$153.4	$159.9	$181.6	$194.8	$213.7	$54.3	$53.6	$55.0	$53.1	$216.0	$56.0	$54.9	$55.0	$54.3	$220.2	$222.6	$222.8	$224.0	$224.3
Total Operating Income	**$354.0**	**$366.7**	**$370.5**	**$386.6**	**$405.4**	$147.0	$73.9	$62.2	$118.7	**$401.8**	$151.5	$72.1	$61.4	$127.9	**$412.8**	**$409.2**	**$409.4**	**$412.3**	**$417.1**
Interest Income & Other Expenses	$11.7	$10.4	$11.9	$9.9	$6.6	$1.4	$1.5	$1.3	$0.0	$4.2	$1.1	$1.1	$1.1	$1.1	$4.5	$5.5	$6.0	$6.0	$6.0
Earnings of Unconsolidated Affiliates	$3.8	$3.8	$3.7	$3.7	$3.5	$0.9	$1.0	$0.9	$0.9	$3.7	$0.9	$1.0	$0.9	$0.9	$3.6	$3.7	$3.6	$3.6	$3.6
Interest Expense	($57.1)	($56.8)	($57.9)	($56.9)	($63.1)	($15.9)	($15.8)	($15.7)	($15.6)	($63.0)	($15.2)	($14.9)	($15.3)	($15.8)	($61.3)	($65.5)	($68.6)	($70.0)	($70.9)
Income before Tax	$312.4	$324.1	$328.2	$343.3	$352.4	$133.4	$60.6	$48.7	$104.0	$346.7	$138.2	$59.2	$48.1	$114.1	$359.6	$352.9	$350.4	$351.9	$355.9
Income Taxes	$111.8	$116.4	$116.5	$129.6	$125.9	$48.8	$20.9	$16.2	$34.9	$120.8	$50.9	$20.8	$15.5	$39.9	$127.1	$125.3	$124.4	$124.9	$126.3
Effective Tax Rate	35.8%	35.9%	35.5%	37.7%	35.7%	36.6%	34.5%	33.2%	33.6%	34.8%	36.8%	35.2%	32.2%	35.0%	35.3%	35.5%	35.5%	35.5%	35.5%
Net Income from Noncontrolling Interests	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0					$0.0	$0.0	$0.0	$0.0	$0.0
Net Income	$200.6	$207.7	$211.7	$213.7	$226.5	$84.6	$39.7	$32.5	$69.1	$225.9	$87.3	$38.4	$32.6	$74.2	$232.5	$227.6	$226.0	$227.0	$229.5
Dividends on Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Available to Common	$200.6	$207.7	$211.7	$213.7	$226.5	$84.6	$39.7	$32.5	$69.1	$225.9	$87.3	$38.4	$32.6	$74.2	$232.5	$227.6	$226.0	$227.0	$229.5
Recurring Diluted Earnings Per Share	**$1.13**	**$1.16**	**$1.19**	**$1.21**	**$1.29**	$0.48	$0.22	$0.18	$0.39	**$1.28**	$0.50	$0.22	$0.19	$0.42	**$1.32**	**$1.30**	**$1.29**	**$1.30**	**$1.32**
Average Basic Shares Outstanding (MM)	175.4	177.4	176.5	175.5	175.8	176.2	176.4	176.2	175.5	176.1	175.5	175.5	175.4	175.4	175.4	175.2	174.8	174.4	174.0
Average Diluted Shares Outstanding (MM)	178.0	178.8	177.5	175.9	176.1	176.5	176.6	176.3	175.7	176.3	175.7	175.7	175.6	175.6	175.6	175.4	175.0	174.6	174.2
Dividends per Share	$0.54	$0.62	$0.67	$0.71	$0.75	$0.21	$0.21	$0.21	$0.21	$0.84	$0.22	$0.22	$0.22	$0.22	$0.88	$0.89	$0.90	$0.90	$0.91
Payout Ratio	**48%**	**53%**	**56%**	**58%**	**58%**	44%	93%	114%	53%	**66%**	44%	101%	119%	52%	**66%**	**68%**	**69%**	**69%**	**69%**
EBITDA	**$522.9**	**$540.8**	**$567.7**	**$595.0**	**$629.2**	$203.6	$130.0	$119.4	$172.7	**$625.7**	$209.5	$129.0	$118.4	$184.2	**$641.1**	**$640.9**	**$641.8**	**$645.9**	**$651.1**
EBIT	**$369.5**	**$380.9**	**$386.1**	**$400.2**	**$415.5**	$149.3	$76.4	$64.4	$119.6	**$409.7**	$153.5	$74.1	$63.4	$129.9	**$420.9**	**$418.4**	**$419.0**	**$421.9**	**$426.8**

Source: Company reports, Jefferies estimates

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Please see important disclosure information on pages 10 - 14 of this report.

Jefferies

Energy

Target | Estimate Change

March 2, 2016

Questar Corporation (STR)

Hold: $25 Price Target

THE LONG VIEW

Scenarios

Target Investment Thesis

- Acquisition by Dominion Resources (D) for $25/shr approved by STR shareholders
- Acquisiton fomally closes by YE16
- Market opportunities support $25-$50mm of annual upstream acquisitions for the next 20 years to be included in Wexpro II ; each $1 of acquisition capital leads to $2 of long-term development capital
- 2016 EPS: $1.30; 5-year dividend CAGR: 1.7%; Target Price $25

Upside Scenario

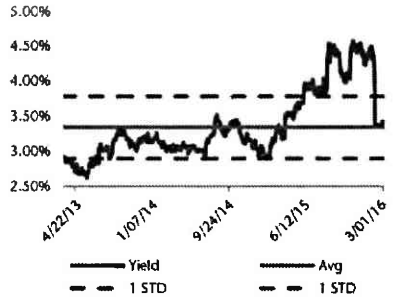
- Aother bidder offers higher than Dominion's $25/shr
- Questar gas physical needs rise, lifting the demand for equity gas & prompting elevated acquisition & development activities at Wexpro
- Gas price volatility & higher aggregate price levels prompt 3rd parties to formally underwrite additional Wexpro models
- Rockies gas rises above cost of service level
- 2016 EPS: $1.35; 5-year dividend CAGR: 2.5%; Target Price: $30

Downside Scenario

- Dominion's acquisition of STR is not approved by STR shareholders or is not completed for reasons outside of competing offer
- Unfavorable regulatory outcomes & adverse changes to service territory population & demographic trends
- Inability to earn authorized ROE levels
- Rockies gas remains below cost of service levels
- 2016 EPS: $1.20; 5-year dividend CAGR: 1.0%; Target Price: $20

Long Term Analysis

3-Year Dividend Yield



Source: FactSet, Jefferies estimates

Long Term Financial Model Drivers

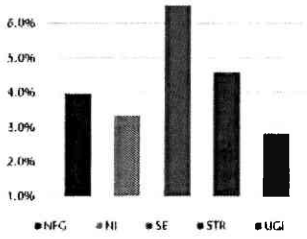
LT Earnings CAGR	~0.5%
5-Year Dividend CAGR	~1.7%
Earnings Payout Ratio	~67%
Investment Base 5-Year CAGR	~1.0%

Other Considerations

The adoption of natural gas technologies, power gen conversions, home NGV refueling units, and LNG exports may help support domestic natural gas prices in coming years. If such developments drive aggregate prices higher and generate elevated levels of price volatility, a cost-of-service model like Wexpro may become popular with utilities and other large physical users of natural gas trying to hedge long-term pricing risk.

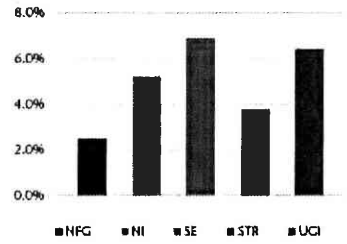
Peer Group

Group 4Q16 Dividend Yields



Source: FactSet, Jefferies estimates

Group 5-Year Dividend CAGRs



Source: FactSet, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
STR	**Hold**	**$25**
NFG	Buy	$56
NI	Hold	$20
SE	Hold	$26
UGI	Hold	$37

Catalysts

- STR shareholder vote on Dominion's acquisition of STR, date of vote TBD
- Closure of acquistion by Dominion Resources, expected YE16
- The entry of competing bids for STR
- Large acquisions of PUD-heavy natural gas reserves at attractive prices & subsequent inclusion in Wexpro II & Wexpro III

Company Description

Questar Corporation (NYSE: STR) is an integrated natural gas holding company which operates via four wholly-owned subsidiaries: Questar Gas Company, Questar Pipeline Company, Wexpro Company, and Questar Fueling. Questar Gas provides retail natural gas distribution service to Utah, Wyoming, and Idaho and is regulated by the respective state utility commissions. Questar Pipeline operates FERC-regulated interstate natural gas pipelines and storage facilities in the western US & provides other energy services. Wexpro develops and produces natural gas from cost-of-service reserves for the benefit of Questar Gas customers. Questar Fueling develops, owns, and operates natural gas fueling facilities, primarily for large commercial vehicles. Questar was founded in 1922, is incorporated under the laws of the state of Utah, and is headquartered in Salt Lake City, UT.

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Company Description

ONE Gas Inc. (NYSE: OGS) is Local Distribution Company (LDC), which, in terms of customer count, is the third largest natural gas utility in the United States. OGS is the successor of a company founded in 1906 as Oklahoma Natural Gas Company. OGS's service territories include Oklahoma, Kansas, and Texas. ONE Gas is 100% regulated and currently serves ~2.1 million customers throughout its service territories. Despite the LDC market categorized as an extremely fragmented industry, we note that OGS is the largest distributor of natural gas in both Oklahoma and Kansas and the third largest distributor in Texas. OGS's customer base includes residential, commercial & industrial, wholesale & public authority, and transportation.

Questar Corporation (NYSE: STR) is an integrated natural gas holding company which operates through four wholly-owned subsidiaries: Questar Gas Company, Questar Pipeline Company, Wexpro Company, and Questar Fueling. Questar Gas provides retail natural gas distribution service to Utah, Wyoming, and Idaho and is regulated by the respective state utility commissions. Questar Pipeline operates FERC-regulated interstate natural gas pipelines and storage facilities in the western US and provides other energy services. Wexpro develops and produces natural gas from cost-of-service reserves for the benefit of Questar Gas customers. Questar Fueling develops, owns, and operates natural gas fueling facilities, primarily for large commercial vehicles. Questar was founded in 1922, is incorporated under the laws of the state of Utah, and is headquartered in Salt Lake City, UT.

UGI Corporation (NYSE: UGI) is a holding company that, through subsidiaries, distributes, stores, transports and markets energy products and services. It is the sole General Partner of AmeriGas Partners, L.P. (NYSE: APU), the largest US propane distributor, in which it also owns an approximate 26% Limited Partner interest. UGI distributes natural gas and electricity to approximately 635,000 customers in eastern PA, operates merchant power and midstream assets in the Mid-Atlantic, and has LPG distribution operations in France and Eastern Europe. The company was founded in 1882, is organized under the laws of the state of Pennsylvania, and is headquartered in King of Prussia, PA.

AmeriGas Partners, L.P. (NYSE: APU) is the nation's largest retail propane marketer, serving more than 2.3 million customers in all 50 states from roughly 2,100 distribution locations. AmeriGas is a master limited partnership (MLP) and UGI Corporation (NYSE: UGI) is its sole General Partner and owns an approximate 26% Limited Partner interest. AmeriGas is organized under the laws of the state of Delaware and headquartered in King of Prussia, PA.

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4 million US customers. The Company operates through three segments: Gas Distribution, Columbia Pipeline Group, and Electric. The Gas Distribution operations provide natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. Columbia Pipeline Group offers gas transportation and storage services for Local distribution companies, marketers and industrial and commercial customers located in Northeastern, Mid-Atlantic, Midwestern and Southern states. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

National Fuel Gas Company (NYSE: NFG) is a diversified energy holding company which operates in five business segments: Utility, Pipeline & Storage, Gathering, Exploration & Production, and Energy Marketing. The Utility operations are conducted by NFG Distribution Corp., which sells natural gas and provides natural gas and transportation services to ~750,000 customers western New York and northwestern Pennsylvania. The Pipeline & Storage operations are carried out by NFG Supply Corp. and Empire Pipeline, Inc., which provide interstate natural gas transportation & storage services for affiliated and nonaffiliated companies. The Exploration & Production operates via Seneca Resources Corp., which is engaged in the exploration, development and purchase of natural gas and oil reserves primarily in California and in the Appalachian region. National Fuel Gas was founded on December 8, 1902, is incorporated under the laws of the state of New Jersey, and is headquartered in Williamsville, NY.

Southwest Gas purchases, distributes, and transports natural gas in the states of Arizona, Nevada, and California to residential, commercial, and industrial users. It is the largest natural gas distributor in Arizona and Nevada, providing service to the Phoenix, Tucson, and Las Vegas metropolitan regions among others. Southwest Gas' wholly-owned subsidiary, NPL Construction, is a full-service underground piping contractor that provides trenching, installation, replacement, and maintenance services for energy distribution systems at utility companies nationwide. The Company was founded in March 1931, is incorporated under the laws of the State of California, and is headquartered in Las Vegas, NV.

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Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

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Other Companies Mentioned in This Report

- Spectra Energy Corp. (SE: $29.66, HOLD)

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Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	1182	54.67%	334	28.26%
HOLD	825	38.16%	163	19.76%
UNDERPERFORM	155	7.17%	15	9.68%

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Citi Research

Equities

4 March 2016 | 8 pages

Pipelines & Gas Utilities
North America | United States

NiSource Inc (NI)

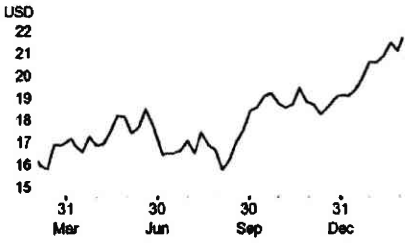
Model Update

■ Estimate Change

■ NiSource reported 4Q15 adj. earnings of $0.31 p/s, in line with our estimate of $0.30. We are updating the model on interim reporting and slightly revising our estimates on new outlook for 2016.

Neutral	2
Price (03 Mar 16)	US$22.34
Target price	US$18.08
Expected share price return	-19.1%
Expected dividend yield	2.9%
Expected total return	**-16.2%**
Market Cap	US$7,143M

Price Performance
(RIC: NI.N, BB: NI US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2015A	0.85A	0.18A	0.04A	0.31A	0.94A	0.94A
2016E	**0.62E**	**0.08E**	**0.06E**	**0.31E**	**1.07E**	**1.06E**
Previous	0.61E	0.08E	0.06E	0.32E	1.07E	na
2017E	**0.61E**	**0.09E**	**0.08E**	**0.31E**	**1.08E**	**1.15E**
Previous	0.58E	0.09E	0.07E	0.34E	1.08E	na
2018E	**0.60E**	**0.11E**	**0.08E**	**0.32E**	**1.10E**	**1.22E**
Previous	0.60E	0.11E	0.07E	0.35E	1.13E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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rghulen@nisource.com Randy Hulen 03/16/16 11:31:13 PM Nisource Corporate Services Co.

NiSource Inc (NI)
4 March 2016

NI.N: Fiscal year end 31-Dec						Price: US$22.34; TP: US$18.08; Market Cap: US$7,143m; Recomm: Neutral				
Profit & Loss (US$m)	**2014**	**2015**	**2016E**	**2017E**	**2018E**	**Valuation ratios**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Sales revenue	6,456	5,261	4,320	4,527	4,621	PE (x)	13.1	23.7	21.0	20.7	20.3
Cost of sales	-2,830	-2,161	-1,713	-1,868	-1,906	PB (x)	1.2	1.2	1.2	1.2	1.2
Gross profit	3,627	3,100	2,607	2,659	2,715	EV/EBITDA (x)	9.6	10.9	12.3	11.9	11.6
Gross Margin (%)	56.2	58.9	60.3	58.7	58.7	FCF yield (%)	4.9	3.6	-4.6	-3.0	-3.3
EBITDA (Adj)	**1,808**	**1,616**	**1,450**	**1,498**	**1,549**	Dividend yield (%)	4.6	4.4	2.8	2.9	3.0
EBITDA Margin (Adj) (%)	28.0	30.7	33.6	33.1	33.5	Payout ratio (%)	60	105	58	60	62
Depreciation	-606	-591	-535	-558	-582	ROE (%)	9.5	2.6	5.9	5.9	6.0
Amortisation	0	0	0	0	0	**Cashflow (US$m)**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
EBIT (Adj)	**1,203**	**1,025**	**916**	**940**	**967**	EBITDA	1,808	1,616	1,450	1,498	1,549
EBIT Margin (Adj) (%)	18.6	19.5	21.2	20.8	20.9	Working capital	-140	147	-94	-10	-20
Net interest	-444	-417	-376	-376	-376	Other	-339	-546	-572	-589	-609
Associates	47	29	0	0	0	**Operating cashflow**	**1,330**	**1,217**	**784**	**898**	**921**
Non-op/Except	40	7	-3	-16	-31	Capex	-985	-963	-1,118	-1,118	-1,158
Pre-tax profit	**846**	**644**	**537**	**548**	**560**	Net acq/disposals	13	5	0	0	0
Tax	-307	-202	-193	-197	-202	Other	-101	3,301	0	0	0
Extraord./Min.Int./Pref.div.	0	-293	0	0	0	**Investing cashflow**	**-1,073**	**2,343**	**-1,118**	**-1,118**	**-1,158**
Reported net profit	**539**	**148**	**343**	**351**	**359**	Dividends paid	-321	-263	-206	-218	-231
Net Margin (%)	8.4	2.8	8.0	7.7	7.8	**Financing cashflow**	**796**	**-3,412**	**-114**	**-119**	**-124**
Core NPAT	539	301	343	351	359	**Net change in cash**	**1,052**	**441**	**-448**	**-339**	**-362**
Per share data	**2014**	**2015**	**2016E**	**2017E**	**2018E**	**Free cashflow to s/holders**	**346**	**254**	**-334**	**-220**	**-237**
Reported EPS ($)	1.71	0.46	1.07	1.08	1.10						
Core EPS ($)	1.71	0.94	1.07	1.08	1.10						
DPS ($)	1.03	0.99	0.62	0.65	0.68						
CFPS ($)	4.21	3.81	2.43	2.77	2.82						
FCFPS ($)	1.09	0.79	-1.04	-0.68	-0.73						
BVPS ($)	18.61	18.41	18.83	19.11	19.04						
Wtd avg ord shares (m)	306	310	313	315	317						
Wtd avg diluted shares (m)	316	319	322	324	326						
Growth rates	**2014**	**2015**	**2016E**	**2017E**	**2018E**						
Sales revenue (%)	14.1	-18.5	-17.9	4.8	2.1						
EBIT (Adj) (%)	10.2	-14.8	-10.7	2.6	2.9						
Core NPAT (%)	13.4	-44.2	14.2	2.1	2.3						
Core EPS (%)	12.1	-44.8	13.2	1.5	1.6						
Balance Sheet (US$m)	**2014**	**2015**	**2016E**	**2017E**	**2018E**						
Cash & cash equiv.	74	33	35	49	28						
Accounts receivables	717	591	1,006	1,271	824						
Inventory	420	595	500	226	469						
Net fixed & other tangibles	15,498	15,865	15,975	16,238	16,628						
Goodwill & intangibles	3,947	3,945	3,942	3,939	3,936						
Financial & other assets	966	1,056	1,196	1,385	1,373						
Total assets	**21,622**	**22,084**	**22,654**	**23,107**	**23,258**						
Accounts payable	393	370	619	714	460						
Short-term debt	448	1,362	1,241	1,343	1,631						
Long-term debt	7,617	7,089	7,593	7,639	7,641						
Provisions & other liab	7,461	7,563	7,314	7,399	7,498						
Total liabilities	**15,919**	**16,383**	**16,767**	**17,095**	**17,230**						
Shareholders' equity	5,703	5,701	5,887	6,012	6,028						
Minority interests	0	0	0	0	0						
Total equity	**5,703**	**5,701**	**5,887**	**6,012**	**6,028**						
Net debt (Adj)	**7,991**	**8,418**	**8,799**	**8,933**	**9,244**						
Net debt to equity (Adj) (%)	140.1	147.7	149.5	148.6	153.3						

For definitions of the items in this table, please click here.

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NiSource Inc

Company description

NiSource Inc (NI) is, primarily, a regulated utility with an integrated network of gas distribution Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana. The company serves around 4 million customers across seven states, through its two main business segments, including: 1) Gas Distribution, which delivers natural gas in several states; 2) Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCO).

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). We believe NI's long-term earnings are relatively stable due to diverse operations areas and constructive regulatory jurisdictions. Our estimates do not include 1) Substantial industrial load growth at the utilities or 2) Colder-than-normal weather and faster than average customer growth or 3) Slower than typical timeline in regulatory filing and approval process for new infrastructure projects and cost recovery mechanisms.

Valuation

We average multiple valuation methodologies to derive our $18.08 target. Our NAV yields a value of $18. We value regulated assets at a multiple of 1.6x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $19 per share. Our P/E and EV/EBITDA multiples are based on proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. Our P/E and EV/EBITDA analyses yield values of $17 and $16 per share, respectively. Our DCF model estimated NI at $22 per share.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. (4) Capital Markets — Access to cheap capital markets could be limited due to the size of the company. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target.

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Appendix A-1

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IMPORTANT DISCLOSURES

NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA

	Date	Rating	Target Price	Closing Price
1	08-Oct-11	Stock rating system changed		
2	01-May-13	2	*11.79	12.03
3	29-Oct-13	2	*13.75	12.56
4	16-Apr-14	2	*14.15	14.26
5	23-Jul-14	2	*15.72	15.49
6	19-Apr-15	2	*18.08	16.96

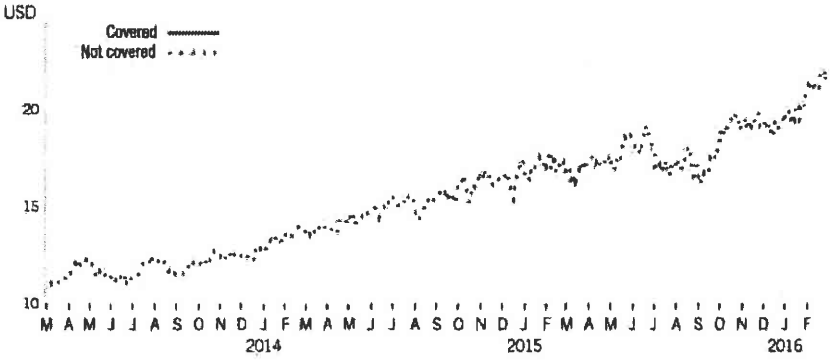
*Indicates Change

Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



*Indicates Change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Dec 2015	**Buy**	**Hold**	**Sell**
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% of companies in each rating category that are investment banking clients	64%	64%	59%

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NiSource Inc.

Model Update

Overweight

NI, NI US
Price: $22.40

▲ **Price Target: $24.00**
Previous: $21.00

We are updating our model to incorporate Q4'15 earnings results. We are maintaining our Overweight rating and raising our price target from $21 to $24 based on slightly lower 2018 earnings estimates offset by higher segment peer group multiples.

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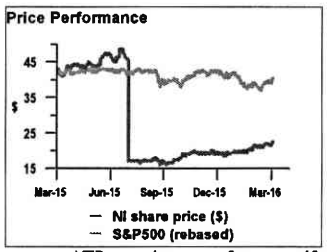

	YTD	1m	3m	12m
Abs	14.8%	5.9%	17.3%	-47.2%
Rel	15.4%	1.5%	21.7%	-42.5%

NiSource Inc. (NI;NI US)

FYE Dec	2014A	2015A	2016E (Prev)	2016E (Curr)	2017E (Prev)	2017E (Curr)	2018E (Prev)	2018E (Curr)
EPS ($)								
Q1 (Mar)	0.82	0.85	-	0.56	-	-	-	-
Q2 (Jun)	0.25	0.18	-	-	-	-	-	-
Q3 (Sep)	0.14	0.06	-	-	-	-	-	-
Q4 (Dec)	0.51	0.31	-	-	-	-	-	-
FY	1.72	0.94	1.07	1.07	1.15	1.14	1.23	1.21

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	22.40
Date Of Price	04 Mar 16
52-week Range ($)	22.51-16.04
Market Cap ($ mn)	7,138.24
Fiscal Year End	Dec
Shares O/S (mn)	319
Price Target ($)	24.00
Price Target End Date	31-Dec-16

See page 4 for analyst certification and important disclosures.

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Investment Thesis, Valuation and Risks

NiSource Inc. *(Overweight; Price Target: $24.00)*

Investment Thesis

We believe NiSource has top-tier investment potential relative to peers given its eight utilities in seven states and robust capital spending runway. We expect this capital to be deployed accretively given solid authorized ROEs, an efficient balance sheet with elevated leverage, and an array of low-lag regulatory constructs. For these reasons, as well as the 6-8%+ rate base growth potential, we expect NI to achieve the top end of its 4-6% long-term EPS growth guidance. As visibility into capital and growth plans increases and appreciation for the company's low-risk, high-growth story improves, we see shares outperforming post-spin.

Valuation

We are raising our December 2016 price target to $24/share (prior $21/share). Our target is based on a sum-of-the-parts analysis and uses our 2018 electric and gas segment EPS forecasts. We value the gas segment using a 22.2x P/E multiple, a premium to gas utility peers due to the company's high rate base growth, large portfolio of utilities, and favorable rate constructs. We value the electric segment using a 18.1x P/E multiple, a premium to pure regulated electric utility peers due to the favorable rate construct in IN and near-term transmission-driven growth potential. The upward revision in price target reflects higher regulated peer multiples slightly offset by slightly lower 2018 EPS estimates relative to our prior update.

Risk to Rating and Price Target

- Regulated electric transmission and distribution earnings are vulnerable to mild weather as regulated revenues are calculated based on energy volumes sold. Extreme or mild temperatures may cause future earnings to differ materially from our current forecasts.
- 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. Positive or negative changes to the regulatory environments may cause future earnings potential to differ materially from current expectations.

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NiSource Inc.: Summary of Financials

Income Statement - Annual	FY15A	FY16E	FY17E	FY18E
Sales	4,667	4,523	4,642	4,776
COGS	(1,644)	(1,346)	(1,346)	(1,346)
D&A	(524)	(546)	(567)	(587)
Operations and maintenance	(1,667)	(1,698)	(1,717)	(1,737)
Other expenses	-	-	-	-
Total operating expenses	2,192	2,244	2,284	2,323
Other income / (expense)	17	23	23	23
EBIT	**850**	**957**	**1,036**	**1,130**
EBITDA	**1,374**	**1,503**	**1,603**	**1,717**
Interest expense	(380)	(399)	(418)	(445)
Income tax provision	(171)	(212)	(235)	(261)
Tax rate	36.3%	38.0%	38.0%	38.0%
Discontinued operations and other	0	0	0	0
Preferred dividends	-	-	-	-
Net income	**299**	**346**	**383**	**425**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**299**	**346**	**383**	**425**
Diluted shares outstanding	**318**	**323**	**337**	**350**
Diluted EPS	**0.94**	**1.07**	**1.14**	**1.21**
DPS ($)	0.83	0.64	0.68	0.71
Payout ratio	88.2%	60.0%	59.7%	58.3%

Income Statement - Quarterly	1Q16E	2Q16E	3Q16E	4Q16E
Sales	1,350			
COGS	(336)	-	-	-
D&A	(134)	-	-	-
Operations and maintenance	(499)	-	-	-
Other expenses	-	-	-	-
Total operating expenses	-	-	-	-
Other income / (expense)	6	-	-	-
EBIT	**386**	**-**	**-**	**-**
EBITDA	**521**	**-**	**-**	**-**
Interest expense	(97)			
Income tax provision	(110)			
Tax rate	38.0%	-	-	-
Discontinued operations and other	0	-	-	-
Preferred dividends	-	-	-	-
Net income	**180**	**-**	**-**	**-**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**180**	**-**	**-**	**-**
Diluted shares outstanding	**320**	**-**	**-**	**-**
Diluted EPS	**0.56**	**-**	**-**	**-**
DPS ($)	0.16	-	-	-
Payout ratio	27.6%	-	-	-

Balance Sheet and Cash Flow Data	FY15A	FY16E	FY17E	FY18E
Cash and cash equivalents	16	0	0	0
Current assets	1,577	1,702	1,838	1,974
PP&E	12,112	12,968	13,764	14,520
Non-current assets	3,804	3,804	3,804	3,804
Total assets	**17,493**	**18,474**	**19,405**	**20,297**
Current liabilities	2,658	2,705	2,787	2,571
Long-term Debt	5,949	6,482	6,792	7,412
Preferred stock	-	-	-	-
Other non-current liabilities	5,043	5,255	5,490	5,750
Common equity	3,844	4,032	4,336	4,563
Total liabilities & equity	17,493	18,474	19,405	20,297
Net income	302	346	383	425
D&A	524	546	567	587
Change in working capital	147	(140)	(136)	(136)
Change in other assets	483	212	235	261
Net operating cash flow	**1,457**	**964**	**1,048**	**1,136**
Cash flow from investing activities	**1,945**	**(1,403)**	**(1,363)**	**(1,343)**
Net common equity issued/(repurchased)	1,171	50	150	50
Net debt issued/(repurchased)	(3,029)	410	310	310
Common dividends paid	(263)	(208)	(228)	(248)
Other financing activity	(1,290)	0	0	0
Cash flow from financing activities	**(3,412)**	**252**	**232**	**112**
Increase/(decrease) in cash	(10)	(186)	(83)	(94)
Cash at beginning of the period	25	15	0	0
Cash at end of the period	15	(0)	0	(0)

Ratio Analysis	FY15A	FY16E	FY17E	FY18E
Sales growth	(27.7%)	(3.1%)	2.6%	2.9%
EBITDA growth	(27.6%)	9.4%	6.6%	7.1%
EBIT growth	(34.3%)	12.7%	8.2%	9.1%
Net income (recurring) growth	(44.9%)	15.7%	10.7%	11.1%
Diluted EPS growth	(45.4%)	13.9%	6.2%	6.8%
Gross margin	64.8%	70.3%	71.0%	71.8%
Operating margin	18.2%	21.2%	22.3%	23.7%
Debt / Capital (book)	62.9%	64.2%	63.7%	64.6%
Times interest earned	3.6	3.8	3.8	3.9
ROE	6.0%	8.8%	9.2%	9.6%
Return on capital employed (ROCE)	4.1%	5.5%	5.5%	5.6%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec

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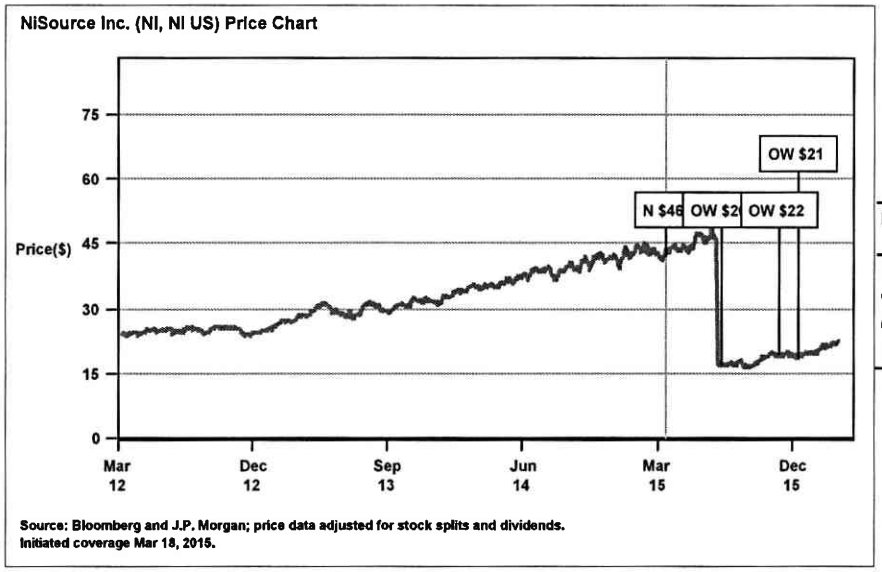

Date	Rating	Share Price ($)	Price Target ($)
18-Mar-15	N	41.92	46.00
09-Jul-15	OW	17.14	20.00
04-Nov-15	OW	19.56	22.00
14-Dec-15	OW	18.71	21.00

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NiSource, Inc.
Solid Q1; On Track

Stock Rating/Industry View: Equal Weight/Neutral
Price Target: USD 22.00
Price (02-May-2016): USD 22.96
Potential Upside/Downside: -4%
Tickers: NI

NI reports another solid quarter and reiterates earnings guidance. NI reiterated 2016 EPS guidance of $1.00-$1.10. The company also reiterated 4-6% long-term EPS growth guidance despite faster 6-8% ratebase growth. Along with conservatism they cited as reasons for the gap: regulatory lag, O&M cost pressures, financing needs and bonus depreciation. We maintain our EPS estimates of $1.07 for 2016, $1.13 for 2017 and $1.20 for 2018 which are similar to consensus and include $350M of equity financing in 2018. With trackers and constructive regulation NI continues to execute on a low-risk business strategy. On the electric side in Indiana NIPSCO settled the $1.2B+, 7 year spending plan "Settlement Reached on Indiana Electric Tracker" and an order is expected in Q3'16. At NIPSCO gas the company continues to execute on the $800M, 7 year spending plan.

Key Drivers

Recent rate filings drive near-term growth. In addition to milestones in Indiana, NI made several recent filings totaling $89M in MD, PA and VA and is expecting a decision in Massachusetts. In general the company reiterated annual spending ranges for the operating companies with the exception of Columbia Gas of Pennsylvania where they raised the top-end $30M to $150-$210M. The company's estimate for environmental compliance spending also rose from $300M to a range of $350-$500M.

Recent Rate Filings/Decisions

Source: Company reports, Barclays Research

Gas Transmission Investment. In response to a question NI indicated that if they were to pursue a gas transmission investment, they would be more interested in pipeline under construction and in a case where they would participate in an open season.

Refinancing Opportunity. The company has $200M of 10.75% long-term notes that are due this year that they will refinance at a lower rate. The company has an unused $500M term loan at LIBOR plus 95 bp that they procured in Q1'16.

Q1 in Line

NI's Q1 operating EPS was $0.60 versus $0.57 last year. This compared to our $0.59 estimate and the $0.59 consensus. For the quarter gas operating earnings were $330M versus $306M for Q1'15. Net revenues excluding the impact of trackers rose $35M, while operating expenses rose $10M due to increased outside service costs and depreciation. Electric operating earnings rose to $72M versus $67M as net revenues rose $0.2M. Operating expenses excluding the impact of trackers rose $5M due primarily to lower generation expenses, decreased employee and administrative costs and lower environmental costs. Electric sales declined 4.8% and 3.2% excluding weather. Gas sales declined 14% but were flat excluding weather. Corporate and other was a loss of $3M versus a loss of $8M due to lower employee and administrative costs. The effective tax rate rose to 38.4% versus 34.9% due to the absence of state apportionment benefits in 2015.

CREDIT SUISSE

3 May 2016
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

INCREASE TARGET PRICE

Nice and Steady - Raising TP to $24, Maintain Neutral Rating

Rating	**NEUTRAL**
Price (03-May-16,US$)	23.11
Target price (US$)	(from 20.00) 24.00
52-week price range	23.98 - 16.17
Market cap (US$ m)	7,411.89
Enterprise value (US$ m)	14,614.99

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
†Target price is for 12 months.

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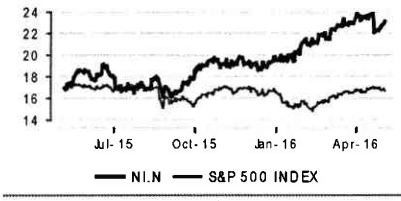
- **1Q16 In-Line:** NI reported EPS of $0.56 vs our estimate of $0.58 and the Street's $0.59, EBITDA came in at $523mm, above our estimate of $501mm and consensus' $520mm. NI came in above our estimates in both the segments with Gas Distribution segment EBITDA coming in 5% above our estimate and 2% above in its Electric Operations. Gas distribution volumes were below our expectation on the back of warmer weather impacting volumes for Residential and Commercial customers while total customers came in line with our expectation. Electrical operations sales (gigawatt hrs) excluding weather adjustments were down ~5% y/y primarily attributable to fewer opportunities for off system sales, with total customers flat over the same period. Our 2016-2018 EPS goes to $1.03, $1.18, $1.27 from $1.04, $1.13, $1.21 as we increase our outlook for electric operations going forward.
- **Comment on Investment and Liquidity; Guidance Reiterated:** NI plans to make ~$1.4Bn in infrastructure investments in 2016 out of which ~$1Bn will go towards Gas Distribution and rest for Electric Operations. NI also reported $1.05Bn in net available liquidity at the end of 1Q16 plus $500mm from delayed draw term loan agreement which we believe is adequate for execution on its capital spending plan through 2016. Mgmt. reiterated the operating earnings guidance of $1.00 to $1.10 per share for 2016 and dividend growth projections of 4-6 percent annually
- **Raising TP to $24 TP and Maintain Neutral Rating:** Our $24 TP is based on 20x our 2017E EPS of $1.18 giving us a total return outlook in-line with where NI is trading now, but the defensive business model keeps us at a Neutral rating on the shares.

Share price performance



On 03-May-2016 the S&P 500 INDEX closed at 2063.37
Daily May05, 2015 - May03, 2016, 05/05/15 = US$16.94439208

Quarterly EPS	Q1	Q2	Q3	Q4
2015A	0.85	0.18	0.01	0.31
2016E	0.56	0.08	0.10	0.29
2017E	0.72	0.07	0.11	0.29

Financial and valuation metrics

Year	12/15A	12/16E	12/17E
EPS (CS adj.) (US$)	1.38	1.03	1.18
Prev. EPS (US$)	-	1.04	1.13
P/E (x)	16.7	22.3	19.5
P/E rel. (%)	82.1	123.6	112.7
Revenue (US$ m)	5,245.4	3,770.3	3,827.0
EBITDA (US$ m)	1,690.2	1,414.3	1,527.7
OCFPS (US$)	4.56	3.90	2.97
P/OCF (x)	4.3	5.9	7.8
EV/EBITDA (current)	8.5	10.1	9.4
Net debt (US$ m)	6,934	7,203	7,663
ROIC (%)	6.58	4.90	5.13

Number of shares (m)	320.72	IC (current, US$ m)	10,777.60
Net debt (Next Qtr., US$ m)	6,990.9	EV/IC (x)	1.3
Net debt/tot eq (Next Qtr.,%)	180.5	Dividend (current, US$)	0.62

Source: Company data, Thomson Reuters, Credit Suisse estimates

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CREDIT SUISSE

3 May 2016

NiSource Inc. (NI)

Price (03 May 2016): **US$23.11**; Rating: **NEUTRAL**; Target Price: **(from US$20) US$24**

Income Statement	12/15A	12/16E	12/17E
Revenue (US$ m)	**5,245.4**	**3,770.3**	**3,827.0**
EBITDA	**1,690**	**1,414**	**1,528**
Depr. & amort.	(584)	(546)	(583)
EBIT (US$)	**1,107**	**868**	**944**
Net interest exp	(401)	(375)	(399)
Associates	-	-	-
Other adj.	(3)	40	53
PBT (US$)	**703**	**532**	**598**
Income taxes	(252)	(199)	(215)
Profit after tax	**451**	**334**	**383**
Minorities	(16)	-0	-0
Preferred dividends	-	-	-
Associates & other	8	0	0
Net profit (US$)	**444**	**334**	**383**
Other NPAT adjustments	(35)	0	0
Reported net income	408	334	383

Cash Flow	12/15A	12/16E	12/17E
EBIT	1,107	868	944
Net interest	(401)	(375)	(399)
Cash taxes paid	-	-	-
Change in working capital	148	268	(7)
Other cash & non-cash items	603	499	421
Cash flow from operations	**1,457**	**1,259**	**959**
CAPEX	866	1,074	1,257
Free cashflow to the firm	**2,323**	**2,333**	**2,216**
Aquisitions	-	-	-
Divestments	5	1	0
Other investment/(outflows)	3,301	(15)	0
Cash flow from investments	**1,945**	**(1,365)**	**(1,250)**
Net share issue(/repurchase)	23	34	40
Dividends paid	(263)	(199)	(209)
Issuance (retirement) of debt	(3,122)	286	460
Other	3,002	(284)	(460)
Cashflow from financing activities	(361)	(163)	(169)
Effect of exchange rates	-	-	-
Changes in Net Cash/Debt	**3,040**	**(269)**	**(460)**
Net debt at start	9,975	6,934	7,203
Change in net debt	**(3,040)**	**269**	**460**
Net debt at end	6,934	7,203	7,663

Balance Sheet (US$)	12/15A	12/16E	12/17E
Assets			
Cash & cash equivalents	16	24	24
Account receivables	660	442	435
Inventory	344	113	116
Other current assets	558	603	603
Total current assets	**1,577**	**1,182**	**1,178**
Total fixed assets	12,112	12,904	13,571
Intangible assets and goodwill	1,944	1,942	1,942
Investment securities	-	-	-
Other assets	1,859	1,867	1,867
Total assets	**17,493**	**17,894**	**18,557**
Liabilities			
Accounts payables	433	423	416
Short-term debt	567	1,808	3,018
Other short term liabilities	1,657	1,404	1,400
Total current liabilities	**2,658**	**3,634**	**4,833**
Long-term debt	5,949	5,156	4,406
Other liabilities	5,043	5,198	5,198
Total liabilities	**13,649**	**13,987**	**14,437**
Shareholder equity	3,843	3,907	4,120
Minority interests	-	-	-
Total liabilities and equity	**17,493**	**17,894**	**18,557**
Net debt	6,934	7,203	7,663

Source: Company data, Thomson Reuters, Credit Suisse estimates

Per share	12/15A	12/16E	12/17E
No. of shares (wtd avg)	319	323	323
CS adj. EPS	1.38	1.03	1.18
Prev. EPS (US$)	-	1.04	1.13
Dividend (US$)	0.99	0.62	0.65
Dividend payout ratio	71.15	59.93	55.01
Free cash flow per share	7.27	7.23	6.85

Earnings	12/15A	12/16E	12/17E
Sales growth (%)	(18.9)	(28.1)	1.5
EBIT growth (%)	(12.3)	(21.5)	8.8
Net profit growth (%)	(16.4)	(24.7)	14.6
EPS growth (%)	(17.4)	(25.3)	14.4
EBITDA margin (%)	32.2	37.5	39.9
EBIT margin (%)	21.1	23.0	24.7
Pretax margin (%)	13.4	14.1	15.6
Net margin (%)	8.5	8.9	10.0

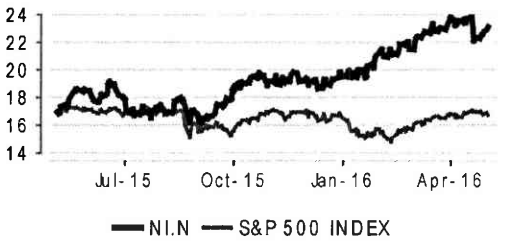
Valuation	12/15A	12/16E	12/17E
EV/Sales (x)	2.73	3.88	3.94
EV/EBITDA (x)	8.5	10.1	9.4
EV/EBIT (x)	13.0	16.8	16.0
P/E (x)	16.7	22.3	19.5
Price to book (x)	1.9	1.8	1.7
Asset turnover	0.3	0.2	0.2

Returns	12/15A	12/16E	12/17E
ROE stated-return on (%)	8.0	8.3	9.1
ROIC (%)	0.1	0.0	0.1
Interest burden (%)	0.64	0.61	0.63
Tax rate (%)	35.9	37.3	36.0
Financial leverage (%)	1.76	1.77	1.78

Gearing	12/15A	12/16E	12/17E
Net debt/equity (%)	180.4	184.4	186.0
Net Debt to EBITDA (x)	4.1	5.1	5.0
Interest coverage ratio (X)	2.8	2.3	2.4

Quarterly EPS	Q1	Q2	Q3	Q4
2015A	0.85	0.18	0.01	0.31
2016E	0.56	0.08	0.10	0.29
2017E	0.72	0.07	0.11	0.29

Share price performance



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1Q16 Variance

Figure 1: NI 1Q16 Result Vs CS Estimates

Earnings Variance	1Q16 Actual	1Q16 CS Estimate	Diff.	Diff. (%)	1Q15 Actual
Segment EBITDA					
Gas Distribution	391	372	20	5%	362
Electric Operations	139	137	3	2%	129
Other	(8)	(8)	(0)	NM	4
Total EBITDA (recurring)	**523**	**501**	**22**	**4%**	**495**
Segment EBIT					
Gas Distribution	330	309	21	7%	306
Electric Operations	72	71	1	1%	67
Other	(21)	(12)	(9)	NM	(7)
Total EBIT (recurring)	**381**	**368**	**13**	**4%**	**366**
Interest Expense	91	78	12	16%	111
Other Expenses	(1)	0	(1)	NM	(7)
Taxes	112	104	7	7%	150
Recurring Net Income	**180**	**186**	**(6)**	**-3%**	**112**
Diluted Wtd Avg shares outstanding	322	322	0	0%	317
Recurring EPS - Diluted	**$0.56**	**$0.58**	**($0.02)**	**(3%)**	**$0.85**
Dividend per share	**$0.16**	**$0.16**	**$0.00**	**0%**	**$0.52**
Operational Metrics					
Gas Distribution					
Total Volumes (MDth)	**345**	**410**	**(66)**	**-16%**	**402**
Total Customers	**3,421,363**	**3,409,378**	**11,985**	**0%**	**3,403,617**
Electric Operations					
Total Heating customers (000s)	**463,488**	**462,132**	**1,356**	**0%**	**461,210**
Sales (Gigawatt Hours)					
Total	**4,171**	**4,409**	**(239)**	**-5%**	**4,383**
Financing & Credit Metrics					
Total Debt / Total Cap	64.4%	64.4%	0.0%	0.1%	53.9%
Net Debt / Total Cap	64.4%	64.3%	0.0%	0.0%	53.8%
Net Debt / Equity	180.5%	180.5%	0.1%	0.0%	116.4%
Book Value Per Share	$12.03	$12.40	($0.37)	-3.0%	$23.52
Net Debt / TTM EBITDA	4.6x	4.8x	-0.2x	-3.7%	4.6x

Source: Company data, Credit Suisse estimates

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Figure 2: Estimate Variance

	Old estimates						New estimates					
	2Q16E	3Q16E	4Q16E	2016E	2017E	2018E	2Q16E	3Q16E	4Q16E	2016E	2017E	2018E
Segment EBITDA												
Gas Distribution	116	81	263	831	917	994	116	81	239	827	910	984
Electric Operations	128	153	99	517	538	560	128	171	113	552	575	598
Other	(161)	(166)	(173)	(696)	(832)	(974)	(161)	(166)	(173)	(696)	(832)	(974)
Total EBITDA (recurring)	**254**	**255**	**382**	**652**	**623**	**581**	**255**	**274**	**372**	**684**	**652**	**608**
Segment EBIT												
Gas Distribution	52	15	196	572	635	689	52	15	172	569	627	679
Electric Operations	62	86	31	250	258	269	62	104	45	285	295	307
Other	(128)	(132)	(137)	(561)	(667)	(771)	(128)	(132)	(137)	(571)	(667)	(771)
Total EBIT (recurring)	**119**	**117**	**241**	**846**	**915**	**979**	**119**	**136**	**232**	**868**	**944**	**1,006**
Interest Expense	81	82	83	324	346	367	79	83	84	336	346	366
Other Expenses	0	0	0	0	0	0	0	0	0	(1)	0	0
Taxes	14	13	57	188	205	220	15	19	53	199	215	231
Recurring Net Income	**24**	**22**	**101**	**334**	**364**	**391**	**26**	**34**	**95**	**334**	**383**	**410**
Diluted Wtd Avg shares outstanding	322	323	323	322	323	323	322	323	323	323	323	323
Recurring EPS - Diluted	**$0.08**	**$0.07**	**$0.31**	**$1.04**	**$1.13**	**$1.21**	**$0.08**	**$0.10**	**$0.29**	**$1.03**	**$1.18**	**$1.27**
Dividend per share	**$0.16**	**$0.16**	**$0.16**	**$0.65**	**$0.68**	**$0.72**	**$0.16**	**$0.16**	**$0.16**	**$0.62**	**$0.65**	**$0.68**
Operational Metrics												
Gas Distribution												
Total Volumes (MDth)	**187**	**167**	**245**	**1,008**	**1,029**	**1,049**	**187**	**167**	**245**	**943**	**962**	**981**
Total Customers	**3,414,492**	**3,419,614**	**3,424,744**	**3,424,744**	**3,445,338**	**3,466,057**	**3,426,495**	**3,431,635**	**3,436,782**	**3,436,782**	**3,457,449**	**3,478,241**
Electric Operations												
Total Heating customers (000s)	**461,747**	**462,332**	**463,960**	**463,960**	**464,888**	**465,818**	**461,747**	**462,332**	**463,960**	**463,960**	**464,888**	**465,818**
Sales (Gigawatt Hours)												
Total	**4,001**	**4,479**	**3,972**	**16,861**	**17,048**	**17,237**	**4,001**	**4,479**	**3,972**	**16,623**	**16,806**	**16,992**

Source: Company data, Credit Suisse estimates

Investment Thesis

Post separation of the Columbia Gas Transmission systems NiSource now offers a pure-play utility investment proposition with over $30B in identified infrastructure investments over the next 20 years, the overwhelming majority of which are in lower risk infrastructure investments (gas and electric system modernization programs comprise 87% of the identified infrastructure investment portfolio) supported by the communities and regulatory authorities. Higher risk power generation investments comprise just comprise just 6% of the identified investment opportunities. It has 4 million customers across 7 states with lower risk/constructive regulatory conditions. Earnings per share and dividends per share are expected to grow in the 4-6% range for the foreseeable future

Valuation

Given the low risk economic and regulatory environment of NI's utilities, stable EPS outlook and visibility to future growth opportunities we value NI at a premium multiple relative to other utilities or ~20x our 2017 EPS forecast of $1.18 giving us a target price objective of $24. Taken together with the expected dividend the NTM of ~$0.62 gives us a total return outlook in line with were NI is trading. The highly defensive business model and visible growth outlook keeps us at Neutral.

Risks

Risks to our earnings forecast and by extension our price targets include gas and electricity sales which are subject to variability from weather. Economic conditions in the NI service areas could unexpectedly deteriorate resulting in lower gas and electricity sales, negatively impacting earnings. In addition, as an owner of regulated utilities NI is subject to regulatory risks including periodic tariff adjustments which could come in below expectations, negatively impacting earnings and achievement of our target price objective

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Companies Mentioned *(Price as of 03-May-2016)*
NiSource Inc. (NI.N, $23.11, NEUTRAL, TP $24.0)

Disclosure Appendix

Important Global Disclosures

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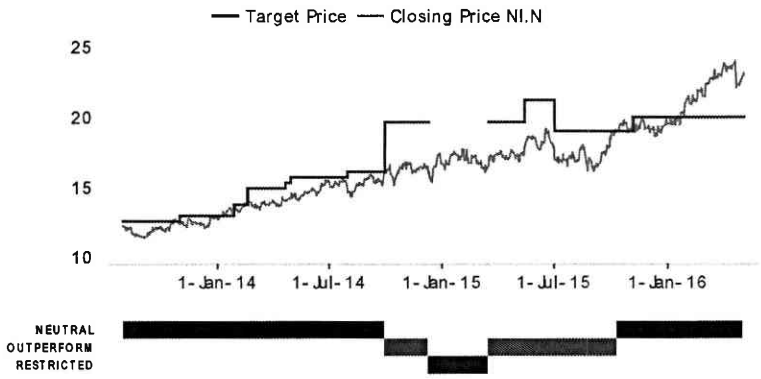
3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
01-Aug-13	12.22	12.57	N
01-Nov-13	12.46	12.97	
28-Jan-14	13.43	13.75	
19-Feb-14	13.91	14.93	
21-Apr-14	14.03	15.33	
30-Apr-14	14.27	15.72	
31-Jul-14	14.81	16.11	
30-Sep-14	16.10	19.65	O
11-Dec-14	16.03		R
18-Mar-15	17.20	19.65	O
15-May-15	17.87	21.22	
02-Jul-15	16.99	19.00	
13-Oct-15	19.11	19.00	N
06-Nov-15	18.96	20.00	



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

Method: Our $24 target price for NI is 20x our 2017 EPS forecast of $1.18. Our Neutral rating is based on expected total return prospects.

Risk: Risks to our $204target price and Neutral rating for NI are regulatory risk and project execution.

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May 4, 2016

COMPANY UPDATE

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company reports solid first quarter results and reaffirms 2016 guidance

Key Metrics

NI - NYSE (Price as of 5/3/16)	$23.11
Price Target	NA
52-Week Range	$24.01 - $16.03
Shares Outstanding (mm)	320.3
Market Cap. ($mm)	$7,402
3-Mo. Average Daily Volume	2,634,000
Institutional Ownership	81.0%
Debt/Total Capital (3/31)	64.4%
ROE (ttm)	8.1%
Book Value/Share (3/31)	$12.03
Price/Book Value	1.9x
Indicated Dividend / Yield	$0.62 2.7%
Dividend Cycle	Feb., May, Aug., Nov.

EPS FY 12/31

	2015	Prior 2016E	Curr. 2016E	Prior 2017E	Curr. 2017E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$0.94		$1.06		$1.15
P/E	24.6x		21.8x		20.1x
Payout	62%		58%		54%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2015	Prior 2016E	Curr. 2016E	Prior 2017E	Curr. 2017E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$3,023		$3,675	--	$3,775

Company Description: *Based in Merrillville, Ind., NiSource Inc. is one of the largest fully-regulated utility companies in the United States, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands.*

Investment Highlights

- **NiSource reported first quarter operating earnings of $0.60 per share versus $0.57 per share in the first quarter of 2015 and slightly above consensus expectations.** Both of NI's primary businesses, gas distribution and electric operations, posted higher first quarter earnings. Gas operations reported operating earnings of $330.2 million compared to $305.8 million in the prior year period. Net revenues and earnings from this segment were helped by higher regulatory actions that raised rates. NI's electric operations business reported earnings of $72.2 million versus $67.2 million in last year's first quarter. Electric earnings benefited from lower operating expenses in the period.
- **Management reaffirms 2016 earnings guidance.** NiSource continues to expect operating earnings of $1.00 to $1.10 per share in 2016. In addition, it expects to make about $1.4 billion in planned infrastructure enhancement investments in 2016 as part of $30 billion in infrastructure investment opportunities over 20 years. NiSource believes a combination of capital investments and regulatory actions will enable NiSource to grow both its earnings and dividends by 4% to 6% annually.
- **Company has busy regulatory agenda.** The company has reached settlements in NIPSCO's long-term electric infrastructure modernization plan and electric base rate case. NI has also filed rate cases in Maryland, Pennsylvania and Virginia and expects to file in Kentucky as well.
- **We have a Neutral rating on NiSource due to valuation.** However, we believe the company has a solid fundamental outlook. We believe NI's ongoing infrastructure investments will allow for consistent earnings and dividend growth. In our view, NiSource is a well-managed, quality core holding and we would likely upgrade our opinion on any pullback, assuming no change in fundamentals.

Note Important Disclosures on Pages 2 and 3.
Note Analyst Certification on Page 2.

Additional information is available upon request.

Analyst Certification

I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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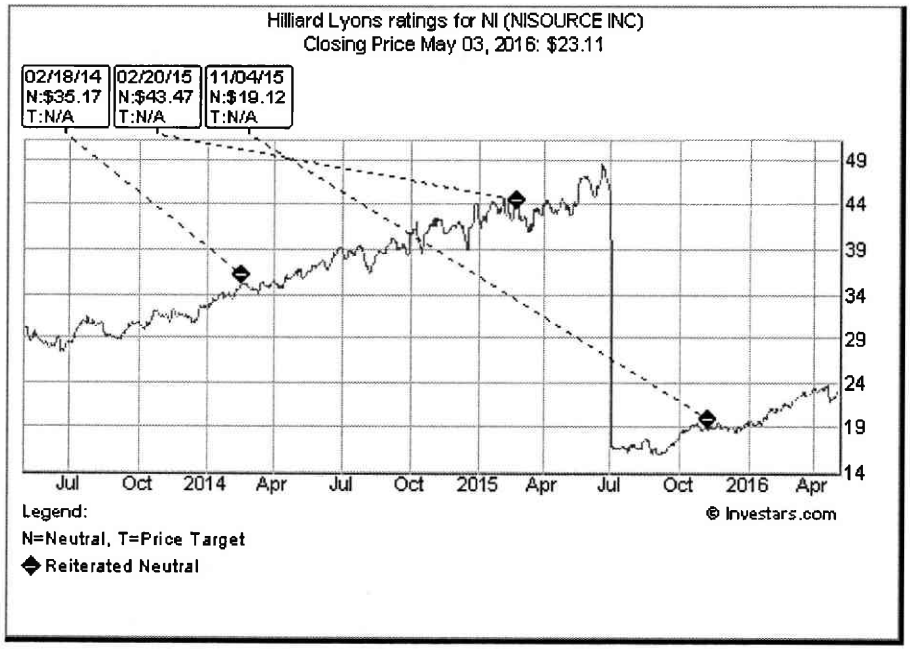
Investment Ratings
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings
1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	47	39%	11%	89%
Hold/Neutral	71	59%	4%	96%
Sell	2	2%	0%	100%

As of 8 April 2016

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FLASH NOTE

Company Update

USA | Energy | Natural Gas

May 3, 2016

Jefferies

NiSource Inc. (NI)

Margin Gains Boost 1Q Results

HOLD
Bloomberg NYSE: NI
Price target $21.00
Price $22.96

EQUITY RESEARCH AMERICAS

Key Takeaway

NI realized 1Q recurring diluted EPS of 59¢, in-line with our 58¢ estimate & the Street's 59¢ mean forecast; EBITDA of $533mm was slightly above our $518mm projection on segment operating performance that was better than expected. With results, mgmt affirmed its guidance expectations, including 2016 non-GAAP EPS of $1.00-$1.10, $1.4B in total 2016 capex, & 4-6% long-term EPS & DPS growth rates.

1Q16 operational & financial highlights. The gas utilities posted 1Q16 operating income of ~$330mm, ~2.5% above our $322mm estimate and ~8.0% higher than 1Q15's $306mm. Total sales volumes fell ~14.3% y/y to 344.6 MMDth due to HDDs which were ~10.7% below normal and ~23% below last year; however, weather revenue adjustments helped support margins (i.e. NI non-GAAP results normalize for weather). The electric operations (NIPSCO) reported 1Q16 operating income of $72.2mm, which beat our ~$63.5mm estimate despite sales & transportation volumes which were down ~4.8% y/y.

Gas distribution regulatory update. In March, Columbia Gas of PA filed a $55mm rate case with the PA Public Utility Commission; a PUC order is expected by YE16. Columbia Gas of Ohio's annual infrastructure replacement rider was approved in April, which provides for a $21mm annual revenue increase on 2015 infrastructure investments of $185mm. Columbia Gas of Virginia filed a request with the SCC seeking a $37mm increase to annual base rates, and a decision is expected early next year. The Indiana URC approved the semi-annual tracker that NIPSCO filed last August on $74mm of investments through mid-2015; the latest semi-annual tracker update was filed in February and that request remains pending.

NIPSCO electric distribution update. On March 24th, NIPSCO reached a settlement with several related parties, including the Indiana Office of Utility Consumer Counselor (OUCC), on the company's seven-year electric infrastructure modernization program. The agreement calls for the recovery of more than $1.2B of investments in electric transmission and distribution assets designed to improve system integrity and safety; the IURC order on the settlement is expected in 3Q16. Separately, mgmt noted that NIPSCO's two major electric transmission projects remain on track with expected in-service dates in 2H18.

2016 guidance affirmed, dividend declared. With results, mgmt affirmed its 2016 EPS guidance range (non-GAAP) of $1.00-$1.10, capex plans of ~$1.4B, and long-term EPS & DPS growth of ~4-6%. Separately, in late Mar., NI declared a 1Q cash dividend of 15.5¢/share, flat q/q but in-line with expectations. We expect another dividend raise in July.

Conference call info: Today @ 9AM EDT. Dial-in: 855-219-9570

NI 1Q16 Results Review:

Operating Income by Division	Actual 1Q16A	JEFe 1Q16E		Year-over-Year 1Q15A	
Gas Distribution	$330.2	$322.1	2.5%	$305.8	8.0%
Columbia Pipeline Group	$0.0	$0.0	NM	$0.0	NM
Electric Operations	$72.2	$63.5	13.7%	$67.2	7.4%
Corporate, Other, and Eliminations	($3.1)	($5.8)	NA	($8.3)	62.7%
Total Operating Income	**$399.3**	**$379.9**	**5.1%**	**$364.7**	**9.5%**
Depreciation	($132.8)	($134.8)	-1.5%	($125.0)	6.2%
Other Income / (Expenses)	$0.7	$3.5	-80.0%	$3.5	-80.0%
Interest Expense	($90.5)	($93.8)	-3.5%	($92.8)	-2.5%
Income Tax Benefit (Expense)	($118.7)	($103.2)	15.0%	($96.1)	23.5%
Recurring Net Income	**$190.8**	**$186.4**	**2.4%**	**$179.3**	**6.4%**
Avg Diluted Shares Outstanding	322.0	321.5	0.1%	316.6	1.7%
Earnings Per Diluted Share	**$0.59**	**$0.58**	**2.2%**	**$0.57**	**4.6%**
EBITDA ($MM)	**$533**	**$518**	**2.8%**	**$493**	**8.0%**
Capex & Affiliate Investments	**$301**	**$325**	**-7.3%**	**$244**	**23.6%**

Source: NiSource reports & Jefferies estimates

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Company Description

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4 million US customers. The Company operates through three segments: Gas Distribution, Columbia Pipeline Group, and Electric. The Gas Distribution operations provide natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. Columbia Pipeline Group offers gas transportation and storage services for Local distribution companies, marketers and industrial and commercial customers located in Northeastern, Mid-Atlantic, Midwestern and Southern states. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

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Hold - Describes securities that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

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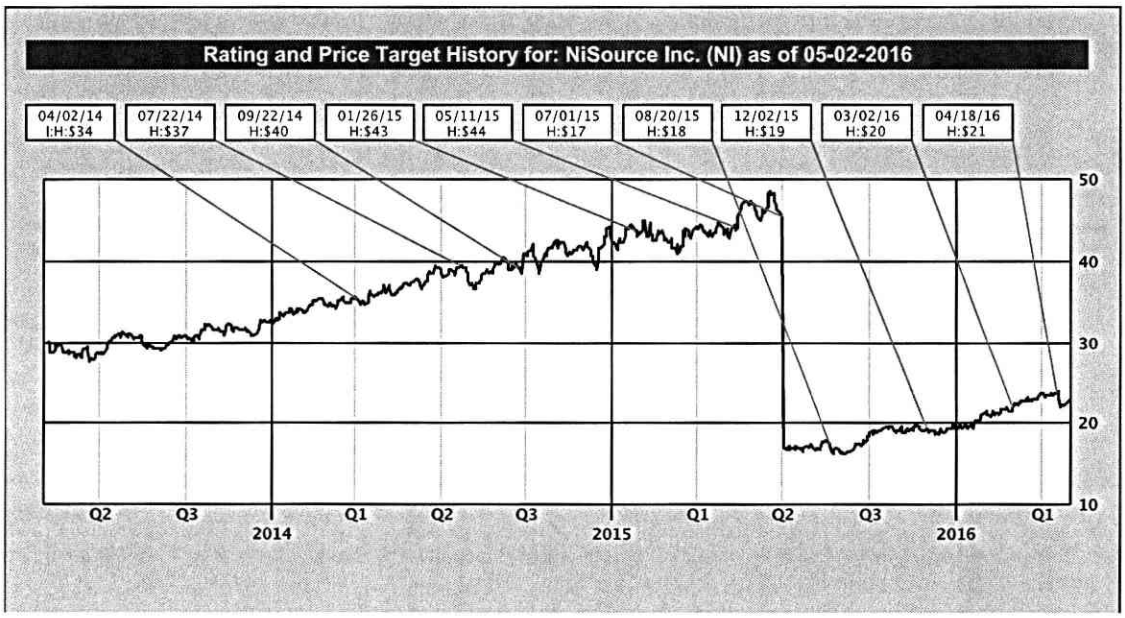
Other Companies Mentioned in This Report

- Columbia Pipeline Group, Inc. (CPGX: $25.63, HOLD)



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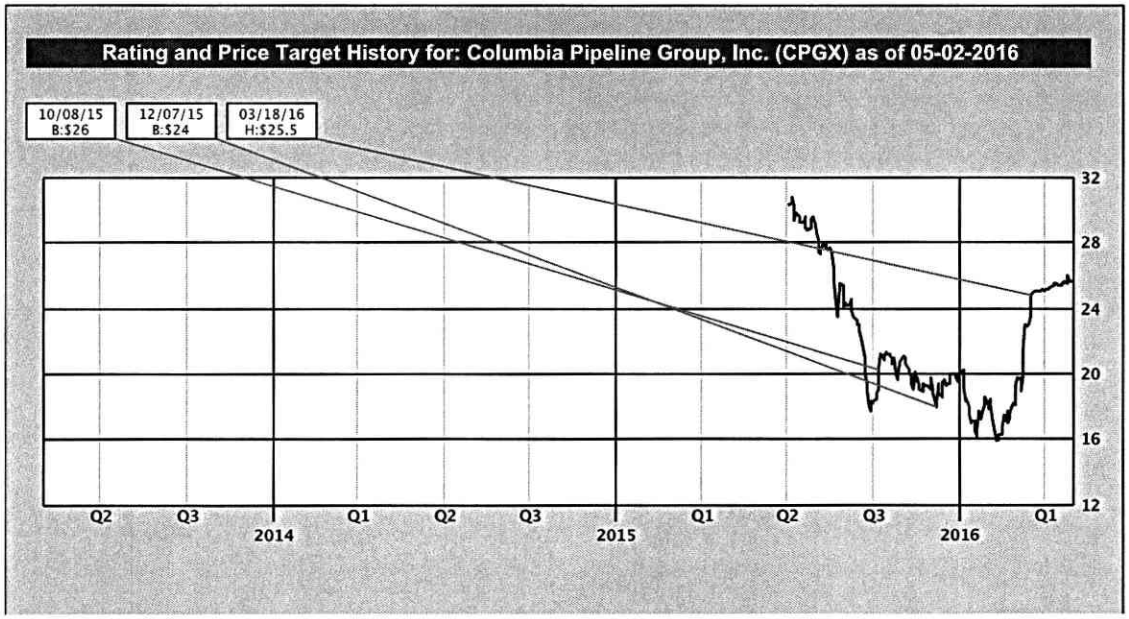

Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY	1171	53.79%	325	27.75%
HOLD	843	38.72%	162	19.22%
UNDERPERFORM	163	7.49%	19	11.66%

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KeyBanc Capital Markets

Alert

May 3, 2016

Energy: Multi-Utilities

NYSE: NI

NiSource Inc. (Overweight)

NI - ALERT: 1Q16 Earnings Results Beat

Paul T. Ridzon / (216) 689-0270 / pridzon@key.com

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Key Investment Points

May 2, 2016 Close: $22.96
1Q16 Ongoing EPS: $0.60 vs. $0.57 in 1Q15/Consensus of $0.59/ KBCM of $0.58. NI uses weather-normalized results as the basis of its adjusted results.
Initial Take: We expect positive response to the EPS beat and reaffirmed guidance.
2016 EPS Estimate: $1.05 (Consensus: $1.07).
2017 EPS Estimate: $1.13 (Consensus: $1.14).

Guidance: NiSource Inc. reaffirmed 2016 guidance of $1.00-$1.10 per share and a long-term EPS and dividend growth rate of 4-6%.

Highlights:

- Results were slightly ahead of our estimate on lower corporate costs.
- NiSource Gas Distribution operating earnings were $330.2 million vs. $305.8 million. Net revenues rose $34.7 million, excluding trackers, driven by regulatory and service programs and new rates in PA, MA, and OH. Expenses rose $10.3 million due to increased outside service costs and higher depreciation. Gas volumes fell 14% (Residential -21%, Commercial -19% and Industrial -4%).
- Electric segment operating earnings were $72.2 million vs. $67.2 million. Revenues excluding trackers rose $0.2 million and operating expenses excluding trackers decreased $4.8 million due to lower generation expenses, decreased employee and administrative costs, and lower environmental costs, partially offset by higher outside service costs. Retail sales volumes fell 5% (Residential -7%, Commercial -3% and Industrial flat).
- Corporate reported a loss of $3.1 million vs. a loss of $8.3 million due to lower employee and administrative costs.
- Interest costs fell to $90.5 million vs. $92.8 million.

9:00 a.m. ET Conference Call #: (855)-219-9570 ID#: 89364483

We will be focused on:

- Rate case overview
- Expense timing
- Electricity demand trends
- Steel customer trends

Disclosure Appendix

NiSource Inc. - NI

We have managed or co-managed a public offering of securities for NiSource Inc. within the past 12 months.

NiSource Inc. is an investment banking client of ours.

We have received compensation for investment banking services from NiSource Inc. during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from NiSource Inc. within the next three months.

During the past 12 months, NiSource Inc. has been a client of the firm or its affiliates for non-securities related services.

As of the date of this report, we make a market in NiSource Inc..

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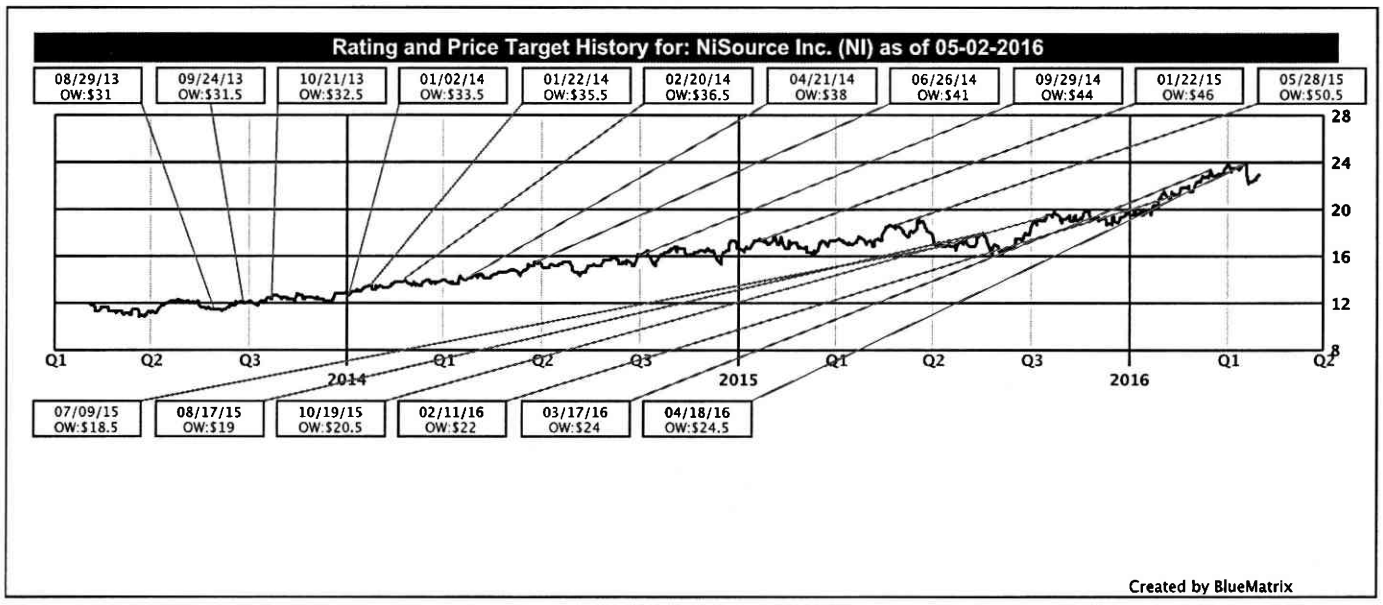
Three-Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		Energy			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
Overweight [OW]	323	43.30	65	20.12	Overweight [OW]	36	40.00	19	52.78
Sector Weight [SW]	413	55.36	62	15.01	Sector Weight [SW]	54	60.00	22	40.74
Underweight [UW]	10	1.34	0	0.00	Underweight [UW]	0	0.00	0	0.00

Disclosure Appendix (cont'd)

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

Underweight - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

Note: KeyBanc Capital Markets changed its rating system after market close on February 27, 2015. The previous ratings were Buy, Hold and Underweight. Additionally, Pacific Crest Securities changed its rating system to match KeyBanc Capital Markets' rating system after market close on April 10, 2015, in conjunction with the merger of the broker dealers. The previous ratings were Outperform, Sector Perform and Underperform.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
22.96 USD	19.00 USD	15.20 USD	23.75 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

NiSource Reports Solid Earnings; 2016 Capital Expenditures Expected to Be Higher Than Planned

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Equity Analyst
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The primary analyst covering this company does not own its stock.

Research as of 03 May 2016
Estimates as of 22 Jan 2016
Pricing data through 02 May 2016
Rating updated as of 02 May 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 03 May 2016

We are reaffirming our narrow moat and stable moat trend ratings and $19 fair value estimate after NiSource reported strong 2016 first-quarter operating earnings per share of $0.60, compared with $0.57 in the year-ago period. Management also reaffirmed its 2016 earnings guidance of $1.00-$1.10 per share and long-term annual growth target of 4%-6%, both in line with our estimates.

The only real change from the previous quarter's earnings call consisted of comments from NiSource's CEO Joe Hamrock that capital expenditures for 2016 will likely be slightly higher than the $1.4 billion guidance. CFO Donald Brown explained this modest change as an acceleration of projects, with the increase in operating cash flow due in large part to the extension of bonus depreciation. We will likely increase our $1.36 billion estimate for 2016, but it will not have an impact on our fair value estimate.

We forecast 5% annual dividend increases for NiSource shareholders during the next five years, starting from the $0.62 per share base following the CPG separation. Last year's dividend increase was 8%, accounting for the shares NiSource shareholders received in Columbia Pipeline Group following the July 1 separation of the two companies.

Vital Statistics

Market Cap (USD Mil)	7,341
52-Week High (USD)	24.01
52-Week Low (USD)	16.03
52-Week Total Return %	36.8
YTD Total Return %	19.3
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	-0.2
5-Yr Forward EPS CAGR %	-2.2
Price/Fair Value	1.21

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	8.2	9.9	—	*21.9*
EV/EBITDA	8.8	7.0	—	*10.0*
EV/EBIT	13.3	10.5	—	*16.7*
Free Cash Flow Yield %	-8.6	-11.4	—	*6.5*
Dividend Yield %	5.8	5.2	—	*2.8*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	5,657	6,471	*5,205*	*5,423*
Revenue YoY %	11.8	14.4	*-19.6*	*4.2*
EBIT	1,126	1,231	*796*	*852*
EBIT YoY %	8.4	9.3	*-35.4*	*7.1*
Net Income, Adjusted	494	534	*296*	*340*
Net Income YoY %	13.0	8.1	*-44.6*	*15.1*
Diluted EPS	1.58	1.69	*0.92*	*1.05*
Diluted EPS YoY %	8.3	7.0	*-45.5*	*14.4*
Free Cash Flow	-379	-602	*3,794*	*-224*
Free Cash Flow YoY %	-637.2	58.7	*-730.1*	*-105.9*

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 3.4 million customers in Indiana, Kentucky, Maryland, Massachusetts, 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 MW of generation capacity, most of which is coal-fired.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	Forecast 2015	Forecast 2016	5-Year Proj. CAGR
Revenue	*2.4*	-15.9	11.8	14.4	*-19.6*	*4.2*	*-0.2*
EBIT	*10.1*	12.7	8.4	9.3	*-35.4*	*7.1*	*-0.9*
EBITDA	*7.9*	9.6	6.4	7.8	*-26.9*	*6.7*	*0.2*
Net Income	*11.1*	12.4	13.0	8.1	*-44.6*	*15.1*	*-0.9*
Diluted EPS	*7.7*	7.9	8.3	7.0	*-45.5*	*14.4*	*-2.2*
Earnings Before Interest, after Tax	*2.2*	4.1	-1.0	3.6	*-275.2*	*-149.4*	*-2.4*
Free Cash Flow	*-434.6*	339.3	-637.2	58.7	*-730.1*	*-105.9*	—

Profitability	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Operating Margin %	*19.8*	20.5	19.9	19.0	*15.3*	*15.7*	*16.6*
EBITDA Margin %	*30.0*	31.6	30.1	28.4	*25.8*	*26.4*	*27.2*
Net Margin %	*8.5*	8.6	8.7	8.3	*5.7*	*6.3*	*6.7*
Free Cash Flow Margin %	*-4.9*	1.4	-6.7	-9.3	*72.9*	*-4.1*	*14.4*
ROIC %	*5.8*	5.8	5.7	5.8	*5.2*	*6.4*	*5.9*
Adjusted ROIC %	*7.1*	7.4	7.1	6.8	*5.8*	*7.3*	*6.6*
Return on Assets %	*2.2*	2.0	2.4	2.2	*-11.6*	*1.9*	*-0.6*
Return on Equity %	*8.7*	7.9	9.3	8.8	*-50.3*	*9.5*	*-1.7*

Leverage	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Debt/Capital	*0.60*	0.59	0.60	0.62	*0.66*	*0.67*	*0.66*
Total Debt/EBITDA	*5.23*	5.06	5.19	5.45	*4.99*	*5.09*	*4.87*
EBITDA/Interest Expense	*4.02*	3.83	4.11	4.14	*3.42*	*4.36*	*4.26*

Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	1.22	1.33	—	—
Price/Earnings	8.2	9.9	—	*21.9*
EV/EBITDA	8.8	7.0	—	*10.0*
EV/EBIT	13.3	10.5	—	*16.7*
Free Cash Flow Yield %	-8.6	-11.4	—	*6.5*
Dividend Yield %	5.8	5.2	—	*2.8*

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	5.8
Long-Run Tax Rate %	34.8
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	51.7
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	3,539	22.4	10.98
Present Value Stage II	2,906	18.4	9.02
Present Value Stage III	9,357	59.2	29.05
Total Firm Value	**15,802**	**100.0**	**49.05**
Cash and Equivalents	79	—	0.25
Debt	-9,999	—	-31.04
Preferred Stock	—	—	—
Other Adjustments	30	—	0.09
Equity Value	**5,912**	**—**	**18.35**
Projected Diluted Shares	322		
Fair Value per Share (USD)	—		

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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Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2012	2013	2014	Forecast 2015	Forecast 2016
Revenue	**5,061**	**5,657**	**6,471**	***5,205***	***5,423***
Cost of Goods Sold	1,542	1,816	2,224	*2,216*	*2,299*
Gross Profit	**3,520**	**3,842**	**4,246**	***2,989***	***3,124***
Selling, General & Administrative Expenses	1,663	1,874	2,136	*1,416*	*1,459*
Other Operating Expense (Income)	288	301	320	*245*	*253*
Other Operating Expense (Income)	-32	-36	-47	*-5*	*-10*
Depreciation & Amortization (if reported separately)	562	577	606	*536*	*570*
Operating Income (ex charges)	**1,039**	**1,126**	**1,231**	***796***	***852***
Restructuring & Other Cash Charges	-4	-18	-32	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**1,043**	**1,143**	**1,262**	***796***	***852***
Interest Expense	418	415	444	*392*	*329*
Interest Income	2	24	22	—	—
Pre-Tax Income	**626**	**753**	**841**	***403***	***523***
Income Tax Expense	216	262	310	*138*	*183*
Other After-Tax Cash Gains (Losses)	6	6	-1	*-2,700*	—
Other After-Tax Non-Cash Gains (Losses)	—	35	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**416**	**532**	**530**	***-2,434***	***340***
Weighted Average Diluted Shares Outstanding	300	314	317	*322*	*324*
Diluted Earnings Per Share	**1.39**	**1.70**	**1.67**	***-7.57***	***1.05***
Adjusted Net Income	437	494	534	*296*	*340*
Diluted Earnings Per Share (Adjusted)	**1.46**	**1.58**	**1.69**	***0.92***	***1.05***
Dividends Per Common Share	0.94	0.98	1.02	*0.83*	*0.64*
EBITDA	**1,605**	**1,721**	**1,868**	***1,343***	***1,433***
Adjusted EBITDA	**1,601**	**1,703**	**1,836**	***1,343***	***1,433***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2012	2013	2014	Forecast 2015	Forecast 2016
Cash and Equivalents	83	35	50	*58*	*45*
Investments	—	—	—	—	—
Accounts Receivable	907	1,006	921	*856*	*891*
Inventory	496	500	586	*607*	*630*
Deferred Tax Assets (Current)	—	—	214	—	—
Other Short Term Assets	866	618	696	*500*	*725*
Current Assets	**2,352**	**2,159**	**2,467**	***2,021***	***2,291***
Net Property Plant, and Equipment	12,916	14,365	11,057	*11,804*	*12,593*
Goodwill	3,677	3,666	1,691	*1,691*	*1,691*
Other Intangibles	287	276	265	*254*	*243*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	2,024	1,522	9,091	*1,000*	*1,550*
Long-Term Non-Operating Assets	588	666	297	*297*	*297*
Total Assets	**21,845**	**22,654**	**24,866**	***17,066***	***18,664***
Accounts Payable	539	619	610	*608*	*631*
Short-Term Debt	1,284	1,241	1,844	*500*	*500*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,479	1,319	1,511	*800*	*1,600*
Current Liabilities	**3,302**	**3,178**	**3,964**	***1,908***	***2,731***
Long-Term Debt	6,819	7,593	8,156	*6,200*	*6,800*
Deferred Tax Liabilities (Long-Term)	2,953	3,278	2,380	*2,500*	*2,840*
Other Long-Term Operating Liabilities	1,593	1,687	2,996	*1,750*	*1,421*
Long-Term Non-Operating Liabilities	1,623	1,031	1,195	*1,195*	*1,195*
Total Liabilities	**16,290**	**16,767**	**18,691**	***13,553***	***14,986***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,598	4,690	4,788	*4,818*	*4,853*
Retained Earnings (Deficit)	1,060	1,286	1,494	*-1,207*	*-1,073*
(Treasury Stock)	-41	-49	-59	*-59*	*-59*
Other Equity	-66	-44	-51	*-41*	*-46*
Shareholder's Equity	**5,554**	**5,887**	**6,175**	***3,514***	***3,678***
Minority Interest	—	—	—	—	—
Total Equity	**5,554**	**5,887**	**6,175**	***3,514***	***3,678***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2012	2013	2014	Forecast 2015	Forecast 2016
Net Income	416	532	530	*-2,434*	*340*
Depreciation	562	577	606	*536*	*570*
Amortization	—	—	—	*11*	*11*
Stock-Based Compensation	45	51	72	*35*	*36*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	305	287	299	*334*	*340*
Other Non-Cash Adjustments	25	-65	-50	—	—
(Increase) Decrease in Accounts Receivable	-51	-95	-63	*65*	*-36*
(Increase) Decrease in Inventory	62	-9	-120	*-21*	*-23*
Change in Other Short-Term Assets	-157	81	9	*196*	*-225*
Increase (Decrease) in Accounts Payable	57	68	38	*-2*	*23*
Change in Other Short-Term Liabilities	—	—	—	*-711*	*800*
Cash From Operations	**1,264**	**1,427**	**1,321**	***-1,991***	***1,836***
(Capital Expenditures)	-1,499	-1,880	-2,029	*-1,283*	*-1,358*
Net (Acquisitions), Asset Sales, and Disposals	26	18	13	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	51	-148	-101	*6,845*	*-879*
Cash From Investing	**-1,422**	**-2,010**	**-2,117**	***5,561***	***-2,237***
Common Stock Issuance (or Repurchase)	374	36	20	*30*	*35*
Common Stock (Dividends)	-273	-306	-321	*-267*	*-206*
Short-Term Debt Issuance (or Retirement)	-582	-78	878	*-1,344*	—
Long-Term Debt Issuance (or Retirement)	656	794	219	*-1,956*	*600*
Other Financing Cash Flows	—	—	—	*-35*	*-36*
Cash From Financing	**175**	**445**	**796**	***-3,572***	***393***
Exchange Rates, Discontinued Ops, etc. (net)	8	129	-1	*10*	*-5*
Net Change in Cash	**25**	**-10**	**-1**	***9***	***-13***

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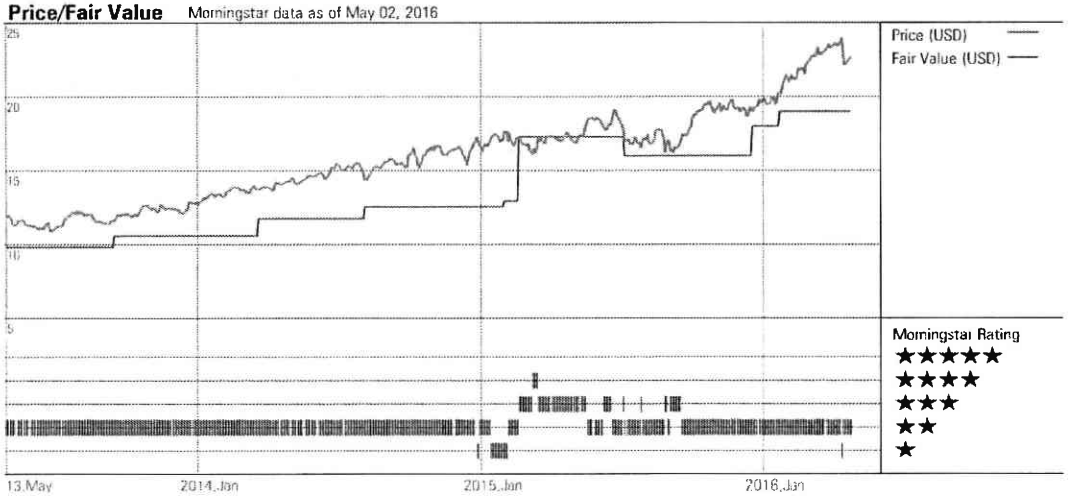
Price/Fair Value Morningstar data as of May 02, 2016



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NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
22.96 USD	19.00 USD	15.20 USD	23.75 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

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NiSource Inc.
No Change to Outlook

Equities

Americas
Gas Utilities

12-month rating	**Buy**
12m price target	**US$25.00**
Price	**US$22.96**

RIC: NI.N **BBG:** NI US

Trading data and key metrics

52-wk range	US$48.72-16.17
Market cap.	US$7.32bn
Shares o/s	319m (COM)
Free float	99%
Avg. daily volume ('000)	790
Avg. daily value (m)	US$17.7
Common s/h equity (12/16E)	US$3.91bn
P/BV (12/16E)	1.9x
Net debt / EBITDA (12/16E)	4.9x

EPS (UBS, diluted) (US$)

	12/16E			
	From	To	% ch	Cons.
Q1E	0.59	0.60	2	0.59
Q2E	0.07	0.07	NM	0.08
Q3E	0.10	0.10	NM	0.08
Q4E	0.32	0.32	NM	0.34
12/16E	1.07	1.08	0	1.06
12/17E	1.16	1.16	NM	1.14
12/18E	1.23	1.23	NM	1.19

No Change to Outlook

NI maintained plans to invest $1.4bn in infrastructure improvements in '16 with the opportunity to invest $30bn over the longer-term. This investment should support EPS and dividend growth of 4%-6%. On the call management noted that the extension of bonus depreciation will be detrimental near-term because it already had NOLs through 2018, but it has enough investment opportunities to offset the depreciation in the rate base and it will push the NOLs out through 2022. On the regulatory front, NI recently filed a rate case in PA requesting a $55mm/yr revenue increase. Ohio regulators approved $21mm/yr for recovery of modernization investments. In Feb NIPSCO filed to recover $7.6mm/yr under its semi-annual tracker that is part of a 7-year $800mm modernization program. In Virginia, NI filed a rate case requesting $37mm/yr to recover infrastructure investments. In March NIPSCO electric reached settlement to recover $1.2bn of infrastructure investments over 7-yrs and a base rate case for $72.5mm/yr revenue increases, which is expected to be finalized in 3Q16. NI continued to make progress on two large electric transmission projects with 2H18 in-service dates and a total of $400-$500mm of NIPSCO investment.

Lower Expenses Drive Beat

NI reported 1Q16 Adj. EBITDA of $532mm (+8.1% Y/Y), 2.2% above UBSe of $521mm and Consensus of $520mm. The beat was driven primarily by lower than expected O&M expenses of $353.9mm which were 16.7% below UBSe. Net income of $190.8mm was 1.3% above UBSe of $188.3mm as lower than expected interest expense was offset by higher than expected D&A. EPS of $0.60 was 1.7% above UBSe of $0.59. Dividends were $0.155/share, unchanged Q/Q.

Raising 2016 Estimates

We are lifting our '16/'17/'18 EBITDAe to $1.49bn/$1.59bn/$1.67bn from $1.48bn/$1.58bn/$1.66bn to account for the flow through of higher 1Q earnings. Our '16 EPSe is lifted to $1.08 from $1.07 while '17/'18 are unchanged at $1.16/$1.23.

Valuation: Maintain $25 PT & Buy Rating

We are maintaining our $25 SOP derived price target and reiterate our Buy rating.

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Highlights (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	5,657	6,485	4,612	4,779	4,975	5,152	5,330	5,508
EBIT (UBS)	1,168	1,277	829	947	1,029	1,092	1,152	1,209
Net earnings (UBS)	491	526	295	345	374	397	418	434
EPS (UBS, diluted) (US$)	1.57	1.66	0.93	1.08	1.16	1.23	1.31	1.35
DPS (US$)	0.99	1.03	0.99	0.64	0.68	0.71	0.75	0.78
Net (debt) / cash	(8,808)	(9,974)	(6,500)	(7,279)	(7,689)	(8,040)	(8,604)	(9,158)
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	20.6	19.7	18.0	19.8	20.7	21.2	21.6	22.0
ROIC (EBIT) %	9.2	9.3	7.0	9.8	9.9	10.0	9.9	9.7
EV/EBITDA (core) x	9.2	10.4	12.6	8.8	8.6	8.4	8.4	8.1
P/E (UBS, diluted) x	18.9	22.8	33.5	21.3	19.7	18.7	17.6	17.0
Equity FCF (UBS) yield %	(4.8)	(5.9)	1.0	(6.0)	(3.2)	(2.5)	(5.5)	(5.2)
Net dividend yield %	3.3	2.7	3.2	2.8	2.9	3.1	3.2	3.4

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$22.96 on 02 May 2016 19:38 EDT

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Figure 1: 1Q16 Earnings Variance

$ in millions	Actual 1Q16	UBSe 1Q16e	% variance	Actual 1Q15	YoY % change
Operating Data					
Customers (000)					
Gas Utilities Customers	3,421.4	3,419.8	*0.0%*	3,403.6	*0.5%*
Electric Customers	463.5	463.7	*(0.0%)*	461.2	*0.5%*
Financial Data					
Revenues	$1,453.8	$1,920.5	*(24.3%)*	$1,809.9	*(19.7%)*
Expenses					
Cost of Sales	($496.5)	($890.3)	*(44.2%)*	($805.9)	*(38.4%)*
Operating & Maintenance Expenses	($353.9)	($424.9)	*(16.7%)*	($428.3)	*(17.4%)*
Depreciation & Amortization	($132.8)	($122.4)	*8.5%*	($125.0)	*6.2%*
Total Expenses	($1,054.5)	($1,518.9)	*(30.6%)*	($1,442.8)	*(26.9%)*
Adj. EBITDA	$532.1	$520.7	*2.2%*	$492.1	*8.1%*
Interest Expense	($90.5)	($100.2)	*(9.7%)*	($97.5)	*(7.2%)*
Other Expenses	$0.7	$5.0	*NM*	$7.1	*(90.1%)*
Net Income	$190.8	$188.3	*1.3%*	$172.9	*10.3%*
EPS	$0.60	$0.59	*1.7%*	$0.55	*8.5%*
Dividend Per Share	$0.155	$0.155	*0.0%*	$0.260	*(40.4%)*
Segment Operating Income					
Gas Distribution	$330.2	$322.5	*2.4%*	$305.8	*8.0%*
Electric Operations	$72.2	$79.1	*(8.7%)*	$67.2	*7.4%*
Corporate & Eliminations	($3.1)	($3.3)	*(4.6%)*	($5.9)	*(47.5%)*
Total	$399.3	$398.4	*0.2%*	$367.1	*8.8%*

Source: UBSe, Company Reports

Forecast returns

Forecast price appreciation	+8.9%
Forecast dividend yield	2.8%
Forecast stock return	+11.7%
Market return assumption	5.8%
Forecast excess return	+5.9%

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 to calculate our price target.

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Neutral	FSR is between -6% and 6% of the MRA.	38%	26%
Sell	FSR is > 6% below the MRA.	14%	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 31 March 2016.
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	Short-term rating	Price	Price date
NiSource Inc.[16]	NI.N	Buy	N/A	US$22.96	02 May 2016

Source: UBS. All prices as of local market close.
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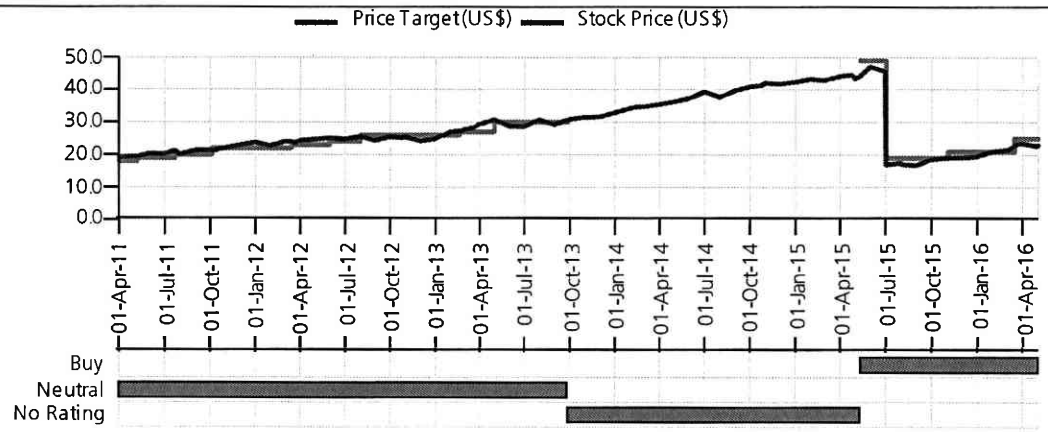
NiSource Inc. (US$)



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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Weight
Gas/Power Infrastructure – Market Overweight

May 5, 2016

NISOURCE

(NI US Equity – $ 23.48 – Outperform)

May the NiSource be with you

- **Doing the right things**
  NiSource is only three quarters past its split from the pipelines, and the new management team has been doing the right things: hitting numbers, operating well, securing balanced regulatory outcomes, and building the management team with the recent hiring of Pablo Vegas from AEP. Given the steady execution, visible multi-decade backlog of rate base investment, and above-average earnings and dividend growth potential, NI remains a premium electric and gas distribution utility. Reiterate Outperform.

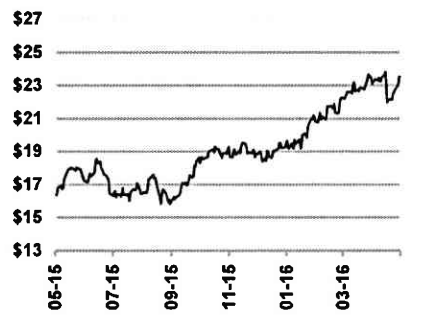
- **Still see 4%-6% growth – staying conservative for now**
  Management reiterated the 4%-6% long term growth rate but still sees rate base growth potential of 6%-8% per year. The earnings growth outlook was characterized as conservative, and we believe that between a few key rate cases this year, more work on integrating the system to give more headroom for growth and a better handle on customer growth opportunities in PA, staying conservative is still warranted. However, we see the potential for upside over time.

- **Rate cases: Looking for Indiana resolution this summer**
  The company made good regulatory progress in Q1, particularly in Indiana. It reached settlements in both the electric rate case as well as the electric infrastructure mechanism. Decision on the rate case should come in Q3 with rates to go into effect in Q4, and the electric tracker should go into effect next year.

- **Q1 a little better than expected; target price to $24**
  NI reported Q1 operating EPS of $0.60 vs. $0.57 last year, ahead of our $0.58E and the $0.57 consensus. New investment drove growth, partially offset by higher costs and weather at the electric utility (LDCs are decoupled). NI reiterated 2016 guidance of $1.00-$1.10. We are boosting our target price to $24 from $23 based on higher LDC multiples.

Trading and Fundamental Data	
Target Price	**$ 24**
Current Price	$ 23.48
52 Week Range	$ 16 - $ 24
Market Cap. ($MM)	$ 7608
Share Out. (MM)	317.6
Dividend Yield	2.77%
Dividend Payout Ratio	60%
ROE	5.7%
Debt to Cap	64.4%
Avg Daily Vol (ooo)	2574

Price Performance	YTD	LTM
NI US Equity	20%	39%
Utility Index	13%	11%
S&P 500	0%	-2%



Source: Bloomberg/Wolfe Research

Key Changes		
Year	**New**	**Old**
Target Price	$24	$23

Estimates / Valuation				
(US$)	2016E	2017E	2018E	2019E
EPS	$1.08	$1.14	$1.21	$1.28
Consensus	$1.07	$1.15	$1.19	$1.26
P/E	21.7x	20.6x	19.5x	18.4x
Dividend Per Share	$0.65	$0.68	$0.72	$0.75
Dividend Yield	2.8%	2.9%	3.1%	3.2%

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WOLFE RESEARCH

May 5, 2016

NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2016E	2017E	2018E	2019E
EPS	$1.08	$1.14	$1.21	$1.28
Diluted Shares Outstanding	319	320	321	322
Dividends Per Share	$0.65	$0.68	$0.72	$0.75
Dividend Yield	2.8%	2.9%	3.1%	3.2%
Dividend Payout Ratio	60%	60%	59%	59%
Equity Ratio	32%	32%	32%	33%
FFO/Net Debt	17%	16%	17%	17%
Valuation Metrics				
P/E	21.7x	20.5x	19.4x	18.4x
Price/Book	2.4x	2.3x	2.1x	2.0x
Segment EPS				
Gas Distribution	$0.93	$1.00	$1.05	$1.09
Electric	0.47	0.50	0.52	0.54
Parent & Other	(0.32)	(0.35)	(0.36)	(0.34)
Total EPS	**$1.08**	**$1.14**	**$1.21**	**$1.28**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2016E	2017E	2018E	2019E
Total Capital Spending by Segment ($M)				
Gas Distribution	$760	$730	$730	$730
Electric	593	593	593	593
Parent	50	50	50	50
Total Capex	**$1,403**	**$1,373**	**$1,373**	**$1,373**
Financings ($M)				
Total Equity Issued/(Repurchased)	$45	$45	$45	$45
Total Debt Issued/(Repurchased)	$681	$605	$170	$85

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 3.4 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, and Massachusetts.

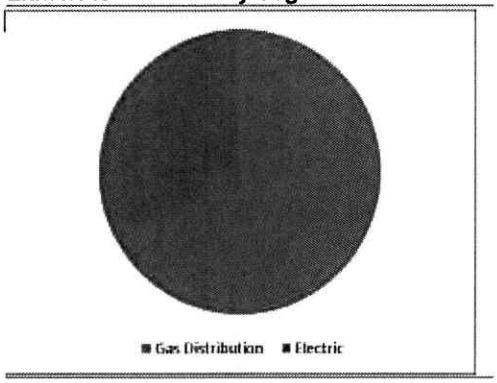
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of investment with recovery largely through trackers and balanced regulatory environments. Additionally, we see the gas business getting larger over time. NI appears attractive at current levels.

Valuation

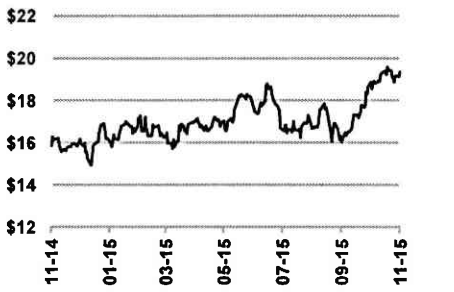
Our $24 price target is on a target P/E valuation. We apply a 20x multiple to 2018E earnings, in line with higher quality gas LDCs. Downside risks for NiSource are execution on rate base investment, economic conditions and regulatory outcomes. Upside risks are additional growth projects.

Exhibit 3. 2017 EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: Bloomberg

Exhibit 5: LDC gas comparables

Company Name	Ticker	Current Price	Mkt Cap ($M)	P/E Multiple 2016E	2017E	2018E	2019E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
AGL Resources Inc	GAS	$66.23	$7,993	21.6x	20.6x	NA	NA	3.2%	5.0%	71%	2.0x	45%
Atmos Energy Corp	ATO	73.57	7,521	22.5	20.9	19.6	NA	2.3%	6.0%	55%	2.3	52%
Southwest Gas Corp	SWX	66.80	3,171	20.9	19.5	18.4	18.6	2.7%	4.5%	61%	2.0	50%
WGL Holdings Inc	WGL	68.42	3,411	22.0	20.8	18.7	15.9	2.9%	7.2%	64%	2.6	49%
One Gas	OGS	60.10	3,135	23.9	22.5	21.1	20.0	2.3%	5.0%	63%	1.7	60%
Piedmont Natural Gas Co Inc	PNY	59.68	4,839	30.2	28.5	25.5	NA	2.3%	6.6%	73%	3.2	43%
NiSource	NI	23.48	7,550	21.7	20.5	19.4	18.4	2.6%	5.0%	67%	1.9	36%
Questar Corp	STR	25.06	4,395	19.0	18.8	19.2	19.3	3.5%	4.5%	68%	3.2	43%
New Jersey Resources Corp	NJR	36.44	3,136	22.6	21.1	19.6	NA	2.6%	5.3%	55%	2.7	55%
Northwest Natural Gas Co	NWN	55.46	1,525	25.3	24.2	23.1	21.7	3.4%	4.5%	84%	1.9	47%
UGI Corp	UGI	40.73	7,002	20.3	17.6	17.2	16.4	2.3%	8.0%	49%	2.6	48%
Spire Inc	SR	65.21	2,833	19.4	18.5	18.2	16.5	3.0%	4.7%	61%	1.8	42%
Vectren Corp	VVC	49.82	4,125	19.9	18.5	17.2	NA	3.2%	5.0%	69%	2.4	48%
Average (ex-M&A targets)				**21.9x**	**20.4x**	**19.2x**	**18.2x**	**2.8%**	**5.5%**	**65%**	**2.3x**	**48%**

Source: Wolfe Research, Bloomberg consensus

WOLFE RESEARCH

May 5, 2016

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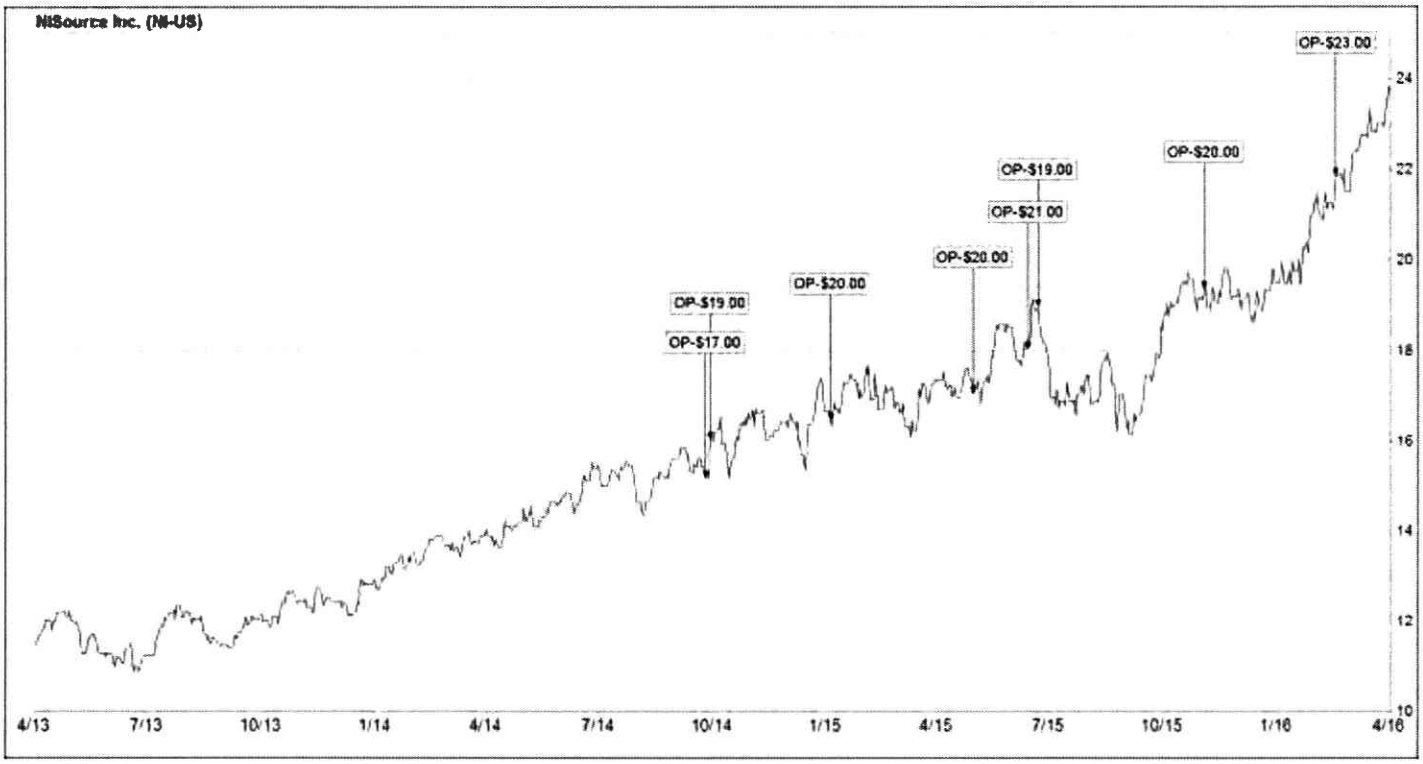

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Company:	Fundamental Valuation Methodology:
NI US Equity	Forward P/E

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UBS | Global Research | 16 March 2016

NiSource Inc.
Refresh Post 10-K Review

Equities

Americas
Gas Utilities

12-month rating **Buy**

12m price target	**US$25.00**
	Prior: US$21.00
Price	**US$22.67**

RIC: NI.N **BBG:** NI US

Trading data and key metrics

52-wk range	US$48.72-16.17
Market cap.	US$7.23bn
Shares o/s	319m (COM)
Free float	99%
Avg. daily volume ('000)	784
Avg. daily value (m)	US$16.3
Common s/h equity (12/16E)	US$4.01bn
P/BV (12/16E)	1.8x
Net debt / EBITDA (12/16E)	4.7x

EPS (UBS, diluted) (US$)

	12/16E			
	From	To	% ch	Cons.
Q1E	0.65	0.57	-12	0.60
Q2E	0.07	0.08	23	0.08
Q3E	0.07	0.10	36	0.08
Q4E	0.28	0.32	13	0.33
12/16E	1.07	1.07	0	1.06
12/17E	1.15	1.16	1	1.14
12/18E	1.26	1.24	-1	1.20

Raising Price Target to $25

We are raising our sum-of-the parts derived price target to $25, and maintaining our Buy rating. While NiSource shares have appreciated ~29% since the spin-out of the pipeline company on 7/2/2015, we believe there is more opportunity for share appreciation, in part due to a sector revaluation post a feverish M&A cycle. Over the past six months there have been three acquisitions of gas distribution companies announced by electric utilities, and valuation multiples have expanded as this trend is expected to continue due to the slowing growth prospects at electric utilities and the growth expected at gas distribution companies due to the current infrastructure replacement cycle under way.

Earnings Tracking With Plan

NiSource reported 4Q15 EPS of $0.31, in line with our estimate. 2016 EPS guidance of $1.00-$1.10 is in line with our 2016 EPS estimate of $1.07. NiSource continues to settle rate cases and gain approval for its modernization plans including the plan to invest ~$30bn in regulated utility infrastructure investments over the next 20 years, including $1.4bn in 2016. In late February NI settled with NIPSCO electric regulators and customers on a $72.5mm rate increase ($126.6mm requested) to be effective Oct 1, 2016 and subject to approval in July.

Adjusting Estimates

We are raising our '16/'17/'18 EBITDA estimates to $1.5bn/$1.6bn/$1.7bn from $1.4bn$1.5bn/$1.5bn to reflect 4Q earnings, growth investment and NIPSCO settlement. Our '16 EPU estimate is unchanged at $1.07 while '17e is raised to $1.16 from $1.15 and '18e is trimmed to $1.24 from $1.26.

Valuation: Raising PT to $25, Maintain Buy Rating

We are raising our sum-of-the-parts derived price target to $25 from $21 to reflect the stronger earnings, rolling forward to 2016e EBITDA, benefits from growth investments and higher utility peer multiples. We maintain our Buy rating as we see further upside potential.

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Highlights (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	5,657	6,485	4,612	5,024	5,141	5,316	5,493	5,669
EBIT (UBS)	1,168	1,277	829	965	1,044	1,111	1,169	1,226
Net earnings (UBS)	491	526	295	345	375	400	418	430
EPS (UBS, diluted) (US$)	1.57	1.66	0.93	1.07	1.16	1.24	1.31	1.34
DPS (US$)	0.99	1.03	0.99	0.67	0.71	0.74	0.78	0.82
Net (debt) / cash	(8,808)	(9,974)	(6,500)	(7,004)	(7,452)	(7,838)	(8,440)	(9,037)
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	20.6	19.7	18.0	19.2	20.3	20.9	21.3	21.6
ROIC (EBIT) %	9.2	9.3	7.0	10.1	10.2	10.2	10.1	9.9
EV/EBITDA (core) x	9.2	10.4	12.6	8.7	8.5	8.3	8.3	8.0
P/E (UBS, diluted) x	18.9	22.8	33.5	21.2	19.5	18.3	17.4	16.9
Equity FCF (UBS) yield %	(4.8)	(5.9)	1.0	(4.5)	(3.6)	(2.9)	(5.9)	(5.7)
Net dividend yield %	3.3	2.7	3.2	3.0	3.1	3.3	3.4	3.6

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$22.67 on 16 Mar 2016 07:12 EDT

This report has been prepared by UBS Securities LLC. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 12.** UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

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UBS Research THESIS MAP a guide to our thinking and what's where in this report

PIVOTAL QUESTIONS

Q: Are Multiples Lifted by Feverish M&A Environment?

Yes. Since the spin-out of Columbia Pipeline Group from NiSource on July 2, 2015, the average multiples for peer companies have expanded in anticipation that there will be more consolidation of gas distribution companies by electric utilities.

more →

Q: Any pending regulatory concerns?

No. NiSource has continued to settle rate cases and gain approvals for its modernization investments.

more →

Q: Are there any changes to our views on the fundamentals at NiSource?

No. Recent earnings were in line with expectations and we anticipate NiSource will continue to invest in growth to support 4-6% annual dividend growth.

more →

UBS VIEW

We believe that NiSource will benefit from the regulated returns that it receives from distributing natural gas and electricity as well as from transporting and storing natural gas as a pure play utility. Earnings growth is driven by expanding rate bases as infrastructure investments are made and by approved rate increases. NI has planned a ~$30bn modernization investment program over the next 20+ years and these infrastructure investments should result in rate base and earnings growth. NI is also pursuing rate relief from mechanisms and cost recovery in each of its jurisdictions.

EVIDENCE

Current Valuation Doesn't Fully Reflect Take-out Premium: Since the spin-out of the pipeline business (CPGX) on July 2, 2015, there have been three planned acquisitions of gas distribution companies by electric utilities announced. Over this period the average gas distribution CY EV/EBITDA multiple has expanded to 9.9x and PE to 20.3x from 8.4x and 16.8x, respectively. NiSource's CY EV/EBITDA multiple is 9.6x, down from 9.9x, while its CY P/E multiple has expanded to 21.2x from 18.7x. We believe NI will have some take-out premium because of its size & the location of its assets.

WHAT'S PRICED IN?

Potential M&A Priced In: Using the electric and gas distribution peer average multiples at the time of the spin-out and prior to the announcement of several acquisitions of gas distribution businesses in our sum-of-the-parts valuation implies a $21 value for NI shares. If we use current average peer multiples, which we believe include take-out premiums, our sum-of-the-parts valuation derives a $26/share value and our upside valuation. Our $25 price target discounts the peer average to take out some of the M&A premium. With NI shares currently trading at $22.67, it implies some take-over premium…

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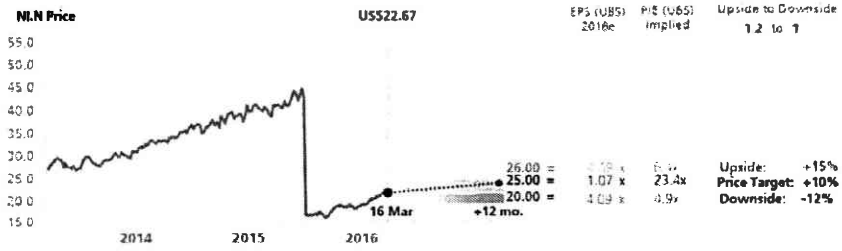
UPSIDE / DOWNSIDE SPECTRUM



Value drivers	EV/EBITDA Gas	EV/EBITDA Electric	2016 EBITDA Gas	2016 EBITDA Electric
$26 upside	9.9x	10.1x	$881mm	$613mm
$25 target	9.7x	9.9x	$881mm	$613mm
$20 downside	8.4x	9.1x	$881mm	$613mm

more →

COMPANY DESCRIPTION

NiSource is an investment-grade-rated energy company engaged in natural gas distribution, as well as electric generation, transmission, and distribution to over 4 million customers in seven states. …

more →

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PIVOTAL QUESTIONS

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Q: Are Multiples Lifted by Feverish M&A Environment?

UBS VIEW

Yes. While NI shares have appreciated ~29% post the spin-out of CPGX in July, we believe NI's current valuation doesn't fully reflect a potential take-out premium as NI trades below its natural gas distribution peers post the announcement of several electric utilities plans to acquire gas LDCs.

EVIDENCE

Post the spin-out of the pipeline business (CPGX) on July 2, 2015, there have been three proposed acquisitions of gas distribution companies by electric utilities announced: Southern Co to acquire AGL Resources (announced 8/24/15), Duke Energy to acquire Piedmont Natural Gas (announced 10/26/15) and Dominion Resources to acquire Questar (announced 2/1/2016). Over this period the average gas distribution CY EV/EBITDA multiple has expanded to 9.9x and PE to 20.3x from 8.4x and 16.8x, respectively. NiSource's CY EV/EBITDA multiple has dropped to 9.6x from 9.9x, while its CY P/E multiple has expanded to 21.2x from 18.7x. We believe NiSource already had some take-out premium in it because of its size and the location of its assets, which could be combined with the current operations of several electric companies.

WHAT'S PRICED IN?

Using the electric & gas distribution peer average multiples at the time of the spin-out in July and prior to the announcement of several acquisitions of gas distribution businesses in our sum-of-the-parts valuation implies a $20 value for NI shares. If we use current average multiples, which we believe include take-out premiums, our sum-of-the-parts valuation derives a $26/share value. The shares trade at c$23, implying the market multiples are not fully reflected.

Figure 1: Comparable Company Valuation

Company	Price 3/16/2016	Market Cap ($MM)	Annual Dividend	Dividend Yield	EPS 2016	EPS 2017	3-Yr CAGR	P/E 2016	P/E 2017	EV/EBITDA 2016	EV/EBITDA 2017
Regulated & Diversified Electric Utilities											
American Electric Power Co.	$64.41	$31,629	$2.15	3.3%	$3.70	$3.90	4.1%	17.4x	16.5x	9.2x	8.8x
Ameren Corp	$48.18	$11,690	$1.66	3.4%	$2.54	$2.81	5.6%	19.0x	17.2x	8.7x	8.0x
CMS Energy	$41.07	$11,416	$1.16	2.8%	$2.02	$2.17	7.3%	20.4x	18.9x	9.9x	9.3x
Dominion Resources, Inc.	$72.99	$43,533	$2.59	3.5%	$3.81	$3.95	8.6%	19.1x	18.5x	12.3x	11.7x
DTE Energy Company	$88.37	$15,856	$2.84	3.2%	$4.95	$5.26	5.2%	17.8x	16.8x	9.9x	9.4x
Duke Energy Corp.	$78.05	$53,728	$3.24	4.2%	$4.62	$4.79	3.5%	16.9x	16.3x	10.2x	9.7x
Wisconsin Energy Corp	$58.34	$18,415	$1.74	3.0%	$2.93	$3.10	6.5%	19.9x	18.8x	10.5x	9.9x
Xcel Energy Inc.	$40.50	$20,556	$1.28	3.2%	$2.20	$2.33	5.4%	18.4x	17.4x	10.0x	9.5x
Electric Utilities Average		$25,853	$2.08	3.3%			5.8%	18.6x	17.5x	10.1x	9.6x

Company	Price 3/16/2016	Market Cap ($MM)	Annual Dividend	Dividend Yield	EPS 2016	EPS 2017	3-Yr CAGR	P/E 2016	P/E 2017	EV/EBITDA 2016	EV/EBITDA 2017
Gas Utilities											
AGL Resources, Inc.	$64.54	$7,770	$2.04	3.2%	$3.07	$3.24	NA	21.0x	20.0x	10.4x	9.8x
Atmos Energy Corp.	$71.72	$7,319	$1.56	2.2%	$3.26	$3.51	6.1%	22.0x	20.4x	10.8x	9.9x
Questar	$24.95	$4,371	$0.84	3.4%	$1.31	$1.32	0.6%	19.1x	18.9x	9.8x	9.5x
UGI Corp.	$39.24	$6,746	$0.89	2.3%	$2.02	$2.24	5.4%	19.4x	17.5x	8.8x	7.9x
Gas Utilities Average		$6,551	$1.33	2.7%			4.0%	20.4x	19.2x	9.9x	9.2x
NiSource, Inc.	$22.67	$7,249	$0.67	3.0%	$1.07	$1.16	9.6%	21.2x	19.5x	9.6x	9.0x

Source: UBSe, FactSet

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PIVOTAL QUESTIONS

return ↑

Q: Any pending regulatory concerns?

UBS VIEW

No, In general NiSource has been able to successfully settle rate cases and gain regulatory approval for its modernization investment program.

EVIDENCE

The latest rate case was settled on February 19, 2016 between NIPSCO and electric regulators and industrial customers in Indiana and is expected to be approved in 3Q16. Under the settlement, NIPSCO if approved, would be able to increase rates by $72.5mm (57% of the $126.6mm requested) beginning 10/1/16 with an allowable ROE of 9.975%. In December NI settled its Pennsylvania rate case, which increases annual revenues by $28mm. NIPSCO Gas has a pending update on its $817mm modernization tracker at the IURC with an order expected in 1Q16. In October Virginia regulators approved a tracker for a 5-year $150mm extension for infrastructure investment and in Massachusetts a $32.8mm a year rate increase was approved starting 11/1/15 with annual increases of $3.6mm staring 11/1/16. In Ohio NI will file for a modernization program for $175mm-$210mm in annual investments with a tracker, with an order expected in 2Q16.

Figure 2: Summary of Recent & Current Regulatory Action

Completed Regulatory Activity		
Columbia Gas of Massachusetts	+$2.6mm	Filed : 10/2014
Gas Systems Enhancement Filing		Effective 5/1/2015
Columbia Gas of Massachusetts	Requested +$49mm	Settled 8/19/2015
Base Rate Case	Settled +$36mm	Effective 11/1/2015
Columbia of Virginia	Requested +$32mm	Settled 12/10/2014
Base Rate Case	Settled +$25mm	Approval 8/21/15
Columbia of Pennsylvania	Requested +$46mm	Settled 8/27/2015
Base Rate Case	Settled +$28mm	Effective 12/18/2015
Columbia Gas of Maryland	Requested +$0.7mm	Filed 8/7/2015
Making Whole Filing	Settled +$0.5mm	Effective 11/5/2015

Currently In Progress regulatory Activity		
NIPSCO Gas	Tracker/Plan Update Filing	Filed 8/31/2015
7-Yr Modernization Plan (TDSIC)	Investment of $817mm	Effective 1Q16
NIPSCO Electric	Requested +$127mm	Settled 2/19/2016
Base Rate Case	Settled +$73mm	Effective 10/1/2016
NIPSCO Electric	New 7-Yr Plan Filing	Filed 12/31/2015
7-Year Modernization Plan	Investment of $1.3bn	Effective 3Q15

Source: UBS, Company Reports

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PIVOTAL QUESTIONS

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Q: Are there any changes to our views on the fundamentals at NiSource?

UBS VIEW

No. The recently reported 4Q15 results beat our EBITDA estimates by 6% and EPS was in line with our estimate at $0.31. Management provided 2016 EPS guidance of $1.00-$1.10, which is in line with our estimate of $1.07, and therefore, we are not making any changes to our 2016 EPS estimate. Management also reiterated its plan for 4%-6% dividend growth, which is consistent with our estimate of 5% dividend growth in 2016-2018 (adjusted for NI to exclude the dividend associated with CGP).

EVIDENCE

NI reported 4Q15 Adj. EBITDA of $382.3mm, which was 6.4% higher than UBSe of $359.2mm. The earnings beat was driven primarily by lower O&M expenses of $347.3mm which were 13.1% below UBSe of $399.7mm. Excluding a $5mm loss from discontinued operations and a $35.2mm GAAP adjustment, net operating earnings from continuing operations of $99.6mm were 1% below UBSe of $100.6mm. EPS was $0.31, in line with our estimate. DPS was also in line at $0.155.

Figure 3: 4Q15 Earnings Variance

$ in millions	Actual 4Q15	UBSe 4Q15e	% variance	Actual 4Q14	YoY % change
Operating Data					
Customers (000)					
Gas Utilities Customers	$3,404.3	$3,408.2	*(0.1%)*	$3,388.5	*0.5%*
Electric Customers	$463.0	$463.3	*(0.1%)*	$461.0	*0.4%*
Financial Data					
Revenues	$1,124.9	$1,406.5	*(20.0%)*	$1,692.5	*(33.5%)*
Expenses					
Cost of Sales	($336.4)	($579.1)	*(41.9%)*	($560.8)	*(40.0%)*
Operating & Maintenance Expenses	($347.3)	($399.7)	*(13.1%)*	($562.2)	*(38.2%)*
Depreciation & Amortization	($133.4)	($121.4)	*9.9%*	($154.7)	*(13.8%)*
Total Expenses	($876.0)	($1,160.7)	*(24.5%)*	($1,339.9)	*(34.6%)*
Adj. EBITDA	$382.3	$359.2	*6.4%*	$507.3	*(24.6%)*
Interest Expense	($94.3)	($97.8)	*(3.6%)*	($115.8)	*(18.6%)*
Other Expenses	$5.8	$0.0	*NM*	$1.1	*427.3%*
Net Income	$99.6	$100.6	*(1.0%)*	$136.2	*(26.9%)*
EPS	$0.31	$0.31	*(0.8%)*	$0.43	*(27.7%)*
Dividend Per Share	$0.155	$0.155	*0.0%*	$0.260	*(40.4%)*
Segment Operating Income					
Gas Distribution	$184.8	$178.3	*3.7%*	$173.8	*6.3%*
Electric Operations	$54.1	$67.5	*(19.9%)*	$63.5	*(14.8%)*
Corporate & Eliminations	$10.0	($8.0)	*(225.0%)*	($18.4)	*(154.3%)*
Total	$248.9	$237.8	*4.7%*	$352.6	*(29.4%)*

Source: UBSe, Company Reports

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Valuation: Sum-of-the-Parts

return ↑

NiSource

Operational Unit	2016E EBITDA	Multiple	Value
Gas Utilities	$875	9.7x	$8,453
Electric Utilities	$607	9.9x	$5,985
		Total	$ 14,438
		Less Net Debt	$ (6,500)
		Total Equity	$ 7,938
		Shares Outstanding	321.1
		Value Per Share (12-months)	**$25.00**

Source: UBS estimates

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UPSIDE / DOWNSIDE SPECTRUM

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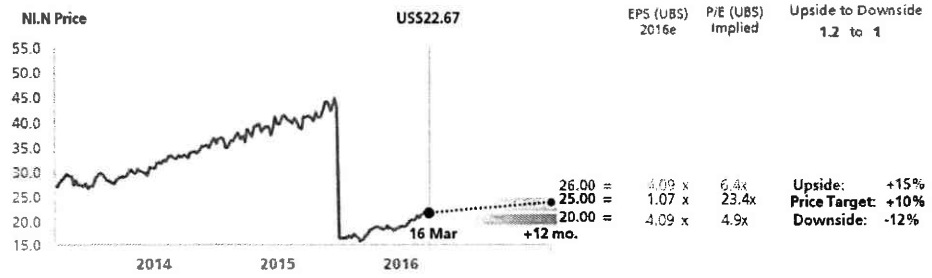

Value drivers	EV/EBITDA Gas	EV/EBITDA Electric	2016 EBITDA Gas	2016 EBITDA Electric
$26 upside	9.9x	10.1x	$881mm	$613mm
$25 target	9.7x	9.9x	$881mm	$613mm
$20 downside	8.4x	9.1x	$881mm	$613mm

Risk to the current share price is skewed (1:2.1) to the downside

NI is trading at **US$22.67** (as of 16 March).

Upside (US$26): Our upside scenario assumes an average electric and gas utility valuation EV/EBITDA multiple in our sum-of-the-parts valuation, which we believe includes a take-over premium for gas distribution companies post the announcement of three planned acquisitions over the past six months.

Base (US$25): Our base case scenario assumes a 2% discount multiple to the electric peer group average 2016 EV/EBITDA multiple of 10.1x and a 2% discount to the gas distribution peer group average 2016 EV/EBITDA multiple of 9.9x in our sum-of-the-parts valuation to remove some of the M&A premium we believe is in the average multiple for NiSource's peers.

Downside (US$20): This downside assumes a 15% discount to the gas peer group average 2016 EV/EBITDA multiple and a 10% discount to the electric peer group average 2016 EV/EBITDA multiple in our sum-of-the-parts valuation.

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COMPANY DESCRIPTION

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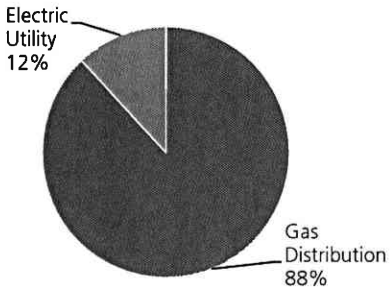
Market Cap	US$7.2bn
Shares Outstanding	318mm (COM)
Industry and outlook	Gas Distributors
Region	Americas
Website	www.nisource.com

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.

Industry outlook

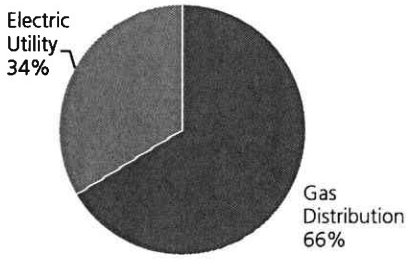
Growth in the regulated natural gas utility businesses is generated by customer growth and rate increases approved by state regulators. Regulators allow utility companies to earn a rate of return on investments of typically around 9%-11%. Population growth is the primary driver of customer growth. Modernization programs which encourage utility companies to invest in infrastructure and provide utilities with a guaranteed rate of return on the investment capital should provide growth as population growth slows. In pipelines we believe winners will share defining characteristics: low costs of capital; good organic growth opportunities; solid balance sheets; strong competitive positions in key geographies.

Customers by Segment (%)



Source: Company data

Operating Income by Segment



Source: Company data

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NiSource Inc. (NI.N)

Income statement (US$m)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Revenues	**5,657**	**6,485**	**4,612**	**5,024**	*8.9*	**5,141**	*2.3*	**5,316**	**5,493**	**5,669**
Gross profit	3,842	4,261	3,042	3,221	*5.9*	3,374	*4.7*	3,492	3,611	3,730
EBITDA (UBS)	**1,745**	**1,883**	**1,354**	**1,482**	*9.5*	**1,579**	*6.5*	**1,660**	**1,724**	**1,786**
Depreciation & amortisation	(577)	(605)	(524)	(517)	*-1.4*	(535)	*3.5*	(549)	(555)	(561)
EBIT (UBS)	**1,168**	**1,277**	**829**	**965**	*16.4*	**1,044**	*8.2*	**1,111**	**1,169**	**1,226**
Associates & investment income	0	47	0	0	-	0	-	0	0	0
Other non-operating income	0	(24)	25	0	-	0	-	0	0	0
Net interest	(415)	(444)	(384)	(410)	*-6.8*	(440)	*-7.2*	(466)	(496)	(533)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**753**	**856**	**470**	**555**	*18.0*	**604**	*8.9*	**645**	**673**	**693**
Tax	(262)	(330)	(175)	(210)	*-20.1*	(229)	*-8.9*	(244)	(255)	(263)
Profit after tax	**491**	**526**	**295**	**345**	*16.7*	**375**	*8.9*	**400**	**418**	**430**
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	0	-	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**491**	**526**	**295**	**345**	*16.7*	**375**	*8.9*	**400**	**418**	**430**
Net earnings (UBS)	**491**	**526**	**295**	**345**	*16.7*	**375**	*8.9*	**400**	**418**	**430**
Tax rate (%)	34.8	38.5	37.2	37.9	*1.8*	37.9	*0.0*	37.9	37.9	37.9

Per share (US$)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
EPS (UBS, diluted)	1.57	1.66	0.93	1.07	*15.5*	1.16	*8.6*	1.24	1.31	1.34
EPS (local GAAP, diluted)	1.57	1.66	0.93	1.07	*15.5*	1.16	*8.6*	1.24	1.31	1.34
EPS (UBS, basic)	1.57	1.67	0.93	1.08	*16.1*	1.17	*8.6*	1.25	1.31	1.35
Net DPS (US$)	0.99	1.03	0.99	0.67	*-32.0*	0.71	*5.4*	0.74	0.78	0.82
Cash EPS (UBS, diluted)[1]	3.41	3.58	2.58	2.68	*4.0*	2.82	*5.4*	2.93	3.04	3.10
Book value per share	18.88	19.56	12.06	12.56	*4.2*	13.12	*4.4*	13.76	14.65	15.41
Average shares (diluted)	313.60	316.33	318.18	321.67	*1.1*	322.53	*0.3*	323.57	320.21	320.21

Balance sheet (US$m)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Cash and equivalents	27	25	16	31	*101.5*	31	*0.0*	31	31	31
Other current assets	2,132	2,441	1,562	1,562	*0.0*	1,562	*0.0*	1,562	1,562	1,562
Total current assets	**2,159**	**2,467**	**1,577**	**1,593**	*1.0*	**1,593**	*0.0*	**1,593**	**1,593**	**1,593**
Net tangible fixed assets	14,365	16,017	12,112	12,994	*7.3*	13,859	*6.7*	14,710	15,556	16,395
Net intangible fixed assets	4,029	3,931	1,944	1,944	*0.0*	1,944	*0.0*	1,944	1,944	1,944
Investments / other assets	2,100	2,452	1,859	1,859	*0.0*	1,859	*0.0*	1,859	1,859	1,859
Total assets	**22,654**	**24,866**	**17,493**	**18,391**	*5.1*	**19,256**	*4.7*	**20,107**	**20,952**	**21,792**
Trade payables & other ST liabilities	1,937	2,111	2,090	2,090	*0.0*	2,090	*0.0*	2,090	2,090	2,090
Short term debt	1,241	1,844	567	633	*11.59*	674	*6.37*	708	762	816
Total current liabilities	**3,178**	**3,955**	**2,658**	**2,723**	*2.5*	**2,764**	*1.5*	**2,798**	**2,852**	**2,906**
Long term debt	7,593	8,156	5,949	6,402	*7.6*	6,810	*6.4*	7,161	7,708	8,252
Other long term liabilities	5,996	6,580	5,043	5,253	*4.2*	5,482	*4.4*	5,727	5,727	5,727
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**16,767**	**18,691**	**13,649**	**14,378**	*5.3*	**15,056**	*4.7*	**15,687**	**16,288**	**16,885**
Common s/h equity	5,887	6,175	3,844	4,013	*4.4*	4,200	*4.7*	4,421	4,665	4,907
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	**22,654**	**24,866**	**17,493**	**18,391**	*5.1*	**19,256**	*4.7*	**20,107**	**20,952**	**21,792**

Cash flow (US$m)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Net income (before pref divs)	491	526	295	345	*16.7*	375	*8.9*	400	418	430
Depreciation & amortisation	577	606	524	517	*-1.4*	535	*3.5*	549	555	561
Net change in working capital	55	(139)	147	0	-	0	-	0	0	0
Other operating	313	329	490	210	*-57.1*	229	*8.9*	244	0	0
Operating cash flow	**1,437**	**1,321**	**1,457**	**1,072**	*-26.4*	**1,139**	*6.3*	**1,194**	**973**	**991**
Tangible capital expenditure	(1,880)	(2,028)	(1,361)	(1,400)	*-2.9*	(1,400)	*0.0*	(1,400)	(1,400)	(1,400)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	(125)	(69)	3,798	0	-	0	-	0	0	0
Other investing	114	(19)	(493)	0	-	0	-	0	0	0
Investing cash flow	**(1,891)**	**(2,117)**	**1,945**	**(1,400)**	**-**	**(1,400)**	*0.0*	**(1,400)**	**(1,400)**	**(1,400)**
Equity dividends paid	(306)	(321)	(263)	(215)	*18.2*	(228)	*-5.7*	(240)	(254)	(268)
Share issues / (buybacks)	36	20	2	40	*NM*	40	*0.0*	60	80	80
Other financing	0	0	(122)	0	-	0	-	0	0	0
Change in debt & pref shares	715	1,097	(3,029)	519	-	448	*-13.65*	386	601	597
Financing cash flow	**445**	**796**	**(3,412)**	**344**	**-**	**261**	*-24.2*	**206**	**427**	**409**
Cash flow inc/(dec) in cash	**(10)**	**0**	**(10)**	**16**	**-**	**0**	*-100.0*	**0**	**0**	**0**
FX / non cash items	0	(1)	0	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	**(9)**	**(1)**	**(10)**	**16**	**-**	**0**	**-**	**0**	**0**	**0**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.[1]Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

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NiSource Inc. (NI.N)

Valuation (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
P/E (local GAAP, diluted)	18.9	22.8	33.5	21.2	19.5	18.3	17.4	16.9
P/E (UBS, diluted)	18.9	22.8	33.5	21.2	19.5	18.3	17.4	16.9
P/CEPS	8.7	10.6	12.1	8.4	8.0	7.7	7.4	7.3
Equity FCF (UBS) yield %	(4.8)	(5.9)	1.0	(4.5)	(3.6)	(2.9)	(5.9)	(5.7)
Net dividend yield (%)	3.3	2.7	3.2	3.0	3.1	3.3	3.4	3.6
P/BV x	1.6	1.9	2.6	1.8	1.7	1.6	1.5	1.5
EV/revenues (core)	2.8	3.0	3.7	2.6	2.6	2.6	2.6	2.5
EV/EBITDA (core)	9.2	10.4	12.6	8.7	8.5	8.3	8.3	8.0
EV/EBIT (core)	13.8	15.3	20.5	13.3	12.8	12.4	12.2	11.6
EV/OpFCF (core)	9.2	10.4	12.6	8.7	8.5	8.3	8.3	8.0
EV/op. invested capital	1.3	1.4	1.4	1.3	1.3	1.3	1.2	1.1

Enterprise value (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Market cap.	9,220	11,913	9,853	7,227	7,227	7,227	7,227	7,227
Net debt (cash)	8,437	9,391	8,237	6,752	7,228	7,645	8,139	8,139
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	528	676	760	760	760	760	760	760
Total enterprise value	**18,185**	**21,980**	**18,850**	**14,739**	**15,215**	**15,632**	**16,126**	**16,126**
Non core assets	(2,100)	(2,452)	(1,859)	(1,859)	(1,859)	(1,859)	(1,859)	(1,859)
Core enterprise value	**16,085**	**19,528**	**16,991**	**12,880**	**13,355**	**13,773**	**14,266**	**14,266**

Growth (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenue	11.3	14.6	-28.9	8.9	2.3	3.4	3.3	3.2
EBITDA (UBS)	6.9	7.9	-28.1	9.5	6.5	5.1	3.9	3.6
EBIT (UBS)	9.3	9.4	-35.1	16.4	8.2	6.4	5.3	4.8
EPS (UBS, diluted)	0.0	6.2	-44.2	15.5	8.6	6.4	5.5	2.9
Net DPS	4.2	4.0	-4.4	-32.0	5.4	5.2	5.4	5.1

Margins & Profitability (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Gross profit margin	67.9	65.7	66.0	64.1	65.6	65.7	65.7	65.8
EBITDA margin	30.8	29.0	29.4	29.5	30.7	31.2	31.4	31.5
EBIT margin	20.6	19.7	18.0	19.2	20.3	20.9	21.3	21.6
Net earnings (UBS) margin	8.7	8.1	6.4	6.9	7.3	7.5	7.6	7.6
ROIC (EBIT)	9.2	9.3	7.0	10.1	10.2	10.2	10.1	9.9
ROIC post tax	6.0	5.5	4.4	6.3	6.3	6.4	6.3	6.1
ROE (UBS)	8.6	8.7	5.9	8.8	9.1	9.3	9.2	9.0

Capital structure & Coverage (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Net debt / EBITDA	5.0	5.3	4.8	4.7	4.7	4.7	4.9	5.1
Net debt / total equity %	149.6	161.5	169.1	174.5	177.4	177.3	180.9	184.2
Net debt / (net debt + total equity) %	59.9	61.8	62.8	63.6	64.0	63.9	64.4	64.8
Net debt/EV %	54.8	51.1	38.3	54.4	55.8	56.9	59.2	63.3
Capex / depreciation %	NM	NM	NM	NM	NM	NM	NM	NM
Capex / revenue %	NM	NM	29.5	27.9	27.2	26.3	25.5	24.7
EBIT / net interest	2.8	2.9	2.2	2.4	2.4	2.4	2.4	2.3
Dividend cover (UBS)	1.6	1.6	0.9	1.6	1.7	1.7	1.7	1.6
Div. payout ratio (UBS) %	63.0	61.7	106.0	62.1	60.2	59.5	59.6	60.9

Revenues by division (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Others	5,657	6,485	4,612	5,024	5,141	5,316	5,493	5,669
Total	**5,657**	**6,485**	**4,612**	**5,024**	**5,141**	**5,316**	**5,493**	**5,669**

EBIT (UBS) by division (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Others	1,168	1,277	829	965	1,044	1,111	1,169	1,226
Total	**1,168**	**1,277**	**829**	**965**	**1,044**	**1,111**	**1,169**	**1,226**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

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Forecast returns

Forecast price appreciation	+10.3%
Forecast dividend yield	3.0%
Forecast stock return	+13.3%
Market return assumption	6.0%
Forecast excess return	+7.3%

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 to calculate our price target.

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Buy	FSR is > 6% above the MRA.	48%	36%
Neutral	FSR is between -6% and 6% of the MRA.	39%	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 December 2015.
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	Short-term rating	Price	Price date
NiSource Inc.[16]	NI.N	Buy	N/A	US$22.67	15 Mar 2016

Source: UBS. All prices as of local market close.
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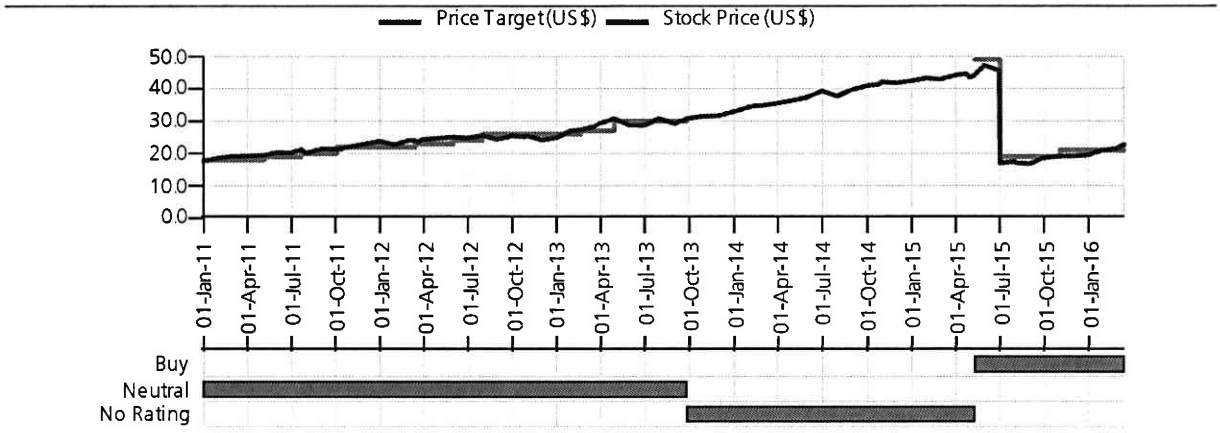
NiSource Inc. (US$)



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Gas Utilities

Premium Multiples Limiting Return Potential, Only ATO Remains Undervalued; Downgrading NI to N

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LDC valuations are at historical highs and generally appear expensive versus regulated electric peers despite superior growth potential. As multiples revert to mean over time, current valuations would imply low total returns from organic growth alone. We believe relative value opportunities still exist, however, and we are reiterating our OW on ATO and our UW on LG, while downgrading NI to N. Based on 5-year organic growth and no change in relative valuation we see a best case total return of 8.5%, 7.9% and 6.0% for ATO, NI and LG, respectively, but see only ATO as offering relative and absolute value in a group multiple contraction scenario.

- **LDC valuations at all-time high:** Appetites for low-risk yield and growth and M&A optionality in excess of electric utility peers has left the average LDC fwd P/E multiple north of 21x, significantly above electrics and the S&P 500 as well as above the 15.9x 10yr peer LDC average. The smaller capitalization, higher rate base growth and better regulatory constructs explain a run-rate premium versus electric utilities but the current valuation gap is not justified for most companies, in our view. Consensus estimates for the 9 remaining LDCs imply median EPS growth of 5.6%, 6.0% and 7.1% in 2016-18, respectively, with an average yield of 2.9%.

- **Quality commanding premium, but valuations still tight:** In some cases higher quality and growth-ier names are commanding a deserved premium on the electric side, but M&A appears to be clouding the LDC picture. Single-state companies NWN and OGS trade at 10%+ premiums on 2018E EPS, while higher-growth ATO and NI are cheaper and are valued at nearly the same price as lower-growth LG. We therefore continue to see relative value trades within the LDC group on an organic fundamental basis.

- **Current multiples require significant growth runway beyond 5-year horizon:** Using our 5-year earnings and dividend forecasts, we see best case total returns of 8.5%, 7.9% and 6.0% for ATO, NI and LG, respectively, assuming a flat future P/E multiple. We have also looked at various multiple compression scenarios and find especially low total return potential should gas utilities revert to historical average multiples, making the group look less attractive versus electrics or the overall market. Current valuations therefore appear to at least fully price in 5-year organic growth if not more in most cases, in our opinion.

- **ATO still undervalued, in our view; downgrading NI to N:** Despite this, we believe ATO still offers a compelling relative and absolute total return proposition even in a multiple compression scenario and we are reiterating our OW-rating. NI has returned 19% YTD and now appears fully valued and we are downgrading to N. We also reiterate our UW on LG.

Equity Ratings and Price Targets

Company	Ticker	Mkt Cap ($ mn)	Price ($)	Rating Cur	Rating Prev	Price Target Cur	Price Target Prev
Atmos Energy	ATO US	7,409.90	72.57	OW	n/c	81.00	76.00
NiSource Inc.	NI US	7,303.95	22.92	N	OW	24.00	n/c
The Laclede Group, Inc.	LG US	2,899.45	66.77	UW	n/c	65.00	63.00

Source: Company data, Bloomberg, J.P. Morgan estimates. n/c = no change. All prices as of 28 Mar 16.

See page 13 for analyst certification and important disclosures.

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Gas utilities at all-time high

At a median P/E of 22.0x 2016E EPS, gas utilities are trading at levels significantly higher than their 10 year average of 15.9x. There is a substantial range of 17.6-24.2 for the 9 remaining non-M&A involved pure LDCs, and the average EPS growth rate ranges from 5.6-7.1 for the entire group in 2016-2018.

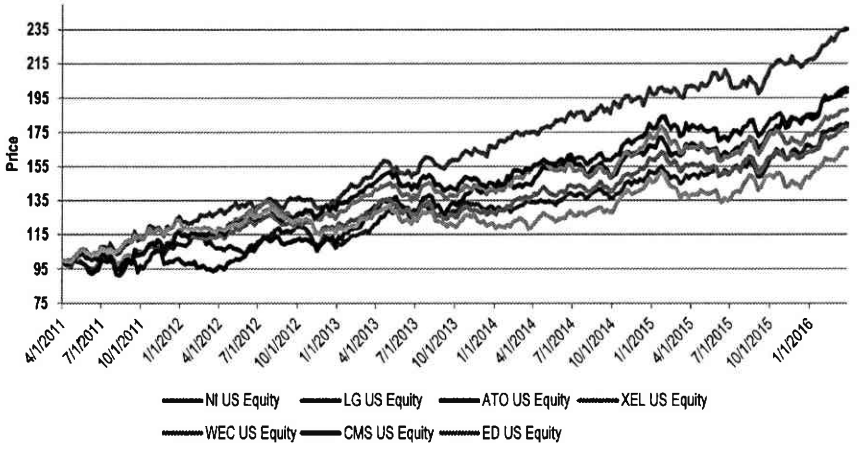
Table 1: Gas Utility Comparables

			24-Mar			EPS			P/E			EPS Growth		Net Debt-	Dividend 2016E			EBITDA 2016E		
Rating	Tickers	Company Name	Price	Market Cap	EV	2016E	2017E	2018E	2016E	2017E	2018E	2017E	2018E	to-Cap	Yield	Payout	Dividend	2016E	Multiple	FY End
NC	NWN	Northwest Natural Gas Co	52.27	1.4	2.3	2.16	2.24	2.40	24.2	23.3	21.8	3.8%	7.1%	52.5%	3.6%	86%	1.86	223	10.3	Dec
NC	OGS	ONE Gas Inc	59.98	3.1	4.3	2.52	2.67	2.85	23.8	22.5	21.0	6.0%	6.7%	39.6%	2.3%	55%	1.38	404	10.7	Dec
N	NI	Nisource Inc	23.03	7.3	14.2	1.07	1.14	1.21	21.5	20.2	19.1	6.5%	6.0%	64.0%	2.8%	60%	0.64	1,503	9.5	Dec
OW	ATO	Atmos Energy Corp	72.38	7.4	10.5	3.29	3.56	3.84	22.0	20.3	18.9	8.4%	7.7%	47.2%	2.3%	51%	1.68	975	10.8	Sept
NC	NJR	New Jersey Resources Corp	35.85	3.1	4.1	1.61	1.74	1.90	22.2	20.6	18.9	7.7%	9.4%	44.5%	2.7%	60%	0.97	246	16.8	Sept
UW	LG	Laclede Group Inc/The	66.69	2.9	5.1	3.40	3.48	3.56	19.6	19.2	18.7	2.3%	2.5%	57.8%	2.9%	58%	1.96	426	12.0	Sept
NC	WGL	WGL Holdings Inc	70.54	3.5	5.0	3.09	3.25	3.82	22.8	21.7	18.5	5.1%	17.7%	50.3%	2.7%	62%	1.92	456	11.0	Sept
NC	SWX	Southwest Gas Corp	65.58	3.1	4.6	3.20	3.42	3.62	20.5	19.2	18.1	6.8%	5.9%	48.6%	2.7%	56%	1.78	597	7.8	Dec
NC	SJI	South Jersey Industries Inc	27.74	2.0	3.4	1.58	1.58	1.71	17.6	17.6	16.2	-0.1%	8.4%	56.5%	3.9%	68%	1.07	250	13.6	Dec
Subtotal/Averages				34	54				21.6	20.5	19.0	5.2%	7.9%	51.2%	2.9%	62%			11.4	
Median									22.0	20.3	18.9	6.0%	7.1%	50.3%	2.7%	60%			10.8	

			24-Mar			EPS			P/E			EPS Growth			Dividend 2016E			EBITDA 2016E		
Rating	Tickers	Company Name	Price	Market Cap	EV	2016E	2017E	2018E	2016E	2017E	2018E	2017E	2018E		Yield	Payout	Dividend	2016E	Multiple	FY End
NC	GAS	AGL Resources Inc	64.80	7.8	12.6	3.08	3.24		21.1	20.0		5.2%		54.5%	3.3%	69%	2.12	1,194	10.6	Dec
N	PNY	Piedmont Natural Gas Co Inc	59.55	4.8	6.9	1.99	2.12	2.23	30.0	28.1	26.7	6.4%	5.5%	56.8%	2.3%	68%	1.35	494	13.9	Dec
NC	STR	Questar Corp	24.81	4.3	6.0	1.31	1.32	1.33	19.0	18.8	18.7	0.9%	0.5%	55.7%	3.6%	68%	0.89	643	9.4	Dec

Source: J.P. Morgan Estimates, Bloomberg, and Company Reports; Priced as of March 24, 2016

Figure 1: Historical Price (Indexed): Select Utility Peers



Source: Bloomberg; excludes dividends

Gas utilities have traded at a premium to electric utilities over the last 10 years, the current rolling 12-month forward P/E of 20.9x represents a 19% premium to electric peers as represented by the S&P 500 Utilities index. Premiums this wide were last seen in 2H10-1H11, when they reached a high of ~27%.

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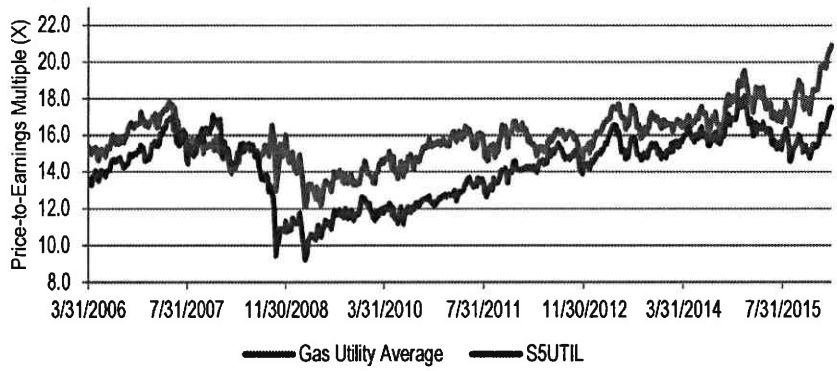
Figure 2: Gas Utility Average vs. S5UTIL Rolling Forward 12 Months Price-to-Earnings Multiple

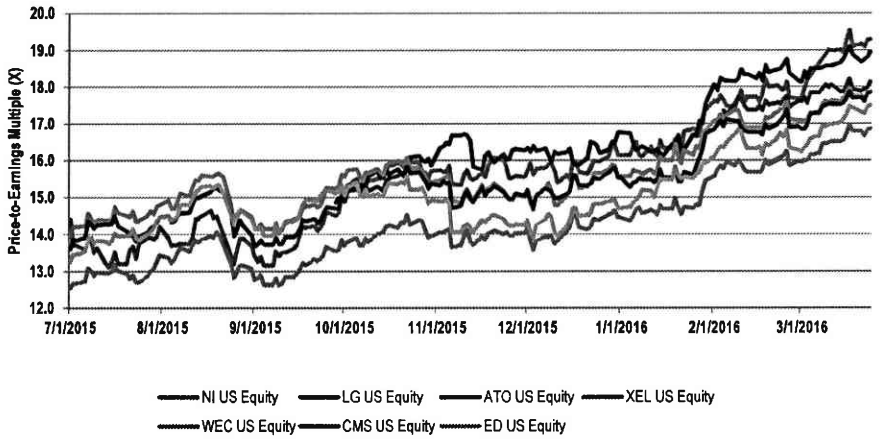


Source: Bloomberg; Gas Utility average excludes companies involved in M&A

Quality commanding premium, but valuations still appear tight

We note that while utility valuations are at historically high levels, the premium does decrease when based on 2018 forecasts. In the below tables we highlight ATO, NI and LG as well as high quality regulated electric utility peers relative valuations.

Figure 3: 2018E Price-to-Earnings Multiple: Select Utility Peers



Source: Bloomberg; Forward P/E multiples are based on 2018 EPS consensus estimates

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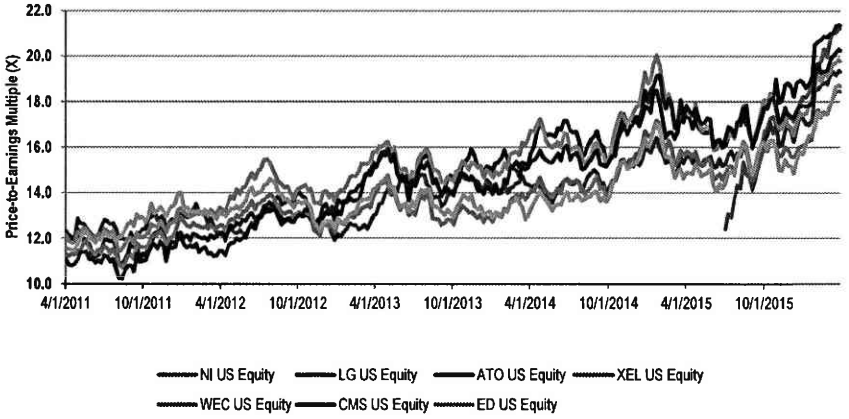
Figure 4: Rolling Forward Price-to-Earnings Multiple: Select Utility Peers



Source: Bloomberg; Fwd P/E 12 months based on consensus

Table 2: Consensus Estimate Changes

	NI	LG	ATO	XEL	WEC	CMS	ED
Current '17 Est.	1.15	3.52	3.52	2.33	3.10	2.17	4.15
vs. 1 Month Ago	0.9%	-0.1%	0.2%	-0.3%	-0.1%	0.0%	0.1%
vs. 3 Months Ago	2.0%	0.0%	1.4%	-0.4%	0.0%	1.1%	-0.6%
vs. 6 Months Ago	1.6%	1.1%	2.0%	-1.1%	0.3%	1.2%	-0.4%
vs. 12 Months Ago	N/A	3.0%	2.2%	-1.4%	3.2%	1.4%	-0.8%

	NI	LG	ATO	XEL	WEC	CMS	ED
Current '18 Est.	1.19	3.59	3.76	2.45	3.30	2.33	4.32
vs. 1 Month Ago	-0.5%	-0.6%	0.9%	-0.4%	0.0%	-0.1%	0.3%
vs. 3 Months Ago	-0.5%	-3.9%	1.9%	-0.8%	0.9%	1.3%	-0.3%
vs. 6 Months Ago	-1.3%			-2.7%	0.4%	1.0%	1.1%
vs. 12 Months Ago	N/A			-2.0%	3.1%	1.0%	

Source: Bloomberg

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Current multiples require significant growth runway beyond 5-year horizon

In the table below we show our calculation of the 5-year total return potential for ATO, NI and LG versus the broader electric utility group, S&P 500 and Russell 2000 indices in both current P/E multiple and various multiple contraction scenarios. Assumptions are detailed in the appendix tables. For the 3 companies we use our 2016-2018 EPS and dividend forecasts and an estimate of long-term growth thereafter, with straight-lined dividend payout ratios. For the indices we use consensus EPS forecasts through 2018 and 13-year EPS historical CAGR for 2019-20, with dividend payout ratios also held flat.

ATO's return remains competitive versus NI and LG as well as versus the electric-heavy S&P 500 utilities index. We note the table assumes equal future P/E ratios for the companies in the multiple contraction scenarios, and therefore we would expect to see a multiple expansion versus peers and a higher total return for both NI and ATO than those listed.

Table 3: Total Return Scenarios, 5-year horizon

Future Fwd P/E Multiple Assumption (2020)	ATO	NI	LG
Equal to company specific fwd multiple on 3/24/16	8.5%	7.9%	6.0%
Contracts to S&P 500 Utilities Index today (17.7x)	4.7%	4.1%	3.8%
Contracts to LDC 10yr avg (15.9x)	2.3%	2.1%	1.8%
Contracts to S&P 500 Utilities Index 10yr avg (14.3x)	0.3%	0.2%	-0.1%
	S5UTIL	SPX	RTY
Equal to current fwd multiple on 3/24/16	6.8%	9.6%	13.9%
Contracts to 10yr avg fwd multiple	2.8%	5.4%	10.0%

Source: JPM Estimates; Calculated using IRR of current share price, future estimated dividends and earnings growth and a future stock price determined using the appropriate P/E multiple; Company specific fwd multiple on 3/24/16 = ATO (21.9x), NI (21.5x), LG (19.8x); See appendix

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Appendix: Total Return Growth Assumptions

Table 4: EPS/Dividend Growth Assumptions

	t=0	1	2	3	4	5
		2016	2017	2018	2019	2020
S5UTIL		14.07	14.59	15.50	16.01	16.54
			3.7%	6.3%	3.3%	3.3%
Dividend		8.45	8.75	9.30	9.61	9.92
		60%	60%	60%	60%	60%
Price, P/E	249	17.7				
SPX		118.25	134.34	150.26	158.67	167.56
			13.6%	11.9%	5.6%	5.6%
Dividend		45.20	51.05	57.10	60.29	63.67
		38%	38%	38%	38%	38%
Price, P/E	2,036	17.2				
RTY		44.79	55.51	66.61	72.54	78.99
			23.9%	20.0%	8.9%	8.9%
Dividend		18.04	22.20	26.64	29.01	31.60
		40%	40%	40%	40%	40%
Price, P/E	1,080	24.1				
		2016	2017	2018	2019	2020
ATO		3.30	3.55	3.82	4.13	4.46
			7.6%	7.6%	8.0%	8.0%
Dividend		1.68	1.79	1.91	2.06	2.23
		51%	50%	50%	50%	50%
Price, P/E	72.38	21.9				
NI		1.07	1.14	1.21	1.29	1.37
			6.5%	6.1%	6.5%	6.5%
Dividend		0.64	0.68	0.71	0.76	0.81
		60%	60%	59%	59%	59%
Price, P/E	23.03	21.5				
LG		3.36	3.48	3.56	3.72	3.89
			3.6%	2.3%	4.5%	4.5%
Dividend		1.96	2.06	2.16	2.26	2.36
		58%	59%	61%	61%	61%
Price, P/E	66.69	19.8				

Source: J.P. Morgan Estimates, Bloomberg; 2019 and 2020 EPS and Dividend estimates are representative of our long-term growth expectations, but do not constitute a formal published estimate. For the indices we use consensus EPS forecasts thru 2018 and 13-year EPS historical CAGR for 2019-20, with dividend payout ratios also held flat.

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North America Equity Research
29 March 2016

J.P.Morgan

Atmos Energy

Overweight

Company Data	
Price ($)	72.57
Date Of Price	28 Mar 16
52-week Range ($)	73.16-50.83
Market Cap ($ mn)	7,409.90
Fiscal Year End	Sep
Shares O/S (mn)	102
Price Target ($)	81.00
Price Target End Date	31-Dec-16

Atmos Energy Corp (ATO;ATO US)

FYE Sep	2014A	2015A	2016E (Prev)	2016E (Curr)	2017E (Prev)	2017E (Curr)	2018E (Prev)	2018E (Curr)
EPS ($)								
Q1 (Dec)	0.88	0.91	0.93A	0.93A	-	-	-	-
Q2 (Mar)	1.38	1.36	1.39	1.38	-	-	-	-
Q3 (Jun)	0.45	0.54	0.63	0.63	-	-	-	-
Q4 (Sep)	0.25	0.30	0.36	0.36	-	-	-	-
FY	2.91	3.11	3.30	3.29	3.55	3.56	3.82	3.84
Bloomberg EPS FY ($)	2.86	3.08	-	3.27	-	3.52	-	3.76

Source: Company data, Bloomberg, J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Atmos Energy *(Overweight; Price Target: $81.00)*

Investment Thesis

Atmos' accelerated integrity capital plan offers investors above-average rate base growth potential through at least 2020, a scenario we view as realistic. We also view the patchwork of alternative ratemaking mechanisms that cover much of this capital plan as providing a reasonable degree of visibility into rate relief over this timeframe. We therefore view the company's best-in-class long-term earnings growth target as achievable and the current valuation as not reflecting this potential.

Valuation

We are raising our December 2016 price target to $81/share, (previously $76). Our valuation is based on our 2018E EPS estimate and uses a premium P/E multiple of 22.1x versus gas utility peers. The premium reflects strong growth visibility thanks in part to transparent, low-lag regulatory mechanisms and a robust capital spending pipeline. Our price target is increased due to a slightly higher EPS estimate and a higher peer group multiple since our last update.

Risks to Rating and Price Target

- Regulated electric and gas utilities are subject to strict federal and state regulation, including determinations of allowed revenues. Any change to the existing rate making mechanisms, including a repeal of the mechanism itself, may cause future earnings to differ materially from our current expectations.
- Achievement of Atmos' 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.
- Recent 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.
- Atmos is in the midst of a robust capital spending program, and any change in the company's operating environment and or project cost over-runs could require external equity funding, exposing investors to potential dilution risk in the future.

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Atmos Energy: Summary of Financials

Income Statement - Annual	FY15A	FY16E	FY17E	FY18E
Sales	4,142	3,857	3,950	4,061
COGS	(2,462)	(2,089)	(2,089)	(2,089)
D&A	(275)	(292)	(313)	(335)
Operations and maintenance	(774)	(792)	(803)	(814)
Other expenses	(4)	(1)	(1)	(1)
Total operating expenses	(3,511)	(3,173)	(3,205)	(3,238)
Other income / (expense)				-
EBIT	**627**	**683**	**743**	**821**
EBITDA	**902**	**975**	**1,057**	**1,157**
Interest expense	(116)	(130)	(141)	(157)
Income tax provision	(196)	(206)	(224)	(247)
Tax rate	38.3%	37.3%	37.3%	37.2%
Discontinued operations and other	2	(7)	0	0
Preferred dividends	-	-	-	-
Net income	**317**	**339**	**378**	**417**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**317**	**339**	**378**	**417**
Diluted shares outstanding	**102**	**103**	**106**	**109**
Diluted EPS	**3.11**	**3.29**	**3.56**	**3.84**
DPS ($)	1.56	1.68	1.79	1.91
Payout ratio	50.1%	51.1%	50.2%	49.6%

Income Statement - Quarterly	1Q16A	2Q16E	3Q16E	4Q16E
Sales	906A	-	-	-
COGS	(462)A	-	-	-
D&A	(71)A	-	-	-
Operations and maintenance	(176)A	-	-	-
Other expenses	(1)A	-	-	-
Total operating expenses	(710)A	-	-	-
Other income / (expense)	-	-	-	-
EBIT	**195A**	**-**	**-**	**-**
EBITDA	**266A**	**-**	**-**	**-**
Interest expense	(30)A	-	-	-
Income tax provision	(62)A	-	-	-
Tax rate	37.5%A	-	-	-
Discontinued operations and other	(7)A	-	-	-
Preferred dividends	-	-	-	-
Net income	**96A**	**-**	**-**	**-**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**96A**	**-**	**-**	**-**
Diluted shares outstanding	**103A**	**-**	**-**	**-**
Diluted EPS	**0.93A**	**-**	**-**	**-**
DPS ($)	0.42A	-	-	-
Payout ratio	45.0%A	-	-	-

Balance Sheet and Cash Flow Data	FY15A	FY16E	FY17E	FY18E
Cash and cash equivalents	29	0	0	0
Current assets	631	863	983	1,104
PP&E	7,431	8,221	9,110	9,976
Non-current assets	1,031	1,038	1,038	1,038
Total assets	**9,093**	**10,123**	**11,131**	**12,118**
Current liabilities	1,155	1,393	1,724	1,724
Long-term Debt	2,455	2,850	3,040	3,470
Preferred stock	-	-	-	-
Other non-current liabilities	2,288	2,457	2,681	2,928
Common equity	3,195	3,423	3,686	3,996
Total liabilities & equity	9,093	10,123	11,131	12,118
Net income	315	346	378	417
D&A	276	292	313	335
Change in working capital	20	(247)	(120)	(120)
Change in other assets	33	4	0	0
Net operating cash flow	**837**	**600**	**795**	**879**
Cash flow from investing activities	**(975)**	**(1,080)**	**(1,202)**	**(1,202)**
Net common equity issued/(repurchased)	23	46	75	100
Net debt issued/(repurchased)	248	700	190	430
Common dividends paid	(160)	(174)	(190)	(207)
Other financing activity	13	0	0	0
Cash flow from financing activities	**125**	**573**	**75**	**323**
Increase/(decrease) in cash	(14)	94	(331)	1
Cash at beginning of the period	42	29	0	0
Cash at end of the period	29	122	(331)	1

Ratio Analysis	FY15A	FY16E	FY17E	FY18E
Sales growth	(16.2%)	(6.9%)	2.4%	2.8%
EBITDA growth	4.8%	8.1%	8.4%	9.5%
EBIT growth	3.4%	8.9%	8.9%	10.5%
Net income (recurring) growth	11.7%	7.0%	11.4%	10.4%
Diluted EPS growth	7.0%	5.6%	8.4%	7.7%
Gross margin	40.6%	45.8%	47.1%	48.6%
Operating margin	15.1%	17.7%	18.8%	20.2%
Debt / Capital (book)	47.7%	50.5%	52.1%	52.6%
Times interest earned	7.8	7.5	7.5	7.4
ROE	10.1%	10.2%	10.6%	10.9%
Return on capital employed (ROCE)	6.5%	6.6%	6.4%	6.4%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Sep

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North America Equity Research
29 March 2016

J.P.Morgan

NiSource Inc.

Neutral

Company Data	
Price ($)	22.92
Date Of Price	28 Mar 16
52-week Range ($)	23.42-16.04
Market Cap ($ mn)	7,303.95
Fiscal Year End	Dec
Shares O/S (mn)	319
Price Target ($)	24.00
Price Target End Date	31-Dec-16

NiSource Inc. (NI;NI US)

FYE Dec	2014A	2015A	2016E	2017E	2018E
EPS ($)					
Q1 (Mar)	0.82	0.85	0.56	-	-
Q2 (Jun)	0.25	0.18	-	-	-
Q3 (Sep)	0.14	0.06	-	-	-
Q4 (Dec)	0.51	0.31	-	-	-
FY	1.72	0.94	1.07	1.14	1.21

Source: Company data, Bloomberg, J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

NiSource Inc. *(Neutral; Price Target: $24.00)*

Investment Thesis

We believe NiSource has top-tier investment potential relative to peers given its eight utilities in seven states and robust capital spending runway. We expect this capital to be deployed accretively given solid authorized ROEs, an efficient balance sheet with elevated leverage, and an array of low-lag regulatory constructs. For these reasons, as well as the 6-8%+ rate base growth potential, we expect NI to achieve the top end of its 4-6% long-term EPS growth guidance, but at this time we believe it is fairly valued due to its recent outperformance.

Valuation

We are maintaining our December 2016 price target of $24/share. Our price target is based on a sum-of-the-parts analysis and uses our 2018 electric and gas segment EPS forecasts. We value the gas segment using a 22.1x P/E multiple, a premium to gas utility peers due to the company's high rate base growth, large portfolio of utilities, and favorable rate constructs. We value the electric segment using a 19.0x P/E multiple, a premium to pure regulated electric utility peers due to the favorable rate construct in IN and near-term transmission-driven growth potential. Our price target remains the same because the slightly higher regulated peer multiples were not high enough to greatly effect the price target.

Risk to Rating and Price Target

- Regulated electric transmission and distribution earnings are vulnerable to mild weather as regulated revenues are calculated based on energy volumes sold. Extreme or mild temperatures may cause future earnings to differ materially from our current forecasts.
- 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. Positive or negative changes to the regulatory environments may cause future earnings potential to differ materially from current expectations.

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NiSource Inc.: Summary of Financials

Income Statement - Annual	FY15A	FY16E	FY17E	FY18E
Sales	4,667	4,519	4,642	4,776
COGS	(1,644)	(1,346)	(1,346)	(1,346)
D&A	(524)	(546)	(567)	(587)
Operations and maintenance	(1,667)	(1,693)	(1,710)	(1,729)
Other expenses	-	-	-	-
Total operating expenses	2,192	2,239	2,277	2,316
Other income / (expense)	17	23	23	23
EBIT	**850**	**957**	**1,043**	**1,138**
EBITDA	**1,374**	**1,503**	**1,610**	**1,724**
Interest expense	(380)	(399)	(417)	(442)
Income tax provision	(171)	(212)	(238)	(264)
Tax rate	36.3%	38.0%	38.0%	38.0%
Discontinued operations and other	0	0	0	0
Preferred dividends	-	-	-	-
Net income	**299**	**346**	**388**	**432**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**299**	**346**	**388**	**432**
Diluted shares outstanding	**318**	**323**	**340**	**357**
Diluted EPS	**0.94**	**1.07**	**1.14**	**1.21**
DPS ($)	0.83	0.64	0.68	0.71
Payout ratio	88.2%	60.0%	59.6%	58.6%

Income Statement - Quarterly	1Q16E	2Q16E	3Q16E	4Q16E
Sales	1,350			
COGS	(336)	-	-	-
D&A	(134)	-	-	-
Operations and maintenance	(497)	-	-	-
Other expenses	-	-	-	-
Total operating expenses	-	-	-	-
Other income / (expense)	6	-	-	-
EBIT	**388**	**-**	**-**	**-**
EBITDA	**522**	**-**	**-**	**-**
Interest expense	(97)			
Income tax provision	(111)			
Tax rate	38.0%	-	-	-
Discontinued operations and other	0	-	-	-
Preferred dividends	-	-	-	-
Net income	**181**	**-**	**-**	**-**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**181**	**-**	**-**	**-**
Diluted shares outstanding	**320**	**-**	**-**	**-**
Diluted EPS	**0.56**	**-**	**-**	**-**
DPS ($)	0.16	-	-	-
Payout ratio	27.5%	-	-	-

Balance Sheet and Cash Flow Data	FY15A	FY16E	FY17E	FY18E
Cash and cash equivalents	16	0	0	0
Current assets	1,577	1,702	1,838	1,974
PP&E	12,112	12,968	13,764	14,520
Non-current assets	3,804	3,804	3,804	3,804
Total assets	**17,493**	**18,474**	**19,405**	**20,297**
Current liabilities	2,658	2,704	2,731	2,510
Long-term Debt	5,949	6,482	6,792	7,412
Preferred stock	-	-	-	-
Other non-current liabilities	5,043	5,255	5,493	5,757
Common equity	3,844	4,032	4,389	4,617
Total liabilities & equity	17,493	18,474	19,405	20,297
Net income	302	346	388	432
D&A	524	546	567	587
Change in working capital	147	(140)	(136)	(136)
Change in other assets	483	212	238	264
Net operating cash flow	**1,457**	**964**	**1,057**	**1,147**
Cash flow from investing activities	**1,945**	**(1,403)**	**(1,363)**	**(1,343)**
Net common equity issued/(repurchased)	1,171	50	200	50
Net debt issued/(repurchased)	(3,029)	410	310	310
Common dividends paid	(263)	(208)	(231)	(253)
Other financing activity	(1,290)	0	0	0
Cash flow from financing activities	**(3,412)**	**252**	**279**	**107**
Increase/(decrease) in cash	(10)	(186)	(27)	(89)
Cash at beginning of the period	25	15	0	0
Cash at end of the period	15	(0)	(0)	(0)

Ratio Analysis	FY15A	FY16E	FY17E	FY18E
Sales growth	(27.7%)	(3.2%)	2.7%	2.9%
EBITDA growth	(27.6%)	9.4%	7.1%	7.1%
EBIT growth	(34.3%)	12.7%	9.0%	9.1%
Net income (recurring) growth	(44.9%)	15.8%	12.1%	11.2%
Diluted EPS growth	(45.4%)	14.0%	6.5%	6.0%
Gross margin	64.8%	70.2%	71.0%	71.8%
Operating margin	18.2%	21.2%	22.5%	23.8%
Debt / Capital (book)	62.9%	64.2%	63.3%	64.2%
Times interest earned	3.6	3.8	3.9	3.9
ROE	6.0%	8.8%	9.2%	9.6%
Return on capital employed (ROCE)	4.1%	5.5%	5.6%	5.7%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec

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North America Equity Research
29 March 2016

J.P.Morgan

The Laclede Group, Inc.

Underweight

Company Data	
Price ($)	66.77
Date Of Price	28 Mar 16
52-week Range ($)	67.33-49.66
Market Cap ($ mn)	2,899.45
Fiscal Year End	Sep
Shares O/S (mn)	43
Price Target ($)	65.00
Price Target End Date	31-Dec-16

The Laclede Group, Inc. (LG;LG US)

FYE Sep	2014A	2015A	2016E	2017E	2018E
EPS ($)					
Q1 (Dec)	1.11	1.06	1.04A	-	-
Q2 (Mar)	1.58	2.26	2.29	-	-
Q3 (Jun)	0.44	0.26	0.32	-	-
Q4 (Sep)	(0.32)	(0.37)	(0.29)	-	-
FY	2.79	3.19	3.36	3.48	3.56
Bloomberg EPS FY ($)	3.04	3.20	3.37	3.52	3.59

Source: Company data, Bloomberg, J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

The Laclede Group, Inc. *(Underweight; Price Target: $65.00)*

Investment Thesis

We believe a degree of rate case uncertainty in 2017, a continued acquisitive strategy and fewer cost cutting opportunities in the near future limit earnings growth potential and justify a discounted valuation to peers. The company trades at only a modest P/E discount to peers in 2018 and we feel LG shares are now pricing in little organic growth or acquisition risk.

Valuation

We are raising our December 2016 price target to $65 (from $63 previously). Our price target is based on a P/E multiple of 19.3x applied to our 2018 EPS estimate. The multiple is based on a discount to the gas utility peer group, reflecting below average rate base and earnings growth potential, and ongoing acquisition risk. Our higher 2016 price target reflects a higher peer group multiple since our last update.

Risks to Rating and Price Target

- Execution of O&M synergy targets is an important component of earnings growth. Should cost cuts be more successful than our expectations, earnings growth could exceed our forecasts.
- A component of the company's strategy is growth through acquisitions. Should a transaction materialize that is materially accretive to earnings, our current forecasts could prove low.
- Utilities are subject to federal and state regulation, including determination of allowed revenues. A meaningful change to the regulatory environment may cause future earnings to be higher than our current expectations.

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The Laclede Group, Inc.: Summary of Financials

Income Statement - Annual	FY15A	FY16E	FY17E	FY18E
Sales	1,976	1,820	1,780	1,800
COGS	(1,041)	(882)	(824)	(824)
D&A	(130)	(130)	(134)	(138)
Operations and maintenance	(533)	(518)	(521)	(524)
Other expenses				-
Total operating expenses	(1,843)	(1,856)	(1,865)	
Other income / (expense)	1	6	5	5
EBIT	**274**	**296**	**307**	**319**
EBITDA	**404**	**426**	**441**	**457**
Interest expense	(75)	(76)	(76)	(77)
Income tax provision	(62)	(72)	(73)	(76)
Tax rate	31.2%	32.6%	31.5%	31.6%
Discontinued operations and other	1	(2)	0	0
Preferred dividends	0	0	0	-
Net income	**138**	**146**	**158**	**165**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**138**	**146**	**158**	**165**
Diluted shares outstanding	**43**	**44**	**45**	**46**
Diluted EPS	**3.19**	**3.36**	**3.48**	**3.56**
DPS ($)	1.84	1.96	2.06	2.16
Payout ratio	57.6%	58.3%	59.2%	60.6%

Income Statement - Quarterly	1Q16A	2Q16E	3Q16E	4Q16E
Sales	399A	902	291	229
COGS	(159)A	(541)	(105)	(77)
D&A	(34)A	(32)	(31)	(33)
Operations and maintenance	(120)A	(160)	(117)	(121)
Other expenses	-	-	-	-
Total operating expenses	(1,843)A	(1,843)	(1,843)	(1,843)
Other income / (expense)	1A	1	1	1
EBIT	**88A**	**170**	**39**	**(1)**
EBITDA	**122A**	**202**	**70**	**31**
Interest expense	(19)A	(19)	(19)	(20)
Income tax provision	(23)A	(52)	(6)	8
Tax rate	32.4%A	34.0%	28.9%	(38.7%)
Discontinued operations and other	(2)A	0	0	0
Preferred dividends	0A	0	0	0
Net income	**45A**	**100**	**14**	**(13)**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**45A**	**100**	**14**	**(13)**
Diluted shares outstanding	**43A**	**44**	**44**	**44**
Diluted EPS	**1.04A**	**2.29**	**0.32**	**(0.29)**
DPS ($)	0.49A	0.49	0.49	0.49
Payout ratio	47.2%A	21.4%	152.5%	NM

Balance Sheet and Cash Flow Data	FY15A	FY16E	FY17E	FY18E
Cash and cash equivalents	14	0	0	0
Current assets	530	655	687	719
PP&E	3,947	4,118	4,304	4,486
Non-current assets	813	801	801	801
Total assets	**5,290**	**5,575**	**5,793**	**6,007**
Current liabilities	854	974	865	837
Long-term Debt	1,772	1,802	1,852	1,952
Preferred stock				
Other non-current liabilities	1,091	1,161	1,234	1,310
Common equity	1,574	1,638	1,843	1,908
Total liabilities & equity	5,290	5,575	5,793	6,007
Net income	137	148	158	165
D&A	131	130	134	138
Change in working capital	(17)	(94)	(32)	(32)
Change in other assets	72	72	73	76
Net operating cash flow	**322**	**256**	**332**	**348**
Cash flow from investing activities	**(299)**	**(303)**	**(320)**	**(320)**
Net common equity issued/(repurchased)	3	1	140	0
Net debt issued/(repurchased)	51	39	50	50
Common dividends paid	(79)	(84)	(93)	(100)
Other financing activity	(1)	(0)	0	0
Cash flow from financing activities	**(26)**	**(44)**	**97**	**(50)**
Increase/(decrease) in cash	(2)	(91)	109	(22)
Cash at beginning of the period	16	14	0	0
Cash at end of the period	14	(167)	218	(44)

Ratio Analysis	FY15A	FY16E	FY17E	FY18E
Sales growth	21.5%	(7.9%)	(2.2%)	1.1%
EBITDA growth	64.4%	5.5%	3.5%	3.8%
EBIT growth	67.8%	8.2%	3.6%	4.0%
Net income (recurring) growth	38.2%	5.8%	7.8%	4.8%
Diluted EPS growth	14.5%	5.2%	3.5%	2.5%
Gross margin	48.0%	53.8%	56.4%	-
Operating margin	13.8%	16.3%	17.2%	17.7%
Debt / Capital (book)	62.5%	62.9%	59.6%	59.4%
Times interest earned	5.4	5.6	5.8	5.9
ROE	9.0%	9.1%	9.1%	8.8%
Return on capital employed (ROCE)	4.5%	4.6%	4.7%	4.7%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Sep

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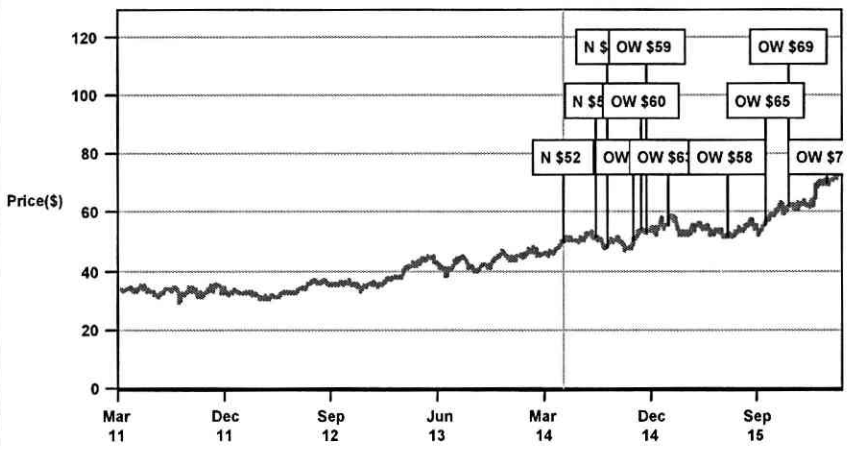
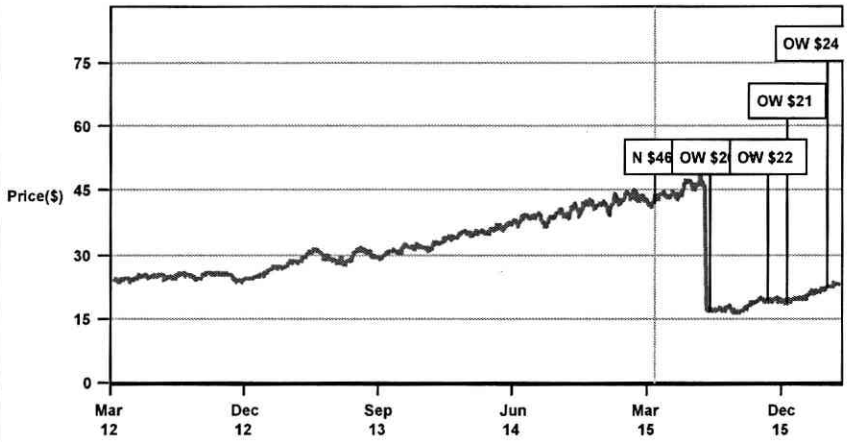
Atmos Energy (ATO, ATO US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Apr 21, 2014.

Date	Rating	Share Price ($)	Price Target ($)
21-Apr-14	N	49.64	52.00
09-Jul-14	N	51.53	51.00
11-Aug-14	N	48.60	52.00
17-Oct-14	OW	50.21	57.00
06-Nov-14	OW	54.43	60.00
19-Nov-14	OW	53.14	59.00
12-Jan-15	OW	55.25	63.00
15-Jun-15	OW	51.44	58.00
21-Sep-15	OW	55.52	65.00
18-Nov-15	OW	62.40	69.00
24-Feb-16	OW	70.45	76.00

NiSource Inc. (NI, NI US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Mar 18, 2015.

Date	Rating	Share Price ($)	Price Target ($)
18-Mar-15	N	41.92	46.00
09-Jul-15	OW	16.75	20.00
04-Nov-15	OW	19.56	22.00
14-Dec-15	OW	18.84	21.00
04-Mar-16	OW	22.34	24.00

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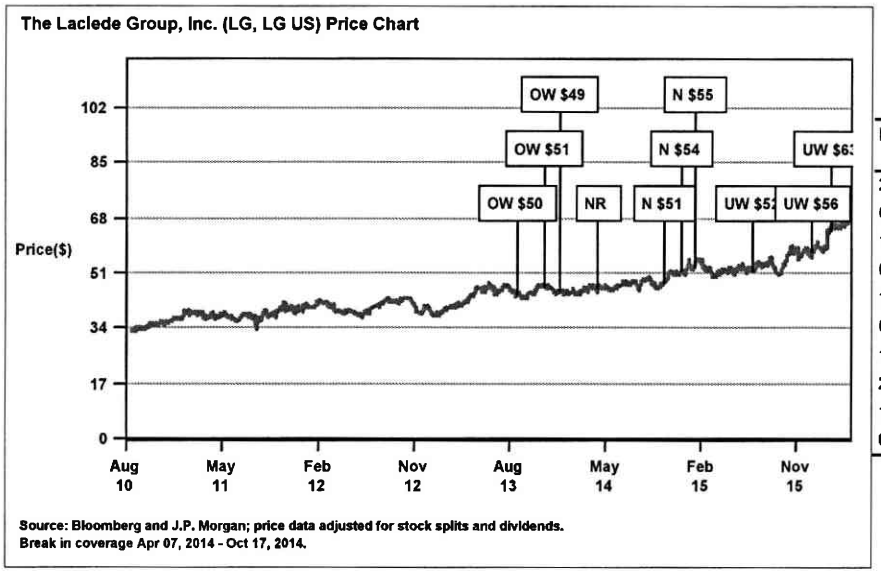

Date	Rating	Share Price ($)	Price Target ($)
20-Aug-13	OW	44.60	50.00
04-Nov-13	OW	46.99	51.00
18-Dec-13	OW	45.47	49.00
07-Apr-14	NR	46.23	--
17-Oct-14	N	47.82	51.00
08-Dec-14	N	51.76	54.00
12-Jan-15	N	53.00	55.00
25-Jun-15	UW	51.44	52.00
15-Dec-15	UW	57.78	56.00
08-Feb-16	UW	64.04	63.00

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IB clients*	52%	47%	35%
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IB clients*	70%	63%	50%

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NI: Maintains 4-6% EPS Growth, but Raises '16 EPS Guidance
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Equity Research | Instant Insights
2 August 2016

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NiSource, Inc.

Maintains 4-6% EPS Growth, but Raises '16 EPS Guidance

Stock Rating/Industry View: Equal Weight/Neutral
Price Target: USD 24.00
Price (01-Aug-2016): USD 25.81
Potential Upside/Downside: -7%
Tickers: NI
Conference Call at 9 AM Eastern; Dial-in 855-219-9570/920-663-6270 and Code 46806320
NI announced Q2 operating EPS of 8 cents which was 1 cent ahead of consensus and the company raised the bottom of 2016 EPS guidance 5 cents to $1.05-$1.10. The company guided to 4-6% EPS growth and our forecasts are consistent with the high end of the range at $1.07/$1.13/$1.20 for 2016-2018 respectively. The company also raised 2016 cap-ex guidance $0.1B to $1.5B driven by the gas growth and tracking mechanisms category.

Key Topics for the Conference Call
Long-term Ratebase Growth. With a recent 6.5% dividend increase, $1.2B of growth spending and $8.9B of ratebase, why is EPS growth only 4-6%? What are the company's equity needs and what is the timing? Of note Fitch recently upgraded NI to BBB from BBB-.
Can the $1.5B of Elevated Cap-ex Spending be Maintained? What are potential drivers including tracking mechanisms and new customer hook-ups? There were several supportive regulatory outcomes in Indiana in Q2'16 including approval of the NIPSCO Gas 7-Year, $800M modernization plan; the NIPSCO Electric 7-Year, $1.2B modernization plan; and a final outcome in the NIPSCO Electric rate case.
What is the Outlook for Electric Transmission Spending? The company is making progress on the Reynolds-Topeka and Greentown-Reynolds projects totaling $75-$210M of spending with an expected completion in the second half of 2018.
What are Potential Resource and Spending Implications of the Clean Power Plan? The company has identified an incremental $350-$500M of cap-ex over 5 years in environmental compliance spending.

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NiSource, Inc.

Room to Grow

NI guided to 4-6% EPS growth off $1.05-$1.10 in 2016 and is growing the dividend 6.5% this year. We see the potential for ratebase growth above 6% and are raising our EPS estimates and our price target $2 to $26/share. Our revised EPS estimates of $1.10/$1.20/$1.28/$1.38 for 2016-2019 reflect 6.2% ratebase growth and a 10% ROE ex parent expenses. Our prior forecasts for 2016-2018 were $1.07, $1.13 and $1.20.

NI has room to grow the dividend faster as a result of a relatively low 58% payout ratio and solid credit metrics. We see 15-17% CFO/debt over the next several years and the company's ratings are BBB+ and Baa2 with S&P and Moody's, respectively.

Potential areas of increased growth are new retail gas customers, infrastructure spending and environmental spending. We model NI's cap-ex of $1.5B in 2016 and $1.4B going forward. Maintenance cap-ex is $0.3B. We see high single-digit ratebase growth on the gas side and more modest 3% growth on the electric side.

Our revised $26 price target is a 15% premium to the Regulated Utility average of 17.7x $1.28 in 2018. Previously our $24 price target reflected a 15% premium of 17.4x our $1.20 EPS estimate.

NI: Quarterly and Annual EPS (USD)

	2015	2016			2017			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2016	2017
Q1	0.54A	0.60A	0.59A	0.60A	N/A	N/A	0.65E	9%	N/A
Q2	0.00A	0.06E	0.08A	0.07E	N/A	N/A	0.11E	8%	N/A
Q3	0.06A	N/A	N/A	0.09E	N/A	N/A	0.10E	N/A	N/A
Q4	0.31A	N/A	N/A	0.33E	N/A	N/A	0.33E	N/A	N/A
Year	0.94A	1.07E	1.10E	1.06E	1.13E	1.20E	1.15E	17%	9%
P/E	27.4		23.5			21.4			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

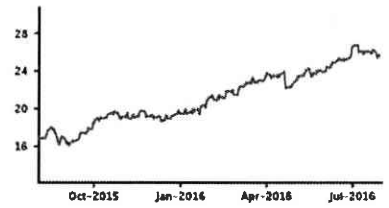
Stock Rating	EQUAL WEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 26.00 raised 8% from USD 24.00

Price (01-Aug-2016)	USD 25.81
Potential Upside/Downside	+0.7%
Tickers	NI

Market Cap (USD mn)	8299
Shares Outstanding (mn)	321.54
Free Float (%)	99.60
52 Wk Avg Daily Volume (mn)	2.9
52 Wk Avg Daily Value (USD mn)	61.89
Dividend Yield (%)	2.6
Return on Equity TTM (%)	3.41
Current BVPS (USD)	12.05

Source: Thomson Reuters

Price Performance	Exchange-NYSE
52 Week range	USD 26.94-16.04



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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4.

Completed: 02-Aug-16, 16:50 GMT Released: 02-Aug-16, 16:55 GMT

North America Power & Utilities — Industry View: NEUTRAL

NiSource, Inc. (NI)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2015A	2016E	2017E	2018E	CAGR
Revenue	4,667	5,138	5,296	5,448	5.3%
EBITDA (adj)	1,357	1,479	1,587	1,688	7.6%
EBIT (adj)	832	910	980	1,044	7.9%
Pre-tax income (adj)	469	544	600	658	11.9%
Net income (adj)	301	354	390	428	12.5%
EPS (adj) ($)	0.94	1.10	1.20	1.28	10.9%
Diluted shares (mn)	319.8	321.8	323.7	333.7	1.4%
DPS ($)	0.83	0.64	0.68	0.73	-4.4%

Margin and return data					Average
EBITDA (adj) margin (%)	29.1	28.8	30.0	31.0	29.7
EBIT (adj) margin (%)	17.8	17.7	18.5	19.2	18.3
Pre-tax (adj) margin (%)	10.1	10.6	11.3	12.1	11.0
Net (adj) margin (%)	6.4	6.9	7.4	7.9	7.1
ROIC (%)	8.5	8.8	9.2	9.3	8.9
ROA (%)	1.7	1.9	2.1	2.2	2.0
ROE (%)	4.9	9.2	9.7	10.0	8.4

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	12,112	12,861	13,454	13,990	4.9%
Total net assets	17,493	18,249	18,840	19,382	3.5%
Capital employed	9,792	10,362	10,712	11,253	4.7%
Shareholders' equity	3,844	4,041	4,261	4,721	7.1%
Net debt/(funds)	5,933	6,298	6,430	6,506	3.1%
Cash flow from operations	1,457	1,104	1,197	1,291	-3.9%
Capital expenditure	-1,361	-1,500	-1,400	-1,400	N/A
Free cash flow	96	-395	-203	-109	N/A
Pre-dividend FCF	-953	-675	-206	-395	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	27.4	23.5	21.4	20.1	23.1
EV/EBITDA (adj) (x)	10.4	9.8	9.2	8.7	9.5
EV/EBIT (adj) (x)	17.0	15.9	14.9	14.1	15.5
P/BV (x)	2.1	2.1	2.0	1.8	2.0
Dividend yield (%)	3.2	2.5	2.6	2.8	2.8
Total debt/capital (%)	60.7	61.0	60.2	58.0	60.0
Net debt/EBITDA (adj) (x)	4.4	4.3	4.1	3.9	4.1

Selected operating metrics					Average
Payout ratio (%)	88.2	58.2	56.6	56.6	64.9
Interest cover (x)	-2.2	-2.5	-2.6	-2.7	-2.5
Regulated (%)	N/A	N/A	N/A	N/A	N/A

Source: Company data, Barclays Research
Note: FY End Dec

Price (01-Aug-2016) USD 25.81
Price Target USD 26.00

Why Equal Weight? 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. Additionally, we don't see a need for equity issuance until 2018. However, we don't see material upside in our upside case.

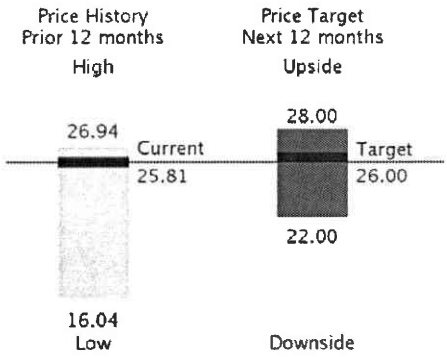
Upside case USD 28.00

Our upside case assumes a 20% premium to the Regulated Utility average P/E of 17.7x using 9% EPS growth to $1.30 in 2018.

Downside case USD 22.00

Our downside case reflects a 5% premium to the Regulated Utility average 2018 P/E multiple of 17.7x applied to our $1.20 which reflects 50 bp of under-earning allowed ROEs.

Upside/Downside scenarios



Key Updates

Rate Case Updates and Returns. On the gas side the company filed a case in Kentucky on May 27 requesting $25M of relief, in Virginia on April 29 requesting $37M and at Columbia Gas of Pennsylvania in March requesting $55M of relief. Settlement discussions are under way in Pennsylvania. We believe NI's base year in 2016 reflects under-earning of allowed returns by up to 50 bp which should get reconciled in rate cases. On the investor call NI management indicated that they expect to earn allowed returns which is about a 10% ROE.

Ratebase Growth. Using $1.5B in cap-ex in '16 and $1.4B ongoing we forecast $600-$800M of annual ratebase growth net of the impact of bonus depreciation. Year-end 2015 ratebase on the gas side was $5.4B and electric ratebase is $3.5B. We include $50M/year in equity issued for NI except for $225M assumed in 2018.

Q2'16 in Line

NI's Q2'16 EPS of $0.08 compared to $0.00 in Q2'15 and the $0.07 consensus. Gas operations operating income rose to $73M versus $56M last year mainly due to rate relief in Massachusetts and Pennsylvania and a replacement program in Ohio. On the electric side, operating income rose to $64M versus $57M, which was driven by transmission and environmental investments.

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 01-Aug-2016, USD 25.81), Equal Weight/Neutral, A/CE/D/J/K/L/M

Prices are sourced from Thomson Reuters as of the last available closing price in the relevant trading market.

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Aqua America (WTR)	Brookfield Infrastructure Partners LP (BIP)	Brookfield Infrastructure Partners LP (BIP_u.TO)
Brookfield Renewable Energy Partners LP (BEP)	Brookfield Renewable Energy Partners LP (BEP_u.TO)	California Water Service Group (CWT)
Calpine Corp. (CPN)	Canadian Utilities Ltd. (CU.TO)	CenterPoint Energy Inc. (CNP)
CMS Energy (CMS)	Consolidated Edison (ED)	Dominion Resources (D)
DTE Energy (DTE)	Duke Energy (DUK)	Dynegy Inc. (DYN)
Edison International (EIX)	Emera Inc. (EMA.TO)	Entergy Corp. (ETR)
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Sempra Energy (SRE)	Southern Co. (SO)	Talen Energy Corp. (TLN)
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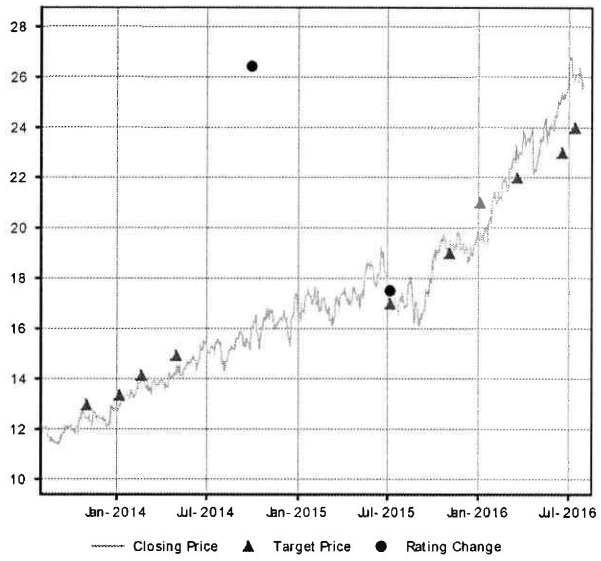
NiSource, Inc. (NI / NI)

USD 25.81 (01-Aug-2016)

Stock Rating	Industry View
EQUAL WEIGHT	**NEUTRAL**

Rating and Price Target Chart - USD (as of 01-Aug-2016) — Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
13-Jul-2016	26.06		24.00
17-Jun-2016	25.26		23.00
18-Mar-2016	22.80		22.00
04-Jan-2016	19.52		21.00
03-Nov-2015	19.12		19.00
06-Jul-2015	16.84	Equal Weight	17.00
29-Sep-2014	16.05	Rating Suspended	
30-Apr-2014	14.27		14.93
19-Feb-2014	13.91		14.15
06-Jan-2014	12.95		13.36
31-Oct-2013	12.39		12.97

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

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Valuation Methodology: Our $26 price target is a 15% premium on the Regulated Group average 17.7x P/E multiple applied to our 2018 EPS estimate of $1.28.

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Citi Research

Equities

02 Aug 2016 17:21:21 ET | 9 pages

Pipelines & Gas Utilities
North America | United States

NiSource Inc (NI)

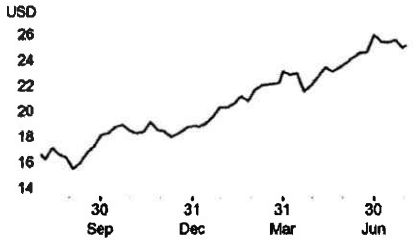
Model Update

■ Estimate Change

■ NiSource reported 2Q16 earnings of $0.09 per share, in line with our estimate. We are updating our model on interim reporting. Our estimate for 2016 was not changed.

Neutral	**2**
Price (02 Aug 16)	US$25.94
Target price	US$27.00
Expected share price return	4.1%
Expected dividend yield	2.6%
Expected total return	**6.7%**
Market Cap	US$8,341M

Price Performance
(RIC: NI.N, BB: NI US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2015A	0.85A	0.18A	0.04A	0.31A	0.94A	0.94A
2016E	**0.56A**	**0.09A**	**0.09E**	**0.33E**	**1.07E**	**1.06E**
Previous	0.56A	0.09E	0.09E	0.33E	1.07E	na
2017E	**0.61E**	**0.11E**	**0.09E**	**0.34E**	**1.15E**	**1.16E**
Previous	0.61E	0.11E	0.10E	0.33E	1.15E	na
2018E	**0.60E**	**0.13E**	**0.11E**	**0.34E**	**1.18E**	**1.22E**
Previous	0.61E	0.13E	0.11E	0.34E	1.19E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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rghulen@nisource.com Randy Hulen 08/03/16 01:07:18 AM Nisource Corporate Services Co.

NiSource Inc (NI)
2 August 2016

NI.N: Fiscal year end 31-Dec						Price: US$25.94; TP: US$27.00; Market Cap: US$8,341m; Recomm: Neutral					
Profit & Loss (US$m)	**2014**	**2015**	**2016E**	**2017E**	**2018E**	**Valuation ratios**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Sales revenue	6,456	5,261	4,287	4,432	4,507	PE (x)	15.2	27.6	24.3	22.6	21.9
Cost of sales	-2,830	-2,161	-1,760	-1,778	-1,789	PB (x)	1.4	1.4	1.4	1.4	1.4
Gross profit	3,627	3,100	2,527	2,653	2,719	EV/EBITDA (x)	10.3	11.7	13.1	12.6	12.2
Gross Margin (%)	56.2	58.9	58.9	59.9	60.3	FCF yield (%)	4.2	3.1	-7.9	-2.3	-2.6
EBITDA (Adj)	**1,808**	**1,616**	**1,449**	**1,505**	**1,565**	Dividend yield (%)	4.0	3.8	2.4	2.6	2.7
EBITDA Margin (Adj) (%)	28.0	30.7	33.8	34.0	34.7	Payout ratio (%)	60	105	59	59	60
Depreciation	-606	-591	-538	-554	-578	ROE (%)	9.5	2.6	6.0	6.3	6.4
Amortisation	0	0	0	0	0	**Cashflow (US$m)**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
EBIT (Adj)	**1,203**	**1,025**	**911**	**951**	**988**	EBITDA	1,808	1,616	1,449	1,505	1,565
EBIT Margin (Adj) (%)	18.6	19.5	21.2	21.5	21.9	Working capital	-140	147	-571	-2	-24
Net interest	-444	-417	-349	-344	-344	Other	-339	-546	-423	-577	-601
Associates	47	29	0	0	0	**Operating cashflow**	**1,330**	**1,217**	**455**	**925**	**940**
Non-op/Except	40	7	-11	-23	-39	Capex	-985	-963	-1,118	-1,118	-1,158
Pre-tax profit	**846**	**644**	**551**	**583**	**605**	Net acq/disposals	13	5	3	0	0
Tax	-307	-202	-206	-210	-218	Other	-101	3,301	-46	0	0
Extraord./Min.Int./Pref.div.	0	-293	0	0	0	**Investing cashflow**	**-1,073**	**2,343**	**-1,161**	**-1,118**	**-1,158**
Reported net profit	**539**	**148**	**345**	**373**	**387**	Dividends paid	-321	-263	-208	-227	-240
Net Margin (%)	8.4	2.8	8.0	8.4	8.6	**Financing cashflow**	**796**	**-3,412**	**165**	**-131**	**-138**
Core NPAT	539	301	345	373	387	**Net change in cash**	**1,052**	**441**	**-542**	**-324**	**-356**
Per share data	**2014**	**2015**	**2016E**	**2017E**	**2018E**	**Free cashflow to s/holders**	**346**	**254**	**-663**	**-193**	**-218**
Reported EPS ($)	1.71	0.46	1.07	1.15	1.18						
Core EPS ($)	1.71	0.94	1.07	1.15	1.18						
DPS ($)	1.03	0.99	0.63	0.67	0.71						
CFPS ($)	4.21	3.81	1.41	2.85	2.87						
FCFPS ($)	1.09	0.79	-2.05	-0.59	-0.67						
BVPS ($)	18.61	18.41	18.79	19.06	18.99						
Wtd avg ord shares (m)	306	310	313	315	317						
Wtd avg diluted shares (m)	316	319	323	325	327						
Growth rates	**2014**	**2015**	**2016E**	**2017E**	**2018E**						
Sales revenue (%)	14.1	-18.5	-18.5	3.4	1.7						
EBIT (Adj) (%)	10.2	-14.8	-11.1	4.4	3.9						
Core NPAT (%)	13.4	-44.2	14.8	8.2	3.6						
Core EPS (%)	12.1	-44.8	13.5	7.5	3.0						
Balance Sheet (US$m)	**2014**	**2015**	**2016E**	**2017E**	**2018E**						
Cash & cash equiv.	74	33	35	49	28						
Accounts receivables	717	591	1,006	1,271	824						
Inventory	420	595	500	226	469						
Net fixed & other tangibles	15,498	15,865	15,975	16,238	16,628						
Goodwill & intangibles	3,947	3,945	3,942	3,939	3,936						
Financial & other assets	966	1,056	1,196	1,385	1,373						
Total assets	**21,622**	**22,084**	**22,654**	**23,107**	**23,258**						
Accounts payable	393	370	619	714	460						
Short-term debt	448	1,362	1,241	1,343	1,631						
Long-term debt	7,617	7,089	7,593	7,639	7,641						
Provisions & other liab	7,461	7,563	7,314	7,399	7,498						
Total liabilities	**15,919**	**16,383**	**16,767**	**17,095**	**17,230**						
Shareholders' equity	5,703	5,701	5,887	6,012	6,028						
Minority interests	0	0	0	0	0						
Total equity	**5,703**	**5,701**	**5,887**	**6,012**	**6,028**						
Net debt (Adj)	**7,991**	**8,418**	**8,799**	**8,933**	**9,244**						
Net debt to equity (Adj) (%)	140.1	147.7	149.5	148.6	153.3						

For definitions of the items in this table, please click here.

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NiSource Inc

Company description

NiSource Inc (NI) is primarily a regulated utility with an integrated network of gas distribution in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana. The company serves around 4 million customers across seven states through its two main business segments, including: 1) Gas Distribution, which delivers natural gas in several states; 2) Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCO).

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). We believe NI's long-term earnings are relatively stable due to diverse operations areas and constructive regulatory jurisdictions. Our estimates do not include: 1) Substantial industrial load growth at the utilities; 2) Colder-than-normal weather and faster than average customer growth; or 3) Slower than typical timeline in regulatory filing and approval process for new infrastructure projects and cost recovery mechanisms.

Valuation

We average multiple valuation methodologies to derive our $27 target price. Our NAV yields a value of $21. We value regulated assets at a multiple of 1.6x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $32 per share. Our P/E and EV/EBITDA multiples are based on proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. Our P/E and EV/EBITDA analyses yield values of $24 and $32 per share, respectively. Our DCF model estimated NI at $24 per share.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. (4) Capital Markets — Access to cheap capital markets could be limited due to the size of the company. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target.

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Appendix A-1

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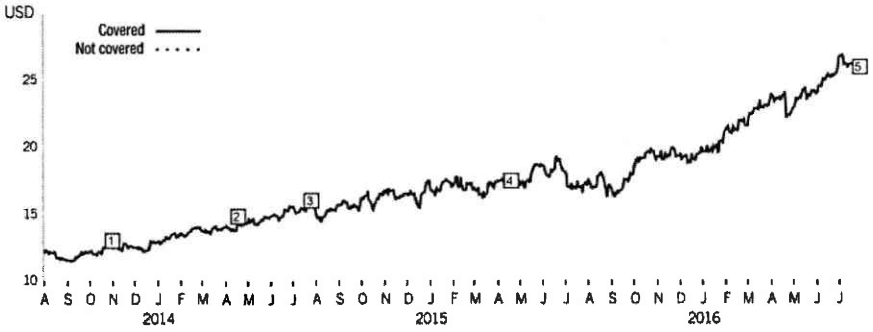
Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	29-Oct-13 17:25:08	2	*13.75	12.56
2	16-Apr-14 07:52:37	2	*14.15	14.26
3	23-Jul-14 16:16:55	2	*15.72	15.49
4	19-Apr-15 23:00:00	2	*18.08	16.96
5	27-Jul-16 00:45:08	2	*27.00	25.46

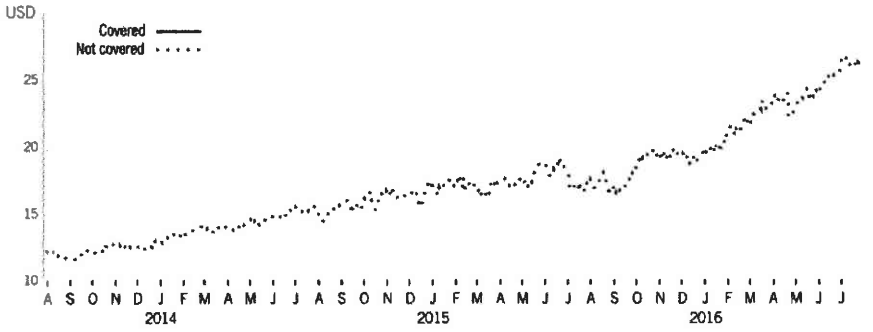
*Indicates Change

Rating/target price changes above reflect Eastern Time

NiSource Inc (NI)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



*Indicates Change

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	12 Month Rating		
Data current as of 30 Jun 2016	**Buy**	**Hold**	**Sell**
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The price for NiSource Inc in the rating block of this report is as of 02 Aug 2016 16:02:00 local exchange time.

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EVERCORE ISI

Energy | Power & Utilities

August 2, 2016

NISOURCE INC

NI | $25.94

SELL | TARGET PRICE: $24.00

Change in Earnings Forecast

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Company Statistics

Market Capitalization (M):	$8,341
Shares Outstanding (M):	322
Dividend:	$0.64
Dividend Yield:	2.5%
Payout Ratio:	59.9%
Expected Total Return:	(5.0)%
Fiscal Year End	Dec

Earnings Summary

		2016E	2017E	2018E
EPS		$1.07	$1.15	$1.21
	FY	*$1.05*	*$1.12*	*$1.18*
P/E		24.3x	22.5x	21.5x
EPS vs Consensus		(0.1)%	(0.4)%	(0.7)%
Consensus EPS		$1.07	$1.16	$1.22
Consensus P/E		24.3x	22.4x	21.3x

1 Year Price History

Source: FactSet

NI Reports Strong Q2, Tightens '16 EPS Guidance Range

Rating Sell, Price Target $24 Up From $23.75

We are increasing our '16-'18 forecast to $1.07/$1.15/$1.21. The increase in our forecast is driven by higher expected capital spending that mitigates the impact of bonus depreciation. We expect NI to invest ~1.5 billion/year through '18 which is $100 million/year higher than our previous forecast ($300 million higher over '16 through '18), resulting in $0.03/share additional earnings power in 2018. Our '16 estimates are more/less at the mid-point of company's narrowed 2016 guidance of $1.05 - $1.10. Our forecast for'16 - '18 translates to an average EPS growth rate of 6%, at the high end of company's guidance of 4-6%. Our EPS forecast is underpinned by rate base growth for their Gas/Electric segments at ~8.5%/4.0% for '16 to 18 with combined rate base growth at ~7.0% towards the mid-point company's guidance of 6-8%.

Overall Q2 was a strong quarter and the guidance raise is positive, but valuation still looks very full. The company's financial performance since separation with CPGX has been impressive. NI is a high quality and relatively low risk utility that deserves a premium valuation, but today the stock commands a ~22% P/E multiple premium to our regulated utility coverage universe, which trades at 17.9x '18 EPS. So while the stock deserves a premium owing to its business mix (~60% gas utility by rate base) and better LT EPS growth visibility that valuation seems overly full. NI also has one of the more highly levered balance sheets in our coverage universe at 65% debt (our coverage universe average is ~56%), while the credit quality is decent (Fitch upgraded NiSource's credit rating from BBB- to BBB recently and they are BBB + and Baa2 at Standard & Poor's and Moody's) we think that limits the possibility of a big M&A premium being paid, we reiterate our Sell rating with a target of $24, up $0.25 from our prior target of $23.75.

On 8/2/16 NI reported Q2 16 Adjusted EPS of $0.08 vs Q2'15 of $0.00 and consensus of $0.07. Improved results were driven by rate recovery of investments in the gas and electric utilities and lower overall costs. Gas Distribution Operations reported operating earnings of $73.3 million, an increase of $17.7 million compared to prior year, net revenues for the second quarter were $8.2 million higher primarily due to continued regulatory and service investments, new rates in MA and PA subsidiaries and implementation of new rates under OH subsidiary's approved infrastructure replacement program. Operating expenses within the gas segment were $9.5 million lower due to, decreased outside service costs of $5.5 million and lower other taxes of $4.0 million. Electric Operations reported operating earnings of $64.0 million, an increase of $7.4 million compared to prior year, net revenues for the Q2 16 increased $8.4 million due to increased capital spend on electric transmission projects and environmental investments. Operating expenses were $1.0 million higher driven by an increase of $1.5 million in outside services costs offset by lower other taxes. Corporate and Other Operations reported an operating earnings loss of $3.0 million compared with an operating earnings loss of $9.5 million in the prior year period. This variance was driven primarily by lower employee and administrative costs of $7.3 million.

Please see the analyst certification and important disclosures on page 3 of this report. Evercore ISI and affiliates do and seek to do business with companies covered in its research reports. Investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

NI narrowed its overall 2016 earnings guidance to $1.05 - $1.10 per share, from $1.00 - $1.10 per share and reaffirmed a 4-6% long term annual EPS growth target off a higher 2016 base year EPS. The company also increased its CAPX guidance by ~$100 million and projects to invest ~$1.5 billion in 2016. On 05/11 NI increased its quarterly dividend by 6.5% to $0.165/ share; with future dividend increases expected to be in line with earnings growth.

On 06/22/16 the Indiana Utility Regulatory Commission (IURC) approved the company's semi-annual tracker update covering incremental $72 million in investments through '15 resulting in annual revenue increase of $6.7 million effective 06/01/16. In 07/16 IURC approved NIPSCO electric base rate increase request of $73 million effective 10/01/16 and new seven-year electric infrastructure modernization plan covering $1.2 billion of investment with rates effective starting 02/01/17.

What's next: NI has four pending base rate cases in PA, MD, VA and KY subsidiaries for a combined total requested increase of ~125 million with final orders expected by year end 2016 . We would expect NI to initiate 2017 guidance and LT EPS growth forecast by year end 2016 call, at that time we would expect the company to raise capital forecast for years '17 and beyond at least modestly to mitigate impact of bonus depreciation.

Valuation / Risks. Using our proprietary Dividend Discount Model we value NI at $24/share, which is 19.9x our 2018 EPS estimate of $1.21. The majority of NiSource's net revenues are subject to economic regulation and are exposed to the impact of regulatory rate reviews and proceedings; risks to our thesis include unfavorable regulatory outcomes leading to lower rate base growth and/or lower allowed or earned ROE's. Upside to our thesis would be driven by further increase in capital spending leading to accelerating rate base growth due to favorable regulatory treatment of such spending and or rising authorized/earned ROE's.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2016-08-02)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$52.17	$52.50
AEP	American Electric Power	Buy	$69.01	$73.00
CPN	Calpine Corp.	Buy	$13.45	$18.00
CMS	CMS Energy Corp.	Hold	$45.03	$44.25
ED	Consolidated Edison Inc.	Sell	$80.12	$72.50
D	Dominion Resources Inc.	Buy	$77.37	$83.00
DTE	DTE Energy Co.	Hold	$98.14	$97.25
DUK	Duke Energy Corp.	Hold	$85.56	$81.00
DYN	Dynegy Inc.	Buy	$14.66	$25.00
EIX	Edison International	Hold	$76.56	$79.00
ETR	Entergy Corp.	Hold	$80.36	$79.00
ES	Eversource Energy	Hold	$58.49	$58.00
EXC	Exelon Corp.	Buy	$36.78	$40.00
FE	FirstEnergy Corp.	Hold	$33.31	$36.00
HE	Hawaiian Electric Industries Inc.	Hold	$30.51	$31.00
HIFR	InfraREIT, Inc.	Buy	$17.44	$20.00
ITC	ITC Holdings	Hold	$45.97	$47.50
NEE	NextEra Energy Inc	Buy	$127.63	$140.00
NI	NiSource Inc	Sell	$25.94	$23.75
NRG	NRG Energy Inc.	Buy	$13.77	$20.00
NYLD	NRG Yield, Inc.	Buy	$17.52	$18.00
PCG	PG&E Corp.	Buy	$64.33	$67.00
PNW	Pinnacle West Capital Corp.	Hold	$78.78	$79.00
PPL	PPL Corp.	Hold	$37.16	$38.00
PEG	Public Service Enterprise Group	Hold	$45.16	$46.00
SRE	Sempra Energy	Buy	$110.79	$122.00
SO	Southern Co.	Hold	$53.36	$51.00
TLN	Talen Energy Corporation	Hold	$13.55	$14.00
AES	The AES Corporation	Buy	$12.18	$12.25
WEC	WEC Energy Group, Inc.	Hold	$64.62	$62.00
WR	Westar Energy Inc.	Hold	$55.53	$58.50
XEL	Xcel Energy Inc.	Hold	$43.72	$44.00

TIMESTAMP

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

Time of dissemination: August 02, 2016, 17:15 ET.

ANALYST CERTIFICATION

The analysts, Greg Gordon and Durgesh Chopra, 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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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%
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".

Historical Ratings Definitions

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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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Coverage Universe			Investment Banking Services / Past 12 Months		
Ratings	Count	Pct.	Rating	Count	Pct.
Buy	323	48%	Buy	48	15%
Hold	303	45%	Hold	17	6%
Sell	30	4%	Sell	2	7%
Coverage Suspended	9	1%	Coverage Suspended	0	0%
Rating Suspended	6	1%	Rating Suspended	1	17%

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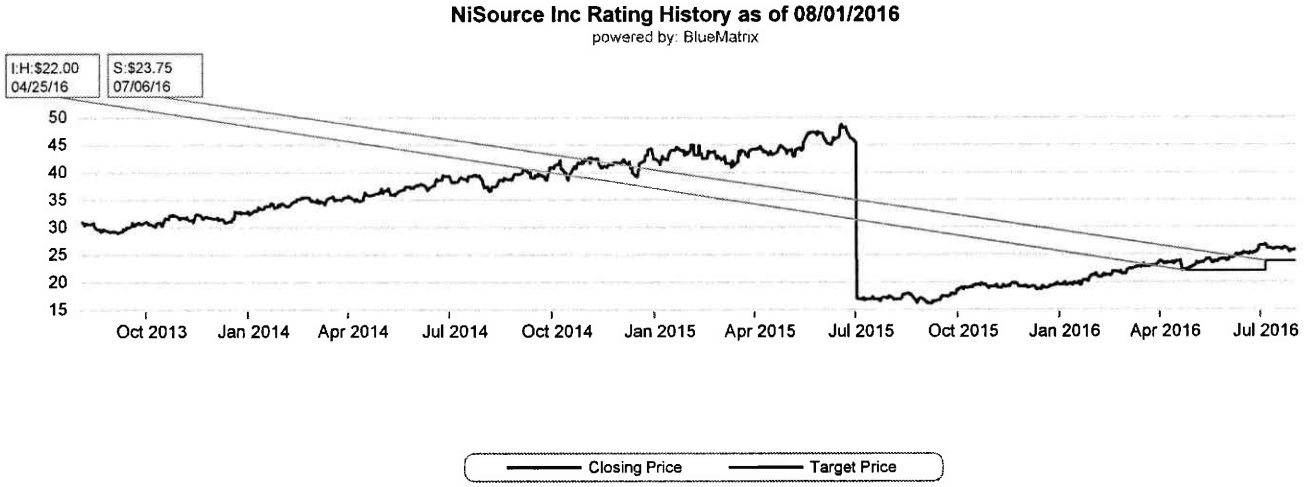
Price Charts



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August 2, 2016

COMPANY UPDATE / ESTIMATE CHANGE

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company reports positive second quarter results and raises the low end of 2016 guidance

Key Metrics

NI - NYSE (Price as of 8/1/16)	$25.81
Price Target	NA
52-Week Range	$26.94 - $16.03
Shares Outstanding (mm)	321.7
Market Cap. ($mm)	$8,303
3-Mo. Average Daily Volume	3,067,000
Institutional Ownership	81.0%
Debt/Total Capital	64.4%
ROE (ttm)	8.1%
Book Value/Share	$12.03
Price/Book Value	2.1x
Indicated Dividend / Yield	$0.66 2.6%
Dividend Cycle	Feb., May, Aug., Nov.

EPS FY 12/31

	2015	Prior 2016E	Curr. 2016E	Prior 2017E	Curr. 2017E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$0.94	$1.06	$1.08	$1.15	$1.18
P/E	27.4x		23.9x		21.9x
Payout	62%		61%		56%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2015	Prior 2016E	Curr. 2016E	Prior 2017E	Curr. 2017E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$3,023		$3,675	--	$3,775

Company Description: *Based in Merrillville, Ind., NiSource Inc. is one of the largest fully-regulated utility companies in the United States, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands.*

Investment Highlights

- **NiSource reported second quarter operating earnings of $0.08 per share versus breakeven in the second quarter of 2015, and slightly above consensus expectations.** Both of NI's primary businesses, gas distribution and electric operations, posted higher second quarter earnings. NI's gas operations were helped by rate increases that were in effect during the quarter. The company's electric operations were aided by continued regulatory and service investments resulting from increased capital spending on electric transmission projects and environmental investments. Through the first six months of the year NiSource posted operating earnings of $533.6 million compared $467.4 million in the first half of 2015.
- **Management raises the low end of the 2016 earnings guidance range.** NiSource now expects 2016 operating earnings to range from $1.05 to $1.10 per share. The company had previously projected 2016 earnings of $1.00 to $1.10 per share. We are raising our 2016 and 2017 EPS estimates to $1.08 and $1.18 per share, respectively. In addition, NI expects to make about $1.5 billion in planned infrastructure enhancement investments in 2016 as part of a large long-term plan to invest in infrastructure opportunities. Management believes a combination of capital investments and regulatory actions will enable NiSource to grow both its earnings and dividends by 4% to 6% annually.
- **Company raises dividend.** During the second quarter NiSource raised its annual dividend by 6.6% to a new annual rate of $0.66 per share. The current dividend yield on the stock is 2.6%.
- **We have a Neutral rating on NiSource due to valuation.** However, we continue to believe the company has a solid fundamental outlook. In our view, NI's ongoing infrastructure investments will allow for consistent earnings and dividend growth.

Note Important Disclosures on Pages 2 and 3.
Note Analyst Certification on Page 2.

Suitability
We assign a 2 suitability rating to NiSource. This company generates 100% of its earnings from its regulated electric and natural gas utility businesses which provides consistency to financial results. Earnings and dividends are expected to trend steadily higher. Thus, we regard NiSource as a suitable holding for utility investors seeking total return.

Additional information is available upon request.

Analyst Certification

I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

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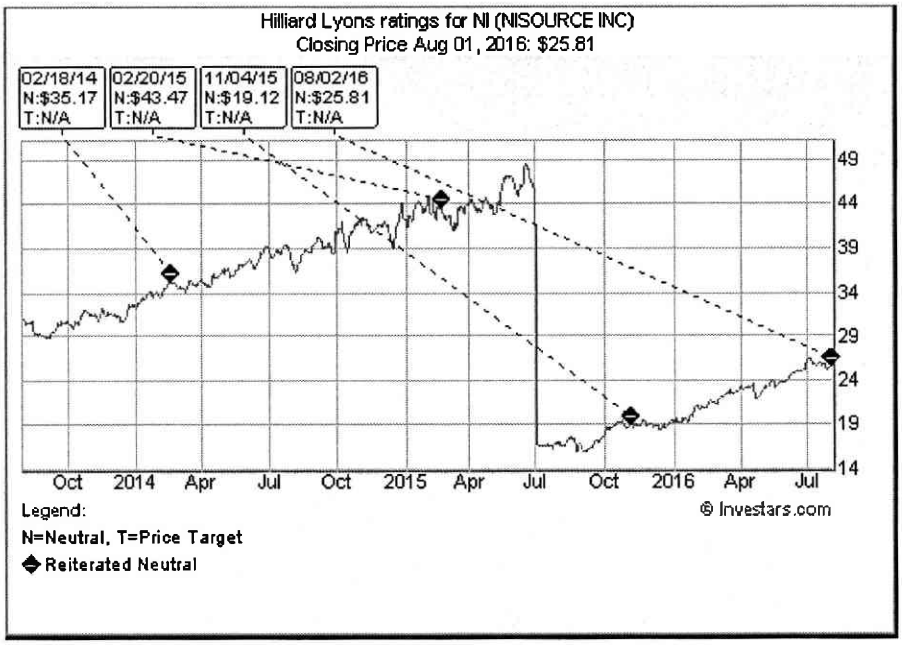
Investment Ratings
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings
1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	44	37%	14%	86%
Hold/Neutral	66	55%	5%	95%
Sell	9	8%	0%	100%

As of 6 July 2016

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FLASH NOTE

Company Update

USA | Energy | Natural Gas

August 2, 2016

Jefferies

NiSource Inc. (NI)

Continued Investments Yield Strong Off-Season Results

UNDERPERFORM
Bloomberg NYSE: NI
Price target $22.00
Price $25.81^

^Prior trading day's closing price unless otherwise noted.

EQUITY RESEARCH AMERICAS

Key Takeaway

NI realized 2Q recurring diluted EPS of 8¢, beating our 6¢ estimate & the Street's 7¢ mean forecast; EBITDA of $265mm slightly outpaced our $260mm projection on better than expected segment operating performance. With results, mgmt increased the low end of its 2016 non-GAAP EPS guidance range to $1.05-$1.10, from $1.00-$1.10, and vs. JEFe $1.07.

2Q16 operational & financial highlights. Gas Distribution posted 2Q16 operating income of ~$73.3mm, ~5.4% above our $69.5mm estimate and ~31.8% higher than 2Q15's $55.6mm. Total sales volumes increased ~5.3% y/y to 192.8 MMDth on HDDs that were ~8.8% above normal and ~33.3% above last year. The electric operations (NIPSCO) reported 2Q16 operating income of $64.0mm, which beat our ~$61.1mm est on sales & transportation volumes that increased ~2.1% y/y.

Gas Distribution regulatory update. On May 27th, Columbia Gas of KY filed a $25.4mm rate case with the KY Public Service Commission; a decision is expected by YE16. Columbia Gas of PA's $55mm rate case, filed in March, is progressing on schedule and remains pending with the PUC; a decision is expected by YE16. Columbia Gas of VA's $37.0mm rate case, filed in April, remaining pending with the VA SCC; a decision is expected by YE16. On July 27th, Columbia Gas of MD agreed to a rate case settlement which increases annual rates by $3.7mm, ~43% below the $6.5mm requested in its original rate case filing; the new rates are expected to be effective in Nov 2016. NIPSCO continues to execute on its 7yr, $800mm gas infrastructure modernization program. In June, the IURC approved NIPSCO Gas' semi-annual tracker update of $72mm; NIPSCO has received approval for $142mm of tracker updates through 2015.

NIPSCO electric distribution update. On July 8th, the IURC approved a settlement agreement which increases NIPSCO's annual electric rate base by $72.5mm, ~51% below the original $148mm requested in Oct 2015; the new rates are expected to become effective this Oct. On July 12th, the IURC approved the settlement related to NIPSCO's 7yr infrastructure modernization program, which includes the recovery of $1.2B of investments. Separately, mgmt noted that NIPSCO's two major electric transmission projects remain on track with expected in-service dates in 2H18.

2016 guidance tightened, dividend declared. With results, mgmt increased the low end of its 2016 EPS guidance range (non-GAAP) to $1.05-$1.10, from $1.00-$1.10; this compares to JEFe & Street mean of $1.07. Separately, in mid-May, NI declared a 2Q cash dividend of 16.5¢/share, up 1¢ (~6.5%) q/q but in-line with expectations.

Conference call info: Today @ 9AM EDT. Dial-in: 855.219.9570; Passcode: 46806320

NI 2Q16 Results Review:

Operating Income by Division	Actual 2Q16A	JEFe 2Q16E		Year-over-Year 2Q16A	
Gas Distribution	$73.3	$69.5	5.4%	$55.6	31.8%
Electric Operations	$64.0	$61.1	4.8%	$56.6	13.1%
Corporate, Other, and Eliminations	($3.0)	($6.9)	NA	($8.7)	65.5%
Total Operating Income	**$134.3**	**$123.7**	**8.6%**	**$103.5**	**29.8%**
Depreciation	($136.9)	($134.5)	1.8%	($167.4)	-18.2%
Other Income / (Expenses)	($6.1)	$2.3	-371.1%	$6.5	-193.8%
Interest Expense	($86.0)	($94.4)	-8.9%	($117.1)	-26.6%
Income Tax Benefit (Expense)	($15.9)	($11.5)	38.5%	($33.0)	-51.9%
Recurring Net Income	**$26.3**	**$20.1**	**30.8%**	**$6.5**	**306.2%**
Avg Diluted Shares Outstanding	322.9	322.2	0.2%	317.5	1.7%
Earnings Per Diluted Share	**$0.08**	**$0.06**	**30.5%**	**$0.02**	**299.4%**
EBITDA ($MM)	**$265**	**$260**	**1.8%**	**$378**	**-29.8%**
Capex & Affiliate Investments	**$372**	**$437**	**-15.1%**	**$583**	**-36.2%**

Source: NiSource reports & Jefferies estimates

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Company Description

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4 million US customers. The Company operates through three segments: Gas Distribution, Columbia Pipeline Group, and Electric. The Gas Distribution operations provide natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. Columbia Pipeline Group offers gas transportation and storage services for Local distribution companies, marketers and industrial and commercial customers located in Northeastern, Mid-Atlantic, Midwestern and Southern states. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

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I, Christopher Sighinolfi, CFA, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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

Recommendation Published	, 08:59 ET. August 2, 2016
Recommendation Distributed	, 08:59 ET. August 2, 2016

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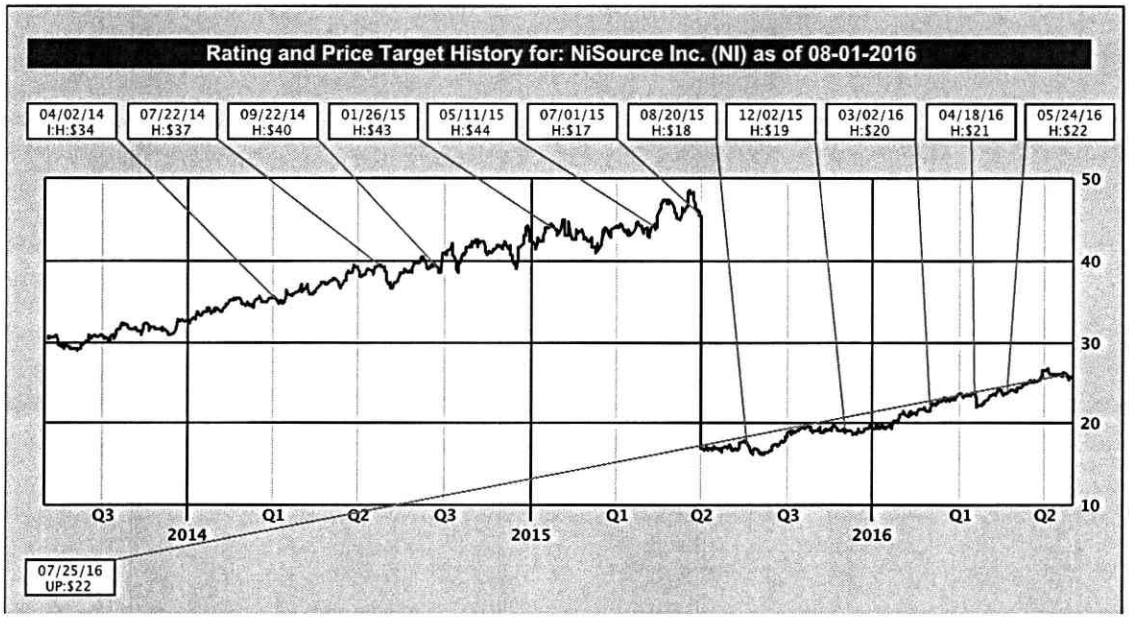

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Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY	1124	51.89%	317	28.20%
HOLD	864	39.89%	174	20.14%
UNDERPERFORM	178	8.22%	19	10.67%

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Disseminated 02 Aug 2016 08:42 PM EDT
GAS-ROR-010
Attachment B
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J.P.Morgan

NiSource Inc.

2Q In Line, 2016 EPS, Capital Plan Firmed Up

Neutral

NI, NI US
Price: $25.94

Price Target: $26.00

NiSource reported 2Q results in line with our estimate, and growth in both the electric and gas businesses continues to benefit from rate base growth, lower interest expense and cost discipline. EPS guidance was narrowed to $1.05-1.10 for 2016, up 5c at the bottom of the range and capex was raised ~$100MM to $1.5Bn on YTD execution including favorable weather conditions. Despite an improved 2016 picture and recent regulatory clarity from both the rate case and TDISC electric approvals management reiterated its 4-6% EPS and dividend long-term growth rates off a 2016 base. We are adjusting our EPS estimates to reflect 2Q results, and continue to model external equity in both 2017 and 2018, totaling $400MM. Even with equity, we see the high end of EPS growth as achievable but see the current 22.6x 2017E P/E multiple as reflecting this and we are maintaining our Neutral rating.

- **Long term investments support in-line 2Q'16 results.** NI reported Gas Distribution operating earnings of $73.3M (vs. $55.6M in 2Q'15) driven largely by the impact of new rates at Columbia Gas of Massachusetts and Columbia Gas of Pennsylvania and the implementation of new rates under Columbia Gas of Ohio's approved infrastructure program. Electric Operations reported operating earnings of $64.0M (vs. $56.6M in 2Q'15) driven by increased capital spend on electric transmission projects and environmental investments. Additionally, interest expense continues to decline as higher cost debt from before the Columbia Pipeline spinoff continues to roll off, lowering the weighted average cost of debt.

- **Post-2016 plans remain unclear despite strong results YTD.** While 2016 earnings YTD have continued to remain firm, management has not issued additional guidance beyond the end of 2016. CapEx guidance was increased by $100M, and 2016 EPS guidance was raised to $1.05 to $1.10 (up $0.025 at the midpoint). Long-term EPS growth guidance remained at 4-6% annually off of the 2016 earnings guidance base, however.

Utilities and Power

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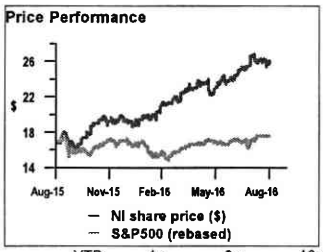

	YTD	1m	3m	12m
Abs	33.0%	-3.1%	13.0%	52.0%
Rel	27.5%	-6.4%	9.4%	49.2%

NiSource Inc. (NI;NI US)

FYE Dec	2014A	2015A	2016E (Prev)	2016E (Curr)	2017E (Prev)	2017E (Curr)	2018E (Prev)	2018E (Curr)	2019E
EPS ($)									
Q1 (Mar)	0.82	0.85	0.60A	0.60A	-	-	-	-	-
Q2 (Jun)	0.25	0.18	0.08	0.08A	-	-	-	-	-
Q3 (Sep)	0.14	0.06	-	0.09	-	-	-	-	-
Q4 (Dec)	0.51	0.31	-	-	-	-	-	-	-
FY	1.72	0.94	1.07	1.08	1.13	1.15	1.20	1.21	1.27

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	25.94
Date Of Price	02 Aug 16
52-week Range ($)	26.94-16.04
Market Cap ($ mn)	8,266.33
Fiscal Year End	Dec
Shares O/S (mn)	319
Price Target ($)	26.00
Price Target End Date	31-Dec-16

See page 4 for analyst certification and important disclosures.

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rghulen@nisource.com Randy Hulen 08/03/16 01:06:11 AM Nisource Corporate Services Co.

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Investment Thesis, Valuation and Risks

NiSource Inc. *(Neutral; Price Target: $26.00)*

Investment Thesis

We believe NiSource has top-tier investment potential relative to peers given its eight utilities in seven states and robust capital spending runway. We expect this capital to be deployed accretively given solid authorized ROEs, an efficient balance sheet with elevated leverage, and an array of low-lag regulatory constructs. For these reasons, as well as the 6-8%+ rate base growth potential, we expect NI to achieve the top end of its 4-6% long-term EPS growth guidance, but at this time we believe it is fairly valued due to its recent outperformance.

Valuation

Our December 2016 price target remains at $26/share. Our price target is based on a sum-of-the-parts analysis and uses our 2018 electric and gas segment EPS forecasts. We value the gas segment using a 24.7x P/E multiple, a premium to gas utility peers due to the company's high rate base growth, large portfolio of utilities, and favorable rate constructs. We value the electric segment using a 20.3x P/E multiple, a premium to pure regulated electric utility peers due to the favorable rate construct in IN and near-term transmission-driven growth potential. Our price target is maintained due to slightly higher earnings estimates and slightly higher regulated peer multiples relative to our last update.

Risk to Rating and Price Target

- Regulated electric transmission and distribution earnings are vulnerable to mild weather as regulated revenues are calculated based on energy volumes sold. Extreme or mild temperatures may cause future earnings to differ materially from our current forecasts.
- 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. Positive or negative changes to the regulatory environments may cause future earnings potential to differ materially from current expectations.

rghulen@nisource.com Randy Hulen 08/03/16 01:06:11 AM Nisource Corporate Services Co.

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NiSource Inc.: Summary of Financials

Income Statement - Annual	FY15A	FY16E	FY17E	FY18E
Sales	4,667	4,260	4,097	4,173
COGS	(1,644)	(1,201)	(940)	(940)
D&A	(524)	(549)	(555)	(574)
Operations and maintenance	(1,667)	(1,588)	(1,621)	(1,639)
Other expenses	-	(5)	(6)	(6)
Total operating expenses	2,192	2,136	2,176	2,213
Other income / (expense)	17			
EBIT	**850**	**917**	**975**	**1,014**
EBITDA	**1,374**	**1,465**	**1,530**	**1,588**
Interest expense	(380)	(356)	(363)	(357)
Income tax provision	(171)	(214)	(233)	(250)
Tax rate	36.3%	38.2%	38.0%	38.0%
Discontinued operations and other	0	0	0	0
Preferred dividends	-	-	-	-
Net income	**299**	**347**	**379**	**407**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**299**	**347**	**379**	**407**
Diluted shares outstanding	**318**	**322**	**329**	**338**
Diluted EPS	**0.94**	**1.08**	**1.15**	**1.21**
DPS ($)	0.83	0.64	0.68	0.72
Payout ratio	88.3%	59.4%	59.3%	59.6%

Income Statement - Quarterly	1Q16A	2Q16A	3Q16E	4Q16E
Sales	1,454A	893A	867	
COGS	(497)A	(235)A	(235)	-
D&A	(133)A	(137)A	(139)	-
Operations and maintenance	(425)A	(387)A	(358)	-
Other expenses	-	(6)A	0	-
Total operating expenses	558A	524A	497	-
Other income / (expense)	1A		-	-
EBIT	**400A**	**128A**	**136**	**-**
EBITDA	**533A**	**265A**	**274**	**-**
Interest expense	(91)A	(86)A	(89)	
Income tax provision	(119)A	(16)A	(18)	
Tax rate	38.4%A	37.7%A	38.0%	-
Discontinued operations and other	0A	0A	0	-
Preferred dividends	-	-	-	-
Net income	**191A**	**26A**	**29**	**-**
Total non-recurring items	-	-	-	-
Net income (Recurring)	**191A**	**26A**	**29**	**-**
Diluted shares outstanding	**320A**	**322A**	**322**	**-**
Diluted EPS	**0.60A**	**0.08A**	**0.09**	**-**
DPS ($)	0.16A	0.16A	0.17	-
Payout ratio	26.0%A	189.6%A	183.4%	-

Balance Sheet and Cash Flow Data	FY15A	FY16E	FY17E	FY18E
Cash and cash equivalents	16	0	0	0
Current assets	1,577	1,326	1,458	1,590
PP&E	12,112	13,091	13,873	14,616
Non-current assets	3,804	3,802	3,802	3,802
Total assets	**17,493**	**18,219**	**19,133**	**20,008**
Current liabilities	2,658	3,018	2,941	3,094
Long-term Debt	5,949	6,010	6,315	6,423
Preferred stock	-	-	-	-
Other non-current liabilities	5,043	5,333	5,565	5,815
Common equity	3,844	3,859	4,312	4,676
Total liabilities & equity	17,493	18,219	19,133	20,008
Net income	302	338	379	407
D&A	524	549	555	574
Change in working capital	147	(215)	(132)	(132)
Change in other assets	483	222	233	250
Net operating cash flow	**1,457**	**894**	**1,035**	**1,099**
Cash flow from investing activities	**1,945**	**(1,530)**	**(1,337)**	**(1,317)**
Net common equity issued/(repurchased)	1,171	27	300	200
Net debt issued/(repurchased)	(3,029)	236	70	(166)
Common dividends paid	(263)	(206)	(226)	(243)
Other financing activity	(1,290)	(0)	0	0
Cash flow from financing activities	**(3,412)**	**57**	**144**	**(209)**
Increase/(decrease) in cash	(10)	(579)	(158)	(428)
Cash at beginning of the period	25	15	0	0
Cash at end of the period	15	0	(0)	0

Ratio Analysis	FY15A	FY16E	FY17E	FY18E
Sales growth	(27.7%)	(8.7%)	(3.8%)	1.9%
EBITDA growth	(27.6%)	6.7%	4.4%	3.8%
EBIT growth	(34.3%)	7.9%	6.4%	3.9%
Net income (recurring) growth	(44.9%)	16.1%	9.4%	7.3%
Diluted EPS growth	(45.4%)	14.6%	7.1%	4.4%
Gross margin	64.8%	71.8%	77.1%	77.5%
Operating margin	18.2%	21.5%	23.8%	24.3%
Debt / Capital (book)	62.9%	66.5%	65.4%	65.0%
Times interest earned	3.6	4.1	4.2	4.4
ROE	6.0%	9.0%	9.3%	9.1%
Return on capital employed (ROCE)	4.1%	5.2%	5.0%	4.9%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec

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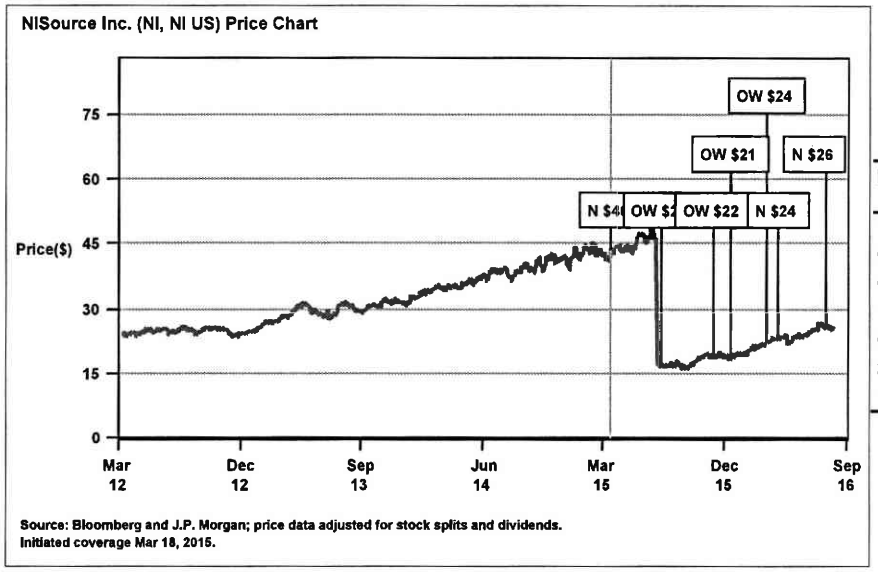

Date	Rating	Share Price ($)	Price Target ($)
18-Mar-15	N	43.77	46.00
09-Jul-15	OW	16.75	20.00
04-Nov-15	OW	19.56	22.00
14-Dec-15	OW	18.71	21.00
04-Mar-16	OW	22.34	24.00
29-Mar-16	N	23.17	24.00
13-Jul-16	N	26.06	26.00

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J.P. Morgan Global Equity Research Coverage	43%	45%	12%
IB clients*	52%	49%	37%
JPMS Equity Research Coverage	42%	50%	8%
IB clients*	68%	65%	51%

*Percentage of investment banking clients in each rating category.
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KeyBanc Capital Markets

Alert

August 2, 2016

Energy: Multi-Utilities

NYSE: NI

NiSource Inc.

NI - ALERT: 2Q16 Results Ahead of Views, Guidance Midpoint Bumped

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Key Investment Points

August 1, 2016 Close: $25.81
2Q16 Ongoing EPS: $0.08 vs. breakeven results in 2Q15/Consensus of $0.07/KBCM of $0.06. NI uses weather-normalized results as the basis of its adjusted results. Non-GAAP 2Q16 EPS of $0.08 excludes $0.01 of weather benefit.
Initial Take: We expect a positive response to raising the midpoint of guidance and upping 2016 capex from $1.4 billion to $1.5 billion.
2016 EPS Estimate: $1.05 (Consensus: $1.07).
2017 EPS Estimate: $1.13 (Consensus: $1.15).

Guidance: NiSource Inc. narrowed 2016 guidance of $1.00-$1.10 per share to $1.05-$1.10. 2016 guidance is the new base for reaffirmed 4-6% annual EPS and dividend growth.

Highlights:

- Results were slightly ahead of expectations. Relative to our estimate, corporate losses were lower due to decreased employee and administrative costs.
- NiSource Gas Distribution operating earnings were $73.3 million vs. $55.6 million. Net revenues rose $14.3 million, excluding trackers, driven by regulatory and service programs including new rates in PA, MA, and OH, which added $19.3 million. Lower weather normalized usage was a $5.1 million headwind. Expenses, net of trackers fell $3.4 million due to decreased outside service costs and lower other taxes, partly offset by higher depreciation. Gas volumes rose 5.3% after a mild 2Q15 (Residential +15.1%, Commercial +6.8% and Industrial -0.4%). Weather normalized sales rose 0.6% on 0.9% customer growth.
- Electric segment operating earnings were $64 million vs. $56.6 million. Revenues excluding trackers rose $3.5 million and operating expenses excluding trackers decreased $3.9 million due to lower other taxes, partially offset by $1.5 million higher outside service costs. Retail sales volumes rose 2.1% (Residential +10.7%, Commercial +1.2% and Industrial flat). Weather normalized sales rose 0.2% on 0.6% customer growth.
- Corporate reported a loss of $3.0 million vs. a loss of $9.5 million due to lower employee and administrative costs.
- Interest costs fell $8.5 million, which was essentially offset by a tax true-up on transmission assets.

9:00 a.m. ET Conference Call #: (855)-219-9570 ID#: 46806320

We will be focused on:

- Driver of lower other taxes
- Expense timing
- Electricity demand trends
- Steel customer trends

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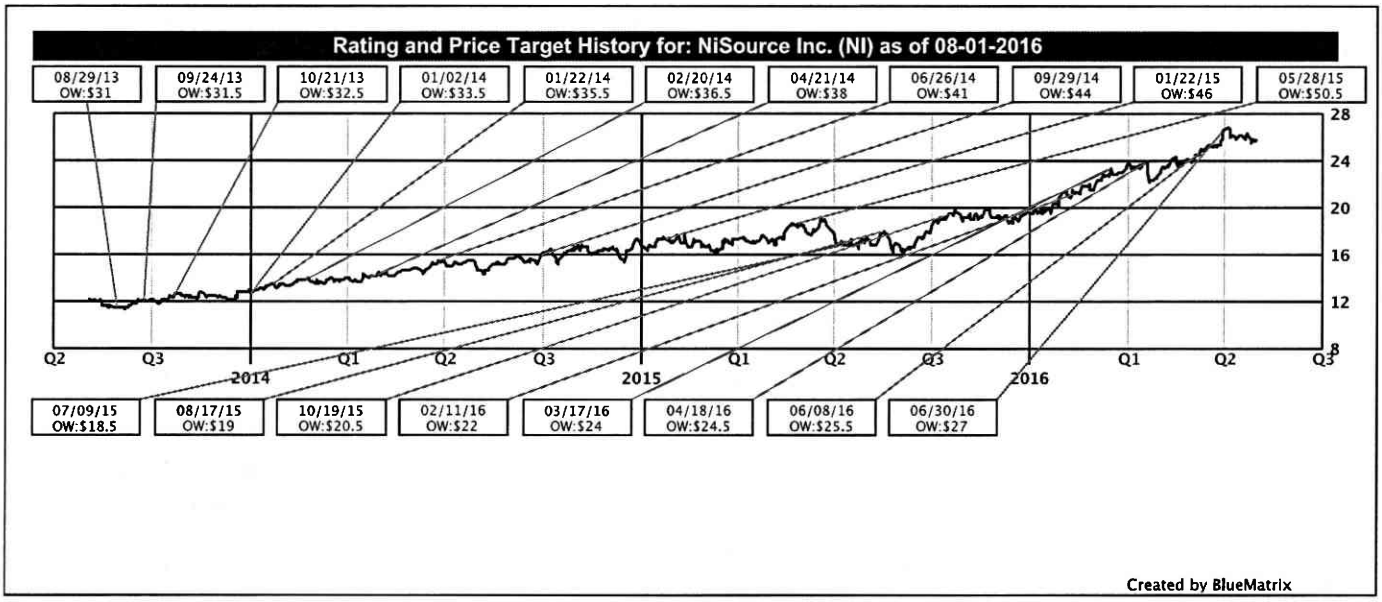

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Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
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Sector Weight [SW]	439	57.39	59	13.44	Sector Weight [SW]	52	59.09	20	38.46
Underweight [UW]	8	1.05	0	0.00	Underweight [UW]	0	0.00	0	0.00

Disclosure Appendix (cont'd)

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Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

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NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
25.81 USD	21.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

NiSource Narrows Guidance and Bumps Up Tracker Capital Expenditures

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Analyst Note 02 Aug 2016

We are reaffirming our narrow moat and stable moat trend ratings and $21 fair value estimate after NiSource reported solid second-quarter operating earnings, narrowed guidance, and an increased 2016 capital expenditure outlook.

Management narrowed its 2016 earnings guidance range to $1.05-$1.10 from $1.00-$1.10 per share, but our $1.06 estimate is unchanged. We thought it was even more positive that NiSource bumped up its targeted capital expenditures by $100 million, to $1.5 billion, and now 80% (up from 77%) of these expenditures are for growth investments with automatic rate trackers. In our opinion, rate trackers are critical to the ability of a utility to earn near its allowed return and consistently above its cost of capital.

NiSource announced a 6.5% increase to its common dividend in May, above its 4%-6% guidance and our long-term growth estimate of 5%. We think it is great news for investors that management said its 4%-6% dividend growth guidance is based on the new dividend following the higher-than-expected increase.

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The primary analyst covering this company does not own its stock.

Research as of 02 Aug 2016
Estimates as of 29 Jun 2016
Pricing data through 01 Aug 2016
Rating updated as of 01 Aug 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Vital Statistics

Market Cap (USD Mil)	8,299
52-Week High (USD)	26.94
52-Week Low (USD)	16.03
52-Week Total Return %	51.4
YTD Total Return %	34.7
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	7.1
5-Yr Forward EPS CAGR %	7.4
Price/Fair Value	1.23

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	9.9	21.0	*24.3*	*22.8*
EV/EBITDA	8.2	9.7	*10.3*	*9.7*
EV/EBIT	12.2	16.1	*16.9*	*15.8*
Free Cash Flow Yield %	-13.4	-3.2	*-2.9*	*-0.4*
Dividend Yield %	6.1	4.2	*2.5*	*2.6*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	6,471	4,652	*5,399*	*5,659*
Revenue YoY %	14.4	-28.1	*16.1*	*4.8*
EBIT	1,231	802	*902*	*967*
EBIT YoY %	9.3	-34.9	*12.6*	*7.2*
Net Income, Adjusted	534	299	*339*	*364*
Net Income YoY %	8.1	-44.0	*13.6*	*7.4*
Diluted EPS	1.69	0.93	*1.06*	*1.13*
Diluted EPS YoY %	7.0	-44.6	*13.1*	*7.3*
Free Cash Flow	-602	3,741	*-245*	*147*
Free Cash Flow YoY %	58.7	-721.3	*-106.6*	*-159.9*

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 3.4 million customers in Indiana, Kentucky, Maryland, Massachusetts, 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 MW of generation capacity, most of which is coal-fired.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	Forecast 2016	2017	5-Year Proj. CAGR
Revenue	-2.8	11.8	14.4	-28.1	16.1	4.8	7.1
EBIT	-8.3	8.4	9.3	-34.9	12.6	7.2	8.7
EBITDA	-6.1	6.4	7.8	-27.8	11.6	6.8	7.9
Net Income	-11.9	13.0	8.1	-44.0	13.6	7.4	8.1
Diluted EPS	-13.7	8.3	7.0	-44.6	13.1	7.3	7.4
Earnings Before Interest, after Tax	-12.6	-1.0	3.6	-35.0	5.1	37.7	6.7
Free Cash Flow	275.6	-637.2	58.7	-721.3	-106.6	-159.9	-68.3

Profitability	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Operating Margin %	18.7	19.9	19.0	17.2	16.7	17.1	17.5
EBITDA Margin %	29.0	30.1	28.4	28.5	27.4	27.9	28.5
Net Margin %	7.8	8.7	8.3	6.4	6.3	6.4	6.6
Free Cash Flow Margin %	21.5	-6.7	-9.3	80.4	-4.6	2.6	0.7
ROIC %	5.9	5.5	7.1	4.9	4.9	6.4	5.8
Adjusted ROIC %	7.1	6.9	8.7	5.7	5.5	7.3	6.5
Return on Assets %	2.0	2.4	2.2	1.4	1.9	1.9	2.0
Return on Equity %	7.9	9.3	8.8	5.7	8.7	9.0	9.3

Leverage	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Debt/Capital	0.62	0.60	0.62	0.64	0.66	0.66	0.66
Total Debt/EBITDA	5.29	5.19	5.45	5.24	5.14	5.03	4.92
EBITDA/Interest Expense	3.91	4.11	4.14	3.49	4.07	4.07	4.06

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	1.33	1.08	—	—
Price/Earnings	9.9	21.0	24.3	22.8
EV/EBITDA	8.2	9.7	10.3	9.7
EV/EBIT	12.2	16.1	16.9	15.8
Free Cash Flow Yield %	-13.4	-3.2	-2.9	-0.4
Dividend Yield %	6.1	4.2	2.5	2.6

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	5.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	69.0
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	164	1.2	0.51
Present Value Stage II	2,036	15.2	6.33
Present Value Stage III	11,230	83.6	34.93
Total Firm Value	**13,430**	**100.0**	**41.78**
Cash and Equivalents	50	—	0.15
Debt	-6,950	—	-21.62
Preferred Stock	—	—	—
Other Adjustments	5	—	0.02
Equity Value	**6,535**	—	**20.33**
Projected Diluted Shares	321		
Fair Value per Share (USD)	—		

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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Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2013	2014	2015	Forecast 2016	Forecast 2017
Revenue	**5,657**	**6,471**	**4,652**	***5,399***	***5,659***
Cost of Goods Sold	1,816	2,224	1,644	*2,203*	*2,310*
Gross Profit	**3,842**	**4,246**	**3,008**	***3,196***	***3,349***
Selling, General & Administrative Expenses	1,874	2,136	1,426	*1,467*	*1,511*
Other Operating Expense (Income)	301	320	256	*250*	*258*
Other Operating Expense (Income)	-36	-47	—	*10*	*10*
Depreciation & Amortization (if reported separately)	577	606	524	*566*	*602*
Operating Income (ex charges)	**1,126**	**1,231**	**802**	***902***	***967***
Restructuring & Other Cash Charges	-18	-32	2	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**1,143**	**1,262**	**800**	***902***	***967***
Interest Expense	415	444	380	*364*	*389*
Interest Income	24	22	-80	—	—
Pre-Tax Income	**753**	**841**	**340**	***539***	***578***
Income Tax Expense	262	310	141	*199*	*214*
Other After-Tax Cash Gains (Losses)	6	-1	104	—	—
Other After-Tax Non-Cash Gains (Losses)	35	—	—	—	—
(Minority Interest)	—	—	-16	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**532**	**530**	**287**	***339***	***364***
Weighted Average Diluted Shares Outstanding	314	317	320	*321*	*321*
Diluted Earnings Per Share	**1.70**	**1.67**	**0.90**	***1.06***	***1.13***
Adjusted Net Income	494	534	299	*339*	*364*
Diluted Earnings Per Share (Adjusted)	**1.58**	**1.69**	**0.93**	***1.06***	***1.13***
Dividends Per Common Share	0.98	1.02	0.83	*0.64*	*0.68*
EBITDA	**1,721**	**1,868**	**1,324**	***1,480***	***1,580***
Adjusted EBITDA	**1,703**	**1,836**	**1,326**	***1,480***	***1,580***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2013	2014	2015	Forecast 2016	Forecast 2017
Cash and Equivalents	35	50	45	*15*	*49*
Investments	—	—	—	—	—
Accounts Receivable	1,006	921	660	*740*	*775*
Inventory	500	586	537	*604*	*633*
Deferred Tax Assets (Current)	—	214	—	—	—
Other Short Term Assets	618	696	335	*350*	*375*
Current Assets	**2,159**	**2,467**	**1,577**	***1,708***	***1,832***
Net Property Plant, and Equipment	14,365	11,057	12,112	*12,937*	*13,786*
Goodwill	3,666	1,691	1,691	*1,691*	*1,691*
Other Intangibles	276	265	254	*243*	*232*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,522	1,545	1,600	*1,797*	*1,822*
Long-Term Non-Operating Assets	666	7,843	260	*260*	*260*
Total Assets	**22,654**	**24,866**	**17,493**	***18,635***	***19,623***
Accounts Payable	619	610	433	*581*	*609*
Short-Term Debt	1,241	1,844	1,001	*1,000*	*1,000*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,319	1,511	1,223	*1,300*	*1,400*
Current Liabilities	**3,178**	**3,964**	**2,658**	***2,881***	***3,009***
Long-Term Debt	7,593	8,156	5,949	*6,600*	*6,950*
Deferred Tax Liabilities (Long-Term)	3,278	2,380	2,365	*2,500*	*2,863*
Other Long-Term Operating Liabilities	1,687	2,996	1,350	*1,350*	*1,350*
Long-Term Non-Operating Liabilities	1,031	1,195	1,327	*1,327*	*1,327*
Total Liabilities	**16,767**	**18,691**	**13,649**	***14,658***	***15,499***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,690	4,788	5,078	*5,083*	*5,088*
Retained Earnings (Deficit)	1,286	1,494	-1,123	*-990*	*-843*
(Treasury Stock)	-49	-59	-79	*-79*	*-79*
Other Equity	-44	-51	-35	*-41*	*-46*
Shareholder's Equity	**5,887**	**6,175**	**3,844**	***3,976***	***4,123***
Minority Interest	—	—	—	—	—
Total Equity	**5,887**	**6,175**	**3,844**	***3,976***	***4,123***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2013	2014	2015	Forecast 2016	Forecast 2017
Net Income	532	530	302	*339*	*364*
Depreciation	577	606	524	*566*	*602*
Amortization	—	—	—	*11*	*11*
Stock-Based Compensation	51	72	51	*37*	*38*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	287	299	135	*135*	*363*
Other Non-Cash Adjustments	-65	-50	-11	—	—
(Increase) Decrease in Accounts Receivable	-95	-63	262	*-80*	*-36*
(Increase) Decrease in Inventory	-9	-120	47	*-67*	*-29*
Change in Other Short-Term Assets	81	9	43	*-15*	*-25*
Increase (Decrease) in Accounts Payable	68	38	-191	*147*	*28*
Change in Other Short-Term Liabilities	—	—	—	*77*	*100*
Cash From Operations	**1,427**	**1,321**	**1,163**	***1,151***	***1,417***
(Capital Expenditures)	-1,880	-2,029	-1,361	*-1,392*	*-1,452*
Net (Acquisitions), Asset Sales, and Disposals	18	13	5	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-148	-101	3,731	*-198*	*-25*
Cash From Investing	**-2,010**	**-2,117**	**2,375**	***-1,589***	***-1,477***
Common Stock Issuance (or Repurchase)	36	20	2	*5*	*5*
Common Stock (Dividends)	-306	-321	-263	*-206*	*-217*
Short-Term Debt Issuance (or Retirement)	-78	878	-936	*-1*	—
Long-Term Debt Issuance (or Retirement)	794	219	-2,186	*652*	*350*
Other Financing Cash Flows	—	—	-137	*-37*	*-38*
Cash From Financing	**445**	**796**	**-3,520**	***413***	***100***
Exchange Rates, Discontinued Ops, etc. (net)	129	-1	-28	*-6*	*-5*
Net Change in Cash	**-10**	**-1**	**-10**	***-31***	***35***

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Research Methodology for Valuing Companies

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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. 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 short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "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 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.

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 (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 pres-

Morningstar Research Methodology for Valuing Companies

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Research Methodology for Valuing Companies

ent 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 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, 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.

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:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

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 detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

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 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:

Five Stars ★★★★★

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.

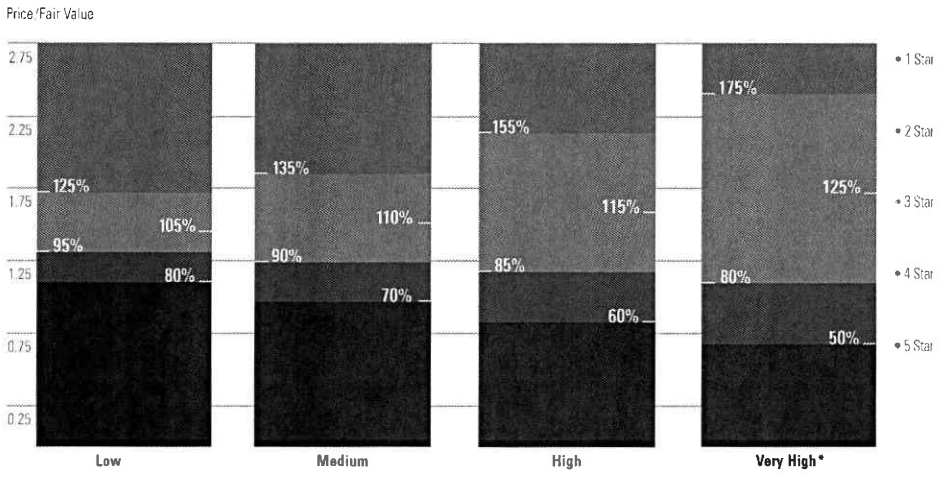
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

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Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
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.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

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.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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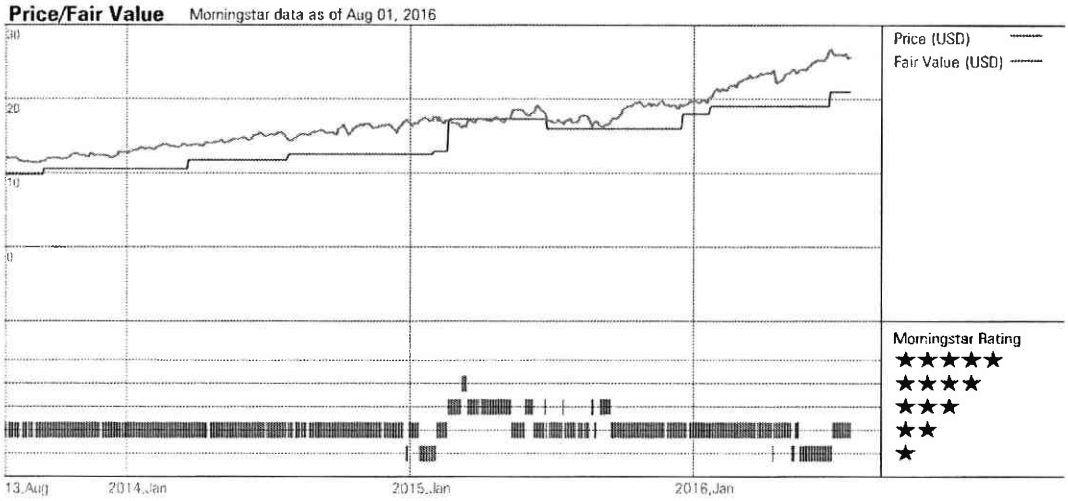
Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
25.81 USD	21.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated



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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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UBS

Global Research

2 August 2016

NiSource Inc.
Infrastructure Investment Driving Growth

Equities

Americas
Gas Utilities

12-month rating	**Neutral**
12m price target	**US$27.00**
Price	**US$25.81**

RIC: NI.N **BBG:** NI US

Trading data and key metrics	
52-wk range	US$26.77-16.17
Market cap.	US$8.30bn
Shares o/s	322m (COM)
Free float	99%
Avg. daily volume ('000)	1,024
Avg. daily value (m)	US$25.4
Common s/h equity (12/16E)	US$3.87bn
P/BV (12/16E)	2.1x
Net debt / EBITDA (12/16E)	5.1x

EPS (UBS, diluted) (US$)

	12/16E			
	From	To	% ch	Cons.
Q1	0.60	0.60	0	0.60
Q2	0.07	0.08	16	0.07
Q3E	0.07	0.08	11	0.09
Q4E	0.34	0.32	-4	0.33
12/16E	1.08	1.08	NM	1.06
12/17E	1.16	1.16	NM	1.15
12/18E	1.23	1.23	NM	1.21

Progressing on Infrastructure Investments

NiSource remains focused on customer growth and infrastructure investment. The '16 capex spending outlook was increased to $1.5bn from $1.4bn as favorable weather has enabled NI to move forward with modernization investments ahead of plan. Favorable regulatory actions continue to support favorable returns on these investments. In June the semi-annual tracker for NIPSO gas was approved for $72mm of investment. In July NIPSCO's settlement on the 7-yr $1.2bn of modernization investment in the electric business was approved. NiSource has requests in for recovery on investments in Kentucky, Pennsylvania, and Virginia that it expects to settle by late '16/early '17. Management reiterated that planned investments continue to support 4%-6% earnings and dividend growth.

Solid Quarter

NiSource reported EBITDA of $271mm, 3% above our estimate of $264mm (+14% Y/Y) and 3.4% above Consensus. Adj EPS was $0.08, $0.01 above UBSe & Consensus. Stronger than expected customer growth helped drive the upside as well as favorable weather which enabled NI to work on modernization/integrity projects in the winter. Management indicated that it is currently running 10% above growth targets for the year. The dividend was increased 6.5% Y/Y in May to $0.165/share. EPS outlook for '16 was revised to $1.05-$1.10 from $1.00-$1.10 based on stronger YTD results & is in line with UBSe of $1.08.

Raising Estimates

We are raising '16/'17/'18 EBITDA estimates to $1.48bn/$1.58bn/$1.65bn from $1.47bn/$1.56bn/$1.64bn to reflect the carry through of better than expected 2Q EBITDA results. EPS for '16/'17/'18 is unchanged at $1.08/$1.16/$1.23.

Valuation: Maintain $27PT & Neutral

We maintain our $27 PT, derived using a sum-of-the-parts and peer valuation multiples, and our Neutral rating.

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Highlights (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	5,657	6,485	4,612	4,519	4,764	4,932	5,103	5,272
EBIT (UBS)	1,168	1,277	829	933	1,012	1,071	1,140	1,207
Net earnings (UBS)	491	526	295	348	373	397	425	443
EPS (UBS, diluted) (US$)	1.57	1.66	0.93	1.08	1.16	1.23	1.33	1.38
DPS (US$)	0.99	1.03	0.99	0.65	0.68	0.71	0.75	0.78
Net (debt) / cash	(8,808)	(9,974)	(6,500)	(7,535)	(7,949)	(8,302)	(8,855)	(9,396)
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	20.6	19.7	18.0	20.7	21.2	21.7	22.3	22.9
ROIC (EBIT) %	9.2	9.3	7.0	9.6	9.5	9.6	9.6	9.5
EV/EBITDA (core) x	9.2	10.4	12.6	9.6	9.5	9.3	9.1	8.8
P/E (UBS, diluted) x	18.9	22.8	33.5	23.9	22.3	21.1	19.4	18.7
Equity FCF (UBS) yield %	(4.8)	(5.9)	1.0	(6.3)	(2.8)	(2.2)	(4.7)	(4.4)
Net dividend yield %	3.3	2.7	3.2	2.5	2.6	2.8	2.9	3.0

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$25.81 on 01 Aug 2016 19:37 EDT

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rghulen@nisource.com Randy Hulen 08/02/16 06:45:04 PM Nisource Corporate Services Co.

Figure 1: 2Q16 Earnings Variance

$ in millions	Actual 2Q16e	UBSe 2Q16e	% variance	Actual 2Q15	YoY % change
Operating Data					
Customers (000)					
Gas Utilities Customers	3,390.1	3,353.5	*1.1%*	3,337.6	*1.6%*
Electric Customers	463.8	463.1	*0.2%*	460.8	*0.6%*
Financial Data					
Revenues	$893.0	$1,042.1	*(14.3%)*	$859.9	*3.8%*
Expenses					
Cost of Sales	($234.9)	($358.2)	*(34.4%)*	($218.5)	*7.5%*
Operating & Maintenance Expenses	($336.7)	($361.5)	*(6.9%)*	($344.2)	*(2.2%)*
Depreciation & Amortization	($136.9)	($138.1)	*(0.9%)*	($133.5)	*2.5%*
Total Expenses	($758.7)	($916.8)	*(17.2%)*	($756.4)	*0.3%*
Adj. EBITDA	$271.2	$263.5	*2.9%*	$237.0	*14.4%*
Interest Expense	($86.0)	($88.6)	*(2.9%)*	($97.5)	*(11.8%)*
Other Expenses	($6.1)	$0.0	*NM*	$6.5	*(193.8%)*
Net Income	$26.3	$22.6	*16.1%*	$7.8	*236.6%*
EPS	$0.08	$0.07	*15.7%*	$0.02	*229.6%*
Dividend Per Share	$0.165	$0.165	*0.0%*	$0.155	*6.5%*
Segment Operating Income					
Gas Distribution	$73.3	$74.8	*(2.0%)*	$55.6	*31.8%*
Electric Operations	$64.0	$59.1	*8.3%*	$56.6	*13.1%*
Corporate & Eliminations	($3.0)	($8.6)	*(65.1%)*	($8.7)	*(65.5%)*
Total	$134.3	$125.3	*7.2%*	$103.5	*29.8%*

Source: UBSe, Company Reports

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NiSource Inc. (NI.N)

Income statement (US$m)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Revenues	**5,657**	**6,485**	**4,612**	**4,519**	*-2.0*	**4,764**	*5.4*	**4,932**	**5,103**	**5,272**
Gross profit	3,842	4,261	3,042	3,115	*2.4*	3,266	*4.8*	3,382	3,500	3,617
EBITDA (UBS)	**1,745**	**1,883**	**1,354**	**1,480**	*9.4*	**1,577**	*6.5*	**1,650**	**1,725**	**1,798**
Depreciation & amortisation	(577)	(605)	(524)	(547)	*4.3*	(565)	*3.3*	(579)	(585)	(591)
EBIT (UBS)	**1,168**	**1,277**	**829**	**933**	*12.6*	**1,012**	*8.4*	**1,071**	**1,140**	**1,207**
Associates & investment income	0	47	0	0	-	0	-	0	0	0
Other non-operating income	0	(24)	25	(5)	-	0	-	0	0	0
Net interest	(415)	(444)	(384)	(367)	*4.5*	(413)	*-12.5*	(434)	(458)	(497)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**753**	**856**	**470**	**561**	*19.3*	**599**	*6.7*	**637**	**682**	**710**
Tax	(262)	(330)	(175)	(213)	*-21.9*	(226)	*-5.7*	(240)	(257)	(268)
Profit after tax	**491**	**526**	**295**	**348**	*17.8*	**373**	*7.4*	**397**	**425**	**443**
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	0	-	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**491**	**526**	**295**	**348**	*17.8*	**373**	*7.4*	**397**	**425**	**443**
Net earnings (UBS)	**491**	**526**	**295**	**348**	*17.8*	**373**	*7.4*	**397**	**425**	**443**
Tax rate (%)	34.8	38.5	37.2	38.0	*2.2*	37.7	*-1.0*	37.7	37.7	37.7

Per share (US$)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
EPS (UBS, diluted)	1.57	1.66	0.93	1.08	*16.5*	1.16	*6.9*	1.23	1.33	1.38
EPS (local GAAP, diluted)	1.57	1.66	0.93	1.08	*16.5*	1.16	*6.9*	1.23	1.33	1.38
EPS (UBS, basic)	1.57	1.67	0.93	1.08	*16.3*	1.16	*6.9*	1.23	1.33	1.39
Net DPS (US$)	0.99	1.03	0.99	0.65	*-34.0*	0.68	*3.8*	0.71	0.75	0.78
Cash EPS (UBS, diluted)[1]	3.41	3.58	2.58	2.78	*7.9*	2.90	*4.4*	3.01	3.15	3.23
Book value per share	18.88	19.56	12.06	12.04	*-0.1*	12.59	*4.6*	13.25	14.31	15.15
Average shares (diluted)	313.60	316.33	318.18	321.63	*1.1*	323.08	*0.5*	324.12	320.21	320.21

Balance sheet (US$m)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Cash and equivalents	27	25	16	16	*1.3*	16	*1.9*	16	16	16
Other current assets	2,132	2,441	1,562	1,244	*-20.3*	1,244	*0.0*	1,244	1,244	1,244
Total current assets	**2,159**	**2,467**	**1,577**	**1,260**	*-20.1*	**1,260**	*0.0*	**1,260**	**1,260**	**1,260**
Net tangible fixed assets	14,365	16,017	12,112	13,106	*8.2*	13,941	*6.4*	14,762	15,577	16,386
Net intangible fixed assets	4,029	3,931	1,944	1,937	*-0.4*	1,937	*0.0*	1,937	1,937	1,937
Investments / other assets	2,100	2,452	1,859	1,865	*0.3*	1,865	*0.0*	1,865	1,865	1,865
Total assets	**22,654**	**24,866**	**17,493**	**18,168**	*3.9*	**19,003**	*4.6*	**19,824**	**20,639**	**21,448**
Trade payables & other ST liabilities	1,937	2,111	2,090	1,413	*-32.4*	1,413	*0.0*	1,413	1,413	1,413
Short term debt	1,241	1,844	567	680	*19.76*	717	*5.49*	749	798	847
Total current liabilities	**3,178**	**3,955**	**2,658**	**2,092**	*-21.3*	**2,129**	*1.8*	**2,161**	**2,211**	**2,260**
Long term debt	7,593	8,156	5,949	6,871	*15.5*	7,248	*5.5*	7,570	8,072	8,565
Other long term liabilities	5,996	6,580	5,043	5,332	*5.7*	5,558	*4.2*	5,798	5,798	5,798
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**16,767**	**18,691**	**13,649**	**14,295**	*4.7*	**14,935**	*4.5*	**15,529**	**16,081**	**16,622**
Common s/h equity	5,887	6,175	3,844	3,873	*0.8*	4,068	*5.0*	4,295	4,557	4,825
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	**22,654**	**24,866**	**17,493**	**18,168**	*3.9*	**19,003**	*4.6*	**19,824**	**20,638**	**21,447**

Cash flow (US$m)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Net income (before pref divs)	491	526	295	348	*17.8*	373	*7.4*	397	425	443
Depreciation & amortisation	577	606	524	547	*4.3*	565	*3.3*	579	585	591
Net change in working capital	55	(139)	147	(133)	-	0	-	0	0	0
Other operating	313	329	490	212	*-56.8*	226	*6.4*	240	0	0
Operating cash flow	**1,437**	**1,321**	**1,457**	**973**	*-33.2*	**1,164**	*19.6*	**1,217**	**1,010**	**1,034**
Tangible capital expenditure	(1,880)	(2,028)	(1,361)	(1,500)	*-10.2*	(1,400)	*6.7*	(1,400)	(1,400)	(1,400)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	(125)	(69)	3,798	0	-	0	-	0	0	0
Other investing	114	(19)	(493)	(42)	-	0	-	0	0	0
Investing cash flow	**(1,891)**	**(2,117)**	**1,945**	**(1,542)**	-	**(1,400)**	*9.2*	**(1,400)**	**(1,400)**	**(1,400)**
Equity dividends paid	(306)	(321)	(263)	(206)	*21.9*	(218)	*-6.0*	(230)	(242)	(255)
Share issues / (buybacks)	36	20	2	40	*NM*	40	*0.0*	60	80	80
Other financing	0	0	(122)	0	-	0	-	0	0	0
Change in debt & pref shares	715	1,097	(3,029)	735	-	414	*-43.66*	354	552	541
Financing cash flow	**445**	**796**	**(3,412)**	**570**	-	**236**	*-58.5*	**183**	**390**	**366**
Cash flow inc/(dec) in cash	**(10)**	**0**	**(10)**	**1**	-	**0**	*-100.0*	**0**	**0**	**0**
FX / non cash items	0	(1)	0	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	**(9)**	**(1)**	**(10)**	**0**	-	**0**	*50.0*	**0**	**0**	**0**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.[1]Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

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NiSource Inc. (NI.N)

Valuation (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
P/E (local GAAP, diluted)	18.9	22.8	33.5	23.9	22.3	21.1	19.4	18.7
P/E (UBS, diluted)	18.9	22.8	33.5	23.9	22.3	21.1	19.4	18.7
P/CEPS	8.7	10.6	12.1	9.3	8.9	8.6	8.1	8.0
Equity FCF (UBS) yield %	(4.8)	(5.9)	1.0	(6.3)	(2.8)	(2.2)	(4.7)	(4.4)
Net dividend yield (%)	3.3	2.7	3.2	2.5	2.6	2.8	2.9	3.0
P/BV x	1.6	1.9	2.6	2.1	2.0	1.9	1.8	1.7
EV/revenues (core)	2.8	3.0	3.7	3.1	3.1	3.1	3.1	3.0
EV/EBITDA (core)	9.2	10.4	12.6	9.6	9.5	9.3	9.1	8.8
EV/EBIT (core)	13.8	15.3	20.5	15.2	14.8	14.3	13.8	13.1
EV/OpFCF (core)	9.2	10.4	12.6	9.6	9.5	9.3	9.1	8.8
EV/op. invested capital	1.3	1.4	1.4	1.5	1.4	1.4	1.3	1.2

Enterprise value (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Market cap.	9,220	11,913	9,853	8,303	8,303	8,303	8,303	8,303
Net debt (cash)	8,437	9,391	8,237	7,018	7,742	8,125	8,578	8,578
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	528	676	760	746	746	746	746	746
Total enterprise value	**18,185**	**21,980**	**18,850**	**16,067**	**16,791**	**17,175**	**17,628**	**17,628**
Non core assets	(2,100)	(2,452)	(1,859)	(1,865)	(1,865)	(1,865)	(1,865)	(1,865)
Core enterprise value	**16,085**	**19,528**	**16,991**	**14,202**	**14,926**	**15,310**	**15,763**	**15,763**

Growth (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenue	11.3	14.6	-28.9	-2.0	5.4	3.5	3.5	3.3
EBITDA (UBS)	6.9	7.9	-28.1	9.4	6.5	4.7	4.5	4.2
EBIT (UBS)	9.3	9.4	-35.1	12.6	8.4	5.9	6.4	5.9
EPS (UBS, diluted)	0.0	6.2	-44.2	16.5	6.9	6.1	8.3	4.2
Net DPS	4.2	4.0	-4.4	-34.0	3.8	5.2	4.9	4.7

Margins & Profitability (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Gross profit margin	67.9	65.7	66.0	68.9	68.6	68.6	68.6	68.6
EBITDA margin	30.8	29.0	29.4	32.8	33.1	33.5	33.8	34.1
EBIT margin	20.6	19.7	18.0	20.7	21.2	21.7	22.3	22.9
Net earnings (UBS) margin	8.7	8.1	6.4	7.7	7.8	8.1	8.3	8.4
ROIC (EBIT)	9.2	9.3	7.0	9.6	9.5	9.6	9.6	9.5
ROIC post tax	6.0	5.5	4.4	5.9	6.0	6.0	6.0	5.9
ROE (UBS)	8.6	8.7	5.9	9.0	9.4	9.5	9.6	9.4

Capital structure & Coverage (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Net debt / EBITDA	5.0	5.3	4.8	5.1	5.0	5.0	5.1	5.2
Net debt / total equity %	149.6	161.5	169.1	194.6	195.4	193.3	194.3	194.7
Net debt / (net debt + total equity) %	59.9	61.8	62.8	66.1	66.1	65.9	66.0	66.1
Net debt/EV %	54.8	51.1	38.3	53.1	53.3	54.2	56.2	59.6
Capex / depreciation %	NM	NM	NM	NM	NM	NM	NM	NM
Capex / revenue %	NM	NM	29.5	NM	29.4	28.4	27.4	26.6
EBIT / net interest	2.8	2.9	2.2	2.5	2.5	2.5	2.5	2.4
Dividend cover (UBS)	1.6	1.6	0.9	1.7	1.7	1.7	1.8	1.8
Div. payout ratio (UBS) %	63.0	61.7	106.0	60.2	58.4	57.9	55.8	56.1

Revenues by division (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Others	5,657	6,485	4,612	4,519	4,764	4,932	5,103	5,272
Total	**5,657**	**6,485**	**4,612**	**4,519**	**4,764**	**4,932**	**5,103**	**5,272**

EBIT (UBS) by division (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Others	1,168	1,277	829	933	1,012	1,071	1,140	1,207
Total	**1,168**	**1,277**	**829**	**933**	**1,012**	**1,071**	**1,140**	**1,207**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

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Forecast returns

Forecast price appreciation	+4.6%
Forecast dividend yield	2.6%
Forecast stock return	+7.2%
Market return assumption	5.7%
Forecast excess return	+1.5%

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 and peer valuation multiples to calculate our price target.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	47%	32%
Neutral	FSR is between -6% and 6% of the MRA.	38%	25%
Sell	FSR is > 6% below the MRA.	15%	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 2016.
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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UBS Securities LLC: Shneur Z. Gershuni, CFA; Jennifer Hills.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	N/A	US$25.81	01 Aug 2016

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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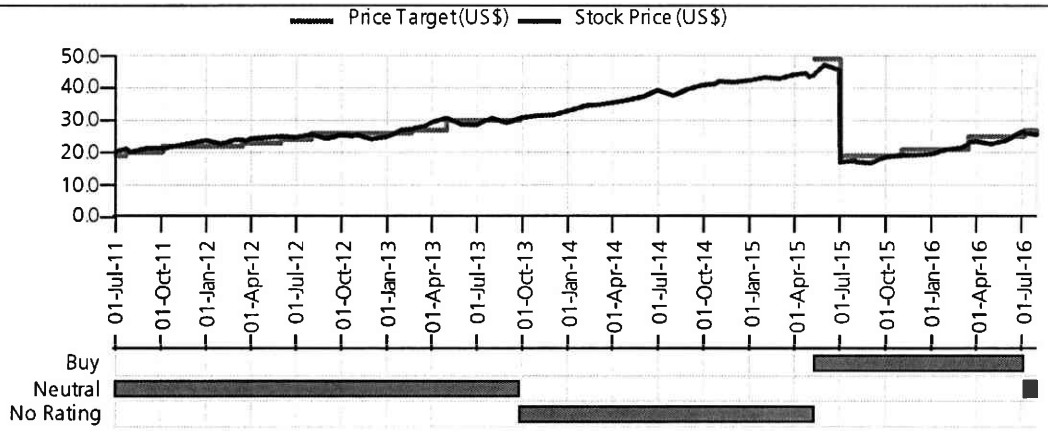
NiSource Inc. (US$)



Source: UBS; as of 01 Aug 2016

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WOLFE RESEARCH

UTILITIES & POWER

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

August 2, 2016

NISOURCE

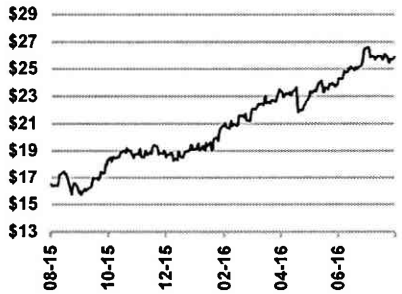
(NI US Equity – $ 25.94 – Outperform)

The tortoise won the race

- **A year since the split has established NI as a premium LDC story**
  NiSource just completed its first full year as a utility-only operation, and it has been a successful one. The new management team has executed on its earnings targets, achieved a round of balanced regulatory outcomes, and has demonstrated that NI is a premium gas and electric utility story. Given the steady execution, visible multi-decade backlog of rate base investment, strong earnings and dividend growth potential, and potential upside to numbers, NI remains a high quality name. Reiterate Outperform.
- **Has been a great stock since the split**
  Looking back on the year since the separation of the pipeline business it's clear that the split was a good move, though not in the way that was originally intended (to unlock the value of the pipeline). NI on its own is up 50% since the split, far outperforming the UTY and CPGX even counting the sale of the pipeline. See Exhibit 6 below.
- **Higher 2016 guidance; better base for growth, with upside**
  Management raised the lower end of 2016 guidance, to $1.05-$1.10 from $1.00-$1.10. Moreover NI noted that the revised guidance would be the base for the long term 4%-6% EPS CAGR – implying modestly better LT earnings power. Our estimates and the street reflect this however. That said, we believe further capex optimization and efforts to boost LDC customer growth could represent incremental upside, though it is early in the process.
- **Q2 a small beat; estimates and $26 TP unchanged**
  NI reported Q2 operating EPS of $0.08 vs. breakeven last year, ahead of our $0.06E and the $0.07 consensus. The combination of rate relief, new investment and lower interest expense post-split drove earnings higher, though Q2 is a typical shoulder period. Our $26 target price is unchanged.

Trading and Fundamental Data	
Target Price	**$ 26**
Current Price	$ 25.94
52 Week Range	$ 16 - $ 27
Market Cap. ($MM)	$ 8242
Share Out. (MM)	317.6
Dividend Yield	2.51%
Dividend Payout Ratio	60%
ROE	5.9%
Debt to Cap	64.4%
Avg Daily Vol (ooo)	4315

Price Performance	YTD	LTM
NI US Equity	33%	49%
Utility Index	20%	17%
S&P 500	6%	3%



Source: FactSet/Wolfe Research

Estimates / Valuation				
(US$)	2016E	2017E	2018E	2019E
EPS	$1.08	$1.14	$1.21	$1.28
Consensus	$1.07	$1.16	$1.21	$1.28
P/E	23.9x	22.7x	21.5x	20.3x
Dividend Per Share	$0.65	$0.68	$0.72	$0.75
Dividend Yield	2.5%	2.6%	2.8%	2.9%

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WOLFE RESEARCH

August 2, 2016

NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2016E	2017E	2018E	2019E
EPS	$1.08	$1.14	$1.21	$1.28
Diluted Shares Outstanding	319	320	321	322
Dividends Per Share	$0.65	$0.68	$0.72	$0.75
Dividend Yield	2.5%	2.6%	2.8%	2.9%
Dividend Payout Ratio	60%	60%	59%	59%
Equity Ratio	32%	32%	32%	33%
FFO/Net Debt	17%	16%	17%	17%
Valuation Metrics				
P/E	23.9x	22.7x	21.5x	20.3x
Price/Book	2.7x	2.5x	2.3x	2.2x
Segment EPS				
Gas Distribution	$0.93	$1.00	$1.05	$1.09
Electric	0.47	0.50	0.52	0.54
Parent & Other	(0.32)	(0.35)	(0.36)	(0.34)
Total EPS	**$1.08**	**$1.14**	**$1.21**	**$1.28**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2016E	2017E	2018E	2019E
Total Capital Spending by Segment ($M)				
Gas Distribution	$760	$730	$730	$730
Electric	593	593	593	593
Parent	50	50	50	50
Total Capex	**$1,403**	**$1,373**	**$1,373**	**$1,373**
Financings ($M)				
Total Equity Issued/(Repurchased)	$45	$45	$45	$45
Total Debt Issued/(Repurchased)	$681	$605	$170	$85

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 3.4 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, and Massachusetts.

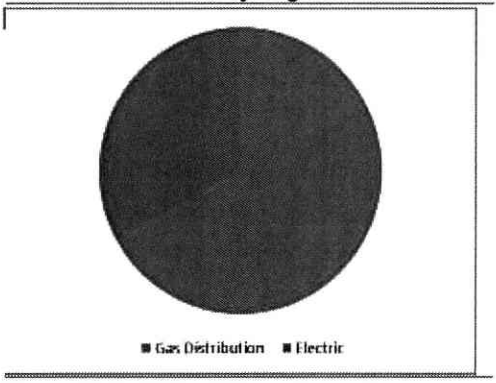
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of investment with recovery largely through trackers and balanced regulatory environments. Additionally, we see the gas business getting larger over time. NI appears attractive at current levels.

Valuation

Our $26 price target is on a target P/E valuation. We apply a 21.5x multiple to 2018E earnings, in line with higher quality gas LDCs. Downside risks for NiSource are execution on rate base investment, economic conditions and regulatory outcomes. Upside risks are additional growth projects and customer growth initiatives.

Exhibit 3. 2017 EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart

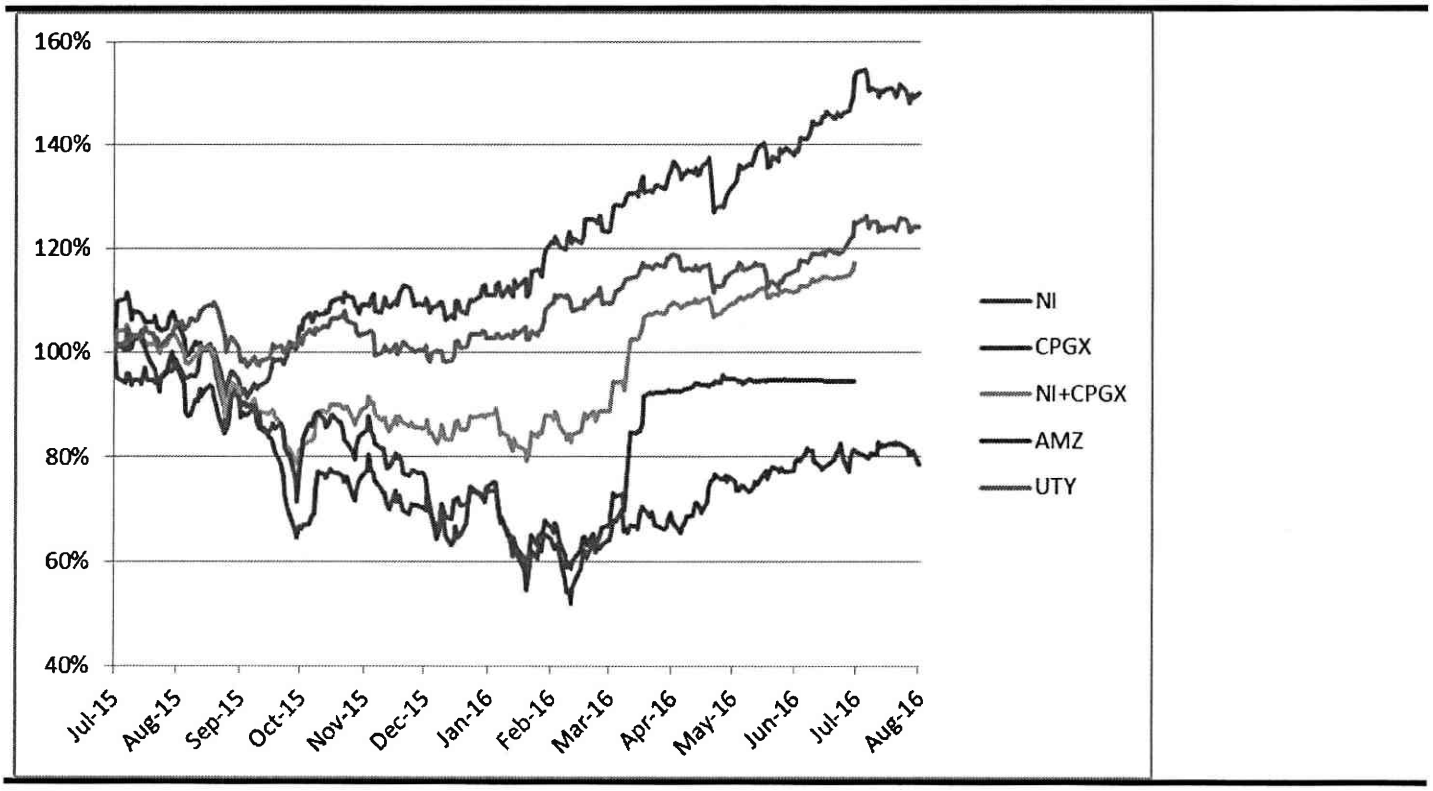
Source: Bloomberg

Exhibit 5: LDC gas comparables

Company Name	Ticker	Current Price	Mkt Cap ($M)	P/E Multiple 2016E	2017E	2018E	2019E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Atmos Energy Corp	ATO	79.21	8,098	24.2	22.6	21.1	NA	2.1%	6.2%	55%	2.4	52%
Southwest Gas Corp	SWX	76.97	3,654	24.3	22.4	21.1	20.9	2.3%	4.5%	61%	2.2	50%
WGL Holdings Inc	WGL	69.52	3,500	22.6	21.3	18.4	NA	2.8%	8.0%	64%	2.5	49%
One Gas	OGS	64.02	3,344	25.2	23.8	22.4	21.4	2.2%	5.0%	63%	1.8	60%
Piedmont Natural Gas Co Inc	PNY	59.77	4,853	31.1	28.8	25.2	NA	2.3%	7.0%	73%	3.1	43%
NiSource	**NI**	**25.94**	**8,357**	**23.9**	**22.7**	**21.5**	**20.3**	**2.5%**	**5.0%**	**71%**	**2.2**	**36%**
Questar Corp	STR	25.24	4,427	19.5	19.0	19.0	19.7	3.5%	4.5%	68%	3.3	43%
New Jersey Resources Corp	NJR	36.18	3,113	22.7	21.0	19.8	18.1	2.7%	6.0%	55%	2.6	55%
Northwest Natural Gas Co	NWN	65.04	1,792	29.5	27.9	26.2	25.5	2.9%	4.5%	84%	2.2	47%
UGI Corp	UGI	46.09	7,959	22.9	19.1	19.4	18.6	2.1%	7.5%	49%	2.7	48%
Spire Inc	SR	68.88	3,123	20.3	19.5	19.2	17.4	2.8%	4.5%	61%	1.8	42%
Vectren Corp	VVC	51.91	4,298	21.0	19.4	18.4	NA	3.1%	5.0%	69%	2.5	48%
Average (ex-M&A targets)				**23.6x**	**21.9x**	**20.7x**	**20.3x**	**2.6%**	**5.6%**	**64%**	**2.4x**	**48%**

Source: Wolfe Research, Bloomberg consensus

Exhibit 6: Relative performance of NI, CPGX vs. Electric and MLP sectors, 7/1/15 to present



Note:
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WOLFE RESEARCH

August 2, 2016

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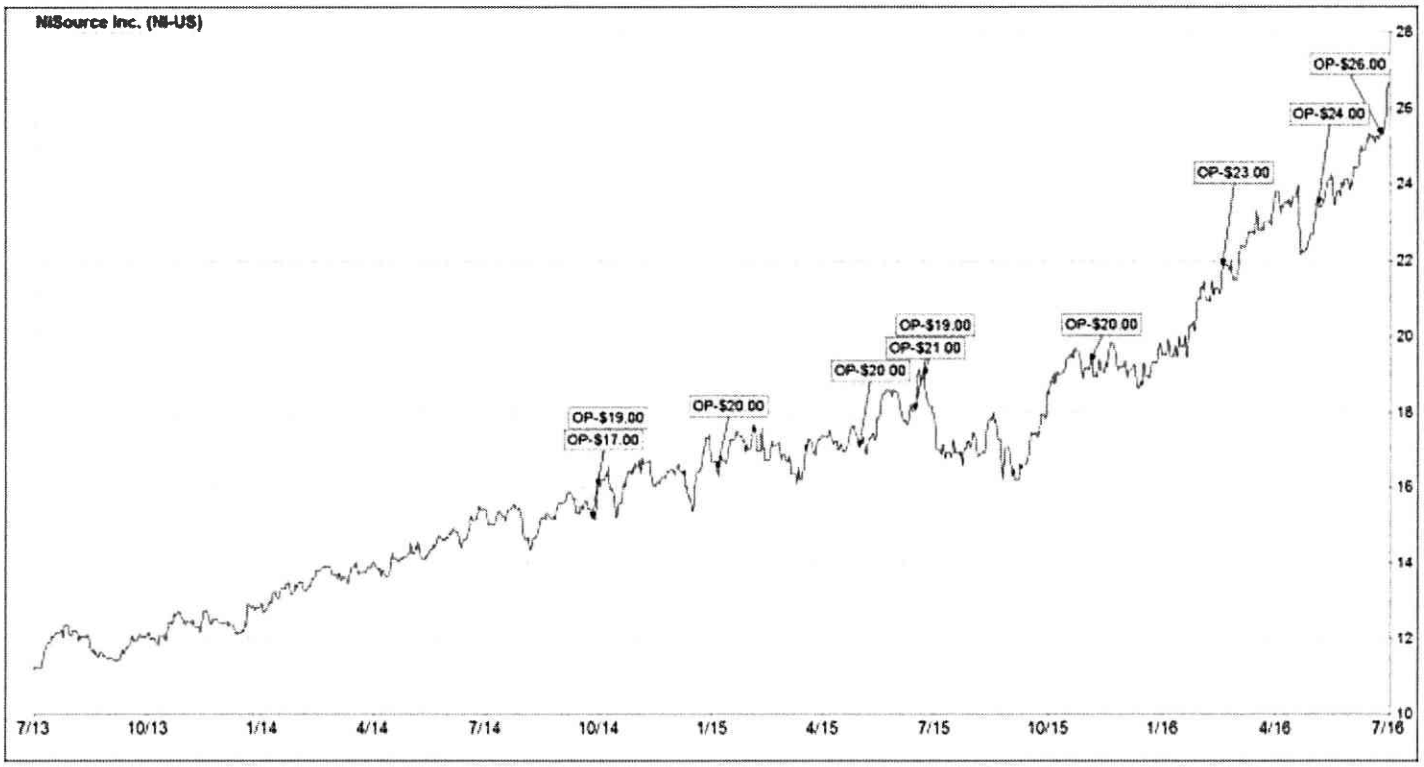

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NI US Equity	Forward P/E

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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.

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Wolfe Research, LLC uses a relative rating system using terms such as Outperform, Peer Perform and Underperform (see definitions above). Please carefully read the definitions of all ratings used in Wolfe Research, LLC research. In addition, since Wolfe Research, LLC research contains more complete information concerning the analyst's views, please carefully read Wolfe Research, LLC research in its entirety and not infer the contents from the ratings alone. In all cases, ratings (or research) should not be used or relied upon as investment advice and any investment decisions should be based upon individual circumstances and other considerations.

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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.

Wolfe Research, LLC Distribution of Fundamental Stock Ratings (As of June 30, 2016):

Outperform:	39%	1% Investment Banking Clients
Peer Perform:	49%	0% Investment Banking Clients
Underperform:	12%	0% Investment Banking Clients

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CREDIT SUISSE

8 August 2016
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

INCREASE TARGET PRICE

2Q16 EPS In Line, Raising TP to $25

Rating	**NEUTRAL**
Price (08-Aug-16,US$)	24.81
Target price (US$)	(from 24.00) 25.00
52-week price range	26.77 - 16.17
Market cap (US$ m)	7,993.42

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
†Target price is for 12 months.

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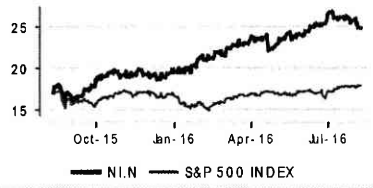
- **2Q16 In Line:** NI delivered a solid quarter, with EPS of $0.08 in-line with our estimate and above the Street's $0.07. EBITDA of $280mm was above our estimate of $255mm and the Street's $262mm (+7%). Segment operations came in strong, with Gas Distribution segment EBITDA coming in 18% above our estimate on a +3% volumes beat; Electric Operations EBITDA was 4% above our estimates with customers and sales coming in-line with our forecasts. Our 2016-2017 EPS goes to $1.07 and $1.13, from $1.03 and $1.18, and we introduce our 2018 EPS of $1.19.
- **Increasing Capex Guidance; EPS Guidance Narrowed:** NI has enjoyed a strong start to its construction programs in 1H'16 due to favorable weather conditions, and management is increasing capex guidance by $100mm, to $1.5bn, for 2016. The $100mm increase will mostly be invested on the gas side of the business. $1,619mm in net available liquidity at the end of 2Q16 provides ample funding for execution on NI's capital spending plan through 2016. Management narrowed 2016 operating earnings per share guidance to $1.05-$1.10 (from $1.00-$1.10), and maintained long-term EPS and dividend growth projections of 4-6% annually. We expect that recent regulatory approvals in electric base rate cases and NI's long term electric infrastructure modernization program, combined with progress on several regulatory initiatives in Gas distribution business should drive growth momentum for the company.
- **Raising TP to $25 TP and Maintain Neutral Rating:** Our $25 TP is based on 22x our 2017E EPS of $1.13 giving us a total return outlook of ~3.5%, but the defensive business model keeps us at a Neutral rating on the shares.

Share price performance



On 08-Aug-2016 the S&P 500 INDEX closed at 2180.89
Daily Aug10, 2015 - Aug08, 2016, 08/10/15 = US$16.88

Quarterly EPS	Q1	Q2	Q3	Q4
2015A	0.85	0.18	0.01	0.31
2016E	0.56	0.08	0.09	0.34
2017E	0.61	0.10	0.07	0.34

Financial and valuation metrics

Year	12/15A	12/16E	12/17E	12/18E
EPS (CS adj.) (US$)	1.38	1.07	1.13	1.19
Prev. EPS (US$)	-	1.03	1.18	-
P/E (x)	17.9	23.2	22.0	20.9
P/E rel. (%)	96.7	126.1	134.9	144.3
Revenue (US$ m)	5,245.4	3,956.8	3,709.4	3,853.1
EBITDA (US$ m)	1,690.2	1,466.0	1,552.1	1,647.8
OCFPS (US$)	4.56	4.12	2.93	3.17
P/OCF (x)	4.3	6.0	8.5	7.8
EV/EBITDA (current)	8.8	10.2	9.6	9.1
Net debt (US$ m)	6,934	7,297	7,882	8,402
ROIC (%)	6.58	5.14	5.17	5.17
Number of shares (m)	322.19	IC (current, US$ m)		10,777.60
Net debt (Next Qtr., US$ m)	6,990.9	EV/IC (x)		1.4
Net debt/tot eq (Next Qtr.,%)	180.5	Dividend (current, US$)		0.62

Source: Company data, Thomson Reuters, Credit Suisse estimates

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NiSource Inc. (NI)

Price (08 Aug 2016): **US$24.81**; Rating: **NEUTRAL**; Target Price: **(from US$24.00) US$25.00**; Analyst: **John Edwards**

Income Statement	12/15A	12/16E	12/17E	12/18E
Revenue (US$ m)	**5,245.4**	**3,956.8**	**3,709.4**	**3,853.1**
EBITDA	**1,690**	**1,466**	**1,552**	**1,648**
Depr. & amort.	(584)	(549)	(588)	(627)
EBIT (US$)	**1,107**	**917**	**964**	**1,021**
Net interest exp	(401)	(375)	(399)	(392)
Associates	-	-	-	-
Other adj.	(3)	9	7	(29)
PBT (US$)	**703**	**550**	**572**	**600**
Income taxes	(252)	(206)	(206)	(216)
Profit after tax	**451**	**345**	**366**	**384**
Minorities	(16)	-0	-0	-0
Preferred dividends	-	-	-	-
Associates & other	8	0	0	0
Net profit (US$)	**444**	**345**	**366**	**384**
Other NPAT adjustments	(35)	0	0	0
Reported net income	**408**	**345**	**366**	**384**

Cash Flow	12/15A	12/16E	12/17E	12/18E
EBIT	1,107	917	964	1,021
Net interest	(401)	(375)	(399)	(392)
Cash taxes paid	-	-	-	-
Change in working capital	148	292	(6)	14
Other cash & non-cash items	603	497	389	382
Cash flow from operations	**1,457**	**1,331**	**948**	**1,025**
CAPEX	866	1,162	1,356	1,336
Free cashflow to the firm	**2,323**	**2,493**	**2,304**	**2,361**
Aquisitions	-	-	-	-
Divestments	5	3	0	0
Other investment/(outflows)	3,301	(46)	0	0
Cash flow from investments	**1,945**	**(1,515)**	**(1,350)**	**(1,350)**
Net share issue(/repurchase)	23	30	40	40
Dividends paid	(263)	(206)	(224)	(235)
Issuance (retirement) of debt	(3,122)	368	586	520
Other	3,002	(371)	(586)	(520)
Cashflow from financing activities	(361)	(179)	(184)	(195)
Effect of exchange rates	-	-	-	-
Changes in Net Cash/Debt	**3,040**	**(363)**	**(586)**	**(520)**
Net debt at start	9,975	6,934	7,297	7,882
Change in net debt	**(3,040)**	**363**	**586**	**520**
Net debt at end	6,934	7,297	7,882	8,402

Balance Sheet (US$)	12/15A	12/16E	12/17E	12/18E
Assets				
Cash & cash equivalents	16	16	16	16
Account receivables	660	461	457	495
Inventory	344	116	120	126
Other current assets	558	555	555	555
Total current assets	**1,577**	**1,148**	**1,148**	**1,192**
Total fixed assets	12,112	13,077	13,839	14,562
Intangible assets and goodwill	1,944	1,937	1,937	1,937
Investment securities	-	-	-	-
Other assets	1,859	1,865	1,865	1,865
Total assets	**17,493**	**18,026**	**18,788**	**19,556**
Liabilities				
Accounts payables	433	440	437	473
Short-term debt	567	1,394	2,729	3,999
Other short term liabilities	1,657	1,469	1,467	1,488
Total current liabilities	**2,658**	**3,303**	**4,633**	**5,960**
Long-term debt	5,949	5,607	4,857	4,107
Other liabilities	5,043	5,253	5,253	5,253
Total liabilities	**13,649**	**14,163**	**14,743**	**15,321**
Shareholder equity	3,843	3,863	4,045	4,235
Minority interests	-	-	-	-
Total liabilities and equity	**17,493**	**18,026**	**18,788**	**19,556**
Net debt	6,934	7,297	7,882	8,402

Source: Company data, Thomson Reuters, Credit Suisse estimates

Per share	12/15A	12/16E	12/17E	12/18E
No. of shares (wtd avg)	319	323	324	324
CS adj. EPS	1.38	1.07	1.13	1.19
Prev. EPS (US$)	-	1.03	1.18	-
Dividend (US$)	0.99	0.65	0.69	0.73
Dividend payout ratio	71.15	60.90	61.33	61.33
Free cash flow per share	7.27	7.72	7.11	7.29

Earnings	12/15A	12/16E	12/17E	12/18E
Sales growth (%)	(18.9)	(24.6)	(6.3)	3.9
EBIT growth (%)	(12.3)	(17.1)	5.1	5.9
Net profit growth (%)	(16.4)	(22.3)	6.1	5.0
EPS growth (%)	(17.4)	(22.9)	5.9	5.0
EBITDA margin (%)	32.2	37.0	41.8	42.8
EBIT margin (%)	21.1	23.2	26.0	26.5
Pretax margin (%)	13.4	13.9	15.4	15.6
Net margin (%)	8.5	8.7	9.9	10.0

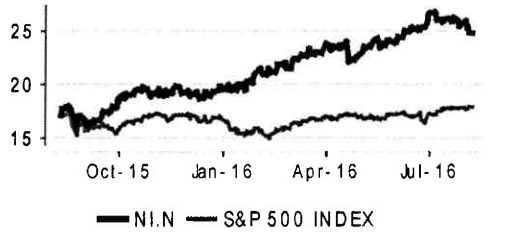
Valuation	12/15A	12/16E	12/17E	12/18E
EV/Sales (x)	2.85	3.86	4.28	4.26
EV/EBITDA (x)	8.8	10.2	9.6	9.1
EV/EBIT (x)	13.5	16.7	16.5	16.1
P/E (x)	17.9	23.2	22.0	20.9
Price to book (x)	2.0	1.9	1.9	1.8
Asset turnover	0.3	0.2	0.2	0.2

Returns	12/15A	12/16E	12/17E	12/18E
ROE stated-return on (%)	8.0	8.6	8.7	8.8
ROIC (%)	0.1	0.1	0.1	0.1
Interest burden (%)	0.64	0.60	0.59	0.59
Tax rate (%)	35.9	37.4	36.0	36.0
Financial leverage (%)	1.76	1.78	1.84	1.88

Gearing	12/15A	12/16E	12/17E	12/18E
Net debt/equity (%)	180.4	188.9	194.9	198.4
Net Debt to EBITDA (x)	4.1	5.0	5.1	5.1
Interest coverage ratio (X)	2.8	2.4	2.4	2.6

Quarterly EPS	Q1	Q2	Q3	Q4
2015A	0.85	0.18	0.01	0.31
2016E	0.56	0.08	0.09	0.34
2017E	0.61	0.10	0.07	0.34

Share price performance



On 08-Aug-2016 the S&P 500 INDEX closed at 2180.89
Daily Aug10, 2015 - Aug08, 2016, 08/10/15 = US$16.88

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Figure 1: NI 2Q16 Result vs CS Estimates

Quarterly Variance (NI)

Earnings Variance	2Q16 Actual	2Q16 CS Estimate	Diff.	Diff. (%)	2Q15 Actual
Segment EBITDA					
Gas Distribution	137	116	21	18%	114
Electric Operations	133	128	5	4%	125
Other	10	10	0	NM	2
Total EBITDA (recurring)	**280**	**255**	**25**	**10%**	**241**
Segment EBIT					
Gas Distribution	73	52	21	41%	56
Electric Operations	64	62	2	3%	57
Other	(3)	5	(8)	NM	(9)
Total EBIT (recurring)	**134**	**119**	**15**	**12%**	**104**
Interest Expense	86	79	7	9%	117
Other Expenses	6	0	6	NM	(7)
Taxes	16	15	1	9%	36
Recurring Net Income	**26**	**26**	**0**	**2%**	**(43)**
Diluted Wtd Avg shares outstanding	323	322	0	0%	318
Recurring EPS - Diluted	**$0.08**	**$0.08**	**$0.00**	**1%**	**$0.18**
Dividend per share	**$0.17**	**$0.16**	**$0.01**	**6%**	**$0.16**
Operational Metrics					
Gas Distribution					
Total Volumes (MDth)	**193**	**187**	**6**	**3%**	**183**
Total Customers	**3,391,055**	**3,426,495**	**(35,440)**	**-1%**	**3,359,539**
Electric Operations					
Total Heating customers (000s)	**463,800**	**461,747**	**2,053**	**0%**	**460,825**
Sales (Gigawatt Hours)					
Total	**4,061**	**4,001**	**60**	**1%**	**3,977**

Source: Company data, Credit Suisse estimates

Investment Thesis

Post separation of the Columbia Gas Transmission systems NiSource now offers a pure-play utility investment proposition with over $30B in identified infrastructure investments over the next 20 years, the overwhelming majority of which are in lower risk infrastructure investments (gas and electric system modernization programs comprise 87% of the identified infrastructure investment portfolio) supported by the communities and regulatory authorities. Higher risk power generation investments comprise just comprise just 6% of the identified investment opportunities. It has 4 million customers across 7 states with lower risk/constructive regulatory conditions. Earnings per share and dividends per share are expected to grow in the 4-6% range for the foreseeable future

Valuation

Given the low risk economic and regulatory environment of NI's utilities, stable EPS outlook and visibility to future growth opportunities we value NI at a premium multiple relative to other utilities or ~22x our 2017 EPS forecast of $1.13 giving us a target price objective of $25. Taken together with the expected dividend the NTM of ~$0.67 gives us a total return outlook of 3.5%. The highly defensive business model and visible growth outlook keeps us at Neutral.

Risks

Risks to achieving our Neutral rating exist. The total return outlook is below average for the group though the very defensive nature of the business model keeps us at Neutral. Downside risk includes a change in investor appetite from the current yield/income oriented defensive stocks to growth oriented/aggressive stocks causing investors to abandon issuers such as NI. The upside risk is the opposite – with 0 or even negative interest rates in parts of the world, there could be an additional demand for a yield oriented issuers such as NI, pushing the value of the shares even higher. Similar upside and downside exist to achieving our TP of $25.

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Figure 2: NI Changes to Estimates

Quarterly Variance (NI)

Earnings Variance	Old estimates					New estimates				
	3Q16E	4Q16E	2016E	2017E	2018E	3Q16E	4Q16E	2016E	2017E	2018E
Segment EBITDA										
Gas Distribution	81	239	827	910	984	83	272	883	929	994
Electric Operations	171	113	552	575	598	170	115	557	580	611
Other	(166)	(173)	(696)	(832)	(974)	(166)	(173)	(696)	(832)	(974)
Total EBITDA (recurring)	**274**	**372**	**684**	**652**	**608**	**274**	**407**	**744**	**676**	**631**
Segment EBIT										
Gas Distribution	15	172	569	627	679	17	205	625	642	681
Electric Operations	104	45	285	295	307	103	47	290	300	320
Other	(132)	(137)	(571)	(667)	(771)	(132)	(137)	(582)	(667)	(771)
Total EBIT (recurring)	**136**	**232**	**868**	**944**	**1,006**	**136**	**266**	**917**	**964**	**1,021**
Interest Expense	83	84	336	346	366	91	94	361	392	421
Other Expenses	0	0	(1)	0	0	0	0	5	0	0
Taxes	19	53	199	215	231	16	62	206	206	216
Recurring Net Income	**34**	**95**	**334**	**383**	**410**	**29**	**110**	**345**	**366**	**384**
Diluted Wtd Avg shares outstanding	323	323	323	323	323	323	324	323	324	324
Recurring EPS - Diluted	**$0.10**	**$0.29**	**$1.03**	**$1.18**	**$1.27**	**$0.09**	**$0.34**	**$1.07**	**$1.13**	**$1.19**
Dividend per share	**$0.16**	**$0.16**	**$0.62**	**$0.65**	**$0.68**	**$0.17**	**$0.17**	**$0.65**	**$0.69**	**$0.73**
Operational Metrics										
Gas Distribution										
Total Volumes (MDth)	**167**	**245**	**943**	**962**	**981**	**167**	**245**	**949**	**968**	**987**
Total Customers	**3,431,635**	**3,436,782**	**3,436,782**	**3,457,449**	**3,478,241**	**3,397,837**	**3,404,633**	**3,404,633**	**3,425,107**	**3,494,124**
Electric Operations										
Total Heating customers (000s)	**462,332**	**463,960**	**463,960**	**464,888**	**465,818**	**462,332**	**463,960**	**463,960**	**466,280**	**468,611**
Sales (Gigawatt Hours)										
Total	**4,479**	**3,972**	**16,623**	**16,806**	**16,992**	**4,479**	**3,972**	**16,683**	**16,867**	**17,054**

Source: Company data, Credit Suisse estimates

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Companies Mentioned *(Price as of 08-Aug-2016)*
NiSource Inc. (NI.N, $24.81, NEUTRAL, TP $25.0)

Disclosure Appendix

Important Global Disclosures

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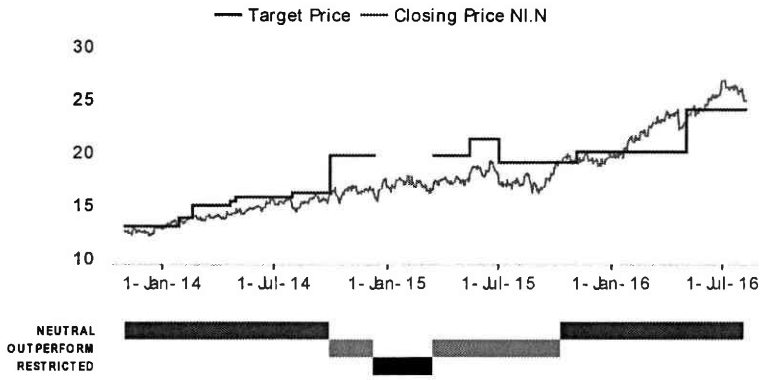
3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
01-Nov-13	12.46	12.97	N
28-Jan-14	13.43	13.75	
19-Feb-14	13.91	14.93	
21-Apr-14	14.03	15.33	
30-Apr-14	14.27	15.72	
31-Jul-14	14.81	16.11	
30-Sep-14	16.10	19.65	O
11-Dec-14	16.03		R
18-Mar-15	17.20	19.65	O
15-May-15	17.87	21.22	
02-Jul-15	16.99	19.00	
13-Oct-15	19.11	19.00	N
06-Nov-15	18.96	20.00	
03-May-16	23.11	24.00	



** Asterisk signifies initiation or assumption of coverage.*

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

Method: Our $25 target price for NI is 22x our 2017 EPS forecast of $1.13. Our Neutral rating is based on expected total return prospects.

Risk: Risks to our $25 target price and Neutral rating for NI are regulatory risk and project execution.

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8 August 2016

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
26.52 USD	21.00 USD	16.80 USD	26.25 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

NiSource plans to invest $30 billion in its regulated utilities.

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Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Investment Thesis 25 Jan 2016

On July 1, 2015, NiSource completed its tax-free separation from Columbia Pipeline Group, or CPG, and the company now derives all of its operating revenue from its regulated electric and natural gas distribution utilities. During the past several years, NiSource's regulated utilities have received favorable regulatory treatment and now receive automatic rate tracker mechanisms for over 75% of planned capital expenditures. As a result of the favorable regulatory frameworks in seven different states and the Federal Energy Regulatory Commission, NiSource has significantly increased its capital expenditures.

NiSource's legacy regulated utility businesses plan to invest about $30 billion in infrastructure improvements during the next 20-plus years. About two thirds of this investment represents modernization programs for replacing steel pipe with plastic at its natural gas distribution utilities, with trackers for timely recovery of these investments. The rate-base growth from these investments should result in annual operating earnings growth in the high single digits after adjusting for the lost earnings contribution from the CPG.

Recently enacted Indiana legislation allows for a long-term electric system modernization plan and tracker mechanisms for automatic rate increases as NiSource makes investments. However, the Indiana Court of Appeals rejected NIPSCO's $1.2 billion initial plan last year. The utility has now reached a settlement with consumer groups on a new plan that was filed with the Indiana commission on Dec. 31, 2015. We expect Indiana regulators to approve the new plan, or something close to it, in the third quarter. Approval should drive operating earnings growth for NiSource's electric utility.

NiSource cut its dividend in 2015 to $0.62 per share annualized after the separation from CPG. The company recently announced a dividend increase of 3.1%, to $0.65 per share annualized. We believe NiSource will be able to accelerate the increases and raise the dividend approximately 5% per year during at least the next five years, in line with management's target of 4%-6%.

Vital Statistics

Market Cap (USD Mil)	8,527
52-Week High (USD)	26.53
52-Week Low (USD)	16.03
52-Week Total Return %	51.5
YTD Total Return %	37.5
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	7.1
5-Yr Forward EPS CAGR %	7.4
Price/Fair Value	1.40

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	9.9	21.0	*25.0*	*23.5*
EV/EBITDA	8.2	9.7	*10.5*	*9.8*
EV/EBIT	12.2	16.1	*17.2*	*16.0*
Free Cash Flow Yield %	-13.4	-3.2	*-2.8*	*-0.4*
Dividend Yield %	6.1	4.2	*2.4*	*2.6*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	6,471	4,652	*5,399*	*5,659*
Revenue YoY %	14.4	-28.1	*16.1*	*4.8*
EBIT	1,231	802	*902*	*967*
EBIT YoY %	9.3	-34.9	*12.6*	*7.2*
Net Income, Adjusted	534	299	*339*	*364*
Net Income YoY %	8.1	-44.0	*13.6*	*7.4*
Diluted EPS	1.69	0.93	*1.06*	*1.13*
Diluted EPS YoY %	7.0	-44.6	*13.1*	*7.3*
Free Cash Flow	-602	3,741	*-245*	*147*
Free Cash Flow YoY %	58.7	-721.3	*-106.6*	*-159.9*

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 3.4 million customers in Indiana, Kentucky, Maryland, Massachusetts, 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 MW of generation capacity, most of which is coal-fired.

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NiSource Inc NI (NYSE) | ★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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Morningstar Analysis

Valuation, Growth and Profitability 30 Jun 2016

We are increasing our fair value estimate to $21 per share from $19 per share, owing to time-value appreciation since our last update and a slight decrease to our estimated cost of capital due to a modest change in our target equity ratio following the separation from CPG.

NiSource's electric utility's infrastructure investment program is the primary driver of our 5% annual operating earnings growth estimate during the next several years. This growth rate is below management's 7%-9% guidance range, but we think appropriate given the legal and regulatory delays in approval of the Electric System Modernization Program.

At its gas distribution utilities, we estimate capital expenditures of $5.3 billion during the next five years. We estimate that favorable regulatory frameworks should push average annual gas distribution earnings growth to approximately 9%, the high end of the 7%-9% management target.

We use a 5.7% 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.

Our pretax cost of debt assumption is 5.8%, as we incorporate a normalized long-term real rate environment and normalized credit spreads. A 2.25% long-term inflation outlook underpins our capital cost assumptions.

Our fair value estimate for NiSource shares represents an 20 times multiple on 2016 earnings.

Scenario Analysis

Our uncertainty rating is low. If we assume capital expenditures are 25% less than our estimate during the next five years, then our annual EPS growth would decline about 5% and our fair value estimate would decrease approximately $3 per share. We believe it is unlikely that capital expenditures will materially exceed our estimate.

A 50-basis-point change in our cost of equity assumption changes our fair value estimate by $3 per share.

Economic Moat

Service territory monopolies and efficient-scale advantages are the primary moat sources for regulated utilities such as NiSource. 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 70% of its 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 potentially weaken its moat. Customers may elect to purchase natural gas from independent retail energy suppliers and use and

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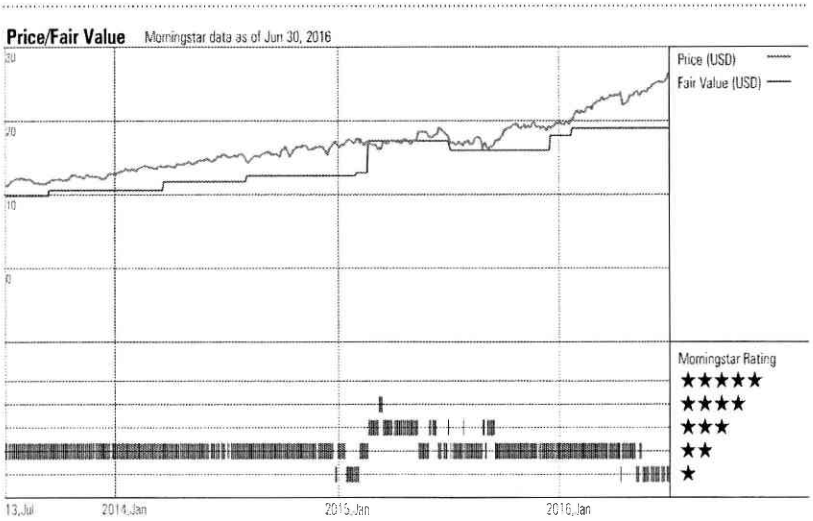

pay for distribution services only. NiSource exited the no-moat retail energy supply business in 2010.

Electricity generation, which contributes about 30% of 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.

Moat Trend

We believe NiSource's moat trend is stable. We do not foresee a long-term change to the firm's business as a monopoly provider of natural gas and electricity, nor do we see changes to its compact with regulators. All operating earnings are from FERC-regulated electric transmission and state-regulated natural gas and electric utilities. We think it is unlikely that the FERC or the state regulatory frameworks will change. As with almost all regulated utilities, we believe regulatory caps on revenue and returns preclude NiSource from establishing a wide economic moat.

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Bulls Say/Bears Say

Bulls Say

- We expect NiSource's annual dividend growth for its legacy utility business to average approximately 5% during the next five years.
- We believe the separation of the Columbia Pipeline Group from NiSource was good shareholder stewardship, as 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

- Industrial customers account for almost half of NiSource's electric load served, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- Although NiSource reports weather-normalized operating earnings, mild weather negatively affects GAAP earnings and cash flow.
- The CEO and CFO of NiSource went with the Columbia Pipeline Group following the separation. Although NiSource's new top executives have considerable utility experience, they are in new positions.

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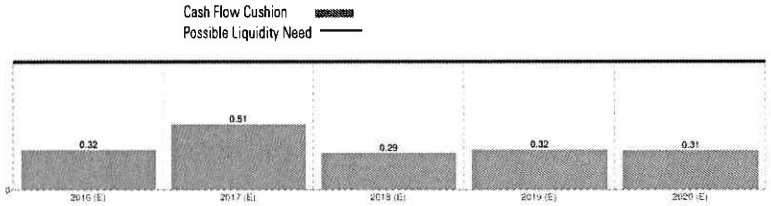
NiSource Inc NI (NYSE) | ★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
26.52 USD	21.00 USD	16.80 USD	26.25 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2016(E)	2017(E)	2018(E)	2019(E)	2020(E)
Cash and Equivalents (beginning of period)	45	15	49	41	11
Adjusted Available Cash Flow	241	322	291	280	400
Total Cash Available before Debt Service	286	337	340	322	411
Principal Payments	-542	-266	-755	-598	-809
Interest Payments	-364	-389	-405	-421	-516
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-906	-655	-1,160	-1,019	-1,325

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	45	0.9
Sum of 5-Year Adjusted Free Cash Flow	1,535	30.3
Sum of Cash and 5-Year Cash Generation	1,580	31.2
Revolver Availability	1,500	29.6
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	3,080	60.8
Sum of 5-Year Cash Commitments	-5,065	—

Financial Health

We believe the ongoing dividend reinvestment program is likely to provide sufficient equity during the next five years to sustain a strong balance sheet for the legacy utility business following the separation of the Columbia Pipeline Group. Debt/capital was 64.4% at 2015 year-end, and we project that the ratio will remain in the mid-60% range over the next five years. We expect NiSource's EBIT/interest expense ratio will remain around 2.5 times during this same period. This is slightly below the industry average, but we view it as sufficient, given that NiSource's regulated operations provide fairly consistent earnings and cash flow. In late 2014, management indicated its plan to invest $30 billion during the next 20-plus years. This plan is consistent with our estimate of approximately $1.3 billion-$1.5 billion per year during the next five years. The majority of investment opportunities at the company's utilities are infrastructure improvements or environmental projects with rate-tracker mechanisms. These investments have a high level of certainty of recovery in rates and, in many cases, at pre-approved returns. Therefore, these higher levels of capital expenditures are not a concern.NiSource began increasing its dividend in 2012; this marked the first increase in 10 years, following a 2003 dividend cut to strengthen its balance sheet after the Columbia Energy Group acquisition. NiSource reduced its common dividend to $0.62 per share annualized following the separation from CPG; however, when combined with the CPG dividend shareholders saw a total increase in the dividends received of 8%. Following the separation, management expects the company to continue its long-term annual dividend growth of 4%-6%, consistent with our 5% dividend growth assumption.

Enterprise Risk

Regulatory risk remains the key uncertainty; however, NiSource's regulatory exposure is diversified, owing to operations in seven states and its federal-regulated electric transmission system. NiSource has reduced some of the

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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 early 2011, NiSource reached a settlement agreement with the U.S. Environmental Protection Agency that requires about $850 million of capital improvements to air pollution control systems at three coal-fired power plants. NiSource expects to complete the improvements by 2018. Although this provides some certainty that the plants will continue to operate, environmental rules could become stricter, requiring additional capital investment or added operating cost that may have uncertain cost recovery in regulated rates. This is a risk facing all power plants, especially coal-fired ones.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
ROBERT C. SKAGGS,JR	Director	766,381	24 Mar 2015	—
JOSEPH HAMROCK	Director	470,271	29 Feb 2016	—
CARRIE J. HIGHTMAN		405,579	29 Feb 2016	—
JIMMIE L. STANLEY		309,257	29 Feb 2016	—
STEPHEN P. SMITH		305,798	18 Feb 2015	—
MS. VIOLET G. SISTOVARIS		202,798	29 Feb 2016	—
ROBERT D. CAMPBELL		192,234	02 Jun 2016	—
GLEN L. KETTERING		131,940	18 Feb 2015	—
W. LEE NUTTER	Director	129,628	12 May 2015	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
T. Rowe Price Equity Income Fund	3.36	1.16	-355	31 Mar 2016
Vanguard Mid-Cap Index Fund	2.21	0.25	155	31 May 2016
Vanguard Total Stock Mkt Idx	1.94	0.03	94	31 May 2016
Utilities Select Sector SPDR® Fund	1.51	1.31	56	29 Jun 2016
Prudential Jennison Utility	1.42	3.31	—	31 May 2016
Concentrated Holders				
MFC Intl Ten	—	7.20	1	31 Mar 2016
Rx Dynamic Stock Fund	0.01	5.17	—	31 May 2016
Dunham Alternative Income Fund	—	5.01	—	31 Mar 2016
DIAM Shale Equity Fund	0.02	4.41	-2	12 Jun 2015
Brookfield GLO Listed INF Income	0.15	4.40	475	31 Mar 2016

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
RREEF America LLC	4.80	2.79	4,853	31 Mar 2016
Vanguard Group Inc	9.31	0.05	1,761	31 Mar 2016
Royal London Asset Management Ltd	0.57	—	1,720	31 Mar 2016
ARONSON+JOHNSON+ORTIZ	0.53	0.17	1,702	31 Mar 2016
TIAA-CREF Investment Management LLC	0.76	0.04	1,497	31 Mar 2016
Top 5 Sellers				
Deutsche Asset Mgmt Invst Gesenschaft	0.02	—	-12,952	31 Mar 2016
Deutsche Inv Mgmt Americas Inc	0.01	0.01	-4,962	31 Mar 2016
T. Rowe Price Associates, Inc.	8.56	0.14	-4,013	31 Mar 2016
Fidelity Management and Research Company	1.15	0.01	-2,984	31 Mar 2016
Miller Howard Investments Inc	0.03	0.04	-2,571	31 Mar 2016

Management 30 Jun 2016

We assign NiSource a Standard stewardship rating. We think the formation of Columbia Pipeline Partners and the tax-free separation of CPG exhibited exemplary stewardship of shareholder capital. However, the CEO and CFO that likely drove those decisions left NiSource to go with CPG.

Joe Hamrock became CEO following the separation. He has been with NiSource since 2012, and previously ran the natural gas distribution business. Prior to 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, but are new to their jobs.

Except for the addition of Hamrock, the 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 good stewardship of shareholder capital will likley continue.

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Analyst Notes

Management Meeting at AGA: NiSource Gases Up Its Dividend 18 May 2016

We are reaffirming our $19 per share fair value estimate for NiSource, along with our narrow moat and stable moat trend ratings, after meeting with senior management at the American Gas Association Financial Forum in Naples, Florida.

Management rewarded shareholders with a 6.5% dividend last week, above management's 4%-6% target dividend-growth rate. We don't expect dividend growth to continue above 6%, but we do think it can increase in line with our 5% earnings growth forecast. NiSource will have a 63% payout ratio based on the new annualized dividend of $0.66 and our 2016 earnings estimate of $1.05 per share. This payout ratio is well within management's 60%-70% target range.

NiSource's ability to maintain a 60%-70% payout while still averaging about $1.5 billion of annual investment is due in large part to constructive regulation in all of its jurisdictions. Capital investment riders and rate trackers for uncontrollable costs keep earned returns near allowed returns and keep cash flows consistently growing. The most recent example is the seven-year $800 million gas modernization plan in Indiana, which gets six-month rate adjustments for the duration of the project. We expect the constructive regulatory frameworks to continue for the foreseeable future, driving our narrow moat rating.

NiSource could top our growth estimates if it is able to ramp up its customer conversions to gas, away from electric, propane, and oil. Management estimates there are 300,000 customers that are economically accessible. Adding customers with low capital investment would boost returns. Management includes $150 million-$180 million in its annual investment budget to support 0.5%-1.0% gas customer growth, but we think that could go higher if gas prices remain low in NiSource's service territory. Pennsylvania, which added conversion incentives in its most recent rate case, and Indiana are prime territories for conversions.

AGA Financial Forum: How Long Will Gas Utilities Stay This Pricey? 09 May 2016

Morningstar analysts will meet with management teams from more than a dozen of the largest U.S. gas utilities at the American Gas Association Financial Forum May 15-17. There are some key questions we think investors should ask:

When will valuations normalize? Gas utilities are trading at historically rich premiums, based on a variety of valuation metrics. Utilities with significant gas operations are trading at an average 16% premium to our fair value estimates, near 20 times forward earnings and 1.6 times book value. Some of that likely is speculative M&A premium. However, the group's average dividend yield is above 3%, and strong balance sheets support growth prospects. If 10-year U.S. Treasury yields stay below 2%, these utilities offer attractive income.

Will pipeline investments pay off? Utilities are trying to boost growth and supplement gas distribution earnings with large interstate pipeline investments. We think distribution investments are the best source of low-risk earnings growth. Pipeline siting and construction can take years and tie up huge amounts of capital that depress returns and cash flow in the short run. There is heavy competition among projects and significant opposition, meaning some of these projects will never be built. Consolidated Edison recently spent $975 million to enter a JV with Crestwood Equity Partners, hoping to significantly expand a storage facility. Eversource Energy is planning to invest $1.2 billion in the Access Northeast project. Duke Energy and Dominion are pursuing the $5 billion Atlantic Coast Pipeline. The canceled $5 billion

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Analyst Notes

Northeast Energy Direct pipeline is a good example of the challenges these projects face.

Can gas utilities weather the warm winter? A near-record mild winter will require many gas utilities to manage costs carefully to make up the lost earnings. Annual weather fluctuations don't impact our fair value estimates, but they could impact our 2016 earnings outlooks.

Contact your salesperson or Travis Miller at travis.miller@morningstar.com to arrange meetings with Morningstar analysts at the conference or to join them in meetings with management teams.

NiSource Reports Solid Earnings; 2016 Capital Expenditures Expected to Be Higher Than Planned 03 May 2016

We are reaffirming our narrow moat and stable moat trend ratings and $19 fair value estimate after NiSource reported strong 2016 first-quarter operating earnings per share of $0.60, compared with $0.57 in the year-ago period. Management also reaffirmed its 2016 earnings guidance of $1.00-$1.10 per share and long-term annual growth target of 4%-6%, both in line with our estimates.

The only real change from the previous quarter's earnings call consisted of comments from NiSource's CEO Joe Hamrock that capital expenditures for 2016 will likely be slightly higher than the $1.4 billion guidance. CFO Donald Brown explained this modest change as an acceleration of projects, with the increase in operating cash flow due in large part to the extension of bonus depreciation. We will likely increase our $1.36 billion estimate for 2016, but it will not have an impact on our fair value estimate.

We forecast 5% annual dividend increases for NiSource shareholders during the next five years, starting from the $0.62 per share base following the CPG separation. Last year's dividend increase was 8%, accounting for the shares NiSource shareholders received in Columbia Pipeline Group following the July 1 separation of the two companies.

Are Utilities Overheated or Are Their Yields too Good to Pass Up? 20 Apr 2016

U.S. utilities haven't been this expensive in at least a decade. But utilities' dividend yields look incredibly attractive relative to bonds. So, are utilities stocks set to fall (and yields rise) or are yields set to fall (and stocks rise)? We think the former.

On many measures, utilities are exceedingly rich after a 14% run year-to-date and 21% run since mid-2015, well ahead of the S&P 500 (2.5%) and every sector. The 1.14 median price/fair value ratio for the 46 U.S. utilities Morningstar covers is a historic high after adjusting for a valuation methodology change in 2015. We are reaffirming our fair value estimates, moats and moat trends.

Utilities we cover trade at 19 times our 2016 earnings estimates and 22 times trailing earnings, well above the sector's average 15 trailing P/E during the last decade. Utilities are also trading near double their book values, higher than the 1.6 average during the last decade. The sector's 3.7% dividend yield is well below its 4.5% 20-year average.

But utilities' dividend yields have rarely been so attractive relative to interest rates. And we think utilities' dividends, credit metrics, and growth prospects are as strong as they have been in decades. The spread between utilities' 3.7% yield and the 1.7% 10-year U.S. Treasury yield is as wide as it has been since May 2013, a historically bullish signal for utilities and bearish signal for bonds.

In our discounted cash flow valuations, a key assumption is our 4.5% risk-free rate. This is in line with long-term average

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Analyst Notes

rates but well above current rates. If we cut our discount rates, our fair value estimates would go up and the sector would appear less overvalued.

We think investors should watch Duke Energy, Dominion Resources, and Southern Company. All have strong economic moats, trade at a discount to peers, and yield near 4%. We suggest avoiding more overvalued utilities like American Water Works, New Jersey Resources, and NiSource with sub-3% yields.

Cheap debt, low commodity prices, and a renewed focus on regulated infrastructure investment have contributed to the sector's financial health. We project the median dividend payout ratio will fall below 60% during the next four years, down from mid-60% in past years. We also forecast median 5% annualized dividend growth during the next four years, up from 3% in recent years.

Duke Energy, the largest U.S. utility, is a Morningstar Best Idea and yields 4.1% as of April 20. We think the market has focused too much on the weak Latin American unit and pricey Piedmont Natural Gas acquisition. We believe investors should pay attention to Duke's strong management team that has long focused on regulated capital investment opportunities, supporting our 5.5% earnings growth estimate, divesting noncore no-moat assets, and driving efficiencies across all of its businesses.

In 2016-20, we anticipate Duke will invest $42 billion, of which nearly $30 billion is growth capital supporting our earnings growth estimate. We anticipate that Duke will be able to recover these costs through constructive regulatory outcomes. Adding Piedmont boosts its growth potential further.

We are hosting an investor call June 8 at 2 p.m. CST with Duke Energy CFO, Steve Young. Contact Andy Bischof at Andrew.bischof@morningstar.com or (312) 696-6433 if you would like to join.

Morningstar's Utilities Sector Outlook presentation for spring 2016 is now available.

NiSource Reports In-Line 2015 Results, Reaffirms 2016 Earnings and Capital Expenditure Guidance 18 Feb 2016

We are reaffirming our narrow moat and stable moat trend ratings and $19 fair value estimate after NiSource reported 2015 operating earnings per share of $0.94, in line with our estimate and up from $0.81 in 2014. Our estimate and reported operating earnings exclude Columbia Pipeline Group, which was spun off July 1, 2015.

Management reaffirmed its 2016 earnings guidance of $1.00-$1.10 per share and long-term annual growth target of 4%-6%, both in line with our estimates. Our 2016 EPS estimate of $1.06 is unchanged. Management also said it plans to invest $1.4 billion in infrastructure this year, in line with the $1.37 billion it invested in 2015 and our $1.36 billion estimate for 2016.

We forecast 5% annual dividend increases for NiSource shareholders during the next five years starting from the $0.62 per share base following the CPG separation. Last year's dividend increase was 8%, accounting for the shares NiSource received in CPG.

Supreme Court Validates Our View That Carbon Regulation Remains Highly Uncertain 11 Feb 2016

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities and coal miners after the U.S. Supreme Court's 5-4 decision to stay the Environmental Protection Agency's Clean Power Plan. This validates our view that it's too early, and the outcome too uncertain, to make any investment decisions based on the current terms of the CPP or any carbon regulation. We do

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Analyst Notes

not include any CPP-related impacts in our fair value estimates.

At a minimum, we expect that the decision will push implementation one or two years past the 2022-30 phase-down period and will embolden political opposition to carbon regulation. In addition, it means that a Supreme Court ruling against the CPP could actually reverse industry trends. When the Supreme Court struck down the EPA's MATS rule in June, the decision was largely moot because most power plants were proceeding to implement the rule or had already made plans to retire. The CPP timeline is so long that there is plenty of time for the courts or politicians to nullify it or make major revisions to it.

For most utilities, power and gas market economics and renewable energy policies remain the most important variables for investors to consider.

The Supreme Court's decision comes as good news for coal miners that haven't had any for some time. However, we don't view today's announcement as a panacea for the coal industry's woes, as natural gas remains at prices at which coal struggles to compete. However, our view that natural gas prices will rise in the coming years hasn't changed, so we maintain our fair value estimates for both Peabody and Cloud Peak. Peabody's high leverage means it has less time to wait--the basis for its extreme uncertainty rating.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2013	2014	2015	Forecast 2016	Forecast 2017	5-Year Proj. CAGR
Revenue	*-2.8*	11.8	14.4	-28.1	*16.1*	*4.8*	*7.1*
EBIT	*-8.3*	8.4	9.3	-34.9	*12.6*	*7.2*	*8.7*
EBITDA	*-6.1*	6.4	7.8	-27.8	*11.6*	*6.8*	*7.9*
Net Income	*-11.9*	13.0	8.1	-44.0	*13.6*	*7.4*	*8.1*
Diluted EPS	*-13.7*	8.3	7.0	-44.6	*13.1*	*7.3*	*7.4*
Earnings Before Interest, after Tax	*-12.6*	-1.0	3.6	-35.0	*5.1*	*37.7*	*6.7*
Free Cash Flow	*275.6*	-637.2	58.7	-721.3	*-106.6*	*-159.9*	*-68.3*

Profitability	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Operating Margin %	*18.7*	19.9	19.0	17.2	*16.7*	*17.1*	*17.5*
EBITDA Margin %	*29.0*	30.1	28.4	28.5	*27.4*	*27.9*	*28.5*
Net Margin %	*7.8*	8.7	8.3	6.4	*6.3*	*6.4*	*6.6*
Free Cash Flow Margin %	*21.5*	-6.7	-9.3	80.4	*-4.6*	*2.6*	*0.7*
ROIC %	*5.9*	5.5	7.1	4.9	*4.9*	*6.4*	*5.8*
Adjusted ROIC %	*7.1*	6.9	8.7	5.7	*5.5*	*7.3*	*6.5*
Return on Assets %	*2.0*	2.4	2.2	1.4	*1.9*	*1.9*	*2.0*
Return on Equity %	*7.9*	9.3	8.8	5.7	*8.7*	*9.0*	*9.3*

Leverage	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Debt/Capital	*0.62*	0.60	0.62	0.64	*0.66*	*0.66*	*0.66*
Total Debt/EBITDA	*5.29*	5.19	5.45	5.24	*5.14*	*5.03*	*4.92*
EBITDA/Interest Expense	*3.91*	4.11	4.14	3.49	*4.07*	*4.07*	*4.06*

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	1.33	1.08	—	—
Price/Earnings	9.9	21.0	*25.0*	*23.5*
EV/EBITDA	8.2	9.7	*10.5*	*9.8*
EV/EBIT	12.2	16.1	*17.2*	*16.0*
Free Cash Flow Yield %	-13.4	-3.2	*-2.8*	*-0.4*
Dividend Yield %	6.1	4.2	*2.4*	*2.6*

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	5.7
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	4.0
Stage II Investment Rate %	69.0
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	164	1.2	0.51
Present Value Stage II	2,036	15.2	6.33
Present Value Stage III	11,230	83.6	34.93
Total Firm Value	**13,430**	**100.0**	**41.78**
Cash and Equivalents	50	—	0.15
Debt	-6,950	—	-21.62
Preferred Stock	—	—	—
Other Adjustments	5	—	0.02
Equity Value	**6,535**	**—**	**20.33**
Projected Diluted Shares	321		
Fair Value per Share (USD)	—		

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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MORNINGSTAR®

NiSource Inc NI (NYSE) | ★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
26.52 USD	21.00 USD	16.80 USD	26.25 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2013	2014	2015	Forecast 2016	Forecast 2017
Revenue	**5,657**	**6,471**	**4,652**	***5,399***	***5,659***
Cost of Goods Sold	1,816	2,224	1,644	*2,203*	*2,310*
Gross Profit	**3,842**	**4,246**	**3,008**	***3,196***	***3,349***
Selling, General & Administrative Expenses	1,874	2,136	1,426	*1,467*	*1,511*
Other Operating Expense (Income)	301	320	256	*250*	*258*
Other Operating Expense (Income)	-36	-47	—	*10*	*10*
Depreciation & Amortization (if reported separately)	577	606	524	*566*	*602*
Operating Income (ex charges)	**1,126**	**1,231**	**802**	***902***	***967***
Restructuring & Other Cash Charges	-18	-32	2	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**1,143**	**1,262**	**800**	***902***	***967***
Interest Expense	415	444	380	*364*	*389*
Interest Income	24	22	-80	—	—
Pre-Tax Income	**753**	**841**	**340**	***539***	***578***
Income Tax Expense	262	310	141	*199*	*214*
Other After-Tax Cash Gains (Losses)	6	-1	104	—	—
Other After-Tax Non-Cash Gains (Losses)	35	—	—	—	—
(Minority Interest)	—	—	-16	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**532**	**530**	**287**	***339***	***364***
Weighted Average Diluted Shares Outstanding	314	317	320	*321*	*321*
Diluted Earnings Per Share	**1.70**	**1.67**	**0.90**	***1.06***	***1.13***
Adjusted Net Income	494	534	299	*339*	*364*
Diluted Earnings Per Share (Adjusted)	**1.58**	**1.69**	**0.93**	***1.06***	***1.13***
Dividends Per Common Share	0.98	1.02	0.83	*0.64*	*0.68*
EBITDA	**1,721**	**1,868**	**1,324**	***1,480***	***1,580***
Adjusted EBITDA	**1,703**	**1,836**	**1,326**	***1,480***	***1,580***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2013	2014	2015	Forecast 2016	Forecast 2017
Cash and Equivalents	35	50	45	*15*	*49*
Investments	—	—	—	—	—
Accounts Receivable	1,006	921	660	*740*	*775*
Inventory	500	586	537	*604*	*633*
Deferred Tax Assets (Current)	—	214	—	—	—
Other Short Term Assets	618	696	335	*350*	*375*
Current Assets	**2,159**	**2,467**	**1,577**	***1,708***	***1,832***
Net Property Plant, and Equipment	14,365	11,057	12,112	*12,937*	*13,786*
Goodwill	3,666	1,691	1,691	*1,691*	*1,691*
Other Intangibles	276	265	254	*243*	*232*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,522	1,545	1,600	*1,797*	*1,822*
Long-Term Non-Operating Assets	666	7,843	260	*260*	*260*
Total Assets	**22,654**	**24,866**	**17,493**	***18,635***	***19,623***
Accounts Payable	619	610	433	*581*	*609*
Short-Term Debt	1,241	1,844	1,001	*1,000*	*1,000*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,319	1,511	1,223	*1,300*	*1,400*
Current Liabilities	**3,178**	**3,964**	**2,658**	***2,881***	***3,009***
Long-Term Debt	7,593	8,156	5,949	*6,600*	*6,950*
Deferred Tax Liabilities (Long-Term)	3,278	2,380	2,365	*2,500*	*2,863*
Other Long-Term Operating Liabilities	1,687	2,996	1,350	*1,350*	*1,350*
Long-Term Non-Operating Liabilities	1,031	1,195	1,327	*1,327*	*1,327*
Total Liabilities	**16,767**	**18,691**	**13,649**	***14,658***	***15,499***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,690	4,788	5,078	*5,083*	*5,088*
Retained Earnings (Deficit)	1,286	1,494	-1,123	*-990*	*-843*
(Treasury Stock)	-49	-59	-79	*-79*	*-79*
Other Equity	-44	-51	-35	*-41*	*-46*
Shareholder's Equity	**5,887**	**6,175**	**3,844**	***3,976***	***4,123***
Minority Interest	—	—	—	—	—
Total Equity	**5,887**	**6,175**	**3,844**	***3,976***	***4,123***

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26.52 USD	21.00 USD	16.80 USD	26.25 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in December

	2013	2014	2015	Forecast 2016	Forecast 2017
Net Income	532	530	302	*339*	*364*
Depreciation	577	606	524	*566*	*602*
Amortization	—	—	—	*11*	*11*
Stock-Based Compensation	51	72	51	*37*	*38*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	287	299	135	*135*	*363*
Other Non-Cash Adjustments	-65	-50	-11	—	—
(Increase) Decrease in Accounts Receivable	-95	-63	262	*-80*	*-36*
(Increase) Decrease in Inventory	-9	-120	47	*-67*	*-29*
Change in Other Short-Term Assets	81	9	43	*-15*	*-25*
Increase (Decrease) in Accounts Payable	68	38	-191	*147*	*28*
Change in Other Short-Term Liabilities	—	—	—	*77*	*100*
Cash From Operations	**1,427**	**1,321**	**1,163**	***1,151***	***1,417***
(Capital Expenditures)	-1,880	-2,029	-1,361	*-1,392*	*-1,452*
Net (Acquisitions), Asset Sales, and Disposals	18	13	5	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-148	-101	3,731	*-198*	*-25*
Cash From Investing	**-2,010**	**-2,117**	**2,375**	***-1,589***	***-1,477***
Common Stock Issuance (or Repurchase)	36	20	2	*5*	*5*
Common Stock (Dividends)	-306	-321	-263	*-206*	*-217*
Short-Term Debt Issuance (or Retirement)	-78	878	-936	*-1*	—
Long-Term Debt Issuance (or Retirement)	794	219	-2,186	*652*	*350*
Other Financing Cash Flows	—	—	-137	*-37*	*-38*
Cash From Financing	**445**	**796**	**-3,520**	***413***	***100***
Exchange Rates, Discontinued Ops, etc. (net)	129	-1	-28	*-6*	*-5*
Net Change in Cash	**-10**	**-1**	**-10**	***-31***	***35***

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26.52 USD	21.00 USD	16.80 USD	26.25 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Xcel Energy Inc XEL USA	1.32	17.2	20.2	19.7	9.9	10.3	9.7	NM	NM	272.5	1.7	2.1	2.0	1.7	1.9	1.9
WEC Energy Group Inc WEC USA	1.31	18.5	22.4	21.6	14.3	11.9	11.8	866.2	NM	NM	1.9	2.3	2.2	2.7	2.1	2.1
CMS Energy Corp CMS USA	1.39	19.1	22.9	21.0	9.8	10.9	10.2	131.6	NM	NM	2.5	3.0	2.8	1.5	1.9	1.8
Average		18.3	21.8	20.8	11.3	11.0	10.6	498.9	—	272.5	2.0	2.5	2.3	2.0	2.0	1.9
NiSource Inc NI US	**1.40**	**21.0**	**25.0**	**23.5**	**9.7**	**10.5**	**9.8**	**NM**	**NM**	**NM**	**1.6**	**2.1**	**2.1**	**1.3**	**1.6**	**1.5**

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Xcel Energy Inc XEL USA	39,054 USD	5.9	6.0	6.2	5.9	6.0	6.2	9.5	10.4	10.2	2.6	2.8	2.8	3.3	2.8	3.0
WEC Energy Group Inc WEC USA	29,355 USD	4.4	4.8	4.6	4.8	5.5	5.2	9.8	10.5	10.6	2.9	3.0	3.0	2.8	3.0	3.2
CMS Energy Corp CMS USA	20,340 USD	7.2	6.3	6.2	7.2	6.3	6.2	13.8	13.6	14.0	2.7	2.7	2.9	3.2	2.7	2.9
Average		5.8	5.7	5.7	6.0	5.9	5.9	11.0	11.5	11.6	2.7	2.8	2.9	3.1	2.8	3.0
NiSource Inc NI US	**17,493** USD	**4.9**	**4.9**	**6.4**	**5.7**	**5.5**	**7.3**	**5.7**	**8.7**	**9.0**	**1.4**	**1.9**	**1.9**	**4.2**	**2.4**	**2.6**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Xcel Energy Inc XEL USA	11,024 USD	-5.7	6.0	3.9	2.7	12.8	2.5	3.0	6.0	2.4	44.0	-309.2	-28.8	6.7	6.3	5.9
WEC Energy Group Inc WEC USA	5,926 USD	18.6	62.3	1.6	14.2	45.0	0.3	8.8	4.6	4.3	-318.1	-79.2	-51.2	—	36.6	6.6
CMS Energy Corp CMS USA	6,456 USD	-10.1	2.4	5.4	1.0	8.7	8.1	8.6	5.6	9.1	15.1	-108.2	NM	—	21.6	6.0
Average		0.9	23.6	3.6	6.0	22.2	3.6	6.8	5.4	5.3	-86.3	-165.5	-40.0	6.7	21.5	6.2
NiSource Inc NI US	**4,652** USD	**-28.1**	**16.1**	**4.8**	**-34.9**	**12.6**	**7.2**	**-44.6**	**13.1**	**7.3**	**-721.3**	**-106.6**	**-159.9**	**-18.6**	**-22.9**	**5.7**

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Xcel Energy Inc XEL USA	1,062 USD	57.3	58.5	58.9	28.5	30.5	31.0	18.2	19.3	19.1	9.6	9.6	9.5	-5.5	-0.5	0.7
WEC Energy Group Inc WEC USA	640 USD	62.2	55.0	54.6	31.0	26.8	26.6	21.1	18.9	18.6	10.8	9.6	9.8	0.3	-3.1	-1.6
CMS Energy Corp CMS USA	523 USD	52.9	52.7	52.7	29.6	30.4	30.8	18.0	19.1	19.6	8.1	8.4	8.8	1.2	-3.9	-0.2
Average		57.5	55.4	55.4	29.7	29.2	29.5	19.1	19.1	19.1	9.5	9.2	9.4	-1.3	-2.5	-0.4
NiSource Inc NI US	**299 USD**	**64.7**	**59.2**	**59.2**	**28.5**	**27.4**	**27.9**	**17.2**	**16.7**	**17.1**	**6.4**	**6.3**	**6.4**	**-4.2**	**-4.5**	**-0.6**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Xcel Energy Inc XEL USA	13,994 USD	132.0	129.9	129.9	56.9	56.5	56.5	5.5	5.9	6.0	4.5	4.0	4.0	3.7	3.6	3.6
WEC Energy Group Inc WEC USA	10,377 USD	119.5	130.2	137.1	54.4	56.6	57.8	5.5	5.1	4.8	5.7	4.5	4.9	3.4	3.5	3.5
CMS Energy Corp CMS USA	9,514 USD	241.6	236.1	220.8	70.7	70.3	68.8	4.8	4.6	4.7	5.0	5.0	4.6	5.2	5.0	4.8
Average		164.4	165.4	162.6	60.7	61.1	61.0	5.3	5.2	5.2	5.1	4.5	4.5	4.1	4.0	4.0
NiSource Inc NI US	**6,950 USD**	**180.8**	**191.1**	**192.8**	**64.4**	**65.7**	**65.9**	**3.5**	**4.1**	**4.1**	**5.2**	**5.1**	**5.0**	**4.6**	**4.7**	**4.8**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Xcel Energy Inc XEL USA	22,746 USD	0.17	0.21	0.20	0.72	0.71	0.72	0.57	0.58	0.58	0.06	0.07	0.07	66.1	61.4	63.5
WEC Energy Group Inc WEC USA	20,612 USD	0.22	0.69	0.62	1.36	1.42	1.31	1.10	1.08	0.98	0.04	0.17	0.13	52.1	68.0	69.6
CMS Energy Corp CMS USA	12,839 USD	0.96	0.71	-0.50	1.01	1.07	0.97	0.67	0.70	0.56	0.28	0.25	-0.19	61.6	62.1	60.3
Average		0.45	0.54	0.11	1.03	1.07	1.00	0.78	0.79	0.71	0.13	0.16	0.00	59.9	63.8	64.5
NiSource Inc NI US	**8,527 USD**	**0.14**	**0.05**	**0.15**	**0.59**	**0.59**	**0.61**	**0.39**	**0.38**	**0.40**	**0.05**	**0.01**	**0.05**	**92.7**	**60.6**	**59.7**

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Research Methodology for Valuing Companies

Components of Our Methodology
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

We believe 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: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over 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. The assumptions that we make about a firm's economic moat play a vital role in determining the length of "economic outperformance" that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call 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.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

Morningstar Research Methodology for Valuing Companies

Source: Morningstar, Inc.

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Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

*Please contact a sales representative for more information.

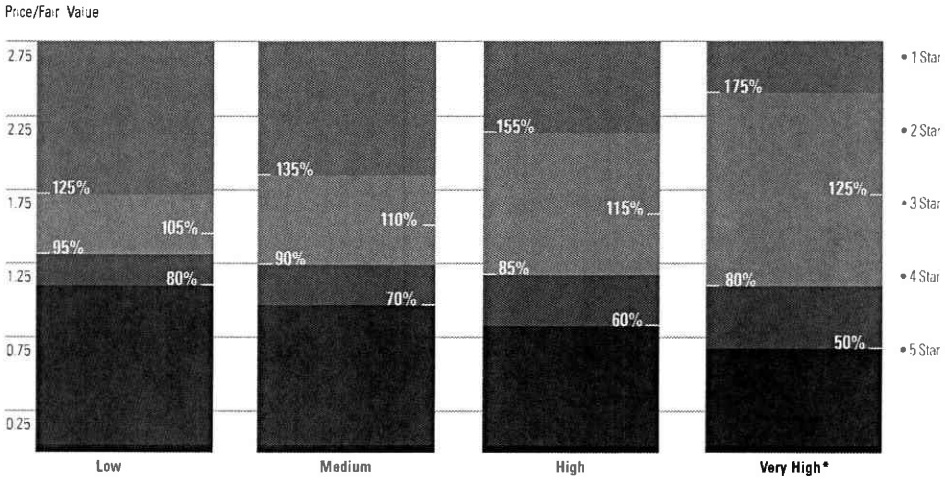
which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values 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 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, and other company-specific factors.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

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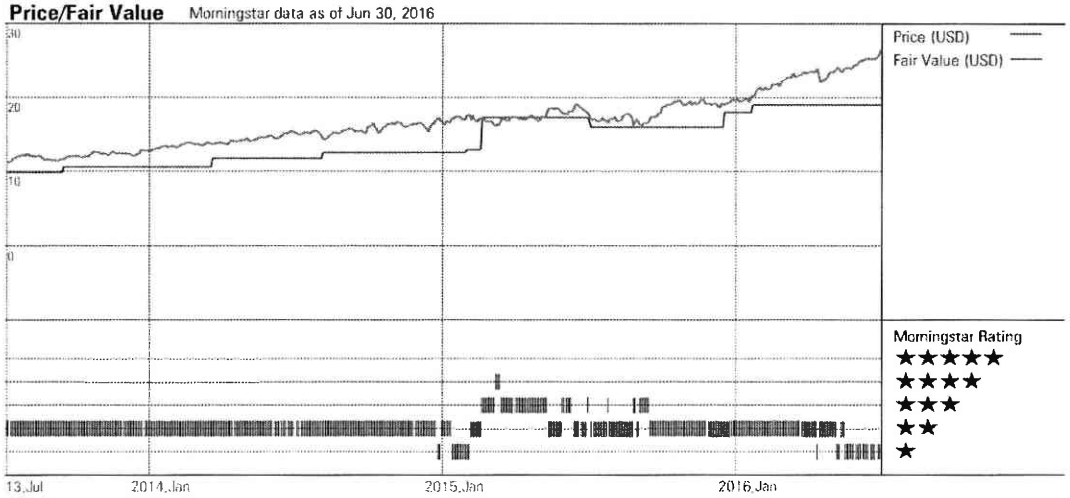
NiSource Inc NI (NYSE) | ★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
26.52 USD	21.00 USD	16.80 USD	26.25 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Price/Fair Value Morningstar data as of Jun 30, 2016



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EVERCORE ISI

Energy | Power & Utilities

July 6, 2016

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Raising 12 Month Target Prices to Reflect Post "Brexit" Vote Realities

We are raising our average target P/E multiple from 16x to 17.5x, and updating our 12 month target prices. Our bottom up dividend discount model puts fair value for the average utility in our coverage universe today at around 16X one year forward earnings if we were in a "normal" economic backdrop, *but this isn't normal.* That "base case" assumes a modest rise in interest rates over the next few years, a slight decline in return on equity and a 'status quo" EPS and dividend growth profile (mid-single digits over the next few years). Current valuation—18.3X on '18 EPS—discounts status quo growth but lower interest rates for longer and a relatively stable ROE outlook. We think there is risk to these assumptions on both fronts but the slow pace of change for U.S regulated utilities makes near term EPS and dividend growth expectations for the most part achievable, so we "get" the defensive premium. Our target multiple of 17.5x on FY '18 EPS reflects a risk adjustment for modestly lower than expected growth and ROE risk.

We reiterate our Buy ratings on AEP, D, NEE, PCG, & SRE. We are downgrading EIX to Hold from Buy. We are lowering our ratings on ED and NI to Sell from Hold.

Since the Brexit vote, Utility Stocks have outperformed the market by 5.3% with Utilities up 4.8% and the S&P down 0.5%. Regulated utilities are ahead of the S&P500 up 22.4% YTD with the SP500 up 2.9% and utilities up 25.3%. They have the S&P by 8.9% since June 1.

Our regulated utility coverage universe is now through the high we saw at the end of January 2015. We are at 20.5X, 19.5X and 18.3X on '16-18 EPS on our estimates. Looking at NTM FactSet consensus, we are at 19.87X vs the 20-year average of +/-13.5X and the relative P/E is 1.18x vs. the SP500 as compared to an average reading of 86%.

The group is a bit expensive in our bond model, but can trade at significantly higher readings in extreme risk off environments. On 2/18 the spread between the 10-year Treasury and the Moody's Baa corporate bond yield average was 363 basis points, 143 basis points wider than average, with the 10 year at 1.74% and the Baa at 5.37%. On 6/16 with the 10-year at 1.58% and the Baa at 4.47%, that spread was 289 basis points. That collapse in spread was a major factor that supported rising valuation. Now, with Brexit the 10-year bond yield is at 1.38% and the Moody's Baa corporate bond yield average's last print was 4.41%, a 303 bp spread. Regulated utilities are 7.5% overvalued on current yield vs. that corporate bond yield and +/-3% expensive on one year out expected yield when we run our bond regression model. But they can trade at much more stretched valuations in the model during periods of extreme financial stress. They sustained 10%-15% overvalued readings in the model from October '15 through April '16. In 2008 Utilities traded to +/-20% overvalued in our bond model. That would push the P/E on the group—all things equal—even higher, or allow for outperformance vs. further declines in the market. On the flip side, we are discounting 4.25% corporate bond yields a year out under normal market conditions which is a 10 year yield of 2.02% if we go back to a historical average 223bp spread.

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Company Changes			Rating			Target Price		Estimates			
								Current Year		Next Year	
Symbol	Company	Price	Curr	Prev		Curr	Prev	Curr	Prev	Curr	Prev
AEE	Ameren Corp.	$53.75	- H		▲	$52.50	$48.00	- $2.48		- $2.75	
AEP	American Electric Power	$70.14	- B		▲	$73.00	$66.50	- $3.70		- $3.90	
CMS	CMS Energy Corp.	$45.63	- H		▲	$44.25	$38.50	- $2.02		- $2.18	
D	Dominion Resources Inc.	$77.86	- B		▲	$83.00	$80.00	- $3.80		- $3.75	
DTE	DTE Energy Co.	$99.28	- H		▲	$97.25	$86.00	- $5.00		- $5.25	
DUK	Duke Energy Corp.	$85.63	- H		▲	$81.00	$75.00	- $4.60		- $4.60	
ED	Consolidated Edison Inc.	$80.51	▼ S	H	▲	$72.50	$69.50	- $4.00		- $4.15	
EIX	Edison International	$77.65	▼ H	B	▲	$79.00	$70.00	- $3.90		- $4.15	
ES	Eversource Energy	$59.71	- H		▲	$58.00	$55.00	- $2.95		- $3.05	
HE	Hawaiian Electric Industries Inc.	$32.21	- H		-	$32.00		- $1.70		- $1.80	
ITC	ITC Holdings	$46.67	- H		▲	$47.50	$44.00	- $2.01		- $2.22	
NEE	NextEra Energy Inc	$129.73	- B		▲	$140.00	$114.00	- $6.10		- $6.45	
NI	NiSource Inc	$26.66	▼ S	H	▲	$23.75	$22.00	- $1.05		- $1.12	
PCG	PG&E Corp.	$64.03	- B		▲	$67.00	$62.00	- $3.65		- $3.60	
PNW	Pinnacle West Capital Corp.	$81.08	- H		▲	$79.00	$71.00	- $4.00		- $4.20	
PPL	PPL Corp.	$37.60	- H		-	$38.00		- $2.35		- $2.40	
SO	Southern Co.	$53.83	- H		▲	$51.00	$46.00	- $2.85		- $2.95	
SRE	Sempra Energy	$113.49	- B		▲	$122.00	$110.00	- $4.75		- $5.20	
WEC	WEC Energy Group, Inc.	$65.05	- H		▲	$62.00	$57.00	- $2.90		- $3.11	
WR	Westar Energy Inc.	$56.26	- H		▲	$58.50	$58.25	- $2.45		- $2.55	
XEL	Xcel Energy Inc.	$44.78	- H		▲	$44.00	$39.00	- $2.20		- $2.35	

Source: Company data, Evercore ISI Research

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Regulated Utilities: July 5, 2016

Raising 12-Month Target Prices To Reflect Post "Brexit" Realities

Our Regulated Buy Rated Stocks Are AEP, D, NEE, PCG, & SRE.

We Are Downgrading EIX From Buy To Hold

We are Downgrading ED and NI from Hold To Sell

At 20.5X '16 / 19.5X '17 / 18.3X '18 EPS, Utilities Are At A Big Defensive Risk Premium, Pricing In Low Interest Rates For Longer & A More Or Less "Status Quo" Total Return Outlook.

A Sustained Low Rate Environment Does Pose Some Risk From Lower Authorized ROE's & Sluggish Economic Growth Could Imperil Already Slim Top Line Growth

But Those Things Take Time To Materialize, And In The Short Run Won't Imperil Near Term EPS & Dividend Growth For Most Names

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Target P/E Multiple To 17.5x from 16x Reflecting Lower Interest Rates For Longer

- We have updated our target prices to reflect the reality that utilities will likely retain a significant defensive premium for an extended period of time post "Brexit" vote.
- The rating for EIX is down from Buy to Hold
- The ratings for ED and NI are down from Hold to Sell.
- We retain Buy ratings on AEP, D, NEE, PCG, & SRE.

Company Ticker	Current Price (7/1/16)	Rating New	Rating Old	Target New	Target Old	2018 Multiple New	2018 Multiple Old	Dividend Yield	Price Return	Total Return New	Total Return Old
NEE	129.73	BUY	BUY	140.00	114.00	20.3x	16.5x	2.68%	7.9%	10.6%	-9.4%
D	77.86	BUY	BUY	83.00	80.00	19.5x	18.8x	3.60%	6.6%	10.2%	6.3%
SRE	113.49	BUY	BUY	122.00	110.00	20.2x	18.2x	2.66%	7.5%	10.2%	-0.4%
PCG	64.03	BUY	BUY	67.00	62.00	17.6x	16.3x	3.06%	4.6%	7.7%	-0.1%
AEP	70.14	BUY	BUY	73.00	66.50	17.6x	16.0x	3.19%	4.1%	7.3%	-2.0%
WR	56.26	HOLD	HOLD	58.50	58.25	22.5x	22.4x	2.70%	4.0%	6.7%	6.2%
PPL	37.60	HOLD	HOLD	38.00	38.00	15.2x	15.2x	4.04%	1.1%	5.1%	5.1%
EIX	77.65	HOLD	BUY	79.00	70.00	18.4x	16.3x	2.47%	1.7%	4.2%	-7.4%
ITC	46.67	HOLD	HOLD	47.50	44.00	20.0x	18.5x	1.61%	1.8%	3.4%	-4.1%
HE	32.21	HOLD	HOLD	32.00	32.00	16.8x	16.8x	3.85%	-0.7%	3.2%	3.2%
XEL	44.78	HOLD	HOLD	44.00	39.00	18.0x	15.9x	3.04%	-1.7%	1.3%	-9.9%
DTE	99.28	HOLD	HOLD	97.25	86.00	17.5x	15.5x	3.10%	-2.0%	1.1%	-10.3%
AEE	53.75	HOLD	HOLD	52.50	48.00	17.5x	16.0x	3.16%	-2.3%	0.8%	-7.5%
PNW	81.08	HOLD	HOLD	79.00	71.00	18.0x	16.1x	3.08%	-2.6%	0.5%	-9.3%
ES	59.71	HOLD	HOLD	58.00	55.00	17.6x	16.7x	2.98%	-2.9%	0.1%	-4.9%
CMS	45.63	HOLD	HOLD	44.25	38.50	18.8x	16.4x	2.72%	-3.0%	-0.3%	-12.9%
SO	53.83	HOLD	HOLD	51.00	46.00	16.7x	15.1x	4.16%	-5.3%	-1.1%	-10.4%
DUK	85.63	HOLD	HOLD	81.00	75.00	16.7x	15.5x	3.85%	-5.4%	-1.6%	-8.6%
WEC	65.05	HOLD	HOLD	62.00	57.00	19.0x	17.4x	2.58%	-4.7%	-2.1%	-9.8%
ED	80.51	SELL	HOLD	72.50	69.50	16.7x	16.0x	3.33%	-9.9%	-6.6%	-10.3%
NI	26.66	SELL	HOLD	23.75	22.00	20.1x	18.6x	2.48%	-10.9%	-8.4%	-15.0%
						18.3x	16.9x	3.06%			

Source: FactSet, Evercore ISI Research

Rating Changes: EIX to Hold From Buy, ED & NI to Sell From Hold

- **EIX – HOLD, TP: $79, ETR: 4.2%:** EIX was able to offset the impact of bonus depreciation and therefore expects rate base growth of 7% annually through 2017. We expect capital spending will exceed $4bn annually in 2018 and beyond. We forecast EIX maintaining a strong parent balance sheet and not needing equity to fund its capital spending plan and dividend increases over the next two years. We forecast the current dividend of $1.92 / share rising to $2.28 / share in FY'18, a 52% payout ratio and '16-18 CAGR of 9%. However, on 5/9/16, the CPUC ruled to reopen the record to review the 2014 SONGS settlement agreement. While we don't think the case will be re-litigated the exposure has worst case +/-$0.08 / share impact to earnings power and $1.30 / share to valuation, a manageable risk. However, up 32% YTD and trading at 18.1X our FY '18 EPS expectations, we now see EIX as fully valued and have lowered our rating from Buy to Hold.

- **ED – SELL, TP: $72.50, ETR: -6.6%:** Our target price is now $72.50 up from $69.50, but we downgrade to SELL from HOLD. We think it is likely valuation will continue to remain elevated while macroeconomic uncertainty persists, however ED is currently trading on a very robust 18.75X '18 earnings. Given our view of ED's EPS and dividend growth profile, coupled with it's valuation, we believe it has more downside risk than the peer group and in the event of a broader utility group reversal, if/when macroeconomic conditions improve. Our target price is 16.6x our '18 EPS forecast of $4.35, a 5% discount to the 17.5X peer multiple owing to ED's below-average EPS and dividend growth outlook that is partly a function of an above-average regulatory risk profile in NY due to their pending electric and gas rate case, the pendency of the REV proceeding (which could significantly change the regulatory framework in NY) and the potential for financial penalties in the wake of the NTSB's ruling on the causes of the March 2014 Harlem incident last year. We also note that ED has become more aggressive in its capital allocation outside the core utility business in FERC regulated transmission, utility scale renewables and gas infrastructure, which we believe is a function of the company's own acknowledgement of its longer term growth challenges in its core business.

- **NI – SELL, TP: $23.75, ETR: -8.4%.** NI is a high quality, low risk investment, but it looks very fully priced to us. Nisource should garner premium valuation, especially relative to predominantly electric utilities that are, in our view, facing a more somber growth profile for power demand and therefore medium to longer term headwinds for rate base growth. We believe that company's gas and electric utilities can earn near authorized ROE's of ~10% with our forecast for'16 - '18 translating to an average EPS growth rate of ~6%, towards the high end of company's guidance of 4-6%. Our EPS forecast is underpinned by rate base growth for their Gas/Electric segments at 7%/4% for '16 to 18 with combined rate base growth at ~6% towards the lower-end company's guidance of 6-8% owing to the impact of bonus deprecation. We think the potential for modest positive earnings revisions is possible with NI looking to update its capex budget later this year, but those numbers won't be massive. The stock is up 37% YTD, trading at 22.7x FY '18 EPS expectations with one of the more highly levered balance sheets in our coverage universe at 65% debt. With our regulated coverage universe trading ~18.4x and an average of 56% at YE '15, that 23% P/E premium looks overly full. We have therefore lowered our rating from Hold to Sell.

Source: FactSet, Evercore ISI Research

Utility Stocks Can Trade At Big Premiums During Periods Of Financial Uncertainty

- Since the Brexit vote, Utility Stocks have outperformed the market by 5.3% with Utilities up 4.8% and the S&P down 0.5%.
- Regulated utilities are ahead of the S&P500 up 22.4% YTD with the SP500 up 2.9% and utilities up 25.3%. They have the S&P by 8.9% since June 1.
- Our regulated utility coverage universe is now through the high we saw at the end of January 2015. We are at 20.5X, 19.5X and 18.3X on '16-18 EPS on our estimates. Looking at NTM FactSet consensus, we are at 19.87X vs the 20-year average of +/-13.5X and the relative P/E is 1.18x vs. the SP500 as compared to an average reading of 86%.
- Our bottom up dividend discount model puts fair value for the average utility in our coverage universe today at around 16X one year forward earnings if we were in a "normal" economic backdrop, *but this isn't normal.* That "base case" assumes a modest rise in interest rates over the next few years, a slight decline in return on equity and a 'status quo" EPS and dividend growth profile (mid-single digits over the next few years). Current valuation—18.3X on '18 EPS—discounts status quo growth but lower interest rates for longer and a relatively stable ROE outlook. We think there is risk to these assumptions on both fronts but the slow pace of change for U.S regulated utilities makes near term EPS and dividend growth expectations for the most part achievable, so we "get" the defensive premium. Our target multiple of 17.5x on FY '18 EPS reflects a risk adjustment for modestly lower than expected growth and ROE risk. See page 13 for more details on how we think about valuation using our DDM.
- The group is a bit expensive in our bond model, but can trade at significantly higher readings in extreme risk off environments. On 2/18 the spread between the 10-year Treasury and the Moody's Baa corporate bond yield average was 363 basis points, 143 basis points wider than average, with the 10 year at 1.74% and the Baa at 5.37%. On 6/16 with the 10-year at 1.58% and the Baa at 4.47% That spread was 289 basis points. That collapse in spread was a major factor that supported rising valuation. Now, with Brexit the 10-year bond yield is at 1.38% and the Moody's Baa corporate bond yield average's last print was 4.41%, a 303 bp spread. Regulated utilities are 7.5% overvalued on current yield vs. that corporate bond yield and +/-3% expensive on one year out expected yield when we run our bond regression model. But they can trade at much more stretched valuations in the model during periods of extreme financial stress. They sustained 10%-15%overvalued readings in the model from October '15 through April '16.
- In 2008 Utilities traded to +/-20% overvalued in our bond model. That would push the P/E on the group—all things equal—even higher, or allow for outperformance vs. further declines in the market. On the flip side, we are discounting 4.25% corporate bond yields a year out under normal market conditions which is a 10 year yield of 2.02% if we go back to a historical average 223bp spread. See our analysis on this front on pages 15-18 of this note.

Source: FactSet, Evercore ISI Research

Fed Hike Base Case Pushed Back to December, With September Upside Option

- According to Evercore ISI Analyst Krishna Guha, the base case is that we end up with some version of Brexit-lite after a prolonged period of damaging uncertainty but warns against taking too much comfort regarding this scenario too soon. In Krishna's view there is a strong consensus among EU leaders that there can be no re-negotiation of the EU membership terms for fear of inviting copycat referenda, as opposed to a discussion about future trading relations for a UK as a non-member state.

- The global shock from Brexit is mid-sized though it could become a very large shock if the larger EU / EZ is further destabilized; even as a mid-sized shock it is material because the global economy has only modest forward growth momentum and limited cyclical stabilization capacity left. The central banks first response was to focus on liquidity, in the second phase global monetary policy will respond to weaker growth and tighter financial conditions by shifting in a more dovish direction in most jurisdictions.

- The US is more shielded than most from the Brexit shock, but Krishna thinks the Fed will hold fire for longer due to concern that Brexit uncertainties, dollar appreciation and tighter financial conditions could aggravate a business pull back, potentially leading to a pick-up in unemployment and weakening in consumption; our base case for a hike moves to December with September as the upside risk scenario. Krishna's base case continues to see one hike in December followed by two to three hikes in 2017

- According to our Head of Global Portfolio Strategy Dennis DeBusschere, the continued flattening of the yield curve suggests very low rates and weakening economic growth well into 2017. Coming into Brexit, six Fed board members were signaling one rate hike in 2016, and on June 29th, Fed Governor Powel highlighted that risks have shifted further to the downside. That is likely part of the reason why credit spreads had a relatively muted reaction to Brexit and the USD has started to decline following the initial projected increase. Equities become more attractive relative to bonds as Baa yields stay low and equity prices decline. Market based odds for a rate hike in 2016 are now roughly 10%.

Source: FactSet, Evercore ISI Research

Our Coverage Universe Has Hit A New Valuation High

- **Right now we are at 20.5x '16, 19.5x '17 and 18.3x '18. Excluding HE, WR & ITC (which are at deal premiums). In late-January '15 when the group was last at its defensive apex valuation peaked at around 19.5X '15, 18.5X '16 and 17.5x '17 EPS**
- **We have Buy ratings on D, NEE, SRE, PCG, and AEP. We are recommending a mix of traditional utilities at valuation discounts and differentiated longer term EPS and dividend growth stories.**
- **The best positioned stocks in our universe to weather a period of low interest rates and sluggish economic growth don't have ROE risk from pending rate cases, have some form of revenue decoupling and strong parent balance sheets. The CA utilities fit this profile (EIX, PCG, SRE).**
- **AEP has some exposure on the first two fronts but has a great balance sheet and is at a sufficient discount to still be relatively attractive.**
- **NEE has a rate case pending in Florida but very strong visibility in its renewable energy business.**
- **D has no ROE exposure but is exposed to economic factors in its power and gas businesses.**

Valuation & Earnings Snapshot (Trading Comps)

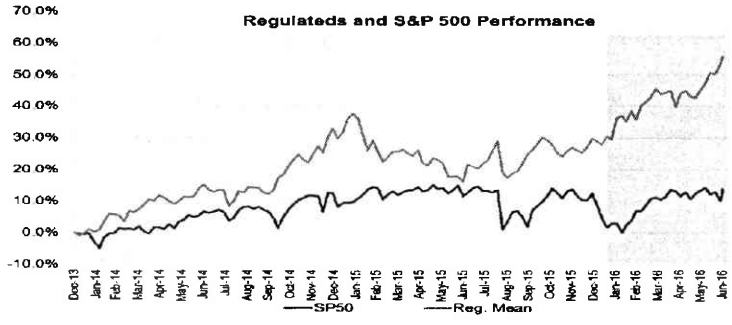
Ticker	Company Name	7/1/16 Price	ISI Rating	Shares Out	Market Cap	2016 Div Yld	2016 Payout	ISI EPS Estimate 2016	2017	2018	P/E Multiple 2016	2017	2018	'15-'18 EPS Growth	Price to Book	Prem. to Group
NI	NiSource Inc	$26.66	SELL	319	8,515	2.6%	65%	1.05	1.12	1.18	25.4x	23.8x	**22.6x**	8.0%	0.6x	23%
WR	Westar Energy Inc	$56.26	HOLD	139	7,839	2.7%	61%	2.45	2.55	2.60	23.0x	22.1x	**21.6x**	5.5%	2.1x	17%
WEC	WEC Energy Group	$65.05	HOLD	273	17,736	3.0%	68%	2.90	3.11	3.27	22.4x	20.9x	**19.9x**	11.7%	2.3x	8%
ITC	ITC Holdings Corp.	$46.67	HOLD	155	7,253	1.7%	39%	2.01	2.22	2.38	23.2x	21.1x	**19.6x**	4.7%	3.8x	6%
CMS	CMS Energy Corp	$45.63	HOLD	277	12,638	2.7%	61%	2.02	2.18	2.35	22.6x	21.0x	**19.4x**	7.5%	3.1x	5%
NEE	NextEra Energy, Inc.	$129.73	BUY	454	58,897	2.7%	57%	6.10	6.45	6.90	21.3x	20.1x	**18.8x**	6.8%	2.5x	2%
SRE	Sempra Energy	$113.49	BUY	251	28,521	2.6%	62%	4.75	5.20	6.05	23.9x	21.8x	**18.8x**	5.1%	2.3x	2%
ED	Consolidated Edison Inc	$80.51	SELL	294	23,680	3.3%	67%	4.00	4.15	4.35	20.1x	19.4x	**18.5x**	2.2%	1.8x	0%
PNW	Pinnacle West Capital Corp	$81.08	HOLD	112	9,044	3.1%	63%	4.00	4.20	4.40	20.3x	19.3x	**18.4x**	3.9%	1.9x	0%
D	Dominion Resources Inc	$77.86	BUY	594	46,222	3.6%	74%	3.80	3.75	4.25	20.5x	20.8x	**18.3x**	3.3%	3.0x	-1%
XEL	Xcel Energy Inc	$44.78	HOLD	508	22,755	3.0%	61%	2.20	2.35	2.45	20.4x	19.1x	**18.3x**	5.4%	2.1x	-1%
ES	Eversource Energy	$59.71	HOLD	318	19,018	3.0%	60%	2.95	3.05	3.30	20.2x	19.6x	**18.1x**	5.6%	1.8x	-2%
EIX	Edison International	$77.65	HOLD	328	25,489	2.5%	49%	3.90	4.15	4.30	19.9x	18.7x	**18.1x**	1.6%	2.1x	-2%
AEE	Ameren Corp	$53.75	HOLD	243	13,071	3.2%	69%	2.48	2.75	3.00	21.7x	19.5x	**17.9x**	5.5%	1.8x	-3%
DTE	DTE Energy Co	$99.28	HOLD	179	17,796	2.9%	58%	5.00	5.25	5.55	19.9x	18.9x	**17.9x**	4.8%	2.0x	-3%
DUK	Duke Energy Corp	$85.63	HOLD	694	59,427	3.9%	72%	4.60	4.60	4.85	18.6x	18.6x	**17.7x**	2.2%	1.5x	-4%
SO	Southern Company Inc	$53.83	HOLD	914	49,201	4.1%	78%	2.85	2.95	3.05	18.9x	18.2x	**17.6x**	1.9%	2.3x	-4%
HE	Hawaiian Electric Industries, Inc.	$32.21	HOLD	107	3,437	3.8%	73%	1.70	1.80	1.90	18.9x	17.9x	**17.0x**	4.7%	1.7x	-8%
AEP	American Electric Power Co Inc	$70.14	BUY	491	34,409	3.2%	61%	3.70	3.90	4.15	19.0x	18.0x	**16.9x**	3.8%	1.8x	-8%
PCG	PG&E Corp	$64.03	BUY	487	31,199	3.0%	53%	3.65	3.60	3.80	17.5x	17.8x	**16.8x**	6.8%	1.8x	-9%
PPL	PPL Corp	$37.60	HOLD	673	25,289	4.0%	65%	2.35	2.40	2.50	16.0x	15.7x	**15.0x**	4.1%	2.5x	-18%
Regulated Group Average						**3.1%**	**63%**				**20.6x**	**19.6x**	**18.4x**	**5.0%**	**2.1x**	
Regulated Group Average (Excluding Deal Stocks: ITC, WR, & HE)						4.1%	78%				20.5x	19.5x	18.3x	11.7%	3.8x	
Regulated Group Max						4.1%	78%				25.4x	23.8x	22.6x	11.7%	3.8x	
Regulated Group Min						1.7%	39%				16.0x	15.7x	15.0x	1.6%	0.6x	

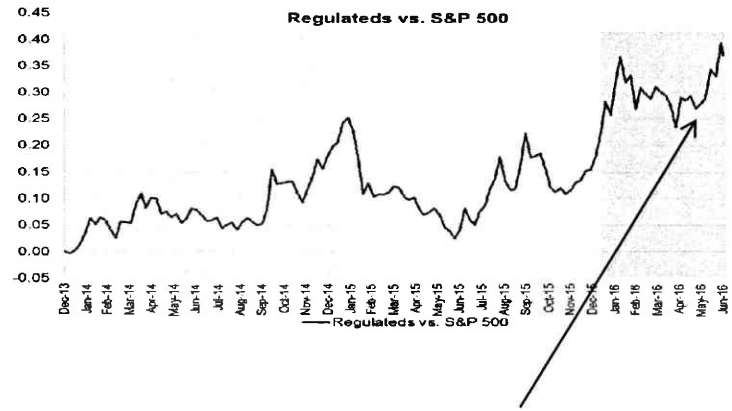
***Updated as of 7/1/16 close.**

Source: FactSet, Evercore ISI Research

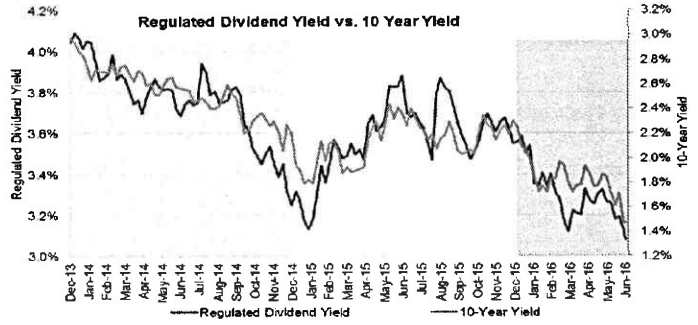
Utilities Gained +/- 7.6% Relative To The Market In June

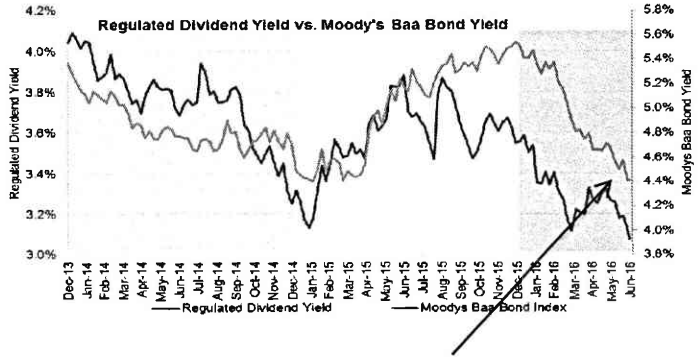
- Below we show absolute and relative performance for the group from the beginning of 2014 to present on the left side of the page.
  - The highlighted area to the right third of those charts shows YTD performance. The stocks performed well through March, underperformed on both an absolute and relative basis through most of April, but have significantly outperformed since 4/21.
- Utilities actually look *less* expensive compared to corporate bond yields than they did from October '15-April 16.
- While the markets are under duress, utilities could theoretically trade at *a more expensive* valuation vs. corporates than they are today, going back to the spreads we saw during Q4 '15 / Q1 '16, or in a more extreme scenario like 2008 even higher





The group ripped versus the market to start the year and hit a brief air pocket in April but has once again moved to ahead, outperforming dramatically in June and hitting a new valuation premium post Brexit.





The spread between corporate and utility yields has tightened from its highs, Utilities don't look too stretched vs. the bond market on yield despite high valuation on P/E.

***Updated as of 7/1/16 close.**

Source: FactSet, Evercore ISI Research

Utilities Are Up 25% Year to Date With The SP500 Up < 3%

- Utilities are crushing the market YTD.
- One could be fooled in to thinking macro sentiment is the only factor impacting returns but within the group there has been relative valuation opportunities through stock selection.
- The top 5 best performing stocks are up on average 31.1% YTD
- The bottom 5 worst performing stocks YTD (excluding deal stocks), are up 19.5%.

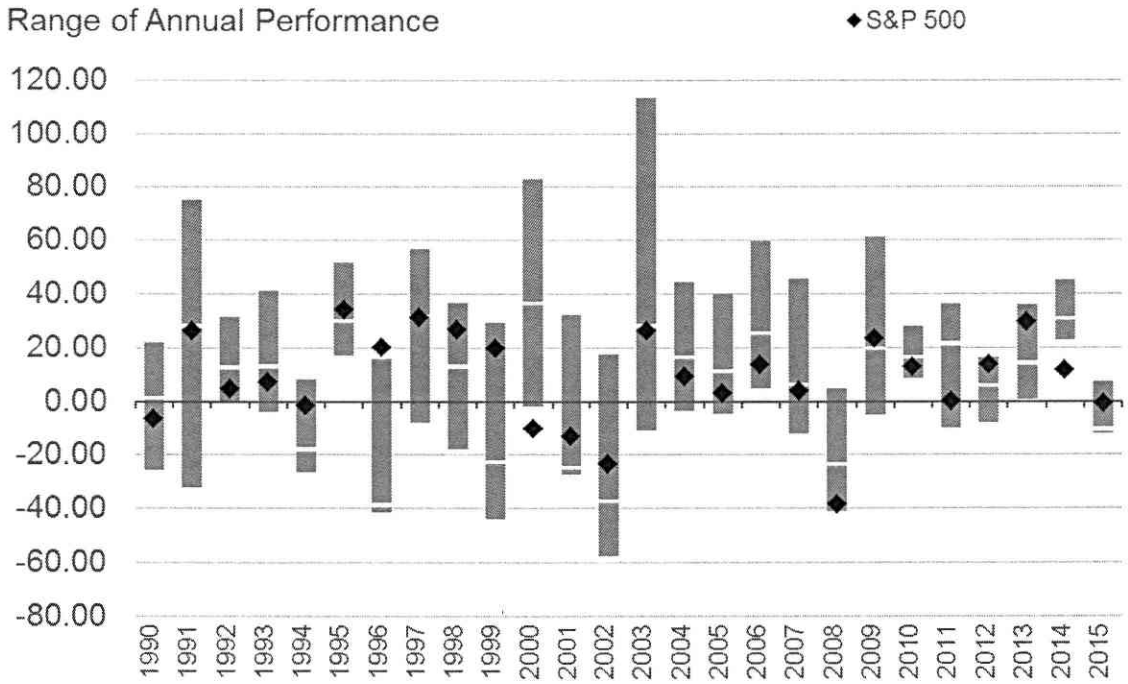
	Big Selloff	Big Rally			Recent Peak			Since Brexit	
	1/30/15 to 6/30/15	6/30/15 to 10/22/15	10/22/15 to 12/31/15	2015	12/31/15 to 4/1/16	4/1/16 to 4/21/16	4/21/16 to Current	6/23/16 to Current	YTD
	Regulated (14.8%)	Regulated 14.8%	Regulated (3.0%)	Regulated (1.6%)	Regulated 16.5%	Regulated (6.5%)	Regulated 14.9%	Regulated 4.8%	Regulated 25.3%
	S&P 500 3.4%	S&P 500 (0.5%)	S&P 500 (0.4%)	S&P 500 0.6%	S&P 500 1.4%	S&P 500 0.9%	S&P 500 0.5%	S&P 500 (0.5%)	S&P 500 2.9%
1	UIL 1.5%	TE 54.7%	ITC 16.9%	TE 34.5%	EIX 22.3%	TE 0.5%	NI 21.2%	NI 5.9%	NI 38.2%
2	NEE (8.9%)	WR 21.7%	WR 3.6%	CMS 7.2%	ED 20.8%	WR (0.9%)	DTE 17.6%	ES 5.8%	WR 34.4%
3	SRE (10.3%)	WEC 20.0%	SO 1.8%	WR 6.3%	WR 19.6%	ITC (1.5%)	WEC 17.3%	EIX 5.6%	EIX 32.8%
4	D (11.3%)	EIX 19.7%	AEP (0.6%)	XEL 3.5%	CMS 19.2%	HE (3.4%)	XEL 16.9%	DTE 5.5%	WEC 28.7%
5	HE (11.5%)	AEE 19.2%	TE (0.8%)	PCG 3.3%	PNW 18.0%	NEE (4.9%)	CMS 16.7%	SO 5.4%	CMS 28.2%
6	XEL (12.5%)	ED 18.2%	HE (0.9%)	ED 1.3%	AEE 17.9%	SRE (5.1%)	AEE 16.6%	AEP 5.3%	PNW 27.7%
7	AEP (14.0%)	PNW 18.2%	NEE (1.0%)	NEE 0.6%	WEC 17.8%	SO (5.3%)	NEE 15.7%	D 5.3%	ED 27.4%
8	CMS (14.1%)	CMS 17.7%	PCG (1.6%)	WEC 0.6%	XEL 17.7%	PCG (5.4%)	PNW 15.0%	PNW 4.9%	XEL 26.6%
9	ED (14.6%)	ES 17.0%	AEE (1.9%)	SO (0.3%)	ES 16.0%	EIX (5.5%)	EIX 14.9%	XEL 4.9%	NEE 26.5%
10	PCG (15.0%)	XEL 16.4%	CMS (2.2%)	AEP (0.5%)	AEP 16.0%	PNW (5.9%)	ED 14.2%	NEE 4.8%	AEE 26.3%
11	AEE (15.0%)	DTE 14.7%	ES (2.3%)	ITC (1.2%)	NEE 15.1%	DUK (5.9%)	PCG 14.0%	ED 4.7%	DTE 25.6%
12	TE (15.1%)	AEP 12.7%	PNW (2.3%)	ES (1.5%)	DUK 14.8%	ES (6.4%)	SRE 13.7%	CMS 4.7%	SRE 22.3%
13	DTE (15.2%)	D 12.4%	XEL (2.5%)	PNW (2.1%)	HE 14.5%	DTE (6.6%)	AEP 13.6%	AEE 4.4%	AEP 22.3%
14	SO (15.3%)	SO 12.3%	WEC (3.7%)	AEE (2.7%)	DTE 14.5%	WEC (6.8%)	WR 13.6%	DUK 4.4%	DUK 22.3%
15	ES (16.8%)	PCG 11.9%	DUK (3.8%)	DTE (3.9%)	SRE 13.5%	AEP (7.1%)	DUK 13.2%	PCG 3.8%	PCG 22.2%
16	DUK (17.1%)	NEE 8.6%	ED (4.2%)	EIX (6.9%)	PCG 13.3%	ED (7.7%)	D 13.0%	WEC 3.6%	ITC 19.9%
17	EIX (17.2%)	DUK 7.5%	DTE (4.7%)	D (8.7%)	D 12.5%	CMS (7.8%)	SO 11.1%	SRE 2.8%	ES 18.7%
18	WEC (17.5%)	ITC 5.5%	SRE (7.6%)	HE (9.8%)	SO 11.7%	D (7.8%)	ITC 9.7%	ITC 2.2%	SO 17.4%
19	PNW (18.1%)	SRE 4.3%	D (8.3%)	DUK (10.7%)	ITC 10.9%	XEL (7.9%)	ES 9.3%	WR 0.6%	D 17.2%
20	WR (18.2%)	HE 0.3%	EIX (9.7%)	SRE (13.1%)	TE 4.3%	AEE (8.1%)	HE 2.6%	HE (5.9%)	HE 13.4%

***Updated as of 7/1/16 close. Regulated average represents our coverage universe excluding ITC / HE / WR.**

Source: FactSet, Evercore ISI Research

Despite Macro Swings, Regulated Utilities Can Still Be A "Stock Pickers" Group

- Standard deviation of returns has averaged ~13.5% in our regulated universe since 1990.



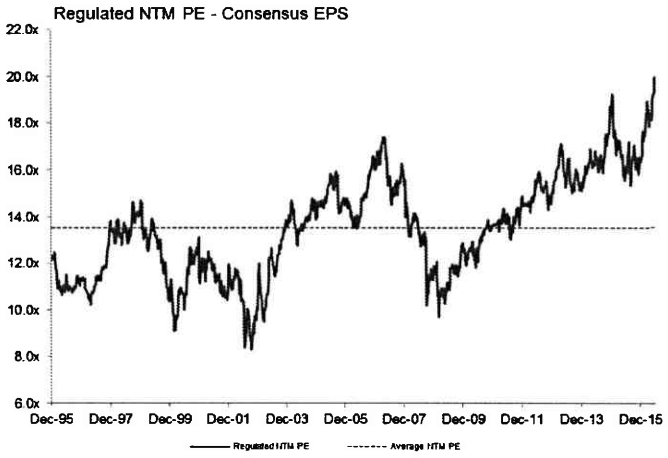
- In 2015 even excluding TE and UIL (up 34.5% and 16.3% respectively due to takeovers), the top five names in our coverage universe returned 5.2% whilst the bottom five returned (8.6%).
- As we said on the prior page, YTD the top five names have 31.1% average total return vs. 19.5% for the bottom five.

Source: FactSet, Evercore ISI Research

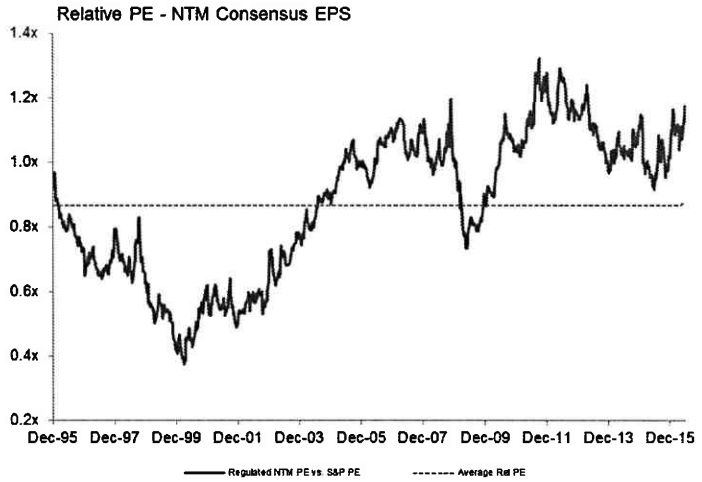
Absolute And Relative P/E's Are Both Surging

- Current NTM relative P/E is 1.18x. That matches the FY '16 peak of 1.18x on 2/8/16.
  - On 4/1/16 when utilities last peaked on absolute valuation it was 1.12x
- Current NTM absolute P/E is 19.97x, prior to this week the YTD peak was 18.94x on 4/1/16. We are above the recent historical high of ~19.2 was in late January '15.
- Since 1995, the average NTM P/E has been 13.4x with a relative NTM P/E averaging 0.87

Absolute PEs of Regulated Names Are Back to Historic Highs



Relative PE on Next-Twelve Months Forward Consensus EPS Is Also a Bit Off Recent Peaks



***Updated as of 7/1/16 close.**

Source: FactSet, Evercore ISI Research

Our Proprietary DDM Shows Utilities Are Trading At A Big Defensive Premium

- **The Forward P/E multiple that a utility investor are willing to pay (based on our DDM) is highly influenced by how quickly investors believe the yield curve will steepen**
  - Our base case assumes an orderly transition to higher interest rates, with authorized ROEs falling to 9.5% from 10%, and that 10-year Treasury yields rising to 3.5% over a multi year period, resulting at the end in a 2.25% spread between the return on equity and the cost of equity.
  - The current valuation is more reflective of our "case 2" scenario, in which utility companies' ability to essentially over-earn (maintain current authorized ROE's vs. a sustained low interest rate environment) is maintained and we achieve status quo growth expectations
- **Our 17.5X target multiple on '18 EPS reflects lower rates for longer with a risk adjustment for the potential of lower than "status quo" growth and/or ROE risk**
  - Our target multiple and target prices are all based on 12 month holding periods.

W/ Base Case Growth Assumptions

ROE and Ke Assumptions	Base Case	Case 1 ROEs Fade Rates Rise	Case 2 Rates Low Long Time	Case 3 ROEs Flat Rates Rise
Yr 1 ROE	10.0%	10.0%	10.0%	10.0%
Annual ROE Fade (+/-)	-0.25%	-0.25%	-0.25%	0.00%
Final ROE	9.5%	9.5%	7.5%	10.0%
Years Until LT Spread	4	4	10	3
Implied Annual Ke Change (+/-)	0.38%	0.38%	-0.05%	0.67%
Final year ROE / Ke Spread	2.25%	2.25%	2.25%	2.25%
2016 P/E Multiple	**16.0x**	**16.0x**	**21.7x**	**14.6x**

W/ Case 2 ROE / Ke Assumptions: Rates Low For Long Time

Growth Assumptions	Base Case	Med Growth	Low Growth	Lowest Growth
Year 1 to 5 Rate Base Growth	5.25%	5.25%	4.00%	3.00%
Year 5+ Rate Base Growth	3.50%	2.50%	2.00%	1.00%
Terminal Growth	2.50%	2.00%	0.00%	NA
Terminal Value (beyond 35 years)	Yes	Yes	Yes	No
35 Year Average Payout Ratio - Implied	65%	67%	73%	84%
2016 P/E Multiple	**21.7x**	**19.3x**	**17.5x**	**13.1x**

W/ Case 1 (Base Case) ROE / Ke Assumptions: ROEs Fade / Rates Rise

Growth Assumptions	Base Case	Med Growth	Low Growth	Lowest Growth
Year 1 to 5 Rate Base Growth	5.25%	5.25%	4.00%	3.00%
Year 5+ Rate Base Growth	3.50%	2.50%	2.00%	1.00%
Terminal Growth	2.50%	2.00%	0.00%	NA
Terminal Value (beyond 35 years)	Yes	Yes	Yes	No
35 Year Average Payout Ratio - Implied	65%	73%	77%	87%
2016 P/E Multiple	**16.0x**	**15.0x**	**14.5x**	**12.4x**

W/ Case 3 ROE / Ke Assumptions: ROEs Flat / Rates Rise

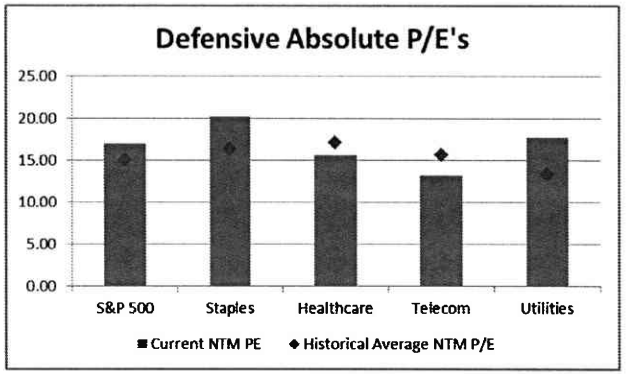
Growth Assumptions	Base Case	Med Growth	Low Growth	Lowest Growth
Year 1 to 5 Rate Base Growth	5.25%	5.25%	4.00%	3.00%
Year 5+ Rate Base Growth	3.50%	2.50%	2.00%	1.00%
Terminal Growth	2.50%	2.00%	0.00%	NA
Terminal Value (beyond 35 years)	Yes	Yes	Yes	No
35 Year Average Payout Ratio - Implied	66%	74%	78%	87%
2016 P/E Multiple	**14.6x**	**13.8x**	**13.4x**	**11.7x**

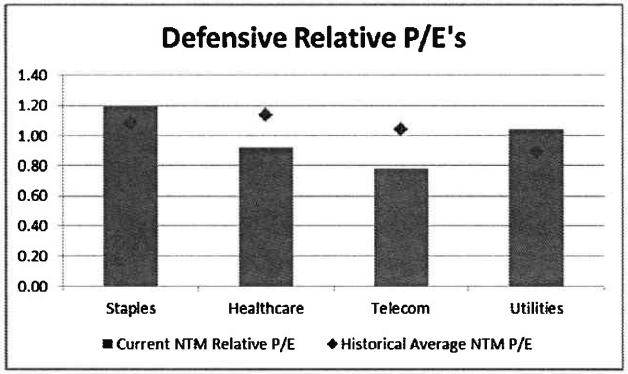
Source: FactSet, Evercore ISI Research

Defensive Comparisons: Utilities & Telecom Have Beaten Healthcare & Staples Since Late April

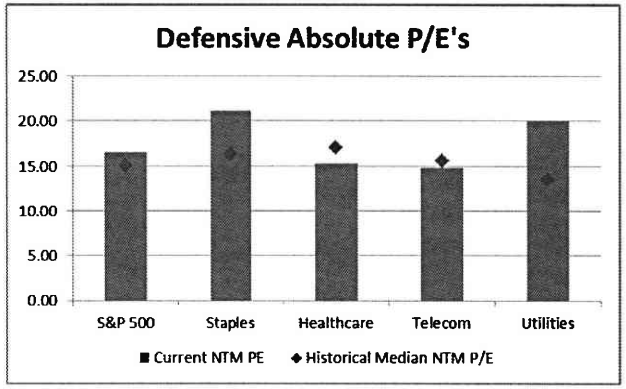
- Below we look at how defensive sectors are behaving relative to historical performance in terms of Absolute and Relative P/E.
  - From 4/1/16 through 4/21/16 Staples, Healthcare, Telecom, and Utilities underperformed on both an absolute and relative basis to the S&P.
  - Since 4/21, Healthcare is flat relative to the S&P, while Staples have slightly outperformed the S&P and Utilities and Telecom have significantly outperformed.

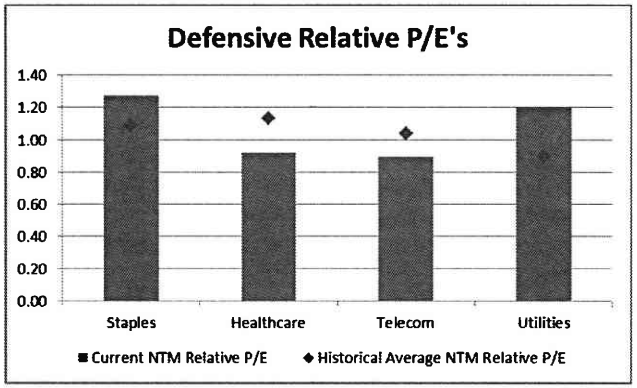
4/21/16





7/1/16





Source: FactSet, Evercore ISI Research

Valuation vs. Corporate Bonds Is High But History Shows It Can Get More Extended

- Post the Brexit vote the 10-year bond yield is at 1.38% and the Moody's Baa corporate bond yield average is at 4.41%, a 303 bp spread.
- The group is +/-7.5% expensive today on current corporate bond yields in our regression model.
- Regulated utilities +/-2.8% expensive on one year out expected yield when we run our bond regression model.
- They can trade at much more stretched valuations in the model during periods of financial duress. They sustained 10%+ readings in the model from October '15 through April '16 and in 2008 the group was even more stretched at +/-20%.
- The "breakeven" corporate bond yield, at which the group is fairly priced 12 months out is ~4.25%, implying a 2.02% 10-year bond yield at the historic average spread of 223bp. If the spread stayed at its current levels we are discounting closer to a 1.3% yield.

	Peak 1/30/2015	Trough 6/30/2015	Peak 10/22/2015	YE 15	Recent Peak 4/1/2016	4/21/2016	7/1/2016 Current
Regulated P/E '15	19.4x	16.0x	18.3x				
Regulated P/E '16	18.4x	15.2x	17.4x	16.8x	19.4x	18.5x	20.5x
Relative NTM Reg P/E to S&P500	1.14x	0.93x	1.06x	1.02x	1.12x	1.05x	1.18x
Regulated Dividend Yield	3.3%	4.0%	3.4%	3.6%	3.3%	3.5%	3.1%
10 Year Yield	1.65%	2.36%	2.03%	2.28%	1.77%	1.86%	1.44%
Moody's Baa Bond Yield	4.29%	5.18%	5.37%	5.54%	4.89%	4.75%	4.41%
Valuation vs. Corporate Bonds*	-2.2%	-0.3%	-14.6%	-10.2%	-11.3%	-2.4%	-7.5%

***Represents upside to predicted valuation using Evercore ISI's proprietary dividend yield/bond yield regression.**

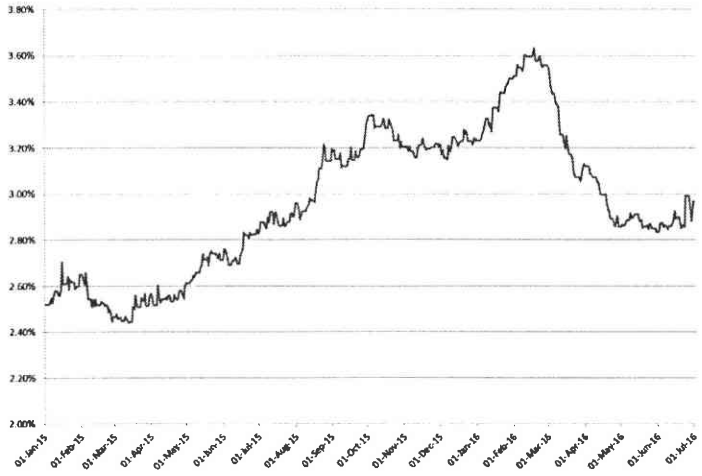
Source: FactSet, Evercore ISI Research

The Spread Between Corporates And Treasuries Rallied Recently, But What Is Next?

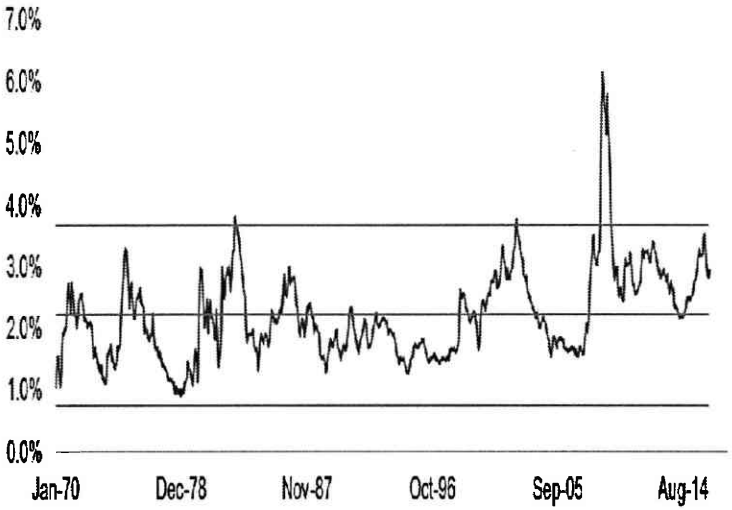
- The spread between corporates and Treasuries has averaged 223 basis points since 1970.
- At the beginning of the 2015 the 10-Year was +/-2.2% and corporates were 4.7%, a spread of 230bp.
- The wide spread between Treasuries and Corporates was the key factor that made utilities look fully priced in our bond model from 10/2015 through early April 2016
- That spread peaked on 363bp on 2/18, with the 10-year yield at 1.74% and corporate bond yield average at 5.37%. On 6/16 the spread was 289bp.
- Today that spread is 303bp, with Treasuries at 1.38% and Corporates at 4.41%
- However, the script in this kind of economic backdrop could be supportive of utility valuations. Because as you can see on the next page, during periods of macro financial stress utilities can trade quite rich in our bond model.

Spread Between BAA Corporate Bond Yields and 10 YR Treasury Yield has Continued to Increase Until Recently

Daily Moody's BAA / 10 Year Spread



Monthly Moody's BAA / 10 Year Spread



*Updated as of 7/1/16 close.

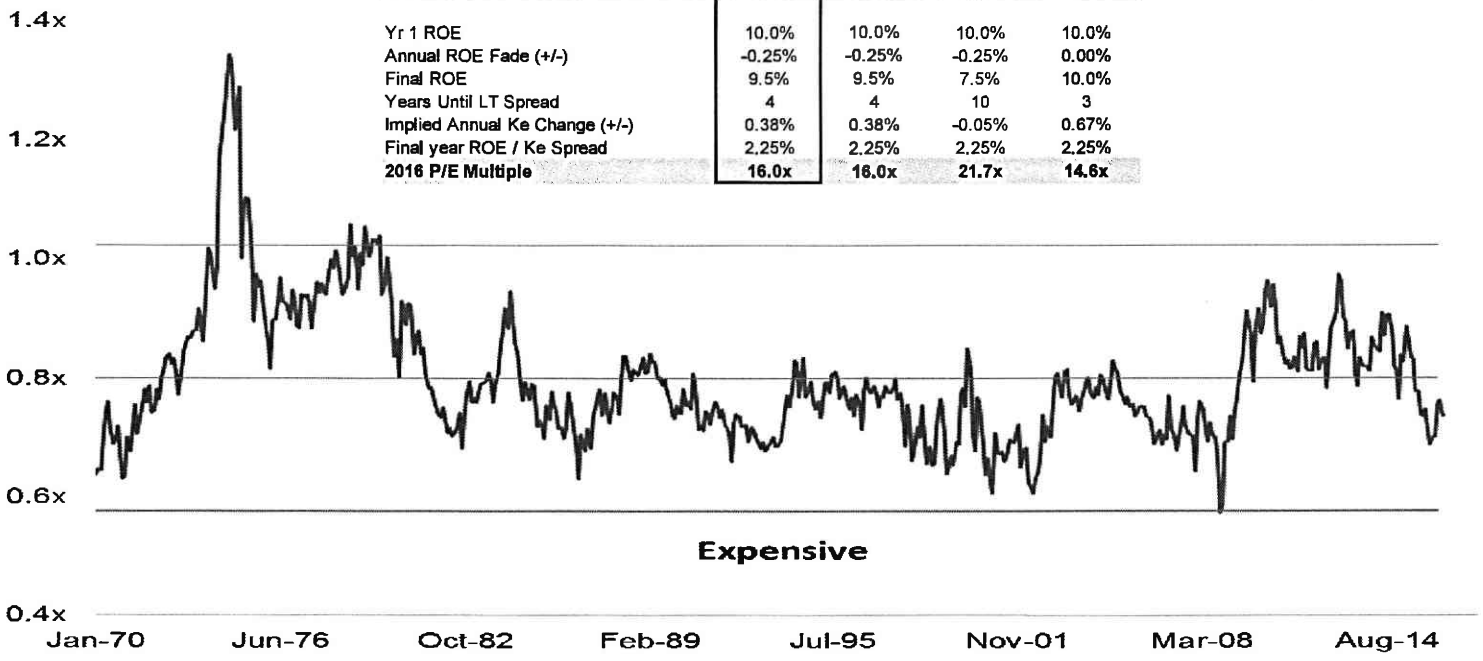
Source: FactSet, Evercore ISI Research

Utilities Can Stay Expensive In Our Bond Model, Supporting A Defensive Premium

- Traditional utility stocks are currently trading at ~19.5x '17 (excluding deal premium stocks), more than three turns higher than our base case (case 1) scenario as articulated in our DDM analysis, and a turn below our case 2 scenario.
- January of 2015 was the last time they were trading towards case 2.
- They are now above 2015 highs on a P/E multiple basis and trading at a slightly higher valuation in the corporate bond model now than they did then, but as you can see below they can get quite stretched in this model during period of overarching financial uncertainty in the capital markets.

Dividend Yield to BAA Bond Yield (Monthly; Jan '70- Present)

W/ Base Case Growth Assumptions		Case 1	Case 2	Case 3
ROE and Ke Assumptions	Base Case	ROEs Fade Rates Rise	Rates Low Long Time	ROEs Flat Rates Rise
Yr 1 ROE	10.0%	10.0%	10.0%	10.0%
Annual ROE Fade (+/-)	-0.25%	-0.25%	-0.25%	0.00%
Final ROE	9.5%	9.5%	7.5%	10.0%
Years Until LT Spread	4	4	10	3
Implied Annual Ke Change (+/-)	0.38%	0.38%	-0.05%	0.67%
Final year ROE / Ke Spread	2.25%	2.25%	2.25%	2.25%
2016 P/E Multiple	**16.0x**	**16.0x**	**21.7x**	**14.6x**



Source: FactSet, Evercore ISI Research

Bond Model Still Looks Ok But Is A Bit Wider Than When The Group Bottomed On 4/21/16.

Regulated utilities looked 11.3% expensive on 4/1/16 on then current yields.

On 4/1/16 If rates stayed unchanged for 12 months utilities looked 7% expensive.

Utility Valuation 4/1/16			10 YR BBB	1.77% 4.89%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2017 P/E	Upside / (Downside) for Index
- 95.0% Confidence Interval	1.81%	1.78%	34.9x	96.6%
	2.03%	1.94%	32.1x	80.9%
	2.47%	2.25%	27.7x	56.0%
	3.13%	2.71%	22.9x	29.2%
- 68.0% Confidence Interval	3.35%	2.87%	21.7x	22.3%
	3.57%	3.02%	20.6x	16.0%
	4.45%	3.64%	17.1x	-3.7%
	4.67%	3.80%	16.4x	-7.7%
Predicted Valuation	4.89%	3.95%	15.7x	-11.3%
	5.11%	4.11%	15.1x	-14.6%
	5.77%	4.57%	13.6x	-23.3%
	5.99%	4.73%	13.2x	-25.8%
+ 68.0% Confidence Interval	6.21%	4.88%	12.7x	-28.2%
	6.43%	5.04%	12.3x	-30.4%
	6.87%	5.35%	11.6x	-34.4%
	7.53%	5.81%	10.7x	-39.7%
+ 95.0% Confidence Interval	7.75%	5.97%	10.4x	-41.2%

Utility Valuation 4/1/16			10 YR BBB	1.77% 4.89%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2017 P/E	Upside / (Downside) for Index
- 95.0% Confidence Interval	1.81%	1.78%	34.5x	106.1%
	2.03%	1.94%	31.7x	89.7%
	2.47%	2.25%	27.4x	63.5%
	3.13%	2.71%	22.7x	35.5%
- 68.0% Confidence Interval	3.35%	2.87%	21.5x	28.2%
	3.57%	3.02%	20.4x	21.6%
	4.45%	3.64%	16.9x	0.9%
	4.67%	3.80%	16.2x	-3.2%
Predicted Valuation	4.89%	3.95%	15.6x	-7.0%
	5.11%	4.11%	15.0x	-10.5%
	5.77%	4.57%	13.5x	-19.6%
	5.99%	4.73%	13.0x	-22.2%
+ 68.0% Confidence Interval	6.21%	4.88%	12.6x	-24.7%
	6.43%	5.04%	12.2x	-27.0%
	6.87%	5.35%	11.5x	-31.2%
	7.53%	5.81%	10.6x	-36.7%
+ 95.0% Confidence Interval	7.75%	5.97%	10.3x	-38.4%

Utility Valuation 7/1/16			10 YR BBB	1.44% 4.41%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2017 P/E	Upside / (Downside) for Index
- 95.0% Confidence Interval	1.33%	1.44%	43.5x	131.6%
	1.55%	1.60%	39.3x	109.2%
	1.99%	1.91%	32.9x	75.2%
	2.65%	2.37%	26.4x	40.8%
- 68.0% Confidence Interval	2.87%	2.53%	24.8x	32.2%
	3.09%	2.68%	23.4x	24.6%
	3.75%	3.15%	19.9x	6.2%
Current Valuation	3.97%	3.30%	19.0x	1.2%
Predicted Valuation	4.41%	3.61%	17.4x	-7.5%
	4.63%	3.77%	16.6x	-11.3%
	5.07%	4.08%	15.4x	-18.1%
	5.51%	4.39%	14.3x	-23.8%
+ 68.0% Confidence Interval	5.73%	4.54%	13.8x	-26.4%
	5.95%	4.69%	13.3x	-28.9%
	6.17%	4.85%	12.9x	-31.1%
	7.05%	5.47%	11.5x	-38.9%
+ 95.0% Confidence Interval	7.27%	5.62%	11.1x	-40.6%

Utility Valuation 7/1/16			10 YR BBB	1.44% 4.41%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2017 P/E	Upside / (Downside) for Index
- 95.0% Confidence Interval	1.33%	1.44%	43.1x	143.0%
	1.55%	1.60%	38.9x	119.4%
	1.99%	1.91%	32.6x	83.8%
	2.65%	2.37%	26.2x	47.7%
- 68.0% Confidence Interval	2.87%	2.53%	24.6x	38.7%
	3.09%	2.68%	23.2x	30.7%
	3.75%	3.15%	19.8x	11.4%
	3.97%	3.30%	18.8x	6.1%
Predicted Valuation	4.41%	3.61%	17.2x	-3.0%
	4.63%	3.77%	16.5x	-7.0%
	5.07%	4.08%	15.3x	-14.0%
	5.51%	4.39%	14.2x	-20.1%
+ 68.0% Confidence Interval	5.73%	4.54%	13.7x	-22.8%
	5.95%	4.69%	13.2x	-25.4%
	6.17%	4.85%	12.8x	-27.8%
	7.05%	5.47%	11.4x	-36.0%
+ 95.0% Confidence Interval	7.27%	5.62%	11.1x	-37.7%

Now regulated utilities look 7.5% expensive on current yields

If rates stay unchanged for the next 12 months, regulated utilities look 2.8% expensive.

*Updated as of 7/1/16 close.

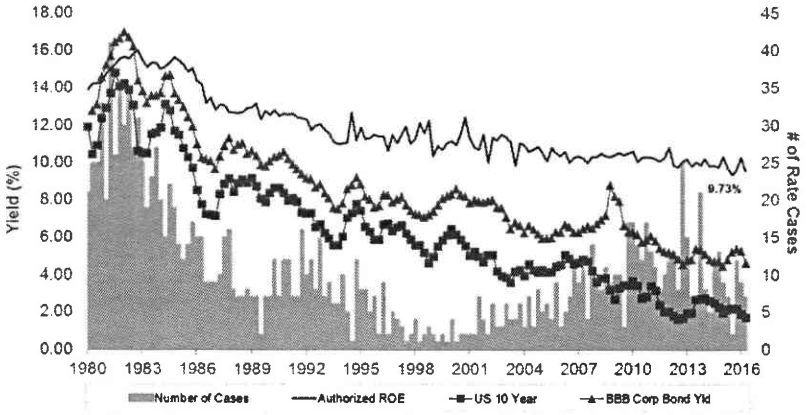
- **The group is trading two turns higher than its recent low on April 21, corporate yields have fallen to 4.41% from 4.75% over that time**
- **In normal conditions they would be discounting corporate bond yields at 4.25% 12 months out, implying a 2.03%10 Year T- Bond Yield up from 1.56% if corporates and treasuries traded to their historic 223 basis point spread.**
- **At the current spread they discount a +/- 1.3% 10-year one year hence**

Source: FactSet, Evercore ISI Research

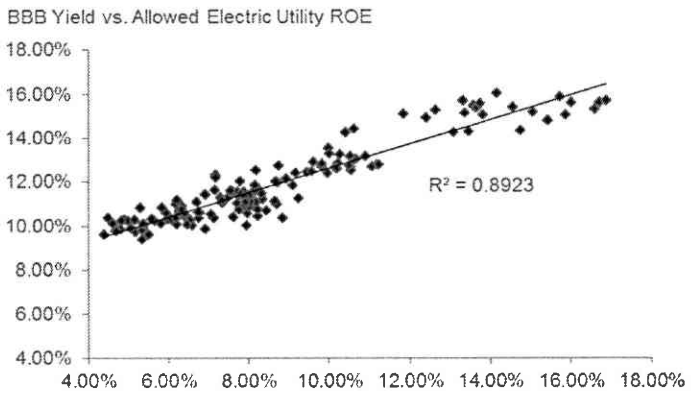
Low Rates Are A "Double Edged Sword." Expect ROE's To Continue Declining

- **Over the last 12 months, the average state level authorized ROE has been ~9.75%.**
- **The ROE spread versus interest rates is very wide. With a Fed rate hike base case now of December, for companies that have ROE exposure in the next 12-24 months there is definitely downside risk.**
  - **See more on this topic on pages 22-25**

The ROE Spread to Yields is Wide and Should Tighten



Allowed ROEs Highly Correlated with BBB Yields



Source: SNL Research, FactSet, Evercore ISI Research

Utilities Have Outpaced The Market Dramatically Since The First Fed Rate Hike

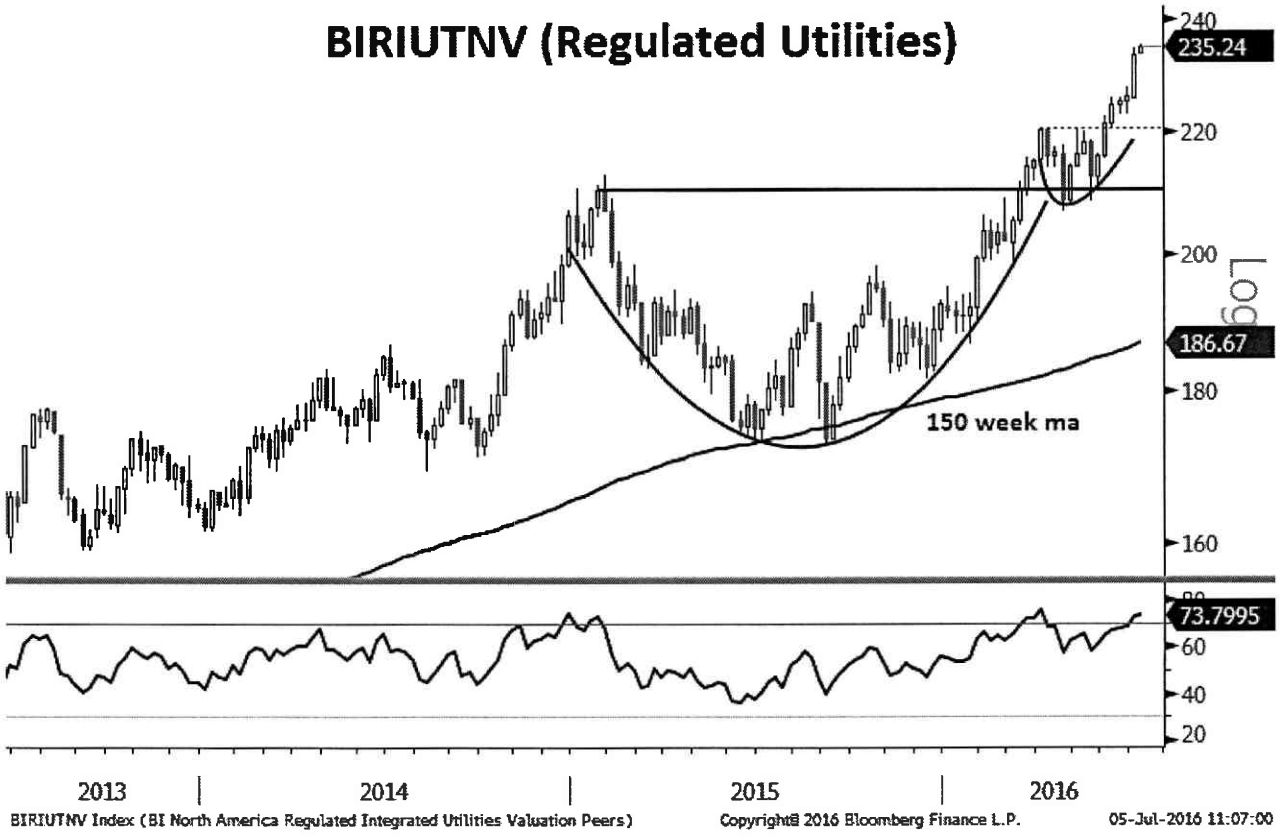
- The last six times we approached a Fed tightening cycle, as measured by an increase in the Fed Funds Rate, utilities underperformed in the 12, 6 and 3 months prior to the first tightening
- This time around that underperformance was modest.
- The data never supported the notion that utilities are prone to continue underperforming once the Fed starts raising rates.
- Utilities have outperformed the market +/-20% YTD on the back of a 77% move vs. a 0.1% by the market in June.
- Recent volatility in the group (the sell off in mid-April, bounce back through mid-May, Sell-off in April, and recent rally) are related to recalibration of the odds of a Fed rate hike by the market bolstered by the impact of Brexit.

Performance Before and After Initial Rate Tightening				10-Yr Treas. Yield Change	
Period	ISI Utility	S&P 500	ISI Utility vs. S&P	Yield Change	% Change
Prior to Rate Tightening (Last 6 Cycles)					
12 Months	2.7%	19.8%	(17.1%)	86 bps	16.5%
6 Months	1.6%	5.3%	(3.7%)	88 bps	14.7%
3 Months	(2.7%)	2.5%	(5.2%)	56 bps	9.8%
After Rate Tightening (Last 6 Cycles)					
3 Months	(1.9%)	(3.6%)	1.8%	(6 bps)	(1.2%)
6 Months	(2.3%)	(3.2%)	0.9%	20 bps	3.3%
12 Months	7.1%	4.6%	2.5%	(4 bps)	(1.1%)
Prior to Rate December Hike					
12 Months	(1.3%)	6.3%	(7.6%)	17 bps	8.0%
6 Months	5.7%	(0.9%)	6.7%	(8 bps)	(3.4%)
3 Months	2.3%	4.8%	(2.4%)	4 bps	1.8%
After December Hike					
3 Months	13.1%	1.1%	12.1%	(45 bps)	(20.2%)
6 Months	15.5%	2.5%	13.0%	(68 bps)	(30.2%)
12 Months	20.8%	4.1%	16.8%	(78 bps)	(34.7%)

Source: FactSet, Evercore ISI Research

Evercore ISI Technical Analyst Rich Ross Remains Bullish

- **Sum of the Charts: Regulated Utilities remain in a strong technical position and for now we see little evidence of trend exhaustion in either the Index or the commensurate collapse in yields which continues to fuel the group.**



Source: Evercore ISI Research

FERC ROE Setting Methodology Means Much Lower Earned ROEs

- **In June 2014, FERC issued Opinion 531** as part of its initial decision in *Attorney General of the Commonwealth of Massachusetts et al vs. New England Transmission Owners* (*NETO*) (EL11-66), altering the long-standing methodology by which FERC calculated authorized ROEs for electric transmission companies.
  - **Prior to Opinion 531, FERC-regulated public utility ROEs were set by application of a one-step DCF methodology.** The biggest difference distinguishing the one-step DCF methodology and the two-step DCF approach (that had been established in the mid-90's as the means for setting natural gas and oil pipeline returns), was that the one-step DCF approach omitted a long-term growth factor in its calculation.
  - **With Opinion 531, the FERC moved to adopt the same two-step DCF methodology used to set ROE in the natural gas and oil pipeline industries**. The FERC has begun using a two-step DCF instead of a one-step DCF to set tighter ranges of reasonableness for base ROEs.
  - **The base ROE is no longer automatically set at either the midpoint or the median of the range of reasonableness.** The FERC has abandoned its prior policy of setting the base ROE at the midpoint for a diverse group of utilities and the median for individual filers. Given what the FERC deems to currently be "unusual capital market conditions" they chose in this NETO case to set the ROE halfway between the mid-point and the top of the zone of reasonableness. The FERC indicated they will maintain flexibility on where within the zone of reasonableness they will set base ROEs, informing their decisions by looking at other methodologies *and considering where state commission ROEs are set* in order to derive an adequate return.
  - **Post-hearing adjustments to account for moves in treasury yields removed:** FERC changed past practice on post-hearing ROE adjustments in which they update the base ROE based on changes in U.S. Treasury bond yields that occur outside the measurement period but during the pendency of the proceeding.
  - **Most importantly, ROEs and incentive adders cannot exceed the high end of the range of reasonableness.** The FERC reiterated that based on past policy that the total authorized ROE, "inclusive of transmission incentive ROE adders, should not exceed the top of the zone of reasonableness produced by the two step DCF methodology." This, combined with the use of a two-step process for setting the range of reasonableness is and will continue to result in significantly lower authorized and earned ROE's for FERC-regulated transmission assets.
  - **We think the unwritten policy agenda at FERC is to bring earned ROE's for transmission investment down to a small premium to state authorized distribution and generation ROE's.**

Source: Evercore ISI Research

FERC ROE Framework: Summary of Settled & Pending Cases

- **Past and pending FERC 206 challenges to existing authorized transmission ROEs are bearing out the expected decline:**

- **The average authorized base ROE has come down an average in cases that have been resolved since mid-'14, to 10.2%, with the most recent settlement at 10%. Earned ROE's with incentives are capped at the high end of the zone of reasonableness in each decision. In the most recent case that was 11.00%. However, the ALJ in a pending MISO case has recommended a ceiling of 10.68% and the proposed cap in a pending ISO-NE case is 12.19%.**

Major FERC ROE Challenges and Outcomes Since Opinion 531

Case	Docket #	Region	Original Base	New Base	Status	Refund Effective Period
Attorney General of the Commonwealth of Massachussetts, et al vs. NETO	EL11-66	ISO-NE	11.14%	10.57%	Settled 10/16/14	10/1/11 - 12/31/12
NYAPP vs. Niagara Mohawk Power Corporation	EL12-101 [3]	NYISO	11.50%	10.30%	Settled 5/13/15	11/2/12 - 2/2/14
Municipal Electric Utilities Association of New York State vs. Niagara Mohawk Power Corporation	EL13-16 [3]	NYISO	11.50%	10.30%	Settled 5/13/15	11/2/12 - 2/2/14
Environment Northeast, et al vs. NETO	EL13-33 [4]	ISO-NE	11.14%	9.59% [5]	Pending - FERC final decision before 9/30/16	12/27/12 - 3/27/14
Delaware Division of the Public Advocate, et al vs. Baltimore Gas & Electric Co, et al	EL13-48 [6]	PJM	11.3% [1]	10.00%	Settled 11/6/15	2/27/13 - 5/27/14
ABATE, et al vs. Midcontinent Independent System Operator, et al	EL14-12	MISO	12.38% [2]	10.32% [7]	Pending - FERC final decision before 12/31/16	11/12/13 - 2/11/15
NYAPP vs. Niagara Mohawk Power Corporation	EL14-29 [3]	NYISO	11.50%	10.30%	Settled 5/13/15	2/6/14 - 5/6/15
Attorney General of the Commonwealth of Massachussetts, et al vs. NETO	EL14-86 [4]	ISO-NE	11.14%	10.90% [5]	Pending - FERC final decision before 9/30/16	7/31/14 - 10/31/15
Kansas Corporation Commission vs. Westar Energy	EL14-93	SPP	10.80%	9.80%	Settled 6/30/15	8/20/14 - 11/19/15
Delaware Division of the Public Advocate, et al vs. Baltimore Gas & Electric Co, et al	EL15-27 [6]	PJM	11.3% [1]	10.00%	Settled 11/6/15	12/8/14 - 3/8/16
Arkansas Electric Cooperative Corporation vs. ALLETE, Inc. et al	EL15-45	MISO	12.38% [2]	9.70% [8]	Pending - FERC final decision in 1H17	2/12/15 - 5/11/16
North Carolina Electric Membership Corp, et al vs. Duke Energy Carolinas	EL16-29 [10]	VACAR	10.20%	8.49%	Pending	1/7/2016 -
North Carolina Electric Membership Corp, et al vs. Duke Energy Progress	EL16-30 [10]	VACAR	10.80%	8.49%	Pending	1/7/2016 -
Belmont Municipal Light Dept, et al vs. Central Maine Power Company, et al	EL16-64	ISO-NE	10.57%	8.93% [9]	Pending - Comment period ended 6/3/16, FERC to decide whether it will hear complaint	4/29/2016 -

Source: Evercore ISI Research

[1] On assets placed into service in 2006 or later. A 10.8% base ROE was set for assets placed into service pre-2006.
[2] MISO-wide ROE, except for American Transmission Company LLC (ATC) which has a 12.2% ROE. [3] These dockets were consolidated. [4] These dockets were consolidated.
[5] Based on ALJ initial decision on 3/22/16. [6] These dockets were consolidated. [7] Based on ALJ initial decision on 12/29/15. [8] Based on ALJ initial decision on 6/30/16.
[9] Requested base ROE by complainants. [10] These dockets were consolidated.

Source: Evercore ISI Research

While We Are Concerned About Lower Authorized ROE's, Dividends Look Fine

- The analysis below shows the impact of a 25 basis point decrease in authorized/earned ROE on EPS for our coverage universe.
- While the Impact on earnings for some companies is meaningful enough, it would not in our view impact cash flow/payout ratios enough to impair expected dividends
- Companies shaded grey actually have some level of known ROE exposure through a rate case or other rate setting mechanism.

		25 bp sensitivity									25 bp sensitivity		
		EPS			% Impact			Current Payout Ratio			Revised Payout Ratio		
Ticker	Company Name	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
AEE	Ameren Corp	-0.07	-0.07	-0.07	-2.7%	-2.6%	-2.4%	69%	62%	58%	70%	64%	60%
AEP	American Electric Power Co Inc	-0.07	-0.08	-0.09	-2.0%	-2.2%	-2.2%	61%	62%	61%	63%	63%	63%
CMS	CMS Energy Corp	-0.05	-0.06	-0.06	-2.6%	-2.6%	-2.7%	61%	61%	60%	63%	62%	61%
D	Dominion Resources Inc	-0.06	-0.06	-0.07	-1.6%	-1.7%	-1.6%	74%	79%	75%	75%	80%	76%
DTE	DTE Energy Co	-0.11	-0.11	-0.12	-2.1%	-2.1%	-2.2%	58%	57%	55%	60%	58%	57%
DUK	Duke Energy Corp	-0.10	-0.10	-0.10	-2.2%	-2.2%	-2.1%	72%	74%	74%	74%	76%	75%
ED	Consolidated Edison Inc	-0.11	-0.11	-0.12	-2.6%	-2.7%	-2.8%	67%	67%	65%	69%	68%	67%
EIX	Edison International	-0.10	-0.10	-0.10	-2.6%	-2.4%	-2.3%	49%	51%	53%	51%	52%	54%
ES	Eversource Energy	-0.03	-0.04	-0.05	-1.0%	-1.3%	-1.5%	60%	63%	62%	61%	63%	63%
HE	Hawaiian Electric Industries, Inc.	-0.04	-0.04	-0.04	-2.1%	-2.0%	-1.9%	73%	69%	65%	75%	70%	67%
ITC	ITC Holdings Corp.	-0.06	-0.06	-0.07	-2.8%	-2.8%	-2.8%	39%	39%	40%	40%	40%	41%
NEE	NextEra Energy, Inc.	-0.09	-0.09	-0.10	-1.4%	-1.5%	-1.5%	57%	61%	64%	58%	62%	65%
NI	NiSource Inc	-0.04	-0.04	-0.05	-3.8%	-3.6%	-4.2%	65%	67%	65%	67%	69%	68%
PCG	PG&E Corp	-0.10	-0.10	-0.10	-2.7%	-2.8%	-2.6%	53%	57%	58%	54%	59%	60%
PNW	Pinnacle West Capital Corp	-0.09	-0.10	-0.11	-2.3%	-2.4%	-2.5%	63%	63%	64%	65%	65%	65%
PPL	PPL Corp	-0.03	-0.04	-0.04	-1.3%	-1.7%	-1.6%	65%	67%	67%	66%	68%	68%
SO	Southern Company Inc	-0.07	-0.07	-0.08	-2.5%	-2.4%	-2.6%	78%	78%	78%	80%	80%	80%
SRE	Sempra Energy	-0.08	-0.08	-0.10	-1.6%	-1.5%	-1.7%	62%	61%	57%	63%	62%	58%
WEC	WEC Energy Group	-0.06	-0.07	-0.07	-2.1%	-2.3%	-2.1%	68%	66%	66%	70%	68%	67%
WR	Westar Energy Inc	-0.06	-0.07	-0.07	-2.5%	-2.6%	-2.7%	61%	62%	64%	63%	64%	66%
XEL	Xcel Energy Inc	-0.06	-0.07	-0.07	-2.7%	-3.0%	-2.9%	61%	60%	61%	63%	62%	63%

Diversified Utilities		25 bp sensitivity									25 bp sensitivity		
		EPS			% Impact			Payout Ratio			Revised Payout Ratio		
Ticker	Company Name	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
ETR	Entergy Corp	-0.12	-0.14	-0.15	-2.4%	-2.8%	-2.9%	69%	68%	68%	70%	70%	70%
EXC	Exelon Corp	-0.04	-0.04	-0.05	-1.6%	-1.6%	-1.7%	49%	48%	48%	49%	49%	49%
FE	FirstEnergy Corp	-0.05	-0.06	-0.06	-1.8%	-2.2%	-2.2%	51%	53%	52%	51%	55%	54%
PEG	Public Service Enterprise Group Inc	-0.04	-0.05	-0.05	-1.4%	-1.7%	-1.7%	58%	59%	60%	58%	60%	61%

Gray highlight denotes a company that has pending rate cases with ROE risk

Source: FactSet, Evercore ISI Research

Companies With Pending Rate Cases Subject To ROE Risk

- **The below companies have a pending rate case and, given the current interest rate environment, are exposed to ROE risk in the near term.**

Ticker	Company Name	Expected Decision Date	% Earnings Power at Risk
PNW	Pinnacle West Capital Corporation	6/1/2017	100%
ED	Consolidated Edison, Inc.	12/31/2016	99%
DTE	DTE Energy Company	2/1/2017	82%
AEE	Ameren Corporation	4/30/2017	80%
CMS	CMS Energy Corporation	3/1/2017	74%
NEE	NextEra Energy, Inc.	10/27/2016	60%
FE	FirstEnergy Corp.	1/27/2017	44%
XEL	Xcel Energy Inc.	6/1/2017	35%
ETR	Entergy	8/20/2016	34%
AEP	American Electric Power Company, Inc.	2/28/2017	34%
EXC	Exelon Corporation	12/9/2016	30%
NI	NiSource Inc.	12/19/2016	23%
DUK	Duke Energy Inc	6/30/2017	3%
WEC	WEC Energy Group Inc	9/30/2016	1%

Source: SNL, data shown at holding company level, subsidiary expected decision dates may vary.

Source: FactSet, Evercore ISI Research

Utility Sector Allocation Survey: LO Slightly Bearish, HF Bearish

- In our June Evercore ISI surveys (Oscar Sloterbeck's Team) long investors slightly more bearish than historical averages.
- Hedge fund sector allocation "net" position is -11%, the same reading as last month vs. "flat" historic average since 7/2004.

Institutional Equity Sector Allocation Survey

Sector	Net Position	Historic Avg.	Difference	+/- Stdev
Technology	+ 61%	+ 40%	+ 21%	20%
Cons Discretionary	+ 18%	+ 9%	+ 9%	15%
Telecom	- 35%	- 42%	+ 7%	8%
Industrials	+ 17%	+ 11%	+ 6%	17%
Cons Staples	- 17%	- 21%	+ 4%	15%
Financials	- 23%	- 27%	+ 4%	16%
Utilities	**- 70%**	**- 68%**	**- 2%**	**8%**
Materials	- 22%	- 19%	- 3%	13%
Healthcare	+ 4%	+ 11%	- 7%	10%
Energy	- 21%	+ 3%	- 24%	14%

Historic avg. since December 2003

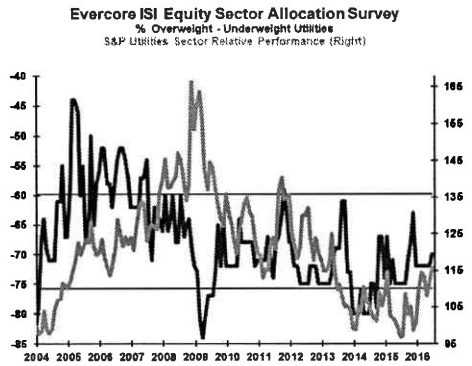
Hedge Fund Sector Allocation Survey

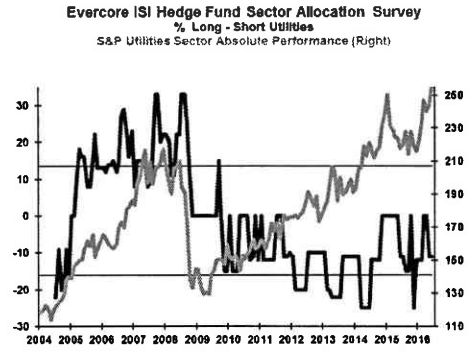
Sector	Net Position	Historic Avg.	Difference	+/- Stdev
Cons Discretionary	0%	- 33%	+ 33%	27%
Technology	+ 40%	+ 22%	+ 18%	21%
Materials	+ 10%	+ 7%	+ 3%	18%
Telecom	+ 18%	+ 15%	+ 3%	17%
Utilities	**- 11%**	**-1%**	**- 10%**	**15%**
Energy	+ 10%	+ 31%	- 21%	24%
Cons Staples	+ 10%	+ 32%	- 22%	21%
Industrials	- 9%	+ 13%	- 22%	21%
Healthcare	+ 11%	+ 36%	- 25%	19%
Financials	- 37%	- 7%	- 30%	24%

Historic avg. since July 2004

***Data Through June 17, 2016**

Utility Allocation is In Line With Historical Trends





Source: Oscar Sloterbeck's Survey Team at Evercore SI

Buy Rated Stocks

- **NEE – BUY, TP: $140.00, ETR: 10.6%:** NEE's core utility business (FPL) offers a better than industry average rate base and earnings growth profile in a historically stable regulatory environment. We believe the 2016 rate case proceeding will result in a constructive outcome for the core utility. The company also continues to be the largest renewable energy developer in North America with a robust growth backlog of development opportunities, which bolsters EPS growth visibility. The recently extended wind and solar tax credits stand to benefit NEE's development arm and remove some uncertainty about their ability to expand their project backlog (boosted considerably on the 1Q16 earnings call). Our forecast corroborates NEE's total return aspirations. Given their capital investment initiatives, they expect to grow EPS at a 6-8% average annual rate through at least '18, with operating cash flow growing 9% annually over that same period and dividend growth of 12%-14%. NEP, NEE's YieldCo vehicle, has a highly visible medium-term distribution growth profile and the ability to limit its dependence on public equity markets due to its strong relationship with NEE and the sponsor's willingness to support the YieldCo through the current market volatility, which makes NEP one of the best positioned yield vehicles to weather current market conditions.

- **SRE – BUY, TP: $122.00, ETR: 10.2%:** SRE expects 2020 EPS to be in the range of $7.20-7.80 (~12% CAGR) and remains committed to a dividend growth of 8-9%. At the March 2015 analyst day, they were guiding 2019 EPS to be in the range of $7.00-7.50 and were probably tracking towards $7.00. So the '19-'20 growth rate is in our view 7%. We believe the 2020 EPS guidance range is a positive print. Our estimates include the +/-$0.25 negative EPS impact from the recently announced sale of SRE's 25% stake in the REX pipeline to Tallgrass, recent macro headwinds (Latin American currency/commodity prices), and assume that by 2018 LNG development expenses for Port Arthur are no longer an EPS drag, the earnings contribution from the new renewables projects announced in early '15 now impact '17 EPS, and the PEMEX JV acquisition contributes earnings of $0.02/share in '16 and grows to $0.10 in '19. We assume the Cameron LNG export facility begins coming on line in FY '18 and is fully up and running in FY '19. Our forecast for the core utilities reflects our view of the EPS impact of the proposed GRC settlements. The risk/reward equation for SRE shares still looks good to us – a better value than most of the stocks in our regulated utility coverage universe. First, let's make the assumption that SRE can achieve their 2020 EPS guidance range of $7.50-$7.80/share. If SRE then trades at the average P/E multiple on that range of '20 EPS outcomes that would put fair value at between $108-$112/share with option value retained on the ability to deploy cash currently earmarked for buybacks to higher returning growth investments. The bear case on SRE revolves around skepticism regarding the ability to hit the numbers (mainly due to opacity in Mexico, Chile and Peru) as well as a more skeptical view on risk and the deceleration EPS growth profile leading to a lower than average multiple. So this has become a bit of a debate stock where we are in the "pro" camp but it is a "show me" story from here.

Source: Evercore ISI Research

Buy Rated Stocks

- **D – BUY, TP: $83.00, ETR: 10.2%:** Dominion is one of the diversified growth stories that we continue to find attractive. There is some debate that D might be a bit "cuspy" for a Buy rating in the very short run given its valuation and some concern about the near term earnings mix – namely the large contribution of renewable ITC as a percentage of total EPS in 2016. However, VEPCO is still one of the best positioned utilities in the group, with rate base growth visibility and no rate risk through at least 2022. Cove Point (COD in late '17) and ACP (COD in late '18) should improve the earnings quality and support earnings growth with full year contributions in '18 and '19, respectively. While MLP's are obviously under pressure, Dominion Midstream has maintained a premium valuation due to its premium asset profile (D has guided to ~$2Bn of potential drop down eligible assets excluding the Atlantic Coast Pipeline, CGT and Iroquois), placing DM at the top of peers in terms of expected distribution growth. Despite facing potential EPS headwinds in '17, if they don't secure more renewable investment projects post '16, we still see D as having a credible path to achieving their EPS growth target of 5-6% through '17, accelerating to 7-9% through '20.

- **PCG – BUY, TP: $67.00, ETR: 7.7%:** PCG is poised to finally get its San Bruno issues behind it in 2016. The criminal case regarding San Bruno begins June 14th, but we believe financial exposure related to a potentially negative outcome is already priced into the stock. The company boasts $5.3-6.5bn in capex annually through 2017 driving rate base growth of 5-7%. With significant further balance sheet setbacks unlikely we think they can get on a steady path to EPS growth and start growing the dividend. On 5/23/16, PCG raised its dividend for the first time in 6 years and updated the dividend policy. We see the new dividend policy translating into +/-7% dividend growth through 2019.

- **AEP – BUY, TP: $73, ETR: 7.3%:** Looking at AEP's business profile after the proposed sale of its merchant power assets (expected by YE '16), we think the balance sheet, earnings, and dividend growth outlook are similar to other "low risk" regulated utilities, with XEL energy being the closest comparable. XEL trades at a discount to "premium" names like WEC and CMS, more in line with SO and DUK. If we divide AEP's current share price by XEL's P/E multiple, the stock is discounting '18 earnings that look conservative under most scenarios given our view on potential dilution from merchant generation asset sale. In light of the fact that FERC recently blocked the PPAs that the PUCO approved, our base case forecast now assumes the entire merchant fleet will be divested with the proceeds used for share buybacks, resulting in minimal EPS dilution. Even in this case, we think AEP is cheap if the contracts ultimately do not pan out, largely due to their strong balance sheet

Source: Evercore ISI Research

TIMESTAMP

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

Time of dissemination: July 05, 2016, 21:50 ET.

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The analysts, Greg Gordon, Kevin Prior, Phil Covello, Dmitri Pchelintsev and Durgesh Chopra, 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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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%
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".

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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.

Evercore ISI ratings distribution (as of 07/06/2016)

Coverage Universe

Ratings	Count	Pct.
Buy	311	48%
Hold	298	46%
Sell	27	4%
Coverage Suspended	11	2%
Rating Suspended	5	1%

Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	45	14%
Hold	15	5%
Sell	2	7%
Coverage Suspended	3	27%
Rating Suspended	1	20%

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Evercore ISI or an affiliate expects to receive or intends to seek compensation for investment banking services from these subject companies DTE Energy Co., NextEra Energy Inc, NiSource Inc, PPL Corp., Southern Co. and Westar Energy Inc. within the next three months.

The analyst(s) received compensation from this subject company Consolidated Edison Inc. in the last 12 months.

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Price Charts

Ameren Corp. Rating History as of 07/04/2016

American Electric Power Rating History as of 07/04/2016

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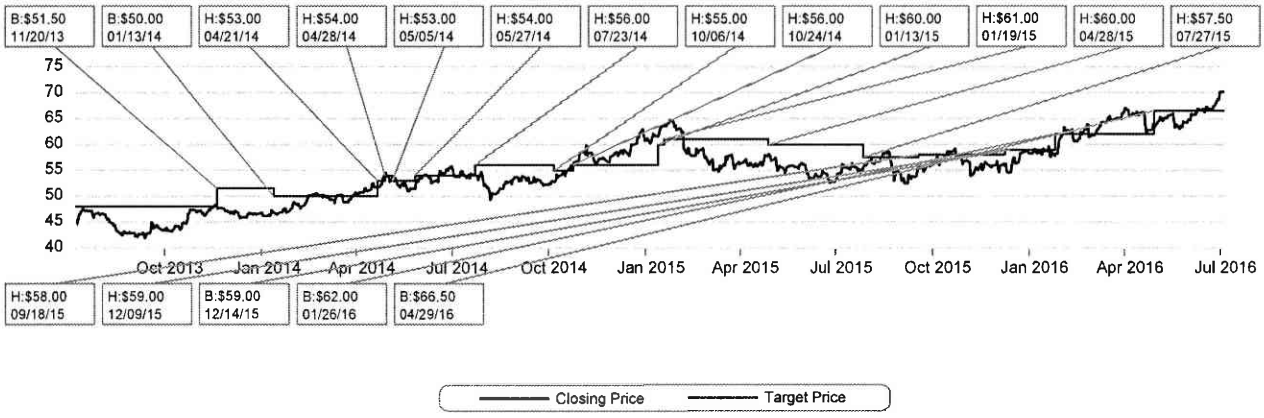

CMS Energy Corp. Rating History as of 07/04/2016

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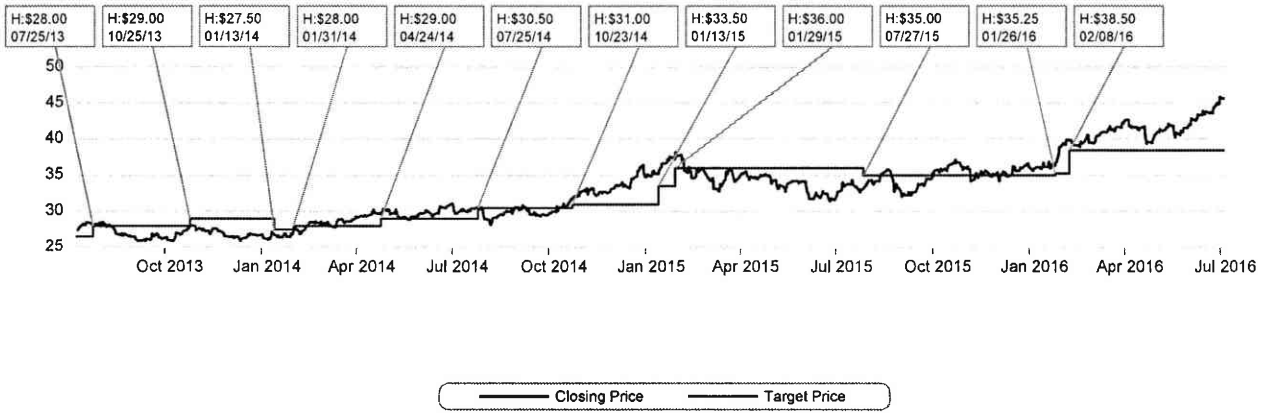

Consolidated Edison Inc. Rating History as of 07/04/2016

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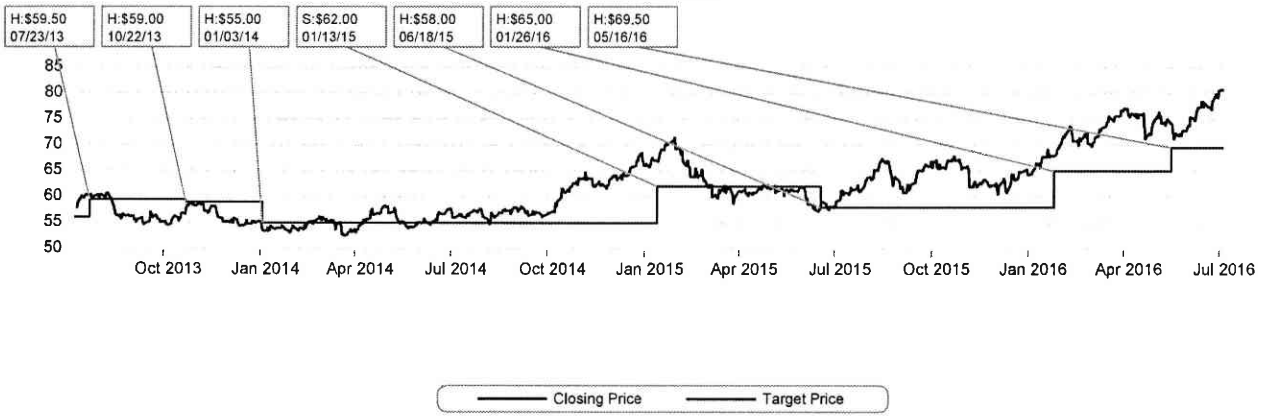

Dominion Resources Inc. Rating History as of 07/04/2016

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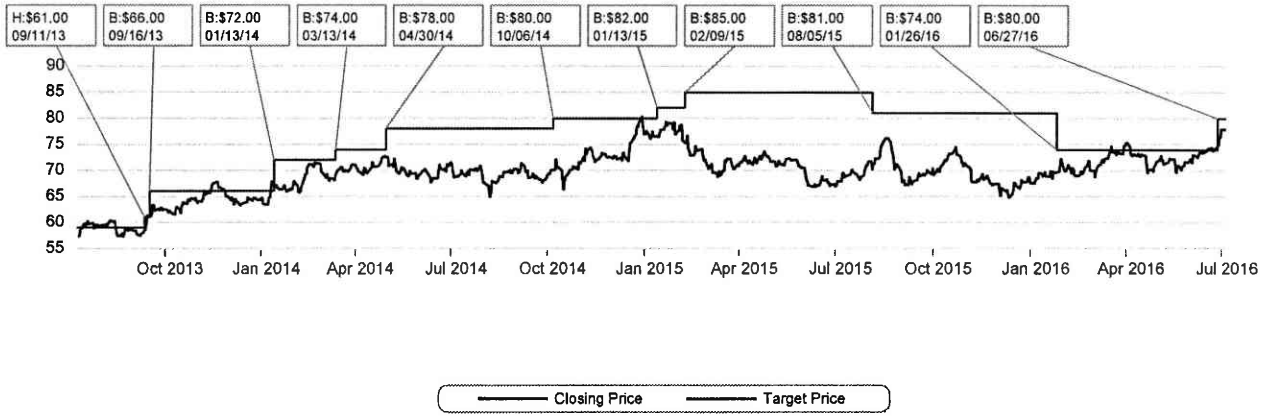

DTE Energy Co. Rating History as of 07/04/2016

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Duke Energy Corp. Rating History as of 07/04/2016

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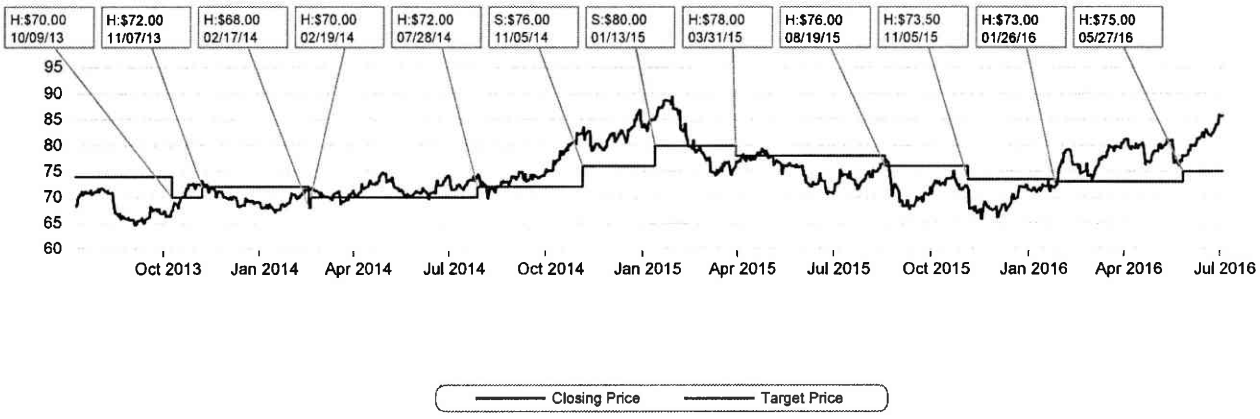

Edison International Rating History as of 07/04/2016

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Eversource Energy Rating History as of 07/04/2016

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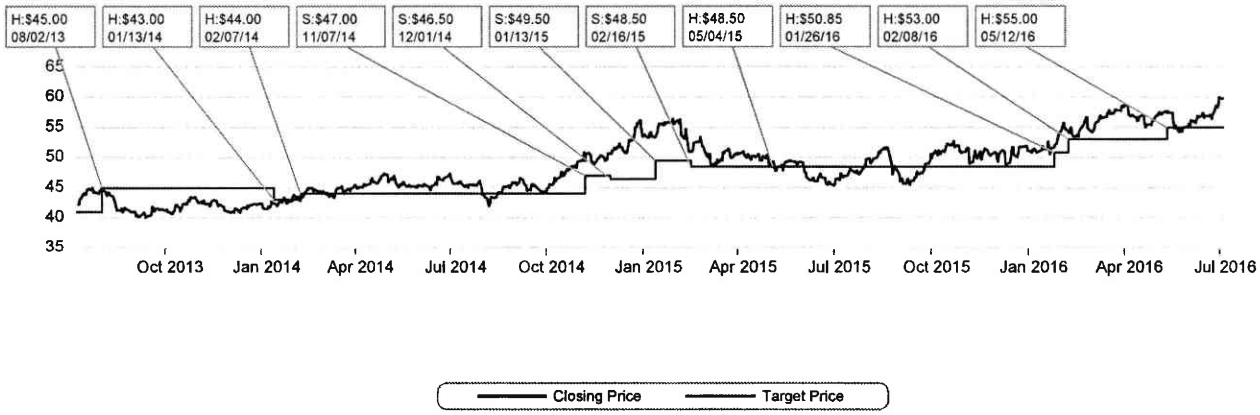
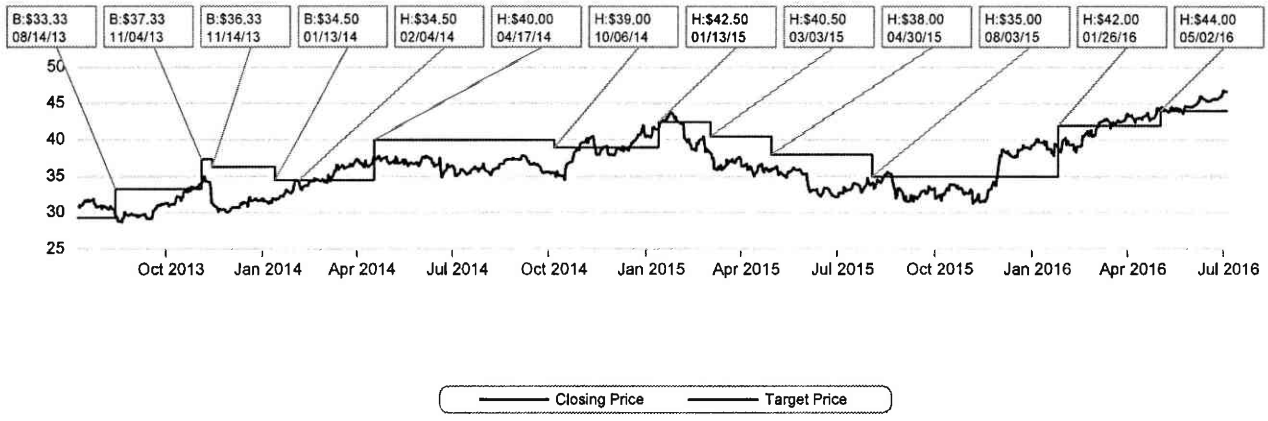


Hawaiian Electric Industries Inc. Rating History as of 07/04/2016

powered by: BlueMatrix

ITC Holdings Rating History as of 07/04/2016

powered by: BlueMatrix



NextEra Energy Inc Rating History as of 07/04/2016

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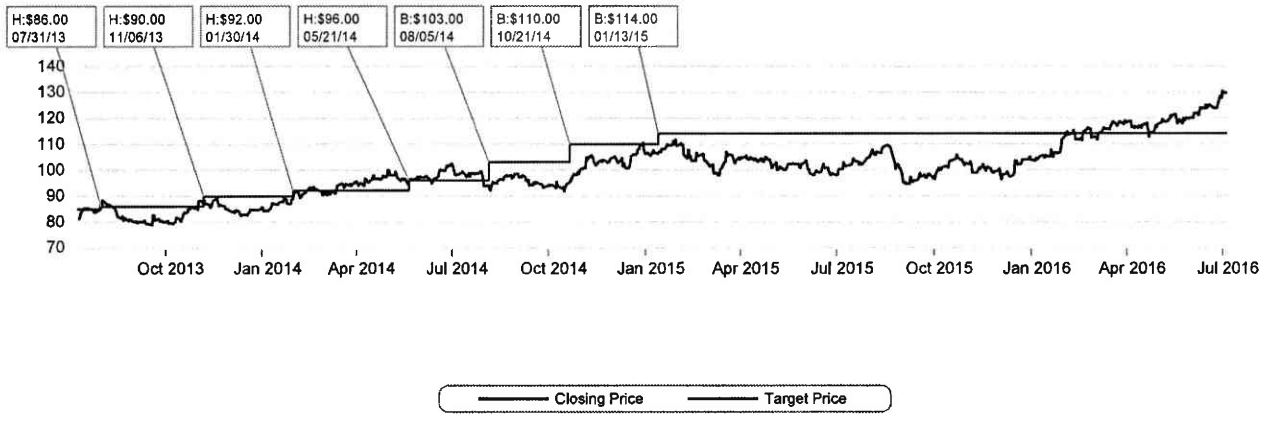

NiSource Inc Rating History as of 07/04/2016

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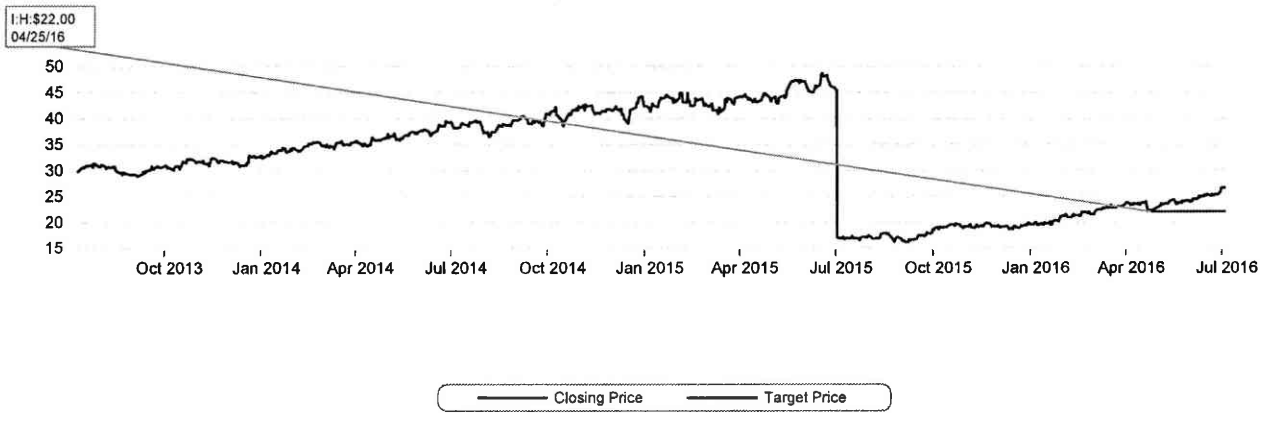
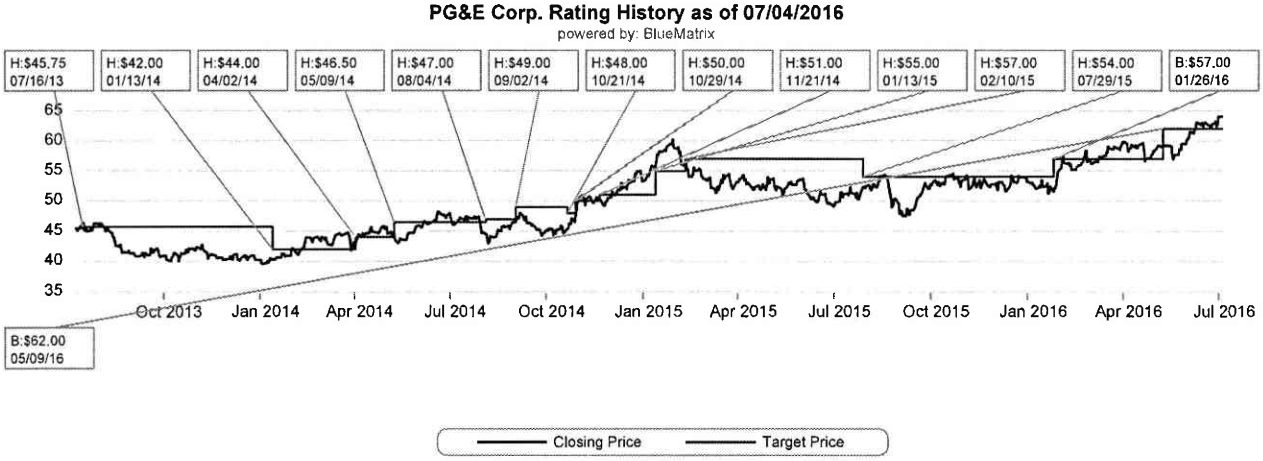
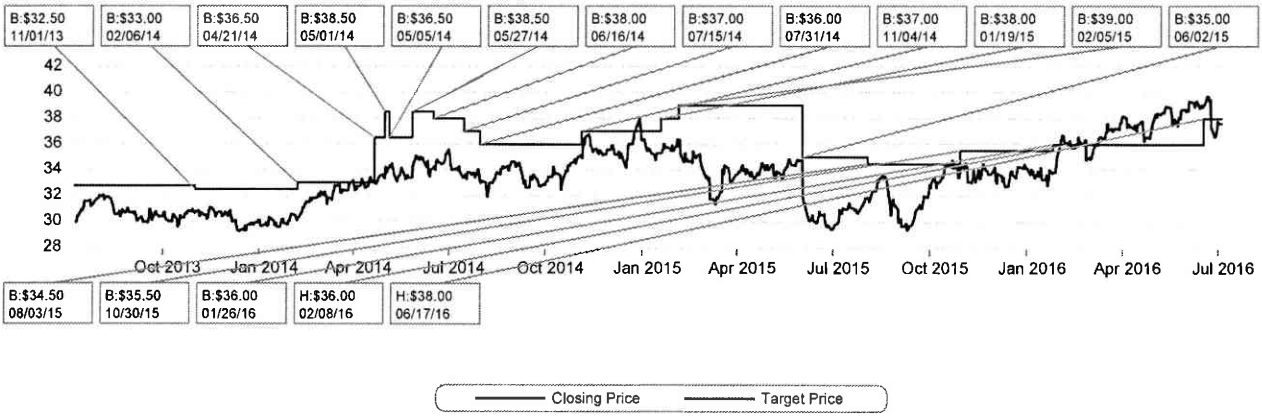


PG&E Corp. Rating History as of 07/04/2016

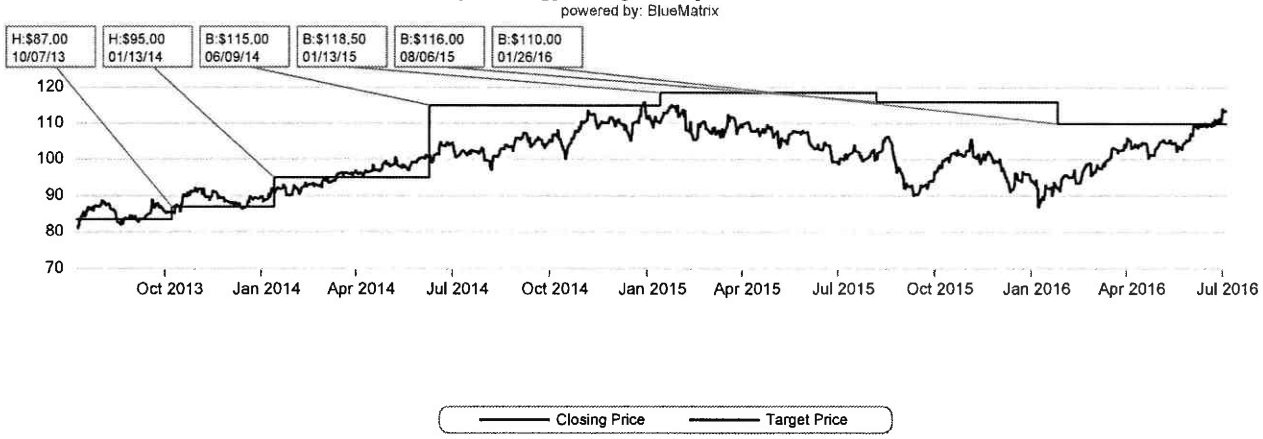


Pinnacle West Capital Corp. Rating History as of 07/04/2016

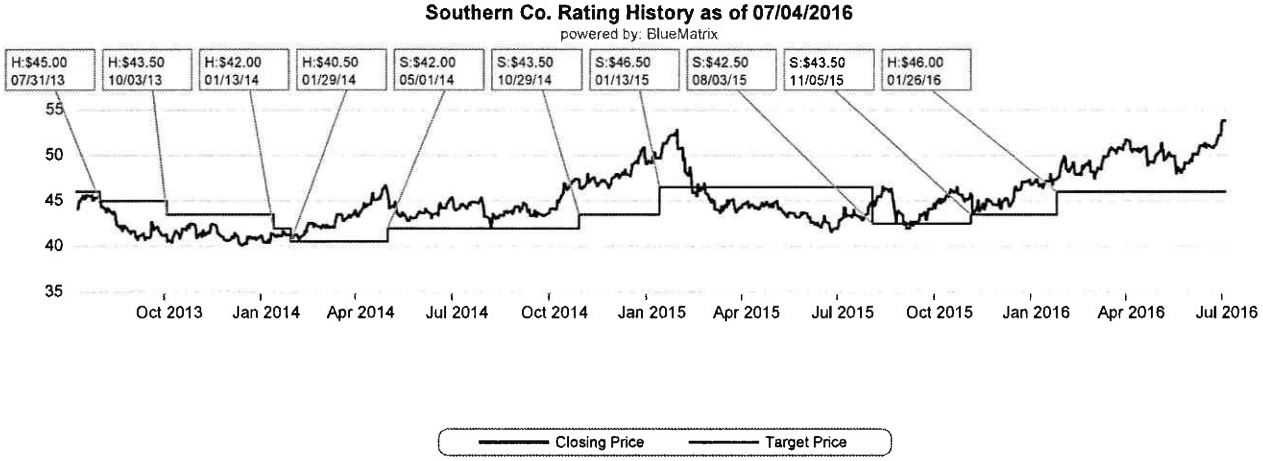
PPL Corp. Rating History as of 07/04/2016



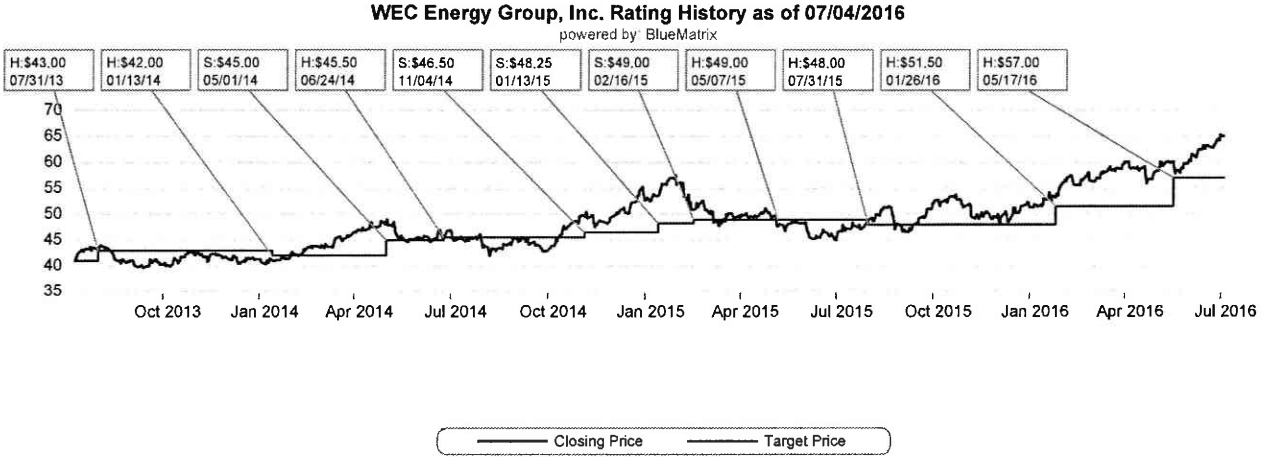
Sempra Energy Rating History as of 07/04/2016



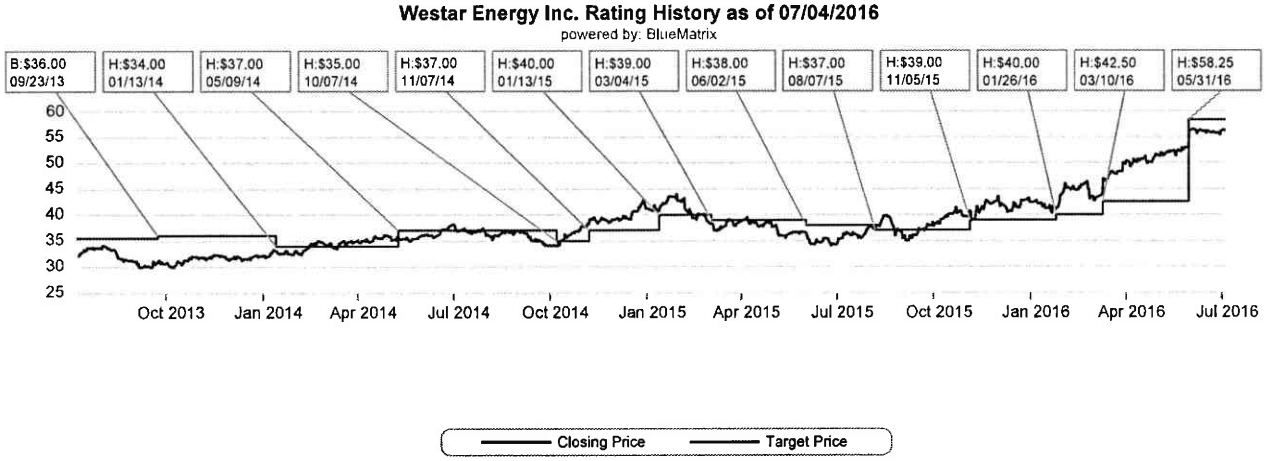
Southern Co. Rating History as of 07/04/2016



WEC Energy Group, Inc. Rating History as of 07/04/2016



Westar Energy Inc. Rating History as of 07/04/2016



Xcel Energy Inc. Rating History as of 07/04/2016

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UBS | Global Research | 7 July 2016

NiSource Inc.
Stepping to the Sidelines on Valuation

Equities

Americas
Gas Utilities

12-month rating	**Neutral** *Prior: Buy*
12m price target	**US$27.00** *Prior: US$25.00*
Price	**US$26.04**

RIC: NI.N **BBG:** NI US

Trading data and key metrics

52-wk range	US$26.77-16.17
Market cap.	US$8.34bn
Shares o/s	320m (COM)
Free float	99%
Avg. daily volume ('000)	972
Avg. daily value (m)	US$23.5
Common s/h equity (12/16E)	US$3.91bn
P/BV (12/16E)	2.1x
Net debt / EBITDA (12/16E)	4.9x

EPS (UBS, diluted) (US$)

	12/16E			
	From	To	% ch	Cons.
Q1	0.60	0.60	0	0.60
Q2E	0.07	0.07	NM	0.07
Q3E	0.10	0.07	-23	0.09
Q4E	0.32	0.34	7	0.33
12/16E	1.08	1.08	NM	1.06
12/17E	1.16	1.16	NM	1.15
12/18E	1.23	1.23	NM	1.19

Moving to Neutral on Valuation

We are raising our sum-of-the parts derived price target to $27, but lowering our rating to Neutral based on valuation. NiSource shares have appreciated ~57% since the spin-out of the pipeline business (CPGX) on 7/2/2015. Over the past year gas and electric utility multiples have expanded over three turns as interest rates have remained low and the market has been volatile. Additionally, there have been three acquisitions of gas distribution companies by electric utilities announced, also contributing to valuation multiple expansions. The M&A trend looks likely to continue due to the slowing growth prospects at electric utilities and the higher growth expected at gas distribution companies resulting from the current infrastructure replacement cycle under way. However, for NI, with a 2016E P/E of 24.8x and 2017E P/E of 22.9x, we believe this optimism is mostly baked in given our expected 9.9% 3-Yr forward EPS CAGR.

No Change to Fundamental View

We continue to believe that NI is on track to meet 2016 EPS guidance of $1.00-$1.10 and we currently estimate EPS of $1.08 for the year. NiSource has continued to settle rate cases and gain approval for its modernization plans including the plan to invest $1.1bn in growth investment and modernization in 2016. Management currently plans to spend ~$30bn on regulated utility infrastructure investments over the next 20 years.

Minor Model Adjustments

We are making minor changes to estimates resulting in '16/'17/'18 EBITDAe changing to $1,473mm/$1,565mm/$1,641mm from $1,489mm/$1,589mm/$1,666mm. We increased operating expense growth and lowered interest expense. EPSe for '16/'17/'18 are unchanged at $1.08/$1.16/$1.23.

Valuation: Raising PT to $27, Move to Neutral

We are raising our sum-of-the-parts derived price target to $27 from $25 to reflect higher peer valuation multiples. We note that P/E ratios on a NTM basis have moved to 22.2x from 20.9x for gas distribution and to 20.5x from 18.3x for electric utilities since we last increased our price target in March. We are lowering our rating to Neutral from Buy because we believe current valuation reflects fundamentals.

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Highlights (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	5,657	6,485	4,612	4,659	4,885	5,063	5,242	5,420
EBIT (UBS)	1,168	1,277	829	925	999	1,061	1,132	1,201
Net earnings (UBS)	491	526	295	345	374	397	424	443
EPS (UBS, diluted) (US$)	1.57	1.66	0.93	1.08	1.16	1.23	1.32	1.38
DPS (US$)	0.99	1.03	0.99	0.64	0.68	0.71	0.75	0.78
Net (debt) / cash	(8,808)	(9,974)	(6,500)	(7,273)	(7,677)	(8,021)	(8,572)	(9,110)
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	20.6	19.7	18.0	19.8	20.4	21.0	21.6	22.2
ROIC (EBIT) %	9.2	9.3	7.0	9.6	9.6	9.7	9.7	9.6
EV/EBITDA (core) x	9.2	10.4	12.6	9.6	9.4	9.2	9.0	8.7
P/E (UBS, diluted) x	18.9	22.8	33.5	24.2	22.4	21.1	19.7	18.8
Equity FCF (UBS) yield %	(4.8)	(5.9)	1.0	(5.2)	(2.7)	(2.1)	(4.7)	(4.4)
Net dividend yield %	3.3	2.7	3.2	2.5	2.6	2.7	2.9	3.0

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$26.04 on 07 Jul 2016 17:43 EDT

www.ubs.com/investmentresearch

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UBS Research THESIS MAP a guide to our thinking and what's where in this report

PIVOTAL QUESTIONS

Q: Will Pipeline Replacement Help Drive Strong Earnings Growth?

Yes. NiSource plans to spend $1.4bn on capex in 2016 with ~$1.1bn being spent on modernization and growth with trackers. NiSource has identified ~$30bn in growth investment opportunities over the next 20 years which should support mid-to-high-single digit distribution growth.

more→

UBS VIEW

We believe that NiSource will benefit from the regulated returns that it receives from distributing natural gas and electricity as a pure play utility. Earnings growth is driven by customer growth, by expanding rate bases as infrastructure investments are made and by approved rate increases. NI has planned a ~$30bn modernization investment program over the next 20+ years and these infrastructure investments should result in rate base and earnings growth. NI also continues to pursue rate relief from mechanisms and cost recovery in each of its jurisdictions.

EVIDENCE

Average P/E multiples in the gas and electric utility sectors have expanded over 3 turns over the past year vs. the S&P P/E multiple expansion of 0.4x. We believe the multiple expansions have been driven by low interest rates, rotation to stable regulated returns and take-over premiums for gas distribution.

WHAT'S PRICED IN?

NiSource shares have appreciated ~57% post the spin-out of CPGX on July 2, 2015. We believe a NiSource's current valuation reflects multiple expansion in the regulated gas and electric utility sectors as well as includes a take-out premium due to the announcements of several electric utilities' plans to acquire gas distribution companies. Since the spin-out of the pipeline...

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	P/E Gas	P/E Electric	2017 EPS Gas	2017 EPS Electric
$32 upside	25.6x	21.7x	$0.86	$0.48
$27 base	24.4x	21.3x	$0.74	$0.42
$23 downside	23.2x	19.4x	$0.67	$0.38

Source: UBS

more→

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...

more →

Shneur Z. Gershuni, CFA, Analyst, shneur.gershuni@ubs.com, +1-212-713 3974

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COMMENTARY return ↑

What's Priced In

Our sum-of-the-parts derived PT assumes a 5% premium to the peer gas distribution group and a 10% to electric utility peer group due to the higher expected earnings growth profitle of NiSource. As our valuation table in Figure 1 below shows, we expecte NiSource EPS to grow at a 9.9% 3-yr CAGR versus a 6.1% 3-yr CAGR for the gas distribution peers and 4.1% for the electric utilities.

Figure 1: Sum-of-the-Parts Valuation

Segment	Utility P/E	Premium/ (Discount)	NI Multiple	2017 EPS	NI Price
Gas Distribution	23.2x	5%	24.4x	$0.74	$18.0C
Electric	19.4x	10%	21.3x	$0.42	$9.0C
				$1.16	
				Total	**$27.00**

Source: UBSe, Factset

NiSource shares have appreciated ~57% post the spin-out of CPGX on July 2, 2015. We believe a NiSource's current valuation reflects multiple expansions in the regulated gas and electric utility sectors as well as includes a take-out premium due to the announcements of several electric utilities' plans to acquire gas distribution companies.

Since the spin-out of the pipeline business (CPGX) on July 2, 2015, P/E multiples for the gas distribution companies have expanded 3.1x turns to 22.2x from 19.1x and electric utilities have expanded 3.9x to 20.5x from 16.6x. This multiple expansion is significantly greater than the 0.3x increase in the P/E multiple of the S&P 500 to 16.7x from 16.4x over the same period. Additionally, there have been three acquisitions of gas distribution companies by electric utilities announced: Southern Co acquired AGL Resources (closed 7/1/2016), Duke Energy to acquire Piedmont Natural Gas (announced 10/26/15) and Dominion Resources to acquire Questar (announced 2/1/2016). Over this period NiSource's P/E multiple has expanded to 24.9x from 18.7x. We believe NiSource already had some take-out premium in it because of its size and the location of its assets, which could be combined with the current operations of several electric companies.

As our valuation table in Figure 2 shows, NiSource is currently trading at a premium to the gas utility average on a P/E basis and EV/EBITDA basis but trades at a lower PEG ratio than its peers. We note that it trades at a discount to the pure play gas distribution companies. Additionally, it trades at a premium to the electric utilities, but at a lower PEG.

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Figure 2: Comparable Company Valuation

Company	Price 7/7/2016	Mkt Cap ($MM)	Enterprise Value	Dividend Yield	EPS 3-Yr CAGR	P/E 2016	P/E 2017	P/E 2018	EV/EBITDA 2016	EV/EBITDA 2017	EV/EBITDA 2018	UBS PEG
Gas Utilities - Pure Play												
Atmos Energy Corp.	$81.16	$8,297	$11,390	2.1%	6.0%	24.7x	23.2x	22.0x	11.9x	10.9x	10.0x	4.1x
Northwest Natural Gas Co.	$65.23	$1,793	$2,553	2.9%	2.1%	29.4x	28.2x	26.8x	11.4x	11.1x	10.3x	14.2x
ONE Gas, Inc.	$66.50	$3,469	$4,671	2.1%	8.4%	26.3x	24.8x	23.3x	11.5x	10.8x	10.2x	3.1x
Vectren Corp.	$53.15	$4,401	$6,064	3.0%	5.1%	21.6x	19.9x	19.2x	8.2x	7.5x	NA	4.2x
Gas Utilities (PurePlay) Avg				2.5%	5.4%	25.5x	24.0x	22.8x	10.8x	10.1x	10.2x	6.4x
Gas Utilities - Diversified												
CenterPoint Energy, Inc.	$24.05	$10,356	$17,770	4.3%	5.4%	21.0x	19.9x	18.7x	9.0x	8.6x	8.3x	3.9x
Chesapeake Utilities Corp.	$66.12	$1,012	$1,341	1.8%	7.7%	22.8x	20.4x	19.4x	11.3x	10.2x	NA	3.0x
MDU Resources Group, Inc.	$24.28	$4,742	$6,767	3.1%	15.5%	21.4x	18.2x	17.1x	11.5x	9.7x	NA	1.4x
National Fuel Gas Co.	$56.77	$4,822	$6,806	2.9%	6.8%	19.8x	18.2x	15.7x	7.6x	8.1x	6.8x	2.9x
New Jersey Resources Corp.	$38.71	$3,331	$4,369	2.5%	1.6%	24.0x	21.9x	20.7x	18.4x	14.9x	12.8x	15.0x
Questar Corp.	$25.20	$4,421	$5,890	3.5%	-0.9%	19.2x	19.4x	19.2x	9.4x	9.3x	9.2x	NM
Southwest Gas Corp.	$77.81	$3,694	$5,107	2.3%	7.7%	24.4x	22.6x	21.3x	8.9x	8.5x	8.3x	3.2x
UGI Corp.	$45.56	$7,867	$12,311	2.1%	6.2%	22.8x	19.4x	18.9x	9.4x	8.6x	9.2x	3.7x
WGL Holdings, Inc.	$71.55	$3,602	$5,140	2.7%	3.5%	23.3x	21.8x	20.4x	10.8x	10.4x	NA	6.7x
Gas Utilities (Diversified) Avg				2.8%	6.0%	22.1x	20.2x	19.1x	10.7x	9.8x	9.1x	5.0x
Gas Utilities Average				**2.7%**	**6.1%**	**23.2x**	**21.5x**	**20.3x**	**10.8x**	**9.9x**	**9.5x**	**5.2x**
NiSource, Inc.	**$26.65**	**$8,569**	**$15,553**	**2.5%**	**9.9%**	**24.8x**	**22.9x**	**21.7x**	**11.7x**	**10.5x**	**9.9x**	**2.5x**
Regulated & Diversified Electric Utilities												
American Electric Power Co.	$71.27	$35,016	$55,581	3.1%	3.4%	19.4x	18.6x	17.5x	10.1x	9.8x	9.4x	5.7x
Ameren Corp	$53.77	$13,046	$20,771	3.2%	5.4%	21.4x	19.3x	17.9x	9.5x	8.8x	8.3x	4.0x
CMS Energy	$46.17	$12,926	$21,897	2.7%	7.3%	22.9x	21.2x	19.8x	10.6x	10.0x	8.6x	3.2x
Consolidated Edison	$81.55	$24,697	$38,148	3.3%	1.8%	20.5x	19.7x	18.9x	10.3x	9.6x	9.2x	11.1x
Dominion Resources, Inc.	$78.92	$48,632	$77,115	3.5%	7.6%	20.8x	20.4x	18.4x	13.4x	12.4x	11.2x	2.7x
DTE Energy Company	$99.95	$17,935	$27,541	3.1%	5.3%	20.2x	19.0x	17.8x	11.1x	10.4x	9.9x	3.8x
Duke Energy Corp.	$87.23	$60,093	$103,165	3.8%	3.2%	19.0x	18.4x	17.5x	11.0x	10.4x	9.9x	5.9x
Edison International	$78.40	$25,544	$39,675	2.4%	1.9%	20.1x	18.9x	18.1x	8.6x	8.0x	7.6x	10.9x
Entergy Corp	$82.03	$14,662	$29,000	4.1%	-4.7%	16.0x	15.7x	15.8x	8.3x	7.9x	7.6x	(3.4x)
Eversource Energy	$60.24	$19,109	$29,583	3.0%	6.0%	20.2x	19.0x	18.0x	11.4x	10.7x	10.3x	3.4x
Exelon Corp	$36.63	$32,502	$69,846	3.5%	3.8%	14.5x	13.9x	13.2x	9.3x	8.6x	8.0x	3.9x
FirstEnergy	$35.62	$15,128	$37,387	4.0%	-2.1%	13.3x	14.1x	14.0x	8.6x	8.5x	8.3x	(6.3x)
NextEra Energy	$130.89	$60,399	$93,100	2.7%	7.1%	21.2x	19.9x	18.7x	11.8x	10.8x	10.5x	3.0x
PG&E Corporation	$65.39	$32,436	$49,619	3.0%	7.3%	17.6x	17.8x	17.0x	8.4x	7.6x	7.2x	2.4x
Pinnacle West Capital Co.	$82.54	$9,173	$13,440	3.0%	4.1%	20.7x	19.6x	18.7x	9.9x	9.3x	8.8x	5.1x
Portland General Electric Comp	$44.65	$3,969	$6,161	2.9%	6.8%	21.2x	18.9x	18.0x	9.4x	8.7x	8.3x	3.1x
PPL Corporation	$37.30	$25,250	$44,330	4.1%	3.9%	15.9x	15.3x	15.0x	11.0x	10.5x	10.0x	4.1x
Public Service Enterprise	$46.75	$23,652	$33,408	3.5%	0.6%	16.2x	16.2x	15.8x	8.5x	8.1x	7.7x	28.9x
SCANA Corp	$76.12	$10,879	$17,704	3.0%	5.3%	19.3x	18.4x	17.1x	12.0x	11.5x	10.8x	3.7x
Sempra Energy	$114.50	$28,567	$44,384	2.6%	5.9%	23.6x	21.4x	18.5x	12.6x	11.1x	9.9x	4.0x
Southern Company	$54.44	$51,095	$80,667	4.1%	2.1%	19.1x	18.4x	17.7x	11.3x	10.4x	10.0x	9.0x
Wisconsin Energy Corp	$65.65	$20,722	$30,818	2.6%	6.6%	22.4x	21.1x	19.9x	12.6x	12.0x	11.3x	3.4x
Xcel Energy Inc.	$45.33	$23,026	$36,966	3.0%	5.3%	20.6x	19.5x	18.6x	10.6x	10.1x	9.7x	3.9x
Electric Utility Average				**3.2%**	**4.1%**	**19.4x**	**18.5x**	**17.5x**	**10.4x**	**9.8x**	**9.2x**	**5.0x**

Source: UBSe, FactSet

As Figure 3 shows, the gas utility companies are trading an average PE multiple of 22.2x, which is 31% above the historical average multiple of 16.9x. Gas distribution company PE multiples have expanded in the low interest rate environment and have benefited from the recent volatility in the market as investors have become more defensive. Additionally, we believe several large acquisitions by electric companies have resulted in take-over premiums being factored into valuations.

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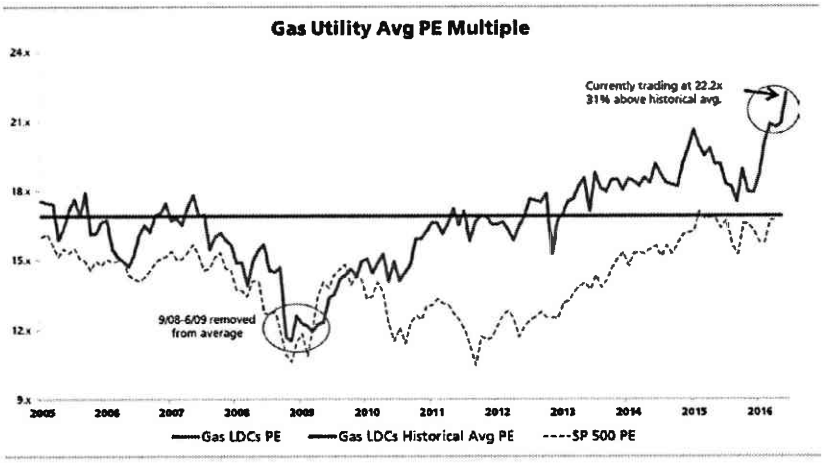
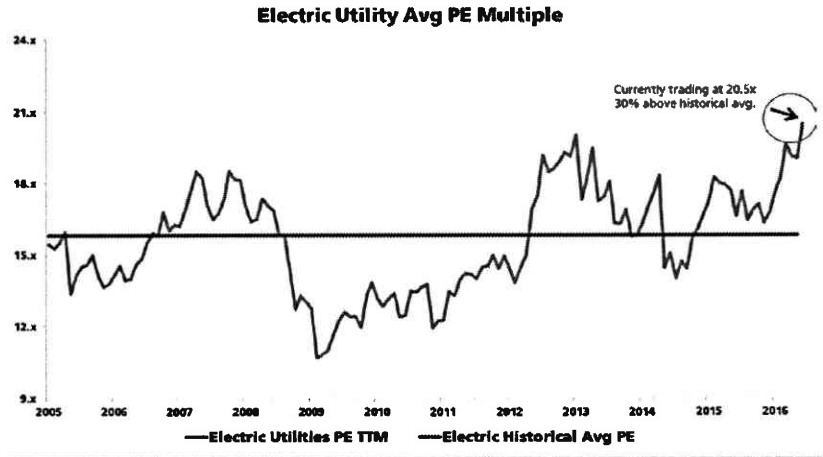
Figure 3: Gas Utility Average PE Multiples



Source: FactSet

Figure 4 below shows that electric utilities are also trading at historically high P/E multiples on average. The electric utilities are currently trading at an average P/E multiple of 20.5x, a 30% premium to the historical average of 15.8x.

Figure 4: Electric Utility Average PE Multiples.



Source: FactSet

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PIVOTAL QUESTIONS return ↑

Q: Will Pipeline Replacement Help Drive Strong Earnings Growth?

UBS VIEW

Yes. NiSource plans to spend $1.4bn on capex in 2016 with ~$1.1bn being spent on modernization and growth with trackers. NiSource has identified ~$30bn in growth investment opportunities over the next 20 years which should support mid-to-high-single digit distribution growth.

EVIDENCE

NiSource plans to spend ~$1.1bn in pipeline safety and reliability over the next several years. Most of this spending has been approved for recovery under trackers. Pennsylvania is the one exception where recovery is expected under a rate case.

WHAT'S PRICED IN?

Given that NiSource is currently expected to grow EPS at a 9.9% 3-Yr CAGR vs the gas distribution peer group average of 6.1% and is trading at a 2.5x PEG ratio vs. the gas distribution average PEG of 5.2x, we don't believe the higher earnings growth is fully reflected in current valuation relative to its gas distribution peers.

Figure 5: Planned Growth Investment Opportunity

Company	2015 Rate Base	Identified Investments	Annual Investment	Recovery Mechanism	Investment Horizon
Columbia Gas of Ohio	$1.9bn	~$4.1bn	$175mm-$210mm	Tracked	20-25 Yrs
Columbia Gas of Pennsylvania	$1.2bn	~$3.0bn	$150mm-$210mm	Rate Case	15-20 Yrs
NIPSCO Gas - Indiana	$810mm	~$4.5bn	$100mm-$130mm	Tracked	20-25 Yrs
Columbia Gas of Massachusetts	$636mm	~$1.4bn	$50mm-$70mm	Tracked	15-20 Yrs
Columbia Gas of Virginia	$550mm	~$550mm	$25mm-$35mm	Tracked	15-20 Yrs
Columbia Gas of Kentucky	$236mm	~$750mm	$10mm-$20mm	Tracked	25-30 Yrs
Columbia Gas of Maryland	$84mm	~$200mm	$5mm-$15mm	Tracked	15-20 Yrs

Source: UBS, Company Reports

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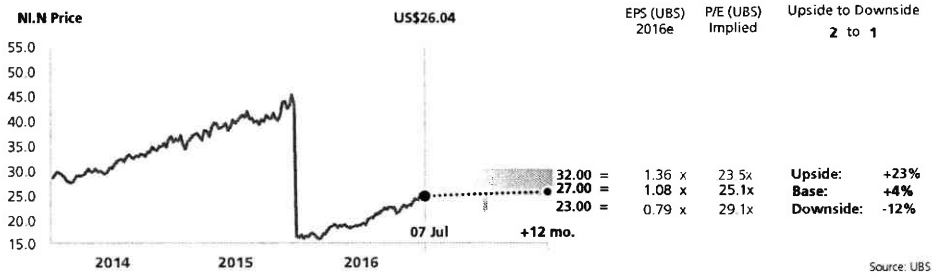
UPSIDE / DOWNSIDE SPECTRUM

return ↑



Value drivers	P/E Gas	P/E Electric	2017 EPS Gas	2017 EPS Electric
$32 upside	25.6x	21.7x	$0.86	$0.48
$27 base	24.4x	21.3x	$0.74	$0.42
$23 downside	23.2x	19.4x	$0.67	$0.38

Source: UBS

Risk to the current share price is skewed (2:1) to the upside

NI is trading at **US$26.04** (as of 7 July).

Upside (US$32): Our upside scenario assumes EPS for both the gas and electric segments is 15% higher than in our base case. We assume a 10% premium P/E multiple for the gas business and a 12% premium multiple for the electric business.

Base (US$27): Our base case assumes 2017 EPS for the gas utility business of $0.74 and for the electric utility business of $0.42. We assume a 5% premium to peer group average multiple of 23.2x for gas and a 10% premium to peer group multiple of 19.4x for electric due to stronger expected earnings growth and the potential for a take-over due to the recent acquisitions of electric companies of gas LDCs..

Downside (US$23): Our downside scenario assumes EPS for both the gas and electric segments is 10% lower than in our base case. We assume there is no premium to the peer group average multiples for both gas and electric companies.

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COMPANY DESCRIPTION

return ↑

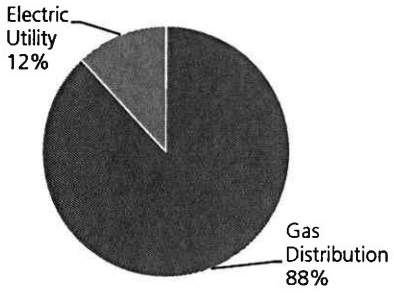
Market Cap	US$8.6bn
Shares Outstanding	321m (COM)
Industry	Gas Distribution
Region	Americas
Website	www.nisource.com

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.

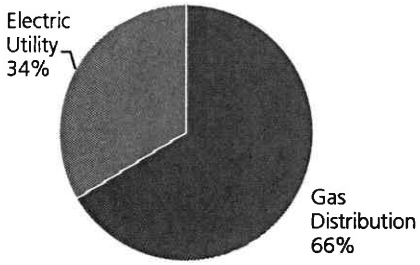
Industry outlook

Growth in the regulated natural gas utility businesses is generated by customer growth and rate increases approved by state regulators. Regulators allow utility companies to earn a rate of return on investments of typically around 9%-11%. Population growth is the primary driver of customer growth. Modernization programs which encourage utility companies to invest in infrastructure and provide utilities with a guaranteed rate of return on the investment capital should provide growth as population growth slows.

Customers by segment (%)



Operating Income by segment



Source: Company Reports

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NiSource Inc. (NI.N)

Income statement (US$m)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Revenues	**5,657**	**6,485**	**4,612**	**4,659**	*1.0*	**4,885**	*4.8*	**5,063**	**5,242**	**5,420**
Gross profit	3,842	4,261	3,042	3,135	*3.1*	3,287	*4.9*	3,407	3,528	3,648
EBITDA (UBS)	**1,745**	**1,883**	**1,354**	**1,473**	*8.8*	**1,565**	*6.3*	**1,641**	**1,718**	**1,794**
Depreciation & amortisation	(577)	(605)	(524)	(548)	*4.5*	(566)	*3.3*	(580)	(586)	(592)
EBIT (UBS)	**1,168**	**1,277**	**829**	**925**	*11.5*	**999**	*8.0*	**1,061**	**1,132**	**1,201**
Associates & investment income	0	47	0	0	-	0	-	0	0	0
Other non-operating income	0	(24)	25	1	*-97.2*	0	-	0	0	0
Net interest	(415)	(444)	(384)	(365)	*5.0*	(392)	*-7.4*	(416)	(444)	(482)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**753**	**856**	**470**	**560**	*19.2*	**607**	*8.3*	**645**	**688**	**719**
Tax	(262)	(330)	(175)	(215)	*-22.8*	(233)	*-8.3*	(247)	(264)	(276)
Profit after tax	**491**	**526**	**295**	**345**	*17.1*	**374**	*8.3*	**397**	**424**	**443**
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	0	-	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**491**	**526**	**295**	**345**	*17.1*	**374**	*8.3*	**397**	**424**	**443**
Net earnings (UBS)	**491**	**526**	**295**	**345**	*17.1*	**374**	*8.3*	**397**	**424**	**443**
Tax rate (%)	34.8	38.5	37.2	38.4	*3.0*	38.4	*0.0*	38.4	38.4	38.4

Per share (US$)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
EPS (UBS, diluted)	1.57	1.66	0.93	1.08	*16.1*	1.16	*7.9*	1.23	1.32	1.38
EPS (local GAAP, diluted)	1.57	1.66	0.93	1.08	*16.1*	1.16	*7.9*	1.23	1.32	1.38
EPS (UBS, basic)	1.57	1.67	0.93	1.08	*15.9*	1.16	*7.9*	1.23	1.33	1.39
Net DPS (US$)	0.99	1.03	0.99	0.64	*-35.0*	0.68	*5.5*	0.71	0.75	0.78
Cash EPS (UBS, diluted)[1]	3.41	3.58	2.58	2.79	*8.1*	2.92	*4.9*	3.03	3.16	3.23
Book value per share	18.88	19.56	12.06	12.21	*1.2*	12.78	*4.7*	13.44	14.45	15.30
Average shares (diluted)	313.60	316.33	318.18	320.72	*0.8*	321.80	*0.3*	322.84	320.21	320.21

Balance sheet (US$m)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Cash and equivalents	27	25	16	27	*77.0*	28	*1.1*	28	28	28
Other current assets	2,132	2,441	1,562	1,372	*-12.2*	1,372	*0.0*	1,372	1,372	1,372
Total current assets	**2,159**	**2,467**	**1,577**	**1,399**	*-11.3*	**1,399**	*0.0*	**1,399**	**1,399**	**1,399**
Net tangible fixed assets	14,365	16,017	12,112	12,951	*6.9*	13,785	*6.4*	14,605	15,419	16,226
Net intangible fixed assets	4,029	3,931	1,944	1,942	*-0.1*	1,942	*0.0*	1,942	1,942	1,942
Investments / other assets	2,100	2,452	1,859	1,867	*0.4*	1,867	*0.0*	1,867	1,867	1,867
Total assets	**22,654**	**24,866**	**17,493**	**18,159**	*3.8*	**18,993**	*4.6*	**19,813**	**20,627**	**21,435**
Trade payables & other ST liabilities	1,937	2,111	2,090	1,651	*-21.0*	1,651	*0.0*	1,651	1,651	1,651
Short term debt	1,241	1,844	567	657	*15.79*	693	*5.54*	724	774	822
Total current liabilities	**3,178**	**3,955**	**2,658**	**2,308**	*-13.2*	**2,344**	*1.6*	**2,375**	**2,425**	**2,473**
Long term debt	7,593	8,156	5,949	6,643	*11.7*	7,011	*5.5*	7,324	7,826	8,316
Other long term liabilities	5,996	6,580	5,043	5,294	*5.0*	5,527	*4.4*	5,774	5,774	5,774
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**16,767**	**18,691**	**13,649**	**14,245**	*4.4*	**14,882**	*4.5*	**15,473**	**16,024**	**16,562**
Common s/h equity	5,887	6,175	3,844	3,914	*1.8*	4,111	*5.0*	4,340	4,602	4,872
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	**22,654**	**24,866**	**17,493**	**18,159**	*3.8*	**18,993**	*4.6*	**19,813**	**20,627**	**21,434**

Cash flow (US$m)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Net income (before pref divs)	491	526	295	345	*17.1*	374	*8.3*	397	424	443
Depreciation & amortisation	577	606	524	548	*4.5*	566	*3.3*	580	586	592
Net change in working capital	55	(139)	147	(122)	-	0	-	0	0	0
Other operating	313	329	490	197	*-59.8*	233	*18.0*	247	0	0
Operating cash flow	**1,437**	**1,321**	**1,457**	**969**	*-33.5*	**1,173**	*21.0*	**1,225**	**1,010**	**1,036**
Tangible capital expenditure	(1,880)	(2,028)	(1,361)	(1,400)	*-2.9*	(1,400)	*0.0*	(1,400)	(1,400)	(1,400)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	(125)	(69)	3,798	0	-	0	-	0	0	0
Other investing	114	(19)	(493)	(14)	-	0	-	0	0	0
Investing cash flow	**(1,891)**	**(2,117)**	**1,945**	**(1,414)**	**-**	**(1,400)**	*1.0*	**(1,400)**	**(1,400)**	**(1,400)**
Equity dividends paid	(306)	(321)	(263)	(205)	*22.1*	(217)	*-5.8*	(229)	(242)	(254)
Share issues / (buybacks)	36	20	2	40	*NM*	40	*0.0*	60	80	80
Other financing	0	0	(122)	0	-	0	-	0	0	0
Change in debt & pref shares	715	1,097	(3,029)	623	-	404	*-35.07*	344	551	538
Financing cash flow	**445**	**796**	**(3,412)**	**458**	**-**	**227**	*-50.4*	**175**	**390**	**364**
Cash flow inc/(dec) in cash	**(10)**	**0**	**(10)**	**12**	**-**	**0**	**-**	**0**	**0**	**0**
FX / non cash items	0	(1)	0	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	**(9)**	**(1)**	**(10)**	**12**	**-**	**0**	*-97.5*	**0**	**0**	**0**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts. [1]Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

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NiSource Inc. (NI.N)

Valuation (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
P/E (local GAAP, diluted)	18.9	22.8	33.5	24.2	22.4	21.1	19.7	18.8
P/E (UBS, diluted)	18.9	22.8	33.5	24.2	22.4	21.1	19.7	18.8
P/CEPS	8.7	10.6	12.1	9.3	8.9	8.6	8.2	8.0
Equity FCF (UBS) yield %	(4.8)	(5.9)	1.0	(5.2)	(2.7)	(2.1)	(4.7)	(4.4)
Net dividend yield (%)	3.3	2.7	3.2	2.5	2.6	2.7	2.9	3.0
P/BV x	1.6	1.9	2.6	2.1	2.0	1.9	1.8	1.7
EV/revenues (core)	2.8	3.0	3.7	3.0	3.0	3.0	3.0	2.9
EV/EBITDA (core)	9.2	10.4	12.6	9.6	9.4	9.2	9.0	8.7
EV/EBIT (core)	13.8	15.3	20.5	15.3	14.7	14.2	13.7	12.9
EV/OpFCF (core)	9.2	10.4	12.6	9.6	9.4	9.2	9.0	8.7
EV/op. invested capital	1.3	1.4	1.4	1.5	1.4	1.4	1.3	1.2

Enterprise value (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Market cap.	9,220	11,913	9,853	8,341	8,341	8,341	8,341	8,341
Net debt (cash)	8,437	9,391	8,237	6,886	7,475	7,849	8,297	8,297
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	528	676	760	754	754	754	754	754
Total enterprise value	**18,185**	**21,980**	**18,850**	**15,981**	**16,569**	**16,944**	**17,391**	**17,391**
Non core assets	(2,100)	(2,452)	(1,859)	(1,867)	(1,867)	(1,867)	(1,867)	(1,867)
Core enterprise value	**16,085**	**19,528**	**16,991**	**14,114**	**14,702**	**15,076**	**15,524**	**15,524**

Growth (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenue	11.3	14.6	-28.9	1.0	4.8	3.6	3.5	3.4
EBITDA (UBS)	6.9	7.9	-28.1	8.8	6.3	4.9	4.7	4.4
EBIT (UBS)	9.3	9.4	-35.1	11.5	8.0	6.2	6.7	6.1
EPS (UBS, diluted)	0.0	6.2	-44.2	16.1	7.9	5.9	7.6	4.6
Net DPS	4.2	4.0	-4.4	-35.0	5.5	5.2	4.9	4.7

Margins & Profitability (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Gross profit margin	67.9	65.7	66.0	67.3	67.3	67.3	67.3	67.3
EBITDA margin	30.8	29.0	29.4	31.6	32.0	32.4	32.8	33.1
EBIT margin	20.6	19.7	18.0	19.8	20.4	21.0	21.6	22.2
Net earnings (UBS) margin	8.7	8.1	6.4	7.4	7.7	7.9	8.1	8.2
ROIC (EBIT)	9.2	9.3	7.0	9.6	9.6	9.7	9.7	9.6
ROIC post tax	6.0	5.5	4.4	5.9	5.9	6.0	6.0	5.9
ROE (UBS)	8.6	8.7	5.9	8.9	9.3	9.4	9.5	9.4

Capital structure & Coverage (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Net debt / EBITDA	5.0	5.3	4.8	4.9	4.9	4.9	5.0	5.1
Net debt / total equity %	149.6	161.5	169.1	185.8	186.7	184.8	186.3	187.0
Net debt / (net debt + total equity) %	59.9	61.8	62.8	65.0	65.1	64.9	65.1	65.2
Net debt/EV %	54.8	51.1	38.3	51.5	52.2	53.2	55.2	58.7
Capex / depreciation %	NM	NM	NM	NM	NM	NM	NM	NM
Capex / revenue %	NM	NM	29.5	NM	28.7	27.7	26.7	25.8
EBIT / net interest	2.8	2.9	2.2	2.5	2.5	2.6	2.6	2.5
Dividend cover (UBS)	1.6	1.6	0.9	1.7	1.7	1.7	1.8	1.8
Div. payout ratio (UBS) %	63.0	61.7	106.0	59.4	58.1	57.7	55.9	56.0

Revenues by division (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Others	5,657	6,485	4,612	4,659	4,885	5,063	5,242	5,420
Total	**5,657**	**6,485**	**4,612**	**4,659**	**4,885**	**5,063**	**5,242**	**5,420**

EBIT (UBS) by division (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Others	1,168	1,277	829	925	999	1,061	1,132	1,201
Total	**1,168**	**1,277**	**829**	**925**	**999**	**1,061**	**1,132**	**1,201**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

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Forecast returns

Forecast price appreciation	+3.7%
Forecast dividend yield	2.5%
Forecast stock return	+6.2%
Market return assumption	5.6%
Forecast excess return	+0.6%

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 to calculate our price target.

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Required Disclosures

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UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	49%	32%
Neutral	FSR is between -6% and 6% of the MRA.	38%	26%
Sell	FSR is > 6% below the MRA.	14%	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 31 March 2016.
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. **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: Shneur Z. Gershuni, CFA; Jennifer Hills.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
NiSource Inc.[16]	NI.N	Buy	N/A	US$26.04	07 Jul 2016

Source: UBS. All prices as of local market close.
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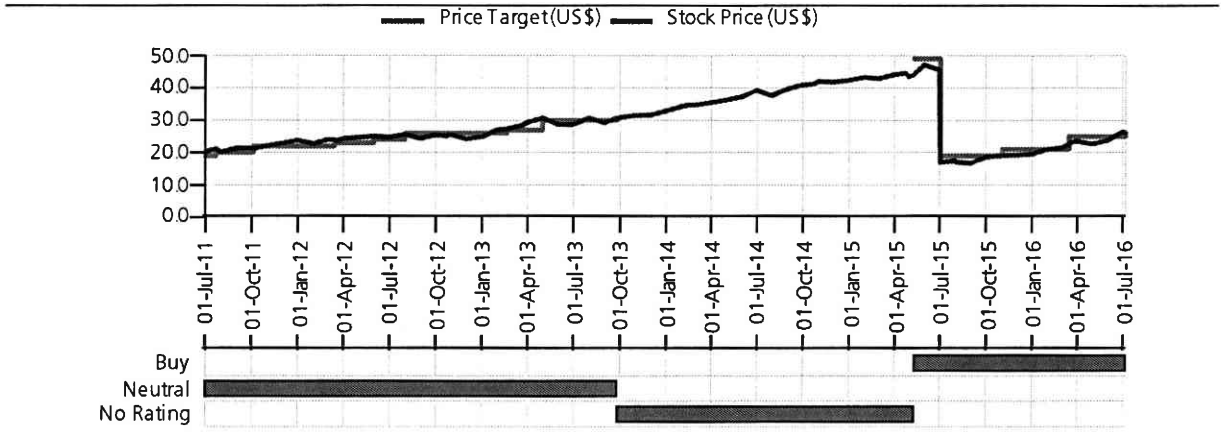
NiSource Inc. (US$)



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WOLFE RESEARCH

UTILITIES & POWER

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

July 24, 2016

UTILITIES & POWER

It's getting hot in here – earnings preview

- **A flat Q2 projected but expect optimism on summer...**
  We project flat earnings for the utility sector even with decent Q2 weather. Nuke outages pressured this quarter (ETR/PEG). Weak spot power prices persisted for generators but retail businesses (NRG/EXC) should hold up well. With July very hot everywhere, we expect utilities to stay optimistic on hitting full year results. We project flat 2016 earnings but returning to 5% growth in 2017. With market earnings starting to show signs of bottoming, these may not be sufficient to support utilities' current 10% premium multiples especially if allowed ROEs come under pressure.

- **...but the only power volatility is regulatory, legal and political**
  Despite the hot summer so far, we have seen little power volatility and no new peaks. This remains disappointing for power generators. However, we are seeing plenty of volatility in power market structure and strategies and this will be the key topic of conference calls. Issues include nuke subsidies and the overall future of nuclear - can these get through FERC and courts? Also reverberations from the weak PJM auction and impact of the Texas regional haze stay. From a strategy standpoint, what does FE do with its genco? How about NRG with GenOn and DYN with IPH? When will anyone shut uneconomic plants in PJM and Texas?

- **Regulateds focus on ROEs, Renewables bullish, Midstream better**
  While utilities jumped post Brexit, the sector has its own issues. Persistently low rates pressure ROEs over time as well as pensions. We expect more investor focus on how companies plan to manage these risks. M&A will be the other focus - pending deals and what might be next including the recent trend of utility/midstream tie-ups. Midstream continues to get better which should support those utilities with midstream exposure. Finally, we see a continued bullish tone on renewables which has finally started to breathe some life into the Yieldcos. Wind conditions will be watched – they look below normal but better than last year's debacle.

Exhibit 1: Beats/Misses

	Q2 2016 Estimate	
Ticker	WR	Cons
Beats		
ED	$0.73	$0.69
DUK	$1.05	$1.00
NRG	$715	$683
Misses		
DYN	$195	$222
ETR	$0.95	$1.06
PNW	$1.10	$1.15
PCG	$0.86	$0.95

Source: Wolfe Research Utilities & Power Research

Positives:

DTE – Potential guide-up after solid start to year; midstream progress

EXC – Analyst Day centered on focused strategy, utility growth and nuke protection

FE – Generation strategy shift (path to exiting?); 2016 guidance for first time

LNG – first earnings call ever, and first with new CEO Jack Fusco

Mixed:

PPL – post Brexit guidance; may consider hedge unwind; may be better than fears

SO – Kemper schedule risk but positive talk on AGL closing, KMI, and renewables

Negatives:

DYN – quarter below consensus; may guide to lower half of range

D – risks to 2017 and L-T growth rates; STR convert timing

ES – NPT delay impact on earnings/ratebase; ANE timing; potential buyback

GXP – weak guidance in proxy; MO holdco leverage risk; equity soon?

PCG – 2016 guidance cut due to GT&S timing issues; GRC talks positive

PEG/ETR – nuclear outage issues; some risk to 2016 ranges

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Quarterly Estimates

Exhibit 2: Wolfe Research Earnings Estimates vs. Consensus

Wolfe Research earnings estimates versus consensus						9	10	11								
						Q2 2016E		Q2 2015	2016E		2017E		2018E		2019E	
Company Name	Ticker	Price	PT	Rating	Call Date	WR	Cons	Actual	WR	Cons	WR	Cons	WR	Cons	WR	Cons
The AES Corporation	AES	$12.65	$11	PP	8/5/16	$0.15	$0.16	$0.25	$0.98	$0.99	$1.13	$1.12	$1.23	$1.27	$1.32	$1.31
Alliant Energy	LNT	40.35	37	PP	8/2/16	0.38	0.38	0.34	1.89	1.90	2.01	2.00	2.14	2.13	2.25	2.22
Ameren	AEE	52.87	53	OP	8/5/16	0.50	0.52	0.58	2.48	2.50	2.79	2.78	3.02	2.99	3.22	3.21
American Electric	AEP	70.06	69	OP	7/28/16	0.89	0.90	0.88	3.54	3.67	3.70	3.82	4.00	4.08	4.19	4.22
American Water	AWK	82.84	78	PP	8/4/16	0.71	0.73	0.68	2.80	2.83	2.97	3.04	3.29	3.26	3.49	3.40
Avangrid	AGR	45.13	46	PP	7/19/16	0.32A	0.46	N/A	2.04	2.12	2.22	2.32	2.43	2.54	2.68	2.69
CMS Energy	CMS	45.54	45	OP	7/28/16	0.34	0.36	0.25	2.02	2.02	2.18	2.17	2.33	2.33	2.49	2.49
CenterPoint	CNP	24.69	24	PP	8/5/16	0.21	0.20	0.19	1.17	1.15	1.24	1.21	1.30	1.29	1.36	1.34
Con Edison	ED	81.18	70	UP	8/4/2016*	0.73	0.69	0.78	3.93	3.99	4.17	4.14	4.37	4.31	4.55	4.58
Dominion	D	78.51	77	PP	8/3/16	0.69	0.71	0.73	3.79	3.78	3.88	3.86	4.34	4.28	4.65	4.62
DTE Energy	DTE	99.41	95	OP	7/26/16	0.88	0.89	0.76	4.93	4.95	5.24	5.26	5.56	5.63	5.90	5.99
Duke Energy	DUK	86.50	78	UP	8/4/16	1.05	1.00	0.95	4.63	4.60	4.60	4.73	4.86	4.98	5.14	5.13
Edison Int'l	EIX	77.64	78	OP	7/28/16	0.93	0.97	1.16	3.90	3.89	4.15	4.14	4.33	4.33	4.60	4.61
Entergy	ETR	81.65	80	PP	8/2/16	0.95	1.06	0.83	4.95	5.14	5.14	5.23	5.22	5.19	5.41	5.25
Eversource Energy	ES	58.88	59	PP	7/29/16	0.64	0.65	0.66	2.99	2.98	3.18	3.17	3.35	3.34	3.58	3.57
Exelon	EXC	37.41	36	PP	8/10/16	0.54	0.56	0.59	2.50	2.54	2.62	2.64	2.76	2.79	2.61	2.81
FirstEnergy	FE	36.51	34	UP	7/29/16	0.56	0.54	0.53	2.75	2.64	2.42	2.51	2.40	2.52	2.22	2.31
Great Plains Energy	GXP	30.48	32	PP	8/5/16	0.40	0.41	0.28	1.75	1.73	1.89	1.80	1.92	1.89	2.00	2.03
InfraREIT	HIFR	17.67	19	PP	8/3/16	0.17	0.23	0.15	1.26	N/A	1.31	N/A	1.44	N/A	1.53	N/A
NextEra Energy	NEE	129.81	135	OP	7/27/16	1.56	1.57	1.56	6.20	6.18	6.54	6.57	6.97	7.01	7.41	7.53
NiSource	NI	26.26	26	OP	8/2/16	0.06	0.07	0.18	1.08	1.07	1.14	1.15	1.21	1.19	1.28	1.27
PG&E	PCG	65.02	66	OP	7/28/16	0.86	0.95	0.91	3.79	3.72	3.69	3.68	3.88	3.86	4.09	4.08
Pinnacle West	PNW	80.59	77	PP	8/2/16	1.10	1.15	1.10	4.01	3.99	4.24	4.20	4.40	4.41	4.56	4.56
Portland General	POR	44.88	41	PP	8/3/16	0.41	0.43	0.44	2.10	2.11	2.41	2.36	2.47	2.50	2.52	2.66
PPL Corp	PPL	37.70	38	PP	8/9/16	0.55	0.53	0.49	2.36	2.34	2.43	2.43	2.40	2.43	2.41	2.47
PSEG Corp	PEG	46.60	44	UP	7/29/16	0.57	0.58	0.57	2.85	2.88	2.96	2.89	2.99	2.95	2.90	3.12
SCANA	SCG	74.93	71	PP	7/28/16	0.72	0.74	0.69	3.94	3.95	4.22	4.15	4.46	4.44	4.62	4.79
Sempra Energy	SRE	113.78	118	OP	8/4/16	0.99	0.97	1.03	4.82	4.80	5.05	5.19	6.08	6.11	7.14	7.17
Southern Co.	SO	54.54	50	UP	7/27/16	0.72	0.69	0.71	2.82	2.85	3.00	2.97	3.12	3.09	3.20	3.17
WEC Energy Group	WEC	65.39	65	OP	7/27/16	0.54	0.55	0.59	2.93	2.93	3.11	3.11	3.30	3.30	3.50	3.48
Westar Energy	WR	56.23	N/A	NR	8/3/16	0.53	0.53	0.46	2.44	2.45	2.46	2.53	2.50	2.60	2.50	2.78
Xcel Energy	XEL	44.32	43	PP	8/3/16	0.40	0.40	0.39	2.22	2.20	2.35	2.32	2.46	2.44	2.58	2.58

Source: Wolfe Research Utilities & Power Research; Factset
*ED has no earnings call, date referenced is earnings release. All others are projected earnings call dates.

Exhibit 3: Wolfe Research EBITDA Estimates vs. Consensus

						Q2 2016E		Q2 2015	2016E		2017E		2018E		2019E	
Company Name	Ticker	Price	PT	Rating	Call Date	WR	Cons	Actual	WR	Cons	WR	Cons	WR	Cons	WR	Cons
Calpine	CPN	$14.76	$19	OP	7/29/16	$405	$408	$445	$1,850	$1,878	$1,975	$2,024	$2,200	$2,183	$2,160	$2,202
Dynegy	DYN	16.73	20	OP	8/4/16	195	222	192	1,125	1,084	1,670	1,481	1,860	1,666	1,670	1,438
NextEra Energy Partners	NEP	31.73	38	OP	7/27/16	157	161	94	654	637	952	825	1,128	1,031	1,383	1,373
NRG Energy	NRG	14.79	13	PP	8/9/16	715	683	712	3,110	3,070	2,635	2,831	2,790	2,968	2,700	2,687
NRG Yield	NYLD	17.47	17	OP	8/9/16	240	241	184	825	820	900	911	952	1,013	1,043	1,070

						Q2 2016E		Q2 2015	2016E		2017E		2018E		2019E	
Company Name	Ticker	Price	PT	Rating	Call Date	WR	Cons	Actual	WR	Cons	WR	Cons	WR	Cons	WR	Cons
Columbia Pipeline Partner	CPPL	15.82	$14.50	PP	N/A	$153	$157	N/A	$111	$719	$121	$839	$180	$1,190	$265	$1,726

						Q2 2016E		Q2 2015	2016E		2017E		2018E		2019E	
Company Name	Ticker	Price	PT	Rating	Call Date	WR	Cons	Actual	WR	Cons	WR	Cons	WR	Cons	WR	Cons
Cheniere Energy	LNG	$41.1	$47	OP	8/9/16	$5	$5	N/A	$358	$314	$1,431	$1,570	$2,091	$2,061	$3,087	$3,087
Cheniere Energy Partners	CQP	28.00	36	OP	8/9/16	62	62	12	509	429	1,679	1,497	2,339	2,143	2,526	2,712
Cheniere Energy Partners	CQH	20.09	29	OP	8/9/16	5	2	N/A	43	41	344	237	509	544	636	N/A

Source: Wolfe Research Utilities & Power Research

Average Spot Prices

In Exhibit 4 below, we highlight the year over year change in the average spot power price in different regions. Spot prices fell across the board vs. Q2 2015. The northeast markets (NE, NY) held up best falling 4-8% on average, but neighboring markets in eastern PJM were much weaker (Pepco down 26%, PJM West down 19%). ERCOT largely fell in line with the change in spot gas prices down 18%. Finally, western markets fell the most on stronger hydro conditions than last year.

Exhibit 4: Average 7x24 Spot Prices

Northeast	Q216	Q215	% Change
Mass Hub	$23.75	$24.61	(4%)
Connecticut	23.77	24.79	(4%)
SE Mass	23.65	24.65	(4%)
NY Zone A	24.65	25.17	(2%)
NY Zone G	24.08	26.13	(8%)
NY Zone - J	25.26	26.98	(6%)
PJM West	26.20	32.53	(19%)
Pepco Zone	23.73	32.05	(26%)
Midwest	**Q216**	**Q215**	**% Change**
Indiana Hub	$25.93	$27.84	(7%)
NI Hub	23.22	24.50	(5%)
AD Hub	25.20	30.80	(18%)
South Central	**Q216**	**Q215**	**% Change**
ERCOT North	$19.09	$23.19	(18%)
ERCOT South	19.78	23.71	(17%)
ERCOT West	18.45	23.24	(21%)
ERCOT Houston	20.49	23.89	(14%)
West	**Q216**	**Q215**	**% Change**
Palo Verde	$19.75	$24.41	(19%)
NP 15	23.32	33.11	(30%)
SP 15	23.23	29.89	(22%)
Mid-Columbia	14.09	26.08	(46%)
Natural Gas	**$2.26**	**$2.74**	**(18%)**

Source: Wolfe Utilities & Power Research, Platts

Wolfe Research Prices vs. Market Prices

In Exhibits 5-7 we highlight our current commodity and power assumptions and compare them to weekly market prices. Please note the market prices are as of 7/14/2016.

Exhibit 5: Wolfe 7x24 power price estimates

	2016	2017	2018	2019
PJM West	$33.06	$34.67	$33.90	$33.22
PJM East	$35.90	$37.59	$36.69	$36.06
NEPOOL	$37.86	$39.50	$40.32	$39.26
NY Zone A	$29.35	$33.48	$32.59	$32.45
NY Zone G	$33.58	$37.29	$38.55	$39.22
NY Zone J	$35.28	$39.15	$41.30	$42.28
A/D Hub	$30.27	$32.26	$31.36	$31.00
NI Hub	$26.73	$28.71	$28.60	$27.77
Indiana Hub	$27.95	$30.45	$31.23	$31.52
ERCOT (Houston)	$25.37	$28.94	$30.81	$31.70
ERCOT (South)	$24.75	$27.80	$29.47	$30.08
ERCOT (North)	$24.15	$27.12	$28.70	$29.58
ERCOT (West)	$22.87	$25.65	$26.56	$27.14
NP-15	$30.26	$33.50	$34.86	$35.54
SP-15	$29.35	$32.73	$33.64	$34.26
Mid-C	$20.56	$23.63	$25.60	$26.81
Entergy	$30.61	$32.36	$33.33	$33.33
Palo Verde	$23.03	$26.39	$27.58	$28.51
Nymex Gas ($/Mcf)	$2.50	$2.85	$3.00	$3.00
CAPP Coal ($/ton)	$45.00	$48.00	$51.00	$51.00
PRB Coal ($/ton)	$9.50	$10.10	$10.60	$10.60

Source: Wolfe Utilities & Power Research, Platts

Exhibit 6: Market 7x24 power price estimates

	2016	2017	2018	2019
PJM West	$28.93	$33.88	$32.75	$32.20
PJM East	$31.93	$36.88	$35.75	$35.20
NEPOOL	$29.34	$39.37	$39.46	$40.25
NY Zone A	$27.55	$33.08	$32.31	$31.38
NY Zone G	$28.83	$39.77	$40.04	$40.44
NY Zone J	$30.33	$42.69	$42.28	$42.48
A/D Hub	$27.24	$31.27	$30.66	$30.47
NI Hub	$25.35	$28.93	$29.16	$28.91
Indiana Hub	$26.87	$30.94	$31.18	$30.97
ERCOT (Houston)	$24.76	$31.74	$31.14	$31.58
ERCOT (South)	$24.18	$30.57	$30.60	$30.99
ERCOT (North)	$23.57	$30.06	$29.62	$30.05
ERCOT (West)	$22.80	$28.73	$28.18	$28.17
NP-15	$29.08	$35.31	$36.02	$36.22
SP-15	$28.62	$34.14	$34.35	$34.44
Mid-C	$19.99	$24.98	$25.86	$26.42
Entergy	$29.95	$31.60	$32.39	$32.39
Palo Verde	$23.26	$28.45	$29.53	$30.39
Nymex Gas ($/Mcf)	$2.45	$3.16	$3.03	$2.97
CAPP Coal ($/ton)	$41.49	$43.00	$49.00	$49.65
PRB Coal ($/ton)	$9.70	$10.85	$11.60	$12.20

Source: Wolfe Utilities & Power Research, Platts

Exhibit 7: Market 7x24 vs. Wolfe 7x24

	2016	2017	2018	2019
PJM West	(14.3%)	(2.3%)	(3.5%)	(3.1%)
PJM East	(12.4%)	(1.9%)	(2.6%)	(2.4%)
NEPOOL	(29.0%)	(0.3%)	(2.2%)	2.5%
NY Zone A	(6.5%)	(1.2%)	(0.9%)	(3.4%)
NY Zone G	(16.5%)	6.2%	3.7%	3.0%
NY Zone J	(16.3%)	8.3%	2.3%	0.5%
A/D Hub	(11.1%)	(3.2%)	(2.3%)	(1.7%)
NI Hub	(5.4%)	0.8%	1.9%	3.9%
Indiana Hub	(4.0%)	1.6%	(0.2%)	(1.8%)
ERCOT (Houston)	(2.4%)	8.8%	1.1%	(0.4%)
ERCOT (South)	(2.3%)	9.1%	3.7%	2.9%
ERCOT (North)	(2.4%)	9.8%	3.1%	1.6%
ERCOT (West)	(0.3%)	10.7%	5.7%	3.7%
NP-15	(4.0%)	5.1%	3.2%	1.9%
SP-15	(2.6%)	4.1%	2.1%	0.5%
Mid-C	(2.8%)	5.4%	1.0%	(1.5%)
Entergy	(2.2%)	(2.4%)	(2.9%)	(2.9%)
Palo Verde	1.0%	7.2%	6.6%	6.2%
Nymex Gas ($/Mcf)	(2.0%)	9.9%	1.1%	(0.9%)
CAPP Coal ($/ton)	(8.5%)	(11.6%)	(4.1%)	(2.7%)
PRB Coal ($/ton)	2.1%	6.9%	8.6%	13.1%

Source: Wolfe Utilities & Power Research, Platts

WOLFE RESEARCH

UTILITIES & POWER

July 24, 2016

Market Power Prices (6/30/16 vs. 3/31/16)

In Exhibits 8-10, we show market 7x24 power and commodity prices at June 30, 2016 and March 31, 2016. Forward prices were up across the board, most significantly in ERCOT and NY most likely on higher natural gas prices. Upstate NY was the exception potentially on the signs of NY nuke subsidies. PRB coal prices have quietly rallied in step with nat gas as well.

Exhibit 8: 6/30/16 Market 7x24

	2016	2017	2018	2019
PJM West	$29.72	$34.83	$33.56	$32.96
PJM East	$32.72	$37.83	$36.56	$35.96
NEPOOL	$30.55	$40.38	$40.66	$40.78
NY Zone A	$27.67	$33.94	$32.65	$31.57
NY Zone G	$29.50	$40.49	$39.72	$39.64
NY Zone J	$30.88	$43.46	$41.95	$41.68
A/D Hub	$27.86	$32.01	$31.45	$30.94
NI Hub	$25.65	$29.58	$29.68	$29.11
Indiana Hub	$27.19	$31.44	$31.61	$32.22
ERCOT (Houston)	$25.80	$31.85	$30.93	$31.36
ERCOT (South)	$25.46	$30.92	$30.38	$30.77
ERCOT (North)	$24.79	$30.41	$29.41	$29.83
ERCOT (West)	$24.04	$29.08	$27.96	$27.95
NP-15	$29.81	$35.23	$35.96	$36.23
SP-15	$29.62	$34.20	$34.30	$34.45
Mid-C	$20.64	$25.11	$26.26	$27.02
Entergy	$29.95	$31.60	$32.39	$32.39
Palo Verde	$23.92	$28.76	$29.40	$30.28
Nymex Gas ($/Mcf)	$2.52	$3.18	$3.02	$2.96
CAPP Coal ($/ton)	$41.49	$42.50	$49.00	$49.65
PRB Coal ($/ton)	$9.59	$10.93	$11.71	$12.30

Source: Wolfe Utilities & Power Research, Platts

Exhibit 9: 3/31/16 Market 7x24

	2016	2017	2018	2019
PJM West	$29.65	$33.72	$32.78	$32.07
PJM East	$32.65	$36.72	$35.78	$35.07
NEPOOL	$30.99	$37.73	$38.11	$36.70
NY Zone A	$25.80	$33.14	$32.80	$32.57
NY Zone G	$27.35	$35.60	$35.76	$36.70
NY Zone J	$28.70	$37.29	$37.33	$38.49
A/D Hub	$27.05	$30.69	$30.11	$29.82
NI Hub	$24.14	$27.39	$27.65	$26.74
Indiana Hub	$24.62	$28.15	$29.44	$29.78
ERCOT (Houston)	$23.44	$28.44	$29.22	$30.22
ERCOT (South)	$22.76	$27.61	$28.68	$29.63
ERCOT (North)	$22.21	$26.93	$27.70	$28.69
ERCOT (West)	$21.32	$25.77	$26.26	$26.81
NP-15	$25.87	$30.93	$32.22	$33.14
SP-15	$25.04	$29.78	$30.88	$31.72
Mid-C	$16.63	$22.00	$23.71	$25.29
Entergy	$29.95	$31.60	$32.39	$32.39
Palo Verde	$20.15	$24.73	$25.65	$27.07
Nymex Gas ($/Mcf)	$2.19	$2.77	$2.87	$2.89
CAPP Coal ($/ton)	$44.29	$45.75	$51.00	$51.65
PRB Coal ($/ton)	$9.53	$9.75	$10.20	$11.00

Source: Wolfe Utilities & Power Research, Platts

Exhibit 10: 6/30/16 vs. 3/31/16 Market 7x24

	2016	2017	2018	2019
PJM West	0.2%	3.3%	2.4%	2.8%
PJM East	0.2%	3.0%	2.2%	2.5%
NEPOOL	(1.4%)	7.0%	6.7%	11.1%
NY Zone A	7.2%	2.4%	(0.5%)	(3.1%)
NY Zone G	7.9%	13.7%	11.1%	8.0%
NY Zone J	7.6%	16.6%	12.4%	8.3%
A/D Hub	3.0%	4.3%	4.4%	3.8%
NI Hub	6.3%	8.0%	7.4%	8.9%
Indiana Hub	10.4%	11.7%	7.4%	8.2%
ERCOT (Houston)	10.1%	12.0%	5.8%	3.8%
ERCOT (South)	11.9%	12.0%	5.9%	3.9%
ERCOT (North)	11.6%	12.9%	6.1%	4.0%
ERCOT (West)	12.8%	12.8%	6.5%	4.3%
NP-15	15.2%	13.9%	11.6%	9.3%
SP-15	18.3%	14.9%	11.1%	8.6%
Mid-C	24.1%	14.1%	10.7%	6.8%
Entergy	0.0%	0.0%	0.0%	0.0%
Palo Verde	18.7%	16.3%	14.6%	11.9%
Nymex Gas ($/Mcf)	15.1%	14.8%	5.4%	2.2%
CAPP Coal ($/ton)	(6.3%)	(7.1%)	(3.9%)	(3.9%)
PRB Coal ($/ton)	0.6%	12.1%	14.8%	11.8%

Source: Wolfe Utilities & Power Research, Platts

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Earnings Call Calendar

Below, we have provided the 2nd quarter 2016 earnings call calendar for companies in our coverage universe. Please note all times are in Eastern Daylight Time.

July 2016

Monday	Tuesday	Wednesday	Thursday	Friday
12pm: Quarterly Ideas Lunch 25	9am: DTE 26	9am: NEE/NEP 1pm: SO 2:30pm: WEC 27	9am: AEP 10am: CMS 11am: PCG 3pm: SCG 4:30pm EIX 28	9am: ES 10am: CPN, FE 11am: PEG 29

August 2016

Monday	Tuesday	Wednesday	Thursday	Friday
1	9am: NI 10am: LNT 11am: ETR 12pm: PNW 2	10am: D, WR, XEL 11am: HIFR, POR 3	9am: AWK, DYN 10am: DUK 12pm: SRE 4pm: ED (release) 4	9am: AES, GXP 10am: AEE 11am: CNP 5
8	8:30am: PPL 9am: NRG 10am: LNG, CQP, CQH 11am: NYLD 9	8:30am: EXC Analyst Day 10	11	12

Highlights and lowlights

AEE: Watch ROE risk from UST 30yr, FERC, MO rate case

- We estimate 2Q16 EPS of $0.50, slightly below consensus due mostly to a planned Callaway outage, lower sales from Noranda, and higher D&A and interest costs. We still see AEE in the bottom half of its $2.40-2.60 FY16 guidance.
- We see ROE risk in most of AEE's segments: IL electric distribution tied to the UST 30yr bond, which reached lows in 2Q16; FERC transmission, which saw an ALJ recommend a 9.7% base ROE (vs mid-10s assumed by AEE); and MO rate case, in which AEE is seeking a 9.9% (vs 9.5% currently allowed). Low interest rates and high utility valuations generally exert downward pressure on allowed ROEs.
- Aside from ROE risk, we believe investors will be focused on any pushback in the MO rate case and on the MoPSC's proceeding into improving regulation, potentially changing ratemaking policy to reduce regulatory lag. A report is expected in December, which could support legislative efforts next year. A new governor will be elected this fall, so any utility policy views from the candidates will be of interest.

AEP: Not a lot to say while merchant sale is in progress

- We are forecasting Q2 EPS of $0.89 vs. $0.88 last year, a penny above consensus. We believe that upsides from rate relief, transmission investment and O&M savings will largely be offset by downside from the absence of the generation rate stabilization driver and lower commodity margins.
- The conference call should be quiet. There is not a lot of rate case activity. Second round bids for the non-PPA merchant generation fleet are not due until after AEP reports earnings on the 28th, so there will not be a lot the company will be able to say on it. Additionally, it is in very early stages for the (unlikely in our view) chance that Ohio looks more closely at re-regulation.

AES: Progressing in Brazil, but stalled in Ohio

- Our Q2 EPS estimate of $0.15 is $0.01 below consensus but in line with AES's implied guidance of $0.12 - $0.17. Results are down considerably from $0.25 a year ago due to the reversal of a one-time gain in Brazil, weaker FX and commodities, and higher major maintenance costs. This is partially offset by a lower share count and rate relief at the IPL utility. It is unclear to us if AES will include Q2 results from Sul or exclude as discontinued operations given the pending sale.
- Commodity prices and currencies have improved modestly during Q2, although the impact is likely immaterial to AES's multi-year outlook. The recent calmer macro environment is helpful for the AES story.
- Key topics for the call are likely to include the highly uncertain environment for the DPL utility in Ohio where the OH Supreme Court recently struck down the current ESP rate structure but with no clarifying details. We expect the PUCO to respond to the order shortly and DPL will then need to consider its options for pursuing some form of extraordinary support going forward. Away from Ohio, AES is likely to highlight its very attractive sale of the Sul utility in Brazil with some discussion possible of additional M&A opportunities in Brazil.
- We are raising our 2016E by $0.01 to $0.98/share and raising 2017-19E by $0.03-$0.04/yr to $1.13, $1.23, and $1.32, respectively. The changes reflect the accretive

sale of Sul with proceeds redeployed into buybacks and debt reduction, a change in timing of the Masinloc 2 project, and a recent corporate debt refinancing.

AWK: Quarter in line with focus on regulatory business

- Our 2Q16 estimate of $0.71 is in line with consensus; the key driver versus 2Q15 of $0.68 is revenue adjustments from rate relief and DSICs. Negative drivers are depreciation, property taxes, and the secular trend of decline in sales.
- We could get an update on Keystone since the last earnings call, when management said it would be EPS neutral in 2016 and that they have begun austerity measures. Gas prices have improved since the Q1 call but rig counts are still relatively low. We also expect an update on regulatory decisions, which could be a concern given the low interest rate environment and potential trend towards declining allowed ROEs.

CMS: Michigan still a good place to be

- We forecast 2Q16 EPS of $0.34 vs. $0.25 a year ago – a touch below consensus of $0.36. Weather should be more beneficial, after a brutally mild winter to start the year. Rate relief at the electric and gas utilities, as well as a pension accounting benefit will be positive drivers; partially offset by higher depreciation and taxes. CMS looks on track to comfortably achieve 2016 guidance of $1.99-2.02, as our current estimate sits at the top of the range.
- The call figures to be relatively low key. Despite the start of summer recess at the Michigan legislature, CMS will likely highlight the strength of its investment plan with or without a new energy policy. Senator Nofs continues to work with key stakeholders to push a bill towards the finish line, but coming to an agreement during the fall veto session appears to be a long shot.
- On the regulatory front, Michigan has continued to uphold its constructive track record in the wake of former Chairman Quackenbush's departure. His replacement, Rachel Eubanks, was recently named and hails from a financial background and is an Independent. CMS has two currently pending rate cases (like DTE), where the 10% ROE threshold appears comfortably intact. The gas rate case arrived at a settlement with the currently allowed 10.3% ROE maintained and the electric rate case will receive a MI PSC Staff recommendation shortly. As a read-through, DTE received a 10.0% ROE Staff recommendation in its concurrent electric case. We see this as a balanced environment that will continue into the future.

CNP: A little too early for strategic review answers

- Our Q2 operating EPS estimate is $0.21 vs. $0.19 last year, a penny over consensus. The quarter is a shoulder period given the gas distribution operations, though we expect modestly higher earnings on rate relief and new investment, partially offset by modestly lower earnings contribution from Enable.
- The company continues the strategic review on Enable and the potential to REIT the utility properties. The recent Enable 13D - disclosing that CNP had notified OGE of the solicitation offers on Enable - suggests that the company is progressing on the review, but it is likely too early for any definitive announcements. The REIT option also appears to be a challenge.
- We also expect a regulatory update. The recent oral decision in the MN rate case (9.4% ROE) has been appealed by CNP pending a final order from the state. In Arkansas, the company reached a settlement (though not with the AG) in the gas rate case earlier in July as well.

CPN: Hazy skies in Texas

- We estimate 2Q16 EBITDA of $405M, close to consensus of $408M but down from $457M a year ago. Key drivers of the YoY decline are lower hedge margins, a contract roll-off, and weaker market spark spreads in the East and California. This is partially offset by higher spark spreads in Texas relative to a year ago.
- We think CPN will tighten the current 2016 EBITDA guidance range of $1.80B - $1.95B. **We see results tracking slightly below the midpoint of the current range but expect CPN to maintain the midpoint when guidance is updated.**
- We think the call will focus on a recent Court stay of the EPA's regional haze rule for Texas and how this may impact the prospects for coal retirements and eventually market recovery in ERCOT. Other topics are likely to include updated thoughts on capital allocation, the potential for growth in retail, and California hydro conditions.

D: Not many new updates, could see questions on growth outlook

- Our Q2 EPS estimate for Dominion is $0.69 vs. $0.73 last year, two cents below consensus. The main negative driver will be the Millstone refueling outage along with higher depreciation, interest expense, and dilution from the equity unit conversions. To the positive, solar ITCs, growth investment, and lower capacity expense will be partial offsets.
- We do not expect much in the way of new announcements. D is mostly in execution mode on Cove Point and moving Atlantic Coast pipeline through the regulatory approval process. The CT legislature did not adopt the clean energy RFP process that could help Millstone –the next opportunity will be next year.
- The STR acquisition approval process is ongoing, though the Utah PSC staff has opposed the purchase absent stronger ringfencing and more customer benefits. D could give an update on progress there – we expect parties will work toward a settlement in front of the hearings that start on August 22.
- There may be questions from investors on the long-term growth outlook given power market conditions. We think that Millstone will be a big headwind in 2017 absent the CT legislation, and until there is clarity on that D may not be in a position to update the outlook.

DTE: Well on track with midstream doubts disappearing

- We see a YoY EPS increase in 2Q16 to $0.88 from $0.76 – in-line vs. consensus. Rate relief at the electric business and better weather will likely lead the year-over-year increase in earnings; partially offset by taxes and backing out a small trading benefit from last year. Guidance of $4.80-5.05 looks largely on track after DTE was able to fight off difficult weather in Q1. To the extent DTE has a meaningful trading benefit (+$0.09 in Q1) in the first half, the guidance range could actually move higher.
- The regulatory environment in Michigan remains a shining positive, as MI PSC Staff recommended 10.0% ROEs in DTE's pending electric and gas rate cases. A settlement in the gas case (similar to CMS) appears on the table and Michigan remains one of the few jurisdictions where allowed ROEs are remaining above 10%. Further, we'll be interested to hear DTE's thoughts on the latest appoint MI PSC commissioner, Rachel Eubanks, who hails from a financial background and the Independent political party.
- On the midstream segment, many of the skeptics from earlier in the year appear to have been silenced. Management remains confident in NEXUS pipeline approval and FERC's recent draft EIS in favor of the project read constructively. DTE believes that NEXUS can be completed on-time (year-end 2017) and expanded further given the significant amount of interconnection opportunities and the issues the struggling Rover

pipeline has met. Bluestone gathering volumes should also begin see improvement, as gas prices have somewhat recovered and SWN has resumed drilling wells.

DUK: Update on coal ash, international sale and PNY deal

- We estimate 2Q16 EPS of $1.05, slightly above consensus due mostly to lower O&M.
- The main focus of the Q2 call will be the status of DUK's International sale (LatAm assets). There is no timeline, but DUK plans to give an update every quarter until a sale is completed.
- We also expect DUK to provide an update on the recently enacted NC coal ash legislation, which was supported by DUK, and the current Piedmont (PNY) approval process at the NCUC. With PNY, DUK moves into the gas and midstream business. Although relatively small, PNY supports DUK's 4-6% EPS growth through 2020.
- Since February, 2017-18 consensus estimates have fallen about a nickel to $4.73 and $4.97 respectively. But management previously suggested those estimates were too high given an expected dilutive international sale and DUK's long-term EPS growth target of 4-6% is backend loaded. Our 2017-18E are $4.60 and $4.86 and depend on the international sale going toward regulatory growth. But the selling price is still unknown.

DYN: Another tough quarter; tracking to lower end of guidance range

- We estimate 2Q16 EBITDA of $195M, meaningfully below consensus of $222M and relatively flat vs. $193M last year. Higher MISO capacity prices and cost reductions should boost results YoY. However, spark spreads were weak during the quarter in PJM and this is likely to be a headwind for DYN which is the least hedged of the IPPs.
- We think DYN can **maintain the 2016 EBITDA guidance range of $1.0-$1.2B but may indicate results are heading toward the bottom end of the range**. DYN was only 50-60% hedged for 2016 as of the February call (when guidance was adjusted downward) and spark spreads in PJM and New England have declined about $3-5/MWh since then.
- We expect the call to focus heavily on 1) the MISO market outlook with EXC having now announced plans to shut the Clinton nuclear plant; any updates on plans for the non-recourse IPH subsidiary; 3) views on gas leverage given a big investor focus on the potential for higher gas prices; and 4) any updates on planned asset sales to help finance the ENGIE acquisition.

ED: To settle or not to settle; ROE is the question

- We estimate 2Q16 EPS of $0.73, above consensus likely due to timing of O&M and growth in the competitive businesses, including solar investments at Development and retail margins at Solutions (which is still for sale).
- CECONY said last month it was in settlement talks with intervenors in its electric and gas rate case. The NYPSC Staff recommended an 8.6% ROE, below CECONY's 9.75% request. The utility is currently allowed 9.0% for electric and 9.2% for gas. Historically, a premium of 30-50bp has been added to the ROE when parties file a multi-year settlement.
- If no settlement is reached, Staff's recommendation, which is based on data through 3/31/16, would be refreshed using recent data, likely resulting in a lower ROE due to lower interest rates and higher utility valuations.
- In addition to the rate case, we are focused on (i) a potential penalty for the Harlem explosion, (ii) changes in the utility regulatory model under REV, and potential for ROE

incentives, (iii) incremental renewables investments, (iv) more midstream investments, and (v) the sale of Solutions.

EIX: Quiet quarter; SONGS uncertainty, LT growth target on 9/1

- We estimate 2Q16 EPS of $0.93, slightly below consensus but mostly due to timing of GRC rate relief in 2H15 and tax benefits in 2Q15.
- We believe investors will be focused on the CPUC's pending review to reopen the SONGS settlement. Both briefs and reply briefs were filed this month. The CPUC has not established the remaining schedule.
- We anticipate investors will look ahead to the stock's next catalyst: SCE's GRC filing on 9/1, which will set EIX's rate base growth through 2020. We expect the growth to be above the industry average of 5%, as EIX invests at least $4B annually.

ES: First official update since NPT delay; watch MA on ANE

- We estimate 2Q16 EPS of $0.64, slightly below consensus. We still estimate ES will meet its FY16 guidance of $2.90-3.05 because 4Q15 had abnormally high tax expense.
- Updates are expected on ES' two large projects, Northern Pass (NPT) and Access Northeast (ANE), which are still in the regulatory approval phase and have had or potentially could have setbacks.
- After ES' Q1 call, the NH Site Evaluation Committee set a final decision on NPT for 2H17 vs ES' request for YE16. The delay of at least six months likely reduces earnings in the 2017-18 period.
- We are also focused on MA. The legislature is trying to reconcile two energy bills, one of which has a provision that would prohibit charging electric customers for gas pipeline capacity—a requirement for ANE to proceed. The MA legislative session ends 7/31. Moreover, the MA Supreme Court is considering an appeal of a regulatory order allowing such charges; a decision could come this summer or fall.
- Although ES' 5-7% EPS growth through 2019 will be impacted by the NPT delay, we do not anticipate ES to update its growth target or capital plan. We could hear more on a potential share buyback related to the delay in NPT and proceeds from NH generation sale next year.

ETR: Nuclear operations still in focus; watch for tax gains

- We estimate 2Q16 EPS of $0.95, below consensus primarily due to the Indian Point 2 extended outage, which was caused by missing baffle bolts in the reactor's removable insert liner. But we could see meaningful tax gains as early as Q2. We believe the market will view these as temporary.
- ETR recently gave a comprehensive update at its analyst day last month. ETR said it is tracking on the bottom end of its FY16 guidance of $4.95-5.75, due mostly to IP 2 outage and weather. However, ETR also noted it could see the aforementioned tax benefits put it at the top end or even above.
- ETR still plans to provide cost details on its nuclear performance plan this November at EEI. The company has had issues with its nuclear plants, including at ANO units 1 and 2 and Pilgrim, which were all placed last year into the NRC's column 4, requiring significant oversight and added costs. Aside from IP 2, this year saw new issues at other plants that are less serious but concerning overall.
- We will also be focused on electric sales growth, potential for nuclear subsidies in NY, including IP eligibility in the future, and the possible sale of its Fitzpatrick nuclear plant to EXC.

EXC: Hoping for some brotherly love next month

- We forecast 2Q16 EPS of $0.54, slightly below consensus and within EXC's $0.50 – $0.60 guidance range. Retail margins likely were better than expected given low supply costs, but a charge of $85-95M pre-tax (about $0.05-0.06) related to the BG&E rate case decision will hit ongoing earnings.
- EXC will provide an update at its 8/10 analyst day in Philadelphia, where EXC is expected to lay out its utility growth target including newly acquired Pepco. Management suggested its 7-9% growth rate for legacy utility earnings from 2015 to 2018 would be intact with Pepco and extend to 2020. However, EXC has filed five rate cases for the Pepco utilities and plans to file more over the next few years to improve earned returns from under 6% to about 9% by 2019.
- We think EXC will provide updates on the future of challenged nuclear plants, namely Clinton and Quad Cities in IL and Ginna and Nine Mile Point in NY. The inability to get nuclear legislation in IL pushed EXC to retire Clinton and Quad Cities. That said, legislation in IL this fall could help avert shutdowns. In NY, the PSC on 8/1 may approve nuke subsidies for Ginna and Nine Mile Point, and ETR's Fitzpatrick plant, as part of the state's Clean Energy Standard plan. EXC is in talks to acquire Fitzpatrick.
- In the table below we show total and open 2016-18 gross margin as of 3/31 (EXC's prior disclosure) and 6/30 (our estimate of their Q2 disclosure). **We project flattish 2016 total gross margins, a $100M increase in 2017, and a $150M uplift in 2018**. Forward PJM and NiHub power prices were $1/MWh and $2/MWh higher, respectively, for 2017-18 as of 6/30 vs 3/31.
- **However, the increases during Q2 have been mitigated or even eliminated since quarter end. Through 7/21, PJM prices are below 3/31 prices and NiHub are only about $1/MWh higher since 3/31.**

Wolfe Projected EXC Total and Open Gross Margin

	2016	2017	2018
6/30/2016			
Total Gross Margin Estimate	7,800	7,800	7,850
Open Gross Margin Estimate	4,600	5,650	6,050
3/31/2016			
Total Gross Margin	7,800	7,700	7,700
Open Gross Margin	4,450	5,350	5,800

FE: More clarity on direction of generation business on the call

- Our Q2 estimate for FE is $0.56 vs. $0.52 last year. This is $0.02 above consensus. We expect that the uptick in capacity revenues and PA rate relief will be mostly offset from a series of smaller negative drivers – depreciation, income taxes, pension, lower transmission ROEs.
- The conference call will be important. Last week the company announced the retirement of 850 MW of capacity and indicated that management would review the role of the generation business on the call. Management could be a lot more clear on how the company could de-emphasize the generation segment relative to the growth opportunities on the regulated side.
- FirstEnergy will also give formal 2016 earnings guidance. A decision on Ohio subsidies does not appear likely until well into the fall, and as a result any impact from subsidies will be small in 2016.

GXP: Pending WR acquisition remains an overhang

- Our 2Q16 estimate of $0.40 vs. $0.28 last year is in-line with consensus. New rates in effect in Missouri and Kansas as of late last year will be the key earnings driver, along with cost recovery mechanisms and more favorable weather. Somewhat offsetting this will be higher O&M and D&A, as well as lower AFUDC.
- The pending merger with WR will clearly be the primary investor focus on the call, particularly after a recent S-4 filing detailed the bidding process and the GXP/WR standalone EPS outlook. It's clear how aggressive GXP was willing to be when reading the history of the merger, as the company essentially bid against itself in paying a massive premium that will result in an over-levered balance sheet. What's also bothersome is the flat earnings trajectory at WR through 2018 that may lead investors (and ultimately GXP shareholders) to question why the company deserved such a large premium. GXP standalone earnings were also disappointingly low in the proxy.
- Two other important aspects of the merger will be whether or not the Missouri PSC ultimately decides to review the deal and if the consolidated capital structure is used in future rate cases. On the merger review, MO PSC Staff is expected to issue a decision on if jurisdiction is warranted by July 25 – Missouri taking up a review would be a negative data point, even though it's likely the deal can pass the "no detriment" standard. On the consolidated capital structure, MO PSC Staff recently recommended this approach in GXP's pending GMO rate case, which will be finalized later this year. We believe this has implications for how GXP's utilities are treated in future rate cases, as the parent balance sheet becomes increasingly levered.
- Finally, post-earnings it will be key to watch whether or not GXP decides to come to market with a portion of the equity issuance required to complete the deal. Per the Kansas merger application, GXP appeared to weighing whether or not to issue some equity in the near future to take market risk off the table or just issue it all in the late 2016 or early 2017 time frame. The potential for equity creates an overhang for the time being.

HIFR: What comes next in the pivotal Sharyland rate case?

- We estimate 2Q16 EPS of $0.17, below consensus. HIFR did not report adjusted EPS for 2Q15, so the comp could be skewed. We still expect HIFR to be on the high end of its $1.15-1.25 EPS FY16 guidance.
- We anticipate the main focus for investors will be on the Sharyland rate case, which has been delayed as the parties worked through "threshold issues" to be decided on in the rate case. The parties are in talks to determine what issues will be decided on by the PUCT. We will be watching for the parties' positions on the tax allowance for REITs and any sharing of those savings. Those items, as well as the usual items like the allowed ROE, are critical for HIFR.
- We also expect an update on Hunt's non-binding solicitation for the $700-800M Southland transmission project, which concluded earlier this summer. The project could be a potential growth driver.

LNG: First call; more about new management priorities than the numbers

- Cheniere will be holding its first quarterly conference call on August 9. Not coincidentally it will also be new CEO Jack Fusco's first quarterly result call as well.
- As Fusco's first opportunity to address the investment community as a whole, his thoughts on the company's opportunities and strategic outlook will be the focus of the call.
- We expect him to address opportunities for more cost efficiencies, simplification of the capital and company structure, and optimize the marketing segment. We don't expect

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any final pronouncements but we believe his views particularly on capital discipline and accountability to shareholders will be viewed positively.

- Given the fact that Sabine 1 just went into service, Cheniere is still squarely in development mode – results for the quarter are not as important as the messages from management.

LNT: Rate case risk off the table in Wisconsin

- Our 2Q16 EPS estimate is $0.38 vs. $0.34 (split-adjusted) last year – in-line with consensus. The key drivers for the quarter will be more favorable weather, lower base rate freeze credits at IPL, and lower energy efficiency cost recovery at WPL; offset by higher transmission expense at WPL, higher depreciation, and higher interest expense.
- Management has typically pointed within the guidance range in Q2 ahead of summer weather, before eventually tightening the range in Q3. We believe LNT likely points to the midpoint of the $1.80-1.95 range (WRe: $1.89) given the year remains largely on track and weather has been mixed.
- In May, LNT reached a key settlement in its Wisconsin rate case on all the revenue requirement issues – agreeing to a 10.0% allowed ROE (up to 10.25% before sharing) and modest rate increases in 2017/2018. The settlement takes ROE risk off the table and proves that Wisconsin remains a constructive regulatory environment. The rate design portion of the rate case remains outstanding, but is more centered around fixed charges and dealing with solar. In Iowa, a rate case filing is expected in Q2 of next year.
- The one potential negative for LNT right now is the latest ALJ recommendation in the MISO transmission ROE case – a 9.70% allowed ROE vs. a 10.32% recommendation in the first MISO complaint. LNT typically reserves for the latest data point in these proceedings and this could provide an incremental earnings headwind ($0.02-0.03) on a go-forward basis, as the second MISO complaint would set the prospective ROE in addition to the refund period.

NEE/NEP: Potential renewables update, but quiet in front of rate case

- Our Q2 estimate for NEE is $1.56, flat with last year and ahead of the $1.52 consensus. We expect that the combination of growth investment at the utility and Resources should offset the impact of share dilution, higher fixed costs, and the absence of earnings from the Texas generation assets.
- The company boosted the renewable backlog on the Q1 call so we do not expect another increase this quarter. However the company could highlight any projects that have been put under contract in Q2. NEE is actively working on its strategy on repowering older wind facilities under the new PTC, though more clarity is not likely until later in the year.
- The rate case is ongoing now, with intervenor testimony filed a couple weeks ago. The company continues to aim for a settled outcome, but we do not believe NEE will be in a position to give any specific updates on the rate case.
- Our Q2 EBITDA estimate for NEP is $157M vs. $102M last year, driven by asset drops and the acquisition of NET Midstream since last year. This is about in line with consensus.

NI: Year tracking well, good regulatory outcomes secured in Q2

- Our Q2 estimate for NI is $0.06/sh versus a breakeven quarter last year. Our estimate is a penny below consensus. There are a few positive drivers in the quarter – gas

distribution tracked investments, rate relief in PA and MA, and lower interest expense. NI carried a higher debt load last year in front of the spin of the pipeline operation.

- There have been a few positive developments on the regulatory front for NI – resolutions in Indiana of the electric rate case and electric infrastructure mechanism and a series of new rate case filings in PA, MD, VA, and KY.
- NI continues to work on customer growth initiatives and we believe the company is tracking well vs. the $1.00-$1.10/sh guidance.

NRG: Executing well, but GenOn still uncertain

- We forecast 2Q16 EBITDA of $715M, above consensus of $683M but down from $729M a year ago. Key YoY drivers are lower hedge prices, partially offset by cost reductions and improved wind conditions. We see flattish results at Retail versus a very strong year ago period. ERCOT demand rose 2.5% YoY in Q2 and spot power prices were low – a continued favorable environment for retail.
- We do not expect any changes to 2016 guidance. NRG was fully hedged on baseload generation coming into the year and is now likely overhedged given lower volume expectations. While the low commodity price environment and lack of volatility takes away upside optionality, NRG may actually benefit from low prices to the extent it can satisfy hedges by buying power in the market and through its retail business.
- We think management's updated thoughts on how to resolve GenOn will be a key focus on the call – we do not think there has been much progress. Other topics are likely to include the ERCOT market outlook after a court stay of the regional haze rule, any early indications of capital allocation plans for 2017 now that NRG has done several refinancings to push out debt maturities, and the renewable growth strategy.

NYLD: First call for new independent CEO; possible CVSR drop down

- We forecast 2Q16 EBITDA of $240M which is roughly in line with consensus of $241M. Taking NYLD's FY 2016 guidance and applying the company's expectations around quarterly variability would imply Q2 guidance of $233-250M. Management warned last quarter that April wind conditions at Alta Wind were poor. We think wind was likely below normal during Q2, but still much better than last year's unusually weak wind resource.
- We think that NRG offered to sell NYLD the remaining 50% stake in the CVSR solar project during Q2. We expect an update on the NYLD call with a possible transaction announcement. NRG's 1Q16 slides implied a price of $150-200M plus the assumption of debt. We think financing would come from credit facility capacity, incremental project debt on CVSR, and cash on hand. An equity issuance still seems unlikely.

PCG: Guidance cut likely; GRC settlement probable but after call

- We estimate 2Q16 EPS of $0.86, below consensus likely due to a refueling outage, the lack of a final GT&S rate case decision in Phase 2, and absence of a tax benefit in 2Q15.
- We believe PCG could lower its 2016 guidance related to the timing of the GT&S rate case decision, which due to accounting rules may have some earnings related to GT&S booked in 2017 rather than 2016. We also project PCG will lower its $3.0-3.4B GT&S rate base expected in 2016; however, it is unclear by how much. Phase 2 of GT&S will determine what the ultimate rate base will be. And about $575M of capex subject to audit may come back into rate base in a future proceeding.
- On the positive side, PCG appears close to settling "nearly all of the contested issues" in its 2017-19 GRC. An all-party settlement conference is set for 8/3. However, this

positive news will come after PCG's Q2 call, creating a buying opportunity on any guidance cut.

- The San Bruno criminal case will be in its sixth week by the time PCG reports on 7/28, and the utility may be presenting its defense by then. The headlines thus far have been unsurprisingly negative. If found guilty, the federal prosecutors still have to prove that PCG should be fined the maximum $562M. Even in that worst case, we estimate the impact to long-term operating earnings is $0.05-0.06.

PEG: Peggy looking a little unsteady

- We forecast 2Q16 EPS of $0.57 vs. $0.57 last year – in-line with consensus. The Power business continues to face pressures, as hedging, capacity revenues, and spark spreads are all headwinds in Q2. PSE&G will continue to benefit from its transmission business and real-time recovery mechanisms (GSMP/Energy Strong), but not enough to drive any meaningful year-over-year earnings increase. With first-half EPS looking significantly down relative to last year, we see some chance that PEG will need to lower the midpoint of its current guidance range ($2.80-3.00). Our current 2016E sits at $2.85 and we could see the midpoint to move closer to this level. This would be a bit of unfamiliar territory – PEG's first guidance cut in many years.
- The prevailing nuclear plant issues at Salem 1 and 2 are also particularly bothersome heading into the call. Salem 1 has been shut for an extended refueling outage after encountering baffle bolt issues that have since been repaired. Salem 2 tripped in early July and has yet to come back online as well. Both nukes are expected online before the end of July and luckily for PEG there has yet to be any scarcity pricing in PJM that would've been a missed opportunity.
- The Power business drivers in Q2 all appear to be moving in the negative direction. While PEG is fully hedged on baseload capacity, prices are $4 lower than last year. CCGT margins are also expected to be lower, prompted by PSEG spark spreads being down about $8. Lastly, capacity revenues are expected to go lower on the count of lower volume clearing the PJM auction than the prior year.
- This will also be the first call since PEG's disappointing result in the PJM auction that saw the PSEG/PS North zones fail to bind separately and the EMAAC clearing price plummet by $105 relative to the prior auction. These results led to $125M lower capacity revenues in 2019 vs. 2018 and has PEG earnings looking essentially flat over the next 4 years. This will likely continue to beg the question of why PEG is building 3 new CCGTs, right as power market fundamentals appear to be deteriorating.

PNW: Rate case starting to ramp up, quarter looks tough

- We estimate 2Q16 EPS at $1.10, flat vs. last year, and a miss vs. consensus of $1.16. The key driver will be an outage at Four Corners that was a significant drag in Q1 and lasted longer than expected into the second quarter. Higher O&M will also weigh on earnings; offset by better weather and benefits from the traditional recovery mechanisms – transmission, LFCR, Arizona Sun. That said, 2016 guidance of $3.90-4.10 (WRe: $4.01) is likely to be affirmed given that Q3 represents a significant portion of the full-year EPS.
- As per usual, sales growth will be a key metric to watch in Q2. PNW is expecting 0-1% weather-normalized sales growth, but momentum continues to build. PNW has now posted positive sales growth comps in 4 consecutive quarters.
- The other focus will be PNW's recently filed rate case, which was largely well-telegraphed. Much of the discussion is likely to be around the proposed three-part rate design, though solar parties could provide considerable opposition. The also-pending value/cost of solar docket could set the tone here, as stakeholders have been

continuously meeting to discuss key issues and a final decision could be reached before year-end.

- The revenue requirement portion of the case is likely to be less contested and PNW remains hopeful of a settlement, given the progress in the UNS rate case. PNW has asked for a 10.5% ROE, but believes it can maintain its currently allowed 10.0% ROE in a worst case scenario (ACC Staff recommended UNS maintain its 9.50% ROE). Beyond the ROE, PNW has asked for cost deferrals on the Ocotillo project and the SCRs being installed at Four Corners, with a step rate increase for Four Corners in 2019. Under this proposed plan, PNW is hopeful it can stay out of future rate cases into the next decade.

POR: Two key catalysts ahead – Carty and renewables RFP

- We forecast Q2 EPS of $0.41 vs. $0.44 a year ago – a touch below consensus of $0.43. As per usual, weather and wind conditions are likely to play a factor in the earnings result. We see weather as being much milder than the prior year and wind conditions being better than the year prior, though likely below normal. Additionally, hydro conditions look more favorable relative to last year. Outside of these drivers, we anticipate higher O&M and D&A to be headwinds, along with equity dilution; offset by higher AFUDC and a more favorable tax rate.
- The 2016 guidance range of $2.05-2.20 looks safe. However, it's worth noting that original guidance of $2.20-2.35 baked in an $0.08 weather/wind headwind at the beginning of the year and then Q1 results detailed an incremental $0.14 weather/wind headwind on top of that. The sensitivity of POR's earnings to weather conditions remains astounding.
- The first of two key catalysts for POR is the construction of the Carty plant. The deadline to complete the project and place it into rates is July 31 and we expect an update from POR by that time (ahead of the Q2 call). The latest update was the achievement of first fire in late June. Our sense is that the in-service date may be delayed several weeks, but that POR is able to receive a deadline extension that allows for cost deferrals. Anything beyond that would be a big disappointment.
- The second key catalyst expected before the Q2 call is the resolution of POR's request to initiate an accelerated renewables RFP to take advantage of the full PTC by year-end. POR has been in talks with stakeholders that appear generally supportive (with the exception of an industrials group) and the OPUC has scheduled a special meeting for July 29 to discuss the proposal. Should the OPUC approve the RFP, a process would kick-off that resulted in winning bids being selected before year-end. In the event POR is able to pursue an asset ownership option, its rate base growth outlook could noticeably improve. If the OPUC rejects the RFP or continues to kick the can, its likely POR is unable to complete an RFP process by year-end. We would view this as disappointing, though less likely.

PPL: Guide down on Brexit likely but not all bad news

- We estimate 2Q16 EPS of $0.55, slightly above consensus. But the main focus will be management's outlook post Brexit, which sent the GBP-USD exchange rate to the low $1.30s. PPL's 5-6% EPS growth rate through 2018 off 2014A of $2.03 assumed a GBP rate of about $1.60 on 2016-17 UK earnings, which were mostly hedged. For 2018, PPL was 41% hedged. At current GBP levels, EPS growth appears flattish. 2019 is unhedged.
- However, PPL could rebase its growth rate by using its UK in-the-money hedges and use a GBP rate closer to market. This would cut 2016-18 earnings but highlight the growth in the underlying utility business. On the Q2 call, PPL may also point to better growth out of its US business.

- If monetized, PPL's in-the-money hedges would be used to fund growth. PPL would continue hedging UK earnings and assume a rate close to the market rate of $1.31 (7/22). Every $0.01 move in the GBP is $0.01 EPS on an open basis. Our 2019E of $2.41 reflects a $1.40 GBP rate, incorporating some potential benefit from higher inflation in the UK, which directly benefits PPL.
- The dividend growth target of 4% in 2017 is likely to be maintained, given no change in the cash profile from the UK, which targets a dividend of GBP 250 annually to the parent.

SCG: Focus on Summer nuclear project

- Our 2Q16 EPS estimate of $0.72 is in line with consensus and above $0.69 from 2Q15. This estimate excludes the impact of weather, since SCG started separately reporting operating estimates adjusted for weather. Key drivers versus last year are rate relief and the adjustment from the depreciation study last fall, offset by higher O&M and interest expenses.
- Investor focus will be on management's commentary around the new nuclear project at VC Summer. Since the last earnings call, SCG elected the fixed price option and filed a petition with the SC Public Service Commission seeking approval to increase the total gross construction cost to $7.7B, about $852M over the previously approved amount. Intervenor testimony is due 9/1/16.
- Also, it is slightly concerning that SCG was unable to come to an agreement with their contractor Westinghouse on a construction milestone payment schedule for the nuclear project by the deadline 7/1.The issue had to be referred to a dispute resolution board, which reduces the risk of delays but we will be watching for updates.
- SCG filed their gas rate case for PSNC in early April. A final order is not expected until this fall and the rate increase would be implemented on 11/1/16.

SO: Good story to tell on gas, renewables but Kemper key

- We estimate 2Q16 EPS of $0.72, in line with consensus and slightly above SO's 0.70 guidance due mostly to Southern Power.
- A lot has happened since SO's Q1 call in April, including the closing of its AGL acquisition, the JV with KMI for the Sonat pipeline and a number of renewables announcements.
- We expect SO to discuss all these items, including the newly created SoCo Gas, which incorporates AGL and presumably Sonat JV and place SO in the midstream business. SO is likely to echo KMI on potential growth opportunities from Sonat, but we do not expect specifics. We could get a better sense of when and how much equity will be issued for Sonat.
- SO will likely provide a 3Q16 EPS guidance estimate on both a standalone basis and with SoCo Gas; however, we do not expect an update on its long-term outlook or capital plan until later this year, perhaps at analyst day. That said, we anticipate SO, if asked, will affirm its 4-5% long-term EPS growth rate.
- We also expect SO to raise its capital plan for Southern Power, particularly for 2016 targets, which the company has already met, and possibly 2017. Accordingly, we anticipate SO will raise its financing needs for 2016 reflecting the growth opportunities. SO already guided to about $300M of earnings for Southern Power in 2016, but the incremental opportunities could be additive to 2017.
- Despite the positive tone on gas and renewables, the key for SO stock, which lags most large cap regulateds YTD, is Kemper. An update is expected the day before SO's 7/27 call, and all eyes will be on whether the company can meet its latest 9/30/16 in-service

target. This month Kemper produced its first syngas, but significant work remains to prove the IGCC plant will operate well.

WEC: Quiet quarter, wait for capex refresh at EEI

- We estimate 2Q16 earnings of $0.54 vs. $0.59 a year ago (WEC standalone, or $0.53 pro forma) – in-line with consensus and at the top-end of WEC's guidance of $0.51-0.55 that took into account mild weather in April. TEG accretion (less share dilution) is expected to be a key EPS driver. Q2 last year also included the benefit of a one-time asset sale. We expect 2016 guidance of $2.88-2.94 to be reiterated (WRe: $2.93).
- We believe the plan remains to update the long-term capital forecast at the EEI conference in November, where WEC still needs to fill-in for a portion of the $1B bonus depreciation impact. That said, the capital backlog appears robust and we don't expect the earnings trajectory to be impacted. Gas storage remains a longer-term option that WEC is exploring that could ultimately amplify rate base.
- News on the AMRP in Illinois has been quiet ever since a key settlement was reached with the ICC and Attorney General regarding prior cost estimates. In the docket to holistically review the program, Staff has submitted its report on findings of fact to the ICC and a procedural schedule is expected to be laid out in the near future. This comes as WEC looks to revamp the program and correct many of the issues and inefficiencies that were prevalent under TEG management.
- A key positive is that WEC was able to stay out of rate cases for Wisconsin Electric and Wisconsin Gas this year, preserving above 10% allowed ROEs. Given the TEG merger synergies, WEC plans to avoid rate case filings to the degree that rate relief needs can be offset. A negative is the recent ALJ recommendation on MISO transmission ROEs – coming in at 9.70% and well below the previous recommendation of 10.32%. WEC typically reserves for a potential transmission ROE refund and this could provide a small headwind to earnings.

XEL: Quarter in line but some risk to ROE

- We forecast 2Q16 EPS of $0.40, in line with consensus and slightly above $0.39 from last year. This quarter was likely positive impacted given the better weather in MN and CO.
- For the key MN rate case, we have received 2 potentially negative data points recently. In the intervenor testimony filed on 6/14 by the DoC, XEL recommended a low authorized ROE of 9.06% vs. XEL's 10.00% request and their current allowed ROE of 9.72%. Also in June, the MN PUC approved a 9.49% ROE for CenterPoint's MN gas LDC, which was closer to the DoC's recommendation. We expect to hear additional detail on the MN rate case, the settlement conferences, and whether XEL will need to book a regulatory reserve against interim rates. A final decision is expected June 2017 unless a settlement is reached.
- We will listen for any commentary on XEL's plans for building more renewables and any update to their capex plan. Intervenor testimony for their CO Rush Creek wind project is due 7/27 before the earnings conference call on 8/3.

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INDUSTRY NOTE

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July 25, 2016

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Master Limited Partnerships
2Q16 Preview: Back to Life, Back to Reality

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EQUITY RESEARCH AMERICAS

Key Takeaway

In prep for 2Q midstream results, we note the recent divergence in operational news (-) vs. equity valuations (+) & the risk a re-focus on fundamentals may pose to the group's recent momentum. Of note, the ongoing deceleration in NGL supply growth, recent pullback in product pricing, and cancellation of contracted export cargoes mark a negative shift. Macro factors continue to drive valuations & we downgrade APU, NI, OGS, SWX, and WPZ.

Caution on utility values, downgrading NI, OGS, SWX to Underperform. Ongoing sector consolidation, global uncertainty, and a quest for yield have driven investors to the gas utility space & resulted in equity valuations that are elevated on both a historical & relative basis. While we recognize the many attractive attributes offered by the gas LDC group, namely: regulated US-domiciled assets, USD-denominated (& positive!) dividend yields, IG-rated balance sheets, and enhanced safety-related capital deployment opportunities, we believe valuations now offer a worrisome risk/reward skew. We note that only the group's dividend yield spread to US 10-yr Treasuries remains in normal ranges while its P/E multiple vs. the S&P 500 & EV/EBITDA multiple are >1 STD away from LT averages (pgs 2-4). Accordingly, we are downgrading NI, OGS, and SWX to Underperform on valuation.

Commodity prices up in 2Q, recent developments mark bearish shift. While 2Q showcased positive trends with respect to gas-fired power generation & a sequential recovery in oil & NGL prices, other recent data points indicate a potential fundamental weakening in the midstream outlook. We note the ongoing deceleration in NGL supply growth (excluding changes in C2 rejection, April indicated y/y growth of just ~85 MBbld, down from ~304 MBbld y/y change in Jan), respective ~25% & ~10% contractions in C2 & crude prices since mid-June, recent disclosures of contracted LPG export cargo cancellations, & court questions of regulated rates within LP structures (*United Airlines*) as bearish shifts. With sector valuations driven by macro events & a pivot toward dividend-paying US equities, we are cautious into results. Separately, we downgrade APU & WPZ to Hold on valuation.

Top Picks: ETE & WMB remain top GP picks; EPD, ETP, and SEP remain top LP picks.

Company Name	Ticker	Mkt. Cap (MM)	Rating	Price	Price Target	Cons. Next FY	Current EPS Estimates 2015	2016	2017	Previous Est. 2016	2017
AmeriGas Partners	APU	$4,528.9	HOLD▼	$48.75	$50.00	--	$2.43	$1.97	$2.77	$1.97	$2.77
Columbia Pipeline Partners	CPPL	$1,591.5	BUY	$15.82	$22.00	--	$0.52	$0.86	$1.05	$0.86	$1.05
DCP Midstream Partners	DPM	$3,941.1	HOLD	$34.36	$35.00	--	$2.84	$2.03	$1.86	$2.04	$1.87
Energy Transfer Equity	ETE	$17,615.3	BUY	$16.86	$20.00▲	--	$1.11	$1.12	$1.18	$1.06	$0.78
Energy Transfer Partners	ETP	$20,971.0	BUY	$40.43	$47.00▲	--	$2.74	$1.18	$2.67	$1.51	$3.99
EnLink LLC	ENLC	$2,871.0	HOLD	$15.95	$15.00	--	$0.41	$0.21	$0.31	$0.20	$0.29
EnLink Partners	ENLK	$5,930.5	HOLD	$17.82	$18.00▲	--	$0.43	$0.11	$0.29	$0.10	$0.23
Enterprise Products Partners	EPD	$61,445.9	BUY	$29.52	$34.00	--	$1.35	$1.31	$1.36	$1.32	$1.38
National Fuel Gas Company	NFG	$4,788.4	HOLD	$56.40	$60.00▲	--	$2.97	$2.90	$3.14	$2.83	$3.05
NiSource Inc.	NI	$8,442.6	UNPF ▼	$26.26	$22.00	--	$0.94	$1.07	$1.19	$1.07	$1.19
ONE Gas Inc.	OGS	$3,450.4	UNPF ▼	$66.10	$53.00	--	$2.24	$2.57	$2.75	$2.57	$2.74
ONEOK Inc.	OKE	$9,675.1	HOLD	$46.05	$43.00▲	--	$1.53	$1.77	$1.82	$1.79	$1.84
ONEOK Partners	OKS	$11,963.6	HOLD	$41.86	$41.00▲	--	$1.72	$2.28	$2.24	$2.29	$2.26
Questar Corp.	STR	$4,414.8	HOLD	$25.17	$25.00	--	$1.28	$1.31	$1.27	$1.31	$1.27
Southwest Gas	SWX	$3,744.4	UNPF ▼	$78.83	$64.00▲	--	$2.92	$3.07	$3.52	$3.08	$3.55
Spectra Energy Corp.	SE	$25,638.9	HOLD	$36.58	$31.00▲	--	$1.19	$1.23	$1.43	$1.24	$1.46
Spectra Energy Partners	SEP	$14,496.3	BUY	$48.76	$54.00▲	--	$3.34	$3.22	$3.28	$3.23	$3.39
Sunoco Logistics Partners	SXL	$8,148.1	HOLD	$28.46	$31.00	--	$1.07	$0.44	$0.71	$0.61	$0.83
Sunoco	SUN	$3,424.4	UNPF	$30.63	$23.00	--	$1.13	$0.89	$1.12	$1.11	$1.19
Targa Corp.	TRGP	$6,477.0	HOLD	$40.33	$45.00	--	$2.67	$(0.18)	$0.21	$(0.22)	$0.29
Williams Co.	WMB	$18,402.3	BUY	$24.52	$28.00▲	--	$0.65	$0.65	$0.64	$0.66	$0.65
UGI Corporation	UGI	$7,844.0	HOLD	$45.42	$40.00▲	--	$2.01	$1.95	$2.40	$1.95	$2.40
Williams Partners	WPZ	$22,541.3	HOLD▼	$37.32	$40.00	--	$1.35	$0.86	$1.59	$0.97	$1.70

Cautious on regulated valuations

Revenge of the nerds

It is 2016 & what was once 'cool' is no longer: amid growing geopolitical uncertainty and an extended period of ultra-low interest rates, investors have sought refuge among less-volatile stocks in search of stability & income. Utilities have traditionally offered secure dividends and moderate capital appreciation, but as the world has turned upside down so have sector valuations. With US gas utilities near all-time highs, we examine three metrics: dividend yield spread vs. the 10-year Treasury, F1Y & F2Y PE multiples vs. the S&P 500, & EV/EBITDA to illustrate the historically & relatively elevated nature of current valuations.

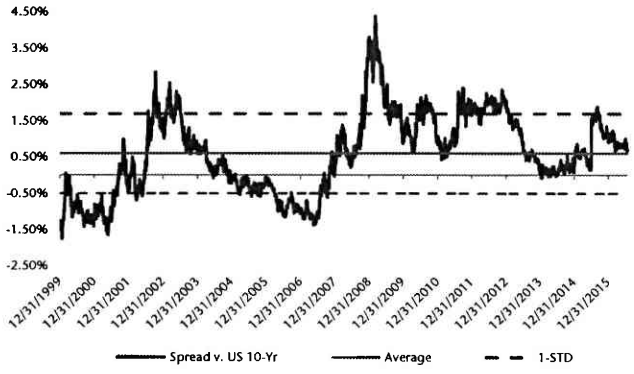
We note that a marketcap weighted index of gas LDCs now trades at ~5.6x PE premium on 2017 vs. the large cap electric utility average.

Accordingly, we are downgrading NI, OGS, and SWX to Underperform on valuation. We do not necessarily see obvious & specific near-term catalysts to alter the present dynamic, but note that unexpected upward movements in interest rates, reduced ROE authorizations due to persistently low rates, or any general unwind of the factors which produced the YTD utility rally (for example, an improvement in alternate sector outlooks or 'risk-on' sentiment which prompt investor rotation) could offer such an opportunity. We also note that electric utilities now trade at material discounts to gas utilities (an average ~5.5x PE discount on 2017) & believe electrics may now present better risk/reward profiles than gas names for those wishing to remain exposed to regulated utilities.

Yield spread to US 10-Year Treasury

The spread between dividend yields of US gas utilities & US 10-Year Treasuries have averaged 58 Bps since 2000. Today, that spread sits at 71 Bps, slightly more than the average but well within the one standard deviation range of the historical mean. As Chart 1 below illustrates, LDC names have shown a long-term pattern of mean reversion when comparing the group's yield spread to Treasuries. As of July 19th, the weighted average yield spread was just 13 Bps above the long-term historical average, indicating the sector is fairly valued on a spread-to-Treasury basis. A compression of the historical profile to capture only the post-2008 recession period (Chart 2) indicates an average yield spread of ~109 bps since the beginning of 2010, indicating utilities could have modest upside if current Treasury yields remain static.

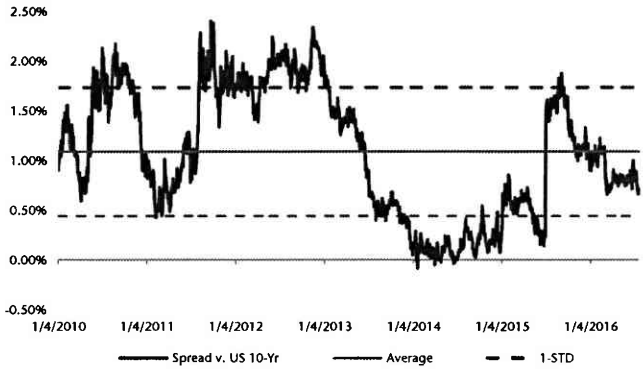
Chart 1: Gas LDC Yield Spread vs. US 10-Yr (2000-Present)



Source: FactSet

Note: The group spread metric is a market capitalization weighted average of ATO, NI, NJR, NWN, OGS, SWX, WGL.

Chart 2: Gas LDC Yield Spread vs. US 10-Yr (2010-Present)



Source: FactSet

Note: The group spread metric is a market capitalization weighted average of ATO, NI, NJR, NWN, OGS, SWX, WGL.

Price/Earnings (PE) to S&P 500

Perhaps the most often cited valuation metric among LDCs is the forward-year price to earnings ratio. As shown in Chart 3, since 2010 the weighted average F1Y PE ratio among the gas LDC group is ~13.9x, roughly one turn behind the S&P's forward year PE multiple of ~15.1x (source: Factset). However, after the LDC group average PE surpassed the index

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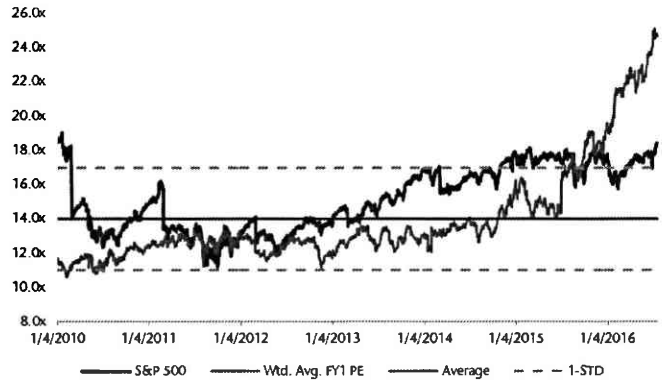
in mid-2015, the utility group has continued to run and now trades at ~25.0x forward year earnings. While the S&P multiple has also climbed over the period & remains at elevated levels relative to its historical average, the gas utility group has continued to move ever higher. The S&P's current ~18.4x forward year PE multiple is 1.7 standard deviations outside its post-2009 average, but the weighted average gas utility PE of ~24.6x is 3.6 standard deviations above its six-year historical average. In addition, the difference between the current weighted average gas utility PE multiple and the S&P 500 has gone from near parity to a ~6.3x difference in just under a year, despite very little change to the underlying company fundamentals.

Chart 4 below, which features the same analysis of relative PE but utilizes F2Y earnings expectations, illustrates a very similar phenomenon for the gas utility group vs. the S&P 500. While we understand the reasons this flight to 'income quality' has occurred, we believe the elevated nature of both absolute & relative utility PE ratios underscores the worrisome risk/reward skew they now present.

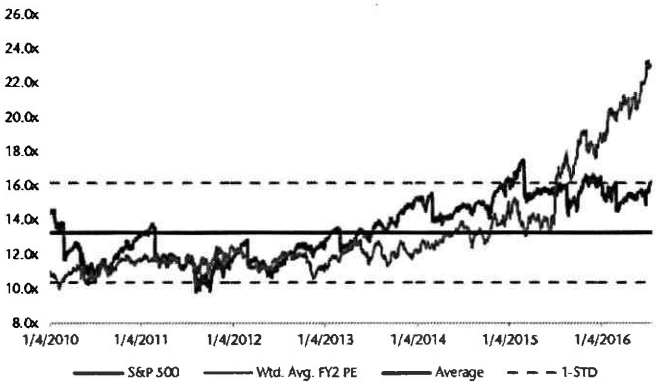
Chart 3: Gas LDC Group Wtd. Avg. FY1 PE vs. S&P 500



Source: Factset

Note: The gas LDC group is a market capitalization weighted average of ATO, NI, NJR, NWN, OGS, SWX, WGL.

Chart 4: Gas LDC Group Wtd. Avg. FY2 PE vs. S&P 500



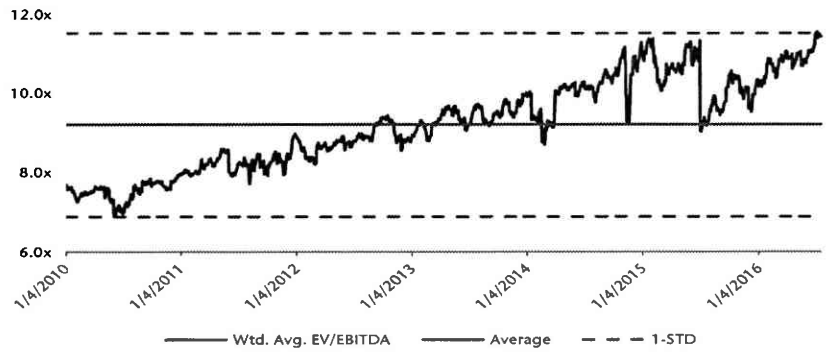
Source: Factset

Note: The gas LDC group is a market capitalization weighted average of ATO, NI, NJR, NWN, OGS, SWX, WGL.

Enterprise Value / EBITDA

Though used less often when analyzing utility valuations, EV/EBITDA offers a rough cash flow multiple & also paints a telling picture of elevated group value. The current market-cap weighted group average EV/EBITDA multiple of ~11.4x is approximately one standard deviation above its post-2009 average of ~9.2x.

Chart 5: Gas LDC Group Weighted Average EV/EBITDA



Source: Factset

Note: The gas LDC group is a market cap weighted average of ATO, NI, NJR, NWN, OGS, SWX, WGL.

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Acquisition Premium

Along with a hunt for income amid compressing global interest rates, we believe investors are also incorporating scarcity premiums into the remaining LDCs given a flurry of M&A activity since 2010. Exhibit 1 below lists the principal regulated gas entity acquisitions since the beginning of the decade. As Charts 1-5 illustrate, the entire space has witnessed a valuation benefit from the prospect of continued sector consolidation and investor speculation as to who may be the next acquisition target.

Exhibit 1: Select Regulated Gas Company Acquisitions Since 2010

Date	Target	Acquirer	Price ($MM's)
March 2016	Columbia Pipeline	TransCanada Corp.	$13,000
February 2016	Questar	Dominion Resources	$4,400
October 2015	Piedmont Natural Gas	Duke Energy	$4,900
August 2015	AGL Resources	Southern Company	$12,000
July 2015	SourceGas	Black Hills Corp.	$1,890
April 2014	Alagasco	Laclede Group	$1,600
May 2013	New Mexico Gas Co.	TECO Energy	$1,150
May 2013	NV Energy	MidAmerican Energy Holdings	$10,000
December 2012	Energy Transfer MA & MO LDCs	Laclede Group	$1,035
December 2012	Equitable Gas	EQT	$740
December 2010	Nicor	AGL Resources	$2,400

Source: Jefferies

When D announced its acquisition of STR in February, the implied ~19.5x FY2 earnings multiple was roughly in-line with the group average despite a lack of visible earnings growth; our current 2015-20 STR EPS CAGR is ~0.4%, and our 2015-20 DPS CAGR is just 1.7%. In addition, the $25/share all cash offer for STR represented a ~30% premium to STR's VWAP over the 20 trading days prior to deal announcement. Despite the premium paid for STR, the LDC group has continued to appreciate as its weighted average FY2 PE multiple is now ~3x above where it traded in February.

2Q Earnings Details

Exhibit 2: MLP 2Q16 Earnings Details

Company Name	Ticker	Earnings Release Date/Time	EBITDA 2Q16 JEFe	EBITDA 2Q16E Consensus	EBITDA 2Q15A	Projected Beat / Miss
AmeriGas Partners*	APU	08.02 -- After Market	$57	$60	$49	In-Line
Columbia Pipeline Partners	CPPL	07.28 -- Before Market*	$161	$158	NA	In-Line
DCP Midstream Partners	DPM	08.03 -- After Market	$126	$132	$150	In-Line
Energy Transfer Partners	ETP	08.03 -- After Market*	$1,348	$1,393	$1,488	In-Line
EnLink Midstream Partners	ENLK	08.02 -- After Market	$185	$185	$175	In-Line
Enterprise Products Partners	EPD	07.28 -- Before Market	$1,265	$1,322	$1,296	In-Line
ONEOK Partners	OKS	08.02 -- After Market	$442	$448	$387	In-Line
Spectra Energy Partners	SEP	08.03 -- Before Market	$474	$466	$447	In-Line
Sunoco LP	SUN	08.03 -- After Market*	$170	$185	$58	Miss
Sunoco Logistics	SXL	08.03 -- After Market*	$311	$293	$326	Beat
Williams Partners	WPZ	08.01 -- After Market	$1,026	$1,085	NA	Miss

Source: FactSet & Jefferies

Note: APU financials represent F3Q16 data; ETP, SUN, & SXL earnings release dates are JEFe

Note: CPPL consolidates Columbia OpCo, so EBITDA represents OpCo EBITDA.

Note: 'Beat' is defined by JEF as >5% vs. Street, 'Miss' is >-5% vs. Street, and 'In-Line' is the range between -5%& +5% vs. Street

Note: For WPZ we formally exclude MVC recognition from the Barnett thus removing ~$62mm of EBITDA & DCF likely explaining the lower projection vs Street estimates.

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Exhibit 3: C-Corp 2Q16 Earnings Details

Company Name	Ticker	Earnings Release Date/Time	EBITDA			Projected
			2Q16 JEFe	2Q16E Consensus	2Q15A	Beat / Miss
Energy Transfer Equity	ETE	08.03 -- After Market*	$423	NA	$402	NA
EnLink Midstream, LLC	ENLC	08.02 -- After Market	$182	$182	$175	In-Line
ONEOK Inc.	OKE	08.02 -- After Market	$357	$422	$314	Miss
Spectra Energy Corp.	SE	08.03 -- Before Market	$714	$663	$653	Beat
UGI Corp.*	UGI	08.02 -- After Market	$0.06	$0.07	$0.08	Miss
Williams Companies Inc.	WMB	08.01 -- After Market	$1,034	$1,066	$1,017	In-Line

Source: FactSet & Jefferies
Note: UGI financials represent F3Q16 data. We also provide EPS estimates for UGI as it continues to employ an EPS-based, not DCF-based, model
Note: ETE earnings release date is JEFe; SE EBITDA is before minority interest to align with Street Consensus, see the SE page for detail
Note: Jefferies 'Beat/Miss/In-Line' definitions the same as Exhibit 2

Exhibit 4: Diversified Gas 2Q16 Earnings Details

Company Name	Ticker	Earnings Release Date/Time	EPS			Projected
			2Q16 JEFe	2Q16E Consensus	2Q15A	Beat / Miss
National Fuel Gas Corp.	NFG	08.04 -- After Market	$0.64	$0.62	$0.55	In-Line
NiSource, Inc.	NI	08.01 -- Before Market	$0.06	$0.07	$0.02	Miss
ONE Gas, Inc.	OGS	08.01 -- After Market	$0.36	$0.31	$0.23	Beat
Questar Corporation	STR	08.03 -- After Market	$0.21	$0.22	$0.22	In-Line
Southwest Gas Corp.	SWX	08.03 -- After Market*	$0.16	$0.18	$0.10	Miss
Targa Resources Corp.	TRGP	07.29 -- Before Market*	$254	$258	$322	In-Line

Source: Factset & Jefferies
Note: NFG financials represent F3Q16 data.
Note: SWX & TRGP indicates estimated earnings release date; Jefferies 'Beat/Miss/In-Line' definitions the same as Exhibit 2

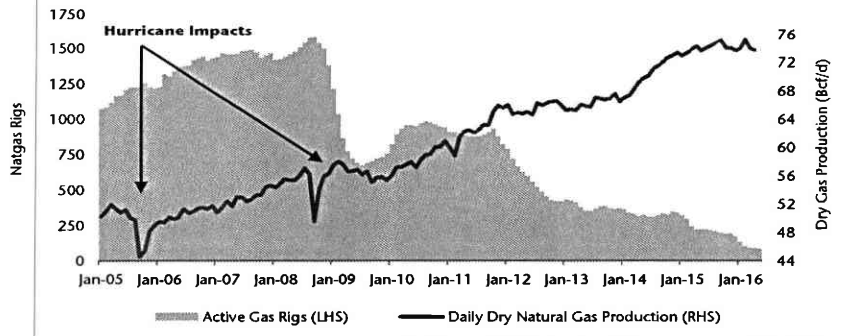
Examining 2Q Trends

Power Generation: While daily US power generation has decreased ~4.7% y/y through April (latest available data), the power sector's daily natural gas fired output has jumped ~6.0%. While full 2Q data is not yet available, given subdued natural gas prices we expect further reports to depict a continued rise in gas-fired output. The latest EIA data implies natural gas fueled ~33% of 2016 YTD electric output (up from ~29% in 2015 & ~24% in 2014) while coal fueled ~28% in 2016 YTD (down from ~35% in 2015 & ~41% in 2014).

We calculate ethane rejection averaged 1.00 Bcfd in Apr., implying methane output averaged 72.7 Bcfd in the month, a ~0.4% decrease y/y

Production: US output reflects prolific unconventional formations & ongoing advances in drilling & completion techniques. According to EIA data, US dry natural gas output (lower 48) averaged 73.8 Bcfd in April (latest available), down ~0.8% y/y, with the TTM daily average up 2.6% y/y. We calculate Apr. ethane rejection averaged 1.0 Bcfd vs. 1.32 Bcfd in Apr. 2015, implying methane output averaged 72.7 Bcfd, a ~0.4% decrease y/y.

Chart 6: TTM Average Gas Rigs vs. Lower 48 Dry Gas Production (10-Yrs)



Source: EIA and Baker Hughes

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Despite the TTM rise in production, the US natural gas rig count averaged just ~87 in 2Q16, ~61% lower than 2Q15's ~223 average as producers have continued to scale back activity levels amid sharply weaker product prices. We believe gas-directed drilling activity will remain muted due to depressed multi-year price levels, weakened cash flows, and rolling hedge positions. However, ongoing efficiency gains, the delayed nature of pad drilling, future price expectations, and infrastructure constraints / debottlenecking activities (and related basis impacts) will continue to shape the productive landscape.

Prices: As illustrated in Exhibit 5, 2Q16 average NYMEX natural gas contract settlement prices fell ~4.9% q/q, WTI crude contract settlement prices fell ~30.3% q/q, Mt. Belvieu composite daily NGL prices rose ~36% q/q, and Conway daily NGL prices increased 25.1% q/q. On a cash basis, we note that Henry Hub natural gas prices rose 8.5% q/q, to $2.13/MMBtu, and WTI crude oil prices rose 34.4% q/q, to $45.35/Bbl. Though many producers & processors utilize hedging strategies, these results will impact 2Q numbers.

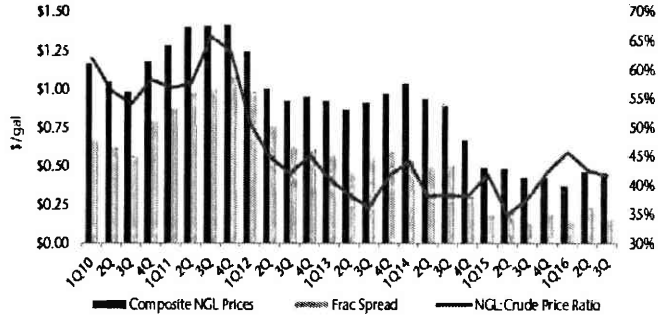
Exhibit 5: Commodity Price Realizations & Midstream Team Forecasts

Commodity	2015A	1Q16A	2Q16A	3Q16E	4Q16E	2016E	2Q16 / 1Q16
Natural Gas NYMEX ($/MMBtu)	$2.67	$2.05	$1.95	$2.80	$2.80	$2.40	(4.9%)
WTI Crude Oil ($/Bbl)	$48.97	$33.45	$45.48	$42.00	$48.00	$42.20	36.0%
Mt. Belvieu NGLs ($/gallon)	$0.45	$0.37	$0.46	$0.51	$0.53	$0.47	25.1%
Conway NGLs ($/gallon)	$0.43	$0.35	$0.44				27.2%

Source: Bentek, Bloomberg, FactSet

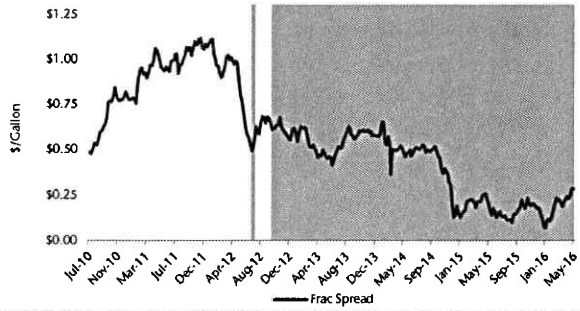
Processing: Average 2Q16 Mt. Belvieu composite barrel NGL prices rose 25.1% q/q while Conway prices rose 27.2% q/q. We estimate ethane rejection averaged ~335 MBbld in April (latest available), down from the 2Q15 average of ~522 MBbld. Ethane field production rose to 1.28 MMBbld in April (up ~6.2% q/q and ~13.2% y/y) and, with new cracker start-ups & export expansions, we believe ethane economics & S/D fundamentals are poised to improve in the later part of the decade; however, they will likely remain challenged in the near-term and we project persistent ethane rejection through at least 2018. The average Belvieu frac spread increased 50.6% q/q given the drop in NYMEX natural gas prices and stronger NGL dynamic q/q.

Chart 7: Quarterly Gas Processing Margin Stats (Belvieu)



Source: Bentek Energy

Chart 8: Historic Frac Spread (Mt. Belvieu)



Source: Bentek, Jefferies estimates
Note: Dark grey bar denotes periods of ethane rejection at Mt. Belvieu

Weather Trends

US cooling degree days (CDDs) were down 4% in 2Q16 versus the same period in 2015 but were ~21% above the long-term April-June average. National HDD averages mask pronounced regional variations, as indicated in Exhibit 6 on the next page. Specifically, the West North Central and Mountain regions saw CDDs that were 24% & 8% higher y/y, while the South Atlantic and Pacific regions experienced 14% & 7% y/y CDD declines, respectively. Under normal weather conditions, 2Q is a seasonally weaker period for gas utility sales as it represents a shoulder period.

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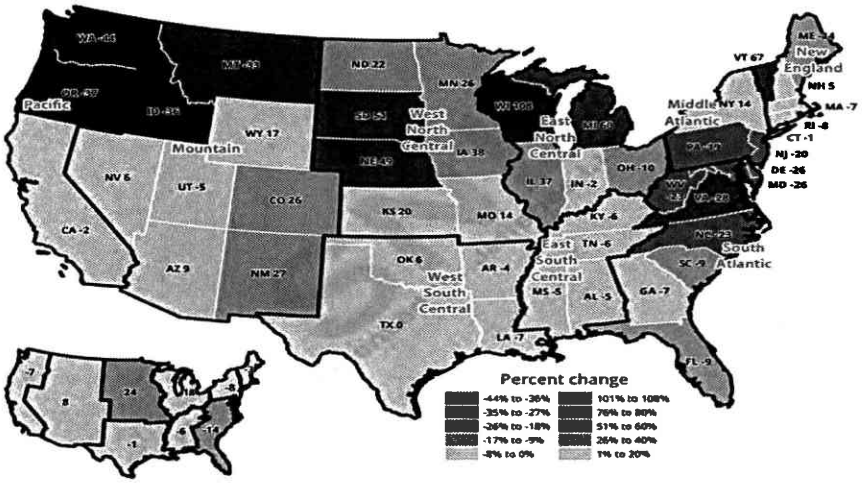
The National Oceanic & Atmospheric Administration's forecast for 3Q suggests 'increased probabilities of above-average temperatures' across most of the US, though it notes the Great Plains region is least likely to see above average temps through Sept. The Weather Channel forecasts with 'fairly high-confidence' that temperatures in July-September will be warmer than normal through the vast majority of the US, with the greatest amount of heat working its way eastward across the US as the Summer progresses.

Looking further ahead, NOAA forecasts a 75% probability for La Niña conditions this coming fall and winter. La Niña is the weather pattern that typically arrives the fall/winter after an El Niño weather pattern. La Niña is typically characterized by a strong northern jet stream paired with a weak southern jet stream caused by unusually low equatorial Pacific Ocean surface temperatures. This jet stream locks cold air & precipitation in the northern half of the continental US, leaving the southern US dry with normal temperatures.

Exhibit 6: 2Q16 Cooling Degree Day Difference (%) by State & Region (Y/Y)



Source: SNL Energy, as of July 6, 2016

Boring, But Important

United Airlines, et al. v FERC, et al.

On July 1st the US Court of Appeals for the D.C. Circuit took the side of pipeline shippers in an appeal of a FERC decision regarding the tax allowances for partnerships in cost of service ratemaking on regulated pipelines. The issue impinges upon FERC's allowance of partnership pipelines inclusion of income taxes as a cost component in their rates, provided they have "an actual or potential income tax liability to be paid on that income from those assets." In *United Airlines, et al. v. FERC, et al.*, the Court found that FERC's policy of permitting a discounted cash flow return on equity component in these rates is sufficient compensation for the tax liabilities of partnership investors because the partnership does not pay tax on an entity level like a corporation would.

FERC adopted its current policy on income tax allowances in 2005, which was upheld in 2007 in *ExxonMobil,* also by the D.C. Circuit Court. The court's findings did not outright overrule the policy, rather it noted that FERC failed to adequately demonstrate that partnership pipelines do not double count tax expenses in their rates under this policy and that there is parity in the ratemaking mechanisms between corporate and partnership pipeline owners. The Court decision in *United Airlines* does not contain a mandate to FERC as the decision is only a draft order and the Court has five weeks to mandate a course of action and invited a petition for rehearing as well as comments from both sides.

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MLPA Executive Director Mary Lyman noted in an email sent shortly after the decision was made public that, "this should not affect pipelines with market-based or negotiated rates. It is important to remember that most MLP pipeline volume is transported at negotiated or market-based rates, which are accepted by FERC." She also wrote, "This matter is a long way from being resolved to the point where any MLP pipeline would possibly have to take any action."

A Challenging Liquids Dynamic

News outlets have been reporting recently on the challenging dynamic affecting the LPG market this summer. According to Reuters, LPG traders in the US have been caught by surprise as Chinese and other Asian demand has been reluctant to absorb the glut of LPG leaving America's shores, opting instead for cheaper Middle East product and alternative feedstocks. Five major companies canceled July loading cargoes from Texas LPG terminals and instead opted to pay fines of up to $1mm.

We expect these cargo cancellations will have some impact on 2Q results, but will more adversely affect 3Q numbers. EPD is fully contracted out of its Houston Ship Channel facility and employs take-or-pay arrangements, which should mitigate the impact to EPD's bottom line. However, TRGP does utilize spot cargo activity and may see these cancellations negatively impact margins q/q. TRGP management has previously noted it expects to do more than 5.0 MMBbl/mo in LPG cargoes in 2016. Regardless of the specific financial impact on US export terminal operators, we see the cancellation of previously contracted export cargoes as a shot across the bow of the bullish NGL thesis, which held export growth as a cornerstone assumption.

The glut of propane and weaker propylene margins has also had led to a number of indefinite suspensions in PDH plant construction around the country. The three delays, announced by Formosa Plastics, Ascend, and REXtac, represent 4,185 MMlbs/yr in aggregate propylene capacity. There are currently only two operating PDH units in the US, run by Dow Chemicals and Flint Hills Resources. Enterprise is still in the process of constructing a 1.65 Blbs/yr PDH facility in Mt. Belvieu, Texas, though the completion of this project was delayed from September of this year to the first quarter of next year. Despite the continued glut in propane stocks and historically low propane prices, PGP prices on the US Gulf Coast have fallen more than 50% from 2015 averages.

We cautioned about the factors which may derail the market's bullish NGL sentiment in our Franchise Note last month (Much to Gain from Ethane?), which was published along with downgrades of many NGL-exposed midstream operators. As the latest data points to a weakening fundamental backdrop (negative for both volumes & prices) yet some equity values have continued to find support from macro factors & a pivot toward dividend-paying US equities, we are cautious into 2Q results. In particular, we believe recent data is bearish for DPM, OKE/OKS, and TRGP.

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Jefferies

AmeriGas Partners (APU)

A Look Back to F2Q Earnings
JEFe F2Q EBITDA: $329mm
Street est. F2Q EBITDA: $344mm
Actual F1Q EBITDA: $295mm

- We expect APU to report F3Q16 Adjusted EBITDA of $57mm, slightly below the Street's current $60mm consensus estimate. We also forecast F3Q16 DCF of just ~$16.5mm, implying TTM coverage of 0.93x; we note that F3Q is usually a weak cash flow quarter for APU due to the seasonal nature of the business. We project TTM LP coverage of ~0.92x.
- The average F3Q Mt. Beliveu propane price rose ~26.5% q/q to ~49.3¢/gallon, substantially above last quarter's near-term record lows. Average US propane inventories were ~3.5% higher y/y in F3Q and ~51.4% above the corresponding 5-year F2Q average. Increasing wholesale prices can create margin headwinds for APU if it is slow to pass through price increases to customers and if they consume less given the cost of consumption has increased. We note that heating degree days (HDDs) across APU's service territory were up 5.5% in F3Q16 versus F3Q15 but were ~7.5% below the long-term April-June average. F3Q propane prices were down ~6.8% y/y, which we believe may incent increased consumption in the quarter.
- Along with F2Q results, APU management lowered FY16 EBITDA guidance from $660-$690mm to $575-$600mm due to weaker than anticipated F2Q results. The change represents a ~13% reduction at the midpoint and a ~5% y/y EBITDA decline versus F2015 EBITDA of $619.2mm.
- On 4.28.16, APU declared a quarterly distribution of 94¢ for F3Q, up 2.2% q/q & y/y. APU typically raises its distribution annually in April and we do not anticipate another raise until April 2017.
- On 6.27.16, APU completed its previously-announced tender offer for all notes outstanding, full redemption of notes not tendered, and closed an offering of $1.35B in senior notes. We estimate the net savings from the transaction is ~$5mm/yr in interest expense but with an additional ~$80mm in gross proceeds.

We are downgrading APU to Hold, from Buy, on valuation but maintain our $50 price target. Shares are up more than 50% since mid-2015 lows and the name now presents a more balanced risk-reward profile.

Exhibit 7: APU F3Q16 Results Preview

Operating Results	JEFe F3Q16E	Quarter-over-Quarter F2Q16A		Year-over-Year F3Q15A	
Total Retail Gallons Sold	213.3	385.8	-44.7%	202.2	5.5%
Total Revenues	$510.1	$827.5	-38.4%	$478.0	6.7%
Propane Cost of Sales	$211.5	$281.1	-24.7%	$187.6	12.7%
Propane Gross Profit	$234.2	$478.2	-51.0%	$226.5	3.4%
Operating & Administrative Expenses	$223.8	$238.5	-6.2%	$223.3	0.2%
as % of Total Revenues	*44%*	*29%*		*47%*	
Depreciation & Amortization Expenses	$47.4	$47.4	0.0%	$48.0	-1.3%
Interest Expense	$40.9	$40.8	0.3%	$40.3	1.6%
Net Income	**($31.6)**	**$206.9**	-115.3%	**($40.2)**	-21.4%
GP Interest	$11.5	$11.1	3.2%	$8.4	36.6%
Net Income Attributable to LP	**($43.1)**	**$195.7**	-122.0%	**($48.6)**	-11.4%
Average # of Units Outstanding	93.0	93.0	0.0%	92.9	0.1%
Earnings Per Unit (EPU)	**($0.46)**	**$2.10**	-122.0%	**($0.52)**	-11.5%
Adjusted EBITDA	**$57.4**	**$295.4**	-80.6%	**$48.9**	17.5%
Distributable Cash Flow	**$2.2**	**$243.7**	-99.1%	**($3.2)**	-169.5%
LP Coverage	**(0.11x)**	**2.74x**	-103.9%	**(0.15x)**	-29.7%
TTM LP Coverage	**0.92x**	**0.91x**	0.6%	**1.12x**	-18.1%

Source: APU reports and Jefferies estimates

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Jefferies

Columbia Pipeline Partners (CPPL)

A Look Back to 1Q Earnings
JEFe 1Q EBITDA: $220mm
Street est. 1Q EBITDA: $201mm
Actual 1Q EBITDA: $223mm

- We expect CPPL to realize respective 2Q EBITDA & DCF of $161mm & $15mm, in line with the Street's $158mm EBITDA estimate. We note that our EBITDA figure is not adjusted for minority interest, ignores asset sale gains due to their non-recurring nature, and that CPPL consolidates Columbia OpCo. Our DCF forecast implies a 2Q16 LP coverage ratio of ~0.78x or ~1.16x for the TTM.
- On March 18th, TransCanada (NYSE:TRP) announced plans to acquire CPGX in an all-cash transaction for $25.50/share, representing a ~8.5% premium to its 3.18 closing price and a ~32% premium to its 30-day VWAP. The deal was unanimously approved by the Boards of both companies and was approved by CPGX shareholders on 6.22. The merger was finalized on 7.1.
- The acquisition of CPGX leaves CPPL in a somewhat perilous position, as KMI's purchase of El Paso (EP) illustrated in 2012. As detailed in our 2.12.15 initiation on CPGX, EP used its MLP (EPB) as a strategic financing vehicle, dropping down ~$7.5B in assets (including debt assumptions) to EPB between 2008-12, fueling the MLP's growth. After its GP was acquired by KMI, EPB faced internal competition from KMI's own MLP, Kinder Morgan Partners (KMP), for valuable midstream asset dropdowns from their shared parent. From the time of the acquisition in May '12 to KMI's roll-up transaction in February '15, EPB executed just one dropdown of ~$2B in value from KMI, while KMP received ~$8B of legacy EP assets, including the company's 'crown jewel', the Tennessee Gas Pipeline (TGP). Without planned dropdowns, EPB suspended distribution growth, marking an end to its streak of 22 consecutive distribution increases.
- While the all-cash nature of the acquisition provides clarity & certainty to CPGX shareholders, the deal introduces ambiguity to CPPL unitholders. As a reminder, CPPL was brought public via a ~$1.3B IPO in Feb. 2015 to act as a financing vehicle for CPGX as it executed on a deep ($10B+) inventory of pipeline expansions. Mgmt had articulated ~20% average annual CPPL distribution growth through 2020, driven by successful project in-services & the acquisition of incremental interests in Columbia OpCo. As recently as the 4Q15 call, mgmt. highlighted its expectation to drop additional OpCo interests to CPPL this year. TRP mgmt. did not speak about CPPL in its release or on the transaction conference call, and we do not know what is planned for the MLP. Multiple outcomes are possible, including a combination with TCP (TRP's existing MLP), but we note that CPPL retains a ROFO on OpCo divestitures from CPGX.

Exhibit 8: CPPL 2Q16 Results Preview

Comparison Metrics	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q15A	
Operating Revenues	$357.3	$363.5	-1.7%	$315.6	13.2%
Operating Expenses	$240.4	$184.2	30.5%	$214.7	12.0%
Operating Income	**$116.9**	**$179.3**	-34.8%	**$100.9**	15.8%
Interest & Debt Expense	$11.4	$7.8	45.8%	$6.3	80.5%
Income Tax Expense	$0.0	$0.0	NM	$0.0	NM
Net Income to Columbia OpCo	**$111.1**	**$177.6**	-37.4%	**$99.5**	11.7%
Net Income to noncontrolling Interersts	$93.7	$152.9	-38.7%	$91.5	2.4%
Net Income Attributable to LP	**$17.4**	**$24.7**	-29.4%	**$8.0**	118.0%
Average LP Units Outstanding	402.4	498.2	-19.2%	1,025.2	-60.8%
EPU	**$0.17**	**$0.25**	-29.5%	**$0.08**	117.6%
EBITDA ($MM)	**$160.8**	**$223.0**	-27.9%	**$138.8**	15.9%
CPPL Reported EBITDA ($MM)	**$155.2**	**$216.9**	-28.4%	**$133.9**	15.9%
Distributable Cash Flow (DCF) in $MM	**$15.3**	**$30.0**	-48.9%	**$12.5**	22.7%
LP Coverage	**0.78x**	**1.59x**	-51.0%	**0.74x**	5.2%
TTM LP Coverage	**1.16x**	**1.16x**	0.5%	**0.92x**	25.6%

Source: CPPL reports, Jefferies estimates

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DCP Midstream Partners (DPM)

A Look Back to 1Q Earnings
JEFe 1Q EBITDA: $174mm
Street est. 1Q EBITDA: $164mm
Actual 1Q EBITDA: $173mm

- We expect DPM to report adjusted 2Q16 EBITDA of $127mm, slightly below the Street's $132mm mean estimate. Additionally, we project 2Q DCF of $106mm, in-line with the Street's mean estimate of $107mm, implying LP coverage of ~0.83x and a TTM LP coverage ratio of ~1.22x.
- DCP recently began offering an ethane incentive program on its NGL pipelines by applying an ethane surcharge of 1.09 ¢/gal to all NGL shippers with ethane content <20% by volume, according to documents recently filed with the FERC. In addition, DCP began offering a special tariff on its Southern Hills pipeline whereby ethane volumes above a certain level would be charged a discounted fee of 3 ¢/gal. The current tariff for uncommitted shippers on Southern Hills is ~10.9¢/gal and ~8.7¢/gal for committed shippers, with the ethane volume threshold varying from 12-46% of NGL volume depending on the receipt point. The program will be run on a monthly basis, with a new fee implemented each month and announced five days prior to the beginning of the next month.
- 2Q marks the first quarter in several years for which DPM will have no NGL hedges as mgmt has worked to increase its exposure to fee-based business activities and lower its NGL breakeven costs. The hedge realizations represented $54mm in cash flows in 1Q and $167mm in total cash flow realizations in 2015.
- DCP, LLC recently announced it had entered into an agreement on a new credit facility which amended & extended the facility originally set to expire in March 2017. The facility's size was lowered from $1.8B to $700mm, and the original $750mm EBITDA credit was reduced to $500mm through 2016 with a 5.0x covenant leverage ratio. The EBITDA credit is set to expire in 1Q17 when the leverage ratio will increase to 6.0x to be reduced by 0.25x per quarter until it reaches 5.0x in 1Q18.
- We do not anticipate a distribution raise at DPM this quarter, and believe mgmt. will maintain a flat quarterly distribution of 78¢/unit through 2020.

Exhibit 9: DPM 2Q16 Results Preview

Comparison Metrics	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q15A	
Operational Performance					
Natural Gas Services Segment					
Natural Gas Throughput (MMcf/d)	2,641.6	2,725.0	-3.1%	2,679.0	-1.4%
NGL Production (MBbl/d)	156.3	160.3	-2.5%	156.8	-0.3%
NGL Logistics Segment					
NGL Pipeline Throughput (MBbl/d)	266.9	281.2	-5.1%	255.8	4.3%
Wholesale Propane Logistics Segment					
Propane Sales Volumes (MBbl/d)	10.4	20.8	-49.9%	10.4	0.0%
Financial Performance ($MM)					
Natural Gas Services Segment	$72.0	$102.0	-29.4%	$97.0	-25.8%
NGL Logistics Segment	$44.0	$48.0	-8.4%	$41.0	7.2%
Wholesale Propane Logistics Segment	$3.0	$12.0	-75.0%	$4.0	NM
Total Segment Income	**$119.0**	**$162.0**	-26.6%	**$142.0**	-16.2%
Interest & Debt Expense	$22.0	$24.0	-8.3%	$22.0	0.0%
Income Tax Expense	$1.0	$0.0	NM	($4.0)	NA
Net Income	**$73.0**	**$117.0**	-37.6%	**$102.0**	-28.5%
General Partner Interest	$31.0	$31.0	0.0%	$31.0	0.0%
Net Income Attributable to DPM	**$42.0**	**$86.0**	-51.2%	**$71.0**	-40.9%
Average LP Units Outstanding	114.7	114.7	0.0%	114.7	0.0%
EPU	**$0.37**	**$0.75**	-51.2%	**$0.62**	-40.9%
EBITDA in $MM	**$126.0**	**$173.0**	-27.2%	**$150.0**	-16.0%
Distributable Cash Flow (DCF) in $MM	**$104.7**	**$165.0**	-36.5%	**$141.0**	-25.7%
LP Coverage	**0.82x**	**1.49x**	-45.0%	**1.23x**	-33.0%
TTM LP Coverage	**1.22x**	**1.32x**	-7.7%	**1.15x**	6.2%

Source: DPM reports, Jefferies estimates

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Energy Transfer Partners & Equity (ETP/ETE)

A Look Back to 1Q Earnings
JEFe 1Q EBITDA: $1.286B
Street est 1Q EBITDA: $1.364B
Actual 1Q EBITDA: $1.360B

- We expect ETP to report 2Q Adj. EBITDA of $1.348B, below the Street's $1.370B mean estimate. We also project ETP DCF of $687mm, also below Street's $780mm mean estimate, implying 2Q LP coverage of 0.52x & TTM coverage of 0.78x. We expect ETE to report 2Q Adj. EBITDA of $423mm underpinning DCF of ~$341mm, slightly below the $340mm Street's mean DCF est., implying 2Q coverage of 1.42x and TTM coverage of 1.26x. It is worth noting, 1Q results included a ~$52mm favorable LIFO adjustment at SXL prompting headline EBITDA to look much larger than recurring results would indicate. Furthermore, given the rise in crude prices in the qtr, in addition to the reversal of 1Q's impact, there will likely be another negative LIFO adjustment prompting headline EBITDA to be ~$100-$130mm lower than JEF & Street estimates.

On 3.9.16, ETE announced the completion of a ~329mm unit private offering of Convertible Preferred Units representing ~31.5% of its total outstanding common units, in which participants will forego cash distributions beginning 3.31.16 and extending up to 9 fiscal quarters. As a result of the merger termination with WMB, we expect proceeds from the cash savings (~$518mm est.) will be used for 1) purchase of ETP units, and/or 2) to provide other support to ETP.

- Similar to other midstream companies under coverage, ETP exhibits seasonality within its segments resulting in seasonal changes to its cash flow profile. Specfically, we would expect Interstate T&S, Intrastate T&S, and to a lesser extent NGL T&S to imply lower EBITDA figures (~$69mm in aggregate) relative to 1Q. Moreover, with maintenance capex historically implying sequential step-ups through the year, we would expect incremental cash flow to further reduce ETP's 2Q DCF. Net, net, increasing units from 1Q ATM and 2Q DRIP compounded by seasonal cash flow impacts on segment EBITDA & maintenance could lead to sharply lower coverage at ETP.
- With projected leverage to be in a much better situation relative to a pro forma forecast including a WMB merger, and, in addition to ETP's successful access to the equity market, we project a cut of ETE's distribution is less likely. In fact, we expect ETE to begin growing the payout at a rate of ~0.5¢/qtr starting 3Q16 and be able to sustain a growth rate of ~6-8%/yr with coverage averaging ~1.2-1.3x through 2020. However, we note ETE may need to provide additional support to ETP to the extent the Partnership's coverage profile continues to disappoint.
- **Distribution expectations**

  ETP: Announce $1.055/unit quarterly distribution (flat q/q & up ~4% y/y)

  ETE: Announce 28.5¢/unit quarterly distribution (flat q/q & up ~8% y/y)

Exhibit 10: ETP 2Q16 Results Preview

Comparison Metrics	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q15A	
Segment Results (Adjusted EBITDA)					
Midstream	$271	$263	3.2%	$376	-27.8%
NGL Transportation & Services	$220	$227	-3.0%	$151	45.9%
Interstate Transportation & Storage	$272	$292	-6.9%	$285	-4.6%
Intrastate Transportation & Storage	$136	$179	-23.8%	$117	16.5%
Investment in Sunoco Logistics	$311	$297	4.5%	$326	-4.8%
Retail Marketing	$66	$57	NM	$140	-52.7%
Corp-Other	$71	$45	58.9%	$93	-23.1%
EBITDA	**$1,348**	**$1,360**	-0.9%	**$1,488**	-9.4%
Interest & Debt Expense	$328	$319	2.9%	$336	-2.3%
Income Tax Expense	($15)	($58)	NM	($59)	NM
Net Income	**$458**	**$564**	-18.9%	**$654**	-30.0%
General Partner Interest	$408	$378	7.9%	$356	14.6%
Net Income Attributable to LP	**$50**	**$186**	-73.2%	**$298**	-83.3%
Average LP Units Outstanding	520.2	490.2	6.1%	436.3	19.2%
EPU	**$0.10**	**$0.38**	-74.8%	**$0.68**	-86.0%
EBITDA ($MM)	**$1,348**	**$1,360**	-0.9%	**$1,488**	-9.4%
Distributable Cash Flow (DCF) in $MM	**$687**	**$793**	-13.3%	**$894**	-23.1%
LP Coverage	**0.52x**	**0.77x**	-31.2%	**1.05x**	-50.4%
TTM LP Coverage	**0.78x**	**0.92x**	-14.8%	**1.16x**	-33.0%

Source: ETP reports, Jefferies estimates

Exhibit 11: ETE 2Q16 Results Preview

Comparison Metrics	JEFe 2Q16E	Quarter over Quarter 1Q16A		Year-over-Year 2Q15A	
Segment Results					
ETP & Class H Cash Flow	$403	$391	3.1%	$382	5.5%
SUN Cash Flow	$21	$21	2.2%	$0	NA
Lake Charles	$43	$44	-3.4%	$49	-13.3%
Stand-alone Expenses	($44)	($29)	51.7%	($26)	69.2%
EBITDA	**$423**	**$427**	-0.9%	**$405**	4.4%
Consolidated Interest & Debt Expense	$463	$427	8.4%	$408	13.4%
Stand-alone Interest & Debt Expense	$82	$78	4.7%	$70	16.7%
Income Tax Expense	$61	($55)	NM	($56)	NM
Net Income	**$306**	**$311**	-1.4%	**$298**	2.8%
Average LP Units Outstanding	1,062.4	1,044.8	1.7%	1,077.6	-1.4%
EPU	**$0.29**	**$0.30**	-3.1%	**$0.28**	4.3%
Distributable Cash Flow (DCF) in $MM	**$341**	**$349**	-2.2%	**$335**	1.9%
Coverage	**1.42x**	**1.45x**	-1.8%	**1.19x**	19.2%
TTM Coverage	**1.26x**	**1.21x**	4.3%	**1.12x**	12.9%

Source: ETE reports, Jefferies estimates

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EnLink Midstream, LLC (ENLC)

- We expect ENLC to report 1Q DCF of $51.4mm, broadly in-line with the Street's $49mm mean estimate and implying coverage of 1.13x.
- On July 11th, ENLK announced it had priced $500mm in 4.850% senior notes due 2026 at a price of 99.859%. The offering was upsized from the previously announced $400mm, and ENLK expects to use the net proceeds of $496mm to repay outstanding borrowings under its credit facility and for general corporate purposes. Outstanding borrowings on ENLK's facility as of the end of 1Q were approximately $550mm.
- Also with 1Q results, EnLink provided several strategic financing options as it works to build into recent acquisitions and contend with equity conversions (into common) over the next several quarters. These options include: 1) selling its 31% interest in Howard Energy Partners, 2) issue ATM equity, 3) defer additional capex, and 4) an opportunity to access up to an additional $500mm in convertible preferred equity. We have assumed ENLK sells its HEP interests for proceeds of $250mm sometime in 3Q.
- On June 8th, EnLink announced another project to expand its Midland Basin footprint with the Greater Chickadee Crude Oil Gathering System. The total cost of the project is expected to be between $70-80mm with initial phases to be operational later this year and full service expected early next year. The 50,000 Bbl/d system is expected to begin operations with vols around 20,000 Bbl/d.
- Management announced on its 1Q earnings call that it recently began exporting butane from its Riverside facility in Louisiana. The $500K project saw its first boat loaded in May, and EnLink expects to ship roughly 30-60 MBbl/mo of LPG cargoes. EnLink expects only $3-5mm/year in margin opportunities from these activities and notes the shipments are not contracted on a long-term basis.
- Prior to releasing 2Q16 earnings, we expect ENLC to announce a 2Q distribution of 26¢ per share, consistent with management's prior guidance to hold dividends flat in 2016.

Exhibit 12: ENLC 2Q16 Results Preview

Comparison Metrics	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q15A	
Financial Performance ($MM)					
Revenue	$981.8	$889.7	10.4%	$1,274.5	-23.0%
Operating Expenses	$926.0	$841.4	10.1%	$1,203.1	-23.0%
Total Operating Income	**$101.0**	**$101.0**	0.0%	**$48.3**	109.1%
Other Income	$3.8	($2.3)	-265.6%	$6.0	-36.5%
Interest & Debt Expense	$34.5	$44.0	NM	$22.6	52.6%
Minority Interest	$6.7	$3.1	115.3%	$28.4	-76.2%
Income Tax Expense	$7.1	$0.2	3455.8%	$10.2	-30.3%
Net Income	**$11.3**	**($1.3)**	-946.4%	**$16.2**	-30.3%
Average Diluted Shares Outstanding	178.7	178.7	0.0%	164.6	8.6%
EPU	**$0.06**	**($0.01)**	-946.4%	**$0.10**	-35.8%
Dividend Per Share	**$0.255**	**$0.255**	0.0%	**$0.250**	2.0%
EBITDA ($MM)	**$181.8**	**$167.9**	8.3%	**$175.1**	3.8%
Distributable Cash Flow (DCF) in $MM	**$51.4**	**$48.4**	6.2%	**$52.0**	-1.2%
Coverage	**1.13x**	**1.04x**	8.4%	**1.26x**	-10.2%
TTM Coverage	**1.08x**	**1.11x**	-2.6%	**1.47x**	-26.4%

Source: ENLC reports, Jefferies estimates

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EnLink Midstream Partners (ENLK)

A Look Back to 1Q Earnings
JEFe 1Q EBITDA: $180mm
Street est. 1Q EBITDA: $184mm
Actual 1Q EBITDA: $195mm

- We expect ENLK to report 2Q EBITDA of ~$185mm, in-line with the Street's $185mm mean estimate. Our projected DCF of $141mm, vs. the Street's $141mm est., implies 2Q LP & TTM coverages of 0.94x & 1.02x, respectively.
- On June 8th, EnLink announced another project to expand its Midland Basin footprint with the Greater Chickadee Crude Oil Gathering System. The total cost of the project is expected to be between $70-80mm with initial phases to be operational later this year and full service expected early next year. The 50,000 Bbl/d system is expected to begin operations with vols around 20,000 Bbl/d.
- Management announced on its 1Q earnings call that it recently began exporting butane from its Riverside facility in Louisiana. The $500K project saw its first boat loaded in May, and EnLink expects to ship roughly 30-60 MBbl/mo of LPG cargoes. EnLink expects only $3-5mm/year in margin opportunities from these activities and notes the shipments are not contracted on a long-term basis.
- Also with 1Q results, EnLink provided several strategic financing options as it works to build into recent acquisitions and contend with equity conversions (into common) over the next several quarters. These options include: 1) selling its 31% interest in Howard Energy Partners, 2) issue ATM equity, 3) defer additional capex, and 4) an opportunity to access up to an additional $500mm in convertible preferred equity. We have assumed ENLK sells its HEP interests for proceeds of $250mm sometime in 3Q.
- We believe EnLink will declare its 2Q16 distributions prior to reporting earnings & expect ENLK to announce a 39¢ per share quarterly distribution, flat q/q & up ~1% y/y. We also expect distributions to remain flat through 2016, consistent with management's prior guidance.

Exhibit 13: ENLK 2Q16 Results Preview

Comparison Metrics	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q15A	
Operational Performance					
Gathering & Transportation (BBtu/d)					
Texas	2,759.3	2,743.4	0.6%	2,727.8	1.2%
Louisiana	1,520.4	1,475.0	3.1%	1,383.3	9.9%
Oklahoma	620.1	617.0	0.5%	413.0	50.1%
Processing (BBtu/d)					
Texas	1,275.1	1,198.1	6.4%	1,262.0	1.0%
Louisiana	521.6	517.8	0.7%	520.4	0.2%
Oklahoma	572.8	569.7	0.5%	268.2	113.6%
Fractionation (Mgal/d)	4,932.6	5,020.5	-1.8%	5,862.8	-15.9%
Crude Handling (MBbls/d)	133.6	124.7	7.1%	141.0	-5.3%
Financial Performance ($MM)					
Revenues	$981.8	$889.7	10.4%	$1,274.5	-23.0%
Operating Expenses	$925.0	$839.5	10.2%	$1,202.0	-23.0%
Total Operating Income	**$56.8**	**$50.2**	13.2%	**$72.5**	-21.6%
Other Income & Expenses	$3.8	($2.3)	-265.6%	$6.0	-36.5%
Interest & Debt Expense	$34.0	$43.7	-22.2%	$22.4	51.7%
Minority Interest	$1.0	($2.5)	NA	($0.1)	-1060.0%
Income Tax Expense	$0.3	$1.0	NA	$0.7	-55.2%
Net Income	**$25.4**	**$5.7**	345.3%	**$55.5**	-54.3%
General Partner Interest	$16.3	$7.4	119.9%	$19.1	-14.8%
Net Income Attributable to ENLK	**$9.1**	**($1.7)**	-635.9%	**$36.4**	-75.0%
Average LP Units Outstanding (Diluted)	382.6	382.5	0.0%	305.6	25.2%
EPU	**$0.02**	**($0.00)**	-635.7%	**$0.12**	-80.0%
EBITDA ($MM)	**$185.1**	**$195.0**	-5.1%	**$174.9**	5.8%
Distributable Cash Flow (DCF) in $MM	**$140.8**	**$155.4**	-9.4%	**$134.1**	5.0%
LP Coverage	**0.94x**	**1.08x**	-12.7%	**1.03x**	-8.6%
TTM LP Coverage	**1.02x**	**1.04x**	-2.2%	**0.95x**	7.0%

Source: ENLK reports, Jefferies estimates

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Enterprise Products Partners (EPD)

A Look Back to 1Q Earnings
JEFe 1Q EBITDA: $1.33B
Street est. 1Q EBITDA: $1.32B
Actual 1Q EBITDA: $1.32B

- We expect EPD to report 2Q Adj. EBITDA of $1.265B, below the Street's $1.315B mean estimate. We also project DCF of ~$948mm, below the $969mm Street mean estimate and implying TTM coverage 1.26x.
- EPD announced in late June that it plans to build an additional gas processing facility and associated infrastructure in the Delaware Basin servicing West Texas and New Mexico. The processing plant will have a capacity of 300 MMcf/d and the ability to extract 40 MBbl/d of NGLs; the project is anchored by long-term commitments from a major producer with an expected in-service date of 2Q18.
- In late June, EPD's Pascagoula natural gas processing plant experienced a fire. The 1.5 Bcf/d plant was averaging approximately 400 MMcf/d in inlet volumes at the time of the incident. There were no reported injuries and the fire was restricted to the site of the facility, but in an article from SNL dated July 6th, EPD noted the facility was still offline and it could not yet determine a date for resumption of service. EPD has not yet spoken about the financial impact of the incident; we look for further updates on the call, but we note we do not anticipate a material impact to EPD's consolidated results.
- In a release dated July 11th, EPD filed to sell up to $1.89B in common units consisting of $1.75B in new units and $140mm in previously-unsold units. We note that EPD announced it had previously raised approximately $1.6B in common equity through April of this year.
- Also on July 11th, EPD announced it has paid the second and last installment of $1.0B associated with the EFS Midstream acquisition. Consistent with the initial terms of the transaction, the payment is a year from the initial payment of $1.15B EPD made for EFS Midstream in July 2015.
- On July 7th, EPD announced a 0.5¢ increase in its quarterly cash distribution, resulting in a 40¢ quarterly payout ($1.60/unit annualized), up ~1.3% q/q & ~5.3% y/y. This raise marked EPD's 57th distribution increase since its IPO & 48th consecutive quarterly boost.

Exhibit 14: EPD 2Q16 Results Preview

Comparison Metrics	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over Year 2Q15A	
Financial Performance ($MM)					
Operating Margin					
NGL Pipelines & Services	$727	$784	-7.3%	$651	11.7%
Onshore Natgas Pipelines	$187	$178	5.0%	$191	-2.5%
Onshore Crude Pipelines	$197	$204	-3.5%	$236	-16.3%
Offshore Pipelines & Services	$0	$0	NM	$44	NM
Petchem & Refined Products	$184	$155	18.6%	$181	1.3%
Total	**$1,294**	**$1,321**	-2.0%	**$1,303**	-0.7%
DD&A	$347	$358	-3.0%	$386	-9.9%
Interest & Debt Expense	($243)	($241)	0.9%	($240)	1.0%
Income Tax Expense	($10)	($8)	NM	$8	NM
Net Income	**$631**	**$670**	-5.8%	**$633**	-0.2%
Average Units Outstanding	2,089	2,041	2.4%	2,002	4.3%
Recurring EPU	**$0.30**	**$0.33**	-7.9%	**$0.32**	-4.3%
EBITDA ($MM)	**$1,265**	**$1,316**	-3.9%	**$1,296**	-2.4%
Distributable Cash Flow ($MM)	**$948**	**$1,054**	-10.1%	**$982**	-3.5%
Coverage	**1.13x**	**1.28x**	-11.2%	**1.31x**	-13.5%
TTM Coverage	**1.26x**	**1.21x**	4.5%	**1.40x**	-10.2%

Source: EPD reports, Jefferies estimates

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National Fuel Gas Corp. (NFG)

A Look Back to F2Q Earnings
JEFe F2Q EPS: 91¢
Street est. F2Q EPS: 95¢
Actual F2Q EPS: 98¢

- We expect NFG to report F3Q EPS of 64¢, in-line with the Street's current 64¢ consensus. We also expect F3Q net production of ~41 Bcf, up ~4.1% q/q and up ~12.8% y/y, due to additional firm sales agreements in place and an improved regional pricing scenario during the quarter.
- WTI F3Q daily contract settlements averaged $45.48/Bbl, above the $40/Bbl included in NFG's revised F16 guidance, while NYMEX natural gas averaged $1.95/MMBtu, below NFG's $2.15/MMBtu guidance assumption. NE regional spot prices continued to be depressed during F3Q as rising NE production, diminished seasonal demand, and a broad rout in energy prices kept pressure on basis spreads, though there was some improvement q/q. Specifically, the Dominion South, Dawn, & TGP Z4 & 219 prices were all up q/q but remained below $2.25/MMBtu; we est. the avg. F3Q Leidy price was just $0.88/MMBtu.
- In June NFG announced the extension of the Marcellus Shale joint development agreement with IOG Capital. Under the terms of the extended agreement, Seneca and IOG have committed to develop a total of 75 Marcellus wells, which is 38 wells beyond the initial 42 agreed upon in the December agreement. The agreement is now expected to reduce Seneca's capex needs by approximately $325mm, including an additional $35mm in F16 and $120mm in F17 & F18. IOG will hold an 80% working interest in all joint development wells, with Seneca's royalty in the additional 36 wells at 7.5% resulting in a net revenue interest of 26% for Seneca Resources. Seneca will remain the program operator.
- We expect NFG will release initial F2017 guidance along with earnings and anticipate an initial EPS range of $3.00-$3.30. In addition, we project production guidance of 150-200 Bcfe and capital expenditures of ~$800mm. We also look forward to further updates on Seneca's drilling program and the Northern Access 2016 project, which was recently delayed a year due to deteriorating market conditions.
- NFG raised its quarterly dividend 1¢/share in June, bringing the F3Q16 dividend to 40.5¢/share ($1.62/share annualized). NFG typically raises its dividend once a year in June and we continue to forecast a ~2.5% 5-yr CAGR through 2020.

Exhibit 15: NFG F3Q16 Results Preview

Comparative Results	JEFe F3Q16E	Quarter-over-Quarter F2Q16A		Year-over-Year F3Q16A	
E&P Operational Data					
Production (Bcfe)	40.8	39.2	4.1%	36.2	12.8%
Average Realized Natural Gas Price ($/MMBtu)	$2.68	$2.88	-6.8%	$3.19	-16.1%
Average Realized Oil Price ($/Bbl)	$58.96	$53.01	11.2%	$69.65	-15.3%
Total Unit Cash Costs ($/Mcfe)	$1.47	$1.64	-10.3%	$1.82	-19.2%
Total Unit Costs ($/Mcfe)	$2.32	$2.59	-10.2%	$3.36	-30.9%
Operating Income by Division ($MM)					
Utility	$15.6	$57.8	-72.9%	$15.6	0.5%
Pipeline & Storage	$40.0	$42.8	-6.6%	$34.8	14.9%
Gathering	$17.3	$15.2	13.6%	$12.4	40.1%
Exploration & Production	$49.4	$42.3	16.8%	$37.6	31.4%
Energy Marketing	$2.4	$5.6	-57.2%	$2.3	5.0%
Corporate & Other	($3.0)	($3.3)	NM	($3.1)	NM
Total Operating Income	**$121.7**	**$160.4**	-24.1%	**$99.5**	22.3%
Depreciation	$52.6	$63.9	-17.7%	$79.9	-34.1%
Other Income / (Expenses)	$1.0	$3.2	NM	$2.1	NM
Interest Expense	($29.6)	($30.0)	-1.2%	($22.9)	29.2%
Income Tax Benefit (Expense)	($38.6)	($50.9)	-24.1%	($32.0)	20.9%
Recurring Net Income	**$54.5**	**$82.8**	-34.2%	**$46.7**	16.7%
Avg Diluted Shares Outstanding	84.9	84.8	0.1%	85.2	-0.4%
Earnings Per Diluted Share	**$0.64**	**$0.98**	-34.2%	**$0.55**	17.2%

Source: NFG reports, Jefferies estimates

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NiSource, Inc. (NI)

A Look Back to 1Q Earnings
JEFe 1Q EPS: 58¢
Street est. 1Q EPS: 60¢
Actual 1Q EPS: 59¢

- We expect NI to report recurring 2Q16 EPS of 6¢, in-line with the Street's 7¢ mean estimate. We also forecast 2Q EBITDA of $260mm, broadly in-line with the Street's $262mm mean estimate, and note NI's non-GAAP reporting eliminates the effects (positive or negative) of non-normal weather.
- On July 18th, the Indiana URC adopted a settlement authorizing NIPSCO a $72.5mm electric base rate increase premised on a 9.975% ROE and $3.221B rate base. NIPSCO had originally filed for a $126.6mm rate increase and a 10.75% ROE on a $3.438B rate base in October 2015. The settlement also allows for NIPSCO to recover up to $1.25B in ongoing capital investments under its TDSIC rider.
- In May, Columbia Gas of Kentucky filed with the Kentucky PSC for a $25.4mm base rate increase premised on an 11% ROE and $253.4mm rate base for test year ending 12/31/2017. The PSC has ten months to issue a final order (March 2017) by which time the proposed rates would take effect on a permanent basis if the PSC does not issue a final order.
- On March 21st, Columbia Gas of Pennsylvania filed a rate case with the Pennsylvania Utility Commission (PUC) seeking to increase its annual base rate for gas distribution services by $55mm, premised on an 11% ROE and a $1.494 rate base for year-end 2017. Mgmt cites the need for continued investment in its aging underground gas distribution lines & notes Columbia Gas of PA plans to invest ~$210mm in PA in 2016, more than $160mm of which will be devoted to upgrading underground infrastructure in its service territory. The company is pursuing a rate case rather than filing under its distribution system improvement charge (DSIC) due to the exclusion of additional O&M and 5% rate increase cap under the DSIC.
- We are downgrading NI to Underperform, from Hold, but maintaining our $22 price target. NI shares now trade at ~21.6x 2017 earnings, significantly above its three-year average of ~12.0x and three turns above its post-Columbia Pipeline average of ~18.6x.

Exhibit 16: NI 2Q16 Results Preview

Operating Income by Division	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q16A	
Gas Distribution	$69.5	$330.2	-78.9%	$55.6	25.0%
Electric Operations	$61.1	$72.2	-15.4%	$56.6	7.9%
Corporate, Other, and Eliminations	($6.9)	($3.1)	NA	($8.7)	20.7%
Total Operating Income	**$123.7**	**$399.3**	**-69.0%**	**$103.5**	**19.5%**
Depreciation	($134.5)	($132.8)	1.3%	($167.4)	-19.7%
Other Income / (Expenses)	$2.3	$0.7	221.4%	$6.5	-65.4%
Interest Expense	($94.4)	($90.5)	4.3%	($117.1)	-19.4%
Income Tax Benefit (Expense)	($11.5)	($118.7)	-90.3%	($33.0)	-65.2%
Recurring Net Income	**$20.1**	**$190.8**	**-89.5%**	**$6.5**	**210.6%**
Avg Diluted Shares Outstanding	322.2	322.0	0.1%	317.5	1.5%
Earnings Per Diluted Share	**$0.06**	**$0.59**	**-89.5%**	**$0.02**	**206.1%**
EBITDA ($MM)	**$260**	**$533**	**-51.1%**	**$378**	**-31.0%**
Capex & Affiliate Investments	**$437**	**$301**	**45.3%**	**$583**	**-24.9%**

Source: NI reports, Jefferies estimates
Note: Actual reported 2Q15 results included performance from Columbia Pipeline Group, which was separated from NI on July 1, 2015. Results above have been adjusted to reflect this separation and better y/y comparisons.

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ONE Gas, Inc. (OGS)

A Look Back to 1Q Earnings
JEFe 1Q EPS: $1.19
Street est 1Q EPS: $1.20
Actual 1Q EPS: $1.22

- We expect OGS to report 2Q EPS of 36¢, above the Street's 31¢ consensus estimate. Our 2Q EBITDA projection of $78mm also comes in above the Street's mean estimate of $74mm; additionally, our 2Q Revenue projection of $309mm comes in higher than the Street's $290mm consensus estimate. Our full-year 2016 EPS estimate of $2.58 is driven by a Net Income expectation of $137mm, in-line with management's latest $2.40-$2.60 & $127-137mm respective FY EPS & net income guidance which was first offered along with 4Q15 results and has been reiterated in the latest investor presentations.
- On May 2nd, Kansas Gas Service (KGS) filled a rate case with the Kansas Corporation Commission (KCC) requesting a net base rate increase of $28mm. KSG is already recovering $7.4mm from customers via its Gas System Reliability Surcharge (GSRS), implying an aggregate requested base rate increase of $35.4mm. The filing requests a return on equity of 10.0% and an equity structure of 55%. KCC has 240 days to consider the request. We note that the KCC typically utilizes the entirety of its allotted time to review filings and OGS is unable to implement new rates due to a stay out provision from its previous KS rate case settlement; as such, we assume the new rates become effective in Jan '17.
- In Texas, the Galveston/South Jefferson County service areas approved a base rate increase of $2.3mm; the new rate became effective in May. Additionally, the two service areas also approved TGS' request to consolidate into a singular 'Gulf Coast' service area. On March 30th, TGS filed a $12.8mm base rate case in the El Paso, Dell City, and Permian Service area with new rates expected to become effective in Oct; this rate case also requested to consolidate these service areas into a singular 'West Texas' service area. On April 1st, TGS' North Texas service area filed its annual COSA rate base adjustment totaling $1.3mm, with the new rate expected to become effective in August. Lastly, on June 20th, TGS filed a rate case in the Central Texas (including Austin) and South Texas service areas requesting a $10.5mm base rate increase and consolidation of the two service areas.
- We are downgrading OGS to Underperform, from Hold, but maintain our $53 price target. OGS now trades at ~23.6x 2017 earnings, more than 4.0x higher than its post-OKE separation average of 19.4x.

Exhibit 17: OGS 2Q16 Results Preview

Comparison Metrics	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q16A	
Total Revenue	$309.1	$508.4	-39.2%	$256.8	20.4%
Cost of Gas	($111.8)	($235.7)	-52.6%	($79.9)	39.8%
Net Margin	$197.3	$272.6	-27.6%	$176.8	11.6%
O&M	($103.2)	($106.1)	-2.8%	($99.4)	3.8%
Total Operaoing Income (EBIT)	**$42.9**	**$116.1**	-63.0%	**$31.3**	37.3%
Interest & Debt Expense	($11.2)	($10.8)	3.4%	($11.2)	0.2%
Income Tax Expense	($12.0)	($40.0)	-69.9%	($7.6)	59.0%
Net Income	**$19.3**	**$64.7**	-70.2%	**$12.1**	59.6%
EPS	**$0.36**	**$1.22**	-70.2%	**$0.23**	60.6%
Diluted Shares Outstanding	53.1	53.1	0.0%	53.4	-0.6%
Dividend Per Share	**$0.35**	**$0.35**	0.0%	**$0.30**	16.7%
Capital Expenditures ($MM)	**$79.1**	**$75.3**	5.1%	**$70.5**	12.2%

Source: OGS reports, Jefferies estimates

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ONEOK Inc. (OKE)

A Look Back to 1Q Earnings
JEFe 1Q DCF: $168mm
Actual 1Q DCF: $169mm

- We expect OKE to report 2Q DCF of ~$170mm, implying TTM dividend coverage of 1.32x and ~$40mm of excess cash available for dividends. Importantly, we expect OKE to realize significantly better 2Q coverage than OKS and expect enterprise-wide coverage to trend closer to ~1.09x, up ~9% y/y.
- ONEOK released its initial 2016 guidance in late December, but reiterated it in June at the MLPA conference; mgmt. expects dividends to remain flat at OKE in 2016, with no cash taxes and total dividend coverage of 1.3x. For OKS, highlights include: no public equity offerings in 2016 and into 2017, distribution coverage of at least 1.0x in 2016, 2016 distributions flat to 2015, and growth capex of $460mm. In the NGL segment, gathered volumes are expected to be between 800-870 MBpd while fractionated volumes are expected to average between 540-590 Mbpd. In the G&P segment, management noted it expects gathered volumes to average between 2,200-2,300 BBtud and processed volumes to average 1,900-2,000 BBtud.
- We expect relatively flat results q/q across all segments at OKS in 2Q. **G&P:** Following another swift increase in its gathering arrangement fees, we expect a small q/q increase of ~2¢/MMbtu in 2Q, to ~70¢/MMBtu, and sequentially stronger commodity prices can offset lower NGL & condensate equity volumes. Specifically, despite ~20% lower NGL & condensate equity volumes via contract restructuring efforts, NGL & oil prices rose by ~24% & ~363% q/q, respectively. **NGL:** Following some spot volume recognition in 1Q, and with an expectation for material improvements in NGL gathered volumes in 2Q, we expect a ~$13mm q/q increase in NGL operating margin. Specifically, we project OKS's Exchange & Services margin to grow ~$16mm q/q, with the other NGL businesses to remain relatively flat.
- Prior to releasing 2Q16 results, we expect OKE to declare a dividend of 61.5¢/share, implying a flat payout q/q. Of note, mgmt.'s flat dividend growth guidance at OKE implies ~1% growth in 2016 vs. 2015 based on prior increases in 2015. In-line with guidance, we expect no dividend growth at OKE in 2016.

Exhibit 18: OKE 2Q16 Results Preview

Comparison Metrics	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q15A	
Operating Income by Division					
ONEOK Partners	$315.2	$314.1	0.4%	$271.7	16.0%
Other	($0.7)	($6.9)	NM	$1.0	NM
Total Operating Income	**$314.5**	**$307.2**	2.4%	**$272.7**	15.3%
Interest & Debt Expense	($115.4)	($118.2)	-2.4%	($102.4)	12.7%
Income Tax Expense	($53.7)	($50.1)	7.2%	($48.2)	11.3%
Net Income	**$91.4**	**$80.2**	14.0%	**$76.4**	19.7%
Non-controlling interests	($86.4)	($91.5)	-5.6%	($74.4)	16.1%
EPS	**$0.43**	**$0.38**	14.0%	**$0.36**	19.4%
Diluted Shares Outstanding	211.1	211.1	0.0%	210.5	0.3%
Dividend Per Share	**$0.62**	**$0.62**	0.0%	**$0.61**	1.7%
EBITDA ($MM)	**$356.8**	**$343.0**	4.0%	**$314.0**	13.6%
Distributable Cash Flow ($MM)	**$170.3**	**$169.4**	0.5%	**$149.6**	13.8%
OKE Coverage	**1.31x**	**1.31x**	0.2%	**1.18x**	11.1%
ONEOK Enterprise Coverage	**1.15x**	**1.21x**	-4.8%	**1.00x**	15.4%
TTM Coverage	**1.32x**	**1.28x**	2.5%	**1.16x**	13.1%

Source: OKE reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

ONEOK Partners (OKS)

A Look Back to 1Q Earnings
JEFe 1Q EBITDA: $407mm
Street est 1Q EBITDA: $431mm
Actual 1Q EBITDA: $440mm

- We expect OKS to report 2Q16 EBITDA of $442mm, slightly below the Street mean estimate of $448mm. In addition, we project 2Q DCF of ~$332mm in-line with the Street's mean estimate of $328mm. While our 2Q LP coverage forecast is just ~0.99x, we expect ONEOK 2Q enterprise-wide coverage of ~1.09x given the strong coverage expected (~1.31x) at OKE.
- In conjunction with 1Q results, mgmt discussed operational updates on the earnings call which we believe offer incremental insight regarding OKS 2Q performance. For instance, following a massive q/q increase in its G&P gathering fee in 4Q (+12¢ or ~28% q/q) and again in 1Q (+13¢ or ~24% q/q), mgmt noted that the "lion's share" of the work to be done on OKS's conversion to more fee-based arrangements in its G&P segment had been completed. We assume a more modest q/q increase of 2¢, to ~70¢/MMBtu, in 2Q and that the fee remains flat at that level through the remainder of the year. In addition, mgmt highlighted as of the time of the 1Q call gathering vols were at ~800 MBbl/d, which is at the low end of the 800-870 MBbl/d guidance but substantially above 1Q's 751 MBbl/d. This number is expected to rise throughout the remainder of 2016 as several third party processing plants are connected and ONEOK's Bear Creek processing plant comes into service in 3Q.
- ONEOK's Roadrunner pipeline came into service in mid-March, and we expect will begin to more meaningfully contribute to results this quarter. The 200-mile pipeline connects OKS's WesTex gas pipeline system to interconnect with a Mexican pipeline near San Elizario, TX. The first phase provides 170 MMcf/d of capacity to markets in Mexico and Texas. Phase 2 will add 400 MMcf/d of capacity to the project and is expected to be in-service in early 2017.
- Prior to 2Q16 results, we expect OKS to announce a cash distribution of 79¢/share ($3.16 annualized), flat q/q and y/y.

Exhibit 19: OKS 2Q16 Results Preview

Comparison Metrics	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q15A	
Natural Gas Liquids					
NGL sales (MBbl/d)	632.5	716.0	-11.7%	723.0	-12.5%
NGLs fractionated (MBbl/d)	550.0	550.0	0.0%	554.0	-0.7%
NGLs transported-gathering lines (MBbl/d)	803.6	751.0	7.0%	784.0	2.5%
NGLs transported-distribution lines (MBbl/d)	475.2	474.0	0.2%	420.0	13.1%
Realized Pricing (Gathering & Processing)					
NGLs ($ per gallon)	0.32	0.20	60.5%	0.38	-15.5%
Condensate ($ per Bbl)	44.07	33.72	30.7%	35.46	24.3%
Residue ($ per MMBtu)	2.74	2.62	4.6%	3.38	-18.9%
Financial Performance ($MM)					
Operating Income					
Natural Gas Pipelines	$39.9	$43.4	-8.1%	$38.1	4.7%
NGL	$220.9	$216.5	2.0%	$196.6	12.4%
Gathering & Processing	$54.4	$55.3	-1.5%	$37.6	44.8%
Total Operating Income	**$315.2**	**$314.1**	0.4%	**$271.7**	16.0%
DD&A	($95.0)	($93.7)	1.3%	($86.2)	10.2%
Earnings from Unconsolidated Affiliates	$31.7	$32.9	NM	$30.8	3.0%
Interest & Debt Expense	$90.7	$92.6	-2.0%	$86.5	4.9%
Income Tax Expense	$3.3	$2.0	NM	$2.5	NM
Net Income	**$251.1**	**$249.4**	0.7%	**$209.6**	19.8%
General Partner Interest	$107.2	$105.6	1.5%	$96.0	11.7%
Net Income Attributable to OKS	**$143.9**	**$143.8**	0.1%	**$113.7**	26.6%
Average LP Units Outstanding	285.8	285.8	0.0%	257.2	11.1%
EPU	**$0.50**	**$0.50**	0.1%	**$0.44**	13.9%
EBITDA ($MM)	**$441.9**	**$440.4**	0.3%	**$387.2**	14.1%
Distributable Cash Flow (DCF) in $MM	**$331.7**	**$347.6**	-4.6%	**$276.8**	19.8%
LP Coverage	**0.99x**	**1.06x**	-6.6%	**0.89x**	11.6%
TTM LP Coverage	**1.00x**	**0.97x**	2.5%	**0.90x**	11.2%

Source: OKS reports, Jefferies estimates

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A Look Back to 1Q Earnings
JEFe 1Q EBITDA: $771mm
Street est. 1Q EBITDA: $760mm
Actual 1Q EBITDA: $760mm

Spectra Energy Corp. (SE)

- We expect SE to report 2Q16 EBITDA of $714mm, above the $661mm Street mean estimate. Additionally, we project 2Q DCF of ~$255mm, below the Street's mean estimate of $276mm
- The exchange rate improved for the first quarter in the last several, as the average 2Q16 CAD/USD spot rate of $1.29 fell by ~6.1% q/q but was ~4.8% worse y/y. SE has provided sensitivities to this rate, outlining $2mm of DCF & $1mm of net income impact for each 1¢ move in the annual rate, assuming an average of $1.40. We note the rate has been steadily declining throughout the first half of 2016, closing at $1.29 as of 7/05, which is flat to the 2Q average but down from the 1/20 high of $1.46.
- Fitch ratings recently affirmed the ratings of SE Capital & SEP at BBB and Texas Eastern Transmission at BBB+. In addition, Fitch raised the outlook on SE Capital to "Stable" from "Negative". Fitch noted the affirmed ratings reflect a "consistent, stable cash flow profile of all the entities and the general low business-risk nature of the businesses that make up the Spectra Energy family." It also noted, "predictability in revenue and cash flow and the low business risk of SEC's [SE Capital] pipeline and LDC assets offset in part what is relatively high leverage versus U.S. peers."
- DCP, LLC recently announced that it had entered into an agreement on a new credit facility which amended and extended the facility originally set to expire in March 2017. The facility was lowered from $1.8B to $700mm, and the original $750mm EBITDA credit was reduced to $500mm through 2016 with a 5.0x covenant leverage ratio. The EBITDA credit is set to expire in 1Q17 when the leverage ratio will increase to 6.0x to be reduced by 0.25x per quarter until it reaches 5.0x in 1Q18.
- On Jul. 5th, SE announced a quarterly dividend of $0.405/share, flat q/q and up 9.5% y/y. We do not anticipate another raise until 1Q17 when we expect a quarterly increase of 2.5¢ for an annualized dividend of $1.72.

Exhibit 20: SE 2Q16 Results Preview

Recurring EBITDA by Division	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q15A	
Spectra Energy Partners (SEP)	$509	$473	7.5%	$478	6.4%
W. Canada Transmission & Processing	$112	$155	-27.8%	$116	-3.5%
Gas Distribution	$103	$170	-39.4%	$98	5.1%
Field Services (DCP)	$3	($19)	NM	($27)	NM
Other	($13)	($19)	-31.9%	($12)	7.8%
Total Segment EBITDA	**$714**	**$760**	**-6.1%**	**$653**	9.3%
Depreciation	($202)	($193)	4.4%	($193)	4.4%
Interest Expense	($154)	($151)	2.0%	($166)	-7.2%
Interest Income & Other	$1	$2	NM	($3)	NM
Minority Interest	($78)	($76)	2.0%	($62)	25.1%
Income Tax Benefit (Expense)	($88)	($101)	-13.2%	($72)	21.8%
Recurring Net Income	**$194**	**$241**	**-19.5%**	**$157**	**23.6%**
Avg Diluted Shares Outstanding	702	675	4.0%	672	4.5%
Earnings Per Diluted Share	**$0.28**	**$0.36**	-22.6%	**$0.23**	18.3%
Realized EBITDA	**$714**	**$760**	-6.1%	**$653**	9.3%
Dividend Per Share	**$0.41**	**$0.41**	0.0%	**$0.37**	9.5%
DCF (peer-consistent calc)	**$255**	**$384**	-33.5%	**$228**	12.0%
Capital Expenditures	**$691**	**$569**	21.4%	**$506**	36.5%
Cash Dividends from DCP	**$0**	**$0**	NM	**$0**	NM

Source: SE reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Spectra Energy Partners (SEP)

A Look Back to 1Q Earnings
JEFe 1Q EBITDA: $484mm
Street est. 1Q EBITDA: $476mm
Actual 4Q EBITDA: $434mm

- We expect SEP to report 2Q16 EBITDA of $477mm, slightly above the Street's $466mm mean estimate. In addition, we project 2Q DCF of $340mm, implying 2Q LP coverage of ~1.37x & a TTM LP coverage of ~1.30x.
- In mid-June Spectra announced a subsidiary had been awarded a contract with Mexico's state-owned electric utility, Comisión Federal de Electricidad (CFE), to provide natural gas transportation services to electric generation customers in Mexico. The project will consist of a 5 Bcf/d gas header system as well as a 2.6 Bcf/d pipeline to Brownsville, TX. The $1.5B project is expected to have a 2018 in-service date.
- In late May, SEP's NEXUS pipeline project received its Notice of Schedule for Environmental Review from the FERC. The Notice of Schedule states that the final environmental impact study will be available by the end of November, which would put the project firmly on schedule for its stated Nov. 2017 in-service target, excepting unforeseen delays. Spectra owns 50% of the 1.5 Bcf/d, $2.2B project which will connect Appalachian gas supplies with Dawn Hub.
- Fitch ratings recently affirmed the ratings of SE Capital & SEP at BBB and Texas Eastern Transmission at BBB+. In addition, Fitch raised the outlook on SE Capital to "Stable" from "Negative". Fitch noted the affirmed ratings reflect a "consistent, stable cash flow profile of all the entities and the general low business-risk nature of the businesses that make up the Spectra Energy family." It also noted, "predictability in revenue and cash flow and the low business risk of SEC's [SE Capital] pipeline and LDC assets offset in part what is relatively high leverage versus U.S. peers."
- On April 29th, an explosion and fire on Spectra's Texas Eastern pipeline near Salem Township, Pennsylvania, interrupted service on the 36-inch pipe. Texas Eastern is one of the country's largest pipelines and its northeast corridor is a vital supply route into New England. Despite the explosion, Spectra was able to divert gas and maintain service on other portions of the pipeline; SEP has not yet quantified how much, if any, financial impact there will be or when service near Salem Township can be expected to resume.

Exhibit 21: SEP 2Q16 Results Preview

Operating Results	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q15A	
Operating Revenues	$654.8	$624.0	4.9%	$603.0	8.6%
Operating Expenses	$302.6	$300.0	0.9%	$281.0	7.7%
Operating Income	$352.2	$324.0	8.7%	$322.0	9.4%
Total EBIT	$405.8	$371.0	9.4%	$384.0	5.7%
Net Interest Expense	$61.3	$56.0	9.4%	$63.0	-2.7%
Income Tax Expense (Benefit)	$3.5	$4.0	NM	$5.0	-29.6%
Minority Interest	$11.6	$13.0	-10.9%	$9.0	28.8%
GP Interest	$66.0	$69.0	-4.3%	$334.9	-80.3%
Net Income Attributable to LP	**$263.4**	**$229.0**	**15.0%**	**($27.9)**	**-1042.5%**
Limited Partner Units Outstanding	297.3	285.0	4.3%	296.0	0.4%
Earnings Per LP Unit	**$0.89**	**$0.80**	**10.3%**	**($0.09)**	**-1038.5%**
SEP Reported EBITDA	**$485.5**	**$447.0**	**8.6%**	**$456.0**	**6.5%**
JEF Adjusted EBITDA	**$473.9**	**$434.0**	**9.2%**	**$447.0**	**6.0%**
Distributable Cash Flow (DCF)	**$338.0**	**$371.0**	**-8.9%**	**$321.0**	**5.3%**
LP Coverage	**1.36x**	**1.65x**	**-18.1%**	**1.44x**	**-5.8%**
TTM LP Coverage	**1.29x**	**1.31x**	**-1.5%**	**1.37x**	**-5.4%**

Source: SEP reports, Jefferies estimates

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Questar Corp. (STR)

A Look Back to 1Q Earnings
JEFe 1Q EPS: 50¢
Street est. 1Q EPS: 51¢
Actual 1Q EPS: 50¢

- We expect STR to report 2Q16 EPS of 21¢, in-line with the Street's 22¢ mean estimate. We also project that STR will report 2Q EBITDA of ~$129mm. For the full-year 2016, we expect EPS of $1.31 and EBITDA of ~$641mm.
- On Feb 1st, Dominion Resources (D) and STR announced their intention to combine in an all-cash transaction worth $25/shr to STR shareholders, implying a premium of ~30% to STR's WVAP over the 20 trading days prior to the deal's announcement. The transaction valuation represents roughly ~19.1x & ~18.5x our 2019 & 2020 EPS estimates, respectively. We believe that this deal is a positive for STR shareholders and represents a premium to what shareholders would have realized given the lack of visible catalysts and expectation for little-to-no dividend growth. The transaction was approved by STR shareholders on May 12th and is expected to close by year end.
- In Jan., Wexpro announced it has signed an agreement with Xcel Energy to pursue the development & acquisition of natgas reserves under a cost-of-service arrangement. The agreement & pertinent testimony has been submitted to CO regulators, though we await further details regarding the specific economics of the agreement. Additionally, STR announced that it has begun the sale process for its Southern Trails pipeline & projects the sale to be completed by YE16.
- In a filing dated July 7th, the Utah DPU issued several recommendations to assure the proposed merger meets the state's public interest standard, noting the Utah PSC should adopt several provisions which include: 1) guaranteeing ratepayers would not bear the burden of any costs associated with the transaction, 2) use a hypothetical capital structure to determine cost of capital for ratemaking purposes in Utah, constructed using a group of A-rated natural gas utility comps, 3) Questar Gas would be prohibited from paying dividends if the % of equity in its actual capital structure falls below 45%, 4) Questar Gas would be required to obtain PSC approval before redeeming common stock, 5) Questar Gas must maintain separate mgmt. located in Salt Lake City. A number of other provisions were also included in the DPU's filing, with the general aim of ring fencing Questar Gas. The transaction is also subject to Wyoming PSC approval, and the FTC approved early termination of the HSR waiting period in February.

Exhibit 22: STR 2Q16 Results Preview

Comparison Metrics	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q15A	
Wexpro					
Investment Base	$628.4	$625.9	0%	$629.5	0%
Wexpro EBIT	$39.8	$39.7	0%	$41.8	-5%
Questar Pipeline					
Transportation Volumes	198.8	205.9	-3%	197.3	1%
NGL Sales (Mmgal)	2.07	0.55	280%	1.34	54%
NGL Sales price (per gal)	$0.49	$0.32	54%	$0.56	-13%
Pipeline EBIT	$29.4	$27.6	7%	$29.3	0%
Questar Gas					
Volumes (MMdth)	34.4	70.1	-51%	33.6	3%
Distribution EBIT	$1.0	$83.4	-99%	$1.4	-32%
Interest Income & Other Expenses	$1.1	$1.0	NM	$1.5	-25%
Earnings of Unconsolidated Affiliates	$1.0	$1.0	-5%	$1.0	-5%
Total EBIT	$73.6	$152.3	-52%	$76.4	-4%
Interest Expense	$15.5	$15.8	-2%	$15.8	-2%
Income Taxes	$20.4	$49.0	-58%	$20.9	-2%
Effective Tax Rate	35.2%	36.8%	-4%	34.5%	2%
Net Income	$37.7	$87.5	-57%	$39.7	-5%
Average Diluted Shares	176.1	176.1	0%	176.6	0%
EPS	$0.21	$0.50	-57%	$0.22	-5%
Cash Flow from Operations	$62.3	$333.0	-81%	$77.8	-20%
CAPEX	$81.3	$68.5	19%	$61.2	33%

Source: STR reports, Jefferies estimates

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Sunoco LP (SUN)

A Look Back to 1Q Earnings
JEFe 1Q EBITDA: $134mm
Street est 1Q EBITDA: $163mm
Actual 1Q EBITDA: $159mm

- We expect SUN to realize respective 2Q16 EBITDA and DCF of $170mm & $108mm, respectively, in excess of the Street's $184mm EBITDA & $112mm DCF mean estimates. Our DCF forecast implies an LP coverage ratio of ~1.14x on an estimated quarterly payout of 80.173¢/unit, implying flat q/q growth. However, if SUN's cash interest were to match its book interest this quarter (i.e., no capitalized interest), then 2Q LP coverage could be <1.0x.
- On April 4th, SUN announced a private offering of $800mm of senior notes due in 2021. Offered at the principal amount, these notes will pay annual coupons of 6.25% and Sunoco intends to use the proceeds to repay a portion of the Term Loan A. We project current run-rate quarterly interest expense to be ~$52mm.
- Last quarter, SUN reported EBITDA of $159mm underpinned by exceptionally strong wholesale fuel margins of ~15¢/gal, ~$30-$40mm explained by strong supply & trading activity, a factor mgmt highlighted on its earnings call as 'not all repeatable'. Save this activity, wholesale margins would have been ~8¢/gal. Our retail & wholesale 3rd party margin/gal for 2Q are representative of mgmt-articulated 'baseline' assumptions but taking into account weaker realized margins in the quarter as a result of rising crude prices. We anticipate SUN will realize ~20.3¢/gal retail (off ~5% q/q) and 8.1¢/gal wholesale (flat q/q after removing the S&T impact), implying avg total gross profit/gallon of ~12.3¢/gal.
- With more than one-third of its gross profit generated by merchandise sales, seasonality for on-road transportation makes a significant impact in reported numbers. Specifically, after realizing ~$166mm in Merchandise gross profit in 1Q, we anticipate a significant increase of ~17% in profit to ~$194mm in 2Q. Despite April DOT data indicating lower miles driven than March, we believe lower gasoline prices prompted increased miles driven in May & June likely leading to incremental merchandise sales volumes in the quarter.
- In early June, we downgraded SUN to Underperform, from Hold, given an expectation for leverage to play a key role in the treatment of SUN's distribution and/or equity. While the recent Emerge deal, which was entirely debt financed, is expected to close this qtr for ~$178.5mm allows for SUN's compliant adjusted net debt-to-EBITDA to rise to 6.0x, from 5.5x, through 3Q17, we continue to believe SUN will need to cut the distribution and/or raise a considerable amount of already high-yielding equity to pay off its robust debt obligations.

Exhibit 23: SUN 2Q16 Results Preview

Comparison Metrics	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q15A	
Segment Results (Gross Profit)					
Retail Motor Fuel Sales	$141	$131	7.3%	$21	NM
Wholesale Motor Fuel	$115	$151	-23.7%	$149	NM
Merchandise	$195	$166	17.0%	$15	NM
Other	$50	$50	0.0%	$31	NM
Gross Profit	**$501**	**$499**	0.4%	**$216**	131.9%
Interest & Debt Expense	$53	$28	90.2%	$20	159.2%
Income Tax Expense	$6	$2	NM	($0)	NM
Minority Interest	$0	$0	NM	$61	NM
Net Income	**$32**	**$63**	-49.5%	**$35**	-8.4%
General Partner Interest	$20	$20	0.2%	$3	483.4%
Net Income Attributable to LP	**$12**	**$44**	-71.8%	**$31**	-60.9%
Average LP Units Outstanding	111.8	87.5	27.8%	35.8	211.9%
EPU	**$0.11**	**$0.50**	-77.9%	**$0.88**	-87.5%
EBITDA ($MM)	**$170**	**$159**	7.1%	**$58**	192.5%
Distributable Cash Flow (DCF) in $MM	**$100**	**$112**	-10.3%	**$39**	154.6%
LP Coverage	**1.03x**	**1.18x**	-12.5%	**1.45x**	-28.6%
TTM LP Coverage	**1.28x**	**1.39x**	-7.7%	**1.59x**	-19.4%

Source: SUN reports, Jefferies estimates

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Southwest Gas Corp. (SWX)

A Look Back to 1Q Earnings
JEFe 1Q EPS: $1.62
Street est 1Q EPS: $1.62
Actual 1Q EPS: $1.60

- We forecast SWX to report 2Q16 EPS of 16¢, slightly below the 18¢ mean estimate, and up ~51% y/y. 2Q is historically the second weakest quarter for SWX's earnings due to the seasonality of residential and small commercial gas usage (99%+ of SWX customers are residential or small businesses). We note that 1Q15 & 4Q15 represented ~51% & ~46% of 2015 total net income available to common units, respectively.
- We assume y/y customer growth for 1Q16 of 1.5% which we believe will help mitigate the modest decline in gas volumes delivered in the quarter; we expect volumes to be down 0.3% y/y in the quarter. We expect this to drive SWX 2Q Net Income available to common units of ~$7.8mm, up ~52.3% y/y but slightly below the Street's $8.6mm consensus estimate.
- We project Centuri net operating margin of $28.3mm, an increase of ~8.3% y/y and the highest 2Q margin on record. We note that despite these strong expected results mgmt. has noted that FY15 will be a though comp for Centuri due to the unseasonably warm weather experienced in 4Q15.
- On May 5th, SWX filed a $32mm general rate case in Arizona. Mgmt expects the new rates to become effective on May 1, 2017, promptly after the stay out provision from SWX's previous rate case settlement ends on April 30, 2017. This recently filed rate case requests a return on equity of 10.25% and an equity structure of 52%. Included in the rate case are requests for a continuation of a decoupling mechanism, gas infrastructure modernization mechanism, and property tax tracker. The rate case also includes a detailed depreciation study which requests a $42mm reduction of depreciation of SWX's Arizona assets.

We are downgrading SWX to Underperform, from Hold, but raising our price target to $64, from $62. SWX now trades at ~22.0x 2017 earnings, roughly ~4.5x greater than its historical 3-year average.

- We await further updates on mgmt's efforts to reorganize SWX as a holding corporation which mgmt hopes will create separation between the regulated gas distribution business and its non-regulated construction business. The reorganization has been approved by the three necessary state commissions (ACC, CPUC, and PUNC). However, after recent discussions we believe the timeline for completion of the reorganization may be slightly delayed from the initial 2H16 target date, but we do not expect any delays to have major operational impacts.

Exhibit 24: SWX 2Q16 Results Preview

Operating Results	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q15A	
Utility Segment					
Total Revenues	$295	$525	-44%	$287	3%
Cost of Gas	(109.2)	(213.6)	-49%	(109.0)	0%
Gross Profit	$185.5	$311.5	-40%	$177.6	4%
Construction Segment					
Total Revenues	$235.7	$206.1	14%	$252.0	-6%
Construction Expenses	($207.5)	($193.4)	7%	($225.8)	-8%
Gross Profit	$28.3	$12.8	122%	$26.1	8%
O&M	$98.5	$100.8	-2%	$99.3	-1%
Depreciation & Amortization Expenses	$72.6	$75.4	-4%	$67.0	8%
Taxes other than income	$12.3	$14.0	-12%	$12.4	-1%
Operating Income	**$30.4**	**$134.1**	-77%	**$25.0**	21%
Other Income	$0.5	$2.8	NM	$0.2	NM
Interest Expense	$17.8	$17.7	0%	$17.7	0%
Income Taxes	$5.3	$42.7	-88%	$2.4	120%
Net Income (Loss)	**$7.8**	**$76.4**	-90%	**$5.1**	54%
Average # of Diluted Shares Outstanding	47.8	47.8	0%	47.3	1%
Recurring EPS	**$0.16**	**$1.60**	-90%	**$0.10**	51%

Source: SWX reports, Jefferies estimates

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Sunoco Logistics Partners (SXL)

A Look Back to 1Q Earnings
JEFe 1Q EBITDA: $304mm
Street est 1Q EBITDA: $306mm
Actual 1Q EBITDA: $297mm

- We expect SXL to realize 2Q16 adj EBITDA & DCF of $311mm & $234mm, a touch above the Street's $282mm EBITDA estimate & its $209mm mean DCF estimate. Our current DCF forecast implies an LP coverage ratio of just ~0.95x. It is worth noting, 1Q results included a ~$52mm favorable LIFO adjustment prompting headline EBITDA to look much larger than recurring results would indicate. Furthermore, given the rise in crude prices in the qtr, in addition to the reversal of 1Q's impact, there will likely be another negative LIFO adjustment prompting headline EBITDA to be in the range of ~$200-$225mm.
- With last quarter's earnings, mgmt provided an update on the status of ME1 providing read through for 2Q earnings potential. Despite initial plans calling for ethane service being available to Marcus Hook at the beginning of 2016, SXL did not begin to flow the product until May 1. Accordingly, we believe ~2 months of contribution will yield an incremental ~$5-7mm of EBITDA in the quarter.
- In conjunction with 4Q earnings, mgmt articulated plans to shed a portion of its ~$2.5B 2016 growth capex budget, likely via project financing on DAPL and/or ME2 cost deferments as the project's proposed start up slipped into 1H17 from YE16. We await more information regarding growth capex refinements & anticipated 2016 project ramps, but for modelling purposes, we assume $1.75B of growth capital is deployed in 2016. Moreover, we expect mgmt to refine its timeline of ME2 in-service to 'mid-2017' from 1H2017.
- With 4Q results, mgmt provided a 2016 y/y distribution growth guidance of 10-15%. Prior to 2Q earnings release, we expect SXL to announce a 1¢ dist. increase in 2Q, bringing the quarterly payout to 49.4¢/unit, up ~1% q/q & 13% y/y. We are forecasting total 2016 distributions of $1.99, a y/y increase of ~11%.

Exhibit 25: SXL 2Q16 Results Preview

Comparison Metrics	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q15A	
Operating Results					
Crude Oil					
Pipeline Throughput (MBbl/d)	2,244	2,223	0.9%	2,174	3.2%
Terminal Throughput (MBbl/d)	1,526	1,517	0.6%	1,323	15.3%
Gross Profit per Bbl	$0.51	$0.51	0.0%	$0.55	-6.5%
Natural Gas Liquid					
Pipeline Throughput (MBbl/d)	225	269	-16.4%	217	3.7%
Terminal Throughput (MBbl/d)	189	220	-14.3%	193	-2.3%
Terminal EBITDA per gal	7.61¢	4.21¢	80.7%	10.27¢	-25.9%
Refined Products					
Pipeline Throughput (MBbl/d)	525	522	0.5%	465	12.8%
Terminal Throughput (MBbl/d)	535	532	0.5%	508	5.2%
Gross Profit per Bbl	$0.37	$0.36	0.5%	$0.27	35.3%
Segment Results (Adjusted EBITDA)					
Crude Oil	$164	$164	0.0%	$163	0.6%
Natural Gas Liquids	$93	$74	26.2%	$104	-10.2%
Refined Products	$49	$59	-16.7%	$34	44.6%
Other	($10)	($34)	-70.6%	$0	#DIV/0!
EBITDA	**$297**	**$263**	12.7%	**$301**	-1.5%
Interest & Debt Expense	$41	$39	4.8%	$31	31.9%
Income Tax Expense	$7	$5	48.6%	$5	48.6%
Net Income	**$139**	**$119**	16.4%	**$176**	-21.3%
General Partner Interest	$98	$90	9.4%	$71	38.7%
Net Income Attributable to LP	**$40**	**$29**	38.0%	**$105**	-61.9%
Average LP Units Outstanding	291.0	283.1	2.8%	247.5	17.6%
EPU	**$0.14**	**$0.10**	34.3%	**$0.42**	-67.6%
Adjusted EBITDA ($MM)	**$311**	**$297**	4.5%	**$326**	-4.8%
Distributable Cash Flow (DCF) in $MM	**$234**	**$231**	1.2%	**$264**	-11.5%
LP Coverage	**0.93x**	**1.00x**	-6.7%	**1.81x**	-48.5%
TTM LP Coverage	**1.07x**	**1.27x**	-16.0%	**1.52x**	-29.4%

Source: SXL reports, Jefferies estimates

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Targa Resources Corp (TRGP)

A Look Back to 1Q Earnings
JEFe 1Q EBITDA: $222mm
Street est 1Q EBITDA: $255mm
Actual 1Q EBITDA: $265mm

- We expect TRGP to report 2Q16 EBITDA & DCF of ~$267 & ~$156mm, slightly above the Street's mean estimates of $261mm & $144mm, respectively. We also project 2Q coverage of 1.06x and 2016 coverage of 1.16x.
- We expect that Targa's Buffalo natural gas processing plant began operations in 2Q. The Buffalo plant is a cryogenic processing plant located in the Delaware Basin and has a capacity of 200 MMcf/d.
- We also look to the earnings release and conference call for an update on TRGP's Cedar-Bayou Train 5 fractionator, which began operations during the quarter. CEO Joe Bob Perkins noted on the 1Q earnings call that TRGP was anticipating Train 5 to "fill up more slowly than initially expected" based on projected equity volume growth from the G&P operations. TRGP's frac volumes were down ~13% y/y and ~10% q/q in 1Q.
- Reuters reported earlier this month that declining LPG prices have already prompted at least five companies to cancel cargo loadings from LPG export terminals along the Gulf Coast for the month of July, due to a negative arbitrage opportunity that has outpaced the cost of cancelling the cargoes. We expect TRGP's Galena Park Marine Terminal has likely been affected by these cancellations, though we note EPD, SXL, & OXY also have Gulf Coast facilities. TRGP has previously guided an expectation for >5.0 MBbl/mo in LPG export volumes in 2016.
- According to the EIA's weekly petroleum data, average 2Q16 US propane exports were ~668 MBbld, down ~1.4% from 1Q16 levels. Monthly EIA data indicates April LPG exports fell to 840 MBbl/d, down ~120 MBbl/d from January's record 960 MBbl/d. Though the monthly data usually outpaces the weekly EIA report, the magnitude of the decrease is still somewhat surprising given export project completion and in-services from OXY & EPD in late 2015. TRGP has maintained that it expects to average >5.0 MMBbl/mo in exports during '16. Our downstream op. margin expectation for 2Q16 is ~$152mm, down ~7% y/y, while our FY 2016 expectation of ~$605mm is off ~11% y/y.

Exhibit 26: TRGP 2Q16 Results Preview

Comparative Metrics	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 1Q15A	
Operating Margin ($MM)					
Gathering & Processing	$116.7	$115.6	0.9%	$144.7	-19.4%
Logistics & Marketing	$151.8	$157.0	-3.3%	$163.7	-7.3%
Corp & Other	$31.9	$26.7	NA	$17.1	NA
Total Operating Margin	**$300.3**	**$299.3**	0.3%	**$325.5**	-7.7%
DD&A	$194.7	$193.5	0.6%	$163.9	18.8%
Operating Income	**$59.1**	**$52.6**	12.4%	**$157.7**	-62.5%
Interest & Debt Expense	$63.6	$52.9	20.2%	$70.2	-9.4%
Income Tax Expense	$0.3	$3.1	-90.7%	$14.8	-98.0%
Minority Interest Expense	$6.0	$2.0	200.3%	$8.6	-30.2%
Net Income	**($4.7)**	**($3.4)**	39.1%	**$72.7**	-106.5%
Average Shares Outstanding*	169.6	163.4	3.8%	131.2	29.2%
EPS	**($0.03)**	**($0.02)**	34.0%	**$0.55**	-105.0%
Cash Tax Expense	$0.0	$0.0	NA	$0.0	
Cash Interest Expense	($63.6)	($69.6)	-8.7%	$0.0	
Maintenance Capex	($25.1)	($15.0)	67.3%	$0.0	
Preferred Coupons	($25.4)	($2.8)	807.0%	$0.0	
Distributable Cash Flow ($MM)	**$154.0**	**$179.7**	-14.3%	**$0.0**	
EBITDA ($MM)	**$265.6**	**$302.8**	-12.3%	**$322.8**	-17.7%
Coverage Ratio	**1.05x**	**1.23x**	-14.3%	**0.00x**	

Source: TRGP reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

UGI Corp (UGI)

A Look Back to F2Q Earnings
JEFe F2Q EPS: $1.37
Street est. F2Q EPS: $1.30
Actual F2Q EPS: $1.24

- We expect UGI to report F3Q EPS of $0.06 ex-items, broadly in-line with the $0.07 Street mean. F3Q is a historically weak quarter due to the seasonal nature of the distribution business. However, we believe the widespread weakness in FYTD temperatures will hinder results and now project F16 EPS of $1.95.
- The average F3Q Mt. Beliveu propane price rose ~26.5% q/q to ~49.3¢/gallon, substantially above last quarter's near-term record lows. Average US propane inventories were ~3.5% higher y/y in F3Q and ~51.4% above the corresponding 5-year F3Q average. Increasing wholesale prices can create margin headwinds for APU if it is slow to pass through price increases to customers and if they consume less given the cost of consumption has increased. We note that heating degree days (HDDs) across APU's service territory were up 5.5% in F3Q16 versus F3Q15 but were ~7.5% below the long-term April-June average. F3Q propane prices were down ~6.8% y/y, which we believe may incent decreased consumption in the quarter.
- On 6.27.16, APU completed its previously-announced tender offer for all notes outstanding, full redemption of notes not tendered, and closed an offering of $1.35B in senior notes. We estimate the net savings from the transaction is ~$5mm/yr in interest expense but with an additional ~$80mm in gross proceeds.
- Environmental groups in Pennsylvania requested on June 13th that the PA Department of Environmental Protection withhold the water quality permit needed for UGI's PennEast Pipeline project due to inadequate review procedures; a similar failure to receive the water quality permit in NY at least temporarily halted WMB's Constitution Pipeline earlier this year. Anticipated in-service for PennEast is 2H2018.
- In May, UGI Utilities Inc. entered into an agreement to issue $400mm in unsecured senior debt in a private placement. The agreement calls for $100mm in 2.95% notes due 6/30/26, $200mm in 4.12% notes due 9/30/46, and $100mm in 4.12% notes due 10/31/46. The notes were priced on 3/31 and will be funded on 6/30, 9/30, and 10/31, respectively.

Exhibit 27: UGI F3Q16 Results Preview

Recurring Operating Income	JEFe F3Q16E	Quarter-over-Quarter F2Q16A		Year-over-Year F3Q15A	
Operating Income ($MM)					
AmeriGas Propane	$10.0	$250.4	-96.0%	$0.8	1117.8%
Utilities	$17.6	$114.5	-84.6%	$15.1	16.5%
Midstream & Marketing	$18.6	$77.8	-76.1%	$18.6	-0.1%
International Propane	$4.4	$120.1	-96.3%	$4.7	-6.1%
Corporate & Other	$1.3	$23.9	NM	$13.7	-90.5%
Total Operating Income	**$51.9**	**$586.7**	**-91.2%**	**$55.5**	**-6.5%**
Income (Loss) from Equity Investees	$0.0	$0.0	NM	$0.0	NM
Interest Expense	($55.7)	($57.3)	-2.7%	($57.2)	-2.6%
Other Items	$0.0	$0.0	NM	$0.0	NM
Minority Interests	$20.6	($174.8)	-111.8%	$25.5	-19.2%
Income Tax Benefit (Expense)	($6.3)	($138.4)	-95.5%	($7.4)	-14.5%
Recurring Net Income	**$10.5**	**$216.2**	**-95.2%**	**$16.4**	**-36.2%**
Diluted Shares Outstanding	174.5	174.8	-0.2%	175.6	-0.6%
Recurring Earnings Per Share (EPS)	**$0.06**	**$1.24**	-95.1%	**$0.08**	-24.0%
Capital Expenditures	**$114.5**	**$114.5**	0.0%	**$96.9**	18.2%
Dividend Per Share	**$0.24**	**$0.23**	4.4%	**$0.23**	4.4%

Source: UGI reports, Jefferies estimates

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Williams Companies Inc. (WMB)

A Look Back to 1Q Earnings
JEFe 1Q EBITDA: $1.023B
Street est. 1Q EBITDA: 1.053B
Actual 1Q EBITDA: $0.966B

- We expect WMB to report respective 2Q16 EBITDA & DCF of ~$1,032mm and ~$443mm, implying ~0.92x dividend coverage. Assuming our projections prove to be reasonably accurate, it would mark the fourth consecutive quarter WMB would fail to fully cover its dividend. We expect the focus of 2Q's call will be in regard to 2Q16 operational performance and stand alone company inititives.
- Following the termination of the WMB/ETE merger, 2Q will mark the first quarter we would expect mgmt to articulate stand-alone objectives at Williams, including: 1) a discussion of the IG credit rating @ WPZ, 2) remaining Transco-related investments including an update on Atlantic Sunrise, 3) dividend outlook, 4) asset monetizations, 5) leverage targets, 6) initiation of guidance and 7) general communication of independent strategy.
- Mgmt highlighted in both its January financial outlook and its 10-K filing that it is aiming to divest ~$1B worth of assets this year; we do not yet account for this action in our models as we await more color within 2Q commentary regarding what assets and the accompanying cash flows they presently generate. As a reminder, in mid-July, Reuters issued an article citing 'at least 7 bidders for [Williams'] Canadian unit'. The article went on to highlight the sale could fetch ~$1-$2B per sources and interested bidders included Enbridge, Pembina, and CPPIB. It is unclear at this time which Canadian unit is being referenced in the article as Canadian assets exist at both WMB & WPZ.
- On March 23rd, WMB announced the startup of its second offgas liquids extraction plant adding 15 MBbl/d, or 60%, to WMB's NGL production capacity. Since 2013, WMB posted ~$(65)mm of EBITDA despite ~$917mm of capex deployed over that time. We are projecting the first positive EBITDA print for WMB's NGL & Petchem Services segment since <2013.
- As a reminder, WMB did not formally declare a 1Q dividend with earnings last quarter. Instead, mgmt chose to postpone declaration for several weeks and we expect a similar practice to occur in 2Q – at least until Williams makes a decision on the long term objective of its payout. However, we do expect WMB to 'softly' declare 64¢/share 2Q dividend, flat q/q and y/y. This 'soft' declaration can be found in the WMB analyst package, 'Dividend Coverage Ratio' section.
- Earlier this month, following the failed merger with Energy Transfer, Williams' board stood by CEO Alan Armstrong and named a new chairman after six directors resigned following a failed attempt to unseat him. We expect an update from mgmt on the current state of the Board and plans for repopulation.

Exhibit 28: WMB 2Q16 Results Preview

Operational Metrics	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q15A	
Total EBITDA	**$1,032**	**$996**	*4%*	**$1,017**	*1%*
Interest Expense	$302	$291	*4%*	$262	*15%*
Tax Expense	$80	$73	*10%*	$70	*15%*
Allocation to non-controlling	$44	$135	*-67%*	$69	*-36%*
Net Income	$163	$52	*213%*	$133	*22%*
EPS	**$0.22**	**$0.07**	*213%*	**$0.18**	*23%*
Average Shares Outstanding	750	750	*0%*	753	*0%*
Capital Expenditures	**$531**	**$513**	*4%*	**$822**	*-35%*
Distributable Cash Flow	**$443**	**$429**	*3%*	**$443**	*0%*
Coverage	**0.92x**	**0.89x**	*3%*	**1.00x**	*-8%*
TTM Coverage	**0.91x**	**0.93x**	*-2%*	**1.05x**	*-14%*

Source: WMB reports, Jefferies estimates

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Williams Partners (WPZ)

A Look Back to 1Q Earnings
JEFe 1Q EBITDA: $1.013B*
Street est. 1Q EBITDA: $1.058B
Actual 1Q EBITDA: $1.00B*
*Removing MVC accrual

If mgmt decides to issue financial guidance in conjunction with 2Q earnings results, we believe 2016 & 2017 EBITDA forecasts would range between $4.1B-$4.5B & $4.4B-$4.8B, respectively. We would also expect mgmt to affirm its 85¢/unit quarterly payout through the forecast periods. As a reminder, the last time mgmt updated financial guidance was with 1Q15 earnings.

- We project WPZ to report 2Q16 EBITDA of $1.017B, below the $1.072B Street mean estimate. Our $665mm DCF forecast is also below the Street's $730mm mean estimate. As a reminder, given the actual cash flow won't be recognized until early next year, we highlight 2Q16 will be the second quarter we formally exclude MVC recognition from the Barnett thus removing ~$62mm of EBITDA & DCF likely explaining the lower projection vs Street estimates. With a projected distribution of 85¢/unit, we expect 2Q LP coverage of 0.90x.
- Following the termination of the WMB/ETE merger, 2Q will mark the first quarter we would expect mgmt to articulate stand-alone objectives at Williams, including: 1) a discussion of the IG credit rating @ WPZ, 2) remaining Transco-related investments including an update on Atlantic Sunrise, 3) dividend outlook, 4) asset monetizations, 5) leverage targets, 6) initiation of guidance and 7) general communication of independent strategy.
- Petchem crack spreads marginally strenthend during 2Q as ethylene margins averaged ~16¢/lb, up ~24% q/q. As a result, according to company-provided sensitivities, WPZ has a ~$16mm q/q tailwind in 2Q from ethelyene price recovery, modestly offset by increasing ethane prices.
- Following a 2015 strategic review proceeding a defintive merger agreement with ETE and a deterioration in underlying cash flows from operating segments, Williams, similar to other energy companies in the US, turned to cost shavings as a means of providing support to the bottom line. Specifically, during a town hall meeting in March, Williams announced a 10% headcount reduction in its workforce (~670 employees). As a result, in addition to other asset optimization activities, we project ~$50mm of potential cash flow uplift in 2Q.
- We are downgrading WPZ to Hold, from Buy, but maintaining our $40 price target. Shares are up ~183% from February lows, and given the termination of the ETE/WMB merger, we feel the opportunity set for WPZ is now better understood and the stock presents a balanced risk/reward profile.

Exhibit 29: WPZ 2Q16 Results Preview

Comparison Metrics	JEFe 2Q16E	Quarter-over-Quarter 1Q16A		Year-over-Year 2Q15A	
EBITDA by Segment					
Central	$214	$226	-5.5%	$229	-6.7%
Northeast G&P	$216	$219	-1.3%	$208	3.9%
Atlantic-Gulf	$389	$399	-2.4%	$389	0.1%
West	$163	$159	2.8%	$150	8.9%
NGL & Petchem Services	$56	$57	-1.4%	$33	70.4%
Corp-Other	$50	$0	#DIV/0!	($1)	-5100.0%
MVC Backout*	$62	$60	NM	($1)	NM
EBITDA	**$1,026**	**$1,000**	2.6%	**$1,009**	1.7%
Interest & Debt Expense	$238	$229	3.9%	$203	17.2%
Income Tax Expense	$0	$1	NM	$0	NM
Net Income	**$321**	**$306**	4.9%	**$255**	25.9%
General Partner Interest	$214	$202	NM	$216	NM
Net Income Attributable to LP	**$104.3**	**$108.0**	-3.4%	**$38.0**	NM
Average LP Units Outstanding	603.9	603.9	0.0%	601.3	0.4%
EPU	**$0.17**	**$0.18**	-3.4%	**$0.06**	173.3%
Adj EBITDA (ex- MVCs) ($MM)	**$1,026**	**$1,000**	2.6%	**$1,008**	1.8%
Distributable Cash Flow (DCF) in $MM	**$674**	**$679**	-0.7%	**$701**	-3.8%
Capital Expenditures ($MM)	**$531**	**$463**	14.7%	**$715**	-25.7%
LP Coverage	**0.92x**	**0.91x**	1.6%	**0.95x**	-2.9%
TTM LP Coverage	**0.98x**	**0.94x**	4.1%	**0.99x**	-1.5%

Source: WPZ reports, Jefferies estimates

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Exhibit 30: Coverage Comp Table

	Company Name	Ticker	Rating	Market Capitalization	Price	Price Target	Current Yield	1Q17 Yield	Total Return	2015-2020E Distribution CAGR	Implied 2016E Yield	2016E LP DCF Coverage	2017E LP DCF Coverage	EV / EBITDA			Credit Rating	2015 'LP % of EBITDA	Net Debt / EBITDA		EV / LP-EBITDA			Market Cap / LP DCF		
														2016E	2017E	2018E			2016E	2017E	2016E	2017E	2018E	2016E	2017E	2018E
MLP	AmeriGas Partners, L.P.	APU	HOLD	$4,530	$48.75	$50.00	7.5%	7.7%	10.3%	3.0%	7.6%	0.93x	1.13x	11.8x	10.4x	10.2x	Ba2 (S)	91%	4.1x	3.7x	13.2x	11.8x	11.8x	14.5x	11.7x	11.4x
	Columbia Pipeline Partners	CPPL	BUY	$1,592	$15.82	$22.00	4.7%	5.7%	44.4%	19.1%	5.1%	1.02x	1.13x	14.0x	11.5x	9.4x	NA	100%	4.0x	4.3x	14.1x	12.2x	11.0x	19.2x	14.4x	10.1x
	DCP Midstream Partners, L.P.	DPM	HOLD	$3,943	$34.36	$35.00	9.1%	9.1%	10.9%	0.0%	9.1%	1.06x	1.04x	10.8x	11.2x	10.9x	BB (N)	74%	4.9x	4.9x	13.2x	13.6x	13.2x	10.4x	10.6x	10.3x
	EnLink Midstream Partners, L.P.	ENLK	HOLD	$5,930	$17.82	$18.00	8.8%	8.8%	9.8%	-2.0%	8.8%	1.01x	1.03x	12.1x	11.7x	11.6x	BBB- (S)	90%	4.3x	4.5x	13.5x	13.0x	12.6x	11.3x	11.1x	11.5x
	Enterprise Products Partners, L.P.	EPD	BUY	$61,446	$29.52	$34.00	5.4%	5.6%	20.7%	5.5%	5.5%	1.21x	1.19x	16.1x	15.4x	14.4x	BBB+ (S)	100%	4.4x	4.4x	16.1x	15.4x	14.4x	15.1x	14.6x	13.9x
	Energy Transfer Partners, L.P.	ETP	BUY	$21,025	$40.43	$47.00	10.4%	10.4%	26.7%	1.5%	10.4%	0.69x	0.99x	8.8x	7.7x	6.9x	BBB- (S)	61%	5.0x	4.4x	14.0x	12.2x	11.0x	13.7x	9.7x	8.7x
	ONEOK Partners, L.P.	OKS	HOLD	$11,965	$41.86	$41.00	7.5%	7.5%	5.5%	2.5%	7.5%	1.05x	1.02x	10.4x	10.6x	9.7x	BBB (N)	68%	4.2x	4.2x	15.3x	15.5x	14.4x	12.6x	12.9x	11.5x
	Spectra Energy Partners, LP	SEP	BUY	$14,273	$48.76	$54.00	5.3%	5.8%	16.3%	7.1%	5.5%	1.28x	1.27x	11.4x	10.8x	10.4x	BBB (S)	75%	3.7x	3.6x	15.4x	15.1x	14.9x	14.2x	13.4x	12.7x
	Sunoco Logistics Partners, L.P.	SXL	HOLD	$8,416	$28.46	$31.00	6.9%	7.3%	16.1%	8.5%	7.0%	0.89x	1.00x	11.5x	9.9x	8.2x	BBB (S)	61%	4.9x	4.3x	19.1x	16.6x	14.1x	16.1x	13.4x	9.5x
	Sunoco LP	SUN	UNPF	$3,423	$30.63	$23.00	10.7%	5.7%	-15.5%	-5.3%	10.7%	1.13x	2.28x	9.1x	11.1x	10.8x	BB (N)	85%	6.1x	6.0x	11.3x	11.0x	10.7x	9.2x	8.9x	9.2x
	Williams Partners, L.P.	WPZ	HOLD	$22,540	$37.32	$40.00	9.1%	9.1%	16.3%	0.0%	9.1%	0.94x	1.22x	10.5x	10.2x	9.1x	BBB- (N)	69%	4.7x	4.8x	14.3x	11.6x	13.1x	12.1x	9.2x	9.5x
	Average						7.7%	7.5%	8.4%	3.4%	7.8%	0.99x	1.18x	11.7x	11.1x	10.2x		79%	4.6x	4.5x	14.9x	13.8x	13.0x	14.1x	12.4x	10.2x

	Company Name	Ticker	Rating	Market Capitalization	Price	Price Target	Current Yield	1Q17 Yield	Total Return	2015-2020E Dividend CAGR	Implied 2016E Yield	2016E GP DCF Coverage	2017E GP DCF Coverage	Total EV / EBITDA			Credit Rating	2015 '% of MLP Distributions'	Net Debt / EBITDA		Fully-Loaded EV / EBITDA			Market Cap / GP DCF		
														2016E	2017E	2018E			2016E	2017E	2016E	2017E	2018E	2016E	2017E	2018E
C-Corp	EnLink Midstream LLC	ENLC	HOLD	$2,872	$15.95	$15.00	6.4%	6.4%	0.4%	-1.8%	6.4%	1.11x	1.12x	15.4x	14.4x	14.3x	NA	31%	4.3x	4.6x	14.3x	13.9x	14.5x	14.0x	14.0x	16.0x
	Energy Transfer Equity, L.P.	ETE	BUY	$17,615	$16.86	$20.00	6.8%	7.1%	25.6%	7.3%	6.9%	1.09x	1.33x	13.4x	11.6x	10.2x	BB (S)	NM	6.2x	5.2x	11.0x	10.6x	9.6x	13.3x	12.5x	10.8x
	ONEOK Inc.	OKE	HOLD	$9,675	$46.05	$43.00	5.3%	5.4%	-1.3%	3.5%	5.3%	1.32x	1.19x	13.9x	13.9x	12.7x	BB+ (N)	59%	4.9x	4.9x	12.3x	12.1x	11.0x	14.2x	15.4x	16.0x
	Spectra Energy Corp.	SE	HOLD	$25,639	$36.58	$31.00	4.4%	4.8%	-10.6%	6.5%	4.4%	0.96x	1.03x	14.9x	13.8x	13.1x	BBB (S)	86%	5.5x	5.2x	15.0x	13.8x	12.6x	23.4x	20.2x	19.1x
	UGI Corp.	UGI	HOLD	$7,843	$45.42	$40.00	2.0%	2.1%	-9.8%	5.3%	2.0%	2.70x	2.78x	10.8x	9.8x	9.8x	NA	34%	2.6x	2.5x	10.0x	9.0x	8.8x	18.1x	16.8x	17.1x
	Williams Companies, Inc.	WMB	BUY	$18,404	$24.52	$28.00	10.4%	5.5%	22.2%	-5.9%	9.2%	0.96x	1.18x	13.0x	12.4x	10.9x	BB (S)	70%	6.1x	6.1x	10.6x	10.2x	9.0x	11.3x	15.3x	10.6x
	Average						5.9%	5.2%	4.4%	2.5%	5.7%	1.36x	1.44x	13.6x	12.6x	11.8x		56%	4.9x	4.7x	12.2x	11.6x	10.9x	15.7x	15.7x	14.9x

	Company Name	Ticker	Rating	Market Capitalization	Price	Price Target	Current Yield	1Q17 Yield	Total Return	2015-2020E Dividend CAGR	Implied 2016E Yield	2016E Payout Ratio	2017E Payout Ratio	EV / EBITDA			Credit Rating	Net Debt / EBITDA		P/E	
														2016E	2017E	2018E		2016E	2017E	2016E	2017E
Diversified Gas	Kinder Morgan, Inc.	KMI	HOLD	$47,370	$21.22	$17.00	2.4%	2.4%	-17.5%	4.5%	2.4%	79%	70%	12.4x	11.6x	10.5x	BBB- (S)	5.9x	5.5x	33.5x	29.8x
	National Fuel Gas Corporation	NFG	HOLD	$4,790	$56.40	$60.00	2.8%	2.9%	9.3%	2.4%	2.8%	55%	52%	8.8x	7.9x	6.1x	BBB (N)	2.6x	2.2x	19.4x	17.9x
	NiSource, Inc.	NI	UNPF	$8,444	$26.26	$22.00	2.4%	2.5%	-13.7%	-0.7%	2.4%	60%	57%	10.6x	10.4x	10.4x	BBB+ (S)	4.9x	4.9x	24.4x	22.0x
	OneGas Inc.	OGS	UNPF	$3,448	$66.10	$53.00	2.1%	2.4%	-17.6%	9.3%	2.1%	54%	58%	11.5x	10.8x	10.3x	A- (S)	3.0x	2.9x	25.7x	24.0x
	Questar Corporation	STR	HOLD	$4,416	$25.17	$25.00	3.5%	3.5%	2.8%	1.7%	3.5%	67%	70%	9.6x	9.7x	9.7x	A (N)	2.5x	2.8x	19.3x	19.7x
	Southwest Gas Corporation	SWX	UNPF	$3,742	$78.83	$64.00	2.3%	2.3%	-16.5%	9.0%	2.2%	57%	55%	8.8x	9.0x	9.0x	BBB+ (S)	2.6x	3.0x	25.7x	22.4x
	Targa Resources Corp.	TRGP	HOLD	$6,649	$40.33	$45.00	9.0%	9.0%	20.6%	2.8%	9.0%	NM	NM	11.2x	10.2x	9.5x	BB- (N)	4.4x	4.1x	NM	NM
	Average						3.5%	3.6%	-4.7%	4.1%	3.5%	62%	60%	10.4x	9.9x	9.4x		3.7x	3.6x	24.7x	22.7x

Source: FactSet, Jefferies estimates

Market Cap / DCF incorporates current share price & average expected sharecounts in each period.

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Exhibit 31: APU Valuation Analysis

Jefferies

AmeriGas Partners LP (APU)

Distribution Discount Model	2016E	2017E	2018E	2019E	2020E
Available distributable cash flow per LP Unit	$3.47	$4.30	$4.38	$4.50	$4.61
Actual paid distribution per unit	$3.72	$3.82	$3.94	$4.06	$4.18
LP Coverage ratio	0.93x	1.13x	1.11x	1.11x	1.10x
Actual paid distribution growth	3.3%	2.7%	3.1%	3.0%	3.0%
Terminal value of paid distribution					$47
PV of paid distributions per unit	$3.66	$3.53	$3.42	$3.31	$3.20
Sum of PV of paid distributions per unit	$17.12				
PV of terminal value	$35.74				
Equity value per unit	$52.86				

12-Month Price Target	**$52.20**
Average Price Target	**$50.00**

Distribution Assumptions	
Historical 5-year CAGR	5.5%
Projected 5-year CAGR	3.0%
Forecast 12-month Yield	7.8%
Steady state coverage ratio	1.11x
Terminal growth rate	0.0%

Cost of Equity Assumptions	
Beta	0.85
Risk Free Rate	2.25%
Risk Premium	5.0%
Cost of Equity	6.50%
Implied Cost of Equity	8.79%

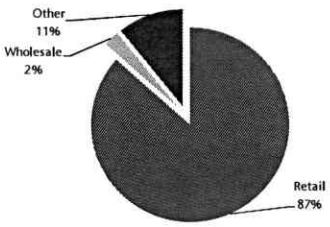
Capital Structure & WACC Calculation	
Current Stock Price	$48.60
Current Marketcap	$4,516
Cost of Equity	6.5%
Total Net Debt	$2,332
Cost of New Debt	7.0%
Tax Rate	0%
% Equity	66%
% Debt	34%
WACC	6.7%

Target Yield Analysis	
Projected F3Q17 Distribution	$0.97
Historical 4-year average Yield	7.93%
Taget Yield	8.00%
Implied Price Target	**$48.50**

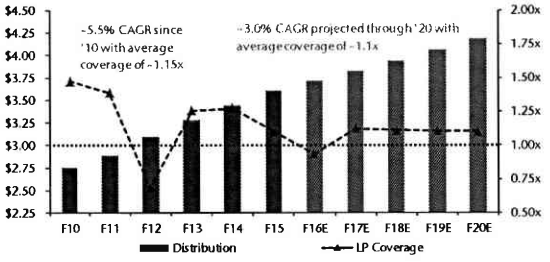
Total Return Expectation	
Appreciation to Price Target	2.9%
12-month Distribution Yield	7.8%
Total Return Expectation	**10.7%**

AmeriGas
RELIABLE, SAFE, RESPONSIVE

F2016 Revenue Composition



Terminal Cost of Equity	
Beta	0.99
Risk Free Rate	4.0%
Risk Premium	5.0%
Cost of Equity	9.0%



Valuation Multiples		
Metric	**2017E**	**2018E**
P/E	17.5x	17.1x
P/DCF	11.3x	11.1x
EV/EBITDA	10.4x	10.2x

Jefferies vs. APU F2016 Guidance Expectations		
Metric	**APU**	**JEF**
APU Net Income	$230.5	$227.1
Interest Expense	$163.0	$164.7
Income Tax Expense	$2.0	$2.2
D&A Expense	$192.0	$191.5
Transition Expenses	$0.0	$0.0
Adjusted EBITDA	**$587.5**	**$585.4**

Year	Distribution	LP Coverage
F02	$2.20	
F03	$2.20	
F04	$2.20	
F05	$2.22	
F06	$2.28	
F07	$2.63	
F08	$2.50	1.47x
F09	$2.79	1.44x
F10	$2.75	1.48x
F11	$2.89	1.39x
F12	$3.10	0.69x
F13	$3.28	1.26x
F14	$3.44	1.27x
F15	$3.60	1.10x
F16E	$3.72	0.93x
F17E	$3.82	1.13x
F18E	$3.94	1.11x
F19E	$4.06	1.11x
F20E	$4.18	1.10x

UGI Interests in APU	Current		2011	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E
LP units owned by UGI	23.8	25.6%	43.2%	43.2%	25.6%	25.6%	25.6%	25.5%	25.5%	25.5%	25.5%	25.5%
GP units owned by UGI	1.9	2.0%	2.0%	190.6%	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	0.0%
Total Interest	25.7	27.6%	45.2%	233.8%	25.6%	27.6%	27.6%	27.6%	27.6%	27.6%	27.6%	25.5%
% of APU Distribution Caputred by UGI			45.4%	45.4%	30.7%	31.4%	32.4%	33.6%	34.9%	36.4%	37.7%	38.8%

Source: APU reports, Jefferies estimates

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Jefferies

Exhibit 32: APU Consolidated Statement of Income

Consolidated Income Statement ('000s)	2008	2009	2010	2011	2012	2013	2014	Dec-1Q	Mar-2Q	Jun-3Q	Sep-4Q	2015	Dec-1Q	Mar-2Q	Jun-3QE	Sep-4QE	2016E	Dec-1QE	Mar-2QE	Jun-3QE	Sep-4QE	2017E	2018E	2019E	2020E
Mt. Belvieu Propane Price ($/gallon)	$1.61	$0.78	$1.12	$1.41	$1.14	$0.92	$1.15	$0.76	$0.53	$0.46	$0.41	$0.54	$0.42	$0.39	$0.49	$0.53	$0.46	$0.56	$0.62	$0.63	$0.67	$0.62	$0.76	$0.98	$1.07
Propane Revenue / Gallon	$2.38	$2.00	$2.11	$2.36	$2.38	$2.14	$2.51	$2.29	$2.21	$1.94	$1.73	$2.11	$1.85	$1.89	$1.97	$1.86	$1.89	$1.99	$2.11	$2.11	$1.99	$2.06	$2.19	$2.42	$2.51
Propane Cost / Gallon	$1.66	$1.20	$1.31	$1.55	$1.46	$1.17	$1.48	$1.24	$1.05	$0.88	$0.67	$1.01	$0.72	$0.70	$0.93	$0.80	$0.77	$0.86	$0.92	$1.06	$0.94	$0.93	$1.06	$1.27	$1.35
Propane Margin / Gallon	$0.71	$0.80	$0.80	$0.82	$0.92	$0.975	$1.034	$1.051	$1.166	$1.061	$1.060	$1.098	$1.134	$1.189	$1.042	$1.055	$1.121	$1.134	$1.192	$1.045	$1.055	$1.124	$1.135	$1.149	$1.163
Y/Y Gross Margin Growth			0.1%	1.9%	13.2%	5.6%	6.1%	6.1%	7.3%	3.3%	5.8%	6.1%	7.9%	2.0%	-1.8%	-0.5%	2.1%	0.0%	0.3%	0.3%	0.0%	0.3%	1.0%	1.2%	1.2%
VOLUMES (gallons in 000's)		-5.0%	-2.4%	-2.3%	12.4%	19.9%	1.6%	-13.9%	-8.9%	-5.4%	-6.9%	-9.5%	-12.5%	-13.4%	5.2%	7.1%	-6.5%	12.9%	8.1%	0.2%	0.5%	6.4%	0.75%	0.50%	0.50%
Retail	993,200	928,200	893,400	874,200	1,017,500	1,245,200	1,275,600	340,200	448,000	202,200	193,900	1,184,300	295,100	385,800	213,300	208,400	1,102,600	333,200	417,100	213,800	209,400	1,173,500	1,182,653	1,188,685	1,194,747
Wholesale	110,100	119,700	129,200	124,800	105,600	101,800	93,400	14,200	16,600	11,300	12,300	54,400	14,900	16,400	11,400	12,400	55,100	16,800	17,700	11,400	12,500	58,400	58,531	58,678	58,824
Total Gallons Sold (000's)	1,103,300	1,047,900	1,022,600	999,000	1,123,100	1,347,000	1,369,000	354,400	464,600	213,500	206,200	1,238,700	310,000	402,200	224,700	220,800	1,157,700	350,000	434,800	225,200	221,900	1,231,900	1,241,185	1,247,363	1,253,572
REVENUES																									
Retail Propane	$2,439,200	$1,976,000	$1,996,200	2,173,500	2,536,300	2,775,800	3,307,600	$797,600	$1,014,400	$407,400	$351,300	2,570,700	$565,100	$750,000	$420,481	$387,213	2,122,794	$664,029	$881,848	$450,366	$417,395	2,413,638	2,595,453	2,874,270	3,003,180
Wholesale Propane	$185,400	$115,900	$162,600	186,953	141,300	108,966	133,268	15,135	13,680	6,746	6,140	41,701	8,804	9,278	22,473	23,040	63,595	33,480	37,422	24,014	24,916	119,832	128,239	141,457	147,473
Total Propane Revenues	$2,624,672	$2,091,890	$2,158,800	2,360,439	2,677,631	2,884,766	3,440,868	812,735	1,028,080	414,146	357,440	2,612,401	573,904	759,278	442,954	410,252	2,186,388	697,510	919,270	474,379	442,311	2,533,471	2,723,692	3,015,728	3,150,653
Other	$190,517	$168,205	$161,542	177,520	243,985	281,777	272,067	76,057	72,237	63,831	60,796	272,921	70,194	68,209	64,310	61,252	263,965	70,896	68,891	64,953	61,864	266,604	270,603	274,662	278,782
Total Revenues	$2,815,189	$2,260,095	$2,320,342	2,537,959	2,921,616	3,166,543	3,712,935	$888,792	$1,100,317	$477,977	$418,236	2,885,322	$644,098	$827,487	$507,264	$471,504	2,450,353	$768,406	$988,161	$539,332	$504,176	2,800,075	2,994,295	3,290,390	3,429,435
COSTS & EXPENSES																									
Propane Costs	1,836,917	1,254,332	1,340,615	1,546,161	1,642,658	1,571,574	2,025,097	440,311	486,484	187,616	138,915	1,253,326	222,289	281,075	208,713	177,307	889,384	300,525	400,937	239,030	208,206	1,148,698	1,315,161	1,582,558	1,693,064
Propane Gross Profit	787,755	837,558	818,185	814,278	1,034,973	1,313,192	1,415,771	372,424	541,596	226,530	218,525	1,359,075	351,615	478,203	234,241	232,945	1,297,004	396,985	518,333	235,349	234,105	1,384,773	1,408,531	1,433,170	1,457,589
Cost of Other Sales	71,396	62,172	54,456	59,126	77,071	88,479	81,982	22,040	18,822	23,745	22,031	86,638	20,867	17,161	22,966	22,801	83,795	21,076	17,333	23,195	23,029	84,633	85,902	87,191	88,499
Depreciation & Amortization Expenses	80,402	83,788	87,400	94,710	169,123	202,871	197,215	49,368	48,115	48,036	49,361	194,880	49,206	47,419	47,419	47,419	191,463	48,469	48,469	48,469	48,469	193,875	196,374	198,931	201,487
Operating & Administrative Expenses	610,465	615,152	602,710	620,576	846,223	917,389	963,963	246,651	257,346	223,306	225,980	953,283	230,889	238,535	223,842	226,931	920,197	230,889	238,535	223,842	226,931	920,197	922,567	922,428	921,976
Other Income, net	(18,855)	(16,005)	(19,904)	(25,563)	(26,521)	(32,503)	(27,450)	(10,148)	(7,392)	(5,548)	(8,267)	(31,355)	(8,907)	(7,131)	(5,687)	(10,414)	(32,139)	(9,174)	(7,345)	(5,857)	(10,727)	(33,103)	(34,179)	(35,375)	(36,790)
Total Costs & Expenses	2,580,325	1,999,439	2,065,277	2,295,010	2,708,554	2,747,810	3,240,807	748,222	803,375	477,155	428,020	2,456,772	514,344	577,059	497,253	464,044	2,052,701	591,784	697,928	528,679	495,908	2,314,300	2,485,825	2,755,733	2,868,236
Total Operating Income / (Loss)	234,864	260,656	255,065	242,949	213,062	418,733	472,128	140,570	296,942	822	(9,784)	428,550	129,754	250,428	10,011	7,460	397,653	176,621	290,233	10,653	8,268	485,775	508,471	534,657	561,199
EBITDA	$315,266	$341,477	$340,184	$335,258	$380,539	$617,735	$664,795	$188,538	$342,088	$48,871	$39,696	$619,190	$177,690	$295,368	$57,415	$54,962	$585,435	$223,259	$335,801	$59,118	$56,814	$674,992	$699,987	$728,542	$757,483
			0%	-1%	14%	62%	8%					-7%					-5%					15%	4%	4%	4%
Interest Expense	(72,886)	(70,340)	(65,106)	(63,518)	(142,641)	(165,432)	(165,581)	(41,034)	(41,096)	(40,274)	(40,438)	(162,842)	(41,025)	(40,806)	(40,931)	(41,917)	(164,679)	(42,271)	(42,271)	(42,271)	(42,271)	(169,083)	(174,814)	(181,682)	(189,552)
Other Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Pretax Earnings	161,978	190,316	189,959	179,431	70,421	253,301	306,547	99,536	255,846	(39,452)	(50,222)	265,708	88,729	209,622	(30,920)	(34,457)	232,973	134,351	247,962	(31,618)	(34,003)	316,692	333,657	352,975	371,647
Income Tax (Expense) / Benefit	(1,672)	(2,593)	(3,265)	(390)	(1,931)	(1,671)	(2,611)	(870)	(806)	(802)	(420)	(2,898)	(910)	(290)	(693)	(315)	(2,208)	(1,270)	(584)	(672)	(295)	(2,821)	(2,771)	(2,783)	(2,764)
Net Income before Minority Interest	160,306	187,723	186,694	179,041	68,490	251,630	303,936	98,666	255,040	(40,254)	(50,642)	262,810	87,819	209,332	(31,613)	(34,772)	230,766	133,080	247,378	(32,290)	(34,298)	313,871	330,886	350,192	368,884
Less: Minority Interest	(2,287)	(2,967)	(2,281)	(2,401)	(1,646)	(3,869)	(4,548)	(1,403)	(2,969)	13	119	(4,240)	(1,270)	(2,479)	(14)	83	(3,681)	(1,831)	(2,901)	(4)	78	(4,658)	(4,857)	(5,047)	(5,203)
Net Income before Accounting Changes	158,019	184,756	184,413	176,640	66,844	247,761	299,388	97,263	252,071	(40,241)	(50,523)	258,570	86,549	206,853	(31,628)	(34,689)	227,085	131,249	244,477	(32,294)	(34,220)	309,212	326,029	345,145	363,681
Less: Cumulative Effect of Acctg Changes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	**158,019**	**184,756**	**184,413**	**176,640**	**66,844**	**247,761**	**299,388**	**97,263**	**252,071**	**(40,241)**	**(50,523)**	**258,570**	**86,549**	**206,853**	**(31,628)**	**(34,689)**	**227,085**	**131,249**	**244,477**	**(32,294)**	**(34,220)**	**309,212**	**326,029**	**345,145**	**363,681**
Less: General Partner's Interest	(2,278)	(6,737)	(4,768)	(6,422)	(13,119)	(21,498)	(26,749)	(6,137)	(9,795)	(8,389)	(8,148)	(32,469)	(9,455)	(11,107)	(11,458)	(11,458)	(43,479)	(11,431)	(11,431)	(14,221)	(14,221)	(51,304)	(62,355)	(73,406)	(84,457)
Net Income Available to Limited Partners	155,741	178,019	179,645	170,218	53,725	226,263	272,639	91,126	242,276	(48,630)	(58,671)	226,101	77,094	195,746	(43,086)	(46,148)	183,606	119,818	233,046	(46,515)	(48,441)	257,908	263,674	271,739	279,224
Net Income per Limited Partner Unit	**$2.73**	**$3.12**	**$3.15**	**$2.98**	**$0.66**	**$2.44**	**$2.93**	**$0.98**	**$2.61**	**($0.52)**	**($0.63)**	**$2.43**	**$0.83**	**$2.10**	**($0.46)**	**($0.50)**	**$1.97**	**$1.29**	**$2.51**	**($0.50)**	**($0.52)**	**$2.77**	**$2.84**	**$2.92**	**$3.00**
% Change from Prior Comparable Period		14%	1%	-5%	-78%	269%	20%	-29%	4%	18%	26%	-17%	-15%	-19%	-11%	-21%	-19%	55%	19%	8%	5%	40%	2%	3%	3%
LP Units owned by UGI	23,992	24,691	24,691	24,691	23,992	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757	23,757
Average # of Units Outstanding	57,023	57,059	57,102	57,146	81,459	92,869	92,913	92,893	92,963	92,918	92,918	92,923	93,004	93,020	93,004	93,004	93,008	93,004	93,004	93,004	93,004	93,004	93,004	93,004	93,004

Source: APU reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Exhibit 33: APU Consolidated Balance Sheet

Consolidated Balance Sheet ('000s)	2010	2011	2012	2013	2014	Dec-1Q	Mar-2Q	Jun-3Q	Sep-4Q	2015	Dec-1Q	Mar-2Q	Jun-3QE	Sep-4QE	2016E	2017E	2018E	2019E	2020E
Cash & equivalents	7,726	8,632	60,102	12,635	13,480	18,507	21,385	16,222	14,757	14,757	17,251	15,740	12,710	12,377	12,377	12,923	13,206	15,240	15,875
Accounts receivable	179,747	234,634	267,647	292,210	280,920	380,922	396,386	226,415	201,427	201,427	271,541	260,585	263,777	259,327	259,327	252,007	251,521	296,135	308,649
Inventory	114,122	135,815	163,746	158,928	181,946	177,409	115,666	93,301	93,934	93,934	99,006	94,959	99,451	92,809	92,809	115,715	124,291	137,787	143,412
Other current assets	24,263	14,738	31,873	36,919	29,562	52,450	49,298	49,981	56,243	56,243	60,110	60,444	60,444	60,444	60,444	60,444	60,444	60,444	60,444
Total current assets	**325,858**	**393,819**	**523,368**	**500,692**	**505,908**	**629,288**	**582,735**	**385,919**	**366,361**	**366,361**	**447,908**	**431,728**	**436,382**	**424,958**	**424,958**	**441,089**	**449,462**	**509,606**	**528,380**
Tangible fixed assets	**642,778**	**645,755**	**1,499,225**	**1,437,514**	**1,386,910**	**1,373,626**	**1,359,353**	**1,341,325**	**1,324,327**	**1,324,327**	**1,315,500**	**1,303,281**	**1,277,946**	**1,253,722**	**1,253,722**	**1,180,447**	**1,109,016**	**1,037,948**	**964,264**
Goodwill	678,721	691,910	1,914,808	1,936,608	1,945,748	1,950,268	1,950,327	1,954,791	1,956,688	1,956,688	1,971,999	1,971,999	1,971,999	1,971,999	1,971,999	1,971,999	1,971,999	1,971,999	1,971,999
Other intangible fixed assets	37,590	41,542	535,996	493,649	464,338	458,094	448,598	441,349	433,713	433,713	433,755	424,062	424,062	424,062	424,062	424,062	424,062	424,062	424,062
Investment in affiliates	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other investments	11,272	22,709	43,934	41,383	61,154	67,841	65,608	62,364	60,623	60,623	57,818	56,651	56,651	56,651	56,651	56,651	56,651	56,651	56,651
Non-Current Assets	**727,583**	**756,161**	**2,494,738**	**2,471,640**	**2,471,240**	**2,476,203**	**2,464,533**	**2,458,504**	**2,451,024**	**2,451,024**	**2,463,572**	**2,452,712**	**2,452,712**	**2,452,712**	**2,452,712**	**2,452,712**	**2,452,712**	**2,452,712**	**2,452,712**
Total assets	**1,696,219**	**1,795,735**	**4,517,331**	**4,409,846**	**4,364,058**	**4,479,117**	**4,406,621**	**4,185,748**	**4,141,712**	**4,141,712**	**4,226,980**	**4,187,721**	**4,167,040**	**4,131,391**	**4,131,391**	**4,074,247**	**4,011,190**	**4,000,266**	**3,945,355**
Trade payables and other ST liabilities	349,139	350,829	590,239	488,060	496,925	570,315	462,326	388,226	468,515	468,515	446,621	385,682	447,528	510,449	510,449	509,146	522,023	578,704	602,330
Short term debt	111,123	100,164	80,606	128,914	120,589	264,544	68,319	53,953	77,779	77,779	192,901	72,741	74,696	76,302	76,302	84,200	86,998	90,970	94,726
Total current liabilities	**460,262**	**450,993**	**670,845**	**616,974**	**617,514**	**834,859**	**530,645**	**442,179**	**546,294**	**546,294**	**639,522**	**458,423**	**522,224**	**586,750**	**586,750**	**593,346**	**609,021**	**669,674**	**697,055**
Long term debt	771,279	928,858	2,297,363	2,288,097	2,280,145	2,280,208	2,279,762	2,279,237	2,273,817	2,273,817	2,275,035	2,274,788	2,335,911	2,386,135	2,386,135	2,461,530	2,543,328	2,659,444	2,769,243
Debt deemed provisions (e.g. pensions)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Minority Interests	12,038	12,823	39,452	39,034	38,376	36,184	38,848	37,383	36,157	36,157	35,771	37,534	37,534	37,534	37,534	37,534	37,534	37,534	37,534
Other long term liabilities	71,792	64,405	80,563	80,638	105,509	134,817	127,781	117,912	121,228	121,228	126,252	115,737	113,077	109,268	109,268	124,054	133,891	130,712	137,860
Long Term Liabilities	**1,315,371**	**1,457,079**	**3,088,223**	**3,024,743**	**3,041,544**	**3,286,068**	**2,977,036**	**2,876,711**	**2,977,496**	**2,977,496**	**3,076,580**	**2,886,482**	**3,008,745**	**3,119,686**	**3,119,686**	**3,216,464**	**3,323,774**	**3,497,364**	**3,641,693**
Subordinated	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Common Unitholders	372,220	340,180	1,455,702	1,354,187	1,299,260	1,172,636	1,407,497	1,288,367	1,145,291	1,145,291	1,131,597	1,280,915	0	0	0	0	0	0	0
General Partner	3,751	3,436	16,975	15,930	20,460	19,197	21,576	20,369	18,925	18,925	18,803	20,324	0	0	0	0	0	0	0
Accumulated Other Comprehensive Income	4,877	(4,960)	(43,569)	14,986	2,794	1,216	512	301	0	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	**380,848**	**338,656**	**1,429,108**	**1,385,103**	**1,322,514**	**1,193,049**	**1,429,585**	**1,309,037**	**1,164,216**	**1,164,216**	**1,150,400**	**1,301,239**	**1,158,295**	**1,011,705**	**1,011,705**	**857,783**	**687,416**	**502,903**	**303,663**
Total liabilities and equity	**1,696,219**	**1,795,735**	**4,517,331**	**4,409,846**	**4,364,058**	**4,479,117**	**4,406,621**	**4,185,748**	**4,141,712**	**4,141,712**	**4,226,980**	**4,187,721**	**4,167,040**	**4,131,391**	**4,131,391**	**4,074,247**	**4,011,190**	**4,000,266**	**3,945,355**
Check	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Source: APU reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Exhibit 34: APU Consolidated Statement of Cash Flows

Consolidated Cash Flow Statement ('000s)	2010	2011	2012	2013	2014	Dec-1Q	Mar-2Q	Jun-3Q	Sep-4Q	2015	Dec-1Q	Mar-2Q	Jun-3QE	Sep-4QE	2016E	2017E	2018E	2019E	2020E
Operating activities																			
Net income	167,494	140,924	12,671	225,091	294,441	(39,564)	329,779	(25,441)	(49,805)	214,969	82,186	248,786	(43,086)	(46,148)	241,738	257,908	263,674	271,739	279,224
Depreciation & Conservation Amortization	87,400	94,710	169,123	202,871	197,215	49,368	48,115	48,036	49,361	194,880	49,206	47,419	47,419	47,419	191,463	193,875	196,374	198,931	201,487
Deferred taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net change in working capital	(50,683)	(94,895)	133,179	(83,736)	(41,219)	(167,256)	5,952	116,367	110,059	65,122	(103,572)	(22,246)	54,162	74,012	2,356	(16,888)	4,787	(1,429)	5,486
Other, including changes in provisions and other liabilities	14,605	48,112	29456	11,377	29,633	143,030	(74,456)	(9,879)	(9,808)	48,887	8,161	(35,853)	(2,660)	(3,809)	(34,161)	14,786	9,837	(3,179)	7,148
Cash from operating activities	**218,816**	**188,851**	**344,429**	**355,603**	**480,070**	**(14,422)**	**309,390**	**129,083**	99,807	**523,858**	**35,981**	**238,106**	**55,835**	**71,474**	**401,396**	**449,681**	**474,672**	**466,062**	**493,346**
Investing activities																			
Capital expenditure - tangible fixed assets	(83,170)	(77,228)	(103,140)	(111,058)	(113,934)	(30,430)	(26,787)	(20,641)	(24,151)	(102,009)	(27,974)	(27,813)	(26,008)	(30,705)	(112,500)	(115,000)	(117,500)	(120,000)	(120,000)
Acquisitions	(34,345)	(34,032)	(1,425,002)	(19,946)	(15,746)	(8,903)	(115)	(7,990)	(3,832)	(20,840)	(25,761)	0	(1,006)	(733)	(27,500)	(27,500)	(30,000)	(30,000)	(30,000)
Net disposals	2,586	5,131	8,082	22,113	19,931	7,899	6,733	3,748	5,436	23,816	5,179	3,601	4,930	8,243	21,953	21,900	22,556	22,137	22,198
Other investment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash from investing activities	**(114,929)**	**(106,129)**	**(1,520,060)**	**(108,891)**	**(109,749)**	**(31,434)**	**(20,169)**	**(24,883)**	**(22,547)**	**(99,033)**	**(48,556)**	**(24,212)**	**(22,084)**	**(23,194)**	**(118,047)**	**(120,600)**	**(124,944)**	**(127,863)**	**(127,802)**
Financing activities																			
Inc./(dec.) in short term debt	91,000	4,500	(45,600)	67,000	(7,900)	144,000	(198,000)	(11,400)	24,500	(40,900)	113,900	(116,700)	1,955	1,606	761	7,898	2,798	3,972	3,756
Inc./(dec.) in long term debt	(83,107)	86,356	1,267,182	(30,531)	(12,272)	(1,808)	(1,523)	(1,367)	(1,251)	(5,949)	(2,194)	(3,643)	61,123	50,224	105,510	75,395	81,798	116,116	109,799
Inc./(dec.) in equity	583	616	280,337	0	2,524	24	3401	58	52	3,535	0	1138	0	0	1,138	0	0	0	0
Common stock dividends paid	(161,626)	(171,821)	(271,839)	(327,000)	(346,744)	(89,150)	(89,168)	(95,054)	(95,054)	(368,426)	(95,038)	(95,085)	(98,882)	(98,882)	(387,887)	(406,579)	(428,791)	(451,002)	(473,214)
Other cash from financing	(2,224)	(1,467)	(2,979)	(3,648)	(5,084)	(2,183)	(1,053)	(1,600)	(6,972)	(11,808)	(1,599)	(1,115)	(976)	(1,560)	(5,250)	(5,250)	(5,250)	(5,250)	(5,250)
Cash from financing activities	**(155,374)**	**(81,816)**	**1,227,101**	**(294,179)**	**(369,476)**	**50,883**	**(286,343)**	**(109,363)**	**(78,725)**	**(423,548)**	**15,069**	**(215,405)**	**(36,781)**	**(48,612)**	**(285,729)**	**(328,536)**	**(349,445)**	**(336,164)**	**(364,908)**
Cash flow increase/(decrease) in cash	(51,487)	906	51,470	(47,467)	845	5,027	2,878	(5,163)	(1,465)	1,277	2,494	(1,511)	(3,030)	(333)	(2,380)	545	283	2,034	635
Non-cash movements in cash	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Forex Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net change in cash	**(51,487)**	**906**	**51,470**	**(47,467)**	**845**	**5,027**	**2,878**	**(5,163)**	**(1,465)**	**1,277**	**2,494**	**(1,511)**	**(3,030)**	**(333)**	**(2,380)**	**545**	**283**	**2,034**	**635**
Cash at the beginning of the year	**59,213**	**7,726**	**8,632**	**60,102**	**12,635**	**13,480**	**18,507**	**21,385**	**16,222**	**13,480**	**14,757**	**17,251**	**15,740**	**12,710**	**14,757**	**12,377**	**12,923**	**13,206**	**15,240**
Cash at the end of the year	**7,726**	**8,632**	**60,102**	**12,635**	**13,480**	**18,507**	**21,385**	**16,222**	**14,757**	**14,757**	**17,251**	**15,740**	**12,710**	**12,377**	**12,377**	**12,923**	**13,206**	**15,240**	**15,875**

Source: APU reports, Jefferies estimates

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Exhibit 35: NI Valuation Analysis

Jefferies

NiSource (NI)

Target P/E Analysis	
2018 EPS	$1.23
Average 2018 P/E	20.2x
Implied Price Target	**$24.92**

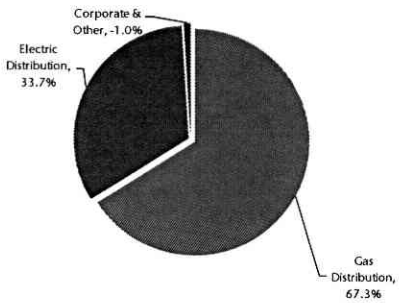
Target Yield Analysis	
2Q17 Dividend	$0.66
Average Historical Yield	2.96%
Target Yield	3.00%
Implied Price Target	**$22.00**

Assumptions	
EPS CAGR 2015-2020	5.8%
Dividend CAGR 2015-2020	5.2%
Terminal Growth Rate	2.0%
Stable Period Payout Ratio	60.4%
Stable Period ROE	8.6%
Implied 2016 EV/EBITDA	10.5x
Implied 2016 P/E	24.0x

WACC Calculations	
Risk Free Rate	2.25%
Beta	0.70
Equity Risk Premium	5.0%
Cost of Equity	5.8%
Cost of New Debt	6.0%
Tax Rate	35.2%
WACC	4.9%

Capital Structure	
Total Debt	$7,015
Market Cap	$8,294
Debt/Cap	45.8%
Equity/Cap	54.2%

2016E EBIT Composition



Average Price Target	$22.00

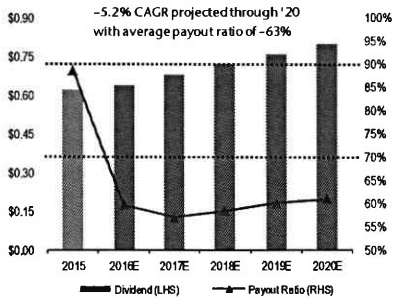
Total Return Expectations	
NI Current Price	$25.80
Appreciation to PT	-14.7%
Yield over 12-months	2.6%
Total Return Potential	**-12.2%**

Dividend Expectations		
2015	$0.62	89%
2016E	$0.64	60%
2017E	$0.68	57%
2018E	$0.72	58%
2019E	$0.76	60%
2020E	$0.80	61%

NiSource

2016 EBIT Contribution		
Gas Distribution	$625.3	67.3%
Electric Distribution	$312.8	33.7%
Corporate & Other	($9.3)	-1.0%
Total	$928.8	100.0%

Terminal WACC Calculations	
Risk Free Rate	4.0%
Adjusted Beta	0.80
Equity Risk Premium	5.0%
Terminal Cost of Equity	8.0%
Terminal Cost of New Debt	5.5%
Terminal WACC	6.0%
Terminal Cash Flow Growth Rate	2.0%
Terminal Dividend Growth Rate	2.5%



DIVIDEND DISCOUNT MODEL	2016E	2017E	2018E	2019E	2020E
Dividend Per Share	$0.64	$0.68	$0.72	$0.76	$0.80
Payout Ratio	*59.6%*	*56.9%*	*58.4%*	*60.0%*	*60.9%*
Terminal Value					$14.91
PV of Dividends	$0.62	$0.63	$0.63	$0.62	$0.62
Sum of PV of Dividends per Share	$3.12				
PV of Terminal Value	$14.91				
Equity Value per Share	$18.03				
Implied Equity Value per Share*	**$18.60**				

Discounted Cash Flow	2016E	2017E	2018E	2019E	2020E
EBIT	$929	$1,003	$1,048	$1,091	$1,137
Other	$8	$10	$10	$11	$11
(Cash Taxes on EBIT)	($14)	($15)	($16)	($17)	($36)
NOPAT	**$923**	**$998**	**$1,042**	**$1,085**	**$1,112**
D&A	$534	$541	$548	$555	$562
(Capex)	($1,415)	($1,440)	($1,465)	($1,490)	($1,062)
(Changes in NWC)	$28	$12	$10	$10	$10
Free Cash Flow to the Firm	**$70**	**$111**	**$135**	**$160**	**$622**
Terminal Value					$15,977.6
PV of Cash Flows	$67.9	$103.7	$120.0	$135.0	$13,385.5
Implied Enterprise Value	13,812				
(Net Debt)	(7,015)				
(Pension & Operating Lease)	(412)				
Implied Equity Value	6,385				
Shares Outstanding	322.0				
Implied Equity Value per Share*	**$20.50**				

Source: NI reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Exhibit 36: NI Consolidated Statement of Income

Consolidated Income Statement	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Revenues	$5,795.7	$5,099.9	$5,659.3	$6,456.3	$2,127.5	$1,175.8	$821.1	$1,124.9	$4,593.6	$1,453.8	$928.1	$858.2	$1,238.3	$4,478.4	$1,510.3	$992.7	$930.3	$1,290.0	$4,723.3	$4,876.4	$5,068.7	$5,252.4
(Cost of Sales)	($2,334.1)	($1,525.2)	($1,815.5)	($2,224.2)	($806.0)	($218.6)	($209.1)	($336.4)	($1,569.9)	($496.5)	($252.1)	($213.9)	($404.4)	($1,366.9)	($518.1)	($268.9)	($236.6)	($426.1)	($1,449.8)	($1,478.8)	($1,545.5)	($1,601.9)
Net Revenue	$3,461.6	$3,574.7	$3,843.8	$4,232.1	$1,321.5	$957.2	$612.0	$788.5	$3,023.7	$957.3	$676.0	$644.3	$833.9	$3,111.5	$992.3	$723.8	$693.6	$863.9	$3,273.6	$3,397.6	$3,523.2	$3,650.5
(Operating & Maintenance Expenses)	($1,688.1)	($1,674.6)	($1,873.9)	($2,117.1)	($553.6)	($520.6)	($310.0)	($347.3)	($1,409.3)	($353.9)	($355.3)	($322.4)	($360.0)	($1,391.6)	($370.1)	($370.1)	($338.4)	($376.3)	($1,454.9)	($1,518.9)	($1,582.4)	($1,646.4)
(Depreciation & Amortization)	($542.8)	($563.9)	($577.3)	($605.5)	($157.5)	($167.4)	($132.5)	($133.4)	($524.4)	($132.8)	($134.5)	($133.5)	($133.3)	($534.1)	($135.3)	($135.8)	($135.0)	($134.9)	($541.0)	($548.1)	($555.1)	($561.9)
(Other Taxes)	($293.3)	($287.8)	($300.6)	($320.3)	($102.4)	($79.1)	($53.7)	($58.9)	($256.1)	($71.3)	($63.1)	($58.0)	($67.0)	($259.5)	($79.5)	($67.8)	($61.9)	($67.1)	($276.2)	($284.6)	($296.6)	($307.2)
(Gain on Sale of Assets)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
OPERATING INCOME BY DIVISION																						
Gas Distribution	$438.7	$450.2	$448.8	$498.4	$305.8	$55.6	$21.6	$184.8	$567.8	$330.2	$69.5	$31.4	$194.1	$625.3	$328.9	$79.0	$42.1	$203.8	$653.9	$685.3	$712.6	$739.1
Columbia Pipeline	$360.4	$397.8	$422.8	$456.2	$157.7	$100.3	$0.0	$0.0														
Electric Operations	$195.1	$237.6	$265.3	$287.7	$67.2	$56.6	$101.6	$54.1	$282.1	$72.2	$61.1	$105.5	$73.4	$312.8	$84.0	$77.5	$123.3	$73.8	$358.6	$372.9	$388.7	$408.7
Corporate & Eliminations	($42.2)	($5.0)	($9.0)	($6.5)	($7.3)	($8.7)	($7.4)	$10.0	($13.4)	($3.1)	($6.9)	($6.0)	$6.7	($9.3)	($5.2)	($5.8)	($6.5)	$8.5	($9.1)	($10.3)	($10.2)	($10.9)
Total Recurring Operating Income	**$952.0**	**$1,080.6**	**$1,127.9**	**$1,235.8**	**$523.4**	**$203.8**	**$115.8**	**$248.9**	**$836.5**	**$399.3**	**$123.7**	**$131.0**	**$274.2**	**$928.8**	**$407.8**	**$150.7**	**$158.9**	**$286.1**	**$1,003.4**	**$1,047.9**	**$1,091.2**	**$1,137.0**
Other Income / (Loss)	($7.3)	$2.4	$24.2	$22.3	$7.1	$6.5	$5.8	$5.8	$25.2	$0.7	$2.3	$2.5	$2.5	$8.0	$2.5	$2.4	$2.5	$2.5	$9.9	$10.5	$10.5	$10.5
Interest Expense - Net	($376.8)	($418.3)	($414.8)	($443.6)	($111.0)	($117.1)	($94.9)	($94.3)	($417.3)	($90.5)	($94.4)	($96.7)	($100.1)	($381.6)	($101.8)	($101.8)	($101.8)	($101.8)	($407.3)	($411.4)	($415.4)	($429.9)
Minority Interest (CPPL Public LP Units)					($6.9)	($8.7)	$0.0	$0.0	($15.6)	$0.0				$0.0								
Pretax Income	$567.9	$664.7	$737.3	$814.5	$412.6	$84.5	$26.7	$160.4	$684.2	$309.5	$31.6	$36.8	$176.6	$554.6	$308.4	$51.3	$59.5	$186.7	$606.0	$647.0	$686.3	$717.6
(Provision)/Benefit for Income Taxes	($196.2)	($231.8)	($254.8)	($293.5)	($147.7)	($33.0)	($8.6)	($60.9)	($250.3)	($118.7)	($11.5)	($13.5)	($64.4)	($208.1)	($111.0)	($18.5)	($21.4)	($67.2)	($218.2)	($232.9)	($247.1)	($258.3)
Effective Tax Rate	*34.6%*	*34.9%*	*34.6%*	*36.0%*	*35.8%*	*39.1%*	*32.2%*	*38.0%*	*36.6%*	*38.4%*	*36.3%*	*36.7%*	*36.5%*	*37.5%*	*36.0%*	*36.0%*	*36.0%*	*36.0%*	*36.0%*	*36.0%*	*36.0%*	*36.0%*
Net Income (from Continuing Operations)	$371.7	$432.9	$482.5	$521.0	$174.9	$6.5	$18.1	$99.5	$298.9	$190.8	$20.1	$23.3	$112.2	$346.4	$197.4	$32.8	$38.1	$119.5	$387.9	$414.1	$439.2	$459.3
Recurring Diluted EPS	**$1.29**	**$1.44**	**$1.54**	**$1.65**	$0.55	$0.02	$0.06	$0.31	**$0.94**	$0.59	$0.06	$0.07	$0.35	**$1.07**	$0.61	$0.10	$0.12	$0.37	**$1.19**	**$1.23**	**$1.27**	**$1.31**
Average # of diluted shares outstanding	288.5	300.4	313.6	316.3	317.4	317.5	321.5	321.1	319.4	322.0	322.2	322.7	323.2	322.5	323.8	324.4	325.0	325.6	324.7	335.7	346.7	349.4
Average # of basic shares outstanding	280.4	291.9	312.4	315.1	316.6	317.5	318.1	318.8	317.8	320.3	320.5	321.0	321.5	320.8	322.1	322.7	323.3	323.9	323.0	334.0	345.0	347.7
Dividends per Share	**$0.92**	**$0.94**	**$0.98**	**$1.02**	$0.260	$0.260	$0.155	$0.155	**$0.83**	$0.155	$0.155	$0.17	$0.17	**$0.64**	$0.17	$0.17	$0.18	$0.18	**$0.68**	**$0.72**	**$0.76**	**$0.80**
Payout Ratio	**71%**	**65%**	**64%**	**62%**	47%	1275%	275%	50%	**89%**	26%	248%	228%	48%	**60%**	27%	163%	149%	48%	**57%**	**58%**	**60%**	**61%**

Source: NI reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Exhibit 37: NI Consolidated Balance Sheet

Consolidated Balance Sheet ($MM)	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Cash & equivalents	12	36	27	25	42	497	32	16	16	24	26	25	30	30	19	19	20	20
Accounts receivable	855	907	1,006	1,070	1,152	673	501	660	660	648	541	466	673	673	751	775	833	861
Inventory	566	496	500	583	269	472	564	537	537	318	554	581	659	659	695	709	741	779
Other current assets	816	913	626	788	798	695	541	365	365	405	405	405	405	405	405	405	405	405
Total current assets	**2,248**	**2,352**	**2,159**	**2,467**	**2,261**	**2,336**	**1,638**	**1,577**	**1,577**	**1,395**	**1,526**	**1,478**	**1,768**	**1,768**	**1,870**	**1,908**	**1,999**	**2,066**
Tangible fixed assets	**11,800**	**12,916**	**14,365**	**16,017**	**16,283**	**16,908**	**11,691**	**12,112**	**12,112**	**12,267**	**12,571**	**12,835**	**12,981**	**12,981**	**13,880**	**14,797**	**15,732**	**16,685**
Goodwill	3,677	3,677	3,666	3,666	3,666	3,666	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691
Other intangible fixed assets	460	381	363	265	262	258	256	254	254	251	251	251	251	251	251	251	251	251
Investment in affiliates	205	243	374	453	448	452	203	195	195	202	201	203	202	202	202	202	202	202
Other investments	2,318	2,275	1,727	1,999	1,979	1,986	1,578	1,665	1,665	1,666	1,666	1,666	1,650	1,650	1,650	1,650	1,650	1,650
Non-Current Assets	**6,660**	**6,576**	**6,130**	**6,383**	**6,355**	**6,363**	**3,727**	**3,804**	**3,804**	**3,809**	**3,808**	**3,810**	**3,794**	**3,794**	**3,794**	**3,794**	**3,794**	**3,794**
Total assets	**20,708**	**21,845**	**22,654**	**24,866**	**24,899**	**25,607**	**17,056**	**17,493**	**17,493**	**17,471**	**17,905**	**18,123**	**18,542**	**18,542**	**19,543**	**20,498**	**21,525**	**22,544**
Trade payables and other ST liabilities	1,960	2,018	1,938	2,111	1,982	1,920	1,524	1,656	1,656	1,387	1,870	1,685	1,868	1,868	1,986	2,026	2,117	2,188
Short term debt	1,687	1,284	1,241	1,844	777	604	550	1,001	1,001	1,109	1,101	1,163	1,180	1,180	1,248	1,251	1,322	1,394
Total current liabilities	**3,646**	**3,302**	**3,178**	**3,955**	**2,758**	**2,524**	**2,073**	**2,658**	**2,658**	**2,496**	**2,971**	**2,849**	**3,048**	**3,048**	**3,234**	**3,277**	**3,439**	**3,583**
Long term debt	6,267	6,819	7,593	8,156	7,958	8,881	6,134	5,949	5,949	5,906	5,862	6,194	6,285	6,285	6,657	6,670	7,047	7,434
Debt deemed provisions (e.g. pensions)	1,100	1,268	702	676	654	634	665	760	760	754	754	754	754	754	754	754	754	754
Deferred taxes (Revenue)	2,650	3,062	3,408	3,662	3,804	3,823	2,514	2,365	2,365	2,427	2,438	2,450	2,510	2,510	2,713	2,930	3,160	3,382
Other long term liabilities	2,048	1,840	1,886	2,243	2,256	2,289	1,870	1,918	1,918	2,017	2,024	2,037	2,035	2,035	2,047	2,057	2,067	2,077
Total liabilities	**15,711**	**16,290**	**16,767**	**18,691**	**17,429**	**18,151**	**13,256**	**13,649**	**13,649**	**13,599**	**14,050**	**14,285**	**14,632**	**14,632**	**15,405**	**15,687**	**16,466**	**17,230**
Common equity	4,997	5,554	5,887	6,175	6,524	6,506	3,800	3,844	3,844	3,872	3,855	3,838	3,910	3,910	4,138	4,812	5,059	5,315
Preferred equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Minority interests	0	0	0	0	946	950	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	**4,997**	**5,554**	**5,887**	**6,175**	**7,470**	**7,456**	**3,800**	**3,844**	**3,844**	**3,872**	**3,855**	**3,838**	**3,910**	**3,910**	**4,138**	**4,812**	**5,059**	**5,315**
Total liabilities and equity	**20,708**	**21,845**	**22,654**	**24,866**	**24,899**	**25,607**	**17,056**	**17,493**	**17,493**	**17,471**	**17,905**	**18,123**	**18,542**	**18,542**	**19,543**	**20,498**	**21,525**	**22,544**
Check	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Balance Sheet Assumptions	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Accounts receivable (as % of EBIT)	90%	84%	87%	85%	217%	320%	412%	259%	77%	162%	429%	349%	243%	72%	74%	73%	76%	75%
Inventory (as % of operating expenses)	34%	30%	27%	28%	49%	91%	182%	155%	38%	90%	156%	180%	183%	47%	48%	47%	47%	47%
Trade payable & other S.T. liabilities (as % of opg. Exp.)	116%	120%	103%	100%	358%	369%	491%	477%	118%	392%	526%	523%	519%	134%	137%	133%	134%	133%
Working Capital	277.0	299	195	330	237.3	(80.8)	82.6	(94.7)	(95)	(15.1)	(370.2)	(232.5)	(130.3)	(130)	(135)	(136)	(138)	(143)
Changes in Working Capital	**(262.2)**	**(30.3)**	**55.3**	**(139.5)**	16.9	291.2	(133.3)	(27.9)	**146.9**	(121.3)	355.1	(137.7)	(102.2)	**(6.1)**	**4.6**	**1.5**	**1.0**	**5.3**
Average Collection Period	**54**	**65**	**65**	**60**	49	52	56	54	**52**	41	53	50	50	**55**	**58**	**58**	**60**	**60**
Inventory Days	**89**	**119**	**101**	**96**	30	196	248	147	**125**	58	200	250	150	**177**	**175**	**175**	**175**	**178**
Average Payable Period	**306**	**484**	**390**	**346**	221	799	670	453	**385**	254	675	725	425	**500**	**500**	**500**	**500**	**500**

Source: NI reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Exhibit 38: NI Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows ($MM)	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Operating activities																		
Net income	299	416	532	530	275	(28)	(5)	59	302	180	20	23	112	335	388	414	439	459
Depreciation, amortization & decommissioning	538	562	577	606	158	167	66	133	524	133	135	134	133	534	541	548	555	562
Deferred taxes	178	305	287	299	135	(16)	(59)	75	135	102	11	13	60	185	203	217	230	222
Net change in working capital	(262)	(30)	55	(140)	17	291	(133)	(28)	147	(121)	355	(138)	(102)	(6)	5	2	1	5
Other, including changes in provisions and other liabilities	117	23	(15)	25	20	96	210	23	348	10	8	13	(3)	28	12	10	10	10
Cash from operating activities	**870**	**1,276**	**1,437**	**1,320**	**604**	**511**	**78**	**263**	**1,457**	**303**	**528**	**45**	**200**	**1,076**	**1,149**	**1,190**	**1,235**	**1,259**
Investing activities																		
Capital expenditure - tangible fixed assets	(1,125)	(1,499)	(1,880)	(2,029)	(408)	(584)	(362)	(7)	(1,361)	(301)	(438)	(397)	(278)	(1,415)	(1,440)	(1,465)	(1,490)	(1,515)
Investment in affiliates	0	(20)	(125)	(69)	1	1	(2)	0	0	0	1	(2)	1	0	0	0	0	0
Net disposals/(acquisitions)	9	26	18	13	12	5	3,786	0	3,803	1	0	0	(1)	0	0	0	0	0
Other investment	(34)	68	96	(32)	6	(27)	(21)	(454)	(497)	(15)	0	0	15	0	0	0	0	0
Cash from investing activities	**(1,149)**	**(1,425)**	**(1,891)**	**(2,117)**	**(389)**	**(605)**	**3,400**	**(461)**	**1,945**	**(315)**	**(437)**	**(399)**	**(263)**	**(1,415)**	**(1,440)**	**(1,465)**	**(1,490)**	**(1,515)**
Financing activities																		
Inc./(dec.) in short term debt	(23)	(582)	(78)	878	(1,263)	(152)	19	460	(936)	278	(8)	62	17	349	68	2	71	73
Inc./(dec.) in long term debt	603	660	797	227	(8)	898	(2,749)	(233)	(2,092)	(204)	(43)	332	91	175	371	13	377	387
Inc./(dec.) in equity	24	374	44	20	1,154	6	(1,163)	5	2	(3)	13	13	13	34	60	500	70	75
Common stock dividends paid	(258)	(273)	(306)	(321)	(82)	(83)	(49)	(49)	(263)	(50)	(50)	(53)	(53)	(205)	(220)	(240)	(262)	(278)
Other cash from financing	(65)	(3)	(11)	(9)	0	(121)	(1)	0	(122)	(0)	0	0	0	(0)	0	0	0	0
Inc./(dec.) in preffered equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash from financing activities	**281**	**175**	**445**	**795.6**	**(199)**	**548**	**(3,943)**	**182**	**(3,411.6)**	**21**	**(88)**	**354**	**67**	**353**	**280**	**275**	**256**	**257**
Cash flow increase/(decrease) in cash	2	25	(9)	(1)	17	455	(465)	(16)	(10)	8	2	(1)	5	15	(12)	0	1	1
Non-cash movements in cash	0	0	0	0	0	0	0	0	0	(0)	0	0	0	0	0	0	0	0
Forex Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net change in cash	**2**	**25**	**(9)**	**(1)**	17	455	(465)	(16)	**(10)**	8	2	(1)	5	**15**	**(12)**	**0**	**1**	**1**
Cash at the beginning of the year	**9**	**11**	**36**	**27**	25	42	497	32	**25**	16	24	26	25	**16**	**30**	**19**	**19**	**20**
Cash at the end of the year	**11**	**36**	**27**	**25**	42	497	32	15	**16**	23.7	26	25	30	**30**	**19**	**19**	**20**	**20**
Cash paid for income taxes	**9**	**8**	**8**	**19**	4	8	12	(3)	**21**	8	1	1	4	**14**	**15**	**16**	**17**	**36**
Cash Interest paid, net of amount capitalized	**369**	**387**	**387**	**429**	168	58	297	(131)	**390**	128	37	189	32	**386**	**418**	**439**	**442**	**466**
Accounting Free Cash Flow (CFO-CAPEX-Dividend)	(513)	(497)	(749)	(1030)	115	(155)	(333)	206	(167)	(48)	40	(405)	(131)	(544)	(511)	(515)	(517)	(534)
Free Cash Flow (NI+D&A-WC-CAPEX-DIV)	(284)	(764)	(1132)	(1075)	(74)	(818)	(217)	164	(945)	83	(689)	(156)	16	(745)	(735)	(745)	(759)	(777)

Cash Flow Assumptions	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Net Working Capital	277	299	195	330	237	(81)	83	(95)	(95)	(15)	(370)	(232)	(130)	(130)	(135)	(136)	(138)	(143)
Total capex	1,125	1,499	1,880	2,029	408	584	362	7	1,361	301	438	397	278	1,415	1,440	1,465	1,490	1,515
Dividend declared per common share	$0.92	$0.94	$0.98	$1.02	$0.26	$0.26	$0.16	$0.16	$0.83	$0.16	$0.16	$0.17	$0.17	$0.64	$0.68	$0.72	$0.76	$0.80
Payout ratio	**71.4%**	**65.2%**	**63.7%**	**61.9%**	47.2%	1274.9%	275.1%	50.0%	**88.7%**	26.2%	248.3%	228.3%	47.5%	**59.6%**	**56.9%**	**58.4%**	**60.0%**	**60.9%**
Total gross debt	**7,954**	**8,103**	**8,834**	**9,999**	**8,735**	**9,486**	**6,683**	**6,950**	**6,950**	**7,015**	**6,963**	**7,358**	**7,466**	**7,466**	**7,905**	**7,920**	**8,368**	**8,828**
Cash	12	36	27	25	42	497	32	16	16	24	26	25	30	30	19	19	20	20
Net debt	7,942	8,067	8,807	9,974	8,693	8,989	6,652	6,934	6,934	6,991	6,938	7,333	7,436	7,436	7,886	7,902	8,349	8,808
Current assets ex-cash	2,237	2,316	2,132	2,441	2,219	1,839	1,606	1,562	1,562	1,372	1,500	1,453	1,738	1,738	1,851	1,889	1,980	2,046
Cash/current assets ex-cash	0.5%	1.6%	1.3%	1.0%	1.9%	27.0%	2.0%	1.0%	1.0%	1.7%	1.7%	1.7%	1.7%	1.7%	1.0%	1.0%	1.0%	1.0%
Cash Tax Rate	**1.6%**	**1.2%**	**1.1%**	**2.4%**	1.0%	9.9%	44.2%	-2.0%	**3.1%**	2.5%	2.5%	2.5%	2.5%	**2.5%**	**2.5%**	**2.5%**	**2.5%**	**5.0%**
Cash Interest Rate	**4.9%**	**4.9%**	**4.6%**	**4.5%**	7.2%	2.5%	14.7%	-7.7%	**4.9%**	7.3%	2.1%	10.9%	1.7%	**5.4%**	**5.4%**	**5.5%**	**5.4%**	**5.4%**

Source: NI reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Exhibit 39: OGS Valuation Analysis

Jefferies

ONE Gas Inc. (OGS)

DIVIDEND DISCOUNT MODEL	2016E	2017E	2018E	2019E	2020E
Dividend Per Share	$1.40	$1.60	$1.76	$1.88	$2.00
Payout Ratio	*54.4%*	*58.2%*	*61.2%*	*63.3%*	*64.6%*
Terminal Value					$47.54
PV of Dividends	$1.37	$1.49	$1.57	$1.60	$1.62
Sum of PV of Dividends per Share	$7.65				
PV of Terminal Value	$34.57				
Equity Value per Share	$42.22				
Implied Equity Value per Share*	**$43.30**				

*12 months

Discounted Cash Flow	2016E	2017E	2018E	2019E	2020E
EBIT	$269	$289	$302	$319	$333
Other	($2)	($3)	($4)	($5)	($5)
(Cash Taxes on EBIT)	($17)	($23)	($50)	($95)	($99)
NOPAT	**$250**	**$263**	**$249**	**$219**	**$229**
D&A	$142	$153	$165	$177	$189
(Capex)	($305)	($315)	($315)	($305)	($305)
(Changes in NWC)	($2)	($3)	$16	($16)	$5
Free Cash Flow to the Firm	**$86**	**$98**	**$115**	**$75**	**$119**
Terminal Value					$4,215.0
PV of Cash Flows	$84.8	$93.0	$104.2	$65.5	$3,657.7
Implied Enterprise Value	4,005				
(Net Debt)	(1,146)				
(Pension & Operating Lease)	(174)				
Implied Equity Value	2,685				
Shares Outstanding	53.1				
Implied Equity Value per Share*	**$51.80**				

*12 months

ONE Gas

Target P/E Analysis	
2018 EPS	$2.88
Avg. LCD 2018 P/E	22.5x
Taget P/E	21.0x
Implied PT	**$60.40**

Target Yield Analysis	
2Q17 Dividend	$0.40
Average Historical Yield	2.62%
Taget Yield	2.75%
Implied PT	**$58.20**

Avg. Price Target	$53.00
OGS Current Price	$65.08
Implied Upside/Downside	-18.6%
12-month Dividend Yield	2.2%
Total Return Potential	-16.3%

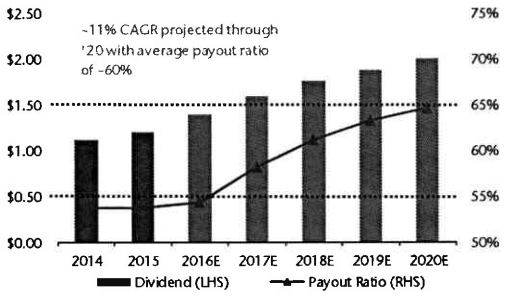
5-yr Dividend CAGR	**10.8%**
Terminal Dividend Growt	3.00%

P/E Multiples		
2016E	25.3x	20.6x
2017E	23.7x	19.3x
2018E	22.6x	18.4x
2019E	21.9x	17.8x
2020E	21.0x	17.1x

EV / EBITDA Multiples	
2016E	11.2x
2017E	10.6x
2018E	10.1x
2019E	9.7x
2020E	9.2x

WACC Calculation	
Tax Rate	38.4%
Risk Free	2.3%
Risk Premium	5.0%
Beta	0.50
Cost of Equity	4.8%
Cost of Net Debt	4.0%
After-Tax Cost of Debt	2.5%
% Equity	60%
% Debt	40%
Forecast Yeild	2.2%
WACC	**3.8%**

Terminal WACC Calculation	
Tax Rate	38.4%
Risk Free	4.0%
Risk Premium	5.0%
Adjusted Beta	0.67
Terminal Cost of Equity	7.3%
Cost of Net Debt	5.0%
After-Tax Cost of Debt	3.1%
% Equity	60%
% Debt	40%
Terminal Growth Rate	2.75%
Terminal WACC	**5.6%**



Year	Dividend (LHS)	Payout Ratio (RHS)
2014	$1.12	53.8%
2015	$1.20	53.8%
2016E	$1.40	54.4%
2017E	$1.60	58.2%
2018E	$1.76	61.2%
2019E	$1.88	63.3%
2020E	$2.00	64.6%

Source: OGS reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Exhibit 40: OGS Consolidated Statement of Income

Income Statement ($MM)	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Gas Sales	$1,493	$1,252	$1,559	$1,680	$636.8	$229.0	$197.9	$354.2	$1,418	$471.4	$278.4	$227.9	$437.0	$1,415	$593.1	$284.5	$237.0	$419.7	$1,534	$1,573	$1,646	$1,705
Transportation Revenue	$91	$89	$99	$102	$31.4	$20.6	$20.9	$25.9	$99	$29.8	$22.8	$21.8	$26.4	$101	$30.5	$23.3	$22.3	$27.0	$103	$105	$108	$110
Other revenue	$38	$36	$33	$37	$8.4	$7.1	$6.4	$9.1	$31	$7.1	$7.9	$6.8	$9.1	$31	$7.8	$7.5	$6.6	$9.1	$31	$31	$32	$32
Total Revenue	**$1,621**	**$1,377**	**$1,690**	**$1,819**	$676.5	$256.8	$225.2	$389.1	**$1,548**	$508.4	$309.1	$256.6	$472.5	**$1,546**	$631.4	$315.3	$265.9	$455.8	**$1,668**	**$1,709**	**$1,785**	**$1,848**
Cost of gas	($870)	($620)	($877)	($992)	($413.6)	($79.9)	($54.7)	($157.7)	($706)	($235.7)	($111.8)	($71.6)	($230.2)	($649)	($340.9)	($106.8)	($70.0)	($204.0)	($722)	($728)	($767)	($791)
Net Margin	**$752**	**$756**	**$813**	**$827**	$263.0	$176.8	$170.5	$231.4	**$842**	$272.6	$197.3	$185.0	$242.2	**$897**	$290.5	$208.5	$195.9	$251.8	**$947**	**$981**	**$1,019**	**$1,057**
(O&M)	($422)	($411)	($393)	($414)	($106.6)	($99.4)	($98.7)	($109.8)	($414)	($106.1)	($103.4)	($102.6)	($114.2)	($426)	($113.0)	($105.2)	($104.4)	($116.2)	($439)	($447)	($455)	($465)
(D&A)	($132)	($130)	($145)	($133)	($31.6)	($33.0)	($34.0)	($34.4)	($133)	($34.7)	($35.3)	($35.9)	($36.5)	($142)	($37.2)	($37.9)	($38.7)	($39.5)	($153)	($165)	($177)	($189)
(General Taxes)	$0	$0	($55)	($55)	($15.8)	($13.1)	($12.9)	($13.3)	($55)	($15.7)	($15.8)	($15.8)	($11.9)	($59)	($16.5)	($18.2)	($17.7)	($13.1)	($66)	($67)	($67)	($70)
Operating Income (EBIT)	**$198**	**$216**	**$220**	**$224**	$109.0	$31.3	$25.0	$73.9	**$239**	$116	$43	$31	$80	**$269**	$124	$47	$35	$83	**$289**	**$302**	**$319**	**$333**
Other	($1)	$2	$2	($3)	$0.4	($0.4)	($1.7)	($0.8)	($3)	($0.4)	($0.4)	($0.4)	($0.4)	($2)	($0.8)	($0.8)	($0.8)	($0.8)	($3)	($4)	($5)	($5)
(Interest Expense)	($54)	($61)	($61)	($46)	($11.2)	($11.2)	($11.2)	($11.0)	($45)	($10.8)	($11.2)	($11.5)	($12.0)	($46)	($12.1)	($12.1)	($12.1)	($12.1)	($48)	($49)	($56)	($59)
(Income Taxes)	($56)	($60)	($62)	($68)	($37.8)	($7.6)	($4.6)	($23.0)	($73)	($40)	($12)	($7)	($26)	($85)	($43)	($13)	($9)	($27)	($92)	($96)	($99)	($104)
Net Income	$87	$96	$99	$108	$60.4	$12.1	$7.4	$39.2	$119	$64.7	$19.2	$11.5	$41.3	$137	$68.2	$21.2	$13.7	$43.2	$146	$153	$159	$165
Earnings Per Share (EPS)	**$1.61**	**$1.83**	**$1.93**	**$2.08**	$1.13	$0.23	$0.14	$0.74	**$2.24**	$1.22	$0.36	$0.22	$0.78	**$2.57**	$1.28	$0.40	$0.26	$0.81	**$2.75**	**$2.88**	**$2.97**	**$3.10**
Shares Outstanding (Diluted)	53.6	52.7	52.4	52.8	53.4	53.4	53.1	53.1	53.3	53.1	53.1	53.1	53.2	53.1	53.2	53.2	53.2	53.2	53.2	53.3	53.4	53.5
Shares Outstanding (Basic)	52.3	51.5	51.7	52.2	52.7	52.8	52.4	52.4	52.6	52.5	52.5	52.6	52.6	52.5	52.6	52.6	52.6	52.7	52.6	52.7	52.8	52.9
Dividend - Qtrly				**$1.12**	$0.30	$0.30	$0.30	$0.30	**$1.20**	$0.35	$0.35	$0.35	$0.35	**$1.40**	$0.40	$0.40	$0.40	$0.40	**$1.60**	**$1.76**	**$1.88**	**$2.00**
Annual Dividend Run Rate				$1.12	$1.20	$1.20	$1.20	$1.20	7.1% $1.20	$1.40	$1.40	$1.40	$1.40	16.7% $1.40	$0.05 $1.60	$1.60	$1.60	$1.60	14.3% $1.60	10.0% $1.76	6.8% $1.88	6.4% $2.00
EBIT	$198	$216	$220	$224	$109	$31	$25	$74	$239	$116	$43	$31	$80	$269	$124	$47	$35	$83	$289	$302	$319	$333
General Tax Rate			19.9%	19.7%	12.6%	29.6%	34.1%	15.2%	18.7%	11.9%	27.0%	34.0%	13.0%	18.0%	11.8%	27.8%	33.5%	13.6%	18.5%	18.2%	17.4%	17.3%
Income Tax Rate	39.2%	38.3%	38.6%	38.8%	38.5%	38.5%	38.6%	36.9%	38.0%	38.2%	38.5%	38.5%	38.5%	38.4%	38.5%	38.5%	38.5%	38.5%	38.5%	38.5%	38.5%	38.5%
Dividend Payout Ratio				**53.8%**					**53.7%**	29%			16.7%	**54.4%**					**58.2%**	**61.2%**	**63.3%**	**64.6%**
EBITDA	**$330**	**$346**	**$365**	**$357**	$141	$64	$59	$108	**$372**	$151	$78	$67	$116	**$411**	$161	$85	$74	$123	**$442**	**$468**	**$496**	**$522**

Source: OGS reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Exhibit 41: OGS Consolidated Balance Sheet

Consolidated Balance Sheet ($MM)	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Cash & equivalents	4	4	3	12	143	136	53	2	2	53	20	21	28	28	26	26	27	27
Accounts receivable	273	260	357	327	309	143	103	216	216	195	170	139	257	257	251	234	245	257
Inventory	133	103	166	185	81	120	160	142	142	81	143	195	221	221	183	187	210	202
Other current assets	54	90	76	144	72	79	101	122	122	89	89	89	89	89	89	89	89	89
Total current assets	**464**	**457**	**602**	**668**	**604**	**478**	**417**	**483**	**483**	**418**	**422**	**445**	**595**	**595**	**550**	**536**	**571**	**576**
Tangible fixed assets	**2,610**	**2,827**	**3,045**	**3,294**	**3,326**	**3,380**	**3,436**	**3,512**	**3,512**	**3,558**	**3,602**	**3,643**	**3,680**	**3,680**	**3,841**	**3,991**	**4,119**	**4,235**
Goodwill	158	158	158	158	158	158	158	158	158	158	158	158	158	158	158	158	158	158
Energy marketing and risk management assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Investment in affiliates	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other investments	53	49	41	530	517	510	495	492	492	465	465	465	465	465	465	465	465	465
Non-Current Assets	**211**	**207**	**199**	**688**	**675**	**668**	**653**	**650**	**650**	**623**	**623**	**623**	**623**	**623**	**623**	**623**	**623**	**623**
Total assets	**3,285**	**3,491**	**3,846**	**4,649**	**4,605**	**4,526**	**4,506**	**4,644**	**4,644**	**4,598**	**4,646**	**4,711**	**4,898**	**4,898**	**5,014**	**5,150**	**5,313**	**5,434**
Trade payables and other ST liabilities	538	578	324	344	294	240	226	297	297	222	276	272	363	363	316	319	336	346
Short term debt	0	0	445	48	6	7	7	7	7	7	35	37	38	38	39	39	41	42
Total current liabilities	**538**	**579**	**769**	**392**	**300**	**247**	**233**	**304**	**304**	**229**	**312**	**310**	**401**	**401**	**355**	**358**	**378**	**388**
Long term debt	914	1,029	1,029	1,201	1,201	1,201	1,201	1,201	1,201	1,192	1,141	1,203	1,238	1,238	1,256	1,271	1,340	1,374
Deferred taxes	588	649	743	895	897	901	908	952	952	968	980	987	1,020	1,020	1,089	1,135	1,139	1,143
Other long term liabilities	87	80	66	367	367	358	353	346	346	343	345	348	352	352	357	362	367	372
Total liabilities	**2,127**	**2,337**	**2,607**	**2,855**	**2,766**	**2,707**	**2,695**	**2,803**	**2,803**	**2,731**	**2,777**	**2,848**	**3,011**	**3,011**	**3,057**	**3,126**	**3,223**	**3,277**
Common equity	1,158	1,155	1,239	1,794	1,840	1,819	1,811	1,842	1,842	1,867	1,869	1,863	1,887	1,887	1,957	2,024	2,090	2,157
Preferred equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	**1,158**	**1,155**	**1,239**	**1,794**	**1,840**	**1,819**	**1,811**	**1,842**	**1,842**	**1,867**	**1,869**	**1,863**	**1,887**	**1,887**	**1,957**	**2,024**	**2,090**	**2,157**
Total liabilities and equity	**3,285**	**3,491**	**3,846**	**4,649**	**4,605**	**4,526**	**4,506**	**4,644**	**4,644**	**4,598**	**4,646**	**4,711**	**4,898**	**4,898**	**5,014**	**5,150**	**5,313**	**5,434**
Check	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Balance Sheet Assumptions																		
Working Capital	(78)	(125)	275	311	168	102	138	183	183	143	125	151	204	204	207	192	208	203
Change in Net Working Capital	***(116)***	***(92)***	***(157)***	***(54)***	*135*	*51*	*(42)*	*(80)*	***65***	*59*	18	(26)	(52)	**(2)**	**(3)**	**16**	**(16)**	**5**
Average Collection Period	**61**	**69**	**77**	**66**	41	51	42	51	**51**	35	50	50	50	**61**	55	50	50	51
Inventory Days	**30**	**27**	**36**	**37**	11	42	65	34	**34**	14	42	70	43	**52**	40	40	43	40
Average Payable Period	**226**	**341**	**135**	**127**	64	273	381	173	**154**	86	225	350	145	**205**	160	160	160	160
Cash	4	4	3	12	143	136	53	2	2	53	20	21	28	28	26	26	27	27
Total Debt	914	1,029	1,474	1,249	1,207	1,208	1,208	1,208	1,208	1,199	1,176	1,241	1,276	1,276	1,295	1,310	1,381	1,416
Total Net Debt	**910**	**1,025**	**1,471**	**1,237**	1,065	1,072	1,155	1,206	**1,206**	1,146	1,156	1,219	1,247	**1,247**	**1,269**	**1,284**	**1,354**	**1,389**
Preferred Securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	1,158	1,155	1,239	1,794	1,840	1,819	1,811	1,842	1,842	1,867	1,869	1,863	1,887	1,887	1,957	2,024	2,090	2,157
Net Debt/Capital	**44.0%**	**47.0%**	**54.3%**	**40.8%**	36.7%	37.1%	38.9%	39.6%	**39.6%**	38.0%	38.2%	39.6%	39.8%	**39.8%**	**39.3%**	**38.8%**	**39.3%**	**39.2%**
EBIT	198	216	220	224	109	31	25	74	239	116	43	31	80	269	289	302	319	333
EBIT(1-T)	120	133	135	137	67	19	15	47	148	72	26	19	49	166	178	186	196	205
Invested capital	2,068	2,180	2,710	3,031	2,904	2,891	2,966	3,047	3,047	3,013	3,025	3,082	3,134	3,134	3,226	3,309	3,444	3,546
ROIC	11.6%	6.3%	5.5%	4.8%					4.9%					5.4%	5.6%	5.7%	5.8%	5.9%
ROE	7.5%	8.3%	8.3%	7.1%					6.5%					7.3%	7.6%	7.7%	7.7%	7.8%
EBITDA	**330**	**346**	**365**	**357**	141	64	59	108	**372**	151	78	67	116	**411**	**442**	**468**	**496**	**522**
Net Debt/EBITDA	**2.8x**	**3.0x**	**4.0x**	**3.5x**	3.0x	3.0x	3.2x	3.2x	**3.2x**	3.0x	2.9x	3.0x	3.0x	**3.0x**	**2.9x**	**2.7x**	**2.7x**	**2.7x**
EBITDA / Interest	**6.1x**	**5.7x**	**5.9x**	**7.8x**					**8.4x**					**9.0x**	**9.2x**	**9.4x**	**8.8x**	**8.8x**

Source: OGS reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Exhibit 42: OGS Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows ($MM)	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Operating Activities																		
Net income	87	97	99	110	60	12	7	39	119	65	19	12	41	137	146	153	159	165
Depreciation, amortization & decommissioning	132	130	145	126	32	33	34	34	133	35	35	36	37	142	153	165	177	189
Deferred taxes	87	59	62	50	10	3	6	44	64	16	12	7	33	68	69	46	4	4
Net change in working capital	(116)	(92)	(157)	(54)	135	51	(42)	(80)	65	59	18	(26)	(52)	(2)	(3)	16	(16)	5
Other, including changes in provisions and other liabilities	3	3	5	15	3	2	1	7	14	5	2	3	4	15	5	5	5	5
Cash from operating activities	**193**	**197**	**154**	**247**	**241**	**101**	**7**	**45**	**394**	**180**	**87**	**31**	**62**	**361**	**370**	**385**	**328**	**369**
Investing activities					19%	24%	25%	32%		25%	26%	25%	24%					
Capital expenditure - tangible fixed assets	(241)	(272)	(292)	(297)	(55)	(71)	(74)	(95)	(294)	(75)	(79)	(77)	(73)	(305)	(315)	(315)	(305)	(305)
Distribution received from affiliates	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Contributions to unconsolidated affiliates	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other investment	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash from investing activities	**(241)**	**(271)**	**(291)**	**(297)**	**(55)**	**(71)**	**(74)**	**(95)**	**(294)**	**(75)**	**(79)**	**(77)**	**(73)**	**(305)**	**(315)**	**(315)**	**(305)**	**(305)**
Financing activities																		
Inc./(dec.) in short term debt	75	59	151	42	(42)	0	0	13	(30)	(13)	28	2	1	19	1	0	2	1
Inc./(dec.) in long term debt	156	115	(0)	1,200	0	0	0	0	0	0	(51)	63	34	46	19	15	69	34
Inc./(dec.) in equity	0	0	0	2	2	(22)	0	3	(17)	(24)	1	1	1	(21)	5	5	5	5
Common stock dividends paid	(180)	(100)	(15)	(44)	(16)	(16)	(16)	(16)	(63)	(18)	(18)	(18)	(18)	(74)	(82)	(91)	(98)	(104)
Other cash from financing	0	0	0	(1,141)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Inc./(dec.) in preffered equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash from financing activities	**50**	**74**	**136**	**59.2**	**(56)**	**(38)**	**(16)**	**(1)**	**(109)**	**(55)**	**(40)**	**47**	**18**	**(30)**	**(57)**	**(71)**	**(22)**	**(64)**
Cash flow increase/(decrease) in cash	2	(0)	(1)	9	131	(7)	(83)	(51)	(10)	50	(33)	1	7	26	(2)	(1)	2	0
Cash movements due to Discontinued Operations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Forex Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net change in cash	**2**	**(0)**	**(1)**	**9**	131	(7)	(83)	(51)	**(10)**	50	(33)	1	7	**26**	**(2)**	**(1)**	**2**	**0**
Cash at the beginning of the year	**2**	**4**	**4**	**3**	**12**	**143**	**136**	**53**	**12**	**2**	**53**	**20**	**21**	**2**	**28**	**26**	**26**	**27**
Cash at the end of the year	**4**	**4**	**3**	**12**	**143**	**136**	**53**	**2**	**2**	**53**	**20**	**21**	**28**	**28**	**26**	**26**	**27**	**27**
Cash paid for income taxes	(31)	0	0	45					(5)					17	23	50	95	99
Cash Interest paid, net of amount capitalized	54	61	61	21					43					44	48	49	52	55
Cash Tax Rate	-21.8%	0.2%	0.0%	25.3%	27.9%	24.8%	-13.4%	-34.5%	-2.8%					7.6%	9.6%	20.0%	37.0%	37.0%
Cash Interest Rate	5.9%	6.3%	4.9%	1.7%					3.6%					3.6%	3.7%	3.8%	3.9%	3.9%
Free Cash Flow (Before dividends)	(48)	(75)	(138)	(50)	186	31	(67)	(50)	100	105	8	(46)	(11)	56	55	70	23	64
Free Cash Flow (After Dividends)	(228)	(175)	(153)	(94)	170	15	(83)	(66)	37	86	(11)	(65)	(29)	(18)	(26)	(21)	(74)	(40)
Cash Flow Assumptions																		
Net Working Capital	(78)	(125)	275	311	168	102	138	183	183	143	125	151	204	204	207	192	208	203
Net Working Capital/Revenues																		
Total capex	241	272	292	297	55	71	74	95	294	75	79	77	73	305	315	315	305	305
Dividend declared per common share	0.00	0.00	0.00	1.12	0.30	0.30	0.30	0.30	1.20	0.35	0.35	0.35	0.35	1.40	1.60	1.76	1.88	2.00
Payout ratio	0.0%	0.0%	0.0%	53.8%	26.6%	132.8%	216.0%	40.6%	53.7%	28.7%	97.0%	161.3%	45.0%	54.4%	58.2%	61.2%	63.3%	64.6%
Total gross debt	**914**	**1,029**	**1,474**	**1,249**	**1,207**	**1,208**	**1,208**	**1,208**	**1,208**	**1,199**	**1,176**	**1,241**	**1,276**	**1,276**	**1,295**	**1,310**	**1,381**	**1,416**
Cash	4	4	3	12	143	136	53	2	2	53	20	21	28	28	26	26	27	27
Net debt	910	1,025	1,471	1,237	1,065	1,072	1,155	1,206	1,206	1,146	1,156	1,219	1,247	1,247	1,269	1,284	1,354	1,389
Current assets ex-cash	460	453	599	656	462	342	364	480	480	365	402	424	567	567	523	511	544	549
Cash/current assets ex-cash	1%	1%	1%	2%	31%	40%	15%	1%	1%	14%	5%	5%	5%	5%	5%	5%	5%	5%
%age of taxes deferred	155.7%	99.3%	99.9%	73.1%	8.1%	2.4%	12.5%	126.3%	87.4%	11.8%	100.0%	100.0%	127.5%	80.2%	75.2%	48.0%	4.0%	4.0%

Source: OGS reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

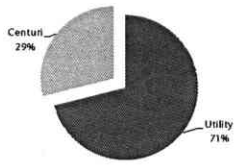
Exhibit 43: SWX Valuation Analysis

Jefferies

Southwest Gas Corporation (SWX)

Discounted Cash Flow	2016E	2017E	2018E	2019E	2020E
EBIT	$307	$355	$380	$389	$389
(Cash Taxes on EBIT)	($49)	($80)	($89)	($95)	($99)
NOPAT	$259	$275	$291	$294	$290
DD&A	$295	$275	$272	$283	$292
Capex	($520)	($560)	($603)	($513)	($367)
Changes in NWC	$15	$10	$2	$4	$4
Free Cash Flow to the Firm	$48	$1	($37)	$68	$218
Terminal Cash Flow					$4,896
Total Cash Flows	$48	$1	($37)	$68	$5,114
PV of Cash Flows	$47	$0	($33)	$58	$4,098
Implied Asset Value	$4,171				
(Net Debt)	($1,377)				
(Pension & Operating Lease)	($111)				
Implied Equity Value	$2,684				
Shares Outstanding	47.8				
Implied 12-Month Target	**$58.30**				

2016E Net Income Composition



Average Price Target	$64.00

Dividend Discount Model	2016E	2017E	2018E	2019E	2020E
Dividend Per Share	$1.76	$1.94	$2.12	$2.30	$2.43
Payout Ratio	*57%*	*55%*	*57%*	*62%*	*66%*
Terminal Value					$71.16
Present Value of Dividends	$1.70	$1.77	$1.83	$1.87	$1.87
Sum of PV of Dividends per Share	$9.05				
PV of Terminal Value	$49.00				
Equity Value per Share	$58.04				
Implied 12-Month Target	**$60.20**				

WACC Calculation	
New Debt Cost	4.5%
Beta (3yr vs SPX)	0.75
Risk Free Rate	2.25%
Risk Premium	5.0%
Cost of Equity	6.0%
Equity / Cap	70%
Debt / Cap	30%
Tax Rate	37%
WACC	5.0%

SWX Capitalization	
Current Stock Price	$77.36
Market Cap (MM)	$3,672
Total Debt (MM)	$1,589
Total Net Debt (MM)	$1,553
F12M Dividend Yield	2.3%
5yr Dividend CAGR	9.0%
Terminal CF Growth Rate	2.0%
Terminal Dividend Growth	2.5%

Sum of the Parts Analysis

Business Segment	2018E Net Income	Multiple	Value
Gas Utility	$140	18.6x	$2,610
NPL Pipeline	$37	14.5x	$531
		Total Equity Value	$3,140
		Diluted Shares Outstanding	47.9
		Price Target	**$65.60**

Terminal WACC	
Cost of New Debt	6.0%
Adjusted Beta	0.75
Risk Free Rate	4.0%
Risk Premium	5.0%
Cost of Equity	7.8%
Terminal WACC	6.6%

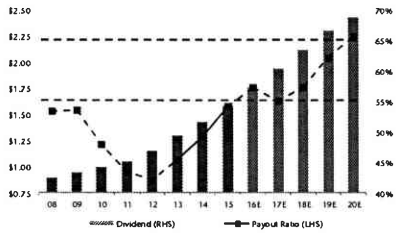
Valuation Multiples	
2016E P/E	25.2x
2017E P/E	22.0x
2016E EV/EBITDA	8.9x
2017E EV/EBITDA	8.8x

Target Yield Analysis	
2Q17 Dividend	$0.50
Historical 3-year Average Yield	2.63%
Taget Yield	2.75%
Implied 12-Month Target	**$72.00**

Implied Upside	
Current Share Price	$77.36
Price Target	$64.00
Forecasted Yield	2.3%
Total Expected Return	**#####**

2016E NI Breakdown	
Utility	71.1%
Centuri	28.9%

Year	Dividend	Payout
08	$0.89	53%
09	$0.94	54%
10	$0.99	48%
11	$1.05	43%
12	$1.15	42%
13	$1.29	45%
14	$1.43	49%
15	$1.58	54%
16E	$1.76	57%
17E	$1.94	55%
18E	$2.12	57%
19E	$2.30	62%
20E	$2.43	66%



Source: SWX reports, Jefferies estimates

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Jefferies

Exhibit 44: SWX Consolidated Statement of Income

Consolidated Statement of Income ($MM)	2010	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Gas Utility Revenues	$1,511.9	$1,403.4	$1,321.7	$1,300.2	$1,382.1	$553.1	$286.6	$219.4	$395.5	$1,454.6	$525.1	$294.8	$234.9	$413.0	$1,467.7	$556.6	$305.5	$242.9	$423.9	$1,529.0	$1,568.8	$1,605.8	$1,637.0
Cost of Gas	$736.2	$613.5	$479.6	$436.0	$505.4	$253.8	$109.0	$64.3	$136.8	$563.8	$213.6	$109.2	$72.3	$144.8	$539.9	$240.4	$114.7	$73.0	$146.8	$574.8	$590.2	$604.1	$615.8
Net Utility Operating Margin	$775.7	$789.9	$842.1	$864.2	$876.7	$299.4	$177.6	$155.2	$258.7	$890.8	$311.5	$185.5	$162.6	$268.2	$927.8	$316.3	$190.8	$169.9	$277.1	$954.2	$978.6	$1,001.7	$1,021.3
Construction Revenues	$318.5	$483.8	$606.1	$650.6	$739.6	$181.1	$252.0	$286.0	$289.9	$1,009.0	$206.1	$235.7	$290.4	$338.4	$1,070.7	$218.1	$253.9	$292.0	$341.5	$1,105.6	$1,178.2	$1,218.6	$1,268.0
Construction Expenses	$277.8	$423.7	$541.5	$573.3	$647.9	$174.9	$225.8	$246.8	$251.3	$898.8	$193.4	$207.5	$250.9	$300.7	$952.4	$205.7	$224.4	$250.8	$302.2	$983.1	$1,051.3	$1,088.1	$1,133.9
Net Construction Operating Margin	$40.7	$60.1	$64.5	$77.3	$91.8	$6.2	$26.1	$39.2	$38.7	$110.2	$12.8	$28.3	$39.5	$37.7	$118.3	$12.4	$29.5	$41.2	$39.3	$122.4	$126.9	$130.5	$134.1
Operation and maintenance	$354.9	$358.5	$370.0	$384.9	$383.7	$95.5	$99.3	$100.1	$98.2	$393.2	$100.8	$98.5	$99.3	$97.5	$396.2	$101.3	$99.0	$99.8	$98.0	$398.1	$404.1	$410.2	$416.3
Depreciation and amortization	$190.5	$200.5	$223.4	$236.8	$253.0	$67.5	$67.0	$66.5	$69.2	$270.1	$75.4	$72.6	$73.3	$73.9	$295.2	$74.3	$69.7	$65.2	$66.2	$275.5	$272.5	$283.3	$292.4
Taxes other than income	$38.9	$40.9	$41.7	$45.6	$47.3	$13.0	$12.4	$11.7	$12.3	$49.4	$14.0	$12.3	$12.4	$12.9	$51.5	$13.1	$12.4	$12.6	$13.2	$51.2	$52.4	$53.4	$53.6
Total Operating Expenses	$584.3	$599.9	$635.1	$667.3	$684.0	$176.0	$178.7	$178.2	$179.8	$712.7	$190.2	$183.4	$184.9	$184.3	$742.9	$188.7	$181.1	$177.7	$177.4	$724.8	$729.0	$746.9	$762.4
Other Income (Expense)	($5.9)	($6.1)	($2.2)	($0.1)	$1.8	$1.0	$0.2	$0.2	$1.0	$2.4	$2.8	$0.5	$0.8	$0.0	$4.1	$2.1	$0.4	$0.6	($0.1)	$3.0	$3.7	$3.4	$3.6
Income before Interest and Taxes	$226.2	$244.0	$269.3	$274.1	$286.3	$130.5	$25.2	$16.4	$118.6	$290.7	$136.9	$30.9	$17.9	$121.6	$307.3	$142.1	$39.7	$34.1	$139.0	$354.8	$380.2	$388.8	$396.6
Interest Expense	$77.6	$69.6	$68.0	$63.7	$72.1	$18.0	$17.7	$18.4	$17.8	$71.9	$17.7	$17.8	$19.2	$21.1	$75.8	$22.1	$22.1	$22.1	$22.1	$88.4	$99.5	$107.6	$115.6
Income before Taxes	$148.6	$174.4	$201.3	$210.4	$214.2	$112.6	$7.5	($2.0)	$100.8	$218.8	$119.1	$13.1	($1.3)	$100.5	$231.5	$120.0	$17.6	$12.0	$116.9	$266.5	$280.7	$281.2	$281.1
Income Taxes	$54.9	$63.3	$75.3	$77.9	$78.4	$42.0	$2.4	($1.7)	$37.2	$79.9	$42.7	$5.3	($2.0)	$37.6	$83.7	$42.5	$8.4	$3.5	$42.4	$96.9	$102.7	$103.2	$102.2
Net Income	**$93.7**	**$111.1**	**$126.0**	**$132.5**	**$135.8**	**$70.6**	**$5.1**	**($0.3)**	**$63.6**	**$138.9**	**$76.4**	**$7.8**	**$0.8**	**$62.9**	**$147.8**	**$77.5**	**$9.1**	**$8.5**	**$74.5**	**$169.6**	**$178.0**	**$178.0**	**$178.9**
Minority Interests	($0.4)	($0.5)	($0.7)	($0.4)	$0.0	($0.1)	$0.1	$0.5	$0.6	$1.1	($0.1)	$0.3	$0.5	$0.4	$1.1	($0.1)	$0.3	$0.5	$0.5	$1.2	$1.3	$1.4	$1.4
Net Income to Common	$94.1	$111.6	$126.7	$132.9	$135.8	$70.683	$4.9	($0.8)	$63.0	$137.8	$76.5	$7.5	$0.2	$62.5	$146.7	$77.6	$8.9	$7.9	$74.0	$168.4	$176.7	$176.6	$177.4
Avg. Diluted Common Shares	$45.6	46.3	46.3	46.8	46.9	47.0	47.3	47.1	47.4	47.2	47.8	47.8	47.9	47.9	47.8	47.9	47.9	47.9	47.9	47.9	47.9	47.9	47.9
Avg. Basic Common Shares				46.3	46.5	46.6	46.9	47.1	47.0	46.9	47.4	47.5	47.5	47.6	47.5	47.6	47.6	47.6	47.6	47.6	47.6	47.6	47.6
Recurring Earnings per share	**$2.06**	**$2.41**	**$2.74**	**$2.84**	**$2.89**	**$1.50**	**$0.10**	**($0.02)**	**$1.33**	**$2.92**	**$1.60**	**$0.16**	**$0.01**	**$1.30**	**$3.07**	**$1.62**	**$0.19**	**$0.17**	**$1.55**	**$3.52**	**$3.69**	**$3.69**	**$3.71**
Excluded Items (non-recurring or discontinued operations)	$9.8	$0.7	$6.6	$12.4	$5.3	$1.3	$0.0	($3.9)	$2.1	($0.5)	($0.9)				($0.9)					$0.0	$0.0	$0.0	$0.0
EPS impact of excluded items	0.21	0.01	0.14	0.27	0.11	0.03	0.00	(0.08)	0.04	(0.01)	(0.02)	0.00	0.00	0.00	(0.02)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Reported Earnings per share (diluted)	$2.28	$2.43	$2.88	$3.11	$3.01	$1.53	$0.10	($0.10)	$1.37	$2.91	$1.58	$0.16	$0.01	$1.30	$3.05	$1.62	$0.19	$0.17	$1.55	$3.52	$3.69	$3.69	$3.71
Dividends paid per share	**$0.99**	**$1.05**	**$1.15**	**$1.29**	**$1.43**	$0.37	$0.41	$0.41	$0.41	**$1.58**	$0.41	$0.45	$0.45	$0.45	**$1.76**	$0.45	$0.50	$0.50	$0.50	**$1.94**	**$2.12**	**$2.30**	**$2.43**
Dividend Growth Rate	**5.3%**	**5.8%**	**10.0%**	**12.2%**	**10.5%**			51.3%	45.7%	**10.9%**		11.1%			**11.1%**		10.0%			**10.3%**	**9.3%**	**8.5%**	**5.9%**
Payout Ratio (on recurring earnings)	**47.9%**	**43.4%**	**42.0%**	**45.4%**	**49.3%**					**54.1%**					**57.2%**					**55.0%**	**57.3%**	**62.2%**	**65.6%**
Tax Rate	**37.0%**	**36.3%**	**37.4%**	**37.0%**	**36.6%**	37.3%	32.4%	84.6%	36.9%	**36.5%**	35.9%	40.7%	159.7%	37.4%	**36.1%**	35.4%	48.0%	29.1%	36.3%	**36.3%**	**36.6%**	**36.7%**	**36.4%**
Change in Net Income	**19%**	**19%**	**13%**	**5%**	**3%**	**1%**	**-31%**	**-114%**	**13%**	**2%**	**8%**	**54%**	**-344%**	**-1%**	**6%**	**1%**	**17%**	**1022%**	**18%**	**15%**	**5%**	**0%**	**0%**
Change in Common Equity	**5.9%**	**5.0%**	**6.8%**	**7.9%**	**5.2%**	5.6%	5.8%	1.4%	7.1%	**7.1%**	6.3%	52.3%			**4.7%**					**5.0%**	**4.7%**	**4.0%**	**3.6%**

Source: SWX reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Exhibit 45: SWX Consolidated Balance Sheet

Consolidated Balance Sheet ($MM)	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Cash & Equivalents	22	26	41	40	38	49	33	36	36	61	20	21	23	23	23	24	24	25
Accounts Receivable	209	197	219	282	315	273	269	315	315	271	262	274	319	319	325	339	348	357
Inventory	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Current Assets	230	236	234	285	175	158	177	208	208	138	138	138	138	138	138	138	138	138
Total Current Assets	**462**	**458**	**495**	**607**	**527**	**481**	**479**	**558**	**558**	**470**	**420**	**433**	**479**	**479**	**486**	**501**	**511**	**520**
Tangible Fixed Assets - Net	**3,219**	**3,344**	**3,486**	**3,658**	**3,697**	**3,732**	**3,793**	**3,891**	**3,891**	**3,929**	**3,981**	**4,050**	**4,117**	**4,117**	**4,401**	**4,731**	**4,960**	**5,180**
Goodwill	0	0	0	143	136	138	130	126	126	133	133	133	133	133	133	133	133	133
Other intangible fixed assets (Deferred Income Taxes)	0	0	0	0	0	1	2	0	0	1	1	1	1	1	1	1	1	1
Investment in affiliates	192	242	261	469	473	468	461	469	469	455	455	455	455	455	455	455	455	455
Other investments	403	444	324	314	322	325	319	314	314	328	328	328	328	328	328	328	328	328
Non-Current Assets	**595**	**686**	**584**	**926**	**930**	**934**	**912**	**909**	**909**	**917**	**917**	**917**	**917**	**917**	**917**	**917**	**917**	**917**
Total assets	**4,276**	**4,488**	**4,565**	**5,191**	**5,154**	**5,147**	**5,184**	**5,359**	**5,359**	**5,316**	**5,318**	**5,400**	**5,513**	**5,513**	**5,804**	**6,149**	**6,388**	**6,617**
Trade payables and other ST liabilities	525	485	423	446	459	446	475	498	498	529	525	500	449	449	466	482	495	508
Short term debt	323	50	11	24	18	20	20	37	37	49	15	16	17	17	19	21	23	24
Total current liabilities	**848**	**535**	**434**	**470**	**478**	**466**	**495**	**535**	**535**	**578**	**539**	**516**	**467**	**467**	**485**	**503**	**518**	**532**
Long term debt	931	1,268	1,381	1,638	1,507	1,522	1,540	1,551	1,551	1,389	1,465	1,611	1,720	1,720	1,907	2,114	2,231	2,347
Debt deemed provisions (e.g. pensions)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred taxes (Revenue)	1,273	1,376	1,337	724	722	721	723	769	769	790	763	742	750	750	754	790	825	855
Other long term liabilities	0	0	0	877	878	869	864	895	895	893	893	893	893	893	893	893	893	893
Total liabilities	**3,051**	**3,180**	**3,153**	**3,708**	**3,584**	**3,578**	**3,622**	**3,750**	**3,750**	**3,650**	**3,661**	**3,761**	**3,830**	**3,830**	**4,038**	**4,301**	**4,466**	**4,627**
Common equity	1,225	1,308	1,412	1,486	1,552	1,550	1,548	1,592	1,592	1,650	1,642	1,623	1,667	1,667	1,750	1,832	1,906	1,974
Preferred equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Minority interests	0	0	0	20	19	19	14	16	16	16	16	16	16	16	16	16	16	16
Shareholders' Equity	**1,225**	**1,308**	**1,412**	**1,506**	**1,571**	**1,569**	**1,562**	**1,608**	**1,608**	**1,666**	**1,658**	**1,639**	**1,683**	**1,683**	**1,766**	**1,848**	**1,922**	**1,990**
Total liabilities and equity	**4,276**	**4,488**	**4,565**	**5,215**	**5,154**	**5,147**	**5,184**	**5,359**	**5,359**	**5,316**	**5,318**	**5,400**	**5,513**	**5,513**	**5,804**	**6,149**	**6,388**	**6,617**
Check	0.0	0.3	0.0	23.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance Sheet Assumptions					89	44	11	(49)		142	4	(37)	(95)	15	10	2	4	4
Accounts receivable (as % of EBIT)	86%	73%	80%	98%	241%	1085%	1642%	265%	108%	198%	848%	1531%	262%	104%	92%	89%	90%	90%
Inventory (as % of operating expenses)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Trade payable & other S.T. liabilities (as % of op. Exp.)	88%	76%	63%	65%	261%	250%	266%	277%	70%	278%	286%	270%	244%	60%	64%	66%	66%	67%
Working Capital	(85)	(52)	31	121	30	(14)	(29)	25	25	(120)	(124)	(87)	7	7	(3)	(5)	(9)	(13)
Average Collection Period	40	37	41	48	39	46	49	42	47	34	45	48	39	46	45	45	45	45
Inventory Days					-	-	-	-		-								
Average Payable Period	185	174	153	141	96	121	140	118	124	118	90	88	55	110	65	64	64	64
Cash	22	26	41	40	38	49	33	36	36	61	20	21	23	23	23	24	24	25
Total Debt	1,253	1,319	1,392	1,662	1,525	1,542	1,560	1,589	1,589	1,438	1,480	1,627	1,737	1,737	1,926	2,136	2,253	2,371
Total Net Debt	**1,232**	**1,293**	**1,351**	**1,622**	**1,487**	**1,493**	**1,527**	**1,553**	**1,553**	**1,377**	**1,460**	**1,606**	**1,714**	**1,714**	**1,903**	**2,112**	**2,229**	**2,346**
Preferred Securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	1,225	1,308	1,412	1,486	1,552	1,550	1,548	1,592	1,592	1,650	1,642	1,623	1,667	1,667	1,750	1,832	1,906	1,974
Net Debt/Capital	**50%**	**50%**	**49%**	**52%**	**49%**	**49%**	**50%**	**49%**	**49%**	**45%**	**47%**	**50%**	**51%**	**51%**	**52%**	**54%**	**54%**	**54%**
EBIT(1-T)	154	172	172	180	83	18	23	73	184	86	21	3	77	195	227	242	247	251
Invested capital	2,457	2,601	2,764	3,108	3,039	3,042	3,075	3,145	3,145	3,027	3,101	3,229	3,382	3,382	3,653	3,944	4,135	4,320
ROIC	6.7%	6.7%	6.4%	6.2%	6.2%	6.1%	6.4%	6.4%	6.4%	6.5%	6.5%	5.8%	5.8%	5.8%	6.4%	6.4%	6.1%	5.9%
ROE	9.2%	9.8%	9.6%	9.2%	9.1%	8.8%	8.5%	8.7%	8.7%	9.0%	9.0%	9.0%	8.8%	8.8%	9.8%	9.8%	9.4%	9.1%
EBITDA	444	493	511	539	198	92	83	188	561	212	104	91	196	602	630	653	672	689
Net Debt/EBITDA	**2.5x**	**2.5x**	**2.5x**	**2.6x**	**2.7x**	**2.7x**	**2.8x**	**2.7x**	**2.7x**	**2.6x**	**2.5x**	**2.5x**	**2.6x**	**2.6x**	**3.0x**	**3.2x**	**3.3x**	**3.4x**
EBIT Interest Coverage	*3.5x*	*4.0x*	*4.3x*	*4.0x*	*4.0x*	*3.9x*	*3.8x*	*4.0x*	*4.0x*	*4.1x*	*4.2x*	*4.2x*	*4.1x*	*4.1x*	*4.0x*	*3.8x*	*3.6x*	*3.4x*
EBITDA Interest Coverage	*6.4x*	*7.2x*	*8.0x*	*7.5x*	*7.5x*	*7.5x*	*7.5x*	*7.8x*	*7.8x*	*8.0x*	*8.2x*	*8.2x*	*7.9x*	*7.9x*	*7.1x*	*6.6x*	*6.2x*	*6.0x*

Source: SWX reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Exhibit 46: SWX Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows ($MM)	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Operating activities																		
Net income	112	133	145	141	72	5	(4)	67	139	75	8	1	63	147	170	178	178	179
Depreciation, amortization	200	223	237	253	67	67	66	69	270	75	73	73	74	295	275	272	283	292
Deferred taxes	56	66	69	64	8	(4)	2	43	49	19	(11)	(5)	23	25	37	37	34	31
Net change in working capital	(93)	(11)	(101)	(106)	89	44	11	(49)	95	142	4	(37)	(95)	15	10	2	4	4
Other, including changes in provisions and other liabilities	(24)	(25)	(3)	(6)	(14)	(1)	2	5	(6)	1	(16)	(16)	(14)	(45)	(34)	0	0	0
Cash from operating activities	**252**	**386**	**346**	**346**	**222**	**112**	**78**	**135**	**547**	**313**	**58**	**16**	**51**	**437**	**458**	**489**	**500**	**506**
Investing activities																		
Capital expenditure - tangible fixed assets	(381)	(396)	(364)	(397)	(90)	(113)	(133)	(151)	(488)	(113)	(125)	(143)	(140)	(520)	(560)	(603)	(513)	(513)
Investment Expenditures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net disposals/(acquisitions)	0	0	0	(190)	(9)	0	0	0	(9)	0	0	0	0	0	0	0	0	0
Other investment	22	22	16	32	8	7	11	1	27	5	0	0	0	5	0	0	0	0
Cash from investing activities	**(359)**	**(374)**	**(348)**	**(556)**	**(91)**	**(106)**	**(122)**	**(151)**	**(470)**	**(108)**	**(125)**	**(143)**	**(140)**	**(515)**	**(560)**	**(603)**	**(513)**	**(513)**
Financing activities																		
Inc./(dec.) in short term debt	0	2	(101)	145	(155)	30	67	71	13	(18)	(34)	1	1	(49)	2	2	1	1
Inc./(dec.) in long term debt	53	62	174	130	32	(17)	(34)	(33)	(52)	(143)	76	146	109	188	187	207	116	117
Inc./(dec.) in equity	7	2	2	0	9	12	15	(0)	35	0	5	2	3	10	5	5	5	5
Common stock dividends paid	(48)	(53)	(60)	(66)	(17)	(19)	(19)	(19)	(74)	(19)	(21)	(21)	(21)	(83)	(92)	(101)	(109)	(116)
Other cash from financing	0	(22)	2	(2)	(1)	(1)	(0)	0	(1)	(0)	0	0	0	(0)	0	0	0	0
Inc./(dec.) in preferred equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cash from financing activities	**13**	**(9)**	**17**	**208**	**(132)**	**5**	**28**	**19**	**(79)**	**(180)**	**26**	**128**	**92**	**65**	**102**	**114**	**13**	**7**
Cash flow increase/(decrease) in cash	(94)	4	16	(2)	(1)	11	(15)	3	(2)	25	(41)	1	2	(13)	0	1	0	0
Non-cash movements in cash	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Forex Adjustments	0	0	0	0	(1)	0	(1)	(0)	(1)	(0)	0	0	0	(0)	0	0	0	0
Net change in cash	**(94)**	**4**	**16**	**(2)**	**(2)**	**11**	**(16)**	**3**	**(4)**	**25**	**(41)**	**1**	**2**	**(13)**	**0**	**1**	**0**	**0**
Cash at the beginning of the year	**116**	**22**	**26**	**41**	**40**	**38**	**49**	**33**	**40**	**36**	**61**	**20**	**21**	**36**	**23**	**23**	**24**	**24**
Cash at the end of the year	**22**	**26**	**41**	**40**	**38**	**49**	**33**	**36**	**36**	**60.8**	**20**	**21**	**23**	**23**	**23**	**24**	**24**	**25**
Cash Interest Paid	70	87	59	66	10	24	11	21	67	11	17	19	21	67	86	97	105	113
Cash Taxes Paid	(14)	3	7	24	2	26	11	3	43	2	16	3	15	37	60	66	69	72
Free Cash Flow (NI+D&A-WC-CapEx)	24	(28)	118	103	(40)	(85)	(82)	34	(174)	(104)	(48)	(32)	92	(93)	(125)	(154)	(55)	(45)
Free Cash Flow Post Dividends	(24)	(81)	59	37	(57)	(104)	(101)	15	(248)	(123)	(70)	(53)	70	(176)	(217)	(255)	(164)	(161)
Accounting Free Cash Flow (CFO-CapEx)	(129)	(9)	(18)	(50)	132	(1)	(55)	(17)	59	200	(67)	(127)	(89)	(83)	(102)	(113)	(13)	(7)
Accounting Free Cash Flow Post Dividends	(177)	(62)	(78)	(117)	115	(20)	(74)	(36)	(15)	181	(88)	(148)	(111)	(166)	(194)	(214)	(122)	(123)
Cash Interest Rate	6.0%	6.7%	4.5%	4.5%	0.7%	1.5%	0.7%	1.4%	4.3%	0.7%	1.2%	1.2%	1.2%	4.3%	4.7%	4.8%	4.8%	4.9%
Cash Tax Rate	-7.8%	1.4%	3.3%	11.3%	1.9%	352.1%	-563.8%	3.3%	19.8%	1.8%	121.5%	-270.0%	15.0%	15.8%	22.5%	23.5%	24.5%	25.5%
Deferred Taxes as % of Book Taxes	89%	88%	88%	82%	18%	-152%	-121%	115%	61%	44%	-199%	269%	60%	30%	38%	36%	33%	30%
Cash Flow Assumptions																		
Net Working Capital	(85)	(52)	31	121	30	(14)	(29)	25	25	(120)	(124)	(87)	7	7	(3)	(5)	(9)	(13)
Total capex	381	396	364	397	90	113	133	151	488	113	125	143	140	520	560	603	513	513
Dividend declared per common share	1.05	1.15	1.29	1.43	0.37	0.41	0.41	0.41	1.58	0.41	0.45	0.45	0.45	1.76	1.94	2.12	2.30	2.43
Payout ratio	43%	42%	45%	49%	24%	387%	-2287%	30%	54%	25%	286%	8998%	34%	57%	55%	57%	62%	66%
Total gross debt	**1,253**	**1,319**	**1,392**	**1,662**	**1,525**	**1,542**	**1,560**	**1,589**	**1,589**	**1,438**	**1,480**	**1,627**	**1,737**	**1,737**	**1,926**	**2,136**	**2,253**	**2,371**
Cash	22	26	41	40	38	49	33	36	36	61	20	21	23	23	23	24	24	25
Net debt	1,232	1,293	1,351	1,622	1,487	1,493	1,527	1,553	1,553	1,377	1,460	1,606	1,714	1,714	1,903	2,112	2,229	2,346
Current assets ex-cash	440	433	454	567	489	432	446	522	522	409	400	412	457	457	463	477	486	495
Cash/current assets ex-cash	5%	6%	9%	7%	8%	11%	7%	7%	7%	15%	5%	5%	5%	5%	5%	5%	5%	5%

Source: SWX reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Exhibit 47: WPZ Valuation Analysis

Jefferies

Williams Partners LP (WPZ)

Distribution Discount Model	2016E	2017E	2018E	2019E	2020E
Available distributable cash flow per unit	$3.17	$4.15	$4.04	$4.51	$4.50
Actual paid distribution per unit	$3.40	$3.40	$3.40	$3.40	$3.40
LP Coverage ratio	0.93x	1.22x	1.19x	1.33x	1.32x
Actual paid distribution growth	0.0%	0.0%	0.0%	0.0%	0.0%
Terminal value of paid distribution					$36
PV of paid distributions per unit	$3.26	$3.00	$2.76	$2.53	$2.33
Sum of PV of paid distributions per unit	$13.88				
PV of terminal value	$24.66				
Equity value per unit	$38.54				

12-Month Price Target	$38.40
Average Price Target	$40.00

Distribution Assumptions	
Historical CAGR since IPO	26.0%
Projected 5-year CAGR (2015-20)	0.0%
Forecast 12-month Yield	9.0%
Steady state coverage ratio	1.33x
Terminal growth rate	0.50%

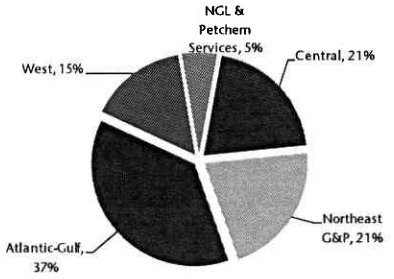
Cost of Equity Assumptions	
Beta	1.30
Risk Free Rate	2.25%
Risk Premium	5.0%
Cost of Equity	8.75%
Implied Cost of Equity	12.4%

Capital Structure & WACC Calculation	
Current Stock Price	$37.57
Current Marketcap	$22,691
Cost of Equity	8.8%
Total Net Debt	$19,490
Cost of New Debt	7.5%
Tax Rate	0%
% Equity	54%
% Debt	46%
WACC	8.2%

Target Yield Analysis	
Projected 3Q17 Distribuiton	$0.85
3-Year Average Yield	7.31%
Taget Yield	8.25%
Implied Price Target	$41.20

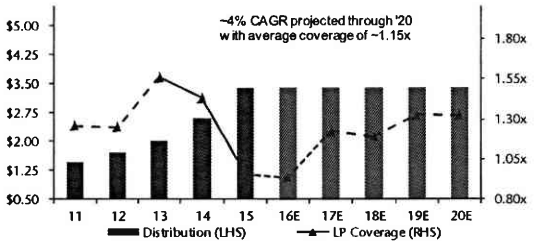
Total Return Expectation	
Appreciation to Price Target	6.5%
12-month Distribution Yield	9.0%
Total Return	15.5%

2016E EBITDA COMPOSITON



Terminal Cost of Equity	
Beta	1.20
Risk Free Rate	4.0%
Risk Premium	5.0%
Cost of Equity	10.0%

Commodity Exposure	
Fee-Based	84%
Commodity	16%



WMB Interests in WPZ	Current		2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
LP units owned by WMB	354.1	57.9%	30.8%	24.9%	38.3%	57.8%	57.9%	57.9%	57.9%	57.5%	56.9%
GP units owned by WMB	12.0	2.0%	1.0%	1.0%	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Total Interest	366.1	59.9%	31.8%	25.9%	39.8%	59.8%	59.9%	59.9%	59.9%	59.5%	58.9%

Assumes all equity issuance is done to the public with only additional GP purchases made by WMB -- to maintain 2% GP interest

0.85
10.625

Williams PARTNERS L.P

Multiples		
Metric	2016E	2017E
P/E	43.9x	23.7x
P/DCF	11.8x	9.1x
EV / LP-EBITDA	14.5x	11.7x

Jefferies vs. WPZ 2016 Guidance Expectations		
Metric	WPZ	JEF
EBITDA	NA	$4,074
DCF	NA	$2,606

% EBITDA Breakdown (2016E)		
Central	$861	21%
Northeast G&P	$886	21%
Atlantic-Gulf	$1,560	37%
West	$638	15%
NGL & Petchem Services	$228	5%
Total EBITDA	$4,173	100%

	Est. Exposure	% Commodity
Northeast G&P	0%	0%
Atlantic-Gulf	20%	7%
West	21%	3%
NGL & Petchem Services	89%	5%
Central	0%	0%
Total		16%

Year	Distribution (LHS)	LP Coverage (RHS)
11	$1.48	1.26x
12	$1.71	1.25x
13	$2.04	1.56x
14	$2.64	1.44x
15	$3.40	0.96x
16E	$3.40	0.94x
17E	$3.40	1.22x
18E	$3.40	1.19x
19E	$3.40	1.33x
20E	$3.40	1.33x

Source: WPZ reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Exhibit 48: WPZ Consolidated Statement of Income

Consolidated Income Statement ($MM)	2010	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
EBITDA ($MM):																							
Central	$271.9	$258.9	$280.4	$337	$368	$218	$229	$230	$219	$896	$226	$214	$211	$211	$861	$205	$212	$209	$209	$835	$845	$710	$603
Northeast G&P				$219	$274	$196	$208	$208	$209	$821	$219	$216	$224	$226	$886	$227	$233	$241	$242	$942	$1,011	$1,087	$1,168
Atlantic-Gulf	$1.6	$72.8	$48.2	$78	$114	$335	$389	$414	$390	$1,528	$399	$389	$376	$396	$1,560	$409	$406	$403	$588	$1,806	$2,412	$2,640	$2,703
West			$7.8	$6	$3	$163	$150	$153	$175	$641	$159	$163	$153	$162	$638	$159	$157	$152	$160	$628	$620	$662	$625
NGL & Petchem Services				$6	$14	$7	$33	$85	$72	$197	$57	$56	$57	$58	$228	$53	$60	$57	$57	$227	$219	$187	$125
(-) MVC Back-Out										$0	$60	$62	$63	$63	$249	$60	$61	$61	$61	$244	$246	$114	$0
Corp-Other	$0.0	($0.8)	($11.1)	($38)	($67)	($1)	($1)	$2	($1)	($1)	$0	$50	$50	$50	$150	$50	$50	$50	$50	$200	$200	$200	$200
EBITDA	$325.9	$388.3	$399.7	$735	$951	$918	$1,008	$1,092	$1,064	$4,082	$1,000	$1,026	$1,008	$1,040	$4,074	$1,042	$1,057	$1,050	$1,246	$4,396	$5,063	$5,373	$5,424
Depreciation, Depletion, and Amortization	$93.5	$137.0	$165.5	$296	$315	$419	$419	$423	$441	$1,702	$435	$437	$440	$442	$1,753	$449	$464	$480	$496	$1,888	$2,046	$2,125	$2,188
General & Administrative Expenses	$32.6	$40.4	$67.6	$104	$110	$193	$164	$156	$171	$684													
Other Income & Expenses ($MM):																							
Income from unconsolidated affiliates	$0.0	$0.0	$67.6	$130	$205	$51	$93	$92	$99	$335													
Other, net	$0.1	$0.4	$2.4	$1	$1	$51	($28)	$22	$23	$68													
Total Other Income & Expenses	$0.1	$0.4	$69.9	$131	$206	$102	$65	$114	$122	$403	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
EBIT	$199.9	$211.3	$236.4	$460	$702	$385	$458	$600	$565	$2,008	$536	$559	$539	$568	$2,202	$564	$563	$540	$720	$2,387	$2,897	$3,128	$3,117
Interest Expense, net of amounts capitalized	$2.6	$14.1	$64.7	$117	$186	$192	$203	$205	$211	$811	$229	$238	$244	$251	$962	$277	$277	$277	$277	$1,107	$1,210	$1,206	$1,209
Minority Interest	$0.0	$0.0	$0.1	$5	$31	$23	$32	$27	$9	$91	$29	$30	$30	$30	$119	$30	$30	$30	$30	$120	$120	$120	$120
Income Tax Expense	$1.9	$3.3	$3.2	$5	$1	$3	$0	$1	($3)	$1	$1	$0	$0	$0	$2	$0	$0	$0	$0	$1	$1	$1	$1
Net Income	195.5	194.0	168.5	$338	$515	$190	$255	$394	$357	$1,196	$306	$321	$294	$317	$1,238	$287	$286	$263	$443	$1,279	$1,686	$1,920	$1,907
General Partner interest in net income	$16.4	$5.1	$8.5	$41	$148	$195	$216	$1	($27)	$385	$202	$214	$224	$74	$714	$74	$74	$74	$74	$296	$904	$911	$921
Class B& D interest in net income						$66	$1	($5)	($38)	$24	($4)	$3	$2	$6	$7	$6	$6	$5	$10	$26	$20	$26	$25
Limited Partners interest in net income	$179.1	$188.9	$160.0	$297	$368	($71)	$38	$398	$422	$787	$108	$104	$69	$236	$517	$207	$206	$185	$359	$957	$762	$983	$960
EPU	$1.30	$1.36	$1.07	$1.50	$1.79	($0.14)	$0.06	$0.66	$0.70	$1.35	$0.18	$0.17	$0.11	$0.39	$0.86	$0.34	$0.34	$0.31	$0.60	$1.59	$1.26	$1.62	$1.56
Average L.P. Units Outstanding (MM)	69.1	69.4	80.1	132.5	192.6	507.0	587.1	586.7	587.6	567.4	588.6	588.6	588.6	588.6	588.6	588.6	588.6	588.6	588.6	588.6	588.6	592.1	599.2
Average Subordinated Units Outstanding (MM)	69.1	69.1	69.1	42.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Class B Units			0.4	12.2	12.9	14.2	14.2	14.4	15.3	14.5	15.3	15.3	15.3	15.3	15.3	15.3	15.3	15.3	15.3	15.3	15.3	15.3	15.3
Class C Units			0.4	11.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution per Unit	$0.55	$1.48	$1.71	$2.04	$2.64	$0.85	$0.85	$0.85	$0.85	$3.40	$0.85	$0.85	$0.85	$0.85	$3.40	$0.85	$0.85	$0.85	$0.85	$3.40	$3.40	$3.40	$3.40
		166.7%	15.7%	19.4%	29.0%					29.0%					0.0%					0.0%	0.0%	0.0%	0.0%
Income Tax Rate	0.6%	0.9%	1.2%	1.1%	0.1%	0.5%	0.0%	0.1%	-0.4%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
						42.8%																	
Adjustments to Reconcile EBITDA to DCF																							
(+) Cash interest expense	$0.0	($10.2)	($59.4)	($108.3)	($177.2)	($204)	($207)	($219)	($214)	($844)	($241)	($238)	($244)	($251)	($974)	($277)	($277)	($277)	($277)	($1,107)	($1,210)	($1,206)	($1,209)
(+) Income tax expense	($1.4)	($3.3)	($3.2)	($5.2)	$0.8	($1)	$0	$0	$0	($1)	$0	($0)	($0)	($0)	($1)	($0)	($0)	($0)	($0)	($1)	($1)	($1)	($1)
(+) Other & Non-controlling Interest	($1.4)	$0.0	$0.0	$0.0	$0.0	($12)	($20)	($13)	($18)	($63)	($22)	($30)	($30)	($30)	($112)	($30)	($30)	($30)	($30)	($120)	($120)	($120)	($120)
(+) Maintenance Capex	($35.0)	($74.0)	($75.2)	($110.0)	($130.0)	($54)	($80)	($114)	($114)	($362)	($58)	($84)	($120)	($120)	($381)	($108)	($108)	($108)	($108)	($430)	($450)	($465)	($475)
CASH AVAILABLE FOR DISTRIBUTION	$136.7	$261.6	$330.1	$637.1	$876.1	$647	$701	$746	$718	$2,812	$679	$674	$614	$638	$2,606	$628	$642	$636	$831	$2,738	$3,282	$3,580	$3,619
Quarterly Distribution Assumption	$0.55	$1.48	$1.71	$2.04	$2.64	$0.85	$0.85	$0.85	$0.85	$3.40	$0.85	$0.85	$0.85	$0.85	$3.40	$0.85	$0.85	$0.85	$0.85	$3.40	$3.40	$3.40	$3.40
Total Cash Distributions	$77	$209	$266	$426	$656	$725	$725	$725	$730	$2,904	$725	$713	$723	$573	$2,733	$573	$573	$573	$573	$2,291	$2,899	$2,918	$2,952
Excess (Retained) Cash	$60.2	$52.8	$64.2	$210.8	$220.1	($78)	($24)	$21	($12)	($92.1)	($46)	($39)	($109)	$65	($127.3)	$55	$69	$63	$258	$446.5	$382.8	$662.1	$667.4
Maintenance Capex as % of Average Net PP&E	1.8%	3.0%	2.4%	2.2%	2.3%					2.1%					1.3%					1.4%	1.5%	1.6%	1.7%
Maintenance Capex as % of EBITDA	20.1%	21.2%	16.1%	12.8%	11.0%	5.9%	8.6%	10.4%	13.7%	9.7%	5.0%	7.1%	10.2%	11.9%	8.4%	8.8%	8.7%	8.7%	8.9%	8.8%	8.0%	7.8%	7.9%

Source: WPZ reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Exhibit 49: WPZ Consolidated Balance Sheet

Consolidated Balance Sheet ($MM)	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Cash & equivalents	0	65	17	42	277	186	110	96	96	125	67	71	77	77	63	61	64	55
Accounts receivable	81	134	222	377	697	731	695	1,026	1,026	727	914	1,073	1,187	1,187	1,222	1,394	1,462	1,483
Inventory	0	0	0	0	200	168	156	127	127	141	274	190	191	191	194	197	200	206
Other current assets	7	17	18	44	193	221	188	190	190	159	159	159	159	159	159	159	159	159
Total current assets	**88**	**215**	**258**	**463**	1,367	1,306	1,149	1,439	**1,439**	1,152	1,415	1,494	1,613	**1,613**	**1,638**	**1,811**	**1,885**	**1,903**
Tangible Fixed Assets - Net	**2,528**	**4,637**	**5,291**	**6,052**	27,714	28,187	28,516	28,600	**28,600**	28,823	28,917	29,044	29,146	**29,146**	**30,406**	**29,618**	**28,314**	**26,896**
Goodwill	0	0	0	0	1,145	1,145	1,145	47	47	47	47	47	47	47	47	47	47	47
Other intangible fixed assets	159	355	372	349	10,190	10,157	10,052	9,969	9,969	9,880	9,880	9,880	9,880	9,880	9,880	9,880	9,880	9,880
Investment in affiliates	887	1,298	1,937	2,230	8,319	8,711	8,198	7,336	7,336	7,181	7,181	7,181	7,181	7,181	7,181	7,181	7,181	7,181
Other investments	22	56	60	49	549	534	579	479	479	497	497	497	497	497	497	497	497	497
Non-Current Assets	**3,595**	**6,346**	**7,660**	**8,680**	47,917	48,734	48,490	46,431	**46,431**	46,428	46,522	46,649	46,751	**46,751**	**48,011**	**47,223**	**45,919**	**44,501**
Total assets	**3,683**	**6,561**	**7,917**	**9,144**	49,284	50,040	49,639	47,870	**47,870**	47,580	47,937	48,143	48,365	**48,365**	**49,649**	**49,035**	**47,804**	**46,405**
Trade payables and other ST liabilities	143	259	306	246	1,361	1,535	1,737	1,546	1,546	1,493	1,886	1,873	1,779	1,779	1,777	1,966	2,004	2,056
Short term debt	0	0	0	0	801	2,121	1,907	675	675	1,111	685	707	727	727	806	820	800	776
Total current liabilities	**143**	**259**	**306**	**246**	2,162	3,656	3,644	2,221	**2,221**	2,604	2,571	2,580	2,506	**2,506**	**2,583**	**2,786**	**2,804**	**2,832**
Long term debt	1,063	2,500	3,249	4,295	17,123	16,743	17,237	19,001	19,001	18,504	19,286	19,912	20,464	20,464	22,684	23,079	22,527	21,845
Debt deemed provisions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred taxes	0	0	0	0	126	127	120	119	119	126	126	126	126	126	126	126	126	126
Other long term liabilities	4	5	9	90	1,846	1,848	1,911	1,923	1,923	2,096	2,096	2,096	2,096	2,096	2,096	2,096	2,096	2,096
Total liabilities	**1,210**	**2,765**	**3,565**	**4,631**	21,257	22,374	22,912	23,264	**23,264**	23,330	24,079	24,714	25,192	**25,192**	**27,488**	**28,086**	**27,554**	**26,899**
Common equity	1,604	3,592	4,099	4,035	26,382	25,976	25,010	22,881	22,881	22,499	22,107	21,679	21,422	21,422	20,410	19,197	18,500	17,754
Preferred equity	869	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Minority interests	0	205	254	478	1,645	1,690	1,717	1,725	1,725	1,751	1,751	1,751	1,751	1,751	1,751	1,751	1,751	1,751
Shareholders' Equity	**2,473**	**3,797**	**4,353**	**4,512**	28,027	27,666	26,727	24,606	**24,606**	24,250	23,858	23,430	23,173	**23,173**	**22,161**	**20,948**	**20,251**	**19,505**
Total liabilities and equity	**3,683**	**6,561**	**7,917**	**9,144**	49,284	50,040	49,639	47,870	**47,870**	47,580	47,937	48,143	48,365	**48,365**	**49,649**	**49,035**	**47,804**	**46,405**
Check	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance Sheet Assumptions		***33***	***(46)***	***(109)***	***118***	***76***	***(97)***	***(418)***	***(321)***	***289***	***73***	***(89)***	***(208)***	***65***	***(40)***	***14***	***(34)***	***26***
Working Capital	(55)	(109)	(66)	176	(271)	(415)	(698)	(203)	(203)	(466)	(539)	(450)	(242)	(242)	(202)	(216)	(182)	(208)
Average Collection Period	52	80	76	100	37	36	36	47	51	40	40	48	48	52	50	50	50	50
Inventory Days	0	0	0	0	39	31	36	21	26	40	40	30	30	33	30	30	30	30
Average Payable Period	295	441	328	199	265	283	399	261	312	429	275	295	280	309	275	300	300	300
Cash	0	65	17	42	277	186	110	96	96	125	67	71	77	77	63	61	64	55
Total Debt	1,063	2,500	3,249	4,295	17,924	18,864	19,144	19,676	19,676	19,615	19,971	20,619	21,191	21,191	23,489	23,898	23,328	22,621
Total Net Debt	**1,063**	**2,435**	**3,232**	**4,253**	**17,647**	**18,678**	**19,034**	**19,580**	**19,580**	**19,490**	**19,903**	**20,548**	**21,114**	**21,114**	**23,426**	**23,837**	**23,264**	**22,565**
Preferred Securities	869	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shareholders' Equity	2,473	3,797	4,353	4,512	28,027	27,666	26,727	24,606	24,606	24,250	23,858	23,430	23,173	23,173	22,161	20,948	20,251	19,505
Net Debt/Capital	**24.1%**	**39.1%**	**42.6%**	**48.5%**	38.6%	40.3%	41.6%	44.3%	**44.3%**	44.6%	45.5%	46.7%	47.7%	**47.7%**	**51.4%**	**53.2%**	**53.5%**	**53.6%**
EBIT	211	236	460	702	385	458	600	565	2,008	536	559	539	568	2,202	2,387	2,897	3,128	3,117
EBIT(1-T)	204	228	443	676	371	442	578	545	1,936	517	539	519	547	2,123	2,301	2,793	3,015	3,005
Invested capital	4,405	6,232	7,585	8,766	45,674	46,344	45,761	44,186	44,186	43,740	43,761	43,977	44,287	44,287	45,587	44,785	43,514	42,071
ROIC	7%	5%	6%	8%	4%	4%	5%	6%	4%	5%	5%	8%	5%	5%	5%	6%	7%	7%
ROE	9%	6%	8%	12%	2%	0%	0%	2%	4%	1%	0%	1%	1%	5%	6%	8%	9%	10%
EBITDA (w/ CHK MVC payment)	349	468	861	1,183	918	1,008	1,092	1,064	4,082	1,000	1,026	1,008	1,040	4,323	4,639	5,308	5,487	5,424
Net Debt / EBITDA	**3.0x**	**5.2x**	**3.4x**	**3.3x**	4.0x	4.3x	4.4x	4.6x	**4.6x**	4.6x	4.7x	4.9x	5.0x	**4.7x**	**4.8x**	**4.5x**	**4.3x**	**4.2x**
EBITDA / Interest	**24.8x**	**7.2x**	**7.4x**	**6.4x**	5.5x	5.2x	5.1x	5.0x	**5.0x**	4.9x	4.7x	4.4x	4.2x	**4.5x**	**4.2x**	**4.4x**	**4.5x**	**4.5x**
Depreciation Rate Calculation	**5.4%**	**3.6%**	**5.6%**	**5.2%**	6.9%	1.5%	1.5%	1.5%	**6.0%**	1.5%	1.5%	1.5%	1.5%	**6.0%**	**6.5%**	**6.7%**	**7.2%**	**7.7%**

Source: WPZ reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Exhibit 50: WPZ Consolidated Statement of Cash Flows

Consolidated Cash Flow Statement ($MM)	2010	2011	2012	2013	2014	1Q	2Q	3Q	4Q	2015	1Q	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E
Operating activities																			
Net income	**195.2**	**194.3**	**178.4**	**341**	**429**	112	332	(167)	(1,635)	**(1,358)**	79	321	294	317	**1,011**	**1,279**	**1,686**	**1,920**	**1,907**
Depreciation, Amortization	**93.5**	**136.2**	**165.5**	**296**	**315**	419	419	423	441	**1,702**	435	437	440	442	**1,753**	**1,888**	**2,046**	**2,125**	**2,188**
Distributions to Equity Earnings	**0.0**	**0.0**	**0.0**	**83**	**282**	0	0	0	0	**0**	0	0	0	0	**0**	**0**	**0**	**0**	**0**
Other, including changes in provisions and other liabilities	**0.4**	**6.1**	**(59.2)**	**(110)**	**(146)**	48	(31)	446	2,175	**2,638**	121	0	0	0	**121**	**0**	**0**	**0**	**0**
Net change in working capital	**28.0**	**62.5**	**33.5**	**(46)**	**(109)**	118	76	(97)	(418)	**(321)**	289	73	(89)	(208)	**65**	**(40)**	**14**	**(34)**	**26**
Net cash provided by operating activities	**317.1**	**399.0**	**318.1**	**564**	**771**	697	796	605	563	**2,661**	924	831	645	550	**2,950**	**3,127**	**3,746**	**4,011**	**4,121**
Investing activities																			
Capital expenditure - tangible fixed assets	**(716.3)**	**(418.8)**	**(350.0)**	**(1,059)**	**(999)**	(735)	(715)	(692)	(653)	**(2,795)**	(463)	(531)	(567)	(544)	**(2,105)**	**(3,148)**	**(1,258)**	**(820)**	**(770)**
Investment in affiliates	**0.0**	**0.0**	**(185.0)**	**(572)**	**(351)**	(83)	(400)	(45)	(66)	**(594)**	46	0	0	0	**46**	**0**	**0**	**0**	**0**
Net disposals/(acquisitions)	**4.8**	**(598.3)**	**(2,150.4)**	**75**	**(137)**	0	(112)	0	0	**(112)**	0	0	0	0	**0**	**0**	**0**	**0**	**0**
Other investment	**0.0**	**0.0**	**0.0**	**0**	**0**	151	72	110	217	**550**	98	0	0	0	**98**	**0**	**0**	**0**	**0**
Net cash provided by investing activities	**(711.5)**	**(1,017.1)**	**(2,685.5)**	**(1,556)**	**(1,488)**	(667)	(1,155)	(627)	(502)	**(2,951)**	(319)	(531)	(567)	(544)	**(1,961)**	**(3,148)**	**(1,258)**	**(820)**	**(770)**
Financing activities																			
Inc./(dec.) in short term debt	**0.0**	**0.0**	**0.0**	**0**	**0**	(799)	1,741	(215)	(1,033)	**(306)**	(365)	(426)	22	20	**(749)**	**79**	**14**	**(20)**	**(24)**
Inc./(dec.) in long term debt	**205.0**	**463.8**	**1,397.5**	**758**	**1,047**	1,602	(784)	499	1,659	**2,976**	312	782	626	553	**2,272**	**2,219**	**395**	**(551)**	**(683)**
Inc./(dec.) in equity	**474.6**	**350.0**	**1,255.3**	**449**	**52**	0	0	0	59	**59**	0	0	0	0	**0**	**0**	**0**	**300**	**300**
Common stock dividends paid	**(262.4)**	**(200.9)**	**(251.7)**	**(389)**	**(537)**	(725)	(725)	(723)	(513)	**(2,686)**	(516)	(713)	(723)	(573)	**(2,525)**	**(2,291)**	**(2,899)**	**(2,918)**	**(2,952)**
Other cash from financing	**(4.9)**	**(12.6)**	**31.3**	**127**	**179**	(2)	36	385	(247)	**172**	(7)	0	0	0	**(7)**	**0**	**0**	**0**	**0**
Inc./(dec.) in preffered equity	**0.0**	**0.0**	**0.0**	**0**	**0**	0	0	0	0	**0**	0	0	0	0	**0**	**0**	**0**	**0**	**0**
Net cash provided by financing activities	**412.2**	**600.3**	**2,432.3**	**945**	**741**	76	268	(54)	(75)	**215**	(576)	(357)	(75)	(1)	**(1,009)**	**7**	**(2,490)**	**(3,189)**	**(3,359)**
Cash flow increase/(decrease) in cash	17.8	(17.8)	65.0	(48)	25	106	(91)	(76)	(14)	(75)	29	(58)	4	6	(19)	(14)	(2)	3	(8)
Non-cash movements in cash	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Forex Adjustments	0.0	0.0	0.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net change in cash	**17.8**	**(17.8)**	**65.0**	**(48)**	**25**	106	(91)	(76)	(14)	**(75)**	29	(58)	4	6	**(19)**	**(14)**	**(2)**	**3**	**(8)**
Cash at the beginning of the year	**0.0**	**17.8**	**0.0**	**65**	**17**	171	277	186	110	**171**	96	125	67	71	**96**	**77**	**63**	**61**	**64**
Cash at the end of the year	**17.8**	**0.0**	**65.0**	**17**	**171**	277	186	110	96	**96**	125	67	71	77	**77**	**63**	**61**	**64**	**55**
Cash paid for income taxes		2.8	2.9	3.3	2.0		-	-	3.6	12.1	-	-	-	-	9.8	9.3	14.2	15.1	-
Cash Interest paid, net of amount capitalized		17.0	30.3	39.9	151.8														
Cash Tax Rate		1.43%	1.69%	0.96%	0.39%		1.0%	1.0%	1.0%	1.0%	0.8%	0.7%	0.8%	0.7%	0.8%	0.7%	0.8%	0.8%	0.8%
Cash Interest Rate		2.30%	1.92%	1.36%	3.82%					0.00%									
Free Cash Flow (after dividends)	(662)	(221)	(284)	(884)	(765)	(763)	(644)	(810)	(603)	(2,820)	(55)	(413)	(644)	(567)	(1,679)	(2,312)	(411)	273	399
Free Cash Flow CFA Rules (NI+D&A-WC-CapEx)	(400)	(26)	27	(468)	(364)	(86)	112	(533)	(2,265)	(2,772)	340	300	79	6	725	(21)	2,488	3,191	3,351

Source: WPZ reports, Jefferies estimates

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Please see important disclosure information on pages 62 - 66 of this report.

Energy

Rating | Target | Estimate Change

July 25, 2016

AmeriGas Partners, L.P. (APU)

HOLD: $50 Price Target

THE LONG VIEW

Scenarios

Target Investment Thesis

- Propane continues to capture incremental fuel oil market share, helping to mitigate its LT structural demand decline.
- Ongoing, periodic acquisitions of small, independent operators offset the structural decline in propane sales.
- Acquisitions also enable improved asset utilization, allowing unit-margin growth.
- Normal weather conditions exist.
- 2017 EBITDA: ~$675mm; 5-year distribution CAGR: 3.0%; Target Price: $50

Upside Scenario

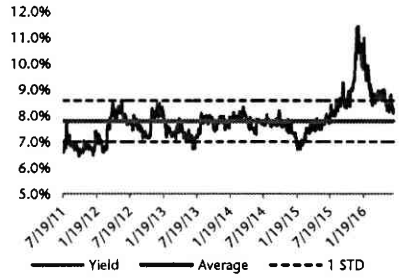
- Accelerated conversions of fuel-oil customers supplement acquisition activities, driving strong sales growth and margin expansion.
- Significantly colder-than-normal winter weather conditions produce robust sales during peak margin environment.
- Propane prices remain significantly depressed, helping to mitigate customer conservation
- 2017 EBITDA: $750mm; 5-year distribution CAGR: 4.5%; Target Price: $60

Downside Scenario

- Rival fuel sources begin capturing propane market share, accelerating its LT structural demand decline.
- APU is unable to close accretive, bolt-on acquisitions and sales track the historic structural decline of the broad market.
- Persistently warmer than normal temps crimp sales, margins, and cash flows.
- Rising US propane exports elevate prices, further pressuring sales and margins.
- 2017 EBITDA: $600mm; 5-year distribution CAGR: 1.5%; Target Price: $40

Long Term Analysis

Historical Distribution Yield (5 years)



Source: FactSet, Jefferies estimates

Long Term Financial Model Drivers

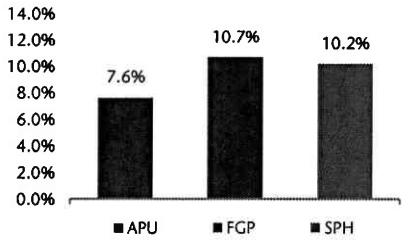
LT EBITDA CAGR	**~4.1%**
Terminal Distribution Growth Rate	**~0.0%**
Annual Unit-Margin Growth	**~1.2%**

Other Considerations

APU's earnings are highly seasonal. From 2008 to 2015, F1Q & F2Q EBITDA combined to total ~86.4% of APU's total annual EBITDA. Most recently, F1Q15 & F2Q15 accounted for 30.5% & 55.5% of total 2015 EBITDA, respectively, though we note that the winter of 2015 was unusually warm. Due to this extreme seasonality, APU earnings jump during colder than normal winters and lag during warmer than normal winters.

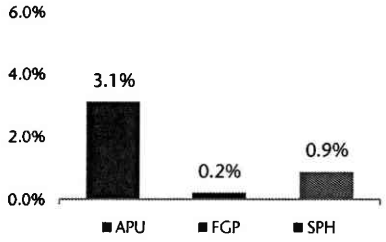
Peer Group

Current Distribution Yields



Source: FactSet

3-Year Distribution CAGR



Source: Company Reports, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
APU	**Underperform**	**$50**
FGP	NC	NC
SPH	NC	NC

Catalysts

- With historically low propane prices, we look forward to mgmt commentary regarding forward purchase contracts in an effort to increase margins.
- Another unseasonably warm winter would act as a negative catalyst for earnings while a colder than normal winter would act as a positive catalyst for earnings.
- Annual distribution increase, typically occurs in F3Q.

Company Description

AmeriGas Partners, L.P. (NYSE: APU) is the nation's largest retail propane marketer, serving more than 2.3 million customers in all 50 states from roughly 2,100 distribution locations. AmeriGas is a master limited partnership (MLP) and UGI Corporation (NYSE: UGI) is its sole General Partner and owns an approximate 26% Limited Partner interest. AmeriGas is organized under the laws of the state of Delaware and headquartered in King of Prussia, PA.

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Energy Transfer Partners, LP (ETP)

BUY: $47 Price Target

THE LONG VIEW

Scenarios

Target Investment Thesis

- Midstream volumes grows at low-single digit CAGR from 2015-2020 and equity volumes grow at ~1.0%/year
- NGL transportation and fractionation volume growth of ~25% & ~12% from 2015-2020, respectively
- Assume Rover Pipeline starts up in 3Q17
- Assume the average multiple of growth projects (strip-adj) are built at ~10x EBITDA
- 2017 EBITDA: ~$6.7B; 5-year distribution CAGR: ~1.5%; Target Price $47

Upside Scenario

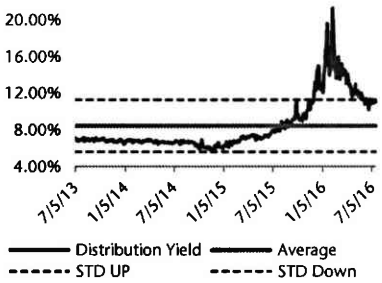
- NGL price realizations are better than anticipated, expanding margins at the Partnership's G&P operations
- Volumes increase more than we anticipate driving incremental frac & transpo tariffs
- Additional fractionators come online on schedule & under budget
- ETP leverages its Gulf footprint to find additional midstream opportunities
- 2017 EBITDA: $7.05B; 5-year distribution CAGR: ~5%; Target Price $75

Downside Scenario

- Project start-ups are delayed and cost over runs occur, resulting in lower returns and greater future equity needs
- New frac & processing plants run at sub-par utilization rates, crimping returns
- Distributions to the GP begin to crimp the cost of capital at the Partnership and impede future organic opportunities
- Lack of future growth opportunities
- 2017 EBITDA: $5.5B; 5-year distribution CAGR: ~0.0%; Target Price $25

Long Term Analysis

Historic Distribution Yield (3-year)



Source: FactSet, Jefferies estimates

Long Term Financial Model Drivers

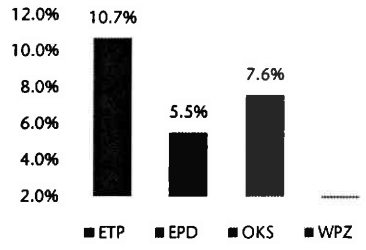
Terminal Cost of Equity	**10.0%**
Terminal Distribution Growth Rate	**1.0%**
2020E Distribution Coverage	**~1.3x**
LT Net Debt / EBITDA	**~3.5x**

Other Considerations

We expect ETE to waive IDRs to the amount of the cash savings from the ETE Series A Preferred Units. Said differently, we project ETE will save roughly $520mm of cash via the Series A units, which we would expect to be used as support to ETP.

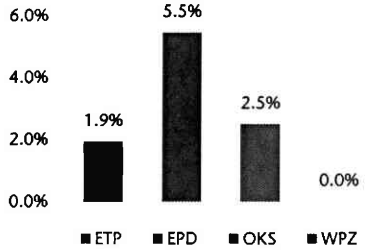
Peer Group

3Q16 Distribution Yields



Source: FactSet, Jefferies estimates

Group 5- Year Distribution CAGR



Source: FactSet, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
ETP	**Buy**	**$47**
EPD	Buy	$34
OKS	Hold	$41
WPZ	Hold	$40

Catalysts

- Expect flat quarterly distributions of $1.055/qtr in 2016-18 (these distribution announcements will precede earnings)
- Announcement of incremental expansions at the Partnership's NGL & Midstream segments
- Updates to 2016 financial and operational guidance

Company Description

Energy Transfer Partners, L.P. (NYSE: ETP) is a master limited partnership (MLP) engaged in natural gas & NGL transportation, storage, and fractionation. In aggregate, ETP owns ~62,000 miles of natural gas & NGL pipelines. In addition, ETP owns the general partner, 100% of the incentive distribution rights, and ~67mm common units in Sunoco Logistics Partners L.P. (NYSE: SXL), which operates a geographically diverse portfolio of crude oil and refined products pipelines. ETP also owns a ~40% of the limited partner interests in Sunoco LP (NYSE: SUN), a wholesale & retail fuel distributor and convenience store operator. ETP's general partner is owned by Energy Transfer Equity (NYSE: ETE).

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Energy

Rating | Target | Estimate Change

July 25, 2016

NiSource, Inc. (NI)

Underperform: $22 Price Target

THE LONG VIEW

Scenarios

Target Investment Thesis

- Infrastructure modernization programs to generate steady growth & returns across all segments over the few next decades
- Following CPPL IPO and CPGX spin-off, NI joins utility peers with premium asset footprints and favorable regulatory climates
- ~5% dividend CAGR from 2016-20; ~6% EPS CAGR from 2016-20
- 2017 Adj. EPS: $1.19; 2017 dividend: $0.68/share; Target Price $22

Upside Scenario

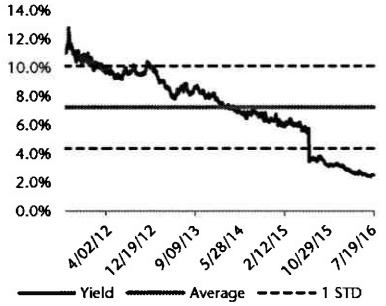
- Customer growth grows faster than projected ~0.5% per year assumption and alternative source of regulated revenues are secured
- NI spends above the high-end of its guidance range, growing rate base faster than anticipated
- Mgmt reduces debt load generating interest cost savings
- 2017 Adj. EPS: $1.25; 2017 dividend: $0.72/share; Target Price $30

Downside Scenario

- Customer growth is slower than projected ~0.5% per year assumption, or negative
- NI spends below the low-end of its guidance range, and rate base growth is slower than anticipated
- Cost overruns and rising debt loads weigh on EPS
- Adverse regulatory and rate case outcomes
- 2017 Adj. EPS: $1.15; 2017 dividend: $0.68/share; Target Price $15

Long Term Analysis

Historical Dividend Yield



Long Term Financial Model Drivers

2016-20 EPS CAGR	~5.2%
2016-20 Dividend CAGR	~5.7%
Payout Ratio	55-60%
Terminal Cash Flow Growth Rate	2.0%

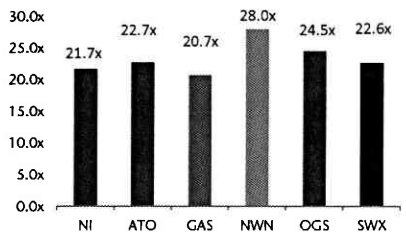
Other Considerations

We have grown cautious of utility valuations which have been driven higher by investor's flight to yield & safety. The gas LDC group's weighted average yield is ~115bps & ~90bpds below its 2yr & 5yr averages. Additionally, the group's F1Y weighted average P/E has climbed to ~2.9x above the S&P average, while the previous 2yrs averaged ~2.8x below the S&P average.

Source: Jefferies estimates

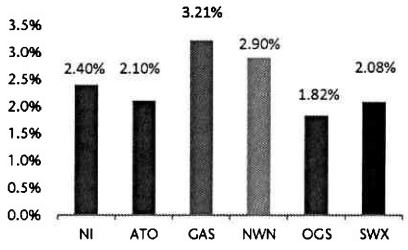
Peer Group

Group FY2 P/Es



Source: FactSet, Jefferies estimates

Group Dividend Yield



Source: FactSet, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
NI	**Underperform**	**$22**
ATO	NC	NC
GAS	NC	NC
NWN	NC	NC
OGS	Underperform	$53
SWX	Underperform	$64

Catalysts

- Continued regulatory progress and reduction in regulatory lag could improve earnings growth
- Extension or expansion of modernization programs across any/all service territories
- Increased revenue-normalization efforts and reduction in volumetric sensitivities

Company Description

NiSource, Inc. (NYSE: NI) is a public utility holding company whose subsidiaries provide natural gas and electricity to 4 million US customers. The Gas Distribution operations provide natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. In 2015 NiSource separated from a diversified energy holding company to a public utility operator via the separation of its former midstream business, now separately publicly traded as Columbia Pipeline Group (NYSE: CPGX). NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Energy

Rating | Target | Estimate Change

July 25, 2016

ONE Gas Inc. (OGS)

UNDERPERFORM: $53 Price Target

THE LONG VIEW

Scenarios

Target Investment Thesis

- Customer growth continues at ~0.8% CAGR over next several years
- Annual capex spend remains ~$300-$325mm, delivering rate base growth broadly consistent with mgmt's expectations.
- OGS continues to earn historical rate increases in KS & annual GRIP filings in TX
- Normal weather conditions exist
- 2017 EPS & DPS: $2.75, $1.60; Target Yield: 2.75%; Target Price $53

Upside Scenario

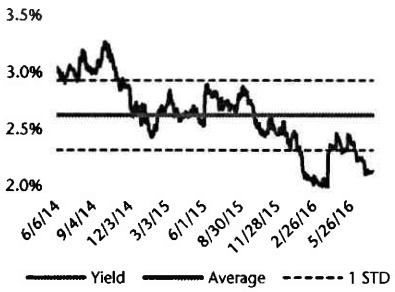
- Customer growth grows faster than projected ~0.8% per year assumption and alternative sources of regulated revenue are secured
- OGS spends at or above the high-end of its guidance range, thus growing its rate base faster than projected
- Mgmt employs cost cutting mechanisms which allow OGS to realize an ROE closer to its authorized amount (10-11%)
- 2017 EPS & DPS: $2.95, $1.65; Target Yield: 2.25%; Target Price: $60

Downside Scenario

- Customer growth is slower than projected ~0.8% per year assumption
- OGS spends at or below the low-end of its guidance range, thus its rate base ramp is slower than forecasted
- Cost overruns occur and crimp allowed ROE in out-years
- Mild weather occurs in service areas where weather normalization provisions do not exist
- 2017 EPS & DPS: $2.60, $1.60; Target Yield: 3.5%; Target Price: $45

Long Term Analysis

Historical Dividend Yield



Source: Jefferies estimates

Long Term Financial Model Drivers

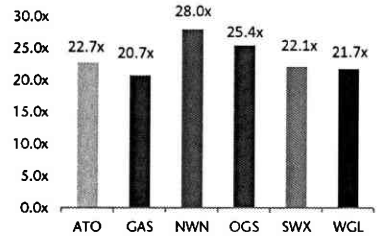
2015-20 Earnings CAGR	**~6.8%**
2015-20 Dividend CAGR	**~10.8%**
Earnings Payout Ratio	**55-65%**
Terminal Dividend Growth Rate	**3.0%**

Other Considerations

We have grown cautious of utility valuations which have been driven higher by investor's flight to yield & safety. The gas LDC group's weighted average yield is ~115bps & ~90bpds below its 2yr & 5yr averages. Additionally, the group's F1Y weighted average P/E has climbed to ~2.9x above the S&P average, while the previous 2yrs averaged ~2.8x below the S&P average.

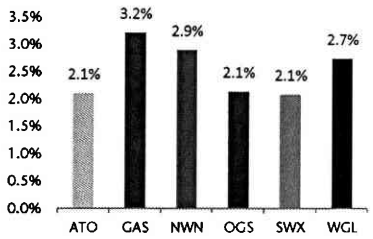
Peer Group

Group 2017 P/Es



Source: FactSet, Jefferies estimates

Group Dividend Yield



Source: FactSet, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
OGS	**Underperform**	**$53**
ATO	NC	NC
GAS	NC	NC
NWN	NC	NC
SWX	Underperform	$64
WGL	NC	NC

Catalysts

- Successful resolution of TGS' pending rate actions, which include two rate cases (a $2.3mm case in Galveston & a $10.5mm case in Central/South Texas) & one COSA filing (a $1.3mm filing in N. Texas).
- With a low interest debt maturity in 2019, increased interest rates would act as a negative catalyst.

Company Description

ONE Gas Inc. (NYSE: OGS) is Local Distribution Company (LDC), which, in terms of customer count, is the 3rd largest natural gas utility in the United States. OGS is the successor of a company founded in 1906 as Oklahoma Natural Gas Company. OGS's service territories include Oklahoma, Kansas, and Texas. ONE Gas is 100% regulated and currently serves ~2.1 million customers throughout its service territories. Despite the LDC market categorized as an extremely fragmented industry, we note that OGS is the largest distributor of natural gas in both Oklahoma and Kansas and the third largest distributor in Texas. OGS's customer base includes residential, commercial & industrial, wholesale & public authority, and transportation.

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Energy

Rating | Target | Estimate Change

July 25, 2016

Spectra Energy Partners, L.P. (SEP)

HOLD: $54 Price Target

THE LONG VIEW

Scenarios

Target Investment Thesis

- Organic expansions are placed into service on time and within budget, and proposed projects are steadily moved into execution.
- Express-Platte continues to capitalize on crude oil transport opportunities
- Annual equity placements range from $150-$750mm over the forecast period and are largely satisfied with ATM usage
- 2017 EBITDA: $2.08B; 5-year distribution CAGR: 7.1%; Target Price $54

Upside Scenario

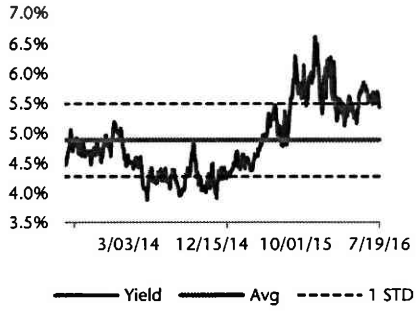
- Growth projects come online faster than anticipated and under budget, boosting SEP's projected returns.
- SEP is capable of repopulating its project inventory and swiftly moving proposed projects into execution.
- Natural gas pricing volatility and seasonal spreads return, boosting the earnings power and value of SEP's storage assets.
- 2017 EBITDA: $2.25B; 5-year distribution CAGR: 10%; Target Price: $60

Downside Scenario

- Project start-ups are delayed and cost overruns occur, resulting in lower returns and larger than expected equity raises.
- Mild production & consumption trends limit future growth opportunities across SEP's portfolio; interest rates rise rapidly.
- Maintenance capex needs prove to be higher than our forecasts, crimping DCF
- 2017 EBITDA: $1.8B; 5-year distribution CAGR: 5.0%; Target Price: $40

Long Term Analysis

3-Year Distribution Yield



Long Term Financial Model Drivers

Terminal Cost of Equity	~8.50%
Terminal Growth Rate	~2.00%
LT Annual Maintenance Capex	~$315mm
LT Net Debt / EBITDA	~3.1x

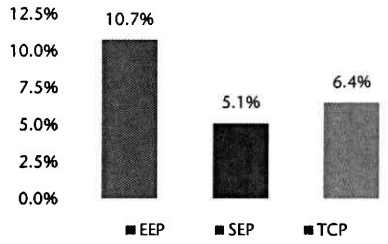
Other Considerations

Following the drop-down of SE's T&S and Liquids assets, SEP has transitioned from a 'potential drop-down candidate' into an execution-driven growth story. However, SE still retains ~80% of SEP's LP units, creating a very tight public float and limited trading liquidity. Given the sizable skew in its asset size vs. its public float, we note the risk of outsized swings in LP unit prices.

Source: FactSet. Iefferies estimates

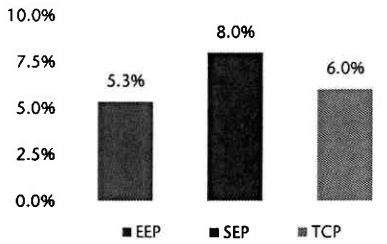
Peer Group

Group Current Distribution Yields



Source: FactSet, Jefferies estimates

Group Distribution CAGRs (2013-2016)



Source: FactSet, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
SEP	**Hold**	**$54**
EEP	NC	NC
TCP	NC	NC

Catalysts

- Quarterly distribution raises to drive unit-price increases (these precede earnings).
- Project in-service announcements, movement of proposed projects into execution, and the identification of new expansion projects

Company Description

Spectra Energy Partners, L.P. (NYSE: SEP) is a master limited partnership (MLP) engaged in the transportation and storage of natural gas and crude oil, primarily in the eastern US. The Partnership's interstate gas transmission pipeline and storage operations are principally regulated by the Federal Energy Regulatory Commission (FERC), though some oversight is also provided by various state commissions. Spectra Energy Corp. (NYSE: SE) is the Partnership's sole General Partner and owns an approximate 83% Limited Partner stake. The Partnership was formed on March 19, 2007, is organized under the laws of the state of Delaware, and is headquartered in Houston, TX.

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Energy

Rating | Target | Estimate Change

July 25, 2016

Southwest Gas Corp. (SWX)

Underperform: $64 Price Target

THE LONG VIEW

Scenarios

Target Investment Thesis

- Customer growth continues at a ~1.5-1.75% annual rate through 2020 and the number of inactive customer meter sets declines as economic conditions improve
- Centuri grows as utilities seek to replace & modernize aging infrastructure.
- SWX's regulatory outcomes are generally favorable and its LNG facility construction contract is awarded in 2H16, construction time stays within the guided range of 2-3yrs
- 2017 EPS & DPS: $3.52, $1.94; Target Price $64

Upside Scenario

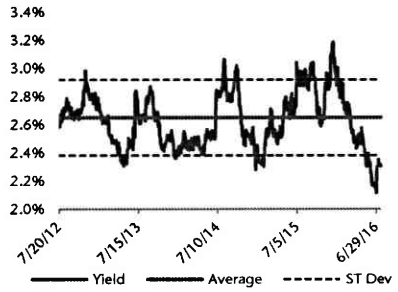
- Customer accounts grow faster than our baseline forecast and the economies of the AZ, NV, and CA service territories stage a sharp recovery
- Rate activity is very favorable and LNG facility construction is completed ahead of schedule & under budget
- Centuri growth & profitability is better than anticipated and its project backlog deepens
- 2017 EPS & DPS: $3.60, $1.98 Target Price: $70

Downside Scenario

- Weak economic conditions prompt slower than anticipated growth in customer accounts and an uptick in inactive meters
- Adverse future rate case outcomes and LNG facility construction is completed behind schedule & over budget
- Centuri backlog wanes & contract bidding becomes more competitive, crimping its growth & profitability
- Treasury yields materially widen
- 2017 EPS & DPS: $3.30, $1.94; Target Price: $55

Long Term Analysis

Historical Dividend Yield



Source: Jefferies estimates

Long Term Financial Model Drivers

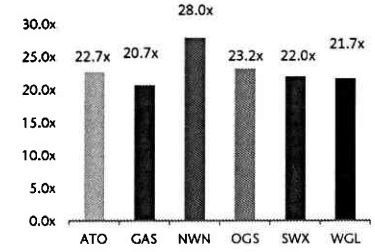
LT Earnings CAGR	**~4.9%**
5-Year Dividend CAGR	**~9.0%**
Earnings Payout Ratio	**55-65%**
Terminal Cash Flow Growth Rate	**2.00%**

Other Considerations

We have grown cautious of utility valuations which have been driven higher by investor's flight to yield found in the utility space. The gas LDC group's weighted average yield is ~115bps & ~90bpds below its 2yr & 5yr averages. Additionally, the group's F1Y weighted average P/E has climbed to ~2.9x above the S&P average, while the previous 2yrs averaged ~2.8x below the S&P average.

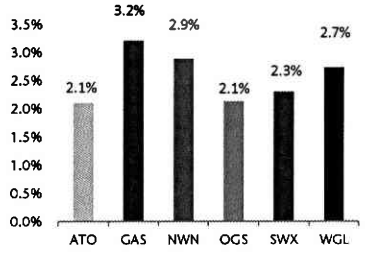
Peer Group

Group 2017 P/Es



Source: FactSet, Jefferies estimates

Current Group Dividend Yield



Source: FactSet, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
SWX	**Underperform**	**$64**
ATO	NC	NC
GAS	NC	NC
NWN	NC	NC
OGS	Underperform	$53
WGL	NC	NC

Catalysts

- Dividend increases, expected each February at an annual rate of ~9-6%
- Additional sector consolidation (value read-through) and/or an accretive acquisition of its own
- An increase in interest rates or a reduction of allowed ROEs would act as negative catalysts

Company Description

Southwest Gas purchases, distributes, and transports natural gas in the states of Arizona, Nevada, and California to residential, commercial, and industrial users. It is the largest natural gas distributor in Arizona and Nevada, providing service to the Phoenix, Tucson, and Las Vegas metropolitan regions among others. Southwest Gas' wholly-owned subsidiary, NPL Construction, is a full-service underground piping contractor that provides trenching, installation, replacement, and maintenance services for energy distribution systems at utility companies nationwide. The Company was founded in March 1931, is incorporated under the laws of the State of California, and is headquartered in Las Vegas, NV.

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Jefferies

Energy

Rating | Target | Estimate Change

July 25, 2016

Williams Companies Inc. (WMB)

Buy: $28 Price Target

THE LONG VIEW

Scenarios

Target Investment Thesis

- Diverse portfolio of NA midstream assets & a long-dated growth backlog
- Assume long term ethylene crack spread of ~18¢
- Assume new projects are built at ~10.3x build multiples implying ~14.4% ROIC
- Geismar operates @ ~95% utilization rate
- WMB does not make significant asset sales
- 2016 DCF: ~$1.2B; 5-year distribution CAGR: ~(5.9%); Target Price $28
-

Upside Scenario

- Growth projects are completed ahead of schedule & under budget, boosting returns and limiting financing needs
- Frac spreads rise and remain elevated, providing upside to Atlantic-Gulf & West
- Geismar is fully utilized at start-up; crack spreads widen & remain lofty.
- WMB sells non-core assets at attractive multiples

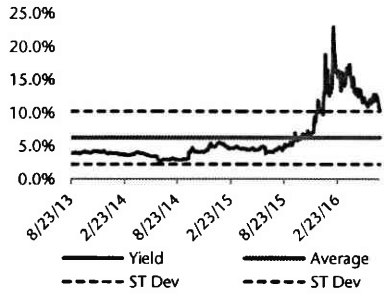
2016 DCF: $1.5B; 5-year PF distribution CAGR: ~0%; Target Price $45

Downside Scenario

- Expansions encounter cost overruns and timing delays, crimping returns and necessitating above-forecast equity issuances.
- Frac spreads remain depressed, crimping keep-whole earnings in the West segment.
- Geismar fails to remain online, and continues to hinder investor confidence of management
- 2016 DCF: $900MM; 5-year dividend CAGR: ~(20%); Target Price $20

Long Term Analysis

Dividend Yield (Historical 3-Years)



Source: FactSet, Jefferies estimates

Long Term Financial Model Drivers

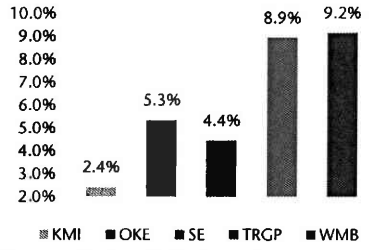
Terminal Cost of Equity	**9.0%**
Terminal Distribution Growth Rate	**2.5%**
2020E Distribution Coverage	**~1.30x**

Other Considerations

With leverage increasing as a result of lower commodity prices & volumes, we project WMB will step in and support WPZ with IDR waivers prompting WMB to cut its dividend. To the extent Williams management is successful in monetizing assets without directly impacting WPZ cash flow generation, this could limit the amount of IDR waivers needed at WPZ to keep leverage sub-5.0x.

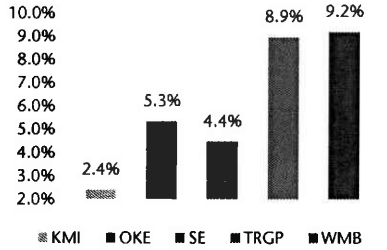
Peer Group

FY 2016 Dividend Yield



Source: Factset, Jefferies estimates

5-year Dividend CAGR (2015-2020)



Source: Iefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
WMB	**Buy**	**$28**
ETE	Buy	$20
OKE	Hold	$43
SE	Hold	$31
TRGP	Hold	$45

Catalysts

- Expect quarterly distribution to be cut by nearly 50% to 34¢/qtr, from 64¢/qtr, in 4Q16. We then expect dividend growth to resume in 1Q18
- Developments regarding WMB's lawsuit alleging breach of contract by ETE, any payments for damages which WMB receives would be a positive catalyst (we have assumed WMB receives no damages)
- Updates to 2016 guidance

Company Description

The Williams Companies, Inc. (NYSE: WMB) is a premier, integrated energy infrastructure company with operations in the US and Canada. It operates through three segments: Williams Partners (NYSE: WPZ), Williams NGL & Petchem Services, and Other. The Williams Partners segment accounts for the General Partner & Limited Partner interests in WPZ. The NGL & Petchem Services comprises Canadian midstream operations. The Company was founded in 1908, is incorporated in Delaware, and headquartered in Tulsa, OK.

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Jefferies

Energy

Rating | Target | Estimate Change

July 25, 2016

Williams Partners, LP. (WPZ)

Hold: $40 Price Target

THE LONG VIEW

Scenarios (Pro-forma for merged MLP)

Target Investment Thesis

- Diverse portfolio of NA midstream assets & a long-dated growth backlog
- Assume long term ethylene crack spread of ~18¢
- Assume new projects are built at ~10.3x build multiples implying ~14.4% ROIC
- Geismar operates @ ~95% utilization rate
- WMB does not make any significant asset sales
- 2017 EBITDA: $4.40B; 2015-2020 distribution CAGR: ~0% ; Target Price $40

Upside Scenario

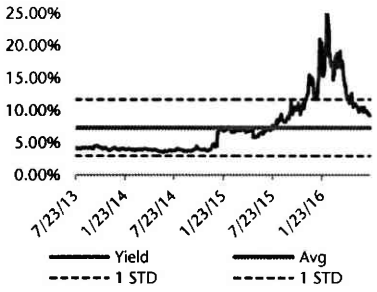
- Growth projects are completed ahead of schedule & under budget, boosting returns and limiting financing needs
- Frac spreads rise and remain elevated, providing upside to Atlantic-Gulf & West
- Geismar is fully utilized at start-up; crack spreads widen & remain lofty.
- WMB sells non-core assets at attractive multiples
- 2017 EBITDA: $4.75B; 5-year distribution CAGR: 5% ; Target Price $50

Downside Scenario

- Expansions encounter cost overruns and timing delays, crimping returns and necessitating above-forecast equity issuances.
- Frac spreads remain depressed, crimping keep-whole earnings in the West segment.
- Geismar fails to remain online, and continues to hinder investor confidence of management
- 2017 EBITDA: $4.0B; 5-year distribution CAGR: -50% ; Target Price $30

Long Term Analysis (Pro-forma for merged MLP)

WPZ Distribution Yield (3-Year Average)



Source: FactSet, Jefferies estimates

Long Term Financial Model Drivers

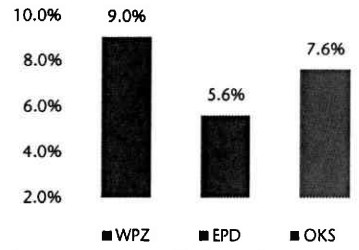
Terminal L.P. Coverage Ratio	**~1.33x**
Terminal Distribution Growth Rate	**0.50%**
Terminal Cost of Equity	**10.0%**
LT Net Debt / EBITDA	**~4.2X**

Other Considerations

With leverage increasing as a result of lower commodity prices & volumes, we project WMB will step in and support WPZ with IDR waivers prompting WMB to cut its dividend. To the extent Williams management is successful in monetizing assets without directly impacting WPZ cash flow generation, this could limit the amount of IDR waivers needed at WPZ to keep leverage sub-5.0x.

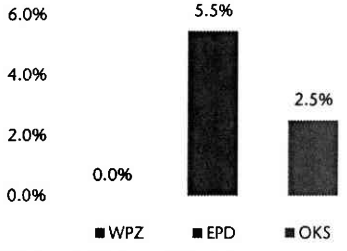
Peer Group

Group 4Q16E Distribution Yields



Source: Factset, Jefferies estimates

Group 5-year Distribution CAGR



Source: Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
WPZ	**Buy**	**$40**
EPD	Buy	$34
OKS	Hold	$41

Catalysts

- Developments regarding WMB's lawsuit alleging breach of contract by ETE, any payments for damages which WMB receives would be a positive catalyst (we have assumed WMB receives no damages)
- Announcements regarding future distirbutions. We currently project flat dist growth through 2020 and believe this will act a a positive catalyst, as many investors fear a dist cut at WPZ

Company Description

Williams Partners, L.P. (NYSE: WPZ) is a master limited partnership (MLP) which operates a diverse portfolio of complementary energy assets. Its operations are primarily focused on natural gas transportation & storage, gathering & processing, natural gas liquid fractionation, oil transportation, and olefins production in the US. The Williams Companies, Inc (NYSE: WMB) is the Partnership's sole General Partner and owns an approximate 60% Limited Partner stake. The Partnership was formed in 2005, is organized under the laws of the state of Delaware, and is headquartered in Tulsa, OK.

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Please see important disclosure information on pages 62 - 66 of this report.

Jefferies

Company Description

DCP Midstream Partners, LP (NYSE: DPM) is a midstream master limited partnership (MLP) engaged in the business of gathering, compressing, treating, processing, transporting, storing and selling natural gas ('Gas Services'); producing, fractionating, transporting, storing and selling NGLs and condensate ('NGL Logistics'); and transporting, storing and selling propane in wholesale markets ('Wholesale Propane Logistics'). DCP Midstream, LLC is the Partnership's sole General Partner and also owns an approximate 23% Limited Partner stake. DCP Midstream, LLC is, in turn, jointly owned by Phillips 66 (NYSE: PSX) and Spectra Energy Corp. (NYSE: SE). DPM was formed in August 2005, completed its initial public offering on December 7, 2005, is organized under the laws of the state of Delaware, and is headquartered in Denver, CO.

Energy Transfer Equity, L.P. (NYSE:ETE) is a master limited partnership that owns the general partner and 100% of the incentive distribution rights (IDRs) of Energy Transfer Partners, L.P. (NYSE:ETP) and Sunoco LP (NYSE:SUN). ETE also owns ~2.6 million ETP common units and ~81.0 million ETP Class H Units, which track 90% of the underlying economics of the general partner interest and IDRs of Sunoco Logistics Partners L.P. (NYSE:SXL). On a consolidated basis, ETE's family of companies owns and operates approximately 71,000 miles of natural gas, natural gas liquids, refined products, and crude oil pipelines.

Energy Transfer Partners, L.P. (NYSE:ETP) is a master limited partnership that owns and operates one of the largest and most diversified portfolios of energy assets in the United States. ETP's subsidiaries include Panhandle Eastern Pipe Line Company, LP (the successor of Southern Union Company) and Lone Star NGL LLC, which owns and operates natural gas liquids storage, fractionation and transportation assets. In total, ETP currently owns and operates approximately 62,500 miles of natural gas and natural gas liquids pipelines. ETP also owns the general partner, 100% of the incentive distribution rights, and ~67.1 million common units of Sunoco Logistics Partners L.P. (NYSE:SXL), which operates a geographically diverse portfolio of complementary crude oil, refined products, and natural gas liquids pipeline, terminalling acquisition and marketing assets which are used to facilitate the purchase and sale of crude oil, natural gas liquids, and refined products. ETP's general partner is owned by Energy Transfer Equity, L.P. (NYSE:ETE).

EnLink Midstream, LLC (NYSE: ENLC) is a Delaware LLC engaged in the gathering, processing, transportation, storage, and marketing of natural gas, natural gas liquids, and crude oil. ENLC was formed in early 2014 out of the former CrossTex Energy and Devon Energy's (NYSE: DVN) midstream assets. ENLC owns an ~27% LP interest in its underlying MLP, EnLink Midstream Partners, LP (ENLK), as well as the GP interest and all of the Incentive Distribution Rights (IDRs). Today, DVN owns an ~64% common unit interest in ENLC. EnLink Midstream, LLC is headquartered in Dallas, TX.

EnLink Midstream Partners, L.P. (NYSE: ENLK) is a Master Limited Partnership (MLP) engaged in the gathering, processing, transportation, storage, and marketing of natural gas, natural gas liquids, and crude oil. ENLK operates out of three geographic segments and one asset specific segment: the Texas, Oklahoma, Louisiana, and Crude & Condensate segments. ENLK was formed in October 2013 out of the former CrossTex Energy and Devon Energy's (NYSE: DVN) midstream assets. Today, DVN owns an ~56% of common unit interest in ENLK. EnLink Midstream, LLC (ENLC), ENLK's General Partner, owns ~23% of common unit interest in ENLK. EnLink Midstream Partners, L.P. is headquartered in Dallas, TX.

Enterprise Products Partners, L.P. (NYSE: EPD) is a master limited partnership and leading provider of North American midstream services to producers & consumers of natural gas, NGLs, crude oil, refined products, and petrochemicals. The Partnership's assets include approximately 50,000 miles of pipelines; 200 MMBbls of NGL, petrochemical, refined product, and crude oil storage capacity; and 14 Bcf of natural gas storage capacity. In addition, EPD operates 24 natural gas processing plants, 21 NGL and propylene fractionators, six offshore hub platforms in the GOM, a butane isomerization complex, NGL import/export terminals, and octane enhancement and high-purity isobutylene production facilities. EPD was founded in April, 1998, is organized under the laws of the state of Delaware, and is headquartered in Houston, TX.

National Fuel Gas Company (NYSE: NFG) is a diversified energy holding company which operates in five business segments: Utility, Pipeline & Storage, Gathering, Exploration & Production, and Energy Marketing. The Utility operations are conducted by NFG Distribution Corp., which sells natural gas and provides natural gas and transportation services to ~750,000 customers western New York and northwestern Pennsylvania. The Pipeline & Storage operations are carried out by NFG Supply Corp. and Empire Pipeline, Inc., which provide interstate natural gas transportation & storage services for affiliated and nonaffiliated companies. The Exploration & Production operates via Seneca Resources Corp., which is engaged in the exploration, development and purchase of natural gas and oil reserves primarily in California and in the Appalachian region. National Fuel Gas was founded on December 8, 1902, is incorporated under the laws of the state of New Jersey, and is headquartered in Williamsville, NY.

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4 million US customers. The Company operates through three segments: Gas Distribution, Columbia Pipeline Group, and Electric. The Gas Distribution operations provide natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. Columbia Pipeline Group offers gas transportation and

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storage services for Local distribution companies, marketers and industrial and commercial customers located in Northeastern, Mid-Atlantic, Midwestern and Southern states. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

ONE Gas Inc. (NYSE: OGS) is Local Distribution Company (LDC), which, in terms of customer count, is the third largest natural gas utility in the United States. OGS is the successor of a company founded in 1906 as Oklahoma Natural Gas Company. OGS's service territories include Oklahoma, Kansas, and Texas. ONE Gas is 100% regulated and currently serves ~2.1 million customers throughout its service territories. Despite the LDC market categorized as an extremely fragmented industry, we note that OGS is the largest distributor of natural gas in both Oklahoma and Kansas and the third largest distributor in Texas. OGS's customer base includes residential, commercial & industrial, wholesale & public authority, and transportation.

ONEOK Inc. (NYSE: OKE) is a diversified energy company engaged in the gathering, processing, storage, and transportation of natural gas and natural gas liquids. ONEOK is the sole General Partner of ONEOK Partners, L.P. (NYSE: OKS), a premier mid-continent NGL operator, in which it also owns an ~42% Limited Partner interest. ONEOK was founded in 1906, is organized under the laws of the state of Oklahoma, and is headquartered in Tulsa, OK.

ONEOK Partners, L.P. (NYSE: OKS) is a master limited partnership (MLP) engaged in the gathering, processing, storage, and transportation of natural gas and natural gas liquids (NGLs) throughout the Mid-Continent and Rocky Mountain regions. ONEOK Inc. (NYSE: OKE) is the Partnership's sole General Partner and owns an ~42% Limited Partner stake. The Partnership was formed in 1993, is organized under the laws of the state of Delaware, and is headquartered in Tulsa, OK.

Questar Corporation (NYSE: STR) is an integrated natural gas holding company which operates through four wholly-owned subsidiaries: Questar Gas Company, Questar Pipeline Company, Wexpro Company, and Questar Fueling. Questar Gas provides retail natural gas distribution service to Utah, Wyoming, and Idaho and is regulated by the respective state utility commissions. Questar Pipeline operates FERC-regulated interstate natural gas pipelines and storage facilities in the western US and provides other energy services. Wexpro develops and produces natural gas from cost-of-service reserves for the benefit of Questar Gas customers. Questar Fueling develops, owns, and operates natural gas fueling facilities, primarily for large commercial vehicles. Questar was founded in 1922, is incorporated under the laws of the state of Utah, and is headquartered in Salt Lake City, UT. On February 1, 2016, Dominion Resources (NYSE: D) & STR announced their intention to combine in an all-cash transaction worth $25/share to STR shareholders; deal closure is expected by YE16.

Southwest Gas purchases, distributes, and transports natural gas in the states of Arizona, Nevada, and California to residential, commercial, and industrial users. It is the largest natural gas distributor in Arizona and Nevada, providing service to the Phoenix, Tucson, and Las Vegas metropolitan regions among others. Southwest Gas' wholly-owned subsidiary, NPL Construction, is a full-service underground piping contractor that provides trenching, installation, replacement, and maintenance services for energy distribution systems at utility companies nationwide. The Company was founded in March 1931, is incorporated under the laws of the State of California, and is headquartered in Las Vegas, NV.

Spectra Energy Corp (NYSE: SE), through its subsidiaries and equity affiliates, owns and operates a large and diverse portfolio of complementary natural gas, natural gas liquid (NGL), and crude oil assets in the US and Canada. The company functions in three key areas of the energy industry: gather & processing, transmission & storage, and distribution. Spectra owns a 50% interest in DCP Midstream, LLC, one of the leading natural gas gatherers in the US and one of the nation's largest producers and marketers of NGLs. In addition, Spectra is the sole General Partner of Spectra Energy Partners (NYSE: SEP), a transportation & storage MLP, in which it also owns an approximate 85% Limited Partner interest. The company was formed via a spin-out from Duke Energy (NYSE: DUK) on January 2, 2007, is organized under the laws of the state of Delaware, and is headquartered in Houston, TX.

Spectra Energy Partners, L.P. (NYSE: SEP) is a master limited partnership (MLP) engaged in the transportation and storage of natural gas and crude oil, primarily in the eastern US. The Partnership's interstate gas transmission pipeline and storage operations are principally regulated by the Federal Energy Regulatory Commission (FERC), though some oversight is also provided by various state commissions. Spectra Energy Corp. (NYSE: SE) is the Partnership's sole General Partner and owns an approximate 83% Limited Partner stake. The Partnership was formed on March 19, 2007, is organized under the laws of the state of Delaware, and is headquartered in Houston, TX.

Sunoco Logistics Partners, L.P. (NYSE: SXL) is a Master Limited Partnership (MLP) engaged in the transportation, storage, and marketing of crude oil, refined products, natural gas liquids, and other natural gas related products. In February 2002, SXL completed its IPO as a MLP, offering 5.75mm common units. Today, SXL is one of the largest midstream crude oil & NGL logistics companies in North America with ~5,900 miles of crude pipelines, 40 products terminals, and ~1,800 miles of refined products pipelines. Sunoco Logistics Partners, L.P. is headquartered in Philadelphia, PA. SXL's general partner, Energy Transfer Partners, LP (NYSE: ETP) is Master Limited Partnership which owns

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and operates one of the largest and most diversified portfolio of energy assets in the US. ETP currently owns ~67mm common units (~30% LP stake), 2% GP interest, and 100% interest in the Incentive Distribution Rights (IDRs).

Sunoco, L.P. (NYSE: SUN) is a Master Limited Partnership (MLP) engaged in the retail & wholesale marketing and distribution of motor fuel throughout Texas the eastern seaboard of the United States. It completed an initial public offering (IPO) in September 2012 (formally as Susser Petroleum Partners). Sunoco conducts business through its principal operating subsidiary, Susser Petroleum Operating Company, LLC. (SPOC) which is further divided into two sub-units; Susser Petroleum Property Company LLC (Propco) and Qualifying Business. The Partnership is a Delaware limited partnership.

Targa Resources Corp. (NYSE: TRGP) is a Delaware corporation and a leading provider of midstream natural gas and natural gas liquids services. It owns, operates, acquires, and develops a diversified portfolio of complementary midstream assets consisting primarily of businesses which gather, compress, treat, process, and sell natural gas; store, fractionate, treat, transport, and sell NGLs; and gather, store, and terminal crude oil & refined petroleum products. Targa was formed in October 2005 and completed an initial public offering in December 2010. On February 17, 2016, Targa Resources Corp (NYSE:TRGP) acquired all of the outstanding common units of Targa Resources Partners (NYSE: NGLS) that it did not already own. The company is organized under the laws of the state of Delaware and headquartered in Houston, TX.

The Williams Companies, Inc. (NYSE: WMB) is a premier, integrated energy infrastructure company with operations in the US and Canada. It operates through four segments: Williams Partners, Williams NGL & Petchem Services, Access Midstream Partners, and Other. The Williams Partners segment accounts for the General Partner & Limited Partner interests in Williams Partners, L.P. (NYSE: WPZ), which operates natural gas pipeline and domestic midstream businesses. The Williams NGL & Petchem Services comprises Canadian midstream operations. The Company was founded in 1908, is incorporated in Delaware, and headquartered in Tulsa, OK.

UGI Corporation (NYSE: UGI) is a holding company that, through subsidiaries, distributes, stores, transports and markets energy products and services. It is the sole General Partner of AmeriGas Partners, L.P. (NYSE: APU), the largest US propane distributor, in which it also owns an approximate 26% Limited Partner interest. UGI distributes natural gas and electricity to approximately 635,000 customers in eastern PA, operates merchant power and midstream assets in the Mid-Atlantic, and has LPG distribution operations in France and Eastern Europe. The company was founded in 1882, is organized under the laws of the state of Pennsylvania, and is headquartered in King of Prussia, PA.

Williams Partners, L.P. (NYSE: WPZ) is a master limited partnership (MLP) which operates a diverse portfolio of complementary energy assets. Its operations are primarily focused on natural gas transportation & storage, gathering & processing, natural gas liquid fractionation, oil transportation, and olefins production in the US. WPZ's General Partner interests and Incentive Distribution Rights (IDRs) are owned by Williams Companies (NYSE: WMB), who also own an ~60% Limited Partners stake. The Partnership was formed in 2005, merged with Access Midstream in 2015, and is organized under the laws of the state of Delaware, and is headquartered in Tulsa, OK.

AmeriGas Partners, L.P. (NYSE: APU) is the nation's largest retail propane marketer, serving more than 2.3 million customers in all 50 states from roughly 2,100 distribution locations. AmeriGas is a master limited partnership (MLP) and UGI Corporation (NYSE: UGI) is its sole General Partner and owns an approximate 26% Limited Partner interest. AmeriGas is organized under the laws of the state of Delaware and headquartered in King of Prussia, PA.

Columbia Pipeline Partners, L.P. (NYSE: CPPL) is a Master Limited Partnership (MLP) engaged in the gathering, processing, transportation, storage, and marketing of natural gas. In February 2015, CPPL completed its IPO as a MLP, offering 40mm common units (46mm including overallotment). Through its ~15.7% interest in Columbia OpCo, CPPL owns and operates ~15,000 miles of interstate natural gas transmission assets, ~300 Bcf of underground storage capacity, and gathering & processing assets. Columbia Pipeline Partners, L.P. is headquartered in Houston, TX. Columbia Energy Group, a wholly-owned subsidiary of Columbia Pipeline Group, Inc. (NYSE: CPGX) is CPPL's general partner & currently owns ~54mm common units and ~47mm subordinated units (~47% LP stake), GP interests, and 100% interest in the Incentive Distribution Rights (IDRs). On March 18, 2016, TransCanada (NYSE: TRP) announced plans to acquire CPGX for $25.50/share in cash. The deal was unanimously approved by the Boards of both companies and is expected to close in 2H16 pending a successful CPGX shareholder vote and receipt of certain regulatory approvals.

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Investment Recommendation Record

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

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Jefferies LLC is acting as EnLink's primary financial and technical advisor on the Tall Oak transaction.

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Other Companies Mentioned in This Report

- AmeriGas Partners, L.P. (APU: $48.75, HOLD)
- Columbia Pipeline Partners, L.P. (CPPL: $15.82, BUY)
- DCP Midstream Partners, L.P. (DPM: $34.36, HOLD)
- Energy Transfer Equity, L.P. (ETE: $16.86, BUY)
- Energy Transfer Partners, L.P. (ETP: $40.43, BUY)
- EnLink Midstream LLC (ENLC: $15.95, HOLD)
- EnLink Midstream Partners, LP (ENLK: $17.82, HOLD)
- Enterprise Products Partners, L.P. (EPD: $29.52, BUY)
- Kinder Morgan, Inc. (KMI: $21.22, HOLD)
- National Fuel Gas Company (NFG: $56.40, HOLD)
- NiSource Inc. (NI: $26.26, UNDERPERFORM)
- ONE Gas Inc. (OGS: $66.10, UNDERPERFORM)
- ONEOK Inc. (OKE: $46.05, HOLD)
- ONEOK Partners, L.P. (OKS: $41.86, HOLD)
- Questar Corp. (STR: $25.17, HOLD)
- Southwest Gas Corporation (SWX: $78.83, UNDERPERFORM)
- Spectra Energy Corp. (SE: $36.58, HOLD)
- Spectra Energy Partners, L.P. (SEP: $48.76, BUY)
- Sunoco Logistics Partners, LP (SXL: $28.46, HOLD)
- Sunoco LP (SUN: $30.63, UNDERPERFORM)
- Targa Resources Corp. (TRGP: $40.33, HOLD)
- The Williams Companies, Inc. (WMB: $24.52, BUY)
- UGI Corporation (UGI: $45.42, HOLD)
- Williams Partners, L.P. (WPZ: $37.32, HOLD)

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			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY	1138	52.39%	312	27.42%
HOLD	862	39.69%	172	19.95%
UNDERPERFORM	172	7.92%	20	11.63%

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CREDIT SUISSE

19 August 2016
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

Rating	**(from NEUTRAL) UNDERPERFORM**
Price (17-Aug-16,US$)	24.72
Target price (US$)	25.00
52-week price range	26.77 - 16.17
Market cap (US$ m)	7,964.42
Enterprise value (US$ m)	15,261.37

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
*Target price is for 12 months.

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DOWNGRADE RATING

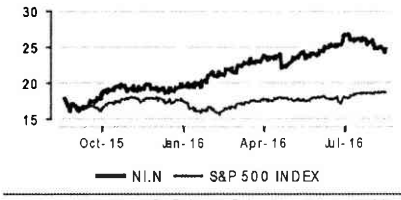
Defensive With Visible Growth Prospects, But Just Too Expensive; Downgrade To U/P

Downgrading NI to Underperform: While NI has attractive qualities such as strong visibility to future growth prospects and a relatively benign regulatory environment in which it operates, NI appears expensive relative to its own history, expensive relative to utilities, and expensive relative to our MLP coverage. We are making no change to our target price which remains at $25 for NI based on 22x our 2017E EPS of $1.13.

Risks to Our Call:

- While NI is expensive relative to utilities and utilities appear expensive relative to history (at least from a PE standpoint), defensively oriented business models that pay a meaningful dividend continue to attract capital given the very low yield environment that income oriented investors are confronting. For example, from a yield spread standpoint, utilities are trading in line with their history of the last 6 years a 169 bp vs ~150bp history, and NI is trading at 113bp above the US 10 yr vs ~125bp historically, roughly in line. This means both NI and utilities could be viewed as fairly valued from an income standpoint and could continue to attract yield-seeking capital.
- While NI trades at ~3.5 turns above the utility P/E average and ~3 turns above its own P/E history, NI has growth visibility that is superior to most MLPs and utilities, operates in a relatively low risk regulatory environment, and consequently could trade even higher than it does now.
- Should commodity prices such as crude oil take another significant downturn to the $20s and $30s, MLPs would likely face renewed selling pressure and as such NI would be less likely to Underperform on a relative basis as investors would be inclined to seek greater safety in lower risk names even if expensive. However, current supply/demand dynamics in the crude oil market make another such crash in the next 12 months appear less likely.
- **Valuation:** We maintaining our $25TP on NI based on 22x our 2017E EPS of $1.13.

Share price performance



On 17-Aug-2016 the S&P 500 INDEX closed at 2182.22
Daily Aug19, 2015 - Aug17, 2016, 08/19/15 = US$17.81

Quarterly EPS	Q1	Q2	Q3	Q4
2015A	0.85	0.18	0.01	0.31
2016E	0.56	0.08	0.09	0.34
2017E	0.61	0.10	0.07	0.34

Financial and valuation metrics

Year	12/15A	12/16E	12/17E	12/18E
EPS (CS adj.) (US$)	1.38	1.07	1.13	1.19
Prev. EPS (US$)	-	-	-	-
P/E (x)	17.9	23.2	21.9	20.8
P/E rel. (%)	96.4	125.7	134.4	143.8
Revenue (US$ m)	5,245.4	3,956.8	3,709.4	3,853.1
EBITDA (US$ m)	1,690.2	1,466.0	1,552.1	1,647.8
OCFPS (US$)	4.56	4.12	2.93	3.17
P/OCF (x)	4.3	6.0	8.4	7.8
EV/EBITDA (current)	8.8	10.2	9.6	9.0
Net debt (US$ m)	6,934	7,297	7,882	8,402
ROIC (%)	6.58	5.14	5.17	5.17
Number of shares (m)	322.19	IC (current, US$ m)		10,777.60
Net debt (Next Qtr., US$ m)	6,990.9	EV/IC (x)		1.4
Net debt/tot eq (Next Qtr.,%)	180.5	Dividend (current, US$)		0.62

Source: Company data, Thomson Reuters, Credit Suisse estimates

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CREDIT SUISSE

19 August 2016

NiSource Inc. (NI)

Price (17 Aug 2016): **US$24.72**; Rating: **(from NEUTRAL) UNDERPERFORM**; Target Price: **US$25.00**; Analyst: **John Edwards**

Income Statement	12/15A	12/16E	12/17E	12/18E
Revenue (US$ m)	**5,245.4**	**3,956.8**	**3,709.4**	**3,853.1**
EBITDA	**1,690**	**1,466**	**1,552**	**1,648**
Depr. & amort.	(584)	(549)	(588)	(627)
EBIT (US$)	**1,107**	**917**	**964**	**1,021**
Net interest exp	(401)	(375)	(399)	(392)
Associates	-	-	-	-
Other adj.	(3)	9	7	(29)
PBT (US$)	**703**	**550**	**572**	**600**
Income taxes	(252)	(206)	(206)	(216)
Profit after tax	**451**	**345**	**366**	**384**
Minorities	(16)	-0	-0	-0
Preferred dividends	-	-	-	-
Associates & other	8	0	0	0
Net profit (US$)	**444**	**345**	**366**	**384**
Other NPAT adjustments	(35)	0	0	0
Reported net income	**408**	**345**	**366**	**384**

Cash Flow	12/15A	12/16E	12/17E	12/18E
EBIT	1,107	917	964	1,021
Net interest	(401)	(375)	(399)	(392)
Cash taxes paid	-	-	-	-
Change in working capital	148	292	(6)	14
Other cash & non-cash items	603	497	389	382
Cash flow from operations	**1,457**	**1,331**	**948**	**1,025**
CAPEX	866	1,162	1,356	1,336
Free cashflow to the firm	**2,323**	**2,493**	**2,304**	**2,361**
Aquisitions	-	-	-	-
Divestments	5	3	0	0
Other investment/(outflows)	3,301	(46)	0	0
Cash flow from investments	**1,945**	**(1,515)**	**(1,350)**	**(1,350)**
Net share issue(/repurchase)	23	30	40	40
Dividends paid	(263)	(206)	(224)	(235)
Issuance (retirement) of debt	(3,122)	368	586	520
Other	3,002	(371)	(586)	(520)
Cashflow from financing activities	(361)	(179)	(184)	(195)
Effect of exchange rates	-	-	-	-
Changes in Net Cash/Debt	**3,040**	**(363)**	**(586)**	**(520)**
Net debt at start	9,975	6,934	7,297	7,882
Change in net debt	**(3,040)**	**363**	**586**	**520**
Net debt at end	6,934	7,297	7,882	8,402

Balance Sheet (US$)	12/15A	12/16E	12/17E	12/18E
Assets				
Cash & cash equivalents	16	16	16	16
Account receivables	660	461	457	495
Inventory	344	116	120	126
Other current assets	558	555	555	555
Total current assets	**1,577**	**1,148**	**1,148**	**1,192**
Total fixed assets	12,112	13,077	13,839	14,562
Intangible assets and goodwill	1,944	1,937	1,937	1,937
Investment securities	-	-	-	-
Other assets	1,859	1,865	1,865	1,865
Total assets	**17,493**	**18,026**	**18,788**	**19,556**
Liabilities				
Accounts payables	433	440	437	473
Short-term debt	567	1,394	2,729	3,999
Other short term liabilities	1,657	1,469	1,467	1,488
Total current liabilities	**2,658**	**3,303**	**4,633**	**5,960**
Long-term debt	5,949	5,607	4,857	4,107
Other liabilities	5,043	5,253	5,253	5,253
Total liabilities	**13,649**	**14,163**	**14,743**	**15,321**
Shareholder equity	3,843	3,863	4,045	4,235
Minority interests	-	-	-	-
Total liabilities and equity	**17,493**	**18,026**	**18,788**	**19,556**
Net debt	6,934	7,297	7,882	8,402

Source: Company data, Thomson Reuters, Credit Suisse estimates

Per share	12/15A	12/16E	12/17E	12/18E
No. of shares (wtd avg)	319	323	324	324
CS adj. EPS	1.38	1.07	1.13	1.19
Prev. EPS (US$)	-	-	-	-
Dividend (US$)	0.99	0.65	0.69	0.73
Dividend payout ratio	71.15	60.90	61.33	61.33
Free cash flow per share	7.27	7.72	7.11	7.29

Earnings	12/15A	12/16E	12/17E	12/18E
Sales growth (%)	(18.9)	(24.6)	(6.3)	3.9
EBIT growth (%)	(12.3)	(17.1)	5.1	5.9
Net profit growth (%)	(16.4)	(22.3)	6.1	5.0
EPS growth (%)	(17.4)	(22.9)	5.9	5.0
EBITDA margin (%)	32.2	37.0	41.8	42.8
EBIT margin (%)	21.1	23.2	26.0	26.5
Pretax margin (%)	13.4	13.9	15.4	15.6
Net margin (%)	8.5	8.7	9.9	10.0

Valuation	12/15A	12/16E	12/17E	12/18E
EV/Sales (x)	2.84	3.86	4.27	4.25
EV/EBITDA (x)	8.8	10.2	9.6	9.0
EV/EBIT (x)	13.5	16.6	16.4	16.0
P/E (x)	17.9	23.2	21.9	20.8
Price to book (x)	2.0	1.9	1.9	1.8
Asset turnover	0.3	0.2	0.2	0.2

Returns	12/15A	12/16E	12/17E	12/18E
ROE stated-return on (%)	8.0	8.6	8.7	8.8
ROIC (%)	0.1	0.1	0.1	0.1
Interest burden (%)	0.64	0.60	0.59	0.59
Tax rate (%)	35.9	37.4	36.0	36.0
Financial leverage (%)	1.76	1.78	1.84	1.88

Gearing	12/15A	12/16E	12/17E	12/18E
Net debt/equity (%)	180.4	188.9	194.9	198.4
Net Debt to EBITDA (x)	4.1	5.0	5.1	5.1
Interest coverage ratio (X)	2.8	2.4	2.4	2.6

Quarterly EPS	Q1	Q2	Q3	Q4
2015A	0.85	0.18	0.01	0.31
2016E	0.56	0.08	0.09	0.34
2017E	0.61	0.10	0.07	0.34

Share price performance

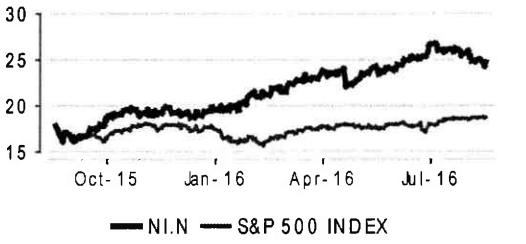

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Figure 1: Base Case vs. Bull Case

Downgrade NI to Underperform – Great Company but Expensive

Bear Case: Valuation downgrade

- NI yield spread ~100bp vs over 500bp for MLPs, negating the yield chase argument
- NI expensive vs utilities on P/E basis: ~ 3.5 turns above utilities currently
- Pre-spin NI traded in line with utilities or even cheap relative to utilities
- NI trades ~5 turns above history ex-Columbia spin
- 4-6% Earnings and dividend growth translates to ~7-8% annual return assuming high multiple maintained vs ~25% NTM return expectation for MLPs

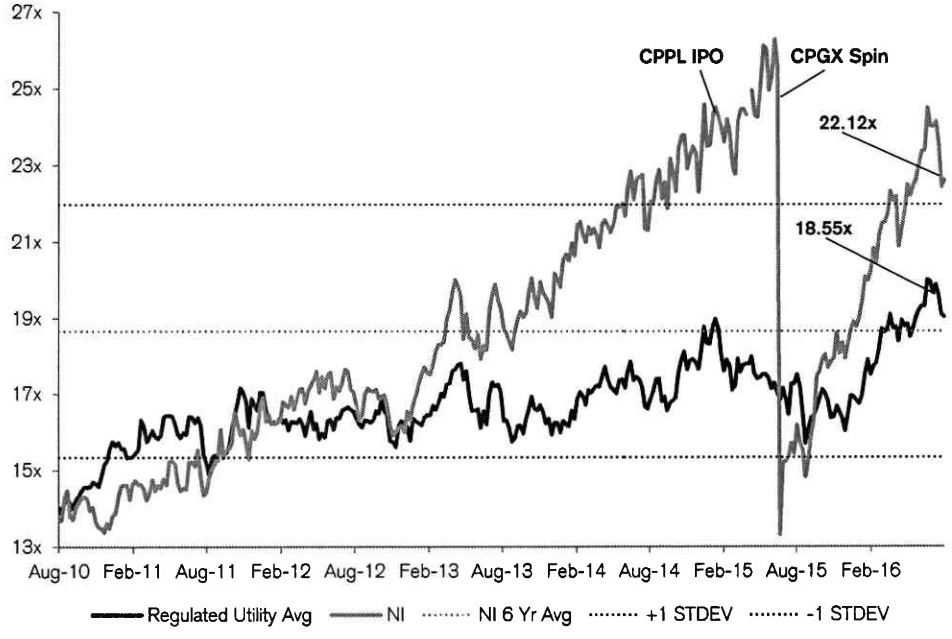
The Bull case

- NI operates in a low risk regulatory environment [1,2,3]
- Dividend growth above average relative to the group with a 6.5% annual increase declared in May
- Solid Investment grade ratings with ~$600mm in liquidity
- $30B of identified regulated utility infrastructure investment opportunities for a ~20 year growth visibility window

1) $72.5mm annual revenue increase settlement on electric operations approved July 18, 2016, effective Oct 1, 2016
2) Revenue increase requests on gas operations filed in KY for $25.4mm, PA for $55.3mm and VA for $37.0mm.
3) Gas operations settlement of $3.7mm/yr filed July 27, 2016 in MD and $6.7mm annual increase on NIPSCO gas system modernization program approved June 22, 2016

Source: Company data, Credit Suisse estimates

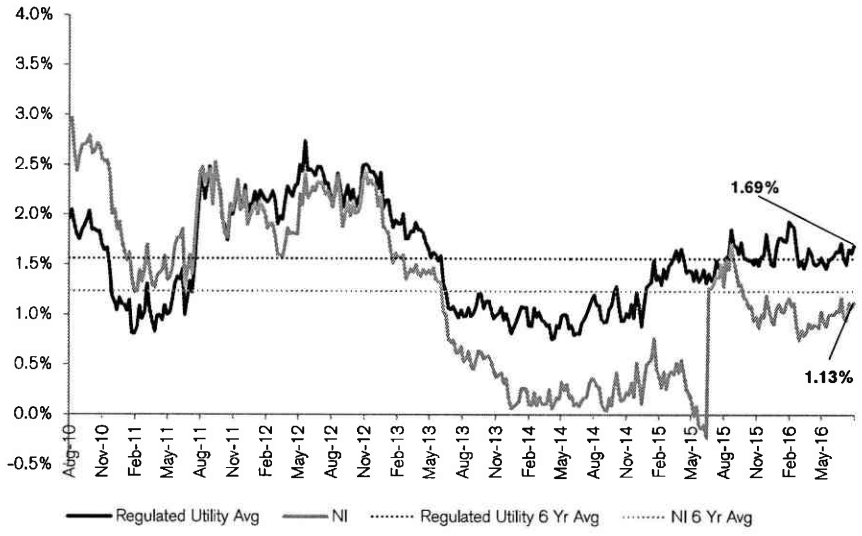
Figure 2: NI Approaching Pre-Columbia Spin Levels on a Price-To-Earnings Basis



NI trading ~1.2 SDEV above 6-year average and ~3.5 turns above utilities

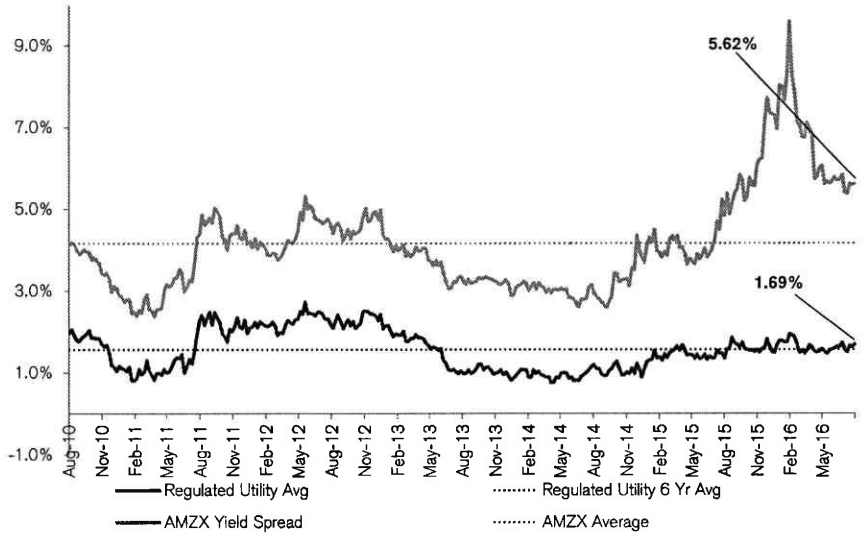
Source: Company data, Credit Suisse estimates

Figure 3: Yield Spread: NI is trading ~113bps above the US 10-Yr (~125bp historic average) Utility peers trading ~169bps above the 10-Yr (~150bp historic average)



Source: Company data, Credit Suisse estimates

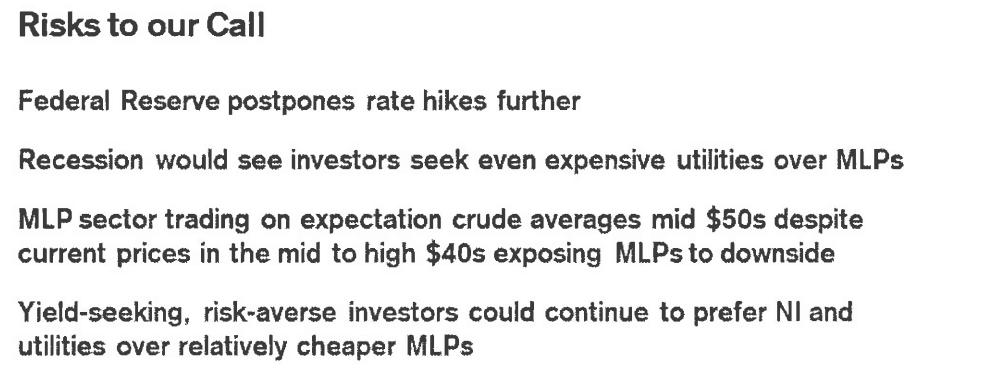
Figure 4: MLPs yield spread of over 550bp above the 10-yr = cheap on yield basis



Source: Company data, Credit Suisse estimates

Risks

Figure 5: Risks



Source: Company data, Credit Suisse estimates

As shown in Figure 5 and as described on the first page there are a number of risks to our call including but not limited to the following:

Low interest rate environment could continue and even go lower: While the Fed's minutes from its July 26-27 meeting indicated a possible rate increase as early as September, futures markets still indicate a low probability of such occurrence. Further, with inflation running at ~1% which is well below the Fed's 2% target and GDP growth just 1.1% in Q1 2016 and a 1.3% for Q2 2016, the low interest rate environment could be prolonged. A low interest rate environment would be more bullish for stocks such as NI.

Interest rate increases could adversely impact MLPs more on a relative basis than we expect: Interest rate increases are bearish for commodities such as oil and the price of oil has an indirect impact on MLPs due to the impact such prices have on volumes which are a key component of energy midstream and MLP performance. We estimate MLP valuation levels are already pricing in ~mid $50s oil prices and should interest rate increases occur at a faster rate than we expect, it could have a greater impact on MLP valuations relative to NI.

Recession risk could have a greater impact on MLPs and energy midstream than NI: While odds of recession over the next 12 months are considered low at present, should investors perceive a rising risk of a recession, commodity prices could go sharply lower, dragging MLPs down on a greater relative basis than NI.

Despite MLPs presenting greater upside, risk averse investors could still prefer NI over MLPs: While we believe NI is likely to lag MLPs over the next 12 months, income oriented, risk averse investors may still prefer NI shares over MLPs sending NI shares even higher than current valuations on a relative basis.

CREDIT SUISSE

Companies Mentioned *(Price as of 17-Aug-2016)*
Columbia Pipeline Partners, LP (CPPL.N, $14.0)
NiSource Inc. (NI.N, $24.72, UNDERPERFORM, TP $25.0)

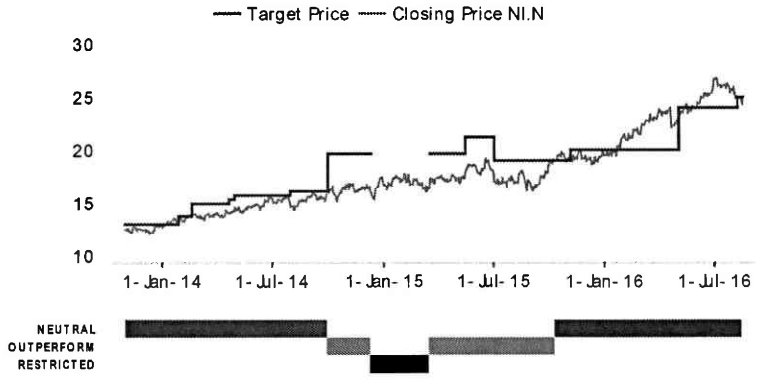
Disclosure Appendix

Important Global Disclosures

John Edwards, CFA, and Bhavesh Lodaya 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
01-Nov-13	12.46	12.97	N
28-Jan-14	13.43	13.75	
19-Feb-14	13.91	14.93	
21-Apr-14	14.03	15.33	
30-Apr-14	14.27	15.72	
31-Jul-14	14.81	16.11	
30-Sep-14	16.10	19.65	O
11-Dec-14	16.03		R
18-Mar-15	17.20	19.65	O
15-May-15	17.87	21.22	
02-Jul-15	16.99	19.00	
13-Oct-15	19.11	19.00	N
06-Nov-15	18.96	20.00	
03-May-16	23.11	24.00	
08-Aug-16	24.81	25.00	



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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.

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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.

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Global Ratings Distribution

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Neutral/Hold*	30%	(17% banking clients)
Underperform/Sell*	16%	(38% banking clients)
Restricted	0%	

**For purposes of the NYSE and NASD 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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Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: Our $25 target price for NI is 22x our 2017 EPS forecast of $1.13. Our Underperform rating is based on expected total return prospects.

Risk: Risks to our $25 target price and Underperform rating for NI are regulatory risk and project execution.

Please refer to the firm's disclosure website at https://rave.credit-suisse.com/disclosures for the definitions of abbreviations typically used in the target price method and risk sections.

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19 August 2016

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BARCLAYS

Equity Research
14 October 2016

North America Power & Utilities
Q3 2016 Quarterly Earnings Preview

INDUSTRY UPDATE

North America Power & Utilities
NEUTRAL
Unchanged

Regulated Utilities: Q3 results will likely show upside versus last year (+8.2%) and upside to consensus (+1.9%). As a general rule, year-end results and meeting guidance matters more for performance than Q3. Please see "*April Preview and March Review*" (3/18/16) for a detailed analysis. We expect mostly beats that are largely based on weather that for most of the country was well above average. The real question will be which companies will use the weather to increase 2016 guidance and which will use the weather to increase O&M potentially providing a measure of safety for 2017.

Power: For power we anticipate EBITDA that is down 8% year on year and 9% versus consensus. More importantly, given adequate balance of year hedging levels, we do not anticipate any revisions to 2016 annual guidance, especially given previous cuts at 2Q by CPN and DYN. We anticipate CPN, DYN, and NRG to issue 2017 EBITDA guidance, and see CPN and NRG broadly in line with our estimates of $1,987 million and $2,744 million, respectively. We believe there is risk to DYN as we anticipate guidance in line with our estimate of $1,290 million but versus consensus of $1,497 million. However, we would view any weakness in DYN as a buying opportunity given our view that the stock is undervalued even on our lower numbers. Overall 2018 Open marks to market will be lower with the most risk to fleets in Texas and California partially offset by better spark spreads in PJM.

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FIGURE 1
Q3 Cooling Degree Days

Region	Cooling Degree Days	% Change vs. Normal	% Change vs. Q2 2015
New England	677	95%	34%
Mid-Atlantic	820	60%	28%
E N Central (IL, IN, OH, MI, WI)	740	47%	43%
W N Central (IA, KS, MN, ND, NE, SD)	738	14%	7%
South Atlantic	1393	29%	19%
E S Central	1311	31%	23%
W S Central (AR, LA, TX, OK)	1600	13%	3%
Mountain	938	16%	4%
Pacific	668	32%	-7%
United States	1003	31%	15%

Source: NOAA, Barclays Research

The third quarter is the second of what we believe will be four consecutive easy weather comparison quarters for the power and utility sectors. Overall CDD were higher nationally by 15% year-on-year and 31% higher than normal. HDD are not included as they are not relevant for third quarter results. Impacts will be most significant in New England and the Mid-Atlantic regions, and least significant for W S Central, Mountain and Pacific.

FIGURE 2
EBITDA Estimates and Consensus for 3Q '16 and 2016 Annual for the IPPs

	3Q 2016		2016		
	EBITDA	Consensus	EBITDA	Consensus	Guidance
CPN	670	751	1,850	1,823	1,800 - 1,900
DYN	370	343	1,014	1,037	1,000 - 1,100
NRG	1,067	995	3,063	3,084	3,000 - 3,200
TLN	225	234	756	761	655 - 855

Source: Thomson, Barclays Research Estimates. $ in millions.

FIGURE 3
2018 Forward On-Peak Power Prices ($/MWh), Natural Gas Prices ($/MMBtu), and Spark Spreads ($/MWh), 3Q 2016

	2018 Forwards BOP			2018 Forwards EOP			2018 Forwards % Change		
	On Peak	Natural Gas	Spark Spread	On Peak	Natural Gas	Spark Spread	On Peak	Natural Gas	Spark Spread
ERCOT Houston	$ 38.72	$ 3.01	$ 17.02	$ 34.98	$ 2.90	$ 14.10	-10%	-4%	-17%
Internal Hub	$ 46.11	$ 4.17	$ 16.11	$ 43.73	$ 3.91	$ 15.56	-5%	-6%	-3%
Hudson Valley - G	$ 47.63	$ 4.22	$ 17.25	$ 43.70	$ 3.83	$ 16.09	-8%	-9%	-7%
Alberta	$ 45.44	$ 2.24	$ 29.29	$ 35.38	$ 2.08	$ 20.38	-22%	-7%	-30%
Illinois Hub	$ 35.30	$ 3.04	$ 13.44	$ 34.78	$ 2.92	$ 13.75	-1%	-4%	2%
NP15	$ 38.57	$ 3.53	$ 13.16	$ 35.09	$ 3.28	$ 11.50	-9%	-7%	-13%
Eastern Hub	$ 42.94	$ 3.51	$ 17.63	$ 41.46	$ 3.24	$ 18.13	-3%	-8%	3%
Western Hub	$ 39.18	$ 3.11	$ 16.76	$ 38.09	$ 2.77	$ 18.18	-3%	-11%	8%

BOP = Beginning of Period, as of 6/30/2016
EOP = End of Period, as of 9/30/2016
Source: SNL Financial, Barclays Research Estimates

FIGURE 4

Third Quarter 2016 Earnings Expectations – Alternative Energy & Environmental Services

US Companies in US$ Canadian Companies in CAD			Quarterly				Annual				
Company	Ticker Symbol	Scheduled Reporting Date	2016 Third Quarter Barclays Estimate[1]	2016 Third Quarter Consensus Estimate	2015 Third Quarter Operating Earnings	$ Change	2016 Annual Barclays Estimate[1]	2016 Annual Consensus Estimate	2016 Annual Company Guidance	Trailing 12 Month Result	2015 Annual Operating Earnings
ALTERNATIVE ENERGY AND YIELDCOS											
8Point3 Energy Partners	CAFD	20-Sep	$0.38 A	n/a	n/a	n/a	$0.50	$0.90	n/a	n/a	$0.04 A
Brookfield Renewable Energy Partners	BEP	3-Nov	$0.06E	$0.16	($0.07)A	$0.13	$0.51	$0.61	n/a	$0.30	$0.27 A
Brookfield Infrastructure Partners LP	BIP	4-Nov	$0.29E	$0.24	$0.31 A	($0.02)	$0.84	$1.05	n/a	$0.62	$0.86 A
Canadian Solar	CSIQ		$0.40E	$0.24	$0.53 A	($0.13)	$2.00	$1.56	n/a	$2.67	$2.62 A
First Solar	FSLR		$1.03E	$0.77	$3.38 A	($2.35)	$4.39	$4.26	$4.20-$4.50	$7.51	$4.43 A
Hannon Armstrong	HASI		$0.27E	$0.29	$0.27 A	$0.00	$1.18	$1.23	$1.19-$1.24	$1.16	$1.07 A
NextEra Energy Partners LP	NEP		$0.10E	$0.32	$0.05 A	$0.05	$1.04	$1.03	n/a	$0.65	$0.71 A
NRG Yield	NYLD	4-Nov	$0.40E	$0.31	$0.21 A	$0.19	$1.14	$0.93	n/a	$0.84	$0.59 A
SolarEdge	SEDG		$0.46E	$0.45	$0.36 A	$0.10	$1.74	$1.87	n/a	$1.75	$1.70 A
SolarCity	SCTY		-$2.30E	($2.28)	($2.41)A	$0.11	($9.92)	($9.92)	n/a	($9.66)	($8.03)A
Sunpower	SPWR		$0.44E	$0.38	$0.13 A	$0.31	$0.90	$0.33	n/a	$1.34	$1.97 A
SunRun	RUN		-$0.74E	($0.13)	($0.04)A	($0.70)	($2.72)	($0.07)	n/a	$0.25	($2.39)A
TerraForm Global	GLBL		RS	($0.55)	($0.32)A	RS	RS	($1.23)	n/a	n/a	N/A
TerraForm Power	TERP		RS	($0.86)	($0.03)A	RS	RS	($1.38)	n/a	n/a	($0.14)A
Average			**$0.07**	**$0.07**	**$0.18**	**-$0.21**	**$0.13**	**$0.08**		**$0.68**	**$0.28**
% Change			**-63.9%**	**-63.7%**			**-52.8%**	**-71.0%**			
ENVIRONMENTAL SERVICES											
Waste Management	WM	26-Oct	$0.82E	$0.80	$0.75 A	$0.07	$2.85	$2.86	$2.83-$2.86	$2.78	$2.57 A
Republic Services	RSG	27-Oct	$0.57E	$0.58	$0.53 A	$0.04	$2.15	$2.16	$2.13-$2.17	$2.06	$2.05 A
Waste Connections	WCN	27-Oct	$0.77E	$0.72	$1.12 A	($0.35)	$2.18	$2.44	n/a	$3.74	$4.08 A
Covanta Holding Corp.	CVA	26-Oct	$0.16E	$0.14	$0.22 A	($0.06)	($0.11)	($0.10)	n/a	($0.16)	$0.19 A
Clean Harbors	CLH	TBD	$0.43E	$0.33	$0.69 A	($0.26)	$0.48	$0.50	n/a	$0.63	$1.42 A
US Ecology	ECOL	TBD	$0.57E	$0.56	$0.50 A	$0.07	$1.82	$1.82	$1.80-$1.95	$1.55	$1.72 A
Average			**$0.55**	**$0.52**	**$0.64**	**($0.08)**	**$1.56**	**$1.61**		**$1.77**	**$2.01**
% Change			**-12.9%**	**-17.9%**			**-22.2%**	**-19.6%**			

Source: Thomson and Barclays Research

FIGURE 5

Third Quarter 2016 Earnings Expectations – Power and Utilities

US Companies in US$ Canadian Companies in CAD			Quarterly				Annual				
Company	Ticker Symbol	Scheduled Reporting Date	2016 Third Quarter Barclays Estimate[1]	2016 Third Quarter Consensus Estimate	2015 Third Quarter Operating Earnings	$ Change	2016 Annual Barclays Estimate[1]	2016 Annual Consensus Estimate	2016 Annual Company Guidance	Trailing 12 Month Result	2015 Annual Operating Earnings
REGULATED UTILITIES											
Alliant Energy	LNT	4-Nov	$0.90E	$0.93	$0.80A	$0.10	$1.90	$1.89	$3.65-$3.85	$1.86	$1.79 A
Ameren Corp.	AEE	4-Nov	$1.34E	$1.36	$1.29A	$0.05	$2.47	$2.54	$2.45-$2.65	$2.50	$2.60 A
American Electric Power	AEP	1-Nov	$1.27E	$1.11	$1.06A	$0.21	$3.68	$3.69	$3.60-$3.80	$3.72	$3.71 A
AES Corp.	AES	4-Nov	$0.31E	$0.30	$0.39A	($0.08)	$0.99	$0.99	$0.95-$1.05	$0.95	$1.21 A
CenterPoint Energy	CNP	4-Nov	$0.38E	$0.36	$0.34A	$0.04	$1.16	$1.15	$1.12-$1.20	$1.14	$1.06 A
CMS Energy	CMS	27-Oct	$0.66E	$0.55	$0.53A	$0.13	$2.04	$2.02	$1.99-$2.02	$2.08	$1.89 A
Canadian Utilities	CU-T	26-Oct	$0.38E	$0.40	$0.37A	$0.01	$2.05	$2.09	n/a	$2.19	$1.88 A
Dominion Resources	D	w/o 10/31	$1.09E	$1.12	$1.03A	$0.06	$3.80	$3.79	$3.60-4.00	$3.46	$3.64 A
DTE Energy	DTE	26-Oct	$1.67E	$1.44	$1.40A	$0.27	$5.22	$5.18	$5.09-$5.35	$5.18	$4.79 A
Duke Energy	DUK	4-Nov	$1.57E	$1.53	$1.47A	$0.10	$4.78	$4.61	$4.50-4.70	$4.64	$4.57 A
Consolidated Edison	ED	3-Nov	$1.46E	$1.53	$1.45A	$0.01	$3.97	$3.96	$3.80-$4.05	$3.92	$4.01 A
Edison International	EIX	1-Nov	$1.23E	$1.25	$1.16A	$0.07	$3.95	$3.91	$3.81-$4.01	$3.79	$3.78 A
Emera Inc.	EMA-T	8-Nov	$0.50E	$0.52	$0.23A	$0.27	$2.52	$2.42	n/a	$2.56	$2.31 A
Eversource Energy	ES	1-Nov	$0.83E	$0.80	$0.75A	$0.08	$2.97	$2.97	$2.90-3.05	$2.80	$2.83 A
Entergy	ETR	25-Oct	$2.14E	$1.93	$1.90A	$0.24	$6.93	$6.81	$6.60-7.40	$7.08	$5.88 A
Fortis Inc.	FTS-T	4-Nov	RS	RS	RS	RS	RS	RS	n/a	RS	$2.06 A
Great Plains Energy	GXP	3-Nov	$0.91E	$0.90	$0.82A	$0.09	$1.65	$1.73	$1.65-$1.80	$1.78	$1.39 A
Hawaiian Electric Industries	HE	w/o 10/31	$0.50E	$0.50	$0.49A	$0.01	$1.70	$1.67	$1.62-1.75	$1.65	$1.63 A
Hydro One Ltd	H-T	11-Nov	$0.33E	$0.30	$0.32A	$0.01	$1.23	$1.18	n/a	$1.17	$1.12 A
ITC Holdings	ITC	4-Nov	RS	RS	RS	RS	RS	RS			$2.04 A
NextEra Energy	NEE	31-Oct	$1.68E	$1.77	$1.60A	$0.08	$6.15	$6.19	$5.85-6.35	$6.07	$5.65 A
NiSource Inc.	NI	1-Nov	$0.06E	$0.08	$0.06A	$0.00	$1.10	$1.08	$1.05-$1.10	$1.06	$0.93 A
OGE Energy Corp.	OGE	3-Nov	$0.95E	$0.95	$0.90A	$0.05	$1.78	$1.77	$1.72-$1.83	$1.58	$1.80 A
PG&E Corp.	PCG	4-Nov	$1.08E	$1.13	$0.84A	$0.24	$3.75	$3.72	$3.65-$3.85	$3.66	$3.05 A
PNM Resources	PNM	28-Oct	$0.72E	$0.78	$0.76A	($0.04)	$1.60	$1.58	$1.55-1.65	$1.48	$1.59 A
Pinnacle West Capital Corp.	PNW	3-Nov	$2.45E	$2.44	$2.30A	$0.15	$4.03	$3.99	$3.90-$4.10	$3.94	$3.80 A
Portland General Electric	POR	28-Oct	$0.43E	$0.43	$0.40A	$0.03	$2.12	$2.12	$2.20-$2.35	$2.10	$2.09 A
PPL Corp	PPL	w/o 11/7	$0.58E	$0.56	$0.51A	$0.07	$2.34	$2.35	$2.25-$2.45	$2.34	$2.21 A
SCANA Corp.	SCG	27-Oct	$1.13E	$1.07	$1.04A	$0.09	$3.97	$3.97	$3.90-$4.10	$3.79	$3.84 A
Sempra Energy	SRE	w/o 10/31	$0.91E	$0.96	$0.99A	($0.08)	$4.92	$4.77	$4.60-5.00	$4.71	$5.06 A
Southern Company	SO	31-Oct	$1.19E	$1.13	$1.17A	$0.02	$2.86	$2.86	$2.76-$2.88	$2.95	$2.86 A
Westar Energy[2]	WR	1-Nov	$1.02E	$1.01	$0.97A	$0.05	$2.41	$2.45	$2.38-$2.53	$2.24	$2.21 A
WEC Energy Group	WEC	26-Oct	$0.61E	$0.58	$0.61A	$0.00	$2.94	$2.93	$2.88-2.94	$2.90	$2.72 A
Xcel Energy	XEL	27-Oct	$0.86E	$0.88	$0.84A	$0.02	$2.19	$2.20	$2.21-2.27	$2.13	$2.10 A
Average			**$0.97**	**$0.96**	**$0.90**	**$0.07**	**$2.97**	**$2.96**		**$2.92**	**$2.81**
% Change			**8.2%**	**6.2%**			**5.8%**	**5.1%**			
IPPS AND INTEGRATED UTILITIES											
Calpine Corp.	CPN	28-Oct	$0.56E	$0.94	$0.76A	($0.20)	$0.90	$0.44	n/a	$0.64	$0.86 A
Dynegy Inc.	DYN	1-Nov	$0.26E	$0.28	$0.36A	($0.10)	($0.21)	($1.76)	n/a	$0.93	$1.18 A
Exelon	EXC	26-Oct	$0.79E	$0.73	$0.83A	($0.04)	$2.60	$2.56	$2.40-$2.70	$2.45	$2.52 A
FirstEnergy	FE	4-Nov	$0.77E	$0.76	$0.98A	($0.21)	$2.87	$2.55	$2.40-$2.60	$2.71	$2.70 A
NRG Energy	NRG	4-Nov	$0.86E	$0.88	$0.18A	$0.68	$0.68	$0.87	n/a	$0.83	$0.28 A
Ormat Technologies	ORA	8-Nov	$0.46E	$0.47	$0.46A	$0.00	$1.89	$1.91	n/a	$2.00	$1.47 A
Public Svc. Ent. Group	PEG	31-Oct	$0.83E	$0.88	$0.80A	$0.03	$2.90	$2.87	$2.80-$3.00	$2.81	$2.91 A
Talen Energy Corp	TLN	TBD	$0.35E	$0.63	$0.35A	$0.00	$1.31	$1.19	n/a	($0.33)	$1.40 A
Average			**$0.61**	**$0.70**	**$0.59**	**$0.02**	**$1.62**	**$1.33**		**$1.51**	**$1.66**
% Change			**3.4%**	**18.1%**			**-2.9%**	**-20.2%**			
WATER											
American States Water	AWR		$0.59A	$0.58	$0.56A	$0.03	$1.67	$1.63		$1.63	$1.59 A
American Water Works	AWK	3-Nov	$1.01A	$1.01	$0.96A	$0.05	$2.84	$2.83	$2.75-$2.85	$2.79	$2.63 A
Aqua America	WTR	2-Nov	$0.41A	$0.40	$0.38A	$0.03	$1.33	$1.33	$1.30-$1.35	$1.31	$1.27 A
California Water Service Group	CWT	27-Oct	$0.58A	$0.58	$0.52A	$0.06	$1.02	$1.04		$0.98	$1.00 A
Connecticut Water Service Corp	CTWS		$0.83A	$0.84	$0.79A	$0.04	$2.12	$2.15		$2.20	$2.05 A
Average			**$0.68**	**$0.64**	**$0.61**	**$0.04**	**$1.72**	**$1.71**		**$1.78**	**$1.62**
% Change			**13.1%**	**6.2%**			**6.0%**	**5.6%**			

(1) Estimates exclude discontinued and unusual operations
(2) Estimates exclude Corporate Owned Life Insurance Benefits
Note: "A" indicates actual result. "E" indicates estimate
Note: "RS" indicates rating suspended
Note: "TBD" - to be determined

Source: Thomson and Barclays Research

FIGURE 6
Third Quarter 2016 Earnings Schedule

Date	Time	Company Name	U.S. Call Info	U.S.Replay Info
10/25/2016	11:00 AM	Entergy Corp	855-893-9849 PWD: 85417477	855-859-2056 PWD: 85417477
10/26/2016	7:00AM	Canadian Utilities Ltd	No Call	No Call
10/26/2016	9:00 AM	DTE Energy	800-344-6698 PWD: 1309977	
10/26/2016	11:00AM	Exelon Corp.	800-690-3108 PWD: 97958834	855-859-2056 PWD: 97958834
10/26/2016	2:30 PM	WEC Energy Group	866-439-9410 PWD: 86199017	855-859-2056 PWD: 86199017
10/27/2016	9:00 AM	CMS Energy	647-788-4901 PWD: 28643177	855-859-2056 PWD: 28643177
10/27/2016	10:00 AM	Xcel Energy	888-455-2311 PWD: 5131866	888-203-1112 PWD: 5131866
10/27/2016	11:00 AM	California Water Service Group	877-604-9665 PWD: 7228386	
10/27/2016	3:00 PM	SCANA Corp.	888-347-3258	877-344-7529 PWD: 10093481
10/28/2016	10:00 AM	Calpine Corp	800-446-1671 PWD: 43406531	1-888-843-7419 PWD: 43406531
10/28/2016	11:00 AM	Portland General Electric		855-859-2056 PWD:92077197
10/31/2016	9:00 AM	NextEra Energy/NextEra Energy Partners LP	webcast	webcast
10/31/2016	11:00 AM	Public Service Enterprise Group	877-370-7635 PWD: 24754060	855-859-2056 PWD: 24754060
10/31/2016	No Call	Southern Company	No Call	No Call
11/1/2016	4:30 PM	Edison International	800-369-2198 PWD: Edison	888-568-0514 PWD:22316
11/1/2016	9:00 AM	NiSource Inc.	855-219-9570 PWD: 96778447	855-859-2056 PWD: 96778447
11/1/2016		Westar Energy		
11/1/2016	No Call	American Electric Power	No Call	No Call
11/2/2016		Aqua America Inc.	888-337-8169 PW:8704444	
11/2/2016	9:00 AM	Dynegy Inc.	TBA	TBA
11/3/2016	9:00 AM	OGE Energy Corp.	855-459-5945	
11/3/2016	9:00 AM	Brookfield Renewable Partners LP	1-800-319-4610	1-604-638-9010 PWD: 0818
11/3/2016	12:00 PM	Pinnacle West Capital Corporation	877-407-8035	877-660-6853 PWD:13639544
11/3/2016		American Water Works		
11/4/2016	8:00 AM	NRG Energy	1-877-359-9508 PWD: 95279056	Webcast
11/4/2016	8:00 AM	Fortis Inc.	TBA	TBA
11/4/2016	9:00 AM	AES Corp.	888-317-6003 PWD:1674466	
11/4/2016	9:00 AM	Ameren Corp.		
11/4/2016	9:00 AM	Brookfield Infrastructure Partners LP	1-800-319-4610	1-604-674-8052 PWD: 0804
11/4/2016	9:00 AM	NRG Yield Inc	1-877-402-8188 PWD: 95281086	Webcast
11/4/2016	10:00 AM	Alliant Energy	888-221-9591 PWD: 8244179	
11/4/2016	10:00 AM	Duke Energy	877-741-4253 PWD: 4938179	888-203-1112 PWD: 4938179
11/4/2016	10:00 AM	FirstEnergy Corp.	877-269-7756 PWD: 13011	877-660-6853 PWD: 13645390
11/4/2016	11:00AM	CenterPoint Energy Inc.	800-653-1761 PWD:90092987	855-859-2056 PWD:90092987
11/4/2016	11:00AM	PG&E Corp.	800-971-1685 PWD: 1659	866-415-3493 PWD:1659
11/4/2016		Great Plains Energy		
11/8/2016	9:00 AM	Ormat Technologies	1-877-511-6790	1-877-344-7529 PWD: 10093626
11/8/2016	10:00 AM	Emera Inc.	1-888-241-0394	1-855-859-2056 PWD: 95080202
11/11/2016	8:30 AM	Hydro One Ltd	1-855-716-2690 PWD: 89787278	Webcast
TBD		American States Water Co.		
TBD		Connecticut Water Service Inc.		
TBD		PPL Corporation		
TBD		Talen Energy		

Source: Company Releases, Thomson

Valuation Methodology and Risks

North America Power & Utilities

AES Corp. (AES)

Valuation Methodology: Our $12 price target reflects the average of: $17 for P/E, which is a 20% discount to the 16.7x 2018 Regulated Utility average applied to $1.26, and $8 for a sum of the parts, which includes $8 for market values of the publicly traded Lat Am subsidiaries and Regulated U.S. utilities at 16.8x 2018 net income and -$0.67/share for 7.2x $887M in proportional EBITDA for unlisted subsidiaries and parent expenses less $6.4B in net debt and NOLs.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: As a global power company and electric utility, AES is exposed to merchant power risk, country risk, currency risk (particularly in South America), regulatory risk, and counterparty risk.

Alliant Energy (LNT)

Valuation Methodology: Our $42 price target is premised on a 10% premium to the 2018 regulated group average P/E multiple of 17.7x applied to our 2018 earnings estimate of $2.15.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks to the outlook include utility regulation; execution of its renewable generation expansion program; commodity prices; and interest rates.

Ameren Corp. (AEE)

Valuation Methodology: Our $55 price target is a 5% premium to the 2018 Regulated Utility P/E of 17.5x applied to our $2.98 EPS estimate.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks to the Ameren outlook are interest rates, regulation (Missouri, Illinois and the Federal Energy Regulatory Commission), outlook for Missouri legislation and the capital markets.

American Electric Power (AEP)

Valuation Methodology: Our price target is $72 which is based on a 9% premium of the 2018 Regulated Utility 16.6x average applied to our $4.00 2018 EPS estimate.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Key risks include wholesale commodity prices, state and federal regulation, interest rates, and asset sale execution.

American States Water Company (AWR)

Valuation Methodology: Our $39 price target is premised upon a 5% discount to the 2018 water group average multiple of 22.8x applied to our 2018 estimate of $1.84.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Regulatory issues resulting in lower ability to spend capital or a lower ROE, ability to obtain additional military contracts and perform on the current contracts are all risks.

American Water Works (AWK)

Valuation Methodology: Our $81 price target is derived from applying a 10% high-quality premium to a water group average of 22.8x P/E multiple to our $3.28 2018 EPS estimate.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks to AWK include an inability to achieve tighter cost control, sub-par regulatory results from pending and future rate cases, a slowdown in acquisition activity that would impact sales growth potential.

Aqua America (WTR)

Valuation Methodology: Our $34 price target is based on applying the water group average 2018 P/E multiple of 22.8x to our 2018 EPS estimate of $1.50.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks to WTR include an inability to maintain cost control, sub-par regulatory results from pending and future rate cases, and a slowdown in acquisition activity that would impact sales growth potential.

Brookfield Infrastructure Partners LP (BIP)

Valuation Methodology: Our valuation is the average of two methodologies: First, a Yield Co. Comparable multiple of 11.6x our 2018E EBITDA of $1,551 million, net debt of $6.5 billion, and 345.8 million units outstanding, which yields $33/share. Second, a one year forward dividend yield method which yields $35/share. The average yields $34/share.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Global growth will impact activity at several of the company's infrastructure assets over time. Ability of management team to find investment opportunities above hurdle rates to continue to fuel growth, ability to recycle capital over time, foreign exchange risk, political risk in the countries the company operates in, in particular Brazil, Chile, and Columbia.

Brookfield Renewable Energy Partners LP (BEP)

Valuation Methodology: Our valuation uses an average of two methodologies: 1) a Yield Co. comparable multiple of 10.9x our 2018E EBITDA of $1,664mn, net debt of $8.6 billion, and 283.8 million units outstanding, which yields $33/share; and 2) a one-year forward look at a 5.5% dividend yield and a $1.78E distribution, which yields $34/share.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks included rising interest rates, dilution from sale of Brookfield Asset Management's ownership position in the LP units, hydrology and water conditions/weather for their hydroelectric dams, foreign exchange risk especially to the Brazilian Real, Brazilian political risk, and lack of acquisition or new build opportunities to continue to meet growth targets.

Valuation Methodology and Risks

California Water Service Group (CWT)

Valuation Methodology: Our $31 price target is premised upon applying the 2018 water group average multiple of 22.8x to our 2018 estimate of $1.38.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Main risks are regulatory given the significant impact the outcome and timing of the California general rate case can have. Also the California drought and associated recovery has impacted results in the past several years. Interest rates impact commission granted return on equity levels as well as impacting the rate paid on short term debt. National policy such as bonus depreciation and EPA actions will also impact spending levels and financing for the utility.

Calpine Corp. (CPN)

Valuation Methodology: Our $18 price target is premised upon the mid-cycle multiple of 7.6x our 2018E Open EBITDA of $2.0 billion, net debt of $11.6 billion and an NPV of NOLs of $2.9 billion on 359 million shares outstanding.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks for Calpine are the higher reserve margins, recession, wholesale market regulatory risk; risk of environmental mandates, and the gas price.

Canadian Utilities Ltd. (CU CN / CU.TO)

Valuation Methodology: Our price target of C$36 is premised upon a sum-of-the-parts valuation. This valuation uses a 5% premium to the 2018 US regulated utility multiple of 16.3x our Canadian utility operations 2018E EPS of C$2.34. The 5% premium is premised upon the 15% premium for Canadian vs. US operations less a discount for exposure to Alberta's economy and regulatory environment. We use a 15% premium to our estimate for the Australian utility operations 2018E EPS of C$0.13. We value the midstream operations using a comparable group 2018E multiple of 17.3x our 2018E midstream EPS of C$0.12. For power, we use the US comparable IPP 2018E EPS multiple of 12.5x on our 2018E EPS of (C$0.14). Lastly we value other segment EPS of (C$0.27) at a 16.3x multiple. We also add a 5% discount for the closely held nature of the company.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks include economic growth in Alberta and Western Australia, execution risks related to capital deployment, levels of the demand for power in the UK and Alberta and their impact on spark spreads, and the Alberta regulatory environment.

CenterPoint Energy Inc. (CNP)

Valuation Methodology: Our $27 price target for CNP is based on a sum of the parts. We assign a 5% premium to the group average 17.7x 2018E EPS multiple to Utility earnings resulting in approximately $19.00/share for Utility, and approximately $8.00 for the LP ownership of Enable Midstream Partners, which is based on current ENBL share price applied to the number of units owned by CNP.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks include regulatory lag and changes in demand growth at the utility. For the company's Enable stake, risks include pipeline contract renewal risk, and potential for weaker production in the natural gas basins in which Enable's gather and processing assets operate and potential distribution reduction.

CMS Energy (CMS)

Valuation Methodology: Our price target of $47 is premised upon a 15% premium to the current 2018E regulated utility multiple of 17.7x our 2018E EPS of $2.34.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: CMS Energy faces risk from Michigan utility regulation, commodity prices, and interest rates.

Consolidated Edison (ED)

Valuation Methodology: Our $77 target reflects a 5% premium of the Regulated Utility average 2018 P/E multiple of 17.0x applied to our $4.34 EPS estimate.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks to the outlook include rating agency actions, regulatory risk, interest rates, and access to the capital markets.

Dominion Resources (D)

Valuation Methodology: We use a sum of the parts methodology on 2018 estimates to derive an $84 valuation for Dominion Resources. We value VEPCO, the regulated electric utility subsidiary at a 15% premium to to the average regulated utility P/E multiple. We value D Energy at the average midstream P/E multiple.We value Corp & Other at a regulated utility average multiple. We value the merchant generation at 6.1x EBITDA and deduct allocated debt. We value Atlantic Coast Pipeline at an 10.9x MLP multiple to EBITDA, discounted back two years to 2018. We add $2 value for D's LP ownership stake in DM.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Changes to the regulatory landscape could change D's earnings potential. In addition, D has an extensive capital expenditure forecast driving its growth strategy. Changes to availability of capital could impede its growth objectives. Project delays could push out projected earnings growth. A decline in the forward power curves could reduce earnings coming from Millstone's unhedged production.

DTE Energy (DTE)

Valuation Methodology: Our price target of $108 is premised upon a SOTP analysis. We value the electric and gas utility 2018E earnings per share of $4.39 at a 15% premium to the regulated utility multiple of 17.7x. To this, we add the midstream business segment earnings per share of $0.90 at a 10% premium to the 2018E midstream multiple of 18.7x. For Power & Industrial's 2018E EPS of $0.26,excluding REF earnings, we use a multiple of 15.0x. We value corporate and other earnings per share of ($0.25) at a 15% premium to the regulated utility multiple of 17.7x and add $1.61/share of NPV for the DCF stream from the REF projects.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks to the outlook include wholesale commodity prices, generation development market conditions, the outcome of regulatory proceedings, rating agency actions, interest rates, IRS

Valuation Methodology and Risks

tax regulations, the outlook for energy technology, and access to the capital markets.

Dynegy Inc. (DYN)

Valuation Methodology: Our $18 price target is premised upon closing the ENGIE transaction, a 7.6x EV/EBITDA mid-cycle multiple, and our post-close EBITDA estimate of $1.5 billion net of debt of $8.7 billion, environmental capex of $0.6 billion, and a NPV of NOLs of $0.3 billion. We use shares outstanding of 151.8 million.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Dynegy Inc. is an independent power company with a 50% natural gas 50% coal fired fleet diversified across MISO, PJM, New England, and New York. Risks to performance include natural gas, coal, and power prices, as well as annually set capacity prices in PJM and MISO. Risks to our valuation also include the ENGIE asset acquisition not closing as expected.

Edison International (EIX)

Valuation Methodology: Our $81 target reflects a 5% premium of the Regulated Utility average 2018 P/E multiple of 17.7x applied to our $4.28 EPS estimate.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks to the outlook include wholesale commodity prices, generation development market conditions, the outcome of regulatory proceedings, rating agency actions, interest rates, and access to the capital markets.

Emera Inc. (EMA CN / EMA.TO)

Valuation Methodology: Our C$54 price target is premised upon a sum of the parts approach. We value Canadian utility operations at a 15% premium to the '18E US regulated utility multiple of 17.2x our '18E earnings per share of C$1.44. US regulated utility operations use a multiple of 17.2x our '18E eps of C$0.48. For Caribbean operations we use a '18E multiple of 15.1x based upon the current multiple of publically traded Caribbean Utilities Corporation. We apply this to our '18E Caribbean eps of C$0.33. We use a '18E pipeline comp multiple of 17.2x our '18E pipeline eps of C$0.32. For other operations, mainly energy trading and the US power plants we use a power comparable multiple of 13.5x our '18E eps of C$0.96. For corporate and other earnings of (C$0.79) in '18E we use the straight US regulated multiple of 17.2x. To this we add C$7/share related to the Teco acquisition accretion of C$0.45/share at a 17.2x multiple.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Economic growth and regulatory environment in Nova Scotia. Execution of large scale capital projects. Government environmental policy in Nova Scotia. Regulation by the Federal Energy Regulatory Commission and state regulators in Maine. Execution on capital deployment projects in joint ventures to achieve appropriate hurdle rates.

Entergy Corp. (ETR)

Valuation Methodology: Our $88 price target is derived by applying a 5% premium to the 17.7x sector multiple on our 2018E of $4.63 for UP&O. To that we add $2 to reflect a discounted cash flow valuation for EWC net of the cost of new equity avoided because of EWC cash flow.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: EWC-related risks include: negative developments related to all operating and closed nuclear facilities, declining forward price curves, and unscheduled non-regulated plant outages. Utility-related risks include: regulatory lag, poor rate case outcomes, and ANO-related remediation expenses.

Eversource Energy (ES)

Valuation Methodology: Our $61 price target reflects a 10% premium to the industry average multiple of 17x our 2018E EPS of $3.27.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risk factors include regulatory approval and permitting of Access Northeast and Northern Pass projects, changes to prevailing local, state and federal governmental policies and regulatory actions with respect to allowed rates of return, rate structure, continued recovery of regulatory assets and energy costs, financing, changes in tax laws and policies, and changes in compliance with environmental and safety laws and policies among other risks.

Exelon Corp. (EXC)

Valuation Methodology: Our $39 price target is premised upon a 2018 group average multiple of 16.7x applied to the utility net parent earnings of $1.68 resulting in $28 of utility value. Exgen is valued at 6.5x 2018 EBTIDA netted against debt resulting in $11 of value for Exgen, The combined value is $39.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The major risks for the utility are regulatory outcomes given the multiple regulatory districts combines with the expectation of reducing regulatory lag. For Exgen the major risks are commodity price, supply rationalization or lack thereof and unplanned outages.

FirstEnergy Corp. (FE)

Valuation Methodology: Our FE price target reflects a 10% discount of the '18 Regulated Utility P/E multiple of 16.2x applied to $2.52 which is Regulated Utility + Parent + Ohio rider recovery.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks are an interruption in the delevering strategy from failure to close/announce asset sales, nuclear plant performance, interest rates, and the economy.

Great Plains Energy Inc. (GXP)

Valuation Methodology: Our $29 price target reflects a weighted average of 80% for the deal closing worth $30/share using a 5% discount multiple to the 17.2x Regulated Utility average P/E applied to $1.82 in '18 and 20% for failure to close worth $28/share using a 5% discount '18 P/E multiple and $1.74.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks to the outlook include the outcome of regulatory proceedings, construction risk, rating agency actions, interest rates, and access to the capital markets.

Valuation Methodology and Risks

Hawaiian Electric Inds (HE)

Valuation Methodology: Our price target of $29 reflects 2018E utility earnings of $1.37 at a 5% discount to the industry average multiple of 17.7x and 2018E American Savings Bank earnings of $0.48 at a 12.0x multiple.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: HE has regulatory and political risk moving forward on a stand alone basis. Executing on the legislated goal of 100% renewable energy by 2045 also carries execution risk. HE has a robust capital expenditure plan to meet the state targets, but will require PUC support to successfully execute. Ultimately the dividend could be at risk in a more extreme scenario where HE's margins come under increased pressure or there is customer erosion.

Hydro One Ltd. (H CT / H.TO)

Valuation Methodology: Our C$26 price target is premised upon a 15% premium to the regulated utility comp multiple of 16.5x our 2018E EPS of C$1.39.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks include Canadian interest rates, Ontario Energy Board regulatory decisions and allowed returns, the overall Ontario economy, ability of management to cut costs, significant ownership by the Province of Ontario, potential acquisitions of other distribution networks in Ontario or assets outside of Ontario.

NextEra Energy (NEE)

Valuation Methodology: Our price target of $142 is based on applying a 10% premium to the regulated utility multiple of 17.7x to our 2018 EPS estimate of $6.90. In addition, we add $7.50/share value for NEE's pro rata ownership of NEP.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: NextEra Energy Resources has merchant exposure to volatile gas and power prices, and risks associated with expansion in the size of its wind asset base. In addition, volatility around fuel prices and high levels of capital spending at its utility present regulatory risk. There is also risk of an extended merger approval process for HE, incremental acquisition announcements, and a contentious FP&L rate case.

NextEra Energy Partners, LP. (NEP)

Valuation Methodology: We value at $34/share on the basis of the 2017E annualized LP distribution rate of $1.54 and a yield of 4.5%. The base case for NEP relies on a high quality, long-term contracted asset base, highly visible long-term growth rate in the range of 12-15% per year for the next several years, high level of operating competence by the management team, and continuing investor demand for yielding equity vehicles.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The risks to the business model and our thesis are diminished investor appetite for yielding equities; rising interest rates, and/or fluctuating wind resource impairs short-term cash generation abilities which could create problems funding and growing the distributions; operational issues surrounding the wind and solar assets; and the elimination of production tax credits as a result of political maneuvering.

NiSource, Inc. (NI)

Valuation Methodology: Our $26 price target is a 15% premium on the Regulated Group average 17.7x P/E multiple applied to our 2018 EPS estimate of $1.28.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks include adverse regulatory outcomes, lower sales growth, higher cost of capital, and earlier than expected equity needs.

NRG Energy (NRG)

Valuation Methodology: Our $18 price target is premised upon a half turn discount to the mid-cycle multiple of 7.6x our recourse basis '18E Open EBITDA of $1.7 billion, $1.5 billion for NYLD at market value, $1.1 billion in NPV of NOLs, $0.2 billion in environmental capex, and $8.2 billion in recourse only net debt.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks include commodity prices, regulation, capital markets, interest rates and environmental policy.

NRG Yield Inc. (NYLD)

Valuation Methodology: Our $19 target used a Yield Co. average multiple of 9.3x '18E EBITDA of $993 million less net debt of $4.5 billion and 243 million shares projected by 2018 to fund the EBITDA growth.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks are equipment reliability, sales demand, environmental regulation, taxes and political uncertainty.

OGE Energy Corp. (OGE)

Valuation Methodology: Our price target is $35. This comprises '18E EPS of $1.62 at OG&E (utility), using 5% discount to the 17.7x utility group multiple equating to $27, plus $8 for OGE's 26.3% ownership of Enable Midstream Partners LP (ENBL), marked to current price

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Federal (FERC, EPA) and state (Oklahoma, Arkansas) regulation, costs of compliance with environmental laws and regulations, Operational risks associated with OGE's businesses, economic conditions, climate change, cyber security risks and increased reliance on automated processes. Enable share price may be impacted by volumes or commodity prices on their system as well as changes to the distribution.

Ormat Technologies (ORA)

Valuation Methodology: Our $42 price target is premised upon a contracted projects multiple of 7.6x 2018E projects EBITDA of $281 million plus a discounted 5.3x multiple on the international emerging market products business 2018E EBITDA of $76 million, and recourse and limited recourse net debt of $525 million.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks for Ormat Technologies include

Valuation Methodology and Risks

geological changes that impact geothermal performance, regulation, commodity prices, and subordinate structure to Israeli-based parent.

PG&E Corp. (PCG)

Valuation Methodology: Our current price target of $71 is premised upon a 4% large cap premium applied to our 2018 earnings per share estimate of $3.84 and the current regulated group multiple of 17.7x.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Key risks are California and Federal regulation, rating agency actions, interest rates and access to capital markets.

Pinnacle West Capital (PNW)

Valuation Methodology: Our $81 price target is premised on a 5% premium to the 2018 group average P/E of 17.7x applied to our 2018 estimate of $4.35

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Key risks are Arizona state and Federal (FERC and NRC) regulation. Demand and rooftop solar can impact earnings significantly under current regulatory construct.

PNM Resources (PNM)

Valuation Methodology: Our price target of $37 is premised upon a 5% premium to the industry average multiple of 17.2x our 2018E EPS of $2.03.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Key risks are environmental regulation, regulatory environment in Texas and New Mexico, weather, and the New Mexico and Texas economies. PNM's current and anticipated future rate cases in NM also present risk.

Portland General Electric Co. (POR)

Valuation Methodology: Our $41 price target reflects a 6% discount to the 2018 group average P/E multiple of 17.7x applied to our 2018 eps estimate of $2.48.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The main risks to our valuation are the commercial operation of the Carty Generating Station, regulatory filings and outcomes, as well as economic issues impacting demand growth and inflation. In the event that demand growth accelerates given the local Portland economy, our estimates would prove to be conservative.

PPL Corporation (PPL)

Valuation Methodology: Our $35 target reflects a Regulated Utility average 2018 P/E multiple of 16.1x applied to Open EPS of $2.18 plus the NPV of currency hedges at $0.36/share.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks to the outlook include the outcome of regulatory proceedings, rating agency actions, foreign currency translation, interest rates, and access to the capital markets.

Public Service Enterprise Gp (PEG)

Valuation Methodology: Our $45 target reflects a sum of the parts including $36 for PSE&G at a 9% premium of the 2018 Regulated Utility average of 16.3x applied to our $2.01E, $8 for PSEG Power at 7.4x '18 Open EBITDA of $1.0B less $3.2B of net debt and $1 for Enterprises and other at a 2018 Regulated Utility average multiple of $0.07 EPS.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Key risks are wholesale power prices, New Jersey and federal utility regulation, and interest rates.

SCANA Corp. (SCG)

Valuation Methodology: Our current price target of $74 is premised upon our 2018 EPS estimate of $4.38E and a 5% nuclear construction risk discount to the regulated group's 2018 P/E ratio of 17.7x.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Primary risk factors are construction risk associated with the V.C. Summer nuclear facilities, regulatory risk from frequent proceedings and rate fatigue in the company's service territory, financing risk from the frequent need to come to market for new equity, and economic risk connected to the South Carolina economy.

Sempra Energy (SRE)

Valuation Methodology: Our price target is premised upon a sum of the parts valuation, applying a 5% premium to the regulated utility group average multiple to our 2018 EPS estimates for the majority of SRE's regulated and contracted businesses, adding $24/share for trains 1-3 at Cameron, and $15/share for the value inherent in SRE's ownership interest in IEnova.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: SRE's long-term earnings growth is largely dependent on successful completion of Cameron trains 1-3. A portion of earnings are also exposed to international, political, and currency risk. Tail risk from the Aliso Canyon gas leak persists, as does ongoing regulatory risk in CA.

Southern Co. (SO)

Valuation Methodology: Our current price target of $62 is based upon a 10% premium to the utility group average multiple of 17.7x applied to our 2018 estimate.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Regulatory risks associated with closing the SNG pipeline venture with KMI, construction risk for Vogtle and Kemper, as well as standard regulatory risk associated with regulated assets.

WEC Energy Group (WEC)

Valuation Methodology: Our price target for WEC of $68 is predicated on a 15% premium to the industry average P/E multiple of 17.7x our 2018E of $3.32.

Valuation Methodology and Risks

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: FERC is currently reviewing two complaints filed against MISO transmission owners, of which WEC is an owner through its share in ATC. A revision in the allowed ROE by FERC to a base ROE that is significantly lower than FERC's recent order in the New England complaint could negatively impact WEC. Also, continued cost escalation or execution delays to the pipeline replacement program (AMRP) in Illinois could create political and regulatory pressure. Regulatory risk is also a factor in WEC's various jurisdictions.

Westar Energy (WR)

Valuation Methodology: Our $60 target reflects closing of the merger with Great Plains Energy.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks include but are not limited to utility regulation by Kansas Corporation Commission and FERC Transmission Regulation.

Xcel Energy (XEL)

Valuation Methodology: We believe XEL is worth $48 reflecting a 10% premium to the 2018 regulated utility average P/E multiple on our 2018 estimate of $2.46.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks are interest rates, state and federal utility regulation, and access to external capital to fund capital expenditures. XEL operates in multiple jurisdictions and often has multiple rate cases pending which carry knowable and unforseeable risks.

Source: Barclays Research.

ANALYST(S) CERTIFICATION(S):

We, Daniel Ford, CFA, Ross A. Fowler, CFA, Gregg Orrill and Jon Windham, CFA, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Where any companies are the subject of this research report, for current important disclosures regarding those companies please refer to http://publicresearch.barclays.com or alternatively send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 13th Floor, New York, NY 10019 or call +1-212-526-1072.

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Primary Stocks (Ticker, Date, Price)

AES Corp. (AES, 10-Oct-2016, USD 11.67), Equal Weight/Neutral, A/CD/CE/D/E/J/K/L/M/N

Alliant Energy (LNT, 10-Oct-2016, USD 36.88), Equal Weight/Neutral, A/CE/D/J/K/L/M

Ameren Corp. (AEE, 10-Oct-2016, USD 47.70), Overweight/Neutral, A/CD/CE/D/J/K/L/M

American Electric Power (AEP, 10-Oct-2016, USD 62.21), Overweight/Neutral, CD/CE/D/J/K/L/M

American States Water Company (AWR, 10-Oct-2016, USD 38.63), Underweight/Neutral, CE/J

American Water Works (AWK, 10-Oct-2016, USD 71.38), Overweight/Neutral, CE/J

Aqua America (WTR, 10-Oct-2016, USD 29.43), Equal Weight/Neutral, CE/J

Brookfield Infrastructure Partners LP (BIP, 10-Oct-2016, USD 33.80), Equal Weight/Neutral, CD/CE/D/E/J/K/L/M/N

Brookfield Renewable Energy Partners LP (BEP, 10-Oct-2016, USD 30.65), Equal Weight/Neutral, A/CD/D/J/K/L/M/R

California Water Service Group (CWT, 10-Oct-2016, USD 31.75), Equal Weight/Neutral, CD/J

Calpine Corp. (CPN, 10-Oct-2016, USD 13.15), Overweight/Neutral, A/CD/CE/D/J/K/L/M

Canadian Utilities Ltd. (CU.TO, 07-Oct-2016, CAD 36.23), Underweight/Neutral, CD/J

CenterPoint Energy Inc. (CNP, 10-Oct-2016, USD 22.18), Equal Weight/Neutral, CD/CE/J/K/M

CMS Energy (CMS, 10-Oct-2016, USD 40.61), Equal Weight/Neutral, A/CD/CE/D/E/J/K/L/M

Consolidated Edison (ED, 10-Oct-2016, USD 72.20), Equal Weight/Neutral, A/CD/CE/D/E/J/K/L/M

Other Material Conflicts: Barclays Bank Plc and/or its affiliate is acting as financial advisor to Consolidated Edison, Inc. (NYSE: ED) in relation to its announcement that its subsidiaries have entered into definitive agreements with Crestwood Equity Partners LP's subsidiaries (NYSE: CEQP) to form a joint venture to own and develop Crestwood's existing natural gas storage and pipeline business located in northern Pennsylvania and southern New York.

Dominion Resources (D, 10-Oct-2016, USD 72.22), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M

DTE Energy (DTE, 10-Oct-2016, USD 92.35), Overweight/Neutral, A/CD/CE/D/J/K/L/M

Other Material Conflicts: Barclays Bank PLC and/or its affiliate is acting as sell-side advisor to M3 Midstream LLC in relation to their sale of 100% of Appalachia Gathering System in Pennsylvania and West Virginia and 40% of Stonewall Gas Gathering in West Virginia to DTE Energy Co. (NYSE: DTE.) The rating, price target and estimates (as applicable) on DTE Energy Co. do not incorporate this potential transaction.

Duke Energy (DUK, 10-Oct-2016, USD 77.06), Equal Weight/Neutral, A/CD/CE/D/E/J/K/L/M

Other Material Conflicts: Barclays Bank and/or its affiliate is providing investment banking services to Duke Energy Corp (NYSE: DUK) in relation to its potential acquisition of Piedmont Natural Gas Company Inc.

IMPORTANT DISCLOSURES CONTINUED

Dynegy Inc. (DYN, 10-Oct-2016, USD 13.38), Overweight/Neutral, A/CD/CE/D/J/K/L/M/N
Edison International (EIX, 10-Oct-2016, USD 70.26), Equal Weight/Neutral, A/CD/CE/D/J/K/L/M/N
Emera Inc. (EMA.TO, 07-Oct-2016, CAD 45.72), Overweight/Neutral, A/CD/D/J/K/L/M/R
Entergy Corp. (ETR, 10-Oct-2016, USD 73.89), Equal Weight/Neutral, A/CD/CE/D/J/K/L/M
Eversource Energy (ES, 10-Oct-2016, USD 52.76), Equal Weight/Neutral, A/CD/CE/D/J/K/L/M
Exelon Corp. (EXC, 10-Oct-2016, USD 32.50), Overweight/Neutral, A/CD/CE/D/J/K/L/M
FirstEnergy Corp. (FE, 10-Oct-2016, USD 31.73), Overweight/Neutral, CD/CE/J/K/M
Great Plains Energy Inc. (GXP, 10-Oct-2016, USD 27.11), Equal Weight/Neutral, A/CD/CE/D/E/FA/J/K/L/M
Hawaiian Electric Inds (HE, 10-Oct-2016, USD 28.78), Underweight/Neutral, CD/CE/J/K/M
Hydro One Ltd. (H.TO, 07-Oct-2016, CAD 24.70), Equal Weight/Neutral, A/D/J/L/R
NextEra Energy (NEE, 10-Oct-2016, USD 122.78), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M
NextEra Energy Partners, LP. (NEP, 10-Oct-2016, USD 26.60), Overweight/Neutral, CE/D/E/J/L
NiSource, Inc. (NI, 10-Oct-2016, USD 22.91), Equal Weight/Neutral, CE/D/J/K/L/M
NRG Energy (NRG, 10-Oct-2016, USD 11.42), Overweight/Neutral, A/CD/CE/D/J/K/L/M
NRG Yield Inc. (NYLD, 10-Oct-2016, USD 15.28), Overweight/Neutral, CD/D/J/K/L/M
OGE Energy Corp. (OGE, 10-Oct-2016, USD 30.35), Equal Weight/Neutral, CD/CE/D/J/L
Ormat Technologies (ORA, 10-Oct-2016, USD 47.47), Underweight/Neutral, CD/CE/J
PG&E Corp. (PCG, 10-Oct-2016, USD 59.47), Overweight/Neutral, A/CD/CE/D/J/K/L/M
Pinnacle West Capital (PNW, 10-Oct-2016, USD 73.78), Equal Weight/Neutral, A/CE/D/J/K/L/M
PNM Resources (PNM, 10-Oct-2016, USD 31.72), Overweight/Neutral, CE/D/J/L
Portland General Electric Co. (POR, 10-Oct-2016, USD 40.94), Underweight/Neutral, A/CD/CE/D/J/K/L/M
PPL Corporation (PPL, 10-Oct-2016, USD 32.51), Equal Weight/Neutral, A/CE/D/J/K/L/M/N
Public Service Enterprise Gp (PEG, 10-Oct-2016, USD 40.86), Equal Weight/Neutral, A/CE/D/J/K/L/M
SCANA Corp. (SCG, 10-Oct-2016, USD 69.43), Equal Weight/Neutral, CD/CE/J
Sempra Energy (SRE, 10-Oct-2016, USD 104.31), Overweight/Neutral, A/CD/CE/D/J/K/L/M
Southern Co. (SO, 10-Oct-2016, USD 49.75), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M
WEC Energy Group (WEC, 10-Oct-2016, USD 57.39), Equal Weight/Neutral, CD/CE/D/E/J/K/L/M
Westar Energy (WR, 10-Oct-2016, USD 56.69), Equal Weight/Neutral, A/CD/CE/D/J/K/L/M
Xcel Energy (XEL, 10-Oct-2016, USD 39.89), Overweight/Neutral, A/CD/CE/D/J/K/L/M
Materially Mentioned Stocks (Ticker, Date, Price)
8point3 Energy Partners LP (CAFD, 10-Oct-2016, USD 14.11), Overweight/Neutral, D/E/J/K/L/M/N
Canadian Solar Inc. (CSIQ, 10-Oct-2016, USD 14.66), Equal Weight/Neutral, CD/CE/E/FA/J/K/L/M
Clean Harbors (CLH, 10-Oct-2016, USD 48.53), Overweight/Neutral, CD/CE/J
Covanta Holding Corp. (CVA, 10-Oct-2016, USD 15.20), Equal Weight/Neutral, CD/CE/J/K/M/N
First Solar Inc. (FSLR, 10-Oct-2016, USD 38.58), Overweight/Neutral, CE/FC/J
Republic Services (RSG, 10-Oct-2016, USD 49.89), Overweight/Neutral, A/CD/CE/D/J/K/L/M
SolarCity Corp. (SCTY, 10-Oct-2016, USD 19.59), Underweight/Neutral, CD/CE/FC/J
SolarEdge Technologies Inc. (SEDG, 10-Oct-2016, USD 16.04), Overweight/Neutral, J
SunPower Corp. (SPWR, 10-Oct-2016, USD 8.58), Equal Weight/Neutral, CD/CE/D/E/J/K/L/M/N
Sunrun Inc. (RUN, 10-Oct-2016, USD 6.91), Equal Weight/Neutral, J
Talen Energy Corp. (TLN, 10-Oct-2016, USD 13.90), Equal Weight/Neutral, CE/D/E/J/L
Terraform Global Inc. (GLBL, 10-Oct-2016, USD 4.05), Rating Suspended/Neutral, CE/D/J/L
US Ecology, Inc. (ECOL, 10-Oct-2016, USD 43.86), Underweight/Neutral, J
Waste Connections (WCN, 10-Oct-2016, USD 72.33), Overweight/Neutral, CE/J/K/M
Waste Connections (WCN.TO, 07-Oct-2016, CAD 95.80), Overweight/Neutral, CE/J/K/M
Waste Management (WM, 10-Oct-2016, USD 62.78), Equal Weight/Neutral, CD/CE/J/K/M
Prices are sourced from Thomson Reuters as of the last available closing price in the relevant trading market.

IMPORTANT DISCLOSURES CONTINUED

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Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month

IMPORTANT DISCLOSURES CONTINUED

investment horizon.

Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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Industry View

Positive - industry coverage universe fundamentals/valuations are improving.

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Below is the list of companies that constitute the "industry coverage universe":

North America Alternative Energy & Environmental Services

8point3 Energy Partners LP (CAFD)	Canadian Solar Inc. (CSIQ)	Clean Harbors (CLH)
Covanta Holding Corp. (CVA)	First Solar Inc. (FSLR)	Hannon Armstrong Sustainable Infrastructure Capital, Inc (HASI)
Republic Services (RSG)	SolarCity Corp. (SCTY)	SolarEdge Technologies Inc. (SEDG)
SunPower Corp. (SPWR)	Sunrun Inc. (RUN)	Terraform Global Inc. (GLBL)
US Ecology, Inc. (ECOL)	Waste Connections (WCN)	Waste Connections (WCN.TO)
Waste Management (WM)		

North America Power & Utilities

AES Corp. (AES)	Alliant Energy (LNT)	Ameren Corp. (AEE)
American Electric Power (AEP)	American States Water Company (AWR)	American Water Works (AWK)
Aqua America (WTR)	Brookfield Infrastructure Partners LP (BIP)	Brookfield Infrastructure Partners LP (BIP_u.TO)
Brookfield Renewable Energy Partners LP (BEP)	Brookfield Renewable Energy Partners LP (BEP_u.TO)	California Water Service Group (CWT)
Calpine Corp. (CPN)	Canadian Utilities Ltd. (CU.TO)	CenterPoint Energy Inc. (CNP)
CMS Energy (CMS)	Connecticut Water Service Inc. (CTWS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Dynegy Inc. (DYN)	Edison International (EIX)	Emera Inc. (EMA.TO)
Entergy Corp. (ETR)	Eversource Energy (ES)	Exelon Corp. (EXC)
FirstEnergy Corp. (FE)	Fortis Inc. (FTS.TO)	Great Plains Energy Inc. (GXP)
Hawaiian Electric Inds (HE)	Hydro One Ltd. (H.TO)	ITC Holdings (ITC)
National Grid Plc (NG.L)	National Grid Plc (NGG)	NextEra Energy (NEE)
NextEra Energy Partners, LP. (NEP)	NiSource, Inc. (NI)	NRG Energy (NRG)
NRG Yield Inc. (NYLD)	OGE Energy Corp. (OGE)	Ormat Technologies (ORA)
PG&E Corp. (PCG)	Pinnacle West Capital (PNW)	PNM Resources (PNM)
Portland General Electric Co. (POR)	PPL Corporation (PPL)	Public Service Enterprise Gp (PEG)
SCANA Corp. (SCG)	Sempra Energy (SRE)	Southern Co. (SO)
Talen Energy Corp. (TLN)	TerraForm Power, Inc. (TERP)	Vivint Solar Inc. (VSLR)
WEC Energy Group (WEC)	Westar Energy (WR)	Xcel Energy (XEL)

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NiSource, Inc

3Q16 slightly below estimates; 2017 EPS guidance above long-term growth guidance

Bank of America Merrill Lynch

Reiterate Rating: NEUTRAL | PO: 24.00 USD | Price: 22.34 USD

Equity | 01 November 2016

3Q16 EPS slightly misses estimates

This morning before market open, NI reported 3Q16 adjusted EPS of $0.06 versus the BofAML/consensus estimates of $0.09/0.07, respectively. We note that NI excluded the positive impact of warmer-than-normal weather in its electric utility segment from adjusted EPS. Incorporating the weather effects, NI's adjusted EPS was $0.08, just below the BofAML estimate. Along with 3Q16 results, management reaffirmed 2016 EPS guidance of $1.05-1.10 and provided preliminary 2017 EPS guidance of $1.12-1.18 and capex guidance of $1.5bn. This compares to the BofAML 2017 EPS estimate of $1.14 and 1.65bn capex estimate. Additionally, we note the midpoint of NI's 2017 EPS guidance is represents 7% YoY growth relative to 2016 guidance, slightly above NI's long-term EPS growth guidance of 4-6%.

Regulatory cases continue to progress

NI continues to progress through its five base rate cases filed earlier this year. We note the Columbia Gas of Pennsylvania Base Rate Case settlement was approved on 27 October 2016. The settlement is expected to add $35mn to NI's annual revenue versus $55.3mn initially requested. The new rates go into effect on 19 December 2016. Additionally, a settlement was filed on 20 October 2016 for Columbia Gas of Kentucky's rate case. The settlement includes a $13.4mn annual revenue increase versus $25.4mn requested. A final order is expected by YE16. NI continues to expect an order on its Columbia Gas of Virginia base rate case in early 2017. Overall, we believe the final orders have been relatively positive across NI's natural gas LDC subsidiaries and believe they will help support NI's earnings growth in 2017.

Reiterate Neutral and $24 PO

We reiterate our Neutral rating and $24 PO based on a 20x 2018E P/E multiple. In our view, NI's fully regulated operations with attractive regulated rates of return merit a premium valuation relative to LDC peers with partially unregulated earnings profiles (see: Attractive long-term growth outlook but valuation full – initiate at Neutral). However, we view NI's current valuation as relatively full and see limited room for multiple expansion, particularly in a volatile interest rate backdrop.

Estimates (Dec)

(US$)	2014	2015A	2016E	2017E	2018E
EPS	NA	0.93	1.07	1.15	1.21
GAAP EPS	NA	0.62	1.06	1.15	1.21
EPS Change (YoY)	NA	NA	15.1%	7.5%	5.2%
Consensus EPS (Bloomberg)			1.07	1.15	1.21
DPS	NA	0.51	0.64	0.68	0.71

Valuation (Dec)

	2014	2015A	2016E	2017E	2018E
P/E	NA	24.0x	20.9x	19.4x	18.5x
GAAP P/E	NA	36.0x	21.1x	19.4x	18.5x
Dividend Yield	NA	2.3%	2.9%	3.0%	3.2%
EV / EBITDA*	NA	15.2x	14.0x	13.2x	12.6x
Free Cash Flow Yield*	NA	1.3%	-8.6%	-4.8%	-5.3%

* For full definitions of *IQmethod*℠ measures, see page 5.

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4. 11681557

Timestamp: 01 November 2016 10:45PM EDT

Key Changes

(US$)	Previous	Current
2016E EPS	1.08	1.07
2017E EPS	1.14	1.15
2016E EBITDA (m)	1,477.0	1,457.7
2017E EBITDA (m)	1,558.0	1,545.9
2018E EBITDA (m)	1,662.4	1,612.7

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Stock Data

Price	22.34 USD
Price Objective	24.00 USD
Date Established	24-Oct-2016
Investment Opinion	B-2-7
52-Week Range	18.60 USD - 26.94 USD
Mrkt Val (mn) / Shares Out (mn)	7,210 USD / 322.7
Average Daily Value (mn)	60.47 USD
BofAML Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2016E)	8.9%
Net Dbt to Eqty (Dec-2015A)	180.4%

iQprofile℠ NiSource, Inc

IQmethod℠ – Bus Performance*

(US$ Millions)	2014	2015A	2016E	2017E	2018E
Return on Capital Employed	NA	NA	3.5%	3.5%	3.4%
Return on Equity	NA	15.5%	8.9%	9.4%	9.5%
Operating Margin	NA	17.2%	21.1%	21.2%	20.2%
Free Cash Flow	NA	96	(618)	(343)	(382)

IQmethod℠ – Quality of Earnings*

(US$ Millions)	2014	2015A	2016E	2017E	2018E
Cash Realization Ratio	NA	4.9x	2.4x	3.1x	3.1x
Asset Replacement Ratio	NA	2.6x	2.7x	2.7x	2.7x
Tax Rate	NA	41.6%	37.5%	38.0%	38.0%
Net Debt-to-Equity Ratio	NA	180.4%	201.8%	204.2%	207.1%
Interest Cover	NA	2.1x	2.5x	2.6x	2.7x

Income Statement Data (Dec)

(US$ Millions)	2014	2015A	2016E	2017E	2018E
Sales	NA	4,652	4,342	4,636	5,044
% Change	NA	NA	-6.7%	6.8%	8.8%
Gross Profit	NA	3,008	3,021	3,060	3,273
% Change	NA	NA	0.4%	1.3%	7.0%
EBITDA	NA	1,342	1,458	1,546	1,613
% Change	NA	NA	8.6%	6.0%	4.3%
Net Interest & Other Income	NA	(460)	(372)	(380)	(380)
Net Income (Adjusted)	**NA**	**299**	**346**	**375**	**397**
% Change	**NA**	**NA**	**15.7%**	**8.4%**	**5.9%**

Free Cash Flow Data (Dec)

(US$ Millions)	2014	2015A	2016E	2017E	2018E
Net Income from Cont Operations (GAAP)	NA	199	341	375	397
Depreciation & Amortization	NA	524	542	562	593
Change in Working Capital	NA	440	(279)	0	0
Deferred Taxation Charge	NA	135	202	220	233
Other Adjustments, Net	NA	158	35	0	0
Capital Expenditure	NA	(1,361)	(1,458)	(1,500)	(1,605)
Free Cash Flow	**NA**	**96**	**-618**	**-343**	**-382**
% Change	**NA**	**NA**	**NM**	**44.5%**	**-11.3%**

Balance Sheet Data (Dec)

(US$ Millions)	2014	2015A	2016E	2017E	2018E
Cash & Equivalents	NA	16	9	97	34
Trade Receivables	NA	660	471	471	471
Other Current Assets	NA	902	891	891	891
Property, Plant & Equipment	NA	12,112	13,093	14,031	15,043
Other Non-Current Assets	NA	3,804	3,835	3,835	3,835
Total Assets	**NA**	**17,493**	**18,299**	**19,325**	**20,274**
Short-Term Debt	NA	1,001	1,642	1,642	1,642
Other Current Liabilities	NA	1,656	1,270	1,270	1,270
Long-Term Debt	NA	5,949	6,196	6,796	7,296
Other Non-Current Liabilities	NA	5,043	5,312	5,532	5,766
Total Liabilities	**NA**	**13,649**	**14,420**	**15,240**	**15,974**
Total Equity	**NA**	**3,844**	**3,880**	**4,085**	**4,300**
Total Equity & Liabilities	**NA**	**17,493**	**18,299**	**19,325**	**20,274**

* For full definitions of IQmethod℠ measures, see page 5.

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

NI's current market value more than reflects NI's positives including 4-6% annual earnings/dividend growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries with regulated rates of return. Additionally, we believe NI's valuation should reflect its electric utility operations, which account for approximately one-third of net revenue, and risk from operating across seven service territories.

Stock Data

Average Daily Volume	2,706,966

Quarterly Earnings Estimates

	2015	2016
Q1	0.56A	0.59A
Q2	0A	0.08A
Q3	0.06A	0.06A
Q4	0.31A	0.34E

Adjusting estimates

We adjust our estimates for 3Q16 results and management commentary. Our revised 2016/17/18 adjusted EPS estimates of $1.07/1.15/1.21 (from $1.08/1.14/1.21) compare to consensus estimates of $1.07/1.16/1.21, respectively. Our 2016 EPS estimate decreases slightly given slightly lower-than-expected 3Q16 results. We also lower our 2016/17 capex estimates to $1.5/1.6bn from $1.6/1.7bn, respectively.

Table 1: LDC Comp Table

Ticker	Name	BofAML rating		Current Price ($)	Current Dividend Rate (%)	2015-18 DPS CAGR (%)*	Market Cap ($mns)	EV ($mns)	P/E* 2016E	P/E* 2017E	P/E* 2018E	S&P credit rating	Moody's credit rating
ATO	Atmos Energy Corp	B-1-7	Buy	71.95	2.3	7.2	7,472	11,503	21.5	20.3	19.2	A	A2
SR	Spire Inc	A-1-7	Buy	61.70	3.2	5.5	2,816	5,177	18.1	17.3	16.5	A-	Baa2
NI	**NiSource Inc**	**B-2-7**	**Neutral**	**22.34**	**3.0**	**5.5**	**7,210**	**15,781**	**20.9**	**19.4**	**18.4**	**BBB+**	**(P)Ba1**
NJR	New Jersey Resources Corp	B-3-7	Underperform	32.95	3.1	5.5	2,839	4,390	21.0	19.4	18.3	N/A	N/A
NWN	Northwest Natural Gas Co	A-3-7	Underperform	57.30	3.3	1.5	1,579	2,528	25.8	25.1	24.4	A+	(P)A3
OGS	ONE Gas Inc	B-2-7	Neutral	58.99	2.4	10.2	3,082	4,617	22.3	21.8	20.7	A-	A2
SRE	Sempra Energy	C-1-7	Buy	104.85	2.9	5.4	26,192	44,498	22.1	20.4	17.7	BBB+	Baa1
SWX	Southwest Gas Corp	B-1-7	Buy	71.25	2.5	10.7	3,383	5,215	22.3	20.7	19.5	BBB+	A3
UGI	UGI Corp	B-1-7	Buy	45.04	2.1	7.6	7,803	12,109	22.0	19.1	17.9	N/A	N/A
VVC	Vectren Corp	B-3-7	Underperform	49.08	3.3	4.9	4,066	6,104	20.0	18.9	17.8	A-	N/A
WGL	WGL Holdings Inc	B-3-7	Underperform	60.87	3.2	5.0	3,108	5,179	19.3	18.8	17.7	A+	A3
SJI	South Jersey Industries Inc			28.76	3.7		2,286	3,692	22.2	21.4	18.0	BBB+	N/A
LDC Average					**2.9**	**6.3**			**21.5**	**20.2**	**18.8**		
GXP	Great Plains Energy Inc	B-1-7	Buy	27.87	3.9	6.5	6,000	9,071	15.7	16.3	16.0	BBB+	Baa2 *-
PNW	Pinnacle West Capital Corp	A-3-7	Underperform	74.79	3.5	5.0	8,315	13,358	18.7	17.7	16.7	A-	A3
NWE	NorthWestern Corp	A-3-7	Underperform	56.70	3.5	4.5	2,740	5,021	17.4	16.5	15.8	BBB	A3
POR	Portland General Electric Co	A-2-7	Neutral	42.56	3.0	7.0	3,785	6,024	20.1	17.8	17.1	BBB	A3
Small-Mid Cap Electric Utility Avg.					**3.5**	**5.7**			**18.0**	**17.1**	**16.4**		

Source: Bloomberg, BofA Merrill Lynch Global Research

*Data as of Nov 01 2016

*2014-17 DPS CAGR is pro-rated for those names that IPOed during or after 2014 and used consensus DPS estimates when BofAML estimates are unavilable

*P/E ratios assume consensus EPS when BofAML estimates are unavailable

Price objective basis & risk

NiSource, Inc (NI)
Our $24 PO is largely based on a target P/E multiple of approximately 20x our FY18E EPS of $1.21. We note this multiple is below the LDC peer average but above the small-mid cap electric utility average. We believe NI's 4-6% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are more than reflected in NI's stock price. Upside risks to our PO are better-than-expected customer growth, a sustained period of low interest rates and low natural gas prices, and better than expected rate case outcomes. Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, and challenging steel production economics in Indiana.

Analyst Certification

I, Gabe Moreen, 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.

US - Natural Gas Utilities Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Atmos Energy	ATO	ATO US	Gabe Moreen
	Sempra Energy	SRE	SRE US	Gabe Moreen
	Southwest Gas	SWX	SWX US	Gabe Moreen
	Spire	SR	SR US	Gabe Moreen
	UGI Corporation	UGI	UGI US	Gabe Moreen
NEUTRAL				
	NiSource, Inc	NI	NI US	Gabe Moreen
	ONE Gas, Inc.	OGS	OGS US	Gabe Moreen
UNDERPERFORM				
	New Jersey Resources Corporation	NJR	NJR US	Gabe Moreen
	Northwest Natural Gas Co.	NWN	NWN US	Gabe Moreen
	Vectren Corp	VVC	VVC US	Gabe Moreen
	WGL Holdings, Inc.	WGL	WGL US	Gabe Moreen

iQmethod℠ 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, Less 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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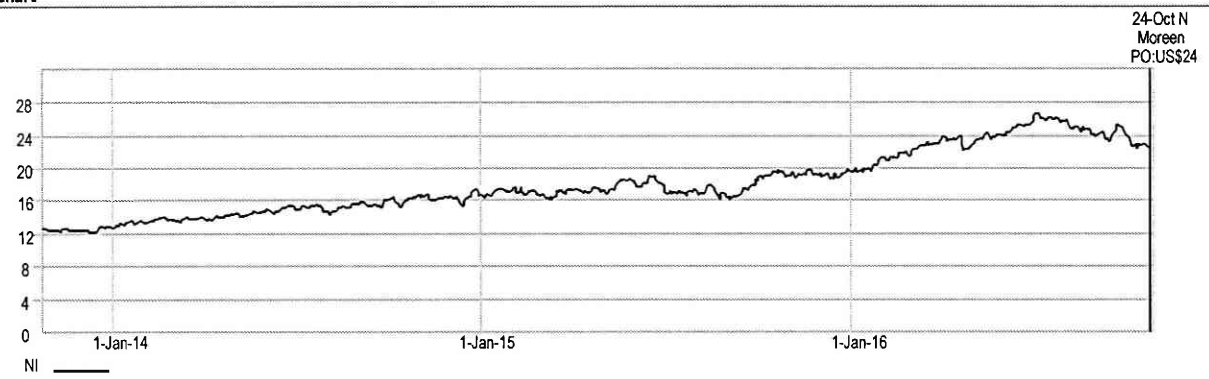
NI Price Chart



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 September 30, 2016 or such later date as indicated.

Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	105	46.67%	Buy	88	83.81%
Hold	54	24.00%	Hold	48	88.89%
Sell	66	29.33%	Sell	49	74.24%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1553	49.44%	Buy	1130	72.76%
Hold	730	23.24%	Hold	538	73.70%
Sell	858	27.32%	Sell	514	59.91%

* Issuers that were investment banking clients of BofA Merrill Lynch 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 Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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CREDIT SUISSE

1 November 2016
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

EARNINGS

3Q16 In Line, Maintain $25 TP

Rating	**UNDERPERFORM**
Price (01-Nov-16,US$)	22.34
Target price (US$)	25.00
52-week price range	26.77 - 18.66
Market cap (US$ m)	7,197.62

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
†Target price is for 12 months.

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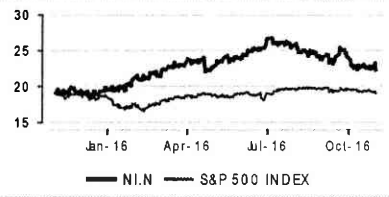
- **Slow and Steady:** NI continues to make good progress on a number of rate case settlements which along with the $1.5B backlog of planned infrastructure investments should be enough to easily sustain NI's 4-6% growth trajectory. We continue to view NI as a premier gas and electric utility with a best in class management team. With that said, shares are trading at roughly 20x our 2017 EPS and yielding 2.8%, which we view as near fairly valued and not likely to produce returns above the median of our coverage universe and therefore we reiterate our Underperform rating.
- **3Q16 In Line, 2017 EPS Guidance Introduced:** NI delivered a solid quarter with EPS of $0.06 coming within one cent of our $0.07 estimate. Segment operations came in strong with Gas Distribution segment EBIT coming in $4mm below our estimate offset by a $5mm beat in Electric Operations driven by electricity sales 4% above our estimate. Our 2017 EPS moves to $1.15 from $1.11 as we expect more normalized weather relative to 2016, which is in line with the midpoint of management's newly issued 2017 guidance of $1.12-$1.18. Guidance for 2017 capital expenditures was reiterated at $1.5B.
- **Maintain $25 TP and Underperform Rating:** Our $25 TP is based on 22x our 2017E EPS of $1.15 giving us a total return outlook of ~14%, which lags the expectations for our primarily midstream coverage.

Share price performance



On 01-Nov-2016 the S&P 500 INDEX closed at 2109.19
Daily Nov02, 2015 - Nov01, 2016, 11/02/15 = US$19.18

Quarterly EPS	Q1	Q2	Q3	Q4
2015A	0.85	0.18	0.01	0.31
2016E	0.56	0.08	0.06	0.33
2017E	0.66	0.11	0.03	0.35

Financial and valuation metrics

Year	12/15A	12/16E	12/17E	12/18E
EPS (CS adj.) (US$)	1.38	1.03	1.15	1.21
Prev. EPS (US$)	-	1.05	1.11	1.17
P/E (x)	16.1	21.7	19.5	18.5
P/E rel. (%)	86.8	117.6	118.9	126.7
Revenue (US$ m)	5,245.4	4,351.8	4,696.3	4,825.1
EBITDA (US$ m)	1,690.2	1,420.2	1,513.2	1,616.9
OCFPS (US$)	4.56	4.09	2.92	3.11
P/OCF (x)	4.3	5.5	7.6	7.2
EV/EBITDA (current)	8.4	10.0	9.3	8.7
Net debt (US$ m)	6,934	7,380	8,116	8,802
ROIC (%)	5.86	5.09	4.96	4.93
Number of shares (m)	322.19	IC (current, US$ m)		10,777.60
BV/share (Next Qtr., US$)	12.7	EV/IC (x)		1.3
Net debt (Next Qtr., US$ m)	6,990.9	Dividend (current, US$)		0.62
Net debt/tot eq (Next Qtr.,%)	180.5	Dividend yield (%)		-

Source: Company data, Thomson Reuters, Credit Suisse estimates

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CREDIT SUISSE

1 November 2016

NiSource Inc. (NI)

Price (01 Nov 2016): **US$22.34**; Rating: **UNDERPERFORM**; Target Price: **US$25.00**; Analyst: **John Edwards**

Income Statement	12/15A	12/16E	12/17E	12/18E
Revenue (US$ m)	**5,245.4**	**4,351.8**	**4,696.3**	**4,825.1**
EBITDA	**1,690**	**1,420**	**1,513**	**1,617**
Depr. & amort.	(648)	(527)	(569)	(610)
EBIT (US$)	**1,043**	**893**	**944**	**1,006**
Net interest exp	(401)	(375)	(399)	(392)
Associates	-	-	-	-
Other adj.	(3)	25	36	(3)
PBT (US$)	**639**	**542**	**581**	**611**
Income taxes	(252)	(195)	(209)	(220)
Profit after tax	**387**	**348**	**372**	**391**
Minorities	(16)	-0	-0	-0
Preferred dividends	-	-	-	-
Associates & other	72	(14)	0	0
Net profit (US$)	**444**	**333**	**372**	**391**
Other NPAT adjustments	(35)	0	0	0
Reported net income	**408**	**333**	**372**	**391**

Cash Flow	12/15A	12/16E	12/17E	12/18E
EBIT	1,043	893	944	1,006
Net interest	(401)	(375)	(399)	(392)
Cash taxes paid	-	-	-	-
Change in working capital	148	263	7	8
Other cash & non-cash items	667	541	396	387
Cash flow from operations	**1,457**	**1,321**	**948**	**1,009**
CAPEX	866	1,193	1,493	1,492
Free cashflow to the firm	**2,323**	**2,514**	**2,441**	**2,501**
Aquisitions	-	-	-	-
Divestments	5	3	0	0
Other investment/(outflows)	3,301	(88)	0	0
Cash flow from investments	**1,945**	**(1,568)**	**(1,500)**	**(1,500)**
Net share issue(/repurchase)	23	27	40	40
Dividends paid	(263)	(206)	(224)	(235)
Issuance (retirement) of debt	(3,122)	439	735	686
Other	3,002	(459)	(735)	(686)
Cashflow from financing activities	(361)	(199)	(184)	(195)
Effect of exchange rates	-	-	-	-
Changes in Net Cash/Debt	**3,040**	**(446)**	**(735)**	**(686)**
Net debt at start	9,975	6,934	7,380	8,116
Change in net debt	**(3,040)**	**446**	**735**	**686**
Net debt at end	6,934	7,380	8,116	8,802

Balance Sheet (US$)	12/15A	12/16E	12/17E	12/18E
Assets				
Cash & cash equivalents	16	16	16	16
Account receivables	660	526	550	576
Inventory	344	114	119	125
Other current assets	558	555	555	555
Total current assets	**1,577**	**1,210**	**1,240**	**1,272**
Total fixed assets	12,112	13,118	14,049	14,939
Intangible assets and goodwill	1,944	1,936	1,936	1,936
Investment securities	-	-	-	-
Other assets	1,859	1,899	1,899	1,899
Total assets	**17,493**	**18,163**	**19,124**	**20,045**
Liabilities				
Accounts payables	433	502	526	551
Short-term debt	567	968	2,453	3,889
Other short term liabilities	1,657	1,723	1,736	1,751
Total current liabilities	**2,658**	**3,193**	**4,715**	**6,191**
Long-term debt	5,949	5,846	5,096	4,346
Other liabilities	5,043	5,248	5,248	5,248
Total liabilities	**13,649**	**14,287**	**15,059**	**15,785**
Shareholder equity	3,843	3,877	4,065	4,261
Minority interests	-	-	-	-
Total liabilities and equity	**17,493**	**18,163**	**19,124**	**20,045**
Net debt	6,934	7,380	8,116	8,802

Source: Company data, Thomson Reuters, Credit Suisse estimates

Per share	12/15A	12/16E	12/17E	12/18E
No. of shares (wtd avg)	319	323	324	324
CS adj. EPS	1.38	1.03	1.15	1.21
Prev. EPS (US$)	-	1.05	1.11	1.17
Dividend (US$)	0.99	0.65	0.69	0.73
Dividend payout ratio	71.15	63.02	60.43	60.38
Free cash flow per share	7.27	7.78	7.53	7.71

Earnings	12/15A	12/16E	12/17E	12/18E
Sales growth (%)	(18.9)	(17.0)	7.9	2.7
EBIT growth (%)	(17.4)	(14.4)	5.7	6.6
Net profit growth (%)	(16.4)	(24.8)	11.6	5.1
EPS growth (%)	(17.4)	(25.5)	11.2	5.1
EBITDA margin (%)	32.2	32.6	32.2	33.5
EBIT margin (%)	19.9	20.5	20.1	20.9
Pretax margin (%)	12.2	12.5	12.4	12.7
Net margin (%)	8.5	7.7	7.9	8.1

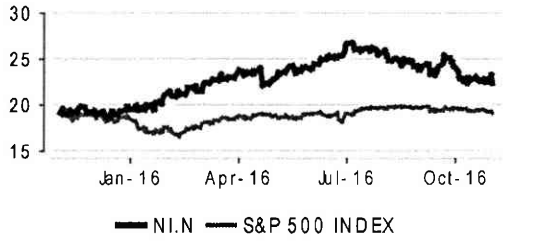
Valuation	12/15A	12/16E	12/17E	12/18E
EV/Sales (x)	2.69	3.35	3.26	3.32
EV/EBITDA (x)	8.4	10.0	9.3	8.7
EV/EBIT (x)	13.6	16.3	16.2	15.9
P/E (x)	16.1	21.7	19.5	18.5
Price to book (x)	1.8	1.7	1.7	1.6
Asset turnover	0.3	0.2	0.2	0.2

Returns	12/15A	12/16E	12/17E	12/18E
ROE stated-return on (%)	8.0	8.2	8.8	8.8
ROIC (%)	0.1	0.1	0.0	0.0
Interest burden (%)	0.61	0.61	0.62	0.61
Tax rate (%)	39.5	35.9	36.0	36.0
Financial leverage (%)	1.76	1.79	1.88	1.95

Gearing	12/15A	12/16E	12/17E	12/18E
Net debt/equity (%)	180.4	190.4	199.7	206.6
Net Debt to EBITDA (x)	4.1	5.2	5.4	5.4
Interest coverage ratio (X)	2.6	2.4	2.4	2.6

Quarterly EPS	Q1	Q2	Q3	Q4
2015A	0.85	0.18	0.01	0.31
2016E	0.56	0.08	0.06	0.33
2017E	0.66	0.11	0.03	0.35

Share price performance



On 01-Nov-2016 the S&P 500 INDEX closed at 2109.19
Daily Nov02, 2015 - Nov01, 2016, 11/02/15 = US$19.18

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Earnings Variance

Figure 1: NI 3Q16 Result vs CS Estimates

Quarterly Variance (NI)

Earnings Variance	3Q16 Actual	3Q16 CS Estimate	Diff.	Diff. (%)	3Q15 Actual
Segment EBIT					
Gas Distribution	5	10	(4)	-47%	21
Electric Operations	105	99	5	5%	99
Other	(3)	16	(19)	-119%	(10)
Total EBIT (recurring)	**107**	**125**	**(18)**	**-15%**	**110**
Interest Expense	85	91	(6)	-6%	95
Other Expenses	(4)	0	(4)	NM	6
Taxes	6	13	(7)	-54%	6
Recurring Net Income	**19**	**21**	**(2)**	**-9%**	**3**
Diluted Wtd Avg shares outstanding	324	323	1	0%	322
Recurring EPS - Diluted	**$0.06**	**$0.07**	**($0.01)**	**(9%)**	**$0.05**
Dividend per share	**$0.17**	**$0.17**	**$0.00**	**0%**	**$0.16**
Operational Metrics					
Gas Distribution					
Total Volumes (MDth)	**168**	**165**	**3**	**2%**	**164**
Total Customers	**3,376,607**	**3,408,010**	**(31,403)**	**-1%**	**3,343,187**
Electric Operations					
Residential	405,895	404,275	1,620	0%	403,468
Commercial	55,418	54,951	467	1%	54,841
Industrial	2,341	2,356	(15)	-1%	2,351
Other electric service	744	750	(6)	-1%	749
Total Heating customers (000s)	**464,398**	**462,332**	**2,066**	**0%**	**461,409**
Sales (Gigawatt Hours)					
Residential	1,148	1,007	141	14%	1,002
Commercial	1,103	1,077	25	2%	1,067
Industrial	2,356	2,282	75	3%	2,270
Wholesale and other	42	114	(72)	-63%	113
Total	**4,649**	**4,479**	**169**	**4%**	**4,452**

Source: Company data, Credit Suisse estimates

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Risks

Risks to Our Call:
While NI is expensive relative to utilities and utilities appear expensive relative to history (at least from a PE standpoint), defensively oriented business models that pay a meaningful dividend continue to attract capital given the very low yield environment that income oriented investors are confronting. This means both NI and utilities could be viewed as fairly valued from an income standpoint and could continue to attract yield-seeking capital.

NI has growth visibility that is superior to most MLPs and utilities, operates in a relatively low risk regulatory environment, and consequently could trade even higher than it does now.

Should commodity prices such as crude oil take another significant downturn to the $20s and $30s, MLPs would likely face renewed selling pressure and as such NI would be less likely to Underperform on a relative basis as investors would be inclined to seek greater safety in lower risk names even if expensive. In particular, while global crude oil supply and demand has come closer to balance recently, meetings over the last weekend among members of OPEC did not result in any agreement among members to formalize a limit to production, particularly given demands from members such as Iran and Iraq to be given a waiver. As a result over supply could once again come into the market driving oil prices back lower and introducing greater risk premiums into the midstream market and causing NI to perform in line or better compared to midstream.

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Changes to Estimates

Figure 2: NI Changes to Estimates

Quarterly Variance (NI)

Earnings Variance	Old estimates				New estimates			
	4Q16E	2016E	2017E	2018E	4Q16E	2016E	2017E	2018E
Segment EBIT								
Gas Distribution	205	619	637	676	192	601	639	703
Electric Operations	47	286	296	316	64	309	305	304
Other	14	2	22	20	0	(16)	0	0
Total EBIT (recurring)	**267**	**907**	**955**	**1,012**	**256**	**893**	**944**	**1,006**
Interest Expense	94	361	392	421	87	349	363	396
Other Expenses	0	5	0	0	0	2	0	0
Taxes	62	203	203	213	61	195	209	220
Recurring Net Income	**111**	**338**	**360**	**378**	**108**	**348**	**372**	**391**
Diluted Wtd Avg shares outstanding	324	323	324	324	324	323	324	324
Recurring EPS - Diluted	**$0.34**	**$1.05**	**$1.11**	**$1.17**	**$0.33**	**$1.03**	**$1.15**	**$1.21**
Dividend per share	**$0.17**	**$0.65**	**$0.69**	**$0.73**	**$0.17**	**$0.65**	**$0.69**	**$0.73**
Operational Metrics								
Gas Distribution								
Total Volumes (MDth)	**245**	**947**	**966**	**986**	**246**	**951**	**975**	**999**
Total Customers	**3,414,826**	**3,414,826**	**3,435,361**	**3,504,586**	**3,393,490**	**3,393,490**	**3,461,871**	**3,531,629**
Electric Operations								
Residential	405,699	405,699	407,727	409,766	405,699	405,699	407,727	409,766
Commercial	55,163	55,163	55,439	55,716	55,163	55,163	55,439	55,716
Industrial	2,348	2,348	2,359	2,371	2,348	2,348	2,359	2,371
Other electric service	750	750	754	758	750	750	754	758
Total Heating customers (000s)	**463,960**	**463,960**	**466,280**	**468,611**	**463,960**	**463,960**	**466,280**	**468,611**
Sales (Gigawatt Hours)								
Residential	729	3,333	3,383	3,434	733	3,477	3,512	3,547
Commercial	940	3,870	3,908	3,947	940	3,895	3,934	3,973
Industrial	2,270	9,267	9,360	9,454	2,304	9,376	9,470	9,564
Wholesale and other	33	213	216	219	33	141	143	144
Total	**3,972**	**16,683**	**16,867**	**17,054**	**4,009**	**16,890**	**17,058**	**17,229**

Source: Company data, Credit Suisse estimates

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Companies Mentioned *(Price as of 01-Nov-2016)*
NiSource Inc. (NI.N, $22.34, UNDERPERFORM, TP $25.0)

Disclosure Appendix

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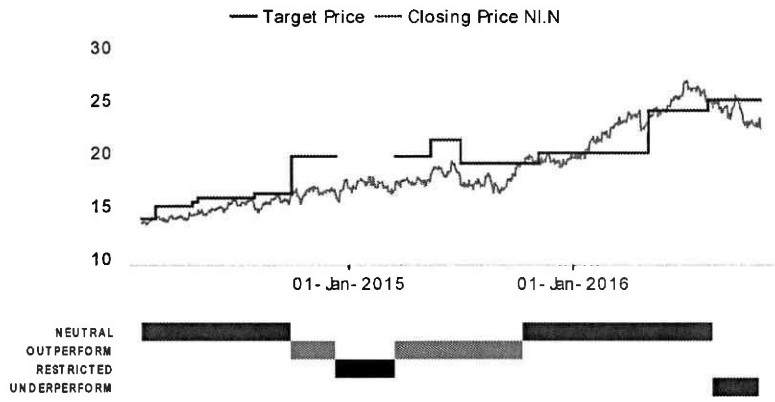
3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
01-Nov-13	12.46	12.97	N
28-Jan-14	13.43	13.75	
19-Feb-14	13.91	14.93	
21-Apr-14	14.03	15.33	
30-Apr-14	14.27	15.72	
31-Jul-14	14.81	16.11	
30-Sep-14	16.10	19.65	O
11-Dec-14	16.03		R
18-Mar-15	17.20	19.65	O
15-May-15	17.87	21.22	
02-Jul-15	16.99	19.00	
13-Oct-15	19.11	19.00	N
06-Nov-15	18.96	20.00	
03-May-16	23.11	24.00	
08-Aug-16	24.81	25.00	
19-Aug-16	24.62	25.00	U



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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

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Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

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Neutral/Hold*	39%	(60% banking clients)
Underperform/Sell*	15%	(56% banking clients)
Restricted	3%	

**For purposes of the NYSE and NASD 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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Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: Our $25 target price for NI is 22x our 2017 EPS forecast of $1.15. Our Underperform rating is based on expected total return prospects.

Risk: Risks to our $25 target price and Underperform rating for NI are regulatory risk and project execution.

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See the Companies Mentioned section for full company names
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1 November 2016

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November 1, 2016

COMPANY UPDATE / ESTIMATE CHANGE

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company reports flat third quarter results; reaffirms 2016 guidance and introduces 2017 earnings expectations

Key Metrics

NI - NYSE (Price as of 10/31/16)		$23.26
Price Target		NA
52-Week Range		$26.94 - $18.60
Shares Outstanding (mm)		322.3
Market Cap. ($mm)		$7,496
3-Mo. Average Daily Volume		2,847,000
Institutional Ownership		81.0%
Debt/Total Capital (9/30)		61.5%
ROE (ttm)		8.3%
Book Value/Share		$12.03
Price/Book Value		2.0x
Indicated Dividend / Yield	$0.66	2.8%
Dividend Cycle	Feb., May, Aug., Nov.	

EPS FY 12/31

	2015	Prior 2016E	Curr. 2016E	Prior 2017E	Curr. 2017E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$0.94		$1.08	$1.18	$1.17
P/E	24.7x		21.5x		19.7x
Payout	62%		61%		56%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2015	Prior 2016E	Curr. 2016E	Prior 2017E	Curr. 2017E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$3,023		$3,675	--	$3,775

Company Description: *Based in Merrillville, Ind., NiSource Inc. is one of the largest fully-regulated utility companies in the United States, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands.*

Investment Highlights

- **NiSource reported third quarter operating earnings of $0.06 per share, flat with 2015's third quarter and slightly below expectations.** The company's electric operations segment contributed earnings of $104.6 million versus $101.6 million in last year's third quarter. Earnings were helped by continued investments in electric transmission projects and environmental investments. Earnings from NiSource's gas distribution business were $5.1 million, a decrease of $16.5 million from the comparable period in 2015. Earnings were negatively impacted by higher operating expenses. We note that NiSource's earnings are seasonal because of its extensive natural gas exposure. As a result, the company typically generates the bulk of its earnings in its first and fourth quarters.
- **Management reaffirmed 2016 earnings guidance and introduced 2017 guidance.** NiSource continues to expect 2016 operating earnings to be in a range between $1.05 to $1.10 per share. We are maintaining our 2016 earnings estimate of $1.08 per share. In addition, NiSource introduced 2017 earnings guidance of a range between $1.12 to $1.18 per share. We are trimming our 2017 EPS estimate by $0.01 to $1.17 to reflect new guidance. NiSource plans $1.5 billion in utility infrastructure investments in 2017. Management believes a combination of capital investments and regulatory actions will enable NiSource to grow both its earnings and dividends by 4% to 6% annually.
- **We have a Neutral rating on NiSource due to valuation.** However, we continue to believe the company has a solid fundamental outlook. We feel it has an attractive mix of regulated gas and electric assets. In our view, NI's ongoing infrastructure investments will allow for consistent earnings and dividend growth.

Note Important Disclosures on Pages 2 and 3.
Note Analyst Certification on Page 2.

Suitability
We assign a 2 suitability rating to NiSource. This company generates 100% of its earnings from its regulated electric and natural gas utility businesses which provides consistency to financial results. Earnings and dividends are expected to trend steadily higher. Thus, we regard NiSource as a suitable holding for utility investors seeking total return.

Additional information is available upon request.

Analyst Certification

I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

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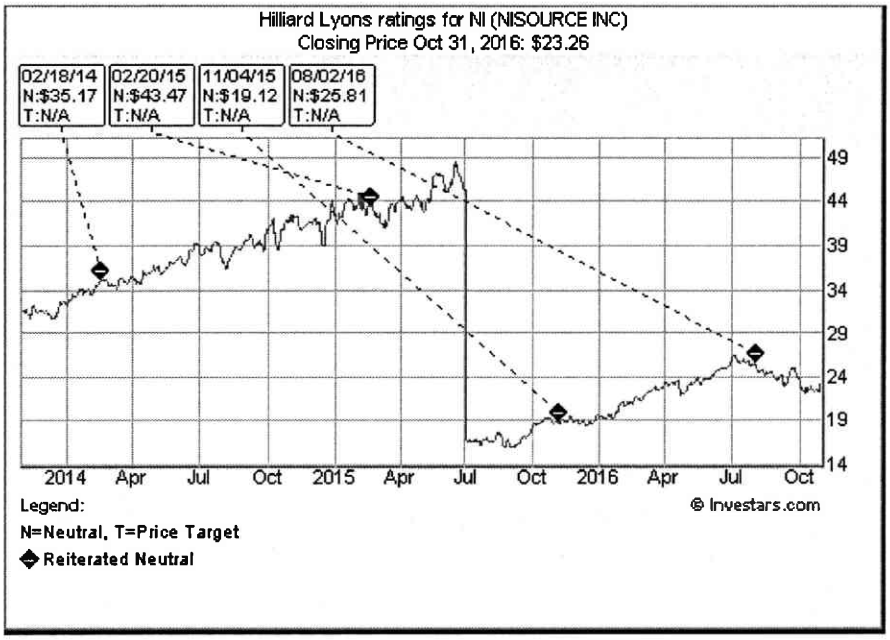
Investment Ratings
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings
1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	21%	79%
Hold/Neutral	71	58%	3%	97%
Sell	12	10%	0%	100%

As of 3 October 2016

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FLASH NOTE

Company Update

USA | Energy | Natural Gas

November 1, 2016

Jefferies

NiSource Inc. (NI)

Solid Quarter; 2017 Guidance Initiated

HOLD
Bloomberg NYSE: NI
Price target $23.00
Price $23.26^

^Prior trading day's closing price unless otherwise noted.

EQUITY RESEARCH AMERICAS

Key Takeaway

NI realized 3Q recurring diluted EPS of 6¢, broadly in-line with our 7¢ estimate & the Street's 7¢ mean forecast; EBITDA of $247mm was shy of our $267mm projection on gas distribution income that fell short of our estimate. With results, mgmt affirmed 2016 non-GAAP EPS guidance of $1.05-$1.10 and initiated respective 2017 non-GAAP EPS & Capex guidance of $1.12-$1.18 (vs. JEFe of $1.17) & $1.5B.

3Q16 operational & financial highlights. Gas Distribution posted 3Q16 operating income of ~$5.1mm, significantly below our $29.7mm forecast and the $21.6mm posted in 3Q15. Despite an $8.6mm increase in gross margin y/y, operating costs at the gas distribution segment were up substantially y/y reflecting higher employee and vendor costs and increased depreciation. Total Gas Distribution sales volumes increased ~2.6% y/y to 167.8 MMDth despite HDDs that were ~61% below normal for this period of the year and 23% below 3Q15. The electric operations (NIPSCO) reported 3Q16 operating income of $104.6mm, which was in-line with our ~$103.3mm est on sales & transportation volumes that were up 5.8% y/y. Gross margin in the Electric Distribution segment was up $19.1mm y/y, reflecting continued regulatory investments and recovery partially offset by rising employee and vendor costs.

Gas Distribution regulatory update. On 10/27, the PA PUC approved a joint settlement agreement regarding Columbia Gas of PA's (CPA) base rate case. The settlement increases CPA's annual revenues by $35mm with new rates effective in December. Columbia Gas of VA (CVA) began implementing interim base rates, subject to refund, on 9/28. CVA's rate case remains pending before the VA State Corporation Commission (SCC). If approved as requested, the case would increase CVA's annual rev by $37mm; the SCC is expected to rule on the case early next year. On 10/20, Columbia Gas of Kentucky (CKY) reached a settlement with all parties regarding its pending base rate case. The settlement, if approved by the Kentucky Public Service Commission, will increase CKY's annual rev by $13.4mm; the Commission is expected to rule on the settlement by YE16. On 10/29, the Maryland Public Service Commission (PSC) approved Columbia Gas of Maryland's (CMD) rate base settlement agreement. The settlement increases CMD's annual revenue by $3.7mm.

NIPSCO Electric Distribution update. On 10/1, new rates became effective under NIPSCO's electric base rate settlement, which was approved by the IURC on 7/18. The settlement increases NIPSCO's annual rev by $72.5mm. On 7/12, the IURC approved the settlement related to NIPSCO's 7-year infrastructure modernization program, which includes the recovery of $1.2B of investments through 2022; NIPSCO will begin recovering on $46mm of this total in Feb. 2017. Separately, mgmt noted that NIPSCO's two major electric transmission projects remain on track with expected in-service dates in 2H18 and, later today, NIPSCO is expected to submit its Integrated Resource Plan (IRP) to the IURC & file for approval to construct required environmental investments at its Michigan City & Schahfer generating facilities.

2016 guidance reaffirmed, dividend declared. Mgmt reiterated its 2016 EPS guidance range (non-GAAP) of $1.05-$1.10; this compares to JEFe of $1.08 & Street mean of $1.07. Separately, in Aug, NI declared a 3Q cash dividend of 16.5¢/share, in-line with expectations.

2017 guidance Initiated. Along with earnings, mgmt initiated a non-GAAP 2017 EPS guidance range of $1.12-$1.18 (vs. JEFe of $1.17), consistent with mgmt's previously articulated 4-6% EPS growth rate; mgmt also guided for $1.5B in infrastructure investments in 2017. Additionally, NI affirmed its commitment to 4-6% annual dividend increases.

Conference call info: Today @ 9AM EDT. Dial-in: 855.859.9570; Passcode: 96778447.

Please see the following page for a review of 3Q results.

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Exhibit 1: NI 3Q Results Review

Operating Income by Division	Actual 3Q16A	JEFe 3Q16E		Year-over-Year 3Q15A	
Gas Distribution	$5.1	$29.7	-82.8%	$21.6	-76.4%
Electric Operations	$104.6	$103.3	1.3%	$101.6	3.0%
Corporate, Other, and Eliminations	($3.0)	($6.0)	NA	($7.4)	59.5%
Total Operating Income	**$106.7**	**$127.1**	**-16.0%**	**$115.8**	**-7.9%**
Depreciation	($136.3)	($137.5)	-0.9%	($132.5)	2.9%
Other Income / (Expenses)	$3.5	$2.5	40.0%	$5.8	-39.7%
Interest Expense	($85.0)	($96.2)	-11.7%	($94.9)	-10.4%
Income Tax Benefit (Expense)	($5.9)	($12.2)	-51.7%	($8.6)	-31.3%
Recurring Net Income	**$19.3**	**$21.1**	**-8.5%**	**$18.1**	**6.5%**
Avg Diluted Shares Outstanding	323.9	323.3	0.2%	321.5	0.7%
Earnings Per Diluted Share	**$0.06**	**$0.07**	**-8.7%**	**$0.06**	**5.8%**
EBITDA ($MM)	**$247**	**$267**	**-7.7%**	**$254**	**-3.0%**
Capex & Affiliate Investments	**$411**	**$423**	**-2.9%**	**$365**	**12.7%**

Source: NI, Jefferies estimates

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Company Description

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4 million US customers. The Company operates through three segments: Gas Distribution, Columbia Pipeline Group, and Electric. The Gas Distribution operations provide natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. Columbia Pipeline Group offers gas transportation and storage services for Local distribution companies, marketers and industrial and commercial customers located in Northeastern, Mid-Atlantic, Midwestern and Southern states. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

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Investment Recommendation Record

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

Recommendation Published	, 08:27 ET. November 1, 2016
Recommendation Distributed	, 08:27 ET. November 1, 2016

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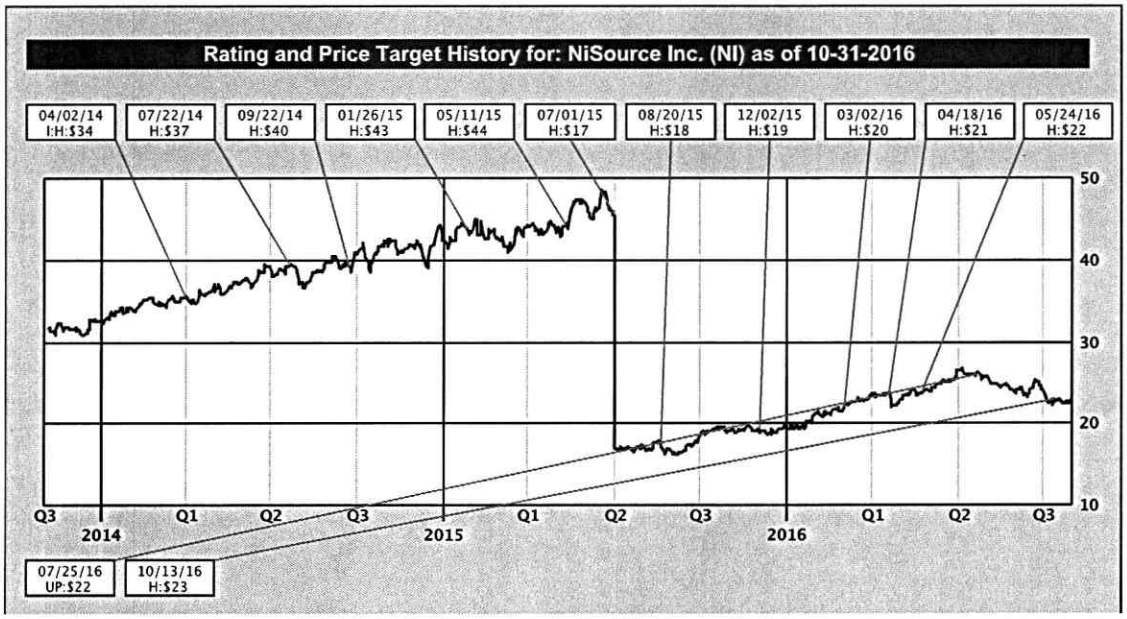

Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.

Legend:

I: Initiating Coverage

D: Dropped Coverage

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H: Hold

UP: Underperform

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BUY	1110	52.04%	324	29.19%
HOLD	860	40.32%	169	19.65%
UNDERPERFORM	163	7.64%	17	10.43%

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CASE:ROR:010
Attachment C
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J.P.Morgan

NiSource Inc.

2017 Outlook Meets Expectations; Maintain Neutral

Neutral

NI, NI US
Price: $22.34

▼ **Price Target: $24.00**
Previous: $26.00

NiSource missed our 3Q estimate in part on O&M inflation but introduced 2017 guidance with a midpoint at our $1.15/shr estimate. Despite achieving increased regulatory visibility this year for long-term investment in both electric and gas rate base in IN, no adjustment was made to the long-term 4-6% earnings and dividend growth target. We are largely maintaining our estimates, but note a continuation of the $1.5Bn in 2017 capex into 2018-19, higher gas customer growth, less equity needs or lower regulatory lag represent upside to our estimates, partly offset by electric load growth risk. We continue to see NI as modestly undervalued relative to LDC peers but do not see near-term catalysts and are maintaining our Neutral rating.

- **Higher O&M expenses lead to Q3'16 miss.** For the quarter, consolidated O&M expenses grew 8.4% YoY, which was partly offset by a lower than expected tax rate (23.4% vs. JPMe of 38.0%). The gas distribution segment's operating income lagged our estimate at $5M vs our forecasted $36M due to lower margin contribution and higher O&M costs.
- **2017 guidance issued in-line with expectations.** 2016 guidance was reaffirmed, and 2017 guidance of $1.12-$1.18 was introduced; in-line with JPMe of $1.15. 2017 CapEx of ~$1.5B in planned utility investments was also announced, consistent with 2016 in amount and recovery mechanism, a continuation of the largely tracker-recovered infrastructure replacement programs already in progress.
- **Long-term earnings and dividend growth of 4%-6% reiterated.** Management reiterated the long-term earnings and dividend growth range of 4%-6%, versus our forecasted EPS CAGR of 6% from 2016 to 2019. Our numbers include $300MM of equity issuances in both 2017 and 2018 to shore up credit metrics and assume minimal customer growth through the forecasting horizon. We model consistent dividend growth of 5% annually in 2017 and beyond, slightly below the 6.5% 2016 raise declared earlier this year.

Utilities and Power

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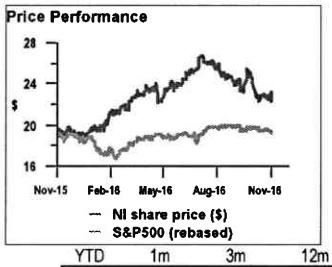

	YTD	1m	3m	12m
Abs	14.5%	-7.3%	-13.4%	16.5%
Rel	11.2%	-4.7%	-10.7%	16.1%

NiSource Inc. (NI;NI US)

FYE Dec	2015A	2016E (Prev)	2016E (Curr)	2017E (Prev)	2017E (Curr)	2018E (Prev)	2018E (Curr)	2019E (Prev)	2019E (Curr)
EPS ($)									
Q1 (Mar)	0.85	0.60A	0.60A	-	-	-	-	-	-
Q2 (Jun)	0.18	0.08A	0.08A	-	-	-	-	-	-
Q3 (Sep)	0.06	0.09	0.06A	-	-	-	-	-	-
Q4 (Dec)	0.31	-	0.33	-	-	-	-	-	-
FY	0.94	1.08	1.07	1.15	1.15	1.21	1.21	1.27	1.27

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	22.34
Date Of Price	01 Nov 16
52-week Range ($)	26.94-18.60
Market Cap ($ mn)	7,200.18
Fiscal Year End	Dec
Shares O/S (mn)	322
Price Target ($)	24.00
Price Target End Date	31-Dec-17

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Investment Thesis, Valuation and Risks

NiSource Inc. *(Neutral; Price Target: $24.00)*

Investment Thesis

We believe NiSource has top-tier investment potential relative to peers given its eight utilities in seven states and robust capital spending runway. We expect this capital to be deployed accretively given solid authorized ROEs, an efficient balance sheet with elevated leverage, and an array of low-lag regulatory constructs. For these reasons, as well as the 6-8%+ rate base growth potential, we expect NI to achieve the top end of its 4-6% long-term EPS growth guidance, but see this reflected in the current valuation.

Valuation

We are introducing our December 2017 price target of $24/share. Our price target is based on a sum-of-the-parts analysis and uses our 2019 electric and gas segment EPS forecasts. We value the gas segment using a 20.7x P/E multiple, a modest premium to gas utility peers due to the company's high rate base growth, large portfolio of utilities, and favorable rate constructs. We value the electric segment using a 18.0x P/E multiple, a premium to pure regulated electric utility peers due to the favorable rate construct in IN and near-term transmission-driven growth potential.

Risk to Rating and Price Target

- Regulated electric transmission and distribution earnings are vulnerable to mild weather as regulated revenues are calculated based on energy volumes sold. Extreme or mild temperatures may cause future earnings to differ materially from our current forecasts.
- 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. Positive or negative changes to the regulatory environments may cause future earnings potential to differ materially from current expectations.

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J.P.Morgan

NiSource Inc.: Summary of Financials

Income Statement - Annual	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	**6,456**	**4,667**	**4,232**	**4,050**	**4,142**
COGS	(2,224)	(1,644)	(1,168)	(872)	(872)
Gross profit	**4,232**	**3,024**	**3,065**	**3,178**	**3,270**
SG&A	(2,437)	(1,667)	**(1,622)**	**(1,661)**	**(1,680)**
Adj. EBITDA	**1,898**	**1,374**	**1,441**	**1,516**	**1,590**
D&A	(606)	(524)	(546)	(555)	(577)
Adj. EBIT	**1,293**	**850**	**895**	**961**	**1,013**
Net Interest	(444)	(380)	(346)	(349)	(345)
Adj. PBT	**849**	**469**	**549**	**612**	**668**
Tax	(307)	(171)	(206)	(233)	(254)
Minority Interest	0	0	0	0	0
Adj. Net Income	**543**	**299**	**343**	**379**	**414**
Reported EPS	1.72	0.94	1.07	1.15	1.21
Adj. EPS	**1.72**	**0.94**	**1.07**	**1.15**	**1.21**
DPS	**1.02**	**0.83**	**0.64**	**0.68**	**0.71**
Payout ratio	59.2%	88.3%	60.1%	58.7%	58.6%
Shares outstanding	316	320	323	336	347

Income Statement - Quarterly	1Q16A	2Q16A	3Q16A	4Q16E
Revenue	**1,454A**	**893A**	**854A**	**1,032**
COGS	(497)A	(235)A	(218)A	(218)
Gross profit	**957A**	**658A**	**636A**	**814**
SG&A	(425)A	(387)A	(393)A	(417)
Adj. EBITDA	**533A**	**265A**	**247A**	**397**
D&A	(133)A	(137)A	(136)A	(140)
Adj. EBIT	**400A**	**128A**	**110A**	**257**
Net Interest	(91)A	(86)A	(85)A	(85)
Adj. PBT	**310A**	**42A**	**25A**	**172**
Tax	(119)A	(16)A	(6)A	(65)
Minority Interest	0A	0A	0A	0
Adj. Net Income	**191A**	**26A**	**19A**	**106**
Reported EPS	0.60A	0.08A	0.06A	0.33
Adj. EPS	**0.60A**	**0.08A**	**0.06A**	**0.33**
DPS	**0.16A**	**0.16A**	**0.17A**	**0.17**
Payout ratio	26.0%A	189.6%A	275.5%A	50.1%
Shares outstanding	322A	322A	323A	323

Balance Sheet & Cash Flow Statement	FY14A	FY15A	FY16E	FY17E	FY18E
Cash and cash equivalents	25	16	0	0	0
Accounts receivable	1,070	660	471	471	471
Other current assets	1,371	902	932	1,081	1,217
Current assets	**2,467**	**1,577**	**1,403**	**1,552**	**1,688**
PP&E	16,017	12,112	13,121	14,068	14,868
Other non current assets	6,383	3,804	3,835	3,835	3,835
Total assets	**24,866**	**17,493**	**18,359**	**19,455**	**20,391**
Short term borrowings	1,577	567	1,310	1,648	2,026
Payables	671	433	352	352	352
Other short term liabilities	1,707	1,657	987	752	478
Current liabilities	**3,955**	**2,658**	**2,650**	**2,752**	**2,856**
Long-term debt	8,156	5,949	6,519	6,824	6,932
Other long term liabilities	6,580	5,043	5,313	5,546	5,799
Total liabilities	**18,691**	**13,649**	**14,482**	**15,122**	**15,588**
Shareholders' equity	6,175	3,844	3,877	4,333	4,803
Minority interests	-	-	-	-	-
Total liabilities & equity	**24,866**	**17,493**	**18,359**	**19,455**	**20,391**
BVPS	**19.54**	**12.02**	**11.99**	**12.91**	**13.83**
y/y Growth	-	*(38.5%)*	*(0.2%)*	*7.7%*	*7.1%*
Net debt/(cash)	9,707	6,500	7,829	8,473	8,959
Cash flow from operating activities	**1,321**	**1,457**	**804**	**1,018**	**1,108**
o/w Depreciation & amortization	606	524	546	555	577
o/w Changes in working capital	(140)	147	(319)	(149)	(136)
Cash flow from investing activities	**(2,117)**	**1,945**	**(1,575)**	**(1,502)**	**(1,377)**
o/w Capital expenditure	(2,029)	(1,361)	(1,491)	(1,502)	(1,377)
as % of sales	*31.4%*	*29.2%*	*35.2%*	*37.1%*	*33.2%*
Cash flow from financing activities	**796**	**(3,412)**	**506**	**146**	**(110)**
o/w Dividends paid	(321)	(263)	(206)	(224)	(244)
o/w Net debt issued/(repaid)	1,106	(3,029)	691	70	(166)
Net change in cash	**0**	**(10)**	**(266)**	**(338)**	**(378)**
Free cashflow to firm	**(424)**	**338**	**(470)**	**(267)**	**(55)**
y/y Growth	*141.7%*	*(179.7%)*	*(239.1%)*	*(43.2%)*	*(79.6%)*

Ratio Analysis	FY14A	FY15A	FY16E	FY17E	FY18E
Gross margin	65.5%	64.8%	72.4%	78.5%	78.9%
EBITDA margin	29.4%	29.4%	34.0%	37.4%	38.4%
EBIT margin	20.0%	18.2%	21.1%	23.7%	24.5%
Net profit margin	8.4%	6.4%	8.1%	9.4%	10.0%
ROE	17.6%	6.0%	8.9%	9.2%	9.1%
ROA	2.3%	1.4%	1.9%	2.0%	2.1%
ROCE	6.8%	4.1%	5.1%	4.9%	4.7%
SG&A/Sales	37.8%	35.7%	38.3%	41.0%	40.6%
Net debt/equity	157.2%	169.1%	201.9%	195.5%	186.5%
P/E (x)	13.0	23.8	21.0	19.4	18.4
P/BV (x)	1.1	1.9	1.9	1.7	1.6
EV/EBITDA (x)	8.0	9.2	9.5	9.4	9.3
Dividend Yield	4.6%	3.7%	2.9%	3.0%	3.2%
Sales/Assets (x)	0.3	0.2	0.2	0.2	0.2
Interest cover (x)	4.3	3.6	4.2	4.3	4.6
Operating leverage	5.2%	123.7%	(57.4%)	(171.6%)	237.6%
Revenue y/y Growth	278.6%	(27.7%)	(9.3%)	(4.3%)	2.3%
EBITDA y/y Growth	11.3%	(27.6%)	4.9%	5.2%	4.8%
Tax rate	36.1%	36.3%	37.5%	38.0%	38.0%
Adj. Net Income y/y Growth	14.0%	(44.9%)	14.8%	10.7%	9.1%
EPS y/y Growth	-	(45.4%)	13.3%	8.1%	5.3%
DPS y/y Growth	-	(18.6%)	(22.9%)	5.7%	5.0%

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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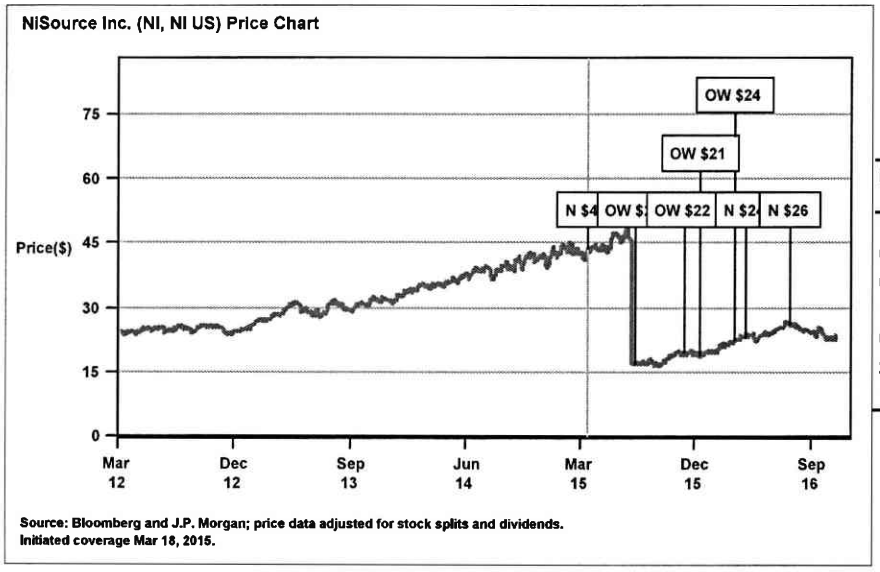

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Mar 18, 2015.

Date	Rating	Share Price ($)	Price Target ($)
18-Mar-15	N	43.77	46.00
09-Jul-15	OW	16.75	20.00
04-Nov-15	OW	19.56	22.00
14-Dec-15	OW	18.84	21.00
04-Mar-16	OW	22.34	24.00
29-Mar-16	N	23.17	24.00
13-Jul-16	N	26.01	26.00

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J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

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J.P. Morgan Equity Research Ratings Distribution, as of October 03, 2016

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	42%	46%	12%
IB clients*	51%	48%	34%
JPMS Equity Research Coverage	42%	50%	8%
IB clients*	68%	61%	43%

*Percentage of investment banking clients in each rating category.
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KeyBanc Capital Markets

Alert

November 1, 2016

Energy: Multi-Utilities

NYSE: NI

NiSource Inc.

NI - ALERT: 3Q16 Earnings Results and Guidance in Line with Views

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Key Investment Points

October 31, 2016 Close: $23.26
3Q16 Ongoing EPS: $0.06 vs. $0.06 results in 3Q15/Consensus of $0.07/KBCM of $0.06. NI uses weather-normalized results as the basis of its adjusted results. Non-GAAP 3Q16 EPS of $0.06 excludes $0.02 of weather benefit.
Initial Take: We expect a neutral response to in line results and new 2017 guidance aligned with views. We believe the 2017 capex forecast of $1.5 billion will be well received as it supports continued strong growth.
2016 EPS Estimate: $1.05 (Consensus: $1.07).
2017 EPS Estimate: $1.13 (Consensus: $1.15).

Guidance: NiSource Inc. reaffirmed 2016 guidance of $1.05-$1.10. 2017 guidance was initiated at $1.12-$1.18 per share. NI reaffirmed 4-6% annual EPS and dividend growth.

Highlights:

- Results were essentially in line with expectations.
- NiSource Gas Distribution operating earnings were $5.1 million vs. $21.6 million. Net revenues rose $8.6 million, excluding trackers, driven by regulatory and service programs including new rates in PA, MA, and OH, which added $8.8 million. Expenses, net of trackers rose $25.1 million due to employee costs, outside service costs and higher depreciation. Gas volumes rose 2.6%. Weather normalized sales rose 2.5% on 1% customer growth.
- Electric segment operating earnings were $104.6 million vs. $101.6 million. Revenues excluding trackers rose $13.5 million and operating expenses excluding trackers rose $16.1 million due to higher outside service costs and employee costs, partly offset by lower D&A and reduced amortization of regulatory assets. Retail sales volumes rose 4.4%. Weather normalized sales rose 0.6% on 0.6% customer growth.
- Corporate reported a loss of $3.0 million vs. a loss of $7.4 million due to unrealized gains on the cash surrender value of corporate owned life insurance investments.
- Interest expense fell $9.9 million from maturities of LT debt.

9:00 a.m. ET Conference Call #: 855-219-9570; Passcode: 96778447

We will be focused on:

- Drivers of lower other taxes
- Expense timing
- Electricity demand trends
- Steel customer trends

Disclosure Appendix

NiSource Inc. - NI

We have managed or co-managed a public offering of securities for NiSource Inc. within the past 12 months.

NiSource Inc. is an investment banking client of ours.

We have received compensation for investment banking services from NiSource Inc. during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from NiSource Inc. within the next three months.

During the past 12 months, NiSource Inc. has been a client of the firm or its affiliates for non-securities related services.

As of the date of this report, we make a market in NiSource Inc..

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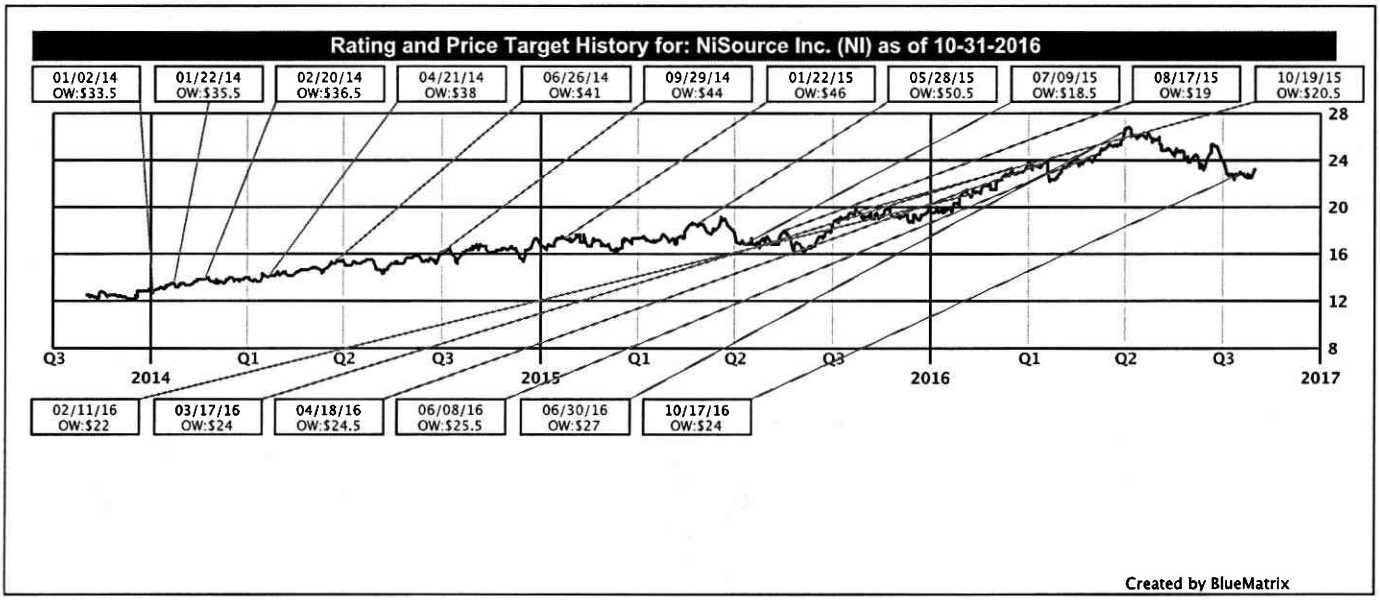

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Sector Weight [SW]	411	57.97	52	12.65	Sector Weight [SW]	51	57.95	18	35.29
Underweight [UW]	9	1.27	0	0.00	Underweight [UW]	0	0.00	0	0.00

Disclosure Appendix (cont'd)

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

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Note: KeyBanc Capital Markets changed its rating system after market close on February 27, 2015. The previous ratings were Buy, Hold and Underweight. Additionally, Pacific Crest Securities changed its rating system to match KeyBanc Capital Markets' rating system after market close on April 10, 2015, in conjunction with the merger of the broker dealers. The previous ratings were Outperform, Sector Perform and Underperform.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
23.26 USD	21.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

NiSource Initiates 2017 Guidance Range Slightly Higher Than Expected

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Equity Analyst
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Analyst Note 01 Nov 2016

We are reaffirming our narrow moat and stable moat trend ratings, along with our $21 fair value estimate, after NiSource reported third-quarter operating earnings that were flat against last year and initiated a 2017 guidance range with a midpoint slightly higher than our estimate. Operating earnings for the recently ended quarter were $0.06 per share, the same as last year. The summer quarter is typically weak, as most of the company's earnings are from natural gas distribution.

Management initiated a 2017 earnings guidance range of $1.12-$1.18 per share, which places our $1.13 estimate at the lower end of its guidance. We will review our estimate as we incorporate management's new disclosures but don't expect a significant change in our estimate. Capital expenditures for next year are forecast to be $1.5 billion, a shade higher than our estimate of $1.45 billion. NiSource reiterated that 80% of these expenditures are for growth investments with automatic rate trackers. In our opinion, rate trackers are critical to a utility's ability to earn near its allowed return and consistently above its cost of capital.

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Research as of 01 Nov 2016
Estimates as of 27 Sep 2016
Pricing data through 31 Oct 2016
Rating updated as of 31 Oct 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Vital Statistics

Market Cap (USD Mil)	7,494
52-Week High (USD)	26.94
52-Week Low (USD)	18.60
52-Week Total Return %	24.7
YTD Total Return %	22.5
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	7.1
5-Yr Forward EPS CAGR %	7.4
Price/Fair Value	1.11

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	2016(E)	2017(E)
Price/Earnings	9.9	21.0	*21.9*	*20.6*
EV/EBITDA	12.6	9.7	*10.0*	*9.3*
EV/EBIT	18.8	16.1	*16.3*	*15.3*
Free Cash Flow Yield %	-5.3	-3.2	*-3.2*	*-0.5*
Dividend Yield %	2.4	4.2	*2.7*	*2.9*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	2016(E)	2017(E)
Revenue	6,471	4,652	*5,399*	*5,659*
Revenue YoY %	14.4	-28.1	*16.1*	*4.8*
EBIT	1,231	802	*902*	*967*
EBIT YoY %	9.3	-34.9	*12.6*	*7.2*
Net Income, Adjusted	534	299	*339*	*364*
Net Income YoY %	8.1	-44.0	*13.6*	*7.4*
Diluted EPS	1.69	0.93	*1.06*	*1.13*
Diluted EPS YoY %	7.0	-44.6	*13.1*	*7.3*
Free Cash Flow	-602	3,741	*-245*	*147*
Free Cash Flow YoY %	58.7	-721.3	*-106.6*	*-159.9*

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 3.4 million customers in Indiana, Kentucky, Maryland, Massachusetts, 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 MW of generation capacity, most of which is coal-fired.

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NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
23.26 USD	21.00 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	2013	2014	2015	Forecast 2016	Forecast 2017	5-Year Proj. CAGR
Revenue	*-2.8*	11.8	14.4	-28.1	*16.1*	*4.8*	*7.1*
EBIT	*-8.3*	8.4	9.3	-34.9	*12.6*	*7.2*	*8.7*
EBITDA	*-6.1*	6.4	7.8	-27.8	*11.6*	*6.8*	*7.9*
Net Income	*-11.9*	13.0	8.1	-44.0	*13.6*	*7.4*	*8.1*
Diluted EPS	*-13.7*	8.3	7.0	-44.6	*13.1*	*7.3*	*7.4*
Earnings Before Interest, after Tax	*-12.6*	-1.0	3.6	-35.0	*5.1*	*37.7*	*6.7*
Free Cash Flow	*275.6*	-637.2	58.7	-721.3	*-106.6*	*-159.9*	*-68.3*

Profitability	3-Year Hist. Avg	2013	2014	2015	Forecast 2016	Forecast 2017	5-Year Proj. Avg
Operating Margin %	*18.7*	19.9	19.0	17.2	*16.7*	*17.1*	*17.5*
EBITDA Margin %	*29.0*	30.1	28.4	28.5	*27.4*	*27.9*	*28.5*
Net Margin %	*7.8*	8.7	8.3	6.4	*6.3*	*6.4*	*6.6*
Free Cash Flow Margin %	*21.5*	-6.7	-9.3	80.4	*-4.6*	*2.6*	*0.7*
ROIC %	*5.9*	5.5	7.1	4.9	*4.9*	*6.4*	*5.8*
Adjusted ROIC %	*7.1*	6.9	8.7	5.7	*5.5*	*7.3*	*6.5*
Return on Assets %	*2.0*	2.4	2.2	1.4	*1.9*	*1.9*	*2.0*
Return on Equity %	*7.9*	9.3	8.8	5.7	*8.7*	*9.0*	*9.3*

Leverage	3-Year Hist. Avg	2013	2014	2015	Forecast 2016	Forecast 2017	5-Year Proj. Avg
Debt/Capital	*0.62*	0.60	0.62	0.64	*0.66*	*0.66*	*0.66*
Total Debt/EBITDA	*5.29*	5.19	5.45	5.24	*5.14*	*5.03*	*4.92*
EBITDA/Interest Expense	*3.91*	4.11	4.14	3.49	*4.07*	*4.07*	*4.06*

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	1.33	1.08	—	—
Price/Earnings	9.9	21.0	*21.9*	*20.6*
EV/EBITDA	12.6	9.7	*10.0*	*9.3*
EV/EBIT	18.8	16.1	*16.3*	*15.3*
Free Cash Flow Yield %	-5.3	-3.2	*-3.2*	*-0.5*
Dividend Yield %	2.4	4.2	*2.7*	*2.9*

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	5.6
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	4.0
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	164	1.2	0.51
Present Value Stage II	1,889	13.9	5.88
Present Value Stage III	11,506	84.9	35.79
Total Firm Value	**13,559**	**100.0**	**42.18**
Cash and Equivalents	50	—	0.15
Debt	-6,950	—	-21.62
Preferred Stock	—	—	—
Other Adjustments	5	—	0.02
Equity Value	**6,664**	**—**	**20.73**
Projected Diluted Shares	321		
Fair Value per Share (USD)	—		

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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Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2013	2014	2015	Forecast 2016	Forecast 2017
Revenue	**5,657**	**6,471**	**4,652**	***5,399***	***5,659***
Cost of Goods Sold	1,816	2,224	1,644	*2,203*	*2,310*
Gross Profit	**3,842**	**4,246**	**3,008**	***3,196***	***3,349***
Selling, General & Administrative Expenses	1,874	2,136	1,426	*1,467*	*1,511*
Other Operating Expense (Income)	301	320	256	*250*	*258*
Other Operating Expense (Income)	-36	-47	—	*10*	*10*
Depreciation & Amortization (if reported separately)	577	606	524	*566*	*602*
Operating Income (ex charges)	**1,126**	**1,231**	**802**	***902***	***967***
Restructuring & Other Cash Charges	-18	-32	2	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**1,143**	**1,262**	**800**	***902***	***967***
Interest Expense	415	444	380	*364*	*389*
Interest Income	24	22	-80	—	—
Pre-Tax Income	**753**	**841**	**340**	***539***	***578***
Income Tax Expense	262	310	141	*199*	*214*
Other After-Tax Cash Gains (Losses)	6	-1	104	—	—
Other After-Tax Non-Cash Gains (Losses)	35	—	—	—	—
(Minority Interest)	—	—	-16	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**532**	**530**	**287**	***339***	***364***
Weighted Average Diluted Shares Outstanding	314	317	320	*321*	*321*
Diluted Earnings Per Share	**1.70**	**1.67**	**0.90**	***1.06***	***1.13***
Adjusted Net Income	494	534	299	*339*	*364*
Diluted Earnings Per Share (Adjusted)	**1.58**	**1.69**	**0.93**	***1.06***	***1.13***
Dividends Per Common Share	0.98	1.02	0.83	*0.64*	*0.68*
EBITDA	**1,721**	**1,868**	**1,324**	***1,480***	***1,580***
Adjusted EBITDA	**1,703**	**1,836**	**1,326**	***1,480***	***1,580***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2013	2014	2015	Forecast 2016	Forecast 2017
Cash and Equivalents	35	50	45	*15*	*49*
Investments	—	—	—	—	—
Accounts Receivable	1,006	921	660	*740*	*775*
Inventory	500	586	537	*604*	*633*
Deferred Tax Assets (Current)	—	214	—	—	—
Other Short Term Assets	618	696	335	*350*	*375*
Current Assets	**2,159**	**2,467**	**1,577**	***1,708***	***1,832***
Net Property Plant, and Equipment	14,365	11,057	12,112	*12,937*	*13,786*
Goodwill	3,666	1,691	1,691	*1,691*	*1,691*
Other Intangibles	276	265	254	*243*	*232*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,522	1,545	1,600	*1,797*	*1,822*
Long-Term Non-Operating Assets	666	7,843	260	*260*	*260*
Total Assets	**22,654**	**24,866**	**17,493**	***18,635***	***19,623***
Accounts Payable	619	610	433	*581*	*609*
Short-Term Debt	1,241	1,844	1,001	*1,000*	*1,000*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,319	1,511	1,223	*1,300*	*1,400*
Current Liabilities	**3,178**	**3,964**	**2,658**	***2,881***	***3,009***
Long-Term Debt	7,593	8,156	5,949	*6,600*	*6,950*
Deferred Tax Liabilities (Long-Term)	3,278	2,380	2,365	*2,500*	*2,863*
Other Long-Term Operating Liabilities	1,687	2,996	1,350	*1,350*	*1,350*
Long-Term Non-Operating Liabilities	1,031	1,195	1,327	*1,327*	*1,327*
Total Liabilities	**16,767**	**18,691**	**13,649**	***14,658***	***15,499***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,690	4,788	5,078	*5,083*	*5,088*
Retained Earnings (Deficit)	1,286	1,494	-1,123	*-990*	*-843*
(Treasury Stock)	-49	-59	-79	*-79*	*-79*
Other Equity	-44	-51	-35	*-41*	*-46*
Shareholder's Equity	**5,887**	**6,175**	**3,844**	***3,976***	***4,123***
Minority Interest	—	—	—	—	—
Total Equity	**5,887**	**6,175**	**3,844**	***3,976***	***4,123***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2013	2014	2015	Forecast 2016	Forecast 2017
Net Income	532	530	302	*339*	*364*
Depreciation	577	606	524	*566*	*602*
Amortization	—	—	—	*11*	*11*
Stock-Based Compensation	51	72	51	*37*	*38*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	287	299	135	*135*	*363*
Other Non-Cash Adjustments	-65	-50	-11	—	—
(Increase) Decrease in Accounts Receivable	-95	-63	262	*-80*	*-36*
(Increase) Decrease in Inventory	-9	-120	47	*-67*	*-29*
Change in Other Short-Term Assets	81	9	43	*-15*	*-25*
Increase (Decrease) in Accounts Payable	68	38	-191	*147*	*28*
Change in Other Short-Term Liabilities	—	—	—	*77*	*100*
Cash From Operations	**1,427**	**1,321**	**1,163**	***1,151***	***1,417***
(Capital Expenditures)	-1,880	-2,029	-1,361	*-1,392*	*-1,452*
Net (Acquisitions), Asset Sales, and Disposals	18	13	5	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-148	-101	3,731	*-198*	*-25*
Cash From Investing	**-2,010**	**-2,117**	**2,375**	***-1,589***	***-1,477***
Common Stock Issuance (or Repurchase)	36	20	2	*5*	*5*
Common Stock (Dividends)	-306	-321	-263	*-206*	*-217*
Short-Term Debt Issuance (or Retirement)	-78	878	-936	*-1*	—
Long-Term Debt Issuance (or Retirement)	794	219	-2,186	*652*	*350*
Other Financing Cash Flows	—	—	-137	*-37*	*-38*
Cash From Financing	**445**	**796**	**-3,520**	***413***	***100***
Exchange Rates, Discontinued Ops, etc. (net)	129	-1	-28	*-6*	*-5*
Net Change in Cash	**-10**	**-1**	**-10**	***-31***	***35***

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Research Methodology for Valuing Companies

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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. 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 short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar, Inc. and its affiliates ("Morningstar", "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 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.

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 (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 pres-

Morningstar Research Methodology for Valuing Companies

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Research Methodology for Valuing Companies

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ent 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 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, 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.

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:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

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 detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

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 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:

Five Stars ★★★★★

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.

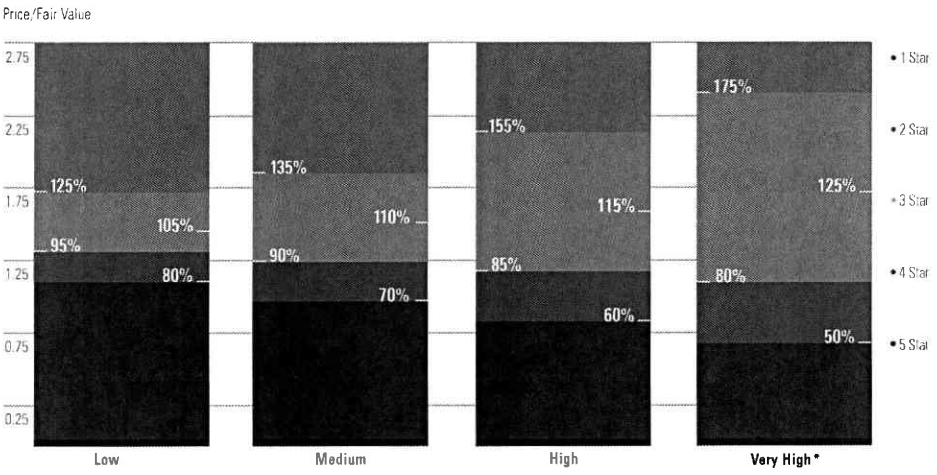
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



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Research Methodology for Valuing Companies

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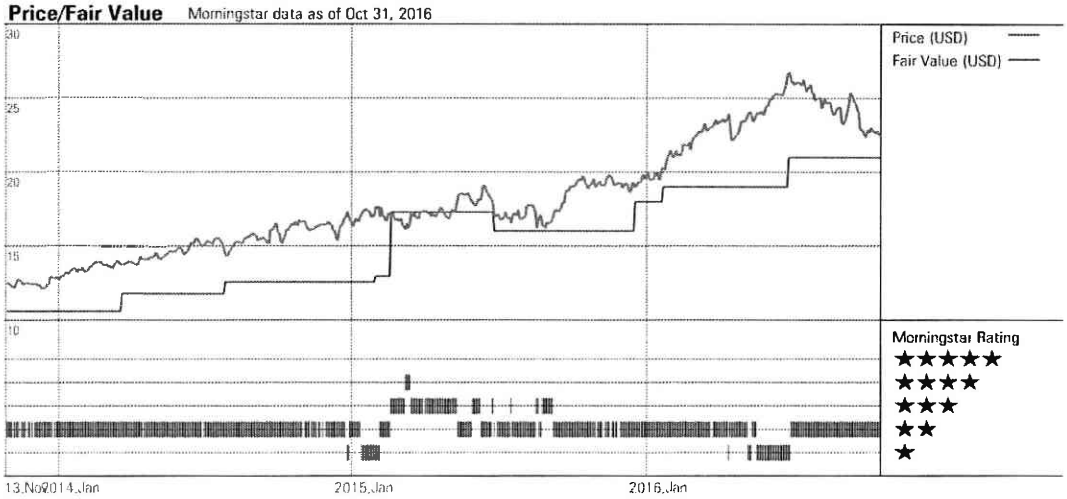
NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
23.26 USD	21.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Price/Fair Value Morningstar data as of Oct 31, 2016



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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Weight
Integrateds – Market Weight
IPPs – Market Underweight

November 1, 2016

NISOURCE

(NI US Equity – $22.34 – Outperform)

Unlike the Colts, NiSource will perform

- **NI had a solid quarter and is still a premium LDC story**
  NI had a solid quarter in line with consensus and reaffirmed 2016 EPS guidance of $1.05-1.10. We believe execution on the capital plan should remain the main priority, and we continue to see potential for higher growth over time as investment plans and customer growth initiatives are further developed. Given the steady execution, visible multi-decade backlog of $30B rate base investment supported by trackers, strong earnings and dividend growth potential, and potential upside to numbers, NI remains a high quality name. Reiterate Outperform.

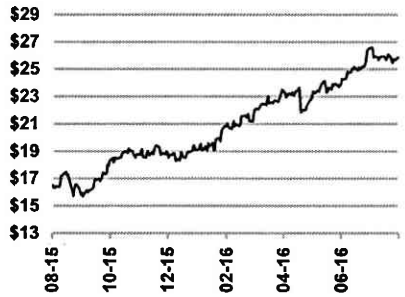
- **Initiate 2017 guidance and 2017 capex plan; in line with expectations**
  Management initiated 2017 guidance $1.12-1.18, which is in line with our estimate $1.14 and consensus $1.15. The midpoint is on the higher end of their 4-6% LT growth rate based off the 2016 guidance midpoint. They also announced their 2017 capex plan of $1.5B, which is the same as the plan for 2016. We believe further capex optimization and efforts to boost LDC customer growth could represent incremental upside, though it is early in the process. NI significantly underperformed the UTY by 220bps today possibly due to profit-taking or NI reiterating rather than raising their 4-6% growth target.

- **Q3 in line; estimates unchanged, lowering PT to $24 on lower multiple**
  NI reported Q3 operating EPS of $0.06 vs. $0.06 last year, in line with our $0.06E and $0.07 consensus. The quarter was higher on rate relief, new investments on electric transmission projects and environmental assessments, and trackers, which were offset by employee, administrative, and outside service costs. We are maintaining our EPS estimates but are lowering our target price to $24 from $26 based on lower gas LDC multiples.

Estimates / Valuation				
(US$)	2016E	2017E	2018E	2019E
EPS	$1.08	$1.14	$1.21	$1.28
Consensus	$1.07	$1.15	$1.22	$1.26
P/E	21.0x	19.9x	18.8x	17.8x
Dividend Per Share	$0.65	$0.68	$0.72	$0.75
Dividend Yield	2.9%	3.0%	3.2%	3.3%

Trading and Fundamental Data	
Target Price	**$24**
Current Price	22.34
52-Week Range	$19-$27
Market Cap. (MM)	$7,200
Shares Out. (MM)	322.2
Dividend Yield	2.78%
Dividend Payout Ratio	59.6%
ROE	4%
Debt to Cap	64.4%
Avg. Daily Vol. (000)	2,478

Price Performance	YTD	LTM
NI US Equity	15%	17%
Utility Index	13%	12%
S&P 500	3%	2%



Source: FactSet/Wolfe Research

Key Changes		
Year	New	Old
Target Price	$24	$26

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WOLFE RESEARCH

November 1, 2016

NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2016E	2017E	2018E	2019E
EPS	$1.08	$1.14	$1.21	$1.28
Diluted Shares Outstanding	319	320	321	322
Dividends Per Share	$0.65	$0.68	$0.72	$0.75
Dividend Yield	2.9%	3.0%	3.2%	3.3%
Dividend Payout Ratio	60%	60%	59%	59%
Equity Ratio	32%	32%	32%	33%
FFO/Net Debt	17%	16%	17%	17%
Valuation Metrics				
P/E	21.0x	19.9x	18.8x	17.8x
Price/Book	2.3x	2.2x	2.0x	1.9x
Segment EPS				
Gas Distribution	$0.93	$1.00	$1.05	$1.09
Electric	0.47	0.50	0.52	0.54
Parent & Other	(0.32)	(0.35)	(0.36)	(0.34)
Total EPS	**$1.08**	**$1.14**	**$1.21**	**$1.28**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2016E	2017E	2018E	2019E
Total Capital Spending by Segment ($M)				
Gas Distribution	$760	$730	$730	$730
Electric	593	593	593	593
Parent	50	50	50	50
Total Capex	**$1,403**	**$1,373**	**$1,373**	**$1,373**
Financings ($M)				
Total Equity Issued/(Repurchased)	$45	$45	$45	$45
Total Debt Issued/(Repurchased)	$681	$605	$170	$85

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 3.4 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, and Massachusetts.

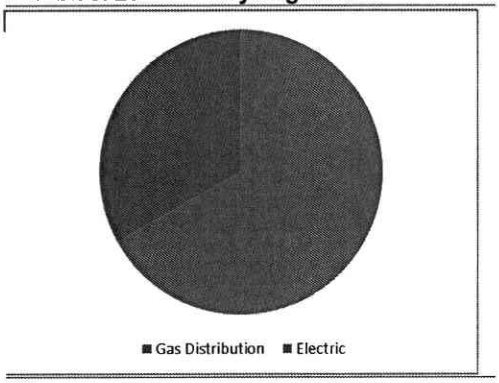
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of investment with recovery largely through trackers and balanced regulatory environments. Additionally, we see the gas business getting larger over time. NI appears attractive at current levels.

Valuation

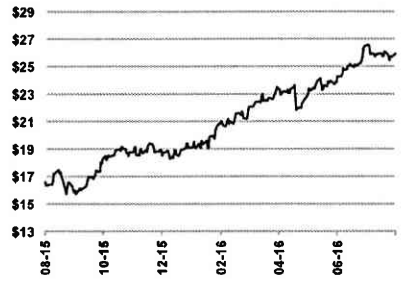
Our $24 price target is on a target P/E valuation. We apply a 19.5x multiple to 2018E earnings, in line with higher quality gas LDCs. Downside risks for NiSource are execution on rate base investment, economic conditions and regulatory outcomes. Upside risks are additional growth projects and customer growth initiatives.

Exhibit 3. 2017 EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: Bloomberg

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November 1, 2016

Exhibit 5: LDC gas comparables

Company Name	Ticker	Current Price	Mkt Cap ($M)	P/E Multiple 2016E	2017E	2018E	2019E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Atmos Energy Corp	ATO	71.95	7,472	21.7	20.4	19.2	17.6	2.3%	6.2%	55%	2.2	52%
Southwest Gas Corp	SWX	71.25	3,383	22.6	20.7	19.5	19.4	2.5%	4.5%	61%	2.1	50%
WGL Holdings Inc	WGL	60.87	3,108	19.2	18.7	16.6	14.3	3.2%	7.8%	64%	2.2	49%
One Gas	OGS	58.99	3,082	22.4	21.3	20.3	19.1	2.4%	5.5%	63%	1.6	60%
Piedmont Natural Gas Co Inc	PNY	60.02	4,987	31.2	28.2	25.3	NA	2.3%	9.9%	73%	3.2	43%
NiSource	NI	22.34	7,210	20.6	19.5	18.5	17.5	3.0%	5.0%	71%	1.9	36%
New Jersey Resources Corp	NJR	32.95	2,839	20.7	18.7	17.6	15.8	3.1%	5.2%	58%	2.4	55%
Northwest Natural Gas Co	NWN	57.30	1,579	25.9	24.6	23.2	22.5	3.3%	4.5%	85%	2.0	47%
UGI Corp	UGI	45.04	7,803	21.7	19.3	19.1	17.9	2.1%	4.0%	49%	2.6	48%
Spire Inc	SR	61.70	2,816	18.1	17.3	16.8	15.9	3.2%	4.7%	61%	1.6	42%
Vectren Corp	VVC	49.08	4,066	19.9	18.5	17.4	15.9	3.3%	5.0%	69%	2.4	48%
Average (ex-M&A targets)				**21.4x**	**19.9x**	**18.9x**	**17.6x**	**2.8%**	**5.7%**	**64%**	**2.2x**	**48%**

Source: Wolfe Research, Bloomberg consensus

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WOLFE RESEARCH

November 1, 2016

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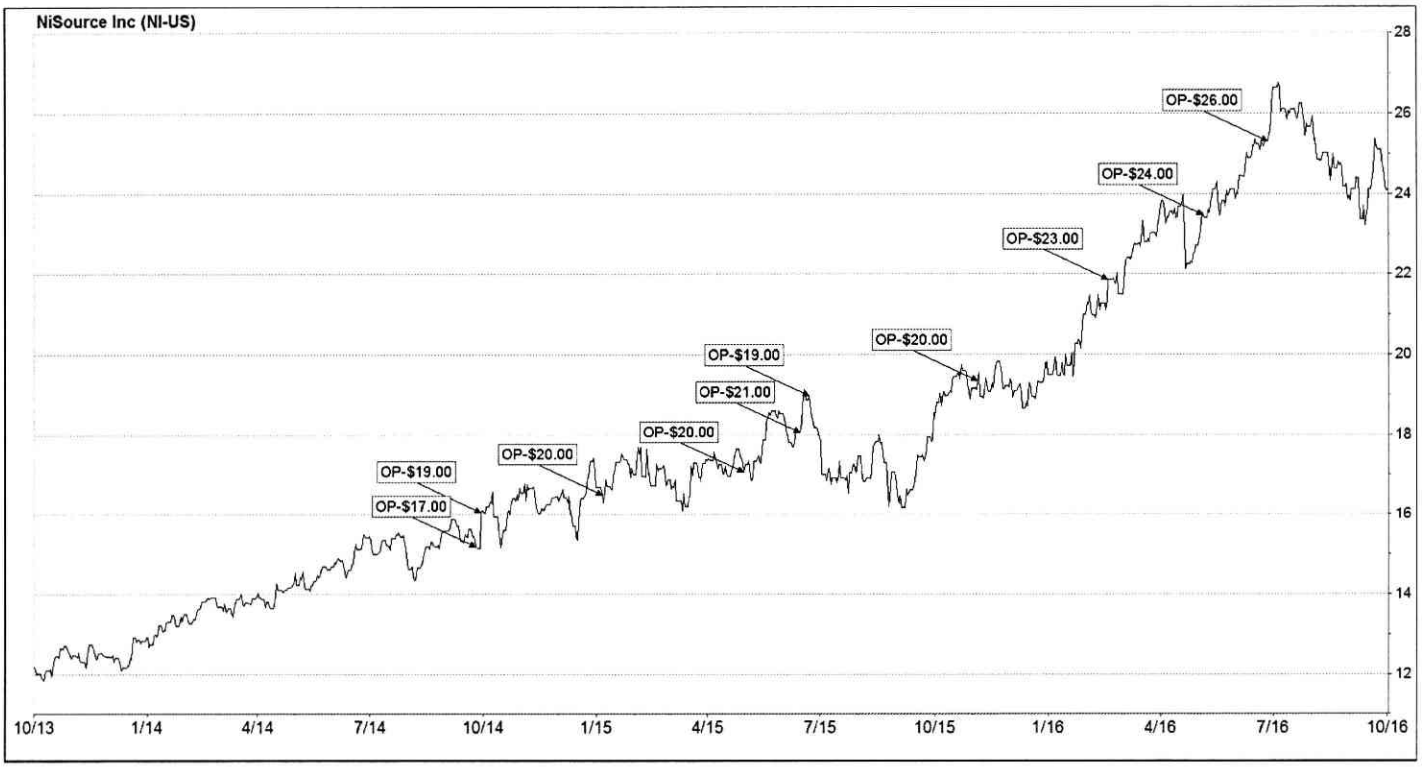

Note: OP = Outperform; PP = Peer Perform; UP = Underperform

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Company:	Fundamental Valuation Methodology:
NI US Equity	Forward P/E

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Outperform:	39%	1% Investment Banking Clients
Peer Perform:	49%	0% Investment Banking Clients
Underperform:	12%	0% Investment Banking Clients

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NI: In Line
Daniel Ford, CFA to: smacioch
Please respond to daniel.x.ford

11/02/2016 12:12 AM

Equity Research | Instant Insights
2 November 2016

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Completed:
02-Nov-16,
01:11 GMT
Released:
02-Nov-16,
04:10 GMT
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NiSource, Inc.
In Line

Stock Rating/Industry View: Equal Weight/Neutral
Price Target: USD 23.00
Price (01-Nov-2016): USD 22.34
Potential Upside/Downside: 3%
Tickers: NI

NI's Q3'16 operating EPS of 6 cents was in line with expectations. The company reiterated 2016 EPS guidance of $1.05-$1.10 and provided 2017 guidance of $1.12-$1.18 which is 7% from midpoint to midpoint. We maintain our EPS estimates of $1.07 for 2016, $1.15 for 2017 and $1.23 for 2018. The company maintained its long-term EPS growth guidance of 4-6%.

Key Takeaways from the Call

- Recent regulatory developments. On the gas side NI received approval of a rate settlement by the Pennsylvania Public Utility Commission for a $35M rate increase and is waiting on approval of a rate settlement by the Kentucky Public Service Commission later this year for a $13M rate increase.
- Indiana IRP Filing. We expect NI to file for a 700 MW combined cycle gas plant for 2023 at a cost of $800M and environmental spending through April 2019 of $0.3B for effluent and coal ash rule compliance.
- Gas midstream. In response to a question CEO Joe Hamrock indicated that the company is currently focused on their own infrastructure modernization opportunities and is not looking to invest in midstream gas.
- Investor day. NI expects to hold an investor day in late Q1'17.

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EVERCORE ISI

Energy | Power & Utilities

November 2, 2016

NISOURCE INC

NI | $22.34

HOLD | TARGET PRICE: $22.00

Change in Recommendation

Greg Gordon, CFA
212-653-9000
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Durgesh Chopra
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Company Statistics

Market Capitalization (M):	$7,955
Shares Outstanding (M):	322
Dividend:	$0.64
Dividend Yield:	2.6%
Payout Ratio:	59.9%
Expected Total Return:	(0.2)%
Fiscal Year End	Dec

Earnings Summary

	2016E	2017E	2018E
EPS	$1.07	$1.15	$1.21
P/E	23.1x	21.4x	20.4x
EPS vs Consensus	(0.7)%	(0.5)%	(1.9)%
Consensus EPS	$1.08	$1.16	$1.23
Consensus P/E	23.0x	21.3x	20.0x

1 Year Price History

Source: FactSet

NI Reaffirms '16 EPS Guidance & Initiates A '17 EPS Guidance Range of $1.12-$1.18; Upgrade to Hold

Lowering Price Target from $24 to $22

Lowering Price Target to $22, Rating Raised From Sell to Hold. The utility group is now at at +/-16.8X P/E on FY '18 EPS off the early July peak of 18.5X 2018 EPS. Our proprietary DDM valuation model derives average fair valuation for our group at +/-16.5x on FY '18 EPS given the current average total return and risk profile of the peer group and today's macro-economic backdrop. The stock is now trading just above our adjusted $22 price target (down from $24), which is 18.1x our 2018 EPS forecast, a ~10% premium to our average target multiple of 16.5x. We think a 10% premium is warranted given that NI has significantly above average long-term EPS growth visibility, but also one of the more highly levered balance sheets in our coverage universe.

NI Reaffirmed '16 EPS Guidance And Initiated '17 EPS Guidance NI reaffirmed its overall 2016 earnings guidance of $1.05 - $1.10 per share, EVRISI and consensus are at $1.07. The company initiated 2017 EPS guidance range of $1.12 - $1.18 supported by $1.5 billion projected cap-x and reiterated a 4-6% long term annual EPS growth target. We are maintaining our '16-'18 forecast of $1.07/$1.15/$1.21. Our '16/'17 estimates are more or less at the mid-point of company's guidance range. Our forecast for '16 - '18 translates to an average EPS growth rate of 6%, at the high end of company's guidance of 4-6%. Our EPS forecast is underpinned by rate base growth for their Gas/Electric segments at ~8.5%/4.0% for '16 to 18 with combined rate base growth at ~7.0% towards the mid-point company's guidance of 6-8%.

On 11/1/16 NI reported Q3 16 Adjusted EPS of $0.06 (flat to prior year) vs consensus of $0.07. Year-over-year adjusted earnings were up slightly due to recovery of infrastructure modernization investments, but the impact was mitigated due to lower seasonal gas sales during the third quarter. Consolidated operating earnings were $9 million lower. On a segment basis, the gas distribution segment was $16.5 million lower compared to prior year. Higher net revenues of $8.6 million from rate increases were offset by higher operating expense of $25.1 million, driven by higher employee related costs as a result of employee-related benefit true-ups and post-separation staffing, as well as higher outside service costs driven by gas compliance and maintenance activities and higher depreciation. The electric segment was $3 million higher compared to prior year. Higher net revenues of $19.1 million from rate increases were offset by higher operating expense of $16.1 million, driven by increased generation-related maintenance activities and employee and administration costs related to benefit true-ups and higher depreciation. Corporate and other operations were $4.5 million favorable primarily due $2.4 million of unrealized gains on the cash surrender value of corporate owned life insurance investments. The remaining offset to lower operating earnings came from lower interest expense and income taxes.

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Rate Case Updates: On October 27, Pennsylvania Public Utility Commission approved a settlement agreement in company's base rate case to allow for an increase in annual revenue by $35 million effective Dec 19. In Virginia, interim base rate subject to refund were implemented on September 28. The new rates are a part of a base rate case which remains pending before the Virginia State Corporation Commission for annual revenue increase of $37 million with commission decision expected early next year. Settlement was reached in Kentucky rate proceeding late last month if approved as filed; the settlement would increase annual revenue by $13.4 million with commission decision expected by the end of the year. In Maryland, the commission approved the settlement agreement for annual revenue increase of $3.7 million effective Oct 27. Finally on the electric side new rates authorizing an increase of $73 million in annual revenues became effective on October 1, under NIPSCO's electric base rate case settlement.

NI Subsidiary NIPSCO Files IRP & Proposes Retirement Of Four Indiana Coal Units. NiSource's largest subsidiary Northern Indiana Public Service Company (NIPSCO), which serves about 810,000 natural gas and 460,000 electric customers, on Aug. 23 had announced the potential retirement of its two units totaling ~480-MW at the Bailly coal plant and two coal-fired units totaling ~ 720-MW at its R.M. Schahfer plant. This proposal was outlined during a stakeholder meeting held as part of Indiana's integrated resource planning (IRP) program. The Bailly plant's two units have been operating since the 1960s and the Schahfer units went into service in 1980's. If approved by various stakeholders including the IURC, the plan would reduce NIPSCO's coal generation capacity by half with the Bailly plant retiring mid-2018, and the two R.M. Schahfer units retiring by the end of 2023. Assuming the plants were to stay open, over the next seven years NIPSCO expects to incur ~$1 billion in additional costs at those plants to comply with new environmental regulations such as such as the U.S. EPA's final coal ash and effluent rules, which take effect starting in 2018. NIPSCO filed an IRP on 11/1 laying out an expected view of replacement capacity in the middle of the next decade, predominantly combined cycle generation, analyzing a range of options including power purchases, energy efficiency, and new renewable. Should this proposal move through the stakeholder process and be implemented it could be positive for ratepayers and shareholders, moving away from older and expensive coal fired plants to more environmentally attractive options that could be more cost efficient like combined cycle gas plants.

Valuation and Risks to Our Thesis. Using our proprietary Dividend Discount Model we value NI at $22/share, which is 18.1x our 2018 EPS estimate of $1.21. The majority of NiSource's net revenues are subject to economic regulation and are exposed to the impact of regulatory rate reviews and proceedings; risks to our thesis include unfavorable regulatory outcomes leading to lower rate base growth and/or lower allowed or earned ROE's. Upside to our thesis would be driven by further increase in capital spending leading to accelerating rate base growth due to favorable regulatory treatment of such spending and or rising authorized/earned ROE's.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2016-11-01)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$49.17	$52.50
AEP	American Electric Power	Hold	$63.38	$66.50
CPN	Calpine Corp.	Buy	$11.80	$16.00
CNP	CenterPoint Energy, Inc.	Hold	$22.50	$24.50
CMS	CMS Energy Corp.	Hold	$41.53	$42.50
ED	Consolidated Edison Inc.	Hold	$74.05	$76.00
D	Dominion Resources Inc.	Coverage Suspended	$74.46	$NA
DTE	DTE Energy Co.	Hold	$94.29	$95.00
DUK	Duke Energy Corp.	Hold	$78.57	$80.00
DYN	Dynegy Inc.	Buy	$10.72	$25.00
EIX	Edison International	Hold	$72.50	$79.00
ETR	Entergy Corp.	Hold	$71.93	$72.00
ES	Eversource Energy	Hold	$54.08	$56.00
EXC	Exelon Corp.	Buy	$33.26	$40.00
FE	FirstEnergy Corp.	Buy	$33.47	$35.50
HE	Hawaiian Electric Industries Inc.	Hold	$28.99	$31.00
HIFR	InfraREIT, Inc.	Buy	$16.44	$20.00
NEE	NextEra Energy Inc	Buy	$125.89	$140.00
NI	NiSource Inc	Sell	$22.34	$24.00
NRG	NRG Energy Inc.	Buy	$10.63	$20.00
NYLD	NRG Yield, Inc.	Buy	$15.40	$20.00
PCG	PG&E Corp.	Buy	$61.21	$68.00
PNW	Pinnacle West Capital Corp.	Hold	$74.79	$79.00
PPL	PPL Corp.	Hold	$34.00	$34.00
PEG	Public Service Enterprise Group	Hold	$41.35	$44.00
SRE	Sempra Energy	Buy	$104.85	$122.00
SO	Southern Co.	Hold	$50.48	$52.00
TLN	Talen Energy Corporation	Hold	$13.92	$14.00
AES	The AES Corporation	Buy	$11.65	$12.25
WEC	WEC Energy Group, Inc.	Hold	$58.52	$62.00
WR	Westar Energy Inc.	Hold	$57.05	$58.50
XEL	Xcel Energy Inc.	Hold	$40.86	$41.50

TIMESTAMP

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

Time of dissemination: November 02, 2016, 08:41 ET.

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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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Sell	27	4%	Sell	2	7%
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Price Charts

NiSource Inc Rating History as of 11/01/2016

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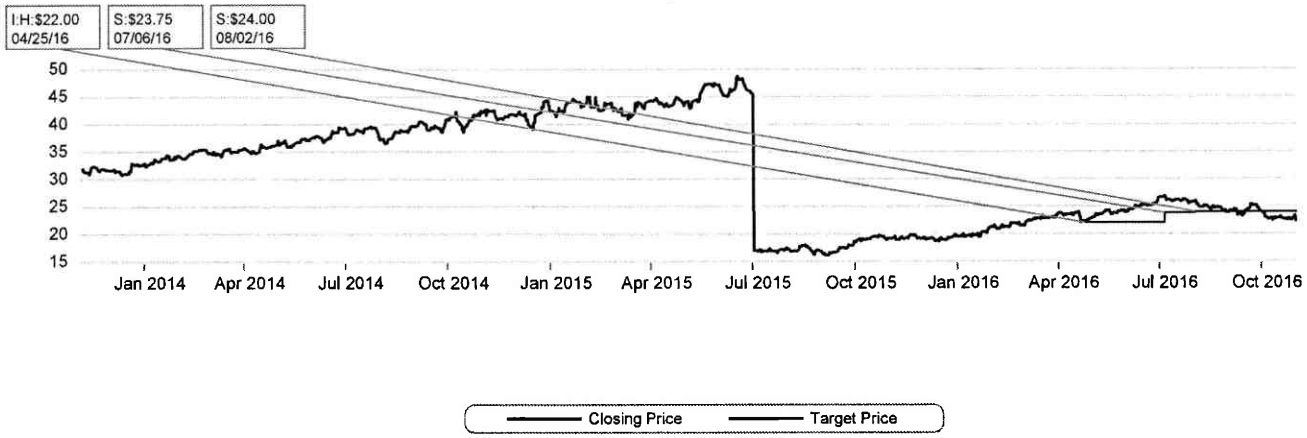

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UBS

Global Research

2 November 2016

NiSource Inc.
Guide Inline, Capex/Leverage a Tad High; Equity?

Equities

Americas
Gas Utilities

12-month rating	**Neutral**
12m price target	**US$24.00**
	Prior: US$27.00
Price	**US$22.09**

RIC: NI.N **BBG:** NI US

Trading data and key metrics	
52-wk range	US$26.77-18.66
Market cap.	US$7.12bn
Shares o/s	322m (COM)
Free float	99%
Avg. daily volume ('000)	828
Avg. daily value (m)	US$19.9
Common s/h equity (12/16E)	US$4.07bn
P/BV (12/16E)	1.8x
Net debt / EBITDA (12/16E)	5.3x

EPS (UBS, diluted) (US$)

	12/16E			
	From	To	% ch	Cons.
Q1	0.60	0.60	0	0.60
Q2	0.08	0.08	0	0.08
Q3	0.06	0.06	NM	0.06
Q4E	0.34	0.34	NM	0.34
12/16E	1.08	1.07	-1	1.07
12/17E	1.16	1.14	-2	1.15
12/18E	1.23	1.20	-3	1.21

No Change to Growth Targets

NI continues to execute on growth investment & recovery through rate cases & trackers. Mgmt provided a first look at '17 with EPS guidance of $1.12-$1.18, in line with long-term targeted EPS and dividend growth of 4%-6%. NI plans to invest $1.5bn in capex in '17, consistent with the $1.5bn of spending expected in '16, as it continues to make progress on the $30bn of identified investment opportunities previously outlined. NI continues to receive support for integrity investments from regulators through rate cases and trackers. NI has recently settled rate cases in PA & MD and is pending approval of a settlement in KY. Interim rates have been implemented in VA as NI works through the rate case in which it has requested a $37mm increase in revenues. New rates in electric at NIPSCO electric became effective in October.

In Line Quarter

NI reported 3Q16 adjusted EPS of $0.06, in line with UBSe of $0.06, but $0.01 below Consensus. While NI missed on an EBITDA basis, we note 3Q is typically the smallest qtr due to it being the seasonal low in gas distribution. Expenses were higher than expected & consistent with 1Q & 2Q and up 5.6% Y/Y as a result of a greater than expected true up on employee benefit costs (pension & healthcare) and additional employee costs related up to increased staffing post the spin-out of CPGX. Significantly lower interest expense offset the higher than expected O&M expenses.

EPS Estimates Lowered

NI maintained '16 guidance and provided a '17 EPS guidance range of $1.12-$1.18, which is in line with our current estimate. Given current leverage of 5.4x and plans to invest $1.5bn in 2017, which was above UBSe, we assume NI will issue equity, and therefore, we are trimming our '16/'17/'18 EPS estimates to $1.07/$1.14/$1.20 from $1.08/$1.16/$1.23 to reflect a higher expected share count.

Valuation: Lowering PT to $24 (from $27), Maintain Neutral Rating

We are lowering our SOP derived PT to $24 from $27 to reflect lower peer multiples that have contracted to '16 P/E 21.2x from 22.2x for gas utilities and to 17.5x from 20.5x for electric. We have also lowered estimates. We maintain our Neutral rating as mid-single-digit earnings & dividend growth is reflected in share price.

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Highlights (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	5,657	6,485	4,612	4,457	4,662	4,837	4,989	5,139
EBIT (UBS)	1,168	1,277	829	906	981	1,043	1,101	1,162
Net earnings (UBS)	491	526	295	348	380	405	432	455
EPS (UBS, diluted) (US$)	1.57	1.66	0.93	1.07	1.14	1.20	1.35	1.42
DPS (US$)	0.99	1.03	0.84	0.65	0.68	0.71	0.75	0.78
Net (debt) / cash	(8,808)	(9,974)	(6,500)	(7,675)	(8,182)	(8,529)	(8,906)	(9,425)
Profitability/valuation	**12/13**	**12/14**	**12/15**	**12/16E**	**12/17E**	**12/18E**	**12/19E**	**12/20E**
EBIT margin %	20.6	19.7	18.0	20.3	21.0	21.6	22.1	22.6
ROIC (EBIT) %	9.2	9.3	7.0	9.1	9.0	9.0	9.0	8.9
EV/EBITDA (core) x	9.2	10.4	12.6	9.0	9.0	8.8	8.6	8.3
P/E (UBS, diluted) x	18.9	22.8	33.6	20.6	19.4	18.4	16.4	15.5
Equity FCF (UBS) yield %	(4.8)	(5.9)	1.0	(9.1)	(4.5)	(2.3)	(5.2)	(4.7)
Net dividend yield %	3.3	2.7	2.7	2.9	3.1	3.2	3.4	3.5

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$22.09 on 02 Nov 2016 18:44 EDT

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UBS Research THESIS MAP a guide to our thinking and what's where in this report

PIVOTAL QUESTIONS

Q: Will Pipeline Replacement Help Drive Strong Earnings Growth?

Yes. NiSource announced plans to spend $1.5bn on utility infrastructure which includes spending on pipeline integrity and replacement as part of its plans to invest $30bn on identified projects that are expected to support the long-term earnings growth target of 4%-6% earnings and dividend growth. Management's 2017 EPS guidance range of $1.12-$1.18 assumes 4%-6% growth from reiterated 2016 guidance and is line with both UBS and Consensus 2017 EPS estimates.

UBS VIEW

We believe that NiSource will benefit from the regulated returns that it receives from distributing natural gas and electricity as a pure play utility. Earnings growth is driven by customer growth, by expanding rate bases as infrastructure investments are made and by approved rate increases. NI has planned a ~$30bn modernization investment program over the next 20+ years and these infrastructure investments should result in rate base and earnings growth. NI also continues to pursue rate relief from mechanisms and cost recovery in each of its jurisdictions.

EVIDENCE

NiSource reported an in line 3Q16 and provided a 2017 EPS guidance range of $1.12-$1.18, which was in line with both UBSe and Consensus as well as the long-term earnings and distribution growth target of +4%-6%. NI continued to receive support for its pipeline replacement and integrity spending with regulators including rate increases in PA, MD, KY (pending final approval) and NIPSCO electric which include recovery for the $1.5bn of investment spending planned in 2016 & 2017.

WHAT'S PRICED IN?

Using average EV/EBITDA multiples for both the natural gas distribution and electric utility business we derive a $24 value for NiSource shares. At $22 NiSource is currently trading at a half turn discount to the peer group average EV/EBITDA multiple with NiSource expected to grow earnings in line with the peer average.

UPSIDE / DOWNSIDE SPECTRUM

Value drivers	2017 EBITDA	2017 EBITDA vs Base est.	Gas Peer Multiple	Electric Multiple
$29 upside	$1.704bn	+10%	10.6x	9.8x
$24 base	$1.549bn		10.6x	9.8x
$19 downside	$1.394bn	-10%	10.6x	9.8x

Source: UBS

more→

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...

more →

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COMMENTARY return ↑

Figure 1: 3Q16 Earnings Variance

$ in millions	Actual 3Q16	UBSe 3Q16e	% variance	Actual 3Q15	YoY % change
Operating Data					
Customers (000)					
Gas Utilities Customers	3,376.6	3,359.1	*0.5%*	3,343.2	*1.0%*
Electric Customers	464.4	464.7	*(0.1%)*	461.4	*0.6%*
Financial Data					
Revenues	$853.9	$921.3	*(7.3%)*	$817.2	*4.5%*
Expenses					
Cost of Sales	($218.2)	($283.1)	*(22.9%)*	($209.1)	*4.4%*
Operating & Maintenance Expenses	($336.1)	($314.4)	*6.9%*	($311.1)	*8.0%*
Depreciation & Amortization	($136.3)	($137.3)	*(0.7%)*	($132.5)	*2.9%*
Total Expenses	($747.2)	($796.5)	*(6.2%)*	($707.5)	*5.6%*
Adj. EBITDA	$243.0	$262.1	*(7.3%)*	$242.2	*0.3%*
Interest Expense	($85.0)	($93.7)	*(9.3%)*	($94.9)	*(10.4%)*
Other Expenses	$3.5	$0.0	*NM*	$5.8	*(39.7%)*
Net Income	$19.3	$19.4	*(0.3%)*	$14.8	*30.4%*
EPS	$0.06	$0.06	*(0.0%)*	$0.05	*30.1%*
Dividend Per Share	$0.165	$0.165	*0.0%*	$0.155	*6.5%*
Segment Operating Income					
Gas Distribution	$5.1	$20.5	*(75.1%)*	$20.0	*(74.5%)*
Electric Operations	$104.6	$108.7	*(3.8%)*	$98.5	*6.2%*
Corporate & Eliminations	($3.0)	($4.4)	*(31.8%)*	($8.8)	*(65.9%)*
Total	$106.7	$124.8	*(14.5%)*	$109.7	*(2.7%)*

Source: UBSe, Company Reports

Valuation

Our sum-of-the parts valuation is now $24, down from $27 when we raised it to $27 in our July 7, 2016 note: **Stepping to the Sidelines on Valuation**. Approximately $2 of the decrease in the value is due to peer comparable multiple contracting. We note that gas distribution 2016 P/E ratios have contracted to 20.7x from 22.2x and electric utility 2016 P/E ratios have contracted to 17.5x from 20.5x. On an EV/EBITDA basis multiples have contracted to 10.8x for gas distribution from 10.8x and for electric utilities to 9.7x from 10.4x.

Additionally, we have trimmed our EBITDA estimate by 2% to $1.577bn from 1.549b, which also impacts our sum-of-the parts valuation by ~$1.

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Figure 2: Sum-of-the-parts Valuation EV/EBITDA

Operational Unit	2017E EBITDA	Multiple	Value
Gas Utilities	$901	10.6x	$9,547
Electric Utilities	$649	9.7x	$6,281
		Total	$ 15,828
		Less Net Debt	$ (8,182)
		Total Equity	$ 7,646
		Shares Outstanding	324.2
		Value Per Share (12-months)	**$24.00**

Source: UBSe

Leverage Elevated

NiSource's net debt/EBITDA (TTM) was 5.4x as of the end of 3Q16, up from 5.0x at the end of 2Q16. We note that the increase is partially due to the seasonal build-up of working capital as NiSource store natural gas ahead of the winter months. The increase in borrowing is reflected in short-term debt. Excluding short-term debt leverage was 4.3x. NiSource is expected to self-finance a large portion of the $1.5bn in planned capex spending with operating cash flow. There is approximately $300mm-$400mm that will need to be funded using a combination of debt and equity. We are assuming that NiSource will issue $200mm in equity in 4Q16 and then use an ATM to finance investment spending.

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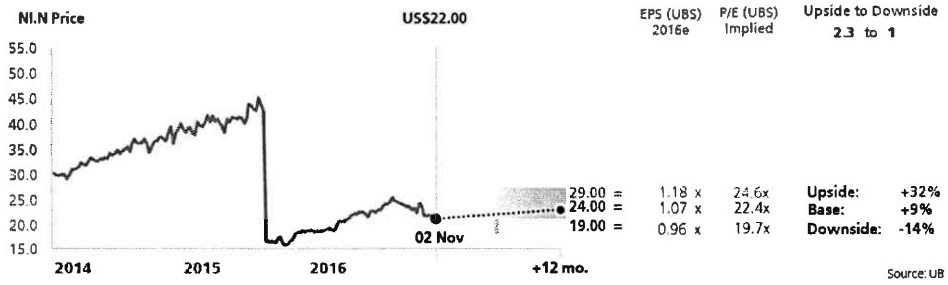
UPSIDE / DOWNSIDE SPECTRUM

return ↑



NI is trading at US$22.00 (as of 2 November).

Value drivers	2017 EBITDA	2017 EBITDA vs Base est.	Gas Peer Multiple	Electric Multiple
$29 upside	$1.704bn	+10%	10.6x	9.8x
$24 base	$1.549bn		10.6x	9.8x
$19 downside	$1.394bn	-10%	10.6x	9.8x

Source: UBS

Risk to the current share price is skewed (2.3:1) to the upside

NI is trading at **US$22.00** (as of 2 November).

Upside (US$29): Our upside scenario assumes EBITDA for both the gas and electric segments is 10% higher than in our base case. We assume the same EV/EBITDA multiples of 10.6 for gas and 9.8x for electric as we use in our base case which are both equal to the peer group average.

Base (US$24): Our base case assumes 2017 EBITDA for the gas utility business of $901mm and for the electric utility business of $649mm. We assume peer group average multiples of 10.6x for gas and 9.8x for electric due to stronger expected earnings growth and the potential for a take-over due to the size and location of the assets

Downside (US$19): Our downside scenario assumes EBITDA for both the gas and electric segments is 10% lower than in our base case. We assume the same EV/EBITDA multiples of 10.6x for gas and 9.8x for electric as we use in our base case which are both 2% premiums to the peer group average.

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COMPANY DESCRIPTION

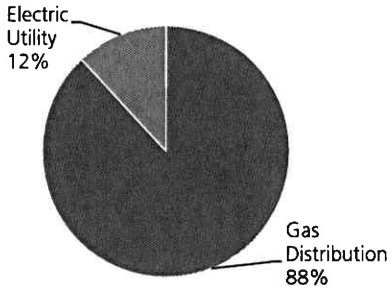
return ↑

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.

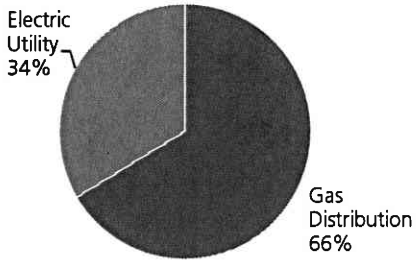
Industry outlook

Growth in the regulated natural gas utility businesses is generated by customer growth and rate increases approved by state regulators. Regulators allow utility companies to earn a rate of return on investments of typically around 9%-11%. Population growth is the primary driver of customer growth. Modernization programs which encourage utility companies to invest in infrastructure and provide utilities with a guaranteed rate of return on the investment capital should provide growth as population growth slows.

Customers by segment (%)



Operating Income by segment (%)



Source: Company Reports

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NiSource Inc. (NI.N)

Income statement (US$m)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Revenues	**5,657**	**6,485**	**4,612**	**4,457**	*-3.4*	**4,662**	*4.6*	**4,837**	**4,989**	**5,139**
Gross profit	3,842	4,261	3,042	3,099	*1.9*	3,244	*4.7*	3,367	3,475	3,581
EBITDA (UBS)	**1,745**	**1,883**	**1,354**	**1,451**	*7.2*	**1,549**	*6.8*	**1,625**	**1,699**	**1,775**
Depreciation & amortisation	(577)	(605)	(524)	(545)	*3.9*	(568)	*4.3*	(583)	(598)	(613)
EBIT (UBS)	**1,168**	**1,277**	**829**	**906**	*9.3*	**981**	*8.3*	**1,043**	**1,101**	**1,162**
Associates & investment income	0	47	0	0	-	0	-	0	0	0
Other non-operating income	0	(24)	25	(2)	-	0	-	0	0	0
Net interest	(415)	(444)	(384)	(349)	*9.3*	(371)	*-6.4*	(392)	(407)	(431)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**753**	**856**	**470**	**556**	*18.1*	**610**	*9.8*	**650**	**694**	**731**
Tax	(262)	(330)	(175)	(208)	*-18.7*	(230)	*-10.6*	(245)	(262)	(276)
Profit after tax	**491**	**526**	**295**	**348**	*17.8*	**380**	*9.3*	**405**	**432**	**455**
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	0	-	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**491**	**526**	**295**	**348**	*17.8*	**380**	*9.3*	**405**	**432**	**455**
Net earnings (UBS)	**491**	**526**	**295**	**348**	*17.8*	**380**	*9.3*	**405**	**432**	**455**
Tax rate (%)	34.8	38.5	37.2	37.4	*0.5*	37.7	*0.8*	37.7	37.7	37.7

Per share (US$)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
EPS (UBS, diluted)	1.57	1.66	0.93	1.07	*15.8*	1.14	*6.2*	1.20	1.35	1.42
EPS (local GAAP, diluted)	1.57	1.66	0.93	1.07	*15.8*	1.14	*6.2*	1.20	1.35	1.42
EPS (UBS, basic)	1.57	1.67	0.93	1.07	*15.7*	1.14	*6.1*	1.20	1.36	1.43
Net DPS (US$)	0.99	1.03	0.84	0.65	*-22.2*	0.68	*3.8*	0.71	0.75	0.78
Cash EPS (UBS, diluted)[1]	3.41	3.58	2.57	2.75	*7.1*	2.84	*3.3*	2.92	3.22	3.34
Book value per share	18.88	19.56	12.06	12.56	*4.2*	12.78	*1.8*	13.26	15.43	16.27
Average shares (diluted)	313.60	316.33	318.80	324.22	*1.7*	333.54	*2.9*	338.35	320.21	320.21

Balance sheet (US$m)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Cash and equivalents	27	25	16	16	*3.9*	16	*1.9*	16	16	16
Other current assets	2,132	2,441	1,562	1,362	*-12.8*	1,362	*0.0*	1,362	1,362	1,362
Total current assets	**2,159**	**2,467**	**1,577**	**1,379**	*-12.6*	**1,379**	*0.0*	**1,379**	**1,379**	**1,379**
Net tangible fixed assets	14,365	16,017	12,112	13,131	*8.4*	14,063	*7.1*	14,880	15,683	16,470
Net intangible fixed assets	4,029	3,931	1,944	1,936	*-0.4*	1,936	*0.0*	1,936	1,936	1,936
Investments / other assets	2,100	2,452	1,859	1,899	*2.1*	1,899	*0.0*	1,899	1,899	1,899
Total assets	**22,654**	**24,866**	**17,493**	**18,345**	*4.9*	**19,277**	*5.1*	**20,094**	**20,897**	**21,683**
Trade payables & other ST liabilities	1,937	2,111	2,090	1,270	*-39.2*	1,270	*0.0*	1,270	1,270	1,270
Short term debt	1,241	1,844	567	692	*22.00*	738	*6.59*	769	803	850
Total current liabilities	**3,178**	**3,955**	**2,658**	**1,962**	*-26.2*	**2,008**	*2.3*	**2,039**	**2,073**	**2,120**
Long term debt	7,593	8,156	5,949	6,999	*17.7*	7,461	*6.6*	7,776	8,119	8,591
Other long term liabilities	5,996	6,580	5,043	5,315	*5.4*	5,545	*4.3*	5,790	5,790	5,790
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**16,767**	**18,691**	**13,649**	**14,277**	*4.6*	**15,014**	*5.2*	**15,606**	**15,982**	**16,501**
Common s/h equity	5,887	6,175	3,844	4,068	*5.8*	4,263	*4.8*	4,488	4,914	5,182
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	**22,654**	**24,866**	**17,493**	**18,345**	*4.9*	**19,277**	*5.1*	**20,094**	**20,896**	**21,683**

Cash flow (US$m)	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Net income (before pref divs)	491	526	295	348	*17.8*	380	*9.3*	405	432	455
Depreciation & amortisation	577	606	524	545	*3.9*	568	*4.3*	583	598	613
Net change in working capital	55	(139)	147	(278)	-	0	-	0	0	0
Other operating	313	329	490	235	*-52.1*	230	*-2.2*	245	0	0
Operating cash flow	**1,437**	**1,321**	**1,457**	**850**	*-41.7*	**1,178**	*38.7*	**1,233**	**1,030**	**1,069**
Tangible capital expenditure	(1,880)	(2,028)	(1,361)	(1,500)	*-10.2*	(1,500)	*0.0*	(1,400)	(1,400)	(1,400)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	(125)	(69)	3,798	0	-	0	-	0	0	0
Other investing	114	(19)	(493)	(85)	-	0	-	0	0	0
Investing cash flow	**(1,891)**	**(2,117)**	**1,945**	**(1,585)**	**-**	**(1,500)**	*5.4*	**(1,400)**	**(1,400)**	**(1,400)**
Equity dividends paid	(306)	(321)	(263)	(207)	*21.4*	(225)	*-8.8*	(240)	(251)	(268)
Share issues / (buybacks)	36	20	2	209	*NM*	40	*-80.8*	60	245	80
Other financing	0	0	(122)	0	-	0	-	0	0	0
Change in debt & pref shares	715	1,097	(3,029)	734	-	507	*-30.98*	347	376	519
Financing cash flow	**445**	**796**	**(3,412)**	**736**	**-**	**322**	*-56.3*	**167**	**370**	**331**
Cash flow inc/(dec) in cash	**(10)**	**0**	**(10)**	**1**	**-**	**0**	**-**	**0**	**0**	**0**
FX / non cash items	0	(1)	0	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	**(9)**	**(1)**	**(10)**	**1**	**-**	**0**	*-50.0*	**0**	**0**	**0**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts. [1]Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

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NiSource Inc. (NI.N)

Valuation (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
P/E (local GAAP, diluted)	18.9	22.8	33.6	20.6	19.4	18.4	16.4	15.5
P/E (UBS, diluted)	18.9	22.8	33.6	20.6	19.4	18.4	16.4	15.5
P/CEPS	8.7	10.6	12.1	8.0	7.8	7.6	6.8	6.6
Equity FCF (UBS) yield %	(4.8)	(5.9)	1.0	(9.1)	(4.5)	(2.3)	(5.2)	(4.7)
Net dividend yield (%)	3.3	2.7	2.7	2.9	3.1	3.2	3.4	3.5
P/BV x	1.6	1.9	2.6	1.8	1.7	1.7	1.4	1.4
EV/revenues (core)	2.8	3.0	3.7	2.9	3.0	3.0	2.9	2.9
EV/EBITDA (core)	9.2	10.4	12.6	9.0	9.0	8.8	8.6	8.3
EV/EBIT (core)	13.8	15.3	20.5	14.4	14.2	13.7	13.3	12.6
EV/OpFCF (core)	9.2	10.4	12.6	9.0	9.0	8.8	8.6	8.3
EV/op. invested capital	1.3	1.4	1.4	1.3	1.3	1.2	1.2	1.1

Enterprise value (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Market cap.	9,220	11,913	9,853	7,120	7,120	7,120	7,120	7,120
Net debt (cash)	8,437	9,391	8,237	7,088	7,929	8,356	8,717	8,717
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	528	676	760	738	738	738	738	738
Total enterprise value	**18,185**	**21,980**	**18,850**	**14,946**	**15,787**	**16,213**	**16,575**	**16,575**
Non core assets	(2,100)	(2,452)	(1,859)	(1,899)	(1,899)	(1,899)	(1,899)	(1,899)
Core enterprise value	**16,085**	**19,528**	**16,991**	**13,047**	**13,888**	**14,315**	**14,676**	**14,676**

Growth (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenue	11.3	14.6	-28.9	-3.4	4.6	3.8	3.1	3.0
EBITDA (UBS)	6.9	7.9	-28.1	7.2	6.8	4.9	4.5	4.5
EBIT (UBS)	9.3	9.4	-35.1	9.3	8.3	6.3	5.6	5.5
EPS (UBS, diluted)	0.0	6.2	-44.3	15.8	6.2	5.1	12.7	5.4
Net DPS	4.2	4.0	-18.9	-22.2	3.8	5.2	4.9	4.7

Margins & Profitability (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Gross profit margin	67.9	65.7	66.0	69.5	69.6	69.6	69.6	69.7
EBITDA margin	30.8	29.0	29.4	32.6	33.2	33.6	34.0	34.5
EBIT margin	20.6	19.7	18.0	20.3	21.0	21.6	22.1	22.6
Net earnings (UBS) margin	8.7	8.1	6.4	7.8	8.1	8.4	8.7	8.9
ROIC (EBIT)	9.2	9.3	7.0	9.1	9.0	9.0	9.0	8.9
ROIC post tax	6.0	5.5	4.4	5.7	5.6	5.6	5.6	5.5
ROE (UBS)	8.6	8.7	5.9	8.8	9.1	9.3	9.2	9.0

Capital structure & Coverage (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Net debt / EBITDA	5.0	5.3	4.8	5.3	5.3	5.2	5.2	5.3
Net debt / total equity %	149.6	161.5	169.1	188.7	191.9	190.0	181.2	181.9
Net debt / (net debt + total equity) %	59.9	61.8	62.8	65.4	65.7	65.5	64.4	64.5
Net debt/EV %	54.8	51.1	38.3	58.8	58.9	59.6	60.7	64.2
Capex / depreciation %	NM	NM	NM	NM	NM	NM	NM	NM
Capex / revenue %	NM	NM	29.5	NM	NM	28.9	28.1	27.2
EBIT / net interest	2.8	2.9	2.2	2.6	2.6	2.7	2.7	2.7
Dividend cover (UBS)	1.6	1.6	1.1	1.7	1.7	1.7	1.8	1.8
Div. payout ratio (UBS) %	63.0	61.7	90.0	60.6	59.3	59.3	54.9	54.5

Revenues by division (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Others	5,657	6,485	4,612	4,457	4,662	4,837	4,989	5,139
Total	**5,657**	**6,485**	**4,612**	**4,457**	**4,662**	**4,837**	**4,989**	**5,139**

EBIT (UBS) by division (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Others	1,168	1,277	829	906	981	1,043	1,101	1,162
Total	**1,168**	**1,277**	**829**	**906**	**981**	**1,043**	**1,101**	**1,162**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

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Forecast returns

Forecast price appreciation	+8.6%
Forecast dividend yield	3.1%
Forecast stock return	+11.7%
Market return assumption	5.8%
Forecast excess return	+5.9%

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 and peer valuation multiples to calculate our price target.

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Buy	FSR is > 6% above the MRA.	45%	28%
Neutral	FSR is between -6% and 6% of the MRA.	39%	25%
Sell	FSR is > 6% below the MRA.	15%	17%
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 2016.
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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UBS Securities LLC: Shneur Z. Gershuni, CFA; Jennifer Hills.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	N/A	US$22.09	02 Nov 2016

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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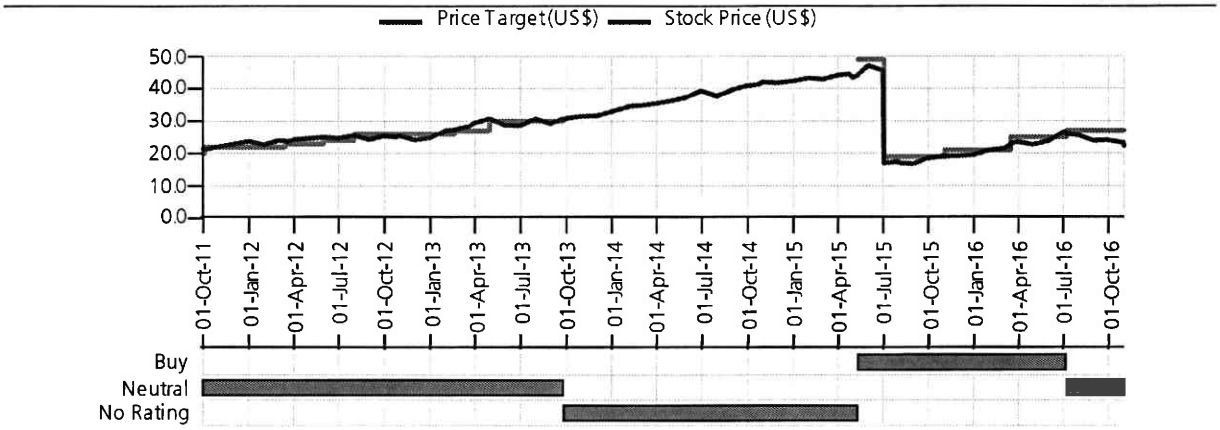
NiSource Inc. (US$)



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NiSource, Inc

Attractive long-term growth outlook but valuation full – initiate at Neutral

Bank of America Merrill Lynch

Initiating Coverage: NEUTRAL | PO: 24.00 USD | Price: 22.61 USD

Equity | 24 October 2016

Initiating coverage with a Neutral rating and $24 PO

We initiate coverage on NiSource (NI) with a Neutral rating and $24 price objective. Our PO is based on a 20x 2018E P/E multiple, above the current LDC peer average of 18.7x and the small-mid cap electric utility average of 16.3x. NI generates approximately one-third of its net revenue via electric utility operations with the remaining two-thirds generated via its LDC subsidiaries. However, we believe NI's fully regulated operations with attractive regulated rates of return merit a premium valuation relative to LDC peers with partially unregulated earnings profiles, offsetting the broader valuation discount typically associated with electric utility operations.

Positives: fully regulated utilities with regulated returns

We see several positives to an investment in NI including: 1) relatively stable earnings generated via eight regulated utility subsidiaries; 2) a weighted average allowed return on equity (ROE) of approximately 10%; 3) $30bn of previously identified infrastructure investment opportunities that are expected to generate attractive, regulated returns over the next 20+ years; and 4) constructive legislation across NI's service territories that allows for capex and certain recurring costs to be recovered via trackers. However, we believe these positives are partially offset by several key risks.

Risks: multiple jurisdictions and challenging demographics

In our view, operations across seven service territories increase NI's rate case risk, as five of NI's subsidiaries currently have rate cases under review, with final orders expected by year-end 2016/early 2017. While constructive legislation across NI's service territories allows NI's subsidiaries to pass through a majority of costs to customers and earn attractive returns, a change in commission leadership in one service territory could have negative implications for NI. We also believe below average population growth in its aggregate service territories could limit NI's ability to grow organically outside of its $30bn capex program relative to peers with operations in faster growing regions. Additionally, we remain cautious on LDCs as a whole, as valuations have risen on an absolute basis in the current interest rate environment and on a relative basis to electric utilities as a result of M&A speculation and attractive relative growth.

Estimates (Dec)

(US$)	2014	2015A	2016E	2017E	2018E
EPS	NA	0.93	1.08	1.14	1.21
GAAP EPS	NA	0.62	1.05	1.14	1.21
EPS Change (YoY)	NA	NA	16.1%	5.6%	6.1%
Consensus EPS (Bloomberg)			1.08	1.16	1.21
DPS	NA	0.51	0.64	0.68	0.71

Valuation (Dec)

	2014	2015A	2016E	2017E	2018E
P/E	NA	24.3x	20.9x	19.8x	18.7x
GAAP P/E	NA	36.5x	21.5x	19.8x	18.7x
Dividend Yield	NA	2.3%	2.8%	3.0%	3.1%
EV / EBITDA*	NA	15.1x	13.7x	13.0x	12.2x
Free Cash Flow Yield*	NA	1.3%	-6.3%	-6.2%	-6.8%

* For full definitions of iQmethod℠ measures, see page 17.

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Stock Data

Price	22.61 USD
Price Objective	24.00 USD
Date Established	24-Oct-2016
Investment Opinion	B-2-7
52-Week Range	18.60 USD - 26.94 USD
Mrkt Val (mn) / Shares Out (mn)	7,285 USD / 322.2
Average Daily Value (mn)	60.28 USD
BofAML Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2016E)	9.1%
Net Dbt to Eqty (Dec-2015A)	180.4%

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Refer to Important disclosures on page 18 to 20. Analyst Certification on page 16. Price Objective Basis/Risk on page 16.
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Timestamp: 24 October 2016 06:00AM EDT

iQprofile℠ NiSource, Inc

IQmethod℠ – Bus Performance*

(US$ Millions)	2014	2015A	2016E	2017E	2018E
Return on Capital Employed	NA	NA	3.6%	3.6%	3.6%
Return on Equity	NA	15.5%	9.1%	9.4%	9.5%
Operating Margin	NA	17.2%	21.0%	20.3%	19.7%
Free Cash Flow	NA	96	(456)	(453)	(495)

IQmethod℠ – Quality of Earnings*

(US$ Millions)	2014	2015A	2016E	2017E	2018E
Cash Realization Ratio	NA	4.9x	2.8x	3.1x	3.1x
Asset Replacement Ratio	NA	2.6x	2.6x	2.9x	2.9x
Tax Rate	NA	41.6%	38.2%	38.0%	38.0%
Net Debt-to-Equity Ratio	NA	180.4%	197.0%	202.5%	208.2%
Interest Cover	NA	2.1x	2.4x	2.5x	2.5x

Income Statement Data (Dec)

(US$ Millions)	2014	2015A	2016E	2017E	2018E
Sales	NA	4,652	4,499	4,913	5,437
% Change	NA	NA	-3.3%	9.2%	10.7%
Gross Profit	NA	3,008	3,088	3,197	3,471
% Change	NA	NA	2.7%	3.5%	8.6%
EBITDA	NA	1,342	1,477	1,558	1,662
% Change	NA	NA	10.1%	5.5%	6.7%
Net Interest & Other Income	NA	(460)	(392)	(397)	(430)
Net Income (Adjusted)	**NA**	**299**	**349**	**372**	**396**
% Change	**NA**	**NA**	**16.7%**	**6.5%**	**6.6%**

Free Cash Flow Data (Dec)

(US$ Millions)	2014	2015A	2016E	2017E	2018E
Net Income from Cont Operations (GAAP)	NA	199	340	372	396
Depreciation & Amortization	NA	524	540	562	593
Change in Working Capital	NA	440	(134)	0	0
Deferred Taxation Charge	NA	135	202	219	233
Other Adjustments, Net	NA	158	18	0	0
Capital Expenditure	NA	(1,361)	(1,423)	(1,605)	(1,717)
Free Cash Flow	**NA**	**96**	**-456**	**-453**	**-495**
% Change	**NA**	**NA**	**NM**	**0.7%**	**-9.3%**

Balance Sheet Data (Dec)

(US$ Millions)	2014	2015A	2016E	2017E	2018E
Cash & Equivalents	NA	16	64	42	65
Trade Receivables	NA	660	474	474	474
Other Current Assets	NA	902	770	770	770
Property, Plant & Equipment	NA	12,112	13,036	14,079	15,203
Other Non-Current Assets	NA	3,804	3,802	3,802	3,802
Total Assets	**NA**	**17,493**	**18,145**	**19,166**	**20,314**
Short-Term Debt	NA	1,001	1,413	1,413	1,413
Other Current Liabilities	NA	1,656	1,284	1,284	1,284
Long-Term Debt	NA	5,949	6,257	6,857	7,557
Other Non-Current Liabilities	NA	5,043	5,331	5,549	5,783
Total Liabilities	**NA**	**13,649**	**14,284**	**15,103**	**16,036**
Total Equity	**NA**	**3,844**	**3,861**	**4,064**	**4,278**
Total Equity & Liabilities	**NA**	**17,493**	**18,145**	**19,166**	**20,314**

* For full definitions of *IQmethod℠* measures, see page 17.

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

NI's current market value more than reflects NI's positives including 4-6% annual earnings/dividend growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries with regulated rates of return. Additionally, we believe NI's valuation should reflect its electric utility operations, which account for approximately one-third of net revenue, and risk from operating across seven service territories.

Stock Data

Average Daily Volume	2,666,085

Quarterly Earnings Estimates

	2015	2016
Q1	0.56A	0.59A
Q2	0A	0.08A
Q3	0.06A	0.09E
Q4	0.31A	0.32E

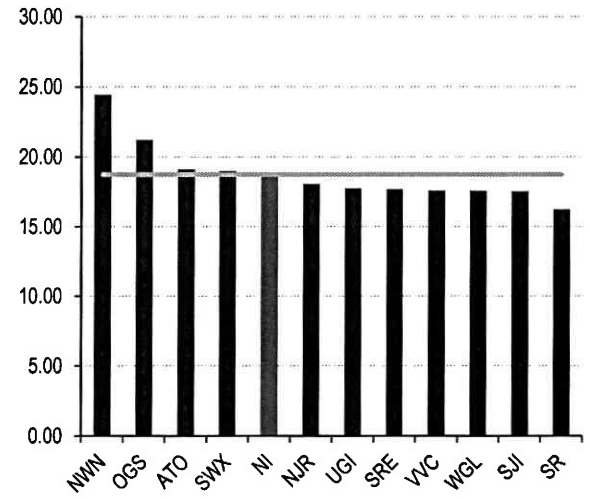
Bank of America Merrill Lynch

Investment thesis

Largely regulated assets and moderate EPS growth, but limited relative upside
We initiate coverage on NI with a Neutral rating and a $24 price objective based on a 20x 2018E P/E multiple. Following the recent spinoff of its natural gas pipeline business, Columbia Pipeline Group (CPGX), we believe NI offers investors a simplified regulated utility growth story with 4-6% annual dividend growth over the medium term supported by a visible $30bn capital program.

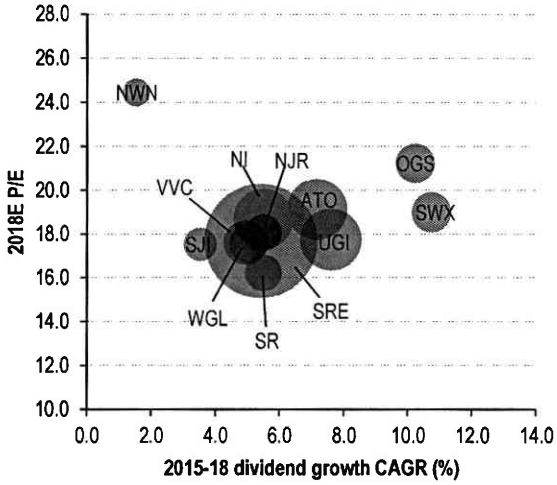
Current valuation in-line with LDC peers – largely fair despite 1/3 electric utility
NI currently trades at an 18.7x 2018E P/E multiple, in-line with the LDC average of 18.7x and the small-mid cap electric utility average of 16.3x. NI trades largely in line with LDC peers and at a meaningful premium to small-mid cap electric utilities despite generating around one-third of net revenue from its electric utility. However, we believe NI's current valuation is fair. In our view, NI's fully regulated operations with attractive regulated rates of return and operations in regions with constructive regulatory environments merit a premium valuation that offsets the lower valuation associated with NIPSCO electric.

Chart 1: NI trades in-line with peers on a 2018E P/E basis



Source: BofA Merrill Lynch Global Research, Bloomberg
Data as of 21 October 2016
*Consensus estimates are used for SJI

Chart 2: NI's valuation is slightly elevated relative to peers with similar growth trajectories



Source: BofA Merrill Lynch Global Research, Bloomberg
Data as of 21 October 2016
*Consensus estimates are used for SJI

Cautious on elevated LDC valuations as a whole
Despite a recent pullback, we view the natural gas utility space as somewhat expensive and remain cautious overall. Nonetheless, we believe LDCs will remain at a premium to electric utilities given higher growth rates and an embedded M&A premium from recent Electric Utility/Gas Utility acquisitions (DUK/PNY, SO/GAS, etc). We note NI's 'M&A premium' is likely hindered by its multiple jurisdictions, which may complicate the regulatory process of an acquisition. Many acquisitions have been motivated by the desire to control gas infrastructure (both local distribution and transmission). With NI's recent spin-off of CPGX, its gas transmission business, we believe it may be less appealing to potential acquirers seeking a natural gas infrastructure footprint.

Table 1: NI trades in-line with the 2018E P/E LDC peer average and at a premium to small-mid cap electric utilities

Ticker	Name	BofAML rating		Current Price ($)	Current Dividend Rate (%)	2015-18 DPS CAGR (%)*	Market Cap ($mns)	EV ($mns)	P/E* 2016E	P/E* 2017E	P/E* 2018E	S&P credit rating	Moody's credit rating
ATO	Atmos Energy Corp	B-1-7	Buy	71.72	2.3	7.2	7,448	11,503	21.4	20.2	19.1	A	A2
SR	Spire Inc	A-1-7	Buy	60.65	3.2	5.5	2,768	5,177	17.8	17.0	16.2	A-	Baa2
NI	**NiSource Inc**	**B-2-7**	**Neutral**	**22.61**	**2.9**	**5.5**	**7,285**	**15,781**	**20.9**	**19.8**	**18.7**	**BBB+**	**(P)Ba1**
NJR	New Jersey Resources Corp	B-3-7	Underperform	32.50	3.1	5.5	2,800	4,390	20.7	19.1	18.1	N/A	N/A
NWN	Northwest Natural Gas Co	A-3-7	Underperform	57.44	3.3	1.5	1,582	2,528	25.9	25.2	24.4	A+	(P)A3
OGS	ONE Gas Inc	B-2-7	Neutral	60.52	2.3	10.2	3,162	4,617	23.3	22.4	21.2	A-	A2
SRE	Sempra Energy	C-1-7	Buy	104.85	2.9	5.4	26,192	44,498	22.1	20.4	17.7	BBB+	Baa1
SWX	Southwest Gas Corp	B-1-7	Buy	69.51	2.6	10.7	3,300	5,215	21.8	20.2	19.0	BBB+	A3
UGI	UGI Corp	B-1-7	Buy	44.72	2.1	7.6	7,748	12,109	21.8	18.9	17.7	N/A	N/A
VVC	Vectren Corp	B-3-7	Underperform	48.42	3.3	4.9	4,011	6,104	19.8	18.6	17.6	A-	N/A
WGL	WGL Holdings Inc	B-3-7	Underperform	60.47	3.2	5.0	3,088	5,179	19.2	18.7	17.6	A+	A3
SJI	South Jersey Industries Inc			28.26	3.7		2,246	3,692	21.9	21.2	17.5	BBB+	N/A
LDC Average					**2.9**	**6.3**			**21.4**	**20.2**	**18.7**		
GXP	Great Plains Energy Inc	B-1-7	Buy	27.56	3.8	6.5	5,933	9,071	15.6	16.1	15.8	BBB+	Baa2 *-
PNW	Pinnacle West Capital Corp	A-3-7	Underperform	74.08	3.5	5.0	8,236	13,358	18.5	17.6	16.6	A-	A3
NWE	NorthWestern Corp	A-3-7	Underperform	56.09	3.6	4.5	2,711	5,021	17.2	16.4	15.6	BBB	A3
POR	Portland General Electric Co	A-2-7	Neutral	41.32	3.1	7.0	3,674	6,154	19.6	17.4	17.1	BBB	A3
Small-Mid Cap Electric Utility Avg.					**3.5**	**5.7**			**17.7**	**16.8**	**16.3**		

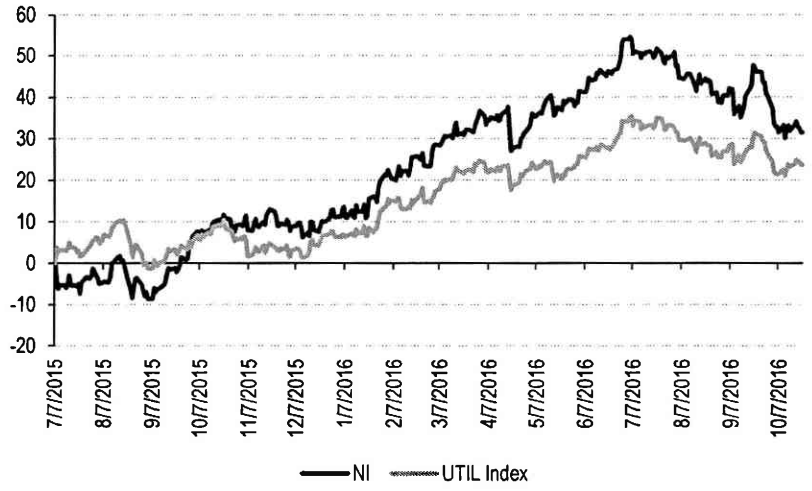
Source: Bloomberg, BofA Merrill Lynch Global Research

*Data as of 21 Oct 2016

*2015-2018 DPS CAGR is pro-rated for those names that IPOed during or after 2014 and used consensus DPS estimates when BofAML estimates were unavailable

*SJI P/E ratio assume consensus EPS

Chart 3: NI has outperformed the UTIL Index on a total return basis since the separation of CPGX



Source: Bloomberg
Data as of 21 October 2016

Investment positives

- Fully regulated utilities with regulated rates of return
- $30bn of identified infrastructure investment opportunities
- Majority of capex recovered via tracker
- Constructive regulatory environments at underlying utilities

Fully regulated utilities with regulated rates of return

Following the separation of CPGX on 1 July 2015, NI became a fully regulated natural gas and electric utility holding company with seven natural gas LDC subsidiaries (Indiana Gas (NIPSCO), Columbia Gas of Ohio, Columbia Gas of Pennsylvania, Columbia Gas of Massachusetts, Columbia Gas of Virginia, Columbia Gas of Kentucky and Columbia Gas of Maryland) and one electric subsidiary, Indiana Electric (NIPSCO). As a result of its fully regulated operations, NI benefits from earnings stability and predictability, which we believe merits a premium valuation relative to most peers with (at least some) non-regulated operations.

NI's regulatory mechanisms support gradual rate increases across its service territories, typically at a low single digit annual total rate increase. Regulatory programs across NI's jurisdictions also allow for a timely recovery of infrastructure improvement investments with an average nine-month lag across NI's jurisdictions. Additionally, NI's rates are designed to provide revenue stability, partially through regulatory tools in many jurisdictions that allow for full recovery of certain types of recurring and volatile operating expenses via trackers.

Table 2: NI subsidiary profiles (see appendix for additional detail)

	Rate Base ($mn)	Customers ('000s)	Pipeline miles/ generation capacity	Total investment opportunities ($mn)	Annual investment range ($mn)
Indiana Electric (NIPSCO)	3,000	500	3,300 MW	8,525-8,750	185-500
Columbia Gas of Ohio	1,700	1,400	20,000 miles	4,100	175-240
Columbia Gas of Pennsylvania	1,100	420	17,000 miles	3,000	150-210
Indiana Gas (NIPSCO)	800	800	7,400 miles	4,500	100-130
Columbia Gas of Massachusetts	600	300	5,000 miles	1,400	50-70
Columbia Gas of Virginia	530	250	5,000 miles	550	25-35
Columbia Gas of Kentucky	235	135	2,600 miles	750	10-20
Columbia Gas of Maryland	60	33	750 miles	200	5-15

Source: Company filings

$30bn of identified infrastructure investment opportunities

NI has an attractive organic growth backlog via $30bn of identified infrastructure investment opportunities that are intended to modernize NI's distributed core utility assets. NI expects to make the investments over the next several decades. $20bn of the investment spending is expected to be allocated to NI's natural gas utilities with the remaining $10bn allocated to NIPSCO Electric. As of year-end 2015, $2bn of the $30bn program was complete, and NI anticipates $1.5bn of capex (including expansion and maintenance capex) in 2016. According to management, NI's capex backlog is expected to drive 4-6% annual EPS and dividend growth. We believe the growth outlook is attractive. However, our projected three-year dividend growth CAGR of 5.5% is slightly below the LDC peer average of 6.3% and largely in line with the small-mid cap electric utility average of 5.7%.

Table 3: Natural gas infrastructure modernization programs

Gas infrastructure modernization plans	Year-end 2015 rate base ($bn)	Identified investments ($bn)	Annual investment ($mn)	Recovery mechanism	Investment Horizon
Columbia Gas of OH	1.9	4.1	175-240	Tracked	20-25 years
Columbia Gas of PA	1.2	3.0	150-210	Rate Case (forward test year)	15-20 years
NIPSCO Gas	0.8	4.5	100-130	Tracked	20-25 years
Columbia Gas of MA	0.6	1.4	50-70	Tracked	15-20 years
Columbia Gas of VA	0.6	0.6	25-35	Tracked	15-20 years
Columbia Gas of KY	0.2	0.8	10-20	Tracked	25-30 years
Columbia Gas of MD	0.1	0.2	5-15	Tracked	15-20 years
Total	**5.4**	**14.5**	**515-720**		

Source: Company reports

Table 4: Electric infrastructure modernization programs

Project	Identified investments ($bn)	Annual investment ($mn)	Recovery mechanism	Program/Project Length
Environmental (Flue Gas Desulfurization, MATS)	0.85	30 in 2016	Tracked/Rate Base	1 year remaining (FGDs Complete)
Infrastructure Modernization	6.80	120-220	Tracked	20+ years
Environmental Compliance	0.35-0.5	TBD	Tracked	5 years
Transmission Project I* (Reynolds-Topeka)	0.35-0.4	50-140	FERC Approved Formula Rates	Expected Completion 2H18
Transmission Project II* - Partnership (Greentown-Reynolds)	0.175-0.2*	25-70	FERC Approved Formula Rates	Expected Completion 2H18

Source: Company reports
*Identified investment value is net to NI

Majority of capex recovered via trackers

Regulation across NI's service territories allows for the majority of capex to be recovered without regulatory lag or within six months following the end of an investment period via trackers and rate adjustments. As a result, we expect earned ROEs to remain relatively close to allowed ROEs as NI works through its $30bn investment program over the next 20+ years.

Columbia Gas of Pennsylvania, Massachusetts, Virginia, Kentucky and Maryland file anticipated investment spending plans several months in advance, allowing investment spending to be recovered through rates without regulatory lag. However, we note that Columbia Gas of Ohio/Indiana Gas/Indiana Electric, which account for 70% of NI's consolidated rate base, have 5/6/6 month recovery lags, respectively, following an investment period. As a result, the 5-6 month regulatory lag could cause near-term dislocations between earned and allowed ROEs.

Additionally, the Indiana Utility Regulatory Commission (IURC) allows only 80% of eligible costs to be recovered via periodic rate adjustments, with the remaining 20% of recoverable costs deferred for future recovery in the public utility's next general rate case. As a result, 20% of NI's capex in IN does not earn a return on investment until the next rate case. IN's periodic rate adjustment mechanism is also capped at an annual increase of 2% of total retail revenues.

Constructive regulatory environments at underlying utilities

NI benefits from constructive regulatory environments at its underlying utilities. As mentioned, legislation across NI's service territories allows NI's subsidiaries to earn a return of and a return on capital invested for the purpose of system modernization with minimal regulatory lag via trackers and rate adjustments. Additionally, NI benefits from constructive rate design via straight fixed variable or fully fixed rates and/or energy efficiency, weather normalization, bad debt and low income trackers that can minimize the gap between earned and allowed ROEs.

Overall, we believe NI's regulatory environments will continue to be constructive in the current commodity price environment. However, higher natural gas prices in the future may limit regulators' willingness to allow LDCs and electric utilities to pass through incremental costs to customers via rates.

Investment risks

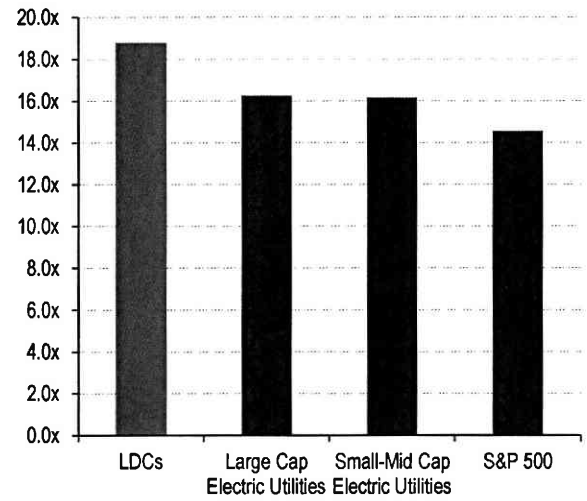
- Gas utilities look expensive relative to the market
- Service territory demographics limit growth beyond pipe replacement programs
- Multiple jurisdictions may hamper M&A premium, add to rate-case risk
- Steel headwinds may weigh on future earnings, but impact likely limited

Natural gas utilities look somewhat expensive relative to the market

Over the past three years, natural gas utilities posted an average total return of 52%, outperforming the S&P 500 utilities index and S&P 500 which generated 38/31% total

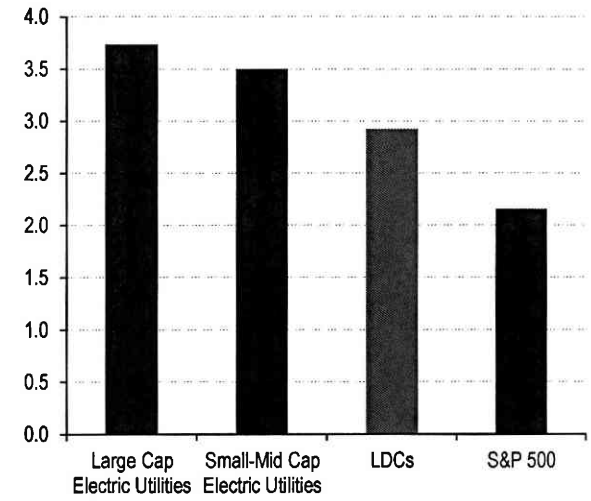
returns, respectively, over the period. In our view, gas utility outperformance has largely been driven by M&A speculation, the defensive nature of the sector, and above average growth prospects relative to electric utilities. However, we believe limited incremental multiple expansion exists with gas utilities trading at a premium to the market,

Chart 4: LDCs trade at a premium to the market based on 2018E P/E



Source: BofA Merrill Lynch Global Research, Bloomberg
Data as of 21 October 2016

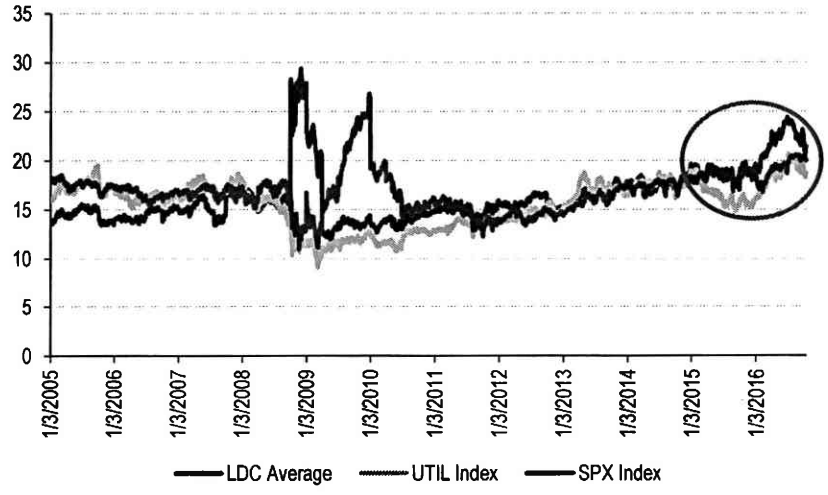
Chart 5: LDCs also trade at a premium to electric utilities based on dividend yield but at a discount to the S&P



Source: BofA Merrill Lynch Global Research, Bloomberg
Data as of 21 October 2016

That said, LDC and electric utility valuations recently pulled back relative to the S&P largely due to concerns over rising interest rates. While we believe the recent pullback partially mitigates future downside risk for the sector as a whole, additional rate increases could further weigh on LDC valuations. Additionally, LDC valuations remain elevated relative to electric utilities, which we believe creates downside risk if M&A speculation continues to subside.

Chart 6: LDC P/E multiples recently began diverging from electric utility multiples in March 2015 and the S&P in January 2016

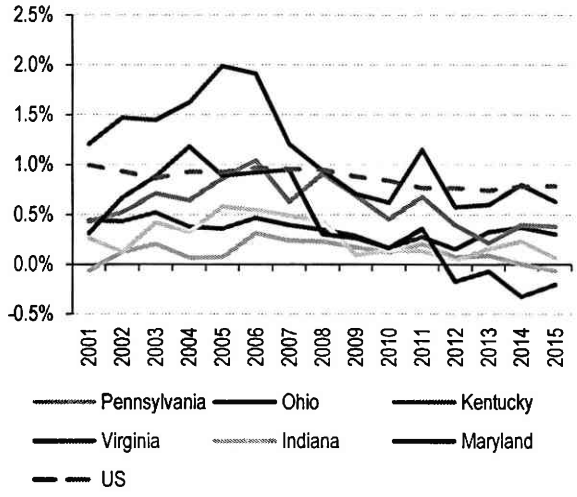


Source: BofA Merrill Lynch Global Research, Bloomberg
Data as of 21 October 2016

Service territory demographics limit growth beyond pipe replacement programs

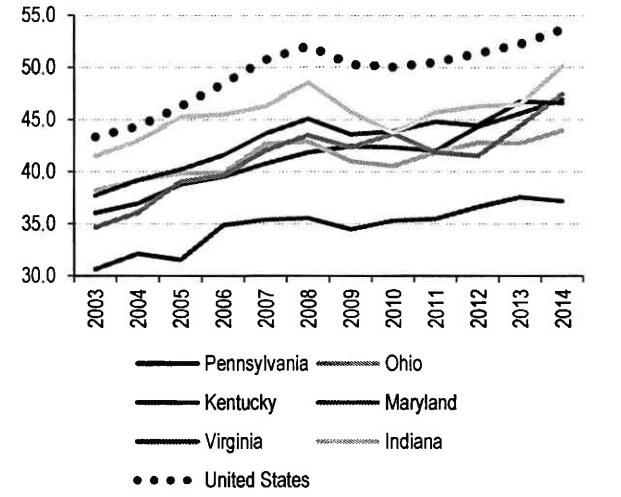
In our view, NI's service territory demographics may limit NI's ability to grow organically relative to peers with operations in more affluent areas or regions with greater population growth. Median household income across NI's service territories has remained well below the national median household income over the past 10 years. Additionally, NI's service territory population grew by only 1.6% between 2010 and 2015 versus 4.1% for the US overall. As a result, we believe NI's growth will largely depend on its $30bn capex program with less incremental upside from customer growth.

Chart 7: YoY population growth across NI's service territories



Source: US Census; excludes MA due to lack of data

Chart 8: Median household income across NI's service territories



Source: US Census; excludes MA due to lack of data

Multiple jurisdictions may hamper M&A premium, add to rate-case risks

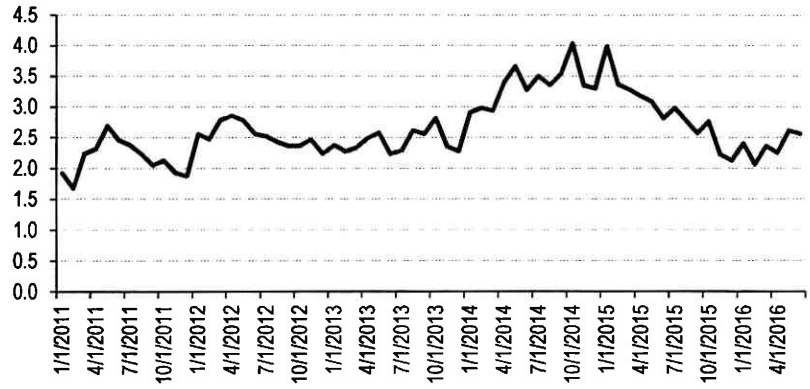
NI operates in seven states via seven natural gas utility subsidiaries and one electric utility subsidiary. In our view, NI's operations in multiple states may reduce other utility companies' interest in NI as an M&A target or hamper a potential M&A premium given the regulatory complexity associated with potentially acquiring NI.

We also believe exposure to multiple states may increase rate-case risk. NI currently has five rate cases under review including rate cases in Kentucky, Pennsylvania, Virginia, Maryland and at Indiana Electric. Rate cases in Kentucky, Maryland and Pennsylvania are on track to receive commission orders by year-end 2016, with Virginia to follow in early 2017. We also note Columbia Gas of Maryland's rate case was recently settled and called for a $3.7mn annual revenue increase versus the utility's $6.5mn request. Columbia Gas of Pennsylvania's rate case was also recently settled and called for a $35mn annual revenue increase versus the utility's $55.3mn request. Overall, we believe NI's multiple service territories complicates NI's investment story and although it diversifies regulatory risk, it also to a degree increases the risk of regulatory challenges.

Steel headwinds may weigh on future earnings, but impact likely limited

A surge in steel imports in 2014 led to challenging steel production economics, particularly for domestic producers in Indiana. While we believe steel market conditions have largely stabilized, additional declines in domestic steel production could weigh on NI's electric utility earnings in the future (see: Sept U.S. metal service center shipments remain weak, expect further destocking).

Chart 9: US monthly steel imports (MMT)

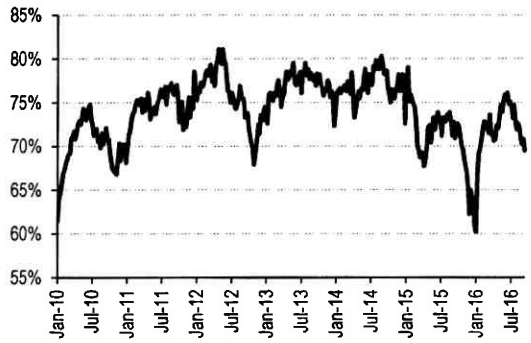


Source: US Census

That said, steel related customers represent only 15% of NI's electric net revenues and only 5% of total net revenues. Additionally, Indiana Electric's rate design includes a demand ratchet mechanism, which sticks for twelve months rolling and can mitigate short-term fluctuations in power demand from steel related customers. The current electric rate case test year goes through the end of March 2015. As a result, the load profile reflects a small portion of the decline in industrial steel demand. However, it does not provide a full picture of the industrial steel outlook.

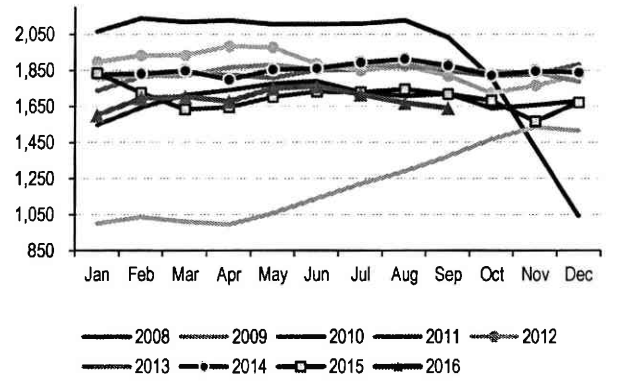
Overall, we believe any future weakness associated with NI's steel related customers will be relatively limited and management believes economic development may offset current steel market headwinds.

Chart 10: Weekly US steel capacity utilization



Source: AISI

Chart 11: US average weekly steel production (in 000 tons)



Source: AISI

EPS outlook

Our 2016/17/18 diluted EPS estimates of $1.08/1.14/1.21 compare to the consensus estimates of $1.07/1.15/1.21, respectively. This compares to management's guidance of 2016 EPS of $1.05-1.10 per share. Our EPS estimates imply 6% annual growth versus NI's target of 4-6%. EPS growth is largely driven by regulatory filings (particularly rate cases), expectations for low customer growth, and modernization of gas and electric infrastructure.

In addition, NI sees an investment opportunity set of $30bn over 20+ years ($20bn gas, $10bn electric) and expects to spend $1.4bn per year over the medium term (including

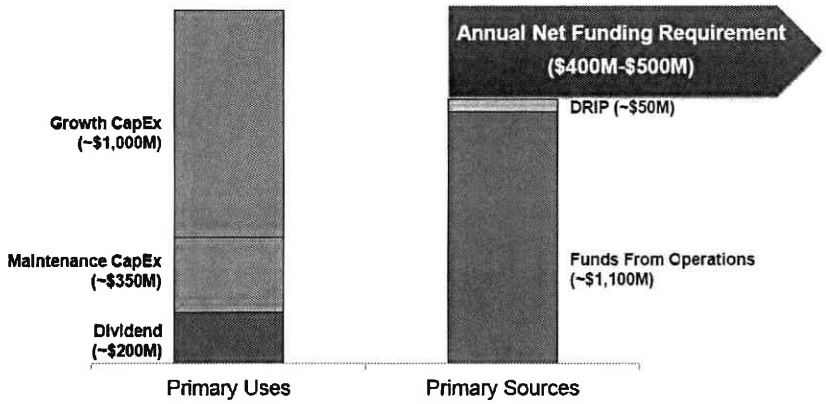
$1.6bn in 2016). This is expected to grow rate base by 6-8% per year as capex will be entirely regulated. The $30bn of identified investment projects include:

- Generation investment ($1.7B)
- Electric transmission investment ($1.0B)
- Electric environmental investment ($0.5B)
- Electric system modernization ($6.8B)
- Gas system modernization ($20B)

Moderate external capital needs

We view NI's capital program positively, as it should provide sustainable 6-8% rate base growth over the medium term. In general, we anticipate moderate external capital needs, as a large portion of capex will be funded through cash flows from operations. We expect NI to issue modest levels of debt and equity over the medium term in order to finance a portion of its capital program. We estimate $400/600/700mn of debt issuance in 2H16/2017/2018, respectively. Management does not expect to issue additional equity in the near term beyond NI's dividend reinvestment program (DRIP).

Exhibit 1: NI's primary sources and uses of cash (illustrative)



Source: company reports

Table 5: NI income statement summary ($mn)

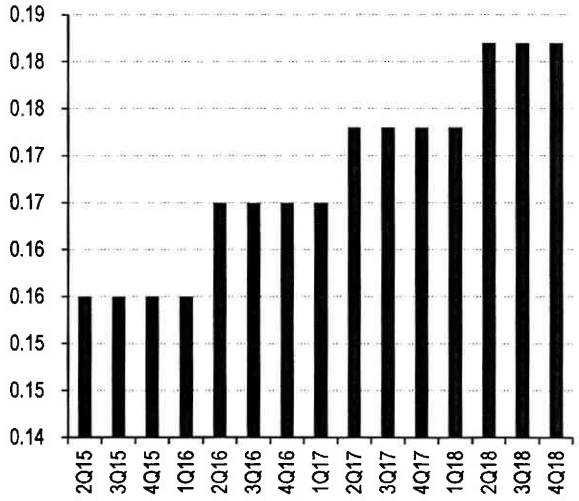
	2015	Q1/16	Q2/16	Q3/16E	Q4/16E	2016E	2017E	2018E
Income Statement								
Revenues	4,651.8	1,436.6	897.6	1,023.1	1,141.2	4,498.5	4,913.4	5,437.1
Cost of Sale and Operations	1,643.7	496.5	234.9	301.8	377.1	1,410.4	1,716.8	1,966.1
Gross margin	**3,008.1**	**940.1**	**662.7**	**721.3**	**764.1**	**3,088.1**	**3,196.6**	**3,471.0**
Operating expenses								
Selling, general and administrative	1,426.1	354.7	337.6	376.5	297.2	1,366.0	1,388.2	1,536.3
Depreciation and amortization	524.4	132.8	136.9	134.0	135.8	539.6	562.0	593.1
Gain/(loss) on sale of assets	1.6	(0.1)	(0.2)	-	-	(0.3)	-	-
Other taxes	256.1	71.3	50.2	62.6	55.9	240.0	250.3	272.3
Other	-	-	-	-	-	-	-	-
Total Operating expenses	**2,208.2**	**558.7**	**524.5**	**573.1**	**489.0**	**2,145.3**	**2,200.5**	**2,401.8**
Equity Earnings in Unconsolidated Affiliates	-	-	-	-	-	-	-	-
Operating Income	**799.9**	**381.4**	**138.2**	**148.2**	**275.1**	**942.9**	**996.0**	**1,069.2**
Interest expense	380.2	90.5	86.0	103.8	106.7	387.0	396.7	430.3
Income Taxes	141.3	111.9	17.4	16.9	64.0	210.2	227.7	242.8
Other	(79.8)	0.7	(6.1)	-	-	(5.4)	-	-
Net Income (loss) before extraordinary items	198.6	**179.7**	**28.7**	**27.5**	**104.4**	340.3	371.6	396.1
Noncontrolling interests	-	-	-	-	-	-	-	-
Extraordinary gain / (loss)	-	-	-	-	-	-	-	-
GAAP Net Earnings	**198.6**	**179.70**	**28.70**	**27.52**	**104.39**	**340.3**	**371.6**	**396.1**
Adjustments net of taxes	100.2	11.1	(2.4)	-	-	8.7	-	-
Adjusted Net Earnings	**298.8**	**190.8**	**26.3**	**27.5**	**104.4**	**349.0**	**371.6**	**396.1**
Basic EPS								
GAAP	$0.63	$ 0.56	$ 0.09	$ 0.09	$ 0.32	$1.06	$1.15	$1.21
Adjustment	$0.32	$ 0.03	$ (0.01)	$ -	$ -	$0.03	$0.00	$0.00
Adjusted EPS	$0.94	$ 0.60	$ 0.08	$ 0.09	$ 0.32	$1.08	$1.15	$1.21
Diluted EPS								
GAAP	$0.62	$0.56	$0.09	$0.09	$0.32	$1.05	$1.14	$1.21
Adjustment	$0.31	$0.03	($0.01)	$0.00	$0.00	$0.03	$0.00	$0.00
Adjusted EPS	$0.93	$0.59	$0.08	$0.09	$0.32	$1.08	$1.14	$1.21
Diluted shares outstanding	320	322	323	323	324	323	325	327
Dividend	$0.51	$0.16	$0.16	$0.17	$0.17	$0.64	$0.68	$0.71
Payout ratio	55%	26%	190%	194%	51%	59%	59%	59%

Source: BofA Merrill Lynch Global Research, company filings

Dividend outlook

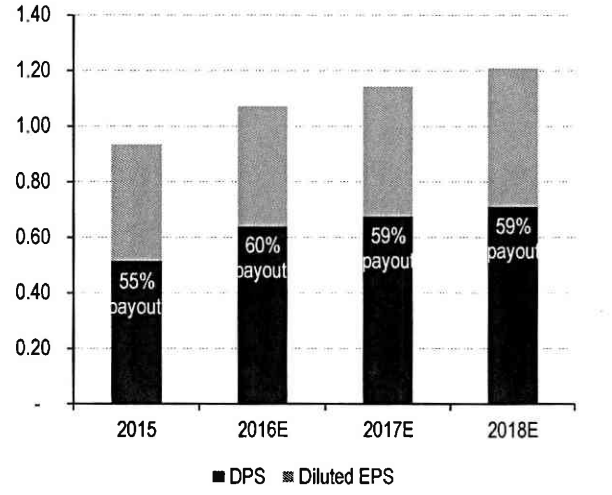
NI paid an initial quarterly dividend post separation of $0.155 per share ($0.62 annualized). Management has a target dividend growth rate of 4-6%, in line with earnings and dividend payout ratio of 60-70%. We estimate 2016/17/18 paid dividends of $0.64/0.68/0.71, respectively, which imply an increase of 5/5% YoY in 2017/18. We also forecast a 60/59/59% dividend payout ratio in 2016/17/18, respectively.

Chart 12: NI per share declared cash dividend outlook ($)



Source: BofA Merrill Lynch Global Research, company filings

Chart 13: We forecast a 60/59/59% div. payout ratio in 2016/17/18



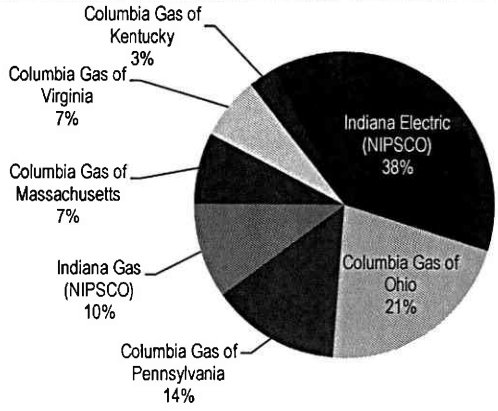
Source: BofA Merrill Lynch Global Research, company filings

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 nearly all of its operating income through these rate-regulated businesses (see Appendix for additional details about NI's regulated utility subsidiaries).

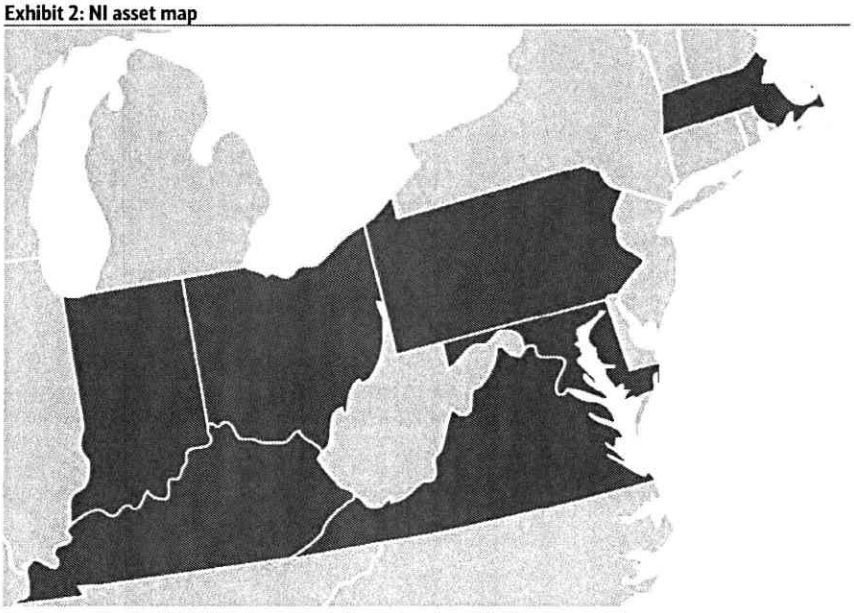
- NI's natural gas distribution business provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts.
- Indiana Electric, NI's electric business, is the third largest electric utility in Indiana and provides electric service in 20 counties in the northern part of Indiana.

Chart 14: Indiana Electric, Columbia Gas of OH and Columbia Gas of PA account for 73% of rate base



Source: Company filings

Exhibit 2: NI asset map



Source: company reports

Seasonality

A significant portion of NiSource's operations is subject to seasonal sales volume. During the heating season, November through March, net revenues from gas sales are more significant. During the cooling season, June through September, net revenues from electric sales and transportation services are more significant than in other months.

Management

Joe Hamrock is the president and chief executive officer of NI. Previously, he was executive vice president and group CEO for NI's gas distribution segment. He joined NiSource in May 2012 after serving in a variety of senior executive positions with American Electric Power.

Table 6: NI management and chairman

Name	Position
Joseph Hamrock	President and CEO
Donald Brown	Executive VP, CFO and Treasurer
Robert Campbell	Executive VP, Corporate Affairs and Human Resources
Carrie Hightman	Executive VP, Chief Legal Officer
Carl W Levander	Executive VP, and Chief Regulatory Officer
Richard Thompson	Chairman

Source: Company filings

Appendix

Table 7: Characteristics of NI's underlying utilities

	Rate base ($mn)	Customers (000s)	Rate Design	Total investment opportunities ($mn)	Annual investment range ($mn)	Program length (years)	Regulatory treatment	Weighted Avg Regulatory Lag
Indiana Electric (NIPSCO)	3,000	500	• 100% fuel costs pass-through • 55% of net revenue requirement collected through fixed charges, tracker, or demand ratchet	8,525-8,750	185-500	20+	Modernization and environmental projects tracked	N/A
Columbia Gas of Ohio	1,700	1,400	• Straight fixed variable rate design (fully fixed residential distribution rate) • Bad debt tracked with full recovery • Several other O&M trackers	4,100	175-240	20-25	Tracked (IRP)	<12 months
Columbia Gas of Pennsylvania	1,100	420	• 75% revenue generated by residential customers with 50% fixed distribution rate (assuming average customer usage) • Weather normalization adjustment for residential customers stabilizes revenue	3,000	150-210	15-20	Rate Case/Tracker	None
Indiana Gas (NIPSCO)	800	800	• 60% of residential distribution rate fixed • Low income program fully tracked	4,500	100-130	20-25	Tracked	<12 months
Columbia Gas of Massachusetts	600	300	• Revenue decoupling adjustment provides residential distribution revenue recovery • Full cost recovery mechanisms for O&M associated with energy efficiency and low income programs, bad debt, and pension costs	1,400	50-70	15-20	Tracked	None
Columbia Gas of Virginia	530	250	• Revenue normalization adjustments provides full residential distribution revenue recovery • Energy conservation tracker	550	25-35	15-20	Tracked	None
Columbia Gas of Kentucky	235	135	• 65% of revenue generated by residential customers with a 60% fixed distribution rate • Weather normalization adjustment for residential and commercial customer stabilizes revenue • Energy conservation tracker	750	10-20	25-30	Tracked	None
Columbia Gas of Maryland	60	33	• Revenue normalization adjustment provides full residential distribution revenue recovery • Energy efficiency tracker	200	5-15	15-20	Tracked	None

Source: Company filings

Price objective basis & risk

NiSource, Inc (NI)
Our $24 PO is largely based on a target P/E multiple of approximately 20x our FY18E EPS of $1.21/share. We note this multiple is below the LDC peer average but above the small-mid cap electric utility average. We believe NI's 4-6% EPS/dividend growth outlook, attractive regulated earnings profile and constructive legislation across NI's service territories are more than reflected in NI's stock price. Upside risks to our PO are better-than-expected customer growth, a sustained period of low interest rates and low natural gas prices, and better than expected rate case outcomes. Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, high natural gas prices, and challenging steel production economics in Indiana.

Analyst Certification

I, Gabe Moreen, 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.

US - Natural Gas Utilities Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
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	Sempra Energy	SRE	SRE US	Gabe Moreen
	Southwest Gas	SWX	SWX US	Gabe Moreen
	Spire	SR	SR US	Gabe Moreen
	UGI Corporation	UGI	UGI US	Gabe Moreen
NEUTRAL				
	NiSource, Inc	NI	NI US	Gabe Moreen
	ONE Gas, Inc.	OGS	OGS US	Gabe Moreen
UNDERPERFORM				
	New Jersey Resources Corporation	NJR	NJR US	Gabe Moreen
	Northwest Natural Gas Co.	NWN	NWN US	Gabe Moreen
	Vectren Corp	VVC	VVC US	Gabe Moreen
	WGL Holdings, Inc.	WGL	WGL US	Gabe Moreen

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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, Less 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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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	105	46.67%	Buy	88	83.81%
Hold	54	24.00%	Hold	48	88.89%
Sell	66	29.33%	Sell	49	74.24%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1553	49.44%	Buy	1130	72.76%
Hold	730	23.24%	Hold	538	73.70%
Sell	858	27.32%	Sell	514	59.91%

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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%

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

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People. Ideas. Success.

Launching Coverage and Getting Gassier – Catalyst-Rich but Not a Sector Call

SECTOR: Power and Utilities

November 3, 2016

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Expanding utility coverage. We are expanding coverage with an additional 14 regulated utilities: gas and electric – *coverage now spans 39 utilities and growing*. As highlighted with our current launch ratings distribution – 7 Buys, 7 Holds (22 Buys out of 39 utilities under our entire coverage) **– we are slowly becoming more selective with regulated names than prior and focusing attention on utilities not perceived by investors as pure bond surrogates.** This is evident in our recent move to favor more power-levered names vs. traditional regulated utilities. **Investors need to be selective as a return to traditional stock picking will finally matter** – won't outperform the market by owning a basket of utilities as in the past given cyclical headwinds. **Sentiment is shifting and traditional long-only investors are increasingly looking for ideas/ stories within the sector.** Our BUY ratings have value and are well levered to gas infrastructure, wires and renewables – structural themes that will dominate the sector for the next several years.

Where should investors focus? Core holding: SRE; **other notable BUYs**: CNP, OGE, SCG, SR, NJR, WEC – key themes include solid growth with upside opportunities, de-risking and undervalued. We view SRE as an overcrowded long but as a must-own in the current rate cycle; CNP, OGE, SCG, SR, NJR and WEC – all non-consensus BUYs. **Key NEUTRAL name on our radar**: NI.

Be selective – despite recent sell-off, utilities still trade above forward bond yields. While we don't see material downside risk for the sector, upside potential looks limited as well – we are likely approaching the 9th inning of the pure regulated utility trade outside of a deflationary environment/recession. As discussed in this note, utilities are likely ~0.5-1x overvalued on a P/E basis vs. forward BBB corporate bond yield expectations – valuations have come in but not enough. Be selective and hunt for stories within the sector.

Utilities thirsty for growth: M&A and deal activity plentiful – consolidation should continue. We expect the sector to continue to be dominated by M&A as low borrowing costs offset valuation premiums making most deals look near-term accretive – the thirst for growth will lead to further acquisitions of SMID utilities. Several names within this coverage expansion and our consolidated utility coverage as a whole could be strong candidates for an acquisition. **We highlight in this launch:** ALE, NJR, NWN, SR, VVC, AVA, SCG, POR, LNT as examples of several utilities within our coverage space in regions that could ultimately prove attractive to several type of acquirers – some names already reflect an M&A premium, in our view, and some do not.

We believe gas utility valuations are set to expand again with the next wave of M&A – it moves in cycles; investors should continue to place valuation premiums for gas vs. their electric counterparts outside of just an M&A argument. Gas utilities are inherently a premium play to their electric counterparts given higher capital and customer growth, better regulatory constructs, less regulatory lag, etc. The premium that gas utilities have recently enjoyed has somewhat contracted over the past few months, but this is not, for instance, driven by fundamentals between the two subgroups aligning – there is more at play. While we would attribute what appears to have been cyclical expansion/contraction of the spread to midstream components of the gas utility index with exposure to commodities, we would highlight the more recent spread contraction was also driven by gas utilities being acquired at relatively lofty valuations, and then removed from the gas utility index – effectively removing names that were lifting the composite index by trading with an M&A premium. In the last year, we would highlight contraction of the spread attributable to the removal of Questar (acquired by D) and Piedmont (acquired by DUK) from the gas index, and our view is that the spread has merely reset as the next wave of M&A incubates. This is just one of several observations – we believe **gas valuation premium spreads will revert back.**

Utilities continue to be key beneficiaries of coal retirements – this group is no exception. This leads to infrastructure opportunities – wires or pipes, renewables expansion, and new gas plants, which are key drivers of growth for our consolidated coverage over the next few years. In total, we continue to project 85GW (we recently increased this projection from our prior 71GW base assumption) of retirements with coal as a % of power consumption leveling at 23% or lower vs. the 44% mix in 2009. We expect our regulated utility sector (gas or electric) to continue to be the key beneficiaries.

Sector will continue to be theme-dominated. We have discussed in great length in prior research key industry items investors should think about within the sector, including gas infrastructure opportunities as utilities shift further midstream, renewables/DG, Federal reforms, environmental policy, etc., which are outside the scope of this report. For industry top-down thoughts, see: (1) Utility Sector Launch - First Wave, (2) Independent Power Producers Launch and (3) '16 Utility Sector Outlook.

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Launching Coverage and Getting Gassier – Catalyst-Rich but Not a Sector Call

SECTOR: **POWER AND UTILITIES** **November 3, 2016**

GUGGENHEIM POWER & UTILITIES COMP SHEET

Figure 1: Guggenheim's Power & Utility Comp Sheet

As of 11/1/2016

										Guggenheim Estimates							Consensus Estimates						
Regulated Utilities [2]	Market Cap ($bn)	Rating	Target Price[1]	Current Price	Price Change	Dividend (2018E) Yield	Payout	Diluted Shares	Earnings Per Share '16E	'17E	'18E	CAGR	Price / Earnings '16E	'17E	'18E	Earnings Per Share '16E	'17E	'18E	CAGR	Price / Earnings '16E	'17E	'18E
AEP American Electric Power	31.2	Buy	$69	$63.38	9%	3.9%	63%	492	3.83	3.65	3.85	0%	16.5	17.4	16.5	3.76	3.71	3.94	2%	16.9	17.1	16.1
ALE ALLETE, Inc.	2.9	Neutral	$57	$59.65	-4%	3.8%	61%	49	3.14	3.46	3.68	8%	19.0	17.2	16.2	3.12	3.52	3.69	9%	19.1	16.9	16.2
AVA Avista Corporation	2.6	Neutral	$39	$40.10	-3%	3.8%	68%	64	2.06	2.16	2.30	6%	19.5	18.6	17.4	2.07	2.15	2.22	3%	19.3	18.7	18.1
CNP CenterPoint Energy, Inc.	9.7	Buy	$25	$22.50	11%	5.0%	88%	431	1.13	1.27	1.32	8%	19.9	17.7	17.0	1.14	1.21	1.29	6%	19.7	18.6	17.5
D Dominion Resources, Inc.	46.8	Buy	$85	$74.46	14%	4.3%	77%	628	3.85	3.89	4.32	6%	19.3	19.1	17.2	3.79	3.85	4.21	5%	19.6	19.3	17.7
DTE DTE Energy Company	16.9	Buy	$104	$94.29	10%	3.6%	59%	179	5.36	5.27	5.66	3%	17.6	17.9	16.7	5.25	5.31	5.68	4%	17.9	17.8	16.6
DUK Duke Energy Corporation	54.1	Buy	$98	$78.57	12%	4.7%	75%	689	4.60	4.66	4.89	3%	17.1	16.9	16.1	4.62	4.68	4.87	3%	17.0	16.8	16.1
ED Consolidated Edison, Inc.	22.5	Neutral	$74	$74.05	0%	3.8%	66%	304	3.95	4.16	4.36	5%	18.7	17.8	17.0	3.96	4.14	4.32	4%	18.7	17.9	17.2
EIX Edison International	23.6	Neutral	$78	$72.50	8%	3.2%	54%	326	3.87	4.12	4.34	6%	18.7	17.6	16.7	3.91	4.12	4.36	6%	18.6	17.6	16.6
ES Eversource Energy	17.2	Buy	$64	$54.08	18%	3.7%	61%	317	2.93	3.20	3.37	7%	18.5	16.9	16.0	2.97	3.15	3.30	5%	18.2	17.2	16.4
LNT Alliant Energy Corp	8.5	Neutral	$34	$37.42	-9%	3.5%	62%	227	1.85	1.95	2.13	7%	20.2	19.2	17.6	1.89	2.00	2.13	6%	19.8	18.7	17.5
NEE NextEra Energy, Inc.	58.2	Buy	$139	$125.89	10%	3.5%	63%	467	6.33	6.56	7.01	5%	19.9	19.2	18.0	6.21	6.58	7.03	6%	20.3	19.1	17.9
OGE OGE Energy Corp.	6.0	Buy	$33	$30.25	9%	4.5%	72%	200	1.72	1.88	1.93	6%	17.6	16.1	15.7	1.77	1.88	1.89	3%	17.1	16.1	16.0
PCG PG&E Corporation	30.9	Neutral	$61	$61.21	0%	3.7%	58%	504	3.65	3.70	3.83	2%	16.8	16.5	16.0	3.74	3.67	3.86	2%	16.4	16.7	15.8
PNW Pinnacle West	8.3	Neutral	$83	$74.79	11%	3.7%	63%	111	3.92	4.18	4.48	7%	19.1	17.9	16.7	3.99	4.22	4.44	5%	18.7	17.7	16.9
POR Portland General Electric	3.8	Neutral	$40	$42.56	-6%	3.4%	57%	89	2.18	2.35	2.47	6%	19.5	18.1	17.2	2.12	2.34	2.49	8%	20.1	18.2	17.1
PPL PPL Corporation	23.1	Neutral	$38	$34.00	12%	4.8%	71%	678	2.40	2.20	2.28	-3%	14.2	15.5	14.9	2.35	2.17	2.29	(1%)	14.5	15.7	14.8
SCG SCANA Corporation	10.3	Buy	$78	$71.72	9%	3.5%	55%	143	3.99	4.25	4.53	7%	18.0	16.9	15.8	4.11	4.23	4.52	5%	17.4	17.0	15.9
SO Southern Company	49.5	Neutral	$54	$50.48	7%	4.7%	76%	980	2.88	3.02	3.17	5%	17.5	16.7	15.9	2.89	2.98	3.13	4%	17.4	16.9	16.1
WEC WEC Energy Group Inc	18.5	Buy	$63	$58.52	8%	3.8%	68%	316	2.94	3.16	3.40	8%	19.9	18.5	17.2	2.94	3.11	3.32	6%	19.9	18.8	17.6
Average						**3.9%**	**66%**					**5%**	**18.4**	**17.6**	**16.6**				**5%**	**18.3**	**17.6**	**16.7**
Integrated Utilities [3]	Market Cap ($bn)	Rating	Target Price[1]	Current Price	Price Change	Dividend (2018E) Yield	Payout	Diluted Shares	Earnings Per Share '16E	'17E	'18E	CAGR	Price / Earnings '16E	'17E	'18E	Earnings Per Share '16E	'17E	'18E	CAGR	Price / Earnings '16E	'17E	'18E
ETR Entergy Corporation	12.9	Buy	$78	$71.93	8%	5.0%	76%	179	6.99	4.73	4.82	-17%	10.3	15.2	14.9	6.86	4.71	4.77	(17%)	10.5	15.3	15.1
EXC Exelon Corporation	30.7	Buy	$39	$33.26	17%	4.0%	48%	923	2.71	2.62	2.77	1%	12.3	12.7	12.0	2.63	2.58	2.75	2%	12.6	12.9	12.1
FE FirstEnergy Corp.	14.2	Buy	$42	$33.47	25%	4.3%	56%	425	2.58	2.62	2.59	0%	13.0	12.8	12.9	2.55	2.64	2.60	1%	13.1	12.7	12.9
PEG PSEG	20.9	Buy	$47	$41.35	14%	4.4%	61%	506	2.86	2.82	2.92	1%	14.5	14.7	14.2	2.87	2.88	2.93	1%	14.4	14.4	14.1
Average						**4.4%**	**60%**					**-4%**	**12.5**	**13.8**	**13.5**				**-3%**	**12.7**	**13.8**	**13.5**
Independent Power Producers (IPPs) [4]	Market Cap ($bn)	Rating	Target Price[1]	Current Price	Price Change	Dividend (2018E) Yield	Payout	Diluted Shares	Adjusted EBITDA '16E	'17E	'18E	CAGR	EV / EBITDA '16E	'17E	'18E	Adjusted EBITDA '16E	'17E	'18E	CAGR	EV / EBITDA '16E	'17E	'18E
CPN Calpine Corporation	4.2	Buy	$20	$11.80	69%	0.0%	0%	359	1,811	1,880	2,066	7%	8.6	7.9	6.9	1,830	1,899	2,040	6%	8.6	7.8	7.0
DYN Dynegy Inc.	1.3	Buy	$21	$10.72	96%	0.0%	0%	117	1,068	1,320	1,670	25%	9.2	7.3	5.5	1,029	1,402	1,660	27%	9.6	6.9	5.6
NRG NRG Energy, Inc.	3.4	Buy	$17	$10.63	60%	1.1%	11%	315	3,119	2,771	2,904	(4%)	6.4	7.0	6.3	3,134	2,714	2,864	(4%)	6.4	7.1	6.4
TLN Talen Energy Corp	1.8	Neutral	$14	$13.92	1%	0.0%	0%	129	785	755	751	(2%)	7.0	7.3	7.3	759	715	660	(7%)	7.3	7.7	8.3
Average						**0.3%**	**3%**					**7%**	**7.8**	**7.4**	**6.5**				**5%**	**7.9**	**7.4**	**6.8**
Gas Utilities [5]	Market Cap ($bn)	Rating	Target Price[1]	Current Price	Price Change	Dividend (2018E) Yield	Payout	Diluted Shares	Earnings Per Share '16E	'17E	'18E	CAGR	Price / Earnings '16E	'17E	'18E	Earnings Per Share '16E	'17E	'18E	CAGR	Price / Earnings '16E	'17E	'18E
NI NiSource Inc	7.2	Neutral	$23	$22.34	3%	3.2%	59%	323	1.10	1.16	1.24	6%	20.3	19.3	18.0	1.07	1.16	1.22	6%	20.8	19.3	18.4
NJR New Jersey Resources	2.8	Buy	$36	$32.95	9%	3.3%	57%	86	1.64	1.75	1.92	8%	20.1	18.8	17.2	1.61	1.79	1.91	9%	20.5	18.4	17.2
NWN Northwest Natural Gas	1.6	Neutral	$52	$57.30	-9%	NA	NA	28	2.23	2.35	2.49	6%	25.7	24.4	23.0	2.21	2.33	2.47	6%	25.9	24.6	23.2
SJI South Jersey Industries	2.3	Buy	$34	$28.76	18%	3.8%	68%	79	1.32	1.34	1.61	10%	21.8	21.5	17.9	1.31	1.34	1.60	10%	21.9	21.4	18.0
SR Spire, Inc.	2.8	Buy	$69	$61.70	12%	3.5%	58%	46	3.40	3.52	3.65	4%	18.1	17.5	16.9	3.41	3.56	3.68	4%	18.1	17.3	16.8
SRE Sempra Energy	26.2	Buy	$121	$104.85	15%	3.4%	58%	250	4.81	5.28	5.88	11%	21.8	19.9	17.8	4.79	5.12	6.09	13%	21.9	20.5	17.2
VVC Vectren Corporation	4.1	Neutral	$46	$49.08	-6%	3.7%	63%	83	2.50	2.67	2.82	6%	19.6	18.4	17.4	2.47	2.66	2.82	7%	19.9	18.5	17.4
Average						**3.5%**	**61%**					**7%**	**21.1**	**20.0**	**18.3**				**8%**	**21.3**	**20.0**	**18.3**
Other	Market Cap ($bn)	Rating	Target Price[1]	Current Price	Price Change	Dividend (2018E) Yield	Payout	Diluted Shares	Earnings Per Share '16E	'17E	'18E	CAGR	Price / Earnings '16E	'17E	'18E	Earnings Per Share '16E	'17E	'18E	CAGR	Price / Earnings '16E	'17E	'18E
AWK American Water Works	13.0	Buy	$91	$73.05	25%	2.4%	54%	178	2.86	3.05	3.25	NA	25.5	24.0	22.5	2.83	3.03	3.25	NA	25.8	24.1	22.5
NYLD NRG Yield	1.5	Neutral	$17	$15.40	10%	8.2%	144%	183	NE	NE	NE	NA	NA	NA	NA	0.75	0.83	0.88	8%	20.4	18.5	17.6

(1) Neutral rated companies do not have price targets; target reflects fair equity value per share estimate.

(2) 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.

(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., non-utility, un-regulated) power plants that compete to sell power in wholesale markets or through retail marketing.

(5) 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 franchieses, interstate pipelines, and/or other gas midstream activities)

Source: Bloomberg, Guggenheim Securities, LLC estimates.

*Coverage of WR and GXP suspended given investment banking activity

PORTFOLIO MANAGER SUMMARY

Expanding utility coverage to 39 utilities

Expanding utility coverage. We are expanding coverage with an additional 14 regulated utilities: gas and electric – *coverage now spans 39 utilities and growing.* As highlighted with the ratings distribution in this current launch – 7 Buys, 7 Holds (22 Buys out of 39 utilities under our entire coverage) – **we are slowly becoming more selective with pure regulated names than in the past and focusing attention on utilities within the sector not perceived by investors as pure bond surrogates** – this is evident in our recent move to favor more power-levered names vs. traditional regulated utilities. **Investors need to be selective as a return to traditional stock picking will finally matter** – won't outperform the market by owning a basket of utilities as in the past. **Sentiment is shifting and traditional long-only investors are increasingly looking for ideas/stories within the sector.** Our BUY ratings have a value proposition and are well levered to gas infrastructure, wires and renewables – structural themes that will dominate the sector for the next several years.

Where should investors focus in this launch? Core holding: *SRE*; **other notable BUYs:** *CNP, OGE, SCG, SR, NJR, WEC* – Key themes include solid growth with upside opportunities, de-risking and undervalued. We view SRE as a must-own in the current rate cycle – investors need to begin valuing SRE on sum-of-the-parts with a focus on cash flows and not solely earnings; CNP, OGE, SCG, SR, NJR and WEC – all non-consensus BUYs. **Key NEUTRAL name on our radar:** NI.

We view SRE as a must-own with ample growth prospects and strong cash flow

Core Holding:

- **SRE: Initiating coverage of SRE with a BUY rating and $121 price target.** SRE is a high quality name with above-average growth prospects to further benefit from redeploying capital to higher return opportunities outside of base utility spend, led by reforms within Mexico, and possible upsizing of its Cameron and other LNG opportunities. SRE remains a diverse energy play, with ample growth prospects, strong cash flow profile that should continue to do well even under a gradual tightening of monetary policy – stock picking will finally matter with utilities and SRE should be a core holding, in our view.

Notable BUY ratings – <u>all non-consensus</u>:

Focus is on solid growth with upside potential, de-risking and undervalued

- **CNP: Initiating coverage of CNP with a BUY rating and $25 price target;** solid cash flows with no equity needs, sustainable growth with minimal rate case overhangs and a near-term catalyst around its strategic path with ENBL should provide the clarity needed. CNP is not the cheapest stock on a relative basis within our utility coverage but it does have some near-term catalysts with a fairly strong customer growth profile.

- **OGE: Initiating coverage of OGE with BUY rating and $33 price target;** heavily discounted name, with above-average dividend growth and CAPEX/EPS upside potential post rate cases; we believe noise around ENBL strategy will subside. OGE is good value in a fairly valued sector.

- **SCG: Initiating coverage of SCG with BUY rating and $78 price target;** concern around new nuclear construction overshadows a simple regulated growth story. We acknowledge nuclear risk but appreciate legislative/regulatory support in the region. SCG is a pure-play regulated utility with higher growth prospects than the average peer; with upside to the dividend trading at a valuation discount.

- **NJR: Initiating coverage of NJR with a BUY rating and $36 price target;** good entry point for a name with above-average growth, decreasing earnings volatility with a solid regulatory construct and growing contracted cash flow

stream, which dilutes more volatile trading earnings. Renewable opportunities are a key value driver of the story; diversifies cash flows.

- **SR: Initiating coverage of SR with a BUY rating and $69 price target;** we see solid value despite the "Missouri discount." We view it as overly priced in. Missouri is definitely tough, but not that tough, in our view.

- **WEC: Initiating coverage of WEC with a BUY rating and $63 price target;** WEC remains a solid utility with above-average growth prospects, constructive mechanisms, strong CFs, no near-term rate case overhang and WE Power segment that translates into sustainable above-average ROEs. Despite a relative premium to the electric group, which we believe is justified with significant contribution coming from Gas operations and WE Power, we still see material upside potential from current levels despite the premium optics.

NEUTRAL rating to watch:

For NI – we like the story; looking for an entry point

- **NI: Initiating coverage of NI with a NEUTRAL rating and $23 fair value/share;** conservative growth guidance but multiple rate cases coupled with material outperformance vs. gas utility peers fairly value shares – we missed a rally but are looking for an entry point (outperforming regulated gas and electric peers by ~650bps/420bps, respectively, YTD). Story could become more attractive as rate cases work themselves through and management is in a better position to update customer growth assumptions and CAPEX outlook – guidance may prove conservative.

Be selective – despite recent sell-off, utilities still trade above forward bond yields. While we don't see material downside for the sector, upside limited as well - we are likely approaching the 9th inning of the pure regulated utility trade outside of a deflationary environment/recession. As discussed in this note, utilities are likely ~0.5-1x overvalued on a P/E basis vs. forward BBB corporate bond yield expectations – valuations have come in but not enough. Be selective.

M&A continues to dominate utility sector

Utilities Thirsty for Growth: M&A and Deal Activity Plentiful – consolidation should continue. We expect the sector to continue to be dominated by M&A as low borrowing costs offset valuation premiums making most deals look near-term accretive – the thirst for growth will lead to further acquisitions of SMID utilities. Several names within this coverage expansion and our consolidated utility coverage could be strong candidates for an acquisition. **We highlight:** ALE, NJR, NWN, SR, WC, AVA, SCG, POR, LNT as examples of several utilities within our coverage space in regions that could ultimately prove attractive to several acquirers – some already reflect an M&A premium, in our view, and some do not.

Spread between gas and electric utility valuations moves in cycles…

The ebb and flow of the gas premium spreads vs. electric counterparts clearly stands out, but it's not dissipating contrary to what some may perceive… it moves in cycles; investors should continue to place valuation premiums for gas vs. their electric counterparts outside of just an M&A argument. The seemingly cyclical expansion and contraction of the spread between gas and electric utility valuations is clearly pronounced in the charts below (Figure 10); we've entertained some debate around the spread dissipating in recent months, which it has, although it typically reverts every ~2 years. **But, this is not driven, for instance, by fundamentals between the two subgroups aligning – there is more at play.**

The contraction and expansion of the spread can be attributed to midstream components of the gas utility index with commodity exposure in earlier years, and more recently (and interestingly) to the acquisition of gas utilities in the index by their electric counterparts at relatively lofty valuations – effectively removing names that were lifting the composite index by trading with an M&A premium. In the last year, we would

highlight contraction of the spread attributable to the removal of Questar (acquired by D: SEE NOTE) and Piedmont (acquired by DUK: SEE NOTE) from the gas utility index, and our view is that the spread has merely reset as the next wave of M&A incubates – see Figure 11 below. **We believe gas valuation premium spreads will revert back as they typically do:** Gas utilities are inherently a premium play to their electric counterparts given higher capital and customer growth, better regulatory constructs, less regulatory lag, etc.

...thus a 5.0x premium, reflecting historical spread, is applied for gas utilities

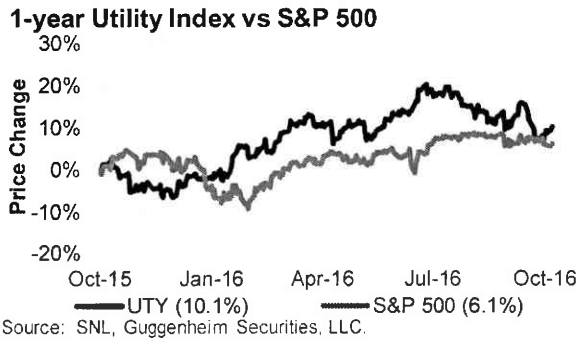
For gas utilities we ascribe a 5.0x premium relative to their electric counterparts for valuation purposes – this is consistent when thinking about mid-cycle. For companies primarily engaged in local gas distribution activities, or those with a significant enough portion of gas utility earnings to warrant a sum-of-the-parts valuation, we ascribe a 5.0x premium to our 16.0x regulated utility target multiple, which we derive from valuation implied by current bond yield expectations as described above. The 5.0x premium reflects the historical spread between gas and electric utilities over the past ~5 and ~10 years, as illustrated in Figure 10 below.

Gas, renewables win and coal loses – Utility sector remains theme-dominated

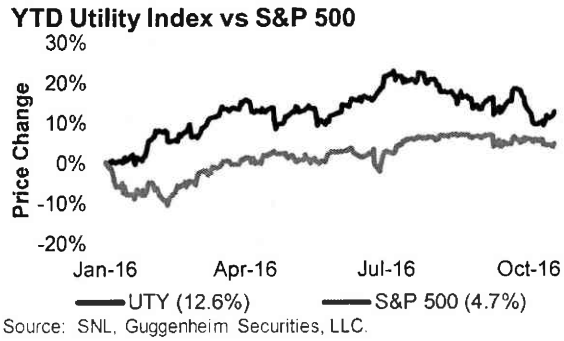
Utilities (gas or electric) continue to be key beneficiaries of coal retirements – this group is no exception. This leads to infrastructure opportunities – wires or pipes, renewables expansion and new gas plants which are key drivers of growth for consolidated coverage over the next few years. In total, we continue to project 85GW (we recently increased this projection from our prior 71GW base assumption) of retirements with coal as a % of power consumption leveling at 23% or lower vs. the 44% mix in 2009.

Sector will continue to be theme-dominated. We have discussed in great length in prior research key industry items investors should think about within the sector, including gas infrastructure opportunities as utilities shift further midstream, renewables/DG, Federal reforms, environmental policy, etc. which are outside of the scope of this report. **For industry top-down thoughts, see: (1)** Utility Sector Launch - First Wave, **(2)** Independent Power Producers Launch and **(3)** '16 Utility Sector Outlook.

Figure 2: Electric and gas utility price performance

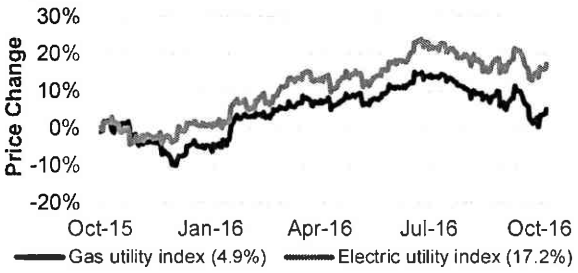


Source: SNL, Guggenheim Securities, LLC.



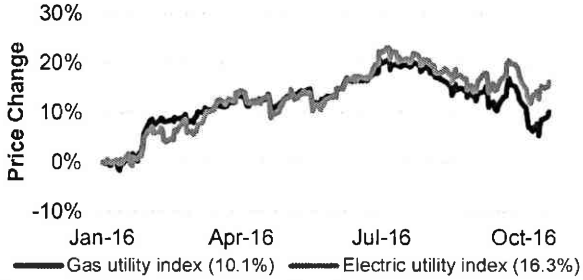
Source: SNL, Guggenheim Securities, LLC.

1-yr Gas vs Electric Utilities



Source: SNL, Guggenheim Securities, LLC.

YTD Gas Utility vs Electric Utilities



Source: SNL, Guggenheim Securities, LLC.

BULL VS. BEAR SUMMARY

Figure 3: Guggenheim Launch Bull vs. Bear summary

Ratings	Target Price	ETR	Bull case	Bear case
BUY RATINGS				
SRE	$121	18%	▪ High quality name with above average growth prospects - a core holding for investors ▪ Evolving CA policy could provide growth outside of traditional rate base ▪ LNG opportunities around Cameron expansion (option of two additional trains) and LNG in Mexico ▪ Ienova may benefit from Mexico's energy market reforms currently underway	▪ Aliso Canyon outage remains an overhang; with some uncertainty around regulatory investigation ▪ Delays in construction at Cameron could push back the 2019 in-service date ▪ CA remains tough from an investment standpoint - politically charged ▪ Potential for lawsuits, fines or other penalties related to Aliso Canyon
CNP	$25	16%	▪ Attractive jurisdiction w/ sustainable growth, constructive mechanisms and no elec. rate case from '16-'18 ▪ Growth rate and dividend are protected under various stress test scenarios with ENBL ▪ Solid cash flows with no equity needs ▪ Constructive conclusion around ENBL should provide clarity	▪ Trades at a slight premium to electric peers ▪ Extensive TX exposure (oil/commodity, local economy) ▪ Limited growth in areas outside of TX, MN franchise areas
SR	$69	15%	▪ Basically a pure play gas utility (non-reg <5% of earnings) ▪ Alabama has above average regulatory environment ▪ Acquisition of Southeast gas utilities (Mobile, Willmut) expands geographic footprint and provides upside ▪ Valuation; with shares trading at a discount	▪ Challenging regulatory jurisdiction in Missouri ▪ MPSC Staff to pursue complaint for failure to seek prior approval of recent acquisition (Willmut, Mobile) ▪ Non-utility business, mainly pipeline projects ▪ Upcoming rate filing in April 2017 in Missouri
OGE	$33	13%	▪ Discounted name with above-average dividend growth ▪ Expect noise around CNP's strategic review of ENBL to subside ▪ Rate case overhang to dissipate with CAPEX/EPS upside potential post rate cases	▪ CNP's strategic review ofactions on ENBL remain unresolved ▪ Extensive commodity exposure (oil/natural gas) within local economy ▪ Additional pressure on the FERC transmission ROEs ▪ Potential investor concern on declining capex in the outlook
NJR	$36	12%	▪ Strong customer/earnings growth trajectory, above averge dividend growth and solid regulatory construct ▪ ~13% annual LDC earnings growth; increasing contracted CFs dilutes more volatile trading earnings ▪ Midstream in early innings; but a good growth engine (upside is potential expansion on PennEast) ▪ Valuation discount should dissipate as earnings from non-regulated moderate relative to other segments	▪ Energy Services remains a variable/low quality earnings stream ▪ Some investors concerned on SRL project delays ▪ Risk of FERC's final EIS causing additional costs or delays to PennEast ▪ Solar spend may be an unfamiliar territory for traditional gas utility investors
SCG	$78	12%	▪ Pure play regulated utility with higher growth prospects than peer group average ▪ Gas main replacement program ▪ Simplificaiton with recent divestitutres of gas transmission and telecom businesses ▪ Supportive policy/regulatory backdrop w Base Load Review Act (BLRA) supporting nuclear spend	▪ Concern around the risk associated with $7.7bn new nuclear construction (V.C. Summer) ▪ Failure to resolve contractor dispute leaves company open to uncertain decision by Arbitrator ▪ Limited regulatory diversity with over 90% of earnings derived from the Carolinas ▪ The utilities aren't fully decoupled
WEC	$63	11%	▪ Constructive mechanisms and above average growth - estimate 7.4% annual earnings growth '15-'18 ▪ Unique lease structure at WE Power provides incremental upside as debt paydown occurs ▪ 2 year rate freeze at largest segments in (IL and WI segment) ▪ ATC has additional opportunities outside its footprint given JV with DUK	▪ Management foresees a secular challenge in the electric business ▪ PGL gas system modernization is under review, a worse than expected final order would weigh on shares ▪ Further challenges to FERC transmission ROEs would impact its stake in ATC
NEUTRAL RATINGS				
NI			▪ Solid portfolio of utilities with constructive mechanisms and trackers covering 75% of investments ▪ Supportive regulatory envrionments with approved long term infrastructure investment plans ▪ Conservative growth guidance from a management that has under-promised and over-delivered ▪ IRP provides an incremental avenue for growth	▪ Navigating a busy rate case schedule ▪ Valuation; with shares trading at a premium, having materially outperformed gas utility peers YTD ▪ IRP up for review and commission ruling represents an uncertainty
AVA			▪ Policy proposals support Gas LDC approval in Juneau ▪ Good mechanisms, with decoupling in all states (ex-Alaska) ▪ IRP may provide upside opportunities to CapEx	▪ Multiple rate cases in a generally tougher states ▪ Valuation; shares trading at a premium & not pricing-in risk around NT rate cases in WA, ID, OR, AK ▪ ERM introduces element of volatility investors wouldn't need to monitor with other electric peers
ALE			▪ Acceleration in taconite production due to improvement within the industrial steel manufacturing sector ▪ Energy Forward Plan may provide opportunities for incremental growth ▪ Constructive outcome of MN Power's rate filing ▪ Upside potential from ATC	▪ More pronounced imports of foreign steel ▪ Reduction in the base of large customers ▪ MN Power rate case proceedings are more contentious ▪ Weak marcoeconomics impacting industrial customers
VVC			▪ Constructive multi-year infrastructure riders in service territory ▪ A return to more normalized electric growth can provide upside surprise ▪ Investment plans heavily weighted toward gas infrastructure in the NT ▪ IRP in Indiana could prompt additional spending opportunities	▪ Uncertainty around environmental legislation (i.e. carbon, ash, water) ▪ Non-regulated brings noise, lowers multiple ▪ Large electrical customers moving to self-generation ▪ Project delays and environmental scrutiny at VISCO
POR			▪ Economy remains among the fastest growing in the US; supporting 6.7% annual earnings growth ▪ Constructive policy environment with forward test years & rate mechanisms including partial decoupling ▪ Commission order on 2016 IRP and resulting RFPs serves as NT catalyst; potential boost to CapEx ▪ Additional updates on resiliency and system upgrade may provide upside to CapEx	▪ Protracted arbitration with Abeinsa (Abengoa sub.) over Carty Generation; uncertainty of related lawsuits ▪ Uncertainty over extent of cost recovery of Carty Generation overruns ▪ Valuation, with shares trading at a premium to electric peers and forward yield expectations ▪ Declining capex profile is a cause for concern
NWN			▪ Incremental gas reserve deal would boost Rate Base growth ▪ Organic growth from multi-family customer conversion ▪ Attractive economic and population growth in Oregon and Washington	▪ Challenging regulatory jurisdictions ▪ Leak prone main replacement is fully completed, lacking CapEx upside ▪ Investments in gas reserves represents departure from core competency ▪ Valuation; with shares trading at a premium to regulated peers (M&A takeout premium)
LNT			▪ Solid utility with above average growth prospects ▪ Incremental renewable capital investment to take advantage of PTC ▪ Marshalltown CCGT comes on-line in 2Q2017, increasing ROE at IPL ▪ Opportunities around ATC's transmission JV	▪ Equity Overhang – We assume $125mm in 2017 ▪ Heavy rate case schedule ▪ Further challenges to FERC transmission ROEs ▪ Valuation; with shares trading at a premium

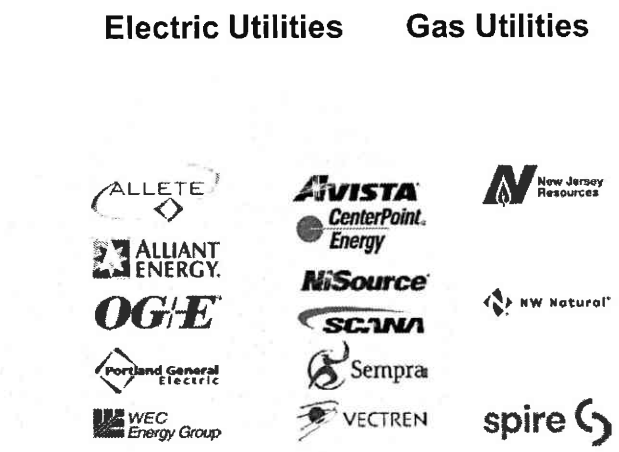
Source: Guggenheim Securities LLC estimates
Priced as of 11.01.16

OVERVIEW OF NEW COMPANIES

We are initiating coverage on 14 additional utilities; a mix of large and s/mid-cap electric and gas companies to round-out our regulated utility coverage – coverage now spans 39 utilities and growing.

A mix of large and s/mid-cap electric and gas utilities

Figure 4: Composition of electric vs. gas utilities



Source: Guggenheim Securities, LLC.

Figure 5: Map of electric and gas utility franchises

Source: SNL, Guggenheim Securities, LLC.

Figure 6: Jurisdiction region of new launch utility franchises

Ticker	Electric Generation		Electric T&D		Natural Gas	
	Regulated	Unregulated	Transmission	Distribution	Midstream	Distribution
ALE	MN, ND	IA, MN, OR, PA	FERC, MN, ND	MN, WI		WI
AVA	AK, ID, MT, OR, WA		FERC, ID, MT, OR, WA	AK, ID, MT, WA		ID, OR, WA
CNP			TX			AL, AR, IL, LA, MN, MO, MS, OK, TX
LNT	IA, MN, WI	IA		IA, MN, WI		IA, MN, WI
NI	IN		IN	IN		IN, KY, MA, MD, OH, PA, VA
NJR		IA, KS, MT, NJ			FERC	NJ
NWN						OR, WA
OGE	OK		FERC, OK, AR	AR, OK		AL, AR, IL, LA, MO, MS, OK, TX
POR	MT, OR, WA		OR, MT	OR		
SCG	GA, SC	SC	FERC, SC	SC	FERC	NC, SC
SR						AL, MO
SRE	CA, NV	AZ, CA, CO, HI, IN, KS, NE, NV, PA	FERC, CA, KS, AZ	CA	FERC	AL, CA, MS
WC	IN, OH	GA, IN, TN, WI		IN, OH		IN, OH
WEC	IA, MI, WI	AZ, CA, MA, NJ, WI		MI, WI		IL, MI, MN, WI

Source: Guggenheim Securities, LLC.

REGULATED UTILITY VALUATION

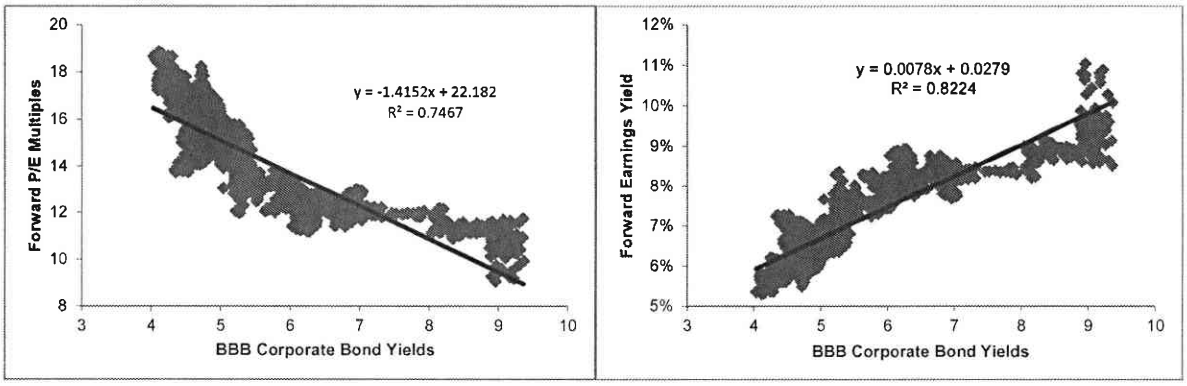
YIELD FUNDAMENTALS

Strong correlation between utility valuations and corporate bond yields

Historical relationship between BBB corporate bond yields and regulated utility valuations. Our regulated P/E multiple is based on a regression of bond yields excluding periods of market turmoil when the relationship broke down (see Figure 8 below). Excluding these periods, regulated utilities have exhibited strong correlation since both assets serve as defensive positions in an investment portfolio.

As depicted in the figures below, there is a strong inverse relationship between corporate bond yields and P/E valuations and, conversely, a positive correlation between utility earnings yield and corporate bond yields over the long term.

Figure 7: Forward P/E Multiples and Earnings Yield vs. Corporate Bond Yields

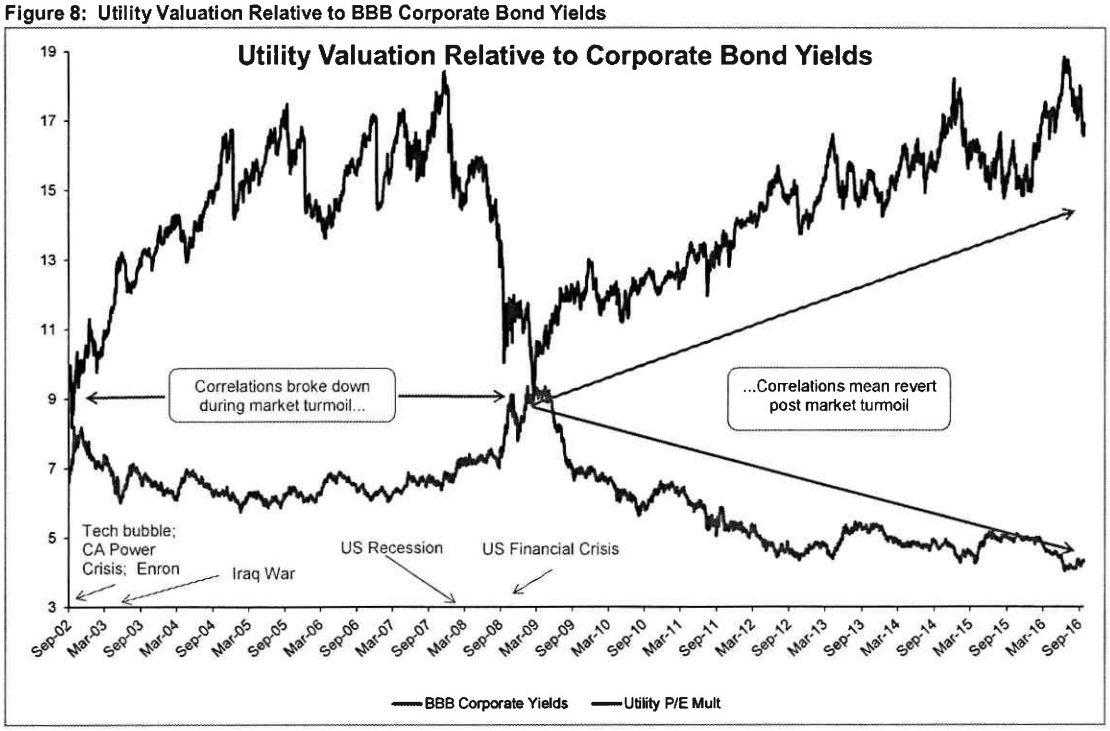


Source: Bloomberg, Guggenheim Securities, LLC.

This strong relationship reinforces our stance that regulated utilities should trade in line with "expected" bond yields – the main driver of our regulated target multiple. In the past, this relationship has broken down as relationships do during periods of market turmoil. While past events like the tech bubble, CA Power Crisis, Enron, Iraq War, U.S. recession, and financial crisis have created noise, they still maintained their inverse relationship. That said, following these periods of market turmoil, the yield-P/E relationship has strengthened over the past five years.

Bond regression, historical gas premium spreads, and peer group P/E comps support our valuations. Consistent with other regulated utilities under our coverage, our valuation analysis and P/E target multiple is supported by our long-term regression of BBB corporate bond yields and regulated utility P/E multiples dating back to 1980 – pre- and post-dividend tax law changes.

Figure 8: Utility Valuation Relative to BBB Corporate Bond Yields



Source: Bloomberg, Guggenheim Securities, LLC.

Incorporating the forward yield outlook for corporate bonds of 4.61% for 2018, we derive: **(1)** our target multiple for regulated utilities and **(2)** where the group should fundamentally trade versus forward interest rate expectations. The current 2018E 4.61% corporate bond yield curve would imply a 2018E regulated P/E multiple of 15.7x – we round to 16.0x.

P/E sensitivity to a change in bond yields. Every 25bps change in bond yields equates to a ~0.44x change in utility forward P/E multiples, by our estimates. Refer to Figure 9 below for P/E sensitivities to yields.

Figure 9: P/E Sensitivity to Bond Yields

BBB Yields (%)	2018 P/E Multiples	Multiple Change	Implied Upside/(Downside) %
2.86	18.1x	2.48x	16%
3.11	17.8x	2.12x	14%
3.36	17.4x	1.77x	11%
3.61	17.1x	1.42x	9%
3.86	16.7x	1.06x	7%
4.11	16.4x	0.71x	5%
4.36	16.0x	0.35x	2%
4.61	**15.7x**		
4.86	15.3x	-0.35x	-2%
5.14	14.9x	-0.75x	-5%
5.39	14.6x	-1.10x	-7%
5.64	14.2x	-1.46x	-9%
5.89	13.9x	-1.81x	-12%
6.14	13.5x	-2.17x	-14%
6.39	13.1x	-2.52x	-16%
6.64	12.8x	-2.87x	-18%
6.89	12.4x	-3.23x	-21%

Slope	-1.4152	a
Intercept	22.182	b
BBB Bond Yield (%)	4.61	c
Projected 2018 P/E Multiple	**15.7x**	d = (a*c) + b

Where group currently trades

Where group should trade versus forward corporate

Source: Bloomberg, Guggenheim Securities, LLC.

GAS UTILITY PREMIUM

Gas utility premium for lower-risk growth, better regulated construct, less lag, M&A, etc. Gas utilities trade at a premium to their electric counterparts as they typically demonstrate higher growth, lower risk with more constructive rate design to facilitate cost recovery, and have more recently reflected an M&A premium as larger electric utilities among other bidders have actively acquired gas distribution/midstream platforms in pursuit of growth.

A 5.0x premium is applied for lower-risk growth, better regulated construct, M&A, etc.

For gas utilities, we ascribe a 5.0x premium relative to their electric counterparts – properly reflects mid-cycle despite the ebbs and flows of the spread. For companies primarily engaged in local gas distribution activities, or those with a significant portion of gas utility earnings to warrant a sum-of-the-parts valuation, we ascribe a 5.0x premium to our 16.0x regulated utility target multiple, which we derive from valuation implied by current bond yield expectations as described above. The 5.0x premium reflects the historical spread between gas and electric utilities over the past ~5 and ~10 years, as illustrated in Figure 10 below.

Figure 10: Gas-to-Electric P/E Spread

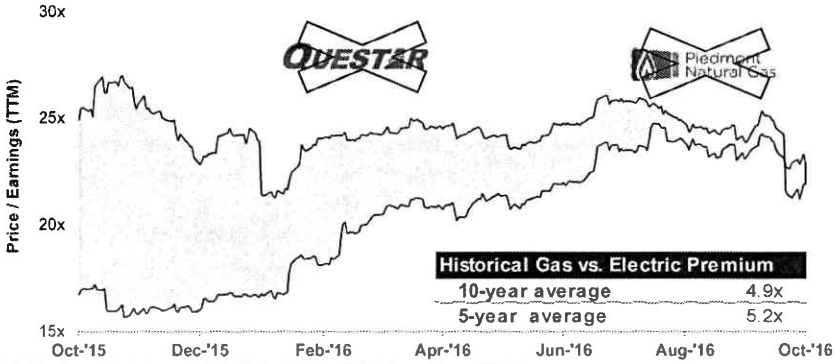
Note: Based on trailing-twelve-month P/E ratios for SNL's Gas Utility Index vs. Electric Utility Index
Source: SNL, Guggenheim Securities, LLC

Spread between gas and electric utility valuations moves in cycles

The ebb and flow of the spread clearly stands out, but not dissipating – spreads typically mean revert. The seemingly cyclical expansion and contraction of the spread between gas and electric utility valuations is clearly pronounced in the chart above (Figure 10); we've entertained some debate around the spread dissipating in recent months, which it has, although historically it has reverted every ~2 years. The contraction and expansion of the spread can be attributed to midstream components of the gas utility index with commodity exposure in earlier years, and more recently (and interestingly) to the acquisition of gas utilities in the index by their electric counterparts at relatively lofty valuations – effectively removing names that were lifting the composite index by trading with an M&A premium. In the last year, we would highlight contraction of the spread attributable to the removal of Questar (acquired by D) and Piedmont (acquired by DUK) from the gas utility index, and our view is that the spread has merely reset as the next wave of M&A incubates – see Figure 11 below.

We believe gas utility valuations are set to expand again with the next wave of M&A – it moves in cycles; investors should continue to place valuation premiums for gas vs. their electric counterparts outside of just an M&A argument. M&A is just one of several observations.

Figure 6: Spread between electric and gas utility valuations

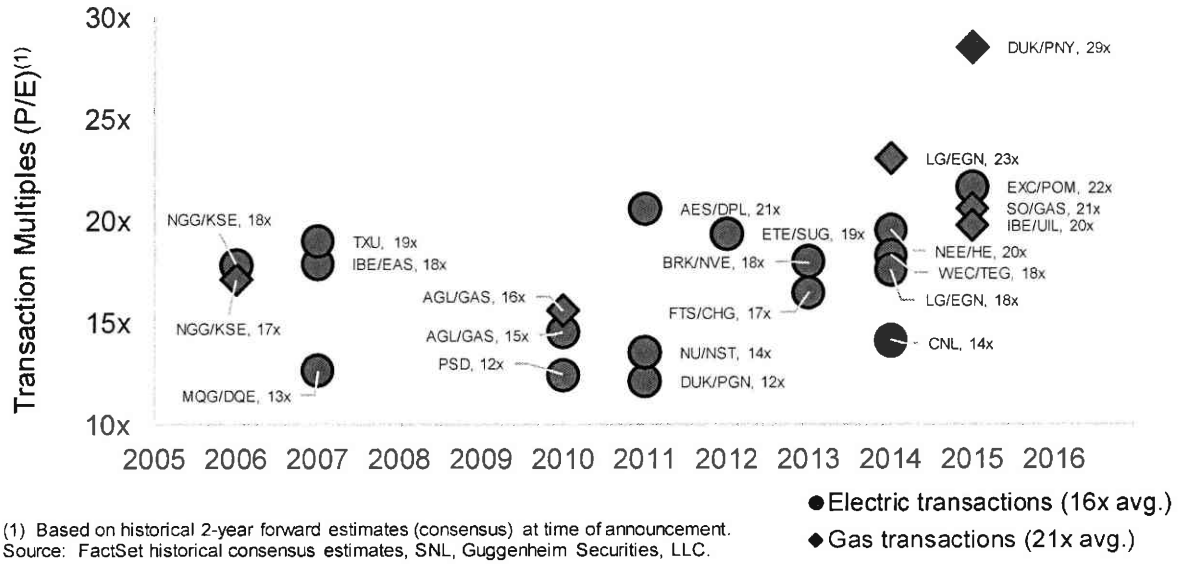


Note: Based on trailing-twelve-month P/E ratios for SNL's Gas Utility Index vs. Electric Utility Index
Source: SNL, Guggenheim Securities, LLC

Historical M&A transaction multiples support our assumption

M&A transaction premiums for electric and gas utility acquisitions further support our target multiples. The average transaction multiple (P/E) for both electric and gas utilities over the past 10 years coincides precisely with our respective target multiples; 16x average for electric utility acquisitions, and 21x average for gas utility acquisitions – the same as our respective target multiples for electric and gas utilities.

Figure 7: Recent utility transaction multiples (electric vs. gas)



(1) Based on historical 2-year forward estimates (consensus) at time of announcement.
Source: FactSet historical consensus estimates, SNL, Guggenheim Securities, LLC.

Assuming the historical spread premium for gas utilities vs. their electric counterparts into our regression analysis, we arrive at 21x – a premium relative to the current trough we see in the gas/electric valuation spread.

KEY SECTOR THEMES

Sector will continue to be theme-dominated. We have discussed in great length in prior research key industry items investors should think about within the sector, including gas infrastructure opportunities as utilities shift further midstream, renewables/DG, Federal reforms, environmental policy, etc., which are outside the scope of this report. For industry top-down thoughts, see: (1) Utility Sector Launch - First Wave, (2) Independent Power Producers Launch and (3) '16 Utility Sector Outlook.

Below we discuss at a top level some key industry themes – see links above for more details.

M&A

Utilities have been busy with M&A…

Utilities are thirsty for growth, and deal activity has been busy... Over the past several years, Utilities have seen a wave of consolidation within the sector. The trend has been supported by utilities in search of growth as organic CapEx programs are somewhat mitigated by lower environmental spending, low debt financing costs, merchant de-risking, as well as sellers motivated by relatively high valuations, premiums, and cash considerations. Notable transactions include: (1) DUK's acquisition of Progress (Closed), (2) NRG's acquisition of GenOn (Closed), (3) TECO's acquisition of NM Gas (Closed), (4) Berkshire's acquisition of NV Energy (Closed), (5) Fortis' acquisition of UNS (Closed), (6) EXC's acquisition of Pepco (Closed), (7) Iberdrola's acquisition of UIL (Pending), (8) NEE's acquisition of Oncor (Pending), and (9) WEC's acquisition of Integrys (Closed).

More recently, the consolidation trend has shifted toward large-cap electric utilities acquiring gas utilities. Utilities have continued the consolidation trend, although more recently with a focus on gas distribution companies and midstream growth platforms; notably: (10) SO's acquisition of AGL (Closed), (11) DUK's acquisition of Piedmont (Closed), and (12) D's acquisition of Questar (Closed).

…and this is unlikely to slow down, in our view. Looking at the future of transactions within the sector, we believe target acquisitions will center more on: (1) small/mid cap utilities, (2) single state jurisdictions, (3) constructive and improving regulatory construct/commissioners, (4) states well levered to a macro recovery, (5) exposure to renewables/transmission build, (6) healthy capex/growth profile, (7) a utility that is perceived as a fixer upper, etc.

It's important to note that deal activity, outside of deregulated transactions, has not historically centered on synergies given the obvious claw-back scenarios. We believe future deals will be geared more towards acquiring growth and improving acquirer's earnings profile. And, deals must involve a target regulated utility willing to sell. Multiples paid typically ranged between 17x-25x forward earnings with targets typically trading below the regulated group average; DUK's proposed acquisition of PNY at 29x forward earnings, however, is noticeably above the recent range (see Figure 12 above).

…and midstream exposure presents high premium

Recent focus has been on acquisitions that provide midstream exposure, as well as the high premiums paid for that exposure. Depth of conversation has varied between companies, but M&A has continued to be a key topic in investor meetings we host with utility management – management teams acknowledge industry consolidation continues, although they are generally skeptical of recent premiums. After reviewing various proxy filings, we believe several interested buyers were participating in recent transaction processes; some of the same management teams could have potentially contributed to these high premiums with their own offers.

We expect M&A to continue, and we don't think recent buyers (DUK, SO) have lost their appetite yet. Companies most likely to be involved in further transactions, in our view, include: AEP (acquirer), D (acquirer), DUK (acquirer), NEE (acquirer), SO (acquirer). PEG and EXC could eventually split their power and utility businesses in some form of a strategic transaction in the next 5-7 years. We don't expect to see transactions that introduce risk (e.g., commodity exposure, nuclear construction).

Utilities thirsty for growth: M&A and deal activity plentiful – consolidation to continue. We expect the sector to continue to be dominated by M&A as low borrowing costs offset valuation premiums making most deals look near-term accretive – the thirst for growth will lead to further acquisitions of SMID utilities. Several names within this coverage expansion and our consolidated utility coverage as a whole could be strong candidates for an acquisition. **We highlight in this launch:** ALE, NJR, NWN, SR, VVC, AVA, SCG, POR, LNT as examples of several utilities within our coverage space in regions that could ultimately prove attractive to several type of acquirers – some names already reflect an M&A premium, in our view, and some do not.

UTILITIES INVESTING FURTHER UPSTREAM

Utilities continue to move further upstream

Utilities have been moving further upstream, and this group is no different. We've highlighted utilities moving further upstream as a key sector theme since we first initiated coverage of the group in early 2015, and the trend has continued to play out – this group is no exception as several companies have interests in pipeline ventures, some of which are in partnership with utilities we already cover (e.g., PEG's PennEast project, D Midstream), and some bringing interest in midstream pipelines, storage, or development projects that are new to our coverage (e.g. CNP, OGE, SRE).

Utilities make good candidates for midstream investment as their demand for gas continues to grow. With the U.S. becoming increasingly dependent on natural gas (especially as U.S. coal retires), utilities are natural anchor tenants to fill the capacity on new pipeline projects. Several have already JV'd with traditional midstream companies on new and sizeable pipeline projects ranging from 1-2.5 bfc/d in the East/Southeast U.S.

A "Win-Win" for utilities and midstream

Attributes a utility can bring to a traditional midstream JV include: (1) a low cost of capital, **(2)** rights-of-way, **(3)** strong working relationships with state regulators and commissioners, and **(4)** an understanding of their natural load/customer needs – in addition to the demand from their local distribution customers. Traditional midstream players have significant advantage partnering with an incumbent utility – this dynamic can become a healthy growth engine for some of our covered names.

Notable examples of companies we are launching on with interests in midstream pipelines or development projects include:

- **CNP/OGE** partnered to form the Enable Midstream joint venture.
- **NJR** joined PEG with interest in the PennEast Pipeline, a new 100-mile pipeline that will bring 1 Bcf/d of gas to NJ; cost estimated at ~$1.13B.
- **NWN** operates two gas storage facilities; Mist in OR (16 Bcf), and Gill Ranch in CA (20Bcf).
- **SRE** owns several storage facilities: 86Bcf Aliso Canyon, 20Bcf Bay Gas Storage, 22.3Bcf Mississippi Hub, 24Bcf LA Storage, and owns a 50.2% equity interest in Cameron LNG JV Facility (Unit 1-2-3) under development

Midstream gas pipeline investments can be material to our utility valuation, particularly with enhanced value being captured with alternative financing vehicles such as the MLP structure employed by CNP and OGE (i.e., MLP structure).

NWN invested in several gas reserves – even further upstream

Some utilities have taken it a step further, investing even further upstream to secure gas supplies (NWN), although facing scrutiny as gas prices continued to reach new lows. As we've seen with some utilities within our original coverage (e.g., NEE), there are opportunities to invest even further upstream to secure supplies of natural gas for customers in rate base, including electric customers to the extent they depend on generation fueled by gas. In instances where regulators are aligned with utilities around the need for these investments for reliability, or physical access to resource supplies, there can be viable investment opportunities – NWN has expressed interest in covering 10-20% of its gas purchases with rate base investments in gas reserves. NWN made its first investment in 2011 ($180mm recovered through a tracker) and has since done a smaller deal (~$10mm), although the regulators changed their approach with the later investment by authorizing a fixed amount of cost recovery in rates, where NWN would be liable for whatever amounts above/below forecast – not a material risk, in our view, and we don't foresee another investment in gas reserves on the horizon, but worth monitoring.

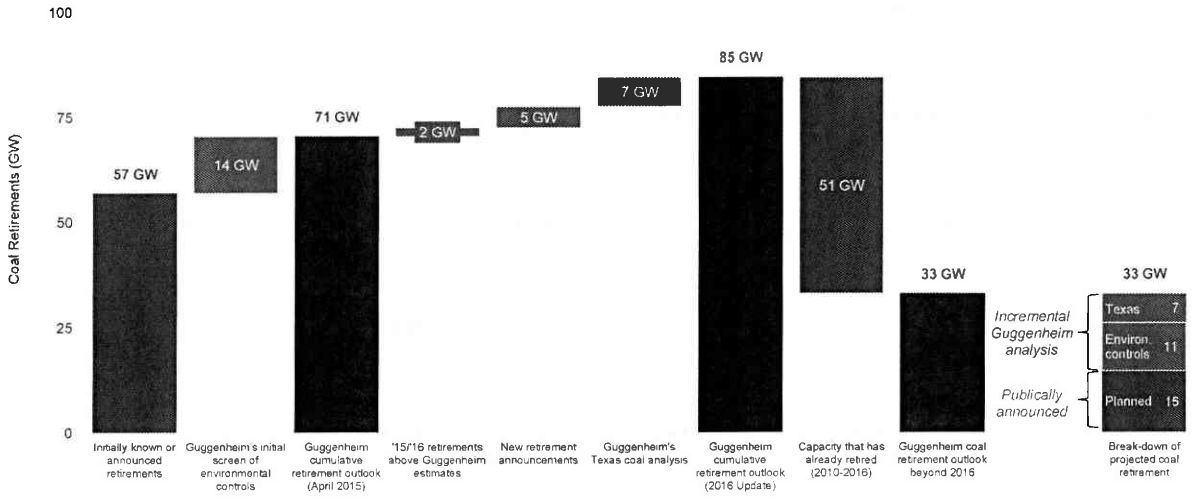
ENVIRONMENTAL POLICY

As has been the case for the last few years, environmental policy will continue to dominate the headlines in the sector. Environmental policies including MATS, Clean Power Plan, 111D, coal ash, regional haze coupled with a prolonged period of depressed gas should maintain the current trajectory for coal retirements.

We see an incremental 33GW of coal exiting the system

Utilities continue to be key beneficiaries of coal retirements – this group is no exception. This leads to infrastructure opportunities – wires or pipes, renewables expansion and new gas plants, which are key drivers of growth for consolidated coverage over the next few years. In total, we continue to project 85GW (we recently increased this projection from our prior 71GW base assumption) of retirements with coal as a % of power consumption leveling at 23% or lower vs. the 44% mix in 2009. Removing 51.5GW that has already retired leaves us with 33GW of remaining coal yet to be retired. We take this bridge one step further to illustrate where we expect the next 33G of coal retirements to come from (see Figure 13 below).

Figure 18: Current coal retirement outlook vs. our initial outlook



Source: Guggenheim Securities, LLC estimates.

Economic, environmental, and policy pressures continue to weigh on coal. We have largely continued to highlight the same two headwinds for coal since our sector launch: **(1)** Weak economic fundamentals; **(2)** Stringent environmental requirements.

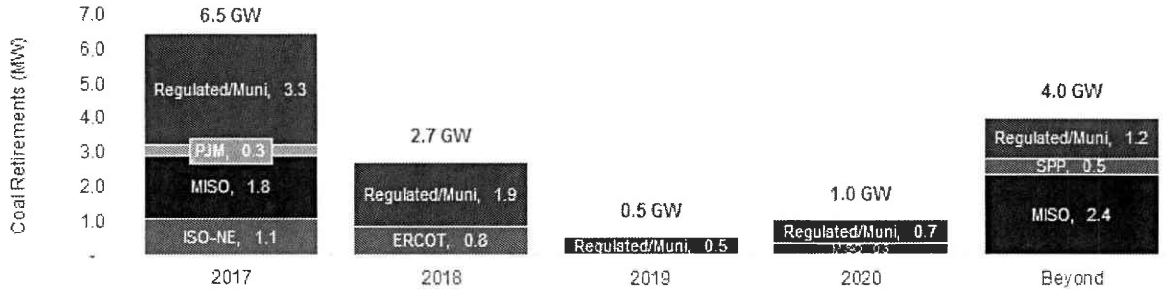
(1) **Weak economic fundamentals for coal.** This is driven by cheap gas coupled with a pre-existing coal fleet with an average age dating back to the early '70s. This low gas price environment coupled with super high heat rates has essentially pushed coal out of the stack (see Figure 14 below).

(2) **Environmental policies** including MATS, Clean Power Plan, coal ash, regional haze, waste water discharge, and ozone, to name a few, have put increased pressures on coal retirements.

...15GW "planned" coal retirements...

Of the 33GW that we estimate has yet to be retired, 15GW has been announced. Below we summarize the 15GW of retirements that have been announced and planned. These plants are owned by a mix of regulated utilities, merchant IPPs, and municipal authorities, each with a very different set of priorities. About half of this capacity is merchant, which we highlight below based on the competitive market in which they participate; the remaining half is owned by regulated utilities or municipal power authorities.

Figure 19: Announced and planned coal retirements

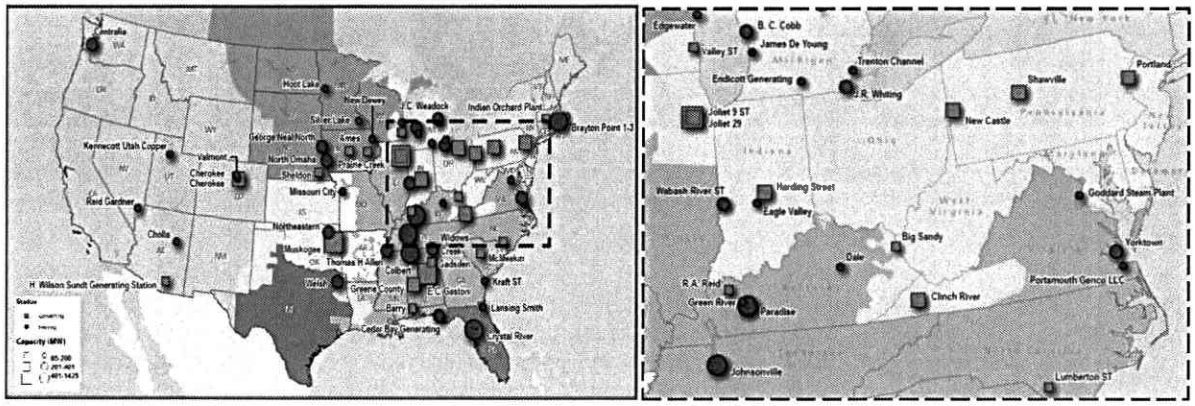


Source: Guggenheim Securities, LLC, SNL Energy.

...18GW "incremental" coal retirements, by our estimate

We now expect 18GW of incremental coal retirement beyond what has been announced to the public. The incremental retirements we model are predominantly comprised of (1) plants without sufficient control equipment to comply with increasingly stringent environmental standards; and (2) plants we estimate are operating out-of-the-money. We estimate potential CapEx for plants facing looming environmental requirements (e.g., regional haze in TX) to determine if the investment would be justified; that is, if we don't believe they aren't already operating above the forward market-implied heat rate curve – out of the money. These tend to be older, less-efficient, and higher-maintenance coal plants. 2016 and beyond, we forecast 33GW of coal retirements remaining (18GW Guggenheim estimate; 15GW announced). This brings our consolidated coal retirement outlook to an above-consensus forecast of 85GW vs. our prior 71GW estimate.

Figure 10: Map of announced coal retirements



Source: SNL.

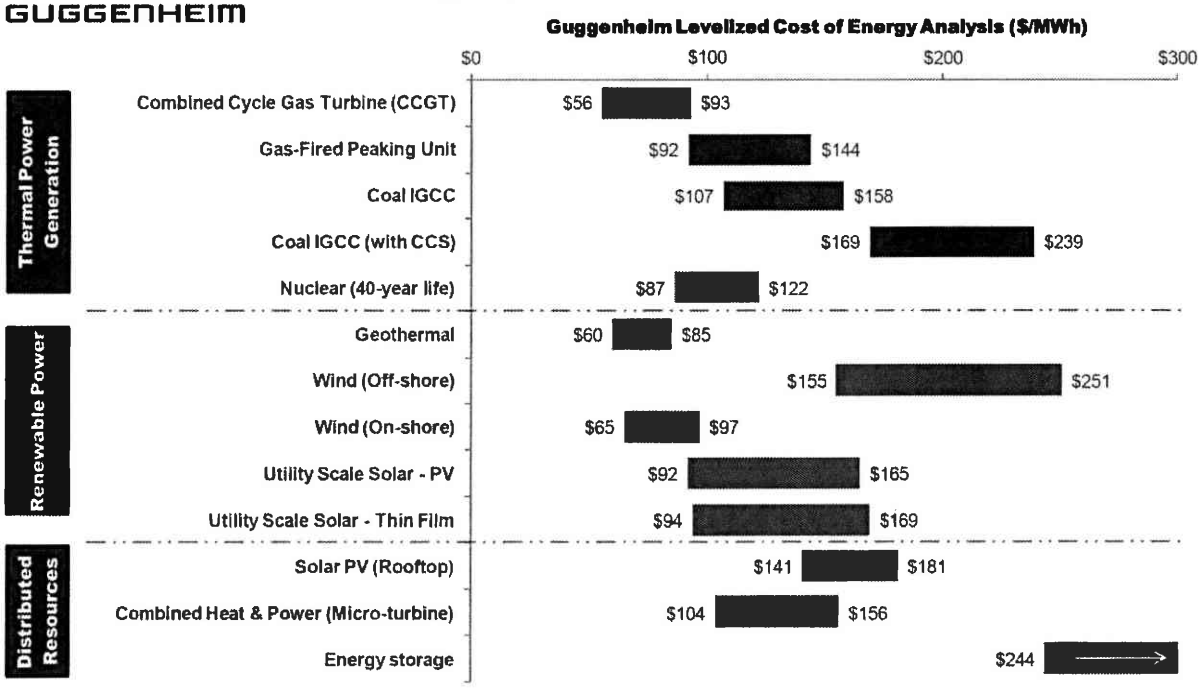
Opposition to environmental policy continues, with litigation against the EPA coming to a head, but states have been making contingent compliance plans with utilities that read the tea leaves and see what's ahead. The US Court of Appeals has been hearing arguments from a coalition of states regarding the legality of the EPA's Clean Power Plan, and the DC Circuit Court could issue a decision on the EPA's Clean Power Plan before year-end, although this could be more of an early 2017 event. Although similar to MATS, we believe many utilities and states have been working through State Implementation Plans (SIP) that would comply with CPP – a federal plan forced upon states that do not submit an SIP would be too costly. While the above proceedings will continue to create "noise," we believe the outlook for coal remains challenged in an economic perspective with depressed gas prices, and retirements will continue.

Coal would struggle economically, regardless of the political atmosphere

Policy delays help but too late; economics support the shift from coal to gas and renewables. Even if environmental policies are delayed at the Federal level, our economic analysis of generation technologies shows coal would struggle regardless of the political atmosphere. Based on our levelized cost of energy (LCOE) analysis (see Figure 16 below), no new coal plants would be built and the existing coal fleet would feel pressure from power price compression caused by gas and renewables. Our LCOE for coal incorporates costs required to burn at acceptable emission levels, putting IGCC technology significantly out of the money with an LCOE ranging from $169 to $239/MWh. Even if environmental policy were to reverse, however, coal is still economically disadvantaged – our LCOE analysis for coal without CSS is between $107 and $158/MWh, significantly higher than a gas-fueled CCGT ($56-$93/MWh).

Despite environmental policies being delayed or challenged, our economic analysis of generation technologies shows coal would struggle regardless of the political atmosphere – see our LCOE analysis in Figure 16 below, for our full Levelized Cost of Energy analysis, see HERE.

Figure 11: Guggenheim's levelized cost of energy analysis



Source: Guggenheim Securities, LLC.

LINKS TO KEY RESEARCH

1. Can It Get Any Worse for Coal? Outlook Up In Smoke: IPPs to Benefit from the Coal Ashes
2. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
3. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
4. Evolving Economics of Power & Alternative Energy: Balance of "Power" Continues to Shift Toward Gas and Renewables
5. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
6. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
7. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
8. EEI Full Recap
9. CPN – BUY – Narrow Outlook is What it is When Wind Blows in TX; Outlook Healthy and In-Line, Supported with Noble
10. DTE – BUY – Big Beat With Summer Heat; No Equity Need and Tracking at the Top of Recently-Raised Outlook
11. EXC–BUY–Solid Print and Several Items to Look Out at EEI–Block-and-Tackle
12. ETR – BUY – Disappointing Print Following Optimistic Analyst Day; Perception Issues Persist
13. PPL – NEUTRAL – NT Uncertainty Removed, but No Less Complex; Sum-of-the-Parts Just Won't Add Up Despite Good Story/Mgmt
14. ES - BUY - Management Roadshow – Growth Concerns? Despite Noise, No...And Levers to Pull Post 2019
15. DTE - BUY - Management Roadshow: Strong Story with Disciplined Approach, Minimal Concerns – Valuation Warrants Good Entry Point; Conservative Management; Conservative Outlook
16. DYN - BUY - Restructuring IPH and Moving Forward; Tentative Agreement Reached and Settlement Discussions Continue
17. EXC – BUY – Analyst Day Articulates the Story: Strong Free Cash Flows, Shrinking Balance Sheet & Regulated Growth
18. DYN - BUY - Simplified & Transformational ENGIE Acquisition – CF Accretive, Value Enhancing & Ratings Supportive
19. CPN – BUY – Management Roadshow: Higher Gas Sensitivity Good But Thesis Predicated On TX Coal Retirements
20. FE – BUY – PUCO Order: Time to Move On; Story Is Getting Closer to '17 Strategic Moves
21. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
22. SJI - Initiating with BUY - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
23. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
24. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates
25. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
26. AEP - BUY - Our Best Idea: Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
27. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX
28. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
29. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years

Other helpful links:

- Forward Commodity Curves for Power and Utility Modeling

COMPANY SECTIONS

ALLETE INC. (ALE, NEUTRAL, $59.65)

Initiating coverage of ALE with a NEUTRAL rating and $57 fair value/share estimate; staying on the sidelines given uncertainty around timing of industrial demand recovery, but watching for several potentially positive developments including ROE improvement with an upcoming MN Power rate filing.

- **We are initiating coverage of ALE with a NEUTRAL rating and $57 fair value/share estimate.** ALE is a $3.0bn market cap regulated utility in Minnesota and Wisconsin, with FERC-regulated transmission through an 8% ownership interest in ATC, and three non-regulated businesses that have grown with renewable development and recent acquisitions (contributing ~15% of earnings). **Our NEUTRAL stance is premised upon exposure to industrial drivers (mostly steel manufacturing) that are currently suppressed by foreign imports, and as shares almost fully reflect our $57 FV/share estimate.** Policy efforts supporting domestic steel production, new industrial load customers as well as MN Power's rate filing are potentially positive catalysts to watch for, and could have us re-visit our rating with more constructive data points. We could be emerging from trough levels but uncertainty still remains – **valuation discount will likely persist until utility investors get much needed clarity around ALE's visible growth prospects.** We would remain on the sidelines for now.

- **Our 2016/2017/2018 EPS estimates are $3.14/$3.46/$3.68; in-line with consensus.** While mixed relative to consensus from year to year, **we arrive at 6.3% annual earnings growth based on gradual ROE improvement we model, assuming temporarily idled taconite production comes back on-line, and that higher ROEs are achievable with more constructive rates ALE is pursuing at MN Power (i.e., riders);** we model ROEs improving to 9.2% from 8.8% with a 1% rate increase in 2017 (interim rates effective subject to refund) on ~$2.5B in rate base. Our 6.3% consolidated earnings growth outlook is comprised of 6.5% regulated earnings growth, and slightly diluted by our 4.3% non-regulated growth outlook. We estimate ~4% annual non-regulated growth, driven by incremental renewable investments (~$100mm/year) and US Water customer additions (~50% increase to the customer base by 2018). **Incremental investment associated with the Energy Forward Plan, or potential transmission joint ventures, represent upside potential to our estimates.**

- **ALE is a predominantly regulated business with average growth, and earnings from its non-regulated businesses are mainly contracted; however, shares trade at a discount to regulated peers – reflecting exposure to smaller base of large customers susceptible to weak industrial demand, in our view.** ALE trades at 16.0x our 2018E EPS vs. regulated utility peers trading at 16.7x despite a ~90% regulated electric utility (80% state-regulated utilities in MN and WI, 10% FERC-regulated transmission through ATC) with a 5% annual growth outlook in-line with peers averaging 4-6%, and supporting 5% dividend growth within a healthy 60-65% payout range. In our view, this reflects **investor perception of relatively higher risk associated with MN Power's smaller base of larger industrial customers, and exposure to macroeconomic factors influencing customer power demand**. We believe this higher risk perception is warranted considering industrial customers account for ~45% of the utility's revenue, of which ~60% is driven by taconite production as part of the steel manufacturing process. The utility has constructive rates allowing cost recovery through minimum demand

charges for large customers, although these customers make nominations regarding capacity needs every four months, and idled production has been an issue this year. This is not an uncertainty that traditional utility investors have felt comfortable with historically.

- **That said, ALE's smaller base of large customers does have its advantage.** We model 6.5% regulated earnings growth driven by ROEs improving to 9-10% from the 8-9% ROEs we currently estimate. **While we acknowledge inherent risk associated with a smaller base of large customers, we would note there is some advantage with greater visibility** – namely line of sight into large customer demand, particularly taconite production, and implications for ALE's utility performance – the four-month nomination period we mention above offers line of sight through the remainder of the year, with taconite customers expected to operate at 90% of capacity in 4Q16 (vs. ~80% in 2Q16). We model 6.5% regulated earnings growth driven by ROE improvement as temporarily idled taconite production comes back on-line (**we assume Keewatin brings 5.7mm tons of production back by the beginning of 2017**); a 1mm ton change in taconite production (~2.4% of annual capacity) has a ~$0.03 EPS impact. **We also assume more constructive rates go into effect at MN Power following their recent rate filing** together with a renewable resources rider (their first rate case since 2010), asking for $55mm of rate increase to cover **Energy*Forward*** plan infrastructure investments and efficiency upgrades (~$37mm), and other business expenses (~18mm), including lower sales revenue, pension investment costs, etc. If the filing is approved, MPUC will set up interim rates (take effect Jan 1, 2017) before the final ruling is granted. We estimate MN Power and SWL&P currently earn 8-9% ROEs and can improve to 9-10% ROEs beginning with returning taconite production next year, and more constructive rate mechanisms thereafter. While ATC transmission ROEs have been under pressure, and are a direct read-through to ALE (50bps translates to ~$0.01 EPS), the company has already been booking lower returns; we model 10.2% ROE so no incremental impact from lower ROEs going into effect at this juncture.
- **ALE's business mix is slightly more diversified with non-regulated activities than utility peers; although these are energy-related businesses that aren't uncommon for utilities – mainly renewable development.** Three non-regulated businesses drive ~15% of ALE's earnings: **(1) ALE Clean Energy (~5%)** invests in renewables; **(2) BNI (~3%)** operates lignite coal mines and offers energy infrastructure services; and **(3) U.S. Water (~2%)** provides energy and water efficiency solutions/services. Non-regulated earnings are driven largely by investment in contracted renewables, with a portfolio now over 500MW, and to a lesser extent demand for sustainable energy/water solutions provided by the recently acquired U.S. Water business. BNI is an established coal mine operator in ND with contracted revenues through 2037, so we assume earnings remain stable. **See our models further down.**
- **Valuation: We value ALE as a regulated utility, arriving at our $57 FV/share estimate using our regulated group multiple, with a half-turn discount to reflect uncertainty around industrial exposure, and applying to 2018 fundamentals.** Since the non-regulated businesses are a relatively small part of the business mix, and focus on utility-related infrastructure or services, we value ALE as a regulated utility and not sum-of-the-parts. We ascribe a half-turn discount to our 16.0x regulated group multiple to arrive at our ALE-specific 15.5x valuation P/E multiple, **incorporating the discount associated with industrial exposure currently reflected in ALE's shares, although leaving room for our anticipated return to normal taconite production**; we apply this to our 2018 EPS estimate of

$3.68 to arrive at our $57 FV/share estimate. Incorporating our anticipated 4% dividend yield, we estimate a 1% ETR based on our $57 FV/share estimate.

- **Risk:** Outside of the smaller base of large industrial customers and weak industrial demand, risks to achieving our fair value/share for ALE mainly encompass traditional risk factors inherent with regulated utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model. Upside risks to our fair value estimate include: (1) favorable regulatory settlements; (2) acceleration in taconite production; and (3) higher CapEx outlook.

Guggenheim's ALE EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.85A	0.46A	1.38A	0.38A	3.06A	
2016E	0.93A	0.50A	0.93E	0.78E	3.14E	3.12E
2017E	0.88E	0.53E	1.21E	0.84E	3.46E	3.52E
2018E	0.93E	0.56E	1.29E	0.90E	3.68E	3.69E

Source: Company reports, Guggenheim Securities, LLC estimates.

Summary business metrics

Summary Business Metrics					
Earnings and business mix	**2016E**	**2017E**	**2018E**	**CAGR**	**% of total**
Regulated	$2.80	$3.08	$3.29	6.5%	89.2%
Non-regulated	$0.34	$0.38	$0.39	4.3%	10.8%
ALE	**$3.14**	**$3.46**	**$3.68**	**6.3%**	
Dividend growth & coverage	**2016E**	**2017E**	**2018E**		
Annual dividend growth	3.0%	5.0%	5.0%		
Payout ratio	66%	63%	62%		

Source: Guggenheim Securities, LLC estimates.

Regulated business metrics

Regulated business metrics						
Rate base assets *($Bn)*	Jurisdiction	2016E	2017E	2018E	*CAGR*	*% of total*
MN Power	*MN PUC*	2,503	2,601	2,751	*4.8%*	*87%*
SWL&P	*WI PSC*	59	61	65	*4.8%*	*2%*
ATC (8% interest)	*FERC*	278	323	366	*14.7%*	*11%*
		2,840	**2,985**	**3,182**	*3.9%*	
Regulated ROEs by jurisdiction		**2016E**	**2017E**	**2018E**		*Average*
Minnesota	*Earned*	8.8%	9.3%	9.3%		*9.1%*
Wisconsin	*Earned*	8.8%	9.8%	10.2%		*9.6%*
	Authorized	*10.9%*	*10.9%*	*10.9%*		*10.9%*
FERC	*Earned*	10.3%	10.2%	10.4%		*10.3%*
	Authorized	*10.2%*	*10.2%*	*10.2%*		*10.2%*
Regulated EPS		**2016E**	**2017E**	**2018E**	*CAGR*	*% of total*
MN Power		2.42	2.68	2.82	*5.6%*	*86%*
SWL&P		0.06	0.07	0.07	*9.6%*	*2%*
ATC (8% interest)		0.32	0.34	0.39	*13.4%*	*11%*
Regulated earnings		**$2.80**	**$3.08**	**$3.29**	*6.5%*	

Source: Guggenheim Securities, LLC estimates.

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ALLETE Energy

Consolidated Financials

INCOME STATEMENT ($ Millions)	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating Revenue	1,486	334	315	362	347	1,358	348	314	387	365	1,414	374	338	416	392	1,520
Total Operating Revenues	**1,486**	**334**	**315**	**362**	**347**	**1,358**	**348**	**314**	**387**	**365**	**1,414**	**374**	**338**	**416**	**392**	**1,520**
Fuel and Purchased Power	328	77	78	86	81	322	76	73	90	90	329	81	78	96	96	350
Total Cost of sales	**328**	**77**	**78**	**86**	**81**	**322**	**76**	**73**	**90**	**90**	**329**	**81**	**78**	**96**	**96**	**350**
Gross Margin	**1,158**	**257**	**237**	**276**	**266**	**1,035**	**271**	**241**	**297**	**274**	**1,084**	**293**	**261**	**320**	**296**	**1,170**
Transmission Services	54	17	16	14	14	61	16	14	19	17	66	17	15	20	18	70
Cost of Sales	302	33	33	62	58	186	43	43	56	51	193	47	48	62	55	213
Other operation and maintenance expenses	334	78	82	72	77	309	83	81	79	83	325	84	82	80	84	330
Taxes, other than income taxes	51	14	14	22	28	78	27	27	16	24	94	32	32	18	28	110
Impairment of Real Estate	36	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	**778**	**142**	**146**	**170**	**176**	**633**	**169**	**165**	**170**	**174**	**677**	**181**	**176**	**180**	**185**	**723**
EBITDA	**381**	**115**	**91**	**106**	**90**	**402**	**103**	**76**	**128**	**100**	**407**	**112**	**84**	**140**	**111**	**447**
Depreciation and amortization	170	48	49	25	25	147	27	27	27	27	107	32	32	32	32	128
Operating Income	**211**	**67**	**42**	**81**	**65**	**255**	**76**	**49**	**101**	**73**	**300**	**80**	**52**	**108**	**78**	**318**
Equity Earnings in ATC	16	5	4	3	4	16	4	4	4	4	16	4	5	5	5	19
Other	5	1	1	2	2	5	1	1	1	1	5	1	1	1	1	5
Interest Expense	65	17	17	15	15	64	16	16	16	17	66	17	17	17	18	70
Income Before Non-Controlling Interest and Income Taxes	**167**	**56**	**30**	**71**	**56**	**212**	**65**	**38**	**90**	**62**	**255**	**69**	**41**	**96**	**67**	**273**
Income Tax Expense	25	9	5	25	17	56	21	12	31	21	85	23	14	33	23	92
Tax Rate	*15%*	*17%*	*16%*	*35%*	*30%*	*26%*	*33%*	*32%*	*34%*	*33%*	*33%*	*34%*	*33%*	*34%*	*34%*	*34%*
Net Income	**142**	**46**	**25**	**46**	**39**	**156**	**43**	**26**	**59**	**41**	**170**	**45**	**27**	**63**	**44**	**181**
Less: Non-Controlling Interest in Subsidiaries	0	1	-	-	-	1	-	-	-	-	-	-	-	-	-	-
Net Income Attributable to ALLETE	**141**	**46**	**25**	**46**	**39**	**156**	**43**	**26**	**59**	**41**	**170**	**45**	**27**	**63**	**44**	**181**
Weighted-average Number of Common Shares Outstanding-Diluted	48	49	50	50	50	50	49	49	49	49	49	49	49	49	49	49
Earnings Per Common Share, Diluted	**$2.92**	**$0.94**	**$0.50**	**$0.93**	**$0.78**	**$3.15**	**$0.88**	**$0.53**	**$1.21**	**$0.84**	**$3.46**	**$0.93**	**$0.56**	**$1.29**	**$0.90**	**$3.68**
Non-GAAP Items	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non-GAAP)	**148**	**46**	**25**	**46**	**39**	**156**	**43**	**26**	**59**	**41**	**170**	**45**	**27**	**63**	**44**	**181**
Earnings Per Common Share, Diluted (Non-GAAP)	**$3.06**	**$0.93**	**$0.50**	**$0.93**	**$0.78**	**$3.14**	**$0.88**	**$0.53**	**$1.21**	**$0.84**	**$3.46**	**$0.93**	**$0.56**	**$1.29**	**$0.90**	**$3.68**

Source: Company reports, Guggenheim Securities, LLC estimates.

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ALLETE Energy

Consolidated Financials

CASH FLOW STATEMENT ($ Millions)	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Net income	142	46	25	46	39	156	43	26	59	41	170	45	27	63	44	181
Adjustments to reconcile net income to net cash provided by operating activities:																
Allowance for Funds Used During Construction – Equity	(3)	(1)	(0)	-	-	(1)	-	-	-	-	-	-	-	-	-	-
Income from Equity Investments – Net of Dividends	(2)	(3)	-	(1)	(1)	(5)	(1)	(1)	(1)	(1)	(3)	(1)	(1)	(1)	(1)	(4)
Impairment of Real Estate	36	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on Sales of Investments	(0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation Expense	166	47	47	45	45	185	45	46	46	45	183	46	46	45	46	183
Amortization of Power Purchase Agreements	(23)	(6)	(6)	-	-	(11)	-	-	-	-	-	-	-	-	-	-
Amortization of Other Intangible Assets and Other Assets	6	2	3	(20)	(20)	(35)	(19)	(19)	(19)	(18)	(75)	(14)	(14)	(13)	(13)	(55)
Changes in Operating Assets and Liabilities																
Accounts Receivable	1	(4)	11	(17)	5	(5)	(0)	12	(26)	8	(6)	(3)	13	(28)	8	(10)
Inventories	(22)	1	6	(12)	8	3	7	5	(24)	(1)	(13)	13	5	(25)	(1)	(8)
Prepayments and Other	4	0	(1)	(4)	3	(2)	2	2	(8)	(0)	(5)	5	2	(9)	(0)	(3)
Accounts Payable	(19)	(4)	6	7	(5)	4	(4)	(3)	14	0	8	(8)	(3)	15	1	5
Net Cash Provided by Operating Activities	340	93	53	44	75	265	74	68	41	75	258	83	75	47	83	289
Cash Flow from Investing Activities:																
Proceeds from Sale of Available-for-sale Securities	2	1	0	-	-	1	-	-	-	-	-	-	-	-	-	-
Payments for Purchase of Available-for-sale Securities	(2)	(0)	(1)	-	-	(1)	-	-	-	-	-	-	-	-	-	-
Acquisitions of Subsidiaries – Net of Cash Acquired	(333)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment in ATC	(2)	(1)	(0)	(2)	(2)	(6)	(2)	(2)	(2)	(2)	(6)	(2)	(2)	(2)	(2)	(6)
Changes to Other Investments	3	0	2	-	-	2	-	-	-	-	-	-	-	-	-	-
Additions to Property, Plant and Equipment	(287)	(42)	(32)	(49)	(49)	(172)	(70)	(70)	(70)	(70)	(280)	(73)	(73)	(73)	(73)	(290)
Proceeds from Sale of Property, Plant and Equipment	0	-	0	-	-	0	-	-	-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	(619)	(43)	(31)	(51)	(51)	(176)	(72)	(72)	(72)	(72)	(286)	(74)	(74)	(74)	(74)	(296)
Cash Flow from Financing Activities:																
Proceeds from Issuance of Common Stock	161	9	6	-	-	15	-	-	-	-	-	-	-	-	-	-
Proceeds from Issuance of Long-Term Debt	325	-	2	10	10	22	10	50	75	25	160	50	50	75	50	225
Changes in Restricted Cash	9	(6)	4	-	-	(2)	-	-	-	-	-	-	-	-	-	-
Changes in Notes Payable	(2)	(1)	0	-	-	(1)	-	-	-	-	-	-	-	-	-	-
Repayments of Long-Term Debt	(160)	(27)	(6)	(16)	(16)	(64)	(16)	(16)	(13)	(13)	(57)	(13)	(13)	(13)	(13)	(50)
Acquisition of Non-Controlling Interest	-	-	(8)	-	-	(8)	-	-	-	-	-	-	-	-	-	-
Debt Issuance Costs	(4)	-	(0)	-	-	(0)	-	-	-	-	-	-	-	-	-	-
Dividends on Common Stock	(98)	(26)	(26)	(26)	(26)	(103)	(27)	(27)	(27)	(27)	(107)	(28)	(28)	(28)	(28)	(113)
Net Cash (Used In) Provided by Financing Activities	230	(51)	(27)	(32)	(32)	(141)	(33)	7	36	(14)	(4)	9	9	34	9	62
Net (Decrease) Increase in Cash and Cash Equivalents	(49)	-	(5)	(39)	(8)	(52)	(30)	3	5	(11)	(33)	19	10	8	19	55
Cash and Cash Equivalents, Beginning of Period	146	97	97	92	53	97	45	15	18	23	45	12	30	41	48	12
Cash and Cash Equivalents, End of Period	97	97	92	53	45	45	15	18	23	12	12	30	41	48	67	67

Source: Company reports, Guggenheim Securities, LLC estimates.

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ALLETE Energy

Consolidated Financials

BALANCE SHEET ($ Millions)	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Cash and cash equivalents	97	97	92	53	45	45	15	18	23	12	12	30	41	48	67	67
Accounts receivable	121	125	114	131	125	125	125	113	140	132	132	135	122	150	142	142
Inventories	117	116	110	122	114	114	108	103	127	128	128	114	110	135	136	136
Prepayments and other	36	42	38	43	40	40	37	36	44	44	44	40	38	47	47	47
Deferred Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Assets	**371**	**379**	**354**	**349**	**324**	**324**	**285**	**270**	**333**	**316**	**316**	**319**	**311**	**380**	**392**	**392**
Property, plant and equipment																
Property, Plant and Equipment – Net	3,669	3,642	3,631	3,635	3,638	**3,638**	3,663	3,687	3,711	3,735	**3,735**	3,762	3,788	3,815	3,842	**3,842**
Net utility plant	**3,669**	**3,642**	**3,631**	**3,635**	**3,638**	**3,638**	**3,663**	**3,687**	**3,711**	**3,735**	**3,735**	**3,762**	**3,788**	**3,815**	**3,842**	**3,842**
Regulatory Assets	372	367	359	359	359	359	359	359	359	359	359	359	359	359	359	359
Investment in ATC	125	129	129	132	135	135	138	140	142	145	145	147	150	152	155	155
Other Investments	75	73	72	72	72	72	72	72	72	72	72	72	72	72	72	72
Goodwill and Intangible Assets – Net	215	214	213	233	253	253	272	291	310	329	329	342	357	370	383	383
Other Non-Current Assets	68	69	99	99	99	99	99	99	99	99	99	99	99	99	99	99
Total Non-current assets	**854**	**851**	**872**	**895**	**919**	**919**	**940**	**961**	**983**	**1,004**	**1,004**	**1,020**	**1,037**	**1,052**	**1,068**	**1,068**
Total Assets	**4,895**	**4,873**	**4,858**	**4,879**	**4,881**	**4,881**	**4,887**	**4,918**	**5,027**	**5,055**	**5,055**	**5,101**	**5,135**	**5,248**	**5,302**	**5,302**
Accounts Payable	89	59	65	72	67	67	63	60	75	75	75	67	64	79	80	80
Accrued Taxes	44	52	38	38	38	38	38	38	38	38	38	38	38	38	38	38
Accrued Interest	19	15	18	18	18	18	18	18	18	18	18	18	18	18	18	18
Long-Term Debt Due Within One Year	36	15	65	48	32	32	16	50	38	25	25	13	50	38	25	25
Notes Payable	2	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Other	86	83	86	86	86	86	86	86	86	86	86	86	86	86	86	86
Total Current Liabilities	**275**	**224**	**272**	**262**	**242**	**242**	**222**	**253**	**254**	**242**	**242**	**222**	**257**	**259**	**247**	**247**
Long-Term Debt	1,557	1,551	1,499	1,509	1,519	1,519	1,529	1,529	1,604	1,629	1,629	1,679	1,679	1,754	1,804	1,804
Deferred Income Taxes	580	590	595	595	595	595	595	595	595	595	595	595	595	595	595	595
Regulatory Liabilities	105	102	95	95	95	95	95	95	95	95	95	95	95	95	95	95
Defined Benefit Pension and Other Postretirement Benefit Plans	207	206	205	205	205	205	205	205	205	205	205	205	205	205	205	205
Other Non-Current Liabilities	349	347	341	341	341	341	341	341	341	341	341	341	341	341	341	341
Total Other Liabilities	**2,797**	**2,796**	**2,734**	**2,744**	**2,754**	**2,754**	**2,764**	**2,764**	**2,839**	**2,864**	**2,864**	**2,914**	**2,914**	**2,989**	**3,039**	**3,039**
Total Liabilities	**3,072**	**3,020**	**3,006**	**3,006**	**2,996**	**2,996**	**2,985**	**3,017**	**3,093**	**3,106**	**3,106**	**3,136**	**3,171**	**3,248**	**3,286**	**3,286**
Capitalization																
ALLETE's Equity																
Common stock	1,271	1,281	1,284	1,284	1,284	1,284	1,284	1,284	1,284	1,284	1,284	1,284	1,284	1,284	1,284	1,284
Unearned ESOP Shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated Other Comprehensive Loss	(25)	(25)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)
Retained earnings	573	594	593	613	626	626	643	642	674	689	689	706	706	741	757	757
Total ALLETE Equity	**1,820**	**1,850**	**1,852**	**1,872**	**1,885**	**1,885**	**1,902**	**1,901**	**1,934**	**1,948**	**1,948**	**1,966**	**1,965**	**2,000**	**2,016**	**2,016**
Non-Controlling Interest in Subsidiaries	2	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Equity	**1,822**	**1,853**	**1,852**	**1,872**	**1,885**	**1,885**	**1,902**	**1,901**	**1,934**	**1,948**	**1,948**	**1,966**	**1,965**	**2,000**	**2,016**	**2,016**
Total Liabilities and Equity	**4,895**	**4,873**	**4,858**	**4,878.8**	**4,881**	**4,881**	**4,887.4**	**4,917.7**	**5,026.8**	**5,054.5**	**5,055**	**5,101.5**	**5,135.4**	**5,247.9**	**5,302.4**	**5,302**

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM
ALLETE Energy
Regulated Operations

INCOME STATEMENT ($ Millions)	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating revenues	991	252	235	269	249	1,005	250	219	293	263	1,025	266	234	311	281	1,091
Total Operating Revenues	**991**	252	235	269	249	**1,005**	250	219	293	263	**1,025**	**266**	**234**	**311**	**281**	**1,091**
Fuel and Purchased Power	328	77	78	86	81	322	76	73	90	90	329	81	78	96	96	350
Total Cost of sales	**328**	77	78	86	81	**322**	76	73	90	90	**329**	81	78	96	96	**350**
Gross Margin	**663**	**175**	**157**	**186**	**163**	**682**	**174**	**146**	**203**	**173**	**696**	**185**	**156**	**216**	**184**	**740**
% of Gross Margin	*67%*	*70%*	*67%*	*69%*	*66%*	*68%*	*70%*	*67%*	*69%*	*66%*	*68%*	*70%*	*67%*	*69%*	*66%*	*68%*
Transmission Services	54	17	16	14	14	61	16	14	19	17	66	17	15	20	18	70
Cost of Sales	8	3	1	2	2	8	2	2	2	2	8	2	2	2	2	8
O&M	230	51	54	65	65	234	60	60	60	60	239	61	61	61	61	244
Taxes Other than Income Taxes	46	12	13	13	13	51	13	13	13	13	52	14	14	14	14	55
Total Operating Expenses	**338**	83	83	94	94	**354**	91	89	93	92	**365**	94	92	97	95	**377**
EBITDA	**325**	**93**	**74**	**92**	**69**	**328**	**83**	**57**	**109**	**81**	**330**	**91**	**64**	**119**	**89**	**363**
Depreciation and amortization	135	38	38	16	16	108	16	16	16	16	65	20	20	21	21	82
Operating Income	**190**	**55**	**35**	**77**	**53**	**220**	**67**	**41**	**93**	**65**	**266**	**71**	**44**	**98**	**69**	**281**
Equity Earnings in ATC	16	5	4	3	4	16	4	4	4	4	16	4	5	5	5	19
Other	3	1	0	1	1	3	1	1	1	1	3	1	1	1	1	3
Interest Expense	54	13	13	13	13	52	13	13	13	13	53	14	14	14	14	56
Total Other Expense	**34**	7	8	8	8	**32**	8	8	8	8	**33**	8	8	8	8	**33**
Income Before Non-Controlling Interest and Income Taxes	**156**	**47**	**27**	**68**	**45**	**188**	**58**	**33**	**85**	**57**	**233**	**62**	**35**	**90**	**61**	**248**
Income Taxes	24	5	4	24	16	49	20	12	30	20	81	22	12	32	21	**87**
Tax Rate	*16%*	*10%*	*16%*	*35%*	*35%*	*26%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*
Net Income Attributable to ALLETE	**132**	42	23	44	29	**139**	38	21	55	37	**151**	40	23	59	39	**161**
Earnings Per Common Share, Diluted	**$2.72**	**$0.86**	**$0.46**	**$0.89**	**$0.59**	**$2.81**	**$0.77**	**$0.44**	**$1.12**	**$0.75**	**$3.08**	**$0.82**	**$0.47**	**$1.19**	**$0.80**	**$3.29**
Non-GAAP Items																
Net Income (Non-GAAP)	**132**	42	23	44	29	**139**	38	21	55	37	**151**	40	23	59	39	**161**
Weighted-average Number of Common Shares Outstanding-Diluted	48	49	50	50	50	50	49	49	49	49	49	49	49	49	49	49
Earnings Per Common Share, Diluted (Non-GAAP)	**$2.72**	**$0.86**	**$0.46**	**$0.89**	**$0.59**	**$2.81**	**$0.77**	**$0.44**	**$1.12**	**$0.75**	**$3.08**	**$0.82**	**$0.47**	**$1.19**	**$0.80**	**$3.29**

Source: Company reports, Guggenheim Securities, LLC estimates.

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ALLETE Energy

Non-Regulated

INCOME STATEMENT ($ Millions)	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating revenues	495	82	80	93	98	353	98	95	95	101	389	108	105	104	112	429
Total Operating Revenues	495	82	80	93	98	353	98	95	95	101	389	108	105	104	112	429
Fuel and Purchased Power	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cost of sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross Margin	495	82	80	93	98	353	98	95	95	101	389	108	105	104	112	429
% of Gross Margin	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
Transmission Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost of Sales	294	30	33	60	56	178	41	41	54	49	185	45	45	60	53	204
Operating and Maintenance	104	28	29	7	11	74	23	21	19	23	86	23	21	19	23	86
Taxes Other than Income Taxes	5	2	2	9	15	27	14	14	3	11	41	19	18	4	14	55
Impairment of Real Estate	36	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	440	59	63	76	82	280	78	76	76	82	312	87	84	84	90	346
EBITDA	55	22	17	17	17	74	20	19	19	19	77	21	20	21	21	83
Depreciation and amortization	35	10	10	9	9	39	11	11	11	11	43	12	12	12	12	46
Operating Income	21	12	7	8	7	35	9	8	8	8	34	10	9	9	10	37
Equity Earnings in ATC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	1	0	0	0	0	1	0	0	0	0	1	0	0	0	0	1
Interest Expense	11	4	5	2	2	12	3	3	3	3	13	4	4	4	4	14
Income Before Non-Controlling Interest and Income Taxes	11	9	3	7	6	24	6	5	5	6	22	6	6	6	6	24
Income Taxes	1	5	0	1	1	7	1	1	1	1	4	1	1	1	1	5
Tax Rate	*8%*	*53%*	*15%*	*16%*	*16%*	*29%*	*16%*	*16%*	*16%*	*16%*	*16%*	*21%*	*22%*	*22%*	*21%*	*21%*
Net Income	10	4	2	6	5	17	5	5	4	5	19	5	4	5	5	19
Less: Non-Controlling Interest in Subsidiaries	0	1	-	-	-	1	-	-	-	-	-	-	-	-	-	-
Net Income Attributable to ALLETE	10	4	2	6	5	17	5	5	4	5	19	5	4	5	5	19
Earnings Per Common Share, Diluted	$0.20	$0.08	$0.04	$0.12	$0.10	$0.35	$0.11	$0.09	$0.09	$0.10	$0.38	$0.10	$0.09	$0.10	$0.10	$0.39
Non-GAAP Items	7	-	-													
Net Income (Non-GAAP)	17	4	2	6	5	17	5	5	4	5	19	5	4	5	5	19
Weighted-average Number of Common Shares Outstanding-Diluted	48	49	50	50	50	50	49	49	49	49	49	49	49	49	49	49
Earnings Per Common Share, Diluted (Non-GAAP)	$0.35	$0.07	$0.04	$0.12	$0.10	$0.34	$0.11	$0.09	$0.09	$0.10	$0.38	$0.10	$0.09	$0.10	$0.10	$0.39

Source: Company reports, Guggenheim Securities, LLC estimates.

AVISTA CORPORATION (AVA, NEUTRAL, $40.10)

Initiating coverage of AVA with a NEUTRAL rating and $39 fair value/share; full valuation, average growth with potential upside from gas LDC in Alaska but still in infancy stage. Multiple rate cases to navigate through tough states.

- **We are Initiating coverage of AVA with a NEUTRAL rating and $39 fair value/share estimate.** AVA is a $2.5bn market cap electric and natural gas utility with two primary units – Avista Utilities (Avista) and Alaska Energy and Resources Company (AERC), of which its primary subsidiary is Alaska Electric Light and Power Company (AEL&P). Avista (~95% of earnings) operates in eastern Washington, northern Idaho, parts of southern and eastern Oregon and also some operations in Montana. AEL&P (~5% of earnings) is an electric provider to Juneau, Alaska. **Our NEUTRAL rating is premised upon valuation (trades at 17.4x our 2018E EPS vs. utility peers trading at 16.7x)** – AVA is a simple regulated utility story with near-term rate base and earnings growth modestly below peers, some constructive rate setting mechanisms including decoupling, ERM and potential upside from creation of a gas LDC in Alaska. But, **at current valuation levels, we believe shares are not pricing in risk around the overhang of several rate cases in the near term in Washington, Idaho, Oregon and Alaska** – execution is key in '16 through tough states.

- **Our 2016/2017/2018 EPS estimates are $2.06/$2.16/$2.30; in-line with consensus for 2016, 2017, and above in 2018.** Multiple rate cases are key drivers of outlook for 2017 and beyond and support our ~4.0% annual earnings growth estimate – ultimately, given the current regulatory construct, we assume normalized lag of 80bps-100bps, earned ROEs of 8.5% vs. the current 9.9% authorize/~8% achieved in recent years on rate base growing at ~5.3% at Avista Utilities. Our forecast for AEL&P estimates the segment earning returns of 11.28% - 12.3% versus authorized of 12.88% and rate base CAGR of 5.9%. System-wide, we model customer and load growth of ~1%. We account for some diminishing regulatory lag with annual rate case filings. We estimate the non-regulated segment of the company will remain a drag on EPS at ~$0.04-$0.07. **Gas LDC in Juneau presents an opportunity but it's still in infancy and low oil prices have made this proposition more challenging for Alaskan rate payers.**

- **Navigating a busy rate case schedule key near-term driver.** Depending on the utility within our coverage space, rate cases do not always necessarily equate to an overhang on the shares, but in the case of AVA, **Avista Utilities operates in a more challenging region of the country in the Pacific Northwest – Washington and Oregon legislation is tough with consumer advocates groups that are very active and noisy.** Current active rate cases: (1) Washington: $54.2mm gas and electric revenue ask – decision by 1/2017; (2) Idaho: $15.4mm electric revenue ask; decision by 12/2016; (3) Alaska: 5.7mm electric revenue ask; decision by 12/2017. **That said, effectively managing the current regulatory environment is key.** Avista could benefit from a more active rate case schedule, given some spending needs on generation but more around infrastructure/grid modernization. Their IRP shows adequate generation capacity through 2020; maybe another 560MW of opportunities from 2020-2034 – Next IRP filed in 2017.

- **Good mechanisms like decoupling in all states (ex-Alaska) but ERM introduces an element of volatility that utility investors wouldn't need to monitor with most other electric peers.** There are decoupling mechansisms in various states, with Washington also having stipulated an after-the-fact earnings test tor reflect normailzed adjustments, which are capped at 3% for customers on an annual basis. But, the one element of focus for investors to watch is the ERM,

which tracks the difference in actual power costs, with AVA benefitting or bearing the cost differences within a set deadband (see table below); as such, the variability of hydro generation output could be a positive or detriment to the earnings picture. As a reminder, hydro is 48% of generation mix – specifically Fork River, which accounts for 80% of the hydro generation. Under the ERM – sharing is split 75%/25% with customers/AVA. For 2016, guidance assumes some benefit. If within the deadband (see below), AVA absorbs benefit/cost. If outside the deadband, benefit/cost is shared.

Energy Recovery Mechanism		
Annual Power Supply Cost Variability	Deferred for Future Surcharge or Rebate to Customers	Expense or Benefit to the Company
within +/- $0 to $4mm (deadband)	*0%*	*100%*
higher by $4mm to $10mm	*50%*	*50%*
lower by $4mm to $10mm	*75%*	*25%*
higher or lower by over $10mm	*90%*	*10%*

Source: Avista 2015 10K Filing.

- **Upside growth potential from gas LDC opportunity but will market perceive an elevated risk profile given completely new infrastructure needed to replace heating oil?** This remains to be seen as **to date, for the 39 utilities we cover, investor reaction toward some utilities taking on ventures outside of their core competencies has been lukewarm**. But at this juncture, given the drop in oil prices (Alaskans burn oil to generate electricity), the proposal for a new gas LDC becomes more of an "environmental" argument as the economics for the proposition has diminished (i.e., spread between oil and natural gas contracted). The opportunity presents upside potential but also introduces certain risks that investors may look to price in – that said, the viability of the opportunity remains uncertain given the current energy picture.
- **Summary of factors to think about on the gas LDC: (1) The lower oil price** has resulted in a difficult fiscal situation for Alaska, and doesn't help incentivize bringing gas to Juneau. **(2) Customers face upfront costs of conversion,** something the company needs to work on mitigating. **(3) Separately the potential size of the investment remains to be seen;** management notes if it was to take on the entire project, total cost estimate is $110mm over 10 years – **but scale of effort is dependent on getting the appropriate customer conversion costs and financing to come together.** So while there are pathways for growth here, there are nuances that must be considered.
- **Valuation: We value AVA as a regulated utility, arriving at our $39 FV/share estimate using our regulated group multiple, with a one-turn premium to reflect the gas LDC.** The company's more proactive rate case schedule also provides a pathway for reducing regulatory lag in its earnings profile. We ascribe a one-turn premium to our 16.0x regulated group multiple, which is derived from our bond regression analysis to arrive at our AVA-specific 17.0x target P/E multiple, incorporating a slight premium associated with gas LDC expansion. We apply this to our 2018 EPS estimate of $2.30 to arrive at our $39 FV/share estimate. Incorporating our anticipated 3.5% dividend yield, we estimate a 0.8% ETR based on our $39 FV/share estimate.
- **Risks:** The primary risk 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.

Additional risk factor for Avista Corporation include: Potential RFPs to be issued based on the 2016 IRP's outcome. The outcome is dependent on elements such as the LT load growth rate, and commission assessment of needs; an order not aligned with those estimated by AVA may result in lower earnings. Upside risks to our fair value estimate include: (1) favorable regulatory settlements; (2) Gas LDC approval in Juneau; and (3) higher CapEx outlook.

Guggenheim's AVA EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.74A	0.40A	0.21A	0.61A	1.97A	
2016E	0.89A	0.43A	0.19A	0.55E	2.06E	2.08E
2017E	0.96E	0.53E	0.21E	0.46E	2.16E	2.17E
2018E	1.03E	0.56E	0.22E	0.49E	2.30E	2.28E

Source: Company reports, Guggenheim Securities, LLC estimates.

Summary business metrics

Summary Business Metrics							
Earnings and business mix		**2015A**	**2016E**	**2017E**	**2018E**	**CAGR**	**% of Total**
Avista	$	1.89	$ 2.01	$ 2.09	$ 2.23	4.2%	96.7%
AEL&P	$	0.11	$ 0.12	$ 0.13	$ 0.14	7.2%	5.9%
Other	$	(0.03)	$ (0.07)	$ (0.06)	$ (0.07)		-2.6%
AVA	**$**	**1.97**	**$ 2.06**	**$ 2.16**	**$ 2.30**	**4.0%**	
Dividend growth & coverage		**2015A**	**2016E**	**2017E**	**2018E**		
Annual dividend growth	$	1.32	$ 1.37	$ 1.43	$ 1.50		
Payout ratio		67%	66%	66%	65%		

Source: Company reports, Guggenheim Securities, LLC estimates.

Regulated business metrics

Regulated business metrics							
Rate base assets *($mm)*	**Jurisdiction**	**2015**	**2016**	**2017**	**2018**	*CAGR*	*% of total*
Avista Utilities	*ID, OR , WA , MN*	2,897	3,117	3,350	3,566	*5.3%*	*96%*
AEL&P	*AK*	116	127	134	146	*5.9%*	*4%*
		3,012	**3,244**	**3,484**	**3,712**	*5.4%*	
Regulated ROEs by jurisdiction			**2016**	**2017**	**2018**		*Average*
Avista Utilities	*Earned*		8.5%	8.4%	8.4%		*8.4%*
	Authorized		*9.9%*	*9.9%*	*9.9%*		
AEL&P	*Earned*		11.3%	12.1%	11.9%		*11.8%*
	Authorized		*12.9%*	*12.9%*	*12.9%*		*12.9%*

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

AVA

Consolidated Financials

INCOME STATEMENT ($ thousands)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Utility revenues	1,456,091	412,793	312,888	312,173	385,149	1,423,003	418,326	317,367	314,178	389,413	1,440,294	428,546	326,526	322,281	399,999	1,477,192
Non-utility revenues	28,685	5,380	5,950	6,244	5,856	23,430	7,108	7,107	7,197	7,108	28,430	8,356	8,358	8,358	8,358	33,430
Total Operating Revenues	1,484,775	418,173	318,838	318,417	391,005	1,446,433	425,437	324,475	321,285	397,527	1,468,724	436,903	334,883	330,619	408,217	1,510,622
Utility Resource costs	656,964	161,719	109,815	134,619	171,106	577,259	161,383	103,385	129,822	180,021	574,591	167,503	114,530	144,797	175,577	602,417
Total Cost of sales	656,964	161,719	109,815	134,619	171,106	577,259	161,383	103,385	129,822	180,021	574,591	167,503	114,530	144,797	175,577	602,417
Gross Margin	827,812	256,454	209,023	183,798	219,899	869,174	264,054	221,110	191,464	217,506	894,132	269,400	220,354	185,912	232,640	908,205
% of Gross Margin	56%	61%	66%	58%	56%	60%	62%	68%	60%	55%	61%	62%	66%	56%	57%	60%
Utility operating expenses																
Other operating expenses	303,221	75,778	78,696	75,129	74,632	304,206	67,432	74,624	74,610	74,762	291,428	67,453	62,066	59,954	78,645	258,150
Taxes other than income taxes	97,657	29,385	22,615	22,574	22,447	97,022	26,795	22,918	22,739	22,740	98,152	30,470	23,572	23,315	23,283	100,640
Non-utility operating expenses																
Other operating expenses	29,526	5,825	6,281	6,462	6,602	25,170	7,695	7,503	7,358	8,013	30,567	9,049	8,822	8,649	9,422	35,943
Total Operating Expenses	430,404	110,989	107,562	104,166	103,681	426,397	104,682	105,045	104,705	105,515	420,147	106,972	94,461	91,648	111,350	394,732
EBITDA	397,408	145,465	101,461	79,633	116,218	442,777	159,171	116,064	86,759	111,991	473,985	172,429	125,891	94,264	120,890	513,473
Utility Depreciation and amortization	143,499	39,192	39,678	40,381	41,211	160,461	43,194	44,011	44,818	45,814	177,837	47,704	48,438	49,260	50,052	195,535
Non-utility Depreciation and amortization	695	188	192	192	192	764	192	192	192	192	768	192	192	192	192	768
Total Depreciation and amortization	144,194	39,380	39,870	40,573	41,403	161,225	43,386	44,203	45,010	45,806	178,405	47,896	48,630	49,472	50,244	196,303
Operating Income	253,214	106,085	61,591	39,060	74,815	281,551	115,785	71,861	41,749	66,185	295,580	124,532	77,261	44,791	70,645	317,170
Net other income	12,846	3,336	3,878	1,486	3,072	11,783	3,125	4,187	2,821	4,434	14,567	3,212	4,319	2,890	4,544	14,965
Interest Expense																
Interest expense	79,968	21,273	21,318	21,342	21,775	85,709	22,257	22,589	23,295	23,740	91,881	24,242	24,641	25,096	25,500	99,471
Interest expense to affiliated trusts	473	138	154	129	135	556	144	164	140	148	596	157	178	151	159	645
Total Interest Expense	80,441	21,411	21,472	21,471	21,911	86,265	22,351	22,853	23,375	23,887	92,476	24,400	24,819	25,239	25,658	100,116
Interest Rate	5.0%	5.3%	5.3%	5.2%	5.2%	5.1%	5.2%	5.2%	5.2%	5.2%	5.0%	5.2%	5.2%	5.2%	5.2%	5.1%
Income from continuing operations before income taxes	185,619	88,010	43,997	19,075	55,977	207,069	96,560	53,195	21,195	46,732	217,671	103,345	56,761	22,442	49,531	232,019
Income Taxes	67,449	31,942	16,710	7,117	20,498	76,267	35,058	19,367	7,820	17,136	79,391	37,570	20,671	8,309	18,205	84,755
Tax Rate	36%	36%	38%	37%	37%	37%	36%	36%	37%	37%	36%	36%	36%	37%	37%	37%
Net income from continuing operations	118,170	56,068	27,287	11,959	35,479	130,803	61,491	33,818	13,375	29,596	138,281	65,775	36,030	14,133	31,326	147,264
Net income from discontinued operations	5,147	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income	123,317	56,068	27,287	11,959	35,479	130,803	61,491	33,818	13,375	29,596	138,281	65,775	36,030	14,133	31,326	147,264
Less: Net income attributable to noncontrolling interests	90.0	16	33	29	16	94	18	41	33	13	104	19	44	35	14	111
Net income attributable to Avista Corp. shareholders	123,227	56,052	27,254	11,930	35,463	130,709	61,474	33,777	13,342	29,583	138,176	65,756	35,986	14,098	31,312	147,153
Earnings Per Common Share, Diluted	1.97	0.89	0.43	0.19	0.55	2.06	0.96	0.53	0.21	0.46	2.16	1.03	0.56	0.22	0.49	2.30
Non-operating items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	123,317	56,068	27,287	11,959	35,479	130,803	61,491	33,818	13,375	29,596	138,281	65,775	36,030	14,133	31,326	147,264
Operating EPS	1.97	0.89	0.43	0.19	0.55	2.06	0.96	0.53	0.21	0.46	2.16	1.03	0.56	0.22	0.49	2.30
Weighted-average Number of Common Shares Outstanding-Diluted	62,708	62,907	63,783	63,852	63,950	63,343	63,979	63,979	63,979	63,979	63,979	63,979	63,979	63,979	63,979	63,979

Source: Company reports, Guggenheim Securities, LLC estimates.

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AVA

Consolidated Financials

CASH FLOW STATEMENT ($ thousands)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Net income	123,317	56,068	28,884	11,999	35,465	132,355	61,474	33,777	13,342	29,583	138,176	66,756	35,996	14,668	31,312	147,153
Adjustments to reconcile net income to net cash provided by operating activities:																
Depreciation and amortization	147,835	40,291	40,780	40,573	41,403	163,046	43,386	44,255	45,013	45,808	178,405	47,966	48,690	49,472	50,244	196,303
Deferred income tax provision and investment tax credits	51,601	34,030	22,622	-	-	56,652	-	-	-	-	-	-	-	-	-	-
Power and natural gas cost amortizations, net	21,358	5,379	4,579	-	-	9,958	-	-	-	-	-	-	-	-	-	-
Amortization of debt expense	3,526	876	866	-	-	1,742	-	-	-	-	-	-	-	-	-	-
Amortization of investment in exchange power	2,450	613	612	-	-	1,225	-	-	-	-	-	-	-	-	-	-
Stock-based compensation expense	6,914	2,313	1,923	-	-	4,236	-	-	-	-	-	-	-	-	-	-
Equity-related AFUDC	(8,331)	(2,261)	(2,107)	-	-	(4,368)	-	-	-	-	-	-	-	-	-	-
Pension and other postretirement benefit expense	37,050	9,475	9,840	-	-	19,315	-	-	-	-	-	-	-	-	-	-
Amortization of Spokane Energy contract	13,508	3,558	3,634	-	-	7,192	-	-	-	-	-	-	-	-	-	-
Gain on sale of Ecova	(777)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Decoupling regulatory deferral	-	-	(24,787)	-	-	(24,787)	-	-	-	-	-	-	-	-	-	-
Other	(6,881)	(12,747)	4,610	-	-	(8,137)	-	-	-	-	-	-	-	-	-	-
Contributions to defined benefit pension plan	(12,000)	(4,000)	(4,000)	-	-	(8,000)	-	-	-	-	-	-	-	-	-	-
Changes in current operating assets and liabilities:																
Accounts and notes receivable	(10,538)	18,364	31,998	(1,844)	(1,175)	47,042	(2,159)	(2,296)	(1,156)	(2,168)	(7,720)	(3,556)	(4,349)	(4,965)	(3,872)	(15,844)
Materials and supplies, fuel stock and stored natural gas	12,208	10,263	(7,753)	-	-	2,510	-	-	-	-	-	-	-	-	-	-
Increase in collateral posted for derivative instruments	(13,301)	(42,871)	(40,628)	-	-	(83,499)	-	-	-	-	-	-	-	-	-	-
Income taxes receivable	19,772	11,210	(12,660)	-	-	(1,450)	-	-	-	-	-	-	-	-	-	-
Other current assets	2,338	(10,978)	6,542	-	-	(4,436)	-	-	-	-	-	-	-	-	-	-
Accounts payable	(8,138)	(30,804)	(680)	(1,628)	1,108	(32,016)	(130)	(3,665)	(2,093)	2,251	(2,938)	2,260	6,680	7,857	(1,843)	14,954
Income taxes payable	-	1,087	(207)	-	-	880	-	-	-	-	-	-	-	-	-	-
Other current liabilities	(6,471)	15,701	(13,364)	-	-	2,337	-	-	-	-	-	-	-	-	-	-
Net Cash Provided by Operating Activities	**375,640**	**105,547**	**50,404**	**49,030**	**76,796**	**281,777**	**102,571**	**72,080**	**55,100**	**76,174**	**305,925**	**112,354**	**87,008**	**67,363**	**75,841**	**342,566**
Cash Flow from Investing Activities:																
Utility property capital expenditures	(393,425)	(88,878)	(93,937)	(104,563)	(104,583)	(392,000)	(104,500)	(104,500)	(104,500)	(104,500)	(418,000)	(105,750)	(105,750)	(105,750)	(105,750)	(423,000)
Other capital expenditures	(885)	(119)	(46)	-	-	(165)	-	-	-	-	-	-	-	-	-	-
Federal and state grant payments received	2,730	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash paid in acquisition, net	(95)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of Ecova, net of cash sold	13,856	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	(10,008)	(2,657)	(20,987)	-	-	(23,644)	-	-	-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	**(387,827)**	**(91,654)**	**(114,970)**	**(104,563)**	**(104,583)**	**(415,809)**	**(104,500)**	**(104,500)**	**(104,500)**	**(104,500)**	**(418,000)**	**(105,750)**	**(105,750)**	**(105,750)**	**(105,750)**	**(423,000)**
Cash Flow from Financing Activities:																
Net increase (decrease) in short-term borrowings	-	(15,000)	70,000	40,000	40,000	135,000	(25,000)	20,000	30,000	20,000	50,000	(20,000)	20,000	20,000	20,000	40,000
Proceeds from issuance of long-term debt	100,000	-	-	77,500	77,500	155,000	38,750	38,750	38,750	38,750	155,000	100,000	100,000	100,000	100,000	400,000
Redemption and maturity of long-term debt	(2,905)	(792)	(791)	(44,209)	(44,209)	(90,000)	-	-	-	-	-	(68,250)	(68,250)	(68,250)	(68,250)	(273,000)
Maturity of nonrecourse long-term debt of Spokane Energy	(1,431)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term debt and short-term borrowing issuance costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash paid for settlement of interest rate swap agreements	(9,326)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of common stock, net of issuance costs	1,560	27,150	20,623	3,914	3,914	55,000	-	-	-	-	-	-	-	-	-	-
Repurchase of common stock	(2,920)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends paid	(82,397)	(21,545)	(21,722)	(21,862)	(21,868)	(87,025)	(22,866)	(22,899)	(22,899)	(22,899)	(91,595)	(23,929)	(23,929)	(23,929)	(23,929)	(95,717)
Other	(2,053)	(1,423)	(2,189)	-	-	(3,612)	-	-	-	-	-	-	-	-	-	-
Net Cash (Used in) Provided by Financing Activities	**528**	**(11,610)**	**65,321**	**55,343**	**55,309**	**164,363**	**(4,149)**	**35,851**	**45,851**	**35,851**	**113,405**	**(12,179)**	**27,821**	**27,821**	**27,821**	**71,283**
Net (Decrease) Increase in Cash and Cash Equivalents	**(11,659)**	**2,283**	**755**	**(220)**	**27,513**	**30,331**	**(6,078)**	**3,431**	**(3,548)**	**7,525**	**1,330**	**(5,575)**	**9,078**	**(10,566)**	**(2,088)**	**(9,151)**
Cash and Cash Equivalents, Beginning of Period	22,143	10,484	12,767	13,522	13,302	10,484	40,815	34,737	38,168	34,620	40,815	42,145	36,570	45,648	35,082	42,145
Cash and Cash Equivalents, End of Period	10,484	12,767	13,522	13,302	40,815	40,815	34,737	38,168	34,620	42,145	42,145	36,570	45,648	35,082	32,994	32,994

Source: Company reports, Guggenheim Securities, LLC estimates.

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Consolidated Financials

BALANCE SHEET ($ thousands)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Cash and cash equivalents	10,484	12,767	13,522	13,302	40,815	40,815	34,737	38,168	34,820	42,145	42,145	38,670	45,648	35,082	32,994	32,994
Accounts and notes receivable	169,413	149,537	121,277	123,121	124,297	124,297	126,499	128,991	129,851	132,017	132,017	135,575	139,824	143,988	147,861	147,861
Utility energy commodity derivative assets	683	127	1,730	1,730	1,730	1,730	1,730	1,730	1,730	1,730	1,730	1,730	1,730	1,730	1,730	1,730
Regulatory asset for utility derivatives	17,260	22,830	15,194	15,194	15,194	15,194	15,194	15,194	15,194	15,194	15,194	15,194	15,194	15,194	15,194	15,194
Investments and funds held for clients	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Materials and supplies, fuel stock and stored natural gas	54,148	43,885	51,639	51,639	51,639	51,639	51,639	51,639	51,639	51,639	51,639	51,639	51,639	51,639	51,639	51,639
Deferred income taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income taxes receivable	24,121	12,911	25,571	25,571	25,571	25,571	25,571	25,571	25,571	25,571	25,571	25,571	25,571	25,571	25,571	25,571
Other current assets	29,937	37,167	39,786	39,756	39,786	39,786	39,788	39,756	39,786	39,786	39,786	39,756	39,756	39,786	39,786	39,786
Total Current Assets	306,046	279,224	268,719	270,343	299,032	299,032	296,113	300,780	298,391	308,082	308,082	308,065	319,492	312,991	314,775	314,775
Property, plant and equipment, at cost																
In service	5,129,192	5,218,583	5,303,883	5,408,476	5,513,068	5,513,068	5,617,568	5,722,068	5,826,568	5,931,068	5,931,068	6,036,818	6,142,568	6,248,318	6,354,068	6,354,068
Construction work in progress	202,683	174,877	187,946	187,946	187,946	187,946	187,946	187,946	187,946	187,946	187,946	187,946	187,946	187,946	187,946	187,946
Total Property, Plant and Equipment	5,331,875	5,393,460	5,491,829	5,596,422	5,701,014	5,701,014	5,805,514	5,910,014	6,014,514	6,119,014	6,119,014	6,224,764	6,330,514	6,436,264	6,542,014	6,542,014
Less: accumulated depreciation	1,433,286	1,465,883	1,501,130	1,541,703	1,583,105	1,583,105	1,626,491	1,670,695	1,715,705	1,761,510	1,761,510	1,809,407	1,858,057	1,907,556	1,957,813	1,957,813
Net Property, Plant and Equipment in Service	3,898,589	3,927,577	3,990,699	4,054,719	4,117,909	4,117,909	4,179,023	4,239,319	4,298,809	4,357,504	4,357,504	4,415,357	4,472,417	4,528,695	4,584,201	4,584,201
Other Non-current Assets																
Investment in exchange power-net	8,983	8,371	7,758	7,758	7,758	7,758	7,758	7,758	7,758	7,758	7,758	7,758	7,758	7,758	7,758	7,758
Investment in affiliated trusts	11,547	11,547	11,547	11,547	11,547	11,547	11,547	11,547	11,547	11,547	11,547	11,547	11,547	11,547	11,547	11,547
Goodwill	57,672	57,672	57,672	57,672	57,672	57,672	57,672	57,672	57,672	57,672	57,672	57,672	57,672	57,672	57,672	57,672
Intangible assets-net of accumulated amortization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term energy contract receivable	14,694	11,136	7,502	7,502	7,502	7,502	7,502	7,502	7,502	7,502	7,502	7,502	7,502	7,502	7,502	7,502
Other property and investments-net and other non-current assets	50,750	54,085	64,343	64,343	64,343	64,343	64,343	64,343	64,343	64,343	64,343	64,343	64,343	64,343	64,343	64,343
Total other non-current assets	143,646	142,791	148,822	148,822	148,822	148,822	148,822	148,822	148,822	148,822	148,822	148,822	148,822	148,822	148,822	148,822
DEFERRED CHARGES																
Regulatory assets for deferred income tax	101,240	100,708	99,325	99,325	99,325	99,325	99,325	99,325	99,325	99,325	99,325	99,325	99,325	99,325	99,325	99,325
Regulatory assets for pensions and other postretirement benefits	235,009	229,877	226,737	226,737	226,737	226,737	226,737	226,737	226,737	226,737	226,737	226,737	226,737	226,737	226,737	226,737
Other regulatory assets	99,798	99,142	111,488	111,488	111,488	111,488	111,488	111,488	111,488	111,488	111,488	111,488	111,488	111,488	111,488	111,488
Non-current utility energy commodity derivative assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory asset for unsettled interest rate swaps	83,973	144,966	191,959	191,959	191,959	191,959	191,959	191,959	191,959	191,959	191,959	191,959	191,959	191,959	191,959	191,959
Non-current regulatory asset for utility commodity derivatives	32,420	25,834	24,598	24,598	24,598	24,598	24,598	24,598	24,598	24,598	24,598	24,598	24,598	24,598	24,598	24,598
Other deferred charges	5,928	5,894	6,674	6,674	6,674	6,674	6,674	6,674	6,674	6,674	6,674	6,674	6,674	6,674	6,674	6,674
Total DEFERRED CHARGES	558,368	606,421	660,781	660,781	660,781	660,781	660,781	660,781	660,781	660,781	660,781	660,781	660,781	660,781	660,781	660,781
Total Assets	4,906,649	4,956,013	5,069,021	5,134,664	5,226,543	5,226,543	5,283,739	5,349,782	5,406,803	5,475,188	5,475,188	5,531,025	5,601,512	5,651,289	5,708,578	5,708,578

Source: Company reports, Guggenheim Securities, LLC estimates.

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Consolidated Financials

BALANCE SHEET ($ thousands)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Accounts payable	114,349	59,140	63,056	61,418	62,524	62,524	62,394	58,730	55,697	58,556	59,586	61,847	66,527	76,365	74,542	74,542
Client fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current portion of long-term debt and capital leases	93,167	93,197	93,227	93,227	93,227	93,227	93,227	93,227	93,227	93,227	93,227	93,227	93,227	93,227	93,227	93,227
Current portion of nonrecourse long-term debt of Spokane Energy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short-term borrowings	105,000	90,000	160,000	200,000	240,000	240,000	220,000	240,000	270,000	290,000	290,000	270,000	280,000	310,000	330,000	330,000
Utility energy commodity derivative liabilities	14,268	10,695	7,981	7,981	7,981	7,981	7,981	7,981	7,981	7,981	7,981	7,981	7,981	7,981	7,981	7,981
Income taxes payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Natural gas deferrals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other current liabilities	147,896	178,809	177,450	177,450	177,450	177,450	177,450	177,450	177,450	177,450	177,450	177,450	177,450	177,450	177,450	177,450
Total Current Liabilities	474,680	431,841	501,714	540,076	581,182	581,182	561,052	577,388	605,295	628,246	628,246	610,505	637,185	665,043	683,200	683,200
Long-term debt and capital leases	1,480,111	1,479,791	1,479,668	1,512,560	1,546,251	1,546,251	1,595,001	1,522,751	1,582,501	1,701,251	1,701,251	1,733,001	1,764,751	1,796,501	1,828,251	1,828,251
Nonrecourse long-term debt of Spokane Energy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term debt to affiliated trusts	51,547	51,547	51,547	51,547	51,547	51,547	51,547	51,547	51,547	51,547	51,547	51,547	51,547	51,547	51,547	51,547
Total LONG-TERM DEBT	1,531,658	1,531,338	1,531,215	1,564,107	1,597,798	1,597,798	1,646,548	1,675,298	1,714,048	1,752,798	1,752,798	1,784,548	1,816,298	1,848,048	1,879,798	1,879,798
OTHER LIABILITIES																
Long-term borrowings under committed line of credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory liability for utility plant retirement costs	261,594	264,951	267,918	267,918	267,918	267,918	267,918	267,918	267,918	267,918	267,918	267,918	267,918	267,918	267,918	267,918
Pensions and other postretirement benefits	201,453	202,013	202,063	202,063	202,063	202,063	202,063	202,063	202,063	202,063	202,063	202,063	202,063	202,063	202,063	202,063
Deferred income taxes	747,477	782,522	783,955	783,955	783,955	783,955	783,955	783,955	783,955	783,955	783,955	783,955	783,955	783,955	783,955	783,955
Other non-current liabilities and deferred credits	161,500	174,080	165,419	165,419	165,419	165,419	165,419	165,419	165,419	165,419	165,419	165,419	165,419	165,419	165,419	165,419
TotalOTHER LIABILITIES	1,372,024	1,403,566	1,419,355	1,419,355	1,419,355	1,419,355	1,419,355	1,419,355	1,419,355	1,419,355	1,419,355	1,419,355	1,419,355	1,419,355	1,419,355	1,419,355
Total Liabilities	3,378,362	3,366,745	3,452,284	3,523,537	3,598,335	3,598,335	3,616,955	3,672,041	3,738,698	3,800,399	3,800,399	3,814,408	3,872,838	3,932,446	3,982,353	3,982,353
Redeemable Noncontrolling Interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stockholders' Equity:																
Common stockholders' equity	1,004,336	1,032,023	1,052,190	1,056,104	1,060,017	1,060,017	1,060,017	1,060,017	1,060,017	1,060,017	1,060,017	1,060,017	1,060,017	1,060,017	1,060,017	1,060,017
Accumulated other comprehensive loss	(8,650)	(7,879)	(7,739)	(7,739)	(7,739)	(7,739)	(7,739)	(7,739)	(7,739)	(7,739)	(7,739)	(7,739)	(7,739)	(7,739)	(7,739)	(7,739)
Retained earnings	530,940	565,447	572,576	582,823	576,175	576,175	614,733	625,570	515,951	522,652	622,652	684,480	576,474	666,999	673,977	673,977
Total Stockholders' Equity	1,526,626	1,589,591	1,617,027	1,610,988	1,628,453	1,628,453	1,667,011	1,677,848	1,568,258	1,674,930	1,674,930	1,716,738	1,728,752	1,718,887	1,726,255	1,726,255
Non-controlling interests	(339)	(323)	(290)	(251)	(245)	(245)	(227)	(167)	(154)	(141)	(141)	(122)	(78)	(44)	(30)	(30)
Total Equity	1,526,287	1,589,268	1,616,737	1,610,737	1,628,208	1,628,208	1,666,783	1,677,681	1,568,105	1,674,789	1,674,789	1,716,616	1,728,674	1,718,843	1,726,225	1,726,226
Total Liabilities and Equity	4,906,649	4,956,013	5,069,021	5,134,664	5,226,543	5,226,543	5,283,739	5,349,702	5,406,803	5,475,188	5,475,188	5,531,025	5,601,512	5,651,289	5,708,578	5,708,578

Source: Company reports, Guggenheim Securities, LLC estimates.

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Avista Utilities

INCOME STATEMENT ($ thousands)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating revenues	1,411,863	400,147	302,641	300,570	372,401	1,375,759	404,148	305,667	303,575	376,125	1,389,517	413,363	314,000	310,911	384,556	1,422,829
Total Operating Revenues	1,411,863	400,147	302,641	300,570	372,401	1,375,759	404,148	305,667	303,575	376,125	1,389,517	413,363	314,000	310,911	384,556	1,422,829
Resource costs	644,991	159,076	106,607	130,662.21	168,361.48	564,709	158,421.51	99,702.35	126,206.57	176,943.80	561,274	164,331.95	110,608.19	140,836.57	172,382.57	588,159
Gross Margin	766,872	241,069	196,034	169,908	204,040	811,050	245,727	205,965	177,369	199,181	828,242	249,031	203,392	170,074	212,173	834,670
% of Gross Margin	*54%*	*60%*	*65%*	*57%*	*55%*	*59%*	*61%*	*67%*	*58%*	*53%*	*60%*	*60%*	*65%*	*55%*	*55%*	*59%*
Other operating expenses	292,098	73,256	75,790	71,652	71,756	292,454	64,603	71,341	71,433	71,536	278,914	54,424	58,553	56,282	75,494	244,752
Taxes other than income taxes	95,312	28,702	22,031	21,939.94	21,835.36	94,508	28,989.02	22,251.31	22,159.34	22,053.72	95,453	29,649.96	22,857.87	22,694.79	22,548.04	97,751
Total Operating Expenses	387,406	101,958	97,821	93,592	93,592	386,963	93,592	93,592	93,592	93,592	374,367	84,074	81,411	78,977	98,042	342,503
EBITDA	379,464	139,111	98,213	76,316	110,448	424,088	152,135	112,373	83,777	105,590	453,875	164,957	121,981	91,097	114,132	492,167
% of EBITDA margin	*26.9%*	*34.8%*	*32.5%*	*25.4%*	*29.7%*	*30.8%*	*37.6%*	*36.8%*	*27.6%*	*28.1%*	*32.7%*	*39.9%*	*38.8%*	*29.3%*	*29.7%*	*34.6%*
Depreciation and amortization	138,236	37,866	38,351	39,028	39,817	155,062	41,709	42,506	43,292	44,067	171,573	46,106	46,865	47,613	48,351	188,935
Operating Income	241,228	101,245	59,862	37,288	70,631	269,026	110,426	69,868	40,485	61,522	282,302	118,851	75,116	43,484	65,781	303,232
Other income (expense)	13,026	2,832	3,720	2,782	4,190	13,523	2,860	3,757	2,809	4,232	13,659	2,926	3,860	2,877	4,327	13,989
Interest Expense	76,405	20,418	20,462	20,267	20,868	82,016	21,232	21,538	22,087	22,601	87,458	23,085	23,271	23,734	24,171	94,262
Income Before Taxes	177,849	83,659	43,120	19,802	53,952	200,533	92,054	52,087	21,208	43,153	208,502	98,692	55,705	22,627	45,936	222,960
Income Taxes	64,489	30,269	16,349	7,129	19,423	73,170	33,140	18,751	7,635	15,535	75,061	35,529	20,054	8,146	16,537	80,265
Tax Rate	*36%*	*36%*	*38%*	*36%*	*36%*	*36%*	*36%*	*36%*	*36%*	*36%*	*36%*	*36%*	*36%*	*36%*	*36%*	*36%*
Net Income (loss) from continuing operations	113,360	53,390	26,771	12,673	34,530	127,364	58,915	33,336	13,573	27,618	133,441	63,163	35,651	14,481	29,399	142,694
Earnings Per Common Share, Diluted	1.81	0.85	0.42	0.20	0.54	2.01	0.92	0.52	0.21	0.43	2.09	0.99	0.56	0.23	0.46	2.23
Non-operating items	5,147	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	118,507	53,390	26,771	12,673	34,530	127,364	58,915	33,336	13,573	27,618	133,441	63,163	35,651	14,481	29,399	142,694
Operating EPS	1.89	0.85	0.42	0.20	0.54	2.01	0.92	0.52	0.21	0.43	2.09	0.99	0.56	0.23	0.46	2.23
Weighted-average Number of Common Shares O	62,708	62,907	63,763	63,832	63,930	63,343	63,979	63,979	63,979	63,979	63,979	63,979	63,979	63,979	63,979	63,979

Source: Company reports, Guggenheim Securities, LLC estimates.

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INCOME STATEMENT ($ thousands)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating revenues	44,778	12,646	10,247	11,603	12,748	47,244	14,181	11,700	10,602	14,294	50,777	15,183	12,526	11,350	15,304	54,363
Total Operating Revenues	**44,778**	**12,646**	**10,247**	**11,603**	**12,748**	**47,244**	**14,181**	**11,700**	**10,602**	**14,294**	**50,777**	**15,183**	**12,526**	**11,350**	**15,304**	**54,363**
Resource costs	11,973	2,641	3,208	3,957	2,745	12,550	2,962	3,663	3,615	3,077	13,317	3,171	3,921	3,870	3,295	14,257
Gross Margin	**32,805**	**10,005**	**7,039**	**7,647**	**10,003**	**34,694**	**11,219**	**8,037**	**6,987**	**11,217**	**37,460**	**12,012**	**8,604**	**7,480**	**12,009**	**40,105**
% of Gross Margin	*73%*	*79%*	*69%*	*66%*	*78%*	*73%*	*79%*	*69%*	*66%*	*78%*	*74%*	*79%*	*69%*	*66%*	*78%*	*74%*
Other operating expenses	11,125	2,523	2,876	3,477	2,875	11,751	2,829	3,284	3,177	3,224	12,514	3,029	3,515	3,402	3,452	13,398
Taxes other than income taxes	2,345	683	584	634	612	2,513	766	667	580	686	2,699	820	714	621	735	2,889
Total Operating Expenses	13,470	3,206	3,460	4,112	3,487	14,265	3,595	3,951	3,757	3,910	15,213	3,849	4,229	4,022	4,186	16,287
EBITDA	**19,335**	**6,799**	**3,579**	**3,535**	**6,516**	**20,429**	**7,624**	**4,087**	**3,230**	**7,307**	**22,247**	**8,163**	**4,375**	**3,458**	**7,823**	**23,818**
% of EBITDA margin	*43.2%*	*53.8%*	*34.9%*	*30.5%*	*51.1%*	*43.2%*	*53.8%*	*34.9%*	*30.5%*	*51.1%*	*43.8%*	*53.8%*	*34.9%*	*30.5%*	*51.1%*	*43.8%*
Depreciation and amortization	5,263	1,326	1,327	1,353	1,394	5,399	1,485	1,506	1,526	1,546	6,064	1,599	1,633	1,667	1,701	6,600
Operating Income	14,072	5,473	2,252	2,182	5,122	15,029	6,139	2,581	1,704	5,760	16,183	6,564	2,742	1,791	6,122	17,218
Other income (expense)	329	278	377	14	182	850	312	430	13	204	958	334	461	13	218	1,026
Interest Expense	3,558	895	895	782	714	3,287	745	824	771	859	3,200	848	928	866	962	3,605
Income Before Taxes	10,843	4,856	1,734	1,413	4,590	12,593	5,706	2,187	945	5,105	13,942	6,050	2,274	938	5,378	14,640
Income Taxes	4,202	1,895	676	548	1,791	4,910	2,211	853	368	1,978	5,411	2,359	881	364	2,097	5,701
Tax Rate	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*
Net income (loss) from continuing operations	6,641	2,961	1,058	866	2,799	7,683	3,494	1,333	577	3,127	8,531	3,691	1,393	574	3,281	8,939
Earnings Per Common Share, Diluted	**0.11**	**0.05**	**0.02**	**0.01**	**0.04**	**0.12**	**0.05**	**0.02**	**0.01**	**0.05**	**0.13**	**0.06**	**0.02**	**0.01**	**0.05**	**0.14**
Non-operating items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	6,641	2,961	1,058	866	2,799	7,683	3,494	1,333	577	3,127	8,531	3,691	1,393	574	3,281	8,939
Operating EPS	**0.11**	**0.05**	**0.02**	**0.01**	**0.04**	**0.12**	**0.05**	**0.02**	**0.01**	**0.05**	**0.13**	**0.06**	**0.02**	**0.01**	**0.05**	**0.14**

Source: Company reports, Guggenheim Securities, LLC estimates.

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Others

INCOME STATEMENT ($ thousands)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating revenues	28,685	5,380	5,950	6,244	5,856	23,430	7,108	7,108	7,108	7,108	**28,430**	8,358	8,358	8,358	8,358	**33,430**
Total Operating Revenues	**28,685**	**5,380**	**5,950**	**6,244**	**5,856**	**23,430**	**7,108**	**7,108**	**7,108**	**7,108**	**28,430**	**8,358**	**8,358**	**8,358**	**8,358**	**33,430**
Resource costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross Margin	**28,685**	**5,380**	**5,950**	**6,244**	**5,856**	**23,430**	**7,108**	**7,108**	**7,108**	**7,108**	**28,430**	**8,358**	**8,358**	**8,358**	**8,358**	**33,430**
% of Gross Margin	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
Other operating expenses	30,076	5,825	6,281	6,462	6,602	25,170	7,695	7,503	7,356	8,013	30,567	9,049	8,822	8,649	9,422	35,943
Taxes other than income taxes	-	-	-			-					-	-	-	-	-	-
Total Operating Expenses	**30,076**	**5,825**	**6,281**	**6,462**	**6,602**	**25,170**	**7,695**	**7,503**	**7,356**	**8,013**	**30,567**	**9,049**	**8,822**	**8,649**	**9,422**	**35,943**
EBITDA	**(1,391)**	**(445)**	**(331)**	**(218)**	**(746)**	**(1,740)**	**(588)**	**(395)**	**(248)**	**(905)**	**(2,137)**	**(691)**	**(465)**	**(292)**	**(1,065)**	**(2,513)**
% of EBITDA margin	*-4.8%*	*-8.3%*	*-5.6%*	*-3.5%*	*-12.7%*	*-7.4%*	*-8.3%*	*-5.6%*	*-3.5%*	*-12.7%*	*-7.5%*	*-8.3%*	*-5.6%*	*-3.5%*	*-12.7%*	*-7.5%*
Depreciation and amortization	695	188	192	192	192	764	192	192	192	192	768	192	192	192	192	768
Operating Income	**(2,086)**	**(633)**	**(523)**	**(410)**	**(938)**	**(2,504)**	**(780)**	**(587)**	**(440)**	**(1,097)**	**(2,905)**	**(883)**	**(657)**	**(484)**	**(1,257)**	**(3,281)**
Other income (expense)	(467)	273	(218)	(1,298)	(1,298)	(2,541)					-					-
Interest Expense	610	161	149	158	151	619	162	205	173	161	700	176	222	186	172	756
Income Before Taxes	**(3,163)**	**(521)**	**(890)**	**(1,866)**	**(2,387)**	**(5,664)**	**(941)**	**(792)**	**(613)**	**(1,258)**	**(3,605)**	**(1,059)**	**(879)**	**(669)**	**(1,429)**	**(4,036)**
Income Taxes	(1,242)	(222)	(315)	(560)	(716)	(1,813)	(282)	(238)	(184)	(377)	(1,081)	(318)	(264)	(201)	(429)	(1,211)
Tax Rate	*39%*	*43%*	*35%*	*30%*	*30%*	*32%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*
Net income (loss) from continuing operations	**(1,921)**	**(299)**	**(575)**	**(1,306)**	**(1,671)**	**(3,851)**	**(659)**	**(555)**	**(429)**	**(881)**	**(2,523)**	**(742)**	**(615)**	**(469)**	**(1,000)**	**(2,825)**
Earnings Per Common Share, Diluted	**(0.03)**	**(0.00)**	**(0.01)**	**(0.02)**	**(0.03)**	**(0.06)**	**(0.01)**	**(0.01)**	**(0.01)**	**(0.01)**	**(0.04)**	**(0.01)**	**(0.01)**	**(0.01)**	**(0.02)**	**(0.04)**
Non-operating items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	(1,921)	(299)	(575)	(1,306)	(1,671)	(3,851)	(659)	(555)	(429)	(881)	(2,523)	(742)	(615)	(469)	(1,000)	(2,825)
Operating EPS	**(0.03)**	**(0.00)**	**(0.01)**	**(0.02)**	**(0.03)**	**(0.06)**	**(0.01)**	**(0.01)**	**(0.01)**	**(0.01)**	**(0.04)**	**(0.01)**	**(0.01)**	**(0.01)**	**(0.02)**	**(0.04)**

Source: Company reports, Guggenheim Securities, LLC estimates.

CENTERPOINT ENERGY (CNP, BUY, $22.50)

Initiating coverage of CNP with a BUY rating and $25 price target; solid cash flows with no equity needs, sustainable growth with minimal rate case overhangs and NT catalyst around its strategic path with ENBL should provide the clarity needed.

- **We are initiating coverage of CNP with a BUY rating and $25 price target.** CNP is a $9.4bn market cap regulated utility comprised of Electric T&D (Houston Electric); 10 Gas Distribution LDCs (Energy Resources) in AR, LA, MN, MS, OK, and TX; a Retail arm (Energy Services); as well as exposure to Midstream through Enable Midstream Partners (ENBL) [50% General Partner (GP), 55.4% Limited Partner (LP)]. **CNP is not the cheapest stock on a relative basis within our utility coverage but certainly has some NT catalysts with fairly strong customer growth profile – trades at a slight premium to electrics; slight discount to gas LDCs.** Our BUY rating is premised upon **sustainable growth that could outpace regulated peers while earning returns close to its allowed ROE without having to file NT rate cases and with strong cash flows stemming from its investment in Enable.** Utility earnings account for 70% of EPS currently and management expects it to climb to 75-80% but not within our outlook period. Key NT catalyst – clarity from the outcome of its strategic review of Enable stake and potential incremental expansion opportunities with CNP Energy Services.
- **Our 2016/2017/2018 EPS estimates are $1.13/$1.27/$1.32, respectively, in line for 2016, above consensus in 2017 & 2018.** Our 6% consolidated earnings growth outlook is driven by the regulated segment mostly at Gas and Electric coupled with some Retail. We model ~$2.4bn of CapEx at Houston Electric driving 6.1% annual rate base growth through 2018; we assume 2% customer growth (or $28mm in incremental revenues per year), with achieved ROEs of ~9.7-10%, in line with authorized levels. At the gas LDCs combined, CapEx of ~$1.4bn drives 5.1% annual rate base growth, with earned ROEs of 9.6-9.9% in line with authorized ROE; we assume 1% customer growth. We estimate ~7% earnings growth at the Midstream segment (a return to historical levels), and Retail services adding ~$0.07/year to earnings over the forecast period. It's important to note that CNP's growth rate and dividend is protected under various stress test scenarios with Enable – even if Enable weakens in 2017 and 2018, management remains comfortable with the outlook. **See models further down.**
- **CNP's electric and gas utilities have consistent growth with minimal regulatory lag given constructive mechanisms; main areas of growth are in Texas and Minnesota.** Houston Electric's 6.1% annual growth is close to the peer average of 4-6%, and supports the dividend growing in line with earnings and rate base at a 65%-70% payout ratio. Planned CapEx is focused on public and system improvements; and addressing load (Brazos Valley connection, ~$270-$310mm to be complete by mid-2018). **There are no rate cases for electric from 2016-2018 supported by customer growth and nontraditional rate-setting mechanisms.** About 90% of capital spend is recovered through trackers/riders, with the annual filing of the Distribution Cost Recovery Factor (DCRF) and the Transmission Cost of Service (TCOS) [eligible to file 2 times per year].
- Gas distribution operates 10 LDCs in 6 states, with the majority of rate base in TX (37%), and MN (35%), followed by AK (17%), LA (5%), MS (3%), and OK (2%). CapEx is levered to infrastructure; the Minnesota Belt Line Project (multi-year pipeline replacement and rehabilitation of ~80 miles of 20" and 24" steel) is notable. Several mechanisms in place allow for capital recovery such as infrastructure riders: Texas Gas Reliability Infrastructure Program (GRIP), Arkansas Main Replacement Program (MRP). In addition, there are cost of service adjustments in LA, MS and

OK, thus limited lag. Gas margins are stabilized with MN decoupled, and weather normalization adjustments present in LA, MS, and OK.

- **The unregulated Energy services has 24K C&I customers in 26 states; with margin per contract that is hedged**. CNP will continue to integrate Continuum Energy's retail energy services as an expanded operational footprint and will now provide CNP a pathway for economies of scale. **We believe Retail could be a further source of growth through small acquisitions.**

- **CNPs stake in ENBL** (55.4%LP) **will contribute towards its dividend trajectory; management has undertakend a strategic review of its stake** as volatiltiy from MLP has been a concern – a sale, spin as C corp to shareholders, likekind exchange or do nothing approach are all being considered. **Following discussions with management, we do have a sense that a "do nothing" approach with Enable is the least likely path – for our purpose, we assume Enable is a going concern for CNP.** Any conclusion to this strategic review should remove an overhang. The investments include gathering and processing assets in 4 states, serving shale developments in Anadarko, Arkoma and Ark-La-Tex basins – 8 storage facilities and transportation (85bcf of capacity and 9.19bcf/d of firm contracted capacity on pipes) – currently 81% of gross margins under LT, fee-based agreements; 56% of gross margin attributed to fees associated with firm contracts or contracts with minimum volume commitments. Producers remain active in its gathering and processing footprint with 29 rigs contractually obligated. We note, if cash distributions to ENBL unit holders exceed $0.330625 in any quarter, the GP will receive increasing percentages; up to 50% of the cash distributions in excess of that amount (CNP entitled to 40% of IDRs). **We assume ENBL earnings return to 2014 levels (~$0.38/share) in 2018, and CNP continues to own 55% of the LP units**, although we back out ENBL earnings and value CNP's ownership interest separately in a sum-of-the-parts method as we discuss in more detail below. **Potentially positive catalysts** to watch for are updates from CNP regarding the strategic review of its 50% stake in ENBL, additional expansion projects and further cost management strategies. **See models further down.**

- **Valuation: We arrive at our $25 price target by utilizing a sum-of-the-parts analysis comprised of: (1)** $9/share for regulated electric utility when we apply our group average regulated electric utility multiple of 16.0x, which is based on a regression of corporate bond yields and utility P/E multiples, to our 2018 EPS estimate of $0.56; **(2)** $8/share for CNP's gas utilities when we ascribe our 5x historical LDC premium spread to our 16.0x group average regulated electric utility multiple to our 2018 EPS estimate of $0.38; and **(3)** $8/share for CNP's 55.4% ownership of ENBL's LP units, based on flat cash distributions of $1.27 per unit and applying a 9% target yield that we derive from comparable gas-focused MLPs and Enable's current LP unit value; **note we do not ascribe value to the GP as we aren't forecasting growing cash distributions at this juncture** without visibility from ENBL. **Incorporating our estimated 4.8% dividend yield from CNP would equate to a 16% ETR.**

- **Risk:** Outside of the extensive TX exposure and lack of growth outside of TX and MN, risks to achieving our price target for CNP mainly encompass traditional risk factors inherent with regulated utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

Guggenheim's CNP EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.30A	0.19A	0.34A	0.27A	1.10A	
2016E	0.32A	0.17A	0.31E	0.34E	1.13E	1.14E
2017E	0.35E	0.27E	0.34E	0.31E	1.27E	1.21E
2018E	0.46E	0.24E	0.21E	0.40E	1.32E	1.29E

Source: Company reports, Guggenheim Securities, LLC estimates.

Summary business metrics

Summary	2015A	2016E	2017E	2018E	CAGR
Segment EPS	**2015A**	**2016E**	**2017E**	**2018E**	***CAGR***
Electric utility	0.61	0.53	0.54	0.56	*-2.5%*
Gas LDCs	0.30	0.31	0.33	0.34	*4.9%*
Midstream	0.31	0.29	0.37	0.38	*7.4%*
Retail / Services	(0.04)	0.08	0.07	0.07	*23.7%*
Other	(0.08)	(0.08)	(0.05)	(0.04)	*-21.1%*
CNP	**$1.10**	**$1.13**	**$1.27**	**$1.32**	***6.1%***
YoY EPS growth		*1.9%*	*12.5%*	*4.1%*	*4-6%*
Regulated utility contribution		75%	68%	69%	
Regulated utility growth					***Ratebase CAGR***
Electric utility CapEx ($Bn)		0.8	0.8	0.7	*6.1%*
Gas utility CapEx ($Bn)		0.5	0.5	0.4	*5.1%*
Regulated utility performance					
Electric utility ROE (avg.)		10.0%	9.8%	9.7%	9.9%
Authorized ROE		*9.5%*	*9.5%*	*9.5%*	*9.5%*
Gas LDC utility ROE (avg.)		9.9%	9.7%	9.7%	*9.8%*
Authorized ROE		*10.0%*	*10.0%*	*10.0%*	*10.0%*
Midstream performance		**2016E**	**2017E**	**2018E**	***CAGR***
Earnings contribution		$0.29	$0.37	$0.38	*7.4%*
LP cash distribution ($MM)		298	297	297	
Distribution per unit		*$1.27*	*$1.27*	*$1.27*	*0.2%*
Dividend coverage		**2016E**	**2017E**	**2018E**	
Annual dividend growth		4.5%	4.5%	4.5%	
Consolidated payout ratio		92%	85%	86%	
Dividend covered by utility EPS		114%	128%	131%	
Liquidity		**2016E**	**2017E**	**2018E**	
FFO / Debt		31%	22%	19%	
Consolidated payout ratio		92%	85%	86%	
Dividend covered by utility EPS		114%	128%	131%	

Source: Company reports, Guggenheim Securities, LLC estimates.

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CNP MODEL

CONSOLIDATED FINANCIALS

Income Statement ($ in millions)	2015A	1QA	2QA	3QA	4QA	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating Revenues																
Electric utility		656	763	697	590	2,705	547	778	711	601	2,637	558	794	725	613	2,690
Gas Utility		895	421	374	679	2,369	931	438	389	707	2,465	969	456	404	735	2,564
Non-utility		433	390	661	654	2,138	457	413	688	680	2,238	475	430	716	708	2,329
Total Operating Revenues	7,386	1,984	1,574	1,732	1,923	7,213	1,935	1,629	1,787	1,989	7,340	2,002	1,679	1,845	2,057	7,583
												-	-	-	-	
Operating Expenses																
Natural gas	3,102	852	496	744	912	3,004	901	527	774	949	3,151	937	549	805	987	3,278
Operation and maintenance	2,007	521	513	394	437	1,865	367	472	353	397	1,588	351	544	493	395	1,782
Depreciation and amortization	970	260	289	162	165	876	217	220	223	225	885	180	183	185	188	736
Goodwill impairment	-	-	-			-					-					-
Transition and system restoration bond companies	-			102	85	187	83	125	103	86	397	85	127	105	87	405
Taxes other than income taxes	374	101	94	92	94	382	96	98	100	102	396	103	105	106	108	423
Other						-					-					-
Total operating expenses	6,453	1,734	1,392	1,495	1,693	6,314	1,665	1,442	1,552	1,757	6,417	1,657	1,508	1,695	1,765	6,624
Operating Income	933	250	182	237	230	898	269	187	235	231	923	345	172	150	292	959
Gain (loss) on marketable securities	(93)	90	20			110					-					-
Gain (loss) on indexed debt securities	74	(56)	(130)			(186)					-					-
Interest and other finance charges	352	87	86	61	62	296	64	64	65	66	259	66	66	66	66	263
Interest on securitization bonds	105	24	23	22	22	92	22	22	22	22	90	22	22	22	22	90
Equity in earnings of unconsolidated affiliate, net	(1,633)	60	31	32	50	173	32	48	50	42	172	34	48	50	42	174
Step acquisition gain	-	-	-			-					-					-
Other, net	46	7	14	6	5	32	3	6	6	5	20	3	6	6	5	20
Earnings before tax	(1,130)	240	8	191	200	639	218	154	203	190	765	293	138	118	251	800
Income taxes	(438)	86	10	58	55	209	68	39	56	54	217	94	33	25	76	229
Net Income	(692)	154	(2)	133	145	430	150	115	147	136	548	199	104	93	175	571
Average Number of Shares Outstanding (Diluted)	430	433	431	433	433	431	433	433	433	433	433	433	433	433	433	433
Reported EPS diluted	(1.61)	0.36	(0.00)	0.31	0.34	1.00	0.35	0.27	0.34	0.31	1.27	0.46	0.24	0.21	0.40	1.32
Non Operating Items	1,167	(17)	73			56					-					-
Net Income (Non-GAAP)	475	137	71	133	145	486	150	115	147	136	548	199	104	93	175	571
Operating EPS	1.10	0.32	0.17	0.31	0.34	$1.13	0.35	0.27	0.34	0.31	$1.27	0.46	0.24	0.21	0.40	$1.32

Source: Company reports, Guggenheim Securities, LLC estimates.

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CNP MODEL

CONSOLIDATED FINANCIALS

Cash Flow Statement ($ in millions)	2015A	1QA	2QA	3QA	4QA	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating Activities																
Net income	(692)	154	(2)	133	145	430	150	115	147	136	548	199	104	93	175	571
Adjustments to reconcile net income to net cash provided by operating activities:																
Depreciation and amortization	970	260	289	159	162	870	216	219	221	224	880	179	182	184	186	731
Equity in (earnings) losses of unconsolidated affiliate, net of distributions	1,779	(60)	(31)	(32)	(50)	(173)	(32)	(48)	(50)	(42)	(172)	(34)	(48)	(50)	(42)	(174)
Amortization of deferred financing costs	27	6	7	-	-	13	-	-	-	-	0	-	-	-	-	0
Deferred income taxes	(413)	65	4	-	-	69	-	-	-	-	0	-	-	-	-	0
Unrealized loss (gain) on marketable securities	93	(90)	(20)	-	-	(110)	-	-	-	-	0	-	-	-	-	0
Loss (gain) on indexed debt securities	(74)	56	130	-	-	186	-	-	-	-	0	-	-	-	-	0
Write-down of natural gas inventory	4	1	-	-	-	1	-	-	-	-	0	-	-	-	-	0
Pension contributions	(66)	(3)	(2)	-	-	(5)	-	-	-	-	0	-	-	-	-	0
Other adjustments	(429)	35	119			154										
Changes in Assets and Liabilities																
Accounts receivable and unbilled revenues, net	345	67	80	193	(30)	309	11	(15)	(14)	(16)	(34)	(17)	(15)	(16)	(16)	(66)
Inventory	28	112	(49)	(141)	(96)	(174)	6	213	(141)	(106)	(21)	6	222	(146)	(104)	(22)
Accounts payable	(224)	(82)	(27)	167	183	241	44	51	34	36	165	37	39	40	42	158
Other, net	88	148	45	-	-	193	-	-	-	-	0	-	-	-	-	0
Net Cash Flows from Operating Activities	1,865	634	424	479	314	1,850	395	535	198	238	1,365	371	483	104	239	1,198
Investing Activities																
Capital expenditures	(1,584)	(332)	(350)	(316)	(328)	(1,326)	(314)	(314)	(314)	(314)	(1,256)	(293)	(293)	(293)	(293)	(1,170)
Decrease in notes receivable – unconsolidated affiliate	148	363	-	-	-	363	-	-	-	-	0	-	-	-	-	0
Acquisitions, net of cash acquired	-	-	(98)	-	-	(98)	-	-	-	-	0	-	-	-	-	0
Investment in preferred units – unconsolidated affiliate	12	(363)	-	-	-	(363)	-	-	-	-	0	-	-	-	-	0
Distributions from unconsolidated affiliate in excess of cumulative earnings	-	74	75	74	74	298	74	74	74	74	297	74	74	74	74	297
Decrease (increase) in restricted cash of Bond Companies	-	(4)	2	-	-	(2)	-	-	-	-	0	-	-	-	-	0
Proceeds from sale of marketable securities	32	-	178	-	-	178	-	-	-	-	0	-	-	-	-	0
Other, net	5	(7)	(5)	-	-	(12)	-	-	-	-	0	-	-	-	-	0
Net Cash Flows Used in Investing Activities	(1,387)	(269)	(198)	(241)	(254)	(962)	(240)	(240)	(240)	(240)	(959)	(218)	(218)	(218)	(218)	(873)
Financing Activities																
Decrease in short-term borrowings, net	(13)	(40)	17	-	-	(23)	-	-	-	-	0	-	-	-	-	0
Payments of commercial paper, net	403	(111)	389	-	-	278	-	-	-	-	0	-	-	-	-	0
Proceeds from long-term debt	-	-	300	100	150	550	50	50	50	50	200	-	-	-	-	0
Payments of long-term debt	(644)	(147)	(588)	-	-	(735)	-	-	-	-	0	-	-	-	-	0
Long-term revolving credit facility	200	-	-	-	-	0	-	-	-	-	0	-	-	-	-	0
Debt issuance costs	-	(4)	(3)	-	-	(7)	-	-	-	-	0	-	-	-	-	0
Payment of common stock dividends	(426)	(110)	(111)	-	-	(221)	-	-	-	-	0	-	-	-	-	0
Distribution to ZENS holders	(32)	-	(178)	-	-	(178)	-	-	-	-	0	-	-	-	-	0
Other, net	-	1	1	-	-	2	-	-	-	-	0	-	-	-	-	0
Net Cash Flows from (used in) Financing Activities	(512)	(411)	(173)	100	150	(334)	50	50	50	50	200	-	-	-	-	-
Net change in cash	(34)	(46)	53	337	210	554	205	345	8	48	607	153	255	(114)	21	325
Beginning cash balance	298	264	218	271	608	264	818	1,023	1,368	1,376	818	1,425	1,578	1,843	1,729	1,425
Ending cash balance	264	218	271	608	818	818	1,023	1,368	1,376	1,425	1,425	1,578	1,843	1,729	1,750	1,750

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

CNP MODEL

CONSOLIDATED FINANCIALS

Balance Sheet ($ in millions)	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Property, Plant and Equipment																
Property, plant and equipment	16,650	16,900	17,218	17,534	17,862	17,862	18,176	18,490	18,804	19,118	19,118	19,411	19,703	19,996	20,288	20,288
Less: Accumulated depreciation	5,113	5,182	5,320	5,479	5,641	5,641	5,857	6,076	6,297	6,521	6,521	6,700	6,881	7,065	7,252	7,252
Property, plant and equipment, net	11,537	11,718	11,898	12,055	12,221	12,221	12,319	12,414	12,507	12,597	12,597	12,711	12,822	12,930	13,036	13,036
Current Assets																
Cash and cash equivalents	264	218	271	608	818	818	1,023	1,368	1,375	1,425	1,425	1,578	1,843	1,729	1,750	1,750
Investment in marketable securities	805	894	737	737	737	737	737	737	737	737	737	737	737	737	737	737
Accounts receivable	593	577	605	412	443	443	432	447	461	477	477	494	509	525	543	543
Accrued unbilled revenues	279	207	178	178	178	178	178	178	178	178	178	178	178	178	178	178
Natural gas inventory	168	58	96	144	177	177	174	102	150	184	184	181	106	156	191	191
Materials and supplies	179	176	187	280	344	344	340	199	292	358	358	353	207	304	372	372
Non-trading derivative assets	89	75	47	47	47	47	47	47	47	47	47	47	47	47	47	47
Taxes receivable	172	3	16	16	16	16	16	16	16	16	16	16	16	16	16	16
Prepaid expenses and other current assets	140	127	135	135	135	135	135	135	135	135	135	135	135	135	135	135
Total current assets	2,689	2,335	2,272	2,558	2,894	2,894	3,082	3,229	3,392	3,556	3,556	3,719	3,778	3,826	3,969	3,969
Other Assets																
Goodwill	840	840	861	861	861	861	861	861	861	861	861	861	861	861	861	861
Regulatory assets	3,129	3,031	2,913	2913	2913	2,913	2913	2913	2913	2913	2,913	2913	2913	2913	2913	2,913
Notes receivable – unconsolidated affiliate	363	363	-	0	0	-	0	0	0	0	-	0	0	0	0	-
Non-trading derivative assets	36	28	22	22	22	22	22	22	22	22	22	22	22	22	22	22
Investment in unconsolidated affiliate	2,594	2,580	2,536	2494	2469	2,469	2427	2400	2376	2343	2,343	2303	2277	2252	2220	2,220
Preferred units – unconsolidated affiliate	-	-	363	363	363	363	363	363	363	363	363	363	363	363	363	363
Other	146	109	147	147	147	147	147	147	147	147	147	147	147	147	147	147
Total	7,108	6,951	6,842	6,800	6,775	6,775	6,733	6,706	6,682	6,649	6,649	6,609	6,583	6,558	6,526	6,526
Total Assets	21,334	21,004	21,012	21,412	21,890	21,890	22,134	22,349	22,581	22,803	22,803	23,039	23,182	23,315	23,532	23,532
Shareholders' Equity																
Common stock	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Additional paid-in capital	4,180	4,180	4,186	4186	4186	4,186	4186	4186	4186	4186	4,186	4186	4186	4186	4186	4,186
Accumulated deficit	(657)	(613)	(726)	(593)	(448)	(448)	(298)	(183)	(38)	100	100	299	403	496	671	671
Accumulated other comprehensive loss	(66)	(65)	(67)	(67)	(67)	(67)	(67)	(67)	(67)	(67)	(67)	(67)	(67)	(67)	(67)	(67)
Total Shareholders' Equity	3,461	3,506	3,397	3,530	3,675	3,675	3,825	3,940	4,087	4,223	4,223	4,422	4,526	4,619	4,794	4,794
Long-term Debt																
VIE securitization bonds	2,283	2,122	2,059	2059	2059	2,059	2059	2059	2059	2059	2,059	2059	2059	2059	2059	2,059
Other long-term debt	5,618	5,232	5,721	5,821	5,971	5,971	6,021	6,071	6,121	6,171	6,171	6,171	6,171	6,171	6,171	6,171
Total noncurrent liabilities	7,901	7,354	7,780	7,880	8,030	8,030	8,080	8,130	8,180	8,230	8,230	8,230	8,230	8,230	8,230	8,230
Current Liabilities																
Short-term borrowings	40	-	17	17	17	17	17	17	17	17	17	17	17	17	17	17
Current portion of VIE securitization bonds long-term debt	391	400	402	402	402	402	402	402	402	402	402	402	402	402	402	402
Indexed debt	154	148	111	111	111	111	111	111	111	111	111	111	111	111	111	111
Current portion of other long-term debt	328	576	250	250	250	250	250	250	250	250	250	250	250	250	250	250
Indexed debt securities derivative	442	498	490	490	490	490	490	490	490	490	490	490	490	490	490	490
Accounts payable	483	378	407	574	757	757	801	851	886	922	922	959	998	1038	1080	1,080
Taxes accrued	158	101	92	92	92	92	92	92	92	92	92	92	92	92	92	92
Interest accrued	117	108	119	119	119	119	119	119	119	119	119	119	119	119	119	119
Non-trading derivative liabilities	11	8	19	19	19	19	19	19	19	19	19	19	19	19	19	19
Other	343	317	334	334	334	334	334	334	334	334	334	334	334	334	334	334
Total Current Liabilities	2,467	2,534	2,241	2,408	2,591	2,591	2,635	2,685	2,720	2,756	2,756	2,793	2,832	2,872	2,914	2,914
Other Liabilities																
Deferred income taxes, net	5,047	5,116	5,121	5121	5121	5,121	5121	5121	5121	5121	5,121	5121	5121	5121	5121	5,121
Non-trading derivative liabilities	5	3	6	5	6	6	6	6	6	6	6	6	6	6	6	6
Benefit obligations	904	909	904	904	904	904	904	904	904	904	904	904	904	904	904	904
Regulatory liabilities	1,276	1,306	1,284	1284	1284	1,284	1284	1284	1284	1284	1,284	1284	1284	1284	1284	1,284
Other	273	276	279	279	279	279	279	279	279	279	279	279	279	279	279	279
Total Other Liabilities	7,505	7,610	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594	7,594
Total Liabilities and Shareholders' Equity	21,334	21,004	21,012	21,412	21,890	21,890	22,134	22,349	22,581	22,803	22,803	23,039	23,182	23,315	23,532	23,532

Source: Company reports, Guggenheim Securities, LLC estimates.

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CNP MODEL

Houston Electric

Income Statement ($ in millions)	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating revenue																
Electric transmission and distribution utility	2,365	536	616	575	489	2,216	447	628	587	499	2,161	456	641	599	509	2,204
Transition and system restoration bond companies	481	120	147	121	101	489	100	150	124	103	476	102	153	126	105	486
Total Operating Revenues	**2,846**	**656**	**763**	**697**	**590**	**2,705**	**547**	**778**	**711**	**601**	**2,637**	**558**	**794**	**725**	**613**	**2,690**
Operating expense																
Operation and maintenance	1,300	329	330	219	253	1,122	171	275	156	200	802	149	342	292	193	977
Depreciation and amortization	340	95	94	97	99	386	152	153	154	156	615	110	111	113	114	449
Taxes other than income taxes	222	57	57	58	59	231	60.18	61	62	63	247	64.38	65	66	67	264
Transition and system restoration bond companies	376	96	124	102	85	407	83	125	103	86	397	85	127	105	87	405
Total operating expenses	**2,238**	**577**	**605**	**468**	**496**	**2,146**	**466**	**614**	**476**	**505**	**2,061**	**409**	**646**	**576**	**462**	**2,094**
Operating Income																
Electric transmission and distribution utility	503	55	135	205	71	462	56	140	210	74	476	104	126	133	115	493
Transition and system restoration bond companies	105	24	23	23	22	97	25	24	24	23	99	45	21	15	36	103
Total	**608**	**79**	**158**	**229**	**93**	**559**	**81**	**164**	**234**	**97**	**576**	**149**	**147**	**149**	**151**	**596**
Other Income (Expense):																
Interest and other finance ch	118	31	31	32	34	**128**	34.39	35	36	36	**142**	36.42	36	36	36	**146**
Interest on securitization bonds	105	24	23	22	22	**92**	22.44	22	22	22	**90**	22.44	22	22	22	**90**
Other, net	21	3	6	6	5	**20**	3	6	6	5	**20**	3	6	6	5	**20**
Income Before Income Taxes	**406**	**27**	**110**	**180**	**42**	**359**	**27**	**112**	**182**	**43**	**364**	**93**	**95**	**96**	**97**	**381**
Income tax expense	145	10	39	65	15	129	10	40	66	15	131	34	34	34	35	137
Net Income	**261**	**17**	**71**	**115**	**27**	**230**	**17**	**72**	**117**	**27**	**233**	**60**	**60**	**61**	**62**	**244**
Average Number of Shares Outstanding (Diluted)	**430**	433	431	433	433	**431**	433	433	433	433	**433**	433	433	433	433	**433**
Non Operating Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non-GAAP)	**261**	**17**	**71**	**115**	**27**	**230**	**17**	**72**	**117**	**27**	**233**	**60**	**60**	**61**	**62**	**244**
Operating EPS	**0.61**	**0.04**	**0.16**	**0.27**	**0.06**	**0.53**	**0.04**	**0.17**	**0.27**	**0.06**	**0.54**	**0.14**	**0.14**	**0.14**	**0.14**	**0.56**

Source: Company reports, Guggenheim Securities, LLC estimates.

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CNP MODEL

Natural Gas LDCs

Income Statement ($ in millions)	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating Revenues	2,632	895	421	374	679	2,369	931	438	389	707	2,465	969	456	404	735	2,564
Natural gas	1,297	445	130	110	294	980	463	135	115	306	1,019	482	141	119	319	1,060
O&M	697	189	178	172	172	711	181	181	181	181	725	185	185	185	185	740
Depreciation and amortization	222	59	60	61	63	243	64	66	67	68	265	69	70	71	72	282
Taxes other than income	143	42	33	34	35	145	36	37	37	38	148	39	39	40	40	158
Total expenses	2,359	735	401	378	565	2,079	745	419	400	594	2,157	775	435	415	616	2,241
Operating Income	273	160	20	(5)	115	290	187	19	(12)	113	307	194	21	(11)	120	324
Interest and other finance charges	74	19	20	20	21	80	21	21	22	22	87	23	23	23	24	92
Earnings before tax	199	141	0	(25)	94	210	166	(2)	(34)	91	221	172	(2)	(34)	96	231
Income taxes	72	51	0	(9)	34	76	60	(1)	(12)	33	79	62	(1)	(12)	35	83
Net Income	128	90	0	(16)	60	135	106	(1)	(21)	58	141	110	(1)	(22)	61	148
Average Number of Shares Outstanding (Diluted)	430	433	431	433	433	431	433	433	433	433	433	433	433	433	433	433
Reported EPS diluted	0.30	0.21	0.00	(0.04)	0.14	0.31	0.24	(0.00)	(0.05)	0.13	0.33	0.25	(0.00)	(0.05)	0.14	0.34
Non Operating Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non-GAAP)	128	90	0	(16)	60	135	106	(1)	(21)	58	141	110	(1)	(22)	61	148
Operating EPS	0.30	0.21	0.00	(0.04)	0.14	0.31	0.24	(0.00)	(0.05)	0.13	0.33	0.25	(0.00)	(0.05)	0.14	0.34

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

CNP MODEL

MIDSTREAM

Income Statement ($ in millions)	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating Expenses																
O&M		3	3	3	3	10	3	3	3	3	10	3	3	3	3	10
Total operating expenses	-	3	3	3	3	10	3	3	3	3	10	3	3	3	3	10
Operating Income	-	(3)	(3)	(3)	(3)	(10)	(3)	(3)	(3)	(3)	(10)	(3)	(3)	(3)	(3)	(10)
Interest expense																
Equity in earnings of equity method affiliates	(383)	40	12	32	50	133	32	48	50	42	172	34	48	50	42	174
Interest income—affiliated companies																
Step acquisition gain																
Other, net																
Earnings before tax	(383)	37	9	29	47	123	30	45	47	40	162	31	46	48	40	164
Income taxes		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income	(383)	37	9	29	47	123	30	45	47	40	162	31	46	48	40	164
Net income attributable to limited partners	(383)	37	9	29	47	123	30	45	47	40	162	31	46	48	40	164
Net income attributable to common and subordinated units	(383)	37	9	29	47	123	30	45	47	40	162	31	46	48	40	164
CNP economic interest	(383)	37	9	29	47	123	30	45	47	40	162	31	46	48	40	164
Average Number of Shares Outstanding (Diluted)	430	433	431	433	433	431	433	433	433	433	433	433	433	433	433	433
Reported EPS diluted	(0.89)	0.09	0.02	0.07	0.11	0.29	0.07	0.10	0.11	0.09	0.37	0.07	0.11	0.11	0.09	0.38
Non Operating Items	515	(0.5)	1.0			1					-					-
Net Income (Non-GAAP)	132	37	10	29	47	124	30	45	47	40	162	31	46	48	40	164
Operating EPS	$0.31	0.09	0.02	0.07	0.11	$0.29	0.07	0.10	0.11	0.09	$0.37	0.07	0.11	0.11	0.09	$0.38

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

CNP MODEL

Retail Segment

Income Statement ($ in millions)	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating Revenues	**1,957**	439	397	661	654	**2,151**	457	413	688	680	**2,238**	475	430	716	708	**2,329**
Natural gas	1,867	421	377	634	617	**2,049**	438	392	659	642	**2,132**	456	408	686	668	**2,218**
O&M	42	10	17	10	10	**46**	13	13	13	13	**51**	14	14	14	14	**56**
D&A	5	1	3	3	3	**10**	1	1	1	1	**5**	1	1	1	1	**5**
Other tax	1	1	-	-	-	**1**	0	0	0	0	**1**	0	0	0	0	**1**
Goodwill impairment	4		-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Total expenses	**1,919**	433	397	646	630	**2,106**	452	406	673	657	**2,189**	471	424	701	684	**2,280**
Operating Income	38	6	-	15	24	**45**	5	7	15	24	**50**	4	6	15	24	**49**
Adjustments		9	10			**19**					**-**					**-**
Adjusted operating income	**38**	**15**	**10**	**15**	**24**	**64**	**5**	**7**	**15**	**24**	**50**	**4**	**6**	**15**	**24**	**49**
Interest and other finance charges	63	14	11			**25**					**-**					**-**
Equity in earnings of unconsolidated affiliate, net	-					**-**					**-**					**-**
Other, net	6	0	2			**2**					**-**					**-**
Earnings before tax	**(19)**	**(8)**	**(9)**	**15**	**24**	**22**	**5**	**7**	**15**	**24**	**50**	**4**	**6**	**15**	**24**	**49**
Income taxes	(7)	(3)	(3)	5	9	**8**	2	2	5	9	**18**	1	2	5	9	**18**
Net income	**(12)**	**(5)**	**(6)**	**10**	**15**	**14**	**3**	**4**	**9**	**15**	**32**	**3**	**4**	**9**	**15**	**31**
Average Number of Shares Outstanding (Diluted)	430	433	431	433	433	**431**	433	433	433	433	**433**	433	433	433	433	**433**
Reported EPS diluted	**(0.03)**	**(0.01)**	**(0.01)**	**0.02**	**0.04**	**0.03**	**0.01**	**0.01**	**0.02**	**0.04**	**0.07**	**0.01**	**0.01**	**0.02**	**0.04**	**0.07**
Non Operating Items	(4)	9	10	-	-	**19**	-	-	-	-	**-**	-	-	-	-	**-**
Net Income (Non-GAAP)	**(16)**	**4**	**4**	**10**	**15**	**33**	**3**	**4**	**9**	**15**	**32**	**3**	**4**	**9**	**15**	**31**
Operating EPS	**($0.04)**	0.01	0.01	0.02	0.04	**$0.08**	0.01	0.01	0.02	0.04	**$0.07**	0.01	0.01	0.02	0.04	**$0.07**

Source: Company reports, Guggenheim Securities, LLC estimates.

ALLIANT (LNT, NEUTRAL, $37.42)

Initiating coverage of LNT with a NEUTRAL rating and $34 fair value per share estimate. Our NEUTRAL stance is essentially a valuation call; in our view, LNT is a quality utility with above-average growth prospects, however shares trade at a premium to the group, leaving limited upside relative to our fair value estimate. We would also note an improving, but still busy, regulatory calendar to manage through in the NT – looking for a better entry.

- **We are initiating coverage of LNT with a NEUTRAL rating and $34 FV/share estimate.** LNT is a $9bn market cap regulated electric and gas utility (85% electric) with operations in Iowa (~55% of total rate base) and Wisconsin (~40% of rate base), exposure to FERC-regulated electric transmission through a 16% minority interest in ATC (implying ~5% of total rate base), and a non-regulated business that operates 560MW of renewables (<5% of earnings); a quality utility, in our view, with >95% of earnings derived from regulated utility operations earning healthy 10-11% returns in relatively constructive jurisdictions. **We estimate LNT will grow 5.8% per year, in line with management's outlook for 5-7% growth, at the top end of regulated peers averaging 4-6%, and maintaining solid dividend coverage with room to grow** (we model a 63% payout ratio through 2018, in line with management's dividend policy targeting 62.5%). That said, our **NEUTRAL stance is essentially a valuation call**, as shares trade at a 0.9x premium to the group coupled with modest room for upside vs. our regulated utility valuation methodology.
- **Our 2016/2017/2018 EPS estimates are $1.85/$1.95/$2.13, respectively, slightly below consensus in 2016 and 2017, in-line in 2018. Key drivers of our outlook are the rate case filings (see below), as well as the 650MW Marshalltown CCGT coming on-line.** We model almost $5bn of CapEx driving 10.5% annual rate base growth and, in turn, 5.8% EPS growth; in line with management's outlook for 5-7% growth. The gap between our earnings and rate base growth trajectories is driven by our rate case assumptions and dilution as we assume $125mm of equity is issued in 2017 to finance growth.
- **Solid utility, in our view, with above-average growth prospects, although still has a busy regulatory calendar to navigate, and will require some equity – execution is key.** Our assumptions, as discussed below, require constructive outcomes from currently pending rate cases filed in Wisconsin earlier this year, as well as upcoming cases management plans to file in Iowa in 2Q17; we model downward pressure on ROEs, which explains part of the disconnect between the 10% rate base growth we model and our 5.8% earnings growth trajectory, the other part is a function of dilution as we model $125mm of equity issuance to finance LNT's growth, in line with management's outlook. System-wide volume assumptions equate to ~1%.
- **WPL rate case almost complete.** For LNT's pending rate filing in Wisconsin, we model a $17mm electric rate increase going into effect at the beginning of 2017, in line with the May 2016 stipulated agreement calling for a $13mm increase ($65mm increase offset by $52mm in fuel costs), plus staff's 9/7/16 recommendation to include $4mm of higher fuel cost; and we model a $9mm gas rate increase per the May 2016 stipulation. We model ROE of 10% (vs. 10.4% ROE prior) for both WPL electric and gas, with slightly higher equity ratio of 52.2% (vs. 51.95% equity prior). Additionally, we forecast continuation of earnings from transmission and energy efficiency riders. **We do assume WPL earns above the 10.25% ROE band (average earned ROE of 10.7% through our '18 outlook) so some portion of the earnings is deferred.**

- **IPL rate case up next.** IPL doesn't expect to file until 2Q17, although can implement interim rates in the meantime, and **we assume a ~$60mm electric increase in the second half of 2017, as well as a $9mm gas rate increase;** we leave ROE unchanged at 10% for electric and 9.6% for gas at IPL. We also model the 650MW Marshalltown CCGT coming on-line in 2Q17, which represents the bump in IPL's authorized ROE in the summary table on the following page – this is essentially ~$500mm of rate base earning 10.3% AFUDC stepping-up to an 11% ROE once in-service. Additionally, we forecast continuation of earnings from transmission and energy efficiency riders.

- **Next key event.** We anticipate updates from management around its capital investment plan, rate base growth, and dividend policy on the 3Q16 earnings call, although likely won't see 2017 guidance until the year-end call in February considering the Iowa rate case has yet to be filed.

- **LNT's non-utility business isn't a material driver for the story or our outlook, although a wind proposal settled recently in Iowa would represent upside.** LNT's non-utility business operates 560MW of renewables, contributing ~5% of our consolidated earnings estimates as we assume steady operation of the existing portfolio. That said, **LNT recently reached a settlement agreement associated with its 500MW wind proposal in Iowa (RPU-2016-0005).** The proposal entails two 250MW capacity additions that would come online in 2019 and 2020, one of which is located at LNT's existing Whispering Willow site in Franklin County, IA. Terms of the settlement include an 11.0% ROE, and cost cap of $1,830/kW including AFUDC and transmission costs — **we model incremental investment upwards of $915mm and assume incremental earnings starting in 2018, given the proposed in-service date of 2019-2020.** A hearing is scheduled for October 26; the proposed schedule also stipulates briefs due 11/10/16, and an order requested by 12/2/16 to take full advantage of PTCs. We would note that additional upside to capital plan could come from more wind opportunities with the recent PTC expansion.

- **Valuation: We arrive at our $34 fair value per share estimate by applying our 16.0x regulated group target multiple to 2018 fundamentals; incorporating our estimated 4.0% dividend yield would equate to a -5% ETR.**

- **Risk:** Risks to our valuation for LNT mainly encompass traditional risk factors inherent with all regulated utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model. Upside risks to our fair value estimate include: (1) favorable regulatory settlements; (2) opportunities around ATC; and (3) higher CapEx outlook.

Guggenheim's LNT EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	FC Cons
2015A	0.43A	0.33A	0.82A	0.22A	1.79A	
2016E	0.43A	0.37A	0.91E	0.14E	1.85E	1.89E
2017E	0.42E	0.37E	1.03E	0.11E	1.95E	2.00E
2018E	0.46E	0.41E	1.10E	0.15E	2.13E	2.13E

Source: Company reports, Guggenheim Securities, LLC estimates.

Summary business metrics

Summary Financial Metrics					
Segment EPS	**2016E**	**2017E**	**2018E**	***CAGR***	***% of total***
IPL	0.89	0.95	1.12	*8.7%*	*49.7%*
WPL	0.75	0.80	0.82	*6.8%*	*39.4%*
ATC	0.13	0.14	0.15	*13.4%*	*6.9%*
Utilities	1.77	1.89	2.09	*8.2%*	*96.0%*
Non-regulated	0.08	0.06	0.04	*-35.8%*	*4.0%*
LNT consolidated	**$1.85**	**$1.95**	**$2.13**	***6.0%***	***100.0%***
Regulated EPS contribution	*96%*	*97%*	*98%*		
Dividend policy & coverage	**2016E**	**2017E**	**2018E**	***CAGR***	
Dividend per share	$1.15	$1.22	$1.33	*6.5%*	
Annual dividend growth	4.9%	5.5%	9.2%		
Consolidated payout ratio	**63%**	**63%**	**63%**		
Utility payout ratio	*65%*	*64%*	*64%*		

Source: Company reports, Guggenheim Securities, LLC estimates.

Regulated business metrics

Regulated summary					
Business mix (EPS)	**2016E**	**2017E**	**2018E**	***CAGR***	***% of total***
Regulated	1.77	1.89	2.09	*8.2%*	*96%*
Non-regulated	0.08	0.06	0.04	*(31.2%)*	*4%*
Total	**$1.85**	**$1.95**	**$2.13**	*6.0%*	*100%*
Asset mix (Ratebase, $Bn)	**2016E**	**2017E**	**2018E**	***CAGR***	***% of total***
Electric distribution	6,508	7,513	8,513	*13.2%*	*87%*
Gas distribution	368	546	642	*9.6%*	*6%*
FERC	551	628	692	*13.0%*	*7%*
Total	**7,427**	**8,688**	**9,847**	*12.9%*	*100%*
Ratebase by jurisdiction	**2016E**	**2017E**	**2018E**	***CAGR***	***% of total***
Iowa	3,907	4,776	5,708	*17.6%*	*55%*
Wisconsin	2,969	3,283	3,447	*6.6%*	*38%*
FERC	551	628	692	*13.0%*	*7%*
Total	**7,427**	**8,688**	**9,847**	*12.9%*	*100%*
ROEs by jurisdiction	**2016E**	**2017E**	**2018E**		***Avg.***
Iowa — *Earned*	11.4%	10.5%	10.2%		*10.7%*
Iowa — *Authorized*	*10.0%*	*10.1%*	*10.2%*		*10.1%*
Wisonsin — *Earned*	10.8%	10.9%	10.7%		*10.8%*
Wisonsin — *Authorized*	*10.5%*	*10.5%*	*10.5%*		*10.5%*
FERC - ATC — *Earned*	10.1%	10.2%	10.2%		*10.2%*
FERC - ATC — *Authorized*	*10.2%*	*10.2%*	*10.2%*		*10.2%*

Source: Company reports, Guggenheim Securities, LLC estimates.

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INCOME STATEMENT	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Electric utility	2,771	669	676	891	617	2,853	686	693	969	633	2,981	729	736	1,013	676	3,154
Gas utility	381	152	57	37	86	333	161	68	48	99	377	168	75	54	105	402
Other utility	58	13	12	14	12	52	13	13	16	13	55	14	14	17	14	59
Non-regulated	44	10	9	4	12	35	3	12	4	12	32	3	9	4	9	25
Total Operating Revenues	**3,254**	844	755	946	728	**3,273**	864	786	1,037	757	**3,444**	914	833	1,088	804	**3,639**
Fuel & purchased power	838	201	200	262	190	852	206	205	284	195	891	219	217	297	208	940
Electric transmission service	485	128	130	136	114	509	130	133	150	117	529	140	142	157	126	565
Cost of gas sold	219	95	25	13	49	182	101	29	17	56	203	105	32	19	60	216
Other O&M	625	144	144	151	170	609	144	144	151	170	609	144	144	151	170	609
Non-regulated O&M	4	1	1	(0)	4	5	0	1	(0)	4	5	0	1	(0)	3	3
Depreciation and amortization	401	103	102	103	104	412	106	107	108	109	430	111	112	113	114	449
Taxes other than income taxes	104	26	25	26	25	102	25	24	25	24	99	25	24	25	24	99
Total Operating Expenses	2,677	698	626	692	656	2,672	713	643	735	675	2,766	744	672	762	704	2,882
Operating Income	**577**	146	129	255	72	**601**	151	143	302	82	**678**	171	161	326	100	**758**
Interest expense	187	48	48	50	51	197	54	57	58	61	230	63	66	66	69	263
Interest Rate	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Unconsolidated investments	(34)	(11)	(9)	(8)	(9)	(36)	(8)	(8)	(8)	(8)	(32)	(9)	(9)	(9)	(9)	(35)
AFUDC	(37)	(13)	(15)	(23)	(23)	(74)	(16)	(16)	(16)	(16)	(63)	(14)	(14)	(14)	(14)	(56)
Interest income and other	(1)	(0)	-	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(1)
Total interest expense and other	**116**	24	24	19	20	**86**	30	33	34	37	**134**	40	43	42	46	**171**
Income before tax	**461**	122	105	236	52	**515**	121	111	268	45	**545**	130	118	284	54	**587**
Income taxes	70	22	18	27	17	84	22	23	27	18	89	22	22	28	18	89
Income from continuing ops. after tax	**391**	100	87	209	35	**431**	99	88	241	27	**455**	109	96	256	36	**497**
Discontinued operations (net tax)	(3)	(1)	(1)	(0)	-	(2)	-	-	-	-	-	-	-	-	-	-
Effective Tax Rate (%)	15%	17%	17%	12%	33%	16%	18%	20%	10%	40%	16%	17%	19%	10%	33%	15%
Net income before preferred dividend	**388**	99	86	209	35	**429**	99	88	241	27	**455**	109	96	256	36	**497**
Preferred dividends	10	3	3	3	3	10	3	3	3	3	10	3	3	3	3	10
GAAP Net Income for common	**378**	97	84	206	33	**419**	96	85	239	25	**445**	106	94	253	34	**487**
Non-GAAP Items	26	-	0			**0**										
Adjusted (Non-GAAP) Net Income	**404**	97	84	206	33	**419**	96	85	239	25	**445**	106	94	253	34	**487**
Wtd. Avg. shares outstanding	227	227	227	227	227	227	229	231	231	231	229	230	230	231	231	229
Adjusted Earnings per Share	**$1.79**	$0.43	$0.37	$0.91	$0.14	**$1.85**	$0.42	$0.37	$1.03	$0.11	**$1.95**	$0.46	$0.41	$1.10	$0.15	**$2.13**

Source: Company reports, Guggenheim Securities, LLC estimates.

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CASH FLOW STATEMENT	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Cash flows from operating activities:																
Net income	388	99	86	209	35	429	99	88	241	27	455	109	96	256	36	497
Adjustments to reconcile net income to net cash flows from operating activities:																
Depreciation and amortization	414	103	102	103	104	412	106	107	108	109	430	111	112	113	114	449
Deferred tax expense and investment tax credits	114	23	23	-	-	46	-	-	-	-	-	-	-	-	-	-
Other	(12)	(18)	(11)	-	-	(29)	-	-	-	-	-	-	-	-	-	-
Other changes in assets and liabilities:																
Accounts receivable	37	(48)	(12)	(134)	59	(134)	(9)	70	(163)	86	(16)	(16)	74	(168)	85	(25)
Sales of accounts receivable	(17)	57	76	-	-	133	-	-	-	-	-	-	-	-	-	-
Production fuel, at weighted average cost	-	-	-	12	(5)	7	(3)	(8)	7	0	(4)	(5)	(9)	9	(1)	(6)
Gas stored underground, at weighted average cost	-	27	(6)	(67)	46	1	26	(6)	(74)	52	(2)	27	(7)	(77)	54	(3)
Materials and supplies, at weighted average cost				41	(38)	3	(5)	(1)	41	(37)	(3)	(7)	(2)	43	(40)	(5)
Regulatory assets	(105)	-	35	-	-	35	-	-	-	-	-	-	-	-	-	-
Accounts payable	-	(31)	31	108	(66)	43	(64)	36	138	(94)	16	(61)	39	141	(93)	25
Regulatory liabilities	(68)	(29)	(1)	-	-	(29)	-	-	-	-	-	-	-	-	-	-
Deferred income taxes	95	-	46	-	-	46	-	-	-	-	-	-	-	-	-	-
Other	25	45	(89)	-	-	(44)	-	-	-	-	-	-	-	-	-	-
Net cash flows from operating activities	871	228	282	273	135	919	149	286	298	144	877	157	304	317	155	932
Cash flows used for investing activities:																
Utility business	(964)	(220)	(271)	(284)	(284)	(1,059)	(308)	(308)	(308)	(308)	(1,230)	(288)	(288)	(288)	(288)	(1,150)
Non-regulated businesses	(71)	(19)	(10)	(14)	(28)	(71)	(19)	(10)	(14)	(28)	(71)	(19)	(10)	(14)	(28)	(71)
Proceeds from projects	140	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (incl ATC going forward)	(25)	19	(0)	(141)	(141)	(263)	(153)	(153)	(153)	(153)	(612)	(101)	(101)	(101)	(101)	(402)
Net cash flows used for investing activities	(919)	(220)	(281)	(439)	(453)	(1,393)	(479)	(471)	(474)	(488)	(1,913)	(407)	(398)	(402)	(416)	(1,623)
Cash flows used for financing activities:																
Common stock dividends	(247)	(67)	(67)	(71)	(71)	(275)	(70)	(70)	(70)	(70)	(280)	(77)	(77)	(77)	(77)	(307)
Proceeds from issuance of common stock, net	151	6	8	6	6	25	125	-	-	-	125	6	6	6	6	25
Proceeds from issuance of long-term debt	251	-	-	246	416	663	338	325	225	300	1,187	316	250	145	255	967
Payments to retire long-term debt	(183)	-	(2)	-	-	(2)	-	-	-	-	-	-	-	-	-	-
Net change in short-term debt				-	-	-		-	-		-		-	-		-
Net change in commercial paper	19	54	74	-	-	128	-	-	-	-	-	-	-	-	-	-
Other	7	(3)	(13)	-	-	(15)	-	-	-	-	-	-	-	-	-	-
Net cash flows used for financing activities	(3)	(9)	1	181	351	524	393	255	155	230	1,032	245	180	75	185	685
Net increase (decrease) in cash and cash equivalents	(51)	(1)	2	15	34	50	63	69	(22)	(114)	(4)	(4)	85	(10)	(76)	(5)
Cash and cash equivalents at beginning of period	57	6	5	6	22	6	56	119	189	166	56	52	47	133	122	52
Cash and cash equivalents at end of period	6	5	6	22	56	56	119	189	166	52	52	47	133	122	47	47

Source: Company reports, Guggenheim Securities, LLC estimates.

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Balance Sheet	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Assets																
Cash and cash equivalents	6	5	7	22	56	56	119	189	186	52	52	47	133	122	47	47
Accounts receivable, less allowance for doubtful accounts	398	391	316	450	391	391	400	329	493	407	407	423	349	517	432	432
Production fuel, at weighted average cost	99	98	104	92	97	97	100	109	101	101	101	106	115	106	107	107
Gas stored underground, at weighted average cost	43	16	22	88	43	43	16	23	97	44	44	17	24	101	47	47
Materials and supplies, at weighted average cost	81	83	83	42	80	80	85	87	46	83	83	90	92	48	88	88
Regulatory assets	120	112	72	72	72	72	72	72	72	72	72	72	72	72	72	72
Other	80	64	99	99	99	99	99	99	99	99	99	99	99	99	99	99
Total Current Assets	**827**	**769**	**702**	**865**	**837**	**837**	**891**	**906**	**1,074**	**858**	**868**	**855**	**883**	**1,066**	**892**	**892**
Property, plant and equipment, net	9,519	9,627	9,846	10,027	10,206	10,206	10,408	10,609	10,808	11,006	11,006	11,183	11,359	11,534	11,707	11,707
Investment in American Transmission Company LLC	293	303	304	445	586	586	739	892	1,045	1,198	1,198	1,299	1,399	1,500	1,600	1,600
Other	53	21	21	35	63	63	82	92	106	134	134	153	163	177	205	205
Total investments	346	324	325	480	649	649	821	984	1,151	1,332	1,332	1,451	1,562	1,676	1,805	1,805
Regulatory assets	1,788	1,806	1,801	1,801	1,801	1,801	1,801	1,801	1,801	1,801	1,801	1,801	1,801	1,801	1,801	1,801
Deferred charges and other	15	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11
Total other assets	1,803	1,816	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812
Total Assets	**12,495**	**12,535**	**12,685**	**13,184**	**13,504**	**13,504**	**13,932**	**14,311**	**14,845**	**15,008**	**16,008**	**15,301**	**15,616**	**16,088**	**16,215**	**16,215**
Current maturities of long-term debt	313	313	314	314	314	314	314	314	314	314	314	314	314	314	314	314
Commercial paper	160	213	221	221	221	221	221	221	221	221	221	221	221	221	221	221
Accounts payable	402	324	353	461	396	396	331	368	506	412	412	351	390	530	437	437
Regulatory liabilities	187	193	201	201	201	201	201	201	201	201	201	201	201	201	201	201
Other	297	305	284	284	284	284	284	284	284	284	284	284	284	284	284	284
Total Current Liabilities	**1,359**	**1,349**	**1,373**	**1,482**	**1,416**	**1,416**	**1,352**	**1,388**	**1,526**	**1,432**	**1,432**	**1,371**	**1,410**	**1,551**	**1,457**	**1,457**
Long-term debt, net (excluding current portion)	3,522	3,523	3,588	3,835	4,251	4,251	4,589	4,914	5,138	5,438	5,438	5,754	6,004	6,149	6,405	6,405
Deferred tax liabilities	2,381	2,425	2,474	2,474	2,474	2,474	2,474	2,474	2,474	2,474	2,474	2,474	2,474	2,474	2,474	2,474
Regulatory liabilities	551	518	510	510	510	510	510	510	510	510	510	510	510	510	510	510
Pension and other benefit obligations	452	447	452	452	452	452	452	452	452	452	452	452	452	452	452	452
Other	306	310	297	297	297	297	297	297	297	297	297	297	297	297	297	297
Total other liabilities	3,690	3,699	3,734	3,734	3,734	3,734	3,734	3,734	3,734	3,734	3,734	3,734	3,734	3,734	3,734	3,734
Total Liabilities	**8,571**	**8,570**	**8,695**	**9,050**	**9,400**	**9,400**	**9,674**	**10,035**	**10,398**	**10,604**	**10,604**	**10,858**	**11,148**	**11,434**	**11,596**	**11,596**
Common stock	1	1	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Additional paid-in capital	1,663	1,674	1,682	1,687	1,693	1,693	1,818	1,818	1,818	1,818	1,818	1,824	1,831	1,837	1,843	1,843
Retained earnings	2,069	2,099	2,116	2,254	2,218	2,218	2,248	2,266	2,436	2,394	2,394	2,426	2,448	2,625	2,584	2,584
Accumulated other comprehensive loss	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Shares in deferred compensation trust	(9)	(9)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Total Alliant Energy Corporation common equity	**3,724**	**3,765**	**3,790**	**3,934**	**3,904**	**3,904**	**4,058**	**4,076**	**4,247**	**4,204**	**4,204**	**4,243**	**4,268**	**4,454**	**4,420**	**4,420**
Cumulative preferred stock of Interstate Power and Light Com	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200
Noncontrolling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total equity	**3,924**	**3,965**	**3,990**	**4,134**	**4,104**	**4,104**	**4,258**	**4,276**	**4,447**	**4,404**	**4,404**	**4,443**	**4,468**	**4,654**	**4,620**	**4,620**
Total Liabilities & Equity	**12,495**	**12,535**	**12,685**	**13,184**	**13,504**	**13,504**	**13,932**	**14,311**	**14,845**	**15,008**	**16,008**	**15,301**	**15,616**	**16,088**	**16,215**	**16,215**

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

ALLIANT ENERGY

Regulated Utilities

($ in millions unless stated otherwise)

INCOME STATEMENT	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Electric utility	2,771	669	676	891	617	2,853	686	693	969	633	2,981	729	736	1,013	676	3,154
Gas utility	381	152	57	37	86	333	161	68	48	99	377	168	75	54	105	402
Other utility	58	13	12	14	12	52	13	13	16	13	55	14	14	17	14	59
Total Operating Revenues	**3,210**	**834**	**745**	**943**	**715**	**3,238**	**860**	**774**	**1,033**	**745**	**3,412**	**911**	**824**	**1,084**	**795**	**3,615**
Fuel & purchased power	838	201	200	262	190	852	206	205	284	195	891	219	217	297	208	940
Electric transmission service	485	128	130	136	114	509	130	133	150	117	529	140	142	157	126	565
Cost of gas sold	219	95	25	13	49	182	101	29	17	56	203	105	32	19	60	216
Other O&M	625	144	144	151	170	609	144	144	151	170	609	144	144	151	170	609
Total D&A	392	100	100	101	102	403	103	105	106	107	421	108	109	111	112	440
Taxes other than income taxes	100	25	24	25	24	99	25	24	25	24	99	25	24	25	24	99
Total Operating Expenses	**2,659**	**694**	**622**	**689**	**649**	**2,654**	**710**	**640**	**733**	**669**	**2,752**	**741**	**669**	**760**	**699**	**2,869**
Interest expense	189	48	48	49	50	195	53	56	57	60	226	62	65	65	68	259
Unconsolidated investments	(35)	(11)	(9)	(8)	(9)	(37)	(8)	(8)	(8)	(8)	(32)	(9)	(9)	(9)	(9)	(35)
AFUDC	(37)	(13)	(15)	(23)	(23)	(74)	(16)	(16)	(16)	(16)	(63)	(14)	(14)	(14)	(14)	(56)
Interest income and other	(1)	(0)	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(1)
Total Interest expense and other	**117**	**24**	**23**	**18**	**19**	**83**	**29**	**32**	**33**	**36**	**130**	**39**	**42**	**41**	**45**	**167**
Income before income taxes	**434**	**117**	**100**	**237**	**47**	**501**	**121**	**102**	**268**	**40**	**531**	**131**	**114**	**283**	**51**	**579**
Income taxes	60	22	22	27	16	87	22	21	27	17	87	22	22	28	18	88
Net income	**374**	**95**	**78**	**209**	**31**	**414**	**99**	**81**	**241**	**23**	**444**	**109**	**92**	**256**	**34**	**491**
Extraordinary items	12	-				-					-					-
Income from noncontrolling interest	1	1	1	0	0	2	1	1	0	0	2	1	1	0	0	2
Preferred dividend requirements	10	3	3	3	3	10	3	3	3	3	10	3	3	3	3	10
Earnings available for common	**374**	**92**	**75**	**206**	**26**	**402**	**96**	**78**	**238**	**20**	**432**	**106**	**89**	**253**	**31**	**479**
Wtd. Avg. shares outstanding	227	227	227	227	227	227	229	231	231	231	229	230	230	231	231	229
Adjusted Earnings per Share	$ 1.65	$ 0.41	$ 0.33	$ 0.91	$ 0.13	$ 1.77	$ 0.42	$ 0.34	$ 1.03	$ 0.09	$ 1.89	$ 0.46	$ 0.39	$ 1.10	$ 0.13	$ 2.09

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM
ALLIANT ENERGY
Interstate Power & Light
($ in millions unless stated otherwise)

INCOME STATEMENT	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Electric utility	1,504	362	364	505	309	1,539	363	386	566	310	1,605	398	401	602	345	1,746
Gas utility	217	84	35	22	46	187	86	39	26	51	202	90	43	30	55	218
Steam and other	53	13	12	14	11	50	13	12	16	11	52	14	13	17	13	57
Total Operating Revenues	**1,775**	**459**	**411**	**541**	**366**	**1,776**	**462**	**417**	**608**	**373**	**1,859**	**502**	**457**	**649**	**413**	**2,021**
Fuel & purchased power	428	99	100	141	89	431	100	101	159	90	449	109	110	169	100	489
Electric transmission service	328	87	88	94	73	342	87	89	106	73	355	95	97	112	82	387
Cost of gas sold	123	52	16	9	26	103	53	18	11	29	111	56	20	12	31	119
O&M 0.0%	390	92	93	94	102	382	92	93	94	102	382	92	93	94	102	382
Depreciation and amortization	207	53	52	53	54	212	54	55	55	56	221	56	57	57	58	229
Taxes other than income taxes	56	14	13	14	13	54	14	13	14	13	54	14	13	14	13	54
Total Operating Expenses	**1,533**	**397**	**363**	**406**	**358**	**1,524**	**400**	**368**	**439**	**364**	**1,571**	**423**	**390**	**459**	**386**	**1,658**
Operating Income	**242**	**62**	**48**	**135**	**8**	**253**	**62**	**49**	**169**	**9**	**289**	**79**	**67**	**190**	**27**	**363**
Interest expense	97	25	25	26	26	101	27	28	28	29	111	30	31	30	32	122
Interest Rate	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
AFUDC	(28)	(10)	(12)	(15)	(15)	(52)	(9)	(9)	(9)	(9)	(35)	(2)	(2)	(2)	(2)	(8)
Interest income and other	(0)	-	(0)	-	-	(0)	-	-	-	-	-	-	-	-	-	-
Total interest expense and other	**68**	**15**	**13**	**11**	**11**	**49**	**18**	**19**	**19**	**20**	**76**	**28**	**29**	**28**	**30**	**114**
Income before income taxes	**174**	**47**	**35**	**124**	**(3)**	**204**	**44**	**29**	**151**	**(11)**	**213**	**52**	**38**	**162**	**(3)**	**249**
Income tax benefit	(23)	(1)	1	(9)	0	(8)	(3)	(2)	(11)	1	(15)	(4)	(3)	(11)	0	(17)
Net income	**196**	**48**	**34**	**133**	**(3)**	**212**	**47**	**32**	**161**	**(12)**	**227**	**56**	**41**	**173**	**(3)**	**266**
Preferred dividend requirements	10	3	3	3	3	10	3	3	3	3	10	3	3	3	3	10
Extraordinary items	12					0					0					0
Earnings available for common	**198**	**46**	**32**	**130**	**(5)**	**202**	**44**	**29**	**158**	**(14)**	**217**	**53**	**38**	**171**	**(8)**	**256**
Wtd. Avg. shares outstanding	227	227	227	227	227	227	229	231	231	231	229	230	230	231	231	229
Adjusted Earnings per Share	**$0.87**	**$0.20**	**$0.14**	**$0.57**	**($0.02)**	**$0.89**	**$0.19**	**$0.13**	**$0.69**	**($0.06)**	**$0.95**	**$0.23**	**$0.17**	**$0.74**	**($0.02)**	**$1.12**

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

ALLIANT ENERGY

WI POWER & LIGHT

($ in millions unless stated otherwise)

INCOME STATEMENT	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Electric utility	1,267	307	312	386	308	1,313	323	327	403	323	1,376	331	335	411	331	1,408
Gas utility	164	68	23	15	40	146	76	30	22	48	175	78	32	24	50	184
Other	5	0	0	1	1	2	0	0	1	1	2	0	0	1	1	2
Total Operating Revenues	1,435	376	334	402	349	1,461	399	357	425	372	1,553	409	367	436	382	1,594
Electric production fuel and purchased pov	409	102	99	120	100	421	107	104	125	105	441	109	107	128	108	452
Electric transmission service	157	41	42	42	41	167	43	44	44	43	175	45	45	45	44	179
Cost of gas sold	96	43	9	4	23	79	48	11	6	27	93	49	12	7	29	97
Other operation and maintenance	235	52	51	57	68	228	52	51	57	68	228	52	51	57	68	228
Depreciation and amortization	184	47	47	48	48	191	49	50	50	51	200	52	53	53	54	211
Taxes other than income taxes	45	12	11	11	11	45	12	11	11	11	45	12	11	11	11	45
Total Operating Expenses	1,126	297	259	283	292	1,130	310	271	294	306	1,181	318	279	301	313	1,211
Operating Income	309	79	75	119	58	331	88	86	131	67	372	90	88	135	69	383
Interest expense	92	23	23	23	24	94	26	28	29	31	114	32	34	35	36	137
Interest Rate	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Unconsolidated investments	(35)	(11)	(9)	(8)	(9)	(37)	(8)	(8)	(8)	(8)	(32)	(9)	(9)	(9)	(9)	(35)
AFUDC	(9)	(3)	(3)	(8)	(8)	(22)	(7)	(7)	(7)	(7)	(28)	(12)	(12)	(12)	(12)	(48)
Interest income and other	(0)	(0)	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(1)
Total interest expense and other	48	9	11	7	8	34	11	13	14	15	53	12	13	14	15	53
Income before income taxes	261	70	65	113	50	297	77	73	117	51	318	79	76	121	54	330
Income tax benefit	83	23	21	36	16	95	25	23	38	16	102	25	24	39	17	106
Net Income	178	47	44	77	34	201	52	50	80	35	216	54	51	83	37	224
Extraordinary items	0					0					0					0
Net income from noncontrolling interest	1	1	1	0	0	2	1	1	0	0	2	1	1	0	0	2
Preferred dividend requirements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings available for common	176	47	43	76	34	200	52	49	79	34	215	53	51	82	37	223
Wtd. Avg. shares outstanding	227	227	227	227	227	227	229	231	231	231	229	230	230	231	231	229
Basic and Diluted EPS	$0.78	$0.21	$0.19	$0.34	$0.15	$0.88	$0.23	$0.21	$0.34	$0.15	$0.94	$0.23	$0.22	$0.36	$0.16	$0.97

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM
ALLIANT ENERGY
AMERICAN TRANSMISSION CO.
($ in millions unless stated otherwise)

INCOME STATEMENT	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Total Operating Revenues		**55**	**55**	**60**	**62**	**230**	**63**	**65**	**68**	**70**	**266**	**72**	**73**	**74**	**75**	**294**
Total Operating Expenses		5	5	5	6	21	6	6	6	6	24	7	7	7	7	27
EBITDA		**50**	**50**	**54**	**56**	**209**	**58**	**60**	**61**	**63**	**242**	**65**	**66**	**67**	**69**	**267**
Depreciation		19	20	21	22	82	23	24	25	25	97	26	27	27	27	107
EBIT		30	29	33	34	128	35	36	37	38	145	39	40	40	41	160
Interest expense		20	20	21	22	83	23	24	25	26	98	26	27	27	28	108
Earnings Before Members' Income Taxes	**35**	**11**	**9**	**12**	**13**	**44**	**11**	**12**	**12**	**12**	**47**	**13**	**13**	**13**	**13**	**52**
Income Tax Expense	11	3	3	4	4	14	4	4	4	4	15	4	4	4	4	17
Net Income	**24**	**7**	**6**	**8**	**9**	**30**	**8**	**8**	**8**	**8**	**32**	**9**	**9**	**9**	**9**	**35**
Shares	**227**	227	227	227	227	**227**	229	231	231	231	**229**	**230**	**230**	**231**	**231**	**229**
EPS	**$0.11**	0.03	0.03	0.04	0.04	**$0.13**	0.03	0.03	0.04	0.04	**$0.14**	0.04	0.04	0.04	0.04	**$0.15**

Source: Company reports, Guggenheim Securities, LLC estimates.

NISOURCE INC (NI, NEUTRAL, $22.34)

Initiating coverage of NI with NEUTRAL rating and $23 fair value/share; conservative growth guidance but multiple rate cases coupled with material outperformance vs. gas utility peers fairly value shares – we missed rally but looking for an entry point. Story could become more attractive as rate cases work themselves through and management in a better position to update customer growth assumptions and CAPEX outlook – guidance may prove conservative.

- **We are initiating coverage of NI with a NEUTRAL rating and $23 fair value/share estimate.** NI is a $7bn market cap electric (35%) and natural gas (65%) utility with franchises in 7 states (KY, MD, MA, OH, PA, VA, ID). **Our NEUTRAL rating is premised upon valuation as shares materially outperformed gas utility peers YTD** – NI is a simple regulated block-and-tackle rate case story with fairly constructive mechanisms and Commissioners, strong fundamentals and above-average rate base growth prospects, but multiple rate cases present some overhang, in our view. **A modest pullback could lead us to revisit our thesis, especially as rate cases work themselves through.** Thereafter, **management is in a good position to revisit CAPEX on the heels of their IRP, which will be predicated around coal retirements as well as potential upsizing of their customer growth assumptions – currently assumed flat through outlook.** Our sum-of-the-parts valuation equates to an ETR just below our BUY threshold – this is simply a valuation call as fundamentals remain strong.
- **Our 2016/2017/2018 EPS estimates are $1.10/$1.16/$1.24, in-line with consensus.** Multiple rate cases are key drivers of outlook for 2017 and beyond and support our ~6.5% annual earnings growth estimate – ultimately, given the current regulatory construct, we assume normalized lag of 100bps at Electric with lag compression following rate orders. Our Electric estimates equate to an average earned ROE of 8.6%. Our annual Electric CapEx equates to ~$428mm through 2017 and step up to $725mm in 2018 due to transmission projects (NIPSCO's 100-mile 345KV and 65-mile 765KV projects are designed to enhance region-wide system flexibility and reliability) resulting in rate base growth at ~6.2%. Our forecast for the Gas segment estimates normalized lag of 50-60bps, depending on the gas utility. Our Gas EPS outlook equates to an average earned ROE of ~9.3% through our forecast period with annual CapEx of ~$600mm driving rate base by 6.4%/year. System-wide, we have minimal load growth in our forecast, ~0.5%, and assume continuation of the numerous trackers and riders in place allow for timely recovery of most investments.
- **Navigating a busy rate case schedule key near-term driver – could create a good entry point.** NI operates within a diverse footprint under Columbia Gas of KY, MD, MA, OH, PA and VA, with NIPSCO (Indiana) rounding out with gas and electric operations. There are a lot of rate cases to navigate through: **(1)** Kentucky: $25.4mm gas revenue ask – decision by YE16; **(2)** Pennsylvania: $55.3mm gas revenue ask; decision by 12/2016; **(3)** Virginia: $37.0mm gas revenue ask; decision by early 2017, rates in effect Oct.1, 2016 subject to refund; **(4)** Maryland: $6.5mm gas revenue ask; $3.7mm settlement filed July, 27, 2016 with new rates effective November 2016; **(5)** Indiana: $1.2B electric service modernization program over seven years (~$800mm investment through semi-annual tracker increases revenue by $6.7mm).
- **Good mechanisms in place with trackers covering 75% of investments, supportive regulatory environments and highly visible pipeline – could see some lag compression with O&M levers on a go-forward basis.** There are trackers in the various states, with Ohio and Indiana having the most lag at an

average of 9 months but still shorter than the traditional rate case cycle in other states we follow. Constructive cost recovery provided by decoupling mechanisms in MA and OH; weather normalization adjustments in KY, PA, and MD (monthly revenue surplus/deficit for certain customer classes are reconciled in subsequent months). From a sensitivity standpoint, each degree day is a modest ~$50k impact to revenues given decoupling.

- **Conservative management, exiting non-utility enterprises with upside potential from customer growth initiatives and infrastructure investments.** Historically, management has under-promised and over-delivered – essentially earning close to its allowed returns while growing the rate base above peer average, which, in our view, should eventually equate to a higher EPS growth trajectory (currently 4-6% EPS growth vs. 6-8% rate base growth). **Note: we do model EPS growth of ~6.5%/year through our '18 trajectory – above management guidance.** Recently issued 2017 guidance of $1.12 to $1.18 places our current estimates at just above the midpoint range. **Key potential catalysts that investors should monitor** as NI comes out of rate cases: **(1)** IRP filing, which could show healthy CAPEX upside, some of which stemming from coal retirements; and **(2)** upsizing of customer grow assumptions vs. flat growth embedded in guidance.

- **Valuation: We value NI as a regulated utility, arriving at our $23 FV/share estimate utilizing a sum-of-the-parts analysis, based on: (1)** $8/share for regulated electric utility when we apply our group average regulated electric utility multiple of 16.0x, which is based on a regression of corp. bond yields and utility P/E multiples; **(2)** $17/share value for the regulated gas segment utilizing our 16.0x P/E multiple for the regulated group plus a 5.0x premium to account for the historical gas LDC spread above electric counterparts; (3) -$2/share for other adjustments. **Incorporating our estimated 2.3% dividend yield would equate to a 5.2% ETR.**

- **Risks:** The primary risk 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.

  Additional risk factors for NiSource Inc. include: Potential RFPs to be issued based on the 2016 IRP's outcome. The outcome is dependent on elements such as the LT load growth rate, and commission assessment of needs; an order not aligned with those estimated by AVA may result in lower earnings. Upside risks to our fair value estimate include: (1) favorable regulatory environments; (2) overdeliver against guidance; and (3) higher CapEx outlook.

Guggenheim's NI EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.56A	0.00A	0.06A	0.31A	0.93A	
2016E	0.60A	0.08A	0.06A	0.37E	1.10E	*1.07E*
2017E	0.60E	0.11E	0.10E	0.36E	1.16E	*1.16E*
2018E	0.63E	0.12E	0.10E	0.38E	1.24E	*1.22E*

Source: Company reports, Factset, Guggenheim Securities, LLC estimates.

Summary business metrics

Regulated summary							
Regulated asset mix (Ratebase, $Bn)			**2015A**	**2016E**	**2017E**	**2018E**	***% CAGR***
Electric distribution			3.5	3.7	3.8	4.2	*41% 6.2%*
Gas distribution			4.9	5.5	5.8	5.9	*59% 6.4%*
			8.4	9.2	9.6	10.1	*100% 6.3%*
Regulated EPS by asset class				**2016E**	**2017E**	**2018E**	***% CAGR***
Electric distribution				0.44	0.48	0.51	*41% 4.6%*
Gas distribution				0.73	0.78	0.82	*67% 4.0%*
Corporate & Other				(0.07)	(0.09)	(0.09)	*-7% 9.1%*
				$1.10	$1.16	$1.24	*100% 3.9%*
Regulated ROE by asset class				**2016E**	**2017E**	**2018E**	***Avg.***
Electric distribution		*Earned*		8.4%	8.9%	8.8%	*8.7%*
		Authorized		9.9%	9.9%	9.9%	*9.9%*
Gas distribution		*Earned*		9.0%	9.3%	9.5%	*9.3%*
		Authorized		*10.1%*	*10.1%*	*10.1%*	*10.1%*
Regulated ROEs by jurisdiction		**RB**		**2016E**	**2017E**	**2018E**	***New rates Avg.***
Indiana (Electric)	$3.3 bn	*Earned*		8.4%	8.9%	8.8%	*3Q16 8.7%*
	40%	*Authorized*		*9.9%*	*9.9%*	*9.9%*	*9.9%*
Ohio	$1.7 bn	*Earned*		9.2%	9.5%	9.7%	*9.4%*
	20%	*Authorized*		*10.3%*	*10.3%*	*10.3%*	*10.3%*
PA	$1.1 bn	*Earned*		9.0%	9.3%	9.5%	*4Q16 9.3%*
	13%	*Authorized*		*10.2%*	*10.2%*	*10.2%*	*10.2%*
Indiana (Gas)	$0.8 bn	*Earned*		8.9%	9.1%	9.3%	*9.1%*
	10%	*Authorized*		*9.9%*	*9.9%*	*9.9%*	*9.9%*
MA	$0.6 bn	*Earned*		8.9%	9.1%	9.3%	*9.1%*
	7%	*Authorized*		*9.9%*	*9.9%*	*9.9%*	*9.9%*
VA	$0.5 bn	*Earned*		8.8%	9.0%	9.2%	*4Q16 9.0%*
	6%	*Authorized*		*9.8%*	*9.8%*	*9.8%*	*9.8%*
KY	$0.2 bn	*Earned*		9.1%	9.3%	9.5%	*4Q16 9.3%*
	3%	*Authorized*		*10.1%*	*10.1%*	*10.1%*	*10.1%*
MD	$0.1 bn	*Earned*		8.5%	8.8%	9.0%	*4Q16 8.7%*
	1%	*Authorized*		*9.6%*	*9.6%*	*9.6%*	*9.6%*

Source: Company reports, Guggenheim Securities, LLC estimates.

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INCOME STATEMENT ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Gas Distribution	2,082	738	294	297	553	1,882	742	386	298	581	2,007	769	402	309	603	2,082
Gas Transportation and Storage	970	302	208	138	258	905	346	180	139	271	935	358	187	144	281	970
Electric	1,573	392	392	483	453	1,719	428	431	546	423	1,828	454	462	581	463	1,961
Other	27	5	4	2	4	16	6	3	2	5	17	6	3	3	5	17
Total Operating Revenues	**4,652**	**1,437**	**898**	**920**	**1,268**	**4,522**	**1,522**	**1,000**	**985**	**1,280**	**4,787**	**1,587**	**1,054**	**1,037**	**1,352**	**5,030**
Cost of Sales	1,644	497	235	228	360	1,319	507	248	248	352	1,356	516	258	260	365	1,399
Operation and maintenance	1,426	355	338	326	383	1,401	373	356	331	390	1,450	386	368	342	403	1,500
Loss (gain) on sale of assets and impairments, net	2	(0)	(0)	-	-	(0)	-	-	-	-	-	-	-	-	-	-
Other taxes	256	71	50	81	78	281	73	68	79	76	296	76	71	83	81	312
Total Operating Expenses	**1,684**	**426**	**388**	**407**	**461**	**1,681**	**446**	**423**	**410**	**466**	**1,745**	**463**	**439**	**426**	**484**	**1,812**
EBITDA	**1,324**	**514**	**275**	**286**	**447**	**1,522**	**569**	**329**	**327**	**461**	**1,686**	**608**	**357**	**351**	**502**	**1,819**
Depreciation and amortization	524	133	137	171	172	612	175	176	178	179	708	183	186	189	192	749
Operating Income	**800**	**381**	**138**	**115**	**274**	**909**	**394**	**153**	**149**	**282**	**978**	**425**	**171**	**162**	**311**	**1,069**
Equity Earnings in Unconsolidated Affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other, net	17	1	(6)	3	3	-	-	-	-	-	-	-	-	-	-	-
Loss on early extinguishment of long-term debt	(97)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense, net	380	91	86	88	91	356	95	97	99	101	392	106	109	113	117	445
Income before income taxes	**340**	**292**	**46**	**30**	**186**	**554**	**299**	**56**	**50**	**181**	**586**	**320**	**62**	**49**	**194**	**624**
Income Taxes	141	112	17	10	65	205	105	20	18	63	205	112	22	17	68	218
Tax Rate	*42%*	*38%*	*38%*	*35%*	*35%*	*37%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*
Net income from continuing operations	**199**	**180**	**29**	**19**	**121**	**349**	**195**	**36**	**33**	**117**	**381**	**208**	**40**	**32**	**126**	**406**
Income (Loss) from Discontinued Operations - net of taxes	104	-	(0)	-	-	(0)	-	-	-	-	-	-	-	-	-	-
Net Income	**302**	**180**	**29**	**19**	**121**	**349**	**195**	**36**	**33**	**117**	**381**	**208**	**40**	**32**	**126**	**406**
Less: Net income attributable to noncontrolling interests	16	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Loss) attributable to NiSource	**287**	**180**	**29**	**19**	**121**	**349**	**195**	**36**	**33**	**117**	**381**	**208**	**40**	**32**	**126**	**406**
Avg. shares outstanding (diluted)	320	320	323	326	327	324	327	327	327	328	327	328	328	328	328	328
Earnings Per Common Share, Diluted	**$0.94**	0.56	0.09	0.06	0.37	**$1.08**	0.60	0.11	0.10	0.36	**$1.16**	0.63	0.12	0.10	0.38	**$1.24**
Non-GAAP Items	100	11	(2)			**$8.70**										
Net Income (Non-GAAP)	**299**	**191**	**26**	**19**	**121**	**357**	**195**	**36**	**33**	**117**	**381**	**208**	**40**	**32**	**126**	**406**
EPS from Continuing Operations	**$0.93**	**$0.60**	**$0.08**	**$0.06**	**$0.37**	**$1.10**	**$0.60**	**$0.11**	**$0.10**	**$0.36**	**$1.16**	**$0.63**	**$0.12**	**$0.10**	**$0.38**	**$1.24**

Source: Company reports, Guggenheim Securities, LLC estimates.

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CASH FLOW STATEMENT ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Net Income	302	180	29	19	121	**349**	195	36	33	117	**381**	208	40	32	126	**406**
Adjustments to reconcile net income to net cash provided by operating activities:																
Loss on early extinguishment of debt	97	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	524	133	137	171	172	612	175	176	178	179	708	183	186	189	192	749
Deferred income tax provision and investment tax credits	135	102	22	-	-	124	-	-	-	-	-	-	-	-	-	-
Other adjustments	(43)	11	8			18										
Changes in current operating assets and liabilities:																
Accounts receivable	262	11	174	(12)	(183)	(10)	444	77	2	(44)	480	127	21	1	(12)	136
Income taxes receivable	(1)	1	-	-	-	1	-	-	-	-	-	-	-	-	-	-
Inventories	47	218	(98)	38	(145)	13	347	62	3	(36)	375	97	18	1	(11)	105
Accounts payable	(191)	(35)	(48)	9	144	70	(348)	(60)	(2)	34	(376)	(99)	(17)	(1)	10	(106)
Other noncurrent liabilities	29	(317)	(39)			(356)										
Net Cash Provided by Operating Activities	**1,163**	**304**	**184**	**225**	**108**	**821**	**813**	**291**	**214**	**251**	**1,568**	**515**	**249**	**222**	**303**	**1,290**
Net Operating Activities from (used for) Discontinued Operations	293	(0)	(0)	-	-	(1)	-	-	-	-	-	-	-	-	-	-
Net Cash Flows from Operating Activities	**1,457**	**304**	**183**	**225**	**108**	**820**	**813**	**291**	**214**	**251**	**1,568**	**515**	**249**	**222**	**303**	**1,290**
Cash Flow from Investing Activities:																
Capital expenditures	(1,361)	(301)	(372)	(186)	(186)	**(1,045)**	(261)	(261)	(261)	(261)	**(1,045)**	(336)	(336)	(336)	(336)	**(1,343)**
Other investing activities	3,736	(14)	(28)			(43)										
Net Cash Used in Investing Activities	**2,375**	(315)	(400)	(186)	(186)	**(1,088)**	(261)	(261)	(261)	(261)	**(1,045)**	(336)	(336)	(336)	(336)	**(1,343)**
Net Investing Activities from (used for) Continuing Operations	(430)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flows from (used for) Investing Activities	**1,945**	(315)	(400)	(186)	(186)	**(1,088)**	(261)	(261)	(261)	(261)	**(1,045)**	(336)	(336)	(336)	(336)	**(1,343)**
Cash Flow from Financing Activities:																
Cash of CPG at Separation	(137)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of long-term debt	-	-	-	50	50	100		-	-	-	-		-	-	-	-
Repayments of long-term debt and capital lease obligations	(2,092)	(204)	(3)			(208)	(210)	-			(210)		-	100	100	200
Premiums and other debt related costs	(94)	(0)	-	-	-	(0)	-	-	-	-	-	-	-	-	-	-
Change in short-term borrowings, net	(936)	278	255			533					-					-
Issuance of common stock	23	4	6	6	6	**23**	6	6	6	6	**23**	6	6	6	6	**23**
Acquisition of treasury stock	(20)	(7)	(1)	(6)	(6)	**(20)**	(5)	(5)	(5)	(5)	**(20)**	(5)	(5)	(5)	(5)	**(20)**
Dividends paid - common stock	(263)	(50)	(50)	(54)	-	(153)	(56)	(56)	(56)	(56)	(222)	(59)	(59)	(59)	(59)	(236)
Net Cash (Used in) Provided by Financing Activities	**(3,620)**	**21**	**208**	**(4)**	**50**	**274**	**(265)**	**(55)**	**(55)**	**(55)**	**(431)**	**(58)**	**(59)**	**41**	**41**	**(34)**
Net Financing Activities from Discontinued Operations	109	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flows from (used for) Financing Activities	**(3,412)**	21	208	(4)	50	**274**	(265)	(55)	(55)	(55)	**(431)**	(58)	(59)	41	41	**(34)**
Net (Decrease) Increase in Cash and Cash Equivalents	**(10)**	**9**	**(9)**	**35**	**(28)**	**7**	**286**	**(25)**	**(103)**	**(65)**	**93**	**121**	**(146)**	**(72)**	**9**	**(87)**
Cash and Cash Equivalents, Beginning of Period	25	15	24	16	50	15	22	308	283	180	22	115	236	91	19	115
Cash and Cash Equivalents, End of Period	**15**	**24**	**16**	**50**	**22**	**22**	**308**	**283**	**180**	**115**	**115**	**236**	**91**	**19**	**28**	**28**

Source: Company reports, Guggenheim Securities, LLC estimates.

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BALANCE SHEET ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Cash and cash equivalents	16	24	16	50	22	22	308	283	180	115	115	236	91	19	28	28
Restricted cash	30	19	12	12	12	12	12	12	12	12	12	12	12	12	12	12
Accounts receivable	660	648	474	486	670	670	225	148	146	189	189	63	42	41	54	54
Gas inventory	344	113	199	132	247	247	94	49	38	74	74	28	15	11	22	22
Materials and supplies, at average cost	87	95	103	105	145	145	49	32	32	41	41	14	9	9	12	12
Electric production fuel, at average cost	106	111	113	140	131	131	33	33	42	32	32	8	8	10	8	8
Exchange gas receivable	21	26	16	16	16	16	16	16	16	16	16	16	16	16	16	16
Regulatory assets	207	226	237	237	237	237	237	237	237	237	237	237	237	237	237	237
Deferred income taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepayments and other	108	134	90	90	90	90	90	90	90	90	90	90	90	90	90	90
Total Current Assets	**1,577**	1,395	1,260	1,269	1,569	**1,569**	1,064	900	792	807	**807**	704	520	446	479	**479**
Property, plant and equipment																
Property, plant and equipment	18,947	19,207	19,579	19,765	19,951	19,951	20,213	20,474	20,735	20,996	20,996	21,332	21,668	22,003	22,339	22,339
Less: accumulated depreciation	(6,853)	(6,957)	(7,040)	(7,211)	(7,383)	(7,383)	(7,558)	(7,734)	(7,912)	(8,091)	(8,091)	(8,274)	(8,460)	(8,649)	(8,840)	(8,840)
Net utility plant	**12,094**	12,250	12,539	12,554	12,568	**12,568**	12,655	12,740	12,823	12,905	**12,905**	13,058	13,208	13,354	13,498	**13,498**
Other property, at cost, less accumulated depreciation	18	18	17	17	17	17	17	17	17	17	17	17	17	17	17	17
Net Property, Plant and Equipment	**12,112**	12,267	12,556	12,572	12,586	**12,586**	12,672	12,757	12,841	12,923	**12,923**	13,075	13,225	13,372	13,516	**13,516**
Investments and Other Assets																
Unconsolidated affiliates	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
Other investments	188	195	190	190	190	190	190	190	190	190	190	190	190	190	190	190
Total Investments and Other Assets	**195**	202	197	197	197	**197**	197	197	197	197	**197**	197	197	197	197	**197**
Other Assets																
Regulatory assets	1,600	1,601	1,601	1,601	1,601	1,601	1,601	1,601	1,601	1,601	1,601	1,601	1,601	1,601	1,601	1,601
Goodwill	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691	1,691
Intangible assets-net of accumulated amortization	254	251	246	246	246	246	246	246	246	246	246	246	246	246	246	246
Deferred charges and other	65	65	67	67	67	67	67	67	67	67	67	67	67	67	67	67
Total other non-current assets	**3,609**	3,607	3,605	3,605	3,605	**3,605**	3,605	3,605	3,605	3,605	**3,605**	3,605	3,605	3,605	3,605	**3,605**
Total Assets	**17,493**	17,471	17,617	17,642	17,957	**17,957**	17,538	17,459	17,435	17,531	**17,531**	17,581	17,546	17,619	17,796	**17,796**

Source: Company reports, Guggenheim Securities, LLC estimates.

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BALANCE SHEET ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Current portion of long-term debt	434	264	312	312	312	312	312	312	312	312	312	312	312	312	312	312
Short-term borrowings	567	845	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101
Accounts payable	433	393	371	381	524	524	176	116	114	148	148	49	33	32	42	42
Dividends payable	-	50	53	53	53	53	53	53	53	53	53	53	53	53	53	53
Customer deposits and credits	316	213	187	187	187	187	187	187	187	187	187	187	187	187	187	187
Taxes accrued	184	203	141	141	141	141	141	141	141	141	141	141	141	141	141	141
Interest accrued	129	72	121	121	121	121	121	121	121	121	121	121	121	121	121	121
Exchange gas payable	62	26	38	38	38	38	38	38	38	38	38	38	38	38	38	38
Deferred revenue		6	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory liabilities	231	177	143	143	143	143	143	143	143	143	143	143	143	143	143	143
Accrued liability for postretirement and postemployment benefits	-	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal and environmental	38	37	37	37	37	37	37	37	37	37	37	37	37	37	37	37
Accrued compensation and employee benefits	141	103	125	125	125	125	125	125	125	125	125	125	125	125	125	125
Other accruals	122	103	68	68	68	68	68	68	68	68	68	68	68	68	68	68
Total Current Liabilities	**2,658**	**2,496**	**2,696**	**2,706**	**2,849**	**2,849**	**2,501**	**2,441**	**2,439**	**2,473**	**2,473**	**2,374**	**2,358**	**2,357**	**2,367**	**2,367**
Other Liabilities and Deferred Credits																
Risk management liabilities	23	135	221	221	221	221	221	221	221	221	221	221	221	221	221	221
Deferred income taxes	2,365	2,427	2,413	2,413	2,413	2,413	2,413	2,413	2,413	2,413	2,413	2,413	2,413	2,413	2,413	2,413
Deferred investment tax credits	15	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14
Deferred credits	91	91	94	94	94	94	94	94	94	94	94	94	94	94	94	94
Accrued liability for postretirement and postemployment benefits	760	754	746	746	746	746	746	746	746	746	746	746	746	746	746	746
Regulatory liabilities	1,350	1,334	1,321	1,321	1,321	1,321	1,321	1,321	1,321	1,321	1,321	1,321	1,321	1,321	1,321	1,321
Asset retirement obligations	254	253	257	257	257	257	257	257	257	257	257	257	257	257	257	257
Other noncurrent liabilities	186	188	187	187	187	187	187	187	187	187	187	187	187	187	187	187
Total Other Liabilities and Deferred Credits	**5,043**	**5,198**	**5,253**	**5,253**	**5,253**	**5,253**	**5,253**	**5,253**	**5,253**	**5,253**	**5,253**	**5,253**	**5,253**	**5,253**	**5,253**	**5,253**
Total Liabilities	**7,701**	**7,694**	**7,949**	**7,959**	**8,102**	**8,102**	**7,755**	**7,694**	**7,692**	**7,727**	**7,727**	**7,627**	**7,611**	**7,610**	**7,620**	**7,620**
Capitalization																
Stockholders' Equity:																
Common stock	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Treasury stock	(79)	(87)	(87)	(93)	(100)	(100)	(105)	(110)	(115)	(120)	(120)	(125)	(130)	(135)	(141)	(141)
Additional paid-in capital	5,078	5,103	5,118	5,125	5,131	5,131	5,136	5,142	5,148	5,153	5,153	5,159	5,165	5,170	5,176	5,176
Retained deficit	(1,123)	(1,043)	(1,067)	(1,102)	(981)	(981)	(842)	(861)	(884)	(822)	(822)	(674)	(693)	(720)	(653)	(653)
Accumulated other comprehensive loss	(35)	(104)	(156)	(156)	(156)	(156)	(156)	(156)	(156)	(156)	(156)	(156)	(156)	(156)	(156)	(156)
Total NiSource Common Stockholders' Equity	**3,844**	**3,872**	**3,811**	**3,776**	**3,897**	**3,897**	**4,037**	**4,018**	**3,995**	**4,058**	**4,058**	**4,207**	**4,189**	**4,162**	**4,229**	**4,229**
Noncontrolling interest in consolidated subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Stockholders' Equity	**3,844**	**3,872**	**3,811**	**3,776**	**3,897**	**3,897**	**4,037**	**4,018**	**3,995**	**4,058**	**4,058**	**4,207**	**4,189**	**4,162**	**4,229**	**4,229**
Long-term debt, excluding amounts due within one year	5,949	5,906	5,857	5,907	5,957	5,957	5,747	5,747	5,747	5,747	5,747	5,747	5,747	5,847	5,947	5,947
Total Capitalization	**9,792**	**9,778**	**9,668**	**9,683**	**9,854**	**9,854**	**9,784**	**9,765**	**9,742**	**9,805**	**9,805**	**9,954**	**9,935**	**10,009**	**10,176**	**10,176**
Total Liabilities and Equity	**17,493**	**17,471**	**17,617**	**17,642**	**17,957**	**17,957**	**17,538**	**17,459**	**17,435**	**17,531**	**17,531**	**17,581**	**17,546**	**17,619**	**17,796**	**17,796**

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

NiSource

Electric Operation

INCOME STATEMENT ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating revenues	1,574	392	392	483	453	1,720	428	431	546	423	1,828	454	462	581	463	1,961
Total Operating Revenues	**1,574**	**392**	**392**	**483**	**453**	**1,720**	**428**	**431**	**546**	**423**	**1,828**	**454**	**462**	**581**	**463**	**1,961**
Cost of gas sold	488	119	119	152	134	525	130	131	172	125	558	138	140	183	137	599
Gross Margin	**1,086**	**273**	**273**	**331**	**319**	**1,195**	**298**	**300**	**374**	**297**	**1,270**	**316**	**322**	**398**	**326**	**1,362**
% of Gross Margin	*69%*	*70%*	*70%*	*68%*	*70%*	*70%*	*70%*	*70%*	*68%*	*70%*	*69%*	*70%*	*70%*	*68%*	*70%*	*69%*
Operation and maintenance	490	120	125	114	135	494	124	129	118	140	511	128	133	122	145	529
Gain on sale of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other taxes	64	16	11	21	18	66	17	11	22	19	69	17	12	23	21	73
Total Operating Expenses	554	136	136	135	153	559	141	140	140	158	579	146	145	146	165	602
EBITDA	**532**	**137**	**137**	**196**	**166**	**636**	**158**	**160**	**234**	**139**	**690**	**170**	**177**	**252**	**161**	**760**
% of EBITDA margin	*33.8%*	*35.0%*	*35.1%*	*40.5%*	*36.6%*	*37.0%*	*36.8%*	*37.1%*	*42.9%*	*32.9%*	*37.8%*	*37.5%*	*38.2%*	*43.4%*	*34.7%*	*38.8%*
Depreciation and amortization	268	67	69	70	70	276	72	73	73	74	292	76	78	80	82	315
Operating Income	**264**	**70**	**68**	**126**	**95**	**360**	**86**	**87**	**161**	**65**	**398**	**95**	**99**	**173**	**79**	**445**
Other, net		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Expense	149	36	34	35	36	140	38	39	40	40	157	43	46	49	51	189
Interest Rate	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Income Before Taxes	**118**	**35**	**35**	**91**	**60**	**220**	**48**	**48**	**121**	**24**	**242**	**51**	**53**	**124**	**28**	**256**
Income Taxes	44	12	12	32	21	77	17	17	42	9	85	18	18	43	10	89
Tax Rate	*37%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*
Net Income (Loss) attributable to NiSource	**75**	**23**	**23**	**59**	**39**	**143**	**31**	**31**	**79**	**16**	**157**	**33**	**34**	**81**	**18**	**166**
Weighted-average Shares Outstanding	320	320	323	326	327	324	327	327	327	328	327	328	328	328	328	328
Earnings Per Common Share, Diluted	**$0.23**	$0.07	$0.07	$0.18	$0.12	**$0.44**	$0.09	$0.10	$0.24	$0.05	**$0.48**	$0.10	$0.10	$0.25	$0.05	**$0.51**

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

NiSource

Gas Distribution Operation

INCOME STATEMENT ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Gas Distribution	2,082	738	294	297	553	1,882	742	386	298	581	2,007	769	402	309	603	2,082
Gas Transportation	970	302	208	138	258	905	346	180	139	271	935	358	187	144	281	970
Other	17	5	4	2	5	15	6	3	2	5	17	6	3	3	5	17
Total Operating Revenues	3,069	1,044	506	438	815	2,802	1,093	570	439	857	2,959	1,133	592	455	889	3,069
Cost of gas sold	1,156	377	116	75	226	794	377	117	76	227	798	379	118	76	228	801
Gross Margin	1,914	667	390	362	589	2,008	716	452	363	630	2,161	754	474	379	661	2,269
Operation and maintenance	945	238	217	203	239	897	247	224	210	248	929	255	232	218	256	961
Loss (Gain) on sale of assets	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other taxes	179	52	36	56	57	202	53	53	54	54	214	56	56	57	57	225
Depreciation and amortization	233	61	63	94	94	312	97	98	98	99	392	101	102	103	104	410
Operating Income	556	315	74	9	199	597	320	78	0	229	627	342	84	2	244	672
Other, net		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Expense	231	55	52	54	55	216	57	58	59	61	235	62	63	65	66	256
Interest Rate	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Income Before Taxes	325	260	22	(45)	144	380	264	20	(59)	168	392	280	21	(63)	178	416
Income Taxes	135	100	8	(16)	50	143	92	7	(21)	59	137	98	7	(22)	62	146
Tax Rate	*42%*	*38%*	*38%*	*35%*	*35%*	*38%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*
Net Income (Loss) attributable to NiSource	190	160	14	(29)	93	238	171	13	(39)	109	255	182	14	(41)	116	270
Weighted-average Number of Common Shares O	320	320	323	326	327	324	327	327	327	328	327	328	328	328	328	328
Earnings Per Common Share, Diluted	$0.59	$0.50	$0.04	-$0.09	$0.29	$0.73	$0.52	$0.04	-$0.12	$0.33	$0.78	$0.56	$0.04	-$0.12	$0.35	$0.82

Source: Company reports, Guggenheim Securities, LLC estimates.

NEW JERSEY RESOURCES (NJR, BUY, $32.95)

Initiating coverage of NJR with a BUY rating and $36 price target; good entry point, in our view, for a name with above-average growth, a solid regulatory construct, and growing contracted cash flows which dilutes more volatile trading earnings – Renewable opportunities a key value driver of the story; diversifies cash flows

- **We are Initiating coverage of NJR with a BUY rating and $36 price target.** NJR is a $2.7bn market cap regulated gas utility in New Jersey, with FERC-regulated exposure through midstream assets: 50% ownership of Steckman Ridge storage, 20% ownership in PennEast, and 1.8mm shares of Dominion Midstream Partners (DM, NC, $23.65). The non-regulated businesses include Clean Energy Ventures, its renewable development arm (contributing ~15% of earnings), Energy Services which contracts and delivers natural gas to industrial customers, as well as Home Services, which provide sales and installation to customers for heating, air conditioning and water heating services. **Our BUY rating is premised upon a strong customer/earnings growth trajectory, above-average dividend growth, constructive policy: decoupled, infrastructure programs** (NJ RISE, SRL, SAFE) **and increasing exposure to contracted earnings via expansion of Midstream and Clean Energy Ventures** (ITC extension was not in base plans, shifting focus to Wind). **The key driver of the story** is decreasing earnings volatility as growth in the higher-quality segments, including the Gas LDC, Midstream and CEV, outpaces Energy Services which we deem as the less attractive side of the business – improving earnings visibility and diminished volatility should lend shares to multiple re-rating. **We see this as a good entry point.**

- **Our 2016/2017/2018 EPS estimates are $1.64/$1.75/$1.92, in line with consensus.** We arrive at ~13% annual LDC earnings growth, modeling a reduction in lag post rate case, with ROEs averaging 8.6% through '16/'17/'18. Minimal rate case overhangs following the recent rate order which adopted the settlement: $45m revenue increase, 9.75% ROE, 52.5% equity on YE rate base of $1.374B as of test year ending 6/30. Order very consistent with EXC recent Atlantic City Electric Order. Order did not include SRL project which is now deferred to another proceeding given delay. Order also included extension of SAFE (~$157.5m) for 5 years – rates adjust automatically for SAFE spend (return on/of). Our 7% consolidated earnings growth is comprised of ~15% regulated earnings growth (32% at Midstream), and a declining contribution from non-regulated mainly from lower gas basis volatility at Energy Services. **See utility models further down**.

- **NJR is a predominantly regulated gas LDC with above-average growth, improving contracted CF profile and earnings from its non-regulated businesses expected to moderate – shares remain undervalued.** NJR trades at 17.2x our 2018E EPS vs. gas utility peers trading at 18.8x despite ~75% regulated (NGNJ, FERC-regulated midstream via Steckman Ridge, PennEast, etc.). NJR's 5-9% annual growth guidance is above the peer average of 4-6%, and supports a 6-8% dividend growth within a manageable 60-65% payout range. **NJR valuation discount stems from investor sentiment around historical earnings volatility associated with its Energy Services segment – growth at the other "more core" regulated segments should moderate this overhang. Also, maybe some investors concerned about: (1) SRL project delays** – reminder pipeline approved by BPU, found necessary for reliability and now simply awaiting permits **(permitting delays - the usual type when trying to construct pipelines)** and **(2) Solar spend** which may be an unfamiliar territory for traditional gas utility investors – investors shouldn't be concerned given solar's strong CF trajectory; this is where the utility industry is heading. In our view, **Management will continue to reset**

expectations as the company deploys capital towards contracted cash flows (i.e., we consider renewables with PPAs as consistent with this paradigm). The utility has constructive rates, including benefits sharing via its BGSS incentive program and steady customer growth consistent with its footprints in high income areas. The company originally did not factor extension of the ITC in its base plans, as such, this provides some potential for additional capex spend.

- **NJR's regulated segment is a consistent driver of growth with constructive mechanisms and healthy demographics at its LDC with Midstream in the early innings.** We model 15.0% regulated earnings growth driven by midstream, and NJNG. At NJNG, we estimate average earned ROEs of 8.5% through our forecast period vs. a recent benchmark ruling of a 9.75% authorized and 9.3% achieved returns in '15. We model continued customer growth led by new development and conversions driven by oil to gas switching – still competitive despite the historical drop-off in oil prices. The BGSS incentive program, CIP, and SAVEGREEN both allow for incremental earnings based on efficiency gains for customers – since its inception, the BGSS on average has added $0.05 per share annually which is embedded in our estimates. SAVEGREEN investments are included in rates, with the program recently extended by BPU through 2018 and allows for a return on investments of 6.69-7.76% and equity return of 9.75-10.3%.

- **Midstream still in the early innings but could be a good growth engine.** Investments in Midstream support earnings growth/stability with 20% interest in the $1.2B PennEast Pipeline – now expected to meet the updated 2018 in-service date. The 50/50 joint ownership of Steckman Ridge and the 1.8mm units in Dominion midstream partners gained from the sale of its stake in the Iroquois pipeline are further callable options on an improvement in natural gas markets, East Coast/New England gas infrastructure needs, as well as Utica and Marcellus shale drilling activity. **See our midstream models further down.**

- **NJR's business mix also contains non-regulated activities, which we place into two categories: non-contracted and contracted – contributing 25-30% to earnings.** Home Services and Energy Services fall into the former and Clean Energy Ventures the latter. **(1) Home services** is the smallest contributor ~1-3% of NJR's earnings, and is a complementary business to the utility akin to demand pull; **(2) Energy Services (~5-15%)** seeks to benefit from price differentials in natural gas across its footprint, and has faced narrowing price spreads resulting from lower natural gas prices – **lower quality segment, in our view**. **(3) Clean Energy Ventures (~10-20%)** develops renewable projects and earnings are largely driven by contracted renewables, with a portfolio now over ~240MW (50% solar, 50% wind) – **higher quality source of cash flows**. In addition, the Sunlight Advantage program allows residential solar participation, with NJR benefiting from offtaking the SRECs in the NJ carbon markets. Our expectation is for increased renewable investments given extension of ITC and PTC. The expansion of Clean Energy Ventures should help further reduce the variability of earnings. **See our models further down.**

- **Potentially positive catalysts:** PennEast (FERC issued the schedule for EIS in March and has Dec. 2016 as completion of environment review; we expect final FERC certificate in 2Q17, then on schedule to meet the 2018 in-service); the possibility of a separate filing for SRL before the next rate case; potential for legislation in the pipeline to raise New Jersey's RPS standards; further increased capital investments in Clean Energy Ventures – **all of which provide greater contracted cash flows and stability with the earnings stream**. The stock has been under pressure as expectations for rising rates have taken a disproportionate valuation discount compared to other LDC peers. Furthermore, investors may come

to terms with previous year's outsized performance in Energy Services, as management seems to be realigning expectations on that front.

- **Valuation: We arrive at our $36 price target utilizing a sum-of-the-parts analysis comprised of: (1)** $33/share for regulated gas utility when we ascribe our 5x historical LDC premium spread to our regulated electric target P/E multiple derived from our corp. bond regression model of 16.0x to our 2018 EPS estimate of $1.59; and **(2)** $3/share for NJR's energy services when we ascribe 6x EV/EBITDA multiple to our 2018 EBITDA estimate of $47mm, minus implied debt. Incorporating a 3.1% dividend yield, we estimate a 12.3% ETR – supporting our BUY stance.

- **Risks:** The primary risk 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.

  Additional risk factors for New Jersey Resources include:

  PennEast: We model 100% probability that this project is completed and in-service to meet the updated 2018 in-service date without delays or cost overruns. Anything contrary to these assumptions can impact our valuation.

  Non-regulated: We assume a declining contribution from non-regulated, mainly from lower gas basis volatility at Energy Services; failure for this scenario to take place can impact our valuation.

Guggenheim's NJR EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.64A	1.15A	0.03A	-0.06A	1.76A	
2016E	0.57A	0.90A	0.13A	0.04E	1.64E	1.61E
2017E	0.61E	0.87E	0.21E	0.05E	1.75E	1.79E
2018E	0.64E	0.93E	0.23E	0.10E	1.92E	1.91E

Source: Company reports, Guggenheim Securities, LLC estimates.

Summary business metrics

Summary						
Earnings and business mix	**2015A**	**2016E**	**2017E**	**2018E**	**CAGR**	**% of Total**
Regulated	$ 1.00	$0.93	$1.10	$1.24	15%	60.4%
Non-regulated	$ 0.76	$0.71	$0.65	$0.68	-2%	39.6%
NJR	**$ 1.76**	**$1.64**	**$1.75**	**$1.92**	**8%**	
Dividend growth & coverage	**2015A**	**2016E**	**2017E**	**2018E**		
Annual dividend growth	7.0%	4.9%	7.0%	7.0%		
Payout ratio	52%	59%	59%	57%		

Source: Company reports, Guggenheim Securities, LLC estimates.

Regulated business metrics

Regulated Earned ROEs	2015A	2016E	2017E	2018E	Average
New Jersey	9.3%	8.1%	8.6%	8.8%	8.7%

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

NJR MODEL

CONSOLIDATED FINANCIALS

INCOME STATEMENT ($ in millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating Revenues																
Utility	**782**	152	243	119	83	**597**	147	233	128	80	**588**	156	249	135	86	**627**
Nonutility	**1,952**	293	332	274	376	**1,274**	319	362	481	493	**1,656**	337	382	507	519	**1,745**
Total Operating Revenues	**2,734**	444	574	393	460	**1,871**	466	595	609	573	**2,244**	493	631	642	605	**2,372**
Operating Expenses																
Cost of sales	**2,086**	303	372	336	361	**1,372**	317	392	500	470	**1,679**	334	413	526	495	**1,767**
Gas Purchases - Utility	**305**	47	82	46	33	**208**	44	83	55	32	**213**	47	89	58	34	**228**
Gas Purchases - Nonutility	**1,768**	254	288	289	328	**1,158**	273	309	445	439	**1,466**	287	324	468	461	**1,539**
Gas Purchases - Related parties	**13**	2	2	2	-	**6**	-	-	-	-	**-**	-	-	-	-	**-**
Operation and maintenance	**209**	46	53	51	59	**210**	43	49	47	60	**199**	43	49	48	60	**200**
Regulatory rider expenses	**76**	10	21	6	3	**40**	10	21	6	3	**40**	10	21	6	3	**40**
Depreciation and amortization	**61**	16	18	19	21	**74**	21	22	22	23	**88**	23	24	24	24	**95**
Energy and other taxes	**53**	10	16	9	5	**39**	8	14	10	5	**37**	8	14	10	5	**37**
Other	**-**	-	-	-	2	**2**	1	1	-	2	**5**	1	1	-	2	**5**
Total operating expenses	**2,486**	385	480	422	451	**1,738**	400	499	586	563	**2,048**	419	522	614	589	**2,145**
Operating Income	**248**	59	94	(28)	8	**133**	66	96	23	10	196	74	109	28	16	228
Other income, net	**7**	2	2	2	1	**7**	1	1	1	1	**5**	1	1	1	1	**5**
Interest expense, net of capitalized interest	**28**	7	7	8	9	**31**	7	7	8	9	**31**	10	10	11	12	**44**
Earnings before tax	**227**	55	89	(34)	(0)	**110**	61	90	16	3	**169**	66	100	18	5	**189**
Income tax provision	**60**	8	18	(14)	(0)	**12**	11	18	1	1	**31**	12	19	1	1	**34**
Equity in earnings of affiliates	**13**	2	2	2	3	**10**	4	4	4	3	**15**	4	4	4	6	**18**
Net Income	**181**	49	73	(17)	3	**108**	53	76	19	5	**153**	58	84	21	10	**172**
Adjustments	**(29)**	1	5	28	-	**34**	-	-	-	-	**-**	-	-	-	-	**-**
Net Income (Non GAAP)	**152**	50	78	11	3	**142**	53	76	19	5	**153**	58	84	21	10	**172**
Avg. Shares Outstanding (Diluted)	**86**	87	87	86	86	**87**	87	88	88	88	**87**	90	91	91	91	**90**
Reported EPS (Diluted)	**$2.10**	$0.56	$0.84	($0.20)	$0.04	$1.25	$0.61	$0.87	$0.21	$0.05	$1.75	$0.64	$0.93	$0.23	$0.10	$1.92
Adjustments	($0.34)	$0.01	$0.05	$0.33	$0.00	$0.39	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Ongoing EPS diluted	**$1.76**	**$0.57**	**$0.90**	**$0.13**	**$0.04**	**$1.64**	**$0.61**	**$0.87**	**$0.21**	**$0.05**	**$1.75**	**$0.64**	**$0.93**	**$0.23**	**$0.10**	**$1.92**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

NJR MODEL

CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT ($ in millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating Activities																
Net Income	**181**	49	73	(16)	3	**110**	53	76	19	5	**153**	58	84	21	10	**172**
Unrealized loss (gain) on derivative instruments	**(39)**	(1)	3	56		**58**					**-**					**-**
Depreciation and amortization	**61**	16	18	19	21	**74**	21	22	22	23	**88**	23	24	24	24	**95**
Impairment loss on investment						**-**					**-**					**-**
Allowance for equity used during construction	**(4)**	(1)	(1)	(2)	-	**(4)**	-	-	-	-	**-**	-	-	-	-	**-**
Allowance for bad debt expense	**3**	0	1	0	-	**1**	-	-	-	-	**-**	-	-	-	-	**-**
Deferred income taxes	**46**	46	(28)	4	-	**22**	-	-	-	-	**-**	-	-	-	-	**-**
Manufactured gas plant remediation costs	**(7)**	(2)	(1)	(2)	-	**(5)**	-	-	-	-	**-**	-	-	-	-	**-**
Equity in earnings of equity investees, net of distributions received	**7**	1	1	1	-	**3**	-	-	-	-	**-**	-	-	-	-	**-**
Cost of removal - asset retirement obligations	**(1)**	(0)	(0)	(0)	-	**(0)**	-	-	-	-	**-**	-	-	-	-	**-**
Contributions to postemployment benefit plans	**(6)**	(30)	(2)	(0)	-	**(32)**	-	-	-	-	**-**	-	-	-	-	**-**
Tax benefit from stock-based compensation	**-**	-	-	2	-	**2**	-	-	-	-	**-**	-	-	-	-	**-**
Changes in:																
Components of working capital	**82**	(102)	88	(79)	-	**(93)**	-	-	-	-	**-**	-	-	-	-	**-**
Other noncurrent assets	**39**	(20)	4	(8)	-	**(24)**	-	-	-	-	**-**	-	-	-	-	**-**
Other noncurrent liabilities	**26**	4	(2)	7	-	**10**	-	-	-	-	**-**	-	-	-	-	**-**
Net Cash Flows from Operating Activities	**388**	**(39)**	**154**	**(18)**	**24**	**121**	**75**	**98**	**41**	**27**	**241**	**81**	**108**	**45**	**34**	**268**
Investing Activities																
Expenditures for:																
Utility plant expenditures	**(141)**	(42)	(34)	(35)	(92)	**(203)**	(69)	(69)	(69)	(69)	**(275)**	(60)	(60)	(60)	(60)	**(240)**
Solar and wind equipment expenditures	**(151)**	(45)	(26)	(45)	(50)	**(165)**	(33)	(33)	(33)	(33)	**(133)**	(56)	(56)	(56)	(56)	**(223)**
Real estate properties and other expenditures	**(0)**	(1)	(0)	(0)	-	**(1)**	-	-	-	-	**-**	-	-	-	-	**-**
Cost of removal expenditures	**(28)**	(7)	(14)	(1)	-	**(21)**	-	-	-	-	**-**	-	-	-	-	**-**
Investments in equity investees	**(6)**	(3)	(3)	(3)	-	**(9)**	-	-	-	-	**-**	-	-	-	-	**-**
Distribution from equity investees in excess of equity in earnings	**3**	-	1	1	-	**2**	-	-	-	-	**-**	-	-	-	-	**-**
Withdrawal from (payment to) restricted cash construction fund	**(1)**	-	1	(0)	-	**1**	-	-	-	-	**-**	-	-	-	-	**-**
Proceeds from sale of property	**-**	-	1	-	-	**1**	-	-	-	-	**-**	-	-	-	-	**-**
Other	**3**	2	(2)	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Net Cash Flows Used in Investing Activities	**(322)**	**(95)**	**(76)**	**(84)**	**(141)**	**(397)**	**(102)**	**(102)**	**(102)**	**(102)**	**(408)**	**(116)**	**(116)**	**(116)**	**(116)**	**(463)**
Financing Activities																
Proceeds from issuance of common stock	**37**	4	4	4	13	**25**	50	-	-	-	**50**	100	-	-	-	**100**
Tax benefit from stock options exercised	**1**	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Proceeds from sale-leaseback transaction	**7**	7	-	-	-	**7**	-	-	-	-	**-**	-	-	-	-	**-**
Proceeds from long-term debt	**250**	-	-	125	133	**258**	46	46	46	46	**185**	91	91	91	91	**362**
Payments of long-term debt	**(37)**	(3)	(3)	(2)	-	**(8)**	-	-	-	-	**-**	-	-	-	-	**-**
Purchases of treasury stock	**(11)**	(1)	-	-	-	**(1)**	-	-	-	-	**-**	-	-	-	-	**-**
Payments of common stock dividends	**(77)**	(21)	(21)	(21)	(21)	**(82)**	(22)	(23)	(23)	(23)	**(90)**	(25)	(25)	(25)	(25)	**(100)**
Tax withholding payments related to net settled stock compensation	**-**	-	-	(3)	-	**(3)**	-	-	-	-	**-**	-	-	-	-	**-**
Net proceeds from (payments of) short-term debt	**(235)**	145	(59)	92	-	**178**	-	-	-	-	**-**	-	-	-	-	**-**
Net Cash Flows from (used in) Financing Activities	**(63)**	**131**	**(78)**	**195**	**125**	**374**	**74**	**23**	**23**	**23**	**144**	**166**	**66**	**66**	**66**	**362**
Net change in cash	**3**	(3)	0	93	8	**98**	46	20	(37)	(51)	**(23)**	131	58	(6)	(16)	**167**
Beginning cash balance	**2**	5	2	2	95	**5**	103	149	168	131	**103**	80	211	268	263	**80**
Ending cash balance	**5**	**2**	**2**	**95**	**103**	**103**	**149**	**168**	**131**	**80**	**80**	**211**	**268**	**263**	**247**	**247**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
NJR MODEL
CONSOLIDATED FINANCIALS

BALANCE SHEET ($ in millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Assets																
Utility Plant at original cost	**1908**	1,938	1,982	2,084	2176	**2176**	2244	2313	2382	2451	**2451**	2511	2571	2631	2690	**2690**
Less: Accumulated depreciation	**(437)**	(446)	(454)	(466)	(487)	**(487)**	(508)	(530)	(552)	(575)	**(575)**	(598)	(621)	(645)	(670)	**(670)**
Plant in service, net	**1,471**	1,492	1,528	1,618	1,689	**1,689**	1,737	1,784	1,830	1,876	**1,876**	1,913	1,949	1,985	2,020	**2,020**
Construction work in progress	**156**	162	150	87	87	**87**	87	87	87	87	**87**	87	87	87	87	**87**
Net Utility Plant	**1,626**	1,653	1,679	1,705	1,776	**1,776**	1,824	1,871	1,917	1,963	**1,963**	2,000	2,036	2,072	2,108	**2,108**
Solar and wind equipment and other	**481**	570	575	610	660	**660**	693	727	760	793	**793**	849	905	961	1017	**1017**
Less: Accumulated depreciation	**(57)**	(62)	(68)	(75)	(75)	**(75)**	(75)	(75)	(75)	(75)	**(75)**	(75)	(75)	(75)	(75)	**(75)**
Solar equipment, net	**424**	508	506	536	585	**585**	619	652	685	718	**718**	774	830	886	942	**942**
Construction work in progress	**78**	35	58	63	63	**63**	63	63	63	63	**63**	63	63	63	63	**63**
Net Solar and wind equipment plant	**502**	543	564	599	648	**648**	682	715	748	781	**781**	837	893	949	1,005	**1,005**
Property, plant and equipment, net	**2,128**	2,196	2,243	2,304	2,425	**2,425**	2,505	2,586	2,665	2,745	**2,745**	2,837	2,929	3,021	3,113	**3,113**
CURRENT ASSETS																
Cash and cash equivalents	**5**	2	2	95	103	**103**	149	168	131	80	**80**	211	268	263	247	**247**
Customer accounts receivable																
Billed	**155**	169	149	144	144	**144**	144	144	144	144	**144**	144	144	144	144	**144**
Unbilled revenues	**6**	20	27	6	6	**6**	6	6	6	6	**6**	6	6	6	6	**6**
Allowance for doubtful accounts	**(5)**	(5)	(5)	(5)	(5)	**(5)**	(5)	(5)	(5)	(5)	**(5)**	(5)	(5)	(5)	(5)	**(5)**
Regulatory assets	**24**	27	33	25	25	**25**	25	25	25	25	**25**	25	25	25	25	**25**
Gas in storage, at average cost	**164**	190	117	159	159	**159**	159	159	159	159	**159**	159	159	159	159	**159**
Materials and supplies, at average cost	**7**	8	10	10	10	**10**	10	10	10	10	**10**	10	10	10	10	**10**
Prepaid and accrued taxes	**37**	65	3	38	38	**38**	38	38	38	38	**38**	38	38	38	38	**38**
Asset held for sale	**-**	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Derivatives, at fair value	**41**	59	55	40	40	**40**	40	40	40	40	**40**	40	40	40	40	**40**
Restricted broker margin accounts	**13**	21	34	58	58	**58**	58	58	58	58	**58**	58	58	58	58	**58**
Deferred taxes	**-**	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Other	**41**	34	34	34	34	**34**	34	34	34	34	**34**	34	34	34	34	**34**
Total current assets	**488**	589	460	605	613	**613**	659	678	641	590	**590**	721	778	773	757	**757**
NONCURRENT ASSETS																
Investments in equity investees	**132**	134	137	139	139	**139**	139	139	139	139	**139**	139	139	139	139	**139**
Prepaid pension asset	**-**	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Regulatory assets	**410**	423	436	447	447	**447**	447	447	447	447	**447**	447	447	447	447	**447**
Derivatives, at fair value	**4**	4	1	4	4	**4**	4	4	4	4	**4**	4	4	4	4	**4**
Restricted cash construction fund	**-**	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Available for sale securities	**59**	66	73	64	64	**64**	64	64	64	64	**64**	64	64	64	64	**64**
Other	**62**	65	69	70	70	**70**	70	70	70	70	**70**	70	70	70	70	**70**
Total noncurrent assets	**668**	692	717	724	724	**724**	724	724	724	724	**724**	724	724	724	724	**724**
Total Assets	**3,284**	3,477	3,420	3,633	3,761	**3,761**	3,888	3,986	4,030	4,059	**4,059**	4,282	4,432	4,518	4,593	**4,593**

Source: Company reports; Guggenheim Securities, LLC estimates.

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CONSOLIDATED FINANCIALS

BALANCE SHEET ($ in millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Liabilities																
Capitalization																
Common stock	**221**	222	222	222	235	**235**	285	285	285	285	**285**	385	385	385	385	**385**
Premium on common stock	**210**	213	216	216	216	**216**	216	216	216	216	**216**	216	216	216	216	**216**
Accumulated other comprehensive (loss)	**(9)**	(5)	(1)	(6)	(6)	**(6)**	(6)	(6)	(6)	(6)	**(6)**	(6)	(6)	(6)	(6)	**(6)**
Treasury stock at cost and other	**(92)**	(91)	(88)	(83)	(83)	**(83)**	(83)	(83)	(83)	(83)	**(83)**	(83)	(83)	(83)	(83)	**(83)**
Retained earnings	**778**	806	858	822	805	**805**	836	889	886	868	**868**	901	960	956	940	**940**
Shareholder's Equity	**1,107**	1,144	1,207	1,171	1,167	**1,167**	1,247	1,301	1,297	1,280	**1,280**	1,413	1,472	1,467	1,452	**1,452**
Long-term debt	**844**	848	844	968	1,100	**1,100**	1,147	1,193	1,239	1,285	**1,285**	1,375	1,466	1,556	1,647	**1,647**
Total capitalization	**1,951**	1,992	2,052	2,139	2,267	**2,267**	2,394	2,494	2,536	2,564	**2,564**	2,788	2,938	3,024	3,099	**3,099**
Noncurrent liabilities																
Deferred income taxes	**445**	492	464	469	469	**469**	469	469	469	469	**469**	469	469	469	469	**469**
Deferred investment tax credits	**5**	5	5	5	5	**5**	5	5	5	5	**5**	5	5	5	5	**5**
Deferred gain	**29**	29	29	29	29	**29**	29	29	29	29	**29**	29	29	29	29	**29**
Derivatives, at fair value	**6**	3	14	25	25	**25**	25	25	25	25	**25**	25	25	25	25	**25**
Manufactured gas plant remediation	**180**	180	179	175	175	**175**	175	175	175	175	**175**	175	175	175	175	**175**
Postemployment employee benefit liability	**137**	108	108	109	109	**109**	109	109	109	109	**109**	109	109	109	109	**109**
Regulatory liabilities	**68**	63	61	51	51	**51**	51	51	51	51	**51**	51	51	51	51	**51**
New Jersey clean energy program	**-**	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Asset retirement obligation	**19**	21	21	22	22	**22**	22	22	22	22	**22**	22	22	22	22	**22**
Other	**8**	9	9	9	9	**9**	9	9	9	9	**9**	9	9	9	9	**9**
Total noncurrent liabilities	**898**	910	890	893	893	**893**	893	893	893	893	**893**	893	893	893	893	**893**
Current Liabilities																
Current maturities of long-term debt	**11**	11	12	11	11	**11**	11	11	11	11	**11**	11	11	11	11	**11**
Short-term debt	**66**	211	153	245	245	**245**	245	245	245	245	**245**	245	245	245	245	**245**
Gas purchases payable	**151**	144	120	124	124	**124**	124	124	124	124	**124**	124	124	124	124	**124**
Gas purchases payable to related parties	**2**	1	1	1	1	**1**	1	1	1	1	**1**	1	1	1	1	**1**
Accounts payable and other	**100**	70	68	70	70	**70**	70	70	70	70	**70**	70	70	70	70	**70**
Dividends payable	**21**	21	21	21	21	**21**	21	21	21	21	**21**	21	21	21	21	**21**
Accrued taxes	**1**	1	11	1	1	**1**	1	1	1	1	**1**	1	1	1	1	**1**
Regulatory liabilities	**12**	1	-	7	7	**7**	7	7	7	7	**7**	7	7	7	7	**7**
New Jersey clean energy program	**14**	13	6	17	17	**17**	17	17	17	17	**17**	17	17	17	17	**17**
Derivatives, at fair value	**33**	52	54	82	82	**82**	82	82	82	82	**82**	82	82	82	82	**82**
Broker margin accounts	**4**	19	13	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Customers' credit balances and deposits	**21**	31	21	23	23	**23**	23	23	23	23	**23**	23	23	23	23	**23**
Total Current Liabilities	**436**	575	478	601	601	**601**	601	601	601	601	**601**	601	601	601	601	**601**
Total Capitalization and Liabilities	**3,284**	3,477	3,420	3,633	3,761	**3,761**	3,888	3,988	4,030	4,059	**4,059**	4,282	4,432	4,518	4,593	**4,593**

Source: Company reports; Guggenheim Securities, LLC estimates.

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NJR MODEL

Natural Gas Distribution (NJNG)

INCOME STATEMENT ($ in millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating revenue																
Operating revenue	782	152	243	119	83	597	147	233	128	80	588	156	249	135	86	627
Total Operating Revenues	782	152	243	119	83	597	147	233	128	80	588	156	249	135	86	627
Operating expense																
Gas Puchases	356	45	86	51	33	216	44	83	55	32	213	47	89	58	34	228
Energy and other taxes	43	7	13	7	4	31	7	13	7	4	31	7	13	7	4	31
Regulatory rider expense	76	10	21	6	3	40	10	21	6	3	40	10	21	6	3	40
Total operating expenses	474	62	121	65	40	287	60	117	69	38	285	63	123	72	41	299
Total Utility Gross Margin	307	90	122	54	44	310	86	116	59	42	303	93	126	63	45	328
Residential	182	55	79	32	22	188	53	75	34	21	183	57	81	36	23	198
Commercial, Industrial & Other	47	13	18	9	7	47	13	17	9	5	46	14	19	10	7	49
Firm Transportation	56	16	20	11	9	55	15	19	11	8	54	16	21	12	9	58
Total Firm Margin	285	84	117	51	38	289	81	111	54	36	282	87	121	58	39	305
Interruptible	5	1	1	1	1	5	1	1	1	1	5	1	1	1	1	5
Total System Margin	290	85	118	52	39	294	82	112	56	37	287	88	122	60	40	311
Off System/Capacity Management	18	5	4	3	5	16	4	4	4	4	16	5	4	4	5	17
Total Utility Gross Margin	307	90	122	55	44	311	86	116	59	42	303	93	126	63	45	328
Operation and maintenance expense	130	30	34	33	37	133	30	34	33	37	133	30	34	33	37	134
Depreciation and amortization	43	11	12	12	14	49	14	15	15	16	61	16	17	17	18	68
Other taxes not reflected in gross margin	5	1	1	-	2	5	1	1	-	2	5	1	1	-	2	5
Operating Income	130	48	75	9	(9)	124	41	65	11	(14)	104	46	74	13	(12)	121
EBITDA	173	59	87	22	4	172	55	80	27	2	165	62	91	31	6	189
Other income, net	4	1	1	1	1	5	1	1	1	1	5	1	1	1	1	5
Interest expense, net of capitalized interest	19	5	5	5	6	20	3	3	3	3	11	3	4	4	4	15
Income tax provision	40	14	23	2	(1)	37	6	10	2	(2)	15	7	11	2	(2)	18
Net Income	76	31	49	3.6	(13)	71	34	54	8	(14)	82	37	61	9	(13)	93
Discontinued operations (net of taxes)						-										
Extra-ordinary items (net of taxes)						-										
Adjusted earnings	76	31	49	4	(13)	71	34	54	8	(14)	82	37	61	9	(13)	93
Avg Shares (Diluted)	86	87	87	86	86	87	87	88	88	88	87	90	91	91	91	90
Utility Reported EPS	0.88	0.35	0.56	0.04	(0.16)	0.82	0.38	0.62	0.09	(0.16)	0.94	0.41	0.67	0.10	(0.15)	1.04
Utility Ongoing EPS	0.88	0.35	0.56	0.04	(0.16)	0.82	0.38	0.62	0.09	(0.16)	0.94	0.41	0.67	0.10	(0.15)	1.04

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
NJR MODEL
Midstream

INCOME STATEMENT ($ in millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
MIDSTREAM																
Equity in Earnings of Affiliates	17.9	4	4	2	4	13	4	4	3	4	14	4	4	3	7	17
Operation and Maintenance Expense	1.1	0	0	0	1	1	0	0	0	1	1	0	0	0	1	1
Other Income	-	1	1	1	0	2	1	1	1	0	2	1	1	1	0	2
Interest Expense, net	0.7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income tax provision				2		2										
Net Income	9.8	2	2	2	3	10	4	4	4	3	15	4	4	4	6	18
Discontinued operations (net of taxes)																
Extra-ordinary items (net of taxes)																
Adjusted earnings	9.8	2.3	2.2	2.3	2.9	9.8	4.0	3.8	3.9	2.9	14.6	4.0	3.8	3.9	6.2	17.9
Avg Shares (Diluted)	86.3	86.7	86.9	86.0	86.1	86.5	87.5	88.2	88.2	88.2	87.5	89.6	91.0	91.0	91.0	89.6
Utility Reported EPS	0.11	0.03	0.03	0.03	0.03	0.11	0.05	0.04	0.04	0.03	0.17	0.04	0.04	0.04	0.07	0.20
EPS from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EPS from changes in accounting principles	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Utility Ongoing EPS	0.11	0.03	0.03	0.03	0.03	0.11	0.05	0.04	0.04	0.03	0.17	0.04	0.04	0.04	0.07	0.20

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
NJR MODEL
NJRCEV

INCOME STATEMENT ($ in millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Clean Energy Ventures																
Operating revenue																
SREC sales	22	5	3	8	15	31	11	11	11	11	44	13	14	14	13	54
Electricity sales and other	6	2	3	3	-	9	5	6	5	5	21	5	6	5	5	21
Sunlight Advantage / Other	4	1	1	1	1	4	1	1	1	1	5	2	2	2	1	6
Total Operating Revenues	33	8	8	13	16	44	17	18	18	17	70	20	21	21	20	82
Depreciation and amortization	17	5	6	6	7	24	7	7	7	7	27	7	7	7	7	27
Operating Income (Loss)	(1)	(1)	(3)	2	9	6	10	11	11	10	43	13	14	14	13	55
Other income, net	2	0	0	1	0	1	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Interest expense, net	8	2	3	3	3	10	4	4	5	6	19	6	7	7	8	28
Income Tax Benefit	(27)	(12)	(14)	(3)	-	(28)	-	-	-	-	-	-	-	-	-	-
Net Income (Loss)	20	8	9	2,448	6	25	7	7	6	5	24	7	8	7	5	27
Extra-ordinary items	-	(1)	3	(0)		2	-	-	-	-	-	-	-	-	-	-
Net Financial Earnings	20	8	12	2	6	28	-	-	-	-	24	-	-	-	-	27
Average Number of Shares Outstanding (Diluted)	86	87	87	86	86	87	87	88	88	88	87	90	91	91	91	90
Reported EPS	$ 0.23	$ 0.09	$ 0.10	$ 0.03	$ 0.07	$ 0.29	$ 0.08	$ 0.08	$ 0.07	$ 0.05	$ 0.28	$ 0.08	$ 0.08	$ 0.07	$ 0.06	$ 0.30
Extra-ordinary items	$ -	$ (0.01)	$ 0.04	$ (0.00)	$ -	$ 0.03	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ongoing EPS	$ 0.23	$ 0.09	$ 0.14	$ 0.03	$ 0.07	$ 0.32	$ 0.08	$ 0.08	$ 0.07	$ 0.05	$ 0.28	$ 0.08	$ 0.08	$ 0.07	$ 0.06	$ 0.30

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
NJR MODEL
Energy Services

INCOME STATEMENT ($ in millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating revenue																
Operating revenue	1,934	279	320	250	343	1,192	293	336	449	459	1,536	307	353	471	482	1,613
Total Operating Revenues	1,934	279	320	250	343	1,192	293	336	449	459	1,536	307	353	471	482	1,613
y-o-y growth	*-34.0%*	*-53.8%*	*-53.1%*	*1.0%*	*5.0%*	*-38.4%*	*1.0%*	*0.0%*	*0.0%*	*1.0%*	*28.9%*	*2.0%*	*0.0%*	*0.0%*	*1.5%*	*5.0%*
Operating expense																
Gas Puchases	1,796	260	294	290	328	1,172	273	309	445.25	439	1,466	287	324	468	461	1,539
Operation and maintenance expense	25	4	4	5	12	25	4	4	5	12	26	4	4	5	12	26
Depreciation and amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other taxes	1	0	0	0	0	1	0	0	0	0	1	0	0	0	0	1
Total operating expenses	1,822	264	298	295	340	1,198	277	313	451	451	1,492	291	329	473	473	1,566
Gross Margin	139	18	26	(39)	15	20	19	27	4	20	70	20	29	4	21	74
Operating Income	112	14	22	(45)	3	(6)	15	23	(2)	8	44	16	24	(2)	8	47
Other income	0	0	-	0	0	0	0	-	0	0	0	0	-	0	0	0
Interest expense, net	1	0	0	0	0	1	0	0	0	0	1	0	0	0	0	1
Income tax provision	39	5	8	(17)	1	(3)	5	8	(1)	3	15	6	8	(1)	3	17
Net Income	72	9	14	(28)	2	(4)	10	15	(1)	5	28	10	16	(1)	5	30
Unrealized loss (gain) on derivative instruments	(39)	(2)	6	57	-	61	-	-	-	-	-	-	-	-	-	-
Effects of economic hedging	(8)	4	(1)	(11)	-	(9)	-	-	-	-	-	-	-	-	-	-
Financial margin	91	20	31	6	15	72	19	27	4	20	70	20	29	4	21	74
Unrealized loss (gain) on derivative instruments	(39)	(2)	6	57	-	61	-	-	-	-	-	-	-	-	-	-
Effects of economic hedging	(8)	4	(1)	(11)	-	(9)	-	-	-	-	-	-	-	-	-	-
Tax adjustments	18	(1)	(2)	(16)	-	(19)	-	-	-	-	-	-	-	-	-	-
Net financial earnings	42.12	10.01	17.01	0.28	1.71	29.01	9.82	14.66	(1.41)	4.92	27.99	10.43	15.52	(1.32)	5.49	30.11
NFE/share	0.49	0.12	0.20	0.00	0.02	0.34	0.11	0.17	(0.02)	0.06	0.32	0.12	0.17	(0.01)	0.06	0.34

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
NJR MODEL
Home Services

INCOME STATEMENT ($ in millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
HOME SERVICES AND OTHER																
Operating Revenues	49	10	8	14	17.17	49	9.67	8.01	14.55	17.35	50	9.77	8.09	14.70	17.52	50
y-o-y growth	4.3%	6.2%	-7.6%	-1.3%	4.0%	0.8%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Operation and maintenance	40	9	10	9	10	39	9	10	9	10	40	10	11	10	11	40
Energy and other taxes	4	1	1	3	1	5	1	1	3	1	5	1	1	3	1	5
Operating (Loss)	4	(1)	(4)	3	6	4	(1)	(3)	3	6	4	(1)	(3)	3	6	4
Extra-ordinary items	(1)	0	2	(1)	0	1	0	0	0	0	0	0	0	0	0	0
Net (Loss)	3	(1)	(2)	2	6	6	(1)	(3)	3	6	4	(1)	(3)	3	6	4
Average Number of Shares Outstanding	86	87	87	86	86	87	87	88	88	88	87	90	91	91	91	90
Reported EPS	$ 0.05	$ (0.01)	$ (0.04)	$ 0.04	$ 0.07	$ 0.05	$ (0.01)	$ (0.04)	$ 0.03	$ 0.07	$ 0.05	$ (0.01)	$ (0.04)	$ 0.03	$ 0.07	$ 0.05
Extra-ordinary items	$ (0.01)	$ 0.01	$ 0.02	$ (0.01)	$ -	$ 0.02	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ongoing EPS	$ 0.04	$ (0.01)	$ (0.02)	$ 0.03	$ 0.07	$ 0.07	$ (0.01)	$ (0.04)	$ 0.03	$ 0.07	$ 0.05	$ (0.01)	$ (0.04)	$ 0.03	$ 0.07	$ 0.05

Source: Company reports; Guggenheim Securities, LLC estimates

NORTHWEST NATURAL GAS (NWN, NEUTRAL, $57.30)

Initiating coverage of NWN with a NEUTRAL rating and $52 fair value/share. Our neutral stance is a valuation call, as shares currently trade at a substantial premium to regulated peers; an M&A premium, in our view. Fundamentals remain strong.

- **We are initiating coverage of NWN with a NEUTRAL rating and $52 fair value/share estimate.** NWN is a $1.6bn market cap regulated gas utility, the largest local distribution company (LDC) in the Pacific Northwest, with service territories in Oregon and Washington, as well as a non-utility segment including two gas storage facilities (16Bcf Mist storage facility in Oregon, 20Bcf Gill Ranch storage facility in California), two LNG storage facilities and ownership in pipeline projects. Our NEUTRAL stance is a valuation call as shares trade at a premium to regulated peers, currently trading at ~23.0x vs. gas utility peers at 18.8x and electric counterparts at 16.7x, while 4-6% growth is in line with average regulated peers. **NWN is a fundamentally strong utility, earning healthy returns in relatively challenging jurisdictions, good macro backdrop with solid regulatory mechanisms although shares currently reflect an M&A premium in our view, and a lofty one at that, in excess of what we've seen for similar small-cap gas utilities** (historically ~5 turns above the regulated electric group average). Tough to justify material further upside from current levels but if the multiple comes down, we would look for exposure.

- **Our 2016/2017/2018 EPS estimates are $2.23/$2.35/$2.49, respectively, in line with consensus.** Our 5.9% earnings growth trajectory is comprised of 4.6% growth from the regulated utility segment, 10.1% growth from gas storage and offset by slight dilution (we model $4mm/year in 2017-2018). We model an average of $155mm of annual CapEx through 2020 at the utility, driving 5.3% annual rate base growth; management expects to file a rate case in the next 12-24 months, but we don't assume it would come into effect within our time horizon (i.e., by 2018). Our utility estimates also assume 1.6-1.7% consolidated load growth through 2018, in line with management's outlook; more specifically, we assume 1.6% residential growth, 0.9% commercial growth, and 1.6% industrial growth. Non-utility earnings are driven by the North Mist gas storage facility, tapered by incremental investment to expand capacity through 2018 (we model $125mm of incremental CapEx through 2018).

- **Steady growth of NWN's pure-play LDC regulated segment with organic customer growth within the service territory.** We model 6% regulated earnings growth driven by ~1.5% consolidated utility volume growth and healthy 9% ROEs earned on capital deployed, vs. 9.6% authorized ROEs — modest regulatory lag. With cast iron and bare steel main replacement efforts already in the rearview (i.e., more leak-prone material), growth of NWN's gas utilities is mainly driven by customer/volume growth, driven by conversions (only 60% of single-family homes use gas), and with multi-family trends recently seen in the northeast driving some more demand – there is also upside opportunity with this trend to the extent NWN is able to increase the amount of market share it can capture (currently capturing ~40%). Service growth in Washington is driven by service territories with some of the fastest growing populations seen in the nation. **Oregon and Washington aren't the most appealing jurisdictions, however, we would note NWN has managed to get some constructive rate mechanisms approved** (e.g., gas purchase adjustments, incentive sharing) to remove cost recovery risk, as well as environmental riders in Oregon where the utility has some exposure from prior activities associated with manufacturing natural gas.

- **Upside to regulated utility earnings growth is possible, but likely longer term.** While rate base growth attributed to leak-prone main replacement has essentially been complete, potential investment to address seismic concerns on the west coast could present upside to our outlook; **we don't currently make any assumptions around potential CapEx here as we have yet to see PHMSA rules – potentially a 2017 development,** although NWN would likely then have to propose an investment program and await regulatory approval, so upside here wouldn't likely be seen in the near term. Something to monitor.

- **Investment in gas reserves has been supported by regulators, although recently took an unconstructive turn – monitoring peripheral proceedings for read-throughs to NWN.** NWN has expressed interest in covering 10-20% of its gas purchases with rate base investments in gas reserves. The company made its first investments in 2011 ($180mm recovered in rates through a tracker), and has since done a smaller deal (~$10mm), although the commission changed its approach with the latter by awarding a set amount of cost recovery in rates where NWN would be liable/beneficiary of whatever amounts above/below forecast. In our view, this is not a material risk considering the smaller investment here, but an unconstructive development nonetheless. **We don't foresee another gas reserves deal on the horizon, although we are monitoring peripheral proceedings and sentiment around the commission's interest in moving toward the less-constructive fixed cost recovery scheme** (rather than more constructive cost recovery with tracking mechanisms in rates).

- **Non-utility operations are associated with two gas storage facilities (Oregon and California); not a material earnings driver, although potential strategic decision with Gill Ranch could be a catalyst to watch.** The Mist Storage facility in Oregon is operating with 16Bcf capacity, although is split between regulated and unregulated; 11Bcf of utility storage (regulated) and 5Bcf of Interstate storage (un-regulated), and an incremental 2.5Bcf storage expansion program awaiting the Notice to Proceed (NTP) before kicking off construction (which management has expected in 2016) – this is the only gas storage facility in Oregon, and was built ahead of utility demand, which explains the current split between regulated and unregulated capacity. The 11Bcf portion is included in our utility estimates, while we assume the 5Bcf of unregulated capacity is contracted with some price uplift, and offset by drag from investment in expansion and LNG storage upgrades (even regulated portion has some lag here as NWN doesn't get full cash recovery of CWIP). The Gill Ranch storage facility in CA doesn't have the ability to capture price spreads like Mist, and management has been looking to imitate Mist's profile with long-term contracts, but struggling as a price taker – so management is really thinking through whether or not this belongs in its portfolio. In our view, this plant has some potential to serve areas affected by Alisso Canyon; however, it isn't clear how feasible the opportunity is as pipeline constraints could present cost-prohibitive obstacles; likely goes back to it being a price taker with regard to Gill Ranch. Other assets include two LNG storage facilities as well as ownership interests in pipeline projects in Oregon.

- **Valuation: We value NWN as a regulated gas utility, arriving at our $52 fair value/share.** We employ our regulated electric target P/E multiple, derived from our corporate bond regression model, of 16.0x and a historical gas LDC P/E spread above its electric utility counterparts, which equates to an incremental 5.0x to arrive at our NWN-specific 21.0x target P/E multiple. Applying this to our 2018 EPS estimate of $2.49, we arrive at our $52 fair value/share. We assume steady dividend growth in line with historical $0.01/share increases, modeling payout ratio of 84% falling to 76% with earnings growth, which is above management's targeted payout ratio, although in-line with efforts to maintain total shareholder returns in the

8-9% range. Incorporating a 3.3% dividend yield, we estimate a -6.0% ETR – hence our NEUTRAL stance.

- **Risks:** Outside of the potential overhangs around challenging jurisdictions, risks to achieving our fair value/share for NWN mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model. Upside risks to our fair value estimate include: (1) favorable regulatory settlements; (2) additional gas reserve deals; and (3) higher CapEx outlook.

Guggenheim's NWN EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Mean*
2015A	1.37A	0.08A	-0.24A	1.08A	2.29A	
2016E	1.40A	0.07A	-0.29A	1.04E	2.23E	*2.21E*
2017E	1.52E	0.08E	-0.35E	1.12E	2.35E	*2.33E*
2018E	1.56E	0.09E	-0.34E	1.20E	2.49E	*2.47E*

Source: Company reports, Guggenheim Securities, LLC estimates.

Summary business metrics

Summary	2015A	2016E	2017E	2018E	CAGR
Business mix (EPS)	**2015**	**2016**	**2017**	**2018**	***CAGR***
Utility	*2.16*	2.20	2.28	2.40	*4.6%*
Gas Storage	*0.01*	0.07	0.07	0.09	*10.1%*
Other	*0.11*	*(0.05)*	*(0.00)*	*(0.00)*	*-81.9%*
NWN	***$2.29***	**$2.23**	**$2.35**	**$2.49**	***5.9%***
	-	-	-	-	
Regulated utility performance	**2015A**	**2016E**	**2017E**	**2018E**	***Avg.***
Earned ROE	9.1%	9.0%	8.9%	9.0%	9.0%
Authorized ROE	*9.5%*	*9.6%*	*9.6%*	*9.6%*	*9.6%*
Gas storage performance	**2015A**	**2016E**	**2017E**	**2018E**	***Avg.***
% Earnings contribution	0%	3%	3%	4%	*3.3%*
Guidance		*<10%*			
Dividend coverage		**2016E**	**2017E**	**2018E**	***Target***
Annual dividend growth		1%	1%	1%	*1%*
Consolidated payout ratio		84%	80%	76%	
Dividend covered by utility EPS		82%	87%	83%	

Source: Company reports, Guggenheim Securities, LLC estimates.

Regulated business metrics

Regulated business metrics							
Rate base assets *($Bn)*		2015A	2016E	2017E	2018E	*CAGR*	*% of total*
NWN	*OR*	1.2	1.3	1.3	1.4	*5.3%*	*92%*
	WA	0.1	0.1	0.1	0.1	*5.3%*	*8%*
		1.3	**1.4**	**1.5**	**1.5**	*5.3%*	
Regulated ROEs by jurisdiction		2015A	2016E	2017E	2018E		*Average*
OR	Earned	9.1%	9.0%	8.9%	9.0%		*9.0%*
	Authorized	*9.5%*	*9.5%*	*9.5%*	*9.5%*		
WA	Earned	8.9%	8.9%	8.8%	8.8%		*8.8%*
	Authorized	*10.1%*	*10.1%*	*10.1%*	*10.1%*		

Source: Company reports, Guggenheim Securities, LLC estimates.

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NORTHWEST NATURAL GAS COMPANY

Consolidated Financials

INCOME STATEMENT ($ in millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating Revenues:																
Utility	702	250	92	85	288	716	258	95	87	299	739	267	98	90	309	765
Gas Storage	21	5	7	4	4	21	6	6	6	6	26	8	8	8	8	31
Other	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Revenues	**724**	**255**	**99**	**90**	**293**	**737**	265	101	93	305	**764**	275	106	97	317	**795**
Operating Expenses:																
Cost of gas	327	108	21	34	170	334	112	22	36	175	344	116	22	37	181	356
Operations and maintenance	158	39	36	40	43	158	48	43	39	43	174	48	43	39	43	174
Environmental remediation	4	5	2	-	-	7	-	-	-	-	-	-	-	-	-	-
General taxes	30	9	7	-	-	16	-	-	-	-	-	-	-	-	-	-
Depreciation & amortization	81	20	20	21	21	83	22	23	24	24	93	25	25	26	26	103
Total Operating Expenses	**600**	**181**	**87**	**95**	**234**	**597**	**182**	**88**	**99**	**243**	**611**	**189**	**91**	**102**	**251**	**633**
EBITDA	**205**	**94**	**33**	**16**	**80**	**223**	**105**	**37**	**18**	**87**	**246**	**111**	**41**	**21**	**92**	**265**
Operating Income	124	74	13	(5)	58	140	82	14	(5)	62	153	86	15	(5)	66	163
Other Income (Expense):																
Other income, net	8	(2)	1	1	1	(0)	(2)	1	1	1	(0)	(2)	1	1	1	(0)
Interest expense, net	(43)	(10)	(10)	(10)	(10)	(40)	(10)	(11)	(12)	(12)	(45)	(12)	(12)	(12)	(12)	(47)
Total Other Income (Expense)	**(35)**	(12)	(9)	(10)	(10)	(40)	(13)	(10)	(11)	(11)	(45)	(14)	(11)	(11)	(11)	(47)
Income Before Income Tax Expense	**89**	**62**	**3**	**(14)**	**49**	**100**	**70**	**3**	**(16)**	**52**	**108**	**72**	**4**	**(16)**	**55**	**115**
Income Taxes	36	25	1	(6)	20	41	28	1	(6)	21	43	29	2	(6)	22	46
Net Income	**54**	**37**	**2**	**(8)**	**29**	**59**	**42**	**2**	**(10)**	**31**	**65**	**43**	**2**	**(9)**	**33**	**69**
Earnings from Equity Method Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income from Noncontrolling Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings for Common	**54**	**37**	**2**	**(9)**	**29**	**59**	**42**	**2**	**(10)**	**31**	**65**	**43**	**2**	**(9)**	**33**	**69**
Wtd. avg. share count (MM)	**27**	28	28	28	28	**28**	28	28	28	28	**28**	28	28	28	28	**28**
EPS (Basic and Diluted)	**1.96**	1.33	0.07	(0.29)	1.04	**2.15**	1.52	0.08	(0.35)	1.12	**2.35**	1.56	0.09	(0.34)	1.20	**2.49**
Non-operating items	9	2	-	-	-	2	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	63	39	2	(8)	29	**61**	42	2	(10)	31	**65**	43	2	(9)	33	**69**
Operating EPS	**2.29**	1.40	0.07	(0.29)	1.04	**2.23**	1.52	0.08	(0.35)	1.12	**2.35**	1.56	0.09	(0.34)	1.20	**2.49**

Source: Company reports, Guggenheim Securities, LLC estimates.

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NORTHWEST NATURAL GAS COMPANY

Consolidated Financials

CASH FLOW STATEMENT ($ in millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Cash Flow from Operating Activities:																
Net income	54	37	2	(9)	29	**59**	42	2	(10)	31	**65**	43	2	(9)	33	**69**
Depreciation and amortization	81	20	20	21	21	**83**	22	23	24	24	**93**	25	25	26	26	**103**
Regulatory amortization of gas reserves	18	4	4	-	-	**8**	-	-	-	-	**-**	-	-	-	-	**-**
Deferred tax liabilities, net	27	23	4	-	-	**27**	-	-	-	-	**-**	-	-	-	-	**-**
Qualified defined benefit pension plan expense	6	1	1	-	-	**3**	-	-	-	-	**-**	-	-	-	-	**-**
Contributions to qualified defined benefit pension plans	(14)	(3)	(3)	-	-	**(6)**	-	-	-	-	**-**	-	-	-	-	**-**
Deferred environmental (expenditures) recoveries, net	(11)	(3)	(3)	-	-	**(6)**	-	-	-	-	**-**	-	-	-	-	**-**
Regulatory disallowance of prior environmental cost deferrals	15	3	-	-	-	**3**	-	-	-	-	**-**	-	-	-	-	**-**
Interest income on deferred environmental expenses	(5)	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Amortization of environmental remediation	4	5	2	-	-	**7**	-	-	-	-	**-**	-	-	-	-	**-**
Other	4	1	1	-	-	**2**	-	-	-	-	**-**	-	-	-	-	**-**
Changes in assets and liabilities:																
Receivables, net	2	22	65	1	(6)	**82**	(1)	(1)	(1)	(1)	**(4)**	(1)	(2)	(2)	(1)	**(6)**
Inventories	7	10	(6)	3	(41)	**(34)**	(3)	(3)	(4)	(4)	**(14)**	(4)	(4)	(4)	(5)	**(17)**
Taxes accrued	(7)	8	(4)	-	-	**4**	-	-	-	-	**-**	-	-	-	-	**-**
Accounts payable	(17)	(15)	(3)	(2)	36	**16**	3	3	3	3	**12**	4	4	4	4	**15**
Interest accrued	(0)	4	(4)	-	-	**(0)**	-	-	-	-	**-**	-	-	-	-	**-**
Deferred gas costs	32	9	(18)	-	-	**(9)**	-	-	-	-	**-**	-	-	-	-	**-**
Other, net	(10)	19	(6)	-	-	**13**	-	-	-	-	**-**	-	-	-	-	**-**
Net Cash Provided by Operating Activities	**185**	**146**	**53**	**12**	**39**	**252**	**63**	**24**	**12**	**54**	**152**	**66**	**26**	**14**	**57**	**164**
Cash Flow from Investing Activities																
Capital expenditures	(118)	(30)	(32)	(55)	(58)	**(175)**	(62)	(62)	(62)	(62)	**(247)**	(43)	(43)	(43)	(43)	**(171)**
Utility gas reserves	(2)	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Proceeds from sale of assets	0	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Restricted cash	3	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Other	1	0	2	-	-	**2**	-	-	-	-	**-**	-	-	-	-	**-**
Net Cash Provided by Investing Activities	**(115)**	**(30)**	**(30)**	**(55)**	**(58)**	**(173)**	**(62)**	**(62)**	**(62)**	**(62)**	**(247)**	**(43)**	**(43)**	**(43)**	**(43)**	**(171)**
Cash Flow from Financing Activities																
Common stock issued, net	4	2	2	1	1	**6**	1	1	1	1	**4**	1	1	1	1	**4**
Long-term debt issued	-	-	-	40	15	**55**	-	35	50	10	**95**	-	-	15	-	**15**
Long-term debt retired	(60)	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Change in short-term debt	35	(105)	(12)	-	-	**(117)**	-	-	-	-	**-**	-	-	-	-	**-**
Cash dividend payments on common stock	(49)	(13)	(13)	-	-	**(26)**	-	-	-	-	**-**	-	-	-	-	**-**
Other	(5)	(0)	0	-	-	**(0)**	-	-	-	-	**-**	-	-	-	-	**-**
Net Cash Provided by Financing Activities	**(75)**	**(116)**	**(23)**	**41**	**16**	**(82)**	**1**	**36**	**51**	**11**	**99**	**1**	**1**	**16**	**1**	**19**
Net (Decrease) Increase in Cash and Cash Equivalents	(5)	0	1	(2)	(3)	(2)	2	(2)	2	3	4	25	(16)	(13)	16	12
Cash and Cash Equivalents, Beginning of Period	10	4	4	5	4	4	2	4	2	3	2	6	31	15	2	6
Cash and Cash Equivalents, End of Period	**4**	**4**	**5**	**4**	**1**	**2**	**4**	**2**	**3**	**6**	**6**	**31**	**15**	**2**	**18**	**18**

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

NORTHWEST NATURAL GAS COMPANY

Consolidated Financials

BALANCE SHEET ($ in millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Assets																
Property, plant, and equipment	3,089	3,116	3,147	3,202	3,259	**3,259**	3,321	3,383	3,445	3,506	**3,506**	3,549	3,592	3,635	3,677	**3,677**
Less: Accumulated depreciation	(907)	(919)	(932)	(953)	(974)	**(974)**	(996)	(1,019)	(1,043)	(1,067)	**(1,067)**	(1,092)	(1,118)	(1,144)	(1,170)	**(1,170)**
Utility Plant, Net	**2,183**	**2,197**	**2,214**	**2,249**	**2,286**	**2,286**	**2,325**	**2,364**	**2,402**	**2,439**	**2,439**	**2,457**	**2,474**	**2,491**	**2,508**	**2,508**
Gas reserves	115	111	108	108	108	108	108	108	108	108	108	108	108	108	108	108
Regulatory assets	371	351	345	345	345	345	345	345	345	345	345	345	345	345	345	345
Derivative instruments	0	0	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Other investments	68	67	68	68	68	68	68	68	68	68	68	68	68	68	68	68
Restricted cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current assets	9	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Nonutility Property and Investments, Net	**562**	**533**	**527**	**527**	**527**	**527**	**527**	**527**	**527**	**527**	**527**	**527**	**527**	**527**	**527**	**527**
Current Assets:																
Cash and cash equivalents	4	4	5	4	1	1	4	2	3	6	6	31	15	2	18	18
Accounts receivable	68	69	23	23	29	29	30	30	31	33	33	34	36	37	39	39
Accrued unbilled revenue	58	36	14	14	14	14	14	14	14	14	14	14	14	14	14	14
Allowance for uncollectible accounts	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Regulatory assets	69	62	49	49	49	49	49	49	49	49	49	49	49	49	49	49
Derivative instruments	3	2	7	7	7	7	7	7	7	7	7	7	7	7	7	7
Inventories	71	61	66	64	104	104	108	111	115	118	118	123	127	131	136	136
Gas reserves	17	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16
Income taxes receivable	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other current assets	35	23	21	21	21	21	21	21	21	21	21	21	21	21	21	21
Total Current Assets	**332**	**272**	**202**	**197**	**241**	**241**	**248**	**250**	**257**	**264**	**264**	**295**	**284**	**278**	**299**	**299**
Total Assets	**3,077**	**3,002**	**2,943**	**2,973**	**3,053**	**3,053**	**3,100**	**3,141**	**3,185**	**3,230**	**3,230**	**3,278**	**3,285**	**3,296**	**3,334**	**3,334**
Capitalization and Liabilities																
Common Stock	383	385	389	390	391	**391**	392	393	394	395	**395**	396	397	398	399	**399**
Retained Earnings	405	429	418	409	437	**437**	479	481	471	502	**502**	548	548	539	572	**572**
Accumulated Other Comprehensive Loss	(7)	(7)	(7)	(7)	(7)	**(7)**	(7)	(7)	(7)	(7)	**(7)**	(7)	(7)	(7)	(7)	**(7)**
Total Common Equity	**781**	**807**	**800**	**792**	**821**	**821**	**864**	**867**	**859**	**891**	**891**	**935**	**938**	**930**	**964**	**964**
Long-Term Debt, net	577	570	570	610	625	**625**	625	660	710	720	**720**	720	720	735	735	**735**
Total Capitalization	**1,358**	**1,377**	**1,370**	**1,402**	**1,447**	**1,447**	**1,489**	**1,527**	**1,569**	**1,611**	**1,611**	**1,655**	**1,658**	**1,665**	**1,699**	**1,699**
Current Liabilities:																
Short-term debt	270	165	153	153	153	**153**	153	153	153	153	**153**	153	153	153	153	**153**
Current maturities of long-term debt	25	25	25	25	25	**25**	25	25	25	25	**25**	25	25	25	25	**25**
Accounts payable	73	57	58	58	91	**91**	94	97	100	103	**103**	107	111	114	118	**118**
Taxes accrued	10	10	6	6	6	**6**	6	6	6	6	**6**	6	6	6	6	**6**
Interest accrued	6	10	5	6	6	**6**	6	6	5	5	**5**	6	6	6	5	**5**
Regulatory liabilities	30	36	27	27	27	**27**	27	27	27	27	**27**	27	27	27	27	**27**
Derivative instruments	22	17	3	3	3	**3**	3	3	3	3	**3**	3	3	3	3	**3**
Other current liabilities	41	42	35	35	35	**35**	35	35	35	35	**35**	35	35	35	35	**35**
Current Liabilities	**478**	**362**	**314**	**311**	**347**	**347**	**350**	**353**	**356**	**359**	**359**	**363**	**367**	**370**	**374**	**374**
Deferred Credits and Other Liabilities:																
Deferred tax liabilities	530	551	554	554	554	**554**	554	554	554	554	**554**	554	554	554	554	**554**
Regulatory liabilities	339	347	341	341	341	**341**	341	341	341	341	**341**	341	341	341	341	**341**
Pension and other postretirement benefit liabilities	223	221	219	219	219	**219**	219	219	219	219	**219**	219	219	219	219	**219**
Derivative instruments	3	1	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0	**0**
Other non-current liabilities	145	143	144	144	144	**144**	144	144	144	144	**144**	144	144	144	144	**144**
Total Liabilities	**1,241**	**1,263**	**1,259**	**1,259**	**1,259**	**1,259**	**1,259**	**1,259**	**1,259**	**1,259**	**1,259**	**1,259**	**1,259**	**1,259**	**1,259**	**1,259**
Total Liabilities & Equity	**3,077**	**3,002**	**2,943**	**2,973**	**3,053**	**3,053**	**3,099**	**3,140**	**3,184**	**3,229**	**3,229**	**3,277**	**3,284**	**3,295**	**3,333**	**3,333**

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM
NORTHWEST NATURAL GAS COMPANY
UTILITY

INCOME STATEMENT ($ in millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Residential and commercial sales	645	238	83	70	272	662	245	85	73	280	683	254	88	75	290	706
Industrial sales and transportation	71	18	11	15	23	67	18	11	16	24	69	19	12	16	24	72
Other revenues	4	1	1	1	1	4	1	1	1	1	4	1	1	1	1	4
Less: Revenue taxes	(18)	(7)	(2)	(2)	(6)	(17)	(7)	(2)	(2)	(6)	(17)	(7)	(2)	(2)	(6)	(17)
Total Operating Revenues	**702**	250	92	84	289	**716**	258	95	87	299	**739**	267	98	90	309	**765**
Less: Cost of gas	327	108	21	34	170	334	112	22	36	175	344	116	22	37	181	356
Less: Environmental remediation expense	4	5	2	-	-	7	-	-	-	-	-	-	-	-	-	-
Utility margin	**371**	137	69	50	120	**375**	146	74	51	123	**394**	151	76	53	128	**408**
Other Operating expenses	178	46	41	37	41	164	46	41	37	41	164	46	41	37	41	164
Depreciation and amortization	74	19	19	19	19	76	20	20	21	21	82	22	22	22	22	88
Operating Income	**119**	72	10	(6)	60	**135**	80	12	(6)	62	**148**	84	13	(6)	65	**156**
Other Income (Expense):																
Other income, net	**8**	(2)	0	1	1	**(0)**	(2)	0	1	1	**(0)**	(2)	0	1	1	**(0)**
Interest expense, net	**(41)**	(10)	(9)	(10)	(10)	**(38)**	(10)	(10)	(11)	(11)	**(43)**	(11)	(11)	(11)	(12)	**(45)**
Total Other Income (Expense)	**(34)**	(12)	(9)	(9)	(10)	**(39)**	(12)	(10)	(10)	(11)	**(43)**	(14)	(10)	(10)	(11)	**(45)**
Income Before Income Tax Expense	**86**	61	1	(15)	50	**97**	68	3	(17)	51	**105**	71	3	(16)	54	**111**
Tax	32	25	1	(6)	20	39	27	1	(7)	20	42	28	1	(7)	22	45
Net Income	**53**	36	1	(9)	30	**57**	41	2	(10)	31	**63**	42	2	(10)	32	**67**
Wtd. avg. share count (MM)	**27**	28	28	28	28	**28**	28	28	28	28	**28**	28	28	28	28	**28**
EPS (Basic and Diluted)	**1.95**	1.30	0.02	(0.33)	1.09	**2.08**	1.48	0.06	(0.36)	1.11	**2.28**	1.53	0.07	(0.35)	1.17	**2.40**
Non Operating Items	6	3	-	-	-	3	-	-	-	-	-	-	-	-	-	-
Net Income (Non-GAAP)	**59**	39	1	(9)	30	**61**	41	2	(10)	31	**63**	42	2	(10)	32	**67**
EPS (Basic and Diluted)	**2.16**	1.42	0.02	(0.33)	1.09	**2.20**	1.48	0.06	(0.36)	1.11	**2.28**	1.53	0.07	(0.35)	1.17	**2.40**

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM
NORTHWEST NATURAL GAS COMPANY
GAS STORAGE

INCOME STATEMENT ($ in millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Total Operating Revenues	21	5	7	4	4	21	6	6	6	6	26	8	8	8	8	31
Other Operating expenses	10	2	3	3	3	10	2	2	2	2	10	2	2	2	2	10
Depreciation and amortization	7	2	1	2	2	7	2	2	3	3	11	3	4	4	4	14
Operating Income	5	2	3	0	0	5	2	1	1	1	5	2	2	2	2	7
Other Income (Expense):																
Other income, net	0	(0)	0	0	0	0	(0)	0	0	0	0	(0)	0	0	0	0
Interest expense, net	(1)	(0)	(1)	(1)	(0)	(2)	(0)	(1)	(1)	(0)	(2)	(0)	(1)	(1)	(0)	(2)
Total Other Income (Expense)	(1)	(0)	(1)	(0)	(0)	(2)	(0)	(1)	(1)	(0)	(2)	(0)	(1)	(1)	(0)	(2)
Income Before Income Tax Expense	4	1	2	(0)	(0)	4	2	1	0	0	3	1	1	1	1	4
Tax	4	1	1	(0)	(0)	1	1	0	0	0	1	1	0	0	0	2
Net Income	0	1	1	(0)	(0)	2	1	0	0	0	2	1	1	0	1	3
Wtd. avg. share count (MM)	27	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28
EPS (Basic and Diluted)	0.01	0.03	0.05	(0.00)	(0.00)	0.07	0.04	0.02	0.01	0.01	0.07	0.03	0.02	0.02	0.03	0.09
Non Operating Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	0	1	1	(0)	(0)	2	1	0	0	0	2	1	1	0	1	3
EPS (Basic and Diluted)	0.01	0.03	0.05	(0.00)	(0.00)	0.07	0.04	0.02	0.01	0.01	0.07	0.03	0.02	0.02	0.03	0.09

Source: Company reports, Guggenheim Securities, LLC estimates.

OGE ENERGY CORP. (OGE, BUY, $30.25)

Initiating coverage of OGE with BUY rating and $33 price target; discounted name, with above-average dividend growth and CAPEX/EPS upside potential post rate cases; we expect noise around ENBL strategy will subside. We see OGE as good value in a fairly valued sector.

- **We are initiating coverage of OGE with a BUY rating and $33 price target.** OGE is a $6.0bn market cap regulated electric utility, the largest in Oklahoma with services in western Arkansas, as well as FERC transmission assets (~7% rate base) and exposure to Midstream through Enable Midstream Partners (ENBL) [50% General Partner (GP), 26.3% Limited Partner (LP)]. Our BUY rating is a valuation call as shares currently trade at a discount to sum-of-the-parts valuation and peer comps – exasperated by the recent energy downturn. That said, **OGE presents stable growth with capex and EPS upside potential as the first wave of rate cases work themselves through**. OGE has additional opportunities from the midstream segment through Enable MLP, which at a minimum helps generate healthy CF – supporting company guidance of 10% dividend growth per year. **Near-term potential catalyst** – rate cases in OK and AR, as company focuses on regulatory initiatives/agenda, and those outcomes are key to guiding future capital deployment – for now, our BUY stance is a valuation call, as we see a good entry point. **While valuation looks low, we see multiple re-rating as: (1) initial wave of rate cases work themselves through; (2) management provides more visibility around 2019/20 following current GRCs – should show upside to current capital plan; (3) potential increase in EPS growth trajectory of 3-5% following rate certainty – company should grow closer to historical average, which breaches the current conservative outlook; (4) conclusion of Enable's ownership strategy, which has been a near-term overhang.**
- **Our 2016/2017/2018 EPS estimates are $1.72/$1.88/$1.93, slightly below consensus for 2016, in-line for 2017 and slightly higher for 2019.** Our 4% consolidated earnings growth outlook is comprised of ~5.3% regulated earnings growth vs. company guidance range of 3-5%, ENBL earnings returning to 2015 level and remaining flat, and slight drag from parent. We model ~$2.0bn of CapEx at the utility driving 6.1% annual rate base growth, with plan focused on distribution and environmental compliance for generation; we assume 1% load growth in line with customer growth (majority in residential and commercial). Utilities earnings growth is based on modeling earned ROEs of ~9.2% or lag up to 90bps. Rate case assumptions below.
- **This is a tough Commission who are elected, not appointed – rate case process a NT overhang as reflected in share price but overly priced in, in our view.** Visibility through the process should lead to multiple re-rating as the increased visibility should lead to higher CAPEX and EPS growth trajectory. The **key driver of our estimates** is a function of the several rate cases: estimate $100mm increase to OK base rates in 2016 vs. requested $149.5mm and additional $50mm request in 2017 to recover Mustang investments; ~$17mm net increase in AK for CT generation cost recovery with expectations of similar historical lag. We expect OGE to file another GRC in November 2018 for scrubber and natural gas conversion with new rates effective in May 2019 – this is outside of our current time horizon. **See models further down**.
- **OGE's shifting generation mix and modernization efforts drive average earnings growth, with an active rate case schedule – could lead to additional CAPEX upside.** Our ~4% annual growth estimate, which is in line with management's target range of 3-5% for the utility and generally in line with

regulated peers, helps support the guided 10% dividend growth with a 65%-70% payout ratio. The company's near-term focus is on executing its compliance strategy for environmental regulations, specifically to meet requirements on Regional Haze ($380mm on scrubbers) by 1/4/19 and modernization of Mustang CTs ($330mm). There are riders in place for recovery of the environmental spend but the Commission has been adamant to use formal rate cases – hence the current rate filings which should help mitigate the lag.

- **Potential investor concern on declining capex in the outlook is noted,** but management will be in a better position to update post NT rate case cycle especially for 2019/2020 – **key point to remember**, OGE has grown faster historically vs. management's current growth trajectory and we see no reason why this won't mean revert once the company is out of this first wave of politically-sensitive rate cases. Opportunities could include additional spend on lower voltage transmission and smart grid investments – growth should eventually yield over 5%/year.

- **OGE's stake in ENBL (**50% GP, 26.3%LP) **will contribute towards its dividend trajectory despite ample support from the utility; management's right of first offer to CNP indicative of commitment to this investment.** Enable MLP is a solid source of cash flows for OGE but clearly also a key contributor to the share discount given the challenging market environment for MLPs and energy names in general. ENBL's investments include gathering and processing assets in 4 states, serving shale developments in Anadarko, Arkoma and Ark-La-Tex basins – 8 storage facilities and transportation (85bcf of capacity and 9.19bcf/d of firm contracted capacity on pipes) – **currently 81% of gross margins under LT, fee based agreements; 56% of gross margin attributed to fees associated with firm contracts or contracts with minimum volume commitments**. Producers remain active in its gathering and processing footprint with 29 rigs contractually obligated. We assume ENBL earnings return to 2015 levels (~$0.39/share) in 2017 and 2018, and OGE continues to own ~26% of the LP units, although we back out ENBL earnings and value OGE's ownership interest separately as we discuss in more detail below.

- **Sum-of-the-parts valuation:** We arrive at our $33 price target utilizing a sum-of-the-parts analysis, which is comprised of: **(1)** ~$25/share for regulated electric utility when we apply our group average regulated electric utility multiple of 16.0x, which is based on a regression of corp. bond yields and utility P/E multiples, plus a 0.5x company-specific premium; and **(2)** ~$8/share for OGE's 26% ownership of ENBL's LP units, based on flat cash distributions of $1.27 per unit and applying a 9% target yield which, we derive from comparable gas-focused MLPs and ENBL's current LP unit value; note we do not ascribe value to the GP as we aren't forecasting growing cash distributions at this juncture without visibility to that end from ENBL. **Incorporating our estimated 4.1% dividend yield from OGE would equate to a 13.2% ETR.**

- **Risk:** Outside of noise around ENBL, risks to achieving our price target for OGE mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

Guggenheim's OGE EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.22A	0.44A	0.91A	0.15A	1.71A	
2016E	0.13A	0.36A	0.93E	0.31E	1.72E	*1.77E*
2017E	0.10E	0.46E	0.99E	0.32E	1.88E	*1.88E*
2018E	0.11E	0.47E	1.01E	0.34E	1.93E	*1.89E*

Source: Company reports; Guggenheim Securities, LLC estimates.

Summary business metrics

Summary	2015A	2016E	2017E	2018E	CAGR
Business mix (EPS)	**2015A**	**2016E**	**2017E**	**2018E**	***CAGR***
Electric (OG&E)	*1.35*	1.47	1.53	1.57	*5.3%*
Midstream (ENBL)	*0.40*	0.28	0.39	0.39	*-0.8%*
Other	*(0.04)*	(0.03)	(0.03)	(0.03)	*-3.0%*
OGE	***$1.71***	**$1.72**	**$1.88**	**$1.93**	***4.1%***
Regulated utility performance	**2015A**	**2016E**	**2017E**	**2018E**	***Avg.***
Earned ROE	9.0%	9.5%	9.2%	8.9%	9.2%
Authorized ROE	*10.3%*	*10.3%*	*10.0%*	*10.0%*	*10.1%*
Midstream performance		**2016E**	**2017E**	**2018E**	***CAGR***
Earnings contribution		$0.28	$0.39	$0.39	*-0.8%*
LP cash distribution ($MM)		141	141	141	*0.3%*
Distribution per unit		*$1.27*	*$1.27*	*$1.27*	*0.2%*
Dividend coverage		**2016E**	**2017E**	**2018E**	***Target***
Annual dividend growth		10%	10%	10%	*10%*
Consolidated payout ratio		67%	68%	72%	
Dividend covered by utility EPS		88%	88%	93%	

Source: Company reports; Guggenheim Securities, LLC estimates.

Regulated business metrics

Regulated business metrics							
Rate base assets *($mm)*		**2015A**	**2016E**	**2017E**	**2018E**	*CAGR*	*% of total*
OG&E	*OK*	4,475	4,809	5,243	5,435	*6.7%*	*79%*
	AR	407	437	477	494	*6.7%*	*7%*
	FERC	817	804	895	872	*2.2%*	*13%*
		5,699	**6,050**	**6,615**	**6,801**	*6.1%*	
Regulated ROEs by jurisdiction		**2015A**	**2016E**	**2017E**	**2018E**		*Average*
OK	*Earned*	10.2%	10.2%	9.8%	9.8%		*10.0%*
	Authorized	*10.3%*	*10.3%*	*10.0%*	*10.0%*		
AR	*Earned*	9.5%	9.5%	9.8%	9.8%		*9.6%*
	Authorized	*10.3%*	*10.3%*	*10.0%*	*10.0%*		

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

OGE Model

Consolidated Financials

INCOME STATEMENT ($ in millions)	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating Revenues																
Electric Utility	2,197	433	551	757	517	2,258	453	572	779	537	2,341	467	587	795	551	2,401
Natural Gas Midstream Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Revenues	2,197	433	551	757	517	2,258	453	572	779	537	2,341	467	587	795	551	2,401
Electric Utility	865	178	198	273	211	860	186	205	281	219	892	192	210	287	225	915
Natural Gas Midstream Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cost of sales	865	178	198	273	211	860	186	205	281	219	892	192	210	287	225	915
Gross Margin	1,332	255	354	484	306	1,398	267	367	498	318	1,449	275	376	508	326	1,486
O&M	452	114	128	111	111	464	117	126	109	108	460	119	127	110	110	465
Taxes Other Than Income Tax	91	25	20	22	22	89	25	20	22	22	89	25	20	22	22	89
Total Operating Expenses	543	139	148	133	133	553	142	146	131	131	550	143	147	132	132	554
EBITDA	789	116	206	350	172	845	125	221	367	187	900	132	229	377	194	932
Depreciation and amortization	308	79	80	81	82	321	83	85	86	88	342	89	90	91	91	361
Operating Income	481	38	126	270	90	524	42	136	281	99	558	43	139	286	103	571
Equity in earnings of unconsolidated affiliates	16	28	17	26	35	106	26	34	35	31	126	27	34	35	31	127
Allowance for equity funds	8	2	4	-	-	5	-	-	-	-	-	-	-	-	-	-
Other income (expense)	13	4	2	1	1	8	(0)	(2)	1	1	(0)	(0)	(2)	1	1	(0)
Net other income	37	34	22	27	36	120	26	32	36	32	126	27	32	36	32	126
Interest on long-term debt	148	36	36	37	36	145	36	36	37	36	145	36	36	37	36	145
Allowance for borrowed funds	(4)	(1)	(2)	-	-	(3)	-	-	-	-	-	-	-	-	-	-
Interest on short-term debt and other	5	1	2			4					-					-
Total Interest Expense	149	36	36	37	36	145	36	36	37	36	145	36	36	37	36	145
Income Before Taxes	369	35	112	260	90	498	32	132	280	94	538	34	135	285	98	552
Income Taxes	97	10	41	75	28	153	11	39	82	29	161	11	40	83	30	165
Net Income	271	25	72	186	62	345	21	93	198	65	377	22	95	202	68	387
Weighted-average Number of Common Shares Outstanding	200	200	200	200	200	200	200	200	201	201	200	201	201	201	201	201
Earnings Per Common Share, Diluted	$ 1.36	$ 0.13	$ 0.36	$ 0.93	$ 0.31	$ 1.72	$ 0.10	$ 0.46	$ 0.99	$ 0.32	$ 1.88	$ 0.11	$ 0.47	$ 1.01	$ 0.34	$ 1.93
Non-operating items	(70)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non GAAP)	341	25	72	186	62	345	21	93	198	65	377	22	95	202	68	387
Operating EPS	$ 1.71	$ 0.13	$ 0.36	$ 0.93	$ 0.31	$ 1.72	$ 0.10	$ 0.46	$ 0.99	$ 0.32	$ 1.88	$ 0.11	$ 0.47	$ 1.01	$ 0.34	$ 1.93

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

OGE Model

Consolidated Financials

CASH FLOW STATEMENT ($ in millions)	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Cash Flow from Operating Activites:																
Net Income	271	25	72	186	62	345	21	93	198	65	377	22	95	202	68	387
Adjustments to reconcile net income to net cash provided by operating activities:																
Depreciation and amortization	308	79	80	81	82	321	83	85	86	88	342	89	90	91	91	361
Deferred income taxes and investment tax credits	103	10	42	-	-	52	-	-	-	-	-	-	-	-	-	-
Equity in earnings of unconsolidated affiliates	(16)	(28)	(17)	(26)	(35)	(106)	(26)	(34)	(35)	(31)	(126)	(27)	(34)	(35)	(31)	(127)
Distributions from unconsolidated affiliates	94	29	17	35	35	116	35	35	35	35	141	35	35	35	35	141
Allowance for equity funds used during construction	(8)	(2)	(4)	-	-	(5)	-	-	-	-	-	-	-	-	-	-
Gain on disposition of assets	(0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stock-based compensation	6	2	2	-	-	3	-	-	-	-	-	-	-	-	-	-
Excess tax benefit on stock-based compensation		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory assets	(9)	(2)	(2)	-	-	(4)	-	-	-	-	-	-	-	-	-	-
Regulatory liabilities	(28)	(5)	(4)	-	-	(8)	-	-	-	-	-	-	-	-	-	-
Other assets	11	3	4	-	-	7	-	-	-	-	-	-	-	-	-	-
Other liabilities	9	2	4	-	-	6	-	-	-	-	-	-	-	-	-	-
Changes in current operating assets and liabilities:						-					-					-
Accounts receivable, net	16	38	(28)	(61)	71	20	122	(8)	(14)	16	116	29	(2)	(3)	4	28
Accrued unbilled revenues	2	2	(40)	(34)	40	(32)	68	(5)	(8)	9	65	16	(1)	(2)	2	15
Income taxes receivable	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel, materials and supplies inventories	(57)	10	1	(70)	57	(1)	153	(4)	(17)	14	145	39	(1)	(4)	3	37
Fuel clause under recoveries	68	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other current assets	(17)	(10)	(8)	-	-	(18)	-	-	-	-	-	-	-	-	-	-
Accounts payable	31	(44)	(13)	61	(50)	(46)	(134)	4	15	(12)	(127)	(34)	1	4	(3)	(33)
Accounts payable - unconsolidated affiliates		-	-	1	(0)	0	(1)	0	0	(0)	(1)	(0)	0	0	(0)	(0)
Income taxes payable - parent		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel clause over recoveries	61	2	(22)	-	-	(20)	-	-	-	-	-	-	-	-	-	-
Other current liabilities	18	(36)	4	-	-	(32)	-	-	-	-	-	-	-	-	-	-
Other current liabilities																
Net Cash Provided by Operating Activities	865	73	93	173	262	601	321	166	261	184	933	169	183	287	170	810
Cash Flow from Investing Activities:																
Capital expenditures	(548)	(178)	(153)	(166)	(166)	(664)	(225)	(225)	(225)	(225)	(900)	(135)	(135)	(135)	(135)	(540)
Investment in unconsolidated affiliates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Return of capital - equity method investments	45	7	19			25					-					-
Proceeds from asset sale	3	-	0	-	-	0	-	-	-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	(500)	(171)	(135)	(166)	(166)	(638)	(225)	(225)	(225)	(225)	(900)	(135)	(135)	(135)	(135)	(540)
Cash Flow from Financing Activities:																
Dividends paid on common stock	(205)	-	(110)	(60)	(61)	(231)	(61)	(61)	(67)	(67)	(255)	(67)	(67)	(74)	(74)	(281)
Proceeds from long-term debt		-	-	-	-	-	-	-	-	-	-	-	40	-	-	40
Issuance of common stock	7	(55)	55	8	8	15	3	3	3	3	10	3	3	3	3	10
Payments of long-term debt	(0)	(110)	-	-	-	(110)	-	-	-	-	-	-	-	-	-	-
Increase in short-term debt	(98)	188	97	100	-	384	(50)	100	50	60	160	50	-	-	(50)	-
Net Cash (Used in) Provided by Financing Activities	(296)	23	42	47	(53)	59	(108)	42	(14)	(4)	(85)	(14)	(24)	(71)	(121)	(231)
Net (Decrease) Increase in Cash and Cash Equivalents	70	(75)	-	53	43	21	(12)	(17)	22	(45)	(52)	20	24	81	(86)	39
Cash and Cash Equivalents, Beginning of Period	5	75	(0)	(0)	53	75	96	84	67	89	96	44	64	88	170	44
Cash and Cash Equivalents, End of Period	75	(0)	(0)	53	96	96	84	67	89	44	44	64	88	170	83	83

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

OGE Model

Consolidated Financials

BALANCE SHEET ($ in millions)	2016A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Cash and cash equivalents	75	-	-	53	96	96	84	67	89	44	44	64	88	170	83	83
Accounts receivable	173	135	163	224	153	153	31	39	53	36	36	7	9	12	9	9
Accounts receivable - unconsolidated affiliates	2	3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued unbilled revenues	54	51	91	125	85	85	17	22	29	20	20	4	5	7	5	5
Income taxes receivable	17	17	15	15	15	15	15	15	15	15	15	15	15	15	15	15
Fuel inventories	114	105	107	148	114	114	25	27	37	29	29	6	7	9	7	7
Materials and supplies, at average cost	80	78	76	104	81	81	17	19	26	21	21	4	5	7	5	5
Other	56	65	76	76	76	76	76	76	76	76	76	76	76	76	76	76
Total Current Assets	**570**	**456**	**527**	**745**	**620**	**620**	**265**	**264**	**325**	**241**	**241**	**177**	**205**	**295**	**200**	**200**
Property, plant and equipment, at cost																
In service	10,318	10,416	10,523	10,656	10,789	**10,789**	10,969	11,149	11,329	11,509	**11,609**	11,617	11,725	11,833	11,941	**11,941**
Construction work in progress	279	300	319	353	386	**386**	431	476	521	566	**566**	593	620	647	674	**674**
Total Property, Plant and Equipment	**10,597**	**10,716**	**10,842**	**11,008**	**11,175**	**11,175**	**11,400**	**11,625**	**11,850**	**12,075**	**12,075**	**12,210**	**12,345**	**12,480**	**12,615**	**12,615**
Less: accumulated depreciation	3,274	3,328	3,372	3,453	3,535	3,535	3,618	3,702	3,789	3,877	3,877	3,966	4,056	4,146	4,237	4,237
Net Property, Plant and Equipment in Service	**7,322**	**7,388**	**7,470**	**7,555**	**7,640**	**7,640**	**7,782**	**7,922**	**8,061**	**8,198**	**8,198**	**8,244**	**8,289**	**8,334**	**8,377**	**8,377**
OTHER PROPERTY AND INVESTMENTS																
Investment in unconsolidated affiliates	1,194	1,187	1,169	1,160	1,160	1,160	1,151	1,149	1,149	1,145	1,145	1,136	1,135	1,134	1,130	1,130
Other	71	70	72	72	72	72	72	72	72	72	72	72	72	72	72	72
Total Other Property and Investments	**1,265**	**1,257**	**1,241**	**1,232**	**1,232**	**1,232**	**1,223**	**1,222**	**1,221**	**1,217**	**1,217**	**1,209**	**1,207**	**1,207**	**1,203**	**1,203**
DEFERRED CHARGES AND OTHER ASSETS																
Regulatory assets	402	403	402	402	402	402	402	402	402	402	402	402	402	402	402	402
Other	21	20	19	19	19	19	19	19	19	19	19	19	19	19	19	19
Total Deferred Charges and Other Assets	**423**	**423**	**421**	**421**	**421**	**421**	**421**	**421**	**421**	**421**	**421**	**421**	**421**	**421**	**421**	**421**
Total Assets	**9,581**	**9,523**	**9,659**	**9,953**	**9,912**	**9,912**	**9,690**	**9,829**	**10,028**	**10,077**	**10,077**	**10,050**	**10,122**	**10,257**	**10,201**	**10,201**
Short-term debt	-	188	284	384	384	384	334	434	484	544	544	594	594	594	544	544
Accounts payable - unconsolidated affiliates	-	-	1	2	1	1	0	0	0	0	0	0	0	0	0	0
Accounts payable	263	173	160	221	171	171	37	41	56	44	44	9	10	14	11	11
Dividends payable	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55	55
Customer deposits	77	78	78	78	78	78	78	78	78	78	78	78	78	78	78	78
Accrued taxes	46	25	39	39	39	39	39	39	39	39	39	39	39	39	39	39
Accrued interest	43	33	40	40	40	40	40	40	40	40	40	40	40	40	40	40
Accrued compensation	54	56	36	36	36	36	36	36	36	36	36	36	36	36	36	36
Long-term debt due within one year	110	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel clause over recoveries	61	63	41	41	41	41	41	41	41	41	41	41	41	41	41	41
Other	44	37	39	39	39	39	39	39	39	39	39	39	39	39	39	39
Total Current Liabilities	**753**	**707**	**774**	**935**	**884**	**884**	**700**	**803**	**869**	**916**	**916**	**932**	**933**	**937**	**883**	**883**
Long-Term Debt	**2,629**	**2,629**	**2,630**	**2,630**	**2,630**	**2,630**	**2,630**	**2,630**	**2,630**	**2,630**	**2,630**	**2,630**	**2,670**	**2,670**	**2,670**	**2,670**
DEFERRED CREDITS AND OTHER LIABILITIES																
Accrued benefit obligations	300	298	300	300	300	300	300	300	300	300	300	300	300	300	300	300
Deferred income taxes	2,178	2,188	2,233	2,233	2,233	2,233	2,233	2,233	2,233	2,233	2,233	2,233	2,233	2,233	2,233	2,233
Regulatory liabilities	274	278	284	284	284	284	284	284	284	284	284	284	284	284	284	284
Other	121	125	118	118	118	118	118	118	118	118	118	118	118	118	118	118
Total Deferred Credits and Other Liabilities	**2,873**	**2,889**	**2,934**	**2,934**	**2,934**	**2,934**	**2,934**	**2,934**	**2,934**	**2,934**	**2,934**	**2,934**	**2,934**	**2,934**	**2,934**	**2,934**
Total Liabilities	**6,255**	**6,225**	**6,337**	**6,499**	**6,448**	**6,448**	**6,263**	**6,367**	**6,433**	**6,480**	**6,480**	**6,496**	**6,537**	**6,540**	**6,487**	**6,487**
Stockholders' Equity:																
Common stockholders' equity	1,101	1,103	1,105	1,112	1,120	1,120	1,122	1,125	1,127	1,130	1,130	1,132	1,135	1,137	1,140	1,140
Retained earnings	2,260	2,230	2,247	2,372	2,374	2,374	2,334	2,366	2,498	2,497	2,497	2,452	2,480	2,609	2,603	2,603
Accumulated other comprehensive loss	(35)	(35)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)
Total Stockholders' Equity	**3,326**	**3,298**	**3,322**	**3,455**	**3,464**	**3,464**	**3,427**	**3,462**	**3,596**	**3,597**	**3,697**	**3,555**	**3,585**	**3,716**	**3,713**	**3,713**
Total Equity	3,326	3,298	3,322	3,455	3,464	3,464	3,427	3,462	3,596	3,597	3,697	3,555	3,585	3,716	3,713	3,713
Total Liabilities and Equity	**9,581**	**9,523**	**9,659**	**9,953**	**9,912**	**9,912**	**9,690**	**9,829**	**10,028**	**10,077**	**10,077**	**10,050**	**10,122**	**10,257**	**10,201**	**10,201**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

OGE Model

Electric Utility

INCOME STATEMENT ($ in millions)	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating revenues	2,197	433	551	757	517	2,258	453	572	779	537	2,341	467	587	795	551	2,401
Total Operating Revenues	**2,197**	**433**	**551**	**757**	**517**	**2,258**	**453**	**572**	**779**	**537**	**2,341**	**467**	**587**	**795**	**551**	**2,401**
Cost of sales	865	178	198	273	211	860	186	205	281	219	892	192	210	287	225	915
Gross Margin	**1,332**	**255**	**354**	**484**	**306**	**1,398**	**267**	**367**	**498**	**318**	**1,449**	**275**	**376**	**508**	**326**	**1,486**
O&M	445	116	125	108	107	456	117	126	109	109	461	119	127	110	110	465
Taxes Other Than Income Tax	87	24	19	21	21	85	24	19	21	21	85	24	19	21	21	85
Total Operating Expenses	**532**	**140**	**144**	**129**	**129**	**541**	**141**	**145**	**130**	**130**	**546**	**142**	**146**	**131**	**131**	**551**
EBITDA	**800**	**115**	**210**	**355**	**177**	**857**	**126**	**222**	**368**	**188**	**903**	**133**	**230**	**377**	**195**	**935**
Depreciation and amortization	300	77	78	79	80	314	81	83	85	86	335	87	88	89	90	354
Operating Income	**500**	**39**	**131**	**276**	**97**	**542**	**44**	**139**	**284**	**102**	**569**	**46**	**142**	**289**	**106**	**582**
Allowance for equity funds	-	2	-	-	-	2	-	-	-	-	-	-	-	-	-	-
Other income (expense)	20	4	7	-	-	11	-	-	-	-	-	-	-	-	-	-
Interest Expense	147	36	35	36	36	143	36	35	36	36	143	36	35	36	36	143
Income Before Taxes	**374**	**8**	**103**	**239**	**60**	**412**	**9**	**104**	**247**	**65**	**425**	**10**	**107**	**252**	**69**	**438**
Income Taxes	105	2	31	67	17	117	2	29	69	18	119	3	30	71	19	123
Tax Rate	*28%*	*27%*	*30%*	*28%*	*28%*	*29%*	*28%*	*28%*	*28%*	*28%*	*28%*	*28%*	*28%*	*28%*	*28%*	*28%*
Net Income	**269**	**6**	**72**	**172**	**43**	**294**	**6**	**75**	**178**	**47**	**306**	**7**	**77**	**181**	**50**	**316**
Weighted-average Shares Outstanding-Diluted	200	200	200	200	200	200	200	200	201	201	200	201	201	201	201	201
Earnings Per Common Share, Diluted	**$ 1.35**	**$ 0.03**	**$ 0.36**	**$ 0.86**	**$ 0.22**	**$ 1.47**	**$ 0.03**	**$ 0.37**	**$ 0.89**	**$ 0.23**	**$ 1.53**	**$ 0.04**	**$ 0.38**	**$ 0.90**	**$ 0.25**	**$ 1.57**
Non-operating items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non GAAP)	**269**	**6**	**72**	**172**	**43**	**294**	**6**	**75**	**178**	**47**	**306**	**7**	**77**	**181**	**50**	**316**
Operating EPS	**$ 1.35**	0.03	0.36	0.86	0.22	**$ 1.47**	0.03	0.37	0.89	0.23	**$ 1.53**	0.04	0.38	0.90	0.25	**$ 1.57**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

OGE Model

Natural Gas-Midstream

INCOME STATEMENT ($ in millions)	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost of sales	-	-	-			-					-					-
Gross Margin	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
O&M	8	0	8	-	-	8	-	-	-	-	-	-	-	-	-	-
Taxes Other Than Income Tax	-	-	-			-					-					-
Total Operating Expenses	8	0	8	-	-	8	-	-	-	-	-	-	-	-	-	-
EBITDA	(8)	(0)	(8)	-	-	(8)	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income	(8)	(0)	(8)	-	-	(8)	-	-	-	-	-	-	-	-	-	-
Equity in earnings of unconsolidated affiliates	16	28	17	26	35	106	26	34	35	31	126	27	34	35	31	127
Other income (expense)	0	-	-	-	0	0	(0)	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(1)
Interest Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income Before Taxes	8	28	9	26	35	99	26	34	35	31	125	27	34	35	31	126
Income Taxes	(1)	10	9	10	13	43	10	13	13	12	48	10	13	13	12	48
Tax Rate	*(12%)*	*36%*	*104%*	*38%*	*38%*	*43%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*
Net Income	9	18	(0)	16	22	56	16	21	21	19	78	17	21	21	19	78
Less: Net income attributable to noncontrolling interests	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income attributable to OGE Energy	8	18	(0)	16	22	56	16	21	21	19	78	17	21	21	19	78
Weighted-average Shares Outstanding-Diluted	200	200	200	200	200	200	200	201	201	200	200	201	201	201	201	201
Earnings Per Common Share, Diluted	$ 0.04	$ 0.09	$ -0.00	$ 0.08	$ 0.11	$ 0.28	$ 0.08	$ 0.10	$ 0.11	$ 0.10	$ 0.39	$ 0.08	$ 0.10	$ 0.11	$ 0.10	$ 0.39
Non-operating items	(71)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non GAAP)	79	18	(0)	16	22	56	16	21	21	19	78	17	21	21	19	78
Operating EPS	$ 0.40	$ 0.09	$ -0.00	$ 0.08	$ 0.11	$ 0.28	$ 0.08	$ 0.10	$ 0.11	$ 0.10	$ 0.39	$ 0.08	$ 0.10	$ 0.11	$ 0.10	$ 0.39

Source: Company reports; Guggenheim Securities, LLC estimates.

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OGE Model

ENBL

INCOME STATEMENT ($ in millions)	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
ENBL Earnings and OGE portion																
Operating revenues	2,418	509	529	571	587	2,196	582	609	604	621	2,417	580	608	603	619	2,411
Cost of natural gas	1,097	195	254	229	210	888	241	238	231	211	920	239	236	229	209	914
Gross margin	**1,321**	314	275	341	378	**1,308**	342	372	374	410	**1,497**	341	372	374	410	**1,497**
O&M	522	115	120	145	142	522	143	145	145	194	626	143	145	145	194	626
Depreciation	318	81	83	85	85	334	87	87	87	87	349	87	87	87	87	349
G&A	-	-	-	(5)	(5)	(10)	(8)	(8)	(8)	(8)	(30)	(10)	(10)	(10)	(10)	(40)
Taxes other than income	59	15	15	16	17	63	19	17	16	17	68	19	17	16	17	68
Operating income	**(712)**	103	57	101	138	**400**	100	130	134	119	**483**	102	132	136	122	**493**
Interest expense	90	23	25	34	38	120	34	33	33	33	132	32	35	35	35	137
Equity in earnings of equity method affiliates	29	7	4	5	6	22	6	5	5	6	23	6	5	5	6	23
Other	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBT	(771)	87	36	73	106	302	73	102	106	92	374	76	103	106	92	378
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for common (all)	(771)	87	36	73	106	302	73	102	106	92	374	76	103	106	92	378
(-) Net income to non-controlling interests	19	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for Enable Midstream Partners	**(752)**	86	35	73	106	302	73	102	106	92	374	76	103	106	92	378
(-) General Partner Take	-	-	-	1	2	3	1	2	2	2	8	2	2	2	2	8
Net Income for LP unit-holders	**(752)**	86	35	71	104	**299**	72	100	104	90	**366**	75	101	104	90	**370**
OGE's share	*26%*	*26%*	*26%*	*26%*	*26%*	*26%*	*26%*	*26%*	*26%*	*26%*	*26%*	*26%*	*26%*	*26%*	*26%*	*26%*
OGE's share of Enable NI	*(198)*	21.3	9.1	18.8	27.4	*79*	*18.9*	*26.4*	*27.4*	*23.6*	*96*	*19.7*	*26.5*	*27.4*	23.7	**97**
Amortization of basis difference	14	2.9	3.0	3.0	3.0	12	2.9	2.9	2.9	2.9	12	2.8	2.8	2.8	2.8	11
Eliminsations and other adjustments	18	4.1	4.6	4.6	4.6	18	4.6	4.6	4.6	4.6	18	4.6	4.6	4.6	4.6	18
OGE's equity in earnings of unconsolidated affiliates	**(166)**	**28.3**	**16.7**	**26.4**	**34.9**	**108.3**	**26.4**	**33.9**	**34.8**	**31.1**	**126.2**	**27.1**	**33.9**	**34.8**	31.0	**126.9**

LP Unit distributions	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Public Units Owned By OGE	**43**	43	43	43	43	**43**	43	43	43	43	**43**	43	43	43	43	**43**
OGE Subordinated	**68**	68	68	68	68	**68**	68	68	68	68	**68**	68	68	68	68	**68**
Total LP units owned by OGE	**111**	111	111	111	111	**111**	111	111	111	111	**111**	111	111	111	111	**111**
Distribution per LP unit	**$1.26**	$ 0.32	$ 0.32	$ 0.32	$ 0.32	**$1.27**	$ 0.32	$ 0.32	$ 0.32	$ 0.32	**$1.27**	$ 0.32	$ 0.32	$ 0.32	$ 0.32	**$1.27**
Cash distribution to OGE	**140**	**35.3**	**35.3**	**35.3**	**35.3**	**141**	**35**	**35**	**35**	**35**	**141**	**35**	**35**	**35**	**35**	**141**

Source: Company reports; Guggenheim Securities, LLC estimates.

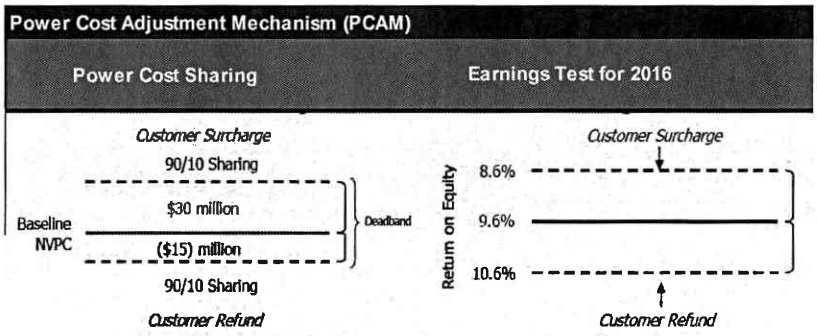
PORTLAND GENERAL ELECTRIC CO. (POR, NEUTRAL, $42.56)

Initiating coverage of POR with NEUTRAL rating and $40 fair value/share; in spite of a sound regional economy, the need for clarity on the Carty project cost recovery, premium valuation, and declining capex keeps us on the sidelines. Awaiting commission decision on IRP that could prompt potential additional spending opportunities from the related RFPs. At current levels, shares trade at a premium to electric peers and forward bond yield expectations — seeking a better entry point.

- **We are initiating coverage of POR with a NEUTRAL rating and a $40 fair value/share estimate.** POR is a $3.6bn market cap, vertically integrated utility. Portland General Electric operates in Oregon, serving Portland, Salem and the nearby communities. Our NEUTRAL rating is premised upon valuation as shares trade at a premium to regulated electrics (trades at 17.4x 2018E EPS vs. utility peers trading at 16.7x). POR near-term earnings growth is slightly above peers but the current outlook of declining capex and limited need for additional generation until after 2020 has us awaiting clarity on the final commission-approved action plan for the 2016 Integrated Resource Plan "IRP" and the Request for Proposals "RFPs" to come out of the process, which could provide some upside post our trajectory — actual spend, timing, technology, self-build vs. PPAs remain to be seen. **The Oregon Clean Energy Plan and 2016 IRP may lead to additional spending opportunities but we need that visibility**. POR is in a generally constructive policy environment with forward test years, rate mechanisms including partial decoupling, PCAM, RAC but at current valuation levels, we believe shares are fully priced. That said, it's fundamentally sound story, in our view.
- **Our 2016/2017/2018 EPS estimates are $2.18/$2.35/$2.47, respectively; higher for '16; in line with consensus for '17/'18.** Our outlook for POR consist of ~6.6% annual earnings growth — **declining CAPEX profile leaves very modest rate base growth but this could improve as spending around the Clean Energy Plan emerges — IRP should provide visibility**. We model 4% rate base growth and assume a reduction in lag from current 130bps, with cost recovery around Carty generation; we model earned ROEs of 9.2% increasing to 9.6% vs. the current 9.68% authorize/~8.4% achieved last year; we model customer growth of ~1%. **We assume a rate filing in 2017 with new rates in effect January 2018 at the earliest.** New rates already effective as of 8/1 and included a return on Carty spend of $514mm. Note, until the litigation is solved around the Carty incremental cost recovery situation, the company will have some lag from higher depreciation and interest cost.
- **Multi-year rate case cycle slowing down; next filing to address Carty cost overage.** Next rate filing in 2017 with new rates effective in '18 as POR seeks to recover incremental costs assumed for the Carty generation station, which are not in current rates and are causing some lag — see below. More specifically, filing will be to recover the overage at Carty ($635-$670mm) vs. $514mm in costs approved by the commission and already in rates. The overrun relates to work from its EPC contractor (Abeinsa) that entered in default under the original construction agreement. A performance bond meant to guarantee completion of the project was triggered but remains in dispute, with the sureties (Liberty Insurance, Zurich Financial) arguing it should be addressed in the arbitration proceedings initiated by Abengoa (parent of Abeinsa). A panel of 3 arbitrators has been set; POR will first seek recovery from the sureties and then proceed with added claims against Abengoa. Recently the U.S. District Court of Oregon ruled in favor of POR with an

enjoinment of the sureties from participation in the arbitration proceedings. Absent a reversal from appellate court, the claims will be tried in two phases with the first trial in June 2017. Only after this has cleared would POR seek recovery via future filings. Lag should continue.

- **Good economy and supportive mechanisms create a suitable backdrop to capture customer growth.** The service territory sees steady retail growth of 1% through 2030 due to the presence of the high tech sector with Intel using Oregon as ground zero for fabrication site, drawing competing names (Micron, Techtronic) into the territory. Its status as an apparel hub with Columbia, Nike, Adidas, and Underarmour running operations also provides diversity. The current Decoupling Mechanism insulates POR from energy efficiency and conservation but not weather; it is looking to file an extension given expiration at YE2016. The Renewable Adjustment Clause "RAC," which allows for return of, and on, spend for renewables that are put in place — important given the state's clean energy ambitions. The Power Cost Adjustment mechanism allows for customer price adjustments within a deadband.



Source: Company reports

- **Key potential catalysts are a commission decision on the 2016 Integrated Resource Plan "IRP," the resulting RFPs and clarification on incremental capex, including recently identified upgrades for system resiliency.** The 2016 IRP draft drives 2017-2021 spending, which will address capacity shortfall with Boardman (518MW coal-fired) retirement in 2020. In total, expectations are for an 800-900MW shortfall by 2030 and about 419MW by 2021 for generation. The company will evaluate the appropriate technology mix; as it seeks to meet the Oregon Clean Electricity Plan, essentially an RPS of 50% renewables by 2040, and the elimination of coal-fired generation by 2030. On 7/29, the OPUC adopted Staff recommendation and took no action on the company's request to issue an accelerated RFP (seeking to benefit from PTC extension) – must wait for this new IRP. The current proposed action plan and draft IRP assume 135MW of energy efficiency and 75MW of demand response. It includes up to 850MW of capacity (375-500MW long-term dispatchable, 400MW of annual or seasonal capacity). As an example, 175MW of qualified renewables, assuming 33% capacity factor, 525MW nameplate required could equate to ~$1bn of additional spend. Regarding the IRP, POR is awaiting a decision by the OPUC and if any adjustments are made in the process; we note the long-term load growth forecast is a key issue in the IRP. Other considerations include whether POR self-builds versus seeking PPAs, ultimate costs and timing on the recovery of proposed spend. All signs point to additional spending opportunities but we are seeking more visibility including actual spend, recovery method, timing and the amount of demand or supply side resources ultimately approved.

- **Final IRP to be filed by mid-November; OPUC acknowledgment expected by 1H2017; RFPs as a result of the IRP sometime in 2H2017 with approvals by 2018.**

- Separately, a proposed long-term natural gas hedge through rate basing gas reserves was recently denied by the commission [Docket UE308, Order 16-419] – **which isn't a surprise given our recent Commissioner meetings.** That said, ~$340mm in additional capex opportunities have been identified through 2020 for improving efficiency, reliability and overall system resiliency, with net incremental spend of $203mm and $126mm in 2017 and 2018, respectively. POR intends to rebuild a 100 year old hydro facility at the Faraday site on the Clackamas River; as well as to make investments in 20 at-risk substations (40 in total identified) and upgrades for the underground system with 250 conductive miles requiring work (currently upgrading 20 miles a year). Additional capital investments for reliability and resiliency may be discussed in the future but we await clarity.

- **Valuation: We value POR as a regulated utility, arriving at our $40 FV/share estimate using our regulated group multiple.** We apply our 16.0x regulated group multiple, which is derived from our bond regression analysis to our 2018 EPS estimate of $2.47 to arrive at our $40 FV/share estimate. Incorporating our anticipated 3.0% dividend yield, we estimate a -3.0% ETR based on our $40 FV/share estimate – POR shares trade at a premium to its electric counterparts.

- **Risks:** The primary risk 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.

  Additional risk factors for Portland General Electric include: A protracted arbitration with Abeinsa (Abengoa sub.) over Carty Generation with uncertainty around the conclusion of the related lawsuits and subsequent cost recovery via commission proceedings. Upside risks to our fair value estimate include: (1) favorable regulatory settlements; (2) higher economic growth in service territory; and (3) higher CapEx outlook.

Guggenheim's POR EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.62A	0.44A	0.40A	0.58A	2.04A	
2016E	0.69A	0.42A	0.38A	0.70E	2.18E	2.12E
2017E	0.80E	0.35E	0.24E	0.96E	2.35E	2.34E
2018E	0.86E	0.37E	0.25E	1.00E	2.47E	2.49E

Source: Company reports; Guggenheim Securities, LLC estimates.

Summary business metrics

Metrics	2015A	2016E	2017E	2018E	Avg.
PGE	8.4%	9.2%	9.4%	9.6%	9.4%
Ratebase	$ 4,400	$ 4,310	$ 4,556	$ 4,637	4%

Source: Company reports; Guggenheim Securities, LLC estimates.

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PORTLAND GENERAL ELECTRIC COMPANY

INCOME STATEMENT ($millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Revenue	**1,898**	487	428	467	556	**1,939**	587	444	422	664	**2,118**	633	474	443	684	**2,234**
Purchased power and fuel	**661**	149	126	155	177	**607**	183	139	135	210	**667**	198	149	141	216	**704**
Generation, transmission and distribution	**266**	66	64	66	80	**276**	84	64	60	95	**304**	90	68	63	98	**321**
Administrative and other	**241**	61	61	60	72	**255**	77	59	55	87	**279**	83	63	58	90	**295**
Depreciation and amortization	**305**	82	83	83	82	**330**	81	82	84	85	**332**	86	86	87	87	**346**
Taxes other than income taxes	**116**	30	30	30	30	**120**	29	30	30	31	**120**	31	31	31	31	**125**
Total Operating Expenses	1,589	388	364	394	441	**1,588**	455	375	364	508	**1,703**	489	398	381	523	**1,791**
OPERATING INCOME	**309**	99	64	73	115	**351**	132	69	58	156	**415**	145	76	62	161	**444**
EBITDA	***636***	***187***	***156***	***162***	***206***	***711***	***220***	***160***	***147***	***250***	***778***	***238***	***171***	***155***	***257***	***821***
EBIT	***331***	***105***	***73***	***79***	***124***	***381***	***139***	***78***	***64***	***165***	***446***	***152***	***85***	***68***	***170***	***475***
Interest expense	**114**	27	27	28	28	**109**	29	30	31	34	**125**	34	34	34	34	**137**
Other income:																
AFUDC	**21**	7	8	8	8	31	8	8	8	8	32	8	8	8	8	32
Misc. income (expense)	**1**	(1)	1	(2)	1	(1)	(1)	1	(2)	1	(1)	(1)	1	(2)	1	(1)
Other income	**22**	6	9	6	9	**30**	7	9	6	9	**31**	7	9	6	9	**31**
Income before income tax expense	**217**	78	46	52	96	**272**	110	48	32	131	321	117	51	34	136	338
Income tax expense	**45**	17	9	18	34	**78**	38	17	11	46	**112**	41	18	12	48	**118**
Net Income	**172**	61	37	34	62	**194**	71	31	21	85	**209**	76	33	22	88	**220**
Weighted-average shares outstanding (in thousands)	**84**	89	89	89	89	**89**	89	89	89	89	**89**	89	89	89	89	**89**
EPS	**$2.04**	0.69	0.42	0.38	0.70	**$2.18**	0.80	0.35	0.24	0.96	**$2.35**	0.86	0.37	0.25	1.00	**$2.47**

Source: Company reports; Guggenheim Securities, LLC estimates.

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PORTLAND GENERAL ELECTRIC COMPANY

CASH FLOW STATEMENT ($millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Net Income	172	61	37	34	62	194	71	31	21	85	209	76	33	22	88	220
Depreciation and amortization	305	82	83	83	82	330	81	82	84	85	332	85	86	87	87	346
(Decrease) increase in net liabilities from price risk management	60	2	(48)	0	0	(46)	0	0	0	0	0	0	0	0	0	0
Regulatory deferrals—price risk management activities	(60)	(2)	48	0	0	46	0	0	0	0	0	0	0	0	0	0
Deferred income taxes	40	14	6	0	0	20	0	0	0	0	0	0	0	0	0	0
Pension and other postretirement benefits	34	7	7	0	0	14	0	0	0	0	0	0	0	0	0	0
Allowance for equity funds used during construction	(21)	(7)	(8)	0	0	(15)	0	0	0	0	0	0	0	0	0	0
Other non-cash income and expenses, net	17	4	5	0	0	9	0	0	0	0	0	0	0	0	0	0
Changes in Assets & Liabilities:																
Decrease in accounts receivable and unbilled revenues	(11)	46	13	(11)	(26)	22	(9)	41	6	(70)	(31)	9	46	9	(70)	(6)
Increase in inventories	0	1	(5)	7	(6)	(3)	(15)	5	26	(32)	(16)	(7)	6	29	(32)	(3)
Decrease (increase) in margin deposits, net	(22)	(7)	25	0	0	18	0	0	0	0	0	0	0	0	0	0
Decrease in accounts payable and accrued liabilities	6	(11)	(2)	(23)	42	6	50	(57)	(50)	125	57	24	(66)	(68)	123	13
Other working capital items, net	(4)	(16)	22	0	0	6	0	0	0	0	0	0	0	0	0	0
Other - net	1	(13)	(6)	0	0	(19)	0	0	0	0	0	0	0	0	0	0
Net Operating Cash Flows	517	161	177	89	155	582	179	102	78	192	551	188	105	79	197	570
Capital Expenditures	(598)	(131)	(188)	(143)	(143)	(604)	(145)	(145)	(145)	(145)	(578)	(107)	(107)	(107)	(107)	(427)
Other - net	76	(2)	2	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Investing Cash Flows	(522)	(133)	(186)	(143)	(143)	(604)	(145)	(145)	(145)	(145)	(578)	(107)	(107)	(107)	(107)	(427)
Equity issuance	271	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
LT debt issued	145	140	125	50	25	340	100	100	100	100	400	0	0	0	0	0
LT debt payments	(442)	(133)	0	0	0	(133)	0	0	0	150	150	0	0	0	0	0
Change in short-term debt	0	(6)	0	0	0	(6)	0	0	0	0	0	0	0	0	0	0
Dividends paid	(97)	(27)	(26)	(28)	(27)	(108)	(28)	(30)	(30)	(28)	(117)	(30)	(32)	(32)	(30)	(124)
Other - net	5	(2)	(1)	0	0	(3)	0	0	0	0	0	0	0	0	0	0
Net Financing Cash Flow	(118)	(28)	98	22	(2)	90	72	70	70	222	433	(30)	(32)	(32)	(30)	(124)
Beginning Cash Balance	127	4	4	93	61	4	72	177	205	208	72	478	529	496	436	478
Net Change in Cash +/-	(123)	0	89	(32)	10	68	106	28	3	270	406	51	(33)	(60)	61	19
Ending Cash Balance	4	4	93	61	72	72	177	205	208	478	478	529	496	436	497	497

Source: Company reports; Guggenheim Securities, LLC estimates.

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PORTLAND GENERAL ELECTRIC COMPANY

CONSOLIDATED BALANCE SHEET ($millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Assets:																
Cash and cash equivalents	**4**	4	93	61	72	**72**	177	205	298	478	**478**	529	496	436	497	**497**
Accounts receivable, net	**158**	130	124	135	161	**161**	170	129	122	192	**192**	183	137	128	198	**198**
Unbilled revenues	**95**	77	70	70	70	**70**	70	70	70	70	**70**	70	70	70	70	**70**
Inventories	**83**	82	87	80	86	**86**	101	96	70	102	**102**	109	103	73	105	**105**
Regulatory assets—current	**129**	131	74	74	74	**74**	74	74	74	74	**74**	74	74	74	74	**74**
Other current assets	**88**	113	64	64	64	**64**	64	64	64	64	**64**	64	64	64	64	**64**
Electric utility plant, net	**6,012**	6,160	6,284	6,344	6,404	**6,404**	6,467	6,529	6,590	6,650	**6,650**	6,670	6,691	6,711	6,731	**6,731**
Regulatory assets—noncurrent	**524**	526	525	525	525	**525**	525	525	525	525	**525**	525	525	525	525	**525**
Nuclear decommissioning trust	**40**	41	41	41	41	**41**	41	41	41	41	**41**	41	41	41	41	**41**
Non-qualified benefit plan trust	**33**	32	33	33	33	**33**	33	33	33	33	**33**	33	33	33	33	**33**
Other LT Assets	**44**	48	51	51	51	**51**	51	51	51	51	**51**	51	51	51	51	**51**
Total Assets	7,210	7,344	7,446	7,478	7,581	7,581	7,773	7,817	7,848	8,280	8,280	8,350	8,285	8,207	8,388	8,388
Liabilities:																
Accounts payable	**98**	98	114	93	104	**104**	115	118	86	120	**120**	123	125	90	124	**124**
Liabilities from price risk management activities—current	**130**	142	81	81	81	**81**	81	81	81	81	**81**	81	81	81	81	**81**
Current portion of long-term debt	**133**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued expenses and other current liabilities	**259**	268	247	245	276	**276**	314	255	227	317	**317**	338	270	237	326	**326**
Long-term debt, net of current portion	**2,060**	2,199	2,324	2,374	2,399	**2,399**	2,499	2,599	2,699	2,949	**2,949**	2,949	2,949	2,949	2,949	**2,949**
Regulatory liabilities—noncurrent	**928**	938	949	949	949	**949**	949	949	949	949	**949**	949	949	949	949	**949**
Deferred income taxes	**632**	646	649	649	649	**649**	649	649	649	649	**649**	649	649	649	649	**649**
Unfunded status of pension and postretirement plans	**259**	261	264	264	264	**264**	264	264	264	264	**264**	264	264	264	264	**264**
Liabilities from price risk management activities—noncurrent	**161**	161	171	171	171	**171**	171	171	171	171	**171**	171	171	171	171	**171**
Asset retirement obligations	**151**	152	155	155	155	**155**	155	155	155	155	**155**	155	155	155	155	**155**
Non-qualified benefit plan liabilities	**106**	106	106	106	106	**106**	106	106	106	106	**106**	106	106	106	106	**106**
Other noncurrent liabilities	**35**	82	83	83	83	**83**	83	83	83	83	**83**	83	83	83	83	**83**
Total Liabilities	4,952	5,053	5,143	5,170	5,237	5,237	5,386	5,429	5,469	5,844	5,844	5,868	5,802	5,734	5,857	5,857
Noncontrolling interests' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common Stock	**1,196**	1,195	1,198	1,198	1,198	**1,198**	1,198	1,198	1,198	1,198	**1,198**	1,198	1,198	1,198	1,198	**1,198**
Accumulated other comprehensive loss	**(8)**	(8)	(8)	(8)	(8)	**(8)**	(8)	(8)	(8)	(8)	**(8)**	(6)	(8)	(8)	(8)	**(8)**
Retained earnings	**1,070**	1,104	1,113	1,118	1,154	**1,154**	1,197	1,198	1,189	1,246	**1,246**	1,292	1,293	1,283	1,341	**1,341**
Total Liabilities & Shareholders Equity	7,210	7,344	7,446	7,478	7,581	7,581	7,773	7,817	7,848	8,280	8,280	8,350	8,285	8,207	8,388	8,388

Source: Company reports; Guggenheim Securities, LLC estimates.

SCANA (SCG, BUY, $71.72)

Initiating coverage of SCG with non-consensus BUY and $78 price target; concern around new nuclear construction overshadows a simple regulated growth story. We acknowledge nuclear risk but appreciate legislative/regulatory support in the region. SCG is a pure-play regulated utility with higher growth prospects than the average peer, with upside to the dividend trading at a valuation discount.

- **We are initiating coverage of SCG with a non-consensus BUY rating and $78 price target.** SCG is a $10bn market cap regulated electric and gas utility based primarily in South Carolina (SCE&G, 90% of rate base), with a smaller gas service territory in North Carolina (PSNC, 10% of rate base), and a non-regulated retail gas marketing business (~5% of earnings). SCG would otherwise be a simple pure-play regulated utility story but is complicated by a $7.7bn nuclear investment. **Our BUY stance is premised upon above-average regulated earnings growth (6%/yr) driven by double-digit rate base growth (we estimate 11%/yr) as two new nuclear units are built at V.C. Summer – in one of the more supportive policy/regulatory back-drops we've seen for a project of this nature outside of GA.** In our view, the constructive cost recovery process in SC allows SCG to deploy significant capital into rate base and maintain dividend growth while limiting external financing requirements; we actually see a widening runway for dividend growth as we model payout ratios remaining below 60%. **A new contractor payment schedule in November should be a key catalyst.** With a finite number of utility values remaining in the sector, we believe SCG's valuation warrants a re-look given its NT prospects.
- **Our 2016/2017/2018 EPS estimates are $3.99/$4.25/$4.53, respectively, slightly above consensus.** We model 6.2% annual earnings growth, just above management's outlook for 4-6% growth over the next 3-5 years, which we believe is conservative. We model over $5bn of CapEx driving 10.6% annual rate base growth and, in turn, 6.2% EPS growth. The gap between our earnings and rate base growth trajectories is driven by dilution as we assume equity is issued in 2018 ($125mm in 2018), and declining ROEs (see our summary of regulated business metrics on the following page); note we model equity issuance above management's prior outlook, which included $125mm and $130mm in 2017 and 2018, respectively, to maintain debt capitalization around 55%.
- **Investment debate centers around V.C. Summer – A $7.7bn nuclear investment is a tough pill to swallow, although policy designed to facilitate this investment sets one of the more constructive backdrops we've seen for a project of this nature.** Construction of two new nuclear units at V.C. Summer is the primary overhang on SCG (trading at a ~1x discount to peers), particularly with contractor issues causing delays and cost over-runs, however we believe **risk should be weighed against the constructive regulatory backdrop and rate base growth prospects.** SCG will continue seeking regulatory approval for year-over-year rate increases with potential pressure always possible on ROEs, although equitable regulatory outcomes are achievable through SC's BLRA — SCG is essentially doubling its rate base and recovering costs through constructive regulatory mechanisms supported by legislation designed to facilitate this investment. As a reminder, South Carolina enacted the Base Load Review Act (BLRA) following SCG's filing with the NRC to build the plant, with ~$7.7bn authorized through 2020 for SCG's 55% ownership interest (Santee Cooper municipality is SCG's partner). SCG files annually (June) for cash recovery of CWIP balances beginning at the end of the year (November) through the BLRA, which provides liquidity to limit the amount of external financing required, and a 10.5%

ROE. **We model V.C. Summer's CWIP (or rate base for return) reaching ~$6bn by 2018, this is in addition to SCG's $5bn non-nuclear rate base at SCE&G.**

- **Construction won't be complete within our current '18 investment horizon, although contractor disputes could be resolved in coming weeks — a potential catalyst to watch for.** Outside of regulatory proceedings, we await a construction schedule that's in the process of being updated, while SCG works with Santee Cooper and Westinghouse on a new payment milestone schedule with direction from the Dispute Resolution Board (DRB); until a new payment milestone schedule is agreed upon, SCG will make transition payments of ~$75mm in November, proportionate to its 55% ownership interest, and based on the DRB's evaluation of work to be completed. If a resolution isn't reached by 11/3/16 the DRB will make its determination by 11/30/16. We anticipate incremental insight into SCG's financing plans with a resolution; **we model ~$200mm/yr of equity issuance to remain around 55% debt capitalization, which is above management's previously issued outlook with $125mm and $130mm in 2017 and 2018.** We would also note SCG has reached a settlement agreement around construction scheduling and costs with influential intervenors, so remaining risk is mainly around executing the plan.

- **Aside from nuclear, we appreciate SCG's simple fundamental story, with traditional regulated growth avenues such as gas infrastructure replacement.** SCG recently divested its gas transmission and telecom businesses as they didn't quite align, and, aside from its established retail gas marketing business (~5% of earnings), stands out as a pure-play regulated utility; **a cleaner business mix we've seen many utility peers trying to emulate, although double-digit rate base growth is quite unique.** With over 90% of earnings derived from regulated electric and gas utility operations in the Carolinas, SCG doesn't offer much regulatory diversity, although these are two very constructive jurisdictions for utilities to operate, in our view. SCG's utilities aren't fully decoupled, but manage healthy returns and have been **able to avoid base rate cases with constructive rate mechanisms to recover costs;** in addition to the BLRA, the Rate Stabilization Act in SC adjusts rates annually to reset ROEs to 10.5% when utilities earn +/- 50bps from that marker, and SCG's NC gas utility employs a customer usage tracker to mitigate volume variance and true-up margins. Regulators also support investment in infrastructure other than nuclear plants; notably gas infrastructure replacement.

- **Valuation: We arrive at our $78 price target by applying a sum-of-the-parts analysis comprised of: (1)** $65/share for regulated electric utility when we apply our group average regulated electric utility multiple of 16.0x, which is based on a regression of corp. bond yields and utility P/E multiples, plus a 0.5x company-specific premium, to our 2018 EPS estimate of $3.96; **(2)** $13/share for SCG's gas utilities when we ascribe our 5x historical LDC premium spread to our 16.0x group average regulated electric utility multiple to our 2018 EPS estimate of $0.56; **incorporating our estimated 3.3% dividend yield would equate to a 12.1% ETR.**

- **Risks:** The primary risk 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.

  Additional risk factors for Scana Corporation include: Construction risk associated with the $7.7bn V.C. Summer nuclear plant; as well as cost overruns and delays. These are adverse factors, that should they occur may result in lower earnings.

Guggenheim's SCG EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2015A	1.34A	0.63A	0.93A	0.83A	3.73A	
2016E	1.28A	0.73A	1.32A	0.65E	3.99E	*4.11E*
2017E	1.12E	0.61E	0.96E	1.54E	4.25E	*4.23E*
2018E	1.00E	0.50E	0.83E	2.19E	4.53E	*4.52E*

Source: FactSet, Guggenheim Securities, LLC estimates.

Summary Business Metrics

Summary Business Metrics					
Earnings and business mix	**2016E**	**2017E**	**2018E**	***CAGR***	***% of total***
Regulated	3.89	4.13	4.40	*6.4%*	*97.4%*
Non-regulated (retail marketing)	0.22	0.23	0.24	*7.5%*	*5.5%*
Parent & other	(0.18)	(0.18)	(0.18)	*(3.2%)*	*-4.2%*
SCG	**$3.99**	**$4.25**	**$4.53**	***6.7%***	***100%***
Dividend growth & coverage	**2016E**	**2017E**	**2018E**		
Annual dividend growth	5.5%	5.2%	5.0%		
Payout ratio	58%	57%	56%		

Source: Company reports, Guggenheim Securities, LLC estimates.

Regulated Business Metrics

Regulated business metrics						
Rate base assets *($Bn)*	**Jurisdiction**	**2016E**	**2017E**	**2018E**	***CAGR***	***% of total***
SC Electric "Normal"		5,017	5,047	5,067	*0.5%*	*45%*
SC Gas		559	592	622	*5.4%*	*5%*
PSNC	*NCUC*	913	1,095	1,278	*15.8%*	*10%*
Regulated ROEs by jurisdiction		**2016E**	**2017E**	**2018E**		***Average***
South Carolina	*Earned*	10.6%	10.0%	9.5%		*10.0%*
	Authorized	*10.5%*	*10.5%*	*10.5%*		*10.5%*
North Carolina	*Earned*	12.3%	12.2%	12.0%		*12.2%*
	Authorized	*10.6%*	*10.6%*	*10.6%*		*10.6%*
Regulated EPS		**2016E**	**2017E**	**2018E**	***CAGR***	***% of total***
SCE&G		3.37	3.51	3.70	*5.1%*	*85%*
SC GenCo		*0.11*	*0.12*	*0.14*	*12.0%*	*3%*
PSNC		0.42	0.50	0.57	*14.8%*	*12%*
Regulated earnings		**$3.89**	**$4.13**	**$4.40**	*6.4%*	*100%*

Source: Company reports, Guggenheim Securities, LLC estimates.

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Income Statement	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating Revenues:																
Electric	2,551	592	626	1,048	589	2,855	657	695	851	940	3,143	665	703	862	1,260	3,491
Gas - regulated	811	299	127	131	220	777	317	143	156	246	862	335	160	166	261	921
Gas - non-regulated	1,018	281	152	305	256	994	318	188	272	264	1,041	333	197	284	277	1,091
Total Operating Revenues	**4,380**	**1,172**	**905**	1,484	1,066	**4,626**	1,292	1,025	1,279	1,450	**5,046**	1,333	1,059	1,312	1,798	**5,502**
Fuel for electric generation	660	136	130	183	144	593	136	143	181	202	662	138	147	182	273	740
Purchased power	52	11	17	137	43	208	94	39	48	53	234	101	43	51	63	258
Gas purchased for resale	1,287	359	192	(423)	43	171	61	37	41	47	185	63	38	42	48	191
Other O&M	715	181	191	1,014	461	1,847	491	409	529	528	1,957	507	420	545	614	2,086
Depreciation & amortization	**358**	91	92	94	93	371	99	100	100	101	400	111	112	112	113	448
Other taxes	**234**	63	62	65	63	254	68	68	68	68	272	76	76	77	77	306
Total Operating Expenses	**3,306**	**841**	**684**	**1,071**	**848**	**3,444**	**949**	**795**	**968**	**999**	**3,711**	**996**	**836**	**1,010**	**1,187**	**4,029**
Gain on sale	**234**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income	**1,308**	**331**	**221**	**412**	**218**	**1,182**	**343**	**230**	**311**	**452**	**1,335**	**337**	**223**	**302**	**611**	**1,473**
Other income	75	16	14	15	25	70	18	17	17	19	70	18	17	17	19	70
Other expense	(60)	(14)	(10)	(24)	(12)	(59)	(15)	(13)	(14)	(16)	(59)	(15)	(13)	(14)	(16)	(59)
Gain on sale (SCI)	107	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest charges	(318)	(83)	(83)	(92)	(97)	(355)	(99)	(104)	(107)	(116)	(426)	(119)	(122)	(125)	(129)	(496)
AFUDC	27	5	9	9	7	29	6	8	9	7	30	6	8	9	7	30
Total Other Income (Expense)	**(169)**	**(76)**	**(70)**	**(91)**	**(77)**	**(314)**	**(91)**	**(92)**	**(95)**	**(107)**	**(385)**	**(110)**	**(110)**	**(114)**	**(120)**	**(454)**
Income Before Tax	**1,139**	**255**	**151**	**321**	**141**	**868**	**252**	**138**	**215**	**344**	**950**	**227**	**113**	**188**	**491**	**1,019**
Income Taxes	393	79	46	132	48	305	92	50	78	124	344	83	42	68	175	368
Net Income	**746**	**176**	**105**	**189**	**93**	**563**	**160**	**88**	**138**	**221**	**607**	**144**	**71**	**120**	**316**	**651**
Earnings for Common	**746**	**176**	**105**	**187**	**91**	**559**	**158**	**86**	**136**	**219**	**598**	**142**	**69**	**118**	**314**	**643**
Wtd. avg. share count (MM)	**143**	143	143	143	143	**143**	143	143	143	143	**143**	143	144	144	144	**144**
EPS (Basic and Diluted)	**5.22**	1.23	0.73	1.32	0.65	**3.94**	1.12	0.61	0.96	1.54	**4.25**	1.00	0.50	0.83	2.19	**4.53**
Non-operating items	(213)	7	-	-	-	**7**	-	-	-	-	-	-	-	-	-	-
Net Income (Non GAAP)	**533**	**183**	**105**	**189**	**93**	570	**160**	**88**	**138**	**221**	**607**	**144**	**71**	**120**	**316**	**651**
Operating EPS	**$3.73**	**1.28**	**0.73**	**1.32**	**0.65**	**$3.99**	**1.12**	**0.61**	**0.96**	**1.54**	**$4.25**	**1.00**	**0.50**	**0.83**	**2.19**	**$4.53**

Source: Company reports, Guggenheim Securities, LLC estimates.

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CASH FLOW STATEMENT	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Net Income	746	176	105	189	93	**563**	160	88	138	221	**607**	144	71	120	316	**651**
Discontinued Operation	(355)	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Loss from Equity Investments	3	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Deferred Income Tax Expense (Ber	(31)	(11)	(9)	-	-	**(20)**	-	-	-	-	**-**	-	-	-	-	**-**
Depreciation and amortization	368	94	96	94	93	**378**	99	100	100	101	**400**	111	112	112	113	**448**
Amortization of nuclear fuel	46	14	14	14	14	**56**	14	14	14	14	**56**	14	14	14	14	**56**
AFUDC	(27)	(5)	(9)	(9)	(7)	**(29)**	(6)	(8)	(9)	(7)	**(30)**	(6)	(8)	(9)	(7)	**(30)**
Changes in working capital	(12)	(207)	24	-	-	**(183)**	-	-	-	-	**-**	-	-	-	-	**-**
Operating Cash Flow	**1,059**	**61**	**221**	**288**	**194**	**764**	**267**	**193**	**243**	**329**	**1,033**	**263**	**189**	**238**	**436**	**1,126**
Investing Cash Flows	**(660)**	**(451)**	**(496)**	**(415)**	**(431)**	**(1,793)**	**(498)**	**(498)**	**(498)**	**(498)**	**(1,994)**	**(389)**	**(389)**	**(389)**	**(389)**	**(1,556)**
Proceeds from Issuance of Comm	14	-	-	-	-	**-**	-	-	-	-	**-**	31	31	31	31	**125**
Proceeds from Issuance of Long-te	491	-	592	225	375	**1,192**	300	350	250	525	**1,425**	250	250	250	250	**1,000**
Repayments of Long-term Debt	(166)	(8)	(6)	200	-	**186**	-	-	-	150	**150**	-	-	-	(500)	**(500)**
Dividends	(309)	(78)	(82)	(77)	(79)	**(316)**	(82)	(81)	(76)	(78)	**(319)**	(82)	(81)	(76)	(78)	**(319)**
Short-term borrowings, net	(387)	386	(248)	-	-	**138**	-	-	-	-	**-**	-	-	-	-	**-**
Deferred financing costs	(3)	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Financing Cash Flows	**(360)**	**300**	**256**	**348**	**296**	**1,200**	**218**	**269**	**174**	**597**	**1,256**	**199**	**200**	**205**	**(297)**	**306**
Change in Cash	39	(90)	(19)	221	59	**172**	(13)	(37)	(81)	427	**295**	73	(0)	54	(250)	**(124)**
Beginning Cash	137	176	86	67	288	**176**	348	334	297	216	**348**	643	716	716	769	**643**
Ending Cash	**176**	**86**	**67**	**288**	**348**	**348**	**334**	**297**	**216**	**643**	**643**	**716**	**716**	**769**	**519**	**519**

Source: Company reports, Guggenheim Securities, LLC estimates.

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Balance Sheet	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Assets																
Utility Plant in Service	12,883	12,942	13,170	13,585	14,016	**14,016**	14,514	15,013	15,511	16,010	**16,010**	16,399	16,788	17,177	17,566	**17,566**
Accumulated Depreciation and Am	(4,307)	(4,327)	(4,364)	(4,456)	(4,552)	**(4,552)**	(4,651)	(4,751)	(4,851)	(4,952)	**(4,952)**	(5,063)	(5,175)	(5,287)	(5,400)	**(5,400)**
Construction Work in Progress	4,051	4,245	4,300	4,300	4,300	**4,300**	4,300	4,300	4,300	4,300	**4,300**	4,300	4,300	4,300	4,300	**4,300**
Nuclear Fuel, Net of Accumulated A	308	295	282	268	254	**254**	240	226	212	198	**198**	184	170	156	142	**142**
Goodwill, Net of Writedown of $230	210	210	210	210	210	**210**	210	210	210	210	**210**	210	210	210	210	**210**
Utility Plant, Net	13,145	13,365	13,598	13,905	14,228	**14,228**	14,613	14,998	15,382	15,766	**15,766**	16,030	16,293	16,555	16,818	**16,818**
Nonutility property, net of accumula	280	280	278	278	278	**278**	278	278	278	278	**278**	278	278	278	278	**278**
Assets held in trust, net-nuclear de	115	119	123	123	123	**123**	123	123	123	123	**123**	123	123	123	123	**123**
Other investments	71	73	73	73	73	**73**	73	73	73	73	**73**	73	73	73	73	**73**
Nonutility Property and Investment	466	472	474	474	474	**474**	474	474	474	474	**474**	474	474	474	474	**474**
Current Assets:																
Cash and cash equivalents	176	86	67	288	348	**348**	334	297	216	643	**643**	716	716	799	519	**519**
Receivables, net of allowance for u	505	505	483	483	483	**483**	483	483	483	483	**483**	483	483	483	483	**483**
Other	227	142	81	81	81	**81**	81	81	81	81	**81**	81	81	81	81	**81**
Fuel	164	134	137	137	137	**137**	137	137	137	137	**137**	137	137	137	137	**137**
Materials and supplies	148	148	149	149	149	**149**	149	149	149	149	**149**	149	149	149	149	**149**
Prepaid Expense	115	119	159	159	159	**159**	159	159	159	159	**159**	159	159	159	159	**159**
Other current assets	43	83	66	55	66	**66**	55	66	66	66	**66**	66	66	66	66	**66**
Total Current Assets	1,378	1,217	1,142	1,363	1,423	**1,423**	1,409	1,372	1,291	1,719	**1,716**	1,791	1,791	1,844	1,594	**1,594**
Regulatory assets	1,937	2,068	2,168	2,168	2,168	**2,168**	2,168	2,168	2,168	2,168	**2,168**	2,168	2,168	2,168	2,168	**2,168**
Other	220	246	290	290	290	**290**	290	290	290	290	**290**	290	290	290	290	**290**
Total Deferred Debits and Other As	2,157	2,314	2,458	2,458	2,458	**2,458**	2,458	2,458	2,458	2,458	**2,458**	2,458	2,458	2,458	2,458	**2,458**
Total Assets	17,146	17,368	17,672	18,200	18,583	**18,583**	18,955	19,303	19,605	20,416	**20,416**	20,752	21,015	21,331	21,344	**21,344**
Capitalization and Liabilities																
Common Stock	2,390	2,390	2,390	2,390	2,390	**2,390**	2,390	2,390	2,390	2,390	**2,390**	2,421	2,453	2,484	2,515	**2,515**
Retained Earnings	3,116	3,212	3,235	3,347	3,381	**3,381**	3,439	3,448	3,507	3,649	**3,649**	3,711	3,701	3,744	3,982	**3,982**
Accumulated Other Comprehensive	(55)	(63)	(58)	(58)	(58)	**(58)**	(58)	(58)	(58)	(58)	**(58)**	(58)	(58)	(58)	(58)	**(58)**
Total Common Equity	5,443	5,539	5,567	5,679	5,693	**5,693**	5,771	5,778	5,839	5,981	**5,981**	6,074	6,095	6,170	6,439	**6,439**
Long-Term Debt, net	5,882	5,879	6,468	6,893	7,268	**7,268**	7,568	7,918	8,168	8,843	**8,843**	9,093	9,343	9,593	9,343	**9,343**
Total Capitalization	11,325	11,418	12,035	12,572	12,961	**12,961**	13,339	13,696	14,007	14,824	**14,824**	15,167	15,438	15,763	15,782	**15,782**
Current Liabilities:																
Short-term borrowings	531	917	669	669	669	**669**	669	669	669	669	**669**	669	669	669	669	**669**
Current portion of long-term debt	116	116	116	116	116	**116**	116	116	116	116	**116**	116	116	116	116	**116**
Accounts payable	590	359	225	225	225	**225**	225	225	225	225	**225**	225	225	225	225	**225**
Customer deposits and customer	137	176	190	190	190	**190**	190	190	190	190	**190**	190	190	190	190	**190**
Taxes accrued	242	83	104	104	104	**104**	104	104	104	104	**104**	104	104	104	104	**104**
Interest accrued	83	85	84	84	84	**84**	84	84	84	84	**84**	84	84	84	84	**84**
Dividends declared	76	80	80	80	80	**80**	80	80	80	80	**80**	80	80	80	80	**80**
Derivative financial instruments	50	113	54	54	54	**54**	54	54	54	54	**54**	54	54	54	54	**54**
Other	127	92	117	117	117	**117**	117	117	117	117	**117**	117	117	117	117	**117**
Current Liabilities	1,952	2,031	1,639	1,639	1,639	**1,639**	1,639	1,639	1,639	1,639	**1,639**	1,639	1,639	1,639	1,639	**1,639**
Deferred Credits and Other Liabilities:																
Deferred income taxes, net	1,907	1,898	1,892	1,892	1,892	**1,892**	1,892	1,892	1,892	1,892	**1,892**	1,892	1,892	1,892	1,892	**1,892**
Asset retirement obligations	520	522	525	525	525	**525**	525	525	525	525	**525**	525	525	525	525	**525**
Pension and other postretirement b	315	316	322	322	322	**322**	322	322	322	322	**322**	322	322	322	322	**322**
Regulatory liabilities	855	847	855	845	840	**840**	833	825	816	810	**810**	803	795	786	780	**780**
Other	272	334	404	404	404	**404**	404	404	404	404	**404**	404	404	404	404	**404**
Total Liabilities	3,869	3,919	3,998	3,989	3,983	**3,983**	3,976	3,968	3,959	3,953	**3,953**	3,946	3,938	3,929	3,923	**3,923**
Total Liabilities & Equity	17,146	17,368	17,672	18,200	18,583	**18,583**	18,955	19,303	19,605	20,416	**20,416**	20,752	21,015	21,331	21,344	**21,344**

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

SC ELECTRIC & GAS COMPANY

($ in millions unless stated otherwise)

Income Statement	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating Revenues																
Electric	**2,557**	593	627	868	536	**2,625**	600	636	788	885	2,909	608	644	799	1,196	3,247
Gas	373	124	65	65	101	**355**	135	70	70	109	384	139	72	72	112	395
Total Operating Revenues	2,930	717	692	933	637	2,979	735	706	858	994	3,292	747	716	871	1,308	3,642
Operating Expenses																
Fuel used in electric generation	**661**	136	130	183	144	**593**	136	143	181	202	**662**	138	147	182	273	**740**
Purchased power	**52**	11	17	17	15	**60**	14	15	18	21	**68**	14	15	19	28	**76**
Gas purchased for resale	**193**	56	34	38	43	**171**	61	37	41	47	**185**	63	38	42	48	**191**
Other operation and maintenance	**579**	146	156	183	158	**642**	148	156	189	211	**704**	150	158	192	279	**778**
Depreciation and amortization	**294**	74	75	75	75	**299**	80	81	81	81	**323**	91	91	92	92	**366**
Other taxes	**217**	58	58	58	58	**232**	62	62	62	63	**250**	70	70	71	71	**282**
Total Operating Expenses	1,996	481	470	553	493	1,997	501	494	573	624	2,192	527	519	597	790	2,433
Operating Income	934	236	222	379	144	982	234	212	286	369	1,101	220	197	273	519	1,209
Other Income (Expense):																
Other income	**31**	5	6	6	7	**24**	5	6	6	7	**24**	5	6	6	7	**24**
Other expense	**(31)**	(8)	(6)	(7)	(9)	**(30)**	(8)	(6)	(7)	(9)	**(30)**	(8)	(6)	(7)	(9)	**(30)**
Gain on sale (SCI)	**-**	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Interest charges	**(248)**	(66)	(65)	(68)	(73)	**(271)**	(76)	(81)	(84)	(91)	**(332)**	(94)	(97)	(100)	(103)	**(394)**
Allowance for equity funds used during construction	**25**	5	8	8	6	**27**	5	8	8	6	**27**	5	8	8	6	**27**
Total Other Income (Expense)	**(223)**	**(64)**	**(57)**	**(61)**	**(69)**	**(250)**	**(74)**	**(73)**	**(77)**	**(87)**	**(311)**	**(92)**	**(89)**	**(93)**	**(99)**	**(373)**
Income Before Income Tax Expense	**711**	172	165	319	76	**732**	160	139	209	283	**790**	128	108	180	419	**836**
Income Tax Expense	**231**	56	52	111	27	**246**	56	49	73	99	**277**	45	38	63	147	**293**
Net Income	**480**	**116**	**113**	**207**	**49**	**486**	**104**	**90**	**136**	**184**	**514**	**84**	**70**	**117**	**273**	**543**
Earnings from Equity Method Investments	**-**	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Net Income Attributable to Noncontrolling Interest	**(14)**	(3)	(3)	(3)	(3)	**(12)**	(3)	(3)	(3)	(3)	**(12)**	(3)	(3)	(3)	(3)	**(12)**
Earnings Available to Common Shareholder	**466**	**113**	**110**	**204**	**46**	**474**	**101**	**87**	**133**	**181**	**502**	**81**	**67**	**114**	**270**	**531**
Weighted Average Common Shares Outstanding	**143**	143	143	143	143	**143**	143	143	143	143	**143**	143	144	144	144	**144**
Earnings Per Share, Basic and Diluted	**3.26**	0.79	0.77	1.43	0.32	**3.32**	0.70	0.61	0.93	1.27	**3.51**	0.56	0.47	0.79	1.87	**3.70**
Non Operating Items	**(11)**	7	-			**7**					**-**					**-**
Net Income (Non-GAAP)	**455**	120	110	204	46	**481**	101	87	133	181	**502**	81	67	114	270	**531**
Operating EPS	**$3.18**	**0.84**	**0.77**	**1.43**	**0.32**	**$3.37**	**0.70**	**0.61**	**0.93**	**1.27**	**$3.51**	**0.56**	**0.47**	**0.79**	**1.87**	**$3.70**

Source: Company reports, Guggenheim Securities, LLC estimates.

Launching Coverage and Getting Gassier – Catalyst-Rich but Not a Sector Call

GUGGENHEIM

PSNC

($ in millions unless stated otherwise)

Income Statement	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating Revenues	**226**	**61**	**49**	**103**	**439**	**175**	71	57	119	423	183	73	86	137	478	196	88	94	148	526
Cost of Gas	130	20	17	24	191	77	23	20	28	148	80	24	30	32	166	86	28	32	35	182
Margin	**96**	**41**	**32**	**79**	**248**	**98**	**48**	**37**	**91**	**275**	**102**	**49**	**56**	**105**	**312**	**110**	**59**	**61**	**113**	**344**
O&M	23	23	25	24	94	26	23	25	24	98	26	23	25	24	99	27	24	26	25	100
Depreciation and amortization	12	12	12	12	48	12	14	14	14	54	14	15	15	16	59	16	16	16	17	65
Other taxes	3	3	3	3	12	4	4	4	4	15	4	4	4	4	16	4	4	5	5	18
Total Operating Expenses	**38**	**38**	**40**	**39**	**155**	**42**	**40**	**43**	**42**	**167**	**44**	**42**	**45**	**44**	**175**	**47**	**44**	**46**	**46**	**183**
Operating Income	58	3	(8)	40	**93**	56	8	(6)	49	108	58	7	11	61	137	63	15	15	67	160
Other revenues	5	6	6	6	23	8	6	6	6	25	8	6	6	6	25	8	6	6	6	25
Other expenses	(3)	(3)	(3)	(3)	**(13)**	(3)	(3)	(3)	(3)	(13)	(3)	(3)	(3)	(3)	(13)	(3)	(3)	(3)	(3)	(13)
Interest charges, net of allowance	(6)	(6)	(6)	(6)	**(23)**	(6)	(8)	(11)	(11)	(36)	(11)	(11)	(11)	(14)	(48)	(14)	(14)	(14)	(14)	(55)
AFUDC	0	0	1	1	2	1	0	1	1	3	1	0	1	1	3	1	0	1	1	3
Total Other Expense	**(3)**	**(3)**	**(2)**	**(2)**	**(10)**	**(0)**	**(5)**	**(8)**	**(8)**	**(21)**	**(6)**	**(8)**	**(8)**	**(10)**	**(32)**	**(8)**	**(11)**	**(10)**	**(10)**	**(39)**
Income Before Tax	**54**	**0**	**(10)**	**38**	**83**	**56**	**3**	**(13)**	**42**	**87**	**52**	**(1)**	**4**	**61**	**105**	**55**	**4**	**4**	**57**	**121**
Income Tax Expense	(21)	(0)	4	(14)	(32)	(19)	(1)	5	(15)	(30)	(18)	0	(1)	(18)	(37)	(19)	(2)	(2)	(20)	(42)
Income Before Equity Investments	**33**	**0**	**(6)**	**23**	**51**	**36**	**2**	**(9)**	**27**	**56**	**34**	**(1)**	**2**	**33**	**68**	**36**	**3**	**3**	**37**	**79**
Equity Method Investments	1	1	1	1	4	1	1	1	1	4	1	1	1	1	4	1	1	1	1	4
Net Income	**34**	**1**	**(5)**	**24**	**54**	**37**	**3**	**(8)**	**28**	**60**	**35**	**-**	**3**	**34**	**72**	**37**	**4**	**4**	**38**	**82**
Wtd. Avg. Shares Outstanding (mm)	143	143	143	143	**143**	143	143	143	143	**143**	143	143	143	143	**143**	143	144	144	144	**144**
EPS (Basic and Diluted)	0.23	0.00	(0.04)	0.16	**0.35**	0.25	0.01	(0.06)	0.19	**0.39**	0.24	(0.01)	0.02	0.23	**0.48**	0.25	0.02	0.02	0.26	**0.55**
Non Operating Items	-	-	-	-	-	-														
Net Income (Non-GAAP)	33	0	(6)	23	54	37	3	(8)	28	**60**	35	-	3	34	**72**	37	4	4	38	**82**
Operating EPS	0.23	0.00	(0.04)	0.16	**$0.38**	0.26	0.02	(0.05)	0.20	**$0.42**	0.24	-	0.02	0.24	**$0.50**	0.26	0.03	0.03	0.26	**$0.57**

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

South Carolina Generating Company, Inc

CONSOLIDATED FINANCIALS

($ in millions unless stated otherwise)

Income Statement	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Total Operating Revenues	229	57	59	63	53	230	57	59	63	55	234	57	59	63	64	244
Operating Expenses:																
Operating Expense - Electric	159	39	41	45	35	160	39	41	45	37	162	40	41	45	43	169
Maintenance Expense: Electric	6	1	1	1	1	5	1	1	1	1	6	1	1	1	2	6
Taxes Other Than Inc Taxes: Total	7	2	2	2	2	7	2	2	2	2	6	2	2	2	1	6
Total Operating Expenses	172	43	44	48	38	172	42	44	48	40	174	42	44	48	46	181
EBITDA	57	14	15	15	15	58	14	15	15	16	60	15	15	15	19	63
Depreciation & Amortization	18	5	5	5	4	18	4	4	4	4	18	4	4	4	4	17
Federal & Other Income Taxes	3	1	1	1	(1)	3	1	2	1	(1)	3	1	2	1	0	5
Provision for Def Inc Taxes	12	1	1	1	7	12	1	1	1	7	12	1	1	1	7	12
Provision for Def Inc Taxes -Cr - Total	6	1	1	1	3	6	1	1	1	3	6	1	1	1	3	6
Investment Tax Credit Adj-net	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Net Utility Operating Income	30	8	8	8	7	32	8	9	8	8	33	8	9	8	10	35
Net Other Income and Deductions	(1)	(0)	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(1)
Net Interest Charges	16	4	4	4	4	16	4	4	4	4	15	4	4	4	4	15
Net Income before Extraordinary Items	14	3	4	4	4	15	4	5	4	4	17	4	5	4	6	19
Extraordinary Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	14	3	4	4	4	15	4	5	4	4	17	4	5	4	6	19
Weighted Average Common Shares Outstanding	143	143	143	143	143	143	143	143	143	143	143	143	144	144	144	144
Earnings Per Share, Basic and Diluted	0.10	0.02	0.03	0.03	0.02	0.11	0.03	0.03	0.03	0.03	0.12	0.03	0.03	0.03	0.04	0.14
Non Operating Items																
Net Income (Non-GAAP)	14	3	4	4	4	15	4	5	4	4	17	4	5	4	6	19
Operating EPS	$0.10	0.02	0.03	0.03	0.02	$0.11	0.03	0.03	0.03	0.03	$0.12	0.03	0.03	0.03	0.04	$0.14

Source: Company reports, Guggenheim Securities, LLC estimates.

Launching Coverage and Getting Gassier – Catalyst-Rich but Not a Sector Call

SECTOR: **POWER AND UTILITIES** **November 3, 2016**

GUGGENHEIM
MARKETING
($ in millions unless stated otherwise)

Income Statement	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
External Revenue	1,018	281	153	220	228	882	294	160	234	234	923	308	168	245	245	966
Intersegment Revenue	128	22	26	36	28	112	23	27	38	30	118	24	29	40	32	125
Total Operating Revenues	**1,146**	**303**	**179**	**256**	**256**	**994**	**318**	**188**	**272**	**264**	**1,041**	**333**	**197**	**284**	**277**	**1,091**
Total Operating Expenses	**1,099**	**264**	**179**	**256**	**243**	**941**	**276**	**187**	**268**	**254**	**986**	**289**	**196**	**281**	**266**	**1,032**
Operating Income	**47**	**39**	**0**	**(1)**	**14**	**53**	**41**	**0**	**4**	**10**	**55**	**43**	**0**	**4**	**11**	**58**
Other Income (Expense):																
Interest charges	(1)	(0)	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(1)	(0)	(0)	(0)	(0)	(1)
AFUDC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense)	**(1)**	**(0)**	**(0)**	**(0)**	**(0)**	**(1)**	**(0)**	**(0)**	**(0)**	**(0)**	**(1)**	**(0)**	**(0)**	**(0)**	**(0)**	**(1)**
Income Before Income Tax Expense	**46**	**39**	**0**	**(1)**	**13**	**52**	**41**	**0**	**3**	**10**	**54**	**43**	**0**	**3**	**10**	**57**
Income Tax Expense	18	15	0	1	4	20	16	0	1	4	21	17	0	1	4	22
Net Income	**28**	**24**	**-**	**(2)**	**10**	**32**	**25**	**0**	**2**	**6**	**33**	**27**	**0**	**2**	**6**	**35**
Net Income Attributable to Noncontrolling I	-					-	-	-	-	-	-	-	-	-	-	-
Earnings Available to Common Shareholde	**28**	**24**	**-**	**(2)**	**10**	**32**	**25**	**0**	**2**	**6**	**33**	**27**	**0**	**2**	**6**	**35**
Wtd. avg. share count (MM)	**143**	143	143	143	143	**143**	143	144	145	145	**144**	146	147	148	148	**147**
EPS (Basic and Diluted)	**0.20**	0.17	-	(0.01)	0.07	**0.22**	0.18	0.00	0.01	0.04	**0.23**	0.18	0.00	0.01	0.04	**0.24**
Non Operating Items	-					-					-					-
Net Income (Non-GAAP)	28	24	-	(2)	10	**32**	25	0	2	6	**33**	27	0	2	6	**35**
EPS (Basic and Diluted)	**$0.20**	0.17	-	(0.01)	0.07	**$0.22**	0.18	0.00	0.01	0.04	**$0.23**	0.18	0.00	0.01	0.04	**$0.24**

Source: Company reports, Guggenheim Securities, LLC estimates.

SPIRE (SR, BUY, $61.70)

Initiating coverage of SR with a BUY rating and $69 price target. We see good value despite the "Missouri discount." Missouri is tough, but not that tough, in our view.

- **We are initiating coverage of SR with a BUY rating and $69 price target.** SR is a $3bn market cap gas utility with a regulated portfolio of 5 individual gas operations: Laclede Gas and Missouri Gas Energy in Missouri (~64% of total rate base), Alagasco and Mobile Gas in Alabama (~35% of rate base), and Willmut Gas in Mississippi (~1% of rate base); as well as a non-regulated segment (<5% of earnings) consisting primarily of a gas marketing business in the Midwest, and two fueling stations for natural gas vehicles in Missouri and South Carolina. With >95% of earnings derived from regulated gas utilities and incremental growth driven organically or through bolt-on acquisitions of similar utilities, SR is essentially a pure-play gas utility – a good value despite the majority of its operations in Missouri, a relatively unconstructive jurisdiction, in our view, but this is more than reflected in shares. **Even after we incorporate a 2x discount in our valuation, significant upside potential remains in support of our BUY rating – Missouri is tough, but not that tough, in our view.** We conservatively model 4.2% annual earnings growth, toward the lower end of management's 4-6% outlook, and apply a 2x discount to reflect the challenging regulatory backdrop in Missouri as well as an upcoming rate filing in this jurisdiction and we still see upside potential; value still remains in the stock as shares trade at a 0.2x discount relative to regulated peers.
- **Our 2016/2017/2018 EPS estimates are $3.40/$3.52/$3.65, in-line with consensus.** We model 4.5% annual earnings growth, toward the low end of management's outlook for 4-6%, driven primarily by regulated utility investment. We model $1.8bn of CapEx spread out fairly evenly each year and driving 10% annual rate base growth with customer growth of ~1% system-wide. Our projected earnings growth is slightly diluted by 2.5mm shares converting in 2Q17. **See models below for ROE assumptions, etc., per utility.**
- **Upcoming rate filing in an unconstructive jurisdiction is worth watching, although the risk is more than reflected in our ~2x valuation discount to gas utility peers.** In our view, SR's gas utilities operate in regulatory jurisdictions that are either constructive or unconstructive – mostly unconstructive, with two-thirds of their rate base in Missouri, somewhat offset by the more business-friendly environment in Alabama. **An influential consumer advocate coupled with a tough commission have made Missouri a difficult jurisdiction for any utility to navigate as we have seen with the other utility peers we cover**, and while there are efforts in the state senate to reform the regulatory process (e.g., implementing performance-based ratemaking), we aren't overly optimistic for a constructive outcome – this could provide upside surprise. Missouri's challenging regulatory landscape is clearly evident with two recent events: (1) Public Service Commission advanced the Office of Public Counsel's recently filed complaints regarding utilities earning excessive ROE – we don't see material downside as PSC Staff's ROE calculation [GC-2016-0297] is within the allowed range and (2) separately, PSC Staff conducted an investigation into SR's recent acquisitions in Alabama (Mobile Gas) and Mississippi (Willmut Gas), with Staff stating it will pursue a complaint for failure to seek prior approval. Given this challenging backdrop, investors will watch the forthcoming SR rate flings in April 2017 (essentially triggered by the ISRS mechanism associated with cost recovery of pipeline upgrade investments and regulatory assets like prepaid pension and merger integration costs). **That said, "Missouri drag" is reflected in SR valuation, in our view.**

- **There is a bright spot.** The regulatory environment in Alabama (and Mississippi), on the other hand, is above average, in our view, with a progressive annual rate-making process under the Rate Stabilization and Equalization ("RSE") plan, as well as a Cost Control Measurement, which gives utilities incentive to manage O&M relative to benchmark. We find the Commissioners are also very well balanced, based on our experience from hosting client events in the past. The next RSE review is scheduled 9/30/2017 for Mobile Gas and 9/30/2018 for Alagasco.

- **Steady growth from gas distribution utilities premised upon upgrades of existing infrastructure, with some upside from bolt-on acquisition of similar utilities (e.g., small municipal acquisitions).** SR closed its acquisition of EnergySouth (i.e., Mobile Gas, Willmut Gas) from Sempra in September for $344mm (11x LTM EBITDA), funded primarily with $138mm of equity issuance proceeds and $165mm of debt. We view the acquisition as a positive step toward expanding SR's geographic footprint into a relatively attractive jurisdiction in Alabama (104,000 customer addition), and diluting Missouri exposure (albeit to a small extent). Planned CapEx of ~$17mm per year will be focused on infrastructure upgrades. Organic growth plans include building commercial/industrial load, line extensions in Missouri service areas, and development partnerships in Alabama. **Both acquisitions are in our estimates. See models further down.**

- **Non-utility business primarily consists of SR's gas marketing segment in the Midwest; not a NT driver of our estimates, but potentially more meaningful with the FERC-regulated STL pipeline.** SR's gas marketing business has been muted by depressed commodity prices, although the **announced STL pipeline could be a longer-term development worth monitoring – not in our estimates given the clear risks around long-haul pipe projects we have witnessed recently including delays and outright cancellations.** The 400MMcg/d STL pipeline would connect with the Rockies Express pipeline to transfer Marcellus/Utica gas to eastern Missouri; Laclede Gas expects to be the primary off-taker (350 MMcf/d of total capacity). FERC approved the project's pre-filing process in July 2016, and the open season to solicit commercial interest and capacity on the pipeline launched early August; SR expects the pipeline to be in service in FY19. **The STL pipeline would represent upside to our estimates (CAPEX ~$170mm-$200mm at FERC ROE, cap structure), as well as any further development of SR's natural gas fueling station endeavors** (currently operates two fueling stations for natural gas vehicles in Missouri and South Carolina).

- **Valuation: We value SR as a regulated utility, arriving at our $69 price target using our regulated group multiple, applying our gas utility premium spread and a Missouri-specific discount to 2018 fundamentals.** Since the non-regulated businesses are a relatively small part of the business mix, and the focus on activities utility-related infrastructure or services, we value SR as a regulated gas distribution utility. We incorporate our 5x premium for gas utilities vs. electric utilities derived from our bond yield regression model as discussed in the industry section, and an SR-specific 2x discount to reflect regulatory risk and rate case overhang in Missouri. This equates to a 19.0x target P/E multiple, which we apply to our 2018 EPS estimate of $3.65 to arrive at our $69 price target. Incorporating our anticipated 3% dividend yield, we estimate a 15% ETR – supporting our BUY rating.

- **Risks:** Outside of the potential overhangs around difficult Missouri jurisdiction, risks to our rating and valuation for SR mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

Guggenheim's SR EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons.*
2015A	1.06A	2.26A	0.26A	-0.37A	3.19A	
2016E	1.04A	2.38A	0.34A	-0.36E	3.40E	*3.41E*
2017E	1.12E	2.31E	0.40E	-0.34E	3.52E	*3.56E*
2018E	1.15E	2.45E	0.43E	-0.37E	3.65E	*3.68E*

Source: Company reports; Guggenheim Securities, LLC estimates.

Summary business metrics

Summary	2015A	2016E	2017E	2018E	CAGR
Business mix (EPS)	**2015**	**2016**	**2017**	**2018**	***CAGR***
Gas Utility	3.47	3.71	3.78	3.88	*3.8%*
Gas Marketing	0.10	0.12	0.11	0.12	*6.7%*
Corp/Other	(0.38)	(0.42)	(0.37)	(0.35)	*-2.4%*
SR	**$3.19**	**$3.40**	**$3.52**	**$3.65**	***4.6%***

Dividend coverage	**2016E**	**2017E**	**2018E**	***Target***
Annual dividend growth	7%	5%	5%	*10%*
Consolidated payout ratio	58%	58%	59%	
Dividend covered by utility EPS	56%	56%	57%	

Source: Company reports; Guggenheim Securities, LLC estimates.

Regulated business metrics

Regulated summary							
Regulated asset mix (Ratebase, $Bn)		**2015A**	**2016E**	**2017E**	**2018E**	***% of total***	***CAGR***
Alagasco		0.7	0.8	0.8	0.9	*30%*	*7.6%*
Laclede Gas (incl. MGE)		1.5	1.6	1.8	2.1	*64%*	*11.6%*
Mobile Gas		0.1	0.1	0.1	0.1	*5%*	*1.9%*
Willmut Gas		0.0	0.0	0.0	0.0	*1%*	*30.8%*
		2.4	**2.6**	**2.9**	**3.2**	*100%*	*10.1%*
Regulated EPS by asset class		**2015A**	**2016E**	**2017E**	**2018E**	***%***	***CAGR***
Alagasco		1.11	1.08	1.09	1.12	*29%*	*0.4%*
Laclede Gas (incl. MGE)		2.43	2.41	2.46	2.54	*65%*	*1.4%*
Mobile Gas		0.20	0.19	0.19	0.19	*5%*	*(2.8%)*
Willmut Gas		0.02	0.02	0.03	0.04	*1%*	*16.2%*
		3.77	**3.71**	**3.78**	**3.88**	*100%*	*1.0%*
Regulated ROE by asset class			**2016E**	**2017E**	**2018E**		***Avg.***
Alagasco	*Earned*		11.0%	11.0%	11.0%		*11.0%*
	Authorized		*10.9%*	*10.9%*	*10.9%*		*10.9%*
Laclede Gas (incl. MGE)	*Earned*		11.9%	11.5%	11.0%		*11.5%*
	Authorized		*9.7%*	*9.7%*	*9.7%*		*9.7%*
Mobile Gas	*Earned*		10.8%	11.0%	11.0%		*10.9%*
	Authorized		*10.8%*	*10.8%*	*10.8%*		*10.8%*
Willmut Gas	*Earned*		9.3%	9.3%	9.4%		*9.3%*
	Authorized		*9.2%*	*9.2%*	*9.2%*		*9.2%*
Regulated ROEs by jurisdiction	***Rate base***		**2016E**	**2017E**	**2018E**	***New rates***	***Avg.***
MO	*$1.4 bn*	*Earned*	11.9%	11.5%	11.0%	*3Q17*	*11.5%*
		Authorized	*9.7%*	*9.7%*	*9.7%*		*9.7%*
MS	*$0.0 bn*	*Earned*	9.3%	9.3%	9.4%	*1Q17*	*9.3%*
		Authorized	*9.2%*	*9.2%*	*9.2%*		*9.2%*
AL	*$0.8 bn*	*Earned*	11.0%	11.0%	11.0%	*4Q18 Alagasco*	*11.0%*
		Authorized	*10.9%*	*10.9%*	*10.9%*	*4Q17 Mobile*	*10.9%*

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

Spire Inc.
Consolidated

Income Statement ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Gas Utility	1,892	399	612	253	215	1,479	440	680	308	258	1,686	503	756	341	273	1,874
Gas Marketing and other	85	1	(2)	(4)	3	(2)	14	9	3	3	29	14	9	3	3	29
Total Operating Revenues	1,976	399	609	249	218	1,476	453	689	311	261	1,715	517	765	344	277	1,903
Purchased gas-Utility	882	149	261	54	65	528	192	336	97	92	717	227	377	106	89	799
Purchased gas-Other	141	7	4	2	1	15	7	4	2	1	15	7	4	2	1	15
Gross Margin	954	244	344	193	153	933	254	348	212	169	983	283	384	236	187	1,089
Other O&M	391	92	94	92	101	379	94	96	94	102	386	95	97	95	103	389
Other taxes	142	28	44	27	32	132	33	34	35	36	139	37	38	39	40	154
Marketing O&M	18	3	5	4	4	15	3	5	4	2	13	3	5	4	1	12
EBITDA	403	121	202	70	16	408	124	213	79	29	446	148	244	98	43	534
D&A-Utility	130	34	34	34	26	128	27	28	29	29	113	30	31	31	32	124
D&A-Other	1	0	0	0	0	1	0	0	0	0	1	0	0	0	0	1
Operating Income	273	87	168	35	(11)	279	97	185	50	(0)	332	118	213	67	10	409
Other, net	1	1	1	2	(1)	2	1	1	2	(1)	2	1	1	2	(1)	2
Total Interest Charges	75	19	19	19	16	74	22	22	22	22	88	35	36	36	36	143
Income before taxes	199	69	149	18	(28)	208	76	164	30	(24)	246	85	179	32	(27)	268
Income Taxes	62	23	48	7	(13)	65	26	56	11	(7)	85	29	61	12	(9)	93
Net Income	137	47	101	11	(15)	143	50	108	19	(16)	161	55	118	21	(18)	176
Non-GAAP Adjustments	1	(2)	3	4	-	5	-	-	-	-	-	-	-	-	-	-
Net Economic Earnings (Loss) (Non-GAAP)	138	45	104	15	(15)	148	50	108	19	(16)	161	55	118	21	(18)	176
Wtd. Avg. share count	43	43	44	44	43	43	45	47	48	48	46	48	48	48	48	48
Earnings Per Share	$ 3.16	$ 1.08	$ 2.32	$ 0.25	$ (0.36)	$ 3.29	$ 1.12	$ 2.31	$ 0.40	$ (0.34)	$ 3.52	$ 1.15	$ 2.45	$ 0.43	$ (0.38)	$ 3.65
Economic EPS (Non-GAAP)	$ 3.19	$ 1.04	$ 2.38	$ 0.34	$ (0.36)	$ 3.40	$ 1.12	$ 2.31	$ 0.40	$ (0.34)	$ 3.52	$ 1.15	$ 2.45	$ 0.43	$ (0.38)	$ 3.65

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

Spire Inc.
Consolidated

Cash Flow Statement ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Cash Flow from Operating Activities:																
Net Income	**137**	**47**	**101**	**11**	**(15)**	**143**	**50**	**108**	**19**	**(16)**	**161**	**55**	**118**	**21**	**(18)**	**176**
Adjustments to reconcile net income to net cash provided by operating activities:																
Depreciation, amortization, and accretion	131	34	34	34	24	126	25	25	26	27	103	27	28	29	29	113
Deferred income taxes and investment tax credits	66	22	49	7	(25)	52	-	-	-	-	-	-	-	-	-	-
Other – net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in current operating assets and liabilities:																
Accounts receivable	(5)	(78)	24	60	66	72	-	-	-	-	-	-	-	-	-	-
Unamortized purchased gas adjustments	47	(46)	26	(1)	-	(21)	-	-	-	-	-	-	-	-	-	-
Deferred purchased gas costs	(20)	13	(4)	0	-	9	-	-	-	-	-	-	-	-	-	-
Accounts payable	(30)	18	(33)	9	38	32	-	-	-	-	-	-	-	-	-	-
Delayed/advance customer billings – net	20	9	(29)	28	-	8	-	-	-	-	-	-	-	-	-	-
Taxes accrued	(17)	(19)	4	4	(1)	(12)	-	-	-	-	-	-	-	-	-	-
Inventories	55	12	80	(20)	10	82	-	-	-	-	-	-	-	-	-	-
Other assets and liabilities	(68)	20	(40)	(19)	(25)	(63)	-	-	-	-	-	-	-	-	-	-
Other	6	1	(1)	0		(0)					-					-
Net Cash Provided by Operating Activities	**322**	**34**	**210**	**114**	**72**	**428**	**75**	**134**	**45**	**10**	**264**	**82**	**146**	**50**	**11**	**289**
Cash Flow from Investing Activities:																
Capital expenditures	(290)	(62)	(59)	(74)	(120)	(315)	(91)	(91)	(91)	(91)	(365)	(106)	(106)	(106)	(106)	(425)
Acquisition of Alagasco	(8)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of MGE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of right to acquire NE Gas Company	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments for final reconciliation of acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	(1)	(0)	(0)	(1)	-	(2)	-	-	-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	(299)	(63)	(60)	(74)	(120)	(317)	(91)	(91)	(91)	(91)	(365)	(106)	(106)	(106)	(106)	(425)
Cash Flow from Financing Activities:																
Issuance of long-term debt	35	80	-	-	330	410	-	-	-	10	10	50	50	50	50	200
Redemption and maturity of first mortgage bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repayments of long-term debt	(35)	(80)	-	-	-	(80)	-	-	-	-	-	-	-	-	-	-
Repayment of short-term debt - net	51	39	(124)	(156)	-	(240)	-	-	-	-	-	-	-	-	-	-
Changes in book overdrafts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of common stock	3	1	1	134	-	136	-	-	-	-	-	-	-	-	-	-
Employee's taxes paid associated with restricted shares	-	-	(2)	2	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid	(79)	(20)	(22)	(21)	(21)	(84)	(23)	(24)	(25)	(25)	(97)	(26)	(26)	(26)	(26)	(104)
Excess tax benefits from stock-based compensation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	(1)	(0)	0	(2)	-	(2)	-	-	-	-	-	-	-	-	-	-
Net Cash (Used in) Provided by Financing Activities	(26)	20	(146)	(43)	309	140	(23)	(24)	(25)	(15)	(87)	24	24	24	24	96
Net (Decrease) Increase in Cash and Cash Equivalents	(2)	(9)	4	(4)	260	251	(39)	18	(71)	(96)	(188)	0	63	(33)	(71)	(40)
Cash and Cash Equivalents, Beginning of Period	16	14	5	9	5	14	265	226	244	173	265	78	78	141	109	78
Cash and Cash Equivalents, End of Period	14	5	9	5	265	265	226	244	173	78	78	78	141	109	38	38

Source: Company reports; Guggenheim Securities, LLC estimates.

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Spire Inc.
Consolidated

Balance Sheet ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Cash and cash equivalents	14	5	9	5	265	265	226	244	173	78	78	78	141	109	38	38
Accounts receivable:	211	298	265	196	130	130	130	130	130	130	130	130	130	130	130	130
Delayed customer billings	3	9	10	4	4	4	4	4	4	4	4	4	4	4	4	4
Inventories	215	204	124	144	134	134	134	134	134	134	134	134	134	134	134	134
Natural gas	189	177	98	117	117	117	117	117	117	117	117	117	117	117	117	117
Propane gas	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12
Materials and supplies	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
Natural gas receivable	17	20	20	18	18	18	18	18	18	18	18	18	18	18	18	18
Derivative instrument assets	5	4	8	9	9	9	9	9	9	9	9	9	9	9	9	9
Unamortized purchased gas adjustments	13	45	9	5	5	5	5	5	5	5	5	5	5	5	5	5
Other regulatory assets	28	32	32	38	38	38	38	38	38	38	38	38	38	38	38	38
Prepayments and other	25	21	28	36	36	36	36	36	36	36	36	36	36	36	36	36
Total Current Assets	530	636	504	453	638	638	599	617	546	450	450	451	514	481	410	410
Property, plant and equipment																
Utility Plant	4,235	4,221	4,271	4,340	4,460	4,460	4,551	4,642	4,733	4,825	4,825	4,931	5,037	5,143	5,250	5,250
Less: accumulated depreciation	1,307	1,267	1,286	1,312	1,335	1,335	1,360	1,385	1,411	1,438	1,438	1,465	1,493	1,522	1,551	1,551
Net utility plant	2,928	2,953	2,985	3,028	3,124	3,124	3,191	3,257	3,322	3,387	3,387	3,466	3,544	3,621	3,698	3,698
Investments and Other Assets																
Non-utility Property	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14
Goodwill	946	946	946	946	946	946	946	946	946	946	946	946	946	946	946	946
Other Investments	60	61	61	62	62	62	62	62	62	62	62	62	62	62	62	62
Total Investments and Other Assets	1,020	1,021	1,021	1,022	1,022	1,022	1,022	1,022	1,022	1,022	1,022	1,022	1,022	1,022	1,022	1,022
Deferred Charges																
Regulatory assets	738	727	733	731	730	730	730	730	730	730	730	730	730	730	730	730
Other	75	74	77	77	77	77	77	77	77	77	77	77	77	77	77	77
Total Deferred Charges	813	801	810	807	807	807	807	807	807	807	807	807	807	807	807	807
Total Assets	5,290	5,411	5,320	5,311	5,591	5,591	5,618	5,703	5,697	5,666	5,666	5,745	5,887	5,932	5,938	5,938

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

Spire Inc.
Consolidated

Balance Sheet ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Current portion of long-term debt	80	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Notes payable	338	377	254	98	98	98	98	98	98	98	98	98	98	98	98	98
Accounts payable	147	160	127	136	174	174	174	174	174	174	174	174	174	174	174	174
Advance customer billings	44	59	32	53	53	53	53	53	53	53	53	53	53	53	53	53
Wages and compensation accrued	33	25	27	37	37	37	37	37	37	37	37	37	37	37	37	37
Dividends payable	21	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22
Customer deposits	32	33	33	32	32	32	32	32	32	32	32	32	32	32	32	32
Interest accrued	14	20	14	20	13	13	13	13	13	13	13	13	13	13	13	13
Taxes accrued	28	33	4	41	41	41	41	41	41	41	41	41	41	41	41	41
Unamortized purchased gas adjustments	52	14	37	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred income taxes	-	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other regulatory liabilities	32	42	34	22	22	22	22	22	22	22	22	22	22	22	22	22
Other	33	55	36	31	14	14	14	14	14	14	14	14	14	14	14	14
Total Current Liabilities	**854**	**848**	**619**	**492**	**506**	**506**	**506**	**506**	**506**	**506**	**506**	**506**	**506**	**506**	**506**	**506**
Other Liabilities and Deferred Credits																
Deferred income taxes	482	495	564	574	549	549	549	549	549	549	549	549	549	549	549	549
Unamortized investment tax credits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pension and postretirement benefit costs	253	251	255	247	247	247	247	247	247	247	247	247	247	247	247	247
Asset retirement obligations	159	161	163	165	164	164	164	164	164	164	164	164	164	164	164	164
Regulatory liabilities	119	129	111	106	106	106	106	106	106	106	106	106	106	106	106	106
Other	77	76	76	74	72	72	72	72	72	72	72	72	72	72	72	72
Total Other Liabilities and Deferred Credits	**1,091**	**1,112**	**1,168**	**1,165**	**1,138**	**1,138**	**1,138**	**1,138**	**1,138**	**1,138**	**1,138**	**1,138**	**1,138**	**1,138**	**1,138**	**1,138**
Total Liabilities	**1,945**	**1,960**	**1,787**	**1,657**	**1,644**	**1,644**	**1,644**	**1,644**	**1,644**	**1,644**	**1,644**	**1,644**	**1,644**	**1,644**	**1,644**	**1,644**
Capitalization																
Stockholders' Equity:																
Common stock	43	43	43	46	46	46	46	46	46	46	46	46	46	46	46	46
Paid-in capital	1,038	1,039	1,040	1,174	1,174	1,174	1,174	1,174	1,174	1,174	1,174	1,174	1,174	1,174	1,174	1,174
Retained earnings	494	520	599	589	552	552	579	663	658	617	617	646	738	732	688	688
Accumulated other comprehensive loss	(2)	(2)	(2)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Total Common Stock Equity	**1,574**	**1,600**	**1,681**	**1,802**	**1,766**	**1,766**	**1,793**	**1,877**	**1,871**	**1,830**	**1,830**	**1,860**	**1,951**	**1,946**	**1,902**	**1,902**
Long-term debt, excluding amounts due within one year	1,772	1,852	1,852	1,852	2,182	2,182	2,182	2,182	2,182	2,192	2,192	2,242	2,292	2,342	2,392	2,392
Total Capitalization	**3,345**	**3,452**	**3,533**	**3,654**	**3,947**	**3,947**	**3,975**	**4,059**	**4,053**	**4,022**	**4,022**	**4,101**	**4,243**	**4,288**	**4,294**	**4,294**
Total Liabilities and Equity	**5,290**	**5,411**	**5,320**	**5,311**	**5,591**	**5,591**	**5,618**	**5,703**	**5,697**	**5,666**	**5,666**	**5,745**	**5,887**	**5,932**	**5,938**	**5,938**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
Spire Inc.
Utility

Income Statement ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Total Operating Revenues	1,896	434	654	269	215	1,572	440	680	308	258	1,686	503	756	341	273	1,874
Natural and propane gas	958	187	303	72	65	627	192	336	97	92	717	227	377	106	89	799
Gross Margin	938	247	350	197	150	945	248	343	211	167	969	276	379	235	185	1,075
Other O&M expense	392	93	95	93	101	382	94	96	94	102	386	95	97	95	103	389
Taxes, other than income taxes	142	30	46	29	32	137	33	34	35	36	139	37	38	39	40	154
EBITDA	405	124	209	75	17	426	121	213	82	29	445	145	244	102	41	532
Depreciation and amortization	130	36	36	37	26	135	27	28	29	29	113	30	31	31	32	124
Operating Income	275	89	173	38	(9)	291	94	185	54	(1)	332	115	213	70	9	407
Other, net	2	1	1	1	(1)	3	1	1	1	(1)	3	1	1	1	(1)	3
Total Interest Charges	50	13	14	13	16	56	17	17	17	17	69	30	31	31	32	124
Income before income taxes	226	76	160	27	(26)	237	78	169	38	(19)	265	86	183	41	(23)	286
Income Taxes	73	23	53	10	(9)	77	27	58	13	(6)	92	30	63	14	(8)	99
Net income	153	53	107	17	(17)	160	51	111	24	(13)	173.1	56	120	26	(16)	186.9
Non-GAAP Adjustments	(3)	1	0	0	-	1	-	-	-	-	-	-	-	-	-	-
Net Economic Earnings (Loss) (Non-GAAP)	150	54	108	17	(17)	161	51	111	24	(13)	173	56	120	26	(16)	187
Weighted-average Number of Common Shares	43	43	44	44	43	43	45	47	48	48	46	48	48	48	48	48
Earnings Per Common Share, Diluted	$ 3.54	$ 1.23	$ 2.47	$ 0.39	$ (0.40)	$ 3.68	$ 1.15	$ 2.37	$ 0.51	$ (0.28)	$ 3.78	$ 1.17	$ 2.50	$ 0.55	$ (0.33)	$ 3.88
Net Economic EPS (Non-GAAP)	$ 3.47	$ 1.24	$ 2.47	$ 0.39	$ (0.40)	$ 3.71	$ 1.15	$ 2.37	$ 0.51	$ (0.28)	$ 3.78	$ 1.17	$ 2.50	$ 0.55	$ (0.33)	$ 3.88

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

Spire Inc.

Alabama Gas

Income Statement ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Total Operating Revenues	**479**	82	166	74	48	**371**	105	214	90	49	**458**	110	227	94	49	**479**
Natural gas	172	12	30	13	12	67	32	77	24	13	146	33	82	25	13	153
Gross Margin	**308**	70	136	61	36	**303**	74	137	66	36	**312**	77	145	69	36	**327**
Other operation and r	138	33	33	34	35	134	33	33	34	35	136	34	34	34	35	137
Taxes, other than inc	33	7	10	6	9	32	9	10	10	10	38	10	10	10	11	41
EBITDA	**137**	31	92	21	(7)	**137**	31	94	23	(9)	**138**	33	101	24	(10)	**148**
Depreciation and amortization	47	12	12	12	12	48	12	13	13	13	51	13	14	14	14	55
Operating Income	**89**	19	80	9	(19)	**89**	19	81	10	(22)	**87**	20	87	10	(25)	**93**
Other Income (Income Deductions)	2	1	1	1	1	2	1	1	1	1	2	1	1	1	1	2
Interest on long-term debt	12	3	3	3	3	12	3	3	3	3	12	3	3	3	3	12
Other interest charges	2	1	1	1	1	2	1	1	1	1	2	1	1	1	1	2
Total Interest Charges	14	4	4	3	4	14	3	4	4	3	14	3	4	4	3	14
Income before income taxes	**77**	16	77	6	(23)	**77**	16	78	7	(25)	**75**	17	84	7	(28)	**81**
Income Taxes	29	6	29	2	(7)	30	5	26	2	(8)	25	6	28	2	(9)	27
Net Income	**48**	10	48	4	(15)	**47**	11	52	4	(17)	**50**	11	56	5	(18)	**54**
Non-GAAP Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Economic Earnings (Loss) (Non-GAAP)	**48**	10	48	4	(15)	**47**	11	52	4	(17)	**50**	11	56	5	(18)	**54**
Wtd. Avg. share count	43	43	44	44	43	43	45	47	48	48	46	48	48	48	48	48
Earnings Per Share	**$ 1.11**	$ 0.23	$ 1.11	$ 0.09	$ (0.35)	**$ 1.08**	$ 0.24	$ 1.11	$ 0.09	$ (0.35)	**$ 1.09**	$ 0.24	$ 1.17	$ 0.10	$ (0.38)	**$ 1.12**
Economic EPS (Non-GAAP)	**$ 1.11**	$ 0.23	$ 1.11	$ 0.09	$ (0.35)	**$ 1.08**	$ 0.24	$ 1.11	$ 0.09	$ (0.35)	**$ 1.09**	$ 0.24	$ 1.17	$ 0.10	$ (0.38)	**$ 1.12**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
Spire Inc.
Laclede Gas

Income Statement ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Total Operating Revenues	**1,417**	317	447	179	150	1,093	321	439	179	158	**1,098**	365	496	208	185	**1,255**
Natural and propane gas	786	150	243	48	42	483	152	239	48	45	483	172	270	56	52	550
Gross Margin	**631**	167	204	131	108	610	170	201	131	114	**615**	193	227	153	133	**705**
Other operation and r	254	59	62	58	66	244	59	62	59	66	247	60	63	60	67	249
Taxes, other than inc	109	22	34	21	21	98	22	23	23	24	93	25	26	26	27	104
EBITDA	**268**	87	109	52	21	268	88	116	49	23	**276**	108	138	66	39	**351**
Depreciation and amortization	83	22	22	22	12	78	12	13	13	13	51	14	14	15	15	58
Operating Income	**185**	65	87	29	9	191	76	103	36	10	**225**	94	124	52	24	**294**
Other Income (Income Deductions)	(1)	1	0	1	(2)	1	1	0	1	(2)	1	1	0	1	(2)	1
Total Interest Charges	36	9	10	9	12	40	13	13	13	13	52	26	27	27	27	107
Income before income taxes	**149**	57	78	21	(4)	152	64	90	24	(5)	**173**	69	98	26	(5)	**187**
Income Taxes	43	17	24	7	(1)	47	22	31	8	(2)	60	24	34	9	(2)	65
Net income	**105**	39	54	14	(3)	105	41	59	16	(3)	**113**	45	64	17	(3)	**122**
Non-GAAP Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Economic Earnings (Loss) (Non-GAAP)	**105**	39	54	14	(3)	105	41	59	16	(3)	**113**	45	64	17	(3)	**122**
Wtd. Avg. share count	43	43	44	44	43	43	45	47	48	48	46	48	48	48	48	48
Earnings Per Share	**$ 2.43**	$ 0.91	$ 1.25	$ 0.32	$ (0.06)	**$ 2.41**	$ 0.93	$ 1.26	$ 0.32	$ (0.06)	**$ 2.46**	$ 0.93	$ 1.33	$ 0.35	$ (0.07)	**$ 2.54**
Economic EPS (Non-GAAP)	**$ 2.43**	$ 0.91	$ 1.25	$ 0.32	$ (0.06)	**$ 2.41**	$ 0.93	$ 1.26	$ 0.32	$ (0.06)	**$ 2.46**	$ 0.93	$ 1.33	$ 0.35	$ (0.07)	**$ 2.54**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

Spire Inc.

Mobile Gas

Income Statement ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Utility	84	28	31	9	14	82	10	9	30	37	85	10	9	30	37	86
Other						-										
Total Operating Revenues	**84**	**28**	**31**	**9**	**14**	**82**	**10**	**9**	**30**	**37**	**85**	**10**	**9**	**30**	**37**	**86**
Natural gas	50	17	18	5	9	49	6	5	18	22	50	6	5	18	22	51
Total Cost of sales	**50**	**17**	**18**	**5**	**9**	**49**	**6**	**5**	**18**	**22**	**50**	**6**	**5**	**18**	**22**	**51**
Gross Margin	**35**	**11**	**13**	**4**	**6**	**34**	**4**	**4**	**12**	**15**	**35**	**4**	**4**	**12**	**15**	**35**
O&M	3	1	1	1	1	3	1	1	1	1	3	1	1	1	1	3
Taxes, other than inc	7	2	2	2	2	8	2	2	2	2	8	2	2	2	2	8
Total Operating Expenses	**10**	**3**	**3**	**3**	**3**	**10**	**3**	**3**	**3**	**3**	**10**	**3**	**3**	**3**	**3**	**11**
EBITDA	**25**	**9**	**10**	**1**	**3**	**23**	**1**	**1**	**10**	**12**	**24**	**1**	**1**	**10**	**13**	**25**
Depreciation and amortization	7	2	2	2	2	7	2	2	2	2	7	2	2	2	2	8
Operating Income	**17**	**7**	**8**	**(1)**	**1**	**16**	**(1)**	**(1)**	**8**	**11**	**17**	**(1)**	**(1)**	**8**	**11**	**17**
Other Income (Income Deductions)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Interest expense						-										
Interest on long-term debt	3	1	1	1	1	2	1	1	1	1	2	1	1	1	1	2
Other interest charges	0	0	-	-	-	0	0	-	-	-	0	0	-	-	-	0
Total Interest Charges	3	1	1	1	1	2	1	1	1	1	3	1	1	1	1	3
Income before income taxes	**14**	**6**	**8**	**(1)**	**1**	**14**	**(1)**	**(1)**	**7**	**10**	**14**	**(1)**	**(1)**	**7**	**10**	**14**
Income Taxes	5	2	3	(0)	0	5	(1)	(1)	3	4	5	(1)	(1)	3	4	6
Tax Rate	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*
Net income	**9**	**4**	**5**	**(1)**	**1**	**8**	**(1)**	**(1)**	**4**	**6**	**9**	**(1)**	**(1)**	**4**	**6**	**9**
Non-GAAP Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Economic Earnings (Loss) (Non-GAAP)	**9**	**4**	**5**	**(1)**	**1**	**8**	**(1)**	**(1)**	**4**	**6**	**9**	**(1)**	**(1)**	**4**	**6**	**9**
Weighted-average Number of Common Shares	43	43	44	44	43	43	45	47	48	48	46	48	48	48	48	48
Earnings Per Common Share, Diluted	**$ 0.20**	**$ 0.09**	**$ 0.11**	**$ (0.02)**	**$ 0.01**	**$ 0.19**	**$ (0.02)**	**$ (0.02)**	**$ 0.09**	**$ 0.13**	**$ 0.19**	**$ (0.02)**	**$ (0.02)**	**$ 0.09**	**$ 0.13**	**$ 0.19**
Net Economic EPS (Non-GAAP)	**$ 0.20**	**$ 0.09**	**$ 0.11**	**$ (0.02)**	**$ 0.01**	**$ 0.19**	**$ (0.02)**	**$ (0.02)**	**$ 0.09**	**$ 0.13**	**$ 0.19**	**$ (0.02)**	**$ (0.02)**	**$ 0.09**	**$ 0.13**	**$ 0.19**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

Spire Inc.

Wilmut Gas

Income Statement ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Utility	20	10	14	7	2	33	4	18	9	14	45	19	24	9	2	54
Total Operating Revenues	**20**	**10**	**14**	**7**	**2**	**33**	**4**	**18**	**9**	**14**	**45**	**19**	**24**	**9**	**2**	**54**
Natural gas	16	8	12	6	2	28	3	15	8	12	38	16	21	8	2	46
Total Cost of sales	**16**	**8**	**12**	**6**	**2**	**28**	**3**	**15**	**8**	**12**	**38**	**16**	**21**	**8**	**2**	**46**
Gross Margin	**3**	**1**	**2**	**1**	**0**	**5**	**1**	**3**	**1**	**2**	**6**	**3**	**3**	**1**	**0**	**8**
% of Gross Margin	*17%*	*17%*	*17%*	*17%*	*17%*	*15%*	*17%*	*17%*	*17%*	*17%*	*15%*	*17%*	*17%*	*17%*	*17%*	*15%*
Other operation and r	0	0	0	0	0	0.4	0	0	0	0	0.4	0	0	0	0	0.4
Taxes, other than inc		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	**0.4**	**0**	**0**	**0**	**0**	**0.4**	**0**	**0**	**0**	**0**	**0.4**	**0**	**0**	**0**	**0**	**0.4**
EBITDA	**3**	**1**	**2**	**1**	**0**	**4**	**0**	**2**	**1**	**2**	**6**	**3**	**3**	**1**	**0**	**7**
Depreciation and amortization	1	0	0	1	1	2	1	1	1	1	3	1	1	1	1	3
Operating Income	**2**	**1**	**2**	**0**	**(0)**	**2**	**(0)**	**2**	**0**	**1**	**3**	**2**	**3**	**0**	**(1)**	**4**
Other Income (Income Deductions)	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense																
Interest on long-term debt	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	1
Other interest charges	(0)	(0)	-	-	-	(0)	(0)	(0)	-	-	(0)	(0)	(0)	(0)	-	(1)
Total Interest Charges	0	(0)	0	0	0	0	0	(0)	0	0	0	(0)	0	(0)	0	0
Income before income taxes	**2.25**	**1**	**1**	**0**	**(0)**	**2.3**	**(0)**	**2**	**0**	**1**	**3.1**	**2**	**2**	**0**	**(1)**	**3.9**
Income Taxes	1	1	1	0	(0)	1	(0)	1	0	1	2	1	1	0	(0)	2
Tax Rate	*56%*	*56%*	*56%*	*56%*	*56%*	*56%*	*56%*	*56%*	*56%*	*56%*	*56%*	*56%*	*56%*	*56%*	*56%*	*56%*
Net Income	**1.0**	**0**	**1**	**0**	**(0)**	**1**	**(0)**	**1**	**0**	**0**	**1**	**1**	**1**	**0**	**(0)**	**2**
Non-GAAP Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Economic Earnings (Loss) (Non-GAAP)	**1**	**0**	**1**	**0**	**(0)**	**1**	**(0)**	**1**	**0**	**0**	**1**	**1**	**1**	**0**	**(0)**	**2**
Weighted-average Number of Common Shares	43	43	44	45	45	43	45	47	48	48	46	48	48	48	48	48
Earnings Per Common Share, Diluted	**$ 0.02**	**$ 0.01**	**$ 0.01**	**$ 0.00**	**$ (0.00)**	**$ 0.02**	**$ (0.00)**	**$ 0.02**	**$ 0.00**	**$ 0.01**	**$ 0.03**	**$ 0.02**	**$ 0.02**	**$ 0.00**	**$ (0.01)**	**$ 0.04**
Net Economic EPS (Non-GAAP)	**$ 0.02**	**$ 0.01**	**$ 0.01**	**$ 0.00**	**$ (0.00)**	**$ 0.02**	**$ (0.00)**	**$ 0.02**	**$ 0.00**	**$ 0.01**	**$ 0.03**	**$ 0.02**	**$ 0.02**	**$ 0.00**	**$ (0.01)**	**$ 0.04**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

Spire Inc.

Gas Marketing

Income Statement ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Total Operating Revenues	**153**	**13**	**8**	**2**	**2**	**25**	**13**	**8**	**2**	**2**	**25**	**13**	**8**	**2**	**2**	**25**
Natural and propane gas	140	7	4	2	1	15	7	4	2	1	15	7	4	2	1	15
Gross Margin	**13**	**5**	**4**	**(0)**	**1**	**11**	**5**	**4**	**(0)**	**1**	**11**	**5**	**4**	**(0)**	**1**	**11**
Other operating expenses	6	2	2	1	0	5	2	2	1	(2)	3	2	2	1	(3)	2
EBITDA	**7**	**4**	**3**	**(1)**	**1**	**6**	**4**	**3**	**(1)**	**3**	**8**	**4**	**3**	**(1)**	**4**	**9**
D&A	0	-	-	0	-	0	-	-	0	-	0	-	-	0	-	0
Operating Income	**7**	**4**	**3**	**(2)**	**1**	**6**	**4**	**3**	**(2)**	**3**	**8**	**4**	**3**	**(2)**	**4**	**9**
Interest	1	0	0	0	0	1	0	0	0	0	1	0	0	0	0	1
Income before taxes	**6**	**4**	**2**	**(2)**	**1**	**5**	**4**	**2**	**(2)**	**3**	**7**	**4**	**2**	**(2)**	**4**	**8**
Income Taxes	2	1	1	(1)	0.24	2	1	1	(0)	1	2	1	1	(0)	1	2
Net Income	**4**	**2**	**2**	**(1)**	**1**	**3**	**2**	**2**	**(1)**	**2**	**5**	**2**	**2**	**(1)**	**3**	**6**
Non-GAAP Adjustments	0	(3)	2	3	-	2	-	-	-	-	-	-	-	-	-	-
Economic Earnings (Loss)	**4**	**(0)**	**3**	**2**	**1**	**5**	**2**	**2**	**(1)**	**2**	**5**	**2**	**2**	**(1)**	**3**	**6**
Wtd. Avg. share count	43	43	44	44	43	43	45	47	48	48	46	48	48	48	48	48
Earnings Per Share	**$ 0.09**	**$ 0.05**	**$ 0.03**	**$ (0.02)**	**$ 0.01**	**$ 0.08**	**$ 0.06**	**$ 0.03**	**$ (0.02)**	**$ 0.04**	**$ 0.11**	**$ 0.05**	**$ 0.03**	**$ (0.02)**	**$ 0.06**	**$ 0.12**
Economic EPS (Non-GAAP)	**$ 0.10**	**$ (0.01)**	**$ 0.07**	**$ 0.04**	**$ 0.01**	**$ 0.12**	**$ 0.06**	**$ 0.03**	**$ (0.02)**	**$ 0.04**	**$ 0.11**	**$ 0.05**	**$ 0.03**	**$ (0.02)**	**$ 0.06**	**$ 0.12**

Source: Company reports; Guggenheim Securities, LLC estimates.

SEMPRA ENERGY (SRE, BUY, $104.85)

Initiating coverage of SRE with a BUY rating and $121 price target. SRE is a high quality name with above average growth prospects to further benefit from redeploying capital to higher-return opportunities outside of base utility spend, led by reforms within Mexico, and possible upsizing of Cameron and other LNG opportunities. SRE remains a diverse energy play, with ample growth prospects, strong cash flow profile that should continue to do well even under a gradual tightening of monetary policy – stock picking will finally matter with utilities and we believe SRE should be a core holding.

- **We are initiating coverage of SRE with a BUY rating and $121 price target.** SRE is a $26bn market cap regulated electric and gas utility with operations in Southern California (San Diego Gas & Electric [SDG&E], Southern California Gas [SoCal Gas] and an International segment consisting of South American Utilities (Luz del Sur in Peru, Chilquinta Energia in Chile) and Sempra Mexico (Infraestructura Energética Nova, S.A.B. de C.V. "IEnova"). The U.S. Gas & Power (USG&P) division was recently restructured (sold REX, Southeast Utilities) and now primarily consists of its renewable operations and the future earnings/CF from Cameron 1-3. **SRE is a core regulated utility with opportunities for upside potential, from diversified sources, all of which are supported by regulated and long-term contracted cash flows.** We estimate SRE will grow ~10.6% per year, vs. management's outlook for 12% EPS growth, materially above regulated peers averaging 4-6%, and maintaining solid dividend coverage with room to grow (we model a 68% payout ratio through 2018, in line with management's dividend policy targeting 8-9% dividend growth).
- **Our 2016/2017/2018 EPS estimates are $4.81/$5.28/$5.88, in line with consensus for 2016, higher for 2017, and lower for 2018.** We model 10.6% EPS growth vs. management's outlook for 12% growth. At the CA utilities, average CapEx of ~$1.2bn/year drives 11.3% and 11.2% annual rate base growth at SoCal and SDG&E respectively. For the International segments, we estimate earnings growth of 14% and 15% at South America and Mexico, respectively. The renewables segment in USG&P grows at 20% with the addition of 344MW of solar and 78MW of wind, Natural Gas - USG&P remains at a modest loss until Cameron comes online in 2019; and parent drag consistent with history. **See models further down in the note.**
- **Utilities remain key contributors to the story; tough politically charged regulatory environment in California but we believe SRE is in best shape – timely regulatory approval of future development investments is key.** We model 6% regulated utility earnings growth driven by a healthy CAPEX program (~$1.2bn/year) outpacing depreciation, earned ROEs slightly above allowed, O&M attrition and various other incentives – **see utility models further down**. SRE serves in what's now become a tougher jurisdiction territory in California but the two utilities, San Diego Gas & Electric (SDG&E) and Southern California Gas (SoCal Gas), have been able to navigate fairly well despite some noise. No rate case overhang – final Orders in line with settlement filings: SDG&E settled $1.79bn rate base vs. $1.81bn proposed and SoCalGas settled $2.20bn rate base vs. $2.22bn proposed – ROE/Cap Structure was not an issue.
    - **SDG&E** provides natural gas and electricity to 3.4 million consumers from Orange County to the Mexican border, with four natural gas power plants, two compressors, 168 miles of pipeline, 8,600 miles of distribution pipeline and 6,451 miles of service pipeline. The utility is regulated by both CPUC

and FERC, with a 10.3% ROE through 2017 from CPUC and a 10.05% ROE through 2018 from FERC. Achieved ROE north of 11.6%.

- **SoCal Gas** is a gas utility servicing the Southern California territory (Aliso Canyon is 63%) with 2,962 miles of transportation and storage pipeline, 50,000 miles of distribution pipeline, 47,000 miles of service pipeline, 11 compressor stations and four storage facilities. Opportunity presents at SoCal Gas with prudent replacement, maintenance and upgrades of infrastructure. Pipeline safety and reliability is key with grid modernization as well. Root cause investigation is underway with storage wells in Aliso Canyon at the direction of Division of Oil, Gas and Geothermal Resources and CPUC – decision from agencies in late 2016/early 2017.

- **Sempra has owned Luz del Sur and Chilquinta since 1999, and currently owns 84% and 100%, respectively.** Chilquinta has 672k customers in cities of Valparaiso and Vina del Mar in central Chile with a main service area covering 4,400 sq miles. It also has 50% interest in two JVs, Eletrans S.A. I & II, for the construction of two 220kV lines at ~$85mm and $80mm to be completed in 2017 and 2018 respectively. The projects will earn a return in U.S. dollars, indexed to the Consumer Price Index, for 20 years and a regulated return thereafter. Capital investments in Chile and Peru are eligible for a fixed return on new replacement value of assets of 12% and 10% on a pre-tax, unlevered basis. Tariffs are under quadrennial reviews, with the ability to benefit from demand growth as well as operational and cost efficiencies achieved over that period. The National Energy Commission (Comisión Nacional de Energía) decided on Chilquinta rates for sub-transmission in 2Q16, with tariff in effect retroactively from Jan-16 through Dec-19; reviews for distribution are scheduled to go into effect, in Nov-16 through Oct-20. **Above embedded in our models (models below); other key assumptions:**
  - At Chilquinta estimated customer growth of 2.5%
  - Average sales per customer grows -4.3% in line with history
  - Realization rates average 2% over the forecast period
- The minority interest of Luz del Sur is predominantly held by local pension funds and insurance companies on the Lima Stock Exchange. Luz del Sur serves customers in the southern zone of metropolitan Lima, with 13,458 miles of distribution lines, 185 of transmission and 36 substations; in addition, it operates 100MW hydroelectric power plant (Santa Teresa) in Cusco region. Luz del Sur's rates are to be examined by the Energy and Mining Investment Supervisory Body (Organismo Supervisor de la Inversión en Energía y Minería) in 2017, effective the period from Nov-17 to Oct-21. Capital improvement projects will cost ~$150mm and be in service in 2016 and 2017 which we model. Once in operation, the capitalized cost will earn the regulated return for 30 years. **Further, we assume:**
  - At Luz Del Sur we estimate customer growth of 2.3%
  - Average sales per customer grows at 0.9%
  - Realization rate avg. 3%
- **Ienova** has consistent earnings stream given long-term dollar denominated contracts. Opportunities for added growth result from reform efforts underway in Mexico to liberalize its energy sector. This has led to several strategic actions at Ienova, among those it has acquired the remaining 50% interest in the Gasductos de Chihuahua JV from PEMEX for $1.325bn – embedded in our estimates; the assets are comprised of three natural gas pipelines, ethane pipeline, and a NGL pipeline and associated storage terminal. Management is currently marketing for sale Sempra Mexico's Termoeléctrica de Mexicali, a 625MW natural gas-fired

power plant located in Mexicali, Baja California; an impairment charge will range from $50mm to $90mm in 3Q16 for the asset which we reflect in our model. In addition, it is expanding its renewable footprint with the proposed $375mm purchase of Ventika I and Ventika II (252MW, Latina America's largest wind farm). In June, its JV with TransCanada (TRP-CA, NC, C$60.59), (Infrastructure Marina del Golfo) won the rights to Sur de Texas -Tupan by the CFE; estimated at $2.1bn and to be in-service in late 2018 under 25 year, U.S. dollar denominated service contracts with the CFE – **all of which is reflected in our model. Other key assumptions:**

- Natural gas sales growth of 3% (excluding addition of Sur de Tuxan 2.6Bcf/d)
- Realization rate avg. 5% for natural gas
- Power sales and realization grows at 6%

- **Sempra U.S. Gas & Power is in the midst of a transformation;** assets that do not fit the desired growth and earnings profile were sold off (REX, and the Southeast Utilities Mobil gas and Wilmut Gas) – segment mainly driven by contracted renewables until Cameron comes online. **Our model is driven** by 40% wind and 60% solar with total capacity of 1,390MW to be in-service at the end of 2016 which includes 344MW of under construction solar projects (Mesquite 3, Mesquite 2, Copper Mountain) and the 78MW Black Oak Getty facility – all live by FYE16. We assume continued execution towards Cameron's 2019 in-service date (all 3 trains); with the units online in 1Q19. As a reminder, SRE holds a 50.2% equity interest in Cameron LNG JV Facility (Unit 1-2-3); $7bn incremental spend for the project (50% to be covered by SRE). The facility is jointly owned by Sempra LNG & Midstream, ENGIE (formerly GDF SUEZ), Mitsui and Japan LNG Investment, LLC [a company jointly owned by Mitsubishi Corporation and Nippon Yusen Kabashiki Kaisha (NYK)]. Total nameplate capacity is 13.9mm tonnes per annum/ Mtpa) and export capability of 12Mtpa of LNG or 1.7Bcf/d. We expect nearly $300-350mm of net income; from 20yr LNG contracts that are not oil linked (see models below for further details). There is now some introduced risks of potential project delay, with the JV's EPC contractor indicating the in-service date for each train as mid-2018, late 2018 and mid-2019. There was no clear indication of cause in updated schedule but management heard on the EPC's earnings call, mention of rain at the site and flooding near the fabrication facility. We note tariff agreement terms provide for adjustment with EPC delays or cost increases.
  - **Other key assumptions are:**
    - Solar capital cost on average of $2400/kw depending on project; O&M $12.5/Mwh
    - Wind Capital cost on average $950/kw; O&M $6/Mwh depending on project
    - Cameron 86% facility utilization rate
    - Storage Utilization 100% contracted in FY16, 50% in FY17, FY18; 1.2x turn
    - We do not account for additional expansions at Cameron beyond Trains 1-3 nor potential LNG opportunities in Texas or Mexico.

- **Next key events** – Potential updates from management around their capital investment plan, with the option of two additional trains to be added to Cameron. The company's international segment, notably Ienova will also examine other strategic opportunities and possibly another liquefaction at Energia Costa Azul, as it seeks to be a major pipeline company in Mexico. Any clarity on the current Aliso Canyon incident and closure on this overhang will be welcomed. Recent earnings call introduced risks to Cameron's in-service date, we await clarity and indications of

whether SRE will be able to mitigate. At this point there is potential downside to our estimates if the delay occurs. **There are a lot of growth opportunities above 12% CAGR but no set deadline for these additive expenditures. At a minimum, SRE has enough avenues to breach 12% growth. Given strong CFs, we see buybacks as an option.**

- **Valuation: sum-of-the-parts – partial cash flow metric; partial P/E:** We arrive at our $121 price target utilizing a sum-of-the-parts analysis that comprises: **(1)** $35/share for SDG&E when we apply our group average regulated electric utility multiple of 16.0x based on a regression of corp. bond yields and electric utility PE multiples, **(2)** $33/share value for the regulated gas SoCal segment utilizing our bond-implied regulated electric P/E multiple and historical gas LDC spreads above their electric counterparts; **(3)** $36/share value for the International segment utilizing our bond-implied regulated electric P/E multiple and 3x premium to reflect growth prospects and **(4)** a 9x EV/EBITDA multiple to EBITDA of $1.3B from US Gas & Power, which is discounted from the 2019 period to capture Cameron coming online equates to $17/share for US Gas & Power. **Incorporating our estimated 4.9% dividend yield would equate to a 20.3% ETR.**

- **Risks:** The primary risk on the regulated utilities and transmission assets, which encompass 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.

  Additional risk factors for Sempra Energy include:

  Cameron liquefaction proejct: We model 100% probability that this project is completed and in-service beginning 1Q19 without delays or cost overruns. Anything contrary to these assumptions can impact our valuation.

  Aliso Canyon: Any adverse decision from the root cause investigation underway with storage wells in Aliso Canyon at the direction of Division of Oil, Gas and Geothermal Resources and CPUC can impact our valuation.

Guggenheim's SRE EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	1.74A	1.17A	0.99A	1.47A	5.21A	
2016E	1.47A	0.69A	1.02A	1.56E	4.81E	4.80E
2017E	1.73E	0.92E	1.07E	1.56E	5.28E	5.12E
2018E	2.00E	1.02E	1.16E	1.70E	5.88E	6.02E

Source: Company reports, Guggenheim Securities, LLC estimates.

Summary business metrics

Summary	2015	2016E	2017E	2018E	CAGR
Adj. EPS	**2015**	**2016**	**2017**	**2018**	***CAGR***
SoCal	1.69	$ 1.58	$ 1.59	$ 1.78	*6.2%*
San Diego	2.28	2.30	2.36	2.59	*6.1%*
International	1.61	1.63	1.89	2.13	*14.2%*
Renewables -USG&P	0.11	0.18	0.26	0.26	*20.0%*
Natural Gas - USG&P	0.21	(0.17)	(0.05)	(0.05)	*-47.5%*
Parent	($0.93)	(0.71)	(0.77)	(0.83)	*7.9%*
SRE	**4.95**	**$ 4.81**	**$ 5.28**	**$ 5.88**	***10.5%***

Summary	2015	2016E	2017E	2018E	CAGR
Adj. Earnings ($mm)					
SoCal	423	398	401	449	*6.2%*
San Diego	572	579	593	652	*6.1%*
International	403	410	477	536	*14.3%*
Renewables -USG&	27	45	67	65	*20.1%*
Natural Gas - USG&	50	(43)	(13)	(12)	
Parent	(168)	(180)	(195)	(209)	*7.9%*
SRE	**1,307**	**1,210**	**1,329**	**1,480**	***10.6%***
YoY EPS growth		*(7.4%)*	*9.8%*	*11.4%*	
Regulated utility contribution		81%	75%	74%	
	2015	**2016E**	**2017E**	**2018E**	***CAGR***
Regulated Rate Base ($mm)					
Socal	4,269	5,328	6,102	7,060	*15.1%*
SDGE	7,671	8,533	9,617	10,763	*12.3%*
Regulated utility performance					
SoCal ROE	19.1%	**14.4%**	12.6%	12.2%	13.1%
Authorized ROE		*10.1%*	*10.1%*	*10.1%*	*10.1%*
SDGE utility ROE	15%	12.6%	11.9%	11.6%	12.0%
Authorized ROE		*10.1%*	10.2%	10.2%	10.2%
International ($mm)	**2015**	**2016E**	**2017E**	**2018E**	***CAGR***
South America	175	213	231	276	*14.0%*
Guidance					
Ienova - Mexico	213	198	246	260	*14.6%*
Guidance					
Total International	388	410	477	536	*14.3%*
Guidance					
Dividend coverage		**2016E**	**2017E**	**2018E**	
Annual dividend growth		7.5%	7.0%	8.0%	
Consolidated payout ratio		56.2%	61.0%	59.2%	
Dividend covered by utility EPS		137%	140%	138%	
Liquidity		**2016E**	**2017E**	**2018E**	
FFO / Debt		10%	11%	12%	
Consolidated payout ratio		56%	61%	59%	
Dividend covered by utility EPS		137%	140%	138%	

Source: Company reports, Guggenheim Securities, LLC estimates.

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$ in millions, unless otherwise noted

INCOME STATEMENT	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2015A	2016E	2017E	2018E
Utilities	2,442	1,994	2,106	2,459	2,352	2,017	2,157	2,434	2,483	2,086	2,224	2,514	9,254	9,001	8,961	9,308
Energy-related businesses	180	162	343	205	269	280	320	287	286	298	343	306	977	890	1,156	1,233
Total Operating Revenue	**2,622**	**2,156**	**2,449**	**2,664**	2,622	2,296	2,477	**2,722**	2,769	**2,384**	**2,567**	2,820	10,231	**9,891**	**10,117**	**10,541**
Operating Expenses:																
Utilities:																
Cost of electric fuel and purchased power	515	561	762	602	626	667	781	605	645	687	807	630	2,136	2,440	2,679	2,770
Cost of natural gas	311	183	285	415	412	298	342	472	415	301	346	475	1,134	1,194	1,524	1,537
Energy-related businesses:																
Cost of natural gas, electric fuel and purchased power	56	62	13	15	13	13	13	15	13	13	13	15	335	146	55	55
Other cost of sales	35	226	18	18	17	17	18	19	18	18	19	20	148	297	72	74
Litigation expense																
Operation and maintenance	701	727	576	679	573	605	578	679	573	605	576	679	2,895	2,583	2,433	2,433
Depreciation and amortization	328	314	159	175	174	174	180	179	182	182	189	187	1,250	976	707	740
Franchise fees and other taxes	111	96	89	89	89	89	89	89	89	89	89	89	423	385	356	356
Total Operating Expenses	2,057	2,169	1,902	1,993	1,905	1,862	2,000	2,058	1,936	1,895	2,040	2,095	8,321	8,121	7,825	**7,966**
EBITDA	**893**	**301**	**707**	**845**	**891**	**608**	**658**	**842**	**1,016**	**671**	**716**	**912**	**3,160**	**2,748**	**2,999**	**3,316**
EBIT	**565**	**(13)**	**547**	**671**	**716**	**434**	**478**	**663**	**834**	**489**	**528**	**725**	**1,910**	**1,770**	**2,292**	**2,575**
Equity earnings, before income tax	(22)	14	13	13	13	13	14	13	14	14	14	14	104	18	53	55
Other income, net	49	23	33	23	32	9	33	23	32	9	33	23	126	128	97	97
Total interest and related charges	137	136	133	168	158	163	168	173	176	179	184	184	532	572	662	722
Pretax income	455	(112)	756	541	604	294	356	527	704	334	391	578	1,704	1,640	1,780	2,006
Effective tax rate	31%	95%	19%	29%	29%	28%	28%	29%	29%	28%	28%	29%	20%	20%	29%	29%
Income tax expense (benefit)	142	(106)	141	156	177	82	99	152	207	93	111	167	341	333	510	577
Equity earnings, net of income tax	17	33	30	32	20	43	39	41	20	43	39	41	65	112	142	142
Net income including noncontrolling interests	330	27	646	416	446	255	296	416	516	283	319	452	1,448	1,419	1,413	1,571
Noncontrolling interests	11	10	24	24	11	24	27	23	13	25	28	24	98	69	84	90
Extraordinary items included in operating (after tax)		(1)	0	0	0	0	0	0	0	0	0	0	(1)	(1)	-	-
Reported GAAP Earnings	**319**	**16**	622	392	435	231	270	394	504	258	291	428	1,349	1,349	1,329	1,480
Income (loss) from disc ops	0	(1)	0	0	0	0	0	0	0	0	0	0	-	(1)	-	-
Items excluded from operating earnings	51	160	(365)	0	0	0	0	0	0	0	0	0	(41)	(136)	-	-
Adjusted Earnings	370	175	257	392	435	231	270	394	504	258	291	428	1,308	1,212	1,329	1,480
															117	151
Reported GAAP EPS	$1.27	$0.06	$2.47	$1.56	$1.73	$0.92	$1.07	$1.56	$2.00	$1.02	$1.16	$1.70	$5.38	$5.36	$5.28	$5.88
Adjusted EPS	$1.47	$0.69	$1.02	$1.56	$1.73	$0.92	$1.07	$1.56	$2.00	$1.02	$1.16	$1.70	$5.21	$4.81	$5.28	$5.88

Source: Company reports, Guggenheim Securities, LLC estimates.

See pages 162 - 163 for analyst certification and important disclosures.

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CASH FLOW STATEMENT	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2015A	2016E	2017E	2018E
Cash Flows From Operating Activities																
Net income	330	27	281	416	446	255	296	416	516	283	319	452	1,448	1,054	1,413	1,571
Depreciation and amortization	328	314	159	175	174	174	180	179	182	182	189	187	1,250	976	707	740
Deferred income taxes and investment tax credits	112	(154)	0	0	0	0	0	0	0	0	0	0	239	(42)	0	0
Equity earnings	5	(47)	0	0	0	0	0	0	0	0	0	0	(189)	(42)	0	0
Fixed-price contracts and other derivatives	4	37	0	0	0	0	0	0	0	0	0	0	(10)	41	0	0
Other	2	31	0	0	0	0	0	0	0	0	0	0	75	33	0	0
Changes in operating assets and liabilities:													0			
Net change in other working capital components	165	2	0	0	0	0	0	0	0	0	0	0	699	167	0	0
Insurance receivable for Aliso Canyon costs	(335)	(19)	0	0	0	0	0	0	0	0	0	0	(325)	(354)	0	0
Distributions from RBS Sempra Commodities LLP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Changes in other assets	(29)	(38)	(167)	0	0	0	0	0	0	0	0	0	(162)	(234)	0	0
Changes in other liabilities	10	137											(24)	147	0	0
Net cash provided by operating activities	592	290	273	591	620	428	476	595	699	465	508	639	2,905	1,746	2,120	2,311
Cash Flows From Investing Activities																
Expenditures for property, plant and equipment	(971)	(1,035)	(1,325)	(1,325)	(770)	(770)	(770)	(770)	(647)	(647)	(647)	(647)	(3,156)	(4,657)	(3,079)	(2,589)
Expenditures for investments and acquisition of business	(30)	(16)	0	0	0	0	0	0	0	0	0	0	(200)	(46)	0	0
Proceeds from sale of equity interests and assets, net of cash sold	0	443	0	0	0	0	0	0	0	0	0	0	373	443	0	0
Distributions from investments	9	3	0	0	0	0	0	0	0	0	0	0	15	12	0	0
Purchases of nuclear decommissioning and other trust assets	(94)	(112)	0	0	0	0	0	0	0	0	0	0	(531)	(206)	0	0
Proceeds from sales by nuclear decommissioning and other trusts	93	111	0	0	0	0	0	0	0	0	0	0	577	204	0	0
Increases in restricted cash	(16)	(16)	0	0	0	0	0	0	0	0	0	0	(100)	(32)	0	0
Decreases in restricted cash	20	24	0	0	0	0	0	0	0	0	0	0	93	44	0	0
Advances to unconsolidated affiliates	(6)	(3)	0	0	0	0	0	0	0	0	0	0	(31)	(9)	0	0
Repayments of advances to unconsolidated affiliates	9	0	0	0	0	0	0	0	0	0	0	0	74	9	0	0
Other	(3)	(3)											1	(6)	0	0
Net cash used in investing activities	(989)	(604)	(1,325)	(1,325)	(770)	(770)	(770)	(770)	(647)	(647)	(647)	(647)	(2,885)	(4,244)	(3,079)	(2,589)
Cash Flows From Financing Activities																
Common dividends paid	(161)	(174)	(189)	(189)	(203)	(203)	(203)	(203)	(219)	(219)	(219)	(219)	(628)	(713)	(811)	(876)
Redemption of subsidiary preferred stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Preferred dividends paid by subsidiary	0	(1)	0	0	0	0	0	0	0	0	0	0	(1)	(1)	0	0
Issuances of common stock	15	14	0	0	0	0	0	0	0	0	0	0	52	29	0	0
Repurchases of common stock	(54)	0	0	0	0	0	0	0	0	0	0	0	(74)	(54)	0	0
Issuances of debt (maturities greater than 90 days)	55	1,329	1,400	550	400	1,100	600	400	400	750	250	200	2,992	3,334	2,500	1,600
Payments on debt (maturities greater than 90 days)	(54)	(932)	0	0	0	(600)	0	0	(250)	(250)	0	0	(1,854)	(986)	(600)	(500)
Proceeds from sale of noncontrolling interests, net of $25 in offering co	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Increase (decrease) in short-term debt, net	531	334	0	0	0	0	0	0	0	0	0	0	(622)	865	0	0
Tax benefit related to share-based compensation	34	(34)	0	0	0	0	0	0	0	0	0	0	52	0	0	0
Purchase of noncontrolling interests	0	0	(350)	0	0	0	0	0	0	0	0	0	0	(350)	0	0
Net distributions to noncontrolling interests	0	(10)	0	0	0	0	0	0	0	0	0	0	(73)	(10)	0	0
Other	(2)	26	0	0	0	0	0	0	0	0	0	0	(17)	24	0	0
Net cash used in financing activities	364	552	861	361	197	297	397	197	(69)	281	31	(19)	(173)	2,138	1,089	224
Effect of exchange rate changes on cash and cash equivalents	6	2											(14)	8	0	0
Increase (decrease) in cash and cash equivalents	(27)	240	(191)	(373)	48	(44)	104	23	(17)	99	(109)	(27)	(167)	(351)	130	(54)
Cash and cash equivalents, January 1	403	376	616	425	52	99	55	159	182	164	263	154	570	403	52	182
Cash and cash equivalents, September 30	376	616	425	52	99	55	159	182	164	263	154	128	403	52	182	128

Source: Company reports, Guggenheim Securities, LLC estimates.

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SEMPRA ENERGY
CONSOLIDATED FINANCIALS
$ in millions, unless otherwise noted

BALANCE SHEET	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2015A	2016E	2017E	2018E
Current Assets:																
Cash and cash equivalents	376	616	425	52	99	55	159	182	164	263	154	128	403	52	182	128
Short-term investments													0	0	0	0
Restricted cash	23	17	17	17	17	17	17	17	17	17	17	17	27	17	17	17
Accounts receivable:													0	0	0	0
Customers	1,100	994	994	994	994	994	994	994	994	994	994	994	1,283	994	994	994
Other receivables	177	140	140	140	140	140	140	140	140	140	140	140	190	140	140	140
Due from unconsolidated affiliates	7	6	170	170	170	170	170	170	170	170	170	170	6	170	170	170
Income taxes receivable	49	36	39	39	39	39	39	39	39	39	39	39	30	39	39	39
Deferred income taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Inventories:													0	0	0	0
Materials and supplies	145	162	162	162	162	162	162	162	162	162	162	162	143	162	162	162
Liquefied natural gas	9	11	11	11	11	11	11	11	11	11	11	11	6	11	11	11
Natural gas	77	97	97	97	97	97	97	97	97	97	97	97	149	97	97	97
Regulatory balancing accounts undercollected	256	336	336	336	336	336	336	336	336	336	336	336	307	336	336	336
Other regulatory assets													0	0	0	0
Fixed-price contracts and other derivatives	88	65	65	65	65	65	65	65	65	65	65	65	80	65	65	65
U.S. Treasury grants receivable													0	0	0	0
Other	273	207	207	207	207	207	207	207	207	207	207	207	267	207	207	207
Total current assets	**2,883**	**3,341**	**3,317**	**2,944**	**2,991**	**2,947**	**3,051**	**3,074**	**3,056**	**3,155**	**3,046**	**3,020**	**2,891**	**2,944**	**3,074**	**3,020**
Investments																
Nuclear decommissioning trust funds	1,082	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,103	1,063	1,103	1,103	1,103
Investment in RBS Sempra Commodities LLP													0	0	0	0
Other	2,727	2,267	2,617	2,617	2,617	2,617	2,617	2,617	2,617	2,617	2,617	2,617	2,905	2,617	2,617	2,617
Total investments	**3,809**	**3,370**	**3,720**	**3,720**	**3,720**	**3,720**	**3,720**	**3,720**	**3,720**	**3,720**	**3,720**	**3,720**	**3,968**	**3,720**	**3,720**	**3,720**
Property, Plant and Equipment																
Property, Plant and Equipment	38,541	39,756	41,081	42,407	43,176	43,946	44,715	45,485	46,132	46,780	47,427	48,074	38,200	42,407	45,485	48,074
Accumulated depreciation, depletion and amortization	(10,108)	(10,261)	(10,420)	(10,595)	(10,769)	(10,943)	(11,123)	(11,302)	(11,485)	(11,866)	(11,855)	(12,042)	(10,161)	(10,595)	(11,302)	(12,042)
Total property, plant and equipment, net	**28,433**	**29,495**	**30,661**	**31,812**	**32,407**	**33,003**	**33,592**	**34,183**	**34,648**	**35,113**	**35,572**	**36,032**	**28,039**	**31,812**	**34,183**	**36,032**
Deferred Charges and Other Assets																
Restricted cash	20	18	18	18	18	18	18	18	18	18	18	18	20	18	18	18
Due from unconsolidated affiliates	186	192	192	192	192	192	192	192	192	192	192	192	186	192	192	192
Regulatory assets	3,336	3,353	3,353	3,353	3,353	3,353	3,353	3,353	3,353	3,353	3,353	3,353	3,273	3,353	3,353	3,353
Other regulatory assets													0	0	0	0
Goodwill	849	786	786	786	786	786	786	786	786	786	786	786	819	786	786	786
Other intangible assets	402	399	399	399	399	399	399	399	399	399	399	399	404	399	399	399
Dedicated assets in support of certain benefit plans	432	436	436	436	436	436	436	436	436	436	436	436	464	436	436	436
Insurance receivable for Aliso Canyon costs	660	679	679	679	679	679	679	679	679	679	679	679	325	679	679	679
Sundry	825	806	806	806	806	806	806	806	806	806	806	806	761	806	806	806
Total deferred charges and other assets	6,710	6,669	6,669	6,669	6,669	6,669	6,669	6,669	6,669	6,669	6,669	6,669	**6,252**	**6,669**	**6,669**	**6,669**
TOTAL ASSETS	**41,835**	**42,875**	**44,367**	**45,144**	**45,787**	**46,339**	**47,032**	**47,646**	**48,093**	**48,657**	**49,007**	**49,441**	**41,150**	**45,144**	**47,646**	**49,441**

Source: Company reports, Guggenheim Securities, LLC estimates.

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SEMPRA ENERGY

CONSOLIDATED FINANCIALS

$ in millions, unless otherwise noted

BALANCE SHEET	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2015A	2016E	2017E	2018E
Current Liabilities:																
Short-term debt	1,177	1,777	1,777	1,777	1,777	1,777	1,777	1,777	1,777	1,777	1,777	1,777	622	1777	1777	1777
Accounts payable -trade	1,028	1,140	1,140	1,140	1,140	1,140	1,140	1,140	1,140	1,140	1,140	1,140	1,133	1140	1140	1140
Accounts payable -other	129	101	101	101	101	101	101	101	101	101	101	101	142	101	101	101
Due to unconsolidated affiliate	13	8	8	8	8	8	8	8	8	8	8	8	14	8	8	8
Income taxes payable	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred income taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividends and interest payable	360	314	314	314	314	314	314	314	314	314	314	314	303	314	314	314
Accrued compensation and benefits	259	289	289	289	289	289	289	289	289	289	289	289	423	289	289	289
Regulatory balancing accounts (overcollected	45	120	120	120	120	120	120	120	120	120	120	120	34	120	120	120
Current portion of long-term debt	1,066	907	907	907	907	907	907	907	907	907	907	907	907	907	907	907
Fixed-price contracts and other derivatives	57	54	54	54	54	54	54	54	54	54	54	54	56	54	54	54
Customer deposits	147	150	150	150	150	150	150	150	150	150	150	150	153	150	150	150
Reserve for Aliso Canyon costs	302	117	117	117	117	117	117	117	117	117	117	117	274	117	117	117
Liabilities held for sale		222	222	222	222	222	222	222	222	222	222	222	0	222	222	222
Other	549	481	481	481	481	481	481	481	481	481	481	481	551	481	481	481
Total current liabilities	5,132	5,680	5,680	5,680	5,680	5,680	5,680	5,680	5,680	5,680	5,680	5,680	4,612	5,680	5,680	5,680
Long-Term Debt																
Long-term debt	12,975	13,178	14,578	15,128	15,528	16,028	16,628	17,028	17,178	17,678	17,928	18,128	13,134	15,128	17,028	18,128
Junior subordinated notes payable:														0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total long-term debt	12,975	13,178	14,578	15,128	15,528	16,028	16,628	17,028	17,178	17,678	17,928	18,128	13,134	15,128	17,028	18,128
Deferred Credits and Other Liabilities																
Due to unconsolidated affiliate																
Customer advances for construction	148	152	152	152	152	152	152	152	152	152	152	152	149	152	152	152
Pension and other postretirement benefit plan obligations, net of plan a	1,165	1,171	1,171	1,171	1,171	1,171	1,171	1,171	1,171	1,171	1,171	1,171	1,152	1171	1171	1171
Deferred income taxes	3,222	3,071	3,071	3,071	3,071	3,071	3,071	3,071	3,071	3,071	3,071	3,071	3,157	3071	3071	3071
Deferred investment tax credits	32	32	32	32	32	32	32	32	32	32	32	32	32	32	32	32
Regulatory liabilities arising from removal obligations	2,850	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,793	2,891	2,891	2,891
Asset retirement obligations	2,151	2,491	2,491	2,491	2,491	2,491	2,491	2,491	2,491	2,491	2,491	2,491	2,126	2,491	2,491	2,491
Fixed-price contracts and other derivatives	248	262	262	262	262	262	262	262	262	262	262	262	240	262	262	262
Reserve for wildfire litigation													0	0	0	0
Deferred credits and other	1,188	1,384	1,384	1,384	1,384	1,384	1,384	1,384	1,384	1,384	1,384	1,384	1,176	1,384	1,384	1,384
Total deferred credits and other liabilities	11,004	11,454	11,454	11,454	11,454	11,454	11,454	11,454	11,454	11,454	11,454	11,454	10,825	11,454	11,454	11,454
Total liabilities	29,111	30,312	31,712	32,262	32,662	33,162	33,762	34,162	34,312	34,812	35,062	35,262	28,571	32,262	34,162	35,262
Contingently redeemable preferred stock of subsidiary																
Noncontrolling Interest	758	762	762	762	762	762	762	762	762	762	762	762	750	762	762	762
Subsidiary Preferred Stock	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
Common Shareholders' Equity																
Common stock-no par	2,642	2,681	2,681	2,681	2,681	2,681	2,681	2,681	2,681	2,681	2,681	2,681	2,621	2,681	2,681	2,681
Other paid-in capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retained earnings	10,125	9,952	10,044	10,271	10,514	10,566	10,659	10,873	11,170	11,234	11,334	11,568	9,994	10,271	10,873	11,568
Deferred compensation													0	0	0	0
Accumulated other comprehensive income (loss)	(821)	(852)	(852)	(852)	(852)	(852)	(852)	(852)	(852)	(852)	(852)	(852)	(806)	(852)	(852)	(852)
Total common shareholders' equity	11,946	11,781	11,873	12,100	12,343	12,395	12,488	12,702	12,999	13,063	13,163	13,397	11,809	12,100	12,702	13,397
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	41,835	42,875	44,367	45,144	45,787	46,339	47,032	47,646	48,093	48,657	49,007	49,441	41,150	45,144	47,646	49,441

Source: Company reports, Guggenheim Securities, LLC estimates.

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SEMPRA ENERGY

Southern California Gas

$ in millions. unless otherwise noted

Southern California Gas	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2015A	2016E	2017E	2018E
INCOME STATEMENT - Quarterly																
	1Q16A	**2Q16A**	**3Q16A**	**4Q16E**	**1Q17E**	**2Q17E**	**3Q17E**	**4Q17E**	**1Q18E**	**2Q18E**	**3Q18E**	**4Q18E**	**2015A**	**2016E**	**2017E**	**2018E**
Natural gas revenues	1,033	617	589	1,022	979	628	645	983	1,038	635	650	1,010				
Total Operating Revenue	1,033	617	589	1,022	979	626	645	983	1,038	635	650	1,010	3,489	3,261	3,235	3,332
Operating Expenses:																
Cost of natural gas	253	147	163	295	253	147	163	295	253	147	163	295	921	858	858	858
Operation and maintenance	327	339	325	385	327	339	325	385	327	339	325	385	1,370	1,376	1,376	1,376
Depreciation and amortization	122	112	53	54	55	56	57	58	59	60	61	62	461	341	228	242
Franchise fees and other taxes	37	30	30	30	30	30	30	30	30	30	30	30	129	127	120	120
Total Operating Expenses	739	628	571	764	665	572	575	768	669	576	579	772	2,881	2,702	2,580	2,596
EBITDA	416	101	71	312	369	112	127	273	428	119	132	300	1,069	900	881	978
EBIT	294	(11)	18	258	314	56	70	215	369	59	71	238	608	559	655	736
Other income, net	10	6	6	6	6	6	6	6	6	6	6	6	30	28	24	24
Total interest and related charges	22	24	24	26	26	26	27	28	28	29	31	32	76	96	107	120
Pretax income	282	(29)	0	238	294	36	49	193	347	36	46	212	562	491	572	641
Effective tax rate	31%	100%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	25%	191%	120%	120%
Income tax expense (benefit)	87	(29)	0	71	88	11	15	58	104	11	14	64	138	130	172	192
Reported GAAP Earnings	195	-	0	167	206	26	34	135	243	25	32	148	424	362	401	449
Income (loss) from disc ops	-	(1)	-	-	-	-	-	-	-	-	-	-	(1)	(1)	-	-
Items excluded from operating earnings	-	37	-	-	-	-	-	-	-	-	-	-	-	37	-	-
Adjusted Earnings	195	36	0	167	206	26	34	135	243	25	32	148	423	398	401	449
Adjusted EPS	$ 0.78	$ 0.14	$ 0.00	$ 0.66	$ 0.82	$ 0.10	$ 0.14	$ 0.54	$ 0.96	$ 0.10	$ 0.13	$ 0.59	$ 1.69	$ 1.58	$ 1.59	$ 1.78

Source: Company reports, Guggenheim Securities, LLC estimates.

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SEMPRA ENERGY

San Diego Gas & Electric

$ in millions, unless otherwise noted

San Diego Gas & Electric	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2015A	2016E	2017E	2018E
INCOME STATEMENT - Quarterly																
	1Q16A	**2Q16A**	**3Q16A**	**4Q16E**	**1Q17E**	**2Q17E**	**3Q17E**	**4Q17E**	**1Q18E**	**2Q18E**	**3Q18E**	**4Q18E**	**2015A**	**2016E**	**2017E**	**2018E**
Electric revenues	843	897	1,055	823	805	878	1,006	844	839	908	1,036	865	3,719	**3,618**	**3,534**	**3,647**
Natural gas revenues	148	95	83	138	141	93	79	142	147	96	82	145	500	**464**	**455**	**470**
Total Operating Revenue	**991**	**992**	**1,138**	**961**	**946**	**972**	**1,085**	**986**	**986**	**1,004**	**1,117**	**1,010**	**4,219**	**4,083**	**3,989**	**4,117**
Operating Expenses:																
Cost of electric fuel and purchased power	248	314	427	245	248	314	427	245	248	314	427	245	1,151	1,234	1,234	1,234
Cost of natural gas	39	25	27	41	39	25	27	41	39	25	27	41	153	132	132	132
Operation and maintenance	246	266	251	294	246	266	251	294	246	266	251	294	1,017	1,057	1,057	1,057
Depreciation and amortization	159	158	60	61	62	63	64	65	66	67	68	69	604	438	256	272
Franchise fees and other taxes	63	59	59	59	59	59	59	59	59	59	59	59	262	240	236	236
Plant closure adjustment	-												(26)	-	-	-
Total Operating Expenses	755	**822**	824	700	654	727	828	704	658	731	833	709	**3,161**	3,101	2,915	2,931
EBITDA	**395**	**328**	**374**	**322**	**354**	**308**	**321**	**347**	**394**	**340**	**353**	**371**	**1,662**	**1,420**	**1,330**	**1,458**
EBIT	**236**	**170**	**314**	**261**	**292**	**244**	**257**	**282**	**328**	**272**	**285**	**301**	**1,058**	**981**	**1,075**	**1,186**
Other income, net	14	13	13	13	13	13	13	13	13	13	13	13	36	53	52	52
Total interest and related charges	48	48	50	54	55	56	57	59	62	63	63	63	204	199.6	227.5	250.0
Pretax income	202	135	277	220	250	201	213	236	279	223	235	251	890	834.5	899.1	987.8
Effective tax rate	0	0	0	0	0	0	0	0	0	0	0	0	32%	35%	34%	34%
Income tax expense (benefit)	72	48	94	75	85	68	72	80	95	76	80	85	284	289.1	305.7	335.9
Net Income including noncontrolling interests	130	87	183	145	165	133	140	155	184	147	155	166	606	545	593	652
Noncontrolling interests	1	(13)											19	(12)	-	-
Call premium on preferred stock													-	-	-	-
Preferred dividend requirements													-	-	-	-
Reported GAAP Earnings	129	100	183	145	165	133	140	155	184	147	155	166	587	557	593	652
Income (loss) from disc ops													-	-	-	-
Items excluded from operating earnings		22											(15)	22	-	-
Adjusted Earnings	**129**	**122**	**183**	145	165	133	140	155	184	147	155	166	572	579	593	652
Adjusted EPS	$ 0.51	$ 0.48	$ 0.73	$ 0.58	$ 0.65	$ 0.53	$ 0.56	$ 0.62	$ 0.73	$ 0.58	$ 0.62	$ 0.66	$ 2.28	$ 2.30	$ 2.36	$ 2.59

Source: Company reports, Guggenheim Securities, LLC estimates.

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SEMPRA ENERGY

International Business

$ in millions. unless otherwise noted

International Business	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2015A	2016E	2017E	2018E
INCOME STATEMENT																
Electric revenues	378	365	360	455	403	396	407	444	426	416	426	462	1,447	1,558	1,651	1,730
Natural gas revenues	22	20	19	20	23	21	20	21	34	32	31	33	81	81	86	129
Energy-Related business	138	147	191	146	152	163	203	170	169	180	225	188	685	622	688	762
Total Operating Revenue	538	532	570	621	579	580	630	636	628	628	682	683	2,213	2,261	2,425	2,622
Operating Expenses:																
Cost of electric fuel and purchased power	374	349	335	357	378	353	354	361	397	373	380	385	1,411	1,415	1,445	1,536
Cost of natural gas	35	40	65	49	37	43	69	52	40	45	73	56	221	189	201	214
Other cost of sales			18	18	17	17	18	19	18	18	19	20	0	36	72	74
Depreciation, depletion and amortization	30	29	33	32	32	30	35	32	33	31	35	32	120	124	129	132
Other operations and maintenance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Operating Expenses	439	418	450	456	465	442	476	464	488	467	508	493	1,752	1,763	1,847	1,956
EBITDA	129	143	153	197	147	167	189	204	173	191	210	223	581	622	707	797
EBIT	99	114	120	165	114	137	155	172	140	160	175	191	461	498	578	666
Equity earnings (losses), before income tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other income, net	13	(10)	14	4	13	(10)	14	4	13	(10)	14	4	43	21	21	21
Total interest and related charges	6	3	10	10	10	10	10	10	10	10	10	10	29	30	41	41
Pretax income	106	101	123	159	117	117	158	166	143	140	178	184	475	489	558	645
Effective tax rate	52%	3%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	16%	26%	25%	25%
Income tax expense (benefit)	55	3	31	40	29	29	40	41	36	35	45	46	78	129	139	161
Income including noncontrolling interests	51	98	93	119	88	88	119	124	107	105	134	138	397	361	418	484
Equity earnings, net of income tax	17	33	30	32	20	43	39	41	20	43	39	41	85	112	142	142
Losses (earnings) attributable to noncontrol	11	22	24	24	11	24	27	23	13	25	28	24	79	81	84	90
Reported GAAP Earnings	57	109	99	127	96	107	131	142	114	123	145	155	403	391	477	536
Income (loss) from disc ops	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Items excluded from operating earnings	24	0	0	0	0	0	0	0	0	0	0	0	0	24	0	0
Adjusted Earnings	81	109	99	127	96	107	131	142	114	123	145	155	403	410	477	536
Adjusted EPS	$ 0.32	$ 0.43	$ 0.39	$ 0.50	$ 0.38	$ 0.42	$ 0.52	$ 0.57	$ 0.45	$ 0.49	$ 0.57	$ 0.62	$ 1.61	$ 1.63	$ 1.89	$ 2.13

Source: Company reports, Guggenheim Securities, LLC estimates.

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SEMPRA ENERGY

U.S. Gas & Power

Sempra U.S. Gas & Power	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	1Q18E	2Q18E	3Q18E	4Q18E	2015A	2016E	2017E	2018E
INCOME STATEMENT																
Natural gas revenues	38	18	-	-	-	-	-	-	-	-	-	-	103	56	0	0
Energy-Related business	99	78	152	60	117	117	117	117	117	118	118	118	586	388	468	470
Total Operating Revenue	**137**	**96**	**152**	**60**	**117**	**117**	**117**	**117**	**117**	**118**	**118**	**118**	**689**	**444**	**468**	**470**
Operating Expenses:																
Cost of electric fuel and purchased powe	167	349	13	15	13	13	13	15	13	13	13	15	732	544	55	55
Cost of natural gas	-	-	30	30	83	83	83	83	83	83	83	83	0	60	333	333
O&M expenses	-		-	-	-	-	-	-	-	-	-	-	0	0	0	0
Depreciation, depletion and amortization	14	14	13	27	24	24	24	24	24	24	24	24	55	68	96	95
Total Operating Expenses	**181**	**363**	**57**	**73**	**120**	**120**	**120**	**122**	**120**	**120**	**120**	**122**	**787**	**673**	**484**	**483**
EBITDA	**(30)**	**(253)**	**108**	**14**	**20**	**21**	**21**	**19**	**21**	**21**	**21**	**19**	**-43**	**-161**	**80**	**82**
EBIT	**(44)**	**(267)**	**95**	**(13)**	**(4)**	**(3)**	**(3)**	**(5)**	**(3)**	**(3)**	**(2)**	**(4)**	**-98**	**-229**	**-16**	**-12**
Guidance low																
Guidance high																
Equity earnings (losses), before income tax	(22)	14	13	13	13	13	14	13	14	14	14	14	108	18	53	55
Other income, net	-	2	-	-	-	-	-	-	-	-	-	-	71	2	0	0
Total interest and related charges	(5)	(7)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(1)	(3)	(5)	(16)	(12)	(9)
Pretax income	(61)	(244)	110	3	12	13	13	11	13	14	12	12	86	(192)	49	52
Effective tax rate	61%	44%	30%	-105%	-10%	-9%	-8%	-6%	-6%	-5%	1%	-2%	-21%	60%	-9%	-3%
Income tax expense (benefit)	(37)	(108)	33	(3)	(1)	(1)	(1)	(1)	(1)	(1)	0	(0)	(18)	(115)	(4)	(2)
Income including noncontrolling interests	(24)	(136)	77	5	14	14	14	12	14	15	12	12	104	(78)	53	53
Equity earnings, net of income tax	1	(1)	-	-	-	-	-	-	-	-	-	-	0	0	0	0
Losses (earnings) attributable to noncontro	-	-	-	-	-	-	-	-	-	-	-	-	(1)	0	0	0
Reported GAAP Earnings	**(25)**	**(135)**	**77**	**5**	**14**	**14**	**14**	**12**	**14**	**15**	**12**	**12**	**103**	**(78)**	**53**	**53**
Income (loss) from disc ops	-	-	-	-	-	-	-	-	-	-	-	-	0	0	0	0
Items excluded from operating earnings	27	123	(70)	-	-	-	-	-	-	-	-	-	(26)	80	0	0
Adjusted Earnings	**2**	**(12)**	**7**	**5**	**14**	**14**	**14**	**12**	**14**	**15**	**12**	**12**	**77**	**2**	**53**	**53**
Adjusted EPS	**$ 0.01**	**$ (0.05)**	**$ 0.03**	**$ 0.02**	**$ 0.05**	**$ 0.06**	**$ 0.06**	**$ 0.05**	**$ 0.06**	**$ 0.06**	**$ 0.05**	**$ 0.05**	**$ 0.31**	**$ 0.01**	**$ 0.21**	**$ 0.21**

Source: Company reports, Guggenheim Securities, LLC estimates.

VECTREN (VVC, NEUTRAL, $49.08)

Initiating coverage of VVC with a NEUTRAL rating and $46 FV/share estimate. Strong story, solid growth with potential upside opportunities at electric and minimal rate case overhangs but less upside at current valuation levels. We assume a wait-and-see-approach.

- **We are initiating coverage of VVC with a NEUTRAL rating and $46 FV/share estimate – looking for a better entry point.** VVC is a ~$4bn market cap regulated utility with electric and gas distribution franchises in Indiana and Ohio, as well as an unregulated segment that provides energy and infrastructure services. Our NEUTRAL stance is a valuation call as, by our estimates, the current share price equates to limited upside versus our sum-of-the-parts methodology. **On a relative basis, VVC trades at a premium to electrics; discount to gas regulated peers – that said, VVC does have an unregulated segment that we view as a lower multiple business.** Overall, VVC remains a solid above-average growth story with minimal rate case overhangs in the NT with riders for infrastructure in both states translating into earned ROEs aligned with allowed – minimal regulatory lag. **With only 1% rate base growth at Electric assumed in plan** (9-10% rate base growth for Gas), **a return to more normalized electric growth can provide upside surprise to management's current 4-6% utility EPS growth guidance** (and 5-7% consolidated EPS growth target) **given the Electrics sizable contribution to consolidated results**. IRP filing in Indiana can provide this visibility. That said, at current valuation levels, shares appear fairly valued but we do look for a better entry point.
- **Our 2016/2017/2018 EPS estimates are $2.50/$2.67/$2.82, respectively, in line with consensus.** We model ~$1.4bn of CapEx driving 9% annual utility rate base growth, without making assumptions around incremental base rate increases (plans are largely comprised of gas investments approved for cost recovery through 2020). Our utility estimates also assume 0.75% gas customer growth and 0.5% electric customer growth, as well as progress toward the company's targeted O&M of $290-300mm through 2020 (we reach ~$300mm/yr in 2018E). We model consolidated earnings growing 6% per year; utility earnings growth of 4% per year vs. management's 5-7% consolidated growth outlook. The gap between our earnings trajectory and 9% rate base growth is a function of lower ROEs, depreciation and slight dilution (we model $7mm/year of equity through the company's DRIP program). We assume dividends grow in line with our EPS growth trajectory. **While we model growth driven mainly by gas, the electric segment returning to more normalized growth in line with peers could actually provide an upside surprise for VVC – see below.**
- **It's all about Gas — Regulated business mix shifting to gas while electric maintains flat rate base/EPS growth for now.** VVC's investment plans are heavily weighted toward gas infrastructure over the next few years, which we expect will significantly make up all of the company's regulated rate base growth. Our estimates begin to see a shift in the business mix in 2017, when gas utilities contribute more than half of regulated earnings for the first time and continue to grow. Growth at VVC's gas utilities is driven by approved multi-year gas infrastructure investment programs such as the 7-year gas infrastructure plan in Indiana ($1bn through 2020). Rate case overhang limited in NT in Indiana and Ohio – given infrastructure spending programs. We don't assume a rate filing in Indiana until 2020; Ohio until 2018 – both towards the end of their current infrastructure spending program extensions.

- **Non-utility businesses operate in familiar territory, adjacent with regulated utility activities – Not a clean pure-play utility yet, but management focus has been narrowing in that direction.** VVC's two non-utility businesses aren't regulated, but operate in familiar territory; **(1)** VISCO is a distribution and transmission construction businesses levered to utility infrastructure investment programs – the distribution side is the source of growth in our non-utility model and is the primary bridge that drives our 4% utility growth to our consolidated 6% VVC growth trajectory through '18, and **(2)** VESCO is an energy services business that provides contracted energy efficiency solutions – we assume very minimal growth. We model earnings growth at these businesses as a function of their backlog of projects, which we assume is managed to convert an increasing portion of the backlog of "blanket contracts" into revenue, and we use very conservative assumptions about the amount of "bid contracts" in the backlog converted to revenue. See models on the following pages.
- **Next Catalyst** – IRP in Indiana, which could prompt additional spending opportunities. Final meeting in early November to review draft plan before it files with the Commission. Offsetting items around spending opportunities centers on uncertainty around environmental legislation (i.e. carbon) and also a large customer moving towards majority self-generation.
- **Valuation: We arrive at our $46 fair value/share estimate utilizing a sum-of-the-parts analysis comprised of: (1)** $17/share for regulated electric utility when we apply our group average regulated electric utility multiple of 16.0x, which is based on a regression of corp. bond yields and utility PE multiples; **(2)** $24/share value for the regulated gas segment utilizing our bond-implied regulated electric P/E multiple and historical gas LDC spreads above their electric counterparts; and **(3)** a 3x multiple to non-utility EBITDA of $148mm ($5/share value), which is a consolidation of our forecasts for the distribution and transmission construction segment (VISCO) and Energy Services (VESCO). **Incorporating our estimated 5.6% dividend yield would equate to a -0.6% ETR.**
- **Risk:** Risks to our rating and valuation for VVC mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model. Upside risks to our fair value estimate include: (1) favorable regulatory environments; (2) normalized electric growth; and (3) higher CapEx outlook.

Guggenheim's VVC EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.69A	0.43A	0.47A	0.79A	2.39A	
2016E	0.58A	0.39A	0.74A	0.79E	2.50E	2.47E
2017E	0.78E	0.47E	0.57E	0.86E	2.67E	2.66E
2018E	0.85E	0.49E	0.57E	0.90E	2.82E	2.82E

Source: Company reports, Guggenheim Securities, LLC estimates.

Summary business metrics

Summary financial metrics					
Segment EPS	**2015A**	**2016E**	**2017E**	**2018E**	***CAGR***
Electric	1.00	1.03	1.04	1.04	*1.2%*
Gas	0.95	1.01	1.06	1.13	*6.2%*
Utilities	1.95	2.04	2.10	2.17	*3.7%*
VISCO	0.36	0.36	0.41	0.43	
VESCO	0.09	0.14	0.17	0.20	
Non-Utility	0.44	0.46	0.57	0.65	*13.5%*
VVC	**$2.39**	**$2.50**	**$2.67**	**$2.82**	***5.7%***
Dividend coverage		**2016E**	**2017E**	**2018E**	
Dividend per share		$1.59	$1.69	$1.79	
Annual dividend growth		6.0%	6.0%	6.0%	
Consolidated payout ratio		64%	63%	63%	
Dividend covered by utility EPS		78%	80%	82%	

Source: Company reports, Guggenheim Securities, LLC estimates.

Regulated business metrics

Regulated summary						
Business mix (EPS)		**2015A**	**2016E**	**2017E**	**2018E**	***CAGR***
Utility		1.95	2.04	2.10	2.17	*3.7%*
Non-utility		0.44	0.46	0.57	0.65	*13.5%*
Total		**$2.39**	**$2.50**	**$2.67**	**$2.82**	*5.7%*
Regulated asset mix (Ratebase, $Bn)		**2015A**	**2016E**	**2017E**	**2018E**	***CAGR***
Electric distribution		1.5	1.5	1.5	1.6	*0.7%*
Gas distribution		1.2	1.5	1.6	1.9	*15.6%*
Total		**2.7**	**3.0**	**3.2**	**3.4**	*7.7%*
Regulated EPS by asset class		**2015A**	**2016E**	**2017E**	**2018E**	***CAGR***
Electric distribution		1.00	1.03	1.04	1.04	*1.2%*
Gas distribution		0.95	1.01	1.06	1.13	*6.2%*
Total		**$1.95**	**$2.04**	**$2.10**	**$2.17**	*3.7%*
Regulated ROE by asset class		**2015A**	**2016E**	**2017E**	**2018E**	***Avg.***
Electric distribu	*Earned*		11.3%	11.4%	11.2%	*11.3%*
	Authorized		*10.4%*	*10.4%*	*10.4%*	*10.4%*
Gas distributior	*Earned*		11.1%	10.7%	10.1%	*10.7%*
	Authorized		*10.2%*	*10.2%*	*10.2%*	*10.2%*

Source: Company reports, Guggenheim Securities, LLC estimates.

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Vectren Corp.

Consolidated Financials

Income Statement ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Gas utility	793	281	132	109	192	714	286	136	113	196	730	296	144	121	205	765
Electric utility	602	142	148	176	121	586	138	143	158	129	569	131	137	152	122	542
Nonutility	1,041	162	254	344	339	1,098	320	348	349	350	1,368	366	385	393	394	1,537
Total Operating Revenues	2,435	585	534	629	651	2,398	743	627	620	675	2,666	792	666	666	720	2,844
Cost of gas sold	305	112	34	22	49	217	96	30	19	43	188	85	27	18	38	167
Cost of fuel & purchased power	188	44	45	41	32	163	43	44	37	34	158	41	42	35	33	151
Cost of nonutility revenues	355	55	83	285	282	706	304	297	291	288	1,180	347	327	329	325	1,328
Total Cost of sales	848	211	162	348	364	1,085	444	371	347	365	1,527	473	396	382	395	1,646
Gross Margin	1,587	374	372	280	287	1,313	300	257	274	310	1,140	319	270	284	325	1,199
Other operating	909	200	230	95	93	618	103	91	91	90	375	99	88	87	86	360
Taxes other than income taxes	60	18	14	18	19	68	19	19	19	20	77	20	20	21	21	82
Total Operating Expenses	969	218	244	113	112	686	121	111	110	109	452	119	108	108	107	441
EBITDA	618	156	128	168	175	627	178	146	163	200	688	201	162	176	218	757
Depreciation & amortization	256	64	64	59	61	248	62	63	65	67	257	69	70	72	73	283
Operating income	362	92	64	108	115	379	117	83	98	133	431	132	92	105	145	474
Equity in unconsolidated affiliates	(1)	(0)	0	-	-	(0)	-	-	-	-	-	-	-	-	-	-
Other income – net	20	6	8	7	7	27	3	4	3	3	13	-	-	-	-	-
Interest expense	85	22	21	19	20	82	23	23	24	25	95	26	26	27	27	106
Income before taxes	297	76	51	96	102	324	97	63	77	112	348	106	66	78	118	368
Income Taxes	100	27	18	34	37	116	32	24	30	41	127	35	25	30	43	134
Tax Rate	*34%*	*36%*	*36%*	*36%*	*36%*	*36%*	*33%*	*38%*	*39%*	*36%*	*36%*	*33%*	*38%*	*39%*	*36%*	*36%*
Net income attributable to shareholders	197	48	32	62	65	207	65	39	47	71	222	71	41	47	75	234
Earnings Per Common Share, Diluted	2.39	0.58	0.39	0.74	0.79	2.50	0.78	0.47	0.57	0.86	2.67	0.85	0.49	0.57	0.90	2.82
Net Income (GAAP)	197	48	32	62	65	207	65	39	47	71	222	71	41	47	75	234
Wtd. Avg. shares outstanding	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83
Operating EPS	2.39	0.58	0.39	0.74	0.79	$2.50	0.78	0.47	0.57	0.86	$2.67	0.85	0.49	0.57	0.90	$2.82

Source: Company reports, Guggenheim Securities, LLC estimates.

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Vectren Corp.

Consolidated Financials

Cash Flow Statement ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Net income	197	48	32	62	65	207	65	39	47	71	222	71	41	47	75	234
Adjustments to reconcile net income to net cash provided by operating activities:																
Depreciation & amortization	256	64	64	59	61	248	62	63	65	67	257	69	70	72	73	283
Net Cash Provided by Operating Activities	505	202	91	121	126	540	126	102	112	138	479	140	111	119	148	517
Cash Flow from Investing Activities:																
Sale of assets and other collections	28	0	1	-	-	1	-	-	-	-	-	-	-	-	-	-
Capital expenditures, excluding AFUDC equity	(477)	(109)	(139)	(149)	(149)	(546)	(141)	(151)	(137)	(137)	(565)	(126)	(136)	(122)	(122)	(505)
Business acquisitions and other costs	(14)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in restricted cash	(6)	-	0	-	-	0	-	-	-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	(470)	(108)	(138)	(149)	(149)	(544)	(141)	(151)	(137)	(137)	(565)	(126)	(136)	(122)	(122)	(505)
Cash flow from financing																
Long-term debt, net of issuance costs	386	-	-	50	25	75	-	50	25	25	100	-	-	-	-	-
Dividend reinvestment plan & other common stock issuances	6	2	2	2	2	7	2	2	2	2	7	2	2	2	2	7
Dividends on common stock	(127)	(33)	(33)	-	-	(66)	-	-	-	-	-	-	-	-	-	-
Retirement of long-term debt	(170)	(60)	(13)	-	-	(73)	-	-	-	-	-	-	-	-	-	-
Net change in short-term borrowings	(142)	(15)	45	-	-	31	-	-	-	-	-	-	-	-	-	-
Net Cash (Used in) Provided by Financing Activities	(47)	(106)	1	52	27	(27)	2	52	27	27	107	2	2	2	2	7
Net (Decrease) Increase in Cash and Cash Equivalents	(12)	(12)	(47)	24	4	(31)	(13)	3	2	28	21	15	(23)	(1)	28	19
Cash and Cash Equivalents, Beginning of Period	86	75	63	16	40	75	44	30	34	36	44	64	79	56	55	64
Cash and Cash Equivalents, End of Period	75	63	16	40	44	44	30	34	36	64	64	79	56	55	84	84

Source: Company reports, Guggenheim Securities, LLC estimates.

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Vectren Corp.

Consolidated Financials

Balance Sheet ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Cash & cash equivalents	75	63	16	40	44	44	30	34	36	64	64	79	56	55	84	84
Accounts receivable	228	177	177	177	177	177	177	177	177	177	177	177	177	177	177	177
Accrued unbilled revenues	143	104	96	96	96	96	96	96	96	96	96	96	96	96	96	96
Inventories	134	123	128	128	128	128	128	128	128	128	128	128	128	128	128	128
Recoverable fuel & natural gas costs	-	9	18	18	18	18	18	18	18	18	18	18	18	18	18	18
Prepayments & other current assets	81	47	62	62	62	62	62	62	62	62	62	62	62	62	62	62
Assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Assets	**659**	**522**	**497**	**520**	**524**	**524**	**511**	**514**	**517**	**545**	**545**	**560**	**537**	**536**	**564**	**564**
Utility Plant																
Original cost	6,090	6,172	6,299	6,447	6,596	6,596	6,738	6,888	7,025	7,161	7,161	7,288	7,423	7,545	7,666	7,666
Less: accumulated depreciation & amortization	2,416	2,454	2,493	2,552	2,613	2,613	2,674	2,738	2,803	2,870	2,870	2,939	3,009	3,080	3,153	3,153
Net Property, Plant and Equipment in Service	**3,675**	**3,718**	**3,806**	**3,895**	**3,984**	**3,984**	**4,063**	**4,150**	**4,222**	**4,291**	**4,291**	**4,349**	**4,414**	**4,465**	**4,513**	**4,513**
Other Non-current Assets																
Investments in unconsolidated affiliates	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21
Other utility & corporate investments	31	30	33	33	33	33	33	33	33	33	33	33	33	33	33	33
Other nonutility investments	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16
Nonutility plant - net	415	425	431	431	431	431	431	431	431	431	431	431	431	431	431	431
Goodwill	294	294	294	294	294	294	294	294	294	294	294	294	294	294	294	294
Regulatory assets	258	258	274	274	274	274	274	274	274	274	274	274	274	274	274	274
Other assets	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41
Total other non-current assets	**1,076**	**1,083**	**1,109**	**1,109**	**1,109**	**1,109**	**1,109**	**1,109**	**1,109**	**1,109**	**1,109**	**1,109**	**1,109**	**1,109**	**1,109**	**1,109**
Total Assets	**5,410**	**5,323**	**5,411**	**5,525**	**5,617**	**5,617**	**5,683**	**5,774**	**5,848**	**5,945**	**5,945**	**6,018**	**6,060**	**6,110**	**6,186**	**6,186**
Accounts payable	249	213	240	240	240	240	240	240	240	240	240	240	240	240	240	240
Accounts payable to affiliated companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Refundable fuel & natural gas costs	8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued liabilities	184	183	171	171	171	171	171	171	171	171	171	171	171	171	171	171
Short-term borrowings	15	-	45	45	45	45	45	45	45	45	45	45	45	45	45	45
Current maturities of long-term debt	73	13	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	**528**	**409**	**456**	**456**	**456**	**456**	**456**	**456**	**456**	**456**	**456**	**456**	**456**	**456**	**456**	**456**
Long-term Debt - Net of Current Maturities	1,723	1,713	1,714	1,764	1,789	1,789	1,789	1,839	1,864	1,889	1,889	1,889	1,889	1,889	1,889	1,889
Deferred Income Taxes & Other Liabilities																
Deferred income taxes	805	828	854	854	854	854	854	854	854	854	854	854	854	854	854	854
Regulatory liabilities	434	441	448	448	448	448	448	448	448	448	448	448	448	448	448	448
Deferred credits & other liabilities	236	232	238	238	238	238	238	238	238	238	238	238	238	238	238	238
Total deferred credits & other liabilities	**3,198**	**3,214**	**3,254**	**3,304**	**3,329**	**3,329**	**3,329**	**3,379**	**3,404**	**3,429**	**3,429**	**3,429**	**3,429**	**3,429**	**3,429**	**3,429**
Total Liabilities	**3,726**	**3,623**	**3,710**	**3,760**	**3,785**	**3,785**	**3,785**	**3,835**	**3,860**	**3,885**	**3,885**	**3,885**	**3,885**	**3,885**	**3,885**	**3,885**
Common stock	723	724	726	728	730	730	732	733	735	737	737	739	740	742	744	744
Retained earnings	962	977	977	1,038	1,103	1,103	1,168	1,207	1,254	1,325	1,325	1,396	1,436	1,484	1,559	1,559
Accumulated other comprehensive (loss)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Total Stockholders' Equity	**1,684**	**1,700**	**1,701**	**1,765**	**1,832**	**1,832**	**1,898**	**1,939**	**1,988**	**2,061**	**2,061**	**2,133**	**2,176**	**2,225**	**2,302**	**2,302**
Total Liabilities and Equity	**5,410**	**5,323**	**5,411**	**5,525**	**5,617**	**5,617**	**5,683**	**5,774**	**5,848**	**5,945**	**5,945**	**6,018**	**6,060**	**6,110**	**6,186**	**6,186**

Source: Company reports, Guggenheim Securities, LLC estimates.

See pages 162 - 163 for analyst certification and important disclosures.

Launching Coverage and Getting Gassier – Catalyst-Rich but Not a Sector Call

GUGGENHEIM

Vectren Corp.
Electric Utility

Income Statement ($ Million)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Electric utility	602	142	148	176	121	586	138	143	158	129	569	131	137	152	122	542
Total Operating Revenues	602	142	148	176	121	586	138	143	158	129	569	131	137	152	122	542
Cost of fuel & purchased power	188	44	45	41	32	163	43	44	37	34	158	41	42	35	33	151
Cost of nonutility revenues	-															
Total Cost of sales	188	44	45	41	32	163	43	44	37	34	158	41	42	35	33	151
Gross Margin	414	98	103	135	88	424	95	100	121	95	411	90	95	116	90	391
Other operating	121	30	30	30	30	122	29	28	26	25	107	24	22	21	20	88
Taxes other tha 3.1%	47	12	12	12	12	48	12	12	12	12	48	12	12	12	12	48
Total Operating Expenses	169	42	42	42	42	169	41	39	38	37	155	36	34	33	32	136
EBITDA	245	56	60	92	46	254	54	60	83	58	256	55	60	83	57	256
Depreciation & amortization	86	23	23	23	23	90	23	23	23	23	90	23	23	23	23	90
Operating Income	160	33	38	70	24	164	32	38	61	36	166	32	38	60	35	166
Equity in earnings (losses) of unconsolidated affiliates	-															
Other income – net	-															
Interest expense	28	7	7	7	7	28	7	7	7	7	28	7	7	7	7	28
Total Interest Expense	28	7	7	7	7	28	7	7	7	7	28	7	7	7	7	28
Income from continuing operations before income taxes	132	27	31	63	17	137	25	31	54	29	138	25	31	53	28	137
Income Taxes	49	10	11	23	6	51	9	11	20	11	51	9	12	20	10	51
Tax Rate	*37%*	*37%*	*37%*	*37%*	*37%*	*37%*	*37%*	*37%*	*37%*	*37%*	*37%*	*37%*	*37%*	*37%*	*37%*	*37%*
Net income	83	17	19	39	10	86	15	19	34	18	86	16	19	33	17	86
Less: Net income attributable to noncontrolling interests	-															
Net income attributable to shareholders	83	17	19	39	10	86	15	19	34	18	86	16	19	33	17	86
Wtd. Avg. shares outstanding	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83
EPS	$1.00	0.20	0.23	0.48	0.13	$1.03	0.19	0.23	0.41	0.22	$1.04	0.19	0.23	0.40	0.21	$1.04

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

Vectren Corp.

Gas Utility

Income Statement ($ Million)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Gas utility	793	281	132	109	192	714	286	136	113	196	730	296	144	121	205	765
Total Operating Revenues	793	281	132	109	192	714	286	136	113	196	730	296	144	121	205	765
Cost of gas sold	305	112	34	22	49	217	96	30	19	43	188	85	27	18	38	167
Cost of fuel & purchased power	-	-	-			-										
Total Cost of sales	305	112	34	22	49	217	96	30	19	43	188	85	27	18	38	167
Gross Margin	487	170	98	87	142	497	189	106	93	153	541	211	117	103	166	598
Other operating	218	59	51	50	49	209	56	50	50	50	206	57	51	51	51	211
Taxes other than inco 1.8%	10	5	1	6.3	6.6	19	6.9	7.2	7.5	7.8	30	8.1	8.3	8.5	8.6	33
Total Operating Expenses	254	56	47	56	55	228	63	57	58	58	236	65	59	60	60	244
EBITDA	233	114	51	31	87	269	127	49	36	94	305	146	58	44	106	354
Depreciation & amortization	99	31	32	28	30	121	30	32	33	34	129	35	36	37	38	147
Operating Income	134	83	20	3	57	148	96	17	3	60	176	110	22	6	69	207
Equity in earnings (losses) of unconsolidated affiliates	-	-	-			-										
Other income – net	19	6	7	7	7	26	3	4	3	3		-	-	-	-	
Interest expense	36	18	18	12	13	60	14	14	15	15	58	16	16	17	17	66
Income from continuing operations before income taxes	117	71	9	(3)	51	114	85	7	(9)	48	118	94	5	(10)	51	141
Income Taxes	39	25	4	(1)	17	44	28	2	(3)	16	44	31	2	(3)	17	
Tax Rate	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*	*33%*
Net Income	78	46	5	(2)	34	84	57	4	(6)	32	88	63	4	(7)	34	94
Less: Net income attributable to noncontrolling interests	-	-	-			-										
Net income attributable to shareholders	78	46	5	(2)	34	84	57	4	(6)	32	88	63	4	(7)	34	94
Wtd. Avg. shares outstanding	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83
Operating EPS	0.95	0.56	0.06	(0.02)	0.41	$1.01	0.69	0.05	(0.07)	0.39	$1.06	0.76	0.04	(0.08)	0.41	$1.13

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

Vectren Corp.

Non-Utility

Income Statement ($ Million)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
	2015A	1QA	2QA	3QE	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Gas utility	-	-	-													
Electric utility	-	-	-													
Nonutility	1,041	162	254	341	342	1,098	320	348	349	350	1,368	366	385	393	394	1,537
Total Operating Revenues	1,041	162	254	344	339	1,098	320	348	349	350	1,368	366	385	393	394	1,537
Total Cost of sales	355	55	83	285	282	706	304	297	291	288	1,180	347	327	329	325	-
Gross Margin	686	106	171	58	57	392	15	51	59	62	187	18	58	64	69	209
Other operating	570	111	148	14	14	287	18	14	14	14	61	18	14	15	15	62
Taxes other than income taxes	2	1	1	-	-	1	-	-	-	-	-	-	-	-	-	-
EBITDA	113	(5)	22	44	43	104	(2)	37	44	48	127	0	44	50	54	148
Depreciation & amortization	48	10	10	8	8	37	9	9	10	10	38	11	11	12	13	46
Operating Income	66	(15)	12	36	34	67	(11)	28	35	38	89	(10)	32	38	42	102
Equity in earnings (losses) of unconsolidated affiliates	(1)	(0)	0	-	-	(0)	-	-	-	-	-	-	-	-	-	-
Other income – net	2	0	1	-	-	1	-	-	-	-	-	-	-	-	-	-
Net other income	1	(0)	1	-	-	1	-	-	-	-	-	-	-	-	-	-
Interest expense	18	5	4			8	2	2	2	3	10	3	3	3	3	12
Income from continuing operations before income taxes	48	(20)	9	36	34	59	(13)	25	32	35	79	(13)	29	35	39	90
Income Taxes	12	(7)	3	12	13	21	(5)	10	13	14	32	(5)	12	14	15	36
Net income	37	(13)	6	24	21	38	(8)	15	19	21	48	(8)	18	21	23	54
Less: Net income attributable to noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income attributable to shareholders	37	(13)	6	24	21	38	(8)	15	19	21	48	(8)	18	21	23	54
Non-operating items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	37	(13)	6	24	21	38	(8)	15	19	21	48	(8)	18	21	23	54
Weighted-average Number of Common Shares Outstanding	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83
Operating EPS	$0.44	(0.15)	0.07	0.29	0.25	$0.46	(0.10)	0.18	0.23	0.25	$0.57	(0.09)	0.21	0.25	0.28	$0.65

Source: Company reports, Guggenheim Securities, LLC estimates.

WEC ENERGY GROUP INC. (WEC, BUY, $58.52)

Initiating coverage of WEC with a BUY rating and $63 price target. WEC remains a solid utility with above-average growth prospects, constructive mechanisms, strong CFs, no NT rate case overhang and a WE Power segment that translates into sustainable above-average ROEs. Despite a relative premium to the electric group, which we believe is justified given Gas operations and WE Power, we still see material upside potential from current levels.

- **We are Initiating coverage of WEC with a Buy rating and $63 price target.** WEC is an $18bn market cap utility with operations in Wisconsin (electric, natural gas, and steam), Illinois, Michigan, and Minnesota (natural gas utilities acquired through Integrys); FERC transmission via 60% interest in American Transmission Company (ATC), and quasi-regulated generation (operating under lease agreements with its Wisconsin utility) – a key value driver of shares. **The continued integration of the Integrys utility operations (gassier mix) provides levers for upside growth opportunities as management easily filled the $1B divot from bonus depreciation.** Anticipated merger costs savings will see its utilities under a 2-year rate freeze. Our BUY rating is premised upon **a clear outlook for what we believe to be a premium utility with a management team that consistently delivers solid shareholder returns – consensus still too conservative, in our view.** Look for capital allocation towards the gassier side of the business.
- **Our 2016/2017/2018 EPS estimates are $2.94/$3.16/$3.40, respectively, above consensus.** We model ~7.4% annual earnings growth ('15-'18) – based on modeling ~6% rate base growth at the Wisconsin segments, 15% growth in Illinois, and 14% in MI/MN; overall ~55% of capex is allocated to gas delivery in the planning horizon. We assume the utilities earn 8.9-10.4% ROEs (depending on which utility), inline or slightly above authorized levels. We assume general rate case requests of $8mm and $2mm at Minnesota Energy Resource Company (MERC), and Michigan Gas (MGU), respectively, in 2017; and $8mm and $2mm, respectively, in 2018 for our model; with the expectation of 2018 filings for $30mm at People Gas and $10mm at North Shore gas in the IL segment. We model WE Power earning ~12.7% ROE and we estimate ATC rate base growing 192mm annually and earning ~10.2% ROE. There are no issuances or buybacks in our forecast. Including WE Power, we model ~$1.8B/year in regulated capital spend through 2018 – **WE Power, gas segment and ATC remain key value drivers.**
- **Due to merger and cost savings, no rate filings at the IL utilities or in WEC's largest segment (WI); a bit out of the ordinary as a normal rate case cycle would typically file every 2 years in WI.** As part of the stipulation of the merger authorization, the Company has a 2-year rate freeze in IL (People Gas, North Shore Gas) and WI (Wisconsin Electric, Wisconsin Public Service). We estimate retail volumes between flat to 0.5%; PGL, NSG, as well as Minnesota Energy Resource Company (MERC), and Michigan Gas (MGU) are decoupled. The key focus remains execution around its higher capital plan and potential upside from ATC opportunities – management easily filled the $1b divot left by bonus deprecation. A notable program is the $220mm System Modernization and Reliability project at WPS (2014-2018) to convert >1,000 miles of overhead wires to underground in Norther Wisconsin. **We note, management sees some secular challenges on the electric side as opposed to gas; so anticipate this to continue to be reflected in future capital outlays – more capital diverted towards gas vs. electric.** We expect rate filings in Wisconsin in 2018 with rates effective in 2019 (rate freeze through 2017).

- **Fuel economics and policy support leads to new focus on build out of gas infrastructure and growing this side of the business, with ICC overhangs behind WEC.** Industrial users are converting from oil and coal given the value of natural gas. Meanwhile, WI, MN, and MI are among the top propane using states in the U.S., so there is already a push to switch from propane to natural gas among residential customers. The Gas System Modernization program (previously AMRP) at People's Gas, results in $250mm to $280mm in annual capex to replace ~2,000 miles of pipe in Chicago. An investigation by the Illinois Commerce Commission (ICC) and the State Attorney General into whether WEC misled or withheld material information from the ICC at its opening meeting on 5/20/15 related to the gas modernization program was resolved and settled in May 2016. Now with this overhang cleared, the program at PGL is under review (planning, reporting and monitoring of the program, including what's a suitable target end date). **Company management anticipates a final order in 1Q17 and this should provide further clarity to investors.** We do not see an issue here.

- **WE Power operates under what we believe to be a very solid construct not typically seen with other utilities – flies under the radar of investors and is structured to earn returns well above the utilities – 12.7% ROE authorized through lease agreements, but effectively higher with invested capital having been returned.** This particular structure is a residual from a period when WEC faced capacity needs of a large magnitude; the ~$2.4B investment was equivalent to approximately half of WEC's market capitalization at the time. Under the Power the Future plan, a 2001 state law allowed a separate entity to be formed (WE Power) with the sole purpose of constructing, financing, and owning generation to be leased back to Wisconsin Electric. Under this arrangement a 1,090MW natural gas fired plant and a 1,030MW coal fired plant were approved for construction under 25- and 30-year lease terms, respectively, at 12.7% ROEs and equity structures of 53% and 55%, respectively. **The upside potential is imbedded in the lease, for as payments on its debt roll off, lower interest expense translates to an increased bottom line.** The segment also grows from modest CAPEX (fuel flexibility initiative at Oak Creek Units, storage and fuel handling) etc. **See our models further down.**

- **Other NT catalysts – EEI less of a catalyst for WEC given the recent updates to its growth plan, which gives management a good opportunity to simply tell its story** at the conference – **the company seems to have ample spending requirements, which we account for and we admit there still remains potential upside to its capital spending program**. In addition, ATC has possible opportunities outside its footprint given its joint venture with DUK – DATC (WEC interest at 30%). WEC remains one of the faster growing utilities within our coverage space so execution and block and tackle remains the driver of the thesis.

- **Valuation: We arrive at our $63 price target utilizing a sum-of-the-parts analysis comprised of: (1)** ~$29/share for regulated electric utility when we apply our group average regulated electric utility multiple of 16.0x which, is based on a regression of corporate bond yields and utility PE multiples, **(2)** ~$11/share value for the regulated gas segment utilizing our bond-implied regulated electric P/E multiple and historical gas LDC spread above their electric counterparts, **(3)** ~$9/share for ATC utilizing a premium to electric P/E multiple given segments higher growth, and **(4)** $14/share for WE Power when utilizing a premium to electric P/E multiple given the segment's higher authorized returns. **Our $63/share sum-of-the-parts valuation implies an 18.6x P/E multiple, which we believe is justified given contributions from the Gas and WE Power segment.** Incorporating our estimated 3.5% dividend yield would equate to an 11.2% ETR.

- **Risks:** The primary risk 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.

  Additional risk factors for Wisconsin Energy Group include:

  PGL's Gas system modernization is currently under review; a worse than expected final order in the proceedings of the program would be an adverse outcome.

  Transmission ROEs: Additional challenges to FERC transmission ROEs would impact the earnings contribution of ATC. We do not anticipate further successful challenges to ATC's allowed ROE; a contrary outcome would result in potential downside to our estimates.

Guggenheim's WEC EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2015A	0.86A	0.64A	0.60A	0.68A	2.74A	
2016E	1.09A	0.57A	0.69A	0.58E	2.94E	*2.94E*
2017E	1.14E	0.65E	0.63E	0.73E	3.16E	*3.11E*
2018E	1.20E	0.72E	0.69E	0.79E	3.40E	*3.32E*

Source: Company reports; Guggenheim Securities, LLC estimates.

Summary business metrics

Summary				
Earnings per Share	**2016E**	**2017E**	**2018E**	***CAGR***
Wisconsin utilities	1.55	1.74	1.84	*8.9%*
Illinois utilities	0.33	0.36	0.42	*12.1%*
MI/MN utilities	0.07	0.08	0.10	*NA*
Distribution utilities	$1.95	$2.18	$2.36	*9.9%*
FERC transmission	0.33	0.38	0.44	*15.2%*
We Power	0.65	0.64	0.64	*-1.0%*
Corporate & Other	(0.00)	(0.05)	(0.04)	*NA*
WEC Energy	**$2.94**	**$3.16**	**$3.40**	***7.5%***
Dividend coverage	**2016E**	**2017E**	**2018E**	***CAGR***
Dividend per Share	$1.98	$2.10	$2.22	*6.0%*
Annual growth	14%	6%	6%	
Payout ratio	67%	67%	66%	

Source: Company reports; Guggenheim Securities, LLC estimates.

Regulated business metrics

Regulated summary					
Regulated ROEs (Earned vs. Allowed)		**2016E**	**2017E**	**2018E**	
FERC	*Earned*	10.1%	10.2%	10.4%	
	Authorized	*ROEs currently under FERC review*			
Wisconsin	*Earned*	9.2%	10.2%	10.1%	
	Authorized	*10.2%*	*10.2%*	*10.2%*	
Illinois	*Earned*	9.4%	9.4%	9.4%	
	Authorized	*9.1%*	*9.1%*	*9.1%*	
MI/MN	*Earned*	8.9%	10.0%	10.3%	
	Authorized	*9.6%*	*9.6%*	*9.6%*	
Rate base		**2016E**	**%**		
Electric distribution		6.3	33%		
Electric transmission		3.5	18%		
Electric generation		2.8	15%		
Gas distribution		6.4	34%		
Total		19	100%		
Regulated Capex by jurisdiction ($MM)		**2016E**	**2017E**	**2018E**	***Avg.***
FERC		565	612	402	*23%*
Wisconsin		1,031	1,211	1,261	*51%*
Illinois		360	575	525	*21%*
MI/MN		75	99	104	*4%*
		2,031	**2,497**	**2,292**	*100%*

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

WEC Model

Consolidated Financials

INCOME STATEMENT ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Operating Revenues	**5,926**	2,195	1,602	1,864	1,869	**7,530**	2,385	1,792	1,858	2,036	**8,071**	2,464	1,862	1,919	2,107	**8,352**
Cost of sales	**2,240**	839	508	611	652	**2,611**	869	534	610	711	**2,724**	903	557	630	741	**2,830**
Other operation and maintenance	**1,709**	532	522	634	655	**2,342**	647	643	641	663	**2,594**	655	651	648	670	**2,624**
Depreciation and amortization	**562**	188	190	178	179	**735**	181	183	185	187	**735**	188	190	192	194	**765**
Property and revenue taxes	**164**	47	50	50	50	**196**	47	49	50	50	**196**	47	49	50	50	**196**
Total operating expenses	**4,676**	1,606	1,270	1,473	1,537	**5,885**	1,744	1,410	1,485	1,611	**6,249**	1,793	1,448	1,520	1,655	**6,415**
Operating Income / (Loss)	**1,251**	589	332	391	332	**1,645**	641	383	374	425	**1,823**	671	414	399	452	**1,937**
EBITDA	**1,812**	777	522	569	512	**2,380**	822	565	558	611	**2,557**	860	605	591	646	**2,702**
Equity in earnings of transmission affiliate	**96**	39	31	31	33	**133**	29	30	31	33	**123**	34	35	36	38	**143**
Other Income / (Deductions)	**59**	33	32	-	-	**65**	-	-	-	-	**-**	-	-	-	-	**-**
												114	115	117	120	
Interest expense	**331**	101	100	85	87	373	87	88	90	91	**356**	93	93	94	96	**376**
Interest Rate	**3.2%**	1.0%	1.0%	1.0%	1.0%	3.7%	1.0%	1.0%	1.0%	1.0%	**3.3%**	1.0%	1.0%	1.0%	1.0%	**3.2%**
Other expense																
Income / (Loss) from Operations Before Income Tax	**1,074**	559.6	295	336	279	**1,470**	583	325	315	367	**1,590**	612	358	341	395	**1,704**
Income Tax Expense (Benefit)	**434**	213	114	118	96	**540**	214	114	110	129	**568**	223	125	118	138	**604**
Effective Tax Rate (%)	**40%**	38%	38%	35%	34%	**37%**	37%	35%	35%	35%	**36%**	36%	35%	35%	35%	**35%**
Net Income / (Loss)	**640**	347	182	218	183	**929**	369	210	205	238	**1,022**	389	232	223	257	**1,100**
Extra-ordinary	**(108)**	0	0			**1**										
Net income for common shareholders	**748**	346	181	218	183	**929**	369	210	205	238	**1,022**	389	232	223	257	**1,100**
Wtd. Avg. Diluted Shares Outstanding	**273**	317	317	316	316	**316**	324	324	324	324	**324**	324	324	324	324	**324**
Operating EPS	**$2.74**	$1.09	$0.57	$0.69	$0.58	**$2.94**	$1.14	$0.65	$0.63	$0.73	**$3.16**	$1.20	$0.72	$0.69	$0.79	**$3.40**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

WEC Model

Consolidated Financials

CASH FLOW STATEMENT ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Cash Flows From Operating Activities																
Net Income / (Loss)	640	347	182	218	183	929	389	210	205	238	1,022	389	232	223	257	1,100
Adjustments to Reconcile Net Income to Cash																
Depreciation & Amortization	584	192	194	178	179	744	181	183	185	187	735	188	190	192	194	765
Deferred income taxes and investment tax credits, net	419	215	93	-	-	307	-	-	-	-	-	-	-	-	-	-
Contributions to pension and OPEB plans	(121)	(15)	(4)	-	-	(20)	-	-	-	-	-	-	-	-	-	-
Equity income in transmission affiliate, net of distributions		(23)	1	-	-	(23)	-	-	-	-	-	-	-	-	-	-
Changes in working capital				-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and unbilled revenues	84	(49)	179	-	-	130	-	-	-	-	-	-	-	-	-	-
Materials, supplies, and inventories	(69)	217	(24)	-	-	194	-	-	-	-	-	-	-	-	-	-
Other current assets	(27)	(64)	130	-	-	67	-	-	-	-	-	-	-	-	-	-
Accounts payable	(9)	(124)	11	-	-	(112)	-	-	-	-	-	-	-	-	-	-
Accrued taxes, net	36	90	(141)	-	-	(51)	-	-	-	-	-	-	-	-	-	-
Other current liabilities	(22)	(33)	(55)	-	-	(88)	-	-	-	-	-	-	-	-	-	-
Total changes in working capital	(8)	38	101	-	-	139	-	-	-	-	-	-	-	-	-	-
Other, net	(220)	(57)	(37)	-	-	(94)	-	-	-	-	-	-	-	-	-	-
Net Cash Flows From Operating Activities	1,294	696	528	396	362	1,983	550	393	390	424	1,757	577	422	415	451	1,865
Cash Flows From Investing Activities																
Capital expenditures	(1,266)	(312)	(307)	(369)	(369)	(1,357)	(488)	(488)	(488)	(488)	(1,950)	(489)	(489)	(489)	(489)	(1,955)
Business acquisition	(1,330)					-					-					-
Investment in transmission affiliate	(9)	(9)	(3)			(12)					-					-
Proceeds from sale of businesses		107	55			161					-					-
Withdrawal of restricted cash from Rabbi trust for qualifying payments		21	2			23					-					-
Proceeds from asset sales	29					-					-					-
Proceeds from cashout of corporate owned life insurance policies	17					-					-					-
Other, net	41	5	(7)			(2)					-					-
Net Cash Flows From Investing Activities	(2,518)	(188)	(261)	(369)	(369)	(1,187)	(488)	(488)	(488)	(488)	(1,950)	(489)	(489)	(489)	(489)	(1,955)
Cash Flows From Financing Activities																
Exercise of stock options	30	21	14			35					-					-
Purchase of common stock	(75)	(60)	(35)			(94)					-					-
Dividends paid on common stock	(455)	(156)	(156)	(156.23)	(156.23)	(625)	(169.99)	(169.99)	(169.99)	(169.99)	(680)	(180.19)	(180.19)	(180.19)	(180.19)	(721)
Redemption of WPS preferred stock	(53)					-					-					-
Issuance of long-term debt	2,150			500		500		500		500	1,000	390	560	250	500	1,550
Retirement of long-term debt	(530)	(139)	(102)			(242)				(155)	(155)	(239)	(306)		(250)	(836)
Change in short-term debt	163	(196)	31			(167)					-					-
Other, net	(19)	10	(22)			(12)					-					-
Net Cash Flows From Financing Activities	1,212	(523)	(270)	344	(156)	(605)	(170)	330	(170)	175	165	(169)	26	70	79	(7)
Net change in cash and cash equivalents	(12.1)	(15.1)	(2.6)	371	(163)	190	(107)	236	(268)	112	(28)	(78)	(47)	(4)	32	(97)
Cash and cash equivalents at beginning of year	62	50	35	32	403	50	240	133	368	101	240	212	134	87	84	212
Cash and cash equivalents at end of year	50	35	32	403	240	240	133	368	101	212	212	134	87	84	115	115

Source: Company reports; Guggenheim Securities, LLC estimates.

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WEC Model

Consolidated Financials

BALANCE SHEET - ASSETS ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Property, Plant and Equipment																
Electric Utility Plant in Service	**26,250**	26,523	26,691	27,060	27,429	**27,429**	27,916	28,404	28,891	29,379	**29,379**	29,867	30,356	30,845	31,334	**31,334**
Less: Accumulated Depreciation & Amortization	**(7,919)**	(8,006)	(8,049)	(8,227)	(8,407)	**(8,407)**	(8,587)	(8,770)	(8,955)	(9,141)	**(9,141)**	(9,330)	(9,520)	(9,712)	(9,906)	**(9,906)**
	18,330	18,517	18,642	18,832	19,022	**19,022**	19,329	19,634	19,936	20,237	**20,237**	20,538	20,836	21,133	21,428	**21,428**
Construction work in progress	**823**	707	724	724	724	**724**	724	724	724	724	**724**	724	724	724	724	**724**
Leased facilities, net	**36**	35	34	34	34	**34**	34	34	34	34	**34**	34	34	34	34	**34**
Net Property, Plant and Equipment	**19,190**	19,259	19,399	19,590	19,779	**19,779**	20,086	20,391	20,694	20,995	**20,995**	21,295	21,594	21,890	22,185	**22,185**
Investments																
Equity investment in transmission affiliate	**1,381**	1,423	1,425	1,425	1,425	**1,425**	1,425	1,425	1,425	1,425	**1,425**	1,425	1,425	1,425	1,425	**1,425**
Other	**86**	88	88	88	88	**88**	88	88	88	88	**88**	88	88	88	88	**88**
Total investments	**1,467**	1,510	1,513	1,513	1,513	**1,513**	1,513	1,513	1,513	1,513	**1,513**	1,513	1,513	1,513	1,513	**1,513**
Current Assets																
Cash and Cash Equivalents	**50**	35	32	403	240	**240**	133	388	101	212	**212**	134	87	84	115	**115**
Accounts receivable and unbilled revenues	**1,029**	1,088	915	915	915	**915**	915	915	915	915	**915**	915	915	915	915	**915**
Accrued revenues																
Materials, supplies, and inventories	**687**	471	495	495	495	**495**	495	495	495	495	**495**	495	495	495	495	**495**
Assets held for sale	**97**	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**
Prepayments	**286**	243	235	235	235	**235**	235	235	235	235	**235**	235	235	235	235	**235**
Other	**59**	60	89	89	89	**89**	89	89	89	89	**89**	89	89	89	89	**89**
Total Current Assets	**2,207**	1,896	1,766	2,137	1,974	**1,974**	1,867	2,102	1,834	1,946	**1,946**	1,868	1,821	1,817	1,849	**1,849**
Deferred charges and other assets																
Regulatory assets	**3,065**	3,061	3,031	3,031	3,031	**3,031**	3,031	3,031	3,031	3,031	**3,031**	3,031	3,031	3,031	3,031	**3,031**
Goodwill	**3,024**	2,999	3,046	3,046	3,046	**3,046**	3,046	3,046	3,046	3,046	**3,046**	3,046	3,046	3,046	3,046	**3,046**
Other	**404**	379	420	420	420	**420**	420	420	420	420	**420**	420	420	420	420	**420**
Total deferred charges and other assets	**6,492**	6,439	6,498	6,498	6,498	**6,498**	6,498	6,498	6,498	6,498	**6,498**	6,498	6,498	6,498	6,498	**6,498**
Total Assets	**29,355**	29,105	29,175	29,737	29,764	**29,764**	29,963	30,504	30,539	30,951	**30,951**	31,174	31,425	31,718	32,044	**32,044**

Source: Company reports; Guggenheim Securities, LLC estimates.

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BALANCE SHEET - LIABILITIES & EQUITY ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Capitalization																
Common Stock	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Additional Paid-In Capital	4,347	4,321	4,311	4,311	4,311	4,311	4,311	4,311	4,311	4,311	4,311	4,311	4,311	4,311	4,311	4,311
Retained Earnings	4,300	4,490	4,515	4,577	4,604	4,604	4,803	4,843	4,878	4,946	4,946	5,154	5,206	5,249	5,325	5,325
Accumulated Other Comprehensive Income / (Loss)	5	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Total Common Shareholders' Equity	8,655	8,818	8,834	8,895	8,922	8,922	9,121	9,162	9,197	9,264	9,264	9,473	9,524	9,567	9,644	9,644
Preferred Stock of subsidiary	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
Long-Term Debt	9,124	8,956	8,902	9,402	9,402	9,402	9,402	9,902	9,902	10,247	10,247	10,261	10,461	10,711	10,961	10,961
Total Capitalization	17,809	17,805	17,766	18,328	18,355	18,355	18,554	19,094	19,129	19,542	19,542	19,764	20,016	20,309	20,635	20,635
Current Liabilities																
Current portion of long-term debt	158	152	96	96	96	96	96	96	96	96	96	96	96	96	96	96
Short-term debt	1,095	898	928	928	928	928	928	928	928	928	928	928	928	928	928	928
Accounts payable	815	584	621	621	621	621	621	621	621	621	621	621	621	621	621	621
Accrued payroll and benefits	170	103	135	135	135	135	135	135	135	135	135	135	135	135	135	135
Accrued interest		119	-	-		-	-	-	-	-	-	-	-	-	-	-
Other	471	375	359	359	359	359	359	359	359	359	359	359	359	359	359	359
Total Current Liabilities	2,709	2,230	2,137	2,137	2,137	2,137	2,137	2,137	2,137	2,137	2,137	2,137	2,137	2,137	2,137	2,137
Deferred credits and other liabilities																
Regulatory liabilities	1,392	1,412	1,470	1,470	1,470	1,470	1,470	1,470	1,470	1,470	1,470	1,470	1,470	1,470	1,470	1,470
Deferred income taxes	4,622	4,857	4,938	4,938	4,938	4,938	4,938	4,938	4,938	4,938	4,938	4,938	4,938	4,938	4,938	4,938
Deferred revenue, net	579	576	572	572	572	572	572	572	572	572	572	572	572	572	572	572
Pension and other postretirement benefit obligations	543	541	542	542	542	542	542	542	542	542	542	542	542	542	542	542
Environmental remediation	628	618	618	618	618	618	618	618	618	618	618	618	618	618	618	618
Other	1,072	1,067	1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132
Total Other Liabilities & Deferred Credits	8,837	9,070	9,272	9,272	9,272	9,272	9,272	9,272	9,272	9,272	9,272	9,272	9,272	9,272	9,272	9,272
Total Capitalization & Liabilities	29,355	29,105	29,175	29,737	29,764	29,764	29,963	30,504	30,539	30,951	30,951	31,174	31,425	31,718	32,044	32,044

Source: Company reports; Guggenheim Securities, LLC estimates.

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WEC Model

WE & WPS & WG

INCOME STATEMENT ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Electric revenues	**4,069**	1,117	1,097	1,361	1,002	**4,578**	1,162	1,140	1,330	1,131	**4,763**	1,185	1,163	1,356	1,155	**4,860**
Natural gas revenues	**1,123**	463	268	161	316	**1,148**	487	225	170	335	**1,217**	516	245	180	357	**1,299**
Operating Revenues	**5,191**	1,580	1,365	1,523	1,318	**5,725**	1,649	1,365	1,500	1,467	**5,981**	1,702	1,409	1,536	1,513	**6,159**
Cost of Fuel and purchased power	**1,369**	336	343	480	321	**1,480**	350	356	469	363	**1,538**	357	364	478	370	**1,569**
Cost of natural gas sold	**641**	262	95	73	174	**604**	276	103	77	184	**640**	292	113	81	196	**682**
O&M	**1,741**	491	488	507	507	**1,993**	496	493	512	512	**2,013**	501	498	517	517	**2,033**
Depreciation and amortization	**409**	123	123	122	123	**490**	124	125	126	127	**502**	128	129	131	132	**520**
Property and revenue taxes	**148**	40	41	42	42	**165**	40	41	42	42	**165**	40	41	42	42	**165**
Total operating expenses	**4,307**	1,252	1,090	1,224	1,167	**4,733**	1,285	1,118	1,226	1,228	**4,857**	1,318	1,145	1,249	1,257	**4,969**
Operating Income / (Loss)	**884**	328	215	299	152	**993**	363	246	275	239	**1,123**	383	264	287	255	**1,190**
EBITDA	**1,293**	450	337	421	274	**1,483**	487	371	401	366	**1,625**	511	394	418	387	**1,710**
Interest expense	**157**	45	44	50	51	**190**	52	53	53	54	**212**	55	56	57	58	**226**
Other expense	**157**	45	44	50	51	**190**	52	53	53	54	**212**	55	56	57	58	**226**
Income / (Loss) from Operations Before Income Tax	**727**	283	170	249	101	**803**	312	194	221	185	**911**	328	208	230	197	**963**
Income Tax Expense (Benefit)	**291**	114	65	95	38	**312**	119	74	84	70	**348**	125	79	88	75	**368**
Net Income / (Loss)	**436**	169	105	154	62	**490**	193	120	137	114	**563**	203	129	142	122	**595**
Preferred stock dividends of subsidiaries																
Net income attributed to common shareholders	**436**	**169**	**105**	**154**	**62**	**490**	**193**	**120**	**137**	**114**	**563**	**203**	**129**	**142**	**122**	**595**
Wtd. Avg. Diluted Shares Outstanding	**273**	317	317	316	316	**316**	324	324	324	324	**324**	324	324	324	324	**324**
Operating EPS	**$1.60**	0.53	0.33	0.49	0.20	**$1.55**	0.59	0.37	0.42	0.35	**$1.74**	0.63	0.40	0.44	0.38	**$1.84**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

WEC Model

PGL & NSG

INCOME STATEMENT ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Natural gas revenues	**503**	449	223	165	324	**1,160**	462	236	178	338	**1,214**	482	256	198	358	**1,294**
Cost of natural gas sold	**133**	157	46	34	99	**337**	162	49	37	104	**352**	169	53	41	110	**373**
Other oper	**220**	118	116	103	121	**458**	120	119	105	123	**467**	123	121	107	126	**477**
Depreciation and amortization	**63**	33	33	34	34	**133**	34	35	36	37	**142**	37	38	38	39	**152**
Property and revenue taxes	**9**	4	5	5	5	**17**	4	5	5	5	**17**	4	5	5	5	**17**
Total operating expenses	**425**	312	200	175	259	**946**	320	207	182	268	**978**	332	216	191	279	**1,019**
Operating Income / (Loss)	**78**	137	23	(11)	65	**214**	142	29	(5)	70	**236**	150	40	7	79	**275**
EBITDA	**141**	170	56	23	99	**348**	176	64	31	106	**378**	187	77	45	118	**427**
Interest expense	**20**	10	10	10	10	**40**	11	11	12	12	**47**	13	13	14	14	**55**
Other expense	**20**	10	10	10	10	**40**	11	11	12	12	**47**	13	13	14	14	**55**
Income / (Loss) from Operations Before Income Tax	**58**	127	13	(21)	55	174	131	17	(16)	57	189	137	26	(7)	65	220
Income Tax Expense (Benefit)	**23**	51	5	(8)	21	**69**	50	7	(6)	22	**73**	53	10	(3)	25	**85**
Effective Tax Rate (%)	***40%***	*40%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*	*39%*
Net Income / (Loss)	**35**	76	8	(13)	34	105	81	11	(10)	35	116	84	16	(5)	40	136
Net income attributed to common shareholders	**35**	**76**	**8**	**(13)**	**34**	**105**	**81**	**11**	**(10)**	**35**	**116**	**84**	**16**	**(5)**	**40**	**136**
Wtd. Avg. Diluted Shares Outstanding	273	317	317	316	316	**316**	324	324	324	324	**324**	324	324	324	324	324
Operating EPS	**$0.13**	0.24	0.02	(0.04)	0.11	**$0.33**	0.25	0.03	(0.03)	0.11	**$0.36**	0.26	0.05	(0.01)	0.12	**$0.42**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

WEC Model

Other

INCOME STATEMENT ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
Natural gas revenues	**149**	148	64	55	105	**372**	154	70	60	111	**395**	160	75	65	117	**417**
Operating Expenses																
Cost of natural gas sold	**77**	78	24	24.58	57.62	**184**	81.53	25.64	26.96	60.79	**195**	64.87	27.68	29.35	63.95	**206**
Other operation and maintenance	**50**	30	29	23	27	**110**	30	29	23	27	**110**	31	30	23	27	**111**
Depreciation and amortization	**10**	5	5	5	5	**21**	6	6	6	6	**23**	6	6	6	6	**25**
Property and revenue taxes	**6**	3	4	3	3	**13**	3	4	3	3	**13**	3	4	3	3	**13**
Total operating expenses	**143**	117	62	56	93	**328**	120	64	59	97	**341**	124	67	62	101	**354**
Operating Income / (Loss)	**6**	32	2	(1)	12	**45**	34	5	1	14	**54**	36	8	3	16	**64**
EBITDA	**16**	37	8	4	17	**66**	39	11	7	20	**77**	42	14	10	22	**88**
EBITDA Margin %	**11%**	25%	12%	7%	16%	**18%**	26%	16%	11%	18%	**19%**	26%	19%	15%	19%	**21%**
Equity in earnings of transmission affiliate																
Interest expense	**5**	3	2	2	2	**9**	2	2	2	3	**10**	3	3	3	3	**11**
Other expense	**5**	3	2	2	2	**9**	2	2	2	3	**10**	3	3	3	3	**11**
Income / (Loss) from Operations Before Income Tax	**1**	29	0	(4)	10	**36**	32	3	(1)	11	**44**	33	5	1	13	**52**
Income Tax Expense (Benefit)	**0**	12	0	(1)	4	**14**	12	1	(1)	4	**17**	13	2	0	5	**20**
Effective Tax Rate (%)	**40%**	40%	39%	39%	39%	**39%**	39%	39%	39%	39%	**39%**	39%	39%	39%	39%	**39%**
Net Income / (Loss)	**1**	18	0	(2)	6	**21**	19	2	(1)	7	**27**	20	3	0	8	**32**
Preferred stock dividends of subsidiaries																
Net income attributed to common shareholders	**1**	**18**	**0**	**(2)**	**6**	**21**	**19**	**2**	**(1)**	**7**	**27**	**20**	**3**	**0**	**8**	**32**
Wtd. Avg. Diluted Shares Outstanding	273	317	317	316	316	**316**	324	324	324	324	**324**	324	324	324	324	**324**
Operating EPS	**$0.00**	0.06	0.00	(0.01)	0.02	**$0.07**	0.06	0.01	(0.00)	0.02	**$0.08**	0.06	0.01	0.00	0.02	**$0.10**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

WEC Model

WE Power

INCOME STATEMENT ($ Millions)	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E
External revenues	**40**	6	6	7	7	26	7	7	7	7	**27**	7	7	7	7	27
Intersegment revenues	**405**	105	108	115	115	442	113	115	113	113	**455**	113	115	113	113	455
Operating revenues	**445**	111	114	122	121	**468**	120	122	120	120	**482**	120	122	120	120	**481**
Operating Expenses																
Other operation and maintenance	**4**	0	3	1	1	4	0	3	1	1	**4**	0	3	1	1	**4**
Depreciation and amortization	**68**	17	17	17	17	69	17	17	17	17	68	17	17	17	17	68
Total operating expenses	**72**	17	20	18	18	**73**	17	20	18	18	**73**	17	20	18	18	**72**
Operating income (loss)	**373**	93	94	104	104	**395**	102	102	102	102	**409**	102	102	102	102	**409**
EBITDA	**441**	110	111	121	121	**463**	119	119	119	119	**478**	119	119	119	119	**477**
Equity in earnings of unconsolidated affiliates	**-**	-														
Interest expense	**63**	16	16	16	16	63	16	16	16	16	63	16	16	16	16	63
Other expense	**63**	16	16	16	16	**63**	16	16	16	16	**63**	16	16	16	16	**63**
Income / (Loss) from Operations Before Income Tax	**310**	78	79	88	88	**332**	87	87	87	87	**347**	87	87	87	87	**346**
Income Tax Expense (Benefit)	**85**	27	28	35	35	125	35	35	35	35	139	35	35	35	35	138
Effective Tax Rate (%)	**27%**	35%	35%	40%	40%	**38%**	40%	40%	40%	40%	**40%**	40%	40%	40%	40%	**40%**
Net Income (Loss)	**225**	51	51	53	53	**207**	52	52	52	52	**208**	52	52	52	52	**208**
Shares	**273**	317	317	316	316	**316**	324	324	324	324	**324**	324	324	324	324	**324**
EPS	**$0.83**	0.16	0.16	0.17	0.17	**$0.65**	0.16	0.16	0.16	0.16	**$0.64**	0.16	0.16	0.16	0.16	**$0.64**

Source: Company reports; Guggenheim Securities, LLC estimates.

Companies Mentioned

Company	Ticker	Rating	Previous close
Duke Energy Corporation	DUK	BUY	$78.00
NRG Energy	NRG	BUY	$9.89
TECO Energy, Inc.	RE	NC	$204.67
Berkshire Hathaway	BRK.A	NC	$214,900.00
Fortis Inc.	FTS	NC	$32.14
Exelon Corporation	EXC	BUY	$32.70
Iberdrola	IBE-MCE	NC	$6.10
Nextera Energy, Inc.	NEE	BUY	$123.68
Wisconsin Energy Group	WEC	BUY	$57.98
Southern Company	SO	NEUTRAL	$50.19
Dominion Resources, Inc.	D	BUY	$74.10
American Electric Power	AEP	BUY	$62.61
Public Service Enterprise Group	PEG	BUY	$40.80
National Grid	NGG	NC	$63.78
Eversource Energy	ES	BUY	$53.44
Hawaiian Electric Industries	HE	NC	$28.57

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Sell	0	0.00%	0	0.00%

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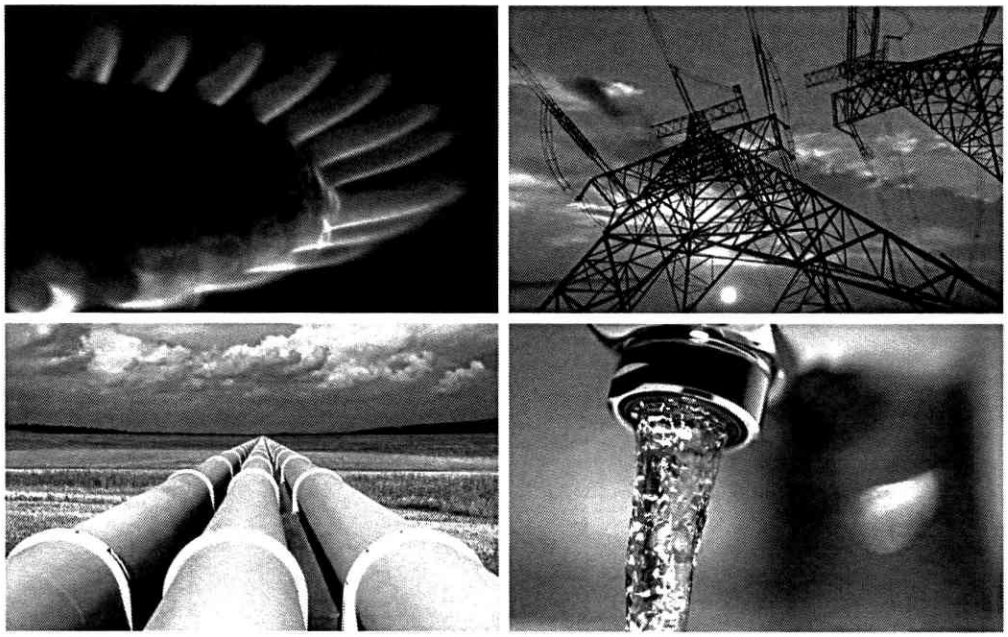
Downstream: Takeaways from Q3'16 Earnings



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Q3'16 Takeaways – Updated Ratings and Price Targets

- In this note, we refresh our ratings and price targets, review major themes from the quarter and highlight catalysts for each covered name.
- **Downgrading:**
  - ***SJI to Hold from Overweight:*** Downgrade purely on price appreciation, with shares up ~17% over the last month.
- **Upgrading:**
  - ***NI to Overweight from Hold:*** Upgrade reflects $1/sh (~4%) increase in our price target to incorporate our expectation for acceleration in EPS growth from rate hikes into '17/'18 and ~8% decline in share price over the last three months. We expect NI will raise LT growth rate from current 4-6% level to 5-7% at Analyst Day in Q1'17.
- **Price Target Revisions:**
  - ***SRE:*** Lowered price target $8/sh (~6%) to reflect impact on estimated '18 EPS of six-month construction delay at Cameron LNG facility.
- **Valuations & Top Picks**
  - After 3Q'16 earnings, downstream names trade at a median '18 P/E of ~18x and EV/EBITDA of ~9.5x. Despite recent sector rotation away from defensives following U.S. presidential election, sector remains expensive overall, trading above high end of historical range over the past decade.
  - With Fed set to hike rates and potentially outline accelerated '17 rate path in mid-December, we see room for downward pressure on group into year end. We see names with top-tier growth rates focused on infrastructure replacement as relative outperformers near term. Notably, we would expect a resurgence in sector M&A and speculation could mitigate price pressure from rising rates.
  - ***Our positively-rated names include ES, NI and SRE.***

Company	Ticker	Price	Price Targets		Rating
		11/29/16	Previous	New	
Gas Utilities					
Atmos Energy	ATO	$74.15	$70	$70	Hold
Chesapeake Utilities	CPK	$67.30	$62	$62	Hold
New Jersey Resources	NJR	$35.30	$33	$33	Hold
Northwest Natural Gas	NWN	$59.65	$51	$51	Hold
ONE Gas	OGS	$62.65	$58	$58	Hold
Sempra Energy	SRE	$101.27	$126	$118	Overweight
South Jersey Industries	SJI	$33.85	$31	$31	Hold
Southwest Gas	SWX	$76.20	$69	$69	Hold
Spire Inc	SR	$66.25	$64	$64	Hold
WGL Holdings	WGL	$75.21	$64	$64	Hold
Electric Utilities					
Eversource Energy	ES	$53.75	$62	$62	Overweight
NiSource	NI	$22.37	$24	$25	Overweight
Vectren Corp	VVC	$51.15	$51	$51	Hold
WEC Energy Group	WEC	$58.03	$58	$58	Hold
Water Utilities					
American States Water	AWR	$44.22	$44	$44	Hold
American Water Works	AWK	$75.98	$74	$74	Hold
Aqua America	WTR	$31.27	$34	$34	Hold
California Water Service	CWT	$36.10	$34	$34	Hold
Energy Marketing					
Spark Energy	SPKE	$26.15	$29	$29	Hold

Changes highlighted in blue

Source: Thomson, USCA

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Estimate and PT Revisions

Company	Ticker	Price 11/29/16	Rating Previous	Rating New	Price Targets Previous	Price Targets New	FY16 EPS Previous	FY16 EPS New	FY17 EPS Previous	FY17 EPS New	FY18 EPS Previous	FY18 EPS New
Gas Utilities												
Atmos Energy	ATO	$74.15	Hold	Hold	$70	$70	$3.30	$3.32A	$3.50	$3.50	$3.70	$3.70
Chesapeake Utilities	CPK	$67.30	Hold	Hold	$62	$62	$2.90	$2.90	$3.15	$3.15	$3.40	$3.40
New Jersey Resources	NJR	$35.30	Hold	Hold	$33	$33	$1.60	$1.61A	$1.75	$1.70	$1.85	$1.85
Northwest Natural Gas	NWN	$59.65	Hold	Hold	$51	$51	$2.20	$2.20	$2.35	$2.35	$2.45	$2.45
ONE Gas	OGS	$62.65	Hold	Hold	$58	$58	$2.60	$2.60	$2.75	$2.75	$2.90	$2.90
Sempra Energy	SRE	$101.27	Overweight	Overweight	$126	$118	$4.80	$4.80	$5.15	$5.15	$6.00	$5.75
South Jersey Industries	SJI	$33.85	Overweight	Hold	$31	$31	$1.30	$1.33	$1.30	$1.35	$1.60	$1.60
Southwest Gas	SWX	$76.20	Hold	Hold	$69	$69	$3.15	$3.15	$3.45	$3.45	$3.65	$3.65
Spire Inc	SR	$66.25	Hold	Hold	$64	$64	$3.40	$3.42A	$3.50	$3.50	$3.60	$3.60
WGL Holdings	WGL	$75.21	Hold	Hold	$64	$64	$3.15	$3.27A	$3.35	$3.35	$3.60	$3.60
Electric Utilities												
Eversource Energy	ES	$53.75	Overweight	Overweight	$62	$62	$3.05	$3.00	$3.25	$3.20	$3.35	$3.35
NiSource	NI	$22.37	Hold	Overweight	$24	$25	$1.10	$1.10	$1.20	$1.18	$1.25	$1.28
Vectren Corp	VVC	$51.15	Hold	Hold	$51	$51	$2.45	$2.45	$2.65	$2.65	$2.80	$2.80
WEC Energy Group	WEC	$58.03	Hold	Hold	$58	$58	$2.92	$2.92	$3.10	$3.10	$3.30	$3.30
Water Utilities												
American States Water	AWR	$44.22	Hold	Hold	$44	$44	$1.60	$1.60	$1.75	$1.75	$1.90	$1.90
American Water Works	AWK	$75.98	Hold	Hold	$74	$74	$2.83	$2.83	$3.03	$3.03	$3.25	$3.25
Aqua America	WTR	$31.27	Hold	Hold	$34	$34	$1.33	$1.33	$1.42	$1.42	$1.50	$1.50
California Water Service	CWT	$36.10	Hold	Hold	$34	$34	$1.00	$1.00	$1.35	$1.35	$1.42	$1.42
Energy Marketing												
Spark Energy	SPKE	$26.15	Hold	Hold	$29	$29	$2.35	$2.35	$2.70	$2.70	$2.90	$2.90

Denotes change in estimate, price target or rating

Source: Bloomberg, USCA

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Q3'16 Recap – Nearly Half Beat Estimates

Q3'16 EPS Results			FY'16 Guidance		Forward Outlook	
Beats	In-line	Misses	Positive (Raised)	Neutral (Unchanged)	Strongest Momentum	Biggest Near-Term Catalyst
ATO	AWR	CPK	AWK	ES	AWK	SRE
AWK	NI	CWT	SPKE	NI	NI	WGL
ES	NJR			NWN	WEC	CWT
OGS	NWN			OGS		
SJI	SPKE			SJI		
VVC	SR			SRE		
WEC	SRE			SWX		
WGL	SWX			VVC		
	WTR			WEC		
				WTR		

Source: USCA

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Q3'16 Recap – Downstream Themes

➢ **Theme Tracker:** Below we catalog our top thematic takeaways from Q3'16 earnings season.

- ***Theme #1:*** Project execution. SRE (Cameron), ES (Access Northeast), NJR/SJI (PennEast) and WGL (Central Penn) all facing delays. Reaffirmed in-service dates for names engaged in more modest midstream infrastructure projects. Names include SR (STL Pipeline), NWN (North Mist Storage Expansion), SRE (several Mexico pipes) and CPK (several domestic laterals). See additional detail on page 10.
- ***Theme #2:*** Interest rates. Trump election could accelerate infrastructure projects but growing concern for accelerated Fed rate hike path into '17 and beyond. See additional detail on page 9.
- ***Theme #3:*** Warm weather. Very warm weather positively impacting electric and retail marketing results for several names, leading to quarterly EPS beats. Highlighted names include ES, NI, SPKE, VVC, WEC and WGL. Despite quarterly beats, most names reaffirmed prior FY'16 guidance ranges.
- ***Theme #4:*** Rate cases. Many rate filings pending or in queue to recover infrastructure spending or operating costs. Highlighted names include ATO, AWK, AWR, CPK, CWT, NI, OGS, SJI, SWX, WEC, WGL and WTR.
- ***Theme #5:*** M&A. Integration of recent utility asset acquisitions an important focus for AWK, AWR, CWT, SPKE, SR, SRE, WEC and WTR.
- ***Theme #6:*** Initial '17 guidance. Guidance largely in line with USCA and Consensus expectations for ATO, NJR, SR and WGL.
- ***Theme #7:*** Dividend hikes. A mixed bag, with AWR, ATO and SR hikes ahead of USCA expectations, SJI below USCA expectations, and VVC in line.
- ***Theme #8:*** EPS estimate revisions. Largely unchanged vs. last quarter but a few outliers.

Q3'16 Earnings Season Price Performance

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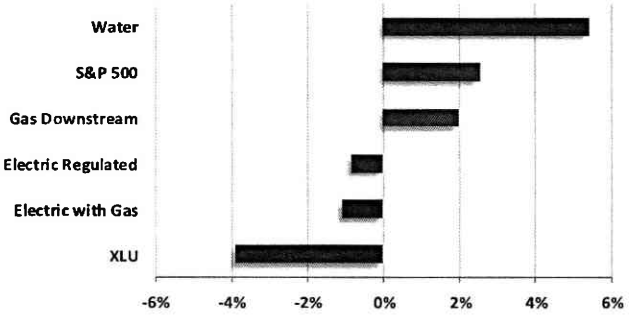
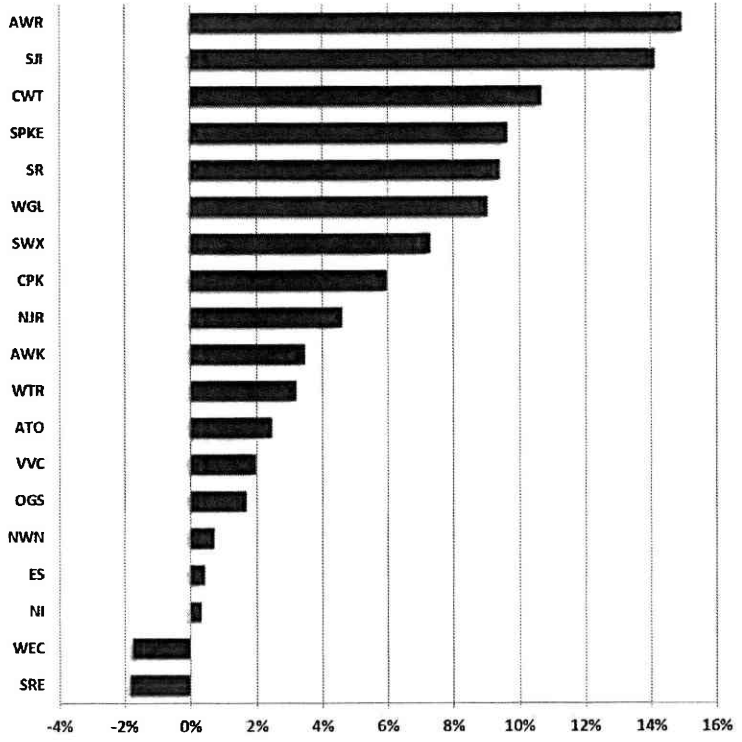
- **Market Performance:** XLU -4.0% over the three-week earnings season, underperforming the broader market by >6%.
- **Relative Performance:** Coverage universe posted sizable ~6% average outperformance relative to XLU. Notably, election came in the midst of earnings season, with negative sector rotation more than offset for many infrastructure-driven gas and water names.
  - ***Leaders with >10% outperformance included AWR, SJI and CWT.*** For AWR and CWT, advance reflects pullbacks prior to earnings on pending CA rate case uncertainty. For SJI, pullback prior to earnings on slower solar spend and equity offering overhang. Among next best performers with 8-10% outperformance we note SPKE and WGL driven by retail marketing segment strength.
  - ***Laggards with ~2% underperformance included SRE and WEC.*** For SRE, weakness driven by surprise Cameron delay announcement. For WEC, weakness tied to price strength leading up to earnings.

Q3'16 Earnings Season Performance



Earnings Season Performance vs. XLU (10/26 - 11/17)



Source: Bloomberg, USCA

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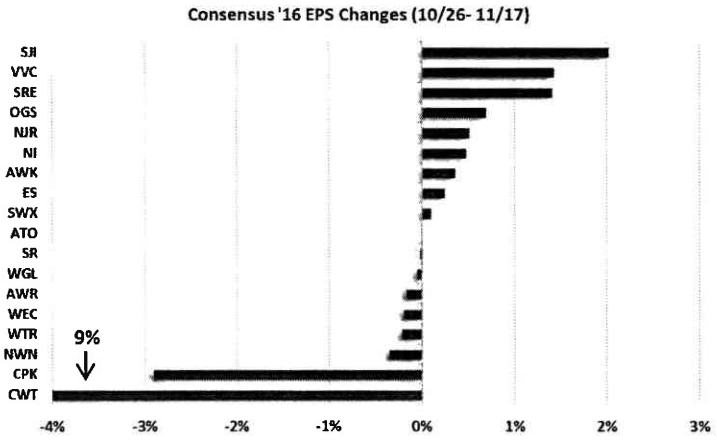
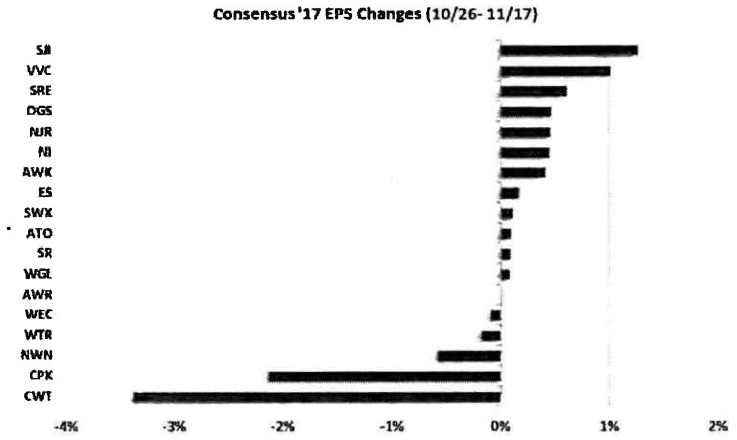
Q3'16 Themes – Modest Changes to EPS Estimates





- ***Biggest Movers:*** Charts above show changes in street '16 and '17 EPS estimates for downstream names. SJI, VVC and SRE saw the most sizable upward revisions to '16 and '17 estimates (+1-2%). CWT and CPK saw the most sizable downward revisions to estimates (-2-4%). EPS estimates have not moved significantly in recent periods. Average change for '16 and '17 estimates was <1%.

Source: Bloomberg, USCA

Q3'16 Themes – Updated Multiples

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- **Sector:** After 3Q'16 earnings, downstream names trade at an average '18 P/E of ~18x, EV/EBITDA of ~9.5x, 3.0% yield and 62% payout ratio. During Q3, money flows reversed from Q2 amid positive domestic growth data and rising potential for next Fed rate hike by year end.
  - ***Water Utilities:*** Among the sectors, safe-haven water utes continue to trade the richest, at ~23x P/E and ~11x EV/EBITDA, near historic trading ranges.
  - ***Gas Utilities:*** Gas utes trading at ~19x P/E and ~10x EV/EBITDA, still inflated by M&A activity earlier this year and one turn above high end of historic trading ranges.
  - ***Electric Utilities:*** Electric group trading at ~17x P/E and ~8x EV/EBITDA, the most modest multiples among the ute sectors, discounting slower growth and concern over potentially high acquisition premiums to be paid in future deals. Still, shares trading at high end of historic ranges.

	Price/EPS			EV / EBITDA			Dividend	
	2016E	2017E	2018E	2016E	2017E	2018E	Yield	Payout
Gas Distributors	23.8x	21.7x	20.1x	11.7x	11.1x	10.1x	3.1%	63%
Gas Midstream	22.0x	19.3x	17.9x	10.8x	10.0x	9.7x	2.8%	63%
Median Gas Group	22.2x	20.6x	19.3x	11.1x	10.3x	10.1x	2.9%	63%
Regulated Electrics	19.4x	18.0x	16.7x	9.8x	8.7x	8.1x	2.9%	58%
Regulated Electric / Gas	19.3x	18.2x	17.1x	10.3x	9.8x	9.2x	3.4%	66%
Electric / Merchant	15.8x	16.0x	15.3x	9.8x	9.1x	9.1x	4.0%	61%
Median Electric Group	19.4x	18.0x	16.7x	9.8x	8.7x	8.1x	2.9%	58%
Water Distributors	26.3x	25.2x	22.9x	13.4x	11.5x	11.0x	2.0%	58%
Average	21.1x	19.7x	18.3x	11.0x	10.0x	9.5x	3.0%	62%

Source: Bloomberg, USCA

Q3'16 Themes—Rising Interest Rates

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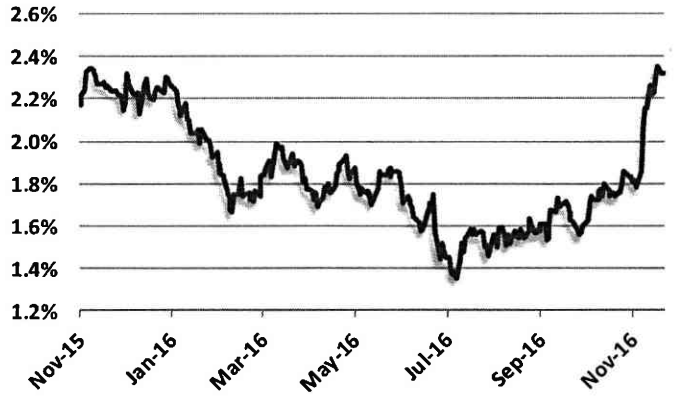
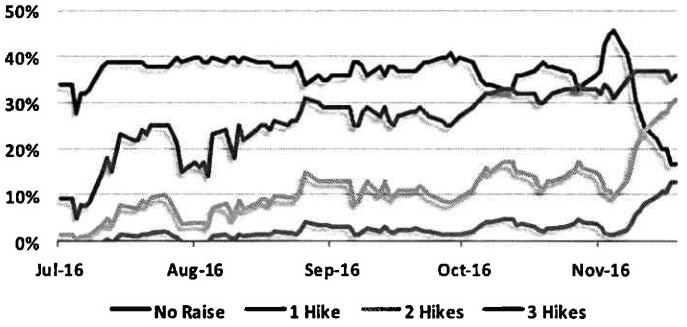
- **December Hike:** Hike at next FOMC meeting on Dec 16 seems a foregone conclusion as market now implying a probability >99%. Recent statements by Fed personnel lend additional credence. Janet Yellen, in recent testimony to congress, said an increase in short-term rates "could well become appropriate relatively soon."
- **Room to Raise:** Concern over flattening yield curve through much of '16 invited skepticism of potential Fed move. Trump win ignited inflation expectations and drove 10-Yr up ~50 bps, highest level in '16.
- **Focus Shifts to '17:** Trump election shifted sentiment toward potential accelerated hike path in '17. Since election, market implied probability for two hikes in '17 has risen from ~10% pre-election to ~30% currently. Further, probability for three rate-hike scenario in '17 has risen from ~1% to ~13%. FOMC meeting on December 16 should give better clarity into Fed thinking for '17 hike path.

U.S. Treasury 10-Year Yield



Market Implied '17 Rate Hikes Probabilities, Assuming Dec Hike



Source: Bloomberg, USCA

Q3'16 Themes—Midstream Project Status

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Current Downstream Pipeline Projects by Company

Company	Project	Equity Ownership	Total Cost ($mm)	Cost to Company ($mm)	Boost to EPS**	% Boost to EPS	Capacity	Miles	Initial Completion Date	Current Completion Date	Current Status	Region
CPK	Eastern Shore	100%	$32	$32	$0.07	2%	NA	10	2H-2016	2H-2016	On Schedule	Mid-Atlantic
CPK	White Oak Lateral	100%	$30	$30	$0.07	2%	NA	7	2H-2016	2H-2016	On Schedule	Mid-Atlantic
CPK	2017 Expansion	100%	$99	$99	$0.22	6%	NA	7	2H-2016	2H-2016	On Schedule	Mid-Atlantic
ES	Access Northeast	40%	$3,000	$1,200	$0.13	4%	1,000 Mmcf/d	NA	Nov 2018	Undetermined	Undetermined	Northeast
NJR	PennEast	20%	$1,200	$240	$0.10	5%	1,000 Mmcf/d	100	Nov 2017	2H-2018	Delayed	Northeast
NJR	Southern Reliability	100%	$180	$180	$0.07	4%	180 Mmcf/d	28	Late 2016	2017	Delayed	Mid-Atlantic
SJI	PennEast	20%	$1,200	$240	$0.11	7%	1,000 Mmcf/d	100	Nov 2017	2H-2018	Delayed	Northeast
SR	STL Pipeline	100%	$185	$185	$0.29	8%	400 Mmcf/d	60	Mid 2019	Mid 2019	On Schedule	Midwest
SRE	Ojinaga - El Encino	100%	$192	$192	$0.03	0%	1,350 Mmcf/d	155	Mar 2017	Mar 2017	On Schedule	Mexico
SRE	San Isidro - Samalayuca	100%	$108	$108	$0.02	0%	NA	15	Jan 2017	Jan 2017	On Schedule	Mexico
SRE	Texas - Tuxpan	40%	$2,160	$864	$0.12	2%	2,600 Mmcf/d	497	Oct 2018	Oct 2018	On Schedule	Mexico
WGL	Central Penn	20%	$2,100	$410	$0.29	8%	1,700 Mmcf/d	178	2H-2017	Mid 2018	Delayed	Northeast
WGL	Mountain Valley	10%	$3,250	$325	$0.23	6%	2,000 Mmcf/d	300	Dec 2018	Dec 2018	On Schedule	NE/Mid-Atl
WGL	Constitution	10%	$740	$74	$0.05	1%	651 Mmcf/d	125	2H-2016	Undetermined	Undetermined	Northeast
Total			**$10,736**	**$2,905**				**1,457**				

USCA Estimates

Assumes 50% equity, 11% ROE, and 4% financing

Access Northeast and Constitution are excluded from USCA calculations

Source: Bloomberg, company reports, USCA

Straight from the Source

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Below we highlight some interesting quotes from Q3'16 conference calls.

On Cameron LNG Delay Notice from CBI

"As I said, all we know is that on their call, they said that there was rain at the site and at their fabrication facility that caused some flooding. ***We don't know what the actual cause of the delay is, until we get in and have a chance to have them explain to us what they're looking at, and then look at what the potential is to mitigate some of those.*** It's really hard for us to assess the likelihood of it getting better through those discussions, but we'll be making every effort to have that occur."

- Debbie Reed, CEO, SRE

On Access Northeast Outlook

"One fact that hasn't changed is the need for Access Northeast. Access Northeast is designed to address a critical problem we have in New England during the winter months; the lack of access to enough natural gas to both heat our homes and businesses and run our power plants. Access Northeast is uniquely positioned to address this problem, since it passes through Connecticut and Eastern Massachusetts, the two most densely populated parts of New England, and touches 60% of the region's gas-fired power generation. ***Our situation will only get worse as other non-natural gas units retire over the course of the next two-and-a-half years are replaced by gas burning units. ISO-New England is calling that situation precarious. We believe there are very real concerns around reliability and significant additional sources of natural gas can be brought into New England."***

- Lee Olivier, EVP, ES

On BL England Project Outlook

"...Well, I mean certainly it's in the state's best interest. Particularly it's in the region's best interest to have this plant because it's a heavily constrained area and this is one of the only existing solutions to create baseload electricity in the region. So again, I'm certainly not in the business of guessing what the state will do, particularly New Jersey, but ***I would think that the state would have a vested interest in trying to get this project done simply because of the demands for electricity in the region."***

- Mike Renna, CEO, SJI

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Catalysts By Company

- **ATO:** General rate case filings in KS for gas utility ops and FERC for pipeline segment in 1Q'17.
- **AWK:** Rate orders seeking >$110mm in rate hikes by year end. Closing on pending acquisitions adding ~70k customers. LT growth (currently 7-10%) refresh at Analyst Day in 12/16.
- **AWR:** CA rate order and Elgin military base operation by year end.
- **CPK:** Focus on key gas expansions projects White Oak, ESNG and new 2017 Expansion line. DE and MD rate case orders by early '17.
- **CWT:** CA rate order by year end. Travis military base approval and operation by 1H'17.
- **ES:** Northern Pass citing approval hurdles and Access Northeast clarity into 1H'17.
- **NI:** Rate orders seeking $123mm in rate hikes by early '17. LT growth (currently 4-6%) refresh at Analyst Day in 2/17.
- **NJR:** New wind project announcements. Southern Reliability Link (SRL) construction start by mid '17.
- **NWN:** Mist Storage expansion construction start by year end. Potential OR rate case filing in 1H'17.
- **OGS:** KS and TX orders on settlements for $23mm in total rate hikes by year end.

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Catalysts By Company – Continued

- **SJI:** BL England construction start by early '17.
- **SPKE:** Integration of Provider Power and Major Energy acquisitions into 1H'17. Potential new acquisition announcements.
- **SR:** STL Pipeline approvals and construction start into 2H'17.
- **SRE:** Clarity on Cameron timing delay and mitigation measures. Aliso Canyon root cause investigation findings in 1H'17.
- **SWX:** AZ general rate case order, and new gas reserve program filing in AZ, by early '17.
- **VVC:** Infrastructure segment rebound into 2H'17.
- **WEC:** Potential new WI infrastructure projects and accelerated Chicago pipe replacement into '17.
- **WTR:** Rate orders seeking ~$8mm in rate hikes by year end. Possible announcement of non-water acquisition.
- **WGL:** Potential company sale, DC and VA rate case orders, and root cause investigation findings of MD explosion into early '17.

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Opinion Key:
USCA uses a Buy, Overweight, Hold, Underweight and Sell rating system.

BUY - The stock has among the best combination of risk/reward and positive company specific catalysts within the sector. Stock is expected to trade higher on an absolute basis and be a top performer relative to peer stocks over the next 12 months.

OVERWEIGHT - The stock has above average risk/reward and is expected to outperform peer stocks over the next 12 months.

HOLD - The stock has average risk/reward and is expected to perform in line with peer stocks over the next 12 months.

UNDERWEIGHT - The stock has below average risk/reward and is expected to underperform peer stocks over the next 12 months.

SELL - The stock's risk/reward is skewed to the downside with possible negative company specific catalysts or excessive valuation. The stock is expected to trade lower on an absolute basis and be among the worst performers relative to peer stocks over the next 12 months.

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Price Target Methodology:
Our price targets for downstream utility stocks are developed through a combination of techniques, including relative and absolute measures. We believe it is important to look at both types of valuation methods in order to get a full understanding of a stock's trading dynamics. Our fair value estimate is based on a blended average of the two techniques.

Relative Valuation:
Downstream gas and electric utilities tend to trade on both projected earnings and cash flow. We believe investors should take both these considerations into account equally. Downstream utilities have traded between 15-20 times forward earnings and 7-10 times EV-to-forward EBITDA over the last decade. With many downstream utilities operating under fiscal years' ending September 30, we typically use "forward-year" projections for proper apples-to-apples comparisons. Accordingly, our fair value estimates currently use our FY18 projections.

Absolute Valuation:
Given their status as income-producing investments, we believe it is also important to value downstream utilities based on the value of the future dividend streams. Unlike comparative valuation techniques, this method ignores the current or historic trading multiple implied by the market. Our DDM assumes a midterm growth rate based on our FY16-FY18 estimates, a long-term growth rate based on our forward projections using an assumed ROE (typically between 9-11%) and payout ratio (typically 60%-70%) and an equity risk premium using risk-free rates (currently 3.0%) and company Betas (average 0.8).

Risks:
An increase in interest rates, a poor regulatory decision, a decrease in commodity price volatility, bypass threat from large industrial customers, a decline in the broad market or a decline in profits from non-regulated operations are among the many potential risks to achieving our price targets.

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Distribution of Ratings (as of November 30, 2016):

Recommendation	Count	Percent	Investment Banking Relationship	Count	Percent
Overweight/Buy	31	55%	Overweight/Buy	7	23%
Hold	30	48%	Hold	3	10%
Underweight/Sell	1	2%	Underweight/Sell	0	0%

Historical Ratings and Price Targets may be found by clicking the link below:
USCA Rating and Price Target History

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A list of common terms and abbreviations may be found by viewing our Glossary.

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Equities

13 Dec 2016 22:21:38 ET | 32 pages

Pipelines & Gas Utilities
North America

Gas Utilities

Bullish Indiana and Ohio; NI and VVC to Buy

- **Moving Pieces:** We believe the gas utilities will see an improved regulatory environment, potential tax reform that has mixed impacts, higher interest rates, an evolving outlook for economic growth and construction spending, and M&A. We are upgrading VVC & NI on valuation in light of their positioning in relation to these moving pieces.
- **Regulation and Election:** The political results in state governor, utility commissioner, and US Presidency elections are supportive of several gas utilities in Indiana, Ohio, Arizona, and Texas. A constructive regulatory environment coupled with tax reform is expected to be positive for gas utility spending programs and potentially state economic growth. We believe NI and VVC are well positioned given the outcome from the elections.
- **Interest Rates:** Post election, interest rates have moved higher on expectations fiscal stimulus, economic growth, inflation, and interest rate policy. Citi's economists are forecasting 2.60% 10 year treasury and 3.35% 30 year treasury by late 2017.
- **Tax Reform Impact:** Our analysis of several tax reform scenarios suggest that regulated utilities would benefit from higher near term cash flows and improved spending but would be partly offset by higher WACCs, lower deferred taxes in rate base, and other factors depending on the timing of their next rate cases. In addition, we believe there would be modestly earnings and cash flow drag to companies with holding company debt, such as NI, in a lower tax rate environment (less interest expense tax shield). See Trump Tax Plan – Implications for Utilities from our electric utility research team for more detailed analysis on the topic.
- **Recommendation:** We are upgrading NI and VVC as we see modest upside to their valuation given their exposure to strong regulatory environments, tax reform, and infrastructure spending.

Faisel Khan, CFA [AC]

Ryan Levine

Vikram Bagri

Trieu Huynhtan

Jerry Xu

			Price	Rating		Target Price					Current Fiscal Year EPS		Next Fiscal Year EPS	
Company	Ticker	Currency	12 Dec	Old	New	Old	New	Div Yld (%)	ETR (%)	Last Rpt Year	Old	New	Old	New
Atmos Energy	ATO	US$	73.97	2	2	81.00	77.00	2.5	6.6	Sep-15	3.39	3.40	3.50	3.54
MDU Res Grp	MDU	US$	29.50	2	2	21.00	31.00	2.5	7.6	Dec-15	1.12	1.13	1.37	1.37
NiSource Inc	NI	US$	21.88	2	1	27.00	25.00	3.1	17.4	Dec-15	1.05	1.06	1.13	1.15
Southwest Gas	SWX	US$	75.19	2	2	79.00	79.00	2.5	7.6	Dec-15	3.17	3.03	3.43	3.44
Vectren	VVC	US$	51.48	2	1	53.00	58.00	3.3	16.0	Dec-15	2.53	2.52	2.71	2.67

1 = Buy, 2 = Neutral, 3 = Sell, H = High Risk
Source: Citi Research

Prepared for Sara Macioch

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Earnings Estimates

				Last Reported Year					Current Fiscal Year					Next Fiscal Year				
Company Name	Ticker	Last Rpt Year	Currency	1Q	2Q	3Q	4Q	FY0	1Q	2Q	3Q	4Q	FY1	1Q	2Q	3Q	4Q	FY2
Atmos Energy	**ATO**	**Sep-15**	**US$**	**0.91**	**1.36**	**0.54**	**0.29**	**3.10**	**0.93**	**1.40**	**0.67**	**0.40**	**3.40**	**1.04**	**1.42**	**0.67**	**0.41**	**3.54**
Old		*Sep-15*	*US$*	*0.96*	*1.35*	*0.55*	*0.23*	*3.09*	*1.00*	*1.38*	*0.69*	*0.33*	*3.39*	*1.01*	*1.45*	*0.63*	*0.42*	*3.50*
MDU Res Grp	**MDU**	**Dec-15**	**US$**	**-1.59**	**0.07**	**0.27**	**0.16**	**0.92**	**0.17**	**0.24**	**0.45**	**0.27**	**1.13**	**-**	**-**	**-**	**-**	**1.37**
Old		*Dec-15*	*US$*	*-1.59*	*0.07*	*0.27*	*0.16*	*0.92*	*0.17*	*0.24*	*0.45*	*0.27*	*1.12*	*-*	*-*	*-*	*-*	*1.37*
NiSource Inc	**NI**	**Dec-15**	**US$**	**0.85**	**0.18**	**0.06**	**0.31**	**1.39**	**0.59**	**0.08**	**0.06**	**0.33**	**1.06**	**0.60**	**0.12**	**0.09**	**0.34**	**1.15**
Old		*Dec-15*	*US$*	*0.85*	*0.18*	*0.04*	*0.31*	*0.94*	*0.56*	*0.09*	*0.07*	*0.33*	*1.05*	*0.60*	*0.11*	*0.09*	*0.33*	*1.13*
Southwest Gas	**SWX**	**Dec-15**	**US$**	**1.50**	**0.10**	**-0.02**	**1.34**	**2.93**	**1.58**	**0.14**	**0.00**	**1.31**	**3.03**	**1.63**	**0.19**	**0.17**	**1.46**	**3.44**
Old		*Dec-15*	*US$*	*1.50*	*0.10*	*-0.02*	*1.34*	*2.95*	*1.57*	*0.16*	*0.03*	*1.38*	*3.17*	*1.67*	*0.18*	*0.11*	*1.47*	*3.43*
Vectren	**VVC**	**Dec-15**	**US$**	**0.69**	**0.43**	**0.48**	**0.79**	**2.39**	**0.58**	**0.39**	**0.74**	**0.81**	**2.52**	**0.76**	**0.47**	**0.59**	**0.85**	**2.67**
Old		*Dec-15*	*US$*	*0.69*	*0.43*	*0.48*	*0.79*	*2.39*	*0.58*	*0.39*	*0.74*	*0.81*	*2.53*	*0.72*	*0.47*	*0.68*	*0.83*	*2.71*

Source: Citi Research

Prepared for Sara Macioch
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Gas Utilities

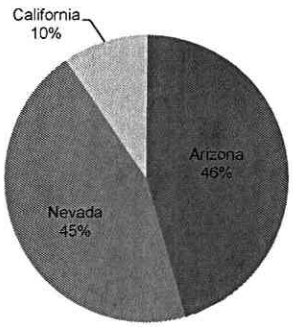
Executive Summary

There are several trends and themes that are impacting the gas utilities space including 1) political tax policy reform, 2) elections and regulatory changes, 3) the regulatory calendar, 4) mergers and acquisitions, and 5) economic and infrastructure growth. In our view, the political changes are modestly positive for regulated gas utilities in states such as Indiana and Ohio but modestly negative to utilities with holdco debt. Each of these trends is expected to be favorable for construction service businesses such as VVC and SWX's. As a result of the macro trends and current valuations, we are upgrading VVC and NI as they appear better positioned in the evolving gas utility market.

Election Impact on Commissioners and Regulators

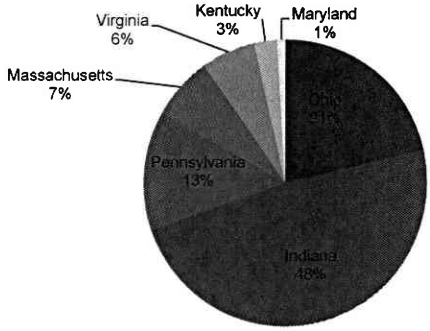
The political results in state governor and utility commissioner elections were generally supportive of individual regulated gas utilities. In Arizona, a state with three of the five publicly elected utility commissioner seats on the ballot, both of the incumbent Republican utility commissioners were reelected and Boyd Dunn (R) was elected to replace Bob Stump (R). In our view, this is a positive development for SWX given 46% of their rate base is in Arizona. In Indiana, Eric Holcomb (R) won the governor race to replace Mike Pence (Vice President-elect) in a very close election. The new governor is now able to appoint a replacement (or reappoint) James Huston (R), whose term expires in April 2017. We view this as modestly positive for NiSource, which has 48% of its rate base in Indiana. In addition, Wayne Christian (R) was elected to the RRC in Texas in a landslide to fill the seat vacated by Chairman Porter (R). This development keeps all of the current seats on the RRC in Republican hands in Atmos Energy's largest regulated geography.

Figure 1. Southwest Gas – Utility Business Mix by Rate Base



Source: Company Reports, Citi Research Estimates

Figure 2. NiSource – Utility Business Mix by Rate Base



Source: Company Reports, Citi Research Estimates

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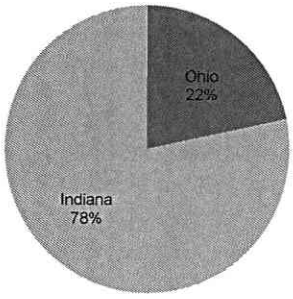
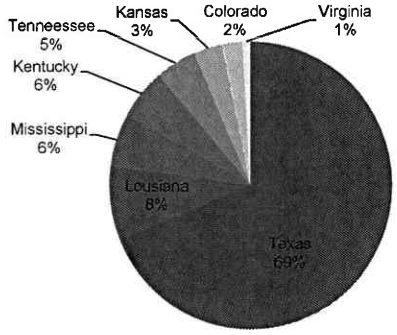
Figure 3. Vectren - Utility Business Mix by Rate Base



Source: Company Reports, Citi Research Estimates

Figure 4. Atmos Energy – Utility Business Mix by Rate Base



Source: Company Reports, Citi Research Estimates

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Figure 5. Utility Commissioner Terms and Recent Political Results

Name	Party	Role Began	Term Ends	Selection Method	Term of Office
Arizona Corporation Commission				Commissioners: Elected in statewide elections Chairperson: Elected by fellow Commissioners	Commissioners: 4 years Chairperson: 2 years
Doug Little Chairman	R	01/2015	01/2019		
Bob Stump	R	01/2009	01/2017	Boyd Dunn R is leading to replace	
Robert Burns	R	01/2013	01/2017	Leading	
Tom Forese	R	01/2015	01/2019		
Andy Tobin	R	02/2016	01/2017	Leading	
California Public Utilities Commission				Commissioners: Gubernatorial appointment, Senate confirmation Chairperson: Gubernatorial appointment	Commissioners: 6 years Chairperson: Indefinite
Michael Picker President	D	01/2014	01/2021		
Catherine Sandoval	D	01/2011	01/2017		
Mike Florio	D	01/2011	01/2017		
Carla Peterman	D	01/2013	01/2019		
Liane Randolph	D	01/2015	01/2021		
Colorado Public Utilities Commission				Commissioners: Gubernatorial appointment, Senate confirmation Chairperson: Appointed by and serves at the pleasure of the Governor	Commissioners: 4 years Chairperson: Indefinite
Joshua Epel Chairman	D	04/2011	01/2019		
Glenn Vaad	R	01/2014	01/2017	Current governor is D	
Frances Koncilja	D	01/2016	01/2020		
Indiana Utility Regulatory Commission				Commissioners: Gubernatorial appointment Chairperson: Gubernatorial appointment	Commissioners: 4 years Chairperson: 4 years
Carol Stephan Chairman	R	03/2014	01/2020		
David Ziegner	D	08/1990	04/2019		
Angela Weber	R	03/2014	04/2018		
James Huston	R	09/2014	04/2017	Eric Holcomb R elected as IN governor	
Sarah Freeman		09/2016	01/2018		
Kansas Corporation Commission				Commissioners: Gubernatorial appointment, Senate confirmation Chairperson: Elected by fellow Commissioners	Commissioners: 4 years Chairperson: Indefinite
Jay Emler Chairman	R	01/2014	03/2019		
Shari Feist Albrecht	I	09/2012	03/2016		
Pat Apple	R	04/2014	03/2018		
Kentucky Public Service Commission				Commissioners: Gubernatorial appointment, Senate confirmation Chairperson: Appointed by and serves at the pleasure of the Governor	Commissioners: 4 years Chairperson: Indefinite
Michael J. Schmitt Chairman	R	06/2016	06/2019	2 appointed by R governor, 1 by previous D governor	
Robert J. Cicero Vice Chairman	R	04/2016	06/2020		
Daniel E. Logsdon Jr.	D	02/2015	06/2017		
Louisiana Public Service Commission				Commissioners: Elected in statewide elections Chairperson: Elected by fellow Commissioners	Commissioners: 6 years Chairperson: 1 years
Scott Angelle Chairman	R	01/2013	12/2018	R controlled 3-2 margin, 1 D reelected, 2 r and 1 D run off in Dec for R seat	
Foster L. Campbell Jr.	D	01/2003	12/2020		
Lambert C. Boissiere III	D	01/2005	12/2016	Reelected	
Eric Skrmetta	R	01/2009	12/2020		
Charles W. DeWitt, Jr.		10/2016	12/2016		
Mississippi Public Service Commission				Commissioners: Elected in statewide elections Chairperson: Elected by fellow Commissioners	Commissioners: 4 years Chairperson: 1 years
Brandon Presley Chairman	D	01/2008	12/2019		
Cecil Brown Vice Chairman	D	01/2016	12/2019		
Sam Britton	R	01/2016	12/2019		
Nebraska Public Service Commission				Commissioners: Elected in statewide elections Chairperson: Elected by fellow Commissioners	Commissioners: 6 years Chairperson: 1 years
Tim Schram Chairman	R	01/2007	01/2019		
Rod Johnson Vice Chair	R	01/1993	01/2017	Reelected	
Frank E. Landis Jr.	R	01/1989	01/2019		
Gerald Vap	R	08/2001	01/2017	Mary Ridder R won	
Crystal Rhoades	D	01/2015	01/2021		
New Orleans City Council				NA	Commissioners: 4 years Chairperson: 1 years
Stacy Head President	D	06/2006	05/2018		
Jason Williams Vice President	D	05/2014	05/2018		
Susan G. Guidry	D	05/2010	05/2018		
James Gray II	D	12/2012	05/2018		
LaToya Cantrell	D	12/2012	05/2018		
Nadine Ramsey	D	05/2014	05/2018		
Jared Brossett	D	05/2014	05/2018		
Public Utilities Commission of Ohio				Commissioners: Gubernatorial appointment, Senate confirmation Chairperson: Appointed by and serves at the pleasure of the Governor	Commissioners: 5 years Chairperson: Indefinite
Asim Haque Chairman	I	06/2013	04/2021		
Lynn Slaby	R	04/2012	04/2017	Current governor is R	
M. Beth Trombold	I	02/2013	04/2018		
Thomas Johnson	R	04/2014	04/2019		
M. Howard Petricoff		06/2016	12/2016	Resigned abruptly after faced Senate confirmation challenges	
Public Utility Commission of Texas				Commissioners: Gubernatorial appointment, Senate confirmation Chairperson: Appointed by and serves at the pleasure of the Governor	Commissioners: 6 years Chairperson: Indefinite
Donna L. Nelson Chairman	R	08/2008	08/2021		
Kenneth W. Anderson	R	09/2008	08/2017		
Brandy Marty Marquez	R	08/2013	08/2019		
Railroad Commission of Texas				Commissioners: Elected in statewide elections Chairperson: Elected by fellow Commissioners	Commissioners: 6 years Chairperson: 1 years
David Porter Chairman	R	01/2011	12/2016	Wayne Christain R won, replace Porter not run for re-election	
Christi Craddick	R	12/2012	12/2018		
Ryan Sitton	R	01/2015	12/2020		
Tennessee Regulatory Authority				Appointed	Commissioners: 6 years Chairperson: 2 years
David Jones Chairman		10/2012	06/2018		
Robin Morrison Vice Chairman		06/2013	06/2020		
Kenneth Hill	R	07/2009	06/2020		
Herbert Hilliard		07/2012	06/2017	Current governor R	
Vacancy			NA		

Source: Citi Research

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Potential Tax Policy Reform

With the Republican win of the White House, Senate, and House of Rep., Republican leadership continue to talk about several changes to the US tax policy. The potential changes would have an impact on the gas utilities including 1) a lowering of the corporate tax rate from ~35% to ~20% (House GOP blueprint) or ~15% under the President-elect's plan, 2) 100% expensing of capital investments, and 3) elimination of the current deduction of net interest expense.

Our summary analysis below suggests that a lowering of the tax rate would be modestly positive to utility cash flows and equity valuations before considering the potential impact of new growth opportunities. While lower cash taxes would increase annual free cash flows, the valuation uplift would be partially offset by a higher WACC, as cost of debt would have a different tax adjustment.

Figure 6. Illustrative Financial Impact0 on Regulated Utilities from Changes in Tax Reform

Case	Annual CFs	N.I.	Tax Expense	Cash Taxes	WACC	DCF Valuation
Status Quo (35% Tax Rate)	--	--	--	--	--	--
20% Tax Rate	⇧	⇧	⇩	⇩	⇧	⇧
20% Tax Rate (Capex Expensed, No Tax Shield)	⇧	⇩	⇩	⇩	⇧	⇧
20% Tax Rate (No Tax Shield)	⇧	⇧	⇩	⇩	⇧	⇧
35% Tax Rate (Capex Expensed, No Tax Shield)	⇧	⇩	⇩	⇩	⇧	⇧
35% Tax Rate (No Tax Shield)	⇩	⇩	⇧	--	⇧	⇩

Source: Citi Research

In addition, our analysis suggests that the utilities would prefer to continue deducting interest for tax purposes than to treat capex as an expense. This is due to the lower WACC from the interest tax shield, outweighing the savings generated from reducing pre-tax income by capex.

Lowering the tax rate would likely lower rates for customers over time which would improve the political environment for the gas utilities to get approval for additional spending. In general, gas utilities bills are nominally lower than electric bills, so the incremental improvement in utility commissioner's inclination to approve spending may not be as significant as it would be for regulated electric utilities.

HoldCo Debt

The gas utilities typically have most of their income and debt at the regulated subsidiary level, but a few utilities have holding company debt and a few own unregulated assets. Since the interest on debt held at the parent is typically not recoverable by the ratepayer, a lower tax rate is likely to be negative to holding companies that do not have offsetting holdco income as there would be less tax shield from the corporate interest expense. On the other hand, corporate entities that own unregulated earning producing assets at the HoldCo may be net positively impacted from a lower tax rate. Within our coverage, Nisource appears negatively exposed to this dynamic with ~$1.7bn of holding company financing, associated with a previously completed acquisition. Atmos, Vectren, and Southwest Gas have no material holding company corporate debts.

Complicating Factors

The above analysis and exercise makes simplifying assumptions around the generic utilities tax positions but each utility has unique exposure.

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New Rate Cases: If taxes move lower, the rate payer is likely to advocate for lower revenue requirements. In 1986, when the tax rate was changed, several of the PUCs held a more holistic meeting and approach to address the issue. Each jurisdiction and company is different as to how quickly they can act to reduce the revenue. Companies such as Atmos file mostly annual reviews and are unlikely to change their approach. Others may have a preference to delay general rate case filings but there are mechanisms that ultimately allow the ratepayers recovery of any tax benefits over a longer time period.

Net Operating Loss Carryforward (NOLC): If the capital expenditures are expensed instead of capitalized, an issue emerges regarding how long the NOL can be carryforward. The current rule is 20 years but there is active discussion around potentially extending this time line.

Deferred Taxes: Deferred taxes are deducted from rate base and therefore a change in tax rate is likely to impact the regulated utilities deferred taxes and indirectly earnings potential over time.

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Regulatory Calendar

With changing seats in politics and utility regulation and uncertain tax policy, we look towards the regulatory calendar for the gas utilities. Below is a list of regulatory events by company.

Figure 7. Regulatory Events

Date	Company	Event
Oct-16	ATO	**Kansas Gas System Reliability Surcharge (GSRS)** - Filed October 2016
Nov-16	ATO	**Colorado System Safety and Integrity Rider (SSIR)** - Filed November 2016
Dec-16	ATO	**West Texas Cities Rate Stabilization Clause** - Anticipated filing date
Dec-16	ATO	**Mid-Tex (Dallas) Annual Base Rate Review** - Anticipated filing date
Jan-17	ATO	**Kansas Base Rate Increase** - Anticipated filing date
Jan-17	ATO	**Atmos Pipeline Texas (APT) Base Rate Increase** - Anticipated filing date
Feb-17	ATO	**Tennessee Annual Mechanism Base Rate Increase** - Anticipated filing date
Mar-17	ATO	**Mid-Texas Cities Rate Review Mechanism (RRM) Base Rate Increase** - Anticipated filing date
Mar-17	ATO	**Texas Environs Customers Gas Reliability Infrastructure Program (GRIP)** - Anticipated filing date
Mar-17	ATO	**West Texas ALDC Annual (GRIP) Request** - Anticipated filing date
Mar-17	ATO	**Mississippi System Integrity Rider** - Anticipated filing date
1Q17	ATO	**Mississippi Gas Stable Rate Filing (SRF)** - Requested $6.3 mm in annual operating income increase; ROE: 7.85%; 52.5% equity; rate base: $389 mm; test year ended June 2016
1Q17	ATO	**Mississippi Gas System Integrity Rider (SIR)** - Requested $3.3 mm in annual operating income increase; ROE: 7.85% overall return; cap. structure: 52.5% equity; rate base: $21.3 mm
1Q17	ATO	**Mississippi Gas Supplemental Growth Rider (SGR)** - Requested $1.3 mm in annual operating income increase; ROE: 7.85% overall return; cap. structure: 52.5% equity; rate base: $10.1 mm
1Q17	ATO	**Kentucky Gas Pipe Replacement Program (PRP)** - Requested $4.9 mm in annual operating income increase; ROE: 9.8%; ROR: 7.71%; cap. structure: 49% equity; rate base: $38 mm
Apr-17	ATO	**Louisiana (LGS) Rate Stabilization Clause** - Anticipated filing date
Jun-17	ATO	**Colorado Base Rate Increase** - Anticipated filing date
2Q17	ATO	**Kansas Gas System Reliability Surcharge (GSRS)** - Anticipated implementation date
2Q17	ATO	**Colorado System Safety and Integrity Rider (SSIR)** - Anticipated implementation date
Jul-17	ATO	**Atmos Pipeline Texas (GRIP) Request** - Anticipated filing date
Aug-17	ATO	**Kentucky Pipe Replacement Program** - Anticipated filing date
Sep-17	ATO	**Mississippi Stable Rate Filing & Supplemental Growth Riders** - Anticipated filing date
3Q17	ATO	**West Texas Cities Rate Stabilization Clause** - Anticipated implementation date
3Q17	ATO	**Mid-Tex (Dallas) Annual Rate Review** - Anticipated implementation date
3Q17	ATO	**Kansas Base Rate Increase** - Anticipated implementation date
3Q17	ATO	**Tennessee Annual Mechanism Rate Increase** - Anticipated implementation date
3Q17	ATO	**Mid-Texas Cities Rate Review Mechanism (RRM) Rate Increase** - Anticipated implementation date
3Q17	ATO	**Texas Environs Customers (GRIP) Request** - Anticipated implementation date
3Q17	ATO	**West Texas ALDC Annual (GRIP) Request** - Anticipated implementation date
3Q17	ATO	**Mississippi System Integrity Rider** - Anticipated implementation date
4Q17	ATO	**Atmos Pipeline Texas Rate Increase** - Anticipated implementation date
4Q17	ATO	**Louisiana LGS Rate Stabilization Clause** - Anticipated implementation date
1Q18	ATO	**Atmos Pipeline Texas (GRIP) Request** - Anticipated implementation date
1Q18	ATO	**Kentucky Pipe Replacement Program** - Anticipated implementation date
1Q18	ATO	**Mississippi Stable Rate Filing & Supplemental Growth Riders** - Anticipated implementation date
2Q18	ATO	**Colorado Base Rate Increase** - Anticipated implementation date

Source: Citi Research, Company Reports

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Figure 8. Regulatory Events

Date	Company	Event
Dec-16	NI	**Columbia Gas of Pennsylvania Base Rate Case** - Requested $55.3 mm in annual revenue increase; Settlement includes $35 mm annual revenue increase
4Q16	NI	**Columbia Gas of Kentucky Base Rate Case** - Requested $25.4 mm in annual revenue increase; Settlement includes ~$3.7 mm annual revenue increase (settlement approved; pending final approval)
1Q17	NI	**Columbia Gas of Virginia Base Rate Case** - Requested $37 mm in annual revenue increase (filed 4/29/2016 - awaiting settlement)
Feb-17	NI	**NIPSCO Electric** - 7-year modernization plan with investment of ~$1.25 bn
May-17	NI	**Columbia Gas of Massachusetts Gas System Enhancement Plan (GSEP)** - Requested $16.8 mm in annual revenue to recoup additional construction/maintenance costs

Date	Company	Event
2017	VVC	**Indiana Gas** - Results of appealing exclusion of 20-mile transmission line not included in rate base recovery
1Q17	VVC	**Indiana Gas** - Results of updated 7-year capex spend of an increase of $60 million from previously approved plan
4Q17/1Q18	VVC	**Ohio Gas** - Rate case to be filed late 2017/early 2018
2018	VVC	**Ohio Gas** - Filing new rate case after expiration of distribution replacement rider (DRR)

Date	Company	Event
Dec-16	SWX	**Arizona Gas Rate Cases** - Settlement discussions scheduled
Jan-17	SWX	**Holding Company Reorganization** - Arizona Corporation Commission (ACC), California Public Utilities Commission (CPUC) and Public Utilities Commission of Nevada (PUCN) have pre-approved; Anticipated implementation date
Feb-17	SWX	**Arizona Gas Rate Cases** - Hearings
May-17	SWX	**Arizona Gas Rate Cases** - Rate relief: $32 mm; depreciation study: $42 mm; rate base: $1.3 bn; ROE: 10.25%; cap structure: 52%; expected implemenation date
Jun-17	SWX	**2018 Paiute Expansion Project** - Filing formal certification application by mid-2017 (8.4 miles of additional pipeline at $17 mm)
2018	SWX	**2018 Paiute Expansion Project** - Constructed by end of 2018

Date	Company	Event
Mar-17	MDU	**Oregon Base Rate Increase** - Additional $754,000 increase pending approval before OPUC
Mar-17	MDU	**Idaho Gas Rate Increase Hearing** - Additional $10.2 mm increase in base rate scheduled hearing before the Idaho Public Utilities Commission (IPUC)
Apr-17	MDU	**Montana-Dakota Electric Rate Increase** - Additional $4.4 mm increase in base rate to be implemented
Jan-17	MDU	**Montana-Dakota Electric Rate Increase Hearing** - Additional $3.2 mm increase in base rate scheduled hearing before Wyoming Public Service Commission (WYPSC)

Source: Citi Research, Company Reports

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Economic Indicators in Operations Areas

Fundamentally, the gas utilities are impacted by economic growth, new builds, and unemployment – all of which in general are trending positively for the geographies that these businesses operate. The macro economic growth of the regions influences the gas utility sector's rate base growth and revenue growth in non-utility operations like construction services and materials.

Figure 9. Economic Growth Rate by Operating Area

In-Operations Region	GDP YoY Growth 2Q16 / 2Q15	Unemployment Oct-16	Res. Build Permits YTD 2016 / 2015	Company In-Operations
Arizona	2.7%	5.2%	13.0%	**SWX**, MDU
Alabama	1.1%	5.7%	8.7%	VVC
Alaska	-2.0%	6.8%	16.3%	MDU
Alberta	-4.0%	9.0%	-22.4%	SWX
Arkansas	1.6%	4.0%	8.6%	VVC
British Columbia	3.0%	5.9%	4.70%	SWX
California	2.2%	5.5%	3.9%	**SWX**, VVC, MDU
Colorado	1.1%	3.5%	22.4%	**ATO**, SWX, VVC, MDU
Connecticut	1.6%	5.1%	3.2%	SWX
Delaware	1.5%	4.3%	10.8%	VVC
Florida	2.3%	4.8%	7.1%	VVC
Georgia	0.4%	5.2%	16.9%	VVC, MDU
Hawaii	0.3%	3.2%	-36.4%	MDU
Idaho	2.8%	3.8%	26.2%	**MDU**, SWX
Illinois	1.0%	5.6%	25.8%	SWX, VVC
Indiana	1.2%	4.4%	6.1%	**VVC, NI**
Iowa	1.3%	4.1%	21.7%	SWX, MDU
Kansas	2.3%	4.4%	19.5%	**ATO**, SWX, VVC
Kentucky	0.7%	5.1%	31.2%	**ATO, NI**, VVC
Louisiana	0.4%	6.3%	3.6%	**ATO**, VVC, MDU
Maine	0.6%	4.0%	12.5%	SWX
Maryland	1.0%	4.2%	4.2%	**NI**, SWX, VVC
Massachusetts	1.7%	3.3%	-2.1%	**NI**, SWX, VVC
Michigan	2.3%	4.7%	1.8%	VVC
Minnesota	0.0%	4.0%	1.7%	**MDU**, SWX, VVC
Mississippi	1.1%	5.9%	-0.9%	**ATO**, VVC
Missouri	2.3%	5.1%	18.1%	VVC, MDU
Montana	1.2%	4.3%	13.2%	**MDU**
Nebraska	4.3%	3.3%	7.6%	MDU
Nevada	2.3%	5.5%	23.2%	**SWX**, MDU
New Jersey	1.7%	5.2%	-17.0%	VVC
New York	0.1%	5.2%	-57.3%	SWX, VVC
North Carolina	1.5%	4.9%	6.9%	VVC
North Dakota	-5.6%	2.8%	-40.1%	**MDU**
Ohio	1.9%	4.9%	16.2%	**VVC, NI**, SWX, MDU
Oklahoma	-2.7%	5.2%	11.8%	SWX
Ontario	2.5%	6.3%	10.7%	SWX
Oregon	1.8%	5.3%	13.7%	**MDU**, SWX
Pennsylvania	0.5%	5.8%	-7.9%	**NI**, SWX, VVC
South Carolina	1.4%	4.7%	-0.5%	VVC
South Dakota	-1.0%	3.0%	24.9%	**MDU**
Tennessee	1.7%	4.8%	9.8%	**ATO**, VVC
Texas	-0.8%	4.7%	-5.8%	**ATO**, SWX, VVC, MDU
Utah	3.3%	3.2%	19.3%	SWX, MDU
Virginia	0.6%	4.2%	-2.0%	**NI**, SWX, VVC
Washington	2.3%	5.4%	3.1%	**MDU**, SWX
Washington D.C.	1.7%	6.1%	4.8%	VVC
West Virginia	-0.8%	6.0%	-15.6%	VVC
Wisconsin	1.6%	4.1%	16.4%	SWX, VVC
Wyoming	-5.3%	5.1%	-10.4%	**MDU**

Source: BLS, BEA, Census, Citi Research Estimates (bold company indicates utility operations areas)

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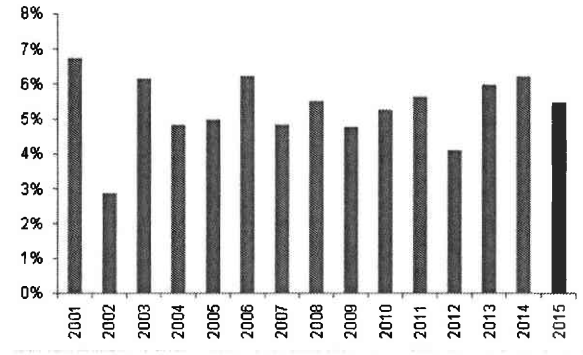
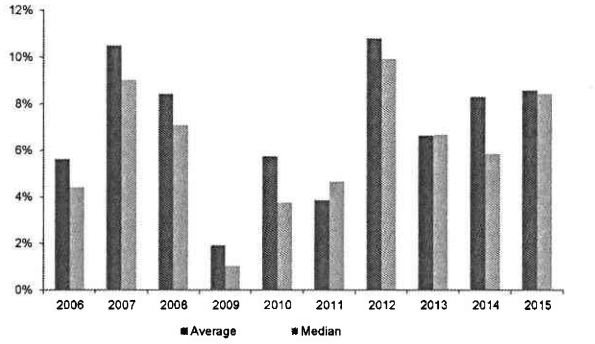
Figure 10. Average Gas Utilities Revenue Growth Percentage Awarded in Rate Cases



Source: SNL, Citi Research Estimates

Figure 11. Average Gas Utilities Rate Base Growth Percentage (%) for Selected Peer Group



Source: SNL, Citi Research Estimates

Construction Services Outlook

In our view, the potential tax reform, recent political changes, regulatory environment, and continued low gas prices are all incrementally positive for construction services business. Both Vectren and Southwest Gas have construction services business that provide the maintenance spending for gas utilities, crude, NGL, and gas gathering lines, and other energy infrastructure projects. Our analysis suggests that a lower tax rate is likely to incentivize incremental spending on infrastructure for regulated gas utilities due to lower gas bills and improve cash flow for the utilities which should provide growth for these businesses. As mentioned above, the recent elections and commissioner appointments are expected to be incrementally constructive for capital spending – the growth driver of these segments.

The growth outlook is comprised of gas utility capital expenditures and MLP capital expenditures. The below chart is estimates of gas utilities capex growth over the last decade. The second chart is Citi's capex outlook for the midstream space based on announced and visible projects in our MLP coverage universe. We view this outlook as conservative since additional projects may become visible over the next several years. The third figure shows the trading comps for construction companies and also show ~5% growth rate to revenue for these business through 2018. We believe VVC and SWX's infrastructure service revenue outlook is likely higher than its construction peers.

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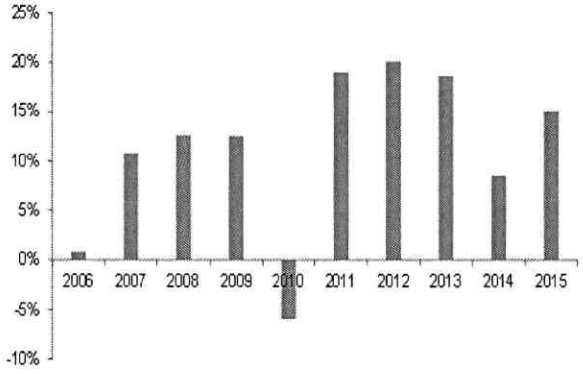
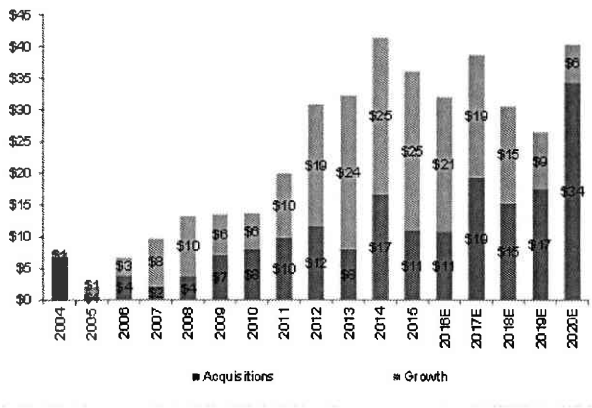
Figure 12. Average Gas Utilities Capex Growth Rate Percentage (%)



Source: SNL, Citi Research Estimates

Figure 13. US Midstream Capital Expenditures ($ in billions)



Source: Company Presentations, Citi Research Estimates

Figure 14. Construction Services Comparable Company Growth Rates and Trading Valuation

	EV/EBITDA		P/E		EBITDA %		2016-2018
Company	2016	2017	2016	2017	2016	2017	Rev CAGR
MasTec, Inc.	9.2x	7.8x	22.6x	18.8x	8.9%	9.6%	5.2%
Quanta Services, Inc.	9.6x	7.6x	22.1x	16.7x	7.1%	8.3%	4.5%
EMCOR Group, Inc.	NA	NA	21.6x	19.6x	5.4%	5.4%	4.6%
Dycom Industries, Inc.	NA	NA	16.2x	14.1x	14.3%	14.6%	11.5%
Median	**9.4x**	**7.7x**	**21.9x**	**17.7x**	**8.0%**	**8.9%**	**4.9%**

Source: FactSet consensus estimates.

Mergers and Acquisitions

The gas utility industry has been in a period of robust M&A over the last few years as valuations for the businesses have increased, growth outlooks appeared robust compared to their electric utility peers, and interest rates remains low. Acquirers were paying ~30% premiums to recent equity values in transactions at paying ~21x P/E. With historically robust valuation multiples, and appetite for growth from power utilities, gas utilities is more likely to consider the sale of their business. The utilities with synergistic footprints, favorable regulatory environments, and strategic value to acquirers are viewed to be most attractive. While the trend is likely to continue, there are several challenges including multi-state regulatory hurdles, tax policy, and potential regulatory changes to federal, state, and local energy policy.

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Figure 15. Gas Utility Recent M&A Premiums Paid and Transaction P/E Multiples

Aquiror	Target	Announce Date	Stock Price Premium: Target Price Premium before Announcement (3-mths)	Target Price Premium before Announcement (1-week)	Target Price Premium before Announcement (1-day)	LTM P/E	1yr Forward PE	2yr Forward PE
Dominion Resources, Inc.	Questar Corporation	2/1/2016	21.1%	31.9%	22.6%	21.1x	18.7x	18.3x
Duke Energy Corporation	Piedmont Natural Gas Compar	10/26/2015	60.5%	36.3%	35.8%	34.5x	30.3x	27.2x
Emera Incorporated	TECO Energy, Inc.	9/4/2015	54.2%	29.8%	30.8%	29.2x	23.7x	22.0x
Southern Company	AGL Resources Inc.	8/24/2015	31.0%	33.4%	37.9%	20.3x	22.1x	21.6x
Iberdrola, S.A.	UIL Holdings Corporation	2/25/2015	32.5%	25.4%	24.9%	27.4x	20.1x	18.8x
Wisconsin Energy Corporation	Integrys Energy Group, Inc.	6/23/2014	23.5%	21.9%	17.3%	17.2x	na	na
Exelon Corporation	Pepco Holdings, Inc.	4/30/2014	40.2%	27.7%	24.7%	21.3x	18.9x	17.1x
Fortis Inc.	UNS Energy Corporation	12/11/2013	36.2%	27.0%	31.4%	19.6x	na	na
Berkshire Hathaway Inc.	NV Energy, Inc.	5/29/2013	20.2%	15.5%	23.2%	17.2x	na	na
Northeast Utilities	NSTAR	10/18/2010	9.7%	1.3%	2.0%	22.1x	na	na
	Median		31.8%	27.3%	24.8%	21.2x	21.1x	20.2x
	Average		32.9%	25.0%	25.1%	23.0x	22.3x	20.8x

Source: Company Presentations, Citi Research

Valuation and Comparable Metrics

The comparable gas utilities are trading at ~20x 2017 P/E and ~10x consolidated EV / 2017E EBITDA. On a sum of the parts basis, SWX and VVC's construction services businesses are trading 8-8.5x 2017 EBITDA multiple which is in line with the pure play construction peers.

Figure 16. P/E Multiple Estimates

	2016	2017	2018	2019	2020
Atmos Energy Corp	21.5x	20.6x	19.6x	18.2x	16.8x
MDU Resources Group Inc	26.1x	21.4x	21.2x	20.8x	20.5x
NiSource Inc	20.4x	18.9x	17.4x	16.2x	15.1x
Southwest Gas Corp	24.9x	21.9x	20.6x	19.6x	18.6x
Vectren Corp	20.3x	19.2x	18.1x	16.7x	15.6x
Average	**22.7x**	**20.4x**	**19.4x**	**18.3x**	**17.3x**

Source: Citi Research

Figure 17. EV/EBITDA Multiples Estimates

	2016	2017	2018	2019	2020
Atmos Energy Corp	21.5x	20.6x	19.6x	18.2x	16.8x
MDU Resources Group Inc	26.1x	21.4x	21.2x	20.8x	20.5x
NiSource Inc	20.4x	18.9x	17.4x	16.2x	15.1x
Southwest Gas Corp	24.9x	21.9x	20.6x	19.6x	18.6x
Vectren Corp	20.3x	19.2x	18.1x	16.7x	15.6x
Average	**22.7x**	**20.4x**	**19.4x**	**18.3x**	**17.3x**

Source: Citi Research

Figure 18. Implied P/E and EV/EBITDA for Nonutility Segment

Estimates	2017 Utility Earnings	2017 Nonutility Earnings	Assumed Utility P/E (x)	Implied Nonutility P/E (x)	Implied Nonutility EV/EBITDA (x)
MDU Resources	0.64	0.73	20.0x	21.1x	9.6x
Southwest Gas Corp	2.69	0.76	20.0x	22.0x	8.5x
Vectren Corp	2.17	0.51	21.0x	16.1x	8.6x

Source: Citi Research

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Figure 19. Implied Rate Base Multiple and Payout Ratio

	Net Debt / EBITDA	Implied RB Ratio	Implied PB Ratio	Total Payout	Utility Payout
Atmos Energy Corp	3.4x	1.8x	2.2x	52%	52%
MDU Resources Group Inc	3.0x	2.0x	2.5x	55%	116%
NiSource Inc	5.4x	1.6x	1.8x	59%	59%
Southwest Gas Corp	2.7x	1.6x	2.2x	55%	71%
Vectren Corp	2.8x	1.5x	2.4x	64%	79%
Average	**3.5x**	**1.7x**	**2.2x**	**57%**	**76%**

Source: Citi Research

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Company Focus

Atmos Energy Corp (ATO)

Strong Management; Updating Valuation

- Estimate Change
- Target Price Change

Neutral	
Price (12 Dec 16)	US$73.97
Target price	US$77.00
from US$81.00	
Market Cap	US$7,690M
Expected share price return	4.1%
Expected dividend yield	2.5%
Expected total return	6.6%

- **Citi's Take** —Atmos is positioned to execute on its 6-8% EPS growth target and increase its rate base from $6bn to $8.5-$9bn by 2020 due to a constructive regulatory environment, positive political developments, tax reform, and strong management team.
- **Capital Financing** — Over the next few years, ATO is expected to issue $550-$650M of equity, utilize organic free cash flow, and issue debt to fund its $1.1-$1.4bn/yr capex program through 2020. ATO currently has a lower payout ratio than peers which lends its more flexibility in capital financing.
- **Regulatory Update** — In Jan. 2017, ATO plans to file a rate case for APT, which was last filed in 2010, and expects to implement it by summer 2017.
- **Exit Marketing Business** — On Oct 29, 2016, ATO announced to that it has agreed to sell Atmos Energy Holdings, the marketing subsidiary, to CenterPoint Energy for $40mn. The transaction is expected to close in CY 1Q17, and the proceeds are expected to fund ATO's infrastructure programs. We believe this transaction will reduce earnings volatility for Atmos Energy and let the management fully focus on regulated capex programs' execution.
- **Potential Tax Reform Implications** — Atmos appears relatively well positioned in a changing tax reform environment but there remains uncertainty as Atmos is not expected to be a cash tax payer for several years. We view ATO not having holding company debt as generally positive in comparison to some peers but note that lower tax rates could reduce ATO's deferred taxes which would impact rate base. In addition, the frequency that ATO approaches regulators reduces the regulatory lag and is not likely to change with tax reform.
- **Valuation** — We keep our Neutral rating on ATO, and reduce our target price to $77 on our new outlook, revised estimates, and higher capital costs. Our valuation approach is based on the average four methods including NAV, dividend discount model, P/E, and EV/EBITDA multiple analysis for Atmos.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2015A	0.91A	1.36A	0.54A	0.29A	3.10A	3.10A
2016E	**0.93A**	**1.40A**	**0.67A**	**0.40A**	**3.40E**	**3.37E**
Previous	1.00A	1.38A	0.69A	0.33E	3.39E	na
2017E	**1.04E**	**1.42E**	**0.67E**	**0.41E**	**3.54E**	**3.53E**
Previous	1.01E	1.45E	0.63E	0.42E	3.50E	na
2018E	**1.07E**	**1.44E**	**0.75E**	**0.47E**	**3.73E**	**3.77E**
Previous	1.04E	1.51E	0.69E	0.53E	3.76E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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Company Focus

MDU Resources Group Inc (MDU)

Increasing TP Post De-Risking of the Assets; Maintain Neutral

- Target Price Change
- Estimate Change

Neutral	
Price (12 Dec 16)	US$29.50
Target price	US$31.00
from US$21.00	
Market Cap	US$5,761M
Expected share price return	5.1%
Expected dividend yield	2.5%
Expected total return	7.6%

- **Citi's Take** — Over the past year, MDU has significantly de-risked its asset base through the sale of the E&P, Refining and the Pronghorn gas processing assets. The company is largely comprised of its Construction services and materials segment and the utility segment, both of which trade at relatively higher multiples of earnings and EBITDA. However, post the sale and the recent run up in prices, MDU looks to be fairly priced on our valuation matrix.

- **Asset Sales** — MDU resources recently announced entry into a purchase and sale agreement to sell its 50% ownership interest in the Pronghorn natural gas processing plant located in North Dakota. MDU, through its wholly owned subsidiary WBI Energy, will receive ~$100mn in proceeds from the sale of the asset. WBI energy had acquired the asset for ~$64mn in 2012 and invested another $36 mil in the facility in the same year. Tesoro Logistics (NYSE: TLLP) announced the acquisition of the facility along with other assets in North Dakota at a purchase multiple of ~6.7x.

- **Capital Plan** — MDU released a five year capital plan of $2.2 bn ('17-'21) with ~13% allocated to construction materials and services, ~56% for the utilities businesses, 17% to midstream and 14% to other. The plan for utilities includes a 345KW, 160 mile transmission line connecting Ellendale, ND to Big Stone City, SD. The company is also working on its 2017 IRP that could generate additional investment opportunities. The midstream capital plan includes the previously announced valley pipeline. The construction business capital forecast is focused primarily on normal equipment/plant replacements and upgrades.

- **Rate Base Growth** — The announced investment should allow MDU to grow its Utility rate base by ~4% per annum through the five year forecast period. This growth comes on top of 11% CAGR for rate base over the past five years.

- **Valuation** — We maintain our Neutral rating and increase our target price to $31/share. Our target price is based on an average of four valuation methodologies. Our long term earnings valuation assumes a blended ~22x multiple on 2017E earnings. Our NAV valuation assumes 1.6x the company's current rate base. Our EV/EBITDA valuation assumes a blended ~11.5x multiple of MDU's 2017E EBITDA.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2015A	-1.59A	0.07A	0.27A	0.16A	0.92A	0.92A
2016E	**0.17A**	**0.24A**	**0.45A**	**0.27E**	**1.13E**	**1.13E**
Previous	0.17A	0.24A	0.45A	0.27E	1.12E	na
2017E	**na**	**na**	**na**	**na**	**1.37E**	**1.38E**
Previous	na	na	na	na	1.37E	na
2018E	**na**	**na**	**na**	**na**	**1.39E**	**1.52E**
Previous	na	na	na	na	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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Company Focus

NiSource Inc (NI)

Upgrade to Buy - See Upside to Valuation

- **Estimate Change**
- **Target Price Change**
- **Rating Change**

Buy	
from Neutral	
Price (12 Dec 16)	US$21.88
Target price	US$25.00
from US$27.00	
Market Cap	US$7,062M
Expected share price return	14.3%
Expected dividend yield	3.1%
Expected total return	17.4%

- **Citi's Take** — We are upgrading NI to buy based on its robust $30bn backlog of growth projects, strong regulatory environment, positive customer growth, and attractive valuation.

- **Growth** — Management estimates the rate base can grow 6-8%, based on the planning capex programs. We believe the incremental customer addition (100 ft from the main) and heating conversion (mostly in PA, IN) projects will net 0.5-1.0% customer growth per annum. We estimate potential cost reduction from combining NIPSCO and Columbia system will save ~1-2% operating costs.

- **Regulatory Update** —Both Virginia and Kentucky rate cases' decisions are expected in early 2017. Electric rate case was approved in July, and rates went into effect at the beginning of this quarter. On Nov. 1, NIPSCO submitted an IRP to the Indiana URC, which plans to reduce coal-generation from 66% today to 50% by 2023 and avoid ~$1.0bn of compliance costs related to keeping those coal units. NIPSCO expects to rely on its own resources until 2019, and open to procurement in MISO market and/or PPAs afterwards.

- **Potential Tax Reform Implications** — NiSource has ~$1.7bn of debt at the holding company that currently provides a tax shield to NI earnings. If the corporate tax rate is lowered from ~35% to ~20% (or potentially 15%), the tax shield would be reduced and this would negatively impact the earnings outlook for NI. At the regulated utilities, most of the tax reform scenarios we ran imply that cash flows modestly improve, and utility WACC increases. The practical implication to NI would be dependent on the regulatory lag between tax change and rate adjustment, amount of incremental spending approved by regulators, and other jurisdictional factors.

- **Analyst Day –** On expected Analyst Day in March 2017, we expect NI to provide additional clarity around its capital financing needs and long term strategy around IRP. Management expects NI to issue equity once its FFO/Debt ratio reaches ~13%.

- **Valuation** — We upgrade NI to Buy rating on valuation and its robust visible capex programs and strong regulatory environment, but we are reducing our target price to $25 p/s on our revised cost of capital assumptions.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2015A	0.85A	0.18A	0.06A	0.31A	1.39A	0.94A
2016E	**0.59A**	**0.08A**	**0.06A**	**0.33E**	**1.06E**	**1.07E**
Previous	0.56A	0.09A	0.07E	0.33E	1.05E	na
2017E	**0.60E**	**0.12E**	**0.09E**	**0.34E**	**1.15E**	**1.15E**
Previous	0.60E	0.11E	0.09E	0.33E	1.13E	na
2018E	**0.62E**	**0.16E**	**0.10E**	**0.37E**	**1.25E**	**1.22E**
Previous	0.59E	0.13E	0.11E	0.34E	1.16E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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Company Focus

Southwest Gas Corp (SWX)

Solid Growth on Construction Services; Maintain Neutral

■ Estimate Change

Neutral	
Price (12 Dec 16)	US$75.19
Target price	US$79.00
Market Cap	US$3,570M
Expected share price return	5.1%
Expected dividend yield	2.5%
Expected total return	7.6%

- **Citi's Take** — SWX has been expanding its construction services operations. In the utility segment, due to its geographic and historical factors, SWX relies more on customer growth rather than infrastructure replacement programs, relatively to its peers.
- **Construction Services** — We believe this is a key growth area for SWX given the strong gas utility capex outlook, favorable footprint and customer relations, potential US tax reform, and priority for SWX post reorganization. With volatile energy markets, SWX has seen increased competition for certain projects. In addition, with the reorganization, SWX may look to monetize this business in the future which further incentivizes management to deliver strong segment operating performance. While the Canadian operations are still relatively small, the foreign exchange rate fluctuation will add risk to the segment's earnings.
- **Development** — In 2015, SWX filed applications to reorganize as a holding company. The applications were approved by all three operating states, and it is expected to be effective in Jan. 2017. The reorganization separates the profiles of the regulated and non-regulated segments further, giving SWX more flexibility in financing and growth. In Oct 2016, SWX filed for a modification of its LNG facility project's costs in AZ to $80mn, which was last approved for costs up to $50mn.
- **Regulatory Update** — In May 2017, SWX is expected to receive the impact from the ACC GRC that was filed in May 2016 asking for a $32M increase in revenue (10.25% ROE and 52% equity layer).
- **Potential Tax Reform Implications** — The potential tax reform is likely to be positive for SWX's construction service businesses as lower taxes and therefore lower ratepayer bills could increase the likelihood of new spending programs. There is also likely to be some lag between a tax change and rate payer recovery within SWX's jurisdictions.
- **Valuation** — We maintain our Neutral rating on SWX, and keep our target price at $79 per share. While we have positive outlook on construction services and the regulatory environment, we believe the stock is currently fairly valued.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2015A	1.50A	0.10A	-0.02A	1.34A	2.93A	2.97A
2016E	**1.58A**	**0.14A**	**0.00A**	**1.31E**	**3.03E**	**3.16E**
Previous	1.57A	0.16A	0.03E	1.38E	3.17E	na
2017E	**1.63E**	**0.19E**	**0.17E**	**1.46E**	**3.44E**	**3.45E**
Previous	1.67E	0.18E	0.11E	1.47E	3.43E	na
2018E	**1.65E**	**0.28E**	**0.22E**	**1.52E**	**3.67E**	**3.65E**
Previous	1.70E	0.23E	0.20E	1.53E	3.68E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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Company Focus

Vectren Corp (VVC)

Favorable Outlook - Upgrading on Valuation

- **Estimate Change**
- **Target Price Change**
- **Rating Change**

Buy	
from Neutral	
Price (12 Dec 16)	US$51.48
Target price	US$58.00
from US$53.00	
Market Cap	US$4,266M
Expected share price return	12.7%
Expected dividend yield	3.3%
Expected total return	16.0%

- **Citi's Take** — We are upgrading VVC due to an attractive valuation in light of its strong growth outlook in Indiana and Ohio and robust construction services business.
- **Capex** — Rate base is expected to grow 5-6% (primarily supported by gas side infrastructure programs) as VVC spends ~$450mn per annum in utility capex through 2020. Management does not plan to issue equity as VVC and can rely on non-utility cash flows and debt financing ($250-300mn total for the period).
- **Nonutility** — We believe Infrastructure Services (VISCO) has room to grow through distribution (cast iron replacement, PIGing inspection, PHMSA safety recommendation) and transmission (integrity digs, Bakken production) spending. However, the margin has been compressed lately due to increased competition and costs. Meanwhile, Energy Services (VESCO) growth is healthy and the margin is steady.
- **Regulatory Update** — In Nov 2016, VVC submitted its two-year IRP with IURC. The plan calls for the mix to reduce from current 68% coal base load to 16% in 2036, adding renewables to the mix by 2019. VVC proposes to build a new CCGT by 2024 in Indiana. VVC has not filed an electric base rate case in 6 years, and the customer rate has been flat since 2011. The new White House Administration could alter these plans given the recent developments in key proposed appointments.
- **Potential Tax Reform Implications** — VVC is likely to be impacted by tax reform similar to other regulated utility business. Lower taxes would increase near term cash flow, increase WACC, modestly improve the capex outlook, and modestly improve valuation over time for the regulated utility assets. VVC does not have holding company debt and therefore is not impacted that this dynamic. VVC should also benefit from tax reform in its non-utility segment due to lower utility customer bills absent new spending.
- **Valuation** — We upgrade VVC to Buy rating, and increase our target price to $58 on favorable regulatory environment, strong construction services outlook, and well-laid, solid capex programs.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2015A	0.69A	0.43A	0.48A	0.79A	2.39A	2.39A
2016E	**0.58A**	**0.39A**	**0.74A**	**0.81E**	**2.52E**	**2.50E**
Previous	0.58A	0.39A	0.74A	0.81E	2.53E	na
2017E	**0.76E**	**0.47E**	**0.59E**	**0.85E**	**2.67E**	**2.66E**
Previous	0.72E	0.47E	0.68E	0.83E	2.71E	na
2018E	**0.82E**	**0.48E**	**0.63E**	**0.90E**	**2.83E**	**2.83E**
Previous	0.81E	0.47E	0.65E	0.88E	2.80E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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Atmos Energy Corp

Company description

Atmos Energy (NYSE: ATO) is an integrated natural gas company headquartered in Dallas, Texas. The company's business consists of both regulated and unregulated businesses. On the regulated side, ATO engages in natural gas distribution, which also entails a related sales operation. Covering eight states, the distribution division delivers gas to roughly three million customers. The regulated side of the business also includes pipeline and storage operations. On the unregulated side, ATO operates through various wholly-owned subsidies of Atmos Energy Holdings, Inc., providing natural gas management and transportation services. On Oct, 2016, Atmos announced it has agreed to sell its marketing business to CenterPoint Energy. The transaction is expected to close in CY 1Q17. .

Investment strategy

We rate ATO a Neutral (2). Our Neutral rating on ATO is premised on the company's growth profile and current regulatory environment. ATO generates stable earnings from a mostly regulated utility asset base with mid- to high-single-digits EPS growth and a solid dividends outlook for the coming years.

Valuation

We average our valuation methodologies to derive at a $77 target. (1) Our NAV yields a value of $76. We value regulated assets at a multiple 1.6x of rate base for utilities. These values are partially offset by the company's net debt. (2) Our DDM values the company at $79. We calculate a hypothetical dividend, based on regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation. (3) Our P/E analysis indicates multiples of 21x, and 21x for the company's distribution and transmission businesses, thus arriving at a value of $74. For our EV/EBITDA analysis, we use multiples of 11x, and 11x for the company's distribution and transmission businesses, valuing at $79 per share.

Risks

The key risks to our investment thesis on ATO are (1) Capital Investment Recovery – ATO, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery; (2) Customer Growth – An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably; (3) Capital Markets – ATO is a relatively small utility in terms of market cap and trading volumes, impacting ATO's ability to access capital markets while this type of liquidity may make it difficult for institutional investors to trade in and out of the stock; (4) Derivatives Markets – Volatile markets and dislocated hedges might cause losses on earnings or make ATO occur liability. If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve or exceed our target price.

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MDU Resources Group Inc

Company description

MDU Resources Group, Inc. is a diversified natural resources company. It has four business segments: 1) Electric and Natural Gas Utilities, 2) Construction Services, 3) Pipeline and Energy Services, and 4) Construction Materials and Contracting. The company is headquartered in Bismarck, North Dakota.

Investment strategy

We rate MDU Neutral. While we believe the company has executed its strategy well, we believe that the current market valuation largely incorporates MDU's future earnings.

Valuation

Our target price is based on an average of four valuation methodologies. Our long term earnings valuation assumes a blended ~22x multiple on 2017E earnings. Our NAV valuation assumes 1.6x the company's current rate base. Our EV/EBITDA valuation assumes a blended ~11.5x multiple of MDU's 2017E EBITDA.

Risks

Although the firm has E&P exposure, it is balanced to some degree by the regulated utility & pipeline assets. MDU is subject to at least the following risks: 1) Commodity Price Risk: Commodity prices remain volatile. Stockholders' expectations of future hydrocarbon prices will have an impact on MDU stock; 2) Execution Risk: MDU operates in capital intensive industries in which project cost overruns can put strain on the company's balance sheet; 3) Regulation Risk: Decisions made by public utility commissions and other government bodies have a material impact on the company's profitability and viability. If the negative impact on the company from any of these factors proves to be greater than we anticipate, the stock could have difficulty achieving our target price. On the other hand, we may have overestimated these risk factors and the stock could increase more than we expect.

NiSource Inc

Company description

NiSource Inc (NI) is primarily a regulated utility with an integrated network of gas distribution in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana. The company serves around 4 million customers across seven states through its two main business segments, including: 1) Gas Distribution, which delivers natural gas in several states; 2) Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCO).

Investment strategy

We rate the shares of NiSource (NI) Buy (1). We believe NI's long-term earnings are relatively stable due to diverse operations areas and constructive regulatory jurisdictions. Our estimates do not include: 1) Substantial industrial load growth at the utilities; 2) Colder-than-normal weather and faster than average customer growth; or 3) Slower than typical timeline in regulatory filing and approval process for new infrastructure projects and cost recovery mechanisms.

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Valuation

We average multiple valuation methodologies to derive our $25 target price. Our NAV yields a value of $23. We value regulated assets at a multiple of 1.6x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $26 per share. Our P/E and EV/EBITDA analyses yield values of $24 and $27 per share, respectively.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. (4) Capital Markets — Access to cheap capital markets could be limited due to the size of the company. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target.

Southwest Gas Corp

Company description

Southwest Gas (NYSE: SWX) is engaged in the business of distributing and transporting natural to gas residential, commercial and industrial clients. SWX is composed of two business segments: natural gas operations and construction services. The company provides regulated gas distribution services for 1.9 million customers in Arizona, Nevada and California. SWX also operates FERC-regulated pipelines and an unregulated pipeline construction business. In Sept. 2014, SWX acquired Link-Line Group of Companies.

Investment strategy

We rate SWX Neutral (2). Our Neutral rating is premised on the company obtaining a reasonable rate of return on its regulated asset base. Although the utility segment benefited from decoupling in Arizona, we believe that regulatory change has been fully valued. SWX's regulated customer base has been driven by population growth in Arizona and Nevada. We estimate that rate relief and slowing capital growth should help to mitigate the impact of regulatory lag in the coming years and improve return metrics for the utility segment. The construction business has potential to grow, yet competition from larger pipeline service companies could limit the growth potential of the division. We remain optimistic on the firm's growth prospects, given new acquisitions of the Canadian-based construction firms.

Valuation

We average our valuation methodologies to derive a $79 target. (1) Our NAV yields a value of $77. We value regulated assets at a multiple of 1.6x rate base. We value the construction services segment at 9x EBITDA. These values are partially offset by the company's net debt. (2) Our DDM values the company at $80. We calculate a hypothetical dividend, based on SWX's regulated capital growth, authorized returns and cost of equity. (3) Our P/E analysis uses multiples of 21x, and 18x for

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the company's natural gas and construction services. For our EV/EBITDA analysis, we use multiples of 11x, and 8x for the company's utility, pipeline and construction assets, respectively. Our P/E and EV/EBITDA analyses yield values of $70 and $82 per share. We also add COLI cash surrender estimate uplift $2.2 p/s.

Risks

The key risks to our target price include: (1) Population Growth – Housing demand and tepid economic growth within the Southwest region of the U.S. could slow to a rate below estimates or increase above our estimates; (2) Capital Investment Recovery – SWX spends capital to maintain and expand its operations. The company will continue to rely on state regulatory commissions to recover costs in excess of depreciation. Lagging process can slower, and lowers the authorized expected earnings; (3) Weather – The company's earnings vary seasonally according to demand for heating and cooling across its geographic footprint. Weather patterns out of the norm or expectation can significantly affect utility revenue; (4) Capital Markets – SWX is a relatively small utility in terms of market capitalization and daily volumes. This may affect its ability to access the capital markets. If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed. (5) Foreign Exchange – SWX has some operations outside US and could be affected by fluctuations in currency exchange.

Vectren Corp

Company description

Vectren (NYSE: VVC) is an energy holding company headquartered in Evansville, Indiana. Through its wholly owned subsidiary, Vectren Utility Holdings, VVC distributes natural gas to around 1 million customers and serves about 140,000 electric customers. VVC also operates in nonutility businesses, including infrastructure services, energy services.

Investment strategy

We rate Vectren shares Buy (1). We believe the stock is under valued as constructive regulatory environment is offset by unfavorable view of less consistent earnings in nonutility group. However, around 80% of earnings at VVC are derived from operations at the gas and electric utilities. We expect growth at the utility will be arise from infrastructure programs, which allow timely returns on capital spending and customer growth. While the nonregulated operation accounts for 20% of core earnings, we believe its infrastructure services segment has opportunities to grow for coming years.

Valuation

We average multiple valuation methodologies to derive our $58 target. (1) Our NAV yields a value of $56. We value regulated assets at a 1.6x multiple of rate base. The company's unregulated segments are valued at 9x EBITDA. These values are partially offset by the company's net debt; (2) Our DDM values the company at $61. (3) For our P/E analysis, we use multiples of 21x for the utilities and 18x for the company's unregulated assets. For our EV/EBITDA analysis, we use multiples of

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11x, and 9x for the utilities and unregulated assets. Our P/E and EV/EBITDA analyses yield values of $56 and $61, respectively.

Risks

The key risks to our investment thesis include: (1) Capital investment growth – VVC spends capital to maintain and expand its utility systems. VVC relies on adequate base rates to earn its cost of capital; (2) Concentration in the Midwest – Changes in the service area's economy and weather could reduce demand for power and gas; (3) Gas and purchased power costs – Higher costs can lead to higher working capital requirements and interest expense; (4) Nonregulated business – VVC's unregulated business could adversely be affected by weather conditions and demand in the operating areas; (5) Capital markets – VVC is a relatively small utility in terms of market cap and volume compared with other utilities. This may affect its ability to access the capital markets. (6) Customer growth – An unexpected increase or decrease in population could affect earnings substantially. If the impact on the company from any of these factors proves to be greater or less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

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Appendix A-1

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Atmos Energy Corp (ATO)
Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA

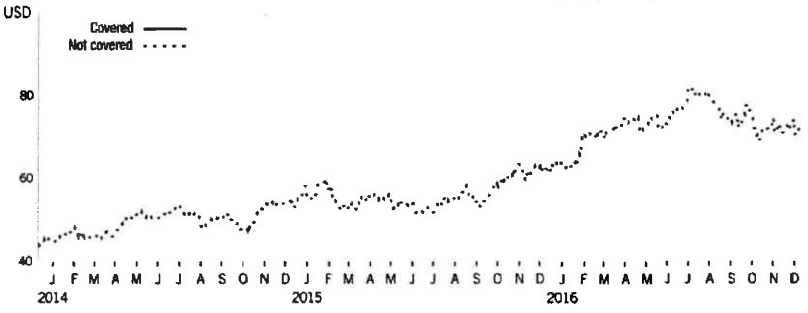
	Date	Rating	Target Price	Closing Price
1	16-Apr-14 07:52:37	2	*49.00	50.42
2	23-Jul-14 16:16:55	2	*52.00	50.94
3	25-Jan-15 19:11:38	2	*58.00	58.66
4	27-Jul-16 00:45:08	2	*81.00	78.84

*Indicates Change

Rating/target price changes above reflect Eastern Time

Atmos Energy Corp (ATO)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Faisel Khan, CFA



*Indicates Change

Rating/target price changes above reflect Eastern Time

Vectren Corp (VVC)
Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA

	Date	Rating	Target Price	Closing Price
1	12-Feb-14 22:18:48	2	*39.00	38.56
2	16-Apr-14 07:52:38	2	*40.00	40.09
3	23-Dec-14 13:40:27	2	*44.00	44.76
4	27-Jul-16 00:45:08	2	*53.00	50.95

*Indicates Change

Rating/target price changes above reflect Eastern Time

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Vectren Corp (VVC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA

*Indicates Change

Rating/target price changes above reflect Eastern Time

NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA

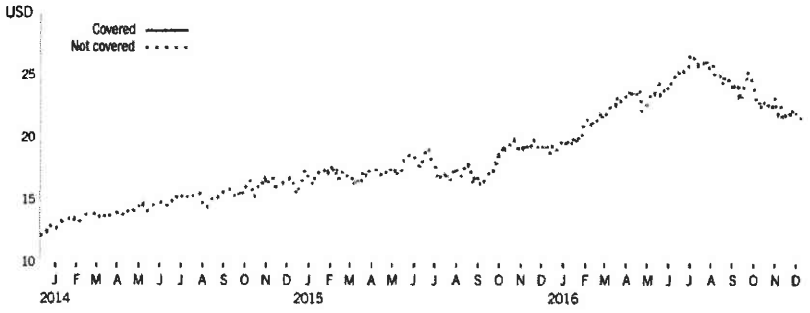
	Date	Rating	Target Price	Closing Price
1	16-Apr-14 07:52:37	2	*14.15	14.26
2	23-Jul-14 16:16:55	2	*15.72	15.49
3	19-Apr-15 23:00:00	2	*18.08	16.96
4	27-Jul-16 00:45:08	2	*27.00	25.46

*Indicates Change

Rating/target price changes above reflect Eastern Time

NiSource Inc (NI)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA



*Indicates Change

Rating/target price changes above reflect Eastern Time

Southwest Gas Corp (SWX)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA

	Date	Rating	Target Price	Closing Price
1	23-Jul-14 16:16:55	2	*54.00	51.62
2	25-Jan-15 19:13:09	2	*62.00	62.84
3	27-Jul-16 00:45:08	2	*79.00	76.35

*Indicates Change

Rating/target price changes above reflect Eastern Time

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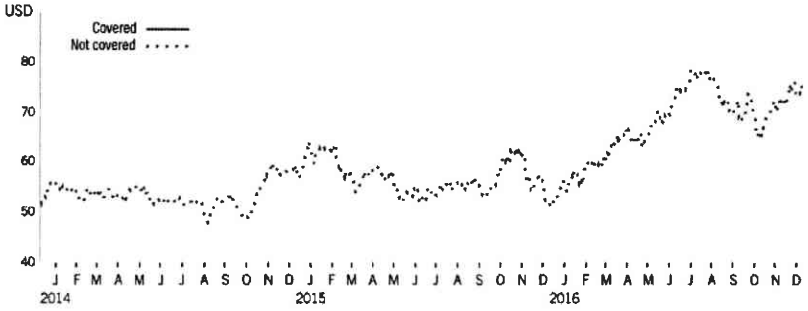
Southwest Gas Corp (SWX)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA



*Indicates Change

Rating/target price changes above reflect Eastern Time

MDU Resources Group Inc (MDU)
Ratings and Target Price History
Fundamental Research

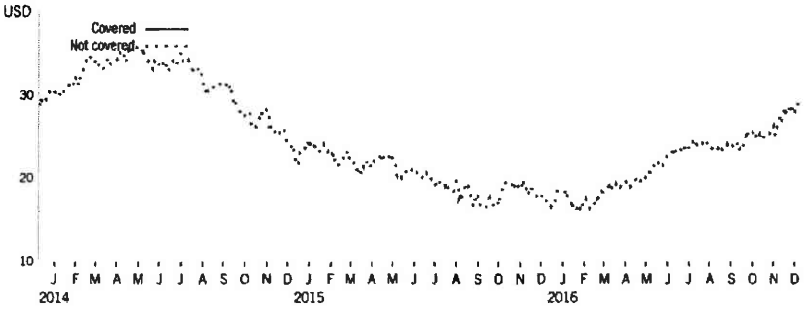
Analyst: Faisel Khan, CFA

	Date	Rating	Target Price	Closing Price
1	04-Aug-15 01:29:55	2	*21.00	17.38

*Indicates Change

Rating/target price changes above reflect Eastern Time

MDU Resources Group Inc (MDU)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisel Khan, CFA



*Indicates Change

Rating/target price changes above reflect Eastern Time

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	12 Month Rating			*Catalyst Watch*		
Data current as of 30 Sep 2016	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	47%	39%	14%	0%	100%	0%
% of companies in each rating category that are investment banking clients	66%	61%	60%	0%	64%	0%

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December 14, 2016

Goldman Sachs

INITIATION

NiSource Inc. (NI)

Neutral

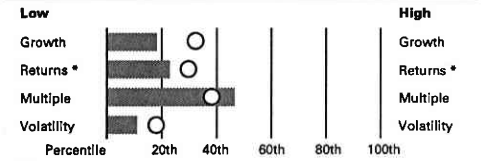
Equity Research

Fairly-valued growing utility holding company; Initiate at Neutral

Investment view

We initiate coverage of NiSource Inc. (NI) with 7% upside to our 12-month price target of $23. Our Neutral rating reflects (1) a slightly above average 2016-2019 EPS CAGR of 6% – at the high end of 4-6% guidance – supported by favorable regulatory recovery mechanisms, (2) very modest 2017 equity issuances given weak 2016 credit metrics, and (3) valuation. NI currently trades at 18.2/17.4x on 2018/2019 EPS as compared to small/mid-cap electric companies which trade at 17.4/16.9x and gas utilities which trade at 20.9/19.9x. We believe NI warrants a valuation between pure-play gas and pure-play electric utilities given its c.65% gas composition.

Investment Profile



■ NiSource Inc. (NI)

○ Americas Power & Utilities Peer Group Average

* Returns = Return on Capital

For a complete description of the investment profile measures please refer to the disclosure section of this document.

Core drivers of growth

We expect NI to see strong EPS growth of c.10% from 2016 to 2017 due to implementation of base rate increases across multiple jurisdictions. Our 2017 estimate appears above consensus and at the upper end of NI's guidance range. We expect 2016-2019 annual EPS growth of 6%, roughly in-line with gas utilities and above small/mid-cap electric utilities at c.5% – which implies an EPS slow-down for NI after 2017. Favorable regulatory recovery mechanisms for a large portion of NI's annual capital spending program – over $1.0bn out of $1.5bn – result in revenue increases with limited regulatory lag, which drives EPS growth. NI valuation appears fair considering its business mix and growth prospects.

Key data	Current
Price ($)	22.10
12 month price target ($)	23.00
Market cap ($ mn)	7,132.5
Dividend yield (%)	2.9
Net margin (%)	7.9
Debt/total capital (%)	67.0

	12/15	12/16E	12/17E	12/18E
Revenue ($ mn)	4,651.8	4,360.2	4,545.9	4,671.6
EPS ($)	0.93	1.07	1.18	1.22
P/E (X)	19.0	20.7	18.7	18.2
EV/EBITDA (X)	9.5	10.4	9.8	9.7
ROE (%)	3.7	8.8	9.5	9.3

	9/16	12/16E	3/17E	6/17E
EPS ($)	0.06	0.33	0.70	0.11

Risks to the investment case

Key risks include regulation, customer demand, and financing needs.

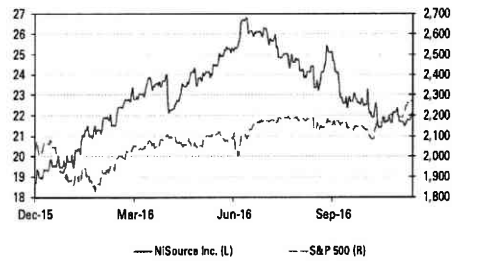
Valuation

We derive our $23, 12-month price target by using a blended gas and electric multiple of 19.0x on 2018 EPS.

Industry context

We maintain our Neutral coverage view on Regulated Utilities.

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(4.9)	(11.5)	18.4
Rel. to S&P 500	(10.9)	(19.0)	4.9

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12/13/2016 close.

INVESTMENT LIST MEMBERSHIP
Neutral

Coverage View: Neutral

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NiSource Inc.: Summary Financials

Profit model ($ mn)	12/15	12/16E	12/17E	12/18E
Total revenue	4,651.8	4,360.2	4,545.9	4,671.6
Cost of goods sold	(1,643.7)	(1,285.7)	(1,285.7)	(1,291.2)
SG&A	(1,426.1)	(1,395.2)	(1,428.3)	(1,459.2)
R&D	0.0	0.0	0.0	0.0
Other operating profit/(expense)	(256.1)	(240.6)	(258.8)	(272.4)
ESO expense	0.0	0.0	0.0	0.0
EBITDA	**1,325.9**	**1,438.7**	**1,573.1**	**1,648.8**
Depreciation & amortization	(524.4)	(544.9)	(582.5)	(621.0)
EBIT	**801.5**	**893.8**	**990.6**	**1,027.8**
Net interest income/(expense)	(380.2)	(353.2)	(375.9)	(382.6)
Income/(loss) from associates	0.0	0.0	0.0	0.0
Others	(81.4)	(1.5)	0.0	0.0
Pretax profits	**339.9**	**539.2**	**614.7**	**645.2**
Provision for taxes	(141.3)	(200.4)	(227.4)	(238.7)
Minority interest	(15.6)	0.0	0.0	0.0
Net income pre-preferred dividends	**183.0**	**338.7**	**387.3**	**406.5**
Preferred dividends	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	**183.0**	**338.7**	**387.3**	**406.5**
Post tax exceptionals	115.8	4.3	0.0	0.0
Net income (post-exceptionals)	**298.8**	**343.0**	**387.3**	**406.5**
EPS (basic, pre-except) ($)	**0.58**	**1.05**	**1.18**	**1.22**
EPS (diluted, pre-except) ($)	**0.57**	**1.05**	**1.18**	**1.22**
EPS (basic, post-except) ($)	**0.94**	**1.07**	**1.18**	**1.22**
EPS (diluted, post-except) ($)	**0.93**	**1.07**	**1.18**	**1.22**
Common dividends paid	(263.4)	(205.6)	(221.0)	(236.1)
DPS ($)	0.83	0.64	0.67	0.71
Dividend payout ratio (%)	144.1	60.7	57.0	58.1

Growth & margins (%)	12/15	12/16E	12/17E	12/18E
Sales growth	(28.1)	(6.3)	4.3	2.8
EBITDA growth	(25.9)	8.5	9.3	4.8
EBIT growth	(32.3)	11.5	10.8	3.8
Net income (pre-except) growth	(65.5)	85.1	14.3	5.0
EPS growth	(65.8)	83.0	12.0	3.2
Gross margin	64.7	70.5	71.7	72.4
EBITDA margin	28.5	33.0	34.6	35.3
EBIT margin	17.2	20.5	21.8	22.0

Cash flow statement ($ mn)	12/15	12/16E	12/17E	12/18E
Net income	302.1	349.3	387.3	406.5
D&A add-back (incl. ESO)	524.4	544.9	582.5	621.0
Minority interest add-back	0.0	0.0	0.0	0.0
Net (inc)/dec working capital	164.1	(52.0)	0.0	0.0
Other operating cash flow	466.2	(9.6)	197.4	208.7
Cash flow from operations	**1,456.8**	**832.6**	**1,167.2**	**1,236.2**
Capital expenditures	(1,360.7)	(1,453.6)	(1,460.3)	(1,473.8)
Acquisitions	0.0	0.0	0.0	0.0
Divestitures	4.5	3.4	0.0	0.0
Others	3,301.1	(88.2)	0.0	0.0
Cash flow from investing	**1,944.9**	**(1,538.4)**	**(1,460.3)**	**(1,473.8)**
Dividends paid (common & pref)	(263.4)	(205.6)	(221.0)	(236.1)
Inc/(dec) in debt	(3,122.1)	895.2	293.2	445.7
Other financing cash flows	(25.6)	15.7	221.0	28.0
Cash flow from financing	**(3,411.1)**	**705.3**	**293.1**	**237.6**
Total cash flow	**(9.4)**	**(0.5)**	**0.0**	**0.0**

Balance sheet ($ mn)	12/15	12/16E	12/17E	12/18E
Cash & equivalents	15.5	15.0	15.0	15.0
Accounts receivable	660.0	471.0	471.0	471.0
Inventory	536.6	533.7	533.7	533.7
Other current assets	365.1	357.7	357.7	357.7
Total current assets	**1,577.2**	**1,377.4**	**1,377.4**	**1,377.4**
Net PP&E	12,111.5	13,085.2	13,963.0	14,815.8
Net intangibles	1,690.7	1,690.7	1,690.7	1,690.7
Total investments	194.6	207.0	207.0	207.0
Other long-term assets	1,918.5	1,937.2	1,937.2	1,937.2
Total assets	**17,492.5**	**18,297.5**	**19,175.3**	**20,028.1**
Accounts payable	433.4	352.2	352.2	352.2
Short-term debt	567.4	769.7	435.9	730.9
Other current liabilities	1,223.0	917.8	917.8	917.8
Total current liabilities	**2,223.8**	**2,039.7**	**1,705.9**	**2,000.9**
Long-term debt	6,382.2	7,082.9	7,709.9	7,860.6
Other long-term liabilities	5,043.0	5,302.9	5,500.4	5,709.1
Total long-term liabilities	**11,425.2**	**12,385.8**	**13,210.3**	**13,569.7**
Total liabilities	**13,649.0**	**14,425.5**	**14,916.2**	**15,570.6**
Preferred shares	**0.0**	**0.0**	**0.0**	**0.0**
Total common equity	**3,843.5**	**3,871.9**	**4,259.2**	**4,457.5**
Minority interest	**0.0**	**0.0**	**0.0**	**0.0**
Total liabilities & equity	**17,492.5**	**18,297.5**	**19,175.3**	**20,028.1**

Additional financials	12/15	12/16E	12/17E	12/18E
Net debt/equity (%)	180.4	202.4	190.9	192.4
Interest cover (X)	2.1	2.5	2.6	2.7
Inventory days	128.0	151.9	151.5	150.9
Receivable days	67.9	47.3	37.8	36.8
BVPS ($)	12.02	11.99	12.79	13.33
ROA (%)	0.9	1.9	2.1	2.1
CROCI (%)	5.9	5.2	6.1	6.0
Dupont ROE (%)	**4.8**	**8.7**	**9.1**	**9.1**
Margin (%)	3.9	7.8	8.5	8.7
Turnover (X)	0.3	0.2	0.2	0.2
Leverage (X)	4.6	4.7	4.5	4.5
Free cash flow per share ($)	0.30	(1.93)	(0.89)	(0.71)
Free cash flow yield (%)	1.7	(8.7)	(4.0)	(3.2)

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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PM Summary: Favorable recovery mechanisms support growth, but valuation drives our Neutral rating

We initiate on NiSource Inc. (NI) with a Neutral rating and a 12-month price target of $23, representing 7% total return. NI consists of rate-regulated natural gas and electric utilities, which operate across seven states. We believe favorable recovery mechanisms for NI's c.$1.5bn annual capital spending program allow NI to grow faster than our coverage, but NI's growth profile is already reflected in NI's stock price, driving our Neutral rating. We note that natural gas utilities presently trade at a premium to small/mid-cap electric companies, supporting a higher valuation of NI when comparing against pure-play electric companies – as NI's business consists roughly of 65% gas.

We expect favorable regulatory recovery mechanisms for NI's c.$1.5bn annual capital spending program to drive a 6% 2016-2019 EPS CAGR, above utility coverage growth of 5% and at the high-end of NI's 4-6% guidance range. NI provided 2017 capital spending guidance of c.$1.5bn, in-line with 2016 guidance. We expect total capital spending beyond 2017 to remain consistent with 2016/2017 levels, although individual spending programs may fluctuate over time. Over $1.0bn of the c.$1.5bn annual capital spending classifies as growth/tracker capital spending, which receives revenue recovery with limited regulatory lag.

Implementation of base rate cases in the near-term supports 2016/2017 EPS growth with modestly tapering growth in the latter part of our forecast. Base rate filings at various points in the regulatory process across various jurisdictions help drive 2016/2017 EPS growth, but we expect continued growth beyond 2017 driven by capital spending eligible for tracker recovery and annual base rate filings in PA.

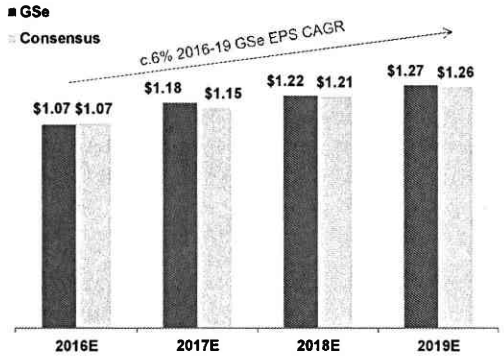
We expect very modest 2017 equity needs for NI due to a weaker leverage profile compared to peers in 2016. Although NI has not communicated specific plans to address its equity needs, we assume NI issues approximately $200mm in equity in the latter half of 2017, representing approximately 3.1% of its current market capitalization, to fund capital spending requirements and to improve its credit metrics.

Our 2018/2019 estimates appear in-line with consensus and we believe valuation warrants a Neutral rating. Our valuation utilizes a blended multiple derived from the operating income contribution of the gas and electric segments. We assume a premium of 0.5x above our 2018 P/E electric group multiple of 16.75x given above peer average growth. We assume a 2018 P/E multiple for the gas segment of 20.0x, in-line with current trading multiples for gas utilities. Based on the contribution of NI's two segments, we apply a blended multiple of 19.0x to our 2018 EPS estimate of $1.22, to arrive at our 12-month price target of $23.

We note that gas utility valuations remain near all-time highs on an absolute and relative basis. While gas utilities have typically traded at a 1.0-1.5x premium relative to regulated electric utilities, the premium has widened in 2015 and 2016. We view current gas utility valuations as a slight headwind for NI, but we do not see an immediate catalyst that may compress the premium.

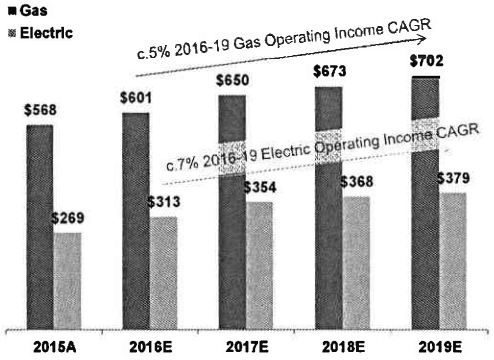
NI in Pictures

Exhibit 1: We expect 6% annual EPS growth driven by...
GS vs. Consensus, 2016E-2019E



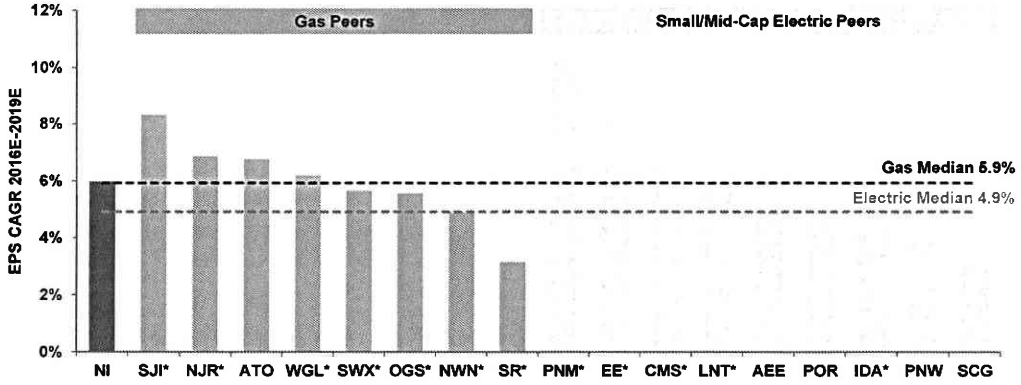
Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 2: ...growth at both the gas and electric segments
Operating Income by segment, 2015A-2019E



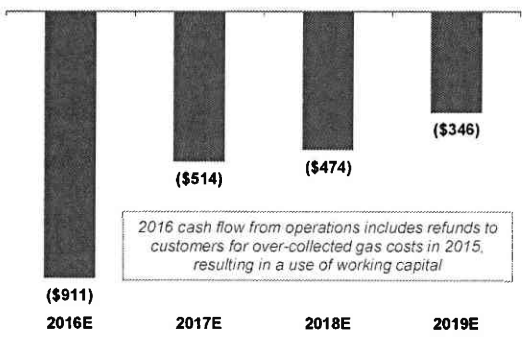
Source: Goldman Sachs Global Investment Research.

Exhibit 3: NI EPS growth comes in line with average gas utility and slightly above small/mid-cap electric growth
Gas utilities and small/mid-Cap electric utilities EPS CAGR, 2016E-2019E



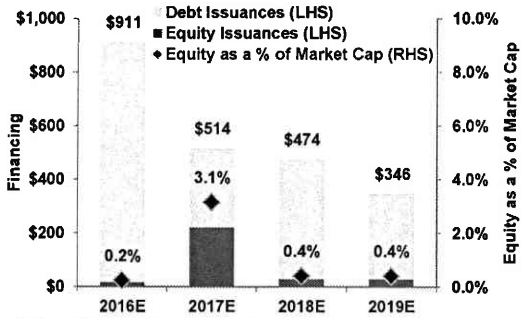
Source: FactSet, Goldman Sachs Global Investment Research. *For non-covered companies we use consensus estimates

Exhibit 4: FCF improves, but financing needs exist...
CFO-CFI-Dividends ($mm), 2016E-2019E



Source: Goldman Sachs Global Investment Research.

Exhibit 5: ...requiring modest equity issuances in 2017
Equity and debt financing, 2016E-2019E



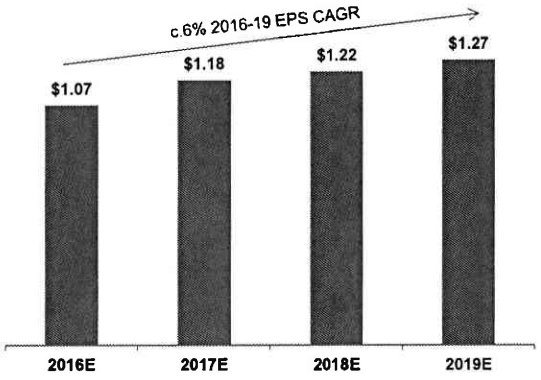
	2016E	2017E	2018E	2019E
FFO/Debt	13.9%	14.7%	14.7%	15.0%
Debt/Capital	55.4%	54.0%	53.8%	53.2%

Source: FactSet, Goldman Sachs Global Investment Research.

Favorable regulatory recovery mechanisms for NI's capital spending program drives earnings growth...

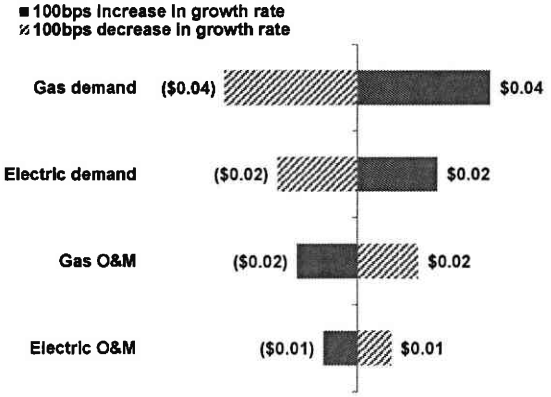
NI announced its 2017 capital spending expectation of $1.5bn during its 3Q 2016 call, consistent with its capital spending expectation for 2016. Although NI has not provided multi-year capital spending guidance, we expect NI to continue to spend c.$1.5bn each year on utility operations given (1) visibility of certain approved multi-year spending programs and (2) NI previously guided towards $30bn in long-term investment opportunities.

Exhibit 6: We expect annual growth of 6% for NI...
Consolidated EPS 2016E-2019E



Source: Goldman Sachs Global Investment Research.

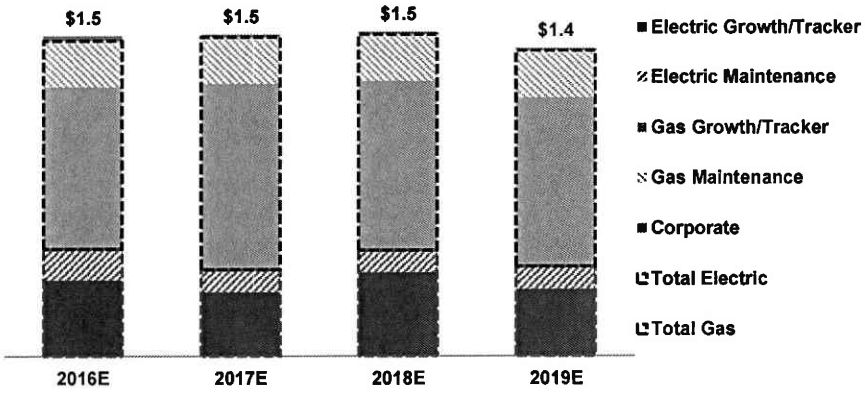
Exhibit 7: ...with consolidated results exhibiting more sensitivity to gas operations than electric
Consolidated 2018E EPS sensitivities



Source: Goldman Sachs Global Investment Research.

Over $1.0bn of capital spending classifies as growth/tracker, which allow NI to receive revenue increases with limited regulatory lag. Although certain investment programs defer a portion of eligible infrastructure investment until the next rate case, favorable recovery mechanisms allow NI to recover on its investments without filing full base rate cases. According to the company, NI's average lag on its infrastructure program is approximately 9 months.

Exhibit 8: NI capital spending, primarily consisting of growth projects and projects eligible for tracking mechanisms with limited regulatory lag, drive earnings growth
Capital spending by type and by segment ($bn), 2016E-2019E



Source: Company data, Goldman Sachs Global Investment Research.

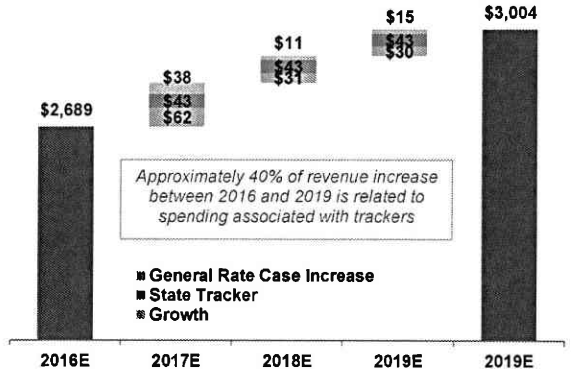
Exhibit 9: We expect NI to heavily utilize tracker programs for future capital spending
Recovery mechanism and annual investment by company/program

	Company/Program	Annual Program Investment	Recovery Mechanism	Approximate Lag
Gas	Columbia Gas of OH	$175-240mm	Tracked	5-17 months
	Columbia Gas of PA	$150-210mm	Rate Case (Forward Test Year)	N/A
	NIPSCO Gas	$100-130mm	Tracked	6-12 months
	Columbia Gas of MA	$50-75mm	Tracked	0-5 months
	Columbia Gas of VA	$25-35mm	Tracked	N/A
	Columbia Gas of KY	$10-20mm	Tracked	N/A
	Columbia Gas of MD	$5-15mm	Tracked	N/A
Electric	Environmental (Flue Gas Desulfurization, MATS)	~$30m in 2016	Tracked/Rate Base	3-4 months
	Infrastructure Modernization	~$120-220mm	Tracked	6-12 months
	Transmission Project I (Reynolds-Topeka)	~$50-140mm	FERC Approved Formula Rates	N/A
	Transmission Project II – Partnership (Greentown-Reynolds)	~$25-70mm	FERC Approved Formula Rates	N/A

Source: Company data, Goldman Sachs Global Investment Research

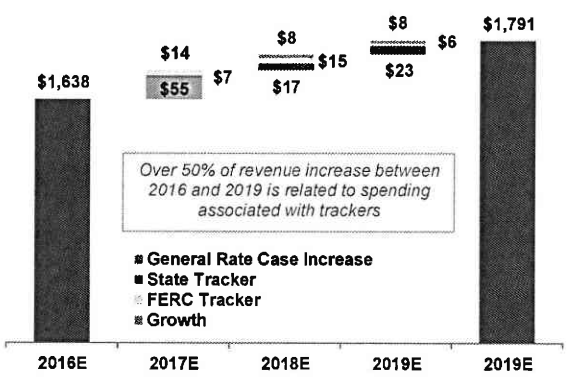
We anticipate much of NI's growth comes from revenue rate increases associated with investments eligible for tracker recovery and consistent base rate filings in PA. We assume base rate case filings only in PA given its forward test year structure, and as several jurisdictions have recently implemented new rates or in the process of doing so. Much of NI's longer-term growth comes from revenue recovery related to investments eligible for tracker recovery, which do not require time-consuming full rate case filings.

Exhibit 10: We expect gas revenues to grow through tracking mechanisms and steady rate cases in PA...
Bridge between 2016E and 2019E gas revenues



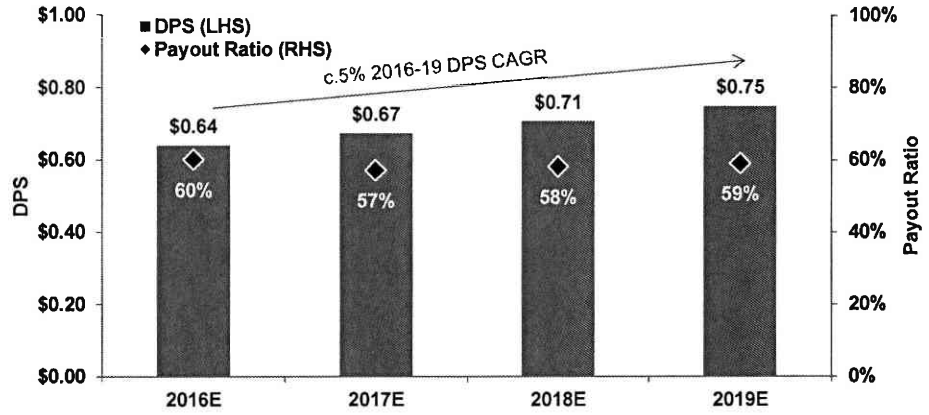
Source: Goldman Sachs Global Investment Research.

Exhibit 11: ...while electric revenues primarily grow through increases associated with trackers...
Bridge between 2016E and 2019E electric revenues



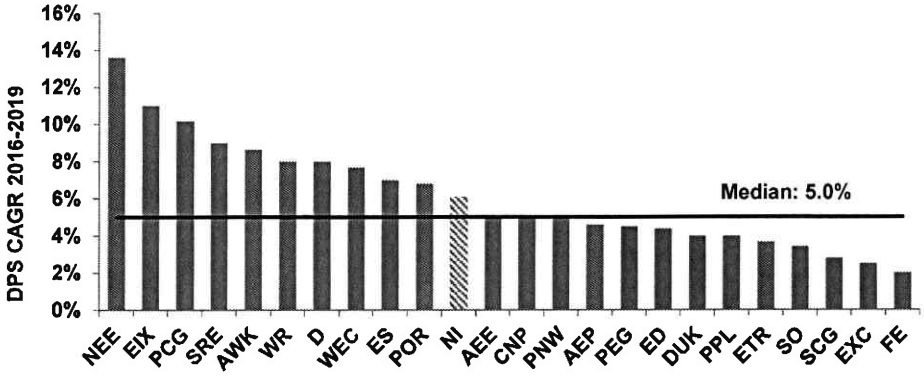
Source: Goldman Sachs Global Investment Research.

Exhibit 12: ...allowing NI to grow its dividend 5-6% annually with a dividend payout ratio near 60%
DPS and payout ratio, 2016E-2019E



Source: Goldman Sachs Global Investment Research.

Exhibit 13: ...slightly above average for our coverage...
Utility coverage DPS CAGR 2016E-2019E

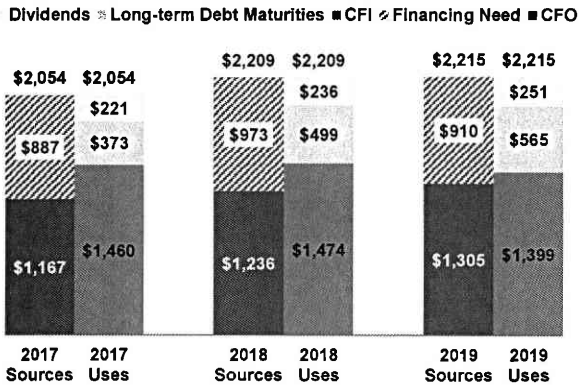


Source: Goldman Sachs Global Investment Research.

...but relatively weaker 2016 credit metrics signal modest equity issuance in late 2017 to meet funding shortfall

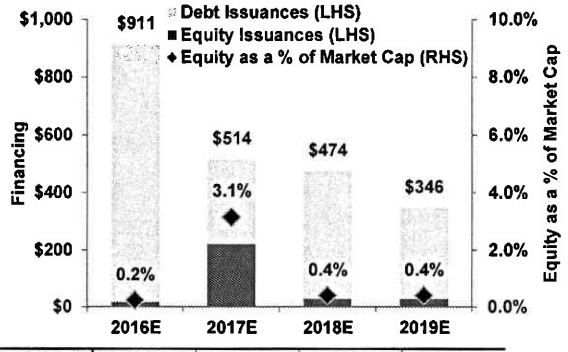
We forecast NiSource cash flow from operations does not fully cover its capital spending program, necessitating debt and equity financing. We anticipate NI will meet its financing need primarily through debt consistent with historical financing trends. However, in addition to consistent equity issuance through a dividend reinvestment plan, we also assume $200mm of equity issuance in 2017, approximately 3.1% of NI's current market capitalization, due to a leverage profile in 2016 that appears weaker than peers.

Exhibit 14: Although the gap between CFI and CFO diminishes, we project external financing needs...
Sources and Uses of Cash ($mm), 2017E-2019E



Source: Goldman Sachs Global Investment Research.

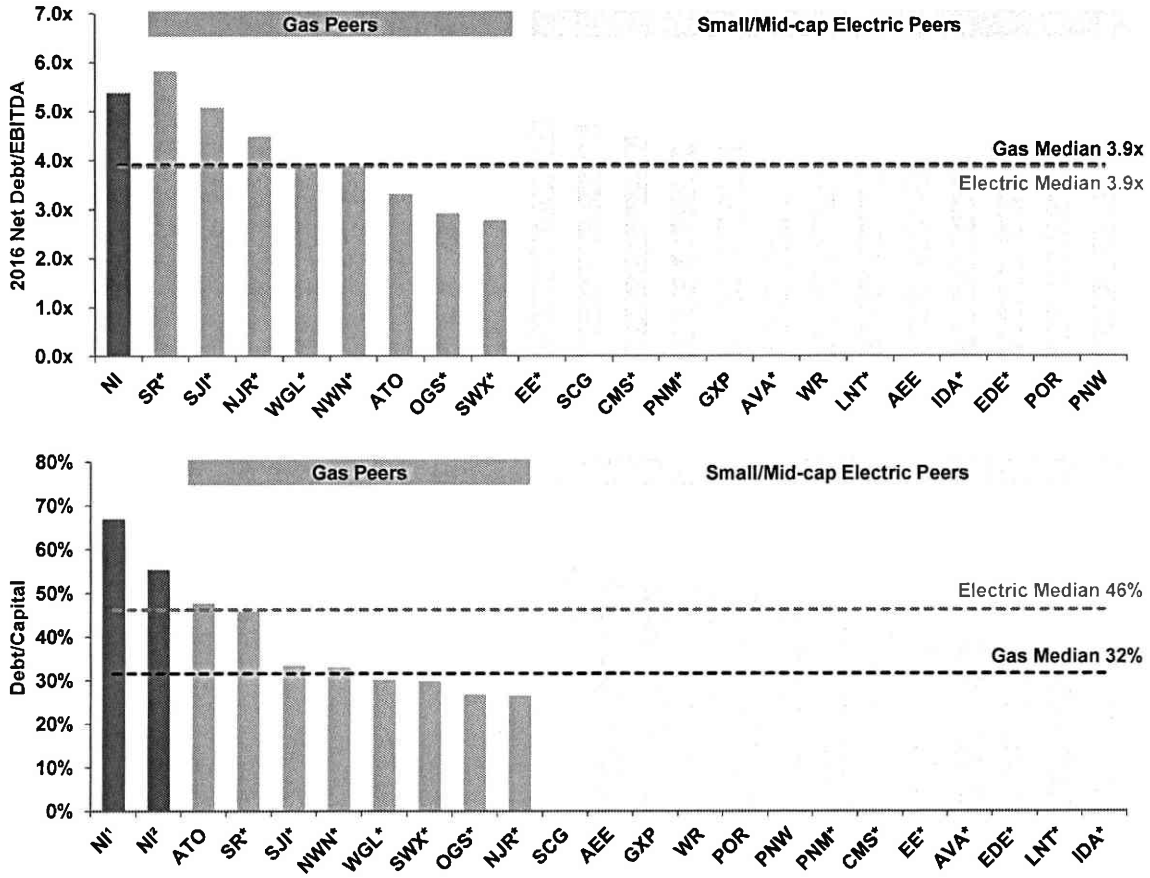
Exhibit 15: ...and include a modest level of equity issuances in 2017...
Debt/Capital and FFO/Debt, 2016E-2019E



	2016E	2017E	2018E	2019E
FFO/Debt	13.9%	14.7%	14.7%	15.0%
Debt/Capital	55.4%	54.0%	53.8%	53.2%

Source: Goldman Sachs Global Investment Research.
Note: Debt/Capital includes some credit agency adjustments.

Exhibit 16: ...given NI's relatively higher leverage compared to peers
Net Debt/2016E EBITDA and 2016E Net Debt/Capital for gas utilities and small/mid-cap electric utilities



Source: FactSet, Goldman Sachs Global Investment Research.
1. Excludes credit agency adjustments.
2. Includes credit agency adjustments such as the inclusion of deferred income taxes as a component of total capital.
**For non-covered companies we use consensus estimates*

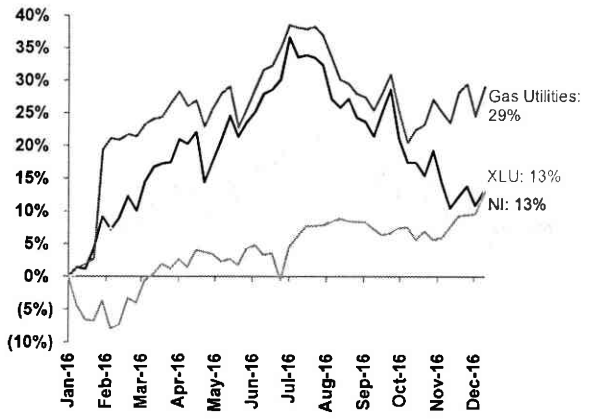
NI's exposure to natural gas distribution warrants a higher multiple compared to predominantly electric businesses

Through much of the year, NI has lagged gas utilities, but outperformed relative to the XLU, consistent with its business mix, but has diverged from gas utilities recently. NI has underperformed the XLU by c.15bps YTD, and underperformed gas utilities by c.1560bps.

We note that gas utility valuation remains near peak levels on an absolute and relative basis. While gas utilities have typically traded at a 1.0-1.5x premium relative to regulated electric utilities on FY2 P/E, the premium has increased in 2015 and 2016. Additionally, gas utilities have historically traded at approximately 2.5x premium to the S&P 500 when 10-year Treasuries yield between 2.0-3.0%, but currently trade closer to a 4.0x premium. We view current gas utility valuations as a slight headwind for NI, but we do not see an immediate catalyst that may compress the premium.

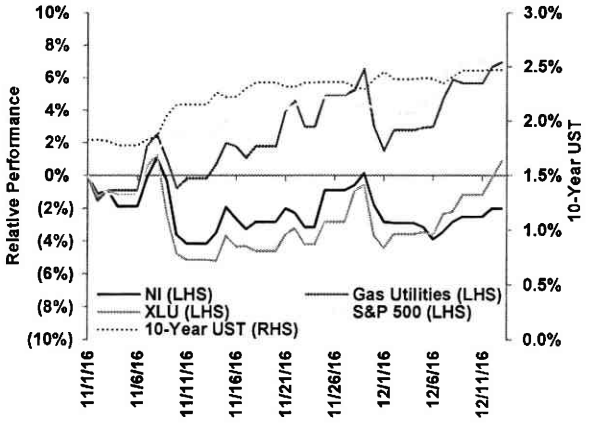
We derive our 12-month price target of $23 by applying a blended gas and electric P/E multiple of 19.00x on 2018E EPS. We expect total return to be approximately 7%, slightly above our average coverage return of 6%. We assume a premium electric group multiple of 0.5x above our 2018 P/E group multiple of 16.75x given above peer average growth. We assume a 2018 P/E multiple for the gas segment in-line with current trading multiples for gas utilities of 20.0x. Based on the contribution of the two segments (c.35%/65% of operating income respectively), we apply a blended multiple of 19.0x to our 2018 EPS estimate of $1.22, to derive our 12-month price target of $23.

Exhibit 17: NI performed in-line with the XLU but underperformed gas utilities year-to-date...
Relative performance YTD of NI, XLU, gas utilities, and S&P 500



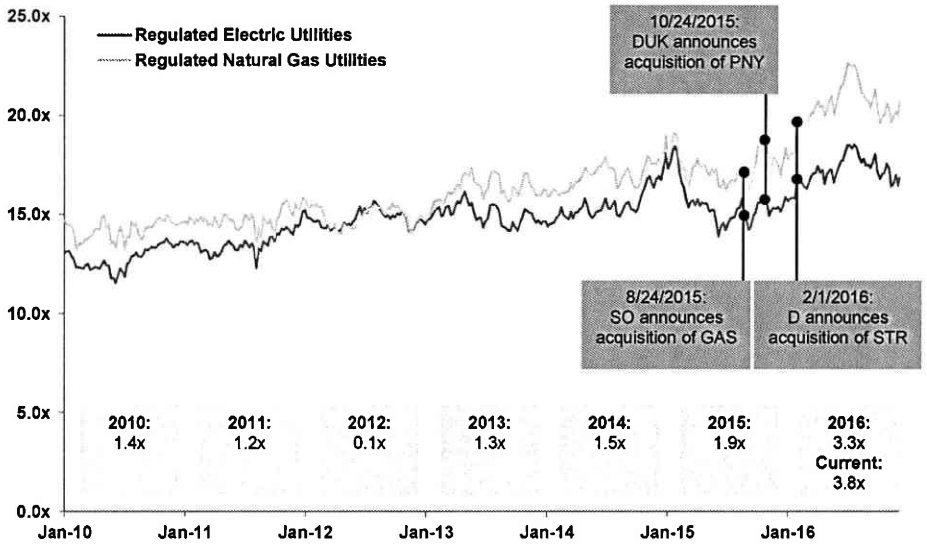
Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 18: ...and lagged both gas utilities and XLU since November 1, 2016, when 10-year UST yields increased
Relative performance since 11/1/2016 of NI, XLU, gas utilities, and S&P 500, and 10-Year UST yield



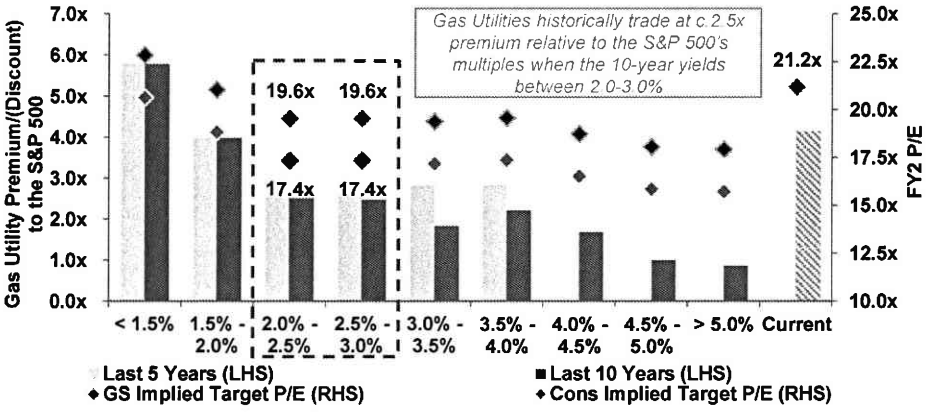
Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 19: While gas utilities historically trade at a premium to regulated electric utilities, this premium expanded in 2015/2016...
Gas utilities and regulated electric utilities FY2 P/E multiples



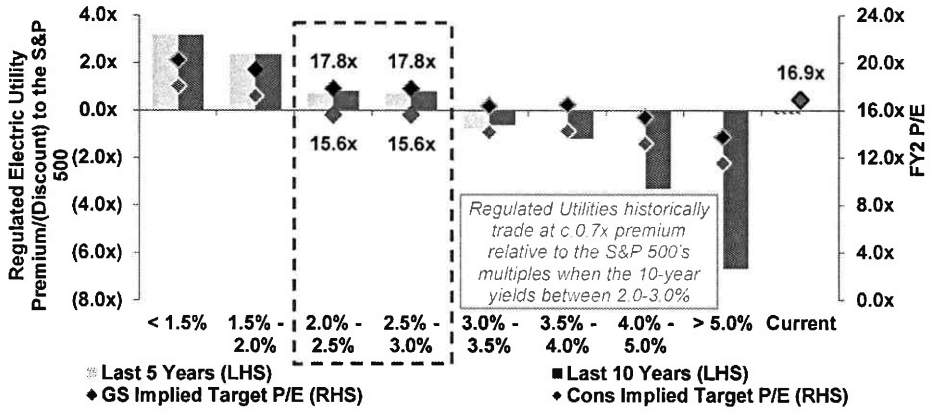
Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 20: ...and gas utilities currently trade at a higher premium to the S&P 500 than they have historically when the 10-year UST yields were 2.0-3.0%
Gas utility premium/(discount) to S&P 500 in different interest rate environments



Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 21: But Regulated Electric Utilities currently trade at a premium to the S&P 500 consistent with historical trends when the 10-year UST yields were 2.0-3.0%
Electric Utility premium/(discount) to S&P 500 in different interest rate environments



Source: FactSet, Goldman Sachs Global Investment Research.

Exhibit 22: NI trades at a slight discount to natural gas focused peers...
Gas utilities comparable analysis

Gas Utilities Comparable Analysis																	
			Close	12-Mo	Tot Ret	EPS				EPS CAGR	P/E				Dividend	DPS CAGR
Company	Ticker	Rating	12/13/16	PT	to Target	2016	2017	2018	2019	2016-19E	2016	2017	2018	2019	Yield	2016-18E
Atmos Energy	ATO	Neutral	$73.95	$67	(7%)	$3.29	$3.45	$3.63	$4.00	6.8%	22.5x	21.4x	20.3x	18.5x	2.3%	9.1%
NiSource Inc.	NI	Neutral	$22.10	$23	7%	$1.07	$1.18	$1.22	$1.27	6.0%	20.7x	18.7x	18.2x	17.4x	3.0%	5.1%
New Jersey Resources	NJR	NC	$36.35	--	--	$1.61	$1.71	$1.85	$1.97	6.9%	22.6x	21.3x	19.6x	18.5x	2.8%	6.4%
Northwest Natural Gas Co	NWN	NC	$61.30	--	--	$2.21	$2.33	$2.48	$2.55	4.9%	27.7x	26.3x	24.7x	24.0x	3.1%	0.7%
ONE Gas Inc.	OGS	NC	$63.47	--	--	$2.63	$2.79	$2.94	$3.09	5.6%	24.1x	22.7x	21.6x	20.5x	2.2%	9.8%
South Jersey Industries	SJI	NC	$34.65	--	--	$1.34	$1.35	$1.57	$1.70	8.3%	25.9x	25.7x	22.1x	20.4x	3.2%	3.5%
Spire Inc.	SR	NC	$63.85	--	--	$3.42	$3.54	$3.67	$3.75	3.1%	18.7x	18.0x	17.4x	17.0x	3.3%	5.5%
Southwest Gas Corporation	SWX	NC	$76.64	--	--	$3.15	$3.46	$3.66	$3.71	5.7%	24.4x	22.1x	21.0x	20.7x	2.4%	10.2%
WGL Holdings	WGL	NC	$78.87	--	--	$3.27	$3.37	$3.62	$3.92	6.2%	24.1x	23.4x	21.8x	20.1x	2.5%	4.4%
Gas Utility Mean					(7%)					5.9%	23.7x	22.5x	20.9x	19.9x	2.8%	6.5%
Gas Utility Median					(7%)					5.7%	24.1x	22.1x	21.0x	20.4x	2.8%	6.4%

Source: FactSet, Goldman Sachs Global Investment Research.
Note: Mean and Median exclude NI and WGL. Not Covered companies are based on consensus estimates.

Exhibit 23: ...but at a premium relative to small/mid-cap electric peers
Small/mid-cap electric utility comparable analysis

Small/Mid-Cap Electric Utility Comparable Analysis																
			Close	12-Mo	Tot Ret	EPS				EPS CAGR	P/E				Dividend	DPS CAGR
Company	Ticker	Rating	12/13/16	PT	to Target	2016	2017	2018	2019	2016-19E	2016	2017	2018	2019	Yield	2016-18E
Ameren	**AEE**	**Neutral**	**$51.92**	**$50**	**(0%)**	**$2.67**	**$2.73**	**$2.97**	**$3.09**	**4.9%**	**19.4x**	**19.0x**	**17.5x**	**16.8x**	**3.3%**	**5.0%**
Avista	AVA	NC	$42.63	--	--	$2.07	$2.17	$2.30	--	--	20.5x	19.6x	18.6x	--	3.2%	4.3%
CMS Energy	CMS	NC	$41.53	--	--	$2.02	$2.17	$2.34	$2.50	7.3%	20.6x	19.1x	17.8x	16.6x	3.0%	7.2%
Empire District Electric Company	EDE	NC	$34.20	--	--	$1.48	$1.63	$1.64	--	--	23.1x	21.0x	20.9x	--	3.0%	--
El Paso Electric	EE	NC	$47.70	--	--	$2.34	$2.51	$2.73	$2.95	8.0%	20.4x	19.0x	17.5x	16.2x	2.6%	--
Great Plains Energy	**GXP**	**Not Rated**	**$27.55**	**--**	**--**	**$1.65**	**$1.83**	**$1.90**	**--**	**--**	**16.7x**	**15.0x**	**14.5x**	**--**	**3.9%**	**8.5%**
IDACORP	IDA	NC	$81.14	--	--	$3.88	$4.05	$4.21	$4.38	4.1%	20.9x	20.0x	19.3x	18.5x	2.7%	7.4%
NiSource Inc.	**NI**	**Neutral**	**$22.10**	**$23**	**7%**	**$1.07**	**$1.18**	**$1.22**	**$1.27**	**6.0%**	**20.7x**	**18.7x**	**18.2x**	**17.4x**	**3.0%**	**5.1%**
Alliant Energy	LNT	NC	$37.51	--	--	$1.88	$1.99	$2.13	$2.23	5.8%	19.9x	18.8x	17.6x	16.9x	3.2%	6.5%
PNM Resources	PNM	NC	$33.35	--	--	$1.59	$1.82	$2.02	$2.12	10.1%	21.0x	18.3x	16.5x	15.8x	2.7%	10.8%
Pinnacle West Capital	**PNW**	**Sell**	**$78.17**	**$71**	**(6%)**	**$3.95**	**$4.25**	**$4.34**	**$4.42**	**3.9%**	**19.8x**	**18.4x**	**18.0x**	**17.7x**	**3.2%**	**4.9%**
Portland General Electric	**POR**	**Sell**	**$43.31**	**$40**	**(5%)**	**$2.16**	**$2.29**	**$2.45**	**$2.47**	**4.6%**	**20.1x**	**18.9x**	**17.7x**	**17.6x**	**2.9%**	**7.2%**
SCANA Corporation	**SCG**	**Sell**	**$73.99**	**$70**	**(2%)**	**$4.20**	**$4.34**	**$4.44**	**$4.57**	**2.9%**	**17.6x**	**17.1x**	**16.7x**	**16.2x**	**3.1%**	**2.2%**
Westar Energy	WR	Not Rated	$57.25	--	--	$2.59	$2.56	$2.63	--	--	22.1x	22.3x	21.8x	--	2.7%	8.0%
Small/Mid-Cap Electric Utility Mean					**(3%)**					**5.7%**	**19.7x**	**18.5x**	**17.4x**	**16.9x**	**3.1%**	**6.4%**
Small/Mid-Cap Electric Utility Median					**(4%)**					**4.9%**	**20.1x**	**18.9x**	**17.6x**	**16.8x**	**3.1%**	**6.8%**

Source: FactSet, Goldman Sachs Global Investment Research.
Note: Mean and Median exclude NI, EDE and WR. Not Covered companies are based on consensus estimates.

Exhibit 24: We use a blended target multiple of 19.0x based NI's business mix to derive our NI 12-month price target of $23
NI Price Target

Deriving Blended Multiple			
	Gas	**Electric**	**Total**
2018 EBIT	673.1	368.2	1,041.3
% 2018 EBIT	64.6%	35.4%	
Target Multiple	20.00x	17.25x	19.03x
Price Target			
2018 EPS			$1.22
Target Multiple			19.0x
Price Target			**$23.00**
Current Price			$22.10
Total Return			
Price Return			4.07%
Current Dividend Yield			2.99%
Total Return			**7.06%**

Source: FactSet, Goldman Sachs Global Investment Research.

Primary catalysts and key risks ahead for NI

We see limited near-term company-specific catalysts for NI, but several longer-term items that may impact shares, include:

- **Announcement of higher capital spending at NI's analyst day** expected to be held March 2017 could increase our EPS estimates.
- **Announcement of additional coal generation retirements.** We reflect the retirement of Bailly coal units in our estimates. Retirement of additional coal units could allow NI to reduce O&M costs without a corresponding reduction in rate revenue.

Key risks for NI include:

- **Rate case and general regulatory risks,** as NI faces regulation by FERC and also seven state utility commissions. Regulatory bodies may impact authorized net income and timing of regulatory recovery.
- **Power and gas demand**, as electric demand remains below historical trends and commodity pricing impacts economics of new customer natural gas conversions.
- **Financing environment** as we project cash flow from operations does not fully cover capital spending requirements. Less/more favorable financing environment than we assume may decrease/increase EPS.
- **Capital spending levels** that may vary from projections beyond 2017 as NI does not provide long-term guidance on total annual capital spending.

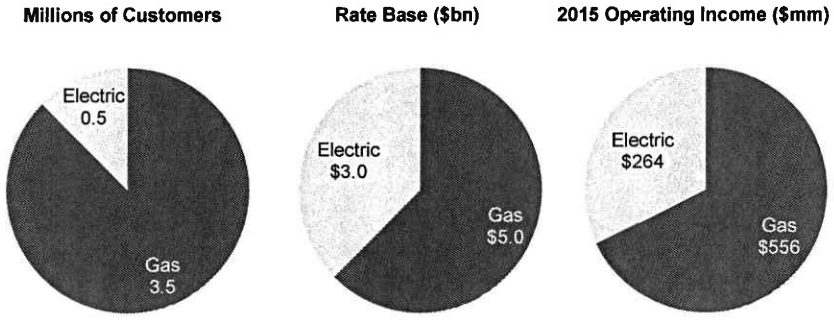
Appendix

Exhibit 25: After several corporate changes, NiSource now owns purely regulated natural gas and electric utilities
History of company and corporate changes

2000	2001	2003	2014	2/11/2015	7/1/2015	Current
•NiSource incorporated; completed merger with Columbia Energy Group	•NiSource completed sale of Columbia Propane (propane marketer)	•NiSource completed sale of Columbia Natural Resources (E&P)	•NiSource announced plans to separate Columbia Pipeline Group (midstream)	•NiSource completed a $1.2bn IPO of Columbia Pipeline Partners (MLP; Ticker: CPPL)	•Completion of Columbia Pipeline Group (midstream) separation from NiSource	•Utility holding company whose subsidiaries consist solely of fully regulated natural gas and electric distribution utilities, which operate across seven states

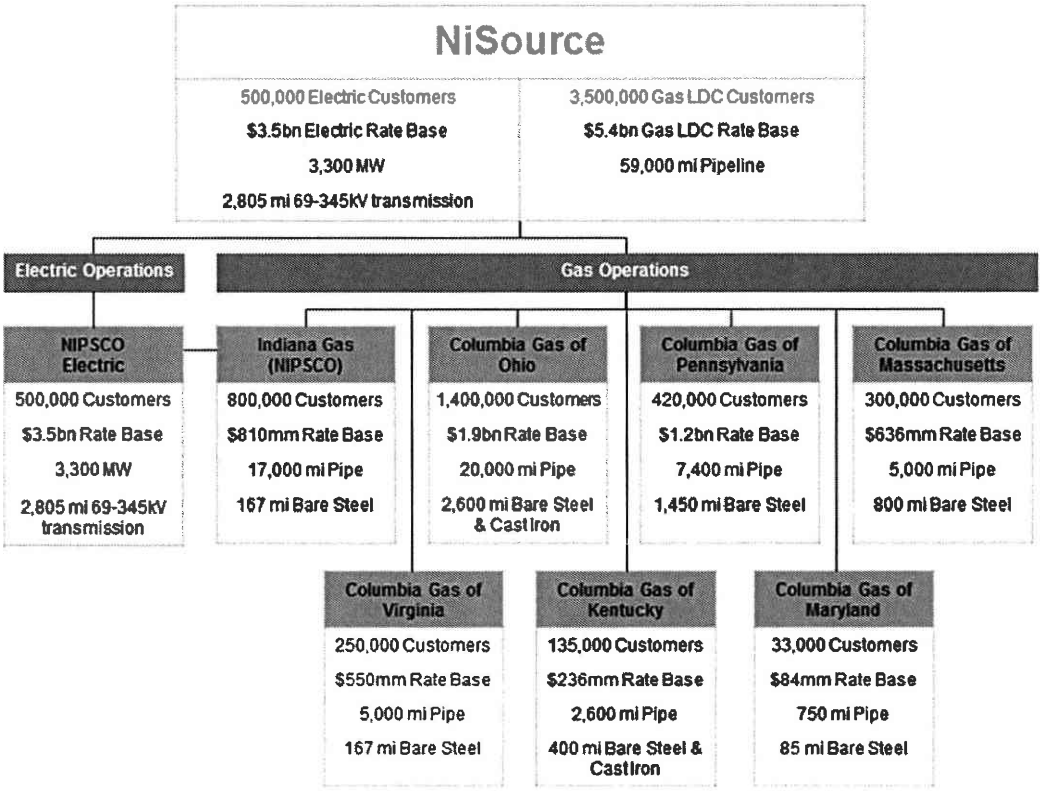
Source: Company data.

Exhibit 26: NI consists of both gas and electric operations with the gas segment representing more of business
Contribution of Gas and Electric Operations



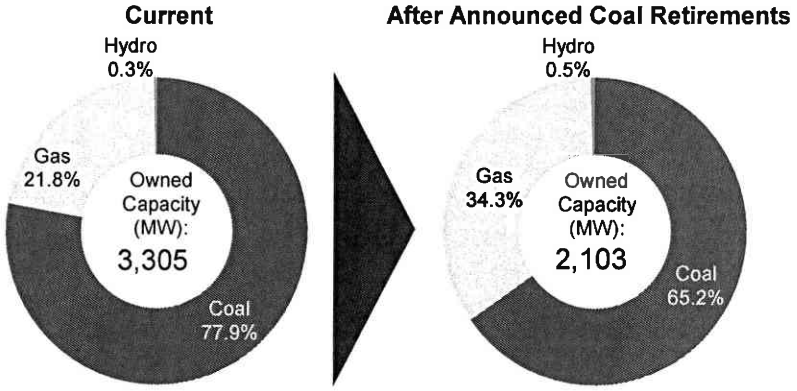
Source: Company data, Goldman Sachs Global Investment Research.
Note: Rate base as of 12/31/2014.

Exhibit 27: NiSource is composed of two main segments – electric and gas operations
NiSource Corporate Structure



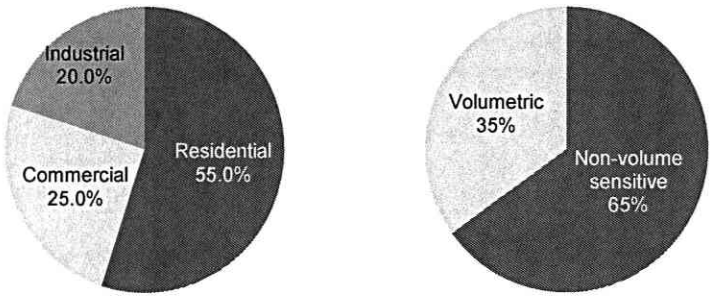
Source: Company data, Goldman Sachs Global Investment Research.
Note: Rate base as of year-end 2015.

Exhibit 28: NIPSCO's plans to retire several coal units, reducing its reliance on coal
NIPSCO Electric Owned Generation Capacity (MW)



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 29: NI's revenue mix is primarily residential, while fixed charge bill structure reduces weather sensitivity
Net revenue by source, 2014



Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 30: Several regulatory proceeds have recently been completed while other remain ongoing
Regulatory proceedings to monitor

	Item	Date	Notes
Gas	Columbia Gas of PA Base Rate Case	New rates in effect 12/19/2016	Requested $55.3mm annual revenue increase; settlement includes $35.0mm annual revenue increase
Gas	Columbia Gas of VA Base Rate Case	Order expected early 2017	Requested $37.0mm annual revenue increase
Gas	Columbia Gas of KY Base Rate Case	Order expected by YE 2016	Requested $25.4mm annual revenue increase; settlement includes $13.4mm annual revenue increase
Gas	Columbia Gas of MD Base Rate Case	New rates in effect 10/27/2016	Settlement approved includes $3.7mm annual revenue increase
Gas	NIPSCO Gas System Modernization Program	Semi-annual tracker filed August 2016	Additional $67mm of investments in 1H 2016
Electric	NIPSCO Electric Base Rate Case	Rates effective 10/1/2016	$72.5mm annual revenue increase
Electric	Integrated Resource Plan	Submitted November 2016	Identified 50% of coal to be retired due to economics.
Electric	Electric System Modernization Program	Settlement approved 7/12/2016; TDSIC 1 filed	Supports recovery of ~$1.25bn in investments through 2022
Electric	Electric Transmission System Enhancement Projects	Projects expected in service by 2H 2018	Total NI portion of investment includes $525-600mm

Source: Company data, Goldman Sachs Global Investment Research.

Exhibit 31: Background of NI management
Management bios

Name	Position	Background
Joseph Hamrock	President and Chief Executive Officer	• President and CEO since July 1, 2015 • Previously executive vice presdent and Group CEO for NiSource's Gas Distribution segment • BA from Youngstown State University and MBA from Massachusetts Institute of Technology
Donald Brown	Executive Vice President and Chief Financial Officer	• Became CFO upon separation of Columbia Pipeline Group from NiSource on July 1, 2015 • Joined NiSource in April 2015 as an executive vice president in the finance department • BA from Wharton School at the University of Pennsylvania and MBA from Fuqua School of Business at Duke University
Carrie Hightman	Executive Vice President and Chief Legal Officer	• Previously President of AT&T Illinois • Led Telecommunications and Public Utilities practice group as partner at Schiff Hardin • BA from University of Illinois and law degree from Florida State University
Carl Levander	Executive Vice President, Regulatory Policy and Corporate Affairs	• Previously served as Chief Regulatory Officer since July 2015 • Also served as president of Columbia Gas of Virginia for more than nine years • Bachelor's degree from Wittenberg University and law degree from West Virginia University
Violet Sistovaris	Executive Vice President & President NIPSCO	• Previously senior vice president and Chief Information Officer for NiSource • Also served as vice president, Customer Contact Centers • Bachelor's degree from Valparaiso University and MBA from Indiana University
Jim Stanley	Chief Operating Officer	• Previously Executive Vice President and Group CEO for NIPSCO • Previously senior vice president and chief distribution officer for Duke Energy (DUK)'s U.S. electric business • Bachelor's degree from Ball State University
Pablo Vegas	Executive Vice President and President, Columbia Gas Group	• Previously served as president and chief operating officer of American Electric Power (AEP) of Ohio • Attended the Advanced Management Program at Harvard Business School, the AEP Strategic Leadership Program at The Ohio State University and BS from the University of Michigan

Source: Company data, Goldman Sachs Global Investment Research.

Disclosure Appendix

Reg AC

We, Michael Lapides, Daniel Yu, CFA, David Fishman, Dylan Campbell and Siddharth Verma, 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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BARCLAYS

Equity Research
Power & Utilities | North America Power & Utilities
22 February 2017

NiSource, Inc.
In-Line Quarter

NI's Q4'16 operating EPS of $0.33 was in line with expectations. NI reaffirmed 2017 EPS guidance of $1.12-$1.18. 2016 operating EPS of $1.09 was at the high end of the company's $1.05-$1.10 guidance.

NI raised the 2017 cap-ex forecast to $1.6–$1.7B from $1.5B due to electric utility spending at NIPSCO. We expect more details at NI's NY analyst meeting on March 6. A $200M/year increase in cap-ex could add 2 cents to EPS.

We are raising our price target $2 to $25. Our price target is a 15% premium to the Regulated Utility group less 0.6% for exposure to tax law changes applied to the 16.2x Regulated Utility 2019 average P/E and $1.33. Previously our target reflected the same premium applied to a 15.1x average P/E and $1.33.

On the investor call NI commented that removal of the interest deduction in tax reform would be negative for them, but that it is too early to provide further comment. In our view NI would be exposed through $2B of parent debt.

NI: Quarterly and Annual EPS (USD)

	2016	2017			2018			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2017	2018
Q1	0.59A	N/A	N/A	0.64E	N/A	N/A	0.66E	N/A	N/A
Q2	0.08A	N/A	N/A	0.12E	N/A	N/A	0.13E	N/A	N/A
Q3	0.06A	N/A	N/A	0.07E	N/A	N/A	0.06E	N/A	N/A
Q4	0.33A	N/A	N/A	0.35E	N/A	N/A	0.36E	N/A	N/A
Year	1.09A	1.15E	1.15E	1.16E	N/A	1.23E	1.23E	6%	7%
P/E	21.0		20.0			18.8			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

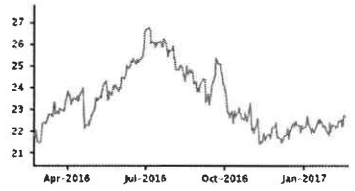
Stock Rating	EQUAL WEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 25.00 raised 9% from USD 23.00

Price (21-Feb-2017)	USD 22.99
Potential Upside/Downside	+8.7%
Tickers	NI

Market Cap (USD mn)	7420
Shares Outstanding (mn)	322.74
Free Float (%)	99.50
52 Wk Avg Daily Volume (mn)	2.9
52 Wk Avg Daily Value (USD mn)	67.10
Dividend Yield (%)	3.0
Return on Equity TTM (%)	7.98
Current BVPS (USD)	11.82

Source: Thomson Reuters

Price Performance	Exchange-NYSE
52 Week range	USD 26.94-20.94



Link to Barclays Live for interactive charting

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Completed: 22-Feb-17, 19:28 GMT Released: 22-Feb-17, 19:32 GMT

North America Power & Utilities — Industry View: NEUTRAL

NiSource, Inc. (NI)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2016A	2017E	2018E	2019E	CAGR
Revenue	4,505	5,268	5,407	5,547	7.2%
EBITDA (adj)	1,441	1,574	1,668	1,768	7.0%
EBIT (adj)	894	977	1,043	1,110	7.5%
Pre-tax income (adj)	546	590	654	714	9.4%
Net income (adj)	351	372	412	450	8.6%
EPS (adj) ($)	1.09	1.15	1.23	1.33	6.6%
Diluted shares (mn)	320.9	324.3	336.2	339.3	1.9%
DPS ($)	0.64	0.68	0.73	0.77	6.5%

Margin and return data					Average
EBITDA (adj) margin (%)	32.0	29.9	30.9	31.9	31.1
EBIT (adj) margin (%)	19.8	18.5	19.3	20.0	19.4
Pre-tax (adj) margin (%)	12.1	11.2	12.1	12.9	12.1
Net (adj) margin (%)	7.8	7.1	7.6	8.1	7.6
ROIC (%)	8.8	9.3	9.3	9.4	9.2
ROA (%)	1.9	1.9	2.1	2.2	2.0
ROE (%)	9.1	9.1	9.6	9.5	9.3

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	13,068	13,758	14,398	14,984	4.7%
Total net assets	18,692	19,315	19,988	20,562	3.2%
Capital employed	10,129	10,511	11,184	11,827	5.3%
Shareholders' equity	4,071	4,297	4,740	5,003	7.1%
Net debt/(funds)	6,032	6,255	6,451	6,844	4.3%
Cash flow from operations	803	1,176	1,267	1,359	19.1%
Capital expenditure	-1,475	-1,495	-1,495	-1,495	N/A
Free cash flow	-671	-318	-227	-136	N/A
Pre-dividend FCF	-5	-232	-539	-505	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	21.0	20.0	18.8	17.3	19.3
EV/EBITDA (adj) (x)	9.2	8.6	8.2	8.0	8.5
EV/EBIT (adj) (x)	14.9	13.9	13.2	12.7	13.7
P/BV (x)	1.8	1.7	1.6	1.6	1.7
Dividend yield (%)	2.8	3.0	3.2	3.4	3.1
Total debt/capital (%)	59.8	59.1	57.6	57.7	58.6
Net debt/EBITDA (adj) (x)	4.2	4.0	3.9	3.9	4.0

Selected operating metrics					Average
Payout ratio (%)	58.5	59.4	59.2	58.3	58.8
Interest cover (x)	-2.6	-2.5	-2.7	-2.8	-2.6
Regulated (%)	N/A	N/A	N/A	N/A	N/A

Source: Company data, Barclays Research
Note: FY End Dec

Price (21-Feb-2017) USD 22.99
Price Target USD 25.00

Why Equal Weight? 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. Additionally, we don't see a need for equity issuance until 2018. However, we don't see material upside in our upside case.

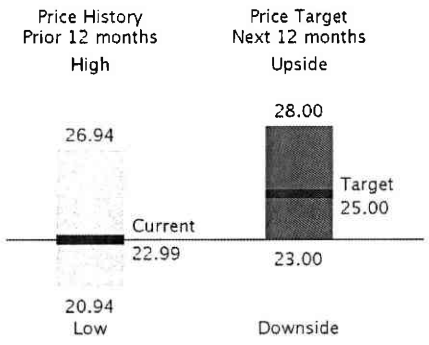
Upside case USD 28.00

Our upside case assumes a 20% premium to the Regulated Utility average P/E using 9% EPS growth to $1.45 in 2019.

Downside case USD 23.00

Our downside case reflects a 5% premium to the Regulated Utility average 2019 P/E multiple applied to our $1.33 which reflects 50 bp of under-earning allowed ROEs.

Upside/Downside scenarios



Q4 Results in Line

NI's Q4'16 operating EPS of $0.33 compared to the $0.34 consensus.

Gas Distribution Operations ($189M versus $185M operating income). Revenues rose $50M driven by rates from proceedings and infrastructure replacement programs (+$34M) and higher regulatory, tax and depreciation trackers which are offset in expense (-$21M). Other offsets to operating income included higher employee and administrative costs (-$15M), increased outside service costs (-$4M) and higher depreciation (-$4M).

Electric Operations ($62M versus $54M). Revenues rose from new rates from base proceedings (+$23M), from regulatory and depreciation trackers (+$12M) which are offset in expenses (-$12M), and from higher rates from capital spend on transmission (+$3M). This was offset by fuel handling (-$3M) and the absence of the MISO amortization (-$2M). Other expense increases were from materials and supplies (-$7M), taxes (-$4M) and outside service costs (-$6M) offset by lower depreciation and amortization (-$5M).

Corporate and Other earnings declined to $3.4M versus $10M due to corporate-owned life insurance and outside service costs. Other expenses declined to $85M from $89M due to interest expense and lower transmission upgrade agreement.

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 21-Feb-2017, USD 22.99), Equal Weight/Neutral, CE/D/J/K/L/M

Prices are sourced from Thomson Reuters as of the last available closing price in the relevant trading market.

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Aqua America (WTR)	Brookfield Infrastructure Partners LP (BIP)	Brookfield Infrastructure Partners LP (BIP_u.TO)
Brookfield Renewable Energy Partners LP (BEP)	Brookfield Renewable Energy Partners LP (BEP_u.TO)	California Water Service Group (CWT)
Calpine Corp. (CPN)	Canadian Utilities Ltd. (CU.TO)	CenterPoint Energy Inc. (CNP)
CMS Energy (CMS)	Connecticut Water Service Inc. (CTWS)	Consolidated Edison (ED)
Dominion Resources (D)	DTE Energy (DTE)	Duke Energy (DUK)
Dynegy Inc. (DYN)	Edison International (EIX)	Emera Inc. (EMA.TO)

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NRG Energy (NRG)	NRG Yield Inc. (NYLD)	OGE Energy Corp. (OGE)
Ormat Technologies (ORA)	PG&E Corp. (PCG)	Pinnacle West Capital (PNW)
PNM Resources (PNM)	Portland General Electric Co. (POR)	PPL Corporation (PPL)
Public Service Enterprise Gp (PEG)	SCANA Corp. (SCG)	Sempra Energy (SRE)
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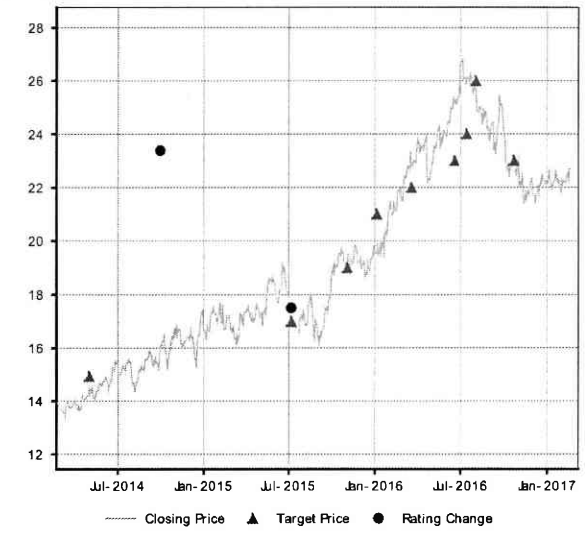
NiSource, Inc. (NI / NI)

USD 22.99 (21-Feb-2017)

Stock Rating	Industry View
EQUAL WEIGHT	**NEUTRAL**

Rating and Price Target Chart - USD (as of 21-Feb-2017) — Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
21-Oct-2016	22.61		23.00
02-Aug-2016	25.94		26.00
13-Jul-2016	26.06		24.00
17-Jun-2016	25.26		23.00
18-Mar-2016	22.80		22.00
04-Jan-2016	19.52		21.00
03-Nov-2015	19.12		19.00
06-Jul-2015	16.84	Equal Weight	17.00
29-Sep-2014	16.05	Rating Suspended	
30-Apr-2014	14.27		14.93

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

Link to Barclays Live for interactive charting

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Valuation Methodology: Our $25 price target is a 15% premium to the group including -0.6% for exposure to tax changes applied to the 2019 Regulated Utility P/E of 16.2x and our $1.33 EPS estimate.

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CREDIT SUISSE

22 February 2017
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

EARNINGS

Stable 4Q, Steady 2017 Outlook

Rating	**UNDERPERFORM**
Price (22-Feb-17, US$)	23.17
Target price (US$)	25.00
52-week price range (US$)	26.77 - 21.41
Market cap (US$ m)	7,477.83

Target price is for 12 months.

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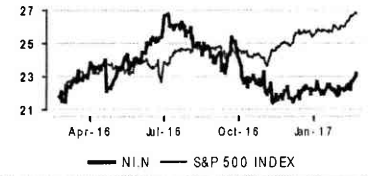
- **4Q16 In Line, 2017 Capex Guidance Increased:** NI delivered a stable quarter with EPS of $0.33 exactly in line with our estimate. Gas Distribution segment and Electric Operations segment EBIT came in $3mm below our estimate. Gas distribution volumes were 8% above our expectation and customers came in 1% above our expectation while Electric Operations sales (gigawatt hrs) excluding weather adjustments came in 1% below our estimate. Mgmt reiterated 2017 EPS guidance of $1.12-$1.18 (CS at $1.15) while increasing capital expenditure guidance to $1.6-$1.7B from $1.5B. The increase is driven primarily by investments in the electric business related to increasing reliability and repositioning NIPSCO's generation fleet. NI ended 4Q16 with ~$684M in net available liquidity.
- **On a Steady Path:** NI has made significant progress on regulatory initiatives across all states, including recent gas base rate case settlement approvals in Kentucky, Maryland, Pennsylvania and Virginia and approvals of settlements in a long-term electric modernization program and electric base rate case in Indiana. NI continues to make progress on a number of rate case settlements which along with the $1.6-$1.7B backlog of planned infrastructure investments should be enough to sustain NI's 4-6% growth trajectory. We continue to view NI as a premier gas and electric utility with a best in class management team though we believe this is already baked in to NI's share price.
- **Maintain $25 TP and Underperform Rating:** Our $25 TP is based on 22x our 2017E EPS of $1.15, giving us a total return outlook of ~12%, which lags the expectations for our primarily midstream coverage.

Share price performance



On 22-Feb-2017 the S&P 500 INDEX closed at 2362.82
Daily Feb23, 2016 - Feb22, 2017, 02/23/16 = US$21.8

Quarterly EPS	Q1	Q2	Q3	Q4
2015A	0.85	0.18	0.01	0.31
2016E	0.56	0.08	0.07	0.33
2017E	0.65	0.11	0.04	0.34

Financial and valuation metrics

Year	12/15A	12/16E	12/17E	12/18E
EPS (CS adj.) (US$)	1.38	1.04	1.15	1.22
Prev. EPS (US$)	-	1.03	-	1.21
P/E (x)	16.7	22.2	20.2	19.0
P/E rel. (%)	83.4	122.0	124.6	130.0
Revenue (US$ m)	5,245.4	4,495.1	4,826.2	4,980.2
EBITDA (US$ m)	1,690.2	1,430.4	1,514.8	1,620.2
OCFPS (US$)	4.56	2.48	4.66	3.14
P/OCF (x)	4.3	9.3	5.0	7.4
EV/EBITDA (current)	8.5	10.1	9.5	8.9
Net debt (US$ m)	6,934	7,883	8,060	8,741
ROIC (%)	5.86	4.86	4.92	4.90

Number of shares (m)	322.74	IC (current, US$ m)	10,777.60
BV/share (Next Qtr., US$)	12.7	EV/IC (x)	1.3
Net debt (Next Qtr., US$ m)	6,990.9	Dividend (current, US$)	0.62
Net debt/tot eq (Next Qtr.,%)	180.5	Dividend yield (%)	-

Source: Company data, Thomson Reuters, Credit Suisse estimates

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, LEGAL ENTITY DISCLOSURE AND THE STATUS OF NON-US ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

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22 February 2017

NiSource Inc. (NI)

Price (22 Feb 2017): **US$23.17**; Rating: **UNDERPERFORM**; Target Price: **US$25.00**; Analyst: **John Edwards**

Income Statement	12/15A	12/16E	12/17E	12/18E
Revenue (US$ m)	**5,245.4**	**4,495.1**	**4,826.2**	**4,980.2**
EBITDA	**1,690**	**1,430**	**1,515**	**1,620**
Depr. & amort.	(648)	(527)	(569)	(610)
EBIT (US$)	**1,043**	**903**	**946**	**1,010**
Net interest exp	(401)	(375)	(399)	(392)
Associates	-	-	-	-
Other adj.	(3)	27	34	0
PBT (US$)	**639**	**555**	**580**	**618**
Income taxes	(252)	(198)	(209)	(222)
Profit after tax	**387**	**357**	**371**	**395**
Minorities	(16)	-0	-0	-0
Preferred dividends	-	-	-	-
Associates & other	72	(20)	0	0
Net profit (US$)	**444**	**337**	**371**	**395**
Other NPAT adjustments	(35)	4	0	0
Reported net income	**408**	**341**	**371**	**395**

Cash Flow	12/15A	12/16E	12/17E	12/18E
EBIT	1,043	903	946	1,010
Net interest	(401)	(375)	(399)	(392)
Cash taxes paid	-	-	-	-
Change in working capital	148	(292)	572	13
Other cash & non-cash items	667	568	394	388
Cash flow from operations	**1,457**	**803**	**1,512**	**1,019**
CAPEX	866	1,733	928	1,487
Free cashflow to the firm	**2,323**	**2,536**	**2,441**	**2,506**
Aquisitions	-	-	-	-
Divestments	5	0	0	0
Other investment/(outflows)	3,301	(108)	0	0
Cash flow from investments	**1,945**	**(1,583)**	**(1,500)**	**(1,500)**
Net share issue(/repurchase)	23	23	40	40
Dividends paid	(263)	(206)	(229)	(240)
Issuance (retirement) of debt	(3,122)	982	177	681
Other	3,002	(969)	(177)	(681)
Cashflow from financing activities	(361)	(169)	(189)	(200)
Effect of exchange rates	-	-	-	-
Changes in Net Cash/Debt	**3,040**	**(949)**	**(177)**	**(681)**
Net debt at start	9,975	6,934	7,883	8,060
Change in net debt	**(3,040)**	**949**	**177**	**681**
Net debt at end	6,934	7,883	8,060	8,741

Balance Sheet (US$)	12/15A	12/16E	12/17E	12/18E
Assets				
Cash & cash equivalents	16	26	26	26
Account receivables	660	847	599	636
Inventory	344	280	127	133
Other current assets	558	609	609	609
Total current assets	**1,577**	**1,762**	**1,361**	**1,404**
Total fixed assets	12,112	13,068	13,999	14,889
Intangible assets and goodwill	1,944	1,933	1,933	1,933
Investment securities	-	-	-	-
Other assets	1,859	1,928	1,928	1,928
Total assets	**17,493**	**18,692**	**19,221**	**20,154**
Liabilities				
Accounts payables	433	539	572	608
Short-term debt	567	1,488	2,415	3,846
Other short term liabilities	1,657	1,425	1,562	1,583
Total current liabilities	**2,658**	**3,452**	**4,549**	**6,037**
Long-term debt	5,949	6,058	5,308	4,558
Other liabilities	5,043	5,110	5,110	5,110
Total liabilities	**13,649**	**14,621**	**14,968**	**15,705**
Shareholder equity	3,843	4,071	4,254	4,449
Minority interests	-	-	-	-
Total liabilities and equity	**17,493**	**18,692**	**19,221**	**20,154**
Net debt	6,934	7,883	8,060	8,741

Source: Company data, Thomson Reuters, Credit Suisse estimates

Per share	12/15A	12/16E	12/17E	12/18E
No. of shares (wtd avg)	319	323	324	324
CS adj. EPS	1.38	1.04	1.15	1.22
Prev. EPS (US$)	-	1.03	-	1.21
Dividend (US$)	0.99	0.66	0.71	0.74
Dividend payout ratio	71.15	63.26	61.89	61.05
Free cash flow per share	7.27	7.84	7.52	7.73

Earnings	12/15A	12/16E	12/17E	12/18E
Sales growth (%)	(18.9)	(14.3)	7.4	3.2
EBIT growth (%)	(17.4)	(13.4)	4.7	6.8
Net profit growth (%)	(16.4)	(23.9)	10.1	6.5
EPS growth (%)	(17.4)	(24.6)	9.8	6.5
EBITDA margin (%)	32.2	31.8	31.4	32.5
EBIT margin (%)	19.9	20.1	19.6	20.3
Pretax margin (%)	12.2	12.3	12.0	12.4
Net margin (%)	8.5	7.5	7.7	7.9

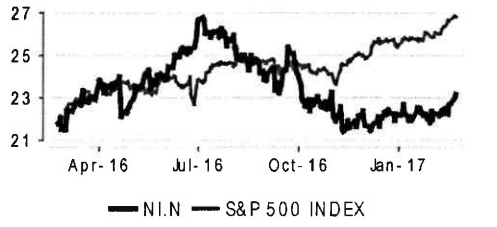
Valuation	12/15A	12/16E	12/17E	12/18E
EV/Sales (x)	2.75	3.42	3.22	3.26
EV/EBITDA (x)	8.5	10.1	9.5	8.9
EV/EBIT (x)	13.8	17.0	16.4	16.1
P/E (x)	16.7	22.2	20.2	19.0
Price to book (x)	1.9	1.8	1.7	1.6
Asset turnover	0.3	0.2	0.3	0.2

Returns	12/15A	12/16E	12/17E	12/18E
ROE stated-return on (%)	8.0	8.4	8.7	8.9
ROIC (%)	0.1	0.0	0.0	0.0
Interest burden (%)	0.61	0.61	0.61	0.61
Tax rate (%)	39.5	35.7	36.0	36.0
Financial leverage (%)	1.76	1.89	1.85	1.92

Gearing	12/15A	12/16E	12/17E	12/18E
Net debt/equity (%)	180.4	193.6	189.5	196.5
Net Debt to EBITDA (x)	4.1	5.5	5.3	5.4
Interest coverage ratio (X)	2.6	2.4	2.4	2.6

Quarterly EPS	Q1	Q2	Q3	Q4
2015A	0.85	0.18	0.01	0.31
2016E	0.56	0.08	0.07	0.33
2017E	0.65	0.11	0.04	0.34

Share price performance



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Earnings Variance

Figure 1: NI 4Q16 Result vs CS Estimates

Earnings Variance	4Q16 Actual	4Q16 CS Estimate	Diff.	Diff. (%)	4Q15 Actual
Segment EBIT					
Gas Distribution	189	192	(3)	-2%	174
Electric Operations	62	64	(3)	-4%	42
Other	3	0	3	#DIV/0!	33
Total EBIT (recurring)	**254**	**256**	**(2)**	**-1%**	**249**
Interest Expense	88	87	1	1%	94
Other Expenses	(3)	0	(3)	NM	(6)
Taxes	62	61	1	1%	61
Recurring Net Income	**108**	**108**	**(1)**	**-1%**	**100**
Diluted Wtd Avg shares outstanding	324	324	0	0%	321
Recurring EPS - Diluted	**$0.33**	**$0.33**	**($0.00)**	**(1%)**	**$0.31**
Dividend per share	**$0.18**	**$0.17**	**$0.01**	**6%**	**$0.16**
Operational Metrics					
Gas Distribution					
Total Volumes (MDth)	**267**	**246**	**21**	**8%**	**240**
Total Customers	**3,427,532**	**3,393,490**	**34,042**	**1%**	**3,404,272**
Electric Operations					
Residential	407,268	405,699	1,569	0%	404,889
Commercial	55,605	55,163	442	1%	55,053
Industrial	2,313	2,348	(35)	-1%	2,343
Other electric service	744	750	(6)	-1%	749
Total Heating customers (000s)	**465,930**	**463,960**	**1,970**	**0%**	**463,034**
Sales (Gigawatt Hours)					
Residential	770	733	37	5%	725
Commercial	924	940	(16)	-2%	931
Industrial	2,210	2,304	(94)	-4%	2
Wholesale and other	48	33	15	45%	33
Total	**3,951**	**4,009**	**(58)**	**-1%**	**3,947**

Source: Company data, Credit Suisse estimates

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Risks to Our Call

While NI is expensive relative to utilities and utilities appear expensive relative to history (at least from a PE standpoint), defensively oriented business models that pay a meaningful dividend continue to attract capital given the very low yield environment that income oriented investors are confronting. This means both NI and utilities could be viewed as fairly valued from an income standpoint and could continue to attract yield-seeking capital.

NI has growth visibility that is superior to most MLPs and utilities, operates in a relatively low risk regulatory environment, and consequently could trade even higher than it does now.

Should commodity prices such as crude oil take another significant downturn to the $20s and $30s, MLPs would likely face renewed selling pressure and as such NI would be less likely to Underperform on a relative basis as investors would be inclined to seek greater safety in lower risk names even if expensive. While global crude oil supply and demand has come closer to balance recently, driving North America rig count to highest level in last 1 year. As a result over supply could once again come into the market driving oil prices back lower and introducing greater risk premiums into the midstream market and causing NI to perform in line or better compared to midstream.

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Changes to Estimates

Figure 2: NI Changes to Estimates

	Old estimates						New estimates					
	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E
Segment EBIT												
Gas Distribution	344	79	8	208	639	703	348	81	8	203	640	705
Electric Operations	73	66	104	63	305	304	73	66	104	64	306	305
Other	0	(0)	0	0	0	0	0	0	0	0	0	0
Total EBIT (recurring)	**417**	**145**	**112**	**271**	**944**	**1,006**	**421**	**146**	**112**	**266**	**946**	**1,010**
Interest Expense	83	90	94	96	363	396	89	88	93	95	365	392
Other Expenses	0	0	0	0	0	0	0	0	0	0	0	0
Taxes	120	20	6	63	209	220	119	21	7	62	209	222
Recurring Net Income	**213**	**35**	**11**	**112**	**372**	**391**	**212**	**37**	**13**	**110**	**371**	**395**
Diluted Wtd Avg shares outstanding	324	324	324	324	324	324	324	324	324	324	324	324
Recurring EPS - Diluted	**$0.66**	**$0.11**	**$0.03**	**$0.35**	**$1.15**	**$1.21**	**$0.65**	**$0.11**	**$0.04**	**$0.34**	**$1.15**	**$1.22**
Dividend per share	**$0.17**	**$0.17**	**$0.17**	**$0.17**	**$0.69**	**$0.73**	**$0.18**	**$0.18**	**$0.18**	**$0.18**	**$0.71**	**$0.74**
Operational Metrics												
Gas Distribution												
Total Volumes (MDth)	**353**	**198**	**172**	**252**	**975**	**999**	**353**	**198**	**172**	**273**	**996**	**1,021**
Total Customers	**3,410,457**	**3,427,510**	**3,444,647**	**3,461,871**	**3,461,871**	**3,531,629**	**3,444,670**	**3,461,893**	**3,479,202**	**3,496,598**	**3,496,598**	**3,567,057**
Electric Operations												
Residential	407,261	407,470	407,924	407,727	407,727	409,766	407,261	407,470	407,924	409,304	409,304	411,351
Commercial	55,446	55,546	55,695	55,439	55,439	55,716	55,446	55,546	55,695	55,883	55,883	56,162
Industrial	2,353	2,355	2,353	2,359	2,359	2,371	2,353	2,355	2,353	2,325	2,325	2,336
Other electric service	746	748	748	754	754	758	746	748	748	748	748	751
Total Heating customers (000s)	**465,805**	**466,119**	**466,720**	**466,280**	**466,280**	**468,611**	**465,805**	**466,119**	**466,720**	**468,260**	**468,260**	**470,601**
Sales (Gigawatt Hours)												
Residential	812	802	1,159	740	3,512	3,547	812	802	1,159	778	3,550	3,585
Commercial	921	950	1,114	950	3,934	3,973	921	950	1,114	933	3,917	3,957
Industrial	2,445	2,318	2,380	2,327	9,470	9,564	2,445	2,318	2,380	2,232	9,375	9,468
Wholesale and other	35	32	42	33	143	144	35	32	42	48	157	159
Total	**4,212**	**4,102**	**4,695**	**4,049**	**17,058**	**17,229**	**4,212**	**4,102**	**4,695**	**3,990**	**17,000**	**17,170**

Source: Company data, Credit Suisse estimates

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22 February 2017

Companies Mentioned *(Price as of 22-Feb-2017)*
NiSource Inc. (NI.N, $23.17, UNDERPERFORM, TP $25.0)

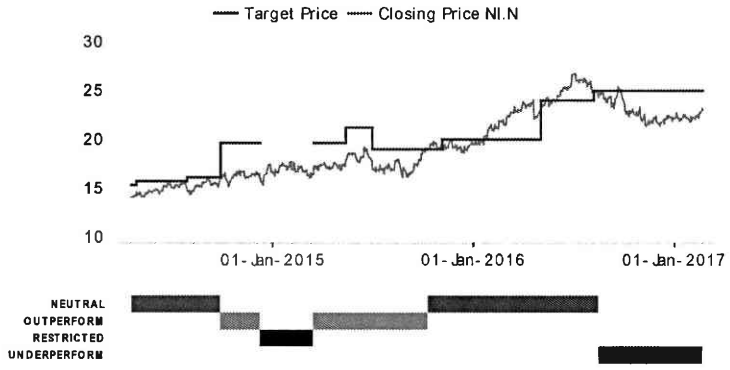
Disclosure Appendix

Analyst Certification

John Edwards, CFA, and Bhavesh Lodaya 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
21-Apr-14	14.03	15.33	N
30-Apr-14	14.27	15.72	
31-Jul-14	14.81	16.11	
30-Sep-14	16.10	19.65	O
11-Dec-14	16.03		R
18-Mar-15	17.20	19.65	O
15-May-15	17.87	21.22	
02-Jul-15	16.99	19.00	
13-Oct-15	19.11	19.00	N
06-Nov-15	18.96	20.00	
03-May-16	23.11	24.00	
08-Aug-16	24.81	25.00	
19-Aug-16	24.62	25.00	U



** Asterisk signifies initiation or assumption of coverage.*

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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.

**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 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 American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; 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.*

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Not Covered (NC) : Credit Suisse Equity Research does not provide ongoing coverage of the company or offer an investment rating or investment view on the equity security of the company or related products.

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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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Credit Suisse's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	45%	(64% banking clients)
Neutral/Hold*	39%	(60% banking clients)
Underperform/Sell*	14%	(53% banking clients)
Restricted	2%	

**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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Target Price and Rating

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

Method: Our $25 target price for NI is 22x our 2017 EPS forecast of $1.15. Our Underperform rating is based on expected total return prospects.

Risk: Risks to our $25 target price and Underperform rating for NI are regulatory risk and project execution.

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rghulen@nisource.com Randy Hulen 02/23/17 01:37:20 PM Nisource Corporate Services Co.

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22 February 2017

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rghulen@nisource.com Randy Hulen 02/23/17 01:37:20 PM Nisource Corporate Services Co.

EVERCORE ISI

Energy | Power & Utilities

February 23, 2017

NISOURCE INC

NI | $23.64
HOLD | TARGET PRICE: $23.00
Company Update

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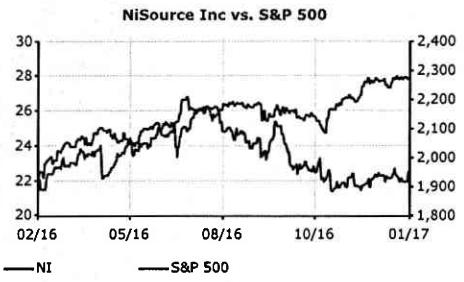
Company Statistics

Market Capitalization (M):	$7,643
Shares Outstanding (M):	323
Dividend:	$0.70
Dividend Yield:	3.0%
Payout Ratio:	61.1%
Expected Total Return:	0.3%
Fiscal Year End	Dec

Earnings Summary

	2017E	2018E	2019E
EPS	$1.15	$1.21	$1.29
P/E	20.6x	19.5x	18.3x
EPS vs Consensus	(1.0)%	(1.0)%	(0.2)%
Consensus EPS	$1.16	$1.23	$1.30
Consensus P/E	20.4x	19.3x	18.2x

1 Year Price History



Source: FactSet

NI Reported Strong FY '16 Results & Reaffirmed '17 EPS Guidance Range

Maintaining our Estimates, Rating Still Hold at $23 Price Target

On 02/22/17 NI reported Q4'16 Adjusted EPS of $0.33 and FY '16 adjusted EPS was $1.09 vs. consensus of $0.33 and $1.08, towards the high end of the company's EPS guidance range of $1.05 - $1.10. Consolidated operating earnings for Q4 were $5 million higher. On a segment basis, the gas distribution segment was $4.2 million higher compared to prior year driven by higher net revenues of $49.6 million from rate increases, offset by higher operating expense of $45.5 million, due to higher taxes, employee related costs, outside services, and higher depreciation. The electric segment was $7.4 million higher compared to prior year. Higher net revenues of $29.7 million from rate increases were offset by higher operating expense of $22.3 million, driven by higher employee related costs, outside services, and higher depreciation. Corporate and other operations were ($6.6) million unfavorable primarily due to unrealized losses on the cash surrender value of corporate owned life insurance investments.

NI Reaffirmed The '17 EPS Guidance Range And Increased The '17 Cap-x Forecast. NI reaffirmed its overall 2017 earnings guidance of $1.12 - $1.18 per share; EVRISI and consensus are at $1.15/$1.16 respectively. cap-x forecast for '17 increased from $1.5 billion to be in the range of $1.6 billion - $1.7 billion, at the mid-point that's an increase of 10%. We are maintaining our '17-'19 forecast of $1.15/$1.21/$1.29. Our'17 estimates are more or less at the mid-point of company's guidance range. Our forecast for'16 - '19 translates to an average EPS growth rate of 6%, at the high end of company's EPS growth guidance of 4-6%. Our EPS forecast is underpinned by rate base growth for their Gas/Electric segments at ~8%/4.0% for '16 to 19 with combined rate base growth at ~6.5% towards the low end of company's rate base growth guidance of 6-8%.

Maintaining our $23 Price Target and Hold Rating. The utility group is now at +/-16.6x P/E on FY '19 EPS, a shade higher than our proprietary DDM valuation model derives as the average fair valuation for our group of +/-16.2x on FY '19 EPS. Our $23 price target is 17.8x our 2019 EPS forecast, a ~10% premium to our average target multiple of 16.2x. We think a 10% premium is warranted especially relative to predominantly electric utilities that are, in our view, facing a more challenging growth profile therefore medium to longer term headwinds for rate base growth. Our valuation is tempered by NI's high parent leverage. There could be modest upside to our forecast if the 10% increase in NI's capital plan carries through to future years as well. A $150m increases in cap-x for '17-'19 if it carried through to rate base would increase earnings power in 2019 by $0.06/share or 5% vs. our current '19 estimate, which would increase the EPS growth rate over the forecast period by 1% from 6% to 7%. So an increase in the EPS growth rate target from 4-6% to 5-7% is not out of the question. At our current target multiple that would mean upside to $24/share. On the flip side NI could also face potential headwinds from tax reform, which we discuss below. We expect these issues to be discussed at the NI analyst day on 3/8/17.

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Implications of Possible Trump Tax Reform. NI discussed possible implications of a tax reform at a high level during its earnings call without quantifying any impacts. The company stated that most tax changes would be reflected in customer rates resulting in no/minimal impact on regulated earnings and modest impact on cash flow. NI expects loss of interest deductibility and/or a lower tax rate to be modestly dilutive to earnings. We don't subscribe to this view as NI is one of the most levered holding companies in our coverage universe, with parent debt accounting for roughly 30% of overall debt versus our coverage universe average of 20%. Furthermore NI is not expected to pay cash taxes through our forecast period, and we see the cash flow drag from a lower tax rate at the utilities as a meaningful impact on earnings in '19. See our industry note on this topic on 02/01 [here] for additional detail.

Under a potential Trump tax regime lowering the FIT from 35% to 20% and with 100% bonus depreciation but loss of interest deductibility only prospectively, we see NI having higher than average exposure vs. peers to a potential negative earnings impact, before offsets. We see their relatively high parent debt balance partially losing its tax shield for a net impact of -$0.07/share in 2019. The impact of a lower FIT rate on regulated cash flows would be -$0.04/share and 100% bonus depreciation would impact 2019 by an additional -$0.02/share, for a total impact of -$0.14/share or 10.6% off our 2019 current estimate in our base case. As we said above, a 10% Cap-x increase ($150M) per year from '17-'19 would be $0.06/share accretive and would help offset roughly a bit less than one-half of the total $0.14/share impact.

Rate Case Update: New rates became effective December 19 last year, at the Columbia Gas of Pennsylvania utility, increasing annual revenues by $35 million. In Virginia, a settlement amongst various parties to the case was filed on January 17, if approved as filed it would allow for about a $29 million annual revenue increase in first half of '17. In Kentucky, the company implemented new base rates on December 27, 2016 increasing annual revenue by about $13 million. Columbia Gas Of Maryland implemented new base rates on October 27, 2016 which support a rate increase of $4 million. The Massachusetts subsidiary implemented revised rates under the 2015 base rate case settlement that provides for incremental $4 million in revenues effective November 1, 2016. On the electric side new rates became effective October 1, 2016 under NIPSCO's electric base rate case settlement which would increase NIPSCO's annual revenues by $73 million.

NI Subsidiary NIPSCO Files IRP & Proposes Retirement Of Four Indiana Coal Units. NiSource's largest subsidiary Northern Indiana Public Service Company (NIPSCO), which serves about 810,000 natural gas and 460,000 electric customers on 11/01/16, submitted its Integrated Resource Plan to the IURC that outlines NIPSCO's plans to meet its customers' anticipated long-term energy needs. Under the plan, NIPSCO is proposing to retire 50% of its coal-fired generating fleets by the end of 2023 including Bailly Generating Station Units 7 and 8 and R.M. Schahfer Generating Station Units 17 and 18. The Midcontinent Independent System Operator has approved closure of Bailly Units 7 and 8 by mid-2018. Assuming the plants were to stay open, over the next seven years NIPSCO expects to incur ~$1 billion in additional costs at those plants to comply with new environmental regulations such as such as the U.S. EPA's final coal ash and effluent rules, which take effect starting in 2018. NIPSCO in its plan provided an expected view of replacement capacity in the middle of the next decade, predominantly combined cycle generation, analyzing a range of options including power purchases, energy efficiency, and new renewable. Should this proposal move through the stakeholder process and be implemented it could be positive for ratepayers and shareholders, moving away from older and expensive coal fired plants to more environmentally attractive options that could be more cost efficient like combined cycle gas plants.

Valuation Method and Key Risks to Our Thesis. Using our proprietary Dividend Discount Model we value NI at $23/share, which is 17.8x our 2019 EPS estimate of $1.29. The majority of NiSource's net revenues are subject to economic regulation and are exposed to the impact of regulatory rate reviews and proceedings; risks to our thesis include unfavorable regulatory outcomes leading to lower rate base growth and/or lower allowed or earned ROE's. Upside to our thesis would be driven by further increase in capital spending leading to accelerating rate base growth due to favorable regulatory treatment of such spending and or rising authorized/ earned ROE's

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2017-02-22)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$53.97	$54.50
AEP	American Electric Power	Hold	$65.31	$66.50
AGR	Avangrid Inc	Hold	$43.11	$44.00
CPN	Calpine Corp.	Buy	$11.79	$16.00
CNP	CenterPoint Energy, Inc.	Hold	$26.57	$26.00
CMS	CMS Energy Corp.	Hold	$43.76	$44.50
ED	Consolidated Edison Inc.	Hold	$75.01	$74.00
D	Dominion Resources Inc.	Hold	$75.35	$74.00
DTE	DTE Energy Co.	Hold	$99.29	$99.00
DUK	Duke Energy Corp.	Hold	$79.87	$79.00
DYN	Dynegy Inc.	Buy	$9.00	$15.00
EIX	Edison International	Hold	$77.19	$78.00
ETR	Entergy Corp.	Hold	$73.71	$75.00
ES	Eversource Energy	Hold	$57.60	$56.00
EXC	Exelon Corp.	Buy	$35.69	$39.00
FE	FirstEnergy Corp.	Buy	$30.79	$34.50
HE	Hawaiian Electric Industries Inc.	Hold	$32.65	$31.00
HIFR	InfraREIT, Inc.	Buy	$16.78	$19.00
NEE	NextEra Energy Inc	Buy	$128.44	$137.00
NI	NiSource Inc	Hold	$23.17	$23.00
NRG	NRG Energy Inc.	Buy	$16.83	$20.00
NYLD	NRG Yield, Inc.	Buy	$17.70	$20.00
PCG	PG&E Corp.	Buy	$64.76	$65.50
PNW	Pinnacle West Capital Corp.	Hold	$79.72	$80.00
PPL	PPL Corp.	Hold	$36.20	$35.00
PEG	Public Service Enterprise Group	Hold	$44.27	$44.00
SRE	Sempra Energy	Buy	$107.15	$115.00
SO	Southern Co.	Hold	$48.99	$50.00
AES	The AES Corporation	Buy	$11.60	$12.25
WEC	WEC Energy Group, Inc.	Hold	$58.40	$59.50
WR	Westar Energy Inc.	Hold	$53.25	$58.25
XEL	Xcel Energy Inc.	Hold	$42.49	$41.50

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Time of dissemination: February 23, 2017, 14:27 ET.

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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 ratings categories, with the following return guidelines:

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%
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".

Historical Ratings Definitions

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.
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 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 equal 100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Buy, Hold and Sell. However, for the purposes of ratings distribution disclosure only (below), FINRA requires members who use a ratings system with terms different than "Buy," "Hold/Neutral" and "Sell," to equate their own ratings to these categories. **For this purpose, our Long, No Position and Short ratings can be equated to Buy, Hold and Sell respectively.**

Evercore ISI ratings distribution (as of 02/23/2017)

Coverage Universe

Ratings	Count	Pct.
Buy	347	50%
Hold	287	41%
Sell	36	5%
Coverage Suspended	15	2%
Rating Suspended	8	1%

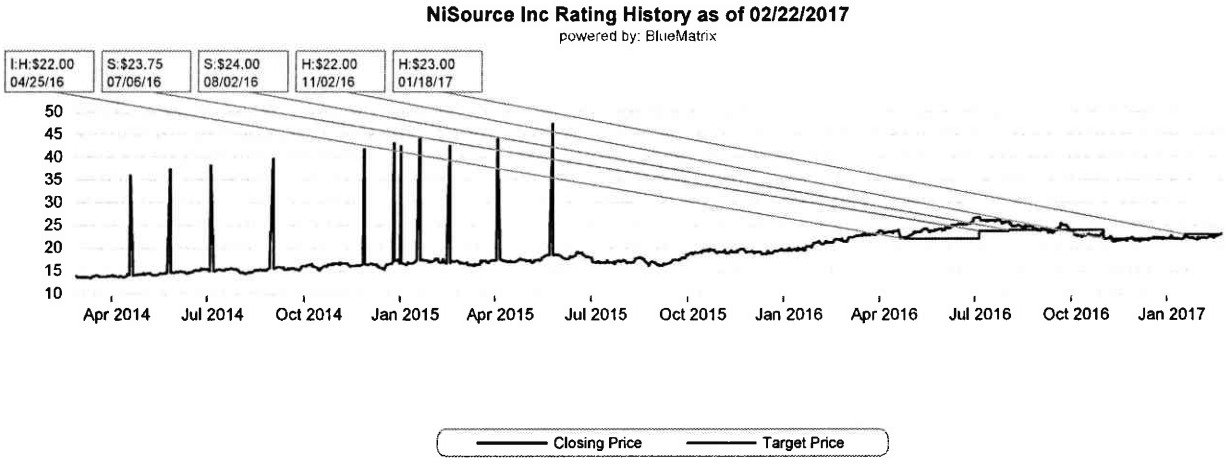
Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	54	16%
Hold	14	5%
Sell	1	3%
Coverage Suspended	2	13%
Rating Suspended	1	12%

Issuer-Specific Disclosures (as of February 23, 2017)

Evercore ISI or an affiliate expects to receive or intends to seek compensation for investment banking services from this subject company NiSource Inc within the next three months.

Price Charts



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This report is intended for RGHulen@NiSource.com at Ni Source. Unauthorized distribution of this report is prohibited.

GUGGENHEIM

People. Ideas. Success.

NiSource Inc.

NI – Outlook Intact with Updated CapEx; Expecting Deeper Dive into Infrastructure Plan at the Upcoming Analyst Day

February 22, 2017

Upsized 2017 CapEx to $1.6-1.7bn. Management updated 2017 infrastructure investment plan to $1.6-1.7bn from the previously announced $1.5bn, driven primarily by incremental investments in the electric side of the business. Upsizing the capex plan is not a surprise to us as we highlighted in our previous note that NI was getting into a better position to update its CAPEX outlook with peak rate case cycle coming to an end, although we expected management to raise the current guided growth trajectory of 4-6%, which is conservative in our view. **That said, the analyst day is right around the corner (March 2017) and could be the next NT potential catalyst for NI as several items may come together** – management expects to provide a deeper dive into the infrastructure investment plan and we could potentially see EPS growth increased, especially as the first wave of rate cases moves behind us; customer growth is another obvious lever to pull, in our view, as management highlighted previously that policy measures are in place, or being pursued, to allow for an increase in the customer growth trajectory, which could see it up to 1% over the next 3-5yrs.

2016 results in-line with management's outlook; 2017 guidance reaffirmed. NI reported 4Q16 adjusted earnings of $0.34, in-line with consensus expectations, although slightly below our estimate of $0.36. 4Q16 performance brought full year results to $1.09, which was towards the top-end of management's expectations for 2016 of $1.05-1.10, driven primarily by continued infrastructure investments at regulated utilities. NI reaffirmed its full year 2017 outlook for $1.12-1.18, which is consistent with our estimate of $1.18.

Quiet on the regulatory front in 2017 as peak cadence in the rate case cycle comes to an end. NI delivered solid results in 2016 on regulatory outcomes, including gas base rate case settlement approvals in KY, MD and PA, and approvals of settlements in electric base rate case in IN, as well as multiple tracker updates for a combined $125mm spending recovery. We expect rate cases to continue at slower pace in 2017, with only one rate case settlement awaiting approval in VA ($37.0mm gas revenue ask vs. $28.0mm settled; rates in effect Oct.1, 2016 subject to refund); final approval from VA SCC is expected by March 2017.

Tax reform will likely have only modest cash impact on NI. Management briefly touched upon tax reform, indicating minimal to no impact on regulated earnings and only a modest cash impact at the parent level given the fairly big chunk of debt (~ $8bn) at the parent level. NI estimated lowering the tax rate to 20% would be dilutive to earnings due to expected losses, and would expect lower earnings if interest was no longer able to be deducted, although it is not able to quantify the impact given the early stage of the tax reform discussion.

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NI BUY

EARNINGS RELEASE

SHARE PRICE	$22.99
PRICE TARGET	$25.00

EPS ($) (FY Dec)	1Q	2Q	3Q	4Q	FY
2016	0.60	0.08	0.06	0.34	1.09
Prior	—	—	—	*0.36*	*1.11*
P/E					21.1x
2017	0.60E	0.11E	0.10E	0.36E	1.18E
Prior	*0.61E*	—	—	—	—
P/E					19.5x
2018	0.64E	0.12E	0.10E	0.39E	1.25E
Prior	—	—	—	—	*1.26E*
P/E					18.4x

Market Data	
Price	$22.99
52-Week Range	$20.94 - $26.94
Market Cap (M)	$7,420
ADV (3 mo; 000)	2,874

Valuation

We value NI as a regulated utility, arriving at our $25 PT utilizing a sum-of-the-parts analysis, based on: (1) $9/share for regulated electric utility when we apply our group average regulated electric utility multiple of 15.5x based on our BBB bond regression, plus a one turn premium to account for higher growth potential versus what is being reflected in fundamentals; (2) $17/share value for the regulated gas segment utilizing our regulated electric P/E multiple plus a premium to account for the historical gas LDC spread above electric counterparts; and (3) - $1/share for other adjustments.

Risks

The primary risks to 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.

Additional risk factors for NiSource Inc. include: Potential RFPs to be issued based on the 2016 IRP's outcome. The outcome is dependent on elements such as the LT load growth rate, and commission assessment of needs; an order not aligned with those estimated by NI may result in lower earnings.

NISOURCE INC.

SECTOR: **POWER AND UTILITIES** **February 22, 2017**

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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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NISOURCE INC.

SECTOR: **POWER AND UTILITIES** **February 22, 2017**

Price targets are assigned for Buy- and Sell-rated stocks. Price targets for Neutral-rated stocks are provided at the discretion of the analyst.

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NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	192	62.95%	27	14.06%
Neutral	111	36.39%	6	5.41%
Sell	2	0.66%	0	0.00%

OTHER DISCLOSURES

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February 23, 2017

COMPANY UPDATE

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company reports solid fourth quarter results and reaffirms 2017 earnings guidance

Key Metrics

NI - NYSE (Price as of 2/22/17)	$23.17
Price Target	NA
52-Week Range	$26.94 - $20.94
Shares Outstanding (mm)	322.9
Market Cap. ($mm)	$7,481
3-Mo. Average Daily Volume	2,847,000
Institutional Ownership	81.0%
Debt/Total Capital (12/31)	59.8%
ROE (ttm)	8.3%
Book Value/Share	$12.03
Price/Book Value	1.9x
Indicated Dividend / Yield	$0.70 3.0%
Dividend Cycle	Feb., May, Aug., Nov.

EPS FY 12/31

	2015	Prior 2016E	2016A	Prior 2017E	Curr. 2017E
1Q		–		–	–
2Q		–		–	–
3Q		–		–	–
4Q		–		–	–
Year	$0.94		$1.09		$1.17
P/E	24.6x		21.2x		19.8x
Payout	62%		61%		60%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2015	Prior 2016E	2016A	Prior 2017E	Curr. 2017E
1Q		–		–	–
2Q		–		–	–
3Q		–		–	–
4Q		–		–	–
Year	$3,008		$3,102	–	$3,215

Company Description: *Based in Merrillville, Ind., NiSource Inc. is one of the largest fully-regulated utility companies in the United States, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands.*

Investment Highlights

- **NiSource reported fourth quarter operating earnings of $0.33 per share versus $0.31 per share in 2015's fourth quarter.** Earnings were essentially in line with expectations. For the full year, NiSource earned $1.09 per share compared to $0.94 per share in 2015. Last year marked the first one in which NI operated exclusively as a regulated utility. Both of the company's primary businesses, gas distribution and electric operations, posted year-over-year higher earnings contributions. NiSource's gas distribution business reported 2016 operating earnings of $597.6 million, an increase of $29.8 million from 2015. Results were boosted by new rates, infrastructure replacement programs and an increase in customers. NI's electric operations unit reported operating earnings of $302.3 million in 2016, up $22.8 million from the previous year. In sum, we thought it was a fine year for NiSource.
- **Management reaffirmed 2017 earnings guidance.** NiSource continues to expect 2017 operating earnings to be in a range between $1.12 to $1.18 per share. We are maintaining our 2017 EPS estimate of $1.17 per share. Also, NiSource revised upward its estimated capital spending plans for 2017. The company now anticipates it will make approximately $1.6 to $1.7 billion in planned infrastructure investments in 2017, up from $1.5 billion previously. NI continues to target 4% to 6% annual earnings and dividend growth.
- **Company raises dividend.** On January 27, NI increased its annual dividend by 6.1% to $0.70 per share. The current yield on the stock is 3.0%.
- **We have a Neutral rating on NiSource due to valuation.** However, we continue to believe the company has a solid fundamental outlook. We feel NI has an attractive mix of regulated gas and electric assets. In our view, NI's ongoing infrastructure investments will allow for consistent earnings and dividend growth.

Note Important Disclosures on Pages 2 and 3.
Note Analyst Certification on Page 2.

Suitability
We assign a 2 suitability rating to NiSource. This company generates 100% of its earnings from its regulated electric and natural gas utility businesses which provides consistency to financial results. Earnings and dividends are expected to trend steadily higher. Thus, we regard NiSource as a suitable holding for utility investors seeking total return.

Additional information is available upon request.

Analyst Certification

I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

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Investment Ratings
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings
1 - A large cap, core holding with a solid history
2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

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FLASH NOTE

Company Update

USA | Energy | Natural Gas

February 22, 2017

Jefferies

NiSource Inc. (NI)

Below the Line Drives In-line 4Q

HOLD
Bloomberg NYSE: NI
Price target $22.00
Price $22.99^

^Prior trading day's closing price unless otherwise noted.

EQUITY RESEARCH AMERICAS

Key Takeaway

NI realized recurring 4Q16 diluted EPS of 33¢, in-line with our 33¢ estimate & the Street's 33¢ mean forecast; EBITDA of $398mm was also roughly in-line with our $404mm projection. With results, mgmt affirmed its 2017 non-GAAP EPS guidance of $1.12-$1.18, but lifted its anticipated 2017 capex range to $1.6-$1.7B, from a previous $1.5B estimate, to primarily reflect spend associated with the repositioning & enhanced reliability of its electric generation fleet.

4Q performance highlights. While 4Q operating income fell short of our expectations across each of NI's business segments, primarily due to above-forecast O&M expenses, improved below-the-line items offset to produce recurring net income ($107.6mm) and EPS (33¢) which were both in-line with JEFe ($107.1mm & 33¢, respectively). Importantly, recurring results exclude certain one-time items and also adjust for the effects of non-normal weather; in 4Q, a total $29mm pre-tax benefit is realized to adjust for warmer-than normal temps, asset sale gains, plant retirement costs (Bailly Units 7 & 8), and transaction expenses. For 2016, NI realized recurring EPS of $1.09, in-line with its $1.05-$1.10 non-GAAP guidance.

Gas Distribution regulatory update. On Dec. 19th, new rates became effective at Columbia Gas of PA (CPA) following the PA PUC's approval of a joint base rate settlement agreement; new rates are expected to lift CPA's top line by ~$35mm in 2017. On Jan. 12th, Columbia Gas of VA (CVA) reached a settlement with the VA SCC pertaining to its base rate case; the settlement, if approved as filed, would increase CVA's annual revenues by $28.5mm & a final SCC decision is expected in the first half of the year. On Dec. 27th, Columbia Gas of KY (CKY) implemented new base rates which are expected to lift its annual revenues by $13.1mm. Meanwhile, Columbia Gas of MD (CMD) implemented a ~$3.7mm base rate increase in 4Q and Columbia Gas of MA (CMA) revised rates under its 2015 base rate case settlement, providing an incremental revenue increase of $3.6mm above the $32.8mm raise which took effect in Nov. 2015. NIPSCO continues to execute on its gas infrastructure modernization program and continued system modernization & safety improvements are being pursued across all NI jurisdictions.

NIPSCO Electric Distribution update. On Oct. 1st, new rates became effective under NIPSCO's electric base rate settlement, which was approved by the IURC on July 18th; the settlement increases NIPSCO's annual revenues by $72.5mm and provides a platform for continued investments & service improvements. On Nov. 1st, NIPSCO submitted its Integrated Resource Plan (IRP) to the IURC, outlining its plan to meet customers' long-term energy needs. In its IRP, NIPSCO outlined a plan to retire 50% of its coal-fired generation fleet, including Bailly Units 7 & 8 by mid-2018 and Schahfer Units 17 & 18 by year-end 2023; MISO has approved the closure of the Bailly units in the middle of next year. Meanwhile, NIPSCO's IRP also requests IURC approval to invest $400mm in required environmental upgrades at its Michigan City Unit 12 & RMSGS Units 14 & 15.

Dividend increased, new cadence announced. On Jan. 27th, NI declared a common dividend of 17.5¢, which was paid on Feb. 17th; the new annualized dividend of 70¢ represents a 6.1% y/y increase. While NI has historically announced dividend increases in May, mgmt confirmed with its Jan. raise a new cadence whereby increases will now occur at the start of the year. Aside from its timing, the dividend raise was in-line with JEFe.

2017 EPS guidance reiterated, capex increased. With results, mgmt affirmed its non-GAAP 2017 EPS guidance of $1.12-$1.18 (vs. JEFe of $1.17), provided with 3Q results & consistent with its previously articulated 4-6% EPS growth rate. However, mgmt lifted its anticipated 2017 capex to $1.6-$1.7B, from $1.5B previously, to primarily reflect spending associated with the repositioning & enchanced reliability of its electric generating fleet.

Conference call info: Today @ 9AM EST. Dial-in: 855.219.9570; Passcode: 49967771.

Please see the following page for more detail on 4Q results.

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Exhibit 1: NI 4Q16 Results Review

Operating Income by Division	Actual 4Q16A	JEF Expectation 4Q16E		Year-over-Year 4Q15A	
Gas Distribution	$189.0	$192.2	-1.7%	$184.8	2.3%
Electric Operations	$61.5	$69.1	-10.9%	$54.1	13.7%
Corporate, Other, and Eliminations	$3.4	$6.7	-48.9%	$10.0	66.0%
Total Operating Income	**$253.9**	**$267.9**	**-5.2%**	**$248.9**	**2.0%**
Depreciation	($141.1)	($136.3)	3.5%	($133.4)	5.8%
Other Income / (Expenses)	$3.4	$0.0	NA	$5.8	-41.4%
Interest Expense	($88.0)	($93.7)	-6.1%	($94.3)	-6.7%
Income Tax Benefit (Expense)	($61.7)	($67.1)	-8.0%	($60.9)	1.2%
Recurring Net Income	**$107.6**	**$107.1**	**0.4%**	**$99.5**	**8.2%**
Avg Diluted Shares Outstanding	324.5	324.6	0.0%	321.1	1.1%
Earnings Per Diluted Share	**$0.33**	**$0.33**	**0.5%**	**$0.31**	**7.1%**
EBITDA ($MM)	**$398**	**$404**	**-1.4%**	**$388**	**2.7%**
Capex & Affiliate Investments	**$392**	**$417**	**-6.0%**	**$437**	**-10.4%**

Source: NI reports & Jefferies Estimates

Note: Recurring results exclude certain one-time items and also normalize for the effects of non-normal weather, consistent with the approach adopted by NI. For example, 4Q16 recurring results adjust for an estimated $7.2mm revenue impact from warmer than normal weather conditions and exclude $22.1mm in pre-tax plant retirement costs (Bailly Units 7 & 8), $0.3mm in pre-tax costs associated with the separation of CPG, and $0.6mm in pre-tax gains on asset sales. Figures are in millions except per-share measurements.

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Please see important disclosure information on pages 3 - 6 of this report.

NI

Company Update

February 22, 2017

Company Description

NiSource, Inc. (NYSE: NI) is a diversified energy holding company whose subsidiaries provide natural gas, electricity, and other energy products & services to nearly 4 million US customers. The Company operates through three segments: Gas Distribution, Columbia Pipeline Group, and Electric. The Gas Distribution operations provide natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana and Massachusetts. Columbia Pipeline Group offers gas transportation and storage services for Local distribution companies, marketers and industrial and commercial customers located in Northeastern, Mid-Atlantic, Midwestern and Southern states. The Electric Operations segment provides electric service in various counties in the northern part of Indiana. NiSource was founded in 1987, is incorporated under the laws of the state of Delaware, and is headquartered in Merrillville, IN.

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Investment Recommendation Record

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

Recommendation Published	, 09:13 ET. February 22, 2017
Recommendation Distributed	, 09:13 ET. February 22, 2017

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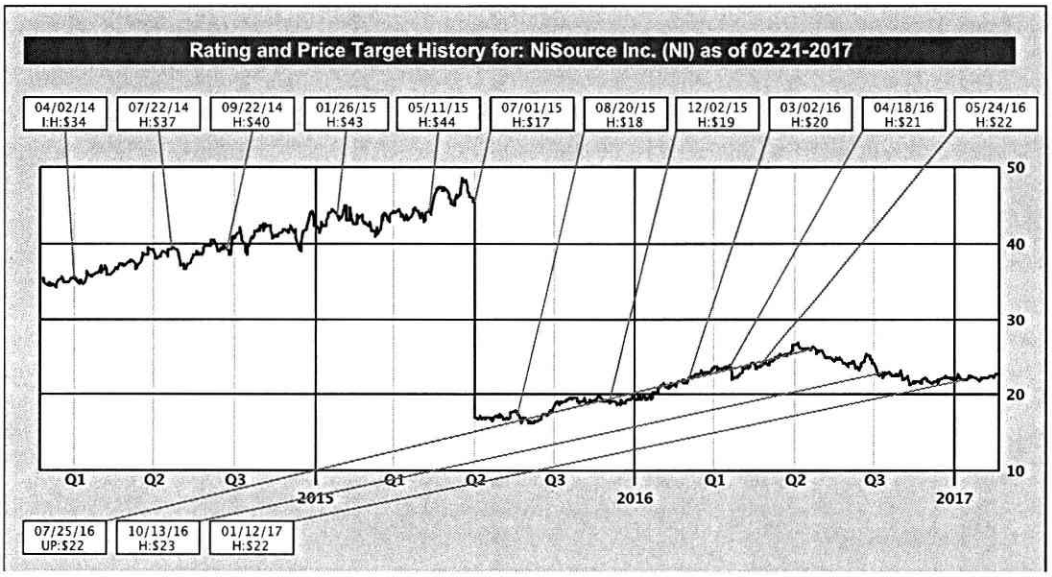

Notes: Each box in the Rating and Price Target History chart above represents actions over the past three years in which an analyst initiated on a company, made a change to a rating or price target of a company or discontinued coverage of a company.
Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	1113	50.64%	333	29.92%
HOLD	909	41.36%	175	19.25%
UNDERPERFORM	176	8.01%	15	8.52%

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NI

Company Update

February 22, 2017

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Disseminated 22 Feb 2017 08:02 PM EST

J.P.Morgan

North America Equity Research
22 February 2017

NiSource Inc.

Model Update

Neutral

NI, NI US
Price: $23.17

▼ **Price Target: $24.00**
Previous: $25.00

We are updating our model to incorporate our revised assumptions after NI reported Q4'16 earnings. We are revising our PT downward to $24 from $25 previously to reflect a lower US regulated peer utility multiple relative to our prior update.

Utilities and Power

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J.P. Morgan Securities LLC

	YTD	1m	3m	12m
Abs	4.4%	2.9%	6.1%	5.8%
Rel	-0.3%	-1.1%	-1.2%	-15.7%

NiSource Inc. (NI;NI US)

FYE Dec	2015A	2016A	2017E (Prev)	2017E (Curr)	2018E (Prev)	2018E (Curr)	2019E (Prev)	2019E (Curr)
EPS ($)								
Q1 (Mar)	0.85	0.60	-	0.63	-	-	-	-
Q2 (Jun)	0.18	0.08	-	-	-	-	-	-
Q3 (Sep)	0.06	0.06	-	-	-	-	-	-
Q4 (Dec)	0.31	0.33	-	-	-	-	-	-
FY	0.94	1.09	1.15	1.15	1.21	1.20	1.27	1.27

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	23.17
Date Of Price	22 Feb 17
52-week Range ($)	26.94-20.94
Market Cap ($ mn)	7,467.69
Fiscal Year End	Dec
Shares O/S (mn)	322
Price Target ($)	24.00
Price Target End Date	31-Dec-17

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Investment Thesis, Valuation and Risks

NiSource Inc. *(Neutral; Price Target: $24.00)*

Investment Thesis

We believe NiSource has top-tier investment potential relative to peers given its eight utilities in seven states and robust capital spending runway. We expect this capital to be deployed accretively given solid authorized ROEs, an efficient balance sheet with elevated leverage, and an array of low-lag regulatory constructs. For these reasons, as well as the 6-8%+ rate base growth potential, we expect NI to achieve the top end of its 4-6% long-term EPS growth guidance, but see this reflected in the current valuation.

Valuation

We are lowering our December 2017 price target from $25/share to $24/share. Our price target is based on a sum-of-the-parts analysis and uses our 2019 electric and gas segment EPS forecasts. We value the gas segment using a 21.2x P/E multiple, a modest discount to gas utility peers and we value the electric segment using a 17.9x P/E multiple, in-line with pure regulated electric utility peers due to the favorable rate construct in IN offset by regulatory risk from the new Integrate Resource Plan. Our PT decreases from $25 to $24 due to lower peer multiples applied to consistent earnings estimates relative to our prior update.

Risk to Rating and Price Target

- Regulated electric transmission and distribution earnings are vulnerable to mild weather as regulated revenues are calculated based on energy volumes sold. Extreme or mild temperatures may cause future earnings to differ materially from our current forecasts.
- 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. Positive or negative changes to the regulatory environments may cause future earnings potential to differ materially from current expectations.

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NiSource Inc.: Summary of Financials

Income Statement - Annual	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	**4,667**	**4,505**	**4,629**	**4,721**	**4,807**
COGS	(1,644)	(1,390)	(1,390)	(1,390)	(1,390)
Gross profit	**3,024**	**3,115**	**3,238**	**3,330**	**3,416**
SG&A	(1,667)	(1,673)	(1,703)	(1,722)	(1,739)
Adj. EBITDA	**1,374**	**1,443**	**1,536**	**1,608**	**1,677**
D&A	(524)	(547)	(561)	(584)	(603)
Adj. EBIT	**850**	**896**	**975**	**1,025**	**1,074**
Net Interest	(380)	(350)	(369)	(369)	(365)
Adj. PBT	**469**	**546**	**606**	**655**	**709**
Tax	(171)	(195)	(227)	(246)	(267)
Minority Interest	0	0	0	0	0
Adj. Net Income	**299**	**351**	**380**	**410**	**443**
Reported EPS	0.94	1.09	1.15	1.20	1.27
Adj. EPS	**0.94**	**1.09**	**1.15**	**1.20**	**1.27**
DPS	**0.83**	**0.64**	**0.68**	**0.71**	**0.75**
Payout ratio	88.3%	58.6%	58.7%	59.4%	58.9%
Shares outstanding	320	323	336	348	350

Income Statement - Quarterly	1Q17E	2Q17E	3Q17E	4Q17E
Revenue	**1,484**			
COGS	(497)	-	-	-
Gross profit	**987**	-	-	-
SG&A	(430)	-	-	-
Adj. EBITDA	**557**	-	-	-
D&A	(138)	-	-	-
Adj. EBIT	**419**	-	-	-
Net Interest	(90)	-	-	-
Adj. PBT	**329**	-	-	-
Tax	(124)			
Minority Interest	0			
Adj. Net Income	**205**	-	-	-
Reported EPS	0.63	-	-	-
Adj. EPS	**0.63**	-	-	-
DPS	**0.17**	-	-	-
Payout ratio	26.1%	-	-	-
Shares outstanding	326	-	-	-

Balance Sheet & Cash Flow Statement	FY15A	FY16A	FY17E	FY18E	FY19E
Cash and cash equivalents	16	26	0	0	0
Accounts receivable	660	847	847	847	847
Other current assets	902	889	1,057	1,197	1,337
Current assets	**1,577**	**1,762**	**1,904**	**2,044**	**2,184**
PP&E	12,112	13,068	14,206	15,010	15,794
Other non current assets	3,804	3,862	3,862	3,862	3,862
Total assets	**17,493**	**18,692**	**19,972**	**20,915**	**21,839**
Short term borrowings	567	1,488	2,016	2,415	3,281
Payables	433	539	539	539	539
Other short term liabilities	1,657	1,425	896	622	1,062
Current liabilities	**2,658**	**3,452**	**3,451**	**3,576**	**4,882**
Long-term debt	5,949	6,058	6,657	6,765	5,885
Other long term liabilities	5,043	5,110	5,337	5,583	5,849
Total liabilities	**13,649**	**14,621**	**15,445**	**15,923**	**16,616**
Shareholders' equity	3,844	4,071	4,527	4,992	5,224
Minority interests	-	-	-	-	-
Total liabilities & equity	**17,493**	**18,692**	**19,972**	**20,915**	**21,839**
BVPS	**12.02**	**12.60**	**13.47**	**14.33**	**14.91**
y/y Growth	*(38.5%)*	*4.8%*	*6.9%*	*6.4%*	*4.1%*
Net debt/(cash)	6,500	7,520	8,673	9,180	9,166
Cash flow from operating activities	**1,457**	**804**	**999**	**1,099**	**1,172**
o/w Depreciation & amortization	524	547	561	584	603
o/w Changes in working capital	147	(292)	(168)	(140)	(140)
Cash flow from investing activities	**1,945**	**(1,583)**	**(1,699)**	**(1,387)**	**(1,387)**
o/w Capital expenditure	(1,361)	(1,475)	(1,699)	(1,387)	(1,387)
as % of sales	*29.2%*	*32.7%*	*36.7%*	*29.4%*	*28.9%*
Cash flow from financing activities	**(3,412)**	**791**	**145**	**(110)**	**(651)**
o/w Dividends paid	(263)	(206)	(224)	(244)	(261)
o/w Net debt issued/(repaid)	(3,029)	986	70	(166)	(440)
Net change in cash	**(10)**	**12**	**(555)**	**(399)**	**(866)**
Free cashflow to firm	**338**	**(446)**	**(469)**	**(57)**	**13**
y/y Growth	*(179.7%)*	*(232.0%)*	*5.1%*	*(87.8%)*	*(122.4%)*

Ratio Analysis	FY15A	FY16A	FY17E	FY18E	FY19E
Gross margin	64.8%	69.1%	70.0%	70.5%	71.1%
EBITDA margin	29.4%	32.0%	33.2%	34.1%	34.9%
EBIT margin	18.2%	19.9%	21.1%	21.7%	22.3%
Net profit margin	6.4%	7.8%	8.2%	8.7%	9.2%
ROE	6.0%	8.9%	8.8%	8.6%	8.7%
ROA	1.4%	1.9%	2.0%	2.0%	2.1%
ROCE	4.1%	5.2%	4.9%	4.7%	4.7%
SG&A/Sales	35.7%	37.1%	36.8%	36.5%	36.2%
Net debt/equity	169.1%	184.7%	191.6%	183.9%	175.5%
P/E (x)	24.6	21.2	20.1	19.4	18.3
P/BV (x)	1.9	1.8	1.7	1.6	1.6
EV/EBITDA (x)	9.2	9.5	9.5	9.3	9.2
Dividend Yield	3.6%	2.8%	2.9%	3.1%	3.2%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	3.6	4.1	4.2	4.4	4.6
Operating leverage	123.7%	(156.2%)	320.9%	257.3%	266.0%
Revenue y/y Growth	(27.7%)	(3.5%)	2.7%	2.0%	1.8%
EBITDA y/y Growth	(27.6%)	5.0%	6.4%	4.7%	4.3%
Tax rate	36.3%	35.7%	37.4%	37.5%	37.6%
Adj. Net Income y/y Growth	(44.9%)	17.5%	8.1%	7.9%	8.1%
EPS y/y Growth	(45.4%)	16.0%	5.5%	3.9%	5.8%
DPS y/y Growth	(18.6%)	(22.9%)	5.7%	5.0%	5.0%

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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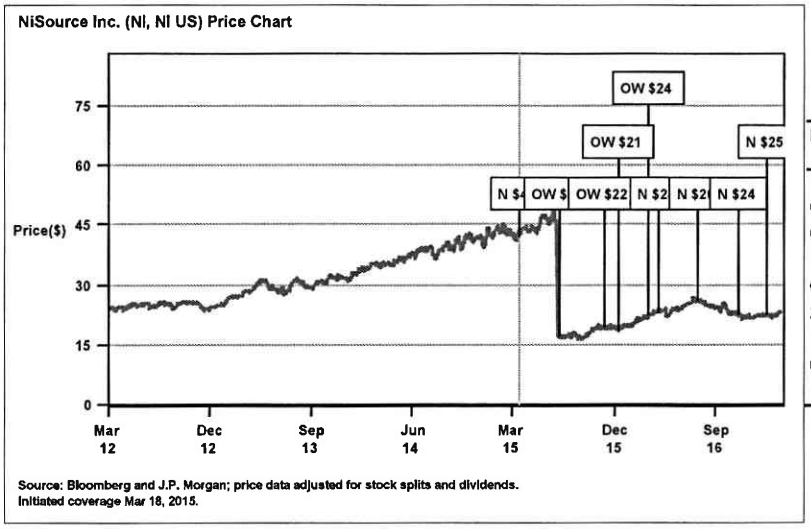

Date	Rating	Share Price ($)	Price Target ($)
18-Mar-15	N	41.92	46.00
09-Jul-15	OW	17.14	20.00
04-Nov-15	OW	19.56	22.00
14-Dec-15	OW	18.71	21.00
04-Mar-16	OW	22.40	24.00
29-Mar-16	N	23.17	24.00
13-Jul-16	N	26.06	26.00
01-Nov-16	N	22.34	24.00
18-Jan-17	N	22.35	25.00

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"Other Disclosures" last revised January 07, 2017.

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KeyBanc Capital Markets

Alert

February 22, 2017

Energy: Multi-Utilities

NYSE: NI

NiSource Inc.

NI - ALERT: 4Q16 Earnings Results in Line; Await Analyst Day

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Key Investment Points

February 21, 2017 Close: $22.99
4Q16 Ongoing EPS: $0.33 vs. $0.31 result in 4Q15/Consensus of $0.33/KBCM of $0.33
Initial Take: We expect a positive response to the increased capex budget.
2016 EPS Estimate: $1.10 (Consensus: $1.08).
2017 EPS Estimate: $1.18 (Consensus: $1.16).

Guidance: NiSource Inc. reaffirmed 2017 guidance of $1.12-$1.18. The 2017 capex budget of $1.5 billion was raised to $1.6 billion-$1.7 billion, with the incremental spend focused on the generation fleet.

Highlights:

- Results were in line with expectations.
- GAAP results for the quarter were $0.28 per share. The major differences between GAAP and ongoing were $0.04 of plant retirement costs incurred and $0.01 of below-normal weather. NI weather normalizes its earnings reports.
- Gas operations operating earnings rose $4.2 million to $189.0 million.
  - Revenues rose nearly $50 million, driven by new rates ($33.6 million) and $20.9 million in higher trackers, which are offset in expenses.
  - Expenses rose $45.4 million on tracker items (above) and employee costs ($15.2 million), outside services ($4.0 million) and depreciation on higher plant balances ($3.8 million)
- Electric operating earnings rose $7.4 million to $61.5 million.
  - Revenues increased $29.7 million on new rates ($22.8 million), trackers, offset in expenses ($11.8 million) and transmission investment ($3.2 million), partly offset by fuel handling costs (-$3.2 million) and the roll-off of deferred MISO amortization (-$2.4 million).
  - Expenses rose $22.3 million on tracker items (above), higher materials and supplies of $7 million, gross receipts taxes rose $6.0 million, outside services were $5.6 million higher, while other costs fell, including depreciation, which fell $4.5 million, and property taxes were $2.1 million lower.
- The Corporate segment reported 4Q operating earnings of $3.4 million vs. $10.0 million.
- Other income expenses fell $3.9 million on lower interest partly offset by lower transmission agreement income.

9:00 a.m. ET Conference Call #: 855-219-9570; Passcode: 49967771

We will be focused on:

- Expense timing
- Electricity demand trends
- Steel customer trends

Disclosure Appendix

NiSource Inc. - NI

NiSource Inc. is an investment banking client of ours.

We have received compensation for investment banking services from NiSource Inc. during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from NiSource Inc. within the next three months.

During the past 12 months, NiSource Inc. has been a client of the firm or its affiliates for non-securities related services.

As of the date of this report, we make a market in NiSource Inc..

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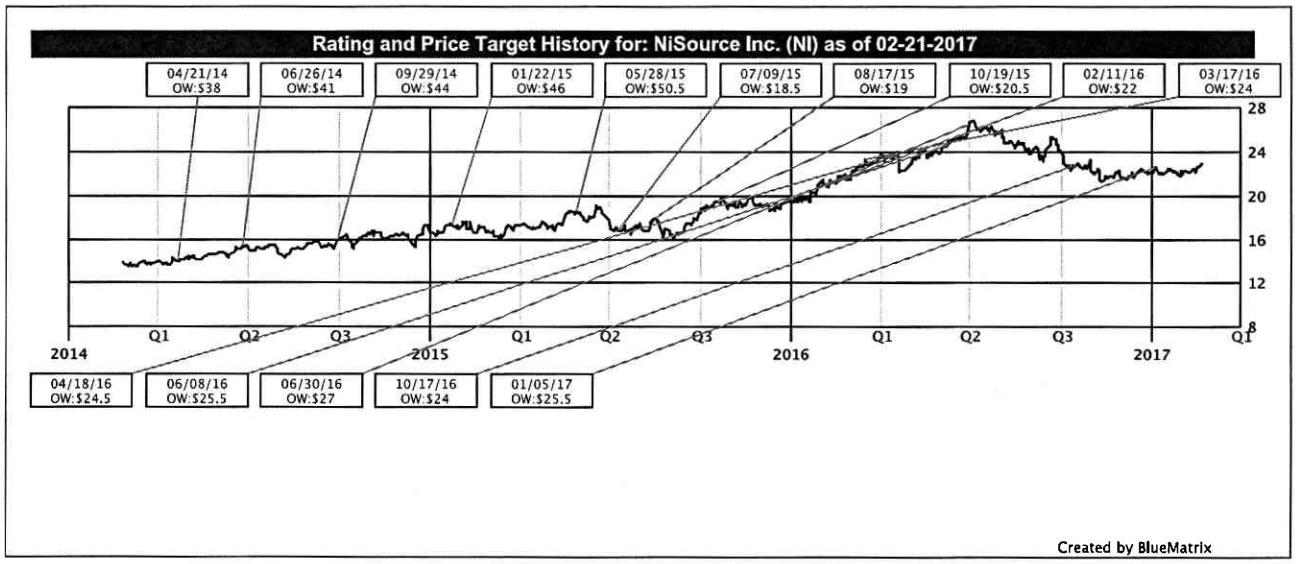
Three-Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		Energy			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
Overweight [OW]	306	43.59	61	19.93	Overweight [OW]	29	47.54	18	62.07
Sector Weight [SW]	384	54.70	43	11.20	Sector Weight [SW]	32	52.46	15	46.88
Underweight [UW]	12	1.71	0	0.00	Underweight [UW]	0	0.00	0	0.00

Disclosure Appendix (cont'd)

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

Underweight - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

Note: KeyBanc Capital Markets changed its rating system after market close on February 27, 2015. The previous ratings were Buy, Hold and Underweight. Additionally, Pacific Crest Securities changed its rating system to match KeyBanc Capital Markets' rating system after market close on April 10, 2015, in conjunction with the merger of the broker dealers. The previous ratings were Outperform, Sector Perform and Underperform.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
22.99 USD	21.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

NiSource Increases Planned Capital Expenditures and Again Announces Above-Target Dividend Growth

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Research as of 22 Feb 2017
Estimates as of 12 Jan 2017
Pricing data through 21 Feb 2017
Rating updated as of 21 Feb 2017

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 22 Feb 2017

We are reaffirming our narrow moat and stable moat trend ratings, along with our $21 per share fair value estimate after NiSource reported solid 2016 earnings, reiterated 2017 guidance and modestly increased its forecast capital expenditures for 2017.

Operating earnings in 2016 were $1.09 per share, $0.02 higher than our estimate and $0.01 above the consensus estimate. NiSource reaffirmed its 2017 EPS guidance of $1.12-$1.18, and our $1.15 estimate is unchanged.

In our opinion, the only significant new item in the release and conference call was the increase in 2017 planned capital spending to $1.6 billion-$1.7 billion versus the previous guidance of $1.5 billion. The new plan is above our estimate of $1.45 billion and we consider this a positive. Higher investments drive earnings growth and dividend increases if regulation is constructive. We believe NiSource's overall regulatory frameworks are constructive for investors and likely to stay that way. In our view, these regulatory frameworks support the company's stable narrow moat.

On Jan. 27, NiSource announced that it would increase its common dividend 6.1% effective with the dividend payable in the 2017 first quarter. This marks the second annual dividend increase above the company's target of 4%-6% since the separation from Columbia Pipeline Group in 2015 and above our long-term estimate of 5%.

Vital Statistics

Market Cap (USD Mil)	7,420
52-Week High (USD)	26.94
52-Week Low (USD)	20.94
52-Week Total Return %	8.1
YTD Total Return %	4.6
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	7.1
5-Yr Forward EPS CAGR %	6.9
Price/Fair Value	1.09

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	9.9	21.0	*21.5*	*20.0*
EV/EBITDA	12.6	9.7	*10.2*	*9.5*
EV/EBIT	18.8	16.1	*16.6*	*15.5*
Free Cash Flow Yield %	-5.3	-3.2	*-3.2*	*-0.4*
Dividend Yield %	2.4	4.2	*2.8*	*2.9*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Revenue	6,471	4,652	*5,407*	*5,671*
Revenue YoY %	14.4	-28.1	*16.2*	*4.9*
EBIT	1,231	802	*910*	*975*
EBIT YoY %	9.3	-34.9	*13.5*	*7.2*
Net Income, Adjusted	534	299	*344*	*369*
Net Income YoY %	8.1	-44.0	*15.1*	*7.4*
Diluted EPS	1.69	0.93	*1.07*	*1.15*
Diluted EPS YoY %	7.0	-44.6	*14.6*	*7.3*
Free Cash Flow	-602	3,741	*-242*	*152*
Free Cash Flow YoY %	58.7	-721.3	*-106.5*	*-162.7*

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 3.4 million customers in Indiana, Kentucky, Maryland, Massachusetts, 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 MW of generation capacity, most of which is coal-fired.

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22.99 USD	21.00 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	2013	2014	2015	Forecast 2016	Forecast 2017	5-Year Proj. CAGR
Revenue	-2.8	11.8	14.4	-28.1	16.2	4.9	7.1
EBIT	-8.3	8.4	9.3	-34.9	13.5	7.2	8.5
EBITDA	-6.1	6.4	7.8	-27.8	12.2	6.8	7.8
Net Income	-11.9	13.0	8.1	-44.0	15.1	7.4	7.6
Diluted EPS	-13.7	8.3	7.0	-44.6	14.6	7.3	6.9
Earnings Before Interest, after Tax	-12.6	-1.0	3.6	-35.0	5.8	37.5	6.6
Free Cash Flow	275.6	-637.2	58.7	-721.3	-106.5	-162.7	-70.5

Profitability	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Operating Margin %	18.7	19.9	19.0	17.2	16.8	17.2	17.6
EBITDA Margin %	29.0	30.1	28.4	28.5	27.5	28.0	28.5
Net Margin %	7.8	8.7	8.3	6.4	6.4	6.5	6.6
Free Cash Flow Margin %	21.5	-6.7	-9.3	80.4	-4.5	2.7	0.5
ROIC %	5.9	5.5	7.1	4.9	4.9	6.5	5.7
Adjusted ROIC %	7.1	6.9	8.7	5.7	5.6	7.3	6.4
Return on Assets %	2.0	2.4	2.2	1.4	1.9	1.9	2.0
Return on Equity %	7.9	9.3	8.8	5.7	8.8	9.1	9.3

Leverage	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Debt/Capital	0.62	0.60	0.62	0.64	0.66	0.66	0.66
Total Debt/EBITDA	5.29	5.19	5.45	5.24	5.11	5.00	4.93
EBITDA/Interest Expense	3.91	4.11	4.14	3.49	4.09	4.09	4.05

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	1.33	1.08	—	—
Price/Earnings	9.9	21.0	21.5	20.0
EV/EBITDA	12.6	9.7	10.2	9.5
EV/EBIT	18.8	16.1	16.6	15.5
Free Cash Flow Yield %	-5.3	-3.2	-3.2	-0.4
Dividend Yield %	2.4	4.2	2.8	2.9

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	5.6
Long-Run Tax Rate %	37.0
Stage II EBI Growth Rate %	4.0
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	111	0.8	0.34
Present Value Stage II	1,880	14.0	5.85
Present Value Stage III	11,485	85.2	35.73
Total Firm Value	**13,475**	**100.0**	**41.92**
Cash and Equivalents	50	—	0.15
Debt	-6,950	—	-21.62
Preferred Stock	—	—	—
Other Adjustments	5	—	0.02
Equity Value	**6,580**	—	**20.47**
Projected Diluted Shares	321		
Fair Value per Share (USD)	**21.00**		

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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22.99 USD	21.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2013	2014	2015	Forecast 2016	Forecast 2017
Revenue	**5,657**	**6,471**	**4,652**	***5,407***	***5,671***
Cost of Goods Sold	1,816	2,224	1,644	*2,203*	*2,314*
Gross Profit	**3,842**	**4,246**	**3,008**	***3,204***	***3,357***
Selling, General & Administrative Expenses	1,874	2,136	1,426	*1,467*	*1,511*
Other Operating Expense (Income)	301	320	256	*250*	*258*
Other Operating Expense (Income)	-36	-47	—	*10*	*10*
Depreciation & Amortization (if reported separately)	577	606	524	*566*	*602*
Operating Income (ex charges)	**1,126**	**1,231**	**802**	***910***	***975***
Restructuring & Other Cash Charges	-18	-32	2	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**1,143**	**1,262**	**800**	***910***	***975***
Interest Expense	415	444	380	*364*	*389*
Interest Income	24	22	-80	—	—
Pre-Tax Income	**753**	**841**	**340**	***546***	***586***
Income Tax Expense	262	310	141	*202*	*217*
Other After-Tax Cash Gains (Losses)	6	-1	104	—	—
Other After-Tax Non-Cash Gains (Losses)	35	—	—	—	—
(Minority Interest)	—	—	-16	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**532**	**530**	**287**	***344***	***369***
Weighted Average Diluted Shares Outstanding	314	317	320	*321*	*321*
Diluted Earnings Per Share	**1.70**	**1.67**	**0.90**	***1.07***	***1.15***
Adjusted Net Income	494	534	299	*344*	*369*
Diluted Earnings Per Share (Adjusted)	**1.58**	**1.69**	**0.93**	***1.07***	***1.15***
Dividends Per Common Share	0.98	1.02	0.83	*0.64*	*0.68*
EBITDA	**1,721**	**1,868**	**1,324**	***1,487***	***1,589***
Adjusted EBITDA	**1,703**	**1,836**	**1,326**	***1,487***	***1,589***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2013	2014	2015	Forecast 2016	Forecast 2017
Cash and Equivalents	35	50	45	*18*	*57*
Investments	—	—	—	—	—
Accounts Receivable	1,006	921	660	*741*	*777*
Inventory	500	586	537	*604*	*634*
Deferred Tax Assets (Current)	—	214	—	—	—
Other Short Term Assets	618	696	335	*350*	*375*
Current Assets	**2,159**	**2,467**	**1,577**	***1,712***	***1,843***
Net Property Plant, and Equipment	14,365	11,057	12,112	*12,937*	*13,786*
Goodwill	3,666	1,691	1,691	*1,691*	*1,691*
Other Intangibles	276	265	254	*243*	*232*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,522	1,545	1,600	*1,797*	*1,822*
Long-Term Non-Operating Assets	666	7,843	260	*260*	*260*
Total Assets	**22,654**	**24,866**	**17,493**	***18,639***	***19,633***
Accounts Payable	619	610	433	*581*	*610*
Short-Term Debt	1,241	1,844	1,001	*1,000*	*1,000*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,319	1,511	1,223	*1,300*	*1,400*
Current Liabilities	**3,178**	**3,964**	**2,658**	***2,881***	***3,010***
Long-Term Debt	7,593	8,156	5,949	*6,600*	*6,950*
Deferred Tax Liabilities (Long-Term)	3,278	2,380	2,365	*2,500*	*2,863*
Other Long-Term Operating Liabilities	1,687	2,996	1,350	*1,350*	*1,350*
Long-Term Non-Operating Liabilities	1,031	1,195	1,327	*1,327*	*1,327*
Total Liabilities	**16,767**	**18,691**	**13,649**	***14,658***	***15,500***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,690	4,788	5,078	*5,083*	*5,088*
Retained Earnings (Deficit)	1,286	1,494	-1,123	*-985*	*-833*
(Treasury Stock)	-49	-59	-79	*-79*	*-79*
Other Equity	-44	-51	-35	*-41*	*-46*
Shareholder's Equity	**5,887**	**6,175**	**3,844**	***3,981***	***4,133***
Minority Interest	—	—	—	—	—
Total Equity	**5,887**	**6,175**	**3,844**	***3,981***	***4,133***

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
22.99 USD	21.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2013	2014	2015	Forecast 2016	Forecast 2017
Net Income	532	530	302	*344*	*369*
Depreciation	577	606	524	*566*	*602*
Amortization	—	—	—	*11*	*11*
Stock-Based Compensation	51	72	51	*37*	*38*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	287	299	135	*135*	*363*
Other Non-Cash Adjustments	-65	-50	-11	—	—
(Increase) Decrease in Accounts Receivable	-95	-63	262	*-81*	*-36*
(Increase) Decrease in Inventory	-9	-120	47	*-67*	*-30*
Change in Other Short-Term Assets	81	9	43	*-15*	*-25*
Increase (Decrease) in Accounts Payable	68	38	-191	*147*	*29*
Change in Other Short-Term Liabilities	—	—	—	*77*	*100*
Cash From Operations	**1,427**	**1,321**	**1,163**	***1,155***	***1,421***
(Capital Expenditures)	-1,880	-2,029	-1,361	*-1,392*	*-1,452*
Net (Acquisitions), Asset Sales, and Disposals	18	13	5	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-148	-101	3,731	*-198*	*-25*
Cash From Investing	**-2,010**	**-2,117**	**2,375**	***-1,589***	***-1,477***
Common Stock Issuance (or Repurchase)	36	20	2	*5*	*5*
Common Stock (Dividends)	-306	-321	-263	*-206*	*-217*
Short-Term Debt Issuance (or Retirement)	-78	878	-936	*-1*	—
Long-Term Debt Issuance (or Retirement)	794	219	-2,186	*652*	*350*
Other Financing Cash Flows	—	—	-137	*-37*	*-38*
Cash From Financing	**445**	**796**	**-3,520**	***413***	***100***
Exchange Rates, Discontinued Ops, etc. (net)	129	-1	-28	*-6*	*-5*
Net Change in Cash	**-10**	**-1**	**-10**	***-27***	***39***

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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, in-depth 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 short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term 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 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.

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 (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 pres-

Morningstar Research Methodology for Valuing Companies

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ent 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 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, 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.

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:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

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 detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

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 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:

Five Stars ★★★★★

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.

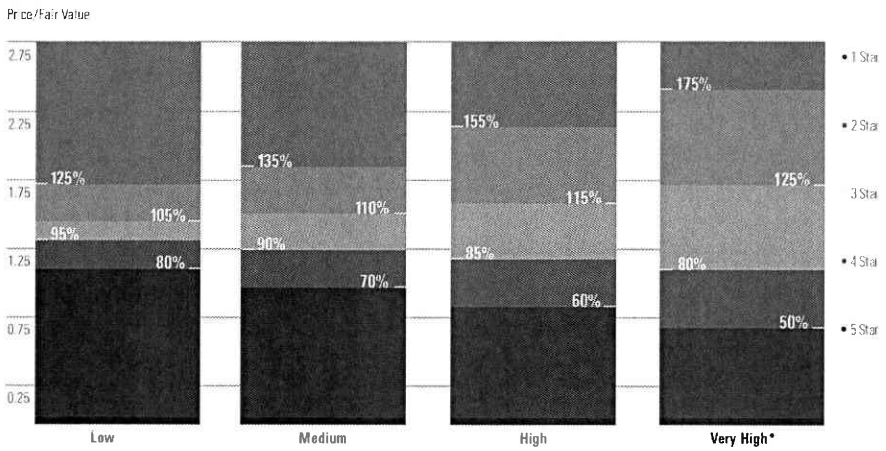
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

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Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
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.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

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.
- **Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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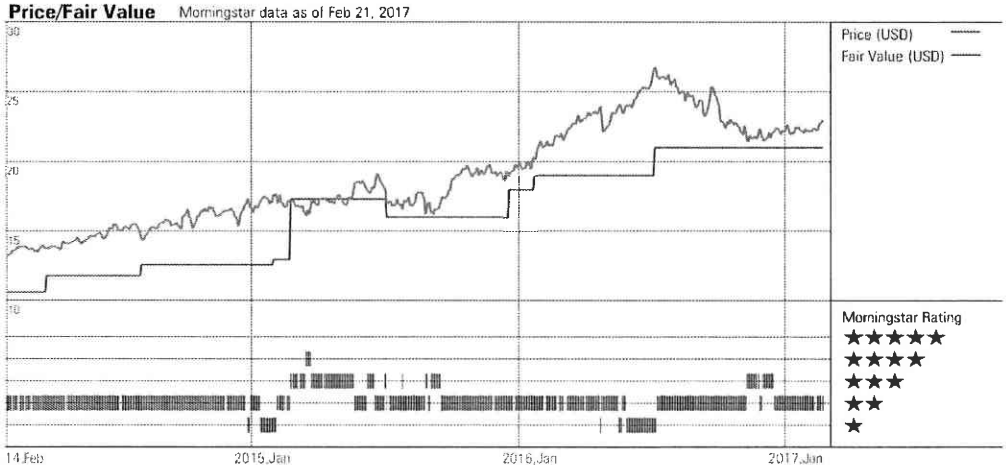
Price/Fair Value Morningstar data as of Feb 21, 2017



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NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
22.99 USD	21.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

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UBS | Global Research | 22 February 2017

NiSource Inc.
CapEx Outlook Raised, Equity Needed?

Equities

Americas
Gas Utilities

12-month rating	**Neutral**
12m price target	**US$23.00**
Price	**US$23.06**

RIC: NI.N **BBG:** NI US

Trading data and key metrics	
52-wk range	US$26.77-21.41
Market cap.	US$7.44bn
Shares o/s	323m (COM)
Free float	99%
Avg. daily volume ('000)	810
Avg. daily value (m)	US$18.0
Common s/h equity (12/17E)	US$4.44bn
P/BV (12/17E)	1.7x
Net debt / EBITDA (12/17E)	5.4x

EPS (UBS, diluted) (US$)

	12/17E			
	From	To	% ch	Cons.
Q1E	0.65	0.67	4	0.64
Q2E	0.14	0.13	-4	0.12
Q3E	0.05	0.08	63	0.07
Q4E	0.31	0.28	-10	0.35
12/17E	1.14	1.15	1	1.16
12/18E	1.20	1.21	1	1.23
12/19E	1.35	1.29	-5	1.28

Continuing to Invest in Rate Base – Leverage Implies Equity Needed

NiSource reiterate its outlook for '17 EPS of $1.12-$1.18 (+2%-8% Y/Y) & raised '17 capex guidance to $1.6bn-$1.7bn from $1.5bn as NI continues to gain regulatory support for infrastructure investment. Given the significant capex spending planned and current leverage of 5.5x, we anticipate that NI will issue equity in '17. NiSource replaced 406 miles of priority pipeline in '16 and pipeline safety and modernization spending was included in recovery in recent rate cases in PA, VA, KY, MD, and NIPSCO. On the potential impact of tax reform, Management expects any benefit will be passed on to utility customers. There could be a "modestly dilutive impact" to EPS if interest deductibility is eliminated due to corporate debt not included in rate base. After a busy '16, '17 should be relatively quiet on the regulatory front. Currently NI is waiting for a final order on the $37mm annual revenue increase approved in the January settlement in VA which is expected in 1H17. We wait for the March 8 Analyst Day for a more detailed outlook.

4Q Slightly Below Expectations

NiSource reported 4Q16 Adj EPS of $0.33, a penny below UBSe of $0.34 and Consensus. Higher than expected operating and maintenance expenses and interest expenses were the primary drivers of the earnings shortfall. We note that earnings exclude $29mm of non-recurring items including weather normalization of $7.2mm due to warmer than normal weather and a $22mm expense related to the retirement of Units 7 & 8 at the Bailey coal generating plant. Operating Earnings at Gas grew 2% Y/Y and Electric 13.7% Y/Y, benefiting from recent rate case settlements and filings.

Raising Estimates

We are raising '17/'18 EPSe to $1.15/$1.21 from $1.14/$1.20 to account for higher expected spending, which will add to rate base & earnings. We are lowering '19 EPSe to $1.29 from $1.35 due to higher interest expense than previously modelled.

Valuation: Maintaining $23 PT & Neutral Rating

We maintain our $23 price target which is derived using an average of sum-of-the-parts EV/EBITDA ($22) and PE ($25) valuations which use comparable company multiples and DDM ($22). We remain Neutral on NI shares due to current valuation.

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Highlights (US$m)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Revenues	6,485	4,612	4,505	4,738	4,926	5,095	5,263	5,418
EBIT (UBS)	1,277	829	894	977	1,050	1,114	1,190	1,252
Net earnings (UBS)	526	295	351	380	413	439	471	495
EPS (UBS, diluted) (US$)	1.66	0.93	1.09	1.15	1.21	1.29	1.37	1.44
DPS (US$)	1.03	0.84	0.66	0.72	0.75	0.79	0.82	0.86
Net (debt) / cash	(9,974)	(6,500)	(7,883)	(8,371)	(8,713)	(9,267)	(9,782)	(10,271)
Profitability/valuation	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
EBIT margin %	19.7	18.0	19.8	20.6	21.3	21.9	22.6	23.1
ROIC (EBIT) %	9.3	7.0	8.9	8.7	8.8	8.9	8.9	8.8
EV/EBITDA (core) x	10.4	12.6	9.3	9.3	9.0	8.9	8.4	8.6
P/E (UBS, diluted) x	22.8	33.6	21.3	20.1	19.0	17.9	16.8	16.0
Equity FCF (UBS) yield %	(5.9)	1.0	(9.0)	(6.5)	(2.2)	(4.8)	(4.2)	(3.7)
Net dividend yield %	2.7	2.7	2.8	3.1	3.3	3.4	3.6	3.7

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$23.06 on 22 Feb 2017 11:15 EST

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Figure 1: NI 4Q16 Earnings Variance

$ in millions	Actual 4Q16	UBSe 4Q16e	% variance	Actual 4Q15	YoY % change
Financial Data					
Revenues	$1,304.2	$1,256.3	*3.8%*	$1,124.9	*15.9%*
Cost of Sales	($440.6)	($408.3)	*7.9%*	($336.4)	*31.0%*
Operating & Maintenance Expenses	($402.4)	($365.6)	*10.1%*	($347.3)	*15.9%*
Depreciation & Amortization	($141.1)	($138.9)	*1.6%*	($133.4)	*5.8%*
Total Expenses	($1,050.3)	($990.6)	*6.0%*	($876.0)	*19.9%*
Adj. EBITDA	$395.0	$404.6	*(2.4%)*	$382.3	*3.3%*
Interest Expense	($88.0)	($87.1)	*1.1%*	($94.3)	*(6.7%)*
Other Expenses	$3.4	$0.0	*NM*	$5.8	*(41.4%)*
Net Income	$107.6	$111.3	*(3.3%)*	$99.6	*8.0%*
EPS	$0.33	$0.34	*(0.8%)*	$0.31	*7.4%*
Dividend Per Share	$0.175	$0.165	*6.1%*	$0.155	*12.9%*
Segment Operating Income					
Gas Distribution	$189.0	$197.2	*(4.2%)*	$184.8	*2.3%*
Electric Operations	$61.5	$71.5	*(13.9%)*	$54.1	*13.7%*
Corporate & Eliminations	$3.4	($3.0)	*(213.3%)*	$10.0	*(66.0%)*
Operating Data					
Customers (000)					
Gas Utilities Customers	3,427.5	3,438.3	*(0.3%)*	3,404.3	*0.7%*
Electric Customers	465.9	466.1	*(0.0%)*	463.0	*0.6%*

Source: UBSe, Company Reports

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NiSource Inc. (NI.N)

Income statement (US$m)	12/14	12/15	12/16	12/17E	% ch	12/18E	% ch	12/19E	12/20E	12/21E
Revenues	**6,485**	**4,612**	**4,505**	**4,738**	*5.2*	**4,926**	*4.0*	**5,095**	**5,263**	**5,418**
Gross profit	4,261	3,042	3,115	3,279	*5.3*	3,410	*4.0*	3,529	3,647	3,756
EBITDA (UBS)	**1,883**	**1,354**	**1,441**	**1,548**	*7.4*	**1,635**	*5.6*	**1,713**	**1,805**	**1,883**
Depreciation & amortisation	(605)	(524)	(547)	(570)	*4.3*	(585)	*2.5*	(600)	(615)	(631)
EBIT (UBS)	**1,277**	**829**	**894**	**977**	*9.3*	**1,050**	*7.5*	**1,114**	**1,190**	**1,252**
Associates & investment income	47	0	0	0	-	0	-	0	0	0
Other non-operating income	(24)	25	2	0	-	0	-	0	0	0
Net interest	(444)	(384)	(349)	(380)	*-8.6*	(401)	*-5.7*	(422)	(448)	(472)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**856**	**470**	**546**	**598**	*9.4*	**649**	*8.6*	**691**	**741**	**779**
Tax	(330)	(175)	(195)	(218)	*-11.7*	(237)	*-8.6*	(252)	(270)	(284)
Profit after tax	**526**	**295**	**351**	**380**	*8.2*	**413**	*8.6*	**439**	**471**	**495**
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	0	-	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**526**	**295**	**351**	**380**	*8.2*	**413**	*8.6*	**439**	**471**	**495**
Net earnings (UBS)	**526**	**295**	**351**	**380**	*8.2*	**413**	*8.6*	**439**	**471**	**495**
Tax rate (%)	38.5	37.2	35.7	36.4	*2.1*	36.4	*0.0*	36.4	36.4	36.4

Per share (US$)	12/14	12/15	12/16	12/17E	% ch	12/18E	% ch	12/19E	12/20E	12/21E
EPS (UBS, diluted)	1.66	0.93	1.09	1.15	*5.1*	1.21	*5.5*	1.29	1.37	1.44
EPS (local GAAP, diluted)	1.66	0.93	1.09	1.15	*5.1*	1.21	*5.5*	1.29	1.37	1.44
EPS (UBS, basic)	1.67	0.93	1.09	1.15	*5.1*	1.21	*5.5*	1.29	1.37	1.44
Net DPS (US$)	1.03	0.84	0.66	0.72	*8.3*	0.75	*4.9*	0.79	0.82	0.86
Cash EPS (UBS, diluted)[1]	3.58	2.57	2.79	2.87	*2.8*	2.93	*2.0*	3.04	3.17	3.28
Book value per share	19.56	12.06	12.61	13.43	*6.5*	13.74	*2.4*	14.43	15.15	15.96
Average shares (diluted)	316.33	318.80	321.80	331.03	*2.9*	340.66	*2.9*	341.55	343.07	343.20

Balance sheet (US$m)	12/14	12/15	12/16	12/17E	% ch	12/18E	% ch	12/19E	12/20E	12/21E
Cash and equivalents	25	16	26	26	*0.0*	26	*0.0*	26	26	26
Other current assets	2,441	1,562	1,736	1,736	*0.0*	1,736	*0.0*	1,736	1,736	1,736
Total current assets	**2,467**	**1,577**	**1,762**	**1,762**	*0.0*	**1,762**	*0.0*	**1,762**	**1,762**	**1,762**
Net tangible fixed assets	16,017	12,112	13,068	14,148	*8.3*	14,963	*5.8*	15,763	16,548	17,317
Net intangible fixed assets	3,931	1,944	1,933	1,933	*0.0*	1,933	*0.0*	1,933	1,933	1,933
Investments / other assets	2,452	1,859	1,928	1,928	*0.0*	1,928	*0.0*	1,928	1,928	1,928
Total assets	**24,866**	**17,493**	**18,692**	**19,771**	*5.8*	**20,587**	*4.1*	**21,387**	**22,172**	**22,941**
Trade payables & other ST liabilities	2,111	2,090	1,601	1,601	*0.0*	1,601	*0.0*	1,601	1,601	1,601
Short term debt	1,844	567	1,851	756	*-59.17*	787	*4.07*	836	883	927
Total current liabilities	**3,955**	**2,658**	**3,452**	**2,357**	*-31.7*	**2,388**	*1.3*	**2,438**	**2,484**	**2,528**
Long term debt	8,156	5,949	6,058	7,642	*26.1*	7,953	*4.1*	8,457	8,926	9,371
Other long term liabilities	6,580	5,043	5,110	5,328	*4.3*	5,565	*4.4*	5,565	5,565	5,565
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**18,691**	**13,649**	**14,621**	**15,327**	*4.8*	**15,905**	*3.8*	**16,459**	**16,974**	**17,464**
Common s/h equity	6,175	3,844	4,071	4,444	*9.2*	4,681	*5.3*	4,928	5,197	5,477
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	**24,866**	**17,493**	**18,692**	**19,771**	*5.8*	**20,587**	*4.1*	**21,387**	**22,172**	**22,941**

Cash flow (US$m)	12/14	12/15	12/16	12/17E	% ch	12/18E	% ch	12/19E	12/20E	12/21E
Net income (before pref divs)	526	295	351	380	*8.2*	413	*8.6*	439	471	495
Depreciation & amortisation	606	524	547	570	*4.3*	585	*2.5*	600	615	631
Net change in working capital	(139)	147	(59)	0	-	0	-	0	0	0
Other operating	329	490	(36)	218	-	237	*8.6*	0	0	0
Operating cash flow	**1,321**	**1,457**	**803**	**1,168**	*45.4*	**1,234**	*5.6*	**1,039**	**1,086**	**1,127**
Tangible capital expenditure	(2,028)	(1,361)	(1,475)	(1,650)	*-11.8*	(1,400)	*15.2*	(1,400)	(1,400)	(1,400)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	(69)	3,798	0	0	-	0	-	0	0	0
Other investing	(19)	(493)	(108)	0	-	0	-	0	0	0
Investing cash flow	**(2,117)**	**1,945**	**(1,583)**	**(1,650)**	*-4.2*	**(1,400)**	*15.2*	**(1,400)**	**(1,400)**	**(1,400)**
Equity dividends paid	(321)	(263)	(205)	(237)	*-15.2*	(256)	*-7.9*	(268)	(281)	(296)
Share issues / (buybacks)	20	2	14	230	*NM*	80	*-65.2*	75	80	80
Other financing	0	(122)	0	0	-	0	-	0	0	0
Change in debt & pref shares	1,097	(3,029)	982	489	*-50.26*	342	*-30.08*	554	515	489
Financing cash flow	**796**	**(3,412)**	**791**	**482**	*-39.0*	**166**	*-65.5*	**361**	**314**	**273**
Cash flow inc/(dec) in cash	**0**	**(10)**	**11**	**0**	*-100.0*	**0**	-	**0**	**0**	**0**
FX / non cash items	(1)	0	0	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	**(1)**	**(10)**	**11**	**0**	-	**0**	-	**0**	**0**	**0**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts. [1]Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

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NiSource Inc. (NI.N)

Valuation (x)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
P/E (local GAAP, diluted)	22.8	33.6	21.3	20.1	19.0	17.9	16.8	16.0
P/E (UBS, diluted)	22.8	33.6	21.3	20.1	19.0	17.9	16.8	16.0
P/CEPS	10.6	12.1	8.3	8.0	7.9	7.6	7.3	7.0
Equity FCF (UBS) yield %	(5.9)	1.0	(9.0)	(6.5)	(2.2)	(4.8)	(4.2)	(3.7)
Net dividend yield (%)	2.7	2.7	2.8	3.1	3.3	3.4	3.6	3.7
P/BV x	1.9	2.6	1.8	1.7	1.7	1.6	1.5	1.4
EV/revenues (core)	3.0	3.7	3.0	3.0	3.0	3.0	2.9	3.0
EV/EBITDA (core)	10.4	12.6	9.3	9.3	9.0	8.9	8.4	8.6
EV/EBIT (core)	15.3	20.5	15.0	14.7	14.1	13.7	12.8	13.0
EV/OpFCF (core)	10.4	12.6	9.3	9.3	9.0	8.9	8.4	8.6
EV/op. invested capital	1.4	1.4	1.3	1.3	1.2	1.2	1.1	1.1

Enterprise value (US$m)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Market cap.	11,913	9,853	7,445	7,444	7,444	7,444	7,444	7,444
Net debt (cash)	9,391	8,237	7,192	8,127	8,542	8,990	8,990	10,027
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	676	760	713	713	713	713	713	713
Total enterprise value	**21,980**	**18,850**	**15,350**	**16,285**	**16,700**	**17,148**	**17,148**	**18,185**
Non core assets	(2,452)	(1,859)	(1,928)	(1,928)	(1,928)	(1,928)	(1,928)	(1,928)
Core enterprise value	**19,528**	**16,991**	**13,422**	**14,357**	**14,772**	**15,220**	**15,220**	**16,256**

Growth (%)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Revenue	14.6	-28.9	-2.3	5.2	4.0	3.4	3.3	2.9
EBITDA (UBS)	7.9	-28.1	6.5	7.4	5.6	4.8	5.3	4.3
EBIT (UBS)	9.4	-35.1	7.8	9.3	7.5	6.0	6.8	5.2
EPS (UBS, diluted)	6.2	-44.3	17.9	5.1	5.5	6.2	6.8	5.1
Net DPS	4.0	-18.9	-21.0	8.3	4.9	4.7	4.5	4.9

Margins & Profitability (%)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Gross profit margin	65.7	66.0	69.1	69.2	69.2	69.3	69.3	69.3
EBITDA margin	29.0	29.4	32.0	32.7	33.2	33.6	34.3	34.8
EBIT margin	19.7	18.0	19.8	20.6	21.3	21.9	22.6	23.1
Net earnings (UBS) margin	8.1	6.4	7.8	8.0	8.4	8.6	9.0	9.1
ROIC (EBIT)	9.3	7.0	8.9	8.7	8.8	8.9	8.9	8.8
ROIC post tax	5.5	4.4	5.8	5.6	5.6	5.6	5.7	5.6
ROE (UBS)	8.7	5.9	8.9	8.9	9.0	9.1	9.3	9.3

Capital structure & Coverage (x)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Net debt / EBITDA	5.3	4.8	5.5	5.4	5.3	5.4	5.4	5.5
Net debt / total equity %	161.5	169.1	193.6	188.4	186.1	188.1	188.2	187.5
Net debt / (net debt + total equity) %	61.8	62.8	65.9	65.3	65.1	65.3	65.3	65.2
Net debt/EV %	51.1	38.3	58.7	58.3	59.0	60.9	64.3	63.2
Capex / depreciation %	NM	NM	NM	NM	NM	NM	NM	NM
Capex / revenue %	NM	29.5	NM	NM	28.4	27.5	26.6	25.8
EBIT / net interest	2.9	2.2	2.6	2.6	2.6	2.6	2.7	2.7
Dividend cover (UBS)	1.6	1.1	1.7	1.6	1.6	1.6	1.7	1.7
Div. payout ratio (UBS) %	61.7	90.0	60.5	62.3	61.9	61.0	59.7	59.6

Revenues by division (US$m)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Others	6,485	4,612	4,505	4,738	4,926	5,095	5,263	5,418
Total	**6,485**	**4,612**	**4,505**	**4,738**	**4,926**	**5,095**	**5,263**	**5,418**

EBIT (UBS) by division (US$m)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Others	1,277	829	894	977	1,050	1,114	1,190	1,252
Total	**1,277**	**829**	**894**	**977**	**1,050**	**1,114**	**1,190**	**1,252**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

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Forecast returns

Forecast price appreciation	-0.2%
Forecast dividend yield	3.1%
Forecast stock return	+2.9%
Market return assumption	6.2%
Forecast excess return	-3.3%

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 comparable company multiples in our sum-of-the-parts EV/EBITDA and P/E valuations. Our price target is derived using an average of sum-of-the-parts EV/EBITDA and P/E valuations and DDM.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	45%	29%
Neutral	FSR is between -6% and 6% of the MRA.	39%	27%
Sell	FSR is > 6% below the MRA.	15%	16%
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 December 2016.
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: Shneur Z. Gershuni, CFA; Jennifer Hills.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	N/A	US$22.99	21 Feb 2017

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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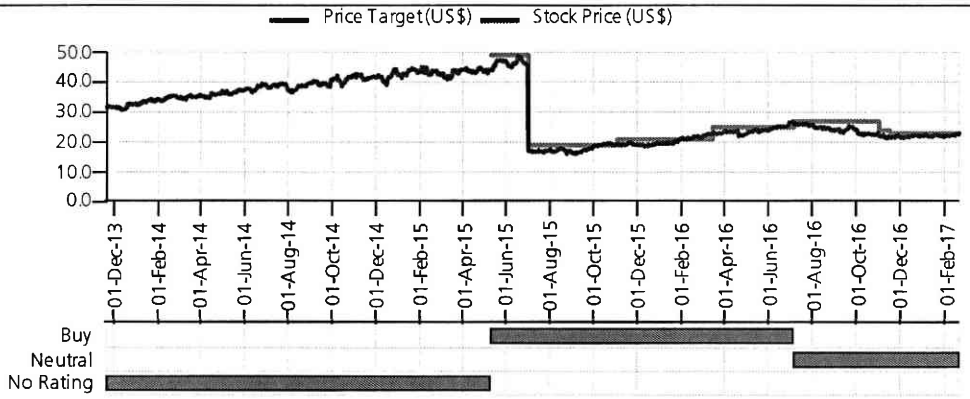
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2013-11-21	31.48	-	No Rating
2015-05-11	44.38	49.0	Buy
2015-07-02	16.99	19.0	Buy
2015-11-03	19.12	21.0	Buy
2016-03-16	23.1	25.0	Buy
2016-07-07	26.04	27.0	Neutral
2016-11-02	22.09	24.0	Neutral
2016-11-17	21.61	23.0	Neutral

Source: UBS; as of 21 Feb 2017

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February 22, 2017

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(NI US Equity – $23.17 – Outperform)

This is not a drill

- **NI had a solid 2016 and is still a premium LDC story**
  NI wrapped up a solid 2016, their first fiscal year operating exclusively as a regulated utility company. NI reaffirmed their 2017 guidance of $1.12-1.18 and increased their 2017 capex to $1.6-1.7B after investing a record $1.5B capex in 2016. The raised capex plan is positive, and NI remains a high-quality gas and electric distribution utility with a long-dated $30B rate base investment backlog with most of the growth supported by trackers.

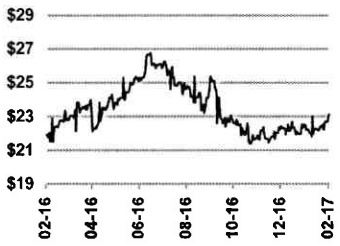
- **Little impact from corporate tax cut, but interest deductibility dilutive**
  A corporate tax cut would be reflected in customer rates and has minimal impact to regulated EPS. However, since NI has corporate level debt, the loss of interest deductibility would be somewhat dilutive to earnings. We estimate potentially $0.05-$0.10 per share of dilution.

- **Outlook refresh expected at March 8 analyst day**
  NI will hold an analyst day in 2 weeks on March 8. We expect a lot more detail on a refreshed LT outlook at that time, which could include a longer-term capex outlook and an update to the LT EPS growth rate. We note that NI expressed optimism on customer growth having had their best year of customer growth in a decade in 2016. We believe there could be a chance that the company modestly raises their LT EPS growth rate above the current 4-6% for the next few years.

- **2016 in line, estimates unchanged; raise PT to $25**
  NI reported 2016 EPS of $1.09 vs. $0.94 in 2015, about in line with us and consensus at $1.08. We are maintaining our EPS estimates but raising our target price to $25 from $24 moving the valuation year to 2019 and using a 20x P/E multiple, in line with other higher quality LDCs. NI has a greater proportion of electric assets than other LDCs but we regard its growth prospects and regulatory constructs as above average.

Trading and Fundamental Data	
Target Price	**$25**
Current Price	23.17
52-Week Range	$21-$27
Market Cap. (MM)	$7,480
Shares Out. (MM)	322.7
Dividend Yield	2.68%
Dividend Payout Ratio	59.6%
ROE	4%
Debt to Cap	64.4%
Avg. Daily Vol. (000)	4,320

Price Performance	YTD	LTM
NI US Equity	5%	6%
Utility Index	3%	9%
S&P 500	6%	23%



Source: FactSet/Wolfe Research

Key Changes		
Year	**New**	**Old**
Target Price	$25	$24

Estimates / Valuation				
(US$)	**2016E**	**2017E**	**2018E**	**2019E**
EPS	$1.09	$1.14	$1.21	$1.28
Consensus	$1.09	$1.16	$1.22	$1.30
P/E	21.4x	20.3x	19.2x	18.1x
Dividend Per Share	$0.65	$0.68	$0.72	$0.75
Dividend Yield	2.8%	3.0%	3.1%	3.3%

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WOLFE RESEARCH

NiSource

February 22, 2017

NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2016E	2017E	2018E	2019E
EPS	$1.09	$1.14	$1.21	$1.28
Diluted Shares Outstanding	319	320	321	322
Dividends Per Share	$0.65	$0.68	$0.72	$0.75
Dividend Yield	2.8%	3.0%	3.1%	3.3%
Dividend Payout Ratio	60%	60%	59%	59%
Equity Ratio	32%	32%	32%	33%
FFO/Net Debt	17%	16%	17%	17%
Valuation Metrics				
P/E	21.4x	20.3x	19.2x	18.1x
Price/Book	2.4x	2.2x	2.1x	1.9x
Segment EPS				
Gas Distribution	$0.93	$1.00	$1.05	$1.09
Electric	0.47	0.50	0.52	0.54
Parent & Other	(0.32)	(0.35)	(0.36)	(0.34)
Total EPS	**$1.09**	**$1.14**	**$1.21**	**$1.28**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2016E	2017E	2018E	2019E
Total Capital Spending by Segment ($M)				
Gas Distribution	$760	$730	$730	$730
Electric	593	593	593	593
Parent	50	50	50	50
Total Capex	**$1,403**	**$1,373**	**$1,373**	**$1,373**
Financings ($M)				
Total Equity Issued/(Repurchased)	$45	$45	$45	$45
Total Debt Issued/(Repurchased)	$681	$605	$170	$85

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 3.4 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, and Massachusetts.

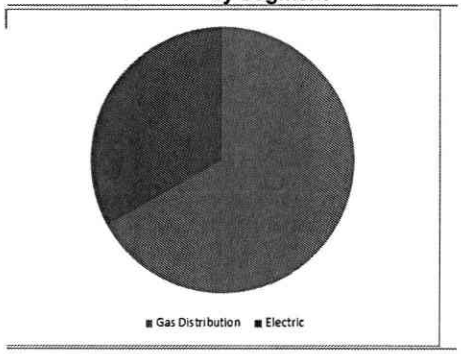
Investment Thesis

We see above-average rate base and earnings growth potential for NiSource relative to other electric and natural gas distribution utilities. NI has a $30B backlog of investment with recovery largely through trackers and balanced regulatory environments. Additionally, we see the gas business getting larger over time. NI appears attractive at current levels.

Valuation

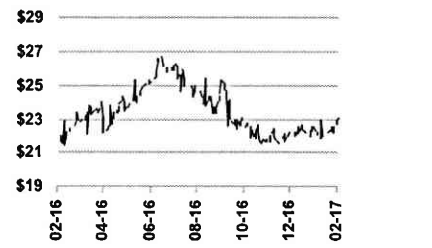
Our $25 price target is on a target P/E valuation. We apply a 20x multiple to 2019E earnings, in line with higher quality gas LDCs. Downside risks for NiSource are execution on rate base investment, economic conditions and regulatory outcomes. Upside risks are additional growth projects and customer growth initiatives.

Exhibit 3. 2017 EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: Bloomberg

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Exhibit 5: LDC gas comparables

Company Name	Ticker	Current Price	Mkt Cap ($M)	P/E Multiple 2016E	2017E	2018E	2019E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Atmos Energy	ATO	77.25	8,125	22.9	21.8	20.5	19.0	2.3%	4.6%	58%	2.3	51%
Southwest Gas	SWX	84.50	4,012	26.7	24.5	23.1	22.8	2.1%	8.2%	62%	2.5	50%
WGL Holdings	WGL	82.46	4,224	25.2	23.8	22.1	20.1	2.4%	4.2%	62%	3.1	44%
ONE Gas	OGS	64.39	3,364	24.5	21.9	21.0	20.2	2.2%	11.9%	63%	1.8	60%
NiSource	NI	23.17	7,478	21.3	20.0	18.9	17.9	3.0%	5.0%	74%	1.9	36%
New Jersey Resources	NJR	38.55	3,327	23.9	22.7	21.1	19.6	2.6%	4.4%	57%	2.8	48%
Northwest Natural Gas	NWN	59.90	1,711	27.1	26.0	24.6	23.1	3.1%	0.5%	82%	2.1	47%
UGI Corp	UGI	47.83	8,271	23.3	19.2	19.3	18.5	2.0%	3.2%	47%	2.9	41%
Spire Inc.	SR	64.70	2,959	18.9	18.3	17.6	17.1	3.2%	3.6%	66%	1.7	42%
Vectren Corp	VVC	55.29	4,582	22.1	20.7	19.4	17.8	3.0%	4.6%	70%	2.7	48%
Average (ex-M&A targets)				**23.9x**	**22.1x**	**21.0x**	**19.8x**	**2.6%**	**5.0%**	**65%**	**2.4x**	**46%**

Source: Wolfe Research, Factset consensus

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WOLFE RESEARCH

NiSource

February 22, 2017

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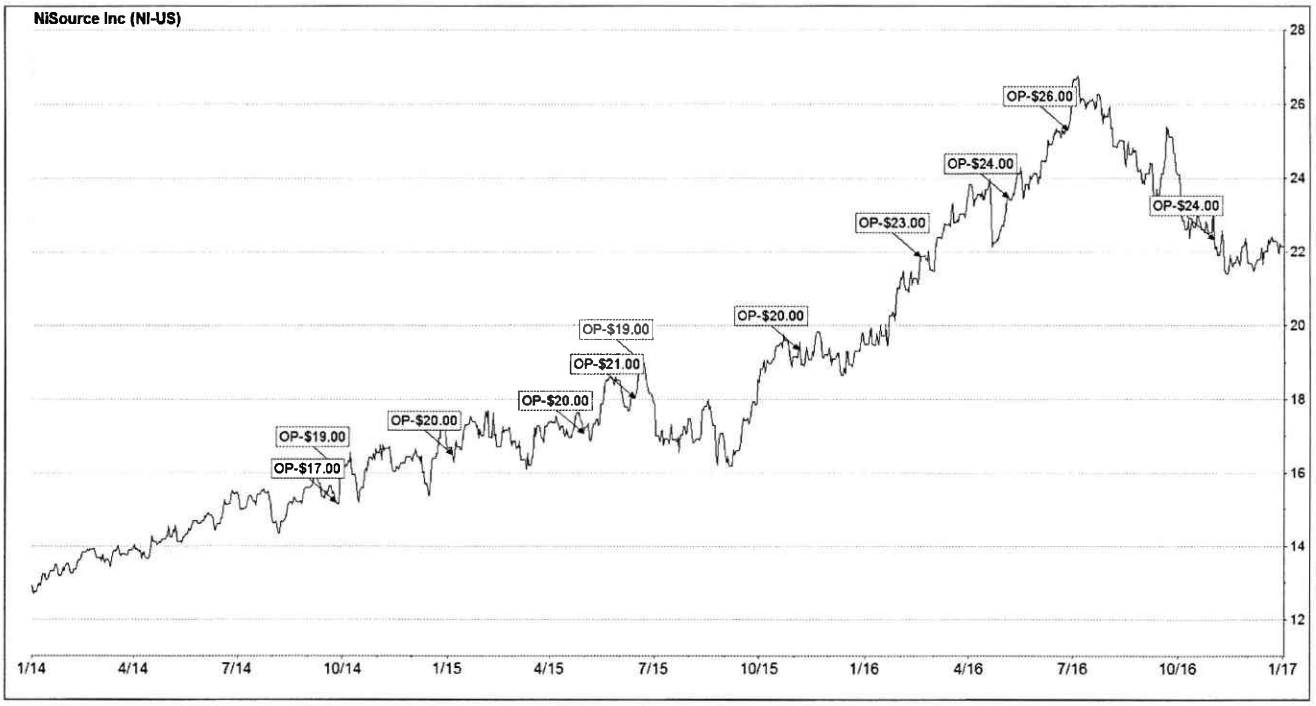

Note: OP = Outperform; PP = Peer Perform; UP = Underperform

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	Economy, regulatory outcomes, project execution

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
NI US Equity	None

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WOLFE RESEARCH

NiSource

February 22, 2017

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Peer Perform:	49%	1% Investment Banking Clients
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KeyBanc Capital Markets

Alert

February 22, 2016

ENERGY: Multi-Utilities

NYSE: NI

NiSource Inc. (Overweight)

NI - ALERT: Indiana Electric Settlement Filed

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Key Investment Points

Late on February 19, NI filed a settlement in its Indiana electric rate case. Under the settlement, NI would see a $73 million rate increase, effective October 1, 2016. The rates are premised on a ROE of 9.975%. On its 4Q15 earnings call (2/18/2016), NI management indicated it felt a settlement was likely, potentially as soon as the following day.

This electric case was filed October 1, 2015, when NI requested a $127 million rate adjustment (a 7.9% increase) premised on a 10.75% ROE and 45.5% equity layer on a rate base of $3.44 billion. NI's last electric rate case in the state, filed in late 2010, was settled with a 10.2% ROE. Under the settlement the monthly residential fixed charge increases to $14/month from $11/month (vs. ask of $20).

The settlement was reached with the Indiana Office of Utility Consumer Counselor, NIPSCO's industrial customers, the Indiana Municipal Utility Group and the United Steelworkers, without opposition from LaPorte County. We understand WalMart and Citizen Action Coalition are currently not signatories, but NI continues to work with them.

We expect a modest positive reaction, given what we believe is a balanced to constructive outcome, but note that NI's foreshadowing may dampen response.

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Disclosure Appendix

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NiSource Inc. is an investment banking client of ours.

We have received compensation for investment banking services from NiSource Inc. during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from NiSource Inc. within the next three months.

During the past 12 months, NiSource Inc. has been a client of the firm or its affiliates for non-securities related services.

As of the date of this report, we make a market in NiSource Inc..

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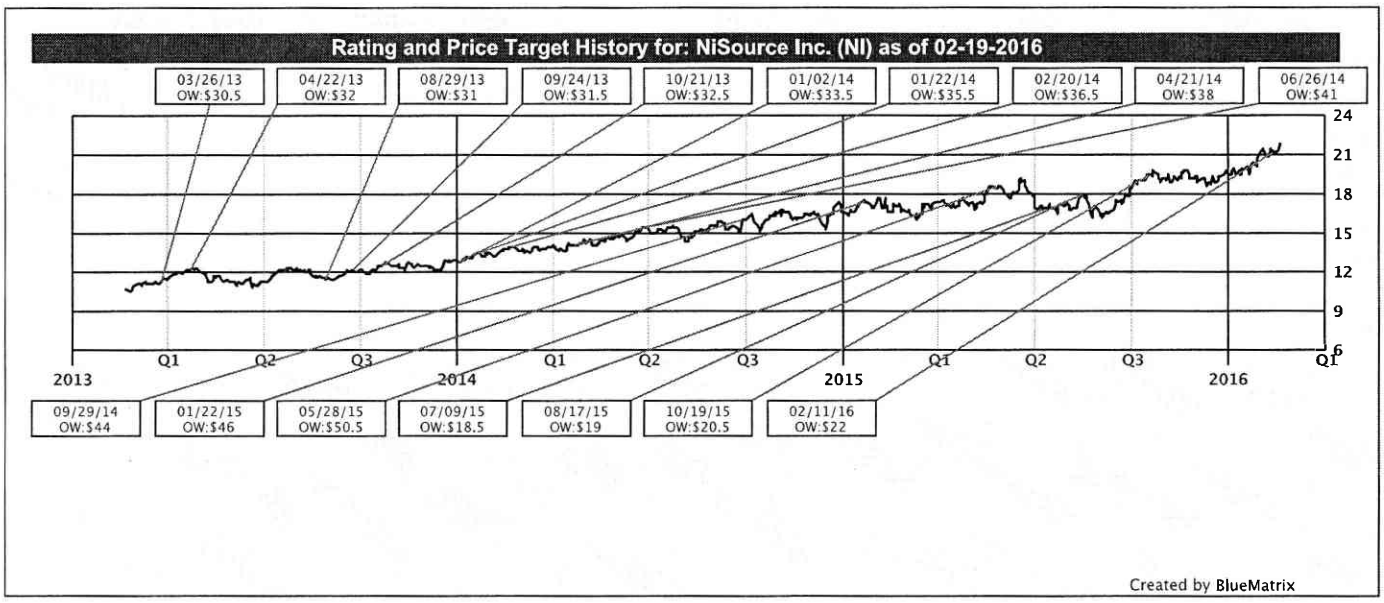

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KeyBanc Capital Markets			IB Serv/Past 12 Mos.		ENERGY			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
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Sector Weight [SW]	409	54.10	64	15.65	Sector Weight [SW]	52	55.91	22	42.31
Underweight [UW]	9	1.19	0	0.00	Underweight [UW]	0	0.00	0	0.00

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J.P.Morgan

U.S. Utilities & Power

Takeaways from AGA Meetings

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Much of our conversation at this year's American Gas Association Financial Forum focused on current and upcoming regulatory activity, as well as general execution of capital deployment plans for many names. We met with AGR, ATO, BKH, D, NI, PEG, SR and XEL. Following discussions with both NI and XEL management we were encouraged by the potential of recent regulatory and execution activity to better position upside to current base capital plans. We also remain confident in BKH's ability to execute on the SourceGas integration, though are unclear about the future of CO cost of service gas reserve investments.

- **NiSource:** We left our meeting with NiSource more confident in its ability to accelerate capital deployment following the recent IN electric GRC settlement and TDSIC resolutions. It was still not clear exactly when or in how many stages any new enhanced growth plan could be revealed, however. We expect the late-July potential GRC settlement approval to be another milestone underscoring the upward bias to the current $1.4Bn total capex. Management remains focused on the successful management of such elevated spending, as well as its ability to proactively drive customer count growth through targeted capital programs in many different areas of its service territory.

- **Xcel Energy:** We are growing more comfortable with elements of XEL's upside growth plan announced at the December analyst meeting thanks to progress on owned renewable development in CO and MN. These projects comprise 66% of the $2.5Bn total upside case capex plan. A commission decision in CO later this year and in MN in 2017 would allow for projects to be online in the 2018-19 period. Upside capital projects along with narrowing regulatory lag could put XEL in the upper half of its long-term 4-6% earnings growth plan.

- **Dominion Resources:** D is moving toward completion of two large joint venture solar projects in Utah despite the funding challenges faced by SUNE and continues to expect to be able to book the full ITC credit this year on their share of the 520MW capacity. The company has already been fully paid for the 2015 sale of 33% of 425MW in projects to SUNE. One new gas reserve farmout is still anticipated this year and potential remains for restructuring of several existing deals, with the company still having approximately 160k acres of Utica reserves in its portfolio.

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NI: We left our meeting with NiSource more confident in its ability to accelerate capital deployment following the recent IN electric GRC settlement and TDSIC resolutions. It was still not clear exactly when or in how many stages any new enhanced growth plan could be revealed, however. We expect the late-July potential GRC settlement approval to be another milestone underscoring the upward bias to the current $1.4Bn total capex. Management remains focused on the successful management of such elevated spending, as well as its ability to proactively drive customer count growth through targeted capital programs in many different areas of its service territory.

NiSource is currently spending $140-180MM/year to enable ~0.5% customer growth, a number that could increase significantly given a general lack of focus on this area. The historically non-integrated electric and gas utilities under the legacy NiSource structure also provides some opportunity for O&M cuts. Approximately 4-5 rate case filings per year are expected to be the norm going forward and these initiatives could therefore be somewhat limited in their overall positive impact on ongoing earnings.

SR: There will be many moving parts in the mid-2017 filed GRC's in MO, but we believe there remains some ultimate risk of a net rate decline after taking into consideration the flow through rider capital and deferred costs to achieve currently on the balance sheet as a regulatory asset. The last black box settlements in the 2013 rate cases agreed to 9.70-9.75% ROEs for use in ISRS calculations but did not specify an overall ROE.

The pipeline project is moving forward and Spire is comfortable not only owning the entire project but also sees projected returns with it being the sole customer as sufficient to move forward. This would equate to approximately 350mmcf/d of the total 400mmcf/d capacity being committed. Early MPSC reception for the shipping agreements has been encouraging according to management.

D: D is moving toward completion of two large joint venture solar projects in Utah despite the funding challenges faced by SUNE and continues to expect to be able to book the full ITC credit this year on their share of the 520MW capacity. The company has already been fully paid for the 2015 sale of 33% of 425MW in projects to SUNE. One new gas reserve farmout is still anticipated this year and potential remains for restructuring of several existing deals, with the company still having approximately 160k acres of Utica reserves in its portfolio.

The Questar deal in a best case scenario could close before 4Q, with the mandatory convertible issuance and future post-close DM equity issuance still outstanding funding components. The transaction is expected to be immediately accretive to D parent. ACP remains on track and on budget for late 2018 commercial operations despite the construction start delay. We note it is now expected to be funded using 50% project financing, down from original expectations of around 70%.

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XEL: We are growing more comfortable with elements of XEL's upside growth plan announced at the December analyst meeting thanks to progress on owned renewable development in CO and MN. These projects comprise 66% of the $2.5Bn total upside case capex plan. A commission decision in CO later this year and in MN in 2017 would allow for projects to be online in the 2018-19 period. Upside capital projects along with narrowing regulatory lag could put XEL in the upper half of its long-term 4-6% earnings growth plan.

The gas cost-of-service effort in CO now appears much less likely given the CPUC's dismissal of BKH's request last month, taking 12% of the upside case capex plan off the table. Without the requested framework in place to quickly approve potential reserve acquisitions, the company feels it would be unlikely to find willing sellers. In MN, the multi-year general rate case intervenor testimony is due in late June, after which time potential settlement discussions could begin.

AGR: Management has proactively sought to head-off concerns over SUNE involvement in its New England transmission RFPs by indicating its willingness to takeover development of the renewable projects. It is not clear if this will impact their relative attractiveness in the process, and it is worth noting there is a 3rd proposal for AGR to own renewable generation in NY with Eversource developed transmission in addition to these two projects. The company is awaiting settlement approval for its two NY rate cases, and is likely to file a new case at UI shortly for rates effective early next year. It is also very focused on New York transmission projects through both the joint Transco effort as well as through the new 1,000MW DC NY State Thruway project introduced last month.

ATO: Management remains confident it has the ability to successfully navigate its upcoming key pipeline rate case upon filing in December or January. Expense inflation as well as an actual 57% equity capital structure versus the 50% previous level are expected to offset any material decline in authorized ROE. The last case was settled in 2011 and was based on a 2010 test year, with an authorized ROE of 11.8% using a FERC pipeline comparable peer group.

PEG: We were encouraged by the company's confidence in being able to manage the late 2017 regulated distribution rate cases, the first filings for the entities in 7 years. In addition to being able to recover Sandy and pension cash costs, there will be some rate base growth outside the current Energy Strong and GSMP mechanisms as well as O&M inflation as part of the request. FERC electric transmission capex plans continue to surprise to the upside in outer years despite years of exceptionally heaving spending levels. Management continues to see a very strong pipeline of smaller projects due to the especially old system in the densely populated NJ service territory.

BKH: Management aspires to complete non-core E&P property sales by year-end though has not announced any sales to-date since making public its intentions late

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last year. Despite the CPUC dismissal of the cost-of-service framework and XEL's dimmed hopes here, Black Hills expects to continue its efforts in the state later this year and remains optimistic in the state. Merger integration activities are continuing at a feverish pace and they are expected to be nearing completion by year end, an impressively fast pace for a major acquisition. Should any revision to 2016-17 guidance be necessary it appears to us to be less likely to occur before 3Q earnings.

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Atmos Energy (ATO/$74.99/Overweight), Avangrid, Inc (AGR/$41.34/Neutral), Black Hills Corp. (BKH/$60.17/Overweight), Dominion Resources (D/$72.22/Overweight), NiSource Inc. (NI/$24.30/Neutral), Public Service Enterprise Group (PEG/$45.94/Neutral), Spire Inc (SR/$65.01/Underweight), Xcel Energy (XEL/$41.75/Neutral)

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KeyBanc Capital Markets

Energy Insights

May 17, 2016

Energy: Gas Utilities

Conference Highlights

Gas Utilities: AGA Financial Forum Takeaways

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We recently attended the American Gas Association (AGA) Financial Forum in Florida. Our general view is that regulated gas companies are well positioned to invest from well-head to burner tip to serve increasing demand, to replace aging infrastructure and to improve safety through main replacement programs. A backdrop of low commodity prices creates headroom in customer bills to displace commodity revenues that earn no return with dollars related to return of and on capital. These positives have also made smaller LDCs attractive M&A targets. We discuss key takeaways below.

Key Investment Points

We recently attended the AGA Financial Forum in Naples, FL. Overall, we believe low natural gas pricing, growing demand around clean power, aging infrastructure and safety concerns present a favorable investment backdrop.

Key topics of discussion from our meetings included:

- Prospects for a continuation of the recent wave of gas utility acquisitions by larger electric/multi utilities. We expect **consolidation** to continue, but perhaps with a NT slowdown until LDC market valuations cool off to some degree.
- An update on the state of proposed **Michigan** energy legislation indicating progress is being made; however, we believe it is premature to declare victory.
- **CMS** indicating there remains significant opportunity for cost savings.
- An upbeat tone from **DTE** around its proposed Nexus pipeline. We believe recent pipeline issues have caused an overhang on DTE's shares that is related to this project.
- An initiative by **NI** to grow gas customer base through oil/propane to gas conversions.
- Our view that the proposed acquisition of **EDE** is unlikely to generate headlines similar to those related to the Cleco, Hawaiian Electric and Pepco deals.
- **MDU**'s positive outlook for its construction businesses, confidence in its Utilities growth outlook and thoughts on strategic options for its refinery stake.
- **SWX**'s upbeat tone on its recently filed Arizona rate case, which follows a five-year moratorium, and its current thinking on strategic options for Centuri.
- **VVC**'s strategy for navigating competitive headwinds at VISCO.

We discuss these topics in greater detail below.

M&A Activity the Hot Topic at AGA

The recent wave of gas utility acquisitions, the prospects for it to continue and the most likely targets were frequent topics of conversation in the meetings and hallways of the event. Based on our discussions with AGA attendees of all types, we perceived a consensus that consolidation of smaller gas utilities will likely continue, but perhaps at a slower rate in the NT until LDC market valuations cool off a bit, which is consistent with our views. The S&P Mid Cap Gas Utilities Index is up 20% YTD vs. a 12% gain for the UTY index and a flat performance for the S&P 500. Larger electric and multi-utilities remain attracted to LDCs' generally high growth rates, which are supported by infrastructure replacement programs coupled with low gas prices that provide headroom for recovery on customers' bills. Electric utilities also see benefits to having greater control over natural gas infrastructure as their generation fleets shift away from coal.

Michigan Legislation Remains a Work in Progress

We met with CMS and DTE and got mixed views on the outlook for passage of energy legislation this year. The focus of the legislation is to end the subsidization of shopping customers by requiring competitive suppliers to demonstrate they have sufficient capacity to meet their customers' demand (some of which would have to be in-state). We understand activity has picked up in the senate, as sponsoring senator Mike Nofs continues to work to line a solid base of support. The legislature recesses in mid-June.

We view the passage of the legislation out of both houses before the recess as unlikely; however, there remains time after recess and during the lame duck session to make further progress. We believe receiving the support of the state Chamber of Commerce would significantly improve the likelihood. The Chamber is currently torn between a few large and vocal players on choice with much to lose and a greater number of less vocal members with less to gain. Regardless, both companies reiterated that their EPS growth targets and capital programs include no benefit from the proposed legislation. Our view is that the primary upside of the legislation would be incremental opportunities to invest in new generation as load increases.

CMS Reiterates Cost Saving Opportunity

Incoming CEO Patti Poppe discussed CMS' opportunity to continue growing EPS 6-8% with minimal (~2%) customer bill impact, by removing costs. With her industrial engineering background, she sees multiple opportunities for process improvement and technology to create greater efficiency. One example discussed was to improve the staging of work trucks. Currently, highly paid linemen can wait in the staging area for up to 90 minutes while trucks are fueled and loaded with job specific supplies (that frequently are the wrong or incomplete components). Lower cost employees could be utilized to stage trucks that are properly prepared through greater use of technology.

DTE Upbeat on Nexus Pipeline

We believe DTE shares are currently pricing in skepticism around the proposed Nexus pipeline that is to run from the Marcellus up to Michigan. Recent delays and issues at other pipelines (notably the Constitution Pipeline) have fueled this concern. The 1.5bcf/day Nexus project is currently roughly two-thirds subscribed. DTE indicated that even at this level of demand, the project would meet its return hurdle. Management indicated there remained meaningful offtake interest in Ohio and it expected more contracts to be signed. The next key milestone is getting FERC's Notice of Schedule that would allow for construction to proceed in the spring of 2017 and allow for in service later that year. The Company also indicated that its contracts allowed for a delay of a year without penalty.

EDE Acquisition Appears on Track

Unlike other recent merger proposals (CNL, HE and POM, specifically), we do not expect the acquisition of EDE by Algonquin Power to become contentious. FERC has already approved the deal, and a settlement has been reached in Oklahoma. Remaining approvals required are Arkansas, Kansas and Missouri. Management indicated discussions in these jurisdictions were constructive and no major issues have been identified. We do not expect the process to be controversial.

MDU Confident on Construction Biz, Utility Outlook

With MDU's sale of its E&P business finally complete and a solid 1Q16 in the books, we sensed a more upbeat tone from management vs. the past several months, as well as improved sentiment on the name based on our conversations with investors at the event. Management indicated a positive outlook for its Construction segments, citing broad based strength in terms of end markets and geographies as driving significant recent backlog growth and robust upcoming opportunities. Recent media reports (and Las Vegas-based SWX) indicate the major $4B Resorts World casino project appears finally set to start ramping up construction activity, which could help maintain MDU's momentum, as management has indicated in the past that it is well positioned to pick up significant scope on this project. From a strategic perspective, management indicated it monitors peer valuations for its Construction businesses on an ongoing basis, but we did not detect any NT divestment plans.

By contrast, we gauged that management is likely interested in divesting its 50% stake in the Dakota Prairie Refinery, which has struggled amid unfavorable commodity prices since it came online roughly one year ago. Management had indicated it is considering strategic options for the refinery when it reported 1Q results two weeks ago, following similar statements from its joint venture partner Calumet. We think third-party interest in the facility would most likely come from larger refiners, particularly those with assets already in the region.

Management also touted its strong customer growth rates and high level of recent and pending rate case activity as positive drivers for its Utilities. Customer growth in the Bakken regions remains high, albeit slowing, and this is factored into MDU's robust 1.5-2.0% annual overall customer growth outlook. Management's 7% five-year rate base CAGR outlook also reflects materially lower capex needs in the Bakken vs. recent years, but does not yet reflect potential capex needs driven by the Clean Power Plan, which could be significant given its coal-heavy states of operation. The rate base outlook also does not reflect bonus depreciation, which we believe MDU will likely forgo based on its NOLs position.

NiSource Pursuing Customer Growth Initiative

NI's natural gas distribution customer base grows at roughly 0.5% annually. Management indicated that it was pursuing a strategy to grow this by two to three times, through a two-pronged approach. First, NI seeks to work with regulators to implement more constructive ratemaking around conversions from oil or propane heating to natural gas. This could take the form of subsidizing new hookups and/or developing programs to allow customers to pay for conversions over an extended period. Additionally, NI is looking to launch more effective education and marketing to increase customer interest and convert that interest into new customers. Aside from the benefit of higher revenues, the larger customer base lessens the bill impact per customer of NI's sizable capital program, which should be viewed positively by regulators.

SWX Upbeat on AZ Rate Case, Centuri Outlook

Management is optimistic on a favorable outcome in its recently filed Arizona rate case, which follows a five-year rate case moratorium. SWX's depreciation study included in the filing recommends a ~$42M reduction in annual depreciation expense based on prevailing LDC depreciation rates, offsetting a substantial portion of its ~$73M requested rate increase. Coupled with lower commodity prices, SWX's proposed average customer bill would actually be slightly lower than its last base rate adjustment in 2010 and substantially lower than its prior adjustments in 2007 and 2004, which we agree creates a favorable backdrop. Management is also optimistic on the approval of its requested new infrastructure replacement and property tax tracker mechanisms, which we would view as key positives, and on a timely resolution of the case, with new rates going into effect on or close to the earliest possible date (May 1, 2017).

We maintain that management is considering strategic options for Centuri, but sensed that it may move more slowly than we had previously anticipated. Management indicated it is pleased with Centuri's recent performance and remains very positive on its outlook. Further, management highlighted that upcoming Arizona rate relief should keep Centuri's earnings contribution close to the 20% mix with which it is comfortable. We gauged that management may feel more urgency to pursue strategic alternatives for Centuri if it approaches 30% of SWX's earnings mix, which we do not anticipate through at least 2018, although we would not rule out management acting sooner.

VVC's VISCO Responding to Competitive Pressures

Management indicated its VISCO pipeline maintenance and construction segment is both bidding more aggressively in terms of pricing and selectively pursuing some larger transmission pipeline projects in response to the increased competitive pressures it has faced since last year, particularly at its transmission focused Minnesota Ltd. subsidiary. VISCO's recently reduced depreciation rates, which management indicated are more in line with industry norms, should also help it bid more competitively. While management expects increasing U.S. mainline pipe construction activity should help alleviate competitive pressures in 2H16-2017, and we concur, it acknowledged VISCO's margins may not fully recover to the peak levels achieved over 2012-2014. Management highlighted that these margins were likely among the highest in the industry, which our checks vs. other major public pipeline contractors confirm. We think this suggests headroom for VVC to profitably bid/execute and regain market share via its more aggressive bidding strategy.

Disclosure Appendix

Important disclosures for the companies mentioned in this report can be found at https://key2.bluematrix.com/sellside/Disclosures.action.

Please refer to the analysts' recently published reports for company-specific valuation and risks.

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KeyBanc Capital Markets			IB Serv/Past 12 Mos.		Energy			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
Overweight [OW]	320	42.61	67	20.94	Overweight [OW]	35	38.89	19	54.29
Sector Weight [SW]	422	56.19	64	15.17	Sector Weight [SW]	55	61.11	22	40.00
Underweight [UW]	9	1.20	0	0.00	Underweight [UW]	0	0.00	0	0.00

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Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

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Disclosure Appendix (cont'd)

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UBS

Global Research

17 May 2016

US Electric Utilities & IPPs
Adding a Bit of Gas [AGA Conference Takeaways]

Equities

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Annual Gas Assoc Gathering offers clearest picture yet of gas-driven strategies

We publish our full takeaways from the recent AGA conference in Florida. Overall attendance appeared higher YoY, as investors dug into the opportunity to learn more about the gas-driven infrastructure paradigm increasingly adopted across the sector as answers to grow utility ratebase, particularly following a spate of deals earlier this year with diversified utilities seeking smid-cap gas utilities to bolster prospects (DUK-PNY, SO-AGL, and D-STR). Answers remain were not *just* on the same safety theme in recent years, but the evolving value of storage once again as highlighted by the ED transaction and WEC's interest. Further, we see these transactions as illustrating the willingness for conventional utilities to 'reach out' further on the risk spectrum in getting more directly involved in the gas midstream sector. We continue to see the evolution in the utility sector towards more truly diversified 'infrastructure' sourcing from a wider array of 'regulated' assets to meet consolidated EPS growth targets amidst the more limited narrow electric demand growth prospects.

Separating the wheat from the chafe: who's 'well positioned'?

Overall, the annual AGA Financial forum clearly highlighted those 'well positioned', with coherent investment thesis to achieve growth targets *without* relying on third party acquisitions. We emphasize despite the elevated levels of utility valuation multiples, there is a clear bifurcation between the 'haves' and 'have-nots'. We increasingly perceive companies that are 'open' to M&A in the current high-premium environment as leading indicators of underlying difficulties to achieve stand-alone organic growth. Those most confident in their prospects were almost 'standoff-ish' in their dismissal of recent highly leveraged transactions.

Who stood out? CMS, DTE, and NI

Among those in our coverage universe, we highlight both CMS and DTE as exceptionally constructive on their prospects, both on future resource adequacy opportunities (and buy-out of existing PPAs) as well as for DTE continued decisive execution in lining up parallel midstream execution on new projects (Nexus, Bluestone) and tailwinds on its existing storage assets. We also emphasize NI as continued strong story, with discrepancy between 4-6% EPS growth and 6-8% ratebase growth lending confidence to potential outperformance of its targets. Among uncovered companies, BKH reiterated without formal long-term targets, it saw the ability to grow meaningfully better than the 'average' utility excluding any further deals, post the SourceGas acquisition, stating its forthcoming Oct 1st Analyst Day would provide incremental datapoints on capex to illustrate this confidence. Lastly, we emphasize our greater confidence in the ability to close the pending AQN-EDE deal. Conversely, we note less confidence from ES on its near-term prospects for MA legislation.

Please refer the links below for further details on AGA Conf

Filling up in Florida: Thoughts from under the Sun [Day 1 Thoughts]

Florida Fun Question Bank [For Companies Attending AGA]

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Macro:

We flag several pervasive themes from our discussions at the conference:

PHMSA Pipeline Safety eyes Record Keeping as key focus: We emphasize the latest evaluation of the new regulations are focused beyond just the gathering networks, expanding to the distribution side of the equation as well. The lack of record keeping and/or tests up to code could result in opening the ground which at that point the cost benefit of just replacing the pipe would make prudent sense and would be rate base expansion opportunity. That being said, there is always the risk that inadequate record keeping may not be recovered as regulators could try and view inadequate distribution records as a reason to limit recovery on associated work. Further should records be deemed inadequate, surveying whether existing lines are indeed intact, could well result in pipeline replacement by the time earth is dug up to examine pipe. This would likely apply to even more recently buried pipes such as those installed in the last 30-years without adequate records. Please note this is a risk and most thought it to be remote but we highlight alongside the opportunity for further rate base expansion.

Continued robust wind growth: We perceive an ever growing serious focus on building out projects in an effort to capture incremental ratebase growth opportunities. We note multiple utilities appear focused on not just capturing a portion on balance sheet, but could be evaluating the buyout of existing PPAs to bring opportunities back on balance sheet. We see the business model for developers as rapidly shifting towards a model in which growth is largely 'split' with the incumbent utilities. We note the argument for 'economic' wind continues to spread across a wider array of geographies, enabling further utilities to evaluate this angle as a source of ratebase growth without rate inflation penalty on customers; rather wind is a reduction in these instances.

Utility migration into wind is two-fold complicated: First, given the limited tax appetite for many utilities the question remains whether wind is a palatable option – or is tax equity palatable given the complexities introduced into the capital structure and financing. Second, comparable capital structure remains a discrepancy with authorized equity ratios meaningfully lower than those employed by independently financed structures, unbridled by an incumbent capital structure (realistically pressure from more 'competitive' levels of debts is a wider risk to the regulated utility model today given the low interest rate environment). We look for whether state regulators will opt to adjust bids for wind develop based on adjusted leverage metrics as proposed by XEL with its regulators.

Solar growth not getting the same attention. For many utilities, solar growth remains quite modest, in fact a slowing factor for the big developers like D and SO. We emphasize D is likely to scale its 2017 solar developments in Virginia (don't expect much *outside* of the state now) to match its earnings 'deficit' created by the recent downturn in power prices at the Millstone nuclear plant. While initial guidance of $0.10-0.15 would appear sufficient to 'meet' its needs, this could be scaled (400MW placeholder has been approved generically by the VA SCC already), enough solar to achieve this ITC benefit in 2017. Even SO continues to deemphasize the solar 'treadmill' it has been on with the clear potential to mix in further wind projects rather than solar as it pivots given its limited cash tax appetite. We see the utility interest in solar projects as substantially stymied of late by the late 2015 extension of bonus depreciation.

Can coal ash costs be recovered in ratebase? We note relative comfort across *most* utilities that costs for compliance with both the Coal Combustion Residual (CCR) and especially Effluent Limitation Guidelines (ELGs) on waste water emissions will be recoverable in utility rates as ratebase. Some utilities (DUK, VVC) among others have cautioned that this may not necessarily be the case on certain coal assets, particularly those with nearer term retirement deadlines. They have been interpreted to be in part costs for decommissioning assets. As such, decisions to accelerate plant retirement could drive considerations around whether corresponding CCR costs (incurred regardless of plant operation) will be ratebase or decommissioning costs (and effectively earn a return of, but not *on*).

Northeast markets for storage: With the latest pipeline delays (like Constitution) if not outright rejections the value of incumbent infrastructure has been highlighted. ConEd emphasized the value of its existing storage assets was modestly benefited from the delay of these projects. Further DTE re-emphasized its upsizing of the Bluestone project, a brownfield expansion of an interconnecting project into the larger Millenium pipeline escaped any meaningful scrutiny in New York despite the clear and widespread focus on fracked gas delivered off the Constitution pipeline. We see this as emphasizing the value of incumbents – and need to leverage existing infrastructure and rights of ways to execute on projects across both New York and New England. We would expect Northeast gas and power prices to continue to firm as realization over the longer-term challenges created by this project rejection filter through the market.

But will Northeast Direct (NED) materialize? We suspect other developers will pick up where KMI left off. We note the decision by Kinder to abandon the project recently despite a 35% contracted pipeline, with meaningful existing gas LDC commitments, provides an opportunity for a developer with a lower cost of capital to move forward on the project; our colleague Shneur Gershuni estimates the project returns are ~6% on an unlevered basis, suggesting there are low cost of capital utilities able to pursue the deal (ConEd's latest Stagecoach deal was seemingly done at or below this return level).

We emphasize ES appears very narrowly focused on its existing Access Northeast project, not wanting to evaluate any further expansions to the 925 mcf/d pipe size given the risks associated with refiling existing efforts for an Environmental Impact Statements (EIS). Otherwise, we would have seen this as an ideal opportunity for mgmt.; rather we see incumbent offtakers such as AQN as quite focused on re-energizing efforts to develop a solution to end the new gas customer moratorium.

Will utilities migrate ever more into midstream? Quite possibly. We note the recent decision by ConEdison to acquire a 50% stake in the Stagecoach Storage and Pipeline midstream assets from Crestwood is a notable shift in the sector. We see the deal as not only illustrative of the lower cost of capital in today's market place for utilities relative to MLPs for those suffering from a lack of earnings growth opportunities (mid-single digit best case unlevered return), but also illustrative of the desire to diversify away from corporate structures and pure ratebase stories. While a return to 'regulated-only' investment profiles remains the implicit mantra of nearly our entire coverage universe this does not preclude an interest in contracted 'regulated-like' investments in midstream and renewables, principally with 20-year contracts. The better question is in evaluating the limits to this thesis as assets with more limited contracted coverage are evaluated such as storage assets with ~4-years of future procurement tenor.

Gas Reserves in Ratebase? Not so fast. We see many companies as struggling with their nascent efforts to put forward such programs before regulators. The question of what the baseline for an appropriate program remains unclear with regulators, as most deals would *not* be possible at a discount to near-term gas prices (given the need to pay for contango reflected in future rates). We emphasize companies like MDU and XEL appeared to downplay their respective prospects for such structures, while WGL remained confident it could yet see success in VA. We note BKH will attempt to refile its recently rejected effort, this time with a real tangible project in hand rather than a theoretical project to provide greater evidence to the commission on precisely what was contemplated. The limited success appears to also reflect continued pressures on finding adequate opportunities.

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Alliant Energy Corp. (Not Covered)

Riverside: Mgmt was unclear whether WEC would ultimately acquire its recently negotiated stake, albeit assumes its execution under its latest plan. Mgmt was clear that disclosure would be forthcoming in the ~2018/19 timeframe, with option execution by 2020. Further, execution of the option would enable Alliant to in turn invest a total of 200MW in a corresponding future investment in WEC's service territory, presumably a CCGT through the 2024 period. The episode remains an unusual exchange of ratebase growth between two companies, and highlights some of our underlying concerns over magnitude of growth potential for WEC.

ATC: More Transmission, in Alaska, Coming? Mgmt was quite confident on its prospects at this JV with other peers (principally WEC) as it restructures to enable itself to invest *outside* of the state. Specifically, it has emerged that ATC is focusing on development in Alaska as part of an effort to interconnect via a coordinate transmission system the bulk of the regional population from Fairbanks south to Homer on the Kenia peninsula. The system would interconnect several largely unconnected systems in an effort to improve reliability across largely isolated systems. While details and sizing of the program remain unclear the total investment appears to total $900 Mn under some scenarios. We also note ATC continues the process to restructure itself in order to create a separate subsidiary to invest outside of the region, enabling its other local muni/coop members invested in ATC to avoid capital contributions from all investors.

The tax battle with ITC: Looking for refunds too: Following LNT's successful (and *fourth*) petition against ITC, this time on the subject of Bonus Depreciation (and ITC's failure to elect this treatment to customer detriment), LNT continues to seek a rehearing on refunds of prior year bonus depreciation. This remains a particularly high bar given the tax complications with the IRS if ultimately successful. We continue to see the FERC's decision to pushback on this tax treatment as acting as a method to ensure *all* utilities opt to adopt this treatment.

Ameren Corp

Investors continue to focus on the capital structure: No 'bright line' on capital structure look-through in Missouri: Ameren does not believe there is an explicit policy or level at which the Missouri Public Service Commission (PSC) would 'look-through' the capital structure of the utility to the immediate holding company. In Ameren's previous transactions it financed the acquisitions with a fairly balanced level of debt and equity such that there was no real issue about capitalization. Furthermore Ameren has faced challenges in the past from interveners about its capital structure and Ameren was successful. Management still does not anticipate needing equity through the five year plan (previously ~$100Mn of annual equity was available via the DRIP but that is not currently being utilized) and will approximately maintain its 50% capital structure (we see this definition as stretching downwards to ~47% under the term 'approximately' given the meaningful capex investment underway). With respect to credit metrics Ameren is very happy with where it stands today and agrees that it credit metrics are comparable strong relative to the ratings band at the credit rating agencies.

Without a formal rule seemingly on the books how would Ameren be treated if it levered up at the parent?

Regrouping on legislation: Missouri did not pass any utility reform legislation before the May 13th deadline for electric, gas, or water and now the utilities will go back to the drawing board to assess what proposals resonated well and where there are opportunities for refinement. The utilities had broader support in this legislative sessions compared to previous years due to the alignment with Noranda but ultimately it was not enough to help push a legislative effort across the finish line. The recent Noranda bankruptcy filing and idling of production was a tailwind for the utilities' efforts and we believe any 2017 legislative effort will be challenging as the focus on Noranda fades with the passage of time. Just as Missouri reforms proved difficult, management believes the recently introduced Illinois energy legislation centered on zero carbon resources faces long odds just given the state's focus on the budget issues and due to the limited timeframe left in the current session.

Without the support of Noranda next year, odds appear less clear

Although Ameren has been investing more in its Illinois utilities, it has seen customer satisfaction and reliability improve in Missouri as well, but it believes there is a longer-term risk to the reliability metrics in the absence of a regulatory framework supportive of further capital investments. For example over 40% of the AEE's Missouri substations are over fifty years old and are nearing the end of their expected useful lives. Ameren continues to emphasize that its rate base and EPS growth targets do not include any additional spending for Missouri legislation in 2016 or beyond.

Avangrid (Not Covered)

Connect New York - Offering a DC solution: Avangrid provided more details on its Connect New York project which is a 244-mile underground DC project from Utica (Zone E) towards New York City (Zone J) along the through-way across the two main congestion points, which would support Adirondack wind. While the Energy Highway has thus far focused primarily on AC transmission projects, AGR's DC proposal benefits from utilizing existing right-of-ways but would require expensive AC/DC converter stations on both ends. Preliminary details from Iberdrola in ~2012 are available here; however, the scope of the project has likely evolved over time. The proposal was submitted in April and we look for updates potentially later this year. Since AGR has been working on the project for many years it believes it could act quickly if selected. Total cost would include the transmission lines, but also notably the DC step-up stations, each at least~$200 Mn. Factoring in the additional cost for underground transmission (potentially more than double the traditional $1.0-$1.5Mn per mile cost for above-ground), this project could cost close to $1Bn if not more. Given the uncertainty around the project management has excluded it from its forward capex plan. More broadly transmission represents less than 10% of the $9.6Bn 2016E-2020E capex plan and management is confident that it could compensate for any setbacks in transmission with more renewable development. We continue to monitor this project for a variety of reasons: (1) AGR is a member of the NY TransCo along with ConEd and Connect New York appears to be a direct competitor; (2) to assess the response to a DC proposal which should have less pushback from local stakeholders but will be far more costly; and (3) for datapoints on whether companies are finding it easy to execute transmission projects in New York with NYISO indicating that transmission expansion is a near-term priority.

Still waiting on more New England gas: After Kinder Morgan cancelled the Northeast Access Direct project which would have increased gas availability to AGR's utilities, the company is optimistic that a solution will be derived eventually. While management believes the project cancellation is a negative, the associated utility is quite small (Berkshire Gas) and is not expected to have a material impact on Avangrid's earnings. Avangrid would not be surprised if a company makes an another attempt at a smaller, more manageable pipeline solution.

With a newer fleet, wind repowering not seen as an opportunity by the company: Avangrid downplayed opportunities for the consolidated company as management highlighted that its wind portfolio has an average operating life of 6-7 years. This means that not only would the technological improvements underlying the capacity factor would likely be less significant but many projects are still in their Production Tax Credits (PTC) period so the incremental cash flows would be reduced. There are only 20-30MW of wind assets that were built prior to 2004 so the technological improvement for most of the capacity is likely quite low. As a reminder the IRS recently released more guidance on the compliance requirements to be eligible for PTC when repowering wind assets. Avangrid is still focused on delivering as many projects early in the PTC window as possible to maximize the percentage of PTC that it qualifies for with 100% still awarded in 2016. Mgmt maintained its 200 MW/yr growth target in 2018-2020, however did not specify which region these MWs are from as New England projects are much more difficult to construct and get awarded, but have substantially higher PPAs than elsewhere in the country.

Avista Corp

Juneau LDC proposal in wait & see mode for now: Lower oil prices continue to put the company's proposal for a $130M natural gas local distribution company in Juneau, Alaska on hold for now. While the direct economic comparison of oil to gas conversion still makes sense, the economic impact of lower oil on the state's large $5B budget deficit weighs heavily on any large infrastructure project for now. With 75% of homes heated with oil, management reports that local leaders remain excited by the prospect of reducing heating bills and regional air pollution, but the $6000/conversion is proving to be a major hurdle for homeowners in the absence of significant financial help from either the state or the utility (e.g., on-Bill financing). The next step would be to file for a certificate of public convenience and necessity (CPCN) to obtain a gas utility franchise alongside AVA's Alaska Electric Light & Power subsidiary. However there are no plans to do so in the immediate future while the state's budget crisis remains dominant in the legislature (the current session is extended and a special session is likely this Summer) and the utility continues to explore methods for financing the buildout that could be palatable to customers. With a single LM 2500 peaker turbine gong online in October (~$20M), AVA plans to file a ratecase in Alaska in 2H16.

100% snowpack and heavy runoff so far: As noted on the 1Q earnings call, snowpack this winter fell to 100% levels, with heavy runoff this Spring that led the company to increase its forecast for the Energy Recovery Mechanism (ERM) to land in the 75%/25% sharing zone (an increase to the $4M-$10M benefit range from the previous <$4M). While most of the runoff usually occurs in 1H, the ERM outcome also depends on natural gas costs as well as fleet dispatch decisions, with further revisions to the forecast possible throughout the year (last year at this time the forecast was for 90%/10%, or >$10M).

Ratecase filing expected in Idaho soon: In addition to the expected Idaho case, the Washington public counsel's legal challenge to attrition in the last rate order remains pending after two regulatory motions were filed and rejected at the Wash Utilities and Transportation Commission.

Gathering intelligence on LNG: AVA's non-regulated LNG services business Salix continues to gather intelligence on LNG, oil and gas markets from its Plum subsidiary (annual investment expense of ~$3M/year). Although chosen as the sole preferred solution for the Fairbanks LNG project, no decision has been made yet to proceed as market dynamics and fuel sourcing options are studied (<$20M investment if it proceeds).

Roll up strategy in Alaska unlikely: Given that most of Alaska's co-ops are government owned public power entities with heavy debt loads, management continues to see any roll up strategy there as undesirable. We note the likely need for higher rates to support equity capital and infrastructure upgrades as a factor.

Black Hills Corp (Not Covered)

The written order from the Colorado Commission related to the Black Hills recent request to available cost of service gas (COSG) which would allow BKH to make ratebase investments into natural gas reserves. Although management was disappointed by the Commission's decision it still believes that it will be able to show a consumer benefit from gas ratebasing and is still evaluating its options. One such option after reviewing the written order would be to reapply with a specific investment opportunity. As a reminder the 'Phase I' of Black Hills' regulatory strategy has been to request prudency pre-determination rather than request actual approval of capital spending at this time. This longer-term education based process has been a successful strategy for utilities in other jurisdictions on a variety of types to strengthen relationships with regulators. Although the Colorado decision was clearly a setback management is still working on its requests in Iowa, Kansas, Nebraska, South Dakota, and Wyoming with hearings ranging from June to September depending on the jurisdiction. Ultimately the process in these other sates could occur before BKH refiles in Colorado. Depending on which jurisdictions it is successful in Black Hills believes it could only need two or three states to approve COSG in order for the company to go ahead and pursue the process further but ideally it would like to see all states participate.

What is the readthrough to peers? Numerous companies including NextEra Energy (NEE) and Xcel Energy (XEL) have discussed an investment opportunity from gas ratebasing and Black Hills has one of the larger proposals to make investments. Part of the struggle for companies has been that almost any proposal will be more expensive than buying gas today at these current prices and there appears to be hesitancy on behalf of regulators across the country. As we will discuss later in the note WGL Holdings expressed confidence in its proposal for gas ratebasing in Virginia.

Still see themselves as a buyer but needs to make sense to justify the premium: Black Hills closed the SourceGas acquisition in February and has already completed nearly two-thirds of the planned integration after just three months. Black Hills has historically highlighted its platform which it has designed to facilitate the timely integration of utilities at a low cost. Although management has only owned the assets for a short period of time it stated that performance is at least meeting its expectations and it has found optimization efforts that should facilitate the utilities in those jurisdictions (including the legacy utilities) to earn their allowed rate of returns. The focus currently is on rider and growth focused investments to avoid rate cases for as long as possible which will also allow customer bills to remain largely flat.

With respect to further M&A Black Hills said it is still interested in further opportunities if there are significant cost saving opportunities to justify a positive return on the investment if it has to pay a large premium. The company's 'wish list' includes electric utilities in states that BKH operates in that also need generation. Management is in fairly constant communication with municipalities and companies with utilities that fit this description indicating interest if they decide to make themselves available for sale. Even without further M&A management is confident that it can grow EPS significantly faster than peer utilities.

Mgmt also emphasizes the Source Gas deal was sought out through a 5-year process; further it emphasizes other deals helped to achieve critical mass including

via its acquisition of XEL's WY assets for instance and acquisition of ILA (Aquila) as well.

What is the readthrough to peers? Numerous utilities including BKH have continued to talk-up the possibility of further M&A despite the 20-22x forward P/Es paid lately, a significant premium over where most regulated utilities are trading in the market. As a result there could continue to be investor interest in small-and-mid cap utilities. What is very clear is that as the prices ascribed to M&A has increased, it has become critical to make sure that there are operational and strategic synergies involves to support paying such a premium.

Focused on staying out of rate cases: mgmt was quite confident in its ability to stay out of rate cases across most jurisdictions following the acquisition of the SourceGas deal, with synergies funding the utilities to earn at least their authorized cost of capital through the stayout periods of ~5-years from the deal terms.

Divestment of E&P assets underway: In contrast, mgmt. was adamant in continuing to scale down its E&P properties amidst an effort to emphasize its regulated profile; the target remains to achieve this target largely by year end 2017. Mgmt's secondary consideration remains the transfer of leases to the Cost of Service Gas ('gas in ratebase') effort it has underway –with a question on how large each transaction would be.

More capex coming alongside Analyst Day: Mgmt emphasized it would seek to update its capex outlook at its October 1st Analyst Day. They stated they would likely reflect a host of contemplated investments including new IRP to shift up its renewable. Management continued to emphasize its overall EPS growth profile was better than its average utility peer at 4-6% even excluding further acquisitions, even off the higher 2017 EPS guidance. Mgmt sees execution on the gas reserves in rate base as a critical element of this growth plan too.

Ratebasing more wind? Yes, likely. Emphasizing its forthcoming IRP filing in June, incremental capex would include a shift up to the 30% IRP requirement from current 20% position in Colorado by 2020. The company sees a clear opportunity to own the bulk of this opportunity, which would translate to roughly ~60MWs albeit there is some uncertainty in Colorado given the historic preference to share the opportunity between PPA and utility ownership.

CMS Energy

Can Consumers find better value than the Palisades nuclear plant? We continue to see opportunities for the company arising beyond any legislation, including the potential to buyout early its existing contract with Entergy for its Palisades nuclear plant. We see this as a medium-term positive datapoint principally for CMS, but also for ETR, as both improved their respective regulated core profiles. While we no longer believe a CCGT (Thetford) would be built as its replacement, we see other opportunities such as the eventual acquisition and ratebasing of its last remaining merchant DIG power plant (a strategic priority to improve the overall regulated profile of its earnings profile) among other lower cost options. Given the timing of Palisades' next outage in Spring 2017, we see potential for developments as soon as Entergy's upcoming June Analyst Day.

Getting closer to the eleventh hour in Michigan: With the legislative session set for a Memorial Day break, the chances of passing energy legislation in June and July are significantly lower due to the proximity to election season (though not impossible). *In any event,* CMS continues to stress that its 6%-8%, 10-year EPS growth plan is not dependent on the passage of a new law. Even if passed, the utility is now *unlikely* to add a new CCGT to serve any load that *might* return from choice, preferring instead a set of more incremental measures (smaller uprates, energy efficiency, CHP, cogen, etc...) to resolve the Zone 7 supply needs for the intermediate term.

Capacity curve is steep; an argument for action now: While the last MISO capacity auction resulted in prices for Zone 7 of $2.19/kW-mo, management notes that the supply curve takes a sharp turn upward toward the cost of new entry (CONE) of $7.50, with these higher prices possible (even likely) if load continues to build without any incentive to build capacity reserves. Hence the call for legislative action to ensure that load served by competitive suppliers is also paying for capacity reserves in addition to simple energy (as utility customers already effective do). As for CMS's nonregulated Dearborn Industrial Generation (DIG) plant, management's forecast is for $20M of revenues in 2016 based on $2/kW-month ramping to $35M in 2017 with the additional layering of new contracts at ~$3. Going forward, an incremental $20M-$40M is possible with additional contracts at $4.50-$7.50. Given the bilateral nature of the market, it is exceptionally binary in terms of pricing.

"Having eyes to see": CMS continues to implement cost saving initiatives and process improvement, describing the revelation of new sources of efficiency as the result of looking at old ways of doing things with new "eyes to see" a better way. The current plan has already identified $100M of cost savings through 2017 (6%) with natural attrition alone accounting for $35M through the reduction of defined benefit plans and reduced headcount. These savings account for 2%-3% of the build up toward self-funding (no block equity) 6%-8% EPS growth through 2025, the single largest contributor toward allowing this level of growth while keeping rate inflation below 2% within a conservative sales growth projection of only 1%.

DTE Energy

Yet again, we find DTE to be among the most constructive stories we met with at the gas conference. We see the company as consistently well positioned despite the wider backdrop of concerns for a company perceived to be meaningfully exposed to midstream business. We reiterate our Buy rating on shares.

Nexus: Close to more contracts: Management was quite clear it was near firming up yet another firm LDC gas deal with an Ohio utility (already short-listed with an MOU), adding to its existing firm offtakes from a range of MI and Ontario-based utilities. Further, mgmt. emphasized progress is clear on the offtake from the Oregon CCGT, among the largest offtakers in the Ohio footprint for the pipe. Lastly, despite seemingly making statements otherwise, DTE emphasized NRG continues to evaluate a gas lateral to reach its Avon lake coal plant as part of an option to move the plant to partial service. We emphasize the conversion would have limited total usage but was a recent seeming loss when the project appears to have recommitted itself to burning low-sulfur PRB as part of its MATS-compliance strategy.

As NEXUS makes more progress, we look at the route: DTE highlighted that the Oregon Clean Energy Center in Ohio is projected to be one of the most significant incremental sources of gas demand along the NEXUS pipeline. NRG is still working on the gas lateral at its Avon Lake plant although it is still unclear what the primarily fuel will be at the site in the future. Out of the 1.75bcf/day interconnection agreements DTE is hopefully that one of the utilities will be a firm shipper. We should have more clarity on the timeline when the schedule notice from the FERC is released later in 2Q16. DTE still expects the project to be completed by YE17.

Management does not believe there are any negative readthroughs from the New York DEC's decision to not grant a water permit to the Constitution pipeline project and DTE cited a recent Bluestone approval in New York as an example.

Storage sale?: Mgmt acknowledged that it was indeed in discussions with WEC as part of a partial sell-down of its storage assets initially disclosed on the WEC conference call. We note the 30 bcf WEC leases in MI is only a small part of DTE's total ~0.25Tcf of the total 0.65 Tcf storage in the state; we understand WEC also leases some of its capacity from Transcanada as well. We look for a sale as potentially highlighting the underlying value of its midstream portfolio.

Making storage a competitive offering: On its recent 1Q16 earnings call WEC Energy mentioned potentially owning gas storage facilities in Michigan rather than leasing the assets and DTE is one of the companies that leases to WEC along with TransCanada. TransCanada has been attempting to increase its rates lately, a development which DTE believes should help to improve the outlook for its own storage facilities. As the power generation mix shifts more towards natural gas-fired assets DTE sees its storage as playing an important role; however, the legacy tariffs designed around seasonal injection and withdrawal are less appropriate today. As a result DTE filed at FERC to create a tariff rate that is more relevant for the realities of how gas plants operate (ex. Sometimes less than one-hour notice on significantly ramping production). The company believes its characteristics around faster drawing and injecting is a competitive advantage over less nimble storage facilities given their physical limitations.

Are MISO reforms a good first step in MI? Notwithstanding ongoing the debate in MI, we see contemplated MISO reforms over capacity markets as a clear potential driver for customers to return to utility industrial tariffs back from shopping given the longer tenor of capacity procurement required. The contemplated MISO capacity reforms would put in place a mandatory three-year forward capacity requirement for those in competitive regions of the MISO market (at least under what is initially contemplated), putting in place a local clearing requirement on capacity. While pricing expectations remain relatively modest for the MISO market even under these reforms, we see the three year forward commitment itself as potentially adding to pressure on alternative energy suppliers (AES). We look for a FERC filing from MISO in the ~July timeframe.

Empire District Electric

What is the latest on the AQN-EDE merger approval process: We spoke with management regarding the current status of their merger with Algonquin Power and Utilities (AQN). As it stands, the Oklahoma Corporation Commission (OCC) and the FERC has approved the merger, while a decision is still pending in Kansas, Missouri and Arkansas. We note a procedural schedule has not been released in Arkansas. We do not see any significant obstacles left for Empire to overcome as management commented Algonquin took the larger issues off the table in their discussions with regulators. We believe the regulators decision was ultimately helped by Algonquin's agreement to no job losses and no recovery of the acquisition premium through a rate increase. Going forward management expects minimal issues in Arkansas despite this proving to be the headwind with the last acquisition attempt early last decade. Separately, AQN management discussed replacing Empire's current PPAs with owned wind capacity and driving growth through a less risk averse lens at Empire. We note Empire has begun the transition and planning process with a "first kick-off" with functional teams in June.

Mgmt was quite confident on deal approval, leveraging EDE as a regional platform for its other utilities – adding jobs, instead of reducing them in Joplin

What does the failure to pass SB 1028 mean for EDE: On May 13th, the Missouri legislature's session ended without a comprehensive resolution to SB 1028, which would have provided for timely recovery of rates in a state with aging infrastructure and considerable regulatory lag. Mgmt stated Commission Chairman Hall was involved in the process and eventually saw more of a need for regulatory reform than when the legislature's session began. However, we note one party that may be affected on a much larger scale is Noranda; the aluminum producer may opt to shut down operations as it did not receive the lower rate its creditors were hoping for via passage of legislation. Mgmt noted the latest version of the bill has changed considerably versus the initial submission. There are certain provisions in the legislation that were likely included to gain support from other legislators. In the interim, we expect key stakeholders to work together with regulators and legislators to introduce another bill when the legislature enters session next year. However, mgmt. does not believe the bill that will be introduced next year will bear too much of a likeness to what was most recently discussed in the Senate.

What to watch going forward: Other key takeaways include potential opportunities to add renewables to their energy mix over the next several years (closer to ~2020 timeframe). Mgmt also suggested that energy mix shift away from coal is largely independent of the CPP outcome. Empire mentioned their residential usage has declined on a per customer basis although their customer count has increased; this dynamic appears to be largely driven by energy efficiency retrofits and behavioral changes.

Eversource Energy

More cautious on legislation in Massachusetts: We emphasize a less confident tone in the prospects for legislation through the pending session this July. Further mgmt. downplayed the importance of the legislation as it was strictly a factor for HQ to consider in the economics of its underlying offtake arrangement with ES for the project. We continue to see the legislation as important statement of political support for the Northern Pass project as well as potentially opening up the door for yet more offtake down the line. We note mgmt. emphasized that offshore wind was becoming more of a reality, seeing offshore deals cut at 11-12c/kWh under the latest deals (substantially cheaper than the $230/MWh seen for the legacy technology employed under the Cape Wind project).

Is there a concern on the legality of gas procurement by an Electric Distribution Company (EDC)? Yes, this is a growing focus, as the Mass AG and other interests in the state appear keen to limit the ability for electric companies to participate in an ongoing RFP to sign up for new gas pipeline access, effectively solving the issues of the free-rider issue for gas infrastructure to new and existing gas plants. We see the integrity of these deals as critical to mgmt's ability to execute on its pending Access Northeast expansion. A decision from the Mass Supreme Judicial Court is due out 130 days after the arguments, held in early May, enabling a decision mid-2016 if not sooner. Mgmt remains quite confident should it suffer a defeat in the courts that a subsequent legislative fix could be quickly executed to address this oversight in the existing statutes; timeline on the legislative session would require a fix to be passed only in 2017, putting some risk to the timeline if this path is ultimately pursued.

With Kinder Morgan's Northeast Energy Direct project cancelled (due to KMI's notably higher cost of capital), we continue to see little upside opportunity for Access Northeast, at least until approvals are achieved in all 5 states for contracts on the planned 900 mmcf/day. However, there may yet be opportunities later in the process to expand via compression to serve some incremental generator load that had planned to connect with NED and perhaps even more should laterals prove feasible/desirable.

As we've noted previously, ES continues to emphasize that the Northern Pass Transmission (NPT) project does not depend on either the ongoing "Three State Clean Energy RFP or the proposed Massachusetts legislation for another 2,400 MW clean energy (including hydro and new technology offshore wind). The bill's passage, possibly this Summer, would add incremental opportunities.

Other Points

- O&M costs are likely too low to cut at a meaningful clip anymore, although the company still sees a 2-3% rate as reasonable.
- The company recently filed to recover costs from NStar electric merger, which is included in guidance (worth ~$40M over 3 years)
- Management highlighted that decoupling is in place for half of the franchises, and suggested CL&P and NStar cases are on the way.
- Aging workforce provides some O&M opportunities (like working with community colleges to hire trained employees that will have a lower cost basis).

New Jersey Resources (Not Covered):

Top 3 Takeaways:

(1) **NJ SREC markets are healthy and there are multiple incentives to keep this dynamic in place.** SREC's in the ~$290-295/MWh range of late are largely supported by recent policy actions including a net metering increase from 2.5% of peak load to 2.9% of consumption last year, new governor incoming in 2018, and extensive solar industry jobs in the state. Further, potential for RPS increase suggests further longer term support in the state, particularly given the extensive jobs backdrop.

(2) **PTC/ITC extension provides some increased flexibility but does not drastically change plans.** Management stressed 3 year historic planning horizon for ITC stepdown and suggested the ITC extension had little practical effect on project development although one large project has more flexibility on commercial operation date. Further, PTC extension and recently released 4 year start of construction guidance suggests the company has more optionality around wind investment given increased opportunities for due diligence.

(3) **NJR/PEG: PennEast Pipeline is largely on track.** The company has the FERC schedule in hand and the only real change recently was the in service date was pushed back 6 months. There is some local opposition and it's within the realm of possibility that there could be a further re-routing but management stressed the dynamic nature of the process in addition to the fully-subscribed status largely supporting development.

Other points:

- Commercial solar market appears to be the most risky right now because the low hanging fruit has been developed.
    - This leaves potential credit risk given mismatch between credit profile of landlord and lessee
- Utilizing tax capacity (via renewable credits) is *not* currently an issue despite bonus depreciation and the company usually scales investment appropriately
- Most of the solar overbuild from a few years ago has been worked out of the SREC market and dynamics are largely more supportive now
- Contribution from Clean Energy Ventures unlikely to shift away from 10-20% target
- Existing wind portfolio has been achieving slightly above 100% of expectations, primarily due to geographic diversification
    - Aside from wind differences, the company can service each wind farm in the local low-utilization times
- The company typically targets ~9% unlevered IRR on wind projects but assigns no value beyond year 20. Similarly, fully subscribed pipelines like PennEast should achieve after tax unlevered IRR in the ~8.5% range
- Renewable development debt is financed on balance sheet, although the company didn't rule out future project debt at a higher scale

- Regarding Southern Reliability Link project, management wants to time it with the completion of the rate case
- Rate case is moving along as expected but it's premature to speculate on settlement potential.
- Mgmt states it has not had any issues hiring gas-related employees
- **Dominion Midstream** shares the company holds (from the Iroquois pipeline exchange) are 90% restricted until Sept 29

NiSource

Reconciling the Ratebase vs. EPS Growth: Mgmt explained that it remained committed to its 6-8% ratebase growth despite a more modest 4-6% EPS and DPS growth trajectory. Mgmt explained the discrepancy between the two growth rates to ongoing DRIP of ~$50 Mn/yr as well as rate lag through the course of its next rate case cycle. Having just emerged from its latest NIPSCO rate case, we understand the company is likely not filing another electric case until 2020, suffering modestly from core O&M inflation of ~2% per annum; this remains a wider headroom to EPS growth through the near-term.

Infrastructure rider: Management is quite pleased with the settlement it achieved recently in Indiana for electric modernization at NIPSCO. While the deal includes a requirement that investments north of $100 Mn must employ incremental leverage of 60% debt/equity (rather than the utilities conventional capitalization), the company does not appear too concerned – and appears likely to manage the business towards its consolidated overall equity ratios as initially set under its last rate case. The company had a similar requirement incorporated in its last FGD scrubber build, ultimately getting absorbed into the wider utility capital structure. This is among the first times in recent memory a company has opted to put in place a differentiated capital structure for a discrete project, with commissions largely focused on the ROE authorized.

NOL position remains: Mgmt stressed it does not have projected cash tax appetite through 2022, among the largest tax positions of its utility peers.

Wind: Not so much. Remains largely outside of the base development plan without a formal RPS. Costs for wind remain in the $30-40's/MWh, still above the cost of its variable fuel procurement costs.

NorthWestern Corporation (Not Covered)

Working with Montana for the Long Term: Management remains committed to engagement and aligning interests with Montana regulators, expressing concern about a possible change of direction at the Montana Public Service Commission (MPSC) after recent negative decisions for the company. More specifically, this follows the March 2016 vote to direct staff to draft an order *disallowing* recovery of replacement power costs for Colstrip 4 during the 2013 outage. A final order is expected by the end of the 2Q16, and while management is prepared to work with the commission (which was split 3-2 on the issue) to improve procedures and outcomes, the company also intends to evaluate legal options if necessary.

Possible DGGS impairment likely to be small, if at all: On May 10, the Federal Energy Regulatory Commission (FERC) finally issued an order after two years denying the company's request for rehearing on the April 2014 order that resulted in significant undercollection of the requested wholesale revenue requirement for the David Gates Generating Station (DGGS). This opens the door for NWE to move to the next step and file shortly for an appeal with the US Court of Appeals, with a decision note expected until 2017 or beyond. In the meantime, NWE will refund $27.3M cumulative deferred revenue plus $3.3M interest within 30 days of the order, with no impact to earnings due to reserves already taken. The possible need for an impairment charge continues to be tested, but even if required, we note that the plant currently sits on the books at $159M with 16% of the revenue requirement disallowed (for now), implying the possibility of a charge only up to $25M pretax.

Electric Resource Plan for 2015 shows need for $1.3B through 2029: As NWE continues to buttress its reliance on purchased power and imports with native generation, the plan highlights a -28% planning reserve margin for 2015 that would require 689 MW of fossil generation for $1.3B (including associated infrastructure) just to achieve a 0% margin by 2029. This includes a 348 MW CCGT by 2025 for $653M. Notably, the plan excludes the possibility of 86 MW hydro capacity uprates currently being studied and it also excludes the recently acquired 80-MW Beethoven wind farm in SD. While current low market prices for power may have made the plan seem less urgent to regulators, NWE continues to note increased (and ultimately unsustainable) pan-regional reliance on the same set of limited baseload and peaking facilities. The company eventually intends to reach a 15% reserve margin.

Other regulatory updates:

Kerr Dam Conveyance/Hydro Compliance: expect a final order in 2H16 for the contested docket opened in January to examine the rate adjustments required for the conveyance of Kerr to the Confederated Salish and Kootenai Tribes. The consumer counsel has not yet filed testimony yet. An interim rate reduction is currently in effect.

South Dakota: Beethoven Wind placed into ratebase using a 3-year levelized rate calculation in Sept 2015. In October, regulators approved a settlement with Staff and intervenors for a $20.2M rate increase, including $9M for

Beethoven. Management expects a $13.6M net income impact in 2016 from the settlement.

Decoupling: Management is evaluating the possibility of a decoupling or other revenue adjustment mechanism after the MPSC October 2015 Order eliminating the lost revenue adjustment mechanism.
Ratebased gas reserves and general gas rates - Anticipate a Montana filing prior to October in 3Q16 to place both the NFR and Devon gas reserve assets into ratebase (as required by the Oct 2015 natural gas tracker order). Will also file a separate but contemporaneous gas distribution, transmission, and storage ratecase based as part of the annual "first look" process to evaluate the need for rate filings in each jurisdiction based on a 2015 test year.

Colstrip settlement talks: Recall that NWE owns a 30% interest in Colstrip Unit 4 and that in 2013, the Sierra Club and other plaintiffs filed suit (amended in Sept 2014) against the owners for various claims of relief based on alleged violations of the Clean Air Act; specifically that between 2001 and 2012 "major modifications" to the plant were made resulting in increased emissions of SO2, NOx, particulate matter subject to New Source Review permitting requirements. In December, the Magistrate denied plaintiff's motions for, among other things, partial summary judgement regarding routine maintenance repair and replacement and granted various defendant motions as well. With a bench trial scheduled for May 31, a notice of settlement discussions was recently filed with the US District Court. With all parties under a confidentiality agreement, we await an outcome on the fate of the plant - particularly Units 1 & 2, which are older and do not have the extensive emissions controls that were placed on Units 3 & 4.

This is of particular relevance for Talen (TLN), which continues to seek an avenue to dives the asset. Given the sensitivity of the plant, the Governor of Montana has asked NWE to discuss with TLN over any eventual arrangement to take on the plant. Recall, NWE had previously offered an implied negative price for the plant given the potential liabilities from coal ash as part of its prior acquisition of TLN's Montana hydro portfolio.

Piedmont Natural Gas (Not Covered)

Running a lean organization with years of high-single digit ratebase growth: Piedmont management believes that spending on its ~3,000 miles of gas transmission pipelines and growth investments will support a long runway of organic increases in ratebase. Approximately half of the utility capital spending is recoverable via trackers and other rider mechanisms with another portion of the spending associated with new customer connections. The system has neither cast iron nor bare steel and the focus is on continually refreshing the already modern system to support more frequent monitoring to enhance safety. For example the company has developed a detailed OASIS asset management tool internally to help inspect pipelines with small mechanical devices scanning every foot of the pipeline rather than relying on an approach with more spot testing. Not only does it require significant time to test all of its pipelines but this also necessitates that the company adjust the placement of some lines to better facilitate the testing (ex. removing 90-degree angles from the system so the devices can move more freely). For this reason the spending will be a mix of capital and operating expenditures depending on the situation but the transmission system appears more capital oriented. The constraint on the rate of spending is management's ability to effectively oversee the projects and ensure that the pipeline is tested adequately along with a constant focus on customer rates.

No updates on Duke merger progress - North Carolina Utilities Commission review the remaining item: On March 14th the Tennessee Regulatory Authority (TRA) approved the change of control leaving the North Carolina Utilities Commission (NCUC) as the last regulatory approval necessary to close the transaction. Hearings are scheduled for July 18th and both Piedmont and Duke still believe closing the transaction in 4Q16 is realistic.

Continuing to aggressively pursue completion of Constitution pipeline: Piedmont owns a stake in the Constitution pipeline project and yesterday May 16th the owners of the Constitution projected sued the state of New York in the US Court of Appeals challenging the New York State Department of Environmental Conservation (DEC) which denied the project's water permit recently. Both investors and other companies we have spoken to recently have expressed negative opinions on whether Constitution actually gets built.

Public Service Enterprise Group

Solar growth is slow and steady and the company recently filed to extend the S4A (Solar4All) program, with ~150MW spread across 20 sites. Despite recent IRS guidance the company does *not* have any plans to add wind to the portfolio (unless it was more cost effective offshore) given lack of high quality wind sites in the state. Solar prefers to be the renewable resource of choice although management stressed benefits of utility scale vs rooftop.

The Salem Nuclear plant needs to have several baffle bolts (a several inch tall bolt in the nuclear vessel used to secure the baffle plate) replaced, following a visual inspection that identified necessary refurbishment. Currently, each vessel has 832 bolts (only some need to be replaced, although part of this may be manual) but the tool & crew to replace them is tied up at Indian Point doing repair work. Current expectations are for mid-June timeframe finish, which would allow the plant to refuel in the relatively near future (exact timeline unsure at this point). Further, The company is actively advocating for a nuclear-focused funding mechanism similar to the recent NY legislation that would recognize carbon-free benefits of nuclear, particularly in light of likely eventual price on carbon.

Capital investment potential continues to trend well and management highlighted history of under-forecasting potential capex opportunities (for example, $1.5B forecast for 2015 in 2012 vs actual $3.9B). High single digit rate base growth through 2020 looks achievable and is supported by up to ~$18B of growth spend through 2020. Base plan of $16B approved planned spend includes $7.1B of transmission growth.

Other Points

- Mgmnt noted that compared to others who may be losing tax appetite, PEG remains well positioned to utilize renewable tax credits.
- The company is focusing on shifting to a regulatory outcome that avoids ongoing cases for long term programs (for example, the 30 year gas investment program).
- Mgmnt has plans to keep opex flat through 2018

Questar (Not Covered)

Outlook for capital spending at Wexpro remains challenging: Mgmt was quite clear that the outlook for any flat outlook under its existing constructs for growth was challenging under the low gas price backdrop. That said, it remained open to further investments realizing themselves in Colorado despite the recent Blackhills rejection of their program by CO PUC regulators.

Southern Company

Gas infrastructure expansion would be tied to customers: AGL Management has little desire to take part in producer-driven gas transportation projects, preferring to build for contracted customer demand (no merchant pipelines). Hence, they prefer contracted projects such as their investment in PennEast. The recent 1-year delay for PennEast to 4Q18 was described as a timing issue only, with the pipe still needed, although SO does not see enough demand for an additional 0.5 bcf/d compression expansion for at least the next 2-3 years (unless PEG decided it needs more capacity for gas units). The company would also be interested in participating in the potential expansion of gas transportation into Illinois. On gas storage, management notes plenty of expansion capability but current market pricing for storage would not support expansion.

Kemper SEC investigation disclosures are "not material": Management describes the year-old SEC investigation disclosed in the latest 10Q as focused on accounting and disclosure issues being reviewed in part as a response to earlier restatements. However, they also say the issues and likely outcomes are immaterial, with the 10Q disclosure made as a result of extra attention as the company issues debt for the acquisition of AGL Resources. With repairs to Train A ongoing, we now expect to see syngas testing for Train B first this summer in the June/July timeframe with both Trains operating in September as per the most recent schedule.

Timeline for rate case filing in MS: Points to a filing either late this year or early next as the company would like to see stability in the in-service of the plant prior to filing for rates for the plant. Recall that its current rate agreement would allow the company to defer costs even after it reaches in-service (depreciation) into the pending case, which could be filed ~3-5 months after the current formal in-service target. Further, we note that while Duke's Edwardsport plant was nominally placed into service the plant suffered from consistent low capacity factors on its ability to use syngas generated for a protracted period, ultimately driving pressure from the IURC to disallow certain operating costs.

Spire (Not Covered)

Mgmt does not see issues in the process to approve the proposed acquisition of Mobile Gas? Spire mgmt has yet to file for approval of the merger in Mississippi but mentioned early indications indicate strong potential for a constructive outcome, with expected close sometime this year. Mgmt. stated acquisitions are a considerable part of their growth story but not all of it. Spire raised $138 million in equity earlier last week for its latest acquisition of SRE's Southeast gas utilities (principally Mobile Gas) and hedged interest rate exposure for the debt portion of the financing used for the acquisition.

What other organic growth options are available? Line extensions and service expansion into underserved areas were highlighted as potential growth opportunities; for example mgmt has discussed a project to extend service into an area that is primarily served by propane, but the Mayor and town council in that region were asked for gas supply by customers. Despite high cost delivery, Spire mgmt negotiated delivery commitments in that instance. Mgmt highlighted conversion from propane supply to gas supply is considerably easier than switching electric customers to gas.

Mgmt is undertaking an interstate pipeline project to gain access to lower cost shale gas: The company's pending St. Louis project is a 60-mile pipeline which management has initiated to modernize their gas assets. The interstate pipeline will be regulated by FERC and has a capacity of 400 MMcf/day, with estimated cost of ~$170-200 million. Mgmt stated they have met with regulators and walked them through the pipeline project resulting in an understanding from the commissioners of the need for shale gas in the region as well as an additional transportation method into the region; further mgmt believes local regulators do not want to be anchored to one individual transporter and would welcome a diverse supplier base in order to mitigate against supply interruptions. Spire expects their eastern Missouri system to gain access to lower cost shale gas from Marcellus and Utica through the construction of the pipeline.

Mgmt stated the failure to pass SB 1028 did not raise an issue: Spire mentioned the legislation addressing regulatory lag in Missouri was *not* an issue for them given minimal lag as a result of their Infrastructure System Replacement Surcharge (ISRS) mechanism. Mgmt commented nearly 55% of their capital spend receives immediate recovery through the ISRS and that they were largely insulated from the risk of unrecovered costs. However, mgmt. alluded to their efforts to change the rate case requirement of 3 year intervals to 5 years; Missouri and Utah are the only states that have this rate case requirement on pipeline replacement programs.

TransCanada (Not Covered)

Mexican Strategy: Mgmt is split on its Mexican strategy. While it has already publically stated it will divest a 49% interest in its existing business to drive the bulk of the $7 Bn in asset proceeds contemplated to fund its Columbia acquisition, the company remains quite keen to participate in further asset expansions. Notably, the company continues to watch whether assets will be divested from PEMEX as part of the country's ongoing sector reforms. Overall, its strategy remains in the central corridor of the country where returns remain more reasonable than the highly competitive northern border region, where returns appear to be negative according to Transcanada without assuming meaningful future growth expansion opportunities into bids. Lastly the company continues to evaluate whether filing for a FIBRA-E (effectively a Mexican equivalent of a US MLP, finalized late last year as a structure) is appropriate; for the time being the 49% stake is contemplated as a sale to a private entity rather than a public listing given the wider disclosure and attention alongside corresponding costs associated.

Merchant power divestment underway: Mgmt emphasizes aside the 49% equity selldown in Canada, the Power assets in the US would fund the remaining $7 Bn asset sale target. If unsuccessful to raise this target from the selected assets, further assets would be found for liquidation. We note this includes the large Ravenswood plant in New York City, among a handful of remaining merchant assets. We note the decision comes just weeks after it closed on the acquisition of Ironwood CCGT in PA from TLN.

Committed to expanding US footprint still: Looking beyond the Columbia acquisition, mgmt. is open to yet further expansion into the US, albeit on largely regulated midstream assets. This would be only *after* its pending acquisition is fully closed and integrated by late 2017.

Shift towards contracted generation: Mgmt is quite clear it will be pursuing a strategy of largely contracted renewable opportunities, both in Canada (Alberta under the new NDP administration) as well in the US. Mgmt is *not* worried yet that the wind business is too competitive. *Mgmt notes it does have US tax appetite, enabling interest in the renewable sector; the company is among few US utilities with corporate tax appetite remaining.*

UGI Corporation (Not Covered)

Mgmt is "excited" about the prospects of the Penn East Project: UGI expects Penn East to reach its in-service date in the ~second half of 2018 (consistent with 4Q18 target from AGL), although mgmt acknowledged the challenges facing the project including siting and local opposition in Lower Bucks County and Hunterdon County. However, the company noted significant capacity needs in the region is important, which compliments active outreach to local municipalities along the way.

Challenges for UGI's business and other takeaways: Separately, the company's propane business has declined as a result of escalating costs in excess of inflation. Additionally, the economic conservation from customers has resulted in a decline in demand. However, housing starts recovery is supportive of propane consumption in the region, and the company stated they can deliver consistent unit margin growth over decades.

The company also commented on their currency hedge programs where the strategy is to go out three years and hedge 100 percent of exposure of the forward year, 2/3^{rds} of the following year, and 1/3rd of the final year.

UGI has recently filed for a rate case in their gas business. They expect to have new rates implemented in fiscal year 2017 and a settlement on or before October 1, 2016 as opposed to a fully litigated case which may drag on for many more months.

Unitil Corporation (Not Covered)

Continuing to see growth from home heating oil conversions: Unitil's story continues to be driven by converting customers from oil-to-gas for heating despite the decline in oil prices which negatively impacts the payback period. Management has seen a slowing among residential customers but interest from commercial & industrial customers remains strong due to the ~15% differential. Management has utilized a very detailed process to assess whether a specific part of its service territory would be a good candidate for gas conversions. By essentially generating a heat map of potential prospects utilizing characteristics such as real estate value it has seen a strong success rate. The combination of adding new customers and cast iron pipeline replacement helps form the core of the company's 4-6% growth rate. The most significant constraint in the long-term according to management is access to gas in the region as we have seen across New England. The New England States' efforts to add a surcharge on electric customers to support gas infrastructure development would help to bring more gas to the region but the legality of the surcharge is currently being reviewed at the Supreme Court. Management believes that the gas local distribution companies are better positioned to facilitate the investment.

As a result of its infrastructure replacement plan UTL has one of the youngest gas systems in the region and collectively 81% of the system is plastic or protected steel. In New Hampshire the company expects to complete its replacement program by the end of 2017 (six miles per year in 2016 and 2017) but there is a much longer runway of replacement ahead in Maine (50 miles per year for nine years) and Massachusetts (3 miles annually for twenty years).

Electric side of the house striving to modernization as broader electric load stagnates: At the electric utilities the rate of growth is more modest due to energy efficiency but the company has seen spending as the company constructs two new substations. The utility filed a plan for grid modernization recently in New Hampshire and already has full coverage in both Massachusetts and New Hampshire. The electric utilities have the lowest/among the lowest rates in the region due to the compact service territory and a tight focus on O&M. As a result the earned ROEs have improved in each of the last four years.

How does this compare to peers? Unitil has one of the more modern electric and gas systems with the majority of its growth coming from the gas side. We closely monitor peer utilities for developments on the oil-to-gas conversion front and we view management attributing the bulk of its 2-3% customer count growth to new conversions as a positive datapoint for companies including Consolidated Edison (ED), Eversource (ES), and Avangrid (AGR). Management also believes that the continued loss of baseload generation in the region and increased reliance on gas and renewables could cause future New England reliability challenges if not proactively addressed.

Vectren (Not Covered):

VVC is pursuing gas growth to hit targets: Mgmt acknowledged headwinds in the VESCO, energy contracting side of the business. Mgmt continues to caution that failure for larger pipelines to move forward will put pressure on its pipeline maintenance business as larger peers focus their efforts on smaller projects. The recent delays of Constitution for instance was not perceived well by mgmt. Mgmt guided towards a 10% growth rate in their gas rate base as the bulk of their efforts are reflected in gas safety in Indiana.

Electric: Rider recovery of costs associated with ash, water issues – as well as for new gas plant too if it happens: However, they do plan to file for an Integrated Resource Plan (IRP) later in 2016 with the goal of addressing whether to retrofit coal plants (three owned or partially owned). A large portion of the spend is centered around whether to pursue the retrofit for coal plants towards Coal Ash and ELG (water emission rules) for coal plants; it is unclear whether spend on these plants in a shut down situation would be recoverable in ratebase, while it is clear if it would remain open. Further, mgmt is looking at prospects for gas in the state as well as an alternative. Existing mechanisms such as Senate Bill 251 and 29 will allow for Vectren to recover any costs associated with required investments, avoiding any rate cases on the electric side. Rate inflation remains mgmt's top issue on the electric side given multiple years of previous increases and the highest rates in the state.

Looking into the end of 2016 and beyond: rate cases and an updated strategy: Mgmt expects to file for rate increases in Ohio-Electric and Indiana-Gas in 2017 and 2020, respectively. No further rate cases in Indiana for electric is contemplated for the foreseeable future outcome of the future. Currently, Vectren's environmental and generation capex are flowed through riders. Mgmt commented they do not have a plan for an electric rate case as of yet despite the uptick in capex coming out of its 2H16 IRP (albeit capex details here won't be released until 2017).

WGL Holdings (Not Covered):

Accelerated pipeline replacement and customer growth forms the foundation for +9% rate base growth: Between the accelerated pipeline replacement program and capital investment to satisfy demand from ~2% customer growth WGL Holdings (WGL) estimates that from 2015A-2020E ~66% of its capital investment generates revenue on a near real-time basis. How does this compare to electric utilities under coverage? WE note the high rate of customer growth which ranges from +1.4% in 2016E to +2.4% in 2019E versus largely flat electricity demand due to the effects of energy efficiency offsetting ~0.5% growth in customers. Gas utilities do tend to benefit from faster revenue recovery via trackers than electrics but the higher increase in customers is what truly gives gas utilities more growth. WGL's sales growth confirms D's similarly high growth seen in its northern Virginia VEPCO service territory.

Management noted that one of the important limitations on the rate of pipeline replacement historically was access to contractors and other labor but has observed an increased availability of skilled labor so it is more comfortable in being able to increase the spending in the next version of the plans. While the company is always mindful of the customer bill impact, the decline in the gas commodity cost has been a significant tailwind in helping WGL keep rates affordable. The increased spending on pipeline replacement has been focused on older assets with more leaks and the improvement in system quality is expected to reduce O&M over time. Another factor is the asset optimization activities which are available for sharing between customers and shareholders depending on the level (typically 60% customers/40% shareholders).

Gas reserve investment request still possible in Virginia: Management previously filed to make a gas reserve investment in rate base based on the state's legislation which allows WGL to potentially secure investment for up to 25% of the utility's demands. WGL is taking the feedback from the Commission into account in preparing its latest filing and the investment should be relatively small ($100-$150Mn) but nothing has been finalized. Peer utilities operating in other jurisdictions such as Colorado and Florida have seen relative setbacks so we look to see if WGL is successful with its updated request.

More competition in renewables but still expect to execute in commercial market: Although there is more competition in the distributed generation market compared with when WGL began focusing here approximately six years ago, management still sees a large opportunity set of projects. The distributed generation spending is currently expected to decline modestly to $100Mn annually from $200Mn in 2016E but this could increase if the opportunities present themselves. WGL attributes its success on the commercial projects to its standardized processes and ability to assess commercial counterparty creditworthiness better than peers. The retail energy marketing business serves the purpose of lead generation well. Taken together WGL estimates 7-9% after-tax unlevered IRRs on its renewable projects with some projects above this level and others towards the low-end of the range depending on the timing of tax credits. For earnings purposes WGL opts to amortize the tax credits to avoid the 'ITC cliff'. *How does this compare to peers?* The return profile is similar to metrics cited by peers. We believe the decision to amortize the tax incentives is a best practice as investors have scrutinized some utilities that benefit from one-time benefits in earnings from tax credits.

Midstream investments another growth avenue: WGL invests in the projects including Stonewall (35%), Mountain Valley (7%), Central Penn (21%), and Constitution (10%) as part of its midstream business. The company controls 30bcf of low cost storage and has committed to a $820Mn investment in these ($89Mn already invested into Stonewall). In April the NYDEC denied the Water Quality Certification for the Constitution pipeline and WGL along with its partners are evaluating the next steps as they look to challenge the ruling. WGL has already invested $40Mn into the project out of the $92Mn commitment and after the NYDEC ruling the company has stopped accruing AFUDC on the project. We look for updates in the near-term which will not only have implications for the partners (Piedmont who is being acquired by Duke Energy is also a partner in Constitution) but for the level of certainty in investment for midstream. If midstream and utility companies see a higher risk of project rejection (environmental, etc.) this could reduce the level of spending activity with negative implications for earnings and gas flows.

Wisconsin Energy Group (WEC):

WEC Energies: Gas storage, safety, and other opportunities

As alluded to on the 1Q call, WEC continues to look into several possibilities for increased investment in 2018 and beyond after the company announced the acceleration of ~$500M of capex into 2016 and 2017 to reinvest bonus depreciation cash. While details are expected to be forthcoming in November at the EEI conference, management continues to stress that these accelerations are likely to be backfilled with other projects in future years. In particular, this may include the potential acquisition of ~30 bcf gas storage facilities in WI that are currently leased (early stages of looking at this), as does a ~$30M for gas storage safety in the wake of the Aliso Canyon leak in California last year. A $100M investment in Enterprise Resource Planning (ERP)/General Ledger upgrades with a depreciable life in the 15-20 year range is also being considered, as is another $150M of core distribution system improvements. There is also the possibility of ramping up spending on gas main replacement work being done in Chicago under Peoples Gas' $250M-$280M/yr capital rider.

On ratecases, it's still too early in the budgeting process to tell if the merger rate freeze in Wisconsin can be extended, although management has indicated that it will not file a 2017 test year base ratecase this year in Wisconsin, which we take as a sign of self-confidence in the company's ability to achieve cost savings and synergies instead of chiefly relying on rate increases. Peoples Gas remains in a stayout through July 2017.

On FERC Transmission ROEs, the company is reserving to a "prudent level", and doesn't expect a major impact when the Initial Decision comes out for the first Sect 206 ROE complaint, expected in early 2017. WEC is currently in the middle of 14%-19% FFO/debt metrics, consistent with our modelling.

Presque Isle – recall that mining customers in upper Michigan are currently reviewing possible replacement options for the plant with developers, but have agreed to work with WEC should nothing materialize by the end of July. WEC expects to have enough information to begin to discuss the potential opportunity by November (EEI Conference). Timeline here pointed to resolution in 2019, suggesting a new resource adequacy plan remains within the framework of future acquisitions.

Looking to acquire storage: WEC was quite clear it intends to buy-out storage assets it currently leases in Michigan (30 bcf) from both TransCanada and DTE Energy (P&I business). While this would appear early in the process, the effort appears part of a nascent effort to add to safety spend for the company to backfill future capex. It is further notable that this shift comes amidst a potential 80% rate hike by TransCanada for its storage customers (due to the ongoing ratecase at its ANR gas transmission system).

Xcel Energy (XEL)

Mgmt focused on three primary areas in our conversations:

1. **Opportunity for continued wind:** Management emphasized that it could yet participate in further self-build opportunities up to 50% of cumulative opportunities (emphasizing wind), if it could show *wider* economic benefits (not to just consumers, but also the state) as it has an existing relationship with Vestas in the state of WI.

2. **Ratebasing of gas reserves in Colorado.** Mgmt was quite subdued on setting expectations here following the latest rejection of BKH's efforts in CO. We note this was $300 Mn of the 'upside' bucket, which was offset in part by the upsizing of the renewable build opportunity. The key remaining question for the upside bucket is deployment timing of smart meters. Expect a capex retweaking of allocations with the next annual cycle.

3. **Self-development of renewables.** Mgmt was quite clear it was moving towards self-construction and general contracting of wind, bringing down prices by 10-15% as it sought to compete more actively with independent developers for wind RFPs.

Valuation Method and Risk Statement

Risks for Utilities and Independent Power Producers (IPPs) primarily relate to volatile commodity prices for power, natural gas, and coal. Risks to IPPs also stem from load variability, and operational risk in running these facilities. Rising coal and, to a certain extent, uranium prices could pressure margins as the fuel hedges roll off Competitive Integrateds. Further, IPPs face declining revenues as in the money power and gas hedges roll off. Other non-regulated risks include weather and for some, foreign currency risk, which again must be diligently accounted in the company's risk management operations. Major external factors, which affect our valuation, are environmental risks. Environmental capex could escalate if stricter emission standards are implemented. We believe a nuclear accident or a change in the Nuclear Regulatory Commission/Environment Protection Agency regulations could have a negative impact on our estimates.

Risks for regulated utilities include the uncertainty around the composition of state regulatory Commissions, adverse regulatory changes, unfavorable weather conditions, variance from normal population growth, and changes in customer mix. Changes in macroeconomic factors will affect customer additions/subtractions and usage patterns

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Buy	FSR is > 6% above the MRA.	49%	32%
Neutral	FSR is between -6% and 6% of the MRA.	38%	26%
Sell	FSR is > 6% below the MRA.	14%	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 31 March 2016.
1:Percentage of companies under coverage globally within the 12-month rating category.
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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Ameren Corp.[16]	AEE.N	Neutral	N/A	US$47.90	16 May 2016
Avista Corp[4, 6b, 7, 16]	AVA.N	Sell	N/A	US$41.17	16 May 2016
DTE Energy Co.[2, 4, 5, 6a, 7, 16]	DTE.N	Buy	N/A	US$90.88	16 May 2016
Empire District Electric Company[16, 19]	EDE.N	Neutral (CBE)	N/A	US$33.45	16 May 2016
Eversource Energy[16]	ES.N	Neutral	N/A	US$57.38	16 May 2016
NiSource Inc.[16]	NI.N	Buy	N/A	US$24.30	16 May 2016
Public Service Enterprise Group[16]	PEG.N	Buy	N/A	US$45.94	16 May 2016
Southern Company[2, 4, 5, 6a, 6b, 7, 16]	SO.N	Sell	N/A	US$49.94	16 May 2016
WEC Energy Group Inc.[16]	WEC.N	Neutral	N/A	US$60.15	16 May 2016
Xcel Energy Inc.[7, 16]	XEL.N	Sell	N/A	US$41.75	16 May 2016

Source: UBS. All prices as of local market close.
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MORNINGSTAR®

NiSource Inc NI (NYSE) ★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
23.90 USD	19.00 USD	15.20 USD	23.75 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Management Meeting at AGA: NiSource Gases Up Its Dividend

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Equity Analyst
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The primary analyst covering this company does not own its stock.

Research as of 18 May 2016
Estimates as of 22 Jan 2016
Pricing data through 17 May 2016
Rating updated as of 17 May 2016

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 18 May 2016

We are reaffirming our $19 per share fair value estimate for NiSource, along with our narrow moat and stable moat trend ratings, after meeting with senior management at the American Gas Association Financial Forum in Naples, Florida.

Management rewarded shareholders with a 6.5% dividend last week, above management's 4%-6% target dividend-growth rate. We don't expect dividend growth to continue above 6%, but we do think it can increase in line with our 5% earnings growth forecast. NiSource will have a 63% payout ratio based on the new annualized dividend of $0.66 and our 2016 earnings estimate of $1.05 per share. This payout ratio is well within management's 60%-70% target range.

NiSource's ability to maintain a 60%-70% payout while still averaging about $1.5 billion of annual investment is due in large part to constructive regulation in all of its jurisdictions. Capital investment riders and rate trackers for uncontrollable costs keep earned returns near allowed returns and keep cash flows consistently growing. The most recent example is the seven-year $800 million gas modernization plan in Indiana, which gets six-month rate adjustments for the duration of the project. We expect the constructive regulatory frameworks to continue for the foreseeable future, driving our narrow moat rating.

NiSource could top our growth estimates if it is able to ramp up its customer conversions to gas, away from electric, propane, and oil. Management estimates there are 300,000 customers that are economically accessible. Adding customers with low capital investment would boost returns. Management includes $150 million-$180 million in its annual investment budget to support 0.5%-1.0% gas customer growth, but we think that could go higher if gas

Vital Statistics

Market Cap (USD Mil)	7,685
52-Week High (USD)	24.30
52-Week Low (USD)	16.03
52-Week Total Return %	37.2
YTD Total Return %	24.1
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	-0.2
5-Yr Forward EPS CAGR %	-2.2
Price/Fair Value	1.26

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	8.2	9.9	—	*22.8*
EV/EBITDA	8.8	7.0	—	*10.2*
EV/EBIT	13.3	10.5	—	*17.2*
Free Cash Flow Yield %	-8.6	-11.4	—	*6.2*
Dividend Yield %	5.8	5.2	—	*2.7*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	5,657	6,471	*5,205*	*5,423*
Revenue YoY %	11.8	14.4	*-19.6*	*4.2*
EBIT	1,126	1,231	*796*	*852*
EBIT YoY %	8.4	9.3	*-35.4*	*7.1*
Net Income, Adjusted	494	534	*296*	*340*
Net Income YoY %	13.0	8.1	*-44.6*	*15.1*
Diluted EPS	1.58	1.69	*0.92*	*1.05*
Diluted EPS YoY %	8.3	7.0	*-45.5*	*14.4*
Free Cash Flow	-379	-602	*3,794*	*-224*
Free Cash Flow YoY %	-637.2	58.7	*-730.1*	*-105.9*

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 3.4 million customers in Indiana, Kentucky, Maryland, Massachusetts, 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 MW of generation capacity, most of which is coal-fired.

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prices remain low in NiSource's service territory. Pennsylvania, which added conversion incentives in its most recent rate case, and Indiana are prime territories for conversions.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	Forecast 2015	Forecast 2016	5-Year Proj. CAGR
Revenue	*2.4*	-15.9	11.8	14.4	*-19.6*	*4.2*	*-0.2*
EBIT	*10.1*	12.7	8.4	9.3	*-35.4*	*7.1*	*-0.9*
EBITDA	*7.9*	9.6	6.4	7.8	*-26.9*	*6.7*	*0.2*
Net Income	*11.1*	12.4	13.0	8.1	*-44.6*	*15.1*	*-0.9*
Diluted EPS	*7.7*	7.9	8.3	7.0	*-45.5*	*14.4*	*-2.2*
Earnings Before Interest, after Tax	*2.2*	4.1	-1.0	3.6	*-275.2*	*-149.4*	*-2.4*
Free Cash Flow	*-434.6*	339.3	-637.2	58.7	*-730.1*	*-105.9*	—

Profitability	3-Year Hist. Avg	2012	2013	2014	2015	2016	5 Year Proj. Avg
Operating Margin %	*19.8*	20.5	19.9	19.0	*15.3*	*15.7*	*16.6*
EBITDA Margin %	*30.0*	31.6	30.1	28.4	*25.8*	*26.4*	*27.2*
Net Margin %	*8.5*	8.6	8.7	8.3	*5.7*	*6.3*	*6.7*
Free Cash Flow Margin %	*-4.9*	1.4	-6.7	-9.3	*72.9*	*-4.1*	*14.4*
ROIC %	*5.8*	5.8	5.7	5.8	*5.2*	*6.4*	*5.9*
Adjusted ROIC %	*7.1*	7.4	7.1	6.8	*5.8*	*7.3*	*6.6*
Return on Assets %	*2.2*	2.0	2.4	2.2	*-11.6*	*1.9*	*-0.6*
Return on Equity %	*8.7*	7.9	9.3	8.8	*-50.3*	*9.5*	*-1.7*

Leverage	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Debt/Capital	*0.60*	0.59	0.60	0.62	*0.66*	*0.67*	*0.66*
Total Debt/EBITDA	*5.23*	5.06	5.19	5.45	*4.99*	*5.09*	*4.87*
EBITDA/Interest Expense	*4.02*	3.83	4.11	4.14	*3.42*	*4.36*	*4.26*

Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	1.22	1.33	—	—
Price/Earnings	8.2	9.9	—	*22.8*
EV/EBITDA	8.8	7.0	—	*10.2*
EV/EBIT	13.3	10.5	—	*17.2*
Free Cash Flow Yield %	-8.6	-11.4	—	*6.2*
Dividend Yield %	5.8	5.2	—	*2.7*

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	5.8
Long-Run Tax Rate %	34.8
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	51.7
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	3,539	22.4	10.98
Present Value Stage II	2,906	18.4	9.02
Present Value Stage III	9,357	59.2	29.05
Total Firm Value	**15,802**	**100.0**	**49.05**
Cash and Equivalents	79	—	0.25
Debt	-9,999	—	-31.04
Preferred Stock	—	—	—
Other Adjustments	30	—	0.09
Equity Value	**5,912**	**—**	**18.35**
Projected Diluted Shares	322		
Fair Value per Share (USD)	—		

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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Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December	2012	2013	2014	Forecast 2015	Forecast 2016
Revenue	**5,061**	**5,657**	**6,471**	***5,205***	***5,423***
Cost of Goods Sold	1,542	1,816	2,224	*2,216*	*2,299*
Gross Profit	**3,520**	**3,842**	**4,246**	***2,989***	***3,124***
Selling, General & Administrative Expenses	1,663	1,874	2,136	*1,416*	*1,459*
Other Operating Expense (Income)	288	301	320	*245*	*253*
Other Operating Expense (Income)	-32	-36	-47	*-5*	*-10*
Depreciation & Amortization (if reported separately)	562	577	606	*536*	*570*
Operating Income (ex charges)	**1,039**	**1,126**	**1,231**	***796***	***852***
Restructuring & Other Cash Charges	-4	-18	-32	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**1,043**	**1,143**	**1,262**	***796***	***852***
Interest Expense	418	415	444	*392*	*329*
Interest Income	2	24	22	—	—
Pre-Tax Income	**626**	**753**	**841**	***403***	***523***
Income Tax Expense	216	262	310	*138*	*183*
Other After-Tax Cash Gains (Losses)	6	6	-1	*-2,700*	—
Other After-Tax Non-Cash Gains (Losses)	—	35	—	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**416**	**532**	**530**	***-2,434***	***340***
Weighted Average Diluted Shares Outstanding	300	314	317	*322*	*324*
Diluted Earnings Per Share	**1.39**	**1.70**	**1.67**	***-7.57***	***1.05***
Adjusted Net Income	437	494	534	*296*	*340*
Diluted Earnings Per Share (Adjusted)	**1.46**	**1.58**	**1.69**	***0.92***	***1.05***
Dividends Per Common Share	0.94	0.98	1.02	*0.83*	*0.64*
EBITDA	**1,605**	**1,721**	**1,868**	***1,343***	***1,433***
Adjusted EBITDA	**1,601**	**1,703**	**1,836**	***1,343***	***1,433***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2012	2013	2014	Forecast 2015	Forecast 2016
Cash and Equivalents	83	35	50	*58*	*45*
Investments	—	—	—	—	—
Accounts Receivable	907	1,006	921	*856*	*891*
Inventory	496	500	586	*607*	*630*
Deferred Tax Assets (Current)	—	—	214	—	—
Other Short Term Assets	866	618	696	*500*	*725*
Current Assets	**2,352**	**2,159**	**2,467**	***2,021***	***2,291***
Net Property Plant, and Equipment	12,916	14,365	11,057	*11,804*	*12,593*
Goodwill	3,677	3,666	1,691	*1,691*	*1,691*
Other Intangibles	287	276	265	*254*	*243*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	2,024	1,522	9,091	*1,000*	*1,550*
Long-Term Non-Operating Assets	588	666	297	*297*	*297*
Total Assets	**21,845**	**22,654**	**24,866**	***17,066***	***18,664***
Accounts Payable	539	619	610	*608*	*631*
Short-Term Debt	1,284	1,241	1,844	*500*	*500*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,479	1,319	1,511	*800*	*1,600*
Current Liabilities	**3,302**	**3,178**	**3,964**	***1,908***	***2,731***
Long-Term Debt	6,819	7,593	8,156	*6,200*	*6,800*
Deferred Tax Liabilities (Long-Term)	2,953	3,278	2,380	*2,500*	*2,840*
Other Long-Term Operating Liabilities	1,593	1,687	2,996	*1,750*	*1,421*
Long-Term Non-Operating Liabilities	1,623	1,031	1,195	*1,195*	*1,195*
Total Liabilities	**16,290**	**16,767**	**18,691**	***13,553***	***14,986***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,598	4,690	4,788	*4,818*	*4,853*
Retained Earnings (Deficit)	1,060	1,286	1,494	*-1,207*	*-1,073*
(Treasury Stock)	-41	-49	-59	*-59*	*-59*
Other Equity	-66	-44	-51	*-41*	*-46*
Shareholder's Equity	**5,554**	**5,887**	**6,175**	***3,514***	***3,678***
Minority Interest	—	—	—	—	—
Total Equity	**5,554**	**5,887**	**6,175**	***3,514***	***3,678***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2012	2013	2014	Forecast 2015	Forecast 2016
Net Income	416	532	530	*-2,434*	*340*
Depreciation	562	577	606	*536*	*570*
Amortization	—	—	—	*11*	*11*
Stock-Based Compensation	45	51	72	*35*	*36*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	305	287	299	*334*	*340*
Other Non-Cash Adjustments	25	-65	-50	—	—
(Increase) Decrease in Accounts Receivable	-51	-95	-63	*65*	*-36*
(Increase) Decrease in Inventory	62	-9	-120	*-21*	*-23*
Change in Other Short-Term Assets	-157	81	9	*196*	*-225*
Increase (Decrease) in Accounts Payable	57	68	38	*-2*	*23*
Change in Other Short-Term Liabilities	—	—	—	*-711*	*800*
Cash From Operations	**1,264**	**1,427**	**1,321**	***-1,991***	***1,836***
(Capital Expenditures)	-1,499	-1,880	-2,029	*-1,283*	*-1,358*
Net (Acquisitions), Asset Sales, and Disposals	26	18	13	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	51	-148	-101	*6,845*	*-879*
Cash From Investing	**-1,422**	**-2,010**	**-2,117**	***5,561***	***-2,237***
Common Stock Issuance (or Repurchase)	374	36	20	*30*	*35*
Common Stock (Dividends)	-273	-306	-321	*-267*	*-206*
Short-Term Debt Issuance (or Retirement)	-582	-78	878	*-1,344*	—
Long-Term Debt Issuance (or Retirement)	656	794	219	*-1,956*	*600*
Other Financing Cash Flows	—	—	—	*-35*	*-36*
Cash From Financing	**175**	**445**	**796**	***-3,572***	***393***
Exchange Rates, Discontinued Ops, etc. (net)	8	129	-1	*10*	*-5*
Net Change in Cash	**25**	**-10**	**-1**	***9***	***-13***

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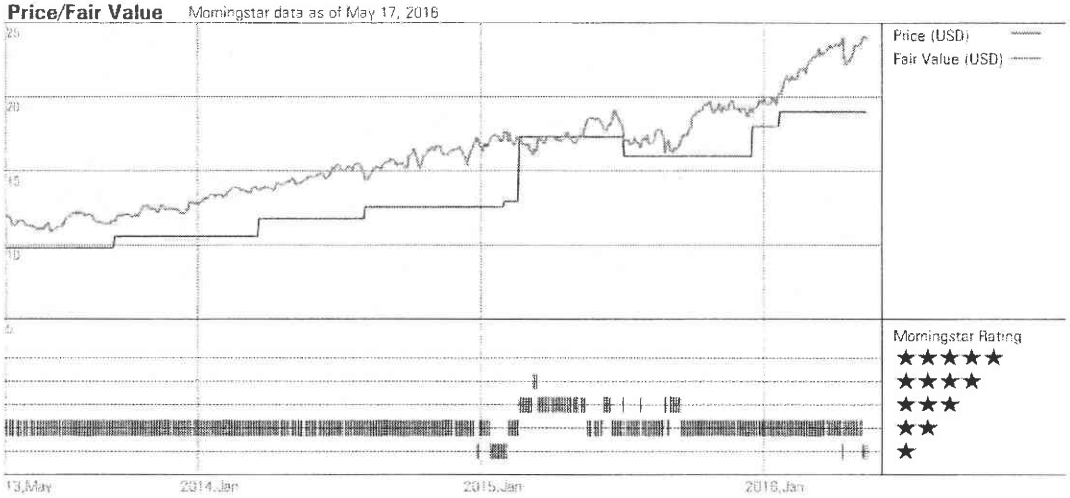
23.90 USD	19.00 USD	15.20 USD	23.75 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Price/Fair Value Morningstar data as of May 17, 2016



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May 18, 2016

UTILITIES & POWER

Gas utilities keep going and going and going

AGA conference takeaways – the tortoise caught up with the hare

We attended the American Gas Association (AGA) conference in Florida this week. The last few years, gas midstream stories dominated as new growth projects kept piling up and MLPs rose to new highs. Now, midstream companies are just hoping they can execute on their existing growth projects amidst siting hurdles and weaker demand; new growth projects are off the table. It was the gas LDCs' turn to take center stage this year talking about decades of growth investments and continued M&A interest from the big slow-growing electrics. My how roles have reversed.

Duration of growth is the theme – NI, WEC, CMS

Investors seem willing to pay higher and higher valuations for gas LDCs. While some of this may be M&A hope, we think the duration and visibility of the growth investment plans is a key reason. Many of these companies see multi-decade capital projects such as cast iron pipe replacement as well as attractive sales growth. Regulatory support for these programs is strong. Among our coverage, NI, WEC and CMS are all Outperform-rated names that fit this growth duration theme well.

Brief company takeaways (more in the full note)

AEE – seems disciplined on WR (fingers crossed), disappointed on MO bill.

AGR – lot of potential growth projects, not a lot of details.

CNP – executing well despite ENBL volatility; TX growth not slowing.

CMS – new cost cutting program (CE Way) and high conviction on 6-8%.

ED – more growth focused; others surprised at Crestwood valuation.

D – pitching STR strategy; 7-9% growth rate likely rebased off weak 2017.

DTE – confident Nexus moves forward; P&I slow, utility strong.

ES – good story, good growth but need to watch delay risks at NPT and ANE.

LNT – looking at more wind to replace coal; may settle WI case soon.

NI – very confident – seeing opportunities for improving growth L-T.

PEG – more utility capex; Salem down well into June; NJ re-reg too?

WEC – see long-dated growth; no Wisc rate case this year.

XEL – new CFO solid; positive on CO wind, less so on gas reserves.

Exhibit 1: Participating Companies

Ticker	Name
AEE	Ameren
AGR	Avangrid
CMS	CMS Energy
CNP	CenterPoint Energy
D	Dominion Resources
DTE	DTE Energy
ED	Consolidated Edison
ES	Eversource Energy
LNT	Alliant Energy
NI	NiSource
PEG	PSEG
WEC	WEC Energy Group
XEL	Xcel Energy

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Company Summaries

Ameren (AEE): High level thoughts on M&A suggest any deal would need to be value accretive

- We are still worried about a Westar deal but feel better about AEE's general M&A comments. Management suggested any deal would have to add value in the near- and long-term.
- When asked about the potential for MO to look through to the consolidated capital structure, AEE said it plans to target around 50/50 similar to its past deals. We believe AEE would need to finance a deal for WR with a lot of equity, which restricts the price it can pay.
- We still see AEE growing rate base ~6% and EPS around the midpoint of its 5-8% target through 2020. Upside to its current capital plan, and into next decade, includes more transmission, renewables, natural gas rules, and in MO coal retirements and grid modernization (e.g., AMI).
- Management was disappointed its legislative proposal in MO was filibustered; however, AEE could seek regulatory mechanisms at the MoPSC that will reduce lag, such as recovery of transmission costs through the fuel adjustment clause. A rate case is planned for early July, with the lost sales from Noranda being the main driver.

Avangrid (AGR): Remaining confident in robust renewables and transmission pipeline

- The company remains focused on its five-year strategic plan – driven by significant growth at the renewables and transmission businesses. The wind/solar pipeline continues to expand and AGR remains confident in its ability to win its upcoming transmission bids in the New England RPF process.
- The recent IRS ruling that clarified language around the production tax credit extension, allowing for a four year safe harbor and opportunity for repowering of wind farms provides a meaningful opportunity to AGR as the second largest wind producer in the U.S. AGR is focused on contracted additional wind farms via PPA to take advantage of the start of construction language that enables full PTC credit if begun by year-end. On the repowering side, AGR appeared less bullish given the younger average age of its fleet (6.5 years), with essentially all of its wind farms constructed after 2003. That said, this may still be an opportunity to the extent that a sizable portion of the fleet is not generating PTCs due to an upfront Treasury cash grant.
- A decision on winning bids in the New England RFP process is expected by the end of July, but given its slow start AGR seemed as if it wouldn't be surprised if there was a slight delay. Management remains optimistic on both its transmission bids – MREI and MCPC, as well as its renewables opportunity tied to ES' Clean Energy Connect. Beyond this – the pipeline of projects appears to be robust given the recently announced Connect New York line is incremental to plan, with a decision expected later this year. Similarly, the NY Transco joint venture is expected to learn whether or not the $1B Edic-to-Pleasant Valley transmission line is selected by year-end as well.

CenterPoint Energy (CNP): Hitting the 4-6% growth despite ENBL volatility; ENBL and REIT strategic update in 2H

- CNP remains confident in its 4-6% growth target in spite of volatility in the ENBL business. Utility earnings growth continues to improve and ENBL assumptions for 2016 now look conservative.
- Texas sales growth keeps booming despite energy softness. The typical 2% growth rate may actually rise closer to 2.5%.
- Management would not say much on the REIT option. However, it's hard to see this as viable given the tax sharing direction and poor performance of HIFR.
- On ENBL, tax basis is an issue to avoid and limits options. Management's goal is to reduce ENBL volatility either by improving the business itself or by combining it into a larger more stable entity.

CMS Energy (CMS): Cost management and efficiency remain in focus under new CEO Poppe

- CMS came to AGA pitching its newly launched "CE Way" initiative to highlight its laser focus on improvement cost and inventory management. This will be a key driving force in achieving the recently announced 6-8% EPS growth target.
- Management remains focused on its internal goals and maintains that its growth targets can be achieved under the currently existing energy law. The legislative session in Michigan is approaching the summer recess and despite Senator Nofs' big push to pass a new energy policy, CMS believes the odds are still 50/50. The primary hang-up continues to center around retail open access, where the subset of customers that benefit have created a bit of an impasse.
- At the Michigan PSC, Poppe stressed the solid relations the company maintains with its regulators. A third commissioner appointee has yet to be named, but Governor Snyder's team is believed to be working on it. CMS recently achieved a settlement in its gas rate case while maintaining a 10.3% ROE and is confident it can reach a constructive outcome in its pending electric rate case as well.

Consolidated Edison (ED): Not your father's (or great grandfather's) Con Ed

- Following recent investments into the midstream gas business (Stagecoach and MVP), ED's message is focused on growth, both in the utility and nonutility segments. Management sees its opportunities putting to rest the boring, low-growth story typically attributed to ED.
- Some at the conference believe ED paid a high price for its Stagecoach JV, and even ED noted current market would be below existing contract prices.
- ED sees regulated growth from AMI, electric transmission and regulated renewables, particularly as Gov Cuomo's clean energy proposal and REV take form at the NYPSC. ED's nonregulated renewables investments continue, with almost $1B planned in 2016. ED's tax appetite has been an advantage with renewables, but the extension of bonus depreciation has reduced that, which could slow growth in that segment.
- CECONY's pending electric and gas rate case is important because it will set the allowed ROE for 2017 and possibly through 2019 if there is a settlement. Intervenors, including the PSC Staff, will file testimony on 5/27. Depending on the proxy group, formulaically derived ROEs are in the 8.2-8.7% range, below CECONY's currently allowed 9.1% (wtd avg). Every 10bp is about $0.05. Our published estimates assume 9.1%.
- The PSC's show cause proceeding into the Harlem explosion is pending and remains a risk, as a penalty/fine could be ordered.

Dominion Resources (D): Highlighting the Questar strategy; 2017 looks like a rebasing year

- D focused on the benefits of the STR deal especially the opportunities for its pipeline system to be a hub in the west for growth to fuel gas generation expansion under CPP. Time will tell.
- In the meantime, D is facing several earnings pressures from the lower commodity environment, most notably at Millstone. CT legislation that would have helped to fill this in cannot be reviewed again until the 2017 session. We think this make it very difficult for D to meet its 5-6% growth target and they will need to rebase their 7-9% growth target off a lower 2017 base.
- The major growth projects at midstream – Cove Point and Atlantic Coast Pipeline – are on track. 2018 should be a much better year as these projects flow through.
- DM recently instituted an ATM offering plan and needs to fund drop downs going forward including as part of the STR funding plan. DM has not had any stock offering direct to the market since its IPO so it will be interesting to see where it trades once there is more liquidity.
- D still needs to issue debt and converts to complete the STR funding plan. The converts are expected close to the closing date this Fall.

DTE Energy (DTE): Midstream business continues to draw questions, but appears higher quality than peers

- DTE came to EEI prepared to address concerns on its gas storage and pipelines business and delivered a strong level of confidence in the NEXUS pipeline in particular. NEXUS remains 60% subscribed, more than enough to warrant FERC approval (expected later this year), but DTE continues to seek out additional off-takers to improve returns. While other pipelines in region continue to face delays (Rover, Constitution, etc.) DTE believes it could benefit as producers on those pipes could start to look elsewhere. Additionally, the sizable amount of interconnection agreement for NEXUS (1.75 Bcf/d) provides the potential for incremental lateral opportunities after NEXUS comes online.
- On the Bluestone gathering business, DTE views partner SWN's performance thus as being generally in-line with its expectations. SWN continues to finish its DUC (drilled but uncompleted) wells after citing $2.35 gas and $38 oil as being necessary to continue contributing capital toward drilling.
- DTE also remains interested in potential bolt-on acquisitions at both the midstream and P&I businesses. Despite the distress in the midstream space however, valuations have continued to look elevated in management's eyes. At P&I, DTE is evaluating several cogeneration opportunities – potential acquisitions and greenfield development. Management continued to stress overall discipline in individual asset acquisitions.
- On pending energy legislation in Michigan, DTE believes the proposed bill could pass out of the Senate before the summer recess, but House action is unlikely before the legislature reconvenes in the fall.

Eversource Energy (ES): A big year for Northern Pass and Access

- ES' story remains solid as its two large projects would benefit regional energy infrastructure and drive 5-7% EPS growth through 2019; however, the projects are in the regulatory approval phase and face opposition, mostly from competitive generators, environmentalists, and others. We will know this year whether these projects are likely to move forward.
- Northern Pass: The $1.6B transmission project has been delayed in recent years, but a decision from the NH Site Evaluation Committee could come by yearend. On 5/19, the NHSEC will set a procedural schedule either confirming that or postponing a final decision to mid-2017 or later, which would reduce our 2018-19 estimates. And on 7/26, winning bids into a three-state clean energy RFP will be announced; NPT and ES' Clean Energy Connect line submitted bids.
- Access Northeast: The gas pipeline project, which is a JV (ES-40%, SE-40%, and NGG-20%), would bring gas mostly to generators in New England. Some states are reviewing contracts between Access and electric utilities. Decisions are expected this fall, and there is still risk, particularly in MA, whose highest court is reviewing the legality of charging electric customers. Assuming state approvals by early 2017 and a FERC approval thereafter, the first phase of Access could be in-service by November 2018.
- Although this year is important, looking ahead to next year includes rate case filings in MA, both NSTAR Electric and WEMCo, and in CT. Fully litigated cases are likely in MA, given a 2012 law that states electric utilities must file rate cases every 5 years and must fully litigate at least one rate case every 10 years. ES has reduced O&M, which should mitigate the rate case asks.

Alliant Energy (LNT): Upcoming rate case filings the current focus

- LNT continues to assess its 10-year capital plan, most recently seeing additional near-term opportunities for wind development given how economic the resource has become in both Wisconsin and Iowa. The company is prepared to look at both self-build and PPA options. That said, the overall capex plan is unlikely to move higher as spend tied to its coal plants will instead be pushed further out. Potential options for adding wind include expanding the Bent Tree site or bringing the money-losing merchant Franklin Wind farm into rate base.
- On the rate case side, now that Riverside has been settled and approved, the expectation is for a filing to be made in Wisconsin in the upcoming weeks. The overall rate increase is likely to be in the low single-digits as cost recovery amortizations and SSR over-collections provide some level of headroom. LNT

some degree of optimism that the revenue requirement portion of the case could be settled while preserving reasonable allowed ROEs. However, the rate case is likely to be full litigated given the need to address rate design and fixed charges.

- In Iowa, LNT will file for 2017 rate in early next year. The overall rate increase is expected to be roughly 10%, as a big aspect of the case will be placing the Marshalltown CCGT into rates. Beyond the upcoming cases, LNT expects to file for 5% rate increases in the years that follow.

NiSource (NI): Long growth pipeline, steady rate case cadence

- NI appears well on track just one-year after the new management team laid out its post-split plan at the previous AGA conference. The $30B capex pipeline is solid and NI plans to recover costs via a steady rate case cadence over the coming years that avoids rate shock with low single-digit increases for customers. NI also anticipates updating its five-year plan by year-end. The 4-6% long-term growth forecast is unlikely to change dramatically, but management sees a gradual upward bias over time. Upside drivers include: 1) accelerating modernization plan; 2) more conversions; 3) cost reductions through better centralization of all the NI utilities.
- Regulatory progress also remains on track, as NI believes it has strong support for the key settlements reached in Indiana on both the electric rate case and electric infrastructure mechanism. A final IURC decision is expected later this year and management expressed confidence that the settlement would hold up unlike in year's past.
- Recent hire from AEP, Pablo Vegas, was on hand to talk about his excitement and focus on the customer growth opportunities. As head of Columbia Gas Group, Vegas is seeing expansion possibilities across the NI footprint.
- On M&A, NI management reiterated that the company is not for sale, as it remains strictly focused on execution. Similarly, NI is not looking to be an acquirer either, citing the high relative valuations of recent deals in the sector like many others at the conference.

PSEG (PEG): Utility rate base story strengthening, but PJM auction and baffle bolt issue are important

- PEG remains focused on cost and efficiency improvements as it looks to ramp up the capital program at the utility business and manage risk at the power business. Management has pointed to $1.9B in incremental capex that will drive the rate base CAGR from 8% to 10% in the back-half of the five-year outlook. Just last week, PEG announced the "Solar 4 All" program that would contribute roughly $275M to the capital plan.
- A potential concern for PEG remains the outage at Salem 1 due to damaged baffle bolts. The bolts are being manually repaired right now, as PEG is waiting for ETR to finish using one of the only available machines in the world that can repair baffle bolts in an expeditious manner. Regardless, PEG expects the repair work to be completed by mid-June with the refueling finishing shortly thereafter. While additional delays risk missing out on summer energy prices, management maintains that PEG has protected itself via hedging on both the energy and capacity side should this play out.
- PEG declined to take a definitive view on the PJM auction, but is generally in alignment with consensus that the decline in load and increase in new build will likely push pricing down. Whether or not certain regions (like EMAAC where PEG has the majority of its capacity) separate will be hard to predict, but the underlying data looks similarly to last year. The key question will be how the Ohio generators bid. To that point, PEG noted that it would continue to fight for a competitive market construct, but would not be left as the last generator standing. Should the re-regulation trend gain momentum, PEG would not be shy about pursuing something similar in New Jersey.

WEC Energy Group (WEC): Capital plan continues to grow, Illinois getting quieter

- WEC continued to echo its robust capital backlog in what was a theme across the industry at AGA. The capex forecast has already been boosted by over $500M in 2016-2017 to offset the sizable $1B impact from bonus depreciation. WEC isn't stopping there though and anticipates refreshing its overall capex

outlook at EEI, with confidence in its ability to completely offset the bonus depreciation effect on rate base. Potential gas storage opportunities are being explored In Wisconsin and may help provide an incremental leg up to the rate base growth story.

- Another positive was WEC's recent decision to avoid a rate case filing at Wisconsin Electric and Wisconsin Gas this year following a recommendation from WI PSC Staff. Merger synergies are already coming to fruition and are helping to offset the need for a rate hike. Furthermore, the stay-out allows for the preservation of existing allowed ROEs which are generally considered above the industry average.
- The situation in Illinois regarding the Accelerated Main Replacement Program (AMRP) also appears to be nearing final resolution. A key settlement was reached last week with the ICC and IL Attorney General regarding who had knowledge of elevating cost estimates for the program prior to the TEG deal closed. Workshops on the overall program have concluded and the ICC Staff is expected to issue a report later this month, with a final ICC plan likely to be issued before year-end.

Xcel Energy (XEL): Any way the CO wind blows

- XEL's recent CO filing for 600 MW of wind provides a roughly $1B investment opportunity, which by itself is more than the $850M XEL laid out for both wind and solar opportunities in its upside capex case. XEL anticipates filing a solar program soon as part of its resource plan, but management did not detail the mix between ownership and PPA. XEL's total upside capex case through 2020 was $2.5B.
- The E&P in rate base opportunity in CO took a hit recently when the CoPUC rejected a proposal by Black Hills; however, XEL could learn more about its proposal after its 6/27 supplemental data filing. About $300M is in XEL's upside capex case, which is more than offset from just the aforementioned wind capex.
- On 6/14, intervenors will file recommendations in XEL's rate case in MN, which includes 3-year and 5-year plans. The utility expects to initiate settlement discussions thereafter. It has also filed for a mediator, which would be an independent ALJ at the MN PUC. XEL believes some intervenors may be interested in a 5-year rate plan. If true, the regulatory certainty likely makes XEL a premium stock.
- The new CFO, who has a competitive business background, said he is not looking to change the company's profile.

Comparables Tables

Exhibit 2: Regulated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2016E	P/E 2017E	P/E 2018E	P/E 2019E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
Alliant Energy	LNT	$70.70	114	$8,029	18.7x	17.6x	16.6x	15.7x	3.3%	6.0%	62%	2.1x	49%
Ameren	AEE	46.82	243	11,360	18.9x	16.8x	15.5x	14.5x	3.6%	3.5%	68%	1.7x	47%
American Electric	AEP	63.30	491	31,100	17.9x	17.1x	15.8x	15.1x	3.5%	5.0%	63%	1.7x	46%
Avangrid	AGR	40.06	310	12,402	19.7x	18.0x	16.5x	15.0x	4.3%	2.5%	85%	1.0x	73%
CMS Energy	CMS	40.32	280	11,288	20.0x	18.5x	17.3x	16.2x	3.1%	7.0%	62%	2.7x	31%
Con Edison	ED	71.14	303	21,544	18.0x	16.9x	16.1x	15.6x	3.8%	3.0%	68%	1.6x	48%
DTE Energy	DTE	87.72	179	15,740	17.8x	16.8x	15.8x	14.9x	3.3%	5.5%	59%	1.8x	48%
Duke Energy	DUK	76.57	689	52,749	17.0x	16.6x	15.7x	N/A	4.3%	5.0%	73%	1.3x	48%
Edison International	EIX	68.99	326	22,478	17.7x	16.6x	15.9x	15.0x	2.8%	11.0%	49%	2.0x	49%
Eversource Energy	ES	54.79	317	17,380	18.3x	17.2x	16.4x	15.3x	3.2%	6.8%	59%	1.7x	50%
Great Plains Energy	GXP	30.56	155	4,728	17.5x	16.7x	15.9x	15.3x	3.4%	6.8%	60%	1.3x	47%
NiSource	NI	23.45	317	7,434	21.6x	20.5x	19.4x	18.3x	2.6%	5.0%	57%	1.9x	40%
PG&E	PCG	57.01	496	28,279	15.0x	15.5x	14.7x	14.0x	3.2%	0.0%	48%	1.7x	49%
Pinnacle West	PNW	70.75	111	7,863	17.7x	16.7x	16.1x	15.5x	3.5%	4.7%	62%	1.7x	53%
Portland General	POR	39.87	89	3,544	19.0x	16.5x	16.1x	15.8x	3.2%	7.0%	61%	1.5x	51%
PPL Corp.	PPL	37.48	677	25,372	15.9x	15.4x	14.8x	14.4x	4.0%	4.7%	63%	2.6x	33%
SCANA	SCG	67.41	143	9,634	17.1x	16.0x	15.1x	14.6x	3.4%	3.3%	58%	1.7x	44%
Southern Company	SO	48.04	939	45,088	17.0x	16.1x	15.6x	15.2x	4.7%	3.6%	79%	2.1x	42%
Westar Energy	WR	51.33	142	7,272	21.1x	20.8x	20.5x	19.0x	3.0%	5.0%	62%	2.0x	50%
WEC Energy Group	WEC	57.89	316	18,273	19.8x	18.6x	17.5x	16.6x	3.4%	6.0%	68%	2.1x	47%
Xcel Energy	XEL	40.09	508	20,364	18.0x	17.1x	16.3x	15.6x	3.4%	6.0%	61%	1.9x	43%
Average					**18.3x**	**17.2x**	**16.4x**	**15.6x**	**3.5%**	**5.0%**	**63%**	**1.8x**	**47%**

Source: Wolfe Utilities & Power Research

Exhibit 3: Gas/Power Infrastructure Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2016E	P/E 2017E	P/E 2018E	P/E 2019E	Div Yield	Div Growth	Payout Ratio
The AES Corporation	AES	$10.73	659	$7,071	11.1x	9.7x	9.0x	8.2x	4.1%	10.0%	45%
CenterPoint	CNP	21.53	431	9,271	18.4x	17.3x	16.5x	15.8x	4.8%	5.0%	88%
Dominion	D	69.61	616	42,895	18.4x	17.9x	16.0x	15.0x	4.0%	8.0%	74%
NextEra	NEE	118.02	461	54,460	19.0x	18.0x	16.9x	15.9x	2.9%	13.0%	56%
Sempra	SRE	102.32	249	25,529	20.9x	19.9x	16.5x	14.0x	3.0%	8.5%	62%
Average					**17.6x**	**16.6x**	**15.0x**	**13.8x**	**3.7%**	**9.6%**	**70%**

Source: Wolfe Utilities & Power Research

Exhibit 4: YieldCo Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2016E	EV/EBITDA 2017E	EV/EBITDA 2018E	EV/EBITDA 2019E	Div Yield
NextEra Energy Partners	NEP	$28.12	145	$4,077	11.0x	8.0x	7.3x	6.8x	4.4%
NRG Yield	NYLD	14.96	183	2,735	10.5x	9.8x	9.5x	8.6x	6.0%
Atlantica Yield*	ABY	16.83	100	1,687	10.1x	9.8x	10.8x	10.8x	6.2%
Pattern Energy*	PEGI	20.30	75	1,516	10.1x	9.2x	7.9x	7.9x	7.5%
TerraForm Power*	TERP	9.05	80	724	7.6x	6.6x	#N/A	#N/A	15.5%
Average					**9.9x**	**8.7x**	**8.9x**	**8.5x**	**7.9%**

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

Exhibit 5: MLP Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2016E	2017E	2018E	2019E	Div Yield
Columbia Pipeline Partners	CPPL	13.50	54	727	19.0x	18.8x	13.8x	N/A	5.3%
Average					**19.0x**	**18.8x**	**13.8x**	**N/A**	**5.3%**

Source: Wolfe Utilities & Power Research

Exhibit 6: REITs Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/FFO 2016E	2017E	2018E	2019E	Div Yield
InfraREIT	HIFR	$16.89	44	$736	8.9x	8.3x	7.4x	6.9x	5.9%
Average					**8.9x**	**8.3x**	**7.4x**	**6.9x**	**5.9%**

Source: Wolfe Utilities & Power Research

Exhibit 7: Integrated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2016E	2017E	2018E	2019E	Implied Genco EV / EBITDA 2016E	2017E	2018E	2019E	Div Yield	Div Growth	Payout Ratio
Entergy	ETR	$73.37	179	$13,114	14.6x	13.3x	14.1x	13.8x	8.0x	7.7x	7.9x	7.9x	4.6%	2.3%	68%
Exelon	EXC	33.85	922	31,199	13.6x	12.9x	12.3x	12.3x	7.1x	7.2x	6.2x	6.0x	3.8%	2.5%	51%
FirstEnergy	FE	32.15	425	13,654	11.7x	13.3x	13.4x	13.8x	8.1x	8.6x	8.6x	8.6x	4.5%	0.0%	52%
PSEG	PEG	44.33	506	22,428	15.6x	15.0x	14.8x	14.5x	7.2x	7.3x	7.7x	8.1x	3.7%	5.0%	58%
Average					**13.9x**	**13.6x**	**13.6x**	**13.6x**	**7.6x**	**7.7x**	**7.6x**	**7.6x**	**4.1%**	**2.5%**	**57%**

Source: Wolfe Utilities & Power Research

Exhibit 8: IPP Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2016E	2017E	2018E	2019E	Free Cash Flow Yield 2016E	2017E	2018E	2019E
Calpine	CPN	$14.42	359	$5,177	9.0x	8.1x	7.0x	6.4x	13.7%	17.6%	23.0%	25.4%
Dynegy	DYN	18.29	117	2,145	8.1x	6.8x	6.1x	6.4x	11.0%	18.5%	21.5%	17.6%
NRG Energy	NRG	15.31	315	4,821	7.5x	8.5x	7.9x	7.4x	13.6%	13.2%	18.2%	17.7%
Talen Energy	TLN	12.33	129	1,585	6.1x	5.8x	6.4x	7.2x	22.0%	12.8%	8.7%	3.9%
Average					**7.7x**	**7.3x**	**6.8x**	**6.8x**	**12.8%**	**16.4%**	**20.9%**	**20.2%**

Source: Wolfe Utilities & Power Research

WOLFE RESEARCH

May 18, 2016

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May 18, 2016

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THE WILLIAMS CAPITAL GROUP

WCG ELECTRIC UTILITY CONFERENCE SUMMARY

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Glenn Lockwood – Executive Vice President ; Patrick Migliaccio – SVP & CFO; James Kent – Treasurer; Dennis Puma – Director of Investor Relations

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NW Natural 2
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- In this note, we summarize the key points from each of the presenters at our latest Electric Utility Conference held at the Bellagio last week in Las Vegas.
- While predominantly SMID-cap utilities, the fundamental stories of many of 10 companies are strikingly attractive and worthy of further exploration.
- Particularly noteworthy was the general theme of considerable dividend growth potential and low dividend payouts.
- We were particularly pleased with the details from the South Jersey Industries (SJI) and Black Hills Corporation (BKH) presentations.
- Valuation considerations aside, the natural gas company stories are nearly universally more interesting fundamentally than the electrics/combo utilities, in our view.
- We also learned interesting details from each of the commissioners speaking at the conference: Idaho, Michigan, and North Carolina.

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New Jersey Resources (NYSE: NJR, Not Rated, $ 34.87)

The company has base rate case and SAFE program extension filings pending. The Penn East Pipeline has been modified to extend 118 miles due to route changes. The cost estimate has increased to $1.2 billion. UGI is the likely operator of the pipeline. NJR admitted that Penn East operation is likely to slip into 2018. The pipeline will complete project financing once construction is complete. Therefore, NJR sees limited equity needs for the project.

CFO Pat Migliaccio said that the company may re-evaluate future solar investments given the ITC extension by Congress. CAPEX plans could increase as a result. However, the company sees more limited opportunities in New Jersey for larger solar projects. The company will continue to focus on its residential solar market and on-shore wind investments. The company believes that penetration has only reached about 10% of suitable New Jersey homes for solar. Average costs for 8,000-9,000 kW are running $35-$40k and still declining. Returns on residential solar remain 1.0-1.5% higher than commercial solar. NJR is currently actively hedging SRECs to reduce future price volatility.

Michigan Public Service Commission

Commissioner Norman Saari covered a wide range of topics. One thing that struck us was the first priority of the MPUC mission statement. It is Michigan economic growth, not low rates. Perhaps that helps better explain Michigan regulation to some. Commissioner Saari reviewed the considerable improvement in the Michigan economy since 2009. Michigan now boasts the lowest unemployment rate since 2001 and has matched the U.S. rate for the first time since 2000. Nevertheless, total employment in Michigan is down significantly from pre-recession levels. In Detroit, downtown renewal is ongoing with a new Red Wings arena planned and a new bridge planned to Windsor, Canada, a key trade route.

The new $5 billion data center in Grand Rapids will be a large load for CMS. As CMS and DTE retire coal plants, they will need to replace with significant new natural gas and renewable generation. The significant natural gas storage fields in the state will become increasingly import. The new DTE partnership pipeline will also be an important resource. Due to high cost Michigan natural gas, it is increasingly important to import more diversified sources of natural gas. Commissioner Saari noted that Michigan is not generally friendly to mandates of any kind. He also suggested that legislation follows the 8-year term limit cycles of the governor's mansion and state house. He noted that state industrial customers are eager for more renewable electricity.

NW Natural (NYSE: NWN, Not Rated, $52.01)

CEO—designate David Anderson discussed the company's innovative web portal for natural gas service inquiries. The company is capturing the locations of the web inquiries to aid in future conversion and main extension marketing. The company is also working with multi-family and

rental property owners/builders to provide support for new natural gas customers. The company expects to file its IRP in August. The company is preparing a $125 million Mist storage expansion to serve Portland General's Port Westward plant. The company is bidding out the construction now, the capital cost estimate could change. With Portland General's IRP to be filed later this year, it sounds like there could be additional storage opportunities down the road for NW Natural.

Oregon is reconsidering natural gas reserves in rate base somewhat. There does not appear to be any hope for Washington to approve a similar program at this point. CFO Greg Hazleton said that the California (Fresno) Gill Ranch storage facility reduced costs about $1 million last year to improve EBITDA to roughly break-even. While an under-performing asset, the company is hoping that continued development of the California natural gas generation market will improve future results. Sempra's Aliso storage problems could also have some effects later. The company will have a Q116 charge of about -$0.07 per share following the OPUC disallowance order. NW Natural plans to file for decoupling in Washington.

Otter Tail Corporation (NASDAQ: OTTR, Not Rated, $28.66)

Last month, the company filed its first Minnesota base rate case in five years. The rate request of +$19.3 million, +9.8% reflects a 10.4% ROE and 52.5% equity layer. Interim rates could be effective April 16. CEO Chuck MacFarlane noted that Otter Tail Power needs more natural gas generation, renewable transmission expansion, and to catch up on some environmental investments.

Growing pipeline expansions through the utility service area are expected to produce meaningful load growth. The company is expecting compound annual rate base growth of nearly 9% over the next three years and almost 7% over the next five years, including the effects from bonus D&A extension. The company is expecting nearly half of the five year CAPEX to be recoverable through existing rider mechanisms.

The company's BTD manufacturing subsidiary installed painting capabilities in late 2014. The enhanced capabilities were requested by customers but hurt 2015 operating performance temporarily. The company's 5% return on sales target suggests normalized earnings of over $10 million annually compared with $4.2 million in 2015. CEO Chuck MacFarlane also said that the recent $30 million Atlanta area acquisition at BTD should reap some benefits, moving the company closer to some of its key customers and further diversifying the customer mix at BTD. At the plastics businesses, the company is expecting margin pressure as PVC resin prices decline (margins/prices move with PVC resin costs).

IDACORP, Inc. (NYSE: IDA, Not Rated, $73.29)

IDA is celebrating its centennial this year.. The Boise area continues to grow well-above national averages. In an interesting graphic, the company's current residential tariff is lower than 1914 rates in absolute terms. CFO Steve Keen said he expects the company's core earnings growth to remain comparable to the 6% CAGR of the past 5-6 years. The company is expecting roughly $300 million of annual CAPEX. IDACORP's 2016 guidance of $3.80-$3.95 includes slightly above normal Langley Gulch maintenance expense and up to $5 million of ADITC amortization benefits.

The company remains somewhat gun shy and conservative on the dividend since the cut in 2003. While the company is committed to 5%+ dividend growth, it will be awhile before it reaches the upper-end of its 50%-60% payout target. Given the company's growth expectations and low dividend payout, strong dividend growth should be expected. However, the yield on the stock is not competitive at under 3.0%.

The company is focused on maintaining low industrial rates as low cost electricity has been a significant draw to the company's service area in recent years. While it has been wet year-to-date, it has also been mild.

Southwest Gas Corporation (NYSE: SWX, Not Rated, $64.29)

The company expects to file a base rate case in Arizona in May as the moratorium is nearing its end. The company will file for an extension of decoupling, revised D&A rates, expansion of the infrastructure recovery mechanism, and recovery of more than a 20% increase in rate base. The company also filed in February to increase the COYL infrastructure recovery mechanism by $1.2 million effective mid-year. The similar gas infrastructure replacement mechanism (GIR) in Nevada provided for a $4 million increase effective in January. While low in 2015, the volatile COLI income is expected to be $3-$4 million annually, fluctuating with stock market results.

The planned $55 million LNG project for Arizona is expected to have a completed construction contract by early in Q3. The company's reorganization are still pending in Arizona and Nevada. Based on our observations of how booming Las Vegas appears, we would not be surprised if the company's growth forecast for Nevada is conservative.

Despite recent double digit dividend growth, the company said it still has plenty of dividend growth potential given the modest payout ratio and expected growth. The company noted several casino projects progressing in Las Vegas, the Golden Dragon and the former Boyd Echelon projects.

North Carolina Utilities Commission

Chairman Edward Finley spent a great deal of his presentation discussing the EPS's Clean Power Plan (CPP). North Carolina, like most states, was quite displeased with the revised CPP. The state will challenge the emissions from natural gas generation and the absence of consideration of nuclear power. The EPS also refused to consider heat rate reductions in the existing fleet.

Various state stakeholders (sounds like the commission as well) are trying to convince Duke to pursue new nuclear units. The commission will hold hearings on the Piedmont acquisition this summer. North Carolina is a no harm standard. However, recent precedent establishes that some positive benefits must accrue to customers. Natural gas transmission currently constrains coal plant retirements and conversions. The commission is hoping new pipeline capacity/projects will alleviate constraints and allow new gas-fired generation resources. While the state is not eager to add any fossil generation at all, it is limited in its options for now. The state needs to reestablish now expired solar incentives. The commission generally defers the establishment of any tracking-type mechanisms to the legislature.

NiSource (NYSE:NI, Not Rated, $22.80)

NiSource's VP, Investor relations Randy Hulen first reviewed the separation of the NiSource companies. With a 4%-6% EPS growth target and load growth of closer to 0.5%, O&M control remains a core focus for the company. Despite numerous tracking mechanisms and legislation, with $30 billion of anticipated capital spending over the next 20 years, regulatory execution will also be critical for success.

Randy noted some improvement in steel industry fundamentals as steel imports have declined from 3.5% of U.S. steel sales to 2.5%. Recall that steel customers represent a significant proportion of NiSource's industrial base and could prove to be a positive catalyst for the company with further improvement in steel industry import dumping issues. Finding qualified workers remains a constraint for the company. Despite the numerous tracking mechanisms, and while the various utilities are generally earning about 10% ROEs, regulatory lag remains about 9 months on average.

Idaho Public Utilities Commission

Commissioner Kristine Raper was a real treat for attendees. A long-time staff attorney, Commissioner Raper is the lone Democrat on the commission. She has been in office for 14 months. Commissioners tend to hold their positions for extended periods in Idaho, which is a good thing, in our view. We found Commissioner Raper moderate in may ways. There is no RPS in Idaho, they simply see no point with nearly half of generation already from renewable

hydroelectric resources. With the state also paying over $100/mW for solar generation, it is in no hurry to have more.

The state also has no consumer counsel, another good thing. She noted that many western states are not encouraging their utilities to join the California ISO as CAISO governance is controlled by California governor appointees. The surrounding states do not believe California can meet their RPS target without their help and will require a change in California statute to change the CAISO governance. The IPUC is also unusual in that it is not a policy setting mechanism in Idaho. Policy is set in the Office of Energy Resources, a cabinet level department. Due to hydro generation, the IPUC is generally not supportive of multi-year rate plans. Intermountain Gas (MDU) will file its first GRC since 1985.

The commissioner spent a significant portion of her presentation discussing problems with PURPA. She suggested that large oil companies are among the "small" generators proposing over 1,500 MW of new PURPA generation in the state. If successful, it could saddle IDACORP with excessive risk. She also noted that some of these large energy companies are hiding ownership of the projects and disaggregating the projects into smaller pieces to meet PURPA requirements. Disaggregation is illegal. The FERC rejected the IPUC's objections to the current situation. The IPUC then took FERC to court and won via settlement. Apparently, Congress is simultaneously pressuring FERC to fix the flaws in PURPA or it will do so via statute. FERC will hold a technical conference on June 29. We are left to wonder whether there are other PURPA problems in other states we have not heard about yet. California, Arizona, Oregon, Washington, and North Dakota seem ripe for similar issues due to significant RPS targets or quality renewable resources in those states. We are eager to explore these possibilities.

Black Hills Corporation (NYSE: BKH, Buy, $59.32)

We heard CEO David Emery say a number of very positive things in his presentation. While not specific, he did say that there will be tens of million of dollars of synergies related to the SourceGas acquisition and the Denver office has already been closed. The Colorado IPP interest sale is expected to close in early April. IRPs are expected to be filed mid-year for Colorado and late this year or early 2017 for Wyoming and South Dakota. These should spell-out the company's plans for resolving short capacity issues and potential new generation resources. Subsequently, the company's CAPEX budget should increase materially. Subsequent to the SourceGas acquisition, the company does not plan to adjust its dividend payout target of 50%-60% for now. It sounds as if the company plans to remain well-below the 60% level for awhile yet. We are still hoping for more specific dividend payout/growth policy once the company sees the final SourceGas results achieved.

While the company has implied as much in recent calls, we believe this was the first time we have heard David Emery say the company plans a "gradual wind-down" of the E&P business. David Emery also said that the company will not remain in the traditional E&P business if the cost of

service gas plans were to fail for some unforeseen and unlikely reason. There will be a first quarter ceiling test impairment charge. Arkansas appears to be somewhat receptive to the cost of service gas concept (COSG). However, due to some SourceGas competitive choice programs, some additional state filings are likely to be delayed until current COSG dockets are complete. Ultimately, the company expects to add more wind in response to the EPS's Clean Power Plan. David Emery said the company will issue the "absolute minimum" equity required to maintain credit ratings. Any E&P proceeds will reduce near-term equity requirements.

NorthWestern Energy (NYSE: NWE, Hold, $60.45)

The company expects its effective tax rate to creep into the low 20% range by 2020 as NOLs are exhausted. The company will file its resource plan at the end of the month. We should expect NorthWestern's CAPEX budget to rise accordingly by the time of the first quarter call. CFO Brian Bird says the company could request permission to exceed its 50% natural gas reserves target if it could find attractive transactions. The company is managing capital spending to prevent equity dilution for now. With a new resource plan that is almost certain to include some new generation capacity, that may not be possible longer-term. Mr. Bird said the company will re-evaluate the dividend if necessary to remain competitive with comparable utilities.

South Jersey Industries (NYSE: SJI, Buy, $27.34)

It sounds like we should expect delays in the start of the Penn East Pipeline construction. South Jersey confirmed the same impression New Jersey Resources gave us. While SJI did update its pipeline mileage, it did not adjust its total cost estimate like NJR did. The principal problem appears to be NIMBY complaints from the Princeton area. The range of 2020 earnings contribution the company gives for Penn East includes the possible 50% expansion of the pipeline.

The DCO transaction sounds like it will be beneficial to results going forward. SJI was funding DCO's development team with few current investment opportunities. With the company no longer funding some DCO expenses and eliminating some under-performing landfill gas assets, operating performance of the remaining assets should benefit somewhat. The four retained landfill gas projects should be near break-even this year.

EBITDA for the overall energy production group was about $30 million last year. This year, EBITDA of about $50 million is expected. Several solar projects completed late in 2015 were not connected to the grid in a timely manner. The company expects to produce about 200,000 SRECs this year before any incremental investments.

SJG has been negotiating a new fuel supply management contract that is incremental to recent

guidance. The company only announces contracted fuel management contracts when the projects are fully financed, so do not expect a press release for awhile yet. The company expect each contract to be worth roughly $1.5 million annually. With at least 10 contracts expected by 2020, the current $10-$12 million earnings contribution guidance by 2020 is conservative. CFO Steve Clark said he expects improving the balance sheet to 48% equity to be adequate.

Avista Corp. (NYSE: AVA, Hold, $39.61)

Avista recently filed its 60 day notice of intent in Idaho. The company also plans to file in Washington in July. Surprisingly, CFO Mark Thies had quite a bit to say about Alaska activities. The Juneau utility is installing new diesel backup generation this year and expects to file a base rate case by year-end. The company is not particularly concerned about a filing given its current authorized ROE given the circumstances of the Alaskan utility market.

The company also plans to invest about $130 million over 10 years to build a natural gas distribution infrastructure in Juneau. While the company expects the investment to be accretive by $0.05 per share by the third year, it will be slightly dilutive during the early years of construction. The company will file for a CPCN, low cost debt support, and customer conversion subsidies from the state. However, the company's plans could be delayed due to Alaska state budget problems. Given the current electric rate base of only about $110 million, this represents a significant investment in Alaska. There are still limited details of the potential Salix LNG project for Fairbanks. A decision is likely at the March 31 board meeting.

ANALYST CERTIFICATION

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All Research Coverage:	53.3%	46.7%	0.0%
Universe of IBC:	66.7%	33.3%	0.0%
Utilities:	53.3%	46.7%	0.0%
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KeyBanc Capital Markets

Alert

August 24, 2016

Energy: Multi-Utilities

NYSE: NI

NiSource Inc.

NI - ALERT: IRP Suggests Further Shift from Coal

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John Barta / (216) 689-3386 / john_j_barta@key.com

Key Investment Points

NI electric utility subsidiary NIPSCO has initiated its latest biennial Integrated Resource Plan (IRP). IRPs are a forward-looking assessment of a utilities portfolio needs. NIPSCO's last (2014) IRP contemplated retiring roughly 19% of the company's coal fleet. The most recent document suggests that ratepayers may be better served by retiring 47% of the fleet. Incremental changes include accelerating the previously planned retirement of 480 MW at the Bailly plant from 2023 to 2018. Additionally, the latest plan now contemplates additionally retiring units 17 and 18 at the Schahfer plant, which are each 361 MW. NI's plan has the bulk of the replacement power be met with combined cycle natural gas capacity, with the potential for some level of renewables, depending on state policy direction. New capacity is likely to come in service in the 2023 timeframe, with any shortfall until then met with contracted power purchases and uprates at other units in the fleet.

The IRP process involves multiple stakeholder groups, and is subject to change. However, we expect that the final outcome is likely to rely primarily on natural gas, with some renewables. We believe this derisks the company by diversifying away from the current heavy coal dependence (72% of 2015 generation was coal-fired). We also expect the addition of replacement capacity will offer capital opportunities as the vintage (highly depreciated) coal plants are replaced. The next IRP stakeholder meeting is September 12.

For analyst certification and important disclosures, please refer to the Disclosure Appendix.

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Disclosure Appendix

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We have received compensation for investment banking services from NiSource Inc. during the past 12 months.

We expect to receive or intend to seek compensation for investment banking services from NiSource Inc. within the next three months.

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As of the date of this report, we make a market in NiSource Inc..

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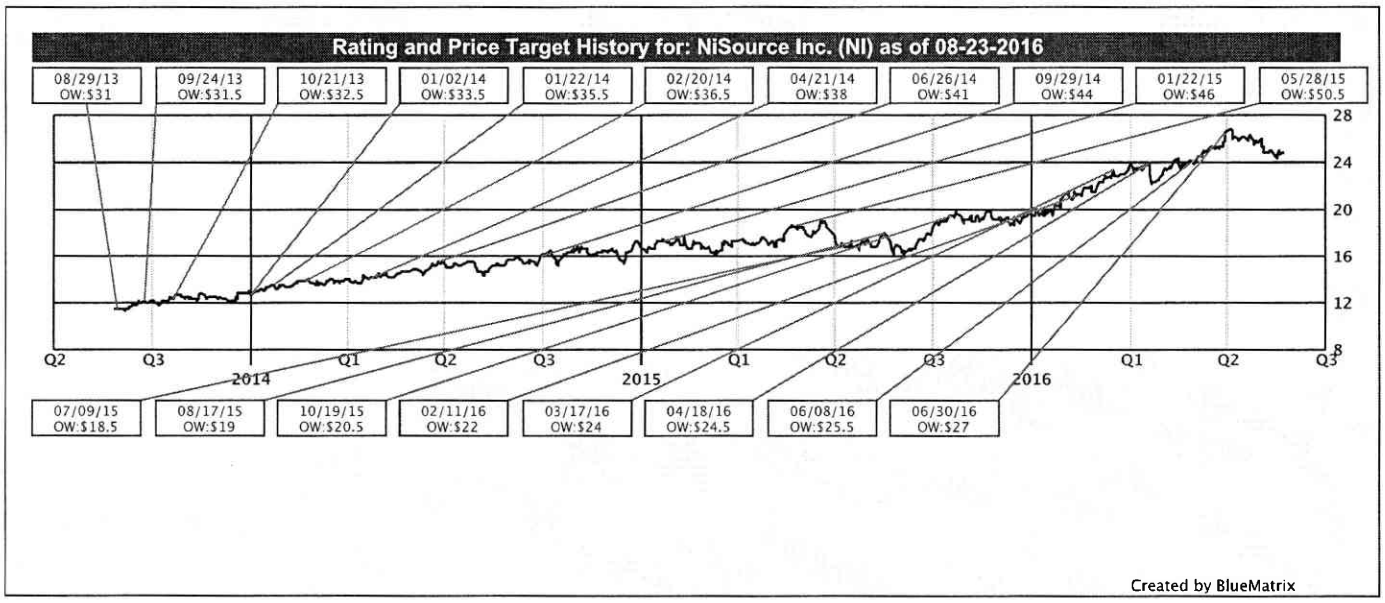
Three-Year Rating and Price Target History



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Distribution of Ratings/IB Services Firmwide and by Sector

KeyBanc Capital Markets			IB Serv/Past 12 Mos.		Energy			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
Overweight [OW]	321	41.85	65	20.25	Overweight [OW]	37	42.05	19	51.35
Sector Weight [SW]	434	56.58	56	12.90	Sector Weight [SW]	51	57.95	18	35.29
Underweight [UW]	12	1.56	0	0.00	Underweight [UW]	0	0.00	0	0.00

Disclosure Appendix (cont'd)

Rating System

Overweight - We expect the stock to outperform the analyst's coverage sector over the coming 6-12 months.

Sector Weight - We expect the stock to perform in line with the analyst's coverage sector over the coming 6-12 months.

Underweight - We expect the stock to underperform the analyst's coverage sector over the coming 6-12 months.

Note: KeyBanc Capital Markets changed its rating system after market close on February 27, 2015. The previous ratings were Buy, Hold and Underweight. Additionally, Pacific Crest Securities changed its rating system to match KeyBanc Capital Markets' rating system after market close on April 10, 2015, in conjunction with the merger of the broker dealers. The previous ratings were Outperform, Sector Perform and Underperform.

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23 August 2016

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Completed: 23-Aug-16, 20:14 GMT
Released: 23-Aug-16, 20:14 GMT

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NiSource, Inc.

Working Toward an IRP

Stock Rating/Industry View: Equal Weight/Neutral
Price Target: USD 26.00
Price (22-Aug-2016): USD 24.82
Potential Upside/Downside: 5%
Tickers: NI

Filing Expected November 1

Today, NI's NIPSCO subsidiary held a stakeholder meeting to discuss options for the company's integrated resource plan filing November 1. NIPSCO provided a detailed slide deck regarding the IRP (link "IRP"). Within the presentation the company identified $625M-$1.2B of spending that would be required to comply with existing regulations including: effluent limitations, coal combustion residuals, 316(b), and ozone rules.

The company's presentation provides 6 possible scenarios, but the initial analysis provides retiring Bailly 7/8 (469 MW) in 2018 and Schahfer 17/18 (722 MW) in 2023. This considers cost to customers, portfolio diversity, employees, the communities and compliance.

Prior to shutting the plants NI would have to file a plan with MISO and provide a replacement analysis which could include spending on gas and renewable generation. In the deck NI identified $0.8-$0.9B of spending would be required to retrofit Bailly 7/8 and Schahfer 17/18. NI could instead choose to reinvest in assets with a longer-term viability. We believe this is incremental and consistent with our view that there is potential for NI to grow ratebase in excess of 6% as we stated in "Room to Grow" (8/2/16).

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EVERCORE ISI

Energy | Power & Utilities

August 25, 2016

NISOURCE INC

NI | $24.69

SELL | TARGET PRICE: $24.00

Company Update

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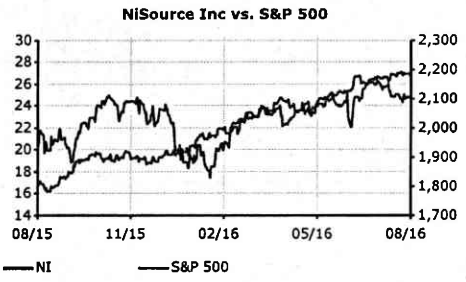
Company Statistics

Market Capitalization (M):	$7,955
Shares Outstanding (M):	322
Dividend:	$0.64
Dividend Yield:	2.6%
Payout Ratio:	59.9%
Expected Total Return:	(0.2)%
Fiscal Year End	Dec

Earnings Summary

	2016E	2017E	2018E
EPS	$1.07	$1.15	$1.21
P/E	23.1x	21.4x	20.4x
EPS vs Consensus	(0.7)%	(0.5)%	(1.9)%
Consensus EPS	$1.08	$1.16	$1.23
Consensus P/E	23.0x	21.3x	20.0x

1 Year Price History



Source: FactSet

NIPSCO May Retire Half Of Its Coal Generation Fleet, $1B Cost Avoidance Over Next Seven Years

Maintaining Estimates, Rating Sell at $24 Price Target

NI Subsidiary NIPSCO Proposes Retirement Of Four Indiana Coal Units. NiSource's largest subsidiary Northern Indiana Public Service Company (NIPSCO), which serves about 810,000 natural gas and 460,000 electric customers, on Aug. 23 announced the potential retirement of its two units totaling ~480-MW at the Bailly coal plant and two coal-fired units totaling ~ 720-MW at its R.M. Schahfer plant. This proposal was outlined during a stakeholder meeting held as part of Indiana's integrated resource planning (IRP) program. The Bailly plant's two units have been operating since the 1960s and the Schahfer units went into service in 1980's. If approved by various stakeholders including the IURC, the plan would reduce NIPSCO's coal generation capacity by half with the Bailly plant retiring mid-2018, and the two R.M. Schahfer units retiring by the end of 2023. Assuming the plants were to stay open , over the next seven years NIPSCO expects to incur ~$1 billion in additional costs at those plants to comply with new environmental regulations such as such as the U.S. EPA's final coal ash and effluent rules, which take effect starting in 2018. Should this proposal move through the stakeholder process and be implemented it could be positive for ratepayers and shareholders, moving away from older and expensive coal fired plants to more environmentally attractive options that could be more cost efficient like combined cycle gas plants. NIPSCO is currently analyzing a range of options including power purchases, energy efficiency, and new renewable and natural gas generation to replace the lost coal fed generation capacity. The next stakeholder meeting is scheduled for September 12, and, NIPSCO plans to file its 2016 IRP (filed every two years) by Nov 1 which will detail the company's strategy for meeting future energy needs over the next 20 years. The avoided costs of ~$ 1billion over the next seven years were likely back end loaded, and capital deployment options to replace the retiring capacity (should the decision be made to go forward) would likely consume that capital.

We are maintaining our '16-'18 forecast to $1.07/$1.15/$1.21. We expect NI to invest ~1.5 billion/year through '18. Our '16 estimates are more/less at the mid-point of company's narrowed 2016 guidance of $1.05 - $1.10. Our forecast for'16 - '18 translates to an average EPS growth rate of 6%, at the high end of company's guidance of 4-6%. Our EPS forecast is underpinned by rate base growth for their Gas/Electric segments at ~8.5%/4.0% for '16 to 18 with combined rate base growth at ~7.0% towards the mid-point company's guidance of 6-8%.

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Valuation still looks full to us. The company's financial performance since separation with CPGX has been impressive with strong YTD 16 results. On its Q2 earnings call NI narrowed its overall 2016 earnings guidance to $1.05 - $1.10 per share, from $1.00 - $1.10 per share and reaffirmed a 4-6% long term annual EPS growth target off a higher 2016 base. We think NI is a high quality and relatively low risk utility that deserves a premium valuation. The stock is now at a ~17% P/E multiple premium to our regulated utility coverage universe, which trades at 17.4x '18 EPS vs a ~22% P/E multiple premium to our regulated utility coverage universe when they reported on 8/2/16 (which then traded at 17.9x '18 EPS). So while the stock deserves a premium owing to its business mix (~60% gas utility by rate base) and better LT EPS growth visibility that valuations still seems overly full. NI also has one of the more highly levered balance sheets in our coverage universe at 65% debt (our coverage universe average is ~56%), while the credit quality is decent (Fitch upgraded NiSource's credit rating from BBB- to BBB recently and they are BBB+ and Baa2 at Standard & Poor's and Moody's) we think that limits the possibility of a big M&A premium being paid, we reiterate our Sell rating with a target of $24.

What's next: NI has four pending base rate cases in PA, MD, VA and KY subsidiaries for a combined total requested increase of ~125 million with final orders expected by year end 2016 . We would expect NI to initiate 2017 guidance and LT EPS growth forecast by year end 2016 call, at that time we would expect the company to raise capital forecast for years '17 and beyond at least modestly to mitigate impact of bonus depreciation.

Valuation / Risks. Using our proprietary Dividend Discount Model we value NI at $24/share, which is 19.6x our 2018 EPS estimate of $1.21. The majority of NiSource's net revenues are subject to economic regulation and are exposed to the impact of regulatory rate reviews and proceedings; risks to our thesis include unfavorable regulatory outcomes leading to lower rate base growth and/or lower allowed or earned ROE's. Upside to our thesis would be driven by further increase in capital spending leading to accelerating rate base growth due to favorable regulatory treatment of such spending and or rising authorized/earned ROE's.

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2016-08-25)	Evercore ISI Target
AEE	Ameren Corp.	Hold	$50.44	$52.50
AEP	American Electric Power	Buy	$66.37	$73.00
CPN	Calpine Corp.	Buy	$12.42	$17.00
CMS	CMS Energy Corp.	Hold	$42.96	$44.25
ED	Consolidated Edison Inc.	Sell	$76.47	$72.50
D	Dominion Resources Inc.	Buy	$76.22	$83.00
DTE	DTE Energy Co.	Hold	$95.16	$97.25
DUK	Duke Energy Corp.	Hold	$81.73	$81.00
DYN	Dynegy Inc.	Buy	$12.85	$25.00
EIX	Edison International	Hold	$73.65	$79.00
ETR	Entergy Corp.	Hold	$79.08	$83.00
ES	Eversource Energy	Hold	$55.27	$56.00
EXC	Exelon Corp.	Buy	$34.51	$40.00
FE	FirstEnergy Corp.	Hold	$32.93	$36.00
HE	Hawaiian Electric Industries Inc.	Hold	$30.16	$31.00
HIFR	InfraREIT, Inc.	Buy	$17.97	$20.00
ITC	ITC Holdings	Hold	$46.78	$47.50
NEE	NextEra Energy Inc	Buy	$124.51	$140.00
NI	NiSource Inc	Sell	$24.69	$24.00
NRG	NRG Energy Inc.	Buy	$12.35	$20.00
NYLD	NRG Yield, Inc.	Buy	$17.44	$18.00
PCG	PG&E Corp.	Buy	$63.44	$68.00
PNW	Pinnacle West Capital Corp.	Hold	$76.73	$79.00
PPL	PPL Corp.	Hold	$35.33	$36.00
PEG	Public Service Enterprise Group	Hold	$43.56	$46.00
SRE	Sempra Energy	Buy	$106.51	$122.00
SO	Southern Co.	Hold	$51.87	$51.00
TLN	Talen Energy Corporation	Hold	$13.75	$14.00
AES	The AES Corporation	Buy	$12.11	$12.25
WEC	WEC Energy Group, Inc.	Hold	$61.25	$62.00
WR	Westar Energy Inc.	Hold	$54.38	$58.50
XEL	Xcel Energy Inc.	Hold	$42.28	$44.00

TIMESTAMP

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

Time of dissemination: August 25, 2016, 21:32 ET.

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Buy - Return 10% to 20%
Neutral - Return 0% to 10%
Cautious - Return -10% to 0%
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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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Hold	300	45%	Hold	16	5%
Sell	29	4%	Sell	2	7%
Coverage Suspended	12	2%	Coverage Suspended	0	0%
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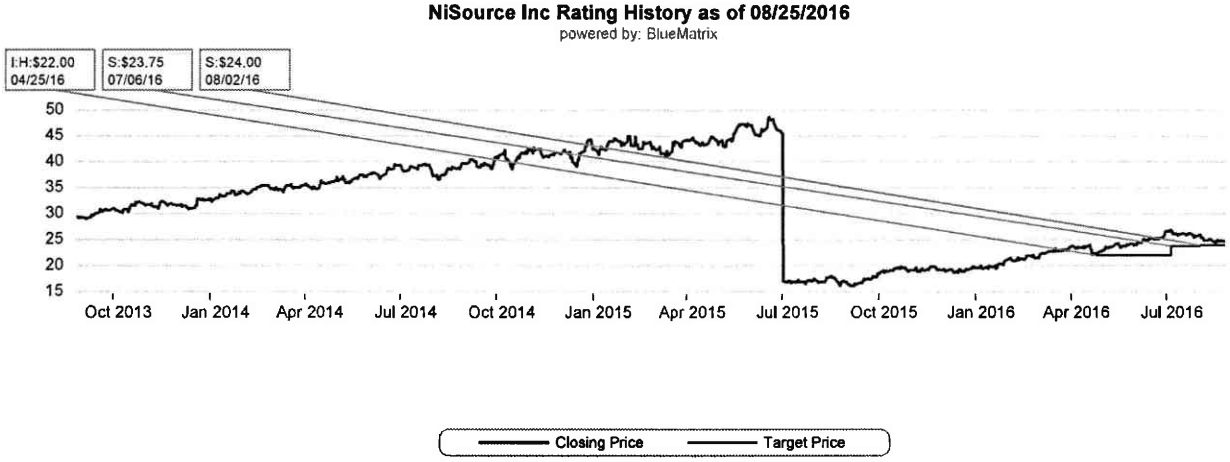

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UBS

Global Research

6 September 2016

US IPP Weekly Power Points
The Conference Skinny

Looking for potential meaningful developments this Fall on Conference circuit

Ahead of the start of the Fall conference season this month, we look for meaningful datapoints to be released in the coming month for several key names. While the classic names with updates could yield relatively little (D), we look for updates on execution issues from a wide variety of equities (AEP's Genco, EXC's Renewables Biz, NYLD's partnership) potentially. We note the back to back weekly conferences this month should drive disproportionate relative volatility among equities. The backstory will remain on execution of rate deals for companies such as NEE and ED for settlements in meaningful rate cases.

Dominion: Expect few updates with Fall update this Thursday

Despite historically substantial updates this week every year for Dominion, we look for few datapoints on Thursday's webcast update from CEO Farrell. Rather, we look towards late September for a final EIS on the Atlantic Coast Pipeline (ACP), its second major development project beyond its LNG export facility. We note risk of a three month delay on its current project given the timeline for the project to receive approval, pushing construction start into Fall 2017 and in turn risk of a shift in 2019 in-service. We note higher costs would presumably be reflected in ultimate negotiated rates, with a limited EPS impact (given that AFUDC will be accrued on the project). A further question for the project is prospects for upsizing? We wouldn't doubt expansion to 2bcf/d given regional needs. Overall, this remains a ~4Q focus, with SO similarly positioned to provide updates on its nascent efforts (it has stated it sees its Sonat deal as just the start of its regional buildout) at its Analyst Day on 10/31. For instance, SO is already involved with ACP following its acquisition of AGL Resources.

AEP: Sale coming soon, but at what price? Rebasing of EPS growth is key

We look for a sale in the very near term following disclosures from mgmt. a sale is approaching. Our latest estimate of EBITDA for the non-PPA portfolio for sale is ~$350 Mn in 2018, driving a ~$2.1 Bn sales price @ a 6x EV/EBITDA multiple (previous media articles have pinned valuation at ~$2.5 Bn). We note the bulk of the EBITDA and value is attributable to the (2) CCGTs for sale, with concerns over coal ash and future viability likely depressing the implied multiple on coal assets for sale to 5x EV/EBITDA or lower. We see the datapoint as potentially cautious for FE and DYN's respective coal portfolios. The corresponding question remains how and off what year will mgmt. potentially rebase EPS guidance of 4-6% (last update was off the 2014 EPS); admittedly the sale is dilutive to near-year estimates, but see accretion by 2019. We continue to see the de-risking underway with a 7% ratebase trajectory principally funded by transmission; we think AEP could well reposition as the lowest risk transmission play.

What else is below?

ES gas update, ACC Primary results, DYN's latest shift on IPH plans, NI's IRP looks for more coal retirements, and more

Equities

Americas
Utilities

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Power Loop: What's on Clients' Minds

In an effort to keep all 'in the loop', we highlight recent most-read notes below.

Note titles below are all hyperlinks to our full notes

Past Week:

(1) SCG: Fixing a Deal on a Fixed Price Contract
(2) EIX: Getting Modern
(3) SPWR: Pivoting Back Towards the Core Competency
(4) Global Solar:Solar Supply Views Dim [Incl. Transcript]
(5) CPN/SO: Gaining Some Northern Exposure
(6) NRG: What are the Prospects?

Past Month:

(1) US Power: Addressing Subsidized Capacity Via Reforms for PJM & ...
(2) US Power: The Power Trade from a Trader's POV - Pt 2
(3) Alternative Energy: Compelling Analogy: Hitting the Merchant Uplift?
(4) Solar:UBS Evidence Lab: Resi Solar Goes South
(5) Solar: 2Q16 Playbook: Yield to the Rescue

What are Client's calling about?

(1) Utilities: Is the Rally Running Out of Gas?
(2) NEE: What is the Oncor Accretion?
(3) Utilities: How the UK 'Leave' Vote Impact US Utilities
(4) Power: How Did Clients Respond to IPP Downgrades?
(5) Utilities: Tide Going Out for Transmission ROEs Still

Utility Events In The Weeks Ahead:

All times are Eastern unless otherwise noted.

- Monday Sept 5:
  - *Labor Day Holiday*
- Tuesday, Sept 6
  - **UBS Access: NRG Yield Management Meeting @ 1:30pm ET**
- Wednesday Sept 7:
  - **UBS Access: NYC 'End of Summer' Happy Hour @ ~4-6pm ET**
  - **UBS Access: Pre-Conference Season Investor Dinner (6 PM ET)**
- Thursday, Sept 8
  - **UBS Access: Georgia PSC Commissioner Wise Lunch (11:30 AM ET)**
  - **UBS Access: NWE Dinner**
  - **D:** Webcast presentation @ 8:25am ET

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- **Friday Sept 9**
  - **UBS Access: Conf Call on California Community Choice Aggregation (CCAs) @ 2:30pm ET**

Uncertain Timing:

- **AEP**: Sales of genco portfolio, following final bids placed recently

Upcoming UBS Conferences:

- September 19 – Transmission Development Mini-Conference
- September 29 – Dallas (Texas) Mini-Conference (including Oncor on 9/28)
- November 29 – Renewables Mini-Conference
- Feb 27-March 1 – UBS Annual Boston Power/Utilities/Renewables/Nat Gas Conferences
- June 12-14: Asia Tour (Sydney + Tokyo).

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AEP: What's the Genco Worth?

We include our latest estimate of the core value of the AEP business below. WE emphasize value of ~$2.1 Bn for just the non-PPA assets. We continue to expect a delay on the subsequent PPA assets until resolution of its ongoing legislative efforts.

Figure 1: Genco Asset Summary

Plant	Owned Capacity (MW)	Fuel Type	In Service	ISO(s)
Gen J M Gavin	2,665	Bituminous Coal	1974	PJM
Lawrenceburg	1,186	Natural Gas	2004	PJM
Waterford Energy Facility	840	Natural Gas	2003	PJM
Darby	507	Natural Gas	2001	PJM
Total 'Non-PPA' Assets/Tranche 1	**5,198**			
Financial Metrics		**Low Case**	**Base Case**	**High Case**
Book Value (6/30/15)		1,700	1,700	1,700
2018E Adjusted EBITDA UBSe		319	354	389
Assumed EV / EBITDA Multiple		5.0x	6.0x	7.0x
Enterprise Value		**1,593**	**2,124**	**2,725**
Estimated Debt		(692)	(692)	(692)
Equity Value		901	1,432	2,033
Equity Value per Share		**$1.81**	**$2.88**	**$4.09**

AEP did not indicate that a sale could cause a loss

Plant	Owned Capacity (MW)	Fuel Type	In Service	ISO(s)
Conesville	1,149	Bituminous Coal	1957	PJM
J.M. Stuart	603	Bituminous Coal	1970	PJM
Cardinal	595	Bituminous Coal	1967	PJM
W.H. Zimmer	330	Bituminous Coal	1991	PJM
Racine	47	Water	1982	PJM
Total 'PPA' Assets/Tranche 2	**2,724**			
Financial Metrics		**Low Case**	**Base Case**	**High Case**
Book Value (6/30/15)		2,000	2,000	2,000
2018E Adjusted EBITDA UBSe		74	82	91
Assumed EV / EBITDA Multiple		4.0x	5.0x	6.0x
Enterprise Value		**297**	**412**	**544**
Estimated Debt		(134)	(134)	(134)
Equity Value		163	278	410
Equity Value per Share		**$0.33**	**$0.56**	**$0.83**

AEP indicated a sale could cause a loss

Source: Company reports and UBS estimates

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The bigger question is how to think about the EPS CAGR?

We include once more the base EPS growth CAGR with the implied ranges for the 4-6% EPS growth guidance. We note MtM EPS contributions from the PPA business would appear to contribute $0.05-0.10 in 2019. We estimate the sale is clearly accretive on 2019, likely pushing estimates back towards consensus (which appears a bit too high).

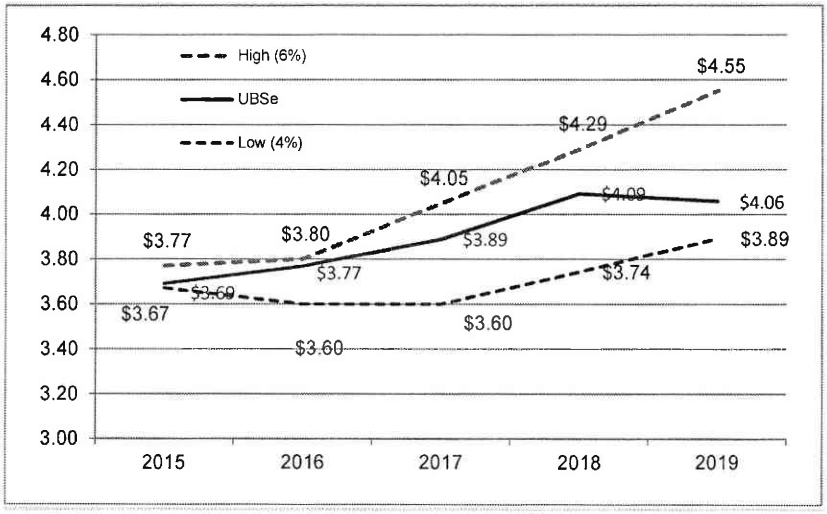
Figure 2: Non-PPA Asset Accretion

"Non-PPA" Assets (open EBITDA)		
EBITDA (2018E)	$	354
EV/EBITDA		6.0x
EV		2,124
Debt		(692)
Equity		1,432
Equity Value/sh	$	*2.88*
Sale Accretion - Share Repurchases		
Shares Bought Back (M)		22.0
Repo value on Buyback (Value/sh)	$	*3.02*
Accretion/sh vs. $2.88 above	$	***0.13***
Sale Accretion - Reinvestment in Transmission		
Equity	$	1,432
Net Income at 10.84% ROE	$	155
Value at 18.8x multiple	$	2,918
Value/sh	$	*5.88*
Accretion/sh vs. $2.88 above	$	***2.99***

Source: Company reports and UBS estimates

Estimate Scenario with MtM Power & Gas Commodity Estimates

Figure 3: AEP Estimates: 2019E trending towards ~4.5% of the 4-6% range



Source: Company reports and UBS estimates

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NEE/PEG/ES: FERC Denies Access Northeast Complaint

On a more positive note for the project, FERC announced in an order (docket EL16-9) that it would dismiss the complaint from NextEra Energy Resources and PSEG against the proposed Access Northeast pipeline. The ruling was based primarily on timing, though FERC noted that the complaint was largely speculative and did not provide adequate burden of proof that the contracts designed to support Access Northeast were unjust and unreasonable. More specifically, FERC ruled that the Complaint is not ripe for consideration because the circumstances surrounding the complaint are shifting and there are not enough concrete facts to support NEE/PEG. While the generators appear keen to challenge the pipeline on multiple fronts, recent ruling from Massachusetts Supreme Court seems to support the concept advocated that any FERC challenge would be premature. Nonetheless, we would expect generators to re-open complaints in the event the State decisions were to shift in favor of the pipeline. This seems largely unlikely given the recent court ruling, but the complaint demonstrates the level of commitment from generators to maintain status quo for pipeline capacity and by extension, energy pricing.

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ACC Primary: Slow Burn

Bob Burns placed first in the Republican primary election for the Arizona Corporation Commission (ACC) held on August 30. Burns is one of three incumbents running for re-election to the five-member ACC. Fighting over the three vacant seats are five candidates, of which three are Republicans (including Burns) and two are Democrats. Given that the two seats not up for re-election are held by Republicans, the GOP is assured to maintain majority control of the ACC. The general election will be held on November 8, 2016.

We highlight that Burns has become increasingly outspoken in his criticism of APS in recent periods. Specifically, on August 25, Burns issued supoenas to APS/PNW with the stated intention of discovering if the companies funded 2014 political campaigns (which would include the election of Chairman Doug Little). Other positions included an attempt (voted down) to investigate the commission itself for undue influence from outside groups.

While we note Burns' re-election could be a potential headwind, we remain positive on Pinnacle West (PNW) subsidiary Arizona Public Service (APS) rate case, particularly given the recent UNS rate decision. For reference, the APS rate case was filed last June and requested an increase in electric base rates of more than $400 Mn and a 10.5% ROE. We remain confident of an amenable outcome notwithstanding the core rate design issues, with recent cases illustrating constructive nature of recent deals.

Figure 4: Current ACC Commissioners

Current ACC Commissioners			
Name	**Party**	**Began Serving**	**Term Ends**
Doug Little (Chairman)	R	Jan-15	Jan-19
Tom Forese	R	Jan-15	Jan-19
Bob Stump	R	Jan-09	Jan-17
Robert Burns	R	Jan-13	Jan-17
Andy Tobin	R	Feb-16	Jan-17

Source: SNL and UBSe

Figure 2: ACC Primary Results

8/30 Primary Election Results		
Candidate	**Party**	**Vote %**
Robert Burns (Incumbent)	R	23.9%
Andy Tobin (Incumbent)	R	23.2%
Boyd Dunn	R	19.2%
Rick Gray	R	18.0%
Al Melvin	R	15.8%
Tom Chabin	D	50.5%
William Mundell	D	49.5%

Source: Arizona Secretary of State and UBSe

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CPUC Reforms Limited to Ex Parte Communications

Reforms targeting ex parte communications were more successful as the California Senate unanimously passed on amended version of Senate Bill 215. The bill would establish penalties for violations of ex parte communication rules and would authorize the attorney general to bring an enforcement action in the superior court against a decision maker or employee of the CPUC who violates the ex parte communication rules. We view the passage of these reforms as a broad positive, accruing to the credibility of the CPUC as well as enabling the CPUC to more narrowly focus its time on core utility matters. Timeliness of reviews and long delays in rate cases has been an issue in the state.

Assembly Bill 2903 reportedly failed to pass in the final hours of California's legislative session, a major blow to efforts to overhaul the California Public Utility Commission (CPUC). The failed bill would have required the CPUC to, among others, appoint an internal auditor

Con Edison REVving up

As part of the NY REV process, we note that Con Edison (ED) has been moving forward with its Brooklyn-Queens Demand Management Program (BQDM). On August 31, EnerNOC (ENOC), a leading provider of energy intelligence software and demand response solutions, announced it had been awarded a multi-million dollar contract as part of the BQDM.

The program has been billed as the rationale behind deferral of construction for $1B electrical substation in favor of solar, batteries, and energy efficiency. Staff has cautioned that this is focused on a single project, whereas the program generally is focused on developer markets. Actual BQDM program goals as laid out include ~41MW of customer sited resources:

Figure 3: BQDM Goals (MW Impact)

	2016	2017	2018	Total
Customer Side Solutions	9	23	9	**41**
Utility Side Solutions:	3	8	0	**11**
Total	**12**	**31**	**9**	**52**

Source: Company Filings and UBSe

CAISO finds APS ready to join EIM

Following FERC approval last April, CAISO has found Pinnacle West (PNW) subsidiary Arizona Public Service (APS) ready to join the operator's Energy Imbalance Market (EIM) on October 1. We stress that this appears a positive for APS, enabling greater interconnectivity to adjacent grids to balance greater solar penetration and opening the door further to greater balancing opportunities with California. We see this as a broader positive for PNW, albeit don't see this as a meaningful driver for distressed Southeast merchant generators.

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RGGI: MA pushes for more aggressive carbon cuts; coal-heavy states resist

Massachusetts has been pushing fellow states to extend and expand the Regional Greenhouse Gas Initiative's objectives beyond 2020. Specifically, Massachusetts is advocating to double the annual emission cuts to 5% from 2.5% presently, and to extend the program to 2030.

The proposal has been met with resistance from some states, particularly in the Mid-Atlantic, which relies heavily on coal-fired generation. Maryland and Delaware have notably raised concerns that the proposed caps are too aggressive and could severely impact ratepayers. While not on the table at the moment, Maryland warned that pulling out of the voluntary group remains an option if the state determines the caps are unacceptable.

We note that states such as New York, Connecticut, Rhode Island and Vermont have shown support for extending or raising the current annual limits. We suspect that, while the exit of several members could potentially break up the pact, the well-supported program is solid enough to survive, be it in a different form than currently. We also flag that increasing the emission targets might weigh in PSEG's potential decision to join RGGI in 2018.

The question on RGGI remains whether ISO-NE and other New England states will band together to effectively implement a more stringent form of the rules as part of their ongoing regional process. Further, state specific actions such as CT merit attention too (including efforts to save D's Millstone nuclear plant).

DYN – IPH Seeking Early Elimination of SO_2 Variance From Illinois Pollution Control Board

Illinois Power Holdings LLC (IPH) and Ameren Energy Medina Valley Cogen LLC, subsidiaries of Dynegy Inc. filed for an early termination of the dual variances to sulfur dioxide emission limits (provided in the Illinois Multi-Pollutant Standard or MPS) to the Illinois Pollution Control Board (IPCB) on Sept 2. The variance was originally granted by IPCB in Nov 2013, post DYN's acquisition of five coal fired plants from AEE. The variance granted to IPH required an overall SO_2 annual emissions rate of 0.35lb/MMBtu from 2013 through 2019, and then 0.23lb/MMBtu from Jan. 1, 2020 onwards, in addition to the combined annual average SO2 emissions of not more than 0.55lb/MMBtu on a calendar year from E.D. Edwards, the Joppa and the Newton plants. *This would appear consistent with the contemplated retirements – and hence reduced emissions. This is still a notable development amidst the backdrop of an emissions rate*

While IPH is already in compliance with the SO2 limits as mandated by IPCB's MPS including its retirement of Edwards unit 1 in January 2016, the retirement of Newton plant on Sept 15 and simultaneous termination of scrubber project associated with Newton plant will practically remove any further needs for the variance and thus prompt the subsidiaries to file for early elimination of the same.

We note that DYN earlier announced to close Baldwin Units 1 & 3 (1,220MW at CoalCo), Newton Unit 2 (615MW at IPH), Wood River (465MW at CoalCo), and an incremental unidentified 500MW, overall 2.8GW of coal-fired generation retirement before the upcoming Miso auction in April 2017 (subject to MISO's reliability review).

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We highlight that termination of the scrubber project could potentially save $200Mn of spending in addition to $205Mn of capex savings for these plants over the next five years ($41Mn annually). Additionally, these plants are generating negligible EBITDA and are FCF negative making it accretive to shut them.

For additional details please refer the links below:

DYN: Taking a Seat at the Negotiating Table

Riding the MISO Roller Coaster

EXC: Pressure is on Pepco to Deliver

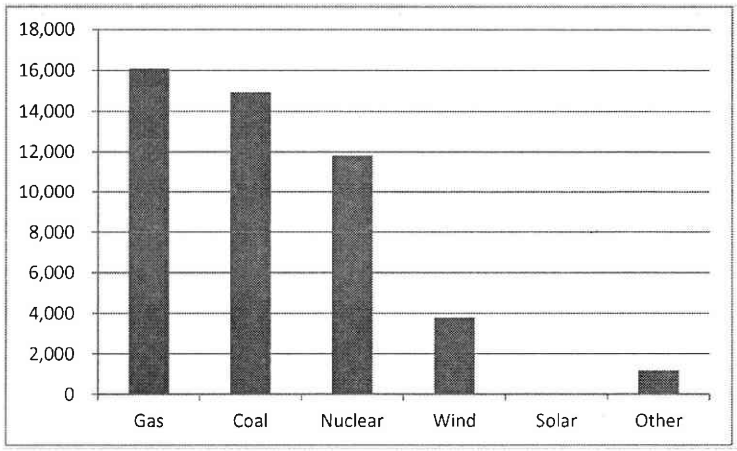
Figure 5: DYN's coal portfolio and expected retirement

Power Plant Name	Owner	Owned Existing Capacity (MW)	Owned Planned Capacity (MW)	Operating Ownership (%)	Planned Ownership (%)	Operating Status	Fuel Type	Year First Unit in Service	ISO(s)	State/ Province	Regulatory Status
Baldwin Energy Complex	Dynegy Midwest Generation Inc	1,815	1500.0	100.00	100.00	Operating	Subbituminous Coal	1970	MISO	IL	Unregulated
Coffeen	Illinois Power Generating Co.	915	-	100.00	-	Operating	Subbituminous Coal	1965	MISO	IL	Unregulated
Duck Creek	Illinois Power Resources	425	-	100.00	-	Operating	Subbituminous Coal	1976	MISO	IL	Unregulated
E.D. Edwards	Illinois Power Resources	590	-	100.00	-	Operating	Subbituminous Coal	1960	MISO	IL	Unregulated
Havana 6	Dynegy Midwest Generation Inc	435	-	100.00	-	Operating	Subbituminous Coal	1978	MISO	IL	Unregulated
Hennepin Power Station	Dynegy Midwest Generation Inc	294	-	100.00	-	Operating	Subbituminous Coal	1953	MISO	IL	Unregulated
Joppa Steam	Illinois Power Generating Co.	802	-	80.00	-	Operating	Subbituminous Coal	1953	MISO	IL	Regulated
Kincaid Generation LLC	Equipower Resources Corp.	1,158	-	100.00	-	Operating	Subbituminous Coal	1967	PJM	IL	Unregulated
Newton	Illinois Power Generating Co.	1,230	-	100.00	-	Operating	Subbituminous Coal	1977	MISO	IL	Unregulated
Total Capacity (MW)		**7,664**									
Expected Retirement (MW)		**2,335**	**Excl Wood River - already retired**								
% of retirement		**30%**									

Source: SNL and UBSe

Below table represents fuel wise capacity (MW) break ups in Illinois. We highlight EXC's nuclear fleet in MISO (Quad Cities and Clinton) are challenged—and set to retire. Additionally, if approved by MISO, NIPSCO's plan to retire few of its coal units could potentially add another 1GW of coal retirement by 2023. We expect 2.3GW of DYN's coal portfolio (excl Wood River, which is already retired) to be retired before April 2017 MISO auction.

Figure 6: Current capacity (MW) fuel wise – Illinois : A *Lot* of it is at risk



Source: SNL and UBSe

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NI: NIPSCO – Considering coal retirement options in 2016 IRP plan

In a recent meeting held with stakeholders of Indiana's integrated resource planning process, Northern Indiana Public Service Co. (NIPSCO), subsidiary of NiSource Inc. disclosed that the company could potentially retire its 480-MW Bailly coal plant and two coal-fired units (units 17 & 18 totaling 722MW) at its 1,625-MW R.M. Schahfer plant facility. The company is expected to file its integrated resource plan (IRP) to the Indiana Utility Regulatory Commission by Nov 1. While the IRP is still in-progress, we note any decision on retirement will subject to the approval from MISO.

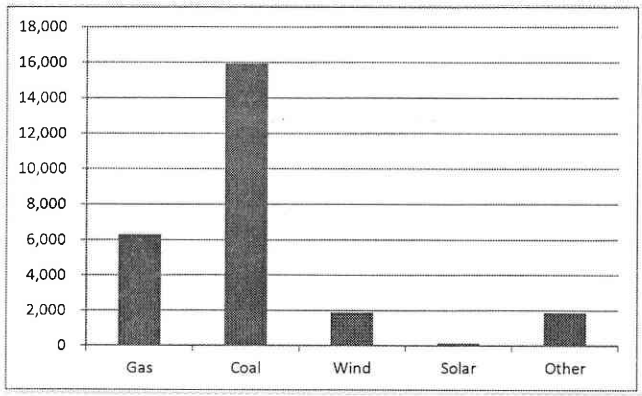
Specifically, the company will likely retire its Bailly plant by 2018 and two R.M. Schahfer units by the end of 2023. We believe requirement of ~ $1B investment over the next seven years to comply with the latest Coal Combustion Residuals (CCR) and Effluent Limit Guidelines (ELG) rules (expect to be enacted in 2018 and 2023, respectively) and other maintenance costs influenced NIPSCO's desire to retire almost half of its coal generation capacity. While the retirement of coal units is still under consideration, the company is weighing several other long-term supply options to replace the retired coal capacity and meet customer needs in cost-effective manner.

Figure 7: NIPSCO's coal portfolio

Power Plant Name	Capacity (MW)	Operating Status	Fuel Type	In-service	ISO(s)	State/	Regulatory Status
Bailly	480	Operating	Bituminous Coal	1962	MISO	IN	Regulated
Michigan City	469	Operating	Subbitumino us Coal	1950	MISO	IN	Regulated
R.M. Schahfer	1,625	Operating	Subbitumino us Coal	1976	MISO	IN	Regulated
Total Capacity (MW)	**2,574**						
Expected Retirement (MW)	**1,202**						
Expected Retirement %	**47%**						

Source: SNL and UBSe

Figure 8: Current capacity (MW) fuel wise – Indiana



Source: SNL and UBSe

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Week That Was: Best/Worst Performers

Figure 9: Weekly Utilities Performance

BENCHMARKS	Ticker	5 Day Return	YTD Return	RSI (14Day)	New High/Low?
S&P500	SPY	0.5%	7.1%	45.2	N/A
Utilities Select SPDR	XLU	1.0%	14.7%	45.9	N/A
COMPETITIVE INTEGRATED	**Ticker**	**5 Day Return**	**YTD Return**	**RSI (14Day)**	**New High/Low?**
American Electric Power, Inc.	AEP	0.9%	12.0%	42.3	N/A
Avangrid	AGR	0.5%	9.9%	35.5	N/A
Dominion Resources	D	0.0%	10.5%	48.7	N/A
Entergy Corp.	ETR	2.2%	15.5%	53.4	N/A
Exelon Corp.	EXC	0.5%	22.7%	41.8	N/A
FirstEnergy Corp.	FE	1.5%	3.4%	49.2	N/A
NextEra Energy	NEE	1.2%	18.5%	42.5	N/A
PPL Corporation	PPL	1.1%	2.6%	45.8	N/A
Public Service Enterprise Group	PEG	1.2%	11.1%	44.9	N/A
Sempra Energy	SRE	-0.1%	10.9%	43.2	N/A
Average		0.9%	11.7%	44.7	
REGULATED INTEGRATED UTILITIES	**Ticker**	**5 Day Return**	**YTD Return**	**RSI (14Day)**	**New High/Low?**
Ameren Corp.	AEE	0.5%	14.9%	44.0	N/A
Alliant Energy Corp.	LNT	0.8%	22.4%	44.3	N/A
Avista Corp	AVA	0.5%	16.3%	45.1	N/A
CMS Energy	CMS	0.9%	17.3%	44.0	N/A
DTE Energy Co.	DTE	0.7%	16.2%	44.5	N/A
Duke Energy	DUK	0.4%	12.4%	43.1	N/A
Edison International	EIX	2.5%	24.5%	45.7	N/A
Empire District Electric Company	EDE	0.1%	20.9%	59.7	New High
Great Plains Energy	GXP	1.5%	1.1%	42.9	N/A
Hawaiian Electric Industries	HE	0.9%	3.3%	43.3	N/A
PG&E Corporation	PCG	0.4%	17.2%	43.0	N/A
Pinnacle West Capital Co.	PNW	1.7%	18.0%	48.1	N/A
PNM Resources Inc.	PNM	0.7%	5.0%	44.1	N/A
Portland General Electric	POR	2.2%	17.3%	51.3	N/A
SCANA Corp.	SCG	1.5%	18.4%	47.5	N/A
Southern Company	SO	1.5%	10.7%	52.9	N/A
Westar Energy, Inc.	WR	1.4%	30.3%	75.1	N/A
WEC Energy	WEC	1.5%	18.0%	46.5	N/A
Xcel Energy Inc.	XEL	0.8%	16.2%	46.2	N/A
Average		1.1%	15.8%	48.0	
REGULATED T&D UTILITIES	**Ticker**	**5 Day Return**	**YTD Return**	**RSI (14Day)**	**New High/Low?**
Consolidated Edison	ED	1.0%	17.6%	46.4	N/A
ITC Holdings Corp	ITC	-0.8%	16.8%	42.8	N/A
InfraREIT Inc	HIFR	5.2%	1.8%	81.8	N/A
Eversource Energy	ES	0.5%	6.5%	35.6	N/A
Average		1.5%	10.6%	51.7	
INDEPENDENT POWER PRODUCERS	**Ticker**	**5 Day Return**	**YTD Return**	**RSI (14Day)**	**New High/Low?**
AES Corporation	AES	1.7%	27.8%	53.8	N/A
Calpine Corporation	CPN	0.2%	-13.8%	46.0	N/A
Dynegy, Inc.	DYN	-4.3%	-6.9%	46.3	N/A
NRG Energy Inc.	NRG	-2.3%	1.8%	39.9	N/A
Talen Energy Corp	TLN	0.6%	121.5%	57.7	N/A
Average		-0.8%	26.1%	48.7	
YIELDCOs and MLPs	**Ticker**	**5 Day Return**	**YTD Return**	**RSI (14Day)**	**New High/Low?**
8Point3 Energy Partners	CAFD	-1.0%	-3.6%	28.0	N/A
Abengoa Yield PLC	ABY	-0.6%	-1.4%	39.9	N/A
Dominion Midstream Partners	DM	-1.6%	-18.2%	37.9	N/A
Hannon Armstrong Sustainable Infrast.	HASI	5.9%	30.6%	72.3	N/A
Pattern Energy Group A	PEGI	2.9%	16.1%	58.6	N/A
Transalta Renewables	RNW-CA	1.1%	38.0%	49.7	N/A
TerraForm Power	TERP	9.5%	5.2%	64.3	N/A
NextEra Energy Partners, LP	NEP	-2.9%	-0.8%	31.3	N/A
NRG Yield Inc.	NYLD.A	-0.2%	20.1%	47.2	N/A
Average		1.4%	9.5%	47.7	

Source: FactSet * Green represents relative outperformance; red represents relative underperformance.

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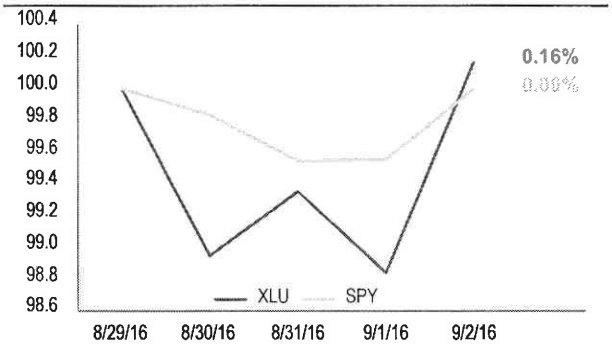
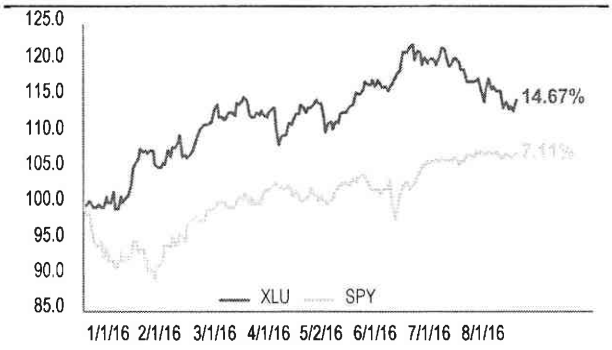
Figure 10: Utilities Performance (Past Five Days)



Source: FactSet

Figure 11: Utilities Performance (2016 YTD)



Source: FactSet

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Valuation Method and Risk Statement

Risks for the electric utility sector include: fair and reasonable regulatory treatment with respect to capital spending recovery; fuel and purchased power procurement; and operating the generation, distribution, and transmission facilities safely and reliably, especially the nuclear facilities. Public policy mandates such as environmental spend could affect the timing and regulatory recovery. The companies require access to the capital markets and changes in the regulatory compact, or other issues, could impact the ability to raise capital at fair rates. Credit rating agency actions can also affect electric utilities. State regulatory commissions are not bound by prior commission decisions and can alter existing regulatory agreements provided there is a reasonable basis for doing so. Some state commissions are elected, adding another element of risk. Weather, customer growth, and mix also play a key in determining the earnings and cash flow of an electric utility.

Valuation methodologies are: Sum-of-the-parts for companies with competitive integrated utilities and integrated power producers (IPPs); and forward-P/E basis for regulated utilities.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
American Electric Power, Inc.[5, 6a, 7, 16]	AEP.N	Buy	N/A	US$65.24	02 Sep 2016
Dominion Resources[2, 4, 5, 6a, 6b, 6c, 7, 16]	D.N	Neutral	N/A	US$74.75	02 Sep 2016
Dynegy, Inc.[5, 6a, 7, 16]	DYN.N	Neutral	N/A	US$12.47	02 Sep 2016
Eversource Energy[16]	ES.N	Neutral	N/A	US$54.37	02 Sep 2016
Exelon Corp.[3a, 6a, 7, 16]	EXC.N	Neutral	N/A	US$34.07	02 Sep 2016
FirstEnergy Corp.[7, 16]	FE.N	Neutral	N/A	US$32.82	02 Sep 2016
NextEra Energy[2, 3b, 4, 5, 6a, 6c, 7, 16]	NEE.N	Buy	N/A	US$123.13	02 Sep 2016
NiSource Inc.[16]	NI.N	Neutral	N/A	US$24.13	02 Sep 2016
NRG Yield[16]	NYLDa.N	Buy	N/A	US$16.70	02 Sep 2016
Pinnacle West Capital Co.[6a, 16]	PNW.N	Neutral	N/A	US$76.07	02 Sep 2016
Public Service Enterprise Group[16]	PEG.N	Buy	N/A	US$42.98	02 Sep 2016
Southern Company[2, 4, 5, 6a, 6c, 7, 16]	SO.N	Sell	N/A	US$51.80	02 Sep 2016

Source: UBS. All prices as of local market close.
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