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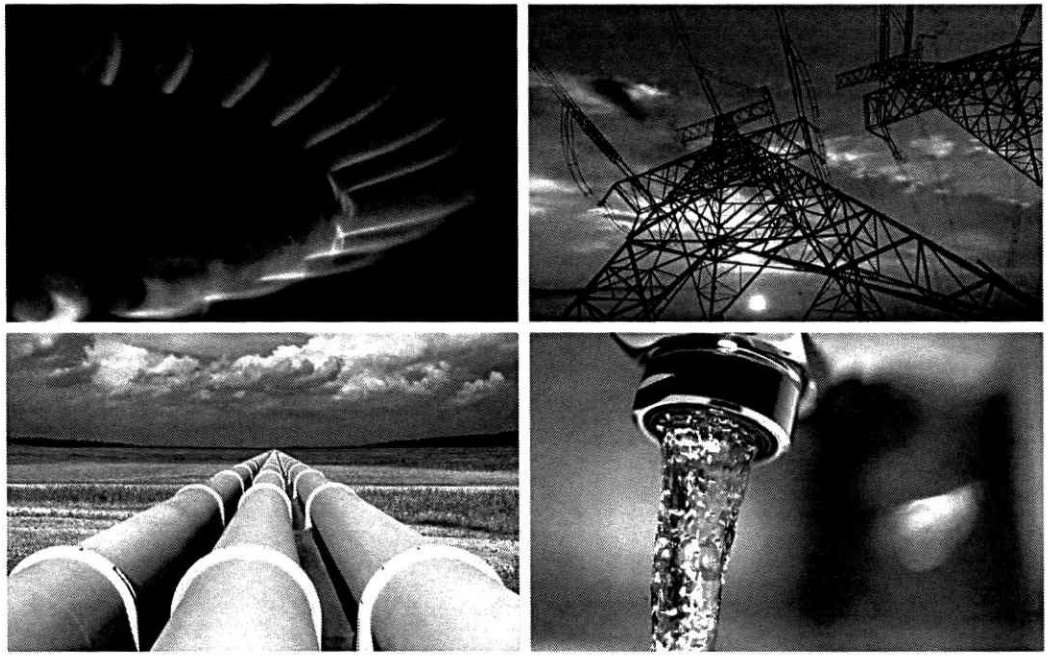
Downstream: Takeaways from Q4'16 Earnings



March 22, 2017

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See important disclosures starting on page 14

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Q4'16 Takeaways

- In this note, we reaffirm our ratings, refresh price targets, review major themes from the quarter and highlight catalysts for each covered name.
- **Price Target Revisions:**

  ATO: Raised price target $4/sh (~6%) to reflect impact on estimated '18 EPS of accelerated pipe replacement and reduction in future volatility following recent sale of non-regulated gas marketing unit.

  AWK: Raised price target $4/sh (~5%) to reflect higher multiples driven by increased confidence for growth at high end of 7-10% target from acquisitions and top-tier 10% dividend hike expected in April.

  CPK: Raised price target $5/sh (~8%) to reflect impact on estimated '18 EPS of 2017 Eastern Shore Pipeline Expansion Project.

  VVC: Raised price target $4/sh (~8%) to reflect higher multiples from increased capex for infrastructure projects and boost in growth rate to 6-8%.

  WEC: Raised price target $4/sh (~7%) to reflect higher multiples after increase in capex for new electric infrastructure projects and higher visibility for 5-7% LT growth.

  WGL Raised price target $24/sh (~38%) to reflect pending merger with AltaGas for $88.25/sh in cash.

- **Valuations & Top Picks**

  After 4Q'16 earnings, downstream names trade at a median '18 P/E of ~19.5x and EV/EBITDA of ~10x.

  Despite recent Fed rate hikes, sector remains expensive overall, trading above high end of historical range over the past decade in part tied to M&A speculation. With additional rate hikes on deck, we expect downward pressure on group through the rest of the year.

  We see names with top-tier growth rates focused on infrastructure replacement as the relative outperformers in a rising rate environment.

  Our positively-rated names include SRE, NI and ES.

Company	Ticker	Price	Price Targets		Rating
		03/21/17	Previous	New	
Gas Utilities					
Atmos Energy	ATO	$79.90	$70	$74	Hold
New Jersey Resources	NJR	$38.90	$33	$33	Hold
Northwest Natural Gas	NWN	$58.50	$51	$51	Hold
ONE Gas	OGS	$66.61	$58	$58	Hold
South Jersey Industries	SJI	$34.57	$31	$31	Hold
Southwest Gas Holdings	SWX	$82.62	$69	$69	Hold
Spire Inc	SR	$66.65	$64	$64	Hold
WGL Holdings	WGL	$82.50	$64	$88	Hold
Gas /Electric Utilities					
Chesapeake Utilities	CPK	$68.55	$62	$67	Hold
Eversource Energy	ES	$59.44	$62	$62	Overweight
NiSource	NI	$23.26	$25	$25	Overweight
Sempra Energy	SRE	$111.26	$118	$118	Overweight
Vectren Corp	VVC	$57.87	$51	$55	Hold
WEC Energy Group	WEC	$60.74	$58	$62	Hold
Water Utilities					
American States Water	AWR	$43.97	$44	$44	Hold
American Water Works	AWK	$76.49	$74	$78	Hold
Aqua America	WTR	$31.90	$34	$34	Hold
California Water Service	CWT	$34.90	$34	$34	Hold
Energy Marketing					
Spark Energy	SPKE	$28.85	$29	$29	Hold

Changes highlighted in blue

Source: Thomson, USCA

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Estimate and PT Revisions

Company	Ticker	Price 03/21/17	Rating		Price Targets		FY17 EPS		FY18 EPS	
			Previous	New	Previous	New	Previous	New	Previous	New
Gas Utilities										
Atmos Energy	ATO	$79.90	Hold	Hold	$70	$74	$3.50	$3.55	$3.70	$3.75
New Jersey Resources	NJR	$38.90	Hold	Hold	$33	$33	$1.70	$1.70	$1.85	$1.85
Northwest Natural Gas	NWN	$58.50	Hold	Hold	$51	$51	$2.35	$2.15	$2.45	$2.30
ONE Gas	OGS	$66.61	Hold	Hold	$58	$58	$2.97	$2.97	$3.10	$3.10
South Jersey Industries	SJI	$34.57	Hold	Hold	$31	$31	$1.35	$1.35	$1.60	$1.60
Southwest Gas Holdings	SWX	$82.62	Hold	Hold	$69	$69	$3.45	$3.45	$3.65	$3.65
Spire Inc	SR	$66.65	Hold	Hold	$64	$64	$3.50	$3.50	$3.60	$3.60
WGL Holdings	WGL	$82.50	Hold	Hold	$64	$88	$3.35	$3.50	$3.60	$3.60
Gas/Electric Utilities										
Chesapeake Utilities	CPK	$68.55	Hold	Hold	$62	$67	$3.15	$3.15	$3.40	$3.50
Eversource Energy	ES	$59.44	Overweight	Overweight	$62	$62	$3.20	$3.20	$3.35	$3.35
NiSource	NI	$23.26	Overweight	Overweight	$25	$25	$1.18	$1.18	$1.28	$1.28
Sempra Energy	SRE	$111.26	Overweight	Overweight	$118	$118	$5.15	$5.15	$5.75	$5.75
Vectren Corp	VVC	$57.87	Hold	Hold	$51	$55	$2.65	$2.65	$2.80	$2.80
WEC Energy Group	WEC	$60.74	Hold	Hold	$58	$62	$3.10	$3.10	$3.30	$3.30
Water Utilities										
American States Water	AWR	$43.97	Hold	Hold	$44	$44	$1.75	$1.75	$1.90	$1.90
American Water Works	AWK	$76.49	Hold	Hold	$74	$78	$3.03	$3.03	$3.25	$3.25
Aqua America	WTR	$31.90	Hold	Hold	$34	$34	$1.42	$1.37	$1.50	$1.45
California Water Service	CWT	$34.90	Hold	Hold	$34	$34	$1.35	$1.30	$1.42	$1.42
Energy Marketing										
Spark Energy	SPKE	$28.85	Hold	Hold	$29	$29	$2.70	$2.70	$2.90	$2.90

Denotes change in estimate, price target or rating

Source: Bloomberg, USCA

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Q4'16 Recap – Results In-Line For Most Names

Q4'16 EPS Results			FY'17 Guidance			Forward Outlook	
Beats	In-line	Misses	Positive (Raised)	Neutral (Unchanged)	Negative (Lowered)	Strongest Momentum	Biggest Near-Term Catalyst
ATO	AWK	NJR	SRE	ATO	OGS **	AWK	SRE
CWT	AWR	SWX	WGL	AWK		NI	ES
SRE	CPK		VVC *	NI		VVC	WGL
VVC	ES			NJR			
	NI			SRE			
	NWN			WEC			
	OGS			WTR			
	SJI						
	SR						
	WEC						
	WGL						
	WTR						

** VVC raised LT growth guidance to 6-8% from 5-7%*

*** OGS lowered LT growth guidance to 5-7% from 5-8%.*

Source: USCA

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Q4'16 Recap – Downstream Themes

- **Theme Tracker:** Below we catalog our top thematic takeaways from Q4'16 earnings season.

Theme #1: Project execution. SRE (Cameron), ES (Northern Pass), NJR/SJI (PennEast) and WGL (Central Penn) all reported on track after 2H'16 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. Most companies expect accelerated Fed rate hike path in '17 and beyond but see minimal impact to EPS over the near term after significant refinancing activity in recent years. See additional detail on page 9.

Theme #3: Tax Reform. Most names expect a potential reduction in corporate taxes as a largely neutral event over the long-term given expected true-ups to rates from regulators. Potential removal of interest deduction viewed as more problematic, but with most names expecting only minimal impact to near-term EPS or long term growth rates.

Theme #4: Warm weather. Warm weather positively impacting electric utility results for several names including ES, VVC and WEC and negatively impacting gas utility/marketing results for NI, NJR, SJI and SR.

Theme #5: Rate cases. Many rate filings pending or in queue to recover infrastructure spending or operating costs. Highlighted names include AWK, AWR, CPK, CWT, ES, NI, SJI, SR, SWX, WEC, WGL and WTR.

Theme #6: M&A. New announcements and integration of recent asset acquisitions an important focus for AWK, AWR, CWT, SPKE, SR, WEC, WGL and WTR.

Theme #7: Initial '17 guidance. Guidance largely in line with USCA and Consensus expectations for ES, NWN and VVC.

Theme #8: Dividend hikes. Annual raises modestly ahead of expectations for ES, SRE, SWX and WGL.

Theme #9: EPS estimate revisions. Largely unchanged vs. last quarter but a few outliers.

Q4'16 Earnings Season Price Performance

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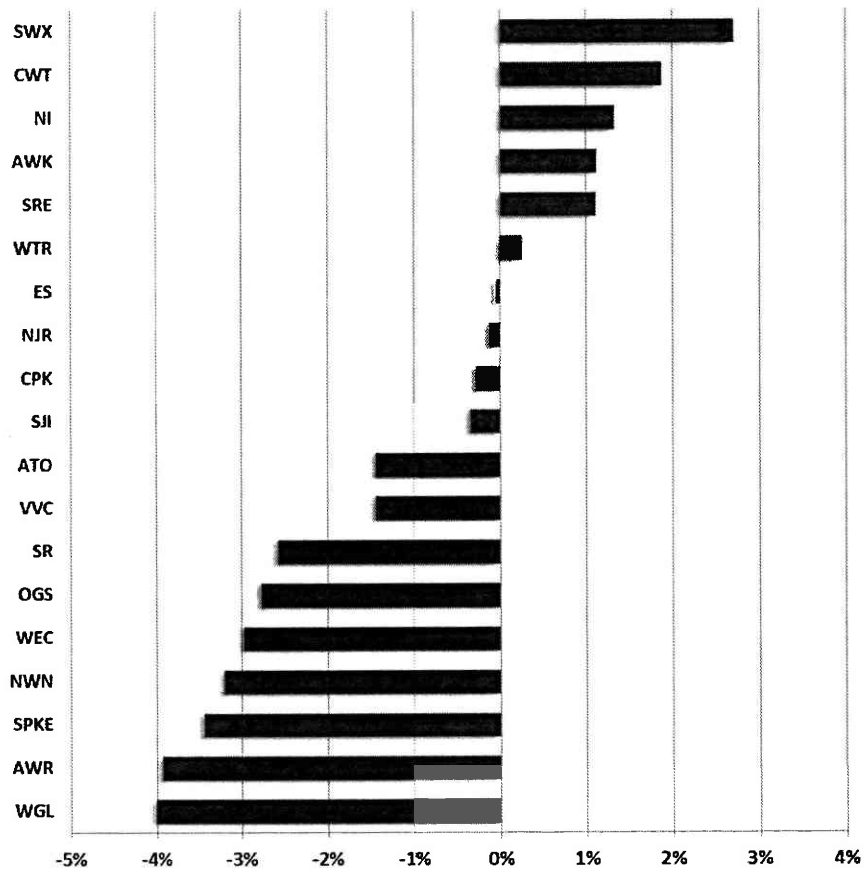
- **Market Performance:** XLU +6.6% over the four-week earnings season, outperforming the broader S&P Composite 5.6% gain.
- **Relative Performance:** Coverage universe posted ~1% average underperformance relative to XLU (i.e. average gain was 5.6%, in line with the broad market gain). Notably, solid utility performance came amid broad market optimism for favorable Trump policy proposals and despite positive domestic growth data and rising expectations for Fed rate hikes.

  Leaders with >1% outperformance included SWX, CWT and NI. For SWX, advance likely reflects M&A speculation. For CWT, gain reflects removal of rate case uncertainty from prior periods after recent rate order. For NI, advance likely tied to increase in planned capex for electric infrastructure projects and expectations for raise in LT growth rate to 5-7% from 4-6% at Analyst Day in early March.

  Laggards with >3% underperformance (excluding pending merger name WGL) included AWR, SPKE and NWN. For AWR, weakness driven by CA rate order below expectations. For SPKE, pullback likely tied to expectations for weaker results given only mild weather. For NWN, decline reflects initial '17 guidance modestly below Consensus expectations.

Earnings Season Performance vs. XLU (2/1 - 3/3)



Source: Bloomberg, USCA

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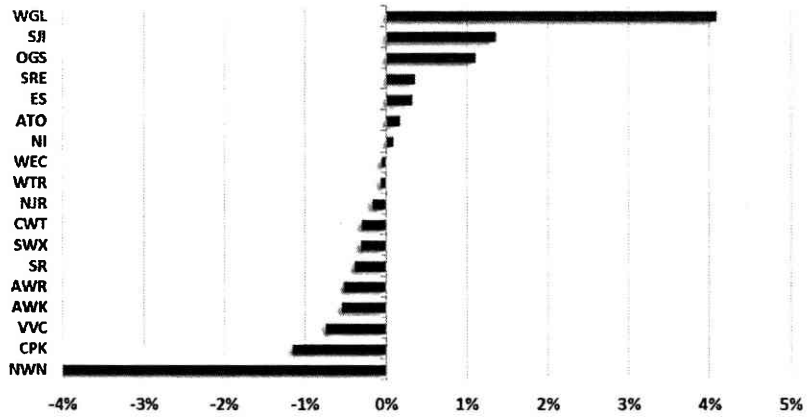
Q4'16 Themes – Modest Changes to EPS Estimates

- Average change for '17 and '18 estimates was <1%, continuing trend from recent periods.

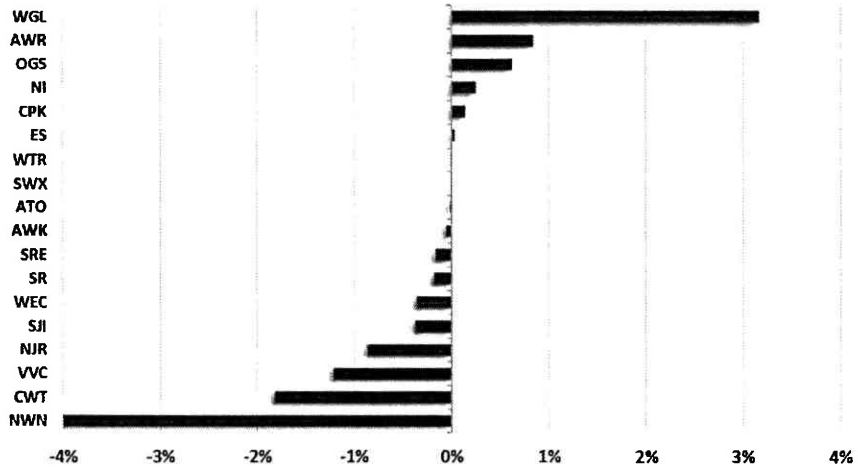
- ***'17 EPS Estimates:***
  - ***Excluding WGL, most sizable upward revisions for SJI and OGS (+1-2%).*** For SJI, raise likely reflects expectations for pending rate hike in NJ, with final order expected by October. For OGS, raise reflects higher guidance from management after KS and TX rate orders in late '16.
  - ***Most sizable downward revision for NWN (-4%),*** reflecting initial guidance below expectations.

- ***'18 EPS Estimates:***
  - ***Excluding WGL, most sizable upward revisions for AWR and OGS (+1-2%).*** For AWR, raise likely reflects benefit of modest rate hike from recent CA rate order. For OGS, as noted above, raise reflects growth from higher '17 base per management guidance.
  - ***Most sizable downward revision for NWN (-4%),*** reflecting growth from lower '17 base per management guidance.

Consensus '17 EPS Changes (2/1-3/3)



Consensus '18 EPS Changes (2/1-3/3)



Source: Bloomberg, USCA

Q4'16 Themes – Updated Multiples

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- **Sector:** After 4Q'16 earnings, downstream names trade at an average '18 P/E of ~19.5x, EV/EBITDA of ~10.0x, 2.8% yield and 63% payout ratio. During Q4, money flows reversed from Q3 on broad optimism following Trump election and despite positive domestic growth data and rising potential for Fed rate hikes near term.

  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 and unchanged from Q3.

  Gas Utilities: Gas utes trading at ~21x P/E and ~11x EV/EBITDA, one turn above Q3, inflated by ongoing M&A activity (WGL and DGAS deals announced in recent months) and now two turns above high end of historic trading ranges.

  Electric Utilities: Electric group trading at ~18x P/E and ~9x EV/EBITDA, one turn above Q3, but still the most modest multiples among the ute sectors. Unlike water and gas utes, investors continue to discount 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	
	2017E	2018E	2017E	2018E	Yield	Payout
Gas Distributors	24.1x	22.1x	11.4x	11.0x	2.6%	65%
Gas Midstream	19.8x	18.9x	10.6x	10.0x	2.7%	67%
Median Gas Group	**22.5x**	**20.8x**	**11.0x**	**11.0x**	**2.7%**	**65%**
Regulated Electrics	19.6x	18.3x	9.2x	8.8x	2.8%	60%
Regulated Electric / Gas	19.5x	18.4x	10.5x	9.9x	3.3%	67%
Electric / Merchant	17.7x	16.9x	10.1x	9.7x	3.6%	62%
Median Electric Group	**19.6x**	**18.3x**	**9.2x**	**8.8x**	**2.8%**	**60%**
Water Distributors	**25.0x**	**23.0x**	**11.8x**	**11.1x**	**2.1%**	**57%**
Average	**20.9x**	**19.6x**	**10.6x**	**10.1x**	**2.8%**	**63%**

Source: Bloomberg, USCA

Q4'16 Themes—Rising Interest Rates

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- **'17 Rate Hike Path:** We expect treasury yields will rise into 2H'17 from fiscal and legislative reforms under Trump and a Fed focused on stemming inflationary pressures.

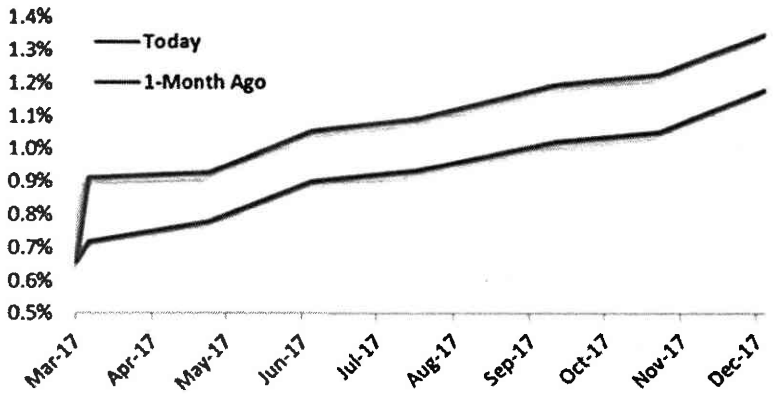
  Implied Fed Funds Rate expectations (chart upper right) currently assumes ~75 bps rise to ~1.35% by year end, up from ~1.2% one month ago.

  Fed rate hike path for '17 (chart lower right) shows market currently sees ~35% probability for three rate hikes in '17 (orange line), up from 25% at the beginning of the year and just 1% during presidential election last November.

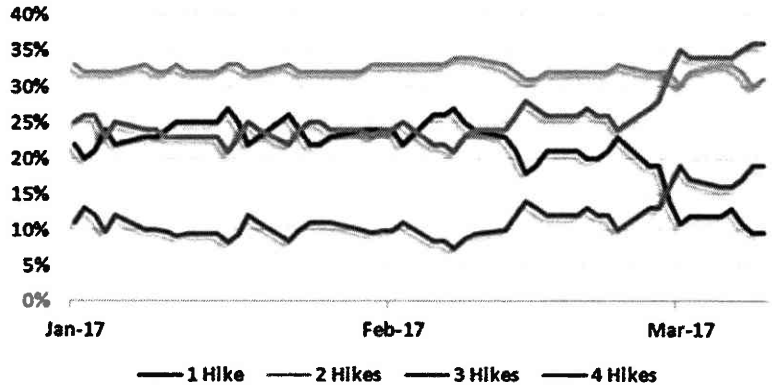
  Notably, probability for four rate hikes in '17 (red line) has risen from ~10% to ~20% in last several weeks.

- **Impact on Utes:** We expect rising rates will accelerate rotation away from defensive sectors including utilities into 2H'17. Importantly, we expect the retreat may be dampened somewhat for gas distributors by reignited takeover speculation as Ute prices come down.

Implied Fed Funds Rate



Market Implied '17 Rate Hikes Probabilities



Source: Bloomberg, USCA

Q4'16 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	Initial Completion Date	Current Completion Date	Region
CPK	Eastern Shore	100%	$32	$32	$0.07	2%	NA	2H-2016	1H-2017	Mid-Atlantic
CPK	White Oak Lateral	100%	$30	$30	$0.07	2%	45 Mmcf/d	2H-2016	1H-2017	Mid-Atlantic
CPK	2017 Expansion	100%	$99	$99	$0.22	6%	86 Mmcf/d	Late 2017	Late 2017	Mid-Atlantic
ES	*Access Northeast*	*40%*	*$3,000*	*$1,200*	*$0.13*	*4%*	*1,000 Mmcf/d*	*Nov 2018*	Undetermined	*Northeast*
NJR	PennEast	20%	$1,200	$240	$0.098	5.3%	1,000 Mmcf/d	Nov 2017	2H-2018	Northeast
NJR	SRL Pipeline	100%	$180	$180	$0.07	4%	180 Mmcf/d	Late 2016	2H'17	Mid-Atlantic
SJI	PennEast	20%	$1,200	$240	$0.106	6.6%	1,000 Mmcf/d	Nov 2017	2H-2018	Northeast
SJI	Cape Atlantic	100%	$120	$120	$0.05	3%	NA	2H-2018	2H-2018	Mid-Atlantic
SR	STL Pipeline	100%	$185	$185	$0.29	8%	400 Mmcf/d	Mid 2019	Mid 2019	Midwest
SRE	Ojinaga - El Encino	100%	$192	$192	$0.03	0%	1,350 Mmcf/d	Mar 2017	Mar 2017	Mexico
SRE	San Isidro - Samalayuca	100%	$108	$108	$0.02	0%	1,135 Mmcf/d	Jan 2017	1H'17	Mexico
SRE	Texas - Tuxpan	40%	$2,160	$864	$0.12	2%	2,600 Mmcf/d	Oct 2018	Oct 2018	Mexico
WGL	Central Penn	20%	$2,100	$410	$0.29	8%	1,700 Mmcf/d	2H-2017	Mid 2018	Northeast
WGL	Mountain Valley	10%	$3,250	$325	$0.23	6%	2,000 Mmcf/d	Dec 2018	Dec 2018	NE/Mid-Atl
WGL	*Constitution*	*10%*	*$740*	*$74*	*$0.05*	*1%*	*651 Mmcf/d*	*2H-2016*	Undetermined	*Northeast*
Total			***$10,856***	***$3,025***						

USCA Estimates

**Assumes 50% equity, 11% ROE, and 4% financing*

Access Northeast and Constitution are excluded from USCA calculations

Straight from the Source

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Below we highlight some interesting quotes from Q4'16 conference calls.

On Infrastructure Segment Strategic Fit

"I would just simply say that we have no interest in selling the business. We think the business is fine as long as the shareholder values it, and today given where the stock price is, I would say we feel comfortable that the shareholders value it."

- Carl Chapman, CEO, VVC

On Mexico Growth Opportunities

"We see amazing growth opportunities in Mexico and what we see there happening is that the markets that are opening are creating additional opportunities for us. We see some electric transmission bids coming, renewables is a big focus -- they've set a renewable portfolio standard, those bids we see going forward and then we're really interested some opportunities we see with liquids pipelines and receiving terminals...We will be talking about a lot of opportunities that Carlos and his team have on the drawing board right now when we get to our Analyst meeting and we're very excited about it."

- Debbie Reed, CEO, SRE

On Bluewater Gas Acquisition

"...On January 20, we signed an agreement to acquire Bluewater Gas Holding, which owns an underground natural gas storage facility in Michigan. This facility can provide approximately 1/3 of the storage needs of our natural gas distribution companies in Wisconsin. Bluewater will have a long-term service agreement with each of our three natural gas distribution companies in Wisconsin. The earnings from this investment are expected to be the same as if the storage was owned by our local gas distribution companies... This field has like 23.2 BCF in terms of working gas. That's about a third of our requirements. I do believe you could do some additional expansion at the field and you could add some more working gas at the field."

- Allen Leverett, CEO, WEC

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Catalysts By Company

ATO: FERC rate order for pipeline segment and general rate case filings in CO and KS for gas utility ops by 3Q'17.

AWK: Rate orders seeking >$70mm in rate hikes by mid '17. Closing on pending acquisitions adding ~40k customers.

AWR: Cost-of-capital filing in CA by late March, with final order and new metrics beginning in '18. New water and electric rate case filings by mid '17.

CPK: Focus on key gas expansions projects White Oak, ESNG and new 2017 Expansion line.

CWT: Cost-of-capital filing in CA by late March, with final order and new metrics beginning in '18. Travis military base approval and operation by mid '17.

ES: Northern Pass siting order in NH by September. Access Northeast clarity and NSTAR Electric rate order in MA by year end.

NI: Rate order in VA seeking $29mm hike by mid '17.

OGS: Rate case filing in TX in 2H'17 with final order by year end.

NJR: New solar/wind project announcements. SRL Pipeline construction start by year end.

NWN: Mist Storage expansion construction, and OR rate case filing, into 2H'17.

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Catalysts By Company – Continued

SJI: Initial '17 EPS guidance at AGA in May. SJG Pipeline construction start by mid'17. NJ rate case order by October.

SPKE: Potential acquisition announcement in 1H'17.

SR: MO general rate case filing by April. STL Pipeline approvals and construction start into 2H'17.

SRE: Cost-of-Capital Extension, and Aliso Canyon investigation findings, by mid'17.

SWX: AZ general rate case order by mid '17.

VVC: Final order from IN regulators on upsized Integrated Resource Plan (IRP) for clean generation and grid modernization by 2H'17.

WEC: Bluewater Gas approval in WI and construction start for two new gas-fired generation plants in MI by 2H'17.

WTR: Rate orders seeking ~$6mm in rate hikes by year end. Closing on pending acquisitions adding ~9k customers. Possible announcement of non-water acquisition.

WGL: VA and DC rate orders expected in 1H'17. Key focus on pending merger with AltaGas (ALA). Shareholder vote and regulatory approvals expected into 2H'17.

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IMPORTANT DISCLOSURES

Analyst Certification:
I, Daniel Fidell, do hereby certify that the recommendations and opinions expressed in this research report accurately reflect my personal views about any and all of the subject securities or issues discussed herein. Furthermore, 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. I do not own any shares directly or indirectly (or any derivative thereof) of the company that is subject to this research report. Neither I nor any member of my household serves as an officer, director or advisory board member of the company that is subject to this research report.

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Analysts' Compensation:
Analysts' compensation is not based on investment banking revenue and the analysts are not compensated by the subject companies.

In the past 12 months, USCA has received investment banking or other revenue from Spark Energy (SPKE), Chesapeake Utilities (CPK), Northwest Natural Gas (NWN) and South Jersey Industries (SJI).

Additionally, within the next three months USCA may attempt to seek compensation for investment banking services from the companies mentioned within this report

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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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IMPORTANT DISCLOSURES

Price Target Methodology:
Our price targets for downstream 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:
Utilities tend to trade on both projected earnings and cash flow. We believe investors should take both these considerations into account equally. Utilities have traded between 15-23 times forward earnings and 7-10 times EV-to-forward EBITDA over the last decade. With several 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 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 9-10%) 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 March 22, 2017):

Recommendation	Count	Percent	Investment Banking Relationship	Count	Percent
Overweight/Buy	32	52%	Overweight/Buy	5	16%
Hold	28	46%	Hold	4	14%
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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NiSource, Inc

1Q17 adjusted EPS beats estimates; guidance refined to top end of range

Bank of America Merrill Lynch

Reiterate Rating: NEUTRAL | PO: 26.00 USD | Price: 24.04 USD

Equity | 02 May 2017

Strong 1Q17 beat as new rates take effect

This morning before market open, NI reported 1Q17 adjusted EPS of $0.71 versus the BofAML/consensus estimates of $0.64/0.67, respectively. The beat was due to better-than-expected adjusted gross margins in both the Gas Distribution and Electric Operations segments. Management refined its 2017 guidance to the top end of the $1.12-1.18 range provided in 3Q16.

New ATM program allows for more balanced financing

This morning before market open, NI also filed for a $500mn at-the market (ATM) equity program. At its investor day in March, management noted it intends to issue $200-300mn of equity annually to fund its $1.6-1.8bn of annual capex. In our view, the ATM is a positive addition to NI's financing options as it allows NI to more appropriately match the timing of funding and capex while maintaining a healthy debt/equity capital profile. We previously incorporated $288/200mn of ATM equity in 2018/19. However, we revise our estimates to incorporate $252/300/300mn of equity in 2017/18/19, respectively.

Gas Distribution customer growth remains steady at 1%

NI reported 1% YoY customer growth in its gas distribution segment, in-line with prior year growth. Given NI's service territories are located in regions with slower population growth, particularly relative to Local Distribution Company (LDC) peers with operations in metropolitan regions, we continue to believe overall earnings growth will be predominantly driven by higher rates via NI's infrastructure investment programs. We note Columbia Gas of Virginia's base rate case settlement, which included a $28.5mn annual revenue increase (versus $37mn requested) requested, was approved in March. However, we note interim rates went into effect at the requested rate in September 2016 and are subject to refund.

Reiterate Neutral; bump PO to $26 PO

We reiterate our Neutral rating but bump our PO to $26 (from $25) as we raise our 2019 EPS estimates to $1.33 (from $1.29). Our 2019E P/E multiple of 19.5x compares to the LDC peer average of 20.2x. In our view, NI should trade at a slight discount to LDC peers given its electric utility accounts for ~1/3 of NI's earnings.

Estimates (Dec)

(US$)	2015A	2016A	2017E	2018E	2019E
EPS	0.93	1.06	1.21	1.26	1.33
GAAP EPS	0.62	0.99	1.15	1.26	1.33
EPS Change (YoY)	NA	14.0%	14.2%	4.1%	5.6%
Consensus EPS (Bloomberg)			1.17	1.24	1.32
DPS	0.51	0.64	0.70	0.74	0.79

Valuation (Dec)

	2015A	2016A	2017E	2018E	2019E
P/E	25.8x	22.7x	19.9x	19.1x	18.1x
GAAP P/E	38.8x	24.3x	20.9x	19.1x	18.1x
Dividend Yield	2.1%	2.7%	2.9%	3.1%	3.3%
EV / EBITDA*	13.9x	13.3x	12.3x	11.3x	10.5x
Free Cash Flow Yield*	1.2%	-8.6%	-5.9%	-6.4%	-6.7%

* 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.

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Timestamp: 03 May 2017 03:26PM EDT

Key Changes

(US$)	Previous	Current
Price Obj.	25.00	26.00
2017E EPS	1.15	1.21
2018E EPS	1.22	1.26
2019E EPS	1.29	1.33
2017E EBITDA (m)	1,516.4	1,517.1
2018E EBITDA (m)	1,623.9	1,652.7
2019E EBITDA (m)	1,742.4	1,768.8

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Stock Data

Price	24.04 USD
Price Objective	26.00 USD
Date Established	3-May-2017
Investment Opinion	B-2-7
52-Week Range	21.17 USD - 26.94 USD
Mrkt Val (mn) / Shares Out (mn)	7,782 USD / 323.7
Average Daily Value (mn)	69.95 USD
BofAML Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2017E)	9.3%
Net Dbt to Eqty (Dec-2016A)	193.6%

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iQprofile℠ NiSource, Inc

IQmethod℠ – Bus Performance*

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Return on Capital Employed	NA	3.3%	3.4%	3.6%	3.6%
Return on Equity	15.5%	8.7%	9.3%	9.2%	9.0%
Operating Margin	17.2%	19.1%	19.8%	20.0%	20.5%
Free Cash Flow	96	(672)	(457)	(497)	(524)

IQmethod℠ – Quality of Earnings*

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Cash Realization Ratio	4.9x	2.3x	2.7x	2.9x	2.9x
Asset Replacement Ratio	2.6x	2.7x	2.7x	3.0x	3.0x
Tax Rate	41.6%	37.1%	36.7%	37.0%	37.0%
Net Debt-to-Equity Ratio	180.4%	193.6%	185.7%	173.7%	164.6%
Interest Cover	2.1x	2.5x	2.7x	2.8x	2.9x

Income Statement Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Sales	4,652	4,493	4,811	5,333	5,591
% Change	NA	-3.4%	7.1%	10.8%	4.8%
Gross Profit	3,008	3,102	3,245	3,422	3,583
% Change	NA	3.1%	4.6%	5.5%	4.7%
EBITDA	1,342	1,407	1,517	1,653	1,769
% Change	NA	4.9%	7.8%	8.9%	7.0%
Net Interest & Other Income	(460)	(348)	(356)	(374)	(393)
Net Income (Adjusted)	**299**	**343**	**398**	**435**	**476**
% Change	**NA**	**14.8%**	**16.0%**	**9.4%**	**9.4%**

Free Cash Flow Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Net Income from Cont Operations (GAAP)	199	321	379	435	476
Depreciation & Amortization	524	547	563	587	620
Change in Working Capital	440	(293)	(64)	0	0
Deferred Taxation Charge	135	182	204	245	269
Other Adjustments, Net	158	46	11	0	0
Capital Expenditure	(1,361)	(1,475)	(1,550)	(1,766)	(1,889)
Free Cash Flow	**96**	**-672**	**-457**	**-497**	**-524**
% Change	**NA**	**NM**	**32.0%**	**-8.9%**	**-5.4%**

Balance Sheet Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Cash & Equivalents	16	26	119	23	99
Trade Receivables	660	847	814	814	814
Other Current Assets	902	889	629	629	629
Property, Plant & Equipment	12,112	13,068	14,106	15,284	16,554
Other Non-Current Assets	3,804	3,862	3,876	3,876	3,876
Total Assets	**17,493**	**18,692**	**19,544**	**20,626**	**21,971**
Short-Term Debt	1,001	1,851	2,324	2,324	2,324
Other Current Liabilities	1,656	1,601	1,341	1,341	1,341
Long-Term Debt	5,949	6,058	6,116	6,416	6,941
Other Non-Current Liabilities	5,043	5,110	5,284	5,530	5,798
Total Liabilities	**13,649**	**14,621**	**15,064**	**15,610**	**16,403**
Total Equity	**3,844**	**4,071**	**4,480**	**5,017**	**5,568**
Total Equity & Liabilities	**17,493**	**18,692**	**19,544**	**20,626**	**21,971**

* For full definitions of *IQmethod℠* measures, see page 5.

Company Sector

Local Distribution Company

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 5-7% 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	2,909,599

Quarterly Earnings Estimates

	2016	2017
Q1	0.59A	0.71E
Q2	0.08A	0.10E
Q3	0.06A	0.07E
Q4	0.33A	0.34E

Updating estimates

We update our estimates for 1Q17 results. Our 2017 EPS estimates increase as a result of the strong 1Q17 beat. Our revised 2017/18/19 adjusted EPS of $1.21/1.26/1.33 (from 1.15/1.22/1.29) compare to consensus estimates of 1.17/1.24/1.32, respectively, and our 2017E EPS is not slightly higher than management guidance. As mentioned above, our estimates incorporate $252/300/300mn of equity $57/300/525mn of debt in 2017/18/19, respectively.

Table 1: LDC Comp Table

Ticker	Name	BofAML rating		Current Price ($)	Current Dividend Rate (%)	2016-19 DPS CAGR (%)*	Market Cap ($mns)	EV ($mns)	P/E* 2017E	P/E* 2018E	P/E* 2019E	S&P credit rating	Moody's credit rating
ATO	Atmos Energy Corp	B-1-7	Buy	80.72	2.2	6.7	8,490	11,254	22.7	21.5	20.2	A	A2
SR	Spire Inc	A-1-7	Buy	68.05	3.1	6.0	3,113	5,519	19.3	18.7	18.0	A-	Baa2
NJR	New Jersey Resources Corp	B-3-7	Underperform	40.10	2.5	6.6	3,461	4,342	23.6	22.3	20.8	N/A	N/A
NWN	Northwest Natural Gas Co	A-3-7	Underperform	59.70	3.1	0.6	1,710	2,481	27.8	25.8	24.1	A+	(P)A3
OGS	ONE Gas Inc	B-2-7	Neutral	69.52	2.4	9.5	3,645	4,809	24.0	22.8	21.7	A-	A2
SRE	Sempra Energy	C-1-7	Buy	112.14	2.9	8.2	28,103	44,146	21.9	19.8	17.7	BBB+	Baa1
SWX	Southwest Gas Holdings Inc	B-2-7	Neutral	83.93	2.4	10.1	3,991	5,230	24.9	22.6	21.6	BBB+	N/A
UGI	UGI Corp	B-1-7	Buy	48.73	2.1	4.1	8,427	12,468	21.0	19.5	17.9	N/A	N/A
VVC	Vectren Corp	B-3-7	Underperform	58.93	2.9	5.1	4,888	6,163	22.7	21.4	20.3	A-	N/A
WGL	WGL Holdings Inc	N/A	No rating	82.93	2.5	4.7	4,248	5,997	23.8	22.1	21.0	A	A3
NI	**NiSource Inc**	**B-2-7**	**Neutral**	**24.24**	**2.9**	**7.2**	**7,847**	**15,028**	**21.1**	**19.9**	**18.8**	**BBB+**	**Baa2**
SJI	South Jersey Industries Inc			37.23	2.9		2,960	3,982	27.7	24.1	22.4	BBB+	N/A
Average					**2.7**	**6.3**			**23.4**	**21.7**	**20.4**		

Source: Bloomberg for non-covered company, BofA Merrill Lynch Global Research

*Data as of May 02 2017

*2015-18 DPS CAGR is pro-rated for those names that IPOed during or after 2014 and used consensus DPS estimates when BofAML estimates are unavailable

*P/E ratios assume consensus EPS when BofAML estimates are unavailable

Price objective basis & risk

NiSource, Inc (NI)

Our $26 PO is largely based on a target P/E multiple of approximately 19.5x our FY19E EPS of $1.33. We note this multiple is slightly below the LDC peer average but above the small-mid cap electric utility average. We believe NI's 5-7% 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
	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
	Southwest Gas	SWX	SWX 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

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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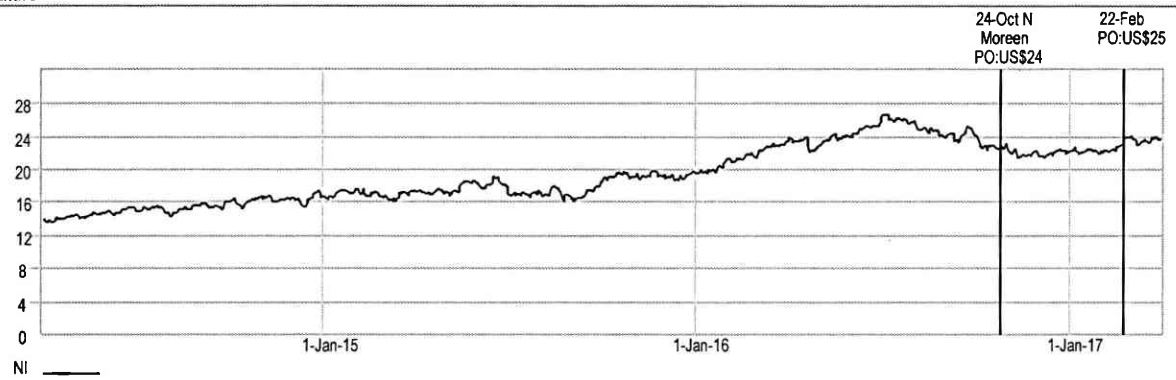
Important Disclosures

NI Price Chart



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

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Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	109	49.77%	Buy	84	77.06%
Hold	52	23.74%	Hold	43	82.69%
Sell	58	26.48%	Sell	34	58.62%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1578	51.33%	Buy	979	62.04%
Hold	690	22.45%	Hold	434	62.90%
Sell	806	26.22%	Sell	381	47.27%

* 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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NiSource, Inc.
Q1 Ahead of Expectations

Stock Rating/Industry View: Equal Weight/Neutral
Price Target: USD 25.00
Price (02-May-2017): USD 24.24
Potential Upside/Downside: 3%
Tickers: NI

NI's Q1'17 operating EPS of $0.71 was ahead of the $0.66 consensus. On the investor call NI management reiterated the 5-7% EPS annual growth guidance and stated that their 2017 EPS guidance is in the upper-half of the $1.12-$1.18 range. We maintain our EPS estimates of $1.15 for 2017, $1.23 for 2018 and $1.33 for 2019.

Equity issuance. NI announced a $500M at-the-money sale of equity which we believe is consistent with our assumption of $0.3B of annual equity issuance including DRIP. This program lasts through the end of 2018.

Upcoming regulatory milestones. On the electric side, NI expects an order by the end of 2017 on $400M of proposed environmental spending to comply with coal ash and related rules. On the gas side the company filed in Ohio for extension of its infrastructure replacement program through 2022 and in Maryland for $6M of rate relief. NI expects outcomes in these proceedings by year-end.

Q1'17 Operating EPS Ahead of Expectations

NI's Q1'17 operating EPS of $0.71 rose from $0.62 in Q1'16. GAAP results were $0.65 versus $0.58. Q1'17 operating EPS excluded $0.06 of unfavorable weather versus normal and employee severance costs incurred that are associated with the planned retirement of the Bailly plant in 2018.

Gas ($364M versus $330M in operating income). NI indicated that $61M of the improvement related to rate cases and tracking mechanisms which is offset by $22M of related expenses. Other expense increases included $14M from employee and administrative costs, $6M from outside services, $3M for depreciation and $2M for property taxes.

Electric ($84M versus $72M in operating income). Sources of higher revenue included rate cases ($21M), tracking mechanisms (+$12M) and transmission recovery (+$6M). Normalized usage declined by $3M. Expenses recovered through trackers rose $12M. Other expense increases included $7M for materials and supplies, $6M for outside services and $3M for employee and administrative costs. Amortization expense declined $4M.

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Citi Research
Equities

03 May 2017 20:43:41 ET | 11 pages

Pipelines & Gas Utilities
North America | United States

NiSource Inc (NI)

- Estimate Change
- Target Price Change

Q1 EPS Beat; ATM Filed, and Robust Capex Continues

- **Citi's Take:** NI posted solid Q1 results, filed a previously telegraphed ATM program, and guided to upper end of 2017 earnings outlook as robust infrastructure program investments continue.

- **1Q17 Review:** NI's adj. EPS of $0.71 beat Street's $0.67 and Citi's $0.69, primarily driven by strong execution on infrastructure modernization programs and electric transmission projects. NiSource announced a $500mn ATM program, which with debt offerings, is expected to fund $1.6 - $1.8bn/yr of growth spending until 2020. As a reminder, the company guidance at the analyst day assumed a flat P/E multiple for equity issuance pricing. Since the analyst day, the NI stock has rallied which suggests less dilution from the use of the ATM than was guided earlier in '17. Recently, NI announced a NiSource Finance and NiSource Inc merger, which effectively has no material implications as cross debt guarantees already existed.

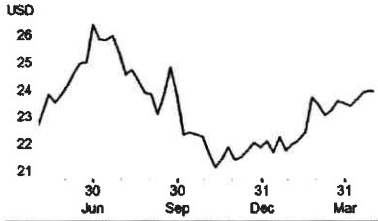
- **Gas Regulatory Update:** Since the Analyst Day, NI had several regulatory developments. Virginia had its $28.5mn revenue increase settlement approved (in effect since Sept. 2016 subject to rebates). In April, PUCO approved Columbia Gas of Ohio's annual infrastructure replacement rider adjustment for the $235mn 2016 investment. On April 14, Columbia Gas of Maryland filed with the Maryland PSC to adjust base rates to expedite the pipeline replacement and safety updates to increase revenues by $6mn. In addition, Massachusetts DPU issued a decision to allow recovery of its ~$69mn 2017 investment with rates effect as of May 1, 2017.

- **Electric Regulatory Update:** In 2017, NI 1) began recovery on part of the $1.25bn NIPSCO 7-year electric infrastructure modernization program, 2) continues to wait for a commission order on the $400mn NIPSCO environmental spending request, and 3) moved forward on NIPSCO's two major electric transmission projects.

- **Implications:** We keep our Buy rating on NI and raise the target price to $28 p/s, reflecting peer-based multiple expansion and solid management execution.

Buy	**1**
Price (03 May 17 16:00)	US$24.01
Target price	US$28.00
from US$25.00	
Expected share price return	16.6%
Expected dividend yield	3.2%
Expected total return	**19.8%**
Market Cap	US$7,772M

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



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2016A	0.59A	0.08A	0.06A	0.33A	1.06A	1.09A
2017E	**0.71E**	**0.09E**	**0.07E**	**0.33E**	**1.20E**	**1.17E**
Previous	0.69E	0.11E	0.07E	0.33E	1.20E	na
2018E	**0.67E**	**0.13E**	**0.10E**	**0.33E**	**1.23E**	**1.24E**
Previous	0.66E	0.14E	0.10E	0.35E	1.24E	na
2019E	**0.68E**	**0.17E**	**0.12E**	**0.36E**	**1.33E**	**1.32E**
Previous	0.65E	0.18E	0.12E	0.38E	1.33E	na

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

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NI.N: Fiscal year end 31-Dec — **Price: US$24.01; TP: US$28.00; Market Cap: US$7,772m; Recomm: Buy**

Profit & Loss (US$m)	2015	2016	2017E	2018E	2019E
Sales revenue	5,234	4,493	4,812	4,988	5,193
Cost of sales	-2,161	-1,937	-2,123	-2,101	-2,169
Gross profit	3,073	2,555	2,689	2,887	3,023
Gross Margin (%)	58.7	56.9	55.9	57.9	58.2
EBITDA (Adj)	**1,586**	**1,405**	**1,526**	**1,657**	**1,807**
EBITDA Margin (Adj) (%)	30.3	31.3	31.7	33.2	34.8
Depreciation	-591	-547	-579	-619	-663
Amortisation	0	0	0	0	0
EBIT (Adj)	**995**	**858**	**947**	**1,038**	**1,143**
EBIT Margin (Adj) (%)	19.0	19.1	19.7	20.8	22.0
Net interest	-417	-350	-359	-389	-416
Associates	29	0	0	0	0
Non-op/Except	25	2	6	20	20
Pre-tax profit	**632**	**510**	**594**	**669**	**748**
Tax	-208	-189	-218	-248	-277
Extraord./Min.Int./Pref.div.	-138	3	0	0	0
Reported net profit	**287**	**324**	**376**	**421**	**471**
Net Margin (%)	5.5	7.2	7.8	8.4	9.1
Core NPAT	443	344	395	421	471
Per share data	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Reported EPS ($)	0.90	1.00	1.14	1.23	1.33
Core EPS ($)	1.39	1.06	1.20	1.23	1.33
DPS ($)	0.99	0.67	0.72	0.76	0.81
CFPS ($)	3.85	2.46	3.42	3.04	3.20
FCFPS ($)	-0.41	-2.10	-1.16	-1.63	-1.31
BVPS ($)	12.10	12.65	13.40	14.26	15.17
Wtd avg ord shares (m)	310	314	320	333	345
Wtd avg diluted shares (m)	319	323	330	343	354
Growth rates	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Sales revenue (%)	-19.1	-14.2	7.1	3.7	4.1
EBIT (Adj) (%)	-18.1	-13.8	10.4	9.6	10.2
Core NPAT (%)	-18.3	-22.4	15.0	6.6	11.8
Core EPS (%)	-19.1	-23.3	12.6	2.7	8.1
Balance Sheet (US$m)	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Cash & cash equiv.	45	36	11	11	11
Accounts receivables	660	847	820	825	859
Inventory	537	494	468	470	486
Net fixed & other tangibles	13,776	14,797	15,798	16,778	17,715
Goodwill & intangibles	1,944	1,933	1,931	1,931	1,931
Financial & other assets	530	585	517	518	523
Total assets	**17,493**	**18,692**	**19,544**	**20,533**	**21,525**
Accounts payable	433	539	471	459	467
Short-term debt	1,001	1,851	2,324	2,324	2,324
Long-term debt	5,949	6,058	6,235	6,779	7,275
Provisions & other liab	6,266	6,172	6,114	6,109	6,112
Total liabilities	**13,649**	**14,621**	**15,143**	**15,670**	**16,177**
Shareholders' equity	3,844	4,071	4,401	4,862	5,348
Minority interests	0	0	0	0	0
Total equity	**3,844**	**4,071**	**4,401**	**4,862**	**5,348**
Net debt (Adj)	**6,904**	**7,873**	**8,547**	**9,091**	**9,587**
Net debt to equity (Adj) (%)	179.6	193.4	194.2	187.0	179.3

Valuation ratios	2015	2016	2017E	2018E	2019E
PE (x)	17.3	22.6	20.0	19.5	18.1
PB (x)	2.0	1.9	1.8	1.7	1.6
EV/EBITDA (x)	11.5	12.3	11.8	11.2	10.6
FCF yield (%)	-1.7	-8.7	-4.8	-6.8	-5.5
Dividend yield (%)	4.1	2.8	3.0	3.2	3.4
Payout ratio (%)	71	63	60	62	61
ROE (%)	5.7	8.2	8.9	9.1	9.2
Cashflow (US$m)	**2015**	**2016**	**2017E**	**2018E**	**2019E**
EBITDA	1,586	1,405	1,526	1,657	1,807
Working capital	147	-389	54	0	0
Other	-503	-219	-451	-616	-672
Operating cashflow	**1,230**	**797**	**1,129**	**1,041**	**1,134**
Capex	-1,361	-1,475	-1,513	-1,599	-1,600
Net acq/disposals	5	0	0	0	0
Other	3,301	-108	-32	0	0
Investing cashflow	**1,945**	**-1,583**	**-1,545**	**-1,599**	**-1,600**
Dividends paid	-263	-206	-236	-260	-286
Financing cashflow	**-3,412**	**791**	**431**	**640**	**614**
Net change in cash	**57**	**7**	**15**	**81**	**148**
Free cashflow to s/holders	**-131**	**-678**	**-383**	**-558**	**-466**

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

Figure 1. Avg Yrly Ratebase Growth (E) to 20/21

ATO	9.0-11.0%
MDU	3.5-4.5%
NI	7.0-9.0%
NJR	5.0-6.0%
NWN	2.0-3.0%
OGS	5.0-5.5%
SWX	5.0-6.0%
VVC	5.0-6.0%

Source: Company Reports, Citi Research Estimates

Figure 2. Valuation Matrix

Net Asset Value

Asset	Value	Unit	Multiple	Estimate
Gas Distribution				
NIPSCO Gas - IN	963	Rate Base	1.6x	1,540
Columbia Gas - OH	2,148	Rate Base	1.6x	3,437
Columbia Gas - PA	1,418	Rate Base	1.6x	2,269
Columbia Gas - VA	612	Rate Base	1.6x	979
Columbia Gas - KY	246	Rate Base	1.6x	393
Columbia Gas - MD	96	Rate Base	1.6x	153
BayState Gas - MA	678	Rate Base	1.6x	1,085
	6,160			9,856
Electric Utility				
NIPSCO Electric - IN	3,787	Rate Base	1.6x	6,059
	Total Value of Hard Assets			15,915
	Net Debt			(7,066)
	Others			-
	Implied Value of Equity			8,849
	Shares Outstanding			325.3
Implied Equity Value p/s				$27.20
NAV Value per Share				**$27.20**

EV/EBITDA Valuation

Business	Value	Unit	Multiple	Estimate
Gas	903	EBITDA	11.0x	9,936
Electric	600	EBITDA	11.0x	6,599
Net Debt				(7,066)
				9,468
EV/EBITDA Value per Share				**$29.11**

Dividend Discount Model (DDM)

Gas & Electric Utilities	$26.07
DDM Value per Share	**$27.90**

P / E Valuation

Business	Value	Unit	Multiple	Estimate
Utilties	1.20	EPS	22.0x	$26.35
P/E Value per Share				**$26.35**

Source: Company Reports, Citi Research Estimates

Figure 3. Quarterly Results Comparison

	1Q17A	1Q17E	Unit Delta	% Change	1Q16A	Unit Delta	% Change
Adjusted EPS	**0.71**	**0.69**	**0.02**	**3%**	**0.59**	**0.12**	**20%**
Gas Revenue	1,175	1,201	(26)	-2%	1,040	136	13%
Electric Revenue	422	400	22	5%	392	30	8%
O&M	411	449	(39)	-9%	355	56	16%
D&A	143	141	3	2%	133	11	8%
Other Taxes	76	88	(12)	-13%	71	5	7%
Operating Income	**447**	**441**	**6**	**1%**	**399**	**48**	**12%**
Adjusted EBITDA	590	582	8	1%	531	59	11%

Source: Company Reports, Citi Research Estimates

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.

Valuation

We average multiple valuation methodologies to derive our $28 target price. Our NAV yields a value of $27. 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 $28 per share. Our P/E and EV/EBITDA analyses yield values of $27 and $29 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.

Appendix A-1

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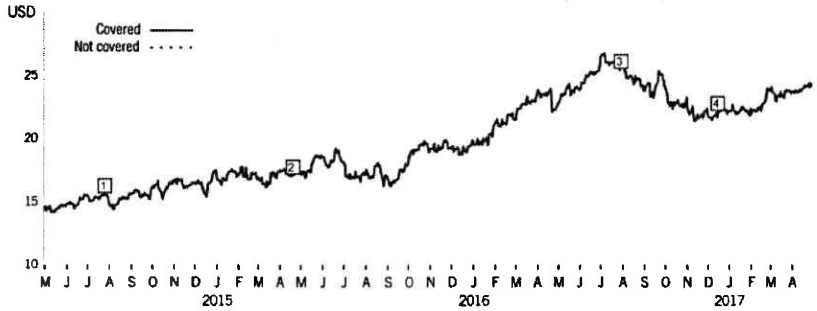
NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA



	Date	Rating	Target Price	Closing Price
1	23-Jul-14 18:16:55	2	*15.72	15.49
2	19-Apr-15 23:00:00	2	*18.08	18.96
3	27-Jul-16 00:45:08	2	*27.00	25.46
4	13-Dec-16 22:21:38	*1	*25.00	22.10

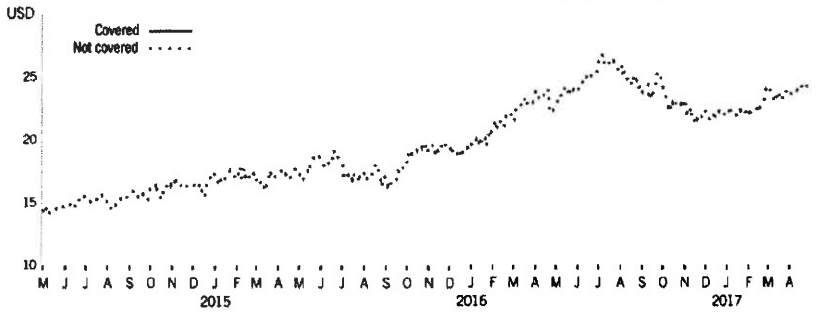
*Indicates Change

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

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Data current as of 31 Mar 2017	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
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% of companies in each rating category that are investment banking clients	64%	63%	61%	61%	64%	47%

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EVERCORE ISI

Energy | Power & Utilities

May 3, 2017

NISOURCE INC

NI | $24.01

IN LINE | TARGET PRICE: $23.50

Change in Earnings Forecast

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Company Statistics

Market Capitalization (M):	$7,772
Shares Outstanding (M):	324
Dividend:	$0.70
Dividend Yield:	2.9%
Payout Ratio:	60.0%
Expected Total Return:	0.8%
Fiscal Year End	Dec

Earnings Summary

		2017E	2018E	2019E
EPS		$1.17	$1.23	$1.31
	FY	*$1.15*	–	–
P/E		20.6x	19.6x	18.3x
EPS vs Consensus		(0.3)%	(1.0)%	(0.4)%
Consensus EPS		$1.17	$1.24	$1.32
Consensus P/E		20.5x	19.4x	18.2x

1 Year Price History

Source: FactSet

Good Start To The Year, '17 EPS Expected In The Upper Half Of Guidance Range

Increasing Our '17 Estimate Slightly, Rating In Line With $23.50 PT

NI reported Q1 '17 adjusted EPS of $0.71 vs. consensus of $0.67 and prior year of $0.62. Adjusted EPS is normalized for weather, whether it is better or worse than normal. This quarter the weather ha particularly acute negative impact. GAAP EPS, including $0.06 of milder weather impact was $0.65. Consolidated operating income was $47.7 million higher compared to prior year primarily driven by the gas segment which was $33.6 million higher compared to prior year. Higher net revenues of $84.8 million from rate increases and customer growth were offset by higher operating expense of $51.2million, driven by higher taxes, employee related costs, outside services, and higher depreciation. Electric segment was $12.2 million higher compared to prior year as higher net revenues of $36.5 million from rate increases were offset by higher operating expense of $24.3million, driven by higher materials and supplies, employee related costs, outside services, and higher depreciation. Corporate/Other was $1.9 million favorable primarily due unrealized gains on the cash surrender value of corporate owned life insurance investments.

2017 EPS expected to be in the upper half of guidance range. NI expects to be in the upper half of the earnings guidance range of $1.12 - $1.18 per share for '17 and reiterated its long term earnings and dividend growth outlook of 5-7% through '20. The company announced up to a $500MM annual equity at the market program (ATM) which will in part fund the $1.6 - $1.8 billion projected annual cap-x investment through '20 and is in synch with NiSource's projections of $200MM - $300MM equity issuance per year given at their analyst day in early 2017. We are increasing our '17 EPS estimate to $1.17 versus our previous estimate of $1.15 as we factor in the better than expected Q1 performance.

Our estimates of $1.23/$1.31 for '18/'19 are unchanged. We model total rate base growing ~8% through '19 towards the low end of company's consolidated rate base growth guidance range of 8-10%. This is driven by ~$1.7B of annual cap-x investment at the midpoint of company's guidance range of $1.6B - $1.8B. Our '16 through '19 forecast reflects an EPS CAGR of ~7% vs. 8% rate base growth due to equity dilution, achieving the high end company's long term EPS growth guidance of 5-7%. There could still be modest upside to our forecast if the cap-x investment trends to the high end of company's guidance range. A $100m increase in cap-x for '18-'19 if it carried through to rate base would increase earnings power in 2019 by ~$0.02/share or 1.5% vs. our current '19 estimate assuming they equitize 50% of that incremental spend. That could increase the EPS growth rate over the forecast period by 0.5%.

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Target price still $23.50, keeping In Line rating. Our $23.50 price target is 17.9x our 2019 EPS forecast, an ~11% premium to our average regulated utility target multiple of 16.2x. We think a significant premium is warranted especially relative to predominantly electric utilities that are, in our view, facing a more challenging growth profile creating medium to longer term headwinds for rate base growth. Our valuation is tempered by NI's high parent leverage. As we said earlier there could be modest EPS upside if NI spends at the high end of cap-x guidance. At our current target multiple that would mean upside to $24/share. The utility group is now at +/-17.1x P/E on FY '19 EPS, a turn higher than our 16.2x target multiple.

Rate case update: On 03/17/17 a settlement was approved in the Virginia base rate case authorizing $28.5 million rate increase, interim rates have been in effect since 09/28/16. Company's Maryland subsidiary filed for a $6 million rate increase request on 04/14/17 with a final order expected by year end.

Merger of NI's financing entities. In an 8-K filed on 04/26/17 NiSource announced merger of company's wholly-owned subsidiaries, NiSource Finance Corp. ("NiSource Finance") and NiSource Capital Markets, Inc. ("NiSource Capital"), with and into NiSource to simplify the overall corporate structure. The mergers are expected be completed by second half of 2017 following the receipt of approvals from state utility commissions and other stakeholders including the Company's Board of Directors.

NI subsidiary NIPSCO projects retirement of 50% of coal capacity by 2023. 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 would expect 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. The plan is currently being reviewed by various stakeholders, should this proposal move through the review 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: See "Target price" paragraph above.

Risks to our thesis. Using our proprietary Dividend Discount Model we value NI at $23.50/share, which is 17.9x our 2019 EPS estimate of $1.31. 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 (2017-05-03)	Evercore ISI Target
AEE	Ameren Corp.	In Line	$54.25	$54.50
AEP	American Electric Power	In Line	$68.01	$66.50
AGR	Avangrid Inc	In Line	$43.88	$43.50
CPN	Calpine Corp.	Outperform	$9.91	$16.00
CNP	CenterPoint Energy, Inc.	In Line	$28.19	$27.00
CMS	CMS Energy Corp.	Outperform	$45.32	$45.50
ED	Consolidated Edison Inc.	In Line	$79.26	$74.00
D	Dominion Resources Inc.	In Line	$77.22	$74.00
DTE	DTE Energy Co.	In Line	$104.26	$102.00
DUK	Duke Energy Corp.	In Line	$82.39	$79.00
DYN	Dynegy Inc.	Outperform	$6.33	$15.00
EIX	Edison International	In Line	$79.11	$78.25
ETR	Entergy Corp.	In Line	$76.26	$76.00
ES	Eversource Energy	In Line	$59.22	$57.50
EXC	Exelon Corp.	Outperform	$34.46	$39.00
FE	FirstEnergy Corp.	In Line	$29.03	$30.00
GXP	Great Plains Energy Incorporated	Outperform	$28.95	$31.00
HE	Hawaiian Electric Industries Inc.	Underperform	$33.58	$31.00
HIFR	InfraREIT, Inc.	Outperform	$19.03	$19.00
NEE	NextEra Energy Inc	Outperform	$134.02	$137.00
NI	NiSource Inc	In Line	$24.24	$23.50
NRG	NRG Energy Inc.	Outperform	$15.77	$20.00
NYLD	NRG Yield, Inc.	Outperform	$17.30	$20.00
PCG	PG&E Corp.	Outperform	$66.79	$67.50
PNW	Pinnacle West Capital Corp.	In Line	$84.70	$81.50
PNM	PNM Resources, Inc	In Line	$36.85	$36.00
PPL	PPL Corp.	In Line	$38.04	$36.00
PEG	Public Service Enterprise Group	In Line	$43.87	$45.00
SRE	Sempra Energy	Outperform	$112.14	$115.00
SO	Southern Co.	In Line	$49.51	$48.00
AES	The AES Corporation	Outperform	$11.30	$12.25
WEC	WEC Energy Group, Inc.	In Line	$60.65	$59.50
WR	Westar Energy Inc.	In Line	$52.67	$49.00
XEL	Xcel Energy Inc.	In Line	$44.81	$44.00

TIMESTAMP

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

Time of dissemination: May 03, 2017, 18:40 ET.

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Outperform – the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line – the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform – the total forecasted return is expected to be less than the expected total return of the analyst's universe
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Neutral - Return 0% to 10%
Cautious - Return -10% to 0%
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Coverage Suspended	23	3%
Rating Suspended	8	1%

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Coverage Suspended	4	17%
Rating Suspended	2	25%

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Price Charts

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GUGGENHEIM

People. Ideas. Success.

NiSource Inc.

NI – Quick Take: Strong Quarter; Strong Outlook – Very Consistent with Analyst Day

May 3, 2017

NI reported 1Q17 adjusted earnings of $0.71, slightly above our expectations of $0.69 and outpacing consensus expectations of $0.67. 1Q17 performance was driven primarily by the impact of continued infrastructure investments earning solid returns as a result of rate case settlements in PA, KY, MD, and VA, and approval of the settlement of electric base rate in IN as well as riders/tracker updates throughout NI's jurisdiction. **NI now expects to deliver earnings in the upper half of their full year 2017 outlook of $1.12-1.18, which is consistent with our updated estimate of $1.18**, after we reflect the strong quarter. **We reiterate our BUY rating, and see a good entry point with the modest pullback in shares.** We also continue to highlight NI's conservative growth targets – see our sensitivity analysis HERE; page 3).

Management executing on its plan with ATM offering – consistent with our assumptions and the recent analyst day. NI previously laid out plans for incremental equity issuance through an ATM program, and is now delivering on that plan with a shelf offering to sell up to $500mm in equity with a two year tenor. **The amount is consistent with what we have been modeling, as we continue to assume $300mm of equity issuance in 2017 and $200mm in 2018.** While we acknowledge that dilution widens the spread between rate base and earnings growth, we believe management is being somewhat conservative in its assumptions (i.e. regulatory outcomes) and recent raised outlook assumes the dilution. In other words, a higher use of cash to fund growth and less reliance on external financing needs could swing earnings growth toward the top-end of their LT earnings guidance of 5-7%. **We comfortably model +6% EPS CAGR through 2020, with upside potential as we incorporate modest assumptions around regulatory proceedings that have yet to be filed/approved.**

Quiet on the regulatory front in 2017 with a peak cadence in the rate case cycle in the rearview. Given the numerous jurisdictions (6 states) and franchises (9 utilities), rate cases are to be expected, albeit at a much slower pace in 2017. Continued implementation of investments and regulatory filings is expected, with a gas base rate case filed in MD seeking $6mm (decision expected YE17) and pending infrastructure tracker approvals for Columbia Gas of OH and NIPSCO Electric (decisions expected YE17). Further, Columbia Gas of OH filed for an extension of its Infrastructure Replacement Program through 2022, with a decision expected YE17. The continued execution of its regulatory filings/trackers will enable NI to deliver on its capital program of $1.6-1.8bn annually through 2020, and is consistent with what we have modeled but there could be further upside, in our view. We see modest regulatory lag, with the continuation of riders/trackers currently in place and further lag compression following rate orders.

Customer growth remains on-track – slightly ahead of plan to start the year; with business mix continuing to shift toward gas. With strong YoY customer growth of ~1% in 1Q17, NI is slightly ahead of its plan to steadily climb to 1% net growth by 2020. Customer conversion continues to present an opportunity to grow the customer base, as ~300K customers are within 500ft of main. Investments of $200-$230mm annually in its gas customer conversion program will further allow NI to shift its earnings mix toward the gas segment. **Continued on next page..**

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NI BUY

EARNINGS RELEASE

SHARE PRICE	$24.24
PRICE TARGET	$27.00

EPS ($) (FY Dec)	1Q	2Q	3Q	4Q	FY
2016	0.60	0.08	0.06	0.35	1.09
P/E					22.2x
2017	0.71E	0.10E	0.07E	0.31E	1.18E
Prior	*0.69E*	—	—	—	*1.16E*
P/E					20.5x
2018	0.74E	0.11E	0.08E	0.34E	1.27E
P/E					19.1x

Market Data	
Price	$24.24
52-Week Range	$21.17 - $26.94
Market Cap (M)	$7,847
ADV (3 mo; 000)	3,184

We believe the mix will shift closer towards ~70%/30% gas/electric in 2020 vs current 66%/34%. While NI currently trades at 19x on our 2018E earnings vs the regulated electric group of 18x, we believe as the picture continues to shift toward gas, shares should increasingly reflect the inherent premium gas utilities enjoy vs. their electric counterparts. Gas utilities currently trade at 3x premium vs its electric counterparts vs. NI's current ~1x premium, implying room for multiple expansion.

Valuation

We value NI as a regulated utility, arriving at our $27 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 17x 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) $21/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; (3) - $3/share for other adjustments.

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.

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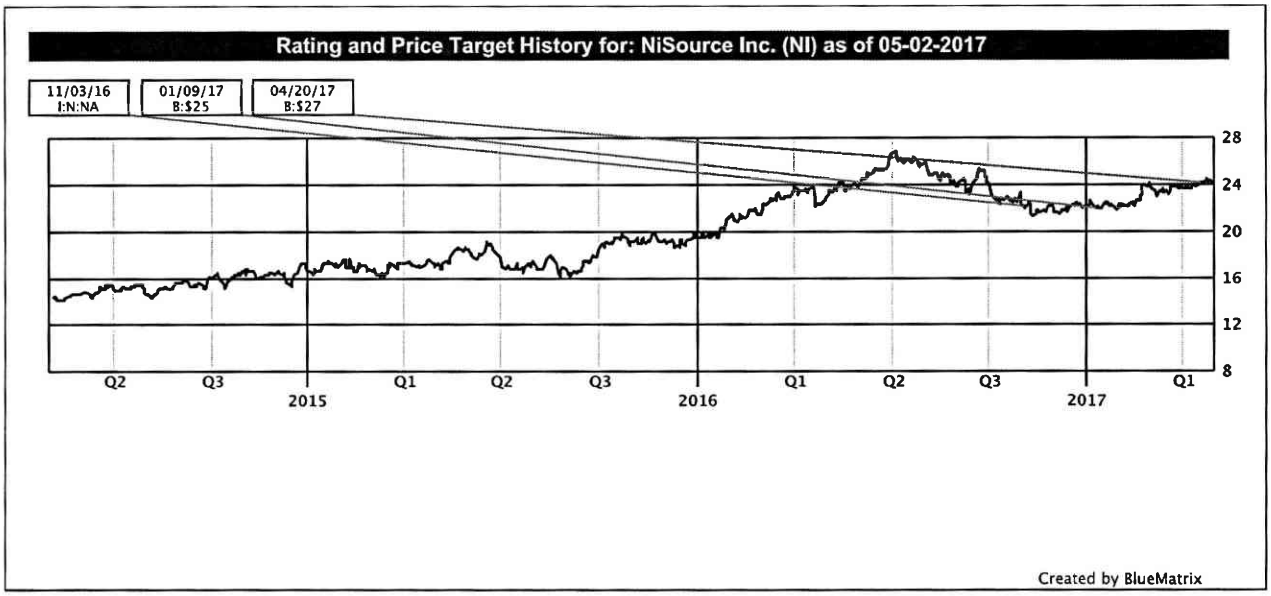

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NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of between plus 10% and minus 10% within a 12-month period.

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.

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	187	60.13%	24	12.83%
Neutral	123	39.55%	6	4.88%
Sell	1	0.32%	0	0.00%

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May 3, 2017

COMPANY UPDATE

Key Metrics

NI - NYSE (Price as of 5/2/17)		$24.24
Price Target		NA
52-Week Range		$26.94 - $21.17
Shares Outstanding (mm)		323.7
Market Cap. ($mm)		$7,481
3-Mo. Average Daily Volume		2,847,000
Institutional Ownership		81.0%
Debt/Total Capital (3/31)		57.1%
ROE (ttm)		8.3%
Book Value/Share		$12.03
Price/Book Value		2.0x
Indicated Dividend / Yield	$0.70	2.9%
Dividend Cycle		Feb., May, Aug., Nov.

EPS FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2081E	Curr. 2018E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$1.09		$1.17		$1.24
P/E	25.8x		20.7x		19.5x
Payout	62%		60%		56%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$3,102		$3,215	--	$3,365

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.*

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company reports higher first quarter results and reaffirms 2017 earnings guidance

Investment Highlights

- **NiSource reported first quarter operating earnings of $0.71 per share versus $0.62 per share in 2016's first quarter, an increase of over 14%.** Earnings were above the consensus estimate of $0.67 per share. Both of the company's major segments, gas distribution and electric distribution, contributed higher year-over-year earnings. NI's gas distribution business posted first quarter earnings of $363.8 million compared to $330.2 million in last year's first quarter. Earnings were helped by both continued investments in its business along with progress from regulatory initiatives. The company's electric business added $84.4 million to first quarter earnings versus $72.2 million in the same time period last year. This segment benefited from cost recovery of an electric modernization program. Given the mild winter weather experienced in NiSource's service territory, we believe this was a fine quarter for the company.
- **Management reaffirmed 2017 earnings guidance.** NiSource expects 2017 operating earnings to be in the upper half of a range between $1.12 to $1.18 per share. We are maintaining our 2017 EPS estimate of $1.17 per share and initiating a 2018 estimate of $1.24. The company anticipates it will make approximately $1.6 to $1.7 billion in planned utility infrastructure investments in 2017. In addition, NI expects to invest between $1.6 to $1.8 billion each year through 2020. These ongoing investments are expected to generate ongoing annual earnings and dividend increases of 5% to 7%, up from 4% to 6% previously.
- **We have a Neutral rating on NiSource due to valuation.** However, we continue to believe the company has a positive long-term 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. We view NI as a quality holding.

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

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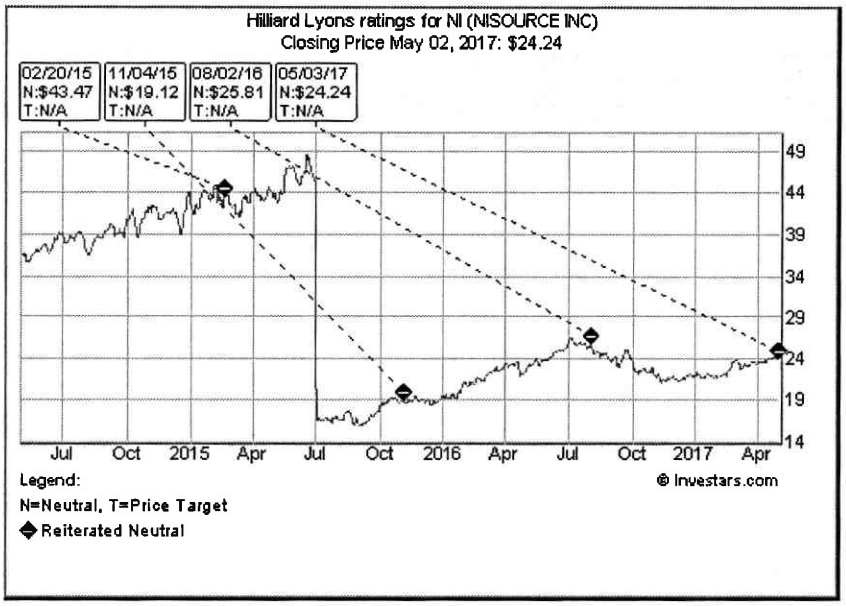
Investment Ratings
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
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%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

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FLASH NOTE

Company Update

USA | Energy | Natural Gas

May 3, 2017

Jefferies

EQUITY RESEARCH AMERICAS

HOLD
Bloomberg NYSE: NI
Price target $23.00
Price $24.24^

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

NiSource Inc. (NI)

Erratum: A Normal[ized] & in-Line Quarter

Key Takeaway

NI realized diluted 1Q non-GAAP EPS of 70¢ (excl. items), roughly in-line with our 69¢ estimate & ahead of the Street's 67¢ mean forecast; 1Q EBITDA of $589mm also approximated our $586mm est. With results, mgmt noted its 2017 non-GAAP EPS is expected to be in the upper-half of its previously guided $1.12-$1.18 range ($1.18 JEFe), and affirmed its 5-7% long-term EPS & DPS growth rates; *a previous copy of this note incorrectly stated 4-6% EPS & DPS rates.*

1Q17 operational & financial highlights. The gas utilities posted 1Q17 non-GAAP operating income of ~$363.8mm, slightly ahead of our ~$360.0mm estimate & well above 1Q16's ~$330.2mm realization. Total sales volumes fell ~14.4% y/y, to 239.9 MMDth, due to tepid temperatures; however, NI's non-GAAP weather normalization reporting practices supported margins by ~$23mm, boosting op income by ~7%. The electric operations (NIPSCO) reported 1Q op. income of $84.4mm, which roughly matched our ~$85.2mm est. NIPSCO was similarly affected by sharply warmer than normal winter temperatures, but non-GAAP revenue adjustments helped support Electric margins by ~$6mm, boosting op income by ~8%. On a weather-normalized basis, the benefits of regulatory outcomes, customer growth, system investments, and cost discipline helped drive meaningful y/y financial improvements at both distribution segments. Separately, we exclude $2.2mm of unrealized, non-cash mark-to-market gains in the surrender value of company owned life insurance (COLI) from Corp., consistent with our practice for other companies. See pg. 2.

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. Dec. 27th, Columbia Gas of KY (CKY) implemented new base rates which are expected to lift its annual revenues by $13.1mm. On Jan. 12th, Columbia Gas of VA (CVA) reached a settlement with the VA SCC pertaining to its base rate case; the settlement, approved on March 17th, increases CVA's annual revenues by $28.5mm which, after its SAVE rider is considered, results in a net rate increase of ~$24.5mm. In addition, on April 26th, the PUCO approved Columbia Gas of Ohio (COH) annual infrastructure replacement rider adjustment, which supports the continuation of $235mm cost recovery on investments made in 2016.

NIPSCO. NIPSCO reported non-GAAP operating earnings of $84.4mm for 1Q17, which represents a ~17% increase y/y. A greater than 13% y/y increase in revenues was driven primarily by new rates from base-rate proceedings of $20.9mm, higher regulatory and depreciation trackers, and increased rates from incremental capital spend on electric transmission projects, partially offset by a decrease in residential and industrial usage. With results, mgmt also provided a few operational updates for NIPSCO: 1) the $400mm environmental upgrade at its Michigan City Unit 12 and RM Schahfer Units 14 &15 are still pending an IURC order, 2) the company began recovering ~$46mm of its $1.25B electric infrastructure modernization program in February, and 3) its two electric transmission projects remain on schedule to be in-service in 2H18.

ATM established. As of 3.31, NI's consolidated debt/capital is ~65% and it has ~$2.5B in debt maturities through 2020, including its term loan. Accordingly, in a separate release today, mgmt establishment a $500mm at-the-market (ATM) equity offering program, in addition to the option to enter into a forward sale agreement of its common equity. Mgmt notes the proceeds of the sales, if any, would be used to finance capex and for general corp purposes; its plans implies a ~$700mm annual outspend through its forecast period.

2017 guidance, dividend declared. With results, mgmt noted an expectation for its 2017 non-GAAP EPS to come in at the upper-half of its previously stated $1.12-$1.18 guidance range ($1.18 JEFe); we note that its TTM non-GAAP EPS is ~$1.18. Separately, in late March, NI declared a 1Q cash dividend of 17.5¢/share; mgmt has affirmed its 5-7% long-term annual EPS & DPS growth rates.

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Exhibit 1: NI 1Q17 Earnings Results Review

Operating Income by Division	Actual 1Q17A	Jefferies Expectations 1Q17E		Year-over-Year 1Q16A	
Gas Distribution	$363.8	$360.0	1.1%	$330.2	10.2%
Electric Operations	$84.4	$85.2	-0.9%	$72.2	16.9%
Corporate, Other, and Eliminations	($3.4)	($4.7)	-27.7%	($3.1)	NM
Total Operating Income	**$444.8**	**$440.5**	**1.0%**	**$399.3**	**11.4%**
Depreciation	($143.3)	($142.6)	0.5%	($132.8)	7.9%
Other Income / (Expenses)	$1.2	$2.5	NA	$0.7	NM
Interest Expense	($85.2)	($91.6)	-6.9%	($90.5)	-5.9%
Income Tax Benefit (Expense)	($132.4)	($126.4)	NM	($111.8)	18.4%
Recurring Net Income	**$228.4**	**$225.0**	**1.5%**	**$197.7**	**15.5%**
Avg Diluted Shares Outstanding	325.3	326.4	-0.3%	322.0	1.0%
EPS (Non-GAAP, Diluted)	**$0.70**	**$0.69**	**1.9%**	**$0.61**	**14.4%**
GAAP Adjustments	($17.1)	($16.4)	4.2%	($11.1)	54.1%
EPS (GAAP, Diluted)	**$0.65**	**$0.64**	**2.2%**	**$0.58**	**12.0%**
EBITDA ($MM)	**$589**	**$586**	**0.6%**	**$533**	**10.6%**
Capex & Affiliate Investments	**$312**	**$347**	**-10.1%**	**$301**	**3.7%**

Source: NiSource, Jefferies

Note: Non-GAAP results exclude non-operational items such as unrealized fluctuations in the cash surrender value of company-owned life insurance (COLI), weather normalization effects and plant retirement costs.

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Please see important disclosure information on pages 3 - 7 of this report.

NI

Company Update

May 3, 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	, 09:01 ET. May 3, 2017
Recommendation Distributed	, 09:01 ET. May 3, 2017
Recommendation Recalled	, 09:35 ET. May 3, 2017
Recalled Recommendation Distributed	, 09:35 ET. May 3, 2017

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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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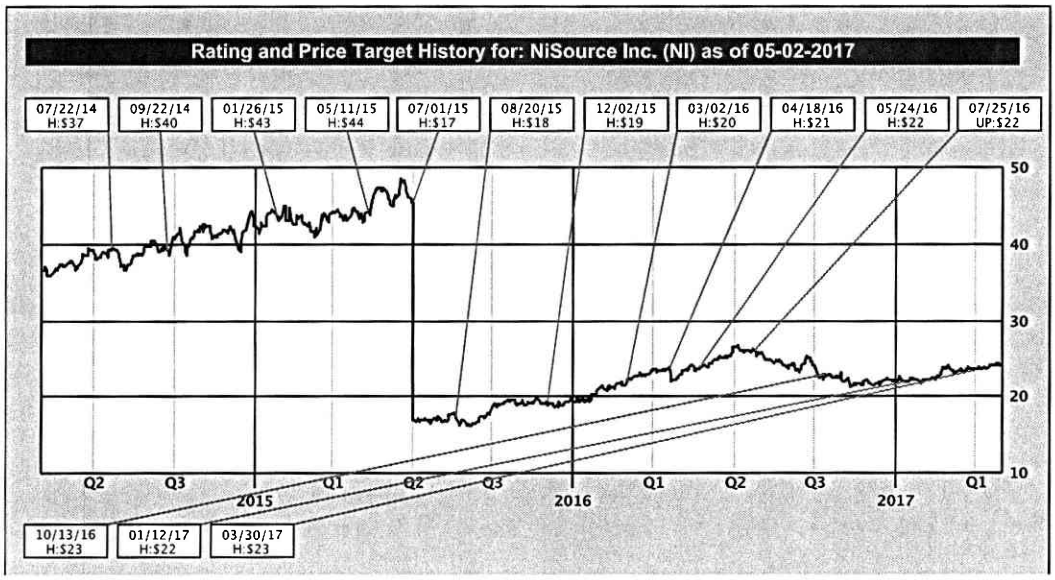

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NI

Company Update

May 3, 2017

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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			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY	1101	50.78%	336	30.52%
HOLD	897	41.37%	178	19.84%
UNDERPERFORM	170	7.84%	11	6.47%

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KeyBanc Capital Markets

Alert

May 3, 2017

Energy: Multi-Utilities

NYSE: NI

NiSource Inc.

NI - ALERT: 1Q17 Earnings Results Solid, Endorses Upper Half Guidance

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Key Investment Points

May 2, 2017 Close: $24.24
1Q17 Ongoing EPS: $0.71 vs. $0.62 result in 1Q16/Consensus of $0.67/KBCM of $0.70
Initial Take: We expect a positive response to the beat and guidance outlook.
2017 EPS Estimate: $1.18 (Consensus: $1.17).
Guidance: NiSource Inc. endorsed the upper half of prior 2017 EPS guidance of $1.12-$1.18 and reaffirmed its EPS and dividend growth of 5-7%.

Highlights:

- NI announced an ATM equity offering of $500 million.
- Results were in line with our upside surprise estimate.
- GAAP results for the quarter were $0.65 per share. The major difference between GAAP and ongoing were $1.5 of plant retirement costs incurred and $29 million of below-normal weather. NI weather normalizes its earnings to normal weather.
- Gas operations operating earnings rose $33.6 million to $363.8 million.
  - Revenues rose nearly $85 million, driven by new rates ($61 million) and $22 million in higher trackers, which are offset in expenses. Customer growth added $3 million.
  - Expenses rose $22 million on tracker items (above) and employee costs ($14 million), outside services ($5.5 million) and depreciation on higher plant balances ($3 million)
- Electric operating earnings rose $12.2 million to $84.4 million.
  - Revenues increased $36.5 million on new rates ($21 million), trackers, offset in expenses ($12 million) and transmission investment ($6 million), partly offset by lower residential and industrial sales (-$3 million).
  - Expenses rose $24 million on tracker items (above), higher materials and supplies of $7 million, outside services were $5.5 million higher and higher employee costs ($3 million), partly offset by $4 million lower amortization.
- The Corporate segment reported a 1Q operating loss of $1.2 million vs. a loss of $3.1 million, driven by gains on COLI policies.
- Other income expenses fell $6 million on lower interest expense of $5.3 million.

9:00 a.m. ET Conference Call #: 855-219-9570; Passcode:7663006

We will be focused on:

- Expected timing of issuing the $500 million ATM
- Expense timing
- Electricity demand trends
- Steel customer trends

Disclosure Appendix

NiSource Inc. - NI

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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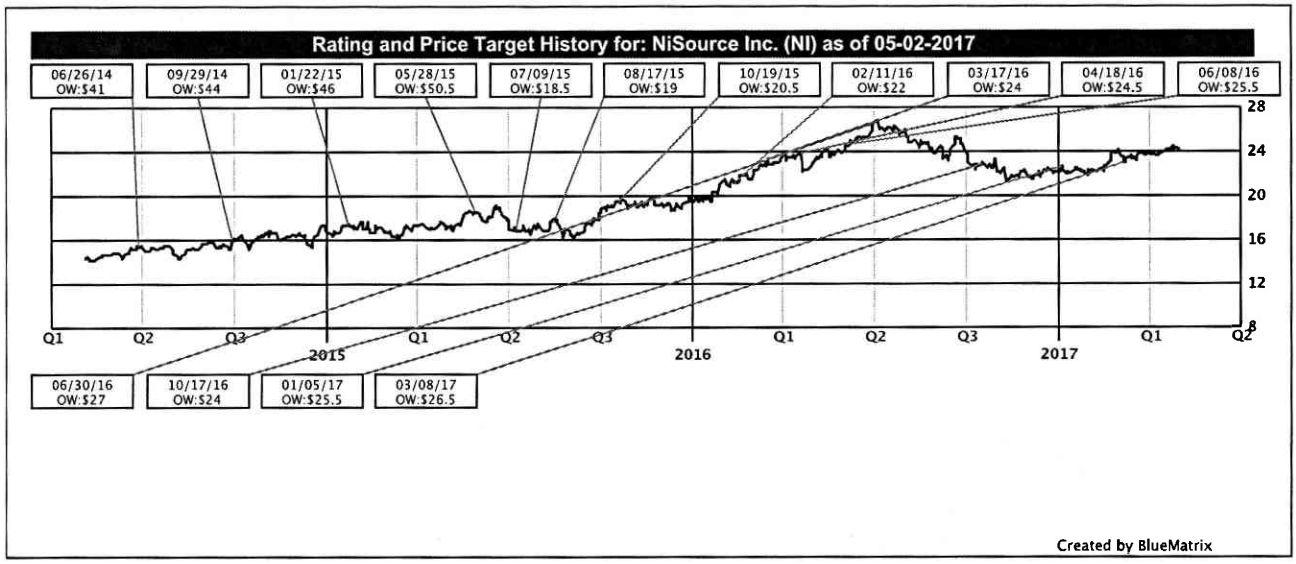
Three-Year Rating and Price Target History



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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]	309	43.52	63	20.39	Overweight [OW]	28	45.90	18	64.29
Sector Weight [SW]	387	54.51	49	12.66	Sector Weight [SW]	33	54.10	17	51.52
Underweight [UW]	14	1.97	1	7.14	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.

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UBS

Global Research

3 May 2017

NiSource Inc.
ATM Filed

Equities

Americas
Gas Utilities

12-month rating	**Neutral**
12m price target	**US$25.00**
Price	**US$24.01**

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

Trading data and key metrics

52-wk range	US$26.77-21.41
Market cap.	US$7.81bn
Shares o/s	325m (COM)
Free float	99%
Avg. daily volume ('000)	879
Avg. daily value (m)	US$20.7
Common s/h equity (12/17E)	US$4.42bn
P/BV (12/17E)	1.8x
Net debt / EBITDA (12/17E)	5.4x

EPS (UBS, diluted) (US$)

	12/17E			
	From	To	% ch	Cons.
Q1	0.70	0.71	1	0.67
Q2E	0.08	0.08	NM	0.11
Q3E	0.06	0.06	NM	0.07
Q4E	0.32	0.34	5	0.34
12/17E	1.16	1.17	1	1.16
12/18E	1.23	1.24	1	1.24
12/19E	1.30	1.32	2	1.32

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EPS Guidance Raised Upward – ATM Filed

NiSource reported 15% EPS growth in 1Q, and is now on track to reach the upper half of the $1.12-$1.18 guidance range. Recent rate cases and recovery mechanisms are enabling NI to recover the estimated $1.6bn-$1.8bn in annual investment in infrastructure and earn close to authorized returns in the 9.5%-10% range. Management indicated that the higher 2017 should provide a higher base going forward for its 5%-7% EPS growth target. As expected, NI announced a 2-Yr, $500mm ATM equity issuance program to provide financing for the planned investment. This is consistent with our expectation that NI would issue ~$250mm/yr of equity a year through the ATM to bring down leverage.

Earnings Beat

NiSource reported Adj EPS of $0.71 (+15% Y/Y), $0.01 above UBSe of $0.70 and $0.04 above Consensus of $0.67. Net revenues of $1,075.3mm were 3.9% above UBSe of $1,034.6mm due to new rates and recoveries from regulatory trackers. O&M of $409.0mm was 11.7% higher than UBSe driven primarily by higher regulatory, tax, and depreciation trackers. We note that some of the increase in O&M was due to approved increased spending as part of recent rate case settlements and is expected to level off going forward. Interest expense of $85.2mm, was down 6% Y/Y and 11.2% below UBSe driven by lower rates on long-term debt. Depreciation of $143.3mm was up 8% Y/Y and 4.4% higher than UBSe due to increased capital expenditures placed in service.

Raising Estimates

We are raising our '17 EPSe to $1.17 from $1.16, '18 to $1.24 from $1.23 and '19 to $1.32 from $1.30 to account for the carry through of the stronger earnings growth in 1Q17 as a result of recent rate cases and recovery of investment spending.

Valuation: Maintaining $25 PT & Neutral Rating

We maintain our $25 price target which is derived using an average of sum-of-the-parts EV/EBITDA ($26) and PE ($26) valuations which use comparable company multiples and DDM ($24). We remain Neutral on NI shares due to current valuation.

Highlights (US$m)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Revenues	6,485	4,667	4,505	4,850	5,067	5,270	5,465	5,663
EBIT (UBS)	1,277	832	894	989	1,081	1,170	1,255	1,341
Net earnings (UBS)	526	299	351	389	420	452	488	521
EPS (UBS, diluted) (US$)	1.66	0.94	1.09	1.17	1.24	1.32	1.41	1.52
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)	(8,475)	(8,864)	(9,448)	(9,988)	(10,659)
Profitability/valuation	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
EBIT margin %	19.7	17.8	19.8	20.4	21.3	22.2	23.0	23.7
ROIC (EBIT) %	9.3	7.0	8.9	8.8	9.0	9.0	9.0	9.0
EV/EBITDA (core) x	10.4	12.5	9.3	9.4	9.0	8.7	8.2	8.4
P/E (UBS, diluted) x	22.8	33.2	21.3	20.4	19.4	18.2	17.1	15.8
Equity FCF (UBS) yield %	(5.9)	1.0	(9.0)	(7.1)	(4.9)	(7.2)	(6.5)	(5.8)
Net dividend yield %	2.7	2.7	2.8	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$24.01 on 03 May 2017 11:13 EDT

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Figure 1: NI 1Q17 Earnings Variance

$ in millions	Actual 1Q17	UBSe 1Q17e	% variance	Actual 1Q16	YoY % change
Financial Data					
Revenues	$1,627.6	$1,570.5	3.6%	$1,453.8	12.0%
Cost of Sales	($552.3)	($535.9)	3.1%	($496.5)	11.2%
Operating & Maintenance Expenses	($409.0)	($366.3)	11.7%	($353.9)	15.6%
Depreciation & Amortization	($143.3)	($137.3)	4.4%	($132.8)	7.9%
Total Expenses	($1,180.6)	($1,117.1)	5.7%	($1,054.5)	12.0%
Adj. EBITDA	$590.3	$590.7	(0.1%)	$532.1	10.9%
Interest Expense	($85.2)	($95.9)	(11.2%)	($90.5)	(5.9%)
Other Expenses	$1.2	$0.0	NM	$0.7	71.4%
Net Income	$230.6	$227.2	1.5%	$197.7	16.6%
EPS	$0.71	$0.70	1.5%	$0.62	15.4%
Dividend Per Share	$0.175	$0.175	0.0%	$0.155	12.9%
Segment Operating Income					
Gas Distribution	$363.8	$370.8	(1.9%)	$330.2	10.2%
Electric Operations	$84.4	$86.3	(2.2%)	$72.2	16.9%
Corporate & Eliminations	($1.2)	($3.7)	(67.2%)	($3.1)	(61.3%)
Total	$447.0	$453.4	(1.4%)	$399.3	11.9%
Operating Data					
Customers (000)					
Gas Utilities Customers	3,439.1	3,455.6	(0.5%)	3,421.4	0.5%
Electric Customers	466.1	465.8	0.1%	463.5	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**	**4,667**	**4,505**	**4,850**	*7.7*	**5,067**	*4.5*	**5,270**	**5,465**	**5,663**
Gross profit	4,261	3,024	3,115	3,354	7.7	3,505	4.5	3,648	3,785	3,925
EBITDA (UBS)	**1,883**	**1,357**	**1,441**	**1,565**	*8.6*	**1,685**	*7.7*	**1,803**	**1,910**	**2,021**
Depreciation & amortisation	(605)	(524)	(547)	(576)	5.3	(603)	4.8	(633)	(656)	(680)
EBIT (UBS)	**1,277**	**832**	**894**	**989**	*10.6*	**1,081**	*9.4*	**1,170**	**1,255**	**1,341**
Associates & investment income	47	0	0	0	-	0	-	0	0	0
Other non-operating income	(24)	17	2	0	-	0	-	0	0	0
Net interest	(444)	(380)	(349)	(377)	-7.9	(420)	-11.4	(458)	(486)	(521)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**856**	**469**	**546**	**612**	*12.0*	**661**	*8.1*	**712**	**768**	**819**
Tax	(330)	(170)	(195)	(223)	-14.4	(241)	-8.1	(260)	(280)	(299)
Profit after tax	**526**	**299**	**351**	**389**	*10.6*	**420**	*8.1*	**452**	**488**	**521**
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**	**299**	**351**	**389**	*10.6*	**420**	*8.1*	**452**	**488**	**521**
Net earnings (UBS)	**526**	**299**	**351**	**389**	*10.6*	**420**	*8.1*	**452**	**488**	**521**
Tax rate (%)	38.5	36.3	35.7	36.5	2.2	36.5	0.0	36.5	36.5	36.5

Per share (US$)	12/14	12/15	12/16	12/17E	% ch	12/18E	% ch	12/19E	12/20E	12/21E
EPS (UBS, diluted)	1.66	0.94	1.09	1.17	7.7	1.24	5.4	1.32	1.41	1.52
EPS (local GAAP, diluted)	1.66	0.94	1.09	1.17	7.7	1.24	5.4	1.32	1.41	1.52
EPS (UBS, basic)	1.67	0.94	1.09	1.18	8.2	1.24	5.4	1.33	1.41	1.52
Net DPS (US$)	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	2.58	2.79	2.92	4.5	3.02	3.5	3.17	3.30	3.50
Book value per share	19.56	12.06	12.61	13.42	6.5	14.31	6.6	15.46	16.57	17.54
Average shares (diluted)	316.33	318.80	321.80	330.68	2.8	339.21	2.6	342.21	346.82	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	29	9.3	29	0.0	29	29	29
Other current assets	2,441	1,562	1,736	1,443	-16.9	1,443	0.0	1,443	1,443	1,443
Total current assets	**2,467**	**1,577**	**1,762**	**1,472**	*-16.5*	**1,472**	*0.0*	**1,472**	**1,472**	**1,472**
Net tangible fixed assets	16,017	12,112	13,068	14,194	8.6	15,241	7.4	16,258	17,252	18,222
Net intangible fixed assets	3,931	1,944	1,933	1,931	-0.1	1,931	0.0	1,931	1,931	1,931
Investments / other assets	2,452	1,859	1,928	1,945	0.9	1,945	0.0	1,945	1,945	1,945
Total assets	**24,866**	**17,493**	**18,692**	**19,542**	*4.5*	**20,588**	*5.4*	**21,605**	**22,599**	**23,569**
Trade payables & other ST liabilities	2,111	2,090	1,601	1,341	-16.3	1,341	0.0	1,341	1,341	1,341
Short term debt	1,844	567	1,851	765	-58.66	800	4.58	853	902	962
Total current liabilities	**3,955**	**2,658**	**3,452**	**2,106**	*-39.0*	**2,141**	*1.7*	**2,193**	**2,242**	**2,303**
Long term debt	8,156	5,949	6,058	7,738	27.7	8,093	4.6	8,624	9,116	9,726
Other long term liabilities	6,580	5,043	5,110	5,281	3.3	5,522	4.6	5,522	5,522	5,522
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**18,691**	**13,649**	**14,621**	**15,125**	*3.4*	**15,756**	*4.2*	**16,339**	**16,880**	**17,550**
Common s/h equity	6,175	3,844	4,071	4,417	8.5	4,833	9.4	5,266	5,720	6,019
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	**24,866**	**17,493**	**18,692**	**19,542**	*4.5*	**20,588**	*5.4*	**21,605**	**22,599**	**23,569**

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	299	351	389	10.6	420	8.1	452	488	521
Depreciation & amortisation	606	524	547	576	5.3	603	4.8	633	656	680
Net change in working capital	(139)	147	(59)	(117)	-100.2	0	-	0	0	0
Other operating	329	487	(36)	245	-	241	-1.7	0	0	0
Operating cash flow	**1,321**	**1,457**	**803**	**1,092**	*36.0*	**1,265**	*15.8*	**1,085**	**1,144**	**1,201**
Tangible capital expenditure	(2,028)	(1,361)	(1,475)	(1,650)	-11.8	(1,650)	0.0	(1,650)	(1,650)	(1,650)
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)	(32)	-	0	-	0	0	0
Investing cash flow	**(2,117)**	**1,945**	**(1,583)**	**(1,682)**	*-6.3*	**(1,650)**	*1.9*	**(1,650)**	**(1,650)**	**(1,650)**
Equity dividends paid	(321)	(263)	(205)	(236)	-14.9	(254)	-7.8	(269)	(284)	(301)
Share issues / (buybacks)	20	2	14	250	NM	250	0.2	250	250	80
Other financing	0	(122)	0	0	-	0	-	0	0	0
Change in debt & pref shares	1,097	(3,029)	982	579	-41.07	390	-32.67	583	540	671
Financing cash flow	**796**	**(3,412)**	**791**	**592**	*-25.1*	**385**	*-35.0*	**565**	**506**	**449**
Cash flow inc/(dec) in cash	**0**	**(10)**	**11**	**2**	*-77.5*	**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**	**2**	*-77.5*	**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	33.2	21.3	20.4	19.4	18.2	17.1	15.8
P/E (UBS, diluted)	22.8	33.2	21.3	20.4	19.4	18.2	17.1	15.8
P/CEPS	10.6	12.0	8.3	8.2	7.9	7.5	7.2	6.9
Equity FCF (UBS) yield %	(5.9)	1.0	(9.0)	(7.1)	(4.9)	(7.2)	(6.5)	(5.8)
Net dividend yield (%)	2.7	2.7	2.8	3.0	3.1	3.3	3.4	3.6
P/BV x	1.9	2.6	1.8	1.8	1.7	1.6	1.4	1.4
EV/revenues (core)	3.0	3.6	3.0	3.0	3.0	3.0	2.9	3.0
EV/EBITDA (core)	10.4	12.5	9.3	9.4	9.0	8.7	8.2	8.4
EV/EBIT (core)	15.3	20.4	15.0	14.9	14.1	13.4	12.5	12.6
EV/OpFCF (core)	10.4	12.5	9.3	9.4	9.0	8.7	8.2	8.4
EV/op. invested capital	1.4	1.4	1.3	1.3	1.3	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	7,810	7,810	7,810	7,810	7,810
Net debt (cash)	9,391	8,237	7,192	8,179	8,669	9,156	9,156	10,324
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	676	760	713	700	700	700	700	700
Total enterprise value	**21,980**	**18,850**	**15,350**	**16,689**	**17,180**	**17,667**	**17,667**	**18,834**
Non core assets	(2,452)	(1,859)	(1,928)	(1,945)	(1,945)	(1,945)	(1,945)	(1,945)
Core enterprise value	**19,528**	**16,991**	**13,422**	**14,744**	**15,235**	**15,721**	**15,721**	**16,889**

Growth (%)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Revenue	14.6	-28.0	-3.5	7.7	4.5	4.0	3.7	3.6
EBITDA (UBS)	7.9	-27.9	6.3	8.6	7.7	7.0	6.0	5.8
EBIT (UBS)	9.4	-34.8	7.5	10.6	9.4	8.2	7.2	6.9
EPS (UBS, diluted)	6.2	-43.6	16.4	7.7	5.4	6.7	6.4	7.8
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	64.8	69.1	69.1	69.2	69.2	69.3	69.3
EBITDA margin	29.0	29.1	32.0	32.3	33.2	34.2	35.0	35.7
EBIT margin	19.7	17.8	19.8	20.4	21.3	22.2	23.0	23.7
Net earnings (UBS) margin	8.1	6.4	7.8	8.0	8.3	8.6	8.9	9.2
ROIC (EBIT)	9.3	7.0	8.9	8.8	9.0	9.0	9.0	9.0
ROIC post tax	5.5	4.5	5.8	5.6	5.7	5.7	5.7	5.7
ROE (UBS)	8.7	6.0	8.9	9.2	9.1	9.0	8.9	8.9

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	5.2	5.2	5.3
Net debt / total equity %	161.5	169.1	193.6	191.9	183.4	179.4	174.6	177.1
Net debt / (net debt + total equity) %	61.8	62.8	65.9	65.7	64.7	64.2	63.6	63.9
Net debt/EV %	51.1	38.3	58.7	57.5	58.2	60.1	63.5	63.1
Capex / depreciation %	NM	NM	NM	NM	NM	NM	NM	NM
Capex / revenue %	NM	29.2	NM	NM	NM	NM	NM	29.1
EBIT / net interest	2.9	2.2	2.6	2.6	2.6	2.6	2.6	2.6
Dividend cover (UBS)	1.6	1.1	1.7	1.7	1.7	1.7	1.7	1.8
Div. payout ratio (UBS) %	61.7	88.9	60.5	60.6	60.3	59.1	58.0	56.7

Revenues by division (US$m)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Others	6,485	4,667	4,505	4,850	5,067	5,270	5,465	5,663
Total	**6,485**	**4,667**	**4,505**	**4,850**	**5,067**	**5,270**	**5,465**	**5,663**

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	832	894	989	1,081	1,170	1,255	1,341
Total	**1,277**	**832**	**894**	**989**	**1,081**	**1,170**	**1,255**	**1,341**

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	+4.1%
Forecast dividend yield	3.0%
Forecast stock return	+7.1%
Market return assumption	6.3%
Forecast excess return	+0.8%

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.	46%	30%
Neutral	FSR is between -6% and 6% of the MRA.	38%	28%
Sell	FSR is > 6% below the MRA.	16%	18%
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 2017.
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	Neutral	N/A	US$24.24	02 May 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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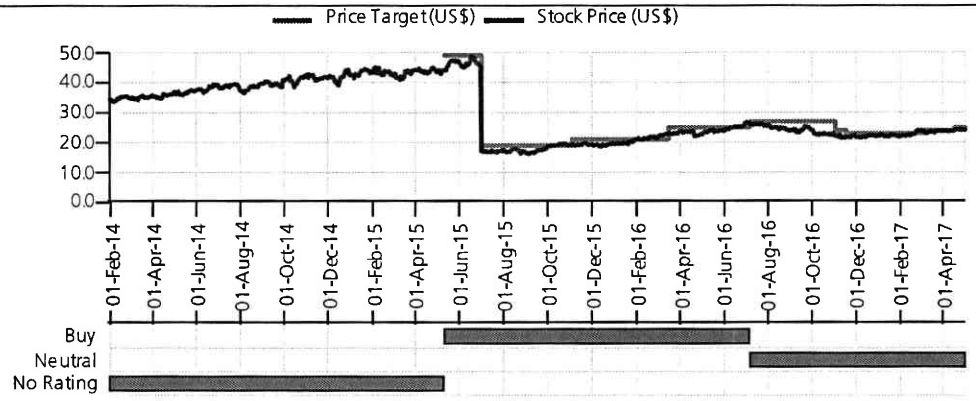
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2014-01-31	34.37	-	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
2017-03-06	23.58	24.0	Neutral
2017-04-17	24.02	25.0	Neutral

Source: UBS; as of 02 May 2017

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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Weight

Gas/Power Infrastructure – Market Overweight

May 3, 2017

NISOURCE

(NI US Equity – $ 24.01 – Outperform)

NI-ce way to start the year

- **Good start to the year – already optimistic on 2017**
  NiSource kicked off the year beating the Q1 consensus and raising 2017 guidance. Given the analyst day in March, there was not a lot of new disclosures but the company continues to execute well on the growth plan. Longer term NI's $30B investment backlog gives a high quality tailwind for growth well beyond 2020. We continue to see NI as a high quality gas and electric utility with high growth, low risk and a management team that has been developing a constructive track record – reiterate Outperform.

- **Boosted guidance for 2017 also means a higher range for 2018**
  Management indicated that 2017 EPS would be in the upper half of the $1.12-$1.18 guidance range based on the strong Q1. Because NiSource's long term 5%-7% growth rate is on an annual basis rather than a CAGR off one base year, the boosted 2017 guidance also means that the 2018 guidance range would also be higher. This is similar to CMS' approach to EPS growth and we believe it adds an upward bias to the LT outlook.

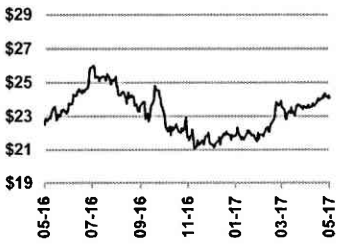
- **ATM initiated in line with expectations**
  The company also initiated its at-the-money equity issuance program, filing with the SEC to issue an aggregate of up to $500M of equity over the next two years. This is in line with management's guidance of $200-$300M of ATM equity annually, on top of the existing $50-$75M DRIP.

- **Boosting estimates, TP to $26**
  Q1 EPS of $0.71 vs. $0.62 last year was a penny above our estimate and above the $0.67 consensus. We are raising our 2017/18 EPS estimates to $1.17/$1.24 from $1.14/$1.22 based on the solid Q1, and our 2019/2020 estimates remain $1.31/$1.38. We are boosting our target price to $26 from $25 reflecting higher a higher LDC target multiple of 20x 2019 EPS from 19x previously.

Estimates / Valuation				
(US$)	2017E	2018E	2019E	2020E
EPS	$1.17	$1.24	$1.31	$1.38
Consensus	$1.16	$1.23	$1.30	$1.33
P/E	19.6x	18.6x	17.6x	16.6x
Dividend Per Share	$0.70	$0.74	$0.77	$0.81
Dividend Yield	3.0%	3.2%	3.4%	3.5%

Trading and Fundamental Data	
Target Price	**$ 26**
Current Price	$ 24.01
52 Week Range	$ 21 - $ 27
Market Cap. ($MM)	$ 8242
Share Out. (MM)	319.8
Dividend Yield	2.82%
Dividend Payout Ratio	60%
ROE	7.8%
Debt to Cap	66%
Avg Daily Vol (ooo)	3026

Price Performance	YTD	LTM
NI US Equity	8%	4%
Utility Index	5%	6%
S&P 500	7%	16%



Source: FactSet/Wolfe Research

Key Changes		
Year	New	Old
TP	26	25
2017E	1.17	1.14
2018E	1.24	1.22

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WOLFE RESEARCH

NiSource

May 3, 2017

NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2017E	2018E	2019E	2020E
EPS	$1.17	$1.24	$1.31	$1.38
Diluted Shares Outstanding	327	340	352	364
Dividends Per Share	$0.70	$0.74	$0.77	$0.81
Dividend Yield	2.9%	3.1%	3.2%	3.4%
Dividend Payout Ratio	60%	59%	59%	59%
Equity Ratio	41%	43%	45%	46%
FFO/Net Debt	13%	13%	13%	13%
Valuation Metrics				
P/E	20.5x	19.4x	18.3x	17.3x
Price/Book	1.6x	1.4x	1.3x	1.2x
Segment EPS				
Gas Distribution	$0.94	$0.99	$1.05	$1.11
Electric	0.53	0.55	0.56	0.59
Parent & Other	(0.30)	(0.30)	(0.31)	(0.31)
Total EPS	**$1.17**	**$1.24**	**$1.31**	**$1.38**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2017E	2018E	2019E	2020E
Total Capital Spending by Segment ($M)				
Gas Distribution	$1,050	$1,080	$1,080	$1,080
Electric	585	605	605	605
Parent	16	15	15	15
Total Capex	**$1,651**	**$1,700**	**$1,700**	**$1,700**
Financings ($M)				
Total Equity Issued/(Repurchased)	$313	$313	$313	$313
Total Debt Issued/(Repurchased)	$632	$458	$647	$691

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.

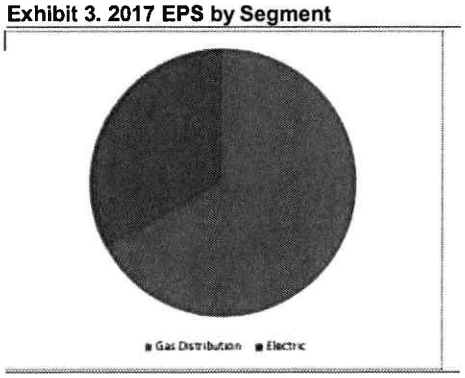
Investment Thesis

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

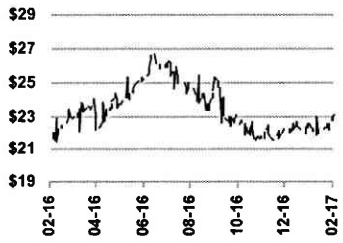
Our $26 price target is on a target P/E valuation. We apply a 20x multiple to 2019E earnings, in line with higher quality gas LDCs. Downside risks for NiSource are execution on rate base investment, economic conditions and regulatory outcomes. Upside risks are additional growth projects and customer 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 2017E	2018E	2019E	2020E	Div Yield	Div Growth (E)	Payout Ratio
Atmos Energy Corp	ATO	80.16	8,431	22.6	21.3	19.7	NA	2.2%	6.4%	59%
Southwest Gas Holdings Inc	SWX	83.06	3,949	24.3	22.8	22.2	21.6	2.4%	4.0%	67%
WGL Holdings Inc	WGL	82.51	4,226	23.6	21.9	20.1	NA	2.5%	7.5%	67%
ONE Gas Inc	OGS	68.49	3,591	23.0	22.1	21.2	20.2	2.5%	5.5%	75%
NiSource Inc	NI	24.01	7,795	20.5	19.4	18.3	17.3	2.9%	5.0%	NA
New Jersey Resources Corp	NJR	39.60	3,418	23.3	21.6	20.2	18.2	2.6%	6.3%	58%
Northwest Natural Gas Co	NWN	59.05	1,691	27.3	25.5	23.7	22.7	3.2%	4.3%	85%
UGI Corp	UGI	48.68	8,418	20.3	19.6	18.7	18.0	2.1%	4.0%	52%
Spire Inc	SR	67.95	3,279	19.3	18.6	17.9	16.6	3.1%	3.7%	66%
Vectren Corp	VVC	58.58	4,859	22.3	20.9	19.2	18.2	2.9%	5.5%	73%
Average				**22.9x**	**21.6x**	**20.3x**	**19.3x**	**2.6%**	**5.2%**	**67%**

Source: Wolfe Research, Factset consensus

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WOLFE RESEARCH

NiSource

May 3, 2017

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Price Chart with Ratings and Target Price History

Note: OP = Outperform; PP = Peer Perform; UP = Underperform

Wolfe Research, LLC Fundamental Valuation Methodology:

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

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:	Risks That May Impede Achievement of the Recommendation, Rating or Target Price:
NI US Equity	Economy, regulatory outcomes, project execution

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Company:	Research Disclosures:
NI US Equity	None

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NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.03 USD	23.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

NiSource Reports Strong 1Q and Raises Earnings Guidance; Increasing Our Fair Value Estimate

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Research as of 04 May 2017
Estimates as of 04 May 2017
Pricing data as of 04 May 2017 13:08
Rating updated as of 04 May 2017 13:08

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

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Analyst Note 04 May 2017

We are increasing our fair value estimate to $23 from $21 per share and reaffirming our narrow moat and stable moat trend ratings after NiSource reported strong 2017 first-quarter earnings, raised its 2017 earnings guidance, and reaffirmed its long-term capital expenditure forecast.

At its Analyst Day in March, NiSource initiated a 2018-20 annual capital expenditure guidance range of $1.6 billion-$1.8 billion. The company had increased its 2017 planned capital expenditures to $1.6 billion-$1.7 billion from $1.5 billion during its 2016 earnings call in late February. Management reaffirmed both forecasts, driving our 6% annual earnings growth estimate through 2021.

Operating earnings in the 2017 first-quarter were $0.71 per share versus $0.62 in the same period last year. NiSource raised its 2017 earnings guidance to the upper half of its previous range of $1.12-$1.18 per share. Based on the strong first quarter and increased guidance, we have increased our 2017 earnings estimate to $1.17 from $1.15 per share.

Vital Statistics

Market Cap (USD Mil)	7,772
52-Week High (USD)	26.94
52-Week Low (USD)	21.17
52-Week Total Return %	6.8
YTD Total Return %	10.0
Last Fiscal Year End	31 Dec 2016
5-Yr Forward Revenue CAGR %	4.9
5-Yr Forward EPS CAGR %	6.1
Price/Fair Value	1.14

Valuation Summary and Forecasts

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Price/Earnings	20.8	20.3	*20.5*	*18.9*
EV/EBITDA	9.7	10.6	*10.2*	*9.7*
EV/EBIT	16.1	17.4	*16.3*	*15.7*
Free Cash Flow Yield %	-3.2	-9.4	*4.6*	*-13.5*
Dividend Yield %	4.2	2.9	*2.9*	*3.2*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Revenue	4,652	4,493	*4,775*	*4,956*
Revenue YoY %	-28.1	-3.4	*6.3*	*3.8*
EBIT	802	857	*962*	*998*
EBIT YoY %	-34.9	7.0	*12.2*	*3.7*
Net Income, Adjusted	299	351	*389*	*440*
Net Income YoY %	-44.0	17.4	*10.8*	*13.2*
Diluted EPS	0.94	1.09	*1.17*	*1.27*
Diluted EPS YoY %	-44.5	16.1	*7.7*	*8.4*
Free Cash Flow	3,741	-602	*359*	*-833*
Free Cash Flow YoY %	-721.3	-116.1	*-159.8*	*-331.7*

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 approximately 3.5 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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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.03 USD	23.00 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	2014	2015	2016	Forecast 2017	Forecast 2018	5-Year Proj. CAGR
Revenue	-7.4	14.4	-28.1	-3.4	6.3	3.8	4.9
EBIT	-8.7	9.3	-34.9	7.0	12.2	3.7	7.5
EBITDA	-6.2	7.8	-27.8	5.9	9.7	4.7	6.9
Net Income	-10.8	8.1	-44.0	17.4	10.8	13.2	10.2
Diluted EPS	-11.7	7.0	-44.5	16.1	7.7	8.4	6.1
Earnings Before Interest, after Tax	-10.4	3.6	-35.0	6.8	43.2	-77.9	8.4
Free Cash Flow	—	58.7	-721.3	-116.1	-159.8	-331.7	—

Profitability	3-Year Hist. Avg	2014	2015	2016	2017	2018	5-Year Proj. Avg
Operating Margin %	18.4	19.0	17.2	19.1	20.2	20.1	20.8
EBITDA Margin %	29.4	28.4	28.5	31.3	32.3	32.6	33.3
Net Margin %	7.5	8.3	6.4	7.8	8.2	8.9	9.2
Free Cash Flow Margin %	19.2	-9.3	80.4	-13.4	7.5	-16.8	-1.4
ROIC %	6.2	7.9	5.5	5.4	7.1	1.4	5.4
Adjusted ROIC %	7.3	9.5	6.3	6.0	8.0	1.6	6.0
Return on Assets %	1.8	2.2	1.4	1.8	2.0	2.2	2.2
Return on Equity %	7.6	8.8	5.7	8.4	9.1	9.3	9.2

Leverage	3-Year Hist. Avg	2014	2015	2016	2017	2018	5-Year Proj. Avg
Debt/Capital	0.64	0.62	0.64	0.66	0.63	0.64	0.62
Total Debt/EBITDA	5.44	5.45	5.24	5.63	5.03	5.46	5.14
EBITDA/Interest Expense	3.88	4.14	3.49	4.02	4.28	4.11	4.24

Valuation Summary and Forecasts

	2015	2016	2017(E)	2018(E)
Price/Fair Value	1.08	1.05	—	—
Price/Earnings	20.8	20.3	20.5	18.9
EV/EBITDA	9.7	10.6	10.2	9.7
EV/EBIT	16.1	17.4	16.3	15.7
Free Cash Flow Yield %	-3.2	-9.4	4.6	-13.5
Dividend Yield %	4.2	2.9	2.9	3.2

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	5.9
Long-Run Tax Rate %	28.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	71.4
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-294	-1.9	-0.87
Present Value Stage II	2,227	14.5	6.55
Present Value Stage III	13,447	87.4	39.57
Total Firm Value	**15,380**	**100.0**	**45.25**
Cash and Equivalents	40	—	0.12
Debt	-7,909	—	-23.27
Preferred Stock	—	—	—
Other Adjustments	300	—	0.88
Equity Value	**7,810**	—	**22.98**
Projected Diluted Shares	340		
Fair Value per Share (USD)	**23.00**		

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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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.03 USD	23.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December	2014	2015	2016	Forecast 2017	Forecast 2018
Revenue	**6,471**	**4,652**	**4,493**	***4,775***	***4,956***
Cost of Goods Sold	2,224	1,644	1,390	*1,498*	*1,554*
Gross Profit	**4,246**	**3,008**	**3,102**	***3,277***	***3,402***
Selling, General & Administrative Expenses	2,136	1,426	1,454	*1,498*	*1,542*
Other Operating Expense (Income)	320	256	244	*240*	*247*
Other Operating Expense (Income)	-47	—	—	*10*	*10*
Depreciation & Amortization (if reported separately)	606	524	547	*567*	*604*
Operating Income (ex charges)	**1,231**	**802**	**857**	***962***	***998***
Restructuring & Other Cash Charges	-32	2	-1	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**1,262**	**800**	**858**	***962***	***998***
Interest Expense	444	380	350	*360*	*392*
Interest Income	22	-80	2	*6*	*6*
Pre-Tax Income	**841**	**340**	**510**	***608***	***612***
Income Tax Expense	310	141	182	*219*	*171*
Other After-Tax Cash Gains (Losses)	-1	104	3	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	-16	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**530**	**287**	**332**	***389***	***440***
Weighted Average Diluted Shares Outstanding	317	320	324	*333*	*347*
Diluted Earnings Per Share	**1.67**	**0.90**	**1.02**	***1.17***	***1.27***
Adjusted Net Income	534	299	351	*389*	*440*
Diluted Earnings Per Share (Adjusted)	**1.69**	**0.94**	**1.09**	***1.17***	***1.27***
Dividends Per Common Share	1.02	0.83	0.64	*0.68*	*0.72*
EBITDA	**1,868**	**1,324**	**1,405**	***1,540***	***1,613***
Adjusted EBITDA	**1,836**	**1,326**	**1,404**	***1,540***	***1,613***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2014	2015	2016	Forecast 2017	Forecast 2018
Cash and Equivalents	50	45	36	*67*	*51*
Investments	—	—	—	—	—
Accounts Receivable	921	660	847	*654*	*679*
Inventory	586	537	494	*410*	*426*
Deferred Tax Assets (Current)	214	—	—	—	—
Other Short Term Assets	696	335	385	*350*	*375*
Current Assets	**2,467**	**1,577**	**1,762**	***1,482***	***1,531***
Net Property Plant, and Equipment	11,057	12,112	13,068	*14,151*	*15,244*
Goodwill	1,691	1,691	1,691	*1,691*	*1,691*
Other Intangibles	265	254	243	*232*	*221*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,545	1,600	1,637	*1,910*	*1,935*
Long-Term Non-Operating Assets	7,843	260	292	*292*	*292*
Total Assets	**24,866**	**17,493**	**18,692**	***19,757***	***20,914***
Accounts Payable	610	433	539	*581*	*603*
Short-Term Debt	1,844	1,001	1,851	*1,000*	*1,000*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,511	1,223	1,062	*1,300*	*1,400*
Current Liabilities	**3,964**	**2,658**	**3,452**	***2,881***	***3,003***
Long-Term Debt	8,156	5,949	6,058	*6,750*	*7,800*
Deferred Tax Liabilities (Long-Term)	2,380	2,365	2,528	*2,941*	*2,441*
Other Long-Term Operating Liabilities	2,996	1,350	1,265	*1,350*	*1,350*
Long-Term Non-Operating Liabilities	1,195	1,327	1,317	*1,317*	*1,317*
Total Liabilities	**18,691**	**13,649**	**14,621**	***15,239***	***15,911***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,788	5,078	5,154	*5,454*	*5,754*
Retained Earnings (Deficit)	1,494	-1,123	-972	*-809*	*-619*
(Treasury Stock)	-59	-79	-89	*-89*	*-89*
Other Equity	-51	-35	-25	*-41*	*-46*
Shareholder's Equity	**6,175**	**3,844**	**4,071**	***4,518***	***5,003***
Minority Interest	—	—	—	—	—
Total Equity	**6,175**	**3,844**	**4,071**	***4,518***	***5,003***

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.03 USD	23.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2014	2015	2016	Forecast 2017	Forecast 2018
Net Income	530	302	332	389	440
Depreciation	606	524	547	567	604
Amortization	—	—	—	11	11
Stock-Based Compensation	72	51	47	37	39
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	299	135	182	413	-500
Other Non-Cash Adjustments	-50	-11	-12	—	—
(Increase) Decrease in Accounts Receivable	-63	262	-188	193	-25
(Increase) Decrease in Inventory	-120	47	39	84	-15
Change in Other Short-Term Assets	9	43	-251	35	-25
Increase (Decrease) in Accounts Payable	38	-191	109	42	22
Change in Other Short-Term Liabilities	—	—	—	238	100
Cash From Operations	**1,321**	**1,163**	**804**	**2,009**	**651**
(Capital Expenditures)	-2,029	-1,361	-1,475	-1,650	-1,698
Net (Acquisitions), Asset Sales, and Disposals	13	5	—	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-101	3,731	-108	-189	-25
Cash From Investing	**-2,117**	**2,375**	**-1,583**	**-1,839**	**-1,723**
Common Stock Issuance (or Repurchase)	20	2	14	300	300
Common Stock (Dividends)	-321	-263	-206	-226	-250
Short-Term Debt Issuance (or Retirement)	878	-936	921	-851	—
Long-Term Debt Issuance (or Retirement)	219	-2,186	62	692	1,050
Other Financing Cash Flows	—	-137	—	-37	-39
Cash From Financing	**796**	**-3,520**	**791**	**-123**	**1,061**
Exchange Rates, Discontinued Ops, etc. (net)	-1	-28	-1	-16	-5
Net Change in Cash	**-1**	**-10**	**11**	**31**	**-16**

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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

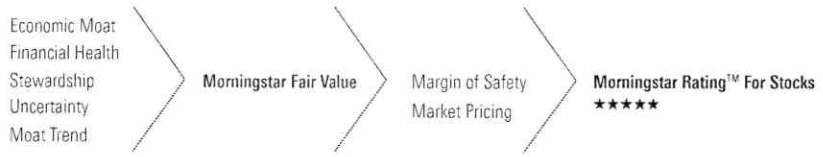
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling 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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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.

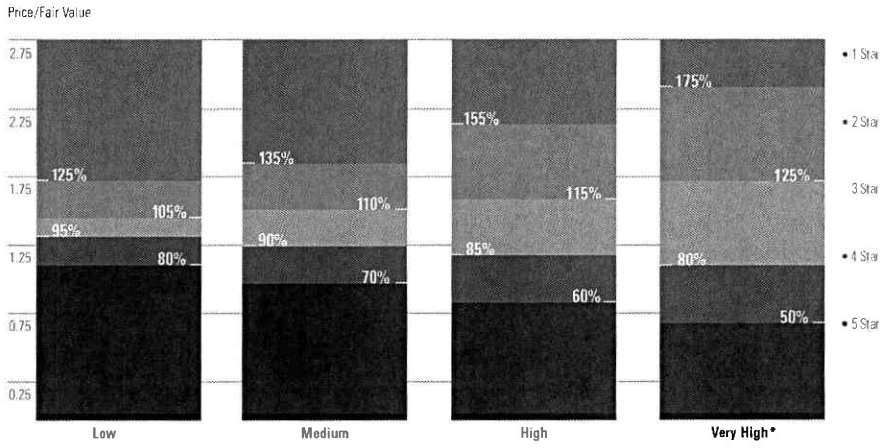
Four Stars ★★★★

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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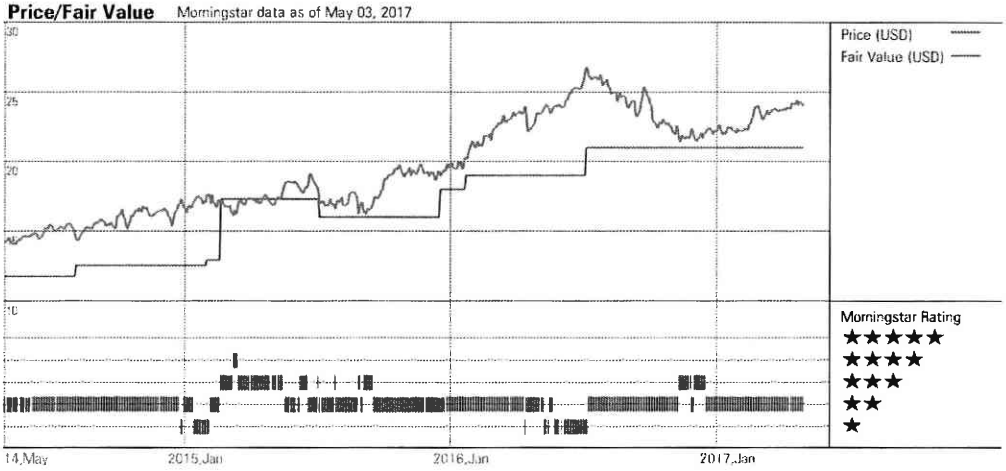
Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.03 USD	23.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Price/Fair Value Morningstar data as of May 03, 2017



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NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.03 USD	23.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

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NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.03 USD	23.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

NiSource Reports Strong 1Q and Raises Earnings Guidance; Increasing Our Fair Value Estimate

Updated Forecasts and Estimates from 04 May 2017

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

Research as of 04 May 2017
Estimates as of 04 May 2017
Pricing data as of 04 May 2017 13:08
Rating updated as of 04 May 2017 13:08

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

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Investment Thesis 04 May 2017

In July 2015, NiSource completed its 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 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 stepped up its capital expenditures. We estimate these investments will drive annual EPS growth of 6% per year and result in similar dividend increases over the next five years.

NiSource's regulated utility businesses plan to invest about $30 billion in infrastructure improvements during the next 20 years. Approximately $750 million per year of these investments are modernization programs for replacing steel pipe with plastic at its natural gas distribution utilities. We estimate the annual earnings growth from these investments should drive operating earnings growth at the Gas Distribution segment of approximately 8% per year.

A $1.2 billion seven-year electric system modernization plan and tracker mechanisms for automatic rate increases was approved by Indiana legislation in 2016. The regulatory framework for these investments allows for recovery in rates in less than 12 months, minimizing regulatory lag and allowing realized returns to approximate allowed returns. These investments combined with other investments in electric infrastructure should result in average annual operating earnings from the Electric segment increasing at almost 4% per year.

NiSource cut its dividend in 2015 to $0.62 per share annualized after the separation from CPG. The company raised its dividend in mid-2016 by 6.5% and again by 6.1% earlier this year. We believe NiSource will be able to continue increases at this rate for the foreseeable future.

Vital Statistics

Market Cap (USD Mil)	7,772
52-Week High (USD)	26.94
52-Week Low (USD)	21.17
52-Week Total Return %	6.8
YTD Total Return %	10.0
Last Fiscal Year End	31 Dec 2016
5-Yr Forward Revenue CAGR %	4.9
5-Yr Forward EPS CAGR %	6.1
Price/Fair Value	1.14

Valuation Summary and Forecasts

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Price/Earnings	20.8	20.3	*20.5*	*18.9*
EV/EBITDA	9.7	10.6	*10.2*	*9.7*
EV/EBIT	16.1	17.4	*16.3*	*15.7*
Free Cash Flow Yield %	-3.2	-9.4	*4.6*	*-13.5*
Dividend Yield %	4.2	2.9	*2.9*	*3.2*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Revenue	4,652	4,493	*4,775*	*4,956*
Revenue YoY %	-28.1	-3.4	*6.3*	*3.8*
EBIT	802	857	*962*	*998*
EBIT YoY %	-34.9	7.0	*12.2*	*3.7*
Net Income, Adjusted	299	351	*389*	*440*
Net Income YoY %	-44.0	17.4	*10.8*	*13.2*
Diluted EPS	0.94	1.09	*1.17*	*1.27*
Diluted EPS YoY %	-44.5	16.1	*7.7*	*8.4*
Free Cash Flow	3,741	-602	*359*	*-833*
Free Cash Flow YoY %	-721.3	-116.1	*-159.8*	*-331.7*

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 approximately 3.5 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
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Morningstar Analysis

NiSource Reports Strong 1Q and Raises Earnings Guidance; Increasing Our Fair Value Estimate 04 May 2017

We are increasing our fair value estimate to $23 from $21 per share and reaffirming our narrow moat and stable moat trend ratings after NiSource reported strong 2017 first-quarter earnings, raised its 2017 earnings guidance, and reaffirmed its long-term capital expenditure forecast.

At its Analyst Day in March, NiSource initiated a 2018-20 annual capital expenditure guidance range of $1.6 billion-$1.8 billion. The company had increased its 2017 planned capital expenditures to $1.6 billion-$1.7 billion from $1.5 billion during its 2016 earnings call in late February. Management reaffirmed both forecasts, driving our 6% annual earnings growth estimate through 2021.

Operating earnings in the 2017 first-quarter were $0.71 per share versus $0.62 in the same period last year. NiSource raised its 2017 earnings guidance to the upper half of its previous range of $1.12-$1.18 per share. Based on the strong first quarter and increased guidance, we have increased our 2017 earnings estimate to $1.17 from $1.15 per share.

Valuation, Growth and Profitability 04 May 2017

We are increasing our fair value estimate to $23 per share from $21 per share driven primarily by increased infrastructure investments that should drive rate base growth and earnings. Our assumption for capital expenditures over the five-year period ending in 2021 is $8.7 billion versus $7.5 billion in our previous estimate for the five-year period ending in 2020. Our fair value estimate also benefited from time-value appreciation since our last update.

NiSource's $2.7 billion five-year electric utility infrastructure investment program is the primary driver of our 4% annual operating earnings growth estimate during the next several years. At its gas distribution utilities, we estimate capital expenditures of $6 billion during the next five years. We estimate that favorable regulatory frameworks should push average annual gas distribution operating earnings growth to approximately 8%.

We estimate annual consolidated EPS growth of 6% even with the headwind of 20% more common shares outstanding over the next five years. Our estimate is at the midpoint of NiSource's 5%-7% earnings growth target through 2020.

We assume a 25% U.S. federal corporate tax rate effective in 2018. Since the majority of NiSource's income taxes are related to the company's regulated utilities, we expect most of the net benefit of lower income taxes would reduce customer rates.

We use a 5.9% 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 implies a 18 times multiple on 2018 earnings, slightly higher than the fair value estimate multiples for the company's U.S. regulated utility peers. We believe the premium relative valuation is appropriate given the visibility of NiSource's investment opportunities over the next 20 years.

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NiSource Inc NI (NYSE) | ★★

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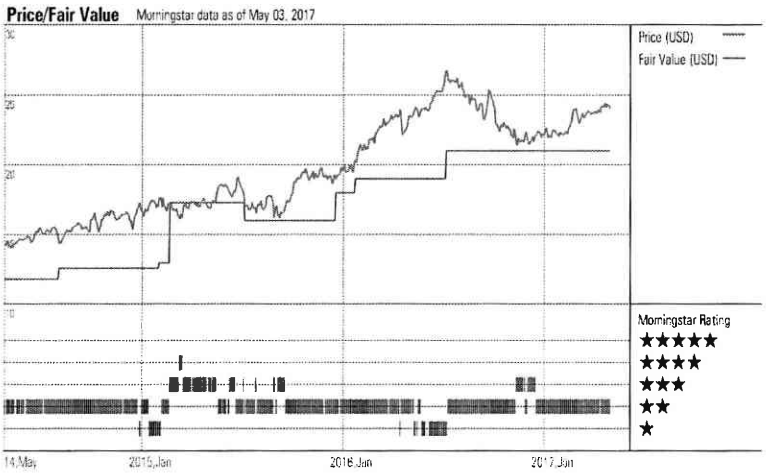

Scenario Analysis

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 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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NiSource Inc NI (NYSE) | ★★

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Bulls Say/Bears Say

Bulls Say

- We expect NiSource's annual dividend growth to average 6% during the next five years for the foreseeable future.
- 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.
- NiSource's common shares are expected to increase by 20% over the next five years in order to fund infrastructure investment. The additional shares will be a headwind to earnings growth.

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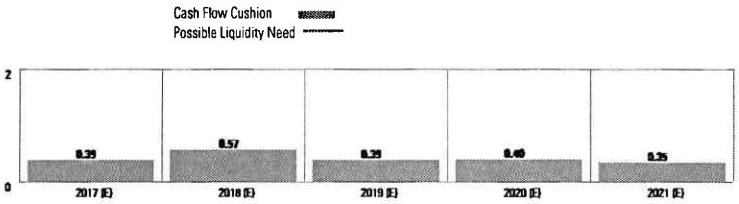
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2017(E)	2018(E)	2019(E)	2020(E)	2021(E)
Cash and Equivalents (beginning of period)	36	67	51	112	61
Adjusted Available Cash Flow	315	310	407	304	384
Total Cash Available before Debt Service	351	377	458	416	445
Principal Payments	-542	-266	-755	-598	-809
Interest Payments	-360	-392	-418	-430	-448
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-902	-658	-1,173	-1,028	-1,257

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	36	0.7
Sum of 5-Year Adjusted Free Cash Flow	1,720	34.3
Sum of Cash and 5-Year Cash Generation	1,756	35.0
Revolver Availability	1,500	29.9
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	3,256	64.9
Sum of 5-Year Cash Commitments	-5,018	—

Financial Health

As NiSource increases its infrastructure investments it will need to issue a material amount of equity to maintain its financial health. We estimate the company will issue approximately $300 million per year of common equity through 2021 to maintain its solid balance sheet and credit profile. Debt/capital rose to 66% at 2016 year-end from the 60% range before the separation from CPG. We project that the ratio will return to about 60% over the next five years due in large part to the equity issuances and earnings growth. 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 diversified regulated operations provide fairly consistent earnings and cash flow.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%. The company raised its dividend in mid-2016 by 6.5% and again by 6.1% earlier this year. We believe NiSource will be able to continue increases at this rate for the foreseeable future.

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 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

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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
JOSEPH HAMROCK	Director	598,074	27 Jan 2017	—
CARRIE J. HIGHTMAN		409,199	10 Mar 2017	24,000
JIMMIE L. STANLEY		352,796	28 Feb 2017	—
MS. VIOLET G. SISTOVARIS		208,191	28 Feb 2017	—
MR. DONALD BROWN		155,092	26 Jan 2017	—
MR. PABLO A. VEGAS		105,150	26 Jan 2017	—
MR. CARL W. LEVANDER		100,281	28 Feb 2017	—
EILEEN O'NEILL ODUM		97,086	24 Mar 2009	—
MR. RICHARD A. ABDOO	Director	44,514	11 May 2016	—

*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	3.16	1.08	-500	31 Mar 2017
Vanguard Mid-Cap Index Fund	2.40	0.22	22	31 Mar 2017
Vanguard Total Stock Mkt Idx	2.21	0.03	97	31 Mar 2017
Vanguard 500 Index Fund	1.52	0.04	86	31 Mar 2017
SPDR® S&P 500 ETF	1.13	0.04	3,663	02 May 2017
Concentrated Holders				
Reaves Utilities ETF	0.01	5.13	31	03 May 2017
Dunham Alternative Income Fund	—	5.01	—	31 Mar 2016
Reaves Utilities and Energy Infras Fund	0.02	3.84	-2	31 Mar 2017
PowerShares DWA Utilities Momentum Port	0.06	3.35	188	03 May 2017
Guggenheim S&P 500® Eq Wt Utilities ETF	0.08	3.19	—	03 May 2017

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Carlson Capital LP	0.79	0.67	2,546	31 Dec 2016
AllianceBernstein LP	2.52	0.15	2,145	31 Dec 2016
Renaissance Technologies Corp	0.60	0.07	1,803	31 Dec 2016
Pictet Asset Management SA	0.86	0.22	1,343	31 Dec 2016
D. E. Shaw & Co LP	0.63	0.08	1,119	31 Dec 2016
Top 5 Sellers				
RREEF America LLC	1.41	0.94	-5,234	31 Dec 2016
T. Rowe Price Associates, Inc.	6.67	0.09	-4,977	31 Dec 2016
Goldman, Sachs & Co.	0.72	0.02	-2,531	31 Dec 2016
Royal Bank Of Canada	0.33	0.01	-1,467	31 Dec 2016
Vanguard Group Inc	10.87	0.04	-1,090	31 Dec 2016

Management 04 May 2017

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 solid stewardship of shareholder capital is likely to continue.

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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.03 USD	23.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Analyst Notes

NiSource Reports Strong 1Q and Raises Earnings Guidance; Increasing Our Fair Value Estimate 04 May 2017

We are increasing our fair value estimate to $23 from $21 per share and reaffirming our narrow moat and stable moat trend ratings after NiSource reported strong 2017 first-quarter earnings, raised its 2017 earnings guidance, and reaffirmed its long-term capital expenditure forecast.

At its Analyst Day in March, NiSource initiated a 2018-20 annual capital expenditure guidance range of $1.6 billion-$1.8 billion. The company had increased its 2017 planned capital expenditures to $1.6 billion-$1.7 billion from $1.5 billion during its 2016 earnings call in late February. Management reaffirmed both forecasts, driving our 6% annual earnings growth estimate through 2021.

Operating earnings in the 2017 first-quarter were $0.71 per share versus $0.62 in the same period last year. NiSource raised its 2017 earnings guidance to the upper half of its previous range of $1.12-$1.18 per share. Based on the strong first quarter and increased guidance, we have increased our 2017 earnings estimate to $1.17 from $1.15 per share.

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities 28 Mar 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

For more information on our outlook for renewable growth and carbon emissions, see our most recent report "Trump Can't Thwart Green Progress" on Morningstar Select Investment Research.

NiSource Increases Planned Capital Expenditures and Again Announces Above-Target Dividend Growth 22 Feb 2017

We are reaffirming our narrow moat and stable moat trend ratings, along with our $21 per share fair value estimate

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Analyst Notes

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%.

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth 14 Nov 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about 3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Our fundamental U.S. electricity demand forecast is detailed in the Utilities Observer we published in May, "U.S. Electricity Demand Outlook: Energy Efficiency Is No Death Knell." Our fundamental EV forecast is detailed in the Electric Vehicles Observer published Nov. 14.

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Analyst Notes

Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities 09 Nov 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency's carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don't expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the next few years to lock in current tax benefits.

NiSource Management Meeting: Coal Plant Retirements Drive Stable Elevated Investments 06 Nov 2016

We are reaffirming our narrow moat and stable moat trend ratings, along with our $21 fair value estimate, after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona. This was our first opportunity to meet with management following their initiation of positive 2017 earnings and the filing of NIPSCO's Integrated Resource Plan, or IRP, to the Indiana Commission, both occurring less than one week ago.

NIPSCO, NiSource's wholly owned electric utility, is definitely planning to lower its carbon emissions. The updated IRP calls for replacing four coal units that represent about half of NIPSCO's coal-fired generation. The units would be retired by 2023 and NIPSCO plans to replace the coal capacity with a new natural gas-fired combined-cycle plant. We wonder if some wind energy capacity will receive more favorable public and regulatory support even though it likely will cost more than gas. However, NIPSCO will receive acknowledgement for driving coal use down from 90% of its generation as recently as 2010. In our opinion, this goodwill will help maintain a favorable regulatory framework in Indiana.

A new gas plant could also maintain NiSource's investment spending into the next decade. Twice this year, management raised its 2016 capital expenditure forecast, most recently to $1.5 billion through 2017 and modestly above our estimates. Management seems very confident that capital expenditures will stay in the $1.4 billion-$1.5 billion range for the foreseeable future. We consider this a positive since higher investments drive earnings growth and dividend

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Analyst Notes

increases if regulation is constructive. We believe NiSource's overall regulatory frameworks are constructive for investors and likely to stay that way, supporting the company's stable narrow moat.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2014	2015	2016	Forecast 2017	Forecast 2018	5-Year Proj. CAGR
Revenue	-7.4	14.4	-28.1	-3.4	6.3	3.8	4.9
EBIT	-8.7	9.3	-34.9	7.0	12.2	3.7	7.5
EBITDA	-6.2	7.8	-27.8	5.9	9.7	4.7	6.9
Net Income	-10.8	8.1	-44.0	17.4	10.8	13.2	10.2
Diluted EPS	-11.7	7.0	-44.5	16.1	7.7	8.4	6.1
Earnings Before Interest, after Tax	-10.4	3.6	-35.0	6.8	43.2	-77.9	8.4
Free Cash Flow	—	58.7	-721.3	-116.1	-159.8	-331.7	—

Profitability	3-Year Hist. Avg	2014	2015	2016	2017	2018	5-Year Proj. Avg
Operating Margin %	18.4	19.0	17.2	19.1	20.2	20.1	20.8
EBITDA Margin %	29.4	28.4	28.5	31.3	32.3	32.6	33.3
Net Margin %	7.5	8.3	6.4	7.8	8.2	8.9	9.2
Free Cash Flow Margin %	19.2	-9.3	80.4	-13.4	7.5	-16.8	-1.4
ROIC %	6.2	7.9	5.5	5.4	7.1	1.4	5.4
Adjusted ROIC %	7.3	9.5	6.3	6.0	8.0	1.6	6.0
Return on Assets %	1.8	2.2	1.4	1.8	2.0	2.2	2.2
Return on Equity %	7.6	8.8	5.7	8.4	9.1	9.3	9.2

Leverage	3-Year Hist. Avg	2014	2015	2016	2017	2018	5-Year Proj. Avg
Debt/Capital	0.64	0.62	0.64	0.66	0.63	0.64	0.62
Total Debt/EBITDA	5.44	5.45	5.24	5.63	5.03	5.46	5.14
EBITDA/Interest Expense	3.88	4.14	3.49	4.02	4.28	4.11	4.24

Valuation Summary and Forecasts

	2015	2016	2017(E)	2018(E)
Price/Fair Value	1.08	1.05	—	—
Price/Earnings	20.8	20.3	20.5	18.9
EV/EBITDA	9.7	10.6	10.2	9.7
EV/EBIT	16.1	17.4	16.3	15.7
Free Cash Flow Yield %	-3.2	-9.4	4.6	-13.5
Dividend Yield %	4.2	2.9	2.9	3.2

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	5.9
Long-Run Tax Rate %	28.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	71.4
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-294	-1.9	-0.87
Present Value Stage II	2,227	14.5	6.55
Present Value Stage III	13,447	87.4	39.57
Total Firm Value	**15,380**	**100.0**	**45.25**
Cash and Equivalents	40	—	0.12
Debt	-7,909	—	-23.27
Preferred Stock	—	—	—
Other Adjustments	300	—	0.88
Equity Value	**7,810**	**—**	**22.98**
Projected Diluted Shares	340		
Fair Value per Share (USD)	**23.00**		

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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Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in December

	2014	2015	2016	Forecast 2017	Forecast 2018
Revenue	**6,471**	**4,652**	**4,493**	***4,775***	***4,956***
Cost of Goods Sold	2,224	1,644	1,390	*1,498*	*1,554*
Gross Profit	**4,246**	**3,008**	**3,102**	***3,277***	***3,402***
Selling, General & Administrative Expenses	2,136	1,426	1,454	*1,498*	*1,542*
Other Operating Expense (Income)	320	256	244	*240*	*247*
Other Operating Expense (Income)	-47	—	—	*10*	*10*
Depreciation & Amortization (if reported separately)	606	524	547	*567*	*604*
Operating Income (ex charges)	**1,231**	**802**	**857**	***962***	***998***
Restructuring & Other Cash Charges	-32	2	-1	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**1,262**	**800**	**858**	***962***	***998***
Interest Expense	444	380	350	*360*	*392*
Interest Income	22	-80	2	*6*	*6*
Pre-Tax Income	**841**	**340**	**510**	***608***	***612***
Income Tax Expense	310	141	182	*219*	*171*
Other After-Tax Cash Gains (Losses)	-1	104	3	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	-16	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**530**	**287**	**332**	***389***	***440***
Weighted Average Diluted Shares Outstanding	317	320	324	*333*	*347*
Diluted Earnings Per Share	**1.67**	**0.90**	**1.02**	***1.17***	***1.27***
Adjusted Net Income	534	299	351	*389*	*440*
Diluted Earnings Per Share (Adjusted)	**1.69**	**0.94**	**1.09**	***1.17***	***1.27***
Dividends Per Common Share	1.02	0.83	0.64	*0.68*	*0.72*
EBITDA	**1,868**	**1,324**	**1,405**	***1,540***	***1,613***
Adjusted EBITDA	**1,836**	**1,326**	**1,404**	***1,540***	***1,613***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2014	2015	2016	Forecast 2017	Forecast 2018
Cash and Equivalents	50	45	36	*67*	*51*
Investments	—	—	—	—	—
Accounts Receivable	921	660	847	*654*	*679*
Inventory	586	537	494	*410*	*426*
Deferred Tax Assets (Current)	214	—	—	—	—
Other Short Term Assets	696	335	385	*350*	*375*
Current Assets	**2,467**	**1,577**	**1,762**	***1,482***	***1,531***
Net Property Plant, and Equipment	11,057	12,112	13,068	*14,151*	*15,244*
Goodwill	1,691	1,691	1,691	*1,691*	*1,691*
Other Intangibles	265	254	243	*232*	*221*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,545	1,600	1,637	*1,910*	*1,935*
Long-Term Non-Operating Assets	7,843	260	292	*292*	*292*
Total Assets	**24,866**	**17,493**	**18,692**	***19,757***	***20,914***
Accounts Payable	610	433	539	*581*	*603*
Short-Term Debt	1,844	1,001	1,851	*1,000*	*1,000*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,511	1,223	1,062	*1,300*	*1,400*
Current Liabilities	**3,964**	**2,658**	**3,452**	***2,881***	***3,003***
Long-Term Debt	8,156	5,949	6,058	*6,750*	*7,800*
Deferred Tax Liabilities (Long-Term)	2,380	2,365	2,528	*2,941*	*2,441*
Other Long-Term Operating Liabilities	2,996	1,350	1,265	*1,350*	*1,350*
Long-Term Non-Operating Liabilities	1,195	1,327	1,317	*1,317*	*1,317*
Total Liabilities	**18,691**	**13,649**	**14,621**	***15,239***	***15,911***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,788	5,078	5,154	*5,454*	*5,754*
Retained Earnings (Deficit)	1,494	-1,123	-972	*-809*	*-619*
(Treasury Stock)	-59	-79	-89	*-89*	*-89*
Other Equity	-51	-35	-25	*-41*	*-46*
Shareholder's Equity	**6,175**	**3,844**	**4,071**	***4,518***	***5,003***
Minority Interest	—	—	—	—	—
Total Equity	**6,175**	**3,844**	**4,071**	***4,518***	***5,003***

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NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.03 USD	23.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2014	2015	2016	Forecast 2017	Forecast 2018
Net Income	530	302	332	*389*	*440*
Depreciation	606	524	547	*567*	*604*
Amortization	—	—	—	*11*	*11*
Stock-Based Compensation	72	51	47	*37*	*39*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	299	135	182	*413*	*-500*
Other Non-Cash Adjustments	-50	-11	-12	—	—
(Increase) Decrease in Accounts Receivable	-63	262	-188	*193*	*-25*
(Increase) Decrease in Inventory	-120	47	39	*84*	*-15*
Change in Other Short-Term Assets	9	43	-251	*35*	*-25*
Increase (Decrease) in Accounts Payable	38	-191	109	*42*	*22*
Change in Other Short-Term Liabilities	—	—	—	*238*	*100*
Cash From Operations	**1,321**	**1,163**	**804**	***2,009***	***651***
(Capital Expenditures)	-2,029	-1,361	-1,475	*-1,650*	*-1,698*
Net (Acquisitions), Asset Sales, and Disposals	13	5	—	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-101	3,731	-108	*-189*	*-25*
Cash From Investing	**-2,117**	**2,375**	**-1,583**	***-1,839***	***-1,723***
Common Stock Issuance (or Repurchase)	20	2	14	*300*	*300*
Common Stock (Dividends)	-321	-263	-206	*-226*	*-250*
Short-Term Debt Issuance (or Retirement)	878	-936	921	*-851*	—
Long-Term Debt Issuance (or Retirement)	219	-2,186	62	*692*	*1,050*
Other Financing Cash Flows	—	-137	—	*-37*	*-39*
Cash From Financing	**796**	**-3,520**	**791**	***-123***	***1,061***
Exchange Rates, Discontinued Ops, etc. (net)	-1	-28	-1	*-16*	*-5*
Net Change in Cash	**-1**	**-10**	**11**	***31***	***-16***

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

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)
Xcel Energy Inc XEL USA	1.24	18.4	19.5	17.4	5.9	10.0	9.6	NM	NM	NM	1.9	2.0	1.9	1.9	2.0	1.9
WEC Energy Group Inc WEC USA	1.08	19.7	19.6	18.3	7.6	11.5	11.0	29.0	NM	NM	2.1	2.1	1.9	2.5	2.4	2.3
CMS Energy Corp CMS USA	1.18	22.0	20.8	19.7	5.5	9.8	9.1	NM	NM	154.5	2.7	2.6	2.4	1.8	1.9	1.7
Average		20.0	20.0	18.5	6.3	10.4	9.9	29.0	—	154.5	2.2	2.2	2.1	2.1	2.1	2.0
NiSource Inc NI US	**1.14**	**20.3**	**20.5**	**18.9**	**10.6**	**10.2**	**9.7**	**NM**	**21.6**	**NM**	**1.8**	**1.7**	**1.6**	**1.6**	**1.6**	**1.6**

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)
Xcel Energy Inc XEL USA	41,155 USD	6.7	6.3	6.3	6.7	6.3	6.3	10.4	10.3	11.1	2.8	2.8	3.0	3.3	3.2	3.4
WEC Energy Group Inc WEC USA	30,123 USD	5.0	6.1	5.9	5.7	6.9	6.6	10.7	10.8	11.0	3.2	3.1	3.2	3.4	3.4	3.7
CMS Energy Corp CMS USA	21,622 USD	6.8	6.6	7.0	6.8	6.6	7.0	13.5	13.4	13.2	2.6	2.8	2.9	3.0	3.0	3.3
Average		6.2	6.3	6.4	6.4	6.6	6.6	11.5	11.5	11.8	2.9	2.9	3.0	3.2	3.2	3.5
NiSource Inc NI US	**18,692** USD	**5.4**	**7.1**	**1.4**	**6.0**	**8.0**	**1.6**	**8.4**	**9.1**	**9.3**	**1.8**	**2.0**	**2.2**	**2.9**	**2.9**	**3.2**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)
Xcel Energy Inc XEL USA	11,107 USD	0.8	3.7	2.9	10.7	4.5	1.4	5.7	3.6	12.2	-143.4	-55.2	-943.6	6.3	5.9	5.6
WEC Energy Group Inc WEC USA	7,472 USD	26.1	6.7	2.8	34.5	5.3	5.3	6.6	4.5	6.6	-179.8	-173.3	-90.8	8.2	5.1	6.3
CMS Energy Corp CMS USA	6,399 USD	-0.9	6.1	8.0	11.5	7.9	7.6	—	14.1	5.9	-116.7	364.6	192.1	6.9	6.5	7.6
Average		8.7	5.5	4.6	18.9	5.9	4.8	6.2	7.4	8.2	-146.6	45.4	-280.8	7.1	5.8	6.5
NiSource Inc NI US	**4,493** USD	**-3.4**	**6.3**	**3.8**	**7.0**	**12.2**	**3.7**	**16.1**	**7.7**	**8.4**	**-116.1**	**-159.8**	**-331.7**	**-22.9**	**6.3**	**6.0**

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NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.03 USD	23.00 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.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)
Xcel Energy Inc XEL USA	1,126 USD	59.6	59.9	59.9	31.8	32.6	33.0	19.9	20.1	19.8	10.1	10.1	11.0	-1.3	-4.4	-7.8
WEC Energy Group Inc WEC USA	940 USD	64.6	66.0	66.1	32.7	31.9	32.4	22.5	22.2	22.8	12.6	12.3	13.0	8.5	-7.9	-1.7
CMS Energy Corp CMS USA	551 USD	56.2	55.8	54.3	32.9	33.6	33.4	20.3	20.6	20.5	8.6	9.1	9.2	-0.7	-1.1	1.1
Average		60.1	60.6	60.1	32.5	32.7	32.9	20.9	21.0	21.0	10.4	10.5	11.1	2.2	-4.5	-2.8
NiSource Inc NI US	**351 USD**	**69.1**	**68.6**	**68.6**	**31.3**	**32.3**	**32.6**	**19.1**	**20.2**	**20.1**	**7.8**	**8.2**	**8.9**	**-14.9**	**7.5**	**-21.1**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)
Xcel Energy Inc XEL USA	14,842 USD	134.7	137.8	144.4	57.4	57.9	59.1	5.7	5.9	5.8	4.2	4.2	4.5	3.7	3.7	3.8
WEC Energy Group Inc WEC USA	10,176 USD	113.6	125.5	124.4	53.2	55.7	55.4	6.1	6.0	5.5	4.2	4.6	4.7	3.4	3.5	3.4
CMS Energy Corp CMS USA	9,924 USD	233.3	202.5	200.7	70.0	66.9	66.8	4.8	5.1	5.3	4.7	4.4	4.3	5.1	4.6	4.5
Average		160.5	155.3	156.5	60.2	60.2	60.4	5.5	5.7	5.5	4.4	4.4	4.5	4.1	3.9	3.9
NiSource Inc NI US	**7,909 USD**	**194.3**	**171.5**	**175.9**	**66.0**	**63.2**	**63.8**	**4.0**	**4.3**	**4.1**	**5.6**	**5.0**	**5.5**	**4.6**	**4.4**	**4.2**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)	2016	2017(E)	2018(E)
Xcel Energy Inc XEL USA	22,702 USD	0.17	0.18	0.07	0.88	0.85	0.84	0.69	0.68	0.66	0.13	0.14	0.06	61.7	62.9	59.2
WEC Energy Group Inc WEC USA	19,149 USD	0.12	0.54	0.51	1.68	1.75	1.72	1.43	1.47	1.44	0.04	0.16	0.15	66.8	67.1	66.9
CMS Energy Corp CMS USA	12,615 USD	0.91	0.88	1.55	0.86	1.00	1.14	0.62	0.69	0.80	0.20	0.24	0.43	63.0	61.2	62.2
Average		0.40	0.53	0.71	1.14	1.20	1.23	0.91	0.95	0.97	0.12	0.18	0.21	63.8	63.7	62.8
NiSource Inc NI US	**7,772 USD**	**0.11**	**0.20**	**0.15**	**0.51**	**0.51**	**0.51**	**0.37**	**0.37**	**0.37**	**0.02**	**0.07**	**0.05**	**62.5**	**58.2**	**56.9**

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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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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.

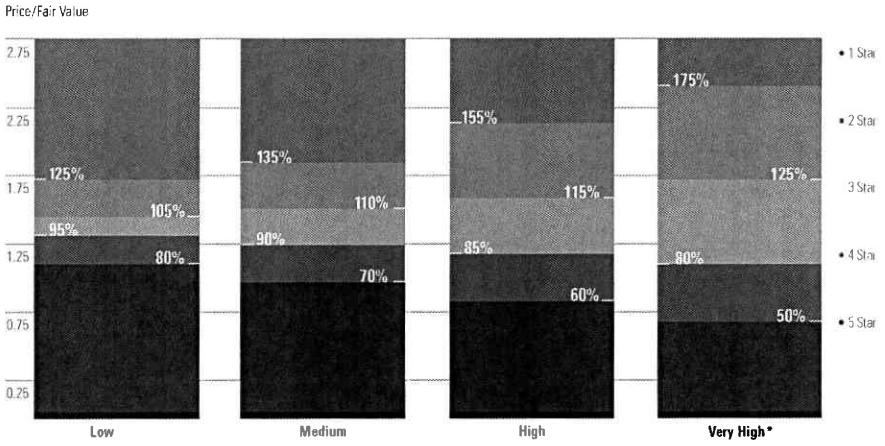
Four Stars ★★★★

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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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.

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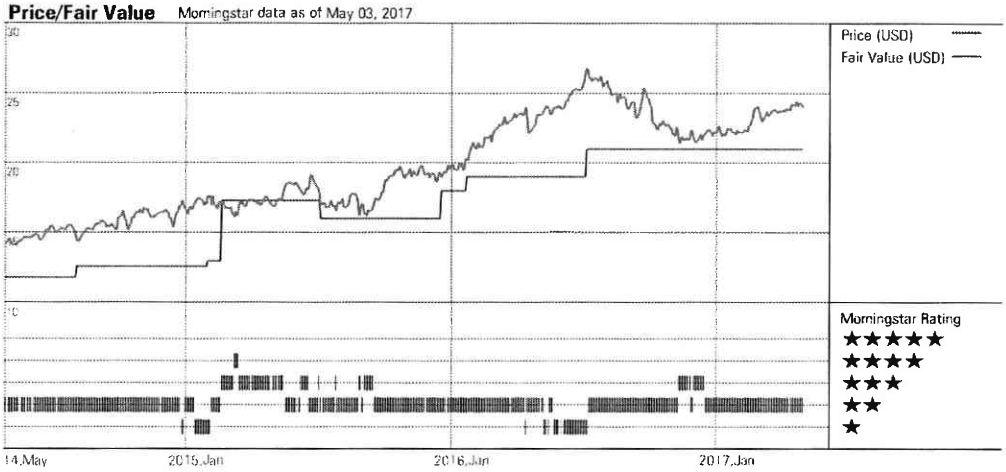
NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.03 USD	23.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Price/Fair Value Morningstar data as of May 03, 2017



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NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
24.03 USD	23.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

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Power & Utilities
Initiating Coverage
May 19, 2017
BUY

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NISOURCE INC.

Multi-State Gas LDC and Single-State Electric Utility; Initiate with BUY Rating

NI (NYSE)

Company & Market Data	
Closing Price (as of 05/18/2017):	$24.50
Rating:	BUY
Price Target:	$27.00
52 Week Range:	$21.17 - $26.94
Shares Outstanding (MM):	324.7
Market Capitalization (MM):	$7,954
Avg Daily Volume (M):	3,130.7
Enterprise Value (MM):	$15,829
Book Value per share:	$27.46
Debt (MM):	$7,950.0
Annual Dividend/Share:	$0.70
Current Dividend Yield:	2.9%
Fiscal Year End:	Dec

Estimates			
EPS	**2016A**	**2017E**	**2018E**
1Q	$0.62	$0.71A	—
2Q	$0.08	—	—
3Q	$0.06	—	—
4Q	$0.33	—	—
Full Year	$1.09	$1.17	$1.25
Consensus EPS	NA	$1.17	$1.24
Revenue (MM)	$4,492.5	$4,821.8	$5,016.2
EBITDA (MM)	$1,406.8	$1,587.4	$1,719.4

Ratios			
P/E	22.5x	20.9x	19.6x
EV/EBITDA	11.3x	10.0x	9.2x

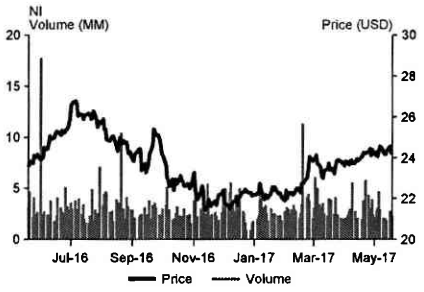

Chart data: Bloomberg

Highlights

We initiate coverage of NiSource (NI) with a BUY rating. Our price target of $27 per share is supported by our 2019 Sum-of-the-Parts analysis. Our 2017/2018/2019 EPS estimates are $1.17/$1.25/$1.32.

Following the successful separation from Columbia Pipeline Group (completed July 1, 2015), NI is now a fully-regulated natural gas and electric utility serving four million customers across seven states. NI's 100% regulated revenue stream and opportunities associated with incremental infrastructure investment support the company with a solid platform to drive year-over-year earnings growth into the foreseeable future. Additionally, the company has a balanced business mix, as 66% of operating earnings were derived from gas operations and 34% of operating earnings were derived from electric operations in FY16.

We note the following fundamentals; 100% regulated earnings profile, constructive regulatory jurisdictions, attractive customer growth, gas/electric earnings mix of two-thirds/one-third, annual capital budget of $1.6 - $1.8 billion through 2020 with over $30 billion of total investment opportunities, timely recovery of investments through regulatory mechanisms that reduce regulatory lag, above-average natural gas rate base growth of 9% - 11% through 2020.

Partially offsetting the previously mentioned positive fundamentals are meaningful un-allocated Parent debt, above-average consolidated leverage, uncertain impact of tax reform, sizable external capital needs, and fairly large ATM program.

We characterize the natural gas segment as relatively low-risk with an attractive risk-adjusted above-average growth rate, meaningful scale, multi-state footprint offers regulatory diversity, attractive customer growth outlook, minimal regulatory lag due to use of trackers.

We characterize the electric segment as average growth, single-state regulatory concentration, the recovery of investments through mechanisms and general rate cases, weather sensitivity, growing FERC transmission rate base, evolving generation portfolio.

NiSource Inc., headquartered in Merrillville, Indiana, is a holding company with several fully regulated natural gas distribution and electric utility companies across seven states. Together, these companies serve nearly 3.4 million natural gas customers in Indiana, Kentucky, Ohio, Virginia, Maryland, Pennsylvania, and Massachusetts, and 500,000 electric customers in northwestern Indiana. As such, NI's operations and results are classified as two reportable segments: Gas Distribution Operations and Electric Operations.

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Investment Conclusion

We Initiate Coverage of NI with a BUY Rating

We initiate coverage of NiSource (NI) with a BUY rating. Our price target of $27 per share is supported by our 2019 Sum-of-the-Parts analysis. Our 2017/2018/2019 EPS estimates are $1.17/$1.25/$1.32.

Attractive Valuation Relative to Fundamentals and Peers

NI currently trades at a 2019 leading P/E of 18.5x our EPS estimate of $1.32, a 4.6% discount to a selected regulated natural gas LDC and electric utility group average of 19.4x. We define NI's peer group as companies with similar natural gas LDC and electric operations. NI forecasts EPS growth of 5% - 7%. NI offers a dividend yield of 2.9%, compared to the peer average of 2.7%, with dividend growth of 5% - 7%. NI's current payout ratio is 60.0% compared to the peer average of 65.4%. We believe at current valuation levels NI shares are attractive relative to peers considering its business mix, risk-adjusted growth rate, investment opportunities, above-average customer growth, cost management initiatives and regulatory diversity.

Successful Corporate Separation

Following the successful separation from Columbia Pipeline Group (completed July 1, 2015), NI is now a fully-regulated natural gas and electric utility serving four million customers across seven states. NI's 100% regulated revenue stream and opportunities associated with incremental infrastructure investment support the company with a solid platform to drive year-over-year earnings growth into the foreseeable future. Additionally, the company has a balanced business mix, as 66% of operating earnings were derived from gas operations and 34% of operating earnings were derived from electric operations in FY16.

We characterize the natural gas segment as relatively low-risk with an attractive risk-adjusted above-average growth rate, meaningful scale, multi-state footprint offers regulatory diversity, attractive customer growth outlook, and minimal regulatory lag due to use of trackers.

We characterize the electric segment as average growth, single-state regulatory concentration, recovery of investments through mechanisms and general rate cases, weather sensitivity, growing FERC transmission, and evolving generation portfolio.

Earnings Outlook and Drivers

We forecast 2017E EBITDA and EPS of $1.587 billion and $1.17, respectively. Assumptions include: full year rate relief from 2016 proceedings, year-to-date rate relief, 1% customer growth, capital markets activities, 3% O&M expense growth.

We forecast 2018E EBITDA and EPS of $1.719 billion and $1.25, respectively. Assumptions include: full year rate relief from 2017 proceedings, year-to-date rate relief, 1% customer growth, capital markets activities, 2% O&M expense growth.

We forecast 2019E EBITDA and EPS of $1.852 billion and $1.32, respectively. Assumptions include: full year rate relief from 2018 proceedings, year-to-date rate relief, 1% customer growth, capital markets activities, 1% O&M expense growth.

Capital Expenditures and Rate Base Growth

NI projects FY17 capital expenditures of $1.6 - $1.7 billion, and FY18 – FY20 expenditures of $1.6 - $1.8 billion on an annual basis. The company begins collecting revenue within twelve months on 75% of infrastructure placed into service due to its regulatory frameworks. This level of capital investment is expected to support 8% - 10% rate base growth. The new investments are also expected to help stem operations and maintenance expense growth, which is targeted at 2% - 4% through 2017 and is projected to flatten beyond 2017.

Credit Profile and External Capital Needs

NI debt is currently rated BBB+ and Baa2 by S&P and Moody's, respectively. As of December 2016, consolidated long-term debt and equity represented 64.0% and 36.0%, respectively, of total capitalization. We forecast 2017 Debt/EBITDA of 4.8x, Debt/Capital of 64.3%, and FFO/Debt of 15.3%. We believe NI has sufficient liquidity to fund operations. As of March 2017, NI currently maintains approximately $0.789 billion in net available liquidity. The company has nearly $2.2 billion of committed facilities in place between its $1.85 billion 5-year revolving credit facility and its $0.44 billion accounts receivable securitization facilities.

We expect NI to be active in the capital markets to fund its capital budget including issuing $500 - $1,000 million in debt and $250 - $375 million in equity annually through 2020. Equity issuances will be accomplished through the company's new recently announced At-the-Market program and continuation of the Dividend Reinvestment Program, which will net $200 - $300 million and $50 - $75 million, respectively, in funding per year.

Dividend Strategy

NI's strategy is to grow the dividend commensurate with earnings at 5% - 7% and targets a payout ratio of 60% - 70%. We forecast annual dividend growth of 6.0% which we view as average relative to peers.

Regulatory Backdrop

Considering that NI operates in seven different states, the company's businesses are regulated by several different regulatory authorities. In Indiana, NIPSCO's gas and electric operations are monitored and regulated by the Indiana Utility Regulation Commission (IURC). NIPSCO electric's transmission activities are also regulated by the FERC. The operations of Columbia Gas are regulated by the Public Utilities Commission of Ohio (PUCO), the Pennsylvania Public Utility Commission (PPUC), the Massachusetts Department of Public Utilities (MDPU), the Virginia State Corporation Commission (VSCC), the Kentucky Public Service Commission (KPSC), and the Maryland Public Service Commission (MPSC). Given that NI's businesses fall under mostly separate jurisdictions, the company benefits from a considerable amount of regulatory diversity. Also, various cost recovery mechanisms and trackers reduce regulatory lag enabling NI to earn near allowed returns and avoid time-consuming general rate cases and related risks.

Company Guidance and Outlook

NI projects that it will generate approximately 5% - 7% annual operating earnings per share growth through 2020, with dividend growth commensurate to earnings growth and complicit with a 60% - 70% targeted payout ratio. Earnings growth is expected to be driven by 8% - 10% annual rate base growth over the planning period. FY17 net

operating EPS is targeted at $1.12 - $1.18 (at higher-end of range following 1Q17 financial results), which represents 10.6% CAGR from FY15 EPS of $0.94.

Table 1: NI – Financial Summary

FINANCIAL SUMMARY	2015A	2016A	2017E	2018E	2019E
EPS	$ 0.94	$ 1.09	$ 1.17	$ 1.25	$ 1.32
P/E ratio	25.99x	22.55x	20.95x	19.59x	18.51x
EBITDAPS	4.20	4.35	4.71	4.90	5.08
P/EBITDAPS	5.84	5.63	5.20	5.00	4.82
Free CFPS	0.35	(2.02)	(1.58)	(1.23)	(0.90)
P/Free CFPS	70.52	(12.16)	(15.51)	(19.99)	(27.35)
DPS	0.83	0.64	0.70	0.74	0.79
Dividend yield	3.39%	2.61%	2.86%	3.03%	3.21%
Payout ratio	88.04%	58.90%	59.85%	59.32%	59.44%
Adj BV PS	$ 5.97	$ 6.61	$ 6.80	$ 7.05	$ 7.32
P/BV PS	4.10	3.71	3.60	3.48	3.35
Dilluted Shares Out (thousands)	320	324	337	351	364
Enterprise value	15,256	15,146	15,825	16,460	17,180
EV/Sales	3.28x	3.37x	3.28x	3.28x	3.30x
EV/EBITDA	11.37x	10.77x	9.97x	9.57x	9.28x
EV/EBIT	18.67x	17.62x	15.39x	14.61x	14.04x
INCOME STATEMENT (USD millions)					
Revenues	4,651.8	4,492.5	4,821.8	5,016.2	5,204.4
Gross margin	3,008.1	3,102.3	3,369.8	3,550.2	3,724.0
Adj. Operating EBITDA	1,341.7	1,406.8	1,587.4	1,719.4	1,851.9
Depreciation & Amortization	524.4	547.1	559.0	592.6	628.1
EBIT	817.3	859.7	1,028.3	1,126.8	1,223.8
Interest expense, net	380.2	349.5	408.5	437.5	466.6
Income tax expense	126.3	162.1	225.6	250.6	275.0
Net income	301.5	351.5	394.3	438.7	482.1
Net income per share	0.94	1.09	1.17	1.25	1.32
CASH FLOW (USD millions)					
Cash flow from operations	1,471.8	823.3	1,167.3	1,270.3	1,373.7
Cash flow from investing	1,944.9	(1,582.9)	(1,700.0)	(1,700.0)	(1,700.0)
Capital expenditures	1,360.7	1,475.2	1,700.0	1,700.0	1,700.0
Cash flow from financing	(3,411.6)	790.5	527.0	427.8	326.5
Common dividend payments	(263.4)	(205.5)	(236.0)	(260.2)	(286.5)
Free cash flow	111.1	(651.9)	(532.7)	(429.7)	(326.3)
BALANCE SHEET (USD millions)					
Cash and marketable securities	15.5	26.4	55.8	53.8	53.9
Total assets	17,492.5	18,691.9	19,356.7	19,991.9	20,663.5
Total debt	7,436.5	7,246.2	7,621.2	7,921.2	8,308.2
Total liabilities	7,700.5	8,562.5	8,322.3	8,029.1	7,755.1
Stockholders' equity	3,843.5	4,071.2	4,226.2	4,404.6	4,600.2
RATIO ANALYSIS					
Sales growth (%)	-11.77%	-3.42%	7.33%	4.03%	3.75%
Gross margin/sales (%)	64.67%	69.06%	69.89%	70.77%	71.56%
EBIT/Assets	4.67%	4.60%	5.31%	5.64%	5.92%
CFO/Assets	8.41%	4.40%	6.03%	6.35%	6.65%
ROA	1.72%	1.88%	2.04%	2.19%	2.33%
ROE	7.84%	8.63%	9.33%	9.96%	10.48%
Debt/Capital (adj)	65.93%	64.03%	64.33%	64.27%	64.36%
Debt/EBITDA	5.54x	5.15x	4.80x	4.61x	4.49x
FFO/interest expense (adj)	3.87x	2.36x	2.86x	2.90x	2.94x
FFO/Debt (adj)	19.79%	11.36%	15.32%	16.04%	16.53%
NET OPERATING EPS					
Electric			$ 0.46	$ 0.50	$ 0.51
Gas Distribution			$ 0.91	$ 0.95	$ 1.00
Corporate			$ (0.20)	$ (0.19)	$ (0.19)
Total Operating EPS			$ 1.17	$ 1.25	$ 1.32
NET OPERATING INCOME					
Electric		$ 291.40	$ 339.53	$ 374.82	$ 398.58
Gas Distribution		$ 596.60	$ 687.32	$ 750.48	$ 823.69
Corporate		$ (5.70)	$ (5.70)	$ (5.70)	$ (5.70)
Total Operating income		$ 882.30	$ 1,021.15	$ 1,119.60	$ 1,216.57
RATE BASE ANALYSIS					
Electric		3,400	3,575	3,750	3,925
Gas Distribution		6,759	7,659	8,559	9,459
Total Rate Base		10,159	11,234	12,309	13,384

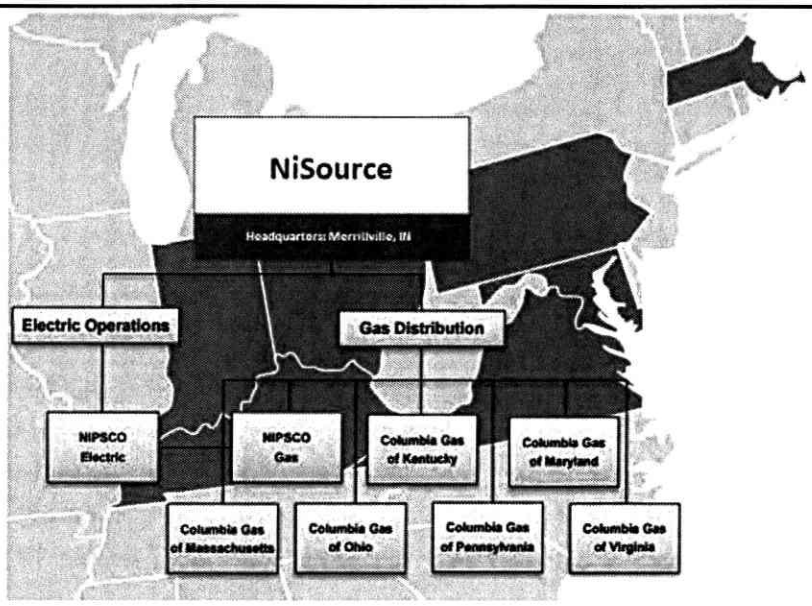
Source: Ladenburg Thalmann & Co, Inc. Estimates, Company Reports

Company Description

NiSource Inc., headquartered in Merrillville, Indiana, is a holding company with several fully regulated natural gas distribution and electric utility companies across seven states. Together, these companies serve nearly 3.4 million natural gas customers in Indiana, Kentucky, Ohio, Virginia, Maryland, Pennsylvania, and Massachusetts, and 500,000 electric customers in northwestern Indiana. As such, NI's operations and results are classified as two reportable segments: Gas Distribution Operations and Electric Operations.

NI's Gas Distribution Operations segment operates nearly 59,000 miles of pipeline across seven states in the traditional Midwestern United States and Appalachia. NI's gas distribution companies include Columbia Gas of Ohio, Columbia Gas of Pennsylvania, Columbia Gas of Kentucky, Columbia Gas of Maryland, Columbia Gas of Massachusetts, Columbia Gas of Virginia, and the gas distribution business of Northern Indiana Public Service Company (NIPSCO). NI's Electric Operations are accomplished in whole through NIPSCO, which owns and operates three coal-fired generating facilities, a natural gas CCGT plant, 3 natural gas-fueled generation units and 2 hydroelectric generating plants that, in total, result in a net capability of 3,281 MW.

Table 2: NI Service Territories



Source: Ladenburg Thalmann & Co, Inc., Company Reports

Value Proposition and Strategy

NI aims to deliver annual total shareholder return of approximately 8% - 10% per annum. The company's strategy is based upon driving earnings through the recovery of prudently made investments in its fully regulated natural gas and electric infrastructure across its multiple regulatory frameworks. NI believes that its position as a fully regulated multi-utility results in transparent and predictable earnings and cash flow, which is aided by the constructive regulatory frameworks and mechanisms that provide for expedient recovery on investments. NI is also committed to its investment grade credit, which is rated BBB+/Baa2 by S&P/Moody's.

As of NI's separation from the Columbia Pipeline Group, which completed on July 1, 2015, NI had identified approximately $30 billion in long-term infrastructure investments that, if pursued, could help result in annual rate base growth of 6% - 8% and annual operating EPS growth of 4% - 6%. Since the separation, NI has executed on infrastructure investments of nearly $2.9 billion, growing rate base at an 8.0% CAGR and net operating EPS at a 10.6% CAGR. NI looks to continue this strategy of capitalizing upon infrastructure expenditures and pursuing constructive regulatory outcomes that support long-term investments. NI's long-term EPS growth outlook has since been increased to 5% - 7% per annum through 2020, with the dividend expected to grow at a rate commensurate to earnings. The company targets a dividend payout of 60% - 70%.

Natural Gas Distribution Subsidiaries

NI's natural gas distribution segment features seven subsidiaries that contribute to a stable stream of 100% fully regulated revenues. Altogether, these subsidiaries serve approximately 3.4 billion residential, commercial, and industrial customers, and maintain distribution systems that amount to an aggregate rate base of $6.0 billion as of 2016. With over $20 billion of identified opportunities to invest in its distribution infrastructure, NI expects to drive natural gas segment rate base growth of 9% - 11% through 2020.

Table 3: Natural Gas Service Territories

	Customers	Base Case ROE	Rate Base (YE 2016)	Investment Recovery Method
Columbia Gas of Ohio	1.4 M	Not Specified	$2.1 B	Tracked
Columbia Gas of Pennsylvania	430 K	Not Specified	$1.3 B	Rate Case (Forward Test Year)
NIPSCO Gas	820 K	9.90%	$915 M	Tracked
Columbia Gas of Massachusetts	320 K	9.55%	$669 M	Tracked
Columbia Gas of Virginia	260 K	Not Specified	$609 M	Tracked
Columbia Gas of Kentucky	135 K	Not Specified	$238 M	Tracked
Columbia Gas of Maryland	33 K	9.70%	$93 M	Tracked

Source: Ladenburg Thalmann & Co, Inc., Company Reports

NI's core infrastructure and environmental investment programs are supplemented by the company's efforts to adapt to its changing operating environment. NI has undertaken a number of programs to address changing customer conservation patterns, including the development of updated pricing structures. The company must balance its desire to grow rate base, and return on such, with the realities of declining customer usage and propensity for rate fatigue. Additionally, the introduction of competitive energy retailers into NI's service territories has motivated NI to pursue non-traditional revenue sources in an effort to remain competitive and profitable, which include the sale of products and services upstream of NI's service territories and gas supply cost incentive mechanisms for core markets, among other initiatives.

Given NI's geographic proximity and commodity mix, the company's operations are subject to seasonal fluctuations in sales. Natural gas sales are expected to peak during the winter heating season, from November through March.

Table 4: Natural Gas Infrastructure Programs

Program Attributes	Ohio	Penn.	NIPSCO	Mass.	Virginia	Kentucky	Maryland
Total Investment Opportunities	~$7.4 B	~$3.5 B	~$5.9 B	~$2.4 B	~$2.0 B	~$800 M	~$250 M
Annual Program Investment Range	$205 - $260M	$200 - $250M	$135 - $170M	$70 - $120M	$30 - $40M	$20 - $45M	$10 - $16M
Regulatory Treatment	Tracked	Rate Case	Tracked	Tracked	Tracked	Tracked	Tracked
Tracker Filing Period	Historical - 12 mo.	Forward - 12 mo.	Historical - prior 6 mo.	Forward - 12 mo.	Forward - 12 mo.	Forward - 12 mo.	Forward - 12 mo.
Tracker Filing Date	February	Varies	February, August	October	August	October	November
Recovery Begins	May	Within 9 mo.	July, January	May	January	January	January
Weghted Average Regulatory Lag	< 12 Months	None	< 12 Months	None	None	None	< 12 Months
Authorized Program ROE	10.39%	Not Specified	9.90%	9.55%	9.50%	9.50%	9.70%

Source: Ladenburg Thalmann & Co, Inc., Company Reports

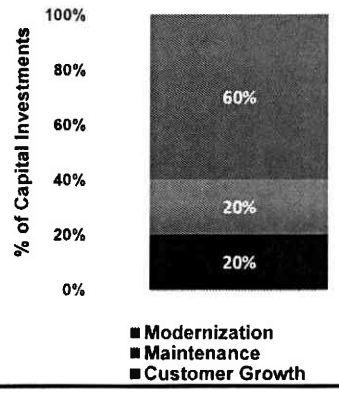
Regulatory-Supported Growth Strategy

NI's gas distribution growth strategy is based on the company's constructive regulatory jurisdictions, in which every state provides cost recovery mechanisms or forward test-year rate cases that expedite return on investment. From 2017 – 2020, NI intends to execute $1.1 - $1.3 billion in annual expenditures at its gas distribution subsidiaries, which will in-turn drive annual rate base growth of 9% - 11%. Of these expenditures, nearly 20% are customer growth based in nature, which will result in NI beginning to earn a return from 0 – 3 months of project completion. Approximately 60% of planned expenditures through 2020 are focused on modernizing the companies' distribution infrastructure, and as such will be eligible for recovery within one year. The remaining 20% of planned expenditures are projected to be maintenance based, and as such will be recovered through the traditional rate case process.

Table 5: Jurisdictional Recovery Mechanisms

State	Recovery Mechanism/Method
Ohio	Infrastructure Replacement Program (IRP)
Pennsylvania	Distribution System Improvement Charge (DSIC) or Forward Test Year Rate Case
Indiana	Transmission, Distribution, and Storage System Improvement Charge (TDSIC)
Massachusetts	Gas System Enhancement Plan (GSEP)
Virginia	Steps to Advance Virginia's Energy Plan (SAVE)
Kentucky	Accelerated Main Replacement Program (AMRP)
Maryland	Strategic Infrastructure Development and Enhancement (STRIDE)

Table 6: 20-Year Investment Opportunities of $20 B



Source: Ladenburg Thalmann & Co, Inc., Company Reports

Over the next 20 years, NI has identified the opportunity to invest nearly $5.0 - $6.0 billion in order to accommodate customer growth opportunities across all of its operating jurisdictions. NI currently derives nearly 2/3 of its customer growth from new construction of single family dwellings, multi-family buildings, and commercial structures. Drivers of new construction opportunities across NI's service territories include a robust housing

market and improving construction economics. The remaining 1/3 of customer growth is currently sourced from the conversion of existing single family homes and commercial buildings, which is driven by efforts to raise awareness of the benefits of clean, abundant natural gas.

Over the planning horizon, NI expects to drive significant customer growth by focusing mainly on conversion opportunities. In terms of cost, natural gas is significantly advantaged in the current commodity price environment in comparison to propane, fuel oil, and electricity. NI estimates the opportunity to grow its customer base by as much as 10% if the company is able to convert the 350,000 potential customers within 500 feet of NI's existing main lines. With these opportunities, NI projects that it will attract nearly half of its future customer additions from new construction and half from conversion opportunities. Together, NI estimates that it will garner 35,000 in net customer additions by 2020, which would represent annual net customer growth of 1% and potential annual expenditures of $260 million in 2020 and beyond.

Table 7: Rate Base by Jurisdiction ($B)

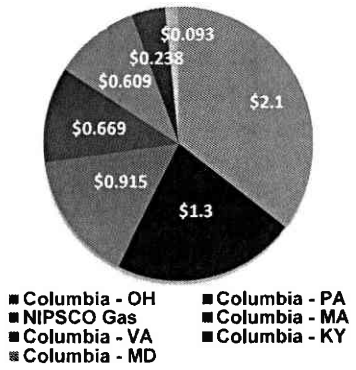
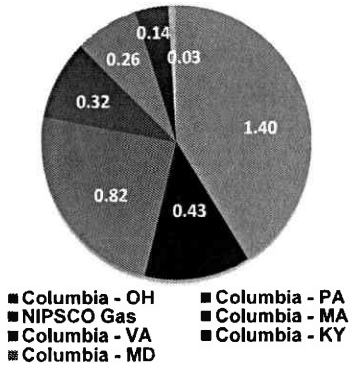


Table 8: Customers by Jurisdiction (M)



Source: Ladenburg Thalmann & Co, Inc. Estimates, Company Reports

Electric Distribution - NIPSCO

NIPSCO is a vertically integrated electric utility that generates, transmits, and distributes electricity to approximately 466,000 customers in northern Indiana, in addition to participating in wholesale and transmission transactions. NIPSCO's generation portfolio includes three coal-fired electric generating facilities with an aggregate net capability of 2,540 MW, a CCGT plant with a net capability of 535 MW, three gas-fired generating units with a net capability of 196 MW, and two hydroelectric generating facilities with a net capability of 10 MW. NIPSCO's transmission system consists of 2,805 circuit miles and features voltages from 69,000 to 345,000 volts. The company's electric distribution infrastructure spans 10,000 miles. NIPSCO's system is interconnected with five neighboring electric utilities. In FY16, NIPSCO self-generated 66.4% of its electric requirements.

NIPSCO is the third largest electric utility in Indiana. The subsidiary has an electric utility rate base of $3.4 billion. Nearly 63% of NIPSCO's net revenue from electric operations is derived from residential and commercial customers, while 37% of revenue is sourced from industrial customers. Steel-related industrial customers contribute to 15% of NIPSCO's total electricity revenue.

The company does not face any significant competition from retail energy providers, as retail electric customers in Indiana do not have the ability to choose their electric supplier.

NIPSCO does face non-utility competition associated with self-generation by large industrial customers and other miscellaneous distributed energy sources. NIPSCO's business is seasonal in nature, with revenues typically peaking during the summer cooling season.

Table 9: NIPSCO Electric Service Area and Proposed Transmission Lines

Table 10: NISPCO Regulatory Snapshot

NIPSCO Electric	
Customers	466 K
Return on Equity	9.975%
Rate Base	$3.4 B
Regulatory Treatment	Modernization and Environmental Projects Tracked

Source: Ladenburg Thalmann & Co, Inc., Company Reports

Regulatory-Supported Investment Strategy

NIPSCO's constructive regulation enables the company to engage in long-term, capital intensive projects by providing for timely returns on investments through trackers, mechanisms, and modernization programs. In Indiana, the Transmission, Distribution, and Storage System Improvement Charge (TDSIC) provides NIPSCO the opportunity to recover costs for specific system modernization projects independent of a base rate proceeding, as 80% of related costs associated with these projects may be recovered through a semi-annual mechanism, which will continue until such assets are incorporated in rate base through a base rate proceeding. NIPSCO's recently approved seven-year plan includes approximately $1.25 billion of modernization capital investments, which will focus on overall system safety and reliability improvement. The plan calls for expenditures of $175 - $225 million on an annual basis.

Over the next 20 years, NIPSCO has identified over $10 billion in capital investment opportunities with its electric distribution system. From 2017 through 2020, NIPSCO electric expects to invest $0.4 - $0.6 billion on an annual basis in order to support customer and transmission growth, modernize its generation and infrastructure in accordance with environmental compliance standards, and maintain the safety and reliability of its total system infrastructure. NIPSCO anticipates beginning to earn on customer growth and transmission expenditures within 0 – 3 months of placement into service, while the company may begin to earn on modernization and environmental expenditures within one year of placement into service. Recovery of maintenance expenditures must occur through the periodic filing of a base rate case.

Multi-Value Transmission Projects

NIPSCO is currently in the midst of developing two electric transmission lines through the company's service territory. Both transmission lines will be regulated by FERC, which, with both lines in the MISO jurisdiction, currently allows an ROE of 10.32%. Together, the transmission lines represent an annual investment of $60 - $140 million through their completion, which is scheduled to occur at year-end 2018. The acquisition of right-of-way is virtually complete, and construction on the substations, lines, and towers is underway. The Reynolds to Topeka Project is a 100-mile, 345 kV line, representing a total investment

of $350 - $400 million. The Greentown to Reynolds line, which is a joint project, is a 65-mile, 765 kV transmission project. NIPSCO's portion of the $350 -$400 million investment is approximately $175 - $200 million. The company has remarked that its strategic location between MISO and PJM may provide future investment opportunities.

Table 11: NIPSCO Electric 20 – Year Investment Opportunities of $10+ B

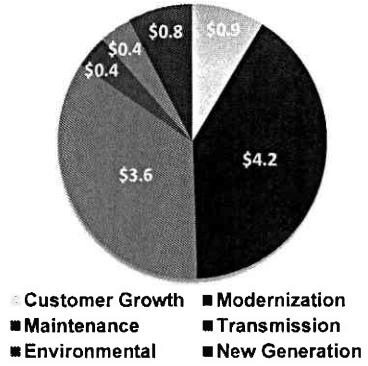
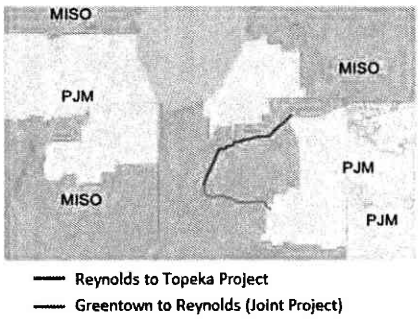


Table 12: NISPCO Transmission Projects

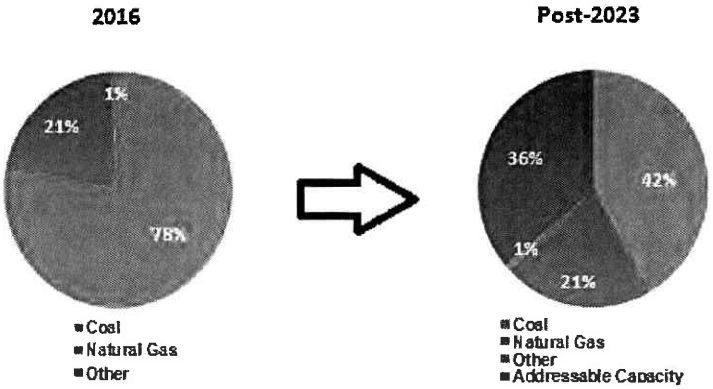


Source: Ladenburg Thalmann & Co, Inc., Company Reports

Generation Portfolio

NIPSCO recently submitted an Integrated Resource Plan (IRP) with the Indiana Utility Regulatory Commission (IURC) that addresses future generation needs in regard to financial viability and environmental compliance. Key planning considerations for NIPSCO included the evolving technologies that are available, the significant maintenance costs required in order to sustain the company's aging coal fleet, low and stable natural gas prices, and NIPSCO's heavy industrial customer base. With such considerations, NIPSCO has determined that it will retire nearly 50% of its coal capacity by 2023, replace these plants with a CCGT generation, and retrofit remaining coal assets in order to enhance environmental stewardship.

Table 13: NI Generation Portfolio



Source: Ladenburg Thalmann & Co, Inc., Company Reports

Through 2016, NIPSCO has invested nearly $850 million in flue gas desulfurization facilities and new environmental controls. In November, NIPSCO filed for a Certificate of Public Convenience and Necessity to spend nearly $400 million on environmental upgrades at its Bailly, Michigan City, and R.M. Schahfer coal plants. Citing the U.S. EPA's final coal ash rule and Effluent Limitation Guidelines, NIPSCO claims that the CPCN is for a "federally mandated compliance project". The filing includes costs associated with groundwater monitoring and ash landfill projects at all three facilities, ash handling and new coal combustion residuals containment initiatives at the Michigan City and R.M. Schahfer plants, and a new process water pond and effluent limitation projects at R.M. Schahfer. NIPSCO plans to eventually retire its Bailly Units 7 & 8 in 2018 and R.M. Schahfer Units 17 & 18 by the end of 2023.

Regulatory Analysis

Regulatory Authorities and Frameworks

Considering that NI operates in seven different states, the company's businesses are regulated by several different regulatory authorities. In Indiana, NIPSCO's gas and electric operations are monitored and regulated by the Indiana Utility Regulation Commission (IURC). NIPSCO electric's transmission activities are also regulated by the FERC. The operations of Columbia Gas are regulated by the Public Utilities Commission of Ohio (PUCO), the Pennsylvania Public Utility Commission (PPUC), the Massachusetts Department of Public Utilities (MDPU), the Virginia State Corporation Commission (VSCC), the Kentucky Public Service Commission (KPSC), and the Maryland Public Service Commission (MPSC). Considering that NI's businesses fall under mostly separate jurisdictions, the company benefits from regulatory diversity.

Table 14: Regulatory Frameworks

State	Length of Rate Case Process	Allowance of Interim Rates?	Allowed ROE	2016 Year-End Rate Base	Major Infrastructure Investment Recovery Methodology
Ohio	9-10 months	Yes, under conditions	N/A	$2.1B	IRP Rider
Pennsylvania	<9 months	Yes, under conditions	N/A	$1.3B	Forward Test Year Rate Case
Indiana	>12 months	Yes	9.90%	$915M	TDSIC Rider
Massachusetts	>12 months	Rarely Sought	9.55%	$1.4B	GSEP Mechanism
Virginia	<12 months	Yes	N/A	$550M	SAVE Mechanism
Kentucky	<10 months	Yes, under conditions	N/A	$750M	AMRP Mechanism
Maryland	<9 months	Rarely Sought	9.70%	$200M	STRIDE Mechanism

Source: Ladenburg Thalmann & Co, Inc., Company Reports, SNL

Recent Regulatory Developments – Gas Distribution

On April 26, 2017, the PUCO issued its approval of Columbia Gas of Ohio's annual Infrastructure Replacement Program rider, increasing annual revenues by $31.5 million. New rates became effective on May 1, 2017. In February, Columbia Gas of Ohio filed an application with the PUCO to extend the IRP through 2022. PUCO is expected to issue a decision by the end of 2017.

On March 17, 2017, the VSCC issued its approval of the proposed settlement to Columbia Gas of Virginia's gas distribution rate case. Terms of the settlement called for a $28.5 million rate increase and remained silent with respect to typical rate of return or rate base

parameters. For regulatory purposes, such as the SAVE rider, the commission and Columbia Gas will use a 9.75% return on equity.

In October, 2016, Columbia Gas of Pennsylvania's joint settlement agreement in the company's base rate proceeding was approved by the PPUC, resulting in an annual revenue increase of $35.0 million and the inclusion of various incentives to expand gas service to commercial customers. The new rates became effective on December 19, 2016.

In April, the Department of Public Utilities approved Columbia Gas of Massachusetts' request to recover an incremental $8.4 million in association with the GSEP mechanism. New rates went into effect on May 1, 2017.

In December, Columbia Gas of Kentucky's settlement with the KPSC regarding the company's base rate case went into effect. The terms of the settlement were modified to reflect an annual revenue increase of $13.1 million, which went into effect in December, 2016. The settlement also allowed for the continuation of Columbia Gas of KY's system modernization and pipeline safety program.

In Indiana, NIPSCO Gas filed its semi-annual tracker update encompassing $67 million of investments made in 1H16. In December, the IURC issued an order approving the tracker update, with new rates becoming effective on January 1, 2017. In February, NIPSCO filed for approval of $271.3 million of capital expenditures through December 31, 2016. The IURC is expected to issue a decision in June, with new rates becoming effective July 1, 2017.

Columbia Gas of Maryland filed an application with the MPSC in April requesting an annual revenue increase of $6 million in order to expedite the replacement of aging infrastructure. The commission is expected to issue a final order by the end of 2017.

Table 15: Recent Rate Case Outcomes

Company	Service	Case Type	Date	Decision Type	Rate Increase ($M)	Phase-In?	Interim Authorized	Return on Rate Base (%)	ROE (%)	Equity /Total Cap (%)	Test Year End	Rate Base ($M)	Rate Base Valuation Method	Lag (months)
Northern IN Public Svc Co.	Natural Gas	Limited-Issue Rider	12/28/2016	Fully Litigated	11.8	NA	NA	NA	NA	NA	NA	211.61	Year-end	3
Northern IN Public Svc Co	Electric	Limited-Issue Rider	1/25/2017	Settled	1.9	NA	NA	NA	NA	NA	04/2016	45.54	Year-end	6
Columbia Gas of Kentucky Inc	Natural Gas	Distribution	12/22/2016	Settled	18.1	No	No	NA	NA	NA	NA	NA	NA	6
Bay State Gas Company	Natural Gas	Distribution	10/7/2015	Settled	32.8	Yes	No	7.75	9.55	53.54	12/2014	580.40	Year-end	5
Columbia Gas of Maryland Inc	Natural Gas	Limited-Issue Rider	12/14/2016	Fully Litigated	1.2	No	No	7.53	9.70	54.29	12/2017	8.27	Average	1
Columbia Gas of Maryland Inc	Natural Gas	Distribution	10/27/2016	Settled	3.7	No	No	NA	NA	NA	04/2016	NA	NA	6
Columbia Gas of Ohio Inc	Natural Gas	Distribution	12/3/2008	Settled	47.1	No	No	8.12	10.39	NA	09/2008	1,028.45	Date Certain	9
Columbia Gas of Pennsylvania	Natural Gas	Distribution	10/27/2016	Settled	35.0	No	No	NA	NA	NA	12/2017	NA	NA	7
Columbia Gas of Virginia Inc	Natural Gas	Limited-Issue Rider	12/20/2016	Fully Litigated	1.3	No	No	NA	NA	NA	12/2017	20.50	Average	6
Columbia Gas of Virginia Inc	Natural Gas	Distribution	3/17/2017	Settled	28.5	No	Yes	NA	NA	NA	12/2015	NA	NA	10

Source: Ladenburg Thalmann & Co, Inc., Company Reports, SNL

Recent Regulatory Developments – Electric Operations

Per the terms of NIPSCO's electric base rate case settlement, which was approved by the IURC in July 2016 and became effective October 1, the company's annual base rate revenues were permitted to be increased by $72.5 million. The settlement also provided for continued electric infrastructure investments and service improvements for customers.

According to an IURC order issued in January 2017, in February NIPSCO was permitted to begin recovering on $45.5 million of investments associated with the company's seven-year electric modernization program. The IURC's approval of a settlement outlined the terms of the program, in which NIPSCO is expected to recover nearly $1.25 billion of infrastructure investments made through 2022.

In December 2016, NIPSCO announced its intentions to retire units 7 & 8 at its Bailly Generation Station earlier than previously expected. The decision considered current economic and legislative conditions, as well as the decreasing cost of natural gas in comparison to coal and possible compliance-related regulations. The units are scheduled to be retired by May 31, 2018.

Financial Analysis

Earnings Profile

NI's 100% regulated revenue stream and opportunities associated with incremental infrastructure investment support the company with a solid platform to drive year-over-year earnings growth into the foreseeable future. Additionally, the company has a balanced business mix, as 66% of operating earnings were derived from gas operations and 34% of operating earnings were derived from electric operations in FY16. As of FY16, 65% of NI's operating earnings were derived from non-volumetric sources, which provide a strong baseline for operational performance.

NI projects that it will generate approximately 5% - 7% annual operating earnings per share growth through 2020, with dividend growth commensurate to earnings growth and complicit with a 60% - 70% targeted payout ratio. Earnings growth is expected to be driven by 8% - 10% annual rate base growth over the planning period. FY17 net operating EPS is targeted at $1.12 - $1.18 (at higher-end of range following 1Q17 financial results), which represents 10.6% CAGR from FY15 EPS of $0.94.

Table 16: Rate Base (2016 – 2019E)

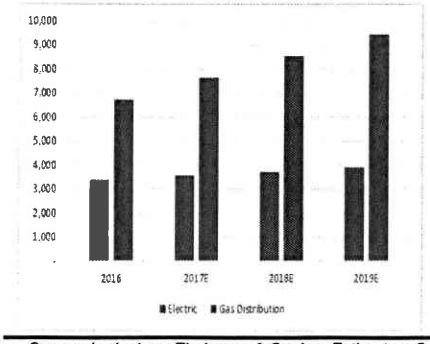
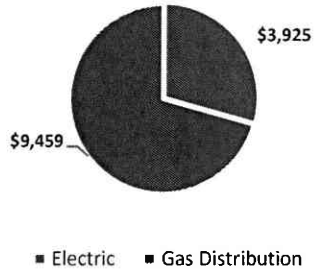


Table 17: 2019E Rate Base by Segment



Source: Ladenburg Thalmann & Co, Inc. Estimates, Company Reports

Capital Expenditures and Funding

NI projects FY17 capital expenditures of $1.6 - $1.7 billion, and FY18 – FY20 expenditures of $1.6 - $1.8 billion on an annual basis. The company begins collecting revenue within twelve months on 75% of infrastructure placed into service due to its regulatory frameworks. The new investments are also expected to help stem operations and maintenance expense growth, which is targeted at 2% - 4% through 2017 and is projected to flatten beyond 2017.

Overall, NI expects to be able to generate approximately $1.0 - $1.4 billion in FFO on an annual basis, which alone is not sufficient to cover the company's projected capital expenditures of $1.6 - $1.8 billion and dividend payments of $225 - $325 million. In order to fund growth and the annual dividend, NI expects to issue $500 - $1,000 million in debt and $250 - $375 million in equity through 2020. Equity issuances will be accomplished through the company's new At-the-Market program and continuation of the Dividend Reinvestment Program, which will net $200 - $300 million and $50 - $75 million, respectively, in funding per year.

Table 18: Debt Table ($000s) (as of December 31, 2016)

Long-Term Debt	Maturity	Weighted Avg. Interest Rate	2015	2016
Senior Notes:	Mar-16	10.75%	201.5	-
NiSource Finance	Nov-16	5.41%	90.0	-
NiSource Finance	Sep-17	5.25%	210.4	210.4
NiSource Finance	Mar-18	6.40%	476.0	476.0
NiSource Finance	Jan-19	6.80%	500.0	500.0
NiSource Finance	Mar-19	Libor + 95 bps	-	500.0
NiSource Finance	Sep-20	5.45%	550.0	550.0
NiSource Finance	Dec-21	4.45%	63.6	63.6
NiSource Finance	Mar-22	6.13%	500.0	500.0
NiSource Finance	Feb-23	3.85%	250.0	250.0
NiSource Finance	Nov-25	5.89%	265.0	265.0
NiSource Finance	Dec-40	6.25%	250.0	250.0
NiSource Finance	Jun-41	5.95%	400.0	400.0
NiSource Finance	Feb-42	5.80%	250.0	250.0
NiSource Finance	Feb-43	5.25%	500.0	500.0
NiSource Finance	Feb-44	4.80%	750.0	750.0
NiSource Finance	Feb-45	5.65%	500.0	500.0
Capital Markets	Dec-27	6.78%	3.0	3.0
Total Senior Notes			5,759.5	5,968.0
Medium Term Notes:				
Columbia of Massachusetts	Dec-25	6.30%	40.0	40.0
Capital Markets	Mar-17	7.92%	106.0	106.0
NIPSCO	Jun-17	7.57%	95.5	95.5
Total Medium Term Notes			241.5	241.5
Capital Leases:				
NiSource Corporate Services	Oct-19	2.92%	3.7	3.5
NIPSCO	May-18	3.95%	52.8	12.7
Columbia of Ohio	Oct-21	6.53%	79.8	80.1
Columbia of Massachusetts	Dec-33	5.33%	24.1	23.7
Acolumbia of Virginia	Aug-24	12.27%	5.8	5.5
Columbia of Pennsylvania	Aug-27	5.45%	32.4	31.9
Total Capital Leases			198.6	157.4
Pollution Control bonds - NIPSCO	Jul-17	5.76%	226.0	96.0
Notes Payable - NiSource Developmen	Jul-41	5.56%	2.1	-
Unamortized Issuance Costs and Discounts			(45.5)	(41.6)
Total Long-Term Debt			6,382.2	6,421.3

Source: Ladenburg Thalmann & Co, Inc., Company Reports

Debt and Credit Profile

NI remains committed to maintaining investment-grade credit and is currently rated BBB+/Baa2 by S&P/Moody's, respectively. As of December 31, 2016, NI had approximately $6.3 billion of long-term debt with a weighted average maturity of 13 years at a weighted average interest rate of 5.41%. Upcoming maturities of long-term debt include $350 million in FY17, $476 million in FY18, and $1.04 billion in FY19.

NI currently maintains approximately $0.789 billion in net available liquidity. The company has nearly $2.2 billion of committed facilities in place between its $1.85 billion 5-year revolving credit facility and its $0.44 billion accounts receivable securitization facilities.

NI expects to be active in the debt market this year so that the company can fund its upcoming debt maturities and support its robust capital investment program. As of December 31, 2016, approximately $1.5 billion of anticipated issuances for 2017 and 2018 have been hedged, representing about 50% of the total expected issuance for the next two years. By mitigating interest rate risk through these hedges, NI looks to add stability to its earnings profile.

Common Dividend

NI's annual dividend has been increased to $0.70 per share, representing 8% CAGR from 2015. NI expects to grow the annual dividend at a rate commensurate to EPS growth of 5% - 7% through 2020, with the company targeting a payout ratio of 60% - 70%. The dividend represents an important factor in the company's goal of delivering 8% - 10% total shareholder return over the planning horizon.

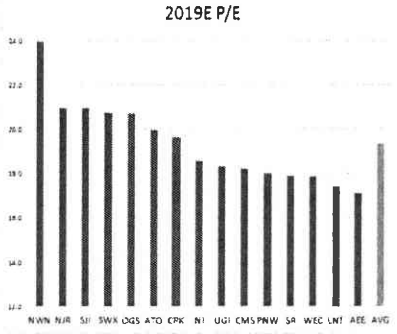
Valuation Analysis

Our price target of $27 per share is supported by our 2019E Sum-of-the-Parts analysis. We believe at current valuation levels NI shares are attractive relative to peers considering its business mix, risk-adjusted growth rate, investment opportunities, above-average customer growth, cost management initiatives and regulatory diversity.

Table 19: 2019E Sum-of-the-Parts

Subsidiary	2019E EPS	Multiple	P/S Value
Gas Distribution	$1.00	21.4	$21.39
Electric	$0.51	17.6	$9.04
Corporate	($0.19)	20.1	($3.78)
Total	$1.32		$26.65

Table 20: 2019E P/E Peers



Source: Ladenburg Thalmann & Co, Inc. Estimates, Bloomberg, Company Reports. Mention of specific companies not covered by Ladenburg Thalmann & Co. Inc. is not a recommendation to buy, hold or sell those securities mentioned. The following natural gas LDC companies are covered by Ladenburg Thalmann & Co, Inc: Atmos Energy (ATO-$80.36-BUY), Chesapeake Utilities (CPK-$71.75-NEUTRAL), NJR Resources (NJR-$40.25-NEUTRAL), OneGas (OGS-$68.12-NEUTRAL), Spire (SR-$69.20-NEUTRAL). The following electric utilities are covered by Ladenburg Thalmann & Co: Alliant Energy (LNT-$39.82-BUY), Ameren (AEE-$55.30-BUY), CMS Energy (CMS-$45.75-NEUTRAL), Pinnacle West (PNW-$84.61-NEUTRAL), WEC Energy (WEC-$60.91-NEUTRAL).

NI currently trades at a 2019 leading P/E of 18.5x our EPS estimate of $1.32, a 4.6% discount to a selected regulated natural gas LDC and electric utility group average of 19.4x. We define NI's peer group as companies with similar natural gas LDC and electric operations. NI offers a dividend yield of 2.9%, compared to the peer average of 2.7%, with dividend growth of 5% - 7%. NI's current payout ratio is 60.0% compared to the peer average of 65.4%. NI forecasts EPS growth of 5% - 7%.

Table 21: 2017E Dividend Yield Peers

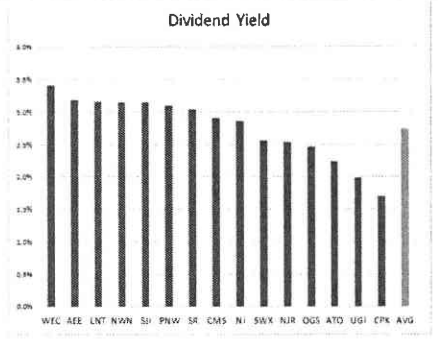
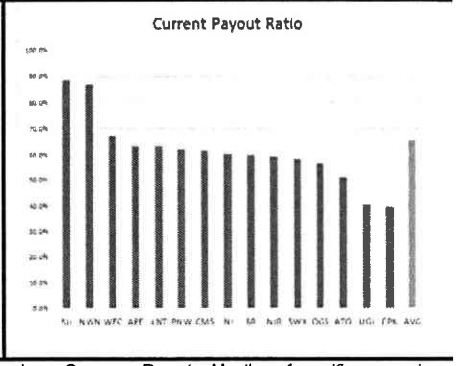


Table 22: 2017E Payout Ratio Peers



Source: Ladenburg Thalmann & Co, Inc. Estimates, Bloomberg, Company Reports. Mention of specific companies not covered by Ladenburg Thalmann & Co. Inc. is not a recommendation to buy, hold or sell those securities mentioned. The following natural gas LDC companies are covered by Ladenburg Thalmann & Co, Inc: Atmos Energy (ATO-$80.36-BUY), Chesapeake Utilities (CPK-$71.75-NEUTRAL), NJR Resources (NJR-$40.25-NEUTRAL), OneGas (OGS-$68.12-NEUTRAL), Spire (SR-$69.20-NEUTRAL). The following electric utilities are covered by Ladenburg Thalmann & Co: Alliant Energy (LNT-$39.82-BUY), Ameren (AEE-$55.30-BUY), CMS Energy (CMS-$45.75-NEUTRAL), Pinnacle West (PNW-$84.61-NEUTRAL), WEC Energy (WEC-$60.91-NEUTRAL).

Earnings Analysis and Outlook

On February 22, NI reported FY16 (non-GAAP) net operating EPS of $1.09, a 16% increase on a year-over-year basis from FY15 net operating EPS of $0.94. The most significant driver of improved EPS was increased revenues in accordance with the company's approved recovery of prudent infrastructure investments. NI invested nearly $1.5 billion in its gas and electric utilities in FY16, replacing 406 miles of pipe across all of its service territories, improving the hardiness of its distribution systems, and replacing 60 miles of underground electric cable and over 1,200 electric poles. Execution on the regulatory front also helped to improve NI's performance, as several of the company's base rate proceedings resulted in constructive settlement agreements that were approved by their respective regulatory authorities.

NI's strong performance continued through 1Q17, as the company reported net operating EPS of $0.71 compared to $0.62 in 1Q16. Considering NI's strong start to the year and continued success of its infrastructure modernization programs, the company expects to deliver net operating EPS in the upper half of its guidance range of $1.12 - $1.18.

Table 23: Operating Income by Segment ($ millions)

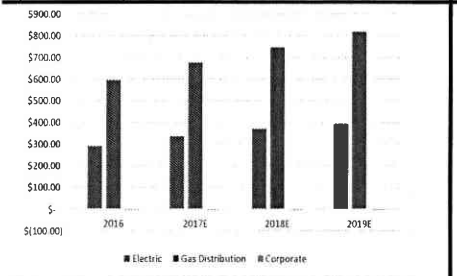
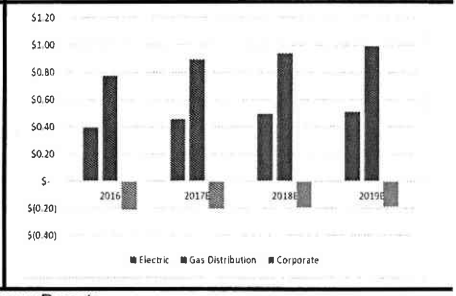


Table 24: Operating EPS by Segment



Source: Ladenburg Thalmann & Co, Inc. Estimates, Company Reports

2017 – 2019 Earnings Outlook and Drivers

We forecast 2017E EBITDA and EPS of $1.587 billion and $1.17, respectively. Assumptions include: full year rate relief from 2016 proceedings, year-to-date rate relief, 1% customer growth, capital markets activities, 3% O&M expense growth.

We forecast 2018E EBITDA and EPS of $1.719 billion and $1.25, respectively. Assumptions include: full year rate relief from 2017 proceedings, year-to-date rate relief, 1% customer growth, capital markets activities, 2% O&M expense growth.

We forecast 2019E EBITDA and EPS of $1.852 billion and $1.32, respectively. Assumptions include: full year rate relief from 2018 proceedings, year-to-date rate relief, 1% customer growth, capital markets activities, 1% O&M expense growth.

Risks

The primary risks of an investment in NI shares include (but are not limited to);

NI's financial condition may be adversely impacted by the company's indebtedness.

NI's liquidity may be adversely impacted by a drop in the company's credit rating.

NI may be unable to execute on its business plan and growth strategy, including planned utility infrastructure investments.

NI's performance may be adversely impacted by shifts in economic and marketing conditions.

The value of NI's benefit plan assets may be adversely impacted by capital market performance and other factors, which could potentially require additional funding and negatively impact earnings.

NI's business is subject to regulatory oversight and may be impacted by regulatory rate reviews and proceedings.

NI's performance may be impacted if the company were unable to adapt to advances in technology.

NI's business may be negatively impacted if the company faces increased litigation and negative public perception.

NI's businesses are regulated in accordance with numerous environmental laws, with which the cost to comply may be significant and could negatively impact the company's performance. Additionally, NI may face significant penalties if the company were unable to comply with various regulations.

NI's performance may be adversely impacted by fluctuations in weather, gas, and electricity commodity costs.

NI's business operations are subject to economic conditions in certain industries.

NIPSCO's electric generation strategy, including the retirement of its coal generation units, may be unable to achieve its intended results.

NI may be negatively impacted by fluctuations in the price of energy commodities or their related transportation costs.

NI may be impacted by risk associated with customers not remitting payment for delivered energy or services.

NI's performance may be adversely impacted if suppliers and counterparties are unable to perform under various financial or operating agreements.

NI carries significant goodwill and definite-lived intangible assets. Impairments on goodwill or definite-lived intangible assets may result in a significant impact to NI's earnings and performance.

NI's performance may be impacted by changes in taxation.

NI's financial results may be adversely impacted by changes in accounting principles.

There are numerous risks inherent to the distribution of natural gas and the generation, transmission, and distribution of electricity that NI may be unable to avoid or mitigate.

NI's businesses are subject to the risks associated with aging infrastructure, which may lead to disruptions in operations and capital expenditures and maintenance costs.

NI's ability to service customers may be adversely impacted by climate change, natural disasters, acts of terrorism, or other catastrophic events.

NI's businesses may be adversely impacted if NI faces a cyber-attack.

NI's capital projects and programs may subject the company to risks associated with construction and natural gas costs and supply risks.

NI's performance and businesses may be adversely impacted by extreme weather conditions.

NI's businesses may be impacted if the company is unable to attract and retain a qualified workforce.

As a holding company, NiSource is dependent on cash generated by its subsidiaries in order to meet its debt obligations and pay dividends on common stock.

NI may be subject to significant tax liabilities associated with the company's separation with CPG.

NiSource has substantial indebtedness which could adversely affect its financial condition.

NiSource is exposed to significant reputational risks, which make it vulnerable to a loss of cost recovery, increased litigation and negative public perception.

NiSource is a holding company and is dependent on cash generated by subsidiaries to meet its debt obligations and pay dividends on its common stock.

Table 25: Income Statement (USD millions)

(In $millions, unless otherwise stated)	2015A	2016A	2017E	2018E	2019E
Statements of Income					
Net Revenues					
Gas Distribution	2,081.9	1,850.9	3,065.0	3,184.9	3,312.0
Gas Transportation	969.8	964.6			
Electric	1,572.9	1,660.8	1,756.8	1,831.3	1,892.4
Other	27.2	16.2			
Gross Revenues	4,651.8	4,492.5	4,821.8	5,016.2	5,204.4
Cost of Sales (excluding depreciation and amortization)	1,643.7	1,390.2	1,451.9	1,466.1	1,480.3
Total Net Revenues (Gross Margin)	3,008.1	3,102.3	3,369.8	3,550.2	3,724.0
Operating Expenses					
Operation and Maintenance	1,426.1	1,453.7	1,535.0	1,573.4	1,604.9
Depreciation and Amortization	524.4	547.1	559.0	592.6	628.1
Gain (Loss) on Sale of Assets and Impairments	1.6	(1.0)			
Other Taxes	256.1	244.3	248.9	258.9	268.7
Total Operating Expenses	2,208.2	2,244.1	2,343.0	2,424.9	2,501.8
Operating Income	799.9	858.2	1,026.8	1,125.3	1,222.3
Other Income (deductions)					
Interest Expense, net	(380.2)	(349.5)	(408.5)	(437.5)	(466.6)
Other, net	17.4	1.5	1.5	1.5	1.5
Loss on Early Extinguishment of Debt	(97.2)	-			
Total Other Income (deductions)	(460.0)	(348.0)	(407.0)	(436.0)	(465.1)
Income from Continuing Operations before Income Taxes	339.9	510.2	619.9	689.3	757.2
Income Taxes	126.3	162.1	225.6	250.6	275.0
Income from Continuing Operations before Income Taxes	213.6	348.1	394.3	438.7	482.1
Income from Discontinued Operations - net of taxes	103.5	3.4			
Net Income	317.1	351.5	394.3	438.7	482.1
Less: Income attributable to noncontrolling interest	15.6				
Net income attributable to NI	301.5	351.5	394.3	438.7	482.1
Income from Continuing Ops	213.6	348.1	394.3	438.7	482.1
Income from Discontinued ops	87.9	3.4			
Net income attributable to NI	301.5	351.5	394.3	438.7	482.1
Basic Average Shares Outstanding	317.7	321.8	335.41	349.0	362.63
Diluted Average Shares Outstanding	319.8	323.5	337.11	350.7	364.33
Diluted EPS - Continuing Ops	0.67	1.08	1.17	1.25	1.32
Diluted EPS - Discontinued Ops	0.27	0.01	-	-	-
Diluted EPS	0.94	1.09	1.17	1.25	1.32
Dividend per Share	0.83	0.64	0.70	0.74	0.79

Source: Ladenburg Thalmann & Co, Inc. Estimates, Company Reports

Table 26: Cash Flow Statement (USD millions)

x	2015A	2016A	2017E	2018E	2019E
Statement of Cash Flows					
Operating Activities					
Net Income	317.1	351.5	394.3	438.7	482.1
Adj to Reconcile Net Income to Net Cash from Cont Ops					
Loss on early extinguishment of debt	97.2	-			
Depreciation and Amortization	524.4	547.1	559.0	592.6	628.1
Deferred income taxes and investment tax credits	135.3	182.3	225.6	250.6	275.0
Stock compensation expense and 401(k) profit sharing con	50.7	46.5			
Income from discontinued operations - net of taxes	(103.5)	(3.4)			
Amortization of discount/premium on debt	8.7	7.6			
AFUDC equity	(11.5)	(11.6)	(11.6)	(11.6)	(11.6)
Other Adjustments	13.1	(3.8)			
Changes in Assets and Liabilities					
Accounts Receivable	262.2	(188.0)			
Inventories	46.9	38.9			
Accounts Payable	(190.5)	108.8			
Customer Deposits and Credits	35.5	(52.3)			
Taxes Accrued	8.7	12.1			
Interest Accrued	(11.6)	(8.7)			
Exchange gas receivable/payable	(31.7)	36.9			
Other accruals	(55.1)	(6.0)			
Prepayments and other current assets	0.1	(0.4)			
Regulatory assets/liabilities	82.0	(187.9)			
Postretirement and postemployment benefits	25.6	(44.8)			
Deferred charges and other noncurrent assets	5.2	(1.2)			
Other noncurrent liabilities	(30.4)	0.5			
Net Operating Activities from Continuing Operations	1,178.4	824.1	1,167.3	1,270.3	1,373.7
Net Operating Activities from Discontinued Operations	293.4	(0.8)			
Net Cash Flow from Operating Activities	1,471.8	823.3	1,167.3	1,270.3	1,373.7
Investing Activities					
Capital Expenditures	(1,360.7)	(1,475.2)	(1,700.0)	(1,700.0)	(1,700.0)
Restricted cash withdrawals (deposits)	(4.8)	20.1			
Cash contributions from CPG	3,798.2	-			
Cost of removal	(79.2)	(110.1)			
Other investing activities	21.5	(17.7)			
Net Investing Activities from Continuing Operations	2,375.0	(1,582.9)	(1,700.0)	(1,700.0)	(1,700.0)
Net Investing Activities from Discontinued Operations	(430.1)	-			
Net Cash Flow from Investing Activities	1,944.9	(1,582.9)	(1,700.0)	(1,700.0)	(1,700.0)
Financing Activities					
Cash of CPG at Separation	(136.8)	-			
Issuance of Long-term Debt	-	500.0	750.0	750.0	750.0
Repayments of L.T. term Debt and capital least obligations	(2,092.2)	(434.6)			
Premiums and other debt related costs	(93.5)	(3.7)			
Change in short-term borrowings, net	(936.4)	920.6	(300.0)	(375.0)	(450.0)
Issuance of common stock	22.5	23.1	313.0	313.0	313.0
Acquisition of treasury stock	(20.4)	(9.4)			
Dividends paid - common stock	(263.4)	(205.5)	(235.98)	(260.23)	(286.55)
Net Financing Activities from Continuing Operations	(3,520.2)	790.5	527.0	427.8	326.5
Net Financing Activities from Discontinued Operations	108.6				
Net Cash Flow from Financing Activities	(3,411.6)	790.5	527.0	427.8	326.5
Change in Cash and Equivalents from Cont Operations	33.2	31.7	(5.6)	(2.0)	0.1
Change in Cash and Equivalents from Disc Operations	(28.1)	(0.8)			
Change in cash included in discontinued operations	0.5				
Cash and Equivalents at Beginning of Period	24.9	30.5	61.4	55.8	53.8
Cash and Equivalents at End of Period	30.5	61.4	55.8	53.8	53.9

Source: Ladenburg Thalmann & Co, Inc. Estimates, Company Report

Table 27: Balance Sheet (USD millions)

x	2015A	2016A	2017E	2018E	2019E
Balance Sheet					
Assets					
Property, Plant and Equipment					
Accumulated Depreciation and Amortization	18,946.9	19,368.0	19,927.0	20,519.6	21,147.8
Net Utility Plant	(6,853.4)	(6,613.7)	(6,613.7)	(6,613.7)	(6,613.7)
Other property, less accumulated dpreciation	18.0	313.7	313.7	313.7	313.7
Net Property, Plant and Equipment	12,111.5	13,068.0	13,627.0	14,219.6	14,847.8
Investments and Other Assets					
Unconsolidated Affiliates	6.9	6.6	6.6	6.6	6.6
Other Investments	187.7	193.3	193.3	193.3	193.3
Total Investments and Other Assets	194.6	199.9	199.9	199.9	199.9
Current Assets					
Cash and Cash Equivalents	15.5	26.4	55.8	53.8	53.9
Restricted cash	29.7	9.6	9.6	9.6	9.6
Accounts Receivable	660.0	847.0	901.67	938.03	973.22
Gas Inventory	343.5	279.9	294.81	297.6	300.5
Materials and Supplies	86.8	101.7	106.1	110.4	114.5
Electric Production Fuel	106.3	112.8	115.22	116.4	117.5
Exchange gas receivable	21.0	5.4	5.4	5.4	5.4
Regulatory Assets	206.9	248.7	248.7	248.7	248.7
Prepayments and Other	107.5	130.6	130.6	130.6	130.6
Total Current Assets	1,577.2	1,762.1	1,867.8	1,910.5	1,954.0
Other Assets					
Regulatory Assets	1,599.8	1,636.7	1,636.7	1,636.7	1,636.7
Goodwill	1,690.7	1,690.7	1,690.7	1,690.7	1,690.7
Intangible Assets	253.7	242.7	242.7	242.7	242.7
Deferred Charges and Other	65.0	91.8	91.8	91.8	91.8
Total Other Assets	3,609.2	3,661.9	3,661.9	3,661.9	3,661.9
Total Assets	17,492.5	18,691.9	19,356.7	19,991.9	20,663.5
Capitalization					
Common Equity					
Common Stock	3.2	3.3			
Treasury Stock	(79.3)	(88.7)	(88.7)	(88.7)	(88.7)
Additional Paid-in Capital	5,078.0	5,153.9	5,153.9	5,153.9	5,153.9
Retained Deficit	(1,123.3)	(972.2)	(813.9)	(635.5)	(439.9)
Accumulated other Comprehensive Loss	(35.1)	(25.1)	(25.1)	(25.1)	(25.1)
Total Stockholders' Equity	3,843.5	4,071.2	4,226.2	4,404.6	4,600.2
Long-Term Debt, excluding current maturities	5,948.5	6,058.2	6,808.2	7,558.2	8,308.2
Total Capitalization	9,792.0	10,129.4	11,034.4	11,962.8	12,908.4
Current Liabilities					
Current Portion of Long-term Debt	433.7	363.1			
Short-Term Borrowings	567.4	1,488.0	1,188.0	813.0	363.0
Accounts Payable	433.4	539.4	573.79	596.93	619.32
Customer Deposits and Credits	316.3	264.1	284.48	295.96	307.06
Taxes Accrued	183.5	195.4	195.4	195.4	195.4
Interest Accrued	129.0	120.3	120.3	120.3	120.3
Exchange Gas Payable	62.3	83.7	83.7	83.7	83.7
Regulatory Liabilities	231.4	116.7	116.7	116.7	116.7
Legal and Environmental	37.6	37.4	37.4	37.4	37.4
Accrued Compensation and Employee Benefits	141.3	161.4	161.4	161.4	161.4
Other Accruals	121.6	82.7	82.7	82.7	82.7
Total Current Liabilities	2,657.5	3,452.2	2,843.9	2,503.5	2,087.0
Other Liabilities					
Risk Management Liabilities	22.6	44.5	44.5	44.5	44.5
Deferred Income Taxes	2,365.3	2,528.0	2,753.6	3,004.2	3,279.3
Deferred Investment Tax Credits	14.8	13.4	13.4	13.4	13.4
Accrued Insurance Liabilities	87.2	82.8	82.8	82.8	82.8
Accrued Liability postretirement and postemployment ben	759.7	713.4	713.4	713.4	713.4
Regulatory Liabilities	1,350.4	1,265.1	1,265.1	1,265.1	1,265.1
Asset retirement obligations	254.0	262.6	262.6	262.6	262.6
Other Noncurrent Liabilities	189.0	200.5	200.5	200.5	200.5
Total Other Liabilities	5,043.0	5,110.3	5,478.4	5,525.6	5,668.2
Commitments and Contingencies					
Total Capitalization and Liabilities	17,492.5	18,691.9	19,356.7	19,991.9	20,663.5

Source: Ladenburg Thalmann & Co, Inc. Estimates, Company Report

APPENDIX A: IMPORTANT RESEARCH DISCLOSURES

ANALYST CERTIFICATION

I, Brian J. Russo, attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report, provided, however, that:

The research analyst primarily responsible for the preparation of this research report has or will receive compensation based upon various factors, including the volume of trading at the firm in the subject security, as well as the firm's total revenues, a portion of which is generated by investment banking activities.

Additional information regarding the contents of this publication will be furnished upon request. Please contact Ladenburg Thalmann, Compliance Department, 277 Park Avenue, 26th floor, New York, New York 10172 (or call 212-409-2000) for any information regarding current disclosures, and where applicable, relevant price charts, in regard to companies that are the subject of this research report.

COMPANY BACKGROUND

NiSource Inc., headquartered in Merrillville, Indiana, is a holding company with several fully regulated natural gas distribution and electric utility companies across seven states. Together, these companies serve nearly 3.4 million natural gas customers in Indiana, Kentucky, Ohio, Virginia, Maryland, Pennsylvania, and Massachusetts, and 500,000 electric customers in northwestern Indiana. As such, NI's operations and results are classified as two reportable segments: Gas Distribution Operations and Electric Operations.

VALUATION METHODOLOGY

We value equities utilizing a multi-faceted approach which includes; sum-of-the-parts, net asset value, discounted cash flow, leading P/E, and EV/EBITDA.

RISKS

The primary risks of an investment in NI shares include (but are not limited to);

NI's financial condition may be adversely impacted by the company's indebtedness. NI's liquidity may be adversely impacted by a drop in the company's credit rating. NI may be unable to execute on its business plan and growth strategy, including planned utility infrastructure investments. NI's performance may be adversely impacted by shifts in economic and marketing conditions. The value of NI's benefit plan assets may be adversely impacted by capital market performance and other factors, which could potentially require additional funding and negatively impact earnings. NI's business is subject to regulatory oversight and may be impacted by regulatory rate reviews and proceedings. NI's performance may be impacted if the company were unable to adapt to advances in technology. NI's business may be negatively impacted if the company faces increased litigation and negative public perception. NI's businesses are regulated in accordance with numerous environmental laws, with which the cost to comply may be significant and could negatively impact the company's performance. Additionally, NI may face significant penalties if the company were unable to comply with various regulations. NI's performance may be adversely impacted by fluctuations in weather, gas, and electricity commodity costs. NI's business operations are subject to economic conditions in certain industries. NIPSCO's electric generation strategy, including the retirement of its coal generation units, may be unable to achieve its intended results.

NI may be negatively impacted by fluctuations in the price of energy commodities or their related transportation costs. NI may be impacted by risk associated with customers not remitting payment for delivered energy or services. NI's performance may be adversely impacted if suppliers and counterparties are unable to perform under various financial or operating agreements. NI carries significant goodwill and definite-lived intangible assets. Impairments on goodwill or definite-lived intangible assets may result in a significant impact to NI's earnings and performance. NI's performance may be impacted by changes in taxation. NI's financial results may be adversely impacted by changes in accounting principles. There are numerous risks inherent to the distribution of natural gas and the generation, transmission, and distribution of electricity that NI may be unable to avoid or mitigate. NI's businesses are subject to the risks associated with aging infrastructure, which may lead to disruptions in operations and capital expenditures and maintenance costs.

NI's ability to service customers may be adversely impacted by climate change, natural disasters, acts of terrorism, or other catastrophic events. NI's businesses may be adversely impacted if NI faces a cyber-attack. NI's capital projects and programs may subject the company to risks associated with construction and natural gas costs and supply risks. NI's performance and businesses may be adversely impacted by extreme weather conditions. NI's businesses may be impacted if the company is unable to attract and retain a qualified workforce. As a holding company, NiSource is dependent on cash generated by its subsidiaries in order to meet its debt obligations and pay dividends on common stock. NI may be subject to significant tax liabilities associated with the company's separation with CPG. NiSource has substantial indebtedness which could adversely affect its financial condition. NiSource is exposed to significant reputational risks, which make it vulnerable to a loss of cost recovery, increased litigation and negative public perception. NiSource is a holding company and is dependent on cash generated by subsidiaries to meet its debt obligations and pay dividends on its common stock.

STOCK RATING DEFINITIONS

Buy: The stock's return is expected to exceed 12.5% over the next twelve months.

Neutral: The stock's return is expected to be plus or minus 12.5% over the next twelve months.

Sell: The stock's return is expected to be negative 12.5% or more over the next twelve months.

Investment Ratings are determined by the ranges described above at the time of initiation of coverage, a change in risk, or a change in target price. At other times, the expected returns may fall outside of these ranges because of price movement and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review.

RATINGS DISPERSION AND BANKING RELATIONSHIPS AS OF (May 19, 2017)

Rating	%	IB %
BUY	68.9	48.1
NEUTRAL	28.0	44.4
SELL	3.1	0.0

COMPANIES UNDER BRIAN'S COVERAGE

Ameren Corporation (AEE)
Allete Inc. (ALE)
Avista Corporation (AVA)
CenterPoint Energy, Inc. (CNP)
El Paso Electric Company (EE)
IdaCorp, Inc. (IDA)
NiSource Inc. (NI)
NRG Energy, Inc. (NRG)
OGE Energy Corp. (OGE)
PNM Resources, Inc. (PNM)
Portland General Electric Co. (POR)
Spire Inc. (SR)
Westar Energy, Inc. (WR)
AES Corporation (AES)
Atmos Energy Corporation (ATO)
CMS Energy Corp. (CMS)
Dynegy Inc. (DYN)
Great Plains Energy Inc. (GXP)
Alliant Energy Corporation (LNT)
New Jersey Resources Corporation (NJR)
Northwestern Energy (NWE)
ONE Gas, Inc. (OGS)
Pinnacle West Capital Corporation (PNW)
PPL Corporation (PPL)
WEC Energy Group Inc. (WEC)

COMPANIES UNDER TANNER'S COVERAGE

Chesapeake Utilities Corporation (CPK)
Spark Energy, Inc. (SPKE)

COMPANY SPECIFIC DISCLOSURES

Ladenburg Thalmann & Co. Inc. has managed or co-managed a public offering for Chesapeake Utilities Corporation within the past 12 months.

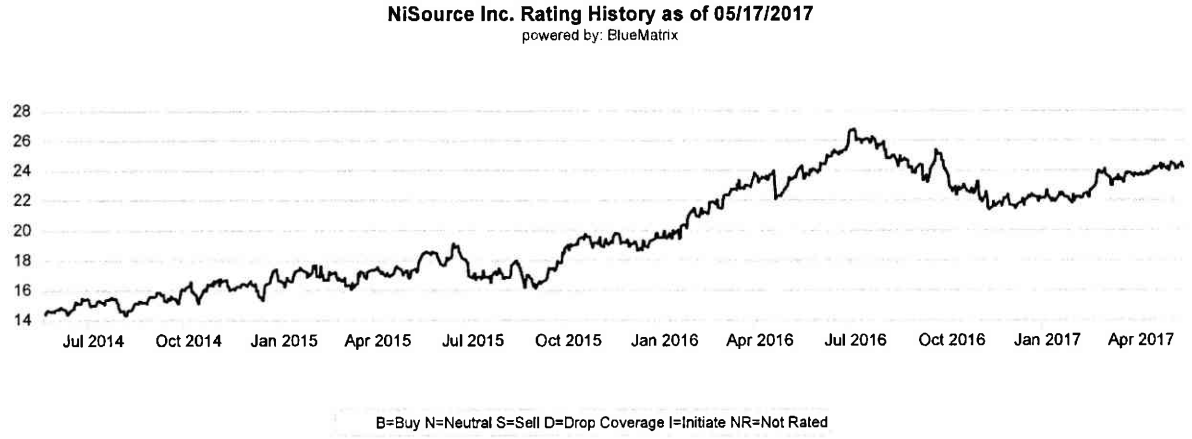
Ladenburg Thalmann & Co. Inc received compensation for investment banking services from Chesapeake Utilities Corporation within the past 12 months.

Ladenburg Thalmann & Co. Inc had an investment banking relationship with Chesapeake Utilities Corporation within the last 12 months.

OTHER COMPANIES MENTIONED

Ameren Corporation (AEE - $55.30 BUY)
Atmos Energy Corporation (ATO - $80.36 BUY)
CMS Energy Corp. (CMS - $45.75 NEUTRAL)
Chesapeake Utilities Corporation (CPK - $71.75 NEUTRAL)
Alliant Energy Corporation (LNT - $39.82 BUY)
New Jersey Resources Corporation (NJR - $40.25 NEUTRAL)
ONE Gas, Inc. (OGS - $68.12 NEUTRAL)
Pinnacle West Capital Corporation (PNW - $84.61 NEUTRAL)
Spire Inc. (SR - $69.20 NEUTRAL)
WEC Energy Group Inc. (WEC - $60.91 NEUTRAL)

INVESTMENT RATING AND PRICE TARGET HISTORY



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EVERCORE ISI

Energy | Power & Utilities

June 19, 2017

NISOURCE INC

NI | $26.06

IN LINE | TARGET PRICE: $25.00

Change in Price Target

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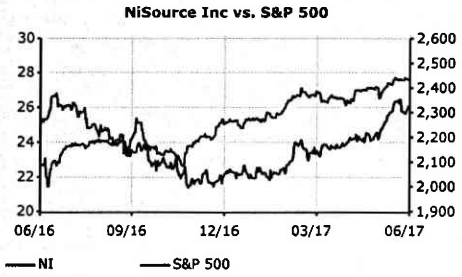
Company Statistics

Market Capitalization (M):	$8,429
Shares Outstanding (M):	323
Dividend:	$0.70
Dividend Yield:	2.7%
Payout Ratio:	59.5%
Expected Total Return:	(1.4)%
Fiscal Year End	Dec

Earnings Summary

		2017E	2018E	2019E
EPS		$1.18	$1.27	$1.35
	FY	*$1.17*	*$1.23*	*$1.31*
P/E		22.2x	20.5x	19.3x
EPS vs Consensus		0.0%	2.0%	2.3%
Consensus EPS		$1.18	$1.25	$1.32
Consensus P/E		22.1x	20.9x	19.7x

1 Year Price History



Source: FactSet

Raising Estimates & Target Price Due To Accretive Debt Refinancing

Target Price Raised to $25 from $23.50, Rating Still In Line

NI completed a ~$1B debt tender offer in early June. In a company press release on 06/09 NiSource announced purchasing $320MM aggregate principal amount of 6.125% notes due 2022, $200MM of the 6.40% notes due 2018, $245MM of 6.80% notes due 2019 and $225MM of the 5.45% notes due 2020. The aggregate ~$1B in debt buy back will be funded in part by $2B new debt issuance announced on 05/22 including $1B aggregate principal amount of 3.490% notes due 2027 and $1B of 4.375% notes due 2047. The rest of the capital will cover capital spending. We are increasing our EPS estimates for years '17/'18/'19 from $1.17/$1.23/$1.31 to $1.18/$1.27/$1.35 reflecting the parent interest expense savings associated with the above mentioned refinancing. We model total rate base growing ~8% through '19 towards the low end of company's consolidated rate base growth guidance range of 8-10%. This is driven by ~$1.7B of annual cap-x investment at the mid-point of company's guidance range of $1.6B - $1.8B. Our '16 through '19 forecast reflects an EPS CAGR of ~7.5%, lower than rate base growth due to equity dilution but still 50 bps above the company's long term EPS growth guidance of 5-7%. There could still be modest upside to our forecast if the cap-x investment trends to the high end of company's guidance range. A $100m increases in cap-x for '18-'19 if it carried through to rate base would increase earnings in 2019 by another ~$0.02/share or vs. our current '19 estimate assuming they equitize 50% of that incremental spend.

Raising Target Price to $25 from $23.50, keeping In Line rating. Our $25 price target is 18.5x our 2019 EPS forecast, an ~10% premium to what our DDM now says should be our average regulated utility target multiple, which is 16.7x. We think a significant premium is warranted especially relative to predominantly electric utilities that are, in our view, facing a more challenging growth profile creating medium to longer term headwinds for rate base growth. Our valuation is tempered by NI's high parent leverage. If NI spends at the high end of cap-x guidance that would increase our target price by $0.50 to $25.5/share. Since utility stocks began to materially outperform the market beginning on 2/15/17 NI has been one of the best performing stocks in the group, up 18% vs. 13% for our regulated utility peer group, to some degree because of appreciation of NI's improving EPS outlook but also—we think—a response to declining perceived risk of a negative financial impact to utilities from certain facets of potential Federal tax reform. NI has one of the most significant exposures on this front (see our note on the subject written on 02/01/17 here [tax reform note link].

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Q1 '17 earnings recap. NI reported Q1 '17 adjusted EPS of $0.71 vs. consensus of $0.67 and prior year of $0.62. Adjusted EPS is normalized for weather, whether it is better or worse than normal. First Quarter the weather was a particularly acute negative impact. GAAP EPS, including $0.06 of milder weather impact was $0.65. Consolidated operating income was $47.7 million higher compared to prior year primarily driven by the gas segment which was $33.6 million higher compared to prior year. Higher net revenues of $84.8 million from rate increases and customer growth were offset by higher operating expense of $51.2million, driven by higher taxes, employee related costs, outside services, and higher depreciation. Electric segment was $12.2 million higher compared to prior year as higher net revenues of $36.5 million from rate increases were offset by higher operating expense of $24.3million, driven by higher materials and supplies, employee related costs, outside services, and higher depreciation. Corporate/ Other was $1.9 million favorable primarily due unrealized gains on the cash surrender value of corporate owned life insurance investments. NI expects to be in the upper half of the earnings guidance range of $1.12 - $1.18 per share for '17 and reiterated its long term earnings and dividend growth outlook of 5-7% through '20. The company announced up to a $500MM annual equity at the market program (ATM) which will in part fund the $1.6 - $1.8 billion projected annual cap-x investment through '20 and is in synch with NiSource's projections of $200MM - $300MM equity issuance per year given at their analyst day in early 2017.

Rate case update: On 03/17/17 a settlement was approved in the Virginia base rate case authorizing $28.5 million rate increase, interim rates have been in effect since 09/28/16. Company's Maryland subsidiary filed for a $6 million rate increase request on 04/14/17 with a final order expected by year end.

Merger of NI's financing entities. In an 8-K filed on 04/26/17 NiSource announced merger of company's wholly-owned subsidiaries, NiSource Finance Corp. ("NiSource Finance") and NiSource Capital Markets, Inc. ("NiSource Capital"), with and into NiSource to simplify the overall corporate structure. The mergers are expected be completed by second half of 2017 following the receipt of approvals from state utility commissions and other stakeholders including the Company's Board of Directors.

NI subsidiary NIPSCO projects retirement of 50% of coal capacity by 2023. 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 would expect 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. The plan is currently being reviewed by various stakeholders, should this proposal move through the review 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.

Risks to our thesis. Using our proprietary Dividend Discount Model we value NI at $25/share, which is 18.5x our 2019 EPS estimate of $1.35. 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.

VALUATION METHODOLOGY

Our $25 price target is 18.5x our 2019 EPS forecast, an ~10% premium to what our DDM now says should be our average regulated utility target multiple, which is 16.7x. We think a significant premium is warranted especially relative to predominantly electric utilities that are, in our view, facing a more challenging growth profile creating medium to longer term headwinds for rate base growth.

RISKS

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COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2017-06-16)	Evercore ISI Target
AEE	Ameren Corp.	In Line	$56.48	$54.50
AEP	American Electric Power	In Line	$72.14	$66.50
AES	The AES Corporation	Outperform	$11.92	$12.25
AGR	Avangrid Inc	In Line	$45.49	$43.50
CMS	CMS Energy Corp.	Outperform	$48.08	$45.50
CNP	CenterPoint Energy, Inc.	In Line	$28.61	$27.00
CPN	Calpine Corp.	Outperform	$13.42	$16.00
D	Dominion Resources Inc.	In Line	$80.18	$75.00
DTE	DTE Energy Co.	In Line	$110.56	$102.00
DUK	Duke Energy Corp.	In Line	$86.95	$82.00
DYN	Dynegy Inc.	Outperform	$8.05	$15.00
ED	Consolidated Edison Inc.	In Line	$84.26	$74.00
EIX	Edison International	In Line	$81.98	$78.25
ES	Eversource Energy	Coverage Suspended	$62.62	NA
ETR	Entergy Corp.	In Line	$80.03	$76.00
EXC	Exelon Corp.	Outperform	$36.82	$39.00
FE	FirstEnergy Corp.	In Line	$29.79	$30.00
GXP	Great Plains Energy Incorporated	Outperform	$29.79	$31.00
HE	Hawaiian Electric Industries Inc.	Underperform	$33.51	$31.00
HIFR	InfraREIT, Inc.	Outperform	$20.00	$19.00
NEE	NextEra Energy Inc	Outperform	$141.87	$137.00
NI	NiSource Inc	In Line	$26.05	$23.50
NRG	NRG Energy Inc.	Outperform	$16.61	$20.00
NYLD	NRG Yield, Inc.	Outperform	$17.50	$20.00
PCG	PG&E Corp.	Outperform	$69.06	$67.50
PEG	Public Service Enterprise Group	In Line	$44.32	$45.00
PNM	PNM Resources, Inc	In Line	$39.40	$36.00
PNW	Pinnacle West Capital Corp.	In Line	$88.64	$81.50
PPL	PPL Corp.	In Line	$39.44	$37.00
SO	Southern Co.	In Line	$51.71	$48.00
SRE	Sempra Energy	Outperform	$114.98	$118.00
WEC	WEC Energy Group, Inc.	In Line	$63.88	$59.50
WR	Westar Energy Inc.	In Line	$53.65	$49.00
XEL	Xcel Energy Inc.	In Line	$47.59	$44.00

TIMESTAMP

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

Time of dissemination: June 19, 2017, 04:05 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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Outperform – the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line – the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform – the total forecasted return is expected to be less than the expected total return of the analyst's universe
Coverage Suspended – the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
Rating Suspended - Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*

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

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

Historical Ratings Definitions

Prior to March 2, 2017, Evercore ISI's recommendations were based on a stock's total forecasted return over the next 12 months:

Buy – the total forecasted return is expected to be greater than 10%
Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell – the total forecasted return is expected to be less than 0%

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and

trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%
Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

Ratings Definitions for Portfolio-Based Coverage

Evercore ISI utilizes an alternate rating system for companies covered by analysts who use a model portfolio-based approach to determine a company's investment recommendation. Covered companies are included or not included as holdings in the analyst's Model Portfolio, and have the following ratings:

Long – the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.
Short – the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
No Position – the stock is not included in the model portfolio.
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 Outperform, In Line and Underperform.

FINRA requires that members who use a ratings system with terms other than "Buy," "Hold/Neutral" and "Sell," to equate their own ratings to these categories. For this purpose, and in the Evercore ISI ratings distribution below, our Long, No Position and Short ratings can be equated to Buy, Hold and Sell respectively.

Evercore ISI ratings distribution (as of 06/19/2017)

Coverage Universe

Ratings	Count	Pct.
Buy	354	49%
Hold	263	37%
Sell	65	9%
Coverage Suspended	27	4%
Rating Suspended	7	1%

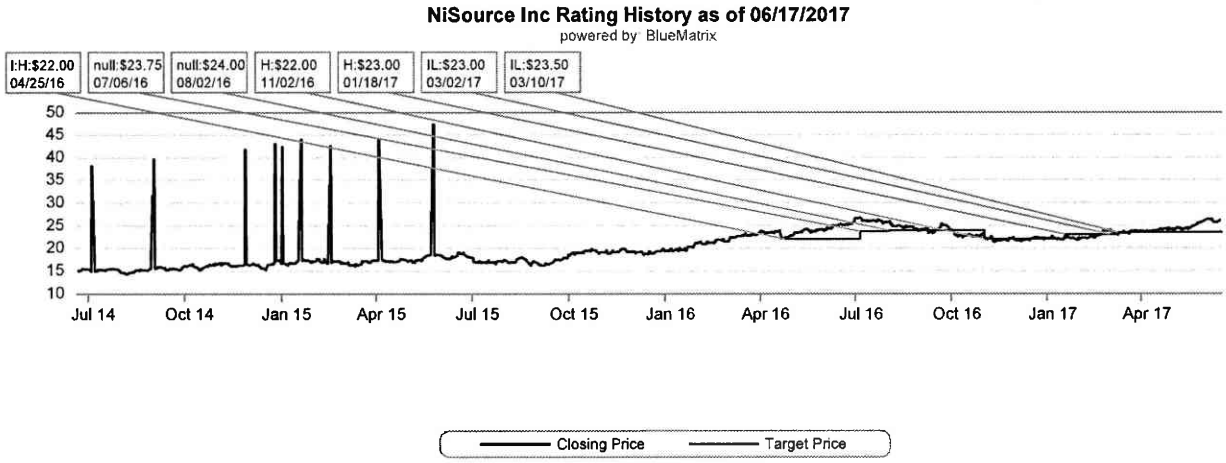
Investment Banking Services / Past 12 Months

Rating	Count	Pct.
Buy	45	13%
Hold	12	5%
Sell	1	2%
Coverage Suspended	5	19%
Rating Suspended	2	29%

Issuer-Specific Disclosures (as of June 19, 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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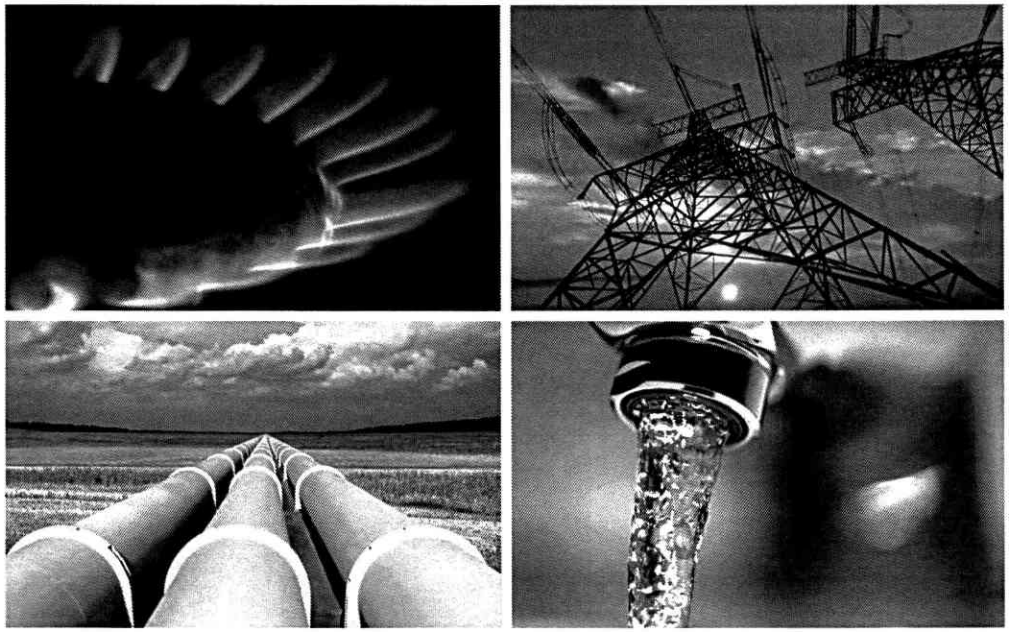
Q2'17 Downstream Earnings Preview



July 19, 2017

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See important disclosures starting on page 32

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Q2 2017 Themes

Below are the key themes we see going into the quarter:

- ***Weather Impact:*** Important quarter for electric utilities given seasonality. Weather was ~18% warmer than last year but ~2% colder than normal overall, so minimal impact for most names on a normalized basis. However, a few regions posted warmer-than-normal temperatures. Specifically, New England temperatures were >30% warmer and West Central U.S. region was >3% warmer. We see potential positive impact to names with less than full weather protection (by degree of impact) ES, WEC, VVC and NI.
- ***Pipeline Projects:*** Update and timing on pending projects should be greater focus this period given delayed Senate confirmation of new commissioners at FERC. Among USCA coverage, projects pending FERC approval include PennEast (NJR, SJI), Mountain Valley (WGL), 2017 Expansion (CPK) and STL Pipeline (SR). Other notable projects include Central Penn (WGL), SRL Pipeline (NJR), BL England (SJI), NW Florida Expansion (CPK), and Paiute Expansion (SWX).
- ***Electric Projects:*** Look for updates on electric transmission and generation projects expected to positively impact future EPS for several names. Higher-profile transmission projects to watch include Northern Pass (ES) and pending project bids in Oxaca and Baja, Mexico (SRE). Generation build opportunities as part of refreshed integrated resource planning (IRP) activity at the state level involve VVC, WEC and NI.
- ***M&A Outlook:*** M&A activity should again be front and center given pending deals involving AltasGas/WGL, First Reserve/EGAS, PNG/DGAS and GXP/WR (amended agreement for merger-of-equals transaction announced on 7/10). In Q1, rumors surrounded potential NJR/SJI pairing and SPKE sale. We believe rich valuations of potential targets and uncertainty surrounding tax reform are restraining new deals. As usual, look for updates on latest muni adds from AWK and WTR. Among our coverage, SR and WTR have previously stated interest in utility acquisitions.
- ***Rate Hikes:*** USCA covered names with rate hikes over the last twelve months (by degree of impact) include SRE, CWT, NI, OGS, NJR, AWK, WGL, WEC, WTR and ATO. In Q1, AWK, CPK, NI and WGL were authorized rate hikes which should provide a lift to EPS in Q2. Since quarter, SWX and AWK were authorized rate hikes, which should provide a lift to EPS in future periods. Pending rate cases (by potential impact) for SJI, SR, ES, WGL, NI, AWK and WTR.

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Q2 2017 Themes (cont'd)

- ***Renewable Updates:*** Look for update on recent activity and future interest from growing list of companies engaged in tax-favored solar and wind development. USCA covered names (by EPS contribution) include NJR, SRE and WGL. In late '16, ES announced partnership with Dong Energy to develop offshore wind. SRE moving forward with solar and wind investment in Mexico. We think CPK, NWN, NI and WEC may have early-stage interest.
- ***Dividend Hikes:*** Several utilities expected to raise annual dividend this period. Based on historic raise schedules, we expect dividend hikes for WTR (~8%) and NJR (~6%).
- ***Tax Reform:*** Implications of potential tax reform should remain a topic of interest this period, with the Trump administration rolling out its plan in late April but timing still uncertain for action. For utilities, key components of the plan include lowering the top corporate rate to 15% from 35% and returning dividend tax rates to 20% from 23.8%. Previously, a majority of utility management teams expected state regulators would quickly adjust rate structures to avoid a potential slowdown in rate base and earnings growth of regulated segments. For non-regulated segments, lower corporate tax rates should boost earnings. Exposed names (by USCA estimated '17 EBIT contribution) include SWX, VVC, CPK, WGL, NJR, AWR, AWK, SJI, SRE and SR. A reduction in the dividend tax rate should be viewed as a modest positive for all income-oriented stocks including utilities.
- ***Pipeline Replacement:*** Most names remain busy with authorized programs supported by trackers for timely cost recovery. Aside from water names with >100-yr replacement cycle, gas names with sizable replacement need and EPS growth potential include SRE, ATO, WEC, WGL, VVC, SJI and NJR. In recent rate case, SWX approved for accelerated replacement rate.
- ***Marketing/Storage:*** Non-core quarter for most names given seasonality. Still, look for updates for a handful of names engaged in these businesses including retail marketing aggregator SPKE. We expect generally weaker wholesale results vs. last year given a lower level of gas commodity price volatility. Wholesale energy marketing exposed names (by impact to total EPS) include NJR, SJI and WGL. Retail marketing names include SPKE, WGL, SR and CPK. Storage leader remains NWN.

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Names To Watch

- ***Top Names:*** Among our coverage, we see **SWX, CWT** and **NI** posting the most improved quarterly results driven by recent rate hikes. For SWX, $16mm rate hike in AZ effective in April. For CWT, ~$45mm rate hike in CA effective in January. For NI, ~$47mm hike rate hikes in VA and KY effective in January.
- ***Weaker Names:*** Among the group, we see **SJI, NJR and NWN** posting lower quarterly results than last year. For SJI, reduced investment in solar projects as part of shifted corporate strategy in 1H'16 should weaken the latest period results, continuing trend. For NJR, positive gains from rate hike in late '16 and pipe replacement spending should be more than offset by weaker marketing segment profits after atypically strong results last year. For NWN, lower storage profits should offset core utility growth, continuing trend.
- ***Potential Surprises:*** We see potential for slight upside surprises from **VVC, SWX** and **ES**. For VVC, potential outperformance could be driven by stronger pipe construction profits given favorable weather. For SWX, potential upside tied to timing of recent AZ rate hike effective in April. For ES, potential upside tied to increased cooling load given >30% warmer-than-normal weather in New England. We see potential for slight downside surprises from names in need of rate relief including **WGL, NWN** and **ATO**.

Priority Calls

Company	Focus
SRE	Focus should be on myriad Mexico project opportunities in queue involving solar/wind and electric transmission and outlook for future projects given political uncertainty in that country. Also, look for comments on recent Port Arthur expansion efforts, Cameron trains 1-3 construction update given concerns surrounding CBI, and expected timing for Southern Peru Pipeline re-bidding.
ES	Focus should be on Northern Pass approval process in NH with siting committee review underway and final decision expected by September. Also, update on pending MA rate case and long-term outlook for FERC transmission ROE after DC Court recently vacated order that lowered returns back in '14.
NJR / SJI	Focus should be on PennEast Pipeline timing and outlook given delay in Senate confirmation of FERC nominees. Also, look for update on other notable pending pipe projects for NJR (SRL Pipeline) and SJI (BL England), and SJI pending rate case in NJ.

USCA Estimates vs. Consensus – Q2'17

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Company Name	Ticker	Fiscal Year End	Upcoming Quarter Ending	USCA Upcoming Quarter EPS Estimate	Upcoming Quarter Consensus			Previous Year Same Quarter	YoY Change
					Average	High	Low		
Gas									
Atmos Energy	ATO	30-Sep	'17 Q3	**$0.64**	$0.66	$0.69	$0.63	$0.67	-4%
New Jersey Resources	NJR	30-Sep	'17 Q3	**$0.08**	$0.03	$0.10	($0.02)	$0.13	-38%
Northwest Natural Gas	NWN	31-Dec	'17 Q2	**$0.06**	$0.05	$0.08	$0.02	$0.07	-14%
ONE Gas	OGS	31-Dec	'17 Q2	**$0.40**	$0.42	$0.47	$0.40	$0.38	5%
South Jersey Industries	SJI	31-Dec	'17 Q2	**$0.06**	$0.04	$0.12	($0.05)	$0.12	-50%
Southwest Gas	SWX	31-Dec	'17 Q2	**$0.28**	$0.26	$0.31	$0.18	$0.15	87%
Spire Inc.	SR	30-Sep	'17 Q2	**$0.36**	$0.39	$0.45	$0.33	$0.33	9%
WGL Holdings	WGL	30-Sep	'17 Q3	**$0.25**	$0.25	$0.36	$0.09	$0.33	-24%
Average									**-4%**
Electric/Gas									
Chesapeake Utilities	CPK	31-Dec	'17 Q2	**$0.54**	$0.54	$0.58	$0.47	$0.52	4%
Eversource Energy	ES	31-Dec	'17 Q2	**$0.67**	$0.68	$0.73	$0.58	$0.64	5%
NiSource	NI	31-Dec	'17 Q2	**$0.11**	$0.10	$0.12	$0.08	$0.09	22%
Sempra Energy	SRE	31-Dec	'17 Q2	**$0.85**	$0.85	$0.97	$0.61	$0.84	1%
Vectren	VVC	31-Dec	'17 Q2	**$0.43**	$0.45	$0.48	$0.41	$0.39	10%
WEC Energy Group	WEC	31-Dec	'17 Q2	**$0.59**	$0.59	$0.60	$0.56	$0.57	4%
Average									**8%**
Water									
American States Water	AWR	31-Dec	'17 Q2	**$0.44**	$0.44	$0.45	$0.43	$0.45	-2%
American Water Works	AWK	31-Dec	'17 Q2	**$0.80**	$0.80	$0.84	$0.75	$0.77	4%
Aqua America	WTR	31-Dec	'17 Q2	**$0.34**	$0.34	$0.35	$0.33	$0.33	3%
California Water Service	CWT	31-Dec	'17 Q2	**$0.30**	$0.33	$0.39	$0.30	$0.24	25%
Average									**7%**
Marketing									
Spark Energy	SPKE	31-Dec	'17 Q2	**$0.20**	$0.19	$0.20	$0.19	$0.10	100%

Source: USCA, Thomson

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USCA Estimates vs. Consensus – Fiscal Year

Company Name	Ticker	Fiscal Year End	Upcoming FY Ending	Upcoming FY Guide	Upcoming FY Consensus			USCA FY17 EPS Estimate	YoY Change	USCA FY18 EPS Estimate	YoY Change
					Average	High	Low				
Gas											
Atmos Energy	ATO	30-Sep	2017	$3.45-$3.65	$3.60	$3.66	$3.45	**$3.55**	7%	**$3.75**	6%
New Jersey Resources	NJR	30-Sep	2017	$1.65-$1.75	$1.73	$1.76	$1.70	**$1.70**	6%	**$1.85**	9%
Northwest Natural Gas	NWN	31-Dec	2017	$2.05-$2.25	$2.17	$2.23	$2.15	**$2.15**	-2%	**$2.30**	7%
ONE Gas	OGS	31-Dec	2017	$2.87-$3.07	$2.97	$3.00	$2.95	**$2.97**	12%	**$3.10**	4%
South Jersey Industries	SJI	31-Dec	2017	$1.14-$1.20	$1.21	$1.30	$1.17	**$1.20**	-10%	**$1.60**	33%
Southwest Gas	SWX	31-Dec	2017	None	$3.38	$3.45	$3.31	**$3.45**	14%	**$3.65**	6%
Spire Inc	SR	30-Sep	2017	$3.50-$3.60	$3.53	$3.55	$3.51	**$3.50**	2%	**$3.60**	3%
WGL Holdings	WGL	30-Sep	2017	$3.10-$3.30	$3.25	$3.37	$3.20	**$3.20**	-2%	**$3.60**	13%
Average									**3%**		**10%**
Electric/Gas											
Chesapeake Utilities	CPK	31-Dec	2017	None	$2.99	$3.11	$2.90	**$3.00**	5%	**$3.50**	17%
Eversource Energy	ES	31-Dec	2017	$3.05-$3.20	$3.15	$3.20	$3.04	**$3.20**	8%	**$3.35**	5%
NiSource	NI	31-Dec	2017	$1.12-$1.18	$1.18	$1.21	$1.15	**$1.18**	5%	**$1.28**	8%
Sempra Energy	SRE	31-Dec	2017	$4.85-$5.25	$5.10	$5.24	$5.03	**$5.15**	2%	**$5.75**	12%
Vectren	VVC	31-Dec	2017	$2.55-$2.65	$2.62	$2.65	$2.60	**$2.63**	3%	**$2.80**	6%
WEC Energy Group	WEC	31-Dec	2017	$3.06-$3.12	$3.10	$3.12	$3.05	**$3.10**	5%	**$3.30**	6%
Average									**5%**		**9%**
Water											
American States Water	AWR	31-Dec	2017	None	$1.69	$1.71	$1.65	**$1.70**	5%	**$1.80**	6%
American Water Works	AWK	31-Dec	2017	$2.98-$3.08	$3.03	$3.05	$3.00	**$3.03**	7%	**$3.25**	7%
Aqua America	WTR	31-Dec	2017	$1.34-$1.39	$1.36	$1.38	$1.34	**$1.37**	4%	**$1.45**	6%
California Water Service	CWT	31-Dec	2017	None	$1.30	$1.37	$1.25	**$1.30**	29%	**$1.42**	9%
Average									**11%**		**7%**
Marketing											
Spark Energy	SPKE	31-Dec	2017	None	$1.41	$1.58	$1.25	**$1.40**	26%	**$1.50**	7%

Source: USCA, Thomson

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2Q'17 Weather – Cooler Overall But Very Warm in New England

U.S. Cooling Degree Days - Q2'17 (Population Weighted)

	This Year	Last Year	Dev from Last Year	Warmer/ (Cooler) vs. Last Year	Normal	Dev from Normal	Warmer/ (Cooler) vs. Normal
Monthly Data							
Apr-17	51	30	21	70%	37	14	38%
May-17	107	97	10	10%	106	1	1%
Jun-17	246	213	33	15%	269	(23)	(9%)
Q2'17	**404**	**340**	**64**	**19%**	**412**	**(8)**	**(2%)**
Regional Data							
New England	142	69	73	106%	108	34	31%
West North Central	206	150	56	37%	199	7	4%
West South Central	706	566	140	25%	687	19	3%
East North Central	427	360	67	19%	423	4	1%
Middle Atlantic	848	777	71	9%	853	(5)	(1%)
East South Central	535	458	77	17%	576	(41)	(7%)
Pacific	188	140	48	34%	204	(16)	(8%)
South Atlantic	210	197	13	7%	241	(31)	(13%)
Mountain	267	263	4	2%	328	(61)	(19%)
United States	**3,529**	**2,980**	**549**	**18%**	**3,619**	**(90)**	**(2%)**

Source: NOAA

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Rich Valuations Heading Into Earnings Season

- Entering Q2 earnings season, sector trading at average '18 P/E of ~20x, EV/EBITDA of ~10x, 2.9% yield and 62% payout.
- Valuations for all utility sectors are at or above the high end of historic ranges and are relatively unchanged from Q1.
- We believe rich valuations reflect investor appetite for yields above risk-free rates, ongoing M&A activity and optimism for tax and regulatory policy benefits under Trump. Notably, share prices remain inflated despite continued positive domestic growth data and Fed rate hikes.
  - ***Water Utilities:*** Among the sectors, safe-haven water utes continue to trade the richest, at ~24x P/E and ~11.5x EV/EBITDA, the high end of historic trading ranges and unchanged from Q1.
  - ***Gas Utilities:*** Gas utes trading at ~22x P/E and ~11x EV/EBITDA, unchanged from Q1, inflated we think by ongoing M&A activity and two turns above high end of historic trading ranges.
  - ***Electric Utilities:*** Electric group trading at ~18x P/E and ~9.5x EV/EBITDA, slightly below Q1 levels, and still the most modest multiples among the ute sectors. Unlike water and gas utes, investors continue to discount slower growth and concern over potentially high acquisition premiums paid in future deals. Still, shares trading at high end of historic ranges.

Segment	Price/EPS		EV / EBITDA		Dividend	
	2017E	2018E	2017E	2018E	Yield	Payout
Gas Distributors	23.5x	21.6x	11.3x	10.7x	2.5%	65%
Electric Distributors	19.8x	18.2x	9.6x	9.3x	2.9%	61%
Regulated Electric/Gas	19.7x	18.5x	10.5x	10.0x	3.1%	67%
Diversified Electric/Gas	18.1x	17.2x	10.3x	9.7x	3.7%	62%
Water Distributors	25.0x	24.0x	12.0x	11.4x	2.2%	58%
Average	**21.2x**	**19.9x**	**10.8x**	**10.2x**	**2.9%**	**62%**

Source: Bloomberg, USCA

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USCA Coverage – Lots of Short Covering Heading into 2Q'17

Ticker	1-Month Short Interest Change %	1-Month Stock Price Performance	Relative To XLU
SR	9%	5.9%	4.2%
ATO	8%	6.1%	4.3%
SJI	3%	(1.8%)	(3.5%)
SPKE	(3%)	41.9%	40.2%
WTR	(3%)	3.8%	2.1%
AWR	(4%)	7.2%	5.5%
WEC	(5%)	2.3%	0.6%
AWK	(6%)	2.5%	0.7%
CPK	(6%)	10.0%	8.2%
NWN	(7%)	2.5%	0.8%
OGS	(9%)	6.8%	5.1%
ES	(11%)	2.7%	1.0%
NI	(14%)	9.5%	7.7%
WGL	(18%)	2.7%	1.0%
NJR	(23%)	4.1%	2.4%
VVC	(25%)	2.2%	0.4%
CWT	(25%)	7.6%	5.8%
SRE	(32%)	2.3%	0.6%
SWX	(39%)	(4.6%)	(6.3%)
Median	**(8%)**	**3.3%**	**1.5%**

** Data as of 7/14/17*

Source: Bloomberg, USCA

U.S. Capital Advisors

USCA Coverage – Relative Price Performance

USCA Downstream Coverage

Equity Price Performance Post Earnings (Relative to XLU)

Day of Earnings Call

Company	Q2'16	Q3'16	Q4'16	Q1'17
Company	Q2'16	Q3'16	Q1'16	Q4'17
ATO	0%	2%	1%	0%
AWK	0%	0%	1%	-1%
AWR	-1%	0%	0%	-1%
CPK	-1%	-3%	0%	-1%
CWT	0%	0%	5%	-3%
ES	0%	0%	1%	0%
SR	0%	1%	-1%	1%
NI	1%	-2%	0%	-1%
NJR	-1%	-5%	0%	2%
NWN	2%	-1%	-1%	0%
OGS	0%	0%	-1%	1%
SJI	0%	-1%	1%	-2%
SPKE	0%	4%	0%	5%
SRE	0%	-4%	0%	0%
SWX	-1%	1%	1%	0%
VVC	-1%	0%	0%	0%
WEC	0%	1%	-1%	0%
WGL	0%	1%	0%	0%
WTR	0%	0%	0%	-1%

One Week Post Earnings

Company	Q2'16	Q3'16	Q4'16	Q1'17
Company	Q2'16	Q3'16	Q4'16	Q1'17
ATO	0%	3%	-1%	0%
AWK	-3%	1%	2%	-3%
AWR	1%	4%	-2%	-2%
CPK	5%	2%	1%	0%
CWT	-2%	-4%	2%	-9%
ES	0%	0%	0%	0%
SR	0%	2%	-3%	2%
NI	-1%	-2%	2%	0%
NJR	-1%	-1%	-1%	1%
NWN	1%	1%	-2%	1%
OGS	0%	-1%	1%	0%
SJI	0%	9%	2%	-2%
SPKE	3%	10%	0%	5%
SRE	-2%	-3%	1%	-2%
SWX	-4%	7%	0%	-6%
VVC	0%	2%	0%	-1%
WEC	0%	1%	-2%	1%
WGL	-2%	4%	0%	0%
WTR	-3%	-2%	2%	-4%

30 Days Post Earnings

Company	Q2'16	Q3'16	Q4'16	Q1'17
Company	Q2'16	Q3'16	Q4'16	Q1'17
ATO	-2%	3%	-2%	0%
AWK	-5%	3%	0%	-4%
AWR	-3%	15%	-5%	0%
CPK	4%	5%	1%	-2%
CWT	-2%	12%	-5%	-14%
ES	-2%	-1%	2%	0%
SR	-2%	-4%	-3%	1%
NI	-2%	-1%	0%	3%
NJR	-2%	3%	-3%	2%
NWN	-1%	4%	-2%	0%
OGS	1%	3%	2%	-2%
SJI	-1%	17%	3%	-2%
SPKE	20%	10%	10%	25%
SRE	-1%	-2%	2%	-1%
SWX	-5%	6%	-2%	-10%
VVC	-1%	5%	3%	-1%
WEC	-2%	1%	-4%	-1%
WGL	-4%	19%	-3%	-5%
WTR	-6%	2%	1%	-5%

Source: Bloomberg, USCA

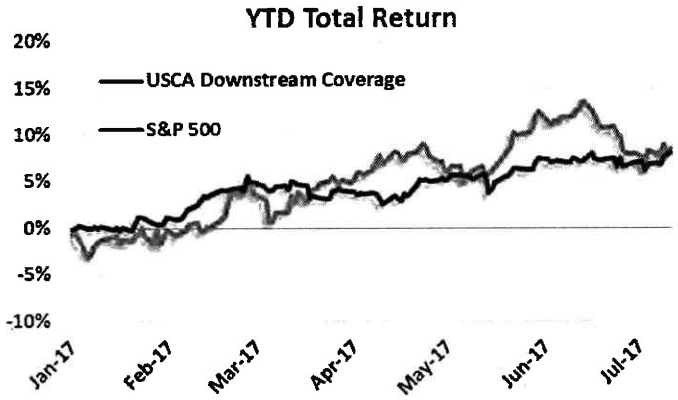
U.S. Capital Advisors

USCA Coverage – YTD Total Return In Line With Broad Market

2017 USCA Downstream Coverage YTD

Ticker	YTD Return	Relative to S&P 500	Relative to XLU
SPKE	35%	24%	26%
NI	18%	7%	9%
ATO	15%	4%	6%
CPK	14%	3%	5%
VVC	14%	3%	5%
NJR	14%	3%	5%
SRE	13%	2%	4%
WGL	12%	1%	3%
ES	11%	0%	2%
CWT	10%	0%	2%
OGS	10%	0%	2%
WTR	10%	-1%	1%
AWK	10%	-1%	1%
SR	9%	-2%	0%
WEC	6%	-5%	-3%
AWR	4%	-7%	-5%
SWX	3%	-8%	-6%
NWN	2%	-8%	-6%
SJI	-1%	-12%	-9%
Average	**11%**	**0%**	**2%**

** Data as of 7/14/17*



Source: Bloomberg, USCA

U.S. Capital Advisors

Individual Company Previews

American States Water (AWR)

U.S. Capital Advisors

Quick Refresh on Q1'17

- **Overall Take:** *Neutral,* with 1Q'17 EPS in line.
- **1Q'17 EPS:** In Line at 32c vs. Consensus 32c and USCA 31c. EPS exclude ~$1mm (2c/sh) from one-time drought recovery authorized by CA regulators.
- **'17 Guidance:** AWR does not offer formal EPS guidance. Consensus $1.71 and USCA $1.75 at time of release.
- **Cap Ex:** Previously, targeting $90mm spend for '16 and '17, with majority for regulated system infrastructure upgrades.
- **LT Growth:** Previously, broadly targeting 5%+ EPS and dividend growth.

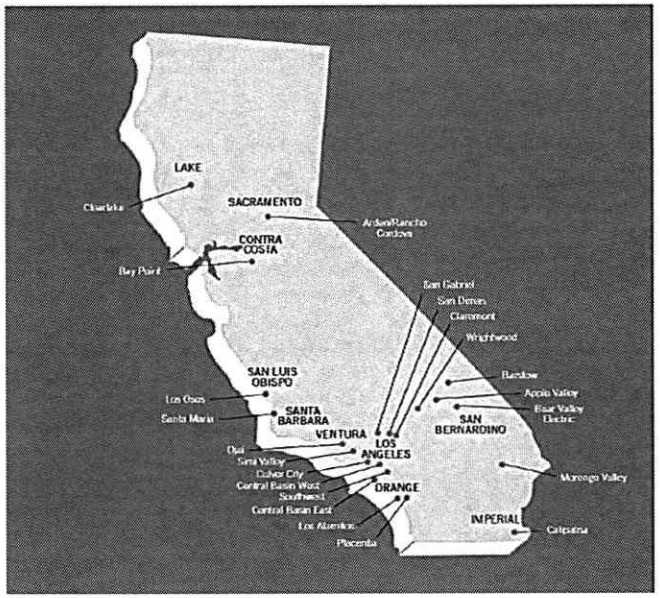
Key Q2'17 Topics

- **CA Rate Case**: In 12/16, received rate increases of ~$9mm for both '17 and '18. Most significant aspect of the filing was request for only slight upward revision in capital spending over past three-year cycle, in contrast with peers seeking much larger ramps. We see ~3c/sh (~2%) boost to EPS into '17/'18.
- **Pending Rate Cases:** Expected to file new CA water rate case this summer. In May, filed electric rate case in CA seeking modest increase, its first since '15. Given small segment size (<$100mm rate base), minimal expected impact to EPS into '18.
- **Cost Of Capital Review:** In April, filed for review with four other water utilities for new metrics beginning in '18. Requested 11.0% ROE and 57% equity, with final order expected by year end. Currently authorized 9.4% ROE and 55% equity, which we think remains largely unchanged.
- **Muni Acquisitions:** Previously, AWR was monitoring 10-20 systems representing ~20k customers within their footprint. Based on AWR size, we estimate each acquisition of ~1k customers could provide an incremental ~0.5% lift to EPS.
- **Military Base**: In 2H'16, announced 50-yr, $510mm water contract from U.S. government to serve Elgin AF Base in FL. Elgin was 10th base award and first contract win since '08. We see ~$1mm or ~3c/sh (~1-2%) to '17 EPS.

American States Water

Earnings Date:	8/2/2017	**Call Time (CT):**	NA
Call Date:	8/3/2017	**Call Number:**	NA

Key Estimates	Q2'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$0.44	$0.44	$1.70	$1.69
Dividend	$0.24	$0.24	$0.97	$0.97



Source: Thomson, AWR, USCA

American Water Works (AWK)

U.S. Capital Advisors

Quick Refresh on Q1'17

- **Overall Take:** *Neutral,* with 1Q'17 EPS in line, FY'17 guidance reaffirmed and dividend hike in line with expectations.
- **1Q'17 EPS:** In Line at 50c vs. Consensus 53c and USCA 50c. EPS excluded one-time ~$4mm (2c/sh) gain on tax benefit from adoption of new share-based accounting standard.
- **'17 Guidance:** Reaffirmed $2.98-$3.08 ($3.03 midpoint) vs. Consensus $3.04 and USCA $3.03 at time of announcement.
- **LT Growth:** Reaffirmed 7-10% EPS CAGR '16-'20.
- **Cap Ex:** 1Q'17 spend just $242mm but Reaffirmed ~$1.5B targeted spend for '17, up from $1.3B in '16. Long-term, ~$7B targeted spend '17-'21, with ~$6B for regulated system investment and ~$1B for regulated acquisitions.
- **Dividend:** Raised annual dividend 10.7% to $1.66/sh, in line with USCA expectations and previous announcement from AWK for ~10% hike.

Key Q2'17 Topics

- **Rate Hikes:** Look for positive impact to EPS from higher rates. Since January, ~$47mm in new rate hikes approved in IL, IA, CA, WV, PA, TN and IN that should provide ~1c/sh (<1%) lift to EPS in '17.
- **PA Rate Case:** In April, filed case in PA seeking sizable $108mm rate hike. Request follows ~$60mm in other pending hikes in WV, NY, CA and IN. We see ~3c/sh (~1%) total lift to '18 EPS.
- **Cost Of Capital Review:** In April, filed for review with four other water utilities for new metrics beginning in '18. Requested 10.8% ROE and 55% equity, with final order expected by year end. Currently authorized 10% ROE and 53% equity, which we think remains largely unchanged.
- **M&A:** Targeting ~30-60k new customer additions annually from wastewater acquisitions but ahead of schedule with ~13k new customers added in Q1 and another ~33k customers expected to be added into 2H'17. For scale, note that AWK added ~42k in '16.

American Water Works

Earnings Date: 8/2/2017 **Call Time (CT):** 8:00 AM
Call Date: 8/3/2017 **Call Number:** (888) 317-6003

Key Estimates	Q2'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$0.80	$0.80	$3.03	$3.03
Dividend	$0.42	$0.42	$1.66	$1.66

Source: Thomson, AWK, USCA

U.S. Capital Advisors

Aqua America (WTR)

Quick Refresh on Q1'17

- **Overall Take:** *Neutral,* with 1Q'17 EPS in line and FY'17 guidance reaffirmed.
- **1Q'17 EPS:** In Line at 28c vs. Consensus 29c and USCA 30c.
- **'17 Guidance:** Reaffirmed $1.34-$1.39. Consensus $1.37 and USCA $1.37 at time of announcement.
- **Cap Ex:** 1Q'17 spend $95mm, and Reaffirmed ~$450mm target for '17, up from $383mm in '16, with ~2/3 for pipe replacement and system integrity upgrades.
- **LT Growth:** Previously, 6-8% earnings and dividend growth target.

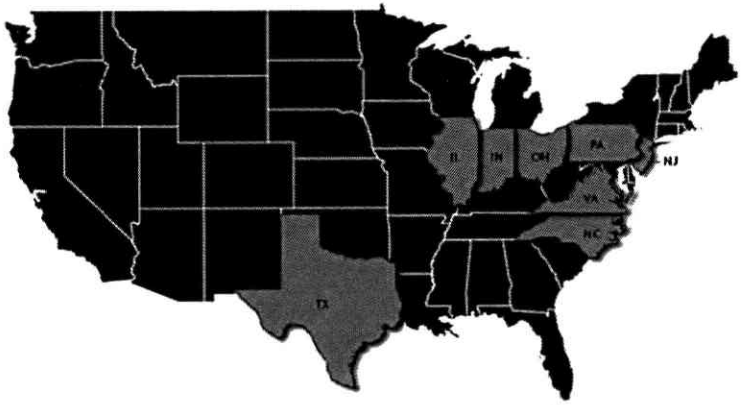
Key Q2'17 Topics

- **Dividend Hike:** We expect ~8% raise in annual rate to 83c/sh.
- **Muni M&A:** Look for outlook on customer opportunities in development. WTR previously targeting ~10-15k new customers annually from municipal water acquisitions in states with enabling legislation including PA, IL, IN and NJ. In Q1, added just 262 customers from two small acquisitions but announced new contracts with four munis for 9k customers expected to close by year end.
- **Rate Hikes:** Since January, implemented ~$11mm in rate hikes (IN, IL, NJ, NC and OH). Pending requests seeking ~$12mm in IL and VA. We see recent and pending rate hikes adding ~1c/sh (~1%) lift to '17 EPS.
- **Organic Customer Growth:** Expect update on organic customer growth adds in Q2'17. We expect ~8-10k new customers additions for '17 and beyond driven by population and new construction growth.
- **Non-Water M&A:** Previously, WTR interested in potential acquisitions of non-water utility assets. We believe WTR prefers gas distribution but we think current rich valuations is inhibiting a deal.

Aqua America

Earnings Date: 8/2/2017 **Call Time (CT):** 10:00 AM
Call Date: 8/3/2017 **Call Number:** (877) 545-1407

Key Estimates	Q2'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$0.34	$0.34	$1.37	$1.36
Dividend	$0.21	$0.20	$0.83	$0.80



Source: Thomson, WTR, USCA

U.S. Capital Advisors

Atmos Energy (ATO)

Quick Refresh on Q2'17

- **Overall Take:** *Neutral*, despite 2Q'17 dime EPS beat on accelerated pipe replacement, given reaffirmed FY'17 EPS guidance.
- **2Q'17 EPS:** Beat at $1.52 vs. Consensus $1.42 and USCA $1.42. Reported EPS from continuing ops exclude 3c/sh ($3mm) net gain from sale of retail marketing ops sold to CNP in Q4'16.
- **'17 Guidance:** Reaffirmed $3.45-$3.65 ($3.55 midpoint). Consensus $3.54 and USCA $3.55 at time of announcement.
- **LT Growth:** Reaffirmed 6-8% EPS growth target '15-'20.
- **Cap Ex:** Reaffirmed '17 targeted spend ~$1.1-$1.2B vs. $1.1B in '16, with ~80% for pipe safety and reliability enhancements.

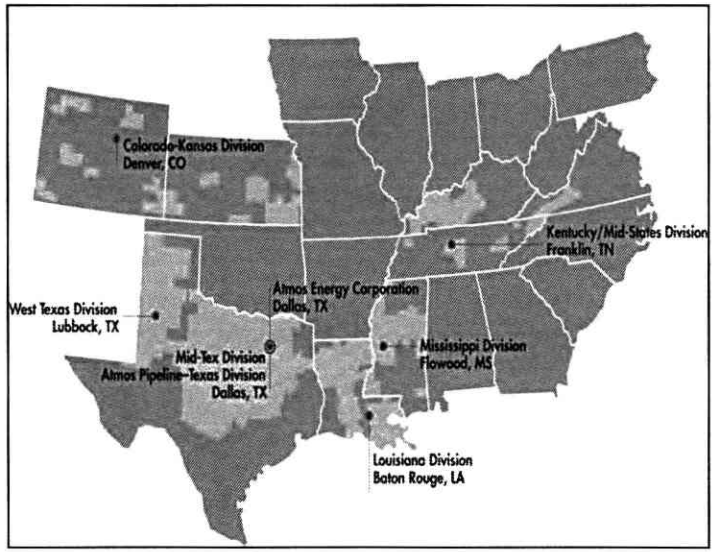
Key Q3'17 Topics

- **Rate Hikes:** Expect margin gains from rate hikes and infrastructure true-ups authorized last 12 months in MS, KY, TN, TX and CO.
- **APT:** Expect improved results for Atmos Pipeline Texas (APT) after GRIP filing approved $41mm hike in May '16.
- **Pending Cases**: Based on calendar, general rate case filings expected in CO in June and KS by year end. In January, filed FERC rate case (APT) seeking $55mm hike based on $1.8B rate base, 13.5% ROE and 60% equity, with new rates effective in October. Last rate case in '11 authorized 11.8% ROE.
- **APT Expansion:** Look for color on possible APT expansion opportunity. Previously, saw potential to boost capacity by adding compression at Waha and Groesbeck to APT mainline corridor (Lines X and V). Previously, viewed any capex spend for expansion would drop into rate base via GRIP.

Atmos Energy

Earnings Date: 5/3/2017 **Call Time (CT):** 9:00 AM
Call Date: 5/4/2017 **Call Number:** (877) 485-3107

Key Estimates	Q3'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$1.42	$0.66	$3.55	$3.60
Dividend	$0.45	$0.45	$1.80	$1.80



Source: Thomson, ATO, USCA

U.S. Capital Advisors

California Water Service Group (CWT)

Quick Refresh on Q1'17

- **Overall Take:** *Neutral,* despite slight 1Q'17 miss, as tied to timing issues surrounding recent CA rate order in late '16.
- **1Q'17 EPS:** Slight Miss at 2c vs. Consensus 5c and USCA 5c.
- **'17 Guidance:** CWT does not offer formal EPS guidance. Consensus $1.30 and USCA $1.30 at time of release.
- **Cap Ex:** 1Q'17 spend $52mm, on track for targeted $210mm for '17 after late '16 CA rate case order authorized $200-$220mm (up from prior $180mm).

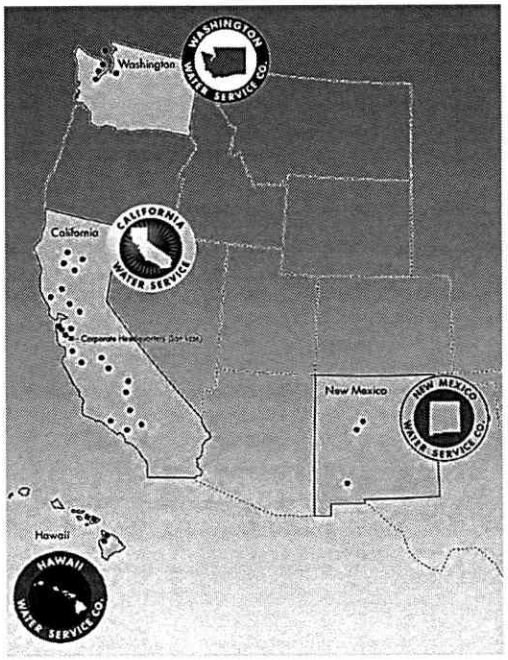
Key Q2'17 Topics

- **CA Rate Case:** Look for improved results tied to CA rate hike, continuing trend. In 12/16, CA regulators authorized $45mm rate hike in '17, $17mm in '18 and $16mm in '19. Most importantly, settlement also allowed for acceleration in annual spend to $220mm/yr vs. prior $180mm level. We see ~30c (~30%) lift to '17 EPS.
- **Cost Of Capital Review:** In April, filed for review in CA with four other water utilities for new metrics beginning in '18. Requested 10.75% ROE and 53% equity, with final order expected by year end. Currently authorized 9.4% ROE and 53% equity, which we think remains largely unchanged.
- **Military Base:** In Q1, formally signed Travis AF base contract awarded by U.S. government under 50-yr term. Award was first step into military base privatization market dominated in recent years by AWK and AWR. Previously, CWT expected to file application to incorporate Travis into rate base by 2H'17.
- **M&A:** CWT has not made any significant acquisitions since '08 but remains interested in opportunities. In its current geography alone, CA has >2k municipal systems serving 10k or fewer customers, second most in the U.S.

California Water Service

Earnings Date: 7/27/2017 **Call Time (CT):** 10:00 AM
Call Date: 7/27/2017 **Call Number:** (877) 397-0272

Key Estimates	Q2'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$0.30	$0.33	$1.30	$1.30
Dividend	$0.18	$0.18	$0.72	$0.72



Source: Thomson, CWT, USCA

Chesapeake Utilities (CPK)

U.S. Capital Advisors

Quick Refresh on Q1'17

- **Overall Take:** *Negative*, with sizable 1Q'17 EPS miss driven by very warm weather and higher infrastructure project costs seen as timing-related and expected to reverse in future periods as projects are completed.
- **1Q'17 EPS:** Miss at $1.19 vs. Consensus $1.44 and USCA $1.42. EPS exclude $0.3mm (2c/sh) from wind-down of Xeron wholesale propane marketing ops.
- **'17 Guidance:** CPK does not offer formal EPS guidance, but broadly targets ~6%+ EPS and dividend growth. Consensus $3.15 and USCA $3.15 at time of release.
- **Capex:** Previously, expected ~$260mm in '17, up from $179mm in '16, driven by multiple ongoing projects.

Key Q2'17 Topics

- **Existing Projects:** Expect update on key service expansion projects. Previously, ESNG System Reliability and 2017 Expansion projects on track for ~$130mm total spend and ~$20mm boost to '18 margins.
- **New Project:** In Q1, announced new Northwest Florida Expansion lateral, with $36mm projected spend and ~$5mm lift to '19 margins.
- **Future Projects:** Queue previously looked full. CPK estimated 50% probability for 20 additional projects over next 18 months. Near term, a second combined heat-and-power (CHP) project near its existing Eight Flags facility and a contract to serve a new large paper mill facility in FL. Also, we think early-stage interest in renewables.
- **Financing:** Heavy capex spend for projects should require additional debt and equity offerings into '18/'19. Previously, evaluating both ATM and secondary offering.

Chesapeake Utilities

Earnings Date: 8/3/2017 **Call Time (CT):** 9:30 AM
Call Date: 8/4/2017 **Call Number:** (855) 801-6270

Key Estimates	Q2'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$0.54	$0.54	$3.00	$2.99
Dividend	$0.33	$0.33	$1.30	$1.30

Source: Thomson, CPK, USCA

U.S. Capital Advisors

Eversource Energy (ES)

Quick Refresh on Q1'17

- **Overall Take:** *Neutral,* with 1Q'17 EPS in line, reaffirmed '17 guidance and reaffirmed long-term EPS growth target of 5-7% through '20.
- **1Q'17 EPS:** In Line at 82c vs. Consensus 82c and USCA 85c.
- **'17 Guidance:** Reaffirmed at $3.05-$3.20 vs. Consensus $3.15 and USCA $3.20 at time of announcement.
- **LT Growth:** Reaffirmed EPS growth target 5-7% for '16-'20, using FY'16A $2.96 as base year.
- **Cap Ex:** Targeting ~$2.7B spend in '17, up from ~$2.2B in '16, driven by transmission reliability projects.

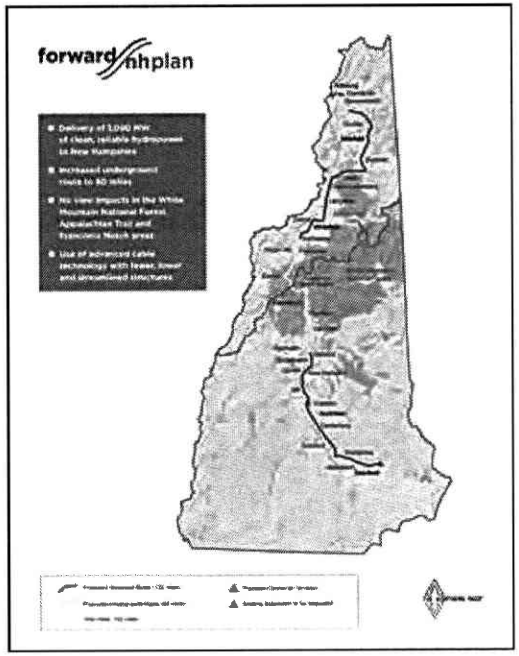
Key Q2'17 Topics

- **Northern Pass:** Sizable transmission project (192 miles from Canada to New England; 1,090 MW; ~$1.6B spend) should be key focus this period with NH siting committee review underway. Previously, final decision expected by 9/17 with construction start in Q4'17 and in-service 1H'19. Assuming ~50% equity, 11.74% ROE and financing costs, we see ~20c/sh (~6%) boost to EPS in '20.
- **Water Acquisition:** In June, agreed to acquire Aquarion Water Company for $880mm cash, as well as $795mm of assumed debt. Aquarion is the largest private water utility in New England with ~230k customers and same footprint as ES, with ~90% of customer base in CT and ~10% in MA and NH. Following approvals, closing of the transaction previously expected by year end.
- **Wind Project:** Look for update on partnership with Dong Energy for planned >2,000 MW off-shore wind project. Previously, expected to bid into MA RFP by 2H'17, with construction start in late '17 and first power deliveries in '21.
- **Access Northeast:** Look for update on troubled project. Recall ~$3B project in limbo after MA court setback and NH PUC rejection in '16.

Eversource Energy

Earnings Date: 7/27/2017 **Call Time (CT):** 8:00 AM
Call Date: 7/28/2017 **Call Number:** (800) 588-4973

Key Estimates	Q2'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$0.67	$0.68	$3.20	$3.15
Dividend	$0.48	$0.48	$1.90	$1.90



Source: Thomson, ES, USCA

New Jersey Resources (NJR)

U.S. Capital Advisors

Quick Refresh on Q2'17

- **Overall Take:** *Neutral*, despite sizable 2Q'17 EPS beat on lumpiness from timing of new renewable projects placed in service, given reaffirmed FY'17 guidance.
- **2Q'17 EPS:** Beat at $1.20 vs. Consensus $1.00 and USCA $1.00.
- **'17 Guidance:** Reaffirmed $1.65-$1.75. Consensus $1.70 and USCA $1.70 at time of announcement.
- **Segments:** Reaffirmed guidance: Gas Utility 55-65%; Clean Energy (wind/solar) 15-25%; Energy Marketing 5-15%; Midstream 5-10%; Home Services 1-3%.
- **LT Growth:** Reaffirmed LT EPS growth 5-9% and LT dividend growth 6-8%.

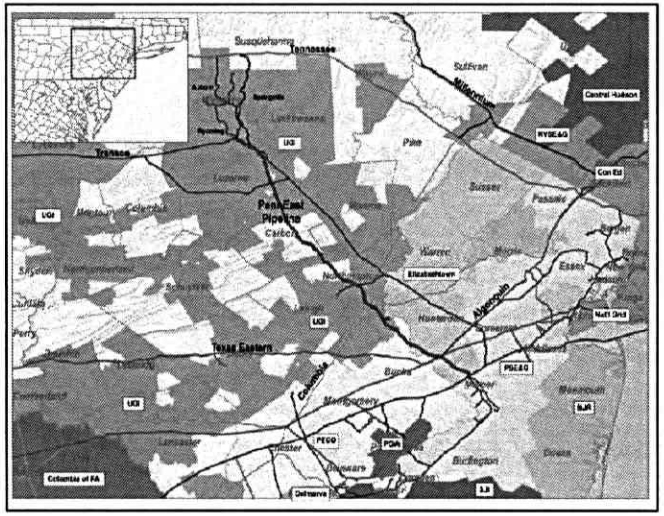
Key Q3'17 Topics

- **Dividend Hike:** We expect ~6% raise in annual rate to $1.08/sh.
- **PennEast:** Key focus on pending $1.2B, 120-mile PennEast Pipeline project (see map right). Project viewed as on track for in-service in late '18 assuming confirmation of pending FERC nominees and quick approval in the coming months, NJ water permit by early '18 and seven month construction process. With 20% stake, we see ~10c/sh (~5%) lift to EPS.
- **Solar/Wind:** Look for update on project queue. Previously, expected to spend ~$100mm in '17 on new projects vs. $85mm in '16. Currently NJR serves 5k residential solar customers vs. projected 400k customer market in NJ. On wind, previously expected to add one new project in ~$100mm investment range to portfolio annually.
- **Pipe Lateral:** Look for update on Southern Reliability Link (SRL) Pipeline (30 miles, ~$180mm) designed to add resiliency to system from second feed. Project still needs Pinelands Commission approval which may be noisy into 2H'17 given pushback from environmental groups. Previously, in-service targeted for '18.
- **M&A:** Last quarter, *Wall Street Journal* reported NJR in talks with SJI on potential merger.

New Jersey Resources

Earnings Date:	8/2/2017	**Call Time (CT):**	9:00 AM
Call Date:	8/2/2017	**Call Number:**	NA

Key Estimates	Q3'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$1.00	$0.03	$1.70	$1.73
Dividend	$0.27	$0.27	$1.08	$1.09



Source: Thomson, NJR, USCA

U.S. Capital Advisors

NiSource, Inc. (NI)

Quick Refresh on Q1'17

- **Overall Take:** *Positive,* with 1Q'17 EPS beat and slight raise in FY'17 EPS guidance despite very warm weather given myriad rate hikes implemented LTM.
- **1Q'17 EPS:** Beat at 65c including weather vs. USCA 60c and Consensus 66c. USCA adjusted EPS include $19mm (6c/sh) from negative weather impact, which NI excludes, consistent with our methodology for all utilities.
- **'17 Guidance:** Raised to "upper half" of current $1.12-$1.18 range. Consensus $1.16 and USCA $1.18 at time of announcement.
- **Cap Ex:** Reaffirmed on track for $1.6-$1.7B for '17 driven by accelerated spend on electric infrastructure improvements. ~$1.5B annual target over 20 yrs (~$30B total) on utility infrastructure enhancement activities with trackers.
- **LT Growth:** Reaffirmed LT EPS and dividend growth target of 5-7%.

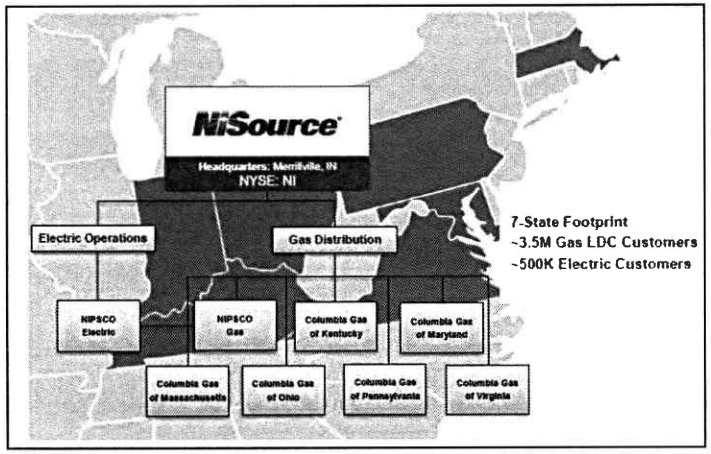
Key Q2'17 Topics

- **Rate Hikes:** Expect positive impact from rate hikes since last year. In 7/16, IN regulators approved $73mm electric rate hike based on above-average 10% ROE. On gas, rate hikes in MD (~$4mm), PA (~$35mm), KY (~$18mm) and VA (~$29mm). Previously, evaluating new filings in PA, VA and MD by mid '18.
- **New Generation:** At Analyst Day in March, saw potential increase of >$1B in spending beyond '20 tied to potential retirement of coal plants as part of ongoing integrated resource planning (IRP) review in IN. Better clarity on IRP previously expected by late '17.
- **Conversions:** At Analyst Day, announced ~$300mm in additional spending through '20 for aggressive marketing to boost gas conversions, lifting customer growth rate from current 0.7% to 1.0%. NI sees ~350k potential customers within 500 feet of main. Among seven states, MA the prime locale given largest number of heating oil customers.

NiSource

Earnings Date:	8/2/2017	**Call Time (CT):**	7:30 AM
Call Date:	8/2/2017	**Call Number:**	(855) 219-9570

Key Estimates	Q2'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$0.11	$0.10	$1.18	$1.18
Dividend	$0.18	$0.18	$0.70	$0.70



Source: Thomson, NI, USCA

Northwest Natural Gas (NWN)

U.S. Capital Advisors

Quick Refresh on Q1'17

- **Overall Take:** *Neutral,* with 1Q'17 EPS in line and FY'17 guidance reaffirmed. Utility growth driven by new customer additions and colder weather offset by weaker storage profits and higher share count, continuing trend.
- **1Q'17 EPS:** In Line at $1.40 vs. Consensus $1.40 and USCA $1.40.
- **'17 Guidance:** Reaffirmed $2.05-$2.25 ($2.15 midpoint) vs. Consensus $2.16 and USCA $2.15 at time of announcement.
- **Capex:** 1Q'17 spend at $39mm. Previously, NWN targeting ~$240mm spend in '17 including Mist Expansion project. '16-'20 prior target $850-$950mm (~$180mm/yr), with >90% for customer growth and enhanced reliability projects.

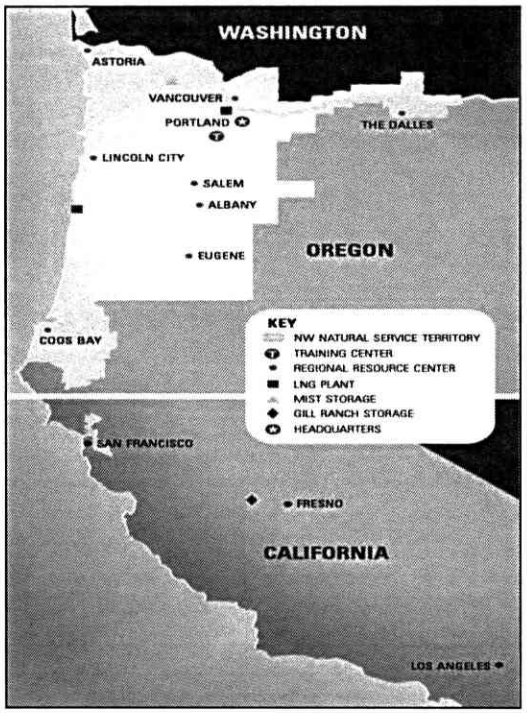
Key Q2'17 Topics

- **Rate Cases:** Look for questions on timing for next OR and WA rate cases. In OR, currently earning 8.8% vs. 9.5% authorized and last rate case was in '12, so filing likely by early '18 and potential boost to '19 EPS. After OR, we think NWN will file in smaller WA jurisdiction (~15% of rate base) in late '18 for potential boost to '20 EPS.
- **Mist Expansion:** Look for construction update on Mist storage expansion. NWN has agreement with POR to spend ~$128mm to expand existing storage field by 2.5 Bcf to serve new POR gas-fired electric generation plant. We see 10c/sh (~4%) boost to EPS, with construction in '17/'18 and in-service '18/'19.
- **Gill Ranch:** Gill Ranch (20-Bcf gas storage facility in CA) continues to operate at slight loss. Look for update on long-term fit for NWN and potential for divestiture of asset by year end.
- **Renewables:** In April, named Frank Burkhartsmeyer as new CFO. As previous president and CEO of AGR Renewables unit, and with continued weakness in storage spreads, we think future investment in solar and wind may offer a new growth venue.

Northwest Natural Gas

Earnings Date: 8/2/2017 **Call Time (CT):** 10:00 AM
Call Date: 8/2/2017 **Call Number:** (866) 267-6789

Key Estimates	Q2'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$0.06	$0.05	$2.15	$2.17
Dividend	$0.48	$0.47	$1.90	$1.89



Source: Thomson, NWN, USCA

U.S. Capital Advisors

ONE Gas (OGS)

Quick Refresh on Q1'17

- **Overall Take:** *Neutral,* with 1Q'17 EPS in line and FY'17 guidance reaffirmed.
- **1Q'17 EPS:** In Line at $1.34 vs. Consensus $1.35 and USCA $1.35. EPS exclude one-time ~$5mm (~10c/sh) gain on tax benefit from adoption of new share-based accounting standard.
- **'17 Guidance:** Reaffirmed $2.87-$3.07 ($2.97 midpoint). Consensus $2.96 and USCA $2.97 at time of announcement.
- **LT Growth:** Previously, LT EPS growth 5-7% and dividend growth 8-10%.
- **Cap Ex:** 1Q'17 spend ~$71mm vs. $75mm last year, but reaffirmed higher '17 targeted spend of ~$350mm vs. $309mm last year with decrease tied to timing issues of maintenance activity. Reaffirmed ~70% for pipe replacement and system integrity upgrades.

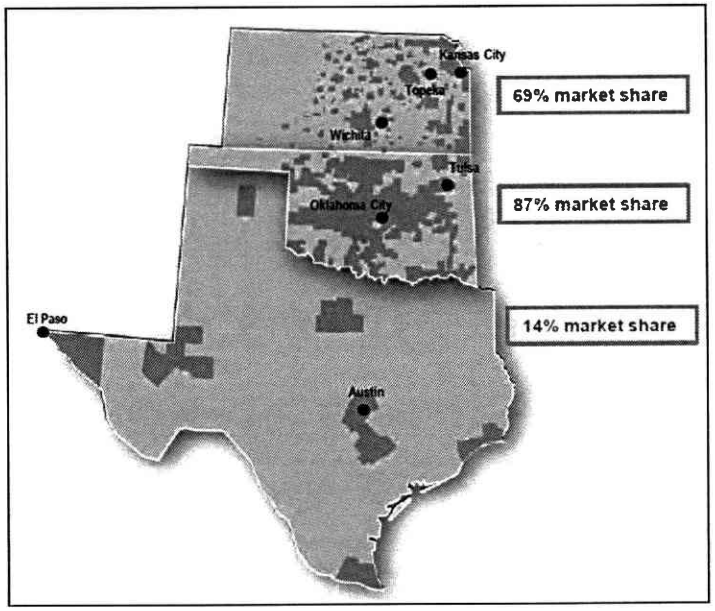
Key Q2'17 Topics

- **Rate Hikes:** Look for positive impact from recent rate hikes. In 9/16 implemented ~$9mm rate hike in West TX. In 11/16, implemented ~$16mm rate hike in KS and ~$7mm rate hike in Central TX. In total, expected ~2c/sh (~1%) lift to '17 EPS. In March, initiated annual GRIP filing in TX, seeking ~$10mm in rate hikes with new rates in July.
- **TX Rate Case:** Look for timing on next rate case filing. Next expected filing in TX later this year should be small and focused on consolidation of multiple jurisdictions to achieve administrative savings.
- **Pipe Replacement:** As always, look for update given majority of capex budget tied to system integrity spending on safety and reliability.

ONE Gas

Earnings Date:	7/31/2017	**Call Time (CT):**	10:00 AM
Call Date:	8/1/2017	**Call Number:**	(888) 576-4380

Key Estimates	Q2'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$0.40	$0.42	$2.97	$2.97
Dividend	$0.42	$0.42	$1.68	$1.68



Source: Thomson, OGS, USCA

Sempra Energy (SRE)

U.S. Capital Advisors

Quick Refresh on Q1'17

- **Overall Take:** *Neutral,* despite 1Q'17 EPS dime beat, given reaffirmed FY'17 guidance.
- **1Q'17 EPS:** Beat at $1.74 vs. Consensus $1.65 and USCA $1.60. 1Q'17 EPS exclude $3mm (1c/sh) tax benefit tied to MX electric generation facility deferred sale.
- **'17 Guidance:** Reaffirmed $4.85-$5.25 ($5.05 midpoint). Consensus $5.11 and USCA $5.15 at time of announcement.
- **LT Growth:** Reaffirmed '17-'21 EPS growth target 10-11% and dividend growth 8-9%. On dividend, previously saw hikes in line with earnings growth after '19 as Cameron trains 1-3 become operational.
- **Cap Ex:** 1Q'17 spend at ~$1B, on track for ~$3.4B spend in '17. Previously, ~$14B targeted spend '17-'21. Notably, plan excludes ~$15B in development opportunities across SRE footprint.

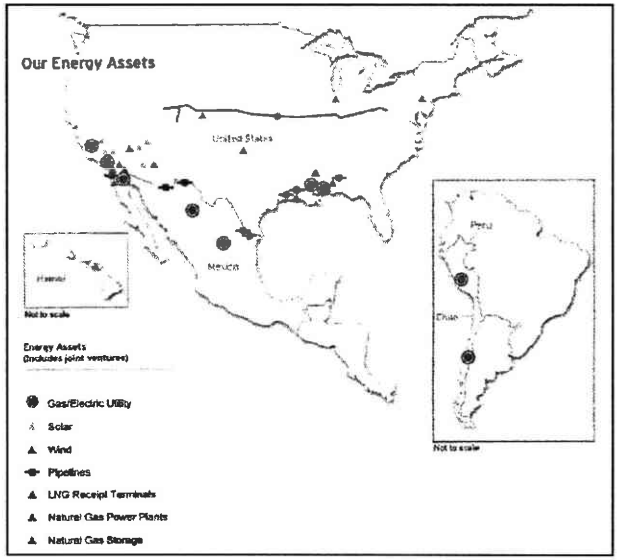
Key Q2'17 Topics

- **Aliso Canyon:** Look for update on leak investigation, next steps to fully resolve litigation claims, refreshed liability estimates and CPUC review of future viability of the facility. Previously, total cost estimate ~$0.8B and SRE has >$1.2B of insurance coverage. Final report into root cause by independent parties expected by 2H'17.
- **LNG Export:** Expect affirmation of current timeline for Cameron trains 1-3, with all three trains expected to be on line by end of '19 and expected $300-$350mm lift to net income.
- **Mexico Projects:** Look for update on next round of projects up for bid. Previously, saw focus in '17 on bidding for $1.2B electric transmission project in Oxaca, $1.2B electric transmission project in northern Baja and >2k mw of new solar power auctions.
- **Southern Peru Pipeline (SPP):** At Analyst Day in March, evaluating re-bidding on SPP at auction in late '17. Emphasized SPP is a sizable opportunity and know the assets well, having been a bidder on them in the past, but that risk profile remains a key concern and need better clarity from Peruvian government on project parameters.

Sempra Energy

Earnings Date:	8/2/2017	**Call Time (CT):**	NA
Call Date:	8/2/2017	**Call Number:**	NA

Key Estimates	Q2'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$0.85	$0.85	$5.15	$5.10
Dividend	$0.82	$0.82	$3.29	$3.29



Source: Thomson, SRE, USCA

South Jersey Industries (SJI)

U.S. Capital Advisors

Quick Refresh on Q1'17

- **Overall Take:** *Negative,* with 1Q'17 EPS nickel miss and initial FY'17 guidance below expectations.
- **1Q'17 EPS:** Miss at 72c vs. Consensus 78c and USCA 77c. Reported EPS excluded ~$26mm (33c/sh) after-tax charge from legal dispute with a gas supplier which SJI is appealing.
- **Initial '17 Guidance:** Miss at $1.14-$1.20 vs. Consensus $1.35 and USCA $1.35 at time of announcement. Per SJI, lower-than-expected guidance reflects expectation for weaker SREC prices and higher interest expense from higher rates.
- **Cap Ex:** Previously, targeting ~$315mm spend for '17, up from $278mm in '16, with majority for regulated system infrastructure upgrades.
- **LT Growth:** Reaffirmed $150mm in primarily regulated earnings or ~$1.90/sh by 2020. Based on FY'16A EPS of $1.34, 4 yr. CAGR of ~9%.

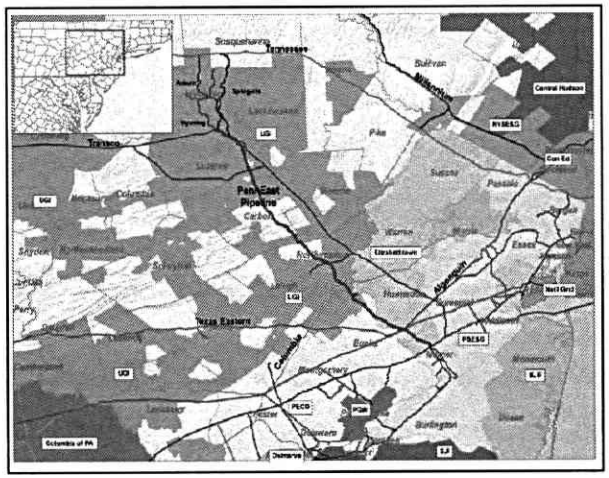
Key Q2'17 Topics

- **NJ Rate Case:** Look for update on rate case. In January, requested ~$75mm rate hike based on 11% ROE and 54% equity layer. Assuming 9.75% ROE recently granted other NJ utes, we see ~4c/sh (~3%) lift to '18 EPS. Final order expected by October.
- **PennEast:** Key focus on pending $1.2B, 120-mile PennEast Pipeline project (see map right). Project viewed as on track for in-service in late '18 assuming confirmation of pending FERC nominees and quick approval in coming months, NJ water permit by early '18 and seven month construction process. With 20% stake, we see ~11c/sh (~7%) lift to SJI EPS.
- **BL England:** Look for update on BL England pipeline project (22 miles, ~$120mm spend). After lengthy process, Pinelands Commission approved the project in February but environmental groups filed lawsuit in April to stop the project. Previously, SJI expected construction start in late '17 and in-service in 2H'18. We see ~5c/sh (~3%) lift to EPS into FY'19.
- **M&A:** Last quarter, *Wall Street Journal* reported NJR in talks with SJI on potential merger.

South Jersey Industries

Earnings Date:	8/3/2017	**Call Time (CT):**	NA
Call Date:	8/3/2017	**Call Number:**	NA

Key Estimates	Q2'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$0.06	$0.04	$1.20	$1.21
Dividend	$0.28	$0.28	$1.13	$1.13


PennEast Pipeline
Carbon
Tennessee
Texas Eastern
Columbia
Lehigh
Northampton
Bucks
Montgomery
Berks
Chester
Delaware
Burlington
Camden
Gloucester
Salem
Cumberland
Cape May
Atlantic
Ocean
Monmouth
Middlesex
Hunterdon
Warren
Morris
Essex
Passaic
Bergen
Sussex
Pike
Sullivan
Susquehanna
Wyoming
Lackawanna
Wayne
Hudson
Union
Somerset
Mercer
Columbia of PA
Dominion
PECO
PSEG
NJNG
SJI
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Southwest Gas Holdings (SWX)

U.S. Capital Advisors

Quick Refresh on Q1'17

- **Overall Take:** *Neutral*, despite 1Q'17 EPS miss, given reaffirmed FY'17 guidance for utility ops (inclusive of recent AZ rate hike) and construction ops (rebounding from customer issue and adverse weather).
- **1Q'17 EPS:** Miss at $1.39 vs. Consensus $1.67 and USCA $1.65. Customarily, EPS exclude quarterly change in surrender value of company-owned life insurance (COLI) of ~$3mm (6c/sh).
- **'17 Guidance:** SWX does not provide formal EPS guidance but Reaffirmed some guidance by segment (see below). Consensus $3.42 and USCA $3.45 at time of release.
  - Gas Utility Op Income 10-12% growth from '16A $264mm (i.e. ~$290-$295mm), driven by pipe replacement, customer growth and AZ rate case.
  - Construction Revenues 2-5% growth from '16A $1.14B in '16 (i.e. ~$1.16B to $1.2B). Construction Op Income ~5% of '17 revenue (i.e. ~$58-$60mm).
- **Cap Ex:** Reaffirmed $570mm target for '17 driven by pipe replacement.

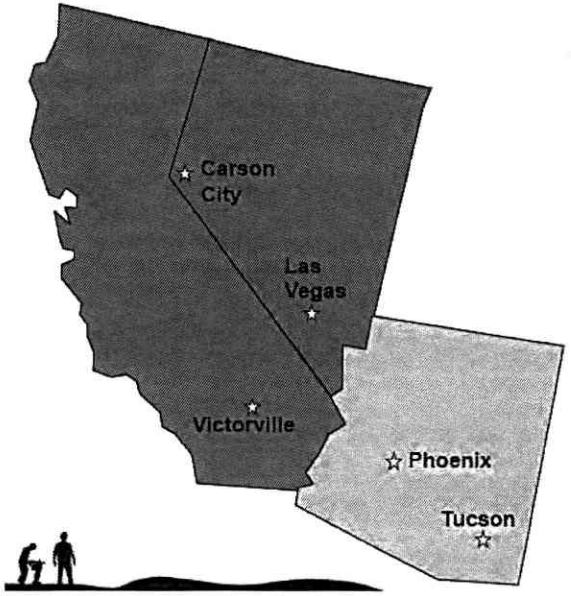
Key Q2'17 Topics

- **Price Volatility:** Expect SWX to address atypical price volatility in shares. Shares advanced ~15% in Q1 and retreated ~15% in Q2. We believe volatility was largely tied to an activist investor who acquired ~3% of outstanding shares and attempted to seat two Board members. When its efforts failed, the investor began unwinding its position.
- **Construction Update:** Look for steady growth, rebounding from Q1 hiccup driven by unique work stoppage for large customer in VA tied to workforce certification issue.
- **AZ Rate Hike:** Look for positive impact of recent rate hike. In April, regulators authorized $16mm rate hike based on 9.5% ROE and 52% equity layer. Order also authorized upsized infrastructure replacement program, lower depreciation rate and property tax tracker. We see ~2c/sh (~1%) lift to '17 EPS.
- **Expansion Projects:** Look for update on pipe expansion and LNG facility projects. On pipe, Paiute Expansion (8 miles; $17mm cost) initiated FERC pre-filing process in late '16 with panned in-service in late '18. On LNG, 233k gallon facility designed for peak service previously on target for ~$80mm spend and in-service in late '19. Based on spend and 9.5% utility ROE, we see ~10c/sh (~3%) lift to '19 EPS from these projects.

Southwest Gas

Earnings Date:	NA	**Call Time (CT):**	NA
Call Date:	NA	**Call Number:**	NA

Key Estimates	Q2'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$0.28	$0.26	$3.45	$3.38
Dividend	$0.50	$0.50	$1.98	$1.98



Source: Thomson, SWX, USCA

Spark Energy (SPKE)

U.S. Capital Advisors

Quick Refresh on Q1'17

- **Overall Take:** *Slight Positive,* despite reaffirmed '17 EBITDA guidance, given announcement of latest acquisition expected to provide incremental lift to future EBITDA.
- **1Q'17 EPS:** In Line at 78c vs. USCA 80c but below Consensus 67c.
- **'17 Guidance:** Reaffirmed adjusted EBITDA guidance of $110-$120mm. Consensus $103mm and USCA $100mm at time of announcement.
- **'17 EPS Guidance:** SPKE does not provide formal EPS guidance. Consensus '17 EPS $1.41 and USCA $1.40 at time of release.

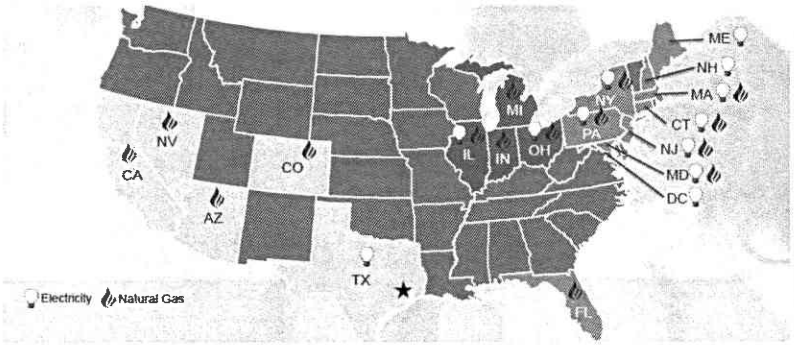
Key Q2'17 Topics

- **Recent M&A:** Expect review of integration and impact from recent acquisitions. In May, announced closing of Perigree Energy deal ($2mm, 19k customers). In July, announced closing of Verde Energy ($65mm; ~50k customers). Previously, Verde acquisition expected to boost adjusted EBITDA $25mm but over undefined timeline.
- **Future M&A:** As always, expect update on new M&A opportunities in queue.
- **M&A:** On March 10, *Bloomberg* reported SPKE in early stages of sale process.

Spark Energy

Earnings Date:	8/8/2017	**Call Time (CT):**	NA
Call Date:	8/8/2017	**Call Number:**	NA

Key Estimates	Q2'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$0.20	$0.19	$1.40	$1.41
Dividend	$0.36	$0.36	$1.45	$1.45



Source: Thomson, SPKE, USCA

Spire Inc. (SR)

U.S. Capital Advisors

Quick Refresh on Q2'17

- **Overall Take:** *Neutral,* given 1Q'17 EPS in line, and with raise in LT capex forecast offsetting lower FY'17 guidance driven by warm weather.
- **2Q'17 EPS:** In Line at $2.38 vs. Consensus $2.37 and USCA $2.35.
- **'17 Guidance:** Lowered to "lower half" of current $3.50-3.60, driven by warm weather impact. Consensus $3.52 and USCA $3.50 at time of announcement.
- **Cap Ex:** YTD ~$190mm, on track for '17 targeted spend of $410mm. Rolled forward and raised 5 yr guidance to $2.3B for '17-'21 from prior $2.0B for '15-'20.

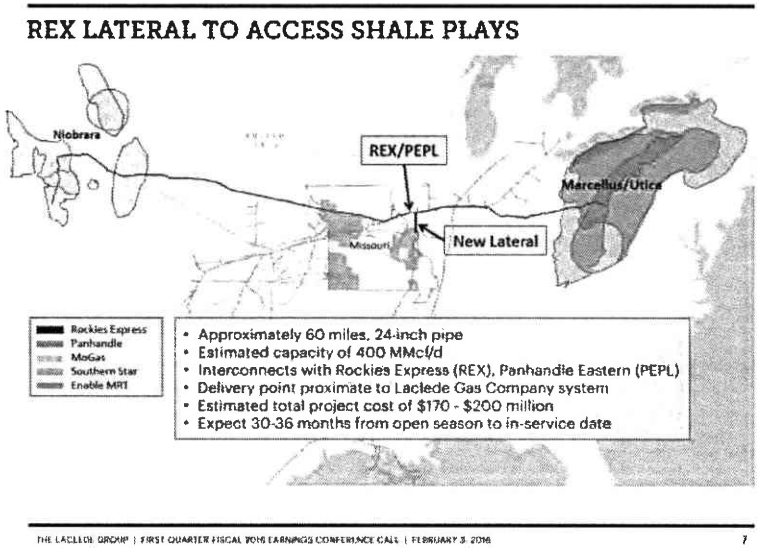
Key Q3'17 Topics

- **MO Rate Cases:** Look for outlook regarding recent MO rate case filings. In April, requested ~$108mm in rate hikes (~$65mm net excluding current infrastructure tracker collection) based on 10.35% ROE and 57% equity layer. We think SR is focused on achieving an improved rate design and greater margin stability in the pending case. Assuming 9.7% ROE currently authorized for its infrastructure program, we see ~4c/sh (~1%) lift to '18 EPS.
- **EnergySouth:** Look for update on integration of $344mm acquisition from SRE which closed in 9/16. Acquisition previously expected to be earnings neutral in FY'17 and accretive in FY'18.
- **STL Pipeline:** Expect update on pending pipe project (see map right) after formal FERC filing in late January. In 7/16 began FERC pre-filing process and in 8/16 completed open season for 400k mcf/d. SR will be 100% owner of 60-mile, 24-inch lateral with expected cost of ~$200mm and in-service in '19. Assuming FERC ROE and financing, we see ~30c/sh (~8%) potential lift to '19 EPS.

Spire Inc.

Earnings Date: 8/2/2017 **Call Time (CT):** 8:00 AM
Call Date: 8/2/2017 **Call Number:** (844) 824-3832

Key Estimates	Q3'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$2.35	$0.39	$3.50	$3.53
Dividend	$0.56	$0.56	$2.23	$2.25



Source: Thomson, SR, USCA

U.S. Capital Advisors

Vectren (VVC)

Quick Refresh on Q1'17

- **Overall Take:** *Neutral*, despite slight 1Q'17 beat, given reaffirmed FY'17 guidance. Negative impact of warm weather offset by outperformance from infrastructure segment.
- **1Q'17 EPS:** Slight Beat at 67c vs. Consensus 65c and USCA 61c.
- **'17 Guidance:** Reaffirmed $2.55-$2.65 ($2.60 midpoint). Consensus $2.63 and USCA $2.63 at time of announcement.
- **Segments:** Reaffirmed, with Utility Group $2.10-$2.15 and Non-Utility Group 45c-50c.
- **Capex:** 1Q'17 spend ~$125mm, on track for ~$550mm target. Previously, $6.5B projected spend over ten years, with ~75% of capex recovered via trackers.
- **LT Growth:** Previously, LT EPS and dividend growth target 6-8% driven by gas and electric infrastructure upgrades. Target includes equity issuance as sizable gas-fired generation investment begins closer to end of decade.

Key Q2'17 Topics

- **Construction Update:** Key segment to watch after strong results in recent periods, reversing tighter margin trend in 1H'16 stemming from increased competition, project delays and cancellations. As always, watch trend in current activity and backlog given strong positioning as outsourcer for utility pipe replacement (see map right). Q1'17 backlog $780mm, up from $725mm in Q4'16.
- **Energy Services:** Look for update on performance contracting unit given slowdown in projects and fewer tax credits than last year. Q1'17 backlog $195mm, down from $234mm in 4Q'16. Previously, VVC targeting rise in segment revenue to $300mm in '17 from $260mm in '16 from signed and pending projects.
- **IRP Status:** Pending Integrated resource planning (IRP) review in IN could result in shuttering VVC's coal plants after '18 and building gas plants. Potential >$500mm upside to capex. Better IRP clarity expected by year end.

Vectren

Earnings Date:	8/3/2017	**Call Time (CT):**	1:00 PM
Call Date:	8/4/2017	**Call Number:**	(844) 825-9787

Key Estimates	Q2'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$0.43	$0.45	$2.63	$2.62
Dividend	$0.44	$0.44	$1.76	$1.76

Infrastructure Services – Footprint

➢ Operates in ~25 states, primarily in Upper Midwest, Midwest, Mid-Atlantic and South

Source: Thomson, VVC, USCA

U.S. Capital Advisors

WEC Energy Group (WEC)

Quick Refresh on Q1'17

- **Overall Take:** *Positive,* with 1Q'17 EPS beat despite very warm weather, driven by much lower operating costs.
- **1Q'17 EPS:** Beat at $1.12 vs. Consensus $1.06 and USCA $1.04.
- **'17 Guidance:** Reaffirmed $3.06-$3.12. Consensus $3.10 and USCA $3.10 at time of announcement.
- **LT Growth:** Reaffirmed LT EPS and dividend growth target 5-7%.
- **Cap Ex:** 1Q'17 spend just ~$330mm, but with majority of ~$2.1B targeted spend for '17 on electric and gas upgrades and pending Bluewater Gas acquisition expected to flow into 2H'17.

Key Q2'17 Topics

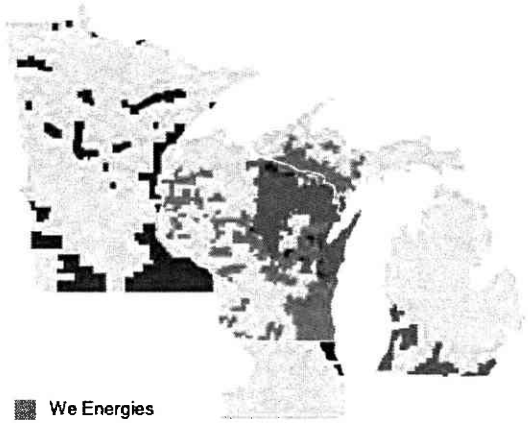
- **WI Rate Case:** Look for update on recent WI rate case settlement. In April, filed settlement freezing rates through '19 in exchange for sharing mechanisms and real-time pricing for large customers that offer the opportunity to earn modestly above ~10% authorized returns. Final order from regulators expected this summer.
- **Chicago Pipe Replacement.** In Q1, filed settlement in Chicago requiring quarterly reviews of program execution and contractors. Replacement plan was originally implemented via IL legislation with ~$275mm/yr spend from '14-'23 but suspended in 12/15 amid Integrys missteps. Final order from IL regulators previously expected by year end.
- **FERC ROE:** Look for comments on ongoing FERC rate review of American Transmission Company (ATC, 12.2% ROE, 60% equity stake held by WEC).
- **M&A:** With Integrys integration completed, look for potential interest in new utility assets. We see neighboring utilities with equity stakes in ATC including LNT (16%) and MGEE (4%) as natural fits in terms of size, geography and asset mix.

WEC Energy Group

Earnings Date: 7/26/2017 **Call Time (CT):** 1:00 PM
Call Date: 7/26/2017 **Call Number:** (844) 840-1623

Key Estimates	Q2'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$0.59	$0.59	$3.10	$3.10
Dividend	$0.52	$0.52	$2.08	$2.08

Service Territory



- We Energies
- Michigan Gas Utilities Corporation
- Minnesota Energy Resources Corporation
- North Shore Gas Company
- The Peoples Gas Light and Coke Company
- Wisconsin Public Service Corporation

Source: Thomson, WEC, USCA

WGL Holdings (WGL)

U.S. Capital Advisors

Quick Refresh on Q2'17

- **Overall Take:** *Neutral*, despite 2Q'17 EPS miss and lowered FY'17 guidance, given pending merger with AltaGas (ALA).
- **2Q'17 EPS:** Miss at $1.87 vs. USCA $1.95 and Consensus $1.97.
- **'17 Guidance:** Lowered to $3.10-$3.30 ($3.20 midpoint) from $3.40-$3.60 ($3.50 midpoint). Consensus $3.49 and USCA $3.50 at time of announcement. Lower guidance reflected an expectation for lower utility asset optimization revenues.

Key Q3'17 Topics

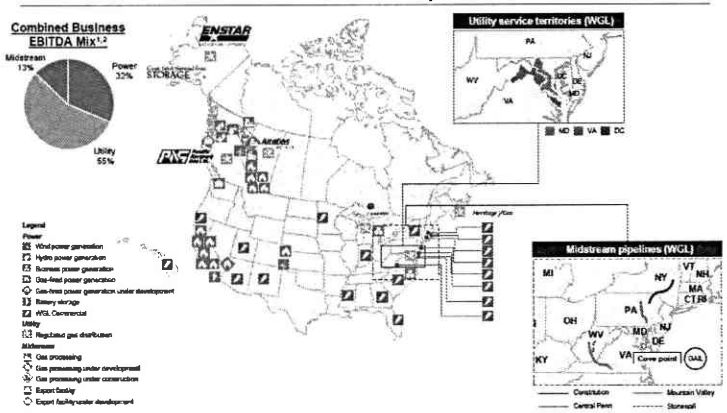
- **Conference Call:** Given pending merger with AltaGas (see details below) we do not expect WGL will host a conference call this period.
- **AltaGas Acquisition:** On January 25, AltaGas (ALA: TSE) agreed to acquire WGL for ~$6.4B. WGL shareholders would receive $88.25/sh in cash for each share of common stock, a ~28% premium to WGL closing price of $69.02 prior to news leaks of a potential deal.
- Transaction combines two companies of similar size and creates a sizable North American energy, utility and infrastructure company in U.S. and Canada with ~1.7mm customers and EV of ~$17B.
- ALA paying ~24x estimated FY'18 consensus earnings of $3.65 and ~11.6x estimated FY'18 consensus EBITDA of ~$0.55B for WGL. Multiples are slightly above recent average of 23x P/E and 11x EBITDA paid for deals over last twelve months.
- FERC approved deal in July. Deal must still garner state regulatory approvals in MD, VA and DC, DOJ and Committee on Foreign Investment. After approvals and financing, companies expect to close deal in Q2'18.

WGL Holdings

Earnings Date:	NA	**Call Time (CT):**	NA
Call Date:	NA	**Call Number:**	NA

Key Estimates	Q3'17		2017	
	USCA	Consensus	USCA	Consensus
EPS	$1.95	$0.25	$3.20	$3.25
Dividend	$0.51	$0.51	$2.04	$2.04

Combined asset map



Source: Thomson, WGL, USCA

U.S. Capital Advisors

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Analyst Certification:
I, Daniel Fidell, do hereby certify that the recommendations and opinions expressed in this research report accurately reflect my personal views about any and all of the subject securities or issues discussed herein. Furthermore, 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. I do not own any shares directly or indirectly (or any derivative thereof) of the company that is subject to this research report. Neither I nor any member of my household serves as an officer, director or advisory board member of the company that is subject to this research report.

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Analysts' Compensation:
Analysts' compensation is not based on investment banking revenue and the analysts are not compensated by the subject companies.

In the past 12 months, USCA has received investment banking or other revenue from Spark Energy (SPKE), Chesapeake Utilities (CPK), Northwest Natural Gas (NWN) and South Jersey Industries (SJI).

Additionally, within the next three months USCA may attempt to seek compensation for investment banking services from the companies mentioned within this report

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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 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:
Utilities tend to trade on both projected earnings and cash flow. We believe investors should take both these considerations into account equally. Utilities have traded between 15-23 times forward earnings and 7-10 times EV-to-forward EBITDA over the last decade. With several 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 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 9-10%) 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 July 19, 2017):

Recommendation	Count	Percent	Investment Banking Relationship	Count	Percent
Overweight/Buy	39	51%	Overweight/Buy	6	15%
Hold	37	48%	Hold	4	11%
Underweight/Sell	1	1%	Underweight/Sell	0	0%

Historical Ratings and Price Targets may be found by clicking the link below:
USCA Rating and Price Target History

For hard a hard copy of our price target/ratings history or a hard copy of any report, please call 888-601-USCA (8722), or write to U.S. Capital Advisors, 4444 Westheimer Suite G500, Houston TX 77027.

A list of common terms and abbreviations may be found by viewing our Glossary.

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WOLFE RESEARCH

UTILITIES & POWER

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

July 23, 2017

UTILITIES & POWER

Q2 preview – focus on big projects and big deals

- **Utilities: quarter and guidance ok; focus on project delays and ROE risks**
  Utilities should largely reaffirm their 2017 outlooks and we project Q2 to be up 2%. We expect cost and delay risks for big projects to dominate attention starting with updates on SCG and SO's new nuclear plants, SRE's Cameron LNG, pipelines impacted by lack of FERC quorum such as DTE's NEXUS, the latest on ES' Northern Pass, etc. The other focus may be on ROEs post the CA cost of capital saga. Even though this was resolved with a 2-year deal, it appears to have renewed investor attention on ROE risk for all companies.
- **Power: emphasis is on M&A and power market reforms, not a weak Q2**
  Power earnings will be weak – prices are low, there's no volatility and summer heat is being met with a yawn. We expect IPPs to keep ranges but potentially guide to lower half; Integrateds should be fine. But that's old news, the stocks are now trading on M&A/restructuring, nuke subsidies and power market reform potential. We should get an outcome on the CPN sale process by the earnings call or soon after – this is a key event for the sector especially DYN which investors are playing as the next candidate. If it doesn't happen, watch out. The Integrateds – EXC, PEG, FE – will likely focus on nuke subsidies and market reforms that could help them such as the recent ZEC court ruling, PJM market reforms, the DOE report, etc.
- **Introducing 2020 numbers for all names – SRE positive, Integrateds negative**
  We are now publishing official 2020 estimates for our full universe. SRE gets the biggest boost in 2020 with a full year of Cameron. The Integrateds - EXC, PEG, FE - are laggards with flat to down estimates due to lower capacity payments.
- **Key companies to watch**
  Exhibit 1 at top highlights beats and misses vs consensus for Q2 results. Below we highlight key companies to watch.

  Positives:

  EIX – likely guides up 2017 (on taxes), exiting or shrinking non-reg businesses?

  NI – potential 2017 guide-up on refinancing savings

  PEG – decent quarter and on track for year; renewed discussion on ZECs

  Negatives:

  CNP – "narrowing options" on ENBL – likely status quo or a spin; sale unlikely

  FE – management likely kicks the can on FES restructuring again

  SCG – new nuclear risks unlikely to be resolved and will overshadow the call

  SO – guide-down for Kemper, equity needs, lack of clarity on Vogtle

  VST – Comanche 2 outage concerning; M&A, capital allocation in focus

  Important:

  CPN – outcome and/or color on sale process

  DYN – cost cut potential?; M&A views; 2017 tracking to low end of guidance

  SRE – Cameron LNG schedule and cost update; consensus is 3-6 months

  Please see individual company write-ups on page 8.

Ex. 1: 2Q17 Beats & Misses/Est. Chgs

	2Q17 Estimate	
Ticker	WR	Cons
Beats		
AEE	$0.77	$0.67
CMS	$0.42	$0.38
NEE	$1.75	$1.71
PNW	$1.21	$1.13
POR	$0.48	$0.45
SCG	$0.73	$0.68
NRG	$650	$606
Misses		
AEP	$0.79	$0.88
AWK	$0.75	$0.80
DTE	$1.01	$1.04
DUK	$1.00	$1.04
EIX	$0.89	$0.94
GXP	$0.48	$0.52
SRE	$0.82	$0.86
VST	$299	$312

Estimate Changes	
Ticker	Change
DYN	Lower '17-'20 on asset sales
NI	Raised 2017 EPS
SO	Lower '17-'20

Source: Wolfe Utilities & Power Research, FactSet

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Quarterly Estimates

Exhibit 2: Wolfe Research Earnings Estimates vs. Consensus

						Q2 2017E		Q2 2016	2017E		2018E		2019E		2020E	
Company Name	Ticker	Price	PT	Rating	Call Date	WR	Cons	Actual	WR	Cons	WR	Cons	WR	Cons	WR	Cons
The AES Corporation	AES	$11.42	11	PP	8/08/17	$0.21	$0.20	$0.17	1.05	1.05	1.16	1.22	1.23	1.30	1.32	N/A
Alliant Energy	LNT	$41.38	39	PP	8/04/17	$0.38	$0.36	$0.37	2.01	2.00	2.14	2.13	2.25	2.25	2.38	2.38
Ameren	AEE	$56.53	57	OP	8/04/17	$0.77	$0.67	$0.61	2.76	2.77	3.01	3.01	3.24	3.19	3.42	3.42
American Electric	AEP	$69.98	73	OP	7/27/17	$0.79	$0.88	$0.95	3.65	3.66	3.88	3.88	4.09	4.10	4.30	4.31
American Water	AWK	$81.92	78	PP	8/03/17	$0.75	$0.80	$0.77	3.02	3.03	3.29	3.28	3.49	3.51	3.49	3.74
Avangrid	AGR	$45.18	47	PP	7/19/17	$0.46A	$0.39	$0.35	2.22	2.23	2.42	2.40	2.60	2.55	2.77	2.70
CMS Energy	CMS	$46.75	47	OP	7/28/17	$0.42	$0.38	$0.45	2.18	2.17	2.34	2.33	2.50	2.51	2.67	2.67
CenterPoint	CNP	$28.15	27	PP	8/03/17	$0.23	$0.22	$0.17	1.33	1.31	1.40	1.40	1.48	1.47	1.55	1.52
Con Edison	ED	$82.93	72	UP	*8/03/17	$0.65	$0.63	$0.60	4.06	4.09	4.29	4.25	4.49	4.48	4.71	4.64
Dominion	D	$77.57	79	PP	8/02/17	$0.66	$0.67	$0.71	3.65	3.67	4.07	4.07	4.25	4.29	4.50	4.51
DTE Energy	DTE	$107.94	109	OP	7/26/17	$1.01	$1.04	$0.98	5.28	5.33	5.67	5.68	6.04	6.02	6.37	6.36
Duke Energy	DUK	$85.20	81	UP	8/03/17	$1.00	$1.04	$1.07	4.60	4.60	4.84	4.84	5.14	5.10	5.35	5.31
Edison Int'l	EIX	$78.98	79	PP	7/27/17	$0.89	$0.94	$0.85	4.23	4.21	4.30	4.30	4.64	4.70	4.78	5.05
Entergy	ETR	$77.18	76	UP	8/02/17	$1.09	$1.19	$3.11	4.95	4.82	5.01	4.87	4.93	5.02	5.25	5.35
Eversource Energy	ES	$61.55	60	PP	7/28/17	$0.67	$0.67	$0.64	3.11	3.15	3.25	3.32	3.54	3.53	3.70	3.78
Exelon	EXC	$37.48	39	OP	8/02/17	$0.54	$0.54	$0.65	2.71	2.67	2.91	2.88	2.82	2.82	2.69	2.73
FirstEnergy	FE	$31.74	32	PP	7/28/17	$0.58	$0.60	$0.56	2.75	2.80	2.49	2.52	2.31	2.38	1.94	2.22
Great Plains Energy	GXP	$30.51	33	OP	8/10/17	$0.48	$0.52	$0.55	1.77	1.76	1.80	1.78	2.00	1.95	N/A	2.05
InfraREIT	HIFR	$19.90	20	OP	8/02/17	$0.31	$0.31	$0.30	1.24	1.25	1.36	1.35	1.39	1.37	N/A	N/A
NextEra Energy	NEE	$144.37	147	OP	7/26/17	$1.75	$1.71	$1.67	6.73	6.70	7.22	7.20	7.74	7.69	8.48	8.30
NiSource	NI	$25.98	26	OP	8/02/17	$0.10	$0.10	$0.08	1.17	1.18	1.24	1.25	1.31	1.33	1.38	1.38
PG&E	PCG	$68.26	68	PP	7/27/17	$0.75	$0.77	$0.66	3.67	3.67	3.82	3.83	4.01	4.01	4.07	4.18
Pinnacle West	PNW	$87.23	82	PP	8/03/17	$1.21	$1.13	$1.08	4.24	4.23	4.44	4.49	4.68	4.74	4.90	5.02
Portland General	POR	$46.35	43	UP	7/28/17	$0.48	$0.45	$0.42	2.29	2.25	2.48	2.46	2.59	2.56	2.75	2.70
PPL Corp	PPL	$38.55	42	OP	8/03/17	$0.50	$0.49	$0.56	2.17	2.17	2.36	2.34	2.43	2.44	2.55	2.52
PSEG Corp	PEG	$44.72	44	PP	7/28/17	$0.60	$0.58	$0.57	2.88	2.91	2.90	2.93	2.91	2.94	3.01	2.98
SCANA	SCG	$65.61	68	PP	8/03/17	$0.73	$0.68	$0.74	4.25	4.20	4.48	4.45	4.71	4.62	4.87	4.68
Sempra Energy	SRE	$114.93	116	OP	**8/02/17	$0.82	$0.86	$0.79	5.05	5.11	5.60	5.62	6.82	6.82	7.44	7.38
Southern Co.	SO	$47.88	49	UP	8/02/17	$0.72	$0.72	$0.74	2.92	2.96	3.00	3.07	3.16	3.19	3.31	3.30
WEC Energy Group	WEC	$63.37	60	PP	7/26/17	$0.59	$0.59	$0.57	3.11	3.10	3.28	3.28	3.45	3.46	3.63	3.68
Westar	WR	$50.37	N/A	N/A	*8/08/17	$0.57	$0.56	$0.51	2.46	2.51	2.50	2.61	2.70	2.76	N/A	3.15
Xcel Energy	XEL	$47.42	46	PP	7/27/17	$0.41	$0.41	$0.39	2.32	2.31	2.43	2.47	2.60	2.60	2.79	2.78

Source: Wolfe Research Utilities & Power Research, FactSet
*No earnings call, date referenced is earnings release.
**Tentative date

Exhibit 3: Wolfe Research EBITDA Estimates vs. Consensus

						Q2 2017E		Q2 2016	2017E		2018E		2019E		2020E	
Company Name	Ticker	Price	PT	Rating	Call Date	WR	Cons	Actual	WR	Cons	WR	Cons	WR	Cons	WR	Cons
Calpine	CPN	$13.72	12	PP	7/28/17	$415	$421	$452	1,830	1,855	1,965	1,994	1,895	2,031	1,800	2,054
Dynegy	DYN	$8.83	7	PP	8/04/17	$215	$211	$187	1,230	1,247	1,385	1,484	1,220	1,329	1,005	1,260
NextEra Energy Partners	NEP	$38.35	45	OP	7/26/17	$205	$208	$156	849	825	992	976	1,111	1,091	1,342	1,214
NRG Energy	NRG	$24.49	25	OP	8/03/17	$650	$606	$779	2,580	2,661	2,850	2,762	3,000	2,873	2,965	2,888
NRG Yield	NYLD	$18.45	19	OP	8/03/17	$265	$258	$240	925	918	960	994	1,055	1,069	1,145	1,114
Vistra Energy Corp.	VST	$16.39	17	PP	8/04/17	$299	$312	N/A	1,399	1,378	1,320	1,358	1,287	1,344	1,295	1,282

Source: Wolfe Research Utilities & Power Research, FactSet

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Wolfe Research Estimate and Target Price Revisions

See company-specific commentary on estimate changes later in this report where we discuss each company in more depth. Please see our revisions summary below.

Exhibit 4: Wolfe Research Price Target and Earnings Estimate Revisions – Regulateds / Diversified

						2017E		2018E		2019E		2020E	
Company Name	Ticker	Price	New PT	Old PT	Rating	New	Prior	New	Prior	New	Prior	New	Prior
Southern Company	SO	$47.88	$49	$50	UP	$2.92	$2.96	$3.00	$3.13	$3.16	$3.26	$3.31	N/A
Nisource	NI	$25.98	$26	$26	OP	$1.18	$1.17	$1.24	$1.24	$1.31	$1.31	$1.38	$1.38

Source: Wolfe Research Utilities & Power Research

Exhibit 5: Wolfe Research Price Target and EBITDA Estimate Revisions - IPPs

						2017E		2018E		2019E		2020E	
Company Name	Ticker	Price	New PT	Old PT	Rating	New	Prior	New	Prior	New	Prior	New	Prior
Dynegy	DYN	$8.83	$7	$7	PP	$1,230	$1,240	$1,385	$1,450	$1,220	$1,285	$1,005	$1,060

Source: Wolfe Research Utilities & Power Research

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Average Spot Prices

In Exhibit 6 below, we highlight the year over year change in the average spot power price in different regions. Spot prices were up across the country when compared to Q2 2016, most notably in ERCOT Houston which was driven by strong natural gas spots.

Exhibit 6: Average 7x24 Spot Prices

Northeast	Q217	Q216	% Change
Mass Hub	$26.99	$23.75	14%
Connecticut	27.36	23.77	15%
SE Mass	26.92	23.65	14%
NY Zone A	22.06	24.65	(10%)
NY Zone G	27.84	24.08	16%
NY Zone - J	30.50	25.26	21%
PJM West	27.63	26.20	5%
Pepco Zone	27.17	23.73	14%
Midwest	**Q217**	**Q216**	**% Change**
Cinergy	$28.97	$25.93	12%
NI Hub	26.30	23.22	13%
AD Hub	27.91	25.20	11%
South Central	**Q217**	**Q216**	**% Change**
ERCOT North	$22.99	$19.09	20%
ERCOT South	26.32	19.78	33%
ERCOT West	21.80	18.45	18%
ERCOT Houston	30.84	20.49	51%
West	**Q217**	**Q216**	**% Change**
Palo Verde	$28.19	$19.75	43%
NP 15	28.30	23.32	21%
SP 15	29.17	23.23	26%
Mid-Columbia	10.88	14.09	(23%)
Natural Gas	**$3.14**	**$2.26**	**39%**

Source: Wolfe Utilities & Power Research, SNL

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Wolfe Research Prices vs. Market Prices

In Exhibits 7-9 we highlight our current commodity and power assumptions and compare them to weekly market prices. Please note the market prices are as of 7/13/2017.

Exhibit 7: Wolfe 7x24 power price estimates

	2017	2018	2019	2020
PJM West	$31.15	$32.56	$31.22	$30.78
PJM East	$29.09	$30.56	$29.15	$28.72
NEPOOL	$33.86	$39.49	$39.14	$39.74
NY Zone A	$27.00	$28.57	$28.35	$28.52
NY Zone G	$32.50	$37.27	$36.43	$36.80
NY Zone J	$33.89	$39.71	$39.11	$39.84
A/D Hub	$30.01	$30.71	$29.49	$29.05
NI Hub	$27.93	$27.98	$27.24	$26.81
Indiana Hub	$30.45	$30.82	$30.49	$30.49
ERCOT (Houston)	$30.05	$29.08	$28.34	$28.77
ERCOT (South)	$28.17	$27.74	$27.65	$28.19
ERCOT (North)	$27.33	$26.87	$26.68	$27.40
ERCOT (West)	$26.01	$25.44	$25.60	$25.88
NP-15	$31.73	$30.90	$30.72	$31.25
SP-15	$31.38	$29.44	$28.59	$29.09
Mid-C	$21.88	$22.55	$22.05	$22.60
Entergy	$31.91	$32.75	$32.73	$32.73
Palo Verde	$27.03	$25.41	$24.57	$24.57
Nymex Gas ($/Mcf)	$3.30	$3.10	$3.00	$3.00
CAPP Coal ($/ton)	$54.00	$52.00	$51.00	$51.00
PRB Coal ($/ton)	$11.70	$11.90	$12.20	$12.30

Source: Platts, Wolfe Research Utilities & Power Research

Exhibit 8: Market 7x24 power price estimates

	2017	2018	2019	2020
PJM West	$28.48	$30.38	$29.05	$28.89
PJM East	$26.48	$28.38	$27.05	$26.89
NEPOOL	$31.25	$38.54	$38.17	$38.36
NY Zone A	$25.39	$27.85	$26.62	$26.92
NY Zone G	$29.64	$36.09	$35.34	$35.89
NY Zone J	$31.18	$38.46	$37.68	$38.73
A/D Hub	$27.86	$29.63	$28.46	$28.39
NI Hub	$26.32	$27.67	$26.75	$26.73
Indiana Hub	$28.77	$30.29	$29.44	$29.82
ERCOT (Houston)	$26.28	$28.55	$28.16	$27.82
ERCOT (South)	$24.21	$27.16	$26.97	$27.41
ERCOT (North)	$23.23	$26.28	$26.15	$26.70
ERCOT (West)	$22.41	$24.18	$23.98	$24.86
NP-15	$31.42	$31.52	$31.57	$32.90
SP-15	$30.24	$30.33	$29.76	$30.75
Mid-C	$20.98	$21.91	$21.68	$23.05
Entergy	$31.60	$32.39	$32.39	$32.39
Palo Verde	$24.78	$26.55	$26.06	$27.34
Nymex Gas ($/Mcf)	$3.14	$2.99	$2.83	$2.80
CAPP Coal ($/ton)	$53.00	$52.50	$52.50	$52.50
PRB Coal ($/ton)	$11.55	$11.65	$11.60	$11.70

Source: Platts, Wolfe Research Utilities & Power Research

Exhibit 9: Market 7x24 vs. Wolfe 7x24

	2017	2018	2019	2020
PJM West	(9.4%)	(7.2%)	(7.4%)	(6.6%)
PJM East	(9.9%)	(7.7%)	(7.7%)	(6.8%)
NEPOOL	(8.4%)	(2.5%)	(2.6%)	(3.6%)
NY Zone A	(6.4%)	(2.6%)	(6.5%)	(6.0%)
NY Zone G	(9.7%)	(3.3%)	(3.1%)	(2.5%)
NY Zone J	(8.7%)	(3.2%)	(3.8%)	(2.9%)
A/D Hub	(7.7%)	(3.6%)	(3.6%)	(2.4%)
NI Hub	(6.1%)	(1.1%)	(1.9%)	(0.3%)
Indiana Hub	(5.8%)	(1.8%)	(3.6%)	(2.3%)
ERCOT (Houston)	(14.4%)	(1.9%)	(0.6%)	(3.4%)
ERCOT (South)	(16.4%)	(2.1%)	(2.5%)	(2.8%)
ERCOT (North)	(17.6%)	(2.2%)	(2.0%)	(2.6%)
ERCOT (West)	(16.0%)	(5.2%)	(6.7%)	(4.1%)
NP-15	(1.0%)	1.9%	2.7%	5.0%
SP-15	(3.8%)	2.9%	4.0%	5.4%
Mid-C	(4.3%)	(2.9%)	(1.7%)	2.0%
Entergy	(1.0%)	(1.1%)	(1.0%)	(1.0%)
Palo Verde	(9.1%)	4.3%	5.7%	10.1%
Nymex Gas ($/Mcf)	(5.1%)	(3.7%)	(6.0%)	(7.2%)
CAPP Coal ($/ton)	(1.9%)	1.0%	2.9%	2.9%
PRB Coal ($/ton)	(1.3%)	(2.1%)	(5.2%)	(5.1%)

Source: Platts, Wolfe Research Utilities & Power Research

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Market Power Prices (6/30/17 vs. 3/31/17)

In Exhibits 10-12 we show market 7x24 power and commodity prices at March 31, 2017 and June 30, 2017. Forward power prices were down across the board when compared to Q1. PJM was hit hardest – down 3-7% over 2017-2019. ERCOT 2018/2019 contracts were actually up modestly. Western power (Mid-C, NP/SP-15) bounced back, after strong hydro conditions crushed the forward curve in Q1

Exhibit 10: 3/31/17 Market 7x24

	2017	2018	2019
PJM West	$30.81	$32.17	$30.41
PJM East	$28.81	$30.17	$28.41
NEPOOL	$33.87	$38.95	$38.53
NY Zone A	$27.35	$29.49	$28.67
NY Zone G	$32.17	$37.06	$36.11
NY Zone J	$33.55	$39.25	$38.93
A/D Hub	$29.74	$30.46	$28.91
NI Hub	$27.52	$27.61	$26.60
Indiana Hub	$30.10	$30.84	$30.19
ERCOT (Houston)	$29.27	$27.49	$26.46
ERCOT (South)	$27.30	$26.44	$25.84
ERCOT (North)	$26.30	$25.59	$24.93
ERCOT (West)	$25.42	$24.24	$23.97
NP-15	$29.02	$30.46	$30.59
SP-15	$28.10	$28.57	$28.20
Mid-C	$18.75	$21.85	$22.18
Entergy	$31.60	$32.39	$32.39
Palo Verde	$24.67	$24.48	$24.43
Nymex Gas ($/Mcf)	$3.31	$3.05	$2.86
CAPP Coal ($/ton)	$53.00	$52.00	$51.00
PRB Coal ($/ton)	$11.65	$11.85	$12.10

Source: Wolfe Utilities & Power Research, Platts

Exhibit 11: 6/30/17 Market 7x24

	2017	2018	2019
PJM West	$28.76	$30.70	$29.49
PJM East	$26.76	$28.70	$27.49
NEPOOL	$31.23	$38.61	$38.45
NY Zone A	$25.91	$27.96	$27.35
NY Zone G	$29.98	$36.55	$35.76
NY Zone J	$31.50	$38.87	$38.66
A/D Hub	$28.16	$29.96	$28.84
NI Hub	$26.59	$27.91	$27.05
Indiana Hub	$29.19	$30.79	$30.01
ERCOT (Houston)	$27.64	$28.29	$28.31
ERCOT (South)	$25.44	$26.90	$27.41
ERCOT (North)	$24.40	$26.02	$26.50
ERCOT (West)	$23.60	$23.92	$24.43
NP-15	$31.19	$31.07	$31.37
SP-15	$30.11	$29.73	$29.57
Mid-C	$21.07	$21.87	$22.18
Entergy	$31.60	$32.39	$32.39
Palo Verde	$25.30	$26.28	$26.10
Nymex Gas ($/Mcf)	$3.18	$2.99	$2.85
CAPP Coal ($/ton)	$53.00	$52.50	$52.50
PRB Coal ($/ton)	$11.53	$11.40	$11.55

Source: Wolfe Utilities & Power Research, Platts

Exhibit 12: 6/30/17 vs. 3/31/17 Market 7x24

	2017	2018	2019
PJM West	(6.7%)	(4.6%)	(3.0%)
PJM East	(7.1%)	(4.9%)	(3.2%)
NEPOOL	(7.8%)	(0.9%)	(0.2%)
NY Zone A	(5.3%)	(5.2%)	(4.6%)
NY Zone G	(6.8%)	(1.4%)	(1.0%)
NY Zone J	(6.1%)	(1.0%)	(0.7%)
A/D Hub	(5.3%)	(1.6%)	(0.2%)
NI Hub	(3.4%)	1.1%	1.7%
Indiana Hub	(3.0%)	(0.2%)	(0.6%)
ERCOT (Houston)	(5.6%)	2.9%	7.0%
ERCOT (South)	(6.8%)	1.7%	6.1%
ERCOT (North)	(7.2%)	1.7%	6.3%
ERCOT (West)	(7.1%)	(1.3%)	1.9%
NP-15	7.5%	2.0%	2.6%
SP-15	7.1%	4.1%	4.9%
Mid-C	12.4%	0.1%	0.0%
Entergy	0.0%	0.0%	0.0%
Palo Verde	2.6%	7.4%	6.9%
Nymex Gas ($/Mcf)	(3.9%)	(1.9%)	(0.2%)
CAPP Coal ($/ton)	0.0%	1.0%	2.9%
PRB Coal ($/ton)	(1.0%)	(3.8%)	(4.5%)

Source: Wolfe Utilities & Power Research, Platts

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WOLFE RESEARCH

UTILITIES & POWER

July 23, 2017

Earnings Call Calendar

Below, we have provided the 2nd quarter 2017 earnings call calendar for companies in our coverage universe. Please note all times are in Eastern Daylight Time.

July 2017

Monday	Tuesday	Wednesday	Thursday	Friday
12PM: Utilities & Midstream Earnings Preview Lunch 24	25	9am: DTE, NEE 2pm: WEC 26	9am: AEP 10am: XEL 11am: PCG 4:30pm: EIX 27	8:30am: CMS 9am: ES 10am: CPN, FE 11am: PEG, POR 28

August 2017

Monday	Tuesday	Wednesday	Thursday	Friday
	1	8:30am: NI 9am: D 10am: ETR 11am: EXC, HIFR 12pm: **SRE 1pm: SO 2	8am: NRG 8:30am: PPL 9am: AWK, NYLD 10am: DUK 11am: CNP 12pm: PNW 3pm: SCG, *ED 3	9am: DYN 10am: AEE, LNT 11am: VST 4
7	9am: AES *WR 8	9	9am: GXP 10	11

*ED only earnings release

**Estimated

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Highlights and lowlights

AEE: Quarter beat on timing

- We estimate 2Q17 EPS of $0.77, above consensus, mostly on rate relief and the absence of a Callaway outage in 2Q16.
- Despite our estimated beat and a trailing twelve months on the high end of AEE's current $2.65-2.85 guidance, we believe management will maintain guidance, heading into summer results (Q3). In 2H17, AEE has roughly $0.25 of headwinds from 2H16 weather comps, 2H16 energy efficiency incentive awards and timing of revenue recognition in IL.
- We expect AEE to discuss the failed MO legislative effort, as the special session occurred after the company's May call. We expect investors to focus on the company's plans for 2018, both at the legislature and at the MoPSC.
- AEE declined around 400bp vs regulated utilities following the failed MO special session in May, but it has recovered most of that underperformance this month.

AEP: Quarter miss but guidance intact

- We estimate 2Q17 EPS of $0.79, below consensus. The main drivers are lower generation earnings following AEP's plant sale last year and about $0.11 of one-time benefits in 2Q16 that are not expected to reoccur.
- Still, we believe AEP is on track to meet its $3.55-3.75 guidance for 2017. Our 2017E is $3.65, in line with consensus.
- On the earnings call, we do not expect major updates, as OH legislation has stalled and the FERC transmission cases are in early stages.

AES: Quarter should be good; waiting on asset sales and PUCO decision

- AES is scheduled to report earnings on August 8th. We forecast 2Q17 EPS of $0.21, which is slightly above consensus. Our estimate is up from $0.17 a year ago driven by better availability and results in the MCAC region, as well as cost cutting and lower interest expense. We think Q2 is a relatively easier YoY comp for AES, whereas the back half of the year may be tougher comps given a favorable tax rate in 2H16.
- There's a fair amount going on at AES which will likely be addressed on the call. We expect the message to continue to focus on growing renewables, while shrinking the coal portfolio in non-core markets. We will be looking for an update on potential new renewable projects in Mexico and the sPower acquisition should close soon. On the coal side, press reports have indicated the Masinloc coal plant in the Philippines will soon be up for sale, which likely aligns with AES' expectation of $500M in incremental asset sale proceeds by year end. We still don't have a PUCO decision on the favorable ESP 3 settlement which is expected this summer. Lastly, the Puerto Rico Electric Power Authority (PREPA), which is the customer for AES' coal plant, filed for bankruptcy earlier this month.
- **We are initiating a 2020 EPS estimate of $1.32**, which is up 7% from $1.23 in 2019. Growth comes predominantly from the start-up of the Southlands gas plant repowerings in the middle of 2020 – we expect strong returns given AES' very attractive debt financing for the project. Note, our 2020E of $1.32 is below AES' implied guidance of $1.36 - $1.46.

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AWK: Quarter miss on NY tax but no threat to guidance

- We estimate 2Q17 EPS of $0.75, below consensus. The main driver is a $0.03-0.04 charge related to a NY tax change, which management discussed in May and had factored into full year guidance.
- We believe AWK remains on track to meet its $2.98-3.08 guidance for 2017, as AWK's nonutility businesses are expected to pick up and incremental rate adjustments at its utility segments. Our 2017E is $3.02, in line with consensus.
- On the earnings call, we expect an update on the PA rate case, tuck-ins, and nonutility businesses.

CMS: The end of an era

- We forecast 2Q17 EPS of $0.42 – a beat versus consensus. Key drivers in the YoY decrease from $0.45 in 2Q16 are expected to be electric/gas rate relief and O&M; more than offset by mild weather and investment costs (D&A, taxes, etc.). The year looks to be well on track and our 2017E of $2.18 is at the high-end of CMS' $2.14-2.18 range. We expect guidance to remain unchanged, with CMS likely tightening to the upper-half later in the year as comps get easier.
- The earnings call will be the last before Executive Vice Chairman (and former long-time CFO) Tom Webb retires on November 1. Webb's track record speaks for itself and it will now be up to new CFO Rejji Hayes to carry on that legacy. Tom's last official interaction with investors will likely be at CMS' Analyst Day on September 25 where the company will provide an in-depth update on its business and growth plan
- The termination of the Palisades PPA and the resulting replacement capacity remains pending at the MI PSC and the timeline was recently pushed out such that a final decision is now due on September 28 (from August 31). To the positive, the parties are in settlement discussions. To the negative, it's possible DIG is no longer rate-based and a short-term PPA is used instead. This may come as a disappointment, but we see no impact on the high-growth long-term plan that is backed by a robust backlog of capital opportunities.
- CMS is awaiting a final outcome in its pending gas rate case, but it likely will be known shortly after the call. CMS plans for the prevailing allowed ROEs at 10.1% and we expect Michigan to remain a constructive jurisdiction.

CNP: Decision time on Enable, or just narrowing the options?

- Our Q2 estimate is $0.23 vs. $0.17 last year, a little above consensus. We expect higher earnings from the absence of mark to market commodity hedge losses and growth at Enable, along with rate relief and interest savings.
- Management has committed to giving clarity on its strategic review of Enable on the Q2 call. While there has been some hope that there will be a final decision on the review, we believe it is more likely that CNP will rather narrow its options on the call. This could mean ruling out one path (i.e., a sale or spin), for a final decision later in the year. While CNP updated its 13D to state its fallback option of selling its 54% stake in CNP's LP units into the public markets, we see that as a last resort and something that would happen over a long period of time. We believe there is an investor expectation that CNP could announce a final decision, so a lack of a final decision could be seen as a disappointment.
- Apart from the Enable question, the utility operations continue to have momentum. In Texas legislation was passed that removed the 4 filing limit on the DCRF before having to file rate cases. This should reduce regulatory risk to some extent. Overall we believe that CNP has one of the better utility growth stories in the sector.

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CPN: Will we have an earnings call? If so, what might it mean?

- CPN is scheduled to report earnings and hold a conference call on Friday, July 28th. Press reports have suggested the company is nearing the end of a sale process that could result in CPN being bought by private equity. If a deal is not announced by the time of the earnings call, we would not expect mgmt. to comment as they have never made any statement confirming or denying a sale process.
- We forecast 2Q17 EBITDA of $415M which is close to consensus and down from $452M a year ago. Generation volumes were likely down 15%+ on strong California hydro conditions and a reversal of coal-to-gas switching in Texas. But CPN was 89% hedged for the balance of the year so the impact should be small. Of note, CPN had a $40M benefit in 2Q16 from a one-time gain, which should reverse this quarter.
- Our base case assumes that CPN does not adjust 2017 EBITDA guidance of $1,800M - $1,950M. However, we think **CPN is tracking toward the lower half of the guidance range** due to the decline in 2017 spark spreads around the end of the year after the company gave guidance in October.

D: Execution remains the focus, Millstone legislation (finally?) coming to a head

- Our Q2 EPS estimate for Dominion is $0.66 vs. $0.71 last year, a little ahead of consensus. The quarter should be down on Millstone pricing, the roll-off of Cove Point regas contracts, and lower ITCs, offset by better weather (about normal this year) and growth at the utility.
- We do not expect significant new updates on this call; Dominion management typically gives a broader capex update in early September. We expect management's emphasis to be on execution of major capital projects, including an update on the status of Cove Point construction (which we believe is fully on track for YE2017 commercial operation), and the initial take on the FERC EIS of the Atlantic Coast Pipeline (which did not find major issues with the project) and the project's schedule.
- The Connecticut legislature is in a special session currently and it remains up in the air whether language related to long term power deals for Millstone will come up with the budget. The session will last until the state is able to agree to a budget.

DTE: NEXUS questions are coming

- We forecast 2Q17 EPS of $1.01 vs. $0.98 last year – a small miss versus consensus. Mild weather is expected to be a meaningful headwind, however rate relief at the utilities and DTE's cost management should provide offsets. DTE will likely update its guidance ranges at each segment, though the overall range shouldn't change much. Trading is already tracking well-ahead of plan and the corporate/other segment realized a better than expected stock-based compensation accounting benefit. That said, these segments may be viewed as lower quality, relative to the utilities that have faced unfavorable first half weather.
- NEXUS continues to remain the elephant in the room with FERC still lacking a quorum. The company had previously communicated that it needed NEXUS approval in 1H17 to have the pipeline in-service by year-end, thus a delay seems fully baked into expectations. DTE has communicated that delays in the pipe should not impact earnings power and that slippage into early 2018 is not a problem. However, this remains an overhang. At FERC, we now have four nominees, two of which have been confirmed by Senate committee. There remains hope that a quorum can be restored before the August legislative recess.

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- On the call, we'll also be listening for updates at the P&I business and the opportunity set of new projects there. The Q1 call featured announcements of landfill gas and cogeneration investments, but work still needs to be done. The REF "cliff" sits at the back-end of DTE's long-term plan and the company still needs more projects to "fill-in."

DUK: NC rate cases remain focus for year

- We estimate 2Q17 EPS of $1.00, slightly below consensus, possibly due to more drag from the parent/other segment and absence of international earnings. Our 2017E remains $4.60, in line with consensus.
- DUK has filed its DEP rate case in NC; intervenor testimony is expected 10/20. DUK will file its DEC rate case in the coming months. The outcomes of these rate cases are key drivers of DUK's 4-6% EPS growth target off its 2017 guidance of $4.50-4.70. There is some uncertainty on coal ash recovery and ROE.
- The last electric ROE awarded by the NCUC was 9.9% for Dominion. For DUK, currently allowed 10.2%, every 50bp in NC ROE is around $0.15 EPS. The NCUC allowed coal ash recovery for Dominion. But coal ash is complex and politically sensitive, given the 2014 Dan River incident. An equity return on coal ash costs are not a guarantee for DUK, despite NCUC's order in the Dominion case.

DYN: Expect continued weak results...but positive momentum from NRG

- We forecast 2Q17 EBITDA of $215M which is in line with consensus and up from results of $187M a year ago. The addition of the ENGIE portfolio and higher MISO capacity revenues are positive YoY drivers, partially offset by lower PJM capacity revenues, lower hedge prices, and weaker market conditions.
- We do not expect DYN to revise the 2017 EBITDA guidance range of $1.2-$1.4B, although we think they are **currently tracking to the bottom end of the guidance range** and may indicate so on the call based on past precedent. The recently closed sale of the Troy and Armstrong plants further reduces 2017 EBITDA by about $30M vs. the initial guidance range in addition to challenging market conditions.
- Key topics for the call are likely to include: 1) the potential for cost cuts in light of the NRG announcement; 2) the next round of CCGT asset sales which we think DYN will only transact on if they materially de-lever the balance sheet; 3) the updated financial position relative to the 2019 debt maturity; and 4) views on M&A in the IPP space. On cost cuts, we think DYN already has a lean cost structure with less potential upside. That said, **we think DYN could indicate interest in pursuing further cost cuts in light of the surprisingly good outcome from the NRG Board review process.**
- We are reducing our 2017 EBITDA estimate by $10M to $1,230M as a result of the Troy and Armstrong plant sales closing earlier than we had previously modeled. We lower our 2018-20E by $55-65M/yr for the Dighton, Milford, and Lee plant sales which we think were done at a relatively disappointing 5x EBITDA. Our new 2018-20E are $1,385M, $1,220M, and $1,005M, respectively.

EIX: Could get teasers of nonutility update this fall

- We estimate 2Q17 EPS of $0.89, modestly below consensus. Our 2017 estimate is $4.23, slightly above consensus. On its May call, EIX pointed to the high end of its $4.04-4.24 guidance.
- We believe the call will be generally positive, given the CPUC's recent approval of the original cost of capital agreement, providing ROE certainty through 2019, and EIX's recent changes at its nonutility operations.

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- With the CoC proceeding behind them, EIX and the other CA utilities will likely strike a positive tone regarding CA regulation on their calls. We have written several notes on the CoC (see our takeaways here).
- The head of EIX's Edison Energy Group subsidiary, who reported directly to the CEO, announced his retirement at yearend. There also were other changes. EIX plans to provide its long-term outlook for Edison Energy, which has suffered losses since it was created in late December 2015. A de-emphasis in the business would be viewed positively, particularly if further losses are expected in the coming years.
- Still, there are some key items to watch: (1) EIX's pending GRC, which requests around $2B spending for grid modernization needed to meet CA's policy objectives; intervenors have not supported those requests. (2) An update on the SONGS settlement process is due 8/15. No settlement could result in a litigated process, which would be negative.

ES: Quarter in line; Northern Pass decision key this fall

- We estimate 2Q17 EPS of $0.67, in line with consensus. Our 2017 estimate is $3.11, below consensus of $3.15 and the midpoint of ES' guidance of $3.05-3.20.
- On its earnings call, we expect an update on the Northern Pass transmission project, which is a key driver of ES' 5-7% long-term growth rate. The NH SEC is holding hearings through September, implying a written decision could come after its latest 9/30 deadline. Timing of the decision could impact the schedule. ES expects to begin construction in 1Q18, assuming approval.

ETR: A possible tax benefit this quarter...what else is new?

- We estimate 2Q17 EPS of $1.09, below consensus. Our 2017 estimate of $4.95 is above consensus but below the midpoint of ETR's guidance of $4.75-5.35. In April, management said a similar tax benefit at the merchant business comparable to that in 2016 could be realized as early as 2Q17. ETR has had a number of tax gains over the past several years.
- A key focus is ETR's nuclear operations and cost recovery. The company is conducting its Nuclear Sustainability Plan following fleetwide operational issues in 2015-16. ETR has received conditional cost recovery of nuclear costs in AR while regulators review some of those costs in the pending FRP. Intervenor testimony is expected this October, with a decision due in December. The decision could be a harbinger of future recovery of nuclear costs.
- Although ETR is exiting its merchant business as nuclear plants retire through 2021, we see nuclear as the main overhang on the stock, with uncertainty over full cost recovery.

EXC: I want to ZECs you up

- We forecast 2Q17 EPS of $0.54, above consensus and EXC's guidance of $0.45-0.55. Despite weak power markets, we see 2017 earnings at $2.71, above consensus and the midpoint of EXC's $2.50-2.80 guidance for 2017.
- We believe the call will have a positive tone, given this month's federal court ruling that dismissed a legal challenge to IL's Zero Emission Credits (ZECs) law. We expect a similar victory for EXC in the legal challenge against NY ZECs, a ruling on which could be issued at any time. We see an increasing likelihood of more state and possibly federal support for baseload generation, particularly nuclear plants (see our recent upgrade note for more).
- In the table below, we show total and open gross margin as of 3/31/17 (EXC's prior disclosure) and 6/30/17 (our estimate of the upcoming disclosure). Despite mostly weaker power prices, we estimate flattish gross margins for 2017-18, given hedges. For

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2019, we see a modest uplift in margins, as weaker PJM and Northeast markets are more than offset by EXC's key Midwest market and ERCOT.

Wolfe Projected EXC Total and Open Gross Margin			
	2017	2018	2019
6/30/2017			
Total Gross Margin Estimate	8,150	8,250	7,900
Open Gross Margin Estimate	3,600	4,100	4,000
3/31/2017			
Total Gross Margin	8,150	8,250	7,850
Open Gross Margin	3,850	4,150	3,950

FE: Expecting them to punt on FES

- Our 2Q17 estimate of $0.58 vs. $0.56 last year is slightly below consensus and just below the midpoint of FE's $0.55-0.65 guidance range. We expect the utilities to be driven higher by rate relief in OH/NJ/PA and transmission revenues. However, this will be offset by lower capacity revenues at the Competitive segment and Parent financing costs. FE has yet to issue the majority of its equity this year, so share dilution is less of a factor in Q2 results. We don't anticipate any changes to utility net parent guidance, such that any changes to the $2.70-3.00 range would likely be at the Competitive segment.
- FE has a number of pending events that are all tied to its generation business. We expect updates on the call, but at this point a definitive resolution on any of them looks unlikely. At the end of the day, an FES bankruptcy continues to look like the inevitable path toward exiting the merchant generation business. For now though, FE is awaiting the results of the DoE study and whether it will provide any financial assistance to its struggling coal/nuclear plants. The report could be released any day and the contents of it are difficult to predict.
- Elsewhere, the ZEN legislation push is currently on hold as the Ohio legislature is on recess. The session will resume in September, but progress continues to look like a long putt. We also expect to hear an update on the Allegheny Energy Supply sale, as LS Power and D have been unable to reach an agreement on the operation of Bath County yet. Also, the second rail contract dispute remains pending, as FE hopes to achieve another settlement. Finally, the approval process to rate base Pleasants has received some pushback, but the timeline remains on track for a decision later this year.

GXP / WR: New call, new deal discussion

- This will be the first earnings season since the merger of equals between GXP and WR was announced earlier this month. From a GXP perspective, the deal was well-received. WR holders may have been disappointed with the lack of premium paid, but long-term the combination of these two companies makes sense. See our recent note (link) on the deal for more there.
- For GXP, we estimate standalone adjusted EPS of $0.48 in Q2 vs. $0.55 last year – a miss vs. consensus. Obviously the big focus will be on the outlook at the merged entity and upcoming approval process, however continued execution on the standalone plan will be importance. We don't anticipate formal standalone EPS guidance to be given.
- As of now, WR is expected to release earnings on August 8th and could potentially host a call the following day – it's first in several quarters. Given WR will make up the majority of the merged company and Tony Somma will be CFO, we think it may make sense to reengage with investors. For the quarter, we estimate standalone 2Q17 EPS of $0.57 vs $0.51 last year – in-line with consensus and driven by transmission margin

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and COLI, though offset by depreciation on the new in-service wind farm. We don't anticipate any formal standalone guidance to be given and the messaging from WR is likely to reiterate that its plan remains on track. We see the longer-term forecasts laid out in the S-4 to be mostly intact.

- On the approval process, we expect merger applications to be filed in Kansas and Missouri next month. In theory, the process should be much smoother this time around. Missouri has already established jurisdiction, the MoE essentially addressed the Kansas regulators' concerns, GXP/WR are offering $50M in upfront rate credits, and the leverage profile of the new entity is far superior. The main question will be how quickly the process can move and if GXP/WR are able to argue for an expedited schedule.

HIFR: Crickets on the rate case

- Our 2Q17 estimate is $0.31, in line with consensus. HIFR will not give 2017 guidance until a decision in the SDTS and Sharyland rate cases, in which settlement talks have been occurring for several months. The next update on the talks is 7/31.
- HIFR will reset guidance after the rate case concludes.

NEE/NEP: Positive outlook newly released, focus on incremental renewable adds

- Our Q2 EPS estimate for NextEra Energy is $1.75 vs. $1.67 last year, ahead of consensus. We expect a higher quarter on new regulated and renewable investments, the absence of the gas production ratebasing refund, and better weather, offset by dilution and sold assets (Texas merchant power).
- NextEra just had a positive analyst meeting in late June, so we do not expect a lot of big updates on the conference call. Most likely the updates will be on progress on the renewable backlog - already we have seen several renewable project announcements. As of the analyst day, NEE had about 2,000 MW of its 5,400-7,800 MW US wind backlog under contract and there has been activity subsequent to that.
- Oncor could still come up given its lawsuit against the PUCT over its rejection of the deal, though we still see long odds of NEE finding a path to acquire Oncor.
- Our Q2 EBITDA estimate for NEP is $205M vs. $156M last year, driven by project drops. The analyst day had a lot of positive news for NEP - governance changes and no need for external equity until 2020 - and we do not expect a lot of additional news unless there is another asset drop.

NI: Potential 2017 guide up on interest savings? Raising 2017 estimate

- Our Q2 EPS estimate is $0.10 vs. $0.08 last year, on top of consensus. We expect that the combination of electric and gas rate relief will be partially offset by increased O&M. Q2 is a shoulder period and tends to be a small contributor to earnings vs. Q1 and Q4.
- We believe the call will be straightforward as there is not a lot of ongoing regulatory activity apart from the Maryland rate case and the Nipsco environmental tracker. We expect NI to reiterate the 5%-7% long term growth rate.
- Potential for a modest guide up on 2017 guidance? On the Q1 call management indicated that the year was trending to the upper half of the $1.12-$1.18 guidance range. However this did not include the debt refinancings in June that served to reduce the rate on some debt from over 6% on average to about 4% (based on the May debt offering). We estimate that this could represent a couple cents of incremental EPS uplift in 2017, and believe that the company could refresh guidance to incorporate this

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upside. Based on the interest savings we are boosting our 2017 EPS estimate to $1.18 from $1.17.

NRG: Forecast Q2 beat; call likely to focus on the execution risks

- NRG is scheduled to report earnings on August 3rd. We forecast 2Q17 EBITDA of $650M, which is solidly above consensus, but still down $129M vs. last year. Key YoY drivers are the deconsolidation of GenOn (no longer contributing to results), lower baseload hedge prices, lower retail results given higher ERCOT supply costs, and weaker trading results after a strong 2Q16. These negatives are partially offset by cost reductions. We do not expect any changes to NRG's recently updated FY 2017 EBITDA guidance of $2,565M - $2,765M, although we think the company is tracking toward the bottom of the range. Our above consensus Q2 estimate reflects our view of what NRG will need to achieve in order to stay in the guidance range given YoY headwinds in 3Q17 from last year's one-time gains.
- **Expect Q&A to focus on the key execution risks out of the BRC.** The stock has done very well after NRG presented a compelling outlook and simplification story from its Board Review Committee (BRC) process. We don't expect much new in terms of disclosures or updates. We think Q&A on the call will focus heavily on the major execution risks, particularly the sales process and potential options for NYLD / renewables, capital allocation plans for the significant amount of excess cash expected, and more details on the expected $215M EBITDA uplift from margin enhancement.

NRG Yield: First call since NRG's BRC outcome – what does NYLD think?

- We forecast 2Q17 EBITDA of $265M which is a little above consensus and within NYLD's implied guidance range of $259M – $277M as adjusted for an assumed $8M impact from the Walnut Creek outage.
- We expect the call to focus heavily on sponsor NRG's plans to divest 50-100% of their interest in NYLD plus the ROFO assets and renewable development business. Topics may include the potential implications for NYLD investors under different scenarios, and change of control considerations in a transaction.

PCG: West coasting the rest of the year

- We estimate 2Q17 EPS of $0.75, in line with consensus. Our 2017 estimate is $3.67, in line with consensus and PCG's $3.55-3.75 guidance.
- With the CoC proceeding behind them, PCG and the other CA utilities will likely strike a positive tone regarding CA regulation on their calls. We have written several notes on the CoC (see our takeaways here).
- Although some regulatory cases are pending, including the safety culture OII and the FERC transmission case, meaningful action in them are unlikely until 2018.

PEG: Time to turn up the heat on ZECs in New Jersey?

- We forecast 2Q17 EPS of $0.60 vs. $0.57 last year – a small beat. We expect transmission revenues and real-time recovery mechanisms (GSMP/Energy Strong) at PSE&G to be continued drivers. Power is looking at lower hedge prices at the baseload units, but the CCGTs appear better-protected from deteriorating sparks given more aggressive hedging this year. Recall that this time last year, PEG was dealing with outage issues at its Salem nuclear unit that required stringent cost control. We think this makes year-over-year comes easier into the back half of 2017. While the commodities

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environment continues to deteriorate, PEG appears well within its $2.80-3.00 guidance range.

- Undoubtedly, the key focus area on the call will be the potential for nuclear subsidies in New Jersey. To date, not much has materialized, particularly given it is a gubernatorial election year. However, the legal decision last week to uphold the ZECs in Illinois set a precedent and could help build momentum in other state. With a Democratic governor set to be installed in 2018, the push for nuclear subsidies could begin as soon as the fall veto session. We recently upgraded PEG (and EXC) on this thematic – see note (link).
- Another focus area could be the long-awaited upcoming rate case that is set to be filed in Q4. PEG has been preparing for this for a while now and new PSE&G president David Daley will be leading the charge there (Ralph LaRossa became president of PSEG Power). Separately, the BPU is also considering an infrastructure straw proposal that could establish clause recovery on long-term investment programs and requiring utilities to file rate cases every 5 years.

PNW: Rate case still pending, no guidance yet

- We estimate 2Q17 EPS at $1.21 – a beat versus consensus. The YoY increase relative to $1.08 in 2Q16 is expected to be driven by more favorable weather, sales growth, the traditional recovery mechanisms (transmission, LFCR), and most importantly the lack of major maintenance at Four Corners. Offsets include higher D&A and the absence of a one-time gain from a transmission sale last year.
- Given the rate case remains pending, PNW is not expected to give 2017 guidance on the call. Once the rate case outcome becomes official, PNW will give guidance. For the year, we forecast $4.24 in 2017, which is in-line with consensus.
- On the rate case, a constructive settlement was reached in March, but the ACC has still yet to vote on it. An ALJ is currently writing a recommended order and it's possible the commission votes at the August open meeting. However, recently there has been some noise around the rate case – Commissioner Tobin asked PNW and solar parties to make a confident side agreement public and then a county judge ruled that the case should not be voted on until Commissioner Burns' subpoenas are considered that related to political contributions to other commissioners in the 2014 election. If approved as is, the settlement looks balanced, but further delays are worth monitoring.

POR: Caution into quarter, but long-term expectations remain high

- We forecast Q2 EPS of $0.48 – a beat vs. consensus. This is an increase over $0.42 last year, likely driven by rate relief and better weather/hydro conditions. Carty overage/legal costs, lower AFUDC, and higher O&M/D&A are expected to be offsets. POR should now have a better sense of the snowpack run-off and how the hydro season will play out, which could result in an upward guidance revision – our $2.29 estimate is at the upper-end of the $2.20-2.35 range. We are cautious into this event, but still think the stock looks expensive long-term.
- Focus for the company remains on the pending IRP process, where we expect a Staff memo this Friday (same day as earnings call). Gas new build appears off the table and capacity needs have come down. We've run a range of scenarios, but our current estimates assume POR builds a new wind farm, but buys gas plant capacity. Currently, the company is engaged in talks for a bilateral agreement that could result in a PPA or asset transfer. Additional color there will be important from a rate base perspective. A final order in the IRP is due on 8/31, but RFP results won't be known until next year.
- POR also continues to work through its latest rate case filing, where a settlement on several issues has already been achieved. OPUC Staff recommended a 9.2% ROE and $3M rate decrease (vs. POR's 9.75% and $100M request), which appeared in-line with

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expectations. POR will now work on settling the remaining issues. The company has been able to settle its last 4 rate cases.

- We're also interested to hear management's latest commentary on M&A given the recently announced Avista acquisition. Yet another Canadian utility paid a large premium and the approval process in Oregon may provide a read-through. That said, management has been clear in the past that they are not a seller.

PPL: UK remains in focus

- We estimate 2Q17 EPS of $0.50, in line with consensus. Our $2.17 is in line with consensus and the midpoint of PPL's $2.05-2.25 guidance. With no currency risk this year and the KY rate case complete, PPL could modestly raise guidance.
- The main focus is likely to be on the open letter sent by the UK regulator, Ofgem, regarding the RIIO-2 framework, which will determine the next round of price controls. Price controls are currently set through March 2023 for electric distribution networks. (PPL's UK business is electric distribution). Comments are due 9/4/17, and Ofgem will publish a consultation document in 1Q18 and a Framework Decision in 2Q18.
- The stock has underperformed peers noticeably since the Ofgem letter earlier this month. The risk is ROEs, which Ofgem appears to want to reduce for the next plan beginning in 2023.
- We agree there is risk to UK earnings in 2023 and beyond, but we believe PPL has time to prepare mitigation efforts for lower allowed returns post 2023, as it did when the previous plan was implemented two years ago.
- We continue to see PPL as one of limited large cap regulated value plays – trading at an 8% discount to peers – without project or regulatory overhangs over the next several years.

SCG: Summer Summer Summertime

- We estimate 2Q17 EPS of $0.73, above consensus possibly on a warmer spring than normal. Our 2017 estimate remains $4.25, below consensus but in line with SCG's guidance of $4.15-4.35.
- The only thing that matters for SCG shares is the decision on whether to complete, reduce or abandon the two new nuclear units at V.C. Summer. SCG has said a decision is likely this quarter. The company is still trying to secure an agreement with Toshiba over its parental guarantee arising from Westinghouse's bankruptcy. And SCG continues to evaluate the costs to complete. But the company has requested a briefing in front of SC regulators on 7/28, which could give indications of its decision.
- We see abandonment as a negative outcome for SCG, as both earnings power and regulatory relations likely suffer meaningfully. Even building just one of the two new units would hurt, as SCG and its ratepayers would lose the economies of scale from building two units together. Completing the project is the least bad option for SCG, but that too depends on the final costs and length of delay. Management has said the overruns are within the Toshiba guarantee. But the in-service date remains important, as the nuclear PTCs expire YE20. Congress has yet to extend that date.

SO: Resiliency test

- We estimate 2Q17 EPS of $0.72, just above consensus and SO's $0.70 guidance. The estimate excludes a write-down related to Kemper, which we discuss below.

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- With the MS PSC effectively quashing the Kemper gasifier, and any recovery thereon, the key investor focus is on SO's long-term EPS growth rate. Last October, SO said its 5% growth rate was "resilient."
- But a disallowance on the Kemper gasifier costs, about $3.4B, would require incremental equity. Plus, SO expected about $0.05-0.06 of ongoing earnings from Kemper, suggesting a hit to earnings power of about $0.10, including dilution.
- We are lowering our estimates to reflect a Kemper disallowance. Our new 2017-20 estimates are $2.92/3.00/3.16/3.31 vs old estimates of $2.96/3.13/3.26/NA. We continue to see about 5% growth but now off a base of $3.00 in 2018, as opposed to SO's original base of 2017 guidance: $2.90-3.02. Our 2020E of $3.31 is equivalent to 4% growth off SO's original base. We are lowering our PT to $49 from $50 on the reduced estimates.
- On Vogtle, SO is evaluating whether to complete or abandon the two new nuclear units. The company has a deal with Toshiba over the parental guarantee from Westinghouse's bankruptcy. We believe abandoning the project would be negative both on SO's financials and regulatory relations in GA, where elections for two PSC commissioners take place next fall.

SRE: Potential for Cameron schedule delay? Peso strength could weigh on EPS

- Our Q2 operating EPS estimate for SRE is $0.82 vs. $0.79 last year. We see a stronger quarter from investment in utility rate base, growth at IEnova and the South American utilities, partially offset by f/x changes. This quarter also did not have the losses from gas held for sale associated with the REX divestiture.
- Cameron schedule the focus. Investor interest in Q2 has been squarely focused on the status of construction on Cameron. The concern in particular has been whether the pressure on CBI has spilled into Cameron and the recent request to ramp up staffing. We expect a full update on the schedule by management - we think that investors would be OK with an incremental 3-6 month delay but longer than that could be a concern. We expect SRE to reiterate its protections against cost overruns as well (protections within the EPC contract and the ability to pass on higher costs into the offtake agreement insulate it from higher costs.
- Mexican peso strength good for valuation, bad for earnings. IEnova's stock price has pushed to new highs on both peso and dollar denominated basis, which is a positive valuation point for Sempra. That said, the appreciation of the peso has a negative impact on SRE's overall earnings picture due to accounting on peso-denominated taxes and interest. SRE is using a peso-dollar assumption of about 21 for 2017 guidance, but it has appreciated to closer to 17 since the April analyst meeting. All else equal we estimate this would mean a ~8c impact on EPS annualized relative to guidance.

VSTE: Comanche Peak outage a bit concerning

- We forecast 2Q17 EBITDA of $299M – a small miss relative to consensus. VST is not expected to provide prior year actuals throughout 2017 reporting given the implementation of fresh start accounting and the company's official emergence as a new entity back in October. We expect lower hedge prices to drive Luminant gross margins lower, while TXU customer "churn" could also be a headwind. To offset this, VST will realize the benefit of its robust cost cutting initiative put in place at the end of last year. We believe VST is likely tracking toward the lower-end of its $1,350-1,500M EBITDA guidance range given the meaningful collapse in forward pricing and spark spreads YTD, however the company may be hesitant to change guidance before the summer plays out in ERCOT.

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- Unit 2 at VSTs Comanche Peak nuclear plant has been down since June 5 with limited details around the problem other than a "main generator" problem according to the NRC website. The company will have to address this on the call and we worry that if the 1,150 MW unit remains down deeper into the summer, VST's could risk lost EBITDA.
- We'll also look to hear more details on the recent acquisition of the 1,054 MW Odessa CCGT. Management had previously communicated its interest in ERCOT CCGTs and could be looking at opportunistically acquiring additional plants that have similar attributes.
- VST's operational performance review is still underway, but results are not expected until later this year. Decisions on coal plant retirements are being watched closely and have implications for supply/demand balance in ERCOT.

WEC: Rate case settlement remains binary event

- We forecast 2Q17 EPS of $0.59 – in-line with consensus and at the top-end of WEC's $0.56-0.60 guidance range. The increase relative to 2Q16 EPS of $0.57 is expected to be driven primarily by continued cost cutting measures.
- At this point, it is all about the rate case settlement as we are coming down the homestretch in the process. WI PSC Staff filed a memo earlier this week that laid out some analysis and scenarios, but essentially took no position. Reply comments are due on August 2 and a final decision from the WI PSC is expected shortly thereafter. Therefore, the outcome is unlikely to be known when WEC reports earnings, but it will unquestionably be a focus area.
- We see the outcome as largely binary and unpredictable. Requiring a rate case would become an overhang, while approving the settlement could spark a relief rally. We viewed the terms of the settlement as constructive, though there is some opposition.
    - As a reminder, the settlement was achieved with several industrial parties – freezing base rates, setting earnings sharing caps (50% of first 50bps of earnings above allowed ROE), and maintaining existing ROEs (10.0-10.3%) across all subsidiaries in the state through 2019.

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GUGGENHEIM

2Q17 PREVIEW: Benign Earnings Season, but No Shortage of Topics or NT Catalysts to Watch

SECTOR: Power and Utilities

July 25, 2017

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We expect the shoulder months of 2Q will make for a relatively benign earnings season, with some expected beats/misses we discuss below, but conversation will likely center largely around various potential catalysts that should drive 2H17 performance on a stock by stock basis, while several industry themes remain in focus – Industry consolidation, regulated utility valuations, merchant power strategies, policy lifelines for baseload generation at risk of retiring, etc.

Heading into 2Q17 earnings, we expect relatively benign print for the most part, and it's too early to revisit outlooks most companies just recently introduced. Weather was mixed, although neither electric or gas utilities derive much earnings power from the shoulder months of 2Q to begin with. **Guggenheim expected beats and misses: Key beats:** *PPL and PNW*; **Key misses:** *AEP and DUK*. **We are above consensus for:** *AVA, D, ES, ETR, LNT, NEE, NI, NRG, NWN, NYLD, OGE, PNW, PPL, POR, SR, SRE, and WEC*. **We are below consensus for:** *AEP, ALE, CNP, CPN, DTE, DUK, DYN, ED, EIX, EXC, SCG, SJI, SO, and VVC*. Our average regulated utility EPS estimates for 2Q17 are 1% above consensus, integrated utilities are 1% above consensus, and IPPs are 3% below consensus. Our integrated and IPP models are now marked to the 6/29/2017 forward curves.

Earning calls will likely be completely theme/catalyst-dominated. Industry consolidation, regulated utility valuations, merchant power strategies, policy lifelines for baseload generation at risk of retiring, FERC, transmission and pipeline reviews, environmental policy, viability of the integrated model, renewables, etc. We have written extensively on these topics and provide links to our key research pieces on each topic below. **From a catalyst standpoint, stocks to focus on:** *OGE, CNP, PNW, DTE, EIX, FE, CPN, NI, ES, SO, SCG, and NYLD.*

No change in our stance for now. Our focus shifted to more power-levered companies going into 2017 (see our 2017 outlook **HERE**) with regulated utility valuations breaching forward bond yield expectations, coupled with a trough commodity cycle, and we remain more constructive on integrated utilities and Independent Power Producers (IPPs) with 7 BUY-ratings, while we also maintain a relatively positive outlook on gas utilities with 5 BUY ratings and 2 NEUTRAL ratings. We remain mixed, however, on regulated utilities, tilting slightly out of favor with 11 NEUTRAL-ratings and 9 BUY-ratings, and we are lowering regulated utility PTs across the board as we mark our regulated utility target multiple to current yield expectations – Lowering our regulated utility target multiple to 16.0x from 17.0x driving our prior utility valuations; the group currently trades at 18.7x 2018E earnings, beyond forward yield fundamentals, which isn't unusual considering the backdrop of not just US policy uncertainty, but also global geopolitical uncertainty, and with the broader market sustaining valuations a relatively high altitude.

That said, we are incrementally more cautious as **regulated utilities can only trade at a premium to forward bond yields for so long before they mean revert, in our view, as the macro premium begins to eventually dissipate.** ***Continued on the next page...***

See pages 111 - 112 for analyst certification and important disclosures.

But we stop short of changing our ratings on *certain names* given our view that the sector can trade outside of fundamentals for some time in this backdrop. *That said, the performance for the sector YTD is largely consistent with our thoughts on our 2017 outlook as we favored cyclical stocks levered to energy and power as well as gas LDCs: YTD IPPs (+27%) and Gas focused utility names (+12%) outperformed the broader market, with regulated utilities (+8%) in line and Integrateds underperforming (-1%).*

SUMMARY OF ESTIMATES AND UPDATES

Figure 1: Summary of Guggenheim estimates (vs. prior, vs. consensus)

Regulated				New Guggenheim Estimates					Prior Guggenheim Estimates					% Change vs. Prior					Consensus EPS Estimates					% Delta vs. Consensus				
Utilities	Rating	Price	New	2Q17	2017E	2018E	2019E	2020E	2Q17	2017E	2018E	2019E	2020E	2Q17	2017E	2018E	2019E	2020E	2Q17	2017E	2018E	2019E	2020E	2Q17	2017E	2018E	2019E	2020E
AEP	Neutral	$69.19	$61	0.77	3.66	3.86	4.06	4.28	0.97	3.66	3.86	4.06	4.28	(21%)	(0%)	0%	(0%)	(0%)	0.88	3.65	3.88	4.10	4.31	(13%)	0%	(0%)	(1%)	(1%)
ALE	Neutral	$72.34	$65	0.53	3.49	3.72	3.90	4.09	0.49	3.49	3.72	3.90	4.09	8%	(0%)	(0%)	(0%)	0%	0.54	3.46	3.67	3.87	4.09	(2%)	1%	1%	1%	0%
AVA	Neutral	$52.38	$52	0.40	1.96	2.07	2.33	2.47	0.41	1.96	2.07	2.33	2.47	(2%)	(0%)	(0%)	(0%)	(0%)	0.38	1.93	2.01	2.20	2.47	4%	1%	3%	6%	(0%)
CNP	Buy	$28.17	$30	0.21	1.30	1.38	1.44	1.50	0.26	1.30	1.36	1.42	1.49	(19%)	(0%)	1%	2%	1%	0.22	1.31	1.40	1.47	1.52	(5%)	(1%)	(1%)	(2%)	(1%)
D	Buy	$76.77	$85	0.70	3.69	4.19	4.37	4.54	0.70	3.69	4.19	4.37	4.54	0%	0%	0%	(0%)	(0%)	0.67	3.67	4.07	4.29	4.51	5%	1%	3%	2%	1%
DTE	Buy	$106.37	$112	1.03	5.46	5.77	6.07	6.46	1.03	5.46	5.77	6.07	6.46	0%	(0%)	0%	(0%)	(0%)	1.04	5.33	5.68	6.02	6.36	(1%)	2%	2%	1%	2%
DUK	Buy	$84.55	$90	0.95	4.67	4.84	5.07	5.28	0.95	4.67	4.84	5.07	5.28	0%	(0%)	0%	0%	0%	1.04	4.60	4.83	5.10	5.31	(8%)	1%	0%	(1%)	(1%)
ED	Neutral	$82.14	$72	0.60	4.15	4.25	4.56	4.65	0.65	4.15	4.25	4.56	4.65	(8%)	0%	(0%)	(0%)	(0%)	0.63	4.09	4.26	4.48	4.64	(5%)	2%	(0%)	2%	0%
EIX	Neutral	$78.48	$69	0.90	4.27	4.30	4.68	5.06	0.90	4.27	4.30	4.71	5.23	0%	0%	0%	(1%)	(3%)	0.94	4.21	4.30	4.69	5.05	(5%)	2%	0%	(0%)	0%
ES	Buy	$60.74	$64	0.68	3.17	3.35	3.60	3.80	0.68	3.17	3.35	3.60	3.80	0%	0%	0%	(0%)	0%	0.67	3.15	3.32	3.53	3.78	1%	1%	1%	2%	1%
LNT	Neutral	$40.84	$36	0.37	2.00	2.12	2.24	2.41	0.36	2.00	2.12	2.24	2.41	3%	(0%)	0%	(0%)	(0%)	0.36	2.00	2.14	2.25	2.38	2%	0%	(1%)	(1%)	1%
NEE	Buy	$143.15	$162	1.78	6.80	7.30	7.78	8.36	1.60	6.79	7.07	7.56	8.10	10%	0%	3%	3%	3%	1.71	6.70	7.20	7.69	8.30	3%	2%	1%	1%	1%
OGE	Buy	$35.58	$38	0.43	1.95	2.04	2.14	2.18	0.45	1.95	2.04	2.14	2.18	(4%)	(0%)	0%	(0%)	(0%)	0.46	1.96	2.04	2.10	2.18	(5%)	(1%)	0%	2%	0%
PCG	Neutral	$67.90	$61	0.79	3.70	3.83	4.03	4.11	0.79	3.70	3.83	4.03	4.11	0%	(0%)	(0%)	0%	0%	0.77	3.67	3.82	4.00	4.17	2%	1%	0%	1%	(1%)
PNW	Neutral	$86.48	$85	1.17	4.26	4.48	4.77	5.14	1.13	4.26	4.48	4.77	5.14	4%	0%	(0%)	0%	0%	1.13	4.23	4.49	4.73	5.02	4%	1%	(0%)	1%	2%
POR	Neutral	$45.32	$44	0.45	2.25	2.43	2.54	2.63	0.42	2.25	2.43	2.54	2.63	7%	(0%)	0%	(0%)	(0%)	0.45	2.25	2.46	2.56	2.70	(0%)	0%	(1%)	(1%)	(3%)
PPL	Neutral	$38.40	$37	0.56	2.17	2.32	2.39	2.50	0.49	2.17	2.32	2.39	2.50	14%	(0%)	(0%)	(0%)	(0%)	0.49	2.16	2.31	2.41	2.53	14%	0%	0%	(1%)	(1%)
SCG	Buy	$64.56	$74	0.64	4.25	4.50	4.77	4.96	0.64	4.25	4.50	4.77	4.96	0%	(0%)	(0%)	0%	(0%)	0.68	4.20	4.45	4.63	4.68	(6%)	1%	1%	3%	6%
SO	Neutral	$47.25	$49	0.70	3.00	3.09	3.21	3.34	0.70	3.02	3.14	3.27	3.40	0%	(1%)	(2%)	(2%)	(2%)	0.72	2.96	3.08	3.20	3.30	(3%)	1%	0%	0%	1%
WEC	Buy	$62.50	$67	0.59	3.10	3.35	3.54	3.75	0.59	3.10	3.35	3.54	3.75	0%	0%	(0%)	(0%)	(0%)	0.59	3.10	3.28	3.46	3.68	1%	0%	2%	2%	2%
Integrated Utilities																												
ETR	Buy	$76.31	$80	1.26	4.79	4.83	4.99	5.25	1.31	4.81	4.84	5.00	5.15	(4%)	(0%)	(0%)	(0%)	2%	1.19	4.80	4.87	5.02	5.35	6%	(0%)	(1%)	(1%)	(2%)
EXC	Buy	$37.20	$44	0.53	2.71	2.93	2.89	2.87	0.54	2.72	2.88	2.80	2.72	(2%)	(0%)	2%	3%	6%	0.54	2.67	2.88	2.82	2.73	(2%)	1%	2%	3%	5%
FE	Buy	$31.25	$38	0.60	2.81	2.49	2.37	2.27	0.57	2.81	2.51	2.37	2.36	5%	0%	(1%)	(0%)	(4%)	0.60	2.80	2.52	2.38	2.22	1%	1%	(1%)	(1%)	2%
PEG	Buy	$44.03	$47	0.58	2.91	2.90	2.91	2.95	0.60	2.91	2.91	2.91	2.95	(3%)	(0%)	(0%)	(0%)	0%	0.58	2.91	2.93	2.94	2.98	(0%)	0%	(1%)	(1%)	(1%)
Gas Utilities																												
NI	Buy	$26.09	$28	0.10	1.18	1.27	1.34	1.38	0.10	1.18	1.27	1.34	1.38	0%	(0%)	0%	(0%)	(0%)	0.10	1.18	1.25	1.33	1.38	0%	(0%)	2%	1%	(0%)
NJR	Buy	$41.00	$44	0.07	1.75	1.88	2.00	2.18	0.07	1.75	1.88	2.00	2.18	0%	0%	(0%)	0%	0%	0.03	1.73	1.86	1.97	2.18	133%	1%	1%	2%	0%
NWN	Neutral	$62.30	$54	0.07	2.23	2.30	2.44	2.60	0.07	2.23	2.30	2.44	2.60	0%	(0%)	0%	0%	0%	0.05	2.16	2.29	2.48	2.60	31%	3%	0%	(1%)	0%
SJI	Neutral	$34.00	$34	0.06	1.20	1.61	1.71	1.83	0.02	1.20	1.51	1.71	1.83	200%	(0%)	0%	0%	(0%)	0.04	1.21	1.48	1.64	1.85	33%	(1%)	9%	5%	(1%)
SR	Buy	$71.75	$78	0.38	3.53	3.72	3.80	4.11	0.36	3.53	3.72	3.80	4.11	6%	0%	(0%)	(0%)	(0%)	0.39	3.53	3.65	3.74	4.07	(3%)	0%	2%	1%	1%
SRE	Buy	$113.33	$124	0.90	5.21	5.79	7.00	7.45	0.95	5.21	5.79	7.00	7.45	(5%)	(0%)	(0%)	(0%)	(0%)	0.86	5.11	5.62	6.82	7.38	5%	2%	3%	3%	1%
VVC	Buy	$59.45	$65	0.43	2.64	2.79	3.05	3.23	0.47	2.64	2.79	3.05	3.23	(9%)	(0%)	0%	(0%)	(0%)	0.45	2.62	2.80	3.05	3.23	(4%)	0%	(0%)	(0%)	(0%)
Independent Power Producers																												
CPN	Buy	$13.72	$20	399	1,852	2,012	2,006	2,110	395	1,850	1,999	1,986	2,160	1%	0%	1%	1%	(2%)	421	1,848	1,997	2,037	2,054	(5%)	0%	1%	(2%)	3%
DYN	Buy	$8.76	$14	192	1,248	1,494	1,320	1,264	278	1,245	1,509	1,311	1,287	(31%)	0%	(1%)	1%	(2%)	211	1,247	1,484	1,329	1,260	(9%)	0%	1%	(1%)	0%
NRG	Buy	$25.28	$35	638	2,613	2,881	3,183	3,146	641	2,621	2,788	3,054	3,013	(0%)	(0%)	3%	4%	4%	606	2,765	2,850	2,806	2,554	5%	(5%)	1%	13%	23%
Other																												
NYLD	Neutral	$18.60	$16	263	915	1,046	1,062	1,120	263	915	1,046	1,062	1,120	(0%)	0%	(0%)	0%	0%	258	892	982	1,092	1,122	2%	3%	7%	(3%)	(0%)
AWK	Buy	$80.93	$91	0.79	3.05	3.26	3.52	3.81	0.84	3.05	3.26	3.52	3.81	(6%)	0%	(0%)	(0%)	(0%)	0.80	3.03	3.28	3.51	3.74	(1%)	1%	(1%)	0%	2%

Note: Old PTs for Neutral-rated stocks were fair value estimates; PTs are established with this report.

Source: FactSet consensus estimates, Guggenheim Securities, LLC estimates.

Coverage of WR and GXP suspended given investment banking activity

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Figure 2: Guggenheim's Power and Utility Comp Sheet

As of Monday, July 24, 2017

Regulated Utilities[1]	Market Cap ($bn)	Rating	Target Price	Current Price	Dividend (18E) Yield	Dividend (18E) Payout	Diluted Shares	GUGGENHEIM Earnings Per Share '17E	'18E	'19E	'20E	GUGGENHEIM Price / Earnings '17E	'18E	'19E	'20E	Consensus Earnings Per Share '17E	'18E	'19E	'20E	Consensus Price / Earnings '17E	'18E	'19E	'20E
AEP American Electric Power	34.1	Neutral	$61	$69.19	3.6%	65%	492	3.66	3.86	4.06	4.28	18.9	17.9	17.1	16.2	3.66	3.88	4.10	4.31	18.9	17.8	16.9	16.1
ALE ALLETE	3.7	Neutral	$65	$72.34	3.2%	62%	51	3.49	3.72	3.90	4.09	20.7	19.5	18.5	17.7	3.46	3.67	3.87	4.09	20.9	19.7	18.7	17.7
AVA Avista	3.4	Neutral	$52	$52.38	2.8%	72%	64	1.96	2.07	2.33	2.47	26.8	25.4	22.5	21.2	1.94	2.06	2.20	2.47	27.0	25.5	23.9	21.2
CNP CenterPoint	12.1	Buy	$30	$28.17	4.0%	81%	431	1.30	1.38	1.44	1.50	21.7	20.4	19.5	18.7	1.31	1.40	1.47	1.52	21.6	20.2	19.1	18.5
D Dominion	48.3	Buy	$85	$76.77	4.3%	78%	629	3.69	4.19	4.37	4.54	20.8	18.3	17.6	16.9	3.67	4.07	4.29	4.51	20.9	18.8	17.9	17.0
DTE DTE Energy	19.1	Buy	$112	$106.37	3.3%	60%	179	5.46	5.77	6.07	6.46	19.5	18.4	17.5	16.5	5.33	5.68	6.02	6.36	20.0	18.7	17.7	16.7
DUK Duke Energy	59.3	Buy	$90	$84.55	4.3%	75%	700	4.67	4.84	5.07	5.28	18.1	17.5	16.7	16.0	4.60	4.84	5.10	5.31	18.4	17.5	16.6	15.9
ED Consolidated Edison	25.1	Neutral	$72	$82.14	3.5%	67%	305	4.15	4.25	4.56	4.65	19.8	19.3	18.0	17.7	4.08	4.26	4.48	4.66	20.1	19.3	18.3	17.6
EIX Edison International	25.6	Neutral	$69	$78.48	3.0%	55%	326	4.27	4.30	4.68	5.06	18.4	18.2	16.8	15.5	4.21	4.30	4.68	5.01	18.6	18.3	16.8	15.7
ES Eversource Energy	19.3	Buy	$64	$60.74	3.3%	60%	317	3.17	3.35	3.60	3.80	19.2	18.1	16.9	16.0	3.15	3.32	3.54	3.75	19.3	18.3	17.2	16.2
LNT Alliant Energy	9.3	Neutral	$36	$40.84	3.3%	63%	228	2.00	2.12	2.24	2.41	20.4	19.2	18.2	17.0	2.00	2.13	2.25	2.38	20.4	19.2	18.1	17.1
NEE NextEra	67.2	Buy	$162	$143.15	3.1%	61%	468	6.80	7.30	7.78	8.36	21.0	19.6	18.4	17.1	6.71	7.21	7.74	8.30	21.3	19.9	18.5	17.3
OGE OGE Energy	7.1	Buy	$38	$35.58	3.8%	67%	200	1.95	2.04	2.14	2.18	18.3	17.4	16.7	16.3	1.96	2.02	2.10	2.18	18.2	17.6	16.9	16.4
PCG PG&E Corporation	34.6	Neutral	$61	$67.90	3.3%	58%	511	3.70	3.83	4.03	4.11	18.4	17.7	16.8	16.5	3.67	3.83	4.01	4.15	18.5	17.7	16.9	16.4
PNW Pinnacle West	9.7	Neutral	$85	$86.48	3.2%	62%	112	4.26	4.48	4.77	5.14	20.3	19.3	18.1	16.8	4.23	4.49	4.74	5.02	20.4	19.3	18.3	17.2
POR Portland General Electric	4.1	Neutral	$44	$45.32	3.1%	58%	89	2.25	2.43	2.54	2.63	20.1	18.6	17.8	17.3	2.25	2.44	2.53	2.70	20.1	18.6	17.9	16.8
PPL PPL Corporation	26.2	Neutral	$37	$38.40	4.4%	73%	683	2.17	2.32	2.39	2.50	17.7	16.6	16.1	15.4	2.17	2.34	2.44	2.52	17.7	16.4	15.8	15.3
SCG SCANA	9.2	Buy	$74	$64.56	4.0%	57%	143	4.25	4.50	4.77	4.96	15.2	14.4	13.5	13.0	4.20	4.45	4.62	4.73	15.4	14.5	14.0	13.7
SO Southern Company	47.1	Neutral	$49	$47.25	5.0%	77%	995	3.00	3.09	3.21	3.34	15.8	15.3	14.7	14.1	2.96	3.06	3.18	3.30	16.0	15.4	14.9	14.3
WEC WEC Energy	19.8	Buy	$67	$62.50	3.5%	65%	316	3.10	3.35	3.54	3.75	20.1	18.7	17.7	16.7	3.10	3.28	3.46	3.68	20.2	19.1	18.1	17.0
Average					**3.6%**	**66%**						**19.6**	**18.5**	**17.5**	**16.6**					**19.7**	**18.6**	**17.6**	**16.7**

Integrated Utilities[2]	Market Cap ($bn)	Rating	Target Price	Current Price	Dividend (18E) Yield	Dividend (18E) Payout	Diluted Shares	Earnings Per Share '17E	'18E	'19E	'20E	Price / Earnings '17E	'18E	'19E	'20E	Earnings Per Share '17E	'18E	'19E	'20E	Price / Earnings '17E	'18E	'19E	'20E
ETR Entergy	13.7	Buy	$80	$76.31	4.7%	74%	179	4.79	4.83	4.99	5.25	15.9	15.8	15.3	14.5	4.82	4.87	5.02	5.35	15.8	15.7	15.2	14.3
EXC Exelon	34.5	Buy	$44	$37.20	3.6%	45%	926	2.71	2.93	2.89	2.87	13.7	12.7	12.9	13.0	2.67	2.88	2.82	2.73	13.9	12.9	13.2	13.6
FE FirstEnergy	13.9	Buy	$38	$31.25	4.9%	62%	444	2.61	2.49	2.37	2.27	11.1	12.6	13.2	13.8	2.80	2.52	2.38	2.22	11.2	12.4	13.1	14.1
PEG PSEG	22.3	Buy	$47	$44.03	4.1%	63%	506	2.91	2.90	2.91	2.95	15.1	15.2	15.1	14.9	2.91	2.93	2.93	2.98	15.2	15.0	15.0	14.8
Average					**4.3%**	**61%**						**14.0**	**14.1**	**14.1**	**14.0**					**14.0**	**14.0**	**14.1**	**14.2**

Independent Power Producers (IPPs)[3]	Market Cap ($bn)	Rating	Target Price	Current Price	Dividend (18E) Yield	Dividend (18E) Payout	Diluted Shares	Adjusted EBITDA '17E	'18E	'19E	'20E	EV / EBITDA '17E	'18E	'19E	'20E	Adjusted EBITDA '17E	'18E	'19E	'20E	EV / EBITDA '17E	'18E	'19E	'20E
CPN Calpine	5.0	Buy	$20	$13.72	0.0%	0%	361	1,862	2,012	2,006	2,110	9.0	7.9	7.8	7.1	1,856	2,002	2,051	2,134	8.5	7.4	6.8	6.4
DYN Dynegy	1.2	Buy	$14	$8.76	0.0%	0%	131	1,248	1,494	1,320	1,264	6.1	4.8	5.2	5.0	1,248	1,485	1,330	1,389	7.2	5.8	6.2	NA
NRG NRG Energy	8.0	Buy	$35	$25.28	0.5%	20%	316	2,613	2,881	3,183	3,146	7.0	6.2	5.3	5.4	2,664	2,697	2,884	3,086	8.5	8.1	7.2	6.6
Average												**7.4**	**6.3**	**6.1**	**5.8**					**8.1**	**7.1**	**6.7**	**6.4**

Gas Utilities[4]	Market Cap ($bn)	Rating	Target Price	Current Price	Dividend (18E) Yield	Dividend (18E) Payout	Diluted Shares	Earnings Per Share '17E	'18E	'19E	'20E	Price / Earnings '17E	'18E	'19E	'20E	Earnings Per Share '17E	'18E	'19E	'20E	Price / Earnings '17E	'18E	'19E	'20E
NI NiSource	8.5	Buy	$28	$26.09	2.9%	59%	323	1.18	1.27	1.34	1.38	22.1	20.5	19.5	18.9	1.18	1.25	1.33	1.38	22.1	20.9	19.6	18.9
NJR New Jersey Resources	3.6	Buy	$44	$41.00	2.7%	58%	86	1.75	1.88	2.00	2.18	23.4	21.9	20.5	18.8	1.73	1.86	1.97	2.18	23.7	22.0	20.8	18.8
NWN NW Natural Gas	1.8	Neutral	$54	$62.30	3.0%	82%	29	2.23	2.30	2.44	2.60	28.0	27.1	25.5	23.9	2.17	2.29	2.48	2.60	28.8	27.2	25.1	24.0
SJI South Jersey Industries	2.7	Neutral	$34	$34.00	3.3%	70%	79	1.20	1.61	1.71	1.83	28.4	21.1	19.8	18.6	1.20	1.47	1.63	1.85	28.4	23.1	20.9	18.4
SR Spire	3.5	Buy	$78	$71.75	3.1%	59%	48	3.53	3.72	3.80	4.11	20.3	19.3	18.9	17.5	3.53	3.65	3.74	4.07	20.4	19.6	19.2	17.6
SRE Sempra Energy	28.5	Buy	$124	$113.33	3.1%	61%	251	5.21	5.79	7.00	7.45	21.8	19.6	16.2	15.2	5.11	5.62	6.82	7.38	22.2	20.2	16.6	15.4
VVC Vectren	4.9	Buy	$65	$59.45	3.1%	66%	83	2.64	2.79	3.05	3.23	22.5	21.3	19.5	18.4	2.62	2.80	3.05	3.23	22.7	21.2	19.5	18.4
Average					**3.0%**	**65%**						**23.8**	**21.5**	**20.0**	**18.8**					**24.0**	**22.0**	**20.2**	**18.8**

Other	Market Cap ($bn)	Rating	Target Price	Current Price	Dividend (18E) Yield	Dividend (18E) Payout	Diluted Shares	Earnings Per Share '17E	'18E	'19E	'20E	Price / Earnings '17E	'18E	'19E	'20E	Earnings Per Share '17E	'18E	'19E	'20E	Price / Earnings '17E	'18E	'19E	'20E
AWK American Water Works	14.4	Buy	$91	$80.93	2.2%	54%	178	3.05	3.26	3.52	3.81	26.5	24.8	23.0	21.3	3.03	3.28	3.51	3.67	26.7	24.7	23.1	22.1
	Market Cap ($bn)	**Rating**	**Target Price**	**Current Price**	**Dividend (18E) Yield**	**Dividend (18E) Payout**	**Diluted Shares**	**Adjusted EBITDA '17E**	**'18E**	**'19E**	**'20E**	**EV / EBITDA '17E**	**'18E**	**'19E**	**'20E**	**Adjusted EBITDA '17E**	**'18E**	**'19E**	**'20E**	**EV / EBITDA '17E**	**'18E**	**'19E**	**'20E**
NYLD NRG Yield	1.8	Neutral	$16	$18.60	6.8%	NA	183	915	1,046	1,062	1,120	5.4	4.8	4.7	4.5	919	994	1,081	1,110	10.0	9.2	8.4	9.2

(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure, vertically integrated utilities with regulated or mostly contracted generation are also included.
(2) Integrated utilities own and operate regulated T&D franchises, as well as un-regulated power generation with commodity exposure.
(3) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.
(4) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).
Source: Bloomberg, Guggenheim Securities, LLC estimates.
Coverage of WR and GXP suspended due to investment banking activity

Source: Bloomberg, Guggenheim Securities, LLC.

Figure 3: Guggenheim 2017 EEI Schedule

52nd EEI Financial Conference

Dates

November 5-7, 2017

Company Dinners (Hosted by Guggenheim)

Sunday, November 5, 2017

5:30 p.m. | Outdoor Cocktail Reception with full Guggenheim Team
6:30 p.m. | Dinner with **Entergy (ETR)** Senior Management

Il Mulino Trattoria at the Walt Disney World Swan and Dolphin Resort
1200 Epcot Resorts Boulevard
Lake Buena Vista, FL 32830

Monday, November 6, 2017

6:45 p.m. | Dinner with **Duke (DUK)** Senior Management

Todd English's Bluezoo
Walt Disney World Swan and Dolphin Resort
1500 Epcot Resorts Boulevard
Lake Buena Vista, FL 32830

Company Meetings

More utilities will be added and we will update schedule accordingly

Sunday, November 5th	
Time	Co.
1:00PM	NI
2:00PM	AVA
3:00PM	ES
4:00PM	ALE
5:00PM	LNT

Monday, November 6th	
Time	Co.
7:00AM	POR
8:00AM	CNP
8:45AM	ED
10:00AM	SCG
11:00AM	D
12:00PM	DTE
1:00PM	OGE
2:00PM	WEC
3:00PM	PEG
4:00PM	VVC
5:00PM	CMS

Tuesday, November 7th	
Time	Co.
8:00AM	PCG
9:00AM	FE
10:00AM	EIX
11:00AM	SRE
12:00PM	PPL
1:00PM	AEP
1:45PM	PNW
3:00PM	EXC
4:00PM	NEE
5:00PM	SO

Figure 4: Guggenheim 2017 Non Deal Roadshow Schedule

Ticker	Dates	Regions	Ticker	Dates	Regions
NYLD	1/10-11	Boston	SR	6/20-21	Chicago/Minn.
WEC	2/17	Boston	DTE	6/26-27	Chicago & Toronto
ETR	2/21-22	West Coast	PNW	6/28-30	Midwest
EXC	3/9-10	Chicago/Minn.	NRG	7/19	Chicago
AWK	3/13	NYC	DYN	8/17-18	NYC/Boston
EIX	3/15	Connecticut	NWN	9/12	Chicago/Minn.
OGE	3/27-28	West Coast	ES	10/11	Mid Atlantic
NEE	3/29-30	Mid Atlantic	NI	10/18-20	West Coast
SJI	4/11	Boston	PPL	11/28-29	Mid Atlantic
ALE	4/12-13	Mid Atlantic	PEG	11/30-12/1	NYC/Mid Atlantic
AWK	5/9	Boston	AVA	12/6	TBA
VVC	5/10	New York	ED	TBA	TBA
SJI	5/11	New York	SRE	TBA	TBA
SO	5/11-12	NYC/Mid Atlantic	SCG	TBA	TBA
POR	5/15	New York	NJR	TBA	TBA
DUK	5/31-6/2	West Coast	GXP	TBA	TBA
CNP	6/5	Boston	CPN	TBA	TBA
LNT	6/6-7	Midwest	FE	TBA	TBA
D	6/13-14	Midwest			

MORE TO BE ADDED and TBA's are confirmed but waiting on logistics…

EARNINGS CALENDAR – 2ND QUARTER 2017

Ticker	Date	Time	Dial-in	Password
DTE	07/26	9:00 AM	(888) 505-4377	9327084
NEE	07/26	9:00 AM	(888) 500-6973	7450511
WEC	07/26	2:00 PM	(844) 840-1623	43642520
AEP	07/27	9:00 AM	(800) 553-0349	426838
PCG	07/27	11:00 AM	(866) 415-9493	3250
EIX	07/27	4:30 PM	(888) 673-9780	Edison
ES	07/28	9:00 AM	(800) 588-4973	45189630
CPN	07/28	10:00 AM	(800) 446-1671	45310747
FE	07/28	10:00 AM	NA	NA
PEG	07/28	11:00 AM	(877) 370-7635	73230853
POR	07/28	11:00 AM	(844) 831-4021	36350829
NI	08/02	8:30 AM	(855) 219-9570	53169642
D	08/02	9:00 AM	(877) 410-5657	Dominion
SR	08/02	9:00 AM	(844) 824-3832	NA
ALE	08/02	10:00 AM	(877) 303-5852	NA
ETR	08/02	10:00 AM	(844) 309-6569	56948204
NJR	08/02	10:00 AM	(844) 875-6910	NA
AVA	08/02	10:30 AM	(888) 771-4371	45222476
EXC	08/02	11:00 AM	(800) 690-3108	44816529
NWN	08/02	11:00 AM	(866) 267-6789	NA
SO	08/02	1:00 PM	(800)667-1520	21816812
NRG	08/03	8:00 AM	(877) 359-9508	51535305
PPL	08/03	8:30 AM	(888) 346-8683	9277539
AWK	08/03	9:00 AM	NA	NA
OGE	08/03	9:00 AM	(855) 459-5945	51607930
NYLD	08/03	9:15 AM	NA	NA
CNP	08/03	10:00 AM	(800) 653-1761	18331704
DUK	08/03	10:00 AM	(877) 856-1958	7921662
PNW	08/03	12:00 PM	(877) 407-8035	15960
SCG	08/03	3:00 PM	(888) 347-3258	10107619
ED	08/03	NA	NA	NA
DYN	08/04	9:00 AM	NA	NA
VVC	08/04	11:00 AM	(844) 825-9787	NA
LNT	08/04	10:00 AM	(888) 394-8218	4175543
SJI	TBD	TBD	TBD	TBD
SRE	TBD	TBD	TBD	TBD

Source: Company filings.

EXECUTIVE SUMMARY

We expect the shoulder months of 2Q will make for a relatively benign earnings season, with some expected beats/misses we discuss below, but conversation will likely center largely around various catalysts that should drive 2H17 performance stock by stock, while several industry themes remain in focus – Industry consolidation, regulated utility valuations, merchant power strategies, policy lifelines for baseload generation at risk of retiring, etc.

Heading into 2Q17 earnings, we expect relatively benign print for the most part, and it's too early to revisit outlooks most companies just recently introduced. Weather was mixed, although neither electric or gas utilities derive much earnings power from the shoulder months of 2Q to begin with. **Guggenheim expected beats and misses: Key beats:** PPL and PNW; **Key misses:** AEP and DUK. **We are above consensus for:** AVA, D, ES, ETR, LNT, NEE, NI, NRG, NWN, NYLD, OGE, PNW, PPL, POR, SR, SRE, and WEC. **We are below consensus for:** AEP, ALE, CNP, CPN, DTE, DUK, DYN, ED, EIX, EXC, SCG, SJI, SO, and VVC. Our average regulated utility EPS estimates for 2Q17 are 1% above consensus, integrated utilities are 1% above consensus, and IPPs are 3% below consensus. Our integrated and IPP models are now marked to the 6/29/2017 forward curves.

Earning calls will likely be completely theme/catalyst-dominated. Industry consolidation, regulated utility valuations, merchant power strategies, policy lifelines for baseload generation at risk of retiring, FERC complaints, transmission and pipeline reviews, environmental policy, viability of the integrated model, renewables, etc. We have written extensively on these topics and provide links to our key research pieces on each topic below. **From a catalyst standpoint, stocks to focus on:** *OGE, CNP, PNW, DTE, EIX, FE, CPN, NI, ES, SO, SCG, and NYLD.*

No change in stance for now. Our focus shifted to more power-levered companies going into 2017 (see our 2017 outlook HERE) with regulated utility valuations breaching historical levels and certainly above where they should trade on forward bond yield expectations, coupled with a trough commodity cycle. We remain more constructive on integrated utilities and Independent Power Producers (IPPs) with 7 BUY-ratings, while we also maintain a relatively positive outlook on gas utilities with 5 BUY ratings and 2 NEUTRAL ratings, and Other utilities with 1 BUY-rating and 1 NEUTRAL-rating. We remain mixed, however, on regulated utilities, tilting slightly out of favor with 11 NEUTRAL-ratings and 9 BUY-ratings, and we are lowering regulated utility PTs across the board as we mark our regulated utility target multiple to current yield expectations – Lowering our regulated utility target multiple to 16.0x from 17.0x driving our prior utility valuations; the group currently trades at 18.7x 2018E earnings, beyond forward yield fundamentals, which isn't unusual considering the backdrop of not just US policy uncertainty, but also global geopolitical uncertainty, and with the broader market sustaining valuations a relatively high altitude.

That said, we are incrementally more cautious as **utilities can only trade at a premium to forward bond yields for so long before they mean revert, in our view, as the macro premium begins to eventually dissipate, but we stop short of changing our ratings for *certain stocks* given our view that the sector can trade outside of fundamentals for some time in this backdrop. That said, the performance for the sector YTD is largely consistent with our thoughts on our 2017 outlook as we favored cyclical**

stocks levered to energy and power as well as gas LDCs: YTD IPPs (+27%) and Gas focused utility names (+12%) outperformed the broader market, with regulated utilities (+8%) in line and Integrateds underperforming (-1%).

VALUATION METHODOLOGY

For **Regulated Utilities**, our valuation analysis is based on a long-term regression of BBB corporate bond yields and P/E multiples, dating back to 1980, and encompassing various macro/policy environments (e.g., pre- and post-dividend tax rate changes). Below we discuss the historical relationship between corporate bond yields and regulated utility valuations and how these two variables drive our valuation.

For **Integrated Utilities**, we utilize a sum-of-the-parts methodology, applying the regulated methodology described above to regulated segments, apply an EV/open-EBITDA multiple to unregulated generation segments, and adjust for the NPV of hedges, mid-cycle capacity payments, and future liabilities/benefits (e.g., environmental obligations).

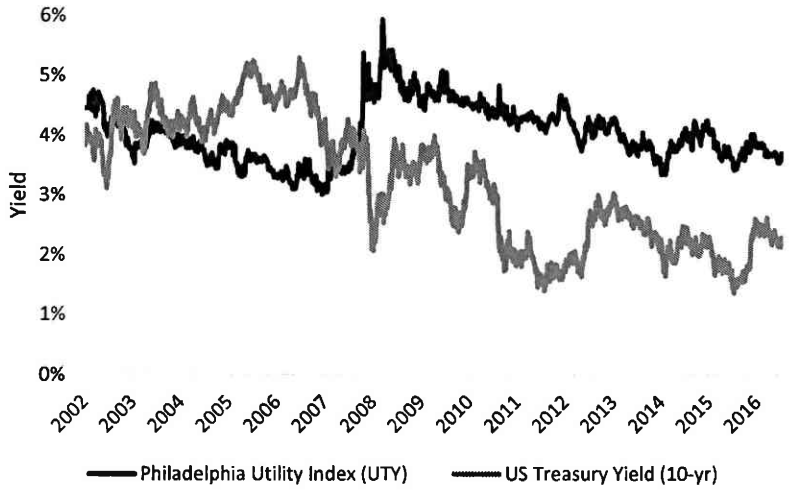
For **Independent Power Producers**, it's not about mid-cycle multiples. Our focus turns to assets lives, cash flow conversion, and balance sheet discipline. Outperformers and underperformers stand out – gas/renewables outperform; coal underperforms; nuclear could get a lifeline. Applying mid-cycle multiples to an IPP with a presumption that the assets go through perpetuity is flawed — not all assets are created equal. Our valuation turns to unlevered free cash flows, conversion cycles, balance sheet position, and discounted cash flow analysis with a focus on asset type, tech, and age.

REGULATED UTILITY VALUATION IN FOCUS

Regulated utilities look somewhat pricey versus forward bond yields. After the UTY hit a record high on June 16th, regulated utility multiples have contracted from 18.9x to the current multiple of 18.7x (as of 7/21/17) based on 2018 EPS. That said, we believe **the group still looks somewhat pricey versus forward bond yield expectations that imply valuations should be closer to 16x.** Although we would note, regulated names can trade outside of fundamentals during times of political and capital market uncertainty – Which seems to be the case, with many of Trump's initiatives (e.g., reforming the tax code, ramping up infrastructure spending) remaining in limbo, and market sentiment remaining mixed.

That said, rising interest rates generally support higher authorized returns for regulated utilities, particularly those operating jurisdictions that employ a formulaic approach to setting allowed returns – **ED, EIX, PCG, SRE, etc**. We've actually begun to see some improvement in allowed ROE's across the country, with authorized ROEs improving so far through 2017 (9.7% on average YTD vs. 9.6% in 2016).

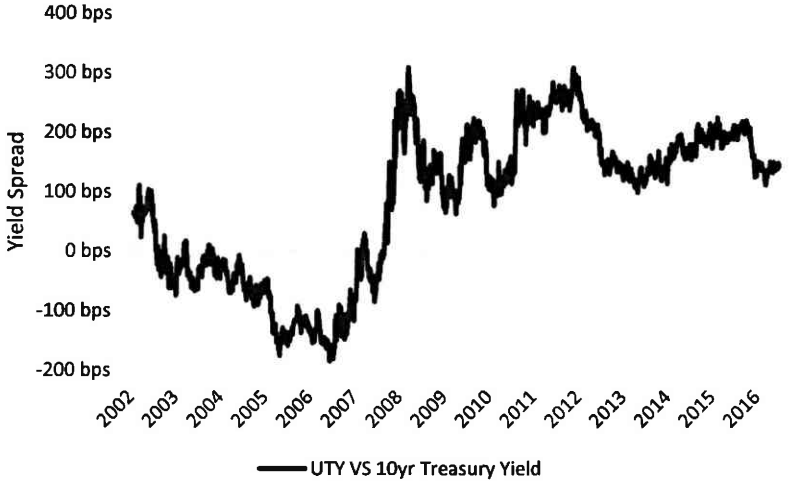
Figure 5: Utility Dividend Yields vs. 10yr Treasury Yields



Source: FactSet, Guggenheim Securities, LLC.

Yield spread still remains attractive to us at ~140bps vs. historical spreads

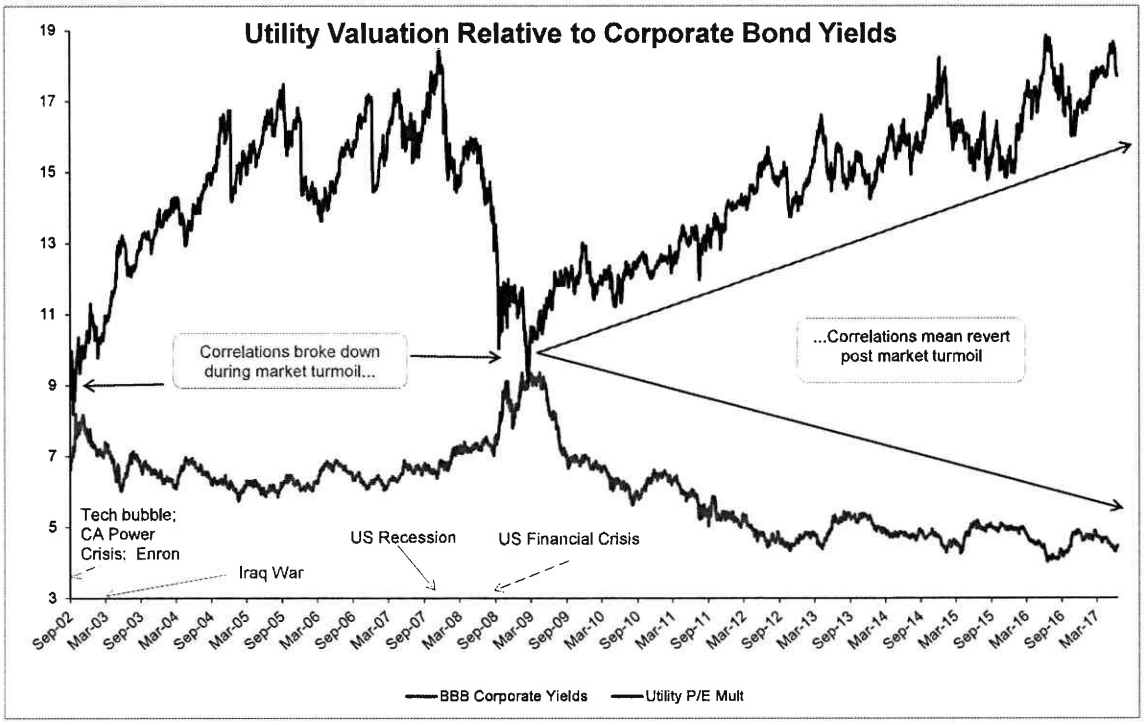
Figure 6: Yield Spread: Utility Dividend Yields vs. Treasury Yield



Source: FactSet, Guggenheim Securities, LLC.

Historical relationship between BBB corporate bond yields and regulated utility valuations remains fundamentally intact. Our regulated P/E multiple is fundamentally based on a regression of bond yields excluding periods of market turmoil when the relationship broke down (see Figure 7 below). Excluding these periods, regulated utilities exhibit strong correlation since both assets serve as defensive positions in an investment portfolio.

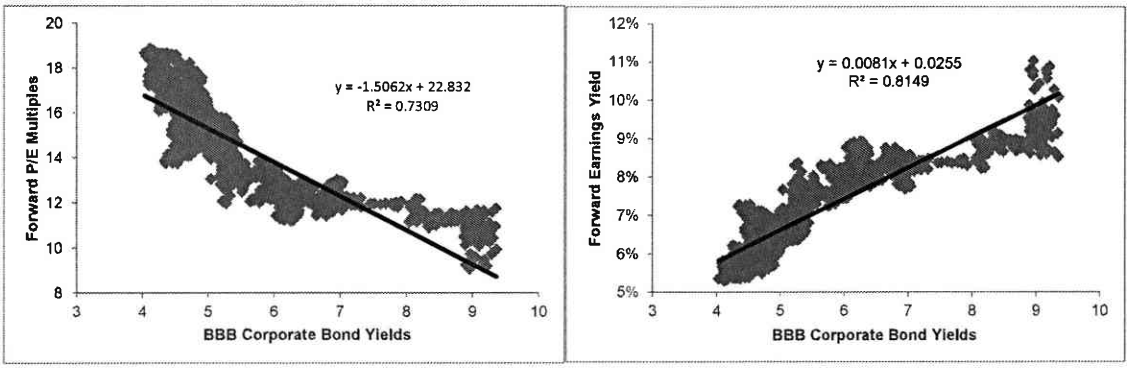
Figure 7: Utility valuation relative to BBB corporate bond yields



Source: Bloomberg, Guggenheim Securities, LLC.

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 8: 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 at least 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.

Incorporating the forward yield outlook for corporate bonds of 4.53% for 2018, we derive: (1) our target multiple for regulated utilities and **(2)** where we believe the group should fundamentally trade versus forward interest rate expectations. The current 2018E 4.53% corporate bond yield curve would imply a 2018 regulated P/E multiple of ~16x — now incorporated into our 12-month price targets before we introduce company-specific premiums/discounts.

Figure 9: P/E sensitivity to bond yields

BBB Yield	2018 P/E Multiple	Multiple Premium/(Discount)	Implied Upside / (Downside) vs. Forward Yields
2.78	18.6x	2.64x	-14%
3.03	18.3x	2.26x	-12%
3.28	17.9x	1.88x	-11%
3.53	17.5x	1.51x	-9%
3.78	17.1x	1.13x	-7%
4.03	16.8x	0.75x	-4%
4.28	16.4x	0.38x	-2%
4.53	**16.0x**		
4.78	15.6x	-0.38x	2%
5.06	15.2x	-0.80x	5%
5.31	14.8x	-1.17x	8%
5.56	14.5x	-1.55x	11%
5.81	14.1x	-1.93x	14%
6.06	13.7x	-2.30x	17%
6.31	13.3x	-2.68x	20%
6.56	13.0x	-3.06x	24%
6.81	12.6x	-3.43x	27%

Slope	(1.51)	a
Intercept	22.83	b
BBB Bond Yield (%)	4.53	c
Projected 2018 P/E Multip	**16.0x**	d = (a*c) + b

Where group currently trades

Where group should trade versus forward corporate bond yield expectations

Source: Bloomberg, Guggenheim Securities, LLC estimates and analysis.

Summary takeaways from our regression for regulated utilities:

- Our regression incorporates a 30-year corporate bond yield of 4.53%, which implies 16x fair value for regulated utilities on 2018E earnings – this is where we believe the group should trade if they will solely reflect forward interest rate fundamentals.
- **We incorporate a 16x regulated target P/E multiple:**
  - This multiple is incorporated into our valuation for regulated electric utilities and points to where the group should trade based on forward interest rate expectations. We apply a company-specific premium/discount, depending on the utility, to arrive at our valuation.
- **Return implication for the group, on average:**
  - Given the current outlook for rates, we see modest downside for the group (16x fair value vs the current 17.9x multiple implies 10.5% downside; factoring in the group's average dividend yield of 3.7%, implies downside of 6.8%).
  - While valuations are close to peak levels on an absolute basis, utilities have enjoyed higher premiums relative to the market, and dividend yields maintain an attractive spread above treasuries.

Stock picking remains essential in this environment and we continue to favor more power-levered and gas-centric names given the run-up with regulated electric utilities – YTD this thesis seems to be playing out. While we may be in the latter innings of this regulated utility run, seeing only modest return potential for the regulated group, stocks with constructive regulatory policies and growth prospects should continue to outperform.

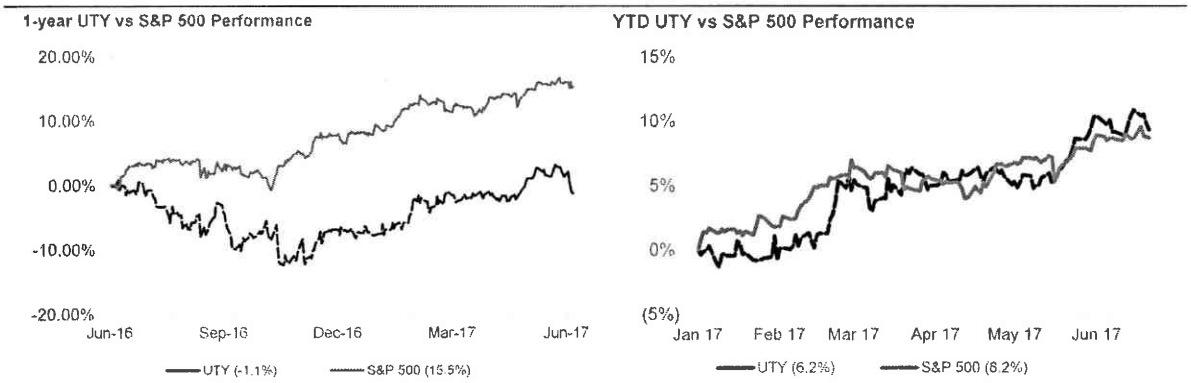
2Q PERFORMANCE AT A GLANCE

Utilities underperforming after weeks of outperformance.

Utilities have underperformed the broader market YTD with the underperformance most pronounced over the last few weeks. For 2Q17, utilities underperformed, with the UTY (+1%) vs. the S&P500 (+3%), as the UTY has come under pressure recently largely due to pressure from rising interest rates. The 10-year treasury yield increased 16bps in the last week of June to end 2Q17 at 2.31%. That said, the current yield on the 10-year (2.31% as of July 17) still remains below the high for 2017 (2.63% as of March 13) and below the level to begin the 2017 (2.44%).

After weeks of outperforming the broader market, utilities are now trailing major market indices (UTY +6.2% vs. S&P 500 +8.2%). Despite recent weakness in the sector, dissecting the group into various composites shows somewhat of a different story, as YTD IPPs (+27%) and Gas focused utility names (+12%) outperformed the broader market, with regulated utilities (+8%) in line and Integrateds underperforming (-1%). **The performance YTD is largely consistent with our thoughts in our 2017 outlook (see note HERE), as we favored cyclical stocks levered to energy, power, and gas infrastructure with a preference toward IPPs.**

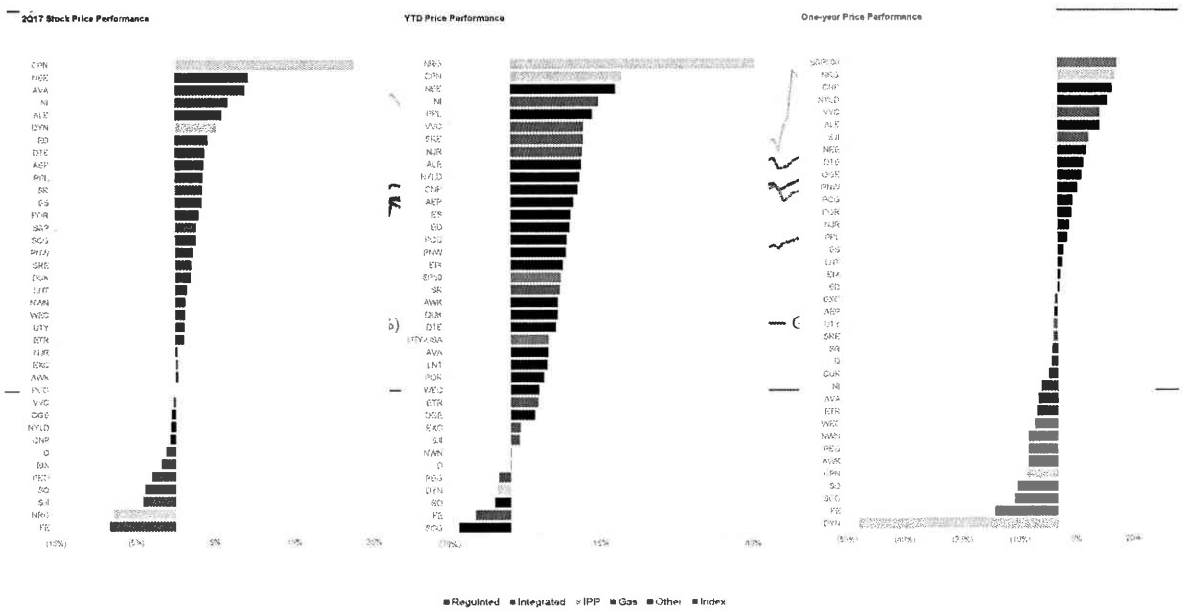
Figure 10: Utility index performance



Source: FactSet, Guggenheim Securities, LLC estimates.

Figure 11: Composite YTD Performance

Year-to-date performance



Source: FactSet, Guggenheim Securities, LLC estimates.

Figure 12: Guggenheim Coverage Performance Snapshot

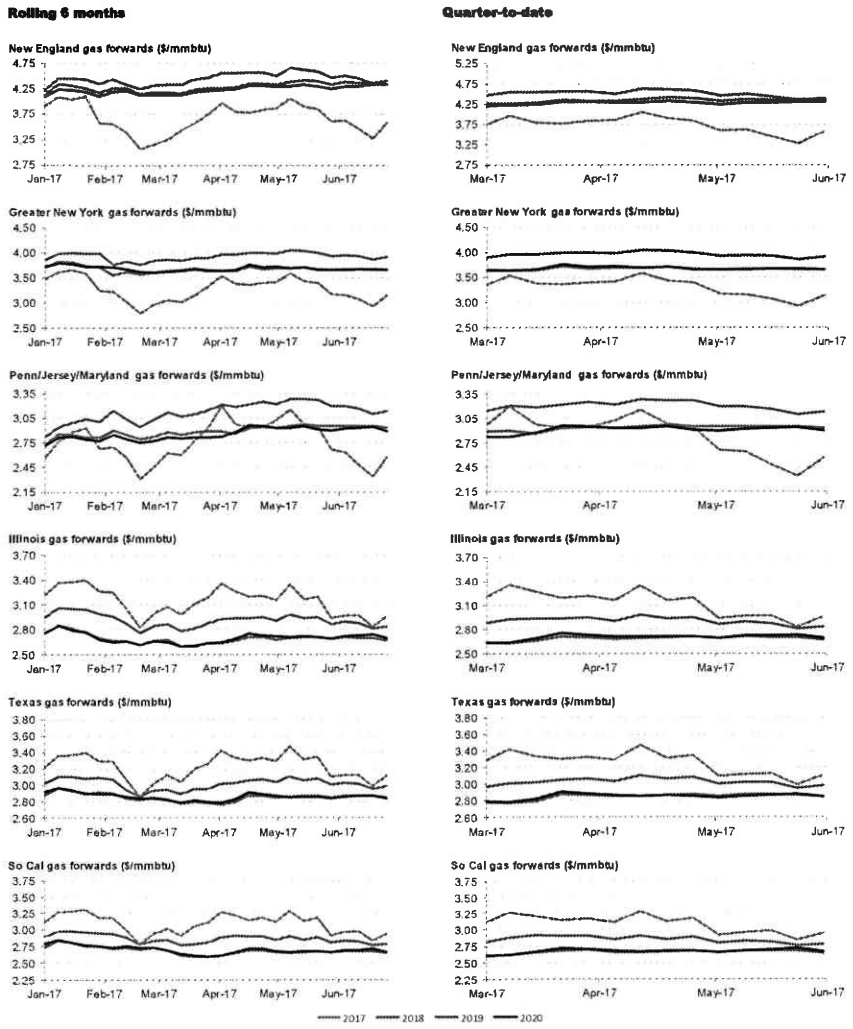
COMMODITY PRICE ENVIRONMENT

Marking our GenCo to the 06/29/2017 forward curve.

2Q 2017 experienced some reduction in natural gas and power forward prices, while basis differential volatility continued, driven by weather, midstream capacity constraints, contract relationships and coal retirements.

In general, commodity prices decreased during the second quarter. Below we present 2Q17 gas price, power price, spark spread, dark spread, and heat rate changes in key regions.

GAS FORWARD CURVES 2017-2020

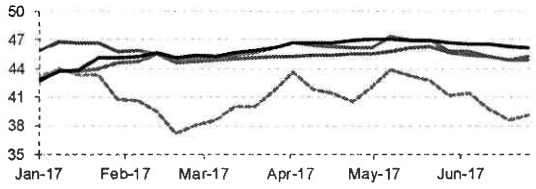


Source: ICE, Bentek, Guggenheim Securities, LLC

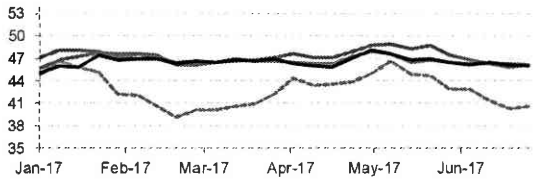
POWER FORWARD CURVES 2017-2020

Rolling 6 months

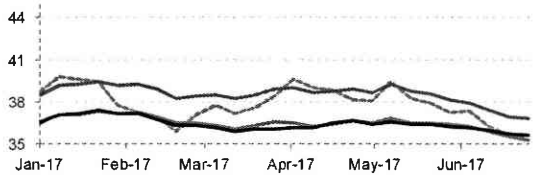
New England power forwards ($/MWh)



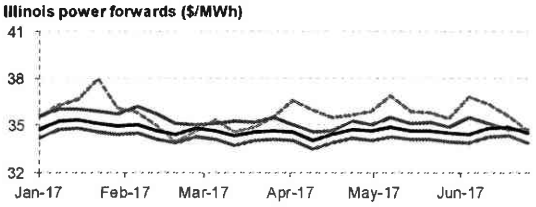
Greater New York power forwards ($/MWh)



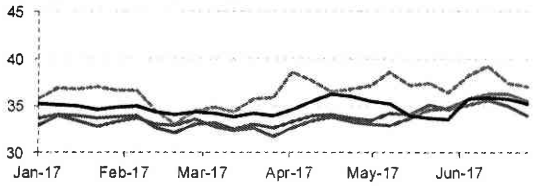
PJM power forwards ($/MWh)



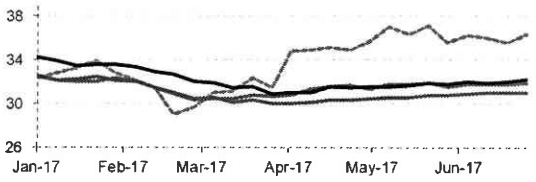
Illinois power forwards ($/MWh)



Texas power forwards ($/MWh)

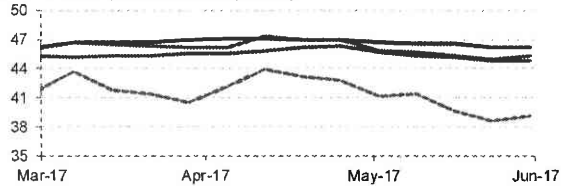


So Cal * power forwards ($/MWh)

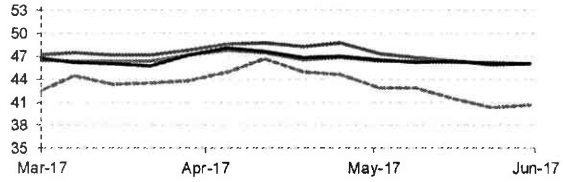


Quarter-to-date

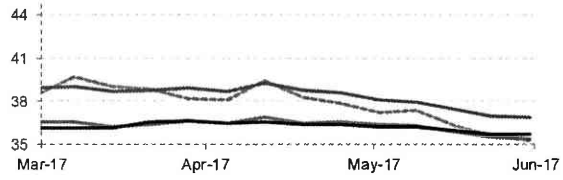
New England power forwards ($/MWh)



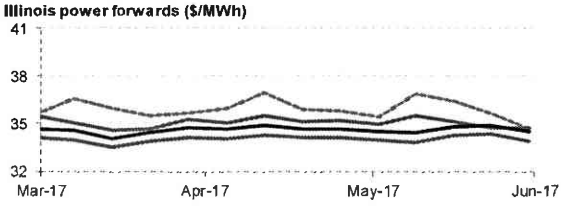
Greater New York power forwards ($/MWh)



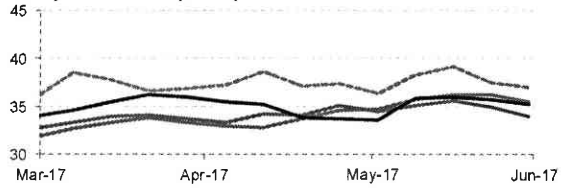
PJM power forwards ($/MWh)



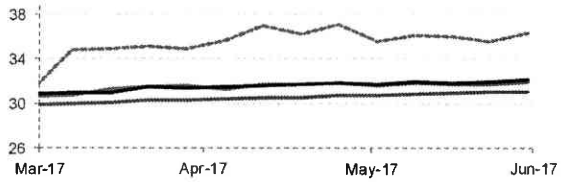
Illinois power forwards ($/MWh)



Texas power forwards ($/MWh)



So Cal * power forwards ($/MWh)

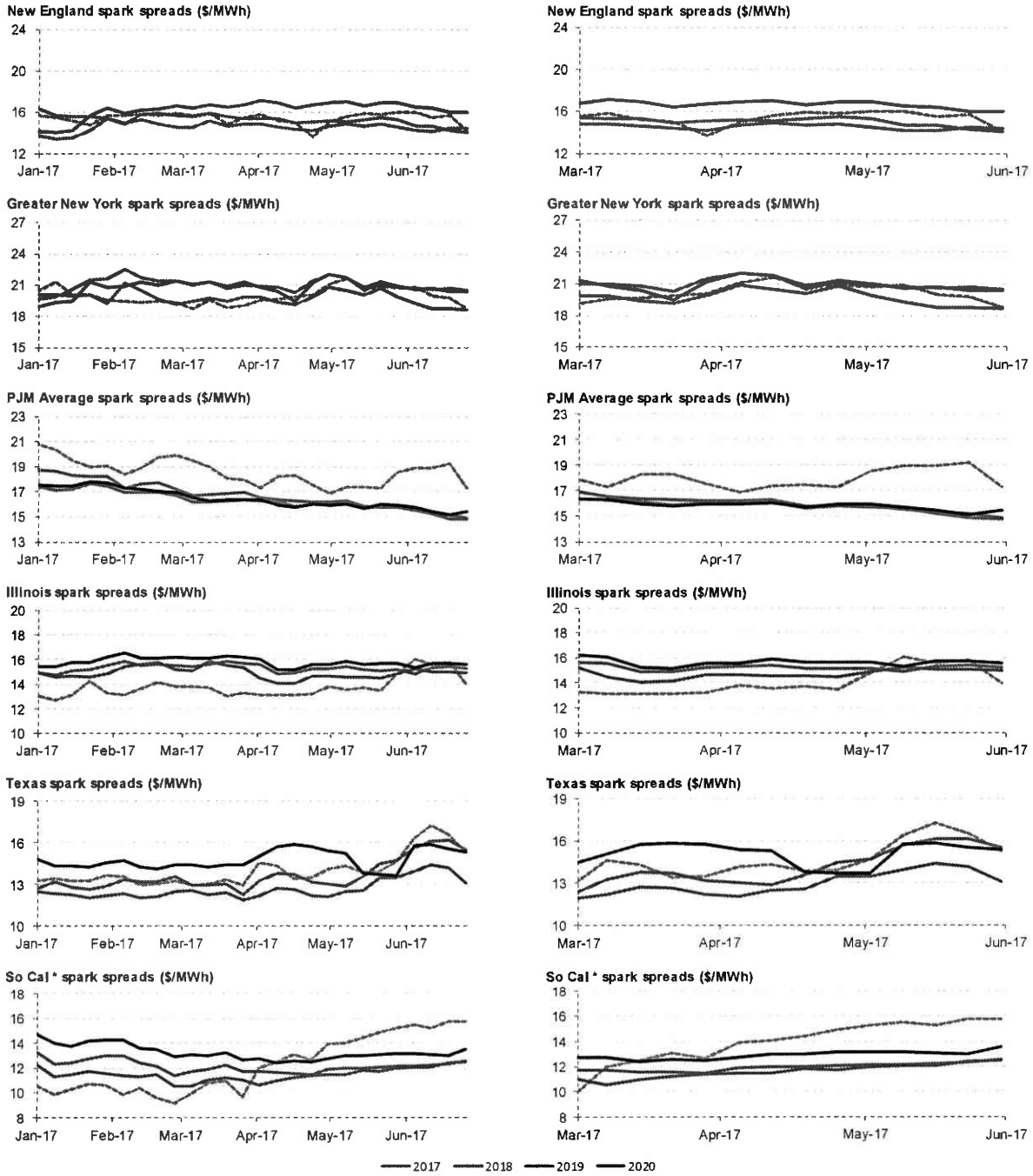


2017 2018 2019 2020

Source: ICE, Bentek, Guggenheim Securities, LLC

FORWARD SPARK SPREADS 2017-2020

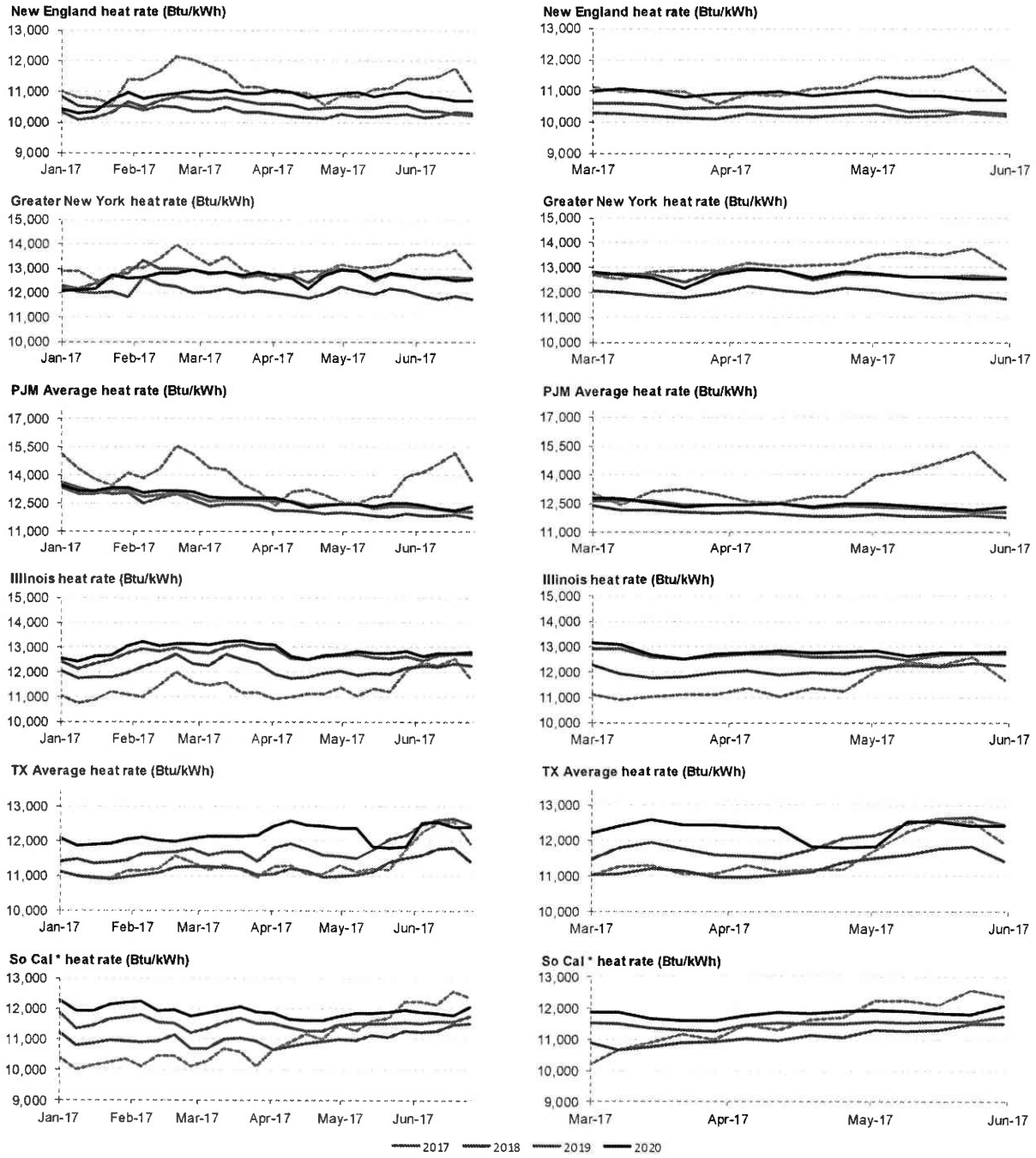
Rolling 6 months **Quarter-to-date**



Source: ICE, Bentek, Guggenheim Securities, LLC

FORWARD HEAT RATE 2017-2020

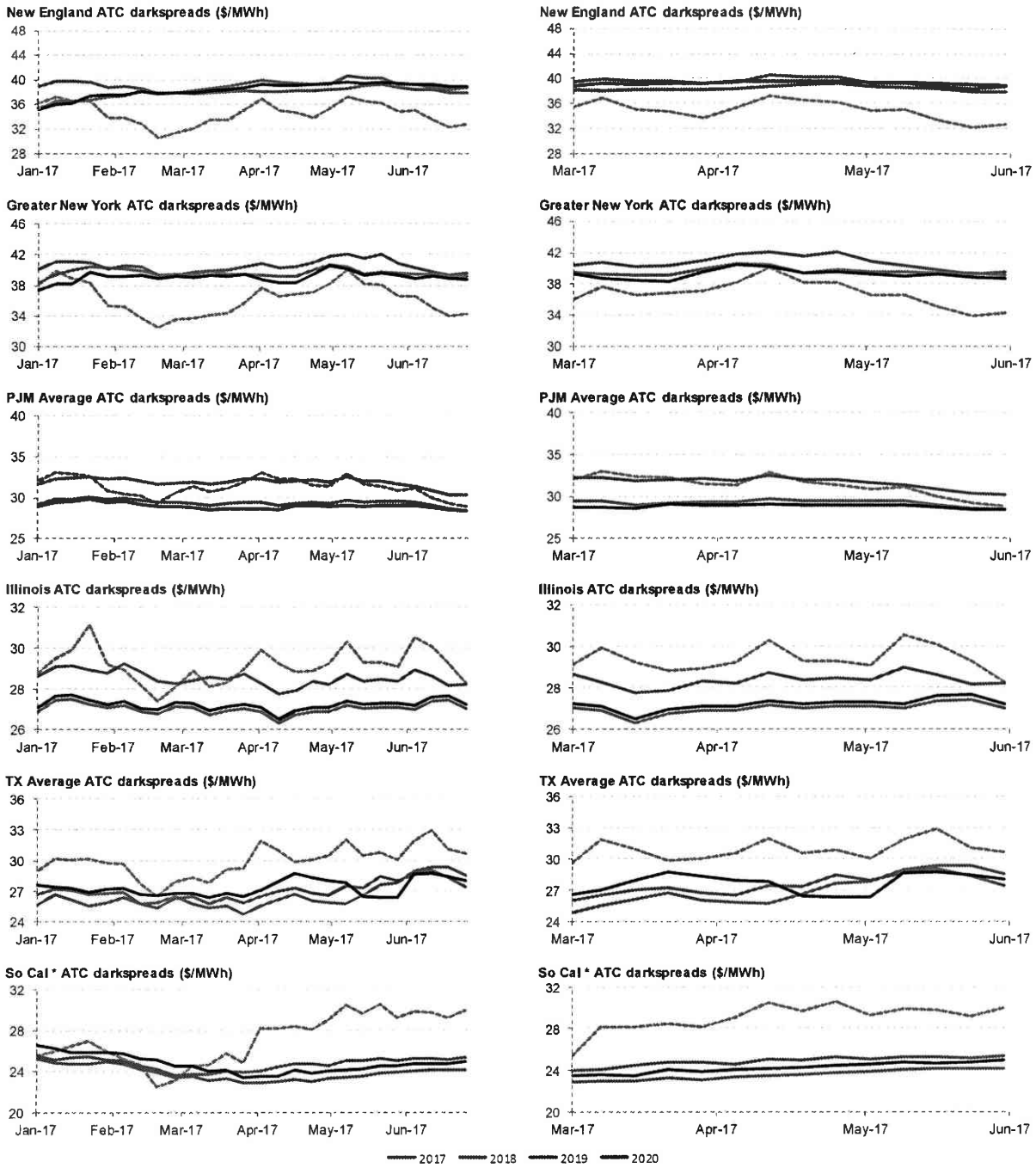
Rolling 6 months **Quarter-to-date**



Source: ICE, Bentek, Guggenheim Securities, LLC

FORWARD 2017-2020 ATC PRB DARK SPREADS

Rolling 6 months **Quarter-to-date**



Source: ICE, Bentek, Guggenheim Securities, LLC.

The charts below highlight the curves for natural gas, power, coal, heat rates, and spreads (spark, dark, and quark) that now run our GenCo models. The nature of the forward curve reflects the need of industry participants to hedge their risk even though companies may have a more optimistic view of the pricings. **Our integrated and IPP models are now driven by the 06/29/2017 forward curves presented below – generally driving estimates lower vs. our last mark on 3/30/2017.**

Figure 13: Forward commodity curves – Guggenheim Price Deck

6/29/2017	Cal-2017			Cal-2018			Cal-2019			Cal-2020		
SPREAD SUMMARY $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
Spark Spread (Natural Gas)	13.71	3.23	8.59	13.00	3.26	8.23	14.03	3.85	9.02	14.41	4.42	9.50
Dark Spread (Coal)	11.52	1.59	6.64	10.73	1.58	6.22	8.88	-0.04	4.48	7.99	-0.88	3.61
Quark Spread (Nuclear)	30.20	20.41	25.42	30.03	20.97	25.59	29.42	20.75	25.16	29.90	21.26	25.66

"Peak" prices refer to average daily peak prices, not summer seasonal peak periods.

	Cal-2017			Cal-2018			Cal-2019			Cal-2020		
POWER PRICES $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	39.17	27.28	33.22	45.26	32.95	39.11	44.82	33.08	38.95	46.19	33.54	39.86
Greater New York	40.66	26.84	33.75	46.08	32.32	39.20	46.05	31.95	39.00	45.98	33.16	39.57
Penn/Jersey/Maryland	35.25	24.28	29.76	36.83	26.49	31.66	35.33	25.62	30.48	35.67	25.41	30.54
Midwest	34.65	24.43	29.54	35.03	25.35	30.19	33.73	24.39	29.06	33.77	24.50	29.14
Illinois	34.67	23.93	29.30	34.75	25.25	30.00	33.90	26.35	30.13	34.46	26.78	30.62
Southeast/Gulf Coast	33.58	24.89	29.24	33.92	25.57	29.74	33.06	25.06	29.06	33.22	25.44	29.33
Texas	36.73	22.98	29.86	33.78	20.73	27.26	35.28	20.04	27.66	35.20	20.24	27.72
Desert Southwest *	31.25	24.01	28.13	28.58	23.22	26.27	28.10	23.45	26.10	29.39	24.59	27.32
So Cal *	36.30	29.34	33.31	31.90	26.84	29.72	31.02	27.64	29.57	32.18	28.83	30.74
North CA *	37.15	29.09	33.68	33.83	27.39	31.06	33.54	28.49	31.37	35.08	29.53	32.69
Pac Northwest *	30.80	22.38	27.18	27.53	19.63	24.13	27.77	20.01	24.43	29.25	21.37	25.86
US Average	**34.53**	**24.48**	**29.63**	**34.03**	**24.73**	**29.48**	**33.52**	**24.43**	**29.07**	**33.96**	**24.91**	**29.53**

* Western flat power is 57% peak, 43% off peak, due to its 6X16 bid block schedule. Other regional flat prices are 50% peak, 50% off peak due to a 5X16 bid block schedule.

	Cal-2017		Cal-2018		Cal-2019		Cal-2020		
GAS PRICES $/mmbtu	Basis	$/mmbtu	Basis	$/mmbtu	Basis	$/mmbtu	Peak	Off-Peak	Flat
New England	0.47	3.58	1.41	4.40	1.54	4.39		1.48	4.32
Greater New York	0.03	3.13	0.93	3.92	0.81	3.66		0.82	3.66
Penn/Jersey/Maryland	-0.54	2.57	0.14	3.13	0.08	2.93		0.06	2.89
Midwest	-0.14	2.97	-0.15	2.84	-0.16	2.69		-0.13	2.70
Illinois	-0.15	2.96	-0.16	2.83	-0.18	2.67		-0.14	2.69
Southeast/Gulf Coast	**3.11**	**3.11**	**2.99**	**2.99**	**2.85**	**2.85**		**2.84**	**2.84**
Texas	0.00	3.11	-0.01	2.98	0.00	2.85		0.01	2.84
Desert Southwest	-0.40	2.71	-0.52	2.47	-0.43	2.42		-0.41	2.43
So Cal	-0.17	2.94	-0.22	2.77	-0.21	2.64		-0.17	2.67
North CA	-0.26	2.85	-0.33	2.66	-0.36	2.49		-0.36	2.48
Pac Northwest	-0.33	2.78	-0.39	2.60	-0.39	2.46		-0.36	2.47

	Cal-2017			Cal-2018			Cal-2019			Cal-2020		
SPARK SPREADS $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	14.13	2.24	8.18	14.45	2.14	8.30	14.11	2.37	8.24	15.97	3.32	9.64
Greater New York	18.72	4.91	11.81	18.65	4.89	11.77	20.47	6.36	13.41	20.37	7.55	13.96
Penn/Jersey/Maryland	17.29	6.31	11.80	14.90	4.56	9.73	14.82	5.12	9.97	15.42	5.15	10.29
Midwest	13.88	3.65	8.77	15.15	5.48	10.32	14.89	5.55	10.22	14.83	5.57	10.20
Illinois	13.92	3.19	8.56	14.93	5.43	10.18	15.23	7.68	11.46	15.60	7.92	11.76
Southeast/Gulf Coast	11.82	3.13	7.48	12.98	4.63	8.81	13.12	5.12	9.12	13.38	5.59	9.49
Texas	14.98	1.23	8.10	12.91	-0.13	6.39	15.36	0.11	7.73	15.30	0.35	7.82
Desert Southwest	12.26	5.01	9.14	11.28	5.92	8.98	11.15	6.50	9.15	12.38	7.58	10.32
So Cal	15.75	8.79	12.76	12.49	7.43	10.32	12.52	9.14	11.07	13.52	10.16	12.07
North CA	17.20	9.14	13.74	15.22	8.78	12.45	16.11	11.06	13.94	17.72	12.18	15.34
Pac Northwest	11.34	2.91	7.72	9.33	1.43	5.94	10.56	2.81	7.23	11.96	4.07	8.57
	13.71	**3.23**	**8.59**	**13.00**	**3.26**	**8.23**	**14.03**	**3.85**	**9.02**	**14.41**	**4.42**	**9.50**

Source: ICE, Bentek, Guggenheim Securities, LLC.

Forward commodity curves – Guggenheim Price Deck *(continued...)*

COAL PRICES	Cal-2017 $/Sh ton	Cal-2017 $/mmbtu	Cal-2017 $/MWH	Cal-2018 $/Sh ton	Cal-2018 $/mmbtu	Cal-2018 $/MWH	Cal-2019 $/Sh ton	Cal-2019 $/mmbtu	Cal-2019 $/MWH	Cal-2020 $/Sh ton	Cal-2020 $/mmbtu	Cal-2020 $/MWH
Central Appalachian	54.43	2.27	22.68	55.29	2.30	23.04	58.05	2.42	24.19	60.95	2.54	25.40
Powder River Basin	11.23	0.64	6.38	11.54	0.66	6.56	12.11	0.69	6.88	12.72	0.72	7.23

CAPP DARK SPREADS $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	16.49	4.59	10.54	22.23	9.91	16.07	20.63	8.90	14.76	20.79	8.14	14.47
Greater New York	17.98	4.16	11.07	23.04	9.28	16.16	21.87	7.76	14.81	20.59	7.76	14.18
Penn/Jersey/Maryland	12.57	1.59	7.08	13.79	3.45	8.62	11.14	1.43	6.29	10.27	0.01	5.14
Midwest	11.97	1.74	6.86	11.99	2.32	7.15	9.54	0.20	4.87	8.37	-0.89	3.74
Illinois	11.99	1.25	6.62	11.72	2.21	6.97	9.72	2.16	5.94	9.06	1.38	5.22
Southeast/Gulf Coast	10.90	2.21	6.55	10.88	2.53	6.71	8.87	0.87	4.87	7.83	0.04	3.93
Texas	14.05	0.30	7.18	10.74	-2.30	4.22	11.09	-4.15	3.47	9.80	-5.16	2.32
Desert Southwest	8.57	1.33	5.45	5.54	0.18	3.24	3.91	-0.74	1.91	3.99	-0.81	1.93
So Cal	13.62	6.66	10.63	8.86	3.80	6.69	6.83	3.45	5.38	6.78	3.43	5.34
North CA	14.47	6.41	11.00	10.80	4.36	8.03	9.35	4.30	7.18	9.68	4.14	7.29
Pac Northwest	8.12	-0.31	4.50	4.49	-3.41	1.09	3.58	-4.18	0.24	3.86	-4.03	0.47
	11.52	**1.59**	**6.64**	**10.73**	**1.58**	**6.22**	**8.88**	**-0.04**	**4.48**	**7.99**	**-0.88**	**3.61**

QUARK SPREADS $/MWH	Cal-2017 Peak	Cal-2017 Off-Peak	Cal-2017 Flat	Cal-2018 Peak	Cal-2018 Off-Peak	Cal-2018 Flat	Cal-2019 Peak	Cal-2019 Off-Peak	Cal-2019 Flat	Cal-2020 Peak	Cal-2020 Off-Peak	Cal-2020 Flat
New England	34.52	22.63	28.57	40.61	28.30	34.46	40.17	28.43	34.30	41.54	28.89	35.21
Greater New York	36.01	22.19	29.10	41.43	27.67	34.55	41.40	27.30	34.35	41.33	28.51	34.92
Pen/Jersey/Mrylnd	30.60	19.63	25.11	32.18	21.84	27.01	30.68	20.97	25.83	31.02	20.76	25.89
Midwest	30.00	19.78	24.89	30.38	20.70	25.54	29.08	19.74	24.41	29.12	19.85	24.49
Illinois	30.02	19.28	24.65	30.10	20.60	25.35	29.25	21.70	25.48	29.81	22.13	25.97
Southeast/Gulf Coast	28.93	20.24	24.59	29.27	20.92	25.09	28.41	20.41	24.41	28.57	20.79	24.68
Texas	32.08	18.33	25.21	29.13	16.08	22.61	30.63	15.39	23.01	30.55	15.59	23.07
Desert Southwest	26.60	19.36	23.48	23.93	18.57	21.62	23.45	18.80	21.45	24.74	19.94	22.67
So Cal	31.65	24.69	28.66	27.25	22.19	25.07	26.37	22.99	24.92	27.53	24.18	26.09
North CA	32.50	24.44	29.03	29.18	22.74	26.41	28.89	23.84	26.72	30.43	24.88	28.04
Pac Northwest	26.15	17.73	22.53	22.88	14.98	19.48	23.12	15.36	19.78	24.60	16.72	21.21
	30.20	**20.41**	**25.42**	**30.03**	**20.97**	**25.59**	**29.42**	**20.75**	**25.16**	**29.90**	**21.26**	**25.66**

PEAK	Cal-2017 Peak	Cal-2017 Off-Peak	Cal-2017 Flat	Cal-2018 Peak	Cal-2018 Off-Peak	Cal-2018 Flat	Cal-2019 Peak	Cal-2019 Off-Peak	Cal-2019 Flat	Cal-2020 Peak	Cal-2020 Off-Peak	Cal-2020 Flat
Greater New York												
Zone G	37.63	25.92	31.78	42.69	30.97	36.83	41.94	30.14	36.04	42.36	30.76	36.56
Zone J	40.66	26.84	33.75	46.08	32.32	39.20	46.05	31.95	39.00	45.98	33.16	39.57
Zone A	36.70	19.10	27.90	35.88	20.75	28.32	34.35	20.98	27.67	34.35	20.75	27.55
Average, NY Pool	**38.33**	**23.95**	**31.14**	**41.55**	**28.01**	**34.78**	**40.78**	**27.69**	**34.23**	**40.90**	**28.23**	**34.56**
Zone G Heat Rate	12,009	8,270	10,140	10,896	7,904	9,400	11,473	8,245	9,859	11,576	8,407	9,992
Zone J Heat Rate	12,975	8,565	10,770	11,760	8,248	10,004	12,599	8,740	10,670	12,567	9,063	10,815
Zone A Heat Rate	11,711	6,095	8,903	9,158	5,297	7,227	9,397	5,741	7,569	9,386	5,672	7,529

IMPLIED HEAT RATES	Cal-2017 Peak	Cal-2017 Off-Peak	Cal-2017 Flat	Cal-2018 Peak	Cal-2018 Off-Peak	Cal-2018 Flat	Cal-2019 Peak	Cal-2019 Off-Peak	Cal-2019 Flat	Cal-2020 Peak	Cal-2020 Off-Peak	Cal-2020 Flat
New England	10,951	7,626	9,288	10,283	7,486	8,885	10,215	7,540	8,878	10,699	7,768	9,233
Greater New York	12,975	8,565	10,770	11,760	8,248	10,004	12,599	8,740	10,670	12,567	9,063	10,815
Penn/Jersey/Maryland	13,736	9,460	11,598	11,755	8,454	10,105	12,059	8,746	10,402	12,329	8,782	10,555
Midwest	11,678	8,232	9,955	12,338	8,931	10,635	12,531	9,062	10,796	12,484	9,060	10,772
Illinois	11,699	8,077	9,888	12,274	8,918	10,596	12,712	9,878	11,295	12,789	9,938	11,364
Southeast/Gulf Coast	10,804	8,008	9,406	11,341	8,547	9,944	11,604	8,798	10,201	11,719	8,973	10,346
Texas	11,819	7,394	9,606	11,333	6,957	9,145	12,394	7,039	9,717	12,383	7,122	9,753
Desert Southwest	11,517	8,848	10,369	11,564	9,397	10,632	11,603	9,684	10,778	12,096	10,120	11,246
So Cal	12,364	9,994	11,345	11,506	9,680	10,721	11,739	10,459	11,188	12,070	10,812	11,529
North CA	13,037	10,208	11,820	12,727	10,304	11,685	13,469	11,441	12,597	14,148	11,913	13,187
Pac Northwest	11,079	8,048	9,776	10,592	7,552	9,284	11,297	8,141	9,940	11,841	8,649	10,468
Market Heat Rate	**11,680**	**8,381**	**10,030**	**11,660**	**8,579**	**10,119**	**12,062**	**8,896**	**10,479**	**12,226**	**9,075**	**10,650**

ERCOT	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
Houston	40.75	23.87	32.31	35.51	21.72	28.62	36.92	20.49	28.70	34.94	20.66	27.80
North	34.44	22.42	28.43	32.42	20.20	26.31	34.14	19.56	26.85	34.94	19.88	27.41
South	35.89	22.88	29.38	33.97	20.47	27.22	35.26	20.28	27.77	35.88	20.34	28.11
Average, ERCOT Pool	**36.73**	**22.98**	**29.86**	**33.78**	**20.73**	**27.26**	**35.28**	**20.04**	**27.66**	**35.20**	**20.24**	**27.72**

Source: ICE, Bentek, Guggenheim Securities, LLC.

Forward commodity curves – Guggenheim Price Deck *(continued...)*

PRB DARK SPREADS $/MWH	Cal-2017			Cal-2018			Cal-2019			Cal-2020		
	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	32.78	20.89	26.84	38.71	26.39	32.55	37.94	26.20	32.07	38.96	26.31	32.64
Greater New York	34.28	20.46	27.37	39.52	25.76	32.64	39.17	25.06	32.12	38.76	25.94	32.35
Penn/Jersey/Maryland	28.87	17.89	23.38	30.27	19.93	25.10	28.44	18.74	23.59	28.44	18.18	23.31
Midwest	28.27	18.04	23.15	28.47	18.80	23.63	26.85	17.51	22.18	26.54	17.28	21.91
Illinois	28.28	17.55	22.92	28.20	18.69	23.45	27.02	19.46	23.24	27.23	19.55	23.39
Southeast/Gulf Coast	27.20	18.51	22.85	27.37	19.01	23.19	26.17	18.18	22.18	26.00	18.21	22.10
Texas	30.35	16.60	23.48	27.22	14.18	20.70	28.40	13.15	20.78	27.97	13.01	20.49
Desert Southwest	24.87	17.62	21.75	22.02	16.67	19.72	21.21	16.57	19.21	22.16	17.36	20.10
So Cal	29.92	22.96	26.93	25.34	20.28	23.17	24.14	20.75	22.68	24.95	21.60	23.51
North CA	30.77	22.71	27.30	27.28	20.84	24.51	26.65	21.60	24.48	27.85	22.31	25.46
Pac Northwest	24.42	15.99	20.80	20.97	13.07	17.57	20.88	13.13	17.55	22.03	14.14	18.64
U.S. National	**27.98**	**17.47**	**22.80**	**26.94**	**17.23**	**22.16**	**26.30**	**16.91**	**21.67**	**26.35**	**17.01**	**21.75**

	Cal-2017			Cal-2018			Cal-2019			Cal-2020		
	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
PJM												
East	35.99	24.13	30.06	37.77	26.99	32.38	36.21	26.26	31.23	37.13	26.04	31.58
West	34.51	24.43	29.47	35.89	25.98	30.94	34.45	24.99	29.72	34.21	24.78	29.49
Average,PJM Pool	**35.25**	**24.28**	**29.76**	**36.83**	**26.49**	**31.66**	**35.33**	**25.62**	**30.48**	**35.67**	**25.41**	**30.54**
PJM East Heat Rate	14,025	9,401	11,713	12,055	8,615	10,335	12,359	8,963	10,661	12,832	9,000	10,916
PJM West Heat Rate	13,447	9,518	11,483	11,456	8,294	9,875	11,758	8,529	10,144	11,826	8,564	10,195

Source: ICE, Bentek, Guggenheim Securities, LLC.

2Q WEATHER IMPLICATIONS

Weather likely to create tough YoY comps in 2Q.

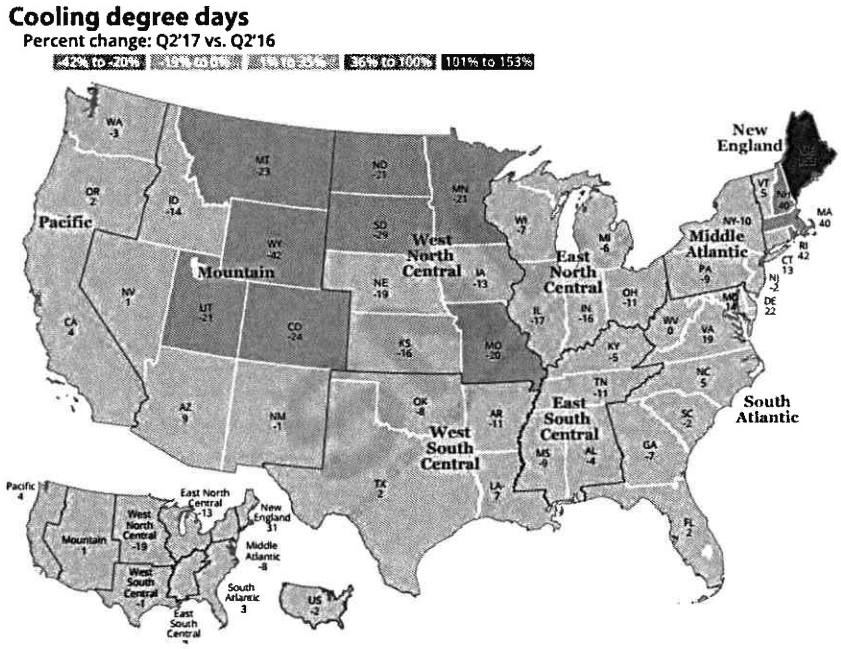
Weather mixed signals with tougher year-over-year comparisons but above normal overall. CDDs were significantly higher than normal across the U.S. (+19%), although temperatures were more moderate compared to last year's warm weather. While the second quarter is a shoulder/mixed season with less of an overall effect on our annual outlook, utilities broadly across the U.S. will likely face difficult YoY comparisons from a weather perspective. June, which is more of a quality month in terms of CDDs, faced difficult 2Q16 comps (-9%), likely creating some challenges for electric utilities. That said, there were pockets across the U.S. with temperatures that were a significant departure from normal, with the New England, Pacific, Middle-Atlantic and South-Atlantic in particular experiencing CDDs more than 25% higher vs. the norm. **From an electric utility standpoint, the impact to earnings will likely be a mixed bag but we see a slight downward bias.** That said, the most important quarter for electric utilities from a weather perspective is generally considered the third quarter.

Gas LDCs still experience some heating load demand in April and May, and while May was comparable YoY and against the norm, HDDs in April were both down YoY (-21%) as well as versus normal (-28%), likely creating some headwinds for gas utilities. That said, 1Q/4Q weather is much more important for Gas LDCs in terms of overall earnings contribution.

While there is a direct correlation between weather and utility earnings, the impact is not binary across the board and is largely dependent on location, the utility, and the extent that decoupling/weather adjustment mechanisms are in place. **While we believe weather is likely to create some headwinds in 2Q, we view 3Q weather as most pertinent for utility earnings. Overall, our '17 outlook for the sector should remain on track.**

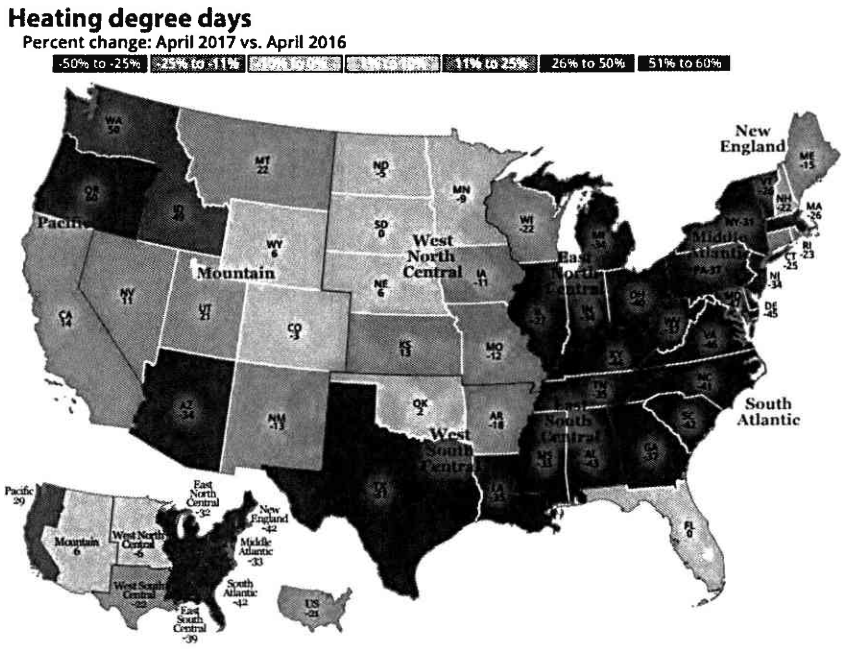
Shifting beyond 2Q and looking ahead to possible read-throughs from weather forecasters, the NOAA Climate Prediction Center forecasts warmer than normal temperatures to occur throughout the U.S. through September, particularly across the Northeast and Gulf Coast. The NOAA also forecasts a 50-55% chance that ENSO-neutral conditions will persist throughout the fall, with chances for El Niño remaining elevated (~35-45%) relative to the long-term average. The onset of an El Niño creates warmer than normal temperatures that persist throughout the winter creating unusual weather conditions compared to normal and could prove challenging for Gas LDC earnings. While it is likely still too premature to gather definitive outcomes on forecasts for weather, investors should continue to monitor the possible onset of El Niño and its implications on utility earnings.

Figure 14: Cooling Degree Days (2Q 2017 vs. 2Q 2016)



Source: SNL

Figure 15: Heating Degree Days (April 2017 vs. April 2016)



Source: SNL

Figure 16: 2Q17 Cooling Degree Day Variance by State and Region

Cooling Degree Days - 2Q17

State	2Q17 Actual	2Q16 Actual	2Q Norm	% Change vs. 2Q 16	% Change vs. Norm	State	2Q17 Actual	2Q16 Actual	2Q Norm	% Change vs. 2Q 16	% Change vs. Norm
ALABAMA	683	711	568	-4%	20%	NORTH CAROLINA	515	489	398	5%	29%
ARIZONA	955	879	897	9%	6%	NORTH DAKOTA	112	141	124	-21%	-10%
ARKANSAS	520	586	524	-11%	-1%	OHIO	234	262	208	-11%	13%
CALIFORNIA	241	231	211	4%	14%	OKLAHOMA	532	577	534	-8%	0%
COLORADO	102	135	60	-24%	70%	OREGON	87	85	29	2%	200%
CONNECTICUT	167	148	112	13%	49%	PENNSYLVANIA	197	216	164	-9%	20%
DELAWARE	404	330	264	22%	53%	RHODE ISLAND	161	113	73	42%	121%
FLORIDA	1,182	1,154	1,010	2%	17%	SOUTH CAROLINA	680	693	550	-2%	24%
GEORGIA	605	654	516	-7%	17%	SOUTH DAKOTA	177	250	194	-29%	-9%
IDAHO	108	126	84	-14%	29%	TENNESSEE	423	475	392	-11%	8%
ILLINOIS	259	311	256	-17%	1%	TEXAS	938	917	854	2%	10%
INDIANA	254	301	268	-16%	-5%	UTAH	179	228	144	-21%	24%
IOWA	274	314	254	-13%	8%	VERMONT	79	75	54	5%	46%
KANSAS	393	468	395	-16%	-1%	VIRGINIA	412	346	278	19%	48%
KENTUCKY	412	432	335	-5%	23%	WASHINGTON	72	74	28	-3%	157%
LOUISIANA	867	930	838	-7%	3%	WEST VIRGINIA	267	268	206	0%	30%
MAINE	48	19	29	153%	66%	WISCONSIN	118	127	133	-7%	-11%
MARYLAND	367	322	263	14%	40%	WYOMING	60	104	60	-42%	0%
MASSACHUSETTS	157	112	81	40%	94%						
MICHIGAN	145	155	156	-6%	-7%						
MINNESOTA	125	159	143	-21%	-13%						
MISSISSIPPI	703	770	657	-9%	7%						
MISSOURI	344	432	354	-20%	-3%						
MONTANA	57	74	43	-23%	33%						
NEBRASKA	308	378	290	-19%	6%						
NEVADA	609	605	564	1%	8%						
NEW HAMPSHIRE	109	78	56	40%	95%						
NEW JERSEY	221	225	174	-2%	27%						
NEW MEXICO	329	331	264	-1%	25%						
NEW YORK	169	187	131	-10%	29%						

Region	2Q17 Actual	2Q16 Actual	2Q Norm	% Change vs. 2Q 16	% Change vs. Norm
NEW ENGLAND	142	108	69	31%	106%
MIDDLE ATLANTIC	188	204	140	-8%	34%
E N CENTRAL	210	241	197	-13%	7%
W N CENTRAL	267	328	263	-19%	2%
SOUTH ATLANTIC	706	687	566	3%	25%
E S CENTRAL	535	576	458	-7%	17%
W S CENTRAL	848	853	777	-1%	9%
MOUNTAIN	427	423	360	1%	19%
PACIFIC	206	199	150	4%	37%
UNITED STATES	**404**	**412**	**340**	**-2%**	**19%**

Source: SNL, Guggenheim Securities, LLC

KEY COMPANY RESEARCH

1. NRG – Management Roadshow: Reinforced Message, Incremental Insight; Raising PT, Again
2. PNW - Mgmt. Roadshow: Solid. What Else Can You Ask For? Just a Slightly Better Entry Point
3. DTE - BUY - Management Roadshow: If You Build It, They Will Come
4. SR – Mgmt. Roadshow: All About Clearing Up Misconceptions: Time to Put M&A Bias to Bed and Move Past MO Discount
5. NEE – Analyst Day Reinforces Growth; Likely Even Higher, But Whose Counting At This Point
6. D – BUY – Mgmt. Roadshow: Lucky Enough to Catch a June Bug?
7. LNT Mgmt. Roadshow: The Wind Continues to Blow in the Right Direction But Not Towards M&A
8. DUK Mgmt. Roadshow: Refreshing Message—Rate Cases, Legislation, Coal/Gas Conversion and Infrastructure Should Bear Fruit
9. DYN – Piecing Together Logic of a Potential Combination with VST - So You're Tellin' Me There's a Chance!?
10. POR – Management Roadshow: Filling the Capacity Gap; More Clarity to Emerge Soon
11. SO - Mgmt Roadshow Goes Down To The Wire; Extended Assessment Period Aligns With Strategy
12. SJI Mgmt Roadshow - Jersey Strong in NY
13. VVC Mgmt. Roadshow: Reinforces BUY – Valuation Looks Good; Continues Getting Gassier While Protecting Strong Balance
14. AWK Management Roadshow – Keep Doing What You Are Doing: Block & Tackle
15. CPN - From Coast to Valley, CCGTs Get No Love In Cali; Not a One-Sided Debate at 25% CF Yield, A Free Call Option
16. ALE Mgmt. Roadshow: Wind Blowing in the Right Direction But Will Water Dampen Investor Excitement? Mgmt Has a Plan
17. SCG – Show Goes on for Now; Still Wait-and-See Mode, Although Turning Our Focus to Toshiba – An M&A Catalyst in Disguise?
18. SRE – See the Forest Through the Trees: The Humblest, Top of the Humble List
19. NEE – Management Roadshow and the Texas Tango
20. OGE Mgmt. Roadshow: What to Do With All That Cash? Oklahoma PSC – Ball's in Your Court!
21. EIX Mgmt. Roadshow: Execution Key While Investors Continue to Take a Wait and See Approach
22. EXC - Mgmt Roadshow: Please Don't Let Me Be Misunderstood – Message Was Loud and Clear
23. NRG – GenOn or GenOff?
24. PPL – NEUTRAL – NT Uncertainty Removed, but No Less Complex; Sum-of-the-Parts Just Won't Add Up
25. ES - BUY - Management Roadshow – Growth Concerns? Despite Noise, No…And Levers to Pull Post 2019
26. DTE - BUY - Management Roadshow: Strong Story with Disciplined Approach, Minimal Concerns – Valuation Warrants Good Entry Point; Conservative Management; Conservative Outlook
27. ETR – Upgrading to BUY – The Past Is the Past: Fully-Regulated Growth Utility Emerging from a Mushroom Cloud
28. DYN - BUY - Simplified & Transformational ENGIE Acquisition – CF Accretive, Value Enhancing & Ratings Supportive
29. CPN – BUY – Management Roadshow: Higher Gas Sensitivity Good But Thesis Predicated On TX Coal Retirements
30. SJI - Initiating with BUY - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest

31. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
32. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
33. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX
34. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
35. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years

KEY RESEARCH ON 2Q EARNINGS CALL THEMES

1. AGA Conference Highlights and Management Meeting Takeaways
2. 2017 Outlook: Riding the Cyclical Wave As It Crashes Through Regulated Utilities
3. Launching Coverage and Getting Gassier – Catalyst-Rich but Not a Sector Call
4. Boom-Bust: Forget Mid Cycle – Focus on Asset Lives and Cash Flows….Launching on IPPs with Cautious Tone but See Opportunities
5. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
6. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
7. PJM Capacity Auction – Introducing 2020/2021 PJM Capacity Auction Forecast – Through the Doomsday Cloud, We See a Silver Lining
8. Tax Reform: Lessons, Expectations, and Implications for Utilities from Industry Thought Leaders at ConEd
9. Guggenheim Levelized Cost of Energy Analysis – Balance of Power Continues to Shift Toward Gas and Renewables, Irrespective of Policy Direction
10. Fundamentals "Trump" Ideology: Our Reaction to the Reaction and Early Look at the New Administration - Not Quite Black & White for Utilities
11. IPPs Heating Up for Winter; CF Machines Trading at Unsustainable Yields
12. Can It Get Any Worse for Coal? Outlook Up In Smoke: IPPs to Benefit from the Coal Ashes
13. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
14. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
15. Guggenheim EEI Takeaways - Day 3
16. Guggenheim EEI Takeaways - Day 2
17. Guggenheim EEI Takeaways - Day 1

Other helpful links:

- Forward Commodity Curves for Power and Utility Modeling

COMPANY SECTION

AMERICAN ELECTRIC POWER (AEP, NEUTRAL, $61PT, $69.19)

Going into 2Q17 with Challenging YoY Comps Absent Merchant Power Contributions; Look Out for Incremental Investments to Fill the Void

$0.95	2Q16
	Rate activity
($0.03)	West virginia
$0.01	Oklahoma
$0.00	Three APCO limited-issue riders
$0.00	Kingsport
	Transmission
$0.04	Approval to put forward-looking rates in place
($0.04)	Reversal of true-up from last year
	Growth
$0.02	Ratebase growth
$0.02	OH T&D rider
$0.03	TX true-up
	O&M
($0.02)	Flat annual, implying negative YoY for the quarter
	Weather
($0.01)	2Q16 vs. normal weather
($0.02)	2Q17 likely unfavorable vs. normal as well
	Other
($0.02)	Interest expense
($0.01)	Depreciation
($0.04)	Reversal of Indiana wholsale true-up in 2Q16
($0.03)	Reversal of 2Q16 regulatory provision
	Merchant sale
($0.09)	2Q16 AGR earnings (closed sale 1Q17)
$0.77	2Q17

Source: Company disclosures, Guggenheim Securities, LLC estimates

- **Maintaining our NEUTRAL** stance and **establishing a price target of $61** (vs. our previous fair value estimate of $65) as we mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations.
- **2Q17: Guggenheim below consensus ($0.77 vs. $0.92).** Lowering our 2Q17 estimates to $0.77 from $0.97 despite continued rate base growth (+$0.07), offset by incremental interest and depreciation associated with it (-$0.03), as we adjust for weather by reversing favorable 2Q16 earnings contributions and assume no YoY improvement (-$0.03), reverse non-recurring regulatory provisions (-$0.08), and adjust timing of O&M for the balance of 2017 to remain consistent with management's annual outlook (-$0.02); note AEP also faces YoY headwinds in the quarter absent earnings from their recently-divested merchant fleet (-$0.09).
- **Our annual estimates remain unchanged.** We are maintaining our annual estimates for 2017 through 2020 of $3.66 / $3.86 / $4.06 / $4.28, respectively.
- **Look out for** updates from management regarding progress that has been made toward shoring-up some of their regulated utility franchises, as well as updates coming out of AEP's strategic review of remaining merchant assets. We would also stay tuned for discussion of incremental investment plans aiming to fill the earnings gap absent contributions from the merchant fleet, such as contracted solar and/or wind projects, as well as new transmission opportunities (potentially discussion around FERC ROEs for transmission for that matter as well).
- **Valuation.** Our $61 price target is based on: **(1)** $60 from AEP's regulated utilities based on our 2018 EPS estimate of $3.80 for those subsidiaries, applying our regulated utility target multiple of 16x; and **(2)** $1 from AEP's remaining un-regulated activities.

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2017E	0.96A	0.77E	1.02E	0.91E	**3.66E**	*3.65E*
Prior		*0.97E*	*0.89E*	*0.85E*	*3.66E*	
2018E	1.01E	1.03E	0.94E	0.88E	**3.86E**	*3.88E*
Prior	*0.97E*	*1.03E*	*0.95E*	*0.91E*	*3.86E*	
2019E	1.04E	1.07E	1.00E	0.95E	**4.06E**	*4.10E*
Prior	*1.03E*	*1.08E*	*0.99E*	*0.96E*	*4.06E*	
2020E	1.11E	1.13E	1.04E	0.99E	**4.28E**	*4.31E*
Prior	*1.09E*	*1.13E*	*1.05E*	*1.02E*	*4.28E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet

GUGGENHEIM
AMERICAN ELECTRIC POWER

INCOME STATEMENT ($mm, unless otherwise noted)	1Q17A	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	2020E
Total operating revenue	**3,933**	**3,870**	**4,175**	**4,037**	**16,015**	**16,724**	**17,116**	**17,658**
Fuel for generation	636							
Purchased power	770							
Fuel and purchased power	**1,405**	**1,344**	**1,368**	**1,205**	**5,322**	**5,571**	**5,585**	**5,712**
Gross margin	**2,528**	**2,526**	**2,806**	**2,832**	**10,693**	**11,153**	**11,531**	**11,947**
Other operation	602	774	835	916	3,127	3,286	3,321	3,360
Maintenance	302	273	294	295	1,164	1,165	1,176	1,186
D&A	482	419	423	432	1,756	1,756	1,840	1,923
Taxes other than income	260	242	244	245	991	994	1,021	1,052
EBIT	**882**	**819**	**1,011**	**944**	**3,655**	**3,952**	**4,174**	**4,425**
Interest and non-operating income	8	12	12	8	40	48	48	48
Carrying costs income	6	-	-	-	6	-	-	-
AFUDC equity	21	19	19	33	91	75	75	75
Interest expense	(222)	(268)	(273)	(295)	(1,057)	(1,152)	(1,227)	(1,310)
Earnings before taxes	**695**	**581**	**769**	**689**	**2,734**	**2,923**	**3,070**	**3,239**
Tax rate	49%	35%	35%	35%	39%	35%	35%	35%
Income tax expense/(benefit)	343	203	269	241	1,057	1,023	1,075	1,134
Equity earnings of unconsolidated a	27	-	-	-	27	-	-	-
Extraordinary items net of tax	215	-	-	-	215	-	-	-
Income attributable to noncontrollin	2	-	-	-	2	-	-	-
Net income	**592**	**378**	**500**	**448**	**1,918**	**1,900**	**1,996**	**2,105**
Diluted shares	492	492	492	492	492	492	492	492
EPS	**$1.20**	**$0.77**	**$1.02**	**$0.91**	**$3.90**	**$3.86**	**$4.06**	**$4.28**
Non-recurring items net of tax	118	0	0	0	118	0	0	0
Recurring net income	**474**	**378**	**500**	**448**	**1,800**	**1,900**	**1,996**	**2,105**
Recurring EPS	**$0.96**	**$0.77**	**$1.02**	**$0.91**	**$3.66**	**$3.86**	**$4.06**	**$4.28**

Source: Company reports and Guggenheim Securities, LLC estimates.

See pages 111 - 112 for analyst certification and important disclosures.

ALLETE INC (ALE, NEUTRAL, $65PT, $72.34)

MN Rate Case Remains Focus; Industrial Customers Continue to Perform at Full Speed, Expected to Benefit 2Q Results

- **Maintaining our NEUTRAL** stance and **establishing a price target of $65** (no change from prior fair value estimate). We mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations. A core regulated utility with improving industrial load trends, our Neutral stance is purely a valuation call.
- **2Q17 drivers: Guggenheim below consensus at $0.53 vs. $0.54.** We are raising our 2Q17 estimate to $0.53 per share from our prior estimate of $0.49, comparing to $0.50 per share for 2Q16, as we expect Minnesota Power to continue to record higher earnings with the implementation of interim retail rates on 1/1/2017, as well as higher industrial loads given the taconite productions resume full capacity with a key industrial customer (Keewatin) returned to service, reversing ~$0.03/share of a drag on earnings. We expect higher O&M and depreciation expenses (-$0.01/share) and dilution of earnings due to additional shares issued to purchase wind turbines (-$0.02/share) to partially offset those positive drivers.
- **Our annual estimates remain unchanged.** Given the nature of the drivers discussed above, being largely a function of timing within the year, we are maintaining our annual estimates for 2017 through 2020 of $3.49 / $3.72 / $3.90 / $4.09, respectively.
- **Management roadshow:** We recently spent time with management and hosted a roadshow. **See our deep dive thoughts HERE.**
- **MN rate case remains focus; incremental line of sight after July 25 settlement conference.** We expect updates around MN rate case based on outcome of the July settlement conference, especially around issues including Boswell depreciation extension request given potential read-through to 17' guidance, as well as the state's first ARRM request. If Minnesota Power wants to settle and get approval of useful life extension and ARRM, in our view, requested ROE and equity layer could be levers. ALJ recommendation is expected in November, with Commission final order in early '18.
- **Valuation.** We value ALE as a regulated utility, as the non-regulated businesses are a relatively small part of the business mix, and focus on utility related infrastructure or services, arriving at our $65 price target estimate using our regulated group multiple of 16x, with a 1.5x premium to reflect incremental opportunities with wind projects at ALLETE Clean Energy, and applying to our 2018 EPS estimate of $3.72.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	0.97A	0.53E	1.11E	0.87E	**3.49E**	3.46E
Prior		*0.49E*	*1.11E*	*0.92E*	*3.49E*	
2018E	0.93E	0.64E	1.16E	0.98E	**3.72E**	3.67E
Prior	*0.93E*	*0.64E*	*1.16E*	*0.98E*	*3.72E*	
2019E	1.01E	0.60E	1.24E	1.05E	**3.90E**	3.87E
Prior	*1.01E*	*0.60E*	*1.24E*	*1.05E*	*3.90E*	
2020E	1.07E	0.66E	1.31E	1.05E	**4.09E**	4.09E
Prior	*1.07E*	*0.66E*	*1.31E*	*1.05E*	*4.09E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM

ALLETE Energy

Consolidated Financials

INCOME STATEMENT ($ Millions)	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenue	366	367	428	400	1,560	1,586	1,681	1,789
Total Operating Revenues	**366**	**367**	**428**	**400**	**1,560**	**1,586**	**1,681**	**1,789**
Fuel and Purchased Power	93	84	95	94	366	339	346	350
Total Cost of sales	**93**	**84**	**95**	**94**	**366**	**339**	**346**	**350**
Gross Margin	**273**	**284**	**332**	**306**	**1,195**	**1,246**	**1,335**	**1,439**
Transmission Services	17	16	19	17	69	64	65	66
Cost of Sales	35	47	51	46	178	225	249	282
Other operation and maintenance expenses	83	85	83	88	339	344	351	357
Taxes, other than income taxes	14	28	27	30	100	146	175	215
Impairment of Real Estate	-	-	-	-	-	-	-	-
Total Operating Expenses	**150**	**176**	**180**	**180**	**686**	**779**	**841**	**921**
EBITDA	**123**	**107**	**152**	**125**	**508**	**467**	**495**	**519**
Depreciation and amortization	51	56	55	49	211	138	153	166
Operating Income	**73**	**52**	**97**	**76**	**298**	**329**	**341**	**353**
Equity Earnings in ATC	6	4	4	4	19	19	22	24
Other	1	1	1	1	4	4	4	4
Interest Expense	17	16	16	16	66	67	70	72
Income Before Non-Controlling Interest and Income Taxes	**62**	**41**	**86**	**65**	**254**	**285**	**297**	**310**
Income Tax Expense	13	13	29	21	76	95	97	100
Net income	49	27	57	45	178	190	200	210
Less: Non-Controlling Interest in Subsidiaries	-	-	-	-	-	-	-	-
Net Income Attributable to ALLETE	49	27	57	45	178	190	200	210
Weighted-average Number of Common Shares Outstanding-Diluted	50	51	51	51	51	51	51	51
Earnings Per Common Share, Diluted	$0.97	$0.53	$1.11	$0.87	$3.49	$3.72	$3.90	$4.09
Non-GAAP Items	-	-	-	-	-	-	-	-
Net Income (Non-GAAP)	49	27	57	45	178	190	200	210
Earnings Per Common Share, Diluted (Non-GAAP)	$0.97	$0.53	$1.11	$0.87	$3.49	$3.72	$3.90	$4.09

Source: Company reports and Guggenheim Securities, LLC estimates.

AVISTA (AVA, NEUTRAL, $52PT, $52.38)

M&A and Washington Regulatory Construct in Focus; Hydro Conditions Expected to Benefit 2Q Results

- Our **Neutral** stance on AVA is largely due to valuation and an unconstructive Washington regulatory construct (prior to the deal announcement we felt it was difficult to make a pure M&A call). We establish a $52 price target for AVA (vs. $39 fair value estimate previously) to reflect the recent M&A premium.
- **2Q17 drivers: Guggenheim above consensus at $0.40 vs. $0.38.** Increased hydro output put AVA in the $4.1mm benefit position in the Energy Recovery Mechanism (ERM) in Washington in 1Q, and we expect this trend to continue as hydro production in the Pacific NW was robust (+19.8% YTD vs. the year-ago level) as the region exhausted its remaining snowpack and precipitation levels remained elevated, according to the NOAA. From a weather perspective, CDDs in AVA's service territory should not have a material impact as AVA has decoupling mechanisms that negate weather sensitivity (ex-Alaska, which is relatively small comparatively). That said, we have adjusted our 2Q17 estimate slightly to $0.40 per share vs. our prior estimate of $0.41 as industrial sales are not decoupled in ID (CDDs down 14% YoY), and we still expect the Washington rate order denial to remain a drag on earnings.
- **We expect the 2Q call to be focused on M&A with the recent announcement of Hydro One (H-CA, NC, C$22.65) to acquire AVA, as well as an update on the Washington regulatory climate.** For our initial thoughts on the recently proposed transaction, see our note HERE. As for Washington regulation, we expect to hear an update on how dialogue has progressed with the WUTC as well as a discussion around the Power Cost Adjustment filing. An open meeting for the Power Cost Rate adjustment case is scheduled for Aug. 10, and will be a key barometer to see how discussions have progressed thus far. The electric and gas GRC has a settlement conference scheduled for Oct. 6, and staff and intervenor testimony is due Oct. 27.
- **Valuation.** We ascribe a premium to our 16x regulated group multiple and incorporate a 9x premium to reflect the recent acquisition announcement disclosed by Hydro One. We apply this to our 2018 EPS estimate of $2.07 to arrive at our $52 PT.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	0.96A	0.40E	0.19E	0.43E	**1.96E**	1.93E
Prior		*0.41E*	*0.19E*	*0.43E*	*1.96E*	
2018E	0.80E	0.40E	0.21E	0.66E	**2.07E**	2.01E
Prior	*0.80E*	*0.40E*	*0.21E*	*0.66E*	*2.07E*	
2019E	0.94E	0.46E	0.23E	0.71E	**2.33E**	2.20E
Prior	*0.94E*	*0.46E*	*0.23E*	*0.71E*	*2.33E*	
2020E	0.99E	0.49E	0.24E	0.75E	**2.47E**	2.47E
Prior	*0.99E*	*0.49E*	*0.24E*	*0.75E*	*2.47E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM

AVA

Consolidated Financials

INCOME STATEMENT ($ thousands)

	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Utility revenues	430,537	318,421	308,256	379,716	1,436,930	1,536,541	1,662,431	1,771,727
Non-utility revenues	5,933	7,912	7,912	7,912	29,669	34,669	39,669	44,669
Total Operating Revenues	**436,470**	**326,333**	**316,168**	**387,628**	**1,466,599**	**1,571,210**	**1,702,100**	**1,816,396**
Total Cost of sales	**165,586**	**111,706**	**123,165**	**154,397**	**554,855**	**592,913**	**641,537**	**682,614**
Gross Margin	**270,884**	**214,626**	**193,003**	**233,232**	**911,745**	**978,297**	**1,060,562**	**1,133,782**
Utility operating expenses								
Other operating expenses	74,484	80,239	76,663	87,914	319,300	325,686	332,200	338,844
Taxes other than income taxes	32,662	22,615	22,669	24,066	102,012	102,200	108,861	117,895
Other operating expenses	6,179	7,912	7,912	7,833	29,836	35,462	38,479	45,786
Total Operating Expenses	**113,325**	**110,766**	**107,244**	**119,813**	**451,148**	**463,348**	**479,540**	**502,525**
EBITDA	**157,559**	**103,860**	**85,759**	**113,419**	**460,596**	**514,949**	**581,022**	**631,257**
Utility Depreciation and amortization	41,985	42,564	43,414	44,252	172,215	184,712	196,168	207,203
Non-utility Depreciation and amortization	188	188	188	188	752	752	752	752
Total Depreciation and amortization	**42,173**	**42,752**	**43,602**	**44,440**	**172,967**	**185,464**	**196,920**	**207,955**
Operating Income	**115,386**	**61,108**	**42,157**	**68,978**	**287,630**	**329,485**	**384,102**	**423,302**
Net other income	**3,825**	**4,097**	**3,344**	**3,499**	**14,765**	**14,620**	**15,526**	**16,750**
Interest Expense								
Interest expense	23,545	25,055	26,787	28,496	103,882	128,152	151,696	174,154
Interest expense to affiliated trusts	185	185	185	185	740	740	740	740
Total Interest Expense	**23,730**	**25,240**	**26,972**	**28,681**	**104,622**	**128,892**	**152,436**	**174,894**
Interest Rate	*5.5%*	*5.2%*	*5.2%*	*5.2%*	*5.7%*	*6.6%*	*7.4%*	*8.1%*
Income from continuing operations before income taxes	**95,481**	**39,965**	**18,530**	**43,797**	**197,772**	**215,213**	**247,191**	**265,158**
Income Taxes	33,344	14,102	6,322	15,502	69,270	76,396	87,921	94,371
Tax Rate	*35%*	*35%*	*34%*	*35%*	*35%*	*35%*	*36%*	*36%*
Net income from continuing operations	**62,137**	**25,863**	**12,208**	**28,295**	**128,503**	**138,816**	**159,270**	**170,787**
Net income from discontinued operations	-	-	-	-				
Less: Net income attributable to noncontrolling interests	21	31	27	8	87	95	108	116
Net income attributable to Avista Corp. shareholders	**62,116**	**25,832**	**12,181**	**28,286**	**128,416**	**138,722**	**159,162**	**170,671**
Operating EPS	**0.96**	**0.40**	**0.19**	**0.43**	**1.96**	**2.07**	**2.33**	**2.47**

Source: Company reports and Guggenheim Securities, LLC estimates

AMERICAN WATER WORKS COMPANY (AWK, BUY, $91PT, $80.93)

Regulated Growth Opportunities, Muni M&A, and Rate Cases in Focus

- We are reaffirming our **BUY** rating and our price target of $91. We expect the earnings call to focus on current rate cases and new regulated opportunities such as muni acquisitions, and storm water.
- **2Q17 drivers: Guggenheim below consensus at $0.79 vs. $0.80.** We have lowered our 2Q17 EPS estimate to $0.79 from $0.84. AWK will record a one-time adjustment to deferred taxes (-$0.04) due to legislation passed in NY that no longer allows water utilities to use a zero percent tax rate for manufacturing activity. Further, we expect weather to be somewhat of a headwind, as PA, NJ, MO, IL, and IN experienced CDDs below 2Q16 levels, with MO and IN CDDs both below normal (-3% and -5%, respectively); precipitation levels on average were also below normal. We also expect the market based business to face some weakness, as the military budget has not been finalized, likely limiting new contracts with military bases. Positive YoY drivers include $18.5mm in rate increases at NJ, NY, and VA, in line with expectations. **Our annual estimates remain unchanged, but we have updated our quarterly estimates to reflect our expectations of the implementation of the PA and MO rate case.**
- **2Q earnings call should mirror prior calls – not a lot of surprises and company on auto pilot; outlook intact but some potential new opportunities.** We expect an update on rate cases filed in CA, PA and MO as well as an update on the Water Quality and Accountability Act in NJ (S2834), which passed in both the House and Senate and is awaiting to be signed into law. The Bill could serve as a catalyst for more willing muni sellers to AWK who can socialize the capital and O&M spending requirements among a much larger customer base. We also expect updates on muni deals and potential new opportunities with military contracts expected to normalize after the military budget is confirmed. Some visibility around storm water opportunities would also be helpful. While our annual estimates remain unchanged, we have updated our quarterly estimates to reflect the implementation of rates.
- **We were just with management for a roadshow. See our note HERE.**
- **Valuation.** Water utilities continue to be ascribed a higher multiple versus electric/gas utility counterparts given higher growth prospects and less risk around CapEx, which haven't slowed and are not expected to anytime soon and lower risk vs. electric/gas peers. Our 91 PT for AWK is predicated on our 2018 EPS estimate of $3.26 applied to a 28x P/E multiple—pure water utility comps trade well above regulated electric utilities on forward 2018E earnings.

EPS($)	1Q	2Q	3Q	4Q	FY	FC Cons
2017E	0.52A	0.79E	1.08E	0.67E	**3.05E**	3.03E
Prior		*0.84E*	*1.00E*	*0.68E*	*3.05E*	
2018E	0.62E	0.91E	1.06E	0.67E	**3.26E**	3.28E
Prior	*0.61E*	*0.93E*	*1.00E*	*0.72E*	*3.26E*	
2019E	0.66E	0.96E	1.13E	0.77E	**3.52E**	3.51E
Prior	*0.66E*	*1.00E*	*1.10E*	*0.76E*	*3.52E*	
2020E	0.71E	1.03E	1.23E	0.83E	**3.81E**	3.74E
Prior	*0.72E*	*1.07E*	*1.21E*	*0.81E*	*3.81E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM

AMERICAN WATER WORKS

CONSOLIDATED FINANCIALS

(Dollars in millions)

	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenues	756	897	1,056	859	3,568	3,744	3,929	4,122
Operating expenses								
O&M	337	368	445	363	1,513	1,548	1,580	1,612
Depreciation and amortization	124	120	122	124	490	516	548	578
General taxes	68	65	67	69	269	275	289	303
Loss (gain) on sale of assets/Other	-	-	-	-	-	-	-	-
Total operating expenses	529	553	634	556	2,272	2,339	2,416	2,494
Operating income	**227**	**344**	**422**	**303**	**1,296**	**1,404**	**1,513**	**1,628**
Other income (expense)								
Interest	(85)	(97)	(99)	(101)	(382)	(424)	(451)	(476)
Revolver								
Allowance for other funds used during construction	-	-	-	-	-	-	-	-
Allowance for borrowed funds used during construction	-	-	-	-	-	-	-	-
Amortization of debt expense	-	-	-	-	-	-	-	-
Preferred dividends of subsidiaries	-	-	-	-	-	-	-	-
Other, net	3	-	-	-	3	-	-	-
Total other income (expense)	**(82)**	**(97)**	**(99)**	**(101)**	**(379)**	**(424)**	**(451)**	**(476)**
Income before income taxes	145	247	323	202	917	981	1,062	1,153
Provision for income taxes	52	105	129	81	367	392	425	461
Tax rate	36%	43%	40%	40%	40%	40%	40%	40%
Discontinued operations	-	-	-	-	-	-	-	-
Extraordinary items	-	-	-	-	-	-	-	-
Reported Net Income	**93**	**142**	**194**	**121**	**550**	**589**	**637**	**692**
Adjustments	-	-	-	-	-	-	-	-
Adjusted Earnings	**93**	**142**	**194**	**121**	**550**	**589**	**637**	**692**
Basic Shares Outstanding	179	179	179	179	179	180	180	181
Earnings per share								
Reported EPS	$ 0.52	$ 0.79	$ 1.08	$ 0.67	$ 3.05	$ 3.26	$ 3.52	$ 3.81
Adjusted EPS	**$ 0.52**	**$ 0.79**	**$ 1.08**	**$ 0.67**	**$ 3.05**	**$ 3.26**	**$ 3.52**	**$ 3.81**

Source: Company reports and Guggenheim Securities, LLC estimates

CENTERPOINT (CNP, BUY, $30PT, $28.17)

Mild Weather and Lower Equity Return to Impact 2Q Results; Enable Center of Attention with Conclusion of ROFO Process – We Hope

- We are reaffirming our **BUY** rating on CNP although we are lowering our **PT** to **$30** from **$31**, as we incorporate our electric group average multiple of 16x. Utility fundamentals continue to drive performance with strong mechanisms in place; the outcome of the strategic review of Enable (ENBL, NC, $15.10) could serve as a catalyst on the 2Q earnings call if it's not a "sell-on-the-news-event."
- **2Q17 drivers: Guggenheim below consensus at $0.21 vs. $0.22.** We have updated our 2Q17 EPS estimate to $0.21 from $0.26; this compares to 2Q16 results of $0.17. Positive factors include implementation of rates (+$0.05) and customer growth (+$0.01). That said, we expect milder weather than last year's tepid temperatures to impact results (-$0.01) and account for lower equity return (-$0.02) due to the annual true-up of transition charges for over-collections in the previous year.
- **Enable expected to dominate discussions on the 2Q call – could this be what we have all been waiting for.** We expect CNP to at a minimum to narrow down its options (i.e. what they will not be pursuing) with the strategic review process. Given the conclusion of the ROFO process on July 15, an announcement that CNP is divesting its interest in ENBL or pursuing a tax-free spin-off would be a positive catalyst, in our view. While CNP would need confirmation from the IRS that a spin-off is indeed tax-free, we've seen utilities execute tax-free spins successfully before, with PPL's tax-free spin-off of Talen being a good case study – we see the tax-free spin as increasingly becoming more viable. Alternatively, management could sell-down its ENBL stake at a ~5% clip per-year and continue to reduce its commodity exposure; although we see this as a less favorable option. At a minimum, status quo not an option.
- **We have updated our 2018/2019/2020 annual estimates to $1.38/$1.44/$1.50 from $1.36/$1.42/$1.49.** Our estimates move slightly higher as we factor in the DCRF settlement of $44.6mm expected to be implemented September 2017 at Houston Electric and the TX Gulf Coast settlement of $16.5mm at the natural gas utility into our model. For our model, ENBL remains a going concern for CNP.
- **Valuation.** We arrive at our $30 PT utilizing a sum-of-the-parts analysis comprised of: (1) $11/share for regulated electric utility when we apply our group average regulated electric utility multiple of 16x plus a 1 turn premium to our 2018 electric EPS estimate for Electric utility of $0.64 – we anticipate multiple re-rating upon conclusion of ENBL strategic review; (2) $10/share for CNP's gas utilities when we ascribe our 5x historical LDC premium spread to our 16x group average regulated electric utility multiple to our Gas utility and Energy Services 2018 EPS estimate of $0.47; and (3) $9/share for CNP's 54% ownership of ENBL's LP units, based on flat cash distributions of $1.27 per unit and applying a 7.5% target yield.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	0.37A	0.21E	0.42E	0.30E	**1.30E**	1.31E
Prior		*0.26E*	*0.39E*	*0.28E*	*1.30E*	
2018E	0.37E	0.26E	0.43E	0.32E	**1.38E**	1.40E
Prior	*0.38E*	*0.24E*	*0.41E*	*0.32E*	*1.36E*	
2019E	0.39E	0.27E	0.46E	0.33E	**1.44E**	1.47E
Prior	*0.40E*	*0.26E*	*0.43E*	*0.33E*	*1.42E*	
2020E	0.41E	0.28E	0.47E	0.35E	**1.50E**	1.52E
Prior	*0.42E*	*0.27E*	*0.44E*	*0.36E*	*1.49E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM

CNP MODEL

CONSOLIDATED FINANCIALS

($ in millions)

	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenues								
Electric utility	638	794	946	761	3,138	3,265	3,397	3,534
Gas Utility	916	435	393	747	2,491	2,604	2,723	2,853
Non-utility	1,181	648	877	675	3,381	3,533	3,676	3,824
Total Operating Revenues	2,735	1,877	2,216	2,183	9,010	9,402	9,795	10,212
Natural gas	1,579	750	952	990	4,271	4,469	4,655	4,852
Operation and maintenance	560	567	532	614	2,272	2,354	2,418	2,501
Depreciation and amortization	226	167	171	175	740	739	792	845
Transition and system restoration bond companies	-	113	141	79	333	406	423	440
Taxes other than income taxes	96	98	101	103	399	433	464	495
Other					-	-	-	-
Operating Income	274	181	318	221	995	1,002	1,043	1,079
Interest and other finance charges	78	67	68	70	283	281	279	275
Interest on securitization bonds	20	19	19	19	76	75	75	75
Equity in earnings of unconsolidated affiliate, net	72	25	27	46	170	169	169	169
Other, net	17	6	5	1	29	16	16	16
Earnings before tax	299	127	263	179	868	831	874	915
Income taxes	107	36	84	48	275	235	250	265
Net Income	192	90	180	132	594	596	624	651
Average Number of Shares Outstanding (Diluted)	433	432	432	432	433	432	432	432
Reported EPS diluted	0.44	0.21	0.42	0.30	1.37	1.38	1.44	1.50
Non Operating Items	(32.0)				(32)	-	-	-
Net Income (Non-GAAP)	160	90	180	132	562	596	624	651
Operating EPS	0.37	0.21	0.42	0.30	$1.30	$1.38	$1.44	$1.50

Source: Company reports and Guggenheim Securities, LLC estimates

See pages 111 - 112 for analyst certification and important disclosures.

CONSOLIDATED EDISON (ED, NEUTRAL, $72PT, $82.14)

- **Maintaining our NEUTRAL** stance and establishing a $72 price target (no change from prior fair value estimate).
- **2Q17: Guggenheim below consensus ($0.60 vs. $0.62).** We are lowering our 2Q17 estimate to $0.60 from $0.65, which would imply flat YoY earnings despite new rates going into effect for CECONY Electric (+$0.01) and Gas (<$0.01), and O&R's RECO utility (<$0.01). The O&R utilities are a relatively small piece of the broader CEI story, and we expect the impact of rate increases will likely have been relatively mute in the shoulder months of 2Q, relative to the summer months in 3Q where electric utilities derive most of their earnings power, or winter months in 1Q/4Q where gas utilities derive most of their earnings power. That said, we also model less earnings coming from ED's Clean Energy Businesses (+$0.01) relative to prior quarters as we don't expect as much renewable projects to have come on-line, and incorporate drag from financing activities over the year, including interest on incremental debt (-$0.01) and dilution from incremental equity issuance (-$0.01).
- **Our annual estimates remain unchanged.** Given the nature of the drivers discussed above, being largely a function of timing within the year, we are maintaining our annual estimates for 2017, and through 2020 as well; we continue to project earnings of $4.15 / $4.25 / $4.56 / $4.65 for 2017E/'18E/'19E/'20E.
- **Valuation.** We apply our regulated utility group target multiple of 16.0x, plus a 1x premium to account for ED's status as the premier risk-off utility in a relatively uncertain macro backdrop, to our 2018 EPS estimate of $4.25 to arrive at our $72 price target.

ED Year-over-Year Quarterly Earnings Bridge

$0.60	2Q16
	Rate / regulatory activity
$0.01	CECONY Electric *(rate increase primarily impacts other quarters)*
$0.00	CECONY Gas *(rate increase primarily impacts 1Q/4Q)*
$0.00	O&R *(RECO rate increase not a material driver)*
	Other
$0.01	Clean Energy Businesses *(Not as much renewables to bring online)*
($0.02)	Financing *(incremental interest and equity dilution)*
$0.60	2Q17

Source: Guggenheim Securities, LLC estimates.

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2017E	1.27A	0.60E	1.59E	0.69E	**4.15E**	*4.09E*
Prior		*0.65E*	*1.56E*	*0.67E*	*4.15E*	
2018E	1.28E	0.61E	1.63E	0.74E	**4.25E**	*4.26E*
Prior	*1.20E*	*0.66E*	*1.65E*	*0.74E*	*4.25E*	
2019E	1.36E	0.66E	1.73E	0.81E	**4.56E**	*4.48E*
Prior	*1.29E*	*0.72E*	*1.75E*	*0.80E*	*4.56E*	
2020E	1.38E	0.67E	1.76E	0.85E	**4.65E**	*4.64E*
Prior	*1.30E*	*0.72E*	*1.78E*	*0.84E*	*4.65E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM
CON EDISON MODEL

INCOME STATEMENT *($MM)*	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenues								
Electric	1,934	1,840	2,723	1,890	8,387	8,462	8,734	8,854
Gas	862	338	231	393	1,825	1,846	1,860	1,875
Steam	298	57	50	127	532	393	412	431
Non-utilty	134	346	356	102	939	988	987	1,000
Total Operating Revenues	3,230	2,580	3,360	2,513	**11,683**	**11,690**	**11,993**	**12,160**
Purchased power	385	601	835	413	2,234	2,329	2,330	2,331
Fuel	100	33	29	39	201	201	201	201
Gas purchased for resale	321	59	42	118	540	478	478	478
Other O&M	780	807	849	785	3,221	3,199	3,201	3,203
Depreciation	329	255	260	265	1,109	1,112	1,219	1,291
Taxes, other than income	542	329	360	336	1,567	1,387	1,398	1,404
Income taxes	227	111	290	130	759	795	856	880
Operating Income	546	384	695	428	**2,053**	**2,191**	**2,311**	**2,371**
Total other income	25	(5)	(5)	(5)	**11**	**(19)**	**(19)**	**(19)**
Net Interest Expense	181	197	203	207	**788**	**873**	**893**	**921**
Net Income	390	182	488	216	**1,275**	**1,299**	**1,399**	**1,431**
Non-GAAP Adjustments	(2)				(2)	-	-	-
Net Income *(Non-GAAP)*	388	182	488	216	**1,273**	**1,299**	**1,399**	**1,431**
Avg. Share count *(diluted)*	306	305	307	310	**307**	**306**	**307**	**308**
On-going EPS *(diluted)*	1.27	0.60	1.59	0.70	**$4.15**	**$4.25**	**$4.56**	**$4.65**

Source: Company reports and Guggenheim Securities, LLC estimates

DOMINION RESOURCES (D, BUY, $85PT, $76.77)

Favorable Weather and Questar Growth Offset by Merchant Gen. and Gas Transmission Contributions; Millstone Legislation and ACP in Focus

- **Reaffirming our BUY rating** but lowering our price target to $85 from $87 to reflect our 16x regulated utility multiple. We continue to see further upside despite an optically high P/E, and believe once D begins to display a faster recycling of capital through key drops in the MLP with Cove Point and the Atlantic Coast Pipeline, investors should be more comfortable valuing D on more of a cash flow basis which continues to show value – our $85 PT utilizes a SOP cash flow and earnings analysis.
- **2Q17 drivers: Guggenheim above consensus at $0.70 vs. $0.67.** We expect weather (+$0.04) to be a positive factor, as CDDs were up YoY in VA and NC +19% and +5%, respectively. Growth from Questar and the infrastructure replacement program in the Gas Distribution segment is also expected to be a positive contributor (+$0.03). Lower margins in the merchant generation segment (-$0.04), a decrease in the Gas Transmission segment due to a Cove Point contract rolling off (-$0.03), and share dilution (-$0.01), are expected to offset results and translates to our $0.70 2Q17 EPS estimate, which is at the top-end of management's $0.60-0.70 guidance range.
- **Our annual estimates remain unchanged.** We are maintaining our annual estimates for 2017 through 2020 of $3.69 / $4.19 / $4.37/ $4.54, respectively.
- **Look for updates from management around Millstone legislation and ACP.** Millstone legislation still remains viable with CT budget deliberations ongoing. That said, a budget deal is not likely to be resolved before the 2Q call, leaving Millstone legislation still up in the air. We will also look for a discussion around ACP after the favorable Final EIS was issued July 21 - a major hurdle cleared in the regulatory approval process. We see ACP as a growth engine for D, and expect management to discuss additional prospects for compression and expansion opportunities.
- **We were just with management for a roadshow. See our note HERE.**
- **Valuation.** Our $85 price target is based on our sum-of-the-parts analysis comprised of 1) $42 from VEPCO applying a 16x P/E multiple plus a 2 turn premium to reflect what we believe is one of the strongest utilities in the country with minimal ROE downside and premium ROE upside for specific riders, to our 2018 utility EPS estimate of $2.41; 2) $3 from DM using a 7.5% target yield; 3) $10 from gas distribution using a 4x premium to our 16x regulated target multiple; 4) $28 from gas transmission using a 4x premium to our 16x regulated target multiple; and 5) $2 from generation using a 7x EV/EBITDA multiple.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	0.97A	0.70E	1.04E	0.98E	**3.69E**	3.67E
Prior		*0.70E*	*1.04E*	*0.98E*	*3.69E*	
2018E	1.15E	0.87E	1.11E	1.07E	**4.19E**	4.07E
Prior	*1.15E*	*0.87E*	*1.11E*	*1.07E*	*4.19E*	
2019E	1.20E	0.89E	1.17E	1.11E	**4.37E**	4.29E
Prior	*1.20E*	*0.89E*	*1.17E*	*1.11E*	*4.37E*	
2020E	1.26E	0.93E	1.20E	1.15E	**4.54E**	4.51E
Prior	*1.26E*	*0.93E*	*1.20E*	*1.15E*	*4.54E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

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DOMINION RESOURCES

CONSOLIDATED FINANCIALS

$ in millions, unless otherwise noted

	1Q17A	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	2020E
Total Operating Revenue	3,384	2,923	3,332	3,551	13,191	14,416	14,970	15,563
Operating Expenses:								
Commodity purchases (Electric fuel and purchased gas)	880	716	717	850	3,162	3,292	3,345	3,380
Purchased electric capacity	(17)	50	26	26	85	82	83	84
Other operations and maintenance	738	674	759	926	3,097	3,382	3,484	3,595
Depreciation, depletion and amortization	469	462	472	489	1,892	2,150	2,258	2,404
Net other expense / (income) incl. TOTI	73	100	106	88	367	391	396	401
Total Operating Expenses	2,143	2,002	2,079	2,380	8,603	9,297	9,565	9,863
EBITDA	1,710	1,383	1,726	1,661	6,480	7,268	7,662	8,103
EBIT	1,241	922	1,253	1,171	4,587	5,118	5,405	5,700
Total interest and related charges	292	232	255	260	1,039	1,069	1,074	1,092
Pretax income	949	690	998	912	3,548	4,049	4,330	4,608
Effective tax rate	29%	35%	35%	35%	33%	35%	35%	35%
Income tax expense (benefit)	275	240	348	317	1,180	1,407	1,505	1,603
Income including noncontrolling interests	674	450	650	595	2,368	2,642	2,825	3,005
Noncontrolling interests	42	30	-	-	72	21	65	112
Extraordinary items included in operating (after tax)	-	21	21	36	78	115	125	140
Reported GAAP Earnings	632	441	671	631	2,375	2,736	2,885	3,033
Income (loss) from disc ops	-	-	-	-	-	-	-	-
Items excluded from operating earnings	(21)	-	-	-	(21)	-	-	-
Operating Earnings	611	441	671	631	2,354	2,736	2,885	3,033
Reported GAAP EPS	$1.01	$0.70	$1.04	$0.98	$3.72	$4.19	$4.37	$4.54
Operating EPS	$0.97	$0.70	$1.04	$0.98	$3.69	$4.19	$4.37	$4.54

Source: Company reports and Guggenheim Securities, LLC estimates

See pages 111 - 112 for analyst certification and important disclosures.

DTE ENERGY (DTE, BUY, $112PT, $106.37)

Tough YoY Comps with Weather; NEXUS and Rate Case/Legislation in Focus

- We are reaffirming our **BUY** rating and our price target of $112. Shares continue to trade relatively in line with regulated electric utilities, which we think presents good value with DTE having higher growth prospects, a constructive regulatory backdrop, an ever growing midstream presence and leverage to more cyclical aspects of the energy value chain – DTE not your typical bond surrogate.
- **2Q17 drivers: Guggenheim below consensus at $1.03 vs. $1.04.** Weather is likely to create some overhang despite implementation of new rates (~$184mm for electric and ~$122mm for gas) after an unseasonably warm quarter last year, as CDDs in Michigan were 6% below 2Q16 and 7% below normal. Further, we expect wind storms that occurred throughout April and May to create additional O&M expense. That said, gas storage and pipeline earnings are expected to be higher due to AFUDC earnings from NEXUS and the integration of the Link assets, while the Power & Industrial segment is expected to be in-line with guidance on a pro-rata basis. Our EPS estimate remains unchanged at $1.03.
- **Our 2017-2019 estimates remain unchanged at $5.46, $5.77, and $6.07, respectively.** We have adjusted our quarterly estimates to reflect the self-implementation of the electric rate case (U-18255) in Nov. 2017 of ~$231mm. We have also moved our NEXUS in-service date to 1Q18 from 4Q17, as we expect the lack of FERC quorum to cause a small delay on the project. That said, if a FERC quorum resumes in August or shortly thereafter, NEXUS could begin flowing gas in early '18, and we do not expect an earnings impact as NEXUS earns AFUDC prior to its in-service date.
- **We expect the 2Q call to center around NEXUS, productivity initiatives, and rate case/legislative processes.** We believe the 2Q call will be focused on the in-service date of NEXUS due to the lack of quorum at FERC. While a Certificate order is ripe to be issued following a quorum, the longer NEXUS waits for approval – especially as we move into winter weather conditions – the more likely its targeted 4Q17 in-service date could be pushed out. That said, a few months' delay is not expected to impact the economics of the project or DTE's financials, as NEXUS earns either AFUDC prior to its in-service date or contracted revenues once the pipeline starts flowing gas. We also expect an update on the electric rate case process, as well as a discussion around obtaining a capital tracking mechanism on the electric side – study on the subject expected YE – as well as talks exploring the establishment of a capacity charge (Case No. U-18239).
- **Management roadshow:** We recently spent time with management and hosted a roadshow. **See our deep dive thoughts HERE.**
- **Valuation.** We arrive at our $112 PT utilizing a sum-of-the-parts analysis comprised of: $63 for electric; $17 for gas; $13 for Power & Industrial Projects; $23 for Midstream; zero value for Energy Trading; ($4) for corporate drag. Our $112 price target implies 19x on 2018E earnings, which, in our view, is conservative given DTE's exposure to gas midstream among other items.

EPS($)	1Q	2Q	3Q	4Q	FY	FC Cons
2017E	1.79A	1.03E	1.60E	1.03E	**5.46E**	5.33E
Prior		*1.03E*	*1.43E*	*1.20E*	*5.46E*	
2018E	1.63E	1.17E	1.86E	1.11E	**5.77E**	5.68E
Prior	*1.57E*	*1.19E*	*1.71E*	*1.31E*	*5.77E*	
2019E	1.71E	1.21E	1.96E	1.18E	**6.07E**	6.02E
Prior	*1.63E*	*1.25E*	*1.79E*	*1.39E*	*6.07E*	
2020E	1.81E	1.28E	2.10E	1.26E	**6.46E**	6.36E
Prior	*1.74E*	*1.34E*	*1.90E*	*1.48E*	*6.46E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

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DTE MODEL

CONSOLIDATED FINANCIALS

	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Total Operating Revenues	**3,236**	**2,403**	**3,017**	**3,105**	**11,761**	**12,001**	**12,236**	**12,598**
Operating Expenses								
Fuel & Purchased Power	1,709	911	1,304	1,380	5,303	5,244	5,294	5,469
Operation & Maintenance	646	812	843	1,074	3,375	3,594	3,589	3,585
Depreciation & Amortization	249	230	234	238	950	995	1,065	1,133
Taxes Other than Income	109	87	86	86	368	362	373	385
Asset (Gains) / Losses, net	-	-	-	-	-	-	-	-
Total Operating Expenses	**2,667**	**2,013**	**2,435**	**2,748**	**9,862**	**10,047**	**10,169**	**10,403**
Gross Margin	1,527	1,492	1,713	1,725	6,458	6,758	6,942	7,129
Operating Income	**569**	**390**	**582**	**357**	**1,899**	**1,955**	**2,067**	**2,194**
EBITDA	818	620	816	595	2,849	2,950	3,132	3,327
Other (Income) / Deductions								
Interest Expense	124	116	118	120	478	499	530	551
Interest Expense (Securitization)	1	1	1	1	5	2	2	1
Interest Income	(3)	(4)	(2)	(3)	(12)	(12)	(12)	(12)
Other Income	(64)	(38)	(38)	(54)	(194)	(168)	(168)	(168)
Other Expenses	7	30	60	10	107	40	40	40
Total Other (Income) / Deductions	**65**	**106**	**139**	**74**	**384**	**361**	**392**	**412**
Weighted Interest Rate (%)	4.1%	3.8%	3.8%	3.8%	3.9%	3.8%	3.8%	3.7%
Minority Interests	(6)	-	-	-	(6)	-	-	-
Income Before Income Taxes	510	285	443	283	1,521	1,594	1,675	1,782
Effective Tax Rate (%)	21.6%	35.0%	35.0%	35.0%	30.5%	35.0%	35.0%	35.0%
Income Tax Provision	110	100	155	99	464	558	586	624
Other/Tax Credits	-	-	-	-	-	-	-	-
Net Income Tax Provision	110	100	155	99	464	558	586	624
Income Before Accounting Change	**400**	**185**	**288**	**184**	**1,057**	**1,036**	**1,088**	**1,158**
Discontinued Operations	-	-	-	-	-	-	-	-
Cum. Effect of Accounting Change	-	-	-	-	-	-	-	-
Reported Earnings	**400**	**185**	**288**	**184**	**1,057**	**1,036**	**1,088**	**1,158**
Adjustments	(78.0)	-	-	-	(78)	-	-	-
Operating Earnings	**322**	**185**	**288**	**184**	**979**	**1,036**	**1,088**	**1,158**
Reported EPS	**$2.23**	**$1.03**	**$1.60**	**$1.03**	**$5.89**	**$5.77**	**$6.07**	**$6.46**
Adjustments	($0.43)	$0.00	$0.00	$0.00	($0.43)	$0.00	$0.00	$0.00
Operating EPS	**$1.79**	**$1.03**	**$1.60**	**$1.03**	**$5.46**	**$5.77**	**$6.07**	**$6.46**

Source: Company reports and Guggenheim Securities, LLC estimates

DUKE ENERGY (DUK, BUY, $90PT, $84.55)

We Are Well Below Street for 2Q17E, and Down 11% YoY, but a Lot to Flush-out in the Quarter; LT Outlook Intact with Meaningful Growth Upside to Look For

- **Maintaining our BUY** rating on DUK despite **lowering our price target to $90** from $92, as we mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations.
- **2Q17: Guggenheim below consensus ($0.95 vs. $1.05).** We are maintaining our 2Q17 estimate of $0.95, which comes in well-below the Street, and 11% lower than the same period last year, as rate activity (+$0.02) shouldn't really move the needle, and O&M savings (+$0.15) should be largely offset by reversing favorable non-recurring O&M (-$0.16) and tax (-$0.02) drivers from YoY comparisons; we also reverse favorable impacts from weather last year (-$0.04), which should be partly offset by some above-normal temperatures this year (+$0.01) and a return to normal wind (+$0.02). DUK's YoY comps are also challenged without contributions from international divestitures (-$0.05), and with incremental interest (-$0.02) and dilution (-$0.02) from PNY acquisition financing; we also factor some incremental drag from PNY (-$0.01) in 2Q17 as its gas utilities derive earnings primarily during winter months.
- **Our annual estimates remain unchanged.** We are maintaining our annual estimates for 2017 through 2020 of $4.67 / $4.84 / $5.07 / $5.28, respectively as many of the adjustments we describe above are timing-related.
- **Look for discussion around** rate/regulatory proceedings in the Carolinas, which we expect will become increasingly contentious, particularly around recovery of coal ash spending; that said, we expect DUK to come away with a constructive outcome, potentially entailing securitization of coal ash spend in order to reach an agreement; and management is already working in parallel on their next filing – Simultaneously pushing legislation to pave the way for a subsequent filing in the Carolinas entailing upwards of $13bn in grid modernization investment.
- **We were just recently with management. See our note HERE.**
- **Valuation.** Our $90 price target is based on our 2018 EPS estimate of $4.84 and a DUK-specific 18.5x P/E — a premium to our 16.0x regulated group target multiple to account for their relatively constructive regulatory back-drop ahead of key rate proceedings in their core Carolina utility franchises, and potentially higher growth versus what is being reflected in current estimates stemming from incremental investments to expand midstream pipeline capacity, and/or tap-off pipelines with laterals to supply local gas distribution utilities, and potentially more constructive cost recovery of regulated investments supported by efforts to drive legislation in the Carolinas.

DUK Year-over-Year Quarterly Earnings Bridge

$1.07	2Q16
	Regulated
$0.01	**Rate activity** - Minor YoY drivers (SC, DEP)
$0.01	**Growth** - 0.5% load growth, less lag (absent recovery outside AFUDC)
	O&M
($0.08)	Reverse YoY impacts from storms
($0.06)	Reverse YoY impacts from pulling O&M forward
$0.10	$100mm savings announced last year
$0.05	Another $100mm of savings announced in 1Q17 (less weighting in 2Q)
	Weather
($0.04)	Reverse favorable impact in 2Q16
$0.01	Likely above normal again in 2Q17, although to a lesser extent
	Commercial and other
$0.02	Reverse unfavorable impact of weak wind resources in 2Q16
	International divestiture
($0.06)	2Q16 International segment contribution
$0.01	Add-back NMC portion that remains
($0.01)	**PNY Acquisition** - Drag in summer months, plus changed PNY fiscal year
($0.02)	**Tax** - Reversal of favorable 2Q16 drivers
($0.02)	**Interest on incremental debt**
($0.02)	**Dilution**
$0.95	2Q17

Source: Guggenheim Securities, LLC estimates.

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2017E	1.04A	0.95E	1.75E	0.93E	**4.67E**	*4.60E*
Prior		*0.95E*	*1.84E*	*0.85E*	*4.67E*	
2018E	1.16E	0.99E	1.77E	0.92E	**4.84E**	*4.83E*
Prior	*0.87E*	*1.00E*	*1.91E*	*1.05E*	*4.84E*	
2019E	1.21E	1.05E	1.85E	0.97E	**5.07E**	*5.10E*
Prior	*0.92E*	*1.06E*	*1.99E*	*1.11E*	*5.07E*	
2020E	1.25E	1.09E	1.93E	1.02E	**5.28E**	*5.31E*
Prior	*0.96E*	*1.10E*	*2.06E*	*1.16E*	*5.28E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

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DUKE ENERGY MODEL
CONSOLIDATED FINANCIALS

INCOME STATEMENT ($ Millions)	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Revenues:	5,729	5,460	6,752	5,579	**23,520**	**23,006**	**23,209**	**23,490**
Operating Expenses:								
Natural Gas Purchased	258	67	51	83	**458**	**472**	**485**	**499**
Fuel & Purchased Power	1,449	1,569	2,105	1,586	**6,709**	**6,887**	**6,976**	**7,068**
D&A	859	739	750	757	**3,104**	**3,123**	**3,274**	**3,421**
Operating & Maintenance Expense	1,433	1,379	1,394	1,735	**5,941**	**5,827**	**6,121**	**6,323**
Property Taxes & Other	304	431	353	335	**1,422**	**1,337**	**1,409**	**1,664**
Total Operating Expenses	4,303	4,185	4,651	4,495	**17,634**	**17,647**	**18,265**	**18,975**
Other Operating Income	-	-	-	-	**-**	**-**	**-**	**-**
Gains on Sale of Assets	11	-	-	-	**11**	**-**	**-**	**-**
Operating Income	1,437	1,276	2,101	1,084	**5,897**	**5,359**	**4,944**	**4,516**
Equity in Unconsolidated Affiliates	29	-	-	-	**29**	**-**	**-**	**-**
Other Income & Expenses	86	257	311	372	**1,026**	**2,034**	**2,915**	**3,803**
Interest Expense	491	522	536	545	**2,094**	**2,315**	**2,531**	**2,765**
EBT	1,060	1,011	1,875	911	**4,857**	**5,078**	**5,328**	**5,554**
Tax	(344)	(345)	(649)	(262)	**(1,600)**	**(1,688)**	**(1,777)**	**(1,855)**
Income from Continuing Ops -Adjusted	**716**	**665**	**1,226**	**649**	**3,257**	**3,390**	**3,551**	**3,699**
Non GAAP Adjustments	10				**10**	**-**	**-**	**-**
Net Income -Adjusted	**726**	**665**	**1,226**	**649**	**3,267**	**3,390**	**3,551**	**3,699**
Ongoing EPS	$1.04	$0.95	$1.75	$0.93	**$4.67**	**$4.84**	**$5.07**	**$5.28**

Source: Company reports and Guggenheim Securities, LLC estimates

EDISON INTERNATIONAL (EIX, NEUTRAL, $69PT, $78.48)

We Remain Above FY17 Guidance, as We Expect Mgmt. to Revisit Their Outlook on the Call; Focus Remains around SCE's GRC and the SONGS Settlement

- **Maintaining our NEUTRAL** stance on EIX as we continue to look for closure around SONGS, multi-year line-of sight from SCE's 2018 GRC, and the Edison Energy strategy – Note EIX's "to-do list" has been whittling down under new management, and we remain confident in their ability to manage this challenging environment, although we haven't been able to get comfortable on the CPUC's clock in CA. **We establish a PT of $69** (vs. our prior fair value estimate of $73) as we mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x (vs. 17x driving our prior regulated utility valuations).
- **2Q17: Guggenheim below consensus ($0.90 vs. $0.94).** We are maintaining our 2Q17 estimate of $0.90, reflecting ~6% YoY growth; we would note, however, that year-over-year comparisons have been less insightful for EIX, considering timing impacts in prior years (e.g., GRC delays), and material tax adjustments. That said, following solid 1Q17 performance that beat our/consensus estimates by ~25%, and based on management's comments pointing toward the upper-half of guidance, we expect EIX may likely raise their outlook – This is a relatively conservative management team that wouldn't raise guidance only one-quarter into the year, despite such strong performance.
- **Maintaining estimates in 2017/2018, lower in 2019/2020 as we discount the likely amount of grid modernization authorized in CA and incorporate lower ROEs.** We are maintaining our estimates for 2017 and 2018 of $4.27 and $4.30, respectively, and lowering our 2019 and 2020 estimate to $4.68 and $5.06 (vs. $4.71 and $5.23) as we discount the amount of CapEx associated with grid modernization ultimately approved by the CPUC, and incorporate lower ROEs recently approved in the highly-anticipated Cost of Capital proceeding.
- **We are looking for** any insight into the status (and sentiment) around the SONGS settlement, as well as any updates coming out of SCE's GRC currently underway; we are also anticipating some discussion around EIX's strategy with Edison Energy.
- **We were just recently with management. See our note HERE.**
- **Valuation.** We apply our regulated utility target multiple of 16x to our 2018 EPS estimate of $4.30 to arrive at our price target of $69.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	1.11A	0.90E	1.31E	0.95E	**4.27E**	*4.21E*
Prior		*0.90E*	*1.44E*	*0.82E*	*4.27E*	
2018E	0.94E	0.97E	1.53E	0.85E	**4.30E**	*4.30E*
Prior	*0.93E*	*0.97E*	*1.55E*	*0.85E*	*4.30E*	
2019E	1.04E	1.06E	1.64E	0.94E	**4.68E**	*4.69E*
Prior	*1.06E*	*1.07E*	*1.67E*	*0.91E*	*4.71E*	
2020E	1.11E	1.13E	1.76E	1.06E	**5.06E**	*5.05E*
Prior	*1.15E*	*1.18E*	*1.85E*	*1.06E*	*5.23E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM
EDISON INTERNATIONAL MODEL
CONSOLIDATED FINANCIALS

INCOME STATEMENT ($ in millions)	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating revenue	**2,463**	**3,015**	**3,881**	**3,003**	**12,362**	**12,919**	**13,424**	**13,917**
Purchased power	784	1,075	1,736	960	4,555	4,600	4,646	4,693
Other operations and maintenance	596	714	729	767	2,806	2,794	2,801	2,809
Depreciation and amortization	499	579	590	601	2,268	2,530	2,737	2,944
Property and taxes	100	86	92	85	363	363	367	370
Operating income	**484**	**562**	**735**	**590**	**2,370**	**2,632**	**2,873**	**3,100**
Other non operating income	33	23	23	23	102	92	92	92
Interest expense	(152)	(162)	(164)	(170)	(648)	(739)	(827)	(898)
Other non operating deductions	(8)	(15)	(15)	(15)	(53)	(60)	(60)	(60)
Dividends on utility preferreds	(31)	(31)	(31)	(31)	(124)	(124)	(124)	(124)
EBT	**326**	**377**	**548**	**398**	**1,648**	**1,800**	**1,954**	**2,110**
Income tax expense	(40)	82	116	86	243	385	416	447
Income from continuing operations	**367**	**295**	**432**	**312**	**1,406**	**1,415**	**1,539**	**1,663**
Discontinued ops.	-	-	-	-	-	-	-	-
Core Net Income - Non GAAP	**367**	**295**	**432**	**312**	**1,406**	**1,415**	**1,539**	**1,663**
Core EPS	$ 1.11	$ 0.90	$ 1.31	$ 0.95	**$ 4.27**	**$ 4.30**	**$ 4.68**	**$ 5.06**

Source: Company reports and Guggenheim Securities, LLC estimates

See pages 111 - 112 for analyst certification and important disclosures.

ENTERGY CORP (ETR, BUY, $80PT, $76.31)

AK FRP Filing at the Forefront, Setting Expectation for Regulated Nuclear Spend Recovery; LT Outlook Intact While Continue to Wind Down EWC

- **Maintaining our BUY** rating on ETR despite **lowering our price target to $80 from $87,** as we mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations.
- **2Q17 drivers – Higher than consensus at $1.26 vs. $1.20.** We are lowering our 2Q17 estimate to $1.26 from $1.31, still above consensus, to incorporate YoY growth from new rate implementations across the utility jurisdictions, including EAI's 2017 FRP rate changes ($0.10/share), higher industrial customer growth ($0.05/share) and litigation proceeds from DOE ($0.02/share), more than offset by the impacts of higher O&M due to outages (-$0.15/share) and lower residential and commercial sales across the service territory ($-0.02/share). 2Q16 results were favorably impacted by income tax items, which resulted from resolution of previous positions at Utility, as well as a tax election at EWC and we partially removed those items for this quarter, resulting in (-$1.75/share). Higher decommissioning costs (-$0.05/share) and parent and other costs (-$0.05/share) are expected to continue to drag earnings.
- **Our updated 2017-2020 estimates are $4.79, $4.83, $4.99 and $5.25.** Our 2017 estimate of $4.79 is at the lower end of management's outlook for $4.75-5.35, with our Utility Parent and Other estimate at $4.41 (vs. guidance for $4.25-$4.55). Our annual estimates are slightly lower through 2020 as we mark our IPP and integrated utility models to the 6/29/17 forward curves (vs. 3/30/17 forward curves driving our prior estimates).
- **Management roadshow:** We recently spent time with management and hosted a roadshow. **See our deep dive thoughts HERE.**
- **Focus turned to the regulated nuclear spend recovery, Arkansas prudency review now rolled into FRP filing.** We expect management to rehash the recently filed FRP, which incorporated the nuclear spend recovery at ANO – visibility should be improved by YE with decision expected in 4Q17. A constructive outcome with the review could go a long way to provide the much needed comfort that investors seek around ETR's nuclear spending budget, which includes both O&M and capital.
- **Valuation.** Our price target of $80 is based on a SOTP analysis and includes (1) ~$95/share for the regulated utilities based on our 2018E EPS of $5.95 and our group average regulated target multiple of 16.0x, (2) parent drag (ex-interest expense) of ($11)/share, and (3) EWC, which has an enterprise value of $1.5bn when applying a 5x EV/EBITDA multiple to our '18 open EBITDA estimate of $306mm. We also adjust for hedges, and NPV of future liability for potential cooling towers/wedge wire spend for Indian Point to get to $926mm enterprise value or ~$5/share. After backing out non-utility debt of ($9)/share and discounting by one year, we arrive at our 12-month $80/share price target.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	0.99A	1.26E	2.22E	0.32E	**4.79E**	4.80E
Prior		*1.31E*	*2.26E*	*0.25E*	*4.81E*	
2018E	0.80E	1.40E	2.33E	0.30E	**4.83E**	4.87E
Prior	*1.13E*	*1.30E*	*2.24E*	*0.18E*	*4.84E*	
2019E	0.82E	1.23E	2.49E	0.46E	**4.99E**	5.02E
Prior	*1.15E*	*1.13E*	*2.39E*	*0.33E*	*5.00E*	
2020E	0.92E	1.31E	2.53E	0.50E	**5.25E**	5.35E
Prior	*1.23E*	*1.18E*	*2.40E*	*0.33E*	*5.15E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

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ENTERGY CORP
CONSOLIDATED FINANCIALS

Income Statement ($ millions)	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Revenues	2,588	2,574	3,061	2,487	10,711	10,830	10,839	10,848
Utility	704	902	1,157	641	3,404	3,634	3,852	4,061
Competitive	170	78	86	61	395	299	202	148
Parent, other & elimination	(45)	(45)	(44)	(42)	(176)	(179)	(183)	(183)
EBITDA	**829**	**934**	**1,199**	**661**	**3,623**	**3,755**	**3,871**	**4,027**
Utility	407	592	850	328	2,176	2,336	2,487	2,636
Competitive	(169)	(23)	(3)	7	(188)	(22)	(60)	(76)
Parent, other & elimination	(45)	(46)	(44)	(43)	(178)	(180)	(184)	(184)
EBIT	**192**	**523**	**802**	**293**	**1,810**	**2,133**	**2,242**	**2,375**
Utility	165	284	447	110	1,005	1,074	1,136	1,199
Competitive	(34)	(3)	6	(1)	(32)	26	2	(9)
Parent, other & elimination	(54)	(54)	(53)	(52)	(214)	(227)	(231)	(231)
Net income, reported	**76**	**227**	**399**	**57**	**759**	**873**	**907**	**960**
Recurring net income	178	227	399	57	860	873	907	960
Utility	$0.92	$1.58	$2.48	$0.61	$5.60	$5.95	$6.25	$6.56
Competitive	$0.38	($0.02)	$0.03	($0.01)	$0.38	$0.15	$0.01	($0.05)
Parent, other & elimination	($0.30)	($0.30)	($0.30)	($0.29)	($1.19)	($1.26)	($1.27)	($1.26)
Recurring EPS	**$0.99**	**$1.26**	**$2.22**	**$0.32**	**$4.79**	**$4.83**	**$4.99**	**$5.25**

Source: Company reports and Guggenheim Securities, LLC estimates

EVERSOURCE (ES, BUY, $64PT, $60.74)

No Shortage of Topics to Discuss, Although Should Be a Relatively Quiet Quarter as Far as Earnings Go, and Until There's Progress with NPT, MA Rates, FERC ROEs, etc.

- **Maintaining our BUY rating** on ES despite **lowering our price target to $64** from $65 as we mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations.
- **2Q17: Guggenheim in-line with consensus at $0.68.** We are maintaining our 2Q17 estimate of $0.68, representing modest YoY growth driven by incremental rate base additions consistent with previous quarters plus some uplift from transmission-rate true-ups that typically go into effect in the second quarter. Management has been busy re-configuring their large-scale infrastructure development projects (i.e., Northern Pass, Access Northeast) and filing rate cases in MA for NSTAR and WMECO; although absent new rates going into effect, and as Northern Pass (NPT) construction has yet to begin construction, it should turn out to be a relatively quiet quarter, at least as far as earnings go.
- **Our annual estimates remain unchanged.** We are maintaining our annual estimates for 2017 through 2020 of $3.17 / $3.35 / $3.60 / $3.80, respectively, and despite some recent headwinds surfacing for NPT's timeline (to the extent additional meetings added to the calendar delay construction); ES was already requesting additional meetings be added to the calendar however, which could contain these deliberations within the September timeframe, although may likely push right up to the deadline; we have yet to see any movement in NPT's timeline, although we were already modeling NPT's in-service date slipping into 1Q20, while also noting ES's ability to pull CapEx forward with no shortage of reliability constraints to address in New England.
- **Look out for.** In addition to potential updates on **(1) NPT**, we would also expect management to touch on **(2) MA RFPs**, in which NPT plans to participate, and which should be accelerating with regulators recently shortening their review period. We would also stay-tuned for discussion around ES's **(3) MA rate proceedings**, although relevant hearings likely won't begin until after summer; potentially **(4) FERC ROE complaints**, although likely more to come in 3Q17; and potentially some discussion of the **(5) Access Northeast** and a potential alternative path forward.
- **Valuation.** Our $64 price target is based on our 2018 EPS estimate of $3.35 and applies our ES-specific target multiple of 16.0x. The 2.0x multiple premium accounts for material exposure to electric and gas transmission investments as well as gas LDCs – both of which inherently trade at a premium to their electric utility counterparts.

EPS	1Q	2Q	3Q	4Q	FY	*FY Cons*
2017E	0.82A	0.68E	0.85E	0.81E	**3.17E**	*3.15E*
Prior		*0.68E*	*0.86E*	*0.81E*	*3.17E*	
2018E	0.88E	0.74E	0.93E	0.80E	**3.35E**	*3.32E*
Prior	*0.94E*	*0.72E*	*0.91E*	*0.77E*	*3.35E*	
2019E	0.94E	0.81E	0.99E	0.86E	**3.60E**	*3.53E*
Prior	*1.00E*	*0.79E*	*0.97E*	*0.84E*	*3.60E*	
2020E	1.01E	0.88E	1.03E	0.88E	**3.80E**	*3.78E*
Prior	*1.06E*	*0.85E*	*1.01E*	*0.88E*	*3.80E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

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($ in millions unless stated otherwise)

	3/31/17	6/30/17	9/30/17	12/31/17	12/31/17	12/31/18	12/31/19	12/31/20
	90	91	92	92	366	365	365	366
	25%	25%	25%	25%	100%	100%	100%	100%
	1QA	2QE	3QE	4QE	2017E	2018	2019	2020
Income Statement *($MM unless noted otherwise)*	**1QA**	**2QE**	**3QE**	**4QE**	**2017E**	**2018E**	**2019E**	**2020E**
Gross Margin	**1,431**	**1,217**	**1,417**	**1,374**	**5,439**	**5,713**	**6,012**	**6,362**
O&M	394	358	370	403	**1,524**	**1,628**	**1,730**	**1,844**
Other OPEX	132	113	142	127	**514**	**524**	**534**	**539**
Taxes Other Than Income	221	155	170	161	**707**	**733**	**769**	**809**
EBITDA	**685**	**592**	**735**	**683**	**2,694**	**2,829**	**2,980**	**3,170**
Depreciation	155	158	164	170	**647**	**685**	**746**	**848**
Amortization	22	(9)	45	15	**73**	**72**	**72**	**72**
Operating Income	**508**	**443**	**526**	**498**	**1,974**	**2,072**	**2,162**	**2,250**
Interest Expense, Net	105	107	110	113	**435**	**485**	**533**	**582**
Other Income, Net	3	0	5	17	**26**	**67**	**144**	**206**
Income Before Taxes	**406**	**336**	**421**	**402**	**1,565**	**1,654**	**1,774**	**1,874**
Income Taxes	142	118	147	141	**548**	**579**	**621**	**656**
Perferreds & Minority	2	2	2	2	**8**	**8**	**8**	**8**
Net Income (Operating)	**262**	**216**	**272**	**259**	**1,010**	**1,067**	**1,145**	**1,211**
Operating EPS	**$0.82**	**$0.68**	**$0.85**	**$0.81**	**$3.17**	**$3.35**	**$3.60**	**$3.80**

Source: Company reports and Guggenheim Securities, LLC estimates

EXELON CORP (EXC, BUY, $44PT, $37.20)

Focus Remains Around Nuclear Legislation; Growth Trajectory and Resolution of Recent Rate Proceedings Again Topics on the Call

- **Maintaining our BUY** rating on EXC and **raising our price target to $44 from $42**, with ZEC upside, which we now fully value for NY and IL, more than offsetting the negative impact as we mark our regulated utility valuations to reflect current yield expectations - which lowered our regulated group multiple to 16x from 17x driving our prior valuations.
- **2Q17 drivers: Guggenheim below consensus at $0.53 vs. $0.54.** We are below consensus as well as 2Q16 earnings of $0.59, and slightly above the mid-point of mgmt. guidance range of $0.45-0.55; utilities should benefit from constructive outcomes of multiple rate cases, including legacy Pepco utilities ($0.03/share) as well as ComEd and BGE ($0.03/share). ExGen will continue to be a drag even with accretion from NY ZECs revenue ($0.02/share), which EXC started to earn on April 1, given unfavorable gas and power prices (-$0.03/share), increased nuclear outage days (-$0.03/share), lower capacity prices (-$0.03/share) and other negative impact including timing of O&M expenses (-$0.04/share) and higher depreciation (-$0.02/share).
- **Our updated 2017-2020 estimates are $2.71, $2.93, $2.89 and $2.87.** Our updated estimates incorporate 6/29 forward curves. We also start to incorporate NY and IL ZECs into our estimates given the increasing clarity provided by recent legislative outcomes (i.e. in IL, CT). Our estimates now include: (1) ~$0.15 for existing plants in NY (Ginna and Nine Mile); (2) ~$0.02-0.03 for Fitzpatrick; and (3) ~$0.07 for Clinton and Quad (net of higher OPEX from bringing plants back). Our updated estimates also reflect the completed asset sales at ExGen Renewable through the JV.
- **Management roadshow:** We recently spent time with management and hosted a roadshow. **See our deep dive thoughts HERE.**
- **We expect mgmt. to reiterate '17 guidance and introduce 3Q17 earnings guidance.** We could see potential upside to legacy Pepco utilities accretion opportunities with the first round of rate filings tracking ahead of expectations, and a second round already kicking off, but some upside could be tempered given political sensitivity from multiple GRCs. **Other topics will center on NY/Illinois nuclear policy given the recent ruling on CT REC and IL ZEC cases** – direct read-through to NY ZEC case, which is expected likely before YE 2017. We are increasingly confident the accretion can be achieved and a perpetual multiple can be assigned to it – hence the change in our PT and estimates.
- **Valuation.** Our $44 price target is based on a sum-of-the-parts analysis. We assign ~$19/share for ExGen using a 7x weighted average EV/EBITDA applied to ExGen's various assets. We assign $30/share for the regulated utilities combined based on our 2018E EPS of $1.88 applied to a 16x regulated utility multiple. Subtracting out ~$5 in parent drag, we arrive at our 12-month PT.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	0.65A	0.53E	0.92E	0.61E	**2.71E**	2.67E
Prior		*0.54E*	*0.91E*	*0.63E*	*2.72E*	
2018E	0.81E	0.67E	0.93E	0.51E	**2.93E**	2.88E
Prior	*0.81E*	*0.66E*	*0.91E*	*0.51E*	*2.88E*	
2019E	0.77E	0.65E	1.02E	0.45E	**2.89E**	2.82E
Prior	*0.75E*	*0.63E*	*0.98E*	*0.44E*	*2.80E*	
2020E	0.76E	0.61E	1.07E	0.43E	**2.87E**	2.73E
Prior	*0.81E*	*0.53E*	*0.74E*	*0.65E*	*2.72E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

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EXELON MODEL
CONSOLIDATED FINANCIALS

Income Statement ($ millions)	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating revenues	8,757	7,062	7,423	7,117	30,359	29,681	30,142	30,764
Operating expenses								
Fuel & purchased power	3,899	2,450	2,257	2,408	11,014	10,077	10,221	10,331
Operating and maintenance	2,460	2,244	2,244	2,244	9,193	8,620	8,841	9,199
Depreciation and amortization	896	911	927	943	3,677	3,911	4,119	4,322
Taxes other than income	436	400	400	400	1,637	1,627	1,651	1,674
Total operating expenses	**7,691**	**6,006**	**5,829**	**5,996**	**25,521**	**24,235**	**24,831**	**25,526**
Equity in earnings of unconsolidated affiliates	230	36	69	74	409	160	255	223
NY ZECs		40	40	40	119	186	134	193
IL ZECs		8	24	24	57	111	135	159
Operating income	**1,296**	**1,140**	**1,727**	**1,259**	**5,423**	**5,903**	**5,835**	**5,813**
Other income and deductions								
Interest expense	(373)	(403)	(409)	(414)	(1,599)	(1,685)	(1,710)	(1,693)
Other income and deductions	283	-	-	-	283	-	-	-
Total other income and deductions	**(90)**	**(403)**	**(409)**	**(414)**	**(1,316)**	**(1,685)**	**(1,710)**	**(1,693)**
Income before income taxes	1,206	738	1,318	845	4,107	4,219	4,126	4,120
Income taxes	215	227	435	260	1,137	1,400	1,341	1,356
Net income	**991**	**510**	**884**	**585**	**2,970**	**2,818**	**2,785**	**2,765**
Earnings attributable to noncontrolling interests	(14)	-	-	-	(14)	-	-	-
Preferred dividends	10	-	-	-	10	-	-	-
GAPP earnings	**995**	**510**	**884**	**585**	**2,974**	**2,818**	**2,785**	**2,765**
Adjustments	390	-	-	-	390	-	-	-
Non-GAAP adjusted earnings	**605**	**510**	**884**	**585**	**2,584**	**2,818**	**2,785**	**2,765**
Weighted average shares outstanding								
Basic	928	961	961	961	953	961	961	961
Diluted	930	963	963	963	955	963	963	963
Adjusted EPS	**0.65**	**0.53**	**0.92**	**0.61**	**2.71**	**2.93**	**2.89**	**2.87**

Source: Company reports and Guggenheim Securities, LLC estimates

See pages 111 - 112 for analyst certification and important disclosures.

FIRSTENERGY CORP (FE, BUY, $38PT, $31.25)

Expect FES Strategic Review to Continue to Drive Discussions on the Upcoming Earnings Call – Hopefully FE Mitigates "Kicking the Can Down the Road" Fears

- **Maintaining our BUY** rating on FE despite **lowering our price target to $38** from $40, as we mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations.
- **2Q17 drivers – Guggenheim in line with consensus at $0.60.** We are raising our 2Q17 estimate to $0.60 from $0.57, which represents ~7% YoY earnings increase with continued implementation of new rates at utilities through 2017; starting with the company's outlook for favorable results primarily from the impact of new rates in PA, NJ and OH DMR ($0.18/share). We expect modest negative impact from mild temperatures to be offset by steady industrial customer growth. Additionally, there should be continued benefit from Energizing the Future program at Transmission ($0.02/share). YoY comp will also be negatively impacted by lower capacity revenue (-$0.12/share), dilution (-$0.02/share), and potentially further headwinds from pension and taxes among others (-$0.02/share).
- **Our updated 2017-2020 estimates are $2.81, $2.49, $2.37 and $2.27.** Our updated estimates incorporate 6/29/17 forward curves; 3/30/17 curves drove our prior estimates.
- **We expect strategic review of FES to continue to drive discussions – Hopefully reinforcing Mgmt. not "kicking the can down the road."** Management will likely continue to address their goal to complete the divesture of FES and transform into a fully regulated company by mid-2018. Potentially some updates to be provided around the settlement discussions with BNSF and Norfolk Southern on coal transportation contract disputes. We wouldn't expect much progress on OH nuclear legislation, with both the House and the Senate coming back to normal sessions in September after summer break. **We expect mgmt. to reiterate '17 guidance and provide guidance for 3Q 2017.**
- **Valuation.** Our $38 price target is based on a sum-of-the-parts analysis. We assign less than $1/share for CES using a 6.0x weighted average EV/EBITDA applied to the various merchant assets. We assign ~$37/share for the regulated utilities using the 16.0x regulated group target multiple. We assign $13/share to transmission, subtract ~$12 of parent drag, and arrive at our 12-month price target of $38.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	0.77A	0.60E	1.08E	0.36E	**2.81E**	2.80E
Prior		*0.57E*	*1.07E*	*0.40E*	*2.81E*	
2018E	0.44E	0.59E	1.04E	0.42E	**2.49E**	2.52E
Prior	*0.70E*	*0.51E*	*0.98E*	*0.33E*	*2.51E*	
2019E	0.42E	0.56E	0.95E	0.44E	**2.37E**	2.38E
Prior	*0.65E*	*0.48E*	*0.88E*	*0.36E*	*2.37E*	
2020E	0.40E	0.53E	0.93E	0.41E	**2.27E**	2.22E
Prior	*0.62E*	*0.48E*	*0.89E*	*0.35E*	*2.34E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

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INCOME STATEMENT ($ Millions)	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenue								
Total Operating Revenues	3,552	**3,566**	**4,086**	**3,353**	**14,558**	**15,171**	**15,308**	**15,475**
Expenses								
Fuel	368	443	459	415	**1,685**	**1,826**	**1,888**	**1,870**
Purchased Power	863	793	974	715	**3,345**	**3,428**	**3,442**	**3,491**
Gross Margin	**2,321**	**2,330**	**2,653**	**2,224**	**9,528**	**9,917**	**9,978**	**10,114**
Other Operating Expense	1,142	1,111	1,081	1,142	**4,476**	**4,580**	**4,572**	**4,576**
Pension MTM	0	0	0	0	**0**	**0**	**0**	**0**
Depreciation	275	293	297	301	**1,165**	**1,243**	**1,307**	**1,370**
Amortization of new regulatory assets	59	20	30	30	**139**	**200**	**200**	**200**
General Taxes	271	259	259	266	**1,055**	**1,051**	**1,066**	**1,109**
Impairment / Other	0	0	0	0	0	0	0	0
RTEP cost assumption	0	0	0	0	0	0	0	0
Merger Synergies	0	0	0	0	0	0	0	0
Total Other Operating Expenses	**1,747**	**1,683**	**1,667**	**1,739**	**6,835**	**7,074**	**7,145**	**7,255**
OPERATING INCOME	**574**	**648**	**986**	**485**	**2,693**	**2,843**	**2,833**	**2,859**
Other Income & Deductions	24	30	30	26	111	95	85	55
EBITDA (Non GAAP)	**1,043**	**966**	**1,319**	**822**	**4,150**	**4,286**	**4,340**	**4,429**
Interest Expense	(287)	(270)	(271)	(271)	**(1,099)**	**(1,074)**	**(1,076)**	**(1,077)**
Capitalized Interest	20	0	0	0	20	0	0	0
Interest Expense - Net	(267)	(270)	(271)	(271)	(1,079)	(1,074)	(1,076)	(1,077)
Income Taxes	(126)	(146)	(271)	(84)	(627)	(681)	(672)	(671)
Effective Tax Rate	38%	38%	38%	38%	36%	37%	36%	37%
Earnings Available to Parent	**205**	**261**	**475**	**156**	**1,097**	**1,184**	**1,170**	**1,167**
Operating Earnings	**340**	**267**	**481**	**162**	**1,250**	**1,184**	**1,170**	**1,167**
Operating EPS Diluted	$0.77	$0.60	$1.08	$0.36	**$2.81**	**$2.49**	**$2.37**	**$2.27**

Source: Company reports and Guggenheim Securities, LLC estimates

ALLIANT ENERGY CORP (LNT, NEUTRAL, $36PT, $40.84)

IA Rate Case Not Contentious; All Eyes on EEI with Upsized/Roll-forward CapEx and Rate Base Guidance

- **Maintaining our NEUTRAL** stance and **establishing a price target of $36 (vs. our prior fair value estimate of $37).** We mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations.
- **2Q17 drivers: Guggenheim slightly higher at $0.37 vs. consensus at $0.36.** We are increasing our 2Q17 estimate slightly to $0.37 from $0.36, compared to 2Q16 earnings of $0.37, as we expect 2Q earnings to be positively impacted by a full quarter of interim rate increase at IPL ($0.05/share) and WPL's retail electric and gas rate increases ($0.04/share) implemented in January 2017. We expect rate increases to be partially offset by higher depreciation (-$0.03/share) and O&M (-$0.01/share) expenses primarily due to the addition of Marshalltown CCGT plant, as well as higher energy efficiency cost recovery amortization (-$0.02/share) at WPL. Weather will likely have limited impact on YoY performance, as we expect close-to-normal weather after a mild winter in the region and would remove the $0.01/share benefit attributed to favorable weather in 2Q16 (vs. normal). YoY results should also see slight dilution (-$0.01/share), and potentially higher interest expense (-$0.01/share).
- **Our annual estimates remain unchanged.** We are maintaining our annual estimates for 2017 through 2020 of $2.00 / $2.12 / $2.24 / $2.41, respectively. Management has a strong history of being conservative (see our Roadshow Meeting takeaways linked below) and 5-7% of LT growth is well cemented, with several levers to pull to hit the top end, vs. our LT growth estimate for ~6.4%.
- **Management roadshow:** We recently spent time with management and hosted a roadshow. **See our deep dive thoughts HERE.**
- **We expect management to provide updates around IA rate case proceeding**, although would not expect it to be contentious despite optically high rate increase. Management indicated possibility of settlement or partial settlement. We also expect to see some progress with the construction of the Riverside Expansion project at WPL, given the heavy capital deployment in '17 and '18 to meet in-service date of early '20. Management will likely reiterate the message delivered during our recently hosted roadshow that guidance of updated CapEx and rate base (roll forward 1 year) to reflect the incremental capital spending from 200MW additional wind generation will be presented at EEI later this year; we estimate at ~$350mm in incremental spend. Management could hold off on '18 EPS guidance pending final order in IA rate case.
- **Valuation.** We arrive at our $36 price target by applying our 16.0x regulated group target multiple, with a turn premium to reflect incremental opportunities with wind projects, to our 2018 EPS estimate of $2.12.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	0.43A	0.37E	0.96E	0.22E	**2.00E**	2.00E
Prior		*0.36E*	*0.97E*	*0.22E*	*2.00E*	
2018E	0.45E	0.39E	1.02E	0.24E	**2.12E**	2.14E
Prior	*0.45E*	*0.39E*	*1.02E*	*0.24E*	*2.12E*	
2019E	0.48E	0.42E	1.06E	0.28E	**2.24E**	2.25E
Prior	*0.48E*	*0.42E*	*1.06E*	*0.28E*	*2.24E*	
2020E	0.51E	0.46E	1.11E	0.32E	**2.41E**	2.38E
Prior	*0.51E*	*0.46E*	*1.11E*	*0.32E*	*2.41E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM
ALLIANT ENERGY
CONSOLIDATED FINANCIALS
($ in millions unless stated otherwise)

INCOME STATEMENT ($ Millions)	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Electric utility	678	687	935	677	2,977	3,088	3,186	3,384
Gas utility	154	61	43	112	370	390	407	424
Other utility	12	13	11	14	49	51	54	58
Non-regulated	10	15	1	12	39	32	32	32
Total Operating Revenues	**854**	**776**	**989**	**816**	**3,435**	**3,562**	**3,678**	**3,897**
Fuel & purchased power	208	203	265	211	887	919	948	1,006
Electric transmission service	125	132	152	133	541	564	585	623
Cost of gas sold	92	27	14	65	197	207	216	224
Other O&M	152	144	149	167	611	596	583	570
Asset valuation charges	-	-	-	-	-	-	-	-
Non-regulated O&M	1	1	(0)	2	4	3	3	3
Depreciation and amortization	107	106	107	109	429	449	474	494
Taxes other than income taxes	26	24	25	24	100	99	99	99
Total Operating Expenses	**711**	**636**	**711**	**711**	**2,769**	**2,839**	**2,906**	**3,018**
Operating Income	**143**	**140**	**278**	**105**	**666**	**723**	**772**	**879**
Interest expense	52	55	54	60	221	259	298	327
Interest Rate	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Unconsolidated investments	(12)	(8)	(8)	(9)	(36)	(36)	(39)	(42)
AFUDC	(17)	(16)	(16)	(16)	(65)	(86)	(104)	(67)
Interest income and other	(0)	(0)	0	-	(0)	(0)	(0)	(0)
Total interest expense and other	**24**	**31**	**30**	**35**	**120**	**137**	**154**	**218**
Income before tax	**119**	**109**	**248**	**70**	**546**	**586**	**618**	**661**
Income taxes	18	21	25	16	79	91	91	95
Income from continuing ops. after tax	**102**	**88**	**223**	**54**	**466**	**496**	**527**	**566**
Discontinued operations (net tax)	1	-	-	-	1	-	-	-
Effective Tax Rate (%)	16%	19%	10%	22%	15%	15%	15%	14%
Net income before preferred dividend	**103**	**88**	**223**	**54**	**468**	**496**	**527**	**566**
Adjusted Earnings per Share	**$0.43**	**$0.37**	**$0.96**	**$0.22**	**$2.00**	**$2.12**	**$2.24**	**$2.41**

Source: Company reports and Guggenheim Securities, LLC estimates

NEXTERA ENERGY (NEE, BUY, $162PT, $143.15)

Not Looking for Much More than Management Just Offered at NEE's Recent Analyst Day - Raising Our Estimates/PT to Reflect Substantially More Renewable Development

NEE Year-over-Year Quarterly Earnings Bridge

$1.67	**2Q16**
$0.08	FP&L
	NEER
	Renewables
$0.05	Incremental capacity additions
$0.05	Return to normal weather
	Merchant
($0.01)	Divestiture closed April 2016
($0.02)	Divestiture closed Nov. 2016 (Marcus Hook)
	Other
($0.01)	Tax: +/- $0.04 variability remaining
($0.03)	Interest on debt: +/- $0.07-0.08 variability remaining
($0.02)	Dilution
$1.76	**2Q17**

Source: Guggenheim Securities, LLC estimates.

- **Reiterating our BUY rating on NEE** and **raising our price target to $162** from $144, despite marking our regulated utility valuations to current yield expectations, which in turn brings our regulated group target multiple down to 16x vs. 17x driving our prior regulated utility valuations – Incorporating incremental renewable development opportunities management highlighted at their recent Analyst Day conference more than offsets the set-back in valuations.
- **2Q17: Guggenheim above consensus ($1.76 vs. $1.69).** We are raising our 2Q17 estimates, along with all of our NEE estimates, to incorporate YoY growth from NEE's Florida utility consistent with management's expectations for 8% growth on an annual basis (+$0.08), incorporate incremental renewable projects that have been brought on-line since the same period last year (+$0.05), and reverse the impact unfavorable weather had on renewable contributions last year (+$0.05), assuming a return to normal. These are more than enough to fill any earnings void created by divesting merchant assets (-$0.03), or tax variability (-$0.01), as well as drag created by interest on incremental debt (-$0.03) or dilution from equity issuance (-$0.02).
- **Raising estimates as we incorporate substantially more renewable development, as well as re-powering opportunities.** Our annual estimates are higher each year through 2020, now projecting $6.80 / 7.30 / 7.78 / 8.36 for 2017E/'18E/'19E/'20E, respectively (vs. prior estimates of $6.79 / 7.07 / 7.56 / 8.10 over the same period)... driven largely by incorporating incremental wind development – We are modeling an additional ~3GW of wind through 2020, consistent with the additional opportunities management recently highlighted at NEE's analyst day (e.g., up to ~1GW of additional re-powering opportunities through 2018, and another ~1.2-1.7GW thereafter). We also continue to model FP&L earning 11-11.4% returns, managing toward the top-end of their allowed band through 2020. That said, we now model just under 8% annual growth through 2020, which puts us at the top-end of management's outlook for 6-8%. In our view, we may likely see NEE breach this already aggressive growth trajectory organically – Just doing what they've been doing.
- **See our recent NDR note HERE.**
- **Valuation.** Our $162 PT is comprised of $75 for FP&L, and $93 for NEER. We apply our group average 16x regulated utility target multiple and an NEE-specific premium of 2x to our 2018 FP&L estimate of $4.16 to account for constructive regulation and growth opportunities not reflected in current fundamentals. Our NEER valuation assumes an 85% payout rate and targets a 4.5% yield.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	1.75A	1.76E	1.70E	1.57E	**6.80E**	*6.70E*
Prior		*1.60E*	*1.90E*	*1.54E*	*6.79E*	
2018E	1.88E	1.97E	1.92E	1.53E	**7.30E**	*7.20E*
Prior	*1.66E*	*1.72E*	*2.05E*	*1.64E*	*7.07E*	
2019E	1.88E	2.11E	2.09E	1.70E	**7.78E**	*7.69E*
Prior	*1.79E*	*1.82E*	*2.18E*	*1.76E*	*7.56E*	
2020E	1.98E	2.39E	2.19E	1.80E	**8.36E**	*8.30E*
Prior	*1.88E*	*2.10E*	*2.27E*	*1.85E*	*8.10E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM
NEXTERA

INCOME STATEMENT ($ in millions)	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Total Operating Revenues	3,977	4,363	4,796	4,086	17,221	17,868	18,450	19,006
Operating Expenses								
Fuel, Purchased Power & Interchange	899	1,110	1,506	1,071	4,586	4,442	4,489	4,540
Operations & Maintenance	795	958	930	971	3,654	4,003	4,223	4,446
Restructuring & Impairment Charges	(1,085)	2	123	5	(955)	134	134	134
Depreciation & Amortization	619	639	647	604	2,509	2,724	2,910	3,098
Taxes Other than Income Taxes	339	356	362	289	1,346	1,372	1,418	1,456
Total operating expenses	1,567	3,065	3,569	2,939	11,140	12,675	13,174	13,674
Gross Margin	3,078	3,253	3,289	3,015	12,635	13,426	13,961	14,467
Operating Income / (Loss)	2,410	1,298	1,227	1,147	6,081	5,193	5,276	5,332
EBITDA	3,060	1,970	1,935	1,753	8,718	8,040	8,336	8,580
Other Income / (Deductions)								
Interest Charges	(360)	(265)	(266)	(267)	(1,159)	(1,082)	(1,096)	(1,045)
AFUDC	-	3	5	8	15	81	162	243
Equity in Earnings of Equity Method Investees	31	34	61	2	128	123	150	150
AFUDC	22	19	22	25	89	165	266	368
Interest Income	19	12	17	4	52	34	34	34
NEER Growth Projects, pre-tax	-	40	40	79	158	185	185	185
Other, net	149	21	21	21	213	225	300	450
Total Other Income / (Deductions)	(139)	(137)	(100)	(128)	(503)	(269)	2	385
Income / (Loss) from Operations Before Income Tax	2,271	1,161	1,127	1,019	5,578	4,924	5,277	5,717
Income Tax Expense (Benefit)	675	339	330	287	1,632	1,512	1,642	1,807
Effective Tax Rate (%)	29.7%	29.2%	29.3%	28.2%	29.3%	30.7%	31.1%	31.6%
Income Before Cumulative Accounting Change	1,596	822	796	732	3,946	3,412	3,635	3,910
Cumulative Effect Accounting Change	(8)	-	-	-	(8)	-	-	-
Net Income / (Loss)	1,588	822	796	732	3,938	3,412	3,635	3,910
Operating Adjustments	(763)	-	-	-	(763)	-	-	-
Earnings / (Loss) Excluding Effect of Certain Items	825	822	796	732	3,175	3,412	3,635	3,910
Operating Earnings / (Loss) per Share	**$1.75**	**$1.76**	**$1.70**	**$1.57**	**$6.80**	**$7.30**	**$7.78**	**$8.36**

Source: Company reports and Guggenheim Securities, LLC estimates

NISOURCE (NI, BUY, $28PT, $26.09)

New Rates to Benefit a Relatively Quiet Quarter; Environmental Compliance and Financing Activities in Focus

- We are reaffirming our **BUY** rating and increasing our PT to $28 from $27, as we incorporate our 16x group multiple and reflect a premium for higher growth prospects. We continue to see value in NI despite the increase in shares YTD (NI +13% vs. the UTY +5%), as we see the opportunity for further multiple expansion as NI continues to shift its business mix more towards gas. Gas utilities currently trade at a 3x premium vs. electric counterparts vs. NI's current 2x premium, implying room for further multiple expansion.
- **2Q17 drivers: Guggenheim in-line with consensus at $0.10.** The implementation of rates as well as riders/tracker updates throughout NI's jurisdiction are expected to be a positive contributor. NI is largely insulated from sensitivity associated with weather due to normalization clauses in KY, PA, and MD and decoupling in MA and OH. That said, we expect weather to have a negative ~$0.01 per share impact to earnings on an unadjusted basis, with HDDs that were ~23% lower, offset by CDDs that were slightly higher in the shoulder month. O&M is also expected to create somewhat of a headwind, with consolidated O&M expenses expected to be similar to 1Q due to inflationary pressure. Overall, our 2Q EPS estimate remains unchanged at $0.10.
- **2Q earnings call: We expect to hear an update on the Environmental Compliance settlement** (Case no. 44872) that was filed for on June 9 related to the Coal Combustion Residuals rule. The settlement was signed off by the Indiana Office of Utility Consumer Counselor, the NIPSCO Industrial Group, and the Citizens Action Coalition of Indiana with terms specifying recovery of ~$195mm in costs (vs. the original ask of $228mm) and calls for costs associated with the Effluent Guidelines Rule to be addressed in another case. Evidentiary hearings are scheduled for Aug 21, with a decision expected in 2018. **Further, we expect to hear a recap on financing activities by NI**, as they issued $2.9bn of debt at 3.9% and retired $1bn with an interest rate ranging from 5.4%-6.8%. **We expect refinancing savings to materialize in 3Q/4Q and will look for an update on guidance, with our expectations that management will guide to the top-end of the $1.12-$1.18 range (vs. our $1.18 estimate).**
- **Valuation.** We value NI as a regulated utility, arriving at our $28 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 16x, plus a three turn premium to account for higher growth potential versus what is being reflected in fundamentals; (2) $21/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 a one-turn premium for higher growth; (3) ($3)/share for other adjustments for Corp and Other.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	0.71A	0.10E	0.07E	0.31E	**1.18E**	*1.18E*
Prior		*0.10E*	*0.07E*	*0.31E*	*1.18E*	
2018E	0.74E	0.11E	0.08E	0.34E	**1.27E**	*1.25E*
Prior	*0.74E*	*0.11E*	*0.08E*	*0.34E*	*1.27E*	
2019E	0.79E	0.12E	0.07E	0.36E	**1.34E**	*1.33E*
Prior	*0.79E*	*0.12E*	*0.07E*	*0.36E*	*1.34E*	
2020E	0.83E	0.12E	0.06E	0.37E	**1.38E**	*1.38E*
Prior	*0.83E*	*0.12E*	*0.07E*	*0.37E*	*1.38E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM

NISource

Consolidated

($ Millions)

	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Gas Distribution	837	389	309	632	2,167	2,345	2,497	2,635
Gas Transportation and Storage	339	203	161	330	1,032	1,117	1,189	1,255
Electric	422	407	529	421	1,779	1,875	1,971	2,065
Other	2	3	3	5	13	17	18	19
Total Operating Revenues	**1,599**	**1,002**	**1,001**	**1,388**	**4,990**	**5,354**	**5,675**	**5,974**
Cost of Sales	552	240	238	448	1,478	1,517	1,556	1,594
Operation and maintenance	411	405	405	445	1,665	1,715	1,767	1,820
Loss (gain) on sale of assets and impairments, net	-	-	-	-	-	-	-	-
Other taxes	76	55	62	66	260	295	330	362
Total Operating Expenses	**487**	**461**	**467**	**511**	**1,925**	**2,010**	**2,096**	**2,181**
EBITDA	**560**	**301**	**296**	**429**	**1,586**	**1,827**	**2,023**	**2,198**
Depreciation and amortization	143	162	165	169	639	697	750	806
Operating Income	**417**	**139**	**131**	**261**	**947**	**1,130**	**1,274**	**1,392**
Equity Earnings in Unconsolidated Affiliates	-	-	-	-	-	-	-	-
Other, net	1	(0)	(0)	(0)	-	-	-	-
Loss on early extinguishment of long-term debt	-	-	-	-	-	-	-	-
Interest expense, net	85	90	96	101	372	466	556	633
Income before income taxes	**333**	**49**	**35**	**160**	**575**	**664**	**718**	**759**
Income Taxes	121	17	12	56	206	235	255	271
Net income from continuing operations	**211**	**32**	**22**	**104**	**369**	**429**	**463**	**488**
Income (Loss) from Discontinued Operations - net of taxes	-	-	-	-	-	-	-	-
Net income	211	32	22	104	369	429	463	488
Less: Net income attributable to noncontrolling interests	-	-	-	-	-	-	-	-
Net Income (Loss) attributable to NiSource	**211**	**32**	**22**	**104**	**369**	**429**	**463**	**488**
Avg. shares outstanding (diluted)	324	324	328	331	330	337	345	354
Earnings Per Common Share, Diluted	0.65	0.10	0.07	0.31	**$1.12**	**$1.27**	**$1.34**	**$1.38**
Non-GAAP Items	19				19			
Net income (Non-GAAP)	**231**	**32**	**22**	**104**	**388**	**429**	**463**	**488**
EPS from Continuing Operations	**$0.71**	**$0.10**	**$0.07**	**$0.31**	**$1.18**	**$1.27**	**$1.34**	**$1.38**

Source: Company reports and Guggenheim Securities, LLC estimates

NEW JERSEY RESOURCES (NJR, BUY, $44PT, $41.00)

Quiet Quarter; PennEast and Southern Reliability Link Will Be Center of Attention

- We are reaffirming our **BUY** and our PT of $44. We continue to view the gas utility as a core driver with solid growth, and see contracted renewable opportunities at Clean Energy Ventures as a key driver to the story.
- **Fiscal 3Q17 drivers: Guggenheim below consensus at $0.07 vs. $0.03 (F3Q16 $0.13).** Fiscal 3Q is relatively quiet from an earnings perspective, as NJR earns the majority of its profits in fiscal 1Q/2Q. Our estimates incorporate customer growth to emulate full-year guidance of 1.7%, translating into a relatively solid quarter for NJNG (+$0.01) despite some weather headwinds. That said, the Energy Services segment is expected to face some difficulties YoY (-$0.03) and while the Clean Energy Ventures segment is anticipated to continue on pace, the timing of tax credits recognized will likely affect results (-$0.04).
- **Timing of PennEast pipeline expected to be the main focus on the call after the NJ DEP denied the wetland permit application.** PennEast will likely resubmit its wetlands application by YE17, assuming the project receives a FERC certificate beforehand. We expect the delay to shift the in-service date to fiscal 2Q19 from fiscal 1Q19. That said, since the project earns AFUDC, we do not expect an earnings impact from a small delay. Our estimates assume PennEast contributes $0.10 per share in its first full-year of operations.
- **Southern Reliability Link (SRL) will also be in focus with a public hearing by the Pinelands Commission scheduled for July 26th.** Approval from the Pinelands Commission would serve as a NT catalyst for NJR, in our view, as the project would receive the necessary permit to run SRL through the Joint Base in the Pinelands (a contentious area that environmentalists look to preserve), and we would note that the commander of the Joint Base has endorsed the route. The project will add resiliency through a second feed to NJNG's system (currently 85% of supply is transported on a single interstate pipeline system), with an estimated cost of $180mm and recovered in a future rate case.
- **Valuation.** We arrive at our $44 price target utilizing a sum-of-the parts analysis comprised of: (1) $41/share for regulated gas utility when we ascribe our historical LDC premium spread to our regulated electric target P/E multiple derived from our corp. bond regression model of 16x plus a 3 turn premium to account for increasing contracted cash flows not being reflected in earnings to our 2018 EPS estimate of $1.72; and (2) $2/share for NJR's energy services when we ascribe 9x EV/EBITDA multiple to our 2018 EBITDA estimate of $25mm, minus implied debt.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	0.47A	1.21A	0.07E	0.02E	**1.75E**	1.73E
Prior			*0.07E*	*0.02E*	*1.75E*	
2018E	0.65E	0.92E	0.27E	0.04E	**1.88E**	1.86E
Prior	*0.65E*	*0.92E*	*0.27E*	*0.04E*	*1.88E*	
2019E	0.66E	0.95E	0.31E	0.09E	**2.00E**	1.97E
Prior	*0.66E*	*0.95E*	*0.31E*	*0.09E*	*2.00E*	
2020E	0.71E	1.00E	0.33E	0.15E	**2.18E**	2.18E
Prior	*0.71E*	*1.00E*	*0.33E*	*0.15E*	*2.18E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM

NJR MODEL

CONSOLIDATED FINANCIALS

($ in millions)

	1QA	2QA	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenues								
Utility	186	296	119	91	690	676	704	730
Nonutility	355	438	280	381	1,455	1,355	1,361	1,382
Total Operating Revenues	541	734	399	472	2,146	2,031	2,065	2,111
Operating Expenses								
Cost of sales	401	482	299	384	1,566	1,437	1,450	1,463
Gas Purchases - Utility	61	112	51	37	262	262	274	284
Gas Purchases - Nonutility	338	367	248	347	1,300	1,175	1,176	1,180
Gas Purchases - Related parties	2	2	-	-	4	-	-	-
Operation and maintenance	52	52	48	54	207	198	199	200
Regulatory rider expenses	13	20	6	2	41	41	41	41
Depreciation and amortization	19	20	22	23	85	96	104	109
Energy and other taxes	14	19	10	7	50	48	48	48
Other	-	-	-	2	2	2	3	3
Total operating expenses	500	594	386	471	1,951	1,824	1,845	1,865
Operating Income	41	140	13	1	195	207	220	247
Other income, net	4	5	3	3	14	6	7	7
Interest expense, net of capitalized interest	11	11	7	7	36	33	40	44
Earnings before tax	35	134	9	(4)	174	180	187	210
Income tax provision	2	24	7	(3)	30	27	28	33
Equity in earnings of affiliates	2	5	4	3	14	17	25	27
Net Income	35	115	6	2	158	169	184	204
Adjustments	5	(10)	-	-	(4)	-	-	-
Net Income (Non GAAP)	40	105	6	2	153	169	184	204
Avg. Shares Outstanding (Diluted)	87	87	87	88	88	90	92	94
Reported EPS (Diluted)	$0.40	$1.32	$0.07	$0.02	$1.80	$1.88	$2.00	$2.18
Adjustments	$0.07	($0.11)	$0.00	$0.00	($0.05)	$0.00	$0.00	$0.00
Ongoing EPS diluted	**$0.47**	**$1.21**	**$0.07**	**$0.02**	**$1.75**	**$1.88**	**$2.00**	**$2.18**

Source: Company reports and Guggenheim Securities, LLC estimates

NORTHWEST NATURAL GAS (NWN, NEUTRAL, $54PT, $62.30)

Weather Not an Issue for the Shoulder Quarter; Utilities Growth Supported by Healthy Economic Growth in Service Territories

- **Maintaining our NEUTRAL** stance and **establishing a price target of $54** (from $56 fair value estimate previously). We mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations. Valuation is the sole reason why we remain on the sidelines.
- **2Q17 drivers: Guggenheim above consensus at $0.07 vs. $0.05.** We are maintaining our 2Q17 estimate of $0.07, above the Street and flat with the same period last year, as we expect strong economic growth in NWN's Oregon and Washington service territories continue to drive above-average 1.7% customer growth and thus higher utility segment earnings through additional margin from customer growth. We expect minimal impact from weather this quarter given YTD weather conditions, especially when considering more than 80% customer base is covered with weather normalization mechanism (mostly in Oregon). Gas storage earnings are expected to see modest increase as the new contracts at both Mist and Gill Ranch facilities took effect on 4/1/2017. Offsetting factors include ~$0.5 million run-rate increase in O&M expense reflecting higher payroll and benefits due to continued increase of headcounts.
- **Our annual estimates remain unchanged.** We are maintaining our annual estimates for 2017 through 2020 of $2.23 / $2.30 / $2.44 / $2.60, respectively.
- **Strategic review of Gill Ranch gas storage could come to forefront.** The facility hasn't been able to capture attractive price spreads, and over-supplied market conditions in CA doesn't help. To add a layer of complexity on that, CA utilities expect increasingly stringent regulation of gas storage following the leak at SRE's Aliso Canyon facility, which could trigger rationalization of gas storage capacity and tighten the market. Not much volatility in the market so far, and we could continue to see the issue evolve. **We expect some updates around North Mist expansion project,** with the construction continuing to move forward and on track to be in-service for the winter of 2018 with the heaviest construction phase in 2017. As a reminder, the project is for a single long-term customer, and thus no rate case required for cost recovery with revenues to be recovered under established tariff schedule.
- **Valuation.** We value NWN as a regulated gas utility, arriving at our $54 price target. 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, and a 2.5x premium to account for M&A to arrive at our NWN-specific 23.5x target P/E multiple. Applying this to our 2018 EPS estimate of $2.30, we arrive at our $54 price target.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	1.40A	0.07E	-0.29E	1.05E	2.23E	2.16E
Prior		*0.07E*	*-0.29E*	*1.05E*	*2.23E*	
2018E	1.43E	0.06E	-0.29E	1.11E	2.30E	2.29E
Prior	*1.43E*	*0.06E*	*-0.29E*	*1.11E*	*2.30E*	
2019E	1.49E	0.08E	-0.29E	1.17E	2.44E	2.48E
Prior	*1.49E*	*0.08E*	*-0.29E*	*1.17E*	*2.44E*	
2020E	1.56E	0.10E	-0.27E	1.22E	2.60E	2.60E
Prior	*1.56E*	*0.10E*	*-0.27E*	*1.22E*	*2.60E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM
NORTHWEST NATURAL GAS COMPANY
Consolidated Financials

INCOME STATEMENT ($ in millions)	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenues:								
Utility	293	95	85	233	706	693	715	734
Gas Storage	5	7	7	7	25	30	33	38
Other	0	-	-	-	0	-	-	-
Total Operating Revenues	297	102	92	240	**731**	**724**	**748**	**772**
Operating Expenses:								
Cost of gas	144	21	30	107	302	280	288	296
Operations and maintenance	40	43	42	47	172	181	181	181
Environmental remediation	7	-	-	-	7	-	-	-
General taxes	9	-	-	-	9	-	-	-
Depreciation & amortization	21	23	24	25	92	104	112	119
Total Operating Expenses	221	88	95	179	**582**	**565**	**581**	**596**
Operating Income	**76**	**14**	**(3)**	**61**	**149**	**159**	**167**	**176**
Other Income (Expense):								
Other income, net	1	1	1	1	3	3	3	3
Interest expense, net	(10)	(10)	(11)	(11)	(42)	(45)	(46)	(46)
Total Other Income (Expense)	(9)	(10)	(10)	(11)	(40)	(42)	(43)	(43)
Income Before Income Tax Expense	**67**	**4**	**(13)**	**51**	**109**	**116**	**124**	**133**
Income Taxes	27	2	(5)	20	44	47	50	54
Net Income	**40**	**2**	**(9)**	**31**	**65**	**70**	**74**	**79**
Earnings from Equity Method Investments	-	-	-	-	-	-	-	-
Net Income from Noncontrolling Interest	-	-	-	-	-	-	-	-
Earnings for Common	**40**	**2**	**(9)**	**31**	**65**	**70**	**74**	**79**
Wtd. avg. share count (MM)	29	30	30	30	**29**	**30**	**30**	**30**
EPS (Basic and Diluted)	1.40	0.07	(0.29)	1.03	**2.23**	**2.30**	**2.44**	**2.60**
Non-operating items	-	(0)	(0)	0	-	-	-	-
Net Income (GAAP)	40	2	(9)	31	**65**	**70**	**74**	**79**
Operating EPS	1.40	0.07	(0.29)	1.05	**2.23**	**2.30**	**2.44**	**2.60**

Source: Company reports and Guggenheim Securities, LLC estimates

OGE ENERGY (OGE, BUY, $38PT, $35.58)

Oklahoma Regulatory Climate and Enable at the Forefront; Mild Weather Likely a Drag

- We are reaffirming our **BUY** rating and our $38 PT. OK still on the forefront of investors' minds, as OGE and the Oklahoma Corporation Commission (OCC) are at an inflection point. Valuation still points to solid entry point. On Enable – reminder, OGE bidding on behalf of another 3rd party so we do not expect a change in their LP interest if their offer is ultimately accepted by CNP.
- **2Q17 drivers: Guggenheim below consensus at $0.43 vs. $0.46.** We expect mild weather in OK and AK to create some headwinds as CDDs were down 8% and 11% YoY, respectively. Further, we have adjusted our depreciation expense lower and O&M expense higher as a result of the rate order in OK, which effectively offset each other. One-time items that occurred at Enable (ENBL, NC, $15.10) in 2Q16 associated with a correction in state taxes and a mark-to-market loss resulted in a negative impact of ~$0.06 per share are expected to reverse in 2Q17. We forecast $0.34 for the utility, $0.09 for Enable, and modest parent interest rate drag of $0.01 per share, which translates into our 2Q17 EPS estimate of $0.43.
- **2Q earnings call expected to be centered on the Oklahoma regulatory environment and Enable.** We expect the call to be focused on the OCC and the upcoming Nov. GRC filing for the Mustang Modernization project. We will also look for update on HB1377, which would form a task force to study current regulation and determine if the OCC is properly structured to operate in the 21st century. The bill passed in the House by a wide margin but was never finalized in the legislative session; although the Gov. is expected to issue an executive order on the matter. Additionally, with the July 15 deadline for the ROFO process over, we expect an update from management around Enable. That said we are likely to glean more information on CNP's earnings call, as they have led the overall process (see CNP above for more on ENBL). Note – a positive step with OK regulatory backdrop could allow OGE to pull forward CAPEX which has been mechanically held back. To spend or not to spend will be highly dependent on the OCC – this is the inflection point. A destructive commission could force OGE to diversify away from the state. See our roadshow note below for additional color.
- **We were recently with management for a roadshow. See our note HERE.**
- **Valuation.** We arrive at our $38 PT utilizing a sum-of-the-parts analysis, which is comprised of: (1) ~$28/share for regulated electric utility when we apply our group average regulated electric utility multiple of 16x, which is based on a regression of corp. bond yields and utility P/E multiples, and (2) ~$10/share for OGE's 26% ownership of ENBL's LP units, based on flat cash distributions of $1.27 per unit and applying an 7% target yield, which we derive from comparable gas-focused MLPs and ENBL's current LP unit value.

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2017E	0.18A	0.43E	0.99E	0.34E	**1.95E**	*1.95E*
Prior		*0.45E*	*0.98E*	*0.34E*	*1.95E*	
2018E	0.09E	0.46E	1.03E	0.46E	**2.04E**	*2.04E*
Prior	*0.09E*	*0.46E*	*1.03E*	*0.46E*	*2.04E*	
2019E	0.12E	0.47E	1.06E	0.48E	**2.14E**	*2.10E*
Prior	*0.12E*	*0.47E*	*1.06E*	*0.48E*	*2.14E*	
2020E	0.12E	0.49E	1.08E	0.49E	**2.18E**	*2.18E*
Prior	*0.12E*	*0.49E*	*1.08E*	*0.49E*	*2.18E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM

OGE Model

Consolidated Financials

($ in millions)

	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenues								
Electric Utility	456	556	795	571	2,379	2,549	2,590	2,625
Natural Gas Midstream Operations	-	-	-	-	-	-	-	-
Total Operating Revenues	**456**	**556**	**795**	**571**	**2,379**	**2,549**	**2,590**	**2,625**
Electric Utility	209	200	288	253	949	1,021	1,038	1,052
Natural Gas Midstream Operations	-	-	-	-	-	-	-	-
Total Cost of sales	**209**	**200**	**288**	**253**	**949**	**1,021**	**1,038**	**1,052**
Gross Margin	**247**	**357**	**507**	**319**	**1,430**	**1,528**	**1,552**	**1,573**
O&M	124	147	135	133	539	562	567	573
Taxes Other Than Income Tax	24	20	22	21	87	86	86	86
Total Operating Expenses	**148**	**167**	**157**	**155**	**626**	**648**	**654**	**659**
EBITDA	**99**	**190**	**350**	**164**	**803**	**880**	**898**	**914**
Depreciation and amortization	56	58	60	62	236	260	271	278
Operating Income	**44**	**132**	**290**	**102**	**567**	**620**	**627**	**636**
Equity in earnings of unconsolidated affiliates	36	29	29	38	132	123	146	145
Allowance for equity funds	7	-	-	-	7	-	-	-
Other income (expense)	5	(2)	(2)	(2)	-	(5)	(5)	(5)
Net other income	**47**	**27**	**28**	**37**	**138**	**118**	**140**	**139**
Interest on long-term debt	36	37	38	38	149	155	155	150
Allowance for borrowed funds	(3)	-	-	-	(3)	-	-	-
Interest on short-term debt and other	2.4				2	-	-	-
Total Interest Expense	**35**	**37**	**38**	**38**	**148**	**155**	**155**	**150**
Income Before Taxes	**56**	**122**	**280**	**100**	**558**	**582**	**613**	**625**
Income Taxes	**20**	**36**	**81**	**31**	169	174	185	188
Net Income	**36**	**85**	**199**	**69**	**389**	**408**	**428**	**437**
Weighted-average Number of Common Shares Outstanding	200	200	200	200	200	200	200	201
Earnings Per Common Share, Diluted	**$ 0.18**	**$ 0.43**	**$ 0.99**	**$ 0.34**	**$ 1.95**	**$ 2.04**	**$ 2.14**	**$ 2.18**
Non-operating items	-	-	-	-	-	-	-	-
Net Income (Non GAAP)	**36**	**85**	**199**	**69**	**389**	**408**	**428**	**437**
Operating EPS	**$ 0.18**	**$ 0.43**	**$ 0.99**	**$ 0.34**	**$ 1.95**	**$ 2.04**	**$ 2.14**	**$ 2.18**

Source: Company reports and Guggenheim Securities, LLC estimates

PG&E CORP (PCG, NEUTRAL, $61PT, $67.90)

Timing and regulatory accounting still come into quarterly play w/ utility rate proceedings, but look for more constructive discussion as the story continues to clean-up – Opportunities stemming from CA's energy/carbon policies, for example

- **Maintaining our NEUTRAL** stance and **lowering our price target to $61** from $65 as we mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations.
- **2Q17: Guggenheim above consensus ($0.79 vs. $0.76).** We are maintaining our 2Q17 estimate $0.79, which would be a relatively healthy $0.13 YoY increase (+20%), driven by timing of the GT&S rate case (+$0.15 assuming relatively consistent impact), continued rate base growth in the quarter (+$0.05 consistent with past experience) and making-up for the drag caused by higher depreciation/interest in 1Q17 absent off-setting revenue as a result of the rate case delay (+$0.03), reversing $0.25 of tax repair benefits over the remaining balance of 2017 (-$0.08), and accounting for dilution from incremental equity issuance over the course of the year (-$0.02). We would also note miscellaneous items that are difficult to capture in a YoY analysis have been somewhat more commonplace in PCG's earnings, representing a potential swing factor in either direction.
- **Our annual estimates remain unchanged.** We are maintaining our annual estimates for 2017 through 2020 of $3.70 / $3.83 / $4.03 / $4.11, respectively.
- **Valuation.** Our $61 price target is based on our regulated utility target multiple of 16x, applied to our 2018E EPS estimate of $3.83.

PCG Year-over-Year Quarterly Earnings Bridge

$0.66	2Q16A
$0.15	Timing of GT&S rate case
$0.05	Rate base growth
$0.03	Reverse drag from rate case delay in 1Q17
($0.08)	Reverse tax repair benefits over the balance of 2017
($0.02)	Dilution
???	Miscellaneous
$0.79	2Q17E

Source: Guggenheim Securities, LLC estimates.

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2017E	1.06A	0.79E	0.96E	0.89E	**3.70E**	*3.67E*
Prior		*0.79E*	*1.12E*	*0.73E*	*3.70E*	
2018E	0.62E	0.74E	0.99E	1.47E	**3.83E**	*3.82E*
Prior	*0.28E*	*0.95E*	*1.48E*	*1.11E*	*3.83E*	
2019E	0.65E	0.99E	0.71E	1.68E	**4.03E**	*4.00E*
Prior	*0.53E*	*1.24E*	*1.16E*	*1.10E*	*4.03E*	
2020E	0.18E	0.76E	1.04E	2.12E	**4.11E**	*4.17E*
Prior	*0.23E*	*0.96E*	*1.55E*	*1.37E*	*4.11E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM

PACIFIC GAS & ELECTRIC COMPANY

INCOME STATEMENT

($ in millions unless otherwise noted)

INCOME STATEMENT *($ in millions)*	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenues								
Electric	3,065	3,888	4,347	3,092	14,391	14,694	15,350	15,939
Nat Gas	1,203	772	769	1,618	4,362	4,347	4,186	4,057
Total Operating Revenues	**4,268**	**4,660**	**5,116**	**4,710**	**18,753**	**19,041**	**19,536**	**19,996**
Cost of Electricity	847	1,220	1,702	682	4,451	4,607	4,721	4,913
Cost of Natural Gas	325	75	80	250	730	730	730	730
Gross Margin	**3,096**	**3,364**	**3,334**	**3,778**	**13,572**	**13,703**	**14,085**	**14,353**
O&M	1,504	1,837	1,782	1,722	6,845	6,845	6,845	6,845
Other (Income)/Expense	(21)	(103)	(224)	284	(65)	(157)	(160)	(162)
EBITDA	**1,613**	**1,631**	**1,776**	**1,773**	**6,793**	**7,015**	**7,400**	**7,671**
Interest Income	(5)	(5)	(8)	17	(1)	(1)	(1)	(1)
D&A	712	729	724	695	2,861	3,009	3,156	3,304
EBIT	**906**	**906**	**1,060**	**1,060**	**3,932**	**4,008**	**4,245**	**4,368**
Interest Expense	218	218	218	277	931	982	1,020	1,046
Earnings Before Taxes	**688**	**688**	**842**	**783**	**3,001**	**3,026**	**3,224**	**3,322**
Income Taxes	141	282	345	321	1,089	1,059	1,129	1,163
Net Income	**547**	**406**	**497**	**462**	**1,912**	**1,967**	**2,096**	**2,159**
Minority Interest	3	4	3	4	14	14	14	14
Net Income to Common Shareholders	**544**	**402**	**494**	**458**	**1,898**	**1,953**	**2,082**	**2,145**
Avg. Fully Diluted Shares	511	512	514	515	**513**	**510**	**516**	**522**
Adjusted EPS	**$ 1.06**	**$ 0.79**	**$ 0.96**	**$ 0.89**	**$ 3.70**	**$ 3.83**	**$ 4.03**	**$ 4.11**

Source: Company reports and Guggenheim Securities, LLC estimates

PINNACLE WEST CAPITAL CORP (PNW, NEUTRAL, $85PT, $86.48)

Earnings Guidance and APS Rate Case in Focus

- We are reaffirming our **NEUTRAL** rating and establishing a price target of $85 (in line with our prior fair value estimate). We remain on the sidelines largely due to valuation. As the M&A valuation premium begins to contract over time - PNW has made it clear that they are not willing sellers - we could revisit our thesis as PNW fits very well within our overall sector call. We believe some multiple re-rating is warranted, and a slight pullback could have us revisit our rating on PNW's shares. We expect at a minimum 2017 EPS guidance range to be announced on the call, and an outcome of the APS rate case before the call will likely result in an announcement of a 2018 EPS guidance range.
- **2Q17 drivers: Guggenheim above consensus with $1.17 vs. $1.13 (2Q16 $1.08).** Weather will likely be a positive driver in 2Q17 (+$0.02), as sweltering temperatures swept across AZ in 2Q; CDDs were +9% YoY and +6% vs normal in 2Q17, with June experiencing particularly hot weather as CDDs were +16% vs. normal. Additionally, we expect O&M to be lower YoY (+$0.05) absent planned Four Corners outages in the quarter (although outages are planned for 2H17). We expect customer growth to contribute (+$0.02), as economy continues on pace, albeit with some weakness in the housing sector.
- **Earnings call will focus on earnings guidance/rate case:** In our view, management will likely issue 2017 EPS guidance on the call given how far we are into the year. 2018 EPS guidance will be contingent on receiving a rate case order before the call, which is becoming less likely at this point. As for the rate case, an ALJ recommended opinion and order (ROO) is expected in July. We could see a vote at the special open meeting on July 25, although the commission typically allows 10 days between receiving the ROO and scheduling a vote. That said, the commission could schedule a separate meeting for a vote in order to have rates implemented Aug. 1, although given how close we are to the end of July and still no ROO, timing of new rates could be pushed back.
- **Our annual 2017-2020 annual estimates remain unchanged at $4.26/$4.48/$4.77/$5.14.** While hot weather will help 2Q, we have adjusted our quarterly estimates due to the timing of rate implementation.
- **We were recently with management for a roadshow. See our note HERE.**
- **Valuation.** Our $85 PT is based on our 2018 EPS estimate of $4.48, which is derived from our average sector multiple of 16x plus a 3x turn premium to reflect an inherent M&A potential built into guidance (although we expect this to dissipate over time – hence our current Neutral stance) and strong fundamentals at the electric utility.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	0.21A	1.17E	2.44E	0.44E	**4.26E**	4.23E
Prior		*1.13E*	*2.46E*	*0.46E*	*4.26E*	
2018E	0.20E	1.23E	2.57E	0.47E	**4.48E**	4.49E
Prior	*0.17E*	*1.22E*	*2.57E*	*0.52E*	*4.48E*	
2019E	0.22E	1.31E	2.69E	0.54E	**4.77E**	4.73E
Prior	*0.22E*	*1.30E*	*2.69E*	*0.57E*	*4.77E*	
2020E	0.35E	1.35E	2.78E	0.65E	**5.14E**	5.02E
Prior	*0.35E*	*1.33E*	*2.78E*	*0.68E*	*5.14E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM
PINNACLE WEST CAPITAL CORP.
CONSOLIDATED INCOME STATEMENT
($ millions)

	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Total Operating Revenues	678	933	1,207	775	3,593	3,717	3,818	3,946
Fuel and purchased power	212	275	340	252	1,078	1,078	1,078	1,078
Fuel and PP - Non Regulated	0	0	0	0	0	0	0	0
Gross Margin	465	658	867	523	2,514	2,639	2,740	2,867
Operating Expenses								
O&M	220	225	220	217	882	881	881	881
Real estate	0	0	0	0	0	0	0	0
Taxes other than income	44	43	42	42	172	178	183	190
Other expense / (income)	(6)	(6)	(6)	(6)	(24)	(24)	(24)	(24)
EBITDA	207	396	611	270	1,484	1,604	1,699	1,820
Depreciation & amortization	128	134	129	128	519	561	594	640
EBIT	80	261	482	142	965	1,042	1,105	1,180
Interest expense	47	52	52	57	210	238	252	262
EBT	32	209	430	84	755	804	854	918
Income taxes	4	73	150	29	257	282	299	321
Net Income	28	136	279	55	498	523	555	597
Discontinued Ops								
Pref. Dividends & Minority Int.	5	5	5	5	20	20	20	20
Net Income Avail. to Common	23	131	274	50	478	503	535	577
Weighted Avg. Fully Diluted Shares	112.2	112.2	112.2	112.2	112.2	112.2	112.2	112.2
Operating EPS	$0.21	$1.17	$2.44	$0.44	$4.26	$4.48	$4.77	$5.14

Source: Company reports and Guggenheim Securities, LLC estimates

See pages 111 - 112 for analyst certification and important disclosures.

PORTLAND GENERAL ELECTRIC (POR, NEUTRAL, $44PT, $45.32)

Positive Weather and Hydro Conditions; Focus on IRP and Filling Capacity Needs

- We are reaffirming our **NEUTRAL** rating on POR and establishing a price target of $44 (in line with our prior fair value estimate). Our Neutral stance remains largely a valuation call. That said, we would like to see more clarity stemming from the IRP process and ultimate route that POR chooses to fill its capacity needs – a pullback could cause us to revisit thesis.
- **2Q17 drivers: Guggenheim in-line with consensus at $0.45.** We expect Carty cost overruns to remain a drag with an uptick in revenue offset by higher O&M and D&A expense and lower AFUDC. That said, we have raised our EPS estimate to $0.45 from $0.42, as HDDs in April and May in the Pacific NW were substantially higher YoY. Although CDDs were down YoY, POR should benefit from enhanced power supply operations as hydro conditions remained strong, with the Mid-Columbia River and Deschutes River above 100%. That said, we believe hydro conditions will reverse course over 2H17.
- **We expect the 2Q call to focus on the IRP process as bilateral negotiations are still ongoing.** As a reminder, POR is seeking potential ownership options or PPAs to fill capacity needs stemming from its 2016 IRP filing, with bilateral negotiations with several IPPs ongoing, identifying at least three assets that could fit the acquisition mold. While POR faced some pushback from environmentalists and ratepayer advocates in the OPUC workshop held earlier in July, capacity needs will need to be addressed one way or another. An acquisition or PPA would be contingent on POR receiving a waiver from OR's bidding process. OPUC acknowledgement is due Aug 31 followed by announcement of an acquisition/PPA or approval to issue one or more RFPs in 2H17 (assuming POR does not get a waiver), with approval by mid-2018. The waiver request is the big unknown but management has contingencies, in our view.
- **Wind resource, GRC settlement, and Carty litigations updates.** POR filed comments on June 23 in regards to procuring 175MWa from a new resource in response to staff concerns, so we will look for an update on this front. The 2018 GRC (Case no. UE319) is progressing along, and Carty litigation is continuing through the process. Judicial hearings in the 9th US Circuit Court of Appeals are scheduled for Aug 21, to discuss the appropriate forum to hear the Carty case, as the sureties want the case heard in the International Chamber of Commerce, while POR prefers the US District Court of OR.
- **We were just with management for a roadshow. See our note HERE.**
- **Valuation.** We value POR as a regulated utility, arriving at our $44 PT using our regulated group multiple. We apply our 16x regulated group multiple and two-turn premium to our 2018 EPS estimate of $2.43 to arrive at our $44 PT.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	0.82A	0.45E	0.31E	0.66E	**2.25E**	2.25E
Prior		*0.42E*	*0.31E*	*0.70E*	*2.25E*	
2018E	0.85E	0.47E	0.37E	0.75E	**2.43E**	2.46E
Prior	*0.85E*	*0.44E*	*0.37E*	*0.78E*	*2.43E*	
2019E	0.89E	0.49E	0.38E	0.78E	**2.54E**	2.56E
Prior	*0.89E*	*0.46E*	*0.38E*	*0.82E*	*2.54E*	
2020E	0.91E	0.51E	0.39E	0.81E	**2.63E**	2.70E
Prior	*0.91E*	*0.47E*	*0.39E*	*0.84E*	*2.63E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM

PORTLAND GENERAL ELECTRIC COMPANY

($ in millions unless stated otherwise)

	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Revenue	530	490	489	559	2,068	2,204	2,310	2,391
Purchased power and fuel	141	133	152	157	583	614	655	687
Generation, transmission and distribution	81	81	79	88	329	348	371	389
Administrative and other	68	68	65	71	272	288	307	322
Depreciation and amortization	84	85	86	87	342	357	362	366
Taxes other than income taxes	33	33	34	34	134	140	142	144
Total Operating Expenses	407	400	416	438	1,661	1,747	1,838	1,907
OPERATING INCOME	**123**	**89**	**73**	**122**	407	457	472	484
EBITDA	***210***	***177***	***161***	***212***	760	825	845	860
EBIT	***126***	***92***	***75***	***125***	418	468	483	495
Interest expense	30	30	33	34	127	135	135	135
Other income	3	3	2	3	11	11	11	11
Income before income tax expense	96	62	42	91	292	333	347	359
Income tax expense	23	22	15	32	91	116	122	126
Net Income	**73**	**40**	**28**	**59**	200	216	226	234
Weighted-average shares outstanding (in thousands):	89	89	89	89	89	89	89	89
EPS	0.82	0.45	0.31	0.66	$2.25	$2.43	$2.54	$2.63

Source: Company reports and Guggenheim Securities, LLC estimates

PPL CORP (PPL, NEUTRAL, $37PT, $38.40)

Should be a relatively quiet quarter without as much macro/FX exposure; and with resolution of recent rate proceedings.

- **Maintaining our NEUTRAL** stance and **establishing a price target of $37** (vs. our prior $39 fair value estimate) as we mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations.
- **2Q17: Guggenheim above consensus ($0.56 vs. $0.49).** We are raising our 2Q17 estimate to $0.56 from $0.49, which would reflect flat YoY earnings despite management's expectation for favorable FX impacts through 2017; starting with the company's outlook for +$0.25 of favorable FX impacts in 2017 (+$0.25), we back into the 2Q17 impact by reversing benefits captured in 1Q17 (-$0.10), subtracting a few cents expected in 4Q17 (-$0.05), with the balance more heavily-weighted in 3Q17 (-$0.06), leaving us with a net favorable impact of four cents from FX in 2Q17. There should be some benefit from higher returns on pension assets (+$0.01), although more than off-set by some regulatory lag from incremental depreciation and other "carrying costs" without rate relief (-$0.04), the UK price reset (-$0.01), and lower UK incentive revenues (-$0.01).
- **Our annual estimates remain unchanged.** We are maintaining our annual estimates for 2017 through 2020 of $2.17 / $2.32 / $2.39 / $2.50, respectively.
- **Valuation.** We apply our 16.0x regulated utility target multiple to our 2018 EPS estimate of $2.32 to arrive at a price target estimate of $37.

PPL Year-over-Year Quarterly Earnings Bridge

$0.56	2Q16
	Regulated Utilities
	Rate / regulatory activity
($0.01)	UK price reset
($0.01)	Lower UK incentive revenues
($0.01)	Reverse rebate collection last year
$0.01	O&M *(some YoY benefit from higher pension returns)*
($0.04)	Regulatory lag *(incremental depreciation, etc., without rate relief)*
	Other
	FX (Back into 2Q17 using mosaic theory)
$0.25	$0.25 YoY in 2017
($0.10)	(-) $0.10 captured in 1Q17
($0.05)	(-) "A few cents expected in 4Q17"
($0.06)	(-) "more heavily weighted in 3Q" (we assume 60%)
$0.02	Corporate and other *(reverse favorable 1Q17 accounting impacts)*
$0.56	2Q17

Source: Guggenheim Securities, LLC estimates.

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2017E	0.62A	0.56E	0.62E	0.37E	**2.17E**	*2.16E*
Prior		*0.49E*	*0.63E*	*0.43E*	*2.17E*	
2018E	0.55E	0.62E	0.68E	0.47E	**2.32E**	*2.31E*
Prior	*0.67E*	*0.53E*	*0.67E*	*0.46E*	*2.32E*	
2019E	0.57E	0.64E	0.70E	0.48E	**2.39E**	*2.41E*
Prior	*0.68E*	*0.55E*	*0.68E*	*0.48E*	*2.39E*	
2020E	0.60E	0.66E	0.72E	0.51E	**2.50E**	*2.53E*
Prior	*0.71E*	*0.58E*	*0.71E*	*0.50E*	*2.50E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM
PPL MODEL
CONSOLIDATED FINANCIALS

INCOME STATEMENT *($ in millions)*	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Total Operating Revenues	**1,951**	**1,924**	**2,046**	**1,883**	**7,804**	**8,148**	**8,304**	**8,541**
Fuel	(191)	(258)	(300)	(274)	(1,022)	(1,107)	(1,107)	(1,107)
Energy Purchases Realized	(215)	(119)	(130)	(170)	(635)	(590)	(596)	(602)
Other O&M	(432)	(432)	(432)	(485)	(1,782)	(1,807)	(1,830)	(1,854)
Depreciation	(242)	(246)	(247)	(258)	(992)	(1,033)	(1,083)	(1,138)
Taxes, other than income	(75)	(78)	(77)	(77)	(308)	(319)	(324)	(329)
Operating Income	**796**	**791**	**860**	**620**	**3,066**	**3,292**	**3,364**	**3,512**
Other Income (Expense)	(47)	(39)	(40)	(39)	(164)	(135)	(105)	(100)
Interest Expense	(217)	(215)	(217)	(233)	(882)	(905)	(929)	(953)
EBT	**532**	**537**	**603**	**348**	**2,020**	**2,252**	**2,330**	**2,458**
Taxes	(129)	(153)	(177)	(94)	(553)	(645)	(665)	(705)
Net Income	**403**	**383**	**426**	**254**	**1,467**	**1,607**	**1,665**	**1,753**
FX Adjustments	(21)	-	-	-	(21)	-	-	-
Other	(1)	-	-	-	(1)	-	-	-
Adjusted Net Income	**425**	**383**	**426**	**254**	**1,489**	**1,607**	**1,665**	**1,753**
Adjusted EPS (Diluted)	**$0.62**	**$0.56**	**$0.62**	**$0.37**	**$2.17**	**$2.32**	**$2.39**	**$2.50**

Source: Company reports and Guggenheim Securities, LLC estimates

PUBLIC SERVICE ENTERPRISE GROUP (PEG, BUY, $47PT, $44.03)

Don't expect much focus on quarterly performance, look for updates around NJ nuclear legislation

- We are reaffirming our **BUY** rating and **lowering our price target to $47** from $49, as we mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations. We don't expect a lot of new incremental data points on the call. Outlook should remain intact – focus should remain on NJ nuclear legislation among other items.
- **2Q17 drivers – Guggenheim in-line with consensus at $0.58.** Slightly lowering our 2Q17 estimates to $0.58 from $0.60, as we anticipate some headwinds from power, with lower power prices and declining hedge prices (-$0.04/share), partially offset by flat to slightly higher capacity revenue and potentially higher volume due to continued growth in the number of customers (+$0.01/share). That said, we expect utility earnings from incremental T&D investment (+$0.04/share), and on-going O&M savings (+$0.01/share) to offset downturn in power. We also factor in some incremental drag from accelerated depreciation associated with the early retirement of the Hudson and Mercer coal-gas generating stations (-$0.01/share).
- **Our 2017-2020 estimates are $2.91, $2.90, $2.91 and $2.95.** Our 2017 estimate of $2.91 is slightly above the midpoint of management's guidance of $2.80-$3.00. Rate cases, solar, infrastructure spend continue to drive our regulated EPS; updated estimates for the merchant power segment are now driven by the 6/29/17 forward curves (vs. 3/30/17 curves driving our prior estimates).
- **Remains a block and tackle story – we expected PSE&G growth to remain strong with some upside; focus should remain on NJ nuclear legislation.** As we highlighted, PSE&G has CAPEX upside opportunities that could prompt return to 9% utility rate base growth in the longer term. We expect some updates around the Bridgeport Harbor 5 CCGT project as the plant has received all needed permits to begin construction phase. We expect management to reiterate their stance that current path for nuclear participation in energy market isn't sustainable and they would not continue to operate plants that weren't earning their cost of capital, and potentially provide incremental line of sight on when we might see legislation introduced in NJ.
- **Valuation.** Our $47 price target incorporates SOTP analysis. We assign a PEG-specific 11.5x weighted average EV/EBITDA multiple for Power, subtracting out net debt of ~ $1.9B and making other EV adjustments including MtM, resulting in a Power contribution of ~$13 to our equity valuation. We apply a 16.0x regulated multiple and a half turn premium for capital spending upside at PSE&G to our 2018E utility EPS of $2.04 resulting in $34/share and incorporate ~ $1/share for holdings.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	0.92A	0.58E	0.85E	0.55E	**2.91E**	2.91E
Prior		*0.60E*	*0.84E*	*0.55E*	*2.91E*	
2018E	0.75E	0.62E	0.92E	0.60E	**2.90E**	2.93E
Prior	*0.75E*	*0.62E*	*0.93E*	*0.61E*	*2.91E*	
2019E	0.86E	0.65E	0.86E	0.54E	**2.91E**	2.94E
Prior	*0.86E*	*0.65E*	*0.86E*	*0.54E*	*2.91E*	
2020E	0.79E	0.63E	0.93E	0.60E	**2.95E**	2.98E
Prior	*0.78E*	*0.63E*	*0.94E*	*0.61E*	*2.95E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM

PSEG

CONSOLIDATED FINANCIALS

INCOME STATEMENT ($mm, unless otherwise noted)	1Q17A	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	2020E
Operating revenues	2,592	2,396	2,775	2,846	10,609	11,687	11,709	11,928
Energy costs	(874)	(838)	(1,048)	(1,138)	(3,898)	(4,641)	(4,650)	(4,730)
O&M	(712)	(796)	(747)	(941)	(3,196)	(3,367)	(3,293)	(3,344)
D&A	(828)	(251)	(252)	(268)	(1,600)	(1,128)	(1,170)	(1,207)
Taxes other than income	-	-	-	-	-	-	-	-
Total operating expenses	(2,414)	(1,885)	(2,047)	(2,347)	(8,693)	(9,136)	(9,113)	(9,281)
Operating Income	**178**	**511**	**728**	**499**	**1,915**	**2,551**	**2,596**	**2,647**
Equity in Income of Affiliates	3	-	-	-	3	-	-	-
Other income (net)	61	82	82	82	307	347	342	347
Impairments	(1)	-	-	-	(1)	-	-	-
Interest expense	(98)	(137)	(143)	(148)	(526)	(632)	(666)	(689)
EBT	143	456	667	432	1,698	2,266	2,273	2,306
Income taxes	(29)	(160)	(233)	(151)	(573)	(793)	(795)	(807)
Income from Cont Ops	114	296	434	281	1,125	1,473	1,477	1,499
Disc Ops (net of tax)	-	-	-	-	-	-	-	-
Net Income	114	296	434	281	1,125	1,473	1,477	1,499
Preferred stock dividend	-	-	-	-	-	-	-	-
NI Available to Common	**114**	**296**	**434**	**281**	**1,125**	**1,473**	**1,477**	**1,499**
Weighted diluted shares	508	508	508	508	508	508	508	508
EPS	**0.22**	**0.58**	**0.85**	**0.55**	**2.21**	**2.90**	**2.91**	**2.95**
Co. defined operating EPS	**0.92**	**0.58**	**0.85**	**0.55**	**2.91**	**2.90**	**2.91**	**2.95**

Source: Company reports and Guggenheim Securities, LLC estimate.

SCANA (SCG, BUY, $74PT, $64.56)

Don't expect much focus on quarterly performance while nuclear construction concerns loom large

- **Maintaining our BUY** rating and **lowering our price target to $74** from $79 as we mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations.
- **2Q17: Guggenheim below consensus ($0.64 vs. $0.65).** We are maintaining our 2Q17 estimate of $0.64, which reflects some YoY decline despite some rate activity driving incremental earnings, primarily for nuclear construction (+$0.07), while other rate increases weren't material, as PSNC, for example, is a gas utility that wouldn't derive earnings from shoulder month periods. We also reverse several favorable impacts captured in 1Q17 to align with annual guidance, including O&M (-$0.01), non-weather-related growth (-$0.05), tax savings (-$0.01), and other income (-$0.02); and incorporate some regulatory lag from incremental depreciation and other "carrying costs" without rate relief (-$0.03) consistent with prior quarters. Note we model weather-adjusted earnings to align with management's weather-adjusted outlook, although weather can have material impacts (~$0.24 unfavorable in 1Q17).
- **Our annual estimates remain unchanged.** We are maintaining our annual estimates for 2017 through 2020 of $4.25 / $4.50 / $4.77 / $4.96, respectively.
- **Don't expect much focus on quarterly performance while nuclear construction concerns loom large.** With all that being said, and as has been the case for the past several quarterly earnings calls, we wouldn't expect much attention will be on SCG's quarterly performance while nuclear construction concerns weigh heavily on the story.
- **Valuation.** We apply our regulated utility target multiple of 16.0x to our 2018 EPS estimates for SCE&G of $4.01, and add our gas-specific premium of 5x to the regulated group target multiple of 16.0x to arrive at our 21.0x gas utility target multiple, which we apply to our 2018E EPS estimate for PSNC of $0.49 ($10/share) to arrive at our price target of $74 ($64/share for SCE&G, $10/share for PSNC).

SCG Year-over-Year Quarterly Earnings Bridge

$0.69	2Q16
	Regulated Utilities
	Rate / regulatory activity
$0.00	PSNC ($19mm effective Nov. 2016)
$0.07	SCE&G Nuclear (BLRA)
$0.00	SCE&G Make-Whole
($0.01)	O&M *(Reverse some 1Q17 savings to align with annual guide)*
($0.05)	Growth *(Reverse some 1Q17 growth to target flat annual)*
($0.03)	Regulatory lag *(incremental depreciation, etc., without rate relief)*
	Other
($0.02)	Corporate and other *(reverse favorable 1Q17 impacts)*
($0.01)	Taxes *(Reverse 1Q17 variance from 31% effective rate)*
?	Weather
$0.64	2Q17

Source: Guggenheim Securities, LLC estimates.

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2017E	1.43A	0.64E	0.98E	1.21E	**4.25E**	*4.20E*
Prior		*0.64E*	*0.98E*	*1.20E*	*4.25E*	
2018E	0.97E	0.51E	0.92E	2.10E	**4.50E**	*4.45E*
Prior	*0.91E*	*0.51E*	*0.94E*	*2.13E*	*4.50E*	
2019E	0.89E	0.39E	0.80E	2.69E	**4.77E**	*4.63E*
Prior	*0.83E*	*0.39E*	*0.82E*	*2.73E*	*4.77E*	
2020E	0.82E	0.30E	0.70E	3.13E	**4.96E**	*4.68E*
Prior	*0.76E*	*0.30E*	*0.71E*	*3.18E*	*4.96E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM

SCANA

CONSOLIDATED FINANCIALS

Income Statement *($ in millions)*	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenues:								
Electric	577	676	865	774	2,891	3,375	3,706	3,983
Gas - regulated	322	122	58	243	745	946	1,021	1,074
Gas - non-regulated	274	188	210	266	937	1,006	1,054	1,104
Total Operating Revenues	**1,173**	986	1,133	1,282	**4,573**	**5,327**	**5,780**	**6,161**
Fuel for electric generation	136	139	184	165	623	717	789	849
Purchased power	11	33	17	63	124	270	302	325
Gas purchased for resale	370	35	37	58	500	199	202	205
Other O&M	179	393	451	482	1,505	1,944	2,065	2,177
Depreciation & amortization	95	97	97	98	387	440	485	516
Other taxes	66	67	67	68	269	303	332	353
Operating Income	**316**	**221**	**279**	**348**	**1,164**	**1,455**	**1,605**	**1,736**
Other income	17	8	17	22	64	64	64	64
Other expense	(10)	(9)	(7)	(10)	(36)	(41)	(41)	(41)
Interest charges	(87)	(93)	(98)	(109)	(387)	(480)	(555)	(630)
AFUDC	9	9	7	7	32	33	33	33
Total Other Income (Expense)	**(71)**	**(85)**	**(82)**	**(90)**	**(327)**	**(425)**	**(499)**	**(575)**
Income Before Tax	**245**	**137**	**197**	**258**	**837**	**1,030**	**1,105**	**1,161**
Income Taxes	74	46	58	86	264	383	410	430
Net Income	**171**	**91**	**139**	**172**	**573**	**647**	**695**	**731**
Non-operating items	34	-	-	-	**34**	-	-	-
Net Income (Non GAAP)	**205**	**91**	**139**	**172**	**607**	**647**	**695**	**731**
Operating EPS	**1.43**	**0.64**	**0.98**	**1.21**	**$4.25**	**$4.50**	**$4.77**	**$4.96**

Source: Company reports and Guggenheim Securities, LLC estimates

SEMPRA ENERGY (SRE, BUY, $124PT, $113.33)

International Exposure a Headwind but Growth in Other Segments; Focus on LNG, International opportunities, and CA Cost of Capital

- We are reaffirming our **BUY** rating and lowering our target price to $124 from $126, as we incorporate our regulated target multiple of 16x into our valuation. Sum-of-the-parts math continues to show value with investors placing little upside for SRE strong cash flow generation and LNG opportunities.
- **2Q17 drivers: Guggenheim above consensus at $0.90 vs. $0.86.** Weather is not expected to have an impact as SDG&E is fully decoupled – we expect YoY contributions to be in-line with growth guidance. At SoCal Gas we backed out the $13mm after-tax charge from development expenses last year (~$0.05), although overall contributions from the gas utility are relatively minimal in the quarter. Our 2Q17 estimates moved to $0.90 from $0.95 largely due to international exposure, as the MXN/USD appreciated ~4% this quarter and benefited last year from the ~10% depreciation of the exchange rate.
- **We expect the 2Q earnings call to be centered on LNG and international opportunities as CA cost of capital proceedings are essentially in the rearview mirror.** We expect the projected in-service dates for Cameron LNG to remain in place, with Train 1 expected to be in-service mid-2018, Train 2 at the end of 2018, and Train 3 in mid-2019. We will look for updates regarding an equity partner for a Cameron Train 4 expansion, as well as Port Arthur LNG, after management signed an MOU with KOGAS, potentially moving the Port Arthur LNG facility ahead of Cameron Train 4 in the development que. We will also look for incremental details on the Peruvian pipeline bid and IEnova (IENOVA-MX, NC, MXN96.10) growth opportunities (marine terminals, etc.), which may also present a NT catalyst. Finally, a vote adopting the all-party settlement that extends the next CA cost of capital application deadline to 2019 has removed some regulatory overhang, and we expect management to discuss the broader CA regulatory construct in general on the call.
- **See HERE for our Analyst Day takes.**
- **Valuation.** We arrive at our $124 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 16x based on a regression of corp. bond yields and electric utility PE multiples and one turn premium for growth prospects, (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) ~$30/share value for the International segment utilizing our bond-implied regulated electric P/E multiple and 2x premium to reflect growth prospects; and (4) a 9x EV/EBITDA multiple to EBITDA from US Gas & Power, which is discounted from the 2019 period to capture Cameron coming online equates to $26/share for US Gas & Power.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	1.74A	0.90E	1.02E	1.55E	**5.21E**	5.11E
Prior	*1.74A*	*0.95E*	*0.97E*	*1.55E*	*5.21E*	
2018E	1.96E	1.05E	1.05E	1.72E	**5.79E**	5.62E
Prior	*1.96E*	*1.05E*	*1.05E*	*1.72E*	*5.79E*	
2019E	2.23E	1.49E	1.23E	2.05E	**7.00E**	6.82E
Prior	*2.23E*	*1.49E*	*1.23E*	*2.05E*	*7.00E*	
2020E	2.44E	1.58E	1.28E	2.16E	**7.45E**	7.38E
Prior	*2.44E*	*1.57E*	*1.28E*	*2.16E*	*7.45E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

SEMPRA ENERGY
CONSOLIDATED FINANCIALS
($ in millions, unless otherwise noted)

	1Q17A	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	2020E
Utilities	2,698	2,179	2,334	2,646	9,858	10,268	10,604	10,924
Energy-related businesses	333	353	371	351	1,408	1,499	1,936	2,090
Total Operating Revenue	**3,031**	**2,532**	**2,705**	**2,997**	**11,266**	**11,767**	**12,539**	**13,014**
Operating Expenses:								
Utilities:								
Cost of electric fuel and purchased power	527	687	733	644	2,591	2,910	3,044	3,193
Cost of natural gas	485	325	381	504	1,694	1,775	2,086	2,174
Energy-related businesses:								
Cost of natural gas, electric fuel and purchased p	67	13	14	14	108	57	57	57
Other cost of sales	22	21	24	23	90	97	111	126
Operation and maintenance	714	605	590	665	2,574	2,440	2,440	2,440
Depreciation and amortization	360	368	377	381	1,486	1,593	1,685	1,777
Franchise fees and other taxes	110	102	102	102	416	408	408	408
Total Operating Expenses	**2,285**	**2,122**	**2,221**	**2,333**	**8,961**	**9,280**	**9,830**	**10,175**
EBITDA	**1,106**	**778**	**862**	**1,046**	**3,791**	**4,081**	**4,394**	**4,616**
EBIT	**746**	**410**	**485**	**665**	**2,305**	**2,488**	**2,709**	**2,839**
Equity earnings, before income tax	3	9	9	9	31	55	179	235
Other income, net	169	19	25	46	259	249	249	249
Total interest and related charges	163	163	165	169	660	701	686	734
Pretax income	755	275	354	551	1,936	2,091	2,451	2,588
Effective tax rate	39%	29%	30%	31%	34%	31%	28%	27%
Equity earnings, net of income tax	(8)	41	23	26	82	81	81	81
Net Income including noncontrolling interests	452	237	269	405	1,363	1,517	1,841	1,973
Noncontrolling interests	11	11	12	13	47	50	54	57
Extraordinary items included in operating (after ta	0	0	0	0	-	-	-	-
Reported GAAP Earnings	**441**	**226**	**257**	**392**	**1,316**	**1,467**	**1,788**	**1,915**
Income (loss) from disc ops	0	0	0	0	-	-	-	-
Items excluded from operating earnings	(3)	0	0	0	(3)	-	-	-
Adjusted Earnings	**438**	**226**	**257**	**392**	**1,313**	**1,467**	**1,788**	**1,915**
					46	**154**	**321**	**128**
Adjusted EPS	**$1.74**	**$0.90**	**$1.02**	**$1.55**	**$5.21**	**$5.79**	**$7.00**	**$7.45**

Source: Company reports and Guggenheim Securities, LLC estimates

SOUTHERN COMPANY (SO, NEUTRAL, $49PT, $47.25)

Don't expect much focus on quarterly performance while concern around nuclear construction, Kemper cost recovery and equity needs loom large

- **Maintaining our NEUTRAL** stance and **establishing a price target of $49** (vs. our prior fair value estimate of $53) as we mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations..
- **2Q17: Guggenheim below consensus ($0.70 vs. $0.72).** We are maintaining our 2Q17 estimate of $0.70, consistent with guidance management provided on the 1Q17 earnings call, and reflecting a slight YoY decline (-$0.04) despite additional earnings contributions from local gas distribution utilities and gas midstream endeavors stemming from SO's acquisition of AGL, as we would expect earnings impacts to be relatively mute in the shoulder months of 2Q, relative to winter months in 1Q/4Q where gas utilities derive most of their earnings power, and any positive earnings to be off-set by acquisition financing in 2Q17. That said, reversing favorable impacts from weather last-year (-$0.03), and with weather this year likely not helping (-$0.01), we arrive at a $0.04 YoY decline.
- **Lowering our annual estimates through 2020 to reflect our less constructive view around Kemper cost recovery, in-turn triggering incremental equity.** We are lowering our annual estimates through 2020, beginning in 2017, now projecting $3.00 vs. our prior estimate of $3.02, as we assume a less constructive outcome for SO's recovery of costs associated with non-operational portions of Kemper, and carrying forward through 2020 as we assume the bid/ask spread (i.e., SO's requested rate increase vs. PSC's authorized increase) will be addressed with an equity infusion at SO's Mississippi Power subsidiary. We assume SO would be looking for ~$1.8bn based on upwards of ~$3.3bn of costs, less the amount SO wasn't planning to recover (~$500mm) and the amount securitized (~$1bn), which would drive +/-$0.05 in the best/worst outcome (i.e., 100% or 0% recovery) by our estimate, with upwards of $0.04 of dilution on top of the worst case scenario, to the extent external financing addresses any shortfall relative to the $1.8bn ask – said differently, in our worst case scenario (i.e., -$0.05 with 0% cost recovery), we would assume external financing supports the entire $1.8bn ask, with incremental equity issuance (assuming ~50/50% capitalization) creating -$0.04 of drag on earnings, for a total potential downside of $0.09 in the worst case scenario. That said, we are not modeling the worst case scenario, we are moving half-way there rather, so our updated estimates reflect about half of the requested rate increase described above (-$0.03), and, in-turn, about half the dilutive effect we describe above as well (-$0.02).
- **See our recent NDR note HERE.**
- **Valuation.** We apply our group average 16.0x regulated utility target multiple to our 2018 EPS estimate of $3.09 to arrive at our price target of $49.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	0.66A	0.70E	1.17E	0.48E	**3.00E**	2.96E
Prior		*0.70E*	*0.90E*	*0.76E*	*3.02E*	
2018E	0.58E	0.74E	1.23E	0.53E	**3.09E**	3.08E
Prior	*0.36E*	*0.82E*	*1.06E*	*0.90E*	*3.14E*	
2019E	0.62E	0.77E	1.25E	0.56E	**3.21E**	3.20E
Prior	*0.40E*	*0.85E*	*1.09E*	*0.93E*	*3.27E*	
2020E	0.67E	0.80E	1.28E	0.59E	**3.34E**	3.30E
Prior	*0.45E*	*0.88E*	*1.11E*	*0.96E*	*3.40E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM
SOUTHERN COMPANY
CONSOLIDATED FINANCIALS
($ in thousands)

INCOME STATEMENT *($000)*	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Total Operating Revenues	5,771,000	5,047,329	6,185,832	5,149,695	22,153,856	23,189,627	23,826,080	24,475,473
Fuel	1,803,000	1,208,842	1,479,319	1,301,804	5,792,965	6,274,689	6,368,771	6,468,841
Purchased Power	179,000	176,603	204,791	145,215	705,609	805,494	823,248	842,131
Purchased Power - Afiliates	-	171,200	188,173	172,731	532,104	760,933	764,641	768,584
Other Operations	108,000	-	-	-	108,000	-	-	-
Maintenance	1,329,000	1,222,552	1,286,496	1,511,160	5,349,208	5,300,594	5,308,193	5,315,944
Depreciation & Amortization	716,000	682,963	693,727	718,553	2,811,243	2,996,948	3,240,132	3,499,348
Taxes other than Income Taxes	330,000	285,619	311,677	301,863	1,229,158	1,239,769	1,259,399	1,278,815
Consolidation Eliminations	-	171,200	188,173	172,731	532,104	760,933	764,641	768,584
Operating Income	1,306,000	1,128,351	1,833,475	825,639	5,093,465	5,050,266	5,297,057	5,533,225
Other Income / (Expense)	(337,000)	(95,156)	(101,970)	(115,359)	(649,485)	(389,494)	(414,848)	(444,993)
Income Taxes	315,000	335,868	562,873	230,896	1,444,637	1,515,112	1,587,096	1,654,069
Minority interest income	(4,000)	-	-	-	(4,000)	-	-	-
Consolidated Net Income	658,000	697,327	1,168,632	479,384	3,003,343	3,145,661	3,295,113	3,434,163
Consolidated EPS - Operating	$0.66	$0.70	$1.17	$0.48	$3.00	$3.09	$3.21	$3.34

Source: Company reports and Guggenheim Securities, LLC estimates

SOUTH JERSEY INDUSTRIES (SJI, NEUTRAL, $34PT, $34.00)

2Q isn't typically an exciting quarter for gas utilities, although look for updates on PennEast, SJG rate cases, SHARP extension, and new fuel mgmt. contracts

- **Maintaining our NEUTRAL** stance and **establishing a price target of $34** (vs. our prior fair value estimate of $36) as we mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations.
- **2Q17: Guggenheim above consensus ($0.06 vs. $0.05).** We are raising our 2Q17 estimate to $0.06 from $0.02, which would reflect a YoY decline (vs. $0.12 2Q16A) despite some incremental earnings contributions from the utility's AIRP/SHARP cost recovery mechanisms, likely some customer growth, and additional fuel management contracts, as we also anticipate some headwinds for YoY comparisons from higher O&M, depreciation, etc., without off-setting revenue from rate increases, the absence of investment tax credits without incremental solar investment, and some dilution from the SJI's equity issuance last year. With all that being said, the shoulder months of 2Q aren't typically exciting for gas utilities relative to the winter months of 1Q/4Q where most of their earnings power is derived; we may likely see impacts from weather, although unclear how material considering decoupling in place for SJI's gas utility, potentially with their non-utility businesses though (e.g., Combined-Heat and Power).
- **Our annual estimates remain unchanged as we await additional visibility around growth prospects.** We are maintaining our annual estimates for 2017 through 2020 of $1.20 / $1.61 / $1.71 / $1.83, respectively, as we await updates on several fronts, including **(1) SJI's New Jersey rate case** for its South Jersey Gas utility, as well as drivers for their next rate case cycle and cost recovery mechanisms might be extended outside of general rate cases; **(2) Customer growth** vs. assumptions embedded in management's outlook; **(3) PennEast pipeline** development in light of recent permitting set-backs; and **(4) Fuel management contract** negotiations – Which we've highlighted as a potential source of upside to management's $150mm economic earnings target in 2020, as well as our outlook (which comes in just below management's target at $146mm in 2020).
- **See our recent NDR note HERE.**
- **Valuation.** We add our gas-specific premium of 5x to our regulated group target multiple of 16.0x to arrive at our 21.0x gas utility target multiple, which we apply to our 2018E EPS estimate of $1.61 to arrive at our $34 price target.

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2017E	0.72A	0.06E	0.00E	0.42E	**1.20E**	*1.21E*
Prior		*0.02E*	*-0.01E*	*0.47E*	*1.20E*	
2018E	0.81E	0.06E	-0.05E	0.80E	**1.61E**	*1.48E*
Prior	*0.77E*	*0.07E*	*-0.01E*	*0.77E*	*1.61E*	
2019E	0.77E	0.08E	-0.02E	0.88E	**1.71E**	*1.64E*
Prior	*0.63E*	*0.20E*	*0.10E*	*0.78E*	*1.71E*	
2020E	0.90E	0.20E	0.10E	0.63E	**1.83E**	*1.85E*
Prior	0.79E	0.25E	0.15E	0.63E	1.83E	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM

SJI MODEL

CONSOLIDATED FINANCIALS

INCOME STATEMENT *($MM)*	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenue								
Gas utility	197	69	56	145	**467**	**525**	**547**	**562**
FERC midstream	0	0	0	0	**0**	**5**	**19**	**22**
Non-utility	229	14	21	21	**286**	**73**	**70**	**72**
Total Operating Revenue	**426**	**83**	**77**	**167**	**753**	**604**	**636**	**657**
Cost of sales	287	20	26	59	**392**	**178**	**178**	**178**
Operations	40	28	27	31	**125**	**117**	**118**	**119**
Maintenance	5	4	4	5	**18**	**18**	**19**	**19**
Depreciation	24	13	13	13	**63**	**96**	**106**	**116**
Energy and other taxes	2	1	1	1	**4**	**4**	**4**	**4**
Operating Income	**68**	**18**	**6**	**58**	**150**	**191**	**212**	**223**
Other income (deductions)	6	2	2	2	**11**	**6**	**6**	**6**
Net Interest Expense	17	11	11	12	**51**	**39**	**45**	**45**
Earnings before tax	**57**	**8**	**(3)**	**48**	**110**	**159**	**173**	**184**
Income taxes	(22)	(3)	3	(15)	**(37)**	**(30)**	**(37)**	**(38)**
Equity (loss) of affiliate	3				**3**	**0**	**0**	**0**
Net Income	**38**	**5**	**(0)**	**33**	**76**	**128**	**137**	**145**
Adjustments	20				**20**	**-**	**-**	**-**
Economic earnings *(Non-GAAP,*	**58**	**5**	**(0)**	**33**	**95**	**128**	**137**	**145**
Avg. share count	80	80	80	80	**80**	**80**	**80**	**80**
Economic EPS *(Non-GAAP)*	**$0.72**	**$0.06**	**($0.00)**	**$0.42**	**$1.20**	**$1.61**	**$1.71**	**$1.83**

Source: Company reports and Guggenheim Securities, LLC estimates

SPIRE INC (SR, BUY, $78PT, $71.75)

Focus on organic growth vs. M&A, look for clear message as the story continues to clean-up – two rate cases in Missouri not contentious

- **Maintaining our BUY** rating on SR and raising **our price target to $78 from $76**, as we mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations, and removed Missouri discount.
- **Fiscal 3Q17: Guggenheim above consensus ($0.38 vs. $0.36).** We are slightly increasing our 3Q17 estimate to $0.38 from $0.36, reflecting ~7% YoY growth, as we incorporate the Infrastructure System Replacement Surcharge (ISRS) revenues of $3.0mm effective June 1 at Laclede and MGE and lower RSE adjustment at Alagasco. Quarterly earnings should also reflecting slight dilution with a 5% increase in average shares outstanding related to the EnergySouth acquisition in 2016. Another factor we see as a drag to 3Q earnings relates to higher interest expense YoY, reflecting the addition of EnergySouth, as well as higher rate on floating-rate debt. We also expect flat earnings from gas marketing.
- **Our annual estimates remain unchanged.** We are maintaining our annual estimates for 2017 through 2020 of $3.53 / $3.72 / $3.80 / $4.11, respectively.
- **Management roadshow:** We recently spend time with management and hosted a roadshow. **See our deep dive thoughts HERE.**
- **No longer interested in large scale acquisitions – we expect mgmt. to continue to deliver the message during their earnings call.** Management noted during our NDR that their focus continues to shift towards organic growth vs. M&A, although also noted they would continue to evaluate opportunities to acquire municipal utilities as part of the organic growth plan; targeting municipal utilities around the existing footprint. **We expect STL pipeline project continues to remain on schedule.** The recently-amended route of the pipeline (i.e. adding a 6-mile segment instead of refurbishing an existing line) won't change the schedule or budget of the project while eliminates supply disruption risk as well as uncertainty over upgrade costs. Management continues to expect the project to be in-service during fiscal mid-2019, at an estimated cost of $190-210mm.
- **Valuation:** We value SR as a regulated utility, arriving at our $78 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. This equates to a 21x target P/E multiple, which we apply to our 2018 EPS estimate of $3.72 to arrive at our $78 price target.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons.
2017E	1.04A	2.38A	0.38E	-0.25E	3.53E	*3.53E*
Prior			*0.36E*	*-0.25E*	*3.53E*	
2018E	1.15E	2.50E	0.42E	-0.36E	3.72E	*3.65E*
Prior	*1.15E*	*2.50E*	*0.42E*	*-0.36E*	*3.72E*	
2019E	1.18E	2.61E	0.44E	-0.44E	3.80E	*3.74E*
Prior	*1.18E*	*2.61E*	*0.44E*	*-0.44E*	*3.80E*	
2020E	1.28E	2.83E	0.49E	-0.49E	4.11E	*4.07E*
Prior	*1.28E*	*2.83E*	*0.49E*	*-0.49E*	*4.11E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM

Spire Inc.

Consolidated

Income Statement ($ Millions)	1QA	2QA	3QE	4QE	2017E	2018E	2019E	2020E
	1QA	2QA	3QE	4QE	2017E	2018E	2019E	2020E
Gas Utility	472	641	332	265	1,710	1,848	1,926	2,030
Gas Marketing and other	23	22	3	35	84	79	77	72
Total Operating Revenues	495	663	336	300	1,794	1,927	2,002	2,102
Purchased gas-Utility	194	254	104	79	631	762	794	836
Purchased gas-Other	22	17	2	28	69	46	44	40
Gross Margin	280	392	229	193	1,094	1,119	1,164	1,226
Other O&M	99	98	94	101	393	381	385	389
Other taxes	33	48	40	40	162	172	187	202
Marketing O&M	20	27	4	8	59	23	22	21
EBITDA	127	219	92	43	480	543	571	615
D&A-Utility	38	38	45	46	166	195	212	229
D&A-Other	0	0	3	3	6	11	11	11
Operating Income	89	180	45	(6)	308	337	348	374
Other, net	1	4	1	6	12	11	11	11
Total Interest Charges	22	23	19	19	83	80	85	89
Income before taxes	68	161	27	(18)	237	268	274	296
Income Taxes	22	53	9	(6)	78	88	91	98
Net income	45	108	18	(12)	159	179	183	198
Non-GAAP Adjustments	2	1	-	-	3	-	-	-
Net Economic Earnings (Loss) (Non-GAAP)	48	109	18	(12)	162	179	183	198
Wtd. Avg. share count	46	46	48	48	46	48	48	48
Earnings Per Share	$ 0.99	$ 2.36	$ 0.38	$ (0.25)	$ 3.47	$ 3.72	$ 3.80	$ 4.11
Economic EPS (Non-GAAP)	$ 1.04	$ 2.38	$ 0.38	$ (0.25)	$ 3.53	$ 3.72	$ 3.80	$ 4.11

Source: Company reports and Guggenheim Securities, LLC estimates

VECTREN INC (VVC, BUY, $65PT, $59.45)

Should be a relatively quiet quarter; some updates expected around the IN IRP proceeding

- **Maintaining our BUY** rating on VVC and **raising our price target to $65 from $64**, as we mark our regulated utility valuations to reflect current yield expectations, lowering our regulated group target multiple to 16x vs. 17x driving our prior regulated utility valuations, and apply slightly higher multiple to non-utilities.
- **2Q17 drivers: Guggenheim below consensus at $0.43 vs. $0.45.** Lowering our 2Q17 estimates to $0.43 from $0.47 despite continued infrastructure investment programs in service territories ($0.03/share) as well as increase of large customer margins ($0.02/share) and continued O&M savings ($0.01/share). These increases were partially offset by reduction in electric large customer usage as a large customer (SABIC) completed its transition to a co-generation facility (-$0.03/share). At the non-utility segment, we expect continued solid performance from Infrastructure Services and Distribution segments ($0.03/share) given strong demand for construction services from gas utilities, partially offset by the expiration of 179D tax deductions (Section 179D) related to achieved energy efficiency savings (-$0.01/share) as well as YoY earnings drag (-$0.01/share) from pre-construction costs for the large transmission pipeline project in Ohio started late in 1Q17.
- **Our annual estimates remain unchanged.** We are maintaining our annual estimates for 2017 through 2020 of $2.64 / $2.79 / $3.05 / $3.23.
- **Management roadshow:** We recently spend time with management and hosted a roadshow. **See our deep dive thoughts HERE.**
- **2Q earnings call**: **We expect to hear on update on the IN IRP filing.** As a reminder, the IRP preferred plan provided by VVC, which includes upgrades at one coal plant for ELG, didn't get much push back as both parties agree that coal plants are essential in the generation mix in Indiana. IURC will respond to the IRP by releasing a director's report due in the summer of 2017 and VVC will make the IRP filing after considering all the comments. A final order on the IRP is expected from the Commission no later than 2019. **Further, we could also see updates on the electric grid modernization plan which is pending final approval from the commission** – should not see any surprise here as the plan was designed to emulate the gas infrastructure plan approved in Indiana in 2014 and management expects final order from the PUC in September 2017.
- **Valuation.** We arrive at our $65 price target utilizing a sum-of-the parts analysis comprised of: (1) $19/share for regulated electric utility where we apply our group average regulated electric utility multiple of 16.0x and 3x premium to account for higher earnings growth as well as exposure to development opportunities presented by IRP filed in IN and Electric Grid Modernization Plan not reflected in current fundamentals; (2) $30/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 11.0x multiple to non-utility EBITDA of $124mm ($16/share value).

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	0.67A	0.43E	0.66E	0.88E	**2.64E**	2.62E
Prior		*0.47E*	*0.64E*	*0.85E*	*2.64E*	
2018E	0.69E	0.46E	0.69E	0.96E	**2.79E**	2.80E
Prior	*0.69E*	*0.49E*	*0.68E*	*0.93E*	*2.79E*	
2019E	0.75E	0.50E	0.77E	1.02E	**3.05E**	3.05E
Prior	*0.75E*	*0.54E*	*0.76E*	*0.99E*	*3.05E*	
2020E	0.79E	0.53E	0.81E	1.08E	**3.23E**	3.23E
Prior	*0.79E*	*0.57E*	*0.80E*	*1.05E*	*3.23E*	

Source: Company reports, Guggenheim Securities LLC estimates, FactSet.

GUGGENHEIM

Vectren Corp.

Consolidated Financials

Income Statement ($ Millions)	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Gas utility	293	132	129	246	800	779	777	767
Electric utility	132	143	168	139	582	588	599	609
Nonutility	200	312	318	310	1,139	1,317	1,444	1,563
Total Operating Revenues	**625**	**588**	**615**	**694**	**2,521**	**2,684**	**2,819**	**2,939**
Cost of gas sold	113	29	27	80	249	205	173	145
Cost of fuel & purchased power	41	44	49	42	177	178	181	185
Cost of nonutility revenues	62	265	257	253	837	1,125	1,236	1,339
Total Cost of sales	**216**	**338**	**334**	**375**	**1,262**	**1,509**	**1,590**	**1,668**
Gross Margin	**409**	**250**	**281**	**320**	**1,259**	**1,175**	**1,229**	**1,271**
Other operating	224	91	89	101	506	369	354	341
Taxes other than income taxes	15	21	22	22	80	93	100	107
Total Operating Expenses	**239**	**112**	**111**	**123**	**585**	**462**	**455**	**448**
EBITDA	**169**	**137**	**170**	**197**	**673**	**713**	**774**	**823**
Depreciation & amortization	68	64	65	67	263	279	298	315
Operating Income	**101**	**74**	**105**	**130**	**410**	**434**	**477**	**508**
Equity in unconsolidated affiliates	(1)	-	-	-	(1)	-	-	-
Other income – net	8	8	7	8	31	33	36	40
Interest expense	21	23	24	25	93	104	112	120
Income before taxes	**88**	**58**	**88**	**113**	**347**	**363**	**401**	**427**
Income Taxes	32	22	34	40	128	131	144	154
Tax Rate	*37%*	*38%*	*38%*	*36%*	*37%*	*36%*	*36%*	*36%*
Net income attributable to shareholders	**55**	**36**	**55**	**73**	**219**	**232**	**256**	**273**
Earnings Per Common Share, Diluted	0.67	0.43	0.66	0.88	2.64	2.79	3.05	3.23
Net Income (GAAP)	**55**	**36**	**55**	**73**	**219**	**232**	**256**	**273**
Wtd. Avg. shares outstanding	83	83	83	83	**83**	**83**	**84**	**85**
Operating EPS	**0.67**	**0.43**	**0.66**	**0.88**	**$2.64**	**$2.79**	**$3.05**	**$3.23**

Source: Company reports and Guggenheim Securities, LLC estimates

WEC ENERGY (WEC, BUY, $67PT, $62.50)

Storm Activity offset by ATC; WI rate freeze proposal Front and Center

- We are reaffirming our **BUY** rating and raising our PT to $67 from $65. While WEC's outlook for 5-7% EPS growth has been under some scrutiny, management offers clear line of sight to the low-end, as well as opportunities to bring them higher – still above peer average. WEC continues to be a highly debated stock.
- **2Q17 drivers: Guggenheim in-line with consensus at $0.59 (2Q16 $0.57).** Management provided 2Q17 guidance of $0.56-$0.60, with our estimate of $0.59 near the top-end. We expect O&M costs to rise YoY, as WPS and WEPCO experienced unusual wind storm activity in 2Q17 (-$0.03). Utility growth ($0.03) and the reversal of a number of one-time items (+$0.02) are expected to offset the increased expenses. ATC contributions should be comparable YoY despite the FERC ROE complaint, as WEC reserved the ALJ recommended level of 10.2% through May 2016, but reverted back to the 10.82% level beyond that period.
- **2Q earnings call expected to be focused on WI settlement proposal (5-UR-108, 669-UR-125).** The proposed rate freeze settlement continues to work its way through in WI. A staff memorandum, not a recommendation but more of a commentary by the staff came out July 19, and although there were some proposed changes (i.e. the use of a 9.8% ROE, etc.) the staff found there was a revenue deficiency, thus supporting the rationale to freeze rates. WEC and other parties to the case will respond Aug 2, and rebuttal testimony due Aug 8, and we believe that the commission is likely to render a decision sometime thereafter. We continue to believe that the commission will ultimately approve settlement terms, freezing rates through 2019 and extending the earnings cap and revenue sharing mechanism for all three WI utilities through the rate freeze period, although we note there may be some give on the ROE.
- **Our 2017-**2020 EPS estimates are unchanged at $3.10/$3.35/$3.54/$3.75.
- **We were recently with management for a roadshow. See our note HERE.**
- **Valuation.** We arrive at our $67 price target utilizing a sum-of-the-parts analysis comprised of: (1) ~$33/share for regulated electric utility when we apply our group average regulated electric utility multiple of 16x and a three-turn premium related to upside not being reflected in fundamentals including ATC, further coal retirements, gas storage, etc. (2) ~$11/share value for the regulated gas segment utilizing our 16x 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) $13/share for WE Power when utilizing a premium to electric P/E multiple given the segment's higher authorized returns.

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2017E	1.12A	0.59E	0.73E	0.66E	**3.10E**	*3.10E*
Prior		*0.59E*	*0.73E*	*0.66E*	*3.10E*	
2018E	1.15E	0.69E	0.82E	0.68E	**3.35E**	*3.28E*
Prior	*1.15E*	*0.69E*	*0.82E*	*0.68E*	*3.35E*	
2019E	1.20E	0.74E	0.87E	0.73E	**3.54E**	*3.46E*
Prior	*1.20E*	*0.74E*	*0.87E*	*0.73E*	*3.54E*	
2020E	1.24E	0.80E	0.93E	0.78E	**3.75E**	*3.68E*
Prior	*1.24E*	*0.80E*	*0.93E*	*0.78E*	*3.75E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM

WEC Model

Consolidated Financials

($ Millions)

	Mar-17A	Jun-17E	Sep-17E	Dec-17E	2017E	2018E	2019E	2020E
Operating Revenues	2,305	1,754	1,858	2,117	8,033	8,422	8,686	8,961
Cost of sales	941	523	588	765	2,797	2,893	2,990	3,091
Other operation and maintenance	502	653	633	732	2,520	2,651	2,682	2,713
Depreciation and amortization	195	182	185	187	749	769	797	823
Property and revenue taxes	50	49	50	48	197	196	196	196
Total operating expenses	1,687	1,408	1,435	1,732	6,263	6,509	6,665	6,824
Operating Income / (Loss)	617	346	422	385	1,771	1,913	2,021	2,137
EBITDA	812	528	607	573	2,520	2,682	2,818	2,960
Equity in earnings of transmission affiliate	42	30	30	31	133	140	149	160
Other Income / (Deductions)	16	-	-	-	16	-	-	-
Interest expense	105	86	89	92	372	385	409	432
Interest Rate	1.0%	1.0%	1.0%	1.0%	3.5%	3.3%	3.3%	3.3%
Other expense								
Income / (Loss) from Operations Before Income Tax	570	290	363	325	1,548	1,668	1,762	1,865
Income Tax Expense (Benefit)	213	104	133	118	568	612	646	683
Effective Tax Rate (%)	37%	36%	37%	36%	37%	37%	37%	37%
Net Income / (Loss)	357	186	229	207	979	1,056	1,116	1,182
Extra-ordinary -	0							
Net income for common shareholders	357	186	229	207	979	1,056	1,116	1,182
Wtd. Avg. Diluted Shares Outstanding	317	316	316	316	316	316	316	316
Operating EPS	$1.12	$0.59	$0.73	$0.66	$3.10	$3.35	$3.54	$3.75

Source: Company reports and Guggenheim Securities, LLC estimates

INDEPENDENT POWER PRODUCERS (IPPS)

CALPINE (CPN, BUY, $20PT, $13.72)

Shoulder month earnings aren't likely to be in focus as investor attention has largely been distracted by reports of bids to acquire the company.

- **Reiterating our BUY rating** and **maintaining our $20 Price Target despite solid performance YTD.**
- **2Q17: Guggenheim below consensus ($401mm vs. $421mm).** Our 2Q17 estimate is slightly higher, at $401mm of EBITDA vs. our prior estimate of $395mm, as we mark our IPP and integrated utility models to the 6/29/17 forward curves (vs. 3/30/17 forward curves driving our prior estimates); our updated 2Q17 estimate remains below consensus estimates averaging $421mm.
- **Annual estimates higher as we mark our models to the 6/29/17 forward curves; lower in 2020 as we incorporate lower prices clearing the most recent PJM capacity auction.** Our annual estimates are higher through 2019 as we mark our IPP and integrated utility models to the 6/29/17 forward curves (vs. 3/30/17 forward curves driving our prior estimates); and lower in 2020 as we incorporate lower prices clearing the most recent PJM capacity auction for the 2020/2021 planning year. CPN was actually one of the beneficiaries of higher prices clearing in EMAAC and ComEd (both clearing at $188/MW-day) vs. the rest of PJM ($77/MW-day) in the most recent auction, with the majority of its capacity in these two zones (~80%); that said, we were previously modeling capacity prices clearing even higher in these zones ($200/MW-day) in 2020/2021.
- **Focus will likely center around reports of CPN entertaining buy-out bids.** The shoulder months of 2Q don't aren't' typically an exciting earnings season for merchant power producers such as CPN, and we expect 2Q17 results will be further muted by wide-spread reports (see WSJ article HERE) of the company entertaining bids from a number of interested private-equity firms.
- **Valuation.** We use an unlevered discounted cash flow methodology before accounting for growth CapEx through 2024 terminal year, at which point we apply a CPN-specific 7.5x asset-weighted terminal multiple; our valuation incorporates the NPV of NOLs, and subtracts net debt of ~ $11bn to arrive at $7.1bn equity value, and our price target of $20/share.

EBITDA ($mm)	1Q	2Q	3Q	4Q	FY	Cons
2017E	326A	401E	654E	471E	**1,852E**	*1,848E*
Prior	*326E*	*395E*	*660E*	*469E*	*1,850E*	
2018E	291E	474E	737E	510E	**2,012E**	*1,997E*
Prior	*385E*	*440E*	*707E*	*466E*	*1,999E*	
2019E	318E	479E	715E	494E	**2,006E**	*2,037E*
Prior	*393E*	*442E*	*699E*	*452E*	*1,986E*	
2020E	299E	491E	784E	535E	**2,110E**	*2,054E*
Prior	*382E*	*462E*	*785E*	*532E*	*2,160E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM

Calpine

Consolidated Financials

Income Statement ($MM, unless otherwise noted)	1Q17A	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	2020E
Energy Revenue	2,063	908	1,339	961	5,271	3,818	3,729	3,941
Hedges	214	(24)	(22)	(38)	130	190	197	153
Capacity Revenue	-	207	241	231	680	979	905	923
Ancillary Revenue	4	2	2	2	11	10	10	10
Operating revenues	2,281	1,093	1,561	1,157	6,092	4,997	4,840	5,028
(-) Fuel	1,692	465	700	492	3,349	2,093	1,951	2,043
Gross Margin	**589**	**628**	**861**	**665**	**2,743**	**2,904**	**2,889**	**2,985**
(-) O&M *(less major maintenance)*	218	198	177	177	770	770	762	754
(-) SG&A	40	34	34	34	141	141	140	139
(-) Other Expenses	20	-	-	-	20	-	-	-
(-) Unconsolidated Inv.	(4)	10	10	10	26	40	40	40
(-) Stock comp., leases, and other	(11)	(15)	(14)	(27)	(67)	(58)	(58)	(58)
Adjusted EBITDA	**326**	**401**	**654**	**471**	**1,852**	**2,012**	**2,006**	**2,110**

Source: Company reports and Guggenheim Securities, LLC estimates

See pages 111 - 112 for analyst certification and important disclosures.

DYNEGY (DYN, BUY, $14PT, $8.76)

Don't expect much focus on quarterly performance while Investor attention likely continues to be on de-levering, M&A.

- We are reaffirming our **BUY** rating and **maintaining our $14 price target**. Focus will continue to be on addressing 2019 debt maturity and de-levering target of 4.5x in 2018, and potential consolidation in the IPP space.
- **2Q2017 drivers – Guggenheim below consensus adjusted EBITDA with $192mm vs. $203mm.** We are below consensus and slightly above 2Q16 as we expect some accretion from acquisition of ENGIE assets, largely offset by retirement of Moss Landing peaking units and the sale of interest in Elwood Energy center, as well as lower energy margins down with sparks YoY, lower capacity revenues and a slight O&M and depreciation uptick during 2Q17.
- **Annual estimates slightly higher as we mark our models to the 6/29/17 forward curves; lower in 2020 as we incorporate lower prices clearing the most recent PJM capacity auction.** Our annual estimates are slightly lower in 2017 and 2019 and higher in 2018 as we mark our IPP and integrated utility models to the 6/29/17 forward curves (vs. 3/30/17 forward curves driving our prior estimates); and lower in 2020 as we incorporate lower prices clearing the most recent PJM capacity auction for the 2020/2021 planning year. DYN benefited from the higher clearing price of $130.00/MW-day at DEOK zone in where DYN has 0.9GW capacity exposure with Dicks Creek, Miami Fort and Zimmer plants, offsetting the negative impact of the significant exposure to RTO, where price cleared much lower than expectations, as well as exposure to ComEd, where the clearing price of $188/MW-day continues to break out much higher than RTO but came in lower than our expectations; that said, we were previously modeling capacity prices clearing higher in the RTO and even higher in these zones ($200/MW-day) in 2020/2021. We also assume the Lee County asset sale will be closed in 2018.
- **Valuation.** We value IPPs, including DYN, using an unlevered discounted cash flow methodology before accounting for growth CapEx through 2024 terminal year at which point we apply a DYN-specific 6.4x asset-weighted terminal multiple. Our valuation also incorporates a ($83mm) NPV for DYN's future asset retirement obligations (ARO) related to Coal Combustion Residual (CCR) spending and NPV of NOLs. We subtract net debt of ~$7.0bn to arrive at an equity value of $2.3B, or price target of $14/share.

EBITDA	1Q	2Q	3Q	4Q	FY	Cons
2017E	230E	192E	527E	299E	1,248E	1247E
Prior		*278E*	*460E*	*264E*	*1,226E*	
2018E	288E	274E	567E	366E	1,494E	1484E
Prior	*275E*	*338E*	*559E*	*355E*	*1,526E*	
2019E	318E	253E	480E	269E	1,320E	1329E
Prior	*323E*	*332E*	*437E*	*241E*	*1,334E*	
2020E	227E	211E	520E	306E	1,264E	1260E
Prior	*236E*	*300E*	*502E*	*300E*	*1,338E*	

Source: Company reports, Guggenheim Securities LLC estimates, FactSet.

GUGGENHEIM

Dynegy

Consolidated Financials ($mm)

Income Statement ($mm, unless otherwise noted)	1Q17A	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	2020E	2021	2022	2023	2024
Revenues	1,247	1,020	1,861	1,260	5,387	5,595	5,373	5,369	5,440	5,499	5,541	5,739
Fuel & purchased power	(757)	(518)	(1,013)	(639)	(2,926)	(2,847)	(2,774)	(2,802)	(2,894)	(2,981)	(3,077)	(3,193)
Gross margin	**490**	**502**	**848**	**621**	**2,460**	**2,748**	**2,598**	**2,568**	**2,546**	**2,519**	**2,464**	**2,546**
O&M expense	(232)	(290)	(300)	(297)	(1,119)	(1,170)	(1,186)	(1,202)	(1,224)	(1,244)	(1,264)	(1,284)
O&M synergy from ENGIE transaction		12	12	12	35	52	52	52	52	52	52	52
G&A expense	(40)	(41)	(43)	(46)	(170)	(179)	(188)	(197)	(207)	(217)	(228)	(239)
G&A synergy from ENGIE transaction		10	10	10	29	43	43	43	43	43	43	43
Other / special items	12	0	0	0	12	0	0	0	0	0	0	0
EBITDA	**230**	**192**	**527**	**299**	**1,248**	**1,494**	**1,320**	**1,264**	**1,210**	**1,153**	**1,067**	**1,117**
D&A expense	(200)	(175)	(175)	(175)	(725)	(733)	(744)	(755)	(766)	(777)	(788)	(798)
Interest expense	(167)	(164)	(164)	(164)	(657)	(653)	(579)	(507)	(507)	(507)	(442)	(363)
Other income / expense	0	(8)	(8)	(8)	(31)	(72)	(74)	0	0	0	0	0
Earnings before taxes	**(137)**	**(155)**	**180**	**(48)**	**(165)**	**36**	**(78)**	**2**	**(63)**	**(131)**	**(163)**	**(44)**
Tax rate	*35%*	*35%*	*35%*	*35%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*	*35.0%*
Income tax expense	313	54	(63)	17	321	(13)	27	(1)	22	46	57	15
Preferred dividends	(5)	(5)	(5)	(5)	(18)	(18)	(18)	(18)	(18)	(18)	(18)	(18)
Operating net income	**171**	**(106)**	**112**	**(36)**	**138**	**6**	**(68)**	**(17)**	**(59)**	**(103)**	**(124)**	**(47)**
Special items	**421**	0	0	0	**421**	0	0	0	0	0	0	0
GAAP net income	**592**	**(106)**	**112**	**(36)**	**559**	**6**	**(68)**	**(17)**	**(59)**	**(103)**	**(124)**	**(47)**
EPS - operating	**1.16**	**(0.63)**	**0.67**	**(0.22)**	**0.85**	**0.03**	**(0.41)**	**(0.10)**	**(0.35)**	**(0.62)**	**(0.74)**	**(0.28)**
EPS - GAAP	4.00	(0.63)	0.67	(0.22)	3.44	0.03	(0.41)	(0.10)	(0.35)	(0.62)	(0.74)	(0.28)
Diluted avg shares	148	167	167	167	162	167	167	167	167	167	167	167
DPS	-	-	-	-	-	-	-	-	-	-	-	-
Period End Share Count	167	167	167	167	167	167	167	167	167	167	167	167
Total adjusted EBITDA	**230**	**192**	**527**	**299**	**1,248**	**1,494**	**1,320**	**1,264**	**1,210**	**1,153**	**1,067**	**1,117**

Source: Company reports and Guggenheim Securities, LLC estimates

See pages 111 - 112 for analyst certification and important disclosures.

NRG ENERGY (NRG, BUY, $35PT, $25.28)

Focus will likely continue to center around NRG's recently announced Transformation Plan; not so much around shoulder month earnings.

- **Reiterating our BUY rating** and **maintaining our PT** since the note we published yesterday following our NDR **(See note HERE)** – We came away with incremental line of sight and confidence in the company's ability to deliver at least $590mm of EBITA-enhancing cost-savings – even this is conservative, in our view.
- **2Q17: Guggenheim above consensus ($638mm vs. $606mm).** Our 2Q17 estimate is at $638mm of EBITDA, remaining above consensus estimates averaging $606mm.
- **Maintaining our estimates for 2017/2018/2019/2020 since note we published yesterday following our NDR with management.** We mark our IPP and integrated utility models to the 6/29/17 forward curves (vs. 3/30/17 forward curves driving our prior estimates).
- **Focus will likely continue to center around NRG's recently announced Transformation Plan; not so much around shoulder month earnings.** The shoulder months of 2Q aren't typically an exciting earnings season for merchant power producers such as NRG, and we expect 2Q17 results will be over-shadowed by the company's recently announced Transformation Plan (upcoming quarters more pertinent as Mgmt. updates on plan status); albeit likely not much more to offer since the plan was just announced this month, but an aggressive plan nonetheless that has attracted investor attention. As a reminder, we raised our estimates and our PT (+50%) when the plan was announced earlier this month, incorporating visible cost savings highlighted by management, while any incremental margin enhancement stemming from asset sales, NYLD monetization, and/or retail expansion (and/or additional cost savings for that matter) represent potential upside to our outlook; for additional takeaways, see our recent note HERE.
- **We were just with management. See our NDR note HERE.**
- **Valuation.** We project unlevered free cash flows based on adjusted EBITDA, subtracting environmental and maintenance CapEx, and cash taxes. We also subtract NYLD's adjusted EBITDA, which is consolidated within NRG, and add back cash payments received based on its ownership interest. We apply an NRG-specific 7x terminal multiple to 2024 cash flow, which is weighted by the individual assets in NRG's portfolio, and we discount at NRG's estimated WACC. We also incorporate our fair value estimates for NRG's future environmental liabilities and NOLs, and subtract net debt of ~$9bn (removing non-recourse items), leading to our price target of $35.

($MM)	1Q	2Q	3Q	4Q	FY	Cons
2017E	412A	638E	881E	617E	**2,613E**	*2,765E*
Prior		*641E*	*884E*	*620E*	*2,621E*	
2018E	587E	700E	951E	643E	**2,881E**	*2,850E*
Prior	*569E*	*679E*	*926E*	*614E*	*2,788E*	
2019E	779E	803E	969E	632E	**3,183E**	*2,806E*
Prior	*748E*	*771E*	*936E*	*600E*	*3,054E*	
2020E	688E	757E	1,017E	683E	**3,146E**	*2,554E*
Prior	*657E*	*725E*	*983E*	*649E*	*3,013E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM
NRG
Consolidated financials

Income Statement ($MM, unless otherwise noted)	1Q17A	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	2020E
Revenue	2,759	3,521	4,088	3,233	13,792	13,985	14,326	14,077
Fuel and Purchased Power	2,125	2,090	2,438	1,967	8,231	8,204	8,212	8,026
Other cost of operations		588	533	511	2,149	2,150	2,246	2,260
Gross Margin	**634**	**844**	**1,116**	**755**	**3,413**	**3,632**	**3,869**	**3,791**
SG&A	272	206	235	152	865	843	780	744
Development expense	17	10	10	10	47	40	38	34
Other (Income) / Loss	(2)				(2)	-	-	-
Adjustment for unconsolidated	(17)	(10)	(10)	(25)	(62)	(133)	(133)	(133)
MTM and other one-time items	(48)				(48)	-	-	-
Adjusted EBITDA	**412**	**638**	**881**	**617**	**2,613**	**2,881**	**3,183**	**3,146**

Source: Company reports and Guggenheim Securities, LLC estimates

NRG YIELD (NYLD, NEUTRAL, $16PT, $18.60)

Focus will likely center around eliciting some response from NYLD to NRG's recently announced Transformation Plan, potentially monetizing interest in NYLD

- **Maintaining our NEUTRAL stance** and **establishing a $16 price target** (in line with our prior fair value estimate).
- **2Q17: Guggenheim above consensus ($263mm vs. $258mm).** We are maintaining our 2Q17 estimate of $263mm, which is slightly above consensus estimates averaging $258mm.
- **Maintaining estimates through 2020.** We are maintaining our annual estimates through 2020, continuing to project Adjusted EBITDA of $915mm / $1,046mm / $1,062mm / $1,120mm for 2017E/'18E/'19E/'20E.
- **Focus will likely center around NRG's recently announced Transformation Plan, and eliciting some response from NYLD.** We expect 2Q17 results will be over-shadowed by NYLD's sponsor, NRG, recently announcing their Transformation Plan, which entails consideration of NRG monetizing 50-100% of its interest in NYLD; albeit likely not much more to offer since the plan was just announced this month, but a plan that has attracted investor attention nonetheless. As a reminder, we raised our estimates and our PT for NRG when the plan was announced earlier this month, incorporating visible cost savings highlighted by management, while any incremental margin enhancement stemming from asset sales, NYLD monetization, and/or retail expansion (and/or additional cost savings for that matter) represent potential upside to our outlook; for additional takeaways, see our recent note HERE.
- **Valuation.** Our $16 fair value estimate for NYLD is derived from an 8% target yield applied to our estimated dividend of $1.09 in 2018.

EBITDA ($mm)	1Q	2Q	3Q	4Q	FY	Cons
2017E	184A	263E	246E	222E	**915E**	*892E*
Prior		*263E*	*246E*	*222E*	*915E*	
2018E	245E	291E	262E	250E	**1,046E**	*982E*
Prior	*245E*	*291E*	*262E*	*250E*	*1,046E*	
2019E	280E	286E	255E	242E	**1,062E**	*1,092E*
Prior	*280E*	*286E*	*255E*	*242E*	*1,062E*	
2020E	296E	303E	269E	252E	**1,120E**	*1,122E*
Prior	*296E*	*303E*	*269E*	*252E*	*1,120E*	

Source: Company reports, Guggenheim Securities, LLC estimates, FactSet.

GUGGENHEIM
NRG YIELD
FINANCIALS

INCOME STATEMENT *($ in millions)*	1QA	2QE	3QE	4QE	2017E
Revenue	218	406	332	270	**1,226**
Margin	134	256	239	200	**829**
Depreciation & amortization	75	82	84	84	325
General & administrative (NRG fee)	4	3	3	3	13
Acquisition-related transaction and integration	1				1
Operating income	54	171	152	113	**490**
Earnings from unconsolidated affiliates	19	5	5	9	38
Other income	1	-	-	-	1
Interest expense	(76)	(77)	(78)	(78)	(310)
Income before taxes	(2)	98	78	44	**219**
Income taxes	(1)	10	8	4	21
Book tax rate	50%	10%	10%	10%	10%
Net income	(1)	89	71	39	**197**
Net income to NRG	(10)	40	32	18	79
Net income (loss) of Drop Down Assets	12				12
Net income to public shareholders	(3)	49	39	22	**107**
Wtd. Avg. Class A shares	35	35	35	35	**35**
Wtd. Avg. Class C shares	63	63	63	63	**63**
Earnings per Share (Class A + C)	($0.03)	$0.50	$0.40	$0.22	**$1.09**

Source: Company reports and Guggenheim Securities, LLC estimates

See pages 111 - 112 for analyst certification and important disclosures.

COMPANY RISKS

AEP

Risks to achieving our price target mainly encompassing traditional risk factors inherent with all electric utilities including: 1) rate case risk, 2) lower or higher CapEx outlook, and 3) interest rate changes above or below what we account for in our regression model.

LNT

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 price target include: (1) favorable regulatory settlements; (2) opportunities around ATC; and (3) higher CapEx outlook.

ALE

Outside of the smaller base of large industrial customers and weak industrial demand, risks to achieving our price target 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 price target include: (1) favorable regulatory settlements; (2) acceleration in taconite production; and (3) higher CapEx outlook.

AVA

The primary risks on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

Upside risks to our valuation include: (1) A positive rate case outcome in WA not embedded in our estimates and (2) Increased capex outlook.

AWK

Risks to achieving our price target for AWK 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. Decline in allowed ROE. A lower allowed ROE can impact our earned return assumptions. Lower spending outlook. Forecasted spending below our ~$1.5B/year estimate can impact our assumptions for 8% EPS growth, 5% rate base growth.

CNP

Outside of noise around ENBL, 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.

ED

Risks to our valuation 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. If forward bond yield expectations fall, if ED achieves a better than expected outcome in its rate case (such as higher ROE), or if any of the above-mentioned items turn out to be more favorable versus our model, shares could breach our price target.

D

Cove Point liquefaction project: We model 100% probability that the project is completed by 2018 without delays or cost overruns. Anything contrary to these assumptions can impact our valuation.

Commodity risk: D's unregulated fleet (nuclear) still equates to a long gas call, with gas on the margin 55-65% of the time in the East. A drop in gas below what we model can equate to a contraction in quarks. Although, we would note, favorable nuclear legislation in Connecticut will likely mitigate some of that risk.

MLP dropdown risk: Unfavorable drop-down economics can impact our cash-flow centric metrics.

Outside of the above-mentioned items, risks to achieving our price target for D 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.

DTE

DTE risks 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. Decline in allowed ROE. Every 50bps change in ROE is approximately $0.20/share in EPS. Lower spending outlook. Forecasted spending below our ~$2B/year estimate can impact our assumptions for 5% EPS growth.

DUK

Risks to our rating and price target for DUK 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.

EIX

Risks to our valuation mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk; (2) lower CapEx outlook; (3) interest rate changes above what we account for in our regression model.

Upside risk to our price target include: (1) favorable regulatory settlements; (2) improved regulatory construct in CA; and (3) higher CapEx outlook.

ETR

Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. ETR is still inherently a long natural gas call, with gas the marginal price setter in New England and New York. The remaining risks center around the regulated utilities, particularly the uncertainty around nuclear costs and recovery, in addition to traditional risks 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.

ES

Outside of FERC ROE complaints or project-specific delays, risks to achieving our price target for ES 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.

EXC

Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. EXC is still inherently a long natural gas call with gas the marginal price setter in PJM.

The remaining risks center 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.

FE

Commodity price risk. If natural gas prices fall (rise), wholesale power prices will likely fall (rise), limiting (raising) Power margins. FE is inherently a long natural gas call at this juncture, with gas the marginal price setter in PJM.

The remaining risks center 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.

NEE

Risks for NEE include Florida economy, commodity prices, and other 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.

NI

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.

NJR

The primary risks for NJR 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 a 100% probability that this project is completed without further delays or cost overruns, and anything contrary to these assumptions could impact our valuation. Non-regulated - We assume a declining contribution from nonregulated, mainly from lower gas basis volatility at Energy Services - failure of this scenario to take place could impact our valuation.

NWN

Outside of the potential overhangs around challenging jurisdictions, risks to our valuation for NWN 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 price target include: (1) favorable regulatory settlements; (2) opportunities around ATC; and (3) higher CapEx outlook.

OGE

Outside of noise around ENBL and the unconstructive approach to ratemaking in OK, which is now at an inflection point, risks to achieving our price target for OGE mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk (including AR), (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

PCG

PCG's risks are typical risk factors inherent with all regulated electric and gas utilities. These risks mainly encompass: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

Decline in allowed ROE. PCG will be in rate cases occasionally and their cost of capital is set in separate proceedings that may adjust with movements in bond yields. Upside risk to our price target include: (1) improved regulatory constructs; (3) higher CapEx outlook; (4) interest rates fall lower.

PNW

Risks to our rating and valuation for Pinnacle West 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 price target include:(1) higher CapEx outlook; (2) interest rates fall lower.

POR

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.

Upside risks to our price target include: (1) favorable regulatory settlements; (2) higher economic growth in service territory; and (3) higher CapEx outlook.

PPL

PPL's UK segment performance, now accounting for a greater majority of consolidated results, can be impacted by fluctuations on FX rates between USD/GBP as well as potential deterioration in regulatory construct and actions outside of the U.S. Outside of the UK segment, risks to estimates for PPL Corp mainly encompass traditional risk factors inherent with all electric and gas 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 include an (1) improving outlook for the UK economy, (2) improved capital flows and (3) strengthening of the GBP above our estimates.

PEG

Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. In our view, PEG is inherently a long natural gas call with gas the marginal price setter in PJM. If forward natural gas prices fall or PEG loses its basis and locational advantages, earnings can be impacted.

The remaining risks center on the regulated electric and gas utility – PSE&G. Risks mainly 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.

SRE

The primary risk on the regulated utilities and transmission assets 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 project: We model 100% probability that this project is completed and in-service mid-2019 without delays or cost overruns. Anything contrary to these assumptions can impact our valuation.

SCG

Primary risk 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 SCG include: Construction risk associated with the $7.7bn V.C. Summer nuclear plant.

SO

Risks to achieving our price target for SO mainly encompass traditional risk factors inherent with all electric and gas 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 risk to our price target include: (1) improved regulatory constructs; (2) higher CapEx outlook; and (3) higher ROEs approved in jurisdictions where SO operates.

SJI

SJI is essentially a regulated gas utility with risks to achieving our price target mainly encompassing traditional risk factors inherent with all gas utilities, including: 1) rate case risk, 2) lower or higher CapEx outlook, and 3) interest rate changes above or below what we account for in our regression model.

Upside risks to our price target include: (1) favorable regulatory settlements; (2) higher economic growth in service territory; and (3) higher CapEx outlook.

SR

Outside of the potential overhangs around a 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.

VVC

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.

WEC

The primary risks to our rating and valuation for WEC 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.

CPN

Commodity price risk: Although CPN is less sensitive to gas prices than the other IPPs, natural gas prices still impact margins.

Environmental/Policy risk: Environmental regulations could require increased spending. Permits and compliance with these regulations require significant capital and operating expenditures. Considering timing to comply with these regulations and costs, some retirements of plants could be accelerated. Changes to these regulations could increase costs of operating these plants and/or increase competition.

Operational risks: CPN's fleet could experience unforced outages due to operational, mechanical failures, and others that are inherent risks of the power generation business.

DYN

Commodity price risk. If natural gas prices fall (rise), wholesale power prices will likely fall (rise), limiting (raising) Power margins. DYN is still inherently a long natural gas call, with gas the marginal price setter in PJM, MISO, New England, and New York.

Environmental/Policy risk. Permits and compliance with regulations require significant capital and operating expenditures. Considering timing and costs to comply with regulations, some retirements could be accelerated. Changes to regulations could also increase costs of operating these plants and/or increase competition.

Operational risk. DYN's fleet could experience unforced outages or other operational issues that are inherent risks of the power generation business.

NRG

Commodity price risk: If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. NRG is still inherently a long natural gas call, with gas the marginal price setter in PJM, MISO, ERCOT, New York, etc.

Environmental/Policy risk: Environmental regulations could require increased spending; permitting and compliance associated with these regulations could require significant capital and operating expenditures. Considering timing to comply with these regulations and costs, some retirements of plants could be accelerated. Changes to these regulations could increase costs of operating these plants and/ or increase competition.

Operational risks: NRG's fleet could experience unforced outages or other operational issues that are inherent risks of the power generation business.

NYLD

NRG Yield is exposed to interest rate, legislative, management execution, recontracting, construction, capital markets, and weather risks. In our view, the largest risk to valuation is capital markets, as the entity's growth could subside if it cannot issue equity at low yields.

Upside risk to our price target include: 1) further decline in interest rates, and 2) improving sentiment around alternative yield-oriented vehicles

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			IB Serv./ Past 12Mos.	
Rating Category	Count	Percent	Count	Percent
Buy	189	60.19%	21	11.11%
Neutral	124	39.49%	9	7.26%
Sell	1	0.32%	0	0.00%

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Equity Research
Power & Utilities | North America Power & Utilities
2 August 2017

NiSource, Inc.
Outperforming Guidance

NI raised their 2017 EPS guidance to $1.17-1.20 from the upper-half of $1.12-1.18 and reiterated 5-7% EPS growth through 2020 off the new range. The EPS growth range still looks a bit conservative versus NI's 8-10% ratebase growth and plans to control costs. Post 2017 and at least through 2020, NI expects to keep non-fuel operations and maintenance expenses in-line with the rate of inflation. We are raising our EPS estimates to $1.19/$1.27/$1.36 for 2017-2019 versus $1.15/$1.23/$1.33 mainly to reflect the benefits of NI's refinancing.

NI recommitted to dividend growth of 5-7% and a 60-70% payout ratio. The company is currently at the low end of the range at 60%. We are raising our price target $1 to $27, which is a 15% premium to the average 2019 Regulated Utility average P/E of 17.1x applied to our 2019E EPS of $1.36. Our previous $26 price target reflected a 15% premium to the 17.4x '19 average applied to our prior 2019E EPS of $1.33.

Regulatory milestones in the second quarter included the Indiana environmental settlement and filing for a 5-year extension of the Columbia Gas Ohio infrastructure program. The environmental settlement relates to $193M of investment in coal combustion residuals projects and a ruling is expected this year.

NI's Q2'17 operating EPS of $0.10 was in line with expectations. Electric segment income rose to $84M versus $64M in Q2'16, while the gas segment fell to $56M versus $74M. NI expects the growth in non-fuel operations and maintenance spending to decline following 2017; however, higher employee and administrative costs (-$18M) and outside service costs (-$7M) contributed to the gas comparison.

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	0.71A	0.71A	0.71A	N/A	N/A	0.72E	20%	N/A
Q2	0.08A	0.09E	0.10A	0.10E	N/A	N/A	0.11E	25%	N/A
Q3	0.06A	N/A	N/A	0.07E	N/A	N/A	0.07E	N/A	N/A
Q4	0.33A	N/A	N/A	0.33E	N/A	N/A	0.34E	N/A	N/A
Year	1.09A	1.15E	1.19E	1.18E	1.23E	1.27E	1.25E	9%	7%
P/E	24.0		22.0			20.6			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

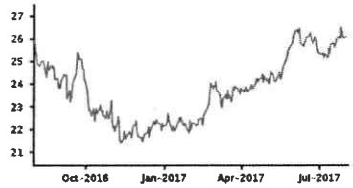
Stock Rating	EQUAL WEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 27.00 raised 4% from USD 26.00

Price (01-Aug-2017)	USD 26.24
Potential Upside/Downside	+2.9%
Tickers	NI

Market Cap (USD mn)	8519
Shares Outstanding (mn)	324.67
Free Float (%)	99.66
52 Wk Avg Daily Volume (mn)	2.8
52 Wk Avg Daily Value (USD mn)	65.18
Dividend Yield (%)	2.7
Return on Equity TTM (%)	8.92
Current BVPS (USD)	12.92

Source: Thomson Reuters

Price Performance	Exchange-NYSE
52 Week range	USD 26.56-21.17



Link to Barclays Live for interactive charting

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Completed: 02-Aug-17, 15:05 GMT Released: 02-Aug-17, 15:08 GMT

North America Power & Utilities — Industry View: NEUTRAL

NiSource, Inc. (NI)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2016A	2017E	2018E	2019E	CAGR
Revenue	4,505	4,681	4,844	5,001	3.5%
EBITDA (adj)	1,441	1,553	1,682	1,804	7.8%
EBIT (adj)	894	965	1,059	1,146	8.6%
Pre-tax income (adj)	546	633	703	777	12.5%
Net income (adj)	351	399	443	490	11.7%
EPS (adj) ($)	1.09	1.19	1.27	1.36	7.5%
Diluted shares (mn)	320.9	334.4	347.4	359.7	3.9%
DPS ($)	0.64	0.70	0.75	0.79	7.4%

Margin and return data					Average
EBITDA (adj) margin (%)	32.0	33.2	34.7	36.1	34.0
EBIT (adj) margin (%)	19.8	20.6	21.9	22.9	21.3
Pre-tax (adj) margin (%)	12.1	13.5	14.5	15.5	13.9
Net (adj) margin (%)	7.8	8.5	9.1	9.8	8.8
ROIC (%)	8.8	8.7	8.9	8.7	8.8
ROA (%)	1.9	2.0	2.2	2.3	2.1
ROE (%)	9.1	9.8	9.7	9.7	9.6

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	13,068	13,958	14,788	15,564	6.0%
Total net assets	18,692	19,617	20,437	21,162	4.2%
Capital employed	10,129	11,080	11,836	13,102	9.0%
Shareholders' equity	4,071	4,548	5,044	5,561	11.0%
Net debt/(funds)	6,032	6,471	6,740	7,540	7.7%
Cash flow from operations	803	1,209	1,312	1,420	20.9%
Capital expenditure	-1,496	-1,700	-1,700	-1,707	N/A
Free cash flow	-693	-491	-387	-287	N/A
Pre-dividend FCF	-26	-696	-631	-1,139	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	24.0	22.0	20.6	19.3	21.5
EV/EBITDA (adj) (x)	10.0	9.5	9.0	8.8	9.3
EV/EBIT (adj) (x)	16.1	15.3	14.2	13.8	14.9
P/BV (x)	2.1	1.9	1.8	1.7	1.9
Dividend yield (%)	2.4	2.7	2.8	3.0	2.7
Total debt/capital (%)	59.8	59.0	57.4	57.6	58.4
Net debt/EBITDA (adj) (x)	4.2	4.2	4.0	4.2	4.1

Selected operating metrics					Average
Payout ratio (%)	58.5	58.7	58.5	58.3	58.5
Interest cover (x)	-2.6	-2.9	-3.0	-3.1	-2.9
Regulated (%)	N/A	100.0	100.0	100.0	100.0

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

Price (01-Aug-2017)	**USD 26.24**
Price Target	**USD 27.00**

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. However, we don't see material upside to our price target.

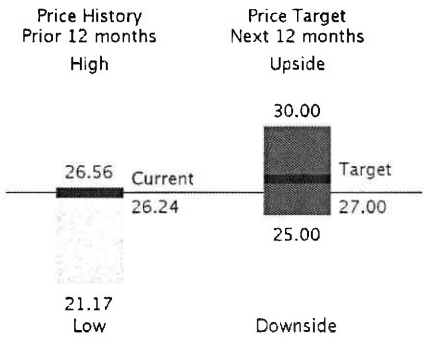
Upside case — **USD 30.00**

Our upside case assumes a 20% premium to the Regulated Utility average P/E using 9% EPS growth to $1.48 in 2019.

Downside case — **USD 25.00**

Our downside case reflects a 5% premium to the Regulated Utility average 2019 P/E multiple applied to our $1.36 which reflects 50 bp of under-earning allowed ROEs.

Upside/Downside scenarios



Sound Bites from the Call

- NI does not believe either their gas or electric segment is materially under-earning its allowed returns.
- Customer growth. The company continues to expect 1% gas customer growth by 2020.
- The company maintained their plans for $200-$300M of equity annually including the at-the-market and DRIP programs.
- In the quarter NI issued $2.0B of senior notes comprised of $1.0B of 3.49% notes due in 2027 and $1.0B of 4.375% notes due in 2047. NI executed a tender offer for $991M of notes in a range of 5.45%-6.8%.

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 01-Aug-2017, USD 26.24), 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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Stock Rating

Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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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)	Caribbean Utilities Ltd. (CUPu.TO)
CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)	Connecticut Water Service Inc. (CTWS)
Consolidated Edison (ED)	Dominion Energy (D)	DTE Energy (DTE)

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Hydro One Ltd. (H.TO)	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)	PG&E Corp. (PCG)
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PPL Corporation (PPL)	Public Service Enterprise Gp (PEG)	SCANA Corp. (SCG)
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Westar Energy (WR)	Xcel Energy (XEL)	

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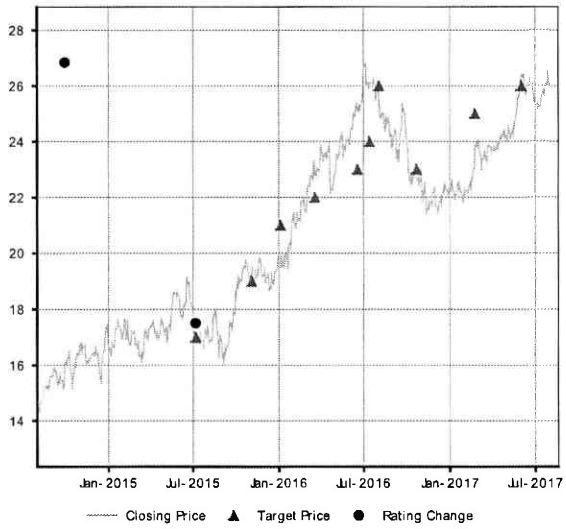
NiSource, Inc. (NI / NI)

	Stock Rating	Industry View
USD 26.24 (01-Aug-2017)	**EQUAL WEIGHT**	**NEUTRAL**

Rating and Price Target Chart - USD (as of 01-Aug-2017) **Currency=USD**



Publication Date	Closing Price	Rating	Adjusted Price Target
01-Jun-2017	26.24		26.00
22-Feb-2017	23.17		25.00
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	

On 02-Aug-2014, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 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 $27 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 17.1x and our $1.36 EPS estimate.

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Citi Research
Equities

02 Aug 2017 16:48:37 ET | 9 pages

Pipelines & Gas Utilities
North America | United States

NiSource Inc (NI)

■ **Estimate Change**

Guidance Up Again...

- **Citi's Take:** NI's Q2 EPS was in line with expectations but the strong capital markets access and regulatory progress enabled NI to raise EPS guidance.

- **In Line Q2 Results:** NI's EPS of $0.10 was in line with Street's $0.10 and Citi's $0.09. The gas distribution earnings decreased $18M from last year due to new rates from base rate cases, offset by a $40M increase in operating expenses including employee and administrative, increased outside service cost, depreciation, property taxes, and environmental costs. The electric operations had net revenue increase of $42M from the base rate case, increased transmission investments, and increased commercial and industrial usage, offset by $22M of higher costs (generation maintenance, veg management, admin, & taxes). While Q2 costs moved higher, management reiterated that it expects flat post '17 O&M costs.

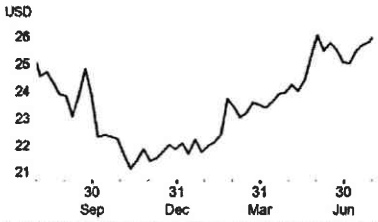
- **Increased EPS Guidance:** NiSource increased its 2017 EPS guidance range from $1.12 - $1.18 to $1.17 - $1.20 to reflect the unplanned debt refinancing. In addition, NI reaffirmed the 5-7% 2020 EPS CAGR based on this revised 2017 EPS which reflects the lower debt costs, favorable equity price, and positive regulatory activity.

- **Capital Markets:** NI refinanced ~$1B of debt, issued $34M of equity at $25.88, and issued another $1B of debt to fund investments – all more favorable than plan.

- **Regulatory Developments:** In the gas business, NI received approval of the latest $61M semi-annual tracker update associated with the $845M gas modernization plan in Indiana. In Ohio, Nisource continues to work on the 5 year infrastructure replacement program before the PUCO which it expects a new filing by YE2017. In addition, NiSource receive a settlement of its minor Maryland base rate case. In the electric business, NiSource reached a $193M settlement related to the CCR environmental upgrade and filed its second electric modernization tracker $133.6M upgrade request in Indiana, and NIPSCO, along with several interested parties, submitted a coal ash settlement agreement (IURC order by YE2017 target).

Buy	**1**
Price (02 Aug 17 16:02)	US$26.67
Target price	US$28.00
Expected share price return	5.0%
Expected dividend yield	2.8%
Expected total return	**7.8%**
Market Cap	US$8,659M

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



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons
2016A	0.59A	0.08A	0.06A	0.33A	1.06A	1.09A
2017E	**0.71A**	**0.10A**	**0.07E**	**0.33E**	**1.20E**	**1.18E**
Previous	0.71A	0.09E	0.07E	0.33E	1.20E	na
2018E	**0.68E**	**0.13E**	**0.10E**	**0.33E**	**1.23E**	**1.25E**
Previous	0.67E	0.13E	0.10E	0.33E	1.23E	na
2019E	**0.69E**	**0.17E**	**0.12E**	**0.36E**	**1.33E**	**1.33E**
Previous	0.68E	0.17E	0.12E	0.36E	1.33E	na

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

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NI.N: Fiscal year end 31-Dec

Price: US$26.67; TP: US$28.00; Market Cap: US$8,659m; Recomm: Buy

Profit & Loss (US$m)	2015	2016	2017E	2018E	2019E
Sales revenue	5,234	4,493	4,821	4,988	5,193
Cost of sales	-2,161	-1,937	-2,097	-2,101	-2,169
Gross profit	3,073	2,555	2,723	2,887	3,023
Gross Margin (%)	58.7	56.9	56.5	57.9	58.2
EBITDA (Adj)	**1,586**	**1,405**	**1,510**	**1,654**	**1,803**
EBITDA Margin (Adj) (%)	30.3	31.3	31.3	33.2	34.7
Depreciation	-591	-547	-579	-619	-663
Amortisation	0	0	0	0	0
EBIT (Adj)	**995**	**858**	**932**	**1,035**	**1,140**
EBIT Margin (Adj) (%)	19.0	19.1	19.3	20.7	22.0
Net interest	-417	-350	-361	-397	-423
Associates	29	0	0	0	0
Non-op/Except	25	2	9	20	20
Pre-tax profit	**632**	**510**	**579**	**658**	**737**
Tax	-208	-189	-171	-244	-273
Extraord./Min.Int./Pref.div.	-138	3	-112	0	0
Reported net profit	**287**	**324**	**297**	**415**	**464**
Net Margin (%)	5.5	7.2	6.2	8.3	8.9
Core NPAT	443	344	394	415	464
Per share data	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Reported EPS ($)	0.90	1.00	0.91	1.23	1.33
Core EPS ($)	1.39	1.06	1.20	1.23	1.33
DPS ($)	0.99	0.67	0.71	0.75	0.79
CFPS ($)	3.85	2.46	3.28	3.06	3.24
FCFPS ($)	-0.41	-2.10	-1.40	-1.67	-1.36
BVPS ($)	12.10	12.65	13.11	14.06	15.05
Wtd avg ord shares (m)	310	314	318	328	338
Wtd avg diluted shares (m)	319	323	327	338	348
Growth rates	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Sales revenue (%)	-19.1	-14.2	7.3	3.5	4.1
EBIT (Adj) (%)	-18.1	-13.8	8.6	11.1	10.2
Core NPAT (%)	-18.3	-22.4	14.4	5.4	12.0
Core EPS (%)	-19.1	-23.3	13.0	2.2	8.7
Balance Sheet (US$m)	**2015**	**2016**	**2017E**	**2018E**	**2019E**
Cash & cash equiv.	45	36	15	15	15
Accounts receivables	660	847	820	825	859
Inventory	537	494	471	474	489
Net fixed & other tangibles	13,776	14,797	15,920	16,900	17,837
Goodwill & intangibles	1,944	1,933	1,928	1,928	1,928
Financial & other assets	530	585	516	517	522
Total assets	**17,493**	**18,692**	**19,670**	**20,658**	**21,650**
Accounts payable	433	539	471	459	467
Short-term debt	1,001	1,851	1,463	1,463	1,463
Long-term debt	5,949	6,058	7,420	7,963	8,456
Provisions & other liab	6,266	6,172	6,032	6,028	6,031
Total liabilities	**13,649**	**14,621**	**15,385**	**15,912**	**16,416**
Shareholders' equity	3,844	4,071	4,285	4,746	5,234
Minority interests	0	0	0	0	0
Total equity	**3,844**	**4,071**	**4,285**	**4,746**	**5,234**
Net debt (Adj)	**6,904**	**7,873**	**8,867**	**9,410**	**9,904**
Net debt to equity (Adj) (%)	179.6	193.4	207.0	198.3	189.2

Valuation ratios	2015	2016	2017E	2018E	2019E
PE (x)	19.2	25.1	22.2	21.7	20.0
PB (x)	2.2	2.1	2.0	1.9	1.8
EV/EBITDA (x)	12.0	12.9	12.6	12.0	11.3
FCF yield (%)	-1.5	-7.9	-5.3	-6.3	-5.1
Dividend yield (%)	3.7	2.5	2.7	2.8	3.0
Payout ratio (%)	71	63	59	61	60
ROE (%)	5.7	8.2	7.1	9.2	9.3
Cashflow (US$m)	**2015**	**2016**	**2017E**	**2018E**	**2019E**
EBITDA	1,586	1,405	1,510	1,654	1,803
Working capital	147	-389	-23	0	0
Other	-503	-219	-413	-620	-676
Operating cashflow	**1,230**	**797**	**1,074**	**1,034**	**1,127**
Capex	-1,361	-1,475	-1,533	-1,599	-1,600
Net acq/disposals	5	0	0	0	0
Other	3,301	-108	-59	0	0
Investing cashflow	**1,945**	**-1,583**	**-1,592**	**-1,599**	**-1,600**
Dividends paid	-263	-206	-231	-253	-276
Financing cashflow	**-3,412**	**791**	**463**	**647**	**624**
Net change in cash	**57**	**7**	**-54**	**82**	**151**
Free cashflow to s/holders	**-131**	**-678**	**-458**	**-565**	**-473**

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

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.

Valuation

We average multiple valuation methodologies to derive our $28 target price. Our NAV yields a value of $27. 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 $28 per share. Our P/E and EV/EBITDA analyses yield values of $27 and $29 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.

Appendix A-1

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NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research

Analyst: Faisel Khan, CFA

	Date	Rating	Target Price	Closing Price
1	19-Apr-15 23:00:00	2	*18.08	16.96
2	27-Jul-16 00:45:08	2	*27.00	25.46
3	13-Dec-16 22:21:38	*1	*25.00	22.10
4	03-May-17 20:43:41	1	*28.00	24.01

*Indicates Change

Rating/target price changes above reflect Eastern Time

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	12 Month Rating			*Catalyst Watch*		
Data current as of 30 Jun 2017	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	47%	39%	13%	2%	97%	1%
% of companies in each rating category that are investment banking clients	64%	64%	58%	57%	64%	51%

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GUGGENHEIM

NiSource Inc.

NI – Solid 2Q17 Print; 2017 Guidance Moves Higher: Conservative Management Team Continues to Over-Deliver

August 2, 2017

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NI BUY

EARNINGS RELEASE

SHARE PRICE $26.24
PRICE TARGET $28.00

EPS ($) (FY Dec)	1Q	2Q	3Q	4Q	FY
2017	0.71	0.10	0.08E	0.32E	1.20E
Prior	—	—	*0.07E*	*0.31E*	*1.18E*
P/E					21.9x
2018	0.74E	0.11E	0.08E	0.34E	1.27E
P/E					20.7x
2019	0.79E	0.12E	0.07E	0.36E	1.34E
P/E					19.6x

Market Data	
52-Week Range	$21.17 - $26.56
Market Cap (M)	$8,519
ADV (3 mo; 000)	2,409

NI reported 2Q17 adjusted earnings of $0.10, in-line with our/consensus expectations of $0.10. 2Q17 performance was driven primarily by the impact of continued infrastructure investments earning solid returns as well as riders/tracker updates throughout NI's jurisdiction, partially offset by increased operating expenses due to higher employee and administration costs. NI now expects to deliver 2017 earnings of $1.17-$1.20 vs. the prior outlook of $1.12-1.18, which is consistent with our estimate $1.20 after we reflect anticipated interest expense savings (+$0.02) due to the company's refinancing efforts into our model. **Management continues to under-promise and over-deliver, with conservative assumptions around rate case proceedings that have yet to be filed/approved reflecting LT EPS growth of 5-7% that could be closer to 6-8%. We comfortably model +6% EPS CAGR through 2020, which could still prove conservative.**

Management continues to execute on its financing plan. NI refinanced $1bn in NT maturity debt with lower rate debt that is expected to generate interest expense savings over the next several years, issuing $1bn in new debt. Due to this refinancing activity, the company's weighted average interest rate on LT debt was reduced 50bps to 4.9% from 5.4%, and management expects refinancing savings to provide a + $0.02 positive EPS impact to their 2017 outlook. The ATM program continues to be consistent with plans laid out during the company's analyst day, issuing $34mm in equity in 2Q17 and on-pace to issue $200-$300mm in 2017-2020, consistent with our expectations of $300mm in 2017 and ~$210mm per year through 2020. While we acknowledge that dilution widens the spread between rate base and earnings growth, we believe management is being somewhat conservative in its assumptions (i.e. regulatory outcomes). In other words, a higher use of cash to fund growth and less reliance on external financing needs could swing earnings growth toward the top-end of their LT earnings guidance of 5-7% or possibly higher to 6-8%. We also continue to highlight NI's conservative growth targets – ***see our sensitivity analysis HERE; page 3.***

Quiet on the base rate case front in 2017 with a peak cadence in the rate case cycle in the rearview. On the gas side, the Columbia Gas of OH Infrastructure Replacement extension filing is moving along, with the PUC staff recommending approval with modest modifications, and a decision due YE17. On the electric side, management filed a settlement for the Environmental Compliance case (no. 44872) in regard to the Coal Combustion Residuals rule. The settlement was signed off by the Indiana Office of Utility Consumer Counselor, the NIPSCO Industrial Group, and the Citizens Action Coalition of Indiana with terms specifying recovery of ~ $195mm in costs and calls for investments associated with the Effluent Guidelines Rule to be addressed in another case. Evidentiary hearings are scheduled for Aug 21, with a decision expected in 2018. The continued execution of its regulatory filings/ trackers will enable NI to deliver on its capital program of $1.6-1.8bn annually through 2020, and is consistent with what we have modeled but we believe there could be further upside. We see modest regulatory lag, with the continuation of riders/trackers currently in place and further lag compression following rate orders.

See pages 3 - 4 for analyst certification and important disclosures.

Valuation

We value NI as a regulated utility, arriving at our $28 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 16x, plus a three turn premium to account for higher growth potential versus what is being reflected in fundamentals; (2) $21/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 a one-turn premium for higher growth; and (3) ($3)/share for other adjustments for Corp and Other.

Risks

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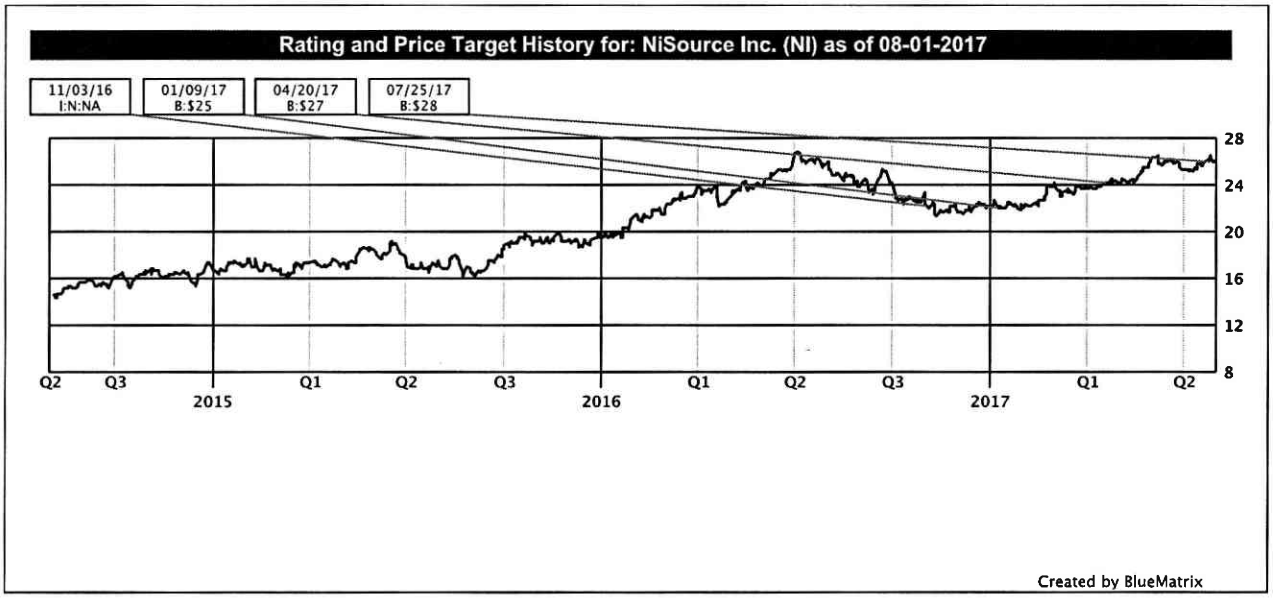

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Sell	2	0.64%	0	0.00%

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FLASH NOTE

Company Update

USA | Energy | Natural Gas

August 2, 2017

Jefferies

EQUITY RESEARCH AMERICAS

NiSource Inc. (NI)

It's Electric, Boogie Woogie Woogie

HOLD
Bloomberg NYSE: NI
Price target $23.00
Price $26.24^

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

Key Takeaway

NI realized diluted 2Q non-GAAP EPS of 10¢ (excl. items), roughly in-line with our 9¢ estimate & the Street's 10¢ mean forecast; 2Q EBITDA of $280mm also approximated our $282mm est. With results, mgmt lifted its 2017 non-GAAP EPS target to $1.17-$1.20 ($1.19 JEFe), from a previous $1.12-$1.18 range, and affirmed its 5-7% long-term EPS & DPS growth rates.

Financial highlights. NI reported a $44.3mm 2Q GAAP loss from continuing operations; however, excluding $77.6mm in net post-tax items (early debt termination losses, revenue losses due to non-normal weather, IT service provider transition costs, and asset sales gains) results in non-GAAP recurring net income of $33.3mm, a touch ahead of $31.0mm JEFe.

Gas Distribution. Columbia Gas of Ohio's application for an extension of its Infrastructure Replacement Program is awaiting PUCO approval & mgmt expects a decision by YE. On July 28th, Columbia Gas of Maryland filed a settlement with the MPSC which, if approved, would increase annual revenues by $2.4mm (vs. $5.0mm request) and take effect in late Oct. NIPSCO's gas segment received IURC approval for its latest semi-annual tracker update on June 28th; the approval covers $61mm of investments made in 2H16 under its 7-year $845mm gas infrastructure modernization program.

Electric. NIPSCO began recovering costs on ~$46mm of investments under its 7-year $1.25B infrastructure modernization program in Feb. and, in June, requested recovery on $133.6mm in investment made between 5/16-4/17. Its two electric transmission projects remain on schedule, with 2H18 in-service dates affirmed & planned environmental upgrades at its Michigan City Unit 12 and RM Schahfer Units 14 &15 await IURC approval.

Cash tenders & debt placements. NI executed several cash tender offers in 2Q; in total, the company purchased ~$319mm aggregate principal amount of Any and All Notes, ~$201mm aggregate principal amount of its 6.4% 2018 notes, ~$245mm aggregate principal of its 6.8% 2019 maturities, and ~$225mm aggregate principal of its 5.45% notes. In May, NI issued $1B of 3.49% 10-year notes & $1B of 4.375% 30-year notes; as of 6.30 NI debt portfolio had a weighted average maturity & interest rate of ~16 years & ~4.9%, respectively.

Dividend declared, 2017 EPS guidance raised. On May 9th , NI declared a quarterly cash dividend of 17.5¢ (70¢ annualized), up ~13% y/y and flat q/q; the dividend is payable on 8.18 to shareholders of record as of 7.31. We continue to expect a ~6.1% dividend CAGR through 2021 and, with results, mgmt affirmed its 5-7% long-term EPS and DPS growth rates with $1.6-$1.8B of annual capex. NI raised its 2017 non-GAAP EPS guidance to $1.17-$1.20, from $1.12-$1.18; however, JEFe is $1.19 & the Street mean is $1.18.

NI 2Q17 Results Review

Operating Income by Division	Actual 2Q17A	JEFe 2Q17E		Year-over-Year 2Q16A	
Gas Distribution	$55.7	$66.6	-16.4%	$73.3	-24.0%
Electric Operations	$84.3	$77.1	9.4%	$64.0	31.7%
Corporate, Other, and Eliminations	($5.6)	($6.3)	-10.9%	($3.0)	86.7%
Total Operating Income	**$134.4**	**$137.4**	**-2.2%**	**$134.3**	**0.1%**
Depreciation	($142.2)	($144.5)	-1.6%	($136.9)	3.9%
Other Income / (Expenses)	$3.8	$0.5	NM	($6.1)	NM
Interest Expense	($87.7)	($87.2)	0.6%	($86.0)	2.0%
Income Tax Benefit (Expense)	($17.2)	($19.8)	-13.1%	($15.6)	10.3%
Recurring Net Income	**$33.3**	**$31.0**	**7.6%**	**$26.6**	**25.2%**
Avg Diluted Shares Outstanding	326.3	326.6	-0.1%	322.9	1.1%
EPS (Non-GAAP, Diluted)	**$0.10**	**$0.09**	**7.7%**	**$0.08**	**23.9%**
EBITDA ($MM)	**$280**	**$282**	**-0.7%**	**$265**	**5.8%**
Capex & Affiliate Investments	**$420**	**$428**	**-1.8%**	**$372**	**13.1%**

Source: Jefferies, Company reports. Note: 2Q avg. diluted sharecount is JEFe.

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NI

Company Update

August 2, 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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(Article 3(1)e and Article 7 of MAR)

Recommendation Published	, 09:05 ET. August 2, 2017
Recommendation Distributed	, 09:05 ET. August 2, 2017

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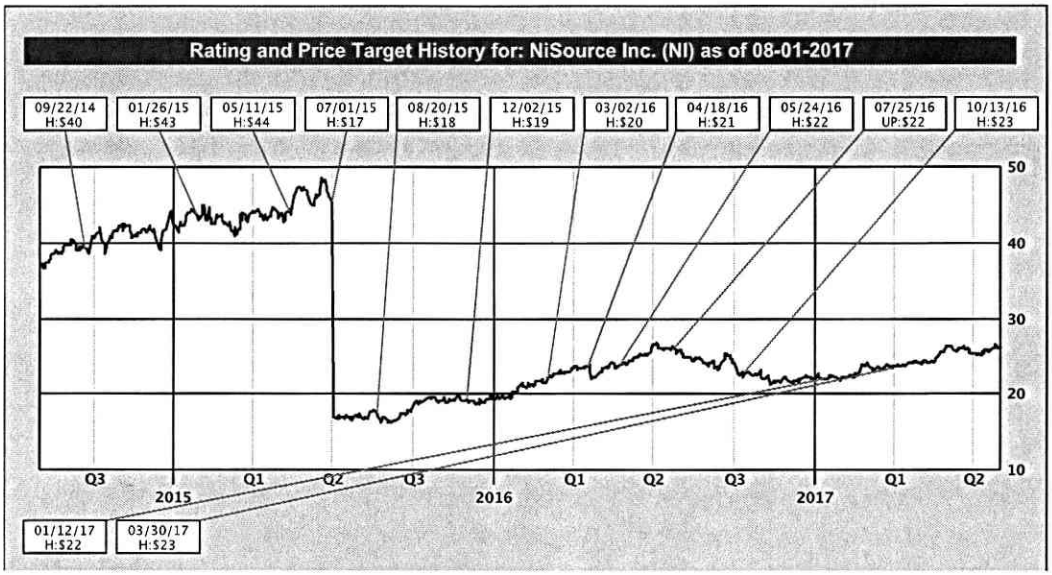

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Legend:

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D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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NI

Company Update

August 2, 2017

Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	1092	50.81%	334	30.59%
HOLD	903	42.02%	181	20.04%
UNDERPERFORM	154	7.17%	17	11.04%

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KeyBanc
Capital Markets

Alert
August 2, 2017
Energy: Multi-Utilities
NYSE: NI

NiSource Inc.

NI - ALERT: 2Q17 Earnings in Line, Guidance Raised

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NI reported 2Q17 ongoing earnings of $0.09 vs. $0.08 per share. NI weather normalizes its ongoing EPS. 2Q17 NI increased its 2017 guidance from (the upper half) of $1.12-$1.18 to $1.17-$1.20 per share.

August 1, 2017 Close: $26.24
2Q17 Ongoing EPS: $0.09 vs. $0.08 result in 1Q16/Consensus of $0.10/KBCM of $0.09
Initial Take: We expect a positive response to the report with higher guidance.
2017 EPS Estimate: $1.18 (Consensus: $1.18).
2018 EPS Estimate: $1.26 (Consensus: $1.25).
Guidance: NiSource Inc. raised guidance to $1.17-$1.20 from $1.12-$1.18. On its 1Q17 call, NI had endorsed the upper half of the previous range. EPS and dividend growth of 5-7%, **rebased off updated 2017 guidance.**

Highlights:

- Results were in line with our estimate.
- Gas operations operating earnings fell to $55.7 million from $73.3 million. Revenues rose $22.3 million, driven by new rates ($19.7 million) and $1.4 million in higher trackers (which are offset in expenses) and $1.4 million in customer growth.
  - Expenses rose $39.9 million on tracker items (above) and employee costs ($17.6 million), outside services ($7 million), property taxes of $5.7 million, environmental costs of $4.4 million and depreciation on higher plant balances ($2.6 million).
- Electric operating earnings rose $84.3 million from $64.0 million.
  - Revenues increased $42.2 million on new rates ($21.2 million), trackers, offset in expenses ($8.3 million) and transmission investment ($5.0 million), and higher industrial sales ($3.5 million).
  - Expenses rose $21.9 million on tracker items (above), outside services were $7.1 million higher, increased employee costs ($3.9 million), gross receipt taxes ($3.4 million) partly offset by $3.6 million lower depreciation and amortization.
- The Corporate segment reported a 2Q operating loss of $5.6 million vs. a loss of $3.0 million, driven by employee and administrative costs.
- Other income expenses fell $8.2 million on the roll off of a charge related to Transmission upgrade agreements.

8:30 a.m. ET Conference Call #: 855-219-9570; Passcode:53169642

We will be focused on:

- Regulatory update
- Electricity demand trends
- Steel customer trends

For analyst certification and important disclosures, please refer to the Disclosure Appendix.
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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.

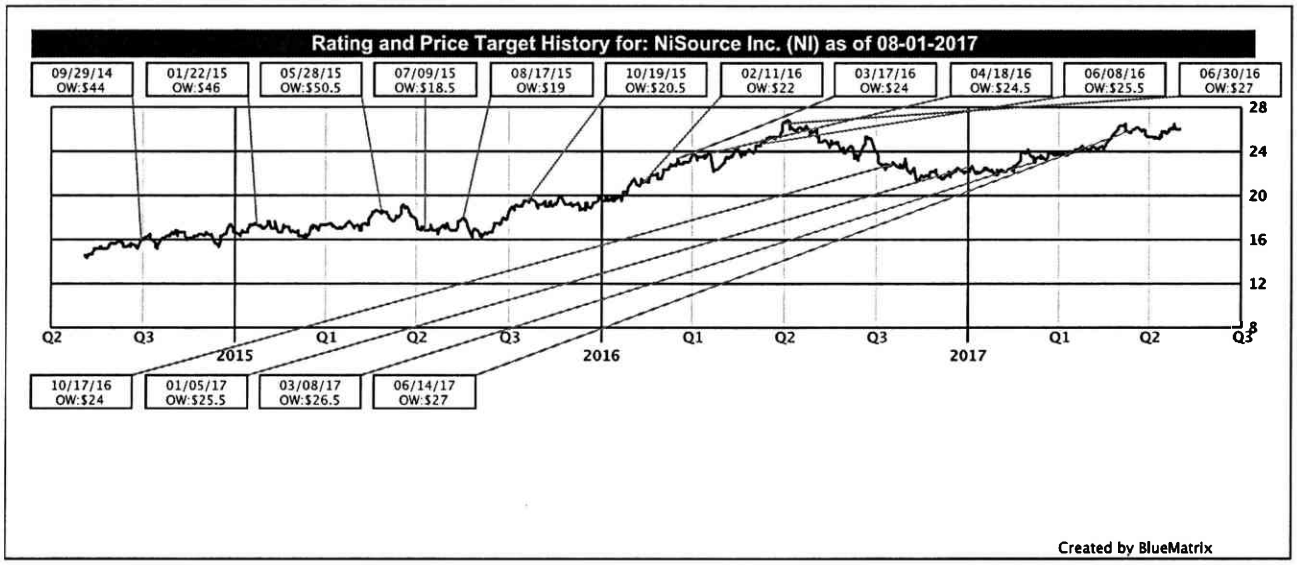
During the past 12 months, NiSource Inc. has been a client of the firm or its affiliates for non-securities related services.

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

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

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]	286	43.40	59	20.63	Overweight [OW]	28	45.90	21	75.00
Sector Weight [SW]	361	54.78	50	13.85	Sector Weight [SW]	33	54.10	15	45.45
Underweight [UW]	12	1.82	2	16.67	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.

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Power & Utilities
Price Target Change
August 2, 2017
BUY

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646.432.6312

NISOURCE INC.

2Q17 Results and 2017 Guidance Increased; Reiterate BUY

NI (NYSE)

Company & Market Data	
Closing Price (as of 08/01/2017):	$26.24
Rating:	BUY
Price Target:	$28.00
Prior Price Target:	*$27.00*
52 Week Range:	$21.17 - $26.56
Shares Outstanding (MM):	324.7
Market Capitalization (MM):	$8,519
Avg Daily Volume (M):	2,408.7
Enterprise Value (MM):	$16,394
Book Value per share:	$27.46
Debt (MM):	$7,950.0
Annual Dividend/Share:	$0.70
Current Dividend Yield:	2.7%
Fiscal Year End:	Dec

Estimates			
EPS	**2016A**	**2017E**	**2018E**
1Q	$0.62	$0.71A	—
2Q	$0.08	$0.10A	—
3Q	$0.06	—	—
4Q	$0.33	—	—
Full Year	$1.09	$1.19	$1.27
Consensus EPS	NA	$1.18	$1.25
Revenue (MM)	$4,492.5	$4,821.8	$5,016.2
EBITDA (MM)	$1,406.8	$1,587.4	$1,719.4
Ratios			
P/E	24.1x	22.1x	20.7x
EV/EBITDA	11.7x	10.3x	9.5x

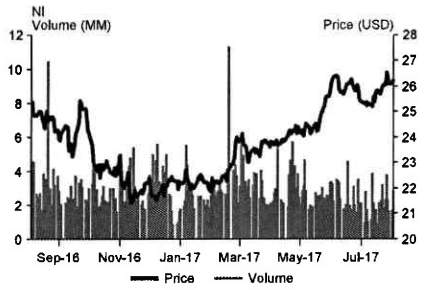

Chart data: Bloomberg

Highlights

We reiterate our BUY rating on NI shares. Our revised price target of $28 per share (previously $27 per share) is supported by our updated 2019 Sum-of-the-Parts analysis. Our 2017/2018/2019 EPS estimates are $1.19/$1.27/$1.34 (previously $1.17/$1.25/$1.32).

On August 2, NI reported 2Q17 operating EPS of $0.10 compared to $0.08 in 2Q16 and our estimate of $0.11. Gas Distribution reported 2Q17 operating earnings of $55.7 million compared to $73.3 million in 2Q16. Gas Distribution results were driven by ongoing regulatory initiatives and timely recovery of infrastructure investments totaling $19.7 million, residential customer growth totaling $1.4 million, higher tracker revenues of $1.4 million, and higher operating costs of $(39.9) million. Electric Operations reported 2Q17 operating earnings of $84.3 million compared to $64.0 million in 2Q16. Electric Operations results were driven by ongoing recovery of a seven-year $1.25 billion electric system modernization program. Results were driven by new base rates of $39.9 million, higher tracker revenue of $8.3 million, higher transmission project margins of $5.0 million, increased industrial and commercial usage of $3.5 million, and higher operating expenses of $(21.9) million. Corporate and Other reported a 2Q17 operating loss of $(5.6) million compared to a loss of $(3.0) million in 2Q16

NI increased its 2017 EPS guidance range to $1.17 - $1.20 (previously $1.12 - $1.18). The increased guidance reflects strong 1H17 operating performance, as well as a successful refinancing and corresponding interest expense savings. NI also reiterated its long-term EPS and dividend growth 5% - 7% annually, as well as its annual capital budget of $1.6 - $1.8 billion through 2020 with 75% of investments earning a return within 12 months. NI's capital markets plan remains unchanged.

Gas Distributions regulatory items include: Columbia Gas Ohio 5-year infrastructure replacement program is pending with a PUCO order expected by the end of the year, Columbia Gas of Maryland's base rate case remains pending with a settlement agreement ($2.4 million revenue increase) filed July 28, NIPSCO gas infrastructure modernization program semi-annual tracker update was approved (covers $61 million of investments in 2H16), Columbia Gas of Virginia base rate case settlement approved March 3 ($28.5 million annual revenue increase).

Electric utility regulatory items include: a settlement agreement regarding various environmental upgrades remains pending, NIPSCO seven-year electric infrastructure modernization program is ongoing with a June 30 tracker update request covering $133.6 million of investments from May 2016 through April 2017, two transmission projects remain on schedule with in-service dates in 2H18.

Risks

The primary risks of an investment in NI shares include (but are not limited to);

NI's financial condition may be adversely impacted by the company's indebtedness.

NI's liquidity may be adversely impacted by a drop in the company's credit rating.

NI may be unable to execute on its business plan and growth strategy, including planned utility infrastructure investments.

NI's performance may be adversely impacted by shifts in economic and marketing conditions.

The value of NI's benefit plan assets may be adversely impacted by capital market performance and other factors, which could potentially require additional funding and negatively impact earnings.

NI's business is subject to regulatory oversight and may be impacted by regulatory rate reviews and proceedings.

NI's performance may be impacted if the company were unable to adapt to advances in technology.
NI's business may be negatively impacted if the company faces increased litigation and negative public perception.

NI's businesses are regulated in accordance with numerous environmental laws, with which the cost to comply may be significant and could negatively impact the company's performance. Additionally, NI may face significant penalties if the company were unable to comply with various regulations.

NI's performance may be adversely impacted by fluctuations in weather, gas, and electricity commodity costs.

NI's business operations are subject to economic conditions in certain industries.

NIPSCO's electric generation strategy, including the retirement of its coal generation units, may be unable to achieve its intended results.

NI may be negatively impacted by fluctuations in the price of energy commodities or their related transportation costs.

NI may be impacted by risk associated with customers not remitting payment for delivered energy or services.

NI's performance may be adversely impacted if suppliers and counterparties are unable to perform under various financial or operating agreements.

NI carries significant goodwill and definite-lived intangible assets. Impairments on goodwill or definite-lived intangible assets may result in a significant impact to NI's earnings and performance.

NI's performance may be impacted by changes in taxation.

NI's financial results may be adversely impacted by changes in accounting principles.

There are numerous risks inherent to the distribution of natural gas and the generation, transmission, and distribution of electricity that NI may be unable to avoid or mitigate.

NI's businesses are subject to the risks associated with aging infrastructure, which may lead to disruptions in operations and capital expenditures and maintenance costs.

NI's ability to service customers may be adversely impacted by climate change, natural disasters, acts of terrorism, or other catastrophic events.

NI's businesses may be adversely impacted if NI faces a cyber-attack.

NI's capital projects and programs may subject the company to risks associated with construction and natural gas costs and supply risks.

NI's performance and businesses may be adversely impacted by extreme weather conditions.

NI's businesses may be impacted if the company is unable to attract and retain a qualified workforce.

As a holding company, NiSource is dependent on cash generated by its subsidiaries in order to meet its debt obligations and pay dividends on common stock.

NI may be subject to significant tax liabilities associated with the company's separation with CPG.

NiSource has substantial indebtedness which could adversely affect its financial condition.

NiSource is exposed to significant reputational risks, which make it vulnerable to a loss of cost recovery, increased litigation and negative public perception.

NiSource is a holding company and is dependent on cash generated by subsidiaries to meet its debt obligations and pay dividends on its common stock.

APPENDIX A: IMPORTANT RESEARCH DISCLOSURES

ANALYST CERTIFICATION

I, Brian J. Russo, attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report, provided, however, that:

The research analyst primarily responsible for the preparation of this research report has or will receive compensation based upon various factors, including the volume of trading at the firm in the subject security, as well as the firm's total revenues, a portion of which is generated by investment banking activities.

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COMPANY BACKGROUND

NiSource Inc., headquartered in Merrillville, Indiana, is a holding company with several fully regulated natural gas distribution and electric utility companies across seven states. Together, these companies serve nearly 3.4 million natural gas customers in Indiana, Kentucky, Ohio, Virginia, Maryland, Pennsylvania, and Massachusetts, and 500,000 electric customers in northwestern Indiana. As such, NI's operations and results are classified as two reportable segments: Gas Distribution Operations and Electric Operations.

VALUATION METHODOLOGY

We value equities utilizing a multi-faceted approach which includes; sum-of-the-parts, net asset value, discounted cash flow, leading P/E, and EV/EBITDA.

RISKS

The primary risks of an investment in NI shares include (but are not limited to);

NI's financial condition may be adversely impacted by the company's indebtedness. NI's liquidity may be adversely impacted by a drop in the company's credit rating. NI may be unable to execute on its business plan and growth strategy, including planned utility infrastructure investments. NI's performance may be adversely impacted by shifts in economic and marketing conditions. The value of NI's benefit plan assets may be adversely impacted by capital market performance and other factors, which could potentially require additional funding and negatively impact earnings. NI's business is subject to regulatory oversight and may be impacted by regulatory rate reviews and proceedings. NI's performance may be impacted if the company were unable to adapt to advances in technology. NI's business may be negatively impacted if the company faces increased litigation and negative public perception. NI's businesses are regulated in accordance with numerous environmental laws, with which the cost to comply may be significant and could negatively impact the company's performance. Additionally, NI may face significant penalties if the company were unable to comply with various regulations. NI's performance may be adversely impacted by fluctuations in weather, gas, and electricity commodity costs. NI's business operations are subject to economic conditions in certain industries. NIPSCO's electric generation strategy, including the retirement of its coal generation units, may be unable to achieve its intended results.

NI may be negatively impacted by fluctuations in the price of energy commodities or their related transportation costs. NI may be impacted by risk associated with customers not remitting payment for delivered energy or services. NI's performance may be adversely impacted if suppliers and counterparties are unable to perform under various financial or operating agreements. NI carries significant goodwill and definite-lived intangible assets. Impairments on goodwill or definite-lived intangible assets may result in a significant impact to NI's earnings and performance. NI's performance may be impacted by changes in taxation. NI's financial results may be adversely impacted by changes in accounting principles. There are numerous risks inherent to the distribution of natural gas and the generation, transmission, and distribution of electricity that NI may be unable to avoid or mitigate. NI's businesses are subject to the risks associated with aging infrastructure, which may lead to disruptions in operations and capital expenditures and maintenance costs.

NI's ability to service customers may be adversely impacted by climate change, natural disasters, acts of terrorism, or other catastrophic events. NI's businesses may be adversely impacted if NI faces a cyber-attack. NI's capital projects and programs may subject the company to risks associated with construction and natural gas costs and supply risks. NI's performance and businesses may be adversely impacted by extreme weather conditions. NI's businesses may be impacted if the company is unable to attract and retain a qualified workforce. As a holding company, NiSource is dependent on cash generated by its subsidiaries in order to meet its debt obligations and pay dividends on common stock. NI may be subject to significant tax liabilities associated with the company's separation with CPG. NiSource has substantial indebtedness which could adversely affect its financial condition. NiSource is exposed to significant reputational risks, which make it vulnerable to a loss of cost recovery, increased litigation and negative public perception. NiSource is a holding company and is dependent on cash generated by subsidiaries to meet its debt obligations and pay dividends on its common stock.

STOCK RATING DEFINITIONS

Buy: The stock's return is expected to exceed 12.5% over the next twelve months.

Neutral: The stock's return is expected to be plus or minus 12.5% over the next twelve months.

Sell: The stock's return is expected to be negative 12.5% or more over the next twelve months.

Investment Ratings are determined by the ranges described above at the time of initiation of coverage, a change in risk, or a change in target price. At other times, the expected returns may fall outside of these ranges because of price movement and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review.

RATINGS DISPERSION AND BANKING RELATIONSHIPS AS OF (August 2, 2017)

Rating	%	IB %
BUY	72.5	47.1
NEUTRAL	27.5	43.4
SELL	0.0	0.0

COMPANIES UNDER BRIAN'S COVERAGE

Ameren Corporation (AEE)
Allete Inc. (ALE)
Avista Corporation (AVA)
CenterPoint Energy, Inc. (CNP)
El Paso Electric Company (EE)
IdaCorp, Inc. (IDA)
NiSource Inc. (NI)
NRG Energy, Inc. (NRG)
OGE Energy Corp. (OGE)
PNM Resources, Inc. (PNM)
Portland General Electric Co. (POR)
Spire Inc. (SR)
Westar Energy, Inc. (WR)
AES Corporation (AES)
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Dynegy Inc. (DYN)
Great Plains Energy Inc. (GXP)
Alliant Energy Corporation (LNT)
New Jersey Resources Corporation (NJR)
Northwestern Energy (NWE)
ONE Gas, Inc. (OGS)
Pinnacle West Capital Corporation (PNW)
PPL Corporation (PPL)
WEC Energy Group Inc. (WEC)

INVESTMENT RATING AND PRICE TARGET HISTORY

NiSource Inc. Rating History as of 08/01/2017
powered by BlueMatrix

B=Buy N=Neutral S=Sell D=Drop Coverage I=Initiate NR=Not Rated

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UBS

Global Research

2 August 2017

NiSource Inc.
Guidance Raise In Line with Expectations

Equities

Americas
Gas Utilities

12-month rating	**Neutral**
12m price target	**US$27.00**
Price	**US$26.59**

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

Trading data and key metrics

52-wk range	US$26.59-21.41
Market cap.	US$8.74bn
Shares o/s	329m (COM)
Free float	99%
Avg. daily volume ('000)	682
Avg. daily value (m)	US$17.4
Common s/h equity (12/17E)	US$4.30bn
P/BV (12/17E)	2.0x
Net debt / EBITDA (12/17E)	5.5x

EPS (UBS, diluted) (US$)

	12/17E			
	From	To	% ch	Cons.
Q1	0.71	0.71	0	0.71
Q2	0.10	0.10	NM	0.10
Q3E	0.06	0.08	40	0.07
Q4E	0.33	0.31	-6	0.33
12/17E	1.19	1.19	NM	1.18
12/18E	1.24	1.24	NM	1.25
12/19E	1.33	1.33	NM	1.33

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Continued Execution Leads to Raised Guidance

As expected, NiSource raised non-GAAP 2017 EPS guidance to $1.17-$1.20 from $1.12-$1.18. NI continues to execute on its infrastructure replacement program and reiterated plans to invest $1.6bn-$1.8bn annually through 2020. During the quarter NI refinanced $1bn in debt at lower rates and issued $1bn in new debt. Lower expected interest expense due to lower average rates contributed to the raised guidance. Additionally, NI issued $34mm of equity through its newly established ATM program. NiSource expects to use both the ATM and DRIP to issue equity to finance growth capex and avoid large equity offerings. NiSource's two major electric transmission projects remain on schedule with in-service dates expected in 2H18. The regulatory front remains relatively quiet after a busy 2016. A settlement in the rate case in MD was filed 7/28 for $2.4mm ($5mm requested) with rates expected to be effective in 4Q17.

Strong Quarter In line with Expectations

NiSource reported Adj EPS of $0.10 (25% Y/Y), in line with UBSe & Consensus of $0.10. Net revenues of $718.8mm were 2.9% above UBSe of $698.7mm due to benefits of new rates at both gas & electric post recent rate cases. The gas distribution segment reported operating earnings of $55.7mm (-24% Y/Y), as revenue growth from recent rate cases was more than offset by higher investment spending related to the rate cases (spending on safety, reliability, etc.) The electric segment recorded operating earnings of $84.3mm, a Y/Y increase of $20.3mm driven by $21.2mm in new rates partially offset by higher expenses.

No Change to Estimates

We already anticipated NI would raise '17 EPS guidance, and therefore, are maintaining our '17 EPS estimate of $1.19. We are also maintaining our '18 & '19 EPS estimates of $1.24 and $1.33, respectively.

Valuation: Maintain $27 PT & Neutral Rating

We are maintaining our $27 price target which is derived using an average of sum-of-the-parts EV/EBITDA ($29) and PE ($28) valuations which use comparable company multiples and DDM ($25). We remain Neutral on NI shares due to current valuation.

Highlights (US$m)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Revenues	6,485	4,667	4,505	4,920	5,118	5,320	5,505	5,701
EBIT (UBS)	1,277	832	894	978	1,058	1,146	1,224	1,309
Net earnings (UBS)	526	299	351	394	422	455	488	514
EPS (UBS, diluted) (US$)	1.66	0.94	1.09	1.19	1.24	1.33	1.41	1.50
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)	(8,609)	(9,021)	(9,603)	(10,146)	(10,825)
Profitability/valuation	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
EBIT margin %	19.7	17.8	19.8	19.9	20.7	21.5	22.2	23.0
ROIC (EBIT) %	9.3	7.0	8.9	8.7	8.8	8.8	8.7	8.7
EV/EBITDA (core) x	10.4	12.5	9.3	10.1	9.8	9.4	8.9	9.0
P/E (UBS, diluted) x	22.8	33.2	21.3	22.3	21.4	20.0	18.9	17.8
Equity FCF (UBS) yield %	(5.9)	1.0	(9.0)	(5.9)	(4.7)	(6.4)	(5.8)	(5.2)
Net dividend yield %	2.7	2.7	2.8	2.7	2.8	3.0	3.1	3.2

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$26.59 on 02 Aug 2017 15:42 EDT

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Figure 1: NI 2Q17 Earnings Variance

$ in millions	Actual 2Q17	UBSe 2Q17e	% variance	Actual 1Q17	YoY % change
Financial Data					
Revenues	$995.6	$948.8	4.9%	$1,627.6	(38.8%)
Cost of Sales	($276.8)	($250.1)	10.7%	($552.3)	(49.9%)
Operating & Maintenance Expenses	($386.0)	($360.8)	7.0%	($409.0)	(5.6%)
Depreciation & Amortization	($142.2)	($142.9)	(0.5%)	($143.3)	(0.8%)
Other Taxes	($56.2)	($54.1)	3.8%	($76.0)	(26.1%)
Total Expenses	($584.4)	($557.8)	4.8%	($628.3)	(7.0%)
Adj. EBITDA	$276.6	$283.8	(2.5%)	$590.3	(53.1%)
Interest Expense	($87.7)	($92.0)	(4.7%)	($85.2)	2.9%
Other Expenses	$3.8	$1.2	216.7%	$1.2	216.7%
Pre-tax Income	$50.5	$50.2	0.7%	$363.0	(86.1%)
Income Taxes	($17.2)	($18.3)	(6.0%)	($132.4)	(87.0%)
Net Income	$33.3	$31.9	4.5%	$230.6	(85.6%)
EPS	$0.10	$0.10	4.5%	$0.71	(85.7%)
Diluted Shares Outstanding	$325.1	$327.2	(0.6%)	$323.7	0.4%
Dividend Per Share	$0.175	$0.175	0.0%	$0.175	0.0%
Segment Operating Income					
Gas Distribution	$55.7	$77.2	(27.8%)	$363.8	(84.7%)
Electric Operations	$84.3	$68.3	23.5%	$84.4	(0.1%)
Corporate & Eliminations	($5.6)	($4.5)	25.6%	($1.2)	366.7%
Total	$134.4	$141.0	(4.7%)	$447.0	(69.9%)
Operating Data					
Customers (000)					
Gas Utilities Customers	3,405.7	3,424.0	(0.5%)	3,439.1	(1.0%)
Electric Customers	466.3	466.1	0.0%	466.1	0.0%

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**	**4,667**	**4,505**	**4,920**	*9.2*	**5,118**	*4.0*	**5,320**	**5,505**	**5,701**
Gross profit	4,261	3,024	3,115	3,391	8.9	3,530	4.1	3,672	3,802	3,940
EBITDA (UBS)	**1,883**	**1,357**	**1,441**	**1,553**	*7.8*	**1,661**	*6.9*	**1,778**	**1,878**	**1,987**
Depreciation & amortisation	(605)	(524)	(547)	(575)	5.1	(602)	4.7	(631)	(654)	(678)
EBIT (UBS)	**1,277**	**832**	**894**	**978**	*9.4*	**1,058**	*8.2*	**1,146**	**1,224**	**1,309**
Associates & investment income	47	0	0	0	-	0	-	0	0	0
Other non-operating income	(24)	17	2	0	-	0	-	0	0	0
Net interest	(444)	(380)	(349)	(367)	-5.0	(418)	-13.9	(456)	(484)	(529)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**856**	**469**	**546**	**611**	*11.8*	**640**	*4.8*	**690**	**740**	**779**
Tax	(330)	(170)	(195)	(217)	-11.2	(218)	-0.6	(235)	(252)	(265)
Profit after tax	**526**	**299**	**351**	**394**	*12.2*	**422**	*7.2*	**455**	**488**	**514**
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**	**299**	**351**	**394**	*12.2*	**422**	*7.2*	**455**	**488**	**514**
Net earnings (UBS)	**526**	**299**	**351**	**394**	*12.2*	**422**	*7.2*	**455**	**488**	**514**
Tax rate (%)	38.5	36.3	35.7	35.5	-0.6	34.1	-4.0	34.1	34.1	34.1

Per share (US$)	12/14	12/15	12/16	12/17E	% ch	12/18E	% ch	12/19E	12/20E	12/21E
EPS (UBS, diluted)	1.66	0.94	1.09	1.19	9.2	1.24	4.5	1.33	1.41	1.50
EPS (local GAAP, diluted)	1.66	0.94	1.09	1.19	9.2	1.24	4.5	1.33	1.41	1.50
EPS (UBS, basic)	1.67	0.94	1.09	1.20	10.2	1.26	4.6	1.34	1.42	1.50
Net DPS (US$)	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	2.58	2.79	2.93	5.0	3.02	3.0	3.17	3.29	3.47
Book value per share	19.56	12.06	12.61	13.12	4.1	14.05	7.1	15.22	16.33	17.18
Average shares (diluted)	316.33	318.80	321.80	330.68	2.8	339.21	2.6	342.21	346.82	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	25	-4.3	25	0.0	25	25	25
Other current assets	2,441	1,562	1,736	1,263	-27.2	1,263	0.0	1,263	1,263	1,263
Total current assets	**2,467**	**1,577**	**1,762**	**1,288**	*-26.9*	**1,288**	*0.0*	**1,288**	**1,288**	**1,288**
Net tangible fixed assets	16,017	12,112	13,068	14,297	9.4	15,345	7.3	16,364	17,360	18,332
Net intangible fixed assets	3,931	1,944	1,933	1,928	-0.3	1,928	0.0	1,928	1,928	1,928
Investments / other assets	2,452	1,859	1,928	1,945	0.8	1,945	0.0	1,945	1,945	1,945
Total assets	**24,866**	**17,493**	**18,692**	**19,458**	*4.1*	**20,506**	*5.4*	**21,525**	**22,521**	**23,493**
Trade payables & other ST liabilities	2,111	2,090	1,601	1,316	-17.8	1,316	0.0	1,316	1,316	1,316
Short term debt	1,844	567	1,851	777	-58.02	814	4.77	867	915	977
Total current liabilities	**3,955**	**2,658**	**3,452**	**2,093**	*-39.4*	**2,130**	*1.8*	**2,182**	**2,231**	**2,292**
Long term debt	8,156	5,949	6,058	7,857	29.7	8,232	4.8	8,762	9,256	9,874
Other long term liabilities	6,580	5,043	5,110	5,211	2.0	5,429	4.2	5,429	5,429	5,429
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**18,691**	**13,649**	**14,621**	**15,162**	*3.7*	**15,792**	*4.2*	**16,374**	**16,916**	**17,596**
Common s/h equity	6,175	3,844	4,071	4,297	5.5	4,714	9.7	5,151	5,604	5,897
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	**24,866**	**17,493**	**18,692**	**19,458**	*4.1*	**20,506**	*5.4*	**21,525**	**22,521**	**23,493**

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	299	351	394	12.2	422	7.2	455	488	514
Depreciation & amortisation	606	524	547	575	5.1	602	4.7	631	654	678
Net change in working capital	(139)	147	(59)	(6)	89.1	0	-	0	0	0
Other operating	329	487	(36)	176	-	218	24.2	0	0	0
Operating cash flow	**1,321**	**1,457**	**803**	**1,138**	*41.7*	**1,242**	*9.1*	**1,086**	**1,142**	**1,192**
Tangible capital expenditure	(2,028)	(1,361)	(1,475)	(1,650)	-11.8	(1,650)	0.0	(1,650)	(1,650)	(1,650)
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)	(59)	-	0	-	0	0	0
Investing cash flow	**(2,117)**	**1,945**	**(1,583)**	**(1,709)**	*-8.0*	**(1,650)**	*3.5*	**(1,650)**	**(1,650)**	**(1,650)**
Equity dividends paid	(321)	(263)	(205)	(235)	-14.5	(254)	-8.2	(269)	(284)	(301)
Share issues / (buybacks)	20	2	14	206	NM	250	21.4	250	250	80
Other financing	0	(122)	0	0	-	0	-	0	0	0
Change in debt & pref shares	1,097	(3,029)	982	599	-39.04	412	-31.20	582	542	679
Financing cash flow	**796**	**(3,412)**	**791**	**570**	*-28.0*	**408**	*-28.4*	**564**	**508**	**458**
Cash flow inc/(dec) in cash	**0**	**(10)**	**11**	**(1)**	-	**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**	**(1)**	-	**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	33.2	21.3	22.3	21.4	20.0	18.9	17.8
P/E (UBS, diluted)	22.8	33.2	21.3	22.3	21.4	20.0	18.9	17.8
P/CEPS	10.6	12.0	8.3	9.0	8.7	8.3	8.0	7.7
Equity FCF (UBS) yield %	(5.9)	1.0	(9.0)	(5.9)	(4.7)	(6.4)	(5.8)	(5.2)
Net dividend yield (%)	2.7	2.7	2.8	2.7	2.8	3.0	3.1	3.2
P/BV x	1.9	2.6	1.8	2.0	1.9	1.7	1.6	1.5
EV/revenues (core)	3.0	3.6	3.0	3.2	3.2	3.2	3.1	3.2
EV/EBITDA (core)	10.4	12.5	9.3	10.1	9.8	9.4	8.9	9.0
EV/EBIT (core)	15.3	20.4	15.0	16.1	15.4	14.7	13.7	13.7
EV/OpFCF (core)	10.4	12.5	9.3	10.1	9.8	9.4	8.9	9.0
EV/op. invested capital	1.4	1.4	1.3	1.4	1.4	1.3	1.2	1.2

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	8,743	8,743	8,743	8,743	8,743
Net debt (cash)	9,391	8,237	7,192	8,246	8,815	9,312	9,312	10,485
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	676	760	713	688	688	688	688	688
Total enterprise value	**21,980**	**18,850**	**15,350**	**17,677**	**18,246**	**18,743**	**18,743**	**19,917**
Non core assets	(2,452)	(1,859)	(1,928)	(1,945)	(1,945)	(1,945)	(1,945)	(1,945)
Core enterprise value	**19,528**	**16,991**	**13,422**	**15,733**	**16,302**	**16,799**	**16,799**	**17,972**

Growth (%)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Revenue	14.6	-28.0	-3.5	9.2	4.0	4.0	3.5	3.6
EBITDA (UBS)	7.9	-27.9	6.3	7.8	6.9	7.0	5.7	5.8
EBIT (UBS)	9.4	-34.8	7.5	9.4	8.2	8.3	6.8	6.9
EPS (UBS, diluted)	6.2	-43.6	16.4	9.2	4.5	6.9	5.7	6.4
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	64.8	69.1	68.9	69.0	69.0	69.1	69.1
EBITDA margin	29.0	29.1	32.0	31.6	32.4	33.4	34.1	34.8
EBIT margin	19.7	17.8	19.8	19.9	20.7	21.5	22.2	23.0
Net earnings (UBS) margin	8.1	6.4	7.8	8.0	8.3	8.6	8.9	9.0
ROIC (EBIT)	9.3	7.0	8.9	8.7	8.8	8.8	8.7	8.7
ROIC post tax	5.5	4.5	5.8	5.6	5.8	5.8	5.8	5.8
ROE (UBS)	8.7	6.0	8.9	9.4	9.4	9.2	9.1	8.9

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	5.5	5.4	5.4	5.4	5.4
Net debt / total equity %	161.5	169.1	193.6	200.4	191.4	186.4	181.0	183.6
Net debt / (net debt + total equity) %	61.8	62.8	65.9	66.7	65.7	65.1	64.4	64.7
Net debt/EV %	51.1	38.3	58.7	54.7	55.3	57.2	60.4	60.2
Capex / depreciation %	NM	NM	NM	NM	NM	NM	NM	NM
Capex / revenue %	NM	29.2	NM	NM	NM	NM	30.0	28.9
EBIT / net interest	2.9	2.2	2.6	2.7	2.5	2.5	2.5	2.5
Dividend cover (UBS)	1.6	1.1	1.7	1.7	1.7	1.7	1.7	1.7
Div. payout ratio (UBS) %	61.7	88.9	60.5	59.4	59.6	58.4	57.7	57.4

Revenues by division (US$m)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Others	6,485	4,667	4,505	4,920	5,118	5,320	5,505	5,701
Total	**6,485**	**4,667**	**4,505**	**4,920**	**5,118**	**5,320**	**5,505**	**5,701**

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	832	894	978	1,058	1,146	1,224	1,309
Total	**1,277**	**832**	**894**	**978**	**1,058**	**1,146**	**1,224**	**1,309**

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	+1.5%
Forecast dividend yield	2.8%
Forecast stock return	+4.3%
Market return assumption	6.3%
Forecast excess return	-2.0%

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%	28%
Neutral	FSR is between -6% and 6% of the MRA.	38%	27%
Sell	FSR is > 6% below the MRA.	17%	11%
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 2017.
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	Neutral	N/A	US$26.24	01 Aug 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
16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

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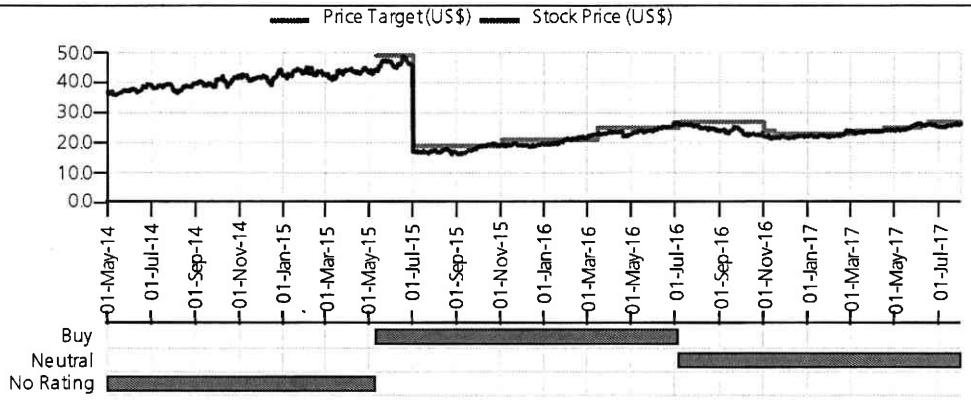
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2014-05-01	37.02	-	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
2017-03-06	23.58	24.0	Neutral
2017-04-17	24.02	25.0	Neutral
2017-06-07	26.44	26.0	Neutral
2017-06-17	26.06	27.0	Neutral

Source: UBS; as of 01 Aug 2017

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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Weight

Gas/Power Infrastructure – Market Overweight

August 2, 2017

NISOURCE

(NI US Equity – $ 26.67 – Outperform)

Raise, rebase higher, repeat

- **Consistency, low risk and strong growth – hard not to like**
  NiSource continued a strong 2017 with an in-line Q2 and a 2017 guidance boost for the year. Longer term NI's $30B investment backlog and improving customer growth rates give high quality tailwinds for earnings growth into the next decade. We continue to see NI as a premium gas and electric utility with high growth, low risk and a management team that has been developing a constructive track record – reiterate Outperform.

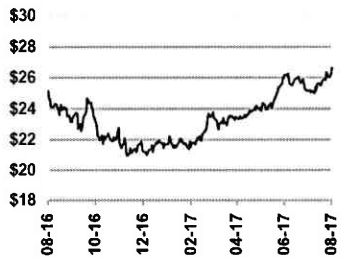
- **Interest savings drives another guidance boost**
  Management raised 2017 guidance to $1.17-$1.20 range (previously NI guided to the upper half of $1.12-$1.18) based on interest cost savings from the refinancing activity in the quarter and strong YTD performance. Because NiSource's long term 5%-7% growth rate is on an annual basis rather than a CAGR off one base year, the boosted 2017 guidance also means that the 2018 guidance would also be higher. This is the same as CMS' approach to EPS growth and we believe it adds an upward bias to the LT outlook.

- **Regulatory focus on trackers**
  Regulatory activity has slowed somewhat following the spate of base rate cases over the last couple years. The focus now is on updating tracking mechanisms and environmental spending, which will cover much of the investment long term and keep NI in position to grow earnings at 5%-7% and, coupled with O&M control, not unduly impact customer rates.

- **Q2 in line, raising estimates target price to $28**
  Q2 EPS of $0.10 vs. $0.08 last year was in line with our estimate. Based on interest savings assumptions we are raising our 2017-2020 estimates to $1.19/$1.26/$1.33/$1.41 from $1.18/$1.24/$1.31/$1.38. We are also boosting our target price to $28 from $26 reflecting our revised estimates as well as a higher target multiple of 20x 2019 EPS given current LDC trading levels.

Trading and Fundamental Data	
Target Price	**$ 28**
Current Price	$ 26.67
52 Week Range	$ 21 - $ 27
Market Cap. ($MM)	$ 8876
Share Out. (MM)	319.8
Dividend Yield	3.24%
Dividend Payout Ratio	60%
ROE	9.3%
Debt to Cap	66%
Avg Daily Vol (ooo)	3418

Price Performance	YTD	LTM
NI US Equity	20%	3%
Utility Index	10%	3%
S&P 500	11%	15%



Source: FactSet/Wolfe Research

Key Changes		
Year	New	Old
TP	28	26
2017E	1.19	1.18
2018E	1.26	1.24
2019E	1.33	1.31
2020E	1.41	1.38

Estimates / Valuation				
(US$)	2017E	2018E	2019E	2020E
EPS	$1.19	$1.26	$1.33	$1.41
Consensus	$1.18	$1.25	$1.33	$1.38
P/E	22.4x	21.2x	20.1x	19.0x
Dividend Per Share	$0.70	$0.74	$0.77	$0.81
Dividend Yield	2.6%	2.8%	2.9%	3.0%

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WOLFE RESEARCH

NiSource

August 2, 2017

NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2017E	2018E	2019E	2020E
EPS	$1.19	$1.26	$1.33	$1.41
Diluted Shares Outstanding	327	340	352	364
Dividends Per Share	$0.70	$0.74	$0.77	$0.81
Dividend Yield	2.6%	2.8%	2.9%	3.0%
Dividend Payout Ratio	59%	58%	58%	58%
Equity Ratio	41%	43%	45%	46%
FFO/Net Debt	13%	13%	13%	13%
Valuation Metrics				
P/E	22.4x	21.2x	20.1x	19.0x
Price/Book	1.8x	1.6x	1.5x	1.3x
Segment EPS				
Gas Distribution	$0.94	$1.00	$1.06	$1.12
Electric	0.54	0.55	0.57	0.59
Parent & Other	(0.29)	(0.29)	(0.30)	(0.31)
Total EPS	**$1.19**	**$1.26**	**$1.33**	**$1.41**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2017E	2018E	2019E	2020E
Total Capital Spending by Segment ($M)				
Gas Distribution	$1,050	$1,080	$1,080	$1,080
Electric	585	605	605	605
Parent	16	15	15	15
Total Capex	**$1,651**	**$1,700**	**$1,700**	**$1,700**
Financings ($M)				
Total Equity Issued/(Repurchased)	$313	$313	$313	$313
Total Debt Issued/(Repurchased)	$632	$458	$647	$691

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.

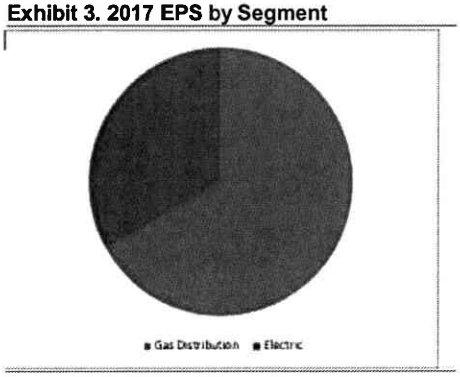
Investment Thesis

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 $28 price target is on a target P/E valuation. We apply a 21x 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 2017E	2018E	2019E	2020E	Div Yield	Div Growth (E)	Payout Ratio
Atmos Energy Corp	ATO	88.69	9,338	24.6	23.2	21.6	NA	2.0%	7.4%	59%
Southwest Gas Holdings Inc	SWX	80.24	3,815	23.8	22.2	21.6	20.5	2.5%	4.0%	67%
WGL Holdings Inc	WGL	85.55	4,382	26.1	23.5	21.7	NA	2.4%	7.1%	67%
ONE Gas Inc	OGS	73.56	3,845	24.6	23.6	22.6	NA	2.3%	5.5%	75%
NiSource Inc	NI	26.67	8,691	22.4	21.2	20.1	19.0	2.6%	5.0%	NA
New Jersey Resources Corp	NJR	42.55	3,682	24.5	22.8	21.6	19.5	2.4%	6.9%	58%
Northwest Natural Gas Co	NWN	64.75	1,856	29.7	28.2	25.8	24.9	2.9%	4.7%	85%
UGI Corp	UGI	50.76	8,788	21.9	20.3	19.4	18.5	2.0%	4.0%	52%
Spire Inc	SR	74.65	3,603	21.2	20.4	19.8	18.2	2.8%	3.9%	66%
Vectren Corp	VVC	60.73	5,038	23.1	21.7	19.9	18.8	2.8%	5.5%	73%
Average				**24.4x**	**22.9x**	**21.6x**	**20.1x**	**2.5%**	**5.4%**	**67%**

Source: Wolfe Research, Factset consensus

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WOLFE RESEARCH

NiSource

August 2, 2017

DISCLOSURE SECTION

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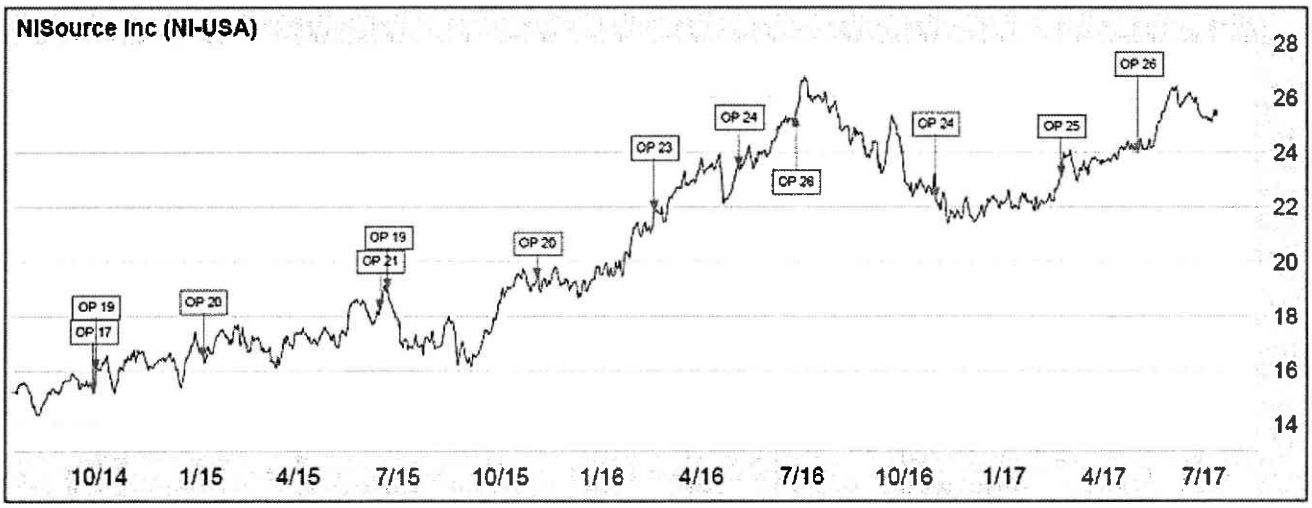
The analyst of Wolfe Research, LLC primarily responsible for this research report whose name appears first on the front page of this research report hereby certifies that (i) the recommendations and opinions expressed in this research report accurately reflect the research analysts' personal views about the subject securities or issuers and (ii) no part of the research analysts' compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this report.

Important Disclosures:

Price Chart with Ratings and Target Price History



Note: OP = Outperform; PP = Peer Perform; UP = Underperform

Wolfe Research, LLC Fundamental Valuation Methodology:

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

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:	Risks That May Impede Achievement of the Recommendation, Rating or Target Price:
NI US Equity	Economy, regulatory outcomes, project execution

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
NI US Equity	None

Other Disclosures:

Wolfe Research, LLC Fundamental Stock Ratings Key:

Outperform (OP):	The security is projected to outperform analyst's industry coverage universe over the next 12 months.
Peer Perform (PP):	The security is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.
Underperform (UP):	The security is projected to underperform analyst's industry coverage universe over the next 12 months.

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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WOLFE RESEARCH

NiSource

August 2, 2017

Wolfe Research, LLC Sector Weighting System:

Market Overweight (MO):	Expect the industry to outperform the primary market index for the region (S&P 500 in the U.S.) by at least 10% over the next 12 months.
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, 2017):

Outperform:	36%	1% Investment Banking Clients
Peer Perform:	52%	2% Investment Banking Clients
Underperform:	12%	0% Investment Banking Clients

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J.J.B. Hilliard, W.L. Lyons, LLC
August 3, 2017

COMPANY UPDATE / ESTIMATE CHANGE

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company reports higher second quarter results and raises 2017 earnings guidance

Key Metrics

NI - NYSE (Price as of 8/2/17)		$26.67
Price Target		NA
52-Week Range		$26.67 - $21.17
Shares Outstanding (mm)		325.1
Market Cap. ($mm)		$8,670
3-Mo. Average Daily Volume		2,420,000
Institutional Ownership		81.0%
Debt/Total Capital		57.1%
ROE (ttm)		8.5%
Book Value/Share		$12.03
Price/Book Value		2.2x
Indicated Dividend / Yield	$0.70	2.6%
Dividend Cycle		Feb., May, Aug., Nov.

EPS FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2081E	Curr. 2018E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$1.09	$1.17	$1.19	$1.24	$1.26
P/E	24.5x		22.4x		21.2x
Payout	62%		59%		56%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$3,102		$3,215	--	$3,365

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 $0.10 per share versus $0.08 per share in 2016's second quarter.** Earnings were in line with expectations. The company's gas distribution business saw its earnings contribution decline in the quarter while NI's electric operations segment posted an increase in earnings. Earnings from gas distribution were $55.7 million, a decrease of $17.6 million from last year's second quarter. This business was negatively impacted by higher operating expenses, led by higher employee and administrative costs. These offset the positive effects of new rates. The company's electric business added $84.3 million to second quarter earnings versus $60.1 million in the same time period last year. This segment benefited from both new rates and the benefits of higher regulatory and depreciation trackers.
- **Management raises 2017 earnings guidance.** NiSource now expects 2017 operating earnings to be in a range of $1.17 to $1.20 per share. The company's previous guidance had been a range between $1.12 to $1.18 per share. We are raising our 2017 and 2018 EPS estimates to $1.19 and $1.26, respectively. In addition, NiSource expects to grow both its earnings and dividends by 5% to 7% annually off the revised 2017 base.
- **Company continuing to make investments.** NI anticipates it will make approximately $1.6 to $1.7 billion in planned utility infrastructure investments in 2017. In addition, NI expects to invest between $1.6 to $1.8 billion each year through 2020.
- **We have a Neutral rating on NiSource due to valuation.** However, we continue to believe the company has a positive long-term fundamental outlook. We believe NI's ongoing infrastructure investments will allow for consistent earnings and dividend growth and would thus maintain positions in the stock.

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

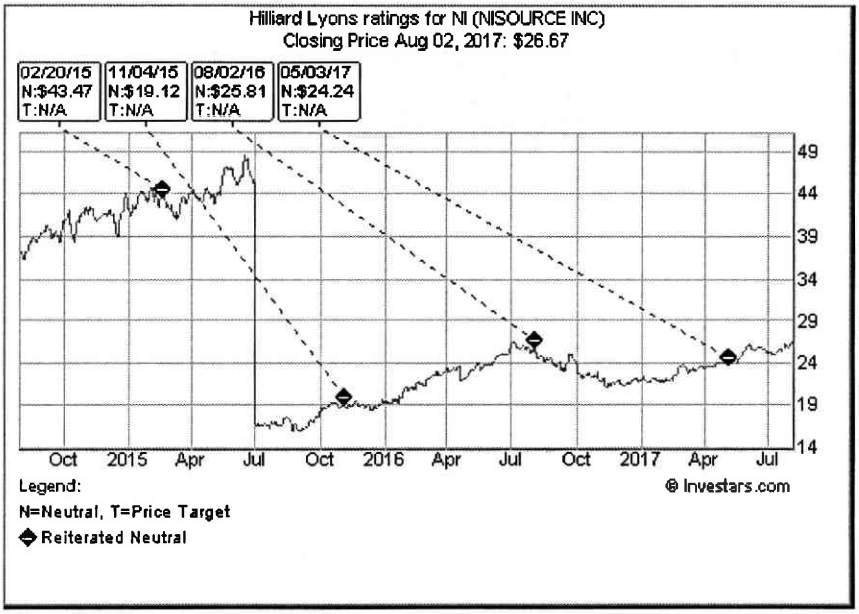
I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing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

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

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	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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KeyBanc
Capital Markets

August 3, 2017

Energy: Multi-Utilities

Company Update / Estimate Changes / Price Target Changes

NiSource Inc.

NI: Increasing Estimates and Price Target

We continue to view the NI story positively as the Company continues to execute on its plan, as seen by the rebasing of its LT 5-7% EPS growth rate off of increased 2017 guidance.

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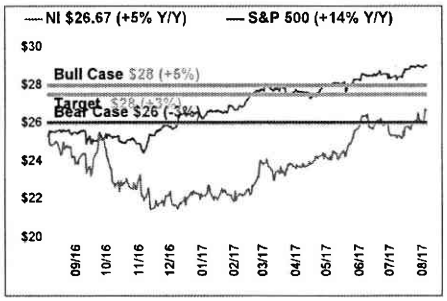
NYSE: NI

Rating:	**Overweight**
Price Target:	**$27.50(▲from $27.00)**
Price:	**$26.67**



Sources: Company reports. Thomson Reuters, KeyBanc Capital Markets Inc.

Key Investment Points

Earnings Results: NI reported ongoing 2Q17 EPS of $0.10 vs. $0.08 in 2Q16 (Consensus of $0.10 and KBCM of $0.09) as improved Electric results were slightly offset by weaker results at the Gas operations and Corporate.

Load Growth and Gas Conversions: Although still early, NI management feels good about achieving its goal of 1% annual customer growth by 2020 (outlined at March Investor Day) as it has started to build and implement capabilities to execute on its plan.

Regulatory Update: Columbia Gas of Ohio's application for its 5-year extension of its Infrastructure Replacement Plan remains pending at PUCO, with an order expected by year-end. Columbia Gas of Maryland's base rate case has come to a settlement with rates expected to take effect in late October (if approved by Commission). NIPSCO continues to execute on its 7-year gas infrastructure modernization plan. NIPSCO Electric's environmental upgrade request remains pending in Indiana and it continues to execute on its 7-year electric modernization program. NIPSCO's two major electric transmission projects remain on schedule with in service dates in 2H18.

Guidance and Outlook: NiSource Inc. raised guidance to $1.17-$1.20 from $1.12-$1.18. Previously, on its 1Q17 call, NI had endorsed the upper half of the previous range ($1.12-$1.18). EPS and dividend growth were affirmed at 5-7%; however, rebased off the updated 2017 guidance.

Raising Estimates & Increasing PT: In light of the strong results and rebasing of guidance, we are raising our 2017 and 2018 EPS estimates. For 2017 we are increasing our estimate to $1.20 from $1.18 and for 2018 are increasing our EPS estimate to $1.28 from $1.26. In light of our increased 2018 EPS estimate, we are refreshing our valuation and raising our PT to $27.50 from $27.

Company Data

52-week range	$21 - $27
Market Cap. (M)	$8,498.9
Shares Out. (M)	318.67
Enterprise Value (M)	$15,121.9
Avg. Daily Volume (30D)	2,791,320.0
Annual Dividend	$0.70
Dividend Yield	2.6%
SI as % of Float	1.8%
SI % Chg. from Last Per.	(25.7)%
Book Value/Share	$17.93

Sources: Company reports, Thomson Reuters, KeyBanc Capital Markets Inc.

Estimates

FY ends 12/31	F2016A	1Q17A	2Q17E	3Q17E	4Q17E	F2017E	F2018E
EPS (Net)	**$1.09**	**$0.71**	**$0.10**	**--**	**--**	**$1.20**	**$1.28**
Cons. EPS	--	--	*$0.10*	*$0.08*	*$0.33*	*$1.16*	*$1.25*
Previous	--	--	$0.09	--	--	$1.18	$1.26
EBITDA (M)	**--**	**--**	**--**	**--**	**--**	**$1,589.0**	**$1,741.0**
Valuation							
P/E	24.5x	--	--	--	--	22.2x	20.8x

Sources: Company reports, Thomson Reuters, KeyBanc Capital Markets Inc.

Our Case

NI continues to benefit from a constructive regulatory environment across its several jurisdictions, remains committed to its customer growth initiative and executes on its plan, and grows EPS at the high end of its 5-7% EPS growth rate.

Bull Case
NI sees customer growth accelerate to hit its 1% target before 2020 and grows EPS above its 5-7% EPS growth rate.

Bear Case
NI's constructive regulatory environment starts to deteriorate and the Company does not execute on its customer growth initiative, pushing NI's LT EPS growth rate to the low end of its targeted 5-7% EPS growth rate.

Valuation

NiSource Inc. (NI)
Our price target represents a P/E multiple of 21.5x our 2018 estimate while shares are currently trading at 20.8x our 2018 estimate. Our $27.50 price target assumes NI warrants a 10-15% premium to peers given attractive capital opportunities backed by favorable regulation.

Investment Risks

NiSource Inc. (NI)
We believe the primary risks to achieving our price target include any deterioration of regulation and any inability to execute on the growth initiatives that management is targeting.

Details on 2Q17

Guidance: NiSource Inc. raised guidance to $1.17-$1.20 from $1.12-$1.18. On its 1Q17 call, NI had endorsed the upper half of the previous range. EPS and dividend growth of 5-7%, rebased off updated 2017 guidance.

Highlights:

- Gas operations operating earnings fell to $55.7 million from $73.3 million.
  - Revenues rose $22.3 million, driven by new rates ($19.7 million) and $1.4 million in higher trackers (which are offset in expenses) and $1.4 million in customer growth.
  - Expenses rose $39.9 million on tracker items (above) and employee costs ($17.6 million), outside services ($7 million), property taxes of $5.7 million, environmental costs of $4.4 million and depreciation on higher plant balances ($2.6 million).
- Electric operating earnings rose $84.3 million from $64.0 million.
  - Revenues increased $42.2 million on new rates ($21.2 million), trackers, offset in expenses ($8.3 million) and transmission investment ($5.0 million), and higher industrial sales ($3.5 million).
  - Expenses rose $21.9 million on tracker items (above), outside services were $7.1 million higher, increased employee costs ($3.9 million), gross receipt taxes ($3.4 million) partly offset by $3.6 million lower depreciation and amortization.
- The Corporate segment reported a 2Q operating loss of $5.6 million vs. a loss of $3.0 million, driven by employee and administrative costs.
- Other income expenses fell $8.2 million on the roll off of a charge related to Transmission upgrade agreements.

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.

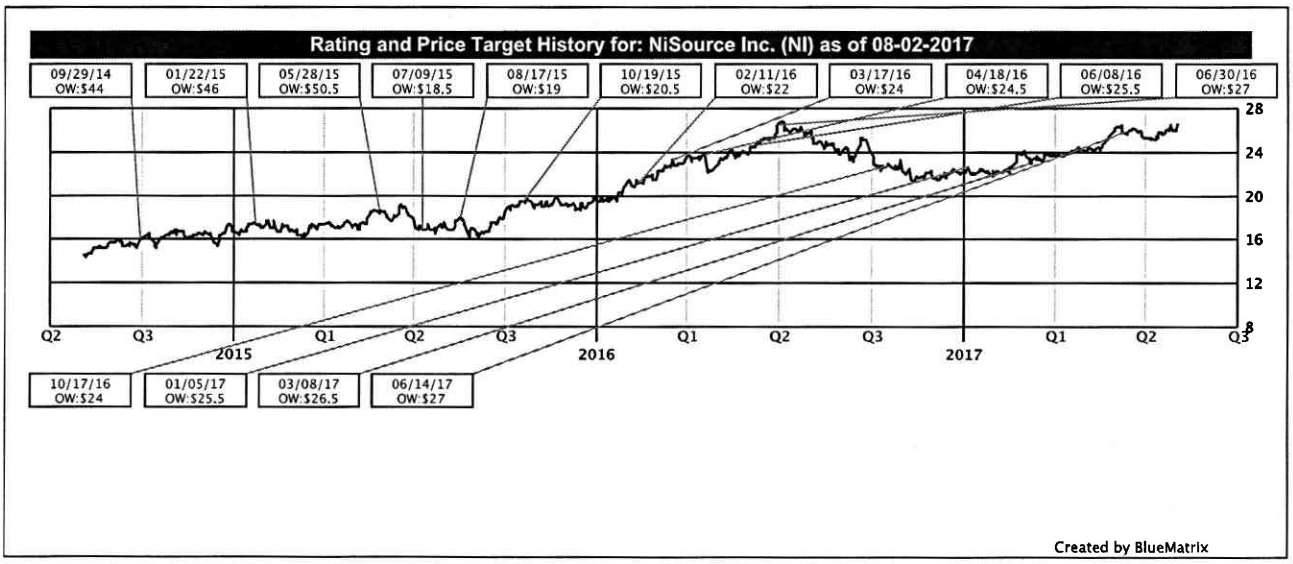
During the past 12 months, NiSource Inc. has been a client of the firm or its affiliates for non-securities related services.

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

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

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]	283	42.94	59	20.85	Overweight [OW]	28	45.90	21	75.00
Sector Weight [SW]	364	55.24	50	13.74	Sector Weight [SW]	33	54.10	15	45.45
Underweight [UW]	12	1.82	2	16.67	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.

Other Disclosures

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NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 02 Aug 2017 21:37, UTC	26.67 USD 02 Aug 2017	23.00 USD 04 May 2017 17:55, UTC	1.16	2.59 02 Aug 2017	2.62 02 Aug 2017	8.66 02 Aug 2017	Utilities - Regulated Gas	Standard

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★	Overvalued
Uncertainty	Low	Low
Financial Health	—	Moderate

Source: Morningstar Equity Research

Important Disclosure:
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Quantitative Valuation

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.13	1.09	1.03	0.95
Price/Earnings	24.3	23.5	17.2	22.3
Forward P/E	—	—	16.8	17.5
Price/Cash Flow	9.3	7.5	7.1	12.9
Price/Free Cash Flow	—	74.9	12.9	19.5
Trailing Dividend Yield%	2.59	3.26	3.42	2.02

Source: Morningstar

Bulls Say

- We expect NiSource's annual dividend growth to average 6% during the next five years for the foreseeable future.
- 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.
- NiSource's common shares are expected to increase by 20% over the next five years in order to fund infrastructure investment. The additional shares will be a headwind to earnings growth.

Refinancings Improve NiSource's 2017 Earnings Outlook

Investment Thesis

Charles Fishman, CFA, Eq. Analyst, 04 May 2017

In July 2015, NiSource completed its 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 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 stepped up its capital expenditures. We estimate these investments will drive annual EPS growth of 6% per year and result in similar dividend increases over the next five years.

NiSource's regulated utility businesses plan to invest about $30 billion in infrastructure improvements during the next 20 years. Approximately $750 million per year of these investments are modernization programs for replacing steel pipe with plastic at its natural gas distribution utilities. We estimate the annual earnings growth from these investments should drive operating earnings growth at the Gas Distribution segment of approximately 8% per year.

A $1.2 billion seven-year electric system modernization plan and tracker mechanisms for automatic rate increases was approved by Indiana legislation in 2016. The regulatory framework for these investments allows for recovery in rates in less than 12 months, minimizing regulatory lag and allowing realized returns to approximate allowed returns. These investments combined with other investments in electric infrastructure should result in average annual operating earnings from the Electric segment increasing at almost 4% per year.

NiSource cut its dividend in 2015 to $0.62 per share annualized after the separation from CPG. The company raised its dividend in mid-2016 by 6.5% and again by 6.1% earlier this year. We believe NiSource will be able to continue increases at this rate for the foreseeable future.

Analyst Note

Charles Fishman, CFA, Eq. Analyst, 02 August 2017

We are reaffirming our $23 per share fair value estimate and our narrow moat and stable moat trend ratings after NiSource reported 2017 second-quarter earnings modestly higher than last year and raised and narrowed its 2017 earnings guidance. Earnings guidance for 2017 was increased to a range of $1.17-$1.20 per share from the upper half of its previous guidance range of $1.12-$1.18 per share. We will likely modestly increase our $1.17 per share estimate, but it will not impact our fair value estimate.

The improvement in NiSource's earnings guidance was driven by recent refinancing activity. In May, NiSource sold $1 billion of 10-year notes and $1 billion of 30-year notes at coupon rates of 3.49% and 4.375%, respectively. Half of the proceeds funded a tender offer for higher-rate notes; the remainder are for capital expenditures. In 2016, NiSource's weighted-average interest rate for outstanding debt was 5.41%. We had estimated that this newly issued debt and further refinancings would lower the average interest rate to 4.7% during the next five years. However, it appears that the refinancings may have reduced NiSource's interest expense more than we had estimated.

Economic Moat

Charles Fishman, Eq. Analyst, 04 May 2017

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

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02 Aug 2017 21:37, UTC	02 Aug 2017	04 May 2017 17:55, UTC		02 Aug 2017	02 Aug 2017	02 Aug 2017		

Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Xcel Energy Inc XEL	USD	24,225	11,426	19.59	21.01
WEC Energy Group Inc WEC	USD	20,083	7,582	22.55	21.28
CMS Energy Corp CMS	USD	13,132	6,505	20.37	23.53

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 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.

Valuation

Charles Fishman, Eq. Analyst, 04 May 2017

We are increasing our fair value estimate to $23 per share from $21 per share driven primarily by increased infrastructure investments that should drive rate base growth and earnings. Our assumption for capital expenditures over the five-year period ending in 2021 is $8.7 billion versus $7.5 billion in our previous estimate for the five-year period ending in 2020. Our fair value estimate also benefited from time-value appreciation since our last update.

NiSource's $2.7 billion five-year electric utility infrastructure investment program is the primary driver of our 4% annual operating earnings growth estimate during the next several years. At its gas distribution utilities, we estimate capital expenditures of $6 billion during the next five years. We estimate that favorable regulatory frameworks should push average annual gas distribution operating earnings growth to approximately 8%.

We estimate annual consolidated EPS growth of 6% even with the headwind of 20% more common shares outstanding over the next five years. Our estimate is at the midpoint of NiSource's 5%-7% earnings growth target through 2020.

We assume a 25% U.S. federal corporate tax rate effective in 2018. Since the majority of NiSource's income taxes are related to the company's regulated utilities, we expect most of the net benefit of lower income taxes would reduce customer rates.

We use a 5.9% 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 implies a 18 times multiple on 2018 earnings, slightly higher than the fair value estimate multiples for the company's U.S. regulated utility peers. We believe the premium relative valuation is appropriate given the visibility of NiSource's investment opportunities over the next 20 years.

Risk

Charles Fishman, Eq. Analyst, 04 May 2017

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 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

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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.

Management

Charles Fishman, Eq. Analyst, 04 May 2017

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 solid stewardship of shareholder capital is likely to continue.

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Analyst Notes Archive

NiSource Increases Planned Capital Expenditures and Again Announces Above-Target Dividend Growth

Charles Fishman, Eq. Analyst, 22 February 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%.

Executive Order Reviewing Clean Power Plan Has Little Effect on Utilities

Andrew Bischof, CFA, CPA, Sr. Eq. Analyst, 28 March 2017

We are maintaining our fair value estimates, moat ratings, and moat trend ratings for all utilities we cover after President Donald Trump signed an executive order to review the previous administration's Clean Power Plan. Further efforts by the Environmental Protection Agency will be needed to revoke the current regulation.

During the Trump administration, we expect state renewable portfolio standards, or RPS, will keep U.S. renewable energy growth in line with that achieved during the Obama presidency. Our analysis indicates that renewable energy, including hydro, will grow to meet nearly 20% of U.S. electricity use within the next eight years from 15% now, based solely on existing state RPS. More than half of that renewable energy growth will come by 2020 to hit mandates in large states such as Colorado, New Jersey, and Pennsylvania. Supportive tax policy, pro-manufacturing initiatives, and companies trying to reduce their carbon footprint represent upside to our base forecast.

Furthermore, we expect gas generation efficiency improvements and low-cost gas to continue making it difficult for aging coal generators to compete. A typical natural gas-fired combined-cycle power plant produces less than 50% of the carbon emissions of a coal-fired plant. Our forecasts show renewable energy and gas generation growth should keep carbon emissions falling toward targets in the U.S. Clean Power Plan and the Paris Agreement, despite Trump's efforts. We forecast that U.S. carbon emissions will fall 28% from 2005 levels by 2020 based on our forecast for RPS-related renewable energy growth displacing fossil fuel generation

Best positioned are large-cap utilities with good regulatory relationships. Dominion Resources, Duke Energy, American Electric Power, and Southern Co. have billions of dollars to invest in gas and electric infrastructure. NextEra Energy and Xcel Energy should widen their lead as the top U.S. renewable energy companies.

NiSource Reports Strong 1Q and Raises Earnings Guidance; Increasing Our Fair Value Estimate

Charles Fishman, Eq. Analyst, 04 May 2017

We are increasing our fair value estimate to $23 from $21 per share and reaffirming our narrow moat and stable moat trend ratings after NiSource reported strong 2017 first-quarter earnings, raised its 2017 earnings guidance, and reaffirmed its long-term capital expenditure forecast.

At its Analyst Day in March, NiSource initiated a 2018-20 annual capital expenditure guidance range of $1.6 billion-$1.8 billion. The company had increased its 2017 planned capital expenditures to $1.6 billion-$1.7 billion from $1.5 billion during its 2016 earnings call in late February. Management reaffirmed both forecasts, driving our 6% annual earnings growth estimate through 2021.

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Operating earnings in the 2017 first-quarter were $0.71 per share versus $0.62 in the same period last year. NiSource raised its 2017 earnings guidance to the upper half of its previous range of $1.12-$1.18 per share. Based on the strong first quarter and increased guidance, we have increased our 2017 earnings estimate to $1.17 from $1.15 per share.

Management Meeting: NiSource Financing Plan Supports Increase in Capital Expenditures

Charles Fishman, Eq. Analyst, 24 May 2017

We are reaffirming our $23 per share fair value estimate and narrow moat and stable moat trend ratings for NiSource Inc. after meeting with senior executives at the American Gas Association Financial Forum in Orlando. NiSource reaffirmed its 5%-7% EPS and dividend growth forecast through 2020 and the $1.6 billion-$1.8 billion annual capital expenditures that the company had recently increased in March. Our long-term EPS and dividend annual growth rates are unchanged at 6%.

NiSource's financial team will be busy supporting the increased capital expenditures. Management reaffirmed its intent to issue $200 million-$300 million of equity through an At-The-Market, or ATM, program through 2020. This is in addition to the $50 million-$75 million issued each year by dividend reinvestment and incentive stock plans. Our EPS forecast assumes $300 million of new equity annually in 2017-2019 and $250 million in 2020 and 2021.

Earlier this week, NiSource announced it had sold $1 billion of 10-year notes and $1 billion of 30-year notes at coupon rates of 3.49% and 4.375%, respectively. Half of the proceeds will fund a tender offer for higher-rate notes; the remainder will go for capital expenditures. The attractive interest rates demonstrate that fixed-income investors are not concerned about NiSource's near-50% increase in capital expenditures the past few years. The majority of the increase in capital expenditures are for the acceleration of the company's main replacement programs. Most of these expenditures begin to be recovered in higher utility rates in less than 12 months and exhibit wide-moat characteristics, further solidifying NiSource's narrow moat.

In 2016, NiSource's weighted-average interest rate for outstanding debt was 5.41%. We estimate this week's newly issued debt and further refinancings should lower the average interest rate to 4.7% during the next five years, providing additional confidence in our 6% EPS growth estimate.

Refinancings Improve NiSource's 2017 Earnings Outlook

Charles Fishman, Eq. Analyst, 02 August 2017

We are reaffirming our $23 per share fair value estimate and our narrow moat and stable moat trend ratings after NiSource reported 2017 second-quarter earnings modestly higher than last year and raised and narrowed its 2017 earnings guidance. Earnings guidance for 2017 was increased to a range of $1.17-$1.20 per share from the upper half of its previous guidance range of $1.12-$1.18 per share. We will likely modestly increase our $1.17 per share estimate, but it will not impact our fair value estimate.

The improvement in NiSource's earnings guidance was driven by recent refinancing activity. In May, NiSource sold $1 billion of 10-year notes and $1 billion of 30-year notes at coupon rates of 3.49% and 4.375%, respectively. Half of the proceeds funded a tender offer for higher-rate notes; the remainder are for capital expenditures. In 2016, NiSource's weighted-average interest rate for outstanding debt was 5.41%. We had estimated that this newly issued debt and further refinancings would lower the average interest rate to 4.7% during the next five years. However, it appears that the refinancings may have reduced NiSource's interest expense more than we had estimated.

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MORNINGSTAR

NiSource Inc NI ★Q 02 Aug 2017 02:00 UTC

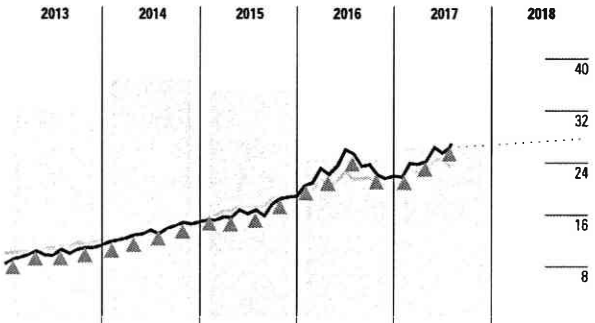
Last Close	Fair Value[Q]	Market Cap	Sector	Industry	Country of Domicile
02 Aug 2017	02 Aug 2017 02:00 UTC	02 Aug 2017			
26.67	23.16	8,658.9 Mil	Utilities	Utilities - Regulated Gas	United States

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

NiSource Inc is an energy holding company, whose subsidiaries are fully regulated natural gas and electric utility companies serving customers in seven states.

Price vs. Quantitative Fair Value



- Quantitative Fair Value Estimate
- Total Return
- Sales/Share
- Forecast Range
- Forcasted Price
- Dividend
- Split

Momentum: Neutral
Standard Deviation: 15.70
Liquidity: High

21.17 52-Wk 26.67

9.09 5-Yr 26.94

	2013	2014	2015	2016	2017	2018
Total Return %	36.0	32.1	15.0	16.8	22.8	
+/– Market (Morningstar US Index)	2.9	19.3	14.4	4.3	11.3	
Trailing Dividend Yield %	2.98	2.40	4.25	2.89	—	
Forward Dividend Yield %	—	—	—	—	2.59	
Price/Earnings	21.6	25.3	12.8	23.3	24.7	
Price/Revenue	1.9	2.1	1.0	1.7	1.8	

Morningstar Rating[Q]
★★★★★
★★★★
★★★
★★
★

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	97	96	94
Valuation	Overvalued	11	16	9
Quantitative Uncertainty	Low	100	99	100
Financial Health	Moderate	65	62	65

Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.13	1.09	1.03	0.95
Price/Earnings	24.3	23.5	17.2	22.3
Forward P/E	—	—	16.8	17.5
Price/Cash Flow	9.3	7.5	7.1	12.9
Price/Free Cash Flow	—	74.9	12.9	19.5
Trailing Dividend Yield %	2.59	3.26	3.42	2.02
Price/Book	2.0	1.7	1.4	2.5
Price/Sales	1.8	1.6	1.5	2.2

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	8.8	8.0	9.5	12.0
Return on Assets %	2.0	2.0	3.2	4.6
Revenue/Employee (K)	581.3	582.7	1,188.3	308.8

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.6	0.6	0.6	0.5
Solvency Score	—	—	601.6	581.6
Assets/Equity	4.6	4.2	2.6	1.7
Long-Term Debt/Equity	1.5	1.4	0.7	0.3

Financials (Fiscal Year in Mil)

	2012	2013	2014	2015	2016	TTM
Revenue	5,061	5,657	6,471	4,652	4,492	4,654
% Change	-15.9	11.8	14.4	-28.1	-3.4	3.6
Operating Income	1,011	1,143	1,262	800	858	893
% Change	11.6	13.2	10.4	-36.6	7.3	4.1
Net Income	416	532	530	287	332	356
Operating Cash Flow	1,276	1,437	1,320	1,457	803	912
Capital Spending	-1,499	-1,880	-2,029	-1,361	-1,475	-1,486
Free Cash Flow	-223	-443	-709	96	-672	-575
% Sales	-4.4	-7.8	-11.0	2.1	-15.0	-12.3
EPS	1.39	1.70	1.67	0.90	1.02	1.09
% Change	35.0	22.3	-1.8	-46.1	13.3	6.9
Free Cash Flow/Share	-0.74	-1.16	-2.47	-1.28	-2.26	-1.77
Dividends/Share	0.94	0.98	1.02	0.83	0.64	0.66
Book Value/Share	17.90	18.17	19.01	11.91	11.79	12.94
Shares Outstanding (K)	310,281	313,676	316,037	319,110	323,160	323,958

Profitability

	2012	2013	2014	2015	2016	TTM
Return on Equity %	7.9	9.3	8.8	5.7	8.4	8.8
Return on Assets %	2.0	2.4	2.2	1.4	1.8	2.0
Net Margin %	8.2	9.4	8.2	6.2	7.4	7.7
Asset Turnover	0.24	0.25	0.27	0.22	0.25	0.26
Financial Leverage	3.9	3.8	4.0	4.6	4.6	4.4
Gross Margin %	69.5	67.9	65.6	64.7	69.1	68.9
Operating Margin %	20.0	20.2	19.5	17.2	19.1	19.2
Long-Term Debt	6,819	7,593	8,156	5,948	6,058	5,591
Total Equity	5,554	5,887	6,175	3,844	4,071	4,191
Fixed Asset Turns	0.4	0.4	0.4	0.3	0.4	0.4

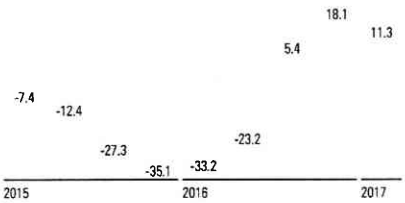
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	-3.4	-1.0	-4.8	-4.9
Operating Income %	7.3	7.1	-1.3	-0.8
Earnings %	60.3	12.5	-1.2	-1.2
Dividends %	-22.9	-13.2	-7.0	-3.6
Book Value %	4.6	-12.4	-6.6	-3.7
Stock Total Return %	5.5	15.5	18.9	11.7

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2017	1,598.6	—	—	—	—
2016	1,436.6	897.6	861.3	1,297.0	4,492.5
2015	2,149.7	1,169.0	817.2	1,097.8	4,651.8
2014	2,320.5	1,335.1	1,123.9	1,691.1	6,470.6
Earnings Per Share ()					
2017	0.65	—	—	—	—
2016	0.56	0.09	0.08	0.27	1.02
2015	0.85	-0.11	-0.02	0.18	0.90
2014	0.85	0.25	0.10	0.48	1.67

Revenue Growth Year On Year %



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Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. 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.

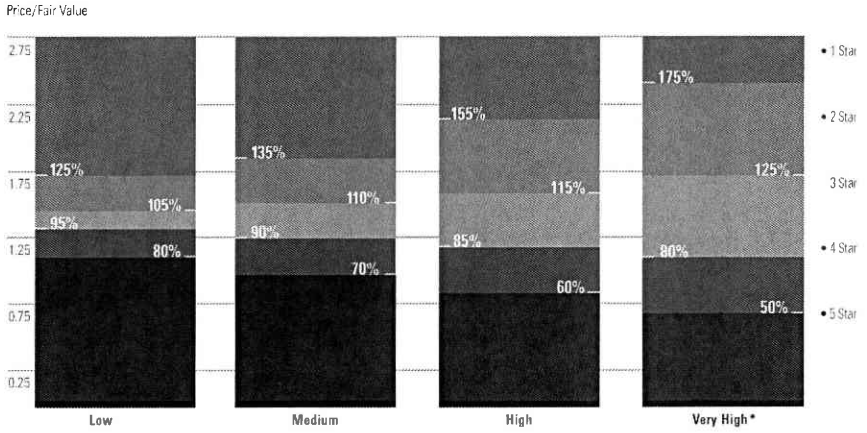
Four Stars ★★★★

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.

Risk Warning
Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview
The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings
Morningstar's quantitative equity ratings consist of: (i) Quantitative Fair Value Estimate, (ii) Quantitative Star Rating, (iii) Quantitative Uncertainty, (iv) Quantitative Economic Moat, and (v) Quantitative Financial Health (collectively the "Quantitative Ratings).

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. ("Morningstar", "we", "our") calculates Quantitative Ratings for companies whether or not it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the Fair Value Estimate Morningstar's equity analysts assign to companies. Please go to http://global.morningstar.com/equitydisclosures for information about Fair Value Estimate Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- **Narrow:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- **Wide:** assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- **None:** assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as One-Star, Two-Star, Three-Star, Four-Star, and Five-Star.

- **One-Star:** the stock is overvalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) < -1*Quantitative Uncertainty*
- **Two-Star:** the stock is somewhat overvalued.
  *Log (Quant FVE/Price) between (-1*Quantitative Uncertainty, -0.5*Quantitative Uncertainty)*
- **Three-Star:** the stock is approximately fairly valued.
  *Log (Quant FVE/Price) between (-0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)*
- **Four-Star:** the stock is somewhat undervalued.
  *Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)*
- **Five-Star:** the stock is undervalued with a reasonable margin of safety.
  *Log (Quant FVE/Price) > 1*Quantitative Uncertainty*

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the Quantitative Fair Value Estimate. Generally, the lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rat-

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ing is expressed as Low, Medium, High, Very High, and Extreme.

- **Low:** the interquartile range for possible fair values is less than 10%.
- **Medium:** the interquartile range for possible fair values is less than 15% but greater than 10%.
- **High:** the interquartile range for possible fair values is less than 35% but greater than 15%.
- **Very High:** the interquartile range for possible fair values is less than 80% but greater than 35%.
- **Extreme:** the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- **Weak:** assigned when Quantitative Financial Health < 0.2
- **Moderate:** assigned when Quantitative Financial Health is between 0.2 and 0.7
- **Strong:** assigned when Quantitative Financial Health > 0.7

Other Definitions:

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- **Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

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The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions. A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

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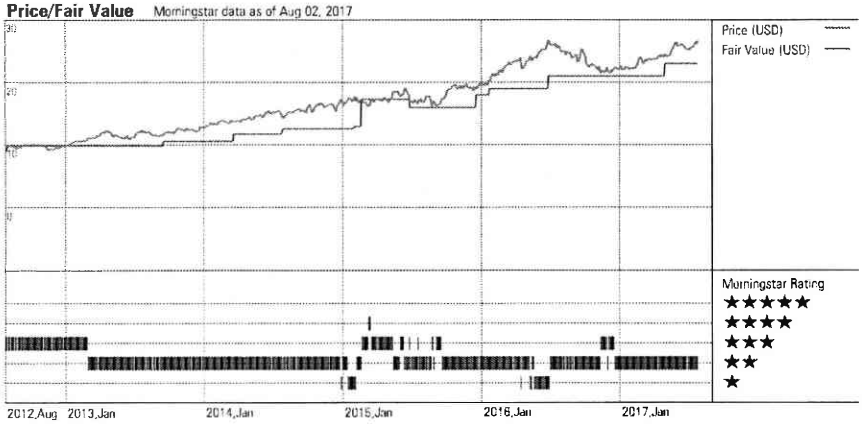
NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 02 Aug 2017 21:37, UTC	26.67 USD 02 Aug 2017	23.00 USD 04 May 2017 17:55, UTC	1.16	2.59 02 Aug 2017	2.62 02 Aug 2017	8.66 02 Aug 2017	Utilities - Regulated Gas	Standard

Price/Fair Value Morningstar data as of Aug 02, 2017



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The Equity Research Group believes its analysts make a reasonable effort to carefully research information contained in the analysis. The information on which the analysis is based has been obtained from sources believed to be reliable such as, for example, the company's financial statements filed with a regulator, company website, Bloomberg and any other the relevant press sources. Only the information obtained from such sources is made available to the issuer who is the subject of the analysis, which is necessary to properly reconcile with the facts. Should this sharing of information result in considerable changes, a statement of that fact will be noted within the report. While the Equity Research Group has obtained data, statistics and information from sources it believes to be reliable, neither the Equity Research Group nor Morningstar, Inc. performs an audit or seeks independent verification of any of the data, statistics, and information it receives.

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The quantitative equity ratings are not a market call, and do not replace the User or User's clients from conducting their own due-diligence on the security. The quantitative equity rating is not a suitability assessment; such assessments take into account may factors including a person's investment objective, personal and financial situation, and risk tolerance all of which are factors the quantitative equity rating statistical model does not and did not consider.

Prices noted with the Report are the closing prices on the last stock-market trading day before the publication date stated, unless another point in time is explicitly stated.

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NiSource Inc NI (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★ 02 Aug 2017 21:37, UTC	26.67 USD 02 Aug 2017	23.00 USD 04 May 2017 17:55, UTC	1.16	2.59 02 Aug 2017	2.62 02 Aug 2017	8.66 02 Aug 2017	Utilities - Regulated Gas	Standard

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MORNINGSTAR

NiSource, Inc

2Q17 adjusted EPS in-line; 2017 guidance raised

Bank of America Merrill Lynch

Reiterate Rating: NEUTRAL | PO: 27.00 USD | Price: 26.40 USD

Equity | 07 August 2017

2Q17 adjusted EPS in-line; 2017 EPS guidance raised

Last Wednesday before market open, NI reported 2Q17 adjusted EPS of $0.10 versus the BofAML/consensus estimate of $0.10/0.10, respectively. NI also raised 2017 EPS guidance to $1.17-1.20 from $1.12-1.18 which compares to the BofAML/consensus estimates of $1.21/1.18, respectively. NI reiterated long-term guidance of 5-7% annual EPS growth and $1.6-1.8bn of annual capex.

Residential customer growth slightly ahead of targets

NI's Gas Distribution/Electric segment posted 0.7/0.5% YoY Residential customer growth, respectively, largely in-line with 1Q17 growth YoY rates. Overall, we view the steady growth in residential customers positively as new Residential customers offset YoY declines in Commercial and Industrial customers in the Gas Distribution segment. Additionally, management noted NI is slightly ahead of its targets for reaching 1% annual run rate customer growth by 2020 laid out during NI's Analyst Day. Although NI operates in lower growth service territories relative to some LDC peers with operations in metropolitan areas, we view management's focus on adding new customers as supportive of NI's longer-term earnings growth.

NI receives MD base rate case settlement

On 28 July 2017, Columbia Gas of Maryland filed a settlement for its base rate case filed on 14 April 2017. The settlement includes a $2.4mn increase in annual revenues which compares to $5mn requested. The new rates will become effective in 4Q17. Overall, we view the settlement positively. However, we do not expect it to meaningfully impact NI's earnings as MD is one of NI's smaller service territories. NI continues to progress on its regulatory initiatives in other states and expects an order on Columbia Gas of Ohio's Infrastructure Replacement Program (IRP) Extension by year-end 2017.

Reiterate Neutral; bump PO to $27

We reiterate our Neutral but bump our PO to $27 (from $26) as a result of continued expansion in LDC peer multiples. Our $27 PO is based on a 2019E P/E multiple of ~20x which compares to the LDC peer average of 22.7x. In our view, NI should trade at a slight discount to LDC peers given its electric utility accounts for ~1/3 of NI's earnings.

Estimates (Dec)

(US$)	2015A	2016A	2017E	2018E	2019E
EPS	0.93	1.06	1.21	1.26	1.33
GAAP EPS	0.62	0.99	0.92	1.26	1.33
EPS Change (YoY)	NA	14.0%	14.2%	4.1%	5.6%
Consensus EPS (Bloomberg)			NA	NA	NA
DPS	0.51	0.64	0.70	0.74	0.79

Valuation (Dec)

	2015A	2016A	2017E	2018E	2019E
P/E	28.4x	24.9x	21.8x	21.0x	19.8x
GAAP P/E	42.6x	26.7x	28.7x	21.0x	19.8x
Dividend Yield	1.9%	2.4%	2.7%	2.8%	3.0%
EV / EBITDA*	14.6x	13.9x	13.0x	11.9x	11.1x
Free Cash Flow Yield*	1.1%	-7.8%	-4.8%	-5.9%	-6.2%

* For full definitions of *IQmethod*℠ measures, see page 5.

Key Changes

(US$)	Previous	Current
Price Obj.	26.00	27.00
2017E EBITDA (m)	1,517.1	1,506.5
2018E EBITDA (m)	1,652.7	1,651.0
2019E EBITDA (m)	1,768.8	1,768.4

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Stock Data

Price	26.40 USD
Price Objective	27.00 USD
Date Established	7-Aug-2017
Investment Opinion	B-2-7
52-Week Range	21.17 USD - 26.69 USD
Mrkt Val (mn) / Shares Out (mn)	8,603 USD / 325.9
Average Daily Value (mn)	56.95 USD
BofAML Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2017E)	9.4%
Net Dbt to Eqty (Dec-2016A)	193.6%

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Timestamp: 07 August 2017 12:18PM EDT

iQprofile℠ NiSource, Inc

IQmethod℠ – Bus Performance*

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Return on Capital Employed	NA	3.3%	3.4%	3.6%	3.6%
Return on Equity	15.5%	8.7%	9.4%	9.3%	9.2%
Operating Margin	17.2%	19.1%	19.2%	19.7%	20.3%
Free Cash Flow	96	(672)	(414)	(505)	(532)

IQmethod℠ – Quality of Earnings*

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Cash Realization Ratio	4.9x	2.3x	2.9x	2.9x	2.9x
Asset Replacement Ratio	2.6x	2.7x	2.7x	3.0x	3.0x
Tax Rate	41.6%	37.1%	36.5%	37.0%	37.0%
Net Debt-to-Equity Ratio	180.4%	193.6%	193.9%	182.7%	174.1%
Interest Cover	2.1x	2.5x	2.6x	2.8x	2.9x

Income Statement Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Sales	4,652	4,493	4,882	5,398	5,659
% Change	NA	-3.4%	8.7%	10.6%	4.8%
Gross Profit	3,008	3,102	3,307	3,485	3,648
% Change	NA	3.1%	6.6%	5.4%	4.7%
EBITDA	1,342	1,407	1,506	1,651	1,768
% Change	NA	4.9%	7.1%	9.6%	7.1%
Net Interest & Other Income	(460)	(348)	(464)	(381)	(401)
Net Income (Adjusted)	**299**	**343**	**398**	**430**	**471**
% Change	**NA**	**14.8%**	**16.1%**	**8.1%**	**9.5%**

Free Cash Flow Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Net Income from Cont Operations (GAAP)	199	321	301	430	471
Depreciation & Amortization	524	547	568	587	620
Change in Working Capital	440	(293)	(23)	0	0
Deferred Taxation Charge	135	182	164	243	266
Other Adjustments, Net	158	46	134	0	0
Capital Expenditure	(1,361)	(1,475)	(1,557)	(1,766)	(1,889)
Free Cash Flow	**96**	**-672**	**-414**	**-505**	**-532**
% Change	**NA**	**NM**	**38.4%**	**-22.0%**	**-5.4%**

Balance Sheet Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Cash & Equivalents	16	26	61	55	46
Trade Receivables	660	847	545	545	545
Other Current Assets	902	889	718	718	718
Property, Plant & Equipment	12,112	13,068	14,212	15,391	16,660
Other Non-Current Assets	3,804	3,862	3,873	3,873	3,873
Total Assets	**17,493**	**18,692**	**19,409**	**20,581**	**21,841**
Short-Term Debt	1,001	1,851	1,463	1,463	1,463
Other Current Liabilities	1,656	1,601	1,316	1,316	1,316
Long-Term Debt	5,949	6,058	7,052	7,477	7,952
Other Non-Current Liabilities	5,043	5,110	5,220	5,463	5,728
Total Liabilities	**13,649**	**14,621**	**15,051**	**15,718**	**16,459**
Total Equity	**3,844**	**4,071**	**4,359**	**4,862**	**5,382**
Total Equity & Liabilities	**17,493**	**18,692**	**19,409**	**20,581**	**21,841**

* For full definitions of *IQmethod℠* measures, see page 5.

Company Sector

Local Distribution Company

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 5-7% 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	2,157,268

Quarterly Earnings Estimates

	2016	2017
Q1	0.59A	0.71A
Q2	0.08A	0.10A
Q3	0.06A	0.07E
Q4	0.33A	0.34E

Updating estimates

We update our estimates for 2Q17 results and management commentary. Our 2017/18/19 adjusted EPS estimates of $1.21/1.26/1.33 remain largely unchanged and compare to consensus estimates of 1.19/1.26/1.33, respectively. Our estimates assume NI raises $223/270/270mn of equity via its ATM program in 2017/18/19, respectively, which compares to management guidance of $200-300mn annually.

Table 1: LDC Comp Table

Ticker	Name	BofAML rating		Current Price ($)	Current Dividend Rate (%)	2016-19 DPS CAGR (%)*	Market Cap ($mns)	EV ($mns)	P/E* 2017E	P/E* 2018E	P/E* 2019E	S&P credit rating	Moody's credit rating
ATO	Atmos Energy Corp	B-1-7	Buy	87.19	2.1	6.7	9,229	12,053	24.0	22.9	21.5	A	A2
SR	Spire Inc	A-1-7	Buy	75.10	2.8	6.0	3,634	5,734	21.0	20.7	19.9	A-	Baa2
NJR	New Jersey Resources Corp	B-3-7	Underperform	42.95	2.4	6.6	3,710	4,626	24.5	23.2	22.3	N/A	N/A
NWN	Northwest Natural Gas Co	A-3-7	Underperform	65.00	2.9	0.6	1,857	2,372	29.1	28.0	26.2	A+	(P)A3
OGS	ONE Gas Inc	B-2-7	Neutral	73.78	2.3	9.5	3,850	4,916	25.0	24.2	23.1	A-	A2
SRE	Sempra Energy	A-1-7	Buy	117.19	2.8	8.2	29,350	48,357	22.5	20.6	18.5	BBB+	Baa1
SWX	Southwest Gas Holdings Inc	B-2-7	Neutral	80.37	2.5	10.1	3,827	5,510	23.9	22.0	21.0	BBB+	N/A
UGI	UGI Corp	A-1-7	Buy	48.49	2.1	4.4	8,377	12,744	21.1	19.4	17.8	N/A	N/A
VVC	Vectren Corp	B-3-7	Underperform	60.50	2.8	5.1	5,018	6,642	23.3	22.0	20.9	A-	N/A
WGL	WGL Holdings Inc	N/A	No rating	85.69	2.4	4.7	4,384	6,322	26.7	24.6	23.4	A	A3
NI	**NiSource Inc**	**B-2-7**	**Neutral**	**26.40**	**2.7**	**7.2**	**8,579**	**16,468**	**21.8**	**21.0**	**19.8**	**BBB+**	**Baa2**
SJI	South Jersey Industries Inc			34.29	3.2		2,718	4,134	28.8	23.3	21.1	BBB+	N/A
Average					**2.6**	**6.3**			**24.3**	**22.7**	**21.3**		

Source: Bloomberg, BofA Merrill Lynch Global Research
*Data as of Aug 04 2017
*2015-18 DPS CAGR is pro-rated for those names that IPOed during or after 2014 and used consensus DPS estimates when BofAML estimates are unavailable
*P/E ratios assume consensus EPS when BofAML estimates are unavailable

Price objective basis & risk

NiSource, Inc (NI)

Our $27 PO is largely based on a target P/E multiple of approximately 20x our FY19E EPS of $1.33. We note this multiple is slightly below the LDC peer average but above the small-mid cap electric utility average. We believe NI's 5-7% 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

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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
	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
	Southwest Gas	SWX	SWX 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

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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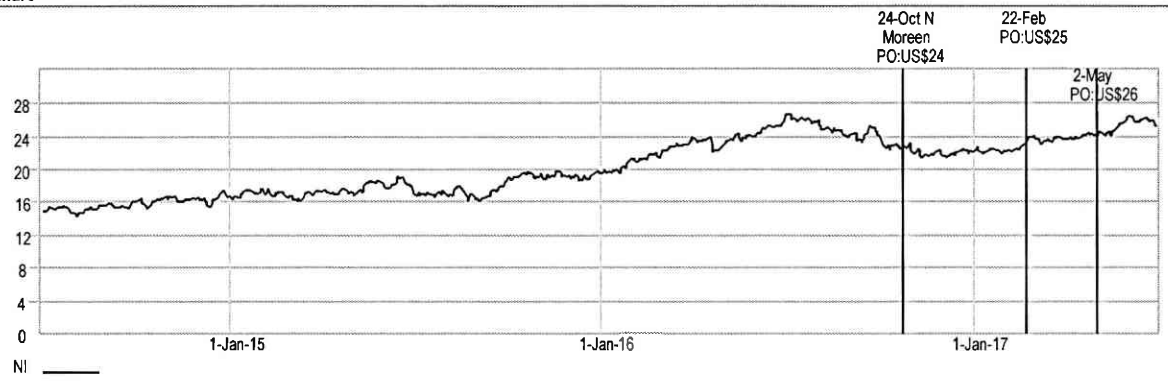
NI Price Chart



B: Buy, N: Neutral, U: Underperform, NR: No Rating

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Equity Investment Rating Distribution: Energy Group (as of 30 Jun 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	94	45.63%	Buy	73	77.66%
Hold	44	21.36%	Hold	34	77.27%
Sell	68	33.01%	Sell	45	66.18%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1550	51.41%	Buy	980	63.23%
Hold	674	22.35%	Hold	410	60.83%
Sell	791	26.24%	Sell	388	49.05%

* 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*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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August 9, 2017 | Equity Research

WELLS FARGO SECURITIES

NiSource Inc.

NI: Initiating Coverage At Outperform

High Quality Gas/Electric Combo Merits Premium Valuation

Outperform/V/$30.00

Natural Gas LDCs
Market Weight

Initiation of Coverage

- **Summary.** We are initiating coverage on shares of NI with an Outperform rating and 12-18 month price target of $30/share. We are attracted to NI's (1) supportive regulatory treatment and diverse regulatory footprint, (2) highly visible capital plan, and (3) shareholder-friendly management team focused on a 100% regulated utility strategy. We believe these features, along with NI's 6% compound annual EPS growth rate merit a 4-6% premium valuation to blended gas/electric utility peers. As shares currently trade at 2-3% discounts to peers on our '18E & '19E EPS, we consider the risk/reward to be in investors' favor.
- **Premium Story.** NI checks the box on most of the qualities we look for in a regulated utility. First, the company outlined a robust capital plan, which is expected to drive 8% annual rate base growth through 2020. We have a high degree of confidence in the plan and expect elevated spending levels will continue well beyond 2020. Second, NI's regulators, which include seven states and the FERC, have been very supportive of the investments, and the company has maintained constructive relationships with regulators. Enhanced infrastructure mechanisms are in place in each of the company's operating jurisdictions, which are expected to cover more than half of the 2017-2020 capital plan. Lastly, we consider management to be shareholder-friendly and focused on a prudent strategy consisting of 100% regulated utility operations with an emphasis on managing customer bills and improving system safety.
- **EPS Outlook.** Our '17-20E EPS of $1.18, $1.25, $1.32 & $1.40 results in a 5.7% growth rate (off the '17E base), which compares with NI's guidance of 5-7%. We have a relatively high degree of confidence in the outlook given NI's highly visible 8% rate base growth and supportive regulation. Our estimates result in earned ROEs in the 9.6-9.8% range, generally in line with the company's allowed returns.
- **Valuation & Risks.** Our $30/share price target is primarily based on a P/E multiple (22.7X applied to our '19E EPS of $1.32). Key risks include unfavorable regulatory outcomes, lower than expected sales growth including negative developments in Indiana's steel industry, inflationary pressure on operating costs, and risks associated with NI's parent leverage (tax reform and financing/interest rate risks).

USD EPS	2016A	2017E Curr.	2017E Prior	2018E Curr.	2018E Prior
Q1 (Mar.)	$0.62	$0.71 A	NC	NE	
Q2 (June)	0.08	0.10 A	NC	NE	
Q3 (Sep.)	0.06	0.05	NE	NE	
Q4 (Dec.)	0.33	0.32	NE	NE	
FY	$1.09	$1.18	NE	$1.25	NE
CY	$1.09	$1.18		$1.25	
FY P/EPS	24.2x	22.3x		21.1x	
Rev.(MM)	$4,493	$4,691		$4,814	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, ✎ = Company is on the Priority Stock List

Ticker	NI
Price Target/Prior:	**$30.00/NE**
Price (08/08/2017)	**$26.32**
52-Week Range:	$21-27
Shares Outstanding: (MM)	323.4
Market Cap.: (MM)	$8,511.9
S&P 500:	2,367.34
Avg. Daily Vol.:	2,116,690
Dividend/Yield:	$0.70/2.7%
LT Debt: (MM)	$6,777.0
LT Debt/Total Cap.:	55.0%
ROE:	9.0%
3-5 Yr. Est. Growth Rate:	6.0%
CY 2017 Est. P/EPS-to-Growth:	3.7x
Last Reporting Date:	08/02/2017

NC = No Change
Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Based in Merrillville, Indiana, NiSource, Inc. is a holding company with regulated gas (64%) and electric (36%) utility operations across seven states. The company's Gas Distribution Operations serve 3.4 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. The Electric Operations consist of a vertically-integrated utility serving nearly 500 thousand customers in northern Indiana. On July 1, 2015, NiSource completed the separation of Columbia Pipeline Group (CPG) from NiSource via the distribution of one share of CPG common stock for every share of NI common stock.

Initiating Coverage With An Outperform Rating & $30/Share Price Target

We are initiating coverage on shares of NI with an Outperform rating and a 12-18 month price target of $30 per share. NI checks the boxes on the high majority of features that we look for in a utility including the following:

- **Supportive regulatory treatment –** In addition to seemingly constructive regulatory relationships, NI has enhanced infrastructure mechanisms in each of the company's operating jurisdictions. Over half of NI's 2017-2020 capital plan is eligible for recovery under the various riders.

- **Regulatory Diversity –** NI operates in 7 states and has FERC-jurisdictional electric transmission operations. As such, the impact of one onerous regulatory outcome or general shift in any given regulatory landscape is mitigated by the diverse platform. The company's largest jurisdictions are Indiana (electric represents 36% of total rate base, 10% gas), Ohio (23%) and Pennsylvania (14%).

- **Robust & Diverse Capital Plan –** In 2014, NI outlined a $30 billion investment plan over a 20 year period. The highly visible rate base opportunities and the fact that no individual projects are driving a material portion of the growth (most of the capital relates to pipeline and wire replacements, leak repairs, vegetation management, etc.), increases our confidence in NI's near-term and long-term rate base growth outlook.

- **Shareholder-Friendly Management Team and 100% Regulated Utility Strategy –** We consider NI's management team to be shareholder-friendly. In addition to making the decision to separate the midstream operations via a spin-off that was completed in July 2015 (fortuitous timing ahead of the energy downturn), we believe the company has a good track record of capital deployment. Further, unlike many of NI's gas utility peers, the company has not engaged in any meaningful non-utility operations, which we do not expect to change for the foreseeable future. Lastly, while we cannot rule out strategic combinations, we do not expect NI to pay a material acquisition premium given the robust organic outlook.

Tempering our enthusiasm is NI's slightly below average balance sheet, which lessens financial flexibility and exposes NI to tax reform risks. Further, the parent leverage combined with the 7-state footprint make NI an unlikely takeout candidate in a consolidating sector. **All told, we believe shares warrant a 4-6% premium to peers.** With shares trading at 2-3% discounts to combination electric/gas utility median P/E multiples on our '18E & '19E EPS (see Figure 1), **we see room for multiple expansion** and initiate coverage at an Outperform.

Figure 1: NI Valuation Metrics Relative to Electric & Gas Peers

	Price	Market Cap.	P/E			EV/EBITDA			Div.	17E
	8/8/2017	($ Bil.)	2017E	2018E	2019E	2017E	2018E	2019E	Yld.	Payout
NiSource Inc.	$26.32	$8.51	22.3x	21.1x	19.9x	10.7x	10.0x	9.2x	2.7%	59%
Gas LDC Peer Group Median		$3.83	25.0x	22.9x	21.7x	12.0x	11.1x	10.3x	2.4%	59%
Regulated Electric Group Median		$9.68	20.2x	19.3x	17.9x	10.7x	10.4x	9.7x	3.1%	63%
Blended Peer Group*			23.2x	21.6x	20.4x	11.5x	10.8x	10.1x	2.6%	60%
NI Premium (Discount) to LDC Peers			-4%	-3%	-2%	-7%	-8%	-8%		

* 64% Gas LDC, 36% Regulated Electric

Source: Wells Fargo Securities, LLC Estimates

Our $30/share price target is derived by applying a 22.7X multiple to our 2019E EPS of $1.32. The 22.7X represents a 5% premium to the blended 2018E multiple of 21.6X. We apply a 2018 multiple to our 2019 estimate due to the forward-looking nature of our price target. Our price target is further supported by our dividend discount, residual income, and EV/EBITDA analyses, which yield forward values in the $28-32/share range.

Earnings Outlook

NI projects 5-7% compound annual EPS growth through 2020 (off updated 2017 EPS guidance) driven by 8% rate base growth and supportive regulatory treatment. The primary reason for the delta between rate base growth and EPS growth is dilution associated with assumed equity issuances. Our '17-20E EPS, along with our rate base and ROE assumptions, are outlined in Figure 2 below followed by a more detailed discussion of the drivers.

Figure 2: EPS, Rate Base & Earned ROE Assumptions

	2017E	2018E	2019E	2020E	17-20E CAGR
EPS	**$1.18**	**$1.25**	**$1.32**	**$1.40**	**5.7%**
Company Guidance	$1.17-1.20				5-7%
Average Gas Rate Base	6,234	6,859	7,500	8,175	9.5%
Company Guidance					9-11%
Average Electric Rate Base	3,497	3,717	3,898	4,013	4.7%
Company Guidance					4-6%
Blended Earned ROE	9.6%	9.6%	9.7%	9.8%	

Source: Wells Fargo Securities, LLC Estimates and Company Filings

We have a high degree of confidence in NI's 8% combined rate base growth forecast as the $1.6-1.8 billion of annual spend is primarily driven by a multitude of smaller projects including, most notably, modernization programs that are generally supported by regulators. In addition to assumed reasonable regulatory treatment, we make the following assumptions:

- **Cost Controls** – We assume healthy expense controls consistent with management's goal to flatten O&M expense. Expense controls are largely driven by the integration of the NIPSCO (Indiana) and Columbia Gas platforms following the midstream spin-off.
- **Gas Customer Growth** – We assume gas customer growth increases to approximately 1% annually driven by a combination of customer additions via new construction and conversions.
- **Equity Issuances** – We assume $200-300 million annually under the ATM program and $50-75 million annually via the DRIP consistent with company guidance.

We believe the combination of enhanced regulatory mechanisms (riders), periodic rate cases, cost controls, and sales growth will support earned ROEs in the mid-to-upper-9% range. Further, while new equity dilutes the growth outlook, we do see an improving balance sheet over the planning horizon.

Features

- **5-7% EPS Growth With Fully Regulated Operations.** NI projects 5-7% annual EPS growth through 2020. This compares to Regulated Electric EPS growth of 4-6% and LDC industry growth of approximately 6%. Of note, while many of NI's LDC peers are investing in higher risk operations (merchant renewables, major pipeline projects, marketing operations, etc.), NI operates a fully regulated platform resulting in an attractive risk-adjusted growth outlook, in our view. Further, the company's growth is driven by highly visible rate base growth of 8% combined with enhanced recovery mechanisms. As such, we have a relatively high degree of confidence in NI's growth plan versus peers.
- **Diversified Regulatory Platform.** NI's operations are spread across seven states and eight regulatory jurisdictions including FERC. The regulatory diversification mitigates the financial impact of one poor rate case outcome or negative change in a regulatory environment.

- **Supportive Regulatory Compacts.** NI utilizes tracking mechanisms for gas infrastructure programs in six of the seven operating states and, on the electric side, has multiple enhanced recovery mechanisms covering distribution infrastructure, electric transmission and environmental investments. Further, the company has secured favorable rate design structures in a number of states that mitigates the impact of usage declines on rates (excludes Indiana), along with a number of expense trackers/deferrals. Separately, the company has a history of securing reasonable rate case outcomes via settlements as evidenced in the 2016 round of base rate cases. In particular, we consider the company's largest jurisdictions (Indiana – 46%, Ohio – 23% and Pennsylvania – 14%) to be above-average regulatory environments (Ohio for gas distribution regulation). As a result of the supportive regulatory treatment, NI generally earns near the allowed ROEs.

- **Ample Post-2020 Opportunities.** We expect NI's above-average rate base growth will extend beyond 2020 as the company has amble investment opportunities, most notably related to gas pipe replacement programs. In 2014, management outlined $30 billion of investment opportunities including $20+ billion of gas investments with over half of the gas spend earmarked for modernization projects. For context, NI plans to spend $1.6-1.8 billion annually through 2020.

- **Management Team and Strategy.** We consider NI's management team to be shareholder friendly and highly focused on executing a prudent strategy. With the stepped up capital plan in place through 2020, management's attention is on (1) executing the long-dated spending plans while (2) managing customer rates. On the latter, NI is taking steps to control operating costs and go after top line growth (conversions) in order to mitigate the rate impact of the infrastructure spend. All else equal (namely natural gas prices), the spending plans are expected to result in customer rate increases in the low-to-mid single digit range. We consider management's approach to the business to be very thoughtful.

Risks

- **Regulatory Risk / Upward Pressure on Natural Gas Costs.** As a fully regulated entity, NI is subject to regulatory risk associated with the seven state regulatory bodies and the FERC. The exposure is most pronounced in Indiana, which represents an estimated 46% of the company's rate base. At present, the only pending base rate case is in Maryland (1% of consolidated rate base – settlement filed in June), but NI frequently has rider requests pending including a 5-year infrastructure extension filing in Ohio and a $400mm environment compliance filing in Indiana (recently settled).

  Regulatory risk would be heightened, in our view, if gas prices were to meaningfully increase thereby putting upward pressure on the cost of gas portion of customer bills, which could lead regulators to minimize rate increases on the infrastructure portion of the bill via either lower allowed ROEs or lower approved capital programs.

- **Lower Than Expected Sales Growth.** Management forecasts an increase in gas customer growth to 1% annually by 2020 driven by an even split of new construction and customer conversions (electricity, propane, heating oil). This compares to net gas customer growth of 0.5-0.9% over the past few years. Separately, NI's electric operations have material exposure to Indiana's economically-sensitive steel industry. Should electric sales be negatively impacted by industrial weakness and/or the projected gas customer growth not materialize, NI may be challenged to maintain healthy earned ROEs. Of note, while NI's gas utilities are largely decoupled from changes in usage, the NIPSCO Electric does not have an active decoupling mechanism in place.

- **Inflationary Pressure on Costs.** NI is projecting a flattening of operations and maintenance (O&M) expense driven by post separation streamlining across the seven-state platform. This compares to historical O&M growth of 2-4% annually. Should inflationary pressure or execution issues cause O&M to increase beyond management's expectations, regulatory lag could set in.

- **System Risks.** NI operates an expansive system of gas distribution pipelines that includes bare steel, unprotected steel and cast iron. The company is in the midst of an aggressive capital plan to improve system safety and is pursuing operating initiatives to that end (improved leak detection, response times, etc.). Even so, the nature of the business and the age of the system expose investors to incident-related risks (gas explosion, etc.).

- **Tax Reform Risk.** Though the prospects for meaningful tax reform have diminished versus initial expectations, we do view NI as one of the companies with exposure given the approximately $2 billion of unallocated parent debt. In an unlikely worst case scenario – non-

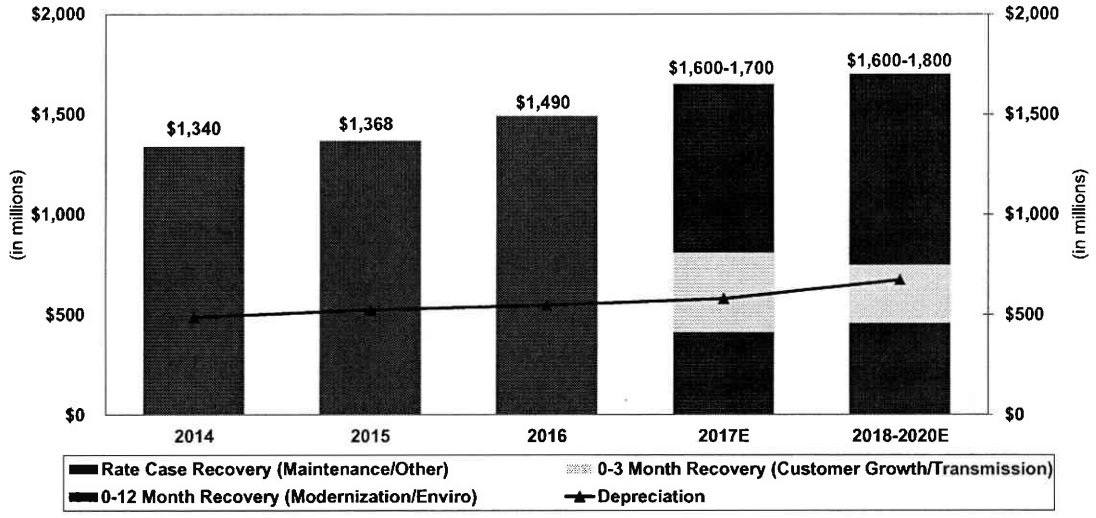
deductibility of interest expense – we see $0.11-0.13, or approximately 10%, of downside EPS risk.

- **Financing Risk.** NI's robust capital plans expose the company to financing risks, namely rising interest rates, which would have a negative impact on both the cost of debt and, very likely, the cost of equity. As debt costs are ultimately recoverable from customers, we note that a 10-20% decline in our assumed share price for equity issuances has a $0.02-0.04 EPS impact by 2020E, or 1-3%.

Capital Expenditures

NiSource has ample investment opportunities across the regulated electric and gas platform. The company is in the early innings of a $30+ billion 20-year investment program, which includes $20+ billion of gas investments and $10+ billion of electric investments. In the near-term, after spending $1.3-1.5 billion annually for the past three years, the company plans to invest $1.6-1.7B in 2017 and $1.6-1.8B during the period 2018-2020 with approximately 30% allocated to electric operations and 60% to gas. Favorably, nearly three-quarters of the spend is recoverable within twelve months via sales from customer additions or enhanced recovery mechanisms, leaving just over 25% requiring a general rate case for recovery. Figure 3 below displays historical and projected capital expenditures, along with depreciation and amortization, followed by a discussion of major spending initiatives.

Figure 3: Historical and Project Capital Spending and Depreciation



Source: Wells Fargo Securities, LLC and company filings

Gas CapEx. NI's gas capital plan is driven by system modernization, which comprises 60% of the 2017-2020 spending plans. The modernization programs are driven, in large part, by the replacement of bare steel, unprotected steel and cast iron pipes. In the near-term, we are focused on Ohio where Columbia Gas filed a 5-year extension plan proposing a $1.3 billion program. Along with customer growth and maintenance CapEx, the gas investment program is expected to drive 9-11% annual rate base growth through 2020.

Electric CapEx. As a vertically-integrated electric utility, NI has investment opportunities across the company's distribution, transmission and generation operations. Electric spending plans are expected to drive 4-6% rate base growth through 2020.

- **System Modernization.** NIPSCO Electric is in the midst of a seven-year (2016-2022) $1.25 billion modernization program designed to improve system reliability and safety. The investment is recovered via the TDSIC, which is a tracker updated semi-annually. The company began recovering the investment in Q1'2017 after receiving an order in January.

- **Environmental Upgrades.** NIPSCO proposed a $400 million seven-year investment plan to comply with the EPA's Effluence Limitation Guidelines (ELG) and Coal Combustion Residuals (CCR) rules. The investments are targeted at Michigan City Unit 12 and R.M. Schahfer Units 14 and 15 with recovery anticipated via the Federally Mandated Cost Adjustment Mechanism

(FMCA). The company filed for recovery in November 2016 and, in June 2017, reached a settlement to move forward with the CCR investments not to exceed $188 million, but to defer the ELG decision to a later proceeding. Of note, the ELG-related investments were largely beyond the 2020 planning horizon so we do not see downside risk to the current CapEx plan. A final order is expected by year-end 2017.

- **Electric Transmission Projects.** NIPSCO is constructing two MISO (Midwest Independent System Operator) multi-value electric transmission projects, which are both expected to be in service by the second half of 2018. Reynolds to Topeka is a 100 mile, 345-kilovolt line with a $350-400 million price tag. Greentown to Reynolds is 65-mile, 765-kilovolt line being jointly developed with Pioneer Transmission (a joint venture between Duke Energy and American Electric Power Company). NI's portion of the investment is $175-200 million with recovery through FERC-approved formula rates. While there are no new projects on the drawing board, NI is well-positioned to address congestion between MISO and PJM.

- **Integrated Resource Plan.** On November 1, 2016, NIPSCO Electric filed an Integrated Resource Plan (IRP) addressing customer needs for the next 20 years. The plan includes the retirement of 50% of NI's coal-fired fleet by the end of 2023 (Bailly 7 & 8 in 2018 and Schahfer 17 & 18 in 2023) after which coal is expected to represents 42% if NIPSCO's generation capacity versus 78% in 2016. Including the coal retirements, the addressable capacity needs approximate 800 MWs in 2023, though we expect a small amount (about 100 MWs) may be served by shorter duration resources to preserve flexibility. Beyond short-term resources, the 2016 IRP supports a new CCGT (combined cycle gas turbines) plant, but this will be further addressed in the 2019 IRP. Of note, NI's 20-year capital plan includes $800 million for new generation additions, but those dollars fall outside of the 2017-2020 planning horizon.

Balance Sheet & Financing Plans

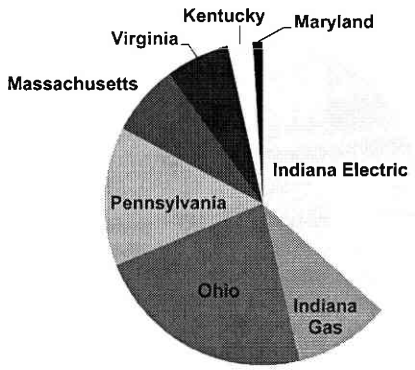
NI has a holding company structure and carries approximately $2 billion of debt that is not allocated to the operating utilities and, hence, not recoverable from ratepayers. This debt primarily relates to past acquisitions, most notably the acquisition of Columbia Energy in 2000. Favorably, the parent debt has not caused significant issues on the regulatory front as Virginia is the only state that looks to the parent equity ratio for ratemaking purposes. That said, the leverage does expose NI to capital markets and tax reform risks, in our view.

We consider NI's credit metrics to be modestly below-average – we calculate an FFO-to-Debt ratio in the mid-teens (versus peers in the high teens), Debt-to-EBITDA of 5.0-5.5X (peers about 4X) and a parent equity ratio in the mid-30% range (peers mid-40% range). Even so, with the company's attractive business risk profile, NI maintains solid investment grade long-term credit ratings including BBB+ at S&P, Baa2 at Moody's and BBB at Fitch with stable outlooks. Further, assuming annual equity issuances of $300-325 million ($250 million via the newly established ATM program and $50-75 million under the DRIP) and increasing funds from operations, we assume credit metrics gradually improve including a 2020E equity ratio of nearly 40%. Other key cash flow assumptions include no meaningful cash taxes paid through 2022 and annual dividend growth of 7% (versus guidance of 5-7%).

Expanded Regulated Discussion

We consider NI's regulatory landscape to be above-average given (1) regulatory diversity, (2) enhanced recovery mechanisms supporting key modernization investments, and (3) a history of constructive settlement agreements in rate cases. For the $1.6-1.8 billion annual investment program during the period 2018-2020, NI estimates that 56% of capital spend will be covered by enhanced mechanisms with lag ranging from zero to twelve months. Another 17% is related to customer growth and electric transmission, which has minimal lag, and the remaining 27% (maintenance/other) requires base rate cases for recovery. While the rate case filing timeline varies by jurisdiction, we generally expect NI's utilities to file every 2-3 years. See Figures 4 & 5 for NI's rate base breakdown by jurisdiction and enhanced recovery mechanisms.

Figure 4: Rate Base By Jurisdiction, 2016



Note: The two major transmission projects that are under construction will be FERC-regulated using formulaic rates
Source: Company filings and Wells Fargo Securities, LLC

Figure 5: Enhanced Infrastructure Recovery Mechanisms

Jurisdiction	Enhanced Recovery Mechanisms	
Indiana	TDSIC	Transmission, Distribution and Storage System Improvement Charge
	FMCA	Federally Mandated Cost Adjustment Mechanism
Kentucky	AMRP	Accelerated Main Replacement Program
Maryland	STRIDE	Strategic Infrastructure Development and Enhancement
Massachusetts	GSEP	Gas System Enhancement Plan
Ohio	IRP	Infrastructure Replacement Program
Pennsylvania*	DSIC	Distribution System Improvement Charge
Virginia	SAVE	Steps to Advance Virginia's Energy Plan

* NI has opted to file base rate cases (fully forecasted test years) rather than DSIC cases in recent years
Source: Company filings and Wells Fargo Securities, LLC

In addition to the investment riders outlined above, NI also has various bad debt and O&M trackers across the platform, along with rate design that mitigates the financial impact of usage on margins (excluding Indiana). Further, a number of the investment riders are fortified by legislation.

Recent and Pending Rate Cases. NI has one relatively small pending case in Maryland and numerous recently completed cases.

- **Pending Case in MD.** In the pending case, NI requested a $6.0 million base rate increase on April 14, 2017 and revised the request to $5.2 million in early June. The request is premised on a 10.9% ROE, 52.37% equity ratio and rate base of $95.6 million on a test year ending 4/30/2017. Staff filed testimony in June recommending a $2.3 million rate increase based on a 9.65% ROE, 52.37% equity ratio and rate base of $93.9 million. On July 28, and all-party settlement including a $2.4 million rate increase was filed with the Commission with new rates to be effective in late October if approved. The settlement specifies a 9.7% authorized ROE and is silent on capital structure and rate base.

NI's most recent base rate cases are outlined below:

- **May 2016 KY Filing –** The Commission approved a settlement (with modifications) granting an $18.1 million base rate increase (including $5.0 million of AMRP transfers), which compared to the original $25.4 million request. The settlement was silent on cost of capital parameters, but specified that a 9.8% ROE would be utilized to calculate AMRP rider increases and AFUDC. However, in the final order, the Commission deemed the 9.8% ROE "unnecessarily high" and

lowered the return to 9.5%. New rates became effective in December 2016, and the settlement stipulates that NI will not file another base rate case until at least May 15, 2019.

- **April 2016 VA Filing –** The Commission approved a settlement agreement calling for a $28.5 million rate increase (including $4.0 million of SAVE transfers), which compared to the company's request of $37.0 million. The settlement refers to an ROE range of 9.0-10.0% and the use of the 9.5% mid-point in earnings tests, but use of a 9.75% ROE for expedited cases (consistent with the prior approved ROE). The capital structure is consistent with the Staff recommendation, which included a 38.073% equity ratio (NI requested 38.28%). Of note, Virginia is the only state that looks to NI's parent capital structure for ratemaking purposes. Interim rates were implemented in September/October 2016 with permanent rates effective after the final order in March 2017.

- **March 2016 PA Filing –** The Commission approved a settlement agreement calling for a $35.0 million rate increase, which compared to the company's request of $55.3 million. The settlement was silent on cost of capital parameters, but noted that any DSIC filings would employ an ROE consistent with the most recent Quarterly Report on the Earnings of Jurisdictional Utilities, which was 9.8% at the time. New rates became effective in December 2016.

- **October 2015 IN (Electric) Filing –** The Commission approved a settlement agreement calling for a $72.5 million base rate increase, which compares to the company's $126.6 million request. The rate order was based on a 9.975% ROE and 47.42% equity ratio. New rates became effective on October 1, 2016.

- **March 2015 MA Filing** – The Commission approved a two-step settlement agreement calling for a $32.8 million base rate increase in November 2015 and a $3.6 million rate increase in November 2016 after which base rates would be frozen through October 31, 2018. The order was based on a 9.55% ROE and 53.54% equity ratio. This compares to NI's request for a $49.3 million rate increased (subsequently revised to $49.7 million) based on a 10.95% ROE and 53.54% equity ratio.

Of note, NI has not filed a base rate case in Ohio since 2008 and has not filed a gas case in Indiana since 2010.

Earnings Model ($ millions except per share data)	2014	2015	2016	2017E	2018E	2019E	2020E
Revenues	**$5,272**	**$4,652**	**$4,493**	**$4,691**	**$4,814**	**$4,957**	**$5,100**
Operating Expenses							
Energy Costs	$2,373	$1,644	$1,390	$1,392	$1,397	$1,402	$1,411
Operation & Maintenance	1,367	1,426	1,454	1,491	1,491	1,491	1,491
Depreciation & Amortization	487	524	547	579	626	674	719
G/(L) on Sale of Assets & Impairments	3	2	(1)	0	0	0	0
Other Taxes	253	256	244	248	251	255	259
Total operating expenses	**$4,483**	**$3,852**	**$3,634**	**$3,710**	**$3,766**	**$3,822**	**$3,881**
Operating income	**$789**	**$800**	**$858**	**$980**	**$1,048**	**$1,135**	**$1,219**
EBITDA	**$1,276**	**$1,324**	**$1,405**	**$1,559**	**$1,674**	**$1,808**	**$1,939**
Other Income	$13	$17	$2	$2	$2	$2	$2
Interest Expense	380	477	350	326	326	340	349
Income Taxes	167	141	182	262	289	319	349
Tax Rate	*65.1%*	*71.1%*	*55.5%*	*66.7%*	*66.7%*	*66.7%*	*66.7%*
Net Income from Continuing Operations	**$256**	**$199**	**$328**	**$393**	**$434**	**$478**	**$523**
Net Income from Discontinued Operations	$274	$104	$3	$0	$0	$0	$0
Non-Controlling Interest	0	16	0	0	0	0	0
Net Income attributable to NiSource	530	287	332	393	434	478	523
Average Shares - Diluted	316.6	319.8	323.5	332.3	347.0	361.1	374.7
EPS	**$0.81**	**$0.62**	**$1.01**	**$1.18**	**$1.25**	**$1.32**	**$1.40**
Adjustments	($0.00)	($0.31)	($0.07)	$0.00	$0.00	$0.00	$0.00
Ongoing EPS	**$0.81**	**$0.93**	**$1.09**	**$1.18**	**$1.25**	**$1.32**	**$1.40**
Dividend Information							
Dividend/Share Year-End Rate	$1.04	$0.62	$0.66	$0.70	$0.74	$0.79	$0.83
Dividends Paid Per Year	1.02	0.83	0.64	0.70	0.75	0.80	0.86
Payout Ratio ('14-15A distorted by spin-off)	*125.9%*	*88.8%*	*59.0%*	*59.2%*	*59.9%*	*60.6%*	*61.4%*
Statistics							
Book Value Per Share - Year End	$19.54	$12.04	$12.60	$13.42	$14.24	$15.05	$15.86
Avg. Book Value Per Share		15.79	12.32	13.01	13.83	14.64	15.45
ROE		5.9%	8.8%	9.1%	9.0%	9.0%	9.0%
EBITDA Per Share	4.05	4.17	4.37	4.72	4.85	5.03	5.20
Free CFPS	(0.90)	(0.53)	(2.73)	(1.72)	(2.04)	(1.62)	(1.65)
Free Cash Flow (millions)	(284)	(167)	(877)	(570)	(706)	(584)	(615)

Source: Wells Fargo Securities, LLC estimates and company filings

Cash Flow Model ($ millions)	2014	2015	2016	2017E	2018E	2019E	2020E
Operating Cash Flow							
Net Income	$256	$199	$328	$393	$434	$478	$523
Depreciation & Amortization	487	524	547	579	626	674	719
Deferred Income Taxes & ITCs	161	135	182	262	260	234	188
Other	(143)	305	(253)	78	(12)	(12)	(12)
Discontinued Operations	558	293	(1)	0	0	0	0
Net Operating Cash Flow	**$1,320**	**$1,457**	**$803**	**$1,312**	**$1,309**	**$1,374**	**$1,418**
Investing Cash Flow							
Capital expenditures	($1,283)	($1,361)	($1,475)	($1,651)	($1,756)	($1,670)	($1,714)
Other	(31)	3,736	(108)	0	0	0	0
Discontinued Operations	(803)	(430)	0	0	0	0	0
Net Investing Cash Flow	**($2,117)**	**$1,945**	**($1,583)**	**($1,651)**	**($1,756)**	**($1,670)**	**($1,714)**
Financing Cash Flow							
Cash of CPG at Separation	$0	($137)	$0	$0	$0	$0	$0
Issuance of LT Debt	748	0	500	2,000	700	1,125	650
Redemption of LTD & Capital Leases	(521)	(2,092)	(435)	(1,445)	(301)	(841)	(330)
Premiums and Other Debt Related Costs	(9)	(94)	(4)	(131)	0	0	0
Change in ST Debt	878	(936)	921	(180)	0	0	0
Issuance of Common Stock	30	23	23	305	305	305	305
Acquisition of Treasury Stock	(10)	(20)	(9)	0	0	0	0
Dividends on Common Stock	(321)	(263)	(206)	(231)	(259)	(288)	(320)
Discontinued Operations	0	109	0	0	0	0	0
Net Financing Cash Flow	**$796**	**($3,412)**	**$791**	**$318**	**$445**	**$301**	**$305**
Net change in cash	($1)	($10)	$11	($21)	($2)	$5	$10
Beginning cash balance	27	25	15	26	5	4	9
Ending cash balance	**$25**	**$15**	**$26**	**$5**	**$4**	**$9**	**$19**

Capital Structure ($ millions)	2014	2015	2016	2017E	2018E	2019E	2020E
Common Equity	$6,175	$3,844	$4,071	$4,538	$5,018	$5,513	$6,021
Long-Term Debt	8,152	5,949	6,058	6,963	7,362	7,646	7,966
Short-Term Debt	1,844	1,001	1,851	1,321	1,321	1,321	1,321
Total Capitalization	**$16,170**	**$10,793**	**$11,981**	**$12,822**	**$13,702**	**$14,481**	**$15,309**
% Common Equity	38%	36%	34%	35%	37%	38%	39%
% LT Debt	50%	55%	51%	54%	54%	53%	52%
% ST Debt	11%	9%	15%	10%	10%	9%	9%

Source: Wells Fargo Securities, LLC estimates and company filings

Price Target

Price Target: $30.00 from NE

Our price target is based on a P/E multiple analysis (22.5X our '19E EPS of $1.32) and supported by our residual income, dividend discount and EV/EBITDA analyses. Risks include unfavorable regulatory developments, a potential rise in interest rates (financing costs and sector valuation), lower than expected sales growth, cost inflation, and federal tax reform.

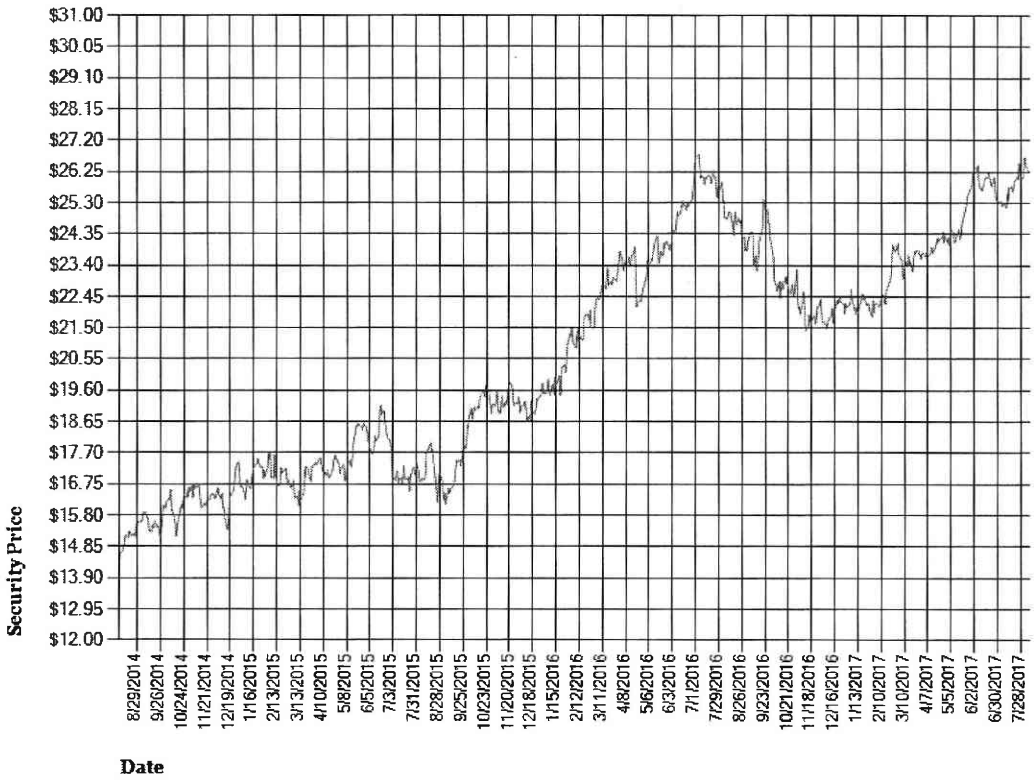
Investment Thesis

We rate shares Outperform. We do not believe the current valuation amply reflects NI's robust capital plan, constructive regulatory treatment, prudent strategy, and shareholder-friendly management team.

Company Description

Based in Merrillville, Indiana, NiSource, Inc. is a holding company with regulated gas (64%) and electric (36%) utility operations across seven states. The company's Gas Distribution Operations serve 3.4 million customers in Indiana, Kentucky, Maryland, Massachusetts, Ohio, Pennsylvania, and Virginia. The Electric Operations consist of a vertically-integrated utility serving nearly 500 thousand customers in northern Indiana. On July 1, 2015, NiSource completed the separation of Columbia Pipeline Group (CPG) from NiSource via the distribution of one share of CPG common stock for every share of NI common stock.

Required Disclosures



Date	Published Price ($)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
8/7/2014		Hausner				
8/7/2014	NA	NR	NE			14.38

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ^ Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Additional Information Available Upon Request

I certify that:
1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

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- Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in

the next three months from NiSource Inc.
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- Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from an affiliate of NiSource Inc.
- Wells Fargo Securities, LLC or its affiliates managed or co-managed a public offering of securities for an affiliate of NiSource Inc. within the past 12 months.
- Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from an affiliate of NiSource Inc. in the past 12 months.

NI: Risks include unfavorable regulatory developments, a potential rise in interest rates (financing costs and sector valuation), lower than expected sales growth, cost inflation, and federal tax reform.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

STOCK RATING
1=Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY
2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING
O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING
V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: August 8, 2017

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CREDIT SUISSE

14 August 2017
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

UPGRADE RATING

Rating (from UNDERPERFORM)	OUTPERFORM
Price (11-Aug-17, US$)	26.28
Target price (US$)	(from 25.00) 29.00
52-week price range (US$)	26.67 - 21.41
Market cap(US$ m)	8,564

Target price is for 12 months.

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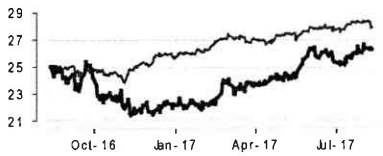
Nothing but Net; Raise to Outperform

A good clean plain vanilla story. We upgrade NI to Outperform and raise our TP to $29 with 13% total return potential over the next 12 months. This reflects the cleaner utility-only story post the 2015 spin of Columbia Pipeline Group (CPG). We now base our rating at a more appropriate premium to gas and electric utility peers rather than MLPs with their faster-growth distributions.

- **Above-average EPS & dividend growth** of 5-7% through 2020 driven by superb 8-10% ratebase growth (9%-11% gas, 4%-6% elec) and a constructive regulatory backdrop across its seven state jurisdictions. This is further supported by a $30B backlog of infrastructure replacement programs recoverable primarily through trackers and riders (70-75% of capex).
- **Revenues are also relatively low-risk** with 65% non-volumetric and no major ratecases on the horizon after two years of cleanup through eight settlements. No need for block equity either as DRiP ($50-75M/yr) and ATM ($200-300M/yr) offerings are adequate to supplement deferred taxes, debt and operating cash through 2020.
- **Catalysts:** Settlement approval for Columbia Gas of MD ratecase (Nov.) and completion of Transmission projects I/II (Reynolds-Topeka/Greentown-Reynolds) in 2H18. **Risks:** Approval of Ohio infrastructure replacement program extension in 4Q17, execution of transmission projects. Tax reform.
- **Estimates and Valuation:** We forecast FY 2017-19 EPS of $1.18, $1.26, and $1.35, respectively. We arrive at our $29 TP using a sum of the parts valuation methodology based on a 21.5x 2019 P/E multiple, representing implied upside of ~10% and an implied yield of ~3%.

Share price performance



On 11-Aug-2017 the S&P 500 INDEX closed at 2439.93
Daily Aug11, 2016 - Aug11, 2017, 08/11/16 = US$25.02

Quarterly EPS	Q1	Q2	Q3	Q4
2016A	0.56	0.08	0.07	0.33
2017E	0.65	0.10	0.08	0.35
2018E	0.72	0.10	0.10	0.35

Financial and valuation metrics

Year	12/16A	12/17E	12/18E	12/19E
EPS (CS adj.) (US$)	1.04	1.18	1.26	1.35
Prev. EPS (US$)	-	1.17	1.25	1.31
P/E (x)	25.2	22.2	20.8	19.4
P/E rel. (%)	119.0	115.8	121.0	124.5
Revenue (US$ m)	4,495.1	5,517.1	5,730.1	5,966.2
EBITDA (US$ m)	1,430.4	1,527.7	1,629.4	1,729.5
OCFPS (US$)	2.48	3.32	3.09	3.25
P/OCF (x)	8.9	7.9	8.5	8.1
EV/EBITDA (current)	11.5	10.8	10.1	9.5
Net debt (US$ m)	7,883	8,754	9,546	10,297
ROIC (%)	4.66	4.70	4.70	4.71

Number of shares (m)	325.87	IC (current, US$ m)	11,954.10
BV/share (Next Qtr., US$)	13.2	EV/IC (x)	1.4
Net debt (Next Qtr., US$ m)	7,885.8	Dividend (current, US$)	0.70
Net debt/tot eq (Next Qtr.,%)	188.2	Dividend yield (%)	0.67

Source: Company data, Thomson Reuters, Credit Suisse estimates

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CREDIT SUISSE

14 August 2017

NiSource Inc. (NI)

Price (11 Aug 2017): **US$26.28**; Rating: **(from UNDERPERFORM) OUTPERFORM**; Target Price: **(from US$25.00) US$29.00**;
Analyst: **Michael Weinstein**

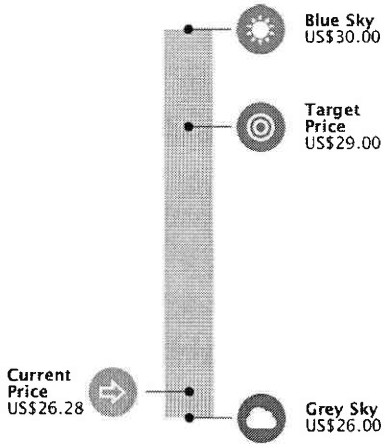
Income Statement	12/16A	12/17E	12/18E	12/19E
Revenue (US$ m)	**4,495.1**	**5,517.1**	**5,730.1**	**5,966.2**
EBITDA	**1,430**	**1,528**	**1,629**	**1,729**
Depr. & amort.	(547)	(575)	(598)	(623)
EBIT (US$)	**883**	**953**	**1,031**	**1,106**
Net interest exp	(375)	(399)	(392)	(377)
PBT (US$)	**535**	**604**	**650**	**700**
Income taxes	(198)	(219)	(237)	(256)
Profit after tax	**337**	**385**	**413**	**445**
Minorities	-0	-0	-0	-0
Reported net income (US$)	**341**	**307**	**413**	**445**
Other NPAT adjustments	4	(78)	0	0
Adjusted net income	**337**	**385**	**413**	**445**
Cash Flow	**12/16A**	**12/17E**	**12/18E**	**12/19E**
EBIT	883	953	1,031	1,106
Net interest	(375)	(399)	(392)	(377)
Change in working capital	(292)	(23)	0	0
Cash flow from operations	**803**	**1,081**	**1,011**	**1,068**
CAPEX	1,733	1,489	1,600	1,600
Free cashflow to the firm	**2,536**	**2,571**	**2,611**	**2,668**
Aquisitions	-	-	-	-
Divestments	0	0	0	0
Cash flow from investments	**(1,583)**	**(1,659)**	**(1,600)**	**(1,600)**
Net share issue(/repurchase)	23	66	40	40
Dividends paid	(206)	(227)	(243)	(259)
Cashflow from financing activities	(169)	(294)	(203)	(219)
Changes in Net Cash/Debt	**(949)**	**(871)**	**(792)**	**(751)**
Balance Sheet (US$)	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Assets				
Cash & cash equivalents	26	18	18	18
Account receivables	847	545	545	545
Other current assets	609	523	523	523
Total current assets	**1,762**	**1,281**	**1,281**	**1,281**
Total fixed assets	13,068	14,248	15,250	16,226
Investment securities	-	-	-	-
Total assets	**18,692**	**19,401**	**20,403**	**21,380**
Liabilities				
Total current liabilities	**3,452**	**3,311**	**4,103**	**4,853**
Total liabilities	**14,621**	**15,232**	**16,024**	**16,775**
Shareholder equity	4,071	4,169	4,379	4,605
Total liabilities and equity	**18,692**	**19,401**	**20,403**	**21,380**
Net debt	7,883	8,754	9,546	10,297
Per share	**12/16A**	**12/17E**	**12/18E**	**12/19E**
No. of shares (wtd avg)	323	326	328	329
CS adj. EPS	1.04	1.18	1.26	1.35
Prev. EPS (US$)	-	1.17	1.25	1.31
Dividend (US$)	0.66	0.70	0.74	0.79
Free cash flow per share	7.84	7.89	7.97	8.11
Earnings	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Sales growth (%)	(14.3)	22.7	3.9	4.1
EBIT growth (%)	(19.7)	7.9	8.2	7.2
Net profit growth (%)	(23.9)	14.2	7.3	7.7
EPS growth (%)	(24.6)	13.3	6.7	7.2
EBITDA margin (%)	31.8	27.7	28.4	29.0
EBIT margin (%)	19.7	17.3	18.0	18.5
Pretax margin (%)	11.9	11.0	11.3	11.7
Net margin (%)	7.5	7.0	7.2	7.5
Valuation	**12/16A**	**12/17E**	**12/18E**	**12/19E**
EV/Sales (x)	3.66	3.14	3.16	3.16
EV/EBITDA (x)	11.5	10.8	10.1	9.5
EV/EBIT (x)	18.6	18.2	17.6	17.1
P/E (x)	25.2	22.2	20.8	19.4
Price to book (x)	2.0	2.0	1.9	1.8
Asset turnover	0.2	0.3	0.3	0.3
Returns	**12/16A**	**12/17E**	**12/18E**	**12/19E**
ROE stated-return on (%)	8.4	7.3	9.4	9.6
ROIC (%)	4.7	4.7	4.7	4.7
Gearing	**12/16A**	**12/17E**	**12/18E**	**12/19E**
Net debt/equity (%)	193.6	210.0	218.0	223.6
Interest coverage ratio (X)	2.4	2.4	2.6	2.9
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2016A	0.56	0.08	0.07	0.33
2017E	0.65	0.10	0.08	0.35
2018E	0.72	0.10	0.10	0.35

Source: Company data, Thomson Reuters, Credit Suisse estimates

Company Background

NiSource Inc. is energy holding company whose subsidiaries provide natural gas, electricity & other products & services. It operates in 3 segments: Gas Distribution Operations; Gas Transmission & Storage Operations, & Electric Operations.

Blue/Grey Sky Scenario



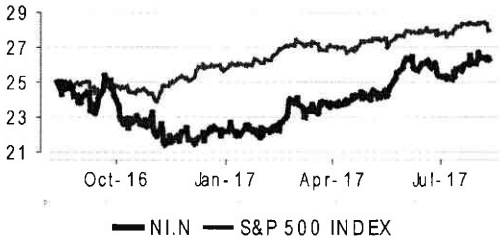
Our Blue Sky Scenario (US$) 30.00

In our blue sky scenario we assume favorable regulatory outcomes across NI's jurisdictions, successful execution of their capital plan, and growth of infrastructure replacement program backlog. We assume that capex is at the high end of the $1.6-$1.8B and that NI is able to grow ratebase at the high end of their 8-10% range and grow earnings at the high end of their 5-7% range.

Our Grey Sky Scenario (US$) 26.00

In our grey sky scenario we assume unfavorable regulatory outcomes across NI's jurisdictions, only partial execution of their capital plan, and a decline in the infrastructure replacement program backlog. We assume that capex is at the low end of the $1.6-$1.8B and that NI is able to grow ratebase at the low end of their 8-10% range and grow earnings at the low end of their 5-7% range. We also assume a -1% ROE hit in Ohio

Share price performance



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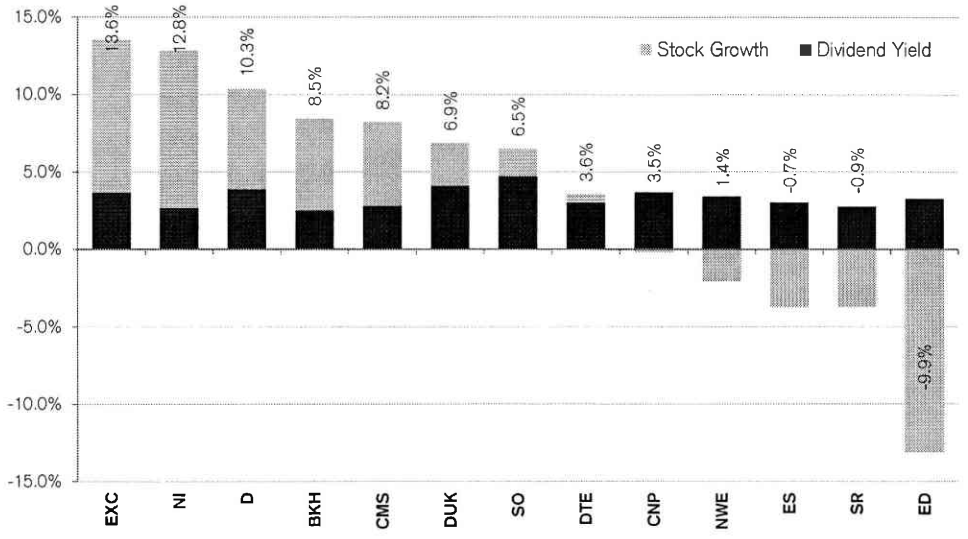
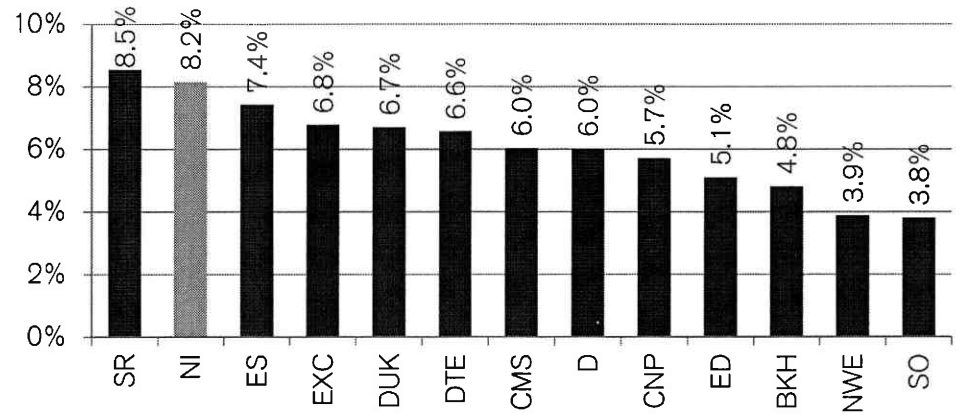
Key Charts

Figure 1: CS Utilities Coverage Universe – Total Return Comparison



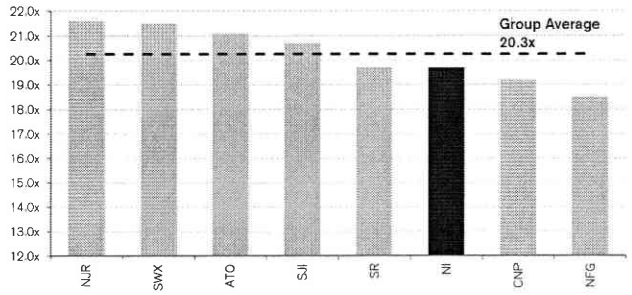
Source: Company data, Credit Suisse estimates.

Figure 2: NI - Ratebase Growth Comparison (2016-19)



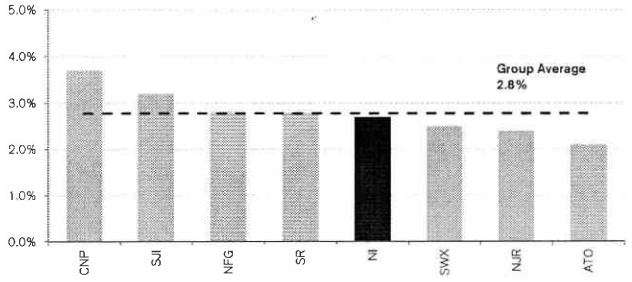
Source: Company data, Credit Suisse estimates

Figure 3: NI – '19 Gas LDC Group P/E Multiples



Source: Company data, Credit Suisse estimates.

Figure 4: NI – '17 Gas LDC Group Div. Yield



Source: Company data, Credit Suisse estimates.

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Investment Thesis

1) **Raise to Outperform from Underperform.** After the 2015 spin of the Columbia Pipeline assets, we see a more appropriate comparison to plain vanilla gas and electric utility peers. Our rating is premised on a 13% total return derived from a ~3% yield and our $29/sh valuation using a sum-of-the-parts methodology and a 1.5x (~8%) premium applied to the average peer 2019 P/E multiples for gas and electric utilities. A high degree of debt at the holding company is recognized by applying a blended multiple (2/3 gas utility, 1/3 electric) to parent expense, most of which is tied to interest expense.

2) **Above-average EPS growth through 2020 driven by low-risk tracked utility capex.** Essentially, NI possesses high-quality utility assets across seven states under an over-levered holding company structure that still holds $1.7B of legacy goodwill from the Columbia acquisition in 2000 (pipelines were spun off in 2015). There are no unregulated segments. Management is targeting EPS and dividend growth of 5-7% through 2020 off a 2016 base of $1.04, driven by combined gas and electric utility ratebase growth of 8-10%. About 2/3 of NI's ratebase, earnings, and capital plan is from the gas utility side and ratebase growth is actually split 9%-11% from gas and 4%-6% from electric.

3) **Nearly three-quarters of capex is covered by tracker programs with minimal regulatory lag.** The utilities enjoy generally constructive regulatory environments across its jurisdictions with minimal regulatory lag that allow them to earn close to their authorized ROEs; guidance is modelled on earning about 9.5%-10.0% overall average. Its 20-year investment plan includes $20B of identified gas infrastructure investments (vs $6B current gas ratebase) and another $10B toward electric infrastructure (vs $3.4B current electric ratebase). Total annual electric and gas capital spend is planned at $1.6B-$1.8B/year through 2020, over 90% for regulated pipes and wires (only $13M-$14M for corporate). Of this, 73% is under trackers with less than 12 months of regulatory lag (17% less than 3 months in the customer growth and transmission categories with another 56% for modernization and environmental). There are no mandatory ratecase filings on the horizon beyond semi-annual Transmission, Distribution and Storage System Improvement Charge (TDSIC) tracker filings in Indiana.

4) **Flattish electric and gas load growth, but most rates are non-volumetric,** which mitigates the impact on revenues. Nearly 65% of NI's gas and electric revenue streams are non-volume sensitive, supported by non-bypassable fixed charges, with 55% of revenue from residential customers and another 25%/20% from commercial/industrial, respectively. The gas jurisdictions all enjoy revenue decoupling mechanisms and weather normalization, and Ohio is under a full fixed charge for the majority of customers. Note that the gas utilities are targeting 30k-35k annual new customer additions by 2020 (a sustainable 1%), .largely through expansions of lateral connections into adjacent neighborhoods.

5) **Operations and Maintenance (O&M) expense is projected to flatten** beyond 2017 after several years of 2%-4% increases as a result of optimization and system efficiency investments.

6) **Baggage on the balance sheet, but situation is stable:** With $1.7B of goodwill from the Columbia acquisition in 2000, the holding company is over-levered at 66%. However, FFO/Debt is stable at 12%-14% and IG ratings are stable supported by high-quality regulated assets. Tax reform interest deduction risk is low given Congressional support for a utility exemption.

7) **Minimizing secondary equity needs through 2020.** To fund $1.6B-$1.8B of annual capex and $225M-$325M of annual dividends through 2020, the company plans to use $500M-$1B of new debt issuances, $200M-$300M at-the-market

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equity programs and $50M-$75M DRiP, and $1.1B-$1.4B of funds from operations. The holding company's debt/capital ratio remains at a relatively high 66%, although the operating utilities maintain 50%/50% for ratemaking purposes (except for VA, which looks through to the parent structure).

8) **Potential hit from tax reform if the interest expense deduction is eliminated.** We assume about $125M of parent-level interest expense that provides a $44M tax shield ($0.13 eps; equivalent to about 10% of valuation in our sum-of-the-parts). We continue to view this prospect as unlikely, however, and remain circumspect on the probability of tax reform this year given ongoing divisiveness in Congress and a distracted President. It is our understanding that at The Wall Street Journal's annual CFO Network event in June, House Ways and Means Committee Chairman Kevin Brady indicated to utility CFOs in attendance that the utility industry (along with real estate) would likely be exempted from any proposals to eliminate the tax deduction on interest expense. This would appear to apply to holding companies as well as operating utilities themselves. While this is a positive sign of an apparently effective lobbying campaign, although we also note that Brady continues to support a 5-year phase-in for a Border Adjustment Tax, which may have some impact on utility equipment and fuel supply chains.

Summary of Estimates and Credit Metrics

Figure 5: NI - Summary of Estimates and Credit Metrics

NI	2016	2017	2018	2019	2020
Electric	0.88	0.96	1.03	1.10	1.17
Gas	0.44	0.50	0.54	0.57	0.61
Corporate & Other	(0.29)	(0.29)	(0.30)	(0.32)	(0.34)
Total EPS	**1.04**	**1.18**	**1.26**	**1.35**	**1.44**
Consensus EPS		*1.19*	*1.26*	*1.34*	*1.39*
% growth		*14.1%*	*5.7%*	*6.2%*	*4.0%*
Electric Earned ROE		9.6%	9.6%	9.5%	9.5%
Gas Earned ROE		10.0%	9.8%	9.8%	9.8%
Dividend/ sh	0.66	0.70	0.74	0.79	0.83
Consensus Dividend/ sh		*0.70*	*0.74*	*0.79*	*0.83*
% growth		*6.21%*	*5.99%*	*6.19%*	*5.20%*
Payout Ratio					
Shares Outstanding	323	326	328	329	331
Consensus Shares Outstanding		*325*			
Equity Issuance / Repurchase	14	60	40	40	40
Debt Issuance / Repurchase	982	736	792	751	697
Net Debt ex. Securitization	7,883	8,754	9,546	10,297	10,994
% Corporate Debt	38.8%	39.7%	40.4%	40.6%	41.2%
Net Debt / Cap	65.9%	67.7%	68.6%	69.1%	69.3%
FFO / Debt	13.9%	13.7%	13.3%	13.1%	12.9%
FFO Interest Coverage	3.1x	3.4x	3.3x	3.3x	3.3x
Debt/ EBITDA	5.5x	5.7x	5.9x	6.0x	6.0x
EBITDA/ Interest Expense	16.5x	16.9x	16.8x	16.8x	16.7x

Source: Company data, Credit Suisse estimates

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From Moody's April 2017 Baa2: "The stable outlook reflects Moody's expectation that the modest decline in NiSource's financial profile following its 2015 corporate separation will be temporary. Moody's expect a debt to capitalization ratio of approximately 55% as well as a decline in its cash flow to debt to the 12-13% range before the latter slowly returns closer to 13-14% towards the end of the decade."

> *" What Could Change the Rating -- Up*
>
> *An upgrade at NiSource could be considered if there was further improvement in the utility's regulatory environment or if the cash flow to debt ratio rises to the high teens and debt to capitalization fell below 50%, on a sustained basis.*
>
> *What Could Change the Rating - Down*
>
> *The rating could be downgraded if there is a decline in credit supportiveness of NiSource's regulatory environments, an adverse change in the company's business mix such that its business risk profile deteriorates, or if cash flow to debt falls below 12% and/or debt to capitalization remains above 55%, on a sustained basis."*

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Earnings and balance sheet

- **Above-average EPS growth through 2020 driven by low-risk tracked utility capex.** NI is targeting EPS and dividend growth of 5-7% through 2020 off a 2016 base of $1.09, driven by combined gas and electric utility ratebase growth of 8-10%. About 2/3 of NI's ratebase, earnings, and capital plan is from the gas utility side and ratebase growth is actually split 9%-11% from gas and 4%-6% from electric. The company is currently at the low end of its targeted 60%-70% dividend payout ratio and enjoys generally constructive regulatory environments across its jurisdictions with minimal regulatory lag. NI's utilities generally earn close to their authorized ROEs and guidance is modelled on earning about 9.5%-10.0% overall average. Typically, NI's ratecase pace averages around 2-3 per year with most states in a three-year cycle. However, the company is just finishing a recent wave of eight cases after the spin of the pipeline business (all settled) and there are no mandatory ratecase filings on the horizon beyond semi-annual TDSIC transmission tracker filings in Indiana (see below).
- **Minimizing secondary equity needs through 2020.** To fund $1.6B-$1.8B of annual capex and $225M-$325M of annual dividends through 2020, the company plans to use (annually) $500M-$1B of new debt issuances, $200M-$300M at-the-market (ATM) equity programs and $50M-$75M DRiP, and $1.1B-$1.4B of funds from operations (including deferred taxes and ITC benefits). The ATM program was initiated in May 2017, authorizes up to $500M equity, and expires at yearend 2018. As of June 2017, 1.3M shares had been issued at an average $25.88 for $33.8M proceeds.
- **Not a cash taxpayer.** With a $664M NOL carryforward as of June 2017, we expect NI to avoid cash taxes through the mid-2020s. Otherwise, the company's effective income tax rate was 37.2% for the 2Q17 and 35.7% in 2016.
  - The 2015 PATH law extended bonus depreciation through 2019, with 50% bonus for property placed in service before Jan 1, 2018, 40% for property placed in service before Jan 1, 2019, and 30% bonus for property placed in service before Jan 1, 2020.
  - Deferred income taxes provided a $182M cash benefit in 2016.
- **Goodwill and holding company debt.** NI maintains $1.691B of goodwill on its balance sheet, substantially all stemming from the excess of cost over the fair value of the net assets acquired in the Columbia acquisition on November 1, 2000. Goodwill is now allocated out to the various gas utility reporting segments, with no impairment required so long as each segment fair value tests above its carrying value. Also as a result of the Columbia Gas acquisition and subsequent spin of the Pipeline Group in July 2015, the holding company's debt/capital ratio remains at a relatively high 66%, although the operating utilities maintain 50%/50% for ratemaking purposes (except for VA, which looks through to the parent structure). Current debt stands at $8.2B as of June 2017, including $7.3B of long-term debt at an average rate of 4.9% and $1.3B of net liquidity available from $2.1B of facilities in place. Nearly 50% of 2017/18 debt issuances are hedged, including $750M of planned 2018 debt issuances and management is committed to maintain investment-grade credit ratings (S&P BBB+, Moody's Baa2, Fitch BBB). FFO/Debt is targeted for maintenance between 12%-14%.
  - **Columbia Pipeline Group Spinoff.** In 2014 NiSource announced plans to do a tax-free spinoff of the midstream business, Columbia Pipeline Group (CPG). The separation was completed July 1, 2015, and under the plan NiSource shareholders retained their current shares of NiSource stock and received a pro rata distribution of CPG shares (tax-free to both the company and shareholders).
  - **Potential hit from tax reform, but only if the interest expense deduction is eliminated.** We assume about $125M of parent-level interest expense that

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provides a $44M tax shield ($0.13 eps). We continue to view this prospect as unlikely, however, and remain circumspect on the probability of tax reform this year given ongoing divisiveness in Congress and a distracted President. It is our understanding that at The Wall Street Journal's annual CFO Network event in June, House Ways and Means Committee Chairman Kevin Brady indicated to utility CFOs in attendance that the utility industry (along with real estate) would likely be exempted from any proposals to eliminate the tax deduction on interest expense. This would appear to apply to holding companies as well as operating utilities themselves. While this is a positive sign of an apparently effective lobbying campaign, although we also note that Brady continues to support a 5-year phase-in for a Border Adjustment Tax, which may have some impact on utility equipment and fuel supply chains.

Utilities operate with low-risk trackers and fixed rates

- **Nearly three-quarters of capex is covered by tracker programs with minimal regulatory lag.** Over the long-term, NI's 20-year investment plan includes $20B of identified gas infrastructure investments (vs $6B current gas ratebase) and another $10B toward electric infrastructure (vs $3.4B current electric ratebase). Total annual electric and gas capital spend is planned at $1.6B-$1.8B/year through 2020, over 90% for regulated pipes and wires (only $13M-$14M for corporate). Of this, 73% is under trackers with less than 12 months of regulatory lag (17% less than 3 months in the customer growth and transmission categories with another 56% for modernization and environmental). The remaining 27% of maintenance/other capex is subject to recovery through periodic ratecases.
- **Mostly non-volumetric rates**. Nearly 65% of NI's gas and electric revenue streams are non-volume sensitive, supported by non-bypassable fixed charges, with 55% of revenue from residential customers and another 25%/20% from commercial/industrial, respectively. The gas jurisdictions all enjoy revenue decoupling mechanisms and weather normalization, and Ohio is under a full fixed charge for the majority of customers. As a result of declining natural gas prices, NI gas customers have experienced a 42% decline in overall bills since 2008, leaving plenty of headroom for infrastructure upgrades without significant rate pressure or controversy. On the electric side, transmission rates are adjusted by formula.
- **Targeting 1% gas customer growth vs the current ~0.5% with flattish load.** The gas utilities are targeting 30k-35k annual new customer additions by 2020 (a sustainable 1%). The plan includes expansions of lateral connections into adjacent neighborhoods with annual capex projected to be $200M-$230M from 2017-2019 and $260M in 2020 (vs ~$175M in recent years). About half of new additions are expected to come from new construction and the other half from conversions. The company estimates that there are additional 300k customers (~10%) within 500 feet of a gas main waiting to be hooked up.
- **Seeing 0.5% electric customer growth with flattish volumes** as a result of energy efficiency and lower usage patterns.
- **Operations and Maintenance (O&M) expense is projected to flatten** beyond 2017 after several years of 2%-4% increases as a result of the optimization of processes, investments, and technology after the separation of the utilities from Columbia Gas Transmission in 2014. About $100M-$150M of "transformative" O&M investment is planned through 2020 to enhance the sustainability safety and reliability under a lower rate-inflation environment going forward.
- **Gas Utility Segment.** A total $20B of investment opportunity for the next 20 years includes $5B-$6B from customer growth, $10B from modernization, and ~$6B from

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Maintenance. See table below for highlights. Annual gas capex through 2020 is projected at $1.1B-$1.3B, with nearly 80% under trackers with less than 12 months of regulatory lag, including 20% less than 3 months for customer growth. Tracked programs include (see below for details):

- Indiana (NIPSCO Gas): Transmission, Distribution and Storage System Improvement Charge (TDSIC). Act 560 (2013) allows seven-year trackers for 80% of investment in approved programmatic electric and gas improvements related to safety, reliability, system modernization, or economic development. The remaining 20% is deferred until a regular ratecase. Semi-annual update filings are used to adjust revenues, which are capped on an annualized basis at 2% of total retail revenues.
- Kentucky: Accelerated Main Replacement Program (AMRP)
- Maryland: Strategic Infrastructure Development and Enhancement (STRIDE)
- Massachusetts: Gas System Enhancement Plan (GSEP). Annual program filings are authorized under Chapter 149 of the Acts of 2014, An Act Relative to Natural Gas Leaks. Purpose is to address the replacement of aging natural gas pipeline infrastructure.
- Ohio: Infrastructure Replacement Program (IRP); On July 10, 2017, the Public Utility Commission of Ohio (PUCO) Staff recommended approval of Columbia of Ohio's IRP for an additional five years through Dec 2022 with some revisions to the company's application. Objections to the PUCO Staff Report are due August 9, 2017. An order is expected by the end of 2017.
- Pennsylvania: Distribution System Improvement Charge (DSIC) or Base Rate Case with Fully Forecasted Test Year
- Virginia: Steps to Advance Virginia's Energy Plan (SAVE)
- Demand-Side Management (DSM) and Energy Efficiency (EE) program costs are recovered through trackers.

- **Electric Utility Segment.** $10B of investment opportunity over the next 20 years includes $0.9B for customer growth, $4.2B from modernization, $3.6B from maintenance, $0.4B from transmission, $0.4B from environmental, and $0.8B from new generation. Tracked programs include (see below for details):
  - Indiana (NIPSCO Electric): Transmission, Distribution and Storage System Improvement Charge (TDSIC) for a ~$1.25B, seven-year infrastructure modernization plan (2016-2022). Annual investment of $175M-$225M at a 9.975% ROE.
  - Federally Mandated Cost Adjustment (FMCA) Mechanism. A $400M Environmental Compliance filing made in Nov 2016 for Coal Combustion Residuals Rule (CCR) and Effluent Limitation Guidelines (ELG). Settlement in June 2017 for $193M CCR portion with order expected by yearend 2017. ELG to be the subject of a new proceeding at a later date. Note that ELG rules are currently stayed and under reconsideration by the Trump Administration EPA. NIPSCO had previously estimated ~$170M capital compliance cost.
  - Environmental Cost Tracker (ECT). NIPSCO is permitted to recover (1) AFUDC and a return on the capital investment expended by NIPSCO to implement environmental compliance plan projects and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational. The Jan 2017 ECR-29 filing for $261.1M of cumulative net capital expenditures through yearend 2016the period ended December

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31, 2016. An order was received from the IURC on April 26, 2017, and new rates went into effect the first billing cycle of May 2017.

- Federal Energy Regulatory Commission (FERC) Formula Rates for two MISO projects under construction
- Demand-Side Management (DSM) and Energy Efficiency (EE) program costs are recovered through trackers.
- Integrated Resource Plan (IRP) filed in Nov 2016 is awaiting Indiana Utility Regulatory Commission (IURC) Staff final review. It calls for retiring 50% of the coal-fired generation fleet by end of 2023, including 500-MW Bailly 7/8 (MISO approved closure by May 31, 2018) and R.M. Schahfer Units 17 and 18. With interruptible load contracts in place, there is no rush to build replacement capacity until Schahfer retires in 2023 (likely replaced with a CCGT).

Figure 6: NI Major Gas and Electric Utility Infrastructure Programs

	Authorized ROEs	Ratebase (YE 2016)	Total Identified Infrastructure Investments	Modernization Programs	Annual Modernization	Recovery Mechanism	Notes
Columbia Gas of Ohio	Settlement - not specified	$2.1B	$4.1B	$3.4B	$205-$260M	Tracked	Approval of IRP 5-year extension through Dec 2022 expected by yearend 2017
Columbia Gas Pennsylvania	Settlement - not specified	$1.3B	$3.0B	$1.8B	$200-$250M	Ratecase (Fwd Test	
NIPSCO Gas	9.90%	$915M	$4.5B	$3.9B	$135-$170M	Tracked	
Columbia Gas Massachusetts	9.55%	$669M	$1.4B	$0.7B	$70-$120M	Tracked	
Columbia Gas Virginia	Settlement - not specified	$609M	$0.6B	$0.3B	$30-$40M	Tracked	Base ratecase settlement approved in Mar 2017
Columbia Gas Kentucky	Settlement - not specified	$238M	$0.8B	$0.4B	$20-$45M	Tracked	
Columbia Gas Maryland	9.70%	$93M	$0.2B	$0.1B	$10-$16M	Tracked	Base ratecase settlement filed in July with rates effective 4Q17
NIPSCO Electric							
Infrastructure Modernization (20+ years)	9.975%		$4.2B	$1.25B	$135-$235M	Tracked - TDSIC	Seven-year ~$1.25B electric system modernization program in progress 2016-2022 at $175M-$225M/yr
Environmental Compliance (~7 years) at Michgan City, RM Schahfer stations			$0.4B		$10-$90M	Tracked - FMCA	CCR $193M settlement filed In June with order expected by yearend 2017. ELG moved to a later proceeding.
Transmission Project I (100-mi, 345-kV Reynolds-Topeka; 2H18)			$350-$400M		$50-$120M	FERC Formula	In-service 2H18
Transmission Project II (65-mi, 765-kV Greentown-Reynolds Partnership; 2H18)			NI: $175-$200M		$25-$50M	FERC Formula	In-service 2H18
Integrated Resource Plan (IRP) - calls for retiring 50% of coal-fired generation fleet by end of 2023, including Bailly 7/8 (MISO approved closure by mid-2018) and R.M. Schahfer Units 17 and 18							Submitted Nov 2016 and awaiting IURC Staff final review.

Source: Company data, Credit Suisse estimates

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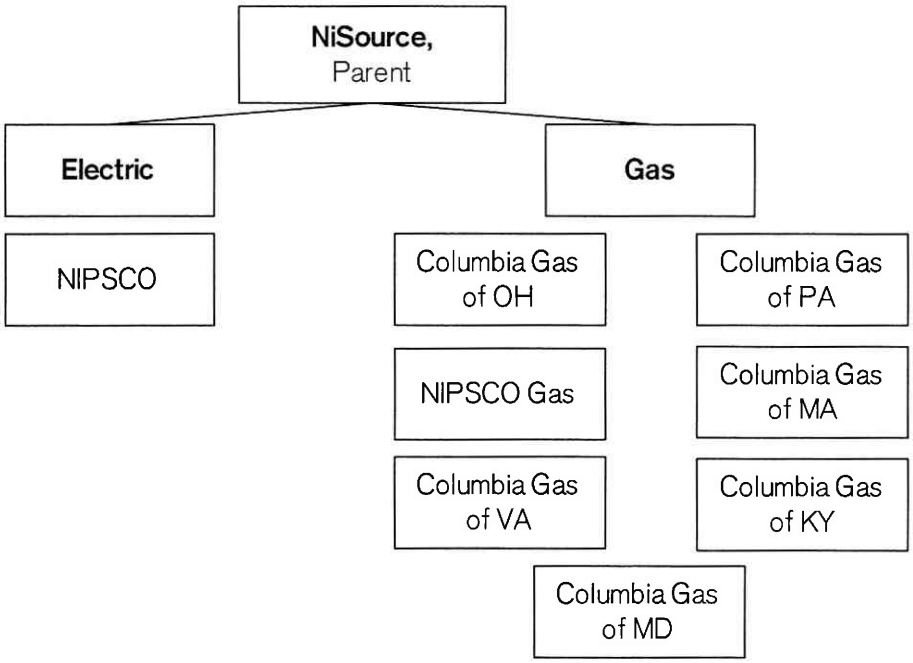
Utility & Regulatory Highlights

Figure 7: Corporate Structure Chart



Source: Company data, Credit Suisse estimates

Columbia Gas of Ohio is the largest LDC in Ohio with ~1.4M customers, ~20,100 miles of pipe and ~$2.1B rate base. Currently, Ohio's stable economic environment and modest customer growth are creating positive environment for the company. Three constructive legislations are also in place for Columbia Gas of Ohio: House Bill 95, House Bill 319, and Senate Bill 378. HB 95 promotes utility modernization capital program and prohibits trackers from increasing residential rates by more than $1.50 per month with each annual filing. HB 319 allows infrastructure cost recovery for up to $4.2M annually for economic development projects. And SB 378 places underground protection and enforcement. The regulators, on the other hand, have implemented fully tracked annual Infrastructure Replacement Program (IRP) and allow cost deferrals with non-tracked investments. In terms of rate design, Columbia Gas of Ohio receives a fully fixed residential distribution rate, eliminating seasonal variances and energy efficiency, and gets a full recovery on bad debt tracker along with several other O&M trackers. Columbia Gas of Ohio expects to invest a total of ~$7.4B ($205M-$260M annual) in modernization with an authorized ROE of 10.39%. Regulatory recovery will be tracked but have a <12 months weighted average regulatory lag with historical 12 months tracker filing period.

Columbia Gas of Pennsylvania is the third largest LDC in PA with ~430K customers, 7,600 miles of pipe and ~$1.3B rate base. With current stable economic environment and tariff program, the company is expected to experience a modest customer growth. Act 11 legislation of PA allows a gas utility to file a distribution service improvement charge (DSIC) and rate case with fully forecasted rate year. There are no limits for rate cases but DSIC increase is limited to 5% of billed revenue. On the regulatory side, gas utilities are allowed recovery on infrastructure and other costs through base rate filing using a forward test year. Tariff also supports system expansion by allowing customer payment options for

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main extension and enable LDCs to implement various programs aimed to facilitate customer conversion to natural gas. In terms of its rate design, ~50% of residential distribution rate is fixed and weather normalization adjustment for residential customers stabilizes revenue. Columbia Gas of Pennsylvania anticipates a total modernization investment opportunity of ~$3.5B ($200M - $250M annual) and will recover through base rate case with forward test year. ROE is not specified and the recovery will begin typically within 9 months of filing.

Indiana Gas (NIPSCO) is the largest LDC in Indiana with ~820K customers, ~17,900 miles of pipe, and ~$915M rate base. Indiana's current stable economic environment and rural extension opportunities provide potential for further customer growth going forward. Indiana Gas is ruled under Senate Bill 560 and Senate Bill 251. SB 560 allows the use of forward test year, timely rate cases, infrastructure investment tracking and rural expansion for natural gas. The rate case is required within 7 years of original TDSIC filing and Rider cannot increase customer rates more than 2% of prior 12 months revenues. SB 251 authorizes utility to recover costs related to federally mandated requirements. On the regulatory side, Indiana regulators have in place Transmission, Distribution and Storage System Improvement Charge (TDSIC), a seven-year, ~$824M Infrastructure Modernization Program with semi-annual tracker filings. Regulatory construct also encourages gas system expansion into rural areas. In terms of its rate design, ~60% of residential distribution rate is fixed and low income program is fully tracked. Indiana Gas projects a total modernization investment opportunity of ~$5.9B ($135 - $170M annual) with an authorized ROE of 9.90%. Regulatory recovery will be tracked but have a <12 months weighted average regulatory lag with historical 6 months tracker filing period.

Columbia Gas of Massachusetts is the largest gas-only LDC in MA with 5,000 miles of pipe, ~690 miles of bare steel and cast iron, and ~$669M rate base. It currently has ~320K customers but conversion opportunities provide potential for customer growth. Under the legislation, Acts of 2014 Chapter 149 (An Act Relative to Natural Gas Leaks) and Acts of 2016 Chapter 188 (An Act to Promote Energy Diversity) lay a constructive environment for the company. Acts of 2014 Chapter 149 enforces Gas System Enhancement Plan (GSEP), allowing tracked recovery of priority pipeline infrastructure replacements based on forward-looking test year, capping annual recovery at 1.5% of the company's most recent calendar year total firm revenues with deferral of overage for future recovery, and enabling LDCs to implement programs to facilitate customer conversion to natural gas. Acts of 2016 Chapter 188 promotes identification and repair of environmentally significant Grade 3 leaks and allows for cost recovery through tracker provided in the Acts of 2014 Chapter 149. Under regulation, the company is able to recover modernization/safety investments through forward-looking annual infrastructure tracker filings, which will also be supplemented by periodic rate cases. In terms of its rate design, ~30% of residential distribution rate is fixed and revenue decoupling adjustment provides residential revenue stabilization for changes in customer usage. Any O&M associated with energy efficiency, low income programs, bad debt, pension costs, and environmental remediation can be fully recovered as well. The total cost of anticipated modernization investment opportunities is ~$2.4B ($70M - $120M annual) with authorized ROE of 9.55%. Regulatory recovery will be tracked with forward 12 months tracker filings.

Columbia Gas of Virginia is the third largest LDC in VA with ~5,200 miles of pipe, ~160 miles of bare steel and ~$609M rate base. Currently, it has ~260K customers but system expansion may provide room for further customer growth. Under legislation, there are five acts that are beneficial for the utility: DIMP act allows deferral of incremental O&M costs related to pipeline safety programs; Steps to Advance Virginia's Energy Plan (SAVE) Act allows recovery of investments on infrastructure replacement; CARE Act provides for energy efficiency programs and a decoupling adjustment; NEED Act allow deferral of infrastructure expansion costs and recovery of costs associated with upstream natural gas supply infrastructure; and MAIN act provides for recovery of infrastructure expansion program costs. On the regulatory side, the company is able to file forward-looking annual

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modernization/safety infrastructure investment tracker filing, supplemented by rate case filings with forward test year and annual infrastructure cost recovery filing. Its rate design has around ~55% of residential distribution rate fixed and revenue normalization adjustments provide full residential distribution revenue recovery. Energy conservation tracker is also included in cost recovery. Columbia Gas of Virginia is anticipating a total modernization investment opportunities of ~$2.0B ($30M-40M annual) with authorized ROE of 9.50%. The recovery will be tracked and have a forward 12months tracker filing period.

Columbia Gas of Kentucky is the second largest, gas-only LDC in KY with ~2,600 miles of pipe, ~400 miles of bare steel and cast iron and ~$238M rate base. Currently, the company is serving ~135K customers but the customer growth rates have been improving. In the legislature, House Bill 100 and Accelerated Main Recovery Program (AMRP) support the company. HB 100 states that governments may create and assess for special energy efficiency project districts and Accelerated Main Recovery Program (KRS 278.509) allows for full recovery of eligible pipeline replacement program costs not recovered in existing rates via a rider with forward-looking test year. Under regulation, the company is allowed to file for annual modernization/safety infrastructure investment tracker filings, supplemented by rate case filings with forward test year. Through its rate design, ~60% of residential distribution rate is fixed and weather normalization adjustment for residential and commercial customers stabilizes revenue. The company is also able to recover energy conservation through tracker. The total anticipated modernization investment opportunities sum up to ~$800M ($20M - $45m annual) with authorized ROE of 9.50%. The regulatory recovery will be tracked with forward 12 months tracker filing period.

Columbia Gas of Maryland is a complementary to PA operation with modestly growing ~33K customers, ~650 miles of pipe, ~80 miles of bare steel & cast iron and ~$93M rate base. Under legislature, Strategic Infrastructure Development and Enhancement (STRIDE) allow prospective cost recovery for age and condition investments, with a cap on monthly surcharge of $2 on each residential bill. On the regulatory side, forward-looking annual Infrastructure Replacement and Improvement Surcharge (IRIS) are implemented in accordance with STRIDE, supplemented by periodic rate cases. Regulators also provide opportunity to update other costs between rate cases. In terms of its rate design, revenue normalization adjustment provides full residential distribution revenue recovery and energy efficiency tracker allows recovery in EE. The company expects a total modernization investment opportunities to be ~$250M ($10M-$16M annual) with authorized 9.70% ROE. The recovery will be tracked with forward 12months tracker filing period and <12 months of weighted average regulatory lag.

Indiana Electric (NIPSCO) is the third largest, fully integrated electric utility in Indiana with 3,300 MW of environmentally compliant generation, ~10,000 distribution line miles, ~3,000 transmission line miles and $3.4B rate base. It currently serves ~470K customers but stable economic environment and rural extension opportunities provide potential for customer growth. Under legislation, Senate Bill 560 enables use of forward test year, timely rate cases, infrastructure investment tracking and rural expansion for natural gas. SB 560 also requires rate case to be filed within seven years of original TDSIC filing and caps rider-inflicted customer rate increase at 2% of prior 12 months revenues. Senate Bill 251 is another constructive legislation for the company, allowing cost recovery of federally mandated requirements through Federally Mandated Cost Adjustment (FMCA) – a $400M Environmental Compliance filing made in Nov. 2016 for Coal Combustion Residual Rule (CCR) and Effluent Limitation Guidelines (ELG). On the regulatory side, Transmission, Distribution and Storage System Improvement Charge (TDSIC) is implemented, which is a seven-year, ~ $1.25B transmission and distribution infrastructure modernization program with semi-annual tracker filings. Indiana Electric's rate design dictates that 100% of fuel costs are pass-through and ~60% of demand charge is weighted for industrial customers.

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Valuation

We use the sum-of-the-parts methodology to derive the value of NI's stock under the three scenarios: the Base Case, the Blue-Sky (Bull) Case, and the Grey-Sky (Bear) Case.

Base Case

Our $29 TP for NI is derived by applying a 1.5x (~8%) premium to the average peer 2019 P/E multiples for gas and electric utilities reflecting the constructive regulatory environment and the high than peers ratebase growth rate. At this TP, we see an upside of ~10% to the current price and a total return of ~13%.

Figure 8: NI - Base Case Valuation

		BASE CASE			
	2019 EPS	Prem / Disc	Effective P/E	Equity	Equity / Sh
Electric	$0.57	1.5x	19.0x	$3,588	$10.90
Gas	$1.10	1.5x	22.0x	$7,951	$24.15
Other	($0.32)		19.0x	($2,014)	($6.12)
Total EPS	**$1.35**			**$9,525**	**$29.00**
Diluted Shares Outstanding					329.2
Dividend					$0.79
Implied Yield					2.7%
Current Yield					3.0%
Implied P/E					21.5x
Prem / (Disc) To Group					4.8%
Upside/ (Dow nside) to Current Price					10.2%

Source: Company data, Credit Suisse estimates

Blue Sky Case

In the Blue Sky scenario, we expect more upside in NI's stock resulting from the company's ability to execute its growth plan and receive even more favorable regulatory treatment across its jurisdictions. We arrived at a $30 TP in this case by applying a 2.5x premium to the group P/E averages.

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Figure 9: NI – Blue Sky Case Valuation

		Blue Sky			
	2019 EPS	Prem / Disc	Effective P/E	Equity	Equity / Sh
Electric	$0.57	2.0x	19.5x	$3,683	$11.19
Gas	$1.10	2.0x	22.5x	$8,131	$24.70
Other	($0.32)		19.5x	($2,067)	($6.28)
Total EPS	$1.35			$9,747	$30.00
Diluted Shares Outstanding					329.2
Dividend					$0.79
Implied Yield					2.6%
Current Yield					3.0%
Implied P/E					22.2x
Prem / (Disc) To Group					8.4%
Upside/ (Dow nside) to Current Price					14.0%

Source: Company data, Credit Suisse estimates

Grey Sky Case

In the Grey Sky scenario, we see potential headwinds that can dampen the upside on the stock. We arrived at the $26 TP using a -1x discount to the average group P/E multiples to reflect the failure by NI to get an extension on its IRP.

Figure 10: NI – Grey Sky Case Valuation

		Grey Sky			
	2019 EPS	Prem / Disc	Effective P/E	Equity	Equity / Sh
Electric	$0.57	-1.0x	16.5x	$3,116	$9.47
Gas	$1.10	-1.0x	19.5x	$7,047	$21.41
Other	($0.32)		16.5x	($1,749)	($5.31)
Total EPS	**$1.35**			**$8,414**	**$26.00**
Diluted Shares Outstanding					329.2
Dividend					$0.79
Implied Yield					3.0%
Current Yield					3.0%
Implied P/E					19.3x
Prem / (Disc) To Group					-6.0%
Upside/ (Dow nside) to Current Price					-1.2%

Source: Company data, Credit Suisse estimates

CREDIT SUISSE

14 August 2017

Figure 11: Regulated Utilities Comp Sheet

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Regulated Utilities

(Dollars in millions, except per share amounts)

Companies	Ticker	Rating	Price 8/9/2017	Target Price	Total Return Potential	Shares 2017E	Market Cap	Net Debt 2017E	Enterprise Value	CS Estimated EBITDA 2017E	CS Estimated EBITDA 2018E	CS Estimated EBITDA 2019E	Adj EV-to-EBITDA 2017E	Adj EV-to-EBITDA 2018E	Adj EV-to-EBITDA 2019E	Div. Yld 2017E	Payout 2016E
American Electric Power*	AEP	NR	71.35	NR	NA	492	35,080	21,450	56,530	5,314	5,592	5,899	10.6x	10.7x	10.5x	3.3%	65%
Black Hills Corp	BKH	O	70.79	75.00	8.5%	55	3,914	3,353	7,267	645	683	729	11.3x	10.6x	9.7x	2.5%	50%
CMS Energy Corp	CMS	O	47.42	50.00	8.2%	281	13,304	10,129	23,433	2,170	2,250		10.8x	10.4x	NM	2.8%	61%
Centerpoint	CNP	U	29.05	29.00	3.5%	434	12,599	7,844	20,443	1,705	1,792	1,847	12.0x	11.4x	11.3x	3.7%	82%
NiSource	NI	O	26.32	28.00	9.0%	326	8,574	8,754	17,329	1,528	1,629	1,729	11.3x	10.6x	10.5x	2.7%	59%
Dominion Resources	D	O	77.96	83.00	10.3%	634	49,458	35,120	84,579	6,595	7,563	7,996	12.8x	11.2x	10.9x	3.9%	83%
DTE Energy	DTE	N	109.40	110.00	3.6%	179	19,583	12,812	32,395	2,747	3,331	3,619	11.8x	9.7x	9.6x	3.0%	61%
Duke Energy	DUK	N	86.60	89.00	6.9%	701	60,679	55,094	115,773	9,799	10,116	10,500	11.8x	11.4x	11.5x	4.1%	77%
Consolidated Edison	ED	U	84.06	73.00	-9.9%	308	25,858	15,867	41,725	3,936	4,062	4,237	10.6x	10.3x	10.2x	3.3%	68%
Edison International*	EIX	NR	79.79	NR	NA	330	26,331	14,563	40,894	4,598	4,823	5,162	8.9x	8.3x	8.1x	2.7%	51%
Spire	SR	N	75.80	73.00	-0.9%	47	3,559	2,503	6,062	483	505	546	12.6x	12.0x	11.7x	2.8%	59%
Eversource Energy	ES	N	62.31	60.00	-0.7%	318	19,789	11,689	31,478	2,821	2,916	2,981	11.2x	10.8x	11.0x	3.0%	60%
NorthWestern Energy	NWE	U	61.26	60.00	1.4%	49	2,975	2,106	5,081	449	464	482	11.3x	11.0x	10.7x	3.4%	62%
PG&E Corp*	PCG	NR	69.25	NR	NA	501	34,694	18,511	53,205	6,317	6,776	7,135	8.4x	7.8x	7.8x	3.0%	57%
Pinnacle West*	PNW	NR	88.73	NR	NA	112	9,942	4,447	14,389	1,434	1,532	1,615	10.0x	9.6x	9.0x	3.0%	62%
PPL Corp*	PPL	NR	36.83	NR	NA	680	25,422	18,908	45,330	4,002	4,348	4,599	11.3x	10.9x	10.5x	4.1%	74%
Southern Co.	SO	N	49.12	50.00	6.5%	1,004	49,319	47,870	97,190	8,781	9,383	9,937	11.1x	10.4x	10.1x	4.7%	79%
Allete Inc.*	ALE	NR	74.87	NR	NA	50	3,706	1,531	5,237	465	469	491	11.3x	11.1x	10.6x	2.9%	64%
Alliant Energy Corp.*	LNT	NR	41.57	NR	NA	227	9,441	4,756	14,197	1,182	1,245	1,354	12.2x	11.3x	10.7x	3.0%	63%
Ameren Corp*	AEE	NR	58.43	NR	NA	243	14,222	7,967	22,189	2,353	2,489	2,640	9.4x	9.2x	8.9x	3.0%	64%
Avista *	AVA	NR	52.39	NR	NA	64	3,349	1,845	5,194	448	488	542	11.6x	8.3x	9.0x	2.7%	74%
Great Plains Energy *	GXP	NR	31.58	NR	NA	170	5,362	2,798	8,160	976	1,003	1,051	8.3x	9.9x	11.5x	3.8%	68%
OGE Energy Corp.*	OGE	NR	36.24	NR	NA	200	7,244	2,868	10,111	859	906	940	11.8x	11.3x	10.9x	3.4%	64%
Portland General *	POR	NR	46.34	NR	NA	89	4,127	2,336	6,463	712	762	791	9.1x	8.8x	8.4x	2.9%	61%
Scana*	SCG	NR	63.85	NR	NA	143	9,096	7,223	16,319	1,548	1,635	1,601	10.6x	10.4x	10.8x	3.9%	59%
Westar Energy*	WR	NR	51.57	NR	NA	142	7,347	4,043	11,390	1,075	1,121	1,164	10.6x	10.2x	10.0x	3.1%	64%
Wisconsin Energy*	WEC	NR	64.73	NR	NA	317	20,513	10,169	30,681	2,540	2,678	2,824	12.1x	11.7x	11.2x	3.2%	67%
Xcel Energy*	XEL	NR	48.44	NR	NA	509	24,678	14,758	39,436	3,725	3,945	4,157	10.6x	10.1x	9.7x	3.0%	62%
S&P 500 (Consensus)	.SPX		2,474.92													2.0%	38%
Average (ex SR, OGE)					4.3%	321	19,245	13,306	32,550				10.8x	10.2x	10.1x	3.3%	65%
Utes Avg CS Universe (Large Cap)					2.6%	593	41,021	33,128	74,149				11.5x	10.8x	10.7x	3.8%	73%
Utes Avg CS Universe (Small & Mid Caps)					4.1%	122	8,667	6,181	14,848				11.5x	10.7x	8.3x	2.9%	58%

Companies	Ticker	CS Estimated EPS 2016E	CS Estimated EPS 2017E	CS Estimated EPS 2018E	CS Estimated EPS 2019E	Price-to-Earnings 2016E	Price-to-Earnings 2017E	Price-to-Earnings 2018E	Price-to-Earnings 2019E	PE Relative Group 2017	PE Relative Group 2018	'16 - '19 EPS Growth Rate	FFO/Debt 2017E	Net Debt/Cap 2017E	P/BV 2017E	Price vs. 50/200 Day Avg
American Electric Power*	AEP	3.94	3.66	3.88	4.10	18.1x	19.5x	18.4x	17.4x	96%	98%	1.3%	NA	NA	NA	101.1% / 108.0%
Black Hills Corp	BKH	3.17	3.56	3.90	3.95	22.3x	19.9x	18.2x	17.9x	98%	95%	7.6%	12%	63%	2.1x	101.8% / 109.0%
CMS Energy Corp	CMS	2.02	2.17	2.34		23.5x	21.8x	20.3x	NM	108%	106%		14%	69%	2.9x	101.2% / 107.7%
Centerpoint	CNP	1.17	1.31	1.39	1.48	24.9x	22.2x	20.9x	19.6x	110%	110%	8.3%	23%	68%	3.5x	103.4% / 109.7%
NiSource	NI	1.04	1.18	1.28	1.35	25.2x	22.3x	20.9x	19.5x	110%	109%	9.0%	13%	68%	2.0x	101.6% / 111.0%
Dominion Resources	D	3.80	3.65	4.02	4.18	20.5x	21.4x	19.4x	18.7x	106%	102%	3.2%	14%	65%	3.0x	99.7% / 102.1%
DTE Energy	DTE	5.27	5.43	5.77	6.14	20.7x	20.1x	18.9x	17.8x	100%	99%	5.2%	17%	57%	2.1x	101.3% / 107.8%
Duke Energy	DUK	4.69	4.63	4.85	5.09	18.5x	18.7x	17.9x	17.0x	92%	94%	2.8%	14%	57%	1.4x	101.8% / 107.2%
Consolidated Edison	ED	3.99	4.08	4.28	4.46	21.1x	20.6x	19.7x	18.8x	102%	103%	3.8%	19%	51%	1.7x	101.9% / 109.1%
Edison International*	EIX	3.97	4.24	4.29	4.67	20.1x	18.8x	18.6x	17.1x	93%	98%	5.6%	NA	NA	NA	100.5% / 104.8%
Spire	SR	3.43	3.57	3.72	3.89	22.1x	21.3x	20.4x	19.5x	105%	107%	4.4%	16%	56%	1.6x	106.2% / 113.1%
Eversource Energy	ES	2.96	3.14	3.31	3.51	21.1x	19.8x	18.8x	17.7x	98%	99%	5.9%	17%	51%	1.6x	101.4% / 107.9%
NorthWestern Energy	NWE	3.30	3.40	3.54	3.89	18.6x	18.0x	17.3x	16.8x	89%	91%	3.8%	17%	55%	1.7x	100.1% / 104.5%
PG&E Corp*	PCG	3.76	3.67	3.83	4.01	18.4x	18.9x	18.1x	17.3x	93%	95%	2.2%	NA	NA	NA	102.4% / 107.8%
Pinnacle West*	PNW	3.95	4.26	4.49	4.76	22.5x	20.8x	19.7x	18.6x	103%	103%	6.4%	NA	NA	NA	102.0% / 108.8%
PPL Corp*	PPL	2.45	2.16	2.33	2.45	15.0x	18.0x	16.6x	15.9x	89%	87%	-0.1%	NA	NA	NA	100.1% / 108.4%
Southern Co.	SO	2.89	2.95	3.01	3.14	17.0x	16.7x	16.3x	15.6x	82%	85%	2.8%	15%	64%	1.8x	100.0% / 99.6%
Allete Inc.*	ALE	3.13	3.36	3.65	3.85	23.9x	22.3x	20.5x	19.5x	110%	108%	7.1%	NA	NA	NA	103.1% / 111.4%
Alliant Energy Corp.*	LNT	1.88	2.00	2.13	2.25	22.1x	20.7x	19.5x	18.5x	103%	102%	6.2%	NA	NA	NA	101.8% / 108.8%
Ameren Corp*	AEE	2.66	2.79	3.01	3.20	21.8x	21.0x	19.4x	18.3x	104%	102%	6.0%	NA	NA	NA	104.4% / 109.1%
Avista *	AVA	2.15	1.94	2.06	2.18	24.4x	27.0x	25.5x	24.0x	133%	133%	0.5%	NA	NA	NA	115.0% / 126.4%
Great Plains Energy *	GXP	1.85	1.66	1.75	1.93	17.1x	19.0x	18.0x	16.4x	94%	95%	1.3%	NA	NA	NA	105.9% / 110.8%
OGE Energy Corp.*	OGE	1.89	1.96	2.04	2.12	21.4x	18.5x	17.8x	17.1x	92%	93%	7.9%	NA	NA	NA	102.5% / 106.0%
Portland General *	POR	2.16	2.22	2.42	2.50	21.5x	20.9x	19.1x	18.5x	103%	100%	5.0%	NA	NA	NA	100.3% / 104.3%
Scana*	SCG	4.18	4.14	4.35	4.46	15.3x	15.4x	14.8x	14.3x	76%	77%	2.4%	NA	NA	NA	95.3% / 92.8%
Westar Energy*	WR	2.43	2.51	2.60	2.70	21.2x	20.6x	19.9x	19.1x	102%	104%	3.6%	NA	NA	NA	99.1% / 95.3%
Wisconsin Energy*	WEC	2.97	3.11	3.28	3.46	21.8x	20.8x	19.7x	18.7x	103%	103%	5.2%	NA	NA	NA	103.2% / 108.1%
Xcel Energy*	XEL	2.21	2.31	2.46	2.61	21.9x	20.9x	19.7x	18.6x	103%	103%	5.7%	NA	NA	NA	102.9% / 111.4%
S&P 500 (Consensus)	.SPX	116.72	129.28	143.62	158.10	21.2x	19.1x	17.2x	15.7x	95%	90%	NM				
S&P 500 (CS Estimates)	.SPX	116.80	116.90	122.90	NA	21.2x	21.2x	20.1x	NM	105%	105%	NM				
Average (ex SR, OGE)						20.7x	20.2x	19.1x	18.1x			4.4%	16%	61%	2.2x	102.0% / 107.2%
Utes Avg CS Universe (Large Cap)						19.6x	19.4x	18.4x	17.6x				16%	58%	2.0x	100.9% / 105.2%
Utes Avg CS Universe (Small & Mid Caps ex BKH)						21.5x	20.2x	19.0x	14.4x				15%	60%	2.1x	102.1% / 108.4%

Source: Company data, Credit Suisse estimates

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Risks

Approval of IURC for Environmental Compliance (~$400M investment)

NI filed for a $400M investment for compliance with the Coal Combustion Residuals Rule (CCR) and the Effluent Limitation Guidelines (ELG). The company filed for a Certificate of Public Convenience and Necessity (CPCN) in November 2016. The company received a settlement in for $193M on the CCR portion with an order expected by yearend 2017 and the ELG portion will be the subject of a new proceeding at a later date. There are risks associated with the $193M settlement of the CCR portion, if the PSC either does not approve the settlement or the settlement amount is lowered, it would have a negative impact on earnings. NI also faces risk in the ELG proceeding if the settlement is below the requested amount or expectations or if a settlement it is not approved. Any negative outcomes of either of these pending decisions/proceeding would have a negative impact to NI earnings.

Regulatory and Legislative Risk

NI's electric and natural gas utilities are regulated various State's Public Service Commissions, the Federal Energy Regulatory Commission (FERC), and other state and federal agencies. The company is subject to regulatory risks including, but not limited to, ratecase litigation, ROE and cost of capital allowances, rider approval, recovery of fuel, purchased power, and other deferred expenses. It is also subject to possible changes in federal and state laws within its operating jurisdictions.

Commodity, Interest Rate, Derivatives, Load, and Weather Risk:

Although regulatory recovery mechanisms are intended to mitigate many of these risks, the company remains exposed to the impact of market fluctuations in the liquidity and price of electricity and natural gas commodities and changes in interest rates as a result of fuel and purchased power requirements, public bond issuances, bank debt, and the collection of revenue through volumetrically-based rates. Annual precipitation and river water flows may also affect hydroelectric production. Additionally, the effects of energy conservation and behind-the-meter generation may also pose risks to adequate revenue collection between regulatory rate reviews. NI uses derivatives and interest rate swaps for risk management purposes consistent with regulatory guidelines.

Environmental and Climate Change Risk:

As the operator and/or owner of coal and gas generation, transportation and distribution assets, NI utilities are subject to various environmental control rules from the U.S. Environmental Protection Agency (EPA) and the various state environmental agencies within its franchise territories and beyond. The utilities are also subject to pipeline safety and system integrity laws and regulations that may require significant expenditures or significant increases in operating costs. On greenhouse gas (carbon dioxide) reduction plans, the U.S. may eventually require lower output of CO2 through the EPA's proposed Clean Power Plan, with CO2 considered a regulated pollutant as per the 2007 endangerment finding by the U.S. Supreme Court. This could require additional early retirement and replacement of some coal and/or gas facilities.

Physical Infrastructure and Cybersecurity Risk:

The company's physical plant and any internet-connected equipment may be subject to damage from either weather or manmade interference. While we would expect most of these risks (and advance preparations) to be covered by a combination of insurance and regulatory recovery in rates, there is no assurance that full recovery will be approved.

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CREDIT SUISSE

14 August 2017

Companies Mentioned *(Price as of 11-Aug-2017)*
Atmos Energy (ATO.N, $87.05)
Black Hills Corp (BKH.N, $69.39)
CMS Energy Corp (CMS.N, $47.16)
CenterPoint Energy Inc (CNP.N, $28.8)
Consolidated Edison (ED.N, $82.67)
DTE Energy (DTE.N, $107.66)
Dominion Energy (D.N, $77.15)
Duke Energy (DUK.N, $85.35)
Eversource Energy (ES.N, $61.75)
Exelon Corporation (EXC.N, $37.35)
Natl Fuel Gas (NFG.N, $58.11)
New Jersey Rsrce (NJR.N, $43.1)
NiSource Inc. (NI.N, $26.28, OUTPERFORM, TP $29.0)
NorthWestern Energy (NWE.N, $59.9)
Northwest Gas (NWN.N, $64.3)
South Jersey Ind (SJI.N, $35.06)
Southern Co. (SO.N, $48.305)
Southwest Holdg (SWX.N, $80.91)
Spire Inc. (SR.N, $74.75)

Disclosure Appendix

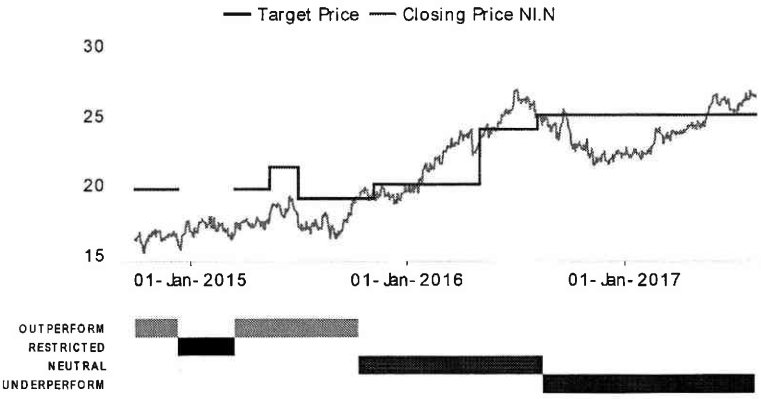
Analyst Certification

I, Michael Weinstein, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my 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
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
27-Jun-17	25.88	25.00	*

** Asterisk signifies initiation or assumption of coverage.*



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

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 Rated (NR) : Credit Suisse Equity Research does not have an investment rating or view on the stock or any other securities related to the company at this time.

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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Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:
Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.
Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.
Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.
**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

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Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
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Neutral/Hold*	40%	(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: We arrive at our $29 target price for NI by applying an effective 19.0x and 22.0x 2019 P/E multiple to the electric and gas utilities, respectively, representing a 1.5x premium to the peer group average to reflect the constructive regulatory environments in the jurisdictions that NI operates in. Our Outperform rating reflects a forecasted total return that is above the group average.

Risk: Risks to our $29 target price and Outperform rating are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particulary in the non-decoupled jurisdictions, 7) weather risk, 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk.

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14 August 2017

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EVERCORE ISI

Energy | Power & Utilities

September 6, 2017

NISOURCE INC

NI | $26.87

IN LINE | TARGET PRICE: $27.00

Change in Price Target

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Company Statistics

Market Capitalization (M):	$8,707
Shares Outstanding (M):	326
Dividend:	$0.70
Dividend Yield:	2.6%
Payout Ratio:	58.7%
Expected Total Return:	3.7%
Fiscal Year End	Dec

Earnings Summary

		2017E	2018E	2019E
EPS		$1.19	$1.28	$1.37
	FY	*$1.18*	*$1.27*	*$1.35*
P/E		22.4x	20.9x	19.5x
EPS vs Consensus		0.3%	1.6%	2.0%
Consensus EPS		$1.19	$1.26	$1.34
Consensus P/E		22.5x	21.2x	19.9x

1 Year Price History

Source: FactSet

Raising EPS Estimates Due To Lower Financing Costs, Slightly Higher Assumed Cap-X.

Target Price Now $27, Up From $25, Rating Still In Line

Yesterday NI Issued $750MM 3.95% Notes due 2048. Since its separation with Columbia Pipeline in '15, NI has been successful in reducing its weighted average interest rate by +/-100 bps and continues to take advantage of the current low interest rate environment to reduce its parent level financing costs to improve earnings power. On 09/05 the company announced securing $750MM, 30 year notes at 3.95%. This is roughly 100 bps lower than NiSource's weighted average cost of debt of 4.9% as of 06/30. The company will use the proceeds in part to fund its projected annual cap-x investment of $1.6-$1.7 billion for '17 and for other general corporate purposes. This is on the heels of an even larger transaction in early June when NI completed a ~ $1B debt tender offer. In a company press release on 06/09 NiSource announced purchasing $320MM aggregate principal amount of 6.125% notes due 2022, $200MM of the 6.40% notes due 2018, $245MM of 6.80% notes due 2019 and $225MM of the 5.45% notes due 2020. The aggregate ~$1B in debt buyback was funded in part by $2B new debt issuance announced on 05/22, including $1B aggregate principal amount of 3.490% notes due 2027 and $1B of 4.375% notes due 2047. The rest of the capital was allocated to cover capital spending.

We are increasing our EPS estimates for years '17/'18/'19 from $1.18/$1.27/$1.35 to $1.19/$1.28/$1.37. NI expects O&M to flatten out beyond '17 and is doing better than expected on its customer growth initiatives (~0.7% growth in residential customers for first half of the year, their target is 1% annual growth by '20) which helps alleviate rate pressure, creating a bias towards the ability to affordably invest at the high end of their of cap-x guidance range of $1.6-$1.8B in '18 /'19. Also NI still has roughly $1B debt due on/before '20 at weighted average rate of 6% which could add up to ~$0.03 to earnings power in using NI's most recent financing costs. Our '17 estimate is at the mid-point of NI's updated EPS guidance range of $1.17 - $1.20. Our '18/'19 estimates are modestly higher as we factor in higher cap-x and accretion from debt refinancing through '20. We model total rate base growing ~8% through '19 towards the low end of company's consolidated rate base growth guidance range of 8-10%. Our '17 through '19 forecast reflects an EPS CAGR of ~7%; lower than rate base growth due to equity dilution and towards the high end company's long term EPS growth guidance of 5-7%.

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Raising Target Price to $27 from $25, rating still Inline. Our $27 price target is derived using an average of two approaches. Under our "traditional" framework we assign a 10% premium above our 16.7x P/E target multiple on '19 EPS (18.4x) which drives a ~$25 target price. In the alternative framework we assign a current gas LDC trading valuation multiple of ~22.0x to the gas segment's '19 EPS contribution, which drives a ~$28.50 target price. Our $27 target price is the average of the two methodologies, and is 19.7x our 2019 EPS forecast, an ~18% premium to our average regulated utility target multiple of 16.7x. We think a significant premium is warranted especially relative to predominantly electric utilities that are, in our view, facing a more challenging growth profile creating medium to longer term headwinds for rate base growth. Our coverage universe currently trades at 18.2X '19 EPS, a premium to our target multiple of 16.7x. On a "market agnostic" basis NI would be valued at $27.50/share under our traditional framework, $29.50/share under our alternative framework, resulting in an average valuation of +/-$28.50/share basis See Exhibit 1 below for additional details

Exhibit 1

Valuation using 10% Premium	EPS	P/E	Val/Shr
Gas EPS	1.07	18.4x	19.6
Electric EPS	0.53	18.4x	9.8
Parent/Other	-0.23	18.4x	-4.3
Consolidated 2019 EPS	1.37	18.4x	**25.1**
Valuation using Gas Comps (Alternative)	**EPS**	**P/E**	**Val/Shr**
Gas EPS	1.07	22.2x	23.7
Electric EPS	0.53	18.4x	9.8
Parent/Other	-0.23	20.9x	-4.9
Consolidated 2019 EPS	1.37	20.9x	**28.6**
Target Price	**Avg**	19.7x	**26.9**

Source: ISI Research, Company Data

Q2 '17 Earnings Recap. NI reported Q2 '17 Adjusted EPS of $0.10 vs. consensus of $0.10 and prior year of $0.08.'17 EPS guidance was raised to $1.17-$1.20 from $1.12 to $1.18. Consolidated operating income was more/less flat to last year on a segment basis: Gas Distribution segment was $17.6 million lower compared to prior year. Higher net revenues of $22.3 million from rate increases and customer growth were offset by higher operating expense of $39.9million, driven by higher outside services, employee related costs, and higher depreciation. Electric segment was $20.3 million higher compared to prior year. Higher net revenues of $42.2 million from rate increases and higher industrial/commercial usage were offset by higher operating expense of $21.9million, driven by higher materials and supplies, employee related costs, outside services, and higher depreciation. Corporate and Other Operations was $2.6 million worse primarily due to higher employee and administrative costs. The company completed ~$1B debt refinancing in Q2, we estimate ~0.04 accretion to EPS starting next year. NI also raised its '17 EPS guidance to $1.17 to $1.20 versus $1.12 to $1.18 previously, at the mid-point that's a raise of $0.04 and

reiterated its long term growth target of 5-7% through '20 now off '17 base. As they have stated previously the company projects 200MM - $300MM equity issuance per year which will in part fund the $1.6 - $1.8 billion projected annual cap-x investment through '20.

Rate case update: On 03/17/17 a settlement was approved in the Virginia base rate case authorizing $28.5 million rate increase, interim rates have been in effect since 09/28/16. Company's Maryland subsidiary filed a settlement proposal for $2.4 million annual revenue increase pending commission approval with new rates expected to go in effect in Q4 '17.

Risks to our thesis. Using our proprietary Dividend Discount Model to derive a P/E multiple, and then averaging that valuation with a SOTP approach; we value NI at $27 share. That is 19.7x our 2019 EPS estimate of $1.37. 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.

VALUATION METHODOLOGY

Our $27 price target is derived using an average of two approaches. Under our "traditional" framework we assign a 10% premium above our 16.7x P/E target multiple on '19 EPS (18.4x) which drives a ~$25 target price. In the alternative framework we assign a current gas LDC trading valuation multiple of ~22.0x to the gas segment's '19 EPS contribution, which drives a ~$28.50 target price. Our $27 target price is the average of the two methodologies, and is 19.7x our 2019 EPS forecast, an ~18% premium to our average regulated utility target multiple of 16.7x.

RISKS

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.

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Symbol	Company	Rating	Price (2017-09-05)	Evercore ISI Target
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AEP	American Electric Power	In Line	$74.09	$71.00
AES	The AES Corporation	Outperform	$11.09	$12.25
AGR	Avangrid Inc	Outperform	$48.32	$46.50
CMS	CMS Energy Corp.	Outperform	$48.43	$47.00
CNP	CenterPoint Energy, Inc.	In Line	$29.62	$28.00
CPN	Calpine Corp.	Outperform	$14.62	$15.25
D	Dominion Resources Inc.	In Line	$78.19	$75.00
DTE	DTE Energy Co.	In Line	$112.77	$106.00
DUK	Duke Energy Corp.	In Line	$87.41	$82.00
DYN	Dynegy Inc.	Outperform	$8.87	$12.00
ED	Consolidated Edison Inc.	In Line	$84.37	$74.00
EIX	Edison International	In Line	$80.26	$80.50
ES	Eversource Energy	Coverage Suspended	$62.95	NA
ETR	Entergy Corp.	In Line	$79.79	$76.00
EXC	Exelon Corp.	Outperform	$37.60	$41.00
FE	FirstEnergy Corp.	Outperform	$32.52	$35.00
GXP	Great Plains Energy Incorporated	Outperform	$30.72	$31.70
HE	Hawaiian Electric Industries Inc.	Underperform	$33.48	$31.00
HIFR	InfraREIT, Inc.	Coverage Suspended	$22.54	NA
NEE	NextEra Energy Inc	Outperform	$150.26	$147.00
NI	NiSource Inc	In Line	$26.87	$25.00
NRG	NRG Energy Inc.	Outperform	$24.40	$30.00
NYLD	NRG Yield, Inc.	Outperform	$18.70	$20.00
OGE	OGE Energy Corp	Outperform	$35.58	$37.00
PCG	PG&E Corp.	Outperform	$69.84	$69.25
PEG	Public Service Enterprise Group	In Line	$46.37	$46.75
PNM	PNM Resources, Inc	In Line	$42.40	$37.50
PNW	Pinnacle West Capital Corp.	In Line	$89.69	$87.00
PPL	PPL Corp.	In Line	$39.17	$38.50
SO	Southern Co.	In Line	$49.16	$48.00
SRE	Sempra Energy	Rating Suspended	$117.64	$118.00
WEC	WEC Energy Group, Inc.	In Line	$65.56	$61.00

WR	Westar Energy Inc.	Outperform	$50.65	$53.00
XEL	Xcel Energy Inc.	In Line	$49.65	$46.00

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

Historical Ratings Definitions

Prior to March 2, 2017, Evercore ISI's recommendations were based on a stock's total forecasted return over the next 12 months:

Buy – the total forecasted return is expected to be greater than 10%
Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
Sell – the total forecasted return is expected to be less than 0%

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and

trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

Prior to October 10, 2014, the ratings system of ISI Group LLC and ISI UK which was based on a 12-month risk adjusted total return:

Strong Buy - Return > 20%
Buy - Return 10% to 20%
Neutral - Return 0% to 10%
Cautious - Return -10% to 0%
Sell - Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

Evercore Group:

Prior to October 10, 2014, the rating system of Evercore Group was based on a stock's expected total return relative to the analyst's coverage universe over the following 12 months. Stocks under coverage were divided into three categories:

Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

Ratings Definitions for Portfolio-Based Coverage

Evercore ISI utilizes an alternate rating system for companies covered by analysts who use a model portfolio-based approach to determine a company's investment recommendation. Covered companies are included or not included as holdings in the analyst's Model Portfolio, and have the following ratings:

Long – the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.
Short – the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
No Position – the stock is not included in the model portfolio.
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 Outperform, In Line and Underperform.

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Evercore ISI ratings distribution (as of 09/06/2017)

Coverage Universe			Investment Banking Services / Past 12 Months		
Ratings	Count	Pct.	Rating	Count	Pct.
Buy	327	50%	Buy	51	16%
Hold	237	36%	Hold	13	5%
Sell	57	9%	Sell	1	2%
Coverage Suspended	26	4%	Coverage Suspended	9	35%
Rating Suspended	7	1%	Rating Suspended	1	14%

Issuer-Specific Disclosures (as of September 6, 2017)

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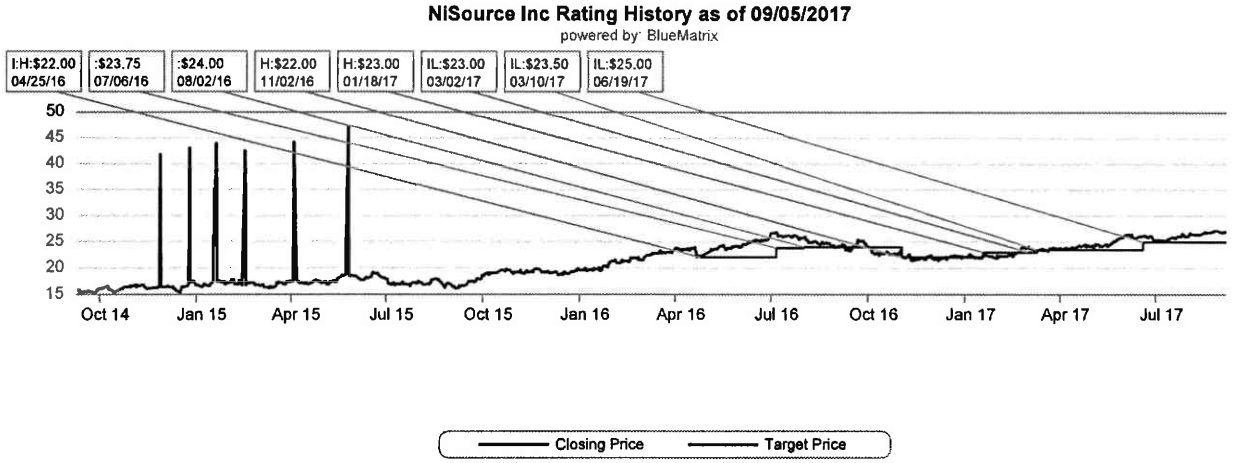
Price Charts



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CREDIT SUISSE

1 November 2017
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

INCREASE TARGET PRICE

Rating	**OUTPERFORM**
Price (01-Nov-17, US$)	26.58
Target price (US$)	(from 29.00) 30.00
52-week price range (US$)	27.23 - 21.41
Market cap(US$ m)	8,662

Target price is for 12 months.

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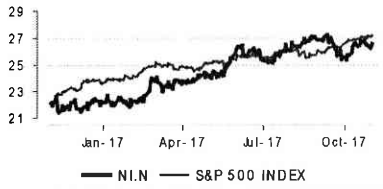
Sprinting Around the Track(ers)

- **New 2018 guidance is higher than expected with ongoing interest savings and favorable rate settlements and trackers:** NI introduced 2018 guidance of $1.26-$1.32 vs. consensus and CS $1.26, and 2018 capital investments of $1.7-$1.8B. We observe that the midpoint of 2018 guidance is 9% higher than the midpoint of unchanged 2017 guidance vs. the **maintained 5-7% annual earnings growth target that's now based off this higher 2018 forecast** (applied annually; not a CAGR). Drivers include favorable 2017 rate settlements and infrastructure trackers as well as ~100 bps interest savings from long-term debt term-outs.
- **Highlight potential tax reform risk, but we think it's low.** We assume about $125M of parent-level interest expense that provides a $44M tax shield ($0.13 eps; equivalent to about 10% of valuation in our sum-of-the-parts). With the House tax reform bill expected to be released this week, there is a risk of the potential loss of this shield as the package is debated in coming months, although we would expect the utilities industry to be exempt if such provisions are included. NI indicates the ability to mitigate a potential hit.
- **On M&A, we don't expect management to be keen** on a major acquisition (some investors have asked about the prospect for a VVC deal) in the near-term as the company continues to repair its balance sheet and work off goodwill remaining from Columbia Gas Transmission. Furthermore, NI's organic 8%-10% ratebase growth opportunity set creates a high hurdle to overcome versus high utility deal P/Es in recent years.
- **Valuation:** We are increasing our 2018-2019 estimates by $0.02-$0.03 to $1.29 and $1.37 for stronger tracker revenues and flatter O&M. Our TP increases $1 to $30 based on a 2019 peer P/E methodology. Risks include approval of Ohio infrastructure replacement program extension in 4Q17, execution of transmission projects, and tax reform.

Share price performance



On 01-Nov-2017 the S&P 500 INDEX closed at 2581.0
Daily Nov01, 2016 - Nov01, 2017, 11/01/16 = US$22.34

Quarterly EPS	Q1	Q2	Q3	Q4
2016A	0.56	0.08	0.07	0.33
2017E	0.71	0.10	0.07	0.30
2018E	0.78	0.13	0.03	0.36

Financial and valuation metrics

Year	12/16A	12/17E	12/18E	12/19E
EPS (CS adj.) (US$)	1.04	1.18	1.29	1.37
Prev. EPS (US$)	-	-	1.26	1.35
P/E (x)	25.5	22.5	20.6	19.4
P/E rel. (%)	115.9	112.9	115.2	119.2
Revenue (US$ m)	4,495.1	5,584.9	5,901.3	6,144.9
EBITDA (US$ m)	1,430.4	1,513.4	1,658.0	1,760.2
OCFPS (US$)	2.48	2.35	3.06	3.21
P/OCF (x)	8.9	11.3	8.7	8.3
EV/EBITDA (current)	11.6	10.9	10.0	9.4
Net debt (US$ m)	7,883	8,820	9,749	10,586
ROIC (%)	4.66	4.60	4.69	4.67

Number of shares (m)	325.87	IC (current, US$ m)	11,954.10
BV/share (Next Qtr., US$)	13.3	EV/IC (x)	1.4
Net debt (Next Qtr., US$ m)	7,885.8	Dividend (current, US$)	0.70
Net debt/tot eq (Next Qtr.,%)	188.2	Dividend yield (%)	0.66

Source: Company data, Thomson Reuters, Credit Suisse estimates

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Figure 1: NI Major Gas and Electric Utility Infrastructure Programs

	Authorized ROEs	Ratebase (YE 2016)	Total Identified Infrastructure Investments	Modernization Programs	Annual Modernization	Recovery Mechanism	Notes
Columbia Gas of Ohio	Settlement - not specified	$2.1B	$4.1B	$3.4B	$205-$260M	Tracked	Settlement for IRP 5-year extension through Dec 2022 filed 8/19 with approval expected by yearend 2017
Columbia Gas Pennsylvania	Settlement - not specified	$1.3B	$3.0B	$1.8B	$200-$250M	Ratecase (Fwd Test Year)	
NIPSCO Gas Base Rates	Filed for 10.7% on 46.02% equity	Filed for $1.5B based on yearend 2018				Base rates	First base rate request in 25 years filed 9/27/17. Inclusive of various tracker programs, seeks annual revenue increase of $143.5M, with ~$63M for higher depreciation rates and tracker roll-ins (i.e., no impact on earnings).
NIPSCO Gas TDSIC Trackers	9.90%	$915M	$4.5B	$3.9B	$135-$170M	Tracked	TDSIC 7 semi-annual tracker update filed 8/31 covering $58M capex 1H 2017. Final order expected yearend '17
Columbia Gas Massachusetts	9.55%	$669M	$1.4B	$0.7B	$70-$120M	Tracked	
Columbia Gas Virginia	Settlement - not specified	$609M	$0.6B	$0.3B	$30-$40M	Tracked	Base ratecase settlement approved in Mar 2017
Columbia Gas Kentucky	Settlement - not specified	$238M	$0.8B	$0.4B	$20-$45M	Tracked	
Columbia Gas Maryland	9.70%	$93M	$0.2B	$0.1B	$16-$21M	Tracked	Base ratecase settlement approved 9/19 with rates effective 10/27/17
NIPSCO Electric							
Infrastructure Modernization (20+ years)	9.975%		$4.2B	$1.3B	$135-$235M	Tracked - TDSIC	Seven-year ~$1.25B electric system modernization program in progress 2016-2022 at $175M-$225M/yr. Order received 10/31 for TDSIC 2 semi-annual tracker update covering ~$133M in investments from May 2016 through April 2017.
Environmental Compliance (~7 years) at Michgan City, RM Schahfer stations			$0.4B		$10-$90M	Tracked - FMCA	CCR $193M settlement filed In June with order expected by yearend 2017. ELG moved to a later proceeding.
Transmission Project I (100-mi, 345-kV Reynolds-Topeka; 2H18)			$350-$400M		$50-$120M	FERC Formula	In-service mid-2018
Transmission Project II (65-mi, 765-kV Greentown-Reynolds Partnership; 2H18)			NI: $175-$200M		$25-$50M	FERC Formula	In-service mid-2018
Integrated Resource Plan (IRP) - calls for retiring 50% of coal-fired generation fleet by end of 2023, including Bailly 7/8 (MISO approved closure by mid-2018) and R.M. Schahfer Units 17 and 18							Submitted Nov 2016 and awaiting IURC Staff final review.

Source: Company data, Credit Suisse estimates

- **Settlements and trackers also drive strong guidance.** Also driving the increase are favorable settlements reached earlier this year in various ratecases, including a 5-year extension for the Columbia Gas of Ohio Infrastructure Replacement Program (settlement filed 8/19 with a final order expected by yearend), Columbia Gas of Maryland base rates (settlement approved 9/19 with rates effective 10/27), NIPSCO Electric TDSIC semi-annual tracker order received 10/31, and NIPSCO Electric environmental upgrades (CCR settlement filed 6/9 with final order expected by yearend). This is the first time NI initiates full-year guidance on the 3Q call (normally a 4Q call event), with the new schedule in place after completing the spin of Columbia midstream assets. We also note that new rates for NIPSCO Gas's semi-annual tracker update went into effect 7/1 and a new update was filed in August to cover another $58M safety and reliability investment from 1H17. Similar tracker updates remain pending in Kentucky, Massachusetts, Maryland and Virginia for a total $160M additional tracked investment.
    - For 3Q17, NI reported on-going earnings of $0.07 in-line with our $0.07 and *cons. $0.07*. No change to '17 operating EPS guidance of $1.17-$1.20.

- **NIPSCO base rate request in September resets depreciation charges.** The $143.5M revenue increase would raise rates in two steps, the first in mid-2018 and the remainder in early 2019 with residential customers seeing average monthly bills rise from $50/mo to $60/mo (still among the lowest in the country). About $63M of the increase is for TDSIC tracker roll-in and higher depreciation, with no impact on net income. The reset of depreciation rates is the widely anticipated last step of a 2010 settlement that reduced depreciation temporarily in order to "rebuild" ratebase. Recall that NIPSCO Gas' ratebase had been previously depleted faster than normal as the result of a 1998 rate order that set a 5% depreciation rate. By 2010, ratebase had been depleted to only ~$300M vs. what would have been about $1B under a normal 2% depreciation rate. A 2010 settlement agreed that the fair value of ratebase was $725M (based on a 9.9% ROE minus 2.9% inflation) and reset depreciation down to a 1.6% rate for a nearly $76M annual cash rate reduction to rebuild ratebase over the next several years (this was $26M beyond a normal 2%). In 2013, another settlement renewed the lower depreciation rate through 2020 with an agreement to file a ratecase before Nov 2020. This Sept 27th filing satisfies this requirement early, with $1.5B projected ratebase for 2018 including capital investment from the utility's ongoing $800M TSIC infrastructure program. Note that the TDSIC program is only expected to be about 1/2 to 2/3 completed by 2018.
- **Equity finished for 2017.** NI issued 10.6M shares through its ATM program at the average price of $26.67 for $281M net proceeds, which fulfills the original plan to raise $200M-$300M equity in 2017.
- **Still on track for 1% net annual customer growth by 2020.** This is driven by a continued rebound in home construction and conversions to natural gas.
- **O&M to be held flat (or better) post-2017 despite increases this year.** Management continues to forecast flat operations and maintenance expense after 2017. Higher non-tracked O&M expense in 2017 ($110M through Sept year-over-year) is being driven by settlement commitments for safety, service, and reliability, but the company remains confident that its performance transformation plan will flatten this out going forward.
    - **Pension is fully funded now.** NI made a $277M pension contribution in 3Q17, earlier than originally planned in anticipation of rising interest rates to take advantage of lower upfront financing costs. As a result, the plan is 97% funded at this point, with no further contributions expected, an incremental $60M/year cash flow benefit.
- **2018E Capex forecast is a little higher than expected.** Positive on the margins with $1.7B-$1.8B forecast vs maintained longer-term guidance for $1.6B-$1.8B annually from 2019-2020. Continue to note short regulatory lag periods with 75% of capital starting recovery within 12 months or less.
- **NIPSCO Electric resource plan being considered; plans likely get more specific in late 2018.** The Integrated Resource Plan (IRP) is being reviewed by Indiana regulators, who are expected to provide feedback to the company for the next IRP in 2018. It calls for retiring 50% of the coal-fired generation fleet by end of 2023, including 500-MW Bailly 7/8 (MISO approved closure by May 31, 2018) and R.M. Schahfer Units 17 and 18. With interruptible load contracts in place, there is no rush to build replacement capacity until Schahfer retires in 2023 (likely replaced with a CCGT). However, with a three-year lead time (one year for filings and two for build), the company is likely to file more specific replacement plans around late-2018.
- **Potential hit from tax reform if the interest expense deduction is eliminated.** We assume about $125M of parent-level interest expense that provides a $44M tax shield ($0.13 eps; equivalent to about 10% of valuation in our sum-of-the-parts). With the House tax reform bill expected to be released this week, we highlight that there is some risk for NI given its high level of parent-level debt, although management has

indicated the ability to mitigate some of the potential hit should it arise. Early versions of the bill appear to incorporate at least a partial pullback of the net interest expense deduction, with a possible limitation to 30% of EBITDA with carryforwards for remaining "disallowed" deductibility. We expect major changes to this as the debate likely continues into 1Q18, at least and continue to view worst-case scenarios as unlikely. It is our understanding that at The Wall Street Journal's annual CFO Network event in June, House Ways and Means Committee Chairman Kevin Brady indicated to utility CFOs in attendance that the utility industry (along with real estate) would likely be exempted from any proposals to eliminate the tax deduction on interest expense. This would appear to apply to holding companies as well as operating utilities themselves. This is a positive sign of an apparently effective lobbying campaign, although we also note that Brady continues to support a 5-year phase-in for a Border Adjustment Tax, which may have some impact on utility equipment and fuel supply chains.

- For further information, see our **recent upgrade to Outperform from August**.
- **Valuation.** Our TP increases $1 to $30 based on a 2019 peer P/E methodology.

Figure 2: NI - Valuation

		BASE CASE			
	2019 EPS	Prem / Disc	Effective P/E	Equity	Equity / Sh
Electric	$0.56	1.5x	19.0x	$3,628	$10.70
Gas	$1.08	1.5x	22.5x	$8,259	$24.36
Other	($0.27)		19.0x	($1,764)	($5.20)
Total EPS	**$1.37**			**$10,124**	**$30.00**
Diluted Shares Outstanding					339.1
Dividend					$0.79
Implied Yield					2.6%
Current Yield					2.9%
Implied P/E					21.9x
Prem / (Disc) To Group					4.1%
Upside/ (Dow nside) to Current Price					12.5%

Source: Company data, Credit Suisse estimates

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Companies Mentioned *(Price as of 01-Nov-2017)*
NiSource Inc. (NI.N, $26.58, OUTPERFORM, TP $30.0)

Disclosure Appendix

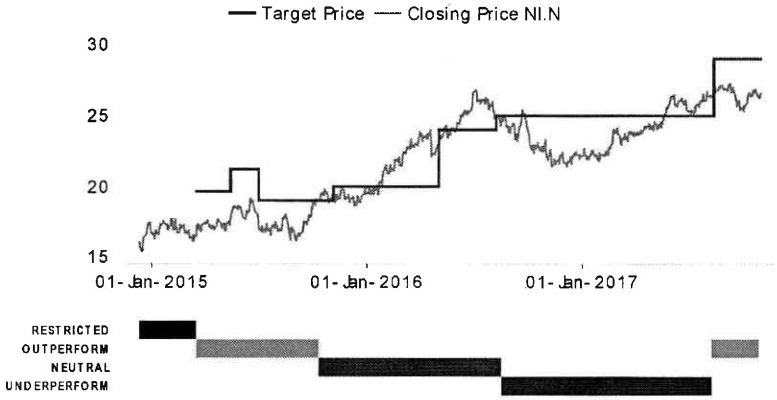
Analyst Certification

Michael Weinstein, Khanh Nguyen, CFA, Maheep Mandloi and Aric Li 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
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
27-Jun-17	25.88		*
14-Aug-17	26.64	29.00	O

** Asterisk signifies initiation or assumption of coverage.*



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Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.
Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.
**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European 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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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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Target Price and Rating
Valuation Methodology and Risks: (12 months) for NiSource Inc. (NI.N)

Method: We arrive at our $30 target price for NI by applying an effective 17.5x and 21.0x 2019 P/E multiple to the electric and gas utilities, respectively, representing a 1.5x premium to the peer group average to reflect the constructive regulatory environments in the jurisdictions that NI operates in. Our Outperform rating reflects a forecasted total return that is above the group average.

Risk: Risks to our $30 target price and Outperform rating for NI are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particularly in the non-decoupled jurisdictions, 7) weather risk, 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk

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1 November 2017

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UBS

Global Research

2 November 2017

First Read

NiSource Inc.

2018 EPS/Capex Guidance Above UBSe

Our Take: 2018 Guidance EPS/Capex Above UBSe

3Q17 Adj. EPS was inline, driven by recent rate increases in the electric and gas utility businesses, offset by increasing O&M expenses (up 12% YOY). On the call, NI provided FY18 EPS and capex guidance of $1.26-$1.32 (vs. USBe of $1.25) and $1.7B-$1.8B (vs. USBe of $1.65B), respectively. Management also guided for O&M expenses to remain flat in FY18. On the regulatory front, mgmt. stated that roughly half of the recently filed $143.5MM rate request in Indiana accounts for non-tracked and non-O&M items, implying that pre-tax bottom line will be impacted by ~$70MM. NI also settled their Maryland rate case during the quarter for $2.4 MM. NI is still waiting for regulatory approval on their extension filing for their infrastructure replacement program in Ohio and their electric CCR investments in Indiana. Both are expected to be settled by the end of 2017. NI also stated their two electric transmission projects are expected to come online in mid-2018.

Results: NI Reported 3Q17 Adj. EPS In-line with UBSe/Consensus

NI reported 3Q17 Adj. EPS of $0.07 vs. UBSe/Consensus of $0.07. Net revenues of $920MM were 2.4% above UBSe due to new rate cases. The gas distribution segment reported operating income of ($17.1MM) was down YOY and below UBSe of $6.6MM. The decrease can be attributed to higher O&M expenses, up 18% YOY and ~$30MM higher than UBSe, slightly offset by new rate cases. We note the O&M expense increase was primarily related to the base rate case commitment to invest in spending, training and modernization. The electric segment reported operating income of $129.0MM, up 23% YOY and 7.4% higher than UBSe, partially offsetting the decline in the gas distribution segment.

Adjusting Estimates

We are adjusting our estimates to reflect the 3Q17 results and 2018 guidance. We are adjusting our EPS estimates for 2017/2018/2019 to $1.20/$1.28/$1.33 from $1.19/$1.25/$1.35, respectively.

Valuation: Maintain Neutral and $27 PT

Our $27 price target is derived using an average of sum-of-the-parts EV/EBITDA ($27) and PE ($29) valuations which use comparable company multiples and DDM ($25).

Equities

Americas
Gas Utilities

12-month rating	**Neutral**
12m price target	**US$27.00**
Price	**US$26.94**

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

Trading data and key metrics	
52-wk range	US$27.23-21.41
Market cap.	US$9.07bn
Shares o/s	337m (COM)
Free float	99%
Avg. daily volume ('000)	558
Avg. daily value (m)	US$14.7
Common s/h equity (12/17E)	US$4.51bn
P/BV (12/17E)	2.0x
Net debt / EBITDA (12/17E)	5.7x

EPS (UBS, diluted) (US$)

	12/17E			
	From	**To**	**% ch**	**Cons.**
Q1	0.71	0.71	0	0.71
Q2	0.10	0.10	0	0.10
Q3	0.07	0.07	NM	0.07
Q4E	0.32	0.32	NM	0.33
12/17E	1.19	1.20	0	1.19
12/18E	1.25	1.28	2	1.27
12/19E	1.35	1.33	-1	1.35

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Highlights (US$m)	12/14	12/15	12/16	12/17E	12/18E	12/19E	12/20E	12/21E
Revenues	6,485	4,667	4,505	4,899	5,114	5,324	5,494	5,657
EBIT (UBS)	1,277	832	894	957	1,068	1,152	1,220	1,282
Net earnings (UBS)	526	299	351	395	429	452	480	499
EPS (UBS, diluted) (US$)	1.66	0.94	1.09	1.20	1.28	1.33	1.40	1.45
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)	(8,712)	(9,203)	(9,594)	(10,205)	(10,961)
Profitability/valuation	**12/14**	**12/15**	**12/16**	**12/17E**	**12/18E**	**12/19E**	**12/20E**	**12/21E**
EBIT margin %	19.7	17.8	19.8	19.5	20.9	21.6	22.2	22.7
ROIC (EBIT) %	9.3	7.0	8.9	8.5	8.8	8.9	8.8	8.6
EV/EBITDA (core) x	10.4	12.5	9.3	10.3	9.9	9.5	9.1	9.3
P/E (UBS, diluted) x	22.8	33.2	21.3	22.5	21.1	20.2	19.3	18.5
Equity FCF (UBS) yield %	(5.9)	1.0	(9.0)	(8.9)	(5.4)	(4.1)	(6.4)	(5.9)
Net dividend yield %	2.7	2.7	2.8	2.7	2.8	2.9	3.0	3.2

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$26.94 on 02 Nov 2017 18:12 EDT

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Figure 1: NI 3Q17 Results vs. UBSe

$ in millions	Actual 3Q17	UBSe 3Q17e	% variance	Actual 2Q17	QoQ % change
Financial Data					
Revenues	$920.2	$898.9	*2.4%*	$995.6	*(7.6%)*
Cost of Sales	($233.6)	($230.0)	*1.6%*	($276.8)	*(15.6%)*
Operating & Maintenance Expenses	($375.1)	($346.7)	*8.2%*	($386.0)	*(2.8%)*
Depreciation & Amortization	($143.0)	($141.0)	*1.4%*	($142.2)	*0.6%*
Total Expenses	($575.6)	($546.2)	*5.4%*	($584.4)	*(1.5%)*
Adj. EBITDA	$254.0	$263.8	*(3.7%)*	$276.6	*(8.2%)*
Interest Expense	($87.9)	($89.0)	*(1.2%)*	($87.7)	*0.2%*
Net Income	$23.3	$22.0	*6.1%*	$33.3	*(30.0%)*
EPS	$0.07	$0.07	*5.1%*	$0.10	*(31.3%)*
Diluted Shares Outstanding	$331.1	$327.9	*1.0%*	$325.1	*1.8%*
Dividend Per Share	$0.183	$0.183	*0.0%*	$0.175	*4.3%*
Segment Operating Income					
Gas Distribution	($17.1)	$6.6	*(357.5%)*	$55.7	*(130.7%)*
Electric Operations	$129.0	$120.2	*7.4%*	$84.3	*53.0%*
Total	$111.0	$122.8	*(9.6%)*	$134.4	*(17.4%)*
Operating Data					
Customers (000)					
Gas Utilities Customers	3,395.8	3,410.4	*(0.4%)*	3,405.7	*(0.3%)*
Electric Customers	467.0	466.7	*0.1%*	466.3	*0.1%*

Source: UBSe, Company Reports

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Figure 2: NI Summary Model

($ in Millions)	2015	2016	1Q17	2Q17	3Q17	4Q17e	2017e	2018e	2019e	2020e	2021e
Operating Data											
Customers (000)											
Gas Utilities Customers	3,404	3,428	3,439	3,406	3,396	3,459	3,459	3,491	3,523	3,549	3,575
Electric Customers	463	466	466	466	467	469	468	471	473	475	478
Income Statement											
Revenues	**$ 4,667.4**	**$ 4,504.9**	**$ 1,627.6**	**$ 995.6**	**$ 920.2**	**$ 1,355.9**	**$ 4,899.3**	**$ 5,114.2**	**$ 5,324.1**	**$ 5,494.1**	**$ 5,657.1**
Operating costs & expenses											
(Cost of Sales)	$ (1,643.7)	$ (1,390.2)	$ (552.3)	$ (276.8)	$ (233.6)	$ (458.3)	$ (1,521.0)	$ (1,587.7)	$ (1,652.9)	$ (1,703.8)	$ (1,752.0)
(Operating & Maintenance Expenses)	$ (1,411.1)	$ (1,429.1)	$ (409.0)	$ (386.0)	$ (375.1)	$ (418.6)	$ (1,588.7)	$ (1,599.7)	$ (1,622.6)	$ (1,645.5)	$ (1,668.2)
(Depreciation & Amortization)	$ (524.4)	$ (547.1)	$ (143.3)	$ (142.2)	$ (143.0)	$ (145.9)	$ (574.4)	$ (590.5)	$ (619.1)	$ (640.5)	$ (662.9)
Gain on the Sale of Assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
(Other Taxes)	$ (256.1)	$ (244.3)	$ (76.0)	$ (56.2)	$ (57.5)	$ (68.9)	$ (258.6)	$ (267.9)	$ (277.2)	$ (284.8)	$ (292.1)
Equity Earnings in Unconsolidated Affilates	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Operating Expenses	**$ (2,191.6)**	**$ (2,220.5)**	**$ (628.3)**	**$ (584.4)**	**$ (575.6)**	**$ (633.4)**	**$ (2,421.7)**	**$ (2,458.0)**	**$ (2,518.9)**	**$ (2,570.8)**	**$ (2,623.2)**
Operating Income By Division											
Gas Distribution	$ 567.8	$ 597.6	$ 363.8	$ 55.7	$ (17.1)	$ 199.9	$ 602.3	$ 677.3	$ 735.0	$ 777.9	$ 815.8
Transmission & Storage	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Electric Operations	$ 279.5	$ 302.3	$ 84.4	$ 84.3	$ 129.0	$ 66.5	$ 364.2	$ 401.2	$ 431.7	$ 460.1	$ 488.4
Corporate & Eliminations	$ (15.2)	$ (5.7)	$ (1.2)	$ (5.6)	$ (0.9)	$ (2.2)	$ (9.9)	$ (10.0)	$ (14.4)	$ (18.5)	$ (22.3)
Total Operating Income	**$ 832.1**	**$ 894.2**	**$ 447.0**	**$ 134.4**	**$ 111.0**	**$ 264.2**	**$ 956.6**	**$ 1,068.5**	**$ 1,152.3**	**$ 1,219.5**	**$ 1,281.9**
EBITDA	**$ 1,356.5**	**$ 1,441.3**	**$ 590.3**	**$ 276.6**	**$ 254.0**	**$ 410.1**	**$ 1,531.0**	**$ 1,659.0**	**$ 1,771.4**	**$ 1,860.0**	**$ 1,944.8**
Other expenses											
Interest Expense	$ (380.2)	$ (349.5)	$ (85.2)	$ (87.7)	$ (87.9)	$ (95.2)	$ (356.0)	$ (397.5)	$ (446.0)	$ (470.1)	$ (502.0)
Other Expense (Income)	$ 17.4	$ 1.5	$ 1.2	$ 3.8	$ 4.8	$ -	$ 9.8	$ -	$ -	$ -	$ -
Total Other Expenses	**$ (362.8)**	**$ (348.0)**	**$ (84.0)**	**$ (83.9)**	**$ (83.1)**	**$ (95.2)**	**$ (346.2)**	**$ (397.5)**	**$ (446.0)**	**$ (470.1)**	**$ (502.0)**
Income from Before Income Taxes	**$ 469.3**	**$ 546.2**	**$ 363.0**	**$ 50.5**	**$ 27.9**	**$ 169.0**	**$ 610.4**	**$ 671.0**	**$ 706.3**	**$ 749.4**	**$ 779.8**
Income Taxes	$ (170.5)	$ (195.0)	$ (132.4)	$ (17.2)	$ (4.6)	$ (61.7)	$ (215.9)	$ (241.5)	$ (254.3)	$ (269.8)	$ (280.7)
Effective Tax Rate	36.3%	35.7%	36.5%	34.1%	16.5%	36.5%	35.4%	36.0%	36.0%	36.0%	36.0%
Net income	**$ 298.8**	**$ 351.2**	**$ 230.6**	**$ 33.3**	**$ 23.3**	**$ 107.3**	**$ 394.5**	**$ 429.4**	**$ 452.0**	**$ 479.6**	**$ 499.1**
Diluted Weighted Avg Number of Common Ut	$ 318.2	$ 321.8	$ 323.7	$ 325.1	$ 331.1	$ 335.4	$ 328.8	$ 336.8	$ 338.9	$ 343.3	$ 346.4
EPS	**$ 0.94**	**$ 1.09**	**$ 0.71**	**$ 0.10**	**$ 0.07**	**$ 0.32**	**$ 1.20**	**$ 1.28**	**$ 1.33**	**$ 1.40**	**$ 1.44**
Balance Sheet Summary											
Assets											
Cash and Cash Equivalents	$ 15.5	$ 26.4	$ 28.4	$ 17.9	$ 19.3	$ 26.3	$ 26.3	$ 26.3	$ 26.3	$ 26.3	$ 26.3
Property, Plant and Equipment	$ 12,111.5	$ 13,068.0	$ 13,288.9	$ 13,669.3	$ 14,042.1	$ 14,329.8	$ 14,329.8	$ 15,489.3	$ 16,570.3	$ 17,629.7	$ 18,666.8
Investment in affiliates	$ 194.6	$ 91.8	$ 86.9	$ 84.2	$ 90.4	$ 90.4	$ 90.4	$ 90.4	$ 90.4	$ 90.4	$ 90.4
Total Assets	**$ 17,492.5**	**$ 18,691.9**	**$ 18,635.9**	**$ 18,822.7**	**$ 19,269.5**	**$ 19,564.2**	**$ 19,564.2**	**$ 20,723.7**	**$ 21,804.6**	**$ 22,864.1**	**$ 23,901.2**
Liabilities & Partners' Capital											
Long Term Debt	$ 5,948.5	$ 6,058.2	$ 5,590.7	$ 6,777.4	$ 7,518.6	$ 7,952.0	$ 7,952.0	$ 8,399.0	$ 8,754.5	$ 9,310.8	$ 9,998.7
Partners' Equity	$ 3,843.5	$ 4,071.2	$ 4,191.1	$ 4,122.8	$ 4,363.0	$ 4,509.1	$ 4,509.1	$ 4,935.9	$ 5,371.9	$ 5,820.0	$ 6,101.2
Total Liabilities & Partners' Capital	**$ 17,492.5**	**$ 18,691.9**	**$ 18,635.9**	**$ 18,822.7**	**$ 19,269.5**	**$ 19,564.2**	**$ 19,564.2**	**$ 20,723.7**	**$ 21,804.6**	**$ 22,864.1**	**$ 23,901.2**
Cash Flow Summary											
Changes in Working Capital	$ 146.9	$ (58.7)	$ (117.5)	$ 111.1	$ 39.0	$ -	$ 32.6	$ -	$ -	$ -	$ -
Net cash provided by operating activities	$ 1,456.8	$ 803.3	$ 411.1	$ 240.3	$ (121.8)	$ 314.9	$ 844.5	$ 1,261.4	$ 1,325.4	$ 1,120.2	$ 1,162.0
Capital Expenditues	$ (1,360.7)	$ (1,475.2)	$ (312.0)	$ (420.2)	$ (484.2)	$ (433.6)	$ (1,650.0)	$ (1,750.0)	$ (1,700.0)	$ (1,700.0)	$ (1,700.0)
Net cash provided by investing activities	$ 1,944.9	$ (1,582.9)	$ (344.2)	$ (447.0)	$ (514.9)	$ (433.6)	$ (1,739.7)	$ (1,750.0)	$ (1,700.0)	$ (1,700.0)	$ (1,700.0)
Net cash provided by financing activities	$ (3,411.6)	$ 790.5	$ (64.9)	$ 196.2	$ 638.1	$ 125.7	$ 895.1	$ 488.6	$ 374.6	$ 579.8	$ 538.0
Net change in cash	**$ (9.9)**	**$ 10.9**	**$ 2.0**	**$ (10.5)**	**$ 1.4**	**$ 7.0**	**$ (0.1)**	**$ 0.0**	**$ 0.0**	**$ (0.0)**	**$ -**
Dividend											
Dividend Per Share	**$ 0.84**	**$ 0.66**	**$ 0.18**	**$ 0.18**	**$ 0.18**	**$ 0.18**	**$ 0.72**	**$ 0.75**	**$ 0.79**	**$ 0.82**	**$ 0.86**
Payout Ratio	89.1%	60.5%	24.7%	170.8%	259.3%	57.0%	59.7%	58.8%	58.9%	58.7%	59.7%

Source: UBSe, Company Reports

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Forecast returns

Forecast price appreciation	+0.2%
Forecast dividend yield	2.8%
Forecast stock return	+3.0%
Market return assumption	6.6%
Forecast excess return	-3.6%

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 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%	26%
Neutral	FSR is between -6% and 6% of the MRA.	39%	23%
Sell	FSR is > 6% below the MRA.	16%	11%
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 2017.
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.

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UBS Securities LLC: Shneur Z. Gershuni, CFA; Aga Zmigrodzka, CFA.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	N/A	US$26.58	01 Nov 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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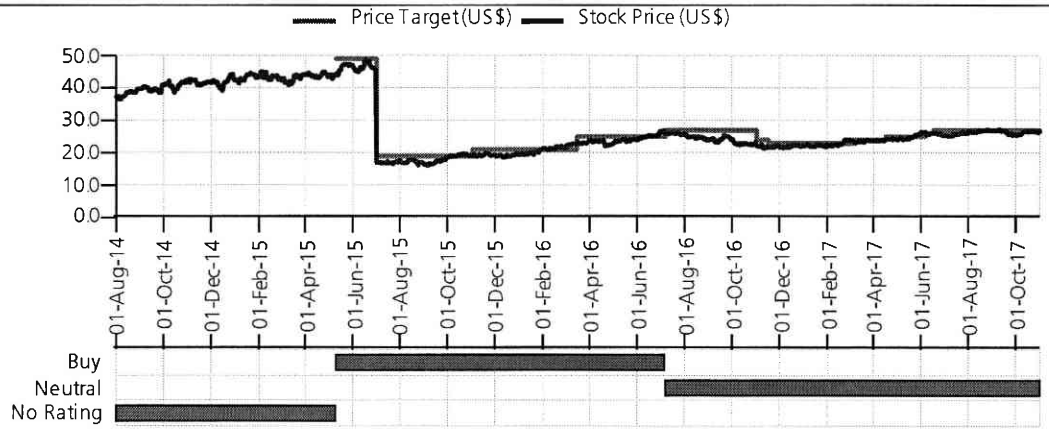
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2014-08-01	37.24	-	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
2017-03-06	23.58	24.0	Neutral
2017-04-17	24.02	25.0	Neutral
2017-06-07	26.44	26.0	Neutral
2017-06-17	26.06	27.0	Neutral

Source: UBS; as of 01 Nov 2017

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1 November 2017
Americas/United States
Equity Research
Natural Gas

NiSource Inc. (NI)

RESEARCH BULLETIN

Rating	**OUTPERFORM**
Price (31-Oct-17, US$)	26.37
Target price (US$)	29.00
52-week price range (US$)	27.23 - 21.41
Market cap(US$ m)	8,593

Target price is for 12 months.

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Quiet Quarter; Strong 2018 Guidance

Beats the Street on Introduced 2018 guidance: NI introduced 2018 guidance of $1.26-$1.32 vs. consensus and CS $1.26, and 2018 capital investments of $1.7-$1.8B. We observe that the midpoint of 2018 guidance is 9% higher than the midpoint of 2017 guidance vs. the maintained 5-7% annual earnings growth target (and that's not a CAGR).

- **NI reported 3Q17 on-going earnings of $0.07 in-line with our $0.07 and *cons. $0.07*.** No change to '17 operating EPS guidance of $1.17-$1.20, 2017 capital investments of $1.6-$1.7B. Reaffirm long-term earnings and dividend growth target of 5-7% annually through 2020, as well as $30B in long-term investment opportunities.
- **2018E Capex forecast is a little higher than expected.** Positive on the margins with $1.7B-$1.8B forecast vs maintained longer-term guidance for $1.6B-$1.8B annually from 2019-2020. Continue to note short regulatory lag periods with 75% of capital starting recovery within 12 months or less.
- **The NI call is today (Nov. 01) at 9:00 AM EST; Dial-In: (855) 219-9570 Conference ID: 95927276.**
- **Key topics for the call:** Issuance of 2018 guidance, NIPSCO Gas ratecase filing that includes depreciation reset and expected ~$1.5B 2018 ratebase, pending approval of Columbia Gas of Ohio ratecase settlement, recently approved settlement for Columbia Gas of Maryland, NIPSCO gas infrastructure tracker updates, NIPSCO Electric infrastructure tracker update approval yesterday (10/31), NIPSCO CCR environmental upgrades settlement approval expected by yearend, NIPSCO electric transmission project completion for mid-2018 (vs previous expectation for 2H18).

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1 November 2017

Companies Mentioned *(Price as of 31-Oct-2017)*
NiSource Inc. (NI.N, $26.37, OUTPERFORM, TP $29.0)

Disclosure Appendix

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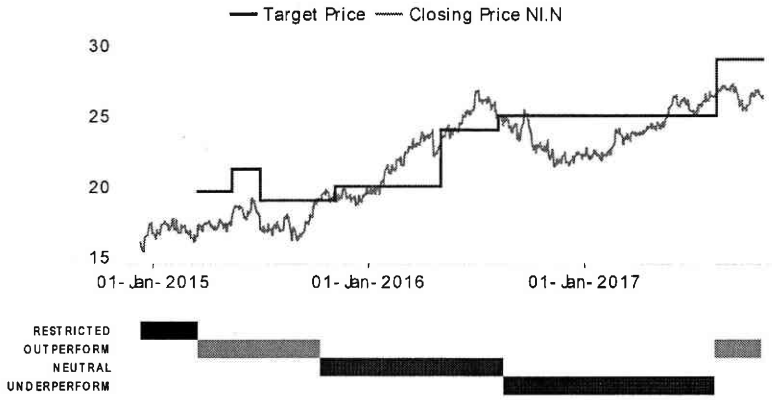
3-Year Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
31-Oct-14	16.53	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
27-Jun-17	25.88		*
14-Aug-17	26.64	29.00	O



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

Method: We arrive at our $29 target price for NI by applying an effective 17.5x and 21.0x 2019 P/E multiple to the electric and gas utilities, respectively, representing a 1.5x premium to the peer group average to reflect the constructive regulatory environments in the jurisdictions that NI operates in. Our Outperform rating reflects a forecasted total return that is above the group average.

Risk: Risks to our $29 target price and Outperform rating are: 1) ROE risk related to the ongoing ratecases 2) continued approvals relating to infrastructure replacement/grid modernization programs 3) commodity risk, 4) interest rate risk, 5) derivative risk, 6) load growth risk particulary in the non-decoupled jurisdictions, 7) weather risk, 8) environmental and climate change risk, 9) physical infrastructure and cybersecurity risk

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GUGGENHEIM

NiSource Inc.

NI – Out of the Gate with Horsepower - 2018 Guidance Introduced, and It's a Wide Runway

November 1, 2017

NI reported 3Q17 adjusted earnings of $0.07, in-line with our/consensus expectations of $0.07. 3Q17 performance was driven primarily by the impact of continued infrastructure investments earning solid returns as well as riders/ tracker updates throughout NI's jurisdiction, partially offset by increased operating expenses due to investments in safety reliability and employee training. Management reiterated 2017 earnings guidance of $1.17-$1.20, consistent with our estimate of $1.20. **NI also introduced 2018 earnings guidance with a range of $1.26-$1.32, representing 5-10% growth off the top-end of 2017 guidance and comparing to our estimate of $1.28, which we think could still prove conservative. We are raising our 2019/2020 EPS estimates to $1.38/$1.45 from $1.34/$1.38, as we have increased confidence in management's LT outlook stemming from our NDR (see our note HERE), further reinforced today with the introduction of 2018 guidance and incremental LT visibility.**

Management's 2018 guidance introduced with a higher and wider growth trajectory vs the 5-7% LT growth profile, largely driven by NI's well-executed financing program and infrastructure investments. NI refinanced $1bn in NT maturity debt with lower rate debt, expecting to generate interest expense savings over the next several years, with its weighted average interest rate now at 4.8% (down 60bps YoY). The ATM program was also well executed, issuing 10.6mm shares in 3Q17 for ~$280mm, closing out the program for the remainder of the year. Management continues to guide towards $200-$300mm in equity issuance from the ATM program over its LT outlook, consistent with our expectations of ~$210mm per year through 2020. The company remains committed to its financing initiatives, but did discuss the potential to be opportunistic around its ATM program if it were able to achieve its FFO/Debt targets faster than anticipated as well as the potential for refinancing opportunities that can be done in a cost effective way.

Further contributing to its 2018 outlook is an increased capital expenditure profile with the bottom end of the range moving higher, guiding towards $1.7bn-$1.8bn in spend vs. $1.6bn-$1.8bn previously. Management highlighted that its two large transmission investments (~$600mm) have accelerated into this year and are expected to be completed by 2H18, likely supporting faster earnings recognition – **something we pointed to in our recent NDR note.** The continued investments in its modernization and infrastructure program, largely recovered through trackers/riders, should continue to drive earnings growth over the LT. In our view, management continues to over-deliver, with conservative assumptions around rate case proceedings that have yet to be filed/approved and a well-defined capital program reflecting LT EPS growth of 5-7% that we estimate could be closer to 6-8%. **We comfortably model a 7% EPS CAGR through 2020, and continue to see potential to breach management's base level growth trajectory, especially post-2020 as generation spending through new gas-build could drive growth higher.**

NIPSCO Gas rate case continues to move along, likely reaching for a settlement. The overall ask in the case is not substantial – 2.2% increase annualized, so investors shouldn't get hung up on the optically high request, in our view - NI filed for a ~$144mm increase (+20%). **Continued on next page...**

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NI BUY

EARNINGS RELEASE

SHARE PRICE	$26.37
PRICE TARGET	$29.00

EPS ($) (FY Dec)	1Q	2Q	3Q	4Q	FY
2017	0.71	0.10	0.07	0.33E	1.20E
P/E					22.0x
2018	0.73E	0.11E	0.09E	0.35E	1.28E
Prior	—	—	—	*0.34E*	*1.27E*
P/E					20.6x
2019	0.80E	0.11E	0.09E	0.38E	1.38E
Prior	*0.79E*	—	*0.08E*	*0.37E*	*1.34E*
P/E					19.1x

Market Data	
52-Week Range	$21.17 - $27.29
Market Cap (M)	$8,593
Dividend	$0.70
Dividend Yield	2.7%
ADV (3 mo; 000)	1,920

See pages 3 - 4 for analyst certification and important disclosures.

The increase would represent the first NIPSCO gas rate case customers would face in over 8 years (first increase in over 20 years), translating into a ~2.2% increase on an annualized basis. NI can phase in the rate increase by bringing in/adjusting their depreciation rates. Further, when considering the D&A component and riders, the underlying ask is roughly half the amount actually requested. Overall, we do not expect the rate case to be overly contentious, as stakeholders are aware of the overall process and investments are largely related to safety and reliability. **An order is expected in 2H18, but we believe management will likely reach for a settlement, with stakeholder engagement appearing promising thus far.**

Valuation

We value NI as a regulated utility, arriving at our $29 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 17x, plus a three-turn premium to account for higher growth potential versus what is being reflected in fundamentals; (2) ~$22/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 a one-turn premium for higher growth; and (3) ~($3)/share for other adjustments for Corp and Other.

Risks

The primary risks on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

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Sell	2	0.60%	0	0.00%

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COMPANY UPDATE / ESTIMATE CHANGE

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company reaffirms 2017 expectations and initiates 2018 earnings guidance

Key Metrics

NI - NYSE (Price as of 10/31/17)		$26.37
Price Target		NA
52-Week Range		$21.27 - $27.29
Shares Outstanding (mm)		331.1
Market Cap. ($mm)		$8,731
3-Mo. Average Daily Volume		1,926,000
Institutional Ownership		81.0%
Debt/Total Capital		57.1%
ROE (ttm)		8.1%
Book Value/Share		$12.66
Price/Book Value		2.1x
Indicated Dividend / Yield	$0.70	2.7%
Dividend Cycle		Feb., May, Aug., Nov.

EPS FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2081E	Curr. 2018E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$1.09		$1.19	$1.26	$1.29
P/E	24.2x		22.2x		20.4
Payout	62%		59%		54%

Note: Figures exclude non-recurring items

Revenue ($mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	$3,102		$3,215	--	$3,365

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 $0.07 per share versus $0.06 per share in 2016's third quarter.** Earnings were in line with expectations. This was a seasonally light quarter for NI but another solid one, in our view. Through the first nine months of the year, NiSource has earned $0.88 per share compared to $0.76 per share. Results this year have benefitted from the company's long-term infrastructure investments, which have been supported by regulatory outcomes and established infrastructure trackers.
- **Management reaffirms 2017 earnings guidance.** NiSource continues to expect 2017 operating earnings to be in a range of $1.17 to $1.20 per share. In addition, the company initiated 2018 earnings guidance of $1.26 to $1.32 per share. We are maintaining our 2017 EPS estimate of $1.19 and raising our 2018 estimate to $1.29. In addition, NiSource expects to grow both its earnings and dividends by 5% to 7% annually through 2020.
- **NI files rate case in Indiana.** In September NIPSCO filed its first base rate case in more than 25 years. Inclusive of various tracker programs, the case seeks an annual revenue increase of $143.4 million. A final rate order is expected in the second half of 2018.
- **Company continuing to make investments.** NI still expects to make $1.6 to $1.7 billion in planned utility infrastructure investments in 2017. Next year's projected capital spending is anticipated to be between $1.7 to $1.8 billion. In addition, NI expects to invest between $1.6 to $1.8 billion in both 2019 and 2020.
- **We have a Neutral rating on NiSource due to valuation.** However, we continue to believe the company has a positive long-term fundamental outlook. We believe NI's ongoing infrastructure investments will allow for consistent earnings and dividend growth and would thus maintain positions in the stock.

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.

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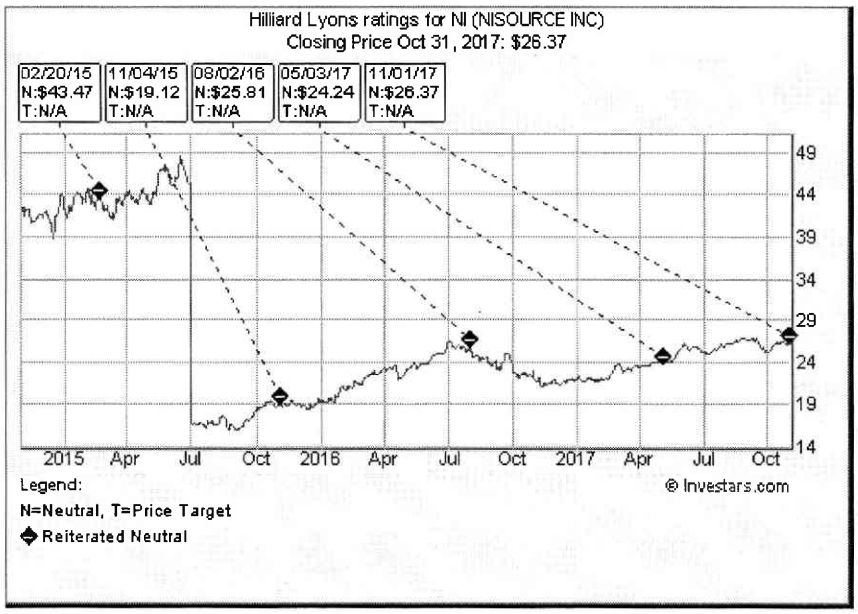
Buy - We believe the stock has significant total return potential in the coming 12 months.
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
Neutral - We believe 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%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

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FLASH NOTE

Company Update

USA | Energy | Natural Gas

November 1, 2017

Jefferies

NiSource Inc. (NI)

Me, Myself, and NI

HOLD
Bloomberg NYSE: NI
Price target $24.00
Price $26.37^

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

EQUITY RESEARCH AMERICAS

Key Takeaway

NI realized 3Q non-GAAP EPS of 7¢ (ex-items), matching our 7¢ est. & the 7¢ Street mean forecast.; EBITDA of $259mm fell shy of our $272mm projection. While EBIT missed JEFe by ~12%, chiefly due to Gas Utility O&M cost escalation, it was offset by below-forecast interest & tax expense, driving in-line EPS. Mgmt affirmed 2017 non-GAAP EPS guidance of $1.17-$1.20 & initiated 2018 EPS of $1.26-1.32. A ~$315mm 3Q pension contribution seems to have been made.

Financial highlights. NI realized recurring diluted 3Q EPS (non-GAAP) of 7¢, in-line with both our 7¢ forecast and the 7¢ Street mean estimate. While EBIT fell ~12% short of our projection, primarily due to weak Gas Distribution performance resulting from a sharper than anticipated (~18% y/y) rise in O&M expense, below-forecast interest expense and taxes offset to deliver an in-line EPS. We note that the 3Q Gas Distribution operating loss was its first seasonal loss since 3Q13 and look to the call for additional color on cost drivers and mgmt's expectations. Separately, NI raised ~$290mm in equity during the quarter, bringing its YTD total to ~$330mm, in-line with the $250-$375mm multi-year issuance guidance (ATM & DRIP) offered at its spring Analyst Day. Finally, we note a significant (~$315mm) 3Q pension contribution appears to have been made, which far exceeds the ~$35mm total planned 2017 pension & post-retirement contributions outlined in the 10-K and we await the call for color on the drivers which prompted this action.

Gas Distribution. While gross margin was up $20mm y/y, O&M increased $38.5mm y/y, leading to the segment's first 3Q operating loss since 3Q13. Northern Indiana Public Service Company (NIPSCO) filed a gas base rate case with the Indiana Utility Regulatory Commission (IURC) on 9.21, seeking to secure NIPSCO's first natural gas base rate increase in more than 25 years which, if approved, would secure an annual revenue increase of $143.5mm; an order is expected in 2H18. Columbia Gas of Ohio filed a settlement agreement in its pending application for a 5-year extension of its Infrastructure Replacement Program (currently authorized through 12.31.17); an order is expected by YE 2017. New rates in accordance with approval of Columbia Gas of Maryland's base rate case settlement went into effect on 10.27 increasing annual revenue by $2.4mm. NIPSCO filed the latest update on its 7-year $850mm gas infrastructure modernization program on 8.31, covering ~$58mm of investments made in 1H17; an order is expected in 4Q17. Additionally, Columbia Gas of Kentucky, Columbia Gas of Massachusetts, Columbia Gas of Maryland, and Columbia Gas of Virginia each filed updates to their infrastructure tracker mechanisms covering ~$160mm in utility capital investments.

Electric. Segment EBIT beat our estimate by 7.7% due to robust top-line revenue growth. NIPSCO continued recovering costs under its 7-year $1.25B infrastructure modernization program as on 10.31 the IURC approved NIPSCO's latest request covering $133mm in investment made between 5.16 to 4.17. Its two electric transmission projects remain on schedule, with 2H18 in-service dates affirmed & planned environmental upgrades at its Michigan City Unit 12 and RM Schahfer Units 14 & 15 await IURC approval.

2018 guidance. NI affirmed its 2017 EPS (non-GAAP) guidance of $1.17-1.20 ($1.19 Street mean) and initiated 2018 non-GAAP EPS guidance of $1.26-1.32 ($1.26 Street mean), with respective 2017 & 2018 capex targeted at ~$1.6-$1.7B & $1.7-$1.8B. Mgmt also maintained plans outlined at its Investor Day in March 2017 to grow non-GAAP EPS and DPS by 5-7% annually through 2020 with $1.6-$1.8B of expected annual capex in its utility infrastructure programs through 2020. NI noted it continues a commitment to maintaining its investment grade credit ratings and as of 9.30, it retained $1.28B in net available liquidity.

Dividend declared. On August 8th, NI declared a quarterly cash dividend of 17.5¢ (70¢ annualized), up ~6% y/y and flat q/q; the dividend is payable on 11.20 to shareholders of record as of 10.31.

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Exhibit 1: NI 3Q17 Earnings Results Review

Operating Income by Division	Actual 3Q17A	JEFe 3Q17E		Year-over-Year 3Q16A	
Gas Distribution	($17.1)	$10.6	NM	$5.1	NM
Electric Operations	$129.0	$119.8	7.7%	$104.6	23.3%
Corporate, Other, and Eliminations	($0.9)	($4.5)	-79.9%	($3.0)	-70.0%
Total Operating Income	**$111.0**	**$125.9**	**-11.8%**	**$106.7**	**4.0%**
Depreciation	($143.0)	($143.4)	-0.3%	($136.3)	4.9%
Other Income / (Expenses)	$4.8	$3.0	NM	$3.5	NM
Interest Expense	($87.9)	($92.2)	-4.6%	($85.0)	3.4%
Income Tax Benefit (Expense)	($4.6)	($12.5)	-63.2%	($5.9)	-22.0%
Recurring Net Income	**$23.3**	**$24.2**	**-3.8%**	**$19.3**	**20.7%**
Avg Diluted Shares Outstanding	332.4	328.3	1.3%	323.9	2.6%
EPS (Non-GAAP, Diluted)	**$0.07**	**$0.07**	**-5.0%**	**$0.06**	**17.6%**
EBITDA ($MM)	**$259**	**$272**	**-5.0%**	**$247**	**5.0%**
Capex & Affiliate Investments	**$484**	**$474**	**2.3%**	**$411**	**17.8%**

Source: NiSource, Jefferies

Note: Non-GAAP results exclude non-operational items such as unrealized fluctuations in the cash surrender value of company-owned life insurance (COLI), weather normalization effects and plant retirement costs.

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

Recommendation Published	, 08:54 ET. November 1, 2017
Recommendation Distributed	, 08:54 ET. November 1, 2017

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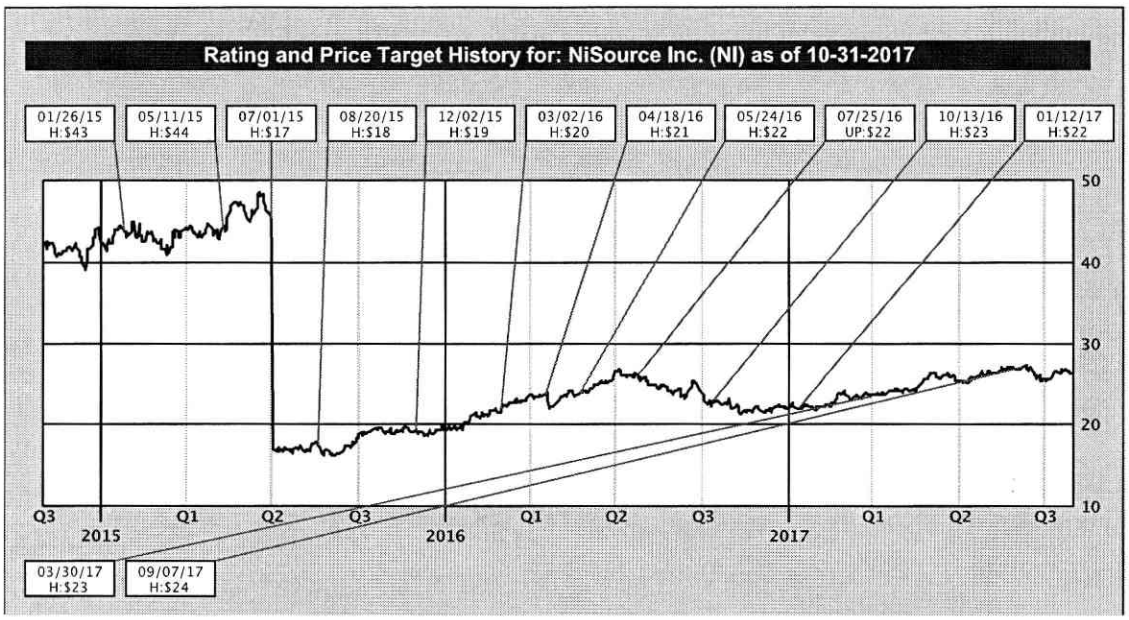

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HOLD	839	41.07%	164	19.55%	20	2.38%
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Capital Markets

Alert

November 1, 2017

Energy: Multi-Utilities

NYSE: NI

NiSource Inc.

NI - ALERT: 3Q17 Earnings Results in Line, 2018 Guidance Favorable

Paul T. Ridzon / (216) 689-0270 / pridzon@key.com
John Barta / (216) 689-3386 / john_j_barta@key.com

NI reported results that were aligned with expectations. Newly introduced 2018 guidance midpoint is above views.

October 31, 2017 Close: $26.37
3Q17 Ongoing EPS: $0.07 vs. $0.06 results in 3Q16 / Consensus of $0.07 / KBCM of $0.07. NI weather normalizes its ongoing EPS; weather was roughly a half cent negative in the quarter.
Initial Take: We expect a positive response to in line results and 2018 guidance, which is above views at the midpoint.
2017 EPS Estimate: $1.20 (Consensus: $1.19).
2018 EPS Estimate: $1.28 (Consensus: $1.26).

Guidance: NiSource reaffirmed 2017 guidance of $1.17-$1.20. NI also introduced 2108 guidance of $1.26-$1.32 per share.

Highlights:

- Results were in line with views.
- 2017 CapEx is on track with its $1.6 billion-$1.7 billion goal. 2018 CapEx is forecast at $1.7 billion-$1.8 billion.
- Gas operations operating earnings fell to a loss of $17.1 million from positive $5.1 million.
  - Revenues rose $20.4 million, driven by new rates ($16 million), $2.9 million in higher usage, and $1.3 million in customer growth.
  - Expenses rose $42.6 million due to employee costs primarily related to pension expense ($25.4 million), outside services ($8.4 million), and depreciation on higher plant balances ($3.6 million).
- Electric operating earnings rose to $129.0 million from $24.4 million .
  - Revenues increased $34.0 million on new rates ($22.4 million), transmission projects ($7.4 million), and trackers, which were offset in expenses ($5.4 million).
  - Expenses rose $9.6 million on tracker items ($5.4 million) and increased employee costs ($4.0 million).
  - Retail electric sales fell 3.7% (Residential -12.7%, Commercial -5.4%, and Industrial +1.5%) as cooling degrees fell 21% to 5% below normal.
- The Corporate segment reported a 3Q operating loss of $0.9 million vs. a loss of $3.0 million, driven by employee and administrative costs.
- Other income expenses rose $1.6 million.

9:00 a.m. ET Conference Call #: 855-219-9570; Passcode: 95927276

We will be focused on:

- Regulatory update
- 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.

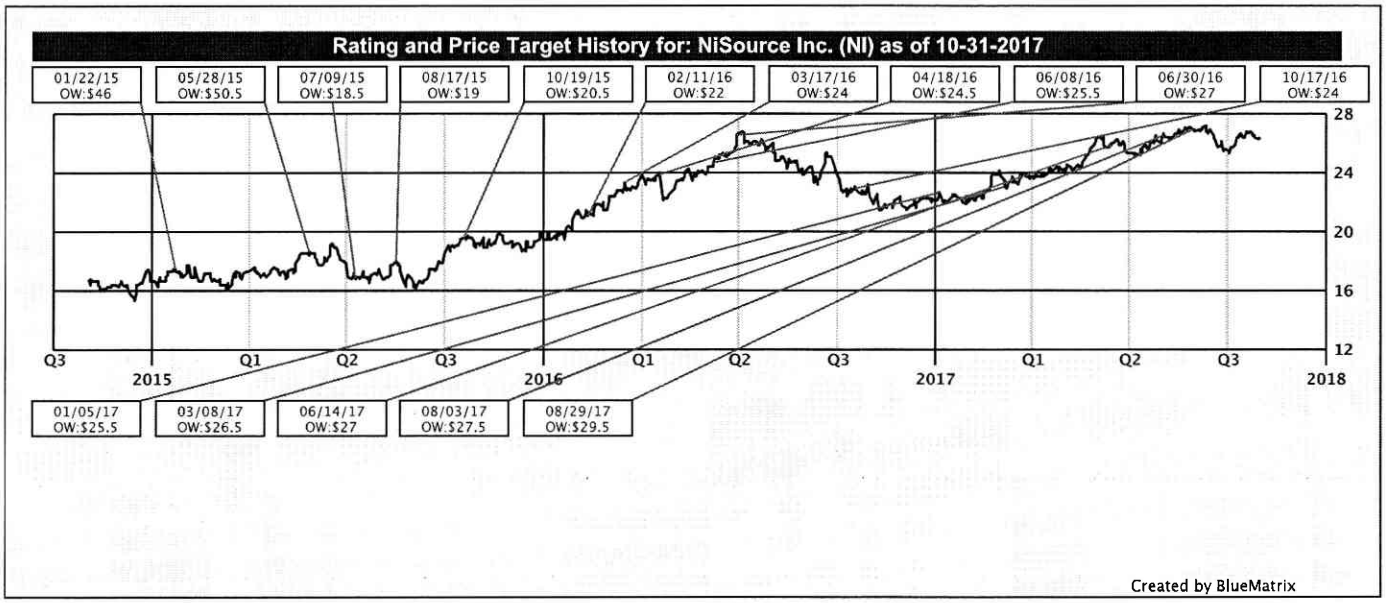
During the past 12 months, NiSource Inc. has been a client of the firm or its affiliates for non-securities related services.

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

Reg A/C Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

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]	299	44.17	68	22.74	Overweight [OW]	29	46.03	18	62.07
Sector Weight [SW]	367	54.21	51	13.90	Sector Weight [SW]	34	53.97	16	47.06
Underweight [UW]	11	1.62	1	9.09	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.

Other Disclosures

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
26.58 USD	25.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

NiSource Initiates Strong 2018 Earnings, Capital Expenditure Guidance; Increasing FVE To $25

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

Research as of 01 Nov 2017
Estimates as of 01 Nov 2017
Pricing data as of 01 Nov 2017 15:16
Rating updated as of 01 Nov 2017 15:58

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

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Analyst Note 01 Nov 2017

We are increasing our fair value estimate to $25 per share from $23 per share after NiSource initiated a 2018 earnings guidance range with a midpoint above our estimate and indicated this would be the base for its ongoing guidance of 5%-7% annual earnings growth.

In addition, management is targeting 2018 capital expenditures of $1.7 billion to $1.8 billion, also putting our $1.7 billion estimate at the low end of its guidance range. Based on the increase in the 2018 investment plan, we increased our capital expenditure estimate by approximately $50 million per year through 2021. Our fair value estimate increase is primarily driven by our increased capital expenditure assumptions over the next five years in addition to time-value appreciation since our last update.

NiSource established a 2018 earnings guidance range of $1.26-$1.32 per share, putting our estimate of $1.27 per share at the low end of the guidance. We have increased our 2018 EPS estimate to $1.30, based on the earnings guidance and increasing our capital expenditure forecast consistent with the company's capital expenditure plan.

We are also increasing our annual dividend growth rate assumption to 7% from 6%. This is the top end of NiSource's guidance of 5%-7% through 2020, but would result in a payout ratio below management's target of 60%-70% based on the higher earnings guidance. We expect NiSource's board of directors to increase the 2018 common dividend by 7%, to an annual rate of $0.75 per share, effective with the 2018 first-quarter which we expect will be declared in late January.

NiSource reported 2017 third-quarter operating earnings of $0.07 per share versus $0.06 per share in the same period last year. The third quarter is typically the weakest period

Vital Statistics

Market Cap (USD Mil)	8,593
52-Week High (USD)	27.29
52-Week Low (USD)	21.17
52-Week Total Return %	16.4
YTD Total Return %	22.3
Last Fiscal Year End	31 Dec 2016
5-Yr Forward Revenue CAGR %	5.3
5-Yr Forward EPS CAGR %	7.5
Price/Fair Value	1.15

Valuation Summary and Forecasts

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Price/Earnings	20.8	20.3	*22.2*	*20.4*
EV/EBITDA	9.7	10.6	*10.7*	*10.2*
EV/EBIT	16.1	17.3	*17.0*	*16.4*
Free Cash Flow Yield %	-3.2	-9.4	*0.4*	*-12.8*
Dividend Yield %	4.2	2.9	*2.7*	*3.0*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Revenue	4,652	4,493	*4,815*	*5,000*
Revenue YoY %	-28.1	-3.4	*7.2*	*3.8*
EBIT	802	857	*990*	*1,027*
EBIT YoY %	-34.9	7.0	*15.5*	*3.7*
Net Income, Adjusted	299	351	*395*	*445*
Net Income YoY %	-44.0	17.4	*12.4*	*12.7*
Diluted EPS	0.94	1.09	*1.19*	*1.29*
Diluted EPS YoY %	-44.5	16.1	*9.7*	*8.7*
Free Cash Flow	3,741	-602	*-26*	*-947*
Free Cash Flow YoY %	-721.3	-116.1	*-95.7*	*NM*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, 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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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
26.58 USD	25.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

with NiSource deriving over 70% of operating earnings from its natural gas distribution utilities. NiSource also reaffirmed 2017 earnings guidance of $1.17-$1.20 per share and capital expenditures of $1.6 billion-$1.7 billion.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2014	2015	2016	Forecast 2017	Forecast 2018	5-Year Proj. CAGR
Revenue	-7.4	14.4	-28.1	-3.4	7.2	3.8	5.3
EBIT	-8.7	9.3	-34.9	7.0	15.5	3.7	8.9
EBITDA	-6.2	7.8	-27.8	5.9	11.7	4.8	7.8
Net Income	-10.8	8.1	-44.0	17.4	12.4	12.7	11.3
Diluted EPS	-11.7	7.0	-44.5	16.1	9.7	8.7	7.5
Earnings Before Interest, after Tax	-10.4	3.6	-35.0	6.8	47.4	-76.6	10.3
Free Cash Flow	—	58.7	-721.3	-116.1	-95.7	NM	—

Profitability	3-Year Hist. Avg	2014	2015	2016	2017	2018	5-Year Proj. Avg
Operating Margin %	18.4	19.0	17.2	19.1	20.6	20.5	21.4
EBITDA Margin %	29.4	28.4	28.5	31.3	32.6	32.9	33.8
Net Margin %	7.5	8.3	6.4	7.8	8.2	8.9	9.4
Free Cash Flow Margin %	19.2	-9.3	80.4	-13.4	-0.5	-18.9	-5.3
ROIC %	6.2	7.9	5.5	5.4	7.2	1.5	5.3
Adjusted ROIC %	7.3	9.5	6.3	6.0	8.1	1.7	5.8
Return on Assets %	1.8	2.2	1.4	1.8	2.0	2.1	2.2
Return on Equity %	7.6	8.8	5.7	8.4	9.2	9.5	9.6

Leverage	3-Year Hist. Avg	2014	2015	2016	2017	2018	5-Year Proj. Avg
Debt/Capital	0.64	0.62	0.64	0.66	0.67	0.66	0.65
Total Debt/EBITDA	5.44	5.45	5.24	5.63	5.70	5.78	5.60
EBITDA/Interest Expense	3.88	4.14	3.49	4.02	4.14	3.96	4.10

Valuation Summary and Forecasts

	2015	2016	2017(E)	2018(E)
Price/Fair Value	1.08	1.05	—	—
Price/Earnings	20.8	20.3	22.2	20.4
EV/EBITDA	9.7	10.6	10.7	10.2
EV/EBIT	16.1	17.3	17.0	16.4
Free Cash Flow Yield %	-3.2	-9.4	0.4	-12.8
Dividend Yield %	4.2	2.9	2.7	3.0

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	5.9
Long-Run Tax Rate %	28.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	71.4
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-1,177	-7.5	-3.49
Present Value Stage II	2,426	15.4	7.19
Present Value Stage III	14,531	92.1	43.07
Total Firm Value	**15,780**	**100.0**	**46.77**
Cash and Equivalents	40	—	0.12
Debt	-7,909	—	-23.44
Preferred Stock	—	—	—
Other Adjustments	250	—	0.74
Equity Value	**8,160**	—	**24.19**
Projected Diluted Shares	337		
Fair Value per Share (USD)	**25.00**		

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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26.58 USD	25.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December	2014	2015	2016	Forecast 2017	Forecast 2018
Revenue	**6,471**	**4,652**	**4,493**	***4,815***	***5,000***
Cost of Goods Sold	2,224	1,644	1,390	*1,510*	*1,567*
Gross Profit	**4,246**	**3,008**	**3,102**	***3,306***	***3,433***
Selling, General & Administrative Expenses	2,136	1,426	1,454	*1,498*	*1,542*
Other Operating Expense (Income)	320	256	244	*240*	*247*
Other Operating Expense (Income)	-47	—	—	*10*	*10*
Depreciation & Amortization (if reported separately)	606	524	547	*568*	*607*
Operating Income (ex charges)	**1,231**	**802**	**857**	***990***	***1,027***
Restructuring & Other Cash Charges	-32	2	-1	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**1,262**	**800**	**858**	***990***	***1,027***
Interest Expense	444	380	350	*379*	*415*
Interest Income	22	-80	2	*6*	*6*
Pre-Tax Income	**841**	**340**	**510**	***617***	***618***
Income Tax Expense	310	141	182	*222*	*173*
Other After-Tax Cash Gains (Losses)	-1	104	3	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	-16	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**530**	**287**	**332**	***395***	***445***
Weighted Average Diluted Shares Outstanding	317	320	324	*331*	*344*
Diluted Earnings Per Share	**1.67**	**0.90**	**1.02**	***1.19***	***1.29***
Adjusted Net Income	534	299	351	*395*	*445*
Diluted Earnings Per Share (Adjusted)	**1.69**	**0.94**	**1.09**	***1.19***	***1.29***
Dividends Per Common Share	1.02	0.83	0.64	*0.70*	*0.75*
EBITDA	**1,868**	**1,324**	**1,405**	***1,569***	***1,644***
Adjusted EBITDA	**1,836**	**1,326**	**1,404**	***1,569***	***1,644***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2014	2015	2016	Forecast 2017	Forecast 2018
Cash and Equivalents	50	45	36	*814*	*110*
Investments	—	—	—	—	—
Accounts Receivable	921	660	847	*857*	*890*
Inventory	586	537	494	*496*	*515*
Deferred Tax Assets (Current)	214	—	—	—	—
Other Short Term Assets	696	335	385	*350*	*375*
Current Assets	**2,467**	**1,577**	**1,762**	***2,518***	***1,891***
Net Property Plant, and Equipment	11,057	12,112	13,068	*14,200*	*15,342*
Goodwill	1,691	1,691	1,691	*1,691*	*1,691*
Other Intangibles	265	254	243	*232*	*221*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,545	1,600	1,637	*1,985*	*2,085*
Long-Term Non-Operating Assets	7,843	260	292	*292*	*292*
Total Assets	**24,866**	**17,493**	**18,692**	***20,917***	***21,521***
Accounts Payable	610	433	539	*579*	*601*
Short-Term Debt	1,844	1,001	1,851	*250*	*250*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,511	1,223	1,062	*1,300*	*1,400*
Current Liabilities	**3,964**	**2,658**	**3,452**	***2,129***	***2,251***
Long-Term Debt	8,156	5,949	6,058	*8,700*	*9,250*
Deferred Tax Liabilities (Long-Term)	2,380	2,365	2,528	*2,953*	*2,453*
Other Long-Term Operating Liabilities	2,996	1,350	1,265	*1,350*	*1,350*
Long-Term Non-Operating Liabilities	1,195	1,327	1,317	*1,317*	*1,317*
Total Liabilities	**18,691**	**13,649**	**14,621**	***16,449***	***16,621***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,788	5,078	5,154	*5,404*	*5,654*
Retained Earnings (Deficit)	1,494	-1,123	-972	*-810*	*-622*
(Treasury Stock)	-59	-79	-89	*-89*	*-89*
Other Equity	-51	-35	-25	*-41*	*-46*
Shareholder's Equity	**6,175**	**3,844**	**4,071**	***4,468***	***4,900***
Minority Interest	—	—	—	—	—
Total Equity	**6,175**	**3,844**	**4,071**	***4,468***	***4,900***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in December

	2014	2015	2016	Forecast 2017	Forecast 2018
Net Income	530	302	332	*395*	*445*
Depreciation	606	524	547	*568*	*607*
Amortization	—	—	—	*11*	*11*
Stock-Based Compensation	72	51	47	*37*	*39*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	299	135	182	*425*	*-500*
Other Non-Cash Adjustments	-50	-11	-12	—	—
(Increase) Decrease in Accounts Receivable	-63	262	-188	*-10*	*-33*
(Increase) Decrease in Inventory	-120	47	39	*-2*	*-19*
Change in Other Short-Term Assets	9	43	-251	*35*	*-25*
Increase (Decrease) in Accounts Payable	38	-191	109	*40*	*22*
Change in Other Short-Term Liabilities	—	—	—	*238*	*100*
Cash From Operations	**1,321**	**1,163**	**804**	***1,736***	***646***
(Capital Expenditures)	-2,029	-1,361	-1,475	*-1,700*	*-1,749*
Net (Acquisitions), Asset Sales, and Disposals	13	5	—	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-101	3,731	-108	*-264*	*-100*
Cash From Investing	**-2,117**	**2,375**	**-1,583**	***-1,964***	***-1,849***
Common Stock Issuance (or Repurchase)	20	2	14	*250*	*250*
Common Stock (Dividends)	-321	-263	-206	*-232*	*-257*
Short-Term Debt Issuance (or Retirement)	878	-936	921	*-1,601*	—
Long-Term Debt Issuance (or Retirement)	219	-2,186	62	*2,642*	*550*
Other Financing Cash Flows	—	-137	—	*-37*	*-39*
Cash From Financing	**796**	**-3,520**	**791**	***1,021***	***504***
Exchange Rates, Discontinued Ops, etc. (net)	-1	-28	-1	*-16*	*-5*
Net Change in Cash	**-1**	**-10**	**11**	***778***	***-704***

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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

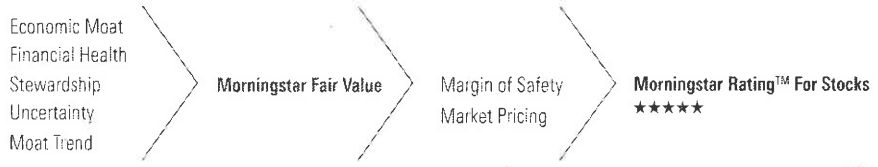
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling 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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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.

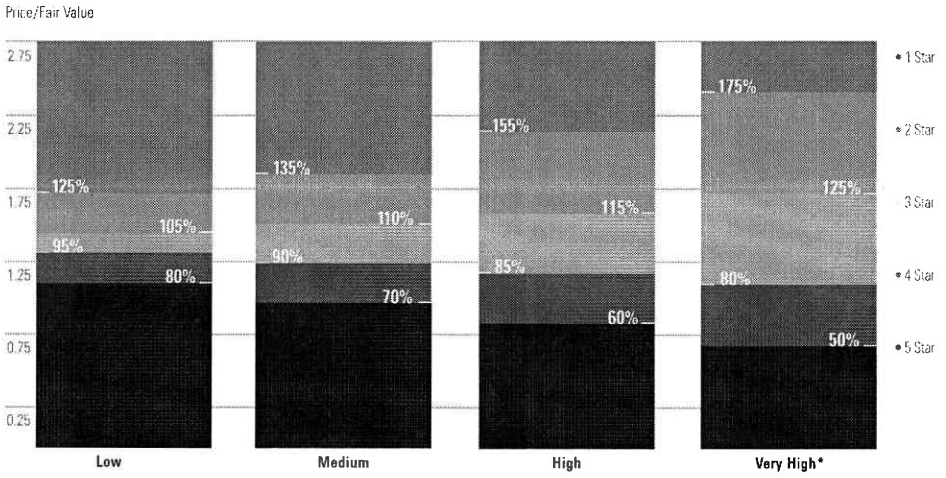
Four Stars ★★★★

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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Research Methodology for Valuing Companies

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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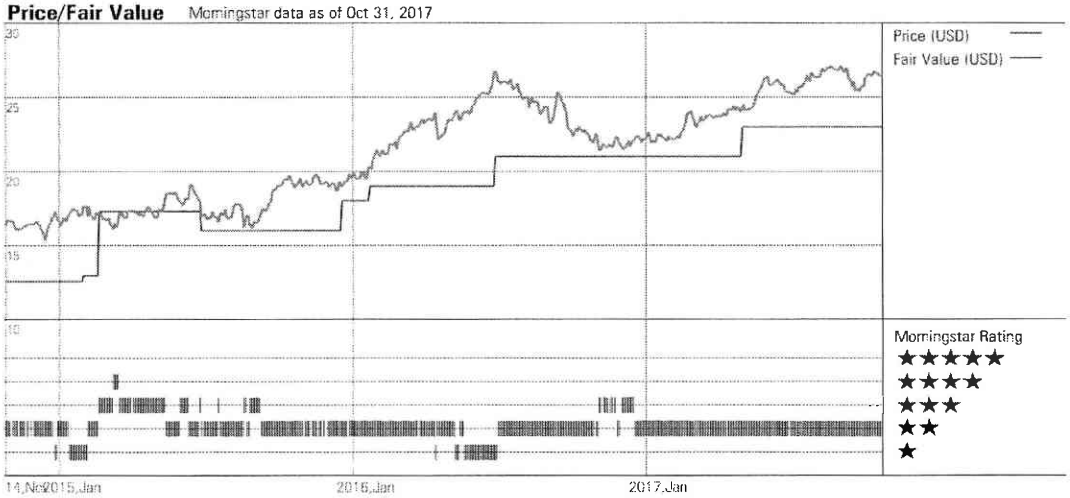
Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
26.58 USD	25.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Price/Fair Value Morningstar data as of Oct 31, 2017



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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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November 2, 2017 | Equity Research

WELLS FARGO SECURITIES

November 1st Earnings Call Takeaways

Comments On ALE, BEP, NI, PPL, SO & WR

Utilities

USD	Rating		Price	FY EPS 2017E		FY EPS 2018E		Price Target	
Ticker	Curr.	Prior	11/01/17	Curr.	Prior	Curr.	Prior	To	From
Natural Gas LDCs, Market Weight									
NI	1V	NC	26.58	1.18	NC	1.28	1.25	$30	NC
Regulated Electric Utilities, Market Weight									
ALE	2	NC	77.32	3.28	3.36	3.64	NC	$80	$77
PPL	2	NC	36.94	2.18	2.15	2.30	NC	$41	NC
SO	2	NC	52.08	2.95	NC	3.00	NC	$53	NC
WR	1	NC	52.85	2.39	2.50	2.52	NC	$59	$55
Infrastructure, Market Weight									
BEP	1V	NC	34.03	2.15	NC	2.29	NC	$37	NC

Source: Company data and Wells Fargo Securities, LLC estimates

1= Outperform, 2 = Market Perform, 3 = Underperform, V = Volatile, = Company is on the Priority Stock List
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful

- **Summary –** On 11/1, six of our covered companies hosted Q3 2017 earnings calls including Outperform-rated BEP, NI and WR and Market Perform-rated ALE, PPL and SO. Looking past the impact of mild summer weather on quarterly results, discussions focused on regulatory matters including pending rate cases for ALE (MN) and NI (IN), WR's merger cases and upcoming rate filing, PPL's U.K. regulatory structure and SO's recent asset optimization activities. While most utilities were in the red (S&P Utilities -0.6%), NI bucked the trend (+0.8%) on better-than-expected '18 EPS guidance. As for BEP, the strategic deployment of capital globally appears alive and well.
- **ALE Update (Akers)** - ALE reported adjusted Q3 EPS of $0.72, which excludes a $0.16 benefit related to the modification of a November 2016 MPUC decision on the allocation of ND investment tax credits and includes a $0.10 weather hit versus normal. Mgmt. affirmed '17 EPS guidance of $3.15-3.40, which excludes the impact of the modified order. We are lowering our '17E EPS to $3.28 from $3.36 primarily reflecting mild Q3 weather, partially offset by a lower assumed O&M increase based on the YTD trend. No change to our '18E & '19E EPS of $3.64 & $3.92. The biggest swing variable in our near-term outlook is the outcome of the pending Minnesota Power (MP) rate case. An ALJ order is due next week and a final decision is expected in January 2018. The longer-term outlook is sensitive to ALE's regulated investment opportunities and non-utility growth. On the investment front, MP submitted a resource package to the MPUC on 7/28/17 requesting the approval of renewable PPAs and a gas PPA with a new combined cycle gas generation facility that ALE would own (would essentially earn a regulated return via a lease structure as currently proposed) – ALE is proposing 50% ownership in the $700MM 525-550 MW Nemadji Trail Energy Center, which has a targeted in-service date of 2025. An ALJ recommendation is expected in mid-'18 with a final decision in 2H'18. MP's next full IRP filing is contemplated for October 2019. On the non-utility front, while there were no new project announcements in the Q3 update, we have been impressed with ACE's development activities this year including an $80MM investment to refurbish wind turbines at Storm Lake I & II and Lake Benton, which requalify the facilities for PTCs. **(Comments continue on p. 2)**

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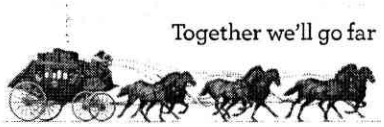

- **ALE Update (Akers) (Continued...) -** Lastly, management had positive comments on the company's taconite customer base including progress on the permitting process at Polymet and activities at the old Essar project. We reiterate our Market Perform rating and raise our 12-18 month price target to $80/sh from $77/sh on higher peer group multiples since our last update.

- **BEP Update (Reeder) –** Operationally BEP's portfolio performed well in Q3'17 and management outlined a slew of growth opportunities across multiple geographies (including India) and technologies (hydro, solar, wind) that it believes positions the company to deliver FFO/unit growth over the next 5-years in excess of the 5-9% distribution growth target. These are in part driven by recent and pending acquisitions including (1) the 10/16 close of the TerraForm Power (TERP) deal – BEP acquired a 16% net interest for $203MM which is expected to be 6% accretive to FFO ($40MM) on a full-year basis, (2) a 7.5% stake in First Hydro which owns 2,100 megawatts of pumped hydro capacity in the U.K. and (3) the pending acquisition of TerraForm Global. In addition, advancements of Brookfield's internal development pipeline in conjunction with contracted revenue escalations, operating efficiency increases, margin expansion and re-powering of existing assets should enable attractive organic growth. In total, management continues to target annual deployment of $600-700MM of BEP equity into growth opportunities. We reiterate our Outperform rating. We remain attracted to BEP's overall portfolio of predominantly contracted, carbon-free generation assets (majority hydro) backed by an investment grade balance sheet and healthy cash flow profile. We believe management's track record of efficiently deploying (and recycling) capital across the portfolio will endure, supporting attractive distribution per unit growth within the 5-9% targeted range.

- **NI Update (Akers) -** NI continues to execute on the company's long-term infrastructure modernization plan, which supports annual EPS growth of 5-7% through 2020. Management expects 2018 to be above trend (9% midpoint to midpoint) driven, in large part, by recent debt refinancing activities. We maintain our '17E EPS of $1.18 ($1.17-1.20 guidance affirmed) and increase our '18E EP to $1.28 ($1.26-1.32 guidance initiated) from $1.25. We are also nudging up our '19E & '20E EPS to/from $1.35/$1.32 & $1.42/$1.40, respectively, driven by the recently filed NIPSCO rate case and other model tweaks. We are attracted to NI's highly visible capital plan, regulatory diversity, supportive regulatory treatment, and solid execution track record. That said, we consider NI's credit metrics to be modestly below-average – we calculate an FFO-to-Debt ratio in the mid-teens (versus peers in the high teens), Debt-to-EBITDA of 5.0-5.5X (peers about 4X) and a parent equity ratio in the mid-30% range (peers mid-40% range) – which exposes the company to financing risk and tax reform risk. We see EPS downside risk of $0.11-0.13, or ~10%, if interest expense is deemed non-deductible for tax purposes before mitigation efforts (mgmt. discussed opportunities to accelerate O&M efforts and/or lean on shorter duration, lower cost debt). All told, we continue to believe shares merit a modest premium to blended Gas/Electric peers, which compares with the current 3-5% discounts on '18E & '19E EPS. We reiterate our Outperform rating and 12-18 month price target of $30/share. Near-term items of interest, aside from tax reform developments, include the pending NIPSCO gas rate case (order expected 2H'18), pending settlements related to environmental upgrades at NIPSCO's electric utility (order by year-end '17) and the Ohio gas Infrastructure Replacement Program (year-end '17), along with various ongoing tracker requests. The gas rate case in Indiana seeks a $143.5mm two-step rate increase, roughly half of which relates to non-earnings items (mostly depreciation rates).

- **PPL Update (Kalton) -** It was a relatively uneventful Q3'17 update and call as PPL does not plan to update the CapEx outlook, the long-term EPS CAGR outlook and the '18 EPS guidance range until the Q4'17 release. Key topics included (1) an upward adjustment to the '17 EPS guidance range to $2.10-2.25 from $2.05-$2.25 and (2) thoughts on increasing regulatory noise in the U.K. We are nudging our 17E EPS up to $2.18 from $2.15, which reflects the midpoint of the new guidance range. No change to our 18-21E EPS of $2.30, $2.40, $2.55 & $2.65. Management also provided some thoughts on increasing noise in the U.K. around rate pressure and, separately, calls to re-nationalize the electric utilities (a platform issue for Labor Party Leader Jeremy Corbyn). On the rate pressure side - while the issue relates more to the competitive retail supplier prices, we are concerned that the rhetoric could bleed over into the RIIO-2 discussions (currently underway) for rates post-2022. On a P/E basis, shares currently trade at 15% discounts to Regulated Electric peers on our 18E & 19E EPS, which we consider to be fair given the composition of PPL's business mix (increasing U.K. risk).

- **SO Update (Kalton/Reeder)** - The key updates on SO's Q3'17 call revolved around (1) financing needs in light of recent asset sale activities and (2) a modest change in strategy at Southern Power related to financial optimization of solar assets through the sale of a minority interest (up to 33%) in 26 existing projects along with the use of tax equity investors on future ones. SO indicated that the combination of the sale of Elizabethtown Gas and Elkton Gas to SJI for $1.7B, along with the solar proceeds and likely monetization of the Toshiba guarantee (expected by YE'17), should greatly mitigate any additional near-term equity needs (beyond the $750MM already issued in '17) - as of October '16,

SO projected '17-21 equity needs of $1.4B including $1.1B in '17 & '18 (which obviously didn't anticipate the $3B pre-tax Kemper charge in Q2'17). That being said, there are a few factors that could increase longer-term needs such as additional Kemper-related write-offs (Mississippi regulatory decision expected in January '18), the revised Vogtle cost estimates and potentially higher CapEx needs related to grid modernization programs. Management intends to update the financial outlook in conjunction with the Q4'17 earnings release. No change to our 17-19E EPS of $2.95, $3.00 & $3.15. On a P/E basis, shares trade at roughly 6-7% discounts relative to Large Cap Electrics, which we consider appropriate given a lower projected EPS CAGR (5% vs. 6% for peers) and a higher risk profile owing in part to the (likely) ongoing new nuclear construction (GA regulatory decision regarding new cost/timeframe is expected in February '18).

- **WR Update (Akers) -** WR's Q3 results were negatively impacted by mild weather (3 cents vs. normal in the quarter and 9 cents YTD) and the lack of COLI proceeds (zero booked through Q3). We are lowering our '17E EPS to $2.39 from $2.50 solely reflecting these items. No change to our '18E & '19E stand-alone estimates of $2.52 & $2.78, respectively. Our '19-21E pro-forma EPS remain $3.05, $3.38 & $3.43, respectively. We reiterate our Outperform rating as we believe shares are cheap relative to the pro-forma merger of equals (MOE) outlook including the 6-8% EPS growth rate through 2021 (off WR's '16A of $2.43), which we consider to be highly achievable. In the near term, we are looking for reasonable outcomes in the merger approval processes and upcoming rate filings. On the merger front, parties agreed to a schedule calling for Staff/intervenor testimony on 1/16/18 in MO and 1/29/18 in KS. We continue to expect the merger to close in Q2'18. WR's rate case filing, which is planned for early '18, is driven by the Western Plains wind farm (~$30MM), the expiration of wholesale contracts ($40MM) and the expiration of PTCs ($15MM), along with a new depreciation study (likely to increase the ask). Beyond the 2017/2018 regulatory proceedings, we see longer-term upside potential should MO and/or KS embrace regulatory compacts that support new investments in wind and grid modernization – we currently embed a modest discount to peers in our valuation reflecting below-average regulatory treatment. We reiterate our Outperform rating and raise our 12-18 month price target to $59/share from $55/share reflecting higher peer group multiples.

Acronyms
ACE - ALLETE Clean Energy
ALJ – Administrative Law Judge
MPUC – Minnesota Public Utilities Commission
NIPSCO - Northern Indiana Public Service Company
O&M - Operation & Maintenance
PPA - Power Purchase Agreement
PTC – Production Tax Credit
COLI – Corporate Owned Life Insurance
YTD – Year-to-date

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WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Weight
Gas/Power Infrastructure – Market Overweight

November 1, 2017

NISOURCE

(NI US Equity – $26.58 – Outperform)

No sizzle and all steak!

- **Premium utility with plenty of upside**
  NiSource continues to be one of the best combinations of high growth/low risk in the regulated space. Stronger than expected 2018 guidance $1.26-1.32, implies another year of EPS growth above the LT 5-7% EPS growth outlook. Importantly, the 2018 guidance implies potential stronger earnings power in the future, as the 5-7% growth rate is an annual number. Based on our revised 2020 EPS estimate, NI trades at a modest premium to electric utilities and a sizeable discount to LDCs despite the majority of earnings coming from its gas distribution segment. We continue view NiSource as a premium regulated gas and electric utility – reiterate outperform.

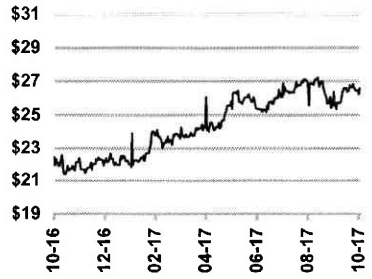
- **Interest savings boost near term; long runway for growth**
  The upside to 2018 guidance vs. our expectations appears primarily driven by the realization of interest savings from debt refinancing this year. Longer term, NI's multi-decade $30B investment backlog and improving customer growth rates provide high quality tailwinds to execute on earnings growth targets. While they have been a modest drag this year, O&M expenses are expected to flatten, providing additional cushion to margins moving forward.

- **Regulatory activity stays constructive; focus on IN gas case into 2018**
  A key area to focus on heading into year-end will be the decisions on updates for trackers for infrastructure and environmental spending. Orders in 3 proceedings are expected by year-end. The main rate case focus going into 2018 will be the Indiana gas case, its first in 25 years.

- **Raising estimates - target price up to $30**
  See our estimate changes listed in the table to the right. We forecast these changes based on interest/O&M savings and the ability to achieve higher realized ROEs. We are also boosting our target price to $30 from $28, reflecting our revised estimates and a roll forward into a 2020 valuation year.

Trading and Fundamental Data	
Target Price	**$30**
Current Price	26.58
52-Week Range	$21-$27
Market Cap. (MM)	$8,660
Enterprise Value (MM)	$17,285
Shares Out. (MM)	325.9
Dividend Yield	2.33%
Dividend Payout Ratio	59.6%
ROE	8.3%
Debt to Cap	66%
Avg. Daily Vol. (000)	2,047

Price Performance	YTD	LTM
NI US Equity	20%	14%
Utility Index	13%	11%
S&P 500	15%	21%



Source: FactSet/Wolfe Research

Key Changes		
Year	**New**	**Old**
TP	30	28
2018E	1.30	1.26
2019E	1.38	1.33
2020E	1.47	1.41

Estimates / Valuation				
(US$)	**2017E**	**2018E**	**2019E**	**2020E**
EPS	$1.19	$1.30	$1.38	$1.47
Consensus	$1.19	$1.26	$1.34	$1.41
P/E	22.3x	20.5x	19.2x	18.1x
Dividend Per Share	$0.69	$0.74	$0.77	$0.81
Dividend Yield	2.6%	2.8%	2.9%	3.0%

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November 1, 2017

NiSource Snapshot

Exhibit 1. Financial Summary

Financial Summary	2017E	2018E	2019E	2020E
EPS	$1.19	$1.30	$1.38	$1.47
Diluted Shares Outstanding	327	340	352	364
Dividends Per Share	$0.69	$0.74	$0.77	$0.81
Dividend Yield	2.6%	2.8%	2.9%	3.1%
Dividend Payout Ratio	58%	57%	56%	55%
Equity Ratio	41%	43%	45%	47%
FFO/Net Debt	13%	13%	13%	13%
Valuation Metrics				
P/E	22.2x	20.3x	19.1x	17.9x
Price/Book	1.8x	1.6x	1.4x	1.3x
Segment EPS				
Gas Distribution	$0.94	$1.00	$1.07	$1.14
Electric	0.54	0.57	0.59	0.61
Parent & Other	(0.29)	(0.27)	(0.28)	(0.29)
Total EPS	**$1.19**	**$1.30**	**$1.38**	**$1.47**

Source: Wolfe Utilities & Power Research

Exhibit 2. Modeling Assumptions

Model Assumptions	2017E	2018E	2019E	2020E
Total Capital Spending by Segment ($M)				
Gas Distribution	$1,050	$1,100	$1,080	$1,080
Electric	585	625	605	605
Parent	16	25	25	25
Total Capex	**$1,651**	**$1,750**	**$1,710**	**$1,710**
Financings ($M)				
Total Equity Issued/(Repurchased)	$313	$313	$313	$313
Total Debt Issued/(Repurchased)	$632	$420	$719	$587

Source: Wolfe Utilities & Power Research

Company description

NiSource, headquartered in Merrillville, Indiana, operates two separate business lines: electric utility and gas distribution LDCs. The electric utility serves just under 500,000 customers in northern Indiana and owns 3,300 MW of generation. The gas LDC serves 3.5 million customers in Indiana, Ohio, Pennsylvania, Kentucky, Virginia, and Massachusetts.

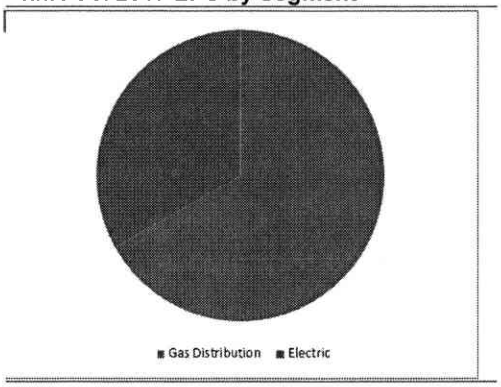
Investment Thesis

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

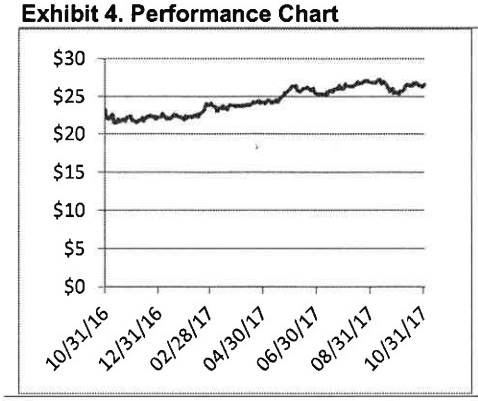
Our $30 price target is on a target P/E valuation. We apply a 21.5x multiple to 2020E earnings, in line with higher quality gas LDCs. Downside risks for NiSource are execution on rate base investment, economic conditions and regulatory outcomes. Upside risks are additional growth projects, customer growth potential, and the cost cutting initiatives.

Exhibit 3. 2017 EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4. Performance Chart



Source: FactSet

Exhibit 5: LDC gas comparables

Company Name	Ticker	Current Price	Mkt Cap ($M)	P/E Multiple 2017E	2018E	2019E	2020E	Div Yield	Div Growth (E)
Atmos Energy Corp	ATO	86.97	9,225	24.1	22.7	21.3	19.9	2.1%	8.9%
Southwest Gas Holdings Inc	SWX	81.95	3,901	24.0	22.6	21.6	20.7	2.4%	N/A
WGL Holdings Inc	WGL	85.70	4,389	26.7	24.4	22.9	22.3	2.4%	12.3%
ONE Gas Inc	OGS	76.29	3,988	25.3	24.5	23.5	23.0	2.2%	6.0%
NiSource Inc	NI	26.58	8,952	22.3	20.5	19.2	18.1	2.6%	5.0%
New Jersey Resources Corp	NJR	44.10	3,816	25.3	24.0	22.5	21.3	2.5%	5.8%
Northwest Natural Gas Co	NWN	65.75	1,885	30.5	28.8	26.3	25.3	2.9%	5.0%
UGI Corp	UGI	47.86	8,298	21.0	19.4	18.5	18.1	2.1%	4.0%
Spire Inc	SR	78.70	3,798	22.0	21.3	20.5	19.8	2.7%	4.9%
Vectren Corp	VVC	67.29	5,584	25.6	23.9	22.2	20.8	2.5%	N/A
Average				**24.9x**	**23.5x**	**22.1x**	**21.2x**	**2.4%**	**6.5%**

Source: Wolfe Research, Factset consensus

November 1, 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

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November 1, 2017

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NiSource Inc

Neutral on NiSource

Bank of America Merrill Lynch

Reinstating Coverage: NEUTRAL | PO: 28.00 USD | Price: 26.48 USD

Equity | 15 December 2017

NiSource fair deal on future EPS growth

We are reinstating coverage of NiSource (NYSE: NI) with a PO of $28 and Neutral rating. We see the company as growing roughly in-line with peers. NiSource EPS is growing at a CAGR of 5%-7% (with a bias towards the upper quartile of this range at 6.5-7%), compared to the gas utility average of 5.8%. We see NiSource as having a significant capital runway and a good mix of spending trackers keeping the company's earned ROEs near its allowed ROE. That being said, we see current positives as being largely priced in leaving little upside relative to other names in our space. On a consolidated basis we see NiSource's EPS as only 1.0x below its peers and, while we think it is a premium utility, this current discount does not leave enough upside for us to rate the stock a Buy once we take into account parent leverage in our valuation. We see its relatively lower balance sheet quality as limiting NI's ability to garner a truly sector leading premium vs. gas utility peers with projections in the 12-14% range Moreover, in the near-term headwinds around tax reform remain on investors' minds—and limit improvement; management response appears constructive nonetheless highlighting substantive (cost & CapEx) offsets likely with 4Q.

Impact to customer bills offset by efficiencies

With a high rate base growth CAGR of 8% - 10% through 2020, NiSource is at the high end of peers This, however, only translates into 5-7% EPS growth due to the dilutive impact of equity issuances funding the rate base expansion. The company is pursuing O&M efficiencies – targeting to keep O&M flat to offset impacts to customer bills. The company estimates that for every $1 of O&M decrease the company can invest an additional $8.5 in CapEx without impacting customer bills. Management is targeting bill increases in the range of 2%-5% year on year as it works to invest heavily while avoiding rate fatigue or other regulatory risks.

Estimates (Dec)

(US$)	2015A	2016A	2017E	2018E	2019E
EPS	0.93	1.06	1.19	1.26	1.33
GAAP EPS	0.62	0.99	0.88	1.26	1.33
EPS Change (YoY)	NA	14.0%	12.3%	5.9%	5.6%
Consensus EPS (Bloomberg)			NA	NA	NA
DPS	0.51	0.64	0.70	0.74	0.79

Valuation (Dec)

	2015A	2016A	2017E	2018E	2019E
P/E	28.5x	25.0x	22.3x	21.0x	19.9x
GAAP P/E	42.7x	26.7x	30.1x	21.0x	19.9x
Dividend Yield	1.9%	2.4%	2.6%	2.8%	3.0%
EV / EBITDA*	16.4x	15.5x	14.1x	13.7x	12.7x
Free Cash Flow Yield*	1.1%	-7.5%	-5.8%	-6.1%	-6.4%

* For full definitions of IQmethod℠ measures, see page 21.

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Stock Data

Price	26.48 USD
Price Objective	28.00 USD
Date Established	15-Dec-2017
Investment Opinion	A-2-7
52-Week Range	21.60 USD - 27.76 USD
Mrkt Val (mn) / Shares Out (mn)	8,918 USD / 336.8
Average Daily Value (mn)	76.73 USD
BofAML Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2017E)	9.3%
Net Dbt to Eqty (Dec-2016A)	193.6%

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Timestamp: 15 December 2017 08:55AM EST

iQprofile℠ NiSource Inc

iQmethod℠ – Bus Performance*

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Return on Capital Employed	NA	3.3%	3.1%	3.3%	3.4%
Return on Equity	15.5%	8.7%	9.3%	9.1%	9.0%
Operating Margin	17.2%	19.1%	21.4%	21.4%	22.4%
Free Cash Flow	96	(672)	(520)	(543)	(570)

iQmethod℠ – Quality of Earnings*

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Cash Realization Ratio	4.9x	2.3x	2.8x	2.7x	2.7x
Asset Replacement Ratio	2.6x	2.7x	3.0x	3.0x	3.0x
Tax Rate	41.6%	37.1%	45.1%	37.9%	37.8%
Net Debt-to-Equity Ratio	180.4%	193.6%	179.2%	168.2%	159.8%
Interest Cover	2.1x	2.5x	2.8x	3.5x	3.6x

Income Statement Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Sales	4,652	4,493	4,628	4,699	4,842
% Change	NA	-3.4%	3.0%	1.5%	3.0%
Gross Profit	3,008	3,102	3,241	3,293	3,414
% Change	NA	3.1%	4.5%	1.6%	3.7%
EBITDA	1,324	1,405	1,548	1,592	1,707
% Change	NA	6.1%	10.1%	2.9%	7.2%
Net Interest & Other Income	(460)	(348)	(451)	(289)	(298)
Net Income (Adjusted)	**299**	**344**	**403**	**445**	**490**
% Change	**NA**	**15.1%**	**17.3%**	**10.3%**	**10.3%**

Free Cash Flow Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Net Income from Cont Operations (GAAP)	302	332	403	445	490
Depreciation & Amortization	524	547	557	588	620
Change in Working Capital	440	(293)	0	0	0
Deferred Taxation Charge	135	182	170	190	209
Other Adjustments, Net	55	35	0	0	0
Capital Expenditure	(1,361)	(1,475)	(1,650)	(1,766)	(1,889)
Free Cash Flow	**96**	**-672**	**-520**	**-543**	**-570**
% Change	**NA**	**NM**	**22.7%**	**-4.6%**	**-4.8%**

Balance Sheet Data (Dec)

(US$ Millions)	2015A	2016A	2017E	2018E	2019E
Cash & Equivalents	16	26	26	26	26
Trade Receivables	681	852	852	852	852
Other Current Assets	881	883	883	883	883
Property, Plant & Equipment	12,112	13,068	14,161	15,339	16,608
Other Non-Current Assets	3,804	3,862	3,862	3,862	3,862
Total Assets	**17,493**	**18,692**	**19,785**	**20,963**	**22,232**
Short-Term Debt	1,001	1,851	1,947	2,048	2,162
Other Current Liabilities	1,656	1,601	1,601	1,601	1,601
Long-Term Debt	5,949	6,058	6,344	6,674	7,044
Other Non-Current Liabilities	5,043	5,110	5,281	5,471	5,680
Total Liabilities	**13,649**	**14,621**	**15,173**	**15,793**	**16,487**
Total Equity	**3,844**	**4,071**	**4,613**	**5,170**	**5,746**
Total Equity & Liabilities	**17,493**	**18,692**	**19,785**	**20,963**	**22,232**

* For full definitions of *iQmethod*℠ measures, see page 21.

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 5-7% annual earnings/dividend growth via $30bn of infrastructure investments over the next 20+ years and fully regulated subsidiaries with earned ROEs consistently near the allowed. These positives are somewhat offset with higher parent debt not associated with the utilities and risks going into Tax Reform. In light of the full valuation and continuing risks we are neutral on NI shares..

Stock Data

Average Daily Volume	2,897,474

Quarterly Earnings Estimates

	2016	2017
Q1	0.59A	0.71A
Q2	0.08A	0.10A
Q3	0.06A	0.07A
Q4	0.33A	0.35E

Investment Thesis

NiSource is a fast growing utility in the US Northeast. It is 20% electric utility with assets in Indiana with the remainder comprised of gas utilities operating in seven states. Fundamentally, the company has a significant need for growth capital in its service territory due to an older system acquired with Columbia gas and some customer growth. We see NiSource as having a fairly de-risked growth plan. It is able to deploy capital to sustain its 8%-10% rate base growth rate and upgrade its system while keeping customer bills growing at a lower 2%-5% rate because it works to keep O&M flat. This increase in efficiency creates the headroom for additional capital deployment without raising rates on customers. Much of the company's CapEx goes through trackers and the company earns close to its allowed ROEs. That being said, we see limited upside beyond the current company's capital plan and see the stock as fully valued. We are reinstating coverage on NiSource with a Neutral rating and a PO of $28.

Our modeled EPS estimates the company earning near the top end of the company's guidance range in 2017 and at the midpoint going forward. The company's guidance is based on its 2017 earnings guidance numbers given at its 2Q17 investor day. 2018 guidance is above the implied guidance range due to step-up impacts from debt refinancing and changes in rates.

EPS Estimates

Table 1: NiSource BofAML EPS Table

		2015A	2016A	2017E	2018E	2019E	2020E	2021E
Gas				**0.88**	0.93	0.98	1.05	1.14
Electric				**0.52**	0.53	0.54	0.55	0.58
Parent/Other				**-0.20**	-0.20	-0.19	-0.18	-0.18
Excess Parent Debt Component				**-0.19**	**-0.18**	**-0.18**	**-0.17**	**-0.16**
EPS		**0.93**	**1.06**	**1.19**	**1.26**	**1.33**	**1.42**	**1.54**
Guidance				**1.17-1.20**	**1.26-1.32**			
Consensus				$1.19	$1.28	$1.36	$1.43	
Consensus '17-'20 CAGR	*6.6%*							
5%-7% CAGR EPS guidance	High End			1.18	1.26	1.35	1.45	
	Mid-Point			1.15	1.22	1.29	1.37	
	Low End			1.12	1.18	1.23	1.30	
BofAML CAGR 2017-2020	6.5%							
DPS		**0.51**	**0.64**	**0.70**	**0.74**	**0.79**	**0.83**	**0.88**
				$0.70				
5%-7% CAGR DPS guidance	High End			0.70	0.75	0.80	0.86	
	Mid-Point			0.70	0.74	0.79	0.83	
	Low End			0.70	0.74	0.77	0.81	
BofAML CAGR 2017-2020	6.0%							
Share Count		**319.80**	**323.50**	**338.50**	**353.50**	**368.50**	**383.50**	**398.50**

Source: BofA Merrill Lynch Global Research, Bloomberg

Hitting allowed ROEs driven by cost cutting and trackers

Following the split of the pipeline business and the regulated utilities NiSource filed rate cases at the majority of its subsidiaries. Some of the allowed ROEs are "black boxes" but the majority is between 9.7% and 10%. At the gas companies the rate-base weighted allowed ROE is 10.02% and at the electric it is 9.98%. We do not anticipate material movement – up or down – of the allowed ROEs in the near term.

The company earns close to its allowed ROEs thanks to constructive expense tracking mechanisms in many of its regulatory footprints. Further offsetting earned ROE lag and rate growth is O&M control and reduction plans. NiSource is currently targeting a flat O&M growth rate through 2020. A big source of O&M cuts is expected synergies from further regulated utility business integration not fully realized since the Columbia Energy merger. Furthermore, we think the recent split of the pipeline segment should help the company refocus on its cost structure. By keeping O&M below the cost of inflation or

flat, this helps to lower customer bills creating additional headroom for more CapEx to be included in rates. As a rule of thumb, the company estimates that for every $1 of O&M decrease the company can invest an additional $8.5 in CapEx without affecting customer bills. Management is targeting bill increases in the range of 2%-5% year on year as it works to invest heavily while avoiding rate fatigue or other regulatory risks.

Management noted that the company is pursuing further integration of the NiSource/Columbia back-office and integrating IT systems. On an operational level, the company is implementing a six-sigma like strategy to evaluate the process to find ongoing and sustainable ways to improve productivity. Management also noted that, as the company upgrades its infrastructure, productivity should benefit from the newer equipment and pipes.

Strong CapEx program driving growth

NiSource expects to grow its rate base at an 8%-10% CAGR through 2020, which is one of the fastest rate base growth rates in our space, albeit with equity dilution translating to a 6-7% EPS CAGR by our estimates. From a political perspective, the cost cuts discussed above help reduce the impact on customer bills allowing for more aggressive growth. The majority of the anticipated capital spend is related to smaller projects with less execution risk. The large projects in the current plan are completing the company's ongoing high voltage transmission build in MISO. When this spending ramps down the company expects it would be replaced by environmental upgrades at its generation facilities. As for CapEx that currently is not in the plan - additional large local transmission pipes at the gas LDCs, new generation coming out of the IRP process in Indiana in 2019, or new high voltage transmission would be incrementally new. The company did note it is not interested in getting back into the midstream pipeline business. Driving this growth is organic customer growth in demand for natural gas and efforts to add another potential 350,000 customers who live within 100ft of a NiSource gas pipeline. Strong regulatory relationships further help this growth, for example, in Pennsylvania NiSource can grant up to $1000 of equipment per customer to get them to switch to natural gas.

From a capital allocation perspective, the company is skeptical between its gas and electric business as its sees both as having competitive earned ROEs and similarly constructive regulatory jurisdictions. At the company's gas utilities, the company does manage and optimize its investments across its portfolio of utilities as some jurisdictions have different capital needs and growth rates.

Table 2: NiSource Rate base

		2015A	2016A	2017E	2018E	2019E	2020E	2021E
Gas Rate Base		**5,416**	**5,924**	**6,497**	**7,239**	**7,957**	**8,977**	**10,090**
Electric Rate Base		**3,500**	**3,400**	**3,640**	**3,858**	**4,078**	**4,425**	**4,784**
Total (End of Year)		**8,916**	**9,324**	**10,137**	**11,097**	**12,035**	**13,402**	**14,874**
BofAML Implied CAGR	*9.8%*							
8%-10% CAGR RB growth guidance	High End			10,256	11,282	12,410	13,651	
	Mid-Point			10,163	11,078	12,075	13,162	
	Low End			10,070	10,876	11,746	12,685	

Source: BofA Merrill Lynch Global Research estimates, company report

We see limited upside beyond the company's guided year growth plan

The company tends to be conservative on its CapEx estimates but we do not see too many surprise projects or expansion opportunities beyond what already in the plan. Both our estimates, and the Street's (based on where consensus EPS is), assume that the company will be able to deploy capital and grow its rate base at a rate near the top of their current plan. The company currently has some AMR smart meters that a truck can read without going on customer's property. Shifting to true smart meters in an Advanced Metering Initiative (AMI) program could provide further CapEx and O&M

reduction possibilities. That said, the company has noted that an AMI program is unlikely in the near term. The other potential spot for future growth that is not in the CapEx plan is electric transmission. NiSource is at the juncture of PJM and MISO where there is significant transmission congestion. That said, the company talked down any potential growth near-term on that front.

As another growth lever to pull to keep the company on track, management noted that it could potentially ramp up its gas system modernization spend by ~$50mn a year by pulling forward future spend to maintain its target growth rates.

Table 3: NiSource BofAML Modeled CapEx Table

Capital expenditures	2016A	2017E	2018E	2019E	2020E	2021E
Maintenance	375.0	375.0	401.3	429.3	459.4	491.5
Expansion	1125.0	1275.0	1364.3	1459.7	1561.9	1671.3
Total CapEx	**1,500.0**	**1,650.0**	**1,765.5**	**1,889.1**	**2,021.3**	**2,162.8**
Guidance		1600-1700	1700-1800			

Source: BofA Merrill Lynch Global Research estimates, company report

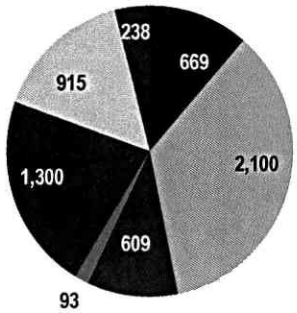
M&A seems unlikely as a source of further growth

The company does not seem interested in M&A activity. It noted it has no interest in getting back into midstream gas transmission considering the recent spin of Columbia. The company's service territory does not have any meaningful opportunities for bolt-on acquisitions. At the strategic level, the company notes that it sees valuation levels as being particularly high and that, at current transaction multiples, making an accretive acquisition occur seems unlikely.

Gas Companies

The company has gas utility companies in seven states with the majority of its rate base in Ohio, Indiana, and Pennsylvania. The company announced its identified growth opportunities at its 2017 Analyst Day. NIPSCO has the largest growth opportunities despite its currently smaller rate base.

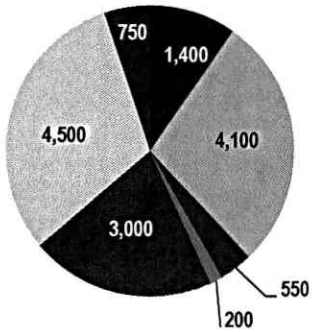
Chart 1: Year End 2016 Rate Base



■ MA Columbia Gas ■ OH Columbia Gas ■ VA Columbia Gas
■ MD Columbia Gas ■ PA Columbia Gas ■ NIPSCO Gas
■ KY Columbia Ga

Source: BofA Merrill Lynch Global Research, Bloomberg

Chart 2: Identified Investments in plan



■ MA Columbia Gas ■ OH Columbia Gas ■ VA Columbia Gas
■ MD Columbia Gas ■ PA Columbia Gas ■ NIPSCO Gas
■ KY Columbia Ga

Source: BofA Merrill Lynch Global Research, Bloomberg

ROEs remain close to allowed

Generally, the NiSource's gas subsidiaries have a 50/50 equity-to-debt ratio. The notable exception to this is Columbia gas of VA. The Virginia regulator looks through to the consolidated debt/equity level resulting in an allowed regulatory capital structure of 65% debt, 35% equity. Most of the Columbia gas utilities have black-box settlements with no specified authorized ROEs. For subsidiaries with listed ROEs NIPSCO Gas has a

9.9% authorized ROE and Columbia Gas in MA and MD have authorized ROEs of 9.55% and 9.7% respectively.

Recovery Mechanisms

The company has a number of recovery mechanism trackers across its gas subsidiaries. These recovery mechanisms are not uniform across different regulatory jurisdictions and each jurisdiction's mechanisms has its own flavor and cadence of top-ups, resets, or mini-rate cases. The net outcome of these recovery mechanisms is that the company earns an ROE very close to its allowed. The company does not go in for rate cases often at most of its gas utilities as the tracker mechanisms are generally effective. The company expects to go into rate cases every 2-3 years with the exception of Ohio, Pennsylvania, and NIPSCO.

Columbia Gas of PA is notable in that it does not have a tracker but, instead, has a forward test year. As a result, the company files yearly rate cases to minimize lag. Historically, the rate cases have been filed in March and are generally settled rather than fully litigated.

Columbia Gas of Ohio and NIPSCO gas are the other two systems worth noting individually due to the size of their tracking mechanisms. In Ohio the company has an Infrastructure Replacement Program (IRP). The most recent extension of this program was settled in August and the company is currently awaiting a final order expected by year end. The IRP sets certain CapEx projects (definition is broad – from smart meters to pipe) which the company can earn a return without going through a full rate case by charging a rider to customers. The company starts earning recovery on the investment the next year. The IRP also includes certain expense trackers or assumed O&M savings that allow NiSource to stay out of rate cases in Ohio as they have minimal ROE lag.

At NIPSCO Gas the company filed a rate case on 9/27/2017 to increase base rates by $143.5 mn in revenue. The company expects an order by 2H18. NIPSCO Gas has a 7-year Transmission and Distribution Service Improvement Charge (TDISC) program which allows recovery for most CapEx. The program has mini-filing every 6-moth to seek recovery on new CapEx over the historical 6-month period. After the current base rate case concludes we would not expect another rate case for some time considering the efficacy of the company's trackers through the TDISC program and low expected ROE lag.

From a modeling perspective, we assume that NiSource's gas subsidiaries earn their allowed ROEs. See our model below:

Table 4: NiSource Gas Subsidiary Model

	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Columbia Gas of OH							
End of Period Rate base	1900	2100	2303	2548	2801	3160	3552
Average Rate Base			2202	2426	2675	2981	3356
Authorized Roe	10.00%	10.39%	10.39%	10.39%	10.39%	10.39%	10.39%
Equity	50.0%	50.0%	49.0%	49.0%	49.0%	49.0%	49.0%
Hypothetical EPS	0.30	0.34	0.33	0.35	0.37	0.40	0.43
Columbia Gas of PA							
End of Period Rate base	1200	1300	1426	1578	1734	1956	2199
Average Rate Base			1363	1502	1656	1845	2078
Authorized Roe	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Equity	50.0%	50.0%	49.0%	49.0%	49.0%	49.0%	49.0%
Hypothetical EPS	0.19	0.20	0.20	0.21	0.22	0.24	0.26
NIPSCO Gas							
End of Period Rate base	810	915	1004	1160	1275	1439	1617
Average Rate Base			959	1082	1218	1357	1528
Authorized Roe	9.9%	9.90%	9.90%	9.90%	9.90%	9.90%	9.90%
Equity	50.0%	50.0%	49.0%	49.0%	49.0%	49.0%	49.0%
Hypothetical EPS	0.13	0.14	0.14	0.15	0.16	0.17	0.19
Columbia Gas of MA							
End of Period Rate base	636	669	734	812	892	1007	1132

Table 4: NiSource Gas Subsidiary Model

	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Average Rate Base			701	773	852	950	1069
Authorized Roe	9.6%	9.55%	9.55%	9.55%	9.55%	9.55%	9.55%
Equity	50.0%	50.0%	49.0%	49.0%	49.0%	49.0%	49.0%
Hypothetical EPS	0.09	0.10	0.10	0.10	0.11	0.12	0.13
Columbia Gas of VA							
End of Period Rate base	550	609	668	739	812	916	1030
Average Rate Base			638	703	776	864	973
Authorized Roe	9.8%	9.75%	9.75%	9.75%	9.75%	9.75%	9.75%
Equity	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Hypothetical EPS	0.06	0.06	0.06	0.07	0.07	0.08	0.08
Columbia Gas of KY							
End of Period Rate base	236	238	261	289	317	358	403
Average Rate Base			250	275	303	338	380
Authorized Roe	9.5%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%
Equity	50.0%	50.0%	49.0%	49.0%	49.0%	49.0%	49.0%
Hypothetical EPS	0.04	0.03	0.03	0.04	0.04	0.04	0.04
Columbia Gas of MD							
End of Period Rate base	84	93	102	113	124	140	157
Average Rate Base			97	107	118	132	149
Authorized Roe	9.7%	9.70%	9.70%	9.70%	9.70%	9.70%	9.70%
Equity	50.0%	50.0%	49.0%	49.0%	49.0%	49.0%	49.0%
Hypothetical EPS	0.01	0.01	0.01	0.01	0.02	0.02	0.02

Source: BofA Merrill Lynch Global Research estimates, company report

NIPSCO Electric and other transmission opportunities

The electric portion of NIPSCO has the same TDISC mechanism which also tracks electric infrastructure spend. Both segments of NIPSCO also file integrated resource plans (IRPs) which discuss future generation and transmission needs. The current IRP is from 2016 and the IRP will not be updated until 2019. Generally Indiana has been supportive of integrated electric utilities owning generation but a certification that utility owned resources make more sense than market based alternatives is required.

The electric side of the business also has two transmission projects being constructed (Reynolds-Topeka line and the Greentown-Reynolds line). These projects operate under FERC regulated rates and are expected to be completed by 2018. At our EEI meeting, management noted that it does not see any other major transmission project in the immediate future.

Another ongoing regulatory case at NIPSCO in Indiana is the company's Environmental Compliance Investments filing (Case No. 44872) focusing on coal combustion residuals or CCR (a.k.a. Coal Ash). This case was settled on 6/9/2017 and the settlement was accepted without changes on 12/13/2017. The settlement allows for the company to recover costs (including AFUDC and CWIP) for complying with managing CCRs and other federal environmental regulations. The settlement authorized this recovery to be collected either in base rates or through a FMCA tracking mechanism.

Similar to the gas subsidiaries we model this segment assuming the company earns its authorized ROE.

Table 5: NIPSCO Electric BofAML Mini Model

NIPSCO (Indiana Electric)	2015A	2016A	2017E	2018E	2019E	2020E	2021E
End of Period Rate base	3500	3400	3640	3858	4078	4425	4784
CapEx			602	634	657	685	714
D&A			-291	-306	-322	-338	-355
Bonus D&A			-120	-110	-115	0	0
Net RB change			190	218	220	347	359
Average Rate Base			3520	3749	3968	4252	4605
Authorized Roe	9.98%	9.975%	9.98%	9.98%	9.98%	9.98%	9.98%
Equity	50.00%	50.00%	50.0%	50.0%	50.0%	50.0%	50.0%
Hypothetical Net Income	**175**	**170**	**176**	**187**	**198**	**212**	**230**

Table 5: NIPSCO Electric BofAML Mini Model

NIPSCO (Indiana Electric)	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Hypothetical EPS	0.55	0.52	0.52	0.53	0.54	0.55	0.58

Source: BofA Merrill Lynch Global Research estimates, company report

Watch the NIPSCO gas rate case as near-term catalyst

The NIPSCO gas rate case (Docket #: 44988) is the major upcoming fundamental catalyst in the NiSource story – the other is the impact of Tax Reform. The base rate case is the first in 25 years and asks for a 22% change in revenue seeking a 10.7% ROE (relative to the current ROE of 9.9%) but a low equity layer of 46%. This increase would be phased in two steps to limit the impact to customer rates. Progress on the case has so far been limited to field hearings on 12/11/2017 and 12/12/2017, which did not elicit much excitement. The next step in the docket is continued field herrings on 1/3/2018 with evidentiary hearings beginning 3/14/2018 and continuing through 3/27/2018 as necessary. Intervener testimony will be filed throughout January with the company rebuttals in February.

Tax Reform a negative for NiSource

The largest near term hurdle for NiSource is the impact of Tax Reform. The company's relatively large amount of holding company debt not associated with the utilities puts it at risk as the details of the utility carve out from the interest deductibility cap are decided. In the worst case, we could see interest deductibility impact NiSource's earnings by $.010 if a proportional allocation method was used for EBIT/EBITDA since the company has no non-regulated earnings. Furthermore, this holdco debt has been acting as a tax shield for earnings from the utility operating companies. With the decrease in the corporate tax rate, the earnings impact of this tax shield should similarly decrease. NiSource has limited deferred tax liabilities that are not associated with a utility and, as a result, normalized rather than written down on the income statement.

Using 2018 as our measurement year and taking NiSource's $2bn of parent debt not associated with a utility, we see a negative earnings impact of $0.04 per share from a loss of $13mn of earnings previously shielded by this non-utility parent debt. While this is one of the more negative effects in our space, it is not disastrous and, in terms of the company's ~$1.27 EPS in 2018 is only ~3% of total earnings.

Table 6: NiSource earnings impact from lower tax rate ($, mn unless otherwise stated)

a	2018 Excess Parent Level Debt	2000
b	2018 Interest Rate	4.80%
a * b = c	Interest Expense	96
d	Current Tax Rate	35.00%
c * d = e	Value of Current Tax Shield	34
f	Tax Reform Tax Rate	21.00%
c * f = g	Tax Reform Tax Shield	20
e - g = h	Tax Reform Impact on Tax Shield	-13
i	2018 Diluted Share Count	353.5
h / I = j	Tax shield reduction EPS impact	$ (0.04)

Source: BofA Merrill Lynch Global Research estimates

More worrisome is the potential impact of the interest deductibility rule on NiSource. The rules on interest deductibility have some ambiguity regarding the treatment of debt at utility holding companies and how/if that debt would be allocated between exempt regulated subsidiaries, parent expenses, and non-regulated subsidiaries. The House version of the interest deductibility rule has a 30% cap of EBITDA for non-exempt entities and the Senate has a 30% of EBIT cap. The four main methodologies for allocation of holding company debt being discussed are by proportional EBIT/EBITDA, calculation on a consolidated level, by asset, and the simple inclusion of utility holding

companies in the carve out. We discuss the impact of the sector more in our previous tax reform note here.

Table 7: NiSource Key Tax Numbers for Interest Deductibility Test

Tax Calculation Factors						
2018 Diluted Share Count	2018 EBITDA	2018 EBIT	% EBITDA Regulated	% EBIT Regulated	Total Interest Expense	Non-Regulated Interest Expense
353.50	1606.96	1019.44	100%	100%	295.00	96.00

Source: BofA Merrill Lynch Global Research, Bloomberg

The only method that results in a significant impact to NiSource's earnings is the proportional allocation of EBIT/EBITDA method although other methods not considered here could also impact NiSource – the relatively high large amount of non-utility parent debt at NiSource compared to the average utility puts it at risk for other solutions/rule makings as it's an outlier.

Table 8: Proportional Method Interest Deductibility Test

Proportional Method			
30% of EBITDA?	30% of EBIT?	House Impact/Share	Senate Impact/Share
TRUE	TRUE	$ (0.10)	$ (0.10)

Source: BofA Merrill Lynch Global Research estimates

Table 9: Consolidated Method Interest Deductibility Test

Consolidated Method			
30% of EBITDA?	30% of EBIT?	House Impact/Share	Senate Impact/Share
FALSE	FALSE	$ -	$ -

Source: BofA Merrill Lynch Global Research estimates

In the proportional deducibility method, EBIT/EBITDA is allocated or attributed to regulated/non-regulated subsidiaries on a proportional basis for determining the amount of regulated/non-regulated interest that exceed the cap. Since NiSource has no non-regulated businesses generating EBIT/EBITDA the full $96mn of interest payments on the parent-level non-utility debt isn't deductible for tax purposes – as a result the ~$34mn in earnings currently shielded by interest deductions would be paid in taxes – a -$0.10 per share impact.

What about offsets? The company has some levers it could pull

Management highlighted that it has remaining levers it can pull to reduce the impact of tax reform – most notably increasing the rate of its O&M reduction program. Management noted that with $1.5bn it wouldn't take a large % impact from accelerating some cost reduction programs to offset tax reform. The company has also discussed increasing CapEx by up to roughly $50mn a year or further optimizing its loan portfolio through refinancing's or increasing of duration. Taken together, we see Tax Reform likely being an immediate relative negative for NiSource but, in the long run, we expect it will not impact management's ability to hit its long-term guidance.

Limited upside at regulateds as shovel ready projects, operations lack capacity

While some utilities have noted their intention to use rate headroom created by the lower tax rate to deploy significantly more capital and amortize regulatory assets quick NiSource appears more reserved. The company has previously noted its ability to increase its capital deployment in the near term by around $50mn a year but has said increasing capital deployment beyond that is difficult operationally even if bill inflation wasn't a problem.

Valuation

We value NiSource on a sum-of-the parts basis. This is consistent with how we look at utility holding companies. We apply a 1.0x premium to the company's gas operating companies to reflect their ability to earn near their allowed ROEs via trackers and longer growth runway at a superior rate base CAGR. We also apply a 1.0x premium to NIPSCO electric for the same reason. We then back out the value of parent debt.

Exhibit 1: Ni2019 Valuation Table

	Metric	PE Mutliple					Equity Value		
	2019 EPS	Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Gas Utilities			21.5x						
Columbia Gas of OH	$0.37	21.5x	21.5x	1.0x	22.5x	23.5x	$7.95	$8.31	$8.68
Columbia Gas of PA	$0.22	21.5x	21.5x	1.0x	22.5x	23.5x	$4.73	$4.95	$5.17
NIPSCO Gas	$0.16	21.5x	21.5x	1.0x	22.5x	23.5x	$3.45	$3.61	$3.77
Columbia Gas of MA	$0.11	21.5x	21.5x	1.0x	22.5x	23.5x	$2.33	$2.43	$2.54
Columbia Gas of VA	$0.07	21.5x	21.5x	1.0x	22.5x	23.5x	$1.54	$1.62	$1.69
Columbia Gas of KY	$0.04	21.5x	21.5x	1.0x	22.5x	23.5x	$0.82	$0.86	$0.90
Columbia Gas of MD	$0.02	21.5x	21.5x	1.0x	22.5x	23.5x	$0.33	$0.34	$0.36
Electric Utilities			19.0x						
NIPSCO Electric	$0.54	19.0x	19.0x	1.0x	20.0x	21.0x	$10.20	$10.74	$11.28
Total Utility	**$1.52**	*20.6x*			*21.6x*	*22.6x*	**$31.35**	**$32.87**	**$34.39**
-Excess (non-regualted) Debt at Parent							-$2,000.00	-$2,000	-$2,000.00
+ Cash							$26.40	$26.40	$26.40
Grand Total Equity Value							**$26.00**	**$27.52**	**$29.04**
Shares Outstanding (2019e)								369	
Total Equity Value							**$26.00**	**$28.00**	**$29.00**
Implied Consolidated P/E									
Current Price								$26.5	
Dividend Yield								2.6%	
Total Return								**8.38%**	

Source: BofA Merrill Lynch Global Research, Bloomberg

On a relative basis we see NiSource as trading at a slight discount to its peers but not substantially enough to put the stock into Buy territory. While we see the individual NiSource utilities as deserving of a premium due to their tracker mechanisms and rate base growth rates, the consolidated utility trades a slight discount to peers because of the impact of parent drag caused by excess debt.

Exhibit 2: NiSource Gas Utility Peers (12/12/2017)

	Ticker	Market Cap	Price	Div Yld	Short Int	Days	P/E Multiple				Earnings Per Share					EV / EBITDA			
							2017E	2018E	2019E	2020E	2017E	2018E	2019E	2020E	CAGR	2017E	2018E	2019E	2020E
Gas Utilities																			
Atmos Energy Corp	ATO	9,902	$ 89.28	2.2%	0.8%	1.4	24.7x	23.3x	21.7x	19.8x	3.61	3.84	4.11	4.51	7.7%	13.0	11.7	10.6	9.6
Spire Inc	SR	3,724	$ 77.15	2.9%	2.4%	6.4	21.6x	20.7x	20.0x	19.2x	3.57	3.72	3.86	4.03	4.1%	13.4	12.3	11.7	11.3
New Jersey Resources C	NJR	3,657	$ 42.10	2.6%	2.7%	4.8	24.3x	23.2x	21.4x	19.8x	1.74	1.81	1.96	2.13	7.1%				
Northwest Natural Gas C	NWN	1,838	$ 64.00	3.0%	2.9%	6.9	29.3x	28.0x	25.2x	24.6x	2.18	2.29	2.54	2.60	6.0%	11.8	11.2	10.4	
ONE Gas Inc	OGS	3,944	$ 75.44	2.4%	2.8%	8.0	24.9x	23.9x	22.9x		3.03	3.16	3.29		4.1%	12.0	11.3	10.7	
Southwest Gas Holdings	SWX	3,831	$ 80.48	2.6%	1.5%	2.8	23.1x	22.3x	21.4x	20.1x	3.48	3.61	3.76	4.00	4.8%	9.5	8.9	8.5	
UGI Corp	UGI	8,367	$ 48.32	2.1%	1.0%	2.3	21.2x	19.5x	18.7x	17.4x	2.28	2.48	2.59	2.78	6.9%	9.1	8.3	8.2	7.9
NiSource Inc **BofAMLe**	NI	8,888	$ 26.39	2.8%	3.1%	3.4	22.6x	21.3x	20.3x	19.3x	1.17	1.24	1.30	1.37	5.5%	11.1	11.1	10.8	10.4
South Jersey Industries I	SJI	2,557	$ 32.14		2.7%	8.4	27.8x	22.2x	19.6x	18.0x	1.16	1.45	1.64	1.79	15.6%	18.4	11.3	9.7	
Average		**46,707**		**2.6%**			**24.4x**	**22.7x**	**21.2x**	**19.8x**					**5.8%**	**12.3x**	**10.8x**	**10.1x**	**9.8x**

Source: BofA Merrill Lynch Global Research, Bloomberg

Debt metrics to improve from current then stabilize

When looking at the company's debt metrics the majority of the debt is raised at the Holdco level and then allocated down to the subsidiaries. Of the about $8bn dollars in current debt $6 bn is allocated down to the gas and electric utilities based on the allowed regulatory structure with the remaining ~$2bn at the parent level supporting leftover good will from the Columbia Energy and Bay State Gas acquisitions in 1999/2000. This parent debt funding goodwill acts as a tax shield for NiSource's overall earnings. Currently the company's cash-tax rates are around 25% inclusive of the company's current bonus D&A.

The company currently has a 12% FFO/Debt ratio but is targeting a result in the mid-teens. This was partly due to the company's $277 mn funding of its pensions obligations. This was originally expected by the company in 2018 but was pulled forward – depressing near term FFO/debt while lifting the out years. NiSource views its pension as fully funded at this point – with most employees and almost all new employees on defined contribution plans.

Table 10: NiSource Debt Metrics

Debt metrics	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Debt	6,949.6	7,909.3	8,290.8	8,721.6	9,205.9	9,739.1	10,312.8
Net Debt	6,934.1	7,882.9	8,264.4	8,695.2	9,179.5	9,712.7	10,286.4
Debt / Total Cap	64.4%	66.0%	64.3%	62.8%	61.6%	60.5%	59.6%
GAAP Net Debt / EBITDA	5.24x	5.61x	5.34x	5.46x	5.38x	5.28x	5.16x
GAAP FFO/ Net Debt	**14.7%**	**13.9%**	**13.7%**	**14.1%**	**14.4%**	**14.8%**	**15.2%**
S&P Debt / EBITDA	5.52x	6.23x	5.90x	6.00x	5.88x	5.75x	5.58x
S&P FFO/ Debt	15.8%	9.6%	9.6%	10.1%	10.6%	11.2%	11.8%
S&P EBITDA Adjustments	39.2	-41.8	-41.8	-41.8	-41.8	-41.8	-41.8
S&P Debt Adjustments	583.0	589.3	589.3	589.3	589.3	589.3	589.3
S&P FFO Adjustments	172.2	-279.5	-279.5	-279.5	-279.5	-279.5	-279.5
Moody's Debt / EBITDA		6.42x	6.06x	6.16x	6.03x	5.88x	5.70x
Moody's CFO (Pre w/c) / Debt		9.9%	13.1%	13.5%	13.8%	14.2%	14.7%
Moody's EBITDA Adjustments		-69	-69	-69	-69	-69	-69
Moody's Debt Adjustments		665	665	665	665	665	665
Moody's CFO Adjustments		42	42	42	42	42	42

Source: BofA Merrill Lynch Global Research, Bloomberg

Ratings agencies view NiSource as lower risk, allows more debt leeway

The ratings agencies view NiSource as a lower risk entity than an electric utility and comps it to other gas LDCs. As a result, the company is able to have lower FFO/Debt metrics than electric utilities for a given ratings level. Management notes that Moody's is the main agency to watch on NiSource. Moody's has a target FFO/Debt minimum of 12%. While NiSource was close to being below that this year, the company discussed its capital plans with ratings agencies in advance of the refinance and pension payments. Moody's seems comfortable with NiSource's plan to improve its FFO/Debt towards 14% by the end of decade as the company reduces excess debt left at the parent following the Columbia Gas split off.

NOL position and Bonus D&A improve cash flows, debt metrics

The company is not currently a significant cash tax payer and had $800mn of federal NOLs as of 3Q17. With bonus D&A and the company's large CapEx profile the reduction in cash taxes improves the company's FFO/Debt metrics and reduces its equity financing needs. Currently we model the amount of Bonus D&A taken by the company as a balancing item to keep rate base growth within the company's guided trajectory. Bonus D&A expires in 2019 with a final amount in that year of 30% of elected CapEx. With bonus D&A stopping and the NOL balance likely to end in the early mid-2020s the

company would face additional funding pressures if it were to maintain its current rate base growth rate and would see lower debt metrics.

Capital structure starts at the parent level

The company noted that it funds itself by issuing debt at the NiSource corporate level and has intercompany loans to allocate debt down to the local level. The loan inter-company loans between the parent and the operating companies are benchmarked to 30-year BBB utility debt costs and interest costs are a pass through. NiSource just completed a $1bn refinancing of debt and has another $1bn of debt remaining which could be refinanced - including a $500mn term loan with no pre-payment penalty. The company also noted that it was exploring the hybrid markets as a way to potentially find lower price capital. Refinancing the remaining $1bn of debt could provide additional uplift for the company by reducing interest expense although the benefits are somewhat limited and off-set near term by the cost of early debt extinguishment.

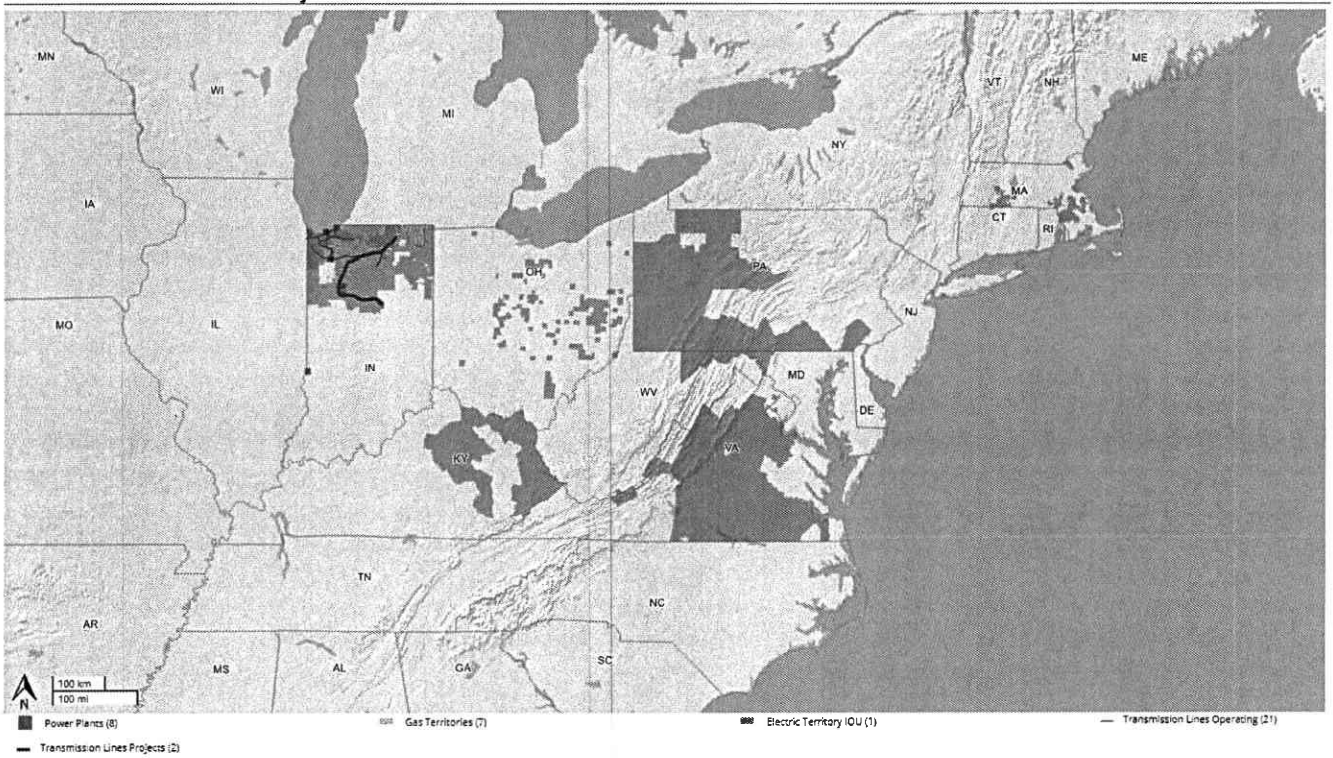
We think any equity needs at the company are likely to be met through the company's existing at-the-market (ATM) program and its Dividend Re-Investment Program (DRIP) which we see contributing ~375mn a year.

Company Overview

NiSource is a combined gas and electric utility in the US Northeast. It currently services approximately 4 million customers across Indiana, Kentucky, Ohio, Pennsylvania, Virginia and West Virginia. Of these, the company services about 3.5 million natural gas are customers and 500,000 electric customers across seven states through its local Columbia Gas and NIPSCO brands. The company has about 60,000 miles of natural gas distribution pipelines its Indiana power company has electric integrated generation, transmission and distribution. NI generates substantially all of its operating income through these rate-regulated businesses.

The company's transitioned into a diversified gas infrastructure company in 2000 with the purchase of the Columbia Energy Group. NiSource reversed its growth towards an infrastructure company in the early 2010s and sold down non-regulated assets. In 2014 the company completed the spin of its gas midstream infrastructure and pipelines businesses creating Columbia Pipeline Group (NYSE: CPGX). This left the core regulated Gas and Electric utilities in NiSource.

Exhibit 3: NiSource Service Territory



Source: BofA Merrill Lynch Global Research, Bloomberg

Business Segments

The company breaks out its earnings into two business segments as well as a 'Parent/Other' segment. The largest business segment generating ~75% of the company's EPS is its Gas utility segment. The electric segment generates the remainder with parent and other acting as a net-drag due to parent-level interest expense and other corporate costs. While the company funds most of its debt at the parent level, debt attributable to the utility is allocated down in its segmented disclosures.

Management

We believe investors view NiSource's management team favorably. Management has a strong track record of executing on their regulatory agenda and keeping ROE's high

through cost management. The two key executives are Joe Hamrock – the CEO and Donald Brown the CFO. Both have experience at other utilities and joined NiSource in leadership roles following the split with Columbia Pipelines.

Table 11: NI Management

Name	Position	Tenure in Role	Bio
Joe Hamrock	President/CEO	2	Joe Hamrock assumed his role of CEO in July 2015. Previously he was the group CEO for NiSource's gas distribution company. Hamrock joined the company in 2012 from AEP where he was President and COO of AEP Ohio. Hamrock began his career in the industry as an electrical engineer at AEP. Hamrock has a MBA from MIT Sloan.
Donald Brown	CFO	2.3	Donald Brown joined the company in April 2015 and began as CFO in July of that year. He has 20 years of industry experience. Prior to joining NiSource Brown was CFO of UGI Utilities since 2010. Brown has a MBA from Duke Fuqua.

Source: BofA Merrill Lynch Global Research, Bloomberg

We think the company has one of the better and well balanced Board of Directors among its smid-cap peers. We see strong executive-level utility experience with Dick Abdoo, Dr. Aristides Candris, and Michael Jesanis having prior experience at the C-Suite level of a US utility company. Other board members provide executive, operational, and financial expertise.

Table 12: NI Board of Directors

Name	Position	Tenure	Bio
Rich Thompson	Chairman	4.4	Rich Thompson was previously a group CEO at Caterpillar and has board experience as chairman of Lennox International.
Dr. Carolyn Woo	Board member	18.5	Dr. Carolyn Woo had a career in academia at Purdue and Notre Dame. She was the CEO of Catholic Relief Services and is a board member of Aon and Arabesque Asset Management.
Dick Abdoo	Board member	9.4	Dick Abdoo previously served as Chairman/CEO of WEC - a gas and electric utility.
Michael Jesanis	Board member	9.4	Michael Jesanis was previously the CEO of National Grid and holds a MBA from Wharton.
Dr. Aristides Candris	Board member	5.4	Dr. Aristides Candris was previously the CEO of Westinghouse Electric and has a doctorate in nuclear engineering from Carnegie Melon.
Deb Henretta	Board member	2.3	Deb Henretta is previously the president of Procter & Gamble's Asia group and Global e-Business. Henretta is currently a board member of Staples and Meritage Homes.
Joe Hamrock	Board member	2.3	Joe Hamrock is the current CEO.
Kevin Kabat	Board member	2.3	Kevin Kabat is the former CEO and Vice Chairman of the fifth Third Bancorp - a diversified financial services company and bank.
Wayne Deveydt	Board member	1.6	Wayne Deveydt is the former CFO of Anthem.
Peter Altabef	Board member	0.8	Peter Altabef is the current CEO of Unisys - a technology consulting corporation.
Eric Butler	Board member	0.3	Eric Butler is a senior executive at Union Pacific Crop and holds a masters degree in mechanical engineering.

Source: BofA Merrill Lynch Global Research, Bloomberg

Model

We model NI using their business segment disclosures with a gas, electric, and parent/other business segment consolidating into the consolidated financials tab. See our two summary tables below for key figures; the full model is on the following pages.

Table 13: NI Income Statement

Income Statement metrics	2015A	2016A	2017E	2018E	2019E	2020E	2021E
Revenues	4,651.8	4,492.5	4,627.8	4,699.4	4,841.5	5,002.1	5,186.3
Depreciation and Amortization	524.4	547.1	556.7	587.5	620.1	654.5	690.8
EBITDA	1,324.3	1,405.3	1,547.9	1,592.5	1,707.0	1,839.3	1,994.6
EBIT	799.9	858.2	0,991.2	1,004.9	1,086.9	1,184.7	1,303.7
GAAP Net Income	298.8	343.9	403.3	444.7	490.4	546.0	614.4

Source: BofA Merrill Lynch Global Research estimates, company report

Table 14: NI Cash flows

Cash flow metrics	2015A	2016A	2017E	2018E	2019E	2020E	2021E
FFO	1,016.5	1,096.2	1,130.4	1,222.0	1,319.6	1,432.9	1,566.4
CFO	1,456.8	803.3	1,130.4	1,222.0	1,319.6	1,432.9	1,566.4

Source: BofA Merrill Lynch Global Research estimates, company report

Income Statement

Table 15: NiSource Model Income Statement

	2016A	Q1/17A	Q2/17A	Q3/17A	Q4/17E	2017E	2018E	2019E	2020E
Operating Revenues	**4,492.5**	**1,598.6**	**990.7**	**917.0**	**1,121.5**	**4,627.8**	**4,699.4**	**4,841.5**	**5,002.1**
Cost of Sales	1,390.2	552.3	276.8	233.6	323.8	1,386.5	1,406.8	1,427.5	1,448.5
Operating Margin	**3,102.3**	**1,046.3**	**713.9**	**683.4**	**797.7**	**3,241.3**	**3,292.6**	**3,414.1**	**3,553.6**
Other income	-	-	-	-	-	-	-	-	-
O&M	1,453.7	410.5	391.1	383.3	269.0	1,453.9	1,453.9	1,453.9	1,453.9
Depreciation & Amortization	547.1	143.3	142.2	143.0	128.2	556.7	587.5	620.1	654.5
Gain on sale of assets	(1.0)	-	(0.1)	-	0.1	-	-	-	-
Other taxes	244.3	76.0	56.2	57.5	49.8	239.5	246.3	253.2	260.4
Total Operating Expenses	**2,244.1**	**629.8**	**589.4**	**583.8**	**447.1**	**2,250.1**	**2,287.7**	**2,327.2**	**2,368.9**
Equity Earnings in Unconsolidated Affiliates	-	-	-	-	-	-	-	-	-
Operating Income	**858.2**	**416.5**	**124.5**	**99.6**	**350.6**	**991.2**	**1,004.9**	**1,086.9**	**1,184.7**
Interest expense	349.5	85.2	87.7	87.9	88.7	349.5	289.1	297.8	306.8
Loss on early extinguishment of long-term debt	-		(111.5)	4.8		(106.7)	-	-	-
Other, net	1.5	1.2	3.8	-	-	5.0	-	-	-
Earnings Before Taxes	**510.20**	**332.50**	**(70.90)**	**16.50**	**261.91**	**540.01**	**715.87**	**789.02**	**877.91**
Income Taxes	189.3	121.2	(26.6)	2.5	146.4	243.5	271.1	298.6	331.9
Income from Continuing Operations	**320.9**	**211.3**	**(44.3)**	**14.0**	**115.5**	**296.5**	**444.7**	**490.4**	**546.0**
Loss from Discontinued Operations - net of taxes	-		*(0.1)*	-		*(0.1)*	-	-	-
Net income attributable to non-controlling interest	-		-	-		-	-	-	-
Net Revenue adjustments	*12.4*	*29.0*	*4.9*	-		*33.9*	-	-	-
Operating Expense adjustments	*23.5*	*1.5*	*5.0*	-		*6.5*	-	-	-
Other Income adjustments	-		*111.5*	*10.0*		*121.5*	-	-	-
Income Tax adjustments	*(12.9)*	*(11.2)*	*(43.8)*	-		*(55.0)*	-	-	-
Adjusted Earnings to Common Stock	**343.9**	**230.6**	**33.2**	**24.0**	**115.5**	**403.3**	**444.7**	**490.4**	**546.0**
EBITDA	**1,405.3**	**559.8**	**266.7**	**242.6**	**478.8**	**1,547.9**	**1,592.5**	**1,707.0**	**1,839.3**
EBIT	**858.2**	**416.5**	**124.5**	**99.6**	**350.6**	**991.2**	**1,004.9**	**1,086.9**	**1,184.7**
Earnings Per share									
Basic									
GAAP EPS	1.00	0.65	(0.14)	0.04	0.35	0.88	1.26	1.34	1.43
Extraordinary Item	0.07	0.06	0.24	0.03	-	0.32	-	-	-
Adjusted EPS	1.07	0.71	0.10	0.07	0.35	1.20	1.26	1.34	1.43
		0.59	0.09	0.06	0.29				
Diluted									
Adjusted EPS	**1.06**	**0.71**	**0.10**	**0.07**	**0.35**	**1.19**	**1.26**	**1.33**	**1.42**
Cash dividends paid per common share	**$ 0.64**	**$ 0.175**	**$ 0.175**	**$ 0.175**	**$ 0.18**	**$ 0.70**	**$ 0.74**	**$ 0.79**	**$ 0.83**
Weighted Average Shares O/S									
Basic	**321.8**	**323.7**	**325.1**	**331.1**	**334.0**	**336.8**	**351.8**	**366.8**	**381.8**
Diluted	**323.5**	**325.3**	**325.1**	**331.1**	**334.8**	**338.5**	**353.5**	**368.5**	**383.5**

Source: BofA Merrill Lynch Global Research, Bloomberg, Company Estimates

Cash Flow Statement

Table 16: NiSource Model Cash Flow Statement

	2016A	Q1/17A	Q2/17A	Q3/17A	Q4/17E	2017E	2018E	2019E	2020E
Cash Flows from Operations									
Net Income	331.5	211.3	(44.4)	14.0	222.44	403.34	444.73	490.45	546.00
Depreciation & Amortization	547.1	143.3	142.2	143.0	128.16	556.7	587.5	620.1	654.5
Net changes in price risk management assets and liabilities	-	-	-	-	-	0.0	0.0	0.0	0.0
Deferred income taxes and investment tax credits	182.3	109.4	(21.0)	7.9	74.13	**170.4**	**189.8**	**209.0**	**232.3**
Deferred revenue	-	-	-	-	-	0.0	0.0	0.0	0.0
Stock compensation expense and 401(k) profit sharing contribution	46.5	11.0	11.4	-	(22.40)	-	-	-	-
Gain on sale of assets	-	-	-	-	-				
Income from unconsolidated affiliates	-	-	-	-	-				
Loss from discontinued operations - net of taxes	(3.4)	-	-	-	-				
Amortization of debt related costs	7.6	-	-	-	-				
AFUDC equity	(11.6)	-	-	-	-				
Distributions of earnings received from equity investees	-	-	-	-	-				
Loss on early extinguishment of debt	(3.8)	-	111.5	-	(111.50)				
Other adjustment	-	-	-	-	-				
Funds From Operations (FFO)	**1,096.2**	**475.0**	**199.7**	**164.9**	**290.8**	**1,130.4**	**1,222.0**	**1,319.6**	**1,432.9**
Accounts receivable	(188.0)	(117.5)	111.1	-	6.40	0.0	0.0	0.0	0.0
Income tax receivable	-		-	-	-				
Inventories	38.9	-	-	-	-	0.0	0.0	0.0	0.0
Accounts payable	108.8	-	-	-	-	0.0	0.0	0.0	0.0
Customer deposits and credits	(52.3)	-	-	-	-	0.0	0.0	0.0	0.0
Taxes accrued	12.1	-	-	-	-	0.0	0.0	0.0	0.0
Interest accrued	(8.7)	-	-	-	-	0.0	0.0	0.0	0.0
Over (Under) recovered gas and fuel costs	-	-	-	-	-	0.0	0.0	0.0	0.0
Exchange gas receivable/payable	36.9	-	-	-	-	0.0	0.0	0.0	0.0
Other accruals	(6.0)	-	-	-	-	0.0	0.0	0.0	0.0
Prepayments and other current assets	(0.4)	-	-	-	-	0.0	0.0	0.0	0.0
Regulatory assets/liabilities	(187.9)	69.3	(46.1)	(36.1)	12.90	0.0	0.0	0.0	0.0
Postretirement and postemployment benefits	(44.8)	-	-	-	-	0.0	0.0	0.0	0.0
Deferred credits	-	-	-	-	-	0.0	0.0	0.0	0.0
Deferred charges and other noncurrent assets	(1.2)	(1.2)	0.1	-	1.10	0.0	0.0	0.0	0.0
Other noncurrent liabilities	0.5	(14.5)	(24.4)	35.2	3.70	0.0	0.0	0.0	0.0
Net Operating Activities used for Discontinued Operations	(0.8)	-	(0.1)	(285.8)	285.90				
Cash Flow From Operations (CFO)	**803.3**	**411.1**	**240.3**	**(121.8)**	**600.8**	**1,130.4**	**1,222.0**	**1,319.6**	**1,432.9**
Cash Flows from Investing Activities									
CapEx	(1,475.2)	(312.0)	(420.2)	(484.2)	(433.60)	(1,650.0)	(1,765.5)	(1,889.1)	(2,021.3)
Disposition of Assets	-	-	-	-	-				
Restricted cash withdrawals (deposits)	20.1	-	-	-	-	0.0	0.0	0.0	0.0
Distributions from (contributions to) equity investees	-	-	-	-	-	0.0	0.0	0.0	0.0
Other investment account changes	(127.8)	(32.2)	(26.8)	(30.7)	89.70	0.0	0.0	0.0	0.0
Net Cash Flows from Investing Activities	**(1,582.9)**	**(344.2)**	**(447.0)**	**(514.9)**	**(343.9)**	**(1,650.0)**	**(1,765.5)**	**(1,889.1)**	**(2,021.3)**
Cash Surplus (Shortfall) before Financing	**(779.6)**	**66.9**	**(206.7)**	**(636.7)**	**256.9**	**(519.6)**	**(543.5)**	**(569.5)**	**(588.5)**
Cash Flows from Financing Activities									
Issuance of common units, net of issuance costs	-	-	-	-	-				
Issuance/(Repayments) of long-term debt and capital lease obligations	65.4	(36.6)	958.2	476.0	(1,111.87)	285.7	329.6	370.6	408.0
Premiums and other debt related costs	(3.7)	-	(130.7)	(9.1)	139.80				
Change in short-term borrowings, net	920.6	26.2	(612.9)	(58.2)	740.69	95.8	101.2	113.7	125.2
Issuance of common stock	23.1	6.4	39.8	286.4	42.40	**375.0**	**375.0**	**375.0**	**375.0**
Acquisition of treasury stock	(9.4)	(4.4)	(1.5)	-	5.90				
Dividends paid - common stock	(205.5)	(56.5)	(56.7)	(57.0)	(66.75)	(236.95)	(262.30)	(289.83)	(319.73)
Net cash flows generated in financing activities	**790.5**	**(64.9)**	**196.2**	**638.1**	**(249.8)**	**519.6**	**543.5**	**569.5**	**588.5**
Cash & Equivalents - Beginning of Period	15.5	26.4	28.4	17.9	19.3	26.4	26.4	26.4	26.4
Change in Cash & Equivalents	**10.9**	**2.0**	**-10.5**	**1.4**	**7.1**	**0.0**	**0.0**	**0.0**	**0.0**
Cash & Equivalents - End of Period	26.4	28.4	17.9	19.3	26.4	26.4	26.4	26.4	26.4

Source: BofA Merrill Lynch Global Research, Bloomberg, Company Reports

Balance Sheet

Table 17: NiSource Model Balance Sheet

	2016A	Q1/17A	Q2/17A	Q3/17A	Q4/17E	2017E	2018E	2019E
ASSETS								
Current Assets								
Cash & Equivalents	26.4	28.4	17.9	19.3	26.40	26.4	26.4	26.4
Restricted cash	9.6	10.8	14.9	9.0	9.60	9.6	9.6	9.6
Accounts receivable	847.0	813.8	545.2	480.0	847.00	847.0	847.0	847.0
Gas inventory	279.9	79.5	194.3	325.2	279.90	279.9	279.9	279.9
Under-recovered gas and fuel costs	-	0.0	0.0	0.0	-	-	-	-
Materials and supplies, at average cost	101.7	97.5	96.7	102.3	101.70	101.7	101.7	101.7
Electric production fuel, at average cost	112.8	98.5	102.2	84.0	112.80	112.8	112.8	112.8
Exchange gas receivable	5.4	18.8	35.1	42.9	5.40	5.4	5.4	5.4
Regulatory assets	248.7	184.8	183.2	203.9	248.70	248.7	248.7	248.7
Deferred income taxes	-	0.0	0.0	0.0	-	-	-	-
Prepayments and other	130.6	139.1	91.3	65.8	130.60	130.6	130.6	130.6
Total Current	**1762.1**	**1471.2**	**1280.8**	**1332.4**	**1762.1**	**1762.1**	**1762.1**	**1762.1**
Long Term Assets								
Gross PP&E		19,680.6	20,206.4	20657.6				
Less Accumulated depreciation		(6,701.5)	(6,833.7)	-6906.2				
Other property, at cost, less accumulated depreciation		309.8	296.6	290.7				
Net PP&E	**13,068.0**	**13,288.9**	**13,669.3**	**14,042.1**	**14,161.34**	**14,161.3**	**15,339.3**	**16,608.3**
Other Assets								
Regulatory assets	1,636.7	1,657.7	1,659.4	1666.2	1,636.70	1,636.7	1,636.7	1,636.7
Goodwill	1,690.7	1,690.7	1,690.7	1690.7	1,690.70	1,690.7	1,690.7	1,690.7
Intangible assets	242.7	239.9	237.2	234.4	242.70	242.7	242.7	242.7
Deferred charges and other	91.8	86.9	84.2	90.4	91.80	91.8	91.8	91.8
Unconsolidated affiliates	6.6	6.5	6.0	5.6	6.60	6.6	6.6	6.6
Other investments	193.3	194.1	195.1	207.7	193.30	193.3	193.3	193.3
Total Assets	**18,691.9**	**18,635.9**	**18,822.7**	**19,269.5**	**19,785.2**	**19,785.2**	**20,963.2**	**22,232.2**
LIABILITIES AND SHAREHOLDER'S EQUITY								
Current Liabilities								
Current portion of long-term debt	363.1	809.3	561.2	289.8	363.10	363.1	363.1	363.1
Short-term borrowings	1488.0	1,514.2	901.3	843.2	1,583.79	1583.8	1684.9	1798.7
Accounts payable	539.4	461.6	451.1	447.4	539.40	539.4	539.4	539.4
Dividends payable	-	56.7	57.0	58.9	-	-	-	-
Customer deposits and credits	264.1	166.3	168.6	253.1	264.10	264.1	264.1	264.1
Taxes accrued	195.4	216.6	152.2	148.4	195.40	195.4	195.4	195.4
Interest accrued	120.3	67.5	104.9	89.2	120.30	120.3	120.3	120.3
Over-recovered gas and fuel costs	-	-	-	0.0	-	-	-	-
Exchange gas payable	83.7	23.3	46.6	68.0	83.70	83.7	83.7	83.7
Deferred revenue	-	-	-	-	-	-	-	-
Regulatory liabilities	116.7	131.6	83.7	55.1	116.70	116.7	116.7	116.7
Accrued capital expenditures	-	-	-	0.0	-	-	-	-
Accrued liability for postretirement and postemployment benefits	161.4	107.0	143.7	167.0	161.40	161.4	161.4	161.4
Legal and environmental	37.4	33.8	29.3	27.5	37.40	37.4	37.4	37.4
Other accruals	82.7	76.2	78.7	119.2	82.70	82.7	82.7	82.7
Total Current Liabilities	**3,452.2**	**3,664.1**	**2,778.3**	**2,566.8**	**3,548.0**	**3,548.0**	**3,649.1**	**3,762.9**
Deferred income taxes	2,528.0	2,644.3	2,617.0	2,619.4	2,698.43	2,698.4	2,888.2	3,097.2
Deferred investment tax credits	13.4	13.1	12.9	12.6	13.40	13.4	13.4	13.4
Deferred credits	82.8	85.1	86.7	89.0	82.80	82.8	82.8	82.8
Accrued liability for postretirement and postemployment benefits	713.4	700.0	688.1	397.3	713.40	713.4	713.4	713.4
Regulatory liabilities	1,265.1	1,234.1	1,224.9	1,217.8	1,265.10	1,265.1	1,265.1	1,265.1
Other noncurrent liabilities	200.5	261.3	188.9	187.8	200.50	200.5	200.5	200.5
Other	307.1	252.1	325.7	297.2	307.10	307.1	307.1	307.1
LTD & Capital Lease Obligation	6058.2	5590.7	6,777.40	7518.6	6,343.93	6,343.9	6,673.5	7,044.1
Total Long Term Liabilities	**11,168.5**	**10,780.7**	**11,921.6**	**12,339.7**	**11,624.7**	**11,624.7**	**12,144.1**	**12,723.7**
Total Liabilities	**14,620.7**	**14,444.8**	**14,699.9**	**14,906.5**	**15,172.6**	**15,172.6**	**15,793.2**	**16,486.6**
Shareholders' Equity (from Statements of Shareholders' Equity)								
Common stock	3.3	3.3	3.3	3.4	378.30	378.3	753.3	1,128.3
Additional paid-in capital	5,153.9	5,174.7	5,225.3	(94.6)	5,153.90	5,153.9	5,153.9	5,153.9

Table 17: NiSource Model Balance Sheet

	2016A	Q1/17A	Q2/17A	Q3/17A	Q4/17E	2017E	2018E	2019E
Retained earnings	(972.2)	(874.2)	(975.6)	5,518.5	(805.81)	(805.8)	(623.4)	(422.8)
Accumulated other comp. income	(25.1)	(19.6)	(35.6)	(1,020.6)	(25.10)	(25.1)	(25.1)	(25.1)
Treasury stock	(88.7)	(93.1)	(94.6)	(43.7)	(88.70)	(88.7)	(88.7)	(88.7)
Total Common Shareholder's Equity	**4,071.2**	**4,191.1**	**4,122.8**	**4,363.0**	**4,612.6**	**4,612.6**	**5,170.0**	**5,745.6**
Total Capitalization	**11,980.5**	**4,191.1**	**4,122.8**	**4,363.0**	**4,612.6**	**12,903.4**	**13,891.6**	**14,951.6**
Total Liabilities and Equity	**18,691.9**	**18,635.9**	**18,822.7**	**19,269.5**	**19,785.2**	**19,785.2**	**20,963.2**	**22,232.2**

Source: BofA Merrill Lynch Global Research, Bloomberg, Company Report

Appendix A: Relative Performance Charts

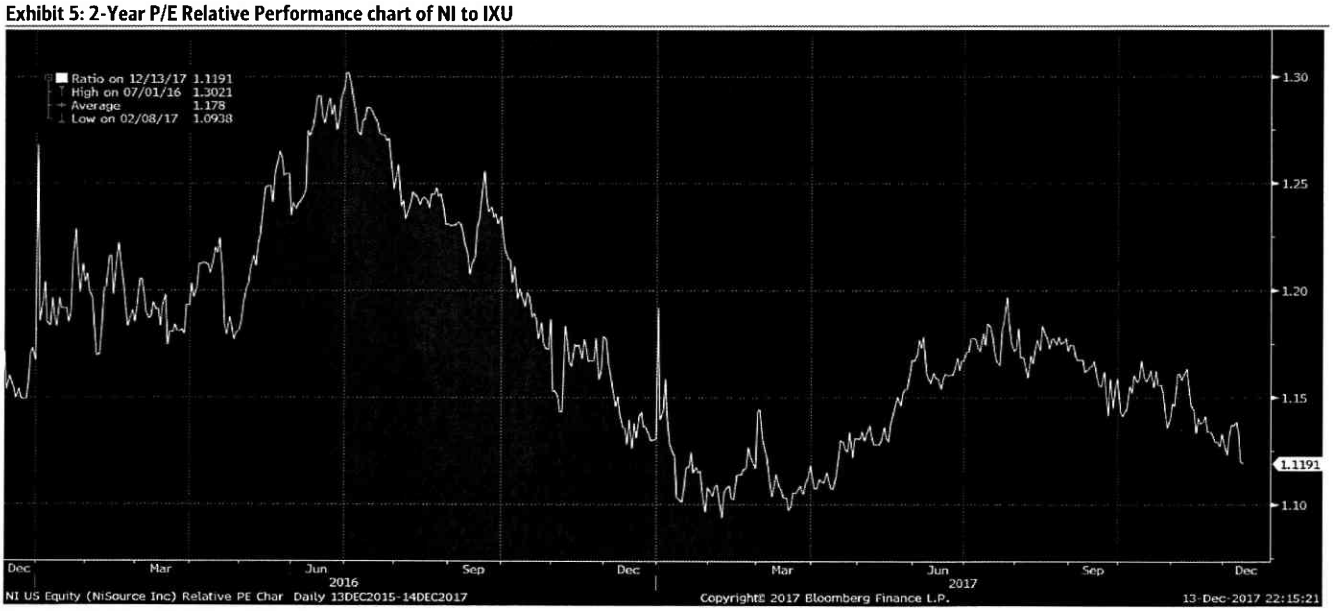
Looking at NI's historical trading on a longer term horizon relative to utilities is difficult because of the historical inclusion of Columbia gas which caused the company to trade with a different peer group and at a lower multiple due to the riskier nature of more non-regulated businesses.

Exhibit 4: 5-Year P/E Relative Performance chart of NI to IXU

Source: BofA Merrill Lynch Global Research, Bloomberg

Over the last two years since the sale of Columbia Gas, NiSource has traded at a premium to the large utility group and is currently 11% the IXU average P/E.

Exhibit 5: 2-Year P/E Relative Performance chart of NI to IXU



Source: BofA Merrill Lynch Global Research, Bloomberg

Price objective basis & risk

NiSource Inc (NI)

Our $28 PO is largely based on a sum of the part valuation. We value each gas and electric utility separately using 2019 forward P/E multiples of 22.5x for gas utilities and 20.0x for electric utilities - a 1.0x premium above the group to reflect NiSource's utilities strong growth rates and earned ROEs. We then subtract the value of excess holding company debt at the parent not supporting the utility opcos.

We note this multiple is slightly below the LDC peer average but above the small-mid cap electric utility average. We believe NI's 5-7% 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, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Natural Gas Utilities Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
NEUTRAL				
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith

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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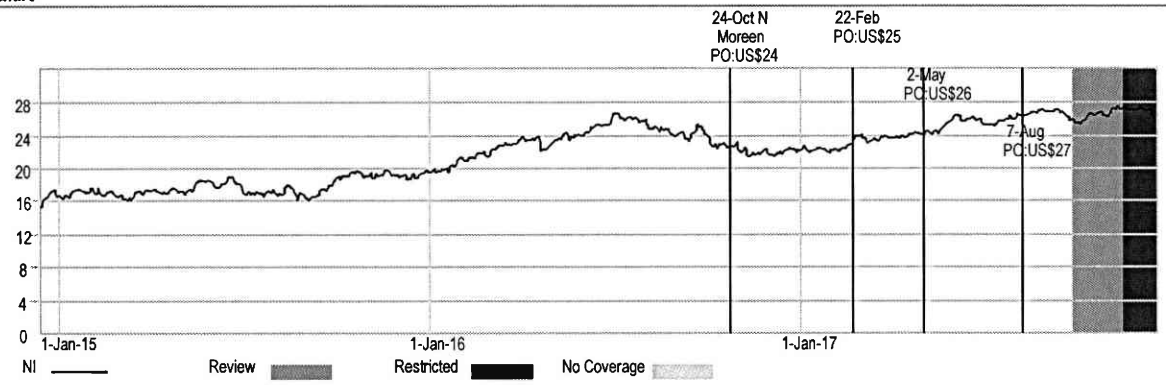

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	64	43.24%	Buy	48	75.00%
Hold	32	21.62%	Hold	27	84.38%
Sell	52	35.14%	Sell	27	51.92%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2017)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1513	51.82%	Buy	956	63.19%
Hold	646	22.12%	Hold	396	61.30%
Sell	761	26.06%	Sell	359	47.17%

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2017 Outlook: Riding the Cyclical Wave As It Crashes Through Regulated Utilities

SECTOR: Power and Utilities

January 9, 2017

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It's all about cycles - End of the regulated utility rally. The outlook for the regulated utility sector faces a tough macro backdrop as cyclical downturn in rates comes to an end. Looking into '17 and beyond, investors should increasingly look for ideas within the sector as a return to stock picking will finally matter – it's not a sector call anymore. **Within our ~38 utilities under coverage, our bend has completely shifted to more cyclical stocks levered to energy, power and gas – not so wires.** It's been a great multi-year run for regulated electrics but time to move on. **Out of ~14 regulated pure play electrics under coverage, only three remain BUY** with DUK the notable mention here on: (1) NT catalyst for a potential analyst day that could provide upside surprise and (2) valuation at a deep discount to peers – DUK call is a one-off.

Adding SRE to Best Idea list; removing AEP – SRE is a core '17 holding. Cameron concerns noted, and we spell them out in this note, although risk is overly priced-into shares (exasperated by Trump win) – in our view, SRE is a must own in the current macro environment. SRE has no shortage of growth avenues and benefits further from the new administration's infrastructure ambitions. Negative sentiment is overblown, in our view, presenting a great entry point for one of the cheapest gas names within the sector, by our estimates, with growth materially above peers - SRE is a broader energy story well-levered to a cyclical recovery.

Downgrading AEP, SJI to NEUTRAL. Both ratings changes are purely a valuation call. **AEP:** Story has come full circle as AEP completes its transition to a fully-regulated profile, while the macro back-drop has deteriorated for regulated utilities and shares will likely be under pressure with a relative valuation discount now reflective of AEP's business mix/ regulatory construct. SJI: we step to the sidelines to re-assess after solid '16 performance (+43% vs UTY of +13%) with shares now trading at 21x our '18E EPS – pullback could cause us to revisit SJI thesis.

Upgrading NI, VVC to BUY. We anticipate both could raise growth outlook - we jump ahead of this. NI: changing stance with anticipated higher guidance, diminishing rate case overhangs coupled with attractive valuation – we see good entry point in a fairly overvalued sector; current guided growth trajectory is conservative in our view given what was a politically sensitive time for the company. VVC: Strong story, solid growth and, in our view, underfollowed by investors: We are anticipating upside to NT outlook - higher earnings guidance could be provided on 4Q2016 call.

Regulated rally over; and still looks pricy versus forward bond yields. Coupled with a strong relative outperformance in '16 (~300bps), utilities look pricey vs. now higher forward bond yield expectations – should fundamentally trade closer to 15.1x '18E EPS vs. the current 16.9x. Assuming the current BBB yield environment, **we see 1.5x downside for the regulated utility sector** - Our target valuation multiples now reflect this. **Also, we officially introduce 2019/20 estimates in this note.**

M&A, divestures to continue – only second inning. Potential targets: PNW, SJI, ALE, NJR, NWN, SR, VVC, AVA, SCG, POR, LNT. Potential acquirers: ED, SO, DUK, D, PPL, EXC, NEE. Other potential strategic moves: EXC, FE, PEG, ETR. ***Continued on next page...***

No shortage of topics on Trump's agenda - Let's talk tax though. A variety of topics are being discussed as likely areas of focus for the incoming administration this year, drawing popular topics from Trump's campaign trail without much else to use as a basis. We discount campaign rhetoric that has yet to evolve into policy (e.g., dismissive tone toward renewables), however the topic of tax reform has gained momentum of its own since the election. Tax reform would reinforce our tilt toward IPPs levered to a cyclical recovery, as well as our bullish outlook on broader energy holdings (or diversified utilities) able to harvest tax savings without an obligation to refund them to customers; we would prefer several names including **CPN, DYN, NRG, PEG, D, DTE, NEE, SRE.** We would avoid utilities with over-levered holding companies as interest tax shields would likely diminish – **pure regulated utilities aren't the sector we would recommend for tax reform.**

Outlook for coal is even bleaker despite friendly faces on the incoming Trump administration. Economic pressures continue to weigh on coal despite some relief on the environmental policy front with the incoming Trump administration likely to dismantle the EPA's Clean Power Plan. **We have largely continued to highlight the same two headwinds for coal since our sector launch: (1)** Weak economic fundamentals; **(2)** Stringent environmental requirements. It's already too late for any new coal to come online, as our economic analysis of generation technologies shows coal would struggle regardless of the political atmosphere, as economics of gas-fired generation remain relatively low and renewables aren't far behind.

Our economic analysis of the existing coal fleet points to even more retirements. We are refreshing our coal outlook to incorporate the 12/22/16 forward curves, which have not improved over the past few months, **highlighting an incremental ~1GW of capacity retirement in TX** (where we model each coal plant individually) **– our updated projections would bring cumulative coal retirements to 86GW vs. our previous 85GW forecast (off 2009 as a base year).**

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PORTFOLIO MANAGER SUMMARY

Regulated utility rally ended, not a sector call anymore

It's all about cycles - End of the regulated utility rally. The outlook for the regulated utility sector faces a tough macro backdrop as the declining yield environment comes to an end. Looking into '17 and beyond, investors should increasingly look for ideas within the sector as a return to stock picking will finally matter – it's not a sector call anymore. **Within our ~38 utilities under coverage, our bend has completely shifted to more cyclical stocks levered to energy, power, and gas – not so much electric wires.** It's been a great multi-year run for regulated electrics but it's time to move on. **Out of ~14 pure-play regulated electric utilities in our coverage, only three BUY ratings remain.**

In this note we highlight many sector themes and company catalysts for '17, including:

- Evolving policy landscape with the incoming Trump administration
- Tax reform and implications of various proposals for power & utilities
- M&A – Pending/potential transactions, and other strategic activity on the horizon
- Valuation dynamics relative to forward bond yield expectations
- The next wave of infrastructure build – electric transmission and gas pipelines
- Power & gas commodity forward curves and market updates among other items
- Guggenheim Coal retirement outlook – upping our forecast from prior estimate from refreshed curves

Introducing 2019 and 2020 estimates; updating multiples to reflect current BBB yields

We are also rolling estimates out through the end of the decade, and refreshing utility valuations to reflect forward bond yield expectations. In this note we are also introducing estimates for 2019 and 2020, and updating our target P/E multiple to 15.5x (vs. our prior 16.0x 2018E target multiple) for regulated utility valuations to coincide with the current BBB yield environment; we continue to apply our target multiple to 2018 fundamentals. We value merchant assets/companies differently based on location/fuel source, reflecting the challenging environment that these assets are currently facing - see our Integrated and IPP Valuation sections for further discussion.

We view SRE as a must-own in '17

The regulated rally is in the rearview, and utilities still look somewhat pricey versus forward bond yields. Regulated utilities sold-off following the November elections, although after recovering from Trump's victory, the group still looks expensive, currently trading at 16.9x 2018E EPS vs. forward bond yield expectations that imply valuations should be closer to 15.1x – **Current BBB yield expectations imply 11% downside potential if utilities mean revert back to yield fundamentals; 7% downside potential if we factor in the group's 4% average dividend yield.** The post-election utility sell-off wasn't a major surprise considering the inverse relationship between utilities and yield. Trump's victory was met with a steeper yield curve, and the ensuing utility sell-off coincides with relative weakness implied in their dividend yield. We've been highlighting what we believed to be the latter innings of the regulated rally for some time, and **our outlook has completely shifted now in favor of cyclical plays levered to energy, power, and gas infrastructure – Our preference now tilts toward IPPs and diversified utilities exposed to cyclical recovery/tailwinds.**

Adding SRE to our Best Idea list - A must-own in the current macro environment. 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 as well as other LNG opportunities – **SRE has no shortage of growth opportunities, in our view.**

- **SRE remains one of the cheapest names within the gas sector, which was exasperated post Trump win and concerns over Cameron, which we view as overblown.** We can appreciate the bear arguments around considering uncertainty around trade policies and implications for their international operations as well as potential delays with the Cameron project. That said, this negative sentiment overshadows the multitude of growth drivers at SRE's disposal. Valuation presents a **great entry point,** in our view.
- **We understand Cameron concerns, and we spell them out in this note, although we believe risk is overly priced-in** and we await clarity on next steps and mitigation options likely to be provided on the 4Q16 call. As of now, train 1 is slated for mid-2018, entailing one more hurricane season, although SRE hasn't tapped contingencies so there is some flexibility; delays present downside to our estimates, although timing differences. **Negative sentiment is overblown in our view, presenting a great entry point for one of the cheapest gas names with ample growth avenues; a broader energy play levered to a cyclical recovery.**
- Looking into 2017, 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.

Downgrading AEP and SJI on valuation

Downgrading AEP, SJI to NEUTRAL. Both ratings changes purely a valuation call.

- **AEP:** Story has come full circle as AEP completes its transition to a fully-regulated profile, while the macro backdrop has deteriorated for regulated utilities and shares will likely be under pressure - relative valuation discount now reflective of AEP's business mix/regulatory construct. We have removed AEP from our Best Ideas list.
- **SJI:** Stepping to the sidelines to re-assess after stellar '16 performance, with shares now trading at 21x 2018E EPS – modest pullback would have us re-visit our SJI thesis. SJI finished 2016 up ~43% vs. UTY of +13%.

Upgrading NI and VVC on projected higher guidance

Upgrading NI, VVC to BUY. We expect both companies could raise their growth outlooks - We are jumping ahead of this.

- **NI:** Changing stance with higher guidance anticipated, diminishing rate case overhang, and coupled with attractive valuation – we see good entry point in a fairly overvalued sector. Management's current growth outlook is conservative in our view, given what was a politically sensitive atmosphere given a multitude of rate cases.
- **VVC:** Strong story, solid growth: We are anticipating potential upside to NT outlook - higher earnings guidance could be provided on Feb. 2017 earnings call.

M&A not slowing down

M&A isn't slowing down, only in the 2nd inning despite uncertainty with tax policy. 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 gas infrastructure, (6) healthy CapEx/growth profile, (7) a utility that is perceived as a fixer upper, etc.

- **Potential acquirers:** ED, SO, DUK, D, PPL, EXC
- **Potential targets:** PNW, SJI, ALE, NJR, NWN, SR, VVC, AVA, SCG, POR, LNT

Plenty of other strategic activity on the horizon as well – we also expect strategic priorities for integrated utilities to evolve over the next few years. Integrated utilities aren't all on the same page with regard to the longevity of their hybrid business model; with FE openly committed to exiting the merchant business one way or another, and ETR not far behind with only one merchant nuke left, while EXC and PEG haven't been ready

Tax reform is the trending topic

to capitulate just yet despite entertaining debate around splitting the two segments down the road. See our M&A and Strategic Activity section for company-specific considerations with regard to their business model and factors supporting/opposing a decision to break-up the marriage of merchant and utility models.

- **Potential strategic moves** over the next few years: ETR, EXC, FE, PEG

No shortage of topics on Trump's agenda - Let's talk tax though. A variety of topics are being discussed as likely areas of focus for the incoming administration this year, drawing popular topics from Trump's campaign trail without much else to use as a basis; and while we would discount campaign rhetoric that has yet to evolve into policy, **the topic of tax reform seems to be taking on momentum of its own since the election –** Supported by a combination of political developments/considerations beyond just Trump's victory.

- **Best-positioned:** Tax reform would likely reinforce our tilt toward IPPs levered to a cyclical recovery, as well as our bullish outlook on broader energy holdings (or diversified utilities) able to harvest tax savings without an obligation to refund them to customers; we would prefer several names including **CPN, DYN, NRG, PEG, D, DTE, NEE, SRE.**
- **Avoid utilities** with over-levered holding companies as interest tax shields would likely diminish. **At the end of the day, regulated utilities aren't the sector we would recommend for tax reform.**

The unpredictable and widely-divided political landscape isn't quite behind us yet, however a more conducive backdrop for far-reaching policy overhaul is taking shape in our view, and tax reform is likely one of the less polarizing topics on Trump's agenda. Unclear if we will see comprehensive tax reform this year to the extent proposed by Republicans, although we should get a better understanding of which elements are on the table.

CPP is low-hanging fruit likely to be dismantled, not bi-partisan tax credits

Trump might have taken some wind from the sails, but isn't mounting an offensive against clean energy and won't be able to save coal. Utilities have a vested interest in replacing fully depreciated, carbon-intensive generation with new ratebase investments (e.g., DUK, DTE), while other utilities have pursued renewable investments and harvested tax credits (i.e., ITC, PTC) through unregulated subsidiaries (e.g., NEE, SO, ED) or YieldCos (e.g., NYLD), and **in our view this will continue irrespective of policy, as economics of gas-fired generation pressure coal, and renewables aren't far behind.**

- The EPA's Clean Power Plan will likely be dismantled by the new administration relatively quickly; however we don't see renewable tax credits going away ahead of schedule; **the bi-partisan package extending tax credits for renewables would be a sensitive subject vs. items such as the CPP sponsored by executive order from the outgoing administration,** which shouldn't be difficult for a new administration to unwind – said differently, **executive orders represent lower hanging fruit for the new administration.**

Low-carbon progress has been driven at the state level

- As we frequently highlight with regard to nuclear plants at risk of retirement (and again below), we would also note that state policy is more material for renewables; state-level Renewable Portfolio Standards (RPS) drive demand for renewables much more than federal policies.

Outside of tax reform, growth levered to infrastructure could have Trump tailwinds to the extent spending proposals create new opportunities and we at least expect less interference from FERC under the new administration.

GUGGENHEIM POWER & UTILITIES COMP SHEET

Figure 1: Guggenheim's Power & Utility Comp Sheet

Regulated Utilities[2]		Market Cap ($bn)	Rating	Target Price[1]	Current Price	Price Change	Dividend (2018E) Yield	Dividend (2018E) Payout	Diluted Shares	Guggenheim Estimates: Earnings Per Share '16E	'17E	'18E	'19E	'20E	Price / Earnings '16E	'17E	'18E	'19E	'20E	Consensus Estimates: Earnings Per Share '16E	'17E	'18E	'19E	'20E	Price / Earnings '16E	'17E	'18E	'19E	'20E
AEP	American Electric Power	31.1	Neutral	$64	$63.19	1%	3.9%	64%	492	3.81	3.62	3.86	4.08	4.28	16.6	17.5	16.4	15.6	14.8	3.79	3.69	3.90	4.02	-	16.7	17.1	16.2	15.7	-
ALE	ALLETE, Inc.	3.2	Neutral	$58	$63.79	-9%	3.6%	62%	49	3.15	3.49	3.72	3.90	4.09	20.2	18.3	17.2	16.3	15.6	3.13	3.46	3.70	4.06	4.63	20.4	18.4	17.2	15.7	13.8
AVA	Avista Corporation	2.6	Neutral	$38	$39.87	-5%	3.8%	65%	64	2.06	2.18	2.31	2.45	2.52	19.3	18.3	17.2	16.3	15.9	2.07	2.10	2.22	-	-	19.2	19.0	18.0	-	-
CNP	CenterPoint Energy, Inc.	10.7	Buy	$27	$24.81	9%	4.6%	85%	431	1.19	1.27	1.33	1.39	1.45	20.8	19.5	18.7	17.9	17.1	1.18	1.26	1.34	1.41	1.44	21.0	19.7	18.6	17.6	17.2
D	Dominion Resources, Inc.	47.8	Buy	$85	$76.28	11%	4.3%	79%	627	3.78	3.69	4.19	4.37	4.54	20.2	20.7	18.2	17.5	16.8	3.79	3.84	4.20	4.52	4.83	20.1	19.9	18.1	16.9	15.8
DTE	DTE Energy Company	17.7	Buy	$106	$98.60	8%	3.5%	60%	179	5.30	5.39	5.77	6.07	6.46	18.6	18.3	17.1	16.3	15.3	5.27	5.33	5.70	6.02	6.29	18.7	18.5	17.3	16.4	15.7
DUK	Duke Energy Corporation	53.6	Buy	$85	$77.75	9%	4.7%	75%	689	4.70	4.54	4.83	5.05	5.18	16.6	17.1	16.1	15.4	15.0	4.67	4.64	4.82	5.01	-	16.6	16.8	16.1	15.5	-
ED	Consolidated Edison, Inc.	22.5	Neutral	$67	$73.72	-9%	3.9%	66%	305	3.97	4.10	4.29	4.61	4.70	18.6	18.0	17.2	16.0	15.7	3.96	4.15	4.33	4.57	-	18.6	17.8	17.0	16.1	-
EIX	Edison International	23.5	Neutral	$69	$72.10	-4%	3.2%	53%	326	3.91	4.12	4.34	4.76	5.27	18.5	17.5	16.6	15.2	13.7	3.91	4.11	4.34	4.73	5.32	18.4	17.6	16.6	15.2	13.6
ES	Eversource Energy	17.5	Buy	$59	$55.28	7%	3.7%	62%	317	2.95	3.16	3.35	3.60	3.80	18.8	17.5	16.5	15.4	14.5	2.98	3.16	3.31	3.57	3.88	18.5	17.5	16.7	15.5	14.2
LNT	Alliant Energy Corp	8.7	Neutral	$33	$38.11	-13%	3.5%	64%	228	1.84	1.98	2.12	2.24	2.41	20.7	19.2	18.0	17.0	15.8	1.88	1.99	2.13	2.23	-	20.3	19.1	17.9	17.1	-
NEE	NextEra Energy, Inc.	55.6	Buy	$136	$119.00	14%	3.6%	61%	467	6.23	6.56	7.07	7.56	8.10	19.1	18.1	16.8	15.8	14.7	6.21	6.57	7.05	7.47	8.15	19.1	18.1	16.9	15.9	14.6
OGE	OGE Energy Corp.	6.7	Buy	$36	$33.79	7%	4.1%	73%	200	1.75	1.88	1.92	2.05	2.15	19.3	18.0	17.6	16.5	15.7	1.76	1.87	1.95	2.03	2.09	19.2	18.0	17.4	16.6	16.2
PCG	PG&E Corporation	30.7	Neutral	$61	$60.54	1%	3.7%	59%	507	3.70	3.70	3.83	4.03	4.11	16.3	16.4	15.8	15.0	14.7	3.70	3.66	3.87	4.07	-	16.4	16.6	15.7	14.9	-
PNW	Pinnacle West	8.7	Neutral	$78	$78.39	0%	3.4%	60%	111	3.92	4.22	4.48	4.77	5.14	20.0	18.6	17.5	16.4	15.3	3.96	4.23	4.44	4.64	4.80	19.8	18.5	17.6	16.9	16.3
POR	Portland General Electric	3.9	Neutral	$39	$43.48	-10%	3.2%	56%	89	2.18	2.38	2.50	2.59	2.64	19.9	18.3	17.4	16.8	16.4	2.12	2.34	2.49	2.61	2.75	20.5	18.6	17.4	16.6	15.8
PPL	PPL Corporation	23.3	Neutral	$36	$34.30	5%	4.7%	70%	680	2.40	2.15	2.32	2.39	2.50	14.3	15.9	14.8	14.4	13.7	2.37	2.16	2.31	2.41	2.53	14.5	15.8	14.9	14.3	13.6
SCG	SCANA Corporation	10.3	Buy	$79	$72.40	9%	3.5%	56%	143	3.99	4.25	4.54	4.90	5.11	18.1	17.0	16.0	14.8	14.2	4.13	4.24	4.52	4.87	5.25	17.5	17.1	16.0	14.9	13.8
SO	Southern Company	48.2	Neutral	$49	$49.14	0%	4.8%	76%	981	2.88	3.02	3.14	3.27	3.40	17.0	16.3	15.6	15.0	14.5	2.90	2.98	3.13	3.26	3.38	16.9	16.5	15.7	15.1	14.5
WEC	WEC Energy Group Inc	18.6	Buy	$63	$59.02	7%	3.8%	66%	316	2.94	3.11	3.35	3.54	3.75	20.1	19.0	17.6	16.7	15.7	2.94	3.11	3.33	3.49	3.73	20.0	19.0	17.7	16.9	15.8
Average							3.9%	66%							18.7	18.0	16.9	16.0	15.3						18.6	18.0	17.0	16.0	15.1

Integrated Utilities[3]		Market Cap ($bn)	Rating	Target Price[1]	Current Price	Price Change	Dividend (2018E) Yield	Dividend (2018E) Payout	Diluted Shares	Earnings Per Share '16E	'17E	'18E	'19E	'20E	Price / Earnings '16E	'17E	'18E	'19E	'20E	Earnings Per Share '16E	'17E	'18E	'19E	'20E	Price / Earnings '16E	'17E	'18E	'19E	'20E
ETR	Entergy Corporation	13.1	Buy	$79	$73.00	8%	5.0%	78%	179	6.81	4.51	4.69	4.79	5.12	10.7	16.2	15.6	15.2	14.2	6.84	4.58	4.65	4.92	5.14	10.7	15.9	15.7	14.8	14.2
EXC	Exelon Corporation	32.8	Buy	$41	$35.50	15%	3.7%	47%	923	2.67	2.66	2.87	2.81	2.71	13.3	13.3	12.4	12.6	13.1	2.68	2.62	2.80	2.72	2.55	13.2	13.5	12.7	13.1	13.9
FE	FirstEnergy Corp.	13.1	Buy	$40	$30.85	30%	4.7%	60%	426	2.64	2.65	2.45	2.34	2.27	11.7	11.6	12.6	13.2	13.6	2.64	2.64	2.40	2.29	2.38	11.7	11.7	12.8	13.5	13.0
PEG	PSEG	22.1	Buy	$47	$43.76	7%	4.1%	61%	506	2.90	2.90	2.87	2.90	2.95	15.1	15.1	15.2	15.1	14.8	2.88	2.91	2.94	2.94	2.97	15.2	15.0	14.9	14.9	14.7
Average							4.4%	62%							12.7	14.1	13.9	14.0	13.9						12.7	14.0	14.0	14.1	14.0

Independent Power Producers (IPPs)[4]		Market Cap ($bn)	Rating	Target Price[1]	Current Price	Price Change	Dividend (2018E) Yield	Dividend (2018E) Payout	Diluted Shares	Adjusted EBITDA '16E	'17E	'18E	'19E	'20E	EV / EBITDA '16E	'17E	'18E	'19E	'20E	Adjusted EBITDA '16E	'17E	'18E	'19E	'20E	EV / EBITDA '16E	'17E	'18E	'19E	'20E
CPN	Calpine Corporation	4.2	Buy	$20	$11.66	72%	0.0%	0%	359	1,812	1,864	2,025	2,037	2,235	8.7	8.1	7.2	6.6	NA	1,822	1,877	2,003	1,962	#N/A	8.6	8.0	7.3	6.9	NA
DYN	Dynegy Inc.	1.0	Buy	$14	$8.95	56%	0.0%	0%	117	1,050	1,314	1,555	1,475	1,577	9.6	7.5	6.2	6.2	NA	1,030	1,313	1,547	1,347	#N/A	9.8	7.5	6.2	6.8	NA
NRG	NRG Energy, Inc.	4.2	Buy	$16	$13.28	20%	0.9%	11%	315	3,315	2,785	2,873	2,814	2,828	6.2	7.2	6.4	6.8	NA	3,306	2,774	2,898	2,900	#N/A	6.3	7.2	6.4	6.6	NA
Average							0.3%	4%							8.2	7.6	6.6	6.5							8.2	7.6	6.6	6.7	

Gas Utilities[5]		Market Cap ($bn)	Rating	Target Price[1]	Current Price	Price Change	Dividend (2018E) Yield	Dividend (2018E) Payout	Diluted Shares	Earnings Per Share '16E	'17E	'18E	'19E	'20E	Price / Earnings '16E	'17E	'18E	'19E	'20E	Earnings Per Share '16E	'17E	'18E	'19E	'20E	Price / Earnings '16E	'17E	'18E	'19E	'20E
NI	NISource Inc	7.3	Buy	$25	$22.68	10%	3.1%	58%	323	1.11	1.18	1.26	1.31	1.33	20.5	19.2	18.0	17.3	17.1	1.07	1.16	1.23	1.26	1.29	21.1	19.6	18.5	18.0	17.6
NJR	New Jersey Resources	3.0	Buy	$38	$35.15	8%	3.1%	60%	86	1.59	1.72	1.88	2.00	2.18	22.1	20.4	18.7	17.6	16.1	1.61	1.70	1.83	1.96	2.16	21.8	20.7	19.2	18.0	16.3
NWN	Northwest Natural Gas	1.7	Neutral	$53	$60.10	-12%	3.2%	78%	29	2.22	2.32	2.46	2.53	2.73	27.1	25.9	24.4	23.8	22.0	2.21	2.31	2.45	2.55	2.75	27.2	26.0	24.6	23.6	21.9
SJI	South Jersey Industries	2.7	Neutral	$33	$33.60	-2%	3.3%	72%	79	1.32	1.34	1.61	1.71	1.84	25.7	25.2	21.0	19.8	18.4	1.34	1.35	1.57	1.70	1.85	25.3	25.0	21.5	19.9	18.3
SR	Spire Inc.	3.0	Buy	$70	$65.30	7%	3.4%	60%	46	3.43	3.53	3.70	3.77	4.09	19.0	18.5	17.7	17.3	16.0	3.42	3.54	3.67	3.78	4.05	19.1	18.4	17.8	17.3	16.1
SRE	Sempra Energy	25.4	Buy	$118	$101.76	16%	3.5%	62%	250	4.84	5.21	5.84	7.15	7.45	21.0	19.5	17.4	14.2	13.7	4.83	5.10	5.78	7.00	7.62	21.1	20.0	17.6	14.5	13.3
VVC	Vectren Corporation	4.3	Buy	$57	$52.30	9%	3.4%	63%	83	2.50	2.67	2.82	3.12	3.34	20.9	19.6	18.5	16.8	15.7	2.50	2.66	2.84	3.06	3.24	20.9	19.7	18.4	17.0	16.1
Average							3.3%	65%							22.3	21.2	19.4	18.1	17.0						22.4	21.3	19.7	18.3	17.1

Other		Market Cap ($bn)	Rating	Target Price[1]	Current Price	Price Change	Dividend (2018E) Yield	Dividend (2018E) Payout	Diluted Shares	Earnings Per Share '16E	'17E	'18E	'19E	'20E	Price / Earnings '16E	'17E	'18E	'19E	'20E	Earnings Per Share '16E	'17E	'18E	'19E	'20E	Price / Earnings '16E	'17E	'18E	'19E	'20E
AWK	American Water Works	13.0	Buy	$91	$72.93	25%	2.4%	54%	178	2.87	3.05	3.24	3.48	3.78	25.4	23.9	22.5	0.0	0.6	2.84	3.03	3.24	3.50	#N/A	25.6	24.1	22.5	20.9	#N/A
		Market Cap ($bn)	Rating	Target Price[1]	Current Price	Price Change	Dividend (2018E) Yield	Dividend (2018E) Payout	Diluted Shares	Adjusted EBITDA '16E	'17E	'18E	'19E	'20E	EV / EBITDA '16E	'17E	'18E	'19E	'20E	Adjusted EBITDA '16E	'17E	'18E	'19E	'20E	EV / EBITDA '16E	'17E	'18E	'19E	'20E
NYLD	NRG Yield	1.5	Neutral	$18	$15.90	1%	7.9%	140%	183	882	865	1,008	1,019	1,077	8.2	8.7	8.1	7.9	NA	868	915	1,014	1,053	NA	8.3	8.2	8.1	7.6	NA

(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., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses

(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 franchises, interstate pipelines, and/or other gas midstream activities)

Source: Bloomberg, Guggenheim Securities, LLC estimates

**Coverage of WR and GXP suspended due to investment banking activity*

SUMMARY OF VALUATION AND ESTIMATE CHANGES

Updated valuation multiples and launching on '19/20 estimates

Our valuations now apply a 15.5x target multiple to our forward 2018E regulated utility earnings driven by a higher BBB corporate bond yield environment. Our target earnings multiple for regulated utilities is derived from our long-term corporate bond yield and utility valuation regression analysis. The updated analysis arrives at a 15.5x target multiple vs. a 16.0x target multiple we applied to our valuations last year; the lower multiple reflects the increase in long-term corporate bond yields we have seen since the presidential election in November 2016.

Premiums and discounts to our target multiple are company-specific. We apply company-specific premiums or discounts to our 15.5x target multiple based on (1) regulatory construct; (2) rate mechanisms for cost recovery; and (3) exposure to growth esp. if we see upside not being reflected in current fundamentals. See the company sections for their respective valuation premiums/discounts.

Introducing 2019 and 2020 estimates. We now forecast out to 2020 for each company in our coverage, although we continue to derive our 12-month price targets by applying our 15.5x target multiple (plus company-specific premiums/discounts) to 2018 fundamentals.

We include 12/22 forward curves and mid-cycle capacity prices

Refreshing our power and commodity market assumptions. Our estimates for integrated utilities and IPPs now use the December 22, 2016 forward curves (vs. 09/30/16 curves used in our prior estimates).

See the Key Themes for 2017 section for an in-depth review of power and commodity market trends and forecasts, as well as our company-specific catalysts section for specific NT swing-factors with respect to our estimates.

Figure 2: Summary of valuation and estimate changes vs. consensus

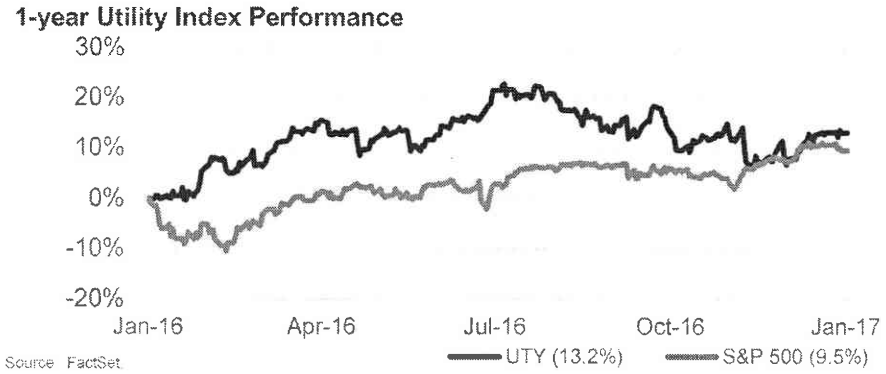
	Guggenheim Rating		Current	FV Estimate		New Guggenheim EPS Estimates						Consensus EPS Estimates						Prior Guggenheim Estimates			
	New	Old	Price	Old	New	2016E	2017E	2018E	2019E	2020E	CAGR	2016E	2017E	2018E	2019E	2020E	CAGR	2016E	2017E	2018E	CAGR
AEP	Neutral	Buy	$63	$69	$64	3.81	3.62	3.86	4.06	4.28	2.9%	3.79	3.69	3.90	4.02	-	NA	3.83	3.65	3.85	0.2%
ED	Neutral	Neutral	$74	$74	$67	3.97	4.10	4.29	4.61	4.70	4.3%	3.97	4.15	4.33	4.57	-	NA	4.01	4.16	4.36	4.3%
D	Buy	Buy	$77	$85	$85	3.78	3.89	4.19	4.37	4.54	4.7%	3.79	3.84	4.20	4.52	4.83	6.2%	3.83	3.89	4.32	6.2%
DTE	Buy	Buy	$99	$104	$106	5.30	5.39	5.77	6.07	6.46	5.1%	5.27	5.33	5.70	6.02	6.29	4.5%	5.37	5.27	5.66	2.6%
DUK	Buy	Buy	$77	$88	$85	4.70	4.54	4.83	5.05	5.18	2.5%	4.67	4.64	4.82	5.01	-	NA	4.70	4.66	4.89	2.0%
EIX	Neutral	Neutral	$72	$78	$69	3.91	4.12	4.34	4.76	5.27	7.8%	3.91	4.11	4.34	4.73	5.32	8.0%	3.87	4.12	4.34	5.8%
ES	Buy	Buy	$55	$64	$59	2.95	3.16	3.35	3.60	3.80	6.6%	2.98	3.16	3.31	3.57	3.88	6.8%	2.93	3.20	3.37	7.1%
NEE	Buy	Buy	$119	$139	$136	6.23	6.56	7.07	7.56	8.10	6.8%	6.21	6.57	7.05	7.47	8.15	7.0%	6.33	6.56	7.01	5.2%
PCG	Neutral	Neutral	$61	$61	$61	3.70	3.70	3.83	4.03	4.11	2.6%	3.70	3.68	3.87	4.07	-	NA	3.65	3.70	3.83	2.3%
PNW	Neutral	Neutral	$78	$83	$78	3.92	4.22	4.48	4.77	5.14	7.0%	3.96	4.23	4.44	4.64	4.80	4.9%	3.96	4.18	4.48	6.4%
PPL	Neutral	Neutral	$35	$38	$36	2.40	2.15	2.32	2.39	2.50	1.1%	2.37	2.16	2.31	2.41	2.53	1.6%	2.40	2.20	2.28	-2.7%
SO	Neutral	Neutral	$49	$54	$49	2.88	3.02	3.14	3.27	3.40	4.2%	2.90	2.98	3.13	3.26	3.38	3.9%	2.88	3.02	3.17	4.9%
WEC	Buy	Buy	$59	$63	$63	2.94	3.11	3.35	3.54	3.75	6.3%	2.94	3.11	3.33	3.49	3.73	6.1%	2.94	3.16	3.40	7.5%
CNP	Buy	Buy	$25	$25	$27	1.19	1.27	1.33	1.39	1.45	5.1%	1.18	1.26	1.34	1.41	1.44	5.0%	1.23	1.27	1.32	3.8%
ETR	Buy	Buy	$73	$78	$79	6.81	4.51	4.69	4.79	5.12	-6.9%	6.84	4.58	4.65	4.92	5.14	-6.9%	6.99	4.73	4.82	-17.0%
EXC	Buy	Buy	$36	$39	$41	2.67	2.66	2.87	2.81	2.71	0.4%	2.68	2.62	2.80	2.72	2.55	-1.2%	2.71	2.62	2.77	1.2%
FE	Buy	Buy	$31	$42	$40	2.64	2.65	2.45	2.34	2.27	-3.7%	2.64	2.64	2.40	2.29	2.38	-2.6%	2.70	2.62	2.59	-2.0%
PEG	Buy	Buy	$44	$47	$47	2.90	2.90	2.87	2.90	2.95	0.4%	2.88	2.91	2.94	2.94	2.97	0.8%	2.86	2.82	2.92	1.0%
AWK	Buy	Buy	$73	$91	$91	2.87	3.05	3.24	3.49	3.78	7.1%	2.84	3.03	3.24	3.50	-	NA	2.85	3.05	3.26	7.0%
AVA	Neutral	Neutral	$40	$39	$38	2.06	2.18	2.31	2.45	2.52	5.1%	2.07	2.10	2.22	-	-	NA	2.06	2.16	2.30	5.6%
NI	Buy	Neutral	$22	$23	$25	1.11	1.18	1.26	1.31	1.33	4.6%	1.08	1.16	1.23	1.26	1.29	4.7%	1.10	1.16	1.24	5.9%
NJR	Buy	Buy	$35	$36	$38	1.59	1.72	1.88	2.00	2.18	8.2%	1.61	1.70	1.83	1.95	2.16	7.6%	1.64	1.75	1.92	8.2%
OGE	Buy	Buy	$34	$33	$36	1.75	1.88	1.92	2.05	2.15	5.2%	1.76	1.87	1.95	2.03	2.09	4.3%	1.75	1.88	1.92	4.8%
POR	Neutral	Neutral	$44	$40	$39	2.18	2.38	2.50	2.59	2.64	4.9%	2.12	2.34	2.49	2.61	2.75	6.7%	2.18	2.35	2.47	6.4%
SRE	Buy	Buy	$103	$121	$118	4.84	5.21	5.84	7.15	7.45	11.4%	4.83	5.10	5.78	7.00	7.62	12.1%	4.81	5.28	5.88	10.5%
ALE	Neutral	Neutral	$64	$57	$58	3.15	3.49	3.72	3.90	4.09	6.7%	3.13	3.46	3.70	4.06	4.63	10.3%	3.14	3.46	3.68	8.2%
LNT	Neutral	Neutral	$38	$34	$33	1.84	1.98	2.12	2.24	2.41	7.0%	1.88	1.99	2.13	2.23	-	NA	1.84	1.94	2.12	7.4%
NWN	Neutral	Neutral	$59	$52	$53	2.22	2.32	2.46	2.53	2.73	5.4%	2.21	2.31	2.45	2.55	2.75	5.6%	2.23	2.35	2.49	5.9%
SR	Buy	Buy	$65	$69	$70	3.43	3.53	3.70	3.77	4.09	4.5%	3.42	3.54	3.67	3.78	4.05	4.3%	3.40	3.52	3.65	3.6%
WC	Buy	Neutral	$53	$46	$57	2.50	2.67	2.82	3.12	3.34	7.5%	2.50	2.66	2.84	3.08	3.24	6.7%	2.50	2.67	2.82	6.1%
SCG	Buy	Buy	$72	$78	$79	3.99	4.25	4.54	4.90	5.11	6.4%	4.13	4.24	4.52	4.87	5.25	6.2%	3.99	4.25	4.53	6.5%
SJI	Neutral	Buy	$33	$34	$33	1.32	1.34	1.61	1.71	1.84	8.7%	1.34	1.35	1.57	1.70	1.85	8.4%	1.32	1.34	1.61	10.5%
	Guggenheim Rating		Current	FV Estimate		New Guggenheim EPS Estimates						Consensus EPS Estimates						Prior Guggenheim Estimates			
	New	Old	Price	Old	New	2016E	2017E	2018E	2019E	2020E	CAGR	2016E	2017E	2018E	2019E	2020E	CAGR	2016E	2017E	2018E	CAGR
NYLD	Neutral	Neutral	$18	$17	$16	882	865	1,008	1,019	1,077	5.1%	858	892	982	1,092	1,122	6.9%	855	864	995	7.9%
DYN	Buy	Buy	$9	$21	$14	1,050	1,314	1,555	1,475	1,577	10.7%	1,023	1,311	1,543	1,418	1,622	12.2%	1,067	1,533	1,894	33.2%
CPN	Buy	Buy	$12	$20	$20	1,812	1,864	2,025	2,037	2,235	5.4%	1,820	1,882	1,994	1,994	2,208	4.9%	1,811	1,880	2,066	6.8%
NRG	Buy	Buy	$13	$18	$16	3,315	2,785	2,873	2,814	2,687	-5.1%	3,303	2,795	2,864	2,828	2,657	-6.2%	3,293	2,771	2,904	-6.1%

Source: Bloomberg, Guggenheim Securities, LLC
Note: Market data as of January 6, 2017

2016 RE-CAP

2016 Re-cap: Utilities outperform despite a late interruption from November elections. Utilities outperformed the broader market in 2016 (UTY +13%, S&P +10%) as expectations for rising rates met deferred Fed tightening throughout most of the year, and despite a post-election sell-off as sentiment shifted with greater appetite for risk.

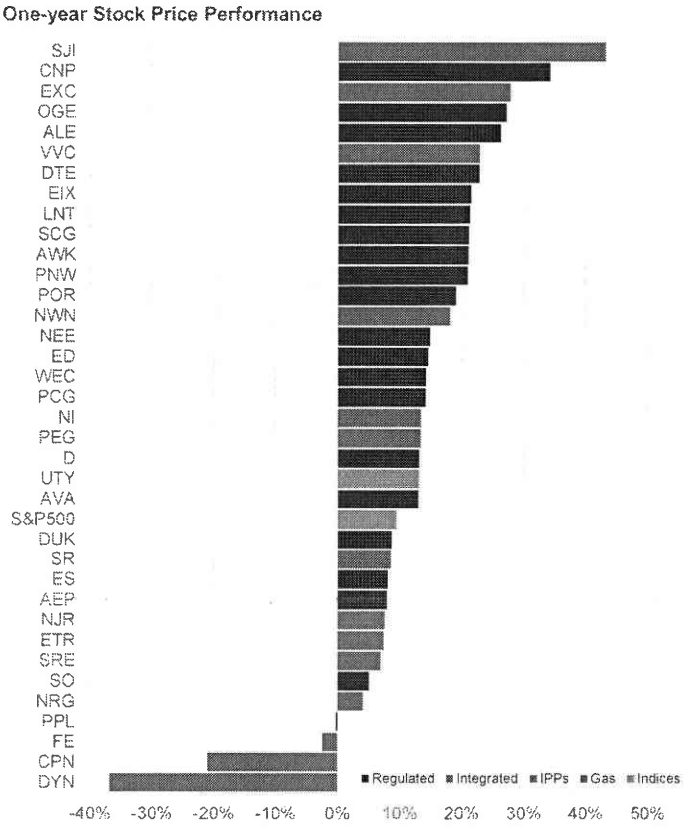
Figure 3: One-year price performance – UTY vs. S&P



Source: FactSet

Figure 4: One-year price performance for Guggenheim's Power & Utility coverage

Commodity-sensitive names underperformed regulated peers



Source: FactSet, Guggenheim Securities, LLC

IPPs and Integrateds dragged the group's performance. DYN, CPN, FE, PPL, NRG and ETR represented the group's performance laggards in 2016, absent any material improvement on the power or gas forward curves, despite warm summer temperatures and relatively constructive demand levels that weren't reflected in power prices – particularly in TX, which we attributed to anomalous wind speeds that shouldn't be expected to carry forward into 2017. We discuss this further in the note.

Figure 5: One-year price performance – Integrateds vs. S&P

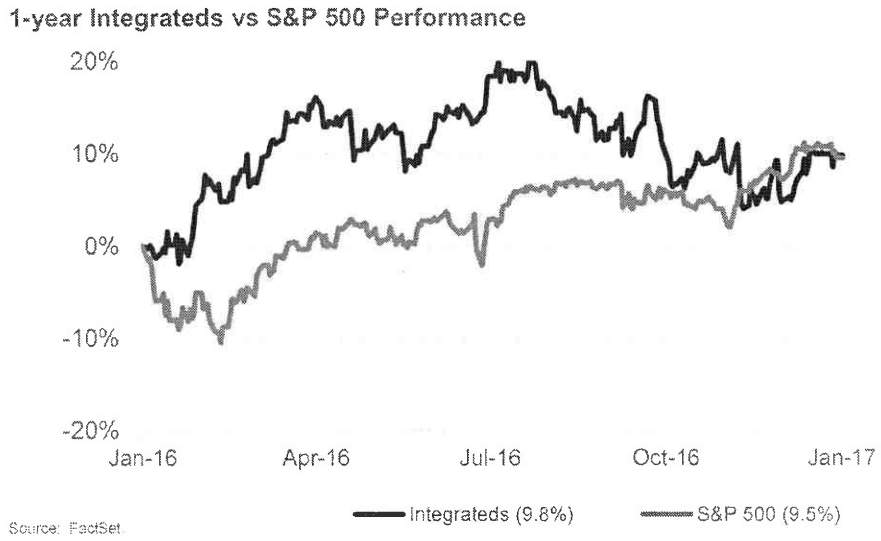
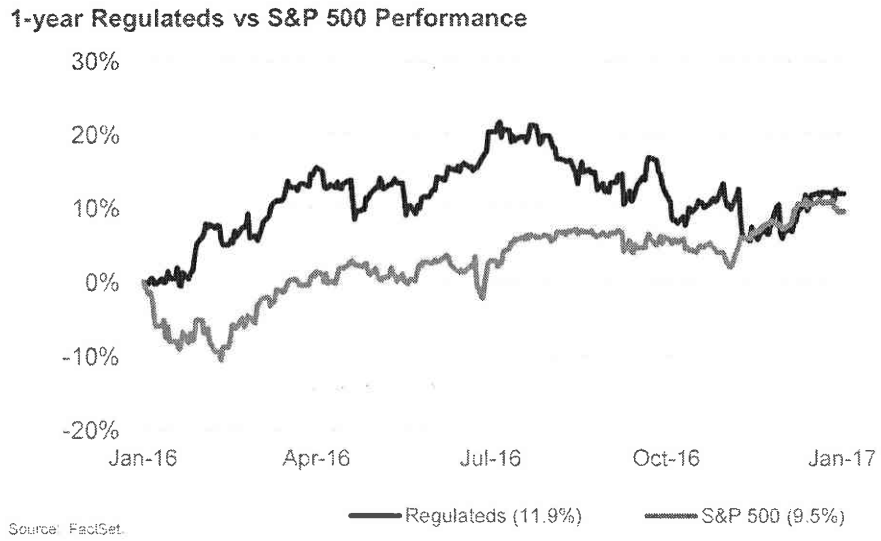


Figure 6: One-year price performance – Regulated utilities vs. S&P



KEY THEMES FOR 2017

EARLY POLICY OUTLOOK UNDER A NEW ADMINISTRATION

Donald Trump will become the 45th president of the United States next week, with support from Republican majorities in both the House and Senate, a business-friendly cabinet of advisors, and influential appointments outside the cabinet as well – In our view, it's fair to say Republicans will be running the policy table for the time being, and have already gone to work pushing legislation designed to further cement their control and ability to mold policy.

We anticipate some volatility/uncertainty over the next few months as the incoming Trump administration works on dismantling specific policies supported by executive orders from the departing administration, while the broader political landscape evolves into a backdrop more conducive of far-reaching policy reform with Republicans now running the table in both houses of Congress. The coalescence of excitement and uncertainty as policies and regulations are dismantled, and in light of Trump's economic agenda entailing lower tax rates, broader tax base, higher government spending, infrastructure investment, etc., should set an interesting back-drop for 2017 to say the least.

That said, the current political landscape is almost a mirror image of 2009/2010, when both houses of Congress were dominated by Democrats supporting President Obama's relatively progressive agenda; although contributing to pent-up frustration amongst conservatives, which ultimately became a source of momentum for the incoming regime.

While Trump's first priority seems to be un-doing Obama-policy, we note the topic of tax reform has gained momentum of its own since the election – Supported by a combination of political developments/considerations beyond just Trump's victory; and **tax code may likely be one of the less polarizing topics on Trump's agenda,** as both parties have proposed some degree of reform, and with at least one common denominator in their frustration with the current system. Considering the relatively polarizing list of topics highlighted along the campaign trail, tax reform likely stands out as a bi-partisan opportunity, in our view.

Below we lay-out key topics as they relate to utilities, along with issues or considerations around those topics, as well as our view on how policy might take shape and read-throughs to utilities.

Figure 7: Guggenheim's early-outlook on energy-related policy items

	Trump proposals	Issues and Considerations	Our view
Infrastructure investment	▪ $1 trillion of investment across a wide range of infrastructure ▪ Grow oil/gas production to achieve energy independence, create jobs	▪ Sticker-shock ▪ Funding spend while cutting taxes ▪ Rising interest rate expectations ▪ Unclear what the scope of an infrastructure bank might be, beyond reference to Build America Bonds	▪ Seemingly similar to Democrat-pushed stimulus, and unclear how much federal spending is entailed, so, funding with lower tax revenue is the sticking point; not sticker shock or partisan issues ▪ Shift to fiscal stimulus away from monetary policies prompts higher rates, weaker utility dividend yield ▪ Regardless of spending, we at least expect less interference from federal agencies, which would be constructive for development projects ▪ Production from new gas supplies spur midstream pipe, storage, gathering opportunities ▪ Good read-through for many of our utilities
Energy & carbon	▪ "America First Energy Plan" focused on creating jobs and energy independence ▪ Dismantle Clean Power Plan ▪ "All of the above" energy mix includes renewables ▪ Remove coal moratorium	▪ States have their own renewable goals (RPS) ▪ Tax credits aren't "removed" as easily as executive orders ▪ Tax credits were extended by a Republican Congress ▪ Role for nuclear	▪ Tax credits were approved with bi-partisan support and likely aren't at risk as they currently stand. ▪ Nuclear hasn't been federal or partisan; fate of subsidies is at state level (NY, IL, OH) ▪ Unclear how removing moratorium can revive coal; economics influence shift to gas; and renewables aren't so far behind anymore
Tax reform	▪ Lower corporate tax rate to 15% from 35% ▪ Repatriation holiday (10% tax rate)	▪ Entails major overhauls to the tax system. ▪ Pressure to fund higher spending proposals	▪ Regulated utilities pass tax savings to customers; disparity amongst utilities (see tax reform section) ▪ IPPs benefit from higher CF but valuations may correct as value of NOLs are impaired

Source: Guggenheim Securities, LLC, Trump campaign (donaldjtrump.com/policies)

TAX REFORM: PARTY LIKE ITS 1986!

A variety of topics are being discussed as likely areas of focus for the incoming administration this year, drawing popular topics from Trump's campaign trail without much else to use as a basis; and while we would discount campaign rhetoric that has yet to evolve into policy, ***the topic of tax reform seems to be taking on momentum of its own since the election*** *– Supported by a combination of political developments/considerations beyond just Trump's victory. The unpredictable and widely-divided political landscape isn't quite behind us yet, however a more conducive backdrop for far-reaching policy overhaul is taking shape, in our view, and tax reform is likely one of the less polarizing topics on Trump's agenda.* ***We likely won't see comprehensive tax reform in 2017, in our view, at least not to the extent proposed by Republicans; although it certainly should be on the radar considering far-reaching implications, and as the stars seem to be aligning for reform.***

Comprehensive tax reform likely now more than ever

It's too early to handicap the likelihood of comprehensive tax reform, although it appears increasingly likely now more than ever. In our view, this is based on: **(1)** Incoming administration with tax reform on the agenda to support economic growth; **(2)** Extensive groundwork already laid by comprehensive tax reform proposals that have come before; **(3)** Republicans taking control of both the White House and Congress; **(4)** Growing non-partisan frustration with the current tax system and support for reform of some sort; and **(5)** Accumulation of foreign earnings overseas, rather than repatriating cash, as companies look to avoid tax leakage.

Comprehensive tax reform can present an overwhelming range of potential outcomes, but no need to consider each scenario to see where reform is ultimately headed. The range of possible outcomes to consider under various tax reform proposals could become overwhelming, and Power & Utility implications aren't always intuitive; however, **we can see where reform is headed based on tax code modifications proposed by both Trump and House Republicans**: **(1)** Lower corporate tax rate; and **(2)** Allowing investments to be expensed, in lieu of the interest deduction currently allowed. Taxes on investment income represent a third potential variable relevant to our coverage, although a different angle.

At the end of the day, regulated utilities aren't the sector we would recommend for tax reform; that said, we see significant disparity emerging within the utility group.

- **Best-positioned:** Tax reform would likely reinforce our tilt toward IPPs levered to a cyclical recovery, as well as our bullish outlook on broader energy holdings (or diversified utilities) able to harvest tax savings without an obligation to refund them to customers; we would prefer several names including **CPN, DYN, NRG, PEG, D, DTE, NEE, SRE.**
- **Avoid utilities** with over-levered holding companies as interest tax shields would likely diminish.

Proposed Reform: Trump vs. House Republicans

House Republicans lay out clear path to tax reform, Trump's plan shares common ground

House Republicans released their Blueprint for Tax Reform (HERE) in June 2016, proposing tax code modifications to stimulate the economy such as lowering the corporate tax rate to 20%, eliminating the corporate Alternative Minimum Tax (AMT), and replacing interest deductions with expensing of investment; the Hose blueprint would eliminate most corporate deductions other than the R&D credit and LIFO accounting.

Trump's Tax Plan (HERE) isn't quite as comprehensive, although it shares common objectives with the proposal recently put forth by House Republicans (HERE), and focuses on modifications to many of the same areas within the tax code - A lot of ground work has already been laid in our view, considering Republican alignment across key elements of reform.

Below we highlight key elements of Trump's Plan and the House Blueprint; despite their differences, we would note they are both geared toward economic growth, and aligned with regard to specific elements of the tax code addressed.

Figure 8: Tax reform proposals - Trump vs. House Republicans

	Current tax policy	Trump Tax Plan	House Republican Blueprint
Corporate tax rate	▪ 35%	▪ 15% ▪ No Alternative Minimum Tax	▪ 20% ▪ No Alternative Minimum Tax ▪ NOLs carry forward (not back) adjusted for inflation
Deducting investment vs. interest	▪ Interest expense is deducted ▪ 50% of CapEx deductible with bonus depreciation - Phasing-out through 2019	▪ Companies elect to deduct one or the other	▪ 100% of CapEx deducted immediately ▪ Eliminate interest expense deduction
Investment income	▪ 23.8% on dividends - 20% on capital gains + 3.8% on investment income ▪ 43.4% on interest income - 39.6% on ordinary income + 3.8% on investment income	▪ 20.0% on dividends - Eliminate 3.8% tax on investment income ▪ 33% on interest income - Reflects new income brackets proposed	▪ 16.5% on dividends - Capital gains taxed as ordinary income, with 50% exclusion ▪ 16.5% on interest income - 50% exclusion of investment income also applies to interest

Note: Tax rates refer to the top bracket whenever applicable.
Source: Trump Tax Plan, House Republican Blueprint for Tax Reform, Guggenheim Securities, LLC analysis.

Implications for Utilities: Devil Is in the details

Directionally clear: lower corporate tax rate and deducting investments

Too early to make a call on tax reform, but we can see where this is headed. The range of possible outcomes to consider from various tax reform proposals can become overwhelming, and the implications for utilities aren't always intuitive, but we can see directionally where reform is headed based on tax code modifications proposed by both Trump and House Republicans – **Both Republican-backed tax reform proposals point to a lower corporate tax rate, and deducting investment instead of interest.**

Figure 9: Tax reform - Considerations and implications

	General Considerations and Implications[1]	Power & Utility Considerations
Corporate tax rate	▪ Higher earnings / CF ▪ Tax attributes (e.g., interest tax shield, NOLs) lose value ▪ Companies with deferred tax assets created by net operating losses (NOLs) that planned to offset future taxable income could see valuation erosion	▪ **Regulated/Hybrid utilities:** Tax savings pass to customers; disparity amongst utilities with: - HoldCo debt (negative) - Renewable development (negative) - Profitable unregulated business (positive) - Ability to avoid claw back (NT positive) ▪ **IPPs:** Higher CF but valuations may correct - Potential pressure on valuations as NOLs intended to offset future tax liabilities are impaired
Deducting investment vs. interest	▪ Higher CF from expensing 100% of CapEx likely even without deducting interest ▪ Expensed ~50% CapEx since 2008 w/ bonus depreciation; phasing-out through 2019 ▪ Less advantageous to lever-up without interest tax shield	▪ Higher CF reflecting 100% bonus depreciation vs. 50%, coupled with lower tax rate ▪ Regulated utility CF not materially impacted; offsets ratebase earnings
Investment income	▪ House Republican proposal would level the playing field for fixed-income investments vs. yield-oriented equities	▪ Trump proposal would be slight positive ▪ House Republican proposal could trigger share price corrections to reflect weaker after-tax yield of stock dividends vs. bond coupons

(1) General financial considerations not specific to any industry or company.
Source: Guggenheim Securities, LLC analysis.

LOWER CORPORATE TAX RATE

Statutory corporate tax rate is the key variable underlying any potential tax code modification. Underlying every element of tax code and each modification we discuss here is the statutory corporate tax rate. The value of a company's tax attributes (e.g., interest tax shield, NOLs, etc.,) is a direct function of the tax rate – value diminishes if the tax rate is lowered, and vice versa. If we assume tax reform ultimately equates to a lower corporate tax rate, the impact of subsequent modifications would be diluted from the start.

IPPs directly benefit from lower tax rate while regulated utilities pass savings to customers

Lowering the tax rate would drive earnings and CF higher across the broader market, although regulated utilities ultimately pass savings on to customers. Broader market indices (e.g., S&P 500) should reflect higher earnings and cash flow generation following a reduction of the statutory corporate tax rate, which would also be the case for unregulated **IPPs within our coverage, as they are direct beneficiaries of lower taxes - regulated utilities, on the other hand, would ultimately pass these savings on to customers though. That said, there would likely be opportunities for utilities that can capitalize on lagging reconciliation with rates while avoiding (or at least deferring) regulatory claw back; utilities with robust investment opportunities**

Overall, utility impact mixed depending on business exposure

may have an opportunity to fill some of the headroom in customer bills created in the absence of taxes, pulling CapEx forward and deploying tax savings into ratebase growth; or deploying savings into incrementally more efficient investments, assuming expedited return of capital when 100% of investment is deducted – this isn't a sustainable value driver for distribution, more for transmission where we wouldn't anticipate as much claw back.

DEDUCTING INVESTMENT VS. INTEREST

Deducting investment vs. interest a tougher call

Unclear how deducting investment vs. interest might be taken into consideration, or if there would even be a choice - signs point to CF upside vs. what's already in play, but may not be so simple. One difference worth noting between the two Republican proposals centers around allowing companies to deduct interest vs. expense investment; both of which are currently already in effect in some form though, with investments expensed via 50% accelerated depreciation (phasing-out through 2019), and current use of interest expense as a tax shield. **With both proposals pushing 100% deduction of investment, we would expect positive CF impacts vs. 50% currently expensed with accelerated depreciation** – although refunding excess deferred taxes to customers would be a swing factor for cash flow, further impeded as incremental depreciation expense lowers ratebase, putting downward pressure on regulated utility earnings power similar to tapered LT growth outlooks presented by utilities in early 2016 following the extension of bonus depreciation. **Can utilities fill that void by redeploying the higher CF's? This remains to be seen.**

RE-VISITING DEFERRED TAXES WILL LIKELY BE A SENSITIVE SUBJECT

Deferred taxes will likely be the main sticking-point for utilities transitioning to a lower tax rate. Deferred tax liabilities would be re-valued if the corporate tax rate changes, with lower rates proposed likely reducing these liabilities on the balance sheet; likely presenting a sticking point for utilities, which have seen deferred tax liabilities accumulate to upwards of 20% of their market capitalization.

Deferred tax liabilities represent tax savings resulting from differences between (1) book accounting of assets as reported on financial statements, and (2) tax treatment per IRS tax code. Typically a timing difference for utilities created by accelerated depreciation for tax purposes (intended to stimulate investment), versus book depreciation for accounting purposes (intended to reflect the useful life of an asset). A liability is recorded to reconcile the difference between "book" taxes (collected from customers in rates) and "cash" taxes (paid to the IRS).

Timing is the key

Timing is everything - for utilities, the debate centers on how to refund customers for excess deferred taxes created by lowering the tax rate. Lowering the tax rate would create excess deferred taxes, as companies would owe less taxes on deferred balances they've accumulated. This would typically be reflected as income on a company's financial statement, however regulated utilities would likely refund savings to their customers. Utilities with excess deferred taxes would likely create a liability to reflect tax savings that will be refunded to customers, and the timing of those refunds will likely be the swing factor **– presenting a potential drain on cash flow unless regulators allow utilities to refund customers over remaining asset lives, such as the provision enacted when the corporate tax rate was last reduced in 1986.**

Utilities would likely be able to avoid a damaging outcome, but won't rally around this issue together considering disparity we highlight within the group, but would likely default to historical precedent – Regan-era tax reform in 1986. If tax reform progresses to a point where topics such as deferred assets and liabilities come to light, it

becomes increasingly obscure for policy makers; utilities would likely facilitate further discussion, likely lobbying for a tax normalization provision that would allow them to refund deferred taxes over time (instead of abruptly reversing accumulated deferred taxes and driving their ratebase up). At the end of the day, utilities could just borrow cash to refund customers, and reversing their deferred tax liabilities would translate to higher ratebase, which in-turn translates to higher earnings; although we wouldn't expect utilities to agree on a solution upon which they could rally around considering company-specific implications we highlight within the group (e.g., not all utilities have the same tax attributes, borrowing capacity, etc.,). **Absent a prevailing consensus we believe the likely outcome defaults to status quo or historical precedent, which entailed legislation enacting a provision for tax normalization; as a reminder, regulators were directed to adopt tax normalization by Congress with Regan-era tax reforms in 1986.**

TAX INCENTIVES FOR RENEWABLES LIKELY WON'T BE IN FOCUS

Not as much of an impact on tax incentives for renewables...

Contrary to what the market has seemed to imply since the election, we don't believe tax incentives for renewables are doomed when Trump takes office. Following the election and the utility sell-off that followed, we highlighted disparity within the group's underperformance, and attributed the most extreme examples to knee-jerk reactions to campaign rhetoric; without much evidence to support Trump's political agenda, **the market prematurely read campaign rhetoric through to utility implications in our view – which would explain relative underperformance of utilities levered to renewable infrastructure development**, considering the president-elect's dismissive attitude toward renewables along the campaign trail and social media. Utilities levered to renewables (namely NEE) were over-sold on election results in our view, and we don't see renewable tax credits going away ahead of schedule; the bi-partisan package extending tax credits for renewables would be a sensitive subject vs. items such as the CPP sponsored by executive order from the outgoing administration, which shouldn't be difficult for a new administration to unwind – said differently, executive orders represent lower hanging fruit for the new administration. **At the end of the day state policy is more material for renewables anyway - state-level Renewable Portfolio Standards (RPS) drive demand for renewables.**

...as existing tax credits will stay put

Comprehensive tax reform aims much higher than renewable tax credits – likely not a topic worth debating in the bigger picture. We've become increasingly receptive to the likelihood of broader tax reform, although we still don't believe renewable incentives are at an immediate risk as they would be a rounding error amongst the trillions of dollars moving around with broader tax code modifications that have been proposed. We aren't arguing renewable tax incentives fall out of sight and out of mind with broader tax reform, but that utilities with unregulated renewable businesses (e.g., **NEE, SO, ED**) or YieldCos (e.g., **NYLD**) would continue harvesting tax credits for the foreseeable future; in other words, we don't see renewable tax incentives expiring ahead of schedule.

We don't think existing renewable tax credits are at risk from tax reform, although utilities could lose their appetite with lower tax rates but other items are driving renewable growth outside of just tax credits. While we aren't concerned with the viability of tax credits for renewables that are already in place (and already slated to phase out anyway), we don't think utilities would have much appetite for tax credits if proposed tax reforms take effect. Tax attributes would lose value if the tax rate is lowered, and utilities would lose their appetite for tax credits if they can deduct 100% of CapEx. **That said, a lot more is driving renewable growth outside of just tax incentives including RPS, fuel diversity initiatives and pure economics** – see our LCOE analysis (link provided in the back of this note).

Stock takeaways: Company read-throughs are asymmetric

Utilities with diversified business mix should benefit

No shortage of topics on Trump's agenda - Let's talk tax though. A variety of topics are being discussed as likely areas of focus for the incoming administration this year, drawing popular topics from Trump's campaign trail without much else to use as a basis; and while we would discount campaign rhetoric that has yet to evolve into policy, the topic of tax reform seems to be taking on momentum of its own since the election – supported by a combination of political developments/considerations beyond just Trump's victory.

- **Best-positioned:** Tax reform would likely reinforce our tilt toward IPPs levered to a cyclical recovery, as well as our bullish outlook on broader energy holdings (or diversified utilities) able to harvest tax savings without an obligation to refund them to customers; we would prefer several names including **CPN, DYN, NRG, PEG, D, DTE, NEE, SRE** – not all encompassing list.
- **Avoid utilities** with over-levered holding companies as interest tax shields would likely diminish.
- **At the end of the day, regulated utilities aren't the sector we would recommend for tax reform**.

Exiting renewable and expanding upstream are two of the potential strategic moves

Strategic priorities potentially shift as utilities position for reform. While we highlight relative positioning of utilities based on their existing business mix, we wouldn't be surprised to see strategies begin to shift as utilities position for tax reform. Potential strategy considerations stemming from proposed tax reforms could include:

- **Utilities exiting renewable development** as the value of their tax attributes diminishes with lower rates, and/or appetite for their tax attributes diminishes with 100% deduction of CapEx. Particularly utilities that could use proceeds to pay-down HoldCo debt as the interest tax shield diminishes.
- **Utilities expanding further upstream** in pursuit of taxable income if they no longer expect to be tax payers themselves.

Handicapping likelihood of reform

Comprehensive tax reform appears increasingly likely now more than ever, but certainly not a lock, and with plenty of room to negotiate. Our view is that tax reform is incrementally more likely in the current political landscape than it has been in the past, although we aren't making any assumptions around proposed reforms at this juncture as it's still too early to determine if the issue even comes to ahead and to what extent (likely a watered-down version of the proposals we discuss in this note).

Favorable conditions for tax reform:

1. **Incoming administration** with tax reform on the agenda to support economic growth;
2. **Extensive groundwork** already laid by comprehensive tax reform proposals that have come before;
3. **Republican control** of both the White House and Congress;
4. **Frustration** with the current tax system and proposed reforms from both Democrats and Republicans; and
5. **Earnings accumulated overseas** as companies avoid tax leakage associated with repatriating cash.

Obstacles ahead for tax reform:

1. **Balancing the budget** while cutting taxes;
2. **Partisan divide** and willingness to work with relatively polarizing Republicans (President-elect Trump, House Speaker Ryan);

3. **Diminishing returns** from tax reform proposals centered around economic stimulus, as the economy approaches full employment, and as the economy approaches eight years of expansion.

Republicans will need to consider their approach despite majority control of the House and Senate. Despite their control of the White House and both houses of Congress, Republicans will need to determine how to move forward with a tax reform package as their approach will likely influence the palatable scope for reform. Policy makers will ultimately need to decide if they want to cross-party lines; the budget reconciliation process wouldn't require bi-partisan support, only a simple majority in the House and Senate; however, it would require tax reform to be revenue neutral, otherwise opening the process up to potential interference, which could potentially be an issue to the extent there's a disconnect between proposed tax cuts and increased government spending. Alternatively, Republicans could look to work with Democrats on a bi-partisan package, although we would expect this to dilute the scope of reform.

YOU'RE FIRED: FERC TURNS RED IN 2017

More investor friendly FERC?

Quick-take – could finally become a much more "investor friendly" Commission: FERC is currently comprised of 0 Republican commissioners, 3 Democrat commissioners, and has 2 vacancies; Trump will likely appoint two new Republican commissioners to fill vacancies at FERC, one of whom would take the title of Chairman, and a third Republican to replace an expiring term next year—balancing the FERC with 3 Republican commissioners and 2 Democrat commissioners likely by the end of 2017. We expect **appointments will likely support Trump's vision by avoiding interference with infrastructure development, or intervening in cases or disputes associated with generators seeking regulated-like cost recovery at a state level.**

Could play less of a role and minimize overreach in power markets and infrastructure...

Trump likely appoints two Republican commissioners to FERC in early 2017, and a third later in 2017; comprising three-fifths of the pro-forma commission vs. 0/3 of the current commission. FERC commissioners are appointed by the president for staggered 5-year terms subject to Senate confirmation, and no more than three of the five commissioners may belong to the same political party. There are currently two vacancies on the commission, and the three existing commissioners are Democrats, so the next two commissioners appointed at FERC would have had to be Republican regardless of the election outcome. Assuming two commissioners can be in place early next year, Trump will have the opportunity to appoint a third commissioner in June 2017 when one of the existing Democrat Commissioner's term expires – essentially re-balancing the Commission to 3 Republicans and 2 Democrats in 2017 vs. the current commission comprised of 0 Republicans and 3 Democrats.

...could be even more apt to meet with investors

Likely a new face at the helm of FERC as well; not much more room for change from there though. The chairman of FERC is also a presidential designation and Trump will likely replace the current chairman, Commissioner Norman Bay, with one of his appointments. Terms for the remaining two Democrat commissioners expire in 2018 and 2019, although the commission would have already reached its cap of 3 from the same party. That said, Trump could still appoint commissioners to these vacancies, they just wouldn't be Republicans.

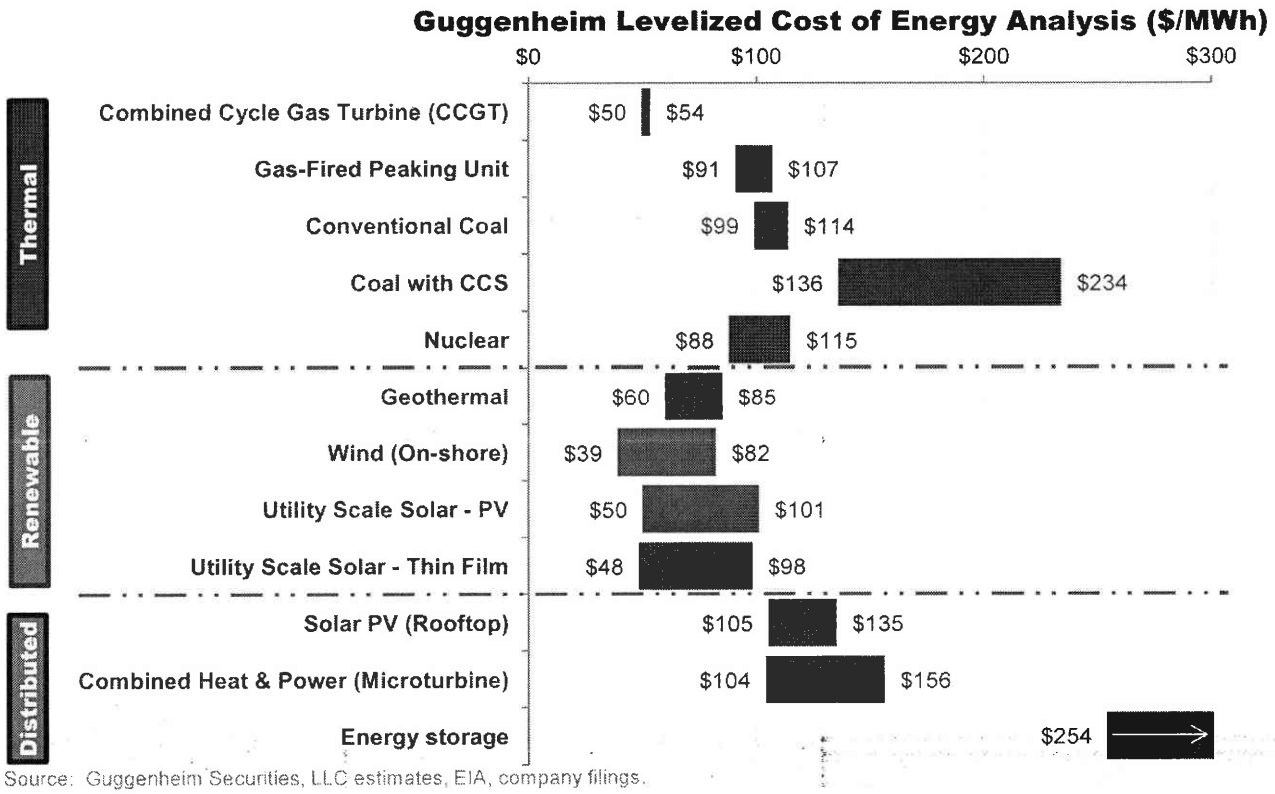
COAL OUTLOOK REMAINS BLEAK DESPITE TRUMP SUPPORT – REFRESHING OUR RETIREMENT OUTLOOK

Coal continues to face strong headwinds...we increase our retirement outlook

Outlook for coal is even bleaker despite friendly faces on the incoming Trump administration. Economic pressures continue to weigh on coal despite some relief on the environmental policy front with the incoming Trump administration likely to dismantle the EPA's Clean Power Plan. **We have largely continued to highlight the same two headwinds for coal since our sector launch**: **(1)** Weak economic fundamentals, **(2)** Stringent environmental requirements. It's already too late for any new coal to come online, as our economic analysis of generation technologies shows coal would struggle regardless of the political atmosphere, as economics of gas-fired generation remain relatively low and renewables aren't far behind. Even assuming CPP is dismantled and other environmental policies are delayed at the Federal level by the incoming Trump administration, we see very few regulated utilities foregoing earnings associated with investments to replace existing coal plants either.

Our latest LCOE analysis suggests no new coal capacity should be built. Based on our levelized cost of energy (LCOE) analysis, 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 $136 to $234/MWh. Even if environmental policy were to reverse, however, coal is still economically disadvantaged – our LCOE analysis for coal without CSS is between $99 and $114/MWh, significantly higher than a gas-fueled CCGT ($50-$54/MWh).

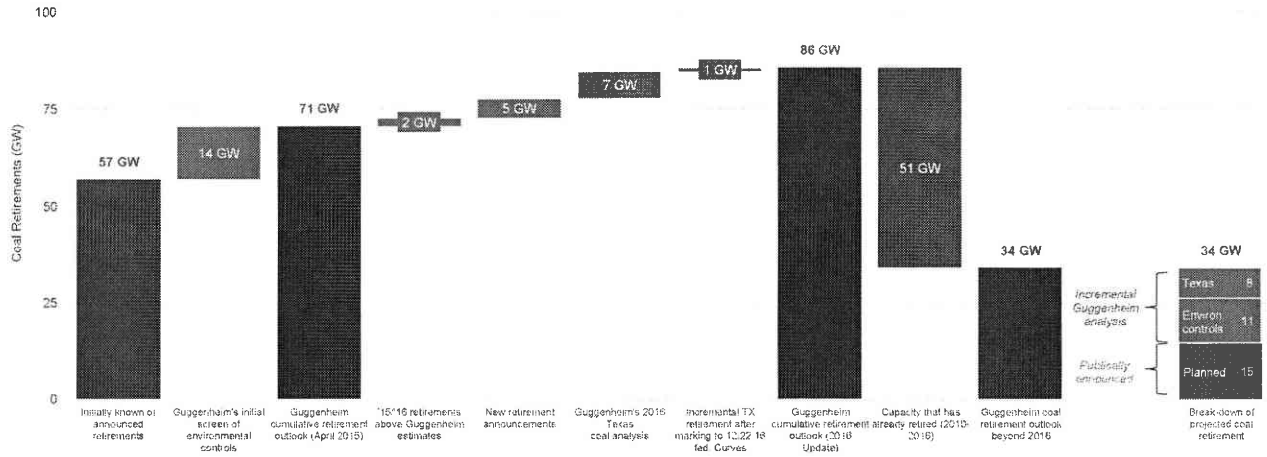
Figure 10: Summary of Guggenheim's Levelized Cost of Energy (LCOE) analysis



Source: Guggenheim Securities, LLC estimates, EIA, company filings.

While our economic analysis of the existing coal fleet points to even more retirements when we mark to the latest forward commodity curves. We are refreshing our coal outlook to incorporate the 12/22/16 forward curves, which have not improved over the past few months, **highlighting an incremental ~1GW of capacity retirement in TX** (where we model each coal plant individually) **– our updated projections would bring cumulative coal retirements to 86GW vs. our previous 85GW forecast (off 2009 as a base year).** As a reminder, the retirements we model beyond those already planned/announced are predominantly comprised of (1) plants we estimate are operating out-of-the-money at the current forward curves; and (2) plants requiring capital investment sufficient control equipment to comply with forthcoming environmental regulations. 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 (i.e., out of the money).

Figure 11: Current coal retirement outlook vs. our initial outlook



Source: Company Filings, SNL Energy, Guggenheim Securities, LLC estimates and analysis

Retirements are incrementally positive for gas demand, although we do not expect meaningful uplift in gas prices given the oversupply and muted demand growth. We estimate an incremental 34GW of coal retirement would equate to incremental gas demand up to 3Bcf/d, which shouldn't have a material impact on gas supply or prices when spread over the next few years and netted against production growth.

We estimate 1GW incremental retirement of coal vs. prior

Figure 12: Incremental gas demand from coal retirement (no renewables)

Coal retirement	Announced Retirements		Guggenheim Incremental		Guggenheim Outlook	
Lost capacity	15 GW	+	19 GW	=	34 GW	a
Capacity Factor	50% capacity		50% capacity		50% capacity	b
Lost generation	**65 TWh**		**85 TWh**		**150 TWh**	c = (a x b) x 8,760

Gas demand impact *(assuming no renewables)*			
Lost power generation	TWh	150	c
(x) Efficiency (CCGT heat rate)	BTu/KWh	7,500	e
(÷) Conversion factor	MMBtu/Mcf	1.03	d
Equivalent gas volume implied	Bcf	1,094	f = (c x e) / d
Incremental gas demand		**3.0 Bcf/d**	g = f / 365

High estimate

Source: Guggenheim Securities, LLC estimates

Renewable growth will dilute the impact. We would expect the impact on gas demand to be even further muted by renewable growth, especially wind and solar, which could leave only 0.6Bcf/d of incremental gas demand. Other impacts to demand could include increase in energy efficiency and demand side management programs across the U.S.

Figure 13: Incremental gas demand from coal retirement (w/ renewables)

Renewables	Wind Additions	+	Solar Additions	=	Renewable Penetration	
New capacity	26 GW		22 GW		48 GW	*h*
Capacity Factor	35% capacity		20% capacity		28% capacity	*i*
New Generation	79 TWh		39 TWh		117 TWh	*j = (h*i*8,760)*

Gas demand with range of renewable penetration	50% penetration	100% penetration	
Lost power generation	150 TWh	150 TWh	*c*
(-) New renewables	(59 TWh)	(117 TWh)	*j*
Incremental gas generation	91 TWh	32 TWh	*k = c + j*
(x) CCGT heat rate (Btu/KWh)	7,500	7,500	*e*
(÷) Conversion (MMBtu/Mcf)	1.03	1.03	*d*
Implied gas volume	665 Bcf	236 Bcf	*l = (e x k) / d*
Low estimate → **Incremental gas demand**	**1.8 Bcf/d**	**0.6 Bcf/d**	*m = i / 365*

Source: Guggenheim Securities, LLC estimates, Bloomberg New Energy Finance renewable estimates

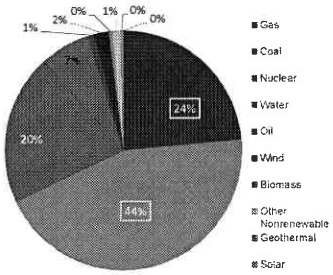
Coal is expected to play an ever-decreasing role for power generation especially when layering in our projected incremental retirements. Assuming the coal retirement path remains as we forecasted above and we layer in our incremental coal retirement estimate, we forecast coal as a % of total power generation mix can decrease from 2009 base levels of 44% to 29% by the end of the decade in volumetric terms (as measured in GWh, not capacity). Concurrently, natural gas' contribution to power generation can increase from 24% in 2009 base levels to 36% by the end of our projection period. See Figure 14 below.

Gas contribution to power consumption increasing to 36% at the expense of coal

Figure 14: Pro-forma U.S. power generation mix

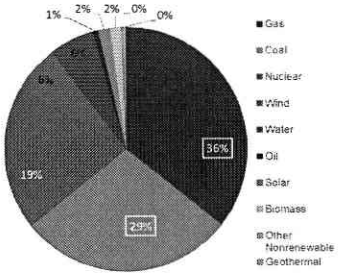
2009 Power Generation Mix

Fuel Type	Generation	% of
Gas	931,611	24%
Coal	1,755,904	44%
Nuclear	798,855	20%
Water	273,445	7%
Oil	38,937	1%
Wind	73,886	2%
Biomass	18,443	0%
Other	43,351	1%
Geothermal	15,009	0%
Solar	891	0%
	3,950,332	100%



After Guggenheim Projected Retirements

Fuel Type	Generation	% of
Gas	1,497,606	36%
Coal	1,206,482	29%
Nuclear	797,178	19%
Wind	269,723	6%
Water	251,168	6%
Oil	28,443	1%
Solar	65,017	2%
Biomass	64,191	2%
Other	8,145	0%
Geothermal	16,767	0%
	4,204,720	100%



Source: Company filings, SNL Energy, RTO, Guggenheim Securities, LLC.

INTEGRATED RESOURCE PLANS

Altering generation mixes are set to potentially drive additional CapEx spending. Below we highlight key filings.

VVC: Vectren's Indiana IRP filing to solidify in 1Q17, with finalized reports in late summer 2017. VVC's regulated growth is weighted heavily on gas while electric maintains a flat ratebase. The Electric IRP thus represents an incremental spending opportunity and potential uptick in growth outlook on FY16 earnings call.

Incremental spending opportunity at VVC electric utility

Late November, VVC revealed plans to retire both units at its 115MW Broadway Avenue Generating Station in 2018 and 2025, respectively, the 20MW Northeast (IN) peaking plant in 2019 and 580MW consisting of its A.B. Brown steam units and F.B. Culley unit 2 by 2024. In addition, Vectren plans to exit a joint operating agreement with an Alcoa Corp. subsidiary at unit 4 of the Warrick coal and gas plant. Vectren owns 150 MW of the 300-MW coal unit, according to its draft IRP. In total, VVC's electric utility will replace 715MW of coal and gas fired generation capacity with solar generation and an 889MW combined-cycle plant under an IRP expected to exceed carbon-reduction targets in the U.S. EPA's Clean Power Plan. VVC estimates it will spend approximately $250mm to comply with regulations including Coal Combustion Residual and Effluent Limitations Guideline, regarding coal ash, wastewater and air pollution handling and disposal.

Next step: IURC will respond to each of the IN state utilities that filed their IRPs, including Northern Indiana Public Service Co. (Nipsco) and Indianapolis Power & Light, and subsequently releasing a director's report likely in the summer of 2017. Additional details of the preferred plans are expected to be released publicly in February 2017 and details of a finalized plan are expected to be released in late summer of 2017.

Vectren's preferred portfolio consists of 54MW of solar capacity by 2019 and an 889MW combined-cycle natural gas plant by 2024. Upgrades are also planned at its F.B. Culley unit 3 by 2023 to comply with the EPA's Effluent Limitation Guidelines (ELG rule). However, the company has pointed out that some of its portfolio decisions may change based on the uncertainty of regulations, such as the CPP which is not expected to survive President-elect Trump's administration. The 20-year resource plan indicates that by 2036, baseload natural gas capacity and peaking natural gas capacity together will account for 63% of generating capacity, with coal accounting for 16%. In 2015, baseload coal provided 68% of the company's generating capacity and gas peakers another 17%. Energy efficiency, demand response and renewables together will form about 19% of its capacity in 2036, compared to 14% of its 2015 portfolio.

Hydro dominate AVA's generation mix

AVA: As a reminder, hydro is 48% of AVA's generation mix – specifically Fork River, which accounts for 80% of the hydro generation. As such, AVAs IRP shows adequate generation capacity through 2020. Now that said, Oregon passed SB 1547 increasing the RPS to 50% by 2040 and for IOUs to no longer serve Oregon customers with coal-fired resources by 2030 (AVA's portfolio still has 9% coal). There may be another 560MW of opportunities from 2020-2034 – given the next IRP filing set to take place in 2017. We note there are potential RFPs to be issued based on the 2017 IRP's outcome. The outcome is dependent on elements such as the LT load growth rate, and commission assessment of needs.

NI: Management is in a good position to revisit CAPEX on the heels of its IRP, which will be predicated around coal retirements as well as potential upsizing of its customer growth assumptions – currently assumed flat through outlook. Among the plans to the Indiana Utility Regulatory Commission (IURC) are the NIPSCO electric 2016 IRP – which proposes 50% of coal retirements; Baily in 2018 and 2 of 4 units at Schafer in 2023. There may be a bit short capacity in '18 but more so in '23; management will determine the next steps. There's' no change in CapEx outlook as plans merely removes environmental

spend of $1.5bn for new generation CapEx. NI views this as a proactive measure to changing the risk profile/business mix of the business with respect to generation; of the coal that's kept on the system, it expects ~$400mm of capital for compliance requirements.

Expected decision by OPUC in 1H2017

POR: Awaiting commission decision on IRP that could prompt potential additional spending opportunities from the related RFPs. 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 potential 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.

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. 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 process. 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. OPUC acknowledgment expected by 1H2017; RFPs as a result of the IRP sometime in 2H2017 with approvals by 2018.

UTILITIES CONTINUING TO MOVE UPSTREAM – FLEXING MIDSTREAM MUSCLES

We continue to highlight utilities moving further upstream as a key sector theme. Midstream gas pipeline investment can be material to our utility valuation, particularly with enhanced value being captured with alternative financing vehicles (i.e., MLP structure).

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 players on new and sizeable pipeline projects ranging from 1-2.5 Bfc/d in the East/Southeast U.S.

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. 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.

Some recent examples of current and potential midstream investment opportunities within our coverage space (outside of Dominion Resources, which has been a sizeable midstream player for some time) include:

- **ES: Access Northeast** JV with Spectra and National Grid) for 1 Bcf/d (scalable to 2Bcf/d). The project upgrades Algonquin and Maritimes & Northeast Pipeline systems.
- **NEE: Sabal Trail:** $1B JV with DUK and Spectra to bring gas from Transco Station 85 through Georgia and into Florida; **Florida Southeast Connection:**

$0.5B connection from Sabal Trail to load pocket; **Mountain Valley Pipeline:** $1.0-$1.3B JV with ED for ~2Bcf/day of Marcellus and Utica gas to markets in Mid/South Atlantic regions.

- **DTE:** DTE is slowly becoming a sizeable midstream player with expansion of existing assets as well as new projects – **Bluestone Pipeline**: expansion of 0.1 Bcf/d; **Millennium Pipeline** expansion of 0.2-0.5 Bcf/d; **Vector pipeline** expansion; **NEXUS**: new pipeline sourcing Marcellus and Utica shale gas to Michigan, Ohio, Chicago and Canada. The project is currently 1.5 Bcf/d of capacity, but it will likely get upsized to 2 Bcf/d, which will increase the initial $1B investment.

- **D/DUK/SO: Atlantic Coast Pipeline** – $2B JV with Dominion (48%), DUK (47%) and SO (5%) with total investment within $4.5-5B. Can be upsized to 2/Bcf, which will increase the spending projection. 90% subscribed and it will bring Marcellus gas through NC.

- **ED**: ~$2bn Stagecoach joint venture with Crestwood aiming to own and expand Northeast natural gas storage and pipeline infrastructure (ED purchased 50% equity interest for ~$975mm).

- **PEG:** joined **PennEast Pipeline** – new 100-mile pipeline that will bring 1 Bcf/d of gas to NJ. Cost estimated at ~$1.13B. PEG expects $13mm in earnings starting in 2019 from this pipeline.

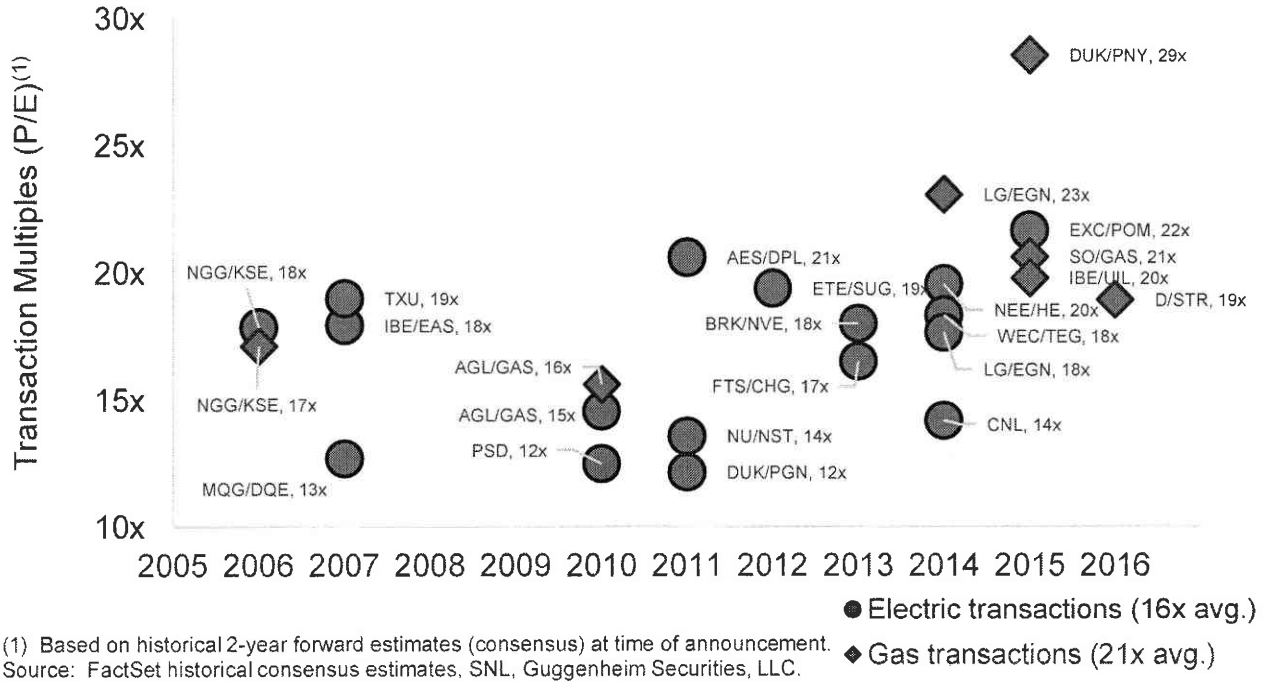
M&A AND STRATEGIC ACTIVITY TO CONTINUE

M&A is likely to continue…

M&A 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 gas infrastructure, (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 – no change to this in '17. 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 15 below).

Figure 15: 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.

…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.

Plenty of toys for buyers to look at

We expect M&A to continue, and we don't think recent buyers (DUK, SO, D, EXC etc.) have lost their appetite yet. Companies most likely to be involved in further transactions, in our view, include: D (acquirer), DUK (acquirer), ED (acquirer), NEE (acquirer), PPL (acquirer), and 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).

Plenty of toys remaining for potential buyers. We expect the sector to continue to be dominated by M&A as low borrowing costs continue to offset valuation premiums making most deals look near-term accretive – the thirst for growth will likely lead to further acquisitions of SMID utilities. Several names within our consolidated utility coverage as a whole could be strong candidates for an acquisition. **We highlight names from our expanded coverage:** ALE, AVA, LNT, NJR, NWN, PNW, POR, SCG, SJI, SR, and VVC 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.

Figure 16: Summary of potential strategic activity on the horizon (buyers vs. sellers)

Potential acquirers	Potential targets	Other potential strategic activity
D	ALE	
DUK	AVA	CNP/OGE (Enable)
ED	LNT	
EXC	NJR	ETR (nuclear exit)
NEE	NWN	
PPL	PNW	EXC (merchant/utility split)
SO	POR	
	SCG	FE (merchant exit)
	SJI	
	SR	PEG (merchant/utility split)
	VVC	

Source: Guggenheim Securities, LLC.

PEG – Two solid businesses that may not need each other forever

We support PEG irrespective of business mix change or not

PEG could eventually split its power and utility businesses in some form of a transaction. We continue to believe the power or utility segments will eventually be split in some form of a transaction (e.g., sale, spin, or some combination) over the next five to seven years. In our view, PEG Power would be a premium IPP given its diverse fleet and locational advantages, and PSE&G would be a solid stand-alone utility with its organic growth prospects – **we believe management recognizes this and doesn't believe the two businesses should compete for capital allocation over the long term.**

We hosted a dinner with senior management recently. A part of the discussion continued to focus on viability of the integrated model; particularly pronounced with PEG as it boasts one of the strongest regulated utility franchises and the unregulated power segment operates a premium merchant generation fleet – both quality businesses deserving a premium on a standalone basis, although sum-of-the-parts doesn't quite add

up at times. PEG remains a best in class integrated utility with upside potential at PSE&G. Power continues to evolve as a well-run "stand alone" entity with new Gas assets being constructed with balance sheet room to weather low power curves and/or make strategic acquisitions under the scenario that Power segment becomes an eventual standalone entity. Coal retirements already announced for 2017 should prove CF accretive, while CCGTs at Keys, Sewaren and Bridgeport Harbor on schedule/on budget. Power continues to improve CFs with a relatively underutilized B/S – in our view, **well set up for any potential strategic moves in 2019 and beyond as scale is built with new CCGTs, coal is retired** – some of which don't serve the PSE&G service territory. **For now, PEG remains a premium hybrid story that we continue to support irrespective of business mix.** See company section for more details.

Indian Point – it's a question of timing. We think sooner than later

ETR – One more nuke to go; we expect an IP announcement soon

Shedding nuclear exposure with the Fitzpatrick sale and Palisades shutdown, likely removing Indian Point overhang next. Following the sale of Fitzpatrick and shutdown of Palisades and Pilgrim, ETR would be left with one unregulated nuclear plant: Indian Point, one of few nukes operating in-the-money due to location and economies of scale. **We recently hosted management and it is our view that they do not wish to be in the merchant nuclear business, and further evidence suggests they are making a quick exit (i.e., irrespective of the plants economics).**

Using mosaic theory, we believe IP could be out of the mix next with a deal that would satisfy all parties especially to appease the NY Governor and various other parties (e.g., unspoken agreement associated with NY's ZEC and ETR's sale of Fitzpatrick), in our view. So, **it is increasingly apparent to us the Fitzpatrick sale was just a piece of a broader conversation in NY – management indicated they had very constructive conversations with the Governor on his energy policy vision**, although downplayed their presence in NY going forward – which aligns with our view that an announcement around retiring Indian Point could come next. Current share price does not reflect any value of Indian Point, in our view. **For more details, please see our report HERE**.

EXC integrated model sustainable and yields synergies…for now

EXC – Merchant/Regulated marriage yields synergies… for now

Not ready to capitulate, EXC continues down the integrated path…for now. We recently hosted meetings with management where the company emphasized its shift to a sustainable integrated business model with a more contracted earnings profile by incorporating its PHI acquisition and expectations of improving regulatory outcomes in those jurisdictions. Management noted that EXC is not shedding merchant like its regulated peers including FE, with relative poor performance in the generation side of the business. Contrary to others, **EXC's generation business has been generating very strong cash flows to support regulated utility earnings growth and HoldCo debt retirements (~$3Bn over next five years) without equity issuance needs – its integrated model is sustainable.** As a reminder, of ExGen's ~$4.7B in FCF (2016E-2018E), EXC could deploy $2.7B for regulated growth at a target of greater than 10% ROE for the utilities. **Management has indicated that the integrated model is sustainable over their 5-yr horizon…**

…that said, it's a model we would expect it to re-visit and reassess after year 5. At EXC's 2016 analyst day, management indicated it would likely re-visit the viability of the integrated business model post 2020. That said, we note willingness to monetize generation to which the market ascribes sufficient value, as it did to fund the PHI acquisition. In our view, having two solid businesses competing for capital resources is not efficient or optimal for valuation – history is a precursor. In our view, **ExGen would be**

a premium IPP given its strong cash flows supported by the forthcoming NY and IL subsidies and its growing retail platform; and EXC utilities would be a solid stand-alone utility with above-average 7-9% earnings growth driven by ample capital spending opportunities and plans to shore-up regulatory outcomes at recently-acquired PHI utilities. At this juncture, breaking the company apart wouldn't support the dividend without equity, so likely something to reconsider further down the road. **For now, the marriage between the two businesses yields synergies**. For more details, please see our report HERE. **See company section for more details.**

FE – inflection point with story; a lot of apprehensive investors so execution key

FE – Exiting merchant generation one way or another

12-18 month timeframe reaffirmed, FE is exiting the merchant business, possibly through bankruptcy. FE has been taking steps towards attaining its ultimate goal of exiting the merchant GenCo within the next 12-18 months, including the recent debt re-structuring and the separation of the board. With the material cut back on bank facilities at GenCo, diversity of banks, various NT protections (i.e. high impairment levels) and exclusions under the covenants, **FE appears to us to be taking a course of actions to limit creditor arguments in the scenario of a bankruptcy of the unregulated entity – many disagree with us.** We note the bear argument circling around the story (i.e. possible lawsuits associated with the restructuring of FES, which could be a bit of an overhang in the NT) is also reasonable. In the meantime, FE is also trying to sell marketable assets (most likely hydro/gas) and pursuing policy for nuclear/coal assets.

We expect to get more clarity on nuclear/coal assets slated for retirement in early 2017, as policy efforts (including a WV generation RFP) would need to be on-track in order to accomplish the exit strategy within the 12-18 month timeframe. WV policy likely continues to lean pro-coal, representing a lifeline for FE's Pleasance plant; management indicated a broad range of policy options are at play in OH all the way up to potentially re-regulating generation; a NY-like nuclear subsidy is the likely approach in PA. Along with policy efforts to support ongoing operation of FE's merchant fleet, management indicated a sale process is concurrently underway, with gas/hydro generating assets likely closer to a sale as these are relatively marketable assets. **See company section for more details.**

CNP – status quo with Enable a no-go

CNP – Strategic review continues for Enable Midstream

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 as with OGE. Any conclusion to this strategic review should remove an overhang. Multiple options are up for consideration, and they will all be weighed. A walk through of various scenarios was provided, with CNP noting it will be thoughtful of sale or spin, CNP reminded investors of their tax basis in ENBL, as of FYE15 it was -$800mm. This continues to increase as the distributions are more than the taxable income. As such any transaction where it is selling a position would thereby result in a higher value on a taxable basis.

One solution is a reorganization, in that an investor would receive 1 share of Spin Co. for 1 share of CNP; this would reset the tax basis for the investor, which would be 25% of the tax basis to CNP and the remaining 75% to Spin Co.; the combined basis has not changed. Separately with a spin tax, attorneys will determine what qualifies, but this wouldn't be until 1Q18 and then CNP would have to file in 2019 for the Sept 2018 tax year. As it is part of the IRS' large tax filer program, there are some risks if the lawyer's tax judgment at time of filing were to be different from the tax audit appraisal. Under the spin scenario, this would be a reset in the dividend for CNP legacy. While an investor's overall cash receipt would not change, it would be adjusted between CNP and the Spin

Co. Management noted it wants investors to be in a comparable place regardless of choice.

Reminder – 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 place no value for the GP in our sum-of-the-parts valuations for CNP or OGE.

POWER MARKET AND COMMODITY OUTLOOK

Marketing our GenCo's to the 12/22 forward curves

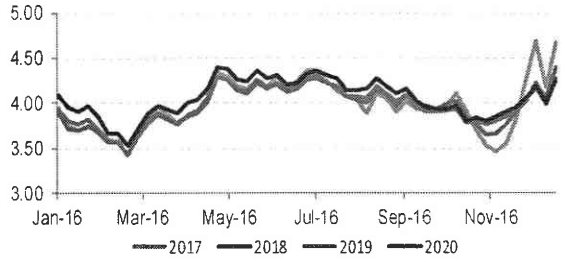
Our integrated and IPP models are now marked to the 12/22 forward curves. Our current viewpoint continues to reinforce the notion that power/energy markets have bottomed and are well set-up for a cyclical recovery especially as we head through the winter and enter the summer – the market was too complacent, in our view, following the anomalous weather event this past summer as we headed out of the El Nino event (i.e. the wind blew at the wrong time of the day), which we do not expect to be perpetual in nature. Coupled with coal retirements and too much dependency on intermittent resources, we forecast an eventual return to volatility and scarcity pricing in time. **That said, even at the current trough of the power market cycle, IPPs are still trading at historically high free cash flow yields which, in our view, is not sustainable and creates a theoretical floor.**

Commodity price environment

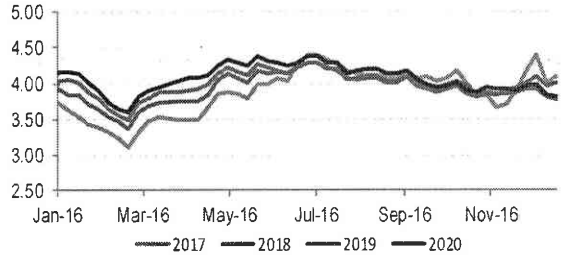
2016 experienced some fluctuation in natural gas and power forward prices, while basis differential volatility continued driven by weather, midstream capacity constraints, contract relationships, storage levels, and environmental policy developments. Forward prices decreased in general towards the end of the year. Below we present forward curve movements over the course of 2016 for power prices, gas prices, and spark spreads (PJM, MISO, ISO-NE, NY-ISO, and SPP).

Figure 17: Gas forward curves 2017-2020 as of 12/22/2016

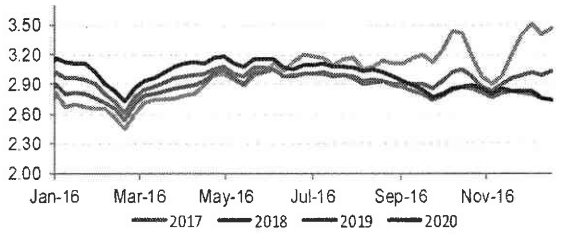
New England gas forwards ($/mmbtu)



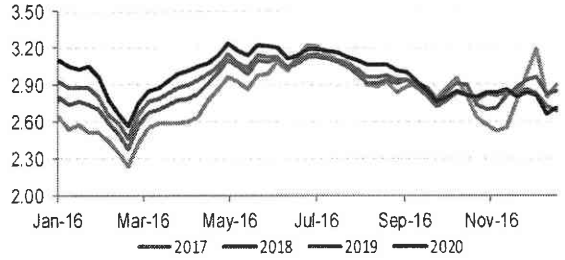
Greater New York gas forwards ($/mmbtu)



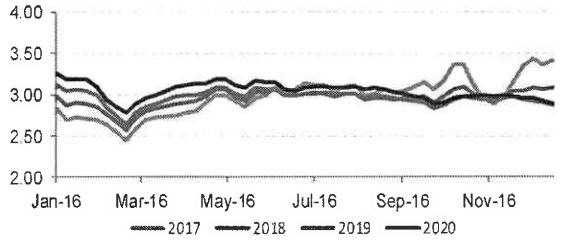
Illinois gas forwards ($/mmbtu)



Penn/Jersey/Maryland gas forwards ($/mmbtu)



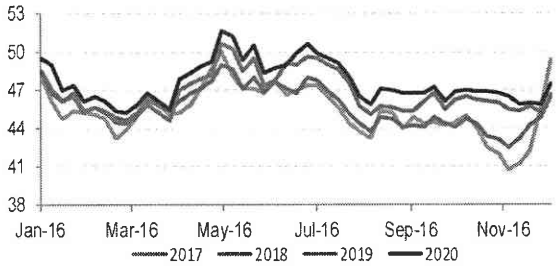
Texas gas forwards ($/mmbtu)



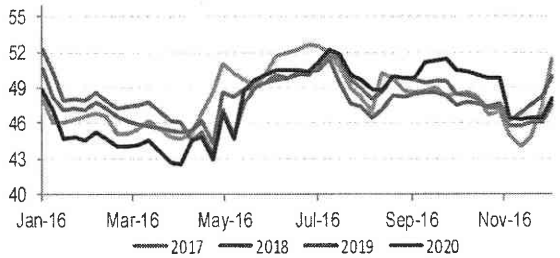
Source: ICE, Bentek, Guggenheim Securities, LLC.

Figure 18: Power forward curves 2017-2020 as of 12/22/2016

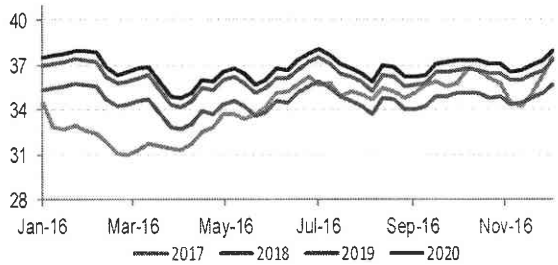
New England power forwards ($/MWh)



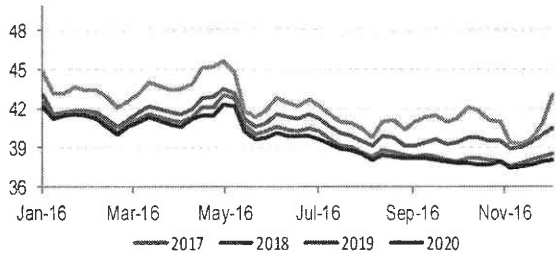
Greater New York power forwards ($/MWh)



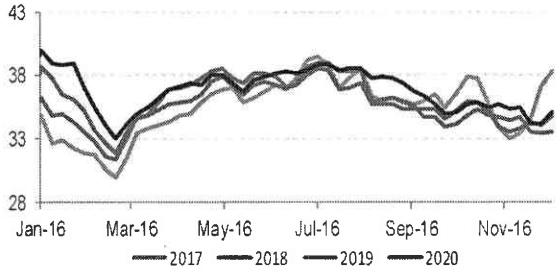
Illinois power forwards ($/MWh)



PJM power forwards ($/MWh)



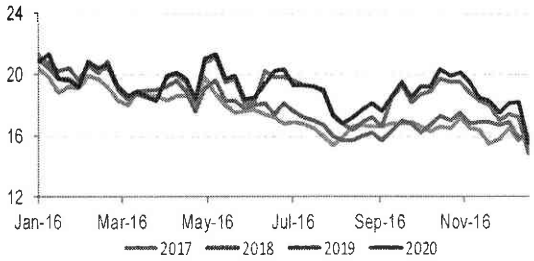
Texas power forwards ($/MWh)



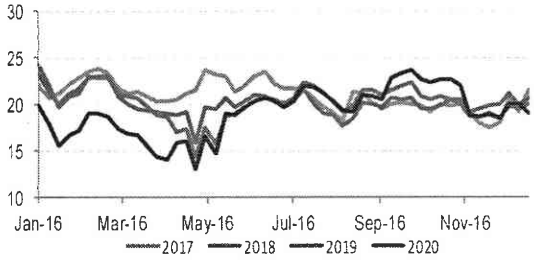
Source: ICE, Bentek, Guggenheim Securities, LLC.

Figure 19: Forward spark spreads 2017-2020 as of 12/22/2016

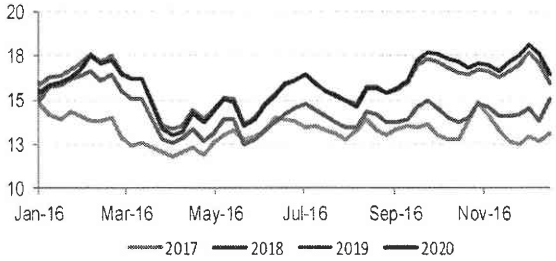
New England spark spreads ($/MWh)



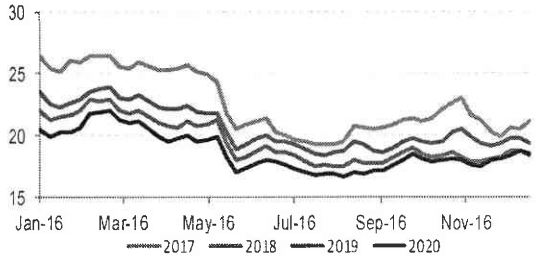
Greater New York spark spreads ($/MWh)



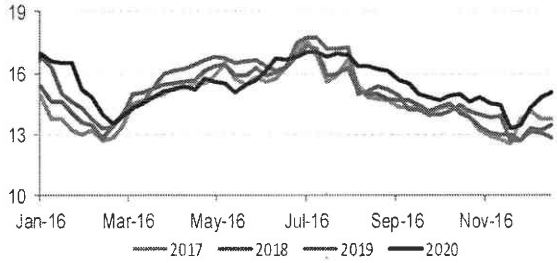
Illinois spark spreads ($/MWh)



PJM Average spark spreads ($/MWh)

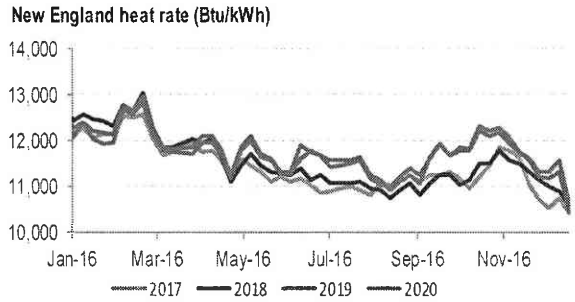


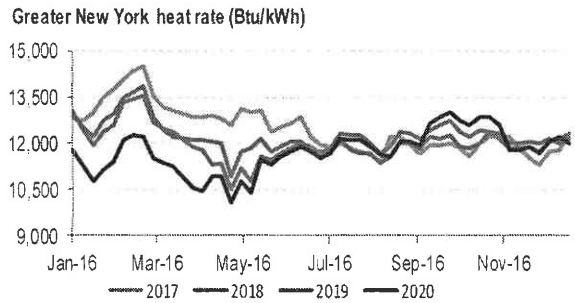
Texas spark spreads ($/MWh)

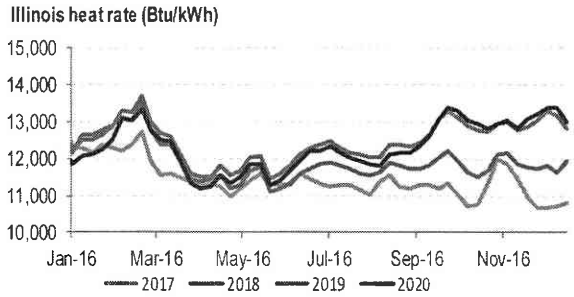


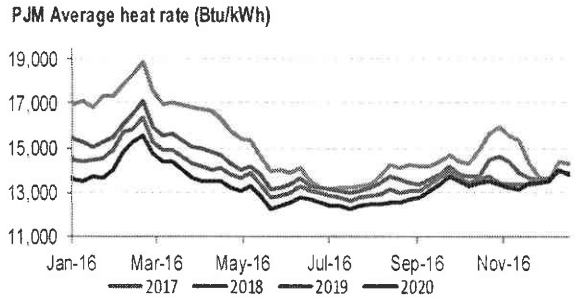
Source: ICE, Bentek, Guggenheim Securities, LLC.

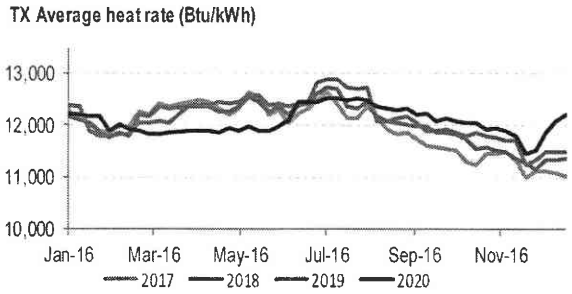
Figure 20: Forward heat rate 2017-2020 as of 12/22/2016











Source: ICE, Bentek, Guggenheim Securities, LLC.

Forward commodity curves for natural gas, coal, and power

The charts below highlight the curves for natural gas, power, coal, heat rates, and spreads (spark, dark, and quark) that now run our GenCo models. The nature of the forward curve reflects the need of industry participants to hedge their risk even though companies may have a more optimistic view of the pricings. For example, EXC assumes a premium for NiHub. The energy market will likely remain challenging in the near term. **Our integrated and IPP models are now driven by the 12/22/2016 forward curves presented below – generally driving estimates lower vs. our last mark on 9/30.**

Figure 21: Forward commodity curves – Guggenheim Price Deck

12/22/2016	Cal-2016			Cal-2017			Cal-2018			Cal-2019			Cal-2020		
SPREAD SUMMARY $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
Spark Spread (Natural Gas)	9.90	2.80	6.46	12.57	2.21	7.50	13.14	2.93	8.14	13.57	4.17	8.95	14.70	4.57	9.74
Dark Spread (Coal)	15.37	8.42	11.96	13.28	2.94	8.18	12.24	2.15	7.26	10.01	0.85	5.49	9.48	-0.13	4.75
Quark Spread (Nuclear)	29.18	21.59	25.49	32.95	22.53	27.84	31.29	21.34	26.41	30.18	21.14	25.75	30.88	21.46	26.27

"Peak" prices refer to average daily peak prices, not summer seasonal peak periods.

	Cal-2016			Cal-2017			Cal-2018			Cal-2019			Cal-2020		
POWER PRICES $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	40.65	31.95	36.30	48.83	35.51	42.17	46.73	33.06	39.90	44.84	32.12	38.48	45.28	31.36	38.32
Greater New York	40.60	29.05	34.83	50.20	33.91	42.06	48.78	32.40	40.59	46.55	31.40	38.98	45.82	31.20	38.51
Penn/Jersey/Maryland	36.40	28.48	32.44	41.40	28.43	34.91	39.39	26.96	33.17	37.26	26.01	31.64	37.44	25.78	31.61
Midwest	33.75	26.95	30.35	38.10	27.03	32.56	36.39	25.42	30.91	35.13	24.93	30.03	34.89	24.62	29.75
Illinois	34.40	24.70	29.55	37.38	25.15	31.26	36.29	25.23	30.76	35.14	26.14	30.64	35.68	26.56	31.12
Southeast/Gulf Coast	33.00	25.74	29.37	35.93	26.09	31.01	34.85	25.82	30.34	33.34	25.05	29.19	33.18	25.27	29.23
Texas	26.92	20.35	23.63	37.44	25.17	31.30	34.87	21.93	28.40	32.88	20.78	26.83	35.19	21.50	28.35
Desert Southwest *	27.55	22.25	25.27	30.08	24.09	27.51	28.41	22.41	25.83	29.25	24.32	27.13	32.10	25.35	29.20
So Cal *	39.25	31.10	35.75	35.60	29.43	32.95	33.06	28.14	30.94	33.21	28.94	31.37	34.63	30.74	32.96
North CA *	40.05	31.75	36.48	38.32	30.69	35.04	35.85	29.26	33.01	36.43	30.48	33.87	38.80	31.23	35.54
Pac Northwest *	32.24	23.78	28.60	30.70	21.67	26.81	28.87	20.98	25.48	30.12	22.21	26.72	32.64	23.35	28.64
US Average	32.79	25.40	29.21	36.96	26.43	31.81	35.25	25.08	30.27	34.23	24.94	29.68	35.08	25.27	30.29

* Western flat power is 57% peak, 43% off peak, due to its 6X16 bid block schedule. Other regional flat prices are 50% peak, 50% off peak due to a 5X16 bid block schedule.

	Cal-2016		Cal-2017		Cal-2018		Cal-2019		Cal-2020		
GAS PRICES $/mmbtu	Basis	$/mmbtu	Basis	$/mmbtu	Basis	$/mmbtu	Basis	$/mmbtu	Peak	Off-Peak	Flat
New England	1.42	4.45	1.21	4.68	1.31	4.40	1.45	4.29	1.41	4.26	
Greater New York	0.55	3.58	0.63	4.09	0.91	4.00	0.94	3.78	0.96	3.81	
Penn/Jersey/Maryland	-0.24	2.79	-0.57	2.90	-0.24	2.85	-0.15	2.69	-0.14	2.71	
Midwest	0.06	3.09	0.02	3.48	-0.06	3.03	-0.09	2.75	-0.11	2.74	
Illinois	0.09	3.11	0.00	3.46	-0.06	3.03	-0.10	2.74	-0.10	2.75	
Southeast/Gulf Coast	3.03	3.03	3.47	3.47	3.09	3.09	2.84	2.84	2.85	2.85	
Texas	-0.07	2.95	-0.05	3.41	0.00	3.09	0.03	2.87	0.04	2.89	
Desert Southwest	-0.12	2.91	-0.30	3.16	-0.33	2.76	-0.34	2.50	-0.32	2.53	
So Cal	0.33	3.36	-0.10	3.36	-0.14	2.96	-0.10	2.74	-0.07	2.78	
North CA	-0.03	2.99	-0.20	3.26	-0.24	2.85	-0.26	2.58	-0.23	2.62	
Pac Northwest	-0.06	2.96	-0.26	3.20	-0.30	2.79	-0.31	2.53	-0.29	2.56	

	Cal-2016			Cal-2017			Cal-2018			Cal-2019			Cal-2020		
SPARK SPREADS $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	9.53	0.83	5.18	16.09	2.77	9.43	15.94	2.27	9.10	14.83	2.12	8.48	15.50	1.57	8.53
Greater New York	15.57	4.02	9.79	21.54	5.25	13.39	20.76	4.38	12.57	20.07	4.92	12.49	19.14	4.52	11.83
Penn/Jersey/Maryland	16.90	8.97	12.94	21.11	8.14	14.62	19.41	6.99	13.20	18.44	7.19	12.81	18.47	6.81	12.64
Midwest	12.15	5.35	8.75	13.72	2.64	8.18	15.17	4.20	9.68	15.91	5.70	10.80	15.68	5.41	10.54
Illinois	12.62	2.92	7.77	13.13	0.90	7.01	15.05	3.99	9.52	15.97	6.97	11.47	16.45	7.34	11.90
Southeast/Gulf Coast	11.82	4.56	8.19	11.66	1.81	6.74	13.22	4.19	8.71	13.45	5.16	9.31	13.23	5.32	9.28
Texas	6.24	-0.32	2.96	13.54	1.27	7.41	13.25	0.32	6.79	12.77	0.66	6.71	14.93	1.24	8.08
Desert Southwest	7.19	1.89	4.91	7.93	1.94	5.36	9.08	3.08	6.50	11.76	6.83	9.64	14.36	7.61	11.46
So Cal	15.74	7.59	12.24	12.05	5.88	9.40	12.38	7.45	10.26	14.05	9.78	12.22	15.20	11.31	13.52
North CA	19.11	10.81	15.54	15.47	7.84	12.19	15.92	9.33	13.08	18.34	12.39	15.78	20.44	12.87	17.19
Pac Northwest	11.50	3.04	7.86	8.27	-0.76	4.39	9.35	1.46	5.96	12.40	4.49	9.00	14.71	5.42	10.72
	9.90	2.80	6.46	12.57	2.21	7.50	13.14	2.93	8.14	13.57	4.17	8.95	14.70	4.57	9.74

Source: ICE, Bentek, Guggenheim Securities, LLC.

Forward commodity curves – Guggenheim Price Deck *(continued…)*

COAL PRICES	Cal-2016 $/Sh ton	Cal-2016 $/mmbtu	Cal-2016 $/MWH	Cal-2017 $/Sh ton	Cal-2017 $/mmbtu	Cal-2017 $/MWH	Cal-2018 $/Sh ton	Cal-2018 $/mmbtu	Cal-2018 $/MWH	Cal-2019 $/Sh ton	Cal-2019 $/mmbtu	Cal-2019 $/MWH	Cal-2020 $/Sh ton	Cal-2020 $/mmbtu	Cal-2020 $/MWH
Central Appalachian	40.00	1.67	16.67	55.63	2.32	23.18	54.23	2.26	22.59	56.94	2.37	23.72	59.78	2.49	24.91
Powder River Basin	11.80	0.67	6.70	11.88	0.67	6.75	12.24	0.70	6.95	12.85	0.73	7.30	13.49	0.77	7.67

CAPP DARK SPREADS $/MWH	Cal-2016 Peak	Cal-2016 Off-Peak	Cal-2016 Flat	Cal-2017 Peak	Cal-2017 Off-Peak	Cal-2017 Flat	Cal-2018 Peak	Cal-2018 Off-Peak	Cal-2018 Flat	Cal-2019 Peak	Cal-2019 Off-Peak	Cal-2019 Flat	Cal-2020 Peak	Cal-2020 Off-Peak	Cal-2020 Flat
New England	23.98	15.28	19.63	25.64	12.33	18.99	24.13	10.47	17.30	21.11	8.40	14.75	20.37	6.45	13.41
Greater New York	23.93	12.38	18.16	27.02	10.73	18.88	26.18	9.81	17.99	22.83	7.68	15.25	20.91	6.29	13.60
Penn/Jersey/Maryland	19.73	11.81	15.77	18.22	5.24	11.73	16.79	4.37	10.58	13.54	2.29	7.92	12.53	0.87	6.70
Midwest	17.08	10.28	13.68	14.92	3.84	9.38	13.80	2.83	8.31	11.41	1.21	6.31	9.98	-0.29	4.84
Illinois	17.73	8.03	12.88	14.19	1.97	8.08	13.70	2.63	8.16	11.41	2.41	6.91	10.77	1.65	6.21
Southeast/Gulf Coast	16.33	9.07	12.70	12.75	2.90	7.83	12.26	3.23	7.74	9.61	1.32	5.47	8.27	0.36	4.32
Texas	10.25	3.69	6.97	14.25	1.99	8.12	12.27	-0.86	5.81	9.16	-2.94	3.11	10.28	-3.41	3.44
Desert Southwest	10.88	5.58	8.60	6.90	0.91	4.32	5.81	-0.19	3.23	5.52	0.59	3.40	7.19	0.44	4.29
So Cal	22.58	14.43	19.08	12.42	6.25	9.77	10.47	5.54	8.35	9.48	5.21	7.65	9.72	5.83	8.05
North CA	23.38	15.08	19.81	15.14	7.51	11.86	13.25	6.66	10.42	12.71	6.76	10.15	13.89	6.32	10.63
Pac Northwest	15.57	7.11	11.94	7.51	-1.52	3.63	6.28	-1.61	2.88	6.40	-1.51	3.00	7.73	-1.56	3.73
	15.37	**8.42**	**11.96**	**13.28**	**2.94**	**8.18**	**12.24**	**2.15**	**7.26**	**10.01**	**0.85**	**5.49**	**9.48**	**-0.13**	**4.75**

QUARK SPREADS $/MWH	Cal-2016 Peak	Cal-2016 Off-Peak	Cal-2016 Flat	Cal-2017 Peak	Cal-2017 Off-Peak	Cal-2017 Flat	Cal-2018 Peak	Cal-2018 Off-Peak	Cal-2018 Flat	Cal-2019 Peak	Cal-2019 Off-Peak	Cal-2019 Flat	Cal-2020 Peak	Cal-2020 Off-Peak	Cal-2020 Flat
New England	36.00	27.30	31.65	44.18	30.86	37.52	42.08	28.41	35.25	40.19	27.47	33.83	40.63	26.71	33.67
Greater New York	35.95	24.40	30.18	45.55	29.26	37.41	44.13	27.75	35.94	41.90	26.75	34.33	41.17	26.55	33.86
Pen/Jersey/Mrylnd	31.75	23.83	27.79	36.75	23.78	30.26	34.74	22.31	28.52	32.61	21.36	26.99	32.79	21.13	26.96
Midwest	29.10	22.30	25.70	33.45	22.38	27.91	31.74	20.77	26.26	30.48	20.28	25.38	30.24	19.97	25.10
Illinois	29.75	20.05	24.90	32.73	20.50	26.61	31.64	20.58	26.11	30.49	21.49	25.99	31.03	21.91	26.47
Southeast/Gulf Coast	28.35	21.09	24.72	31.28	21.44	26.36	30.20	21.17	25.69	28.69	20.40	24.54	28.53	20.62	24.58
Texas	22.27	15.70	18.98	32.79	20.52	26.65	30.22	17.28	23.75	28.23	16.13	22.18	30.54	16.85	23.70
Desert Southwest	22.90	17.60	20.62	25.43	19.44	22.86	23.76	17.76	21.18	24.60	19.67	22.48	27.45	20.70	24.55
So Cal	34.60	26.45	31.10	30.95	24.78	28.30	28.41	23.49	26.29	28.56	24.29	26.72	29.98	26.09	28.31
North CA	35.40	27.10	31.83	33.67	26.04	30.39	31.20	24.61	28.36	31.78	25.83	29.22	34.15	26.58	30.89
Pac Northwest	27.59	19.13	23.95	26.05	17.02	22.16	24.22	16.33	20.83	25.47	17.56	22.07	27.99	18.70	23.99
	29.18	**21.59**	**25.49**	**32.95**	**22.53**	**27.84**	**31.29**	**21.34**	**26.41**	**30.18**	**21.14**	**25.75**	**30.88**	**21.46**	**26.27**

PEAK	Cal-2016 Peak	Cal-2016 Off-Peak	Cal-2016 Flat	Cal-2017 Peak	Cal-2017 Off-Peak	Cal-2017 Flat	Cal-2018 Peak	Cal-2018 Off-Peak	Cal-2018 Flat	Cal-2019 Peak	Cal-2019 Off-Peak	Cal-2019 Flat	Cal-2020 Peak	Cal-2020 Off-Peak	Cal-2020 Flat
Greater New York															
Zone G	39.30	28.10	33.70	46.79	32.75	39.77	45.47	31.02	38.24	42.83	29.73	36.28	42.36	29.16	35.76
Zone J	40.60	29.05	34.83	50.20	33.91	42.06	48.78	32.40	40.59	46.55	31.40	38.98	45.82	31.20	38.51
Zone A	33.25	20.50	26.88	40.99	24.03	32.51	39.95	22.81	31.38	38.82	22.98	30.90	38.57	23.13	30.85
Average, NY Pool	37.72	25.88	31.80	46.00	30.23	38.11	44.73	28.74	36.74	42.73	28.04	35.39	42.25	27.83	35.04
Zone G Heat Rate	10,990	7,858	9,424	11,428	7,998	9,713	11,360	7,750	9,555	11,322	7,859	9,591	11,115	7,651	9,383
Zone J Heat Rate	11,353	8,124	9,739	12,261	8,281	10,271	12,187	8,095	10,141	12,305	8,300	10,302	12,022	8,187	10,104
Zone A Heat Rate	9,298	5,733	7,515	10,011	5,869	7,940	9,981	5,699	7,840	10,262	6,073	8,167	10,120	6,069	8,095

IMPLIED HEAT RATES	Cal-2016 Peak	Cal-2016 Off-Peak	Cal-2016 Flat	Cal-2017 Peak	Cal-2017 Off-Peak	Cal-2017 Flat	Cal-2018 Peak	Cal-2018 Off-Peak	Cal-2018 Flat	Cal-2019 Peak	Cal-2019 Off-Peak	Cal-2019 Flat	Cal-2020 Peak	Cal-2020 Off-Peak	Cal-2020 Flat
New England	9,143	7,186	8,165	10,440	7,593	9,017	10,623	7,516	9,070	10,461	7,495	8,978	10,642	7,369	9,005
Greater New York	11,353	8,124	9,739	12,261	8,281	10,271	12,187	8,095	10,141	12,305	8,300	10,302	12,022	8,187	10,104
Penn/Jersey/Maryland	13,065	10,221	11,643	14,284	9,808	12,046	13,803	9,449	11,626	13,856	9,673	11,765	13,819	9,515	11,667
Midwest	10,936	8,733	9,835	10,939	7,758	9,348	12,002	8,384	10,193	12,790	9,075	10,933	12,714	8,970	10,842
Illinois	11,058	7,940	9,499	10,789	7,260	9,025	11,962	8,314	10,138	12,835	9,548	11,191	12,991	9,672	11,331
Southeast/Gulf Coast	10,905	8,506	9,706	10,362	7,523	8,943	11,278	8,356	9,817	11,736	8,818	10,277	11,643	8,867	10,255
Texas	9,113	6,891	8,002	10,967	7,373	9,170	11,293	7,105	9,199	11,442	7,231	9,336	12,158	7,428	9,792
Desert Southwest	9,472	7,650	8,689	9,508	7,613	8,693	10,288	8,115	9,354	11,709	9,736	10,860	12,667	10,001	11,521
So Cal	11,687	9,260	10,643	10,582	8,748	9,793	11,188	9,522	10,472	12,136	10,576	11,465	12,473	11,073	11,871
North CA	13,390	10,615	12,197	11,739	9,402	10,734	12,590	10,276	11,595	14,098	11,795	13,108	14,792	11,909	13,552
Pac Northwest	10,879	8,024	9,651	9,582	6,763	8,370	10,352	7,524	9,136	11,895	8,771	10,552	12,745	9,117	11,185
Market Heat Rate	**10,722**	**8,382**	**9,552**	**10,835**	**7,827**	**9,331**	**11,537**	**8,301**	**9,919**	**12,223**	**9,014**	**10,618**	**12,478**	**9,104**	**10,791**

Source: ICE, Bentek, Guggenheim Securities, LLC

Forward commodity curves – Guggenheim Price Deck *(continued...)*

	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
ERCOT															
Houston	27.11	20.41	23.76	39.64	25.94	32.79	36.13	22.45	29.29	33.45	21.23	27.34	36.12	22.05	29.09
North	26.00	20.69	23.35	35.93	24.64	30.28	33.73	21.61	27.67	32.20	20.30	26.25	34.25	20.97	27.61
South	28.10	19.78	23.94	37.35	25.15	31.25	35.22	21.88	28.55	33.31	21.03	27.17	35.61	21.73	28.67
Average, ERCOT Pool	26.92	20.35	23.63	37.44	25.17	31.30	34.87	21.93	28.40	32.88	20.78	26.83	35.19	21.50	28.35

PRB DARK SPREADS $/MWH	Cal-2016			Cal-2017			Cal-2018			Cal-2019			Cal-2020		
	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	33.95	25.25	29.60	42.08	28.76	35.42	39.77	26.11	32.94	37.53	24.82	31.18	37.62	23.69	30.66
Greater New York	33.90	22.35	28.12	43.45	27.16	35.31	41.82	25.45	33.63	39.25	24.10	31.67	38.16	23.54	30.85
Penn/Jersey/Maryland	29.70	21.77	25.73	34.65	21.68	28.16	32.43	20.01	26.22	29.96	18.71	24.34	29.77	18.11	23.94
Midwest	27.05	20.25	23.65	31.35	20.28	25.82	29.44	18.47	23.95	27.83	17.63	22.73	27.23	16.95	22.09
Illinois	27.70	18.00	22.85	30.63	18.40	24.51	29.34	18.27	23.81	27.83	18.84	23.33	28.01	18.90	23.46
Southeast/Gulf Coast	26.30	19.04	22.67	29.18	19.34	24.26	27.90	18.87	23.38	26.04	17.75	21.89	25.52	17.61	21.56
Texas	20.21	13.65	16.93	30.69	18.42	24.55	27.91	14.98	21.45	25.58	13.48	19.53	27.52	13.84	20.68
Desert Southwest	20.85	15.55	18.57	23.33	17.34	20.76	21.46	15.46	18.88	21.95	17.02	19.83	24.44	17.68	21.53
So Cal	32.55	24.40	29.04	28.85	22.68	26.20	26.11	21.18	23.99	25.91	21.64	24.07	26.96	23.08	25.29
North CA	33.35	25.05	29.78	31.57	23.94	28.29	28.89	22.31	26.06	29.13	23.18	26.57	31.13	23.57	27.88
Pac Northwest	25.54	17.08	21.90	23.95	14.92	20.06	21.92	14.03	18.53	22.82	14.91	19.42	24.97	15.68	20.98
U.S. National	25.35	17.48	21.49	29.55	18.49	24.10	27.77	17.24	22.58	26.32	16.90	21.68	26.89	16.97	22.01

	Cal-2016			Cal-2017			Cal-2018			Cal-2019			Cal-2020		
	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
PJM															
East	37.55	28.65	33.10	42.37	28.62	35.49	40.23	27.42	33.82	38.14	26.52	32.33	38.80	26.40	32.60
West	35.25	28.30	31.78	40.43	28.23	34.33	38.55	26.51	32.53	36.39	25.51	30.95	36.08	25.15	30.61
Average,PJM Pool	36.40	28.48	32.44	41.40	28.43	34.91	39.39	26.96	33.17	37.26	26.01	31.64	37.44	25.78	31.61
PJM East Heat Rate	13,478	10,284	11,881	14,618	9,875	12,247	14,097	9,609	11,853	14,182	9,861	12,022	14,322	9,745	12,034
PJM West Heat Rate	12,653	10,158	11,405	13,951	9,740	11,846	13,509	9,290	11,400	13,530	9,485	11,507	13,315	9,284	11,300

Source: ICE, Bentek, Guggenheim Securities, LLC.

NUCLEAR LIFELINES

CT's comprehensive energy strategy

Connecticut's Comprehensive Energy Strategy (CES), issued February 19, 2013, established the states broad-based targeted approach to energy use and development. Among the elements of the state's strategy was a target to obtain 20% of its power from the cleanest renewables by 2020, one of the toughest goals at the time. The original measure also placed a focus on natural gas, as a bridge fuel to renewables. Among the anticipated elements were natural gas pipeline projects to alleviate gas supply constraints in New England; yet the Connecticut Department of Energy and Environmental Protection (DEEP) recently cancelled its RFP for natural gas capacity, LNG, and storage that was originally released pursuant to Public Act 15-107, "An Act Concerning Affordable and Reliable Energy." This came about as a result of the setback in gas transmission projects (Access North East, NorthEast Energy Direct) in neighboring New England states.

CT's CES supports D's Millstone nuclear power plant

The state and region's largest power plant – the Millstone Nuclear Power Station, which does not emit greenhouse gases – has faced difficult economic conditions as it competes against low natural gas prices. Set this against a backdrop of a summer lightning strike, induced outage at Millstone II; ISO power prices spiked to upwards of $2,700/Mwh while normally about $40/Mwh. The Connecticut legislature is set to update the CES as required by law, with **lawmakers seeking to expand the existing RPS standard to a clean power standard that would include nuclear generation, which would allow up to approximately 50% of Millstone to be included in the RPS auction.** The significance of Millstone, coupled with the recent successful nuclear policy efforts from NY and IL set this potential effort as a key item to watch for Dominion.

COMPANY-SPECIFIC CATALYSTS

MAJOR INFRASTRUCTURE PROJECTS

Several regulated utilities within our coverage are developing major multi-state infrastructure projects with key milestones to look out for in 2016. We highlight projects being developed by ALE, ES, NEE, D, DUK, DTE, NJR, PPL, SO, SR, and SRE in this section.

New England on the forefront of infrastructure needs. We highlight significant infrastructure development underway in New England and would note there are proposals from other developers that may overlap or compete. **That said, we believe ES is best positioned to address New England's infrastructure constraints.** We would also offer that infrastructure constraints have already caused price volatility and reliability concern in New England, so the region could likely use more than one solution. New England also has relatively aggressive carbon goals, which could require even more infrastructure to supply clean energy considering recently announced plans to retire Pilgrim in 2019 (which currently supplies most of MA's low-carbon energy).

Utilities have the attributes of a good midstream developer

Northern Pass Transmission (ES)

Project overview: ES is developing the $1.6B Northern Pass Transmission (NPT) line that intends to bring hydro power from Canada to New Hampshire.

Down, but not out, of the RFP race. NPT was not one of the projects selected in New England's recent three-state RFP, although ES plans on participating in the next round of contracts going out with an RFP in April 2017, with Northern Pass and potentially other project(s); the original RFP seemed to focus more on class 1 renewables (solar, wind), whereas upcoming RFPs are likely to focus more specifically on procuring hydro and off-shore wind considering legislation recently passed in MA, which specifically calls for utilities to support additional renewable capacity with LT contracts for hydro and 1.6GW of offshore wind (wind goal reflects midpoint of Senate's 2.0GW bill and House's 1.2GW).

Project schedule seems challenging with setbacks in MA and NH but not in our numbers

New Hampshire Site Evaluation Committee decision in September 2017. NHSEC is adhering to the revised schedule that calls for a decision in September 2017, which builds enough of a cushion in order to avoid another delay. Initial round of hearings is almost concluded. Management appears confident that the process is moving forward – delay is more of a siting issue as this is the largest project this committee has evaluated. Final committee hearings in April. If NSEC approves in September, DOE approval is expected by YE 2017 with construction in 2018/19 – consistent with our model. The final outlook may include modest adjustments to the route, some more undergrounding, tweaks to poll heights, etc., but management hasn't been expecting anything more material than this to come out of the process.

We expect other projects to compete with NPT, but still give the edge to ES. Northern Pass will participate in another RFP coming up in MA, in which we anticipate competition from other projects we've previously highlighted (e.g., Clean Power Link). We would call attention to ES's partnership with Hydro Quebec as the differentiator, citing development work Hydro Quebec has done for NPT on its side of the border, ideal characteristics of hydro, and lack of clean energy supply for competing projects.

NPT looking to participate in the next round of RFP race

Material earnings contribution to ES. Our estimates reflect Northern Pass transmission going into service at the end of 2019, contributing $0.28 in 2019, and $0.30 in 2020 for its first full year in-service.

Access Northeast Pipeline (ES)

Access Northeast is a JV between ES, Spectra (SE, NC, $42.27), and National Grid (NGG, NC, $58.45) for 1 Bcf/d (scalable to 2Bcf/d). The project upgrades Algonquin and Maritimes & Northeast Pipeline systems. The pipeline is expected to go into service in 2019, although the schedule has proven challenging, with a disappointing order in New Hampshire disrupting a relatively complex series of regulatory processes that was underway in five New England states to allow electric utilities to procure pipeline capacity.

ES received setbacks from several New England states that were opposed to measures that would enable electric utility procurement of pipeline capacity to address gas infrastructure constraints in the region. **The Massachusetts order and New Hampshire order, which read exactly alike, essentially rejected instate EDC's as offtaker's of the pipe, and added additional roadblocks for the project.**

NPT contributes $0.28 to our 2019 EPS estimate

Focusing first on MA, which represents 40% of the capital for the Access Northeast project, 3 potential paths discussed: (1) signing up gas LDCs, which doesn't need legislative change – a possible pathway forward given the Kinder cancellation of North East Energy Direct (NED), (2) legislative change – likely path but could take time and, (3) NE ISO stepping in and mandating the project on reliability concerns – less likely but an option given discussions by the ISO leaders. **Of these three options, adding LDC**

Huge milestone achieved by getting FERC support

demand is a very likely scenario – management could be in a position soon to announce gas utilities taking on capacity on the pipe in MA (state has over 1.5mm gas customers who initially signed up for Kinder Morgan's Northeast Energy Direct project). As filed with FERC, the ~1Bcf/d pipeline project was 97% earmarked for EDC's; 3% for Gas LDC's, but this could be changing.

The remaining 60% of the capacity comprises: (1) Maine - approved; **(2)** Vermont - wait and see approach; **(3)** Rhode Island - wait and see approach; **(4)** Connecticut - wait and see approach with **(5)** New Hampshire - PUC rejection 3-0 being the latest setback. **ES could also continue on with the project and not charge NH customers as the state only represents 10% of the pipes capacity – management estimates benefits to New England ratepayers would still outweigh the costs even if it were to bypass socializing the costs to include NH customers.** The counter argument with this option would center on the "free ride" NH customers would get (i.e., would still receive the benefits without the extra added costs) – ES would need to work this out with the other states. **In our view, NH is not material in size to cause the project to be ultimately cancelled. The key to the project viability entails finding a successful option in MA, like signing on LDC demand, which now seems very likely.**

Major capital investment would likely be back-ended toward 2018 considering the 2019 in-service date, and an LNG component isn't expected to come on-line until after the pipe, so that CapEx would be further out as well. This CapEx is not included in our estimates and presents potential upside.

We do not include Access Northeast in our current estimates because the winter 2018/2019 in-service date is relatively far out and we are waiting for additional clarity with regard to efforts underway in five New England states. That said, **if we apply a 50% equity ratio and a 10% ROE to ES's $1.2bn portion of the investment we derive $0.19 of EPS, which could be 6% accretive to 2018 earnings (we currently estimate ES EPS of $3.35 in 2018).**

Finding a successful option in MA is key, still some work needs to be done but LDC demand the angle – stay tuned

MA Off-shore wind RFP (ES)

ES's focus has turned to upcoming Clean Energy RFPs in MA, after coming away from the recent 3-state RFP without a contract for Northern Pass; now partnering-up to position for a better outcome in June 2017 off-shore wind RFP. NPT was not one of the projects selected in New England's recent three-state RFP, although ES plans on participating in the next round of contracts that will issue an RFP in April with Northern Pass (and potentially other projects), and in the June off-shore wind RFP with its recently announced strategic partner, DONG, which is the largest off-shore wind developer. MA's off-shore wind RFP in June 2017 will be a first glance at the state's approach toward off-shore wind. Considering competition for these development opportunities, strategic partnerships make sense, in our view, particularly this one – ES operates incumbent utilities responsible for most of MA's electric demand, while DONG is the largest off-shore wind developer.

Note our estimates do not reflect any earnings contribution stemming from the off-shore wind RFP.

Atlantic Coast Pipeline (D/DUK/SO)

Project overview: The Atlantic Coast Pipeline is a ~$5bn, 1.5Bcf/day project with **potential to upsize to 2Bcf/day – we expect this will happen and D to likely take the lead here**. The Pipe could be upsized to 2bcf/d through compression, and we believe it will be based on incremental demand for gas within the region as coal retires. ACP also

enjoys demand from solid utility anchor tenants rather than producers that have been under pressure with low gas prices. Expected to go in-service 2019, FERC Staff recently supported Atlantic Coast Pipeline in its draft environmental impact statement released 12/30. We exclude from our model for now but it does present upside potential.

The pipeline is being developed by D, the majority owner with a 48% stake; as a reminder, D's ownership interest was recently re-calibrated to 48% from 45% in order to retain majority control following DUK's acquisition of PNY and SO's acquisition of AGL. DUK has a 47% interest following the acquisition of PNY (re-calibrated to 47% from 40%), and SO inherited its 5% interest in the pipeline by acquiring AGL.

This project would represent upside to our estimates and valuation especially if dropped into DM. Per our illustration below, under various assumptions, the ACP project (D's ownership stake) could provide upside ranging from $2-$5 to our $85 12-month price target for D before even accounting for upsizing of the pipe. Note: as discussed in D company section below, ACP is not embedded in our valuation given its preliminary phase so this would represent upside potential to our PT.

This one project could add $2-$5 to our 12-month price target if dropped into DM

Below we provide an illustrative example of enhanced value when assets are dropped into an MLP using Dominion.

- **Base Case:** ~$3, or 4%, upside to our valuation, assuming economics in line with recent transactions.
- **Bear Case:** ~$2, or 3%, upside to our valuation with more conservative assumptions (e.g., higher borrowing costs, lower CapEx, lower dropdown multiples, higher target yield, etc.).
- **Bull Case:** ~$5, or 6%, upside to out valuation, assuming the pipe is upsized to 2Bcf/day.

Figure 22: Illustrative impact of asset dropdown into MLP (Atlantic Coast Pipeline)

Atlantic Coast Pipeline Project assumptions	Low	High	Base
Company cost estimate *(ex. financing)*	4,500	5,000	4,750
Dominion ownership	48%	48%	48%
Dominion investment share	2,160	2,400	2,280

Financing assumptions	Low	High	Base
Project financing			
Construction / bridge loan	2,160	2,400	2,280
Interest rate	4.0%	4.0%	4.0%
Years to develop	3	3	3
Interest expense	43	48	46
Tax rate	35%	35%	35%
Tax affected interest expense	28	31	30
MLP financing			
EV / EBITDA target	9.0x	8.0x	8.5x
Drop-down premium	1.0x	2.0x	1.5x
Drop down EV / EBITDA multiple	10.0x	10.0x	10.0x
Drop down Enterprise Value	2,400	3,000	2,682
Leverage	60%	60%	60%
Debt	1,440	1,800	1,609
Cost of debt	5.0%	4.0%	4.5%
Interest expense	72	72	72

Cash distributions	Low	High	Base
Dominion investment share	2,160	2,400	2,280
Project EV/EBITDA target	9.0x	8.0x	8.5x
Target EBITDA	240	300	268
Maintenance CapEx as % of EBITDA	6.0%	4.0%	5.0%
Less Maintenance CapEx	(14)	(12)	(13)
Less interest expense	(72)	(72)	(72)
Cash available for distribution	154	216	182
Coverage ratio	1.1x	1.1x	1.1x
Total cash distribution	146	206	174
Limited Partner (LP) distributions			
Total cash distribution	146	206	174
LP portion of distribution	60%	40%	50%
LP cash distribution	88	82	87
Target yield	8.0%	6.0%	7.0%
Equity value	1,097	1,371	1,241
Dominion LP ownership	69%	69%	69%
Dominion share of value	757	946	856
General Partner (GP) distributions			
Total cash distribution	146	206	174
% of distributions	40%	60%	50%
Distributions $mm	59	123	87
IDR tax rate	35%	35%	35%
Dominion GP cash flow (tax effected)	38	80	56
Target yield	5.5%	4.5%	5.0%
Equity value	692	1,783	1,129
Dominion GP ownership	100%	100%	100%
Dominion share of value	692	1,783	1,129

Value contribution to Dominion	Low	High	Base
Asset drop-down value			
Enterprise value of the drop	2,400	3,000	2,682
Less initial investment	(2,160)	(2,400)	(2,280)
Value to Dominion	240	600	402
Tax rate	35%	35%	35%
Tax-effected value to D	156	390	262
Value of cash distributions from MLP			
LP value	757	946	856
GP value	692	1,783	1,129
Less interest expense	(28)	(31)	(30)
MLP value	1,420	2,698	1,956
Total value contribution to Dominion			
Asset drop-down value	156	390	262
MLP value	1,420	2,698	1,956
Total value contribution to Dominion	1,576	3,088	2,217
Shares outstanding	635	635	635
Dominion share price appreciation	$ 2.48	$ 4.86	$ 3.49
Guggenheim's price target for D	$85	$85	$85
Current D share price upside	**2.9%**	**5.7%**	**4.1%**

Source: Company filings, Guggenheim Securities, LLC estimates.

Compass Transmission Project (PPL)

Compass project's first segment in NY coming to light, could bring on partners...any spend additive to growth

Compass making progress. The ~$3.5b Compass project circumvents pipeline/fracking opposition in NY by spurring development of gas-fired generation above the Marcellus and shipping the power to NY—"gas over wires." Management affirmed that the interconnection agreement filed with NYISO in October 2015, pursuing Article 7 for environmental siting and need, will take 2-3 years.

In our view, bringing on a partner in neighboring utilities may help move the process along; however, management notes that partners are not necessary. Management expects breaking down the project into 2-4 segments but it will depend on the economics of power plant retirements and new builds in PA. While the ultimate structure remains to be seen (i.e., JV and total spending expenditures), **potential EPS upside could be $0.08-$0.34 for the entire $3-4B line. See Figure 23 below.**

We do not include Compass in our current estimates this early in the development process without key state regulatory approvals and/or support from NYISO. If the first segment or total line is approved, spending could start late 2017 or early 2018, incremental to CapEx plans and our estimates.

Figure 23: Compass EPS accretion

Compass Transmission Line		
Full Project Cost ($mm)	3000	4000
Equity Ratio	50%	50%
	1,500.0	2,000.0
FERC ROE*	11.68%	11.68%
Net Income	175.2	233.6
PPL ownership	33%	100%
	58.4	233.6
2018 Share Count	691	691
EPS Accretion	0.08	0.34

Note:PPL's current base ROE earned through FERC Formula Rate Mechanism

Source: Company filings, Guggenheim Securities LLC estimates

Mountain Valley Pipeline (NEE / ED)

Project overview: The Mountain Valley Pipeline (MVP) is a 301-mile $3.5B JV between NEE, ED, WGL Midstream (WGL, NC, $75.75), Vega Midstream, RGC Midstream (RGCO, NC, $25.10), and EQT (EQM, NC, $77.27) to transport ~2Bcf/day of Marcellus and Utica gas to markets in Mid/South Atlantic regions. Delivery points will provide natural gas service to communities along the route, enhancing service reliability and delivering to previously unserved or underserved markets.

Project moving along with draft EIS handed by FERC

Slated to begin construction this year with Draft EIS now in hand. FERC staff provided Mountain Valley Pipeline (MVP) developers with a draft environmental impact statement (see HERE) in September 2016, allowing for the expansion proposal to move forward; its approval was contingent on meeting several environmental conditions, including the recommendation of the U.S. Forest Services for the portion traversing the Jefferson National Forest. Developers expect to begin construction mid-2017, targeting a 4Q18 in-service date.

The JV has incremental impacts on our outer year estimates for ED (12.5% stake) and NEE (35% stake); contributing $0.08 of EPS to our 2018 NEE estimates, and $0.03 to our 2018 ED estimates.

Sabal Trail & FL Southeast Connection (NEE / DUK)

Pipe projects contribute ~$0.18/share to NEE EPS following COD

Project overview: Sabal Trail is a $1B JV between NEE, DUK, and Spectra to bring gas from Transco Station 85 through Georgia and into Florida. The Florida Southeast Connection is a project (totaling $540mm) that would follow Sabal Trail, connecting the pipeline to FP&L's Martin Clean Energy Center. The projects aim to provide transportation services for the power generation needs of NEE's Florida utility (FP&L) and Duke's Florida utility in 2017.

Construction underway and targeting completion this year. NEE has been highlighting community benefits and outreach efforts supporting its construction schedule, recently noting 1,200 construction workers on location in Alabama, installing 86 miles of pipeline and a compressor station.

Sabal Trail, along with the Florida Southeast Connection, contributes $0.18 of EPS to our NEE estimates and $0.02 to our DUK estimates once operational for a full year in 2018.

NEXUS (DTE)

NEXUS filed FERC application, potential upsizing to 2.0bcf/day

NEXUS tracking as planned, capacity remains at 1.5bcf/day but upsizing potential still holds. NEXUS currently has 0.9bcf/day contracted out of its 1.5 bcf/day planned capacity and has 1.4bcf/day of interconnection agreements primarily in Ohio. DTE made a formal FERC application for NEXUS on November 20. The FERC application initiates a formal environmental review of the project and will release an environmental impact study (EIS). DTE will continue to work on completing right of way and engineering and expects to start construction in 2017 after FERC approval. DTE expects to get NEXUS in service by 4Q 2017. In our view, we believe the bulk of the pipe will be contracted in 2018 with remaining capacity phasing in over the year.

Upsizing potential to 2.0bcf/day will likely be driven by an increase in volumes from additional Utica shale gas producers as well as markets along the Ohio path. Similar to Millennium, once the pipe starts getting built, NEXUS could see a pickup in demand from anchor tenants. NEXUS is currently in a 50/50 partnership with Spectra. If NEXUS were to gain another partner or Enbridge regains interest in joining, it would have to bring something to the table in the form of commitments.

PennEast (PEG/NJR)

PEG/NJR investment in PennEast to get access to cheaper gas

The PennEast pipeline project is expected to provide access to cheaper Marcellus shale gas. PEG has a 10% equity stake and NJR a 20% equity interest in the PennEast pipeline project, a 1 bcf/day pipeline that costs ~$1.13B in total with $123mm attributable to PEG, along with other gas utilities in PA and NJ region. PennEast's capacity is under long-term contracts, mainly with public utilities and electric generation companies in NJ, PA, and NY. Access to cheaper Marcellus shale gas would provide cost savings to customers, but management does not see a need to invest in more as it has off-system sales to supply gas demand. PennEast filed a FERC application in September and expects to start construction in 2017 if it receives all regulatory approvals. **We forecast ~$13mm in earnings to PEG starting in 2019 from this pipeline, and ~$14mm to NJR; we view it as immaterial to PEG given its size.**

Southern Reliability Link (NJR)

SRL is awaiting CAFRA and road opening permits

The Southern Reliability Link (SRL) pipeline is awaiting CAFRA and road opening permits; based on the DEP schedule, management anticipates permit issuance in the spring of 2017. The Southern Reliability Link (SRL) is an approximately 30-mile, 30-inch transmission main designed to support improved system integrity and reliability in the southern portion of the New Jersey Natural Gas service territory. The project will add resiliency through a second feed to NJNG's system (currently 85% of supply is transported on a single interstate pipeline system). The project is estimated to cost between $175mm and $180mm.

On January 27, 2016, the BPU issued an order approving NJNG's proposed SRL pipeline installation, operation and route selection, as modified by NJNG, including specific requirements regarding permitting, safety and integrity assessment. On March 18, 2016, the BPU issued an order designating the SRL route and exempting the SRL from municipal land use ordinances, regulations, permits and license requirements.

NJR notes that rate treatment for the project will be requested in future rate proceedings.

Cameron LNG (SRE)

Cameron may face a potential project delay, $354mm earnings upside in 2019

We assume continued execution towards Cameron's 2019 in-service date (all 3 trains); with all 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 $300mm-$350mm of net income; from 20yr LNG contracts that are not oil linked. While the 3Q earnings call introduced some risks to Cameron's in-service date, we await clarity, indications of next steps and whether its EPC contractors will be able to mitigate. **Management will likely provide an update addressing the CB&I letter and potential 6-month delay (from November) on the 4Q16 earnings call.** There was no clear indication of cause in updated schedule but management noted it heard on 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. **Our estimates for Cameron contribution in 2019 are $354mm of net income, top end of management guidance of $300 - $350mm.**

STL (SR)

STL to file certificate application with FERC in 2017, expected in service in late 2018

STL tracking as planned, a 70-mile pipeline with capacity of 400 MMcf/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 and completed. SR expects to file certificate application with FERC in January 2017 for project approval and to receive FERC notice by December 2017. Expected in-service date is November 2018, or FY2019.

The STL pipeline would represent upside to our estimates given preliminary phase of the regulatory approval process. We model total CapEx at the midpoint of the $190-$210mm range at FERC ROE and cap structure, with $35mm in 2016, $65mm in 2017 and $95mm in 2018. We expect Spire STL Pipeline AFUDC contribution ramps up to FY19 in-service date.

Great Northern Transmission Line (ALE)

Great Northern Transmission Line has made progress by getting Presidential Permit

Presidential Permit paves way for Minnesota Power's Great Northern Transmission Line. ALE's Minnesota Power is building the Great Northern Transmission Line to deliver hydropower generated by Manitoba Hydro to customers in the United States. The Great Northern Transmission Line will consist of a 500 kV transmission line from the Minnesota-Manitoba border to the Blackberry 500 kV Substation near Grand Rapids, Minnesota, as well as associated substation facilities and transmission system modifications. The project requires approximately $300mm-$350mm investment through 2020. Long-term PPA is in place between Minnesota Power and Manitoba Hydro, with 250MW for 15 years beginning 2020 and 133MW for 20 years beginning 2020.

Construction anticipated to begin early 2017. Recent milestones achieved include route permit from MPUC on April 11, 2016 and Presidential Permit from U.S. Department of Energy on November 15, 2016. With the regulatory milestone accomplished as planned, ALE anticipates to begin construction of the project early 2017. The estimated in service date is set in June 2020.

M&A – CURRENTLY PENDING TRANSACTIONS

NEE – Acquisition of Oncor Transmission LLC

NEE is acquiring Oncor for $9.5bn, implying $18.4bn enterprise value – $0.4bn higher than Hunt Consolidated. NEE announced it had reached a definitive agreement to acquire 80% of Oncor, the largest regulated T&D utility in Texas. The agreement is part of an amended Energy Future Holding Corp. (EFH) restructuring plan, entailing a spin-off of the generation/retail segments to creditors and NEE acquiring the remaining EFH entity, which holds 80% interest in Oncor (NEE is separately acquiring the remaining interest). NEE will use a combination of cash and equity to fund its $9.5bn consideration; $1.5bn of equity from mandatory converts, and selling assets opportunistically to limit debt.

We estimate 2-4% accretion starting 2018

We estimate 2-4% accretion, potentially breaching NEE's 6-8% 2018 growth outlook; shifting to a more contracted/regulated business mix. We estimate slight dilution from transaction costs in 2017 (0.5%), and 2-4% accretion in subsequent years using what we believe are conservative assumptions. We assume NEE finances the $9.5bn consideration with a portion of cash on-hand ($0.3bn), the announced PA asset sale ($0.3bn), relatively small equity issuance ($0.3bn), debt with mandatory equity conversion in 2019 ($1.5bn), and debt at 4% interest for the remainder ($7bn). Our pro-forma accretion estimates, which exclude synergies or additional asset sales, exceed management's 2018 guidance (we estimate $7.36 vs. $7.10 guidance), which we believe is conservative. ***See Figure 24 below for our accretion/dilution analysis - updated.***

Oncor transaction supports NEE's 6-8% 2018 growth outlook

Likely holding back growth until the Oncor process is further along; likely get a decision from TX regulators by April. Holding back growth at this juncture makes sense to us given the stage of the Oncor acquisition process and hurdles ahead, including PUCT approvals – application filed, and there is a 180-day statute for regulatory consideration in TX, so we expect to have a decision by April. The argument that Oncor is simply supportive of management's guidance would, in our view, imply the rest of the NEE business is worse off – we don't subscribe to this argument, we believe, and all signs point to, Oncor breeching NEE's current 6-8% growth outlook. See our published NEE/Oncor analysis HERE. Oncor growth has likely been held back as of late considering its parent company's bankruptcy, limiting investment to cash available from operations. In our view, this wouldn't be the case with Oncor on NEE's balance sheet.

Figure 24: NEE/Oncor Accretion/Dilution analysis

Assumptions	
As of	07/29/16
Acquirer	NEE
Target	Oncor
Oncor offer consideration ($MM)	$9,520
Implied 2018 P/E	*27.0x*
NEE share price	$128
2018 P/E	*18.1x*
Tax rate	35%
Transaction fees ($MM,2% of offer value)	$190

Transaction Value *($MM)*	
Offer value	9,520
(+) Debt assumed	6,500
Minority interest	2,380
Implied Enterprise Value	**$18,400**

Interest Rate Assumptions	
Interest rate on acquisition debt	4.00%

Sources and Uses of Cash *($MM)*	
Transaction financing	
% Equity financed	19%
% Debt financed	81%
Sources	
Cash from balance sheet *(25%)*	326
Announced asset sales	255
Unannounced asset sales	-
Cash borrowed	7,140
Equity issued	1,800
Total Sources	**$9,520**
Uses	
Payment to creditors	9,520
Total Uses	**$9,520**

Synergy Assumptions *($MM)*	
Total synergies assumed	-

	Pro-Forma Combination Results *($MM)*	2017E	2018E	2019E	2020E
a	**Oncor Net Income**	**$320**	**$352**	**$387**	**$426**
	NEE				
b	NEE Standalone EPS	$6.56	$7.07	$7.56	$8.10
c	NEE Shares Outstanding	463	463	463	463
*d = b * c*	**NEE Net Income**	**$3,037**	**$3,273**	**$3,500**	**$3,750**
	Acquisition Adjustments				
e	Transaction Costs	(190)	-	-	
f	Interest on Acquisition Debt	(286)	(286)	(286)	(286)
g	Interest on Incremental Cash Flow	(13)	(21)	(33)	(44)
h = e + f + g	**Pre-Tax Acquisition Adjustments**	**(489)**	**(307)**	**(318)**	**(330)**
i	Tax rate	35%	35%	35%	35%
*j = h * (1 - i)*	**After-Tax Acquisition Adjustments**	**($318)**	**($200)**	**($207)**	**($214)**
	Pro-Forma Earnings				
a	Oncor Net Income	320	352	387	426
d	NEE Net Income	3,037	3,273	3,500	3,750
j	Less: After-tax Acquisition Adjustments	(318)	(200)	(207)	(214)
k = a + d + j	**Pro Forma Combined Net Income**	**$3,039**	**$3,426**	**$3,681**	**$3,962**
c	NEE Standalone Shares O/S	463	463	463	463
l	Incremental Shares Issued	3	3	16	16
m = c + l	**Pro Forma Shares O/S**	**466**	**466**	**479**	**479**

	EPS Accretion/(Dilution) to NEE	FY1	FY2	FY3	FY4
n = k ÷ m	Pro-Forma Combined EPS	$6.53	$7.36	$7.69	$8.27
b	NEE Standalone EPS	$6.56	$7.07	$7.56	$8.10
o = n - b	**EPS Accretion / (Dilution)**	**($0.03)**	**$0.29**	**$0.13**	**$0.17**
p = o ÷ b	*% EPS Accretion / (Dilution)*	*(0.5%)*	*4.1%*	*1.7%*	*2.1%*

Source: Company filings, Guggenheim Securities, LLC estimates and analysis.

RATE CASES currently pending

EIX – 2018 GRC

Timing of GRC resolution remains open

EIX filed its 2018 GRC in September 2016. EIX filed for a $222mm base rate increase at its Southern California utility, premised upon a $23bn ratebase and incorporating the 10.45% ROE currently authorized by the CPUC. EIX is also requesting attrition rate increases of $533mm in 2019 and $570mm in 2020 premised upon ratebases of $25bn and $27bn, respectively. **The 2018 GRC filing went a long way to restore confidence in the company's investment plans and growth outlook, in our view**, even with the introduction of less-traditional grid modernization spending.

No indication of timing of a potential GRC resolution in the NT, and we have yet to see whether or not EIX can push off another ROE adjustment. Operating under Ex Parte, management isn't able to provide much insight into events transpiring at the CPUC (rightfully so), so potential for an expedited resolution to the GRC, and timing around that settlement remains open. As a reminder, the commission authorizes ROE in a separate cost of capital proceeding though, where reviews are triggered formulaically based on the moving average of interest rates over a specified period of time; while **EIX has historically managed to reach agreements extending the ROE by this time of year, management gave no indication historical precedent was a read through to the absence of an agreement at this juncture – management remains open to settling again.** While it's still just too early to offer guidance around its GRC filing, EIX did offer a helpful means in which its grid modernization request could be monitored - via ongoing workshops associated with the company's Distributed Resource proceeding.

EXC – PHI looking to close ROE gap

EXC looks to improve regulatory status at PHI in various states

PHI is actively pursuing regulatory improvement through series of rate cases. Key NJ and MD rate cases in the rearview, but EXC is still pursuing rate increases for four of the recently acquired PHI utilities. In 3Q16, EXC was authorized a $45mm revenue increase in NJ premised upon a 9.75% ROE; the Maryland PSC authorized a rate increase of $52.5mm based on a ROE of 9.55% (49.55% of capital) on Pepco's electric distribution rate case filing in MD.

EXC has four pending rate cases expected to resolve in 2017 at the newly merged PHI. Current active rate cases: (1) Washington D.C.: $82mm electric distribution revenue ask with 10.6% ROE – final decision due 07/2017; (2) Delaware: $63mm electric revenue ask and $22mm gas revenue ask, with 10.6% ROE - decision by 05/2017; (3) Maryland: $82mm electric distribution revenue ask with 10.6% ROE – final decision due 07/2017. EXC plans to close the gap between earned and allowed ROEs at PHI with rate case filings every three years, including aforementioned rate cases, as well as 3 transmission formula rate adjustments. EXC will also be looking to implement more constructive rate mechanisms in its service territory. The game plan always had two cycles, in order to earn their ROEs; MD is the main jurisdiction of concern, particularly for PepCo, although DE briefs haven't been as contentious. With some fresh faces at the PHI utilities filing rate cases, we see room for regulatory relationships to improve – any ability to find some rate relief (e.g. cost reductions) going into this proceeding would also strengthen its position; **gap between earned and allowed ROEs at PHI could be a large opportunity, while we note it will be a challenge to close in the NT. We model lower lag through 2020 at PHI.**

FE – Pending decision on Pennsylvania rate filings

FE is turning focus on growth from the regulated platform. Regardless of whatever form its merchant exit takes, setting a firm timeline helped focus attention on FE's regulated business that will emerge. Distribution utilities will drive the first growth spurt next year, driven by regulatory proceedings recently completed (e.g., OH rider, settlement in NJ) in key jurisdictions, with several rate cases pending approval in Pennsylvania.

Busy regulatory schedule in PA

FE has four pending rate cases expected to resolve in 2017 in PA. Current active rate cases: (1) Metropolitan Edison: $140mm electric distribution revenue ask with 10.9% ROE – final decision due 01/2017; (2) Pennsylvania Electric: $159mm electric distribution revenue ask, with 11.3% ROE - decision by 01/2017; (3) Pennsylvania Power: $42mm electric distribution revenue ask with 11.5% ROE – final decision due 01/2017; and (4) West Penn Power: $98mm electric distribution revenue ask with 10.9% ROE – final decision due 01/2017. We expect PA PUC to issue a final order on 1/26/17 authorizing incremental revenue of ~$290mm across its four utilities in the state, management expects to be earning representative ROEs with new rates in place 1/27/17.

PNW – APS rate case

Staff's current proposal calls for 9.35% ROE, and revenue increase of $267.6mm vs. PNW request of 10.5% ROE and $433.4mm increase ($165.9mm net base rate increase and transference of $267.6mm collected through adjustor mechanisms into base rates, decrease in base fuel of $61.7mm), with actions likely by 6/26/2017.

AVA – Washington rehearing/reopening/appeal; Alaska ruling

Disappointing ruling on WA rate case, reconsideration/rehearing is on the way

On December 12, 2016, AVA received an order from the Washington Utilities and Transportation Commission rejecting its electric and gas rate increase requests in its rate case filing for Avista Utilities, with the commission denying a proposed $38.6mm revenue increase for electric customers and $4.4mm increase for natural gas customers. In the order, the Commission did not specifically disallow any of Avista's capital projects.

We note the ruling runs contrary to that recommended by the Commission Staff, which supported a revenue increases of over $20mm. Additionally, the dissent of Commissioner Jones supported an electric revenue increase of $26mm, and a natural gas increase of $2.4mm.

Our launch of coverage specifically highlighted the difficult rate cases ahead of AVA as a key risk to the investment case (see note HERE), yet we were a bit surprised at the extent of the ruling. The commission found that Avista failed to carry its burden to show that its current rates are not fully sufficient to meet its needs, and that it failed to demonstrate that it requires an attrition adjustment to increase rates effective January 1, 2017.

If the order stands as-is, management estimates it could result in a reduction to AVA's earnings opportunity for 2017 in the range of $0.20 to $0.30 per share, resulting in an inability to earn its 9.5% authorized return on equity during 2017. As a data point, our 2017 estimates assume AVA achieves earned ROE of 8.4%

The company has filed a petition for reconsideration and/or rehearing with the Commission. If reconsideration is chosen, no new evidence is allowed, and the commission has 20 days to decide. Under a petition for rehearing, if the Commission chooses to accept, a new schedule would be issued, and new evidence allowed for introduction in the proceedings. Should no change in outcome result from these efforts, Ava said that it may take legal steps and appeal to the Thurston County Superior Court for relief.

Ruling on AK rate case expected in 2017

At the Alaska subsidiary, we expect a ruling on the requested $5.7mm electric revenue ask by 12/2017. Going forward, AVA's rate filings for AK will be infrequent but the company likely will need to file rate cases once a year to grow its ratebase in WA, ID and others, given the low gas price and the asset lives of the items being replaced.

NI – FY2016 marked the peak cadence in rate case cycle

Rate cases continue and the analyst day may be an inflection point. MA will file in '17 for rates going into effect in '18; a Commission decision is expected early next year on VA. 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 ratebase by 6.4%/year. We assume continuation of the numerous trackers and riders in place allow for timely recovery of most investments.

OGE – Recovery of generation investments ongoing

Focusing on CCGT investment recovery

Cost recovery of environmental investments in scrubbers continue. OGE's shifting generation mix and modernization efforts have driven its capital investments in recent years. 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).

OGE's rate case cycle is thus geared towards accounting for investing in CCGTs and investments in scrubbers. At the utility earnings growth is based on modeling earned ROEs of ~9.2% or lag up to 90bps; wherein we estimate $50mm rate increase at OK in 2017 to recover Mustang investments; ~$13mm net increase in AK for CT generation cost recovery with expectations of similar historical lag.

POR – Multi-year rate case cycle slowing down

It's all about Carty. We assume POR's next rate filing will take place in 2017 with new rates effective in '18 as management seeks to recover incremental costs assumed for the Carty generation station. More specifically, the filing will seek to recover the overage at Carty ($635-$670mm) vs. $514mm in costs approved by the commission and already in rates. At POR, we are modeling earned ROEs of ~9.3%.

LNT – Iowa rate filing expected in April

IPL rate case up next; 10% net increase if approved. With WPL rate case completed in November, LNT expects a rate fling in Iowa in April 2017 and a final decision in 2018 time frame, although interim rates can be implemented in the meantime. Management expects the rate filing could provide a 10% rate increase over two years after considering effects of lower fuel cost, tax benefit refund back to customers and O&M levers to pull as well. The lower fuel cost mostly comes from the 650MW Marshalltown CCGT, which we

expect to come on-line in 2Q17 and anticipated ~500MW plant retirements by the end of 2017.

SR – Missouri rate filing expected soon

All eyes on MO rate case

Missouri rate case expected in early 2017. SR is expected to file a rate case in Missouri in April 2017, which is essentially triggered by the ISRS mechanism associated with cost recovery of pipeline upgrade investments and regulatory assets like prepaid pension and merger integration costs. SR requested $5.0mm for Laclede Gas and $3.4mm for MGE in the latest ISRS filing process. A commission decision on ISRS filings is expected in January 2017 and SR expect to follow up with a rate case filing in April, with the effective date for any rate changes from the rate case pointing to mid-year FY2018.

This is an important rate filing as we note there are efforts in the MO state Senate to reform the regulatory process (e.g., implementing performance-based ratemaking), although we aren't overly optimistic for a constructive outcome – this could provide upside surprise.

REGULATORY AND LEGAL PROCEEDINGS

MISO Retail Open Access (ROA) Forward Capacity (DTE)

MISO filed with FERC to address concern for resource adequacy

MISO has agreed with Michigan and downstate Illinois to ask FERC to endorse a "competitive retail solution" for Michigan's 10% competitive retail choice market and the portion of Illinois not in PJM. **Subsequently, MISO submitted a tariff filing with FERC for a 3-year-forward capacity market covering its competitive retail areas in IL and MI effective March 1, 2017; for implementation in the 2018-19 planning year.** The ISO's executive director of market services was quoted during a media call as stating the filing held "no surprises," given the extent of stakeholder involvement.

The draft proposal arose out of concern for resource adequacy in the competitive retail areas of IL and MI, as the states lack a process for ensuring generation adequacy. Essentially the proposal may require that competitive power suppliers purchase capacity three years in advance to meet reliability rules; the plan is aimed at easing concerns of MI state officials about potential capacity shortfalls in 2018. This will be achieved via a Forward Resource Auction that will complement the existing Planning Resource Auction and is designed to assure the needs of Competitive Retail Areas are met.

Harlem gas explosion investigation (ED)

Still waiting to hear back from the commission; NYPSC previously voted to open a proceeding (an order to show cause) that would look into violations potentially committed by ED associated with the Harlem gas explosion in 2014. Staff found several regulatory failures with the incident and believes there is sufficient evidence to conclude gas safety violations occurred; Staff believes some of the violations contributed to the explosion. Staff agreed with the NTSB finding that ED improperly fused a plastic joint, the worker was not qualified, and the qualifying procedures were not consistent with commission regulations. Staff also asserts ED violated a rule by not repairing or replacing the fused joint. Regarding other violations around training and response procedures, Staff claims ED should have immediately called the fire department for support when responding to the gas leak (per its own internal procedures) and made several recommendations related to gas safety and public awareness.

Continuing violation penalties could be upwards of $1bn, but not likely, in our view

We bookend the maximum potential continuing violation penalty at upward of $1bn; however, we do not believe penalties will reach this extreme – doesn't seem like San Bruno to us. In addition to penalties per offense, Staff suggests continuing violation penalties could be applied to each day in question. Staff notes a maximum continuing violation penalty of $100k per day, but also cites Public Service Law 25-a (effective 03/29/13), which warrants a maximum penalty up to 0.02% of revenue (less government collections) per day (we estimate that could amount to ~$1.4mm). If we apply $0.1mm/day to each day following installation of the joint on 12/28/11, and $1.4mm/day after the new Public Service Law became effective 03/29/13, **we estimate continuing violation penalties could reach upward of $1bn but won't likely be this high, in our view.** Note this is just our book-end estimate of potential continuing violations, it's not yet clear how the PSC intends to proceed; Staff found 11 violations that could be subject to penalties or other punitive actions (e.g., disallowances).

Figure 25: ED's potential continuing violation penalties for Harlem gas explosion

		Continuing Violation Period			Max penalty	Potential
		Start	End	# of days	per day ($MM)	penalty ($MM)
1	Fusion joint not to criteria; should have been removed and replaced.	12/28/11	3/28/13	456	$0.1	$46
		3/29/13	3/12/14	348	$1.4	$484
2	No visual inspection of the failed fusion joint, or person qualified to perform one.	12/28/11	3/28/13	456	$0.1	$46
		3/29/13	3/12/14	348	$1.4	$484
					Estimated potential continuing violation penalties	$1,060

Source: NY Public Service Commission, Guggenheim Securities, LLC estimates.

ED responded to the commission's order to show cause, arguing against a civil or administrative penalty and against a prudence proceeding. In its December 2015 response, ED maintains its actions did not cause the explosion and are not criteria for civil or administrative penalties under the Public Service Law. ED also scrutinizes the application of continuing violations, emphasizing it did not have ongoing knowledge of a violation, and as a practical matter ED notes the joint was buried following installation so there was no ongoing opportunity to inspect it (and therefore no basis for them to replace it).

ED holds NYC liable for cause. ED did not agree with the NTSB's findings, maintaining that a pre-existing sewer breach undermining street infrastructure damaged a fitting and was the source of the leak that caused the explosion. We believe it will be challenging for ED to steer regulators from the NTSB findings toward its own, but insurance likely covers some exposure and the utility has separately sued the city of New York to hold it liable for any damages/losses – it's not clear how that lawsuit will unfold, but we would highlight that the NTSB also found fault with the city not repairing the breached sewer main undermining ED's joint.

Generic cost and value of solar informative to rate design (PNW)

End of net metering in current form

Cost and value of solar general proceeding helps provide clarity going into rate case deliberations. The highly debated cost and value of solar was moved to a general proceeding; with the Arizona Corporation Commission voting 4-1 to end net energy metering for solar customers in current form, with a newly proposed resource comparison proxy (RCP) formula; a rolling five year historical average of solar PPA and large scale utility solar equating to $0.11/kwh vs. current retail net metering reimbursement rate of $0.14/kwh. Also under consideration is an avoided cost of DG, but this is being pushed out for further analysis. The ACC will select the appropriate method or combination in each utilities' subsequent rate cases.

SONGS settlement proceeding (EIX)

In another surprising move at the CPUC – settlement with SONGs put into question. On 12/14, the CPUC issued a ruling (see HERE), which essentially re-directs SCE (EIX's California utility) and SDG&E to start discussions with various parties in the proceedings regarding possible adjustments to the settlement that was unanimously approved in 2014 (see HERE). Discussions with various parties are set to begin in January 2017.

Politics likely played a role in backtracking of SONGS settlement

Politics likely played a role in this surprising move: CPUC continues to demonstrate that the regulatory construct remains very challenging from an investment perspective despite being a very solid utility, in our view. As a reminder, the originally assigned Commissioner's (Commissioner Sandoval) term ended January 2017 and was not re-appointed, so we strongly question how much politics played a role in this decision. The 2014 San Onofre settlement, which was unanimously approved, yielded refunds/rate reductions of ~ $1.6B with upside from any recoveries from the MHI suite – this particular data point should come to a conclusion sometime in 2017.

What's next? At this stage, it is increasingly likely that EIX/SRE would need to strike an updated settlement that will likely entail further refunds/unrecoverables from SONGs shutdown – this will likely create an overhang for the next few months.

Background: The CPUC approved the 2014 SONGS Settlement Agreement as amended and restated by settling parties, which allocated costs to shut down San Onofre, requiring investors to pay for the replacement steam generators that prompted the closure. SCE has provided or will provide refunds and rate reductions of almost $1.6 billion under the settlement, and this amount may be increased by recoveries from Mitsubishi Heavy Industries (7011.TKS, NC, JPY548.60), the supplier of the defective steam generators. On 5/9/2016, then-assigned Commissioner Sandoval re-opened the record of the SONGS Settlement Agreement that provided for resolution of rate recovery issues related to the premature shutdown of the plant.

Finalizing restructuring of IPH – (DYN)

IPH restructuring is moving along with the recent filing for court approval of prepackaged plan; as we mentioned in our previous notes, tentative agreement would be a constructive resolution in our view, with $615mm reduction in debt and $30mm net cash to DYN from IPH, which would net against new DYN notes, leaving only $180mm of incremental net debt. Management actually expects net-debt/EBITDA to come down another 0.5x, which we believe is very constructive step forward as leverage and uncertainty around IPH are the two primary concerns amongst investors. That said, investors still question what value IPH brings – at the end of the day, this is a more appropriate structure for what we acknowledge are lower quality assets as it still generates cash, and we appreciate continued effort to remove uncertainty, cost, and complexity from the business.

Prepackaged plan of reorganization filed with bankruptcy court. After receiving the requisite accepting votes in favor of the prepackaged plan, IPH subsequently filed a case under Chapter 11 of the United States Code (the Chapter 11 Case) in the United States Bankruptcy Court for the Southern District of Texas, Houston Division, to pursue confirmation of the Plan. Although the Exchange Offer was terminated as the required vote thresholds were not met, it is not a surprise to us as DYN needed 97% of votes to get through the exchange offer; this was not likely to happen as there are too many retail/mom & pops to get through on that course, thus DYN was bound to go through the courts for the prepackaged plan.

The plan distributions remain the same as disclosed in November, 2016. Per terms of the tentative agreement filed on October 3, 2016, $825mm of existing IPH debt would be exchanged for: (1) $210mm of new unsecured DYN notes; (2) $139mm in cash (including $9mm payment to signatories of the restructuring support agreement); and (3) warrants for 10mm DYN shares at $35/ share with 7-year tenor. The cash consideration would come from IPH ($122mm cash on hand, plus $62mm of cash posted as collateral, which DYN believes becomes available), not DYN. After restructuring fees, there would be $30mm cash returned to DYN from IPH, which would net against new DYN notes, leaving only $180mm of incremental net debt; management actually expects net-

debt/EBITDA to come down another 0.5x; this would be incremental to de-levering targets we've previously discussed, and potential incremental accretion from interest savings to the extent IPH notes at 6.3%, 7.0%, and 7.95% can be replaced with lower cost debt (targeting yield on DYN's 5.875% 2023 note, which trades below par).

Closing acquisition of ENGIE – (DYN)

DYN is closing out ENGIE acquisition despite some regulatory lags

We expect Dynegy to close ENGIE acquisition early 2017 given the FERC conditional approval issued 12/22/2016. FERC approved the $3.3bn and 8,731MW of generation transaction, but requests more information regarding market power concerns stemming from the transaction for certain portions of the PJM and ISO-NE markets, with 2,377 MW of the generating capacity subject to the acquisition in PJM while 1,225 MW in the ISO-NE. DYN filed proposal address that the transaction should not raise any market power concerns given that DYN's recent sale of its 50% interest in the Elwood plant as well as possible continued operation at EXC's Quad Cities facility that was not considered by FERC when conducting the pivotal supplier test; DYN also indicated that it would agree to divest at least 327 MW of capacity in PJM and at least 224MW of generation in the ISO-NE, which ensures that DYN will own or control less capacity in each ISO after the transaction comparing to what it owns today, to mitigate DYN's market power if it deemed necessary by FERC.

As it will take some time to complete the divestitures, DYN is also proposing 1) interim mitigation to offer all of its capacity in ComEd load delivery area, excluding previously cleared capacity, at prices not to exceed the approved market seller offer caps; 2) not to retire any generation located in either the ComEd LDA or the ISO-NE during the interim period, and 3) to limit bids below the forward capacity auction clearing price into the ISO-NE capacity auctions.

Industry news outlet, *SparkSpread*, recently reported DYN is exploring the sale of several power generation assets, including the 640MW Ontelaunee facility in Reading, PA, the 569MW Milford plant in CT, and the 1,288MW Kendall and the 787MW Lee plants in IL, although we note that DYN has not commented on the report. **In our view, this may be the best news we could hear on the stock and sector in general in the NT - asset sales should bring to light true values through a public mark as well as serve as a source of capital to shrink the balance sheet.**

Boswell asset recovery extension ruling – (ALE)

Very important on Boswell ruling that could drive earnings substantially

Asset recovery extension approval is key. ALE requested a recovery life extension for its Boswell Energy Center with MPUC, indicating that the remaining life of all portions of the Boswell facility should be consolidated into one remaining life and be extended until 2050. The life extension request would be based primarily on the significant multi-emission retrofit work done at Boswell Energy Center Units 3 and 4. Management indicated that if the requested recovery period extension is approved, asset depreciable life could be extended, thus reducing depreciation expense by ~$25 million annually. This could drive EPS to the high end of the guidance range of $3.50. If the request is not approved, management would expect to increase its final rate request, which could delay that benefit into 2018 earnings and drive the 2017 earnings to the lower end of the guidance range.

Zero-emission credits (ZECs) for nuclear (EXC/D)

New York warms up to nuclear in light of low-carbon aspirations – throws a lifeline and opens the flood gates. The proposal sought to encourage the preservation of the environmental values or attributes of zero emissions nuclear-powered electric generating

facilities for the benefit of the electric system. ZEC contracts will be administered in six 2-year tranches; the facility will have an obligation to produce the ZECs and to sell them to NYSERDA through March 31, 2029. Payments for zero-emissions attributes would be based upon the U.S. Interagency Working Group's (USIWG) projected social cost of carbon (SCC). Shortly thereafter an announcement was made on July 13, indicating EXC was engaged in discussion with ETR to potentially acquire its Fitzpatrick nuclear facility. The NYPSC eventually adopted the CES, including $965mm of zero-emission credits for qualifying nuclear in the first 2 years, including two of EXC's existing plants: (1) 1.9GW Nine Mile Point, located next to ETR's Fitzpatrick; and (2) 582MW R.E. Ginna. ZEC incentives could provide up to $0.15 of EPS upside for these assets. See our calculation below and additional analysis on NY ZECs HERE.

Figure 26: New York Zero-Emission Credit Calculation

Zero-Emission Credits			
Tranche	ZEC price	Start	End
1	$17.48	4/1/2017	3/31/2019
2	$19.59	4/1/2019	3/31/2021
3	$21.38	4/1/2021	3/31/2023
4	$23.83	4/1/2023	3/31/2025
5	$26.45	4/1/2025	3/31/2027
6	$29.15	4/1/2027	3/31/2029

Discounted cash flow analysis	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Capacity MW	852	852	852	852	852	852	852	852	852	852	852	852	852
Capacity Factor	93%	93%	75%	93%	93%	75%	93%	93%	75%	93%	93%	75%	93%
Planned GWh Output	6,939	6,939	5,596	6,939	6,939	5,596	6,939	6,939	5,596	6,939	6,939	5,596	6,939
Zone A ATC price	31.40	31.20	31.31	31.74	32.51	33.19	34.22	35.53	36.16	36.80	37.46	38.12	38.60
Subsidy	20.71	25.28	25.70	26.85	26.53	27.19	26.77	27.30	27.33	28.65	28.67	30.03	22.06

Source: Company filings, Guggenheim Securities, LLC estimates.

Surprise buzzer beater in IL wins another lifeline for nuclear. The Energy Future Jobs Bill, which covers everything from energy efficiency to net metering, was approved in IL energy legislation early December, giving EXC's two out-of-the-money nuclear plants a lifeline. We estimate ~$0.16-0.27 of accretion from ZECs. We estimate ~$0.16-0.27 of accretion from IL ZECs (Quad Cities and Clinton), equating to $3-$4/share on our PT. See our calculation below and additional analysis on IL ZECs HERE).

Figure 27: Illinois Zero-Emission Credit Calculation

EXC accretion	2017E	2018E
Incremental CF	236	394
Tax rate	(37%)	(38%)
Taxes	(88)	(148)
Earnings	150	256
Shares	151	167
Incremental EPS	**$0.10**	**$0.27**
Guggenheim EPS estimate	$2.62	$2.77
Accretion	4.2%	9.6%
Illustrative valuation uplift		
Regulated utility target multiple	18.0x	15.0x
Incremental EPS	$0.16	$0.27
Valuation uplift per share	**$3**	**$4**

Zero-Emission Credit Calculation

	2017E Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2018E Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Energy prices																								
Ni-Hub																								
Peak ($/MWh)	29.60	36.90	38.15	31.85	30.75	30.70	33.70	44.85	40.85	33.95	30.05	31.20	32.80	42.05	36.00	29.75	26.55	28.80	32.40	44.10	40.85	33.00	29.05	31.20
Off-peak ($/MWh)	19.85	22.30	20.85	19.85	19.45	20.30	25.15	33.20	30.00	24.95	22.50	18.45	18.00	21.25	20.75	17.55	14.80	17.50	20.00	34.10	31.85	26.05	21.55	18.65
Avg. ($/MWh)	23.28	30.85	29.50	25.85	25.40	25.50	29.43	38.93	35.43	29.45	26.03	24.80	25.50	30.65	27.86	23.65	22.68	23.05	26.20	39.19	36.25	29.53	25.50	24.93
Capacity prices																								
PJM BRA RTO ($/MW/day)	55	89	120	125	120	120	120	120	120	120	120	120	120	120	150	150	150	150	150	150	150	150	150	150
50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
PJM component (50% $/MW/day)	29.48	39.69	60.00	62.50	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	60.00	74.99	74.99	74.99	74.99	74.99	74.99	74.99	74.99	74.99	74.99
PJM component ($/MWh)	1.04	1.24	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	3.12	3.12	3.12	3.12	3.12	3.12	3.12	3.12	3.12	3.12
MISO Zone 4	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72
50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
MISO component (50% $/MW/day)	36	36	36	36	36	36	36	36	36	36	36	36	36	36	36	36	36	36	36	36	36	36	36	36
MISO component (50% $/MWh)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Avg. market price index	**29.01**	**33.59**	**33.50**	**29.85**	**29.20**	**29.50**	**33.43**	**43.03**	**39.43**	**32.45**	**30.03**	**28.83**	**29.50**	**34.65**	**32.50**	**28.27**	**27.30**	**27.67**	**30.62**	**43.75**	**40.87**	**34.15**	**30.12**	**29.00**
Incentive ($31.40/MWh)	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40
Gate to market and incentive	(2.39)	2.19	2.10	(1.55)	(2.20)	(1.90)	(2.03)	11.63	8.03	1.05	(1.37)	(2.58)	(1.90)	(3.25)	(1.10)	(3.13)	(4.10)	(3.73)	(0.78)	12.35	9.47	2.75	(1.28)	(2.40)
Carbon value	18.50	18.50	18.50	18.50	18.50	18.50	18.50	18.50	18.50	18.50	18.50	18.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50
ZEC + carbon - delta	**15.89**	**14.31**	**14.40**	**16.05**	**16.70**	**16.40**	**14.48**	**4.87**	**5.45**	**14.45**	**17.88**	**19.05**	**19.40**	**14.25**	**16.40**	**20.03**	**21.60**	**21.23**	**18.05**	**5.15**	**8.03**	**14.75**	**18.78**	**19.90**
EXC IL nuclear capacity (MW)	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897
Capacity factor	90%	95%	95%	90%	89%	95%	90%	90%	95%	95%	90%	95%	90%	95%	95%	90%	90%	95%	90%	90%	95%	95%	90%	95%
EXC IL nuclear volume (GWh)	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009
ZEC ($/MWh)	15.89	14.31	14.40	16.05	16.70	16.40	14.48	4.87	5.45	14.45	17.88	19.05	19.40	14.25	16.40	20.03	21.60	21.23	18.05	5.15	8.03	14.75	18.78	19.90
EXC ZEC cash flow ($MM)	31.95	28.76	28.93	32.26	33.57	32.97	29.08	9.79	10.93	29.03	35.91	38.32	38.98	28.63	32.96	41.44	43.40	42.64	36.31	10.35	16.12	29.63	37.72	39.98
Annual total - EXC ZEC cash flow							**298**												**364**					

	2019E Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Energy prices												
Ni-Hub												
Peak ($/MWh)	44.10	40.85	33.00	29.05	29.10	31.00	40.00	34.80	29.90	27.00	27.45	29.50
Off-peak ($/MWh)	34.10	31.85	26.05	21.55	18.65	19.00	22.45	21.45	18.70	17.30	18.45	19.75
Avg. ($/MWh)	39.19	36.25	29.53	25.50	24.08	25.00	31.23	28.23	24.00	22.15	22.95	24.63
Capacity prices												
PJM BRA RTO ($/MW/day)	150	150	150	150	150	150	150	100	100	100	100	100
50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
PJM component (50% $/MW/day)	74.99	74.99	74.99	74.99	74.99	74.99	74.99	50.00	50.00	50.00	50.00	50.00
PJM component ($/MWh)	3.12	3.12	3.12	3.12	3.12	3.12	3.12	2.08	2.08	2.08	2.08	2.08
MISO Zone 4	72	72	72	72	72	72	72	72	72	72	72	72
50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
MISO component (50% $/MW/day)	36	36	36	36	36	36	36	36	36	36	36	36
MISO component (50% $/MWh)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Avg. market price index	**43.75**	**40.87**	**34.15**	**30.12**	**29.00**	**29.62**	**35.85**	**31.91**	**27.58**	**26.73**	**26.53**	**28.21**
Incentive ($31.40/MWh)	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40	31.40
Gate to market and incentive	12.35	9.47	2.75	(1.28)	(2.40)	(1.78)	4.45	0.51	(2.82)	(4.67)	(4.87)	(3.19)
Carbon value	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50	17.50
ZEC + carbon - delta	**5.15**	**8.03**	**14.75**	**18.78**	**19.90**	**20.28**	**14.05**	**17.99**	**22.32**	**24.17**	**23.37**	**21.69**
EXC IL nuclear capacity (MW)	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897	2,897
Capacity factor	90%	95%	95%	90%	90%	95%	90%	90%	95%	95%	90%	95%
EXC IL nuclear volume (GWh)	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009	2,009
ZEC ($/MWh)	5.15	8.03	14.75	18.78	19.90	20.28	14.05	17.99	22.32	24.17	23.37	21.69
EXC ZEC cash flow ($MM)	10.35	16.12	29.63	37.72	39.96	40.73	28.23	36.15	44.84	48.56	46.95	43.56
Annual total - EXC ZEC cash flow												**473**

Source: Company filings, Guggenheim Securities, LLC estimates.

Note: We have not incorporated ZEC credit into our EPS estimates as we are still waiting for more visibility/clarity around any negative legal ramifications similar to what occurred in OH, NJ and MD. That said, the legal hurdle on opponents was much higher in these cases versus the past but we conservatively wait for additional clarity. So, at this juncture we have not linked our Zero-Emission Credits models into our EXC

estimates given the potential for FERC intervention (albeit limited with two Trump-appointed commissioners expected to fill vacancies in early 2017).

CT lawmakers evaluating clean power standard; D's Millstone a possible beneficiary of these efforts. Under consideration will be Connecticut legislation, with the legislature, not the regulators, in CT seeking to expand their RPS standard to a clean power standard that would include nuclear, which would allow up to approximately 50% of Millstone to be included in the RPS auction. D will wait to see the final outcome on the legislative front before locking in contracts for '18 and beyond; this should be known sometime before May 2017.

LINKS TO KEY RESEARCH FROM 2016

1. Guggenheim Levelized Cost of Energy Analysis – Balance of Power Continues to Shift Toward Gas and Renewables, Irrespective of Policy Direction
2. EXC – BUY – Surprise Buzzer Beater in IL Wins Another Lifeline for Nuclear - Investment Thesis Continues to Improve
3. Fundamentals "Trump" Ideology: Our Reaction to the Reaction and Early Look at the New Administration - Not Quite Black & White for Utilities
4. IPPs Heating Up for Winter; CF Machines Trading at Unsustainable Yields
5. NJR – BUY – Slight Overreaction to FY17; Irrationally High Consensus Drives Disappointment
6. CNP - BUY - Quick Take – Houston Gas Filing In Line; Doesn't Appear Contentious
7. EXC - BUY - Illinois Energy Policy Proposal: Everything but the Kitchen Sink, but Likely Too much, Too late
8. Guggenheim EEI Takeaways - Day 3
9. Guggenheim EEI Takeaways - Day 2
10. Guggenheim EEI Takeaways - Day 1
11. Launching Coverage and Getting Gassier – Catalyst-Rich but Not a Sector Call
12. PPL – NEUTRAL – NT Uncertainty Removed, but No Less Complex; Sum-of-the-Parts Just Won't Add Up Despite Good Story/Mgmt
13. ES - BUY - Management Roadshow – Growth Concerns? Despite Noise, No...And Levers to Pull Post 2019
14. DTE - BUY - Management Roadshow: Strong Story with Disciplined Approach, Minimal Concerns – Valuation Warrants Good Entry Point; Conservative Management; Conservative Outlook
15. DYN - BUY - Restructuring IPH and Moving Forward; Tentative Agreement Reached and Settlement Discussions Continue
16. ED-NEUTRAL-Joint Proposal: ROE Could've Been Worse; Manageable with Constructive Rate Design, Maybe Even Beatable
17. ETR – Upgrading to BUY – The Past Is the Past: Fully-Regulated Growth Utility Emerging from a Mushroom Cloud
18. EXC – BUY – Analyst Day Articulates the Story: Strong Free Cash Flows, Shrinking Balance Sheet & Regulated Growth
19. Can It Get Any Worse for Coal? Outlook Up In Smoke: IPPs to Benefit from the Coal Ashes
20. DYN - BUY - Simplified & Transformational ENGIE Acquisition – CF Accretive, Value Enhancing & Ratings Supportive
21. CPN – BUY – Management Roadshow: Higher Gas Sensitivity Good But Thesis Predicated On TX Coal Retirements
22. FE – BUY – PUCO Order: Time to Move On; Story Is Getting Closer to '17 Strategic Moves
23. PNW – NEUTRAL – Quick Take: AZ Rate Filing Looks to Overhaul Rate Design; Could Provide Upside to Our Estimates
24. EIX – NEUTRAL – Management Roadshow: Consistent Message, Block and Tackle with Upside Growth Potential
25. SJI - Initiating with BUY - Turnaround: It's All About Timing – Re-Based and "Regulated Growth" Outlook Piqued Our Interest
26. 2016 Outlook: Liking Utilities but Choose Wisely with a Return to Stock Picking
27. ED – Management Roadshow: Rate Cases, M&A, Harlem, Gas Midstream, Transmission, Renewables on Forefront
28. Texas Showdown: Has Wave of Coal Retirement Reached Texas?
29. DUK - BUY - Expected Earnings Dilution from LatAm Sale Offset by Value Accretion; Adjusting Estimates

30. D - BUY - STR Acquisition: Strategic Fit, Less Sticker Shock than Other Deals but More Value Driver for DM
31. AEP - BUY - Our Best Idea; Premium Utility Emerging from PPA Noise Stronger, More Regulated, and Ready to Grow
32. PNW - NEUTRAL - Management Meeting Takeaways: Rate Design; Solar Remains in Forefront; Potentially Higher CAPEX
33. Boom-Bust: Forget Mid Cycle – Focus on Asset Lives and Cash Flows....Launching on IPPs with Cautious Tone but See Opportunities
34. Power Breakfast: Guggenheim-Hosted Commissioner Meetings
35. Power Breakfast Part Deux: Guggenheim-Hosted Commissioner Meetings
36. PEG - BUY - Management Meeting Takeaways: Solid Regulated Growth, Making Some Moves in Power
37. Rising Rates? No Problem – Still Like Utilities, But Now Be More Selective Given Recent Performance
38. SO - NEUTRAL - Now Making the Correct Call on Gas? Great Call – We View Acquiring AGL as Best Strategic Move in Years
39. EPA Clean Power Plan: Much Ado About Everything

Other helpful links:

- Guggenheim's comp sheet
- Forward Commodity Curves for Power and Utility Modeling

VALUATION METHODOLOGY

Utilities still look somewhat pricy versus forward bond yields. Regulated utilities sold off following the November elections, although after recovering from Trump's victory, the group still looks expensive to us, currently trading at 16.5x 2018E EPS vs. forward bond yield expectations that imply valuations should be closer to 15.1x. **Current BBB yield expectations imply 6% downside if utilities mean revert back to yield fundamentals; 2% downside if we factor in the group's 4% average dividend yield.** The post-election utility sell off wasn't a major surprise considering the inverse relationship between utilities and yield. Trump's victory was met with a steeper yield curve, and the ensuing utility sell off coincides with relative weakness implied in its dividend yield.

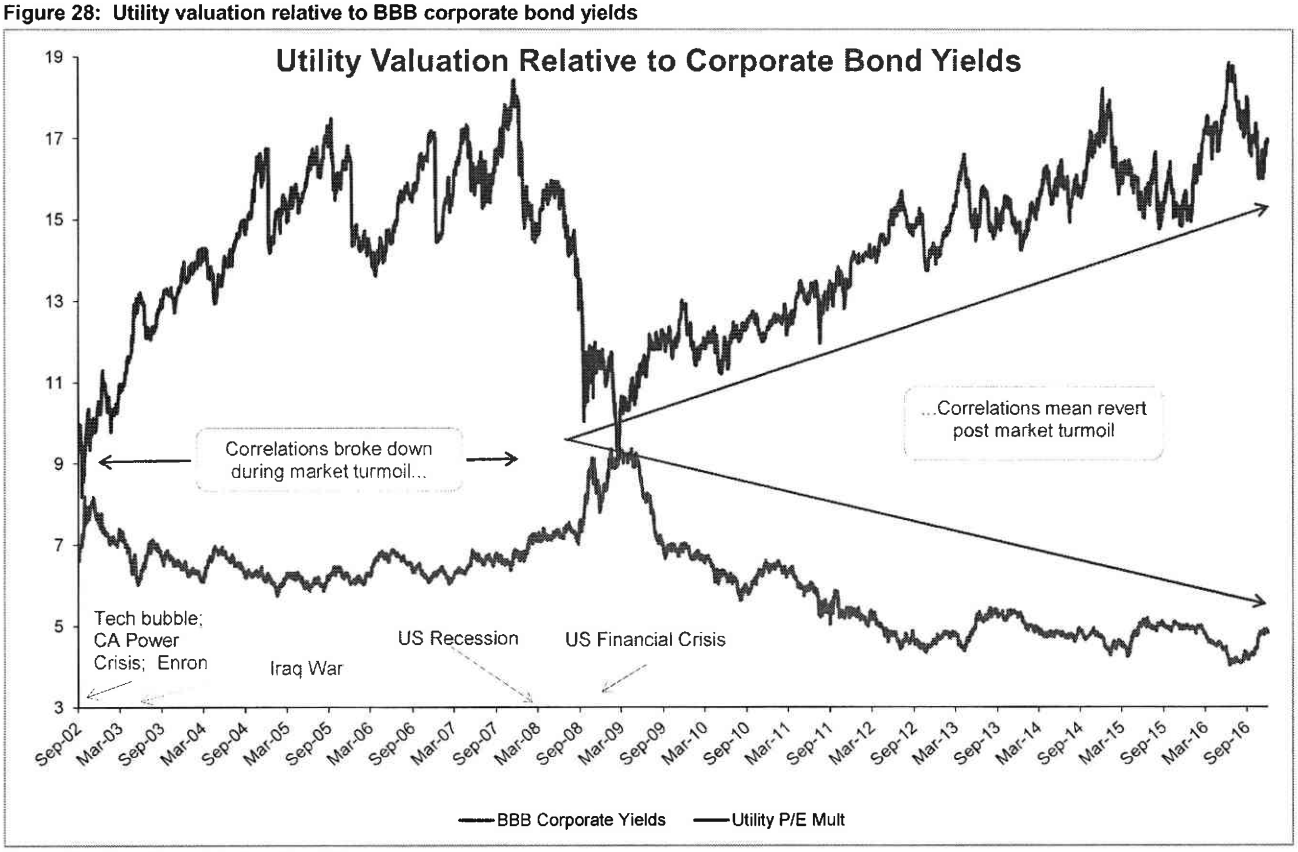
Strong inverse relationship between corp. bond yields and P/E valuations

For regulated businesses, our valuation analysis is based on a long-term regression of BBB Corporate bond yields and P/E multiples – dating back to 1980 using various periods pre and post dividend tax rate changes. Below we discuss the historical relationship between BBB corporate bond yields and regulated utility valuations and how these two variables drive our valuation. For integrated utilities, we utilize a sum-of-the-parts methodology, applying the regulated methodology described above to regulated segments, apply an EV/open-EBITDA multiple to unregulated generation segments, and adjust for the NPV of hedges, mid-cycle capacity payments, and future liabilities/benefits (e.g., environmental obligations).

Regulated utility valuation

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 28 below). Excluding these periods, regulated utilities exhibit strong correlation since both assets serve as defensive positions in an investment portfolio.

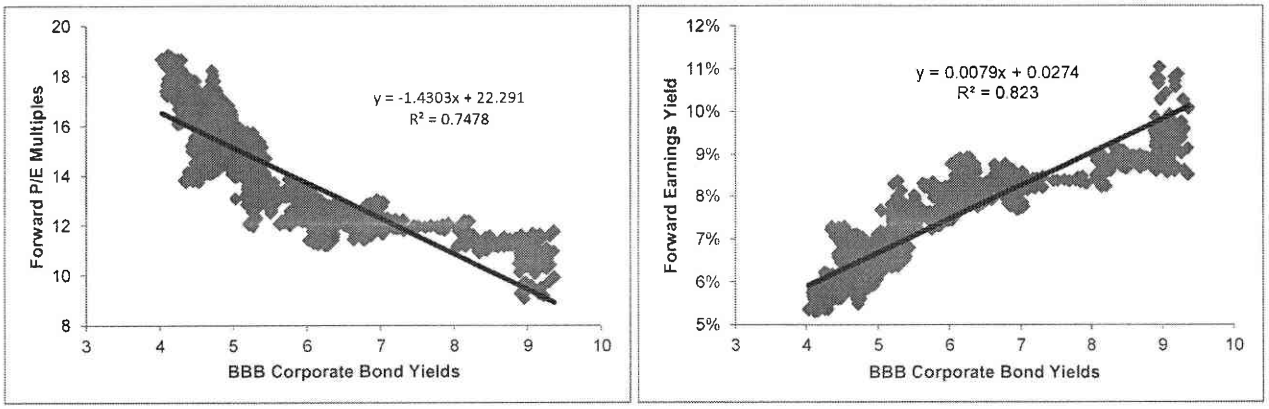
Figure 28: Utility valuation relative to BBB corporate bond yields



Source: Bloomberg, Guggenheim Securities, LLC.

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 29: 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 5 years.

Incorporating the forward yield outlook for BBB corporate bonds of 5.03% 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 2018 5.03% BBB corporate bond yield curve would imply a 2018 regulated P/E multiple of ~15.1x – we round to 15.5x and now incorporate it into our 12-month price targets before company-specific premiums and discounts (see Figure 30 below).

Stock picking finally matters. Currently, the group is trading slightly higher than the 15.5x target multiple we derive with our regression analysis. We see ~7% total downside for the group based on dividend yield, this is no longer a sector call – investors need to be more selective within the sector, in our view.

P/E sensitivity to a change in bond yields. Every 25bps change in bond yields equates to a ~0.36x change in utility forward P/E multiples, by our estimates. Refer to Figure 30 below for P/E sensitivities to yields.

Figure 30: P/E sensitivity to change in yield

BBB Yield	2018 P/E Multiple	Multiple Change	Implied Upside / (Downside) %
3.28	17.6x	2.50x	-14%
3.53	17.2x	2.15x	-12%
3.78	16.9x	1.79x	-11%
4.03	16.5x	1.43x	-9%
4.28	16.2x	1.07x	-6.6%
4.53	15.8x	0.72x	-5%
4.78	15.5x	0.36x	-2%
5.03	**15.1x**		
5.28	14.7x	-0.36x	2%
5.56	14.3x	-0.76x	5%
5.81	14.0x	-1.12x	8%
6.06	13.6x	-1.47x	11%
6.31	13.3x	-1.83x	14%
6.56	12.9x	-2.19x	17%
6.81	12.6x	-2.55x	20%
7.06	12.2x	-2.90x	24%
7.31	11.8x	-3.26x	28%

Slope	(1.43)	a
Intercept	22.29	b
BBB Bond Yield (%)	5.03	c
Projected 2018 P/E Multip	**15.1x**	d = (a*c) + b

Where group currently trades

Where group should trade versus forward corporate bond yield expectations

Source: Bloomberg, Guggenheim Securities, LLC estimates

Summary takeaways from our regression for regulated utilities:

- Our regression incorporates a 30-year BBB Corporate bond yield of 5.03%, which implies a fair value of ~15.1x for regulated utilities on our forward 2018E earnings.

- We use 15.5x as our target P/E multiple:
  - Is now incorporated into our valuation to arrive at regulated utility price targets and
  - Points to where the group should trade based on the forward interest rate expectations.
- Return implication for the group, on average:
  - Given the current outlook for rates, we see slight downside for the group (15.5x fair value vs. current 16.9x implies 8.3% downside).
  - Slight downside remains even after factoring in the group's average dividend yield of 3.9%, which we regard as safe.

Integrated utility valuation

We continue to value on sum-of-the-parts. For our integrated/hybrid utilities, we employ a sum-of-the-parts analysis using our derived target P/E multiple for the regulated segment and various other metrics (including EV/Open EBITDA) for the merchant (unregulated) segment. We further adjust EVs for NPV of future capacity payments, existing hedges, and environmental obligations, among other items. We do not assign a perpetual multiple to these items.

We do not see material heat rate expansion because of the supply / demand dynamics in each region and ISO, and the lack of reserve margin expansion. Without heat rate expansion or robust projected natural gas prices, the economics of high cost nuclear plants, in particular in regions with basis discounts to Henry Hub, are challenged and the cash flow outlook is weak. **Generally we value merchant assets differently based on location/fuel source.** We apply a lower multiple to coal and certain nuclear assets, and a higher multiple to gas, renewables and nuclear units with longer-term incentives/cash flow certainty in regions where legislative mandates will provide the much needed lifeline. A uniform mid-cycle multiple is no longer pertinent.

IPP valuation

We value IPPs based on a bottoms-up DCF approach that recognizes not all assets are created equal. Applying mid-cycle multiples to an IPP with a presumption that all assets uniformly go into perpetuity is flawed, in our view – not all assets are created equal and many have finite lives. Our focus turns to unlevered free cash flows, conversion cycles, balance sheet positioning, and discounted cash flow analysis with strong emphasis on asset type, tech, and age.

We use integrated SOP valuation with EV/EBITDA specific to generation assets

Our IPPs are marked to the 12/22/2016 forward curves. Using various forwards for power, gas, heat rates, coal, and uranium, etc., we arrive at forecast EBITDAs through the 2024 terminal year. Note: we make further plant-specific adjustments to account for gas basis and premiums/discounts to select power hubs (see later in the note for power curves employed as well as individual company sections on key inputs). From our forecasted EBITDAs, we back out maintenance and environmental CapEx, cash taxes, leases, etc., to arrive at an estimated unlevered free cash flow before growth initiatives, which we then use to calculate NPV at the specific IPP's WACC. For the 2024 terminal year cash flow, we apply an IPP specific-multiple that's weighted toward the individual asset portfolio. We further adjust our IPP enterprise values for the NPV of NOLs, existing hedges, environmental obligations, among other items. After backing out non-recourse net debt, we arrive at our IPP equity values.

COMPANY SECTIONS

AMERICAN ELECTRIC POWER (AEP, NEUTRAL, $63.19)

Stepping to the sideline after solid execution of plan; purely a macro/valuation call as fully-regulated utilities trade like bond surrogates, while the macro back-drop has deteriorated with market expectations for higher yields. The story comes full-circle, as management effected its transition to fully-regulated status to shed commodity exposure and de-risk the business by exiting most merchant generation; now operating a solid portfolio of regulated utilities, in our view, whereas investors now will likely seek beta. Our downgrade is a macro call despite good execution.

- **Downgrading AEP to Neutral; Removing from Best Ideas list. The story has come full circle as AEP completes its transition to a fully-regulated profile, while the macro back-drop has deteriorated for regulated utilities, which traditionally trade as bond surrogates.** Downgrading AEP to Neutral as a less constructive macro environment has emerged for regulated utilities – **purely a macro/valuation call**; AEP has effectively managed to de-risk its business by shedding commodity exposure with the sale of most of its merchant generation, although as **AEP's valuation re-rates with regulated peers, shares will be under pressure in a less constructive macro environment.** AEP currently trades at a partial discount to regulated peers, which, at this juncture, seems fair to us given the complexity of the business, which is primarily located in several states with average utility commissions, ROEs and customer demographic trends. **We believe investors will likely always place somewhat of a sum-of-the-parts valuation discount for AEP given its "conglomerate status."**

- **We are introducing 2019 and 2020 estimates of $4.06/$4.28 vs. consensus estimates of $4.02 for 2019 (no consensus for 2020 yet).** As we extend our outlook through the end of the decade, we are introducing estimates of $4.13 and $4.34 for 2019 and 2020, by which point we model earnings almost exclusively driven by investment in regulated businesses, averaging ~$5bn annually across AEP's various state-regulated utility franchises and FERC-regulated transmission business, earning ~9.5% ROE on average (11% for transmission). Our estimates are in line management's recently updated LT outlook projecting 5-7% growth, which we discuss below.

- **Updating our 2016/2017/2018 EPS estimates to $3.81/$3.62/$3.86 vs. consensus estimates of $3.79/$3.69/$3.90.** Our updated estimates are largely intact as they were already reflecting updated business plans following AEP's November analyst day, which now boast a 5-7% growth trajectory, up from its prior 4-6% outlook, although more a function of re-basing growth off its expected 2017 earnings rather than enhanced earnings power — AEP starts from a lower base in 2017 as contributions from 5.2GW of merchant assets are removed (management expects to close sale 1Q17). We continue to model 3GW of lower quality generation that is left over, and a small renewable contribution, but at the end of the day we arrive at +95% regulated earnings mix – **which also supports our view that shares should re-rate closer to regulated peers with somewhat of an AEP-specific valuation discount as discussed above. That said, tough to see valuation expansion as the regulated utility rally is now behind us, and as the group still looks expensive relative to forward bond yield expectations by a noticeable spread.**

- **Valuation:** Our $64 fair value is based on: **(1) $63 from AEP's regulated utilities** based on our 2018 EPS estimate of $3.82 for those subsidiaries, and our AEP-specific target multiple of 16.5x, where the 1.0x premium accounts for exposure to electric transmission investment; and **(2) $1 from AEP's remaining unregulated operations**, after backing out ~$800mm of debt from the GenCo (assuming $300mm is paid back with proceeds from the asset sale).

Guggenheim's AEP EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	1.28A	0.87A	1.06A	0.48A	3.69A	
2016E	1.02A	0.95A	1.30A	0.54E	3.81E	3.79E
Prior	*1.02E*	*0.95E*	*1.30E*	*0.56E*	*3.83E*	
2017E	0.88E	0.90E	0.85E	0.99E	3.62E	3.69E
Prior	*0.88E*	*0.87E*	*1.02E*	*0.87E*	*3.65E*	
2018E	0.93E	0.96E	0.91E	1.05E	3.86E	3.90E
Prior	*0.93E*	*0.93E*	*1.07E*	*0.92E*	*3.85E*	
2019E	0.99E	1.01E	0.95E	1.10E	4.06E	4.02E
2020E	1.05E	1.07E	1.01E	1.15E	4.28E	NA

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** AEP is essentially a regulated wires business with risks to achieving our price target mainly encompassing traditional risk factors inherent with all electric utilities, including: 1) rate case risk, 2) lower or higher CapEx outlook, and 3) interest rate changes above or below what we account for in our regression model. 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

AMERICAN ELECTRIC POWER

CONSOLIDATED FINANCIALS

INCOME STATEMENT ($mm, unless otherwise noted)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Operating revenue																		
Utility operations	3,694	3,167	3,599		3,295	3,184	3,784											
Gneration and marketing	859	628	802		714	655	823											
Other revenue	28	33	30		36	53	45											
Total operating revenue	**4,580**	**3,827**	**4,431**	**4,067**	**4,045**	**3,893**	**4,652**	**5,644**	**4,546**	**4,564**	**4,614**	**4,594**	**16,905**	**18,234**	**18,318**	**18,568**	**18,901**	**19,344**
Fuel and other cosumables for genera	1,071	755	956	566	676	680	880						3,348					
Purchased electricity for resale	718	601	731	710	731	629	774						2,760					
Purchases from AEP affiliates				-														
Fuel and purchased power	**1,790**	**1,356**	**1,687**	**1,276**	**1,407**	**1,310**	**1,654**	**3,397**	**1,938**	**1,942**	**1,967**	**1,945**	**6,108**	**7,768**	**7,792**	**7,665**	**7,636**	**7,733**
Gross margin	**2,791**	**2,471**	**2,745**	**2,791**	**2,638**	**2,583**	**2,998**	**2,247**	**2,609**	**2,621**	**2,648**	**2,649**	**10,797**	**10,466**	**10,527**	**10,903**	**11,265**	**11,611**
Other operation	661	603	690	1,092	715	665	771	639	752	747	789	718	3,047	2,790	3,006	3,044	3,076	3,105
Maintenance	286	326	312	402	279	289	286	353	299	293	311	273	1,325	1,207	1,176	1,187	1,198	1,208
Other operating expense (gain)	-	-	-	-	-	-		-	-	-	-	-	-	-	-	-	-	-
D&A	495	498	535	509	497	514	539	448	431	433	435	437	2,037	1,998	1,738	1,782	1,862	1,925
Taxes other than income	246	239	248	250	254	249	264	231	239	240	241	242	983	999	963	987	1,009	1,031
EBIT	**1,103**	**804**	**960**	**538**	**893**	**866**	**1,137**	**576**	**887**	**908**	**870**	**978**	**3,405**	**3,473**	**3,643**	**3,903**	**4,120**	**4,342**
Interest and other non-operating incor	1	3	2	2	2	2	2	2	8	8	8	8	8	9	32	32	32	32
Carrying costs income	8	8	2	5	4	6	2	-	-	-	-	-	24	12	-	-	-	-
AFUDC equity	30	34	33	36	32	29	26	81	27	27	27	27	132	167	109	109	109	109
Interest expense	(219)	(219)	(220)	(233)	(217)	(225)	(225)	(253)	(260)	(262)	(264)	(266)	(891)	(920)	(1,052)	(1,130)	(1,193)	(1,252)
Earnings before taxes	**923**	**630**	**776**	**348**	**714**	**679**	**941**	**407**	**662**	**681**	**641**	**748**	**2,677**	**2,740**	**2,732**	**2,914**	**3,068**	**3,231**
Tax rate	35%	36%	36%	34%	33%	24%	(57%)	35%	35%	35%	35%	35%	35%	0%	35%	35%	35%	35%
Income tax expense/(benefit)	327	224	276	120	236	165	(535)	142	232	238	225	262	947	8	956	1,020	1,074	1,131
Equity earnings of unconsolidated affil	24	25	11	26	25	(7)	25	-	-	-	-	-	87	43	-	-	-	-
Disc ops			8	(8)			-						-	-	-	-	-	-
Extraordinary items net of tax	11	(0)	-	(10)	-	(3)	(2,265)	-	-	-	-	-	-	(2,267)	-	-	-	-
Income attributable to noncontrolling i	2	1	1	1	2	2	2	-	-	-	-	-	5	5	-	-	-	-
Preferred dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income	**629**	**430**	**518**	**235**	**501**	**502**	**(766)**	**265**	**430**	**443**	**417**	**486**	**1,812**	**502**	**1,776**	**1,894**	**1,994**	**2,100**
Diluted shares	490	490	491	491	491	492	492	491	491	491	491	491	490	491	491	491	491	491
EPS	**$1.28**	**$0.88**	**$1.06**	**$0.48**	**$1.02**	**$1.02**	**($1.56)**	**$0.54**	**$0.88**	**$0.90**	**$0.85**	**$0.99**	**$3.69**	**$1.02**	**$3.62**	**$3.86**	**$4.06**	**$4.28**
Non-recurring items net of tax	0	1	(3)	0	0	36	(1,406)	0	0	0	0	0	(2)	(1,369)	0	0	0	0
Recurring net income	**629**	**429**	**521**	**235**	**501**	**466**	**640**	**265**	**430**	**443**	**417**	**486**	**1,814**	**1,871**	**1,776**	**1,894**	**1,994**	**2,100**
Recurring EPS	**$1.28**	**$0.87**	**$1.06**	**$0.48**	**$1.02**	**$0.95**	**$1.30**	**$0.54**	**$0.88**	**$0.90**	**$0.85**	**$0.99**	**$3.70**	**$3.81**	**$3.62**	**$3.86**	**$4.06**	**$4.28**

Source: Company reports; Guggenheim Securities, LLC estimates.

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AMERICAN ELECTRIC POWER

CONSOLIDATED FINANCIALS

STATEMENT OF CASH FLOWS ($mm, unless otherwise noted)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Cash flow from operations																		
Net income	631	431	520	471	503	504	(764)	265	430	443	417	486	2,052	507	1,776	1,894	1,994	2,100
D&A	495	498	535	482	497	514	539	448	431	433	435	437	2,010	1,998	1,738	1,782	1,862	1,925
Deferred income taxes	238	212	78	280	330	222	(599)		-	-	-	-	808	(47)	-	-	-	-
Other	(107)	(200)	579	(394)	(531)	(314)	2,519	-	-	-	-	-	(122)	1,675	-	-	-	-
Cash flow from operations	**1,258**	**941**	**1,712**	**838**	**800**	**926**	**1,695**	**712**	**862**	**876**	**852**	**923**	**4,749**	**4,133**	**3,513**	**3,676**	**3,857**	**4,025**
													4,800	5,100	5,100	5,100	5,100	5,100
Cash flow from investing																		
Capex	(1,077)	(1,105)	(1,101)	(1,225)	(1,204)	(1,082)	(1,101)	(1,034)	(1,065)	(1,065)	(1,065)	(1,065)	(4,508)	(4,421)	(4,260)	(4,691)	(4,175)	(4,075)
Acquisitions of assets	-	-	-	(5)	-	-	-	-	-	-	-	-	(5)	-	-	-	-	-
Divestitures of assets	-	-	-	-	-	-	-	-	1,200	-	-	-	-	-	1,200	-	-	-
Other	56	(69)	47	(85)	65	(79)	(28)	-	-	-	-	-	(51)	(42)	-	-	-	-
Cash flow from investing	**(1,021)**	**(1,174)**	**(1,054)**	**(1,316)**	**(1,138)**	**(1,161)**	**(1,129)**	**(1,034)**	**135**	**(1,065)**	**(1,065)**	**(1,065)**	**(4,564)**	**(4,463)**	**(3,060)**	**(4,691)**	**(4,175)**	**(4,075)**
Cash flow from financing																		
Net change in ST debt	(491)	250	(323)	18	421	839	(582)	-	-	-	-	-	(546)	678	-	-	-	-
Net change in LT debt	535	343	(78)	239	203	(243)	293	748	250	250	250	250	1,039	1,000	1,000	1,700	2,000	1,000
Net change in preferred equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preferred stock dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash to parent (common stock divider	261	(783)	(261)	(276)	(277)	(277)	(277)	(290)	(286)	(286)	(286)	(301)	(1,059)	(1,120)	(1,160)	(1,216)	(1,276)	(1,338)
Issuance of common stock	30	25	12	14	12	19	3	(34)	-	-	-	-	82	-	-	-	-	-
Other	(545)	402	(25)	(10)	(7)	(44)	(38)	-	-	-	-	-	(178)	(89)	-	-	-	-
Cash flow from financing	**(209)**	**237**	**(675)**	**(15)**	**352**	**294**	**(601)**	**424**	**(36)**	**(36)**	**(36)**	**(51)**	**(662)**	**470**	**(160)**	**484**	**724**	**(338)**
Net Cash Flows from (Used for) Discont	0	(0)	(0)	491	-	(3)	-						491	(3)	-	-	-	-
Increase/(decrease) in cash	28	5	(17)	(2)	14	56	(35)	102	961	(225)	(249)	(193)	13	138	294	(531)	406	(388)
Cash at beginning of period	163	190	195	178	176	190	247	212	315	1,275	1,050	802	163	176	315	608	77	483
Cash at end of period	**190**	**195**	**178**	**176**	**190**	**247**	**212**	**315**	**1,275**	**1,050**	**802**	**608**	**176**	**315**	**608**	**77**	**483**	**95**

Source: Company reports; Guggenheim Securities, LLC estimates.

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AMERICAN ELECTRIC POWER

CONSOLIDATED FINANCIALS

BALANCE SHEET ($mm, unless otherwise noted)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Assets																		
Cash and equivalents	190	195	178	176	190	247	212	315	1,275	1,050	802	608	176	315	608	77	168	272
Other	3,926	4,030	4,370	3,896	3,956	4,192	5,737	5,737	5,737	5,737	5,737	5,737	3,896	5,737	5,737	5,737	5,737	5,737
Total current assets	**4,116**	**4,225**	**4,548**	**4,072**	**4,146**	**4,439**	**5,949**	**6,052**	**7,012**	**6,787**	**6,539**	**6,345**	**4,072**	**6,052**	**6,345**	**5,814**	**5,905**	**6,009**
CWIP	3,710	3,710	4,008	3,904	3,806	3,510	3,651	3,651	3,651	3,651	3,651	3,651	3,904	3,651	3,651	3,651	3,651	3,651
Gross PP&E	65,306	64,602	64,826	65,481	66,430	67,082	60,600	61,634	61,499	62,564	63,629	64,694	65,481	61,634	64,694	69,385	70,429	71,472
Accumulated depreciation	20,496	19,589	19,588	19,348	19,597	19,646	16,338	16,786	17,217	17,650	18,086	18,523	19,348	16,786	18,523	20,305	20,768	21,232
Net PP&E	**44,810**	**45,013**	**45,238**	**46,133**	**46,833**	**47,436**	**44,262**	**44,848**	**44,282**	**44,913**	**45,543**	**46,171**	**46,133**	**44,848**	**46,171**	**49,079**	**49,661**	**50,240**
Other assets	11,112	11,700	11,313	11,478	11,507	11,442	11,231	11,231	11,231	11,231	11,231	11,231	11,478	11,231	11,231	11,231	11,231	11,231
Total assets	**60,038**	**60,938**	**61,099**	**61,683**	**62,487**	**63,317**	**61,442**	**62,131**	**62,525**	**62,931**	**63,312**	**63,747**	**61,683**	**62,131**	**63,747**	**66,124**	**66,796**	**67,480**
Liabilities																		
ST debt	855	1,105	782	800	1,221	2,060	1,478	1,478	1,478	1,478	1,478	1,478	800	1,478	1,478	1,478	1,478	1,478
Currently maturing LT debt	2,451	1,817	1,826	1,832	2,033	2,006	2,385	2,385	2,385	2,385	2,385	2,385	1,832	2,385	2,385	2,385	2,385	2,385
Other	3,822	3,728	4,450	4,477	3,968	3,803	3,916	3,916	3,916	3,916	3,916	3,916	4,477	3,916	3,916	3,916	3,916	3,916
Total current liabilities	**7,128**	**6,650**	**7,058**	**7,109**	**7,222**	**7,870**	**7,779**	**7,779**	**7,779**	**7,779**	**7,779**	**7,779**	**7,109**	**7,779**	**7,779**	**7,779**	**7,779**	**7,779**
LT debt	16,778	17,761	17,600	17,741	17,749	17,537	17,320	18,068	18,318	18,568	18,818	19,068	17,741	18,068	19,068	20,768	21,268	21,768
Other	18,884	19,085	18,732	18,929	19,374	19,505	19,000	19,000	19,000	19,000	19,000	19,000	18,929	19,000	19,000	19,000	19,000	19,000
Total LT liabilities	**35,662**	**36,846**	**36,332**	**36,670**	**37,123**	**37,042**	**36,320**	**37,068**	**37,318**	**37,568**	**37,818**	**38,068**	**36,670**	**37,068**	**38,068**	**39,768**	**40,268**	**40,768**
Total liabilities	**42,790**	**43,496**	**43,390**	**43,778**	**44,345**	**44,912**	**44,099**	**44,847**	**45,097**	**45,347**	**45,597**	**45,847**	**43,778**	**44,847**	**45,847**	**47,547**	**48,047**	**48,547**
Preferred stock	0	-	-	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Noncontrolling interests	7	8	10	13	15	19	21	21	21	21	21	21	13	21	21	21	21	21
Common stock	3,317	3,321	3,322	3,324	3,325	3,328	3,328	3,328	3,328	3,328	3,328	3,328	3,324	3,328	3,328	3,328	3,328	3,328
Paid in capital	6,251	6,270	6,282	6,297	6,310	6,325	6,330	6,296	6,296	6,296	6,296	6,296	6,297	6,296	6,296	6,296	6,296	6,296
Retained earnings	7,776	7,945	8,204	8,398	8,625	8,851	7,809	7,784	7,928	8,085	8,216	8,400	8,398	7,784	8,400	9,078	9,250	9,433
ACI	(103)	(102)	(109)	(127)	(134)	(118)	(146)	(146)	(146)	(146)	(146)	(146)	(127)	(146)	(146)	(146)	(146)	(146)
Total common shareholders equity	**17,241**	**17,434**	**17,699**	**17,892**	**18,127**	**18,386**	**17,322**	**17,262**	**17,407**	**17,563**	**17,694**	**17,879**	**17,892**	**17,262**	**17,879**	**18,556**	**18,728**	**18,911**
Total liabilities and equity	**60,038**	**60,938**	**61,099**	**61,683**	**62,487**	**63,317**	**61,442**	**62,131**	**62,525**	**62,931**	**63,312**	**63,747**	**61,683**	**62,131**	**63,747**	**66,124**	**66,796**	**67,480**

Source: Company reports; Guggenheim Securities, LLC estimates.

ALLETE (ALE, NEUTRAL, $63.79)

Staying on the sidelines on valuation and uncertainty around Boswell recovery, which could shift earnings into '18, impacting '17 outlook.

- **We are maintaining our NEUTRAL rating and lowering our fair value/share estimate to $58 from $57.** Status of Boswell asset recovery extension ruling with MPUC could swing 2017 and 2018 earnings materially – **adverse ruling could bring '17 earnings to the bottom end of management guidance with recovery in '18.** Clarity on this as well as further support for cyclical recovery could yield shares as more attractive. **For now, we assume a higher risk premium given fundamental uncertainties – shares will likely be in a wait-and-see approach pending data points around Boswell recovery sometime in mid-2017, which remains a binary event.** A positive ruling will be seen as a key NT catalyst – shares would become more attractive.
- **We are launching on estimates for 2019 and 2020 of $3.90/$4.09 versus street consensus of $4.06/$4.63,** as we extend our outlook through the end of the decade. This outlook captures the solid growth at utilities as well as increase in EnergyForward plan infrastructure investments. For new outlook, we model ~9.7% earned returns (9.7% at Minnesota Power; 10.4% at SWL&P), ~$100mm in CAPEX/year, generally a balanced cap structure, 2% volume growth and consistent growth at ATC etc. We assume modest growth at the non-regulated segment driven by Clean Energy.
- **Updating our 2016/2017/2018 EPS estimates to $3.15/$3.49/$3.72 versus street estimates of $3.13/$3.46/$3.70.** We adjust our `17 and `18 estimate to account for the fairly constructive outcome of the MN rate case and slightly higher taconite production outlook. Our 7% consolidated earnings growth outlook is comprised of 7% regulated earnings growth accounts for ~90% of total earnings, and our 9% non-regulated growth outlook is driven by incremental renewable investments at Clean Energy (~$60mm through 2018) and U.S. Water customer additions (~20% increase to the customer base by 2018). We arrive at ~7% utility earnings growth based on modeling ~3% rate base growth and improvement of ROEs to 9.7% from 9.1% at the MN Power segment and 3% growth at SWL&P with stable 10.3% ROE. We also assume minimum idled taconite production with taconite customers through 2018 and continued contribution from equity investment in ATC. See below on Boswell.
- **2017 catalyst: Asset recovery extension ruling by mid-2017; finalizing MN rate case.** ALE requested for a recovery life extension for its Boswell Energy Center with MPUC, which could potentially reduce depreciation expense by ~$25mm, thus driving 2017 earnings to the high end of the guidance range of $3.10-$3.50, if approved by the Commission. If the request is not approved, management would expect to increase its final rate request, which could delay that benefit into 2018 earnings and drive the 2017 earnings to the lower end of the guidance range. Next data point to watch for is the ALJ hearings in mid-2017. We assume the request is going to be approved in our $3.49 EPS estimate for 2017, we would adjust our estimate if the result suggests otherwise. ALE also anticipates ALJ hearings on the MN Power rate case in Aug. 2017 and final MPUC order by Nov. 2017, although the interim rates are already in place beginning Jan. 2017 with a $34.7mm rate increase based on 10.25% ROE. Another data point worth monitoring is the Great Northern Transmission, which is expected to begin construction in early 2017, which could trigger incremental investment opportunities of $300-$350mm. Construction is expected to complete in 2020.
- **Valuation: We value ALE as a regulated utility, arriving at our $58 FV/share estimate** using our regulated group multiple of 15.5x and applying to our 2018 EPS

estimate of $3.72. Incorporating our anticipated 3.4% dividend yield, we estimate a -5.7% ETR based on our $58 FV/share estimate.

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	0.99A	0.73E	3.15E	3.13E
Prior				*0.72E*	*3.14E*	
2017E	0.83E	0.51E	0.98E	1.17E	3.49E	3.46E
Prior	*0.88E*	*0.53E*	*1.21E*	*0.84E*	*3.46E*	
2018E	0.87E	0.55E	1.06E	1.24E	3.72E	3.70E
Prior	*0.93E*	*0.56E*	*1.29E*	*0.90E*	*3.68E*	
2019E	0.91E	0.56E	1.13E	1.31E	3.90E	4.06E
2020E	0.96E	0.61E	1.17E	1.36E	4.09E	4.63E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **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.

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ALLETE Energy

Consolidated Financials

INCOME STATEMENT ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenue	320	323	463	381	1,486	334	315	350	393	1,391	344	314	362	406	1,426	1,502	1,568	1,624
Total Operating Revenues	320	323	463	381	1,486	334	315	350	393	1,391	344	314	362	406	1,426	1,502	1,568	1,624
Fuel and Purchased Power	86	80	77	85	328	77	78	91	99	345	74	73	82	106	335	348	362	371
Total Cost of sales	86	80	77	85	328	77	78	91	99	345	74	73	82	106	335	348	362	371
Gross Margin	234	243	386	295	1,158	257	237	259	294	1,046	270	241	280	300	1,091	1,154	1,207	1,253
% of Gross Margin	*73%*	*75%*	*83%*	*78%*	*78%*	*77%*	*75%*	*74%*	*75%*	*75%*	*76%*	*77%*	*77%*	*74%*	*77%*	*77%*	*77%*	*77%*
Transmission Services	15	11	14	14	54	17	16	17	14	64	16	14	18	20	68	71	74	76
Cost of Sales	31	52	150	69	302	33	33	46	50	163	44	44	47	50	186	201	212	223
Other operation and maintenance expenses	80	85	81	87	334	78	82	81	82	323	82	81	79	82	323	328	334	339
Taxes, other than income taxes	13	13	12	13	51	14	14	13	40	81	26	25	23	21	95	109	120	130
Impairment of Real Estate	-	-	-	36	36	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	139	162	257	219	778	142	146	156	186	630	169	164	167	173	673	710	740	768
EBITDA	95	81	128	76	381	115	91	102	108	416	101	77	113	127	418	444	467	484
Depreciation and amortization	39	41	43	47	170	48	49	49	46	192	29	30	30	30	118	126	134	139
Operating Income	56	40	85	30	211	67	42	53	61	224	71	48	83	98	300	318	333	346
Equity Earnings in ATC	4	5	6	2	16	5	4	6	5	20	4	4	4	4	16	19	22	24
Other	1	1	2	1	5	1	1	1	2	5	1	1	1	1	5	5	5	5
Interest Expense	15	16	18	16	65	17	17	19	10	63	16	16	16	16	64	68	71	73
Interest Rate	*4%*	*5%*	*4%*	*4%*	*4%*	*4%*	*4%*	*5%*	*3%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*4%*
Total Other Expense	10	11	11	13	44	11	13	11	3	38	11	11	11	11	43	44	45	44
Income Before Non-Controlling Interest and Income Taxes	46	29	75	17	167	56	30	42	58	186	60	37	73	87	257	274	288	302
Income Tax Expense	6	6	14	(2)	25	9	5	2	22	38	20	12	25	30	86	92	97	101
Tax Rate	*13%*	*22%*	*19%*	*-10%*	*15%*	*17%*	*16%*	*4%*	*39%*	*21%*	*33%*	*32%*	*34%*	*34%*	*33%*	*33%*	*34%*	*34%*
Net Income	40	22	60	19	142	46	25	40	36	147	41	25	48	58	171	183	192	201
Less: Non-Controlling Interest in Subsidiaries	0	(0)	(0)	1	0	1	-	-	-	1	-	-	-	-	-	-	-	-
Net Income Attributable to ALLETE	40	23	60	18	141	46	25	40	36	147	41	25	48	58	171	183	192	201
Weighted-average Number of Common Shares Outstanding-Diluted	47	49	49	48	48	49	50	50	49	49	49	49	49	49	49	49	49	49
Earnings Per Common Share, Diluted	$0.85	$0.46	$1.23	$0.39	$2.92	$0.94	$0.50	$0.81	$0.73	$2.98	$0.83	$0.51	$0.98	$1.17	$3.49	$3.72	$3.90	$4.09
Non-GAAP Items	-	-	7	-	7	-	-	9	-	9	-	-	-	-	-	-	-	-
Net Income (Non-GAAP)	40	23	68	18	148	46	25	49	36	156	41	25	48	58	171	183	192	201
Earnings Per Common Share, Diluted (Non-GAAP)	$0.85	$0.46	$1.38	$0.38	$3.06	$0.93	$0.50	$0.99	$0.73	$3.15	$0.83	$0.51	$0.98	$1.17	$3.49	$3.72	$3.90	$4.09

Source: Company reports; Guggenheim Securities, LLC estimates.

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ALLETE Energy

Consolidated Financials

CASH FLOW STATEMENT ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Net income	40	22	60	19	142	46.4	24.8	40	36	147	41	25	48	58	171	183	192	201
Adjustments to reconcile net income to net cash provided by operating activities:																		
Allowance for Funds Used During Construction – Equity	(1)	(1)	(1)	(1)	(3)	(1)	(0)	(1)	-	(2)	-	-	-	-	-	-	-	-
Income from Equity Investments – Net of Dividends	(1)	(2)	(1)	2	(2)	(3)	-	(3)	(1)	(7)	(1)	(1)	(1)	(1)	(3)	(4)	(4)	(4)
Impairment of Real Estate	-	-	-	36	36	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on Sales of Investments	-	(0)	(0)	-	(0)	-	-	(5)	-	(5)	-	-	-	-	-	-	-	-
Depreciation Expense	38	40	42	45	166	47	47	48	46	187	46	46	46	46	183	184	186	187
Amortization of Power Purchase Agreements	(5)	(6)	(6)	(6)	(23)	(6)	(6)	(6)	-	(17)	-	-	-	-	-	-	-	-
Amortization of Other Intangible Assets and Other Assets	1	2	2	1	6	2	3	3	1	9	(16)	(16)	(17)	(16)	(65)	(58)	(52)	(48)
Changes in Operating Assets and Liabilities																		
Accounts Receivable	8	10	(6)	(11)	1	(4)	11	4	(13)	(3)	15	9	(15)	(14)	(4)	(6)	(5)	(5)
Inventories	(9)	(5)	(11)	2	(22)	1	6	3	(9)	0	29	2	(11)	(28)	(8)	(6)	(4)	(4)
Prepayments and Other	(1)	5	(5)	4	4	0	(1)	0	(3)	(4)	11	1	(4)	(10)	(3)	(2)	(2)	(1)
Accounts Payable	(14)	(12)	26	(19)	(19)	(4)	6	(1)	6	7	(20)	(1)	8	19	5	4	3	2
Net Cash Provided by Operating Activities	**72**	**111**	**72**	**86**	**340**	**93**	**53**	**92**	**62**	**299**	**104**	**64**	**54**	**54**	**277**	**295**	**313**	**328**
Cash Flow from Investing Activities:																		
Proceeds from Sale of Available-for-sale Securities	0	1	-	1	2	1	0	5	-	7	-	-	-	-	-	-	-	-
Payments for Purchase of Available-for-sale Securities	(0)	(0)	(0)	(1)	(2)	(0)	(1)	(6)	-	(7)	-	-	-	-	-	-	-	-
Acquisitions of Subsidiaries – Net of Cash Acquired	(167)	(48)	(110)	(9)	(333)	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment in ATC	(0)	(0)	(0)	(0)	(2)	(1)	(0)	(2)	(3)	(6)	(2)	(2)	(2)	(2)	(6)	(6)	(6)	(6)
Changes to Other Investments	-	(0)	0	3	3	0	2	0	-	3	-	-	-	-	-	-	-	-
Additions to Property, Plant and Equipment	(88)	(52)	(68)	(79)	(287)	(42)	(32)	(45)	(49)	(168)	(70)	(70)	(70)	(70)	(280)	(290)	(225)	(180)
Proceeds from Sale of Property, Plant and Equipment	-	-	0	0	0	-	0	-	-	0	-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	**(256)**	**(115)**	**(163)**	**(85)**	**(619)**	**(43)**	**(31)**	**(47)**	**(51)**	**(172)**	**(72)**	**(72)**	**(72)**	**(72)**	**(286)**	**(296)**	**(231)**	**(186)**
Cash Flow from Financing Activities:																		
Proceeds from Issuance of Common Stock	142	7	7	6	161	9	6	12	-	27	-	-	-	-	-	-	-	-
Proceeds from Issuance of Long-Term Debt	-	15	225	85	325	-	2	-	10	12	10	50	75	25	160	225	225	225
Changes in Restricted Cash	(1)	(2)	5	6	9	(6)	4	4	-	2	-	-	-	-	-	-	-	-
Changes in Notes Payable	(3)	(0)	-	2	(2)	(1)	0	(1)	-	(2)	-	-	-	-	-	-	-	-
Repayments of Long-Term Debt	(2)	(1)	(78)	(78)	(160)	(27)	(6)	(19)	(16)	(67)	(16)	(16)	(35)	(35)	(101)	(69)	(69)	(69)
Acquisition of Non-Controlling Interest	-	-	-	-	-	-	(8)	-	-	(8)	-	-	-	-	-	-	-	-
Debt Issuance Costs	-	-	(1)	(3)	(4)	-	(0)	-	-	(0)	-	-	-	-	-	-	-	-
Dividends on Common Stock	(25)	(25)	(25)	(24)	(98)	(26)	(26)	(26)	(26)	(103)	(27)	(27)	(27)	(27)	(107)	(113)	(118)	(124)
Net Cash (Used in) Provided by Financing Activities	**110**	**(7)**	**133**	**(7)**	**230**	**(51)**	**(27)**	**(30)**	**(32)**	**(139)**	**(33)**	**7**	**14**	**(36)**	**(49)**	**43**	**38**	**32**
Net (Decrease) Increase in Cash and Cash Equivalents	(74)	(12)	42	(6)	(49)	-	(5)	15	(22)	(11)	(0)	(0)	(4)	(54)	(58)	42	119	174
Cash and Cash Equivalents, Beginning of Period	146	72	61	103	146	97	97	92	107	97	86	85	85	81	86	27	69	189
Cash and Cash Equivalents, End of Period	**72**	**61**	**103**	**97**	**97**	**97**	**92**	**107**	**86**	**86**	**85**	**85**	**81**	**27**	**27**	**69**	**189**	**363**

Source: Company reports; Guggenheim Securities, LLC estimates.

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ALLETE Energy

Consolidated Financials

BALANCE SHEET ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Cash and cash equivalents	72	61	103	97	97	97	92	107	86	86	85	85	81	27	27	69	189	363
Accounts receivable	112	104	111	121	121	125	114	108	122	122	106	97	112	125	125	131	137	141
Inventories	103	108	119	117	117	116	110	107	117	117	88	86	97	125	125	130	135	138
Prepayments and other	89	37	43	36	36	42	38	39	42	42	32	31	35	45	45	47	49	50
Deferred Income Taxes	15	22	28	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Assets	**390**	**331**	**403**	**371**	**371**	**379**	**354**	**362**	**366**	**366**	**311**	**299**	**326**	**323**	**323**	**378**	**509**	**692**
Property, plant and equipment																		
Property, Plant and Equipment – Net	3,319	3,452	3,639	3,669	3,669	3,642	3,631	3,645	3,648	**3,648**	3,672	3,696	3,720	3,744	**3,744**	**3,851**	**3,890**	**3,884**
Net utility plant	**3,319**	**3,452**	**3,639**	**3,669**	**3,669**	**3,642**	**3,631**	**3,645**	**3,648**	**3,648**	**3,672**	**3,696**	**3,720**	**3,744**	**3,744**	**3,851**	**3,890**	**3,884**
Regulatory Assets	358	360	353	372	372	367	359	359	359	359	359	359	359	359	359	359	359	359
Investment in ATC	122	124	126	125	125	129	129	134	137	137	140	142	145	147	147	157	167	177
Other Investments	115	115	114	75	75	73	72	58	58	58	58	58	58	58	58	58	58	58
Goodwill and Intangible Assets – Net	214	213	213	215	215	214	213	211	210	210	227	243	260	276	276	333	385	433
Other Non-Current Assets	62	79	84	68	68	69	99	107	107	107	107	107	107	107	107	107	107	107
Total Non-current assets	**871**	**891**	**889**	**854**	**854**	**851**	**872**	**869**	**871**	**871**	**890**	**909**	**928**	**946**	**946**	**1,014**	**1,076**	**1,134**
Total Assets	**4,580**	**4,673**	**4,932**	**4,895**	**4,895**	**4,873**	**4,858**	**4,875**	**4,885**	**4,885**	**4,873**	**4,904**	**4,973**	**5,013**	**5,013**	**5,243**	**5,475**	**5,710**
Accounts Payable	99	95	125	89	89	59	65	73	79	79	59	58	66	84	84	88	91	93
Accrued Taxes	47	35	35	44	44	52	38	37	37	37	37	37	37	37	37	37	37	37
Accrued Interest	15	18	15	19	19	15	18	15	15	15	15	15	15	15	15	15	15	15
Long-Term Debt Due Within One Year	122	118	49	36	36	15	65	187	170	170	154	138	104	69	69	-	(69)	(138)
Notes Payable	0	-	-	2	2	1	1	-	-	-	-	-	-	-	-	-	-	-
Other	119	136	94	86	86	83	86	94	94	94	94	94	94	94	94	94	94	94
Total Current Liabilities	**402**	**401**	**318**	**275**	**275**	**224**	**272**	**404**	**394**	**394**	**359**	**341**	**314**	**298**	**298**	**233**	**167**	**100**
Long-Term Debt	1,254	1,272	1,549	1,557	1,557	1,551	1,499	1,369	1,369	1,369	1,379	1,429	1,504	1,529	1,529	1,754	1,979	2,204
Deferred Income Taxes	560	573	594	580	580	590	595	582	582	582	582	582	582	582	582	582	582	582
Regulatory Liabilities	101	105	106	105	105	102	95	123	123	123	123	123	123	123	123	123	123	123
Defined Benefit Pension and Other Postretirement Benefit Plans	190	190	190	207	207	206	205	198	198	198	198	198	198	198	198	198	198	198
Other Non-Current Liabilities	302	354	353	349	349	347	341	336	336	336	336	336	336	336	336	336	336	336
Total Other Liabilities	**2,407**	**2,494**	**2,791**	**2,797**	**2,797**	**2,796**	**2,734**	**2,598**	**2,608**	**2,608**	**2,618**	**2,668**	**2,743**	**2,768**	**2,768**	**2,993**	**3,218**	**3,443**
Total Liabilities	**2,809**	**2,895**	**3,108**	**3,072**	**3,072**	**3,020**	**3,006**	**3,002**	**3,002**	**3,002**	**2,976**	**3,009**	**3,057**	**3,066**	**3,066**	**3,226**	**3,384**	**3,543**
Capitalization																		
ALLETE's Equity																		
Common stock	1,250	1,257	1,265	1,271	1,271	1,281	1,284	1,289	1,289	1,289	1,289	1,289	1,289	1,289	1,289	1,289	1,289	1,289
Unearned ESOP Shares	(5)	(3)	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated Other Comprehensive Loss	(21)	(20)	(21)	(25)	(25)	(25)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)	(24)
Retained earnings	545	543	579	573	573	594	593	607	618	618	631	630	651	681	681	751	825	902
Total ALLETE Equity	**1,769**	**1,777**	**1,822**	**1,820**	**1,820**	**1,850**	**1,852**	**1,873**	**1,883**	**1,883**	**1,897**	**1,895**	**1,916**	**1,947**	**1,947**	**2,017**	**2,091**	**2,167**
Non-Controlling Interest in Subsidiaries	2	2	2	2	2	3	-	-	-	-	-	-	-	-	-	-	-	-
Total Equity	**1,771**	**1,778**	**1,823**	**1,822**	**1,822**	**1,853**	**1,852**	**1,873**	**1,883**	**1,883**	**1,897**	**1,895**	**1,916**	**1,947**	**1,947**	**2,017**	**2,091**	**2,167**
Total Liabilities and Equity	**4,580**	**4,673**	**4,931.8**	**4,895**	**4,895**	**4,873**	**4,858**	**4,874.8**	**4,885**	**4,885**	**4,873.2**	**4,904.0**	**4,973.3**	**5,013.1**	**5,013**	**5,243**	**5,475**	**5,710**

Source: Company reports; Guggenheim Securities, LLC estimates.

AVISTA CORPORATION (AVA, NEUTRAL, $40.10)

Navigating rate cases through tough states, growth outlook center of focus.

- **We are maintaining our NEUTRAL rating and $38 fair value/share estimate.** We remain on the sideline on valuation and likely downside to earnings with a Washington rate case that was completely rejected by the Commission – remains an open-ended overhang in the NT. Overall earnings growth in line with peers, some constructive rate setting mechanisms including decoupling, and ERM and potential upside from creation of a gas LDC in Alaska. That said, **the overhangs in Washington including earnings downside/high regulatory lag potential keeps us on the sidelines.**

- **We are introducing estimates for 2019 and 2020 of $2.45/$2.52.** This outlook captures the consistent positive growth profile of AVA's utilities including future rate cases in 2019 and 2020. Our ~5% consolidated earnings growth is comprised of a ~6% rate base growth with ROEs averaging ~8.5% for Avista Utilities; 12.5% at AEL&P. **Our assumptions do not embed gas opportunities in Alaska, which could be upside but still too far off.**

- **Updating our 2016/2017/2018 EPS estimates to $2.06/$2.18/$2.31 versus street estimates of $2.07/$2.10/$2.22.** Multiple rate cases are key drivers of outlook for 2017 and beyond and support our ~5.0% 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% authorized/~8% achieved in recent years on rate base growing at ~5.3% at Avista Utilities. We forecast the AEL&P segment earning returns of 11.76%-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. **Note** – we could see downside to our estimates, especially for 2017, if AVA is not able to successfully challenge the WA order that rejected the entire request.

- **2017 – Navigating a busy rate case schedule that is proving very challenging.** AVA will provide 2017 earnings guidance on the February 2017 earnings call. 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: $43mm gas and electric revenue ask – rehearing/reopening or legal appeal to progress in 2017; **(2)** 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. Its IRP shows adequate generation capacity through 2020; maybe another 560MW of opportunities from 2020-2034 – Next IRP filed in 2017. In addition, investors should focus on any developments from the new administration's Interior Department, specifically the Bureau of Land Management as it relates to drilling rights.

- **Valuation: We value AVA as a regulated utility, arriving at our $38 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 15.5x regulated group multiple, which is derived from our bond regression analysis to arrive at our AVA-specific 16.5x target P/E multiple, incorporating a slight premium associated with gas LDC expansion. We apply this to our 2018 EPS estimate of $2.31 to arrive at our $38 FV/share estimate. Incorporating our anticipated 3.6% dividend yield, we estimate a -1.1% ETR based on our $38 FV/share estimate.

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	2.07E
Prior				*0.55E*	*2.06E*	
2017E	0.97E	0.53E	0.21E	0.47E	2.18E	2.10E
Prior	*0.96E*	*0.53E*	*0.21E*	*0.46E*	*2.16E*	
2018E	1.03E	0.57E	0.22E	0.49E	2.31E	2.22E
Prior	*1.03E*	*0.56E*	*0.22E*	*0.49E*	*2.30E*	
2019E	1.12E	0.60E	0.23E	0.50E	2.45E	NA
2020E	1.15E	0.62E	0.24E	0.52E	2.52E	NA

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** The primary risks on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

  Additional risk factors 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.

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Consolidated Financials

INCOME STATEMENT ($ thousands)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Utility revenues	436,407	330,820	307,405	381,449	1,456,091	412,763	312,888	296,980	407,791	1,430,423	452,294	350,829	323,355	396,886	1,523,364	1,638,097	1,745,193	1,840,928
Non-utility revenues	10,083	6,502	5,244	5,856	28,685	5,360	5,950	6,369	8,858	26,546	7,137	7,137	7,137	7,137	28,546	33,546	38,546	43,546
Total Operating Revenues	**446,490**	**337,322**	**313,649**	**387,305**	**1,484,776**	**418,173**	**318,838**	**303,349**	**413,989**	**1,453,969**	**459,431**	**357,966**	**330,491**	**404,021**	**1,551,910**	**1,671,643**	**1,783,739**	**1,884,474**
Utility Resource costs	209,560	141,116	139,210	168,078	656,964	161,715	109,815	113,737	175,811	570,082	177,133	123,123	129,281	174,579	604,116	649,553	691,751	729,549
Total Cost of sales	**209,560**	**141,116**	**139,210**	**168,078**	**656,964**	**161,715**	**109,815**	**113,737**	**175,811**	**570,082**	**177,133**	**123,123**	**129,281**	**174,579**	**604,116**	**649,553**	**691,751**	**729,549**
Gross Margin	**236,930**	**196,216**	**175,439**	**219,227**	**827,812**	**256,454**	**209,023**	**189,612**	**238,178**	**883,887**	**282,298**	**234,843**	**201,211**	**229,442**	**947,793**	**1,022,090**	**1,091,989**	**1,154,926**
% of Gross Margin	53%	58%	56%	57%	56%	61%	66%	61%	57%	61%	61%	66%	61%	57%	61%	61%	61%	61%
Utility operating expenses																		
Other operating expenses	73,172	73,112	74,315	82,622	303,221	75,779	78,666	75,180	85,072	314,677	83,854	85,110	86,379	82,478	330,422	353,003	374,009	393,533
Taxes other than income taxes	29,693	23,257	22,369	22,233	97,557	29,385	22,615	22,699	23,200	97,899	31,728	24,452	24,422	24,998	105,601	112,639	119,953	125,769
Non-utility operating expenses																		
Other operating expenses	9,618	6,646	6,462	6,602	29,326	5,324	6,231	6,756	6,692	25,464	7,727	7,594	7,581	8,046	30,887	36,297	41,707	47,117
Total Operating Expenses	**112,685**	**103,015**	**103,046**	**111,457**	**430,104**	**110,989**	**107,562**	**104,635**	**114,964**	**438,040**	**123,309**	**117,056**	**112,982**	**115,522**	**466,909**	**502,139**	**535,274**	**566,439**
EBITDA	**124,044**	**93,201**	**72,393**	**107,770**	**397,408**	**145,465**	**101,461**	**80,027**	**118,894**	**445,847**	**160,989**	**117,747**	**88,229**	**113,920**	**480,884**	**519,951**	**556,715**	**588,487**
Utility Depreciation and amortization	34,300	35,676	36,303	37,220	143,499	39,192	39,678	40,240	41,291	160,321	43,194	44,011	44,818	45,814	177,837	195,535	212,751	228,998
Non-utility Depreciation and amortization	169	165	178	183	695	188	192	193	193	766	193	193	193	193	772	772	772	772
Total Depreciation and amortization	**34,469**	**35,841**	**36,481**	**37,403**	**144,194**	**39,380**	**39,870**	**40,433**	**41,484**	**161,087**	**43,387**	**44,204**	**45,011**	**45,807**	**178,409**	**196,307**	**213,523**	**229,770**
Operating Income	**89,575**	**57,360**	**35,912**	**70,367**	**253,214**	**106,085**	**61,591**	**39,594**	**77,450**	**284,760**	**117,602**	**73,542**	**43,218**	**68,114**	**302,475**	**323,644**	**343,192**	**358,716**
Net other income	**3,148**	**2,715**	**3,028**	**3,955**	**12,846**	**3,338**	**3,878**	**2,069**	**3,349**	**12,626**	**3,412**	**4,599**	**3,639**	**4,598**	**16,158**	**17,366**	**18,490**	**19,520**
Interest Expense																		
Interest expense	19,902	19,868	19,951	20,249	79,968	21,273	21,318	21,632	23,110	87,333	24,268	24,767	25,274	25,825	100,134	107,836	113,267	117,224
Interest expense to affiliated trusts	112	113	120	126	473	138	154	164	144	600	157	179	182	181	699	742	779	808
Total Interest Expense	**20,014**	**19,981**	**20,071**	**20,375**	**80,441**	**21,411**	**21,472**	**21,796**	**23,253**	**87,932**	**24,426**	**24,946**	**25,456**	**25,986**	**100,823**	**108,578**	**114,046**	**118,031**
Interest Rate	5.2%	5.2%	5.2%	5.0%	5.0%	5.3%	5.3%	5.0%	5.1%	4.8%	5.3%	5.3%	5.5%	5.5%	5.1%	5.2%	5.3%	5.2%
Income from continuing operations before income taxes	**72,709**	**40,094**	**18,869**	**53,947**	**185,619**	**88,010**	**43,697**	**19,867**	**57,579**	**209,453**	**96,588**	**53,196**	**21,391**	**46,636**	**217,811**	**232,432**	**247,636**	**260,206**
Income Taxes	**26,247**	**15,016**	**6,115**	**20,071**	**67,449**	**31,942**	**16,710**	**7,606**	**22,945**	**78,803**	**34,455**	**19,366**	**7,907**	**16,571**	**78,289**	**84,395**	**89,426**	**94,434**
Tax Rate	36%	37%	32%	37%	36%	36%	38%	38%	39%	38%	36%	36%	37%	36%	36%	36%	36%	36%
Net income from continuing operations	**46,462**	**25,078**	**12,754**	**33,876**	**118,170**	**56,068**	**27,287**	**12,261**	**35,634**	**130,650**	**62,134**	**33,830**	**13,484**	**30,065**	**139,522**	**148,037**	**158,211**	**165,772**
Net income from discontinued operations	-	196	289	4,662	5,147	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income	**46,462**	**25,274**	**13,043**	**38,538**	**123,317**	**56,068**	**27,287**	**12,261**	**35,634**	**130,650**	**62,134**	**33,830**	**13,484**	**30,065**	**139,522**	**148,037**	**158,211**	**165,772**
Less: Net income attributable to noncontrolling interests	13	28	32	17	90.0	16	33	27	15	91	18	41	30	13	102	108	115	120
Net income attributable to Avista Corp. shareholders	**46,449**	**25,246**	**13,011**	**38,521**	**123,227**	**56,052**	**27,254**	**12,234**	**35,619**	**130,559**	**62,116**	**33,789**	**13,454**	**30,051**	**139,421**	**147,929**	**158,096**	**165,652**
Earnings Per Common Share, Diluted	**0.74**	**0.40**	**0.21**	**0.61**	**1.97**	**0.89**	**0.43**	**0.19**	**0.55**	**2.06**	**0.97**	**0.53**	**0.21**	**0.47**	**2.18**	**2.31**	**2.45**	**2.52**
Non-operating items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	46,462	25,274	13,043	38,538	123,317	56,068	27,287	12,261	35,634	130,650	62,134	33,830	13,484	30,065	139,522	148,037	158,211	165,772
Operating EPS	**0.74**	**0.40**	**0.21**	**0.61**	**1.97**	**0.89**	**0.43**	**0.19**	**0.55**	**2.06**	**0.97**	**0.53**	**0.21**	**0.47**	**2.18**	**2.31**	**2.45**	**2.52**

Source: Company reports, Guggenheim Securities, LLC estimates.

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CASH FLOW STATEMENT ($ thousands)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Net Income	46,482	25,274	13,043	38,538	123,317	56,068	28,884	12,291	35,019	132,232	52,116	33,789	13,484	30,851	139,421	147,929	158,098	165,652
Adjustments to reconcile net income to net cash provided by operating activities:																		
Depreciation and amortization	35,379	36,752	37,391	38,313	147,835	40,291	40,780	41,343	41,404	163,818	43,187	44,204	45,011	46,807	178,409	199,307	213,523	228,770
Deferred income tax provision and investment tax credits	(82)	6,243	8,220	39,420	51,801	34,030	22,622	30,594	-	87,246	-	-	-	-	-	-	-	-
Power and natural gas cost amortizations, net	8,196	3,218	(1,410)	11,354	21,358	5,379	4,579	1,464	-	11,422	-	-	-	-	-	-	-	-
Amortization of debt expense	895	879	877	875	3,526	876	866	853	-	2,595	-	-	-	-	-	-	-	-
Amortization of investment in exchange power	613	612	613	612	2,450	613	612	613	-	1,836	-	-	-	-	-	-	-	-
Stock-based compensation expense	1,707	1,734	1,822	1,651	6,914	2,313	1,923	2,025	-	6,261	-	-	-	-	-	-	-	-
Equity-related AFUDC	(2,215)	(1,859)	(2,017)	(2,440)	(8,331)	(2,261)	(2,167)	(1,926)	-	(6,306)	-	-	-	-	-	-	-	-
Pension and other postretirement benefit expense	9,217	9,569	9,395	8,871	37,050	9,475	9,840	9,761	-	29,076	-	-	-	-	-	-	-	-
Amortization of Spokane Energy contract	3,271	3,341	3,411	3,485	13,508	3,556	3,634	3,712	-	10,904	-	-	-	-	-	-	-	-
Gain on sale of Ecova	-	(103)	(647)	(67)	(777)	-	-	-	-	-	-	-	-	-	-	-	-	-
Decoupling regulatory deferral	-	(6,813)	1,667	5,146	-	-	(24,787)	94	-	(24,693)	-	-	-	-	-	-	-	-
Other	(3,077)	4,974	2,832	(11,310)	(6,581)	(12,747)	4,610	(7,026)	-	(15,163)	-	-	-	-	-	-	-	-
Cash paid for settlement of interest rate swap agreements	-	-	-	-	-	-	-	(53,986)		(53,986)	-	-	-	-	-	-		
Contributions to defined benefit pension plan	(4,000)	(4,000)	(4,000)	-	(12,000)	(4,000)	(4,000)	(4,000)	-	(12,000)	-	-	-	-	-	-	-	-
Changes in current operating assets and liabilities:																		
Accounts and notes receivable	2,884	22,786	24,064	(90,062)	(10,538)	18,364	21,888	3,694	(7,582)	45,844	(12,208)	(15,710)	(13,575)	3,641	(36,756)	(56,279)	(64,467)	(69,668)
Materials and supplies, fuel stock and stored natural gas	22,571	(7,087)	(9,883)	5,587	12,208	10,263	(7,753)	(8,442)	-	(5,932)	-	-	-	-	-	-	-	-
Increase in collateral posted for derivative instruments	(16,516)	17,592	(6,009)	(3,354)	(13,301)	(42,871)	(40,628)	63,745	-	(19,754)	-	-	-	-	-	-	-	-
Income taxes receivable	13,331	(380)	315	(23,494)	19,772	11,210	(12,880)	(23,772)	-	(25,222)	-	-	-	-	-	-	-	-
Other current assets	471	2,138	799	(1,070)	2,338	(10,978)	6,542	(4,050)	-	(8,486)	-	-	-	-	-	-	-	-
Accounts payable	(30,545)	4,149	(5,062)	24,240	(8,138)	(30,804)	(680)	14,278	5,717	(11,489)	8,351	11,530	8,554	(3,409)	26,126	36,310	43,448	46,401
Income taxes payable	20,182	(19,107)	(897)	(158)	-	1,087	(207)	(147)	-	713	-	-	-	-	-	-	-	-
Other current liabilities	10,274	(14,444)	5,410	(11,711)	(6,471)	15,701	(13,364)	15,101	-	17,438	-	-	-	-	-	-	-	-
Net Cash Provided by Operating Activities	146,778	85,334	79,132	64,396	375,640	105,547	50,404	98,167	74,258	328,376	101,626	72,914	54,351	76,319	305,200	326,267	350,599	372,136
Cash Flow from Investing Activities:																		
Utility property capital expenditures	(81,597)	(96,155)	(95,049)	(120,624)	(393,425)	(56,878)	(93,937)	(105,287)	(104,963)	(362,665)	(104,500)	(104,500)	(104,500)	(104,500)	(418,000)	(423,000)	(423,000)	(423,000)
Other capital expenditures	(412)	(92)	(348)	(33)	(885)	(119)	(46)	(105)	-	(270)	-	-	-	-	-	-	-	-
Federal and state grant payments received	-	-	-	2,730	2,730	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash paid in acquisition, net	-	(95)	-	-	(95)	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of Ecova, net of cash sold	-	1,022	(1,022)	13,856	13,856	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	1,834	(94)	908	(12,684)	(10,008)	(2,657)	(20,987)	(2,967)	-	(26,611)	-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	(80,175)	(96,414)	(95,513)	(116,725)	(387,827)	(51,664)	(114,970)	(108,329)	(104,593)	(419,546)	(104,500)	(104,500)	(104,500)	(104,500)	(418,000)	(423,000)	(423,000)	(423,000)
Cash Flow from Financing Activities:																		
Net increase (decrease) in short-term borrowings	(40,000)	25,000	40,000	(25,000)	-	(15,000)	70,000	27,000	40,000	122,000	(20,000)	30,000	30,000	30,000	50,000	40,000	40,000	40,000
Proceeds from issuance of long-term debt	-	-	-	100,000	100,000	-	-	70,000	85,000	155,000	38,750	38,750	38,750	38,750	155,000	400,000	150,000	150,000
Redemption and maturity of long-term debt	(639)	(775)	(790)	(731)	(2,935)	(792)	(791)	(80,762)	2,375	(80,000)	-	-	-	-	-	(273,000)	(80,000)	(52,000)
Maturity of nonrecourse long-term debt of Spokane Energy	(1,431)	-	-	-	(1,431)	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term debt and short-term borrowing issuance costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash paid for settlement of interest rate swap agreements	-	-	-	(9,326)	(9,326)	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of common stock, net of issuance costs	571	709	317	163	1,560	27,150	20,023	19,533	(11,756)	55,000	-	-	-	-	-	-	50,000	50,000
Repurchase of common stock	(3,920)	-	-	-	(2,920)	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends paid	(20,717)	(20,551)	(20,560)	(20,589)	(82,397)	(21,548)	(21,722)	(21,995)	(21,928)	(87,153)	(22,918)	(22,918)	(22,918)	(22,918)	(91,670)	(95,795)	(101,083)	(107,674)
Other	(1,329)	(142)	(9,544)	8,962	(2,053)	(1,423)	(2,189)	(182)	-	(3,774)	-	-	-	-	-	-	-	-
Net Cash (Used in) Provided by Financing Activities	(66,665)	4,241	9,463	53,499	528	(11,610)	65,321	3,724	53,638	151,073	(4,168)	35,832	45,832	35,832	113,330	71,205	48,917	50,326
Net (Decrease) Increase in Cash and Cash Equivalents	(62)	(5,839)	(6,928)	1,170	(11,659)	2,283	756	(6,438)	53,303	59,903	(7,041)	4,246	(4,317)	7,643	530	(25,528)	(23,484)	29,462
Cash and Cash Equivalents, Beginning of Period	22,143	22,081	16,242	9,314	22,143	10,484	12,767	13,522	7,084	10,484	70,387	63,346	67,592	63,275	70,387	70,918	45,389	21,906
Cash and Cash Equivalents, End of Period	22,081	16,242	9,314	10,484	10,484	12,767	13,522	7,084	70,387	70,387	63,346	67,592	63,275	70,918	70,918	45,389	21,906	51,367

Source: Company reports, Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

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BALANCE SHEET ($ thousands)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Cash and cash equivalents	22,081	16,242	9,314	10,484	10,484	12,767	13,522	7,064	70,387	70,387	53,349	67,592	63,075	70,918	70,918	45,359	21,906	51,367
Accounts and notes receivable	162,203	136,321	110,837	169,413	169,413	149,537	121,277	118,054	123,936	123,936	138,194	152,874	160,552	162,691	162,691	218,970	263,438	359,125
Utility energy commodity derivative assets	1,579	464	899	-	-	127	1,730	-	-	-	-	-	-	-	-	-	-	-
Regulatory asset for utility derivatives	13,038	21,464	16,841	17,260	17,260	22,830	15,194	17,936	17,936	17,936	17,936	17,936	17,936	17,936	17,936	17,936	17,936	17,936
Investments and funds held for clients	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Materials and supplies, fuel stock and stored natural gas	42,785	50,873	58,725	54,148	54,148	43,385	51,639	58,080	58,080	58,080	58,080	58,080	58,080	58,080	58,080	58,080	58,080	58,080
Deferred income taxes	20,589	19,578	20,648	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income taxes receivable	562	943	827	24,121	24,121	12,911	25,571	49,342	49,342	49,342	49,342	49,342	49,342	49,342	49,342	49,342	49,342	49,342
Other current assets	43,639	43,423	39,061	30,620	30,620	37,167	39,786	35,879	35,879	35,879	35,879	35,879	35,879	35,879	35,879	35,879	35,879	35,879
Total Current Assets	**310,496**	**289,330**	**267,980**	**306,046**	**306,046**	**279,224**	**268,719**	**284,375**	**355,560**	**355,560**	**350,747**	**381,703**	**391,064**	**394,846**	**394,846**	**425,597**	**466,580**	**565,730**
Property, plant and equipment, at cost																		
In service	4,858,902	4,941,908	5,007,340	5,129,192	5,129,192	5,218,563	5,303,863	5,388,082	5,491,575	5,491,575	5,560,575	5,700,575	5,805,075	5,909,575	5,909,575	6,332,675	6,755,675	7,178,675
Construction work in progress	148,291	174,482	193,000	202,683	202,683	174,877	187,946	165,559	165,559	165,559	165,559	165,559	165,559	165,559	165,559	165,559	165,559	165,559
Total Property, Plant and Equipment	**5,007,193**	**5,116,390**	**5,200,340**	**5,331,875**	**5,331,875**	**5,393,440**	**5,491,809**	**5,552,641**	**5,657,134**	**5,657,134**	**5,761,634**	**5,866,134**	**5,970,634**	**6,075,134**	**6,075,134**	**6,498,134**	**6,921,134**	**7,344,134**
Less: accumulated depreciation	1,356,114	1,388,790	1,416,227	1,433,286	1,433,286	1,465,883	1,501,130	1,498,446	1,537,850	1,537,850	1,581,237	1,625,441	1,670,452	1,716,259	1,716,259	1,912,566	2,126,088	2,355,859
Net Property, Plant and Equipment in Service	**3,651,079**	**3,726,700**	**3,784,122**	**3,898,589**	**3,898,589**	**3,927,577**	**3,990,699**	**4,056,095**	**4,119,284**	**4,119,284**	**4,180,397**	**4,240,692**	**4,300,181**	**4,358,875**	**4,358,875**	**4,585,568**	**4,795,046**	**4,988,275**
Other Non-current Assets																		
Investment in exchange power-net	10,621	10,203	9,596	8,983	8,983	8,371	7,758	7,146	7,146	7,146	7,146	7,146	7,146	7,146	7,146	7,146	7,146	7,146
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	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	57,672	57,672
Intangible assets-net of accumulated amortization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term energy contract receivable	24,631	21,580	18,178	14,694	14,694	11,136	7,502	3,790	3,790	3,790	3,790	3,790	3,790	3,790	3,790	3,790	3,790	3,790
Other property and investments-net and other non-current assets	41,413	42,506	43,594	50,750	50,750	54,083	64,343	55,799	55,799	55,799	55,799	55,799	55,799	55,799	55,799	55,799	55,799	55,799
Total other non-current assets	**146,888**	**143,523**	**140,585**	**143,646**	**143,646**	**142,791**	**148,822**	**135,954**	**135,954**	**135,954**	**135,954**	**135,954**	**135,954**	**135,954**	**135,954**	**135,954**	**135,954**	**135,954**
DEFERRED CHARGES																		
Regulatory assets for deferred income tax	96,606	96,606	95,535	101,240	101,240	100,708	99,325	100,907	100,907	100,907	100,907	100,907	100,907	100,907	100,907	100,907	100,907	100,907
Regulatory assets for pensions and other postretirement benefits	232,721	229,684	226,648	235,008	235,008	229,677	226,737	223,596	223,596	223,596	223,596	223,596	223,596	223,596	223,596	223,596	223,596	223,596
Other regulatory assets	95,618	97,590	94,124	99,798	99,798	99,142	111,488	132,131	132,131	132,131	132,131	132,131	132,131	132,131	132,131	132,131	132,131	132,131
Non-current utility energy commodity derivative assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory asset for unsettled interest rate swaps	112,835	51,460	87,973	83,973	83,973	144,966	151,959	246,981	246,981	246,981	246,981	246,981	246,981	246,981	246,981	246,981	246,981	246,981
Non-current regulatory asset for utility commodity derivatives	24,145	28,214	34,018	32,420	32,420	25,834	24,598	27,336	27,336	27,336	27,336	27,336	27,336	27,336	27,336	27,336	27,336	27,336
Other deferred charges	18,641	16,552	18,221	5,928	5,928	5,894	6,874	7,731	7,731	7,731	7,731	7,731	7,731	7,731	7,731	7,731	7,731	7,731
Total DEFERRED CHARGES	**580,766**	**520,436**	**566,519**	**558,368**	**558,369**	**606,421**	**660,781**	**738,682**	**738,682**	**738,682**	**738,682**	**738,682**	**738,682**	**738,682**	**738,682**	**738,682**	**738,682**	**738,682**
Total Assets	**4,689,029**	**4,679,989**	**4,739,206**	**4,906,649**	**4,906,649**	**4,956,013**	**5,069,021**	**5,215,106**	**5,349,480**	**5,349,480**	**5,415,779**	**5,497,031**	**5,565,882**	**5,628,357**	**5,628,357**	**5,895,801**	**6,136,261**	**6,429,641**

Source: Company reports, Guggenheim Securities, LLC estimates.

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AVA

Consolidated Financials

BALANCE SHEET ($ thousands)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Accounts payable	82,653	70,068	93,172	114,349	114,349	59,140	65,068	81,898	87,615	87,615	95,966	107,596	117,150	112,742	112,742	152,052	195,499	241,901
Client fund obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current portion of long-term debt and capital leases	3,132	3,152	93,105	93,167	93,167	93,197	93,227	3,257	3,257	3,257	3,257	3,257	3,257	3,257	3,257	3,257	3,257	3,257
Current portion of nonrecourse long-term debt of Spokane Energy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short-term borrowings	65,000	90,000	130,000	105,000	105,000	90,000	160,000	84,000	124,000	124,000	104,000	124,000	154,000	174,000	174,000	214,000	254,000	294,000
Utility energy commodity derivative liabilities	14,178	12,881	15,082	14,268	14,268	10,685	7,981	8,608	8,608	8,608	8,608	8,608	8,608	8,608	8,608	8,608	8,608	8,608
Income taxes payable	20,505	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Natural gas deferrals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other current liabilities	160,130	131,017	146,398	147,696	147,693	178,809	177,450	164,119	164,119	164,119	164,119	164,119	164,119	164,119	164,119	164,119	164,119	164,119
Total Current Liabilities	**326,628**	**306,946**	**447,737**	**474,680**	**474,680**	**431,841**	**501,714**	**341,882**	**387,599**	**387,599**	**375,950**	**407,580**	**447,134**	**463,725**	**463,726**	**542,036**	**625,483**	**711,885**
Long-term debt and capital leases	1,465,546	1,464,865	1,391,811	1,480,111	1,480,111	1,479,781	1,479,668	1,675,267	1,765,632	1,765,632	1,804,482	1,843,132	1,881,882	1,920,632	1,920,632	2,047,632	2,107,632	2,205,632
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	51,547	51,547
Total LONG-TERM DEBT	**1,517,093**	**1,516,432**	**1,443,158**	**1,531,658**	**1,531,658**	**1,531,338**	**1,531,215**	**1,726,814**	**1,817,179**	**1,817,179**	**1,855,929**	**1,894,679**	**1,933,429**	**1,972,179**	**1,972,179**	**2,099,179**	**2,159,179**	**2,257,179**
OTHER LIABILITIES																		
Long-term borrowings under committed line of credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory liability for utility plant retirement costs	257,143	259,066	261,052	261,594	261,594	264,951	267,918	270,972	270,972	270,972	270,972	270,972	270,972	270,972	270,972	270,972	270,972	270,972
Pensions and other postretirement benefits	168,798	168,982	166,711	201,453	201,453	202,013	202,063	202,329	202,329	202,329	202,329	202,329	202,329	202,329	202,329	202,329	202,329	202,329
Deferred income taxes	714,440	718,268	724,473	747,477	747,477	762,522	780,955	816,334	816,334	816,334	816,334	816,334	816,334	816,334	816,334	816,334	816,334	816,334
Other non-current liabilities and deferred credits	149,185	149,473	185,838	161,500	161,500	174,980	165,419	225,261	225,261	225,261	225,261	225,261	225,261	225,261	225,261	225,261	225,261	225,261
TotalOTHER LIABILITIES	**1,309,549**	**1,312,606**	**1,340,114**	**1,372,024**	**1,372,024**	**1,403,566**	**1,419,355**	**1,514,896**	**1,514,896**	**1,514,896**	**1,514,896**	**1,514,896**	**1,514,896**	**1,514,896**	**1,514,896**	**1,514,896**	**1,514,896**	**1,514,896**
Total Liabilities	**3,182,270**	**3,165,984**	**3,231,009**	**3,378,362**	**3,378,362**	**3,366,746**	**3,452,284**	**3,586,582**	**3,719,674**	**3,719,674**	**3,746,775**	**3,817,155**	**3,895,458**	**3,950,801**	**3,950,801**	**4,156,111**	**4,299,558**	**4,483,960**
Redeemable Noncontrolling Interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stockholders' Equity:																		
Common stockholders' equity	998,975	1,001,253	1,002,716	1,004,336	1,004,336	1,032,023	1,052,180	1,073,481	1,061,725	1,061,725	1,061,725	1,061,725	1,061,725	1,061,725	1,061,725	1,061,725	1,111,725	1,161,725
Accumulated other comprehensive loss	(7,642)	(7,297)	(7,151)	(6,650)	(6,650)	(7,379)	(7,739)	(7,599)	(7,599)	(7,599)	(7,599)	(7,599)	(7,599)	(7,599)	(7,599)	(7,599)	(7,599)	(7,599)
Retained earnings	515,842	520,637	512,938	530,940	530,940	565,447	572,576	562,905	575,928	575,928	615,105	625,336	616,456	623,576	623,576	675,602	732,500	790,358
Total Stockholders' Equity	**1,507,175**	**1,514,393**	**1,508,503**	**1,528,626**	**1,528,626**	**1,589,691**	**1,617,027**	**1,628,787**	**1,630,054**	**1,630,054**	**1,669,234**	**1,680,065**	**1,670,582**	**1,677,702**	**1,677,702**	**1,729,728**	**1,836,626**	**1,944,484**
Non-controlling Interests	(416)	(388)	(356)	(339)	(339)	(323)	(290)	(283)	(246)	(246)	(230)	(189)	(159)	(145)	(146)	(38)	77	197
Total Equity	**1,506,759**	**1,514,005**	**1,508,197**	**1,528,287**	**1,528,287**	**1,589,368**	**1,616,737**	**1,628,524**	**1,629,808**	**1,629,808**	**1,669,004**	**1,679,876**	**1,670,422**	**1,677,556**	**1,677,556**	**1,729,690**	**1,836,703**	**1,944,681**
Total Liabilities and Equity	**4,689,029**	**4,679,989**	**4,739,206**	**4,906,649**	**4,906,649**	**4,956,013**	**5,069,021**	**5,215,106**	**5,349,480**	**5,349,480**	**5,415,779**	**5,497,031**	**5,565,882**	**5,628,357**	**5,628,357**	**5,885,801**	**6,136,261**	**6,428,641**

Source: Company reports, Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

AMERICAN WATER WORKS (AWK, BUY, $91 PT, $72.93)

Steady as she goes – We continue to see value esp. in the current yield cycle.

- **Reaffirming our BUY rating and our price target of $91.** While AWK continues to trade at a healthy ROE premium vs. its electric utility counterparts, **we remind investors that AWK has grown sizably above electrics, organically and through acquisitions, with arguably lower risk given less politically-sensitive rate proceedings and motivated muni sellers**. We expect AWK to meet or exceed its growth targets of 7-10% LT growth – driven by continued investment in AWK's regulated water systems, improved operational efficiency and acquisitions. **On a risk adjusted basis, we believe AWK shares continue to show value despite an optically high P/E.** Reiterate BUY.

- **We are introducing estimates for 2019 and 2020 of $3.49/$3.78 versus street consensus 2019 estimate of $3.50.** This outlook captures the continued spending on regulated investments, organic growth and rate recovery through nontraditional rate mechanisms. We continue to model 3-4 rate cases per year. Bolt on acquisitions could provide upside to our estimates.

- **Updating our 2016/2017/2018 EPS estimate to $2.87/$3.05/$3.24; in line with consensus estimate of $2.84/3.03/$3.24.** We arrive at ~8% annual earnings growth at AWK, by modeling ROEs averaging 11% through 2020. Our 4% rate base growth is driven by regulated capex of ~$1.2bn per year (total capex $1.4bn - $1.6bn), rate cases, etc.

- **Rate cases moving along in '17.** Organic growth continues with rate cases – rate impact expected to be modest with O&M levers (34% O&M efficiency) and nontraditional rate mechanisms. While the current rate case cycle is a one-off (5 GRC filings), management expects ~3-4 per year going forward given the use of nontraditional rate mechanisms. With various revenue decouplers, riders (DSIC in 9 states), and forward-looking test years, ~66% of AWK's capital spend is recovered with minimal regulatory lag. Real time rate recovery coupled with O&M levers should prompt 2-3% customer rate impact — we continue to see AWK rate case cycles to be less politically sensitive vs. other utility counterparts.

- **Catalysts to watch for in 2017 include the court order on the Freedoms Chemical spill settlement, the defense department budget, as well as transaction approvals and integrations.** The terms of the settlement for West Virginia American Water related to the Freedoms Chemical spill ($165mm) must be finalized and approved by the court. This process will require notice of the terms of the agreement to the settlement class members, and then a final fairness hearing to be held prior to the court ruling on approval of the settlement. AWK anticipates this should occur in the first half of 2017. The company will also actively pursue recovery from two insurers ($50mm coverage aggregate) that have not agreed to participate in the settlement. Progress on the AWK lawsuit against one of these insurers in West Virginia and arbitration proceedings against the other should also be on investors' screens. In our view, the incoming administration and Republican-led legislature may refocus on the sequestration at the Department of Defense, as such capital outlays and budget changes at the DoD should be on investors screens in 2H17. Investors should also watch for the NJ Board of Public Utilities order on the Shorelands acquisition (11,000 water customers) sometime in 1H17, as well as progress updates on acquisition integrations. 2017 should be steady-as-she-goes.

- **Valuation:** Water utilities continue to be ascribed a higher multiple vs. electric/gas utility counterparts given higher growth prospects, which haven't slowed and are not expected to couple w/lower risk given gas and electric peers. Our $91 PT for AWK is predicated on our 2018 EPS estimate of $3.26 applied to a 28x P/E multiple.

Guggenheim's AWK EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	FC Cons
2015A	0.44A	0.69A	0.96A	0.54A	2.64A	
2016E	0.46A	0.77E	1.05E	0.60E	2.87E	2.84E
Prior		*0.77E*	*1.03E*	*0.58E*	*2.85E*	
2017E	0.57E	0.89E	0.90E	0.69E	3.05E	3.03E
Prior	*0.49E*	*0.83E*	*1.10E*	*0.64E*	*3.05E*	
2018E	0.60E	0.94E	0.95E	0.74E	3.24E	3.24E
Prior	*0.53E*	*0.88E*	*1.16E*	*0.69E*	*3.26E*	
2019E	0.65E	1.00E	1.03E	0.81E	3.49E	3.50E
2020E	0.71E	1.08E	1.11E	0.88E	3.78E	N/A

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** Risks to achieving our price target for AWK 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. Decline in allowed ROE. We assume an average earned ROE of 10.5% when combined with all the states. A lower allowed ROE can impact our earned return assumptions. Lower spending outlook. Forecasted spending below our ~ $1.2B/year estimate can impact our assumptions for 8% EPS growth, 8% rate base growth.

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AMERICAN WATER WORKS

CONSOLIDATED INCOME STATEMENT

(Dollars in millions)

	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016	1QE	2QE	3QE	4QE	2017	2018	2019	2020
Operating Revenues	898	782	896	783	3,159	743	827	930	804	3,304	813	916	996	862	3,588	3,744	3,917	4,100
Operating expenses																		
O&M	324	337	364	380	1,404	348	351	432	353	1,484	358	368	445	361	1,532	1,564	1,596	1,628
Depreciation and amortization	107	109	111	113	440	116	115	119	116	466	117	120	122	124	483	511	538	564
General taxes	64	60	60	59	243	66	64	65	65	260	74	66	63	71	273	285	299	314
Loss (gain) on sale of assets/Other	(1)	(1)	(0)	(0)	(3)	(1)	(2)	(5)	-	(8)	-	-	-	-	-	-	-	-
Total operating expenses	494	505	535	551	2,084	529	528	611	535	2,203	549	554	629	555	2,288	2,360	2,432	2,506
Operating income	**204**	**278**	**361**	**232**	**1,075**	**214**	**299**	**319**	**269**	**1,101**	**264**	**362**	**367**	**307**	**1,299**	**1,383**	**1,484**	**1,595**
Utility	185	258	344	239	1,026	197	279	307	251	1,034	250	349	355	288	1,243	1,321	1,416	1,520
Non-Regulated	13	18	20	15	66	12	13	7	14	46	12	14	8	16	51	57	63	69
Other	3	3	(0)	(2)	4	1	2	8	4	15	1	(2)	3	4	6	6	6	6
Total	201	279	364	252	1,096	210	294	322	269	1,095	264	362	367	307	1,299	1,383	1,484	1,595
Other income (expense)																		
Interest	(75)	(75)	(78)	(80)	(308)	(80)	(81)	(81)	(92)	(334)	(95)	(97)	(99)	(100)	(390)	(412)	(430)	(447)
Revolver																		
Allowance for other funds used during construction	2	3	4	4	13	-	-	-	-	-	-	-	-	-	-	-	-	-
Allowance for borrowed funds used during constructio	3	2	2	2	8	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of debt expense	(2)	(2)	(2)	(0)	(6)	-	-	-	-	-	-	-	-	-	-	-	-	-
Preferred dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other, net	1	(1)	(0)	0	-	2	7	5	-	14	-	-	-	-	-	-	-	-
Total other income (expense)	**(71)**	**(74)**	**(74)**	**(74)**	**(293)**	**(78)**	**(74)**	**(76)**	**(92)**	**(320)**	**(95)**	**(97)**	**(99)**	**(100)**	**(390)**	**(412)**	**(430)**	**(447)**
Income before income taxes	133	204	287	158	782	136	225	243	177	781	169	265	268	207	909	972	1,054	1,147
Provision for income taxes	53	81	113	59	306	54	88	95	71	308	68	106	107	83	364	389	422	459
Beginning NOL Balance	-	-	-	-		-	-	-	-		-	-	-	-				
Section 382 Limitations/CIRA assumed utilization	-	-	-	-		-	-	-	-		-	-	-	-				
Annual NOL capacity	-	-	-	-		-	-	-	-		-	-	-	-				
NOL Usage (assumption)	-	-	-	-		-	-	-	-		-	-	-	-				
Manual Override	30	30	60	60		30	30	30	30		30	30	30	30				
NOL Usage (drives model)	20	20	-	-		20	20	20	20		20	20	20	20				
Δ DTA	(8)	(8)	-	-		(8)	(8)	(7)	(8)		(8)	(8)	(8)	(8)				
Ending NOL Balance	-	-	-	-		-	-	-	-		-	-	-	-				
Tax rate	40%	39%	39%	38%	39%	40%	39%	34%	40%	38%	40%	40%	40%	40%	40%	40%	40%	40%
Discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Extraordinary items	-	1	-	(1)	-	-	-	39	-	39	-	-	-	-	-	-	-	-
Reported Net Income	**80**	**125**	**174**	**98**	**476**	**82**	**137**	**187**	**106**	**512**	**102**	**159**	**161**	**124**	**545**	**583**	**633**	**688**
Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted Earnings	**80**	**125**	**174**	**98**	**476**	**82**	**137**	**187**	**106**	**512**	**102**	**159**	**161**	**124**	**545**	**583**	**633**	**688**
Basic Shares Outstanding	179	180	180	179	179	178	178	178	178	178	179	179	179	179	179	180	181	182
Diluted Shares Outstanding	180	180	180	180	180	179	178	178	178	178	179	179	179	179	179	180	181	182
Earnings per share																		
Reported EPS	$ 0.44	$ 0.69	$ 0.96	$ 0.54	$ 2.64	$ 0.46	$ 0.77	$ 1.05	$ 0.60	$ 2.87	$ 0.57	$ 0.89	$ 0.90	$ 0.69	$ 3.05	$ 3.24	$ 3.49	$ 3.78
Adjusted EPS	**$ 0.44**	**$ 0.69**	**$ 0.96**	**$ 0.54**	**$ 2.64**	**$ 0.46**	**$ 0.77**	**$ 1.05**	**$ 0.60**	**$ 2.87**	**$ 0.57**	**$ 0.89**	**$ 0.90**	**$ 0.69**	**$ 3.05**	**$ 3.24**	**$ 3.49**	**$ 3.78**

Source: Company reports; Guggenheim Securities, LLC estimates.

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AMERICAN WATER WORKS

CASH FLOW STATEMENT

(Dollars in millions)

Cash Flows from Operating Activities	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016	3QE	2QE	3QE	4QE	2017	2018	2019	2020
Net Income	80	125	174	98	476	82	137	187	106	512	102	159	161	124	545	583	633	688
Adjustments:																		
(Gain) loss on sale of business	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	107	109	111	113	440	116	115	119	116	466	117	120	122	124	483	511	538	564
Impairment charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Removal costs net of salvage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Provision for deferred income taxes	8	8	-	-	16	8	8	7	8	31	8	8	8	8	32	32	32	32
Amortization of deferred investment tax credits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Provision for losses on accounts receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allowance for other funds used during constructi	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Employee benefit expenses greater (less) than fi	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Gain) loss from sales of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred regulatory costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of deferred charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in assets and liab, net of effects from acq																		
Accounts receivable & Unbilled utility revenue		(57)	(40)	13	(84)	49	(59)	(61)	-	(71)	-	-	-	-	-	-	-	-
Other current assets	(53)	(9)	-	59	(3)	(49)	(3)	(27)	-	(79)	-	-	-	-	-	-	-	-
Accounts payable	(82)	80	(2)	(52)	(57)	15	32	(13)	-	34	-	-	-	-	-	-	-	-
Taxes accrued, including federal income	31	(15)	5	58	80	32	(19)	6	-	19	-	-	-	-	-	-	-	-
Interest accrued	38	(39)	41	(50)	(9)	34	(35)	35	-	34	-	-	-	-	-	-	-	-
Other current liabilities	68	18	148	85	320	(40)	95	154	-	210	-	-	-	-	-	-	-	-
Net cash from operating activities	**198**	**220**	**438**	**323**	**1,179**	**247**	**271**	**407**	**230**	**1,155**	**227**	**287**	**291**	**256**	**1,061**	**1,126**	**1,202**	**1,284**
Cash Flows from Investing Activities																		
Capital expenditures	(226)	(252)	(312)	(369)	(1,160)	(284)	(313)	(331)	(300)	(1,228)	(375)	(375)	(375)	(375)	(1,500)	(1,200)	(1,200)	(1,200)
Allowance for other funds used during construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from the sale of regulated assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Removal costs from property, plant and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivable from affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted funds	(20)	(69)	(165)	(52)	(305)	(39)	(29)	(18)	-	(86)	-	-	-	-	-	-	-	-
Net cash used in investing activities	**(246)**	**(321)**	**(477)**	**(421)**	**(1,465)**	**(323)**	**(342)**	**(349)**	**(300)**	**(1,314)**	**(375)**	**(375)**	**(375)**	**(375)**	**(1,500)**	**(1,200)**	**(1,200)**	**(1,200)**
Cash Flows from Financing Activities																		
Equity Offering	6	7	20	7	39	10	8	4	19	41	10	10	10	10	41	41	41	41
Equity Infusion / Capital Contribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from long-term debt		-	564	1	565	-	-	2	100	102	250	150	150	150	700	390	340	350
Net borrowings (repayments) under S-T debt agree	95	276	(441)	70	-	211	110	-	-	321	-	-	-	-	-	-	-	-
Advances and contributions for construction, net of	5	-	-	21	26	7	-	-	-	7	-	-	-	-	-	-	-	-
Debt/Equity issuance costs	-	-	-	-	-	(1)	-	-	-	(1)	-	-	-	-	-	-	-	-
Repayment of long-term debt	(4)	(2)	(83)	(42)	(130)	(11)	(2)	(7)	-	(20)	-	-	-	-	-	-	-	-
Redemption of preferred stocks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid	(56)	(61)	(61)	(61)	(239)	(61)	(66)	(67)	(67)	(261)	(67)	(72)	(72)	(72)	(284)	(308)	(333)	(361)
Purchase of common stock for treasury	-	-	-	-	-	(62)	-	-	-	(62)	-	-	-	-	-	-	-	-
Other financing activities	3	1	(29)	72	47	4	7	4		15								
Net cash used in financing activities	**49**	**222**	**(30)**	**67**	**308**	**97**	**57**	**(64)**	**52**	**142**	**193**	**88**	**88**	**88**	**457**	**123**	**48**	**30**
Net increase in cash and cash equivalents	1	121	(70)	(30)	22	21	(14)	(6)	(18)	(17)	45	(0)	4	(31)	18	50	50	114
Cash and cash equivalents at beginning of period	14	16	136	67	23	45	66	52	46	45	28	73	73	77	28	46	95	145
Cash and cash equivalents at end of period	**16**	**136**	**67**	**36**	**45**	**66**	**52**	**46**	**28**	**28**	**73**	**73**	**77**	**46**	**46**	**95**	**145**	**259**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

AMERICAN WATER WORKS

BALANCE SHEET

(Dollars in millions)

ASSETS	1QA	2QA	3QA	4QA	2015	1QA	2QA	3QA	4QE	2016	1QE	2QE	3QE	4QE	2017	2018	2019	2020
Property, plant and equipment																		
Utility plant	17,048	17,389	17,688	18,504	18,504	18,745	19,058	19,376	19,676	19,676	20,051	20,426	20,801	21,176	21,176	22,376	23,576	24,776
Accumulated Depreciation	(4,062)	(4,145)	(4,220)	(4,571)	(4,571)	(4,647)	(4,741)	(4,817)	(4,933)	(4,933)	(5,050)	(5,170)	(5,292)	(5,416)	(5,416)	(5,928)	(6,465)	(7,029)
Nonutility property, net	113	114	137	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total property plant and equipment	13,099	13,358	13,606	13,933	13,933	14,098	14,317	14,559	14,743	14,743	15,001	15,256	15,509	15,760	15,760	16,448	17,111	17,747
Current Assets																		
Cash and cash equivalents	16	136	67	36	36	66	52	46	28	28	73	73	77	46	46	95	145	259
Restricted funds	21	21	23	21	21	22	23	23	23	23	23	23	23	23	23	23	23	23
Customer accounts receivable	267	281	342	255	255	220	240	302	302	302	302	302	302	302	302	302	302	302
Allowance for uncollectible accounts	(35)	(36)	(37)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unbilled revenues	222	265	290	267	267	247	286	285	285	285	285	285	285	285	285	285	285	285
Unregulated trade and other receivables, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes receivable	8	3	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Materials and supplies	39	38	238	38	38	41	42	40	40	40	40	40	40	40	40	40	40	40
Assets of discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	192	180	(45)	40	40	42	48	105	105	105	105	105	105	105	105	105	105	105
Total Current Assets	729	898	879	657	657	638	691	801	783	783	828	828	832	801	801	850	900	1,014
Regulatory and other long-term assets																		
Regulatory assets	1,152	1,195	1,231	1,271	1,271	1,289	1,306	1,223	1,223	1,223	1,223	1,223	1,223	1,223	1,223	1,223	1,223	1,223
Restricted funds	9	9	9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill	1,208	1,210	1,313	1,302	1,302	1,313	1,313	1,313	1,313	1,313	1,313	1,313	1,313	1,313	1,313	1,313	1,313	1,313
Other	67	70	68	78	78	79	79	75	75	75	75	75	75	75	75	75	75	75
Total regulatory and other long-term assets	2,436	2,484	2,621	2,651	2,651	2,681	2,698	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611	2,611
Total Assets	16,264	16,732	17,105	17,241	17,241	17,417	17,706	17,971	18,137	18,137	18,440	18,695	18,952	19,172	19,172	19,910	20,622	21,373
CAPITALIZATION AND LIABILITIES																		
Capitalization																		
Common stockholders' equity	4,993	5,053	5,165	5,049	5,049	5,082	5,153	5,238	5,296	5,296	5,341	5,438	5,537	5,599	5,599	5,915	6,255	6,624
Pref stocks of subs w/o mandatory redemption req's	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-Term Debt																		
Long-term debt	5,429	5,433	5,941	5,862	5,862	5,850	5,850	5,842	5,942	5,942	6,192	6,342	6,492	6,642	6,642	7,032	7,372	7,722
Redeemable preferred stock at redemption value	14	14	14	12	12	11	11	11	11	11	11	11	11	11	11	11	11	11
Total capitalization	10,436	10,501	11,120	10,923	10,923	10,943	11,014	11,091	11,249	11,249	11,544	11,791	12,040	12,252	12,252	12,958	13,638	14,357
Current liabilities																		
Short-term debt	545	821	380	628	628	839	950	951	951	951	951	951	951	951	951	951	951	951
Current maturities of long-term debt	61	62	22	54	54	54	54	53	53	53	53	53	53	53	53	53	53	53
Revolver	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable	203	284	281	126	126	116	148	135	135	135	135	135	135	135	135	135	135	135
Taxes accrued, including federal income	56	41	46	26	26	58	39	45	45	45	45	45	45	45	45	45	45	45
Interest accrued	95	56	97	62	62	96	61	96	96	96	96	96	96	96	96	96	96	96
Liabilities of discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	268	249	339	637	637	451	488	648	648	648	648	648	648	648	648	648	648	648
Total Current Liabilities	1,228	1,512	1,165	1,533	1,533	1,014	1,746	1,928	1,928	1,928	1,928	1,928	1,928	1,928	1,928	1,928	1,928	1,928
Regulatory and other long-term liabilities																		
Advances for construction	363	359	350	349	349	352	309	300	300	300	300	300	300	300	300	300	300	300
Deferred income taxes	2,200	2,284	2,376	2,310	2,310	2,358	2,430	2,524	2,532	2,532	2,540	2,548	2,556	2,564	2,564	2,596	2,628	2,660
Deferred investment tax credits	25	24	24	24	24	23	23	23	23	23	23	23	23	23	23	23	23	23
Regulatory liability-cost of removal	386	396	395	402	402	407	406	403	403	403	403	403	403	403	403	403	403	403
Accrued pension expense	317	319	318	342	342	342	341	342	342	342	342	342	342	342	342	342	342	342
Accrued postretirement benefit expense	192	190	190	169	169	168	167	72	72	72	72	72	72	72	72	72	72	72
Other	36	48	54	68	68	70	89	90	90	90	90	90	90	90	90	90	90	90
Total regulatory and other long-term liabilities	3,519	3,621	3,707	3,664	3,664	3,720	3,765	3,754	3,762	3,762	3,770	3,778	3,786	3,794	3,794	3,826	3,858	3,890
Contributions in aid of construction	1,081	1,099	1,113	1,121	1,121	1,140	1,187	1,198	1,198	1,198	1,198	1,198	1,198	1,198	1,198	1,198	1,198	1,198
Total Capitalization and Liabilities	16,264	16,732	17,105	17,241	17,241	17,417	17,706	17,971	18,137	18,137	18,440	18,695	18,952	19,172	19,172	19,910	20,622	21,373

Source: Company reports; Guggenheim Securities, LLC estimates.

CENTERPOINT ENERGY (CNP, BUY, $27 PT, $24.81)

CNP has continued to generate 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 by investors.

- **We are maintaining our BUY rating on CNP and raising our price target to $26 from $25.** CNP is not the cheapest stock on a relative basis within our utility coverage but certainly has some potential 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 75% of EPS currently and we expect that figure to be breeched with strong regulated growth. **Key NT catalyst – clarity from the outcome of its strategic review of Enable stake and potential incremental expansion opportunities with CNP Energy Services. A solid story, in our view.**

- **We are introducing estimates for 2019 and 2020 of $1.39/$1.45 versus street consensus of $1.41/$1.44.** This outlook currently estimates a Houston Electric rate case filing in 2019, with rates in effect for 2020. Total capex of ~$685mm/year at Houston Electric with 9.8% ROEs in FY19/FY20, with about 90% of capital spend 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]. At the gas LDCs, CapEx of $430mm/year drives 5% rate base growth; we model 2% customer growth and achieved ROE of 12.3% at gas.

- **Our updated 2016/2017/2018 EPS estimates are $1.19/$1.27/$1.33 versus street estimates of $1.18/$1.26/$1.34.** 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 safeguarded under various stress test scenarios with Enable – even if Enable weakens in 2017 and 2018, which we do not expect it to, management remains comfortable with the outlook. **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. We assume no value for the GP.

- **CNP's strategic review remains ongoing in 2017.** CNP's stake in ENBL (55.4% of LP) will contribute towards its dividend trajectory; management has undertaken 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. **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.

- **Valuation: We arrive at our $27 PT utilizing a sum-of-the-parts analysis comprised of: (1)** $10/share for regulated electric utility when we apply our group average regulated electric utility multiple of 15.5x plus a 2 turn premium to our 2018 EPS estimate of $0.56, we anticipate multiple re-rating upon conclusion of ENBL strategic regview; **(2)** $8/share for CNP's gas utilities when we ascribe our 5x historical LDC premium spread to our 15.5x group average regulated electric utility multiple to our 2018 EPS estimate of $0.39; and **(3)** $9/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 7.5% 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 4.4% dividend yield from CNP would equate to an 13.2% ETR.**

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	0.41E	0.29E	1.19E	1.18E
Prior				*0.34E*	*1.23E*	
2017E	0.34E	0.26E	0.39E	0.28E	1.27E	1.26E
Prior	*0.35E*	*0.27E*	*0.34E*	*0.31E*	*1.27E*	
2018E	0.45E	0.24E	0.22E	0.42E	1.33E	1.34E
Prior	*0.46E*	*0.24E*	*0.21E*	*0.40E*	*1.32E*	
2019E	0.48E	0.25E	0.23E	0.44E	1.39E	1.41E
2020E	0.50E	0.26E	0.24E	0.46E	1.45E	1.44E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **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.

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CNP MODEL

CONSOLIDATED FINANCIALS

Income Statement ($ in millions)	1Q1A	2Q1A	3Q1A	4Q1A	2015A	1Q2A	2Q2A	3Q2A	4Q2A	2016E	1Q3E	2Q3E	3Q3E	4Q3E	2017E	1Q4E	2Q4E	3Q4E	4Q4E	2018E	2019E	2020E
Operating Revenues																						
Electric utility						656	763	909	614	2,942	570	811	772	653	2,805	605	862	820	694	2,981	3,166	3,366
Gas Utility						695	421	377	711	2,404	931	438	392	739	2,501	969	456	408	769	2,602	2,707	2,816
Non-utility						433	390	603	607	2,033	457	413	639	632	2,140	475	430	665	657	2,227	2,317	2,410
Total Operating Revenues	2,433	1,532	1,830	1,791	**7,386**	1,984	1,574	1,889	1,932	**7,379**	1,957	1,662	1,803	2,024	**7,446**	2,049	1,747	1,893	2,120	**7,809**	**8,191**	**8,593**
																-	-	-	-			
Operating Expenses																						
Natural gas	1,354	529	527	692	**3,102**	852	496	683	881	2,912	901	527	723	917	3,068	937	549	752	954	3,192	3,321	3,455
Operation and maintenance	498	488	479	542	**2,007**	521	513	505	495	2,034	385	496	351	472	1,704	389	598	552	462	2,001	2,124	2,265
Depreciation and amortization	217	239	258	246	**970**	260	289	324	166	1,039	217	220	222	225	683	180	182	185	187	734	770	800
Goodwill impairment	-	-	-	-	**-**	-	-	-		-					-					-	-	-
Transition and system restoration bond companies	-	-	-	-	**-**			-	92	92	89	133	132	95	448	94	141	140	101	476	506	538
Taxes other than income taxes	108	90	91	85	**374**	101	94	93	94	382	97	99	101	103	400	104	106	107	109	427	450	473
Other										-					-					-	-	-
Total operating expenses	2,177	1,346	1,365	1,565	**6,453**	1,734	1,392	1,605	1,728	**6,459**	1,689	1,475	1,529	1,811	**6,504**	1,705	1,576	1,737	1,812	**6,831**	**7,172**	**7,531**
EBITDA	473	425	533	472	**1,903**	510	471	608	370	**1,959**	486	406	496	437	**1,825**	524	353	340	495	**1,712**	**1,790**	**1,862**
Operating Income	256	186	265	226	**933**	250	182	284	204	**920**	269	187	274	213	**942**	344	171	156	307	**978**	**1,020**	**1,062**
Gain (loss) on marketable securities	(17)	79	(134)	(21)	**(93)**	90	29	77		187					-					-	-	-
Gain (loss) on indexed debt securities	24	(91)	129	12	**74**	(56)	(130)	(72)		(258)					-					-	-	-
Interest and other finance charges	89	89	88	86	**352**	87	86	83	66	322	68	68	69	70	275	70	70	70	70	**278**	**278**	**278**
Interest on securitization bonds	28	27	25	25	**105**	24	23	23	22	92	22	22	22	22	88	22	22	22	22	**88**	**88**	**88**
Equity in earnings of unconsolidated affiliate, net	52	43	(794)	(934)	**(1,633)**	59	31	73	50	214	32	48	50	42	172	34	48	50	42	**174**	**174**	**174**
Step acquisition gain	-	-	-	-	**-**	-	-	-		-					-					-	-	-
Other, net	11	13	12	10	**46**	7	14	20	5	46	3	5	5	5	19	3	6	5	5	**19**	**19**	**19**
Earnings before tax	209	114	(635)	(818)	**(1,130)**	240	8	276	171	**695**	214	150	238	168	**770**	289	133	119	263	**805**	**847**	**889**
Income taxes	78	37	(244)	(309)	**(438)**	86	10	97	44	237	66	38	68	46	219	93	32	26	80	**231**	**246**	**261**
Net Income	131	77	(391)	(509)	**(692)**	154	(2)	179	126	**457**	148	112	169	122	**551**	196	102	93	183	**574**	**601**	**628**
Average Number of Shares Outstanding (Diluted)	431	432	430	430	**430**	433	431	433	433	**431**	433	433	433	433	**433**	433	433	433	433	**433**	**433**	**433**
Reported EPS diluted	0.30	0.18	(0.91)	(1.18)	**(1.61)**	0.35	(0.00)	0.41	0.29	**1.06**	0.34	0.26	0.39	0.28	**1.27**	0.45	0.24	0.22	0.42	**1.33**	**1.39**	**1.45**
Non Operating Items	-	5	537	625	**1,167**	(16)	75	(2)		**57**					-					-	-	-
Net Income (Non-GAAP)	131	82	146	116	**475**	138	73	177	126	**514**	148	112	169	122	**551**	196	102	93	183	**574**	**601**	**628**
Operating EPS	0.30	0.19	0.34	0.27	**1.10**	0.32	0.17	0.41	0.29	**$1.19**	0.34	0.26	0.39	0.28	**$1.27**	0.45	0.24	0.22	0.42	**$1.33**	**$1.39**	**$1.45**

Source: Company reports, Guggenheim Securities, LLC estimates.

GUGGENHEIM

CNP MODEL

CONSOLIDATED FINANCIALS

Cash Flow Statement ($ in millions)	1Q2A	2Q2A	3Q2A	4Q2A	2015A	1Q2E	2Q2E	3Q2E	4Q2E	2016E	1Q2E	2Q2E	3Q2E	4Q2E	2017E	1Q2E	2Q2E	3Q2E	4Q2E	2018E	2019E	2020E
Operating Activities																						
Net income	131	77	(391)	(509)	(692)	154	(2)	179	126	457	148	112	169	122	551	195	102	93	183	574	601	628
Adjustments to reconcile net income to net cash provided by operating activities:																						
Depreciation and amortization	217	239	268	246	970	260	289	324	161	1034	216	218	221	223	878	179	181	184	186	729	765	795
Equity in (earnings) losses of unconsolidated affiliate, net of c	29	30	793	596	1,779	(66)	(31)	(73)	(50)	(214)	(32)	(48)	(50)	(42)	(172)	(34)	(46)	(50)	(42)	(174)	(174)	(174)
Other adjustments	(14)	14	(292)	(137)	(429)	35	119	80		234												
Changes in Assets and Liabilities																						
Accounts receivable and unbilled revenues, net	57	310	83	(105)	345	67	80	(61)	(54)	32	10	(41)	35	(35)	(30)	(36)	(41)	(42)	(42)	(161)	(196)	(238)
Inventory	179	(75)	(70)	(5)	28	112	(49)	(68)	(102)	(107)	(10)	192	(101)	(100)	(18)	(11)	200	(105)	(104)	(19)	(20)	(21)
Accounts payable	(208)	(119)	(5)	108	(224)	(82)	(27)	19	115	25	31	36	35	26	128	27	28	29	30	114	134	157
Other, net	284	(19)	19	(187)	88	146	45	(6)	-	187	-	-	-	-	0	-	-	-	-	0	0	0
Net Cash Flows from Operating Activities	**666**	**456**	**396**	**347**	**1,865**	**834**	**424**	**394**	**197**	**1,649**	**362**	**470**	**310**	**195**	**1,337**	**322**	**421**	**109**	**211**	**1,063**	**1,110**	**1,148**
Investing Activities																						
Capital expenditures	(341)	(371)	(419)	(453)	(1,584)	(332)	(350)	(365)	(312)	(1,359)	(314)	(314)	(314)	(314)	(1,256)	(293)	(293)	(293)	(293)	(1,170)	(1,120)	(1,121)
Decrease in notes receivable – unconsolidated affiliate	-	-	-	148	148	363	-	-	-	363	-	-	-	-	0	-	-	-	-	0	0	0
Acquisitions, net of cash acquired	-	-	-		-	-	(96)	(4)	-	(102)	-	-	-	-	0	-	-	-	-	0	0	0
Investment in preferred units – unconsolidated affiliate	-	-	-	12	12	(363)	-	-	-	(363)	-	-	-	-	0	-	-	-	-	0	0	0
Distributions from unconsolidated affiliate in excess of cumul	-	13	61	(74)	-	74	75	74	74	297	74	74	74	74	297	74	74	74	74	297	297	297
Decrease (increase) in restricted cash of Bond Companies	5	(5)	9	(9)	-	(4)	2	-	-	(2)	-	-	-	-	0	-	-	-	-	0	0	0
Proceeds from sale of marketable securities	-	32	-	-	32	-	178	-	-	178	-	-	-	-	0	-	-	-	-	0	0	0
Other, net	(1)	(3)	(4)	13	5	(7)	(5)	23	-	11	-	-	-	-	0	-	-	-	-	0	0	0
Net Cash Flows Used in Investing Activities	**(337)**	**(334)**	**(353)**	**(363)**	**(1,387)**	**(269)**	**(198)**	**(272)**	**(237)**	**(976)**	**(240)**	**(240)**	**(240)**	**(240)**	**(959)**	**(218)**	**(218)**	**(218)**	**(218)**	**(873)**	**(823)**	**(824)**
Financing Activities																						
Decrease in short-term borrowings, net	(53)	24	25	(9)	(13)	(49)	17	28	-	3	-	-	-	-	0	-	-	-	-	0	0	0
Payments of commercial paper, net	(56)	233	155	101	403	(111)	359	(215)	-	63	-	-	-	-	0	-	-	-	-	0	0	0
Proceeds from long-term debt	-	-	-	-	-	-	300	300	150	750	50	50	50	50	200	-	-	-	-	0	0	0
Payments of long-term debt	(139)	(261)	(113)	(131)	(644)	(147)	(589)	(120)	-	(855)	-	-	-	-	0	-	-	-	-	0	0	0
Long-term revolving credit facility	-	-	-	200	200	-	-	-	-	0	-	-	-	-	0	-	-	-	-	0	0	0
Debt issuance costs	-	-	-	-	-	(4)	(3)	(2)	-	(9)	-	-	-	-	0	-	-	-	-	0	0	0
Payment of common stock dividends	(106)	(107)	(106)	(107)	(426)	(119)	(111)	(111)	-	(332)	-	-	-	-	0	-	-	-	-	0	0	0
Distribution to ZENS holders	-	-	(32)	-	(32)	-	(178)	-	-	(178)	-	-	-	-	0	-	-	-	-	0	0	0
Other, net	1	-	-	(1)	-	1	1	(1)	-	1	-	-	-	-	0	-	-	-	-	0	0	0
Net Cash Flows from (used in) Financing Activities	**(393)**	**(111)**	**(61)**	**53**	**(512)**	**(411)**	**(173)**	**(123)**	**150**	**(557)**	**50**	**50**	**50**	**50**	**200**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net change in cash	(64)	11	(18)	37	(34)	(46)	53	(1)	110	116	172	281	120	5	579	104	203	(109)	(7)	191	288	324
Beginning cash balance	298	234	245	227	298	264	218	271	270	264	380	552	833	953	380	958	1,062	1,265	1,156	958	1,149	1,437
Ending cash balance	**234**	**245**	**227**	**264**	**264**	**218**	**271**	**270**	**380**	**380**	**552**	**833**	**953**	**958**	**958**	**1,062**	**1,265**	**1,156**	**1,149**	**1,149**	**1,437**	**1,761**

Source: Company reports, Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

SECTOR: **POWER AND UTILITIES** **January 9, 2017**

GUGGENHEIM

CNP MODEL

CONSOLIDATED FINANCIALS

Balance Sheet ($ in millions)	1Q14	2Q14	3Q14	4Q14	2015A	1Q15	2Q15	3Q15	4Q15	2016E	1Q16	2Q16	3Q16	4Q16	2017E	1Q17	2Q17	3Q17	4Q17	2018E	2019E	2020E
Property, Plant and Equipment																						
Property, plant and equipment	15,633	15,957	16,264	16,650	16,650	16,986	17,216	17,590	17,812	17,812	18,126	18,440	18,754	19,068	19,068	19,360	19,653	19,945	20,238	20,238	21,358	22,479
Less: Accumulated depreciation	4,963	5,046	5,079	5,113	5,113	5,132	5,320	5,417	5,578	5,578	5,793	5,912	6,233	6,456	6,456	6,635	6,816	6,999	7,185	7,185	7,950	8,745
Property, plant and equipment, net	10,670	10,911	11,185	11,537	11,537	11,718	11,898	12,083	12,234	12,234	12,332	12,428	12,521	12,612	12,612	12,726	12,837	12,946	13,052	13,052	13,408	13,734
Current Assets																						
Cash and cash equivalents	234	245	227	264	264	218	271	270	380	380	552	833	953	958	958	1,062	1,265	1,156	1,149	1,149	1,437	1,761
Investment in marketable securities	913	960	826	805	805	894	757	814	814	814	814	814	814	814	814	814	814	814	814	814	814	814
Accounts receivable	897	849	568	593	593	577	605	622	736	736	726	766	731	766	766	802	843	885	927	927	1,123	1,361
Accrued unbilled revenues	235	183	180	279	279	207	178	186	185	186	186	186	186	185	186	186	186	186	186	186	186	186
Natural gas inventory	37	95	168	168	168	58	96	160	206	206	211	124	169	215	215	220	129	176	223	223	232	242
Materials and supplies	161	178	174	179	179	175	187	191	246	246	252	148	202	256	256	262	153	210	267	267	278	289
Non-trading derivative assets	82	64	78	89	89	75	47	49	49	49	49	49	49	49	49	49	49	49	49	49	49	49
Taxes receivable	-	38	68	172	172	3	16	23	23	23	23	23	23	23	23	23	23	23	23	23	23	23
Prepaid expenses and other current assets	132	105	111	140	140	127	135	154	154	154	154	154	154	154	154	154	154	154	154	154	154	154
Total current assets	2,691	2,509	2,400	2,689	2,689	2,335	2,272	2,529	2,794	2,794	2,967	3,096	3,282	3,421	3,421	3,572	3,616	3,654	3,793	3,793	4,296	4,878
Other Assets																						
Goodwill	840	840	840	840	840	840	861	862	862	862	862	862	862	862	862	862	862	862	862	862	862	862
Regulatory assets	3,426	3,324	3,199	3,129	3,129	3,031	2,913	2,756	2756	2,756	2756	2756	2756	2756	2,756	2756	2756	2756	2756	2,756	2,756	2,756
Notes receivable – unconsolidated affiliate	363	363	363	363	363	363	-	-	0	-	0	0	0	0	-	0	0	0	0	-	-	-
Non-trading derivative assets	35	33	30	36	36	26	22	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24
Investment in unconsolidated affiliate	4,501	4,471	3,694	2,594	2,594	2,580	2,536	2,535	2511	2,511	2468	2442	2417	2385	2,385	2344	2318	2294	2262	2,262	2,138	2,015
Preferred units – unconsolidated affiliate	-	-	-	-	-	-	363	363	363	363	363	363	363	363	363	363	363	363	363	363	363	363
Other	144	151	148	102	102	166	147	134	134	134	134	134	134	134	134	134	134	134	134	134	134	134
Total	9,309	9,182	8,193	7,064	7,064	6,951	6,842	6,674	6,650	6,650	6,607	6,581	6,556	6,524	6,524	6,483	6,457	6,433	6,401	6,401	6,277	6,154
Total Assets	22,670	22,602	21,778	21,290	21,290	21,004	21,012	21,286	21,678	21,678	21,906	22,105	22,359	22,557	22,557	22,781	22,910	23,033	23,246	23,246	23,981	24,766
Shareholders' Equity																						
Common stock	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Additional paid-in capital	4,168	4,172	4,176	4,180	4,180	4,186	4,188	4,190	4190	4,190	4190	4190	4190	4190	4,190	4190	4190	4190	4190	4,190	4,190	4,190
Accumulated deficit	486	456	(41)	(657)	(657)	(613)	(726)	(558)	(532)	(532)	(384)	(272)	(102)	20	20	215	318	411	594	594	1,195	1,823
Accumulated other comprehensive loss	(84)	(82)	(61)	(66)	(66)	(65)	(67)	(64)	(64)	(64)	(64)	(64)	(64)	(64)	(64)	(64)	(64)	(64)	(64)	(64)	(64)	(64)
Total Shareholders' Equity	4,574	4,550	4,058	3,461	3,461	3,506	3,397	3,472	3,598	3,598	3,746	3,858	4,028	4,150	4,150	4,346	4,448	4,541	4,724	4,724	5,325	5,953
Long-term Debt																						
VIE securitization bonds	2,528	2,466	2,348	2,276	2,276	2,122	2,059	1,931	1931	1,931	1931	1931	1931	1931	1,931	1931	1931	1931	1931	1,931	1,931	1,931
Other long-term debt	5,239	5,148	5,316	5,590	5,590	5,232	5,721	5,805	5,955	5,955	6,005	6,055	6,105	6,155	6,155	6,155	6,155	6,155	6,155	6,155	6,155	6,155
Total noncurrent liabilities	7,767	7,614	7,662	7,866	7,866	7,354	7,780	7,736	7,886	7,886	7,936	7,986	8,036	8,086	8,086	8,086	8,086	8,086	8,086	8,086	8,086	8,086
Current Liabilities																						
Short-term borrowings	-	24	49	40	40	-	17	43	43	43	43	43	43	43	43	43	43	43	43	43	43	43
Current portion of VIE securitization bonds long-term debt	389	391	396	391	391	400	402	410	410	410	410	410	410	410	410	410	410	410	410	410	410	410
Indexed debt	154	149	152	145	145	148	111	112	112	112	112	112	112	112	112	112	112	112	112	112	112	112
Current portion of other long-term debt	271	397	396	328	328	575	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250	250
Indexed debt securities derivative	517	563	454	442	442	493	490	562	562	562	562	562	562	562	562	562	562	562	562	562	562	562
Accounts payable	476	367	367	483	483	376	407	422	537	537	568	604	640	666	666	693	721	750	780	780	914	1,071
Taxes accrued	142	99	128	158	158	191	92	134	134	134	134	134	134	134	134	134	134	134	134	134	134	134
Interest accrued	118	161	118	117	117	196	119	93	93	93	93	93	93	93	93	93	93	93	93	93	93	93
Non-trading derivative liabilities	8	7	12	11	11	8	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19
Other	394	385	384	343	343	317	334	353	353	353	353	353	353	353	353	353	353	353	353	353	353	353
Total Current Liabilities	3,187	3,125	3,191	2,458	2,458	2,534	2,241	2,398	2,513	2,513	2,544	2,580	2,616	2,642	2,642	2,669	2,697	2,726	2,756	2,756	2,890	3,047
Other Liabilities																						
Deferred income taxes, net	4,715	4,853	4,445	5,047	5,047	5,110	5,121	5,206	5206	5,206	5206	5206	5206	5206	5,206	5206	5206	5206	5206	5,206	5,206	5,206
Non-trading derivative liabilities	2	6	5	5	5	3	6	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Benefit obligations	928	925	899	904	904	909	904	909	909	909	909	909	909	909	909	909	909	909	909	909	909	909
Regulatory liabilities	1,243	1,209	1,289	1,276	1,276	1,306	1,284	1,279	1279	1,279	1279	1279	1279	1279	1,279	1279	1279	1279	1279	1,279	1,279	1,279
Other	253	250	250	273	273	276	279	282	282	282	282	282	282	282	282	282	282	282	282	282	282	282
Total Other Liabilities	7,142	7,313	6,867	7,505	7,505	7,610	7,594	7,680	7,680	7,680	7,680	7,680	7,680	7,680	7,680	7,680	7,680	7,680	7,680	7,680	7,680	7,680
Total Liabilities and Shareholders' Equity	22,670	22,602	21,778	21,290	21,290	21,004	21,012	21,286	21,678	21,678	21,906	22,105	22,359	22,557	22,557	22,781	22,910	23,033	23,246	23,246	23,981	24,766

Source: Company reports, Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

CALPINE (CPN), BUY, $20 PT, $11.66)

High quality fleet still looking for catalysts; can't catch a break in TX (too much wind, not enough retirement), while retail expansion brings attention to capital allocation and commodity exposure. Our thesis centers around asset quality, de-risking and de-levering. Valuation isn't sustainable here, in our view.

- **Reaffirming our BUY rating on CPN – Marking to current forward curves and maintaining PT of $20, but still a big disconnect from our longer-term DCF valuation.** Our IPP investment thesis centers around quality of the underlying assets, and CPN continues to actively manage the highest quality IPP generation portfolio. That said, it hasn't caught any breaks in TX, where management shares our outlook for upwards of 8GW of uneconomic coal retirements, although coal operators don't seem to manage their fleets as actively as CPN and continue operating despite power market fundamentals deteriorating even further with incremental wind taking unprecedented market share. Separately, rising focus on retail wasn't a big surprise for us, although it sparked a broader debate around capital allocation and forward curve exposure. At the end of the day, we believe valuations aren't sustainable at these FCF yield levels, irrespective of which side of the debate you are on. **We continue to believe as bond yields move higher, cyclical energy recovery moves forward and market turns towards risk-on, we will begin to see incremental investors moving out of regulated utilities and into more power levered names (integrated's and IPPs) especially at these valuation levels (utilities expensive, power cheap) – Calpine remains the more simplistic, clean story for nontraditional investors to begin to gain comfort with but this call could take time to come to fruition, in our view.**

- **Updating our 2016/2017/2018 adjusted EBITDA estimates to $1,812mm/$1,864mm/$2,025mm vs. consensus estimates of $1,820/$1,882/$1,994.** We are updating our estimates as we mark IPP and merchant generation models to the 12/22/2016 forward curves, which brings our CPN estimates down slightly vs. prior estimates driven by 9/30/2016 curves. As a reminder, CPN also lowered its 2017 outlook on its last earnings call, although forward curves weren't setting the bar so high to begin with and we remain in line with management's updated outlook. Our IPP valuations have always been based on longer-term discounted cash flow analysis, and as we extend our sector outlook through the end of the decade for each company. We are now **publishing our 2019 and 2020 adjusted EBITDA estimates for CPN of $2,037mm/$2,235mm vs. consensus $1,994mm/$2,208mm.**

- **Increasingly bullish on IPPs going into 2017 with more constructive gas/power fundamentals, although CPN isn't as levered to a commodity rally and retail expansion leaves less open volume, so we look for focus back on the basics (de-levering) although unclear if diminishing patience for capacity rationalization motivates other activity.** We introduced our increasingly bullish thesis on the IPPs coming out of a weak summer for power last year despite what would have otherwise been strong positive drivers in some markets (e.g., record heat and peak demand in TX); **we attributed a lot of weakness in TX to anomalous wind conditions though, and coupled with tighter gas supplies this winter, we see a constructive back-drop for power building up for summer.** CPN would welcome a power recovery, especially in TX; although that would imply coal plants made it through the trough and would likely plan on sticking around for some recovery too. **At the end of the day, our CPN thesis was never a bullish commodity call, and while we view coal retirements as a key catalyst, it isn't reflected in our valuation based on forward curve prices. Bottom line is CPN is trading at levels**

implying 20% FCF yield, which we believe just isn't sustainable even considering the merchant power headwinds we mention above.

- **Valuation:** We use an unlevered discounted cash flow methodology before accounting for growth CapEx through 2024 terminal year, at which point we apply a CPN-specific 9x asset-weighted terminal multiple; our valuation incorporates the NPV of NOLs, and subtracts net debt of ~ $10bn to arrive at $7.1bn equity value, or our price target of $20/share.

Guggenheim's CPN EBITDA Estimates

EBITDA($mm)	1Q	2Q	3Q	4Q	FY	Cons
2015A	338A	457A	791A	390A	1,976A	
2016E	374A	452A	632A	354E	1,812E	1,820E
Prior				*353A*	*1,811A*	
2017E	388E	371E	674E	431E	1,864E	1,882E
Prior	*347E*	*420E*	*723E*	*390E*	*1,880E*	
2018E	430E	461E	765E	369E	2,025E	1,994E
Prior	*377E*	*498E*	*771E*	*419E*	*2,066E*	
2019E	460E	474E	614E	488E	2,037E	1,994E
2020E	431E	481E	828E	495E	2,235E	2,208E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** Commodity price risk: Although CPN is less sensitive to gas prices than the other IPPs, natural gas prices still impact margins.

  Environmental/Policy risk: Environmental regulations including Effluent Limit Guidelines (ELG), Coal Combustion Residual (CCR), waste water discharge 316(b), and Mercury Air Toxics Standards (MATs), and other EPA rules such as the Clean Power Plan could require increased spending. Permits and compliance with these regulations require significant capital and operating expenditures. Considering timing to comply with these regulations and costs, some retirements of plants could be accelerated. Changes to these regulations could increase costs of operating these plants and or increase competition.

  Operational risks: CPN's fleet could experience unforced outages due to operational, mechanical failures, and others that are inherent risks of the power generation business.

GUGGENHEIM

Calpine

Consolidated Financials

Income Statement ($MM, unless otherwise noted)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Energy Revenue	1,638	1,407	1,888	1,436	1,585	1,551	2,063	818	845	898	1,275	967	6,369	6,017	3,985	3,706	3,654	3,839
Hedges	3	31	55	(24)	25	(391)	287	57	1	16	116	21	65	(22)	154	316	-	-
Capacity Revenue								202	211	223	318	238	-	202	990	1,000	932	972
Ancillary Revenue	5	4	5	4	5	4	5	2	2	2	2	2	18	16	6	10	10	10
Champion Revenue								13	14	14	14	14	-	13	55	57	60	62
Operating revenues	1,646	1,442	1,948	1,416	1,615	1,164	2,355	1,093	1,072	1,152	1,724	1,242	6,452	6,227	5,189	5,089	4,656	4,882
Fuel	1,010	766	1,073	835	1,126	542	1,472	492	444	490	787	536	3,684	3,632	2,257	2,126	1,922	1,951
Gross Margin	**636**	**676**	**875**	**581**	**489**	**622**	**883**	**601**	**627**	**662**	**937**	**706**	**2,768**	**2,595**	**2,933**	**2,963**	**2,734**	**2,931**
O&M (less major maintenance)	182	182	173	213	191	192	172	209	201	211	222	233	750	764	867	814	576	576
SG&A	37	30	33	38	38	35	33	36	37	39	41	43	138	142	162	174	165	165
Other Expenses	20	20	16	24	20	17	18	2	2	2	2	3	80	57	10	(36)	(31)	(31)
Unconsolidated Inv. and noncontrol int.	(5)	(7)	(6)	(6)	(7)	(3)	(6)	12	12	12	12	12	(24)	(4)	48	48	48	48
MTM Adjustments, and other items	64	(6)	(132)	(78)	(127)	(71)	34	(13)	(13)	26	(15)	(15)	(152)	(177)	(17)	(61)	(61)	(61)
Adjusted EBITDA	**338**	**457**	**791**	**390**	**374**	**452**	**632**	**354**	**388**	**371**	**674**	**431**	**1,976**	**1,812**	**1,864**	**2,025**	**2,037**	**2,235**
Major Maintenance Expense	78	90	27	73	64	79	43	43	43	43	43	43	268	229	172	172	172	172
Operating Leases	9	8	6	7	6	7	6	6	7	7	7	8	30	25	29	31	31	31
Stock Compensation	11	1	7	7	9	8	6	6	7	7	7	8	26	29	29	31	31	31
Depreciation	157	160	166	154	179	162	161	108	111	114	117	120	637	610	462	492	533	587
EBIT	**83**	**198**	**585**	**149**	**116**	**196**	**416**	**191**	**221**	**200**	**500**	**253**	**1,015**	**919**	**1,173**	**1,300**	**1,271**	**1,414**
Unconsolidated adjustments, other	(10)	1	46	28	25	27	71	71	71	71	71	71	65	194	284	284	284	284
Interest Income	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(4)	(4)	(4)	(4)	(4)	(4)
Interest Expense	154	158	159	157	157	157	158	134	132	132	132	127	628	606	524	496	495	477
Minority Interest	3	2	6	6	4	5	6	6	6	6	6	6	17	21	24	24	24	24
Earnings Before Taxes	**(63)**	**38**	**375**	**(41)**	**(69)**	**8**	**182**	**(19)**	**12**	**(8)**	**291**	**49**	**309**	**102**	**345**	**500**	**472**	**633**
Tax Rate	2%	13%	7%	263%	(51%)	(175%)	(2%)	(2%)	35%	35%	35%	35%	(25%)	35%	35%	35%	35%	35%
Income Tax	(1)	5	28	(108)	35	(14)	(4)	0	4	(3)	102	17	(76)	17	121	175	165	222
Net Income	**(62)**	**33**	**347**	**67**	**(104)**	**22**	**186**	**(19)**	**8**	**(5)**	**189**	**32**	**385**	**85**	**224**	**325**	**307**	**411**
Avg. Fully Diluted Shares	373	370	358	353	354	354	356	358	357	356	355	353	365	356	355	350	348	348
Fully Diluted EPS (Recurring)	**($0.17)**	**$0.09**	**$0.97**	**$0.19**	**($0.29)**	**$0.06**	**$0.52**	**($0.05)**	**$0.02**	**($0.01)**	**$0.53**	**$0.09**	**$1.06**	**$0.24**	**$0.63**	**$0.93**	**$0.88**	**$1.18**
Extra-ordinary Items	64	(14)	(74)	(114)	(94)	(51)	109	-	-	-	-	-	(138)	(36)	-	-	-	-
Net Income - GAAP	(10)	19	273	(47)	(198)	(29)	295	(19)	8	(5)	189	32	247	49	224	325	307	411
EPS - GAAP	(0.03)	0.05	0.76	(0.13)	(0.56)	(0.08)	0.83	(0.05)	0.02	(0.01)	0.53	0.09	0.68	0.14	0.63	0.93	0.88	1.18
Dividends per Share	$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	$0.00	$0.00
Ending Share Count	373	361	358	357	354	359	359	358	357	355	354	353	357	358	353	348	348	348

Source: Company reports; Guggenheim Securities, LLC estimates.

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Calpine

Consolidated Financials

Cash Flow Statement ($MM, unless otherwise noted)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Cash Flow From Operations																		
Net Income	(7)	21	279	(53)	(194)	(24)	301	(25)	2	(11)	183	26	240	58	200	301	283	387
Depreciation & Amortization	171	171	177	238	226	233	213	108	111	114	117	120	757	780	462	492	533	587
Changes in MTM Assets & Liab.	(71)	1	74	2	94	36	(109)	-	-	-	-	-	6	21	-	-	-	-
Deferred Income Tax Benefit	-	3	9	(99)	35	(24)	4	-	-	-	-	-	(87)	15	-	-	-	-
Other changes in cash flow	4	11	9	120	(2)	41	3	6	7	7	7	8	144	48	29	31	31	31
Changes in Working Capital	(114)	(171)	(8)	87	(133)	(168)	135	-	-	-	-	-	(206)	(166)	-	-	-	-
Cash Flow From Operations	**(17)**	**36**	**540**	**295**	**26**	**94**	**547**	**89**	**120**	**110**	**308**	**154**	**854**	**756**	**690**	**823**	**846**	**1,005**
Cash Flow From Investing																		
Capital Expenditures	(162)	(117)	(132)	(154)	(660)	437	(114)	(106)	(89)	(89)	(89)	(89)	(565)	(443)	(355)	(148)	(405)	(406)
Divestitures	-	-	-	-	-	-	-	161	-	-	-	-	-	161	-	-	-	-
Acquisitions	-	-	-	(297)	-	(526)	-	-	-	-	-	-	(297)	(526)	-	-	-	-
Other	34	(1)	(72)	60	49	24	(51)	-	-	-	-	-	21	22	-	-	-	-
Cash Flow From Investing	**(128)**	**(118)**	**(204)**	**(391)**	**(611)**	**(65)**	**(165)**	**55**	**(89)**	**(89)**	**(89)**	**(89)**	**(841)**	**(786)**	**(355)**	**(148)**	**(405)**	**(406)**
Cash Flow From Financing																		
Issuance/(Retirement) of Debt	423	(26)	(26)	361	(78)	(31)	(28)	(210)	-	-	-	(363)	732	(347)	(363)	(170)	-	(880)
Issuance/(Repurchase) of Equity	(202)	(252)	(56)	(19)		-	-	(25)	(25)	(25)	(25)	(25)	(529)	(25)	(100)	(100)	-	-
Dividends (Common and preferred)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financing	3	(14)	(17)	(8)	1	(27)	(8)	-	-	-	-	-	(36)	(34)	-	-	-	-
Cash Flow From Financing	**224**	**(292)**	**(99)**	**334**	**(77)**	**(58)**	**(36)**	**(235)**	**(25)**	**(25)**	**(25)**	**(388)**	**167**	**(406)**	**(463)**	**(270)**	**-**	**(880)**
Increase/(Decrease) in Cash	79	(374)	237	238	(662)	(29)	346	(91)	6	(4)	194	(323)	180	(436)	(128)	406	441	(281)
Cash at Beginning of Period	717	796	422	659	906	244	215	561	470	476	471	665	717	906	470	342	748	1,189
Cash at End of Period	**796**	**422**	**659**	**897**	**244**	**215**	**561**	**470**	**476**	**471**	**665**	**342**	**897**	**470**	**342**	**748**	**1,189**	**908**

Source: Company reports; Guggenheim Securities, LLC estimates.

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Calpine

Consolidated Financials

Balance Sheet ($MM, unless otherwise noted)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Assets																		
Cash and Cash Equivalents	796	422	659	906	244	215	561	470	476	471	665	342	906	470	342	748	1,189	908
Restricted Cash	162	162	246	216	167	148	210	210	210	210	210	210	216	210	210	210	210	210
Accounts Receivable	503	595	581	644	569	720	801	801	801	801	801	801	644	801	801	801	801	801
Inventory	503	509	479	475	490	522	518	518	518	518	518	518	475	518	518	518	518	518
Short-term Derivative Assets	1,858	1,607	1,429	1,698	1,853	1,231	959	959	959	959	959	959	1,698	959	959	959	959	959
Margin Deposits	150	152	204	137	149	193	178	178	178	178	178	178	137	178	178	178	178	178
Current assets held for sale	-	-	-	-	-	206	452	452	452	452	452	452	-	452	452	452	452	452
Other current assets	-	-	-	19	303	53	36	36	36	36	36	36	19	36	36	36	36	36
Total Current Assets	**3,972**	**3,447**	**3,598**	**4,095**	**3,775**	**3,288**	**3,715**	**3,624**	**3,630**	**3,625**	**3,819**	**3,496**	**4,095**	**3,624**	**3,496**	**3,902**	**4,343**	**4,062**
Long Term Derivative Assets	711	637	718	313	420	369	323	323	323	323	323	323	313	323	323	323	323	323
Restricted Cash Net of Current	47	48	29	12	17	20	15	15	15	15	15	15	12	15	15	15	15	15
Other Long Term Assets	474	478	569	1,249	1,040	961	866	866	866	866	866	866	1,249	866	866	866	866	866
Net PP&E	**13,178**	**13,147**	**12,984**	**13,012**	**13,407**	**13,341**	**13,069**	**12,906**	**12,884**	**12,859**	**12,831**	**12,800**	**13,012**	**12,906**	**12,800**	**12,456**	**12,328**	**12,147**
Total Assets	**18,382**	**17,757**	**17,898**	**18,681**	**18,659**	**17,979**	**17,988**	**17,734**	**17,718**	**17,688**	**17,854**	**17,500**	**18,681**	**17,734**	**17,500**	**17,562**	**17,875**	**17,414**
Liabilities																		
Current Portion of LT Debt	197	198	199	221	205	197	197	197	197	197	197	197	221	197	197	197	197	197
Accounts Payable	456	443	446	552	433	531	590	590	590	590	590	590	552	590	590	590	590	590
Short Term Derivative Liabilities	1,643	1,407	1,334	1,734	1,975	1,360	991	991	991	991	991	991	1,734	991	991	991	991	991
Other Current Liabilities	548	488	444	541	472	485	536	542	549	556	563	571	541	542	571	601	632	663
Total Current Liabilities	**2,844**	**2,536**	**2,423**	**3,048**	**3,085**	**2,573**	**2,314**	**2,320**	**2,327**	**2,334**	**2,341**	**2,349**	**3,048**	**2,320**	**2,349**	**2,379**	**2,410**	**2,441**
Long Term Derivative Liabilities	572	453	501	473	585	512	436	436	436	436	436	436	473	436	436	436	436	436
Other Long-Term Liabilities	241	274	298	277	344	298	344	344	344	344	344	344	277	344	344	344	344	344
Long-Term Debt	11,520	11,493	11,465	11,716	11,672	11,644	11,623	11,413	11,413	11,413	11,413	11,050	11,716	11,413	11,050	10,880	10,880	10,000
Total Long Term Liabilities	**12,333**	**12,220**	**12,264**	**12,466**	**12,601**	**12,454**	**12,403**	**12,193**	**12,193**	**12,193**	**12,193**	**11,830**	**12,466**	**12,193**	**11,830**	**11,660**	**11,660**	**10,780**
Minority Interest	53	57	58	58	58	63	67	67	67	67	67	67	58	67	67	67	67	67
Total Liabilities	**15,230**	**14,813**	**14,745**	**15,572**	**15,744**	**15,090**	**14,784**	**14,580**	**14,587**	**14,594**	**14,601**	**14,246**	**15,572**	**14,580**	**14,246**	**14,106**	**14,137**	**13,288**
Common Stock	1	1	1	(1)		-	-	-	-	-	-	-	(1)	-	-	-	-	-
Treasury stock					(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	-	(7)	(7)	(7)	(7)	(7)
Additional Paid-in-Capital	9,896	9,653	9,603	9,594	9,602	9,611	9,618	9,593	9,568	9,543	9,518	9,493	9,594	9,593	9,493	9,393	9,393	9,393
Retained Earnings/(Deficit)	(6,550)	(6,531)	(6,258)	(6,305)	(6,503)	(6,532)	(6,237)	(6,262)	(6,260)	(6,272)	(6,088)	(6,062)	(6,305)	(6,262)	(6,062)	(5,761)	(5,478)	(5,090)
Other Comp. Income/(Loss)	(195)	(179)	(193)	(179)	(177)	(183)	(170)	(170)	(170)	(170)	(170)	(170)	(179)	(170)	(170)	(170)	(170)	(170)
Total Shareholders' Equity	**3,152**	**2,944**	**3,153**	**3,109**	**2,915**	**2,889**	**3,204**	**3,154**	**3,131**	**3,094**	**3,253**	**3,254**	**3,109**	**3,154**	**3,254**	**3,455**	**3,738**	**4,126**
Liab. & Shareholders' Equity	**18,382**	**17,757**	**17,898**	**18,681**	**18,659**	**17,979**	**17,988**	**17,734**	**17,718**	**17,688**	**17,854**	**17,500**	**18,681**	**17,734**	**17,500**	**17,562**	**17,875**	**17,414**

Source: Company reports; Guggenheim Securities, LLC estimates.

DOMINION RESOURCES (D, BUY, $85 PT, $76.28)

Premium electric utility with upside potential from MLP and energy segment – It's all about Cove Point, cash accretion and cyclical market recovery

- **Reaffirming our BUY rating on D – A premium utility with strong cash flow generation and a diversified earnings mix: sum-of-the-parts should begin to reflect cash flow generation and cyclical aspects of energy segment.** D remains an execution story, with an optic created by some investors that growth is starting to slow – key bear argument. But, **we see a continued path to growth given management's recent acquisitions and slate of projects for its MLP as 2017E EPS is a blip in our trajectory.** Furthermore, we believe VEPCO remains one of the strongest utilities in the country with minimal ROE downside over the next couple of years. **As we look into 2017, we believe D should remain a key holding as strong cash flow generation begins to show value in sum-of-the-parts and valuation continues to see expansion with an expected cyclical recovery in energy.** Looking at D, it's all about cash flows, not earnings – valuation should begin to reflect this, in our view.
- **We are introducing estimates for 2019 and 2020 of $4.37/$4.54 versus street consensus of $4.52/$4.83.** This outlook captures Milestone at the current forwards with very little hedges – curves as of 12/22/16). We also assume the continued dropping of Cove Point Liquefaction into the MLP with the remaining 66% dropped in two dispositions in 1Q19 and 1Q20. The Atlantic Coast Pipeline and Supply Header come online as scheduled in 2H19. Additionally, we model 10% earned returns at VEPCO, which we believe is conservative, and 8% rate case growth with ~50% cap structure as well as the current generation riders etc.
- **Updating our 2016/2017/2018 EPS estimates to $3.78/$3.69/$4.19 versus consensus estimates of $3.79/$3.84/$4.20.** Our updated 2016 estimates account for dilution from share issuances. We have lower 2017 estimates year-over-year as we account for several hits to earnings including the roll off of Statoil (STO, NC, $18.97) contract with Cove Point, an extra outage at Millstone and lower ITC earnings. We assume a healthy jump in earnings from 2017 into 2018 with Cove Point coming online and a return to more normalized growth beyond 2018 through our trajectory.
- **Millstone hedging strategy should solidify for 2017, legislative outcome may guide the 2018, 2019 strategy** – D's hedging program still awaits further contracting, with management noting it will have to hedge up to about 80% as per rating agencies. D plans to have 80% of 2017 generation hedged by the end of January 2017. Also under consideration will be Connecticut legislation seeking to expand their RPS standard to a clean power standard that would include nuclear which would allow up to approximately 50% of Millstone to be included in the RPS auction. D will wait to see the final outcome on the legislative front before locking in contracts for '18 and beyond; this should be known sometime before May 2017. This is potential upside not embedded in our estimates.
- **Atlantic Coast Pipeline progressing with the Final EIS from FERC next major milestone.** We expect FERC to issue its Final Environmental impact statement in June 2017. Construction on ACP is then slated to begin upon receipt of the FERC certificate during 2H17. CP is in our estimates and a likely upsizing with laterals and compressors is not.

- **Valuation:** Our $85 price target is based on our sum-of-the-parts analysis comprised of 1) $32 from VEPCO applying a 17.5x P/E multiple to our 2018 utility EPS estimate of $1.85; 2) $6 from DM using a 5.0% target yield; 3) $5 from gas distribution using a 5x premium to our 15.5x regulated target multiple; 4) $40 from gas distribution using a 5x premium to our 15.5x regulated target multiple; 5) $2 from generation using a 7x EV/EBITDA multiple.

Guggenheim's D EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.91A	0.72A	1.03A	0.60A	3.26A	
2016E	0.88A	0.71A	1.14A	1.04E	3.78E	3.79E
Prior				*1.09E*	*3.83E*	
2017E	1.07E	0.89E	0.91E	0.83E	3.69E	3.84E
Prior	*0.96E*	*0.76E*	*1.13E*	*1.05E*	*3.89E*	
2018E	1.20E	1.03E	1.01E	0.95E	4.19E	4.20E
Prior	*1.07E*	*0.87E*	*1.23E*	*1.14E*	*4.32E*	
2019E	1.24E	1.06E	1.04E	1.03E	4.37E	4.52E
2020E	1.29E	1.10E	1.08E	1.06E	4.54E	4.83E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** Cove Point liquefaction project: We model 100% probability that the project is completed in 2018 without delays or cost overruns. Anything contrary to these assumptions can impact our valuation.

  Commodity risk: D's unregulated fleet (nuclear) still equates to a long gas call, with gas on the margin 55-65% of the time in the East. A drop in gas below what we model can equate to a contraction in quarks. Outside of the above-mentioned items, risks to achieving our price target for D 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.

  Lower spending outlook. Spending below our ~4.3B/year forecast at VEPCO can impact our assumptions for 4% EPS growth at VEPCO; 6% EPS growth at D consolidated.

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DOMINION RESOURCES

CONSOLIDATED FINANCIALS

$ in millions, unless otherwise noted

INCOME STATEMENT ($ millions)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Total Operating Revenue	**3,427**	**2,747**	**2,971**	**2,578**	**2,921**	**2,598**	**3,132**	**3,990**	**3,722**	**3,143**	**3,052**	**3,844**	**11,723**	**12,641**	**13,761**	**14,808**	**15,538**	**16,077**
Operating Expenses:																		
Commodity purchases (Electric fuel and purchased gas)	1,118	702	721	650	753	607	683	1,312	971	669	533	1,302	3,191	3,355	3,475	3,572	4,049	4,150
Purchased electric capacity	94	90	75	71	68	45	(6)	113	75	52	(5)	116	330	220	238	244	250	256
Other operations and maintenance	602	709	564	632	632	665	765	624	700	612	676	654	2,507	2,686	2,643	2,764	2,844	2,955
Depreciation, depletion and amortization	343	339	355	353	360	361	400	450	459	464	469	471	1,390	1,571	1,862	2,079	2,053	2,135
Net other expense / (income) incl. TOTI	132	78	122	70	107	67	82	202	168	142	149	169	402	458	628	639	554	558
Total Operating Expenses	**2,289**	**1,918**	**1,837**	**1,776**	**1,920**	**1,745**	**1,924**	**2,700**	**2,374**	**1,939**	**1,822**	**2,712**	**7,820**	**8,289**	**8,847**	**9,298**	**9,750**	**10,055**
EBITDA	**1,481**	**1,168**	**1,489**	**1,155**	**1,361**	**1,214**	**1,608**	**1,740**	**1,807**	**1,669**	**1,699**	**1,603**	**5,293**	**5,923**	**6,777**	**7,589**	**7,841**	**8,157**
EBIT	**1,138**	**829**	**1,134**	**802**	**1,001**	**853**	**1,208**	**1,290**	**1,349**	**1,205**	**1,230**	**1,132**	**3,903**	**4,352**	**4,915**	**5,511**	**5,788**	**6,022**
Total interest and related charges	223	221	230	227	224	239	250	365	375	372	373	375	901	1,078	1,496	1,604	1,551	1,515
Pretax income	915	608	904	575	777	614	958	925	974	833	856	756	3,002	3,274	3,419	3,907	4,237	4,506
Effective tax rate	36%	31%	34%	26%	25%	25%	24%	35%	35%	35%	36%	35%	32%	27%	35%	35%	35%	35%
Income tax expense (benefit)	327	190	305	150	198	152	230	320	338	295	305	263	972	900	1,201	1,364	1,484	1,579
Income including noncontrolling interests	588	418	599	425	579	462	728	606	636	537	552	493	2,030	2,375	2,217	2,543	2,754	2,927
Noncontrolling interests	4	5	6	9	7	10	38	-	-	-	-	-	24	55	-	20	84	131
Extraordinary items included in operating (after tax)	-	-	-	-	-	-	-	40	29	24	22	30	-	40	105	135	120	120
Reported GAAP Earnings	**584**	**413**	**593**	**416**	**572**	**452**	**690**	**646**	**665**	**561**	**573**	**523**	**2,006**	**2,360**	**2,322**	**2,657**	**2,789**	**2,916**
Income (loss) from disc ops	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Items excluded from operating earnings	(48)	16	18	(59)	(48)	(11)	26	-	-	-	-	-	(73)	(33)	-	-	-	-
Operating Earnings	**536**	**429**	**611**	**357**	**524**	**441**	**716**	**646**	**665**	**561**	**573**	**523**	**1,933**	**2,327**	**2,322**	**2,657**	**2,789**	**2,916**
Reported GAAP EPS	**$0.99**	**$0.70**	**$1.00**	**$0.70**	**$0.96**	**$0.73**	**$1.10**	**$1.04**	**$1.07**	**$0.89**	**$0.91**	**$0.83**	**$3.38**	**$3.83**	**$3.69**	**$4.19**	**$4.37**	**$4.54**
Operating EPS	**$0.91**	**$0.72**	**$1.03**	**$0.60**	**$0.88**	**$0.71**	**$1.14**	**$1.04**	**$1.07**	**$0.89**	**$0.91**	**$0.83**	**$3.26**	**$3.78**	**$3.69**	**$4.19**	**$4.37**	**$4.54**

Source: Company reports; Guggenheim Securities, LLC estimates.

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DOMINION RESOURCES

CONSOLIDATED FINANCIALS

$ in millions, unless otherwise noted

STATEMENT OF CASH FLOWS ($ millions)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Cash Flows From Operating Activities																		
Net income	540	418	599	366	531	462	728	646	665	561	573	523	1,923	2,367	2,322	2,678	2,874	3,047
Other Impairments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net realized and unrealized derivative (gains) losses.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation, depletion and amortization	414	408	428	419	424	429	472	511	540	546	551	553	1,669	1,836	2,189	2,409	2,383	2,465
Deferred income taxes and investment tax credits, net	277	122	304	151	131	144	206	(481)	0	0	0	0	854	0	0	0	0	0
Gain on sale of emissions allowances held for consumption	0	0	0	(123)	0	0	0	0	0	0	0	0	(123)	0	0	0	0	0
Other	(110)	21	(35)	181	(26)	(46)	(56)	0	0	0	0	0	57	(128)	0	0	0	0
Changes in operating assets and liabilities:																		
Accounts receivable	(65)	279	15	65	40	42	(63)	(19)	0	0	0	0	294	0	0	0	0	0
Inventories	148	(101)	(50)	(23)	44	(47)	(7)	10	0	0	0	0	(26)	0	0	0	0	0
Deferred fuel and purchased gas costs, net	(33)	61	42	24	35	79	(30)	(84)	0	0	0	0	94	0	0	0	0	0
Prepayments	0	47	(2)	(70)	0	55	16	(71)	0	0	0	0	(25)	0	0	0	0	0
Accounts payable	(85)	(88)	(49)	23	(37)	(55)	3	89	0	0	0	0	(199)	0	0	0	0	0
Accrued interest, payroll and taxes	(15)	(26)	28	(39)	68	(22)	159	(205)	0	0	0	0	(52)	0	0	0	0	0
Deferred revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Margin deposit assets and liabilities	111	75	19	32	(21)	8	14	(1)	0	0	0	0	237	0	0	0	0	0
Other operating assets and liabilities	(51)	(187)	(6)	16	3	(223)	(74)	294	0	0	0	0	(228)	0	0	0	0	0
Net cash provided by operating activities	**1,131**	**1,029**	**1,293**	**1,022**	**1,192**	**826**	**1,368**	**689**	**1,205**	**1,107**	**1,124**	**1,075**	**4,475**	**4,075**	**4,512**	**5,086**	**5,257**	**5,512**
Cash Flows From Investing Activities																		
Plant construction and other property additions (CAPEX)	(1,014)	(1,356)	(1,262)	(1,943)	(1,497)	(1,663)	(1,376)	(1,008)	(1,076)	(1,076)	(1,076)	(1,076)	(5,575)	(5,544)	(4,302)	(3,923)	(3,385)	(3,385)
Additions to gas and oil properties, including acquisitions	(495)	495	0	0	0	0	(4,393)	0	0	0	0	0	0	(4,393)	0	0	0	0
Proceeds from sale of gas and oil properties	0	0	80	(80)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Acquisition of businesses/Purchase of Securities	0	0	(497)	497	0	0	0		0	0	0	0	0	0	0	0	0	0
Proceeds from sale of securities	337	243	357	(937)	368	341	300	0	0	0	0	0	0	1,009	0	0	0	0
Purchases of securities	(304)	(249)	(368)	921	(393)	(359)	(313)	0	0	0	0	0	0	(1,065)	0	0	0	0
Proceeds from sale of emissions allowances	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net proceeds from sale of other assets and investments	27	(726)	421	278	0	5	5	0	0	0	0	0	0	10	0	0	0	0
Advances to lessor for project under construction	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	(50)	8	3	(889)	(3)	(524)	473	0	0	0	0	0	(928)	(54)	0	2,072	2,114	2,156
Net cash used in investing activities	**(1,499)**	**(1,585)**	**(1,266)**	**(2,153)**	**(1,525)**	**(2,200)**	**(5,304)**	**(1,008)**	**(1,076)**	**(1,076)**	**(1,076)**	**(1,076)**	**(6,503)**	**(10,037)**	**(4,302)**	**(1,851)**	**(1,271)**	**(1,229)**
Cash Flows From Financing Activities																		
Issuance (repayment) of short-term debt, net	425	(578)	(67)	954	(581)	(91)	1,159	0	0	0	0	0	734	487	0	0	0	0
Net change in long-term debt	(3)	1,203	387	1,375	754	1,176	3,200	1,597	102	(393)	107	107	2,962	6,727	(79)	649	543	415
Repayment of long-term debt	0	0	0	0	0	0	0						0					
Issuance of common stock	295	352	70	69	75	1,383	621	150	150	1,090	150	150	786	2,229	1,540	600	600	600
Repurchase of common stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Common dividend payments	(381)	(384)	(385)	(386)	(417)	(432)	(438)	(435)	(469)	(474)	(475)	(476)	(1,536)	(1,722)	(1,894)	(2,078)	(2,275)	(2,491)
Other	(11)	(41)	(65)	(512)	113	(503)	(732)	0	0	0	0	0	(629)	(1,122)	0	0	0	0
Net cash used in financing activities	**325**	**552**	**(60)**	**1,500**	**(56)**	**1,533**	**3,810**	**1,312**	**(217)**	**222**	**(218)**	**(219)**	**2,317**	**6,599**	**(433)**	**(830)**	**(1,132)**	**(1,477)**
Net change in cash and cash equivalents	**(43)**	**(4)**	**(33)**	**369**	**(389)**	**159**	**(126)**	**992**	**(87)**	**254**	**(170)**	**(219)**	**289**	**636**	**(223)**	**541**	**951**	**866**
Cash and cash equivalents at Beginning of period	318	275	271	238	607	218	377	251	1,243	1,156	1,410	1,240	318	607	1,243	1,021	1,562	2,513
Cash and cash equivalents at the end of period	**275**	**271**	**238**	**607**	**218**	**377**	**251**	**1,243**	**1,156**	**1,410**	**1,240**	**1,021**	**607**	**1,243**	**1,021**	**1,562**	**2,513**	**3,379**

Source: Company reports; Guggenheim Securities, LLC estimates.

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DOMINION RESOURCES

CONSOLIDATED FINANCIALS

$ in millions, unless otherwise noted

BALANCE SHEET ($ millions)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
ASSETS																		
Current Assets:																		
Cash and cash equivalents	275	271	238	607	218	377	251	1,243	1,156	1,410	1,240	1,021	607	1,243	1,021	1,562	2,513	3,379
Accounts receivable:																		
Customers	1,589	1,334	1,289	1,200	1,175	1,140	1,259	1,278	1,278	1,278	1,278	1,278	1,200	1,278	1,278	1,278	1,278	1,278
Other receivables	113	106	144	169	153	139	133	133	133	133	133	133	169	133	133	133	133	133
Inventories:																		
Materials and supplies	1,227	1,260	1,310	1,348	1,304	1,351	1,516	1,506	1,506	1,506	1,506	1,506	1,348	1,506	1,506	1,506	1,506	1,506
Fossil fuel	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gas stored	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Derivative assets	0	0	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
Assets held for sale	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Prepayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	1,849	1,481	1,142	865	861	1,136	640	346	346	346	346	346	865	346	346	346	346	346
Total current assets	**5,053**	**4,452**	**4,123**	**4,189**	**3,711**	**4,143**	**3,799**	**4,506**	**4,419**	**4,673**	**4,503**	**4,284**	**4,189**	**4,506**	**4,284**	**4,825**	**5,776**	**6,642**
Investments																		
Nuclear decommissioning trust funds	4,244	4,208	4,033	4,183	4,239	4,331	4,427	4,427	4,427	4,427	4,427	4,427	4,183	4,427	4,427	4,427	4,427	4,427
Available for sale securities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans receivable, net	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	1,373	1,377	1,591	1,591	1,614	1,649	1,797	1,797	1,797	1,797	1,797	1,797	1,591	1,797	1,797	1,797	1,797	1,797
Total investments	**5,617**	**5,585**	**5,624**	**5,774**	**5,853**	**5,980**	**6,224**	**6,224**	**6,224**	**6,224**	**6,224**	**6,224**	**5,774**	**6,224**	**6,224**	**6,224**	**6,224**	**6,224**
Property, Plant and Equipment																		
Property, Plant and Equipment	52,720	54,448	55,848	57,776	59,154	60,490	68,282	69,290	70,366	71,441	72,517	73,592	57,776	69,290	73,592	77,515	80,900	84,285
Accumulated depreciation, depletion and amortization	(15,494)	(15,780)	(16,067)	(16,222)	(16,531)	(16,808)	(19,394)	(19,905)	(20,445)	(20,991)	(21,542)	(22,094)	(16,222)	(19,905)	(22,094)	(24,503)	(26,886)	(29,351)
Total property, plant and equipment, net	**37,226**	**38,668**	**39,781**	**41,554**	**42,623**	**43,682**	**48,888**	**49,385**	**49,920**	**50,450**	**50,975**	**51,498**	**41,554**	**49,385**	**51,498**	**53,012**	**54,014**	**54,934**
Deferred Charges and Other Assets																		
Goodwill	3,294	3,294	3,294	3,294	3,294	3,294	6,405	6,405	6,405	6,405	6,405	6,405	3,294	6,405	6,405	6,405	6,405	6,405
Intangible assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Prepaid pension cost	0	(47)	1,025	943	978	1,017	1,095	1,166	1,166	1,166	1,166	1,166	943	1,166	1,166	1,166	1,166	1,166
Derivative assets	(111)	(186)	0	0	0	0	0	1	1	1	1	1	0	1	1	1	1	1
Regulatory assets	1,665	1,625	1,593	1,865	1,977	2,150	2,143	2,143	2,143	2,143	2,143	2,143	1,865	2,143	2,143	2,143	2,143	2,143
Other	2,412	2,551	1,159	1,029	1,069	1,103	1,045	1,045	1,045	1,045	1,045	1,045	1,029	1,045	1,045	(1,027)	(3,141)	(5,297)
Total deferred charges and other assets	**7,260**	**7,237**	**7,071**	**7,131**	**7,318**	**7,564**	**10,688**	**10,760**	**10,760**	**10,760**	**10,760**	**10,760**	**7,131**	**10,760**	**10,760**	**8,688**	**6,574**	**4,418**
TOTAL ASSETS	**55,156**	**55,942**	**56,599**	**58,648**	**59,505**	**61,369**	**69,599**	**70,875**	**71,323**	**72,107**	**72,462**	**72,765**	**58,648**	**70,875**	**72,765**	**72,748**	**72,587**	**72,217**

Source: Company reports; Guggenheim Securities, LLC estimates.

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DOMINION RESOURCES

CONSOLIDATED FINANCIALS

$ in millions, unless otherwise noted

BALANCE SHEET ($ millions)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
LIABILITIES AND SHAREHOLDERS' EQUITY																		
Current Liabilities:																		
Short-term debt	5,022	3,932	4,083	5,334	4,802	4,785	6,028	6,028	6,028	6,028	6,028	6,028	5,334	6,028	6,028	6,028	6,028	6,028
Accounts Payable	945	842	705	726	670	589	685	774	774	774	774	774	726	774	774	774	774	774
Accrued interest, payroll and taxes													0	0	0	0	0	0
Derivative liabilities	600	527	553	515	583	561	800	595	595	595	595	595	515	595	595	595	595	595
Liabilities held for sale	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	1,454	1,435	1,405	1,544	1,463	1,331	1,514	1,430	1,430	1,430	1,430	1,430	1,544	1,430	1,430	1,430	1,430	1,430
Total current liabilities	**8,021**	**6,736**	**6,746**	**8,119**	**7,518**	**7,266**	**9,027**	**8,827**	**8,827**	**8,827**	**8,827**	**8,827**	**8,119**	**8,827**	**8,827**	**8,827**	**8,827**	**8,827**
Long-Term Debt																		
Long-term debt	17,896	19,597	19,790	20,048	20,807	21,406	23,356	24,953	25,054	24,661	24,767	24,874	20,048	24,953	24,874	23,658	22,298	20,773
Junior subordinated notes payable:																		
Affiliates	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	3,457	3,457	3,455	3,420	3,379	3,381	5,351	5,351	5,351	5,351	5,351	5,351	3,420	5,351	5,351	5,351	5,351	5,351
Total long-term debt	**21,353**	**23,054**	**23,245**	**23,468**	**24,186**	**24,787**	**28,707**	**30,304**	**30,405**	**30,012**	**30,118**	**30,225**	**23,468**	**30,304**	**30,225**	**29,009**	**27,649**	**26,124**
Deferred Credits and Other Liabilities																		
Deferred income taxes and investment tax credits	7,577	7,573	7,551	7,414	7,536	7,666	8,675	8,194	8,194	8,194	8,194	8,194	7,414	8,194	8,194	8,194	8,194	8,194
Asset retirement obligations	1,645	1,812	1,824	1,887	1,916	1,941	2,153	2,153	2,153	2,153	2,153	2,153	1,887	2,153	2,153	2,153	2,153	2,153
Derivative liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Regulatory liabilities	2,119	2,130	2,173	2,285	2,354	2,318	2,597	2,597	2,597	2,597	2,597	2,597	2,285	2,597	2,597	2,597	2,597	2,597
Other	2,025	1,782	1,784	1,873	1,980	1,939	2,248	2,248	2,248	2,248	2,248	2,248	1,873	2,248	2,248	2,248	2,248	2,248
Total deferred credits and other liabilities	**13,366**	**13,297**	**13,332**	**13,459**	**13,786**	**13,864**	**15,673**	**15,192**	**15,192**	**15,192**	**15,192**	**15,192**	**13,459**	**15,192**	**15,192**	**15,192**	**15,192**	**15,192**
Total liabilities	**42,740**	**43,087**	**43,323**	**45,046**	**45,490**	**45,917**	**53,407**	**54,323**	**54,424**	**54,031**	**54,137**	**54,244**	**45,046**	**54,323**	**54,244**	**53,028**	**51,668**	**50,143**
Noncontrolling Interest	405	433	684	938	1,135	1,200	1,234	1,234	1,234	1,234	1,234	1,234	938	1,234	1,234	1,234	1,234	1,234
Subsidiary Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Common Shareholders' Equity																		
Common stock-no par	6,170	6,530	6,606	6,680	6,778	8,160	8,592	8,742	8,892	9,982	10,132	10,282	6,680	8,742	10,282	10,882	11,482	12,082
Other paid-in capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retained earnings	6,250	6,278	6,487	6,458	6,565	6,585	6,837	7,048	7,244	7,331	7,429	7,476	6,458	7,048	7,476	8,075	8,674	9,230
Accumulated other comprehensive income (loss)	(409)	(386)	(501)	(474)	(463)	(493)	(471)	(471)	(471)	(471)	(471)	(471)	(474)	(471)	(471)	(471)	(471)	(471)
Total common shareholders' equity	**12,011**	**12,422**	**12,592**	**12,664**	**12,880**	**14,252**	**14,958**	**15,319**	**15,665**	**16,842**	**17,090**	**17,287**	**12,664**	**15,319**	**17,287**	**18,486**	**19,685**	**20,841**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	55,156	55,942	56,599	58,648	59,505	61,369	69,599	70,875	71,323	72,107	72,462	72,765	58,648	70,875	72,765	72,748	72,587	72,217

Source: Company reports; Guggenheim Securities, LLC estimates.

DTE ENERGY (DTE, BUY, $106 PT, $98.60)

Post Michigan Energy policy, DTE now remains a block and tackle story with ample growth prospects at Midstream.

- **Reaffirming our BUY rating and raising our price target to $106 from $104.** We expect DTE to meet or exceed its growth targets driven by capital investment outlays in the regulated utilities and execution of midstream initiatives for additive growth. Energy legislation passage in MI, which was merely upside, helps long-term generation planning, removes overhangs on Retail Open Access (ROA), and is constructive for utilities in general – good execution by Management to get it passed in the 11th hour. **Shares currently trade in line with regulated electric utilities on consensus '18 earnings, which we think presents good value with DTE having higher growth prospects, a constructive regulatory backdrop, an ever-growing midstream presence and leverage to more cyclical aspects of the energy value chain.** We reiterate our Buy rating with shares continuing to present an attractive return - one of the stocks to own in the current rate cycle given the fast-growing cyclical aspect of its energy business.
- **We are introducing estimates for 2019 and 2020 of $6.07/$6.46 versus street consensus of $6.02/$6.29.** This new outlook captures the growth of Gas Storage & Pipeline given the expected 2018 in-service of Nexus Pipeline among other items including the 0.2BCf/d expansion of the Millennium pipeline in 2H18, contribution from the recent AGS/SGG midstream acquisition, distribution spend, new gas assets etc. DTE has no shortage of growth opportunities but rate inflation remains the governing concern.
- **Updating our 2016/2017/2018 EPS estimates to $5.30/$5.39/$5.77 versus prior estimates of $5.37/$5.27/$5.66; in line with consensus estimates of $5.27/5.33/$5.70.** We adjust '16 to account for lower-than-expected sales at P&IP and increased parent drag. Throughout the forecast period, we arrive at ~5% annual earnings growth at DTE Electric and 7% gas LDC growth, by modeling ROEs averaging 10% at electric and 10.5% at gas through '17/'18/'19. Our estimates also comprise of ~13% non-utility earnings growth mostly at Gas Storage & Pipeline through its recent acquisition, NEXUS and various expansion projects. We continue to assume very modest contribution from energy trading. **See models further down**.
- **Key catalyst to watch for in 2017: NEXUS pipeline development milestones.** We anticipate a final ruling from FERC in 1Q17 on DTE's Nexus pipeline, after which, construction will proceed – we continue to forecast NEXUS meeting the expected in service of 4Q17 as we do not expect any delays. We model $0.14/share contribution from NEXUS in 2018. Financing assumptions comprise of ST capacity and unused credit facilities.
- **Management's execution of MI Energy Policy demonstrates correct team in place – focus now can finally turn to core business.** MI wasn't a major driver of the story, but certainly a topic of interest with investors and an incremental positive for DTE. The capacity charge for ROA customers should curtail customer switching, and is positive support for new generation as well; the IRPs required from each regulated utility within 2 years will not only support reliability, but also supports DTE growth as it provides a more constructive process through which new generation can be developed. Not a major driver for DTE, but a job well done navigating the process and seeing this through before the end of the year with a constructive outcome - we continue to like the story.
- **Valuation:** We arrive at our $106 PT utilizing a sum-of-the-parts analysis comprised of: $56 for electric; $20 for gas; $12 for Power & Industrial Projects; $23 for

Midstream; zero value for Energy Trading; ($5) for corporate drag. Our $106 price target implies 18.4x on 2018 earnings, which, in our view, is conservative given DTE's exposure to gas midstream among other items.

Guggenheim's DTE EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	FC Cons
2015A	**1.65A**	**0.76A**	**1.40A**	**1.05A**	**4.85A**	
2016E	1.52E	0.98A	1.97A	0.83E	5.30E	5.27E
Prior				*0.91E*	*5.37E*	
2017E	1.36E	1.12E	1.79E	1.11E	5.39E	5.33E
Prior	*1.27E*	*1.10E*	*1.48E*	*1.42E*	*5.27E*	
2018E	1.49E	1.21E	1.90E	1.18E	5.77E	5.70E
Prior	*1.35E*	*1.20E*	*1.58E*	*1.53E*	*5.66E*	
2019E	1.53E	1.27E	2.02E	1.24E	6.07E	6.02E
2020E	1.62E	1.36E	2.16E	1.32E	6.46E	6.29E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** DTE risks 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. Decline in allowed ROE. Every 50bps change in ROE is approximately $0.20/share in EPS. Lower spending outlook. Forecasted spending below our ~$2B/year estimate can impact our assumptions for 5% EPS growth.

GUGGENHEIM

DTE MODEL

CONSOLIDATED FINANCIALS

INCOME STATEMENT

	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016	1QE	2QE	3QE	4QE	2017	2018	2019	2020
Total Operating Revenues	2,984	2,268	2,598	2,487	10,337	2,566	2,262	2,928	2,786	10,542	2,705	2,416	2,994	2,877	10,993	11,248	11,478	11,713
Operating Expenses																		
Fuel & Purchased Power	1,698	942	1,053	1,329	5,022	1,341	1,131	1,537	1,234	5,243	1,193	948	1,269	1,249	4,660	4,718	4,778	4,840
Operation & Maintenance	572	839	863	664	2,938	562	588	608	944	2,702	741	770	841	944	3,295	3,291	3,287	3,283
PEP / DTE2 Costs / (Savings)	(46)	(46)	(46)	(46)	(184)	(46)	(46)	(46)	(46)	(184)	(46)	(46)	(46)	(46)	(184)	(184)	(184)	(184)
Depreciation & Amortization	165	176	162	193	696	209	243	210	218	880	222	225	228	232	907	963	1,018	1,072
Securitization Amortization	44	44	34	34	156	20	-	20	20	59	20	20	15	15	70	36	32	16
Synfuel D&A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes Other than Income	100	91	91	82	364	99	91	92	87	369	94	88	86	91	359	371	383	396
Asset (Gains) / Losses, net	(10)	18	1	97	106	-	(1)	-	-	(1)	-	-	-	-	-	-	-	-
Total Operating Expenses	2,523	2,064	2,158	2,353	9,098	2,185	2,006	2,421	2,457	9,069	2,224	2,005	2,394	2,485	9,107	9,195	9,314	9,424
Gross Margin	1,286	1,326	1,545	1,158	5,315	1,225	1,131	1,391	1,552	5,299	1,512	1,468	1,725	1,628	6,333	6,529	6,700	6,873
Operating Income	461	204	440	134	1,239	381	256	507	329	1,473	482	411	601	392	1,886	2,053	2,164	2,290
EBITDA	626	380	602	327	1,935	590	499	717	547	2,353	704	636	829	624	2,793	3,016	3,182	3,362
Other (Income) / Deductions																		
Interest Expense	107	112	114	105	438	112	113	113	135	472	120	122	124	125	491	555	585	604
Interest Expense (Securitization)	3	3	2	4	12	1	1	1	1	5	1	1	1	1	5	2	2	1
Interest Income	(4)	(2)	(4)	(3)	(13)	(11)	(3)	(3)	(3)	(20)	(3)	(4)	(2)	(3)	(12)	(12)	(12)	(12)
Other Income	(51)	(49)	(55)	(54)	(209)	(52)	(57)	(51)	(43)	(203)	(22)	(28)	(28)	(48)	(126)	(126)	(126)	(126)
Other Expenses	10	9	17	25	61	8	7	12	10	37	10	10	10	10	40	40	40	40
Total Other (Income) / Deductions	65	73	74	77	289	58	61	72	100	291	106	101	105	85	398	460	489	507
Weighted Interest Rate (%)	4.7%	4.8%	4.8%	4.4%	4.7%	4.6%	4.7%	4.6%	4.5%	4.6%	3.9%	3.9%	3.9%	3.8%	3.9%	4.1%	4.0%	3.9%
Minority Interests	1	(4)	(1)	(3)	(7)	(7)	(7)	(13)	-	(27)	-	-	-	-	-	-	-	-
Income Before Income Taxes	395	135	367	60	957	330	202	448	229	1,209	375	310	495	307	1,488	1,593	1,675	1,782
Effective Tax Rate (%)	30.9%	19.3%	27.8%	(33.3%)	24.0%	25.2%	24.8%	24.6%	35.0%	26.7%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Income Tax Provision	122	26	102	(20)	230	83	50	110	80	323	131	109	173	107	521	558	586	624
Other/Tax Credits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income Tax Provision	122	26	102	(20)	230	83	50	110	80	323	131	109	173	107	521	558	586	624
Income Before Accounting Change	273	109	265	80	727	247	152	338	149	886	244	202	322	200	967	1,036	1,089	1,159
Discontinued Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cum. Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reported Earnings	273	109	265	80	727	247	152	338	149	886	244	202	322	200	967	1,036	1,089	1,159
Adjustments	21.4	27.0	(14.4)	108.0	142	26.0	24.0	15.0	-	65	-	-	-	-	-	-	-	-
Operating Earnings	294	136	251	188	869	273	176	353	149	951	244	202	322	200	967	1,036	1,089	1,159
Reported EPS	$1.53	$0.61	$1.48	$0.45	$4.06	$1.38	$0.85	$1.88	$0.83	$4.94	$1.36	$1.12	$1.79	$1.11	$5.39	$5.77	$6.07	$6.46
Adjustments	$0.12	$0.15	($0.08)	$0.60	$0.79	$0.14	$0.13	$0.08	$0.00	$0.36	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Operating EPS	$1.65	$0.76	$1.40	$1.05	$4.85	$1.52	$0.98	$1.97	$0.83	$5.30	$1.36	$1.12	$1.79	$1.11	$5.39	$5.77	$6.07	$6.46

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

DTE MODEL

CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT

	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QE	4QE	2016	1QE	2QE	3QE	4QE	2017	2018	2019	2020
Net Income	274	105	264	77	720	240	145	325	149	859	244	202	322	200	967	1,036	1,089	1,159
Depreciation, Depl. & Amort.	209	253	163	227	852	229	243	230	238	940	242	245	244	247	977	999	1,050	1,088
Deferred Income Taxes	84	64	103	(14)	237	80	54	110	20	264	20	20	20	20	80	80	80	80
Gain on Sale of Synfuel	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on Sale of ITC/Other, net	(10)	18	1	98	107	-	-	-	-	-	-	-	-	-	-	-	-	-
Partners' Share of Synfuel Losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restructuring Charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contributions from Synfuel Partners	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cum. Effect of Accounting Changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Receivable, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued Unbilled Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued GCR Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued / Prepaid Pensions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued PSCR Refund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange Gas Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income Taxes Payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
RM&T Activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gas Inventory Equalization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Postretirement Obligation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	1	1	1	1	1	1	5	5	5	5
Other Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Changes in Assets & Liab.	190	(7)	(243)	55	(5)	192	89	(170)	1	112	1	1	1	1	5	5	5	5
Net Cash from Operating	**747**	**433**	**288**	**443**	**1,911**	**741**	**531**	**495**	**408**	**2,175**	**507**	**468**	**587**	**468**	**2,029**	**2,119**	**2,223**	**2,332**
Investing Activities																		
PP&E Expenditures – Utility	(366)	(415)	(458)	(578)	(1,817)	(394)	(403)	(470)	(712)	(1,979)	(495)	(495)	(495)	(495)	(1,980)	(2,180)	(1,880)	(2,030)
PP&E Expenditures – Non-Utility	(39)	(75)	(48)	(41)	(203)	(30)	(34)	(11)	(545)	(620)	(100)	(100)	(100)	(100)	(400)	(400)	(400)	(400)
Acquisitions, net of Cash	(240)	-	-	(1)	(241)	-	-	-	(1,200)	(1,200)	-	-	-	-	-	-	-	-
Proceeds from Synfuel Projects	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Sale of ITC/Other	13	2	-	1	16	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted Cash	96	3	-	(2)	97	-	1	1	-	2	-	-	-	-	-	-	-	-
Note Receivable from Affiliate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Nuclear Decom	246	194	187	258	885	260	481	394	-	1,135	-	-	-	-	-	-	-	-
Investments in Nuclear Decom	(250)	(196)	(192)	(260)	(898)	(262)	(482)	(396)	-	(1,140)	-	-	-	-	-	-	-	-
Other Investments	(16)	7	(25)	(9)	(43)	(11)	(64)	(83)	-	(158)	-	-	-	-	-	-	-	-
Net Cash Used for Investing	**(556)**	**(480)**	**(536)**	**(632)**	**(2,204)**	**(437)**	**(501)**	**(565)**	**(2,457)**	**(3,960)**	**(595)**	**(595)**	**(595)**	**(595)**	**(2,380)**	**(2,580)**	**(2,280)**	**(2,430)**
Capital Contribution by Parent	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends on Common Stock	(122)	(124)	(124)	(131)	(501)	(131)	(131)	(131)	(138)	(531)	(148)	(148)	(148)	(148)	(592)	(622)	(653)	(685)
Free Cash Flow After Dividends	69	(171)	(372)	(320)	(794)	173	(101)	(201)	(2,187)	(2,316)	(236)	(275)	(156)	(275)	(943)	(1,083)	(709)	(783)
Pay-Out Ratio (%)	44.5%	118.1%	47.0%	170.1%	69.6%	54.6%	90.3%	40.3%	92.6%	61.8%	60.7%	73.4%	46.0%	74.2%	61.2%	60.0%	60.0%	59.2%
Financing Activities																		
Issuance of Long-Term Debt	495	298	163	-	956	-	588	58	2,150	2,796	450	150	300	175	1,075	1,190	940	885
Redemption of Long-Term Debt	(117)	(1)	(142)	(26)	(286)	(11)	(302)	(9)	15	(307)	(70)	-	-	(20)	(90)	(90)	(90)	(90)
Redemption of Securitized Debt		-	-	-	-		-	(59)	79	20	-	-	(18)	-	(18)	(26)	(8)	(11)
Short-Term Borrowings, net	(398)	-	185	314	101	(134)	(190)	235	-	(89)	-	-	-	-	-	-	-	-
Issuance of Common Stock	9	-	-	-	9	-	-	-	-	-	-	-	-	-	-	-	-	-
Repurchase of Common Stock	-	-	-	-	-	(33)	-	-	-	(33)	-	-	-	-	-	-	-	-
Other	(7)	5	3	2	3	3	2	10	-	15	-	-	-	-	-	-	-	-
Net Cash Used for Financing	**(18)**	**302**	**209**	**290**	**783**	**(175)**	**98**	**235**	**2,244**	**2,402**	**380**	**150**	**282**	**155**	**967**	**1,074**	**842**	**784**
Cash and Equivalents Beginning of Period	48	99	230	67	48	37	35	32	66	37	123	267	142	268	123	147	139	272
Net Increase in Cash & Equivalents	51	131	(163)	(30)	(11)	(2)	(3)	34	57	86	144	(125)	126	(120)	24	(8)	132	0
Cash and Equivalents End of Period	**99**	**230**	**67**	**37**	**37**	**35**	**32**	**66**	**123**	**123**	**267**	**142**	**268**	**147**	**147**	**139**	**272**	**272**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

DTE MODEL

CONSOLIDATED FINANCIALS

BALANCE SHEET

Consolidated Assets	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QE	4QE	2016	1QE	2QE	3QE	4QE	2017	2018	2019	2020
Current Assets																		
Cash & Equivalents	99	230	67	37	37	35	32	66	123	123	267	142	268	147	147	139	272	272
Restricted cash	24	21	21	23	23	23	22	21	21	21	21	21	21	21	21	21	21	21
Accounts Receivable	-	-	-	-		-	-	-	-		-	-	-	-				
Customer	1,534	1,251	1,242	1,276	1,276	1,185	1,180	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250
Accrued Unbilled Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued PSCR / Gas Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	73	113	79	72	72	80	82	87	87	87	87	87	87	87	87	87	87	87
Inventories	-	-	-	-		-	-	-	-		-	-	-	-				
Fuel & Gas	333	423	533	480	480	351	385	467	467	467	467	467	467	467	467	467	467	467
Materials & Supplies	300	308	307	323	323	309	332	326	326	326	326	326	326	326	326	326	326	326
Deferred Income Taxes	72	72	72	72	72	72	82	82	82	82	82	82	82	82	82	82	82	82
Assets from RM&T Activities	74	89	90	129	129	109	53	56	56	56	56	56	56	56	56	56	56	56
Gas Customer Choice Def. Asset	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Note Receivable from Affiliate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	279	184	289	163	163	198	90	240	239	239	237	236	235	234	234	229	224	219
Total Current Assets	**2,788**	**2,691**	**2,700**	**2,575**	**2,575**	**2,362**	**2,258**	**2,595**	**2,651**	**2,651**	**2,793**	**2,667**	**2,792**	**2,670**	**2,670**	**2,657**	**2,784**	**2,779**
Investments																		
Nuclear Decom Trust Funds	1,262	1,267	1,199	1,236	1,236	1,246	1,275	1,321	1,321	1,321	1,321	1,321	1,321	1,321	1,321	1,321	1,321	1,321
Other	649	654	684	700	700	733	826	905	905	905	905	905	905	905	905	905	905	905
Total Investments	**1,911**	**1,921**	**1,883**	**1,936**	**1,936**	**1,979**	**2,101**	**2,226**	**2,226**	**2,226**	**2,226**	**2,226**	**2,226**	**2,226**	**2,226**	**2,226**	**2,226**	**2,226**
Property																		
Property, Plant & Equipment	27,124	27,579	28,014	28,121	28,121	28,273	28,371	28,748	31,205	31,205	31,800	32,395	32,990	33,585	33,585	36,165	38,445	40,875
Less Accumulated DD&A	(9,889)	(10,003)	(10,147)	(10,087)	(10,087)	(10,146)	(10,076)	(10,198)	(10,436)	(10,436)	(10,677)	(10,922)	(11,166)	(11,413)	(11,413)	(12,412)	(13,461)	(14,550)
Net PP&E	**17,235**	**17,576**	**17,867**	**18,034**	**18,034**	**18,127**	**18,295**	**18,550**	**20,769**	**20,769**	**21,123**	**21,473**	**21,824**	**22,172**	**22,172**	**23,753**	**24,984**	**26,325**
Other Assets																		
Goodwill	2,018	2,018	2,018	2,018	2,018	2,018	2,018	2,018	2,018	2,018	2,018	2,018	2,018	2,018	2,018	2,018	2,018	2,018
Regulatory Assets	3,643	3,688	3,719	3,692	3,692	3,699	3,729	3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686	3,686
Securitized Regulatory Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible Assets	100	90	89	89	89	90	97	91	91	91	91	91	91	91	91	91	91	91
Assets from RM&T Activities	40	36	48	54	54	53	35	46	46	46	46	46	46	46	46	46	46	46
Prepaid Pension Assets	12	52	62	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	321	278	268	264	264	236	236	250	250	250	250	250	250	250	250	250	250	250
Total Other Assets	**6,134**	**6,162**	**6,204**	**6,117**	**6,117**	**6,096**	**6,115**	**6,091**	**6,091**	**6,091**	**6,091**	**6,091**	**6,091**	**6,091**	**6,091**	**6,091**	**6,091**	**6,091**
Total Assets	**28,068**	**28,350**	**28,654**	**28,662**	**28,662**	**28,564**	**28,769**	**29,462**	**31,737**	**31,737**	**32,233**	**32,457**	**32,933**	**33,159**	**33,159**	**34,727**	**36,085**	**37,422**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

DTE MODEL

CONSOLIDATED FINANCIALS

BALANCE SHEET

	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016	1QE	2QE	3QE	4QE	2017	2018	2019	2020
Consolidated Liabilities and Equity																		
Current Liabilities																		
Accounts Payable	825	848	835	809	809	649	745	813	813	813	813	813	813	813	813	813	813	813
Accrued Interest	116	91	119	89	89	119	91	115	115	115	115	115	115	115	115	115	115	115
Dividends Payable	124	255	131	131	131	131	269	138	138	138	138	138	138	138	138	138	138	138
Accrued Payroll	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short-Term Borrowings	-	-	185	499	499	365	175	410	410	410	410	410	410	410	410	410	410	410
Gas Inventory Equalization	130	56	-	-	-	87	-	-	-	-	-	-	-	-	-	-	-	-
Accrued PSCR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cur. Port. of LTD, incl. Cap. Leases	166	467	468	473	473	462	165	15	15	15	15	15	15	15	15	15	15	15
Liabilities from RM&T Activities	58	58	58	57	57	67	47	85	85	85	85	85	85	85	85	85	85	85
Other	420	457	477	470	470	329	391	393	393	393	393	393	393	393	393	393	393	393
Total Current Liabilities	**1,839**	**2,232**	**2,273**	**2,528**	**2,528**	**2,209**	**1,883**	**1,969**	**1,969**	**1,969**	**1,969**	**1,969**	**1,969**	**1,969**	**1,969**	**1,969**	**1,969**	**1,969**
Other Liabilities																		
Deferred Income Taxes	3,858	3,914	4,022	3,923	3,923	4,006	4,026	4,140	4,160	4,160	4,180	4,200	4,220	4,240	4,240	4,320	4,400	4,480
Regulatory Liabilities	665	638	598	569	569	585	572	552	552	552	552	552	552	552	552	552	552	552
Asset Retirement Obligations	2,022	2,157	2,180	2,194	2,194	2,227	2,238	2,268	2,268	2,268	2,268	2,268	2,268	2,268	2,268	2,268	2,268	2,268
Unamortized Inv. Tax Credit	52	50	50	62	62	60	93	89	89	89	89	89	89	89	89	89	89	89
Liabilities from RM&T Activities	23	22	27	86	86	96	94	99	99	99	99	99	99	99	99	99	99	99
Liab. from Trans. & Stor. Contracts	1,254	1,254	1,254	1,254	1,254	1,254	1,254	1,254	1,254	1,254	1,254	1,254	1,254	1,254	1,254	1,254	1,254	1,254
Accrued Pension Liability	1,282	1,184	1,120	1,133	1,133	1,130	1,136	1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132	1,132
Deferred Gains from Asset Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Minority Interest	13	18	21	23	23	23	21	19	19	19	19	19	19	19	19	19	19	19
Nuclear Decom	184	184	174	177	177	179	184	195	195	195	195	195	195	195	195	195	195	195
Other	(640)	(677)	(733)	(819)	(819)	(850)	(853)	(863)	(863)	(863)	(863)	(863)	(863)	(863)	(863)	(863)	(863)	(863)
Total Other Liabilities	**8,713**	**8,744**	**8,713**	**8,602**	**8,602**	**8,710**	**8,765**	**8,885**	**8,905**	**8,905**	**8,925**	**8,945**	**8,965**	**8,985**	**8,985**	**9,065**	**9,145**	**9,225**
Long-Term Debt, net of current																		
Mortgage Bonds, Notes & Other	8,348	8,346	8,368	8,265	8,265	8,266	8,551	8,691	10,856	10,856	11,236	11,386	11,686	11,841	11,841	12,941	13,791	14,586
Securitization Bonds	-	-	-	-	-	-	-	-	79	79	79	79	61	61	61	36	27	16
Equity-Linked Securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trust Preferred-Linked Securities	480	480	480	480	480	480	780	780	780	780	780	780	780	780	780	780	780	780
Capital Lease Obligations	10	9	8	15	15	12	12	7	7	7	7	7	7	7	7	7	7	7
Total Long-Term Debt	**8,838**	**8,835**	**8,856**	**8,760**	**8,760**	**8,758**	**9,343**	**9,478**	**11,722**	**11,722**	**12,102**	**12,252**	**12,534**	**12,689**	**12,689**	**13,764**	**14,605**	**15,389**
Shareholders' Equity																		
Common Stock	4,093	4,110	4,117	4,123	4,123	4,118	4,129	4,137	4,137	4,137	4,137	4,137	4,137	4,137	4,137	4,137	4,137	4,137
Retained Earnings	4,727	4,580	4,845	4,794	4,794	4,909	4,791	5,131	5,142	5,142	5,238	5,292	5,465	5,517	5,517	5,931	6,367	6,840
Accumulated Other Comp. Loss	(142)	(151)	(150)	(145)	(145)	(140)	(142)	(138)	(138)	(138)	(138)	(138)	(138)	(138)	(138)	(138)	(138)	(138)
Total Shareholders' Equity	**8,678**	**8,539**	**8,812**	**8,772**	**8,772**	**8,887**	**8,778**	**9,130**	**9,141**	**9,141**	**9,237**	**9,291**	**9,464**	**9,516**	**9,516**	**9,930**	**10,366**	**10,839**
Total Liabilities and Equity	**28,068**	**28,350**	**28,654**	**28,662**	**28,662**	**28,564**	**28,769**	**29,462**	**31,737**	**31,737**	**32,233**	**32,457**	**32,933**	**33,159**	**33,159**	**34,727**	**36,085**	**37,422**

DUKE ENERGY (DUK, BUY, $85 PT, $77.75)

DUK remains the only pure, large cap bond surrogate. We retain a BUY rating premised on (1) NT catalyst for an analyst day that could provide potential upside surprise and (2) valuation with shares trading notably below peers.

- **Maintaining our BUY rating on DUK despite being neutral on pure-play bond surrogates in 2017 – DUK recommendation is a one-off – we are lowering our PT to $85 from $88.** Despite a challenging macro backdrop, we expect an upcoming **analyst day to be a NT positive event with new growth disclosure broken out for the first time at a segment level** (i.e., Electric, Gas, Commercial, and Other). While we aren't making a call (...yet) that updated growth guidance will breech the top end of the 6% currently guided, we do expect the extra visibility into DUK's growth drivers at a segment level will come as a welcome surprise with investors – many that we speak to question the NT growth visibility given the market cap of DUK. That said, **upside surprise is also a possibility with potential midstream project announcements at PNY and the release of distribution investment plans at the various utilities, which could be sizeable.** We believe this potential positive event-driven analyst day, coupled with shares trading at a notable discount to peers, still presents a good entry point despite a tough macro backdrop. **Note – if shares traded in line with the group, our call could be different today. But at this juncture, we believe the valuation discount fails to capture a potential NT catalyst with an upcoming analyst day.**
- **Introducing 2019 and 2020 EPS estimates of $5.05 and $5.18 vs. consensus estimate of $5.01 in 2019 (not available for 2020).** We are introducing 2019 and 2020 estimates of $5.05 and $5.18, modeling continued investment across DUK's core utilities of ~$7bn per year based on the longer-term outlook management shared in early 2016 that extended through 2020, although as we mention above, management has yet to provide a LT outlook that incorporates its recently acquired gas distribution/midstream platform. At this juncture, we continue to model PNY utilities investing ~$0.8bn into distribution based on prior disclosures, with gas LDCs growing into 5-10% of the consolidated business mix by the end of the decade, closer to 10% with midstream, and potentially even higher with new opportunities stemming from the gas platform. We anticipate incremental line of sight into potential opportunities will come soon, as we believe management will announce an analyst day as the LatAm acquisitions/divestitures closed.
- **Updating our EPS estimates for 2016/2017/2018 of $4.70/$4.54/$4.83 vs. consensus estimates of $4.67/$4.64/$4.82.** Our 2016 estimate is unchanged, although our 2017 estimate is lower as we remove LatAm assets from the international segment to reflect the closing of those divestitures ahead of schedule – DUK wasn't expecting to close the sale of its LatAm assets until 1Q17, and we originally thought it might take longer to close these non-Brazil assets considering the complexity across several countries. We also incorporate lower ROEs as new rates go into effect in SC beginning January 1, 2017; DUK's Progress utility will now earn 10.1% (requested 10.75%), and will not be able to file another base rate case until 2019. Note our estimates don't reflect DUK's recently acquired interest in large-scale midstream projects that have some considerable obstacles to overcome (e.g., Atlantic Coast Pipeline). This could change with a more comprehensive outlook from management that incorporates these recently acquired ventures, so we are staying tuned.
- **2017 – watch for a potential analyst day.** Following divestiture of its LatAm assets, DUK has largely exited its international operations, thus completing its transition to a fully-regulated domestic utility, and shares should trade as such – as a bond

surrogate, that is. DUK remains the only pure, large cap bond surrogate we continue to recommend, as we believe management will likely announce an analyst day following its acquisitions/divestures, entailing a comprehensive business update with LT outlooks provided at the segment level - including recently acquired PNY gas utilities and its midstream platform, both of which may very likely present growth opportunities that enhance DUK's growth trajectory, representing potential upside to our estimates, and better positioning DUK for the relatively less constructive macro back-drop. A cheap valuation and this potential analyst day warrants healthy upside from current levels, in our view.

- **Valuation:** Our $85 price target is based on our '18E EPS estimate of $4.83 and a DUK-specific 17.5x P/E — a two-turn premium to our regulated group target multiple of 15x to account for constructive regulatory environments and potentially higher growth versus what is being reflected in current fundamentals. Incorporating our estimated 4.5% dividend yield, we arrive at a 14% ETR.

Guggenheim's DUK EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015E	1.24A	1.03A	1.48A	0.79A	4.54A	
2016E	1.13A	1.07A	1.68A	0.81E	4.70E	4.67E
Prior				*0.84E*	*4.70E*	
2017E	0.95E	1.00E	1.96E	0.62E	4.54E	4.64E
Prior	*0.68E*	*0.88E*	*1.55E*	*1.55E*	*4.66E*	
2018E	1.02E	1.10E	2.04E	0.67E	4.83E	4.82E
Prior	*1.00E*	*1.26E*	*1.75E*	*0.88E*	*4.89E*	
2019E	1.08E	1.17E	2.11E	0.70E	5.05E	5.01E
2020E	1.10E	1.21E	2.15E	0.72E	5.18E	NA

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** Risks to our rating and price target for DUK 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.

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DUKE ENERGY MODEL

CONSOLIDATED FINANCIALS

INCOME STATEMENT ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Revenues:	6,065	5,589	6,483	5,334	23,471	5,622	5,464	6,821	5,332	23,259	5,487	5,506	6,898	5,027	22,917	22,455	22,059	21,812
Operating Expenses:																		
Natural Gas Purchased	111	26	21	37	195	60	21	17	99	197	117	126	68	114	424	408	278	317
Fuel & Purchased Power	2,045	1,839	2,174	1,604	7,662	1,635	1,591	2,091	1,719	7,036	1,629	1,582	2,108	1,656	6,976	7,040	7,113	7,195
D&A	777	790	774	803	3,144	814	813	837	746	3,210	738	746	753	760	2,997	3,102	3,210	3,317
Operating & Maintenance Expense	1,426	1,422	1,426	1,597	5,871	1,469	1,431	1,547	1,538	6,005	1,448	1,394	1,416	1,470	5,728	5,717	5,710	5,706
Property Taxes & Other	264	279	293	419	1,255	297	293	303	276	1,169	286	292	292	274	1,144	1,144	1,145	1,143
Total Operating Expenses	4,623	4,356	4,688	4,460	18,127	4,295	4,149	4,795	4,378	17,617	4,218	4,140	4,638	4,274	17,270	17,411	17,457	17,678
Other Operating Income	-	-	(111)	111	-	(3)	(195)	(10)	208	-	-	-	-	-	-	-	-	-
Gains on Sale of Assets	14	13	4	4	35	9	5	6	-	20	-	-	-	-	-	-	-	-
Operating Income	1,456	1,246	1,688	989	5,379	1,333	1,145	2,022	1,162	5,662	1,269	1,366	2,260	753	5,648	5,044	4,602	4,135
% Margin					*23%*					*24%*					*25%*	*22%*	*21%*	*19%*
Other Income & Expenses	-	-	-	307	307	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity in Unconsolidated Affiliates	13	23	17	16	69	8	15	(60)	37	-	-	-	-	-	-	-	-	-
Other Income & Expenses	74	72	57	(196)	7	79	92	99	260	530	250	264	346	399	1,259	2,017	2,787	3,581
Total	87	95	74	127	383	87	107	39	297	530	250	264	346	399	1,259	2,017	2,787	3,581
Interest Expense	403	403	402	405	1,613	511	500	482	517	2,010	502	500	498	502	2,002	2,074	2,177	2,362
EBT	1,137	934	1,357	706	4,134	904	749	1,574	940	4,167	1,013	1,127	2,105	646	4,890	4,971	5,197	5,339
Tax	(364)	(334)	(420)	(208)	(1,326)	(213)	(239)	(520)	(378)	(1,350)	(355)	(433)	(747)	(216)	(1,751)	(1,630)	(1,710)	(1,763)
Income from Continuing Ops -Adjusted	773	600	937	498	2,808	691	510	1,054	562	2,817	658	694	1,358	430	3,139	3,341	3,487	3,576
Non GAAP Adjustments	102	115	79	44	340	86	229	109		424					-	-	-	-
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income -Adjusted	875	715	1,016	542	3,148	777	739	1,163	562	3,241	658	694	1,358	430	3,139	3,341	3,487	3,576
Ongoing EPS	$1.24	$1.03	$1.48	$0.79	$4.54	$1.13	$1.07	$1.68	$0.81	$4.70	$0.95	$1.00	$1.96	$0.62	$4.54	$4.83	$5.05	$5.18

Source: Company reports; Guggenheim Securities, LLC estimates.

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DUKE ENERGY MODEL
CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Net Income	861	658	1,011	638	**3,168**	780	738	1,285	562	**3,365**	658	694	1,358	430	**3,139**	3,341	3,487	3,576
+D&A	777	790	774	803	**3,144**	814	813	837	746	**3,210**	738	746	753	760	**2,997**	3,102	3,210	3,317
Nuclear fuel amortization	43	33	53	56	**185**	50	53	57	57	**217**	57	57	57	57	**228**	171	171	190
Other	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0
-AFUDC & other non-cash adjustments	(27)	(27)	(28)	(25)	**(107)**	(26)	(29)	(31)	(165)	**(251)**	(180)	(198)	(217)	(237)	**(831)**	(1,154)	(1,478)	(1,806)
Other working capital	(214)	(15)	707	(192)	**286**	46	(33)	238	158	**410**	171	174	326	151	**821**	823	867	915
CFO	1,440	1,439	2,517	1,280	**6,676**	1,664	1,542	2,386	1,359	**6,951**	1,444	1,473	2,277	1,161	**6,354**	6,282	6,257	6,191
Capex	(1,623)	1,097	(713)	(2,104)	**(3,342)**	(1,938)	(2,061)	(2,182)	(1,845)	**(8,025)**	(988)	(2,188)	(2,188)	(2,188)	**(7,550)**	(8,275)	(8,100)	(7,700)
Duke Carolinas	(448)	(506)	(418)	(561)	**(1,933)**	(459)	(572)	(500)	(1,219)	**(2,750)**	(525)	(525)	(525)	(525)	**(2,100)**	(1,975)	(2,250)	(2,275)
Duke Ohio	(81)	(85)	(100)	(133)	**(399)**	(85)	(129)	(120)	(141)	**(475)**	(150)	(150)	(150)	(150)	**(600)**	(650)	(500)	(475)
Duke Indiana	(188)	(192)	(126)	(184)	**(690)**	(151)	(174)	(215)	(160)	**(700)**	(188)	(188)	(188)	(188)	**(750)**	(775)	(800)	(625)
DEI	(13)	(13)	(13)	(13)	**(50)**	(19)	(19)	(19)	(19)	**(75)**	0	0	0	0	**0**	0	0	0
Progress Carolinas	(338)	(361)	(421)	(549)	**(1,669)**	(379)	(325)	(421)	(469)	**(1,594)**	(444)	(444)	(444)	(444)	**(1,775)**	(1,675)	(1,675)	(1,500)
Progress Florida	(224)	(247)	(225)	(333)	**(1,029)**	(370)	(367)	(432)	(363)	**(1,532)**	(356)	(356)	(356)	(356)	**(1,425)**	(1,125)	(1,450)	(1,400)
Comm Power & Other	(331)	(331)	(331)	(331)	**(1,325)**	(475)	(475)	(475)	(475)	**(1,900)**	(525)	(525)	(525)	(525)	**(2,100)**	(2,075)	(1,425)	(1,425)
Asset Sales	0	2,832	921	0	**3,753**	0	0	0	1,197	**1,197**	1,200	0	0	0	**1,200**	0	0	0
Other Investing Activities	(135)	367	(2,284)	118	**(1,935)**	180	211	235	0	**625**	0	0	0	0	**0**	0	0	0
CFI	(1,758)	1,464	(2,997)	(1,986)	**(5,277)**	(1,758)	(1,850)	(1,947)	(1,845)	**(7,400)**	(1,160)	(2,360)	(2,360)	(2,360)	**(8,240)**	(9,030)	(8,855)	(8,455)
Change in LTD	836	887	925	1,025	**3,673**	1,034	221	1,784	3,477	**6,516**	(6)	(39)	5	580	**541**	3,400	3,950	5,300
Dividends Paid to Shareholders	(563)	(550)	(568)	(568)	**(2,248)**	(568)	(568)	(591)	(593)	**(2,321)**	(593)	(593)	(614)	(617)	**(2,417)**	(2,513)	(2,614)	(2,719)
Div. Source From Carolinas	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0
Div. Source From Ohio	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0
Div. Source From DEI	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0
Div. Source From Indiana	0	0	0	0	**0**	0	(149)	0	0	**(149)**	0	0	0	0	**0**	0	0	0
Progress Carolinas																		
Progress Florida																		
Div. Source From Parent Cash Balance	**(563)**	**(550)**	**(568)**	**(568)**	**(2,248)**	**(568)**	**(419)**	**(591)**	**(593)**	**(2,172)**	**(593)**	**(593)**	**(614)**	**(617)**	**(2,417)**	**(2,513)**	**(2,614)**	**(2,719)**
Common Stock issuance	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0
Share repurchase	0	(1,500)	0	0	**(1,500)**	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0
Other financing activities		(2,771)	533	**(264)**	**(2,503)**	(451)	553	3,871	**(0)**	**3,974**	0	0	0	0	**0**	0	0	0
CFF	273	(3,934)	890	193	**(2,578)**	15	206	5,064	2,884	**8,169**	(599)	(632)	(609)	(36)	**(1,876)**	886	1,336	2,581
Beginning Cash Balance	2,036	1,991	960	1,370	**2,036**	857	778	676	6,179	**857**	8,577	8,262	6,743	6,051	**8,577**	4,815	2,954	1,691
Change in Cash Flows	(45)	(1,031)	410	(513)	**(1,179)**	(79)	(102)	5,503	2,398	**7,720**	(315)	(1,519)	(692)	(1,235)	**(3,762)**	(1,862)	(1,262)	317
Ending Cash Balance	1,991	960	1,370	857	**857**	778	676	6,179	8,577	**8,577**	8,262	6,743	6,051	4,815	**4,815**	2,954	1,691	2,009

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM
DUKE ENERGY MODEL
CONSOLIDATED FINANCIALS

BALANCE SHEET ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Assets:																		
Cash	1,991	960	1,370	857	**857**	778	676	6,179	8,577	**8,577**	8,262	6,743	6,051	4,815	**4,815**	**2,954**	**1,691**	**2,009**
Accounts Receivable	2,766	2,696	2,759	1,748	**1,748**	1,714	2,518	2,139	2,139	**2,139**	2,139	2,139	2,139	2,139	**2,139**	**2,139**	**2,139**	**2,139**
Inventory	3,413	3,469	3,537	3,810	**3,810**	3,721	3,627	3,351	3,351	**3,351**	3,351	3,351	3,351	3,351	**3,351**	**3,351**	**3,351**	**3,351**
Other Current Asset	4,152	2,473	2,529	1,907	**1,907**	1,730	1,276	1,865	1,707	**1,707**	1,536	1,362	1,036	886	**886**	**63**	**(805)**	**(1,719)**
Investments	343	375	501	499	**499**	547	613	604	604	**604**	604	604	604	604	**604**	**604**	**604**	**604**
Goodwill	16,329	16,328	16,312	16,343	**16,343**	16,349	16,357	16,354	16,354	**16,354**	16,354	16,354	16,354	16,354	**16,354**	**16,354**	**16,354**	**16,354**
Other Non Current	11,386	8,768	8,771	11,373	**11,373**	11,483	8,938	11,896	11,896	**11,896**	11,896	11,896	11,896	11,896	**11,896**	**11,896**	**11,896**	**11,896**
Gross PPE	105,692	107,125	110,795	112,826	**112,826**	113,942	115,143	116,376	118,386	**118,386**	119,726	122,283	124,860	127,457	**127,457**	**137,641**	**147,974**	**158,236**
Accumulated Depreciation	(35,400)	(35,826)	(37,479)	(37,665)	**(37,665)**	(38,154)	(38,412)	(38,812)	(39,615)	**(39,615)**	(40,411)	(41,214)	(42,023)	(42,841)	**(42,841)**	**(46,113)**	**(49,494)**	**(53,001)**
Other LT Assets	11,470	12,207	11,938	9,458	**9,458**	9,599	11,918	9,734	9,734	**9,734**	9,734	9,734	9,734	9,734	**9,734**	**9,734**	**9,734**	**9,734**
Total Assets	122,142	118,575	121,033	121,156	**121,156**	121,709	122,654	129,686	133,132	**133,132**	133,191	133,253	134,002	134,395	**134,395**	**138,622**	**143,445**	**149,602**
Liabilities:																		
Accounts payable	1,920	1,920	2,076	2,400	**2,400**	2,086	2,221	2,138	2,138	**2,138**	2,138	2,138	2,138	2,138	**2,138**	**2,138**	**2,138**	**2,138**
Short Term Maturities	3,790	2,374	2,419	3,633	**3,633**	3,486	2,342	3,011	3,011	**3,011**	3,011	3,011	3,011	3,011	**3,011**	**3,011**	**3,011**	**3,011**
Other Current Liabilities	6,193	5,352	6,019	5,367	**5,367**	5,319	5,343	6,927	6,927	**6,927**	6,927	6,927	6,927	6,927	**6,927**	**6,927**	**6,927**	**6,927**
Other Non Current Liabilities	31,979	32,517	32,982	32,490	**32,490**	32,645	32,869	33,100	33,100	**33,100**	33,100	33,100	33,100	33,100	**33,100**	**33,100**	**33,100**	**33,100**
Long Term Debt	37,173	36,795	37,667	37,495	**37,495**	38,232	39,931	43,964	47,441	**47,441**	47,435	47,397	47,402	47,982	**47,982**	**51,382**	**55,332**	**60,631**
Minority Interest	36	37		44	**44**	49	53	57	57	**57**	57	57	57	57	**57**	**57**	**57**	**57**
Total Liabilities	81,091	78,995	81,165	81,429	**81,429**	81,817	82,759	89,197	92,674	**92,674**	92,668	92,630	92,635	93,215	**93,215**	**96,615**	**100,565**	**105,864**
Preferred Stock of Subsidiaries	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Shareholders' Equity	41,051	39,580	39,868	39,727	**39,727**	39,892	39,895	40,489	40,458	**40,458**	40,523	40,624	41,367	41,180	**41,180**	**42,007**	**42,880**	**43,738**
Total Liabilities & Shareholders Equity	122,142	118,575	121,033	121,156	**121,156**	121,709	122,654	129,686	133,132	**133,132**	133,191	133,253	134,002	134,395	**134,395**	**138,622**	**143,445**	**149,602**

Source: Company reports; Guggenheim Securities, LLC estimates.

DYNEGY (DYN, BUY, $14 PT, $8.95)

Key questions: IPH outcome, Texas coal retirements and de-levering/asset sales.

- **Reaffirming our BUY rating and lowering our price target to $14 from $21.** With the completion of the sale of Elwood and acquisition of ENGIE, several other NT catalysts could be at play including: **(1)** NT asset sales/further de-levering – hopefully something announced as early as YE results (ENGIE mitigation plan could also be a good data point), **(2)** winter weather/bounce in gas, **(3)** Texas coal retirements coming to a head in '17 etc. **We expect DYN to prioritize its focus on continuing to de-lever at a modest pace to achieve closer to its 4.5x target leverage ratio by 2018 – we model further out by YE '20.** This includes a $1.3bn planned debt reduction and several other levers to pull, including ENGIE synergies, cash flow improvement plans and potential asset sales. **The completion of the ENGIE acquisition coupled with IPH restructuring should further lower DYN debt levels but more is needed, in our view – investors we talk to want to see more asset sales in '17, which should not only bring to light true asset values through a NT public mark but also serve as a source of further debt pay downs.** We reiterate our BUY rating and expect shares to continue to bounce back from the recent sell off but key items could take some time to play out.
- **We are introducing EBITDA estimates for 2019 and 2020 of $1.48b and $1.58b vs consensus estimate for 2019 and 2020 of $1.42b and $1.62b.** These estimates are driven by curves marked to the 12/22 forwards.
- **Updating our 2016/2017/2018 EBITDA estimates to $1.05b/$1.31b/$1.56b; vs. consensus estimates of $1.02b/$1.31b/$1.54.** Our updated estimates incorporate 12/22/16 forward curves; lower estimates through 2018 reflect lower power prices vs. the September 2016 curves that drove our prior estimates, coupled with ENGIE major maintenance O&M and asset shutdown costs, which were mostly offset by lower interest expense from de-levering and $90mm of ENGIE synergies remaining on track (likely conservative). We also incorporated the updated hedge position at all three segments and we note that DYN goes into 2017 with ~43% of MISO capacity open for sale through 2019/2020, with another 35mm MWH of unhedged volume from ENGIE. Other key drivers in our model include select plant uprates, further ENGIE synergies, new coal contracts etc.
- **IPH restructuring approval is the key NT catalyst; continued de-levering in focus.** IPH restructuring is moving along with the recent filing for court approval of prepackaged plan; as we mentioned in previous notes, a tentative agreement would be a constructive resolution, in our view, with a $615mm reduction in debt and $30mm net cash to DYN from IPH, which would net against new DYN notes, leaving only $180mm of incremental net debt; management actually expects net-debt/EBITDA to come down another 0.5x. We expect DYN to continue to de-lever the balance sheet with the ENGIE acquisition and IPH restructuring now moving in the rearview. **We model DYN reaching its leverage targets by YE 2020 – our Net Debt/EBITDA estimates are 5.8x in '18; 5.2x in '19; 4.0x in '20.** This should further ease investors' concern around DYN's liquidity issue, which is just optics from our standpoint. We also continue to monitor regulatory outcomes in DYN's service territory and surrounding de-regulated regions given the message it sends through to the viability of the entire de-regulated/merchant business model – moves in Illinois and New York caused a lot of angst among IPP investors. Next up could be PA, NJ and CT. These could be key negative developments in '17 but likely contained.
- **Valuation -** We value IPPs, including DYN, using an unlevered discounted cash flow methodology before accounting for growth CapEx through 2024 terminal year at which point we apply a DYN-specific 7x asset-weighted terminal multiple. Our

valuation is pro forma for ENGIE and also incorporates a ($172mm) NPV for DYN's future asset retirement obligations (ARO) related to Coal Combustion Residual (CCR) spending and NPV of NOLs. We subtract net debt of ~$8.9bn to arrive at an equity value of $2.2B, or price target of $14/share.

Guggenheim's EBITDA EPS Estimates

EBITDA ($mm)	1Q	2Q	3Q	4Q	FY	Cons
2015A	85A	193A	350A	222A	850A	
2016E	251A	187A	350A	262E	1,050E	1023E
Prior				*303E*	*1,067E*	
2017E	269E	326E	386E	333E	1,314E	1311E
Prior	*314E*	*382E*	*452E*	*385E*	*1,533E*	
2018E	326E	375E	450E	404E	1,555E	1543E
Prior	*402E*	*462E*	*546E*	*485E*	*1,894E*	
2019E	383E	392E	380E	320E	1,475E	1418E
2020E	325E	376E	460E	415E	1,577E	1622E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks**

Commodity price risk: If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. DYN is still inherently a long natural gas call, with gas the marginal price setter in PJM, MISO, New England, and New York.

Environmental/Policy risk: Environmental regulations including Effluent Limit Guidelines (ELG), Coal Combustion Residual (CCR), waste water discharge 316(b), Mercury Air Toxics Standards (MATs), and other EPA rules such as the Clean Power Plan could require increased spending. Permits and compliance with these regulations require significant capital and operating expenditures. Considering timing to comply with these regulations and costs, some retirements of plants could be accelerated. Changes to these regulations could increase costs of operating these plants and/or increase competition.

Operational risks: DYN's fleet could experience unforced outages or other operational issues that are inherent risks of the power generation business.

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Dynegy
Consolidated Financials ($mm)

Income Statement ($mm, unless otherwise noted)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Revenues	601	972	1,209	1,021	1,018	933	1,184	1,044	1,084	1,050	1,067	1,073	3,803	4,179	4,273	4,376	4,279	4,315
Fuel & purchased power	(377)	(496)	(621)	(534)	(545)	(493)	(660)	(610)	(621)	(569)	(575)	(575)	(2,028)	(2,308)	(2,341)	(2,198)	(2,159)	(2,205)
Gross margin	**224**	**476**	**588**	**487**	**473**	**440**	**524**	**434**	**462**	**480**	**492**	**497**	**1,775**	**1,871**	**1,932**	**2,178**	**2,120**	**2,110**
O&M expense	(111)	(250)	(219)	(259)	(221)	(256)	(218)	(130)	(222)	(222)	(222)	(222)	(839)	(825)	(890)	(956)	(973)	(990)
G&A expense	(30)	(35)	(29)	(34)	(37)	(39)	(41)	(41)	(38)	(40)	(42)	(42)	(128)	(158)	(161)	(164)	(168)	(171)
Other / special items	2	2	10	28	36	42	85	0	0	0	0	0	42	163	0	0	0	0
Adjusted EBITDA ex ENGIE	**85**	**193**	**350**	**222**	**251**	**187**	**350**	**262**	**202**	**218**	**228**	**233**	**850**	**1,050**	**881**	**1,058**	**979**	**949**
ENGIE EBITDA									**67**	**108**	**158**	**100**			**433**	**618**	**565**	**631**
D&A expense - Ex ENGIE	(64)	(175)	(174)	(174)	(171)	(160)	(163)	(256)	(259)	(261)	(264)	(267)	(587)	(750)	(1,051)	(1,095)	(1,140)	(1,183)
D&A expense - ENGIE									(33)	(33)	(33)	(33)			(130)	(140)	(148)	(156)
Interest expense - Ex ENGIE	(136)	(132)	(145)	(133)	(142)	(141)	(166)	(117)	(148)	(148)	(148)	(148)	(546)	(566)	(594)	(544)	(467)	(413)
Interest expense - ENGIE									0	0	0	0			0	0	0	0
Other income / expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Earnings before taxes	**(115)**	**(114)**	**31**	**(85)**	**(62)**	**(114)**	**21**	**(111)**	**(171)**	**(116)**	**(59)**	**(115)**	**(283)**	**(266)**	**(461)**	**(103)**	**(210)**	**(172)**
Tax rate	0%	-439%	-90%	35%	26%	-8%	-8%	-8%	-8%	-8%	-8%	-8%	-167.5%	35.0%	35.0%	35.0%	35.0%	35.0%
Income tax expense	0	501	(28)	1	(16)	9	1	(9)	(13)	(9)	(5)	(9)	474	(15)	(36)	(8)	(17)	(14)
Preferred dividends	(5)	(6)	(5)	(6)	(5)	(6)	(5)	(5)	(4)	(4)	(4)	(4)	(22)	(22)	(18)	(18)	(18)	(18)
Operating net income	**(120)**	**381**	**(2)**	**(90)**	**(83)**	**(111)**	**17**	**(125)**	**(189)**	**(130)**	**(68)**	**(129)**	**169**	**(302)**	**(515)**	**(129)**	**(245)**	**(203)**
Special items	(65)	1	(27)	(50)	68	(696)	(271)	0	0	0	0	0	(141)	(899)	0	0	0	0
GAAP net income	**(185)**	**382**	**(29)**	**(140)**	**(15)**	**(807)**	**(254)**	**(125)**	**(189)**	**(130)**	**(68)**	**(129)**	**28**	**(1,201)**	**(515)**	**(129)**	**(245)**	**(203)**
EPS - operating	**(1.05)**	**2.86**	**(0.01)**	**(0.74)**	**(0.71)**	**(0.94)**	**0.12**	**(0.78)**	**(1.18)**	**(0.81)**	**(0.43)**	**(0.80)**	**1.34**	**(2.26)**	**(3.22)**	**(0.80)**	**(1.53)**	**(1.27)**
EPS - GAAP	(1.62)	2.87	(0.22)	(1.15)	(0.13)	(6.81)	(1.81)	(0.78)	(1.18)	(0.81)	(0.43)	(0.80)	0.22	(8.97)	(3.22)	(0.80)	(1.53)	(1.27)

Source: Company reports; Guggenheim Securities, LLC estimates.

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Consolidated Financials ($mm)

Cash Flow Statement ($mm, unless otherwise noted)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Net income	(181)	386	(24)	(134)	(10)	(803)	(249)	(120)	(184)	(125)	(64)	(124)	47	(1,182)	(497)	(111)	(227)	(185)
D&A expense	64	175	174	174	171	160	163	256	259	261	264	267	587	750	1,051	1,095	1,140	1,183
Risk-management activities	(27)	(39)	(51)	(13)	(109)	20	14	0	0	0	0	0	(130)	(75)	0	0	0	0
Deferred taxes	0	(501)	28	(4)	16	(9)	(1)	0	0	0	0	0	(477)	6	0	0	0	0
Working capital	56	10	156	(228)	154	102	212	212	212	212	212	212	(6)	680	848	848	848	848
Other operating cash flow	33	3	40	(3)	(31)	556	193	0	0	0	0	0	73	818	0	0	0	0
Operating cash flow	**(55)**	**34**	**323**	**(208)**	**191**	**126**	**332**	**348**	**287**	**348**	**412**	**355**	**94**	**997**	**1,402**	**1,832**	**1,761**	**1,846**
Capital expenditures	(40)	(62)	(69)	(104)	(65)	(159)	(35)	(72)	(80)	(80)	(80)	(80)	(275)	(331)	(319)	(340)	(335)	(319)
Short-term investments, net	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Asset acquisitions / dispositions	0	(6,092)	14	0	0	0	0	(3,675)	0	0	0	0	(6,078)	(3,675)	0	0	0	0
Other investing	0	5,138	12	9	8	(2,062)	33	0	0	0	0	0	5,159	(2,021)	0	0	0	0
Investing cash flow	**(40)**	**(1,016)**	**(43)**	**(95)**	**(57)**	**(2,221)**	**(2)**	**(3,747)**	**(80)**	**(80)**	**(80)**	**(80)**	**(1,194)**	**(6,027)**	**(319)**	**(340)**	**(335)**	**(319)**
Change in debt	(25)	4	49	38	193	2,065	(2)	2,740	(204)	(204)	(204)	(204)	66	4,996	(815)	(718)	(1,761)	(815)
Common Stock issued / repurchased	0	0	(127)	(123)	0	0	0	150	0	0	0	0	(250)	150	0	0	0	0
Preferred Stock issued / repurchased	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Common Dividends	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Preferred Stock Dividends	(7)	(5)	(5)	(6)	(5)	(6)	(5)	(5)	(4)	(4)	(4)	(4)	(23)	(21)	(18)	(18)	(18)	(18)
Other financing cash flows (incl. swap pmts)	(9)	(40)	26	(35)	(6)	357	(7)	(5)	(4)	(4)	(4)	(4)	(58)	339	(15)	(15)	(15)	(15)
Financing cash flow	**(41)**	**(41)**	**(57)**	**(126)**	**182**	**2,416**	**(14)**	**2,880**	**(212)**	**(212)**	**(212)**	**(212)**	**(265)**	**5,464**	**(848)**	**(751)**	**(1,794)**	**(848)**
Opening cash and equivalents	1,870	1,734	711	934	505	821	1,142	1,458	940	935	991	1,112	1,870	505	940	1,175	1,916	1,548
Closing cash and equivalents	1,734	711	934	505	821	1,142	1,458	940	935	991	1,112	1,175	505	940	1,175	1,916	1,548	2,227
Change in cash flow	**(136)**	**(1,023)**	**223**	**(429)**	**316**	**321**	**316**	**(518)**	**(5)**	**57**	**121**	**63**	**(1,365)**	**435**	**235**	**741**	**(368)**	**679**
								502				854						
Free Cash Flow Calculation																		
Adjusted EBITDA	85	193	350	222	251	187	350	262	202	218	228	233	850	1,050	1,314	1,677	1,544	1,581
Less: Interest payments	(136)	(132)	(145)	(133)	(142)	(141)	(166)	(117)	(148)	(148)	(148)	(148)	(546)	(566)	(594)	(544)	(467)	(413)
Less: Maintenance / Environmental Capex	(66)	(66)	(66)	(66)	(75)	(87)	(75)	(63)	(71)	(71)	(71)	(71)	(265)	(300)	(734)	(505)	(500)	(484)
Less:Integration / Acquisition Costs				132									132					
Less: Preferred Stock Dividends	(7)	(5)	(5)	(6)	(5)	(6)	(5)	(5)	(4)	(4)	(4)	(4)	(23)	(21)	(18)	(18)	(18)	(18)
Free Cash Flow	**(124)**	**(10)**	**134**	**149**	**29**	**(47)**	**104**	**77**	**(22)**	**(6)**	**4**	**9**	**148**	**163**	**(32)**	**609**	**560**	**665**
FCF to Equity per Share	**(1.09)**	**(0.08)**	**1.00**	**1.22**	**0.25**	**(0.40)**	**0.74**	**0.48**	**(0.14)**	**(0.04)**	**0.02**	**0.06**	**1.17**	**1.22**	**(0.20)**	**3.81**	**3.50**	**4.16**

Source: Company reports; Guggenheim Securities, LLC estimates.

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Consolidated Financials ($mm)

Balance Sheet ($mm, unless otherwise noted)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Assets																		
Cash and equivalents	1,734	711	934	505	821	1,142	1,458	940	935	991	1,112	1,175	505	940	1,175	1,916	1,548	2,227
Fuel inventory and other	224	523	531	597	579	520	447	447	447	447	447	447	597	447	447	447	447	447
Accounts receivable	268	439	436	402	339	392	374	374	374	374	374	374	402	374	374	374	374	374
Assets from risk mgmt	80	78	69	100	177	64	73	73	73	73	73	73	100	73	73	73	73	73
Other current assets	351	346	297	328	365	323	287	75	(137)	(349)	(561)	(773)	328	75	(773)	(1,621)	(2,469)	(3,317)
Total current assets	**2,657**	**2,097**	**2,267**	**1,932**	**2,281**	**2,441**	**2,639**	**1,909**	**1,692**	**1,536**	**1,445**	**1,296**	**1,932**	**1,909**	**1,296**	**1,189**	**(27)**	**(196)**
Net PP&E	3,698	8,666	8,485	8,347	8,242	7,588	7,252	10,743	10,564	10,382	10,198	10,011	8,347	10,743	10,011	9,256	8,452	7,587
Investments and restricted cash	0	0	0	0	0	2,185	2,173	2,173	2,173	2,173	2,173	2,173	0	2,173	2,173	2,173	2,173	2,173
Other long-term assets	4,860	1,386	1,405	1,180	1,185	948	960	960	960	960	960	960	1,180	960	960	960	960	960
Total assets	**11,215**	**12,149**	**12,157**	**11,459**	**11,708**	**13,162**	**13,024**	**15,785**	**15,388**	**15,051**	**14,776**	**14,440**	**11,459**	**15,785**	**14,440**	**13,578**	**11,558**	**10,524**
Current portion of debt	8	52	71	80	108	141	167	167	167	167	167	167	80	167	167	167	167	167
Liabilities from risk mgmt	111	119	94	103	117	37	92	92	92	92	92	92	103	92	92	92	92	92
Accounts payable	248	351	315	292	243	286	263	263	263	263	263	263	292	263	263	263	263	263
Other current liabilities	453	424	530	334	395	285	389	389	389	389	389	389	334	389	389	389	389	389
Total current liabilities	**820**	**946**	**1,010**	**809**	**863**	**749**	**911**	**911**	**911**	**911**	**911**	**911**	**809**	**911**	**911**	**911**	**911**	**911**
Long-term debt	7,077	7,079	7,208	7,129	7,304	9,365	9,356	12,096	11,892	11,689	11,485	11,281	7,129	12,096	11,281	10,563	8,802	7,987
Liabilities subject to compromise	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other long-term liabilities	483	805	758	602	634	584	550	545	542	538	534	530	602	545	530	516	501	486
Total long-term liabilities	**7,560**	**7,884**	**7,966**	**7,731**	**7,938**	**9,949**	**9,906**	**12,641**	**12,434**	**12,226**	**12,019**	**11,811**	**7,731**	**12,641**	**11,811**	**11,079**	**9,303**	**8,473**
Minority interest	(1)	(3)	(1)	(2)	(2)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(2)	(4)	(4)	(4)	(4)	(4)
Common equity	3,333	3,436	3,310	3,188	3,187	3,548	3,542	3,692	3,692	3,692	3,692	3,692	3,188	3,692	3,692	3,692	3,692	3,692
Preferred stock	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400
Retained earnings (deficit)	(916)	(528)	(552)	(686)	(696)	(1,497)	(1,746)	(1,871)	(2,059)	(2,189)	(2,257)	(2,386)	(686)	(1,871)	(2,386)	(2,514)	(2,759)	(2,962)
Other comprehensive income	19	14	24	19	18	17	15	15	15	15	15	15	19	15	15	15	15	15
Total shareholders' equity	**2,836**	**3,322**	**3,182**	**2,921**	**2,909**	**2,468**	**2,211**	**2,236**	**2,048**	**1,918**	**1,850**	**1,721**	**2,921**	**2,236**	**1,721**	**1,593**	**1,348**	**1,145**
Total liabilities and equity	**11,215**	**12,149**	**12,157**	**11,459**	**11,708**	**13,162**	**13,024**	**15,785**	**15,388**	**15,051**	**14,776**	**14,440**	**11,459**	**15,785**	**14,440**	**13,578**	**11,558**	**10,524**

Source: Company reports; Guggenheim Securities, LLC estimates.

CONSOLIDATED EDISON (ED, NEUTRAL, $73.72)

Multi-year rate plans locked in for core utilities, managing direction of REV, and pursuing gas midstream and/or electric transmission investment opportunities; still no word on Harlem.

- **Maintaining our Neutral stance as the rising interest rate environment is less constructive for traditionally yield-oriented utilities.** We believe ED's fundamental story remains strong, although the high-quality yield-oriented investment proposition that commanded a premium through the regulated rally will be under pressure from a steeper yield curve. Below-average growth doesn't help in this environment, although ED locked in multi-year rate plans at its flagship NYC utility and has managed to get REV back to a more realistic level, which should allow management to turn focus back toward budding growth aspirations; enhancing growth with quality, regulated-like investments should better position ED in a rising rate environment. However, investment further upstream should be weighed against shifts away from ED's risk-off proposition. We would also note ED is naturally hedged against rising rates to some extent with formulaic ROEs; we anticipate an uplift of the shares coming out of its multi-year rate plans in 2019.
- **We are introducing 2019 and 2020 estimates of $4.61/$4.70 vs. consensus 2019 estimate of $4.59.** We are introducing estimates of $4.61 and $4.70 for 2019 and 2020 based on a continued annual utility investment of ~$3bn, earning an average ROE of 9.5%-10.0%. Our growth estimate steps up in 2019 as we assume CECONY ROEs revert back toward 10% from the 9% authorized in their current multi-year rate plan; as a reminder, allowed ROEs are determined formulaically in NY (a blend of CAPM and DDM). Our estimates also reflect tapered solar investment ($400mm/yr) in line with management's latest plans; we likely saw capital allocated to solar plateau at $1.2bn in 2016E, and solar now shares ED's non-utility investment runway with midstream gas infrastructure opportunities – Our estimates don't reflect additional gas midstream or electric transmission investments, this would represent potential upside to our current outlook.
- **Updating our 2016/2017/2018 EPS estimates to $3.97/$4.10/$4.29 vs. consensus estimates of $3.96/$4.15/$4.33.** Our lower estimates in 2017 and 2018 reflect the lower ROE authorized for CECONY Electric and Gas in their multi-year rate agreements (currently pending PSC approval); we now model 9.0%-9.3% ROEs at CECONY through 2018 vs. 9.5% in our prior estimates, partly offset by slightly higher ratebase.
- **Uncertainty around potential fines/penalties stemming from the Harlem gas explosion carries into 2017.** We have yet to see final resolution of the 2014 Harlem gas explosion from NY regulators, so ED continues to carry the risk of potential fines/penalties, although these concerns have not been a primary focal point for investors as was the case with similar events (e.g., PCG's San Bruno explosion). As a reminder, Staff's incident report alleged gas safety violations and regulatory failures, and referenced penalties for each violations as well as continuing violation penalties; as a bookend, we estimated maximum potential continuing violation penalties could reach upwards of $1bn if applied to each day since the underlying gas equipment in question was placed in-service. However, we do not believe penalties will reach this extreme, as it doesn't feel like San Bruno to us; we would also note the NY commission has allowed violations to drag-on for considerable periods of time without resolution in the past, so we won't be holding our breath as we wait.

- **Valuation:** We apply our group average 15.5x regulated utility target multiple to our 2018 EPS estimate of $4.29 to arrive at a fair value estimate of $67.

Guggenheim's ED EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2015A	1.24A	0.78A	1.44A	0.62A	4.08A	
2016E	1.18A	0.60A	1.51A	0.69E	3.97E	*3.96E*
Prior				*0.72E*	*4.01E*	
2017E	1.10E	0.62E	1.59E	0.79E	4.10E	*4.15E*
Prior	*1.10E*	*0.71E*	*1.64E*	*0.70E*	*4.16E*	
2018E	1.16E	0.64E	1.65E	0.85E	4.29E	*4.33E*
Prior	*1.16E*	*0.74E*	*1.70E*	*0.76E*	*4.36E*	
2019E	1.24E	0.70E	1.75E	0.92E	4.61E	*4.57E*
2020E	1.26E	0.70E	1.78E	0.95E	4.70E	*NA*

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** Risks to our valuation for ConEd 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. If any of the above-mentioned items turn out to be more favorable versus our model, shares could breach our fair value per share estimate.

GUGGENHEIM
CON EDISON MODEL
CONSOLIDATED FINANCIALS

INCOME STATEMENT ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenues	**1QA**	**2QA**	**3QA**	**4QA**	**2015A**	**1QA**	**2QA**	**3QA**	**4QE**	**2016E**	**1QE**	**2QE**	**3QE**	**4QE**	**2017E**	**2018E**	**2019E**	**2020E**
Electric	2,135	2,040	2,762	1,895	8,832	1,912	2,035	2,769	1,895	8,612	1,857	1,843	2,745	1,860	8,306	8,474	8,726	8,843
Gas	732	324	237	416	1,709	676	336	235	409	1,656	685	338	231	412	1,666	1,680	1,694	1,708
Steam	375	96	58	100	629	258	85	63	96	502	107	57	50	102	316	333	350	367
Non-utilty	374	328	386	296	1,384	310	338	350	320	1,318	359	381	394	363	1,497	1,528	1,513	1,526
Total Operating Revenues	**3,616**	**2,789**	**3,443**	**2,707**	**12,556**	**3,156**	**2,794**	**3,417**	**2,720**	**12,088**	**3,008**	**2,619**	**3,420**	**2,738**	**11,785**	**12,015**	**12,283**	**12,445**
Operating Expenses																		
Purchased power	884	660	860	568	2,972	691	558	798	570	2,617	664	633	899	571	2,767	2,769	2,770	2,772
Fuel	154	31	31	31	247	71	33	29	32	165	71	33	29	32	165	165	165	165
Gas purchased for resale	262	89	64	80	495	158	81	81	66	386	147	59	42	66	314	315	315	315
Other operations and maintenance	814	802	869	859	3,344	787	820	840	874	3,321	799	813	860	875	3,348	3,350	3,352	3,354
Impairment charges- unregulated assets				-				(104)		(104)					-	-	-	-
Depreciation	279	276	285	290	1,130	297	302	305	310	1,214	245	250	254	259	1,008	1,087	1,190	1,262
Taxes, other than income	497	458	504	478	1,937	510	485	528	332	1,855	346	330	361	330	1,366	1,375	1,386	1,392
Income taxes	199	101	249	56	605	164	124	314	133	735	206	114	287	158	766	807	867	892
Total operating expenses	**3,089**	**2,417**	**2,862**	**2,362**	**10,730**	**2,678**	**2,403**	**2,791**	**2,317**	**10,189**	**2,479**	**2,231**	**2,732**	**2,291**	**9,734**	**9,868**	**10,045**	**10,151**
Operating Income	**527**	**372**	**581**	**345**	**1,826**	**478**	**391**	**626**	**403**	**1,899**	**529**	**388**	**687**	**446**	**2,051**	**2,147**	**2,238**	**2,294**
Other Income																		
Investment and other income	5	14	12	2	35	4	15	51	-	70	-	-	-	-	-	-	-	-
AFUDC Equity	1	1	1	2	5	2	2	3	-	7	-	-	-	-	-	-	-	-
Other deductions	(2)	(5)	(4)	(4)	(16)	(5)	(6)	(5)	(5)	(21)	(5)	(5)	(5)	(5)	(19)	(19)	(19)	(19)
Total other income (deductions)	**4**	**10**	**9**	**-**	**24**	**1**	**11**	**49**	**(5)**	**56**	**(5)**	**(5)**	**(5)**	**(5)**	**(19)**	**(19)**	**(19)**	**(19)**
Interest Expense																		
Interest on long-term debt	156	156	157	163	632	163	167	174	182	686	186	190	194	197	767	800	790	812
Other interest	6	7	6	5	24	7	5	5	5	22	5	5	5	5	20	20	20	20
Allowance for borrowed funds used during construction	(1)	-	(1)	(2)	(4)	(1)	(2)	(1)	-	(4)	-	-	-	-	-	-	-	-
Net Interest Expense	**161**	**163**	**162**	**166**	**652**	**169**	**170**	**178**	**187**	**704**	**191**	**195**	**199**	**202**	**787**	**820**	**810**	**832**
Income from Continuing Operations	**370**	**219**	**428**	**179**	**1,198**	**310**	**232**	**497**	**212**	**1,251**	**333**	**188**	**483**	**240**	**1,245**	**1,308**	**1,409**	**1,442**
Operating Income Adjustments (non GAAP)	(5)	9	(4)	3	3	38	(53)	(37)		(52)					-	-	-	-
Net Income (Non GAAP)	**365**	**228**	**424**	**182**	**1,201**	**348**	**179**	**460**	**212**	**1,199**	**333**	**188**	**483**	**240**	**1,245**	**1,308**	**1,409**	**1,442**
Beginning period share count	293	293	293	294	293	293	294	299	306	293	303	304	304	304	303	304	305	306
Share additions	-	(0)	(0)	0	0	1	9	0	-	10	0	0	0	0	1	1	1	1
Ending period share count	293	293	294	293	293	294	299	306	306	303	304	304	304	304	304	305	306	307
Average Number of Shares Outstanding (Diluted)	**294**	**294**	**294**	**294**	**294**	**295**	**300**	**306**	**306**	**302**	**303**	**304**	**304**	**304**	**304**	**306**	**306**	**307**
Reported EPS	1.24	0.78	1.44	0.62	4.08	1.18	0.60	1.51	0.69	3.97	1.10	0.62	1.59	0.79	4.10	4.29	4.61	4.70
EPS from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EPS from cumulative effect of changes in acct. principles	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory adjustments and impairments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ongoing EPS diluted	**1.24**	**0.78**	**1.44**	**0.62**	**$4.08**	**1.18**	**0.60**	**1.51**	**0.69**	**$3.97**	**1.10**	**0.62**	**1.59**	**0.79**	**$4.10**	**$4.29**	**$4.61**	**$4.70**

Source: Company reports; Guggenheim Securities, LLC estimates.

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CON EDISON MODEL

CONSOLIDATED FINANCIALS

BALANCE SHEET ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Assets																		
Utility Plant at original cost																		
Electric	25,410	25,741	25,998	26,358	26,358	26,616	26,961	27,239	28,244	28,244	29,033	29,821	30,610	31,398	31,398	34,559	37,662	40,765
Gas	6,223	6,329	6,466	6,858	6,858	6,967	7,102	7,253	7,253	7,253	7,253	7,253	7,253	7,253	7,253	7,253	7,253	7,253
Steam	2,266	2,288	2,300	2,336	2,336	2,356	2,368	2,374	2,374	2,374	2,374	2,374	2,374	2,374	2,374	2,374	2,374	2,374
General	2,479	2,517	2,546	2,622	2,622	2,625	2,614	2,657	2,657	2,657	2,657	2,657	2,657	2,657	2,657	2,657	2,657	2,657
Total	36,378	36,875	37,310	38,174	38,174	38,564	39,045	39,523	40,528	40,528	41,317	42,105	42,894	43,682	43,682	46,843	49,946	53,049
Less: Accumulated depreciation	7,702	7,826	7,940	8,044	8,044	8,174	8,305	8,451	8,761	8,761	9,007	9,256	9,511	9,770	9,770	10,857	12,047	13,308
Plant in service, net	28,676	29,049	29,370	30,130	30,130	30,390	30,740	31,072	31,767	31,767	32,310	32,849	33,383	33,912	33,912	35,986	37,899	39,741
Construction work in progress	947	996	1,106	1,003	1,003	1,115	1,148	1,286	1,286	1,286	1,286	1,286	1,286	1,286	1,286	1,286	1,286	1,286
Net Utility Plant	29,623	30,045	30,476	31,133	31,133	31,505	31,888	32,358	33,053	33,053	33,596	34,135	34,669	35,198	35,198	37,272	39,186	41,027
Non-utility plant																		
Unregulated generating assets	-	-	-	-	-	-	-	-	261	261	351	441	586	731	731	1,266	1,801	2,336
Non-utility property	402	475	572	832	832	859	859	1,127	1,127	1,127	1,127	1,127	1,127	1,127	1,127	1,127	1,127	1,127
Non-utility property held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Construction work in progress	187	403	425	244	244	607	712	421	421	421	421	421	421	421	421	421	421	421
Net Non-utility plant	589	878	997	1,076	1,076	1,466	1,571	1,548	1,809	1,809	1,899	1,989	2,134	2,279	2,279	2,814	3,349	3,884
Net Plant	30,212	30,923	31,473	32,209	32,209	32,971	33,459	33,906	34,861	34,861	35,495	36,123	36,803	37,478	37,478	40,086	42,535	44,911
Current Assets																		
Cash and temporary cash investments	117	709	91	944	944	61	862	150	369	369	377	207	524	307	307	(710)	(535)	(475)
Restricted cash	6	4	3	3	3	10	10	3	3	3	3	3	3	3	3	3	3	3
Accounts receivable	1,444	1,084	1,194	1,052	1,052	1,085	951	1,157	1,157	1,157	1,157	1,157	1,157	1,157	1,157	1,157	1,157	1,157
Accrued unbilled revenues	456	361	387	360	360	285	365	373	373	373	373	373	373	373	373	373	373	373
Other receivables	149	255	232	304	304	362	247	165	165	165	165	165	165	165	165	165	165	165
Fuel oil, at average cost	332	321	338	350	350	342	321	335	335	335	335	335	335	335	335	335	335	335
Gas in storage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Materials and supplies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepayments	470	307	731	177	177	550	192	580	580	580	580	580	580	580	580	580	580	580
Current assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other current assets	424	638	529	646	646	490	551	391	391	391	391	391	391	391	391	391	391	391
Total current assets	3,398	3,679	3,505	3,836	3,836	3,185	3,499	3,154	3,373	3,373	3,381	3,211	3,528	3,311	3,311	2,294	2,469	2,529
Investments	814	848	874	884	884	865	1,913	1,931	1,931	1,931	1,931	1,931	1,931	1,931	1,931	1,931	1,931	1,931
Deferred Charges Regulateory and Noncurrent Assets																		
Goodwill	429	429	429	429	429	429	429	429	429	429	429	429	429	429	429	429	429	429
Intangible assets	3	3	3	2	2	2	2	-	-	-	-	-	-	-	-	-	-	-
Prepaid pension costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory assets	8,906	8,646	8,445	8,096	8,096	7,930	7,680	7,544	7,526	7,526	7,508	7,491	7,473	7,455	7,455	7,384	7,313	7,242
Other deferred charges and noncurrent assts	215	223	242	186	186	198	288	352	352	352	352	352	352	352	352	352	352	352
Total	9,553	9,301	9,119	8,713	8,713	8,559	8,399	8,325	8,307	8,307	8,289	8,272	8,254	8,236	8,236	8,165	8,094	8,023
Total Assets	43,977	44,751	44,971	45,642	45,642	45,580	47,270	47,316	48,473	48,473	49,096	49,537	50,516	50,956	50,956	52,476	55,029	57,394

Source: Company reports; Guggenheim Securities, LLC estimates.

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CON EDISON MODEL

CONSOLIDATED FINANCIALS

BALANCE SHEET ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Liabilities																		
Capitalization																		
Common shareholders' equity	12,761	12,788	13,040	13,052	13,052	13,193	13,950	14,267	14,274	14,274	14,418	14,416	14,710	14,760	14,760	15,283	15,879	16,480
Preferred stock of subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term debt	11,694	11,925	11,521	12,006	12,006	12,222	13,747	13,747	14,597	14,597	14,826	15,204	15,583	15,661	15,661	15,589	16,089	15,589
Total capitalization	**24,455**	**24,713**	**24,561**	**25,058**	**25,058**	**25,415**	**27,697**	**28,014**	**28,871**	**28,871**	**29,243**	**29,620**	**30,293**	**30,421**	**30,421**	**30,872**	**31,968**	**32,069**
Minority interests	9	9	9	9	9	8	8	8	8	8	8	8	8	8	8	8	8	8
Noncurrent liabilities																		
Obligations under capital leases	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Provision for injuries and damages	185	186	185	185	185	193	188	170	170	170	170	170	170	170	170	170	170	170
Pension and retiree benefits	3,629	3,420	3,068	2,911	2,911	2,599	2,423	2,197	2,197	2,197	2,197	2,197	2,197	2,197	2,197	2,197	2,197	2,197
Superfund and other environmental costs	758	751	746	765	765	767	758	752	752	752	752	752	752	752	752	752	752	752
Noncurrent liabilities held for sale	191	193	198	242	242	247	249	254	254	254	254	254	254	254	254	254	254	254
Other noncurrent liabilities	24	24	17	39	39	92	33	52	52	52	52	52	52	52	52	52	52	52
Total noncurrent liabilities	**4,787**	**4,574**	**4,214**	**4,142**	**4,142**	**3,898**	**3,651**	**3,425**	**3,425**	**3,425**	**3,425**	**3,425**	**3,425**	**3,425**	**3,425**	**3,425**	**3,425**	**3,425**
Current Liabilities																		
Long-term debt payable with one year	496	460	761	739	739	739	746	346	346	346	346	346	346	346	346	346	346	346
Notes payable	519	1,245	1,160	1,529	1,529	1,199	708	601	601	601	601	601	601	601	601	601	601	601
Accounts payable	937	845	1,092	1,008	1,008	909	969	1,113	1,113	1,113	1,113	1,113	1,113	1,113	1,113	1,113	1,113	1,113
Customer deposits	345	348	351	354	354	356	358	356	356	356	356	356	356	356	356	356	356	356
Accrued taxes	80	52	53	62	62	51	46	41	41	41	41	41	41	41	41	41	41	41
Accrued interest	180	131	180	136	136	190	139	202	202	202	202	202	202	202	202	202	202	202
Accrued wages	100	100	96	97	97	98	99	101	101	101	101	101	101	101	101	101	101	101
Current liabilities held for sale	240	142	165	89	89	150	60	-	-	-	-	-	-	-	-	-	-	-
Other current liabilities	510	612	571	706	706	744	778	831	831	831	831	831	831	831	831	831	831	831
Total Current Liabilities	**3,407**	**3,935**	**4,429**	**4,720**	**4,720**	**4,436**	**3,903**	**3,591**	**3,591**	**3,591**	**3,591**	**3,591**	**3,591**	**3,591**	**3,591**	**3,591**	**3,591**	**3,591**
Deferred Credits and Regulatory Liabilities																		
Deferred income taxes and investment tax credits	9,257	9,408	9,598	9,537	9,537	9,770	9,878	10,155	10,441	10,441	10,678	10,729	11,022	11,319	11,319	12,334	13,735	15,944
Regulatory liabilities	1,892	1,947	1,940	1,977	1,977	1,858	1,932	1,920	1,934	1,934	1,948	1,961	1,975	1,989	1,989	2,044	2,099	2,154
Other deferred credits	170	165	220	199	199	195	201	203	203	203	203	203	203	203	203	203	203	203
Total Deferred Credits and Regulatory Liabilities	**11,319**	**11,520**	**11,758**	**11,713**	**11,713**	**11,823**	**12,011**	**12,278**	**12,578**	**12,578**	**12,829**	**12,893**	**13,200**	**13,511**	**13,511**	**14,581**	**16,037**	**18,301**
Total Capitalization and Liabilities	**43,977**	**44,751**	**44,971**	**45,642**	**45,642**	**45,580**	**47,270**	**47,316**	**48,473**	**48,473**	**49,096**	**49,537**	**50,516**	**50,956**	**50,956**	**52,476**	**55,029**	**57,394**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

CON EDISON MODEL

CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Activities																		
Net Income	365	228	424	182	1,200	348	179	460	212	1,199	333	188	483	240	1,245	1,308	1,409	1,442
Depreciation and amortization	279	276	285	290	1,130	297	302	305	310	1,214	245	250	254	259	1,008	1,087	1,190	1,262
Deferred income taxes	178	24	264	187	653	174	94	256	286	810	237	50	293	298	878	1,015	1,401	2,209
Common equity component of AFUDC	(1)	(1)	(1)	(2)	(5)	(2)	(2)	(3)	-	(7)	-	-	-	-	-	-	-	-
Prepaid pension costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allowance for cost of removal less salvage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-cash items	(3)	9	25	49	80	99	(206)	(62)	-	(169)	-	-	-	-	-	-	-	-
Electric, gas and steam rate plan charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Impairment charge	-	-	-	-	-	-	-	-		-					-	-	-	-
Changes in Assets and Liabilities																		
Accounts receivable	(243)	278	(117)	178	96	(30)	131	(239)	-	(138)	-	-	-	-	-	-	-	-
Materials and supplies	40	8	(16)	(10)	22	8	21	(14)	-	15	-	-	-	-	-	-	-	-
Prepayments	(307)	163	(424)	554	(14)	(374)	359	(388)	-	(403)	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-		-					-	-	-	-
Other current assets	-	-	-	-	-	-	-	-		-					-	-	-	-
Recoverable energy costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	(58)	(100)	241	(162)	(79)	(84)	63	163	-	142	-	-	-	-	-	-	-	-
Pension and retiree benefits	(19)	(9)	(159)	187	-	(14)	9	(41)	-	(46)	-	-	-	-	-	-	-	-
Accrued taxes	8	(28)	1	9	(10)	(11)	(5)	(5)	-	(21)	-	-	-	-	-	-	-	-
Accrued interest	48	(49)	49	(44)	4	54	(51)	63	-	66	-	-	-	-	-	-	-	-
Deferred charges and other regulatory assets	29	(32)	(14)	(94)	(111)	(149)	51	(6)	18	(86)	18	18	18	18	71	71	71	71
Deferred credits and other regulatory liabilities	33	103	84	(38)	182	110	(35)	41	14	130	14	14	14	14	55	55	55	55
Transmission congestion contracts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	210	57	71	(208)	129	98	197	175	-	470	-	-	-	-	-	-	-	-
Net Cash Flows from Operating Activities	**559**	**927**	**713**	**1,078**	**3,277**	**524**	**1,107**	**705**	**840**	**3,176**	**847**	**520**	**1,062**	**828**	**3,257**	**3,537**	**4,126**	**5,038**
Investing Activities																		
Utility construction expenditures	(550)	(624)	(664)	(724)	(2,562)	(603)	(741)	(713)	(1,005)	(3,062)	(789)	(789)	(789)	(789)	(3,154)	(3,161)	(3,103)	(3,103)
Cost of removal less salvage	(50)	(55)	(51)	(63)	(219)	(44)	(51)	(54)	-	(149)	-	-	-	-	-	-	-	-
Non-utility construction expenditures	(42)	(136)	(188)	(126)	(492)	(210)	(121)	(105)	(261)	(697)	(90)	(90)	(145)	(145)	(471)	(535)	(535)	(535)
Net Cash Flows Used in Investing Activities	**(667)**	**(1,058)**	**(962)**	**(970)**	**(3,657)**	**(1,118)**	**(1,868)**	**(731)**	**(1,266)**	**(4,983)**	**(879)**	**(879)**	**(934)**	**(934)**	**(3,625)**	**(3,696)**	**(3,638)**	**(3,638)**
Financing Activities																		
Net payments of short-term debt	(281)	726	(85)	369	729	(330)	(491)	(107)	-	(928)	-	-	-	-	-	-	-	-
Retirement of long-term debt	-	(45)	(100)	(355)	(500)	(1)	(5)	(401)	-	(407)	(72)	(72)	(72)	(72)	(286)	(572)	-	-
SubIssuance of long-term debt	-	238	-	909	1,147	218	1,547	-	450	2,215	250	350	350	50	1,000	1,000	1,000	-
Parent Issuance of long-term debt	-	-	-	-	-	-	-	-	400	400	50	100	100	100	350	(500)	(500)	(500)
Application of funds held for redemption of LT debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of common stock	(2)	(5)	(2)	10	1	15	714	11	-	740	20	20	20	20	80	80	80	80
Refunding of preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt issuance costs/other	(1)	(1)	-	(13)	(15)	(6)	(10)	(1)	-	(17)	-	-	-	-	-	-	-	-
Common stock dividends	(190)	(190)	(180)	(173)	(733)	(185)	(193)	(192)	(205)	(775)	(209)	(210)	(210)	(210)	(838)	(866)	(893)	(920)
Net Cash Flows from (used in) Financing Activities	**(474)**	**723**	**(367)**	**747**	**629**	**(289)**	**1,562**	**(690)**	**645**	**1,228**	**39**	**189**	**189**	**(111)**	**306**	**(858)**	**(313)**	**(1,340)**
Net change in cash	(582)	592	(618)	855	249	(883)	801	(712)	219	(579)	8	(170)	317	(217)	(62)	(1,017)	175	60
Beginning cash balance	699	117	709	91	699	944	61	862	150	948	369	377	207	524	369	307	(710)	(535)
Ending cash balance	**117**	**709**	**91**	**946**	**948**	**61**	**862**	**150**	**369**	**369**	**377**	**207**	**524**	**307**	**307**	**(710)**	**(535)**	**(475)**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

EDISON INTERNATIONAL (EIX, NEUTRAL, $72.10)

Uncertainty on several fronts; awaiting updates on SCE rate filing, ROE extension, SONGS settlement, MHI dispute, and Edison Energy strategy, to name a few.

- **Maintaining our Neutral stance as we await progress/resolution on several fronts, with a value-destructive regulatory environment in CA, and a relatively less constructive macro back-drop for regulated utilities.** We are looking for updates on SCE's rate case, whether the authorized ROE can be extended, discussions with parties to the recently re-opened SONGS settlement, the dispute with MHI (7011.TYO, NC, JPY538.30), Edison Energy business plans and strategy, to name a few; we remain on the sidelines as we await progress, and as the macro back-drop has become less constructive for regulated utilities facing a steeper yield curve. **In our view, EIX's fundamental story remains strong, with above-average growth from solid utility operations and a strong management team taking the reins, although too early for us to make a call with so many areas of uncertainty.** We would also note EIX has a natural hedge against rising rates to some degree, with formulaic ROEs that adjust when rates move beyond an established threshold.

- **Introducing 2019 and 2020 estimates of $4.76/$5.27 vs. consensus estimates of $4.73/$5.32.** We are introducing estimates of $4.76 and $5.27 for 2019 and 2020 based on utility investment of ~$5bn per year, consistent with SCE's 2018 GRC request and driving 8.5% annual rate base and earnings growth based on ~10.5% ROEs, which we assume carry forward as EIX's currently authorized 10.45% ROE may be extended. The 2018 GRC request includes $2.3bn of grid modernization investment over the five-year period, a new area of focus for SCE that has not been proposed before; we discount the first tranche of grid modernization CapEx in 2018, as both EIX and regulators are in unfamiliar territory, although we incorporate EIX's requested amounts in our 2019 and 2020 estimates.

- **Updating our 2016/2017/2018 EPS estimates to $3.91/$4.12/$4.34 vs. consensus estimates of $3.91/$4.11/$4.34.** Our updated 2016 estimate is slightly higher as productivity ($0.30) and energy efficiency ($0.04) benefits should support some incremental earnings above SCE's traditional rate base earnings, net of non-utility drag ($0.12 at Edison Energy, $0.15 at HoldCo); we are now at $3.91, the mid-point of management's 2016 outlook. Our 2017 and 2018 estimates are unchanged as they already reflected SCE's authorized investment/rate plans and its 2018 GRC request. We model annual CapEx of ~$4.2bn through 2018, consistent with authorized spending levels in 2017 and slightly less than 2018 to handicap grid modernization proposals the commission will likely be considering for the first time.

- **Going into 2017 with a lot of balls in the air – An opportunity for new leadership taking the reins at EIX to hit the ground running.** We are confident in new leadership taking the reins at EIX, and their ability to manage a relatively busy to-do list. We believe there are plenty of opportunities to show early successes and we look forward to getting back to EIX's clean and simple regulated growth story, although we will be on the CPUC's clock for the most part, or potentially other stakeholders that participate in various regulatory processes. Note we aren't particularly concerned with SCE's GRC or the absence of an ROE extension, not relative to the re-opened SONGs settlement, where EIX will have to go back to various parties to discuss possible adjustments to the settlement. Keep in mind that these discussions are set to begin this month, and may remain an overhang over the next couple of months – at this stage it's increasingly likely EIX will need to reach another settlement that will likely entail further refunds/unrecoverables associated with SONGS.

- **Valuation:** We ascribe a 0.5x premium to our 15.5x regulated utility target multiple to reflect above-average growth coupled with relatively constructive rate design and cost recovery mechanisms; we apply our EIX-specific 16x multiple to our 2018 EPS estimate of $4.34 to arrive at a fair value estimate of $69.

Guggenheim's EIX EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.89A	1.15A	1.15A	0.92A	4.11A	
2016E	0.82A	0.85A	1.29A	0.94E	3.91E	*3.91E*
Prior				*0.90E*	*3.87E*	
2017E	0.93E	0.94E	1.45E	0.80E	4.12E	*4.11E*
Prior	*0.93E*	*0.94E*	*1.45E*	*0.80E*	*4.12E*	
2018E	0.97E	0.99E	1.54E	0.85E	4.34E	*4.34E*
Prior	*0.97E*	*0.99E*	*1.53E*	*0.85E*	*4.34E*	
2019E	1.06E	1.08E	1.68E	0.93E	4.76E	*4.73E*
2020E	1.16E	1.20E	1.87E	1.04E	5.27E	*5.32E*

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risk:** Risks to our valuation mainly encompass traditional risk factors inherent with all electric utilities including: (1) rate case risk; (2) lower CapEx outlook; (3) interest rate changes above what we account for in our regression model.

  Upside risk to our fair value estimate include: (1) favorable regulatory settlements; (2) improved regulatory construct in CA; and (3) higher CapEx outlook.

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EDISON INTERNATIONAL MODEL

CONSOLIDATED FINANCIALS

INCOME STATEMENT ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating revenue																		
Utility (SCE)	2,508	2,901	3,757	2,319	11,485	2,435	2,768	3,752	2,779	11,734	2,757	3,133	4,089	2,750	12,729	13,163	13,739	14,364
Non utility power generation (EME)					-					-					-	-	-	-
Financial services (Edison Capital)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Parent	4	7	6	21	39	5	9	15	-	29	-	-	-	-	-	-	-	-
Operating revenue	**2,512**	**2,908**	**3,763**	**2,340**	**11,524**	**2,440**	**2,777**	**3,767**	**2,779**	**11,763**	**2,757**	**3,133**	**4,089**	**2,750**	**12,729**	**13,163**	**13,739**	**14,364**
Fuel	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchased power	786	1,078	1,785	617	4,266	794	1,064	1,719	623	4,200	802	1,075	1,736	629	4,242	4,285	4,327	4,371
Provisions for regulatory adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operations and maintenance	636	743	780	831	2,990	629	721	740	847	2,937	623	708	723	819	2,872	2,895	2,923	2,952
Asset impairment	-	-	-	5	5	-	21	-	-	21	-	-	-	-	-	-	-	-
Depreciation and amortization	463	481	506	469	1,919	477	505	521	560	2,063	571	583	594	605	2,353	2,535	2,734	2,941
Property and taxes	89	82	84	81	336	92	85	92	81	350	92	86	92	82	351	355	358	362
Net (gain)/loss on sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating expenses	**1,974**	**2,384**	**3,155**	**2,003**	**9,516**	**1,992**	**2,396**	**3,072**	**2,111**	**9,571**	**2,088**	**2,451**	**3,145**	**2,135**	**9,818**	**10,069**	**10,343**	**10,626**
Operating income	**538**	**524**	**608**	**337**	**2,008**	**448**	**381**	**695**	**668**	**2,192**	**669**	**683**	**945**	**615**	**2,912**	**3,093**	**3,396**	**3,738**
Interest and dividend income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity in income from subs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non operating income	39	43	32	60	174	31	33	32	23	119	23	23	23	23	92	92	92	92
Interest expense	(143)	(138)	(138)	(136)	(555)	(140)	(144)	(147)	(149)	(580)	(153)	(158)	(160)	(165)	(636)	(703)	(793)	(869)
Other non operating deductions	(10)	(17)	(15)	(17)	(59)	(6)	(11)	(9)	(15)	(41)	(15)	(15)	(15)	(15)	(60)	(60)	(60)	(60)
Dividends on preferreds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends on utility preferreds	(28)	(28)	(28)	(29)	(113)	(30)	(31)	(31)	(29)	(121)	(30)	(31)	(31)	(29)	(121)	(121)	(121)	(121)
EBT	**396**	**384**	**459**	**215**	**1,455**	**303**	**228**	**540**	**498**	**1,569**	**494**	**502**	**762**	**429**	**2,187**	**2,302**	**2,514**	**2,780**
Tax rate	27%	2%	18%	136%	33%	13%	-21%	23%	38%	19%	38%	38%	37%	38%	38%	38%	38%	38%
Income tax expense	106	6	82	292	486	38	(47)	122	190	303	189	192	286	165	831	873	949	1,045
Minority interest	(9)	(1)	(1)	(5)	(16)	(5)	(3)	(1)										
Income from continuing operations	**299**	**379**	**378**	**(71)**	**985**	**270**	**278**	**419**	**308**	**1,275**	**305**	**310**	**476**	**264**	**1,355**	**1,429**	**1,565**	**1,735**
Discontinued ops.		-	43	(8)	35	1	(2)	(7)	-	(8)	-	-	-	-	-	-	-	-
Tax expense (benefit) from discontinued ops.																		
Noncontolling interest / other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income	**299**	**379**	**421**	**(79)**	**1,020**	**271**	**276**	**412**	**308**	**1,267**	**305**	**310**	**476**	**264**	**1,355**	**1,429**	**1,565**	**1,735**
Discontinued ops.	-	-	(43)	8	(35)	(1)	2	7	-	8	-	-	-	-	-	-	-	-
Other adjustments (after tax)	(5)	(1)	(1)	374	367	-	3	7	-	10	-	-	-	-	-	-	-	-
Core Net Income - Non GAAP	**294**	**378**	**377**	**303**	**1,352**	**270**	**281**	**426**	**308**	**1,285**	**305**	**310**	**476**	**264**	**1,355**	**1,429**	**1,565**	**1,735**
Reported GAAP EPS	$ 0.91	$ 1.15	$ 1.28	$ (0.24)	$ 3.10	$ 0.83	$ 0.84	$ 1.25	$ 0.94	$ 3.85	$ 0.93	$ 0.94	$ 1.45	$ 0.80	$ 4.12	$ 4.34	$ 4.76	$ 5.27
Continuing ops EPS	$ 0.91	$ 1.15	$ 1.15	$ (0.22)	$ 3.00	$ 0.82	$ 0.84	$ 1.27	$ 0.94	$ 3.88	$ 0.93	$ 0.94	$ 1.45	$ 0.80	$ 4.12	$ 4.34	$ 4.76	$ 5.27
Core EPS	**$ 0.89**	**$ 1.15**	**$ 1.15**	**$ 0.92**	**$ 4.11**	$ 0.82	$ 0.85	$ 1.29	$ 0.94	**$ 3.91**	**$ 0.93**	**$ 0.94**	**$ 1.45**	**$ 0.80**	**$ 4.12**	**$ 4.34**	**$ 4.76**	**$ 5.27**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

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EDISON INTERNATIONAL MODEL

CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Cash Flows																		
Net income	318	406	448	(55)	1,117	296	303	449	308	1,285	305	310	476	264	1,355	1,429	1,565	1,735
Depreciation	485	502	528	490	2,005	499	526	550	560	2,063	571	583	594	605	2,353	2,535	2,734	2,941
Cash tax adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other operating cash flow	204	132	848	415	1,599	108	(224)	(27)	29	(114)	30	31	31	29	121	121	121	121
Net change in working capital	(43)	(236)	(759)	826	(212)	(50)	(29)	99	-	20	-	-	-	-	-	-	-	-
CFO	964	804	1,065	1,676	4,509	853	576	1,071	897	3,397	907	923	1,101	898	3,829	4,085	4,420	4,797
Investing Cash Flows																		
Capital expenditures, excl acquisitions	(1,268)	(929)	(937)	(1,091)	(4,225)	(951)	(877)	(945)	(1,053)	(3,826)	(1,100)	(1,100)	(1,100)	(1,100)	(4,400)	(4,500)	(5,200)	(4,900)
Net disposals (acquisitions)	(36)	(12)	290	179	421	106	38	15	-	159	-	-	-	-	-	-	-	-
Other investing cash flows	10	1	24	(123)	(88)	11	(8)	134	-	137	-	-	-	-	-	-	-	-
CFI	(1,294)	(940)	(623)	(1,035)	(3,892)	(834)	(847)	(796)	(1,053)	(3,530)	(1,100)	(1,100)	(1,100)	(1,100)	(4,400)	(4,500)	(5,200)	(4,900)
Financing Cash Flows																		
Change in borrowings	513	306	(277)	(456)	86	25	437	(88)	350	724	300	350	150	400	1,200	1,150	2,000	1,000
Equity raised (buyback)	-	-	-	(6)	(6)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends issued	(136)	(136)	(136)	(136)	(544)	(156)	(157)	(156)	(158)	(627)	(174)	(174)	(174)	(174)	(697)	(763)	(829)	(895)
Other financing cash flows	(64)	(10)	(34)	(16)	(124)	88	(35)	(58)	(17)	(22)	-	-	-	-	-	-	-	-
CFF	313	160	(447)	(614)	(588)	(43)	245	(302)	175	75	126	176	(24)	226	503	387	1,171	105
Foreign currency & other cash flow effects	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Beg Cash	132	115	139	134	132	161	137	111	84	161	103	35	34	11	103	35	6	397
Change in cash	(17)	24	(5)	27	29	(24)	(26)	(27)	19	(58)	(68)	(1)	(23)	24	(68)	(28)	391	2
Discontinued Ops	-				-	-				-	-				-	-	(0)	-
Ending cash	115	139	134	161	161	137	111	84	103	103	35	34	11	35	35	6	397	400

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

EDISON INTERNATIONAL MODEL

CONSOLIDATED FINANCIALS

BALANCE SHEET	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QA	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Cash	115	139	134	161	161	137	111	84	103	103	35	34	11	35	35	6	397	400
AR	752	768	1,211	771	771	649	801	999	999	999	999	999	999	999	999	999	999	999
Inventory	290	276	270	267	267	268	308	310	310	310	310	310	310	310	310	310	310	310
Other current assets	2,623	2,723	2,177	1,455	1,455	1,373	1,439	1,212	1,183	1,183	1,153	1,122	1,091	1,062	1,062	941	820	699
Net tangible fixed assets	33,372	33,726	34,202	35,085	35,085	35,464	35,777	36,231	36,724	36,724	37,253	37,770	38,276	38,771	38,771	40,736	43,202	45,161
Financial assets	5,113	5,046	4,596	4,534	4,534	4,498	4,547	4,452	4,452	4,452	4,452	4,452	4,452	4,452	4,452	4,452	4,452	4,452
Net goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non current assets	8,313	8,561	8,680	7,956	7,956	8,070	8,214	8,269	8,269	8,269	8,269	8,269	8,269	8,269	8,269	8,269	8,269	8,269
Total assets	**50,578**	**51,239**	**51,270**	**50,229**	**50,229**	**50,459**	**51,197**	**51,557**	**52,040**	**52,040**	**52,471**	**52,956**	**53,408**	**53,898**	**53,898**	**55,714**	**58,449**	**60,290**
Accounts payable	1,203	1,294	1,330	1,310	1,310	938	1,166	1,180	1,180	1,180	1,180	1,180	1,180	1,180	1,180	1,180	1,180	1,180
STD, incl curr. portion of LTD	1,440	1,619	1,449	990	990	658	1,496	1,638	1,638	1,638	1,638	1,638	1,638	1,638	1,638	1,638	1,638	1,638
Other current liabilities	1,928	1,923	2,460	2,627	2,627	2,637	2,487	2,524	2,524	2,524	2,524	2,524	2,524	2,524	2,524	2,524	2,524	2,524
LTD, excl curr portion of LTD	11,133	11,265	10,957	10,883	10,883	11,243	10,845	10,407	10,757	10,757	11,057	11,407	11,557	11,957	11,957	13,107	15,107	16,107
Non current provisions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non current liabilities	21,773	21,788	21,443	21,025	21,025	21,348	21,455	21,803	21,786	21,786	21,786	21,786	21,786	21,786	21,786	21,786	21,786	21,786
Minority interest	3	3	11	6	6	4	-	-	-	-	-	-	-	-	-	-	-	-
Preferred equity	2,022	2,022	2,020	2,020	2,020	2,192	2,191	2,191	2,191	2,191	2,191	2,191	2,191	2,191	2,191	2,191	2,191	2,191
Common equity	11,076	11,325	11,600	11,368	11,368	11,439	11,557	11,814	11,964	11,964	12,095	12,230	12,532	12,622	12,622	13,288	14,023	14,864
Total liabilities and SE	**50,578**	**51,239**	**51,270**	**50,229**	**50,229**	**50,459**	**51,197**	**51,557**	**52,040**	**52,040**	**52,471**	**52,956**	**53,408**	**53,898**	**53,898**	**55,714**	**58,449**	**60,290**

Source: Company reports; Guggenheim Securities, LLC estimates.

EVERSOURCE (ES, BUY, $59 PT, $55.28)

Growth levered to New England's low-carbon policy objectives and capacity constraints continue to support infrastructure needs, and not just one or two large projects anymore; RFPs and rate case filings are key items to watch in 2017.

- **Reaffirming our BUY rating and lowering our PT to $59 from $64 on ES – Growth outlook remains above regulated peers despite set-backs for two large projects under development.** ES is levered to infrastructure investment opportunities stemming from New England capacity constraints and low-carbon policy objectives; focus has been on recent set-backs with Northern Pass Transmission and Access Northeast pipeline, and the extent to which growth depends on these two large projects, although **ES has demonstrated ability to back-fill delays with smaller reliability investments in the NT, and has alternative approaches to continue moving these projects forward.** We also highlight two more large projects ES will be pushing in 2017, which diversifies exposure and **gives us some incremental confidence that ES's above-average growth is sustainable;** note our estimates only incorporate one of these large projects (i.e., Northern Pass going into service in late 2019).

- **We are introducing 2019 and 2020 estimates of $3.60/$3.80 vs. consensus $3.57/$3.88.** As we extend our outlook through the end of the decade, we are introducing estimates of $3.60 and $3.80 for 2019 and 2020. Our estimated 8% earnings growth in 2019 reflects Northern Pass transmission going into service at the end of the year, contributing $0.28 in 2019, and $0.30 in 2020 for its first full-year in-service. Our estimates also reflect ROE improvement at Yankee Gas as management anticipates filing a rate case in 2019; we model ROEs improving to 9% in 2020, from ~8% through 2019. We model 6.4% earnings growth through 2020, which is in line with management's long-term outlook for 5-7% growth. Note our estimates do not reflect the 900MMcf/d Access Northeast pipeline, which was originally targeting a 2019 in-service date; ES's 40% interest in the $3bn project would translate to $1.2bn of investment, and an incremental ~$0.20 of potential upside to our estimates.

- **Updating our 2016/2017/2018 EPS estimates to $2.95/$3.16/$3.35 vs. consensus estimates of $2.98/$3.16/$3.31.** Our updated estimates for 2017 and 2018 ($3.16/$3.35) are slightly lower than prior estimates ($3.20/$3.37 for 2017/2018) as we incorporate our latest thinking around upcoming rate cases ES expects to file in Massachusetts (NStar Electric, WMECO) and Connecticut (CL&P) this year. We model ES utilities earning 10.0% ROEs on average through 2020, with continued support from NSTAR Electric as we continue to model 11-12% ROEs with improvement of ES's gas utility ROEs to 10% from 8-9%.

- **Navigating Massachusetts in 2017 is key - Pushing electric rate cases, pursuing RFPs, and partnering strategically for best positioning.** ES plans to file rate cases for NSTAR Electric and WMECO in January 2017, for rates to go into effect in January 2018; we have yet to see specifics around these upcoming proceedings, although National Grid's recent order was a constructive data point, in our view, with the MA Commission approving a 9.9% ROE (10 bps higher than ES secured for NSTAR Gas last year). Rate cases shouldn't be a focal point of concern though, as ES has effectively managed ROEs despite investor perception it over-earns (earnings on energy efficiency programs are additive to base rates) – RFPs will likely be center of attention in MA. ES will participate in another RFP in April 2017 with its Northern Pass Transmission project hoping for a better outcome this year (no large projects were selected in the 2016 three-state RFP), and will also participate in MA's off-shore wind RFP with a recently announced proposal from its partnership with DONG. While we recognize there will be competition for these development opportunities, we continue

to give ES the edge based on local experience and influence, as well as support from key partners and policy stakeholders. ***CT likely next-up for rate case activity (CL&P in June 2017, Yankee Gas in 2019).***

- **Valuation:** Our $59 price target is based on our 2018 EPS estimate of $3.35 and applies our ES-specific target multiple of 17.0x. The 2.0x multiple premium accounts for material exposure to electric and gas transmission investments as well as gas LDCs – both of which inherently trade at a premium to their electric utility counterparts. Including our estimated 3.5% dividend yield equates to a 10% ETR.

Guggenheim's ES EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	FC Cons
2015A	0.80A	0.65A	0.74A	0.60A	2.79A	
2016E	0.77A	0.64A	0.83A	0.71E	2.95E	2.98E
Prior				*0.69E*	*2.93E*	
2017E	0.88E	0.64E	0.90E	0.73E	3.16E	3.16E
Prior	*0.95E*	*0.72E*	*0.83E*	*0.71E*	*3.20E*	
2018E	0.93E	0.69E	0.95E	0.78E	3.35E	3.31E
Prior	*0.99E*	*0.76E*	*0.87E*	*0.75E*	*3.37E*	
2019E	0.99E	0.75E	1.01E	0.84E	3.60E	3.57E
2020E	1.06E	0.81E	1.05E	0.88E	3.80E	3.88E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** Outside of the FERC ROE issue as well as project-specific delays, risks to achieving our price target for ES 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.

SECTOR: . **POWER AND UTILITIES**

January 9, 2017

GUGGENHEIM
EVERSOURCE
CONSOLIDATED FINANCIA
($ in millions unless stated oth
INCOME STATEMENT

	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018	2019	2020
Operating Revenues	2,513	1,817	1,933	1,700	7,964	2,056	1,767	2,040										
Total Operating Revenues	2,513	1,817	1,933	1,700	7,964	2,056	1,767	2,040										
Fuel & Purchase Power	1,162	685	703	537	3,087	755	581	666										
Gross Margin	1,351	1,132	1,230	1,163	4,877	1,301	1,186	1,374	1,272	5,132	1,400	1,186	1,418	1,266	5,270	5,436	5,640	5,889
% of Gross Margin	*11%*	*12%*	*12%*	*13%*	*12%*	*12%*	*13%*	*12%*	*14%*	*13%*	*15%*	*13%*	*12%*	*14%*	*13%*	*13%*	*13%*	*13%*
O&M	333	317	327	352	1,329	320	321	325	316	1,281	346	342	349	339	1,376	1,434	1,507	1,583
Other OPEX	147	102	132	115	496	137	120	149	115	521	132	115	144	110	501	521	521	521
Taxes Other Than Income	149	139	151	151	591	160	154	165	181	660	205	151	171	178	704	727	751	783
EBITDA	722	575	620	544	2,461	684	591	735	660	2,670	718	578	755	638	2,688	2,755	2,861	3,002
Depreciation	164	164	168	170	666	174	177	181	185	717	152	155	158	157	623	617	626	638
Amortization	61	(1)	(17)	(20)	22	21	(9)	44	9	65	21	(9)	45	9	66	66	66	66
Operating Income	497	412	469	394	1,773	489	423	510	466	1,888	544	432	552	472	2,000	2,071	2,169	2,299
Interest Expense, Net	95	92	93	93	372	98	100	100	107	405	110	113	116	119	458	509	558	602
Interest Rate	*4.0%*	*3.8%*	*3.7%*	*3.7%*	*3.7%*	*3.9%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.1%*	*4.1%*
Other Income, Net	6	13	5	10	34	2	8	14	1	25	2	(1)	7	10	18	90	162	178
Income Before Taxes	408	333	382	312	1,435	392	331	424	361	1,508	436	318	443	363	1,560	1,652	1,775	1,875
Income Taxes	153	123	144	119	540	146	125	156	133	561	153	111	155	127	546	578	621	656
Effective Tax Rate	*38%*	*37%*	*38%*	*38%*	*38%*	*37%*	*38%*	*37%*	*37%*	*37%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*	*35%*
Perferreds & Minority	2	2	2	2	8	2	2	2	2	8	2	2	2	2	8	8	8	8
Net Income (Operating)	253	208	236	191	887	244	204	265	226	939	282	205	286	234	1,007	1,066	1,147	1,211
Non Operating Items	-	-	(1)	(9)	(10)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	253	208	235	182	877	244	204	265	226	939	282	205	286	234	1,007	1,066	1,147	1,211
Operating EPS	$0.80	$0.65	$0.74	$0.60	$2.79	$0.77	$0.64	$0.83	$0.71	$2.95	$0.88	$0.64	$0.90	$0.73	$3.16	$3.35	$3.60	$3.80

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

CASH FLOW STATEMENT

	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018	2019	2020
Net Income	255	209	236	182	884	246	206	267	226	945	282	205	286	234	1,007	1,066	1,147	1,211
D&A	164	164	168	170	666	174	177	181	185	717	152	155	158	157	623	617	626	638
Deferred Taxes	148	29	(23)	338	492	141	110	51	13	315	15	11	16	13	55	58	62	66
Pension Expense	26	22	23	24	96	12	11	9	-	32	-	-	-	-	-	-	-	-
Pension Contributions	(27)	(4)	194	(325)	(162)	(30)	(36)	-	-	(66)	-	-	-	-	-	-	-	-
Change in Working Capital	(13)	(55)	125	(80)	(23)	36	(63)	34	-	7	-	-	-	-	-	-	-	-
Other	(62)	9	(238)	(237)	(528)	(78)	74	130	-	125	-	-	-	-	-	-	-	-
Operating Cash Flow	492	374	486	73	1,424	500	478	672	424	2,075	449	371	459	404	1,684	1,740	1,834	1,914
Investment in PP&E	(363)	(378)	(437)	(547)	(1,724)	(431)	(438)	(490)	(755)	(2,114)	(591)	(591)	(591)	(591)	(2,363)	(2,092)	(2,092)	(2,092)
Asset Purchases	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Asset Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	(2)	27	(6)	46	65	7	(5)	(5)	-	(2)	-	-	-	-	-	-	-	-
Investing Cash Flows	(365)	(351)	(443)	(501)	(1,659)	(425)	(442)	(495)	(755)	(2,116)	(591)	(591)	(591)	(591)	(2,363)	(2,092)	(2,092)	(2,092)
Change in Short-term Debt	(400)	(50)	62	145	(242)	(391)	(3)	(33)	-	(426)	-	-	-	-	-	-	-	-
Change in Long-term Debt	450	133	25	400	1,008	500	100	-	475	1,075	295	375	287	341	1,297	1,013	966	936
Net Preferreds Issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Common Issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preferred Dividends	(2)	(2)	(2)	(2)	(8)	(2)	(2)	(2)	(2)	(8)	(2)	(2)	(2)	(2)	(8)	(8)	(8)	(8)
Common Dividends	(132)	(134)	(131)	(132)	(530)	(141)	(141)	(141)	(142)	(566)	(152)	(153)	(153)	(152)	(610)	(654)	(701)	(751)
Other	(11)	(4)	2	5	(8)	(14)	(3)	(0)	-	(17)	-	-	-	-	-	-	-	-
Financing Cash Flows	(95)	(57)	(44)	416	220	(48)	(48)	(176)	331	58	141	220	131	187	679	352	258	178
Change in Cash	32	(35)	(1)	(12)	(15)	27	(12)	1	-	16	-	-	-	-	-	-	-	-
Beginning Cash	39	71	36	36	39	24	51	39	40	24	40	40	40	40	40	40	40	40
Ending Cash	71	36	38	24	24	51	39	40	40	40	40	40	40	40	40	40	40	40

Source: Company reports; Guggenheim Securities, LLC estimates.

Balance Sheet

	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018	2019	2020
Assets																		
Cash & Equiv	71	37	36	24	**24**	51	39	40	40	**40**	40	40	40	40	**40**	**40**	**40**	**40**
Receivables, Net	1,131	904	928	775	**775**	891	806	963	963	**963**	963	963	963	963	**963**	**963**	**963**	**963**
Unbilled Revenues	229	205	198	203	**203**	192	204	188	188	**188**	188	188	188	188	**188**	**188**	**188**	**188**
Fuel, Materials and Supplies	281	290	302	336	**336**	359	293	311	311	**311**	311	311	311	311	**311**	**311**	**311**	**311**
Regulatory Asset	747	710	654	846	**846**	919	863	752	752	**752**	752	752	752	752	**752**	**752**	**752**	**752**
Marketable Securities	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Other	332	305	250	434	**434**	178	210	160	160	**160**	160	160	160	160	**160**	**160**	**160**	**160**
Current Assets	2,793	2,450	2,368	2,619	**2,619**	2,591	2,415	2,415	2,415	**2,415**	2,415	2,415	2,415	2,415	**2,415**	**2,415**	**2,415**	**2,415**
Electric PP&E																		
Gas PP&E																		
Other PP&E																		
Gross PP&E	23,804	24,247	24,475	25,227	**25,227**	25,498	25,943	26,289	27,044	**27,044**	27,635	28,225	28,816	29,407	**29,407**	**31,499**	**33,591**	**35,683**
Accumulated Depreciation	6,075	6,189	6,289	6,397	**6,397**	6,514	6,617	6,728	6,913	**6,913**	7,066	7,221	7,378	7,536	**7,536**	**8,152**	**8,778**	**9,416**
Net PP&E	17,729	18,058	18,186	18,830	**18,830**	18,984	19,326	19,561	20,131	**20,131**	20,569	21,005	21,438	21,871	**21,871**	**23,346**	**24,813**	**26,267**
CWIP	1,082	1,021	1,220	1,063	**1,063**	1,113	1,123	1,247	1,247	**1,247**	1,247	1,247	1,247	1,247	**1,247**	**1,247**	**1,247**	**1,247**
Other	-	-	-	0	**0**	-	(0)	0	0	**0**	0	0	0	0	**0**	**0**	**0**	**0**
Net PP&E	18,811	19,079	19,406	19,892	**19,892**	20,097	20,448	20,808	21,378	**21,378**	21,816	22,252	22,685	23,118	**23,118**	**24,593**	**26,060**	**27,514**
Regulatory Assets	3,982	4,017	3,952	3,738	**3,738**	3,703	3,662	3,470	3,470	**3,470**	3,470	3,470	3,470	3,470	**3,470**	**3,470**	**3,470**	**3,470**
Goodwill	3,519	3,519	3,519	3,519	**3,519**	3,519	3,519	3,519	3,519	**3,519**	3,519	3,519	3,519	3,519	**3,519**	**3,519**	**3,519**	**3,519**
Marketable Securities	518	498	477	516	**516**	503	519	526	526	**526**	526	526	526	526	**526**	**526**	**526**	**526**
Derivative Assets	71	45	46	43	**43**	46	55	66	66	**66**	66	66	66	66	**66**	**66**	**66**	**66**
Other Long-Term Assets	259	272	279	252	**252**	254	264	279	279	**279**	279	279	279	279	**279**	**279**	**279**	**279**
Total Assets	29,952	29,880	30,046	30,580	**30,580**	30,712	30,883	31,082	31,652	**31,652**	32,090	32,526	32,959	33,392	**33,392**	**34,868**	**36,334**	**37,789**
Notes Payable	1,004	954	1,016	1,161	**1,161**	770	767	735	735	**735**	735	735	735	735	**735**	**735**	**735**	**735**
Current Portion of LT Debt	246	279	229	229	**229**	379	179	374	374	**374**	374	374	374	374	**374**	**374**	**374**	**374**
Accounts Payable	739	599	611	814	**814**	646	632	680	680	**680**	680	680	680	680	**680**	**680**	**680**	**680**
Regulatory Liabilities	201	209	518	108	**108**	111	119	160	160	**160**	160	160	160	160	**160**	**160**	**160**	**160**
Derivative Liabilities	94	94	97	97	**97**	96	93	87	87	**87**	87	87	87	87	**87**	**87**	**87**	**87**
Other Current Liabilities	829	705	502	581	**581**	592	514	607	607	**607**	607	607	607	607	**607**	**607**	**607**	**607**
Current Liabilities	3,112	2,839	2,972	2,990	**2,990**	2,594	2,304	2,642	2,642	**2,642**	2,642	2,642	2,642	2,642	**2,642**	**2,642**	**2,642**	**2,642**
Deferred Income Taxes	4,575	4,606	4,613	5,148	**5,148**	5,284	5,399	5,443	5,456	**5,456**	5,471	5,483	5,498	5,511	**5,511**	**5,569**	**5,631**	**5,696**
Regulatory Liabilities	525	511	518	514	**514**	526	528	550	550	**550**	550	550	550	550	**550**	**550**	**550**	**550**
Derivative Liabilities	397	381	366	337	**337**	344	382	427	427	**427**	427	427	427	427	**427**	**427**	**427**	**427**
Accrued Pension	1,605	1,637	1,498	1,407	**1,407**	1,355	1,295	1,116	1,116	**1,116**	1,116	1,116	1,116	1,116	**1,116**	**1,116**	**1,116**	**1,116**
Rate Reduction Bonds	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Long-Term Debt	8,602	8,690	8,757	8,806	**8,806**	9,145	8,436	9,235	9,710	**9,710**	10,005	10,379	10,666	11,007	**11,007**	**12,020**	**12,986**	**13,923**
Other Liabilities	870	876	872	871	**871**	869	1,875	876	876	**876**	876	876	876	876	**876**	**876**	**876**	**876**
Total Liabilities	19,686	19,539	19,596	20,073	**20,073**	20,118	20,218	20,289	20,777	**20,777**	21,087	21,473	21,775	22,129	**22,129**	**23,200**	**24,228**	**25,230**
Noncontrolling Interest - Pref Stk	156	156	156	156	**156**	156	156	156	156	**156**	156	156	156	156	**156**	**156**	**156**	**156**
Common Shareholders' Equity	10,110	10,185	10,294	10,352	**10,352**	10,438	10,509	10,637	10,719	**10,719**	10,847	10,897	11,028	11,108	**11,108**	**11,512**	**11,950**	**12,403**
Noncontrolling Interests Equity	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Total Equity	10,110	10,185	10,294	10,352	**10,352**	10,438	10,509	10,637	10,719	**10,719**	10,847	10,897	11,028	11,108	**11,108**	**11,512**	**11,950**	**12,403**
Total Liabilities & Equity	29,952	29,880	30,046	30,580	**30,580**	30,712	30,883	31,082	31,652	**31,652**	32,090	32,526	32,959	33,392	**33,392**	**34,868**	**36,334**	**37,789**

Source: Company reports; Guggenheim Securities, LLC estimates.

ENTERGY CORP (ETR, BUY, $79 PT, $73.00)

Focus Remains on Nuclear De-Risking and Managing Regulatory Construct

- **Reiterating BUY rating on ETR and raising our price target to $79 from $78 – Turning investors' attention to regulated utility growth/nuclear de-risking at attractive valuation levels.** The past is the past – we believe ETR is reaching an inflection point and it's time to finally focus on core regulated growth with the final rebasing of outlook. ETR continues to execute the plan of shedding merchant nuclear exposure with the recent announced shutdown of Palisades despite regulated type of earnings from the PPA, and the sale of Fitzpatrick. With the two units at Indian Point being the only unregulated nuclear plant left post Pilgrim closure in '19, ETR has been making a quicker exit, working to eliminate the overhangs of owning merchant nuclear and focusing on core regulated growth with the final rebasing of outlook; an announcement around retiring Indian Point could come next – a key potential catalyst. **ETR remains one of the few names within our coverage where we believe valuation isn't reflecting potentially critical event-driven items – if business mix continues to clear up, we believe the multiple could re-rate as we have seen in the past in this sector.**

- **We are introducing 2019 and 2020 EPS estimates of $4.79/$5.12, vs. Street estimates of $4.96/$5.14**. Our 6% regulated utility earnings growth is premised upon $12bn of capex spread among transmission, distribution and generation through 2020, with ratebase reaching $25.7bn at 6% growth rate and earning an average ROE of ~9.2% on ~50% equity. We estimate 1% sales growth through 2020, which could be conservative as ETR could achieve higher load growth driven by industrial customers. De-regulated nuclear segment continues to remain a drag on our results but drag is abating with exits. Swing factor remains whether ETR files for a GRC in late 2018 or continues the FRP route in Louisiana – we continue to expect a GRC filing. **Note: our '19 EPS estimate is materially below consensus as we conservative account for higher capital spending at regulated nuclear with higher regulatory lag/slower recovery than management expects.**

- **Updating our 2016/2017/2018 EPS estimates to $6.81/$4.51/$4.69, lower vs. consensus estimates of $6.84/$4.58/$4.65.** We conservatively reduce our EPS estimates to account for higher capital spending at regulated nuclear with higher regulatory lag/slower recovery vs. prior. At EWC, we assume Fitzpatrick retires in 2017, Palisades retires in 2H18 and Pilgrim retires in 2H19. Our updated estimates incorporate 12/22/2016 forward curves. **Potential upside to our forecast:** management's base case utility plan may likely prove conservative as we see potential to accelerate $6-8bn of distribution related CapEx (i.e., automation, DR, customer info systems) not currently incorporated in the base plan – upside but waiting on more visibility.

- **2017 watch: With sale of Fitzpatrick done, closure of Palisades/Pilgrim coming; Indian Point announcement could be next.** Following the sale of Fitzpatrick/shutdown of Palisades and Pilgrim, ETR would be left with one unregulated nuclear plant: Indian Point, one of few nukes operating in-the-money due to location and economies of scale. We recently hosted management and it was evident to us that they do not wish to be in the merchant nuclear business, and further evidence suggests they are making a quick exit (i.e., irrespective of a plant making money). **Using mosaic theory, we believe IP could be out of the mix next with a deal that would satisfy all parties especially to appease the NY Governor and various other parties** (e.g., unspoken agreement associated with NY's ZEC and ETR's sale of Fitzpatrick), in our view. So, it is increasingly clear to us the Fitzpatrick sale was just a piece of a broader conversation in NY – **management indicated they**

had very constructive conversations with the Governor on his energy policy vision, although downplayed their presence in NY going forward – which aligns with our view that an announcement around retiring Indian Point could come next. **Current share price ascribes negative value for Indian Point, in our view, so a deal could be key catalyst.**

- **Valuation:** Our $79 price target is based on a SOTP analysis and includes 1) ~$92/share for the regulated utilities based on our 2018E EPS of $5.96 and our group average regulated target multiple of 15.5x; 2) parent drag (ex. interest expense) of ($12)/share; and 3) EWC, which has an enterprise value of $606mm when applying a 6x EV/EBITDA multiple to our '18 open EBITDA estimate of $192mm. We also adjust for hedges and NPV of future liability for potential cooling towers/wedge wire spend for Indian Point (50/50 probability, which puts us on the more conservative side), ultimately ~$0/share. After backing out non-utility debt of ($5)/share, we arrive at our 12-month price target of $79.

Guggenheim's ETR EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	1.68A	0.83A	1.90A	1.58A	5.99A	
2016E	1.35A	3.12A	2.31A	0.03E	6.81E	6.84E
Prior				*0.20E*	*6.99E*	
2017E	0.97E	1.30E	2.12E	0.12E	4.51E	4.58E
Prior	*1.04E*	*1.28E*	*2.24E*	*0.17E*	*4.73E*	
2018E	1.02E	1.39E	2.15E	0.13E	4.69E	4.65E
Prior	*1.01E*	*1.31E*	*2.31E*	*0.20E*	*4.82E*	
2019E	1.03E	1.38E	2.20E	0.18E	4.79E	4.92E
2020E	1.11E	1.46E	2.27E	0.28E	5.12E	5.14E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. ETR is still inherently a long natural gas call, with gas the marginal price setter in New England and New York.

  The remaining risks center around the regulated utilities, particularly the uncertainty around nuclear costs and recovery, in addition to traditional risks inherent with all utilities, including: 1) rate case risk; 2) lower capex outlook; and 3) interest rate changes above what we account for in our regression model.

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CONSOLIDATED FINANCIALS

Income Statement ($ millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Revenues	2,920	2,713	3,371	2,509	11,513	2,610	2,464	3,125	2,600	10,798	2,600	2,548	3,055	2,599	10,801	10,915	10,884	11,036
Utility	732	741	979	414	2,866	733	817	1,138	617	3,305	831	914	1,132	637	3,515	3,685	3,917	4,091
Competitive	260	33	131	57	481	210	83	112	54	459	69	77	96	53	295	246	107	99
Parent, other & elimination	(42)	(44)	(41)	(53)	(179)	(44)	(47)	(44)	(44)	(179)	(53)	(54)	(53)	(51)	(210)	(210)	(210)	(210)
EBITDA	**950**	**730**	**1,069**	**418**	**3,168**	**899**	**852**	**1,206**	**628**	**3,585**	**848**	**937**	**1,176**	**639**	**3,600**	**3,721**	**3,813**	**3,979**
Utility	458	461	701	63	1,683	451	523	847	300	2,121	534	605	826	304	2,269	2,377	2,545	2,665
Competitive	163	(31)	38	(32)	138	122	(2)	12	(30)	103	(24)	(5)	14	(29)	(44)	(45)	(125)	(96)
Parent, other & elimination	(42)	(44)	(41)	(53)	(181)	(44)	(48)	(44)	(46)	(182)	(55)	(56)	(55)	(53)	(218)	(218)	(218)	(218)
EBIT	**579**	**386**	**697**	**(22)**	**1,640**	**528**	**473**	**815**	**225**	**2,041**	**455**	**545**	**785**	**222**	**2,007**	**2,114**	**2,201**	**2,351**
Utility	223	200	360	314	1,097	195	376	444	94	1,108	242	285	424	89	1,040	1,077	1,152	1,200
Competitive	123	(4)	32	61	212	80	251	19	(16)	335	(8)	9	17	(9)	9	8	(44)	(25)
Parent, other & elimination	(48)	(47)	(51)	(59)	(206)	(44)	(58)	(63)	(72)	(236)	(60)	(60)	(59)	(58)	(238)	(238)	(238)	(238)
Net income, reported	**298**	**149**	**341**	**316**	**1,103**	**231**	**569**	**400**	**6**	**1,206**	**174**	**234**	**382**	**21**	**812**	**848**	**871**	**937**
Recurring net income	303	149	341	282	1,076	242	559	416	6	1,222	174	234	382	21	812	848	871	937
Utility	$1.24	$1.11	$2.01	$1.75	$6.11	$1.09	$2.09	$2.47	$0.52	$6.17	$1.35	$1.59	$2.36	$0.49	$5.78	$5.96	$6.34	$6.56
Competitive	$ 0.71	$ (0.02)	$ 0.18	$ 0.16	$1.02	$ 0.51	$ 1.34	$ 0.19	($0.09)	$1.96	($0.04)	$0.05	$0.10	($0.05)	$0.05	$0.05	($0.24)	($0.13)
Competitive generation and other	$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	$0.00	$0.00
Parent, other & elimination	($0.27)	($0.26)	($0.29)	($0.33)	($1.14)	($0.25)	($0.32)	($0.35)	($0.40)	($1.32)	($0.33)	($0.34)	($0.33)	($0.32)	($1.32)	($1.31)	($1.31)	($1.30)
Recurring EPS	**$1.68**	**$0.83**	**$1.90**	**$1.58**	**$5.99**	**$1.35**	**$3.12**	**$2.31**	**$0.03**	**$6.81**	**$0.97**	**$1.30**	**$2.12**	**$0.12**	**$4.51**	**$4.69**	**$4.79**	**$5.12**

Source: Company reports; Guggenheim Securities, LLC estimates.

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CONSOLIDATED FINANCIALS

Cash Flow Statement ($ millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Net income + preferred dividend requirements	303	154	(718)	316	54	235	573	393	6	1,207	174	234	382	21	812	848	871	937
Depreciation	526	544	543	329	1,942	500	513	536	368	1,917	353	354	351	378	1,436	1,466	1,486	1,518
Changes in working capital	(274)	(55)	84	360	116	(41)	(82)	(241)	-	(364)	-	-	-	-	-	-	-	-
Other significant operating activities	56	84	1,103	(64)	1,179	(161)	(284)	312	-	(133)	-	-	-	-	-	-	-	-
Operating cash flows	**611**	**727**	**1,011**	**942**	**3,291**	**533**	**719**	**1,000**	**374**	**2,626**	**528**	**588**	**734**	**399**	**2,248**	**2,314**	**2,357**	**2,455**
Capital expenditures - Utility	(563)	(563)	(563)	(563)	(2,250)	(875)	(875)	(875)	(875)	(3,500)	(775)	(775)	(775)	(775)	(3,100)	(3,100)	(3,200)	(2,700)
Capital expenditures - Other	30	(0)	(43)	(237)	(251)	239	217	166	166	(265)	(64)	(64)	(64)	(64)	(255)	(200)	(200)	(200)
Other significant investing activities	(167)	(107)	(210)	377	(108)	(1,242)	270	(7)	-	(979)	110	-	-	-	110	-	-	-
Investing cash flows	**(700)**	**(670)**	**(816)**	**(422)**	**(2,609)**	**(1,878)**	**(388)**	**(716)**	**(709)**	**(4,744)**	**(729)**	**(839)**	**(839)**	**(839)**	**(3,245)**	**(3,300)**	**(3,400)**	**(2,900)**
Changes in LTD:	(197)	(322)	430	237	148	966	(530)	842		1,279					-	-	-	-
LTD - Utility	-	-	-	-	-	-	-	-	350	350	310	310	310	310	1,240	1,240	1,280	1,080
LTD - Competitive	-	-	-	-	-	-	-	-	-	-		-	-	-	-	-	-	-
LTD - Parent	-	-	-	-	-	-	-	-		-					-	-	-	-
Changes in STD	210	132	(158)	(288)	(104)	272	259	(592)	-	(61)	-	-	-	-	-	-	-	-
Changes in preferred & minority	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in common stock	(2)	1	(169)	0	(170)	6	11	16	-	33	-	-	-	-	-	-	-	-
Dividends, preferred and common	(154)	(154)	(154)	(157)	(619)	(157)	(157)	(159)	(152.32)	(625)	(156.12)	(156.35)	(156.57)	(156.80)	(626)	(651)	(691)	(695)
Other financing activity	(9)	16	(14)	(2)	(9)	(1)	(10)	(81)	-	(91)	-	-	-	-	-	170	-	-
Financing cash flows	**(153)**	**(327)**	**(65)**	**(209)**	**(753)**	**1,086**	**(427)**	**27**	**198**	**884**	**154**	**154**	**153**	**153**	**614**	**759**	**589**	**385**
Free cash flows, after dividends	**(243)**	**(97)**	**41**	**363**	**64**	**(1,502)**	**174**	**126**	**(487)**	**(1,691)**	**(357)**	**(408)**	**(262)**	**(597)**	**(1,623)**	**(1,637)**	**(1,734)**	**(1,140)**
Effect of exchange rates on cash and cash equivalents			-															
Beginning cash	1,422	1,181	910	1,041	1,181	1,351	1,092	996	1,307	1,092	1,170	1,123	1,025	1,074	1,123	651	406	47
Changes in cash	(241)	(270)	130	310	(71)	(259)	(96)	311	(137)	(181)	(47)	(98)	48	(287)	(383)	(227)	(454)	(60)
Ending cash	**1,181**	**910**	**1,041**	**1,351**	**1,351**	**1,092**	**996**	**1,307**	**1,170**	**1,170**	**1,123**	**1,025**	**1,074**	**787**	**787**	**560**	**106**	**45**

Source: Company reports; Guggenheim Securities, LLC estimates.

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CONSOLIDATED FINANCIALS

BALANCE SHEET ($ millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
ASSETS																		
Total cash and cash equivalents	1,181	910	1,041	1,351	1,351	1,092	996	1,307	1,170	1,170	1,123	1,025	1,074	787	787	560	106	45
Inventory	1,158	1,151	1,095	1,091	1,091	1,101	1,112	1,107	1,107	1,107	1,107	1,107	1,107	1,107	1,107	1,107	1,107	1,107
Decommissioning trust funds	5,453	5,389	5,191	5,350	5,350	5,452	5,556	5,671	5,671	5,671	5,671	5,671	5,671	5,671	5,671	5,671	5,671	5,671
PP&E	28,808	28,858	27,987	27,824	27,824	28,982	29,070	29,329	29,670	29,670	30,045	30,530	31,018	31,479	31,479	33,312	35,226	36,609
Goodwill	377	377	377	377	377	377	377	377	377	377	377	377	377	377	377	377	377	377
Accumulated deferred income taxes	53	57	56	55	55	122	122	123	123	123	123	123	123	123	123	123	123	123
Other	9,348	9,524	9,296	8,599	8,599	8,809	8,644	9,823	9,823	9,823	9,823	9,823	9,823	9,823	9,823	9,823	9,823	9,823
Total assets	**46,378**	**46,266**	**45,042**	**44,648**	**44,648**	**45,934**	**45,877**	**47,738**	**47,941**	**47,941**	**48,270**	**48,657**	**49,193**	**49,367**	**49,367**	**50,974**	**52,433**	**53,755**
LIABILITIES AND EQUITY																		
Currently maturing long-term debt	897	795	279	214	214	797	672	750	750	750	750	750	750	750	750	750	750	750
Notes payable and commercial paper	808	940	782	494	494	766	1,025	433	433	433	433	433	433	433	433	433	433	433
Deferred taxes and ITCs	9,410	9,440	9,034	8,541	8,541	8,699	8,412	8,740	8,740	8,740	8,740	8,740	8,740	8,740	8,740	8,740	8,740	8,740
Decommissioning and asset retirement cost liai	4,513	4,486	4,669	4,790	4,790	4,808	4,869	6,101	6,101	6,101	6,101	6,101	6,101	6,101	6,101	6,101	6,101	6,101
Pension and other postretirement liabilities	3,585	3,522	3,334	3,187	3,187	3,098	3,018	2,885	2,885	2,885	2,885	2,885	2,885	2,885	2,885	2,885	2,885	2,885
Long-term debt (includes securitization bonds)	12,308	12,092	13,053	13,112	13,112	13,500	13,112	13,862	14,212	14,212	14,522	14,832	15,142	15,452	15,452	16,692	17,972	19,052
Other	4,418	4,528	4,524	4,734	4,734	4,586	4,693	4,665	4,665	4,665	4,665	4,665	4,665	4,665	4,665	4,665	4,665	4,665
Total liabilities	**35,939**	**35,803**	**35,674**	**35,073**	**35,073**	**36,255**	**35,801**	**37,436**	**37,786**	**37,786**	**38,096**	**38,406**	**38,716**	**39,026**	**39,026**	**40,266**	**41,546**	**42,626**
Subsidiaries' preferred stock without sinking fun	211	211	211	318	318	318	318	233	233	233	233	233	233	233	233	233	233	233
EQUITY																		
Common stock	5,354	5,365	5,381	5,406	5,406	5,387	5,395	5,407	5,407	5,407	5,407	5,407	5,407	5,407	5,407	5,407	5,407	5,407
Retained earnings	10,318	10,318	9,446	9,394	9,394	9,472	9,887	10,123	9,976	9,976	9,995	10,072	10,298	10,162	10,162	10,529	10,708	10,950
Accumulated other comprehensive loss	(60)	(47)	(118)	9	9	30	(9)	38	38	38	38	38	38	38	38	38	38	38
Less - treasury stock	5,479	5,478	5,553	5,552	5,552	5,528	5,516	5,499	5,499	5,499	5,499	5,499	5,499	5,499	5,499	5,499	5,499	5,499
Total common shareholders' equity	**10,134**	**10,158**	**9,157**	**9,257**	**9,257**	**9,361**	**9,758**	**10,069**	**9,922**	**9,922**	**9,941**	**10,018**	**10,244**	**10,108**	**10,108**	**10,475**	**10,654**	**10,896**
Subsidiaries' preferred stock without sinking fun	94	94	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total equity	**10,228**	**10,252**	**9,157**	**9,257**	**9,257**	**9,361**	**9,758**	**10,069**	**9,922**	**9,922**	**9,941**	**10,018**	**10,244**	**10,108**	**10,108**	**10,475**	**10,654**	**10,896**

Source: Company reports; Guggenheim Securities, LLC estimates.

EXELON (EXC, BUY, $41 PT, $35.50)

Big victories on NY and IL nuclear policy - shifting towards a sustainable integrated model; rate case filings are key items to watch in 2017.

- **Reaffirming our BUY rating on EXC and raising our price target to $41 from $39.** The story continues to shift towards a more regulated, contracted earnings profile where **we believe its integrated model is sustainable over at least the next five years**, despite pressure from commodity cycles that we think are well set up for a recovery. **We note that EXC plans to continue to shrink the balance sheet, better-positioning the company at the current environment, while growing the retail business and de-risking ExGen with nuclear subsidies in NY and IL.** NT catalysts – Fitzpatrick deal closes in 2Q17; several rate cases at PHI in 2017. **Synergy from operating Fitzpatrick together with existing EXC nuclear plants could provide incremental earnings potential above what's been disclosed with Illinois and New York credits.** We continue to like the EXC story as one of the few stocks we believe investors should own in the current rate cycle as the regulated rally will be under pressure from a steeper yield curve and **current valuation still fails to reflect true drivers of the story: strong cash flows, retail, PHI recovery, ZECs, solid growth at legacy utilities, gas price recovery, de-levering, etc.**

- **We are introducing 2019 and 2020 estimates of $2.81/$2.71 vs. consensus $2.82/$2.55.** Based on an expected $9bn of regulated CapEx over the 2-year period, driving 6% rate base growth, 7% EPS growth through 2020; as well as cash flow generated by ExGen expected to support utility CapEx without having to tap equity markets. We also assume 1% O&M reduction through 2020 at ExGen, further de-levering, additional rate cases, incremental annual energy efficiency investment at ComEd and lower regulatory lag at PHI utilities. Our estimates are marked to 12/22/16 curves.

- **We are updating our 2016/2017/2018 EPS estimates to $2.67/$2.66/$2.87 vs. consensus estimates of $2.68/$2.62/$2.80 and prior estimates of $2.71/$2.62/$2.77.** Higher estimates reflect incremental CapEx spending, slightly offset by lower power prices vs. the September 2016 curves that drove our prior estimates. Consolidated earnings growth is comprised of ~7% regulated earnings growth at utilities driven by several NT rate cases at PHI - modeling ROEs averaging ~10%; we project 6.1% rate base growth with $16bn regulated CapEx through 2018, focusing on PHI and ComEd (where we incorporate incremental CapEx consistent with IL energy legislation). EXC's generation business has been generating positive free cash flow of ~4.7Bn through 2018, supporting regulated utility earnings growth and parent company debt retirements (~$3Bn planned over next five years) without equity issuance needs. Our curves are marked as of the 12/22/16 fwds. **Note: (1)** NY/IL ZECs are not yet embedded in our estimates as we await more certainty around legal ramifications – see below; **(2)** Fitzpatrick, higher ComEd capex from Legislation, cost reduction targets are embedded in our estimates.

- **NY and IL ZECs upside quantified; still waiting for more visibility/clarity around any negative legal ramifications similar to what occurred in OH, NJ and MD.** That said, legal hurdle on opponents much higher in these cases versus the past but we conservatively wait for additional clarity. So, at this juncture we have not linked our Zero-Emission Credits models into our EXC estimates given the potential for FERC intervention (albeit limited with two Trump-appointed commissioners expected to fill vacancies in early 2017). While not reflected in our estimates, we estimate $0.16-$0.27 accretion from IL ZECs (Quad Cities and Clinton) and $0.15 of accretion from EXC's existing plants from NY ZECs; and ~$0.05 of accretion for Fitzpatrick from

NY ZECs (not including synergies with EXC's neighboring Nine Mile). For additional detail see our analysis on NY ZECs HERE and IL ZECs HERE.

- **Next catalyst: Fitzpatrick deal close in 2Q17; Navigating through several rate cases in 2017 and beyond is key.** Fitzpatrick deal is on track to close in 2Q17 pending NRC approval, with ~$0.05 earnings uplift, excluding potential synergies associated with the proximity of this plant with EXC's Nine Mile pending some further study. **EXC has four pending rate cases expected to resolve in 2017 at the newly merged PHI.** Current active rate cases: **(1)** Washington D.C.: $82mm electric distribution revenue ask with 10.6% ROE – final decision due 07/2017; **(2)** Delaware: 63mm electric revenue ask and **(3)** $22mm gas revenue ask, with 10.6% ROE - decision by 05/2017; **(4)** Maryland: $82mm electric distribution revenue ask with 10.6% ROE – final decision due 07/2017. EXC plans to close the gap between earned and allowed ROEs at PHI with rate case filings every three years, including aforementioned rate cases, as well as 3 transmission formula rate adjustments – we model lower lag through 2020 at PHI. **EXC will also be looking to implement more constructive rate mechanisms in its service territory; gap between earned and allowed ROEs at PHI could be a large opportunity, while we note it will be a challenge to close in the NT. Our earned/allowed ROE gap remains conservative.**

- **Valuation:** Our $41 price target is based on a sum-of-the-parts analysis. We assign ~$17/share for ExGen using a 7x weighted average EV/EBITDA applied to ExGen's various assets. We assign $29/share for the regulated utilities combined based on our 2018E EPS of $1.86 applied to a 15.5x regulated utility multiple. Subtracting out ~$5 in parent drag, we arrive at our 12-month price target.

Guggenheim's EXC EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.71A	0.59A	0.83A	0.38A	2.50A	
2016E	0.68A	0.65A	0.91A	0.42E	2.67E	2.68E
Prior				*0.46E*	*2.71E*	
2017E	0.76E	0.54E	0.71E	0.66E	2.66E	2.62E
Prior	*0.76E*	*0.55E*	*0.68E*	*0.63E*	*2.62E*	
2018E	0.86E	0.62E	0.75E	0.65E	2.87E	2.80E
Prior	*0.80E*	*0.62E*	*0.68E*	*0.67E*	*2.77E*	
2019E	0.86E	0.60E	0.68E	0.66E	2.81E	2.82E
2020E	0.88E	0.51E	0.72E	0.61E	2.71E	2.55E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. EXC is still inherently a long natural gas call with gas the marginal price setter in PJM.

  The remaining risks center 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.

GUGGENHEIM
EXELON MODEL

CONSOLIDATED FINANCIALS

Income Statement ($ millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating revenues	8,830	6,514	7,401	6,702	29,447	7,573	6,910	9,002	6,901	30,386	8,027	7,152	7,126	7,242	29,547	29,547	29,632	30,149
Operating expenses																		
Fuel & purchased power	4,470	2,449	3,291	2,874	13,084	3,254	2,454	3,754	2,497	11,959	3,155	2,573	2,340	2,522	10,590	9,969	9,861	10,017
Operating and maintenance	2,081	2,042	1,996	2,203	8,322	2,835	2,505	2,338	1,645	9,323	2,214	2,214	2,214	2,214	8,855	8,571	8,710	8,937
Depreciation and amortization	610	602	606	632	2,450	685	941	1,195	1,211	4,032	859	876	893	910	3,537	3,782	3,986	4,175
Taxes other than income	304	294	310	292	1,200	325	394	449	403	1,571	408	408	408	408	1,632	1,655	1,679	1,702
Total operating expenses	**7,465**	**5,387**	**6,203**	**6,001**	**25,056**	**7,099**	**6,294**	**7,736**	**5,755**	**26,884**	**6,635**	**6,071**	**5,855**	**6,053**	**24,614**	**23,977**	**24,235**	**24,831**
Equity in earnings of unconsolidated affiliates	1	5	2	10	18	9	24	1	62	96	44	45	85	90	264	202	269	217
Operating income	**1,366**	**1,132**	**1,200**	**711**	**4,409**	**483**	**640**	**1,267**	**1,208**	**3,598**	**1,435**	**1,127**	**1,356**	**1,279**	**5,196**	**5,772**	**5,666**	**5,535**
Other income and deductions																		
Interest expense	(345)	(155)	(253)	(280)	(1,033)	(287)	(376)	(516)	(442)	(1,621)	(450)	(423)	(427)	(430)	(1,731)	(1,729)	(1,742)	(1,712)
Other income and deductions	80	(17)	(242)	133	(46)	114	144	115	(220)	153	50	50	50	50	200	-	-	-
Total other income and deductions	**(265)**	**(172)**	**(495)**	**(147)**	**(1,079)**	**(173)**	**(232)**	**(401)**	**(662)**	**(1,468)**	**(400)**	**(373)**	**(377)**	**(380)**	**(1,531)**	**(1,729)**	**(1,742)**	**(1,712)**
Income before income taxes	1,101	960	705	564	3,330	310	408	866	545	2,129	1,035	754	979	899	3,666	4,043	3,925	3,824
Income taxes	363	327	115	268	1,073	184	102	340	151	777	332	232	295	266	1,125	1,281	1,223	1,212
Net income	**738**	**633**	**590**	**296**	**2,257**	**126**	**306**	**526**	**395**	**1,353**	**703**	**522**	**683**	**632**	**2,540**	**2,762**	**2,701**	**2,611**
Earnings attributable to noncontrolling interests	45	(5)	(42)	(10)	(12)	(50)	39	36	-	25	-	-	-	-	-	-	-	-
Preferred dividends	-	-	3	(3)	-	3	-	-	2	5	2	2	2	2	8	8	8	8
GAPP earnings	**693**	**638**	**629**	**309**	**2,269**	**173**	**267**	**490**	**393**	**1,323**	**701**	**520**	**681**	**630**	**2,532**	**2,754**	**2,693**	**2,603**
Adjustments	78	130	(128)	(38)	42	(459)	(337)	(351)	-	(1,147)	-	-	-	-	-	-	-	-
Non-GAAP adjusted earnings	**615**	**508**	**757**	**347**	**2,227**	**632**	**604**	**841**	**393**	**2,470**	**701**	**520**	**681**	**630**	**2,532**	**2,754**	**2,693**	**2,603**
Weighted average shares outstanding																		
Basic	862	860	913	921	889	923	924	925	925	924	925	958	958	958	949	957	957	957
Diluted	867	864	915	924	893	926	926	927	927	927	927	960	960	960	951	959	959	959
Adjusted EPS	**0.71**	**0.59**	**0.83**	**0.38**	**2.50**	**0.68**	**0.65**	**0.91**	**0.42**	**2.67**	**0.76**	**0.54**	**0.71**	**0.66**	**2.66**	**2.87**	**2.81**	**2.71**

Source: Company reports; Guggenheim Securities, LLC estimates.

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EXELON MODEL
CONSOLIDATED FINANCIALS

Cash Flow Statement ($ millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Cash flows from operating activities																		
Net (loss) income	738	633	590	296	2,257	123	307	526	395	1,351	703	522	683	632	2,540	2,762	2,701	2,611
Adjustments to reconcile NI to net operating CFs:																		
Depreciation, amortization and accretion	948	1,009	973	1,057	3,987	1,063	1,333	1,613	1,465	5,474	1,122	1,117	1,148	1,159	4,546	4,771	4,955	5,125
Deferred taxes and amortization of ITCs	129	82	30	511	752	127	134	362	-	623	-	-	-	-	-	-	-	-
Other non-cash operating activities	206	(136)	644	(950)	(236)	642	494	(55)	-	1,081	-	-	-	-	-	-	-	-
Changes in assets and liabilities:																		
Income taxes	174	73	53	(203)	97	47	423	57	-	527	-	-	-	-	-	-	-	-
Post-retirement benefit contributions	(269)	(32)	(129)	(72)	(502)	(239)	(19)	(25)	(22)	(305)	(19)	(19)	(19)	(19)	(76)	(76)	(76)	(76)
Other assets and liabilities	(436)	849	(453)	1,326	1,286	(290)	408	332	-	450	-	-	-	-	-	-	-	-
Net cash flows provided by operating activities	1,490	2,478	1,708	1,965	7,641	1,473	3,080	2,810	1,838	9,201	1,805	1,620	1,813	1,772	7,011	7,456	7,581	7,661
Cash flows from investing activities																		
Capital expenditures	(1,784)	(1,676)	(1,983)	(2,181)	(7,624)	(2,202)	(2,287)	(1,879)	(1,868)	(8,236)	(2,025)	(2,025)	(2,025)	(2,025)	(8,100)	(7,075)	(6,375)	(6,375)
Net change in NDT funds	(66)	(57)	(63)	(66)	(252)	(57)	(60)	(62)	-	(179)	-	-	-	-	-	-	-	-
Net change in investments	142	(142)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net PP&E investments	-	-	-	-	-	(6,962)	365	(299)	-	(6,896)	-	-	-	-	-	-	-	-
Other investing activities	(43)	80	(97)	96	36	673	(347)	(102)	-	224	-	-	-	-	-	-	-	-
Net cash flows used in investing activities	(1,751)	(1,795)	(2,143)	(2,151)	(7,840)	(8,548)	(2,329)	(2,342)	(1,868)	(15,087)	(2,025)	(2,025)	(2,025)	(2,025)	(8,100)	(7,075)	(6,375)	(6,375)
Cash flows from financing activities																		
Net change in debt	485	3,808	101	(292)	4,102	1,805	233	205	347	2,590	235	(1,020)	235	235	(316)	204	(254)	(610)
Distributions between sub and parent (modeled)	-	-	-	-	-	-	-	-	293	293	108	108	108	108	430	630	630	630
Dividends paid on common stock	(269)	(268)	(282)	(286)	(1,105)	(287)	(295)	(291)	(297)	(1,170)	(296)	(307)	(315)	(315)	(1,233)	(1,274)	(1,306)	(1,339)
Dividends paid on preference stock	-	-	-	-	-	-	-	-	(2)	(2)	(2)	(2)	(2)	(2)	(8)	(8)	(8)	(8)
Net change in equity	8	8	1,876	8	1,900	9	8	19	-	36	-	1,155	-	-	1,155	280	-	-
Other financing activities	(16)	(43)	(6)	(2)	(67)	6	(10)	(151)	-	(155)	-	-	-	-	-	-	-	-
Net cash flows used in financing activities	208	3,505	1,689	(572)	4,830	1,533	(64)	(218)	342	1,593	44	(67)	25	25	28	(169)	(938)	(1,327)
Increase in cash and cash equivalents	(53)	4,188	1,254	(758)	4,631	(5,542)	687	250	312	(4,293)	(176)	(472)	(187)	(227)	(1,062)	213	268	(41)
Cash and cash equivalents at beginning of period	1,878	1,825	6,013	7,267	1,878	6,509	960	1,647	1,897	6,509	2,209	2,033	1,561	1,374	2,216	1,154	1,367	1,635
Cash and cash equivalents at end of period	**1,825**	**6,013**	**7,267**	**6,509**	**6,509**	**967**	**1,647**	**1,897**	**2,209**	**2,216**	**2,033**	**1,561**	**1,374**	**1,147**	**1,154**	**1,367**	**1,635**	**1,594**

Source: Company reports; Guggenheim Securities, LLC estimates.

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EXELON MODEL

CONSOLIDATED FINANCIALS

BALANCE SHEET ($ millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
ASSETS																		
Cash and cash equivalents	1,825	5,985	7,265	6,502	6,502	960	1,647	1,897	2,209	2,209	2,033	1,561	1,374	1,147	1,147	1,360	1,628	1,587
Restricted cash	297	274	341	205	205	218	201	321	321	321	321	321	321	321	321	321	321	321
Unamortized energy contracts	326	1,561	1,251	1,451	1,451	1,270	828	754	754	754	754	754	754	754	754	754	754	754
Regulatory assets	6,068	6,761	6,779	6,824	6,824	11,991	11,680	11,432	11,432	11,432	11,432	11,432	11,432	11,432	11,432	11,432	11,432	11,432
NDT funds	10,712	10,607	10,103	10,342	10,342	10,526	10,737	11,076	11,076	11,076	11,076	11,076	11,076	11,076	11,076	11,076	11,076	11,076
Goodwill	2,672	2,672	2,672	2,672	2,672	6,688	6,696	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672	6,672
Property, plant and equipment, net	53,001	51,747	55,814	57,439	57,439	69,406	70,693	71,214	71,617	71,617	72,520	73,427	74,304	75,170	75,170	77,475	78,894	80,144
Other	12,490	12,606	10,903	9,949	9,949	10,683	10,296	11,169	11,191	11,191	11,210	11,229	11,248	11,267	11,267	11,342	11,418	11,494
Total assets	**87,391**	**92,213**	**95,128**	**95,384**	**95,384**	**111,742**	**112,778**	**114,535**	**115,271**	**115,271**	**116,017**	**116,473**	**117,182**	**117,839**	**117,839**	**120,432**	**122,196**	**123,480**
LIABILITIES AND SHAREHOLDERS EQUITY																		
Debt																		
Short term borrowing	309	543	675	533	533	3,640	951	567	567	567	567	567	567	567	567	567	567	567
Long-term debt due within one year	1,260	226	897	1,500	1,500	2,058	2,693	2,512	2,512	2,512	2,512	2,512	2,512	2,512	2,512	2,512	2,512	2,512
Long-term debt of VIE due within one year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term debt	21,167	25,868	25,189	23,645	23,645	29,314	31,541	32,330	32,677	32,677	32,912	31,892	32,126	32,361	32,361	32,565	32,311	31,701
Long-term debt to financing trust	648	648	648	641	641	641	641	642	642	642	642	642	642	642	642	642	642	642
Long-term debt of variable interest entity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred income taxes and unamortized ITCs	13,218	13,309	13,480	13,776	13,776	17,474	17,662	18,115	18,115	18,115	18,115	18,115	18,115	18,115	18,115	18,115	18,115	18,115
Regulatory liabilities	4,987	4,871	4,545	4,570	4,570	4,890	4,892	4,437	4,437	4,437	4,437	4,437	4,437	4,437	4,437	4,437	4,437	4,437
Unamortized energy contracts	289	306	322	305	305	785	460	927	927	927	927	927	927	927	927	927	927	927
Asset retirement obligations	7,446	7,550	8,405	8,585	8,585	8,755	9,256	9,348	9,348	9,348	9,348	9,348	9,348	9,348	9,348	9,348	9,348	9,348
Pension obligations	3,154	3,134	3,014	3,385	3,385	3,771	3,767	3,765	3,765	3,765	3,765	3,765	3,765	3,765	3,765	3,765	3,765	3,765
Non-pension postretirement benefits obligations	1,825	1,850	1,877	1,618	1,618	1,902	1,900	1,921	1,921	1,921	1,921	1,921	1,921	1,921	1,921	1,921	1,921	1,921
Spent nuclear fuel obligation	1,021	1,021	1,021	1,021	1,021	1,022	1,023	1,023	1,023	1,023	1,023	1,023	1,023	1,023	1,023	1,023	1,023	1,023
Other	7,429	7,818	7,766	8,483	8,483	10,285	10,670	11,462	11,462	11,462	11,462	11,462	11,462	11,462	11,462	11,462	11,462	11,462
Total liabilities	**62,753**	**67,144**	**67,839**	**68,062**	**68,062**	**84,537**	**85,456**	**87,049**	**87,396**	**87,396**	**87,631**	**86,611**	**86,845**	**87,080**	**87,080**	**87,284**	**87,030**	**86,420**
Preferred securities of subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shareholder's equity																		
Common stock	16,731	16,755	18,647	18,676	18,676	18,686	18,722	18,756	18,756	18,756	18,756	19,911	19,911	19,911	19,911	20,191	20,191	20,191
Treasury stock	(2,327)	(2,327)	(2,327)	(2,327)	(2,327)	(2,327)	(2,327)	(2,327)	(2,327)	(2,327)	(2,327)	(2,327)	(2,327)	(2,327)	(2,327)	(2,327)	(2,327)	(2,327)
Retained earnings	11,334	11,704	12,046	12,068	12,068	11,954	11,926	12,121	12,510	12,510	13,022	13,342	13,816	14,239	14,239	16,349	18,366	20,260
ACI	(2,673)	(2,626)	(2,596)	(2,624)	(2,624)	(2,596)	(2,565)	(2,523)	(2,523)	(2,523)	(2,523)	(2,523)	(2,523)	(2,523)	(2,523)	(2,523)	(2,523)	(2,523)
Total shareholder's equity	**23,065**	**23,506**	**25,770**	**25,793**	**25,793**	**25,717**	**25,756**	**26,027**	**26,416**	**26,416**	**26,928**	**28,403**	**28,877**	**29,300**	**29,300**	**31,690**	**33,707**	**35,601**
Preference stock not subject to mandatory redemption	193	193	193	193	193	193	193	-	-	-	-	-	-	-	-	-	-	-
Noncontrolling interest	1,380	1,370	1,326	1,336	1,336	1,295	1,373	1,459	1,459	1,459	1,459	1,459	1,459	1,459	1,459	1,459	1,459	1,459
Total liabilities and shareholder's equity	**87,391**	**92,213**	**95,128**	**95,384**	**95,384**	**111,742**	**112,778**	**114,535**	**115,271**	**115,271**	**116,017**	**116,473**	**117,182**	**117,839**	**117,839**	**120,432**	**122,196**	**123,480**

Source: Company reports; Guggenheim Securities, LLC estimates.

FIRSTENERGY (FE, BUY, $40 PT, $30.85)

Constructive steps taken towards shedding merchant GenCo; execution of exit plan is key in 2017 – FE needs to alleviate significant investor concerns, in our view.

- **Reaffirming our BUY rating on FE and lowering our PT to $40 from $42 on higher bond yield outlook – We believe FE is exiting merchant business with heightened sense of urgency.** FE has been taking steps towards attaining its stated goal of exiting the merchant GenCo within the next 12-18 months, including the recent debt re-structuring and the separation of the board. **With the material cut back on bank facilities at GenCo, diversity of banks, various NT protections (i.e., high impairment levels) and exclusions under the covenants, we believe FE is taking a course of action to limit creditor arguments in the scenario of a bankruptcy of the unregulated entity – many disagree with us.** In the meantime, FE is also trying to sell marketable assets (most likely hydro/gas) and pursuing policy for nuclear/coal assets. **FE is going through the correct motions, in our view,** and we expect management to provide more clarity around the exit plan, either as a sale, shutdown or bankruptcy, and possible cost savings from lower shared service expenses associated with managing FES, over the course of the next few months. **We continue to like the story and believe management can execute the game plan but also understand the bear argument circling around the story** (i.e., possible law suits associated with the restructuring of FES, which could be a bit of overhang in the NT); focus is now turning to growth of FE's regulated platform, which really remains the core driver of the business. Potential NT catalysts – Execution of exit plan in 2017; Rate activity in PA coming to a head. **FE remains a very cheap integrated utility and even cheaper regulated utility with solid growth prospects if it can move past the FES overhang. Despite the many bear arguments, we continue to see value with FE and reiterate our BUY rating as we support management's recent steps.**

- **We are introducing 2019 and 2020 estimates of $2.34/$2.27 vs. consensus of $2.29/$2.38.** Consolidated earnings decrease of ~3% is mainly due to equity dilution and declining earnings at competitive energy services. We model ~7.5% regulated earnings growth as we incorporate the incremental grid modernization opportunities in OH as well as rate cases. We model ~6% earnings growth through 2020 at Transmission business driven by 9% rate base growth with ~$1bn annual CapEx spread among four FERC-regulated transmission assets. Our estimated ~6% (off of 2016 base) earnings growth at Distribution through 2020 reflects average $1.3bn CapEx with 3% rate base growth and DMR. We also model $500mm equity issuance through 2020 to fund Transmission growth and another $100mm equity ongoing through employee benefit plan, in-line with management plan to support regulated investment and earnings growth through equity issuance.

- **Updating our 2016/2017/2018 EPS estimates to $2.64/$2.65/$2.45 vs. consensus estimates of $2.64/$2.64/$2.40.** Our updated estimates are slightly lower than prior estimates ($2.70/$2.62/$2.59 for 2016/2017/2018) through our trajectory, as we adjust operating assumptions for lower volumes vs. prior and reflect lower power prices vs. the September 2016 curves that drove our prior estimates. At Distribution, we model 44 cents of earnings growth (~24%) from 2016 to 2017 and ~12% ROE through 2018 when incorporating OH DMR, PA, NJ rate cases and various cost recovery riders coming into effect; as we have previously highlighted, the Distribution Modernization Rider was approved in OH authorizing ~$200mm/year (grossed-up for taxes) through 2019, with the possibility of a two-year extension. We model a declining contribution from competitive energy services due to continued weakness of forward curves. **Our curves are marked as of the 12/22 forwards.**

- **Execution of exit plan in 2017/early 2018 is key; Rate activity in PA coming to a head.** We expect to get more clarity on nuclear/coal assets slated for retirement in early 2017 as policy efforts (including a WV generation RFP) would need to be on-track in order to accomplish the exit strategy within the 12-18 month timeframe. WV policy likely continues to lean pro-coal, representing a lifeline for FE's Pleasance plant; management indicated a broad range of policy options are at play in OH all the way up to potentially re-regulating generation; a NY-like nuclear subsidy is the likely approach in PA. Along with policy efforts to support ongoing operation of FE's merchant fleet, management indicated a sale process is concurrently underway, with gas/hydro generating assets likely closer to a sale as these are relatively marketable assets. **Four rate cases in PA are pending approval.** With distribution utilities expected to drive the first growth spurt next year, FE is waiting for the PA PUC to issue a final order on 1/26/17 authorizing incremental revenue of ~$290mm across its four utilities in the state; management expects to be earning representative ROEs with new rates in place 1/27/17. As a reminder, NJ BPU approved the agreement in principal with parties for an $80mm revenue increase effective 1/1/17.
- **Valuation:** Our $40 price target is based on a sum-of-the-parts analysis. We assign less than $1/share for CES using a 4.0x weighted average EV/EBITDA applied to the various merchant assets. We assign ~$35/share for the regulated utilities using the 15.5x regulated group target multiple. We assign $13/share to transmission, subtract ~$8 of parent drag, and arrive at our 12-month price target of $40.

Guggenheim's FE EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.61A	0.53A	0.98A	0.58A	2.71A	
2016E	0.79A	0.56A	0.90A	0.39E	2.64E	2.64E
Prior				*0.45E*	*2.70E*	
2017E	0.71E	0.54E	1.03E	0.38E	2.65E	2.64E
Prior	*0.70E*	*0.42E*	*0.81E*	*0.69E*	*2.62E*	
2018E	0.69E	0.50E	0.94E	0.32E	2.45E	2.40E
Prior	*0.70E*	*0.43E*	*0.79E*	*0.67E*	*2.59E*	
2019E	0.63E	0.47E	0.88E	0.36E	2.34E	2.31E
2020E	0.60E	0.46E	0.87E	0.35E	2.27E	2.38E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. FE is inherently a long natural gas call at this juncture, with gas the marginal price setter in PJM.

  The remaining risks center 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.

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INCOME STATEMENT ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenue																		
Total Operating Revenues	3,897	3,465	4,123	3,541	**15,026**	3,869	3,401	3,917	3,559	**14,746**	**3,835**	**3,558**	**4,088**	**3,552**	**15,034**	**15,013**	**15,078**	**15,124**
Expenses																		
Fuel	513	383	482	477	**1,855**	381	438	450	419	**1,688**	434	443	459	415	**1,752**	**1,746**	**1,767**	**1,695**
Purchased Power	1,113	989	1,209	1,007	**4,318**	1,124	889	979	765	**3,757**	985	777	961	761	**3,503**	**3,529**	**3,536**	**3,568**
Gross Margin	**2,271**	**2,093**	**2,432**	**2,057**	**8,853**	**2,364**	**2,074**	**2,488**	**2,376**	**9,302**	**2,416**	**2,339**	**2,668**	**2,357**	**9,780**	**9,738**	**9,776**	**9,861**
Other Operating Expense	1,057	916	850	952	**3,775**	918	964	953	1,219	**4,054**	1,050	1,088	1,061	1,202	**4,401**	**4,355**	**4,347**	**4,348**
Pension MTM	0	0	0	242	**242**	0	0	0	0	**0**	0	0	0	0	**0**	**0**	**0**	**0**
Depreciation	319	322	328	313	**1,282**	329	334	311	312	**1,286**	337	342	346	350	**1,374**	**1,439**	**1,503**	**1,566**
Amortization of new regulatory assets	32	59	110	67	**268**	61	63	98	71	**293**	50	50	50	50	**200**	**200**	**200**	**200**
General Taxes	269	242	236	231	**978**	280	241	265	247	**1,033**	254	254	254	254	**1,016**	**1,031**	**1,047**	**1,062**
Impairment / Other	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0	**0**	**0**	**0**	**0**
RTEP cost assumption	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0	**0**	**0**	**0**	**0**
Merger Synergies	0	0	0	0	**0**	0	0	0	0	**0**	0	0	0	0	**0**	**0**	**0**	**0**
Total Other Operating Expenses	**1,677**	**1,539**	**1,524**	**1,805**	**6,545**	**1,588**	**1,602**	**1,627**	**1,848**	**6,665**	**1,691**	**1,734**	**1,711**	**1,856**	**6,992**	**7,025**	**7,096**	**7,176**
OPERATING INCOME	**594**	**554**	**908**	**252**	**2,308**	**776**	**472**	**861**	**527**	**2,636**	**725**	**605**	**958**	**501**	**2,788**	**2,713**	**2,679**	**2,684**
Other Income & Deductions	17	(3)	(28)	(370)	(384)	28	19	28	(116)	(41)	(6)	(4)	(4)	(7)	(19)	(19)	(19)	(19)
EBIT	**611**	**551**	**880**	**(118)**	**1,924**	**804**	**491**	**889**	**411**	**2,595**	**719**	**601**	**954**	**494**	**2,768**	**2,694**	**2,660**	**2,666**
EBITDA (Non GAAP)	**983**	**973**	**1,367**	**1,086**	**4,409**	**1,175**	**748**	**1,274**	**960**	**4,157**	**1,112**	**996**	**1,353**	**901**	**4,362**	**4,352**	**4,382**	**4,451**
Interest Expense	(279)	(282)	(285)	(286)	**(1,132)**	(288)	(289)	(286)	(236)	**(1,099)**	(234)	(233)	(232)	(231)	**(929)**	**(904)**	**(886)**	**(873)**
Capitalized Interest	34	33	26	24	117	25	26	28	0	79	0	0	0	0	0	0	0	0
Interest Expense - Net	(245)	(249)	(259)	(262)	(1,015)	(263)	(263)	(258)	(236)	(1,020)	(234)	(233)	(232)	(231)	(929)	(904)	(886)	(873)
EBT	**366**	**302**	**621**	**(380)**	**909**	**541**	**228**	**631**	**176**	**1,576**	**485**	**368**	**722**	**264**	**1,839**	**1,790**	**1,774**	**1,792**
Income Taxes	(144)	(115)	(226)	170	(315)	(213)	130	(251)	(58)	(392)	(170)	(128)	(255)	(90)	(643)	(642)	(632)	(640)
Effective Tax Rate	39%	38%	36%	45%	35%	39%	-57%	40%	40%	25%	40%	40%	40%	40%	35%	36%	36%	36%
Earnings Available to Parent	**222**	**187**	**395**	**(210)**	**594**	**328**	**358**	**380**	**118**	**1,184**	**315**	**240**	**467**	**174**	**1,196**	**1,148**	**1,142**	**1,153**
Less: Non-controlling interest income (loss)					0					0					0	0	0	0
Accounting Adjustments (after tax)					0	0	(1,447)	0	0	(1,447)					0	0	0	0
Earnings - GAAP	**222**	**187**	**395**	**(210)**	**594**	**328**	**(1,089)**	**380**	**118**	**(263)**	**315**	**240**	**467**	**174**	**1,196**	**1,148**	**1,142**	**1,153**
Non GAAP Adjustments	38	38	21	454	551	9	1,326	4	50	1,389	0	0	0	0	0	0	0	0
Operating Earnings	**260**	**225**	**416**	**244**	**1,145**	**337**	**237**	**384**	**168**	**1,126**	**315**	**240**	**467**	**174**	**1,196**	**1,148**	**1,142**	**1,153**
Operating EPS Diluted	**$0.61**	**$0.53**	**$0.98**	**$0.58**	**$2.71**	**$0.79**	**$0.56**	**$0.90**	**$0.39**	**$2.64**	**$0.71**	**$0.54**	**$1.03**	**$0.38**	**$2.65**	**$2.45**	**$2.34**	**$2.27**

Source: Company reports; Guggenheim Securities, LLC estimates.

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BALANCE SHEET ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Cash and marketable securities	90	94	86	131	131	146	199	551	780	780	724	595	695	504	504	273	61	61
Accounts receivable	1,876	1,771	1,772	1,595	1,595	1,594	1,494	1,629	1,629	1,629	1,629	1,629	1,629	1,629	1,629	1,629	1,629	1,629
Inventory	762	792	738	785	785	781	759	699	699	699	699	699	699	699	699	699	699	699
Total other current assets	1,283	1,308	1,237	529	529	709	624	601	601	601	601	601	601	601	601	601	601	601
Current assets	**4,011**	**3,965**	**3,833**	**3,040**	**3,040**	**3,230**	**3,076**	**3,480**	**3,709**	**3,709**	**3,653**	**3,524**	**3,624**	**3,433**	**3,433**	**3,202**	**2,990**	**2,990**
Total Gross Fixed Assets	50,625	51,144	51,527	52,374	52,374	53,065	52,756	53,283	53,977	53,977	54,651	55,324	55,998	56,672	56,672	59,277	61,842	64,407
Accumulated Depreciation	(14,508)	(14,728)	(14,917)	(15,160)	(15,160)	(15,421)	(15,295)	(15,450)	(15,762)	(15,762)	(16,099)	(16,441)	(16,786)	(17,136)	(17,136)	(18,575)	(20,078)	(21,645)
Property, plant and equipment held for sale	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Fixed assets	**36,117**	**36,416**	**36,610**	**37,214**	**37,214**	**37,644**	**37,461**	**37,833**	**38,215**	**38,215**	**38,551**	**38,884**	**39,212**	**39,536**	**39,536**	**40,701**	**41,763**	**42,762**
Investments	2,360	2,348	2,279	2,282	2,282	2,360	2,456	2,502	2,502	2,502	2,502	2,502	2,502	2,502	2,502	2,502	2,502	2,502
Net goodwill	6,418	6,418	6,418	6,418	6,418	6,418	5,618	5,618	5,618	5,618	5,618	5,618	5,618	5,618	5,618	5,618	5,618	5,618
Total Other Non-Current Assets	3,615	3,858	3,523	3,140	3,140	3,043	2,790	2,528	2,489	2,489	2,429	2,369	2,309	2,249	2,249	2,009	1,769	1,529
Total Assets	**52,521**	**53,005**	**52,663**	**52,094**	**52,094**	**52,695**	**51,401**	**51,961**	**52,534**	**52,534**	**52,754**	**52,897**	**53,265**	**53,338**	**53,338**	**54,033**	**54,642**	**55,401**
Accounts payable	1,102	1,279	994	1,075	1,075	1,000	938	944	944	944	944	944	944	944	944	944	944	944
Short-term debt	3,346	4,200	3,081	2,874	2,874	3,480	4,252	4,191	4,041	4,041	3,841	3,641	3,441	3,241	3,241	2,441	1,641	841
Total other current liabilities	1,814	1,310	1,801	1,653	1,653	1,909	1,569	1,908	1,908	1,908	1,908	1,908	1,908	1,908	1,908	1,908	1,908	1,908
Current liabilities	**6,262**	**6,789**	**5,876**	**5,602**	**5,602**	**6,389**	**6,759**	**7,043**	**6,893**	**6,893**	**6,693**	**6,493**	**6,293**	**6,093**	**6,093**	**5,293**	**4,493**	**3,693**
Long-term debt	19,130	18,570	19,093	19,099	19,099	18,878	18,348	18,532	18,793	18,793	18,913	19,032	19,151	19,269	19,269	19,733	20,169	20,796
Net deferred tax liability	7,211	7,485	7,581	6,773	6,773	6,996	6,888	7,136	7,136	7,136	7,136	7,136	7,136	7,136	7,136	7,136	7,136	7,136
Other non-current liabilities	7,568	7,630	7,485	8,198	8,198	7,968	7,999	7,747	7,747	7,747	7,747	7,747	7,747	7,747	7,747	7,747	7,747	7,747
Total liabilities	**40,171**	**40,474**	**40,035**	**39,672**	**39,672**	**40,231**	**39,994**	**40,458**	**40,569**	**40,569**	**40,489**	**40,408**	**40,327**	**40,245**	**40,245**	**39,909**	**39,545**	**39,372**
Minority interest - accumulated	2	1	1	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0
Preferred equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Common equity	12,348	12,530	12,627	12,421	12,421	12,463	11,407	11,503	11,965	11,965	12,265	12,489	12,938	13,093	13,093	14,124	15,097	16,028
Shareholders' equity	12,350	12,531	12,628	12,422	12,422	12,464	11,407	11,503	11,965	11,965	12,265	12,489	12,938	13,093	13,093	14,124	15,097	16,028
Total Liabilities and Equity	**52,521**	**53,005**	**52,663**	**52,094**	**52,094**	**52,695**	**51,401**	**51,961**	**52,534**	**52,534**	**52,754**	**52,897**	**53,265**	**53,338**	**53,338**	**54,033**	**54,642**	**55,401**

Source: Company reports; Guggenheim Securities, LLC estimates.

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CASH FLOW STATEMENT ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Net Income	222	187	395	(226)	578	328	(1,089)	380	118	(263)	315	240	467	174	1,196	1,148	1,142	1,153
Extraordinary Loss/Gain, net	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation & Amortization	425	322	423	666	1,836	455	467	478	312	1,712	337	342	346	350	1,374	1,439	1,503	1,566
Deferred Inc. Taxes & ITCs, net	127	92	209	98	526	206	(134)	246	0	318	0	0	0	0	0	0	0	0
Other, net	(581)	196	300	592	507	(351)	1,578	16	39	1,282	60	60	60	60	240	240	240	240
Net Operating Cash Flows	193	797	1,327	1,130	3,447	638	822	1,120	**468**	**3,048**	**713**	**642**	**873**	**583**	**2,811**	**2,827**	**2,885**	**2,959**
Capital Expenditures	(668)	(818)	(539)	(679)	(2,704)	(698)	(794)	(664)	(694)	(2,850)	(674)	(674)	(674)	(674)	(2,695)	(2,605)	(2,565)	(2,565)
Other - net	(80)	(127)	(55)	(156)	(418)	(167)	(108)	(45)	0	(320)	0	0	0	0	0	0	0	0
Net Investing Cash Flows	(748)	(945)	(594)	(835)	(3,122)	(865)	(902)	(709)	**(694)**	**(3,170)**	**(674)**	**(674)**	**(674)**	**(674)**	**(2,695)**	**(2,605)**	**(2,565)**	**(2,565)**
Dividends Paid	(152)	(151)	(152)	(152)	(607)	(152)	(153)	(153)	(156)	(614)	(165)	(166)	(168)	(169)	(668)	(717)	(768)	(822)
Net Change in STD	760	(760)	0	(91)	(91)	425	800	50	(150)	1,125	(200)	(200)	(200)	(200)	(800)	(800)	(800)	(800)
Net LTD Addition/(Redemption)	(48)	(44)	395	129	432	(31)	(550)	85	261	(235)	120	119	119	118	476	464	436	627
Net LTD Addition/(Redemption) - Corp	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Common Stock Issue / (Buyback)	0	0	0	0	0	0	0	0	500	500	150	150	150	150	600	600	600	600
Other	0	1,107	(984)	(136)	(13)	0	36	(41)	0	(5)	0	0	0	0	0	0	0	0
Net Financing Cash Flow	**560**	**152**	**(741)**	**(250)**	**(279)**	**242**	**133**	**(59)**	**455**	**771**	**(95)**	**(97)**	**(99)**	**(101)**	**(392)**	**(453)**	**(532)**	**(395)**
Net Change in Cash +/-(incl. Disc.)	5	4	(8)	45	46	15	53	352	229	649	(56)	(129)	100	(191)	(276)	(231)	(212)	(1)
Beginning Cash Balance	85	90	94	86	85	131	146	199	551	131	780	724	595	695	780	504	273	61
Ending Cash Balance	**90**	**94**	**86**	**131**	**131**	**146**	**199**	**551**	**780**	**780**	**724**	**595**	**695**	**504**	**504**	**273**	**61**	**61**

Source: Company reports; Guggenheim Securities, LLC estimates.

ALLIANT (LNT, NEUTRAL, $38.00)

It's just a valuation call - Incremental renewable investment opportunities drive growth. IPL rate case worth monitoring.

- **Maintaining our NEUTRAL rating on LNT and lowering our fair value/share estimate to $33.** Our Neutral stance is purely a valuation call. In general, we believe the above-average utility growth prospects together with renewable upside potential make LNT an attractive story, with ample capital expenditures in the next decade driving rate base growth. Both utilities operate in supportive regulatory environments in Iowa and Wisconsin with solid economic growth and plentiful natural resources. Incremental wind capacity expansion of 500MW will be in service in 2019 and 2020 in Iowa with attractive ROE, providing strong support for utility growth; up to 500MW of additional wind sites are lined up for development. Incremental growth opportunity could be presented at ATC, where LNT has 16% equity ownership interest. **Potential NT catalyst – IPL rate case in mid-2017, with likely immediate effect with interim rate.** The fairly high multiple that shares trade at, coupled with uncertainty of upcoming rate case, keep us on the sideline for now; essentially **a valuation call on a quality utility with above-average growth prospects. A modest pull back could cause us to revisit our thesis.**

- **We are introducing our estimates for 2019 and 2020 of $2.24/$2.41 versus street consensus estimate of $2.23 for 2019.** This outlook captures the continued spending on regulated investments especially focusing on renewable and gas generation projects, organic growth and rate recovery through improving rate mechanisms. Consolidated earnings growth of ~7% is comprised of 8% growth from the regulated utility segment offsetting corporate drag and slight dilution (we model $125mm in 2017 and $150mm in 2019). We project 11% rate base growth and ROE of 10.8% at IPL and 6% rate base growth at WPL earning 11.0% ROE, with ~$1.3bn of annual CapEx deployed at the utility through 2020, fairly evenly spread between IPL and WPL. Additionally, we forecast continuation of earnings from transmission and energy efficiency riders through 2020 at IPL. We model ~1% system-wide volume growth through 2020 at utilities.

- **Updating our 2016/2017/2018 EPS estimates to $1.84/$1.98/$2.12 versus consensus estimates of $1.88/$1.99/$2.13.** Our estimates are largely intact through 2018 as not much has fundamentally changed since we initiated coverage in November 2016. We model $17mm electric rate increase going into effect at the beginning of 2017 to reflect the recent settlement on WPL rate case. At IPL, we model a $60mm electric and $9mm gas rate increase in 2017 as we expect a rate case file in April 2017. We also model the 650MW Marshalltown CCGT coming on-line in 2Q17 as a ~$500mm of rate base earning 10.3% AFUDC stepping-up to an 11% ROE once in-service, which represents the bump in IPL's authorized ROE.

- **Upcoming potential catalyst: IPL rate case up next; 10% net increase if approved.** With WPL rate case completed in November, LNT expects a rate fling in Iowa in April 2017 and a final decision in the 2018 timeframe, although interim rates can be implemented in the meantime. Management expects the rate filing could provide a 10% rate increase over two years after considering effects of lower fuel cost, tax benefit refund back to customers and O&M levers to pull as well. The lower fuel cost mostly comes from the 650MW Marshalltown CCGT that we expect to come on-line in 2Q17 and anticipated ~500MW of plant retirements by the end of 2017.

- **Valuation:** We arrive at our $33 fair value per share estimate by applying our 15.5x regulated group target multiple to 2018 EPS estimate of $2.12; incorporating our estimated 3.3% dividend yield would equate to a -9.8% ETR.

Guggenheim's LNT EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.43A	0.33A	0.82A	0.22A	1.79A	
2016E	0.43A	0.37A	0.79A	0.25E	1.84E	1.88E
Prior				*0.24E*	*1.84E*	
2017E	0.41E	0.36E	0.97E	0.22E	1.98E	1.99E
Prior	*0.42E*	*0.37E*	*1.03E*	*0.11E*	*1.94E*	
2018E	0.45E	0.39E	1.02E	0.24E	2.12E	2.13E
Prior	*0.46E*	*0.40E*	*1.10E*	*0.14E*	*2.12E*	
2019E	0.48E	0.42E	1.06E	0.28E	2.24E	2.23E
2020E	0.51E	0.46E	1.11E	0.32E	2.41E	N/A

Source: Company reports, Guggenheim Securities, LLC estimates.

- **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.

SECTOR: **POWER AND UTILITIES** January 9, 2017

GUGGENHEIM

ALLIANT ENERGY

CONSOLIDATED FINANCIALS

($ in millions unless stated otherwise)

INCOME STATEMENT	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Electric utility	671	640	836	623	2,771	669	676	864	660	2,869	683	690	940	674	2,988	3,094	3,219	3,435
Gas utility	198	52	38	93	381	152	57	40	94	342	161	68	50	106	385	410	435	461
Other utility	16	15	13	13	58	13	12	9	14	49	13	13	11	14	50	53	56	59
Non-regulated	11	10	12	11	44	10	9	11	12	43	3	12	4	12	32	25	25	25
Total Operating Revenues	**897**	**717**	**899**	**740**	**3,254**	**844**	**755**	**925**	**779**	**3,302**	**861**	**784**	**1,004**	**807**	**3,455**	**3,581**	**3,735**	**3,980**
Fuel & purchased power	216	185	246	191	838	201	200	246	202	849	206	204	266	207	883	914	950	1,014
Electric transmission service	123	117	128	118	485	128	130	139	123	520	130	132	152	125	540	561	586	625
Cost of gas sold	131	22	14	53	219	95	25	13	53	185	101	29	16	60	206	218	230	242
Other O&M	147	157	151	170	625	144	144	149	167	603	144	144	149	167	604	604	604	604
Asset valuation charges	-	-	-	-	-	-	-	86	-	86	-	-	-	-	-	-	-	-
Non-regulated O&M	1	-	(0)	3	4	1	1	-	4	5	0	1	-	4	5	3	3	3
Depreciation and amortization	100	100	99	101	401	103	102	104	105	414	106	108	109	110	433	455	476	495
Taxes other than income taxes	27	27	26	25	104	26	25	26	25	103	25	24	25	24	99	99	99	99
Total Operating Expenses	**745**	**608**	**663**	**661**	**2,677**	**698**	**626**	**762**	**680**	**2,765**	**712**	**642**	**717**	**698**	**2,770**	**2,854**	**2,948**	**3,083**
EBITDA	**253**	**209**	**335**	**181**	**978**	**248**	**231**	**267**	**205**	**951**	**255**	**249**	**396**	**219**	**1,119**	**1,182**	**1,263**	**1,392**
Operating Income	**153**	**109**	**236**	**79**	**577**	**146**	**129**	**163**	**100**	**537**	**149**	**141**	**287**	**109**	**686**	**727**	**787**	**897**
Interest expense	47	47	46	48	187	48	48	49	50	195	53	56	56	59	224	261	290	313
Interest Rate	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Unconsolidated investments	(7)	(11)	(11)	(5)	(34)	(11)	(9)	(9)	(6)	(34)	(8)	(8)	(8)	(8)	(32)	(35)	(38)	(40)
AFUDC	(7)	(9)	(10)	(12)	(37)	(13)	(15)	(16)	(23)	(67)	(15)	(15)	(15)	(15)	(59)	(86)	(88)	(42)
Interest income and other	(0)	(0)	(0)	(0)	(1)	(0)	-	(0)	(0)	(0)	(0)	(0)	0	(0)	(0)	(0)	(0)	(0)
Total interest expense and other	**33**	**26**	**26**	**31**	**116**	**24**	**24**	**24**	**21**	**93**	**30**	**33**	**34**	**36**	**132**	**139**	**164**	**231**
Income before tax	**120**	**83**	**210**	**49**	**461**	**122**	**105**	**139**	**79**	**444**	**119**	**109**	**253**	**73**	**553**	**588**	**622**	**667**
Income taxes	21	11	28	11	70	22	18	8	18	65	21	23	26	20	90	94	96	100
Income from continuing ops. after tax	**99**	**71**	**183**	**38**	**391**	**100**	**87**	**131**	**60**	**379**	**98**	**86**	**227**	**53**	**463**	**494**	**526**	**567**
Discontinued operations (net tax)	-	(1)	(0)	(1)	(3)	(1)	(1)	(0)	-	(2)	-	-	-	-	-	-	-	-
Effective Tax Rate (%)	17%	12%	13%	20%	15%	17%	17%	5%	23%	14%	18%	21%	10%	27%	16%	16%	15%	15%
Net income before preferred dividend	**99**	**70**	**183**	**37**	**388**	**99**	**86**	**131**	**60**	**377**	**98**	**86**	**227**	**53**	**463**	**494**	**526**	**567**
Preferred dividends	3	3	3	3	10	3	3	3	3	10	3	3	3	3	10	10	10	10
GAAP Net income for common	**97**	**68**	**180**	**34**	**378**	**97**	**84**	**128**	**58**	**367**	**95**	**83**	**224**	**50**	**453**	**484**	**516**	**556**
Non-GAAP Items	0	7	5	15	26	-	0	51		51								
Other (weather)				(0)	(0)													
Adjusted (Non-GAAP) Net Income	**97**	**74**	**185**	**49**	**404**	**97**	**84**	**180**	**58**	**418**	**95**	**83**	**224**	**50**	**453**	**484**	**516**	**556**
Wtd. Avg. shares outstanding	222	226	226	227	227	227	227	227	227	227	229	231	231	231	229	229	231	231
Adjusted Earnings per Share	**$0.43**	**$0.33**	**$0.82**	**$0.22**	**$1.79**	**$0.43**	**$0.37**	**$0.79**	**$0.25**	**$1.84**	**$0.41**	**$0.36**	**$0.97**	**$0.22**	**$1.98**	**$2.12**	**$2.24**	**$2.41**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

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ALLIANT ENERGY

CONSOLIDATED FINANCIALS

($ in millions unless stated otherwise)

Balance Sheet	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Assets																		
Cash and cash equivalents	98	55	139	6	6	5	7	85	258	258	278	363	147	181	181	127	204	125
Accounts receivable, less allowance for doubtful accounts	362	297	427	398	398	391	316	492	419	419	399	328	534	433	433	449	470	503
Production fuel, at weighted average cost	68	79	88	99	99	98	104	93	104	104	100	108	101	108	108	112	117	125
Gas stored underground, at weighted average cost	82	82	84	43	43	16	22	38	46	46	16	22	41	47	47	49	51	55
Materials and supplies, at weighted average cost	18	24	40	81	81	83	83	90	86	86	85	86	97	89	89	92	96	103
Regulatory assets	59	71	92	120	120	112	72	63	63	63	63	63	63	63	63	63	63	63
Other	228	436	217	80	80	64	99	99	99	99	99	99	99	99	99	99	99	99
Total Current Assets	**913**	**1,044**	**1,088**	**827**	**827**	**769**	**702**	**958**	**1,074**	**1,074**	**1,040**	**1,070**	**1,082**	**1,020**	**1,020**	**990**	**1,100**	**1,073**
Property, plant and equipment, net	9,050	9,174	9,367	9,519	9,519	9,627	9,846	9,920	10,106	10,106	10,328	10,549	10,769	10,987	10,987	11,872	12,611	13,336
Investment in American Transmission Company LLC	289	294	297	293	293	303	304	310	451	451	604	757	910	1,063	1,063	1,465	1,865	2,265
Other	55	56	56	53	53	21	21	20	47	47	66	76	90	118	118	189	259	330
Total investments	344	350	353	346	346	324	325	330	498	498	670	833	1,001	1,181	1,181	1,654	2,124	2,595
Regulatory assets	1,731	1,707	1,716	1,788	1,788	1,806	1,801	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812	1,812
Deferred charges and other	41	38	36	15	15	11	11	9	9	9	9	9	9	9	9	9	9	9
Total other assets	1,773	1,745	1,751	1,803	1,803	1,816	1,812	1,821	1,821	1,821	1,821	1,821	1,821	1,821	1,821	1,821	1,821	1,821
Total Assets	**12,080**	**12,312**	**12,559**	**12,495**	**12,495**	**12,535**	**12,685**	**13,029**	**13,499**	**13,499**	**13,860**	**14,274**	**14,673**	**15,010**	**15,010**	**16,337**	**17,657**	**18,825**
Current maturities of long-term debt	183	34	3	313	313	313	314	314	314	314	314	314	314	314	314	314	314	314
Commercial paper	42	121	109	160	160	213	221	238	238	238	238	238	238	238	238	238	238	238
Accounts payable	357	375	438	402	402	324	353	365	424	424	330	367	396	439	439	455	476	509
Regulatory liabilities	209	198	190	187	187	193	201	178	178	178	178	178	178	178	178	178	178	178
Other	232	265	251	297	297	305	284	274	274	274	274	274	274	274	274	274	274	274
Total Current Liabilities	**1,023**	**992**	**991**	**1,359**	**1,359**	**1,349**	**1,373**	**1,370**	**1,428**	**1,428**	**1,335**	**1,371**	**1,401**	**1,443**	**1,443**	**1,459**	**1,480**	**1,513**
Long-term debt, net (excluding current portion)	3,607	3,717	3,856	3,522	3,522	3,523	3,588	3,817	4,233	4,233	4,536	4,901	5,116	5,430	5,430	6,557	7,507	8,432
Deferred tax liabilities	2,367	2,449	2,462	2,381	2,381	2,425	2,474	2,531	2,531	2,531	2,531	2,531	2,531	2,531	2,531	2,531	2,531	2,531
Regulatory liabilities	607	572	554	551	551	518	510	497	497	497	497	497	497	497	497	497	497	497
Pension and other benefit obligations	418	417	416	452	452	447	452	455	455	455	455	455	455	455	455	455	455	455
Other	260	343	333	306	306	310	297	300	300	300	300	300	300	300	300	300	300	300
Total other liabilities	3,651	3,782	3,766	3,690	3,690	3,699	3,734	3,784	3,784	3,784	3,784	3,784	3,784	3,784	3,784	3,784	3,784	3,784
Total Liabilities	**8,281**	**8,491**	**8,613**	**8,571**	**8,571**	**8,570**	**8,695**	**8,970**	**9,445**	**9,445**	**9,655**	**10,056**	**10,300**	**10,657**	**10,657**	**11,800**	**12,771**	**13,729**
Common stock	1	1	1	1	1	1	2	2	2	2	2	2	2	2	2	2	2	2
Additional paid-in capital	1,632	1,649	1,656	1,663	1,663	1,674	1,682	1,686	1,691	1,691	1,816	1,816	1,816	1,816	1,816	1,816	1,966	1,966
Retained earnings	1,974	1,979	2,097	2,069	2,069	2,099	2,116	2,181	2,172	2,172	2,197	2,211	2,365	2,345	2,345	2,530	2,728	2,938
Accumulated other comprehensive loss	(1)	(1)	(1)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Shares in deferred compensation trust	(9)	(8)	(8)	(9)	(9)	(9)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Total Alliant Energy Corporation common equity	**3,597**	**3,621**	**3,745**	**3,724**	**3,724**	**3,765**	**3,790**	**3,859**	**3,854**	**3,854**	**4,005**	**4,018**	**4,172**	**4,153**	**4,153**	**4,337**	**4,686**	**4,896**
Cumulative preferred stock of Interstate Power and Light Corr	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200
Noncontrolling interest	2	1	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total equity	**3,799**	**3,822**	**3,946**	**3,924**	**3,924**	**3,965**	**3,990**	**4,059**	**4,054**	**4,054**	**4,205**	**4,218**	**4,372**	**4,353**	**4,353**	**4,537**	**4,886**	**5,096**
Total Liabilities & Equity	**12,080**	**12,312**	**12,559**	**12,495**	**12,495**	**12,535**	**12,685**	**13,029**	**13,499**	**13,499**	**13,860**	**14,274**	**14,673**	**15,010**	**15,010**	**16,337**	**17,657**	**18,825**

Source: Company reports; Guggenheim Securities, LLC estimates.

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ALLIANT ENERGY

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CASH FLOW STATEMENT	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Cash flows from operating activities:																		
Net income	99	70	183	37	388	99	86	131	60	377	98	86	227	53	463	494	526	567
Adjustments to reconcile net income to net cash flows from operating activities:																		
Depreciation and amortization	100	100	99	114	414	103	102	104	105	414	106	108	109	110	433	455	476	495
Deferred tax expense and investment tax credits	30	13	58	13	114	23	23	31	-	77	-	-	-	-	-	-	-	-
Other	(0)	4	(6)	(9)	(12)	(18)	(11)	71	-	42	-	-	-	-	-	-	-	-
Other changes in assets and liabilities:																		
Accounts receivable	7	27	(22)	25	37	(48)	(12)	(42)	73	(28)	20	70	(205)	100	(15)	(16)	(21)	(33)
Sales of accounts receivable	52	26	(99)	4	(17)	57	76	(137)	-	(4)	-	-	-	-	-	-	-	-
Production fuel, at weighted average cost	-	-	-	-	-	-	-	-	(11)	(11)	4	(8)	8	(7)	(4)	(4)	(5)	(8)
Gas stored underground, at weighted average cost	50	(6)	(44)	-	-	27	(6)	(22)	(8)	(8)	29	(6)	(19)	(6)	(2)	(2)	(2)	(4)
Materials and supplies, at weighted average cost									4	4	1	(1)	(11)	8	(3)	(3)	(4)	(7)
Regulatory assets	-	(23)	(29)	(53)	(105)	-	35	2	-	37	-	-	-	-	-	-	-	-
Accounts payable	(33)	33	-	-	-	(31)	31	-	59	59	(93)	36	30	42	15	16	21	33
Regulatory liabilities	(7)	(33)	(22)	(6)	(68)	(29)	(1)	(37)	-	(67)	-	-	-	-	-	-	-	-
Deferred income taxes	-	48	26	21	95	-	46	26	-	72	-	-	-	-	-	-	-	-
Other	17	(57)	33	32	25	45	(89)	17	-	(27)	-	-	-	-	-	-	-	-
Net cash flows from operating activities	**315**	**203**	**178**	**176**	**871**	**228**	**282**	**144**	**281**	**935**	**165**	**284**	**139**	**301**	**888**	**941**	**991**	**1,043**
Cash flows used for investing activities:																		
Utility business	(226)	(210)	(243)	(285)	(964)	(220)	(271)	(253)	(290)	(1,034)	(329)	(329)	(329)	(329)	(1,315)	(1,340)	(1,215)	(1,220)
Non-regulated businesses	(20)	(12)	(15)	(23)	(71)	(19)	(10)	(14)	(27)	(71)	(19)	(10)	(14)	(27)	(71)	(71)	(71)	(71)
Proceeds from projects	-	-	138	2	140	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (incl ATC going forward)	(5)	3	(23)	(0)	(25)	19	(0)	(4)	(141)	(126)	(153)	(153)	(153)	(153)	(612)	(402)	(400)	(400)
Net cash flows used for investing activities	**(251)**	**(219)**	**(143)**	**(306)**	**(919)**	**(220)**	**(281)**	**(271)**	**(459)**	**(1,230)**	**(501)**	**(492)**	**(496)**	**(509)**	**(1,998)**	**(1,813)**	**(1,686)**	**(1,691)**
Cash flows used for financing activities:																		
Common stock dividends	(61)	(62)	(62)	(62)	(247)	(67)	(67)	(67)	(70)	(270)	(72)	(73)	(73)	(73)	(290)	(310)	(328)	(356)
Proceeds from issuance of common stock, net	122	17	6	6	151	6	8	7	5	25	125	-	-	-	**125**	-	150	-
Proceeds from issuance of long-term debt	-	-	251	-	251	-	-	300	416	716	303	365	215	315	1,197	1,127	950	925
Payments to retire long-term debt	-	(151)	(31)	(1)	(183)	-	(2)	(0)	-	(2)	-	-	-	-	-	-	-	-
Net change in short-term debt	-	-	-	-	-	-	-	-	-	-		-	-		-	-	-	-
Net change in commercial paper	(100)	191	(123)	51	19	54	74	(49)	-	79	-	-	-	-	-	-	-	-
Other	15	(20)	8	4	7	(3)	(13)	15	-	(1)	-	-	-	-	-	-	-	-
Net cash flows used for financing activities	**(23)**	**(26)**	**49**	**(3)**	**(3)**	**(9)**	**1**	**205**	**351**	**548**	**356**	**292**	**142**	**242**	**1,033**	**817**	**772**	**569**
Net increase (decrease) in cash and cash equivalents	**41**	**(43)**	**84**	**(133)**	**(51)**	**(1)**	**2**	**78**	**174**	**253**	**20**	**84**	**(215)**	**34**	**(77)**	**(55)**	**78**	**(79)**
Cash and cash equivalents at beginning of period	57	98	55	139	57	6	5	6	85	6	258	278	363	147	258	181	127	204
Cash and cash equivalents at end of period	**98**	**55**	**139**	**6**	**6**	**5**	**6**	**85**	**258**	**258**	**278**	**363**	**147**	**181**	**181**	**127**	**204**	**125**

Source: Company reports; Guggenheim Securities, LLC estimates.

NEXTERA ENERGY (NEE, BUY, $136 PT, $119.00)

Best-in-class growth utility firing on all cylinders in FL, levered to midstream opportunities, even more upside likely with Oncor, and Trump shouldn't take the wind from NEER's sails next year – Core holding in a '17 cyclical energy recovery.

- **Reaffirming our BUY rating and lowering our price target to $136 from $139 on NEE with the post-election sell-off creating an even better buying opportunity, in our view** – NEE is driven by several growth engines including a premier utility franchise and a solid midstream platform, in addition to its industry-leading renewable development business; we don't see renewables going away, **and expect management's 6-8% growth outlook to be breached with Oncor.** Not only pursuing growth on several fronts, but uniquely positioned with industry leading platforms across the energy value chain; we wouldn't necessarily label NEE as a renewable developer (although they are the largest) as it would discount its premium core utility franchise in FL, as well as the attractive Oncor utility franchise it is acquiring in TX, and successful midstream gas pipeline developments already underway. That said, shares sold-off following the presidential election and are still underperforming into 2017 (NEE -5% vs. UTY -1%, S&P +6%) – likely simple read-throughs from Trump campaign rhetoric to renewables, but not warranted, in our view. **Great '17 entry point for a story that we believe should do well in current yield cycle.**

- **We are introducing 2019 and 2020 estimates of $7.56/$8.10 vs. consensus estimates of $7.47/$8.15.** We are introducing estimates of $7.55 and $8.02 for 2019 and 2020 based on the multi-year ratecase approved for FP&L in November 2016, for rates going into effect in 2017 and extending through 2020. In 2019, we also factor in a $200mm "limited-scope" increase that will go into effect when NEE brings the Okeechobee Clean Energy Center on-line (NEE expecting in-service by 6/1/19). Without management's outlook for NEER renewable development beyond 2018, we currently only model limited expansion of the portfolio in those outer years based on projects that have been disclosed recently with post-2018 delivery dates (e.g., 500MW of wind projects and 125MW of solar projects). In addition to NEE's longer-term renewable development outlook, we also look forward to an update on wind re-powering opportunities. NEE's 6-8% growth outlook only extends through 2018, while our estimates grow 7.1% per year through 2020, implying the midpoint of management's outlook through 2018 carries forward.

- **Updating our 2016/2017/2018 EPS estimates to $6.23/$6.56/$7.07 vs. consensus estimates of $6.21/$6.57/$7.05.** As we mention above, we are incorporating FP&L's ratecase in our estimates starting in 2017 when new rates go into effect, and through the end of the decade; not driving material changes though as the ROE range reset to 9.6-11.6% from 9.5-11.5% (midpoint increased to 10.55% from 10.50%), and we continue to model returns toward the higher end. We model 7.5% compound annual earnings growth through 2018, which is toward the higher-end of management's outlook for 6-8% annual growth over the same period. **That said, we estimate 2-4% accretion from NEE's acquisition of Oncor using conservative assumptions, which likely breaches management's outlook.**

- **Likely holding back growth until the Oncor process is further along; should get a decision from TX regulators by April.** Holding back growth at this juncture makes sense to us given the stage of the Oncor acquisition process and hurdles ahead, including PUCT approvals – application was filed with the PUCT initiating the 180-day statute for regulatory consideration in TX, so we expect to have a decision by April. The argument that Oncor is simply supportive of management's guidance would, in our view, imply the rest of the NEE business is worse off – and while we

acknowledge concern around renewable development with the incoming Trump administration, we don't subscribe to this argument because: (1) state policy drives demand for renewables; (2) tax incentives installed under bi-partisan leadership won't be eliminated as easily as policies driven by executive order such as the CPP. Said differently, there are lower hanging fruit that the new administration would likely go after before renewable tax incentives, and at the end of the day states will continue driving demand anyway with their renewable portfolio standards and low-carbon objectives. That said, all signs point to Oncor breeching NEE's current 6-8% growth outlook (see our NEE/Oncor analysis HERE). Oncor growth has likely been held back as of late considering its parent company's bankruptcy, limiting investment to cash available from operations – This wouldn't be the case with Oncor on NEE's balance sheet, in our view.

- **Valuation:** Our $136 PT is comprised of $72 for FP&L, $65 for NEER. We apply a group average 15.5x regulated utility target multiple and an NEE-specific premium of 1.5x to our 2018 FP&L estimate of $4.30 to account for constructive regulation and growth opportunities not reflected in current fundamentals. Our NEER valuation assumes 85% payout rate and targets a 6.5% yield.

Guggenheim's NEE EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2015A	1.41A	1.56A	1.60A	1.17A	5.49A	
2016E	1.55A	1.67A	1.74E	1.28E	6.23E	*6.21E*
Prior				*1.35E*	*6.33E*	
2017E	1.53E	1.59E	1.88E	1.55E	6.56E	*6.57E*
Prior	*1.46E*	*1.65E*	*1.79E*	*1.66E*	*6.56E*	
2018E	1.65E	1.71E	2.04E	1.66E	7.07E	*7.05E*
Prior	*1.55E*	*1.76E*	*1.94E*	*1.76E*	*7.01E*	
2019E	1.78E	1.81E	2.17E	1.79E	7.56E	*7.47E*
2020E	1.87E	2.09E	2.27E	1.88E	8.10E	*8.15E*

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** Risks for NEE outside of the Oncor transaction and project-specific delays with infrastructure investments include Florida economy, commodity prices, and other 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.

GUGGENHEIM

NEXTERA

CONSOLIDATED FINANCIALS

INCOME STATEMENT ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Total Operating Revenues	4,104	4,358	4,954	4,069	17,485	3,835	3,817	4,805	4,001	16,458	3,931	4,238	4,953	4,322	17,444	18,183	18,609	19,090
Operating Expenses																		
Fuel, Purchased Power & Interchange	1,363	1,316	1,472	1,176	5,327	928	960	1,217	1,210	4,315	895	1,153	1,561	1,218	4,827	4,877	4,928	4,983
Operations & Maintenance	735	800	819	915	3,269	799	843	833	874	3,349	944	959	931	930	3,764	3,982	4,204	4,428
Restructuring & Impairment Charges	4	9	7	6	26	4	2	123	6	135	4	2	123	6	135	135	135	135
Depreciation & Amortization	547	737	798	750	2,832	537	742	983	612	2,874	625	632	639	650	2,546	2,678	2,820	2,963
Taxes Other than Income Taxes	326	350	377	344	1,397	333	101	370	324	1,128	350	353	379	351	1,434	1,483	1,520	1,559
Total operating expenses	2,975	3,212	3,473	3,191	12,851	2,601	2,648	3,526	3,027	11,802	2,819	3,099	3,633	3,156	12,706	13,156	13,606	14,068
Gross Margin	2,741	3,042	3,482	2,893	12,158	2,907	2,857	3,588	2,791	12,143	3,036	3,085	3,392	3,104	12,617	13,306	13,682	14,108
Operating Income / (Loss)	1,129	1,146	1,481	878	4,634	1,234	1,169	1,279	974	4,656	1,113	1,139	1,320	1,166	4,738	5,027	5,003	5,022
EBITDA	1,685	1,910	2,330	1,649	7,574	1,803	1,955	2,332	1,605	7,695	1,760	1,805	2,020	1,835	7,420	7,842	7,973	8,135
Other Income / (Deductions)																		
Interest Charges	(321)	(280)	(311)	(299)	(1,211)	(509)	(602)	(369)	(325)	(1,805)	(246)	(247)	(248)	(249)	(991)	(1,010)	(1,023)	(969)
AFUDC	-	-	-	-	-	-	-	-	1	1	4	6	9	11	29	95	176	257
Equity in Earnings of Equity Method Investees	9	27	51	21	108	32	44	70	19	165	22	34	61	19	136	136	150	150
AFUDC	11	16	20	23	70	25	17	20	17	79	21	25	28	31	105	187	288	389
Interest Income	20	21	21	21	83	17	18	23	(41)	17	12	12	17	(41)	-	-	-	-
NEER Growth Projects, pre-tax	-	-	-	-	-	-	-	-	106	106	40	40	40	40	158	185	185	185
Other, net	88	64	40	115	307	97	117	184	-	398	25	25	25	25	100	100	300	450
Total Other Income / (Deductions)	(193)	(152)	(179)	(119)	(643)	(338)	(406)	(72)	(223)	(1,039)	(123)	(106)	(69)	(164)	(462)	(307)	76	463
Income / (Loss) from Operations Before Income Tax	936	994	1,302	759	3,991	896	763	1,207	751	3,617	990	1,033	1,251	1,002	4,276	4,720	5,079	5,485
Income Tax Expense (Benefit)	286	274	421	247	1,228	259	219	418	159	1,055	281	296	377	283	1,237	1,443	1,579	1,731
Effective Tax Rate (%)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income Before Cumulative Accounting Change	650	720	881	512	2,763	637	544	789	592	2,562	709	737	873	718	3,038	3,277	3,500	3,754
Cumulative Effect Accounting Change	-	(4)	(2)	-	(6)	(1)	(4)	(36)	-	(41)	-	-	-	-	-	-	-	-
Net Income / (Loss)	650	716	879	512	2,757	636	540	753	592	2,521	709	737	873	718	3,038	3,277	3,500	3,754
Operating Adjustments	(19)	(17)	(149)	28	(263)	80	237	56	-	373	-	-	-	-	-	-	-	-
Earnings / (Loss) Excluding Effect of Certain Items	631	699	730	540	2,494	716	777	809	592	2,894	709	737	873	718	3,038	3,277	3,500	3,754
Operating Earnings / (Loss) per Share	**$1.41**	**$1.56**	**$1.60**	**$1.17**	**$5.49**	**$1.55**	**$1.67**	**$1.74**	**$1.28**	**$6.23**	**$1.53**	**$1.59**	**$1.88**	**$1.55**	**$6.56**	**$7.07**	**$7.56**	**$8.10**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

SECTOR: **POWER AND UTILITIES** January 9, 2017

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NEXTERA

CONSOLIDATED FINANCIALS

BALANCE SHEET ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
ASSETS																		
Property, Plant and Equipment																		
Electric Utility Plant in Service	68,691	69,621	70,756	72,606	72,606	73,547	74,981	76,458	76,845	76,845	78,129	79,415	80,702	81,991	81,991	87,006	91,877	96,802
Nuclear Fuel	2,048	2,093	2,231	2,067	2,067	2,153	2,073	2,154	2,372	2,372	2,453	2,535	2,616	2,698	2,698	3,024	3,350	3,676
Construction Work in Progress	3,939	5,550	6,218	5,657	5,657	6,565	6,631	7,196	7,196	7,196	7,196	7,196	7,196	7,196	7,196	7,196	7,196	7,196
Less: Accumulated Depreciation & Amortization	(18,445)	(18,954)	(19,370)	(18,944)	(18,944)	(19,371)	(19,528)	(20,191)	(20,803)	(20,803)	(21,429)	(22,061)	(22,700)	(23,349)	(23,349)	(26,028)	(28,848)	(31,810)
Net Property, Plant and Equipment	56,233	58,310	59,835	61,386	61,386	62,894	64,157	65,617	65,610	65,610	66,349	67,084	67,814	68,535	68,535	71,198	73,575	75,863
Current Assets																		
Cash and Cash Equivalents	469	551	1,181	571	571	628	730	681	974	974	1,258	1,295	1,493	1,535	1,535	3,220	4,088	4,895
Customer Receivables	1,718	1,883	1,961	1,784	1,784	1,574	1,816	1,921	1,921	1,921	1,921	1,921	1,921	1,921	1,921	1,921	1,921	1,921
Other Receivables	309	256	349	481	481	693	857	938	938	938	938	938	938	938	938	938	938	938
Materials, Supplies & Fossil Fuel Inventory	1,249	1,278	1,344	1,259	1,259	1,287	1,254	1,309	1,309	1,309	1,309	1,309	1,309	1,309	1,309	1,309	1,309	1,309
Deferred Clause Expenses	181	176	135	75	75	33	-	-	-	-	-	-	-	-	-	-	-	-
Derivative Assets	625	616	480	768	768	904	381	417	417	417	417	417	417	417	417	417	417	417
Other	1,747	1,586	1,208	1,858	1,858	1,978	1,475	1,482	1,482	1,482	1,482	1,482	1,482	1,482	1,482	1,482	1,482	1,482
Total Current Assets	6,298	6,346	6,658	6,796	6,796	7,097	6,513	6,748	7,041	7,041	7,325	7,362	7,560	7,602	7,602	9,287	10,155	10,962
Special Use Funds	5,245	5,210	5,024	5,138	5,138	5,166	5,290	5,450	5,450	5,450	5,450	5,450	5,450	5,450	5,450	5,450	5,450	5,450
Other Investments	1,527	1,613	1,781	1,786	1,786	1,892	2,114	2,380	2,380	2,380	2,380	2,380	2,380	2,380	2,380	2,380	2,380	2,380
Other	5,630	5,725	6,669	7,377	7,377	7,592	7,350	7,673	7,673	7,673	7,673	7,673	7,673	7,673	7,673	7,673	7,673	7,673
Total Other Assets	12,402	12,548	13,474	14,301	14,301	14,650	14,754	15,503	15,503	15,503	15,503	15,503	15,503	15,503	15,503	15,503	15,503	15,503
Total Assets	**74,933**	**77,204**	**79,967**	**82,483**	**82,483**	**84,641**	**85,424**	**87,868**	**88,154**	**88,154**	**89,177**	**89,949**	**90,877**	**91,640**	**91,640**	**95,988**	**99,233**	**102,328**
LIABILITIES & EQUITY																		
Capitalization																		
Common Stock	4	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
Additional Paid-In Capital	7,222	7,881	8,494	8,596	8,596	8,645	8,703	9,039	8,939	8,939	8,939	8,839	8,739	8,639	8,639	8,339	8,039	7,739
Retained Earnings	13,082	13,456	13,987	14,140	14,140	14,375	14,548	14,899	15,135	15,135	15,389	15,672	16,090	16,406	16,406	17,686	18,926	20,086
Accumulated Other Comprehensive Income / (Loss	156	259	340	371	371	605	626	926	926	926	926	926	926	926	926	926	926	926
Total Common Shareholders' Equity	20,464	21,601	22,826	23,112	23,112	23,630	23,882	24,869	25,005	25,005	25,259	25,442	25,760	25,976	25,976	26,956	27,896	28,756
Preferred Stock of FPL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-Term Debt	24,264	25,235	25,604	26,681	26,681	27,791	27,001	28,195	28,195	28,195	28,545	28,795	28,995	29,245	29,245	30,645	30,845	31,045
Total Capitalization	44,728	46,836	48,430	49,793	49,793	51,421	50,883	53,064	53,200	53,200	53,804	54,237	54,755	55,221	55,221	57,601	58,741	59,801
Current Liabilities																		
Commercial Paper	1,745	1,446	2,151	574	574	1,760	1,582	668	668	668	668	668	668	668	668	668	668	668
Notes Payable	-	-	-	100	100	600	600	450	450	450	450	450	450	450	450	450	450	450
Current Maturities of Long-Term Debt	3,457	2,768	2,497	2,332	2,332	2,257	3,125	2,364	2,364	2,364	2,364	2,364	2,364	2,364	2,364	2,364	2,364	2,364
Accounts Payable	1,104	1,517	1,870	2,529	2,529	1,139	1,774	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800
Customers' Deposits	464	466	468	473	473	472	471	469	469	469	469	469	469	469	469	469	469	469
Accrued Interest & Taxes	558	706	883	449	449	543	666	861	861	861	861	861	861	861	861	861	861	861
Deferred Clause Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	2,062	2,522	2,506	3,654	3,654	3,820	3,122	2,848	2,848	2,848	2,848	2,848	2,848	2,848	2,848	2,848	2,848	2,848
Total Current Liabilities	9,390	9,425	10,375	10,111	10,111	10,591	11,340	10,460	10,460	10,460	10,460	10,460	10,460	10,460	10,460	10,460	10,460	10,460
Other Liabilities and Deferred Credits																		
Asset Retirement Obligations	2,016	2,051	2,101	2,469	2,469	2,509	2,556	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637
Accrued Asset Removal Costs	1,838	1,901	2,005	1,930	1,930	1,778	1,769	1,940	1,940	1,940	1,940	1,940	1,940	1,940	1,940	1,940	1,940	1,940
Accumulated Deferred Income Taxes	9,337	9,436	9,567	9,827	9,827	9,982	10,121	10,582	10,732	10,732	11,001	11,290	11,700	11,997	11,997	13,465	15,070	16,805
Storm & Property Insurance Reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	7,624	7,556	7,489	8,353	8,353	8,360	8,755	9,185	9,185	9,185	9,185	9,185	9,185	9,185	9,185	9,185	9,185	9,185
Total Other Liabilities & Deferred Credits	20,815	20,944	21,162	22,579	22,579	22,629	23,201	24,344	24,494	24,494	24,763	25,052	25,462	25,759	25,759	27,227	28,832	30,567
Total Capitalization & Liabilities	**74,933**	**77,205**	**79,967**	**82,483**	**82,483**	**84,641**	**85,424**	**87,868**	**88,154**	**88,154**	**89,027**	**89,749**	**90,677**	**91,440**	**91,440**	**95,288**	**98,033**	**100,828**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

NISOURCE INC (NI, BUY, $25 PT, $22.68)

Upgrading to Buy: Upside growth potential, diminishing rate case overhangs coupled with attractive valuation present good entry point.

- **We are upgrading our rating on NI to BUY from NEUTRAL with a $25 price target; a simple regulated block-and-tackle story with upside growth potential as peak rate case cycle comes to an end.** The story is becoming more attractive to us as rate cases work themselves through and **management is getting into a better position to update customer growth assumptions and CAPEX outlook – current guided growth trajectory is conservative, in our view, given a politically sensitive time for the company.** The analyst day should provide a revised outlook with peak rate case cycle coming to an end – higher spending and customer growth obvious levers. **Summary – we are changing our stance with anticipated higher guidance, diminishing rate case overhangs coupled with an attractive valuation – we see good entry point in a fairly overvalued sector.**
- **We are introducing estimates for 2019 and 2020 of $1.31/$1.33 versus street consensus of $1.26/$1.29.** We model EPS CAGR of ~7%/year through our '20 trajectory – **above current management guidance given our view that outlook is conservative.** Consolidated average earned ROE estimate of ~9.5% for gas utilities; 8.9% for electric utilities. We assume some additional rate cases at the utilities, customer growth better than guidance, and continuation of preexisting riders/trackers among other items. Given the numerous jurisdictions (6 states) and franchises (9 utilities), rate cases are to be expected but 2016 was more of an outlier, in our view.
- **Updating our 2016/2017/2018 EPS estimates to $1.11/$1.18/$1.26; versus consensus estimates of $1.07/$1.16/$1.23.** FY2016 marks a peak cadence in the rate case cycle; but we still see some rate cases as key drivers of the outlook for 2017 and beyond to support our ~7% 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 8.0%. Our annual Electric CapEx estimate equates to ~$428mm through 2017 and steps 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 ratebase 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. We assume continuation of the numerous trackers and riders in place allow for timely recovery of most investments.
- **Rate cases continue at slower pace and the analyst day may be an inflection point.** MA will file in '17 for rates going into effect in '18; a commission decision is expected early next year in VA. **The analyst day (latter part of 1Q17) is the next NT potential catalyst for NI as several items may come together – could see EPS growth increased especially as first wave of rate cases move behind us.** Management highlighted policy measures in place, or being pursued, to allow for an increase in the customer growth trajectory may see it up to 1% over the next 3-5yrs ($0.005 margin increase per 10k customers added). This became more evident with fully integrating NI's utilities. NI currently has an inventory of about 700 systems, and has an opportunity to reduce that to 400; so looking at supply chain, and financial planning systems. This requires both O&M and Capex spending, but cost savings should result and allow for additional opportunities for capital deployment.

- **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; (3) -$1/share for other adjustments. **Incorporating our estimated 3.0% dividend yield would equate to a 13.2% ETR.**

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	0.36E	1.11E	*1.07E*
Prior				*0.37E*	*1.10E*	
2017E	0.61E	0.11E	0.10E	0.36E	1.18E	*1.16E*
Prior	*0.60E*	*0.11E*	*0.10E*	*0.36E*	*1.16E*	
2018E	0.64E	0.12E	0.10E	0.39E	1.26E	*1.23E*
Prior	*0.63E*	*0.12E*	*0.10E*	*0.38E*	*1.24E*	
2019E	0.67E	0.13E	0.10E	0.40E	1.31E	*1.26E*
2020E	0.69E	0.13E	0.09E	0.41E	1.33E	*1.29E*

Source: Company reports, Factset, Guggenheim Securities, LLC estimates.

- **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.

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INCOME STATEMENT ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Gas Distribution	1,081	306	209	486	2,082	735	294	212	563	1,808	744	386	304	588	2,023	2,120	2,211	2,301
Gas Transportation and Storage	369	199	172	230	970	302	208	180	262	952	347	180	142	274	942	987	1,030	1,072
Electric	395	375	428	374	1,573	392	392	466	437	1,686	415	417	524	414	1,770	1,897	2,037	2,043
Other	8	5	8	7	27	5	4	4	4	17	6	3	3	5	17	18	18	19
Total Operating Revenues	1,852	885	817	1,098	**4,652**	1,437	898	861	1,267	**4,463**	1,512	986	972	1,281	**4,751**	**5,023**	**5,296**	**5,435**
Cost of Sales	848	250	209	336	1,644	497	235	218	357	1,307	508	245	238	356	1,347	1,399	1,455	1,471
Operation and maintenance	409	357	311	349	1,426	356	338	337	401	1,430	379	361	361	402	1,502	1,578	1,658	1,743
Loss (gain) on sale of assets and impairments, net	0	(0)	1	0	2	(0)	(0)	(0)	-	(0)	-	-	-	-	-	-	-	-
Other taxes	83	60	64	59	256	71	50	57	79	257	68	63	69	71	271	286	300	308
Total Operating Expenses	493	417	366	409	**1,684**	426	388	393	481	**1,687**	447	424	430	473	**1,773**	**1,864**	**1,958**	**2,050**
EBITDA	511	218	242	353	**1,324**	514	275	250	430	**1,469**	557	317	305	452	**1,631**	**1,759**	**1,883**	**1,913**
Depreciation and amortization	125	134	133	133	524	133	137	136	172	578	173	175	176	178	703	744	793	803
Operating Income	386	84	110	220	**800**	381	138	114	258	**891**	384	142	128	274	**929**	**1,015**	**1,090**	**1,111**
Equity Earnings in Unconsolidated Affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other, net	4	2	6	6	17	1	(5)	4	2	-	-	-	-	-	-	-	-	-
Loss on early extinguishment of long-term debt	-	(97)	-	-	(97)	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense, net	93	98	95	94	380	91	86	85	87	349	91	93	95	97	376	426	475	485
Income before income taxes	297	(109)	21	131	**340**	292	46	32	172	**542**	293	49	33	177	**553**	**589**	**615**	**626**
Income Taxes	105	(36)	6	67	141	112	17	9	55	194	98	13	1	60	171	183	191	195
Net income from continuing operations	193	(73)	15	64	**199**	180	29	24	117	**349**	195	36	33	117	**381**	**406**	**424**	**431**
Income (Loss) from Discontinued Operations - net of taxes	82	46	(20)	(5)	104	-	(0)	4	-	3	-	-	-	-	-	-	-	-
Net income	275	(28)	(5)	59	**302**	180	29	27	117	**352**	195	36	33	117	**381**	**406**	**424**	**431**
Less: Net income attributable to noncontrolling interests	7	9	-	-	16	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Loss) attributable to NISource	268	(36)	(5)	59	**287**	180	29	27	117	**352**	195	36	33	117	**381**	**406**	**424**	**431**
Avg. shares outstanding (diluted)	317	318	322	320	320	320	323	324	321	321	322	322	322	322	322	323	324	325
Earnings Per Common Share, Diluted	0.87	(0.09)	(0.02)	0.19	**$0.94**	0.56	0.09	0.08	0.36	**$1.10**	0.61	0.11	0.10	0.36	**$1.18**	**$1.26**	**$1.31**	**$1.33**
Non-GAAP Items	(13)	75	4	35	100	11	(2)	(4)		**$4.30**								
Net Income (Non-GAAP)	179	1	19	100	299	191	26	19	117	356	195	36	33	117	381	406	424	431
EPS from Continuing Operations	$0.56	$0.00	$0.06	$0.31	$0.93	$0.60	$0.08	$0.06	$0.36	$1.11	$0.61	$0.11	$0.10	$0.36	$1.18	$1.26	$1.31	$1.33

Source: Company reports, Guggenheim Securities, LLC estimates.

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CASH FLOW STATEMENT ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Net income	275	(28)	(5)	59	302	180	29	27	117	352	195	36	33	117	381	406	424	431
Adjustments to reconcile net income to net cash provided by operating activities:																		
Loss on early extinguishment of debt	-	97	-	-	97	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	125	134	133	133	524	133	137	136	172	578	173	175	176	178	703	744	793	803
Deferred income tax provision and investment tax credits	96	(39)	9	75	135	102	22	13	-	138	-	-	-	-	-	-	-	-
Other adjustments	(65)	(26)	31	17	(43)	11	8	6		25								
Changes in current operating assets and liabilities:																		
Accounts receivable	(106)	478	49	(158)	262	11	174	3	(222)	(34)	458	82	2	(48)	494	142	41	12
Income taxes receivable	(0)	(0)	1	(1)	(1)	1	-	(1)	-	-	-	-	-	-	-	-	-	-
Inventories	297	(145)	(129)	27	47	218	(98)	(121)	(189)	(189)	475	100	13	(69)	519	143	42	12
Accounts payable	(66)	(189)	(33)	97	(191)	(35)	(48)	0	166	83	(343)	(61)	(2)	36	(369)	(106)	(31)	(9)
Other noncurrent liabilities	(101)	93	31	7	29	(317)	(36)	(20)		(375)								
Net Cash Provided by Operating Activities	448	371	87	257	1,163	304	184	45	44	577	959	332	222	214	1,727	1,330	1,270	1,250
Net Operating Activities from (used for) Discontinued Operations	156	140	(9)	6	293	(0)	(0)	(0)	-	(1)	-	-	-	-	-	-	-	-
Net Cash Flows from Operating Activities	604	511	78	263	1,457	304	183	45	44	576	959	332	222	214	1,727	1,330	1,270	1,250
Cash Flow from Investing Activities:																		
Capital expenditures	(244)	(311)	(369)	(437)	(1,361)	(301)	(372)	(411)	38	(1,045)	(261)	(261)	(261)	(261)	(1,045)	(1,343)	(903)	(903)
Other investing activities	510	3,280	(30)	(24)	3,736	(14)	(28)	(42)		(85)								
Net Cash Used in Investing Activities	266	2,968	(398)	(461)	2,375	(315)	(400)	(453)	38	(1,130)	(261)	(261)	(261)	(261)	(1,045)	(1,343)	(903)	(903)
Net Investing Activities from (used for) Continuing Operations	(155)	(275)	-	(0)	(430)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flows from (used for) Investing Activities	111	2,693	(398)	(461)	1,945	(315)	(400)	(453)	38	(1,130)	(261)	(261)	(261)	(261)	(1,045)	(1,343)	(903)	(903)
Cash Flow from Financing Activities:																		
Cash of CPG at Separation	-	-	(137)	-	(137)	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of long-term debt	-	-	-	-	-	-	-	500	-	500		-	-	-	-	-	-	-
Repayments of long-term debt and capital lease obligations	(8)	(1,848)	(3)	(233)	(2,092)	(204)	(3)	(3)		(211)	(210)	-			(210)	200	200	200
Premiums and other debt related costs	-	(94)	-	-	(94)	(0)	-	-	-	(0)	-	-	-	-	-	-	-	-
Change in short-term borrowings, net	(1,263)	(172)	39	460	(936)	278	255	(42)		492					-	-	-	-
Issuance of common stock	6	7	5	5	23	4	6	7	6	23	6	6	6	6	23	23	23	23
Acquisition of treasury stock	(20)	(0)	(0)	(0)	(20)	(7)	(1)	(0)	(12)	(20)	(5)	(5)	(5)	(5)	(20)	(20)	(20)	(20)
Dividends paid - common stock	(82)	(83)	(49)	(49)	(263)	(50)	(50)	(53)	-	(152)	(55)	(55)	(55)	(55)	(219)	(232)	(246)	(260)
Net Cash (Used in) Provided by Financing Activities	(1,367)	(2,190)	(145)	182	(3,520)	21	208	409	(7)	630	(265)	(54)	(54)	(54)	(427)	(30)	(44)	(58)
Net Financing Activities from Discontinued Operations	668	(560)	-	-	109	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flows from (used for) Financing Activities	(699)	(2,750)	(145)	182	(3,412)	21	208	409	(7)	630	(265)	(54)	(54)	(54)	(427)	(30)	(44)	(58)
Net (Decrease) Increase in Cash and Cash Equivalents	17	455	(465)	(16)	(10)	9	(9)	0	76	76	433	16	(93)	(101)	255	(43)	324	289
Cash and Cash Equivalents, Beginning of Period	25	42	497	32	25	15	24	16	16	15	92	525	541	448	92	347	304	627
Cash and Cash Equivalents, End of Period	42	497	32	15	15	24	16	16	92	92	525	541	448	347	347	304	627	917

Source: Company reports, Guggenheim Securities, LLC estimates.

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BALANCE SHEET ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Cash and cash equivalents	42	497	32	16	16	24	16	16	92	92	525	541	448	347	347	304	627	917
Restricted cash	22	25	28	30	30	19	12	14	14	14	14	14	14	14	14	14	14	14
Accounts receivable	1,152	673	501	660	660	548	474	471	693	693	236	153	151	199	199	57	16	4
Gas inventory	134	258	399	344	344	113	199	324	472	472	172	89	70	136	136	41	12	4
Materials and supplies, at average cost	109	112	84	87	87	95	103	106	147	147	50	33	32	42	42	12	3	1
Electric production fuel, at average cost	76	97	81	106	106	111	113	110	103	103	25	26	32	25	25	6	2	0
Exchange gas receivable	77	57	20	21	21	26	16	17	17	17	17	17	17	17	17	17	17	17
Regulatory assets	160	176	184	207	207	226	237	263	263	263	263	263	263	263	263	263	263	263
Deferred income taxes	277	304	227	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepayments and other	187	133	75	108	108	134	90	64	64	64	64	64	64	64	64	64	64	64
Total Current Assets	2,261	2,336	1,638	1,577	**1,577**	1,395	1,260	1,379	1,865	**1,865**	1,364	1,199	1,091	1,107	**1,107**	**778**	**1,019**	**1,284**
Property, plant and equipment																		
Property, plant and equipment	25,594	26,225	18,455	18,947	18,947	19,207	19,578	19,857	19,819	19,819	20,080	20,341	20,602	20,864	20,864	22,206	23,109	24,011
Less: accumulated depreciation	(9,687)	(9,719)	(6,812)	(6,853)	(6,853)	(6,957)	(7,040)	(7,020)	(7,192)	(7,192)	(7,365)	(7,540)	(7,717)	(7,895)	(7,895)	(8,639)	(9,432)	(10,235)
Net utility plant	15,907	16,506	11,673	12,094	**12,094**	12,250	12,539	12,837	12,627	**12,627**	12,714	12,801	12,886	12,969	**12,969**	**13,567**	**13,676**	**13,776**
Other property, at cost, less accumulated depreciation	376	402	17	18	18	18	17	17	17	17	17	17	17	17	17	17	17	17
Net Property, Plant and Equipment	16,283	16,908	11,691	12,112	**12,112**	12,267	12,556	12,854	12,644	**12,644**	12,731	12,818	12,903	12,986	**12,986**	**13,584**	**13,693**	**13,793**
Investments and Other Assets																		
Unconsolidated affiliates	448	452	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
Other investments	209	201	196	188	188	195	190	201	201	201	201	201	201	201	201	201	201	201
Total Investments and Other Assets	657	653	203	195	**195**	202	197	207	207	**207**	207	207	207	207	**207**	**207**	**207**	**207**
Other Assets																		
Regulatory assets	1,683	1,674	1,508	1,600	1,600	1,601	1,601	1,620	1,620	1,620	1,620	1,620	1,620	1,620	1,620	1,620	1,620	1,620
Goodwill	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	1,691	1,691	1,691	1,691
Intangible assets-net of accumulated amortization	262	258	256	254	254	251	246	248	245	245	245	245	245	245	245	245	245	245
Deferred charges and other	87	112	70	65	65	65	67	72	72	72	72	72	72	72	72	72	72	72
Total other non-current assets	5,698	5,710	3,525	3,609	**3,609**	3,607	3,605	3,628	3,628	**3,628**	3,628	3,628	3,628	3,628	**3,628**	**3,628**	**3,628**	**3,628**
Total Assets	24,899	25,607	17,056	17,493	**17,493**	17,471	17,617	18,067	18,343	**18,343**	17,931	17,852	17,829	17,928	**17,928**	**18,197**	**18,547**	**18,912**

Source: Company reports, Guggenheim Securities, LLC estimates.

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BALANCE SHEET ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Current portion of long-term debt	465	443	443	434	434	294	312	583	583	583	583	583	583	583	583	583	583	583
Short-term borrowings	314	162	167	567	567	845	1,101	1,059	1,059	1,059	1,059	1,059	1,059	1,059	1,059	1,059	1,059	1,059
Accounts payable	564	429	349	433	433	393	371	352	518	518	176	114	113	149	149	43	12	3
Dividends payable	82	-	49	-	-	50	53	53	53	53	53	53	53	53	53	53	53	53
Customer deposits and credits	173	207	255	316	316	213	187	255	255	255	255	255	255	255	255	255	255	255
Taxes accrued	287	222	137	184	184	203	141	131	131	131	131	131	131	131	131	131	131	131
Interest accrued	81	142	78	129	129	72	121	71	71	71	71	71	71	71	71	71	71	71
Exchange gas payable	66	64	67	62	62	26	38	58	58	58	58	58	58	58	58	58	58	58
Deferred revenue	26	22	9			6	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory liabilities	102	136	129	231	231	177	143	107	107	107	107	107	107	107	107	107	107	107
Accrued liability for postretirement and postemployment benefits	6	6	5	-	-	5	-	-	-	-	-	-	-	-	-	-	-	-
Legal and environmental	25	35	37	38	38	37	37	39	39	39	39	39	39	39	39	39	39	39
Accrued compensation and employee benefits	-	-	126	141	141	103	125	136	136	136	136	136	136	136	136	136	136	136
Other accruals	317	314	122	122	122	103	68	68	68	68	68	68	68	68	68	68	68	68
Total Current Liabilities	2,758	2,524	2,073	2,658	**2,658**	2,496	2,696	2,912	3,078	**3,078**	2,735	2,674	2,672	2,708	**2,708**	**2,602**	**2,571**	**2,563**
Other Liabilities and Deferred Credits																		
Risk management liabilities	-	-	-	23	23	135	221	265	265	265	265	265	265	265	265	265	265	265
Deferred income taxes	3,804	3,623	2,514	2,365	2,365	2,427	2,413	2,384	2,384	2,384	2,384	2,384	2,384	2,384	2,384	2,384	2,384	2,384
Deferred investment tax credits	17	16	15	15	15	14	14	14	14	14	14	14	14	14	14	14	14	14
Deferred credits	106	105	99	91	91	91	94	95	95	95	95	95	95	95	95	95	95	95
Accrued liability for postretirement and postemployment benefits	654	634	665	760	760	754	746	738	738	738	738	738	738	738	738	738	738	738
Regulatory liabilities	1,679	1,693	1,387	1,350	1,350	1,334	1,321	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297	1,297
Asset retirement obligations	161	265	181	254	254	253	257	272	272	272	272	272	272	272	272	272	272	272
Other noncurrent liabilities	294	271	187	186	186	188	187	183	183	183	183	183	183	183	183	183	183	183
Total Other Liabilities and Deferred Credits	6,713	6,746	5,049	5,043	**5,043**	5,198	5,253	5,248	5,248	**5,248**	5,248	5,248	5,248	5,248	**5,248**	**5,248**	**5,248**	**5,248**
Total Liabilities	9,471	9,270	7,122	7,701	**7,701**	7,694	7,949	8,159	8,325	**8,325**	7,983	7,922	7,920	7,956	**7,956**	**7,850**	**7,819**	**7,811**
Capitalization																		
Stockholders' Equity:																		
Common stock	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Treasury stock	(79)	(79)	(79)	(79)	(79)	(87)	(87)	(87)	(100)	(100)	(105)	(110)	(115)	(120)	(120)	(141)	(161)	(181)
Additional paid-in capital	5,048	5,065	5,079	5,078	5,078	5,103	5,118	5,136	5,141	5,141	5,147	5,153	5,158	5,164	5,164	5,186	5,209	5,231
Retained deficit	1,598	1,561	(1,183)	(1,123)	(1,123)	(1,043)	(1,067)	(1,061)	(944)	(944)	(804)	(823)	(845)	(782)	(782)	(608)	(430)	(259)
Accumulated other comprehensive loss	(47)	(44)	(20)	(35)	(35)	(104)	(156)	(179)	(179)	(179)	(179)	(179)	(179)	(179)	(179)	(179)	(179)	(179)
Total NiSource Common Stockholders' Equity	6,524	6,506	3,800	3,844	**3,844**	3,872	3,811	3,812	3,922	**3,922**	4,062	4,044	4,023	4,086	**4,086**	**4,262**	**4,442**	**4,615**
Noncontrolling interest in consolidated subsidiaries	946	950	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Stockholders' Equity	7,470	7,456	3,800	3,844	**3,844**	3,872	3,811	3,812	3,922	**3,922**	4,062	4,044	4,023	4,086	**4,086**	**4,262**	**4,442**	**4,615**
Long-term debt, excluding amounts due within one year	7,958	8,881	6,134	5,949	5,949	5,906	5,857	6,096	6,096	6,096	5,886	5,886	5,886	5,886	5,886	6,086	6,286	6,486
Total Capitalization	15,428	16,337	9,934	9,792	**9,792**	9,778	9,668	9,908	10,018	**10,018**	9,948	9,930	9,909	9,972	**9,972**	**10,347**	**10,728**	**11,101**
Total Liabilities and Equity	24,899	25,607	17,056	17,493	**17,493**	17,471	17,617	18,067	18,343	**18,343**	17,931	17,852	17,829	17,928	**17,928**	**18,197**	**18,547**	**18,912**

Source: Company reports, Guggenheim Securities, LLC estimates.

NEW JERSEY RESOURCES (NJR, BUY, $38 PT, $35.15)

Growth outlook remains strong and the evolving earnings profile continues to shift towards more predictability.

- **We are maintaining our BUY rating and raising our price target to $38 from $36 per share.** Good entry point for a stock with above-average growth, decreasing earnings volatility with a solid regulatory construct and a growing contracted cash flow stream, which dilutes more volatile trading earnings, in our view. Renewable opportunities are a key value driver of the story; diversifies cash flows. **Shares trade at a valuation lower than gas utility peers on forward '18E earnings, which we expect will mean revert as management executes on its '17 plan presented at the Analyst Day**.
- **We are introducing estimates for 2019 and 2020 of $2.00/$2.18 versus street consensus of $1.96/$2.16.** This outlook captures the growth profile of NJR's utility and the evolving business mix with the first full year of earnings contribution from PennEast in 2019. Our ~7% consolidated earnings growth is comprised of a ~4% rate base growth at NJR, with ROEs averaging 9.1% through 2020 and assumes a rate case filing in 2018 with rates effective in 2019. We model PennEast entering service in FY2019, with a 12.0% ROE. Additionally, we model CEV results driven by forward SREC pricing with modest level of hedging as well as some growth from Energy and Home Services.
- **Updating our 2016/2017/2018 EPS estimates to $1.59/$1.72/$1.88 versus street estimates of 1.61/$1.70/$1.83.** We arrive at ~7% annual earnings growth at NJR by modeling ROEs averaging 9.2% and rate base growing at 6% CAGR. We model 1.6%-2% customer growth over the forecast horizon and assume a further extension of the SAVEGREEN program post expiration at the end of 2018. Midstream will have the first contribution from Penn East in FY19 following the latter stage of construction in '18 (we assume the project comes online as scheduled), along with increasing growth at CEV with 21% growth through Sunlight Advantage. We assume 5% volume growth at Energy services and earnings at Home Services essentially flat.
- **We expect the final environmental impact statement (EIS) from FERC for PennEast as well as conclusion of permits for SRL in 2017.** FERC's final EIS on PennEast is expected by Feb. 2017, with an estimated 1Q19 in-service date for the project. We also await an update on the Southern Reliability Link pipeline (SRL), specifically resolution of the delays in the CAFRA and road opening permits; based on the DEP schedule, management anticipates permit issuance in the spring of 2017. At this stage, we do not see any further delays but still could be a possibility and an obvious NT risk around the story.

- **Valuation: We arrive at our $38 price target utilizing a sum-of-the-parts analysis comprised of:** (1) $35/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 15.5x plus a 2 turn premium to account for increasing contracted cash flows not being reflected in earnings to our 2018 EPS estimate of $1.57; and (2) $3/share for NJR's energy services when we ascribe 7x EV/EBITDA multiple to our 2018 EBITDA estimate of $44mm, minus implied debt. **Incorporating our estimated 2.9% dividend yield from NJR would equate to an 11.0% ETR.**

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	-0.02E	1.59E	1.61E
Prior				*0.04E*	*1.64E*	
2017E	0.61E	0.88E	0.23E	0.00E	1.72E	1.70E
Prior	*0.61E*	*0.87E*	*0.21E*	*0.05E*	*1.75E*	
2018E	0.64E	0.93E	0.24E	0.06E	1.88E	1.83E
Prior	*0.64E*	*0.93E*	*0.23E*	*0.10E*	*1.92E*	
2019E	0.67E	1.00E	0.27E	0.05E	2.00E	1.96E
2020E	0.70E	1.05E	0.30E	0.13E	2.18E	2.16E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** The primary risks for NJR 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 a 100% probability that this project is completed and in-service to meet the updated 2018 in-service date without delays or cost overruns, and anything contrary to these assumptions could impact our valuation; Non-regulated - We assume a declining contribution from non-regulated, mainly from lower gas basis volatility at Energy Services - failure of this scenario to take place could impact our valuation.

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NJR MODEL

CONSOLIDATED FINANCIALS

INCOME STATEMENT ($ in millions)	1QA	2QA	3QA	4QA	2016A	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E	1QE	2QE	3QE	4QE	2019E	1QE	2QE	3QE	4QE	2020E
Operating Revenues																									
Utility	152	243	119	81	**594**	150	239	131	80	**600**	159	255	139	87	**640**	167	268	145	92	**671**	172	278	150	105	**705**
Nonutility	293	332	274	388	**1,287**	318	361	294	399	**1,372**	336	380	310	421	**1,447**	352	399	325	441	**1,517**	371	421	343	466	**1,601**
Total Operating Revenues	444	574	393	469	**1,881**	468	600	425	480	**1,972**	495	635	449	508	**2,086**	519	667	470	533	**2,188**	544	699	493	571	**2,306**
Operating Expenses																									
Cost of sales	303	372	336	341	**1,353**	318	394	313	369	**1,414**	334	415	329	410	**1,488**	351	435	345	430	**1,562**	368	456	361	456	**1,641**
Gas Purchases - Utility	47	82	46	30	**205**	45	85	57	33	**219**	47	91	60	35	**233**	50	95	62	37	**245**	51	99	65	43	**258**
Gas Purchases - Nonutility	254	368	289	309	**1,139**	273	309	256	357	**1,195**	287	324	269	374	**1,255**	301	340	283	393	**1,317**	316	357	297	413	**1,383**
Gas Purchases - Related parties	2	2	2	2	**8**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operation and maintenance	46	53	51	58	**208**	43	49	47	53	**192**	43	49	48	53	**193**	43	49	48	53	**194**	44	49	48	54	**195**
Regulatory rider expenses	10	21	6	2	**39**	10	21	6	2	**39**	10	21	6	2	**39**	10	21	6	2	**39**	10	21	6	2	**39**
Depreciation and amortization	18	18	19	20	**73**	22	22	23	23	**90**	24	24	25	25	**97**	25	26	26	26	**103**	27	27	27	28	**109**
Energy and other taxes	10	16	9	6	**40**	8	14	10	7	**39**	8	14	10	7	**39**	8	14	10	7	**39**	8	14	10	7	**39**
Other	-	-	-	-	-	1	1	-	2	**4**	1	1	-	2	**5**	1	1	-	2	**5**	1	1	-	3	**6**
Total operating expenses	385	480	422	427	**1,713**	402	501	399	476	**1,779**	420	525	417	499	**1,861**	439	547	435	521	**1,943**	457	570	453	549	**2,029**
Operating Income	59	94	(28)	42	**168**	66	98	26	3	**193**	74	111	31	9	**225**	80	119	34	12	**245**	87	129	40	22	**277**
Other income, net	2	2	2	3	**9**	1	1	1	1	**5**	1	1	1	1	**5**	1	1	1	1	**5**	1	1	1	1	**5**
Interest expense, net of capitalized interest	7	7	8	9	**31**	7	8	9	10	**32**	10	11	12	13	**46**	14	14	15	16	**59**	16	17	18	18	**70**
Earnings before tax	55	89	(34)	36	**146**	61	92	18	(5)	**166**	66	101	21	(3)	**184**	67	106	21	(3)	**191**	71	113	23	5	**213**
Income tax provision	8	18	(14)	13	**24**	12	18	2	(1)	**31**	13	20	3	(1)	**34**	13	21	3	(1)	**37**	14	22	3	0	**40**
Equity in earnings of affiliates	2	2	2	2	**10**	4	4	4	4	**16**	4	4	4	7	**19**	7	7	7	8	**30**	8	8	8	8	**31**
Net Income	49	73	(17)	25	**132**	53	77	20	0	**151**	57	85	22	5	**169**	61	92	25	5	**184**	65	98	28	12	**203**
Adjustments	1	5	28	(27)	**5**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non GAAP)	50	78	11	(2)	**138**	53	77	20	0	**151**	57	85	22	5	**169**	61	92	25	5	**184**	65	98	28	12	**203**
Avg. Shares Outstanding (Diluted)	87	87	86	86	**87**	87	88	88	88	**87**	90	91	91	91	**90**	92	92	92	92	**92**	93	94	94	94	**93**
Reported EPS (Diluted)	$0.56	$0.84	($0.20)	$0.30	**$1.52**	$0.61	$0.88	$0.23	$0.00	**$1.72**	$0.64	$0.93	$0.24	$0.06	**$1.88**	$0.67	$1.00	$0.27	$0.05	**$2.00**	$0.70	$1.05	$0.30	$0.13	**$2.18**
Adjustments	$0.01	$0.05	$0.33	($0.32)	**$0.07**	$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	$0.00	$0.00	$0.00	**$0.00**
Ongoing EPS diluted	$0.57	$0.90	$0.13	($0.02)	**$1.59**	$0.61	$0.88	$0.23	$0.00	**$1.72**	$0.64	$0.93	$0.24	$0.06	**$1.88**	$0.67	$1.00	$0.27	$0.05	**$2.00**	$0.70	$1.05	$0.30	$0.13	**$2.18**

Source: Company reports; Guggenheim Securities, LLC estimates.

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NJR MODEL

CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT ($ in millions)	1QA	2QA	3QA	4QA	2016A	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E	1QE	2QE	3QE	4QE	2019E	1QE	2QE	3QE	4QE	2020E
Operating Activities																									
Net Income	49	73	(16)	25	132	53	77	20	0	151	57	85	22	5	169	81	92	25	5	184	85	98	28	12	203
Unrealized loss (gain) on derivative instruments	(1)	3	56	(11)	47					-					-					-					-
Depreciation and amortization	16	16	19	20	73	22	22	23	23	90	24	24	25	25	97	25	26	26	26	103	27	27	27	28	109
Impairment loss on investment					-					-					-					-					-
Allowance for equity used during construction	(1)	(1)	(2)	(0)	(4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allowance for bad debt expense	0	1	0	0	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred income taxes	46	(28)	4	6	28	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufactured gas plant remediation costs	(2)	(1)	(2)	(3)	(8)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity in earnings of equity investees, net of distributions received	1	1	1	1	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost of removal - asset retirement obligations	(0)	(0)	(0)	(0)	(0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contributions to postemployment benefit plans	(30)	(2)	(0)	(1)	(33)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax benefit from stock-based compensation	-	-	2	0	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in:																									
Components of working capital	(102)	88	(79)	(30)	(123)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other noncurrent assets	(20)	4	(8)	28	4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other noncurrent liabilities	4	(2)	7	12	21	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flows from Operating Activities	**(39)**	**154**	**(18)**	**46**	**143**	**75**	**100**	**43**	**24**	**241**	**81**	**109**	**46**	**30**	**266**	**87**	**118**	**51**	**31**	**287**	**92**	**126**	**55**	**40**	**312**
Investing Activities																									
Expenditures for:																									
Utility plant expenditures	(42)	(34)	(35)	(64)	(176)	(69)	(69)	(69)	(69)	(275)	(60)	(60)	(60)	(60)	(240)	(47)	(47)	(47)	(47)	(189)	(47)	(47)	(47)	(47)	(189)
Solar and wind equipment expenditures	(45)	(26)	(45)	(33)	(149)	(56)	(56)	(56)	(56)	(222)	(48)	(48)	(48)	(48)	(194)	-	-	-	-	-	-	-	-	-	-
Real estate properties and other expenditures	(1)	(0)	(0)	(0)	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost of removal expenditures	(7)	(14)	(1)	(8)	(29)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments in equity investees	(3)	(3)	(3)	(2)	(11)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution from equity investees in excess of equity in earnings	-	1	1	0	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Withdrawal from (payment to) restricted cash construction fund	-	1	(0)	(0)	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of property	-	1	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	2	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flows Used in Investing Activities	**(95)**	**(76)**	**(84)**	**(108)**	**(363)**	**(124)**	**(124)**	**(124)**	**(124)**	**(497)**	**(108)**	**(108)**	**(108)**	**(108)**	**(433)**	**(47)**	**(47)**	**(47)**	**(47)**	**(189)**	**(47)**	**(47)**	**(47)**	**(47)**	**(189)**
Financing Activities																									
Proceeds from issuance of common stock	4	4	4	4	15	50	-	-	-	50	100	-	-	-	100	50	-	-	-	50	50	-	-	-	50
Tax benefit from stock options exercised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from sale-leaseback transaction	7	-	-	-	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from long-term debt	-	-	125	150	275	71	71	71	71	285	91	91	91	91	362	55	55	55	55	219	-	-	-	-	-
Payments of long-term debt	(3)	(3)	(2)	(5)	(13)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchases of treasury stock	(1)	-	-	-	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments of common stock dividends	(21)	(21)	(21)	(21)	(82)	(22)	(23)	(23)	(23)	(90)	(25)	(25)	(25)	(25)	(100)	(27)	(27)	(27)	(27)	(109)	(29)	(30)	(30)	(30)	(118)
Tax withholding payments related to net settled stock compensatio	-	-	(3)	(0)	(4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net proceeds from (payments of) short-term debt	145	(59)	92	(123)	55	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flows from (used in) Financing Activities	**131**	**(78)**	**195**	**5**	**253**	**99**	**48**	**48**	**48**	**244**	**166**	**66**	**66**	**66**	**362**	**78**	**28**	**28**	**28**	**161**	**21**	**(30)**	**(30)**	**(30)**	**(68)**
Net change in cash	(3)	0	93	(57)	33	49	24	(33)	(52)	(12)	138	66	4	(13)	195	117	98	32	12	259	65	49	(21)	(37)	56
Beginning cash balance	5	2	2	95	5	38	87	111	77	38	25	163	230	233	25	220	338	436	468	220	479	545	593	572	479
Ending cash balance	**2**	**2**	**95**	**38**	**38**	**87**	**111**	**77**	**25**	**25**	**163**	**230**	**233**	**220**	**220**	**338**	**436**	**468**	**479**	**479**	**545**	**593**	**572**	**535**	**535**

Source: Company reports; Guggenheim Securities, LLC estimates.

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CONSOLIDATED FINANCIALS

BALANCE SHEET ($ in millions)	1Q1	2Q1	3Q1	4Q1	2016A	1Q2	2Q2	3Q2	4Q2	2017E	1Q3	2Q3	3Q3	4Q3	2018E	1Q4	2Q4	3Q4	4Q4	2019E	1Q5	2Q5	3Q5	4Q5	2020E
Liabilities																									
Capitalization																									
Common stock	222	222	222	222	222	272	272	272	272	272	372	372	372	372	372	422	422	422	422	422	472	472	472	472	472
Premium on common stock	213	216	216	216	216	216	216	216	216	216	216	216	216	216	216	216	216	216	216	216	216	216	216	216	216
Accumulated other comprehensive (loss)	(5)	(1)	(6)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)
Treasury stock at cost and other	(91)	(88)	(83)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)
Retained earnings	806	858	822	826	826	856	911	908	886	886	918	978	975	955	955	989	1,054	1,052	1,030	1,030	1,066	1,135	1,133	1,116	1,116
Shareholder's Equity	1,144	1,207	1,171	1,167	1,167	1,247	1,302	1,299	1,277	1,277	1,409	1,469	1,466	1,446	1,446	1,530	1,596	1,593	1,571	1,571	1,657	1,726	1,724	1,707	1,707
Long-term debt	848	844	968	1,064	1,064	1,135	1,206	1,277	1,348	1,348	1,439	1,529	1,620	1,710	1,710	1,765	1,820	1,875	1,929	1,929	1,929	1,929	1,929	1,929	1,929
Total capitalization	1,992	2,052	2,139	2,230	2,230	2,382	2,508	2,576	2,625	2,625	2,848	2,998	3,086	3,156	3,156	3,295	3,415	3,468	3,500	3,500	3,586	3,655	3,653	3,636	3,636
Noncurrent liabilities																									
Deferred income taxes	492	464	469	474	474	474	474	474	474	474	474	474	474	474	474	474	474	474	474	474	474	474	474	474	474
Deferred investment tax credits	5	5	5	5	5	5	5	5	5	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	29	29	29	29	29	29	29	29	29
Derivatives, at fair value	3	14	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25
Manufactured gas plant remediation	180	179	175	172	172	172	172	172	172	172	172	172	172	172	172	172	172	172	172	172	172	172	172	172	172
Postemployment employee benefit liability	108	106	109	142	142	142	142	142	142	142	142	142	142	142	142	142	142	142	142	142	142	142	142	142	142
Regulatory liabilities	63	61	51	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41	41
New Jersey clean energy program	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Asset retirement obligation	21	21	22	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28
Other	9	9	9	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Total noncurrent liabilities	910	890	893	925	925	925	925	925	925	925	925	925	925	925	925	925	925	925	925	925	925	925	925	925	925
Current Liabilities																									
Current maturities of long-term debt	11	12	11	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61
Short-term debt	211	153	245	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122
Gas purchases payable	144	120	124	139	139	139	139	139	139	139	139	139	139	139	139	139	139	139	139	139	139	139	139	139	139
Gas purchases payable to related parties	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Accounts payable and other	70	68	70	107	107	107	107	107	107	107	107	107	107	107	107	107	107	107	107	107	107	107	107	107	107
Dividends payable	21	21	21	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22
Accrued taxes	1	11	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Regulatory liabilities	1	-	7	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9
New Jersey clean energy program	13	6	17	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14
Derivatives, at fair value	52	54	82	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61
Broker margin accounts	19	13	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Customers' credit balances and deposits	31	21	20	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33
Total Current Liabilities	575	478	601	572	572	572	572	572	572	572	572	572	572	572	572	572	572	572	572	572	572	572	572	572	572
Total Capitalization and Liabilities	3,477	3,420	3,633	3,727	3,727	3,879	4,005	4,073	4,122	4,122	4,345	4,495	4,582	4,653	4,653	4,792	4,912	4,965	4,997	4,997	5,083	5,152	5,150	5,133	5,133

Source: Company reports; Guggenheim Securities, LLC estimates.

NRG (NRG, BUY, $16 PT, $13.28)

Largest IPP with diversity across markets with strong CF profile driven by contracted assets and pairing of retail with generation – Still levered to upside from commodity/capacity prices, retirements, etc., and valuation warrants a look... >15% CF yield isn't sustainable, in our view.

- **Reaffirming our BUY rating and lowering our PT to $16 from $18 on NRG – Valuations aren't sustainable at these levels, especially with the regulated rally behind us and investors increasingly look for more beta in front of a cyclical market recovery.** Market appetite for risk appears to be switching back on, and **constructive supply/demand fundamentals have been coming together for natural gas this winter, which in our view could pave the way for IPPs to rally as investors increasingly look for beta and/or leverage to a commodity price recovery.** Utility investors in particular could eventually represent the incremental buyers of IPPs, as the **regulated utility rally is now behind us** and utilities face a steeper yield curve. **NRG offers healthy exposure to gas price recovery with downside limited by its fuel diversity.** Coupled with potentially positive catalysts on the horizon (e.g., capacity prices, commodity prices, retirements, etc.,), we don't believe valuations are sustainable at this level – that said, **management could buy-back shares considering its >15% CF yield.**

- **Updating our 2016/2017/2018 adjusted EBITDA estimates to $3,315mm, $2,785mm, and $2,873mm vs. consensus estimates of $3,303mm, $2,795mm, and $2,864mm.** We are updating our estimates as we mark IPP and merchant generation models to the 12/22/2016 forward curves (vs. prior estimates driven by 9/30/2016 curves), and reflecting assets dropped-down to NYLD estimates. Our IPP valuations have always been based on longer-term discounted cash flow analysis, and as we extend our sector outlook through the end of the decade for each company we are also **publishing our 2019 and 2020 adjusted EBITDA estimates for NRG of $2,814mm and $2,687mm vs. consensus $2,828mm and $2,557mm.** Directionally, we don't see much support for commodities yet but recovery could be near; that said, we don't make any heroic assumptions outside of announced drop-downs into NYLD, other than simply pay down debt – managing net-debt/EBITDA below 4x. We assume GenOn remains in the portfolio given wanted PJM exposure.

- **Plenty of positive potential catalysts for NRG coming up – GenOn restructuring, coal retirements, capacity auction, and a power rally piggy-backing off of natural gas.** We project 8GW of coal retirement's in Texas vs. management's 4-8GW outlook (out of ~18GW) driven by economics today, or pushed out-of-the-money by environmental requirements – That said, we would also note our analysis didn't identify any NRG assets in ERCOT (i.e., Parish, Limestone) generating negative cash flows - NRG is a key beneficiary of tighter market conditions in ERCOT. **Still waiting on GenOn restructuring, but a positive catalyst, in our view.** NT focus will be on resolving the GenOn situation, which might not be part of the portfolio in the future; management focus could turn to growth to fill GenOn's gap in PJM, although we believe NRG likes GenOn for this PJM exposure and are optimistic the next capacity auction will be more constructive; we expect most of the GenOn units to remain within the fleet.

- **Valuation:** We project unlevered free cash flows based on adjusted EBITDA, subtracting environmental and maintenance CapEx, and cash taxes. We also subtract NYLD's adjusted EBITDA, which is consolidated within NRG, and add back cash payments received based on its ownership interest. We apply an NRG-specific 5.6x terminal multiple to 2024 cash flow, which is weighted toward the individual asset portfolio, and we NPV at NRG's estimated WACC. We also incorporate our fair value

estimates for NRG's future environmental liabilities and NOLs, and subtract net debt of ~ $9.5bn (removing non-recourse items), leading to our price target of $16.

Guggenheim's NRG EBITDA Estimates

EBITDA	1Q	2Q	3Q	4Q	FY	Cons
2015A	840A	681A	1,103A	716A	3,340A	
2016E	812A	779A	1,173A	551E	3,315E	3,303E
Prior				*529E*	*3,293E*	
2017E	662E	684E	713E	727E	2,785E	2,795E
Prior	*655E*	*708E*	*709E*	*699E*	*2,771E*	
2018E	683E	743E	755E	691E	2,873E	2,864E
Prior	*687E*	*754E*	*742E*	*721E*	*2,904E*	
2019E	766E	748E	656E	644E	2,814E	2,828E
2020E	616E	664E	711E	696E	2,687E	2,557E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risk:** Commodity price risk: If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. NRG is still inherently a long natural gas call, with gas the marginal price setter in PJM, MISO, ERCOT, New York, etc.

  Environmental/Policy risk: Environmental regulations including Effluent Limit Guidelines (ELG), Coal Combustion Residual (CCR), waste water discharge 316(b), Mercury Air Toxics Standards (MATs), and other EPA rules such as the Clean Power Plan could require increased spending. Permits and compliance with these regulations require significant capital and operating expenditures. Considering timing to comply with these regulations and costs, some retirements of plants could be accelerated. Changes to these regulations could increase costs of operating these plants and or increase competition.

  Operational risks: NRG's fleet could experience unforced outages or other operational issues that are inherent risks of the power generation business.

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NRG

Consolidated financials

Income Statement ($mm, unless otherwise noted)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Revenue	3,829	3,400	4,434	3,011	3,229	2,638	3,952	3,517	3,446	3,495	3,534	3,553	14,674	13,336	14,028	14,324	14,808	14,991
Fuel and Purchased Power	3,063	2,436	3,032	2,224	2,189	1,756	2,793	2,109	2,133	2,160	2,188	2,208	10,755	8,847	8,689	8,925	9,289	9,623
Other cost of operations								537	548	548	531	530	-	537	2,156	2,158	2,259	2,234
Gross Margin	**766**	**964**	**1,402**	**787**	**1,040**	**882**	**1,159**	**871**	**765**	**787**	**815**	**815**	**3,919**	**3,952**	**3,183**	**3,242**	**3,260**	**3,135**
SG&A	265	296	327	332	255	265	282	312	95	95	96	96	1,220	1,114	382	430	507	508
Development expense	34	37	38	45	26	18	23	18	18	18	18	18	154	85	71	71	72	72
Other (Income) / Loss	(24)	(3)	(3)	(3)	(34)	78	(266)						(33)	(222)	-	-	-	-
Adjustment for unconsolidated	(22)	(12)	(28)	(83)	(25)	(12)	(25)	(9)	(9)	(10)	(10)	(25)	(145)	(71)	(55)	(133)	(133)	(133)
MTM and other	(327)	(35)	(35)	(220)	6	(246)	(28)						(617)	(268)	-	-	-	-
Adjusted EBITDA	**840**	**681**	**1,103**	**716**	**812**	**779**	**1,173**	**551**	**662**	**684**	**713**	**727**	**3,340**	**3,315**	**2,785**	**2,873**	**2,814**	**2,687**
	25.1%																	
Deprecation & amortization	395	396	382	393	313	309	357	587	590	594	597	601	1,566	1,566	2,382	2,433	2,488	2,551
Interest	301	263	291	273	284	277	280	249	277	277	277	277	1,128	1,090	1,109	984	958	866
NYLD Adjustment	3	1	10	96	2	19	14	4	4	5	5	9	109	39	23	48	48	48
MTM and other one-time items	350	48	306	4,927	145	425	80	-	-	-	-	-	5,631	650	-	-	-	-
Earnings Before Taxes	**(209)**	**(26)**	**114**	**(4,973)**	**68**	**(251)**	**442**	**(289)**	**(210)**	**(192)**	**(167)**	**(160)**	**(5,094)**	**(30)**	**(729)**	**(591)**	**(680)**	**(779)**
Effective Tax Rate	35%	65%	41%	(28%)	31%	(10%)	11%	19%	35%	35%	35%	35%	(26%)	(134%)	35%	35%	35%	35%
Income Tax Expense/(Benefit)	(73)	(17)	47	1,385	21	25	49	(55)	(74)	(67)	(58)	(56)	1,342	40	(255)	(207)	(238)	(273)
Minority interest	(16)	5	1	11	(35)	(5)	(9)	30	37	24	33	37	(54)	(19)	131	193	182	225
Preferred Dividends	5	5	5	5	5	(78)	-	-	-	-	-	-	20	(73)	-	-	-	-
Net Income	**(125)**	**(19)**	**61**	**(6,374)**	**77**	**(193)**	**402**	**(264)**	**(174)**	**(149)**	**(142)**	**(141)**	**(6,402)**	**22**	**(605)**	**(577)**	**(624)**	**(731)**
Fully Diluted Shares Outstanding	336	333	332	329	315	333	317	316	316	315	315	314	329	320	315	313	310	307
EPS	**($0.37)**	**($0.06)**	**$0.18**	**($19.38)**	**$0.24**	**($0.58)**	**$1.27**	**($0.83)**	**($0.55)**	**($0.47)**	**($0.45)**	**($0.45)**	**($19.46)**	**$0.07**	**($1.92)**	**($1.85)**	**($2.01)**	**($2.38)**

Source: Company reports; Guggenheim Securities, LLC estimates.

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NRG

Consolidated financials

Cash Flow Statement ($mm, unless otherwise noted)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Net Income	(136)	(9)	67	(6,358)	47	(276)	393	(234)	(137)	(125)	(109)	(104)	(6,436)	(70)	(474)	(384)	(442)	(506)
Depreciation & Amortization	395	396	382	393	313	309	357	587	590	594	597	601	1,566	1,566	2,382	2,433	2,488	2,551
Non-Cash Extraordinary Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Tax	(83)	(15)	26	1,374	(25)	26	28	11	(64)	(64)	(64)	(64)	1,302	40	(255)	(207)	(238)	(273)
Other Adjustments to Cash Flow	117	87	258	4,508	340	494	(165)	(630)	6	6	6	6	4,970	39	23	48	48	48
Changes in Working Capital, Other	(33)	(261)	201	-	(121)	(234)	247	-	-	-	-	-	(93)	(108)	-	-	-	-
Cash Flow From Operations	**260**	**198**	**934**	**(83)**	**554**	**319**	**860**	**(266)**	**396**	**411**	**431**	**439**	**1,309**	**1,467**	**1,676**	**1,889**	**1,856**	**1,821**
													-	-	*0*	-	*0*	-
Capital Expenditures	(252)	(331)	(306)	(411)	(279)	(343)	(276)	(414)	(137)	(137)	(137)	(137)	(1,300)	(1,312)	(549)	(476)	(607)	(643)
Divestitures of Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisitions of Assets	(1)	(29)	(1)	-	(6)	(11)	(1)	-	-	-	-	-	(31)	(18)	-	-	-	-
Other (incl. CITC cash grant proceeds	(17)	(230)	(65)	-	142	28	425	-	-	-	-	-	(312)	595	-	-	-	-
Cash Flow From Investing	**(270)**	**(590)**	**(372)**	**(411)**	**(143)**	**(326)**	**148**	**(414)**	**(137)**	**(137)**	**(137)**	**(137)**	**(1,643)**	**(735)**	**(549)**	**(476)**	**(607)**	**(643)**
													-	-	-	-	-	-
Issuance/(Redemption) of Debt	154	(199)	(244)	(691)	(255)	(64)	129	837	(198)	(198)	(198)	(198)	(980)	647	(791)	(1,048)	(579)	(776)
Issuance/(Rep.) of Common Equity	(79)	(106)	(167)	(84)	-	-	-	-	(25)	(25)	(25)	(25)	(436)	-	(100)	(100)	(100)	(100)
Common Stock Dividends	(46)	(46)	(45)	(48)	(43)	(87)	(9)	(9)	(9)	(9)	(9)	(9)	(185)	(148)	(38)	(38)	(37)	(37)
Preferred Stock Dividends	(5)	(5)	(5)	(5)	(5)	78	-	-	-	-	-	-	(20)	73	-	-	-	-
Sale proceeds / contributions from no	-	-	-	210	-	-	-	167	-	-	-	-	210	500	-	-	-	-
Distributions to unconsolidated (NYLI	(24)	694	(19)	(4)	10	(31)	(106)	(5)	(5)	(5)	(5)	(5)	647	(132)	(20)	(23)	(25)	(28)
Other Financing	40	51	26	-	29	(162)	27	-	-	-	-	-	117	(106)	-	-	-	-
Cash Flow From Financing	**40**	**389**	**(454)**	**(622)**	**(264)**	**(266)**	**41**	**990**	**(237)**	**(237)**	**(237)**	**(237)**	**(647)**	**834**	**(949)**	**(1,209)**	**(742)**	**(941)**
													-	*(333)*	-	-	-	-
Effect of exchange rate changes on cas	18	(15)	12	(15)	(6)	3	(3)						-	(6)	-	-	-	-
Increase/(Decrease) in Cash	48	(18)	120	(1,131)	141	(270)	1,046	310	21	37	56	64	(981)	1,560	178	205	507	237
Cash at Beginning of Period	2,116	2,164	2,146	2,266	1,518	1,659	1,389	2,435	2,745	2,766	2,803	2,859	2,116	1,135	2,696	2,874	3,079	3,586
Cash at End of Period	**2,164**	**2,146**	**2,266**	**1,135**	**1,659**	**1,389**	**2,435**	**2,745**	**2,766**	**2,803**	**2,859**	**2,923**	**1,135**	**2,696**	**2,874**	**3,079**	**3,586**	**3,822**

Source: Company reports; Guggenheim Securities, LLC estimates.

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NRG

Consolidated financials

Balance Sheet ($mm, unless otherwise noted)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Assets																		
Cash and Cash Equivalents	2,164	2,146	2,266	1,135	1,659	1,389	2,435	2,745	2,766	2,803	2,859	2,923	1,135	2,696	2,874	3,079	3,586	3,822
Restricted Cash	443	433	497	414	387	413	480	480	480	480	480	480	414	414	414	414	414	414
Accounts Receivable	1,179	1,413	1,492	1,157	1,018	1,251	1,362	1,362	1,362	1,362	1,362	1,362	1,157	1,157	1,157	1,157	1,157	1,157
Fuel Stocks & Other Inventory	1,109	1,153	1,149	1,252	1,161	1,124	1,017	1,017	1,017	1,017	1,017	1,017	1,252	1,252	1,252	1,252	1,252	1,252
Short Term Derivative Assets	2,029	1,805	1,580	1,915	2,113	1,470	964	964	964	964	964	964	1,915	1,915	1,915	1,915	1,915	1,915
Cash Collateral Postings	400	299	367	568	411	218	337	337	337	337	337	337	568	568	568	568	568	568
Other Current Assets	798	761	722	950	597	499	419	419	419	419	419	419	950	1,058	1,058	1,058	1,058	1,058
Total Current Assets	**8,122**	**8,010**	**8,073**	**7,391**	**7,346**	**6,364**	**7,014**	**7,324**	**7,345**	**7,382**	**7,438**	**7,502**	**7,391**	**9,059**	**9,238**	**9,442**	**9,949**	**10,186**
Gross Property, Plant & Equipment	30,537	30,915	30,954	25,536	25,856	24,489	24,502	24,916	25,053	25,191	25,328	25,465	25,536	26,271	26,820	27,296	27,903	28,547
Less: Accumulated Depreciation	(8,261)	(8,611)	(8,969)	(6,804)	(7,093)	(6,107)	(6,299)	(6,256)	(6,852)	(7,452)	(8,055)	(8,661)	(6,804)	(8,409)	(10,814)	(13,295)	(15,831)	(18,430)
Net PP&E	**22,276**	**22,304**	**21,985**	**18,732**	**18,763**	**18,382**	**18,203**	**18,660**	**18,201**	**17,739**	**17,273**	**16,804**	**18,732**	**17,862**	**16,006**	**14,001**	**12,072**	**10,116**
Goodwill	2,520	2,555	2,503	999	999	999	999	999	999	999	999	999	999	999	999	999	999	999
Long Term Derivative Assets	591	491	522	305	465	348	256	256	256	256	256	256	305	305	305	305	305	305
Equity Investments	772	1,077	1,068	1,045	898	882	900	900	900	900	900	900	1,045	1,045	1,045	1,045	1,045	1,045
Notes Receivable	67	65	62	53	40	25	21	21	21	21	21	21	53	53	53	53	53	53
Other Long Term Assets	5,982	5,863	5,775	4,357	4,169	4,422	4,098	4,098	4,098	4,098	4,098	4,098	4,357	4,463	4,463	4,463	4,463	4,463
Total Other Assets	**9,932**	**10,051**	**9,930**	**6,759**	**6,571**	**6,676**	**6,274**	**6,274**	**6,274**	**6,274**	**6,274**	**6,274**	**6,759**	**6,865**	**6,865**	**6,865**	**6,865**	**6,865**
Total Assets	**40,330**	**40,365**	**39,988**	**32,882**	**32,680**	**31,422**	**31,491**	**32,258**	**31,821**	**31,395**	**30,985**	**30,580**	**32,882**	**33,786**	**32,108**	**30,309**	**28,887**	**27,167**
Liabilities																		
Current Portion of LT Debt	465	636	457	481	465	1,215	1,221	1,221	1,221	1,221	1,221	1,221	481	481	481	481	481	481
Accounts Payable	2,092	2,162	2,395	869	845	898	945	945	945	945	945	945	869	869	869	869	869	869
Short Term Derivative Liabilities	1,952	1,671	1,484	1,721	1,947	1,373	969	969	969	969	969	969	1,721	1,721	1,721	1,721	1,721	1,721
Other Current Liabilities	-	-	-	1,304	1,081	1,028	1,166	1,166	1,166	1,166	1,166	1,166	1,304	1,304	1,304	1,304	1,304	1,304
Total Current Liabilities	**4,509**	**4,469**	**4,336**	**4,375**	**4,338**	**4,514**	**4,301**	**4,301**	**4,301**	**4,301**	**4,301**	**4,301**	**4,375**	**4,375**	**4,375**	**4,375**	**4,375**	**4,375**
Deferred Income Taxes	20	18	20	19	37	23	47	58	(6)	(70)	(133)	(197)	19	59	(196)	(403)	(641)	(914)
Long Term Derivative Liabilities	650	522	619	493	627	539	475	475	475	475	475	475	493	493	493	493	493	493
Other Long-Term Liabilities	3,412	3,349	3,248	3,247	3,293	3,309	3,138	3,138	3,138	3,138	3,138	3,138	3,247	3,247	3,247	3,247	3,247	3,247
Long-Term Debt	20,050	19,661	19,598	18,983	18,677	17,893	18,018	18,855	18,658	18,460	18,262	18,064	18,983	19,630	18,839	17,791	17,212	16,436
Total Long Term Liabilities	**24,132**	**23,550**	**23,485**	**22,742**	**22,634**	**21,764**	**21,678**	**22,526**	**22,265**	**22,003**	**21,742**	**21,480**	**22,742**	**23,429**	**22,383**	**21,128**	**20,311**	**19,262**
Total Liabilities	**28,641**	**28,019**	**27,821**	**27,117**	**26,972**	**26,278**	**25,979**	**26,827**	**26,566**	**26,304**	**26,043**	**25,781**	**27,117**	**27,804**	**26,758**	**25,503**	**24,686**	**23,637**
Minority Interest	1,867	2,671	2,642	2,756	2,679	2,622	2,470	2,632	2,627	2,622	2,617	2,612	2,756	3,124	3,104	3,081	3,056	3,028
2.822% Preferred Stock	293	296	299	302	304	-	-	-	-	-	-	-	302	302	302	302	302	302
Common Stock	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Additional Paid-in-Capital	8,362	8,365	8,382	8,296	8,299	8,306	8,370	8,370	8,370	8,370	8,370	8,370	8,296	8,296	8,296	8,296	8,296	8,296
Retained Earnings/(Deficit)	3,413	3,346	3,358	(3,007)	(2,977)	(3,179)	(2,791)	(3,034)	(3,181)	(3,315)	(3,433)	(3,546)	(3,007)	(3,152)	(3,664)	(4,086)	(4,565)	(5,108)
Treasury Stock	(2,059)	(2,166)	(2,330)	(2,413)	(2,406)	(2,406)	(2,399)	(2,399)	(2,424)	(2,449)	(2,474)	(2,499)	(2,413)	(2,413)	(2,513)	(2,613)	(2,713)	(2,813)
Other Comp. Income/(Loss)	(191)	(170)	(188)	(173)	(195)	(203)	(142)	(142)	(142)	(142)	(142)	(142)	(173)	(179)	(179)	(179)	(179)	(179)
Total Shareholders' Equity	**9,529**	**9,379**	**9,226**	**2,707**	**2,725**	**2,522**	**3,042**	**2,799**	**2,627**	**2,468**	**2,325**	**2,187**	**2,707**	**2,556**	**1,944**	**1,422**	**843**	**200**
Liab. & Shareholders' Equity	**40,330**	**40,365**	**39,988**	**32,882**	**32,680**	**31,422**	**31,491**	**32,258**	**31,821**	**31,395**	**30,985**	**30,580**	**32,882**	**33,786**	**32,108**	**30,309**	**28,887**	**27,167**

Source: Company reports; Guggenheim Securities, LLC estimates.

NORTHWEST NATURAL GAS (NWN, NEUTRAL, $60.10)

Tough to get in front of an M&A premium despite solid story – IRP, gas regs and customer growth is key.

- **Maintaining our NEUTRAL rating on NWN – Purely a valuation call on an M&A premium.** NWN remains a fundamentally strong utility, earning healthy returns in relatively challenging jurisdictions with a good macro economy backdrop and fast growing population. We continue to see the utility making effort to remove cost recovery risk with constructive rate mechanisms, including solid weather normalization mechanisms in Oregon, although NT upside to utility earnings growth is limited, in our view. We continue to monitor peripheral proceedings for NWN's gas reserve investments; a more constructive cost recovery with tracking mechanisms in rates could provide upside potential. Although unregulated gas storage segment is not a material earnings driver, potential strategic decision with Gill Ranch could be a catalyst to watch. **We note that shares currently trade at a premium to peers, reflective of an acquisition premium. In our view, this premium is in excess of what we've seen for similar small-cap gas utilities; we would look for exposure if the multiple comes down.**

- **We are introducing estimates for 2019 and 2020 of $2.53/$2.73 versus street consensus of $2.55/$2.75**. This outlook captures the consistent growth profile of NWN's utility business. We model 4.6% regulated earnings growth driven by ~1.4% consolidated utility volume growth and healthy 9% ROEs through 2020, vs. 9.6% authorized ROEs - modest regulatory lag. We project 4% rate base growth with ~$175mm of annual CapEx deployed at the utility through 2020, including the North Mist gas storage expansion investment in Oregon. We do not assume new rate cases in the '19/'20 timeframe but management could file sometime in '18/'19 – worth monitoring.

- **Adjusting 2016/2017/2018 EPS estimates to $2.22/$2.32/$2.46 versus consensus estimates of $2.21/$2.31/$2.45.** Consolidated earnings growth of ~5.6% is comprised of 4.6% growth from the regulated utility segment, 12% growth from gas storage and offset by slight dilution (we model $4mm/year through 2020). Our utility estimates also assume ~1.4% consolidated load growth through 2018, in line with management's outlook; more specifically, we assume 1.7% residential and commercial growth, and 1.0% industrial growth. We model a slightly increasing contribution from gas storage segment due to modest amount of capital spending.

- **Upcoming potential catalyst: Proposed PHMSA gas safety regulations final rules due 2017, expect IRP acknowledgement in early 2017.** NWN would likely then have to propose an investment program and await regulatory approval; if approved, potential investment to address seismic concerns on the west coast could present upside to our outlook. In the Feb 2016 earnings call, management stated it expects to file a rate case in the next 12-24 months for Oregon with a Washington rate case following that, most likely in the latter half of the 12-24 months range; we don't assume it would come into effect until the 2019/2020 timeframe at the earliest but this is something worth monitoring. We continue to believe NWN remains a sound utility with ample spending projections and a very constructive management team. That said, it is tough to justify material further upside from current levels but if the multiple comes down, we would look for exposure.

- **Valuation: We value NWN as a regulated gas utility, arriving at our $53 fair value/share.** We employ our regulated electric target P/E multiple, derived from our corporate bond regression model, of 15.5x, a historical gas LDC P/E spread above its electric utility counterparts, which equates to an incremental 5.0x, and a 1.0x premium to account for M&A premium to arrive at our NWN-specific 21.5x target P/E multiple. Applying this to our 2018 EPS estimate of $2.46, we arrive at our $53 fair value/share. We assume steady dividend growth in line with historical $0.01/share increases, modeling payout ratio of 84% falling to 70% with earnings growth by '20, more in line with management's targeted payout ratio. Incorporating a 3.1% dividend yield, we estimate a -8.7% ETR – hence our NEUTRAL stance.

Guggenheim's NWN EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2015A	1.37A	0.08A	-0.24A	1.08A	2.29A	
2016E	1.40A	0.07A	-0.29A	1.03E	2.22E	*2.21E*
Prior				*1.04E*	*2.23E*	
2017E	1.52E	0.07E	-0.36E	1.11E	2.32E	*2.31E*
Prior	*1.52E*	*0.08E*	*-0.35E*	*1.12E*	*2.35E*	
2018E	1.55E	0.08E	-0.34E	1.18E	2.46E	*2.45E*
Prior	*1.56E*	*0.09E*	*-0.34E*	*1.20E*	*2.49E*	
2019E	1.59E	0.08E	-0.34E	1.21E	2.53E	*2.55E*
2020E	1.68E	0.11E	-0.32E	1.27E	2.73E	*2.75E*

Source: Company reports, Guggenheim Securities, LLC estimates.

- **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

NORTHWEST NATURAL GAS COMPANY

Consolidated Financials

INCOME STATEMENT ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenues:																		
Utility	256	133	87	226	702	250	92	80	297	720	255	94	82	303	734	760	776	801
Gas Storage	5	5	6	5	21	5	7	7	2	21	6	6	6	6	26	31	33	36
Other	0	0	0	0	0	-	-	0	-	0	-	-	-	-	-	-	-	-
Total Operating Revenues	**262**	**138**	**93**	**231**	**724**	**255**	**99**	**88**	**299**	**741**	262	100	88	309	**760**	**790**	**809**	**837**
Operating Expenses:																		
Cost of gas	126	62	36	104	327	108	21	28	178	335	111	21	29	182	342	354	362	373
Operations and maintenance	54	35	32	36	158	39	36	35	43	153	46	43	41	43	176	176	176	176
Environmental remediation	-	-	-	4	4	5	2	1	-	8	-	-	-	-	-	-	-	-
General taxes	9	8	7	7	30	9	7	7	-	23	-	-	-	-	-	-	-	-
Depreciation & amortization	20	20	20	20	81	20	20	21	21	82	22	23	24	24	93	102	110	117
Total Operating Expenses	**209**	**125**	**95**	**171**	**600**	**181**	**87**	**92**	**242**	**602**	181	87	94	249	**611**	**632**	**647**	**666**
EBITDA	**73**	**33**	**18**	**80**	**205**	**94**	**33**	**16**	**77**	**221**	**103**	**36**	**18**	**85**	**242**	**261**	**272**	**288**
Operating Income	**53**	**13**	**(2)**	**60**	**124**	**74**	**13**	**(4)**	**56**	**139**	**81**	**13**	**(6)**	**61**	**149**	**158**	**162**	**171**
Other Income (Expense):																		
Other income, net	5	1	1	1	8	(2)	1	1	1	(0)	(2)	1	1	1	(0)	(0)	(0)	(0)
Interest expense, net	(10)	(10)	(10)	(12)	(43)	(10)	(10)	(10)	(10)	(39)	(10)	(11)	(11)	(11)	(44)	(46)	(47)	(47)
Total Other Income (Expense)	**(5)**	**(9)**	**(9)**	**(11)**	**(36)**	**(12)**	**(9)**	**(9)**	**(9)**	**(40)**	**(13)**	**(10)**	**(11)**	**(11)**	**(44)**	**(47)**	**(47)**	**(47)**
Income Before Income Tax Expense	**48**	**4**	**(11)**	**50**	**89**	**62**	**3**	**(14)**	**47**	**99**	**68**	**3**	**(16)**	**50**	**105**	**112**	**116**	**124**
Income Taxes	19	1	(5)	20	36	25	1	(5)	18	40	27	1	(6)	19	41	43	45	48
Net Income	**28**	**2**	**(7)**	**30**	**54**	**37**	**2**	**(8)**	**29**	**59**	**42**	**2**	**(10)**	**31**	**64**	**68**	**70**	**76**
Earnings from Equity Method Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income from Noncontrolling Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings for Common	**28**	**2**	**(7)**	**30**	**54**	**37**	**2**	**(8)**	**29**	**59**	**42**	**2**	**(10)**	**31**	**64**	**68**	**70**	**76**
Wtd. avg. share count (MM)	27	27	27	27	**27**	28	28	28	28	**28**	28	28	28	28	**28**	**28**	**28**	**28**
EPS (Basic and Diluted)	**1.04**	**0.08**	**(0.24)**	**1.08**	**1.96**	**1.33**	**0.07**	**(0.29)**	**1.03**	**2.14**	1.52	0.07	(0.36)	1.11	**2.32**	**2.46**	**2.53**	**2.73**
Non-operating items	9	-	-	-	9	2	-	-	-	**2**	-	-	-	-	-	-	-	-
Net Income (GAAP)	**38**	**2**	**(7)**	**30**	**63**	**39**	**2**	**(8)**	**29**	**61**	42	2	(10)	31	**64**	**68**	**70**	**76**
Operating EPS	**1.37**	**0.08**	**(0.24)**	**1.08**	**2.29**	**1.40**	**0.07**	**(0.29)**	**1.03**	**2.22**	1.52	0.07	(0.36)	1.11	**2.32**	**2.46**	**2.53**	**2.73**

Source: Company reports; Guggenheim Securities, LLC estimates.

NORTHWEST NATURAL GAS COMPANY

Consolidated Financials

BALANCE SHEET ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Assets																		
Property, plant, and equipment	3,018	3,043	3,073	3,089	3,089	3,116	3,147	3,177	3,249	**3,249**	3,311	3,373	3,434	3,496	**3,496**	**3,667**	**3,848**	**4,029**
Less: Accumulated depreciation	(883)	(894)	(905)	(907)	(907)	(919)	(932)	(943)	(964)	**(964)**	(986)	(1,009)	(1,033)	(1,057)	**(1,057)**	**(1,160)**	**(1,269)**	**(1,386)**
Utility Plant, Net	2,135	2,149	2,168	2,183	2,183	2,197	2,214	2,234	2,285	**2,285**	2,324	2,363	2,401	2,439	**2,439**	**2,507**	**2,579**	**2,643**
Gas reserves	125	121	118	115	115	111	108	104	104	**104**	104	104	104	104	**104**	**104**	**104**	**104**
Regulatory assets	348	343	334	371	371	351	345	341	341	**341**	341	341	341	341	**341**	**341**	**341**	**341**
Derivative instruments	0	1	0	0	0	0	4	1	1	**1**	1	1	1	1	**1**	**1**	**1**	**1**
Other investments	69	68	69	68	68	67	68	68	68	**68**	68	68	68	68	**68**	**68**	**68**	**68**
Restricted cash	3	5	5	-	-	-	-	-	-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Other non-current assets	4	3	1	3	3	3	2	1	1	**1**	1	1	1	1	**1**	**1**	**1**	**1**
Nonutility Property and Investments, Net	549	541	526	556	556	533	527	515	515	**515**	515	515	515	515	**515**	**515**	**515**	**515**
Current Assets:																		
Cash and cash equivalents	5	4	5	4	4	4	5	6	14	**14**	16	14	16	19	**19**	**28**	**25**	**30**
Accounts receivable	69	32	30	68	68	69	23	26	33	**33**	34	34	35	36	**36**	**42**	**46**	**53**
Accrued unbilled revenue	30	13	16	58	58	36	14	16	16	**16**	16	16	16	16	**16**	**16**	**16**	**16**
Allowance for uncollectible accounts	(1)	(1)	(0)	(1)	(1)	(1)	(1)	(0)	(0)	**(0)**	(0)	(0)	(0)	(0)	**(0)**	**(0)**	**(0)**	**(0)**
Regulatory assets	68	63	83	69	69	62	49	55	55	**55**	55	55	55	55	**55**	**55**	**55**	**55**
Derivative instruments	1	1	3	3	3	2	7	5	5	**5**	5	5	5	5	**5**	**5**	**5**	**5**
Inventories	69	77	81	71	71	61	66	67	116	**116**	118	121	123	126	**126**	**144**	**157**	**178**
Gas reserves	19	18	18	17	17	16	16	16	16	**16**	16	16	16	16	**16**	**16**	**16**	**16**
Income taxes receivable	2	-	-	8	8	-	-	2	2	**2**	2	2	2	2	**2**	**2**	**2**	**2**
Deferred tax assets	13	13	16	-	-	-	-	-	-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Other current assets	16	14	26	33	33	23	21	17	17	**17**	17	17	17	17	**17**	**17**	**17**	**17**
Total Current Assets	291	234	277	331	331	272	202	211	274	**274**	279	280	285	292	**292**	**325**	**339**	**373**
Total Assets	2,974	2,924	2,971	3,069	3,069	3,002	2,943	2,960	3,075	**3,075**	3,119	3,159	3,202	3,246	**3,246**	**3,348**	**3,433**	**3,531**
Capitalization and Liabilities																		
Common Stock	377	379	380	383	383	385	389	390	391	**391**	392	393	394	395	**395**	**399**	**403**	**407**
Retained Earnings	418	407	388	405	405	429	418	397	425	**425**	467	469	459	490	**490**	**558**	**628**	**705**
Accumulated Other Comprehensive Loss	(10)	(9)	(9)	(7)	(7)	(7)	(7)	(8)	(8)	**(8)**	(8)	(8)	(8)	(8)	**(8)**	**(8)**	**(8)**	**(8)**
Total Common Equity	785	777	759	781	781	807	800	779	809	**809**	851	854	845	877	**877**	**949**	**1,024**	**1,104**
Long-Term Debt, net	613	614	614	569	569	570	570	530	575	**575**	575	610	660	670	**670**	**685**	**685**	**685**
Total Capitalization	1,398	1,391	1,373	1,350	1,350	1,377	1,370	1,309	1,384	**1,384**	1,427	1,465	1,506	1,547	**1,547**	**1,634**	**1,709**	**1,789**
Current Liabilities:																		
Short-term debt	156	190	225	270	270	165	153	195	195	**195**	195	195	195	195	**195**	**195**	**195**	**195**
Current maturities of long-term debt	40	-	-	25	25	25	25	65	65	**65**	65	65	65	65	**65**	**65**	**65**	**65**
Accounts payable	63	50	54	73	73	57	58	56	96	**96**	98	100	102	104	**104**	**119**	**130**	**147**
Taxes accrued	18	9	12	10	10	10	6	12	12	**12**	12	12	12	12	**12**	**12**	**12**	**12**
Interest accrued	10	6	10	6	6	10	6	10	10	**10**	10	10	10	10	**10**	**10**	**10**	**10**
Regulatory liabilities	24	27	34	30	30	36	27	28	28	**28**	28	28	28	28	**28**	**28**	**28**	**28**
Derivative instruments	23	15	22	22	22	17	3	5	5	**5**	5	5	5	5	**5**	**5**	**5**	**5**
Other current liabilities	36	31	28	41	41	42	35	32	32	**32**	32	32	32	32	**32**	**32**	**32**	**32**
Current Liabilities	371	328	385	478	478	362	314	403	443	**443**	445	447	449	451	**451**	**466**	**477**	**494**
Deferred Credits and Other Liabilities:																		
Deferred tax liabilities	524	524	527	530	530	551	554	545	545	**545**	545	545	545	545	**545**	**545**	**545**	**545**
Regulatory liabilities	326	329	334	339	339	347	341	342	342	**342**	342	342	342	342	**342**	**342**	**342**	**342**
Pension and other postretirement benefit liabilities	236	234	229	223	223	221	219	217	217	**217**	217	217	217	217	**217**	**217**	**217**	**217**
Derivative instruments	1	1	4	3	3	1	0	2	2	**2**	2	2	2	2	**2**	**2**	**2**	**2**
Other non-current liabilities	118	118	118	145	145	143	144	142	142	**142**	142	142	142	142	**142**	**142**	**142**	**142**
Total Liabilities	1,205	1,206	1,212	1,241	1,241	1,263	1,259	1,248	1,248	**1,248**	1,248	1,248	1,248	1,248	**1,248**	**1,248**	**1,248**	**1,248**
Total Liabilities & Equity	2,974	2,924	2,971	3,069	3,069	3,002	2,943	2,960	3,075	**3,075**	3,119	3,159	3,202	3,246	**3,246**	**3,348**	**3,433**	**3,531**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

NORTHWEST NATURAL GAS COMPANY

Consolidated Financials

CASH FLOW STATEMENT ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Cash Flow from Operating Activities:																		
Net income	28	2	(7)	30	54	37	2	(8)	29	**59**	42	2	(10)	31	**64**	**68**	**70**	**76**
Depreciation and amortization	20	20	20	20	81	20	20	21	21	**82**	22	23	24	24	**93**	**102**	**110**	**117**
Regulatory amortization of gas reserves	5	5	4	4	18	4	4	4	-	**11**	-	-	-	-	-	-	-	-
Deferred tax liabilities, net	6	1	0	20	27	23	4	(9)	-	**18**	-	-	-	-	-	-	-	-
Qualified defined benefit pension plan expense	2	2	1	1	6	1	1	1	-	**4**	-	-	-	-	-	-	-	-
Contributions to qualified defined benefit pension plans	(3)	(3)	(6)	(2)	(14)	(3)	(3)	(5)	-	**(11)**	-	-	-	-	-	-	-	-
Deferred environmental (expenditures) recoveries, net	(3)	(2)	(2)	(3)	(11)	(3)	(3)	(3)	-	**(8)**	-	-	-	-	-	-	-	-
Regulatory disallowance of prior environmental cost deferrals	15	-	-	-	15	3	-	0	-	**3**	-	-	-	-	-	-	-	-
Interest income on deferred environmental expenses	(5)	-	-	-	(5)	-	-	-	-	**-**	-	-	-	-	-	-	-	-
Amortization of environmental remediation	-	-	-	4	4	5	2	1	-	**8**	-	-	-	-	-	-	-	-
Other	1	(0)	0	3	4	1	1	3	-	**5**	-	-	-	-	-	-	-	-
Changes in assets and liabilities:																		
Receivables, net	29	56	(3)	(80)	2	22	65	(4)	(8)	**76**	(1)	(0)	(0)	(1)	**(3)**	**(6)**	**(4)**	**(7)**
Inventories	9	(7)	(4)	10	7	10	(6)	(1)	(48)	**(45)**	(2)	(2)	(2)	(3)	**(10)**	**(18)**	**(13)**	**(21)**
Taxes accrued	7	(7)	3	(9)	(7)	8	(4)	3	-	**7**	-	-	-	-	-	-	-	-
Accounts payable	(27)	(11)	1	19	(17)	(15)	(3)	(0)	40	**22**	2	2	2	2	**8**	**15**	**11**	**17**
Interest accrued	4	(5)	4	(4)	(0)	4	(4)	4	-	**4**	-	-	-	-	-	-	-	-
Deferred gas costs	13	9	5	5	32	9	(16)	(1)	-	**(10)**	-	-	-	-	-	-	-	-
Other, net	17	(9)	(12)	(6)	(10)	19	(6)	2	-	**15**	-	-	-	-	-	-	-	-
Net Cash Provided by Operating Activities	**118**	**49**	**5**	**12**	**186**	**146**	**53**	**7**	**34**	**240**	**63**	**24**	**13**	**53**	**153**	**161**	**174**	**183**
Cash Flow from Investing Activities																		
Capital expenditures	(27)	(31)	(29)	(31)	(118)	(30)	(32)	(36)	(72)	**(170)**	(62)	(62)	(62)	(62)	**(247)**	**(171)**	**(181)**	**(181)**
Utility gas reserves	-	(2)	2	(2)	(2)	-	-	-	-	**-**	-	-	-	-	-	-	-	-
Proceeds from sale of assets	-	-	-	0	0	-	-	-	-	**-**	-	-	-	-	-	-	-	-
Restricted cash	-	(2)	-	5	3	-	-	-	-	**-**	-	-	-	-	-	-	-	-
Other	(2)	2	(0)	1	1	0	2	0	-	**3**	-	-	-	-	-	-	-	-
Net Cash Provided by Investing Activities	**(29)**	**(32)**	**(27)**	**(27)**	**(115)**	**(30)**	**(30)**	**(36)**	**(72)**	**(167)**	**(62)**	**(62)**	**(62)**	**(62)**	**(247)**	**(171)**	**(181)**	**(181)**
Cash Flow from Financing Activities																		
Common stock issued, net	1	0	0	3	4	2	2	1	1	**6**	1	1	1	1	**4**	**4**	**4**	**4**
Long-term debt issued	-	-	-	-	-	-	-	-	45	**45**	-	35	50	10	**95**	**15**	-	-
Long-term debt retired	-	(40)	-	(20)	(60)	-	-	-	-	**-**	-	-	-	-	-	-	-	-
Change in short-term debt	(79)	34	35	45	35	(105)	(12)	42	-	**(75)**	-	-	-	-	-	-	-	-
Cash dividend payments on common stock	(13)	(13)	(13)	(11)	(49)	(13)	(13)	(13)	-	**(39)**	-	-	-	-	-	-	-	-
Other	(3)	1	(0)	(2)	(5)	(0)	0	(0)	-	**(0)**	-	-	-	-	-	-	-	-
Net Cash Provided by Financing Activities	**(94)**	**(18)**	**22**	**14**	**(75)**	**(116)**	**(23)**	**29**	**46**	**(63)**	**1**	**36**	**51**	**11**	**99**	**19**	**4**	**4**
Net (Decrease) Increase in Cash and Cash Equivalents	(4)	(1)	1	(1)	(5)	0	1	1	8	10	2	(2)	2	2	5	9	(3)	6
Cash and Cash Equivalents, Beginning of Period	10	5	4	5	10	4	4	5	6	4	14	16	14	16	14	19	28	25
Cash and Cash Equivalents, End of Period	**5**	**4**	**5**	**4**	**4**	**4**	**5**	**6**	**14**	**14**	**16**	**14**	**16**	**19**	**19**	**28**	**25**	**30**

Source: Company reports; Guggenheim Securities, LLC estimates.

NRG YIELD (NYLD, NEUTRAL, $15.60)

Return of the YieldCo – Shares looking more attractive; modest pullback and some NT datapoints could cause us to revisit our thesis. We are becoming increasingly more confident that this is a sustainable, standalone business model.

- **Reaffirming our Neutral rating on NYLD** – Although we admit shares are looking more attractive, we are still looking for a modest pullback. It's been relatively quiet although NRG made a splash with some recent acquisitions / drop-down announcements to fuel growth. The new separate management structure, the opening up of equity markets and the continued dropdown growth projects are beginning to provide us the much needed assurance that this remains a sustainable business model on a standalone basis. **We are becoming more constructive on NYLD and would look for a modest pullback to potentially revisit our thesis.**

- **Raising our 2016/2017/2018 adjusted EBITDA estimates to $882mm, $865mm, and $1,008mm vs. consensus estimates of $858mm, $892mm, $982mm.** We are raising our estimates as we incorporate NYLD's acquisition of CVSR solar from NRG in 2016, and **now begin to model incremental acquisition of contracted assets from sponsor NRG (i.e., drop-downs) going forward** as well; most significant being the 265MW of operating solar assets NRG acquired through SUNE's bankruptcy process, as well as a ~150MW back-log of projects that are almost complete and a portfolio of earlier-stage development projects for further down the road. We assume NRG drops the 265MW already operating into NYLD in late 2018, which also drives our estimates higher. We also incorporate some distributed solar drop-downs associated with the SUNE acquisition, which should fit with distributed solar developments NYLD and NRG had already gotten underway. In our view, **NYLD is demonstrating that it is able to finance growth without relying on sponsor NRG as a financing backstop.**

- **Introducing our 2019 and 2020 adjusted EBITDA estimates of $1,019 and $1,077 vs. consensus $1,074 and $1,122.** We've employed a two-stage dividend discount model for our NYLD valuation since initiating coverage; so similar to IPPs within our coverage, we've always had a longer-term outlook. As we extend our sector outlook through the end of the decade with each company, we are also publishing our 2019 and 2020 adjusted EBITDA estimates for NYLD of $1,019 and $1,077, which includes incremental distributed/utility solar drop-downs (~100MW) and the recently announced Pittsburgh Medical Center district energy project. **We continue to model 15% annual dividend growth consistent with management's targeted growth rate, although now supported with incremental CF from the above-mentioned projects.**

- **Valuation:** Our $16 fair value estimate for NYLD is derived from a targeted yield of 8%, which is where the YieldCo group currently trades on average (as of 12/22/16), and applied to our estimated dividend of $1.09 in 2018.

Guggenheim's NYLD EBITDA Estimates

EBITDA ($mm)	1Q	2Q	3Q	4Q	FY	Cons
2015A	132A	199A	221A	162A	713A	
2016E	188A	240A	246A	208E	882E	858E
Prior				*181E*	*855E*	
2017E	216E	217E	210E	222E	865E	892E
Prior	*216E*	*218E*	*209E*	*221E*	*864E*	
2018E	234E	276E	256E	242E	1,008E	982E
Prior	*236E*	*278E*	*247E*	*234E*	*995E*	
2019E	269E	276E	244E	230E	1,019E	1,092E
2020E	285E	293E	258E	241E	1,077E	1,122E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** NRG Yield is exposed to interest rate, legislative, management execution, recontracting, construction, capital markets, and weather risks. In our view, the largest risk to valuation is capital markets, as the entity's growth could subside if it cannot issue equity at low yields. Upside risk to our fair value estimate include: 1) further decline in interest rates, and 2) improving sentiment around alternative yield-oriented vehicles.

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INCOME STATEMENT ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Revenue	200	235	256	178	**869**	221	258	272	294	**1,045**	319	320	295	291	**1,225**	**1,256**	**1,286**	**1,359**
Thermal	47	42	46	39	174	44	39	48	44	**175**	44	44	44	44	176	176	176	176
Renewable	77	108	124	50	359	97	134	142	169	543	195	195	170	167	727	758	788	860
Conventional	76	85	86	89	336	79	85	82	80	326	81	81	81	81	323	323	323	323
Operating costs	84	75	82	71	**312**	83	75	76	92	**326**	110	110	93	91	**403**	**369**	**388**	**402**
Thermal	34	31	31	30	126	29	27	31	29	116	29	29	29	29	116	116	181	181
Renewable	29	29	36	33	127	31	32	31	51	145	68	68	51	50	237	203	158	172
Conventional	21	15	15	8	59	23	16	14	12	65	12	12	12	12	50	50	50	50
Margin	116	160	174	107	**557**	138	183	196	202	**718**	210	210	202	200	**822**	**888**	**898**	**956**
Gross margin (%)	*58%*	*68%*	*68%*	*60%*	*64%*	*62%*	*71%*	*72%*	*69%*	*69%*	*66%*	*66%*	*69%*	*69%*	*67%*	*71%*	*70%*	*70%*
Operating expenses	70	73	73	64	**280**	69	70	79	79	**297**	80	80	80	80	**319**	**330**	**341**	**349**
Depreciation & amortization	67	70	69	59	265	66	67	75	76	284	77	77	77	77	307	318	329	337
Thermal	*5*	*4*	*5*	*5*	*19*	*5*	*5*	*5*	*5*	*20*	*5*	*5*	*5*	*5*	*20*	*20*	*20*	*20*
Renewable	*41*	*45*	*45*	*34*	*165*	*41*	*42*	*50*	*55*	*188*	*56*	*56*	*56*	*56*	*225*	*236*	*246*	*254*
Conventional	*21*	*21*	*19*	*20*	*81*	*20*	*20*	*20*	*16*	*76*	*16*	*16*	*16*	*16*	*62*	*62*	*62*	*62*
General & administrative (NRG fee)	3	3	3	3	12	3	3	4	3	13	3	3	3	3	12	12	12	12
Acquisition-related transaction and integration			1	2	3			-										
Operating income	46	87	101	43	**277**	69	113	117	123	**421**	130	130	123	120	**503**	**558**	**557**	**608**
Operating margin	*23%*	*37%*	*39%*	*24%*	*32%*	*31%*	*44%*	*43%*	*42%*	*40%*	*41%*	*41%*	*42%*	*41%*	*41%*	*44%*	*43%*	*45%*
Other income/expense	(70)	(45)	(61)	(34)	**(210)**	(66)	(43)	(57)	(55)	**(221)**	(54)	(54)	(53)	(49)	**(211)**	**(181)**	**(186)**	**(184)**
Earnings from unconsolidated affiliates	2	8	12	14	35	2	18	13	4	37	4	5	5	9	23	48	48	48
Thermal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Renewable	*(1)*	*4*	*9*	*9*	*21*	*(1)*	*14*	*10*	*-*	*23*	*0*	*1*	*1*	*5*	*7*	*32*	*32*	*32*
Conventional	*3*	*4*	*3*	*5*	*14*	*3*	*4*	*3*	*4*	*14*	*4*	*4*	*4*	*4*	*16*	*16*	*16*	*16*
Other income	1	(7)	(2)	1	(7)	-	1	1	-	2	-	-	-	-	-	-	-	-
Interest expense	(73)	(45)	(71)	(49)	(238)	(68)	(62)	(71)	(59)	(260)	(59)	(59)	(59)	(58)	(234)	(229)	(234)	(232)
Thermal	*(2)*	*(2)*	*(1)*	*(2)*	*(7)*	*(2)*	*(1)*	*(2)*	*(2)*	*(7)*	*(2)*	*(1)*	*(1)*	*(1)*	*(6)*	*(5)*	*(5)*	*(4)*
Renewable	*(46)*	*(17)*	*(41)*	*(18)*	*(122)*	*(36)*	*(30)*	*(37)*	*(27)*	*(130)*	*(27)*	*(27)*	*(27)*	*(27)*	*(108)*	*(103)*	*(108)*	*(107)*
Conventional	*(12)*	*(13)*	*(11)*	*(12)*	*(48)*	*(11)*	*(12)*	*(13)*	*(13)*	*(49)*	*(13)*	*(13)*	*(13)*	*(13)*	*(54)*	*(54)*	*(54)*	*(54)*
Corporate	*(13)*	*(13)*	*(18)*	*(17)*	*(61)*	*(19)*	*(19)*	*(19)*	*(17)*	*(74)*	*(17)*	*(17)*	*(17)*	*(17)*	*(67)*	*(67)*	*(67)*	*(67)*
Income before taxes	(24)	43	40	9	**67**	3	70	60	68	**200**	75	76	69	71	**291**	**376**	**371**	**423**
Income taxes	(4)	4	8	4	12	-	12	13	7	32	8	8	7	7	29	38	37	42
Book tax rate	16%	10%	20%	40%	18%	0%	17%	22%	10%	16%	10%	10%	10%	10%	10%	10%	10%	10%
Net income	(20)	38	32	5	**55**	3	58	47	61	**169**	68	68	62	63	**262**	**338**	**334**	**381**
Net income to NRG	(11)	31	17	5	42	(3)	26	8	27	58	30	31	28	28	117	152	150	171
Net income (loss) of Drop Down Assets	(4)	(3)	(2)	(11)	(20)	-	-	6										
Net income to public shareholders	(5)	10	17	11	**33**	6	32	33	34	**110**	37	38	34	35	**145**	**187**	**184**	**210**
Actuals	*(5)*	*10*	*17*			*5*	*32*	*33*								*1.78*		
Wtd. Avg. Class A shares	35	35	35	35	**35**	35	49	49	35	**42**	35	35	35	35	**35**	**35**	**35**	**35**
Wtd. Avg. Class C shares	42	35	63	63	**51**	63	63	63	63	**63**	63	63	63	63	**63**	**63**	**63**	**63**
Earnings per Share (Class A + C)	($0.07)	$0.14	$0.17	$0.12	**$0.39**	$0.06	$0.29	$0.29	$0.34	**$1.05**	$0.38	$0.39	$0.35	$0.36	**$1.48**	**$1.92**	**$1.89**	**$2.16**

Source: Company reports; Guggenheim Securities, LLC estimates.

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CASH FLOW STATEMENT ($ in millions	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Net income	(20)	38	32	5	**55**	3	58	47	61	**169**	68	68	62	63	**262**	**338**	**334**	**381**
Additions:																		
Depreciation and amortization	67	70	71	59	267	66	67	76	76	285	77	77	77	77	307	318	329	337
Interest expense	73	45	70	50	238	68	62	70	59	259	59	59	59	58	234	229	234	232
Income tax expense	(4)	4	8	4	12	-	12	13	7	32	8	8	7	7	29	38	37	42
Contract amortization/other	11	26	20	14	71	23	20	17	0	60	0	0	0	0	1	1	1	1
Adjusted EBITDA from unconsolidated affiliates	12	15	20	30	77	28	21	23	5	77	5	5	5	16	31	84	84	84
Thermal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Renewable	*8*	*11*	*17*	*27*	*63*	*24*	*18*	*20*	*1*	*63*	*1*	*1*	*1*	*12*	*15*	*68*	*68*	*68*
Conventional	*4*	*4*	*3*	*3*	*14*	*4*	*3*	*3*	*4*	*14*	*4*	*4*	*4*	*4*	*16*	*16*	*16*	*16*
Adjusted EBITDA	**132**	**199**	**221**	**162**	**713**	**188**	**240**	**246**	**208**	**882**	**216**	**217**	**210**	**222**	**865**	**1,008**	**1,019**	**1,077**
Less:																		
Pro-rata EBITDA from unconsolidated affiliates	(14)	(23)	(31)	(44)	(112)	(29)	(39)	(36)	(9)	(113)	(9)	(10)	(10)	(24)	(54)	(132)	(132)	(132)
Cash interest paid	(57)	(71)	(65)	(58)	(251)	(52)	(72)	(63)	(56)	(243)	(56)	(56)	(56)	(55)	(223)	(218)	(222)	(220)
Income tax paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Maintanence capital expenditures	(3)	(3)	3	(17)	(20)	(6)	(3)	(1)	(4)	(14)	(5)	(5)	(5)	(5)	(18)	(18)	(18)	(18)
Change in other assets	(37)	(29)	65	(37)	(38)	(37)	(28)	67	-	2	-	-	-	-	-	-	-	-
Principal amortization of indebtedness	(46)	(49)	(71)	(45)	(211)	(54)	(55)	(81)	(81)	(271)	(89)	(89)	(89)	(89)	(355)	(360)	(366)	(366)
Additions:																		
Cash distributions from unconsolidated affiliates	40	2	12	37	91	33	20	8	4	65	4	4	4	12	23	63	63	63
Estimated cash available for distribution	**15**	**26**	**134**	**(2)**	**173**	**43**	**63**	**140**	**62**	**308**	**61**	**62**	**55**	**60**	**238**	**343**	**344**	**404**
Less:													100					
Growth CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity investment in unconsolidated affiliates	-	-	-	-	-	-	-	-	-	-	(422)	-	-	-	(422)	(434)	-	-
Additions:																		
Equity capital raised for ROFO Asset acquisition	-	600	(1)	-	599	-	-	-	-	-	-	-	-	-	-	-	-	-
ROFO asset acquisition financed by cash on hand	531	(85)	-	-	445	-	(57)	-	-	(57)	(358)	-	-	-	(358)	174	-	-
Capital contributed by NRG to fund growth CapEx					-					-					-	-	-	-
Project debt or tax equity assumed	737	657	-	242	1,636	-	57	-	-	57	-	-	-	-	-	260	-	-
Unconsolidated debt borrowed to fund growth Cap	-	-	-	-	-	-	-	-	-	-	780	-	-	-	780	-	-	-
Cash available for distribution after investing/fur	**1,282**	**1,198**	**133**	**240**	**2,853**	**43**	**63**	**140**	**62**	**308**	**61**	**62**	**55**	**60**	**238**	**343**	**344**	**404**
Payout ratio	*207%*	*143%*	*29%*	*(2457%)*	*84%*	*96%*	*67%*	*31%*	*74%*	*56%*	*77%*	*79%*	*93%*	*85%*	*83%*	*67%*	*76%*	*75%*
Cash distributed	**30**	**37**	**38**	**39**	**144**	**41**	**42**	**44**	**46**	**173**	**47**	**49**	**51**	**51**	**199**	**229**	**263**	**302**

Source: Company reports; Guggenheim Securities, LLC estimates.

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BALANCE SHEET ($ in millions)	1QA	2QA	3QA	4QE	2015E	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Current assets																		
Cash	114	281	125	111	111	76	89	200	406	406	871	977	1,063	1,153	1,153	1,495	2,002	2,515
Restricted cash	46	38	69	131	131	60	55	138	138	138	138	138	138	138	138	138	138	138
Accounts receivable	63	99	105	101	101	87	109	115	65	65	70	63	55	64	64	67	67	70
Inventory	27	29	30	36	36	34	35	37	13	13	14	14	10	13	13	13	13	14
Deferred income taxes - current	10	14	12	-	-	-	-	-	7	7	8	8	7	7	7	8	7	8
Other current assets	33	30	35	37	37	27	31	41	41	41	41	41	41	41	41	41	41	41
Total current assets	**293**	**491**	**376**	**416**	**416**	**284**	**319**	**531**	**669**	**669**	**1,142**	**1,241**	**1,314**	**1,416**	**1,416**	**1,762**	**2,268**	**2,786**
Property plant and equipment																		
Net PP&E	4,430	4,478	4,434	5,878	5,878	5,012	4,947	5,711	5,639	5,639	5,567	5,495	5,422	5,350	5,350	5,050	4,739	4,420
Deferred income taxes	143	140	124	170	170	180	170	182	182	182	180	179	178	177	177	163	150	131
Other assets	1,729	2,099	2,055	2,225	2,225	2,183	2,171	2,058	2,140	2,140	2,226	2,315	2,408	2,504	2,504	2,929	3,427	4,009
TOTAL ASSETS	**6,595**	**7,208**	**6,989**	**8,689**	**8,689**	**7,659**	**7,607**	**8,482**	**8,630**	**8,630**	**9,115**	**9,229**	**9,321**	**9,446**	**9,446**	**9,904**	**10,584**	**11,347**
Current liabilities																		
Current debt	218	407	224	264	264	242	251	281	164	164	163	163	162	162	162	173	171	169
Accounts payable	33	23	22	23	23	26	21	23	39	39	46	46	39	38	38	38	43	44
Accounts payable - affiliates	46	60	58	86	86	24	32	29	58	58	67	67	57	56	56	55	62	64
Derivatives	48	43	42	39	39	38	37	32	32	32	32	32	32	32	32	32	32	32
Accrued expenses	44	37	79	77	77	53	39	94	94	94	94	94	94	94	94	94	94	94
Total current liabilities	**389**	**570**	**425**	**489**	**489**	**383**	**380**	**459**	**387**	**387**	**402**	**402**	**384**	**382**	**382**	**391**	**401**	**403**
Other liabilities																		
Long term debt	4,392	4,008	3,690	5,329	5,329	4,521	4,465	5,359	3,107	3,107	3,099	3,090	3,082	3,073	3,073	3,286	3,252	3,218
Long term debt - affiliates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Convertible and other debt	327	328	595	596	596	599	601	604	604	604	604	604	604	604	604	604	604	604
Deferred income taxes	-	-	-	-	-	-	-	-	7	7	14	22	29	36	36	73	111	153
Derivatives	97	44	74	61	61	110	122	107	107	107	107	107	107	107	107	107	107	107
Other	49	52	53	(524)	(524)	(515)	(518)	(515)	(515)	(515)	(515)	(515)	(515)	(515)	(515)	(515)	(515)	(515)
Total other liabilities	4,865	4,432	4,412	5,462	5,462	4,715	4,670	5,555	3,310	3,310	3,309	3,308	3,307	3,305	3,305	3,556	3,559	3,567
Total liabilities	**5,254**	**5,002**	**4,837**	**5,951**	**5,951**	**5,098**	**5,050**	**6,014**	**3,697**	**3,697**	**3,711**	**3,710**	**3,690**	**3,687**	**3,687**	**3,947**	**3,960**	**3,970**
Stockholder's equity																		
Non-controlling interest	131	361	348	897	897	753	742	622	622	622	622	622	622	622	622	622	622	622
Additional paid-in capital	1,235	1,853	1,821	1,855	1,855	1,845	1,836	1,858	4,310	4,310	4,759	4,855	4,956	5,072	5,072	5,160	5,755	6,429
Retained earnings	(23)	8	15	12	12	7	26	35	50	50	71	90	101	113	113	223	295	374
Other comprehensive loss	(2)	(16)	(32)	(27)	(27)	(44)	(47)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)
Common stock				1	1			1										
Total stockholder's equity	**1,341**	**2,206**	**2,152**	**2,738**	**2,738**	**2,561**	**2,557**	**2,468**	**4,934**	**4,934**	**5,404**	**5,519**	**5,631**	**5,759**	**5,759**	**5,957**	**6,623**	**7,376**
TOTAL LIABILITIES & EQUITY	**6,595**	**7,208**	**6,989**	**8,689**	**8,689**	**7,659**	**7,607**	**8,482**	**8,630**	**8,630**	**9,115**	**9,229**	**9,321**	**9,446**	**9,446**	**9,904**	**10,584**	**11,347**

Source: Company reports; Guggenheim Securities, LLC estimates.

OGE ENERGY CORP. (OGE, BUY, PT $36.00, $33.49)

OGE has had above-average dividend growth and CAPEX/EPS upside potential post rate cases; we expect the noise around ENBL strategy will subside. We see OGE as a good value in a fairly valued sector.

- **We are maintaining our BUY rating and are raising our price target to $36 from $33.** 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 prior energy downturn. That said, **we believe OGE presents stable growth with capex and EPS upside potential as this 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. **While valuation looks low, we see multiple re-rating as: (1) current rate case works itself through = ALJ recommendation pending approval; (2) management provides more visibility especially around 2019/'20 following current GRC – 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 NT question mark with investors.**

- **We are introducing estimates for 2019 and 2020 of $2.05/$2.15 versus street consensus of $2.03/$2.09.** This outlook currently represents flat to slight decline in rate base due to its declining profile in 2019 and 2020 relative to prior years. We estimate capex average of $350mm, versus capex spend of $900mm and $525mm in 2017 and 2018, but we believe this could show upside. We model ROEs ranging between 9.12% and 9.7% through 2020. We expect OGE to file another OK GRC in November 2018 for scrubber and natural gas conversion with new rates effective in May 2019; in AR, we expect a formula rate plan filing in mid-2018 with final orders of $20mm and $10mm for OK and AR, respectively.

- **Our 2016/2017/2018 EPS estimates are $1.75/$1.88/$1.92 versus consensus estimates of $1.76/$1.87/$1.95.** Our ~4.5% 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. We estimate $50mm rate increase at OK in 2017 to recover Mustang investments; ~$13mm net increase in AK for CT generation cost recovery with expectations of similar historical lag. 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.

- **2017 - Potential investor concern on declining CapEx in the outlook is noted and should be addressed in 2017,** as management will be in a better position to update post NT rate case (current ALJ recommendation equates to $43.6mm revenue increase; 9.87% – pending Commissioner approval vs. our $50mm estimate) especially for 2019/2020 planning years. **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.

- **Sum-of-the-parts valuation:** We arrive at our $36 price target utilizing a sum-of-the-parts analysis, which is comprised of: **(1)** ~$27/share for regulated electric utility when we apply our group average regulated electric utility multiple of 15.5x, which is based on a regression of corp. bond yields and utility P/E multiples plus a 2 turn premium to account for higher growth vs what is being reflected in current fundamentals, and **(2)** ~$9/share for OGE's 26% ownership of ENBL's LP units, based on flat cash distributions of $1.27 per unit and applying a 7.5% 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 3.8% dividend yield from OGE would equate to a 11.3% ETR.**

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	0.92A	0.35E	1.75E	*1.76E*
Prior				*0.35E*	*1.75E*	
2017E	0.08E	0.44E	0.96E	0.39E	1.88E	*1.87E*
Prior	*0.10E*	*0.46E*	*0.99E*	*0.32E*	*1.88E*	
2018E	0.09E	0.45E	0.98E	0.40E	1.92E	*1.95E*
Prior	*0.11E*	*0.47E*	*1.00E*	*0.34E*	*1.92E*	
2019E	0.12E	0.48E	1.02E	0.43E	2.05E	*2.03E*
2020E	0.14E	0.51E	1.05E	0.45E	2.15E	*2.09E*

Source: Company reports; Guggenheim Securities, LLC estimates.

- **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.

SECTOR: **POWER AND UTILITIES** **January 9, 2017**

GUGGENHEIM

OGE Model

Consolidated Financials

INCOME STATEMENT ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E	2019E	2020E
Operating Revenues																						
Electric Utility	480	550	720	447	2,197	433	551	744	557	2,285	444	563	779	569	2,355	458	578	795	583	2,415	2,462	2,523
Natural Gas Midstream Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Revenues	**480**	**550**	**720**	**447**	**2,197**	**433**	**551**	**744**	**557**	**2,285**	**444**	**563**	**779**	**569**	**2,355**	**458**	**578**	**795**	**583**	**2,415**	**2,462**	**2,523**
Electric Utility	212	211	260	183	865	178	198	270	227	873	182	202	283	232	899	188	207	288	238	922	941	964
Natural Gas Midstream Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cost of sales	**212**	**211**	**260**	**183**	**865**	**178**	**198**	**270**	**227**	**873**	**182**	**202**	**283**	**232**	**899**	**188**	**207**	**288**	**238**	**922**	**941**	**964**
Gross Margin	**269**	**339**	**460**	**264**	**1,332**	**255**	**354**	**474**	**329**	**1,412**	**262**	**361**	**497**	**336**	**1,456**	**270**	**371**	**507**	**345**	**1,492**	**1,522**	**1,559**
O&M	112	113	109	117	452	114	128	113	117	471	117	126	116	108	468	119	127	117	110	473	477	482
Taxes Other Than Income Tax	25	22	22	22	91	25	20	22	23	89	25	20	22	22	89	25	20	22	22	89	89	89
Total Operating Expenses	136	136	131	140	**543**	139	148	135	139	**560**	142	146	138	131	**557**	143	147	139	132	**562**	**567**	**571**
EBITDA	132	203	329	125	**789**	116	206	340	190	**852**	120	215	358	205	**899**	127	223	367	213	**931**	**955**	**987**
Depreciation and amortization	76	76	78	78	308	79	80	82	82	323	83	85	87	88	343	89	90	91	91	362	370	374
Operating Income	**56**	**127**	**251**	**47**	**481**	**38**	**126**	**257**	**108**	**529**	**36**	**130**	**272**	**117**	**555**	**37**	**133**	**277**	**122**	**569**	**585**	**613**
Equity in earnings of unconsolidated affiliates	32	28	(72)	28	16	28	17	35	23	102	26	34	34	31	125	27	34	34	31	125	149	148
Allowance for equity funds	2	2	2	3	8	2	4	4	-	9	-	-	-	-	-	-	-	-	-	-	-	-
Other income (expense)	4	3	4	2	13	4	2	2	2	10	(0)	(2)	1	1	(0)	(0)	(2)	1	1	(0)	(0)	(0)
Net other income	**37**	**33**	**(66)**	**32**	**37**	**34**	**22**	**41**	**25**	**122**	**26**	**32**	**35**	**31**	**124**	**27**	**32**	**35**	**31**	**125**	**148**	**147**
Interest on long-term debt	37	37	37	37	148	36	36	36	36	143	36	36	35	36	143	36	36	35	36	143	143	143
Allowance for borrowed funds	(1)	(1)	(1)	(2)	(4)	(1)	(2)	(2)	-	(5)	-	-	-	-	-	-	-	-	-	-	-	-
Interest on short-term debt and other	1	2	1	1	5	1	2	2		5					-					-	-	-
Total Interest Expense	**37**	**38**	**37**	**37**	**149**	**36**	**36**	**35**	**36**	**143**	**36**	**36**	**35**	**36**	**143**	**36**	**36**	**35**	**36**	**143**	**143**	**143**
Interest Rate	*5.2%*	*5.3%*	*5.4%*	*5.3%*	*5.4%*	*5.2%*	*4.9%*	*5.0%*	*5.0%*	*20.2%*	*5.2%*	*4.9%*	*4.6%*	*4.8%*	*18.8%*	*4.7%*	*4.6%*	*4.4%*	*4.7%*	*18.5%*	*18.3%*	*18.1%*
Income Before Taxes	**56**	**123**	**148**	**42**	**369**	**35**	**112**	**263**	**97**	**508**	**26**	**126**	**272**	**112**	**536**	**28**	**129**	**277**	**116**	**551**	**590**	**617**
Income Taxes	13	35	37	13	97	10	41	79	28	158	9	38	79	34	160	10	39	81	35	164	178	185
Tax Rate	*23%*	*29%*	*25%*	*31%*	*26%*	*29%*	*36%*	*30%*	*28%*	*31%*	*35%*	*30%*	*29%*	*30%*	*30%*	*35%*	*30%*	*29%*	*30%*	*30%*	*30%*	*30%*
Net Income	**43**	**88**	**111**	**29**	**271**	**25**	**72**	**184**	**70**	**350**	**17**	**88**	**193**	**78**	**376**	**18**	**91**	**196**	**81**	**386**	**412**	**432**
(-) Net income attributable to noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NET INCOME ATTRIBUTABLE TO OGE ENERGY	**43**	**88**	**111**	**29**	**271**	**25**	**72**	**184**	**70**	**350**	**17**	**88**	**193**	**78**	**376**	**18**	**91**	**196**	**81**	**386**	**412**	**432**
Weighted-average Number of Common Shares Outstanding	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	201	201	201	201	201	201	201
Earnings Per Common Share, Diluted	**$ 0.22**	**$ 0.44**	**$ 0.56**	**$ 0.15**	**$ 1.36**	**$ 0.13**	**$ 0.36**	**$ 0.92**	**$ 0.35**	**$ 1.75**	**$ 0.08**	**$ 0.44**	**$ 0.96**	**$ 0.39**	**$ 1.88**	**$ 0.09**	**$ 0.45**	**$ 0.98**	**$ 0.40**	**$ 1.92**	**$ 2.05**	**$ 2.15**
Non-operating items	-	-	(70)		(70)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Non GAAP)	**43**	**88**	**181**	**29**	**341**	**25**	**72**	**184**	**70**	**350**	**17**	**88**	**193**	**78**	**376**	**18**	**91**	**196**	**81**	**386**	**412**	**432**
Operating EPS	**$ 0.22**	**$ 0.44**	**$ 0.91**	**$ 0.15**	**$ 1.71**	**$ 0.13**	**$ 0.36**	**$ 0.92**	**$ 0.35**	**$ 1.75**	**$ 0.08**	**$ 0.44**	**$ 0.96**	**$ 0.39**	**$ 1.88**	**$ 0.09**	**$ 0.45**	**$ 0.98**	**$ 0.40**	**$ 1.92**	**$ 2.05**	**$ 2.15**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

OGE Model

Consolidated Financials

CASH FLOW STATEMENT ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E	2019E	2020E
Cash Flow from Operating Activites:																						
Net Income	43	88	111	29	271	25	72	184	70	350	17	88	193	78	376	18	91	196	81	386	412	432
Adjustments to reconcile net income to net cash provided by operating activities:																						
Depreciation and amortization	76	76	78	78	308	79	80	82	82	323	83	85	87	88	343	89	90	91	91	362	370	374
Deferred income taxes and investment tax credits	13	35	14	40	103	10	42	82	-	134	-	-	-	-	-	-	-	-	-	-	-	-
Equity in earnings of unconsolidated affiliates	(32)	(28)	72	(28)	(16)	(28)	(17)	(35)	(23)	(102)	(26)	(34)	(34)	(31)	(125)	(27)	(34)	(34)	(31)	(125)	(149)	(148)
Distributions from unconsolidated affiliates	34	35	(2)	27	94	29	17	35	35	115	35	35	35	35	141	35	35	35	35	141	141	141
Allowance for equity funds used during construction	(2)	(2)	(2)	(3)	(8)	(2)	(4)	(4)	-	(9)	-	-	-	-	-	-	-	-	-	-	-	-
Gain on disposition of assets	-	-	-	(0)	(0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stock-based compensation	1	2	1	2	6	2	2	-	-	3	-	-	-	-	-	-	-	-	-	-	-	-
Excess tax benefit on stock-based compensation	-	-	(5)	5		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory assets	3	(0)	10	(22)	(9)	(2)	(2)	(7)	-	(11)	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory liabilities	(1)	(1)	(12)	(14)	(28)	(5)	(4)	(1)	-	(10)	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	(1)	5	8	(2)	11	3	4	11	-	18	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	(0)	(2)	3	9	9	2	4	(26)	-	(20)	-	-	-	-	-	-	-	-	-	-	-	-
Changes in current operating assets and liabilities:										-					-					-	-	-
Accounts receivable, net	20	(17)	(37)	50	16	38	(28)	(61)	56	5	135	(9)	(16)	15	126	34	(2)	(4)	4	31	8	2
Accounts receivable - unconsolidated affiliates	(1)	4	(3)	3	4	(1)	4	(4)	1	(0)	1	(0)	(0)	0	1	0	(0)	(0)	0	0	0	0
Accrued unbilled revenues	9	(40)	8	24	2	2	(40)	20	18	0	43	(3)	(5)	5	40	11	(1)	(1)	1	10	2	1
Income taxes receivable	-	-	-	(1)	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel, materials and supplies inventories	(24)	(6)	4	(31)	(57)	10	1	20	26	56	109	(3)	(13)	8	101	29	(1)	(3)	2	27	7	2
Fuel clause under recoveries	41	23	2	2	68	-	-	(1)	-	(1)	-	-	-	-	-	-	-	-	-	-	-	-
Other current assets	1	(12)	1	(8)	(17)	(10)	(8)	5	-	(13)	-	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	(15)	(26)	(17)	89	31	(44)	(13)	(34)	(20)	(111)	(86)	2	10	(6)	(80)	(23)	1	3	(2)	(21)	(6)	(2)
Accounts payable - unconsolidated affiliates	-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Income taxes payable - parent	-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel clause over recoveries	-	2	33	27	61	2	(22)	(40)	-	(60)	-	-	-	-	-	-	-	-	-	-	-	-
Other current liabilities	(26)	30	34	(20)	18	(36)	4	34	-	2	-	-	-	-	-	-	-	-	-	-	-	-
Other current liabilities																						
Net Cash Provided by Operating Activities	140	166	303	256	865	73	93	261	244	671	311	163	257	193	924	167	180	282	183	811	787	803
Cash Flow from Investing Activities:																						
Capital expenditures	(109)	(119)	(147)	(173)	(548)	(178)	(153)	(136)	(175)	(642)	(225)	(225)	(225)	(225)	(900)	(131)	(131)	(131)	(131)	(525)	(380)	(325)
Investment in unconsolidated affiliates	-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Return of capital - equity method investments	-	-	37	8	45	7	19	1		26					-					-	-	-
Proceeds from asset sale	0	2	0	0	3	-	0	0	-	0	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	(109)	(117)	(110)	(164)	(500)	(171)	(135)	(135)	(175)	(616)	(225)	(225)	(225)	(225)	(900)	(131)	(131)	(131)	(131)	(525)	(380)	(325)
Cash Flow from Financing Activities:																						
Dividends paid on common stock	3	(103)	(50)	(55)	(205)	-	(110)	(55)	(61)	(225)	(61)	(61)	(67)	(67)	(255)	(67)	(67)	(73)	(74)	(280)	(309)	(341)
Proceeds from long-term debt	-	-	-	-		-	-	-	-	-	-	50	-	-	50	-	40	-	-	40	40	40
Issuance of common stock	(50)	57	0	-	7	(55)	55	-	15	15	3	3	3	3	10	3	3	3	3	10	10	10
Payments of long-term debt	-	(0)	-	(0)	(0)	(110)	-	-	-	(110)	-	-	-	-	-	-	-	-	-	-	-	-
Increase in short-term debt	12	(4)	(106)	-	(98)	188	97	(71)	-	213	(50)	100	50	60	160	50	-	-	(50)	-	-	-
Net Cash (Used in) Provided by Financing Activities	(35)	(51)	(150)	(60)	(296)	23	42	(126)	(46)	(107)	(108)	92	(14)	(4)	(35)	(14)	(24)	(71)	(121)	(230)	(259)	(291)
Net (Decrease) Increase in Cash and Cash Equivalents	(4)	(2)	43	32	70	(75)	-	-	24	(52)	(22)	30	18	(36)	(11)	21	24	80	(70)	56	148	187
Cash and Cash Equivalents, Beginning of Period	5	1	(0)	43	5	75	(0)	(0)	(0)	75	24	2	32	49	24	13	34	58	138	13	68	216
Cash and Cash Equivalents, End of Period	1	(0)	43	75	75	(0)	(0)	(0)	24	24	2	32	49	13	13	34	58	138	68	68	216	403

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

SECTOR: **POWER AND UTILITIES** January 9, 2017

GUGGENHEIM

OGE Model

Consolidated Financials

BALANCE SHEET ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	1QE	2QE	3QE	4QE	2018E	2019E	2020E
Cash and cash equivalents	2	-	43	75	75	-	-	-	24	24	2	32	49	13	13	34	58	138	68	68	216	403
Accounts receivable	169	186	223	173	173	135	163	224	168	168	33	41	57	42	42	8	10	14	10	10	3	1
Accounts receivable - unconsolidated affiliates	7	2	5	2	2	3	-	2	2	2	0	0	1	0	0	0	0	0	0	0	0	0
Accrued unbilled revenues	47	86	78	54	54	51	91	71	53	53	10	13	18	13	13	3	3	4	3	3	1	0
Income taxes receivable	15	16	16	17	17	17	15	18	18	18	18	18	18	18	18	18	18	18	18	18	18	18
Advances to parent	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel inventories	83	80	86	114	114	105	107	88	74	74	15	17	24	20	20	4	5	6	5	5	1	0
Materials and supplies, at average cost	79	78	77	80	80	78	76	75	64	64	13	15	21	17	17	4	4	5	4	4	1	0
Deferred income taxes	189	173	175	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel clause under recoveries	27	4	2	-	-	-	-	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Other	37	47	45	56	56	65	76	68	68	68	68	68	68	68	68	68	68	68	68	68	68	68
Total Current Assets	**653**	**682**	**753**	**570**	**570**	**456**	**527**	**547**	**470**	**470**	**160**	**205**	**256**	**191**	**191**	**139**	**166**	**255**	**178**	**178**	**308**	**491**
Property, plant and equipment, at cost																						
In service	10,021	10,126	10,199	10,318	10,318	10,416	10,523	10,690	10,740	**10,740**	10,920	11,100	11,280	11,460	**11,460**	11,565	11,670	11,775	11,880	**11,880**	**12,184**	**12,444**
Construction work in progress	148	169	231	279	279	300	319	366	401	**401**	445	491	536	581	**581**	607	633	660	686	**686**	**762**	**827**
Total Property, Plant and Equipment	**10,168**	**10,295**	**10,429**	**10,597**	**10,597**	**10,716**	**10,842**	**10,955**	**11,140**	**11,140**	**11,365**	**11,590**	**11,815**	**12,040**	**12,040**	**12,172**	**12,303**	**12,434**	**12,565**	**12,565**	**12,945**	**13,270**
Less: accumulated depreciation	3,156	3,209	3,263	3,274	3,274	3,328	3,372	3,431	3,513	3,513	3,595	3,681	3,768	3,856	3,856	3,945	4,036	4,126	4,218	4,218	4,588	4,962
Net Property, Plant and Equipment in Service	**7,012**	**7,086**	**7,167**	**7,322**	**7,322**	**7,388**	**7,470**	**7,534**	**7,628**	**7,628**	**7,769**	**7,909**	**8,048**	**8,184**	**8,184**	**8,226**	**8,267**	**8,308**	**8,348**	**8,348**	**8,358**	**8,308**
OTHER PROPERTY AND INVESTMENTS																						
Investment in unconsolidated affiliates	1,316	1,309	1,202	1,194	1,194	1,187	1,169	1,168	1,156	1,156	1,146	1,145	1,144	1,139	1,139	1,131	1,129	1,128	1,123	1,123	1,131	1,137
Other	71	73	71	71	71	70	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72	72
Total Other Property and Investments	**1,387**	**1,383**	**1,273**	**1,265**	**1,265**	**1,257**	**1,241**	**1,240**	**1,228**	**1,228**	**1,218**	**1,217**	**1,216**	**1,211**	**1,211**	**1,203**	**1,201**	**1,200**	**1,195**	**1,195**	**1,203**	**1,209**
DEFERRED CHARGES AND OTHER ASSETS																						
Regulatory assets	407	405	390	402	402	403	402	405	405	405	405	405	405	405	405	405	405	405	405	405	405	405
Other	43	39	36	21	21	20	19	58	58	58	58	58	58	58	58	58	58	58	58	58	58	58
Total Deferred Charges and Other Assets	**450**	**443**	**426**	**423**	**423**	**423**	**421**	**463**	**463**	**463**	**463**	**463**	**463**	**463**	**463**	**463**	**463**	**463**	**463**	**463**	**463**	**463**
Total Assets	**9,502**	**9,594**	**9,618**	**9,581**	**9,681**	**9,523**	**9,659**	**9,784**	**9,788**	**9,788**	**9,610**	**9,793**	**9,982**	**10,049**	**10,049**	**10,030**	**10,097**	**10,225**	**10,184**	**10,184**	**10,331**	**10,471**
Short-term debt	110	106	-	-	-	188	284	213	213	213	163	263	313	373	373	423	423	423	373	373	373	373
Accounts payable - unconsolidated affiliates	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	152	146	126	263	263	173	160	129	109	109	23	25	35	29	29	6	7	9	8	8	2	1
Dividends payable	59	59	55	55	55	55	55	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60
Customer deposits	75	76	76	77	77	78	78	77	77	77	77	77	77	77	77	77	77	77	77	77	77	77
Accrued taxes	24	42	61	46	46	25	39	59	59	59	59	59	59	59	59	59	59	59	59	59	59	59
Accrued interest	34	43	34	43	43	33	40	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33
Accrued compensation	34	33	37	54	54	56	36	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34
Long-term debt due within one year	110	110	110	110	110	-	-	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125
Fuel clause over recoveries	-	2	35	61	61	63	41	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Other	53	56	53	44	44	37	39	63	63	63	63	63	63	63	63	63	63	63	63	63	63	63
Total Current Liabilities	**642**	**662**	**587**	**753**	**753**	**707**	**774**	**795**	**775**	**775**	**639**	**741**	**801**	**855**	**855**	**882**	**883**	**885**	**834**	**834**	**828**	**826**
Long-Term Debt	**2,645**	**2,645**	**2,646**	**2,629**	**2,629**	**2,629**	**2,630**	**2,505**	**2,505**	**2,505**	**2,505**	**2,555**	**2,555**	**2,555**	**2,555**	**2,555**	**2,595**	**2,595**	**2,595**	**2,595**	**2,635**	**2,675**
DEFERRED CREDITS AND OTHER LIABILITIES																						
Accrued benefit obligations	313	311	311	300	300	298	300	280	280	280	280	280	280	280	280	280	280	280	280	280	280	280
Deferred income taxes	2,279	2,298	2,334	2,178	2,178	2,188	2,233	2,315	2,315	2,315	2,315	2,315	2,315	2,315	2,315	2,315	2,315	2,315	2,315	2,315	2,315	2,315
Deferred investment tax credits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory liabilities	272	280	277	274	274	278	284	292	292	292	292	292	292	292	292	292	292	292	292	292	292	292
Other	109	111	111	121	121	125	118	152	152	152	152	152	152	152	152	152	152	152	152	152	152	152
Total Deferred Credits and Other Liabilities	**2,973**	**3,000**	**3,032**	**2,873**	**2,873**	**2,889**	**2,934**	**3,038**	**3,038**	**3,038**	**3,038**	**3,038**	**3,038**	**3,038**	**3,038**	**3,038**	**3,038**	**3,038**	**3,038**	**3,038**	**3,038**	**3,038**
Total Liabilities	**6,260**	**6,308**	**6,264**	**6,255**	**6,256**	**6,225**	**6,337**	**6,339**	**6,318**	**6,318**	**6,182**	**6,335**	**6,395**	**6,448**	**6,448**	**6,475**	**6,516**	**6,519**	**6,467**	**6,467**	**6,501**	**6,540**
Stockholders' Equity:																						
Common stockholders' equity	1,092	1,097	1,104	1,101	1,101	1,103	1,105	1,104	1,119	1,119	1,122	1,124	1,127	1,129	1,129	1,132	1,134	1,137	1,139	1,139	1,149	1,159
Retained earnings	2,192	2,223	2,285	2,260	2,260	2,230	2,247	2,370	2,379	2,379	2,335	2,363	2,489	2,501	2,501	2,452	2,476	2,599	2,606	2,606	2,710	2,801
Accumulated other comprehensive loss	(41)	(41)	(36)	(35)	(35)	(35)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)
Total Stockholders' Equity	**3,242**	**3,286**	**3,353**	**3,326**	**3,326**	**3,298**	**3,322**	**3,445**	**3,469**	**3,469**	**3,428**	**3,458**	**3,587**	**3,601**	**3,601**	**3,555**	**3,581**	**3,706**	**3,717**	**3,717**	**3,830**	**3,932**
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Equity	**3,242**	**3,286**	**3,353**	**3,326**	**3,326**	**3,298**	**3,322**	**3,445**	**3,469**	**3,469**	**3,428**	**3,458**	**3,587**	**3,601**	**3,601**	**3,555**	**3,581**	**3,706**	**3,717**	**3,717**	**3,830**	**3,932**
Total Liabilities and Equity	**9,502**	**9,594**	**9,618**	**9,581**	**9,581**	**9,523**	**9,659**	**9,784**	**9,788**	**9,788**	**9,610**	**9,793**	**9,982**	**10,049**	**10,049**	**10,030**	**10,097**	**10,225**	**10,184**	**10,184**	**10,331**	**10,471**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

PG&E CORP (PCG, NEUTRAL, $60.54)

Trading at a discount but finally turning a corner with major overhangs in the rearview and focus turning to above-average growth. We are cautious of low-beta bond surrogates but we like where PCG's story is headed; fundamentals are there but timing isn't ideal for utility valuation expansion, in our view. We take a wait and see approach with new Commissioners.

- **Maintaining our Neutral stance on PCG – Finally turning a corner although timing isn't ideal for valuation expansion.** PCG is finally turning a corner after several years spent dealing with past transgressions, now getting new management in front of investors with a solid regulated growth story aligned with state energy policy objectives; it's like music to our ears, and we expect its 1x discount to dissipate, although these things take some time and unfortunately timing isn't ideal for technical/multiple expansion despite such constructive fundamentals finally coming to the surface. Said differently, we expect PCG's 1x discount to dissipate, however we also see the regulated group trading at a 1x premium to forward yield expectations (see our analysis in the industry section); PCG's discount should dissipate over time, and we recognize rationale for a premium, although that would likely take some more time and yield curves are steeper. We also remain and have remained relatively cautious on the CPUC and now take even more of a wait-and-see approach with the two new Commissioners. **Good story, good Management and things are transitioning well, in our view – it's just a question of timing for us.**

- **We are introducing 2019 and 2020 estimates of $4.03/$4.11 vs. consensus 2019 estimate of $4.07.** We are introducing estimates of $4.03 and $4.11 for 2019 and 2020 based on PG&E's 2017 General Rate Case proposed through 2019 and potentially extended into 2020 per the settlement agreement reached in August (repeating 2019 rate increase in 2020); a proposed decision is expected in January, followed by a final order in February. In short, we continue modeling annual utility investment of ~$5.9bn, slightly lower than management's outlook for $6bn/yr as we aren't incorporating items such as electric vehicle infrastructure (which was not approved recently), and driving our estimated 6.5% rate base growth through 2019, at the low-end of management's outlook for 6.5-7.0% growth through 2019; we have yet to see management's outlook beyond 2019, although we model ratebase growing 6.5% into 2020 as well. We also aren't factoring in electric vehicle infrastructure investment opportunities recently highlighted by PCG to facilitate state carbon policy objectives (transportation produces 40% of CA emissions) as it has yet to gain enough traction, in our view (declined again in December 2016). PCG originally pursued a pilot for 7,500 facilities with aspirations of expanding the program to 100,000. Management estimated total cost of $2bn (25,000 were $600-650mm).

- **Slightly adjusting our 2016/2017/2018 estimates of $3.70/$3.70/$3.83 vs. consensus estimates of $3.70/$3.66/3.87.** Aside from a 1% change in 2016 to reflect timing of revenue and expense recognition, our estimates are unchanged through 2018, but easier said than done – Our prior estimates assumed annual equity issuance of $360mm going forward, although we now reflect management's latest thinking around $400-600mm next year, modeling $500mm in 2017, while we continue to model $360mm thereafter as NT financing has been largely driven by non-recurring items; dilution is offset though as we also incorporate 2015 GT&S revenue recognition.

- **New year, new PCG – going into 2017 without much baggage.** We highlighted first signs of light following the 3Q16 earnings call, and PCG has already started to get a much better story circulating, with new management making rounds with investors, centering attention around solid fundamentals and future opportunities

rather than past transgressions. Investors will likely appreciate PCG putting the regulatory accounting complexities in the rear view as well; although with that said, we would note that PCG has yet to disclose potential fines/penalties associated with the Butte fire.

- **Valuation:** We ascribe a 0.5x premium to our 15.5x regulated utility target multiple, reflecting PCG's above-average growth coupled with relatively constructive rate design and cost recovery mechanisms in CA; we apply our PCG-specific 16x multiple to our 2018 EPS estimate of $3.83 to arrive at a fair value estimate of $61.

Guggenheim's PCG EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.87A	0.91A	0.84A	0.50A	3.12A	
2016E	0.82A	0.66A	0.94A	1.28E	3.70E	3.70E
Prior				*1.23E*	*3.65E*	
2017E	0.36E	0.79E	1.57E	0.97E	3.70E	3.66E
Prior	*0.47E*	*1.25E*	*1.35E*	*0.63E*	*3.70E*	
2018E	0.88E	1.27E	1.24E	0.44E	3.83E	3.87E
Prior	*0.83E*	*1.64E*	*0.94E*	*0.42E*	*3.83E*	
2019E	0.62E	1.06E	1.45E	0.90E	4.03E	4.07E
2020E	0.87E	1.30E	1.24E	0.70E	4.11E	N/A

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** PCG's risks are typical risk factors inherent with all regulated electric and gas utilities. These risks mainly encompass: 1) rate case risk; 2) lower capex outlook; and 3) interest rate changes above what we account for in our regression model. Decline in allowed ROE. PCG will be in rate cases occasionally and its cost of capital is set in separate proceedings that may adjust with movements in bond yields.

  Upside risks to our fair value estimate include: 1) more favorable resolution of San Bruno legal proceedings; 2) improved regulatory constructs; 3) higher CapEx outlook; and 4) interest rates fall lower.

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PACIFIC GAS & ELECTRIC COMPANY

CONSOLIDATED FINANCIALS

INCOME STATEMENT ($ millions)	[illegible]	[illegible]	[illegible]	[illegible]	2015A	[illegible]	[illegible]	[illegible]	[illegible]	2016E	[illegible]	[illegible]	[illegible]	[illegible]	2017E	2018E	2019E	2020E
Operating Revenue																		
Electric	$3,014	$3,462	$3,868	$3,313	**$13,657**	$3,132	$3,465	$3,993	$4,140	**$14,730**	$3,473	$3,863	$4,722	$3,826	**$15,884**	**$16,250**	**$16,900**	**$17,527**
Natural Gas	886	754	682	854	**3,176**	843	704	816	1,080	**3,443**	970	830	1,027	1,139	**3,966**	**4,157**	**3,994**	**3,851**
Total Operating Revenue	3,900	4,216	4,550	4,167	**16,833**	3,975	4,169	4,809	5,221	**18,174**	4,444	4,693	5,749	4,965	**19,851**	**20,407**	**20,894**	**21,378**
Cost of Electricity	1,000	1,277	1,681	1,141	**5,099**	950	1,156	1,613	1,205	**4,924**	1,013	1,244	1,753	1,254	**5,265**	**5,338**	**5,478**	**5,701**
Cost of Nat Gas	274	118	50	221	**663**	222	75	80	125	**502**	224	76	81	88	**469**	**469**	**469**	**469**
Gross Margin	2,626	2,821	2,819	2,805	**11,071**	2,803	2,938	3,116	3,890	**12,747**	3,206	3,373	3,915	3,623	**14,117**	**14,600**	**14,947**	**15,208**
Operating Expenses																		
O&M	1,923	1,483	1,622	1,921	**6,949**	2,011	1,837	1,782	1,921	**7,551**	2,011	1,837	1,782	1,921	**7,551**	**7,551**	**7,551**	**7,551**
Other (Income)/Expense	(26)	(20)	(22)	(19)	**(87)**	(24)	(21)	(23)	(34)	**(102)**	(27)	(24)	(27)	(34)	**(112)**	**(115)**	**(117)**	**(120)**
EBITDA	729	1,358	1,219	903	**4,209**	816	1,122	1,357	2,003	**5,298**	1,222	1,559	2,161	1,735	**6,678**	**7,164**	**7,513**	**7,778**
Interest Income	(1)	(3)	(2)	(2)	**(8)**	(4)	(4)	(8)	8	**(8)**	(4)	(4)	(8)	8	**(8)**	**(8)**	**(8)**	**(8)**
D&A	631	651	653	676	**2,611**	696	700	694	713	**2,803**	733	737	731	750	**2,950**	**3,098**	**3,245**	**3,393**
EBIT	99	710	568	229	**1,606**	124	426	671	1,282	**2,503**	493	827	1,438	978	**3,735**	**4,074**	**4,276**	**4,393**
Interest Expense	187	189	191	196	**763**	201	204	209	299	**913**	240	240	240	280	**1,001**	**1,003**	**1,033**	**1,052**
EBT	(88)	521	377	33	**843**	(77)	222	462	983	**1,590**	253	586	1,198	698	**2,734**	**3,071**	**3,242**	**3,341**
Income Tax Expense/(Benefit)	(479)	75	(33)	(229)	**(666)**	(485)	(111)	(10)	344	**(262)**	65	181	395	244	**886**	**1,075**	**1,135**	**1,169**
Effective Tax Rate	*544%*	*14%*	*-9%*	*-694%*	***-79%***	*630%*	*-50%*	*-2%*	*35%*	***-16%***	*35%*	*35%*	*35%*	*35%*	***32%***	***35%***	***35%***	***35%***
Net Income	$391	$446	$410	$262	**$1,509**	$408	$333	$472	$639	**$1,852**	$188	$405	$802	$453	**$1,849**	**$1,996**	**$2,108**	**$2,172**
Preferred Dividends	3	4	3	4	**14**	3	4	3	4	**14**	3	4	3	4	**14**	**14**	**14**	**14**
Net Income	$388	$442	$407	$258	**$1,495**	$405	$329	$469	$635	**$1,838**	$185	$401	$799	$449	**$1,835**	**$1,982**	**$2,094**	**$2,158**
Avg. Fully Dilluted Shares	481	483	489	492	**486**	495	498	503	508	**501**	503	505	507	509	**506**	**513**	**519**	**524**
Operating EPS	**$ 0.81**	**$ 0.92**	**$ 0.83**	**$ 0.52**	**$ 3.07**	**$ 0.82**	**$ 0.66**	**$ 0.93**	**$ 1.25**	**$ 3.67**	**$ 0.37**	**$ 0.79**	**$ 1.58**	**$ 0.88**	**$ 3.63**	**$ 3.86**	**$ 4.04**	**$ 4.12**

Source: Company reports; Guggenheim Securities, LLC estimates.

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PACIFIC GAS & ELECTRIC COMPANY

CONSOLIDATED FINANCIALS

BALANCE SHEET ($ millions)	1Q	2Q	3Q	4Q	2015A	1Q	2Q	3Q	4Q	2016E	1Q	2Q	3Q	4Q	2017E	2018E	2019E	2020E
Assets																		
Current Assets																		
Cash and equivalents	50	148	62	59	**59**	44	120	68	77	**77**	171	192	432	308	**308**	**134**	**319**	**616**
Restricted Cash	298	287	287	234	**234**	234	235	168	168	**168**	168	168	168	168	**168**	**168**	**168**	**168**
Accounts receivable	4,116	4,540	4,258	4,005	**4,005**	3,769	4,259	4,137	4,137	**4,137**	4,137	4,137	4,137	4,137	**4,137**	**4,137**	**4,137**	**4,137**
Inventories	418	456	471	439	**439**	453	469	477	477	**477**	477	477	477	477	**477**	**477**	**477**	**477**
Deferred income taxes	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Other current assets	1,025	881	956	985	**985**	1,035	955	870	870	**870**	870	870	870	870	**870**	**870**	**870**	**870**
Total Current Assets	**5,907**	**6,312**	**6,034**	**5,722**	**5,722**	**5,535**	**6,038**	**5,720**	**5,729**	**5,729**	**5,823**	**5,844**	**6,084**	**5,960**	**5,960**	**5,786**	**5,971**	**6,268**
Property, plant and equipment																		
Electric	45,888	46,687	47,141	48,532	**48,532**	49,974	50,872	51,532	53,009	**53,009**	54,484	55,959	57,434	58,909	**58,909**	**64,809**	**70,709**	**76,609**
Gas	15,970	16,208	16,419	16,749	**16,749**	16,982	17,123	17,384	17,384	**17,384**	17,384	17,384	17,384	17,384	**17,384**	**17,384**	**17,384**	**17,384**
CWIP	2,115	2,075	2,259	2,059	**2,059**	2,148	2,096	2,117	2,117	**2,117**	2,117	2,117	2,117	2,117	**2,117**	**2,117**	**2,117**	**2,117**
Less: Accumulated Depreciation	(19,532)	(19,961)	(20,173)	(20,617)	**(20,617)**	(21,060)	(21,494)	(21,603)	(22,316)	**(22,316)**	(23,049)	(23,786)	(24,517)	(25,266)	**(25,266)**	**(28,364)**	**(31,610)**	**(35,003)**
Net Property, plant, equipment	**44,441**	**45,009**	**45,646**	**46,723**	**46,723**	**48,044**	**48,597**	**49,430**	**50,194**	**50,194**	**50,936**	**51,674**	**52,418**	**53,144**	**53,144**	**55,946**	**58,600**	**61,107**
Regulatory assets	6,412	6,476	6,584	7,029	**7,029**	7,130	7,315	7,534	7,534	**7,534**	7,534	7,534	7,534	7,534	**7,534**	**7,534**	**7,534**	**7,534**
Nuclear decommissioning	2,526	2,504	2,417	2,470	**2,470**	2,516	2,546	2,597	2,620	**2,620**	2,644	2,661	2,651	2,674	**2,674**	**2,728**	**2,782**	**2,836**
Income taxes receivable	94	94	97	135	**135**	153	147	70	70	**70**	70	70	70	70	**70**	**70**	**70**	**70**
Other	943	998	1,006	958	**958**	1,061	1,072	1,066	1,066	**1,066**	1,066	1,066	1,066	1,066	**1,066**	**1,066**	**1,066**	**1,066**
Total Assets	**60,323**	**61,393**	**61,784**	**63,037**	**63,037**	**64,439**	**65,715**	**66,417**	**67,213**	**67,213**	**68,074**	**68,849**	**69,824**	**70,448**	**70,448**	**73,130**	**76,023**	**78,881**
Liabilities & Shareholders Equity																		
Current Liabilities																		
Short term borrowings	856	1,011	881	1,019	**1,019**	693	1,529	1,145	1,145	**1,145**	1,145	1,145	1,145	1,145	**1,145**	**1,145**	**1,145**	**1,145**
Current portion long term debt	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Current portion of energy rec bonds	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Accounts payable	2,630	2,535	2,544	2,547	**2,547**	2,412	2,525	2,899	2,899	**2,899**	2,899	2,899	2,899	2,899	**2,899**	**2,899**	**2,899**	**2,899**
Other	2,468	2,547	2,523	2,567	**2,567**	2,667	2,354	2,054	2,054	**2,054**	2,054	2,054	2,054	2,054	**2,054**	**2,054**	**2,054**	**2,054**
Total Current Liabilities	**5,954**	**6,093**	**5,948**	**6,133**	**6,133**	**5,772**	**6,408**	**6,098**	**6,098**	**6,098**	**6,098**	**6,098**	**6,098**	**6,098**	**6,098**	**6,098**	**6,098**	**6,098**
Long term debt	14,701	15,194	15,195	15,577	**15,577**	16,174	16,177	16,179	16,179	**16,179**	16,679	16,879	16,879	16,879	**16,879**	**16,879**	**16,979**	**16,979**
Energy recovery bonds	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Regulatory liabilities	6,307	6,330	6,294	6,321	**6,321**	6,486	6,547	6,613	6,613	**6,613**	6,613	6,613	6,613	6,613	**6,613**	**6,613**	**6,613**	**6,613**
Pension & benefit provisions	2,465	2,449	2,435	2,534	**2,534**	2,540	2,540	2,540	2,540	**2,540**	2,540	2,540	2,540	2,540	**2,540**	**2,540**	**2,540**	**2,540**
Asset retirement obligations	3,595	3,609	3,620	3,643	**3,643**	4,480	4,612	4,672	4,672	**4,672**	4,672	4,672	4,672	4,672	**4,672**	**4,672**	**4,672**	**4,672**
Deferred income taxes	8,885	8,992	9,018	9,487	**9,487**	9,605	9,839	10,135	10,300	**10,300**	10,479	10,657	10,836	11,014	**11,014**	**11,728**	**12,442**	**13,156**
Other	2,266	2,263	2,264	2,282	**2,282**	2,331	2,364	2,350	2,350	**2,350**	2,350	2,350	2,350	2,350	**2,350**	**2,350**	**2,350**	**2,350**
Total Liabilities	**44,173**	**44,930**	**44,774**	**45,977**	**45,977**	**47,388**	**48,487**	**48,587**	**48,752**	**48,752**	**49,431**	**49,809**	**49,988**	**50,166**	**50,166**	**50,880**	**51,694**	**52,408**
Preferred stock	258	258	258	258	**258**	258	258	258	258	**258**	258	258	258	258	**258**	**258**	**258**	**258**
Common equity	15,892	16,205	16,752	16,802	**16,802**	16,793	16,970	17,572	18,203	**18,203**	18,385	18,782	19,578	20,024	**20,024**	**21,992**	**24,071**	**26,215**
Total Equity	**16,150**	**16,463**	**17,010**	**17,060**	**17,060**	**17,051**	**17,228**	**17,830**	**18,461**	**18,461**	**18,643**	**19,040**	**19,836**	**20,282**	**20,282**	**22,250**	**24,329**	**26,473**
Total Liabilities and Equity	**60,323**	**61,393**	**61,784**	**63,037**	**63,037**	**64,439**	**65,715**	**66,417**	**67,213**	**67,213**	**68,074**	**68,849**	**69,824**	**70,448**	**70,448**	**73,130**	**76,023**	**78,881**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

PACIFIC GAS & ELECTRIC COMPANY
CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT ($ million)	1Q	2Q	3Q	4Q	2015A	1Q	2Q	3Q	4Q	2016E	1Q	2Q	3Q	4Q	2017E	2018E	2019E	2020E
Operating Cash Flow																		
Net income	388	442	407	(375)	**862**	405	329	469	635	**1,838**	185	401	799	449	**1,835**	**1,982**	**2,094**	**2,158**
Depreciation & amortization	631	651	653	676	**2,611**	696	700	694	713	**2,803**	733	737	731	750	**2,950**	**3,098**	**3,245**	**3,393**
Deferred income taxes	112	107	51	444	**714**	118	234	165	165	**714**	179	179	179	179	**714**	**714**	**714**	**714**
Net working capital changes	(227)	302	(207)	(558)	**(690)**	(207)	226	(125)	-	**(106)**	-	-	-	-	**-**	**-**	**-**	**-**
Other charges	197	(743)	168	601	**223**	51	(783)	234	-	**(498)**	-	-	-	-	**-**	**-**	**-**	**-**
Net cash from operating activities	**1,101**	**759**	**1,072**	**788**	**3,720**	**1,063**	**706**	**1,437**	**1,513**	**4,719**	**1,097**	**1,316**	**1,709**	**1,378**	**5,499**	**5,794**	**6,053**	**6,265**
Investing Cash Flow																		
CAPEX	(1,191)	(1,219)	(1,252)	(1,511)	**(5,173)**	(1,229)	(1,422)	(1,477)	(1,477)	**(5,605)**	(1,475)	(1,475)	(1,475)	(1,475)	**(5,900)**	**(5,900)**	**(5,900)**	**(5,900)**
Net proceeds from asset sales	-	-	-	-	**-**	-	-	-		**-**	-	-	-	-	**-**	**-**	**-**	**-**
Decrease (Increase) in restricted cash	-	-	11	53	**64**	-	-	66	-	**66**	-	-	-	-	**-**	**-**	**-**	**-**
NDT	(88)	(12)	(1)	(23)	**(124)**	(24)	(17)	10	(23)	**(54)**	(24)	(17)	10	(23)	**(54)**	**(54)**	**(54)**	**(54)**
Other	7	17	(6)	4	**22**	3	3	4	-	**10**	-	-	-	-	**-**	**-**	**-**	**-**
Net cash from investing activities	**(1,272)**	**(1,214)**	**(1,248)**	**(1,477)**	**(5,211)**	**(1,250)**	**(1,436)**	**(1,397)**	**(1,500)**	**(5,583)**	**(1,499)**	**(1,492)**	**(1,465)**	**(1,498)**	**(5,954)**	**(5,954)**	**(5,954)**	**(5,954)**
Financing Cash Flow																		
Net revolver and CP borrowings	223	153	(131)	138	**383**	(327)	834	(550)	-	**(43)**	-	-	-	-	**-**	**-**	**-**	**-**
Issuance of long-term debt	-	486	-	637	**1,123**	594	-	-	-	**594**	500	200	-	-	**700**	**-**	**100**	**-**
Repayment of long-term debt	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Repayment of energy recovery bonds	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Common stock dividends	(179)	(179)	(179)	(179)	**(716)**	(179)	(244)	-	-	**(423)**	-	-	-	-	**-**	**-**	**-**	**-**
Preferred stock dividends	(3)	(4)	(3)	(4)	**(14)**	(3)	(4)	(3)	(4)	**(14)**	(3)	(4)	(3)	(4)	**(14)**	**(14)**	**(14)**	**(14)**
Equity Contribution	100	85	420	100	**705**	65	215	460	-	**740**	-	-	-	-	**-**	**-**	**-**	**-**
Other	25	12	(17)	(6)	**14**	22	5	1	-	**28**	-	-	-	-	**-**	**-**	**-**	**-**
Net cash from financing activities	**166**	**553**	**90**	**686**	**1,495**	**172**	**806**	**(92)**	**(4)**	**882**	**497**	**196**	**(3)**	**(4)**	**686**	**(14)**	**86**	**(14)**
Net change in cash	(5)	98	(86)	(3)	**4**	(15)	76	(52)	9	**18**	95	20	241	(124)	**231**	**(174)**	**185**	**297**
Beginning cash balance	55	50	148	62	**55**	59	44	120	68	**59**	77	171	192	432	**77**	**308**	**134**	**319**
Ending cash balance	**50**	**148**	**62**	**59**	**59**	**44**	**120**	**68**	**77**	**77**	**171**	**192**	**432**	**308**	**308**	**134**	**319**	**616**

Source: Company reports; Guggenheim Securities, LLC estimates.

PUBLIC SERVICE ENTERPRISE GROUP (PEG, BUY, $47 PT, $43.76)

Executing on Plan with Higher Regulated CapEx, Power Activity Continues – Steady as she goes.

- **Reaffirming our BUY rating on PEG and maintaining our price target of $47 – we see PEG as a best in class integrated utility.** PSE&G remains a block & tackle story, but higher CapEx will likely prompt return to higher growth, in our view, supporting ~10% growth. **We continue to believe the story remains strong whether PEG does something strategic with Power or not, and we see no reason to change our stance in '17** – PEG should remain a core investor holding at the current rate cycle given the cyclicality of the generation segment coupled with above-average utility growth.
- **We are introducing estimates for 2019 and 2020 of $2.90/$2.95 versus Street consensus of $2.94/$2.97.** This outlook captures the consistent growth profile of PEG's utilities. Consolidated earnings picture is comprised of ~10% regulated earnings growth at PSE&G driven by a NT rate case – modeling ROEs averaging 11.5% through 2020 – we project 8.3% rate base growth given NJ's aging infrastructure needs, with $12Bn CapEx through 2020, more than half of which is in transmission. We model a declining contribution from Power segment due to continued weakness of forward curves – **our Power model is marked to the 12/22 forward curves.**
- **Updating our 2016/2017/2018 EPS estimates to $2.90/$2.90/$2.87, slightly above consensus estimates of $2.88/$2.91/$2.94.** Our previous estimates were lower at $2.86/$2.82/$2.92, as we now account for higher capital spending mainly at PSEG earning upwards of 11%, coupled with 1% load growth partially offset by 1-2% O&M growth. **We also assume Keys and Sewaren begin operating in 2H 2018; Hudson, Mercer retirements in 2017.**
- **We expect more of the same in '17, which is a good thing: Power continues to clean up its fleet with Mercer and Hudson retirements; no more new assets** – continues to evolve as a well-run "standalone" entity with new Gas assets being constructed with balance sheet room to weather low power curves and/or make strategic acquisitions under the scenario that Power segment becomes an eventual standalone entity – **we don't assume further merchant growth above the current gas builds as long as Power stays within the PEG corporate structure.** Already '17 announced coal retirements CF accretive; CCGTs at Keys, Sewaren and Bridgeport Harbor on schedule/on budget. Power continues to improve CFs with a relatively underutilized B/S – in our view, it is well set up for any potential strategic moves in 2019 and beyond as scale is built with new CCGTs, coal is retired.
- **Upcoming rate filing likely a nonevent.** We expect limited overhangs on PSE&G's upcoming rate case as PSE&G will look to recover ~30% of capital spending on infrastructure and isn't overearning its current allowed after backing out solar impact.
- **Both quality businesses deserve a premium on a standalone basis**. We continue to believe PEG's Utility and Power business could benefit from splitting into two separate businesses, as Power continues to improve CFs with a relatively underutilized B/S – in our view, it is well set up for any potential strategic moves as scale is built with new CCGTs, coal is retired while utility's strong performance continues; this could possibly happen over the next few years but no set timeline.
- **Valuation: Our $47 price target incorporates SOTP analysis.** We assign a PEG specific 11.0x weighted average EV/EBITDA multiple for Power, subtracting out net

debt of ~$2.2B and making other EV adjustments including MtM, resulting in a Power contribution of ~$13 to our equity valuation. We apply a 15.5x regulated multiple for PSE&G to our 2018E EPS of $2.03 resulting in $32/share and incorporate ~$2/share for holdings. Incorporating a 3.9% dividend yield, we estimate a 11.4% ETR.

Guggenheim's PEG EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	1.15A	0.68A	0.86A	0.61A	2.91A	
2016E	0.93A	0.37A	0.64A	0.54E	2.90E	2.88E
Prior				*0.51E*	*2.86E*	
2017E	0.80E	0.63E	0.90E	0.57E	2.90E	2.91E
Prior	*0.69E*	*0.68E*	*0.99E*	*0.47E*	*2.82E*	
2018E	0.75E	0.59E	0.94E	0.58E	2.87E	2.94E
Prior	*0.69E*	*0.69E*	*1.06E*	*0.48E*	*2.92E*	
2019E	0.86E	0.66E	0.87E	0.50E	2.90E	2.94E
2020E	0.81E	0.64E	0.94E	0.56E	2.95E	2.97E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** Commodity price risk. If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. In our view, PEG is inherently a long natural gas call with gas the marginal price setter in PJM. If forward natural gas prices fall or PEG loses its basis and locational advantages, earnings can be impacted.

  The remaining risks center on the regulated electric and gas utility – PSE&G. Risks mainly 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.

  Decline in allowed ROE. While PSE&G has minimal rate case risk since we do not expect it to file until 2017 for 2018 rates, it will eventually file.

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PSEG

CONSOLIDATED FINANCIALS

Income Statement ($mm, unless otherwise noted)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Operating revenues	3,135	2,314	2,688	2,278	2,616	1,905	2,450	2,817	3,339	2,504	2,945	2,971	10,415	9,788	11,759	11,798	11,805	11,944
Energy costs	(1,094)	(668)	(815)	(684)	(836)	(624)	(866)	(1,155)	(1,544)	(909)	(1,141)	(1,266)	(3,261)	(3,481)	(4,860)	(4,736)	(4,631)	(4,696)
O&M	(663)	(761)	(746)	(808)	(729)	(710)	(776)	(835)	(819)	(753)	(741)	(830)	(2,978)	(3,050)	(3,144)	(3,166)	(3,161)	(3,115)
D&A	(330)	(317)	(313)	(254)	(224)	(224)	(231)	(290)	(256)	(253)	(254)	(315)	(1,214)	(969)	(1,077)	(1,166)	(1,229)	(1,289)
Taxes other than income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total operating expenses	(2,087)	(1,746)	(1,874)	(1,746)	(1,789)	(1,558)	(1,873)	(2,280)	(2,619)	(1,915)	(2,136)	(2,411)	(7,453)	(7,500)	(9,080)	(9,068)	(9,022)	(9,101)
Operating Income	**1,048**	**568**	**814**	**532**	**827**	**347**	**577**	**537**	**720**	**590**	**809**	**560**	**2,962**	**2,288**	**2,679**	**2,731**	**2,783**	**2,843**
Equity in Income of Affiliates	3	4	3	2	2	4	3	(1)	(0)	(0)	(0)	(0)	12	8	(1)	(1)	(1)	(1)
Other income (net)	36	66	33	17	27	34	39	28	51	51	51	51	152	128	203	203	203	203
Impairments	(5)	(10)	(30)	(8)	(10)	(10)	(5)	-	-	-	-	-	(53)	(25)	-	-	-	-
Interest expense	(98)	(97)	(96)	(102)	(92)	(97)	(99)	(138)	(144)	(152)	(157)	(163)	(393)	(426)	(617)	(689)	(719)	(741)
EBT	984	531	724	441	754	278	515	425	627	489	702	447	2,680	1,972	2,264	2,244	2,266	2,305
Income taxes	(398)	(186)	(285)	(132)	(283)	(91)	(188)	(149)	(219)	(171)	(246)	(156)	(1,001)	(711)	(793)	(785)	(793)	(807)
Income from Cont Ops	586	345	439	309	471	187	327	276	407	318	456	290	1,679	1,261	1,472	1,458	1,473	1,498
Disc Ops (net of tax)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	586	345	439	309	471	187	327	276	407	318	456	290	1,679	1,261	1,472	1,458	1,473	1,498
Preferred stock dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NI Available to Common	**586**	**345**	**439**	**309**	**471**	**187**	**327**	**276**	**407**	**318**	**456**	**290**	**1,679**	**1,261**	**1,472**	**1,458**	**1,473**	**1,498**
Weighted diluted shares	508	508	508	508	508	508	508	508	508	508	508	508	508	508	508	508	508	508
EPS	**1.15**	**0.68**	**0.86**	**0.61**	**0.93**	**0.37**	**0.64**	**0.54**	**0.80**	**0.63**	**0.90**	**0.57**	**3.31**	**2.48**	**2.90**	**2.87**	**2.90**	**2.95**
GAAP EBITDA	**1,412**	**945**	**1,133**	**797**	**1,070**	**599**	**845**	**854**	**1,027**	**893**	**1,113**	**926**	**4,287**	**3,368**	**3,958**	**4,099**	**4,215**	**4,335**
Adjusted EBITDA	**1,317**	**857**	**1,075**	**707**	**1,057**	**769**	**1,042**	**854**	**1,027**	**893**	**1,113**	**926**	**3,955**	**3,722**	**3,958**	**4,099**	**4,215**	**4,335**
NDT and other gains / losses	2	(14)	-	-	(5)	(1)	(1)	-	-	-	-	-	(12)	(7)	-	-	-	-
Mark to market	55	28	35	54	13	(101)	(31)	-	-	-	-	-	173	(119)	-	-	-	-
PSE&G extraordinary items	-	-	-	-	-	-	(86)	-	-	-	-	-	-	(86)	-	-	-	-
Holdings extraordinary items	-	39	-	-	-	-	-	-	-	-	-	-	39	-	-	-	-	-
Co. defined operating earnings	**529**	**292**	**404**	**255**	**463**	**289**	**445**	**276**	**407**	**318**	**456**	**290**	**1,479**	**1,473**	**1,472**	**1,458**	**1,473**	**1,498**
Co. defined operating EPS	**1.04**	**0.57**	**0.80**	**0.50**	**0.91**	**0.57**	**0.88**	**0.54**	**0.80**	**0.63**	**0.90**	**0.57**	**2.91**	**2.90**	**2.90**	**2.87**	**2.90**	**2.95**

Source: Company reports; Guggenheim Securities, LLC estimates.

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CONSOLIDATED FINANCIALS

BALANCE SHEET ($mm, unless otherwise noted)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Assets																		
Cash and Equivalents	1,008	597	271	394	592	648	450	193	207	264	325	281	394	193	281	442	688	1,089
Accounts Receivable	1,437	1,126	1,199	1,068	1,107	988	1,031	1,031	1,031	1,031	1,031	1,031	1,068	1,031	1,031	1,031	1,031	1,031
Inventory	749	824	923	976	839	905	957	957	957	957	957	957	976	957	957	957	957	957
Assets of disc ops	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net PP&E	23,978	24,807	25,605	26,539	27,274	28,014	28,804	29,898	30,641	31,387	32,133	32,816	26,539	29,898	32,816	34,805	35,825	36,821
Investments	1,287	1,273	1,235	1,233	1,234	1,218	1,066	1,066	1,066	1,066	1,066	1,066	1,233	1,066	1,066	1,066	1,066	1,066
Goodwill	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16
Other	7,352	7,569	7,175	7,309	7,064	7,256	7,164	7,164	7,164	7,164	7,164	7,164	7,309	7,164	7,164	7,164	7,164	7,164
Total Assets	**35,827**	**36,212**	**36,424**	**37,535**	**38,126**	**39,045**	**39,488**	**40,325**	**41,082**	**41,885**	**42,691**	**43,331**	**37,535**	**40,325**	**43,331**	**45,481**	**46,747**	**48,144**
Liabilities																		
Accounts Payable	1,006	1,156	1,038	1,369	1,192	1,308	1,363	1,363	1,363	1,363	1,363	1,363	1,369	1,363	1,363	1,363	1,363	1,363
Short Term Debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Debt	9,084	9,314	9,238	9,568	10,238	10,935	10,697	11,403	11,844	12,422	12,863	13,304	9,568	11,403	13,304	14,406	14,656	15,056
Total Debt	9,084	9,314	9,238	9,568	10,238	10,935	10,697	11,403	11,844	12,422	12,863	13,304	9,568	11,403	13,304	14,406	14,656	15,056
Deferred taxes and ITCs LT	7,436	7,578	7,672	8,166	8,377	8,545	8,661	8,724	8,852	8,980	9,107	9,235	8,166	8,724	9,235	9,746	10,257	10,768
Other	5,743	5,456	5,542	5,365	5,000	4,938	5,291	5,291	5,291	5,291	5,291	5,291	5,365	5,291	5,291	5,291	5,291	5,291
Total Liabilities	23,269	23,504	23,490	24,468	24,807	25,726	26,012	26,781	27,350	28,055	28,624	29,193	24,468	26,781	29,193	30,806	31,567	32,478
Noncontrolling Interests	1	1	1	1	1	1	-	-	-	-	-	-	1	-	-	-	-	-
Preferred Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common stock	4,873	4,883	4,894	4,915	4,908	4,919	4,928	4,928	4,928	4,928	4,928	4,928	4,915	4,928	4,928	4,928	4,928	4,928
Treasury stock	(662)	(663)	(667)	(671)	(702)	(709)	(714)	(714)	(714)	(714)	(714)	(714)	(671)	(714)	(714)	(714)	(714)	(714)
Retained earnings	8,616	8,764	9,005	9,117	9,381	9,360	9,480	9,548	9,736	9,834	10,071	10,142	9,117	9,548	10,142	10,678	11,184	11,670
OCI	(270)	(277)	(299)	(295)	(269)	(252)	(218)	(218)	(218)	(218)	(218)	(218)	(295)	(218)	(218)	(218)	(218)	(218)
Total Common Equity	12,557	12,707	12,933	13,066	13,318	13,318	13,476	13,544	13,732	13,830	14,067	14,138	13,066	13,544	14,138	14,674	15,180	15,666
Total Liabilities and Equity	**35,827**	**36,212**	**36,424**	**37,535**	**38,126**	**39,045**	**39,488**	**40,325**	**41,082**	**41,885**	**42,691**	**43,331**	**37,535**	**40,325**	**43,331**	**45,481**	**46,747**	**48,144**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

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CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT ($mm, unless otherwise noted)	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Statement of CFs (period)																		
Net Income	586	345	439	309	471	187	327	276	407	318	456	290	1,679	1,261	1,472	1,458	1,473	1,498
Depreciation and Amortization	330	317	313	254	224	224	231	290	256	253	254	315	1,214	969	1,077	1,166	1,229	1,289
Deferred taxes and ITCs	63	107	60	455	182	152	111	63	128	128	128	128	685	508	511	511	511	511
Other	700	(214)	182	(327)	337	(55)	370	-	-	-	-	-	341	652	-	-	-	-
Operating CFs	**1,679**	**555**	**994**	**691**	**1,214**	**508**	**1,039**	**630**	**791**	**698**	**838**	**734**	**3,919**	**3,391**	**3,060**	**3,136**	**3,214**	**3,298**
Additions to PP&E	(747)	(996)	(1,039)	(1,081)	(1,065)	(906)	(1,014)	(1,385)	(999)	(999)	(999)	(999)	(3,863)	(4,370)	(3,995)	(3,155)	(2,250)	(2,285)
Acquisitions / Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	(32)	2	(29)	(20)	(16)	(17)	(36)	-	-	-	-	-	(79)	(69)	-	-	-	-
Investing CFs	**(779)**	**(994)**	**(1,068)**	**(1,101)**	**(1,081)**	**(923)**	**(1,050)**	**(1,385)**	**(999)**	**(999)**	**(999)**	**(999)**	**(3,942)**	**(4,439)**	**(3,995)**	**(3,155)**	**(2,250)**	**(2,285)**
Net Change in Debt	(58)	233	(46)	726	327	688	27	706	441	578	441	441	855	1,748	1,901	1,103	250	400
Net Change in Preferred Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Change in Common Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common Dividends	(197)	(197)	(198)	(197)	(207)	(208)	(207)	(208)	(219)	(219)	(219)	(219)	(789)	(830)	(878)	(923)	(967)	(1,012)
Other	(39)	(8)	(8)	4	(55)	(9)	(7)	-	-	-	-	-	(51)	(71)	-	-	-	-
Financing CFs	**(294)**	**28**	**(252)**	**533**	**65**	**471**	**(187)**	**498**	**222**	**358**	**222**	**222**	**15**	**847**	**1,023**	**180**	**(717)**	**(612)**
Total change in cash	606	(411)	(326)	123	198	56	(198)	(257)	13	57	61	(44)	(8)	(201)	88	161	246	401
Beginning cash	402	1,008	597	271	394	592	648	450	193	207	264	325	402	394	193	281	442	688
Ending cash	**1,008**	**597**	**271**	**394**	**592**	**648**	**450**	**193**	**207**	**264**	**325**	**281**	**394**	**193**	**281**	**442**	**688**	**1,089**

Source: Company reports; Guggenheim Securities, LLC estimates.

PINNACLE WEST (PNW, NEUTRAL, $78.39)

Key question: Rate case, resource adequacy and renewable growth – story becoming more attractive; Good execution to date – '17 key year

- **Reaffirming our NEUTRAL rating and lowering our fair value estimate to $78 from $83.** We see a very strong story with several positive attributes, including constructive ACC, positive policy shifts towards solar, less contentious rate case, which will likely lead to a settlement; **but shares trade at a very healthy premium vs. electric peers – we missed the move and would look for a modest pullback for an entry point.** Our Neutral stance is a pure valuation call.
- **We are introducing estimates for 2019 and 2020 of $4.77/$5.14 versus Street consensus of $4.64/$4.80.** This outlook captures the consistent growth profile of PNW's service territory, spending ~$1.1B/year, 6% RB growth, earned returns of ~10%. Upside to our estimates could include additional wires opportunities, self-build/asset purchase for expiring PPA, additional generation to meet capacity shortfall, better than expected sales growth, and rate order above our estimate (see next bullet).
- **Updating our 2016/2017/2018 EPS estimates to $3.92/$4.22/$4.48, vs. consensus estimates of $3.96/$4.23/$4.44.** We arrive at ~5% annual earnings growth at Arizona Public Service, by modeling a conservative $80mm general rate increase (vs. $165.9m ask ex adjustors) in effect July 2017; 6% rate base growth, and ROEs averaging 10% through '17/'18/'19. We raise our 2017 EPS estimate from $4.18 to $4.22 to account for slightly higher customer growth given key indicators that have shown steady moves from pre-recession trough levels. **See utility models further down**.
- **Defining year – Plenty to watch for in 2017: all resource RFP, additional microgrid opportunities, rate case, IRP filing.** The final Commission order on the **generic cost and value of solar** calls for an end to net energy metering for solar customers in current form, with a newly proposed resource comparison proxy (RCP) formula; a rolling five-year historical average of solar PPA and large-scale utility solar equating to $0.11/kwh vs. current retail net metering reimbursement rate of $0.14/kwh. Also under consideration is an avoided cost of DG, but this is being pushed out for further analysis. The ACC will select the appropriate method or combination in each utility's subsequent rate cases. The value of solar decision will guide APS rate design from its previously filed **rate case** in June 2016, with PNW able to conclude on the matter during its general rate case negotiations. Staff's current proposal calls for 9.35% ROE, and revenue increase of $267.6mm vs. PNW request of 10.5% ROE and $433.4mm increase ($165.9mm net base rate increase and transference of $267.6mm collected through adjustor mechanisms into base rates, decrease in base fuel of $61.7mm). **PNW's final IRP filing** in April 2017 anticipates 400MW-600MW in an RFP to meet its future capacity needs in 2022 (3500MW shortfall). This will consist of CTs, some will likely be self-build, some PPAs; it may end up being a blend of both options. At the end of the day, PNW is looking for capacity; the company doesn't see much need for renewables as they are already exceeding the renewable requirement, so likely gas. The potential for a 30x30 mandate would provide upside to renewables, but only if the State goes there; PNW has no reason to do anything more at this time as they are twice the renewable goals.
- **Additional opportunities for '17/18?** PNW has additional opportunities to build more gas given shortfall of generation needs when stacked with preexisting demand coupled with a clear economic recovery within the Phoenix area. We also see potential upside to management's customer and volume growth assumptions given the current outlook for the State's cyclical recovery.

- **Key dates for rate case:** Staff/intervenor testimony 3/10/17; hearings 3/22/17. We see a very strong likelihood for a settlement. Final testimony on rate design components are due 1/27/17, APS will submit rebuttal testimony on 2/17/17 and then settlement discussions are expected to occur with a goal of reaching settlement by 3/22/17.

- **Valuation:** Our $78 fair value estimate is based on our 2018 EPS estimate of $4.48 and a PNW-specific 17.5x target multiple based on an average sector multiple of 15.5x and a 2x turn premium to account for potential M&A.

Guggenheim's PNW EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.14A	1.10A	2.30A	0.37A	3.92A	
2016E	0.04A	1.08A	2.35A	0.45E	3.92E	3.96E
Prior				*0.31E*	*3.96E*	
2017E	0.06E	1.06E	2.49E	0.60E	4.22E	4.23E
Prior	*-0.01E*	*1.20E*	*2.46E*	*0.54E*	*4.18E*	
2018E	0.17E	1.08E	2.56E	0.66E	4.48E	4.44E
Prior	*0.10E*	*1.22E*	*2.57E*	*0.59E*	*4.48E*	
2019E	0.30E	1.11E	2.64E	0.72E	4.77E	4.64E
2020E	0.43E	1.15E	2.76E	0.79E	5.14E	4.80E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** Risks to our rating and valuation for Pinnacle West 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. In addition, for the upcoming rate case, the Arizona Corporate Commission can approve an allowed ROE below what we model.

  Upside risk to our fair value estimate include: (1) improved regulatory constructs; (2) higher CapEx outlook; (3) interest rates fall lower.

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PINNACLE WEST CAPITAL CORP.

CONSOLIDATED INCOME STATEMENT

($ milions)

	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenues																		
Arizona Public Service	$671	$891	$1,199	$734	$3,495	$677	$915	1,167	$757	$3,516	$699	$926	$1,232	$800	$3,657	$3,767	$3,879	$3,994
Marketing and Trading	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Real Estate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Operating Revenues	671	891	1,199	734	3,495	677	915	1,167	757	3,516	699	926	1,232	800	3,657	3,767	3,879	3,994
Fuel and purchased power	223	281	364	233	1,101	221	275	336	236	1,068	221	275	340	233	1,068	1,068	1,068	1,068
Fuel and PP - Non Regulated	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Margin	448	609	835	502	2,394	456	641	831	521	2,448	478	651	892	567	2,589	2,699	2,811	2,925
Operating Expenses																		
O&M	215	211	220	222	868	243	242	218	205	908	239	234	209	217	899	899	899	899
Real estate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Taxes other than income	43	43	43	42	172	43	42	41	44	170	44	46	45	46	181	187	193	200
Other expense / (income)	(4)	(6)	(1)	(1)	(13)	(6)	(6)	(5)	4	(13)	(3)	(3)	(3)	(3)	(13)	(13)	(13)	(13)
EBITDA	194	362	573	239	1,367	176	363	577	268	1,383	199	375	641	307	1,522	1,626	1,732	1,840
Depreciation & amortization	121	123	126	125	494	119	123	120	135	498	128	131	153	143	556	598	640	675
EBIT	73	239	447	114	873	57	239	456	133	885	71	243	488	164	966	1,028	1,092	1,165
Interest expense	44	44	46	45	179	46	48	47	48	188	53	53	53	53	213	230	244	254
EBT	29	195	402	69	694	11	192	409	85	697	18	190	435	111	753	798	848	911
Income taxes	8	67	140	23	238	2	66	141	29	238	6	66	152	39	264	279	297	319
Net Income	21	128	262	46	456	9	126	268	56	459	11	123	282	72	490	519	551	592
Discontinued Ops																		
Pref. Dividends & Minority Int.	5	5	5	5	19	5	5	5	5	20	5	5	5	5	20	20	20	20
Net Income Avail. to Common	16	123	257	41	437	4	121	263	50	439	6	118	277	67	470	499	531	572
Avg. Fully Diluted Shares	111.4	111.5	111.6	111.6	111.5	111.8	112.0	112.1	111.8	111.9	111.3	111.3	111.3	111.3	111.3	111.3	111.3	111.3
Operating EPS	$0.14	$1.10	$2.30	$0.37	$3.92	$0.04	$1.08	$2.35	$0.45	$3.92	$0.06	$1.06	$2.49	$0.60	$4.22	$4.48	$4.77	$5.14
Non Operating Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
GAAP Net Income	16	123	257	41	437	4	121	263	50	439	6	118	277	67	470	499	531	572
GAAP Diluted EPS	$0.14	$1.10	$2.30	$0.37	$3.92	$0.04	$1.08	$2.35	$0.45	$3.92	$0.06	$1.06	$2.49	$0.60	$4.22	$4.48	$4.77	$5.14

Source: Company reports; Guggenheim Securities, LLC estimates.

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PINNACLE WEST CAPITAL CORP.

($ milions)

	2015A	2016E	2017E	2018E	2019E	2020E
Cash Flow From Operations						
Net Income from continuing operations	456	439	470	499	531	572
Gain on disposals	-	-	-	-	-	-
Regulatory disallowance	-	-	-	-	-	-
Depr. and amort., incl. nuclear fuel	572	498	556	598	640	675
Deferred fuel and purch power	15	15	15	15	15	15
Deferred fuel and purch pwr amort	2	-	-	-	-	-
Deferred fuel and purc pwr reg dis	-	-	-	-	-	-
AFUDC	(35)	(15)	(15)	(15)	(15)	(15)
Real estate impairment change	-	-	-	-	-	-
Deferred taxes	237	237	237	237	237	237
Mark-to-market	-	-	-	-	-	-
Real estate expenditures	-	-	-	-	-	-
Other changes in r/e assets	-	-	-	-	-	-
Risk management assets, net	-	(111)	-	-	-	-
Change in unrecog tax benefits	-	-	-	-	-	-
Other	8	-	-	-	-	-
Changes in working capital, net	(160)	(19)	11	5	5	6
Cash Flow From Operations	**1,094**	**1,044**	**1,273**	**1,338**	**1,413**	**1,490**
Cash Flow From Investing						
Capital Expenditures	(1,076)	(1,233)	(1,337)	(1,124)	(1,124)	(1,124)
Contributions in aid of construction	47	-	-	-	-	-
Capitalized interest	(16)	(10)	(10)	(10)	(10)	(10)
Purchase of Sundance plant	-	-	-	-	-	-
Silverhawk sale proceeds	-	-	-	-	-	-
Sale of energy services business	-	-	-	-	-	-
Investment securities, net	-	-	-	-	-	-
Decommissioning trust, net	(17)	-	-	-	-	-
Commercial real estate sales proceeds	-	-	-	-	-	-
Other	(3)					
Cash Flow From Investing	**(1,066)**	**(1,243)**	**(1,347)**	**(1,134)**	**(1,134)**	**(1,134)**
Cash Flow From Financing						
Issuance of long-term debt	842	700	355	350	850	400
Repayment/retirement long-term debt	(416)	-	-	(50)	(600)	(250)
Short-term debt, net	(147)	-	75	30	30	30
Common stock issuance	19	-	-	-	-	-
Common stock dividends	(260)	(278)	(285)	(298)	(312)	(325)
Other	(35)	-	-	-	-	-
Cash Flow From Financing	**4**	**422**	**145**	**32**	**(32)**	**(145)**
Net change in cash	**32**	**223**	**71**	**235**	**247**	**211**
Beginning cash	8	39	262	333	569	816
Ending cash	**39**	**262**	**333**	**569**	**816**	**1,027**

Source: Company reports; Guggenheim Securities, LLC estimates.

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PINNACLE WEST CAPITAL CORP.

CONSOLIDATED BALANCE SHEET
($ milions)

	2015A	2016E	2017E	2018E	2019E	2020E
Current Assets						
Cash and equivalents	39	$262	$333	$569	$816	$1,027
Investment in debt securities	0	0	0	0	0	0
Customer and other receivables	275	300	312	321	331	341
Accrued revenues	96	102	106	109	112	116
Allowance for uncollectibles	(3)	(3)	(3)	(3)	(3)	(3)
Inventory	234	222	219	219	219	219
Fuel	46	34	34	34	34	34
Deferred income taxes	0	0	0	0	0	0
Home inventory	0	0	0	0	0	0
Risk management assets	16	0	0	0	0	0
Other	187	187	187	187	187	187
Current Assets	**891**	**1,104**	**1,189**	**1,437**	**1,697**	**1,921**
Property, Plant and Equipment						
Plant	16,222	17,480	18,842	19,991	21,140	22,289
Accumulated depreciation	(5,594)	(6,092)	(6,648)	(7,246)	(7,886)	(8,561)
Net PPE	10,628	11,388	12,194	12,745	13,254	13,728
CWIP	816	816	816	816	816	816
Intangible, net of accum. amortizatio	241	241	241	241	241	241
Nuclear fuel, net of accum. amort.	123	123	123	123	123	123
Total PPE	**11,809**	**12,569**	**13,375**	**13,926**	**14,435**	**14,909**
Investments and Other Assets						
Real estate, net	-	-	-	-	-	-
Long-term risk management	12	49	49	49	49	49
Nuclear decommissioning trust	735	735	735	735	735	735
Other	53	53	53	53	53	53
Deferred Debits						
Deferred fuel and purch power reg as	186	171	156	141	126	111
Other regulatory assets	1,214	1,214	1,214	1,214	1,214	1,214
Other deferred debits	129	129	129	129	129	129
Total Assets	**$15,028**	**$16,023**	**$16,899**	**$17,684**	**$18,438**	**$19,121**

Source: Company reports; Guggenheim Securities, LLC estimates.

PINNACLE WEST CAPITAL CORP.

	2015A	2016E	2017E	2018E	2019E	2020E
Current Liabilities						
Accounts payable	$297	$274	$273	$273	$273	$273
Accrued taxes	139	152	168	178	189	203
Accrued interest	56	53	60	65	69	72
Short-term debt	0	0	75	105	135	165
Current maturities of L/T debt	358	0	0	50	600	250
Customer deposits	73	73	76	78	81	83
Deferred taxes	0	0	0	0	0	0
Risk management liabilities	0	0	0	0	0	0
Other	519	519	519	519	519	519
Current Liabilities	**1,442**	**1,072**	**1,172**	**1,269**	**1,866**	**1,566**
Long-term debt	3,462	4,520	4,875	5,125	4,825	5,325
Deferred taxes	2,723	2,960	3,197	3,434	3,671	3,908
Regulatory liabilities	994	994	994	994	994	994
Asset retirement liabilities	415	415	415	415	415	415
Pensions, OPRB liabilities	481	481	481	481	481	481
Risk management liabilities	90	-	-	-	-	-
Other	701	701	701	701	701	701
Total Liabilities	**10,309**	**11,143**	**11,835**	**12,419**	**12,953**	**13,389**
Minority interest	136	136	136	136	136	136
Preferred stock	-	-	-	-	-	-
Common stock	4,584	4,745	4,929	5,130	5,349	5,596
Total Equity	**4,719**	**4,880**	**5,065**	**5,265**	**5,485**	**5,732**
Total Liabilities & Equity	**$15,028**	**$16,023**	**$16,899**	**$17,684**	**$18,438**	**$19,121**

Source: Company reports; Guggenheim Securities, LLC estimates.

PORTLAND GENERAL ELECTRIC CO. (POR, NEUTRAL, $43.48)

IRP approval, Carty, RFPs for generation and growth execution is key.

- **We are maintaining our NEUTRAL rating and lowering our fair value/share estimate to $39 for POR.** PORs 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. **POR is in a generally constructive policy environment with forward test years, rate mechanisms including partial decoupling, PCAM, RAC but the current yield environment appears to us to be fully reflected in the share price.**
- **We are introducing estimates for 2019 and 2020 of $2.59/$2.64 versus street consensus of $2.61/$2.75.** This outlook captures the consistent growth profile of AVA's utilities, declining CAPEX profile ('19/'20 of $294mm/$303mm), ROEs of ~9.5%, modest customer/volume growth assumptions etc.
- **Our updated 2016/2017/2018 EPS estimates are $2.18/$2.38/$2.50 vs. consensus estimate of $2.12/$2.34/$2.49.** Our outlook for POR consists of ~5% annual earnings growth through our trajectory — declining CAPEX profile leaves very modest rate base growth but this could improve as spending around the Clean Energy Plan emerges — final IRP should provide visibility. We model ~3% rate base growth and assume a reduction in lag from current 130bps, with cost recovery around Carty generation; we model earned ROEs of 9.3% 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 in January 2018 at the earliest. Note, until litigation is resolved around Carty's incremental cost recovery, the company will have some lag from higher depreciation and interest cost.
- **2017 - Multi-year rate case cycle slowing down; RFP issuance is the potential catalyst to watch.** We assume POR's next rate filing will take place in 2017 with new rates effective in '18 as management seeks to recover incremental costs assumed for the Carty generation station. More specifically, the filing will seek to recover the overage at Carty ($635-$670mm) vs. $514mm in costs approved by the commission and already in rates. 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. The company expects OPUC acknowledgment of its 2016 IRP by 1H2017; the RFPs, as a result of the IRP, could be filed sometime in 2H2017 with approvals by 2018. 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. 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.

- **Valuation: We value POR as a regulated utility, arriving at our $39 FV/share estimate using our regulated group multiple.** We apply our 15.5x regulated group multiple, which is derived from our bond regression analysis to our 2018 EPS estimate of $2.50 to arrive at our $39 FV/share estimate. Incorporating our anticipated 3.0% dividend yield, we estimate a ~7.3% ETR based on our $39 FV/ share estimate – **POR shares trade at a premium to its electric counterparts**.

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	0.69E	2.18E	2.12E
Prior				*0.70E*	*2.18E*	
2017E	0.82E	0.35E	0.24E	0.97E	2.38E	2.34E
Prior	*0.80E*	*0.35E*	*0.24E*	*0.96E*	*2.35E*	
2018E	0.87E	0.37E	0.25E	1.01E	2.50E	2.49E
Prior	*0.86E*	*0.37E*	*0.25E*	*1.00E*	*2.47E*	
2019E	0.91E	0.39E	0.26E	1.03E	2.59E	2.61E
2020E	0.93E	0.40E	0.26E	1.05E	2.64E	2.75E

Source: Company reports; Guggenheim Securities, LLC estimates.

- **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.

SECTOR: **POWER AND UTILITIES** **January 9, 2017**

GUGGENHEIM

PORTLAND GENERAL ELECTRIC COMPANY

INCOME STATEMENT ($millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Revenue	473	450	476	499	**1,898**	487	428	464	570	**1,969**	616	470	446	701	2,234	2,353	2,394	2,403
Purchased power and fuel	161	148	161	171	**661**	149	126	160	187	**642**	200	155	151	232	739	778	792	795
Generation, transmission and distribution	62	66	64	74	**266**	65	64	69	82	**281**	88	58	64	101	321	338	344	345
Administrative and other	60	60	59	62	**241**	61	51	63	74	**259**	81	53	59	93	296	312	317	318
Depreciation and amortization	75	76	76	78	**305**	82	83	79	79	**323**	79	80	82	83	324	338	340	337
Taxes other than income taxes	30	28	28	30	**116**	30	30	29	29	**118**	29	30	30	30	119	124	125	124
Total Operating Expenses	388	378	408	415	**1,589**	388	364	420	452	**1,624**	478	396	386	538	1,798	1,890	1,918	1,919
OPERATING INCOME	**85**	**72**	**68**	**84**	**309**	**99**	**64**	**64**	**118**	**345**	**138**	**74**	**61**	**163**	**435**	**464**	**476**	**484**
% Operating Margin	18%	16%	14%	17%	**16%**	20%	15%	13%	21%	**18%**	22%	16%	14%	23%	19%	20%	20%	20%
EBITDA	***165***	***154***	***148***	***169***	***636***	***187***	***156***	***147***	***202***	***692***	***220***	***160***	***146***	***250***	***776***	***818***	***833***	***838***
EBIT	***90***	***78***	***72***	***91***	***331***	***105***	***73***	***68***	***123***	***369***	***141***	***79***	***65***	***168***	***452***	***481***	***493***	***501***
Interest expense	**30**	**28**	**28**	**28**	**114**	27	27	28	28	**110**	30	31	32	35	127	140	140	140
Other income:																		
AFUDC	4	5	6	6	**21**	7	8	4	4	23	4	4	4	4	16	16	16	16
Misc. income (expense)	1	1	(2)	1	**1**	(1)	1	0	1	1	(1)	1	0	1	1	1	1	1
Other income	5	6	4	7	**22**	6	9	4	5	**24**	3	5	4	5	17	17	17	17
Income before income tax expense	60	50	44	63	**217**	78	46	40	95	**259**	111	48	33	133	**325**	**341**	**353**	**361**
Income tax expense	10	15	8	12	**45**	17	9	6	33	**65**	39	17	11	46	**114**	**119**	**124**	**126**
Net Income	**50**	**35**	**36**	**51**	**172**	61	37	34	62	**194**	72	31	21	86	211	222	230	235
Weighted-average shares outstanding (in thousands)	81	81	89	86	**84**	89	88	89	88	**89**	89	88	89	89	89	89	89	89
EPS	0.62	0.44	0.40	0.58	**$2.04**	0.69	0.42	0.38	0.69	**$2.18**	0.82	0.35	0.24	0.97	**$2.38**	**$2.50**	**$2.59**	**$2.64**

Source: Company reports; Guggenheim Securities, LLC estimates.

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PORTLAND GENERAL ELECTRIC COMPANY

CASH FLOW STATEMENT ($millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Net Income	50	35	36	51	172	61	37	34	62	194	72	31	21	86	211	222	230	235
Depreciation and amortization	75	76	76	78	305	82	83	79	79	323	79	80	82	83	324	338	340	337
(Decrease) increase in net liabilities from price risk management	53	10	8	(11)	60	2	(48)	(13)	0	(59)	0	0	0	0	0	0	0	0
Regulatory deferrals—price risk management activities	(53)	(10)	(8)	11	(60)	(2)	48	13	0	59	0	0	0	0	0	0	0	0
Deferred income taxes	10	12	9	9	40	14	6	(2)	0	18	0	0	0	0	0	0	0	0
Pension and other postretirement benefits	9	10	6	9	34	7	7	7	0	21	0	0	0	0	0	0	0	0
Allowance for equity funds used during construction	(4)	(5)	(6)	(6)	(21)	(7)	(6)	(4)	0	(19)	0	0	0	0	0	0	0	0
Other non-cash income and expenses, net	5	8	8	(2)	17	4	5	(1)	0	8	0	0	0	0	0	0	0	0
Changes in Assets & Liabilities:																		
Decrease in accounts receivable and unbilled revenues	37	(5)	5	(48)	(11)	46	13	(6)	(25)	28	(13)	42	7	(74)	(38)	(6)	(2)	(2)
Increase in inventories	(13)	(6)	7	0	0	1	(5)	5	(9)	(8)	(19)	3	38	(44)	(22)	(3)	(1)	(1)
Decrease (increase) in margin deposits, net	(9)	(8)	8	(13)	(22)	(7)	25	7	0	25	0	0	0	0	0	0	0	0
Decrease in accounts payable and accrued liabilities	(1)	(21)	35	(7)	6	(11)	(2)	44	7	38	62	(58)	(42)	112	74	13	4	2
Other working capital items, net	(20)	27	8	(19)	(4)	(16)	22	6	0	12	0	0	0	0	0	0	0	0
Other - net	(5)	(9)	(1)	26	1	(13)	(6)	(10)	0	(29)	0	0	0	0	0	0	0	0
Net Operating Cash Flows	134	114	191	78	517	161	177	159	114	611	181	99	106	164	550	564	570	572
Capital Expenditures	(178)	(135)	(139)	(146)	(598)	(131)	(188)	(135)	(150)	(604)	(145)	(145)	(145)	(145)	(578)	(427)	(294)	(303)
Other - net	11	64	0	1	76	(2)	2	0	0	0	0	0	0	0	0	0	0	0
Net Investing Cash Flows	(167)	(71)	(139)	(145)	(522)	(133)	(186)	(135)	(150)	(604)	(145)	(145)	(145)	(145)	(578)	(427)	(294)	(303)
Equity issuance	271	0	0	0	271	0	0	0	0	0	0	0	0	0	0	0	0	0
LT debt issued	75	70	0	0	145	140	125	0	25	290	100	100	100	100	400	0	0	0
LT debt payments	(120)	(267)	(55)	0	(442)	(133)	0	0	0	(133)	0	0	0	150	150	0	0	0
Change in short-term debt	0	0	0	0	0	(6)	0	0	0	(6)	0	0	0	0	0	0	0	0
Dividends paid	(22)	(22)	(26)	(27)	(97)	(27)	(26)	(29)	(27)	(109)	(28)	(30)	(30)	(28)	(117)	(124)	(131)	(139)
Other - net	(271)	271	(1)	6	5	(2)	(1)	0	0	(3)	0	0	0	0	0	0	0	0
Net Financing Cash Flow	(67)	52	(82)	(21)	(118)	(28)	98	(29)	(2)	39	72	70	70	222	433	(124)	(131)	(139)
Beginning Cash Balance	127	27	122	92	127	4	4	93	88	4	50	159	183	214	50	455	468	614
Net Change in Cash +/-	(100)	95	(30)	(88)	(123)	0	89	(5)	(38)	46	109	24	31	241	406	13	145	130
Ending Cash Balance	27	122	92	4	4	4	93	88	50	50	159	183	214	455	455	468	614	743

Source: Company reports; Guggenheim Securities, LLC estimates.

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PORTLAND GENERAL ELECTRIC COMPANY

CONSOLIDATED BALANCE SHEET ($millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Assets:																		
Cash and cash equivalents	27	122	92	4	**4**	4	93	88	50	**50**	159	163	214	455	**455**	468	614	743
Accounts receivable, net	129	122	133	158	**158**	130	124	140	165	**165**	178	136	129	203	**203**	208	211	212
Unbilled revenues	75	87	72	95	**95**	77	70	60	60	**60**	60	60	60	60	**60**	60	60	60
Inventories	95	101	94	83	**83**	82	87	82	91	**91**	110	107	99	113	**113**	116	117	118
Regulatory assets—current	125	117	122	129	**129**	131	74	65	65	**65**	65	65	65	65	**65**	65	65	65
Other current assets	133	97	92	88	**88**	113	64	41	41	**41**	41	41	41	41	**41**	41	41	41
Electric utility plant, net	5,789	5,874	5,920	6,012	**6,012**	6,169	6,284	6,340	6,411	**6,411**	6,476	6,540	6,603	6,665	**6,665**	6,754	6,708	6,673
Regulatory assets—noncurrent	545	552	547	524	**524**	526	525	515	515	**515**	515	515	515	515	**515**	515	515	515
Nuclear decommissioning trust	90	40	40	40	**40**	41	41	41	41	**41**	41	41	41	41	**41**	41	41	41
Non-qualified benefit plan trust	34	35	33	33	**33**	32	33	34	34	**34**	34	34	34	34	**34**	34	34	34
Other LT Assets	49	51	52	44	**44**	48	51	49	49	**49**	49	49	49	49	**49**	49	49	49
Total Assets	7,091	7,198	7,197	7,210	**7,210**	7,344	7,446	7,455	7,522	**7,522**	7,728	7,772	7,820	8,241	**8,241**	8,352	8,454	8,552
Liabilities:																		
Accounts payable	137	125	96	98	**98**	98	114	112	107	**107**	121	124	103	127	**127**	131	132	132
Liabilities from price risk management activities—current	107	101	115	130	**130**	142	81	66	66	**66**	66	66	66	66	**66**	66	66	66
Current portion of long-term debt	322	55	-	133	**133**	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-
Accrued expenses and other current liabilities	243	228	254	259	**259**	268	247	270	282	**282**	330	269	248	336	**336**	345	348	350
Long-term debt, net of current portion	2,134	2,204	2,204	2,060	**2,060**	2,199	2,324	2,325	2,350	**2,350**	2,450	2,550	2,650	2,900	**2,900**	2,900	2,900	2,900
Regulatory liabilities—noncurrent	911	923	939	928	**928**	938	949	958	958	**958**	958	958	958	958	**958**	958	958	958
Deferred income taxes	636	648	664	632	**632**	646	649	644	644	**644**	644	644	644	644	**644**	644	644	644
Unfunded status of pension and postretirement plans	239	243	246	259	**259**	261	264	267	267	**267**	267	267	267	267	**267**	267	267	267
Liabilities from price risk management activities—noncurrent	176	187	184	161	**161**	161	171	163	163	**163**	163	163	163	163	**163**	163	163	163
Asset retirement obligations	119	135	137	151	**151**	152	155	156	156	**156**	156	156	156	156	**156**	156	156	156
Non-qualified benefit plan liabilities	106	105	105	106	**106**	106	106	105	105	**105**	105	105	105	105	**105**	105	105	105
Other noncurrent liabilities	22	23	21	35	**35**	82	83	79	79	**79**	79	79	79	79	**79**	79	79	79
Total Liabilities	5,152	4,977	4,965	4,952	**4,952**	5,053	5,143	5,145	5,177	**5,177**	5,339	5,381	5,439	5,801	**5,801**	5,814	5,818	5,820
Noncontrolling interests' equity	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-
Common Stock	918	1,191	1,193	1,196	**1,196**	1,195	1,198	1,199	1,199	**1,199**	1,199	1,199	1,199	1,199	**1,199**	1,199	1,199	1,199
Accumulated other comprehensive loss	(7)	(7)	(7)	(8)	**(8)**	(8)	(8)	(7)	(7)	**(7)**	(7)	(7)	(7)	(7)	**(7)**	(7)	(7)	(7)
Retained earnings	1,028	1,037	1,046	1,070	**1,070**	1,104	1,113	1,118	1,153	**1,153**	1,187	1,199	1,190	1,248	**1,248**	1,346	1,444	1,540
Total Liabilities & Shareholders Equity	7,091	7,198	7,197	7,210	**7,210**	7,344	7,446	7,455	7,522	**7,522**	7,728	7,772	7,820	8,241	**8,241**	8,352	8,454	8,552

Source: Company reports; Guggenheim Securities, LLC estimates.

PPL CORP (PPL, NEUTRAL, $34.30)

2017 could be a defining year with much better earnings visibility with rate case and currency hedging; balance sheet in somewhat better stance.

- **Maintaining our Neutral stance on PPL – Managing FX exposure, although still somewhat of a currency call, in our view, as we look beyond 2018; let's see how far management can roll hedges forward.** We remain on the sidelines with PPL despite what we consider to be two premium utility franchises in the U.S. and UK, each in its own right, as UK performance isn't translating back to earnings as well since Brexit and the ensuing FX deterioration. Management has been very actively managing its exposure since the fall-out by rolling in-the-money hedges forward, although investors continue to look beyond 2018 to open currency exposure; we expect PPL will continue pushing hedged value out through the end of the decade this year to restore more confidence and visibility, although likely won't be out of the penalty box in the NT until much needed visibility comes to light with rates case and hedge program. **Good story, strong management – 2017 could present good opportunities for entry.**
- **Introducing 2019 and 2020 estimates of $2.39/$2.50 vs. consensus $2.41/$2.53.** We are introducing estimates of $2.39 and $2.50 for 2019 and 2020 based on average annual investment of $3bn across PPL's utilities, which supports ~5% rate annual base growth through 2020 (6% in PA, 4% KY, 5% UK); we model utility rate base earnings using 10% ROEs in KY (based on limited-issue ROEs recently authorized for environmental investments) vs. PPL's 10.2% request, 10.5-11.0% ROEs in PA assuming 11.68-12.93% ROEs authorized for transmission are diluted by lower distribution returns (last stated ROE was 10.4% in 2012), and in line with management's expectation of 12-14% in the UK with performance incentives and additional leverage. Our 5% earnings growth from 2017E through 2020E is in line with management's 5-6% outlook over the same period.
- **Updating our 2016/2017/2018 estimates to $2.40/$2.15/$2.32 vs. consensus estimates of $2.37/$2.16/$2.31.** We are maintaining our 2016 estimate of $2.40, while our lower 2017 estimate reflects some lag in KY until new rates go into effect mid-year, and 10.0% ROEs consistent with returns recently approved for environmental investment in KY (slightly below PPL's 10.23% request). Our 2018 estimate is higher with a full-year of new rates in KY.
- **2017 could be defining year for visibility over the next few years; management looks to execute on key rate case and currency hedging beyond '18.** Currency exposure has been largely removed through 2018, although we look forward to seeing how much hedged value PPL can roll forward to cover open positions through the end of the decade as we extend our outlook to 2020 – Likely an update mid-2017 following resolution of KY rate cases. This could be a key turning point with shares. PPL continues to minimize currency risk by reducing exposure to the GBP with hedges; now hedged for 2016/17/18 at 91%/94%/93%, management has been identifying in-the-money hedges that it can roll forward ($0.06 into 2018, $0.12 into 2019). PPL can roll hedge gains in 2020 with GBP/USD near $1.30; hedge 100% of its exposure and stay within plan at $1.20 (GBP/USD), 73% at $1.15 (GBP/USD) - Good data points to follow for when to expect PPL to roll more hedges forward, and 2019/20 update will likely happen mid-2017 following KY rate case resolution. PPL's U.S. and UK utilities are both premium franchises with top management teams, in our view, but a sum-of-the-parts just won't add up as traditional utility investors discount the aforementioned complexity.

- **Valuation:** We apply our 15.5x regulated utility target multiple to our 2018 EPS estimate of $2.32 to arrive at a fair value estimate of $36.

Guggenheim's PPL EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.78A	0.49A	0.52A	0.43A	2.21A	
2016E	0.67A	0.56A	0.63A	0.54E	2.40E	2.37E
Prior				*0.54E*	*2.40E*	
2017E	0.56E	0.50E	0.64E	0.46E	2.15E	2.16E
Prior	*0.60E*	*0.50E*	*0.58E*	*0.52E*	*2.20E*	
2018E	0.62E	0.54E	0.67E	0.48E	2.32E	2.31E
Prior	*0.63E*	*0.52E*	*0.60E*	*0.53E*	*2.28E*	
2019E	0.64E	0.55E	0.69E	0.50E	2.39E	2.41E
2020E	0.67E	0.58E	0.72E	0.53E	2.50E	2.53E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** PPL's UK segment performance, now accounting for a greater majority of consolidated results, can be impacted by fluctuations on FX rates between USD/GBP as well as potential deterioration in regulatory construct and actions outside of the U.S. Outside of the UK segment, risks to estimates for PPL Corp mainly encompass traditional risk factors inherent with all electric and gas 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 include an (1) improving outlook for the UK economy, (2) improved capital flows and (3) strengthening of the GBP above our estimates.

GUGGENHEIM

PPL MODEL

CONSOLIDATED FINANCIALS

INCOME STATEMENT ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenues																		
Utility	2,230	1,765	1,878	1,777	7,650	2,011	1,785	1,889	2,059	7,744	2,067	1,904	2,111	1,974	8,055	8,354	8,516	8,758
Unregulated retail electric and gas	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Wholesale Energy Marketing																		
Realized	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unrealized Economic Activity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Energy Trading Margins	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Energy-related Businesses	0	16	0	0	16	0	0	0	46	46	12	12	12	12	46	46	46	46
Total Operating Revenues	**2,230**	**1,781**	**1,878**	**1,777**	**7,666**	**2,011**	**1,785**	**1,889**	**2,105**	**7,790**	**2,078**	**1,916**	**2,122**	**1,985**	**8,101**	**8,400**	**8,562**	**8,804**
Operating Expenses																		
Operation																		
Fuel	(253)	(214)	(228)	(168)	(863)	(197)	(183)	(227)	(291)	(898)	(292)	(259)	(301)	(291)	(1,143)	(1,143)	(1,143)	(1,143)
Energy Purchases																		
Realized	(329)	(170)	(177)	(179)	(855)	(233)	(147)	(151)	(172)	(703)	(169)	(119)	(130)	(174)	(592)	(598)	(604)	(610)
Unrealized Economic Activity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other O&M	(456)	(454)	(482)	(546)	(1,938)	(450)	(425)	(417)	(584)	(1,876)	(477)	(466)	(466)	(492)	(1,900)	(1,923)	(1,946)	(1,969)
Depreciation	(216)	(216)	(226)	(225)	(883)	(229)	(231)	(232)	(258)	(950)	(243)	(244)	(246)	(247)	(979)	(1,031)	(1,086)	(1,145)
Taxes, other than income	(86)	(76)	(79)	(58)	(299)	(79)	(74)	(76)	(67)	(296)	(82)	(78)	(81)	(60)	(302)	(307)	(311)	(316)
Energy-related Businesses	0	(13)	0	13	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Operating Expenses	**(1,340)**	**(1,143)**	**(1,192)**	**(1,163)**	**(4,838)**	**(1,188)**	**(1,060)**	**(1,103)**	**(1,371)**	**(4,722)**	**(1,263)**	**(1,166)**	**(1,224)**	**(1,264)**	**(4,917)**	**(5,002)**	**(5,089)**	**(5,183)**
Operating Income	**890**	**638**	**686**	**614**	**2,828**	**823**	**725**	**786**	**733**	**3,067**	**816**	**750**	**898**	**721**	**3,185**	**3,398**	**3,472**	**3,621**
Other Income (Expense)	88	(102)	75	47	108	61	174	49	(16)	268	(60)	(58)	(59)	(60)	(235)	(235)	(210)	(210)
Other-than-temporary Impairments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest Expense	(209)	(215)	(221)	(226)	(871)	(224)	(224)	(223)	(227)	(898)	(218)	(220)	(222)	(233)	(893)	(932)	(958)	(984)
AFUDC	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EBT	**769**	**321**	**540**	**435**	**2,065**	**660**	**675**	**612**	**490**	**2,437**	**538**	**472**	**617**	**429**	**2,057**	**2,232**	**2,304**	**2,427**
Taxes	(217)	(71)	(144)	(33)	(465)	(179)	(192)	(139)	(126)	(636)	(157)	(131)	(181)	(117)	(585)	(639)	(658)	(697)
Income (loss) from Disc. Ops	95	(1,007)	(3)	(6)	(921)	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	647	(757)	393	396	679	481	483	473	365	1,802	381	342	436	313	1,471	1,592	1,646	1,731
Net Income Attributable to Noncontrolling Interests	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income Attributable to PPL	**647**	**(757)**	**393**	**396**	**679**	**481**	**483**	**473**	**365**	**1,802**	**381**	**342**	**436**	**313**	**1,471**	**1,592**	**1,646**	**1,731**
Adjustments to Net Income																		
Energy-related Economic Activity					0					0	0	0	0	0	0	0	0	0
Foreign Currency Adjustments	37	(71)	54	35	55	24	104	9	0	137	0	0	0	0	0	0	0	0
Acquisition-related Costs	2	(1,021)	(1)	77	(943)	0	0	0	0	0	0	0	0	0	0	0	0	0
Litigation Costs	0			0	0	0				0	0	0	0	0	0	0	0	0
Other	89	6	(7)	(7)	81	(1)	(1)	37	0	35	0	0	0	0	0	0	0	0
Total Adjustments	128	(1,086)	46	105	(807)	23	103	46	0	172	0	0	0	0	0	0	0	0
Adjusted Net Income	519	329	347	291	1486	458	380	427	365	1630	381	342	436	313	1471	1592	1646	1731
					-9%					*10%*					*-10%*	*8%*	*3%*	*5%*
Adjusted EPS - Basic	$0.78	$0.49	$0.52	$0.43	**$2.22**	$0.68	$0.56	$0.63	$0.54	**$2.41**	$0.56	$0.50	$0.64	$0.46	**$2.17**	**$2.34**	**$2.41**	**$2.52**
Adjusted EPS - Diluted	$0.78	$0.49	$0.52	$0.43	**$2.21**	$0.67	$0.56	$0.63	$0.54	**$2.40**	$0.56	$0.50	$0.64	$0.46	**$2.15**	**$2.32**	**$2.39**	**$2.50**
Reported EPS - Basic	$0.97	($1.13)	$0.59	$0.59	**$1.01**	**$0.71**	**$0.71**	**$0.70**	**$0.54**	**$2.66**	**$0.56**	**$0.50**	**$0.64**	**$0.46**	**$2.17**	**$2.34**	**$2.41**	**$2.52**
Reported EPS - Diluted	$0.97	($1.13)	$0.58	$0.59	**$1.01**	**$0.71**	**$0.71**	**$0.70**	**$0.54**	**$2.65**	**$0.56**	**$0.50**	**$0.64**	**$0.46**	**$2.15**	**$2.32**	**$2.39**	**$2.50**

Source: Company reports; Guggenheim Securities, LLC estimates.

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PPL MODEL

CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Cash Flows from Operating Activities																		
Net Income	647	(757)	393	396	679	481	483	473	365	1,802	381	342	436	313	1,471	1,592	1,646	1,731
(Income) loss from discontinued operations (net of ir	(95)	1,007	0	(912)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income from continuing operations (net of income taxe	552	250	393	(516)	679	481	483	473	365	1,802	381	342	436	313	1,471	1,592	1,646	1,731
Adjustments:					0					0					0	0	0	0
Depreciation	216	216	226	225	883	229	231	232	258	950	243	244	246	247	979	1,031	1,086	1,145
Amortization	11	16	19	13	59	18	19	17	0	54	0	0	0	0	0	0	0	0
Defined Benefit Plans - Expense	16	16	12	12	56	(13)	(11)	(5)	0	(29)	0	0	0	0	0	0	0	0
Deferred Income Taxes and ITCs	111	145	103	69	428	162	158	116	136	572	166	140	191	126	623	681	702	745
Impairment of Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unrealized (gains) Losses on Derivatives/Hedging	(52)	114	(79)	(60)	(77)	(34)	(158)	299	0	107	0	0	0	0	0	0	0	0
Other	11	38	(14)	(18)	17	8	(1)	4	0	11	0	0	0	0	0	0	0	0
Working Capital																		
Accounts Receivable	(128)	54	69	52	47	(62)	78	(45)	0	(29)	0	0	0	0	0	0	0	0
Accounts Payable	(49)	(34)	(97)	64	(116)	(43)	4	(1)	0	(40)	0	0	0	0	0	0	0	0
Unbilled Revenues	34	45	12	(37)	54	18	(20)	34	0	32	0	0	0	0	0	0	0	0
Prepayments	(115)	54	18	20	(23)	(86)	20	32	0	(34)	0	0	0	0	0	0	0	0
Counterparty Collaterals	0	0	0	0	0	0	76	(76)	0	0	0	0	0	0	0	0	0	0
Taxes	14	(143)	(13)	125	(17)	15	7	18	0	40	0	0	0	0	0	0	0	0
Regulatory Assets and Liabilities, net	0	0	46	(46)	0	0	0	(32)	0	(32)	0	0	0	0	0	0	0	0
Accrued Interest	0	(87)	87	0	0	0	(85)	85	0	0	0	0	0	0	0	0	0	0
Other	(15)	(63)	48	129	99	(23)	(24)	34	0	(13)	0	0	0	0	0	0	0	0
Other Operating Activities										0					0	0	0	0
Definited Benefit Plans - funding	(197)	(92)	(107)	(103)	(499)	(123)	(101)	(121)	0	(345)	0	0	0	0	0	0	0	0
Other Assets	(6)	(23)	(13)	23	(19)	(5)	7	16	0	18	0	0	0	0	0	0	0	0
Other Liabilities	49	12	8	975	1,044	15	(70)	(20)	0	(75)	0	0	0	0	0	0	0	0
Net cash provided by operating activities - contin	**452**	**518**	**718**	**927**	**2,615**	**557**	**613**	**1,060**	**768**	**2,988**	**790**	**726**	**872**	**686**	**3,074**	**3,304**	**3,434**	**3,621**
Net cash provided by operating activities - discontin	221	122	0	(343)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Cash Flows from Operating Activities	**673**	**640**	**718**	**584**	**2,615**	**557**	**613**	**1,060**	**768**	**2,988**	**790**	**726**	**872**	**686**	**3,074**	**3,304**	**3,434**	**3,621**
Cash Flows from Investing Activities																		
Expenditures for PPE	(833)	(846)	(881)	(973)	(3,533)	(656)	(690)	(727)	(1,046)	(3,119)	(780)	(780)	(780)	(780)	(3,120)	(3,090)	(3,030)	(3,150)
Proceeds from Asset Sales	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchases of Nuclear Plant Decommissioning Trust In	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Proceeds from Sale of Nuclear Plant Decommissiong	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Proceeds from Sale of Other Investments	(15)	150	1	0	136	0	0	2	0	2	0	0	0	0	0	0	0	0
Net (increase) Decrease in Restricted Cash	0	8	(8)	8	8	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Investing Activities	(12)	(27)	0	(160)	(199)	(5)	4	6	0	5	0	0	0	0	0	0	0	0
Net cash provided by (used in) investing activities	**(860)**	**(715)**	**(888)**	**(1,125)**	**(3,588)**	**(661)**	**(686)**	**(719)**	(1,046)	(3,112)	(780)	(780)	(780)	(780)	(3,120)	(3,090)	(3,030)	(3,150)
Net cash provided by (used in) investing activities - c	(130)	(19)	0	149	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Cash Flows Used in Investing Activities	**(990)**	**(734)**	**(888)**	**(976)**	**(3,588)**	**(661)**	**(686)**	**(719)**	**(1,046)**	**(3,112)**	**(780)**	**(780)**	**(780)**	**(780)**	**(3,120)**	**(3,090)**	**(3,030)**	**(3,150)**
Cash Flows from Financing Activities																		
Issuance of Long-term Debt, net	0	88	1,049	1,099	2,236	224	796	221	318	1,559	219	222	189	185	815	745	728	681
Retirement of Long-term Debt	0	0	0	(1,000)	(1,000)	(224)	(414)	(267)	0	(905)	0	0	0	0	0	0	0	0
Issuance (Repurchase) of Common Stock	35	48	62	58	203	42	34	57	25	158	25	25	25	25	100	100	100	100
Payment of Common Stock Dividends	(250)	(250)	(250)	(254)	(1,004)	(255)	(258)	(259)	(259)	(1,031)	(261)	(264)	(267)	(270)	(1,063)	(1,105)	(1,150)	(1,202)
Redemption of Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt Issuance and Credit Facility Costs	0	0	0	0	0	0	0	46	0	46	0	0	0	0	0	0	0	0
Net Increase (decrease) in Short-term Debt	163	113	(547)	365	94	351	(417)	(202)	0	(268)	0	20	0	20	40	40	40	40
Other Financing	(14)	(4)	(12)	(17)	(47)	(23)	(8)	(2)	0	(33)	0	0	0	0	0	0	0	0
Cash From (To) Subs	0	0	0	(414)	(414)	0	0	0	0	0	0	0	0	0	0	0	0	0
Net cash provided by (used in) financing activitie	**(66)**	**(5)**	**302**	**(163)**	**68**	**115**	**(267)**	**(406)**	84	(474)	(17)	3	(53)	(41)	(109)	(220)	(283)	(381)
Net cash provided by (used in) financing activities - dis	(222)	(324)	0	546	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net cash distributions to parent from discontinued ope	191	(59)	0	(132)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Cash Flows from (used in) Financing Activities	**(97)**	**(388)**	**302**	**251**	**68**	**115**	**(267)**	**(406)**	**84**	**(474)**	**(17)**	**3**	**(53)**	**(41)**	**(109)**	**(220)**	**(283)**	**(381)**
Effect of FX Rates	(2)	(7)	3	(4)	(10)	(33)	18	(11)	0	(26)	0	0	0	0	0	0	0	0
Net (Increase) Decrease in Cash and Cash Equivalents i	131	0	221	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in Cash and Cash Equivalents	(285)	(489)	356	(145)	(915)	(22)	(322)	(76)	(203)	(623)	(8)	(52)	39	(135)	(155)	(6)	122	90
Cash and Cash Equivalents at Beginning of Period	1,399	1,114	625	981	1,399	836	814	492	416	836	213	205	153	192	213	58	52	173
Cash and Cash Equivalents at End of Period	**1,114**	**626**	**981**	**836**	**484**	**814**	**492**	**416**	**213**	**213**	**205**	**153**	**192**	**58**	**58**	**52**	**173**	**263**

Source: Company reports; Guggenheim Securities, LLC estimates.

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CONSOLIDATED FINANCIALS

BALANCE SHEET ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Current Assets																		
Cash and Cash Equivalents	1,114	625	981	836	836	814	492	416	213	213	205	153	192	58	58	52	173	263
Short-term Investments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Restricted Cash	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Accounts Receivable																		
Customer	1,104	737	713	673	673	727	667	687	687	687	687	687	687	687	687	687	687	687
Other	127	106	64	59	59	50	44	45	45	45	45	45	45	45	45	45	45	45
Unbilled Revenues	621	431	421	453	453	419	447	393	393	393	393	393	393	393	393	393	393	393
Fuel, materials and supplies	687	315	321	357	357	332	336	346	346	346	346	346	346	346	346	346	346	346
Prepayments	168	136	86	66	66	150	131	97	97	97	97	97	97	97	97	97	97	97
Price Risk Management Assets	1,119	0	0	139	139	183	200	78	78	78	78	78	78	78	78	78	78	78
Other Intangibles	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Assets Held for Sale	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Regulatory Assets	23	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Current Assets	736	520	404	63	63	38	43	37	37	37	37	37	37	37	37	37	37	37
Total Current Assets	**5,699**	**2,870**	**2,990**	**2,646**	**2,646**	**2,713**	**2,360**	**2,099**	**1,896**	**1,896**	**1,888**	**1,836**	**1,875**	**1,741**	**1,741**	**1,735**	**1,856**	**1,946**
Investments																		
Nuclear Plant Decommissioning Trust Funds	965	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Investments	34	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Investments	999	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Property, Plant and Equipment																		
Regulated Utility Plant	30,852	32,990	33,752	34,399	34,399	33,849	35,226	34,427	35,473	35,473	36,253	37,033	37,813	38,593	38,593	41,683	44,713	47,863
Less: Accumulated Depreciation	(5,413)	(5,480)	(5,632)	(5,683)	(5,683)	(5,731)	(5,966)	(5,938)	(6,196)	(6,196)	(6,439)	(6,683)	(6,928)	(7,175)	(7,175)	(8,206)	(9,292)	(10,437)
Regulated Utility Plant, net	25,439	27,510	28,120	28,716	28,716	28,118	29,260	28,489	29,277	29,277	29,814	30,350	30,885	31,418	31,418	33,477	35,421	37,426
Non-regulated Property, Plant and Equipment																		
Generation	11,309	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Nuclear Fuel	749	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	893	537	534	516	516	476	491	451	451	451	451	451	451	451	451	451	451	451
Less: Accumulated Depcreciation	(6,516)	(168)	(170)	(165)	(165)	(144)	(157)	(155)	(155)	(155)	(155)	(155)	(155)	(155)	(155)	(155)	(155)	(155)
Non-regulated Property, Plant and Equipment, net	6,435	369	364	351	351	332	334	296	296	296	296	296	296	296	296	296	296	296
CWIP	3,085	1,339	1,478	1,315	1,315	1,382	1,200	1,184	1,184	1,184	1,184	1,184	1,184	1,184	1,184	1,184	1,184	1,184
Property Plant and Equipment, net	**34,959**	**29,218**	**29,962**	**30,382**	**30,382**	**29,832**	**30,794**	**29,969**	**30,757**	**30,757**	**31,294**	**31,830**	**32,365**	**32,898**	**32,898**	**34,957**	**36,901**	**38,906**
Other Noncurrent Assets																		
Regulatory Assets	1,610	1,569	1,627	1,733	1,733	1,747	1,762	1,765	1,765	1,765	1,765	1,765	1,765	1,765	1,765	1,765	1,765	1,765
Goodwill	3,964	3,590	3,613	3,550	3,550	3,336	3,455	3,175	3,175	3,175	3,175	3,175	3,175	3,175	3,175	3,175	3,175	3,175
Other Intangibles	920	658	672	679	679	667	708	693	693	693	693	693	693	693	693	693	693	693
Price Risk Management Assets	437	0	0	156	156	254	285	185	185	185	185	185	185	185	185	185	185	185
Other Noncurrent Assets	333	339	382	155	155	160	164	152	152	152	152	152	152	152	152	152	152	152
Total Noncurrent Assets	**7,264**	**6,156**	**6,294**	**6,273**	**6,273**	**6,164**	**6,374**	**5,970**	**5,970**	**5,970**	**5,970**	**5,970**	**5,970**	**5,970**	**5,970**	**5,970**	**5,970**	**5,970**
Total Assets	**48,921**	**38,244**	**39,246**	**39,301**	**39,301**	**38,709**	**39,528**	**38,038**	**38,623**	**38,623**	**39,152**	**39,637**	**40,210**	**40,608**	**40,608**	**42,661**	**44,727**	**46,822**

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

PPL MODEL

CONSOLIDATED FINANCIALS

BALANCE SHEET ($ in millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Liabilities and Equity																		
Current Liabilities																		
Short-term Debt	1,595	1,100	557	916	916	1,265	856	636	636	636	636	656	656	676	676	716	756	796
Long-term Debt	1,535	1,000	1,460	485	485	485	219	443	443	443	443	443	443	443	443	443	443	443
Accounts Payable	1,128	902	808	812	812	707	726	741	741	741	741	741	741	741	741	741	741	741
Taxes	274	130	118	85	85	96	106	117	117	117	117	117	117	117	117	117	117	117
Interest	345	191	300	303	303	315	211	315	315	315	315	315	315	315	315	315	315	315
Dividends	249	250	254	255	255	257	258	259	259	259	259	259	259	259	259	259	259	259
Price Risk Management Liabilities	1,073	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Counterparty Collateral	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Regulatory Liabilities	109	137	151	145	145	119	99	120	120	120	120	120	120	120	120	120	120	120
Other Current Liabilities	909	799	820	875	875	822	933	781	781	781	781	781	781	781	781	781	781	781
Total Current Liabilities	**7,217**	**4,509**	**4,468**	**3,876**	**3,876**	**4,066**	**3,408**	**3,412**	**3,412**	**3,412**	**3,412**	**3,432**	**3,432**	**3,452**	**3,452**	**3,492**	**3,532**	**3,572**
Long-term Debt	18,772	17,103	17,745	18,563	18,563	18,074	18,949	18,069	18,387	18,387	18,606	18,828	19,017	19,202	19,202	19,946	20,674	21,355
Deferred Credits and Other Noncurrent Liabilities																		
Deferred Income Taxes	4,627	3,538	3,736	3,440	3,440	3,560	3,749	3,810	3,946	3,946	4,112	4,252	4,442	4,569	4,569	5,249	5,952	6,697
ITCs	157	130	129	128	128	127	134	133	133	133	133	133	133	133	133	133	133	133
Price Risk Management Liabilities	333	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Accrued Pension Obligations	1,457	1,078	963	1,405	1,405	1,183	1,074	878	878	878	878	878	878	878	878	878	878	878
Asset Retirement Obligations	739	487	539	536	536	517	513	413	413	413	413	413	413	413	413	413	413	413
Regulatory Liabilities	987	977	962	945	945	942	935	911	911	911	911	911	911	911	911	911	911	911
Other	596	481	482	489	489	478	441	437	437	437	437	437	437	437	437	437	437	437
Total Deferred Credits and Other Noncurrent Liabili	**8,896**	**6,691**	**6,811**	**6,943**	**6,943**	**6,807**	**6,846**	**6,582**	**6,718**	**6,718**	**6,884**	**7,024**	**7,214**	**7,341**	**7,341**	**8,021**	**8,724**	**9,469**
Equity																		
PPL Common Equity																		
Common Stock	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
APIC	9,480	9,564	9,630	9,687	9,687	9,729	9,766	9,824	9,849	9,849	9,874	9,899	9,924	9,949	9,949	10,049	10,149	10,249
Earnings Reinvested	6,860	2,654	2,791	2,953	2,953	3,185	3,409	3,624	3,730	3,730	3,850	3,927	4,096	4,138	4,138	4,626	5,122	5,651
Accumulated Other Comprehensive Loss	(2,311)	(2,284)	(2,206)	(2,728)	(2,728)	(3,159)	(2,857)	(3,480)	(3,480)	(3,480)	(3,480)	(3,480)	(3,480)	(3,480)	(3,480)	(3,480)	(3,480)	(3,480)
Total Common Equity	14,036	9,941	10,222	9,919	9,919	9,762	10,325	9,975	10,106	10,106	10,251	10,353	10,547	10,614	10,614	11,202	11,798	12,427
Noncontrolling Interests	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Equity	**14,036**	**9,941**	**10,222**	**9,919**	**9,919**	**9,762**	**10,325**	**9,975**	**10,106**	**10,106**	**10,251**	**10,353**	**10,547**	**10,614**	**10,614**	**11,202**	**11,798**	**12,427**
Total Liabilities and Equity	**48,921**	**38,244**	**39,246**	**39,301**	**39,301**	**38,709**	**39,528**	**38,038**	**38,623**	**38,623**	**39,152**	**39,637**	**40,210**	**40,608**	**40,608**	**42,661**	**44,727**	**46,822**

Source: Company reports; Guggenheim Securities, LLC estimates.

SCANA (SCG, BUY, $79 PT, $72.40)

Nuclear concerns are abating, focus returns to a simple regulated story that may have a lot of pent up growth built up over the years. A pure-play regulated utility that has traditionally been a bond surrogate, but above-average growth prospects with potential upside better positions shares for a steeper yield curve, in our view.

- **Maintaining our BUY rating and raising our PT to $79 from $78, as the story continues to evolve as expected since we initiated coverage in November 2016, and despite SCG being perceived as a bond surrogate – It is, but holding back a lot of growth, in our view.** Our thesis is premised upon above-average regulated earnings growth (6%/yr) driven by double-digit rate base growth in the NT, and a healthy longer-term trajectory without any heroic assumptions; we estimate 10% annual ratebase growth through 2018 driven largely by two new nuclear units SCG is developing at V.C. Summer, and 9% growth through 2020 as those two units are placed into service; we don't assume any new utility CapEx opportunities – **a conservative assumption as the core T&D business has been pretty quiet while nuclear investments double SCG's ratebase, tapering investment until nuclear cost recovery is less of a concern and when a request would be more politically palatable, in our view.**

- **Introducing 2019 and 2020 estimates of $4.90/$5.11 vs. consensus $4.87/$5.25.** We are introducing estimates of $4.98 and $5.11 for 2019 and 2020 based on SCE&G's nuclear capital investment plans disclosed through 2020 (i.e. its VC Summer project), and using conservative assumptions for other segments where we haven't seen management's outlook beyond 2018 – assuming traditional CapEx in-line with depreciation (holding ratebase flat), the NC gas utility continues to invest $200mm/year (bottom-end of its current annual CapEx plans through 2018), which tapers ratebase growth back down to 5% beyond 2018, and we model 10% ROEs earned across each of the utilities; outside the utilities we assume gas marketing maintains its ~4% trajectory, and lastly, we model annual equity issuance of $125mm based on management's expectation in 2018 carrying forward. We now model 6.5% growth through 2020, slightly higher than management's 4-6% outlook, which we believe is conservative as the company is primarily focused on executing nuclear development. We look forward to management's LT outlook after more nuclear costs are recovered; SCG might be holding back some pent-up growth, in our view.

- **Updating our 2016/2017/2018 EPS estimates to $3.99/$4.25/$4.54 vs. consensus estimates of $4.13/$4.24/$4.52.** Our estimates are largely intact through 2018 as not much has fundamentally changed since we initiated coverage in November 2016. Our estimates reflect the most recently approved investment and cost recovery plans for each of SCG's utilities and, if there is room for assumption, we conservatively model business-as-usual operations earning 10% returns.

- **Nuclear construction will continue to be in focus in 2017 and until complete, but maybe not such a tough pill for investors to swallow after all? With a constructive cost recovery process, and as dispute resolutions evolve into revised plans/agreements, the remaining risk will essentially be executing the plan.** Construction of two new nuclear units at V.C. Summer has been the primary overhang on SCG; **shares traded at a 1x discount to peers when we initiated coverage in November, although the process has evolved as we expected it would**, and SCG seems to have shed its discount in recent months (now trading at 16x vs. peers at 17x). That said, while we recognize incremental progress, execution is certainly always a risk, and contractor issues resulting in delays and cost over-runs certainly wouldn't be new here; although we continue to **weigh risk against the constructive regulatory backdrop and rate base growth prospects.** SCG will

continue filing for regulatory approvals year after year with more and more pressure on ROE, although we believe equitable regulatory outcomes are achievable in SC, particularly through its BLRA — SCG is essentially doubling its rate base and recovering costs through constructive regulatory mechanisms supported by legislation designed to facilitate this investment. **We would also anticipate updates on investment plans as nuclear spending nears completion, potentially gas utility opportunities first, then electric opportunities looking to follow nuclear spending rather than compound it** – The annual nuclear cost recovery process will extend through the decade, but most of the incremental nuclear CWIP being added to SCE&G's ratebase will be there in 2018.

- **Valuation:** We ascribe a 1.5x premium to our 15.5x regulated utility target multiple to reflect above-average growth and despite nuclear construction as SCG has very constructive rate design and cost recovery mechanisms in place supported by SC legislation - one of the more supportive policy/regulatory back-drops we've seen for a project of this nature outside of maybe GA. We apply our SCG-specific 17.5x multiple to our 2018 EPS estimate of $4.54 to arrive at our price target of $79. Incorporating our 3.3% dividend yield estimate translates to 12.5% ETR.

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	0.68A	1.05A	0.97E	3.99E	*4.13E*
Prior				*0.65E*	*3.99E*	
2017E	1.15E	0.67E	1.13E	1.29E	4.25E	*4.24E*
Prior	*1.12E*	*0.61E*	*0.96E*	*1.54E*	*4.25E*	
2018E	1.04E	0.52E	0.96E	2.01E	4.54E	*4.52E*
Prior	*1.00E*	*0.50E*	*0.83E*	*2.19E*	*4.53E*	
2019E	0.97E	0.42E	0.84E	2.67E	4.90E	*4.87E*
2020E	0.93E	0.34E	0.78E	3.04E	5.11E	*5.25E*

Source: Company reports, Guggenheim Securities, LLC estimates.

- **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.

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SCANA

CONSOLIDATED FINANCIALS

($ in millions unless stated otherwise)

Income Statement	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenues:																		
Electric	629	638	742	542	2,551	592	626	817	659	2,694	657	684	876	817	3,033	3,380	3,706	3,921
Gas - regulated	369	130	112	200	811	299	127	111	214	751	307	138	124	239	809	869	925	992
Gas - non-regulated	391	199	214	214	1,018	281	152	165	256	854	318	188	210	264	979	1,025	1,075	1,126
Total Operating Revenues	**1,389**	**967**	**1,068**	**956**	**4,380**	**1,172**	**905**	**1,093**	**1,129**	**4,299**	**1,281**	**1,010**	**1,210**	**1,320**	**4,821**	**5,274**	**5,706**	**6,038**
Operating Expenses:																		
Fuel for electric generation	174	164	187	135	660	136	130	176	130	572	131	138	181	162	612	686	755	800
Purchased power	13	11	14	14	52	11	17	21	41	90	93	39	39	50	222	246	270	294
Gas purchased for resale	523	247	260	257	1,287	359	192	202	43	796	58	35	37	45	174	180	185	191
Other O&M	173	173	182	187	715	181	191	187	463	1,022	481	387	440	497	1,804	1,920	2,035	2,131
Depreciation & amortization	96	97	75	90	358	91	92	93	94	370	100	100	101	102	404	455	491	511
Other taxes	59	59	58	58	234	63	62	66	68	259	73	73	73	73	292	330	360	377
Total Operating Expenses	**1,038**	**751**	**776**	**741**	**3,306**	**841**	**684**	**745**	**839**	**3,109**	**936**	**772**	**871**	**929**	**3,508**	**3,817**	**4,096**	**4,303**
Gain on sale	235	-	-	(1)	234	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Income	**586**	**216**	**292**	**214**	**1,308**	**331**	**221**	**348**	**290**	**1,190**	**345**	**238**	**339**	**392**	**1,314**	**1,457**	**1,610**	**1,736**
Other Income (Expense):																		
Other income	19	18	19	19	75	16	14	15	32	77	18	18	19	18	73	73	72	72
Other expense	(12)	(15)	(16)	(17)	(60)	(14)	(10)	(7)	(25)	(56)	(15)	(13)	(11)	(16)	(56)	(56)	(56)	(56)
Gain on sale (SCI)	107	-	-	-	107	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest charges	(77)	(78)	(81)	(82)	(318)	(83)	(83)	(88)	(96)	(350)	(101)	(106)	(111)	(120)	(438)	(514)	(572)	(638)
AFUDC	5	7	8	7	27	5	9	7	7	28	6	9	7	7	29	29	29	29
Total Other Income (Expense)	**42**	**(68)**	**(70)**	**(73)**	**(169)**	**(76)**	**(70)**	**(73)**	**(82)**	**(301)**	**(92)**	**(92)**	**(97)**	**(111)**	**(392)**	**(468)**	**(527)**	**(594)**
Income Before Tax	**628**	**148**	**222**	**141**	**1,139**	**255**	**151**	**275**	**208**	**889**	**253**	**146**	**242**	**281**	**922**	**990**	**1,082**	**1,141**
Income Taxes	228	49	73	43	393	79	46	86	69	280	89	49	80	97	315	337	368	388
Net Income	**400**	**99**	**149**	**98**	**746**	**176**	**105**	**189**	**139**	**609**	**165**	**96**	**162**	**185**	**607**	**652**	**714**	**753**
Equity Investments	-	-	-	-	-	-	-	-	1	1	1	1	1	1	4	4	4	4
Noncontrolling Interests	-	-	-	-	-	-	-	-	(3)	(3)	(3)	(3)	(3)	(3)	(12)	(12)	(12)	(12)
Earnings for Common	**400**	**99**	**149**	**98**	**746**	**176**	**105**	**189**	**137**	**607**	**163**	**94**	**160**	**182**	**599**	**644**	**706**	**745**
Wtd. avg. share count (MM)	143	143	143	143	143	143	143	143	143	143	143	143	143	143	143	144	146	147
EPS (Basic and Diluted)	2.80	0.69	1.04	0.69	5.22	1.23	0.73	1.32	0.97	4.26	1.15	0.67	1.13	1.29	4.25	4.54	4.90	5.11
Non-operating items	(209)	(9)	(16)	20	(213)	7	(7)	(39)	-	(39)	-	-	-	-	-	-	-	-
Net Income (Non GAAP)	**191**	**90**	**133**	**118**	**533**	**183**	**98**	**150**	**139**	**570**	**165**	**96**	**162**	**185**	**607**	**652**	**714**	**753**
Operating EPS	**1.34**	**0.63**	**0.93**	**0.83**	**$3.73**	**1.28**	**0.68**	**1.05**	**0.97**	**$3.99**	**1.15**	**0.67**	**1.13**	**1.29**	**$4.25**	**$4.54**	**$4.90**	**$5.11**

Source: Company reports; Guggenheim Securities, LLC estimates.

SECTOR: **POWER AND UTILITIES** **January 9, 2017**

GUGGENHEIM

SCANA

CONSOLIDATED FINANCIALS

($ in millions unless stated otherwise)

Balance Sheet	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Assets																		
Utility Plant In Service	12,362	12,392	12,682	12,883	12,883	12,942	13,170	13,307	13,859	**13,859**	14,358	14,853	15,350	15,847	**15,847**	**17,391**	**18,935**	**20,479**
Accumulated Depreciation and Amortization	(4,141)	(4,110)	(4,268)	(4,307)	(4,307)	(4,327)	(4,364)	(4,413)	(4,507)	**(4,507)**	(4,608)	(4,708)	(4,809)	(4,911)	**(4,911)**	**(5,366)**	**(5,858)**	**(6,368)**
Construction Work in Progress	3,478	3,621	3,790	4,051	4,051	4,245	4,300	4,584	4,584	**4,584**	4,584	4,584	4,584	4,584	**4,584**	**4,584**	**4,584**	**4,584**
Plant to be Retired, Net	164	162	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Nuclear Fuel, Net of Accumulated Amortization	317	316	305	308	308	295	282	312	298	**298**	284	270	256	242	**242**	**186**	**130**	**74**
Goodwill, Net of Writedown of $230	210	210	210	210	210	210	210	210	210	**210**	210	210	210	210	**210**	**210**	**210**	**210**
Utility Plant, Net	12,410	12,591	12,729	13,145	13,145	13,365	13,598	14,000	14,444	**14,444**	14,827	15,210	15,591	15,973	**15,973**	**17,005**	**18,002**	**18,979**
Nonutility property, net of accumulated depreciation	285	284	281	280	280	280	278	277	277	**277**	277	277	277	277	**277**	**277**	**277**	**277**
Assets held in trust, net-nuclear decommissioning	115	114	113	115	115	119	123	125	125	**125**	125	125	125	125	**125**	**125**	**125**	**125**
Other investments	77	76	73	71	71	73	73	74	74	**74**	74	74	74	74	**74**	**74**	**74**	**74**
Nonutility Property and Investments, Net	477	474	467	466	466	472	474	476	476	**476**	476	476	476	476	**476**	**476**	**476**	**476**
Current Assets:																		
Cash and cash equivalents	31	55	54	176	176	86	67	56	111	**111**	229	277	318	636	**636**	**503**	**492**	**789**
Receivables:																		
Receivables, net of allowance for uncollectibles	778	658	618	505	505	505	483	530	530	**530**	530	530	530	530	**530**	**530**	**530**	**530**
Income taxes								306	306	**306**	306	306	306	306	**306**	**306**	**306**	**306**
Other	-	-	-	227	227	142	81	96	96	**96**	96	96	96	96	**96**	**96**	**96**	**96**
Inventories (at average cost):																		
Fuel	175	184	164	164	164	134	137	134	134	**134**	134	134	134	134	**134**	**134**	**134**	**134**
Materials and supplies	143	147	147	148	148	148	149	152	152	**152**	152	152	152	152	**152**	**152**	**152**	**152**
Emission allowances									-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Prepaid Expense	104	199	132	115	115	119	159	113	113	**113**	113	113	113	113	**113**	**113**	**113**	**113**
Other current assets	204	46	106	43	43	83	66	66	66	**66**	66	66	66	66	**66**	**66**	**66**	**66**
Deferred income taxes	-	-	-	-	-	-			-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Disposal group current assets held for sale	-	-	-	-	-	-			-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Total Current Assets	1,435	1,289	1,221	1,378	1,378	1,217	1,142	1,453	1,508	**1,508**	1,626	1,674	1,715	2,033	**2,033**	**1,900**	**1,889**	**2,186**
Deferred Debits and Other Assets:																		
Regulatory assets	1,890	1,798	1,884	1,937	1,937	2,068	2,168	2,202	2,202	**2,202**	2,202	2,202	2,202	2,202	**2,202**	**2,202**	**2,202**	**2,202**
Defined Benefit Plan, Assets for Plan Benefits	-	-	-	-	-	-			-	**-**	-	-	-	-	**-**	**-**	**-**	**-**
Other	194	216	205	220	220	246	290	315	315	**315**	315	315	315	315	**315**	**315**	**315**	**315**
Total Deferred Debits and Other Assets	2,084	2,014	2,089	2,157	2,157	2,314	2,458	2,517	2,517	**2,517**	2,517	2,517	2,517	2,517	**2,517**	**2,517**	**2,517**	**2,517**
Total Assets	16,406	16,368	16,506	17,146	17,146	17,368	17,672	18,446	18,945	**18,945**	19,446	19,877	20,300	20,999	**20,999**	**21,898**	**22,884**	**24,158**

Source: Company reports; Guggenheim Securities, LLC estimates.

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SCANA

CONSOLIDATED FINANCIALS

($ in millions unless stated otherwise)

Balance Sheet	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Capitalization and Liabilities																		
Common Stock	2,392	2,391	2,391	2,390	2,390	2,390	2,390	2,390	2,390	**2,390**	2,390	2,390	2,390	2,390	**2,390**	2,515	2,640	2,765
Retained Earnings	3,006	3,027	3,088	3,118	3,118	3,212	3,235	3,342	3,398	**3,398**	3,480	3,495	3,574	3,680	**3,680**	4,008	4,397	4,826
Accumulated Other Comprehensive Loss	(73)	(67)	(70)	(65)	(65)	(63)	(58)	(57)	(57)	**(57)**	(57)	(57)	(57)	(57)	**(57)**	(57)	(57)	(57)
Total Common Equity	**5,325**	**5,351**	**5,419**	**5,443**	**5,443**	**5,539**	**5,567**	**5,675**	**5,731**	**5,731**	**5,813**	**5,828**	**5,907**	**6,013**	**6,013**	**6,466**	**6,980**	**7,534**
Long-Term Debt, net	5,525	6,018	6,018	5,882	5,882	5,879	6,468	6,472	6,922	**6,922**	7,347	7,772	8,122	8,722	**8,722**	9,197	9,697	10,447
Total Capitalization	**10,850**	**11,369**	**11,437**	**11,325**	**11,325**	**11,418**	**12,035**	**12,147**	**12,653**	**12,653**	**13,160**	**13,600**	**14,029**	**14,735**	**14,735**	**15,663**	**16,677**	**17,981**
Current Liabilities:																		
Short-term borrowings	625	273	264	531	531	917	669	778	778	**778**	778	778	778	778	**778**	778	778	778
Current portion of long-term debt	16	16	16	116	116	116	116	117	117	**117**	117	117	117	117	**117**	117	117	117
Accounts payable	331	326	312	590	590	369	225	278	278	**278**	278	278	278	278	**278**	278	278	278
Customer deposits and customer prepayments	109	99	110	137	137	176	190	179	179	**179**	179	179	179	179	**179**	179	179	179
Taxes accrued	110	98	183	242	242	83	104	158	158	**158**	158	158	158	158	**158**	158	158	158
Interest accrued	76	84	85	83	83	85	84	92	92	**92**	92	92	92	92	**92**	92	92	92
Dividends declared	76	76	76	76	76	80	80	80	80	**80**	80	80	80	80	**80**	80	80	80
Liabilities held for sale	-	-	-	-	-	-			-	**-**	-	-	-	-	**-**	-	-	-
Derivative financial instruments	292	90	125	50	50	113	54	54	54	**54**	54	54	54	54	**54**	54	54	54
Other	97	102	123	127	127	92	117	128	128	**128**	128	128	128	128	**128**	128	128	128
Current Liabilities	**1,732**	**1,164**	**1,294**	**1,952**	**1,952**	**2,031**	**1,639**	**1,864**	**1,864**	**1,864**	**1,864**	**1,864**	**1,864**	**1,864**	**1,864**	**1,864**	**1,864**	**1,864**
Deferred Credits and Other Liabilities:																		
Deferred income taxes, net	1,863	1,843	1,839	1,907	1,907	1,898	1,892	2,063	2,063	**2,063**	2,063	2,063	2,063	2,063	**2,063**	2,063	2,063	2,063
Deferred investment tax credits	27	26	26	-	-	-		-	-	**-**	-	-	-	-	**-**	-	-	-
Asset retirement obligations	566	565	489	520	520	522	526	543	543	**543**	543	543	543	543	**543**	543	543	543
Pension and other postretirement benefits	316	318	320	315	315	318	322	327	327	**327**	327	327	327	327	**327**	327	327	327
Regulatory liabilities	829	885	859	855	855	847	855	864	857	**857**	851	842	835	829	**829**	800	771	743
Other	223	199	242	272	272	334	404	638	638	**638**	638	636	638	638	**638**	638	638	638
Total Liabilities	**3,824**	**3,835**	**3,775**	**3,869**	**3,869**	**3,919**	**3,998**	**4,435**	**4,428**	**4,428**	**4,422**	**4,413**	**4,406**	**4,400**	**4,400**	**4,371**	**4,342**	**4,314**
Total Liabilities & Equity	**16,406**	**16,368**	**16,506**	**17,146**	**17,146**	**17,368**	**17,672**	**18,446**	**18,945**	**18,945**	**19,446**	**19,877**	**20,300**	**20,999**	**20,999**	**21,898**	**22,884**	**24,158**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

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CONSOLIDATED FINANCIALS

($ in millions unless stated otherwise)

CASH FLOW STATEMENT	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Net Income	400	99	149	98	746	176	105	190	135	606	165	96	162	185	607	652	714	753
Discontinued Operation	(353)	(2)	-	-	(355)	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss from Equity Investments	1	1	(2)	3	3	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred Income Tax Expense (Benefit)	(74)	(17)	(7)	67	(31)	(11)	(9)	171	-	151	-	-	-	-	-	-	-	-
Depreciation and amortization	100	99	77	92	368	94	96	99	94	383	100	100	101	102	404	455	491	511
Amortization of nuclear fuel	13	14	14	5	46	14	14	14	14	56	14	14	14	14	56	56	56	56
AFUDC	(5)	(7)	(8)	(7)	(27)	(5)	(9)	(8)	(7)	(29)	(6)	(9)	(7)	(7)	(29)	(29)	(29)	(29)
Changes in working capital	(3)	(3)	(3)	(3)	(12)	(207)	24	(69)	-	(252)	-	-	-	-	-	-	-	-
Operating Cash Flow	195	182	430	252	1,059	61	221	397	236	915	273	201	270	294	1,038	1,135	1,233	1,291
Property additions and construction expenditures	(352)	(242)	(257)	(302)	(1,153)	(385)	(381)	(412)	(552)	(1,730)	(497)	(497)	(497)	(497)	(1,988)	(1,544)	(1,544)	(1,544)
Proceeds from Sale of Property, Plant, and Equipme	645	2	-	-	647	-	-	-		-					-	-	-	-
Proceeds from investments (including derivative coll	318	375	179	245	1,117	198	244	187		629					-	-	-	-
Purchase of investments (including derivative collate	(400)	(207)	(265)	(146)	(1,018)	(264)	(271)	(208)		(743)					-	-	-	-
Payments for Hedge, Investing Activities	-	(152)	-	(111)	(263)	-	(68)	-		(68)					-	-	-	-
Proceeds from Hedge, Investing Activities	-	10	-	-	10	-	-	-		-					-	-	-	-
Investing Cash Flows	211	(214)	(343)	(314)	(660)	(451)	(496)	(433)	(552)	(1,932)	(497)	(497)	(497)	(497)	(1,988)	(1,544)	(1,544)	(1,544)
Proceeds from Issuance of Common Stock	14	-	-	-	14	-	-	-	-	-	-	-	-	-	-	125	125	125
Proceeds from Issuance of Long-term Debt	-	491	-	-	491	-	592	-	400	992	350	350	250	525	1,475	750	800	1,000
Repayments of Long-term Debt	(158)	(5)	(1)	(2)	(166)	(8)	(6)	(1)	50	35	75	75	100	75	325	(275)	(300)	(250)
Dividends	(75)	(78)	(78)	(78)	(309)	(78)	(82)	(83)	(79)	(322)	(82)	(81)	(82)	(78)	(325)	(325)	(325)	(325)
Short-term borrowings, net	(293)	(352)	(9)	267	(387)	386	(248)	109	-	247	-	-	-	-	-	-	-	-
Deferred financing costs				(3)	(3)	-	-	-	-	-	-	-	-	-	-	-	-	-
										-					-	-	-	-
Financing Cash Flows	(512)	56	(88)	184	(360)	300	256	25	371	952	343	344	268	522	1,475	275	300	550
Change in Cash	(106)	24	(1)	122	39	(90)	(19)	(11)	55	(66)	119	48	41	318	526	(133)	(11)	298
Beginning Cash	137	31	55	54	137	176	86	67	56	176	111	229	277	318	111	636	503	492
Ending Cash	31	55	54	176	176	86	67	56	111	111	229	277	318	636	636	503	492	789

Source: Company reports; Guggenheim Securities, LLC estimates.

SOUTH JERSEY INDUSTRIES (SJI, NEUTRAL, $33.80)

High-growth story with equity overhang now in the rear-view, although stepping to the sidelines with solid '16 performance - we assess where to go from here.

- **Downgrading SJI to Neutral as we step to the sidelines to re-assess after a solid run in 2016 – Purely a valuation call as shares have traded into our valuation since we initiated coverage in May 2016.** We initiated coverage of SJI in May 2016 with a BUY rating, shortly after its follow-on equity issuance, and based on what we believed was a quickly evolving, high-growth story with NT catalysts and equity overhang behind them, **while absent any acquisition premium amidst a flurry of peer consolidation**. Shares had a nice run through the rest of the year (+19% vs. UTY -1%, S&P +10%), **although we are stepping to the sidelines now as shares breached our valuation with that rally, supported by solid execution of the plan very much in line with our expectations.** SJI is still a solid fundamental story with good management, in our view - this is purely a valuation call as we consider where to go from here. SJI, among others, is increasingly an interesting M&A candidate but becoming tough to justify these multiples (SJI 21.0x on '18 earnings).
- **Introducing 2019 and 2020 EPS estimates of $1.71 and $1.84 vs. consensus estimates of $1.70 and $1.85.** We are introducing 2019 and 2020 estimates of $1.71 and $1.84, modeling SJI's net income growing to $160mm in 2020, which puts us slightly above management's $150mm target for economic earnings in 2020. A key assumption that brings us above management's outlook is that we also assume SJI can earn a 16% ROE on PennEast (vs. FERC allowed ROE of 12%) by back-levering its equity investment. Other than that, we model utilities earning 9.5-10% ROEs, reflecting another rate case filing in 2019, and would also note a good portion of SJI's investment through 2020 gets recovery outside of rate cases. Our non-utility earnings growth is driven by four additional fuel management contracts earning ~$1mm-$1.5mm per year each, as well as growth in its unregulated service segments (~5%). While we remove the earnings contribution from solar, we continue to model ~$1mm-$2mm of earnings per year from SRECs.
- **Maintaining our EPS estimates for 2016/2017/2018 of $1.32/$1.34/$1.61 vs. consensus estimates of $1.34/$1.35/$1.57.** We are maintaining our estimates through 2018 as we continue to expect SJI to file a ratecase in NJ next year, and larger development projects remain on track vs. our modeling assumptions despite some minor setbacks with PennEast (we don't incorporate B.L. England, which was also dealing with some potential setbacks); our estimates reflect SJI's $220mm investment in the PennEast pipeline, which we assume goes into service 4Q18 vs. developers' original target of 2H18 (back-end reflects 2-month delay of FERC's issuance of an EIS, recently announced to allow comments from homeowners on route changes).
- **Valuation:** We ascribe a historical 5x premium above our group average 15.5x regulated utility target multiple for gas utilities, reflecting greater exposure to growth opportunities and relatively more constructive regulatory mechanisms for cost recovery vs. electric peers. We apply the 20.5x gas LDC multiple to our 2018 EPS estimate of $1.61 to arrive at a fair value estimate of $33.

Guggenheim's SJI EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.86A	0.03A	-0.07A	0.63A	1.44A	
2016E	0.80A	0.12A	0.05A	0.39E	1.32E	1.34E
Prior				*0.38E*	*1.32E*	
2017E	0.46E	0.08E	0.07E	0.74E	1.34E	1.35E
Prior	*0.42E*	*0.06E*	*0.05E*	*0.81E*	*1.34E*	
2018E	0.64E	0.05E	0.07E	0.84E	1.61E	1.57E
Prior	*0.72E*	*0.06E*	*0.04E*	*0.78E*	*1.61E*	
2019E	0.74E	0.13E	0.18E	0.66E	1.71E	1.70E
2020E	1.08E	0.07E	0.12E	0.57E	1.84E	1.85E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risk:** SJI is essentially a regulated gas utility with risks to achieving our price target mainly encompassing traditional risk factors inherent with all gas utilities, including: 1) rate case risk, 2) lower or higher CapEx outlook, and 3) interest rate changes above or below what we account for in our regression model. Upside risks to our fair value estimate include: (1) favorable regulatory settlements; (2) higher economic growth in service territory; and (3) higher CapEx outlook.

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SJI MODEL
CONSOLIDATED FINANCIALS

INCOME STATEMENT *($ in millions)*	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Revenues																		
Gas utility	268	76	59	132	**534**	188	69	62	135	**454**	151	73	56	190	**470**	**491**	521	546
FERC midstream	-	-	-	-	**-**	-	-	0	0	**0**	0	1	1	1	**4**	**13**	30	27
Non-utility	115	102	82	126	**425**	145	86	157	154	**542**	117	117	117	117	**469**	**461**	478	482
Total Operating Revenues	383	178	141	258	**960**	333	154	219	290	**996**	269	191	174	309	**942**	**965**	**1,029**	**1,054**
Operating Expenses																		
Cost of sales	242	91	99	128	**559**	153	98	143	51	**445**	69	20	26	51	**167**	**167**	**167**	**167**
Operations	42	34	33	40	**149**	39	36	35	156	**266**	117	114	113	119	**463**	**463**	**463**	**463**
Maintenance	4	4	4	4	**16**	4	4	4	4	**17**	4	4	4	4	**17**	**17**	**17**	**17**
Depreciation	17	17	18	20	**72**	21	22	23	21	**87**	15	16	16	17	**63**	**70**	**93**	**101**
Energy and other taxes	2	1	1	1	**6**	2	1	1	2	**6**	1	1	1	2	**4**	**4**	**4**	**4**
Other	-	-	-	-	**-**	-	-	-		**-**					**-**	**-**	**-**	**-**
Total operating expenses	307	147	156	193	**803**	219	162	206	233	**821**	207	154	160	192	**714**	**721**	**743**	**752**
Operating Income	76	30	(15)	65	**157**	114	(8)	13	57	**176**	61	37	14	116	**229**	**244**	**286**	**303**
Other income (deductions)	2	3	2	2	**10**	2	4	2	2	**11**	1	1	1	1	**5**	**-**	**-**	**-**
Net Interest Expense	9	7	8	7	**32**	9	8	7	11	**36**	6	7	7	8	**28**	**34**	**38**	**41**
Earnings before tax	70	26	(21)	60	135	107	(12)	7	48	151	56	31	8	110	205	211	247	261
Income taxes	(17)	3	11	1	**(1)**	(39)	7	(3)	(17)	**(52)**	(17)	(8)	0	(35)	**(60)**	**(64)**	**(70)**	**(72)**
Equity (loss) of affiliate	0	(16)	(3)	(10)	**(28)**	0	(0)	5		**5**	0	(16)	(3)	(10)	**(28)**	**(5)**	**(28)**	**(28)**
Income from Continuing Operations	54	13	(13)	51	**106**	68	(5)	10	31	**104**	40	7	6	65	**118**	**141**	**150**	**161**
Loss from Discontinued Operations		(0)	(0)		**(0)**		(0)	(0)		(0)					**-**	**-**	**-**	**-**
Net Income	54	13	(13)	51	**105**	68	(5)	10	31	**104**	40	7	6	65	**118**	**141**	**150**	**161**
Adjustments	5	(11)	8	(8)	**(6)**	(11)	14	(6)		**(3)**					**-**	**-**	**-**	**-**
Net Income (Non GAAP)	59	2	(5)	43	**99**	57	9	4	31	**101**	40	7	6	65	**118**	**141**	**150**	**161**
Beginning period share count	68	68	68	69	**68**	71	71	71	79	71	88	88	88	88	88	88	88	88
Share additions	0	0	0	2	**3**	0	9	9	(0)	17	-	-	-	-	-	-	-	-
Ending period share count	68	68	69	71	**71**	71	79	79	79	88	88	88	88	88	88	88	88	88
Average Number of Shares Outstanding	69	69	69	69	**69**	71	75	80	79	**76**	88	88	88	88	**88**	**88**	**88**	**88**
Reported EPS	$0.78	$0.19	($0.18)	$0.74	**$1.53**	$0.96	($0.06)	$0.12	$0.39	**$1.36**	$0.46	$0.08	$0.07	$0.74	**$1.34**	**$1.61**	**$1.71**	**$1.84**
Adjustments	$0.07	($0.17)	$0.11	($0.11)	($0.09)	($0.16)	$0.18	($0.07)	$0.00	($0.04)	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Ongoing EPS diluted	$0.86	$0.03	($0.07)	$0.63	$1.44	$0.80	$0.12	$0.05	$0.39	$1.32	$0.46	$0.08	$0.07	$0.74	$1.34	$1.61	$1.71	$1.84

Source: Company reports; Guggenheim Securities, LLC estimates.

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SJI MODEL
CONSOLIDATED FINANCIALS

CASH FLOW STATEMENT (in $millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Operating Activities																		
Net Income	54	13	(13)	51	106	68	(5)	10	31	104	40	7	6	65	118	141	150	161
Depreciation and amortization	17	17	18	38	91	21	22	22	21	86	15	16	16	17	63	70	93	101
Deferred income taxes	16	1	(1)	(12)	4	26	5	(3)	(1)	27	28	8	10	13	59	24	71	149
Other non-cash items				-					-	-	-	-	-	-	-	-	-	-
Electric, gas and steam rate plan charges				-					-	-	-	-	-	-	-	-	-	-
Impairment charge				-						-					-	-	-	-
Changes in Assets and Liabilities	(52)	35	45	(42)	(14)	(17)	37	10		30					-	-	-	-
Net Cash Flows from Operating Activities	35	67	50	35	187	98	60	38	51	247	83	31	32	95	241	236	313	412
Investing Activities																		
Utility construction expenditures	(54)	(87)	(147)	(57)	(346)	(67)	(51)	(137)	(66)	(322)	(85)	(85)	(85)	(85)	(338)	(342)	(350)	(350)
Cost of removal less salvage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-utility construction expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regulated companies non-utility construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments by unregulated subsidiaries	(6)	2	52	(73)	(25)	8	(4)	73	-	77	-	-	-	-	-	-	-	-
Net Cash Flows Used in Investing Activities	(60)	(85)	(95)	(130)	(371)	(59)	(56)	(64)	(66)	(245)	(85)	(85)	(85)	(85)	(338)	(342)	(350)	(350)
Financing Activities																		
Net payments of short-term debt	27	94	(15)	80	186	(92)	(194)	85	-	(202)	-	-	-	-	-	-	-	-
Retirement of long-term debt	-	(64)	(10)	(51)	(125)	(13)	(0)	(35)	-	(48)	-	-	-	-	-	-	-	-
Sub Issuance of long-term debt	-	-	80	50	130	61	-	-	45	106	63	63	63	63	250	180	150	100
Parent Issuance of long-term debt	-	-	(0)	(0)	(0)	-	-	(0)	-	(0)	-	-	-	-	-	-	-	-
Issuance of common stock	2	2	6	53	63	6	209	(0)	(14)	200	-	-	-	-	-	-	-	-
Common stock dividends	-	(17)	(17)	(36)	(70)	-	(19)	(21)	(21)	(61)	(24)	(24)	(24)	(25)	(96)	(99)	(103)	(106)
Others	-	-	-	(0)	(0)	-	0	(0)		0								
Net Cash Flows from (used in) Financing Ac	29	14	44	97	184	(38)	(4)	28	9	(5)	39	39	39	38	154	81	47	(6)
Net change in cash	3	(4)	(1)	2	(0)	0	(0)	3	(6)	(3)	38	(15)	(14)	48	57	(25)	10	56
Beginning cash balance	4	7	3	2	4	4	4	4	7	4	0	38	23	9	0	57	32	43
Ending cash balance	7	3	2	4	4	4	4	7	0	0	38	23	9	57	57	32	43	98

Source: Company reports; Guggenheim Securities, LLC estimates.

SECTOR: **POWER AND UTILITIES** **January 9, 2017**

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SJI MODEL
CONSOLIDATED FINANCIALS

BALANCE SHEET (in $millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Assets																		
Total	2,042	2,102	2,152	2,211	**2,211**	2,261	2,310	2,358	**2,425**	**2,425**	2,509	2,594	2,678	2,763	**2,763**	**3,105**	**3,455**	**3,805**
Less: Accumulated depreciation	419	426	431	440	440	450	459	467	488	488	503	519	535	551	551	622	714	816
Plant in service, net	1,623	1,675	1,720	1,771	**1,771**	1,811	1,851	1,891	1,937	**1,937**	2,006	2,075	2,143	2,211	**2,211**	**2,483**	**2,740**	**2,989**
Construction work in progress					-				-	-	-	-	-	-	-	-	-	-
Net Utility Plant	1,623	1,675	1,720	1,771	**1,771**	1,811	1,851	1,891	1,937	**1,937**	2,006	2,075	2,143	2,211	**2,211**	**2,483**	**2,740**	**2,989**
Non-utility plant																		
Unregulated generating assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-utility property	627	654	692	786	786	784	792	796	796	796	796	796	796	796	796	796	796	796
Non-utility property held for sale	(85)	(92)	(100)	(108)	(108)	(118)	(129)	(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)	(140)
Construction work in progress					-					-	-	-	-	-	-	-	-	-
Net Non-utility plant	542	562	591	677	677	667	664	656	656	656	656	656	656	656	656	656	656	656
Net Plant	2,165	2,237	2,312	2,448	**2,448**	2,478	2,515	2,547	2,593	**2,593**	2,662	2,731	2,799	2,867	**2,867**	**3,139**	**3,396**	**3,645**
Current Assets																		
Cash and Cash Equivalents	7	3	2	4	4	4	4	7	0	0	38	23	9	57	57	32	43	98
Accounts Receivable	323	257	213	178	178	180	175	160	160	160	160	160	160	160	160	160	160	160
Unbilled Revenues	64	25	22	40	40	48	29	27	27	27	27	27	27	27	27	27	27	27
Provision for Uncollectibles	(9)	(10)	(10)	(10)	(10)	(10)	(10)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
Notes Receivable		10	10	12	12	12	12	2	2	2	2	2	2	2	2	2	2	2
Notes Receivable - Affiliate	16	12	14	3	3	2	2	2	2	2	2	2	2	2	2	2	2	2
Natural Gas in Storage, average cost	39	47	53	54	54	39	44	51	51	51	51	51	51	51	51	51	51	51
Materials and Supplies, average cost	2	2	2	5	5	7	7	7	7	7	7	7	7	7	7	7	7	7
Deferred Income Taxes - Net	57	60	67	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid Taxes	4	20	17	22	22	11	28	26	26	26	26	26	26	26	26	26	26	26
Other current assets	78	101	88	123	123	104	84	89	89	89	89	89	89	89	89	89	89	89
Total current assets	580	528	479	431	**431**	396	376	358	351	**351**	389	374	360	408	**408**	**383**	**393**	**449**
Investments	144	121	111	81	**81**	73	76	84	84	**84**	84	84	84	84	**84**	**84**	**84**	**84**
Notes Receivable - Affiliate					-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contract Receivables					-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regulatory assets	335	335	339	323	323	357	380	397	397	397	397	397	397	397	397	397	397	397
Other deferred charges and noncurrent assts	152	157	159	189	189	190	176	171	171	171	171	171	171	171	171	171	171	171
Total	487	493	498	512	**512**	547	556	568	568	**568**	568	568	568	568	**568**	**568**	**568**	**568**
Total Assets	3,377	3,379	3,400	3,472	**3,472**	3,494	3,523	3,557	3,596	**3,596**	3,703	3,757	3,812	3,928	**3,928**	**4,174**	**4,442**	**4,746**

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

GUGGENHEIM
SJI MODEL
CONSOLIDATED FINANCIALS

BALANCE SHEET (in $millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Liabilities																		
Capitalization																		
Common shareholders' equity	971	970	947	1,038	1,038	1,093	1,278	1,267	1,263	1,263	1,279	1,263	1,245	1,285	1,285	1,327	1,374	1,429
Long-term debt	859	859	937	997	997	1,047	831	809	854	854	916	979	1,041	1,104	1,104	1,284	1,434	1,534
Total capitalization	1,831	1,829	1,884	2,035	**2,035**	2,140	2,109	2,076	2,116	**2,116**	2,195	2,241	2,286	2,389	**2,389**	2,611	2,808	2,963
Minority interests					-	-	-		-	-	-	-	-	-	-	-	-	-
Noncurrent liabilities																		
Obligations under capital leases					-	-	-	-	-	-	-	-	-	-	-	-	-	-
Provision for injuries and damages					-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pension and retiree benefits					-	-	-	-	-	-	-	-	-	-	-	-	-	-
Superfund and other environmental costs					-	-	-	-	-	-	-	-	-	-	-	-	-	-
Noncurrent liabilities held for sale					-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other noncurrent liabilities					-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total noncurrent liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current Liabilities																		
Long-term debt payable with one year	150	86	78	29	29	29	245	232	232	232	232	232	232	232	232	232	232	232
Notes payable	272	366	351	432	432	340	145	230	230	230	230	230	230	230	230	230	230	230
Accounts payable	221	194	189	186	186	151	166	141	141	141	141	141	141	141	141	141	141	141
Customer deposits	16	19	21	20	20	19	23	43	43	43	43	43	43	43	43	43	43	43
Accrued taxes					-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued interest					-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued wages					-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current liabilities held for sale					-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other current liabilities	162	170	168	165	165	159	179	166	166	166	166	166	166	166	166	166	166	166
Total Current Liabilities	822	835	807	832	**832**	698	758	812	**812**	**812**	**812**	**812**	**812**	**812**	**812**	**812**	**812**	**812**
Deferred Credits and Regulatory Liabilities																		
Deferred income taxes and investment tax cr	356	355	350	296	296	334	330	332	331	331	359	366	377	390	390	415	485	634
Regulatory liabilities	67	65	62	43	43	55	60	51	51	51	51	51	51	51	51	51	51	51
Other deferred credits	301	295	296	266	266	267	265	286	286	286	286	286	286	286	286	286	286	286
Total Deferred Credits and Regulatory Liabil	724	715	708	604	**604**	656	656	669	668	**668**	696	703	714	727	**727**	751	822	971
Total Capitalization and Liabilities	3,377	3,379	3,400	3,472	**3,472**	3,494	3,523	3,557	3,596	**3,596**	3,703	3,757	3,812	3,928	**3,928**	4,174	4,442	4,746

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

SOUTHERN COMPANY (SO, NEUTRAL, $49.14)

Integrating AGL and leveraging gas distribution platform for midstream opportunities to replace anemic electric growth; diluting Kemper/Vogtle noise, but execution remains critical, especially this late in the game with Kemper.

- **Maintaining our Neutral stance as the rising interest rate environment is less constructive for traditionally yield-oriented utilities, despite SO's enhanced growth profile – Need to give it some more gas to offset anemic electric growth.** SO's core utilities are solid franchises, in our view, although utilities that traditionally trade as bond surrogates will be under pressure from rising interest rates. Integrating AGL enhances growth, although SO would need incremental midstream opportunities in order to move the needle and offset relatively anemic growth from its core electric utilities. We also continue to wait on the sidelines until Kemper crosses the finish line and demonstrates sustainable commercial operations.

- **We are introducing 2019 and 2020 estimates of $3.27/$3.40 vs. consensus $3.26/$3.38.** We are introducing estimates of $3.27 and $3.39 for 2019 and 2020 based on continued investment of ~$4.2bn at SO's core electric utilities earning 12% ROEs on average, consistent with recent performance; investing ~$1.6bn per year in contracted generation at Southern Power, which is targeting ~650MW of wind per year (~$1bn) in addition to continued solar investments and opportunistic gas acquisitions; and lastly, deploying ~$1.5bn of capital per year into its gas business, primarily gas distribution as we don't incorporate large midstream projects currently in earlier stages of development, and SO's interest is relatively small today (ownership interests originally scaled for AGL standalone). We are projecting 4.0% annual earnings growth in these outer years, or a 4.7% CAGR using the mid-point of SO's 2017 guidance ($2.96), which is in line with management's 5% growth outlook. Getting past some large-scale project milestones, upping ownership interest, and accelerating midstream development endeavors would support upside, in our view. **We would also note GA Power is in a rate freeze through 2019 following the AGL acquisition, so we anticipate a filing there in addition to its IRP.**

- **Updating our 2016/2017/2018 EPS estimates to $2.88/$3.02/$3.14 vs. consensus estimates of $2.90/$2.98/$3.13.** Our outlook remains largely intact with ~5% accretion achieved from AGL over the period, although we arrive at lower earnings in 2018 as we incorporate lower growth from SO's core electric utilities. We still assume healthy returns can be achieved with its constructive regulatory frameworks, although tapering down to 11% from upwards of 13% with pressure from lower volume growth and scrutiny of spending in certain areas.

- **SO is gassing up for growth, but the core electric utilities have several obstacles coming to a head in 2017 – Executing at the core utilities is key, they will not be diluted with gas anytime soon.** SO seems ready to grow, putting its new gas platform front and center at its first analyst day in years recently, with $8bn of CapEx currently planned through 2021, although not quite muting concern around the electric utilities, in our view. Assuming gas and power drive two-thirds of SO's expected growth would translate to one-third of the overall business mix in a few years, which still leaves two-thirds of the mix from electric utilities – not quite muting the electric utility if you ask us, and concerns center around more than just growth – Kemper in-service date extended another month and SO will still need to file for cost recovery as its most recent rate increase only covered components that were in service; Vogtle is also being watched closely in GA, and SO will also pursue rate increases for Gulf Power in FL. That said, GA has been relatively supportive of SO's Vogtle construction program, and FL is a relatively constructive jurisdiction as well (NEE's recent rate case in FL is a good example).

- **Valuation:** We apply our group average 15.5x regulated utility target multiple to our 2018 EPS estimate of $3.14 to arrive at a fair value estimate of $49.

Guggenheim's SO EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.56A	0.71A	1.17A	0.45A	2.89A	
2016E	0.58A	0.74A	1.24A	0.32E	2.88E	2.90E
Prior				*0.29E*	*2.88E*	
2017E	0.93E	0.88E	0.80E	0.41E	3.02E	2.98E
Prior	*0.84E*	*0.79E*	*1.07E*	*0.32E*	*3.02E*	
2018E	0.96E	0.91E	0.83E	0.45E	3.14E	3.13E
Prior	*0.89E*	*0.83E*	*1.07E*	*0.38E*	*3.17E*	
2019E	1.00E	0.94E	0.86E	0.48E	3.27E	3.26E
2020E	1.04E	0.97E	0.88E	0.50E	3.40E	3.38E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** Risks to achieving our fair value estimate for SO mainly encompass traditional risk factors inherent with all electric and gas 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 risk to our fair value estimate include: (1) improved regulatory constructs; (2) higher CapEx outlook; and (3) higher ROEs approved in jurisdictions where SO operates.

SECTOR: **POWER AND UTILITIES** **January 9, 2017**

GUGGENHEIM

SOUTHERN COMPANY

CONSOLIDATED FINANCIALS

INCOME STATEMENT ($ in thousands)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Total Operating Revenues	4,183,000	4,337,000	5,401,000	3,568,000	17,489,000	3,965,000	4,459,000	6,264,000	4,174,468	18,862,468	5,595,646	5,249,391	6,120,527	4,465,112	21,430,676	21,932,203	22,363,362	22,808,259
Operating Expenses																		
Fuel	1,212,000	1,200,000	1,520,000	818,000	4,750,000	911,000	1,081,000	1,617,000	1,163,954	4,772,954	1,568,391	1,273,737	1,598,597	1,243,933	5,684,658	5,774,460	5,840,840	5,911,459
Purchased Power	144,000	171,000	193,000	137,000	645,000	165,000	139,000	227,000	189,676	720,676	182,000	191,769	227,023	149,783	729,604	746,356	758,763	771,936
Purchased Power - Afiliates	-	-	-	-	-	-	-	-	210,230	210,230	185,000	176,552	199,327	211,098	771,977	775,388	777,914	780,595
Other Operations	9,000	23,000	150,000	183,000	365,000	53,000	81,000	58,000	(8,000)	216,000	-	-	-	-	-	-	-	-
Maintenance	1,122,000	1,100,000	1,097,000	1,097,000	4,416,000	1,108,000	1,099,000	1,411,000	1,257,403	4,873,403	1,310,400	1,229,742	1,286,216	1,264,580	5,100,938	5,096,015	5,091,584	5,087,597
Depreciation & Amortization	487,000	500,000	528,000	519,000	2,034,000	541,000	569,000	695,000	649,669	2,454,669	668,237	673,521	679,539	769,176	2,721,443	2,877,753	3,047,942	3,234,137
Taxes other than Income Taxes	252,000	245,000	264,000	236,000	997,000	256,000	255,000	309,000	263,359	1,083,359	334,388	298,565	300,021	271,469	1,202,442	1,216,907	1,227,242	1,237,450
Consolidation Eliminations	-	-	-	-	-	-	-	-	(122,688)	(122,688)	(134,909)	(23,072)	513,844	(123,395)	233,376	235,998	237,911	239,943
Total Operating Expenses	3,226,000	3,239,000	3,752,000	2,990,000	13,207,000	3,032,000	3,274,000	4,347,000	3,555,404	14,208,404	4,094,394	3,818,845	4,814,537	3,716,663	16,444,439	16,722,896	16,982,195	17,263,116
EBITDA	1,444,000	1,598,000	2,177,000	1,097,000	6,316,000	1,474,000	1,754,000	2,612,000	1,268,733	7,108,733	2,169,469	2,104,068	1,985,499	1,448,624	7,707,680	8,087,060	8,429,109	8,779,279
Operating Income	957,000	1,098,000	1,649,000	578,000	4,282,000	933,000	1,185,000	1,917,000	619,064	4,654,064	1,501,252	1,430,546	1,305,990	748,448	4,986,237	5,209,307	5,381,167	5,545,143
Other Income / (Expense)																		
AFUDC	63,000	39,000	60,000	64,000	226,000	53,000	45,000	52,000	76,219	226,219	82,046	88,315	94,563	100,786	365,710	450,916	508,809	559,420
Interest Income	-	-	-	23,000	23,000	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity in Losses of Unconsolidated Subsidiaries	-	-	-	(14,000)	(14,000)	-	-	-	-	-	25,000	25,000	25,000	25,000	100,000	120,000	180,000	225,000
Leveraged Lease Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Expense, net of Capitalized	(213,000)	(180,000)	(218,000)	(229,000)	(840,000)	(246,000)	(293,000)	(374,000)	(181,167)	(1,094,167)	(187,440)	(193,671)	(203,697)	(210,453)	(795,461)	(889,073)	(951,805)	(1,006,805)
Distributions on Preferred Securities of Subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Preferred Dividends of Subsidiaries	(17,000)	(14,000)	(11,000)	(12,000)	(54,000)	(11,000)	(12,000)	(11,000)	(10,381)	(44,381)	(10,000)	(11,000)	(10,000)	(10,381)	(41,381)	(41,381)	(41,381)	(41,381)
Other Income / (Expense), net	(8,000)	(12,000)	(21,000)	(21,000)	(62,000)	(21,000)	(29,000)	21,000	(23,000)	(52,000)	1,000	10,000	12,000	(18,000)	5,000	5,000	5,000	5,000
Other Income / (Expense)	(175,000)	(167,000)	(190,000)	(189,000)	(721,000)	(225,000)	(289,000)	(312,000)	(138,329)	(964,329)	(89,394)	(81,355)	(92,334)	(113,049)	(366,131)	(354,538)	(299,377)	(258,766)
Earnings from Continuing Operations before Income Taxes	782,000	931,000	1,459,000	389,000	3,561,000	708,000	896,000	1,605,000	480,735	3,689,735	1,411,857	1,349,192	1,223,657	635,400	4,620,106	4,854,769	5,081,791	5,286,377
Effective Tax Rate	35%	32%	34%	30%	34%	31%	30%	28%	35%	30%	35%	35%	35%	35%	35%	35%	35%	35%
Income Taxes	274,000	302,000	500,000	118,000	1,194,000	222,000	272,000	446,000	168,257	1,110,257	494,150	472,217	428,280	222,390	1,617,037	1,699,169	1,778,627	1,850,232
Net income attributable to noncontrolling interests	-	-	-	-	-	(1,000)	(12,000)	27,000	-	14,000	-	-	-	-	-	-	-	-
Earnings before Cumulative Effect of Accounting Change	508,000	629,000	959,000	271,000	2,367,000	487,000	636,000	1,130,000	312,478	2,565,478	917,707	876,975	795,377	413,010	3,003,069	3,155,600	3,303,164	3,436,145
Cumulative Effect of Accounting Change	6,000	18,000	105,000	138,000	267,000	47,000	56,000	83,000	-	186,000	-	-	-	-	-	-	-	-
Earnings from Continuing Operations	514,000	647,000	1,064,000	409,000	2,634,000	534,000	692,000	1,213,000	312,478	2,751,478	917,707	876,975	795,377	413,010	3,003,069	3,155,600	3,303,164	3,436,145
Earnings from Discontinued Operations, net of Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Recurring Items	(6,000)	(18,000)	(105,000)	(138,000)	(267,000)	(47,000)	(56,000)	(83,000)	-	(186,000)	-	-	-	-	-	-	-	-
Consolidated Net Income	508,000	629,000	959,000	271,000	2,367,000	487,000	636,000	1,130,000	312,478	2,565,478	917,707	876,975	795,377	413,010	3,003,069	3,155,600	3,303,164	3,436,145
Consolidated EPS - Operating	$0.56	$0.71	$1.17	$0.45	$2.89	$0.58	$0.74	$1.24	$0.32	$2.88	$0.93	$0.88	$0.80	$0.41	$3.02	$3.14	$3.27	$3.40

Source: Company reports; Guggenheim Securities, LLC estimates.

See pages 260 - 261 for analyst certification and important disclosures.

SECTOR: **POWER AND UTILITIES** **January 9, 2017**

GUGGENHEIM

SOUTHERN COMPANY

CONSOLIDATED FINANCIALS

BALANCE SHEET ($ in thousands)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Current Assets																		
Cash and Marketable Securities	1,112,000	813,000	1,109,000	1,674,000	**1,674,000**	754,000	1,897,000	2,669,000	4,064,489	**4,064,489**	4,924,684	5,725,585	6,491,882	6,779,373	**6,779,373**	9,250,168	11,458,373	13,714,135
Receivables	1,631,000	2,083,000	2,147,000	1,840,000	**1,840,000**	1,591,000	2,104,000	3,157,000	3,157,000	**3,157,000**	3,157,000	3,157,000	3,157,000	3,157,000	**3,157,000**	3,157,000	3,157,000	3,157,000
Under Recovered Retail Fuel Clause Revenue	159,000	173,000	126,000	63,000	**63,000**	43,000	12,000	54,000	54,000	**54,000**	54,000	54,000	54,000	54,000	**54,000**	54,000	54,000	54,000
Inventory, Materials & Fuel	1,050,000	1,043,000	1,046,000	1,061,000	**1,061,000**	1,085,000	121,000	1,268,000	1,268,000	**1,268,000**	1,268,000	1,268,000	1,268,000	1,268,000	**1,268,000**	1,268,000	1,268,000	1,268,000
Total Other Current Assets	2,420,000	2,493,000	1,842,000	1,888,000	**1,888,000**	1,888,000	11,015,000	2,510,000	2,510,000	**2,510,000**	2,510,000	2,510,000	2,510,000	2,510,000	**2,510,000**	2,510,000	2,510,000	2,510,000
Total Current Assets	6,372,000	6,605,000	6,270,000	6,526,000	**6,526,000**	5,461,000	15,149,000	9,658,000	11,053,489	**11,053,489**	11,913,684	12,714,585	13,480,882	13,768,373	**13,768,373**	16,239,168	18,447,373	20,703,135
Investments & Other Assets																		
Leveraged Leases	749,000	751,000	752,000	755,000	**755,000**	761,000	763,000	769,000	769,000	**769,000**	769,000	769,000	769,000	769,000	**769,000**	769,000	769,000	769,000
Decommissioning Trusts	1,574,000	1,572,000	1,473,000	1,512,000	**1,512,000**	1,540,000	1,578,000	1,616,000	1,616,000	**1,616,000**	1,616,000	1,616,000	1,616,000	1,616,000	**1,616,000**	1,616,000	1,616,000	1,616,000
Other	204,000	232,000	489,000	485,000	**485,000**	488,000	984,000	8,955,000	8,955,000	**8,955,000**	8,955,000	8,955,000	8,955,000	8,955,000	**8,955,000**	8,955,000	8,955,000	8,955,000
Total Investments & Other Assets	2,527,000	2,555,000	2,714,000	2,752,000	**2,752,000**	2,789,000	3,325,000	11,340,000	11,340,000	**11,340,000**	11,340,000	11,340,000	11,340,000	11,340,000	**11,340,000**	11,340,000	11,340,000	11,340,000
Gross Plant																		
Balance BOP	68,904,014	69,335,000	70,288,000	70,642,000	**68,904,014**	74,030,000	75,364,000	76,980,000	78,593,000	**74,030,000**	79,142,969	79,883,065	80,626,897	81,374,473	**79,142,969**	82,125,799	85,168,742	88,272,877
Capex - Gross Property Add	588,190	1,391,000	796,000	3,133,000	**5,908,190**	1,626,000	1,925,000	1,943,000	609,969	**6,103,969**	740,095	743,832	747,576	751,326	**2,982,829**	3,042,944	3,104,135	3,165,849
Retirement	(157,204)	(438,000)	(442,000)	255,000	**(782,204)**	(292,000)	(369,000)	(330,000)	-	**(991,000)**	-	-	-	-	**-**	-	-	-
Balance EOP	69,335,000	70,288,000	70,642,000	74,030,000	**74,030,000**	75,364,000	76,920,000	78,593,000	79,202,969	**79,142,969**	79,883,065	80,626,897	81,374,473	82,125,799	**82,125,799**	85,168,742	88,272,877	91,438,726
Accumulated Depreciation	23,476,000	23,079,000	23,349,000	23,445,000	**23,559,992**	23,745,000	23,949,000	24,363,000	24,933,260	**25,164,252**	25,739,469	26,320,066	26,905,974	27,497,206	**27,497,206**	29,915,199	32,418,365	35,006,316
Nuclear Fuel, at Amortized Cost	914,000	889,000	872,000	935,000	**935,000**	941,000	929,000	901,000	901,000	**901,000**	901,000	901,000	901,000	901,000	**901,000**	901,000	901,000	901,000
CWIP	8,165,000	8,319,000	9,487,000	9,015,000	**9,015,000**	9,359,000	9,427,000	9,602,000	10,745,031	**10,745,031**	11,629,935	12,511,103	13,388,527	14,262,201	**14,262,201**	17,419,258	19,815,123	22,349,274
Net PP&E	54,938,000	56,417,000	57,652,000	60,535,000	**60,420,008**	61,918,000	63,327,000	64,733,000	65,915,740	**65,624,748**	66,674,511	67,718,934	68,758,026	69,791,794	**69,791,794**	73,573,801	76,570,635	79,682,684
Incremental Depreciation	421,000	432,000	455,000	445,000	**1,753,000**	459,000	476,000	471,000	473,684	**1,879,684**	475,967	478,638	481,326	484,031	**1,919,961**	1,963,513	2,008,771	2,055,154
Depreciation as a % of G Plant	0.61%	0.62%	0.65%	0.62%	**2.45%**	0.61%	0.63%	0.61%	0.60%	**2.45%**	0.60%	0.60%	0.59%	0.59%	**2.38%**	2.35%	2.32%	2.29%
Gross Plant																		
Balance BOP	70,224,000	70,554,000	71,549,000	72,002,000	**70,224,000**	75,351,000	76,771,000	78,286,000	94,174,000	**75,351,000**	95,067,000	96,692,000	98,317,000	99,942,000	**95,067,000**	101,567,000	107,767,000	113,267,000
Capex - Gross Property Add	1,097,000	1,550,000	1,971,000	2,775,000	**7,393,000**	1,986,000	11,005,000	2,524,000	893,000	**16,408,000**	1,625,000	1,625,000	1,625,000	1,625,000	**6,500,000**	6,200,000	5,500,000	5,700,000
Retirement	(767,000)	(555,000)	(1,518,000)	574,000	**(2,266,000)**	(566,000)	(9,490,000)	13,364,000		**3,308,000**					**-**	-	-	-
Balance EOP	70,554,000	71,549,000	72,002,000	75,351,000	**75,351,000**	76,771,000	78,286,000	94,174,000	95,067,000	**95,067,000**	96,692,000	98,317,000	99,942,000	101,567,000	**101,567,000**	107,767,000	113,267,000	118,967,000
Accumulated Depreciation	24,307,000	23,918,000	24,190,000	24,253,000	**24,253,000**	24,566,000	24,778,000	29,590,000	30,341,669	**30,341,669**	31,111,906	31,887,427	32,668,936	33,471,112	**33,471,112**	36,756,864	40,212,807	43,854,943
Nuclear Fuel, at Amortized Cost	914,000	889,000	869,000	934,000	**934,000**	941,000	934,000	901,000	901,000	**901,000**	901,000	901,000	901,000	901,000	**901,000**	901,000	901,000	901,000
CWIP	8,314,000	8,487,000	9,562,000	9,082,000	**9,082,000**	9,406,000	9,451,000	10,069,000	10,069,000	**10,069,000**	10,069,000	10,069,000	10,069,000	10,069,000	**10,069,000**	10,069,000	10,069,000	10,069,000
Net PP&E	55,475,000	57,007,000	58,243,000	61,114,000	**61,114,000**	62,552,000	63,893,000	75,554,000	75,695,331	**75,695,331**	76,550,094	77,399,573	78,243,064	79,065,888	**79,065,888**	81,980,136	84,024,193	86,082,057
Total Deferred Debits	7,236,000	8,014,000	7,988,000	7,926,000	**7,926,000**	7,933,000	8,506,000	9,810,000	9,810,000	**9,810,000**	9,810,000	9,810,000	9,810,000	9,810,000	**9,810,000**	9,810,000	9,810,000	9,810,000
TOTAL ASSETS	71,610,000	74,181,000	75,215,000	78,318,000	**78,318,000**	78,735,000	90,873,000	106,362,000	107,898,821	**107,898,821**	109,613,778	111,264,158	112,873,946	113,984,262	**113,984,262**	119,369,304	123,621,566	127,935,192

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

SOUTHERN COMPANY

CONSOLIDATED FINANCIALS

BALANCE SHEET ($ in thousands)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Current Liabilities																		
Accounts Payable	1,289,000	1,395,000	1,419,000	1,905,000	**1,905,000**	1,584,000	1,493,000	1,732,000	1,732,000	**1,732,000**	1,732,000	1,732,000	1,732,000	1,732,000	**1,732,000**	**1,732,000**	**1,732,000**	**1,732,000**
Short-Term Debt	1,679,000	1,057,000	1,490,000	1,376,000	**1,376,000**	1,195,000	1,372,000	1,670,000	1,670,000	**1,670,000**	1,670,000	1,670,000	1,670,000	1,670,000	**1,670,000**	**1,670,000**	**1,670,000**	**1,670,000**
Total Other Current Liabilities	6,217,000	6,242,000	6,780,000	5,848,000	**5,848,000**	5,077,000	5,649,000	7,165,000	7,165,000	**7,165,000**	7,165,000	7,165,000	7,165,000	7,165,000	**7,165,000**	**7,165,000**	**7,165,000**	**7,165,000**
Total Current Liabilities	9,185,000	8,694,000	9,689,000	9,129,000	**9,129,000**	7,856,000	8,514,000	10,567,000	10,567,000	**10,567,000**	10,567,000	10,567,000	10,567,000	10,567,000	**10,567,000**	**10,567,000**	**10,567,000**	**10,567,000**
Total Debt	22,772,000	23,731,000	23,816,000	26,064,000	**26,064,000**	27,286,000	36,740,000	43,220,000	44,813,750	**44,813,750**	45,876,250	46,938,750	48,001,250	49,063,750	**49,063,750**	**52,563,750**	**55,313,750**	**58,063,750**
Long-Term Debt	21,093,000	22,674,000	22,326,000	24,688,000	**24,688,000**	26,091,000	35,368,000	41,550,000	43,143,750	**43,143,750**	44,206,250	45,268,750	46,331,250	47,393,750	**47,393,750**	**50,893,750**	**53,643,750**	**56,393,750**
Deferred Credits & Other																		
Deferred Income Taxes	11,706,000	12,187,000	11,990,000	12,322,000	**12,322,000**	12,274,000	12,563,000	14,218,000	14,275,449	**14,275,449**	14,431,141	14,583,463	14,777,306	14,855,941	**14,855,941**	**15,464,316**	**16,091,749**	**16,741,168**
Regulatory Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Employee Benefit Provisions	2,416,000	2,375,000	2,408,000	2,582,000	**2,582,000**	2,546,000	2,485,000	3,022,000	3,022,000	**3,022,000**	3,022,000	3,022,000	3,022,000	3,022,000	**3,022,000**	**3,022,000**	**3,022,000**	**3,022,000**
Other	5,801,000	6,946,000	6,720,000	7,454,000	**7,454,000**	7,622,000	8,332,000	10,658,000	10,658,000	**10,658,000**	10,658,000	10,658,000	10,658,000	10,658,000	**10,658,000**	**10,658,000**	**10,658,000**	**10,658,000**
Total Deferred Credits & Other	19,923,000	21,508,000	21,118,000	22,358,000	**22,358,000**	22,442,000	23,380,000	27,898,000	27,955,449	**27,955,449**	28,111,141	28,263,463	28,457,306	28,535,941	**28,535,941**	**29,144,316**	**29,771,749**	**30,421,168**
Commitments & Contingencies																		
Minority Interest	40,000	41,000	41,000	43,000	**43,000**	44,000	47,000	49,000	49,000	**49,000**	49,000	49,000	49,000	49,000	**49,000**	**49,000**	**49,000**	**49,000**
Preferred Equity	375,000	118,000	118,000	118,000	**118,000**	118,000	118,000	118,000	118,000	**118,000**	118,000	118,000	118,000	118,000	**118,000**	**118,000**	**118,000**	**118,000**
Common Equity	20,994,000	21,146,000	21,923,000	21,982,000	**21,982,000**	22,184,000	23,446,000	26,180,000	26,065,621	**26,065,621**	26,562,387	26,997,946	27,351,390	27,320,570	**27,320,570**	**28,597,237**	**29,472,067**	**30,386,274**
Total Shareholders' Equity	21,409,000	21,305,000	22,082,000	22,143,000	**22,143,000**	22,346,000	23,611,000	26,347,000	26,232,621	**26,232,621**	26,729,387	27,164,946	27,518,390	27,487,570	**27,487,570**	**28,764,237**	**29,639,067**	**30,553,274**
TOTAL LIABILITIES & EQUITY	71,610,000	74,181,000	75,215,000	78,318,000	**78,318,000**	78,735,000	90,873,000	106,362,000	107,898,821	**107,898,821**	109,613,778	111,264,158	112,873,946	113,984,262	**113,984,262**	**119,369,304**	**123,621,566**	**127,935,192**

Source: Company reports; Guggenheim Securities, LLC estimates.

SPIRE (SR, BUY, $70 PT, $65.30)

SR continues to generate solid cash flow with no major acquisitions likely in NT; potential NT catalyst around its Missouri rate case; we see good value despite the "Missouri discount" as SR remains one of the cheapest names we cover in an overvalued LDC group.

- **We are maintaining our BUY rating and increasing our price target to $70 from $69 per share.** We continue to see good value in the story despite the "Missouri discount," with bolt-on acquisitions expanding geographic footprint into a relatively attractive jurisdiction with fairly constructive cost recovery mechanisms. No need for major acquisitions in the NT to drive growth, in our view, as capex is focusing on steady growth from gas distribution utilities premised upon upgrades of existing infrastructure, bolt-on acquisitions of similar utilities and organic growth of commercial/industrial load. Gas marketing business has been muted by depressed commodity prices, although impressive bounce back of commodity prices and the announced STL pipeline in the long run could provide some upside potential. **Key potential NT catalyst – Missouri rate case in 2Q17.** SR is essentially a pure-play gas utility with >95% of earnings derived from regulated gas utilities and we expect that figure to remain stable. **We see a good entry point as the "Missouri discount" has been more than reflected in shares, in our view.**

- **We are introducing estimates for 2019 and 2020 of $3.77/$4.09 versus street consensus of $3.78/$4.05.** We are introducing estimates of $3.75 and $4.09 for 2019 and 2020 based on continued utility investments at both legacy utilities as well as the recently acquired Mobile and Willmut assets, totaling ~$1.8bn fairly evenly spread through 2020 earning an average ROE of 10-12%. The STL pipeline would represent upside to our estimates with a total capex of ~$190mm-$210mm through 2020 at FERC ROE and cap structure, as well as any further development of SR's natural gas fueling station program. We note that more than 70% of capex is recoverable in rates with minimal regulatory lag.

- **We are updating our 2016/2017/2018 EPS estimates to $3.43/$3.53/$3.70 (from $3.43/2.52/2.65) versus street estimates of $3.43/$3.54/$3.67,** as we now account for slightly higher capital spending. We model 4.6% annual earnings growth, in line with management's outlook of 4-6%, driven primarily by regulated utility investments. Capital investment in utility mainly focuses on infrastructure upgrades, driving 9% overall annual rate base growth. At Laclede Gas and MGE, CapEx of ~$270mm per year drives 10% annual rate base growth and 4% earnings growth, with earned ROEs of 10-12% - consistent with the larger Southeast peers. We estimate 4% earnings growth at Alagasco driven by ~$130mm CapEx and ROE of ~11.50%. Acquisitions of Mobile Gas and Willmut Gas will begin to contribute positive net economic earnings per share beginning FY18. We also model slightly declining earnings contribution from gas marketing business. Our projected earnings growth is slightly diluted by 2.5mm shares converting in 2Q17.

- **Potential NT catalyst: Missouri rate case in April 2017; RSE reviews at Alagasco and Mobile Gas.** SR is expected to file a rate case in Missouri in April 2017, which is essentially triggered by the ISRS mechanism associated with cost recovery of pipeline upgrade investments and regulatory assets like prepaid pension and merger integration costs. SR requested $5.0mm for Laclede Gas and $3.4mm for MGE in the latest ISRS filing process. A commission decision on ISRS filings is expected in Jan 2017 and SR expects to follow up with a rate case filing in April, with the effective date for any rate changes from the rate case pointing to mid-year FY2018. At utilities in Alabama and Mississippi, SR is scheduled for the Rate Stabilization and Equalization ("RSE") review on 9/30/2017 for Mobile Gas and 9/30/2018 for

Alagasco. We note that regulatory environment has been fairly constructive in those two states. **Another data point worth attention is STL pipeline's FERC certificate filing in Jan 2017, expecting in service date in FY2019.** Investors should watch for the outcome of Missouri rate case as it has been one of the major concerns with investors on the unconstructive jurisdiction; although we note that **the risk should be more than reflected in our ~1.5x valuation discount to gas utility peers, any constructive outcome could help remove an overhang.**

- **Valuation:** We value SR as a regulated utility, arriving at our $70 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 1.5x 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 $3.70 to arrive at our $70 price target. Incorporating our anticipated 3.2% dividend yield, we estimate a 10.4% ETR – supporting our BUY rating.

Guggenheim's SR EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons.*
2015A	1.06A	2.26A	0.26A	-0.37A	3.19A	
2016A	1.04A	2.38A	0.34A	-0.32A	3.43A	*3.43A*
Prior						
2017E	1.09E	2.27E	0.36E	-0.23E	3.53E	*3.54E*
Prior	*1.12E*	*2.31E*	*0.40E*	*-0.34E*	*3.52E*	
2018E	1.13E	2.46E	0.41E	-0.30E	3.70E	*3.67E*
Prior	*1.15E*	*2.45E*	*0.43E*	*-0.37E*	*3.65E*	
2019E	1.16E	2.58E	0.43E	-0.40E	3.77E	*3.78E*
2020E	1.26E	2.82E	0.47E	-0.46E	4.09E	*4.05E*

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** Outside of the potential overhangs around a 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

Spire Inc.
Consolidated

Income Statement ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QA	2016A	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Gas Utility	581	847	260	203	1,892	399	612	253	194	1,457	558	848	344	250	2,000	2,239	2,687	4,281
Gas Marketing and other	38	30	15	1	85	1	(2)	(4)	86	80	12	8	3	49	72	62	53	46
Total Operating Revenues	620	877	275	204	1,976	399	609	249	279	1,537	569	856	347	300	2,072	2,301	2,740	4,327
Purchased gas-Utility	304	483	58	38	882	149	261	54	28	492	253	427	107	76	862	968	1,153	1,805
Purchased gas-Other	57	42	26	16	141	7	4	2	47	61	6	3	2	40	52	44	37	32
Total Cost of sales	362	525	83	53	1,023	156	265	57	75	553	259	430	109	116	914	1,012	1,190	1,837
Gross Margin	258	353	192	151	954	244	344	193	204	984	310	426	238	184	1,158	1,289	1,550	2,490
% of Gross Margin	*41.7%*	*40.2%*	*69.7%*	*73.9%*	*48.2%*	*61.0%*	*56.5%*	*77.3%*	*73.0%*	*64.0%*	*54.5%*	*49.7%*	*68.6%*	*61.4%*	*55.9%*	*56.0%*	*56.6%*	*57.5%*
Gas Utility																		
Other O&M	97	104	91	99	391	92	94	92	100	378	94	96	94	101	385	389	392	396
Other taxes	38	56	26	22	142	28	44	27	26	125	33	34	35	35	137	151	165	181
Gas Marketing and other																		
Marketing O&M	3	3	6	5	18	3	5	4	51	62	3	4	4	9	19	18	17	16
Total Operating Expenses	139	162	123	126	550	123	143	123	176	565	129	134	132	145	541	558	575	593
EBITDA	120	190	69	25	403	121	202	70	28	420	181	291	106	38	617	731	975	1,897
D&A-Utility	32	32	33	33	130	34	34	34	35	137	37	38	39	40	156	172	188	206
D&A-Other	0	0	0	0	1	0	0	0	0	1	1	1	1	1	3	3	3	3
Total D&A	32	33	33	33	131	34	34	34	36	138	38	39	40	41	158	174	191	209
Operating Income	87	158	36	(9)	273	87	168	35	(8)	282	143	252	66	(3)	459	557	784	1,688
Other, net	1	1	1	(1)	1	1	1	2	5	9	1	1	1	6	10	10	10	10
Interest expense																		
Interest on long-term debt	17	17	16	17	67	17	17	17	17	68	17	17	17	17	67	72	77	81
Other interest charges	2	3	2	2	8	2	3	3	2	10	6	6	7	6	25	78	294	1,158
Total Interest Charges	19	19	18	19	75	19	19	19	20	77	23	23	23	22	92	150	371	1,239
Interest Rate	*4%*	*4%*	*3%*	*4%*	*3.6%*	*4%*	*4%*	*4%*	*4%*	*3.4%*	*4%*	*4%*	*4%*	*4%*	*4%*	*6%*	*14%*	*43%*
Income before taxes	70	139	19	(28)	199	69	149	18	(22)	214	121	230	44	(19)	377	416	423	458
Income Taxes	22	45	5	(10)	62	23	48	7	(8)	70	72	124	27	(8)	215	238	241	261
Tax Rate	*32%*	*32%*	*25%*	*34%*	*31%*	*32%*	*32%*	*39%*	*37%*	*33%*	*60%*	*54%*	*61%*	*41%*	*57%*	*57%*	*57%*	*57%*
Net income	47	94	14	(19)	137	47	101	11	(14)	144	49	107	17	(11)	162	178	181	197
Non-GAAP Adjustments	(1)	3	(3)	3	1	(2)	3	4	0	5	-	-	-	-	-	-	-	-
Net Economic Earnings (Loss) (Non-GAAP)	45.7	98	11	(16)	138	45.1	104	15	(14)	149	49	107	17	(11)	162	178	181	197
Wtd. Avg. share count	43	43	43	43	43.3	43	44	44	43	43.5	45	47	48	48	46	48	48	48
Earnings Per Share	$ 1.09	$ 2.19	$ 0.33	$ (0.43)	$ 3.16	$ 1.08	$ 2.32	$ 0.25	$ (0.33)	$ 3.32	$ 1.09	$ 2.27	$ 0.36	$ (0.23)	$ 3.53	$ 3.70	$ 3.77	$ 4.09
Economic EPS (Non-GAAP)	$ 1.06	$ 2.26	$ 0.26	$ (0.37)	$ 3.19	$ 1.04	$ 2.38	$ 0.34	$ (0.32)	$ 3.43	$ 1.09	$ 2.27	$ 0.36	$ (0.23)	$ 3.53	$ 3.70	$ 3.77	$ 4.09

Source: Company reports; Guggenheim Securities, LLC estimates.

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Spire Inc.

Consolidated

Cash Flow Statement ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QA	2016A	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Cash Flow from Operating Activities:																		
Net income	47	94	14	(19)	137	47	101	11	(14)	144	49	107	17	(11)	162	178	181	197
Adjustments to reconcile net income to net cash provided by operating activities:																		
Depreciation, amortization, and accretion	32	32	33	33	131	34	34	34	36	138	(111)	36	37	38	(0)	160	176	193
Deferred income taxes and investment tax credits	13	16	41	(5)	66	22	49	7	(9)	69	-	-	-	-	-	-	-	-
Other – net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in current operating assets and liabilities:																		
Accounts receivable	(187)	48	134	0	(5)	(78)	24	60	(19)	(12)	98	-	-	-	98	-	-	-
Unamortized purchased gas adjustments	(7)	115	(24)	(37)	47	(46)	26	(1)	(44)	(64)	-	-	-	-	-	-	-	-
Deferred purchased gas costs	0	(14)	(2)	(3)	(20)	13	(4)	0	2	12	-	-	-	-	-	-	-	-
Accounts payable	50	(62)	(14)	(4)	(30)	18	(33)	9	36	30	115	-	-	-	115	-	-	-
Delayed/advance customer billings – net	(4)	(71)	44	51	20	9	(29)	26	19	27	-	-	-	-	-	-	-	-
Taxes accrued	(13)	34	(40)	2	(17)	(19)	4	4	11	(0)	27	-	-	-	27	-	-	-
Inventories	26	127	(46)	(52)	55	12	80	(20)	(55)	17	13	-	-	-	13	-	-	-
Other assets and liabilities	8	(10)	(57)	(9)	(68)	20	(40)	(19)	4	(35)	(234)	-	-	-	(234)	-	-	-
Other	1	4	3	(1)	6	1	(1)	0	5	5					-	-	-	-
Net Cash Provided by Operating Activities	(34)	314	86	(44)	322	34	210	114	(29)	328	(42)	142	54	26	181	338	357	390
Cash Flow from Investing Activities:																		
Capital expenditures	(60)	(70)	(73)	(87)	(290)	(62)	(59)	(74)	(98)	(293)	244	(101)	(101)	(101)	(59)	(435)	(480)	(400)
Acquisition of Alagasco	-	-	-	(8)	(8)	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of EnergySouth									(318)	(318)								
Acquisition of MGE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of right to acquire NE Gas Company	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments for final reconciliation of acquisitions	-	(9)	-	9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	(1)	0	-	(0)	(1)	(0)	(0)	(1)	(0)	(2)	-	-	-	-	-	-	-	-
Net Cash Used In Investing Activities	(61)	(78)	(73)	(87)	(299)	(63)	(60)	(74)	(416)	(613)	244	(101)	(101)	(101)	(59)	(435)	(480)	(400)
Cash Flow from Financing Activities:																		
Issuance of long-term debt	-	-	-	35	35	80	-	-	165	245	250	-	-	10	260	200	200	200
Redemption and maturity of first mortgage bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repayments of long-term debt	-	(35)	-	(0)	(35)	(80)	-	-	-	(80)	-	-	-	-	-	-	-	-
Repayment of short-term debt - net	110	(150)	(36)	127	51	39	(124)	(156)	301	61	(200)	50	75	75	-	-	(50)	(100)
Changes in book overdrafts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of common stock	2	1	1	(1)	3	1	1	134	1	137	-	-	-	-	-	-	-	-
Employee's taxes paid associated with restricted shares	-	(2)	2	-	-	-	(2)	2	-	-	-	-	-	-	-	-	-	-
Dividends paid	(19)	(20)	(20)	(20)	(79)	(20)	(22)	(21)	(22)	(85)	(23)	(25)	(25)	(25)	(98)	(106)	(111)	(117)
Excess tax benefits from stock-based compensation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	(1)	3	(1)	(2)	(1)	(0)	0	(2)	-	(2)	-	-	-	-	-	-	-	-
Net Cash (Used in) Provided by Financing Activities	92	(203)	(54)	139	(26)	20	(146)	(43)	445	276	27	25	50	60	162	94	39	(17)
Net (Decrease) Increase in Cash and Cash Equivalents	(3)	34	(41)	8	(2)	(9)	4	(4)	0	(9)	229	67	3	(15)	283	(3)	(84)	(27)
Cash and Cash Equivalents, Beginning of Period	16	13	47	6	16	14	5	9	5	14	5	234	300	303	5	288	285	201
Cash and Cash Equivalents, End of Period	13	47	6	14	14	5	9	5	5	5	234	300	303	288	288	285	201	175

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

Spire Inc.

Consolidated

Balance Sheet ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QA	2016A	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Cash and cash equivalents	13	47	6	14	14	5	3	5	5	5	234	300	303	288	288	285	201	175
Accounts receivable:	420	355	211	211	211	298	265	196	221	221	123	123	123	123	123	123	123	123
Delayed customer billings	15	62	22	3	3	9	10	4	2	1.6	2	2	2	2	2	2	2	2
Inventories	246	117	163	215	215	204	124	144	202	202	189	189	189	189	189	189	189	189
Natural gas	220	91	137	189	189	177	98	117	174	174	174	174	174	174	174	174	174	174
Propane gas	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12
Materials and supplies	14	14	16	15	15	15	15	15	16	16	16	16	16	16	16	16	16	16
Natural gas receivable	11	6	26	17	17	20	20	18	10	10	10	10	10	10	10	10	10	10
Derivative instrument assets	4	3	4	5	5	4	8	9	11	11	11	11	11	11	11	11	11	11
Unamortized purchased gas adjustments	61	-	-	13	13	45	9	5	50	50	50	50	50	50	50	50	50	50
Other regulatory assets	27	27	27	28	28	32	32	38	44	44	44	44	44	44	44	44	44	44
Prepayments and other	20	20	31	25	25	21	28	36	25	25	25	25	25	25	25	25	25	25
Total Current Assets	816	637	483	530	530	636	504	453	570	570	688	754	757	742	742	739	655	628
Property, plant and equipment																		
Utility Plant	3,980	4,038	4,168	4,235	4,235	4,221	4,271	4,340	4,794	4,794	4,549	4,651	4,752	4,853	4,853	5,288	5,768	6,168
Less: accumulated depreciation	1,195	1,213	1,239	1,307	1,307	1,267	1,286	1,312	1,506	1,506	1,396	1,432	1,468	1,506	1,506	1,666	1,842	2,036
Net utility plant	2,784	2,825	2,869	2,928	2,928	2,953	2,985	3,028	3,287	3,287	3,153	3,219	3,284	3,347	3,347	3,622	3,926	4,132
Investments and Other Assets																		
Non-utility Property	10	11	12	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14
Goodwill	938	946	946	946	946	946	946	946	1,165	1,165	1,165	1,165	1,165	1,165	1,165	1,165	1,165	1,165
Other Investments	61	61	63	60	60	61	61	62	62	62	62	62	62	62	62	62	62	62
Total Investments and Other Assets	1,008	1,017	1,021	1,020	1,020	1,021	1,021	1,022	1,241	1,241	1,241	1,241	1,241	1,241	1,241	1,241	1,241	1,241
Deferred Charges																		
Regulatory assets	618	633	645	738	738	727	733	731	838	838	821	821	821	821	821	821	821	821
Other	64	69	65	75	75	74	77	77	142	142	142	142	142	142	142	142	142	142
Total Deferred Charges	680	702	709	813	813	801	810	807	980	980	962	962	962	962	962	962	962	962
Total Assets	5,289	5,181	5,083	5,290	5,290	5,411	5,320	5,311	6,077	6,077	6,044	6,176	6,243	6,292	6,292	6,564	6,784	6,964

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

Spire Inc.

Consolidated

Balance Sheet ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QA	2016A	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Current portion of long-term debt	115	80	80	80	80	-	-	-	250	250	50	100	175	250	250	250	200	100
Notes payable	398	248	211	338	338	377	254	98	399	399	326	326	326	326	326	326	326	326
Accounts payable	221	160	148	147	147	160	127	136	211	211	326	326	326	326	326	326	326	326
Advance customer billings	31	8	13	44	44	59	32	53	70	70	70	70	70	70	70	70	70	70
Wages and compensation accrued	25	31	31	33	33	25	27	37	40	40	38	38	38	38	38	38	38	38
Dividends payable	21	21	21	21	21	22	22	22	24	24	14	14	14	14	14	14	14	14
Customer deposits	36	36	34	32	32	33	33	32	35	35	32	32	32	32	32	32	32	32
Interest accrued	20	15	19	14	14	20	14	20	15	15	11	11	11	11	11	11	11	11
Taxes accrued	51	77	45	28	28	33	4	41	2	2	29	29	29	29	29	29	29	29
Unamortized purchased gas adjustments	22	35	52	52	52	14	37	-	55	55	22	22	22	22	22	22	22	22
Deferred income taxes	21	-	-	-	-	7	-	-	-	-	-	-	-	-	-	-	-	-
Other regulatory liabilities	54	39	29	32	32	42	34	22	29	29	24	24	24	24	24	24	24	24
Other	69	55	36	33	33	55	36	31	33	33	16	16	16	16	16	16	16	16
Total Current Liabilities	**1,082**	**854**	**720**	**854**	**854**	**848**	**619**	**492**	**1,161**	**1,161**	**957**	**1,007**	**1,082**	**1,157**	**1,157**	**1,157**	**1,107**	**1,007**
Other Liabilities and Deferred Credits																		
Deferred income taxes	395	439	488	482	482	495	564	574	607	607	557	557	557	557	557	557	557	557
Unamortized investment tax credits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pension and postretirement benefit costs	242	244	233	253	253	251	255	247	304	304	286	286	286	286	286	286	286	286
Asset retirement obligations	100	102	103	159	159	161	163	165	206	206	195	195	195	195	195	195	195	195
Regulatory liabilities	123	114	115	119	119	129	111	106	131	131	109	109	109	109	109	109	109	109
Other	77	81	79	77	77	76	76	74	66	66	63	63	63	63	63	63	63	63
Total Other Liabilities and Deferred Credits	**936**	**979**	**1,018**	**1,091**	**1,091**	**1,112**	**1,168**	**1,165**	**1,314**	**1,314**	**1,210**	**1,210**	**1,210**	**1,210**	**1,210**	**1,210**	**1,210**	**1,210**
Total Liabilities	**2,019**	**1,833**	**1,738**	**1,945**	**1,945**	**1,960**	**1,787**	**1,657**	**2,476**	**2,476**	**2,167**	**2,217**	**2,292**	**2,367**	**2,367**	**2,367**	**2,317**	**2,217**
Capitalization																		
Stockholders' Equity:																		
Common stock	43	43	43	43	43	43	43	46	46	46	46	46	46	46	46	46	46	46
Paid-in capital	1,031	1,033	1,036	1,038	1,038	1,039	1,040	1,174	1,176	1,176	1,176	1,176	1,176	1,176	1,176	1,176	1,176	1,176
Retained earnings	465	539	533	494	494	520	599	589	551	551	576	658	651	614	614	686	756	836
Accumulated other comprehensive loss	(5)	(4)	(3)	(2)	(2)	(2)	(3)	(5)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Total Common Stock Equity	**1,534**	**1,612**	**1,609**	**1,574**	**1,574**	**1,600**	**1,681**	**1,802**	**1,768**	**1,768**	**1,794**	**1,876**	**1,868**	**1,832**	**1,832**	**1,904**	**1,974**	**2,053**
Long-term debt, excluding amounts due within one year	1,736	1,736	1,736	1,772	1,772	1,852	1,852	1,852	1,834	1,834	2,084	2,084	2,084	2,094	2,094	2,294	2,494	2,694
Total Capitalization	**3,270**	**3,348**	**3,345**	**3,345**	**3,345**	**3,452**	**3,533**	**3,654**	**3,602**	**3,602**	**3,877**	**3,959**	**3,952**	**3,925**	**3,925**	**4,197**	**4,467**	**4,747**
Total Liabilities and Equity	**5,289**	**5,181**	**5,083**	**5,290**	**5,290**	**5,411**	**5,320**	**5,311**	**6,077**	**6,077**	**6,044**	**6,176**	**6,243**	**6,292**	**6,292**	**6,564**	**6,784**	**6,964**

Source: Company reports; Guggenheim Securities, LLC estimates.

SEMPRA ENERGY (SRE, BUY, $118 PT, $101.76)

Adding SRE to Best Idea list: Ample growth prospects, strong cash flow profile and potential NT catalysts not reflected in valuation – '17 core holding at current rate cycle.

- **We are maintaining our BUY rating and adding SRE, in place of AEP, to our Best Idea list – price target drops to $118 from $121 on higher bond yield outlook.** We believe 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 has no shortage of growth opportunities, in our view**. Looking into 2017, 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. **By our estimates, SRE remains one of the cheapest names within the gas sector, much of which was exasperated post Trump win and concerns over Cameron which are overblown, in our view.** We can appreciate the bear arguments around considering uncertainty around trade policies and implications for its international operations as well as potential delays with the Cameron project. That said, this negative sentiment overshadows the multitude of growth drivers at SRE's disposal. Valuation presents a **great entry point, in our view**.

- **We are introducing estimates for 2019 and 2020 of $7.15/$7.45 versus street consensus of $7.00/$7.62.** We model 11.4% EPS growth vs. management's outlook for 12% growth through our new 2020 trajectory mainly driven by utilities, Cameron, renewables and International segment growth. More specifically, at the CA utilities we estimate capex of $1.2bn/year at each entity (SoCal, SDG&E) during the forecast period, rate base growth north of 10%, with ROEs averaging 11.2%-11.6% through 2020 – FERC and State combined. The next general rate case is effective 1/1/19. We model Cameron LNG entering service in FY2019.

- **We are updating our 2016/2017/2018 EPS estimates to $4.84/$5.21/$5.84 versus street consensus of $4.83/$5.10/$5.78.** At the CA utilities, average CapEx of ~$1.2bn/year drives annual rate base growth at SoCal and SDG&E north of 10%, respectively, through 2018. Modeled earned ROEs of 13% and 12% for SoCal and SDG&E, respectively, when combining FERC with state-earned returns. For the International segments, we estimate earnings growth of 15% and 14% at South America and Mexico, respectively, through 2018. Rate review realization at Chilquinta in 2018 for sub-transmission; at IEnova Mexico, we assume 1Q18 in-service of Sur de Texas-Tuxpan (per management schedule). The renewables segment in USG&P grows at 18% 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. Through '18, we model growth driven by utilities, renewables and international segments.

- **Cameron: A risk but overly priced in.** While the 3Q earnings call introduced some risks to Cameron's in-service date, we await clarity and indications of next steps and whether its EPC contractors will be able to mitigate. **Management will likely provide an update addressing the CB&I letter and potential 6-month delay (from November) on the 4Q16 earnings call.** As of now, train 1 is anticipated to be complete mid-2018, which would entail one more hurricane season. It's hard to make a call on a potential weather-driven delay if there were a hurricane severe enough and in that specific location, **although at this time SRE hasn't used any project contingencies** (6-12% factored in for contractors, which doesn't include its own internal contingency planning). **While no two projects are alike, for illustrative**

purposes only, Cheniere Energy's Sabine Pass LNG project was a 43-month timeline and factoring the potential 6 month delay for Cameron, SRE would be looking at a ~45 month timeline for the current project, which wouldn't imply a need to execute with "break-neck" speed. At this point there is potential downside to our estimates if the delay occurs but it's just a timing difference and this doesn't appear to be materially pronounced.

- **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 5% 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 through 2020.
- **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. **Embedded in our models are other key assumptions through the 2020 period:**
  - Chilquinta estimated customer growth of 2.5%
  - Average sales per customer grow -1.8%, in line with history
  - Realization rates average 4% 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 in 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 through 2020:**
  - Luz Del Sur estimated customer growth of 2.7%
  - Average sales per customer grow at -7.2%
  - Realization rate average 2.2%
- **IEnova** has a consistent earnings stream given its long-term dollar denominated contracts. In addition, it is expanding its renewable footprint with the proposed $375mm purchase of Ventika I and Ventika II (252MW, Latin America's largest wind farm). In June, its JV with TransCanada (TRP-CA, NC, C$61.10), (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 through 2020:**

- 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 grow at 6% and 4%, respectively

- **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 $300mm-$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 the cause in updated schedule but management noted that EPC mentioned rain at the site and flooding near the fabrication facility on its earnings call. 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.

- **Other key events** - Potential updates from management around its 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. Separately, the 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 expected in early 2017.

- **Valuation: sum-of-the-parts – partial cash flow metric; partial P/E:** We arrive at our $118 target price utilizing a sum-of-the-parts analysis that comprises: **(1)** $33/share for SDG&E when we apply our group average regulated electric utility multiple of 15.5x based on a regression of corp. bond yields and electric utility PE multiples, **(2)** $32/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 5.1% dividend yield estimate would equate to a 21.1% ETR.**

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	0.78A	1.03A	1.56E	4.84E	4.83E
Prior				*1.56E*	*4.81E*	
2017E	1.69E	0.94E	0.98E	1.60E	5.21E	5.10E
Prior	*1.73E*	*0.92E*	*1.07E*	*1.56E*	*5.28E*	
2018E	2.02E	1.06E	1.05E	1.71E	5.84E	5.78E
Prior	*2.00E*	*1.02E*	*1.16E*	*1.70E*	*5.88E*	
2019E	2.26E	1.54E	1.27E	2.08E	7.15E	7.00E
2020E	2.44E	1.58E	1.30E	2.14E	7.45E	7.62E

Source: Guggenheim Securities, LLC estimates.

- **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.

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INCOME STATEMENT	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Utilities	2,422	2,133	2,213	2,486	2,442	1,994	2,264	2,428	2,330	2,026	2,117	2,444	9,254	9,128	8,917	9,303	9,506	9,733
Energy-related businesses	260	234	268	215	180	162	271	220	270	280	339	304	977	833	1,193	1,275	1,821	2,014
Total Operating Revenue	**2,682**	**2,367**	**2,481**	**2,701**	**2,622**	**2,156**	**2,535**	**2,648**	**2,600**	**2,306**	**2,456**	**2,748**	**10,231**	**9,961**	**10,110**	**10,578**	**11,327**	**11,747**
Operating Expenses:																		
Utilities:																		
Cost of electric fuel and purchased power	481	498	666	491	515	561	604	568	628	668	714	604	2,136	2,278	2,614	2,682	2,706	2,733
Cost of natural gas	346	239	201	348	311	183	208	424	418	304	371	469	1,134	1,126	1,582	1,637	2,119	2,282
Energy-related businesses:																		
Cost of natural gas, electric fuel and purchased power	98	73	91	73	56	62	95	15	13	13	14	15	335	228	56	56	57	57
Other cost of sales	35	42	34	37	35	228	32	24	22	21	26	28	148	317	97	114	134	157
Litigation expense																		
Operation and maintenance	658	713	701	823	701	727	703	679	573	605	590	679	2,895	2,810	2,447	2,447	2,447	2,447
Depreciation and amortization	303	307	315	325	328	314	328	171	169	171	177	178	1,250	1,141	695	739	773	807
Franchise fees and other taxes	107	96	111	109	111	96	106	101	101	101	101	101	423	416	404	404	404	404
Total Operating Expenses	**2,028**	**1,968**	**2,119**	**2,206**	**2,057**	**2,169**	**2,078**	**2,012**	**1,923**	**1,884**	**1,994**	**2,095**	**8,321**	**8,316**	**7,895**	**8,079**	**8,639**	**8,888**
EBITDA	**957**	**706**	**677**	**820**	**893**	**301**	**785**	**808**	**845**	**594**	**639**	**832**	**3,160**	**2,787**	**2,909**	**3,238**	**3,460**	**3,666**
EBIT	**654**	**399**	**362**	**495**	**555**	**(13)**	**457**	**637**	**676**	**423**	**462**	**654**	**1,910**	**1,646**	**2,214**	**2,499**	**2,688**	**2,860**
Plant closure adjustment	21			5	0								26	-	-	-	-	-
Gain on sale of equity interests and assets		62		8			131						70	131	-	-	-	-
Write-off of long-lived assets						0	(132)						0	(132)	-	-	-	-
Equity earnings, before income tax	19	27	33	25	(22)	14	12	13	13	13	14	13	104	17	53	55	233	243
Remeasurement of equity method investments						0	617						0	617	-	-	-	-
Other income, net	39	37	12	38	49	23	26	23	32	9	15	23	126	121	79	79	79	79
Total interest and related charges	127	129	137	139	137	136	129	156	151	155	160	185	532	558	631	691	710	727
Pretax income	606	396	270	432	455	(112)	982	517	571	290	336	525	1,704	1,842	1,715	1,942	2,290	2,454
Effective tax rate	27%	25%	6%	15%	31%	95%	29%	25%	26%	25%	26%	26%	20%	24%	26%	26%	21%	21%
Income tax expense (benefit)	163	98	15	65	142	(106)	282	131	146	74	84	134	341	449	438	500	481	521
Equity earnings, net of income tax	15	22	27	21	17	33	19	32	20	41	23	39	85	101	123	123	123	123
Net Income including noncontrolling interests	458	320	282	388	330	27	719	417	445	258	288	430	1,448	1,493	1,400	1,565	1,932	2,056
Noncontrolling interests	21	24	34	19	11	10	97	24	19	22	22	28	98	142	89	95	93	92
Extraordinary items included in operating (after tax)		(1)	0	0		(1)	0	0	0	0	0	0	(1)	(1)	-	-	-	-
Reported GAAP Earnings	**437**	**295**	**248**	**369**	**319**	**16**	**622**	**393**	**426**	**236**	**246**	**404**	**1,349**	**1,350**	**1,312**	**1,471**	**1,838**	**1,964**
Income (loss) from disc ops			0		0	(1)	0	0	0	0	0	0	-	(1)	-	-	-	-
Items excluded from operating earnings	(9)	(35)	2	1	51	182	(363)	0	0	0	0	0	(41)	(130)	-	-	-	-
Adjusted Earnings	**428**	**260**	**250**	**370**	**370**	**197**	**259**	**393**	**426**	**236**	**246**	**404**	**1,308**	**1,219**	**1,312**	**1,471**	**1,838**	**1,964**
															93	**159**	**368**	**125**
Reported GAAP EPS	**$1.74**	**$1.17**	**$0.99**	**$1.47**	**$1.27**	**$0.06**	**$2.46**	**$1.56**	**$1.69**	**$0.94**	**$0.98**	**$1.60**	**$5.38**	**$5.36**	**$5.21**	**$5.84**	**$7.15**	**$7.45**
Adjusted EPS	**$1.70**	**$1.03**	**$1.00**	**$1.47**	**$1.47**	**$0.78**	**$1.03**	**$1.56**	**$1.69**	**$0.94**	**$0.98**	**$1.60**	**$5.21**	**$4.84**	**$5.21**	**$5.84**	**$7.15**	**$7.45**

Source: Company reports and Guggenheim Securities, LLC estimates.

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CASH FLOW STATEMENT	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Cash Flows From Operating Activities																		
Net income	458	320	262	388	330	27	753	417	445	258	268	430	1,448	1,527	1,400	1,565	1,932	2,056
Depreciation and amortization	303	307	315	325	328	314	328	171	169	171	177	178	1,250	1,141	695	739	773	807
Deferred income taxes and investment tax credits	131	72	(24)	60	112	(154)	212	0	0	0	0	0	239	170	0	0	0	0
Equity earnings	(34)	(49)	(60)	(46)	5	(47)	(31)	0	0	0	0	0	(189)	(73)	0	0	0	0
Fixed-price contracts and other derivatives	11	(11)	(20)	10	4	37	(2)	0	0	0	0	0	(10)	39	0	0	0	0
Other	(27)	19	36	47	2	31	17	0	0	0	0	0	75	50	0	0	0	0
Changes in operating assets and liabilities:													0					
Net change in other working capital components	19	(135)	376	439	165	2	57	0	0	0	0	0	699	224	0	0	0	0
Insurance receivable for Aliso Canyon costs	0	0	0	(325)	(335)	(19)	15	0	0	0	0	0	(325)	(339)	0	0	0	0
Distributions from RBS Sempra Commodities LLP	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Changes in other assets	(42)	(47)	(23)	(50)	(29)	(38)	83	(183)	0	0	0	0	(162)	(187)	0	0	(38)	38
Changes in other liabilities	13	(6)	(12)	(19)	10	137	(9)						(24)	138	0	0	0	0
Net cash provided by operating activities	**811**	**408**	**870**	**816**	**592**	**290**	**809**	**405**	**613**	**428**	**445**	**609**	**2,905**	**2,096**	**2,095**	**2,304**	**2,666**	**2,901**
Cash Flows From Investing Activities																		
Expenditures for property, plant and equipment	(780)	(686)	(761)	(929)	(971)	(1,035)	(1,081)	(1,393)	(770)	(770)	(770)	(770)	(3,156)	(4,480)	(3,079)	(2,639)	(2,639)	(2,639)
Expenditures for investments and acquisition of business	(34)	(127)	(22)	(17)	(30)	(16)	(1,166)	0	0	0	0	0	(200)	(1,212)	0	0	0	0
Proceeds from sale of equity interests and assets, net of cash sold	0	347	0	26	0	443	318	0	0	0	0	0	373	761	0	0	0	0
Distributions from investments	1	8	5	1	9	3	11	0	0	0	0	0	15	23	0	0	0	0
Purchases of nuclear decommissioning and other trust assets	(95)	(134)	(178)	(124)	(94)	(112)	(212)	0	0	0	0	0	(531)	(418)	0	0	0	0
Proceeds from sales by nuclear decommissioning and other trusts	94	127	210	146	93	111	282	0	0	0	0	0	577	486	0	0	0	0
Increases in restricted cash	(18)	(16)	(47)	(19)	(16)	(16)	(21)	0	0	0	0	0	(100)	(53)	0	0	0	0
Decreases in restricted cash	25	24	19	25	20	24	27	0	0	0	0	0	93	71	0	0	0	0
Advances to unconsolidated affiliates	(5)	(15)	(4)	(7)	(5)	(3)	(3)	0	0	0	0	0	(31)	(12)	0	0	0	0
Repayments of advances to unconsolidated affiliates	33	41	0	0	9	0	2	0	0	0	0	0	74	11	0	0	0	0
Other	9	0	0	(8)	(3)	(3)	4						1	(2)	0	0	0	0
Net cash used in investing activities	**(770)**	**(431)**	**(778)**	**(906)**	**(989)**	**(604)**	**(1,839)**	**(1,393)**	**(770)**	**(770)**	**(770)**	**(770)**	**(2,885)**	**(4,825)**	**(3,079)**	**(2,639)**	**(2,639)**	**(2,639)**
Cash Flows From Financing Activities																		
Common dividends paid	(149)	(159)	(160)	(160)	(161)	(174)	(175)	(192)	(205)	(205)	(205)	(205)	(628)	(702)	(821)	(887)	(978)	(1,082)
Redemption of subsidiary preferred stock	0	0	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	(1)	0	0	0	0	0	0	(1)	(1)	0	0	0	0
Issuances of common stock	17	14	10	11	15	14	11	0	0	0	0	0	52	40	0	0	0	0
Repurchases of common stock	(65)	(1)	(8)	0	(54)	0	(1)	0	0	0	0	0	(74)	(55)	0	0	0	0
Issuances of debt (maturities greater than 90 days)	938	609	511	934	55	1,329	629	1,059	400	1,100	500	400	2,992	3,063	2,500	1,600	1,350	1,150
Payments on debt (maturities greater than 90 days)	(654)	(192)	(470)	(538)	(54)	(932)	(312)	0	0	(600)	0	0	(1,354)	(1,298)	(600)	(500)	(500)	(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	0	0
Increase (decrease) in short-term debt, net	(383)	24	138	(421)	531	334	771	0	0	0	0	0	(622)	1,636	0	0	0	0
Tax benefit related to share-based compensation	52	(52)	0	52	34	(34)	0	0	0	0	0	0	52	0	0	0	0	0
Payments on notes payable to unconsolidated affiliate	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase of noncontrolling interests	0	0	0	0	0	0	78	0	0	0	0	0	0	78	0	0	0	0
Net distributions to noncontrolling interests	0	(14)	(43)	(16)	0	(10)	(33)	0	0	0	0	0	(73)	(43)	0	0	0	0
Other	(7)	53	1	(64)	(2)	26	(36)	0	0	0	0	0	(17)	(12)	0	0	0	0
Net cash used in financing activities	**(231)**	**281**	**(21)**	**(202)**	**364**	**552**	**932**	**858**	**195**	**295**	**395**	**195**	**(173)**	**2,706**	**1,079**	**213**	**(128)**	**(432)**
Effect of exchange rate changes on cash and cash equivalents	(3)	1	(10)	(2)	6	2	0						(14)	8	0	0	0	0
Increase (decrease) in cash and cash equivalents	**(193)**	**259**	**61**	**(294)**	**(27)**	**240**	**(98)**	**(130)**	**38**	**(47)**	**70**	**34**	**(167)**	**(15)**	**95**	**(122)**	**(100)**	**(170)**
Cash and cash equivalents, January 1	570	377	636	697	403	376	616	518	388	426	380	450	570	403	388	483	362	261
Cash and cash equivalents, September 30	**377**	**636**	**697**	**403**	**376**	**616**	**518**	**388**	**426**	**380**	**450**	**483**	**403**	**388**	**483**	**362**	**261**	**92**

Source: Company reports and Guggenheim Securities, LLC estimates.

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BALANCE SHEET	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Current Assets:																		
Cash and cash equivalents	377	638	697	403	378	616	518	388	426	380	450	483	403	388	483	362	261	92
Short-term investments													0	0	0	0	0	0
Restricted cash	10	8	13	27	23	17	14	14	14	14	14	14	27	14	14	14	14	14
Accounts receivable:													0	0	0	0	0	0
Customers	1,081	990	1,024	1,283	1,100	994	1,062	1,062	1,062	1,062	1,062	1,062	1,283	1,062	1,062	1,062	1,062	1,062
Other receivables	175	154	176	190	177	140	171	171	171	171	171	171	190	171	171	171	171	171
Due from unconsolidated affiliates	5	4	3	6	7	6	8	123	123	123	123	123	6	123	123	123	123	123
Income taxes receivable	53	100	22	30	49	36	28	96	96	96	96	96	30	96	96	96	96	96
Deferred income taxes	244	99	198	0	0	0	0	0	0	0	0	0	0	0	0	0	38	0
Inventories:													0	0	0	0	0	0
Materials and supplies	133	139	144	143	145	162	176	176	176	176	176	176	143	176	176	176	176	176
Liquefied natural gas	11	14	11	6	9	11	7	7	7	7	7	7	6	7	7	7	7	7
Natural gas	111	113	261	149	77	97	119	119	119	119	119	119	149	119	119	119	119	119
Regulatory balancing accounts undercollected	718	795	585	307	256	336	248	248	248	248	248	248	307	248	248	248	248	248
Other regulatory assets													0	0	0	0	0	0
Fixed-price contracts and other derivatives	89	35	56	80	88	65	53	53	53	53	53	53	80	53	53	53	53	53
U.S. Treasury grants receivable													0	0	0	0	0	0
Asset held for sale, power plant	295				303	654	181	181	181	181	181	181	0	181	181	181	181	181
Insurance receivable related to wildfire litigation													0	0	0	0	0	0
Settlements receivable related to wildfire litigation													0	0	0	0	0	0
Other	354	356	406	267	273	207	339	339	339	339	339	339	267	339	339	339	339	339
Total current assets	**3,656**	**3,506**	**3,606**	**2,891**	**2,883**	**3,341**	**2,924**	**2,977**	**3,015**	**2,969**	**3,039**	**3,072**	**2,891**	**2,977**	**3,072**	**2,951**	**2,888**	**2,681**
Investments																		
Nuclear decommissioning trust funds	1,150	1,145	1,060	1,063	1,082	1,103	1,068	1,068	1,068	1,068	1,068	1,068	1,063	1,068	1,068	1,068	1,068	1,068
Investment in RBS Sempra Commodities LLP													0	0	0	0	0	0
Other	2,772	2,929	2,845	2,905	2,727	2,267	1,840	1,840	1,840	1,840	1,840	1,840	2,905	1,840	1,840	1,840	1,840	1,840
Total investments	**3,922**	**4,074**	**3,905**	**3,968**	**3,809**	**3,370**	**2,908**	**2,908**	**2,908**	**2,908**	**2,908**	**2,908**	**3,968**	**2,908**	**2,908**	**2,908**	**2,908**	**2,908**
Property, Plant and Equipment																		
Property, Plant and Equipment	35,901	36,523	37,280	38,200	38,541	39,756	41,938	43,331	44,101	44,871	45,640	46,410	38,200	43,331	46,410	49,049	51,688	54,326
Accumulated depreciation, depletion and amortization	(9,665)	(9,830)	(9,966)	(10,161)	(10,108)	(10,261)	(10,451)	(10,622)	(10,790)	(10,961)	(11,138)	(11,317)	(10,161)	(10,622)	(11,317)	(12,056)	(12,828)	(13,635)
Total property, plant and equipment, net	**26,236**	**26,693**	**27,314**	**28,039**	**28,433**	**29,495**	**31,487**	**32,709**	**33,311**	**33,909**	**34,502**	**35,093**	**28,039**	**32,709**	**35,093**	**36,993**	**38,859**	**40,691**
Deferred Charges and Other Assets																		
Restricted cash	23	17	40	20	20	18	12	12	12	12	12	12	20	12	12	12	12	12
Due from unconsolidated affiliates	195	169	175	186	166	192	195	195	195	195	195	195	186	195	195	195	195	195
Regulatory assets	3,046	3,095	3,112	3,273	3,336	3,353	3,424	3,424	3,424	3,424	3,424	3,424	3,273	3,424	3,424	3,424	3,424	3,424
Other regulatory assets													0	0	0	0	0	0
Goodwill	903	885	847	819	849	786	2,150	2,150	2,150	2,150	2,150	2,150	819	2,150	2,150	2,150	2,150	2,150
Other intangible assets	412	410	407	404	402	399	397	397	397	397	397	397	404	397	397	397	397	397
Dedicated assets in support of certain benefit plans	476	483	459	464	432	436	439	439	439	439	439	439	464	439	439	439	439	439
Insurance receivable for Aliso Canyon costs			0	325	660	678	664	664	664	664	664	664	325	664	664	664	664	664
Deferred income taxes							211	211	211	211	211	211		211	211	211	211	211
Sundry	682	674	781	781	825	806	715	715	715	715	715	715	781	715	715	715	715	715
Total deferred charges and other assets	**5,737**	**5,733**	**5,741**	**6,252**	**6,710**	**6,669**	**8,207**	**8,207**	**8,207**	**8,207**	**8,207**	**8,207**	**6,252**	**8,207**	**8,207**	**8,207**	**8,207**	**8,207**
TOTAL ASSETS	39,551	40,006	40,566	41,150	41,835	42,875	45,526	46,801	47,441	47,993	48,656	49,280	41,150	46,801	49,280	51,059	52,862	54,486

Source: Company reports and Guggenheim Securities, LLC estimates.

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SEMPRA ENERGY

CONSOLIDATED FINANCIALS

$ in millions, unless otherwise noted

BALANCE SHEET	1Q15A	2Q15A	3Q15A	4Q15A	1Q16A	2Q16A	3Q16A	4Q16E	1Q17E	2Q17E	3Q17E	4Q17E	2015A	2016E	2017E	2018E	2019E	2020E
Current Liabilities:																		
Short-term debt	795	736	1,097	622	1,177	1,777	2,869	2,869	2,869	2,869	2,869	2,869	622	2869	2869	2869	2869	2869
Accounts payable trade	907	850	1,091	1,133	1,026	1,140	1,173	1,173	1,173	1,173	1,173	1,173	1,133	1173	1173	1173	1173	1173
Accounts payable other	137	124	142	142	129	101	125	125	125	125	125	125	142	125	125	125	125	125
Due to unconsolidated affiliate	—	—	—	14	13	8	9	9	9	9	9	9	14	9	9	9	9	9
Income taxes payable	0	0	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	0	0
Dividends and interest payable	344	300	343	303	360	314	357	357	357	357	357	357	303	357	357	357	357	357
Accrued compensation and benefits	238	271	356	423	259	289	298	298	298	298	298	298	423	298	298	298	298	298
Regulatory balancing accounts overcollected				34	45	120	146	146	146	146	146	146	34	146	146	146	146	146
Current portion of long-term debt	477	1,273	1,168	907	1,066	907	904	904	904	904	904	904	907	904	904	904	904	904
Fixed-price contracts and other derivatives	50	55	72	56	57	54	94	94	94	94	94	94	56	94	94	94	94	94
Customer deposits	155	150	152	153	147	150	153	153	153	153	153	153	153	153	153	153	153	153
Reserve for Aliso Canyon costs		0	0	274	302	117	73	73	73	73	73	73	274	73	73	73	73	73
Liabilities held for sale						222	35	35	35	35	35	35	0	35	35	35	35	35
Other	667	598	695	551	549	481	558	558	558	558	558	558	551	558	558	558	558	558
Total current liabilities	**3,770**	**4,399**	**5,118**	**4,612**	**5,132**	**5,680**	**6,794**	**6,794**	**6,794**	**6,794**	**6,794**	**6,794**	**4,612**	**6,794**	**6,794**	**6,794**	**6,794**	**6,794**
Long-Term Debt																		
Long-term debt	13,012	12,626	12,527	13,134	12,975	13,178	13,522	14,572	14,972	15,472	16,072	16,472	13,134	14,572	16,472	17,572	18,422	19,072
Junior subordinated notes payable:														0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total long-term debt	**13,012**	**12,626**	**12,527**	**13,134**	**12,975**	**13,178**	**13,522**	**14,572**	**14,972**	**15,472**	**16,072**	**16,472**	**13,134**	**14,572**	**16,472**	**17,572**	**18,422**	**19,072**
Deferred Credits and Other Liabilities																		
Due to unconsolidated affiliate																		
Customer advances for construction	144	144	145	149	148	152	153	153	153	153	153	153	149	153	153	153	153	153
Pension and other postretirement benefit plan obligations, net of plan a	1,077	1,101	1,114	1,152	1,165	1,171	1,199	1,199	1,199	1,199	1,199	1,199	1,152	1199	1199	1199	1199	1199
Deferred income taxes	3,019	3,016	3,057	3,157	3,222	3,071	3,326	3,326	3,326	3,326	3,326	3,326	3,157	3326	3326	3326	3326	3326
Deferred investment tax credits	35	35	34	32	32	32	34	34	34	34	34	34	32	34	34	34	34	34
Regulatory liabilities arising from removal obligations	2,755	2,752	2,715	2,793	2,850	2,891	2,878	2,878	2,878	2,878	2,878	2,878	2,793	2,878	2,878	2,878	2,878	2,878
Asset retirement obligations	2,066	2,067	2,068	2,126	2,151	2,491	2,508	2,508	2,508	2,508	2,508	2,508	2,126	2,508	2,508	2,508	2,508	2,508
Fixed-price contracts and other derivatives	274	300	300	240	248	262	413	413	413	413	413	413	240	413	413	413	413	413
Reserve for wildfire litigation													0	0	0	0	0	0
Deferred credits and other	1,118	1,081	1,092	1,176	1,188	1,384	1,508	1,508	1,508	1,508	1,508	1,508	1,176	1,508	1,508	1,508	1,508	1,508
Total deferred credits and other liabilities	**10,488**	**10,506**	**10,525**	**10,825**	**11,004**	**11,454**	**12,019**	**12,019**	**12,019**	**12,019**	**12,019**	**12,019**	**10,825**	**12,019**	**12,019**	**12,019**	**12,019**	**12,019**
Total liabilities	**27,270**	**27,531**	**28,170**	**28,571**	**29,111**	**30,312**	**32,335**	**33,385**	**33,785**	**34,285**	**34,885**	**35,285**	**28,571**	**33,385**	**35,285**	**36,385**	**37,235**	**37,885**
Contingently redeemable preferred stock of subsidiary																		
Noncontrolling Interest	757	772	751	750	758	762	825	825	825	825	825	825	750	825	825	825	825	825
Subsidiary Preferred Stock	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20	20
Common Shareholders' Equity																		
Common stock-no par	2,514	2,555	2,587	2,621	2,642	2,661	2,684	2,684	2,684	2,684	2,684	2,684	2,621	2,684	2,684	2,684	2,684	2,684
Other paid-in capital	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retained earnings	9,603	9,724	9,799	9,994	10,125	9,952	10,527	10,752	10,992	11,044	11,107	11,331	9,994	10,752	11,331	12,010	12,963	13,937
Deferred compensation													0	0	0	0	0	0
Accumulated other comprehensive income (loss)	(513)	(596)	(761)	(806)	(821)	(852)	(865)	(865)	(865)	(865)	(865)	(865)	(806)	(865)	(865)	(865)	(865)	(865)
Total common shareholders' equity	**11,504**	**11,683**	**11,625**	**11,809**	**11,946**	**11,781**	**12,346**	**12,571**	**12,811**	**12,863**	**12,926**	**13,150**	**11,809**	**12,571**	**13,150**	**13,829**	**14,782**	**15,756**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	39,551	40,006	40,566	41,150	41,835	42,875	45,526	46,801	47,441	47,993	48,656	49,280	41,150	46,801	49,280	51,059	52,862	54,486

Source: Company reports and Guggenheim Securities, LLC estimates.

VECTREN (VVC, BUY, $57 PT, $52.30)

Upgrading VVC to BUY - Strong story, solid growth: We are anticipating upside to the NT outlook.

- **Upgrading to BUY from NEUTRAL with a PT of $57 - Higher earnings guidance could be provided on the Feb. 2017 earnings call.** Overall, we believe VVC remains a solid above-average growth story weighted heavily towards gas while electric currently maintains flat growth by management's own design to mitigate rate impact – now in a position to spend at electric. **Currently, electric has been held back to ~1% ratebase growth essentially matching CapEx with depreciation given substantial growth/focus on the gas business historically – we jump ahead of this. NT catalyst – IRP filed with Indiana Commission, higher earnings guidance could be provided on the Feb. 2017 earnings call with a return to more normalized electric growth.** Indiana IRP paved the way towards a coal-less generation mix, with incremental capital spending through the next decade. Our outlook also captures the above-average growth profile of VVC's gas utility while maintaining conservative assumptions with the two non-utility businesses – VISCO and VESCO. VVC has riders for infrastructure in both Indiana and Ohio, translating into earned ROEs aligned with allowed. **Our revised stance is an anticipatory call stemming from potential upside to management's growth outlook; a good entry point for shares that remain underfollowed by investors.**

- **We are introducing estimates for 2019 and 2020 of $3.12/$3.34 versus street consensus of $3.08/$3.24.** As we extend our outlook through the end of the decade, we are introducing estimates for 2019 and 2020 based on ~$1.1bn of CapEx for the combined 2 years. **Through our new 2020 trajectory, we model ~7.2% annual utility rate base growth that is mainly driven by 8% gas rate base growth, slightly offset by less than 5% electric rate base, which is higher than the current guide given our forecast for a return to electric spend** – modeling ROEs averaging ~10.5% with minimal rate cases. Utility business mix begins to shift towards more gas concentrated beginning in 2017, when gas utilities contribute more than half of regulated earnings for the first time and continue to grow to ~60% of total earnings in 2020. We believe we are conservative - could see more upside to outlook especially at electric.

- **Our 2016/2017/2018 EPS estimates are reiterated at $2.50/$2.67/$2.82; versus street of $2.50/$2.66/$2.84.** We model consolidated earnings growing ~6.5% per year through our 2018 trajectory almost on top end of management's 5-7% consolidated growth outlook, comprised of utility earnings growth of 5.5% per year and non-utility growth of 11%, with slight offset from dilution as we model $7mm/year of equity through the company's DRIP program. Our utility estimates also assume flat-ish gas customer growth and 1% electric customer growth, as well as progress toward the company's targeted O&M of $290mm-$300mm through 2018. At non-utility segment, we model growth mainly from the distribution side with expanding customer base, as the primary bridge that drives higher consolidated growth when compared with the utilities. Through 2016E-2018E, our average ROEs equate to ~10.5%, CAPEX totals $1.5b on balanced cap structure.

- **NT Potential Catalyst: Electric IRP in Indiana; Ohio rate case to be filed in late 2017/early 2018.** VVC will provide 2017 earnings guidance on the February 2017 earnings call where we now see upside potential. As a reminder, VVC filed electric IRP in Indiana through Southern Indiana Gas and Electric on 12/16, unveiling plans to retire 715MW of coal and gas capacity by 2025 and add 54MW of solar capacity by 2019 and 889MW of CCGT by 2024, with main complexities of the file centering on EPA's regulations on water and coal ash at two ponds in VVC's jurisdiction. **Next**

step: IURC will respond to the IRP by releasing a director's report possibly in the summer of 2017. Management will provide more clarity of incremental spending opportunity and potential rate increase on the FY16 earnings call; the finalized plan will be released to the public once approved by IURC in summer of 2017. **With only 1% ratebase growth at Electric assumed in management's plan, a return to more normalized electric growth could provide upside surprise to management's current 4-6% utility EPS growth guidance (or 5-7% consolidated growth guidance) given the Electrics sizable contribution (~50%) to consolidated results**. Additionally, VVC could file rate case at the Ohio gas utility in late 2017/early 2018 when the distribution replacement rider ends – something worth monitoring. We also highlight that new contracts at the non-utility section could be the trigger of substantial growth as earnings growth at non-utility businesses is a function of converting its backlog of "blanket contracts" into revenue. For now, we remain conservative with the non-utility segments.

- **Valuation: We arrive at our $57 price target utilizing a sum-of-the-parts analysis comprised of:** (1) $18/share for regulated electric utility when we apply our group average regulated electric utility multiple of 15.5x, which is based on a regression of corp. bond yields and utility PE multiples and 2x premium to account for earnings/growth upside at the electric utility segment not being reflected with current fundamentals; **(2)** $25/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 9.5x multiple to non-utility EBITDA of $118mm ($14/share value), which is a consolidation of our forecasts for the distribution and transmission construction segment (VISCO) and Energy Services (VESCO) where we continue to see upside potential; multiple reflects current market condition. **Incorporating our estimated 3.3% dividend yield would equate to a 12.3% ETR.**

Guggenheim's VVC EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	Cons
2015A	0.69A	0.43A	0.48A	0.79A	2.39A	
2016E	0.58A	0.39A	0.74A	0.78E	2.50E	2.50E
Prior				*0.79E*	*2.50E*	
2017E	0.80E	0.45E	0.60E	0.82E	2.67E	2.66E
Prior	*0.78E*	*0.47E*	*0.57E*	*0.86E*	*2.67E*	
2018E	0.88E	0.45E	0.62E	0.87E	2.82E	2.84E
Prior	*0.85E*	*0.49E*	*0.57E*	*0.90E*	*2.82E*	
2019E	0.96E	0.51E	0.69E	0.95E	3.12E	3.08E
2020E	1.03E	0.55E	0.74E	1.01E	3.34E	3.24E

Source: Company reports, Guggenheim Securities, LLC estimates.

- **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.

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Vectren Corp.

Consolidated Financials

Income Statement ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Gas utility	353	129	109	203	793	281	132	118	192	723	289	138	124	199	751	778	783	788
Electric utility	154	148	164	136	602	142	148	174	129	592	136	142	168	135	581	562	567	563
Nonutility	199	275	301	266	1,041	162	254	340	260	1,015	298	291	297	289	1,176	1,253	1,492	1,646
Total Operating Revenues	**706**	**551**	**574**	**604**	**2,435**	**585**	**534**	**631**	**581**	**2,330**	**723**	**571**	**589**	**624**	**2,508**	**2,593**	**2,842**	**2,997**
Cost of gas sold	172	36	27.3	70	305	112	34	29	50	224	98	30	26	44	198	174	149	127
Cost of fuel & purchased power	50	47	47.9	43	188	44	45	51	34	175	42	43	49	36	171	165	167	166
Cost of nonutility revenues	64	93	106.8	91	355	55	83	111	211	460	284	248	242	238	1,012	1,068	1,281	1,406
Total Cost of sales	**286**	**177**	**182.0**	**203**	**848**	**211**	**162**	**191**	**295**	**859**	**424**	**322**	**317**	**317**	**1,380**	**1,407**	**1,597**	**1,699**
Gross Margin	**420**	**374**	**391.5**	**401**	**1,587**	**374**	**372**	**441**	**286**	**1,471**	**300**	**250**	**272**	**306**	**1,127**	**1,186**	**1,245**	**1,299**
Other operating	231	225	234.3	219	909	200	230	256	100	786	103	91	89	96	379	365	351	338
Taxes other than income taxes	20	13	12.3	15	60	18	14	13	19	64	19	20	20	21	80	86	91	95
Total Operating Expenses	**251**	**238**	**246.6**	**234**	**969**	**218**	**244**	**270**	**119**	**850**	**122**	**111**	**109**	**117**	**459**	**451**	**442**	**433**
EBITDA	**169**	**137**	**144.9**	**168**	**618**	**156**	**128**	**171**	**167**	**622**	**178**	**138**	**162**	**190**	**668**	**736**	**804**	**865**
Depreciation & amortization	63	64	65.0	65	256	64	64	65	58	252	60	62	63	65	250	276	299	324
Operating Income	**106**	**73**	**79.9**	**103**	**362**	**92**	**64**	**106**	**109**	**370**	**118**	**77**	**99**	**124**	**418**	**460**	**505**	**541**
Equity in unconsolidated affiliates	-	-	(0.6)	-	(1)	(0)	0	(0)	-	(0)	-	-	-	-	-	-	-	-
Other income – net	6	5	4.0	6	20	6	8	8	7	28	3	4	3	3	13	-	-	-
Interest expense	21	21	21.2	21	85	22	21	21	19	83	20	21	21	22	85	93	99	105
Income before taxes	**91**	**57**	**62.1**	**87**	**297**	**76**	**51**	**92**	**96**	**315**	**100**	**59**	**81**	**106**	**346**	**367**	**406**	**436**
Income Taxes	34	21	22.8	22	100	27	18	31	32	108	33	22	31	38	125	133	147	158
Tax Rate	*37%*	*37%*	*0.4*	*25%*	*34%*	*36%*	*36%*	*33%*	*33%*	*34%*	*33%*	*38%*	*39%*	*36%*	*36%*	*36%*	*36%*	*36%*
Net income	**57**	**36**	**39.3**	**65**	**197**	**48**	**32**	**61**	**65**	**207**	**67**	**37**	**50**	**68**	**221**	**234**	**259**	**278**
Less: Income from noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income attributable to shareholders	**57**	**36**	**39.3**	**65**	**197**	**48**	**32**	**61**	**65**	**207**	**67**	**37**	**50**	**68**	**221**	**234**	**259**	**278**
Earnings Per Common Share, Diluted	0.69	0.43	0.5	0.79	2.39	0.58	0.39	0.74	0.78	2.50	0.80	0.45	0.60	0.82	2.67	2.82	3.12	3.34
Non-operating items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	**57**	**36**	**39.3**	**65**	**197**	**48**	**32**	**61**	**65**	**207**	**67**	**37**	**50**	**68**	**221**	**234**	**259**	**278**
Wtd. Avg. shares outstanding	83	83	82.7	83	**83**	83	83	83	83	**83**	83	83	83	83	**83**	**83**	**83**	**83**
Operating EPS	**0.69**	**0.43**	**0.5**	**0.79**	**2.39**	**0.58**	**0.39**	**0.74**	**0.78**	**$2.50**	**0.80**	**0.45**	**0.60**	**0.82**	**$2.67**	**$2.82**	**$3.12**	**$3.34**

Source: Company reports; Guggenheim Securities, LLC estimates.

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Vectren Corp.

Consolidated Financials

Cash Flow Statement ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Net Income	57	36	39	65	197	48	32	61	65	207	67	37	50	68	221	234	259	278
Adjustments to reconcile net income to net cash provided by operating activities:																		
Depreciation & amortization	63	64	65	65	256	64	64	65	58	252	60	62	63	65	250	276	299	324
Deferred income taxes & investment tax credits	15	14	16	36	80	24	25	20	-	69	-	-	-	-	-	-	-	-
Equity in (earnings) losses of unconsolidated affiliates	-	-	1	-	1	0	(0)	0	-	0	-	-	-	-	-	-	-	-
Provision for uncollectible accounts	3	1	1	2	8	3	2	1	-	5	-	-	-	-	-	-	-	-
Expense portion of pension & postretirement benefit cost	2	2	2	2	7	1	1	1	-	3	-	-	-	-	-	-	-	-
Other non-cash charges - net	2	2	3	0	7	3	1	(2)	-	2	-	-	-	-	-	-	-	-
Loss on sale of business (pretax)	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on revaluation of contingent consideration	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in working capital accounts:																		
Accounts receivable & accrued unbilled revenues	(30)	56	(8)	(33)	(15)	87	7	(51)	-	42	-	-	-	-	-	-	-	-
Inventories	26	(20)	(18)	(3)	(15)	11	(5)	(10)	-	(4)	-	-	-	-	-	-	-	-
Recoverable/refundable fuel & natural gas costs	30	(0)	(3)	(12)	15	(17)	(10)	(5)	-	(31)	-	-	-	-	-	-	-	-
Prepayments & other current assets	61	(2)	(13)	(27)	20	33	(15)	(4)	-	15	-	-	-	-	-	-	-	-
Accounts payable, including to affiliated companies	(28)	(44)	35	36	(1)	(38)	15	16	-	(8)	-	-	-	-	-	-	-	-
Accrued liabilities	6	(17)	10	1	(1)	(1)	(13)	14	-	1	-	-	-	-	-	-	-	-
Unconsolidated affiliate dividends	-	-	1	1	1	-	-	0	-	0	-	-	-	-	-	-	-	-
Employer contributions to pension & postretirement plans	(21)	(1)	(1)	(3)	(27)	(16)	(1)	(2)	-	(19)	-	-	-	-	-	-	-	-
Changes in noncurrent assets	11	(16)	(11)	(7)	(23)	(6)	(11)	(15)	-	(32)	-	-	-	-	-	-	-	-
Changes in noncurrent liabilities	4	(7)	1	(4)	(6)	6	(1)	(8)	-	(2)	-	-	-	-	-	-	-	-
Net Cash Provided by Operating Activities	200	67	120	119	505	202	91	85	123	501	127	99	113	133	471	510	558	603
Cash Flow from Investing Activities:																		
Sale of business	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unconsolidated affiliate distributions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of assets and other collections	1	3	3	20	28	0	1	15	-	17	-	-	-	-	-	-	-	-
Capital expenditures, excluding AFUDC equity	(65)	(123)	(142)	(128)	(477)	(109)	(139)	(134)	(155)	(537)	(154)	(163)	(149)	(149)	(615)	(525)	(525)	(525)
Business acquisitions and other costs	-	(13)	(1)	(0)	(14)	-	-	(5)	-	(5)	-	-	-	-	-	-	-	-
Other investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in restricted cash	-	-	(10)	4	(6)	-	0	2	-	3	-	-	-	-	-	-	-	-
Net Cash Used in Investing Activities	(85)	(132)	(149)	(104)	(470)	(108)	(138)	(121)	(155)	(523)	(154)	(163)	(149)	(149)	(615)	(525)	(525)	(525)
Cash flow from financing																		
Long-term debt, net of issuance costs	-	-	38	348	386	-	-	-	25	25	10	60	50	25	145	25	-	-
Dividend reinvestment plan & other common stock issuances	2	1	2	2	6	2	2	2	2	7	2	2	2	2	7	7	7	7
Dividends on common stock	(32)	(31)	(32)	(33)	(127)	(33)	(33)	(33)	-	(99)	-	-	-	-	-	-	-	-
Retirement of long-term debt	(5)	-	-	(165)	(170)	(60)	(13)	-	-	(73)	-	-	-	-	-	-	-	-
Proceeds from additional capital contribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financing activities	-	-	-	0	0	-	-	-	-	-	-	-	-	-	-	-	-	-
Net change in short-term borrowings	(150)	90	15	(97)	(142)	(15)	45	66	-	117	-	-	-	-	-	-	-	-
Net Cash (Used in) Provided by Financing Activities	(185)	60	22	55	(47)	(106)	1	55	27	(24)	12	62	52	27	152	32	7	7
Net (Decrease) Increase in Cash and Cash Equivalents	(69)	(6)	(6)	70	(12)	(12)	(47)	19	(5)	(45)	(15)	(3)	16	11	8	17	40	85
Cash and Cash Equivalents, Beginning of Period	86	17	11	5	86	75	63	16	34	75	29	14	11	27	29	38	55	95
Cash and Cash Equivalents, End of Period	17	11	5	75	75	63	16	34	29	29	14	11	27	38	38	55	95	180

Source: Company reports; Guggenheim Securities, LLC estimates.

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Consolidated Financials

Balance Sheet ($ Millions)	1QA	2QA	3QA	4QA	2015A	1QA	2QA	3QA	4QE	2016E	1QE	2QE	3QE	4QE	2017E	2018E	2019E	2020E
Cash & cash equivalents	17	11	5	75	75	63	16	34	29	29	14	11	27	38	38	55	95	180
Accounts receivable	243	208	219	228	228	177	177	228	228	228	228	228	228	228	228	228	228	228
Accrued unbilled revenues	144	124	129	143	143	104	96	95	95	95	95	95	95	95	95	95	95	95
Inventories	93	113	130	134	134	123	128	137	137	137	137	137	137	137	137	137	137	137
Recoverable fuel & natural gas costs	-	-	-	-	-	9	18	23	23	23	23	23	23	23	23	23	23	23
Prepayments & other current assets	47	51	65	81	81	47	62	63	63	63	63	63	63	63	63	63	63	63
Assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Assets	**544**	**507**	**539**	**659**	**659**	**522**	**497**	**580**	**575**	**575**	**560**	**557**	**573**	**583**	**683**	**601**	**641**	**725**
Utility Plant																		
Original cost	5,778	5,887	6,001	6,090	6,090	6,172	6,299	6,420	6,575	6,575	6,729	6,892	7,041	7,190	7,190	7,715	8,240	8,765
Less: accumulated depreciation & amortization	2,317	2,352	2,385	2,416	2,416	2,454	2,493	2,527	2,585	2,585	2,645	2,707	2,770	2,836	2,836	3,112	3,411	3,735
Net Property, Plant and Equipment in Service	**3,461**	**3,535**	**3,616**	**3,675**	**3,675**	**3,718**	**3,806**	**3,893**	**3,990**	**3,990**	**4,083**	**4,185**	**4,271**	**4,354**	**4,354**	**4,603**	**4,829**	**5,030**
Other Non-current Assets																		
Investments in unconsolidated affiliates	23	23	22	21	21	21	21	20	20	20	20	20	20	20	20	20	20	20
Other utility & corporate investments	38	37	33	31	31	30	33	36	36	36	36	36	36	36	36	36	36	36
Other nonutility investments	34	32	32	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16
Nonutility plant - net	381	402	416	415	415	425	431	421	421	421	421	421	421	421	421	421	421	421
Goodwill	290	294	294	294	294	294	294	294	294	294	294	294	294	294	294	294	294	294
Regulatory assets	225	244	257	249	249	258	274	290	290	290	290	290	290	290	290	290	290	290
Other assets	40	43	43	40	40	41	41	43	43	43	43	43	43	43	43	43	43	43
Total other non-current assets	**1,030**	**1,074**	**1,095**	**1,066**	**1,066**	**1,083**	**1,109**	**1,119**	**1,119**	**1,119**	**1,119**	**1,119**	**1,119**	**1,119**	**1,119**	**1,119**	**1,119**	**1,119**
Total Assets	**5,035**	**5,115**	**5,250**	**5,400**	**5,400**	**5,323**	**5,411**	**5,592**	**5,684**	**5,684**	**5,762**	**5,861**	**5,962**	**6,057**	**6,057**	**6,323**	**6,589**	**6,874**
Accounts payable	216	181	218	249	249	213	240	266	266	266	266	266	266	266	266	266	266	266
Accounts payable to affiliated companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Refundable fuel & natural gas costs	23	23	20	8	8	-	-	-	-	-	-	-	-	-	-	-	-	-
Accrued liabilities	194	174	182	184	184	183	171	185	185	185	185	185	185	185	185	185	185	185
Short-term borrowings	6	96	111	15	15	-	45	131	131	131	131	131	131	131	131	131	131	131
Current maturities of long-term debt	225	88	88	73	73	13	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	**661**	**562**	**619**	**528**	**528**	**409**	**456**	**582**	**582**	**582**	**582**	**582**	**582**	**582**	**582**	**582**	**582**	**582**
Long-term Debt - Net of Current Maturities	1,347	1,486	1,523	1,713	1,713	1,713	1,714	1,714	1,739	1,739	1,749	1,809	1,859	1,884	1,884	1,909	1,909	1,909
Deferred Income Taxes & Other Liabilities																		
Deferred income taxes	753	769	777	805	805	828	854	875	875	875	875	875	875	875	875	875	875	875
Regulatory liabilities	417	424	431	434	434	441	448	451	451	451	451	451	451	451	451	451	451	451
Deferred credits & other liabilities	223	236	251	236	236	232	238	239	239	239	239	239	239	239	239	239	239	239
Total deferred credits & other liabilities	**2,741**	**2,914**	**2,981**	**3,188**	**3,188**	**3,214**	**3,254**	**3,279**	**3,304**	**3,304**	**3,314**	**3,374**	**3,424**	**3,449**	**3,449**	**3,474**	**3,474**	**3,474**
Total Liabilities	**3,402**	**3,475**	**3,601**	**3,716**	**3,716**	**3,623**	**3,710**	**3,861**	**3,886**	**3,886**	**3,896**	**3,956**	**4,006**	**4,031**	**4,031**	**4,056**	**4,056**	**4,056**
Common stock	718	719	721	723	723	724	726	728	730	730	732	733	735	737	737	744	751	758
Retained earnings	918	922	930	962	962	977	977	1,005	1,069	1,069	1,136	1,173	1,223	1,291	1,291	1,525	1,784	2,062
Accumulated other comprehensive (loss)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Total Stockholders' Equity	**1,634**	**1,640**	**1,650**	**1,684**	**1,684**	**1,700**	**1,701**	**1,731**	**1,798**	**1,798**	**1,867**	**1,905**	**1,957**	**2,026**	**2,026**	**2,268**	**2,533**	**2,819**
Total Liabilities and Equity	**5,035**	**5,115**	**5,250**	**5,400**	**5,400**	**5,323**	**5,411**	**5,592**	**5,684**	**5,684**	**5,762**	**5,861**	**5,962**	**6,057**	**6,057**	**6,323**	**6,589**	**6,874**

Source: Company reports; Guggenheim Securities, LLC estimates.

WISCONSIN ENERGY GROUP (WEC, BUY, $63 PT, $59.02)

Merger integration, growth execution is key.

- **We are maintaining our BUY rating and price target of $63 per share.** We believe WEC remains a solid utility with above-average growth prospects, constructive mechanisms, strong CFs, and a WE Power segment that translates into sustainable above-average ROEs. Share price has come in more in line with the electric utility group; discount to gas LDCs - we do believe even a modest premium is justified given Gas operations, ATC and WE Power. So, at **current levels, we see good upside potential with WEC shares. Despite some bear arguments, WEC has no shortage of growth opportunities, in our view. Reiterate BUY.**

- **We are introducing estimates for 2019 and 2020 of $3.54/$3.75 versus street consensus of $3.49/$3.73.** This outlook captures the consistent growth profile of WEC's utilities – **despite some arguments that "WEC's growth is slowing down…," which we do not subscribe to.** Our ~6% consolidated earnings growth is comprised of a ~6% ratebase growth at the WI utilities, and ~13% ratebase growth at the IL and other utilities segment respectively, with ROEs averaging ~9.5% through 2020 at WI and other, while IL achieves ROEs of ~8.8%. No material rate case assumptions for FY '19/'20. We model ATC capex averaging $239mm/year.

- **Our updated 2016/2017/2018 EPS estimates are $2.94/$3.11/$3.35 versus street estimates of $2.94/3.11/$3.33.** We model ~7% annual earnings growth 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%-10.3% ROEs (depending on which utility), in line 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; with the expectation of 2018 filings for $30mm at People Gas and $10mm at North Shore gas in the IL segment. In 2018, rate increases for WI electric are $20mm, $2mm for steam, and $20mm for WPS electric and 10% ROE, at WE gas rate increases of ~$20-25mm. We model WE Power earning ~12.7% ROE and we model ATC capex contribution averaging $239mm/year with 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 expect the final review of the PGLs pipeline program, as well as UMERC capital plan in 2017.** We anticipate conclusion of the review of PGLs Gas System Modernization program, (planning, reporting and monitoring of the program, including what's a suitable target end date), with a final order in 1Q17 per management estimates, and this should provide further clarity to investors. WEC will file its formal certificate of need for the newly created Upper Michigan Energy Resources Corp. (UMERC) in early 2017 and, investors will also watch for submission to MPSC staff of its capital and operations plan on June 1, 2017. During EEI, management stated it had already begun the process of evaluating its corporate systems for upgrades and intends on a transition to SAP, thus allowing for cleaner expenses and O&M synergies, progress here is another development to look for in 2017.

- **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 15.5x, which is based on a regression of corporate bond yields and utility PE multiples plus a one-turn premium to account for expected synergies from merger integration, (2) ~$11/share value for the regulated gas segment utilizing our company specific 16.5x 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) $13/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 18.8x P/E multiple, which we believe is justified given contributions from the Gas and WE Power segment. Incorporating our estimated 3.6% dividend yield estimate would equate to a 10.3% ETR.

Guggenheim's WEC EPS Estimates

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2015A	0.86A	0.64A	0.58A	0.69A	2.74A	
2016E	1.09A	0.57A	0.69A	0.58E	2.94E	*2.94E*
Prior				*0.58E*	*2.94E*	
2017E	1.12E	0.64E	0.77E	0.58E	3.11E	*3.11E*
Prior	*1.14E*	*0.65E*	*0.63E*	*0.73E*	*3.16E*	
2018E	1.18E	0.70E	0.83E	0.64E	3.35E	*3.33E*
Prior	*1.20E*	*0.72E*	*0.69E*	*0.79E*	*3.40E*	
2019E	1.23E	0.75E	0.88E	0.69E	3.54E	*3.49E*
2020E	1.28E	0.81E	0.93E	0.74E	3.75E	*3.73E*

Source: Company reports, Guggenheim Securities, LLC estimates.

- **Risks:** The primary risk for WEC 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.

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WEC Model

Consolidated Financials

INCOME STATEMENT ($ Millions)	Mar-15A	Jun-15A	Sep-15A	Dec-15A	2015A	Mar-16A	Jun-16A	Sep-16A	Dec-16E	2016E	Mar-17E	Jun-17E	Sep-17E	Dec-17E	2017E	2018E	2019E	2020E
Operating Revenues	1,388	991	1,899	1,848	**5,926**	2,195	1,602	1,713	1,845	**7,354**	2,379	1,782	1,885	1,917	**7,963**	8,244	8,487	8,731
Operating Expenses																		
Fuel and purchased power	298	274	452	346	**1,369**	336	343	443	327	**1,449**	350	355	456	338	**1,499**	1,527	1,558	1,589
Cost of gas sold	316	79	126	329	**851**	497	165	112	320	**1,094**	519	178	121	338	**1,155**	1,231	1,291	1,352
Cost of sales	**614**	**353**	**591**	**683**	**2,240**	**839**	**508**	**555**	**647**	**2,549**	**869**	**533**	**577**	**676**	**2,655**	**2,758**	**2,849**	**2,941**
Other operation and maintenance	261	337	536	556	**1,709**	532	522	518	655	**2,226**	647	643	633	663	**2,586**	2,616	2,646	2,677
Depreciation and amortization	103	104	177	179	**562**	183	190	192	179	**748**	186	182	184	186	**732**	763	792	819
Property and revenue taxes	32	32	50	51	**164**	47	50	50	50	**197**	47	49	50	50	**196**	196	196	196
Total operating expenses	**1,029**	**825**	**1,353**	**1,468**	**4,675**	**1,606**	**1,270**	**1,314**	**1,531**	**5,720**	**1,743**	**1,408**	**1,443**	**1,574**	**6,169**	**6,333**	**6,483**	**6,633**
Gross Margin	774	638	1,198	1,166	**3,686**	1,356	1,094	1,158	1,198	**4,806**	1,510	1,249	1,309	1,241	**5,309**	5,486	5,637	5,790
Gross Margin %	56%	64%	65%	63%	**62%**	62%	68%	68%	65%	**65%**	63%	70%	69%	65%	**67%**	67%	66%	66%
Treasury Grant																		
Operating Income / (Loss)	359	166	346	380	**1,251**	589	332	399	314	**1,635**	626	374	442	343	**1,794**	1,911	2,003	2,098
EBITDA	461	269	522	559	**1,812**	777	522	591	493	**2,383**	816	556	626	529	**2,527**	2,674	2,795	2,917
Equity in earnings of transmission affiliate	16	14	40	26	**96**	39	31	36	40	**148**	29	30	31	33	**123**	143	162	183
Other Income / (Deductions)	3	26	11	19	**59**	33	32	8	-	**73**	-	-	-	-	**-**	-	-	-
AFUDC – Equity		2	12		**14**	7	7	21		**35**					**-**	-	-	-
Gain on asset sales					**-**	24	20	24		**67**					**-**	-	-	-
Other, net		3	7		**10**	2	6	9		**17**					**-**	-	-	-
Interest expense	59	62	103	107	**331**	101	100	99	83	**383**	85	86	87	89	**347**	367	385	402
Interest Rate	**1.2%**	**0.6%**	**1.0%**	**1.0%**	**3.2%**	**1.0%**	**1.0%**	**1.0%**	**1.0%**	**3.8%**	**1.0%**	**1.0%**	**1.0%**	**1.0%**	**3.2%**	3.2%	3.1%	3.1%
Other expense																		
Income / (Loss) from Operations Before Income Tax	319	144	294	318	**1,074**	560	295	346	271	**1,472**	580	318	386	287	**1,571**	1,687	1,780	1,879
Income Tax Expense (Benefit)	132	63	111	138	**434**	213	114	128	88	**544**	216	112	138	98	**564**	603	632	663
Effective Tax Rate (%)	36%	44%	38%	43%	**40%**	38%	38%	37%	33%	**37%**	37%	35%	36%	34%	**36%**	36%	36%	35%
Net Income / (Loss)	196	81	183	180	**640**	347	182	217	183	**928**	363	206	248	189	**1,007**	1,084	1,148	1,216
Extra-ordinary	0	(861)	(2)	(40)	**(108)**	0	0	(2)		**(1)**								
Net Income for common shareholders	**196**	**148**	**185**	**220**	**748**	**346**	**181**	**219**	**183**	**930**	**363**	**206**	**248**	**189**	**1,007**	**1,084**	**1,148**	**1,216**
Wtd. Avg. Diluted Shares Outstanding	227	229	317	317	**273**	317	317	317	316	**317**	324	324	324	324	**324**	324	324	324
GAAP EPS	0.86	0.35	0.58	0.57	**2.74**	1.09	0.57	0.69	0.58	**2.93**	1.12	0.64	0.77	0.58	**3.11**	3.35	3.54	3.75
Operating EPS	$0.86	$0.64	$0.58	$0.69	**$2.74**	$1.09	$0.57	$0.69	$0.58	**$2.94**	$1.12	$0.64	$0.77	$0.58	**$3.11**	$3.35	$3.54	$3.75

Source: Company reports; Guggenheim Securities, LLC estimates.

GUGGENHEIM

WEC Model

Consolidated Financials

CASH FLOW STATEMENT ($ Millions)	Mar-15A	Jun-15A	Sep-15A	Dec-15A	2015A	Mar-16A	Jun-16A	Sep-16A	Dec-16E	2016E	Mar-17E	Jun-17E	Sep-17E	Dec-17E	2017E	2018E	2019E	2020E
Cash Flows From Operating Activities																		
Net Income / (Loss)	196	81	183	180	**640**	347	182	217	183	928	383	206	248	189	1,007	1,084	1,148	1,216
Adjustments to Reconcile Net Income to Cash																		
Depreciation & Amortization	197	106	176	193	**584**	192	194	196	179	760	180	182	184	186	732	763	792	819
Deferred income taxes and investment tax credits, net	107	15	98	199	**419**	215	93	132	-	**440**	-	-	-	-	-	-	-	-
Contributions to pension and OPEB plans	(104)	(2)	(3)	(12)	**(121)**	(15)	(4)	(4)	-	**(24)**	-	-	-	-	-	-	-	-
Equity income in transmission affiliate, net of distributions	(6)	(4)	(9)	18		(23)	1	(13)	-	**(36)**	-	-	-	-	-	-	-	-
Changes in working capital									-	**-**	-	-	-	-	-	-	-	-
Accounts receivable and unbilled revenues	(28)	183	135	(186)	**84**	(49)	179	55	-	**185**	-	-	-	-	-	-	-	-
Materials, supplies, and inventories	111	(39)	(174)	32	**(69)**	217	(24)	(160)	-	**34**	-	-	-	-	-	-	-	-
Other current assets	45	(23)	58	(103)	**(27)**	(64)	130	22	-	**89**	-	-	-	-	-	-	-	-
Accounts payable	(71)	99	(83)	47	**(9)**	(124)	11	18	-	**(95)**	-	-	-	-	-	-	-	-
Accrued taxes, net	(7)	17	(11)	36	**36**	90	(141)	51	-	**-**	-	-	-	-	-	-	-	-
Deferred costs, net									-	**-**	-	-	-	-	-	-	-	-
Other current liabilities	26	(29)	99	(120)	**(22)**	(33)	(55)	(5)	-	**(93)**	-	-	-	-	-	-	-	-
Total changes in working capital	78	182	26	(294)	**(8)**	38	101	(19)	-	**120**	-	-	-	-	-	-	-	-
Other, net	(48)	6	(113)	(65)	**(220)**	(57)	(37)	(11)	-	**(105)**	-	-	-	-	-	-	-	-
Net Cash Flows From Operating Activities	330	387	358	219	**1,294**	696	528	498	362	**2,084**	543	389	432	375	**1,739**	**1,847**	**1,939**	**2,035**
Cash Flows From Investing Activities																		
Capital expenditures	(153)	(203)	(435)	(474)	**(1,266)**	(312)	(307)	(381)	(369)	**(1,369)**	(488)	(488)	(488)	(486)	**(1,950)**	**(1,955)**	**(1,898)**	**(1,887)**
Cost of removal, net of salvage										**-**					**-**	**-**	**-**	**-**
Business acquisition		(1,329)	(1)	-	**(1,330)**					**-**					**-**	**-**	**-**	**-**
Investment in transmission affiliate	(1)	(1)	(3)	(3)	**(9)**	(9)	(3)	(15)		**(27)**					**-**	**-**	**-**	**-**
Proceeds from sale of businesses			27	2	**29**	107	55	0		**161**					**-**	**-**	**-**	**-**
Withdrawal of restricted cash from Rabbi trust for qualifying payments			1	(1)	**-**	21	2	1		**24**					**-**	**-**	**-**	**-**
Proceeds from asset sales										**-**					**-**	**-**	**-**	**-**
Change in restricted cash										**-**					**-**	**-**	**-**	**-**
Proceeds from cashout of corporate owned life insurance policies				17	**17**					**-**					**-**	**-**	**-**	**-**
Other, net	(2)	11	(5)	37	**41**	5	(7)	2		**1**					**-**	**-**	**-**	**-**
Net Cash Flows From Investing Activities	(156)	(1,523)	(417)	(422)	**(2,518)**	(188)	(261)	(393)	(369)	**(1,211)**	(488)	(488)	(488)	(488)	**(1,950)**	**(1,955)**	**(1,898)**	**(1,887)**
Cash Flows From Financing Activities																		
Exercise of stock options	8	4	14	4	**30**	21	14	5		**40**					**-**	**-**	**-**	**-**
Purchase of common stock	(23)	(9)	(34)	(9)	**(75)**	(50)	(35)	(11)		**(106)**					**-**	**-**	**-**	**-**
Equity Issuance						-	-		-	**-**								
Dividends paid on common stock	(95)	(95)	(120)	(145)	**(455)**	(156)	(156)	(156)	(156.23)	**(625)**	(169.99)	(169.99)	(169.99)	(169.99)	**(680)**	**(721)**	**(764)**	**(810)**
Redemption of WPS preferred stock				(53)	**(53)**					**-**					**-**	**-**	**-**	**-**
Issuance of long-term debt		1,450	200	500	**2,150**			200	400	**600**		500		500	**1,000**	**1,550**	**1,550**	**1,550**
Retirement of long-term debt	(9)	(2)	(16)	(503)	**(530)**	(139)	(102)	(12)		**(254)**				(155)	**(155)**	**(836)**	**(836)**	**(836)**
Change in short-term debt	(55)	(51)	(165)	434	**163**	(139)	31	(138)		**(306)**					**-**	**-**	**-**	**-**
Other, net	4	(11)	(13)	1	**(19)**	10	(22)	(0)		**(12)**					**-**	**-**	**-**	**-**
Net Cash Flows From Financing Activities	(170)	1,286	(133)	230	**1,212**	(523)	(270)	(112)	244	**(661)**	(170)	330	(170)	175	**165**	**(7)**	**(50)**	**(96)**
Net change in cash and cash equivalents	3.3	149.2	(192.2)	27.6	**(12.1)**	(15.1)	(2.6)	(7)	236	**212**	(114)	231	(225)	63	**(46)**	**(115)**	**(9)**	**52**
Cash and cash equivalents at beginning of year	62	65	214	22	**62**	50	35	32	25	**50**	261	147	378	153	**261**	**216**	**101**	**93**
Cash and cash equivalents at end of year	65	214	22	50	**50**	35	32	25	261	**261**	147	378	153	216	**216**	**101**	**93**	**144**

Source: Company reports; Guggenheim Securities, LLC estimates.

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WEC Model

Consolidated Financials

BALANCE SHEET - ASSETS ($ Millions)	Mar-15A	Jun-15A	Sep-15A	Dec-15A	2015A	Mar-16A	Jun-16A	Sep-16A	Dec-16E	2016E	Mar-17E	Jun-17E	Sep-17E	Dec-17E	2017E	2018E	2019E	2020E
Property, Plant and Equipment																		
Electric Utility Plant in Service	15,580	25,448	25,742	26,250	**26,250**	26,523	26,691	26,965	27,334	**27,334**	27,822	28,309	28,797	29,284	**29,284**	31,239	33,137	35,024
Less: Accumulated Depreciation & Amortization	(4,561)	(7,857)	(7,931)	(7,919)	**(7,919)**	(8,006)	(8,049)	(8,142)	(8,320)	**(8,320)**	(8,501)	(8,683)	(8,867)	(9,053)	**(9,053)**	(9,816)	(10,607)	(11,426)
	11,020	17,591	17,811	18,330	**18,330**	18,517	18,642	18,824	19,014	**19,014**	19,321	19,627	19,930	20,231	**20,231**	21,424	22,530	23,598
Construction work in progress	256	900	936	823	**823**	707	724	756	756	**756**	756	756	756	756	**756**	756	756	756
Leased facilities, net	41	39	38	36	**36**	35	34	32	32	**32**	32	32	32	32	**32**	32	32	32
Net Property, Plant and Equipment	11,318	18,529	18,785	19,190	**19,190**	19,259	19,399	19,612	19,802	**19,802**	20,110	20,415	20,718	21,020	**21,020**	22,212	23,319	24,387
Investments																		
Equity investment in transmission affiliate	431	988	999	1,381	**1,381**	1,423	1,425	1,453	1,453	**1,453**	1,453	1,453	1,453	1,453	**1,453**	1,453	1,453	1,453
Other	33	182	97	86	**86**	88	88	91	91	**91**	91	91	91	91	**91**	91	91	91
Total investments	464	1,170	1,096	1,467	**1,467**	1,510	1,513	1,545	1,545	**1,545**	1,545	1,545	1,545	1,545	**1,545**	1,545	1,545	1,545
Current Assets																		
Cash and Cash Equivalents	65	214	22	50	**50**	35	32	25	261	**261**	147	378	153	216	**216**	101	93	144
Accounts receivable and unbilled revenues	437	668	845	1,029	**1,029**	1,088	915	872	872	**872**	872	872	872	872	**872**	872	872	872
Accrued revenues				-														
Materials, supplies, and inventories	222	289	729	687	**687**	471	495	654	654	**654**	654	654	654	654	**654**	654	654	654
Assets held for sale	290	563	140	97	**97**	-	-	-	-	**-**	-	-	-	-	**-**	-	-	-
Prepayments	170	236	251	286	**286**	243	235	217	217	**217**	217	217	217	217	**217**	217	217	217
Other	142	307	204	59	**59**	50	89	50	50	**50**	50	50	50	50	**50**	50	50	50
Total Current Assets	1,326	2,277	2,182	2,207	**2,207**	1,896	1,766	1,818	2,054	**2,054**	1,940	2,171	1,946	2,008	**2,008**	1,894	1,885	1,937
Deferred charges and other assets																		
Regulatory assets	1,270	2,796	2,806	3,065	**3,065**	3,051	3,031	3,005	3,005	**3,005**	3,005	3,005	3,005	3,005	**3,005**	3,005	3,005	3,005
Goodwill	442	3,387	3,389	3,024	**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
Other	317	456	512	404	**404**	379	420	418	418	**418**	418	418	418	418	**418**	418	418	418
Total deferred charges and other assets	2,029	6,639	6,706	6,492	**6,492**	6,439	6,498	6,469	6,469	**6,469**	6,469	6,469	6,469	6,469	**6,469**	6,469	6,469	6,469
Total Assets	15,136	28,615	28,770	29,355	**29,355**	29,105	29,175	29,444	29,870	**29,870**	30,063	30,600	30,678	31,042	**31,042**	32,120	33,218	34,338

BALANCE SHEET - LIABILITIES & EQUITY ($ Millions)	Mar-15A	Jun-15A	Sep-15A	Dec-15A	2015A	Mar-16A	Jun-16A	Sep-16A	Dec-16E	2016E	Mar-17E	Jun-17E	Sep-17E	Dec-17E	2017E	2018E	2019E	2020E
Capitalization																		
Common Stock	4,511	8,457	3	3	**3**	3	3	3	3	**3**	3	3	3	3	**3**	3	3	3
Additional Paid-In Capital			4,351	4,347	**4,347**	4,321	4,311	4,309	4,309	**4,309**	4,309	4,309	4,309	4,309	**4,309**	4,309	4,309	4,309
Retained Earnings			4,285	4,300	**4,300**	4,490	4,515	4,576	4,602	**4,602**	4,796	4,832	4,910	4,929	**4,929**	5,293	5,677	6,083
Accumulated Other Comprehensive Income / (Loss)			11	5	**5**	4	4	4	4	**4**	4	4	4	4	**4**	4	4	4
Total Common Shareholders' Equity	4,511	8,457	8,630	8,655	**8,655**	8,818	8,834	8,892	8,918	**8,918**	9,111	9,148	9,226	9,245	**9,245**	9,609	9,993	10,399
Preferred Stock of subsidiary	30	82	82	30	**30**	30	30	30	30	**30**	30	30	30	30	**30**	30	30	30
Long-Term Debt	4,169	8,543	8,727	9,124	**9,124**	8,956	8,902	9,088	9,488	**9,488**	9,488	9,988	9,988	10,333	**10,333**	11,047	11,761	12,475
Total Capitalization	8,710	17,086	17,439	17,809	**17,809**	17,805	17,766	18,010	18,437	**18,437**	18,630	19,168	19,244	19,608	**19,608**	20,686	21,784	22,904
Current Liabilities																		
Current portion of long-term debt	427	608	606	158	**158**	152	96	89	89	**89**	89	89	89	89	**89**	89	89	89
Short-term debt	563	826	562	1,095	**1,095**	896	928	789	789	**789**	789	789	789	789	**789**	789	789	789
Accounts payable	392	777	778	815	**815**	584	621	664	664	**664**	664	664	664	664	**664**	664	664	664
Accrued payroll and benefits	59	136	155	170	**170**	103	135	128	128	**128**	128	128	128	128	**128**	128	128	128
Accrued interest				67	**67**	113		115	115	**115**	115	115	115	115	**115**	115	115	115
Other	220	593	467	404	**404**	378	359	240	240	**240**	240	240	240	240	**240**	240	240	240
Total Current Liabilities	1,560	2,940	2,667	2,709	**2,709**	2,230	2,137	2,026	2,025	**2,026**	2,026	2,026	2,026	2,026	**2,026**	2,026	2,026	2,026
Deferred credits and other liabilities																		
Regulatory liabilities	820	1,313	1,312	1,392	**1,392**	1,412	1,470	1,451	1,451	**1,451**	1,451	1,451	1,451	1,451	**1,451**	1,451	1,451	1,451
Deferred income taxes	2,942	4,624	4,690	4,622	**4,622**	4,857	4,938	5,067	5,067	**5,067**	5,067	5,067	5,067	5,067	**5,067**	5,067	5,067	5,067
Deferred revenue, net	605	596	588	579	**579**	576	572	570	570	**570**	570	570	570	570	**570**	570	570	570
Pension and other postretirement benefit obligations	204	428	428	543	**543**	541	542	545	545	**545**	545	545	545	545	**545**	545	545	545
Environmental remediation			612	628	**628**	618	618	608	608	**608**	608	608	608	608	**608**	608	608	608
Other	294	1,627	1,034	1,072	**1,072**	1,067	1,132	1,167	1,167	**1,167**	1,167	1,167	1,167	1,167	**1,167**	1,167	1,167	1,167
Total Other Liabilities & Deferred Credits	4,865	8,588	8,664	8,837	**8,837**	9,070	9,272	9,408	9,408	**9,408**	9,408	9,408	9,408	9,408	**9,408**	9,408	9,408	9,408
Total Capitalization & Liabilities	15,136	28,615	28,770	29,355	**29,355**	29,105	29,175	29,444	29,870	**29,870**	30,063	30,600	30,678	31,042	**31,042**	32,120	33,218	34,338

Source: Company reports; Guggenheim Securities, LLC estimate

See pages 260 - 261 for analyst certification and important disclosures.

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Neutral	114	38.64%	5	4.39%
Sell	2	0.68%	0	0.00%

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NiSource Inc NI (NYSE) ★★

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

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth

Updated Forecasts and Estimates from 12 Jan 2017

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Research as of 14 Nov 2016
Estimates as of 12 Jan 2017
Pricing data through 12 Jan 2017
Rating updated as of 12 Jan 2017

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

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Investment Thesis 30 Jun 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)	7,110
52-Week High (USD)	26.94
52-Week Low (USD)	19.05
52-Week Total Return %	16.0
YTD Total Return %	-0.5
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	7.1
5-Yr Forward EPS CAGR %	6.9
Price/Fair Value	1.05

Valuation Summary and Forecasts

Fiscal Year:	2014	2015	*2016(E)*	*2017(E)*
Price/Earnings	9.9	21.0	*20.6*	*19.2*
EV/EBITDA	12.6	9.7	*10.0*	*9.3*
EV/EBIT	18.8	16.1	*16.3*	*15.2*
Free Cash Flow Yield %	-5.3	-3.2	*-3.3*	*-0.4*
Dividend Yield %	2.4	4.2	*2.9*	*3.1*

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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NiSource Inc NI NYSE | ★★

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

Morningstar Analysis

Electric Vehicles Offer No Support for Slowing U.S. Electricity Demand Growth 14 Nov 2016

We are reaffirming our fair value estimates, moat ratings, and moat trends for all utilities after developing a fundamental forecast for electric vehicle growth in the United States through 2025. We continue to believe battery electric vehicles will have an immaterial impact on our 1.25% annualized U.S. electricity demand growth forecast through 2030.

We assume U.S. EVs grow from an estimated 134,000 in 2016 to 1.6 million by 2025, representing about 10% of the U.S. automobile fleet. We assume plug-in electric vehicles grow from an estimated 73,000 in 2016 to 1.2 million by 2025. Key drivers include our assumption that EVs will reach cost parity with internal combustion engine vehicles by 2025 and will be required to meet government fuel-efficiency standards. The more mature U.S. automobile industry, lower gasoline prices, and less-strict fuel-efficiency standards result in a slower projected EV growth rate than our projections in other regions.

Estimates we've seen suggest EVs require about 10 kilowatt-hours per day and plug-in hybrid EVs require about 3 kwh per day for an average U.S. driver. If EVs and PHEVs meet our volume forecast, it would represent 2.8 terawatt-hours of demand, or less than 0.1% of our projected 2025 total U.S. electricity demand.

Even the EV-related infrastructure investment potential is immaterial for utilities during the next 5-10 years. Edison International has the most exposure to EV-related growth investment, but it's still so small that it doesn't affect our 7% annual earnings growth estimate. Investing in charging and distribution infrastructure to meet all projected EV demand in most of Southern California would probably cost less than $1 billion by 2020, representing less than 3% of Edison's total investment the next five years. We expect California utilities to issue formal EV investment proposals in early 2017, but we don't expect the outlook to change our forecasts materially.

Our fundamental U.S. electricity demand forecast is detailed in the Utilities Observer we published in May, "U.S. Electricity Demand Outlook: Energy Efficiency Is No Death Knell." Our fundamental EV forecast is detailed in the Electric Vehicles Observer published Nov. 14.

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.

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NiSource Inc NI (NYSE) ★★

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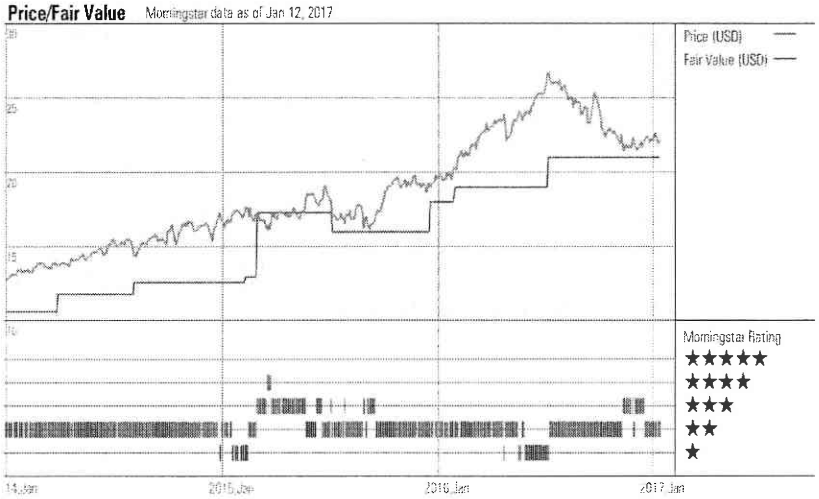
Price/Fair Value Morningstar data as of Jan 12, 2017



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 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

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NiSource Inc NI (NYSE) | ★★

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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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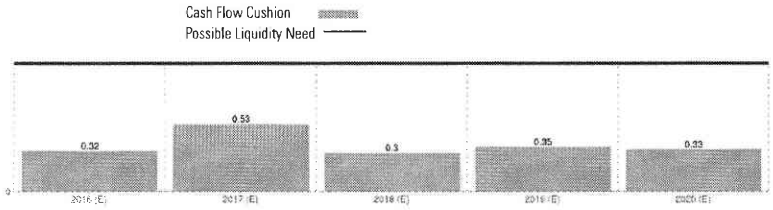
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2016(E)	2017(E)	2018(E)	2019(E)	2020(E)
Cash and Equivalents (beginning of period)	45	18	57	53	45
Adjusted Available Cash Flow	245	327	295	304	396
Total Cash Available before Debt Service	290	345	352	357	441
Principal Payments	-542	-266	-755	-598	-809
Interest Payments	-364	-389	-405	-424	-522
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-906	-655	-1,160	-1,022	-1,331

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	1,566	30.9
Sum of Cash and 5-Year Cash Generation	1,612	31.8
Revolver Availability	1,500	29.6
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	3,112	61.3
Sum of 5-Year Cash Commitments	-5,073	—

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*	Insider Activity
JOSEPH HAMROCK	Director	461,896	08 Sep 2016	—
CARRIE J. HIGHTMAN		405,579	29 Feb 2016	—
JIMMIE L. STANLEY		309,257	29 Feb 2016	—
ROBERT D. CAMPBELL		192,234	02 Jun 2016	—
MS. VIOLET G. SISTOVARIS		186,773	16 Dec 2016	—
MR. DONALD BROWN		114,588	06 Apr 2016	—
EILEEN O'NEILL ODUM		97,086	24 Mar 2009	—
MR. CARL W. LEVANDER		83,610	07 Mar 2016	—
JOSEPH W. MULPAS		48,713	29 Jan 2016	—

*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	3.33	1.19	—	30 Sep 2016
Vanguard Mid-Cap Index Fund	2.30	0.21	91	30 Nov 2016
Vanguard Total Stock Mkt Idx	2.10	0.03	100	30 Nov 2016
Vanguard 500 Index Fund	1.44	0.04	22	30 Nov 2016
Prudential Jennison Utility	1.32	3.03	—	30 Nov 2016
Concentrated Holders				
Vanguard Market Neutral	0.10	9.16	313	30 Sep 2016
Dunham Alternative Income Fund	—	5.01	—	31 Mar 2016
Reaves Utilities and Energy Infras Fund	0.02	3.51	19	30 Nov 2016
US Opéra	0.01	3.43	—	31 Oct 2016
Reaves Utilities ETF	0.01	3.35	—	12 Jan 2017

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Vanguard Group Inc	11.23	0.05	2,651	30 Sep 2016
Goldman, Sachs & Co.	1.51	0.05	2,349	30 Sep 2016
Deutsche Inv Mgmt Americas Inc	0.74	0.29	2,349	30 Sep 2016
Millennium Management LLC	1.88	0.24	1,970	30 Sep 2016
Wellington Management Company LLP	0.53	0.01	1,701	30 Sep 2016
Top 5 Sellers				
RREEF America LLC	3.04	2.05	-6,182	30 Sep 2016
State Street Corp	4.03	0.04	-3,070	30 Sep 2016
Brookfield Asset Management Inc	0.75	0.34	-2,649	30 Sep 2016
Fidelity Management and Research Company	0.16	—	-1,661	30 Sep 2016
BlackRock Investment Management (UK) Ltd.	—	—	-1,539	30 Sep 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

Low Gas Prices, Stalled Environmental Policy Under Trump Mean Little Net Impact on Utilities 09 Nov 2016

We are reaffirming the fair value estimates, moat ratings, and moat trends for all utilities we cover following the U.S. presidential election outcome. We continue to think utilities are 6% overvalued, and we don't plan any material changes to our forecasts.

President-elect Donald Trump has been an outspoken advocate for natural gas and coal, which likely will keep gas and power prices low. We expect gas demand will continue growing, supporting infrastructure investment and earnings growth for many utilities. We think Dominion Resources and Duke Energy will benefit the most from gas-related infrastructure growth. Low gas and power prices will continue to make the economics challenging for coal and nuclear generation, hurting utilities like Exelon.

Environmental regulations, notably the U.S. Environmental Protection Agency's carbon-focused Clean Power Plan, likely are dead at least for the next four years. This reduces risk for fossil-fuel generators like Dynegy , NRG Energy, and Calpine. We think all three are undervalued. We always considered CPP implementation too uncertain to incorporate in our fair value estimates, and the election results validate our assumption.

We think renewable energy growth, especially wind energy, will continue despite the election rhetoric. State-level laws and regulations are driving most renewable energy investment, and we don't expect that to change. We also think it is unlikely Congress will repeal the renewable energy tax credits. A pro-manufacturing agenda should help the wind energy supply chain that has developed in the U.S.

We think the sell-off of renewable energy leader NextEra Energy could be a buying opportunity if it trades below our $111 per share fair value estimate. We expect its huge wind pipeline that drives part of our growth outlook will remain intact. Its growth could even accelerate during the next few years to lock in current tax benefits.

NiSource Management Meeting: Coal Plant Retirements Drive Stable Elevated Investments 06 Nov 2016

We are reaffirming our narrow moat and stable moat trend ratings, along with our $21 fair value estimate, after meeting with senior management at the Edison Electric Institute Financial Conference in Phoenix, Arizona. This was our first opportunity to meet with management following their initiation of positive 2017 earnings and the filing of NIPSCO's Integrated Resource Plan, or IRP, to the Indiana Commission, both occurring less than one week ago.

NIPSCO, NiSource's wholly owned electric utility, is definitely planning to lower its carbon emissions. The updated IRP calls for replacing four coal units that represent about half of NIPSCO's coal-fired generation. The units would be retired by 2023 and NIPSCO plans to replace the coal capacity with a new natural gas-fired combined-cycle plant. We wonder if some wind energy capacity will receive more favorable public and regulatory support even though it likely will cost more than gas. However, NIPSCO will receive acknowledgement for driving coal use down from 90% of its generation as recently as 2010. In our opinion, this goodwill will help maintain a favorable regulatory framework in Indiana.

A new gas plant could also maintain NiSource's investment spending into the next decade. Twice this year, management raised its 2016 capital expenditure forecast, most recently to $1.5 billion through 2017 and modestly above our estimates. Management seems very confident that capital expenditures will stay in the $1.4 billion-$1.5 billion range for the foreseeable future. We consider this a positive since higher investments drive earnings growth and dividend

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Analyst Notes

increases if regulation is constructive. We believe NiSource's overall regulatory frameworks are constructive for investors and likely to stay that way, supporting the company's stable narrow moat.

NiSource Initiates 2017 Guidance Range Slightly Higher Than Expected 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.

NiSource Narrows Guidance and Bumps Up Tracker Capital Expenditures 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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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
22.03 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	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	20.6	19.2
EV/EBITDA	12.6	9.7	10.0	9.3
EV/EBIT	18.8	16.1	16.3	15.2
Free Cash Flow Yield %	-5.3	-3.2	-3.3	-0.4
Dividend Yield %	2.4	4.2	2.9	3.1

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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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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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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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	1.17	17.2	18.5	17.8	9.9	10.0	9.3	NM	NM	NM	1.7	1.9	1.8	1.7	1.8	1.7
WEC Energy Group Inc WEC USA	1.09	18.5	20.0	19.1	14.3	11.4	10.6	866.2	NM	NM	1.9	2.0	1.9	2.7	1.9	1.9
CMS Energy Corp CMS USA	1.13	19.1	20.8	19.5	9.7	10.4	9.7	131.6	NM	NM	2.5	2.8	2.6	1.5	1.8	1.7
Average		18.3	19.8	18.8	11.3	10.6	9.9	498.9	—	—	2.0	2.2	2.1	2.0	1.8	1.8
NiSource Inc NI US	**1.05**	**21.0**	**20.6**	**19.2**	**9.7**	**10.0**	**9.3**	**NM**	**NM**	**NM**	**1.6**	**1.8**	**1.7**	**1.3**	**1.3**	**1.3**

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	5.9	6.1	5.9	5.9	6.1	9.5	10.3	10.3	2.6	2.8	2.8	3.3	3.1	3.3
WEC Energy Group Inc WEC USA	29,355 USD	4.2	5.5	5.6	4.7	6.3	6.3	9.8	10.5	10.6	2.9	3.1	3.1	2.8	3.4	3.7
CMS Energy Corp CMS USA	20,340 USD	7.2	6.7	7.1	7.2	6.7	7.1	13.8	13.8	14.0	2.7	2.7	2.8	3.2	3.0	3.3
Average		5.8	6.0	6.3	5.9	6.3	6.5	11.0	11.5	11.6	2.7	2.9	2.9	3.1	3.2	3.4
NiSource Inc NI US	— USD	**4.9**	**4.9**	**6.5**	**5.7**	**5.6**	**7.3**	**5.7**	**8.8**	**9.1**	**1.4**	**1.9**	**1.9**	**4.2**	**2.9**	**3.1**

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	4.0	4.1	2.7	10.4	3.7	3.0	5.5	4.0	44.0	-302.3	-140.5	6.7	6.3	5.9
WEC Energy Group Inc WEC USA	5,926 USD	18.6	61.1	3.2	14.2	38.9	8.8	8.8	5.8	4.7	-318.1	-98.9	NM	—	36.6	6.6
CMS Energy Corp CMS USA	6,470 USD	-10.1	1.1	8.2	0.9	7.6	8.3	8.6	6.6	6.8	15.1	-150.3	-23.2	—	11.8	10.5
Average		0.9	22.1	5.2	5.9	19.0	6.9	6.8	6.0	5.2	-86.3	-183.8	-81.9	6.7	18.2	7.7
NiSource Inc NI US	**4,652** USD	**-28.1**	**16.2**	**4.9**	**-34.9**	**13.5**	**7.2**	**-44.6**	**14.6**	**7.3**	**-721.3**	**-106.5**	**-162.7**	**-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	59.0	59.4	28.5	30.5	31.3	18.2	19.3	19.2	9.6	9.8	9.8	-5.5	-0.6	-4.9
WEC Energy Group Inc WEC USA	640 USD	62.2	54.6	54.9	31.0	26.2	27.2	21.1	18.2	19.2	10.8	9.7	10.0	0.3	0.1	-2.8
CMS Energy Corp CMS USA	523 USD	53.0	54.3	52.8	29.8	31.3	31.2	18.2	19.3	19.4	8.1	8.6	8.5	1.2	-2.9	-2.8
Average		57.5	56.0	55.7	29.8	29.3	29.9	19.2	18.9	19.3	9.5	9.4	9.4	-1.3	-1.1	-3.5
NiSource Inc NI US	**299** USD	**64.7**	**59.3**	**59.2**	**28.5**	**27.5**	**28.0**	**17.2**	**16.8**	**17.2**	**6.4**	**6.4**	**6.5**	**-4.2**	**-4.4**	**-0.5**

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	131.4	135.0	56.9	56.8	57.5	5.5	5.9	6.1	4.5	4.2	4.2	3.7	3.7	3.7
WEC Energy Group Inc WEC USA	10,377 USD	119.5	124.8	125.2	54.4	55.5	55.6	5.5	5.1	5.0	5.7	4.5	4.5	3.4	3.4	3.4
CMS Energy Corp CMS USA	9,514 USD	241.6	237.2	235.2	70.7	70.4	70.2	4.8	4.9	5.0	4.9	4.8	4.7	5.2	5.1	5.0
Average		164.4	164.5	165.1	60.7	60.9	61.1	5.3	5.3	5.4	5.0	4.5	4.5	4.1	4.1	4.0
NiSource Inc NI US	**6,950** USD	**180.8**	**190.9**	**192.4**	**64.4**	**65.6**	**65.8**	**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	20,750 USD	0.17	0.64	0.37	0.72	0.85	0.81	0.57	0.70	0.67	0.06	0.30	0.17	66.1	61.7	62.8
WEC Energy Group Inc WEC USA	18,527 USD	0.22	0.68	0.61	1.36	1.62	2.16	1.10	1.23	1.63	0.04	0.24	0.88	52.1	67.3	68.5
CMS Energy Corp CMS USA	11,728 USD	0.96	0.70	0.53	1.01	1.00	1.03	0.67	0.66	0.66	0.28	0.20	0.15	61.6	56.6	58.5
Average		0.45	0.67	0.50	1.03	1.16	1.33	0.78	0.86	0.99	0.13	0.25	0.40	59.9	61.9	63.3
NiSource Inc NI US	**7,110** USD	**0.14**	**0.06**	**0.18**	**0.59**	**0.59**	**0.61**	**0.39**	**0.38**	**0.40**	**0.05**	**0.02**	**0.06**	**92.7**	**59.8**	**58.9**

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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

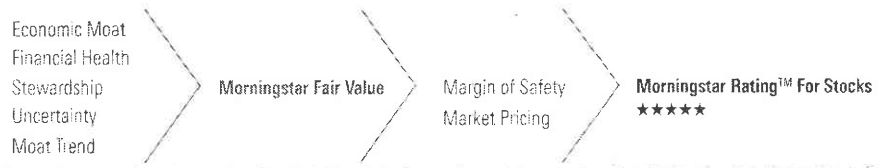
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling 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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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.

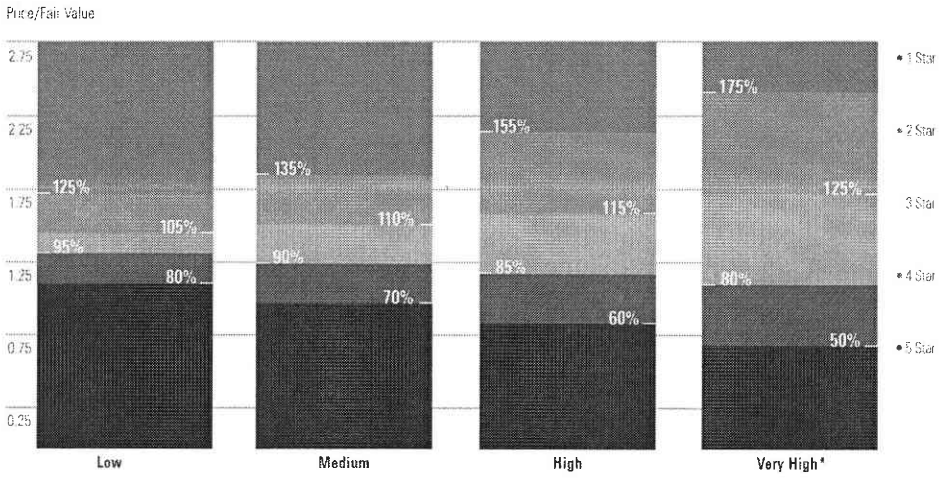
Four Stars ★★★★

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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Research Methodology for Valuing Companies

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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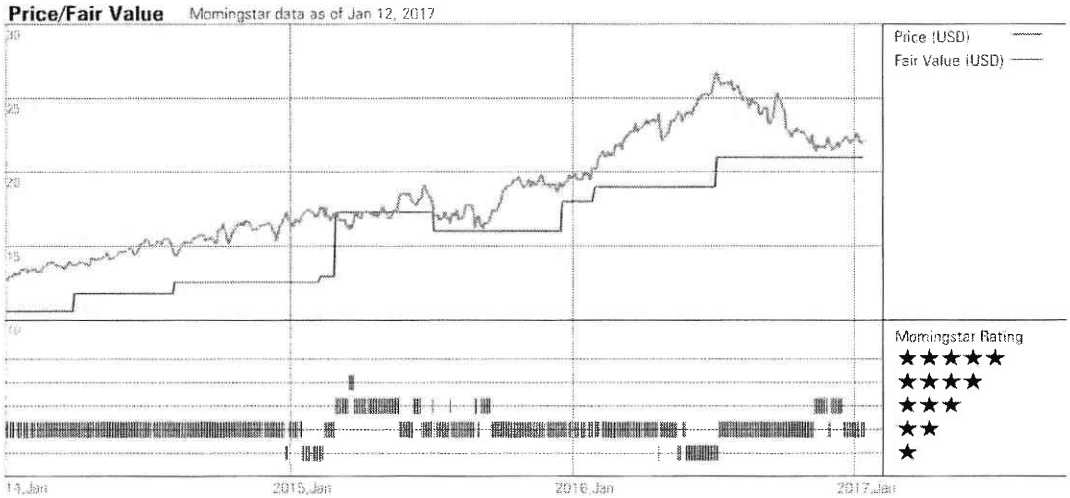
NiSource Inc NI (NYSE) ★★

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

Price/Fair Value Morningstar data as of Jan 12, 2017



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NiSource Inc NI (NYSE) ★★

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

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NiSource Inc NI (NYSE) | ★★

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

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22.03 USD	21.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

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February 1, 2017

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Trump's Tax Reform Agenda Will Drive Winners & Losers In Utilities

Those With Low Parent Leverage & Non – Regulated Operations Should Come Out Ahead

In this note we analyze the implications of possible Trump tax reform schemes on 26 stocks in our coverage universe. We have done a company by company analysis quantifying the potential impact of 1) A lower Federal income tax (FIT) rate; 2) 100% cap-x deductibility; and 3) elimination of tax deductibility of interest expense on prospective issuance. We assume the following policy changes are put in place starting 01/01/18: a) The Federal income tax rate is cut from 35% to 20%, b) bonus depreciation is increased to 100%, and c) tax deductibility is eliminated on new debt issued on/after 01/01/18. We don't model elimination of tax deductibility on existing debt. For the purpose of this analysis, we assume that a reduction in the statuary tax rate results in a 15% reduction in effective tax rate for all companies (for example a company paying 32% would see their tax rate decline to 17%). Utilities with significant parent leverage / parent overhead costs will be impacted by higher taxes because with lower tax rates those costs have a lower tax shield. Also for regulated utilities a lower FIT rate could create an EPS growth headwind in the near term because it will decrease tax collections from customers, which will decrease holding company cash flow due to lower deferred taxes, increasing parent financing costs (more equity dilution). Furthermore for companies that are not currently cash tax payers (most of our coverage universe) 100% cap-x deductibility (effectively 100% bonus depreciation) would present a modest rate base/earnings drag without the offsetting cash flow benefit. We are confident our analysis has captured the direction and magnitude of exposures reasonably well (as we did in December 2015 when we published preliminary work on the impact of the extension of bonus deprecation [link]) because so far 5 of the 26 companies we have analyzed have reported Q4 and FY '16 EPS and their guidance on the impact of tax reform has been corroborated by our independent analysis.

Winners & Losers, The Punchline: The biggest beneficiaries in terms of EPS impact look to be companies with low parent leverage and/or profitable non-regulated businesses like NEE, CNP, HE, and AGR in the regulated space and EXC, PEG within the diversified group. On the flip side utility holding companies with material parent leverage (a lower tax shield on that debt is dilutive) and / or higher rate base/cash flow impact than average will be hit the most. This includes stocks in our coverage universe like NI, CMS, XEL and EIX. These impacts are before measures companies might implement to mitigate that EPS dilution. The good news is that utilities can attempt to offset this problem in a customer rate friendly manner the same way they offset the impact of bonus depreciation extension in 2015, by spending more regulated capital. Utilities operating under multi-year rate agreements may also be able to continue collecting their historic revenue requirement for a period of time until lower tax rates can be applied to rates.

Exhibit 1
Relative Winners

Regulated		LOWER FIT TO 20%			100%	Interest			Variance
	Non - Reg	Parent	Reg CF	Bonus D	Bonus D	Deducibility	Total	2019 EPS	%
NEE	0.73	-0.11	-0.14	0.03	-0.08	-0.03	0.41	7.50	5.4%
CNP	0.11	-0.02	-0.03	0.01	-0.03	0.00	0.05	1.51	3.0%
HE	0.14	-0.03	-0.04	0.01	-0.04	0.00	0.04	1.90	2.3%
AGR	0.08	0.05	-0.06	0.01	-0.04	0.00	0.06	2.54	2.3%

Relative Losers

Regulated		LOWER FIT TO 20%			100%	Interest			
	Non - Reg	Parent	Reg CF	Bonus D	Bonus D	Deducibility	Total	2019 EPS	%
NI	0.00	-0.07	-0.04	0.02	-0.04	0.00	-0.14	1.29	-10.6%
CMS	0.06	-0.14	-0.07	0.02	-0.08	0.00	-0.19	2.51	-7.6%
XEL	0.00	-0.03	-0.07	0.03	-0.07	0.00	-0.14	2.55	-5.5%
EIX	-0.01	-0.03	-0.15	0.05	-0.12	0.00	-0.25	4.70	-5.4%

Diversified

Diversified		LOWER FIT TO 20%			100%	Interest			Variance
	Non - Reg	Parent	Reg CF	Bonus D	Bonus D	Deducibility	Total	2019 EPS	%
EXC	0.19	-0.04	-0.07	0.02	-0.06	0.00	0.06	2.85	2.1%
PEG	0.14	0.01	-0.07	0.02	-0.05	-0.01	0.04	2.90	1.4%
ETR	-0.02	-0.14	-0.19	0.07	-0.18	0.00	-0.45	4.80	-9.4%
FE	0.00	-0.14	-0.11	0.02	-0.04	0.00	-0.27	2.52	-10.9%

Source: Evercore ISI Research

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What Will The Impact Be on Valuation For Utility Stocks If The Tax Code Is Meaningfully Changed? The quantum of changes being contemplated in the tax code with regard to the tax rate, depreciation and interest deductibility will create winners and losers from both an absolute and relative perspective within the group as it pertains to earnings outcomes. Overall if our assumptions prove to be accurate Trump tax reform would be—on average—3% dilutive to '19 EPS for our coverage universe, with a range of >5% accretive for NEE to >10% dilutive for FE. We have argued in the past that small enough changes in earnings outcomes from tax changes—if they don't impact dividend growth—shouldn't materially impact value. But these changes in total are meaningful enough to impact both absolute and relative value if enacted. In fact, the market began to try and sort the winners and losers immediately after the election, and to a large degree we think the directional movements in the stocks have been right. The exception in our view are the stocks of companies with renewable energy businesses like NEE (and to a lesser degree AGR) that could be absolute or relative beneficiaries under "Trump Tax" but have been impacted by a view that Trump is anti-renewable energy, which is not accurate. SRE is also trading at an un-deserved discount on a risk adjusted basis and we could argue that the other CA utilities (PCG and EIX) are as well as is perhaps AEP even after the tax adjustment. NI, WEC and CMS look to be at bigger P/E premiums after adjusting for tax and so might have more relative downside exposure unless they can find significant offsets (CMS is the one we trust the most to do so, then WEC then NI). See body of the note for more thoughts on performance and valuation. For our "top down" views on utility stock valuation see our most recent industry note [here].

In this section of the note we walk through the estimated impact on '18/19 EPS for companies in our coverage universe as a result of:

1) Lower Federal income tax (FIT) rate;

2) 100% cap-x deductibility; and

3) Elimination of tax deductibility of interest expense (new debt)

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1) Impact of Lower FIT Rate

Impact of Lower FIT Rate on Non – Regulated Subsidiaries. Many of the companies we follow are utility holding companies that also own unregulated businesses, some significant earnings contributors. All things equal a tax rate cut lowers income tax expense for non-regulated businesses resulting in improved earnings contribution. On Exhibit 2 below we show potential '18/'19 EPS impact from higher earnings contributions at the non-regulated subsidiaries as a result of federal income tax reduction to 20%. For companies that own FERC regulated pipelines we assume they don't keep collecting higher tax rates in their rates from customers. However, unless the FERC tariff under which they are operating has an adjustment mechanism for changes in tax rates then a FERC filing and approval for change in tariff would likely be necessary to reduce the rate, so there could be regulatory lag that benefits the owner of the pipe. The biggest beneficiaries from a lower FIT rate are NEE, CNP, HE and EXC.

Exhibit 2

NON REG IMPACT												
Regulated	Non Reg (PBT)		Tax Rate		Shares outstanding		EPS Impact		EVRISI EPS Forecast		% Variance	
	2018	2019	Current Tax	Trump Policy	2018	2019	2018	2019	2018	2019	2018	2019
AEE	0	0	35%	20%	243	243	0.00	0.00	3.00	3.20	0.0%	0.0%
AEP	42	42	35%	20%	470	472	0.01	0.01	3.90	4.10	0.3%	0.3%
AGR	167	170	35%	20%	310	310	0.08	0.08	2.45	2.54	3.3%	3.2%
CMS	98	114	35%	20%	281	282	0.05	0.06	2.35	2.51	2.2%	2.4%
CNP	306	318	35%	20%	433	433	0.11	0.11	1.41	1.51	7.5%	7.3%
D	253	252	35%	20%	647	658	0.06	0.06	4.25	4.55	1.4%	1.3%
DTE	400	432	35%	20%	182	184	0.33	0.35	5.60	6.00	5.9%	5.9%
DUK	218	223	35%	20%	698	702	0.05	0.05	4.80	5.05	1.0%	0.9%
ED	128	128	35%	20%	308	310	0.06	0.06	4.30	4.55	1.5%	1.4%
EIX	-32	-16	35%	20%	329	329	(0.01)	(0.01)	4.25	4.70	-0.3%	-0.2%
ES	0	0	35%	20%	319	319	0.00	0.00	3.20	3.45	0.0%	0.0%
HE	97	99	35%	20%	109	110	0.13	0.14	1.80	1.90	7.4%	7.1%
NEE	2,196	2,293	35%	20%	471	472	0.70	0.73	7.10	7.50	9.8%	9.7%
NI	0	0	35%	20%	328	330	0.00	0.00	1.21	1.29	0.0%	0.0%
PCG	0	0	35%	20%	517	522	0.00	0.00	3.80	3.95	0.0%	0.0%
PNW	0	0	35%	20%	112	112	0.00	0.00	4.40	4.70	0.0%	0.0%
PPL	0	0	35%	20%	686	688	0.00	0.00	2.27	2.39	0.0%	0.0%
SO	410	431	35%	20%	1,002	1,007	0.06	0.06	3.10	3.25	2.0%	2.0%
SRE	545	545	35%	20%	256	258	0.32	0.32	5.70	7.00	5.6%	4.5%
WEC	20	20	35%	20%	317	317	0.01	0.01	3.25	3.40	0.3%	0.3%
WR	0	0	35%	20%	144	144	0.00	0.00	2.60	2.70	0.0%	0.0%
XEL	0	0	35%	20%	510	510	0.00	0.00	2.40	2.55	0.0%	0.0%
Diversified	Non Reg (PBT)		Tax Rate		Shares outstanding		EPS Impact		EVRISI EPS Forecast		% Variance	
	2018	2019	Current Tax	Trump Policy	2018	2019	2018	2019	2018	2019	2018	2019
ETR	-39	-25	35%	20%	181	181	(0.03)	(0.02)	4.40	4.80	-0.7%	-0.4%
EXC	1,608	1,248	35% / 25%	20% / 10%	965	968	0.25	0.19	2.80	2.85	8.9%	6.8%
FE	0	0	0%	0%	0	0	0.00	0.00	2.22	2.52	0.0%	0.0%
PEG	573	460	35%	20%	508	508	0.17	0.14	2.90	2.90	5.8%	4.7%

Source: Evercore ISI Research

Impact of Lower FIT Rate on Parent/Other Expenses. Unfortunately, a lower tax rate results in larger parent/other losses because with a lower tax rate those costs (parent interest expense and overheads) have a lower tax shield. In Exhibit 3 we show potential '18/'19 EPS impact from higher parent/other drag as a result of federal income tax reduction to 20%. The biggest losers on this front appear to be CMS, NI, FE and DTE, which generally carry high parent debt balances.

Exhibit 3

PARENT/OTHER IMPACT												
Regulated	Parent (PBT)		Tax Rate		Shares outstanding		EPS Impact		EVRISI EPS Forecast		% Variance	
	2018	2019	Current Tax	Trump Policy	2018	2019	2018	2019	2018	2019	2018	2019
AEE	-62	-62	35%	20.0%	243	243	(0.04)	(0.04)	3.00	3.20	-1.3%	-1.2%
AEP	-2	-3	35%	20.0%	470	472	(0.00)	(0.00)	3.90	4.10	0.0%	0.0%
AGR	118	114	35%	20.0%	310	310	0.06	0.05	2.45	2.54	2.3%	2.2%
CMS	-260	-267	35%	20.0%	281	282	(0.14)	(0.14)	2.35	2.51	-5.9%	-5.7%
CNP	-66	-57	35%	20.0%	433	433	(0.02)	(0.02)	1.41	1.51	-1.6%	-1.3%
D	-441	-306	35%	20.0%	647	658	(0.10)	(0.07)	4.25	4.55	-2.4%	-1.5%
DTE	-336	-354	35%	20.0%	182	184	(0.28)	(0.29)	5.60	6.00	-4.9%	-4.8%
DUK	-421	-423	35%	20.0%	698	702	(0.09)	(0.09)	4.80	5.05	-1.9%	-1.8%
ED	-103	-81	35%	20.0%	308	310	(0.05)	(0.04)	4.30	4.55	-1.2%	-0.9%
EIX	-62	-61	35%	20.0%	329	329	(0.03)	(0.03)	4.25	4.70	-0.7%	-0.6%
ES	-18	-16	35%	20.0%	319	319	(0.01)	(0.01)	3.20	3.45	-0.3%	-0.2%
HE	-20	-23	35%	20.0%	109	110	(0.03)	(0.03)	1.80	1.90	-1.5%	-1.6%
NEE	-319	-334	35%	20.0%	471	472	(0.10)	(0.11)	7.10	7.50	-1.4%	-1.4%
NI	-150	-155	35%	20.0%	328	330	(0.07)	(0.07)	1.21	1.29	-5.6%	-5.5%
PCG	-22	-20	35%	20.0%	517	522	(0.01)	(0.01)	3.80	3.95	-0.2%	-0.1%
PNW	-20	-22	35%	20.0%	112	112	(0.03)	(0.03)	4.40	4.70	-0.6%	-0.6%
PPL	-194	-212	35%	20.0%	686	688	(0.04)	(0.05)	2.27	2.39	-1.9%	-1.9%
SO	-492	-438	35%	20.0%	1,002	1,007	(0.07)	(0.07)	3.10	3.25	-2.4%	-2.0%
SRE	-263	-283	35%	20.0%	256	258	(0.15)	(0.16)	5.70	7.00	-2.7%	-2.4%
WEC	-89	-85	35%	20.0%	317	317	(0.04)	(0.04)	3.25	3.40	-1.3%	-1.2%
WR	-3	-3	35%	20.0%	144	144	(0.00)	(0.00)	2.60	2.70	-0.1%	-0.1%
XEL	-90	-90	35%	20.0%	510	510	(0.03)	(0.03)	2.40	2.55	-1.1%	-1.0%
Diversified	Parent (PBT)		Tax Rate		Shares outstanding		EPS Impact		EVRISI EPS Forecast		% Variance	
	2018	2019	Current Tax	Trump Policy	2018	2019	2018	2019	2018	2019	2018	2019
ETR	-156	-163	35%	20.0%	181	181	(0.13)	(0.14)	4.40	4.80	-2.9%	-2.8%
EXC	-283	-241	35%	20.0%	965	968	(0.04)	(0.04)	2.80	2.85	-1.6%	-1.3%
FE	-446	-451	35%	20.0%	475	493	(0.14)	(0.14)	2.22	2.52	-6.3%	-5.4%
PEG	57	42	35%	20.0%	508	508	0.02	0.01	2.90	2.90	0.6%	0.4%

Source: Evercore ISI Research
Note: AGR is positive due to intercompany interest income at the parent

Exhibit 4

Regulated	Q3 '16 Parent Debt	Q3 '16 Total Debt	Q3 '16 Total Equity	Q3 '16 Total Debt/Cap
AEE	1,144	7,646	7,193	52%
AEP	968	21,183	17,322	55%
AGR	0	4,589	15,038	23%
CMS	4,066	9,727	4,259	70%
CNP	1,390	6,782	3,472	64%
D	12,000	34,001	15,693	68%
DTE	2,233	9,493	9,130	51%
DUK	20,113	50,176	40,456	55%
ED	1,894	14,694	14,267	51%
EIX	1,340	12,045	14,332	46%
ES	2,752	10,344	10,793	49%
HE	346	1,680	2,068	45%
NEE	2,647	31,677	23,907	57%
NI	2,151	7,796	3,812	65%
PCG	513	17,833	17,606	50%
PNW	159	4,280	4,853	47%
PPL	3,713	19,170	9,975	66%
SO	17,912	45,474	26,180	63%
SRE	5,181	17,295	12,346	58%
WEC	4,120	10,106	8,922	53%
WR	40	3,874	3,801	50%
XEL	2,869	14,482	10,988	57%
Diversified	**Q3 '16 Parent Debt**	**Q3 '16 Total Debt**	**Q3 '16 Total Equity**	**Q3 '16 Total Debt/Cap**
ETR	2,757	15,045	10,069	60%
EXC	6,972	36,051	26,027	58%
FE	8,920	22,723	11,503	66%
PEG	1,200	10,952	13,476	45%

Source: Evercore ISI Research

Impact of Lower FIT Rate on Regulated Utility Subsidiaries. Under the regulatory construct, like any other expense item, the benefit of lower tax expense (from lower tax rate) should flow through to the customer by way of a rate reduction and result in no impact to net income. That is the assumption we use for the purpose of this analysis although in reality it may be impacted by regulatory lag depending on the type of rate deal each company is operating under. Those with long term deals and/or operating under regimes in which they have ROE bands or periodic earnings tests may experience regulatory lag between when the FIT rate changes and they might have to lower retail rates to reflect it. Collecting lower taxes should be EPS neutral assuming no regulatory lag / once rates reflect the new tax rate at the utility level but *would* unfortunately negatively impact the corporate cash flow profile. This is significant and here is why. The average regulated utility collects an income tax allowance reflecting its expected annual tax payments. They then send that cash up to their parent, who files a consolidated tax return. Most utilities (but not all) are paying little or no cash taxes due to the impact of bonus depreciation (extended last year), NOLs and/or other favorable tax positions until at least 2019. Those cash flows are used in part to fund capital spending and the dividend. The impact of the bonus depreciation extension *last year* was dilutive to earnings but actually accretive to cash flow for regulated utilities (for an understanding of this dynamic see our note on the subject from 12/22/15 here [link]). So net-net, cash flows have generally been sufficient to reduce or eliminate equity needs for most utilities. But *now* if the FIT rate goes down the amount of cash being collected by the utility and sent to the parent should be significantly reduced (once the regulator resets rates to reduce the revenue requirement for a lower tax burden, which as we said we assume occurs contemporaneously in our base case). Even assuming the parent is still not a cash taxpayer it would see a significant reduction in cash flow, which means higher financing costs come in to play (equity issuance) negatively impacting EPS. Exhibit 5 below shows the potential '18/'19 EPS impact by company due to lower cash flow generated at the utility subsidiaries. We assume that lower cash flow is funded with equity at the current share price. The companies most impacted on this front are FE, ETR, NI and EIX.

Exhibit 5

REGULATED CF IMPACT

	CF Impact		Incremental Shares		Initial Shares		Initial EPS		EPS Impact		% Variance	
Regulated	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
AEE	187	199	3.6	3.9	243	243	3.00	3.20	(0.04)	(0.09)	-1.5%	-2.9%
AEP	209	221	3.3	3.5	470	472	3.90	4.10	(0.03)	(0.06)	-0.7%	-1.4%
AGR	132	139	3.4	3.6	310	310	2.45	2.54	(0.03)	(0.06)	-1.1%	-2.2%
CMS	174	184	4.1	4.4	281	282	2.35	2.51	(0.03)	(0.07)	-1.5%	-2.9%
CNP	107	114	4.1	4.4	433	433	1.41	1.51	(0.01)	(0.03)	-0.9%	-1.9%
D	653	699	9.1	9.7	647	658	4.25	4.55	(0.06)	(0.13)	-1.4%	-2.8%
DTE	190	204	1.9	2.1	182	184	5.60	6.00	(0.06)	(0.13)	-1.1%	-2.1%
DUK	791	828	10.2	10.7	698	702	4.80	5.05	(0.07)	(0.15)	-1.4%	-2.9%
ED	297	312	4.1	4.3	308	310	4.30	4.55	(0.06)	(0.12)	-1.3%	-2.6%
EIX	376	408	5.2	5.7	329	329	4.25	4.70	(0.07)	(0.15)	-1.6%	-3.1%
ES	239	255	4.4	4.7	319	319	3.20	3.45	(0.04)	(0.09)	-1.4%	-2.7%
HE	36	39	1.1	1.2	109	110	1.80	1.90	(0.02)	(0.04)	-1.0%	-2.0%
NEE	526	561	4.3	4.6	471	472	7.10	7.50	(0.06)	(0.14)	-0.9%	-1.8%
NI	127	135	5.8	6.1	328	330	1.21	1.29	(0.02)	(0.04)	-1.7%	-3.5%
PCG	466	493	7.7	8.1	517	522	3.80	3.95	(0.06)	(0.12)	-1.5%	-2.9%
PNW	121	129	1.6	1.7	112	112	4.40	4.70	(0.06)	(0.13)	-1.4%	-2.8%
PPL	197	209	5.6	6.0	686	688	2.27	2.39	(0.02)	(0.04)	-0.8%	-1.6%
SO	758	785	15.6	16.2	1,002	1,007	3.10	3.25	(0.05)	(0.10)	-1.5%	-3.0%
SRE	262	273	2.6	2.7	256	258	5.70	7.00	(0.06)	(0.13)	-1.0%	-1.8%
WEC	189	197	3.3	3.4	317	317	3.25	3.40	(0.03)	(0.07)	-1.0%	-2.1%
WR	90	93	1.6	1.7	144	144	2.60	2.70	(0.03)	(0.06)	-1.1%	-2.3%
XEL	292	308	7.2	7.6	510	510	2.40	2.55	(0.03)	(0.07)	-1.4%	-2.8%
	CF Impact		Incremental		Initial Shares		Initial EPS		EPS Impact		% Variance	
Diversified	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
ETR	262	278	3.7	3.9	181	181	4.40	4.80	(0.09)	(0.19)	-2.0%	-4.0%
EXC	412	452	11.6	12.8	965	968	2.80	2.85	(0.03)	(0.07)	-1.2%	-2.5%
FE	343	358	11.5	12.0	475	493	2.22	2.52	(0.05)	(0.11)	-2.4%	-4.5%
PEG	260	279	6.0	6.4	508	508	2.90	2.90	(0.03)	(0.07)	-1.2%	-2.4%

Source: Evercore ISI Research

The Impact of Lower FIT Rate on Utility Rate Base. It is Actually a Small Benefit. Lowering FIT rate from 35% to 20% lowers the reduction in rate base that comes from the Bonus Depreciation calculation resulting in somewhat higher rate base growth prospectively. Understand that this is *before* we assume an increase in bonus depreciation from 40%/30% in '18/'19 today to 100% under our Trump tax scenario. We cover the negative impact of that 100% bonus depreciation assumption incrementally starting on Exhibit 8. Exhibit 6 below shows the accretion by company to our '18/'19 EPS estimates due to higher rate base growth, with ETR, NI, AEP and XEL amongst winners.

Exhibit 6

BONUS D IMPACT (REDUCTION OF FIT RATE TO 20%)						
Regulated	EPS Impact		EVRISI EPS Forecast		% Variance	
	2018	2019	2018	2019	2018	2019
AEE	0.01	0.02	3.00	3.20	0.5%	0.8%
AEP	0.03	0.04	3.90	4.10	0.7%	1.1%
AGR	0.01	0.01	2.45	2.54	0.4%	0.6%
CMS	0.01	0.02	2.35	2.51	0.6%	0.9%
CNP	0.01	0.01	1.41	1.51	0.5%	0.8%
D	0.01	0.01	4.25	4.55	0.2%	0.3%
DTE	0.02	0.04	5.60	6.00	0.4%	0.7%
DUK	0.02	0.04	4.80	5.05	0.4%	0.7%
ED	0.02	0.04	4.30	4.55	0.5%	0.8%
EIX	0.03	0.05	4.25	4.70	0.7%	1.0%
ES	0.01	0.02	3.20	3.45	0.4%	0.6%
HE	0.01	0.01	1.80	1.90	0.6%	0.8%
NEE	0.02	0.03	7.10	7.50	0.3%	0.4%
NI	0.01	0.02	1.21	1.29	0.8%	1.3%
PCG	0.03	0.04	3.80	3.95	0.7%	1.1%
PNW	0.02	0.04	4.40	4.70	0.5%	0.8%
PPL	0.01	0.01	2.27	2.39	0.3%	0.4%
SO	0.01	0.02	3.10	3.25	0.5%	0.7%
SRE	0.02	0.03	5.70	7.00	0.4%	0.5%
WEC	0.01	0.02	3.25	3.40	0.4%	0.6%
WR	0.01	0.02	2.60	2.70	0.4%	0.7%
XEL	0.02	0.03	2.40	2.55	0.7%	1.1%
Diversified	EPS Impact		EVRISI EPS Forecast		% Variance	
	2018	2019	2018	2019	2018	2019
ETR	0.05	0.07	4.40	4.80	1.1%	1.5%
EXC	0.01	0.02	2.80	2.85	0.4%	0.7%
FE	0.01	0.02	2.22	2.52	0.5%	0.7%
PEG	0.01	0.02	2.90	2.90	0.4%	0.6%

Source: Evercore ISI Research

From a balance sheet perspective it is very important to note that a reduction in FIT rate would also result in a lowering of the existing deferred income tax liability (which reduces total rate base) hence theoretically increasing rate base significantly. However we think it is likely that regulators will set up a regulatory liability or contra-asset to neutralize the majority of that impact so ratepayers receive a return on the tax payments they paid at the old FIT rate. This would be consistent with what was done in Federal legislation in 1986 the last time the FIT rate was significantly changed. In Exhibit 7 we show a hypothetical 2016 balance sheet and rate base pre and post FIT rate change, while the deferred tax liability will be lower due to lower FIT rate (35% vs 20%) the offsetting regulatory liability would be higher resulting in same rate base starting point of $10bn. Our scenario assumes that the regulatory liability fully offsets the increase in rate base. It is possible (but we think unlikely) that this time around utilities are given the flexibility to refund the tax liability back to customers at a faster rate, which would essentially

allow them to buy rate base growth at 1X book value if they have the means to fund those rate credits. There also might be other nuances that make the net rate base impact different for each company. Utilities may see a net rate base change for instance based on the composition of their deferred income tax liability like AEP explained on their Q4 Earnings call, and while that may impact earnings power if the changes wind up being significant it is likely that they will require a rate case to be implemented and be phased in to rates over a period of time beyond 2019.

Exhibit 7
Impact of Lower FIT on Existing Deferred Tax Liability & Rate Base

PRE FIT Rate Change 2016 Balance Sheet (Hypothetical)	FY '16	POST FIT Rate Change 2016 Balance Sheet (Hypothetical)	FY '16
Gross PP&E	$14,000	Gross PP&E	$14,000
Accumulated Depreciation	-2,000	Accumulated Depreciation	-2,000
Net PP&E	12,000	Net PP&E	12,000
Regulatory Assets	1,600	Regulatory Assets	1,600
Other Assets	2,200	Other Assets	2,200
Total Assets	$15,800	Total Assets	$15,800
Total Debt	$6,000	Total Debt	$6,000
Deferred Tax Liability	2,400	Deferred Tax Liability (b)	1,371
Reg Liability	1,200	Reg Liability	2,228
Other Liabilities	200	Other Liabilities	200
Total Liability	9,800	Total Liability	9,800
Total Equity	6,000	Total Equity	6,000
Total Liabilities & Equity	$15,800	Total Liabilities & Equity	$15,800
2016 Rate Base (Hypothetical)	**FY '16**	**2016 Rate Base (Hypothetical)**	**FY '16**
Gross PP&E	$14,000	Gross PP&E	$14,000
Accumulated Depreciation	-2,000	Accumulated Depreciation	-2,000
Net PP&E	12,000	Net PP&E	12,000
Add:		Add:	
Regulatory Asset	1,600	Regulatory Asset	1,600
Cash Working Capital & Other	50	Cash Working Capital & Other	50
Less:		Less:	
Regulatory Liability	-1,200	Regulatory Liability	-2,228
Deferred Income Taxes	-2,400	Deferred Income Taxes	-1,371
Other	-50	Other	-50
Total Rate Base	$10,000	Total Rate Base	$10,000
		Note (b)	
		Pre FIR Rate Chanbnge Defferred Tax Liability	2,400
		Deferred Tax Liability Pre Tax (Using 35% FIT)	6,856
		Deferred Tax Liability Pre Tax (Using 20% FIT)	1,371

Source: Evercore ISI Research

2) The Impact of 100% Cap-x deductibility

The impact of 100% Cap-x deductibility is essentially a step up in bonus depreciation from current framework which allows for a 40%/30% bonus depreciation rate in '18/'19 to 100% prospectively which translates into higher tax depreciation (due to higher bonus deprecation) and lower rate base growth. In the absence of positive cash flow offset as most utilities are not expected to pay significant cash taxes through '19 that represents a modest earnings drag, see Exhibit 8 below for additional detail. The impact is material but not as significant as one would potentially think because while the level of bonus depreciation is obviously higher at 100% vs. 40%/30% the FIT rate being used to calculate the level of bonus depreciation is lower at 20% vs. 35%. The companies most impacted on this front are ETR, NI, XEL and AEP.

Exhibit 8

BONUS D IMPACT (INCREASE TO 100% BONUS)						
Regulated	EPS Impact		EVRISI EPS Forecast		% Variance	
	2018	2019	2018	2019	2018	2019
AEE	(0.03)	(0.06)	3.00	3.20	-1.0%	-1.9%
AEP	(0.06)	(0.11)	3.90	4.10	-1.4%	-2.7%
AGR	(0.02)	(0.04)	2.45	2.54	-0.7%	-1.4%
CMS	(0.03)	(0.06)	2.35	2.51	-1.1%	-2.3%
CNP	(0.01)	(0.03)	1.41	1.51	-1.0%	-2.0%
D	(0.02)	(0.03)	4.25	4.55	-0.4%	-0.6%
DTE	(0.05)	(0.10)	5.60	6.00	-0.8%	-1.6%
DUK	(0.04)	(0.09)	4.80	5.05	-0.9%	-1.8%
ED	(0.04)	(0.09)	4.30	4.55	-1.0%	-2.0%
EIX	(0.06)	(0.12)	4.25	4.70	-1.3%	-2.5%
ES	(0.02)	(0.05)	3.20	3.45	-0.7%	-1.4%
HE	(0.02)	(0.04)	1.80	1.90	-1.1%	-1.9%
NEE	(0.04)	(0.08)	7.10	7.50	-0.5%	-1.0%
NI	(0.02)	(0.04)	1.21	1.29	-1.6%	-3.2%
PCG	(0.05)	(0.10)	3.80	3.95	-1.3%	-2.6%
PNW	(0.04)	(0.09)	4.40	4.70	-1.0%	-1.9%
PPL	(0.01)	(0.03)	2.27	2.39	-0.6%	-1.1%
SO	(0.03)	(0.05)	3.10	3.25	-0.9%	-1.7%
SRE	(0.04)	(0.08)	5.70	7.00	-0.7%	-1.2%
WEC	(0.03)	(0.05)	3.25	3.40	-0.8%	-1.6%
WR	(0.02)	(0.05)	2.60	2.70	-0.9%	-1.7%
XEL	(0.03)	(0.07)	2.40	2.55	-1.3%	-2.7%
Diversified	EPS Impact		EVRISI EPS Forecast		% Variance	
	2018	2019	2018	2019	2018	2019
ETR	(0.10)	(0.18)	4.40	4.80	-2.2%	-3.7%
EXC	(0.02)	(0.05)	2.80	2.85	-0.8%	-1.6%
FE	(0.02)	(0.04)	2.22	2.52	-1.0%	-1.7%
PEG	(0.02)	(0.05)	2.90	2.90	-0.8%	-1.6%

Source: Evercore ISI Research

3) Impact of Elimination of Tax Deductibility Of Interest Expense

As we said earlier in the note we model only the impact of interest deductibility on *new* debt issued on/after 01/01/18. At the utility the lack of deductibility would increase income tax expense and effective tax rate under the regulatory construct with the higher expense ultimately passed through to the customers resulting in a direct recovery of the higher cost of capital. In essence this impacts customer rates in the opposite direction of an income tax rate cut. An elimination of interest expense tax deductibility decreases earnings only by further reducing the tax shield for non-regulated businesses and parent debt. While the impact might be significant in future years, our projections through '19 show minimal impact for most companies using the assumption that only incremental debt issuance is impacted. See Exhibit 9 below for additional detail.

Exhibit 9

INTEREST DEDUCTABILITY						
Regulated	EPS Impact		EVRISI EPS Forecast		% Variance	
	2018	2019	2018	2019	2018	2019
AEE	(0.01)	0.00	3.00	3.20	-0.2%	0.1%
AEP	0.00	0.00	3.90	4.10	0.0%	0.1%
AGR	(0.00)	(0.00)	2.45	2.54	-0.2%	-0.1%
CMS	(0.00)	(0.00)	2.35	2.51	-0.1%	-0.1%
CNP	(0.00)	0.00	1.41	1.51	-0.1%	0.1%
D	(0.04)	(0.02)	4.25	4.55	-1.0%	-0.4%
DTE	(0.01)	(0.01)	5.60	6.00	-0.1%	-0.2%
DUK	(0.00)	(0.01)	4.80	5.05	-0.1%	-0.1%
ED	0.00	0.00	4.30	4.55	0.0%	0.1%
EIX	0.00	0.00	4.25	4.70	0.0%	0.0%
ES	0.00	0.00	3.20	3.45	0.0%	0.0%
HE	0.00	(0.00)	1.80	1.90	0.0%	-0.1%
NEE	(0.02)	(0.03)	7.10	7.50	-0.3%	-0.4%
NI	0.00	0.00	1.21	1.29	0.1%	0.2%
PCG	0.00	0.01	3.80	3.95	0.1%	0.1%
PNW	0.00	0.00	4.40	4.70	0.1%	0.0%
PPL	(0.01)	(0.01)	2.27	2.39	-0.2%	-0.4%
SO	(0.00)	0.00	3.10	3.25	0.0%	0.0%
SRE	(0.00)	(0.00)	5.70	7.00	0.0%	0.0%
WEC	(0.00)	(0.00)	3.25	3.40	-0.1%	-0.1%
WR	0.00	0.00	2.60	2.70	0.2%	0.0%
XEL	(0.00)	(0.00)	2.40	2.55	-0.1%	-0.1%
Diversified	EPS Impact		EVRISI EPS Forecast		% Variance	
	2018	2019	2018	2019	2018	2019
ETR	0.00	0.00	4.40	4.80	0.0%	0.0%
EXC	0.00	0.00	2.80	2.85	0.0%	0.0%
FE	(0.00)	0.00	2.22	2.52	0.0%	0.1%
PEG	(0.00)	(0.01)	2.90	2.90	-0.2%	-0.3%

Source: Evercore ISI Research

Summary Of The Impacts On Each Company.

Below in Exhibit 10 we show the cumulative earnings per share impact of all the above-mentioned assumptions by company for years '18 and '19. As we said previously the biggest beneficiaries in terms of EPS impact look to be companies with low parent leverage and/or profitable non-regulated businesses like NEE, CNP, HE, and AGR. On the flip side utility holding companies with material parent leverage (a lower tax shield on that debt is dilutive) and /or higher rate base/cash flow impact than average will be hit the most. These include stocks in our coverage universe like NI, CMS, EIX and XEL. Diversified are a mixed bag where EXC and PEG appear to have clear advantages vs. ETR and FE. We show the companies ranked by total forecasted EPS accretion/dilution in Exhibit 11.

Exhibit 10

2018										
Regulated	EVR ISI 2018 EPS	Non - Reg	LOWER FIT TO 20% Parent	Reg CF	Bonus D	100% Bonus D	Interest Deducibility	Total Acc./(Dil.)	Pro - Forma 2018 EPS	Variance %
AEE	3.00	0.00	-0.04	-0.04	0.01	-0.03	-0.01	-0.10	2.90	-3.5%
AEP	3.90	0.01	0.00	-0.03	0.03	-0.06	0.00	-0.04	3.86	-1.0%
AGR	2.45	0.08	0.06	-0.03	0.01	-0.02	0.00	0.10	2.55	4.0%
CMS	2.35	0.05	-0.14	-0.03	0.01	-0.03	0.00	-0.14	2.21	-5.8%
CNP	1.41	0.11	-0.02	-0.01	0.01	-0.01	0.00	0.06	1.47	4.3%
D	4.25	0.06	-0.10	-0.06	0.01	-0.02	-0.04	-0.15	4.10	-3.6%
DTE	5.60	0.33	-0.28	-0.06	0.02	-0.05	-0.01	-0.04	5.56	-0.7%
DUK	4.80	0.05	-0.09	-0.07	0.02	-0.04	0.00	-0.14	4.66	-2.9%
ED	4.30	0.06	-0.05	-0.06	0.02	-0.04	0.00	-0.07	4.23	-1.5%
EIX	4.25	-0.01	-0.03	-0.07	0.03	-0.06	0.00	-0.14	4.11	-3.2%
ES	3.20	0.00	-0.01	-0.04	0.01	-0.02	0.00	-0.06	3.14	-2.0%
HE	1.80	0.13	-0.03	-0.02	0.01	-0.02	0.00	0.08	1.88	4.4%
NEE	7.10	0.70	-0.10	-0.06	0.02	-0.04	-0.02	0.49	7.59	7.0%
NI	1.21	0.00	-0.07	-0.02	0.01	-0.02	0.00	-0.10	1.12	-8.1%
PCG	3.80	0.00	-0.01	-0.06	0.03	-0.05	0.00	-0.08	3.72	-2.2%
PNW	4.40	0.00	-0.03	-0.06	0.02	-0.04	0.00	-0.11	4.29	-2.4%
PPL	2.27	0.00	-0.04	-0.02	0.01	-0.01	-0.01	-0.07	2.20	-3.2%
SO	3.10	0.06	-0.07	-0.05	0.01	-0.03	0.00	-0.07	3.03	-2.4%
SRE	5.70	0.32	-0.15	-0.06	0.02	-0.04	0.00	0.09	5.79	1.5%
WEC	3.25	0.01	-0.04	-0.03	0.01	-0.03	0.00	-0.08	3.17	-2.6%
WR	2.60	0.00	0.00	-0.03	0.01	-0.02	0.00	-0.04	2.56	-1.5%
XEL	2.40	0.00	-0.03	-0.03	0.02	-0.03	0.00	-0.08	2.32	-3.2%
Diversified	EVR ISI 2018 EPS	Non - Reg	LOWER FIT TO 20% Parent	Reg CF	Bonus D	100% Bonus D	Interest Deducibility	Total Acc./(Dil.)	Pro - Forma 2018 EPS	Variance %
ETR	4.40	-0.03	-0.13	-0.09	0.05	-0.10	0.00	-0.30	4.10	-6.8%
EXC	2.80	0.25	-0.04	-0.03	0.01	-0.02	0.00	0.16	2.96	5.8%
FE	2.22	0.00	-0.14	-0.05	0.01	-0.02	0.00	-0.20	2.02	-9.2%
PEG	2.90	0.17	0.02	-0.03	0.01	-0.02	0.00	0.14	3.04	4.7%

2019 Regulated	EVR ISI 2019 EPS	Non - Reg	LOWER FIT TO 20% Parent	Reg CF	Bonus D	100% Bonus D	Interest Deducibility	Total Acc./(Dil.)	Pro - Forma 2019 EPS	Variance %
AEE	3.20	0.00	-0.04	-0.09	0.02	-0.06	0.00	-0.17	3.03	-5.2%
AEP	4.10	0.01	0.00	-0.06	0.04	-0.11	0.00	-0.11	3.99	-2.6%
AGR	2.54	0.08	0.05	-0.06	0.01	-0.04	0.00	0.06	2.59	2.3%
CMS	2.51	0.06	-0.14	-0.07	0.02	-0.06	0.00	-0.19	2.32	-7.6%
CNP	1.51	0.11	-0.02	-0.03	0.01	-0.03	0.00	0.05	1.56	3.0%
D	4.55	0.06	-0.07	-0.13	0.01	-0.03	-0.02	-0.17	4.38	-3.8%
DTE	6.00	0.35	-0.29	-0.13	0.04	-0.10	-0.01	-0.14	5.86	-2.3%
DUK	5.05	0.05	-0.09	-0.15	0.04	-0.09	-0.01	-0.25	4.80	-5.0%
ED	4.55	0.06	-0.04	-0.12	0.04	-0.09	0.00	-0.14	4.41	-3.2%
EIX	4.70	-0.01	-0.03	-0.15	0.05	-0.12	0.00	-0.25	4.45	-5.4%
ES	3.45	0.00	-0.01	-0.09	0.02	-0.05	0.00	-0.13	3.32	-3.7%
HE	1.90	0.14	-0.03	-0.04	0.01	-0.04	0.00	0.04	1.94	2.3%
NEE	7.50	0.73	-0.11	-0.14	0.03	-0.08	-0.03	0.41	7.91	5.4%
NI	1.29	0.00	-0.07	-0.04	0.02	-0.04	0.00	-0.14	1.16	-10.6%
PCG	3.95	0.00	-0.01	-0.12	0.04	-0.10	0.01	-0.18	3.77	-4.5%
PNW	4.70	0.00	-0.03	-0.13	0.04	-0.09	0.00	-0.21	4.49	-4.6%
PPL	2.39	0.00	-0.05	-0.04	0.01	-0.03	-0.01	-0.11	2.28	-4.7%
SO	3.25	0.06	-0.07	-0.10	0.02	-0.05	0.00	-0.13	3.12	-4.1%
SRE	7.00	0.32	-0.16	-0.13	0.03	-0.08	0.00	-0.03	6.97	-0.4%
WEC	3.40	0.01	-0.04	-0.07	0.02	-0.05	0.00	-0.14	3.26	-4.1%
WR	2.70	0.00	0.00	-0.06	0.02	-0.05	0.00	-0.09	2.61	-3.4%
XEL	2.55	0.00	-0.03	-0.07	0.03	-0.07	0.00	-0.14	2.41	-5.5%
Diversified	**EVR ISI 2019 EPS**	**Non - Reg**	**LOWER FIT TO 20% Parent**	**Reg CF**	**Bonus D**	**100% Bonus D**	**Interest Deducibility**	**Total Acc./(Dil.)**	**Pro - Forma 2019 EPS**	**Variance %**
ETR	4.80	-0.02	-0.14	-0.19	0.07	-0.18	0.00	-0.45	4.35	-9.4%
EXC	2.85	0.19	-0.04	-0.07	0.02	-0.05	0.00	0.06	2.91	2.1%
FE	2.52	0.00	-0.14	-0.11	0.02	-0.04	0.00	-0.27	2.24	-10.9%
PEG	2.90	0.14	0.01	-0.07	0.02	-0.05	-0.01	0.04	2.94	1.4%

Source: Evercore ISI Research

Exhibit 11 – Sorted by Highest to Lowest Accretion in 2019

Regulated	Non - Reg	LOWER FIT TO 20% Parent	Reg CF	Bonus D	100% Bonus D	Interest Deducibility	Total	2019 EPS	Variance %
NEE	0.73	-0.11	-0.14	0.03	-0.08	-0.03	0.41	7.50	5.4%
CNP	0.11	-0.02	-0.03	0.01	-0.03	0.00	0.05	1.51	3.0%
HE	0.14	-0.03	-0.04	0.01	-0.04	0.00	0.04	1.90	2.3%
AGR	0.08	0.05	-0.06	0.01	-0.04	0.00	0.06	2.54	2.3%
SRE	0.32	-0.16	-0.13	0.03	-0.08	0.00	-0.03	7.00	-0.4%
DTE	0.35	-0.29	-0.13	0.04	-0.10	-0.01	-0.14	6.00	-2.3%
AEP	0.01	0.00	-0.06	0.04	-0.11	0.00	-0.11	4.10	-2.6%
ED	0.06	-0.04	-0.12	0.04	-0.09	0.00	-0.14	4.55	-3.2%
WR	0.00	0.00	-0.06	0.02	-0.05	0.00	-0.09	2.70	-3.4%
ES	0.00	-0.01	-0.09	0.02	-0.05	0.00	-0.13	3.45	-3.7%
D	0.06	-0.07	-0.13	0.01	-0.03	-0.02	-0.17	4.55	-3.8%
WEC	0.01	-0.04	-0.07	0.02	-0.05	0.00	-0.14	3.40	-4.1%
SO	0.06	-0.07	-0.10	0.02	-0.05	0.00	-0.13	3.25	-4.1%
PCG	0.00	-0.01	-0.12	0.04	-0.10	0.01	-0.18	3.95	-4.5%
PNW	0.00	-0.03	-0.13	0.04	-0.09	0.00	-0.21	4.70	-4.6%
PPL	0.00	-0.05	-0.04	0.01	-0.03	-0.01	-0.11	2.39	-4.7%
DUK	0.05	-0.09	-0.15	0.04	-0.09	-0.01	-0.25	5.05	-5.0%
AEE	0.00	-0.04	-0.09	0.02	-0.06	0.00	-0.17	3.20	-5.2%
EIX	-0.01	-0.03	-0.15	0.05	-0.12	0.00	-0.25	4.70	-5.4%
XEL	0.00	-0.03	-0.07	0.03	-0.07	0.00	-0.14	2.55	-5.5%
CMS	0.06	-0.14	-0.07	0.02	-0.06	0.00	-0.19	2.51	-7.6%
NI	0.00	-0.07	-0.04	0.02	-0.04	0.00	-0.14	1.29	-10.6%
Diversified	**Non - Reg**	**LOWER FIT TO 20% Parent**	**Reg CF**	**Bonus D**	**100% Bonus D**	**Interest Deducibility**	**Total**	**2019 EPS**	**Variance %**
EXC	0.19	-0.04	-0.07	0.02	-0.05	0.00	0.06	2.85	2.1%
PEG	0.14	0.01	-0.07	0.02	-0.05	-0.01	0.04	2.90	1.4%
ETR	-0.02	-0.14	-0.19	0.07	-0.18	0.00	-0.45	4.80	-9.4%
FE	0.00	-0.14	-0.11	0.02	-0.04	0.00	-0.27	2.52	-10.9%

Source: Evercore ISI Research

What Will The Impact Be on Valuation For Utility Stocks If The Tax Code Is Meaningfully Changed?

A little over a year ago when we wrote about the impact of bonus depreciation being extended we opined that while the EPS growth impact over the next several years could be put under some pressure by that tax change we saw the ability to raise cap-ex to mitigate the issue and didn't see a dividend payout ratio "problem" affecting the ability of companies to achieve articulated dividend growth targets. So in the context of utilizing a dividend discount model to derive LT EPS and dividend growth and the intrinsic value for a utility stock we saw an immaterial impact on the long term equity value to just the bonus depreciation change. That wound up being correct as the group did not suffer from material negative EPS revisions (overall) after offsetting measures like higher cap-ex, and did not see a valuation de-rating. But this is potentially different. The quantum of changes being contemplated in the tax code with regard to the tax rate, depreciation and interest deductibility will create winners and losers from both an absolute and relative perspective within the group as it pertains to earnings outcomes. And they are meaningful enough to change both absolute and relative value. In fact, the market began to try and sort the winners and losers immediately after the election, and to a large degree we think the directional movements in the stocks have been right. The exception in our view are the stocks of companies with renewable energy businesses like NEE (and to a lesser degree AGR) that could be absolute or relative beneficiaries under "Trump Tax" but have been impacted by a view that Trump is anti-renewable energy, which is not accurate. As shown on Exhibit 12 below, the best performing stocks since the election are utilities that own unregulated businesses that would benefit from lower tax rates. Those include HE (a bank), CNP (gas infrastructure), EXC and PEG (merchant power), that looks correct to us. On the other hand, utility holding companies with significant parent leverage have underperformed including FE, SO, and NI. That more or less looks correct to us too. NEE, SRE and AGR have lagged due to exposure to renewable investment and/or foreign countries, we think these stocks represent opportunities.

Exhibit 12 – Stock performance since election & Forward P/E's

11/8/16 - Present	
Ticker	Stk Performance
HE	11.3%
CNP	10.5%
EXC	6.3%
PEG	4.1%
DTE	2.7%
PNW	2.1%
AEE	1.9%
PPL	1.7%
CMS	1.1%
ES	0.2%
EIX	-0.2%
AEP	-0.2%
PCG	-1.0%
XEL	-1.3%
NEE	-1.3%
ETR	-1.4%
AGR	-1.8%
ED	-1.8%
DUK	-1.8%
SRE	-2.1%
WEC	-2.2%
NI	-2.7%
SO	-3.3%
WR	-3.5%
D	-3.9%
FE	-13.5%

	Current		Pro - Forma
Ticker	2019 P/E	Ticker	2019 P/E
WR	20.3x	WR	21.0x
HE	17.4x	NI	19.0x
CNP	17.1x	CMS	18.2x
NI	17.0x	WEC	17.5x
WEC	16.8x	PNW	17.1x
CMS	16.8x	AEE	17.1x
NEE	16.3x	HE	17.0x
DTE	16.3x	XEL	16.9x
PNW	16.3x	DTE	16.7x
AEE	16.2x	ED	16.6x
ED	16.1x	CNP	16.6x
XEL	15.9x	ES	16.5x
ES	15.8x	D	16.4x
D	15.8x	ETR	16.3x
PCG	15.4x	PCG	16.1x
AEP	15.4x	DUK	16.1x
DUK	15.3x	EIX	16.1x
EIX	15.2x	AEP	15.8x
AGR	15.2x	SO	15.6x
PEG	15.0x	NEE	15.5x
SO	14.9x	PPL	15.4x
ETR	14.7x	AGR	14.9x
PPL	14.6x	PEG	14.7x
SRE	14.5x	SRE	14.5x
EXC	12.4x	FE	13.3x
FE	11.9x	EXC	12.2x
Average	15.7x	Average	16.3x

Change Current to Proforma	Premium / (Discount)
Ticker	2019 P/E
FE	12.2%
NI	11.9%
ETR	10.4%
CMS	8.2%
XEL	5.8%
EIX	5.7%
AEE	5.5%
DUK	5.2%
PPL	4.9%
PNW	4.8%
PCG	4.7%
SO	4.3%
WEC	4.2%
D	4.0%
ES	3.8%
WR	3.5%
ED	3.3%
AEP	2.7%
DTE	2.3%
SRE	0.4%
PEG	-1.4%
EXC	-2.0%
AGR	-2.2%
HE	-2.2%
CNP	-2.9%
NEE	-5.2%
Average	3.5%

Source: Factset

Looking at the way the stocks are trading today, the relative valuation of some of the stocks makes sense when you "pro-forma" for potential changes in EPS from tax. On Exhibit 12 we also show the companies ranked on our base case '19 EPS expectations before assuming any changes in tax. And how they look when you rank them again assuming our total EPS impact from the above analysis is correct. The biggest movers in terms of valuation getting more expensive appear to be FE, NI, ETR and CMS while NEE, CNP, HE and AGR look cheaper.

How Might Utilities Offset The EPS Impact? Just Like They Did With Bonus Depreciation, More Capital Spending.

The utilities that have a significant EPS headwind from losing the tax shield on parent leverage would seem to be in a bit of a bind as they generally aren't generating significant cash flow available to de-lever. However whether they are over-levered at the parent or not one solution to offset this earnings drag is the same as it was when bonus depreciation was extended and that is to find opportunities to deploy more capital. By our estimate, assuming the tax reform and the related components were implemented as we articulated in this note, a utility holding company which is not a cash tax payer, growing rate base and earning +/-5% through '19 will need to increase cap-x by 15-20% annually to mitigate the earnings impact. This solution might be a more challenging task this time around given the already significant increases announced in 2016 in part to offset bonus deprecation, but those utilities that could do it would fill in the EPS gap while others might be challenged to hit EPS targets. In Exhibit 13 below we show that math. That being said, there would definitely be headroom in rates to recover the cost of increased capital spending, as shown in Exhibit 14 in the next section of this report.

Exhibit 13
Cap-x Increase Needed to get to +/-5% earnings growth

Rate Base Growth Pre & Post Bonus
($ In millions)

Assumptions($ In millions)

Starting RB	$10,000	ROE	10%
Annual Capx Pre Bonus	$800	Equity %	50%
Annual Capx Post Bonus	$875	Int rate	4.8%
Annual Depr	$250	'17 P/E	17
Current FIT Rate	35%	Cash Taxes	$0

	2016	2017	2018	2019	CAGR
Rate Base		$10,000	$10,550	$11,098	
Add Capx		$800	$800	$800	
Less Annual Book Depr		($250)	($252)	($254)	
Net Rate Base (Pre Bonus Depr. Extenstion)	$10,000	$10,550	$11,098	$11,644	5.2%
Rate Base With Bonus		$10,000	$10,449	$10,924	CAGR
Add Capx		$800	$800	$800	
Less Annual Book Depr		($250)	($252)	($254)	
Less RB Impact of Bonus Depr. Extenstion @ 35%		(101)	(73)	(48)	
Net Rate Base (With Bonus Depr. Extenstion)	$10,000	$10,449	$10,924	$11,422	4.5%
Rate Base With Bonus + Higher Capx		$10,000	$10,514	$11,057	CAGR
Add Capx		$800	$800	$800	
Add Higher Capx		$75	$75	$75	
Less Annual Book Depr		($250)	($252)	($254)	
Less RB Impact of Bonus Depr. Extenstion @ 35%		($111)	($80)	($52)	
Net Rate Base (With Bonus Depr. Extenstion + Higher Capx)	$10,000	$10,514	$11,057	$11,626	5.2%
Net Income (RB x Eq% x ROE) - (A)	$500	$526	$553	$581	5.2%
Shares (MM)	500	500	500	500	
EPS	$1.00	$1.05	$1.11	$1.16	5.2%

Cap-Ex Increase Needed To Get Back To +/-5% EPS Growth

($ In millions)

% Capx inc needed

20%

Assumptions($ In millions)

Starting RB	$10,000	ROE	10%
Annual Capx	$1,050	Equity %	50%
Annual Depr	$250	Int rate	4.8%
Current FIT Rate	35%	'17 P/E	17
FIT Rate Under Trump	20%	Cash Taxes	$0
		Parent Leverage	0%

	2016	2017	2018	2019	CAGR
Rate Base		$10,000	$10,667	$11,319	
Add Capx		$1,050	$1,050	$1,050	
Less Annual Book Depr		($250)	($252)	($254)	
Less RB Impact of Bonus Depr. Extenstion @ 20% eff 01/18		(133)	(146)	(135)	
Net Rate Base	$10,000	$10,667	$11,319	$11,980	6.2%
Net Income (RB x Eq% x ROE) - (B)	$500	$533	$566	$599	6.2%
Earnings Drag Due to Lower Deferred Tax Cash Flow					
Pre Tax Cut Net Income - (A)	$500	$526	$553	$581	
Profit Before Tax, PBT (Net Income Gross up at 35%)	$769	$809	$851	$894	
FIT collected in revenue @ 35% (PBT x 35%)		$283	$298	$313	
Profit Before Tax, PBT (Net Income Gross up at 20%)		$667	$707	$749	
FIT colleted in revenue @ 20% (PBT x 20%)		$133	$141	$150	
Lost Cash from lower FIT (35% vs 20%) - Cumulative		($150)	($306)	($469)	
Less: Debt Financing Available At Utility Sub (50% of RB Delta (a))		$76	$131	$177	
Net Financing Need At Parent (Cumulative)		($73)	($175)	($292)	
Debt Issuance - Cumulative		$0	$0	$0	
Equity Issuance - Cumulative		$73	$175	$292	
Higher Paren Int Exp - (Parent Back Leverage x Int. rate)		$0	$0	$0	
Earnings Drag (x 15%) - (C)		$0	$0	$0	
Adjusted Net Income (B) + (C)	$500	$533	$566	$599	6.2%
Incremenal Shares Issued		4	5	6	
Shares	500	504	509	515	
EPS	$1.00	$1.06	$1.11	$1.16	5.1%

Source: Evercore ISI Research

The Impact Of Trump's Tax Reform On Customer Bills Would Be Palpable. Higher Capital Spending Would Not Result In Rate Shock. In Fact Rates Would Still Likely Go Down.

Below we examine the impact of Trump's proposed tax reform coupled with higher capital spending on customer bills. Since FIT expense is a pass through cost borne by the customer, lowering the FIT rate would result in significant reduction in bills offset somewhat by higher capital spending. On Exhibit 14 we show the impact of lowering FIT rate and increasing capital spending on customer bills using a hypothetical utility in 2019. All things equal, based on our calculations a reduction in the FIT rate from 35% to 20% coupled with a +/20% *increase* in annual capital expenditures still results in a +/-9% decline in the customer bill compared to the current bill. So there would appear to be more than enough "headroom" for utilities to increase capital spending materially while still driving lower bills if they can find "shovel ready" projects that are good for customers.

Exhibit 14
Customer Bill Impact

Customer Bill Impact @ $875 MM/yr Capx				2019
Revenue (RB x Pre Tax WACC)				$1,170
Revenue to Cover Depr. (RB x 2.5%)				$291
Total Revenue				$1,461
Customers (MM)				1.4
Avg Bill/Customer (Current State)				$1,043.65
Weighted Avg. Cost of Capital				Pre Tax
	%	Cost	WACC	WACC
Equity	50%	10%	5.00%	7.69%
Debt	50%	4.8%	2.38%	2.38%
			7.38%	10.07%

Customer Bill Impact @ $1,050 MM/yr Capx (20% inc)				2019
Revenue (RB x Pre Tax WACC)				$1,033
Revenue to Cover Depr. (RB x 2.5%)				$300
Total Revenue				$1,333
Customers (MM)				1.4
Avg Bill/Customer				$952.02
Delta To Current State				-9%
Weighted Avg. Cost of Capital				Pre Tax
	%	Cost	WACC	WACC
Equity	50%	10%	5.00%	6.25%
Debt	50%	4.8%	2.38%	2.38%
			7.38%	8.63%

Source: Evercore ISI Research

TIMESTAMP

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

Time of dissemination: February 01, 2017, 20:54 ET.

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Hold – the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%
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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.

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Rating Suspended	8	1%

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Rating	Count	Pct.
Buy	53	16%
Hold	15	5%
Sell	1	4%
Coverage Suspended	1	7%
Rating Suspended	1	12%

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Global Research

8 February 2017

US Electric Utilities & IPPs
Deducting the Latest Impacts on Tax Reform

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Latest analysis on interest deduction impacts notes risk to upcoming maturities
As the focus on year end calls turn to the impacts of tax reform, we continue to size the impacts with our latest analysis looking at potential EPS revisions if interest deductibility were disallowed. While still early in the process, we see an outcome allowing deductibility on current debt while new debt raised will likely be excluded. Our analysis focuses on the refinancing impacts of current debt at maturity on the parent and competitive segments of our utility coverage universe.

What is the specific and combined impact of tax reform?
We highlight the net UTY impact would be in the -1.5% for layering in debt in the first five-year period, and up to -4.6% for *no* grandfathering ,with potential for this to be worse if fully layering in eventual refi of long-dated project debt and fully including borrowings against credit facilities; this reflects a full 35% rate. However, when netting against the impact of lower corporate tax rates (at a 20% hypothetical scenario) we estimate a breakeven impact using a graduated roll-in of interest deductibility through the initial 5-year period, and a -1.4% for the UTY Impact if immediately not deductible (unlikely). We emphasize that this is highly bifurcated across companies with meaningful unregulated operations, which are overall positively exposed, versus levered regulated utilities, which have real negative revisions. See our full tables below for each of these separate and combined scenarios

Who are the winners of interest deductibility? AEP, PCG, EIX all least impacted
Regulated utilities with the least parent leverage would be the least impacted by new interest deductibility rules. We see California utilities such as PCG and EIX as particularly well positioned alongside AEP given paydown of parent debt with asset sale proceeds. Including a shift in corporate tax reform, we add PSEG, CMS, and HE into the mix given ownership of bank (CMS/HE) as well as real cash taxes at PSEG that can be offset (among the only in the sector). The question now stands to what extent we could see a wave of refis in 2017 if a 2018 effective date comes to light. We wouldn't be surprised to see a swath of utilities refinancing maturities out to longer tenors to not only lock in rates in a raising environment, but to also extend the favorable tax treatment of current debt.

Focus on maturities in 2018 & 2019 timeframe
We assume interest deductibility impacts begin to be felt starting in 2018 highlighting companies with the most immediate impacts to the bottom line including SRE, DUK, D, GXP and ETR. We emphasize these impacts could be more meaningful, notably for GXP on the back of their pending $4.4Bn raise to fund the Westar transaction; it could be the single most exposed equity pro-forma for the WR deal. Taken on its own, loss of interest deductibility layered in over time, the integrated names appear most vulnerable on deductibility alone, with D, FE, and NEE all susceptible to several hundred basis point EPS impacts even if only 5 years of forward maturities are considered - worse if all debt is applied, though we note D in particular has guided to several billion of deleveraging. Netting out both the interest deductibility and lower corporate taxes, FE remains the most impacted. Further, concerns around higher rates given its substantial short-term borrowings add to our caution. Lastly, immediate loss of deductibility would eliminate accretive benefits of the Oncor deal as well outside of simply strategic repositioning.

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Further Considerations on Interest Deductibility

- **Accelerated refinancing activity:** We look for companies to pursue potential refi opportunities ahead of rules going into effect, mitigating the impacts. It is unclear just how much of a window would be afforded this year or next to accelerate activity prior to reforms taking effect. Even without final word on legislation we could well see debt deals accelerated in anticipation of this risk throughout 2017.
  - **Conversely reduction in capital market activity thereafter:** We could see companies wait until substantially closer to maturities alongside paying down approaching maturities with cash as a fungible alternative to calling long-dated maturities which would still presumably benefit from the interest tax shield.
- **Lower credit spreads possible as well:** Could we see credit spreads *decrease on* refinancing under new interest deductibility rules? We suspect this will indeed be the case as investors shift towards equity and/or simply reduce borrowings.
- **Could foreign subs prove helpful in this context:** We note the foreign utility subs sometimes perceived as problematic or adding further confusion to the fundamental backdrop at many US utilities (AES, PPL, SRE) could provide some reprieve on the back of reform. With foreign earnings being exempt from many of the potential tax reforms, we highlight PPL's commentary of raising debt overseas rather than in the US to continue to drive deductibility could be a combative tool that many other lack. Moreover, favorable repatriation laws could allow some of the savings to be brought back to the US. We specifically highlight Sempra in this context, which already has a $518Mn cash position almost entirely held in non-US jurisdictions, where repatriation could bode well for continued investment without the need for incremental capital. We emphasize SRE has ~$1Bn of LT debt due over the 2018-19 timeframe where we see a ~11cent impact on earnings due to loss interest deductibility.

We provide our high level summary in the table below

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Figure 1: EPS Impacts of Interest Deductibility by year and assuming no grandfathering scenario

			Aggregate Refinancing Impact					
Ticker	Index Weight (%)	Total EPS (2018)	Initial EPS Impact (+5 Years, 2018-2022)	Company EPS Impact (%)	Incremental EPS Impact- (5-10 Year)		Impact Assuming No Grandfathering (2018)	
AES	1.57	1.28	-	-	-	-	-	-
AEE	2.54	2.91	($0.01)	0.5%	($0.02)	0.6%	-0.03	1%
AEP	6.26	3.90	($0.01)	0.2%	$0.00	0.0%	-0.01	0%
AWK	2.63	3.25	($0.12)	3.7%	($0.03)	0.8%	-0.48	15%
CNP	2.12	1.49	$0.00	0.0%	$0.00	0.0%	0.00	0%
ED	4.49	4.21	($0.04)	0.9%	$0.00	0.0%	-0.05	1%
D	9.63	3.98	($0.12)	3.1%	($0.04)	0.9%	-0.33	8%
DTE	3.57	5.77	($0.05)	0.8%	($0.10)	1.7%	-0.28	5%
DUK	10.70	4.84	($0.09)	1.9%	($0.05)	1.1%	-0.27	6%
EIX	4.74	4.32	$0.00	0.0%	($0.01)	0.3%	-0.03	1%
EE	0.39	2.70	-	-	-	-	-	-
ETR	2.66	4.63	($0.11)	2.3%	($0.04)	0.9%	-0.15	3%
ES	3.51	3.31	($0.03)	1.0%	($0.03)	1.0%	-0.07	2%
EXC	6.68	2.66	($0.03)	1.1%	($0.03)	1.1%	-0.21	8%
FE	2.74	2.14	($0.07)	3.4%	($0.03)	1.4%	-0.19	9%
NEE	11.14	7.09	($0.16)	2.3%	($0.01)	0.2%	-0.46	6%
PCG	6.24	3.80	($0.01)	0.2%	$0.00	0.0%	-0.01	0%
PEG	4.51	3.00	($0.05)	1.6%	($0.01)	0.2%	-0.09	3%
SO	9.71	3.14	($0.05)	1.5%	($0.03)	1.1%	-0.21	7%
XEL	4.19	2.41	($0.03)	1.2%	($0.02)	0.7%	-0.07	3%
			(0.97)		**(0.45)**		**(2.92)**	
Other Companies								
HE		1.83	($0.01)		($0.01)		($0.02)	
SRE		6.26	($0.18)		($0.07)		($0.33)	
GXP		1.80	($0.05)		$0.00		($0.06)	
WEC		3.37	($0.03)		($0.02)		($0.13)	
PPL		2.32	($0.03)		($0.03)		($0.15)	
CMS		2.32	($0.08)		($0.04)		($0.15)	
			(0.37)		**(0.17)**		**(0.85)**	
			2018-2022 Debt Refi		**2023-2027 Debt Refi**		**No Grandfathering (Vs 2018 EPS)**	
Total Aggregate EPS impact			($0.97)		($0.45)		($2.92)	
Index Weighted EPS Impact			**-1.5%**		**-0.7%**		**-4.6%**	

Source: FactSet, Company filings, and UBSe; we have excluded EE, CNP, and AES from our analysis above given complex and limited overall impact.

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What is the Combination of the Two?

We reflect the combined impact of both corporate tax reform against interest deductibility below. Broadly, we caution that the slight positive from tax reform across the sector will be more than offset by interest deductibility changes, albeit with the tax reform benefits accruing immediately relative to the gradual shift in interest deductibility recapture.

We emphasize that many utilities have been emphasizing their ability to *accelerate capex* to maximize the added consumer headroom created from a variety of tax reform scenarios. This remains a difficult further mitigating factor across tax reforms, limiting the overall negative impact. Admittedly, with a slowing profile of aggregate EPS growth prospects across the sector, the question is just how much of this acceleration is taking from future investment?

We note those least ideally positioned are levered regulated utilities without the ability to benefit from lower tax rates – rather they are both adversely impacted by lower tax rates given large parent drags alongside meaningful impact from loss of interest deductibility.

Figure 2: UTY Earnings Revisions: Combining it All Together

Ticker	Index Weight (%)	2018 Earnings	2018 - 20% Tax Effect	2018-2022 Debt Refi - No Deductibility @ 20% Rate	NET Impact (W/ 20% Tax)	Company EPS Impact	No Grandfathering - No Deductibility @ 20% Rate	Net Impact (W/ 20% Tax)	Company EPS Impact
AES	1.57	$1.28	-	-	-		-	-	
AEE	2.54	$2.91	($0.01)	($0.01)	($0.02)	-0.8%	($0.02)	($0.03)	-1%
AEP	6.26	$3.90	$0.02	($0.00)	$0.02	0.5%	($0.01)	$0.02	0%
AWK	2.63	$3.25	($0.06)	($0.07)	($0.13)	-3.9%	($0.27)	($0.33)	-10%
CNP	2.12	$1.49	-	$0.00	-		$0.00	-	
ED	4.49	$4.21	($0.01)	($0.02)	($0.03)	-0.8%	($0.03)	($0.04)	-1%
D	9.63	$3.98	$0.33	($0.07)	$0.26	6.6%	($0.19)	$0.15	4%
DTE	3.57	$5.77	$0.25	($0.03)	$0.22	3.9%	($0.16)	$0.09	2%
DUK	10.70	$4.84	($0.08)	($0.05)	($0.14)	-2.8%	($0.16)	($0.24)	-5%
EIX	4.74	$4.32	($0.06)	$0.00	($0.06)	-1.4%	($0.02)	($0.08)	-2%
EE	0.39	$2.70	-	-	-		$2.70	-	
ETR	2.66	$4.63	($0.10)	($0.06)	($0.16)	-3.6%	($0.08)	($0.19)	-4%
ES	3.51	$3.31	$0.02	($0.02)	$0.00	0.0%	($0.04)	($0.02)	-1%
EXC	6.68	$2.66	$0.18	($0.02)	$0.16	6.2%	($0.12)	$0.06	2%
FE	2.74	$2.14	($0.25)	($0.04)	($0.29)	-13.6%	($0.11)	($0.36)	-17%
NEE	11.14	$7.09	$0.17	($0.09)	$0.08	1.1%	($0.26)	($0.09)	-1%
PCG	6.24	$3.80	($0.01)	($0.00)	($0.01)	-0.3%	($0.00)	($0.01)	0%
PEG	4.51	$3.00	$0.26	($0.03)	$0.23	7.8%	($0.05)	$0.21	7%
SO	9.71	$3.14	($0.06)	($0.03)	($0.08)	-2.6%	($0.12)	($0.18)	-6%
XEL	4.19	$2.41	($0.01)	($0.02)	($0.03)	-1.1%	($0.04)	($0.05)	-2%
				XLU Impact: 20% Tax + 5 year Layered No Deductibility			**XLU Impact**: 20% Tax + No Grandfathering for Deductibility		
Total Net Weighted XLU Impact				0.4%			-1.4%		

Source: FactSet, Company Reports, UBSe; *Note: the above scenario nets out Interest Deduction at reduced 20% tax rate offset rather than the full 35% rate used in the above tables. The lower tax rate reduces the drag from the removal of the interest deductibility shield by ~40%.*

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Company Commentary

While a number of the more straightforward utilities have similarly straightforward impacts from a change in the interest deductibility rules, we note the integrated peers in particular can be somewhat problematic. Plethora of amortizing project level debt, unclear pipeline treatment (FERC vs. negotiated or intrastate), commercial paper levels, and international treatment all add a level of complexity to our analysis, which we acknowledge could complicate matters. We have attempted to take these factors into account below.

D: Dominion maintains a relatively complicated structure of holdco debt including general corporate debt, as well as some legacy 'energy' debt from previous acquisitions (though most of it was transferred to Dominion Gas Holdings when the company formed that subsidiary). Regardless, by our calculation (based in part on recent schedule of debt maturities) Dominion has $7,450M of holdco level debt, worth ~12 cents of EPS or ~2.6% 2020 consensus EPS of $4.70/sh. We do note that ~$2B of this is set to mature in 2018 – lessening the risk if tax reform were pushed out further than expected. We further note:

- **Dominion has guided to $3B+ of deleveraging in the near term, which would substantially change the negative revision potential of our analysis if factored in, likely in the 4-6 cent range (out of 12 cents) currently**
- FERC Pipelines would include an adjuster which would effectively nullify changes in the tax code. While unclear to what extent this is the case across the DTI portfolio, we suspect this contributes in part to the latest commentary that mgmt. remains a largely ~Neutral benefit of overall reforms (disappointment with 4Q despite more positive sentiment on net reform exposure)
- But negotiated contracts and smaller pipelines would *not* be immune to this change.

In our base case, we are Not including any impact from debt characterized as stemming from Dominion Gas or Questar. Within our analysis timeframe, adding the relevant pipeline specific debt would add another ~2 cents of EPS impact from refinancing, or 8 cents if there were no grandfathering of existing debt. This would bring D up to one of the most sensitive names in the group, with a ~4.3% earnings impact in aggregate (20 cents).

EXC: While **Exelon** has an extensive capital stack across utilities and unregulated business, we include principally the ExGen unsecured debt and the parent level debt (~$7B, largely associated with the POM acquisition) in our analysis. We are excluding any amortizing project debt or otherwise unclassified items, which could expand the exposure. We note intentions to continue to de-lever could well shift its profile further by the time rules are implemented, and particularly if deductibility is gradually implemented (enabling mgmt. to continue to materially reduce leverage prior to losing tax shield on legacy borrowings).

FE: FirstEnergy also has a number of subsidiaries and debt structures under the corporate, but we focused primarily on holdco leverage and also note the substantial leverage at the competitive segment, which is being divested. Nonetheless, total Holdco leverage of ~$6.9B is substantial, leaving FE as one of the most impacted among our coverage.

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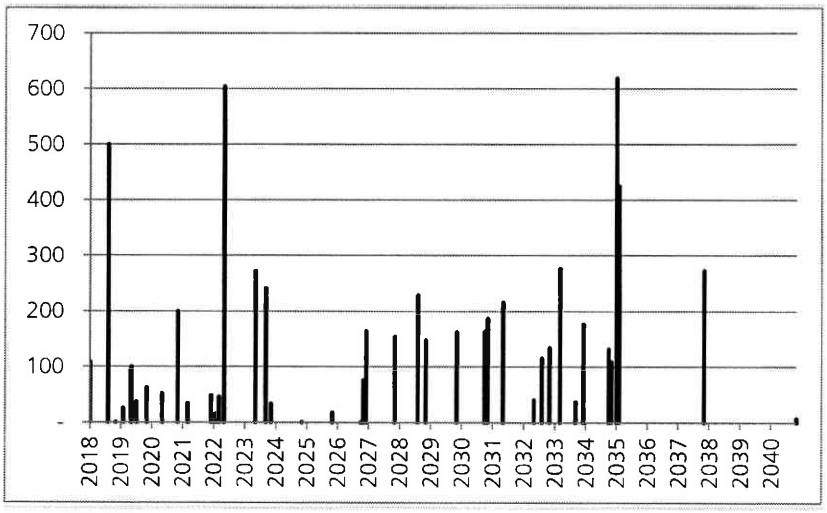
We note the company has substantial credit facility borrowings which we are including (unlike others) given over $2B at the parent level and another 250M at the transmission company. This is in addition to ~4.2B of holdco bonds/term loans. We also note the company explicitly called out $650M of refinancing on 2018 bonds as well as $1B of refinancing on 2019 at the corporate level.

NEE: NextEra is principally complicated due to the plethora of project leverage, and plans for substantial future debt issuance due to Oncor. Without including the effect of the Oncor transaction (our base case), we see ~18 cents of near term impact from parent. Total Oncor transaction price of roughly ~$20.8B includes $6.5B of Oncor debt; adjusting for other non-parent debt likelihoods, we highlight ~9B of NEE parent debt could be issued for the Oncor transaction. Assuming a 4% rate on the incremental parent debt, this would equal roughly ~25 cents of tax shield from interest deductibility, offsetting much of the near-term accretion if implemented immediately. However, we do not include this in the analysis as the transaction is likely to either be approved or denied this year given the schedule of events outlined recently. We also note that while management did address tax impacts on the Q4 call, only one of the scenarios included no interest deductibility. We suspect no grandfathering of debt coupled with the downside scenarios was well outside the realm of what was considered by management as a reasonable outcome from tax reform.

Separately, we note NEE's substantial project debt breakdown, which we assume is amortizing and not relevant for our analysis, but is worth highlighting given the substantial amount. Making up ~$7.2B of debt in aggregate, NEE's project debt is substantial and spread out over the next 20+ years. For our analysis we assume the debt amortizes and we do not count it against the company, but in an extreme downside scenario this could be a substantial negative.

Figure 3: NEER Project Debt maturity Outlook ($M)



Source: NEE, UBSe

PEG: For **Public Service,** we have included ~$2.4B of Power debt as well as $700M of parent debt. This appears largely manageable, accounting for only 5 cents under the refinancing scenario or 9 cents overall. We continue to see shares as among the single best positioned companies in the utility sector relative to overall tax reform.

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SRE: Taking into account long term debt issued in 2016, there are 6 tranches of Sempra parent debt totalling $2.9B with maturities between 2018 and 2022. While this is relatively manageable at 18 cents of impact, we acknowledge there are several further nuances to SRE's interest deductibility impacts:

- Cameron debt has ~$3.5B of debt associated with it, which is NOT consolidated on SRE's financials. For reference, roughly 70% is hedged at 3.2-3.3%. We note that the company owns a ~50% stake in the JV.
- SRE also has a $1B 5 year revolver and typically has $1B of commercial paper outstanding.

Other Companies – Non Integrated

- **AEP:** AEP has relatively limited parent debt, with ~$850M spread across two bonds. $550M due in Dec 2017 would presumably be refinanced before any effective change to forward-looking debt took place, which leaves $300M due Dec 2022 at 2.95%. We expect further debt paydown following the latest merchant asset sale.
- **AEE:** Ameren has $350M due in the 2018-2022 timeframe – limited impact.
- **CMS:** As highlighted in greater depth below and in our recent upgrade, is well positioned with the bank ownership stake (ability to offset interest expect with interest income at the bank level).
- **DTE:** Given DTE's pipeline exposure, we note any FERC regulated pipeline debt would effectively end up as a passthrough, whereas any local pipes presumably would be affected by the loss of interest deductibility. We see $1B of non-regulated debt coming due in 2018-2020.
- **DUK:** While we are excluding any debt at DUK international due to the recent sale, there is still a healthy level of leverage at the parent, both from DUK and Progress. We are specifically excluding amortizing debt for the commercial renewables business, and we further note that the international sale proceeds of $1.9B were used to pay down short term debt (both of which we are excluding).
- **ETR:** Most of the parent debt in our analysis falls in the latter half of the 2018-2022 timeframe, suggesting higher likelihood that ETR would need to address any tax reform impacts (rather than benefitting from a delay as some with maturities in the 2018 timeframe).
- **EIX:** EIX Parent debt actually falls just outside our parameters, with one $400M bond due in Dec 2017 and the other $400M bond due March 2023. We also note $518M of commercial paper with a weighted average interest rate of 0.69% outstanding as Q3'16 which we are excluding from the analysis for consistency.
- **ES:** Eversource has 8 parent bonds, with the nearest due 1/15/18 and the last due 3/15/2026. We highlight our analysis may be somewhat punitive on ES specifically because we are assuming the interest deductibility loss goes into effect on 1/1/18, and the company has $450M of issuances due in 2018. Any further delay in the legislative process would prove beneficial to ES in this regard, assuming debt grandfathering under the loss of interest deductibility.
- **PCG:** Our data suggests PCG has only $700M due in 2019 at the parent level.

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- **PPL:** We have included debt at the PPL Capital level as well as the PPL Electric Utilities Corp level. While PPA has substantial leverage, the aggregate refinancing effect would be just a bit over 2% of EPS, suggesting minimal impact from refinancing loss.

- **SCG:** Spread across 3 bonds, SCG has $800M of parent debt coming due in the timeframe, starting in 2020. Even in the event of a pushout of tax reform, this would seem likely to be caught in the refinancing risk, though aggregate amount is relatively minor at ~10 cents of EPS.

- **SO:** Southern remains relatively well positioned despite a notable amount of corporate and unregulated debt we account for. We note our total debt number is ~$400M different from the company, likely indicating some minor discrepancies with our data pull.

- **WEC:** Including the 500M of junior notes, we are factoring in $1.9B of debt in the overall analysis, $700M of which comes due by 2020.We are including the WEC Energy Senior and Junior notes only. We note PTF-related debt would appear unrecoverable despite refunding the tax benefits to customers under this structure.

- **XEL:** Xcel's 1.25B maturing over the next several years positions it as relatively insulated from earnings revisions versus peers.

- **AES:** While we have not formally included this company in the analysis below given the wider number of factors impacting this company, we generally see its more levered position as slightly more than offsetting an improvement in tax rate from the low-3's effective rate of late down to a 20% rate. We estimate a tax benefit would be ~$0.12-0.14 (adjusted for 16% of Utility PTC that would *not* benefit), whereas loss of interest deductibility would have a negative impact of ~$0.15 assuming preponderance of higher cost debt is outside of the utilities (at a 20% rate); losing the interest shield at the full 35% rate would appear to be closer to ~$0.25. We note that with limited cash tax prospects and with a wide variety of international avenues to presumably shield interest abroad alongside benefits from any tax repatriation holidays, this could prove a further offset. Net-net, we see reform overall as a slight to modest headwind.

  Bottom line, given the unique uncertainty on tax position, we exclude the company from our analysis below.

Interest Deductibility & Reform

Our analysis includes the outstanding debt at the parent and competitive subsidiaries of our regulated utility coverage, assuming a refi of current maturities and the potential impacts of the removal of interest deductibility. The question still remains whether current outstanding debt will be grandfathered in the implementation of zero interest deductibility (we continue to think this is the case), as we note in our table below the effects of immediately deducting all parent debt could have a substantial impact, notably at GXP.

We highlight FE, GXP and D as potential losers on the implementation of zero interest deductibility, while names such as AEP, PCG and EIX flag as best positioned.

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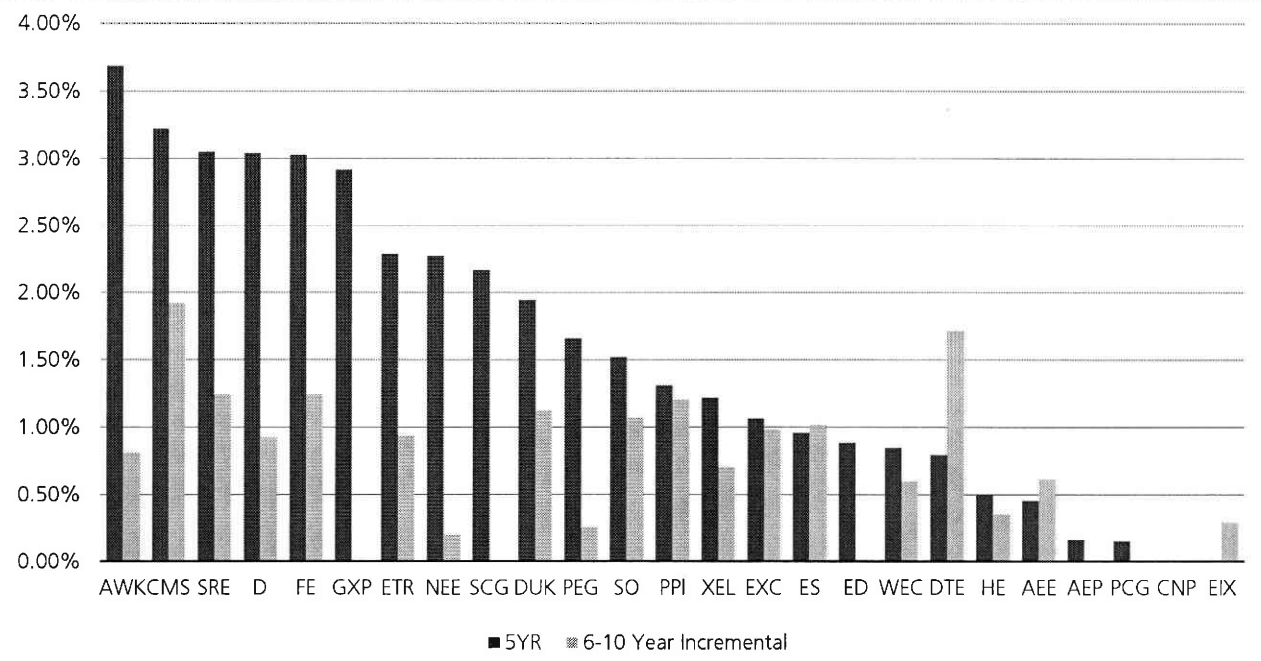
GXP: Watch for ~$4.4Bn of M&A driven debt issuance

Perhaps the most interesting scenario is the looming $4.4Bn of debt issuance at GXP to fund the WR transaction. Though there are limited disclosures, GXP entered into interest rate hedges this past summer, protecting itself from the increase in interest rates. The question now remains what maturity the LT debt will be issued at. We emphasize mgmt. has indicated a bias towards shorter term tenors, although the real sticking point will be whether current debt can continue to be deducted on the back of reform. We note a 25% negative impact on 2018 EPS in the event GXP cannot deduct the interest from the deal

Figure 4: EPS Sensitivity to Implementation of Zero Interest Deductibility



Source: FactSet, UBSe, Company Filings

CMS an actual winner on reform

As noted in our upgrade, as well as addressed on the recent 4Q16 conference call, CMS is actually a net winner on the interest deductibility analysis. We emphasize the sensitivity in our analysis below is not inclusive of the EnerBank subsidiary, whose net interest income of $130Mn will provide a full offset to parent interest expense (~$130Mn) in the event of meaningful tax reform.

Who else wins on the bank factor?

We highlight the strength in **HE** vs CMS following the election and subsequent increase in US Treasury yields. While the bank subsidiary at HE contributes a much larger percentage of overall earnings (HE 28% vs 4% CMS) we highlight recent price action could suggest investors find value in owning a bank sub due to the defensive nature it provides on interest deductibility. The question now is to what extent investors will look to CMS in the same light? We see increased value in the bank sub, applying a 14x multiple in our SotP, and expect investors to be pay more attention given the expectation of tax reform offsets and rising rates under the new Administration.

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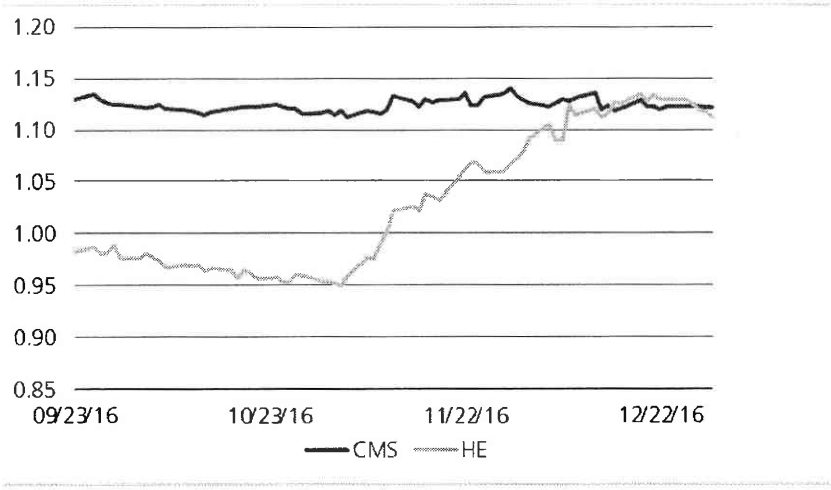
Figure 5: CMS & HE FY2PE vs XLU



Source: FactSet

Addressing Deductibility Impact on Year End Calls

We expect most companies under our coverage to focus on the impacts of tax reform, highlighting AEP, CMS and PPL have all provided slides and relative sensitivities. Below we highlight the tax takeaways from the calls:

- **AEP** noted ~$850Bn of debt at the parent as of the 4Q16 conference call. We see 2 cents of sensitivity to EPS over *10 years* if AEP were to refinance the entire amount following the implementation of interest deductibility. See our broader thoughts following the qtr here.

- **PPL** we highlight 1) the UK parent (50%) of earnings as a tax shield and 2) has low debt maturity's at PPL Capital Funding over our 10 year analysis period. We emphasize only 3 cents of impact through 2027, assuming refinancing in the US. PPL could in fact raise debt overseas and continue to deduct interest. See our puts and takes following the qtr here.

- **D** provided little sensitives on the call other than noting the impact of tax reform is a net neutral. We highlight interest deductibility at the unregulated business could be material over the near term with our analysis pointing to a $0.12 impact over 2018-2022 assuming current debt is refinanced at the same notional amount.

- **WEC** highlighted 14 cents of annual loses at the holdco and 5 cents at We Power if current debt was not allowed interest deductibility. We see 4 cents of impact through 2022 ~$2,685Mn of outstanding debt at We Power. 4Q16 takeaways here.

- **CMS** as highlighted above is leveraged at the parent, but will see 1:1 Net Income offsets. Without this benefit, we see a $0.15 negative EPS revision through 2018-2022.

- **XEL** pointed to the Ryan House Blueprint on the call, noting 100% expensing and no interest deduction would be 'mildly dilutive' whereas the Trump plan (maintaining interest deduction but no expensing) would be 'mildly accretive'. We see the interest deductibility impacts slightly negative, noting a ~$0.03 impact. See our further Xcel analysis here.

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See our additional notes on the impacts of tax reform below

Sizing Up the UTY Earnings Revisions on Taxes
Further Feedback on UTY Tax Revisions
Utility Accounting Perspectives on Tax Reforms [Transcript Incl.]
What We Think the Election Means

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Figure 6: Interest Deductibility Analysis Part 1

Company	2018	2019	2020	2021	2022	5YR	2023	2024	2025	2026	2027	10YR	Impact Assuming No Grandfathering (2018)
GXP													
Loan Amt	0	0	0	350	288	**638**	0	0	0	0	0	**0**	**738**
Refi Impact	$0.00	$0.00	$0.00	$0.03	$0.02	**$0.05**	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**	**$0.06**
EPS						**$1.80**						**$1.80**	**$1.80**
EPS Impact (%)						**2.91%**						**0.00%**	**3.54%**
XEL													
Loan Amt	0	0	550	400	300	**1,250**	0	0	250	500	0	**750**	**2,800**
Refi Impact	$0.00	$0.00	$0.02	$0.01	$0.01	**$0.03**	$0.00	$0.00	$0.01	$0.01	$0.00	**$0.02**	**$0.07**
EPS						**$2.45**						**$2.45**	**$2.45**
EPS Impact (%)						**1.22%**						**0.70%**	**2.89%**
WEC													
Loan Amt	300	0	650	0	0	**950**	0	0	500	0	0	**500**	**2,715**
Refi Impact	$0.01	$0.00	$0.02	$0.00	$0.00	**$0.03**	$0.00	$0.00	$0.02	$0.00	$0.00	**$0.02**	**$0.13**
EPS						**$3.29**						**$3.29**	**$3.29**
EPS Impact (%)						**0.85%**						**0.60%**	**4.04%**
SCG													
Loan Amt	0	0	250	300	250	**800**	0	0	0	0	0	**0**	**800**
Refi Impact	$0.00	$0.00	$0.04	$0.03	$0.03	**$0.10**	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**	**$0.10**
EPS						**$4.54**						**$4.54**	**$4.54**
EPS Impact (%)						**2.17%**						**0.00%**	**2.17%**
PPL													
Loan Amt	250	0	100	400	1,050	**1,800**	600	350	0	650	0	**1,600**	**6,830**
Refi Impact	$0.00	$0.00	$0.00	$0.01	$0.02	**$0.03**	$0.01	$0.01	$0.00	$0.01	$0.00	**$0.03**	**$0.15**
EPS						**$2.32**						**$2.32**	**$2.32**
EPS Impact (%)						**1.31%**						**1.21%**	**6.60%**
PCG													
Loan Amt	0	350	0	0	0	**350**	0	0	0	0	0	**0**	**350**
Refi Impact	$0.00	$0.01	$0.00	$0.00	$0.00	**$0.01**	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**	**$0.01**
EPS						**$3.86**						**$3.86**	**$3.86**
EPS Impact (%)						**0.15%**						**0.00%**	**0.15%**
ES													
Loan Amt	450	350	0	250	0	**1,050**	450	0	300	250	0	**1,000**	**2,050**
Refi Impact	$0.01	$0.02	$0.00	$0.01	$0.00	**$0.03**	$0.01	$0.00	$0.01	$0.01	$0.00	**$0.03**	**$0.07**
EPS						**$3.31**						**$3.31**	**$3.31**
EPS Impact (%)						**0.96%**						**1.01%**	**1.97%**
AEP													
Loan Amt	0	0	0	0	300	**300**	0	0	0	0	0	**0**	**850**
Refi Impact	$0.00	$0.00	$0.00	$0.00	$0.01	**$0.01**	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**	**$0.01**
EPS						**$3.88**						**$3.88**	**$3.88**
EPS Impact (%)						**0.16%**						**0.00%**	**0.33%**
AEE													
Loan Amt	0	0	350	0	0	**350**	0	0	0	350	0	**350**	**700**
Refi Impact	$0.00	$0.00	$0.01	$0.00	$0.00	**$0.01**	$0.00	$0.00	$0.00	$0.02	$0.00	**$0.02**	**$0.03**
EPS						**$3.00**						**$3.00**	**$3.00**
EPS Impact (%)						**0.45%**						**0.61%**	**1.07%**
D													
Loan Amt	2,050	2,500	0	2,150	750	**7,450**	0	1,125	650	400	0	**2,175**	**16,330**
Refi Impact	$0.03	$0.04	$0.00	$0.04	$0.01	**$0.12**	$0.00	$0.02	$0.01	$0.01	$0.00	**$0.04**	**$0.33**
EPS						**$4.07**						**$4.07**	**$4.07**
EPS Impact (%)						**3.04%**						**0.93%**	**8.07%**
DTE													
Loan Amt	0	700	0	0	300	**1,000**	300	950	0	600	0	**1,850**	**4,030**
Refi Impact	$0.00	$0.03	$0.00	$0.00	$0.02	**$0.05**	$0.02	$0.04	$0.00	$0.03	$0.00	**$0.10**	**$0.28**
EPS						**$5.69**						**$5.69**	**$5.69**
EPS Impact (%)						**0.79%**						**1.71%**	**4.87%**
DUK													
Loan Amt	750	1,300	20	1,750	960	**4,780**	750	1,013	52	1,508	12	**3,336**	**13,951**
Refi Impact	$0.01	$0.04	$0.00	$0.03	$0.02	**$0.09**	$0.01	$0.02	$0.00	$0.02	$0.00	**$0.05**	**$0.27**
EPS						**$4.80**						**$4.80**	**$4.80**
EPS Impact (%)						**1.94%**						**1.12%**	**5.72%**

Source: FactSet, Company Reports, UBSe

Note: 5YR & 10YR EPS sensitivities are off of 2018 Consensus.

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Figure 7: Interest Deductibility Analysis Part 2

Company	2018	2019	2020	2021	2022	5YR	2023	2024	2025	2026	2027	10YR	Impact Assuming No Grandfathering (2018)
ETR													
Loan Amt	42	0	450	180	650	**1,322**	0	0	0	750	0	**750**	**2,072**
Refi Impact	$0.00	$0.00	$0.05	$0.01	$0.05	**$0.11**	$0.00	$0.00	$0.00	$0.04	$0.00	**$0.04**	**$0.15**
EPS						**$4.61**						**$4.61**	**$4.61**
EPS Impact (%)						**2.29%**						**0.94%**	**3.22%**
EIX													
Loan Amt	0	0	0	0	0	**0**	400	0	0	0	0	**400**	**800**
Refi Impact	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**	$0.01	$0.00	$0.00	$0.00	$0.00	**$0.01**	**$0.03**
EPS						**$4.35**						**$4.35**	**$4.35**
EPS Impact (%)						**0.00%**						**0.29%**	**0.66%**
ED													
Loan Amt	450	450	0	514	0	**1,414**	0	0	0	0	0	**0**	**1,377**
Refi Impact	$0.01	$0.01	$0.00	$0.01	$0.00	**$0.04**	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**	**$0.05**
EPS						**$4.31**						**$4.31**	**$4.31**
EPS Impact (%)						**0.88%**						**0.00%**	**1.06%**
CMS													
Loan Amt	0	300	300	0	300	**900**	0	250	250	300	275	**1,075**	**2,525**
Refi Impact	$0.00	$0.03	$0.02	$0.00	$0.02	**$0.08**	$0.00	$0.01	$0.01	$0.01	$0.01	**$0.04**	**$0.15**
EPS						**$2.33**						**$2.33**	**$2.33**
EPS Impact (%)						**3.22%**						**1.92%**	**6.55%**
NEE													
Loan Amt	600	1,303	736	1,905	0	**4,544**	327	102	0	0	0	**429**	**13,305**
Refi Impact	$0.01	$0.04	$0.04	$0.08	$0.00	**$0.16**	$0.01	$0.00	$0.00	$0.00	$0.00	**$0.01**	**$0.46**
EPS						**$7.09**						**$7.09**	**$7.09**
EPS Impact (%)						**2.27%**						**0.20%**	**6.47%**
PEG													
Loan Amt	250	400	406	1,250	0	**2,306**	250	0	0	0	0	**250**	**3,056**
Refi Impact	$0.00	$0.00	$0.01	$0.03	$0.00	**$0.05**	$0.01	$0.00	$0.00	$0.00	$0.00	**$0.01**	**$0.09**
EPS						**$2.95**						**$2.95**	**$2.95**
EPS Impact (%)						**1.66%**						**0.25%**	**2.92%**
SRE													
Loan Amt	500	1,000	900	0	500	**2,900**	500	500	350	0	0	**1,350**	**5,600**
Refi Impact	$0.04	$0.08	$0.03	$0.00	$0.02	**$0.18**	$0.03	$0.02	$0.02	$0.00	$0.00	**$0.07**	**$0.33**
EPS						**$5.76**						**$5.76**	**$5.76**
EPS Impact (%)						**3.05%**						**1.24%**	**5.72%**
SO													
Loan Amt	1,450	2,050	900	1,500	674	**6,574**	1,250	0	0	1,750	0	**3,000**	**18,008**
Refi Impact	$0.01	$0.01	$0.01	$0.01	$0.00	**$0.05**	$0.01	$0.00	$0.00	$0.02	$0.00	**$0.03**	**$0.21**
EPS						**$3.12**						**$3.12**	**$3.12**
EPS Impact (%)						**1.52%**						**1.07%**	**6.74%**
FE													
Loan Amt	650	1,000	2,709	0	0	**4,359**	850	0	0	0	0	**850**	**6,709**
Refi Impact	$0.01	$0.03	$0.02	$0.00	$0.00	**$0.07**	$0.03	$0.00	$0.00	$0.00	$0.00	**$0.03**	**$0.19**
EPS						**$2.39**						**$2.39**	**$2.39**
EPS Impact (%)						**3.03%**						**1.24%**	**8.08%**
EXC													
Loan Amt	70	600	1,707	380	523	**3,280**	0	1,261	1,389	750	0	**3,400**	**12,772**
Refi Impact	0.00	0.00	0.00	0.01	0.02	**$0.03**	0.01	0.01	0.00	0.01	0.00	**$0.03**	**$0.21**
EPS						**$2.85**						**$2.85**	**$2.85**
EPS Impact (%)						**1.06%**						**0.98%**	**7.21%**
HE													
Loan Amt	0	0	0	50	0	**50**	50	0	0	0	0	**50**	**100**
Refi Impact	$0.00	$0.00	$0.00	$0.01	$0.00	**$0.01**	$0.01	$0.00	$0.00	$0.00	$0.00	**$0.01**	**$0.02**
EPS						**$1.83**						**$1.83**	**$1.83**
EPS Impact (%)						**0.50%**						**0.35%**	**0.85%**
AWK													
Loan Amt	440	125	0	432	300	**1,296**	90	0	0	250	0	**340**	**4,712**
Refi Impact	$0.05	$0.01	$0.00	$0.05	$0.01	**$0.12**	$0.01	$0.00	$0.00	$0.01	$0.00	**$0.03**	**$0.48**
EPS						**$3.25**						**$3.25**	**$3.25**
EPS Impact (%)						**3.69%**						**0.81%**	**14.64%**
CNP													
Loan Amt	0	0	0	0	0	**0**	0	250	250	300	275	**0**	**0**
Refi Impact	$0.00	$0.00	$0.00	$0.00	$0.00	**$0.00**	$0.00	$0.01	$0.01	$0.01	$0.01	**$0.00**	**$0.00**
EPS						**$1.37**						**$1.37**	**$1.37**
EPS Impact (%)						**0.00%**						**0.00%**	**0.00%**

Source: FactSet, Company Filing, UBSe

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Adding the Opportunities Together

Tax Rate impact

We add in the analysis we conducted a few weeks ago as well around corporate tax reform, and changes to corporate tax rates. We note the bulk of the impacts here too are negative. See the figure below for the earnings revision impacts from a decrease in the tax rate from 35% to 20% (full note here). Note that this analysis includes parent exposure, which was not included in our initial UTY earnings revision tax note (full note here).

On an aggregate basis for the UTY, we see 160bps of revision potential for the UTY on the back of meaningful tax reform for 2017E and 110bps for 2018E. The overall revision is pared back when including the negative impacts of a higher negative parent EPS drag at regulated utilities within the UTY, as the core utility businesses see tax benefits largely flowed back to customers, whereas conversely a lower tax rate magnifies losses at the parent level and pressures EPS. On a single name basis, DTE, ETR, FE, and SO stand to have the largest negative revision potential at the parent prior to reflecting unregulated activities. On the unregulated side, EPS revisions are positive for D, PEG, DTE, EXC and NEE; we see PSEG as among the 'true' winners given their full corporate tax rates paid, with real cash taxes payable.

Benefits still underwhelming vs the S&P; in fact, negative?

Our new 160bp revision estimate for the UTY in 2017E is much less than that of the UBSe expectation for the S&P 500. Our colleagues on the US Equity Strategy team expect $1.00-1.50 change in EPS for every 1% change in the effective tax rate for 2017E (see here). On a relative basis, this could be even more given the use of statutory rates vs effective rates. Moreover, we reiterate that on a FCF perspective, hardly any utilities pay meaningful federal cash taxes, suggesting this could be even wider than our analysis predicts.

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Figure 8: UTY Earnings Revisions: Assume change to 20% tax rate from 35% (inclusive of parent)

Ticker	Index Weight (%)	2017 Unregulated Impact	2017 Parent Impact	2017 Net Impact	2017 Earnings Impact	2018 Unregulated Impact	2018 Parent Impact	2018 Net Impact	2018 Earnings Impact
AES	1.57	na	na	-	-	na	na	-	-
AEE	2.54	0.00	(0.02)	(0.02)	-1%	0.00	(0.01)	(0.01)	-1%
AEP	6.26	0.04	0.00	0.04	1%	0.02	0.00	0.02	1%
AWK	2.63	0.00	(0.06)	(0.06)	-	0.00	(0.06)	(0.06)	-
CNP	2.12	na	na	-	-	na	na	-	-
ED	4.49	0.00	(0.00)	(0.00)	0%	0.00	(0.01)	(0.01)	0%
D	9.63	0.39	0.01	0.40	11%	0.41	(0.07)	0.33	8%
DTE	3.57	0.32	(0.11)	0.20	4%	0.35	(0.10)	0.25	4%
DUK	10.70	0.00	(0.09)	(0.09)	-2%	0.00	(0.08)	(0.08)	-2%
EIX	4.74	0.00	(0.06)	(0.06)	-1%	0.00	(0.06)	(0.06)	-1%
EE	0.39	na	na	-	-	na	na	-	-
ETR	2.66	0.00	(0.11)	(0.11)	-2%	0.00	(0.10)	(0.10)	-2%
ES	3.51	0.00	0.01	0.01	-	0.00	0.02	0.02	-
EXC	6.68	0.18	0.02	0.21	8%	0.20	(0.01)	0.18	7%
FE	2.74	0.02	(0.19)	(0.17)	-7%	(0.10)	(0.15)	(0.25)	-12%
NEE	11.14	0.15	0.00	0.15	-	0.17	0.00	0.17	-
PCG	6.24	0.00	(0.01)	(0.01)	0%	0.00	(0.01)	(0.01)	0%
PEG	4.51	0.22	0.01	0.23	8%	0.25	0.01	0.26	9%
SO	9.71	0.03	(0.10)	(0.06)	-2%	0.04	(0.09)	(0.06)	-2%
XEL	4.19	0.00	(0.02)	(0.02)	-1%	0.00	(0.01)	(0.01)	0%
				2017				**2018**	
Total UTY Impact				1.4%				1.0%	

Source: FactSet, Company Reports, UBSe

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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.

Solar sector risks include : 1)Solar panel and other input pricing is subject to ongoing price deflation, which affects economics of downstream projects and margins of upstream producers. 2) Government incentives being added or removed have had a disproportionate effect on demand in the past, and may continue to 3) reliance on power purchase agreements in electricity markets could make future contracts more difficult to sign 4) solar power is directly competing with other traditional generators as well as other renewables like wind, which creates uncertainty as wholesale power markets shift 5)Headline risk and policy risk continue to shift economics in countries as trade policies and changes to other key policies affect solar economics.

Valuations for IPPs are based on sum-of-the-parts analysis.
Valuations for regulated utilities are based on multiples of earnings per share.

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Required Disclosures

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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.
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UBS Securities LLC: Julien Dumoulin-Smith; Jerimiah Booream, CFA; Mark Piorkowski, CPA.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
AES Corporation[16]	AES.N	Sell	N/A	US$11.43	07 Feb 2017
Ameren Corp.[16]	AEE.N	Neutral	N/A	US$52.68	07 Feb 2017
American Electric Power, Inc.[6a, 7, 16]	AEP.N	Buy	N/A	US$63.93	07 Feb 2017
CMS Energy Corporation[16]	CMS.N	Buy	N/A	US$42.51	07 Feb 2017
Consolidated Edison[2, 4, 6a, 16]	ED.N	Sell	N/A	US$74.51	07 Feb 2017
Dominion Resources[2, 4, 5, 6a, 6b, 6c, 7, 16]	D.N	Neutral	N/A	US$72.35	07 Feb 2017
DTE Energy Co.[2, 4, 5, 6a, 7, 16]	DTE.N	Neutral	N/A	US$98.40	07 Feb 2017
Duke Energy[2, 4, 5, 6a, 6c, 7, 16]	DUK.N	Buy	N/A	US$77.75	07 Feb 2017
Edison International[7, 16]	EIX.N	Buy	N/A	US$73.05	07 Feb 2017
Entergy Corp.[16]	ETR.N	Sell	N/A	US$70.68	07 Feb 2017
Eversource Energy[16]	ES.N	Neutral	N/A	US$55.78	07 Feb 2017
Exelon Corp.[6a, 7, 16]	EXC.N	Neutral	N/A	US$36.01	07 Feb 2017
First Energy Service	9514.T	Not Rated	N/A	¥1,020	08 Feb 2017
FirstEnergy Corp.[16]	FE.N	Neutral	N/A	US$29.99	07 Feb 2017
Great Plains Energy Inc[16]	GXP.N	Neutral	N/A	US$27.15	07 Feb 2017
NextEra Energy[2, 3, 4, 5, 6a, 6c, 7, 16]	NEE.N	Buy	N/A	US$124.33	07 Feb 2017
PG&E Corporation[16]	PCG.N	Neutral	N/A	US$61.83	07 Feb 2017
PPL Corporation[2, 4, 5, 6a, 6c, 7, 16]	PPL.N	Buy	N/A	US$35.40	07 Feb 2017
Public Service Enterprise Group[16]	PEG.N	Buy	N/A	US$43.44	07 Feb 2017
SCANA Corp.[2, 4, 6a, 7, 16]	SCG.N	Neutral	N/A	US$69.40	07 Feb 2017
Sempra Energy[2, 4, 5, 6a, 6c, 7, 16, 18]	SRE.N	Buy	N/A	US$102.55	07 Feb 2017
Southern Company[2, 4, 5, 6a, 6b, 6c, 7, 16]	SO.N	Sell	N/A	US$48.77	07 Feb 2017
WEC Energy Group Inc.[16]	WEC.N	Neutral	N/A	US$57.90	07 Feb 2017
Westar Energy, Inc.[16]	WR.N	Neutral	N/A	US$53.86	07 Feb 2017
Xcel Energy Inc.[16]	XEL.N	Neutral	N/A	US$41.66	07 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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Equity Research
Power & Utilities | North America Power & Utilities
28 September 2017

NiSource, Inc.

Indiana Gas Filing Shows High-End System Investment

NI's NIPSCO filed their Indiana rate case, which illustrates investment in the system at the higher end of 9-11% gas ratebase growth guidance. We believe NI can also achieve the high end of 5-7% EPS growth guidance or better. We maintain our $27 price target and raise our EPS estimates to $1.29 for 2018, $1.40 for 2019 and $1.51 for 2020 versus $1.27/$1.36/$1.45 previously.

The filing requests a $144M rate increase, although depreciation is $64M or 44% of the request (Docket *44988*). Capital investment through the Indiana Transmission, Distribution, and Storage System Improvement Charge (TDSIC) program is $36M. Using a forward 2018 test year, the requested ratebase is $1.48B versus $915M in 2016. The TDSIC is a main driver of the increase and gas operations expense is $15M.

NI requested a 10.7% allowed ROE and 58% equity ratio ($2.72B) versus the 9.9% ROE currently allowed. We assume a 9.9% ROE and 50% equity. We also assume NI issues $375M in equity per year including the DRIP, which is also the high end of the company's guidance.

NI's proposed schedule calls for Indiana Office of Utility Consumer Counselor and intervenor testimony due 1/24/18, potential settlement 2/21/18, hearings beginning 2/28/18 and a 7/24/18 final order.

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	0.71A	0.71A	0.71A	N/A	N/A	0.73E	20%	N/A
Q2	0.08A	0.10A	0.10A	0.10A	N/A	N/A	0.11E	25%	N/A
Q3	0.06A	N/A	N/A	0.07E	N/A	N/A	0.08E	N/A	N/A
Q4	0.33A	N/A	N/A	0.33E	N/A	N/A	0.34E	N/A	N/A
Year	1.09A	1.19E	1.20E	1.19E	1.27E	1.29E	1.26E	10%	8%
P/E	23.2		21.2			19.6			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

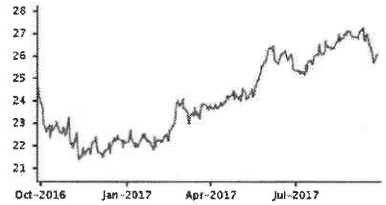
Stock Rating	EQUAL WEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	USD 27.00 Unchanged

Price (27-Sep-2017)	USD 25.42
Potential Upside/Downside	+6.2%
Tickers	NI

Market Cap (USD mn)	8284
Shares Outstanding (mn)	325.87
Free Float (%)	99.66
52 Wk Avg Daily Volume (mn)	2.6
52 Wk Avg Daily Value (USD mn)	63.13
Dividend Yield (%)	2.8
Return on Equity TTM (%)	7.05
Current BVPS (USD)	12.66

Source: Thomson Reuters

Price Performance	Exchange-NYSE
52 Week range	USD 27.29-21.17



Link to Barclays Live for interactive charting

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Completed: 28-Sep-17, 18:44 GMT Released: 28-Sep-17, 18:48 GMT

North America Power & Utilities — Industry View: NEUTRAL

NiSource, Inc. (NI)

Stock Rating: EQUAL WEIGHT

Income statement ($mn)	2016A	2017E	2018E	2019E	CAGR
Revenue	4,505	4,711	4,880	5,047	3.9%
EBITDA (adj)	1,441	1,564	1,698	1,831	8.3%
EBIT (adj)	894	976	1,076	1,173	9.5%
Pre-tax income (adj)	546	638	717	802	13.7%
Net income (adj)	351	402	452	505	12.9%
EPS (adj) ($)	1.09	1.20	1.29	1.40	8.4%
Diluted shares (mn)	320.9	335.3	349.0	362.1	4.1%
DPS ($)	0.64	0.70	0.75	0.79	7.4%

Margin and return data					Average
EBITDA (adj) margin (%)	32.0	33.2	34.8	36.3	34.1
EBIT (adj) margin (%)	19.8	20.7	22.0	23.2	21.5
Pre-tax (adj) margin (%)	12.1	13.5	14.7	15.9	14.1
Net (adj) margin (%)	7.8	8.5	9.3	10.0	8.9
ROIC (%)	8.8	8.8	9.0	8.9	8.9
ROA (%)	1.9	2.0	2.2	2.4	2.1
ROE (%)	9.1	9.9	9.8	9.8	9.6

Balance sheet and cash flow ($mn)					CAGR
Net PP&E	13,068	13,956	14,781	15,548	6.0%
Total net assets	18,692	19,682	20,497	21,224	4.3%
Capital employed	10,129	11,145	11,896	13,164	9.1%
Shareholders' equity	4,071	4,613	5,180	5,773	12.3%
Net debt/(funds)	6,032	6,404	6,597	7,313	6.6%
Cash flow from operations	803	1,213	1,326	1,445	21.6%
Capital expenditure	-1,496	-1,700	-1,700	-1,707	N/A
Free cash flow	-693	-486	-373	-262	N/A
Pre-dividend FCF	-26	-759	-626	-1,139	N/A

Valuation and leverage metrics					Average
P/E (adj) (x)	23.2	21.2	19.6	18.2	20.6
EV/EBITDA (adj) (x)	9.8	9.3	8.6	8.4	9.0
EV/EBIT (adj) (x)	15.8	14.8	13.6	13.1	14.3
P/BV (x)	2.0	1.8	1.7	1.6	1.8
Dividend yield (%)	2.5	2.8	2.9	3.1	2.8
Total debt/capital (%)	59.8	58.6	56.5	56.1	57.8
Net debt/EBITDA (adj) (x)	4.2	4.1	3.9	4.0	4.0

Selected operating metrics					Average
Payout ratio (%)	58.5	58.4	57.6	56.9	57.8
Interest cover (x)	-2.6	-2.9	-3.0	-3.2	-2.9
Regulated (%)	N/A	100.0	100.0	100.0	100.0

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

Price (27-Sep-2017)	USD 25.42
Price Target	**USD 27.00**

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. However, we don't see material upside to our price target.

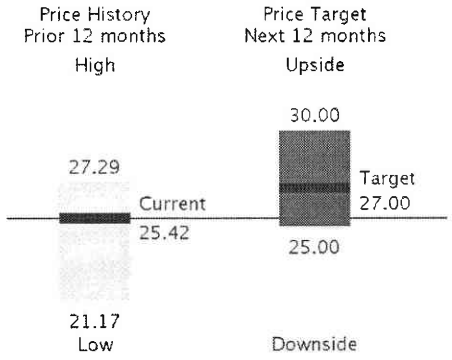
Upside case — USD 30.00

Our upside case assumes a 20% premium to the Regulated Utility average P/E using 9% EPS growth to $1.48 in 2019.

Downside case — USD 25.00

Our downside case reflects a 7.5% premium to the Regulated Utility average 2019 P/E multiple applied to our $1.35 which reflects 9.25% earned ROE.

Upside/Downside scenarios



Ratebase Growth Summary

We expect NI's ratebase growth to be at the high end of guidance, which is 8-10% through 2020 comprised of 9-11% for gas and 4-6% for electric. We believe this supports at least 7% EPS growth.

FIGURE 1
NI Ratebase Growth Summary – Dollars in Millions

	2016A	2017E	2018E	2019E	2020E	CAGR
Ratebase						
Electric	$3,400	$3,650	$3,850	$4,050	$4,250	5.7%
Gas	$6,000	$6,800	$7,600	$8,400	$9,200	11.3%
NiSource	$9,400	$10,450	$11,450	$12,450	$13,450	9.4%

Source: Company reports, Barclays Research

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Primary Stocks (Ticker, Date, Price)

NiSource, Inc. (NI, 27-Sep-2017, USD 25.42), 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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Stock Rating

Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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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)	Caribbean Utilities Ltd. (CUPu.TO)

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CenterPoint Energy Inc. (CNP)	CMS Energy (CMS)	Connecticut Water Service Inc. (CTWS)
Consolidated Edison (ED)	Dominion Energy (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)
Fortis Inc. (FTS.TO)	Great Plains Energy Inc. (GXP)	Hawaiian Electric Inds (HE)
Hydro One Ltd. (H.TO)	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)	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)	TerraForm Power, Inc. (TERP)
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Westar Energy (WR)	Xcel Energy (XEL)	

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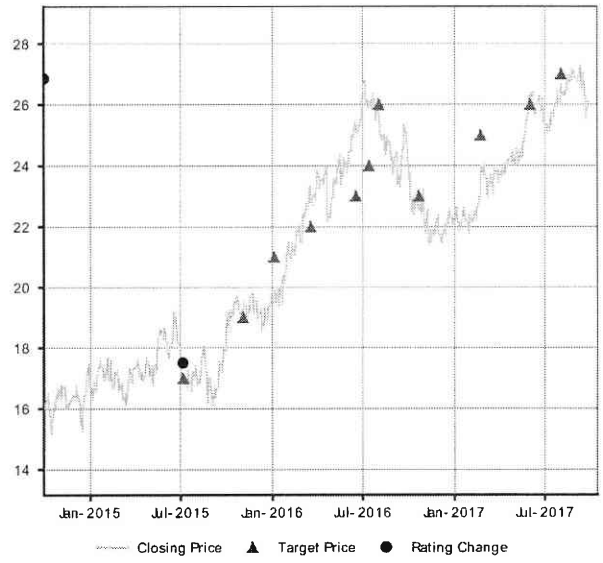
NiSource, Inc. (NI / NI)

USD 25.42 (27-Sep-2017)

Stock Rating: **EQUAL WEIGHT**

Industry View: **NEUTRAL**

Rating and Price Target Chart - USD (as of 27-Sep-2017)



Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
02-Aug-2017	26.67		27.00
01-Jun-2017	26.24		26.00
22-Feb-2017	23.17		25.00
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	

On 28-Sep-2014, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 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

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GUGGENHEIM

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NiSource Inc.

NI – Management Roadshow: 20/20 Vision – Open your Eyes to See the Runway Through the Event Horizon

October 23, 2017

We hosted meetings with NI management on the west coast – overall, our client meetings garnered a lot of interest, were supportive and constructive for NI shares with a focus around earnings growth sustainability and the ability to hit the top-end of guidance or higher. Much of the focus centered on the plans sustainability beyond the current 2020 guidance trajectory – NI has a multi decade runway. We believe 5-7% is well-cemented with conservative assumptions built into guidance (e.g. regulatory outcomes), and see potential to breach that base level growth trajectory, especially beyond 2020, as generation spending through new gas-build could drive growth higher. NI continues to set expectations to a certain level and tends to over-deliver – top end very achievable. Following our meetings, we have become incrementally more confident that mgmt could issue a 2-stage growth outlook post 2020, with a higher range for a 2- or 3-year period (perhaps 6-8%) before sustaining their LT 5-7% growth rate trajectory. Reiterate BUY despite solid performance to date – noticeable value still on the sidelines – and raise our PT to $29 from $28.

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NI BUY

COMPANY UPDATE

SHARE PRICE	$26.66
PRICE TARGET	$29.00

EPS ($) (FY Dec)	1Q	2Q	3Q	4Q	FY
2017	0.71	0.10	0.07E	0.33E	1.20E
Prior	—	—	*0.08E*	*0.32E*	—
P/E					22.2x
2018	0.73E	0.11E	0.09E	0.34E	1.27E
Prior	*0.74E*	—	*0.08E*	—	—
P/E					21.0x
2019	0.79E	0.11E	0.08E	0.37E	1.34E
Prior	—	*0.12E*	*0.07E*	*0.36E*	—
P/E					19.9x

Market Data	
52-Week Range	$21.17 - $27.29
Market Cap (M)	$8,688
ADV (3 mo; 000)	1,996

Key topics of discussion include: (1) M&A: not interested in doing a deal in either direction in the state or outside: buy or sell/simplify geographies – focused on abundance of organic opportunities; **(2) Growth**: well cemented, even at top-end and beyond 2020 but could see NT upside opportunities – management could issue two-stage growth guidance; **(3) O&M**: flat is the new trend even beyond 2020; several levers to pull; **(4) NIPSCO rate case**: rate request seems large but is pure optics; engaging stakeholders and not expected to be overly contentious – depreciation could be used as means to smooth-in rate increase through time; **(5) Equity:** very modest needs for next 2-3 years to right-size the B/S; internal program could halt following certain metrics being achieved; **(6) tax reform**: prepared in either direction; not expected to impact growth guidance.

M&A – not doing a deal in either direction: not a buyer nor a seller and not interested in simplifying geographies. After the recently announced SO transaction in MD (i.e., proposed sale of Elkton Gas to SJI) and M&A reports swirling around IN peer VVC (see HERE), investors have become inquisitive as to whether NI is incentivized to do a deal in either direction; **mgmt quickly put any M&A concerns to bed. From a buyer's perspective, mgmt made it very clear that they have no interest in acquiring VVC or other utilities.** NI is focused on its organic growth opportunities and is content with how the pieces of its seven-state jurisdictions fit together. Further, the current premiums in space just do not align well with mgmt's capital allocation approach - remains disciplined with its plan. **NI exhibits a +$30Bn capital expenditure profile with no lumpy investments and material run-way for the next 20 years, which should continue to help yield growth above peers – "we can't get the math to work"**, per mgmt.

Given the solid growth trajectory throughout its seven-state service territory and the synergies achieved due to the regional proximity of those jurisdictions (Colombia Gas states operate as one), management is not interested in a jurisdiction-specific sale at this time either to maybe simplify the story - NI would likely lose out on any synergistic opportunities and economies of scale if a sale were to occur, and would likely need to fill the growth divot at some point in the future, anyways... **Continued on next page.**

No interest in M&A; focused on organic growth opportunities.

Note: this state-specific sale questions came up during our meetings on the heels of the recent Southern gas deal in MD (and NJ) – NI is already in MD. Despite the healthy premium paid in the Southern deal, Management doesn't see an incentive to sell its smaller gas regions in MD or PA for reasons stated above.

We agree with management and believe that M&A is NOT a NT option at this juncture despite swirling reports (see HERE), as NI's large backlog of infrastructure investments and disciplined capital allocation approach give us confidence in its ability to achieve its LT growth guidance without having to go out in the market searching for inorganic opportunities.

5-7% growth well-cemented, with potential for upside.

Growth of 5-7% is well-cemented even beyond 2020 with the top-end very achievable and upside opportunities beyond that range; management indicated potential to issue two-stage growth guidance with NT upside from electric generation spending; NI sets expectations to a level it expects to over-deliver – consistent since the corporate separation. NI's capital investment plans support 8-10% utility rate base growth and incorporate modest assumptions around regulatory proceedings that have yet to be filed/approved, driving earnings growth of 5-7% through 2020 and beyond. This is supported by a well-defined capital program that is largely predicated on infrastructure replacement and T&D modernization investments. Rate base growth guidance incorporates 4-6% for electric and 9-11% for gas **- consistent with our assumptions for electric rate base growth of +4% and +10% for gas.** That said, generation spend lags behind its T&D investments in the electric segment and will likely be made up post-2020. We believe management will likely update the duration of its growth guidance in the next 1-1.5yrs, once NI gains more clarity on its IRP filing and its LT electric generation planning comes to light. **In fact, NI could issue a multi-stage growth plan beyond 2020 that incorporates upside to its growth profile, perhaps 6-8% for a two to three-year period and a more sustainable/consistent 5-7% over the LT (post the electric generation build-out). Either direction, NiSource grows above peers.**

Electric generation could push growth higher for 2-3yr period.

Regulated electric generation build represents upside to the current plan and can likely push growth higher for a two- to three-year period. NI is expected to be short ~800MW of generation by 2023, stemming from its 2016 IRP with retirements at Bailly Units 7 and 8 in May 2018 and expectations for Schahfer Units 17 and 18 to retire by the end of 2023, which in total represent 1.2GW of coal retirements (out of NI's ~2.5GW of coal-fired generation capacity). Management has been engaged with stakeholder's regarding replacement options for the 800MW's of capacity, and foresees a combination of gas and renewables to fill the capacity shortfall, with a preference toward a new CCGT build given the relative economics of renewables (i.e. absent tax credits post-2020). **Key Point: The 2019 IRP is expected to provide more clarity on its retirements and capacity replacement options, which will likely trigger management to provide updated guidance beyond 2020.** As the stakeholder process plays itself out with dialogue remaining open and constructive, **we will likely revisit estimates,** but we stop short of adjusting now pending additional visibility. Again, as management tends to under promise and over deliver, we recognize the upside potential.

CCGT option viable; look to VVC's IRP as a precursor.

Precursor: Adding a CCGT is a viable option, in our view – VVC's IRP filing in IN could be a precursor of what's to come for NI's IRP. NIPSCO's circumstances are similar to IN peer VVC, in that both utilities are proposing a significant amount of coal retirements in the next several years. VVC filed its electric IRP in IN last December, proposing 889MW of new CCGT build by 2024, to address its capacity shortfall after retiring ~580MW of coal and exiting its 50% interest in Warrick Unit 4 (~150MW). **The IURC Staff issued a draft IRP report with constructive comments on the IRP process as a whole, with no significant push-back on the capacity needs nor the overall methodology for VVC which should be somewhat of a lateral for NI's plans. VVC also received positive feedback from various parties in the state, including commissioners.** The IURC's final IRP report for VVC is expected before YE2017 – **investors should monitor this proceeding as it could be a precursor to NIPSCO's IRP filing and capacity replacement options.**

Well-defined capital plan supports run-way for growth...

In the meantime, NI's well-defined capital program supports the LT runway for 5-7% growth through 2020 and beyond. Management has confidence in its forecast for $1.6-$1.8bn in annual capital spend, with potential to hit the upper end through its application for a five-year extension of its OH Infrastructure replacement program. **Columbia Gas of OH filed for a settlement with key stakeholders for ~$1.25bn in spend (near the original request), and has increasing confidence in receiving approval by YE17.** Additional investment opportunities to support the LT runway for growth include its gas modernization program (+$10Bn over 20yrs), two large electric transmission projects (~$700-$800mm), **which could be accelerated into this year (and support faster earnings recognition)** with modest spending next year, and $400mm of environmental compliance spending. As a reminder, management filed a settlement for the environmental compliance case (no. 44872) regarding the Coal Combustion Residuals rule, specifying recovery of ~$195mm in costs and calls for investments associated with the Effluent Guidelines Rule to be addressed in another case likely in 2018/2019.

...further reinforced by re-financing initiatives.

While the main driver of EPS growth is NI's capital program, management kicked off a $1bn refinancing program, and was a large contributing factor for our increased outlook for 2017. NI refinanced $1bn in NT maturity debt with lower rate debt that is expected to generate interest expense savings over the next several years. **As a reminder, the company's weighted average interest rate on LT debt was reduced 50bps to 4.9% from 5.4%, and the expected refinancing savings contributed to management raising its 2017 EPS guidance to $1.17-$1.20 vs prior $1.12-$1.18 (as well as ours).** These refinancing savings coupled with regulatory trackers/riders already in place and management's O&M initiatives (see below) give us confidence in NI's ability to achieve its growth targets; and, with modest assumptions around regulatory outcomes – targeting low single digit rate increases, we have increasing confidence that management can hit or outpace the top-end of its growth guidance.

NIPSCO request is pure optics; not expected to be overly contentious with good stakeholder engagement.

NIPSCO Gas rate case: Don't get hung up on any sticker-shock potential from the request; optically high, but in reality, the overall ask is not substantial – 2.2% increase annualized. NI filed for a ~$144mm increase (+20%) based on a 10.7% ROE (vs the currently authorized 9.9%) and $1.5bn rate base. **While the 20% increase may look optically high, it would represent the first NIPSCO gas rate case customers would face in over 8 years, translating into a ~2.2% increase on an annualized basis.** The average residential bill, which already enjoys the lowest rates in the state (and one of the lowest in the country), would rise from ~$40/mo. to ~$50/mo., which would still remain the lowest in IN. **As we discuss below, NI can phase in the rate increase by bringing in/adjusting their depreciation rates.** Further,

when considering the D&A component and riders, the underlying ask is roughly half the amount actually requested. **Overall, the rate case is not expected to be overly contentious, as stakeholders are aware of the overall process and investments are largely related to safety and reliability**.

Deprecation can be a means to smooth in the rate increase through time

We believe management likely reaching for settlement in NIPSCO gas rate case. A decision is expected to be issued in ~270 days. That said, **management has been engaged with stakeholders in the state including, the Consumer Council, Low Income Coalition, and other industrial groups**, which will be key to have on board. Thus far, management seems content with the traction gained, and will **likely be pushing for a settlement, offering flexibility in terms of phasing in depreciation rates and/or two-step increases, in our view.**

Note: Our live estimates incorporate an increase slightly below the request after considering the D&A component, with some give on the authorized ROE, and expect earned ROEs of ~9.6% through 2020.

Expect flat YoY O&M through 2020 and beyond.

O&M initiatives – flat is in vogue, even beyond 2020 flat growth is achievable; sustainable through several levers. NT O&M is expected to be higher, driven by reliability/maintenance spending and increased expenses due to training and vegetation management programs; however, 2017 will be used as a baseline number for O&M and is expected to be flat YoY thereafter given coal retirements and **more importantly, the combination of NIPSCO with Columbia Gas.** Management has put together a transformational team to go after opportunities to combine processes, and sees several levers at their disposal including technology improvements (i.e., repositioning of IT capabilities), reduction of G&A costs, and productivity and efficiency initiatives, which combined should help drive flat O&M growth, perhaps even beyond 2020. **In summary – some pushes and takes to keep O&M flat...higher O&M driven by reliability and maintenance spending like training and vegetation mgmt. offset by retirement of coal plants and most important, synergies from combining NiPSCO and Columbia Gas.** These initiatives will help provide headroom for NI's capital program, which in turn drives rate base and earnings growth.

PHMSA regulations? Could provide upside capital deployment opportunities but also put some pressure on O&M...But likely more weighted towards capital. While a declining O&M profile is possible, new pipeline safety and reliability rules promulgated by PHMSA will likely put some pressure on O&M. The regulations could provide incremental capital opportunities in terms of pipeline replacement rather taking pipelines out of service, but it will likely entail higher O&M spending. At this point, it's somewhat difficult to put a handle on total costs and investment opportunities until more formal rules are issued (which is expected later this year), but we wouldn't expect them to have a material impact until after the 2020 timeframe. **Our Model incorporates expectations for increased O&M spending in 2017 (+15%), followed by a flat O&M profile through 2021.**

Equity needs minimal and consistent with ATM program guidance.

Equity needs will remain minimal despite solid organic investment opportunities, and will purely be used to right-size the balance sheet in step functions, per management. More equity than plan will likely only come with additional growth opportunities. The ATM program continues to be consistent with plans laid out during the company's analyst day, with guidance for $200-$300mm in equity from 2017-2020. Management does not expect this to change until it's able to achieve FFO/Debt metrics closer to 14x from the current 12x ratio and rating agencies become more comfortable with its capital structure. **That said, NI could halt its ATM program if it achieves those debt targets faster than anticipated.** While a large growth opportunity

could cause NI to issue incremental equity, this would be outside of the base plan, and management has stated it is content with its current organic growth opportunities. **Our model is consistent with management's expectations, as we forecast $300mm of equity in 2017 and ~$210mm per year through 2020.**

Management prepared for tax reform in either direction; mitigation measures in place.

As tax reform works its way through, management remains engaged with policy makers and key industry partners; several levers to pull even in unlikely scenario that interest rate expense is nondeductible and retrospective. NI has worked closely with EEI, AGA, and policy makers, with the utility sector in general sticking together on key issues around interest rate deductibility and 100% expensing of capital. Thus far, keeping interest rate deductible and forgoing 100% expensing has resonated with both chambers of congress, as policy makers understand the potential impacts and ramifications to rates. Nonetheless, **it's still too early to tell how the process will play out, but management has measures in place to offset any potential worst-case scenario**.

The majority of NI debt is recognized by its OpCo.'s through intercompany loans from NI Finance, which is allocated to its utilities. That said, NI has ~$2bn in HoldCo. debt (i.e. not in rates) tied to its previous acquisition of Columbia Gas that could potentially be impacted by tax reform. **Management has measures in place that will help mitigate the potential loss if interest rate deduction, including the potential to accelerate its large backlog of capital expenditures and could look to its financing program by issuing shorter tenure debt as well as its O&M initiatives** to offset any potential negative impact. **Overall, management doesn't foresee tax reform impacting its LT 5-7% growth profile.**

Valuation

We value NI as a regulated utility, arriving at our $29 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 17x, plus a three turn premium to account for higher growth potential versus what is being reflected in fundamentals; (2) ~$22/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 a one-turn premium for higher growth; and (3) ~($3)/share for other adjustments for Corp and Other.

Risks

The primary risks on the regulated utility encompass the traditional risk factors inherent with all utilities including: (1) rate case risk, (2) lower capex outlook, and (3) interest rate changes above what we account for in our regression model.

Additional Companies Mentioned

Ticker	Rating	Share Price (previous close)
VVC	Buy	$67.81
SJI	Neutral	$33.40
SO	Buy	$52.21

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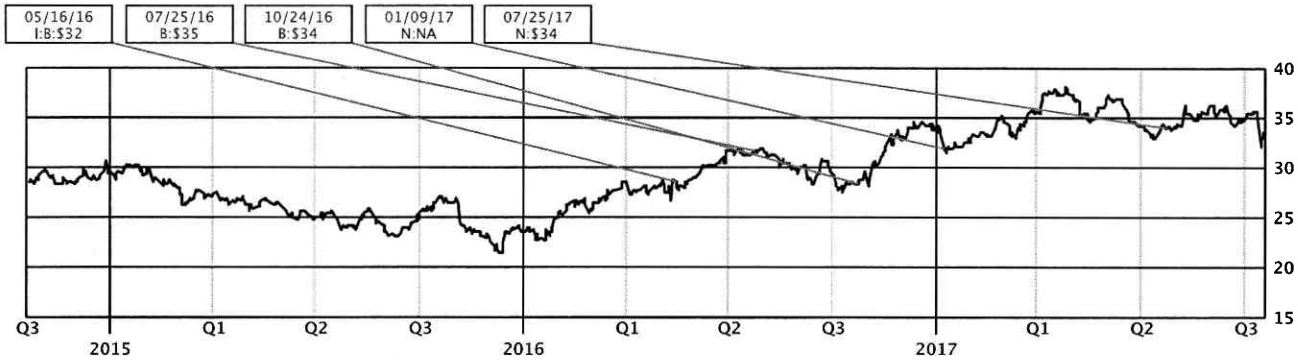

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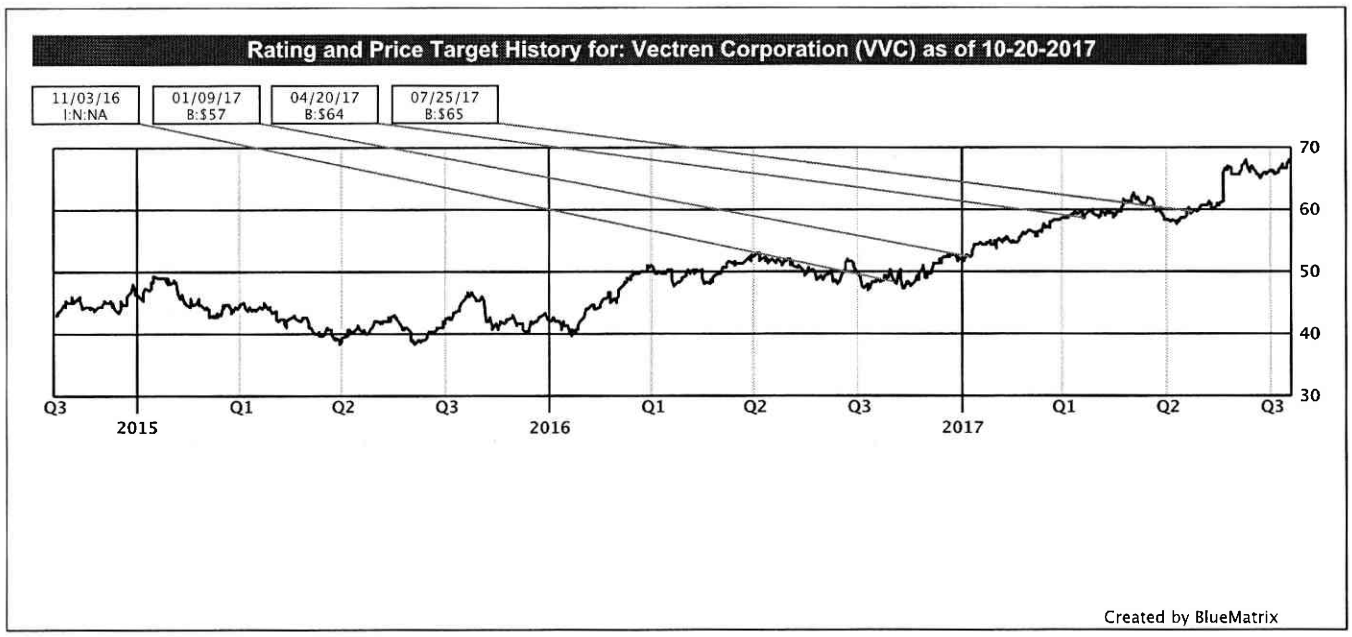

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Sell	2	0.62%	0	0.00%

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WOLFE RESEARCH

UTILITIES & POWER

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

October 23, 2017

UTILITIES & POWER

A stormy Q3 but expect constructive guidance and EEI

- **Q3 was a washout, but focus is on 2018 guides and EEI updates**
  Q3 reporting is always big for utilities given the key summer months but this year was a washout – mild weather, hurricanes and most recently the CA fires. We project Q3 to be down -4.8% as a result. Nonetheless, we still expect most to reaffirm 2017 full year and several will give 2018 guidance for the first time (see Ex. 1 on right). The EEI conference will follow – we see no FE-like headlines from last year but several utilities will be refreshing their capital plans including AEP, DTE, ETR, LNT, WEC, and POR. We expect capex to keep rising on renewables, grid modernization and storm hardening (especially post this summer). Tax reform will be in focus again as we near more formal tax bills from Congress late this year.
- **Power is the sector to watch this earnings season**
  While Q3 results will likely be weak, Power is where the action is at this quarter. All three IPPs will give 2018 guidance for the first time and we see a positive bias with DYN and VST laying out more cost cutting targets. The spike in ERCOT pricing post the recent VST coal shuts will likely get favorable attention. Power market reforms will also be front and center with the DOE coal/nuke subsidy proposal, PJM market reforms and ZECs pending in NJ. EXC, FE and PEG are all levered favorably. Finally, strategic initiatives remain key for certain names. NRG asset sales (going slow), FES restructuring for FE (also likely going slow) and of course the VST/DYN merger potential (it's fish or cut bait time).
- **Renewables – weak Q3 wind but growth backlogs likely grow**
  Most of the big wind players have already warned about weak wind conditions in Q3 – NEE, AGR, PEGI, etc. Nonetheless, this may still surprise some investors. Otherwise, we see continued growth in renewables backlogs with NEE saying at our recent conference that origination remains very strong. Another key topic will be the impact of the ITC tariff ruling on future solar additions.

Positives:

DYN – Cost cut plan and 2018 guidance should be decent; M&A update

SO – No equity need in 2017 with NJ utility sale and recent initiatives

VST – Savings from plant shuts; 2018 guidance should fine; M&A update

XEL – Potential to move to high end of 4-6% growth rate in updated plan

Negatives:

DTE – updated 5-year growth plan at EEI; need a REF cliff offset?

NRG – 2017 cut on Harvey/weather; still waiting on asset sales; 2018 good

PNW – 2018 guidance likely below consensus

Other notables:

AEP, ETR, LNT, WEC – EEI guidance and capital plan refresh

CNP – outcome of ENBL strategic review, hopefully

PCG – first investor call since the CA fires

SCG – first big investor call since SC situation spun out of control

Please see individual company write-ups on page 8.

Ex. 1: 3Q17 Beats & Misses/Est. Chgs

	3Q17 Estimate	
Ticker	WR	Cons
Beats		
CMS	$0.60	$0.56
DTE	$1.63	$1.54
PEG	$0.88	$0.83
Misses		
DUK	$1.50	$1.55
EIX	$1.28	$1.33
ETR	$2.00	$2.15
NEE	$1.74	$1.77
SCG	$1.18	$1.23
PNW	$2.25	$2.32
PPL	$0.50	$0.54
2018 Guidance	**WR**	**Cons**
CMS	$2.34	$2.34
DYN	$1,400	$1,428
LNT	$2.14	$2.13
NI	$1.26	$1.26
NRG	$2,850	$2,781
PNW	$4.44	$4.48
VST	$1,402	$1,409
XEL	$2.43	$2.46

Source: Wolfe Utilities & Power Research, FactSet

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Quarterly Estimates

Exhibit 2: Wolfe Research Earnings Estimates vs. Consensus

						Q3 2017E		Q3 2016	2017E		2018E		2019E		2020E	
Company Name	Ticker	Price	PT	Rating	Call Date	WR	Cons	Actual	WR	Cons	WR	Cons	WR	Cons	WR	Cons
The AES Corporation	AES	$11.13	12	PP	11/02/17	$0.30	$0.29	$0.32	1.02	1.03	1.19	1.22	1.25	1.30	1.35	1.34
Alliant Energy	LNT	$43.77	42	PP	11/03/17	$0.83	$0.85	$0.80	2.01	2.01	2.14	2.13	2.25	2.24	2.38	2.38
Ameren	AEE	$61.72	60	OP	11/03/17	$1.33	$1.33	$1.52	2.82	2.80	3.08	3.02	3.24	3.19	3.42	3.42
American Electric	AEP	$73.92	77	OP	10/26/17	$1.14	$1.17	$1.30	3.65	3.65	3.88	3.89	4.09	4.11	4.30	4.29
American Water	AWK	$87.73	82	PP	11/02/17	$1.07	$1.08	$1.05	3.02	3.00	3.29	3.28	3.49	3.53	3.49	3.75
Avangrid	AGR	$48.27	48	PP	10/24/17	$0.36	$0.37	$0.35	2.22	2.23	2.42	2.40	2.60	2.57	2.77	2.72
CMS Energy	CMS	$48.21	50	OP	10/26/17	$0.60	$0.56	$0.70	2.18	2.17	2.34	2.34	2.50	2.51	2.67	2.67
CenterPoint	CNP	$29.67	28	PP	11/03/17	$0.40	$0.39	$0.41	1.35	1.33	1.44	1.42	1.52	1.50	1.60	1.55
Con Edison	ED	$85.10	76	UP	*11/02/17	$1.48	$1.51	$1.51	4.06	4.09	4.29	4.25	4.49	4.48	4.71	4.66
Dominion	D	$80.38	79	PP	10/30/17	$1.03	$1.02	$1.14	3.65	3.60	4.07	4.03	4.25	4.25	4.50	4.47
DTE Energy	DTE	$113.05	111	OP	10/25/17	$1.63	$1.54	$1.96	5.39	5.43	5.67	5.71	6.04	6.04	6.37	6.47
Duke Energy	DUK	$87.54	85	UP	11/03/17	$1.50	$1.55	$1.68	4.60	4.57	4.84	4.84	5.14	5.09	5.35	5.31
Edison Int'l	EIX	$80.01	79	PP	10/30/17	$1.28	$1.33	$1.29	4.23	4.24	4.30	4.28	4.64	4.66	4.78	4.97
Entergy	ETR	$85.23	76	UP	10/24/17	$2.00	$2.15	$2.31	6.89	6.90	4.98	4.89	4.91	5.04	5.25	5.11
Eversource Energy	ES	$62.37	61	PP	11/02/17	$0.82	$0.84	$0.83	3.11	3.15	3.23	3.32	3.47	3.54	3.67	3.73
Exelon	EXC	$39.74	41	OP	11/02/17	$0.83	$0.86	$0.91	2.71	2.69	2.90	2.86	2.82	2.81	2.69	2.57
FirstEnergy	FE	$32.13	32	PP	10/27/17	$0.86	$0.87	$0.90	2.75	2.82	2.49	2.53	2.31	2.37	1.94	2.16
Great Plains Energy	GXP	$31.99	33	OP	11/02/17	$1.00	$0.87	$1.00	1.34	1.75	1.51	1.72	1.89	1.89	1.95	2.01
InfraREIT	HIFR	$22.76	24	OP	11/02/17	$0.44	$0.44	$0.32	1.24	1.28	1.36	1.37	1.39	1.31	N/A	N/A
NextEra Energy	NEE	$154.38	151	OP	10/26/17	$1.74	$1.77	$1.74	6.73	6.75	7.22	7.25	7.74	7.77	8.48	8.33
NiSource	NI	$26.82	28	OP	11/01/17	$0.07	$0.07	$0.06	1.19	1.19	1.26	1.26	1.33	1.34	1.41	1.41
PG&E	PCG	$57.26	63	PP	11/02/17	$0.98	$0.91	$0.94	3.67	3.68	3.82	3.82	4.01	4.00	4.07	4.16
Pinnacle West	PNW	$88.81	87	PP	11/03/17	$2.25	$2.32	$2.35	4.24	4.26	4.44	4.48	4.68	4.75	4.90	4.97
Portland General	POR	$45.55	43	UP	10/27/17	$0.38	$0.39	$0.38	2.27	2.23	2.48	2.32	2.59	2.45	2.75	2.55
PPL Corp	PPL	$38.13	42	OP	11/01/17	$0.50	$0.54	$0.63	2.17	2.16	2.36	2.33	2.43	2.43	2.55	2.54
PSEG Corp	PEG	$48.98	47	PP	10/31/17	$0.88	$0.83	$0.88	2.90	2.92	2.90	2.94	2.94	3.01	3.05	3.07
SCANA	SCG	$48.35	51	PP	10/26/17	$1.18	$1.23	$1.32	3.99	4.18	2.81	3.32	2.98	3.69	3.07	4.07
Sempra Energy	SRE	$114.43	124	OP	10/30/17	$1.06	$1.07	$1.02	5.12	5.23	5.40	5.55	6.61	6.61	7.42	7.48
Southern Co.	SO	$52.20	49	UP	11/01/17	$1.11	$1.08	$1.28	2.92	2.94	3.00	3.03	3.16	3.14	3.31	3.30
WEC Energy Group	WEC	$66.80	62	PP	10/26/17	$0.66	$0.66	$0.69	3.11	3.10	3.28	3.28	3.45	3.45	3.63	3.70
Westar	WR	$52.89	53	OP	11/01/17	$1.12	$1.10	$1.08	2.46	2.48	2.50	2.56	2.70	2.76	2.78	2.84
Xcel Energy	XEL	$49.27	48	PP	10/26/17	$0.92	$0.92	$0.90	2.32	2.31	2.43	2.46	2.60	2.62	2.79	2.79

Source: Wolfe Research Utilities & Power Research, FactSet
* Tentative date

Exhibit 3: Wolfe Research EBITDA Estimates vs. Consensus

						Q3 2017E		Q3 2016	2017E		2018E		2019E		2020E	
Company Name	Ticker	Price	PT	Rating	Call Date	WR	Cons	Actual	WR	Cons	WR	Cons	WR	Cons	WR	Cons
Dynegy	DYN	$9.09	7	PP	11/02/17	$430	$442	$350	1,210	1,229	1,400	1,428	1,235	1,251	1,010	1,136
NextEra Energy Partners	NEP	$41.29	48	OP	10/26/17	$205	$208	$174	849	840	992	976	1,111	1,146	1,342	1,474
NRG Energy	NRG	$24.89	29	OP	11/02/17	$890	$810	$1,173	2,500	2,545	2,850	2,781	2,960	2,836	2,905	2,990
NRG Yield	NYLD	$18.65	19	OP	11/02/17	$235	$235	$246	915	919	960	996	1,055	1,063	1,145	1,131
Vistra Energy Corp.	VST	$19.48	19	PP	11/03/17	$507	$498	N/A	1,423	1,414	1,402	1,409	1,371	1,376	1,374	1,323

Source: Wolfe Research Utilities & Power Research, FactSet

Wolfe Research Estimate and Target Price Revisions

See company-specific commentary on estimate changes later in this report where we discuss each company in more depth. Please see our revisions summary below.

Exhibit 4: Wolfe Research Price Target and Earnings Estimate Revisions – Regulateds / Diversified

						2017E		2018E		2019E		2020E	
Company Name	Ticker	Price	New PT	Old PT	Rating	New	Prior	New	Prior	New	Prior	New	Prior
The AES Corporation	AES	$11.13	$12	$12	PP	$1.02	$1.07	$1.19	$1.18	$1.25	$1.25	$1.35	$1.35

Source: Wolfe Research Utilities & Power Research

Exhibit 5: Wolfe Research Price Target and EBITDA Estimate Revisions - IPPs

						2017E		2018E		2019E		2020E	
Company Name	Ticker	Price	New PT	Old PT	Rating	New	Prior	New	Prior	New	Prior	New	Prior
Dynegy	DYN	$9.09	$7	$7	PP	$1,210	$1,230	$1,400	$1,385	$1,235	$1,225	$1,010	$1,000
NRG Energy	NRG	$24.89	$29	$29	OP	$2,500	$2,580	$2,850	$2,835	$2,960	$2,945	$2,905	$2,915

Source: Wolfe Research Utilities & Power Research

Average Spot Prices

In Exhibit 6 below, we highlight the year over year change in the average spot power price in different regions. Spot prices were down in the most of the country, with the exception of the West (+20%) when compared to Q3 2016; the Northeast was down 10-20% and ERCOT was flat to down slightly; gas was also flattish

Exhibit 6: Average 7x24 Spot Prices

Northeast	Q317	Q316	% Change
Mass Hub	$25.11	$31.23	(20%)
Connecticut	25.40	31.47	(19%)
SE Mass	24.96	31.24	(20%)
NY Zone A	26.62	33.25	(20%)
NY Zone G	26.57	30.34	(12%)
NY Zone - J	29.14	31.88	(9%)
PJM West	28.12	31.20	(10%)
Pepco Zone	26.42	32.40	(18%)
Midwest	**Q317**	**Q316**	**% Change**
Cinergy	$29.62	$31.07	(5%)
NI Hub	25.81	29.29	(12%)
AD Hub	28.90	29.95	(4%)
South Central	**Q317**	**Q316**	**% Change**
ERCOT North	$26.05	$26.57	(2%)
ERCOT South	27.61	27.28	1%
ERCOT West	25.70	26.47	(3%)
ERCOT Houston	28.87	28.99	(0%)
West	**Q317**	**Q316**	**% Change**
Palo Verde	$35.41	$29.39	20%
NP 15	40.01	33.93	18%
SP 15	39.97	33.99	18%
Mid-Columbia	32.00	28.35	13%
Natural Gas	**$2.95**	**$2.80**	**5%**

Source: Wolfe Utilities & Power Research, SNL

Wolfe Research Prices vs. Market Prices

In Exhibits 7-9 we highlight our current commodity and power assumptions and compare them to weekly market prices. Please note the market prices are as of 10/19/2017.

Exhibit 7: Wolfe 7x24 power price estimates

	2017	2018	2019	2020
PJM West	$31.15	$32.56	$31.22	$30.78
PJM East	$29.09	$30.56	$29.15	$28.72
NEPOOL	$33.86	$39.49	$39.14	$39.74
NY Zone A	$27.00	$28.57	$28.35	$28.52
NY Zone G	$32.50	$37.27	$36.43	$36.80
NY Zone J	$33.89	$39.71	$39.11	$39.84
A/D Hub	$30.01	$30.71	$29.49	$29.05
NI Hub	$27.93	$27.98	$27.24	$26.81
Indiana Hub	$30.45	$30.82	$30.49	$30.49
ERCOT (Houston)	$30.05	$29.08	$28.34	$28.77
ERCOT (South)	$28.17	$27.74	$27.65	$28.19
ERCOT (North)	$27.33	$26.87	$26.68	$27.40
ERCOT (West)	$26.01	$25.44	$25.60	$25.88
NP-15	$31.73	$30.90	$30.72	$31.25
SP-15	$31.38	$29.44	$28.59	$29.09
Mid-C	$21.88	$22.55	$22.05	$22.60
Entergy	$31.91	$32.75	$32.73	$32.73
Palo Verde	$27.03	$25.41	$24.57	$24.57
Nymex Gas ($/Mcf)	$3.30	$3.10	$3.00	$3.00
CAPP Coal ($/ton)	$54.00	$52.00	$51.00	$51.00
PRB Coal ($/ton)	$11.70	$11.90	$12.20	$12.30

Source: Platts, Wolfe Research Utilities & Power Research

Exhibit 8: Market 7x24 power price estimates

	2017	2018	2019	2020
PJM West	$28.72	$31.35	$29.71	$28.97
PJM East	$26.72	$29.35	$27.71	$26.97
NEPOOL	$31.43	$38.29	$37.81	$37.93
NY Zone A	$24.63	$27.64	$26.82	$26.29
NY Zone G	$29.43	$35.53	$34.29	$34.19
NY Zone J	$30.96	$38.35	$37.39	$37.49
A/D Hub	$27.90	$30.80	$29.30	$28.75
NI Hub	$25.90	$28.05	$26.94	$26.54
Indiana Hub	$28.91	$31.04	$30.18	$29.69
ERCOT (Houston)	$24.38	$29.10	$27.96	$27.65
ERCOT (South)	$22.58	$27.31	$27.05	$27.24
ERCOT (North)	$21.35	$26.35	$26.18	$26.53
ERCOT (West)	$20.56	$24.42	$24.07	$24.69
NP-15	$31.86	$33.36	$33.88	$35.14
SP-15	$29.99	$31.95	$31.88	$32.86
Mid-C	$20.90	$22.54	$22.45	$24.12
Entergy	$31.60	$32.39	$32.39	$32.39
Palo Verde	$24.87	$27.39	$27.64	$29.20
Nymex Gas ($/Mcf)	$3.13	$3.06	$2.90	$2.85
CAPP Coal ($/ton)	$55.00	$57.00	$57.00	$57.00
PRB Coal ($/ton)	$11.66	$11.65	$12.10	$12.15

Source: Platts, Wolfe Research Utilities & Power Research

Exhibit 9: Market 7x24 vs. Wolfe 7x24

	2017	2018	2019	2020
PJM West	(8.5%)	(3.9%)	(5.1%)	(6.3%)
PJM East	(8.9%)	(4.1%)	(5.2%)	(6.5%)
NEPOOL	(7.8%)	(3.1%)	(3.5%)	(4.8%)
NY Zone A	(9.6%)	(3.4%)	(5.7%)	(8.5%)
NY Zone G	(10.5%)	(4.9%)	(6.3%)	(7.6%)
NY Zone J	(9.5%)	(3.5%)	(4.6%)	(6.3%)
A/D Hub	(7.6%)	0.3%	(0.6%)	(1.1%)
NI Hub	(7.8%)	0.2%	(1.1%)	(1.0%)
Indiana Hub	(5.3%)	0.7%	(1.0%)	(2.7%)
ERCOT (Houston)	(23.3%)	0.1%	(1.3%)	(4.0%)
ERCOT (South)	(24.8%)	(1.6%)	(2.2%)	(3.5%)
ERCOT (North)	(28.0%)	(2.0%)	(1.9%)	(3.3%)
ERCOT (West)	(26.5%)	(4.2%)	(6.4%)	(4.8%)
NP-15	0.4%	7.4%	9.3%	11.1%
SP-15	(4.6%)	7.9%	10.3%	11.5%
Mid-C	(4.7%)	(0.1%)	1.7%	6.3%
Entergy	(1.0%)	(1.1%)	(1.0%)	(1.0%)
Palo Verde	(8.7%)	7.2%	11.1%	15.9%
Nymex Gas ($/Mcf)	(5.4%)	(1.4%)	(3.5%)	(5.4%)
CAPP Coal ($/ton)	1.8%	8.8%	10.5%	10.5%
PRB Coal ($/ton)	(0.3%)	(2.1%)	(0.8%)	(1.2%)

Source: Platts, Wolfe Research Utilities & Power Research

Market Power Prices (6/30/17 vs. 9/30/17)

In Exhibits 10-12 we show market 7x24 power and commodity prices at June 30, 2017 and September 30, 2017. Forward power prices were down modestly in nearly every power market and across the curve, with the exception of the West. PJM was flattish to down slightly. ERCOT was down ~5% on average across 2018-2020, while 2017 contracts saw more pressure. Western power (Mid-C, NP/SP-15) was up ~5% across the curve on the summer heat wave.

Exhibit 10: 6/30/17 Market 7x24

	2017	2018	2019	2020
PJM West	$28.71	$30.70	$29.47	$29.28
PJM East	$26.71	$28.70	$27.47	$27.28
NEPOOL	$31.52	$38.60	$38.42	$38.68
NY Zone A	$25.63	$27.95	$27.10	$27.19
NY Zone G	$29.97	$36.47	$35.63	$36.22
NY Zone J	$31.37	$38.83	$38.53	$39.20
A/D Hub	$27.99	$29.95	$28.81	$28.92
NI Hub	$26.37	$27.98	$27.10	$27.26
Indiana Hub	$29.15	$30.74	$29.97	$30.33
ERCOT (Houston)	$26.93	$28.28	$28.34	$27.54
ERCOT (South)	$24.84	$26.90	$27.44	$27.82
ERCOT (North)	$23.97	$26.02	$26.53	$27.15
ERCOT (West)	$23.04	$23.91	$24.46	$25.31
NP-15	$31.28	$30.89	$31.09	$32.43
SP-15	$30.04	$29.54	$29.29	$30.47
Mid-C	$21.15	$21.64	$21.95	$23.42
Entergy	$31.60	$32.39	$32.39	$32.39
Palo Verde	$24.67	$26.11	$25.82	$27.06
Nymex Gas ($/Mcf)	$3.18	$2.99	$2.85	$2.84
CAPP Coal ($/ton)	$54.50	$52.50	$52.50	$52.50
PRB Coal ($/ton)	$11.53	$11.40	$11.55	$11.65

Source: Wolfe Utilities & Power Research, Platts

Exhibit 11: 9/30/17 Market 7x24

	2017	2018	2019	2020
PJM West	$28.44	$30.90	$29.37	$28.69
PJM East	$26.44	$28.90	$27.37	$26.69
NEPOOL	$30.60	$37.95	$37.56	$37.81
NY Zone A	$24.43	$27.54	$27.03	$26.67
NY Zone G	$28.87	$35.24	$34.39	$34.52
NY Zone J	$30.43	$37.92	$37.17	$38.24
A/D Hub	$27.84	$30.56	$28.88	$28.18
NI Hub	$25.76	$27.68	$26.61	$25.92
Indiana Hub	$28.90	$30.69	$29.78	$29.35
ERCOT (Houston)	$24.58	$27.82	$27.54	$26.89
ERCOT (South)	$22.57	$26.52	$26.49	$26.48
ERCOT (North)	$21.42	$25.56	$25.64	$25.77
ERCOT (West)	$20.56	$23.45	$23.51	$23.92
NP-15	$31.67	$32.97	$32.96	$34.19
SP-15	$29.72	$31.38	$31.03	$32.05
Mid-C	$20.58	$21.78	$21.79	$23.42
Entergy	$31.60	$32.39	$32.39	$32.39
Palo Verde	$24.52	$26.60	$26.79	$28.39
Nymex Gas ($/Mcf)	$3.14	$3.06	$2.90	$2.85
CAPP Coal ($/ton)	$54.00	$56.00	$56.00	$56.00
PRB Coal ($/ton)	$11.67	$11.65	$11.95	$12.10

Source: Wolfe Utilities & Power Research, Platts

Exhibit 12: 9/30/17 vs. 6/30/17 Market 7x24

	2017	2018	2019	2020
PJM West	(1.0%)	0.7%	(0.3%)	(2.0%)
PJM East	(1.0%)	0.7%	(0.4%)	(2.2%)
NEPOOL	(2.9%)	(1.7%)	(2.2%)	(2.2%)
NY Zone A	(4.7%)	(1.5%)	(0.3%)	(1.9%)
NY Zone G	(3.7%)	(3.4%)	(3.5%)	(4.7%)
NY Zone J	(3.0%)	(2.3%)	(3.5%)	(2.5%)
A/D Hub	(0.5%)	2.0%	0.2%	(2.6%)
NI Hub	(2.3%)	(1.1%)	(1.8%)	(4.9%)
Indiana Hub	(0.9%)	(0.2%)	(0.6%)	(3.2%)
ERCOT (Houston)	(8.7%)	(1.6%)	(2.8%)	(2.4%)
ERCOT (South)	(9.1%)	(1.4%)	(3.5%)	(4.8%)
ERCOT (North)	(10.6%)	(1.8%)	(3.4%)	(5.1%)
ERCOT (West)	(10.8%)	(1.9%)	(3.9%)	(5.5%)
NP-15	1.3%	6.7%	6.0%	5.5%
SP-15	(1.1%)	6.2%	5.9%	5.2%
Mid-C	(2.7%)	0.6%	(0.7%)	(0.0%)
Entergy	0.0%	0.0%	0.0%	0.0%
Palo Verde	(0.6%)	1.9%	3.8%	4.9%
Nymex Gas ($/Mcf)	(1.3%)	2.2%	1.7%	0.4%
CAPP Coal ($/ton)	(0.9%)	6.7%	6.7%	6.7%
PRB Coal ($/ton)	1.2%	2.2%	3.5%	3.9%

Source: Wolfe Utilities & Power Research, Platts

Earnings Call Calendar

Below, we have provided the 3rd quarter 2017 earnings call calendar for companies in our coverage universe. Please note all times are in Eastern Daylight Time.

October 2017

Monday	Tuesday	Wednesday	Thursday	Friday
23	24 10am: AGR 11am: ETR 12:15pm: Utilities & Midstream Earnings Preview Lunch	25 9am: DTE 2pm: WEC	26 8:30am: CMS 9am: AEP, NEE 10am: XEL 3pm: SCG	27 10am: FE 11am: POR
30 9am: D 12pm: SRE 4:30pm: EIX	31 11am: PEG			

November 2017

Monday	Tuesday	Wednesday	Thursday	Friday
		1 8:30am: PPL 10am: WR	2 8am: NRG 9am: AES, ES, GXP, DYN, AWK 9:15am: NYLD 10am: EXC 11am: PCG, HIFR After the close: ED	3 10am: AEE, DUK, LNT 11am: CNP, VST 12pm: PNW

Highlights and lowlights

AEE: Three feats to the wind

- We estimate 3Q17 EPS of $1.33, in line with consensus.
- We do not expect AEE to disclose any long-term outlooks on the 3Q17 call. We instead expect an update on last month's Integrated Resource Plan filing in MO, including the $1B of wind capex by 2020, and whether it will be approved.
- We anticipate investors will ask about legislative and regulatory efforts in 2018 to reduce lag in MO, and whether there is a better chance this year.
- AEE's dividend increase of 4% earlier this month is better than its 3% increase last October and shows management's confidence in executing its long-term EPS growth target.

AEP: New 3-year capital plan (ex WC)

- We estimate 3Q17 EPS of $1.14, below consensus due to lower generation earnings following AEP's plant sale last year and a milder summer than that in 2016. We still believe AEP is on track to meet its $3.55-3.75 guidance for 2017. Our 2017E is $3.65, in line with consensus.
- On its 3Q17 earnings call, we do not expect major updates, but AEP will make new disclosures at EEI. We expect a 2018-20 capital plan and an update on the EPS growth rate through 2020. We believe AEP will maintain its 5-7% EPS growth target. AEP already provided 2018 ($3.75-3.95) and 2019 ($4.00-4.20) guidance ranges; however, it is unclear whether a 2020 range will be introduced.
- AEP is unlikely to include the $4.5B Wind Catcher project in its capital plan or EPS outlook, as the project is still going through approval proceedings in four states. Meanwhile, we are watching AEP's pending OK and TX rate cases, as Wind Catcher needs approval from those two states, AR and LA. The OK rate case particularly will have a read-through to Wind Catcher. The OK Governor set up a task force to look into the regulator agency (OCC), a possible sign that the decision in the pending rate case may be more constructive than that in AEP's previous rate case.

AES: Waiting on asset sales and PUCO decision; Interest in renewables?

- AES is scheduled to report earnings on November 2nd. We forecast 3Q17 EPS of $0.30, which is close to consensus. Our estimate is down slightly from $0.32 a year ago driven by an assumed $0.025 impact from Hurricane Maria and a higher tax rate, partially offset by benefits from cost cutting and improved results in Argentina. AES has disclosed a $0.03 - $0.05 impact from Hurricane Maria on operations in Puerto Rico and we expect this to be split between Q3 and Q4.
- **Key topics for the call: 2018 drivers, asset sales, interest in renewable M&A.** AES plans to provide some initial color on the 2018 outlook (possibly drivers) with Q3 – formal 2018 guidance is expected with Q4. We are slightly below consensus. We expect the strategic message to continue to focus on growing renewables / storage, while shrinking the coal portfolio in non-core markets. On the Q2 call AES downplayed the potential to buy one of several renewable platforms up for sale, although their interest in acquiring additional renewables remains a topic of discussion. On the coal side, we expect AES to address its planned $500M of incremental asset sales to be announced this year. Timing has been later than expected and press reports have continued to indicate the Masinloc coal plant in the Philippines is up for sale. Likewise, a final PUCO decision on the favorable ESP 3 settlement has been taking forever, but

should come shortly. We do not expect much of an update on the challenged Alto Maipo project where AES is negotiating with contractors and lenders on a path forward.

- We are reducing our 2017 EPS estimate by $0.05 to $1.02/share largely on the Hurricane Maria impact, which is in line with the company's recent guidance of results tracking to the lower half of the $1.00 - $1.10 range. Minor changes to our 2018-20 EPS estimates on updated currency / commodity assumptions, and recent acquisitions in Brazil at Tiete. Our new 2018-20E are $1.19, $1.25, and $1.35, respectively.

AWK: Waiting for 12/12

- We estimate 3Q17 EPS of $1.07, near consensus. We believe AWK remains on track to meet its $2.98-3.08 guidance for 2017, as AWK's nonutility businesses are expected to pick up and incremental rate adjustments at its utility segments. Our 2017E is $3.02, close to consensus.
- On the earnings call, we expect an update on the PA rate case settlement, tuck-ins, and nonutility businesses.
- On 12/12, AWK will hold a call to announce its 2018 guidance, 5-year capital plan and long-term earnings growth outlook. We anticipate AWK will maintain its 7-10% EPS growth target.

CMS: Analyst Day aftermath

- We forecast 3Q17 EPS of $0.60 – a beat versus consensus. Key drivers in the YoY decrease from $0.70 in 3Q16 are expected to be much milder weather and the timing of electric/gas rate relief; only partially offset by O&M savings. Despite the slower start to 2017, CMS has built in a considerable amount of cushion that should result in a significant YoY earnings increase in Q4 (14 cents of discretionary costs last year). We expect CMS to tighten its $2.14-2.18 guidance range higher – our 2017E of $2.18 is already at the high-end.
- We also expect CMS to give 2018 guidance for the first time – our $2.34 estimate is in-line with consensus and implies 7% growth off our 2017E. Additionally, CMS will re-base its long-term EPS CAGR off of 2017 guidance and the 6-8% target should be reiterated. The company has a long track record of growing earnings and dividends at 7%.
- CMS held an extensive Analyst Day back in late-September, such that there shouldn't be much else to update on. The company reviewed its historical performance and laid out a plan for the next 5+ years. The 10-year capital plan calls for $18B in investment, with potential upside to greater than $25B. Managing customer rates remain a key focus area and keeping costs under control are a core focal point in the long-term strategy.
- At the end of September CMS and ETR terminated the Palisades buyout agreement, which was seen as creating a potential rate base opportunity. That said, the contract still expires in 2022, the long-term plan is intact, and CMS is not short on investment opportunities.

CNP: Decision time on Enable?

- We expect Q3 EPS of $0.40 vs $0.39 last year, slightly above consensus.
- The main drivers on the quarter should be rate relief and midstream growth partially offset by milder weather than last year.
- Enable is the main event. At our conference management indicated that discussions with several parties were underway on an exchange of its LP/GP stake to another midstream company and that the intent was to get clarity by the Q3 call. An exchange

for another more liquid security would help CNP gradually exit midstream more easily, but we wonder if the weakness in the midstream space has made it more difficult to do an exchange.

- More clarity on 2018 expected but midstream a wild card. CNP has already given a series of utility drivers for 2018 and has indicated that 2018 EPS growth will be toward the high end of the 4%-6% EPS growth rate. We expect the company to give more detail on the outlook, but there is uncertainty on midstream next year.

D: Weather a drag on 2017 but long term growth intact

- Our Q3 EPS forecast for Dominion is $1.03 vs. $1.14 last year, about in line with consensus and a little below the guidance midpoint. The quarter should be down vs last year on the Cove Point import contract roll off, lower ITCs, and milder weather than last year.
- Trimming 2017E by $0.10 to $3.55. Mild weather has been roughly a $0.10/sh drag through the second quarter and the weather was at best normal in Q3. As a result we are trimming our 2017E to $3.55 from $3.65; this is in the lower half of D's $3.45-$3.85 guidance range. Importantly, as the primary reason for the weakness in 2017 is weather our longer term estimates are unchanged.
- Millstone, Atlantic Coast, and Cove Point. We expect updates on a few key items on the call. By the time of the call there should be more clarity on whether the Millstone support bill will accompany the Connecticut budget. FERC recently issued a certificate for Atlantic Coast Pipeline so we expect the company to reaffirm the yearend 2019 construction schedule. Finally, Cove Point is well into commissioning and management will likely reiterate that it will be in commercial service by yearend.

DTE: Easy earnings update, EEI will be more eventful

- We forecast 3Q17 EPS of $1.63 vs. $1.96 last year – a beat versus consensus. Mild weather is expected to be a meaningful headwind, as is the timing of electric/gas rate relief, and potentially trading. However, earnings at midstream and P&I, as well as lean cost management should provide partial offsets. 2017 earnings guidance of $5.26-5.57 looks to remain on track and our $5.39 estimate is close to the midpoint.
- The NEXUS pipeline is finally under construction, which should alleviate the usual questions on timing. DTE expects NEXUS in-service in 3Q18 and doesn't anticipate any near or long-term earnings impact from the delay beyond the original 4Q17 target. Otherwise, the Q3 earnings call figures to be uneventful.
- The bigger focus will be DTE's EEI update after the close the Friday before. Last year, the company boosted its earnings growth rate to 5-7% - we expect this to be reiterated this year. Additionally, DTE will provide an early look at 2018 guidance – our $5.67 estimate is modestly below consensus and implies 5% growth. Historically, DTE plans very conservatively to set up "beat and raise" events throughout the year.
- Guidance by business segment will also be extended out to 2022 – a big focus area given the full roll-off of REF earnings at P&I in 2022. This creates a meaningful headwind that DTE has only been able to partially fill-in with additional projects thus far – cogeneration and landfill gas. Management could take on several smaller new projects, but in order to fully offset the downtick at P&I there will need to be upside at the midstream segment. Given how well the Link acquisition has gone, this seems plausible. Finally, DTE will also give dividend growth guidance (should remain 7%) and an update on equity needs (we don't anticipate any).

DUK: Never settle for less

- We estimate 3Q17 EPS of $1.50, below consensus, possibly due to more drag from the parent/other segment, absence of international earnings and milder weather.
- We do not anticipate any new earnings outlook or capital plan disclosures on the 3Q17 call.
- The focus will be on the intervenor testimony recently filed in the DEP rate case in NC. Typically, parties have settled rate cases prior to intervenor testimony, but a settlement can occur at any time. The parties appear to be far apart on coal ash cost recovery. The Public Staff's 8.85-9.50% ROE and 50% equity ratio recommendations are within expectation, but still far off DUK's 10.75% ROE and 53% equity ratio ask. Last year's Dominion case was settled using a 9.9% ROE and 52% equity ratio. In the Carolinas, every 10bp ROE is about $0.03 for DUK; every 100bp equity ratio is about $0.05.
- We anticipate questions on the likelihood of a settlement and the implications for DUK's other rate case in NC. The outcomes of these rate cases are key drivers of DUK's 4-6% EPS growth target.

DYN: Initial 2018 guidance & cost cuts may be positive; any VST update?

- We forecast 3Q17 EBITDA of $430M, which is slightly below consensus. Our $430M forecast represents an increase of $80M from results of $350M a year ago. The addition of the ENGIE portfolio and higher PJM / MISO capacity revenues are positive YoY drivers, partially offset by weaker market conditions and one-time benefits in the year ago period.
- We expect DYN to tighten the 2017 EBITDA guidance range of $1.2-$1.4B, and we think the company is **currently tracking to the bottom end of the 2017 range** due to weak market conditions and asset sales.
- We expect DYN to provide initial 2018 EBITDA guidance – our estimate is $1,400M and consensus is $1,428M. This past April, DYN disclosed a 2018 outlook of $1,532M (the inadvertent disclosure). Since that time, the company has sold several plants that we think would have contributed about $130M to 2018 results, while market prices have remained fairly steady. It is our understanding that benefits from DYN's cost cutting program (discussed below) will not be included in guidance, but would be additive to the outlook. Overall, our sense is that the 2018 outlook is likely to be viewed favorably.
- DYN will provide details on its latest cost cutting plan with Q3 earnings. The company indicated last quarter that it expected at least $100M of EBITDA improvement, and we expect more details on specific targets and timing. Potential for a sale of the company to VST will of course be a focus once again as well. We think the balance sheet may get less focus given the M&A interest and significant progress toward addressing the 2019 maturity. We see incremental asset sales as unlikely.
- We are lowering our 2017 EBITDA estimate by $30M to $1,210M (near the bottom of the guidance range) on the poor Q3 market conditions. We are raising our 2018-20E by $10-15M/yr on refined coal modeling and capacity factor assumptions. Our new 2018-20 EBITDA estimates are $1,400M, $1,235M, and $1,010M, respectively.

EIX: Important catalysts over next 6 or so months

- We estimate 3Q17 EPS of $1.28, below consensus. Our 2017 estimate is $4.23, in line with consensus and EIX's guidance of $4.13-4.33. We do not expect EIX to give 2018 guidance until a final decision in its GRC is approved.
- Since EIX's previous earnings call, the CPUC set the SONGS case to an "expedited" schedule (decision possible by mid-2018) and EIX provided a longer term outlook for its nonutility business. An ALJ proposed decision in EIX's GRC is expected later this year,

with a final decision possible in 1Q18. The focus is on EIX's nearly $2B of requested spending for grid modernization needed to meet CA's policy objectives.

- Questions from investors about CA more generally have arisen again after the dramatic reaction in PCG's stock to the NorCal fires, which put into focus a unique state law (inverse condemnation) that makes utilities liable for damages if their equipment was found to have caused the fires, irrespective of negligence. Although rate base growth opportunities abound in CA – from EV to grid mod – investors point to continual events that have added volatility to CA stocks this decade: San Bruno (PCG), SONGS (EIX), and Aliso Canyon (SRE). We will be listening for any change in investor sentiment toward CA.

ES: Quarter miss; 1Q18 will be critical

- We estimate 3Q17 EPS of $0.82, below consensus. Our 2017 estimate is $3.11, below consensus of $3.15 and the midpoint of ES' guidance of $3.05-3.20.
- On its earnings call, we expect an update on the Northern Pass transmission project, which is a key driver of ES' 5-7% long-term growth rate. The NH SEC is expected to issue an oral decision by end of Feb and a written decision by end of Mar. ES expects to begin construction in 1H18, assuming approval.
- On its next earnings call in early 2018, ES is expected to update its long-term outlook through 2021. That update and the NH decision on NPT make 1Q18 a critical period for ES shares.
- ES' acquisition of Aquarion is nearing completion of the approval process, though the MA AG recommended to reject it. The proceeds from ES' sale of its NH generation assets and securitization are expected to be used for the transaction.

ETR: Stock price soars after settlement on nuke costs in Arkansas

- We estimate 3Q17 EPS of $2.00, below consensus. Our 2017 estimate of $6.89 is in line with consensus but on the low end of ETR's guidance of $6.80-7.40, consistent with management's comments in August. Our numbers do not include the impact of ETR's decision to continue operating Palisades through 2022, which was announced last month.
- A key focus has been ETR's nuclear operations and cost recovery. The company is conducting its Nuclear Sustainability Plan following fleetwide operational issues in 2015-16. AR regulators are reviewing some nuclear costs, but intervenors have been largely supportive, with earlier calls for prudence reviews replaced by settlements on the nuclear costs in ETR's FRP. The AR PSC still must approve any cost recovery, but the stock has outperformed the UTY by over 800bp so far in October, as a favorable AR case is a harbinger of future recovery of nuclear costs.
- At EEI, ETR will provide 2018-20 utility capital plan, introduce 2018 drivers and update its 2020 utility net parent guidance of $5.20-5.60, last disclosed in June 2016. Our 2020E is $5.25.
- Investors have been asking more questions about ETR's balance sheet, which looks weaker than most regulateds, and its ability to trade at a regulated average multiple. The regulated names that exited merchant businesses within the past decade took a few years after they had become fully regulated to trade at average regulated multiples.

EXC: Is DOE proposal DOA? EXC benefits either way

- We forecast 3Q17 EPS of $0.83, below consensus and the midpoint of EXC's guidance of $0.80-0.90. We anticipate an uplift in 4Q17 earnings from recognition of IL ZECs retroactive to June.

- We believe the call will focus mostly on the DoE proposal pending with FERC, namely the chances it passes and the potential uplift in margins/earnings if FERC's ultimate decision is consistent with PJM's baseload market reform proposal laid out in a white paper earlier this year. Regardless, we view EXC as a beneficiary from the efforts to reform power markets.
- We also expect investor questions on the likelihood of ZEC legislation in NJ and on the pending appeals to the ZEC rulings earlier this summer.
- We will be listening for any commentary around the post 2018 dividend, which management may address on its February 2018 call. We believe EXC could raise the dividend from its 2.5%/yr clip to a rate in line with the regulated utility average of 4-5%.
- In the table below, we show total and open gross margin as of 6/30/17 (EXC's prior disclosure) and 9/30/17 (our estimate of the upcoming disclosure). We estimate flat gross margins for 2017, given hedges, but modest $50-100M reductions in 2018-19, as Midwest prices and ERCOT sparks were weak. So far in Q4, ERCOT has rebounded due to VST shutdowns.

Wolfe Projected EXC Total and Open Gross Margin

	2017	2018	2019
9/29/2017			
Total Gross Margin Estimate	8,150	8,050	7,600
Open Gross Margin Estimate	3,600	3,900	3,650
6/30/2017			
Total Gross Margin	8,150	8,100	7,700
Open Gross Margin	3,750	4,000	3,800

FE: Still a lot in flux, but getting closer to certainty

- Our 3Q17 estimate of $0.86 vs. $0.90 last year is in-line with consensus and at the upper-end of FE's $0.75-0.90 guidance range. We expect the utilities to be driven higher by rate relief in OH/NJ/PA and transmission revenues. However, this will be offset very mild weather and lower commodity margin at the Competitive segment. FE is still yet to issue the majority of its equity this year, so share dilution is less of a factor in Q3 results. We don't anticipate any changes to utility net parent guidance, though perhaps a narrowing of the $2.70-3.00 range is possible.
- Last year, FE rolled out a big update at EEI – this year it should be relatively uneventful. EPS growth of 4-6% at the utilities (net of parent) through 2019 remains intact and is unlikely to be refreshed until there is more clarity around the exit of merchant generation. Similarly, the company is likely holding off on 2018 earnings guidance until the year-end call.
- FE is now 12 months into the 12-18 month timeline it laid out to exit the merchant generation business and there are still several questions left unanswered. In focus right now will be the recent DoE proposed rulemaking and the subsequent FERC process. FE stands to be a beneficiary if nuclear/coal is compensated with full recovery of costs. That said, we're skeptical that FERC will be quick to upend competitive markets so dramatically. Separately, a new ZEN bill has been proposed in Ohio that would compensate FE's nuclear plants with a small impact on customer rates, and smaller windfall to FE (~$200M/yr from ~$300M/yr under the old bill). At the same time, FES remains in discussions with creditors while this all hangs in the balance. FE is hopeful for a prepackaged agreement, but there is still wood to chop.

- Elsewhere, the AES sale is still pending but appears on track for a late-2017/early-2018 closing. Similarly, the decision to rate base the West Virginia Pleasants plant is in front of the PSC and FERC and is headed toward resolution by the beginning of next year.

GXP / WR: Merger progressing, approval process update

- We expect both companies to focus the majority of their call on the pending merger approval process. Schedules have effectively been set in both Missouri and Kansas that should result in final decisions by the end of May 2018. The February/March timeframe will be critical in seeing if settlements with key parties are possible. We still see approval of the MoE as highly likely, given it addresses the majority of the regulators' initial concerns, offers upfront rate credits, and generally makes sense.
- Starting next year, we expect both companies to file rate cases at each utility subsidiary. The cases should be relatively straightforward with only modest overall bill increases. WR's focus will be putting its new wind farm into rate base
- We forecast GXP standalone adjusted EPS of $1.00 vs. $1.00 last year – a beat vs. consensus (though it looks skewed). The quarter will be driven by rate relief (primarily KCP&L-MO) to the positive and mild weather to the negative.
- We forecast WR standalone EPS of $1.12 vs. $1.09 last year – in-line with consensus. The quarter will be driven by rate relief, transmission margin, and sales growth; while partially offset by higher depreciation associated with the new wind farm.
- We expect no updates on standalone earnings guidance (disclosed in the S-4 in September) or the pro forma growth trajectory. GXP could also provide a preview of the upcoming legislative session in Missouri, where there will once again be a push made to enhance the regulatory construct.

HIFR: Awaiting long-term outlook disclosures

- Our 3Q17 estimate is $0.44, in line with consensus.
- We do not anticipate HIFR will give earnings guidance or any other long-term outlook until a written PUCT decision on the Oncor asset exchange is filed and other approvals are secured, expected by yearend. The PUCT orally approved that and the withdrawal of HIFR's rate case.

LNT: Rolling the plan forward at EEI

- We forecast 3Q17 EPS of $0.83 vs. $0.80 last year – a small miss relative to consensus. We see the interim rate hike in Iowa as providing a meaningful tailwind, while weather and higher depreciation will be offsets. Typically LNT tightens its earnings guidance range in Q3 and we expect the company to do so at the midpoint this year (though slightly lower seems plausible).
- LNT will also provide 2018 guidance, where our $2.14 estimate is in-line with consensus and implies 6% growth. Next year will be driven primarily by additional rate relief in Iowa, following the company's constructive settlement agreement. Long-term, we expect the 5-7% EPS CAGR to be reiterated.
- The Q3/EEI update will also feature the 2018 dividend growth target (we expect 7%) and next year's equity needs (we forecast $550M over the next two years). Given the robust capital plan, LNT will likely need to be an equity issuer in order to maintain its allowed capital structures.
- Additionally, LNT will refresh its capital plan and push it forward another year (2021), as well as update rate base growth through 2020. Now capturing the full impact of the Riverside CCGT in Wisconsin and new wind in Iowa – we see upside to the previous rate base CAGRs of 11%/6% at IPL/WPL. Important to note is that LNT's previous plan

assumed 900 MW of new wind, but the company is now pursuing 1,200 MW, however costs have come down such that the capex upside should be relatively modest.

NEE: Some headwinds in Q3 but on track for the year; renewable backlog update the main focus

- Our Q3 EPS forecast for NextEra Energy is $1.74 vs. $1.74 last year, below consensus of $1.77. We expect the quarter to be about flat on the combination of weaker wind resource, growth project timing and some impact from Irma (though the system was substantially back up in less than a week).
- Despite the relatively low growth in Q3 we expect that the full year is on track for the upper end of the 6%-8% growth range.
- Renewable backlog update the main focus for the call. Given the analyst day in late June we primarily expect new disclosures to be on the renewable backlog. At our conference CEO Jim Robo noted that NEE had been active in securing contracted wind/solar projects and we expect a refreshed outlook from the 3,500MW of signed contracts for 2017/2018 and 1,600 MW for 2019/2020.
- For NextEra Energy Partners, our Q3 EBITDA estimate is $195M vs. $174M last year, below the $211M consensus. We expect the quarter to be higher on additional assets put into service, but weak wind conditions could be a drag. That said we still see the growth trajectory intact, especially the 12-15% annual distribution growth through at least 2022.

NI: 2018 guidance expected

- Our Q3 EPS estimate for NI is $0.07 vs. $0.06 last year, about in line with consensus.
- We expect the combination of rate relief and interest savings will more than offset higher O&M. NI indicated at its analyst day that O&M would be up a couple percent this year as a result of rate case reliability spending commitments. Operating costs should flatten out starting next year.
- We expect NI to give 2018 guidance on the Q3 call, consistent with last year. Importantly, NI guides to EPS growth 5%-7% each year, i.e. off the previous year's actual. Our $1.26E implies roughly 6% EPS growth off our $1.19 2017 EPS estimate.

NRG: Expect positive 2018 guide, negative 2017 update; mixed

- NRG is scheduled to report earnings on November 2nd. We forecast 3Q17 EBITDA of $890M, which is above a falling consensus estimate of $814M and similar to results of $895M in the year ago period when excluding GenOn. Key YoY drivers are a lower baseload hedge price and an assumed $50M YoY reduction in retail EBITDA given the impacts of Hurricane Harvey and a strong comp a year ago. This is partially offset by the benefits of a prior round of cost reductions and the new Transformation Plan. **We think NRG is likely to lower the current FY 2017 EBITDA guidance** of $2,565M - $2,765M and narrow the range. Our new 2017E is $2,500M. Management had previously indicated the company was tracking toward the bottom end of the range. Since that time, Hurricane Harvey caused some pressures on the retail business, and more importantly, there was a lack of scarcity pricing again this summer in Texas whereas NRG always bakes in some degree of uplift from scarcity in guidance.
- **Will there be any asset sales before the earnings call?** Timing for an announced sale of conventional assets appears to have slipped somewhat vs. initial expectations. NRG is reported to be looking to sell the South Central business and a couple of smaller assets with expected proceeds of at least $1B. It is unclear to us if any transaction will be announced before the earnings call, which could create some

questions. NRG continues to have a confident tone on announcing a resolution of the sales process for NYLD and the renewable platform by the end of the year.

- **Initial 2018 guidance and updated pro-forma outlook should be very strong.** Assuming no announced asset sales before the call, we think NRG's initial 2018 EBITDA guidance provided this quarter will be around $3B. This is above our $2.85B estimate as we only give NRG 75% credit for Transformation Plan cost savings and do not include any of NRG's margin enhancement target. It is also significantly higher than the median consensus estimate of $2.8B. Relative to 2017, NRG should see $400-500M of net EBITDA uplift from the Transformation Plan in 2018. Separately, we expect NRG to also update its pro-forma EBITDA outlook of $1,845M post the Transformation Plan, inclusive of asset sales and cost cuts. This pro-forma figure was based on the 2017 outlook but will now be rolled to 2018. We think the $1,845M figure could be raised on this basis given stronger PJM and New England capacity prices in 2018, partially offset by hedge roll-offs.

PCG: Not much to say at this point

- We estimate 3Q17 EPS of $0.98, above consensus likely on the timing of GT&S rate relief.
- The investor focus on the call will likely be on the historic NorCal fires and potential financial implications on PCG. We do not expect PCG to say more than the facts to date. Given the Butte fire investigation a couple of years ago, we believe investigators are likely months away from disclosing the causes of the fires.
- We also anticipate a discussion on CA's unique inverse condemnation law, which makes utilities pay for property damages if their equipment is found to be the cause of a fire, irrespective of fault. The costs are intended to be socialized across ratepayers. The CPUC is considering fire cost recovery for SRE from 2007 fire. That decision will be key for PCG, as the market effectively is concluding PCG's equipment was involved.
- PCG has pending regulatory proceedings, including the safety culture OII, which could take on more significance if PCG is found to be at fault in the fires, and the FERC transmission cases. However, we do not anticipate meaningful action in these cases until 2018. PCG is also set to file its 2019 GT&S rate case by yearend.

PEG: ZECs momentum continuing to build in New Jersey

- We forecast 3Q17 EPS of $0.88 vs. $0.88 last year – a beat relative to consensus. We expect transmission revenues and real-time recovery mechanisms (GSMP/Energy Strong) at PSE&G to be continued drivers. Weather was particularly mild and could impact utility sales, as well as volumes at Power. Power's hedge prices at baseload units are also lower YoY, but the CCGTs appear better-protected from deteriorating sparks given more aggressive hedging this year. Recall that this time last year, PEG was dealing with outage issues at its Salem nuclear unit that required stringent cost control. The retirement of Hudson/Mercer should also contribute O&M savings. We think this makes year-over-year comps easier into the back half of 2017. Taking this all into account, we think PEG is tracking ahead of $2.90 last year and could take the bottom-end of its $2.80-3.00 range up.
- The key focus area for the company remains the potential for nuclear subsidies in New Jersey. PEG has continued to educate stakeholders, but in front of the gubernatorial election headlines have been relatively limited. That said, we expect the momentum to begin building post-election and could see a bill introduced during the lame duck session.
- The DoE proposal and ensuing FERC process on baseload generation and reliability is also of particular interest to PEG. As an owner of several nuclear/coal plants, PEG

stands to be a net beneficiary despite having several new CCGTs under construction. That said, it seems more likely that the FERC process results in something closer to the price formation proposals discussed in PJM that could benefit all generators.

- Lastly, the utility business remains steady as she goes into its rate case. The filing deadline was recently postponed a month to December 1, but the case has been well-telegraphed and PEG is hopeful that a constructive settlement can be achieved. Elsewhere, the BPU is finalizing its straw proposal that could establish mechanisms that help track long-term utility investment programs without requiring frequent rate case filing.

PNW: Rate case over, now focused on the long-term

- We estimate 3Q17 EPS at $2.25 – a big miss versus consensus. The YoY decrease relative to $2.35 in 3Q16 is expected to be the timing of major maintenance work at Four Corners (recall this was an EPS tailwind in 1H17) and depreciation/interest expense; offset partially by a rate increase, sales growth, and the traditional recovery mechanisms (transmission, LFCR). PNW disclosed 2017 guidance of $4.15-4.30 after its rate case was finalized and the company appears to be tracking toward the midpoint.
- PNW is also expected to give 2018 guidance on the Q3 call – we forecast $4.44, modestly below consensus. The key driver will be the $95M rate increase that when into effect in late-August, in addition to sales growth.
- Last week, PNW boosted its dividend by 6% - a welcome positive after the company had been historically growing at 5%. The key will be whether this is the long-term growth target and how this impacts the company's messaging around the EPS CAGR. Traditionally, management has guided toward earnings growth between 5% dividend and 6-7% rate base growth. If the earnings growth target is raised as well, this would be an unexpected positive.

POR: Latest capital plan expectations in focus

- We forecast Q3 EPS of $0.38 – in-line with consensus. This is flat versus $0.38 last year, likely driven by rate relief and much warmer weather. Carty overage/legal costs, lower AFUDC, and higher O&M/D&A are expected to be offsets. We still see POR tracking firmly within its 2017 earnings guidance range ($2.20-2.35).
- Focus for the company remains on the pending IRP/RFP process, where POR has continued to discuss alternative solutions for the renewables proposal. An update meeting was held at the OPUC earlier in the month, where POR described a hypothetical 100MWa wind farm. The company is working with stakeholders to reach a consensus and remains hopeful it can do so by year-end. As a reminder, our 2018-2020 estimates assume POR builds new wind capacity (175MWa) and buys gas plant capacity, which may be overly optimistic at this point.
- Also important to watch will be any additional update on the non-IRP/RFP capital plan. Last year in Q3 POR boosted 2017/2018 capex by $300M, after the Board improved incremental T&D projects. It's possible there is a similar boost this year, but with smaller magnitude.
- We're also interested to hear from CEO-elect Maria Pope, who will be taking over the reins from Jim Piro at year-end. Pope is currently SVP of Power Supply & Operations and previously served on POR's Board of Directors and as CFO.

PPL: Blood, toil, tears and sweat on UK business

- We estimate 3Q17 EPS of $0.50, below consensus. Our $2.17 is in line with consensus and the midpoint of PPL's $2.05-2.25 guidance.

- The main focus is likely to be on the UK, specifically Ofgem's ongoing consultation on the RIIO-2 framework, which will determine the next round of price controls. Price controls are currently set through March 2023 for electric distribution networks. (PPL's UK business is electric distribution). Ofgem will publish a consultation document in 1Q18 and a Framework Decision in 2Q18.
- Despite the long-dated timeframe, investors are concerned from the political pushback on energy prices and regulatory comments on reducing allowed returns under RIIO-2. Some investors fear re-nationalization if the Labour party were to gain majority control down the road given the party's manifesto on energy supply networks.
- The stock has underperformed peers noticeably since Ofgem initiated the RIIO-2 framework consultation earlier this summer.
- Last month, PPL added GBP-USD hedges, with 2017 fully hedged at $1.20, 2018 99% hedged at $1.32, 2019 100% hedged at $1.39, and 2020 13% at $1.49. PPL has $0.13-0.14 of dry powder. Also, the spot GBP of $1.32 (as of 10/23) is above PPL's $1.30 budgeted rate and the GBP is even higher on a 2020 forward basis ($1.37).

SCG: How and when?

- We estimate 3Q17 EPS of $1.18, below consensus.
- The only thing that matters for SCG shares is how will the nuclear cost recovery be resolved and when. These simple questions have complex answers, and there are regulatory proceedings, investigations and litigation that could inform on the outcome. We are watching the ORS petition at the PSC, given the petition represents an extreme position: no recovery of nuke costs, refund past nuke-related collections, and give Toshiba cash to customers, assuming the BLRA is vacated by a court or repealed/revoked by the legislature in 2018.
- Our scenario analysis (see note) looks at three cases, including our worst case of a full $4.9B write-off. But we assumed no refund of past collections and SCG's retention of Toshiba monetization, either of which would result in lower estimates than our worst case if not realized.

SO: Equity needs in 2017? What equity needs?

- We estimate 3Q17 EPS of $1.11, above consensus and SO's $1.06 guidance. Our 2017 estimate remains $2.96, in line with consensus and SO's guidance of $2.90-3.02.
- SO's decision to continue building Vogtle was the big news last quarter, and the proceeding over reasonableness of that decision is pending at the GaPSC. Hearings are scheduled for 11/6, then again on 12/11, with a final decision by 2/6/18.
- On its Aug call, SO disclosed the need for a $1B of equity in 2017 due to a Kemper-related charge, but it did not specify whether external equity was needed. Since then, SO has talked about potential ways to mitigate or eliminate the need for the equity in 2017. Those include monetization of Toshiba payments, pushing out Southern Power capex, the sale of some NJ gas assets, tax equity, or even just waiting until 2018, as there is no cash crunch at the company. The stock has outperformed the UTY by about 700bp since 8/31.

SRE: Oncor and Cameron the focus

- We are projecting Q3 EPS of $1.06 vs. $1.02 last year, just above the $1.05 consensus. We expect continued growth at the utilities and the absence of losses on gas held for sale and modest hedge benefits on the peso.

- Oncor and Cameron remain the key updates. Investors will be focused on any new updates on the Oncor acquisition, especially on progress on potential settlements as well as any comments from management on plans on equity. Finally, the Cameron schedule is a focus after the incremental delay announced on the Q2 call - management has promised more detailed updates on progress on the project.
- California - rate case and wild fires are important. The company recently filed its electric and gas general rate cases in California, requesting high-teens rate increase to cover new projects placed in service and reliability investments related to RAMP, and this will be SRE's first opportunity to talk about the filing with investors. The wildfires case is also now particularly important given the fires in northern California.

VST: Coal retirement announcements waking up the ERCOT bulls

- We forecast 3Q17 EBITDA of $507M – in-line with consensus. VST is not expected to provide prior year actuals throughout 2017 reporting given the implementation of fresh start accounting and the company's official emergence as a new entity back in October. We expect the Comanche Peak 2 outage ($75M in 2017) and lower hedge prices to impact Luminant's gross margins negatively. To offset this VST will continue to realize the benefit of its robust cost cutting initiative put in place at the end of last year, coupled with minor EBITDA contribution from the Odessa CCGT acquisition ($10-15M in 2017) and the initial cut of OPI-related savings ($28M in 2017).
- The summer was essentially a dud from both a retail and wholesale pricing perspective, as weather conditions were very mild. However, we believe VST is still tracking toward the mid-point of its $1,350-1,500M EBITDA guidance range at this point, as ERCOT pricing as rallied recently and there could be more OPI savings still to come. Like the other IPPs, VST is also expected to disclose 2018 EBITDA/FCF guidance on the call. We forecast $1,402M EBITDA – just below consensus. The full-year run-rate of the Odessa CCGT ($45-50M) and OPI-savings ($45-50M) should help, and the recent coal retirement decisions are expected to be $20-30M accretive to EBITDA as well.
- One major focus area on the call is sure to be the recent decisions to retire 4,200 MW of coal capacity in ERCOT. Plant shutdowns had been anticipated to some extent, but this was likely faster and on a larger scale than most expected. In response, ERCOT forwards have moved up meaningfully over the last two weeks – 15%/10% in 2018 for ERCOT (Houston and North zones) on-peak and ATC respectively (4-8% in outer years). The key will be whether ERCOT forces the plants to remain open via an RMR agreement.
- Finally, VST will almost certainly have to answer questions regarding its latest thoughts on large-scale M&A. A potential merger with Dynegy has gotten a lot of investor focus and CEO Morgan most recently noted that a decision either way would be made soon. Beyond that, we will be listening for the latest on capital allocation priorities elsewhere.

WEC: Back to the midpoint or still growing at the low-end?

- We forecast 3Q17 EPS of $0.66 – in-line with consensus and at the top-end of WEC's $0.63-0.67 guidance range. The decrease relative to 3Q16 EPS of $0.69 is expected to be driven primarily by mild weather and the timing of fuel recoveries. 2018 guidance will not be disclosed until the year-end call.
- Otherwise, Q3 earnings should be largely uneventful. The rate case stay-out proposal was approved in Wisconsin and the company remains focused on cost control to earn its allowed ROEs. We hope to hear a positive update on the health of CEO Allen Leverett, who unfortunately suffered an apparent stroke earlier this month.
- The Friday before EEI, WEC is expected to provide an update on its five-year capital plan. This is an important event for the company, particularly the messaging around its

long-term EPS CAGR of 5-7%. Previously, management indicated that it was projected to grow at the low-end of that range, but $1.6B in additional capex ($300M/yr) over 5-years could push WEC back toward the midpoint. This seemed like a tall order, but WEC has remained optimistic – targeting additional T&D, gas storage, and transmission investments.

XEL: 2018 guidance and 5-year capital plan

- We estimate 3Q17 EPS of $0.92, in line with consensus.
- On its upcoming earnings call, XEL will give 2018 guidance and provide 2018-22 capital plan, which will be made up of its base plan and upside plan. Our 2018E is $2.43, near consensus of $2.45.
- We project 6% EPS growth and believe XEL could point to the high end of its 4-6% growth target, particularly under its upside plan.
- We expect updates on the renewables proceedings in TX and NM, as well as the electric and gas rate cases in CO.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.33 USD	25.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

Management Meeting: Confidence In NiSource's Capital Expenditure Forecast, but Tax Reform a Concern

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Rating updated as of 03 Nov 2017 00:00

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Analyst Note 06 Nov 2017

We are reaffirming our narrow moat and stable moat trend ratings, along with our $25 per share fair value estimate, after meeting with NiSource's senior executives at the Edison Electric Institute Financial Conference in Orlando, Florida.

We still believe NiSource has numerous investment opportunities at its regulated utilities for the foreseeable future. We estimate annual capital expenditures growing from $1.7 billion in 2017 to $1.9 billion by 2021. NiSource management is guiding to $1.6 billion-$1.8 billion through 2020, and we came away from our meeting confident that it will likely exceed their target.

Confidence in our capital expenditure forecast is also driven by NiSource's ability to make wise investment decisions, resulting in flat operation and maintenance costs over the next few years. These investments have included IT upgrades and employee training centers; these are one-time expenditures and are now complete or almost done.

Although these investments must typically be recovered in base rate cases, NiSource operates for the most part in jurisdictions with decent to above-average regulatory frameworks. In addition, NiSource has benefited from lower natural gas prices and controlled rate increases such that customer bills are significantly less today than 10 years ago. Thus, we think opposition to small rate increases will be minimal, and we have confidence that NiSource will earn a fair return on these investments, albeit with some regulatory lag.

The only concern we took away from the meeting was how tax reform might affect NiSource's earnings and cash flow. Unlike many of its peers, the majority of the firm's debt is held at the holding company and allocated to its operating

Vital Statistics

Market Cap (USD Mil)	9,205
52-Week High (USD)	27.41
52-Week Low (USD)	21.17
52-Week Total Return %	26.6
YTD Total Return %	26.6
Last Fiscal Year End	31 Dec 2016
5-Yr Forward Revenue CAGR %	5.3
5-Yr Forward EPS CAGR %	7.5
Price/Fair Value	1.09

Valuation Summary and Forecasts

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Price/Earnings	20.8	20.3	*23.0*	*21.2*
EV/EBITDA	9.7	10.6	*11.4*	*10.8*
EV/EBIT	16.1	17.3	*18.0*	*17.4*
Free Cash Flow Yield %	-3.2	-9.4	*0.4*	*-12.0*
Dividend Yield %	4.2	2.9	*2.5*	*2.8*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2015	2016	*2017(E)*	*2018(E)*
Revenue	4,652	4,493	*4,815*	*5,000*
Revenue YoY %	-28.1	-3.4	*7.2*	*3.8*
EBIT	802	857	*990*	*1,027*
EBIT YoY %	-34.9	7.0	*15.5*	*3.7*
Net Income, Adjusted	299	351	*395*	*445*
Net Income YoY %	-44.0	17.4	*12.4*	*12.7*
Diluted EPS	0.94	1.09	*1.19*	*1.29*
Diluted EPS YoY %	-44.5	16.1	*9.7*	*8.7*
Free Cash Flow	3,741	-602	*-26*	*-947*
Free Cash Flow YoY %	-721.3	-116.1	*-95.7*	*NM*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, 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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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.33 USD	25.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

utilities. This makes the deductibility of interest expense a key concern in current tax reform proposals. We believe it could have a modest negative impact, although management believes it has ways to address this issue.

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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.33 USD	25.00 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	2014	2015	2016	Forecast 2017	2018	5-Year Proj. CAGR
Revenue	-7.4	14.4	-28.1	-3.4	7.2	3.8	5.3
EBIT	-8.7	9.3	-34.9	7.0	15.5	3.7	8.9
EBITDA	-6.2	7.8	-27.8	5.9	11.7	4.8	7.8
Net Income	-10.8	8.1	-44.0	17.4	12.4	12.7	11.3
Diluted EPS	-11.7	7.0	-44.5	16.1	9.7	8.7	7.5
Earnings Before Interest, after Tax	-10.4	3.6	-35.0	6.8	47.4	-76.6	10.3
Free Cash Flow	—	58.7	-721.3	-116.1	-95.7	NM	—

Profitability	3-Year Hist. Avg	2014	2015	2016	2017	2018	5-Year Proj. Avg
Operating Margin %	18.4	19.0	17.2	19.1	20.6	20.5	21.4
EBITDA Margin %	29.4	28.4	28.5	31.3	32.6	32.9	33.8
Net Margin %	7.5	8.3	6.4	7.8	8.2	8.9	9.4
Free Cash Flow Margin %	19.2	-9.3	80.4	-13.4	-0.5	-18.9	-5.3
ROIC %	6.2	7.9	5.5	5.4	7.2	1.5	5.3
Adjusted ROIC %	7.3	9.5	6.3	6.0	8.1	1.7	5.8
Return on Assets %	1.8	2.2	1.4	1.8	2.0	2.1	2.2
Return on Equity %	7.6	8.8	5.7	8.4	9.2	9.5	9.6

Leverage	3-Year Hist. Avg	2014	2015	2016	2017	2018	5-Year Proj. Avg
Debt/Capital	0.64	0.62	0.64	0.66	0.67	0.66	0.65
Total Debt/EBITDA	5.44	5.45	5.24	5.63	5.70	5.78	5.60
EBITDA/Interest Expense	3.88	4.14	3.49	4.02	4.14	3.96	4.10

Valuation Summary and Forecasts

	2015	2016	2017(E)	2018(E)
Price/Fair Value	1.08	1.05	—	—
Price/Earnings	20.8	20.3	23.0	21.2
EV/EBITDA	9.7	10.6	11.4	10.8
EV/EBIT	16.1	17.3	18.0	17.4
Free Cash Flow Yield %	-3.2	-9.4	0.4	-12.0
Dividend Yield %	4.2	2.9	2.5	2.8

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	5.9
Long-Run Tax Rate %	28.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	71.4
Perpetuity Year	15

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	-1,177	-7.5	-3.49
Present Value Stage II	2,426	15.4	7.19
Present Value Stage III	14,531	92.1	43.07
Total Firm Value	**15,780**	**100.0**	**46.77**
Cash and Equivalents	40	—	0.12
Debt	-7,909	—	-23.44
Preferred Stock	—	—	—
Other Adjustments	250	—	0.74
Equity Value	**8,160**	—	**24.19**
Projected Diluted Shares	337		
Fair Value per Share (USD)	**25.00**		

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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Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December	2014	2015	2016	Forecast 2017	Forecast 2018
Revenue	**6,471**	**4,652**	**4,493**	***4,815***	***5,000***
Cost of Goods Sold	2,224	1,644	1,390	*1,510*	*1,567*
Gross Profit	**4,246**	**3,008**	**3,102**	***3,306***	***3,433***
Selling, General & Administrative Expenses	2,136	1,426	1,454	*1,498*	*1,542*
Other Operating Expense (Income)	320	256	244	*240*	*247*
Other Operating Expense (Income)	-47	—	—	*10*	*10*
Depreciation & Amortization (if reported separately)	606	524	547	*568*	*607*
Operating Income (ex charges)	**1,231**	**802**	**857**	***990***	***1,027***
Restructuring & Other Cash Charges	-32	2	-1	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**1,262**	**800**	**858**	***990***	***1,027***
Interest Expense	444	380	350	*379*	*415*
Interest Income	22	-80	2	*6*	*6*
Pre-Tax Income	**841**	**340**	**510**	***617***	***618***
Income Tax Expense	310	141	182	*222*	*173*
Other After-Tax Cash Gains (Losses)	-1	104	3	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	-16	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	**530**	**287**	**332**	***395***	***445***
Weighted Average Diluted Shares Outstanding	317	320	324	*331*	*344*
Diluted Earnings Per Share	**1.67**	**0.90**	**1.02**	***1.19***	***1.29***
Adjusted Net Income	534	299	351	*395*	*445*
Diluted Earnings Per Share (Adjusted)	**1.69**	**0.94**	**1.09**	***1.19***	***1.29***
Dividends Per Common Share	1.02	0.83	0.64	*0.70*	*0.75*
EBITDA	**1,868**	**1,324**	**1,405**	***1,569***	***1,644***
Adjusted EBITDA	**1,836**	**1,326**	**1,404**	***1,569***	***1,644***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2014	2015	2016	Forecast 2017	Forecast 2018
Cash and Equivalents	50	45	36	*814*	*110*
Investments	—	—	—	—	—
Accounts Receivable	921	660	847	*857*	*890*
Inventory	586	537	494	*496*	*515*
Deferred Tax Assets (Current)	214	—	—	—	—
Other Short Term Assets	696	335	385	*350*	*375*
Current Assets	**2,467**	**1,577**	**1,762**	***2,518***	***1,891***
Net Property Plant, and Equipment	11,057	12,112	13,068	*14,200*	*15,342*
Goodwill	1,691	1,691	1,691	*1,691*	*1,691*
Other Intangibles	265	254	243	*232*	*221*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,545	1,600	1,637	*1,985*	*2,085*
Long-Term Non-Operating Assets	7,843	260	292	*292*	*292*
Total Assets	**24,866**	**17,493**	**18,692**	***20,917***	***21,521***
Accounts Payable	610	433	539	*579*	*601*
Short-Term Debt	1,844	1,001	1,851	*250*	*250*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,511	1,223	1,062	*1,300*	*1,400*
Current Liabilities	**3,964**	**2,658**	**3,452**	***2,129***	***2,251***
Long-Term Debt	8,156	5,949	6,058	*8,700*	*9,250*
Deferred Tax Liabilities (Long-Term)	2,380	2,365	2,528	*2,953*	*2,453*
Other Long-Term Operating Liabilities	2,996	1,350	1,265	*1,350*	*1,350*
Long-Term Non-Operating Liabilities	1,195	1,327	1,317	*1,317*	*1,317*
Total Liabilities	**18,691**	**13,649**	**14,621**	***16,449***	***16,621***
Preferred Stock	—	—	—	—	—
Common Stock	3	3	3	*3*	*3*
Additional Paid-in Capital	4,788	5,078	5,154	*5,404*	*5,654*
Retained Earnings (Deficit)	1,494	-1,123	-972	*-810*	*-622*
(Treasury Stock)	-59	-79	-89	*-89*	*-89*
Other Equity	-51	-35	-25	*-41*	*-46*
Shareholder's Equity	**6,175**	**3,844**	**4,071**	***4,468***	***4,900***
Minority Interest	—	—	—	—	—
Total Equity	**6,175**	**3,844**	**4,071**	***4,468***	***4,900***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in December

	2014	2015	2016	Forecast 2017	Forecast 2018
Net Income	530	302	332	*395*	*445*
Depreciation	606	524	547	*568*	*607*
Amortization	—	—	—	*11*	*11*
Stock-Based Compensation	72	51	47	*37*	*39*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	299	135	182	*425*	*-500*
Other Non-Cash Adjustments	-50	-11	-12	—	—
(Increase) Decrease in Accounts Receivable	-63	262	-188	*-10*	*-33*
(Increase) Decrease in Inventory	-120	47	39	*-2*	*-19*
Change in Other Short-Term Assets	9	43	-251	*35*	*-25*
Increase (Decrease) in Accounts Payable	38	-191	109	*40*	*22*
Change in Other Short-Term Liabilities	—	—	—	*238*	*100*
Cash From Operations	**1,321**	**1,163**	**804**	***1,736***	***646***
(Capital Expenditures)	-2,029	-1,361	-1,475	*-1,700*	*-1,749*
Net (Acquisitions), Asset Sales, and Disposals	13	5	—	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-101	3,731	-108	*-264*	*-100*
Cash From Investing	**-2,117**	**2,375**	**-1,583**	***-1,964***	***-1,849***
Common Stock Issuance (or Repurchase)	20	2	14	*250*	*250*
Common Stock (Dividends)	-321	-263	-206	*-232*	*-257*
Short-Term Debt Issuance (or Retirement)	878	-936	921	*-1,601*	—
Long-Term Debt Issuance (or Retirement)	219	-2,186	62	*2,642*	*550*
Other Financing Cash Flows	—	-137	—	*-37*	*-39*
Cash From Financing	**796**	**-3,520**	**791**	***1,021***	***504***
Exchange Rates, Discontinued Ops, etc. (net)	-1	-28	-1	*-16*	*-5*
Net Change in Cash	**-1**	**-10**	**11**	***778***	***-704***

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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

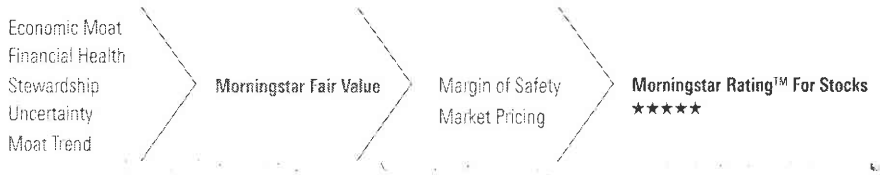
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling 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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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.

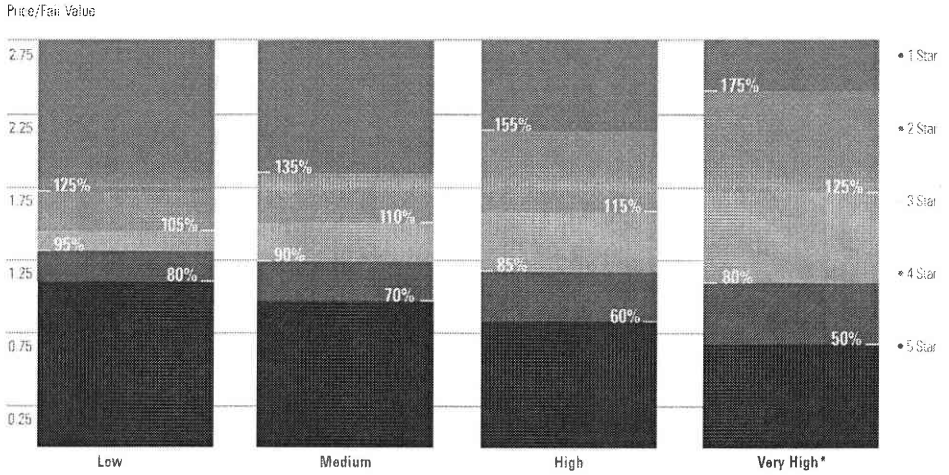
Four Stars ★★★★

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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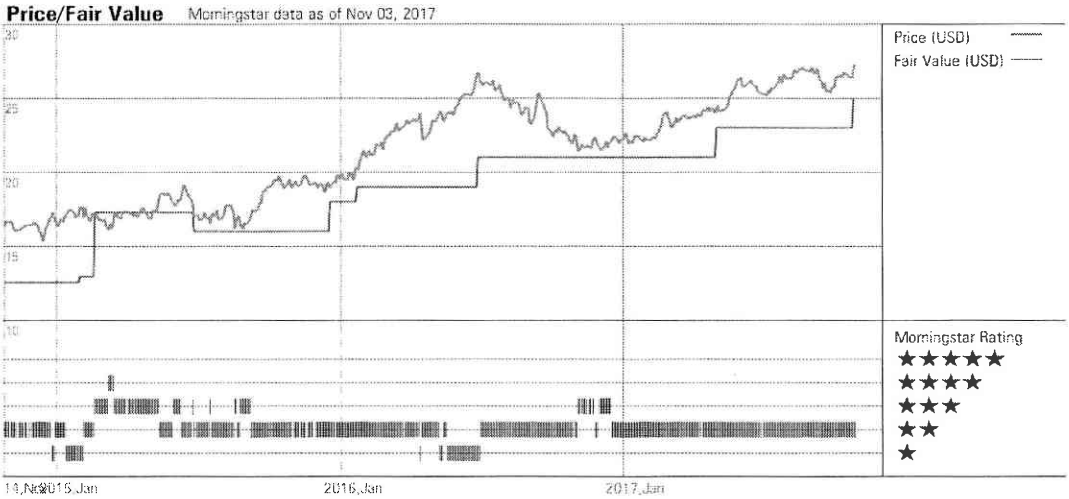
NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.33 USD	25.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated



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NiSource Inc NI (NYSE) | ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.33 USD	25.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
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NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
27.33 USD	25.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated

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Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-011:

If applicable, please supply a listing of all common equity infusions from the parent to the Company over the past five years. In each case, identify date and dollar amount.

Response:

There have been no common equity infusions from the parent to the Company over the past five years (2013-2017).

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-012:

If applicable, please identify the Company's common dividend payments to its parent for each of the last five years.

Response:

Common Dividend payments to the Parent Company for the last 5 years were as follows:

2013 - $8,000,000
2014 - $0
2015 - $0
2016 - $0
2017 - $0

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-013:

Please provide the latest year-by-year financial projections for the Company for the next five years. Also, please indicate the date these projections were prepared; whether approved by management; and whether the projections have been submitted to bond rating agencies. (Information should be treated in a confidential manner.)

Response:

The financial projections of the Company are confidential and will be made available upon request, subject to the execution of a confidentiality agreement.

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-014:

Please provide the Company's five-year construction budget.

Response:

GAS-ROR-014 Attachment A provides Columbia Gas of Pennsylvania's current five year Capital Program (2018-2022) broken down by Business Class, summarized by Gross Capital Expenditures, Net Capital Expenditures, and Contributions and Reimbursements.

Columbia Gas of Pennsylvania
Capital Program
($000)

Gross View

Class	2018	2019	2020	2021	2022
Growth	$31,504	$27,776	$31,477	$34,015	$36,639
Betterment	$16,500	$15,750	$13,700	$10,195	$8,255
Public Improvement	$6,000	$5,500	$7,000	$5,500	$5,500
Replacement	$215,416	$226,216	$254,316	$272,000	$282,700
Support Services	$3,550	$2,500	$2,850	$2,150	$2,500
Total Gross Capital	**$272,970**	**$277,742**	**$309,343**	**$323,860**	**$335,594**
Shared Services Allocation	$11,395	$8,789	$9,896	$9,898	$9,896
Fully Loaded Gross Capital	**$284,365**	**$286,530**	**$319,240**	**$333,759**	**$345,490**

	2016	2017	2018	2019	2020
Contributions - Growth	$0	$0	$0	$0	$0
Reimbursement - Betterment	$0	$0	$0	$0	$0
Reimbursement - Public Improvement	$0	$0	$0	$0	$0
Reimbursement - Replacement	$0	$0	$0	$0	$0
Total Contributions & Reimbursements	**$0**	**$0**	**$0**	**$0**	**$0**

Net View

Class	2018	2019	2020	2021	2022
Growth	$31,504	$27,776	$31,477	$34,015	$36,639
Betterment	$16,500	$15,750	$13,700	$10,195	$8,255
Public Improvement	$6,000	$5,500	$7,000	$5,500	$5,500
Replacement	$215,416	$226,216	$254,316	$272,000	$282,700
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Shared Services Allocation	$11,395	$8,789	$9,896	$9,898	$9,896
Fully Loaded Net Capital	**$284,365**	**$286,530**	**$319,240**	**$333,759**	**$345,490**

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-015:

Please identify the Company's and, if applicable, its parent's capital structure targets (percentages of capital types). Provide the complete basis for the capital structure targets.

Response: Columbia Gas of Pennsylvania, Inc.

The Company targets an equity ratio of between 52-54% and a debt ratio, including short term debt, of between 46-48%. These ranges have been acceptable in Pennsylvania in the past. They also fall within the ranges of the Gas Group as described in Paul R. Moul's direct testimony, Columbia Statement No. 8.

Response: NiSource Inc.

NiSource Inc. does not formally publish a capital structure target, but it implements its financial strategy with the goal of maintaining an investment grade bond rating.

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-016:

For each month, of the most recent 24 months, please supply the Company's

a. short-term debt balance;

b. short-term debt interest rate;

c. balance of construction work in progress; and

d. balance of construction work in progress which is eligible for AFUDC accrual.

Response:

Please see GAS-ROR-016 Attachment A.

COLUMBIA GAS OF PENNSYLVANIA, INC.

	Part A	Part B	Part C	Part D
	Short Term Debt		Construction Work in Progress	
	Balance ($000)	Rate %	CWIP Balance (Dollars$)	CWIP Eligible for AFUDC (Dollars$)
January 2016	5,063	1.00%	24,299,808	21,882,877
February	0	0.95%	31,439,574	25,577,476
March	0	0.96%	29,124,328	27,088,240
April	0	1.00%	38,909,154	31,313,144
May	0	1.03%	43,313,196	37,784,688
June	0	1.03%	51,079,972	43,214,077
July	1,158	1.03%	56,797,362	45,909,663
August	27,033	1.05%	68,488,267	54,503,720
September	50,480	1.05%	66,772,007	54,899,491
October	77,428	1.09%	65,514,782	55,188,681
November	99,683	1.09%	69,022,023	38,320,945
December 2016	110,694	1.21%	20,719,477	29,826,344
January 2017	0	1.30%	28,962,277	21,224,100
February	0	1.26%	34,690,780	26,424,738
March	0	1.30%	45,825,341	34,113,167
April	0	1.37%	50,179,827	40,670,272
May	0	1.32%	59,164,941	48,773,293
June	0	1.42%	69,192,800	53,745,561
July	26,331	1.56%	82,048,276	62,679,804
August	57,380	1.56%	92,052,303	74,967,499
September	106,370	1.51%	106,611,613	76,624,590
October	129,368	1.52%	64,801,141	78,417,996
November	140,959	1.55%	68,421,276	54,342,372
December 2017	147,016	1.73%	25,509,307	33,891,369

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-017:

If applicable, please provide the currently authorized returns on equity for each of the parent's utility subsidiaries of the same industry type as the Company. In each case identify the approximate date when the current return on equity was approved by the state commission.

Response:

Company		Date		ROE
Columbia Gas of Kentucky		December 22, 2016		9.50%
Columbia Gas of Ohio		October 24, 2008		10.39%
Columbia Gas of Maryland		September 19, 2017		9.70%*
Columbia Gas of Virginia		March 17, 2017		9.50%**
Columbia Gas of Massachusetts		October 7, 2015		9.55%
NIPSCO - Gas		August 28, 2013		9.90%

*Columbia Gas of Maryland received a final order on September 19, 2017 approving a settlement. The settlement included an ROE of 9.7% for the purpose of a future "Make Whole" proceeding.

**Columbia Gas of Virginia received a final order March 17, 2017 approving a settlement. The settlement included an ROE range of 9.0% to 10.0% with a midpoint of 9.5% to determine the revenue requirement and 9.5% for Earnings Test purposes.

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-018:

Has the Utility reacquired or repurchased any debt within the last five years? If so, provide a summary of each gain or loss on reacquired debt, the date on which the utility commenced amortization of such a gain or loss, the regulatory commission decision addressing the treatment of such gain or loss on reacquired debt, if any, on interest expense.

Response:

Columbia has not reacquired or repurchased any debt within the last five years.

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-019:

Fully identify all debt (other than instruments traded in public markets) owed to all shareholders, corporate officers, or members of the board of directors, its affiliates, parent company, or subsidiaries.

Response:

Columbia Gas of Pennsylvania, Inc. (the Company) is a wholly owned subsidiary of NiSource Gas Distribution, Inc., which is a subsidiary of NiSource Inc. (the Parent). All debt of the Company is held by the Parent and is not publicly traded.

Please see GAS-ROR-019 Attachment A to this Response.

COLUMBIA GAS OF PENNSYLVANIA, INC.

STATEMENT OF OUTSTANDING LONG TERM NOTES AT DECEMBER 31, 2017

Line No.	Description	Date of Issue (1)	Date of Maturity (2)	Principal Amount Issued (3) $	Amount Paid (4) $	Amount Outstanding (5) $	Coupon Interest Rate (6)	Annualized Cost (7) $
	Columbia Gas of Pennsylvania, Inc.							
	LONG TERM DEBT							
1	Debentures	11/28/2005	11/28/2025	54,515,000	$ -	54,515,000	5.9200%	3,227,288
2	Debentures	11/1/2006	11/1/2021	20,000,000	$ -	20,000,000	6.0150%	1,203,000
3	Debentures	12/14/2007	12/14/2027	58,000,000	$ -	58,000,000	6.8650%	3,981,700
4	Debentures	12/16/2010	12/16/2030	28,000,000	$ -	28,000,000	6.0200%	1,685,600
5	Debentures	3/28/2012	3/26/2032	30,000,000	$ -	30,000,000	5.3550%	1,606,500
6	Debentures	3/28/2012	3/26/2042	35,000,000	$ -	35,000,000	5.8900%	2,061,500
7	Debentures	11/28/2012	11/28/2042	65,000,000	$ -	65,000,000	5.2600%	3,419,000
8	Debentures	6/19/2013	06/19/2043	23,000,000	$ -	23,000,000	5.5300%	1,271,900
9	Debentures	12/18/2013	12/18/2043	32,000,000	$ -	32,000,000	6.2900%	2,012,800
10	Debentures	12/18/2014	12/16/2044	30,000,000	$ -	30,000,000	4.4300%	1,329,000
11	Debentures	3/24/2015	3/24/2045	60,000,000	$ -	60,000,000	4.1500%	2,490,000
12	Debentures	9/28/2015	9/28/2035	60,000,000	$ -	60,000,000	4.5051%	2,703,060
13	Debentures	3/31/2016	3/30/2046	45,000,000	$ -	45,000,000	4.1858%	1,883,610
14	Debentures	1/31/2017	1/31/2047	85,000,000	$ -	85,000,000	4.4386%	3,772,810
13	TOTAL INSTALLMENT FROM NOTES PAYABLE			625,515,000	$ -	625,515,000		32,647,768
14	TOTAL AVERAGE WEIGHTED EFFECTIVE COST RATE [Col. 7/Col. 5]							5.219%

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-20:

Provide a summary statement of all stock dividends, splits, or par value changes during the two (2) year calendar period preceding the rate case filing.

Response:

Columbia Gas of Pennsylvania paid no dividends during the two year calendar period preceding the rate case.

Cash dividends on NiSource Inc. stock during the two year calendar period preceding the rate case were as follows:

Date Declared		Record Date		Date of Payment		Dividend Per share
8-Aug-17		31-Oct-17		20-Nov-17		$0.1750
9-May-17		31-Jul-17		18-Aug-17		$0.1750
21-Mar-17		28-Apr-17		19-May-17		$0.1750
27-Jan-17		10-Feb-17		17-Feb-17		$0.1750
9-Aug-16		31-Oct-16		18-Nov-16		$0.1650
11-May-16		29-Jul-16		19-Aug-16		$0.1650
22-Mar-16		29-Apr-16		20-May-16		$0.1550
27-Jan-16		8-Feb-16		02-Feb-16		$0.1550

NiSource Inc. did not have any stock splits or par value changes during the two year calendar period preceding the rate case.

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-021:

If a claim of the filing utility is based on utilization of the capital structure or capital costs of the parent company and system--consolidated, the reasons for this claim must be fully stated and supported.

Response:

The filing utility, Columbia Gas of Pennsylvania, Inc., is not utilizing the capital structure of the parent company (NiSource Gas Distribution, Inc.), or the system consolidated (NiSource Inc.) in its claim.

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-022:

To the extent not provided in SDR III-A.13, supply projected capital requirements and sources of the filing utility, its parent and system--consolidated--for the test year and each of three (3) comparable future years.

Response:

Please see GAS-ROR-022 Attachment A, page 1, which provides Columbia Gas of Pennsylvania's capital requirements and sources for the test year (November 30, 2017). See GAS-ROR-022 Attachment A, page 2, which provides NiSource Inc's capital requirements and sources for December 31, 2016. The System prepares YTD cash flow statements, therefore a November 30, 2016 statement is not available.

Please refer to Exhibit No. 405, for the projected capital requirements and sources of the filing utility and its system for the three comparable future years.

COLUMBIA GAS OF PENNSYLVANIA, INC.
53.53 II. RATE OF RETURN
A. ALL Utilities

USES OF FUNDS	Test Year November 30, 2017 000's
Constructions	$273,966
Allowance for Funds Used During Contruction	751
Debt Retirement and Redemption	0
Other Investing Activities	(1,286)
Common Dividends	0
Total Funds Required	273,431

SOURCES OF FUNDS	
Internal Sources	
Net Income	$63,265
Depreciation	56,767
Deferred Taxes	11,212
OPEB	(1,139)
Retirement Income Plan	(11,997)
Other Non-Current Assets and Liabilities	9,290
Other Regulatory Assets	(1,229)
Working Capital	20,986
Total Internal Sources	147,155
External Sources	
Common Stock/Additional Paid in Capital	0
Net Increase(Decrease) in Short-Term Borrowings	41,276
Issuance of Long-Term debt	85,000
Net Increase(Decrease) in Temporary Cash Investment	0
Total External Sources	126,276
Total Sources of Funds	273,431

NISOURCE, INC.
53.53 II. RATE OF RETURN
A. ALL Utilities

USES OF FUNDS	December 31, 2016 *in millions*
Constructions	1,475.2
Allowance for Funds Used During Contruction	0.0
Debt Retirement and Redemption	438.3
Retirement of Preferred Stock	0.0
Common Dividends	205.5
Acquisition of Treasury Stock	9.4
Other Investing Activities	132.2
Total Funds Required	2,260.6

SOURCES OF FUNDS	
Internal Sources	
Net Income	331.5
Depreciation	547.1
Deferred Taxes	182.3
Other Cash Flow From Operations	(198.2)
Working Capital	(49.5)
Total Internal Sources	813.2
External Sources	
Common Stock	23.1
Net Increase(Decrease) in Short-Term Borrowings	920.6
Issuance of Long-term Debt	500.0
Sale of Assets	4.5
Total External Sources	1,448.2
Net Cash from (used for) Discontinued Operations	(0.8)
Net Investing Activities from (used for) Discontinued Operations	0.0
Net Financing Activities from (used for) Discontinued Operations	0.0
Total Sources of Funds	2,260.6

Columbia Gas of Pennsylvania, Inc.

Standard Data Request

Rate of Return

Question No. GAS-ROR-023:

To the extent not provided elsewhere, supply financial data of Company and/or parent for the last five (5) years.

a. Times interest earned ratio – pre and post tax basis.

b. Preferred stock dividend coverage ratio – post tax basis.

c. Times fixed charges earned ratio – pre tax basis.

d. Dividend payout ratio.

e. AFUDC as a percent of earnings available for common equity.

f. Construction work in progress as a percent of net utility plant.

g. Effective income tax rate.

h. Internal cash generations as a percent of total capital requirements.

Response:

Please see GAS-ROR-023 Attachment A, page 1 for Company financial data and page 2 for parent financial data.

COLUMBIA GAS OF PENNSYLVANIA, INC.
Standard Data Request - Rate of Return
SDR No. 23 - Exhibit

a. Times Interest earned ratio -- pre and post tax basis.

	2012	2013	2014	2015	2016
Pre-tax	3.36	4.20	5.18	4.66	4.47
Post-tax	3.20	3.47	3.63	3.31	3.18

b. Preferred stock dividend coverage ratio -- post tax basis.
The Company has no preferred stock outstanding.

c. Time fixed charges earned ratio -- post tax basis.

2012	2013	2014	2015	2016
3.37	4.23	5.21	4.85	4.74

d. Dividend payout ratio.

2012	2013	2014	2015	2016
0.06	0.14	0.00	0.00	0.00

e. AFUDC as earnings available for common equity.

2012	2013	2014	2015	2016
0.70%	0.73%	0.51%	1.46%	1.81%

f. Construction work in progress as a percent of net utility plant.

2012	2013	2014	2015	2016
1.21%	2.22%	1.21%	1.42%	1.27%

g. Effective income tax rate

2012	2013	2014	2015	2016
6.74%	22.72%	37.15%	36.89%	37.13%

h. Internal cash generations as a percent of total capital requirements.

2012	2013	2014	2015	2016
86.83%	52.05%	66.68%	73.49%	66.71%

NiSource Inc.
Standard Data Request - Rate of Return
SDR No. 23 - Exhibit

a. Times Interest earned ratio -- pre and post tax basis.

	2012	2013	2014	2015	2016
Pre-tax	2.30	2.71	2.84	2.17	2.47
Post-tax	4.67	2.42	2.40	1.79	1.95

b. Preferred stock dividend coverage ratio -- post tax basis.
The Company has no preferred stock outstanding.

c. Time fixed charges earned ratio -- post tax basis.

2012	2013	2014	2015	2016
2.38	2.79	2.92	2.18	2.45

d. Dividend payout ratio.

2012	2013	2014	2015	2016
0.66	0.58	0.61	0.87	0.62

e. AFUDC as earnings available for common equity.

2012	2013	2014	2015	2016
-8.50%	2.38%	2.02%	4.01%	3.50%

f. Construction work in progress as a percent of net utility plant.

2012	2013	2014	2015	2016
5.83%	5.19%	5.19%	3.75%	5.20%

g. Effective income tax rate.

2012	2013	2014	2015	2016
34.42%	32.95%	39.43%	41.57%	35.69%

h. Internal cash generations as a percent of total capital requirements.

2012	2013	2014	2015	2016
66.57%	67.31%	66.54%	50.91%	57.65%

Note: The 10-Ks have been updated for 2013 and 2014 to reflect the spin off of Columbia Pipeline Group. The 2013 and 2014 values have been re-calculated using the updated 10-Ks.