From: Campanella, Nick
To: Weisenburger \ Michael \ V
Subject: US Utilities: Week Ahead: Weekly Analysis; 2Q Previews: PEG, NEE, SRE, CNP; CMS Gas Rate Case; ES Water Rate Case; PCG Diablo Canyon Update
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WEEKLY ANALYSIS

US Utilities: Week Ahead: Weekly Analysis; 2Q Previews: PEG, NEE, SRE, CNP; CMS Gas Rate Case; ES Water Rate Case; PCG Diablo Canyon Update

JULY 11, 2022
EQUITY RESEARCH
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UTILITIES

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- **What we're watching in the week ahead (7/11): Expert call with K&L gates on Utility Solar Modules (Anti-Circumvention, UFLPA, etc.):** On Tuesday, July 12 at 2pm the Utilities and Renewable energy teams will be hosting an expert call with Stacy Ettinger, Partner at K&L Gates, who leads the firm's trade policy practice. The discussion will include topics such as Anti-Circumvention (AD/CVDS) relief provided by the Biden Admin, and the impact of UFLPA on solar module imports. Please reach out to your salesperson if you are interested in attending.We note a quiet catalyst calendar otherwise in the week ahead.
- **2Q Preview Update (PEG, NEE, SRE, CNP):** We continue to speak with companiesthrough 2Q EPS prep and are providing previews / quarterly walks for PEG, NEE, SRE, and CNP. In Texas, we see both SRE and CNP benefiting from strong load / weather related tailwinds. We see an EPS beat at SRE (CSe $1.76 vs. Street (FS) $1.65) and are positive on the quarter. We expect SRE to have bought back additional stock (despite an elevated share price) and expect mgmt. to repivot investor focus on Port Arthur (PA) with contracting announcements through the summer. We don't think PA is reflected in the stock here. At PEG we project a 10c EPS miss due to lower capacity revenues not captured yet in consensus EPS. Pension remains an overhang and we expect limited clarity on the 2Q call. We are cutting our TP for PEG to $68 from $75 due to lower group multiples and lower EPS estimates (adj. for Power MtM) and maintain our Neutral rating. At CNP, NEE and SRE we shift our TP to $32 (from $33), $79 (from $76), and $166 (from $180), respectively, due to group multiples. We maintain our Outperform ratings on CNP, NEE and SRE.
- **Week in review:** The UTY underperformed SPX this past week, with a 270bp loss vs. a 190bp gain for the S&P. The 10YR/30YR yields were 20bp/15bp wider. Large Caps (-3.6%), Small Caps (-4.4%), Diversified (-3.8%) and LDCs (-3.8%) all closed lower for the week. **Top performers:** PCG, AES, NEE, SWX, EIX, PPL, D, SO, POR and ATO. **Bottom performers:** CMS, ES, ETR, LNT, AEE, OGE, PNW, NI, ED and FE. We fielded many questions to start the week on the groups weakness, but we don't think investors should necessarily been surprised after 600bps of outperformance in the week prior. We maintain our bullish view of the Utilities group vs. the SPX into 2Q reporting seeing earnings results continuing to be resilient.
- **NI: Columbia Gas OH Hearings Pushed to August 9 (Positive):** Recall parties in the Colombia Gas OH case already pushed hearings once to facilitate settlement discussions. On June 29, Columbia filed an unopposed request to push hearings again noting that more time is needed for settlement discussions. The ALJ granted this request on July 1. In general we see parties moving to a settlement in the case as a positive step forward in removing the rate case overhang.
- **CMS: Gas rate case approved:** On June 7 the Commission approved CMS' gas rate case settlement originally filed in June. The settlement includes a rate increase of $170Mn ($233Mn requested), maintains an ROE of 9.9% and an equity ratio of 50.75%. Additionally, the EIRP will continue with the increased spending amount of $250Mn for the 12 months ending Sept. 30, 2023, of which CMS will review the length of the EIRP in the next Nat Gas Delivery plan with considerations to complete the program beyond 2030. CMS will also write-off the capex (net of insurance proceeds) related to repair costs of the Ray Compressor Station from the Jan 2019 fire and maintains the ability to request cost recovery of said capex in future gas rate cases. The settlement also includes the approval of Revenue Decoupling Mechanism assumed from Case No. U-20650, as well as the company ceasing to move forward with Phase 2 of its NGDR Pilot and the company will seek recovery of costs associated with Phase 1 in future rate cases. Overall, this is a positive (but expected) catalyst for CMS and reduces rate risk for the gas segment moving forward.
- **ES: Water rate case:** On July 1 the Aquarion Water Company of CT submitted a letter of intent to PURA in regards to an application to amend existing rate schedules for the water utility to address an existing revenue deficiency. The application is expected to include a proposed multi-year rate plan beginning February 15, 2023 (Rate Year 1), February 15, 2024 (Rate Year 2), and February 15, 2025 (Rate Year 3). The application is expected to be filed within 30-60 days of the letter (August 1st to September 1st). Aquarion's last rate case was in 2013, and this rate case could lead to material changes in the rate/ROE profile of the ES subsidiary.
- **OGE: Securitization bond deal update:** On July 8 it was announced that the Oklahoma Development Finance Authority and OGE will issue ~$762Mn of recovery securitizations as a cost recovery mechanism for costs related to winter storm Uri. The first coupon is expected to be paid on February 1, 2023, with a maturity spread vs. Treasury coupon maturity spread between 115bps and 180bps. The bonds have a weighted average life of 24.42 years and scheduled final maturity of February 1, 2050. S&P and Fitch rated the bonds at AAA, while Kroll and Moody's have not yet released an official rating. Overall, it's a good sign to see securitizations sub 200bps spread vs. USTs given the volatile macro backdrop. Lower rates helps both customers and companies via bill headroom.
- **PCG: PG&E to apply for funds to extend life of Diablo Canyon plant:** Gov. Newsome has urged PG&E to preserve the Diablo Canyon plant to support grid reliability. PG&E will apply to receive funds from the Dept. of Energy for the extension of the lifespan of Diablo Canyon nuclear power plant. The DOE funded program was created specifically to help financially distressed nuclear plants remain open, coinciding with the US Gov't initiative to reduce fossil fuel use. The program is currently ~$6Bn in size, with funding coming from the infrastructure bill signed under the Biden Administration. On June 30 additional legislation was signed under Gov. Newsome including AB 205, which authorizes the creation of funding to extend the lifespan of existing plants currently scheduled for retirement. The funding from the DOE and Recently legislation was also signed by Governor Newsome on June 30· Assembly Bill 205 which authorizes the creation of funding to extend existing plants that are scheduled for retirement. Should the company receive funding, Diablo Canyon is expected to continue operation beyond the current retirement date of Aug. 2025.
- **ERCOT: Texas heat wave increases load demand in the state:** High temperatures in Texas are increasing load demand in the state. On July 7 ERCOT forecasted load demand peaking at 77.3 GW, just shy of the July 5 record of 77.5GW. Through July 12 the load demand range is expected to be between 77.8GW to 81.3GW. High temps in Texas are expected to reduce output of wind facilities by an average hourly output of 11.3GW, a 67% decrease. Reduced wind output could cause wholesale power prices and fuel demand to increase. According to the East Texas Benchmark Houston Ship Channel, gas spot prices for next day flows increased by $0.11 to $5.64/MMBTU, a sign of the increased demand for fuel amidst the current weather trends. We see high temps principally benefiting SRE (via Oncor) and CNP.

Weekly Performance (%)

Ticker	7/1/2022	7/8/2022	5 Day Change (%)
Large Cap Regulated			
AEE	92.2	87.8	-4.8%
AEP	98.0	94.3	-3.7%
AGR	47.8	46.0	-3.9%
CMS	69.0	66.0	-4.4%
D	81.2	79.4	-2.3%
DTE	129.2	124.9	-3.3%
DUK	109.6	105.9	-3.4%
ED	97.2	92.0	-5.4%
EIX	63.8	62.5	-2.0%
ES	87.2	83.3	-4.4%
ETR	115.3	110.1	-4.5%
EVRG	66.8	64.4	-3.6%
FE	39.3	37.1	-5.6%
LNT	60.1	57.3	-4.5%
PCG	10.2	10.3	0.3%
PNW	74.7	70.9	-5.1%
PPL	27.8	27.2	-2.1%
SO	73.1	71.2	-2.7%
WEC	102.6	99.5	-3.0%
XEL	72.6	69.6	-4.2%
Average			**-3.6%**

Diversified	7/1/2022	7/8/2022	
AES	21.5	21.5	0.1%
BKH	75.6	71.1	-5.9%
CNP	30.5	29.4	-3.7%
EXC	46.1	44.3	-3.9%
MDU	27.7	26.7	-3.4%
NEE	80.6	80.3	-0.4%
OGE	40.0	38.0	-5.1%
OTTR	69.5	66.5	-4.3%
PEG	64.7	62.5	-3.4%
SRE	153.6	147.3	-4.1%
Average			**-3.8%**

Utes Sector Performance	% Chg
Large Cap Regulated	-3.6%
Diversified	-3.8%
Small Cap	-4.4%
LDC	-3.8%
UTY	-2.7%
SPX	1.9%

LDC	7/1/2022	7/8/2022	
SJI	34.2	33.8	-1.1%
OGS	84.2	79.7	-5.3%
NJR	45.5	43.7	-3.9%
NI	30.1	28.5	-5.3%
ATO	115.2	112.1	-2.7%
SR	76.3	71.4	-6.5%
SWX	88.0	86.3	-1.9%
Average			**-3.8%**

Small Cap	7/1/2022	7/8/2022	
ALE	60.4	58.1	-3.9%
AVA	44.8	42.2	-5.9%
BKH	75.6	71.1	-5.9%
HE	42.0	40.1	-4.6%
IDA	108.9	105.0	-3.6%
NWE	60.5	56.8	-6.0%
OTTR	69.5	66.5	-4.3%
PNM	48.6	47.2	-2.8%
POR	49.8	48.5	-2.7%
UTL	61.0	58.1	-4.8%
Average			**-4.4%**

Rates	BPS
US GOV 10YR	0.20
US GOV 30YR	0.15

Top / Bottom Performers	
PCG	0.3%
AES	0.1%
NEE	-0.4%
SWX	-1.9%
EIX	-2.0%
PPL	-2.1%
D	-2.3%
SO	-2.7%
POR	-2.7%
ATO	-2.7%
CMS	-4.4%
ES	-4.4%
ETR	-4.5%
LNT	-4.5%
AEE	-4.8%
OGE	-5.1%
PNW	-5.1%
NI	-5.3%
ED	-5.4%
FE	-5.6%

Source: Bloomberg

Latest CSe Utilities Research

- **Weekly Note 7/5: Weekly Analysis, PNW & SO 2Q EPS Preview, Reg Cal, PPL Offshore Bill, EEI CapEx Update, CNP**
- **US ESG Research: Supreme Court rules against EPA in landmark case, but worst-case scenario avoided**
- **Weekly Note 6/27: Weekly analysis, regulatory catalyst calendar, PCG, OSW Labor, Refi Update, AES**
- **SMID Data Points: POR & OGE**
- **ETR: Gulf Coast Sized Growth at a Discount: Maintaining O/P Post AD**
- **Weekly Note 6/21: Data Point Flood Amidst Challenging Macro Tape; Why we're bullish on Utes still; ED Sale**
- **Voglte Ownership Update; FE PA Mgmt Audit; PJM Auction; SRE Quick thoughts on this week's news flow**
- **ETR SERI De-risk; Eqty Issuance Screen Update; MISO Coal**
- **Sizing 2023 – Ample Interconnection Capacity**
- **Assessing (limited) refinancing risk for the sector: HoldCo Refinancing Sensitivities by Company**

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25 July 2022
Equity Research
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US Utilities: Week Ahead

Weekly Analysis & Datapoints; Into the earnings gauntlet; NEE 2Q Results; SO & SRE

Utilities | Weekly Analysis

- **What we're watching in the week ahead (7/25)**: Today**, 7/25** we're hosting a conference call with Kent Chandler, Chairman of the Kentucky PSC regarding energy & Utility Policy in the State of Kentucky. We see relevant read throughs to **AEP**, **PPL**, **AQN** and **NI** among others who operate in the state. **7/26 FE** reports earnings after market close. We remain bullish on shares into results see management working towards offsets for pension headwinds. **7/27 AEP** reports earnings where we expect management to reaffirm the Summer '22 timeline for KY close. **7/28** we expect **DTE, POR, CMS, SO**, and **PCG** earnings as well as **ES** results after market close. We also expect MISO Transmission awards to be finalized this week just in time for 2Q calls. We see the update as likely positive for **AEE** & **XEL**. See our earnings preview slides here.
- **Read-throughs from NEE's 2Q report:** We thought there were minimal surprises out of NEE's 2Q results. We are particularly encouraged by the backlog update where management added 500MWs / 1.5GWs to 22-23 / 24-25 COD respectively. While there has been some concern on continued renewable supply chain impacts disrupting origination timelines, comments from the call were positive in terms of management addressing UFLPA and DOC related tariff issues with management noting it's suppliers should be making component and wafers outside of China post the 24m timeframe. We see these comments as generally a positive read-across the AES' renewable business too. Separately, our Clean Tech team recently increased their 2023 solar model supply forecast to 25GWs from 21GWs Sizing 2023 Part 4 - Revising 2022/23 Forecast.
- **Week in review:** The UTY underperformed SPX this past week, with a 60bp loss vs. a 250bp gain for the S&P. The 10YR/30YR yields were 16bps/10bps narrower. Large Caps (-0.7%), Small Caps (-2.3%), Diversified (-0.1%) and LDCs (-0.7%) all saw losses this past week. **Top performers:** PCG, FE, SRE, NEE, POR, ATO, IDA, ES, CNP, AEE. **Bottom performers:** NI, LNT, CMS, OGE, XEL, DUK, D, WEC, AES, AVA. We believe SRE's continued contracting momentum on LNG (PA HOA with COP) is leading to outperformance. We note AES underperform could be related to 2Q EPS revisions (CSe $0.28 vs. Cons $0.32, 4wk Chg -15%), but we generally expect an in-line report from AES reiterating both FY22 EPS and the LT EPS CAGR of 7-9%.

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Weekly Data Point

- **SO: Georgia Power received IRP approval:** We see renewable deployment approval consistent with June settlement (2.3GW by 2025; 6GW by 2035); McGrau Ford battery storage project (265MW) is also approved as expected. There is an additional 500 MW battery storage approval granted which is more favorable than the settlement's proposed "case by case review/approval", although rate basing any of these incremental projects is unclear at this point. On the coal retirement front, all coal generation controlled by GP would be retired by 2028, with the only exception of Bowen (retirement date will be re-evaluated by the next IRP in 2025). We see this latest development all in line with the settlement and CSe baseline expectation.
- **SRE: CFE and SIP Expand Pacts for Mexico:** SRE and CFE announced several joint agreements to developer energy infrastructure projects in Mexico via a joint statement which includes rerouting the Guaymas-El Oro Pipeline Sonora), proposed Vista Pacifico Project and development of a potential LNG terminal in Salina Cruz. We remain focused on Vista Pacifico as a potential development project with the recent announcement outlining a path forward for the project including project configuration and advance in engineering and permits. Another positive data point for the LNG business, albeit many projects are long dated in nature.

Regulatory Catalyst Calendar

Figure 1: Utilities Catalyst Calendar

Toggle	Start Date	End Date	Ticker	Impact	Jurisdiction	Company	Docket	Action or Status
1	7/25/2022	7/25/2022	XEL, AEE, WEC	1	Midwest	XEL, AEE, WEC		Board approval expected for MISO Transmission Capex
1	7/26/2022	7/26/2022	DTE	2	MI	DTE Electric Co.	C-U-20836	Briefs due in rate case
1	7/6/2022	8/1/2022	ED	1	NY	Consolidated Edison of NY	C-22-E-0064, 65	Settlement discussions begin for rate case
1	8/1/2022	8/1/2022	CMS	1	MI	Consumers Energy Co.	C-U-21148	ALJ proposed decision expected
1	8/3/2022	8/3/2022	PCG	1	CA	Pacific Gas and Electric Co.		Hearing with Appropriations Committee in regards to undergrounding bill
1	8/9/2022	8/9/2022	NI	1	OH	NiSource, Inc.		OH rate case hearing
1	8/16/2022	8/16/2022	DTE	2	MI	DTE Electric Co.	C-U-20836	Reply briefs due in rate case
1	8/22/2022	8/22/2022	FE	1	OH	FE Ohio subs	Corporate Separation Audit	Evidentiary hearing begins
1	8/17/2023	8/23/2022	XEL	1	CO	Xcel Energy		Evidentiary hearings for CO gas rate case
1	6/1/2022	8/31/2022	XEL	1	ND	Northern States Power Co.	C-PU-21-381	Commission decision expected in electric rate proceeding
1	8/1/2022	8/31/2022	XEL	1	CO	Public Service Co. of CO	D-22AL-0046G	Final PUC decision expected in gas rate case
1	8/1/2022	8/31/2022	DUK	2	OH	Duke Energy Ohio Inc.	C-21-0887-EL-AIR	Decision possible in rate proceeding
1	8/15/2022	8/31/2022	XEL	1	CO	Xcel Energy		Hearings for CO gas rate case expected in late August
1	8/31/2022	8/31/2022	PCG	2	CA	Pacific Gas and Electric Co.	A-21-06-021 (Elec)	Opening briefs due
1	8/31/2022	8/31/2022	PCG	2	CA	Pacific Gas and Electric Co.	A-21-06-021 (Gas)	Opening briefs due
1	9/2/2022	9/2/2022	SRE	1	TX	Oncor Electric Delivery Co.		Staff testimony expected for rate case
1	8/22/2022	9/10/2022	EVRG	1	MO	Evergy		Settlement conference for MO rate case
1	6/17/2022	9/15/2022	FE	1	OH	FE	BoD Management Review	Required per shareholder settlement (incl. 6 BoD changes)
1	9/16/2022	9/16/2022	ETR	1	LA	Entergy		Staff and intervenor direct testimony for LA storm cost recovery filing
1	7/1/2022	9/29/2022	D	1	VA	VEPCO		
1	6/1/2022	9/30/2022	PEG	1	NJ	PSE&G		BPU rule of IAP filing
1	8/1/2022	9/30/2022	NI	1	OH	Columbia Gas Ohio Inc.	C-21-0637-GA-AIR	Decision possible in rate proceeding
1	9/1/2022	9/30/2022	NI	1	IN	Northern IN Public Svc Co.	Ca-45621	Decision possible in rate proceeding
1	9/1/2022	9/30/2022	OGE	1	OK	Oklahoma Gas and Electric Co.	Ca-PUD202100164	Decision possible in rate proceeding
1	9/1/2022	10/1/2022	CMS	1	MI	CMS Energy		Gas rate cases expected by October
1	10/4/2022	10/4/2022	AEP	1	OH	American Electric Power		Analyst Day
1	10/1/2022	10/7/2022	XEL	1	MN	XEL Energy		Testimony for rate case begins
1	10/14/2022	10/14/2022	ETR	1	LA	Entergy		staff and intervenor cross-answering testimony for LA storm cost recovery filing
1	10/24/2022	10/24/2022	ETR	1	LA	Entergy		E-LA rebuttal testimony for LA storm cost recovery filing
1	9/20/2022	10/30/2022	AEP	1	KY	American Electric Power		Investor Day
1	10/1/2022	10/31/2022	DTE	1	MI	DTE Electric Co.		IRP Filing
1	10/1/2022	10/31/2022	PNW	1	AZ	Arizona Public Service	n/a	File new rate application

Source: Company data, Credit Suisse estimates

Weekly Performance (%)

Figure 2: Weekly Performance (%)

Ticker	7/15/2022	7/22/2022	5 Day Change (%)
Large Cap Regulated			
AEE	87.8	87.4	-0.4%
AEP	95.2	94.4	-0.9%
AGR	45.5	45.3	-0.4%
CMS	66.2	65.2	-1.5%
D	79.2	77.4	-2.3%
DTE	125.2	123.8	-1.1%
DUK	107.4	105.0	-2.3%
ED	93.4	92.4	-1.0%
EIX	61.6	61.3	-0.4%
ES	83.7	84.1	0.5%
ETR	110.1	109.4	-0.7%
EVRG	65.0	64.3	-1.1%
FE	37.5	38.3	2.3%
LNT	58.2	57.4	-1.3%
PCG	10.3	10.6	3.0%
PNW	70.7	70.2	-0.7%
PPL	27.5	27.3	-0.7%
SO	72.3	71.9	-0.5%
WEC	100.8	97.9	-2.9%
XEL	70.0	68.7	-1.8%
Average			**-0.7%**
Diversified	7/15/2022	7/22/2022	
AES	20.4	19.7	-3.0%
BKH	72.4	71.5	-1.2%
CNP	29.6	29.7	0.3%
EXC	44.2	44.0	-0.5%
MDU	26.9	27.0	0.3%
NEE	78.7	80.3	2.0%
OGE	39.3	38.6	-1.8%
OTTR	66.9	65.8	-1.6%
PEG	60.6	60.1	-0.7%
SRE	151.2	154.2	2.0%
Average			**-0.1%**

Utes Sector Performance	% Chg
Large Cap Regulated	-0.7%
Diversified	-0.1%
Small Cap	-2.3%
LDC	-0.7%
UTY	-0.6%
SPX	2.5%

LDC	7/15/2022	7/22/2022	
SJI	34.0	34.0	0.0%
OGS	81.9	80.3	-1.9%
NJR	44.1	43.2	-2.0%
NI	28.8	28.4	-1.2%
ATO	111.9	113.4	1.3%
SR	70.7	70.1	-0.9%
SWX	85.5	85.1	-0.4%
Average			**-0.7%**

Small Cap	7/15/2022	7/22/2022	
ALE	58.9	58.4	-0.7%
AVA	42.2	40.8	-3.2%
BKH	72.4	71.5	-1.2%
HE	39.9	39.8	-0.5%
IDA	105.3	106.0	0.6%
NWE	57.3	54.5	-4.9%
OTTR	66.9	65.8	-1.6%
PNM	47.2	47.0	-0.4%
POR	49.5	50.2	1.5%
UTL	59.9	52.4	-12.4%
Average			**-2.3%**

Rates	BPS
US GOV 10YR	(0.16)
US GOV 30YR	(0.10)

Top / Bottom Performers	
PCG	3.0%
FE	2.3%
SRE	2.0%
NEE	2.0%
POR	1.5%
ATO	1.3%
IDA	0.6%
ES	0.5%
CNP	0.3%
AEE	-0.4%
NI	-1.2%
LNT	-1.3%
CMS	-1.5%
OGE	-1.8%
XEL	-1.8%
DUK	-2.3%
D	-2.3%
WEC	-2.9%
AES	-3.0%
AVA	-3.2%

Source: the BLOOMBERG PROFESSIONAL™ service

Last Week's Research

- 2Q22 Earnings Preview: Reconciling an Inflation Protected Sector; Downgrading WEC to Underperform
- Weekly Note 7/18: Weekly Analysis & Datapoints; 2Q Previews: AEP, ATO, CMS, DUK, NI, FE, ED, ETR; Climate Spending Set Back (AES/NEE); Aqua Deal
- US Utilities: FE OH Grid Mod II; PCG credit outlook; SPP Heat / Pending Reserve Req Chg, DUK Comm Renewables
- US Utilities: CPI Inflation Update; PEG, PPL 2Q Preview
- PCG 2Q Preview: Detailing the Move Lower and Why We Still Like the Stock
- DTE 2Q Preview: Electric Rate Case and IRP Top of Mind
- ES 2Q Preview: Offshore & More: Shares Fairly Valued on Simplification Strategy
- Weekly Note 7/11: Weekly Analysis; 2Q Previews: PEG, NEE, SRE, CNP; CMS Gas Rate Case; ES Water Rate Case; PCG Diablo Canyon Update
- Weekly Note 7/5: Weekly Analysis, PNW & SO 2Q EPS Preview, Reg Cal, PPL Offshore Bill, EEI CapEx Update, CNP
- US ESG Research: Supreme Court rules against EPA in landmark case, but worst-case scenario avoided
- Weekly Note 6/27: Weekly analysis, regulatory catalyst calendar, PCG, OSW Labor, Refi Update, AES
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- ETR: Gulf Coast Sized Growth at a Discount: Maintaining O/P Post AD
- Weekly Note 6/21: Data Point Flood Amidst Challenging Macro Tape; Why we're bullish on Utes still; ED Sale
- Voglte Ownership Update; FE PA Mgmt Audit; PJM Auction; SRE Quick thoughts on this week's news flow
- ETR SERI De-risk; Eqty Issuance Screen Update; MISO Coal
- Sizing 2023 – Ample Interconnection Capacity
- Assessing (limited) refinancing risk for the sector: HoldCo Refinancing Sensitivities by Company
- PPL: Management meetings post the Analyst Day; Confidence in the base plan plus more
- NEE: Analyst Day: Extending and exceeding forecasts - Outperform
- Far from a Static Environment: Initiating Coverage of the US Utilities Sector

Valuation Methodology and Risks

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

Method: Our target price is $23 and is based on a SOTP analysis. We value the consolidated AES operation using a P/E method with a historical five-year average P/E multiple (11.3x) and projected 2023 EPS. For the Fluence stake, we derive AES' s proportional equity value using Fluence' s current market value and AES' s 34% ownership. We value AES' s DevCo business using an NPV approach by discounting to FCF to equity holders with a 12% discount rate. We rate AES Neutral as we expect the stock' s total return to be in line with peers over the next 12 months.

Risk: Risks to achieving our $23 target price and Neutral rating include: (1) unexpected negative regulatory outcome in the US; (2) negative impact to AES's valuation owing to exposure to Fluence ownership; and (3) currency and political risks associated with AES's international business segments. Upside risk includes a better than expected rate outcome.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Ameren (AEE.N)

Method: Our target price is $94: We value AEE using a P/E methodology, applying relative P/E premiums and discounts to the company as a whole. In general, we view the Midwest (Illinois and Missouri) as a premium jurisdiction given the pro-development regulators and robust transmission development plan likely to be passed soon. We take a premium view on AEE (19.3x vs. 16.7x for the peer average), which we view to be fair given the strong upside potential and relatively limited downside risk for the company. We rate AEE Outperform as we expect the stock' s total return to outperform peers over the next 12 months.

Risk: Risks to achieving our $94 target price and Outperform rating include: Common equity funding that is not contemplated in our base-case scenarios, MISO Future 1 and 3 seeing delays, natural disasters, and a political landscape in the coverage area that is less favorable than current times. Climate change is also a risk to the extent that federal or state legislatures implement more restrictions on GHG emissions expected, which would increase standard asset risk for AEE's fossil generation. Commodity prices are surging, so Ameren must be diligent in maintaining bill pressure as it scales capex across IL and MO.

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

Method: Our target price is $69: We value CMS using an SOTP, applying relative P/E premiums/discounts to the two operating subsidiaries. In general, we view Michigan as a premium jurisdiction, given the historically constructive decisions and heathy earned ROEs. Michigan is also offering a premium allowed ROEs for renewable projects and EE. We take a premium view on both the Consumers and Enterprise segments with a 19.9x implied multiple for the electric and gas groups versus 17.6x and 16.7x implied multiples for the electric and gas peer groups, respectively. We place a premium on the two operating segments given the strength of the businesses and upside potential in both. We rate CMS Neutral as we expect the stock' s total return to be in line with peers over the next 12 months.

Risk: Risks to achieving our $69 target price and Neutral rating include: Difficulty executing on settled IRP plans that could lead to reduced capex spending and ultimately rate base growth. Construction delays could push back timelines for renewable projects and could delay upside from increased ROEs currently offered in Michigan for such projects. Increased severe weather events, particularly as coal plants are being phased out, could cause service continuity issues that would be costly to address.

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

Method: We value DTE using an SOTP, applying 15% P/E premiums to both the electric (17.5x) and gas (16.6x) subsidiary, which yields a $133 target price. We hold a discounted view on Trading (-30% discount), given these are non-core businesses and contain higher earnings volatility. We rate DTE Outperform as we expect the stock' s total return to be above peers over the next 12 months.

Risk: Risks to our Outperform rating and $133 target price include: The uncertainties around timely recovery cost through base rate increase. The unregulated business earning is more susceptible to economic and industry cycles, with potential upside/downside.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for FirstEnergy (FE.N)

Method: We value FE using an SOTP, applying relative P/E premiums/discounts to the various operating subsidiaries, which yields a $41 target price. We hold a discounted view on all utilities subsidiaries other than FET (-20% discount to Ohio utilities and 5% discount to the rest of the portfolio), given FE' s reputational risk and the upcoming base rate case filings across all jurisdictions, while the transmission company benefits from more constructive FERC regulation with timely and formulaic recovery. We rate FE Outperform as we expect the stock' s total return to outperform peers over the next 12 months.

Risk: Risks to out Outperform rating and $41 target price include: although the HB6 investigation is behind FE through the DPA, FE carries the reputation risk of a historically challenging organization. Even though the new management team has introduced internal control programs and is re-building the company's compliance culture, we recognize it takes time for a large organization to gradually achieve it.

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

Method: Our target price is $79 is based on a SOTP analysis. On the regulated front, we use P/E approach based on forecasted 2024 EPS and electric group multiple of 17.5x. We apply 25% multiple premium to FPL and Gulf, given Florida is one of the most regulatory supportive jurisdiction in the country for of timely recovery of utilities' spending. We also consider the scale and efficiency of its operation as one of the best in the utilities space. We use EV/EBITDA approach to value the enterprise value of NEER's various business lines based on 2023 EBITDA. Our multiple is in-line with recent transaction multiples for each earning's driver. We subtract NEER's debt from enterprise value to derive equity value. We use a NPV approach to value DevCo's forecasted monetization proceeds with an assumed discount rate of 10.5%. Lastly, we value NEE's NEP LP stake proportionally using the current NEP share price multiply by NEE's LP share, then add GP IDR value, which is also estimated through an NPV approach. We rate NEE Outperform as we expect the stock's total return to outperform peers over the next 12 months.

Risk: Risks to your Outperform rating and $79 target price include: 1) NEE's valuation multiple is more susceptible to market volatility as a growth name compared the value names; 2) the recent probe on solar anti-circumvention could exacerbate supply chain pressures; 3) Although benefiting from a deep bench of senior executives, Robo's retirement cast some doubt to the LT growth if NEE is not able to secure an effective new leadership team; 4) NEE's capital structures is among the most complex names and is more dependent on market condition.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for PG&E Corporation (PCG.N)

Method: Our target price is $15. We value PCG on an SOTP. We apply a 40% discount to our 2024E electric earnings, a 20% discount to gas earnings, and 10% discount to transmission earnings relative to the 2024E electric and gas group P/E multiples. We impute ~$1.0Bn of net wildfire liabilities, which include an additional $1Bn wildfire liability for fires to handicap incremental wildfire event risk. We see ~48% total return for PCG in our base case, which is the highest among any utility in our coverage group. Our target price implies an 11.5x consolidated P/E, a -48% discount, which is still the widest across the sector. We rate PCG Outperform as we expect the stock's total return to outperform peers over the next 12 months.

Risk: Risks to our Outperform rating and $15 target price include: PCG has a history of having utility assets involved with large wildfires in CA. Additional wildfires in 2022-24 could materially affect our valuation. PCG is subject to environmental factors such as severe weather conditions and climate change, which could increase wildfire events. PCG's higher-than-average debt/capital and lower-than-average FFO/debt, while we forecast improving lower cash flow from rate proceedings or materially adverse rate case outcomes, could drive incremental equity needs or reduce the likelihood of reinstating the dividend.

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

Method: Our $166 target price is based on an SOTP analysis. At the utilities, we use a P/E approach on 2024 projected net income. We apply a 15% multiple discount to SDGE, a 15% premium to Sempra Texas, and 5% discount to SoCalGas vs. their respective electric/gas 2024E group multiples. We view CA as a discount jurisdiction, owing to wildfire risk/recovery frameworks, and we see TX as a premium jurisdiction given outside growth opportunities and constructive regulatory framework. At SRE Infra, we apply a 13.5x EV/EBITDA multiple, which is 0.5-1.0x turns below where SRE recently monetized a 10% NCI interest in SRE. At for incremental LNG, we NPV the 20-year cash flows associated with ECA1 and Cameron Train 4 expansion, discounting them at Sempra's current expected market return of 9.3% for US projects and add 100bps to Mexico projects to reflect a country risk premium. Our SOTP base-case valuation implies a consolidated P/E multiple of 17.5x, which is in-line with current electric comps. We rate SRE Outperform as we expect the stock's total return to outperform peers over the next 12 months.

Risk: Risks to our Outperform rating and $166 target price include: (1) SRE operates several fossil fuel distribution systems, which subjects the company to event risk associated with transporting combustible molecules; (2) climate change and the increased frequency of wildfires across CA; (3) stranded asset risk associated with the gas distribution system; (4) regulatory outcomes, as our estimates assume constructive resolutions in both CA and TX on pending rate cases; and (5) performance of equity method investments, which SRE relies upon for cash flow.

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

Method: We value SO using an SOTP that leads to a $71 target price, applying relative P/E premiums/discounts to the various operating subsidiaries. All P/Es are based on our 2024E EPS. We view Georgia and Alabama as premium jurisdictions given numerous

constrictive mechanisms for real-time capital recovery. We have a discounted view on Southern Power (-25% discount, 13.4x), given it's non-regulated earning with higher volatility. We also take a discounted view of 30% on the Vogtle-related earnings given the uncertainties in project delay, concerns on cost overrun, and potentially higher burden to Georgia Power among other co-owners given the co-ownership agreement. We rate SO Underperform as we expect the stock's total return to underperform peers over the next 12 months.

Risk: Risks to achieve our $71 target price and Underperform rating include: The marketability of mandatory convertible securities and corresponding equity issuance. Non constructive ruling on Georgia Power's rate review, which could lead investors to take a discounted view on SO's largest earnings contributor. Climate change, and increased regulation on GHG emissions could accelerate closure of certain fossil investments which would increase stranded asset risks to shares. Lastly, Federal legislation, such as change in tax policy could negatively impact CFO for SO given its tax equity exposure through Southern Power.

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

Method: Our target price is $72. We ascribe a 12.5% P/E premium to the wider regulated utility group average, which is in-line with XEL's historical 5yr average. XEL tends to trade with the 'premium' utilities given its strong track record for delivering on the high end of its 5-7% EPS CAGR. We see the premium further supported by XEL's history of generally constructive regulatory outcomes, the company's Steel for Fuel program, which has enabled an acceleration of energy transition-related capital expenditures, as well as the potentially positive benefits stemming from Build-Back-Better legislation. We typically would reflect a full 15% premium; however, we subtract 2.5% to handicap for wildfire risk in CO. We rate XEL Outperform as we expect the stock's total return to outperform peers over the next 12 months.

Risk: Risks to you Outperform rating and $72 target price include: Failure to obtain constructive outcomes in regulatory proceedings, failure to execute on the company's proposed IRP in CO, natural disasters, labor/inflationary pressures above management's current O&M trajectory. Climate change is also a risk to the extent federal or state legislatures implement more restrictions on GHG emissions than expected. Wildfires are becoming more common in some of XEL's service territories, which can cause its multiple to fluctuate more than peers.

Companies Mentioned *(Price as of 23-Jul-2022)*
AES Corp (AES.N, $19.73)
Ameren (AEE.N, $87.43)
CMS Energy Corp (CMS.N, $65.18)
DTE Energy (DTE.N, $123.75)
FirstEnergy (FE.N, $38.32)
NextEra Energy Inc. (NEE.N, $80.25, OUTPERFORM, TP $79.0)
PG&E Corporation (PCG.N, $10.63)
Sempra Energy (SRE.N, $154.24)
Southern Co (SO.N, $71.94)
Xcel Energy (XEL.N, $68.68)

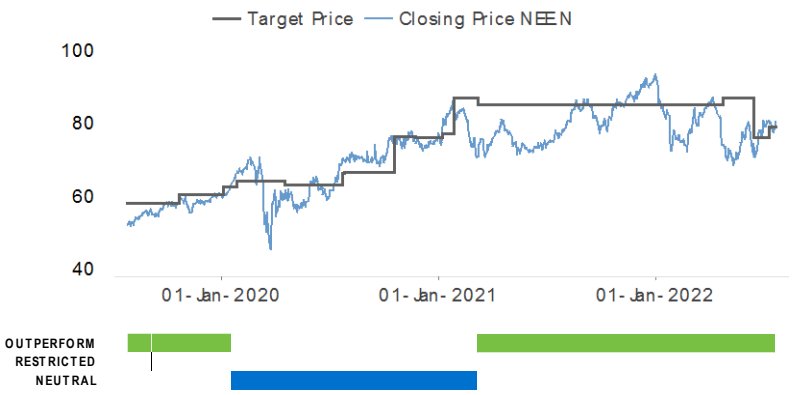
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I, Nicholas Campanella, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for NextEra Energy Inc. (NEE.N)

NEE.N Date	Closing Price (US$)	Target Price (US$)	Rating
26-Jul-19	52.29	58.00	O
04-Sep-19	56.03		R
05-Sep-19	54.95	58.00	O
21-Oct-19	58.20	60.50	
03-Jan-20	60.08	62.50	
17-Jan-20	63.35	62.50	N
27-Jan-20	66.69	64.00	
17-Apr-20	61.56	63.00	
22-Jul-20	70.11	66.25	
26-Jul-20	70.06	66.50	
18-Oct-20	76.40	76.25	
23-Nov-20	74.57	76.00	
06-Jan-21	78.43	77.00	
27-Jan-21	80.19	87.00	
08-Mar-21	70.86	85.00	O
13-Jul-21	74.86		*
25-Apr-22	74.04	87.00	O *
15-Jun-22	74.19	76.00	
11-Jul-22	80.68	79.00	



** 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.
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Restricted	1%	

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This research report is authored by:
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Research Bulletin

US Utilities: KY PSC Chair Views; MISO Transmission Awards

KY regulatory environment (AEP/ATO/PPL/NI/DUK) takeaway notes + more

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We provide key takeaways from our conversation with KY PSC chair Kent Chandler on the state's regulatory environment and comments from the widely anticipated MISO Tranche 1 Awards which we see as positive for AEE & XEL

- **AEP / ATO / PPL / NI / DUK: Conversation on KY regulatory environment:** We recently held discussions with KY PSC chair Kent Chandler to cover topics regarding utilities cost recovery, the higher fuel environment, utility M&A, state support on energy transition, and general thoughts on the states regulatory environment. Overall our conversations offered balanced and constructive views to both gas and electric utilities who operate in the state.
  - **Rate Cases Amidst Inflation**: Most companies have settled cases recently with committed stay-outs. Discussions noted DUK could see a potential case in KY but generally the state has seen settled cases with constructive outcomes for utilities. All gas LDCs have fairly robust fuel cost recovery mechanisms, as do the electrics, but the commissions is exploring how to better run the fuel adjustment clause (FAC) to help reduce volatility in times of pressure - essentially trying to alleviate both over and under recovery. The Commission appears supportive for utilities to utilize regulatory asset and deferral mechanisms to smooth out earnings impacts from extraordinary gas cost too.
  - **M&A:** The state has been a focus for utility M&A of late with the recent AQN / AEP KY Power transaction which has technically already been approved by the KY Commission. The transaction is part of a wider trend as holdcos continue to rotate portfolio asset/opcos are bought by smaller holdcos, while holdcos are justifying such transactions through tangible and identifiable benefits that commission is looking for. Companies have previously argued in joint applications that being part of a larger organization could benefit customers from cost of capital reductions, size & scale among other items. But now companies are going the other way, strategically divesting smaller underperforming assets. Despite this, discussions noted the Commission remains committed to public interest standard. We believe transactions that come with tangible identifiable customer benefits (such as rate credits) will fare better for ultimate approval or settlement based on the discussion points from our call. We think the environment is still ultimately supportive of future M&A. We have previously published a scenario analysis here for NI which includes selling the KY subsidiary at 2.5x RAB.
  - **AEP / AQN Mitchell Operating Agreement:** Recall parties filed at both KY and WV commissions proposing using the existing Mitchell operating agreement with out changes to allow the operating committee to determine any issues related to ELG investment and ownership/purchasing prices post 2028. The KY sale docket is closed but it is possible the commission may have to address the filing made by AEP in docket 2021-00370, so we did not discuss the matter thoroughly. Regardless, we still think AEP is on track to close the KY Power deal with the summer timeline to be re-affirmed on the 2Q call.
  - **Resource Adequacy and Capacity Planning:** Regarding energy transition, as a coal-rich state, investors should be mindful that the commission doesn't approve coal asset retirement, but leaves the recovery of undepreciated book value to a separate ask. As there could be additional federal mandates on environmental compliance investment, the commission would take a prudency review while economic benefit could be a big factor when considering approval. Discussions noted there should be consideration for future GHG compliance requirements that could affect cost prudency and we overall see the coal owning utilities (PPL) in the state as still on track to pursue transition goals. We note while PPL has a rider to amort stranded asset coal at full ROE, reg asset approval is still ultimately needed. We expect additional updates on PPLs coal transition by year end.
  - **Cost of Capital:** While conversations were clear that outside constituents will underwrite a lower ROE via unrecoverable M&A premium, our net takeaway is that higher ROEs are likely to be approved as interest rates increase.
  - **KY Political Arena:** We expect a generally stable environment for KY entering election season in '23 as the commissioner doesn't believe there will be big movement at state senate and additional

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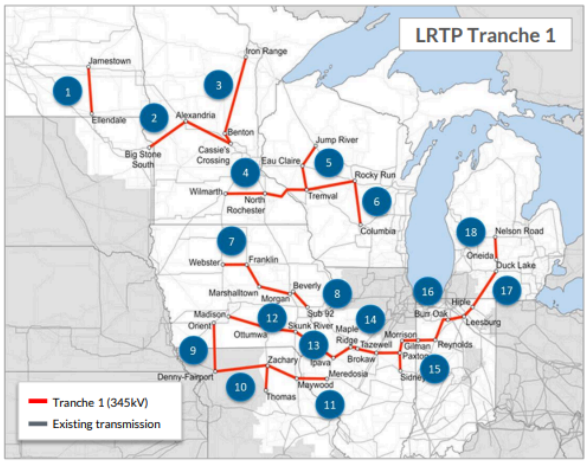
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commissioners appointed will help spread the workload and streamline processes within the PSC.

- **AEE / XEL: MISO Transmission Update Is Positive:** Yesterday as expected MISO voted on Tranche 1 of it's $10.3Bn investment plan. Tranche 1 provides a set of 'least regrets' solutions to meet portfolio changes of members and states principally to address 39GWs / 2GWs of coal / nuclear retirement being replaced with 37GWs/34GWs/ 19GWs of solar / gas / wind respectively. Of the $10.3Bn we see XEL eligible for $1.2Bn -$1.5Bn and AEE for potentially $1.5-$3Bn when comparing the total project portfolio vs. company service territory. Regarding AEE, the high end of our range assumes AEE fully builds project IDs 8, 10, 11, 12, 13, 14 as we are unsure on the CapEx split, expecting more details on AEE's Aug 5th call. Recall XEL already previewed $1-$2Bn of upside CapEx which will be funded with 50-50 debt / equity. Regardless, these are large opportunities which will be additive to both AEE & XEL's capital forecasts in the back half of the decade (Most ISDs are by 2030). We also see the Transmission update as positive for ATC (owned by WEC/LNT), and NI given project overlaps.

Figure 1: MISO Tranche 1 Transmission Awards

Tranche 1 represents the first iteration and includes 18 projects across the MISO Midwest subregion estimated at $10.3 billion



Assumption on all in-service dates is by 2030

ID	Project Description	Est. Cost ($M, 2022)
1	Jamestown – Ellendale	$439M
2	Big Stone South – Alexandria – Cassie's Crossing	$574M
3	Iron Range – Benton County – Cassie's Crossing	$970M
4	Wilmarth – North Rochester – Tremval	$689M
5	Tremval – Eau Clair – Jump River	$505M
6	Tremval – Rocky Run – Columbia	$1,050M
7	Webster – Franklin – Marshalltown – Morgan Valley	$755M
8	Beverly – Sub 92	$231M
9	Orient – Denny - Fairport	$390M
10	Denny – Zachary – Thomas Hill – Maywood	$769M
11	Maywood – Meredosia	$301M
12	Madison – Ottumwa – Skunk River	$673M
13	Skunk River – Ipava	$594M
14	Ipava – Maple Ridge – Tazewell – Brokaw – Paxton East	$572M
15	Sidney – Paxson East – Gilman South – Morrison Ditch	$454M
16	Morrison Ditch – Reynolds – Burr Oak – Leesburg – Hiple	$261M
17	Hiple – Duck Lake	$696M
18	Oneida – Nelson Rd.	$403M
	Total Project Portfolio Cost	**$10.3B**

Source: MISO

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Valuation Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for AEP Inc (AEP.OQ)

Method: We value AEP using an SOTP methodology and our target price is $103. We apply the electric group's 17.6x P/E multiple to all subsidiaries while applying a 15% and 5% multiple premium to AEP TransCo and AEP Texas, reflecting formulaic/timely recovery in FERC jurisdictions and the relative constructive regulatory environment in Texas. For the unregulated power generation business, we apply a -15% discount given there's less earnings visibility and AEP is transitioning to a more regulated growth strategy. We currently have zero EPS contribution from Kentucky Power under a base-case assumption of a timely close of its sales transaction. We rate AEP Outperform as we expect the stock's total return to outperform peers over the next 12 months.

Risk: Risks to our Outperform rating and $103 target price include: (1) any non-constructive regulatory decision for renewable capital spending recovery; (2) untimely execution of the Kentucky sale or unfavorable valuation applied to contracted renewable sales; (3) aggressive coal retirement programs could increase stranded asset risk given AEP's vision to retire an additional 5GW of coal generation by 2028.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Algonquin Power & Utilities Corp. (AQN.N)

Method: Our Neutral rating and US$14.5 target price are obtained from multiple methodologies, including: (a) a 2023e EBITDA driven NAV that includes a 14x multiple on the renewable energy segment and a 11.5x multiple on the regulated services segment; (b) a blended multiple of 14.5x on 2023e EV/EBITDA; and, (c) an implied ~5.50% 2023e dividend yield.

Risk: Risks to our Neutral rating and US$14.5 target price include: regulation; power prices; operational performance; and, among others, renewable power production levels that may vary from long-term average.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Ameren (AEE.N)

Method: Our target price is $94: We value AEE using a P/E methodology, applying relative P/E premiums and discounts to the company as a whole. In general, we view the Midwest (Illinois and Missouri) as a premium jurisdiction given the pro-development regulators and robust transmission development plan likely to be passed soon. We take a premium view on AEE (19.3x vs. 16.7x for the peer average), which we view to be fair given the strong upside potential and relatively limited downside risk for the company. We rate AEE Outperform as we expect the stock's total return to outperform peers over the next 12 months.

Risk: Risks to achieving our $94 target price and Outperform rating include: Common equity funding that is not contemplated in our base-case scenarios, MISO Future 1 and 3 seeing delays, natural disasters, and a political landscape in the coverage area that is less favorable than current times. Climate change is also a risk to the extent that federal or state legislatures implement more restrictions on GHG emissions expected, which would increase standard asset risk for AEE's fossil generation. Commodity prices are surging, so Ameren must be diligent in maintaining bill pressure as it scales capex across IL and MO.

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

Method: We value ATO on a sum of the parts with a $124 target price. We apply relative P/E premiums/discounts to the regulated gas group multiple of 17.6x. At the distribution business, we apply a 15% premium. We think this is justified given ATO's best-in-class jurisdictions, continued constructive treatment in the regulatory arena, and management's conservative planning assumptions. At the Pipelines segment, we apply a 10% premium, lower than 15% to handicap for the unregulated nature of the RRC pipes. That said, we see the contracts offering utility-like returns with long-term contracts in place with all of ATO's LDCs. Our base-case scenario contemplates an 18.9x consolidated P/E, which is slightly lower the company's five-year historical average of 19.5x. We rate ATO Outperform as we expect the stock's total return to outperform peers over the next 12 months.

Risk: Risks to our Outperform rating and $124 target price include: Common equity funding that is not contemplated in our base-case, Blue Sky, or Grey Sky scenarios could adversely affect our estimates. Gas is a highly combustible molecule. Pipeline leaks and explosions are risks of operating a gas distribution system, and any explosion/leak events could have a material adverse effect on ATO's multiple. ATO is subject to federal and state regulations, principally through rate regulatory proceedings. Failure to execute in the regulatory arena would inhibit shares from reaching our target price.

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

Method: We value DUK using an SOTP, applying relative P/E premiums/discounts to the various operating subsidiaries, which yields a $112 target price. In general, we view Florida as a premium jurisdiction given numerous constrictive mechanisms for real-time capital recovery. We take a premium view on DEI (5% premium, 18.5x), which we flag as conservative given DUK has proven it can monetize this sub for 27.7x most recently with the announced minority sale to GIC. We take a discounted view on the commercial renewables segment given broad supply chain/inflation concerns and high proportion of HLBV income, which we believe are low-quality, non-cash earnings. We rate DUK Outperform as we expect the stock's total return to outperform peers over the next 12 months.

Risk: Risks to out Outperform rating and $112 target price include: common equity funding that is not contemplated in our base-case, Blue Sky, or Grey Sky scenarios. Failure to establish new rates at DEC/DEP, which could lead investors to take a discounted view on DUK's largest earnings contributor. Natural disaster risk, which could accelerate liabilities at DUK's numerous coal ash ponds or nuclear facilities. Climate change and increased regulation on GHG emissions could accelerate closure of certain fossil investments, which would increase stranded asset risks to shares. Lastly, Federal legislation, such as change in tax policy, could negatively impact CFO for DUK.

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

Method: We value NI on a P/E approach that yields a $30 target price. Our base-case multiple of 17.8x is derived by taking the regulated electric and regulated gas group multiples and applying a weighted-average approach based on NI's rate base mix. We apply a 5% premium to this number to account for: (1) numerous tracking mechanisms in place to realize real-time return on capital; (2)

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new management, which is taking a refreshed view of the company's operating segments and pushing forward with a strategic review with the goal of creating value; and (3) potential upside to capex that isn't contemplated in our current EPS estimates. Our target price implied P/E multiple is 19.2x, which is in line to electrics and a premium to gas LDCs. We rate NI Neutral as we expect the stock's total return to be in line with peers over the next 12 months.

Risk: Risks to our Neutral rating and $30 target price include: Increased inflation above NI's cost-control ability, as well as headwinds delaying solar development via supply chain issues. Gas is a combustible molecule, and NI has a history of two separate high-profile explosions in the last 10 years, which could negatively affect the share price. Management also discussed buying and selling assets as part of its new strategy, and we think buying assets could weigh on NI's multiple. Climate change and increased scrutiny on GhG emissions is also a risk given ~70% of NI's rate base is coming from the gas distribution utility.

Target Price and Rating

Valuation Methodology and Risks: (12 months) for Xcel Energy (XEL.N)

Method: Our target price is $72. We ascribe a 12.5% P/E premium to the wider regulated utility group average, which is in-line with XEL's historical 5yr average. XEL tends to trade with the 'premium' utilities given its strong track record for delivering on the high end of its 5-7% EPS CAGR. We see the premium further supported by XEL's history of generally constructive regulatory outcomes, the company's Steel for Fuel program, which has enabled an acceleration of energy transition-related capital expenditures, as well as the potentially positive benefits stemming from Build-Back-Better legislation. We typically would reflect a full 15% premium; however, we subtract 2.5% to handicap for wildfire risk in CO. We rate XEL Outperform as we expect the stock's total return to outperform peers over the next 12 months.

Risk: Risks to you Outperform rating and $72 target price include: Failure to obtain constructive outcomes in regulatory proceedings, failure to execute on the company's proposed IRP in CO, natural disasters, labor/inflationary pressures above management's current O&M trajectory. Climate change is also a risk to the extent federal or state legislatures implement more restrictions on GHG emissions than expected. Wildfires are becoming more common in some of XEL's service territories, which can cause its multiple to fluctuate more than peers.

Companies Mentioned *(Price as of 25-Jul-2022)*

AEP Inc (AEP.OQ, $95.8, OUTPERFORM, TP $103.0)

Algonquin Power & Utilities Corp. (AQN.N, $13.56, NEUTRAL, TP $14.5)

Ameren (AEE.N, $88.28)

Atmos Energy (ATO.N, $114.77, OUTPERFORM, TP $124.0)

Duke Energy (DUK.N, $105.98, OUTPERFORM, TP $112.0)

NiSource (NI.N, $29.03, NEUTRAL, TP $30.0)

Xcel Energy (XEL.N, $68.68, OUTPERFORM, TP $72.0)

Disclosure Appendix

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I, Nicholas Campanella, 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 AEP Inc (AEP.OQ)

AEP.OQ Date	Closing Price (US$)	Target Price (US$)	Rating
25-Apr-22	100.50	113.00	O *
18-Jul-22	93.37	103.00	



** Asterisk signifies initiation or assumption of coverage.*

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3-Year Price and Rating History for Algonquin Power & Utilities Corp. (AQN.N)

AQN.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
14-Apr-21	16.16	17.50	N *
25-May-21	15.44	16.50	
01-Sep-21	15.57	16.00	
12-Apr-22	15.68	18.00	
27-May-22	14.51	16.00	
22-Jul-22	13.38	14.50	



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3-Year Price and Rating History for Atmos Energy (ATO.N)

ATO.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
25-Apr-22	117.70	133.00	O *
05-May-22	115.04	127.00	
18-Jul-22	111.90	124.00	



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3-Year Price and Rating History for Duke Energy (DUK.N)

DUK.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
12-Aug-19	89.50	95.00	N
06-Sep-19	93.76	98.00	
18-Nov-19	88.65		R
19-Nov-19	88.65	98.00	N
11-Dec-19	89.00	93.00	
17-Jan-20	93.72	96.00	
18-Feb-20	102.02	108.00	O
01-Apr-20	77.57	85.00	
11-May-20	81.66	86.00	
03-Aug-20	83.81	88.00	
15-Oct-20	91.96	93.00	N
08-Nov-20	93.44	92.00	
29-Jan-21	94.00	96.00	
14-Apr-21	98.79	104.00	
11-May-21	103.63	108.00	
18-May-21	102.49	105.00	
13-Jul-21	101.53		*
25-Apr-22	113.77	125.00	O *
09-May-22	110.80	117.00	
18-Jul-22	105.43	112.00	



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

NI.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
02-Aug-19	29.71	33.00	O
07-Aug-19	27.63	29.00	N
21-Oct-19	28.05	30.00	
01-Nov-19	27.65	29.00	
17-Jan-20	29.04	30.00	
28-Feb-20	27.02	31.00	O
05-May-20	24.53	27.00	
20-Jul-20	23.75	26.00	
03-Nov-20	24.03	28.00	
13-Apr-21	24.51		R
14-Apr-21	24.51	28.00	O
16-Apr-21	25.62	29.00	
13-Jul-21	24.97		NC
25-Apr-22	30.58	32.00	N *
04-May-22	29.67	31.00	
18-Jul-22	28.39	30.00	

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3-Year Price and Rating History for Xcel Energy (XEL.N)

XEL.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
25-Apr-22	73.67	80.00	O *
08-Jun-22	73.17	77.00	
20-Jul-22	67.59	72.00	



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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

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WEEKLY ANALYSIS

US Utilities: Week Ahead: Weekly Analysis & Datapoints; Executive Shifts at ETR & NI; Watching NatGas and LDC bills

AUGUST 22, 2022
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- **What we're watching in the data point drought (8/22**): It remains a quiet week ahead as 2Q reporting has largely finished and Fall conference season has yet to kick off. Inflation Reduction Impacts (IRA) remain top of mind for investors with **EXC** (not covered) disclosing a $200Mn ongoing cash tax impact from the IRA bill (despite the additions of accelerated depreciation) this past week. The data point is largely confirmatory of the view that T&Ds remain overall worse positioned than vertically integrated utilities in terms of corporate minimum tax impacts. We have been fielding some incoming questions on the impact to **FE** but note just a 20-40bps modest impact to FFO/Debt. Overall, we still see utilities as net benefiters from the bill due to tax credits extensions, nuclear PTC and the potential for continued customer savings from 'steel for fuel' opportunities. Bottom line, we still think AMT related cash flow issues will be limited when assessing our coverage universe.
- **LDCs: NatGas back to $9/mmbtu & strips higher too:** We see utility hedging strategies for '23 and '24 as an important question as we enter prep for 2H22 updates. Natural gas is back to 1-year absolute highs and the current strip implies $5-6/mmbtu in '23/'24 which is higher vs. 1M, 6M and 1YR ago views. We see this as resulting in bill pressure to LDCs broadly but note hedging strategies are idiosyncratic across our coverage, given regulatory frameworks, fuel clauses and tracking mechanisms to consider. Overall, we do see the sector able to manage this headwind to 2023 CapEx deployment but note the latest move is one to watch amidst ongoing bill inflation pressures.
- **Week in review:** The UTY outperformed the S&P 500, seeing a 110bp gain vs. a 120bp loss for the SPX. 10YR/30YR USTs were 14bps/10bps wider. Large Caps (+1.4%) Small Caps (+0.4%), Diversified (+1.1%) and LDCs (+1.5%) all saw gains. **Top performers:** SWX, D, AES, DUK, AEE, PEG, SO, SRE, OGE and WEC. **Bottom performers:** EVRG, ES, ETR, CNP, SJI, AGR, ALE, PCG, EXC and NEE.
- **PNW: AZ ACC Rate Case Read Across at SWX:** Recall SWX filed a gas rate case last December with 9.9% ROE, 51% equity layer and year-end rate base of $2.6Bn. Recently, staff filed a recommendation of 9.3% ROE, 49.29% equity layer and same rate base. We don't cover SWX but want to flag as a potential read across to PNW who is filing a rate case for the subsidiary Arizona Public Service in October. We expect PNW to address pension, large capital projects and renewable spending tracker issues during this rate filing, but ROE and equity layer will also be a focus with the prior authorized ROE of 8.7% being quite low relative to peers. Overall, a 9.3% ROE is slightly positive vs. low expectations on PNW though still below the national average.
- **ETR: Chairman and CEO Leo Denault announces transition plan:** On August 17th ETR announced that Leo Denault will be retiring in 2023, capping off twenty-three years with the company. The ETR Board of Directors elected Andrew Marsh to be his successor, from his current role as Executive Vice President and Chief Financial Officer. Marsh will become the acting CEO effective November 1st, and Denault will continue to lead the Board of Directors until as the Executive Chairman until his retirement. Marsh has been with ETR since 1998 and was named Executive Vice President and Chief Financial Officer in 2013. We're not surprised by the move, seeing the transition for Denault and Marsh well telegraphed and in-line with prior executive management changes (recall Denault previously was CFO). Marsh will be succeeded by EVP and CFO Kimberly Fontan, who is currently SVP and Chief Accounting Officer.
- **NI: Executive Vice President and Group President Pablo Vegas announces exit from company:** On August 16th it was announced that Pablo Vegas will be leaving his current role at NI to become the President and CEO of the Electric Reliability Council of Texas (ERCOT), effective Oct. 1st. It is currently unclear who his successor will be, and Vegas will remain with the firm until Sept. 2nd while NI searches for a replacement. We note there have been a few management changes in the last 6 months at NI as new CEO Llyod Yates works through the broader strategic review. Melody Birmingham and William Jefferson joined as Chief Innovation Officer and Chief Safety Officer respectively. NI's strategic review remains ongoing with the company still committed to an Analyst Day in November – see our latest thoughts on the strategic review here.

Weekly Performance (%)

Ticker	8/12/2022	8/19/2022	5 Day Change (%)
Large Cap Regulated			
AEE	94.8	97.4	2.7%
AEP	103.8	104.9	1.1%
AGR	50.9	51.0	0.1%
CMS	69.7	70.9	1.8%
D	82.8	85.6	3.4%
DTE	134.9	136.1	0.9%
DUK	110.3	113.2	2.7%
ED	99.1	100.6	1.5%
EIX	70.8	71.5	1.1%
ES	93.1	93.6	0.6%
ETR	121.0	121.7	0.5%
EVRG	70.9	71.3	0.6%
FE	40.8	41.3	1.1%
LNT	63.4	64.0	1.1%
PCG	12.1	12.1	0.0%
PNW	77.3	78.0	0.8%
PPL	30.3	30.8	1.7%
SO	78.1	80.2	2.6%
WEC	105.6	107.7	1.9%
XEL	76.0	76.9	1.3%
Average			**1.4%**

Diversified	8/12/2022	8/19/2022	
AES	24.9	25.6	2.8%
BKH	77.8	79.2	1.7%
CNP	32.5	32.7	0.5%
EXC	46.2	46.1	-0.1%
MDU	31.2	31.9	2.2%
NEE	90.5	89.7	-0.8%
OGE	42.0	42.8	2.0%
OTTR	81.4	81.0	-0.5%
PEG	67.6	69.4	2.6%
SRE	166.4	170.1	2.2%
Average			**1.1%**

Utes Sector Performance	% Chg
Large Cap Regulated	1.4%
Diversified	1.1%
Small Cap	0.4%
LDC	1.5%
UTY	1.1%
SPX	-1.2%

LDC	8/12/2022	8/19/2022	
SJI	34.3	34.4	0.2%
OGS	82.6	83.7	1.3%
NJR	46.5	47.2	1.5%
NI	31.1	31.5	1.3%
ATO	117.0	118.0	0.9%
SR	75.6	76.5	1.1%
SWX	77.4	80.4	3.9%
Average			**1.5%**

Small Cap	8/12/2022	8/19/2022	
ALE	63.3	63.3	0.0%
AVA	43.8	44.6	1.8%
BKH	77.8	79.2	1.7%
HE	43.3	42.8	-1.2%
IDA	113.8	115.3	1.4%
NWE	55.9	56.3	0.7%
OTTR	81.4	81.0	-0.5%
PNM	48.6	48.1	-1.1%
POR	54.7	55.2	1.0%
UTL	56.4	56.4	0.0%
Average			**0.4%**

Rates	BPS
US GOV 10YR	0.14
US GOV 30YR	0.10

Top / Bottom Performers	
SWX	3.9%
D	3.4%
AES	2.8%
DUK	2.7%
AEE	2.7%
PEG	2.6%
SO	2.6%
SRE	2.2%
OGE	2.0%
WEC	1.9%
EVRG	0.6%
ES	0.6%
ETR	0.5%
CNP	0.5%
SJI	0.2%
AGR	0.1%
ALE	0.0%
PCG	0.0%
EXC	-0.1%
NEE	-0.8%

Source: Bloomberg

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From: Campanella, Nick
To: Weisenburger \ Michael \ V
Subject: US Utilities: Week Ahead: Marketing Feedback; Macro Update; Ideas through Fall; Weekly Analysis & More
Date: Monday, September 19, 2022 7:52:12 AM
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WEEKLY ANALYSIS

US Utilities: Week Ahead: Marketing Feedback; Macro Update; Ideas through Fall; Weekly Analysis & More

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Document Link (23 Pages, 1079KB)

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- **What we're focused on this week (9/19):** We expect an update on the DTE electric rate case on Monday Sept. 19th via a PFD from the M-PSC ALJ. The most recent staff recommendation was 8/16, and included a $145Mn rate increase with a '23 test year, 9.6% ROE and 39.62% eq. layer, vs the original request of $370Mn rate increase, 10.25% ROE and 39.62% equity layer.
- **Back 2 School Marketing Feedback: What's been topical?** We have been marketing in NYC the last week with most investor discussions focused on 3Q / EEI updates, inflation impacts, IRA and financing considerations for specific companies. On pension names FE and PEG, at **FE** most investors have viewed the management review update as positive. Our conversations on **PEG** have been more mixed across HFs and LOs regarding the recent pension clarification filing; we still see an overhang on the stock due to downside to '23E EPS. Investors remain cautious on perceived negative cash flow impacts from the CMT to companies, though we note discussions with management teams and IR through the month have shown resilience with some even communicating a net positive impact. We still see T&Ds as worst position given lack of generation. Company specific discussions increasing in momentum: **ES into YE update**: What will the OSW proceeds yield (CSe $2.7Bn post tax cash)? How much can ES raise CapEx? We see $3Bn as base case. **NI into the AD:** The stock has been underperforming we believe due to wider LDC underperformance. We do see more positive optionality into the event given recent underperformance. **Our top Outperform names: FE** post management update where we believe a new CEO and upcoming asset sales provide continued positive catalysts into 3Q22 EPS. **ETR** with the potential to resolve remaining SERI settlements, large P/E discount, getting closer to end of hurricane season, optionality on NCI sale (mgmt. discussion here). **DTE** following the ALJ REC, upcoming IRP update in October, Capex raise and CSe expected guidance increase by YE. **PPL:** We see value in shares still at a 7.5% P/E discount with a de-risked outlook on equity needs, rate reviews and balance sheet. Upside to O&M efforts also remains an angle. We're more cautious on **DUK:** We still see Street EPS too high into 3Q22/EEI update, where we expect a re-base. **POR:** We cut numbers last week on perceived equity dilution overshowing RFP upside potential.
- **Week in Review:** The UTY outperformed the S&P 500, seeing a 390bp loss vs a 480bp loss for SPX. 10YR/30YR USTs ended the week +14bps/+7bps, respectively. Large Caps (-3.1%), Small Caps (-3.1%), Diversified (-3.9%) and LDCs (-1.9%) all closed the week lower. **Top performers:** PCG, AGR, FE, AVA, SWX, OGE, EIX, BKH, PEG and CNP. **Bottom performers:** DTE, AEP, CMS, EVRG, PNW, WEC, NI, AES, NEE, EXC.
- **Model Updates: NEE & PPL:** We are tweaking our EPS estimates for NEE lower by 3-4c from '23 to '26 to reflect equity units issued with convert year in '25. We are also tweaking PPL EPS estimates by 1c in '22, '23 and '24 to reflect our updated quarterly figures in '22, and updating our TP to $32 from $31 to reflect a higher group multiple. We maintain our OP ratings on both PPL and NEE.
- **ETR: AR PSC Chairman Ted Thomas resigns after eight years:** Arkansas PSC Commissioner Ted Thomas resigned effective Oct. 1st citing frustrations relating to certain cooperatives in the state dragging their feet on rooftop solar installation and grid connection. Thomas mentioned that high natural gas prices have led to increased utility bills for Arkansans, with ~1/3 estimated to be unable to afford the higher bills seen throughout '22. Thomas expects natural gas prices, and ultimately utility bills, to continue to increase into '23 and further exasperating the problem. We see turnover form the AR PSC Chair as negative for companies who operate in the state, such as ETR, but note the company has a strong track record for constructive outcomes at both the PSC and legislative level. Thomas' term should have expired Jan. 2027 and we see the new Arkansas governor to be determined in the pending Nov election likely choosing the PSC replacement.
- **PCG: Mosquito fire becomes CA's largest wildfire of '22:** On Wednesday Sept. 14th the Mosquito fire, which is burning across the Sierra Nevada foothills, officially became the state's largest wildfire of the year. The fire is burning around NE Sacramento and as of Wednesday has burned ~65k acres in the area. It has been a rough fire-season for CA, as the McKinney fire became the largest of the year in July, burning ~60k acres but is now almost entirely contained. As of this morning (9/19) the fire has burned 76k acres and is 38% contained. PCG did say one of its power lines experienced a fault at the start of the fire around Sept. 6th, however after further investigation the line shows no damage. The cause of the fire remains under investigation.
- **EIA says US Carbon intensity within power sector continues to fall:** From '16 to '20, carbon intensity fell 18% driven by moving away from coal and towards gas and renewables, while EIA only sees 7 states as exceptions over this period of time. The states with highest carbon intensities from power generation all have large in-state coal/petroleum generation, which also represents opportunities in carbon reduction. We see TN, MD, IA, KS and OK as the five states with largest reduction in carbon intensity between '16 and '20. Within our coverage, capex driven by coal replacement power project is a trend we continue to monitor. With the passage of IRA and favorable tax provisions on ITC/PTC, nuclear/hydrogen subsidies, we see this carbon theme will continue to play out, driving earning's growth and company ESG attributes.
- **CA LDCs: California removes subsidy for setting up gas lines:** On Sept. 15th, CPUC, in a bid to accelerate its target for carbon neutrality by 2045, removed subsidies for builders for gas hookups in new homes and commercial buildings via a PD by the CPUC. This is in line with reducing greenhouse gas emissions, which accounts for 10% of the state's overall emissions. The decision is estimated to save ratepayers about $164 million a year. Utilities won't be allowed to bill customers for extending a gas line to a new residential or commercial building starting in July. However, state's big investor-owned utilities, including PG&E Corp. and Sempra Energy's Southern California Gas Co., have proposed a phased-in approach to removing subsidies over complete elimination, saying it will drive up costs for certain industries who don't yet have access to viable alternative low-carbon energy sources. We see the recent move as slightly negative as it increases hook up costs to potential new customers to CA service territories.
- **Comments on utilities' coal stockpile and impact from railroad strike tentative deal:** Based on the conversations we have with companies, utilities with heavy coal generation reliance (AEP/DTE/SO) seem comfortable with current coal stockpile, typically storing 30 days of inventory on site, enough in our view to shield from any short-term impact/disruptions from shortage of rail transportation, although it's getting unlikely as the tentative deal has been reached. Specifically, for DTE's Monroe (3GW) and Belle River (1GW), company is confident with current level of inventory on site; for AEP, total inventory is above target level (27 days); as for SO, similar level of inventory is maintained on site and limited rail disruption shouldn't be an issue. We do see higher coal usage given generally higher gas price YTD, which could cause tightness in coal supply, with some utilities entering shoulder season serving lower load, alleviating some demand in generation.
- **Moody's downgraded FE's CE and TE and moved outlook to stable from negative:** The downgrade of CE (senior unsecured rating to Baa3 from Baa2) and TE (issuer rating to Baa2 from Baa1) reflects weaker financial metrics impacted by customer refunds from last year's OH regulatory settlement agreement. Moody's is looking at the next rate filing by May 2024 as the next opportunity for these opco's to improve metrics. We note these two downgrades but don't expect them to materially change our view on FE, as the current plan to strengthen b/s seems sufficient to bring the consolidated FE credit metrics to a competitive level, which benefits opco's ratings.
- **EVRG: KS Corporate Commission (KCC) requires company to explain increase in capex plan:** The KCC ordered EVRG to explain a $1.2Bn increase in the company's capex spending plan compared to projections presented in the company's Sustainability Transformation Plan (STP) in '21. The workshop to discuss is set to be scheduled by Sept. 28th and must take place prior to Dec. 1st. The company is required to explain the increase to Commission Staff and the Citizens Utility Ratepayer Board (CURB), and submit an updated financial model prior to the workshop. The Commission and other stakeholders are investigating the increase to ensure the company is pursuing the goal of achieving regionally competitive rates and reliable electric service. From a headline perspective, we see this as negative for EVRG, but this does allow EVRG the opportunity to vet its financial plan with regulators ahead of the KS rate review.

Weekly Performance (%)

Ticker	9/9/2022	9/16/2022	5 Day Change (%)
Large Cap Regulated			
AEE	95.6	91.7	-4.1%
AEP	104.7	100.4	-4.2%
AGR	49.7	49.3	-0.7%
CMS	69.9	66.8	-4.3%
D	83.2	80.8	-2.8%
DTE	135.5	129.9	-4.1%
DUK	109.9	106.1	-3.4%
ED	100.9	97.4	-3.4%
EIX	69.1	67.5	-2.3%
ES	91.6	88.8	-3.1%
ETR	119.9	115.4	-3.8%
EVRG	70.2	67.1	-4.4%
FE	41.5	41.2	-0.7%
LNT	63.1	60.9	-3.5%
PCG	12.9	13.1	1.5%
PNW	77.0	73.6	-4.4%
PPL	29.9	28.9	-3.1%
SO	79.5	77.3	-2.9%
WEC	106.4	101.3	-4.8%
XEL	77.0	73.9	-4.0%
Average			**-3.1%**

Diversified	9/9/2022	9/16/2022	
AES	27.4	25.9	-5.5%
BKH	78.3	76.4	-2.4%
CNP	32.9	32.0	-2.5%
EXC	45.8	43.2	-5.7%
MDU	30.6	29.5	-3.6%
NEE	89.9	84.8	-5.7%
OGE	41.9	40.9	-2.2%
OTTR	75.3	69.8	-7.3%
PEG	68.0	66.4	-2.4%
SRE	173.8	168.4	-3.1%
Average			**-3.9%**

Source: Bloomberg

Utes Sector Performance	% Chg
Large Cap Regulated	-3.1%
Diversified	-3.9%
Small Cap	-3.1%
LDC	-1.9%
UTY	-3.9%
SPX	-4.8%

LDC	9/9/2022	9/16/2022	
SJI	34.4	33.8	-1.7%
OGS	80.7	79.4	-1.6%
NJR	44.3	44.7	1.0%
NI	30.5	28.8	-5.4%
ATO	118.1	114.0	-3.5%
SR	70.3	69.3	-1.5%
SWX	82.1	81.2	-1.1%
Average			**-1.9%**

Small Cap	9/9/2022	9/16/2022	
ALE	61.0	58.1	-4.7%
AVA	41.1	40.8	-0.8%
BKH	78.3	76.4	-2.4%
HE	40.0	38.3	-4.3%
IDA	111.1	108.8	-2.1%
NWE	55.2	53.7	-2.8%
OTTR	75.3	69.8	-7.3%
PNM	47.4	47.5	0.3%
POR	52.2	50.2	-3.8%
UTL	51.4	49.8	-3.1%
Average			**-3.1%**

Rates	BPS
US GOV 10YR	0.14
US GOV 30YR	0.07

Top / Bottom Performers	
PCG	1.5%
AGR	-0.7%
FE	-0.7%
AVA	-0.8%
SWX	-1.1%
OGE	-2.2%
EIX	-2.3%
BKH	-2.4%
PEG	-2.4%
CNP	-2.5%
DTE	-4.1%
AEP	-4.2%
CMS	-4.3%
EVRG	-4.4%
PNW	-4.4%
WEC	-4.8%
NI	-5.4%
AES	-5.5%
NEE	-5.7%
EXC	-5.7%

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From: Campanella, Nick
To: Weisenburger \ Michael \ V
Subject: US Utilities: Week Ahead: Weekly Analysis; D OSW in focus; OGE AR FRP in flux; LNT IRA Update; NI Testimony & More
Date: Monday, September 26, 2022 7:55:12 AM
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WEEKLY ANALYSIS

US Utilities: Week Ahead: Weekly Analysis; D OSW in focus; OGE AR FRP in flux; LNT IRA Update; NI Testimony & More

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- **What we're focused on this week (9/26):** At **D**, we expect mgmt. to file rebuttal this week in the companies OSW petition for limited reconsiderations as the performance guarantee remains front and center. At **OGE**, the company could file yet another FRP extension by Oct 1 with the recent denial of the previous FRP raising investor concern on the state; cautious read to **ETR**. Lastly, we flag **XEL** could see a verbal order in its CO gas rate case with hearings ongoing through 9/30. Elsewhere, we see investors focused on Fall conference season where companies are poised for updates before 3Q earnings. We note **LNT** (not covered) already posted slides last week affirming a 5-7% EPS CAGR despite recent IRA tailwinds to CapEx and funding considerations. Please see our latest Fall '22 Q-Bank for the US Utilities Sector.
- **Week in review:** The UTY outperformed the S&P 500 this past week, seeing a 300bps loss vs. 460bps for the SPX. 10YR/30YR USTs ended the week +24bps/+9bps, respectively. Large Caps (-3.1%) and Diversifieds (-3.8%) underperformed Small Caps (-2.2%) and LDCs (-2.6%) through the week. We do see the sector as increasingly stretched from a valuation standpoint (see our latest macro update here) when comparing to other GICS sectors, but the defensive nature of US utility equities is still leading to relative outperformance within the S&P. At a single stock level: Best Performers: CNP, PNM, WEC, NWE, ED, POR, ATO, ES, LNT, DUK. Worst Performers: DTE, ETR, EXC, PCG, D, EIX, SRE, PEG, AES, AGR. We note AGR held an Analyst Day update where we found the read across to both OSW and Renewable Developer returns to be somewhat cautious (see here).
- **PCG: 8-K Update on Mosquito Fire slight negative, but somewhat expected**: This morning, PCG filed an 8-K noting the United States Forest Service (USFS) communicated to PG&E an initial assessment that the fire started in the area of the utilities power line on the National Forest System lands and that USFS is performing a criminal investigation into the 2022 Mosquito fire. On Sept 24 USFS removed and took possession of one of the Utility's transmission poles and attached equipment. Note PCG already filed an electric incident report on Sept 8th, so we think investors we're already braced for some type of potential linkage to the Mosquito fire which currently 60% contained, destroyed 78 structures, damaged 13 structures. We will continue to monitor for new updates, but we emphasize event risk is common across CA utilities with PCG already trading at a 45% discount to our large cap peer group.
- **LNT: Still targeting 5-7% EPS CAGR with recent IRA benefits:** With the recent IRA bill, LNT (not covered) is planning to shift away from the current tax equity partnership (~35% tax equity stake) to full ownership for its planned solar and storage projects, as well as current '22 solar projects in WI. Last week the company posted a new slide deck noting that LNT continues to target 5-7% long term EPS growth and expects to release a refreshed capex and financing plan in conjunction with it's 3Q earnings announcement.
- **OGE: AR FRP extension denied:** On Sept. 20th, the AR PSC denied the company's application for extension of the FRP filed last year. The PSC said that it was not in the public interest, citing the limitations from the Formula Rate Review Act. The Formula Rate Review Act, which was enacted in April '21, requires explicit consideration and evidence of the costs and economic impacts to all customer classes when determining rates for utilities in AR. In May '22 the AR PSC granted an extension of the FRP, but with a 45% equity layer vs a 50% equity layer currently in place in AR. OGE filed a motion for reconsideration. The Commission ruled that they could not change equity, citing affordability concerns. Along with this, the Commission also indicated that netting of the third and fourth Evaluation Reports was neither necessary or required given they are based on historical FRP and did not include any projections. Per the original FRP document, should the Commission deny an extension, the then-existing total FRP rates will be in effect until the new base rates reflecting the then existing Total FRP revenue are approved and implemented, and until OGE recovers or returns the remaining netting of historical year difference adjustments. This means that rates may not necessarily change at this time, and that overall returns are not expected to decline even when the rider drops off at some point in the future. OGE is currently seeking clarification on if they have two more filings, which is being discussed as the company intends to file again, if possible, on Oct. 1st. We view this as an overall concerning data point for the state of AR given it is an unfavorable outcome for OGE and see a read-across to the potential for a similar outcome for other AR utilities such as ETR.
- **OGE & ETR: What's the revision risk to 45% equity layer?** We don't see this materially effecting OGE's 5-7% UP&O EPS CAGR as we calculate $0.02-0.03/sh of EPS headwind from moving to 45% equity layer but remain concerned on investor perception of the state. For peer ETR, we already assume a 47% equity layer with moving to a 45% equity layer representing $0.07/sh of EPS (1%). This is a manageable headwind in our view for a stock that already trades at one of the widest regulated discounts in our coverage universe. That said, AR still has the potential to remain an overhang with the recent abrupt resignation of AR PSC Chairman Ted Thomas .
- **NI Indiana rate case:** This past Monday (9/19) NIPSCO filed a rate request with the IURC to adjust base rates next year. The proposed increase includes phased in changes to 2023 and 2024 vs. a tradition one-time increase, with the principal driver of the request $840Mn of renewable investments being made through 2023 and $700mn of T&D upgrades. NIPSCO is asking for a $291.7Mn base rate increase (19%) based on $5.9Bn of rate base and a 10.40% equity layer / 51.63% cap structure. This compares to the currently authorized 9.75% ROE / 47.86% cap structure from 2019. While the headline numbers are large, we view the rate filing as somewhat expected with the company pursuing an aggressive generation transition in Indiana. We note NI has multiple outstanding rate cases (OH, PA) to be resolved this year where outcomes have admittedly been delayed vs. our initial expectations. Outside of GRC expectations, we see the driving force the stock being the pending Analyst Day update this November where we think investors base case assumption is extension of the 7-9% EPS CAGR.
- **NEE's FPL proposed plan to refund customer due to tax saving:** The total refund could amount to $400mm, with cadence of $25mm in Jan 2023 and rest phasing in from 2023 through 2025. This refund is due to FPL's current rate agreement which includes a provision accounting for changes to federal tax law and its impact on bill adjustments. FPL's regulated solar generation that began serving customers in 2022 are retroactively eligible for PTC, although Treasury/IRS implementation guidance is still underway. FPL projects that average Jan 2023 monthly bill could go down to $126 from $130. We believe this plan to lower customer bill should also benefit the regulatory relationship from the standpoint of improving customer affordability. We see the existing SoBra recovery mechanism and potentially more solar deployment due to overachievement of 30-by-30 plan continuing to drive savings given the passage of IRA, allowing FPL to create more bill headroom for regulated growth.
- **SRE sees blue hydrogen export opportunity to Asia; LNG build up on US west coast:** Nikkei reported this week that SIP is considering exporting blue hydrogen made from LNG to Japan/other Asian countries and employs carbon capture during the production process. The plan is to leverage Cameron and its expansion, although currently there is no timeframe and projects are in early phases. SIP president Dan Brouillette believes much of natural gas infrastructure has the interchangeability and can be used for hydrogen and ammonia. SIP is also considering building LNG facilities on the US west coast, better serving Asian consumers with roughly half the transport time. We see these early developments in hydrogen integration and LNG buildout both positive on top of SRE's current momentum in LNG contracting. Japanese/Asian demand should provide another pillar of foundation for long-term contracting with existing European off-takers.
- **D: VA to issue tax rebates:** The VA Dept. of Taxation will be issuing tax rebates to Virginians of $250 for individual taxpayers and $500 for joint filers after the Northam Admin found excess money in the state's budget. The rebates were a part of the VA Budget Package passed in June. Representatives of the Administration indicated that the funds were left over after spending on state investments. The tax rebates were included in the budget legislation amidst increased cost of living and inflationary pressure putting strain on Virginians. The move is helpful to residential ratepayers as rate affordability has been a key concern across most states amidst decade high inflation pressures. Most rebates are expected to be received by October, and the remaining rebates are expected to be sent out by the end of this year.
- **D: Responses from Office of the Attorney and Walmart in OSW docket** We note last week responses were filed in the Dominion's Petition for Limited Reconsideration as it pertains to the performance guarantee it's OSW rider order (PUR-2021-00142). In summary, Walmart and the DA both are pushing back on the rehearing request, though this should be somewhat expected in our view, and we flag the DA was not on the original settlement presented to the commission earlier in the year. This coming week we expect D to file rebuttal testimony and responses with potential resolution on the matter by year end '22.

Weekly Performance (%)

Ticker	9/16/2022	9/23/2022	5 Day Change (%)
Large Cap Regulated			
AEE	91.7	89.1	-2.9%
AEP	100.4	97.7	-2.6%
AGR	49.3	45.3	-8.2%
CMS	66.8	65.3	-2.4%
D	80.8	77.8	-3.8%
DTE	129.9	125.7	-3.3%
DUK	106.1	103.7	-2.3%
ED	97.4	95.5	-2.0%
EIX	67.5	64.9	-3.9%
ES	88.8	86.9	-2.2%
ETR	115.4	111.6	-3.3%
EVRG	67.1	65.0	-3.2%
FE	41.2	40.1	-2.8%
LNT	60.9	59.5	-2.2%
PCG	13.1	12.6	-3.6%
PNW	73.6	71.3	-3.2%
PPL	28.9	28.2	-2.7%
SO	77.3	75.0	-2.9%
WEC	101.3	99.6	-1.7%
XEL	73.9	71.6	-3.2%
Average			**-3.1%**

Diversified	9/16/2022	9/23/2022	
AES	25.9	24.3	-6.3%
BKH	76.4	73.3	-4.1%
CNP	32.0	31.6	-1.5%
EXC	43.2	41.7	-3.6%
MDU	29.5	28.3	-4.2%
NEE	84.8	82.5	-2.7%
OGE	40.9	39.9	-2.4%
OTTR	69.8	65.2	-6.7%
PEG	66.4	62.9	-5.2%
SRE	168.4	161.8	-4.0%
Average			**-3.8%**

Source: Bloomberg

Utes Sector Performance	% Chg
Large Cap Regulated	-3.1%
Diversified	-3.8%
Small Cap	-2.2%
LDC	-2.6%
UTY	-3.0%
SPX	-4.6%

LDC	9/16/2022	9/23/2022	
SJI	33.8	33.6	-0.7%
OGS	79.4	78.6	-1.1%
NJR	44.7	42.8	-4.4%
NI	28.8	28.0	-2.7%
ATO	114.0	111.5	-2.2%
SR	69.3	67.9	-1.9%
SWX	81.2	76.7	-5.6%
Average			**-2.6%**

Small Cap	9/16/2022	9/23/2022	
ALE	58.1	56.2	-3.3%
AVA	40.8	41.4	1.5%
BKH	76.4	73.3	-4.1%
HE	38.3	37.5	-2.0%
IDA	108.8	108.4	-0.3%
NWE	53.7	52.7	-1.8%
OTTR	69.8	65.2	-6.7%
PNM	47.5	46.8	-1.6%
POR	50.2	49.1	-2.1%
UTL	49.8	49.0	-1.6%
Average			**-2.2%**

Rates	BPS
US GOV 10YR	0.24
US GOV 30YR	0.09

Top / Bottom Performers	
CNP	-1.5%
PNM	-1.6%
WEC	-1.7%
NWE	-1.8%
ED	-2.0%
POR	-2.1%
ATO	-2.2%
ES	-2.2%
LNT	-2.2%
DUK	-2.3%
DTE	-3.3%
ETR	-3.3%
EXC	-3.6%
PCG	-3.6%
D	-3.8%
EIX	-3.9%
SRE	-4.0%
PEG	-5.2%
AES	-6.3%
AGR	-8.2%

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Research Bulletin

NiSource (NI.N)

Reviewing our Expectations into the AD; Mgmt Meeting Takeaways

- We met with CEO Lloyd Yates yesterday and are providing takeaways from our discussions. Overall we see management on track to execute currently stated EPS goals for FY22 - FY24 with investors focused on NI's recently scheduled November 7th Analyst Day.

Company Code	NI.N
Rating	NEUTRAL
Price (27-Sep-22, US$)	26.86
Target price (US$)	30.00
52-week price range (US$)	32.46 - 24.23
Market cap(US$ m)	10,904
Enterprise value (US$ m)	23,744

Target price is for 12 months.

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- **NI: AD Scheduled; What we're expecting into conf season updates:** NiSource scheduled their widely anticipated Analyst Day for November 7th where the company is expected to provide an update on long term growth and the strategic review. Overall, we came away more certain that NI will be pursuing a standalone utility plan that may or may not include OpCo asset sales, but regardless will target a 6-8% EPS CAGR at minimum on the LT extension. Recall NI is guiding to 5-7% EPS growth through 2023 and 7-9% through 2024 as renewable capital projects at NIPSCO move in-service. We don't believe investors should be assuming an 7-9% EPS CAGR on the extension, though this remains a possibility as NI firms up details into the event. We think 6-8% slightly underwhelms near-term expectations but we emphasize either outcome would be top quartile vs. peers.

- **New NiSource Vs. Old: Focus First On Increasing efficiencies:** As for the core of the plan, we believe management will be focused on 1) Driving O&M efficiencies in excess of what's been introduced via NI NEXT; 2) Financing the plan in the most shareholder friendly way, which could include traditional financing or asset sales and 3) Delivering a plan that sets up mgmt to beat and raise over the long term. On O&M, discussions indicated opportunities across A&G with efficiencies from tech deployment. We believe Mr. Yates remains focused on deploying best practices from peers DUK / SO. Utilities with greater O&M / CapEx alignment opportunities we think can be better positioned for inflation and we await updated details on the strategy in November.

- **Asset sales or not... we still think this is a moving target:** There has been significant volatility in capital markets over the past 60 days and we believe this adds to an increasingly difficult deal-making environment. NI is growing rate base 10% across most jurisdictions, and we expect an uptick in financing needs when management likely increases CapEx in November. Asset sales do appear more accretive at these levels, and management indicated that it is open to the best accretive avenue at the time of the Analyst Day. We provide a refreshed asset sale vs. equity issuance analysis below for $750Mn of incremental CapEx, seeing asset sales at 2.5x RAB as 2.7% accretive to our base EPS. We include our analysis below.

- **Expectations & Recent Performance:** NI's most direct comparables at the LDC (ATO & OGS) have underperformed the wider utility group on a 6M trailing basis (ATO -8.7%, OGS -15.1%, UTY --6.0%, SPX -19.7%), which we think has weighed on shares. Expectations have been quite wide on the range of outcomes for the stock, which we believe is due to the strategic review and managements openness to consider all options, including outright sale of the company as discussed on public conference calls. We think most investors now assume NI pursues a standalone plan.

- **Progressing Positively On Rate Cases:** Discussions noted confidence in achieving a settlement in OH, where we're watching for data-points ahead of the Oct 18-21 hearing dates. Management recently executed on a PA settlement for $44.5Mn revenue requirement (vs. $81Mn ask) which we view as constructive. Indiana was recently filed and NI feels confident given CPCNs already approved and renewable rate base assets representing a large portion of the regulatory ask.

Other Discussion Points

- **Interest Rates:** Discussions acknowledged higher interest rates and increases in short-term borrowing costs with NI recently issuing commercial paper at a 3.6% rate; this is fairly in line with current 3M Libor which is up ~350bps YTD. We see higher interest rates as a clear theme for 3Q / EEI updates for the sector, given the increases in short term borrowing costs for the sector and compounding effects of raising deferred asset balances.

- **Fuel considerations for LDCs**: CapEx still appears manageable at current inflationary and fuel levels despite recent pressure to customer bills.

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Figure 1: NI Scenario Analysis Refresh

Fund CapEx Upside w/Equity	2025
CapEx ($mm)	750
ROE (%)	10.0%
Equity (%)	50.0%
NI ($mm)	38
Depreciation	21
FFO	**59**
FFO/Debt	14%
Leverage	7.1x
Debt Issued	421
Equity Needed	329
2025 Pre Transaction NI	916
2025 Post Transaction NI	954
2025 Shares Outstanding	487
2025 Pro Forma Shares Outstanding	499
2025 Pre Transaction EPS	$1.88
2025 Post Transaction EPS	$1.91
Accretion / Dilution	**$0.03**
%	***1.5%***

Fund CapEx Upside with Asset Sale	2025
Capex	750
ROE (%)	10.0%
Equity (%)	50.0%
NI	**38**
Depreciation	21
FFO	**59**
Jurisdiction	KY
Rate Base	423
Earnings Power (9.3% ROE, 52.5% Equity)	**21**
Acquisition Multiple (EV/RAB)	2.5x
EV	1,058
Less: Debt	201
Equity Proceeds	857
Tax (28%)	240
Post Tax Proceeds	**617**
FFO/Debt	14%
Leverage	7.1x
Debt Issued	421
Equity Need	329
Incremental Cash Post Equity Need Offset	288
Debt Paydown (3.5% tax effected) NI Benefit	8
Pre Transaction NI	916
Post Transaction NI	941
Pre Transaction SO	487
Post Transaction SO	487
*No change as asset sales offset equity needs	
2025 Pre Transaction EPS	$1.88
2025 Post Transaction EPS	$1.93
Accretion / Dilution	**$0.05**
%	**2.7%**

Source: Credit Suisse estimates, Company data

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Valuation Methodology and Risks

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

Method: We value NI on a P/E approach that yields a $30 target price. Our base-case multiple of 17.1x is derived by taking the regulated electric and regulated gas group multiples and applying a weighted-average approach based on NI's rate base mix. We apply a 5% premium to this number to account for: (1) numerous tracking mechanisms in place to realize real-time return on capital; (2) new management, which is taking a refreshed view of the company's operating segments and pushing forward with a strategic review with the goal of creating value; and (3) potential upside to capex that isn't contemplated in our current EPS estimates. Our target price implied P/E multiple is in line to electrics and a premium to gas LDCs. We rate NI Neutral as we expect the stock's total return to be in line with peers over the next 12 months.

Risk: Risks to our Neutral rating and $30 target price include: Increased inflation above NI's cost-control ability, as well as headwinds delaying solar development via supply chain issues. Gas is a combustible molecule, and NI has a history of two separate high-profile explosions in the last 10 years, which could negatively affect the share price. Management also discussed buying and selling assets as part of its new strategy, and we think buying assets could weigh on NI's multiple. Climate change and increased scrutiny on GhG emissions is also a risk given ~70% of NI's rate base is coming from the gas distribution utility.

Companies Mentioned *(Price as of 27-Sep-2022)*

Atmos Energy (ATO.N, $107.57)

NiSource (NI.N, $26.86, NEUTRAL, TP $30.0)

ONE Gas (OGS.N, $74.05)

Disclosure Appendix

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I, Nicholas Campanella, 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 (NI.N)

NI.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
21-Oct-19	28.05	30.00	N
01-Nov-19	27.65	29.00	
17-Jan-20	29.04	30.00	
28-Feb-20	27.02	31.00	O
05-May-20	24.53	27.00	
20-Jul-20	23.75	26.00	
03-Nov-20	24.03	28.00	
13-Apr-21	24.51		R
14-Apr-21	24.51	28.00	O
16-Apr-21	25.62	29.00	
13-Jul-21	24.97		NC
25-Apr-22	30.58	32.00	N *
04-May-22	29.67	31.00	
18-Jul-22	28.39	30.00	



** Asterisk signifies initiation or assumption of coverage.*
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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

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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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Restricted	1%	

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Credit Suisse Securities (USA) LLC	Nicholas Campanella ; Fei She, CFA ; Nathan Richardson

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9 August 2022
Equity Research
Americas | United States

CREDIT SUISSE

NiSource

Reviewing the potential path(s) forward: Maintaining Neutral

NI

Target price (12M, US$) 30.00
Neutral

Gas Utilities | Earnings

NI reported in-line 2Q result and the call focused on the strategic review, renewable flexibility, and the narrowed AD date to Nov. We are not surprised and continue to see the current valuation as fair with shares currently trading at 17.8x '24 Cons. EPS vs. LDCs at 16.5x and Electrics at 18.3x. NI is working to deliver on a value enhancing plan at the Nov AD and we're reviewing three potential paths forward: 1) standalone plan with additional CapEx; 2) asset sales to fund CapEx upside and 3) strategic sale of a consolidated company. Option 3 could offer the most potential upside to shares which trade at 1.4x EV/RAB vs. recent transaction comps at 2.0x; but we're not making a call on M&A as we think paths 1 or 2 are more likely outcomes.

- **Ongoing Strategic review: all options on the table with AD now in Nov:** Conf call commentary suggested strong demand for LDC assets remains in place under the higher interest rate environment, especially from big infrastructure funds. Stand-alone O&M optimization also remains ongoing with commentary suggesting extensive cost benchmarking work. Regardless of the path forward, senior mgmt. and board members believe a robust process should create shareholder value to be further discussed during the Nov AD. Each of NI's OpCos are growing RAB 10-12% vs. a 7-9% LT EPS CAGR. Call commentary suggested mgmt. is looking at an extension of the 7-9% vs. being monetized in a short-term environment, but we don't think this should be investors' base case.
- **Working through rate case settlement in OH and PA; Executing on mitigation plan for solar delay:** Recall OH rate case settlement timeline was pushed to Oct, while mgmt. remains confident with settlement and the delay should not hinder execution of '22 guidance. Management is also on track to resolve the PA rate case this year too. As it related to the base plan, NI remains focused on the plan laid out during the 1Q call through cost saving and capex pull forward to offset rate base impact due to delay solar deployment. AD/CVD relief provides further flexibility to the base plan today, and management affirmed all long term EPS metrics, CapEx, and funding targets in 2Q.
- **EPS Est. & Valuation:** We re-affirm our Neutral rating and $30 Target Price. Minor EPS changes on share count. Risks: Strategic review; Reg outcomes; supply chain.

Price (8 Aug 22, US$)	29.90
52-week price range	32.46 - 23.84
Enterprise value (US$ m)	23,744

Research Analysts

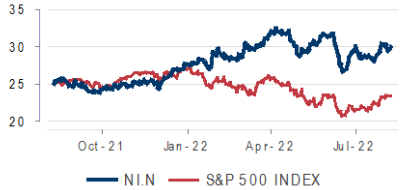
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	1.37	1.44	1.57	1.69
Prev. EPS (US$)	-	-	1.56	1.68
P/E (x)	21.8	20.8	19.1	17.7
P/E rel. (%)	116.9	123.2	122.6	123.3
EBITDA (US$ m)	1,755	2,169	2,402	2,635
EV/EBITDA (current)	12.6	10.9	10.3	10.1
Net debt (US$ m)	9,707	10,534	10,913	12,081
FFO/Total Debt (%)	12.5	14.8	15.7	15.6
EV/Rate Base	1.46	1.41	1.34	1.32
Number of shares (m)	406	Dividend (current, US$)		0.0
Consolidated ROE (%)	11.1	Dividend yield (%)		3.00
Rate Base (YE)	16,229			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 08-Aug-2022 the S&P 500 INDEX closed at 4140.06Daily Aug09, 2021 - Aug08, 2022, 08/09/21 = US$25.24

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	0.72	0.11	0.11	0.47
2022E	0.75	0.12	0.15	0.41
2023E	0.79	0.17	0.19	0.42

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NiSource (NI)

Analyst: **Nicholas Campanella**

Price (08 Aug 2022): **US$29.9**

Target Price: **30.00**

Rating: **Neutral**

Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**4,899.6**	**5,306.9**	**5,537.4**	**5,771.1**
EBITDA (US$ m)	**1,755**	**2,169**	**2,402**	**2,635**
Depr. & amort.	(748)	(811)	(883)	(952)
EBIT (US$)	**1,007**	**1,358**	**1,519**	**1,682**
Net interest exp	(341)	(428)	(470)	(496)
PBT (US$)	**707**	**970**	**1,090**	**1,227**
Income taxes	(118)	(277)	(311)	(349)
Minorities	(4)	(4)	(4)	(4)
Reported net income (US$)	**571**	**635**	**720**	**819**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**571**	**635**	**720**	**819**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	1,007	1,358	1,519	1,682
Net interest	(341)	(428)	(470)	(496)
Change in working capital	(260)	0	0	0
CAPEX	(1,838)	(2,460)	(2,800)	(2,760)
Free cashflow to the firm	**(620)**	**(902)**	**(1,085)**	**(877)**
Acquisitions	-	-	-	-
Divestments	-	-	-	-
Cash flow from investments	**(2,205)**	**(2,460)**	**(2,800)**	**(2,760)**
Changes in Net Cash/Debt	**(86)**	**(827)**	**(379)**	**(1,168)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	95	267	938	420
Total current assets	**1,921**	**2,093**	**2,764**	**2,246**
Total assets	**24,157**	**25,978**	**28,566**	**29,855**
Liabilities				
Total current liabilities	**2,746**	**2,796**	**2,796**	**2,796**
Total liabilities	**16,884**	**17,996**	**19,158**	**19,920**
Total liabilities and equity	**24,157**	**25,978**	**28,566**	**29,855**
Net debt	9,707	10,534	10,913	12,081
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	417	442	459	484
CS adj. EPS	1.37	1.44	1.57	1.69
Prev. EPS (US$)	-	-	1.56	1.68
Dividend (US$)	0.83	0.94	1.01	1.08
Free cash flow per share	(1.49)	(2.04)	(2.36)	(1.81)
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	4.7	8.3	4.3	4.2
EBIT growth (%)	82.8	34.8	11.9	10.7
Net profit growth (%)	12.6	11.1	13.5	13.7
EPS growth (%)	3.7	5.0	9.1	7.9
EBITDA margin (%)	35.8	40.9	43.4	45.7
EBIT margin (%)	20.6	25.6	27.4	29.1
Pretax margin (%)	14.4	18.3	19.7	21.3
Net margin (%)	11.7	12.0	13.0	14.2
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	4.53	4.47	4.45	4.60
P/E (x)	21.8	20.8	19.1	17.7
Price to book (x)	2.2	2.0	1.7	1.7
Asset turnover	0.2	0.2	0.2	0.2
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	11.1	11.0	10.6	10.5
ROIC (%)	4.9	5.2	5.3	5.5
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	133.5	132.0	116.0	121.6
Interest coverage ratio (X)	3.0	3.2	3.2	3.4
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	0.72	0.11	0.11	0.47
2022E	0.75	0.12	0.15	0.41
2023E	0.79	0.17	0.19	0.42

Source: FTI, Company data, Refinitiv, Credit Suisse Securities (EUROPE) LTD. Estimates

Company Background

NiSource (NI) is a gas & electric utility holding company.

Blue/Grey Sky Scenario



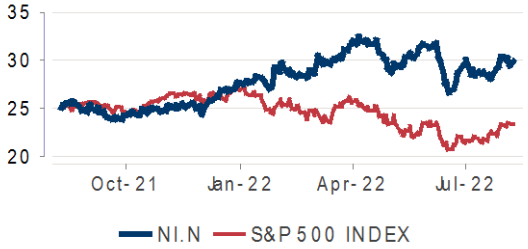
Our Blue Sky Scenario (US$) **32.00**

Our Blue Sky scenario contemplates a 19.2x blended 2024E P/E multiple, which could be achieved if: (1) NI raises capex above Street/our expectations; (2) management decides to pursue a go-private; or (3) NI raises 2022E EPS above consensus/our estimates and rebases the LT EPS CAGR higher.

Our Grey Sky Scenario (US$) **28.00**

Our Grey Sky scenario contemplates an 16.6x blended 2024E P/E multiple, which could be realized if: (1) solar projects in NI's generation transition plan are delayed; (2) if management is unable to hit the midpoint of its stated EPS targets in 2022 or beyond; or (3) if management receives less constructive rate case outcomes than we expect.

Share price performance

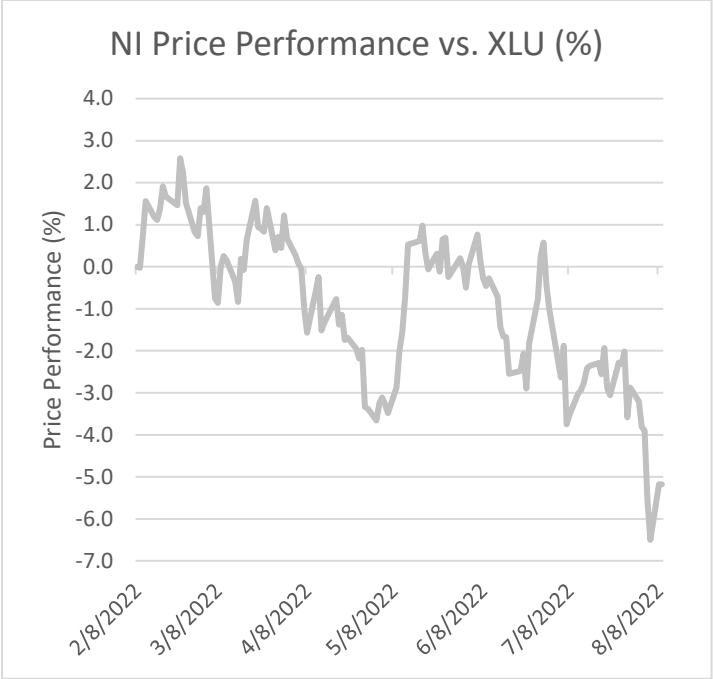


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NiSource Trading Dynamics

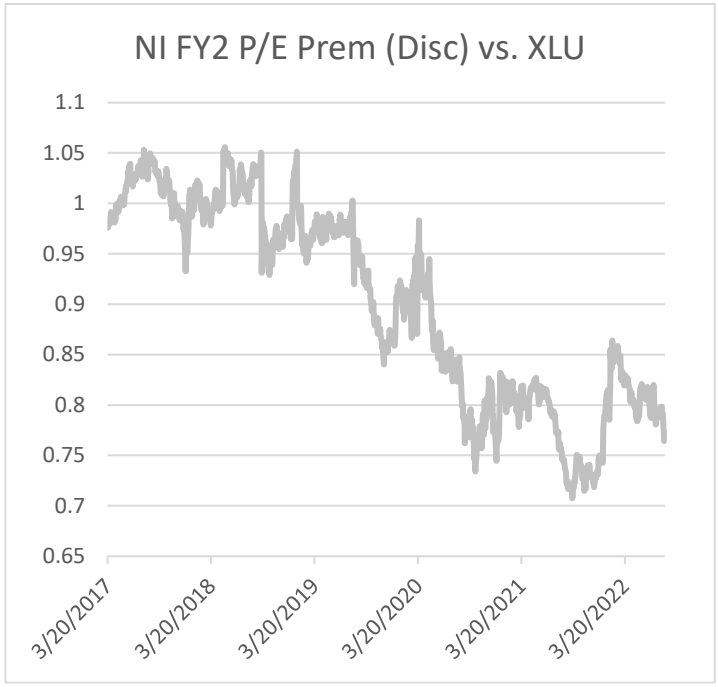
We note shares have underperformed XLU peers through 1Q22 which we attribute to lack of visibility to the base plan amidst the ongoing AD/CVD pressures which have large renewable capital projects. Management cured concerns on the 1Q call which flowed through positively to the stock. However, we believe investors remained optimistic on a potential 'take-private' (as was reported in Bloomberg and other outlets) through the Spring with recent failed processes (SWX) from peers injecting further uncertainty in takeout optionality. We note NI now trades near relative lows on P/E vs. XLU when contrasting to the last 5 years as management has been working to restore confidence in the company post the Merrimac MA incident, Covid-related cost impacts and financing needs which have been an overhang for the stock. We do think the story is much clearer now on a 5yr basis which management addressing equity needs via converts and setting forth and achievable 7-9% EPS CAGR. **While we are now more positive on shares than our April '22 launch, we acknowledge limited upside to valuation on a 5% premium P/E view assuming an EPS outlook which is in line with the current 7-9% LT EPS CAGR, thus are affirming our Neutral rating.**

Figure 1: NI Price Performance vs. XLU (%) – 1 Year



Source: the BLOOMBERG PROFESSIONAL™ service

Figure 2: NI FY2 P/E vs. XLU (%) – 5 Years



Source: the BLOOMBERG PROFESSIONAL™ service

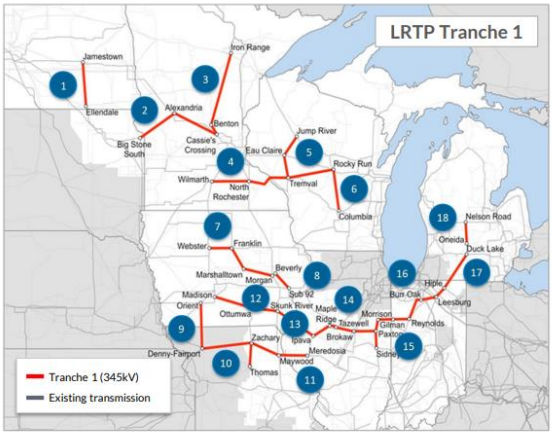
Key Investment Considerations

- **Sentiment for LDC M&A:** There has been private vs. public market arbitrage opportunities for LDC assets over the past 1-2 years and recall recent transactions, where CNP sold its AR/OK assets north of 2.0x rate base. Based on this and management commentary, NI could potentially consider monetizing its LDC asset to fund capex opportunities and reduce equity needs given this market sentiment. Recall CNP and NI both mentioned robust interest from infrastructure funds for such asset during most recent earing's calls. Despite the favorable backdrop, we view the recent development at SWX as negative and introduced some uncertainties into the overall market view on private vs. public arbitrage, especially M&A involving a consolidated company transaction. SWX also has a multi-state footprint, which raises execution risk comparable to NI and we see SWX's announcement of sticking with LDC asset as a negative read-across to NI complicating market sentiment, considering challenges where there's multiple hoops to jump through for regulatory approval.

- **LDC multiples have come in some too:** We believe shares have been pressured over the last two weeks from the broader decline in LDC multiples relative to electrics. We now see the sector trading at 16.5x 2024E EPS vs. large cap electrics at 18.3x.
- **Inflation Reduction Act & AMT impacts:** NI is looking at PTC / ITC transferability with the current plan not contemplating any IRA related provisions. Utilizing these concepts can increase investment and keep costs more competitive for customers. Based on management commentary on the call, there is potential upside for additional ownership of renewables through future RFP processes. In terms of AMT and cash flow impacts, with accelerated depreciation now allowed to offset the 15% AMT, utility companies are less impacted broadly. NI also has NOLs to be utilized through the first half of the decade. Lastly, we don't see the company hitting the $1Bn net income mark until ~2026E.
- **Upcoming RFP:** Recall NI is re-launching a prior all-source RFP which will consider resources for Michigan City retirement (450MWs). While the numbers could be completely different, we would expect this to be at least at or above the $750Mn of IRP related capex upside previously discussed by management in early '22.
- **MISO transmission capex within the decade:** Given the July MISO vote on tranche 1 transmission project, we see NIPSCo's service territory overlapping with Parcel IDs 15/16 (see below), which represents about $200-$500 mm non-competitive transmission opportunities within MISO that could be in service by late 2020/early 2030. We see this as on top of NI's existing base capital plan of $40 bn over 20+ years.

Figure 3: MISO Tranche 1 Transmission Investment Opportunity

Tranche 1 represents the first iteration and includes 18 projects across the MISO Midwest subregion estimated at $10.3 billion



Assumption on all in-service dates is by 2030

ID	Project Description	Est. Cost ($M, 2022)
1	Jamestown – Ellendale	$439M
2	Big Stone South – Alexandria – Cassie's Crossing	$574M
3	Iron Range – Benton County – Cassie's Crossing	$970M
4	Wilmarth – North Rochester – Tremval	$689M
5	Tremval – Eau Clair – Jump River	$505M
6	Tremval – Rocky Run – Columbia	$1,050M
7	Webster – Franklin – Marshalltown – Morgan Valley	$755M
8	Beverly – Sub 92	$231M
9	Orient – Denny - Fairport	$390M
10	Denny – Zachary – Thomas Hill – Maywood	$769M
11	Maywood – Meredosia	$301M
12	Madison – Ottumwa – Skunk River	$673M
13	Skunk River – Ipava	$594M
14	Ipava – Maple Ridge – Tazewell – Brokaw – Paxton East	$572M
15	Sidney – Paxson East – Gilman South – Morrison Ditch	$454M
16	Morrison Ditch – Reynolds – Burr Oak – Leesburg – Hiple	$261M
17	Hiple – Duck Lake	$696M
18	Oneida – Nelson Rd.	$403M
	Total Project Portfolio Cost	**$10.3B**

7 Costs as of 6/1/2022, and are subject to change (costs represent "overnight" costs) MISO

Source: MISO

EPS Estimates & Dashboard

There is no material change to EPS estimates compared to previous. The minor 1c shift in '23/'24/'25/'26 is due to updated share count and favorable view on additional cost cutting.

Figure 4: NI EPS Estimates & Dashboard

NI Dashboard Nicholas Campanella +1 212 325 7505	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Consolidated EPS	**$1.32**	**$1.32**	**$1.37**	**$1.44**	**$1.57**	**$1.69**	**$1.89**	**$2.06**
Prior EPS			**$1.37**	**$1.44**	**$1.56**	**$1.68**	**$1.88**	**$2.07**
Change (%)			0.0%	-0.5%	0.4%	0.4%	0.5%	-0.4%
Consensus EPS			**$1.37**	**$1.45**	**$1.55**	**$1.72**	**$1.83**	**$1.90**
Delta (%)			-0.1%	-0.8%	1.2%	-1.8%	3.1%	8.6%
Shares Outstanding		384	417	442	459	484	485	487
DPS			$0.83	$0.94	$1.01	$1.08	$1.15	$1.23
DPS Growth (%)				13.63%	7.00%	7.00%	7.00%	7.00%
DPS Payout (%)				65.4%	64.1%	63.6%	61.0%	59.7%
Valuation Metrics								
P/E		22.6x	21.8x	20.8x	19.1x	17.7x	15.8x	14.5x
EV/RAB		1.5x	1.5x	1.4x	1.3x	1.3x	1.2x	1.2x
FFO		1,353	1,478	1,558	1,715	1,883	2,057	2,200
Net Debt		9,621	9,707	10,534	10,913	12,081	13,373	13,803
FFO/Debt (%)		14.1%	15.2%	14.8%	15.7%	15.6%	15.4%	15.9%
EBITDA		1,277	1,755	2,169	2,402	2,635	2,882	3,085
Net Debt		9,621	9,707	10,534	10,913	12,081	13,373	13,803
Net Debt / EBITDA		7.5x	5.5x	4.9x	4.5x	4.6x	4.6x	4.5x
Holdco Debt / Total Debt		33.8%	34.4%	34.0%	33.1%	33.4%	34.9%	35.0%
Consoldiated Equity Layer (%)		37.5%	42.6%	42.5%	44.3%	44.3%	44.0%	44.3%
EPS Estimates By Sub								
Gas Distributions	$0.93	$0.05	$0.77	$1.22	$1.31	$1.40	$1.52	$1.64
Electric Operations	$0.58	$0.47	$0.50	$0.50	$0.54	$0.57	$0.67	$0.74
Parent	($0.19)	$0.80	$0.10	($0.28)	($0.28)	($0.28)	($0.30)	($0.31)
Consolidated	**$1.32**	**$1.32**	**$1.37**	**$1.44**	**$1.57**	**$1.69**	**$1.89**	**$2.06**
Guidance								
Midpoint					**$1.60**	**$1.73**	**$1.86**	**$2.01**

Source: Company data, Credit Suisse estimates, the BLOOMBERG PROFESSIONAL™ service

Strategic Funding Considerations – New Equity vs. Asset Sale

We continue to see the ongoing strategic review could potentially lead to a portfolio rotation opportunity and we run below scenario analysis, based on assumed $750mm capex upside related to the 2021 IRP (we also see capex upside from MISO transmission opportunities that are non-competitive nature for NI which would lean towards late 2020/early 2030). We show funding this at both current equity prices, with 14% FFO/debt minimum, and assuming monetizing a small KY gas LDC subsidiary at 2.5x RAB (see M&A comps here). We see still limited EPS accretion in asset sale scenario (2.7%) vs. simple equity issuance (1.8%), but nonetheless see either as value additive to NI's base 7-9% EPS plan.

Figure 5: Scenario Analysis on Strategic Funding – New Equity vs. Asset Sale

Fund CapEx Upside w/Equity	2025
CapEx ($mm)	750
ROE (%)	10.0%
Equity (%)	50.0%
NI ($mm)	38
Depreciation	21
FFO	**59**
FFO/Debt	14%
Leverage	7.1x
Debt Issued	421
Equity Needed	329
2025 Pre Transaction NI	916
2025 Post Transaction NI	954
2025 Shares Outstanding	486
2025 Pro Forma Shares Outstanding	497
2025 Pre Transaction EPS	$1.89
2025 Post Transaction EPS	$1.92
Accretion / Dilution	**$0.03**
%	***1.8%***

Fund CapEx Upside with Asset Sale	2025
Capex	750
ROE (%)	10.0%
Equity (%)	50.0%
NI	**38**
Depreciation	21
FFO	**59**
Jurisdiction	KY
Rate Base	423
Earnings Power (9.3% ROE, 52.5% Equity)	**21**
Acquisition Multiple (EV/RAB)	2.5x
EV	1,058
Less: Debt	201
Equity Proceeds	857
Tax (28%)	240
Post Tax Proceeds	**617**
FFO/Debt	14%
Leverage	7.1x
Debt Issued	421
Equity Need	329
Incremental Cash Post Equity Need Offset	288
Debt Paydown (3.5% tax effected) NI Benefit	8
Pre Transaction NI	916
Post Transaction NI	941
Pre Transaction SO	486
Post Transaction SO	486
*No change as asset sales offset equity needs	
2025 Pre Transaction EPS	$1.89
2025 Post Transaction EPS	$1.94
Accretion / Dilution	**$0.05**
%	**2.7%**

Source: Company data, Credit Suisse estimates, the BLOOMBERG PROFESSIONAL™ service

Strategic Funding Considerations – Take Private

We heard a slight change in tone from the 2Q call that mgmt. was not ruling out the option of potentially taking company private given robust interest and valuation through private/public arbitrage. We ran a simple scenario analysis to show share price upside potential if a transaction valuation is above current market EV/RAB multiple for NI's asset (1.4x for 2022). Using a 1.8x EV/RAB multiple (recent transaction comps at 2.0x) would see meaningful shareholder value created through the monetization such favorable private valuation. We recommend investors risk adjust this figure when contemplating upside-downside skew to the stock, as we view any potential for a deal to be low probability but high impact and garner heightened execution risk. Under this scenario, we think investors should consider the need for potential substantial customer credits due to broader inflationary pressures, higher cost of capital, as well as mutli-state reg approvals. We also included our utilities M&A table showing average EV/RAB multiple for LDC transactions at 2.2x and electric at 1.8x, based on historical data points.

Figure 6: Scenario Analysis on Strategic Funding – Take Private Base Case Scenario

Take Private - Base Case	2022
Current EV/RAB (x)	1.4x
Current EV ($Bn)	$23,744
Current Debt ($Bn)	$10,534
Current Equity Value ($Bn)	$13,210
Current Share Price ($/sh)	$30
Proposed EV/RAB (x)	1.8x
2022 Rate Base (CSe)	$16,886
Implied EV ($Bn)	$29,550
Implied Equity Value ($Bn)	$19,016
Implied Share Price ($/sh)	**$43**
Upside / Downside	44%

Source: Company data, Credit Suisse estimates, the BLOOMBERG PROFESSIONAL™ service

Figure 7: Scenario Analysis on Strategic Funding – Take Private Sensitivity Scenarios

Take Private - Low Case	2022
Current EV/RAB (x)	1.4x
Current EV ($Bn)	$23,744
Current Debt ($Bn)	$10,534
Current Equity Value ($Bn)	$13,210
Current Share Price ($/sh)	$30
Proposed EV/RAB (x)	1.5x
2022 Rate Base (CSe)	$16,886
Implied EV ($Bn)	$25,329
Implied Equity Value ($Bn)	$14,795
Implied Share Price ($/sh)	**$33**
Upside / Downside	12%

Take Private - High Case	2022
Current EV/RAB (x)	1.4x
Current EV ($Bn)	$23,744
Current Debt ($Bn)	$10,534
Current Share Price ($/sh)	$30
Proposed EV/RAB (x)	2.0x
2022 Rate Base (CSe)	$16,886
Implied EV ($Bn)	$33,771
Implied Equity Value ($Bn)	$23,237
Implied Share Price ($/sh)	**$53**

Source: Company data, Credit Suisse estimates, the BLOOMBERG PROFESSIONAL™ service

Valuation: TP remains $30

We are keeping our $30 TP and we maintain our Neutral rating on NI with 0.3% upside and 3.1% total return, in line with the average of our coverage universe. Our 5% premium view for NI's multiple remains unchanged which we apply for new management and the ongoing strategic review.

Figure 8: TP remains $30

NI P/E	Grey Sky	Base Case	Blue Sky
Average Electric Multiple		18.3x	
Average Gas LDC Multiple		16.5x	
Blended Multiple (Based on Rate Base)		17.1x	
Prem / Disc	-3%	5%	13%
Adjusted P/E Multiple	16.6x	17.9x	19.2x
Consolidated EPS '24E	$1.69	$1.69	$1.69
	16.6x	17.7x	18.9x
Valuation	**$28**	**$30**	**$32**
Stock Price		$30	
Upside / Downside	-6.4%	0.3%	7.0%
Yield		2.8%	
Total Return	**-3.6%**	**3.1%**	**9.8%**

Source: Company data, Credit Suisse estimates, the BLOOMBERG PROFESSIONAL™ service

Figure 9: Selected Utilities M&A Transaction

Target	Acquirer	Service Jurisdictions	Service Provided	Announced Date	Closed Date	EV ($Bn)	Ownership (%)	Rate Base* ($Bn)	EV/RAB	Implied P/E**
SJI	IIF (JPM)	NJ	Gas	Feb-22	Q4 2022	$7.4	100%	$3.3	2.2x	23.8x
D - Hope Gas	Ullico	WV	Gas	Feb-22	Dec-22	$0.8	100%	$0.3	2.7x	46.0x
FE - FirstEnergy Transmission	Brookfield	Multi-state	Electric	Nov-21	H1 2022	$17.0	19.9%	$6.4	2.7x	33.0x
AEP - KP Co	AQN	KY	Electric	Oct-21	Mid 2022	$2.8	100%	$2.2	1.3x	14.8x
CNP - AK & OK	Summit Utilities	AK, OK	Gas	Apr-21	Jan-22	$2.2	100%	$0.7	3.1x	38.0x
Narragansett Electric	PPL	RI	Electric	Mar-21	On Hold	$5.3	100%	$2.6	2.0x	29.2x
DUK - Duke Energy Indiana	GIC	IN	Electric	Jan-21	Jan-23	$14.6	19.9%	$9.5	1.5x	30.8x
PNM	AGR	NM, TX	Electric	Oct-20	Appeal Jan 202	$7.6	100%	$4.3	1.8x	20.0x
NI - Columbia Gas of MA	ES	MA	Gas	Feb-20	Oct-20	$1.1	100%	$1.1	1.0x	20.0x
El Paso Electric	IIF (JPM)	TX, NM	Electric	Jun-19	Jul-20	$5.8	100%	$2.5	2.4x	35.0x
PNG	WTRG	PA, KY & WV	Gas	Oct-18	Mar-20	$4.3	100%	$2.2	1.9x	28.9x
HIFR	Oncor	TX	Electric	Oct-18	May-19	$2.2	100%	$1.5	1.4x	16.7x
VVC	CNP	IN, OH	Gas	Apr-18	Feb-19	$8.5	100%	$3.4	2.5x	35.1x
SCANA	D	NC, SC	Electric	Jan-18	Jan-19	$14.6	87%	N/A	N/A	N/A
Oncor	SRE	TX	Electric	Aug-17	Mar-18	$18.9	80%	$11.0	1.7x	17.2x
Piedmont Natural Gas	DUK	NC	Gas	Oct-15	Oct-16	$6.7	100%	$3.5	1.9x	28.0x
TECO	EMA	FL, NM	Electric	Sep-15	Jul-16	$14.3	100%	$8.9	1.6x	23.3x
Median						**$6.7**		**$3.0**	**1.9x**	**28.4x**
Average						**$7.9**		**$4.0**	**2.0x**	**27.5x**

**Rate base assumption from latest base rate filing from SNL*

***Implied P/E assumes 50/50 capital structure and 10% ROE*

Source: Company data, Credit Suisse estimates, the BLOOMBERG PROFESSIONAL™ service

Valuation Methodology and Risks

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

Method: We value NI on a P/E approach that yields a $30 target price. Our base-case multiple of 17.1x is derived by taking the regulated electric and regulated gas group multiples and applying a weighted-average approach based on NI's rate base mix. We apply a 5% premium to this number to account for: (1) numerous tracking mechanisms in place to realize real-time return on capital; (2) new management, which is taking a refreshed view of the company's operating segments and pushing forward with a strategic review with the goal of creating value; and (3) potential upside to capex that isn't contemplated in our current EPS estimates. Our target price implied P/E multiple is in line to electrics and a premium to gas LDCs. We rate NI Neutral as we expect the stock's total return to be in line with peers over the next 12 months.

Risk: Risks to our Neutral rating and $30 target price include: Increased inflation above NI's cost-control ability, as well as headwinds delaying solar development via supply chain issues. Gas is a combustible molecule, and NI has a history of two separate high-profile explosions in the last 10 years, which could negatively affect the share price. Management also discussed buying and selling assets as part of its new strategy, and we think buying assets could weigh on NI's multiple. Climate change and increased scrutiny on GhG emissions is also a risk given ~70% of NI's rate base is coming from the gas distribution utility.

Companies Mentioned *(Price as of 08-Aug-2022)*
CenterPoint Energy (CNP.N, $31.58)
NiSource (NI.N, $29.9, NEUTRAL, TP $30.0)
Southwest Holdg (SWX.N, $77.65)

Disclosure Appendix

Analyst Certification

I, Nicholas Campanella, 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 (NI.N)

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
21-Oct-19	28.05	30.00	N
01-Nov-19	27.65	29.00	
17-Jan-20	29.04	30.00	
28-Feb-20	27.02	31.00	O
05-May-20	24.53	27.00	
20-Jul-20	23.75	26.00	
03-Nov-20	24.03	28.00	
13-Apr-21	24.51		R
14-Apr-21	24.51	28.00	O
16-Apr-21	25.62	29.00	
13-Jul-21	24.97		NC
25-Apr-22	30.58	32.00	N *
04-May-22	29.67	31.00	
18-Jul-22	28.39	30.00	



** Asterisk signifies initiation or assumption of coverage.*

Effective July 3, 2016, NC denotes termination of coverage.

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 (excluding Turkey) ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin America, Turkey and Asia (excluding Japan and Australia), stock ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark (India - S&P BSE Sensex Index); for China A share the relevant index is the Shanghai Shenzhen CSI 300 (CSI300); prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.*
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Not Covered (NC) : Credit Suisse Equity Research does not provide ongoing coverage of the company or offer an investment rating or investment view on the equity security of the company or related products.

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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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Underperform/Sell*	10%	(17% banking clients)
Restricted	1%	

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Credit Suisse provided investment banking services to the subject company (NI.N) within the past 12 months.
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Credit Suisse has managed or co-managed a public offering of securities for the subject company (NI.N) within the past 12 months.
Within the past 12 months, Credit Suisse has received compensation for investment banking services from the following issuer(s): NI.N
Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (NI.N) within the next 3 months.
Credit Suisse currently has, or had within the past 12 months, the following issuer(s) as client(s), and the services provided were non-investment-banking, securities-related: NI.N
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- We are providing quick takes before earnings today.
- **What the SWX strategic news means for the LDC sector:** Southwest Gas (not covered) today announced that they're continuing to execute their strategic plan at the utility while reviewing strategic alternatives for the MountainWest pipeline holding company and Centuri group. This comes after the company announced it had significant interest from potential bidders for all or part of the company in May '22. We believe the announcement is negative to the perceived private vs. public arbitrage that has existed over the last 1-2 years in the LDC market. Recall many LDC's have been sold (CNP AR/OK assets) north of 2.0x rate base, and there have been discussions that peer utilities such as NI can monetize LDCs as a means to fund future equity obligations. CNP management did note on the call yesterday that they still receive inbounds on their LDC portfolio, but we do see todays data-point as injecting some uncertainty into the overall markets view of the private vs. public arbitrage. There are specifics to the SWX footprint that should be considered such as regulatory jurisdictions, multi state footprint etc., but we still see this overall as a negative read-across to NI, CNP and others looking to potentially monetize LDC assets.
- **NI 2Q EPS (Neutral):** NI reaffirmed FY22 EPS of $1.42-1.48 and the 5-7% EPS CAGR through 2023, as well as the 7-9% EPS CAGR through 2024. CapEx of $2.4-2.7Bn in 2022 is reaffirmed as is the LT financing plan and LT capex plan. Management noted they remain committed to an Analyst Day in November where they will focus on extending NI's growth

plan. As expected, messaging on impacted renewable rate base projects and AD/CVD relief has provided additional flexibility to NI's mitigation plan. Settlement discussions in OH and PA remain ongoing and OH hearings were rescheduled to October to facilitate settlement discussions. Recall hearings were already pushed twice in the docket for settlement discussions. 2Q EPS was $0.12 vs. Cons $0.12 – quarterly EPS is less impactful this quarter as it's an LDC shoulder season. Topics for the call: Solar supply chain; IRA impacts / AMT; LDC M&A backdrop.

- **ETR 2Q EPS (Positive):** ETR reported $1.78/sh on an adjusted basis vs. Cons. of $1.37 and CSe of $1.31. The strong performance last quarter was largely driven by increased load demand via increased customer growth in the service territory and high temperatures across the region. ETR now expects 2.9% weather-adjusted sales growth vs. 2% in 1Q22 which we view as positive. Due to higher sales growth, ETR is flexing spending with O&M guidance now expected to be $0.60/sh for the year vs. $0.25/sh in 1Q22. This is a meaningful increase but should provide tailwinds in '23. ETR reaffirmed all performance metric guidance since the analyst day, including maintaining the current 6-8% EPS CAGR, with a bias towards the top half of the range in '22. ETR also completed several projects in 2Q including Sunflower Station, a 100MW solar asset in MS, a substation a part of a $44Mn investment in a distribution network in TX and increasing the AR RFP by 500MW to 1000MW. Key topics for the call include IRA/AMT impacts, SERI settlement update on funding outlook; equity needs update; O&M rationalization amidst inflation; load impacts. Our Analyst Day note can be found here.

- **PPL 2Q EPS (Neutral):** 2Q22 EPS of $0.30/sh vs. $0.19/sh 2Q21 and $0.29/sh Consensus. This inline print is driven by new retail rate implementation and higher sales in KY, higher peak transmission demand in PA, lower interest expense at corporate level, offset by higher O&M and integration expenses associated with the Rhode Island acquisition. Company reaffirmed 2022 EPS guidance range of $1.30-$1.45 and its EPS CAGR of 6%-8% through at least 2025 based off 2022 midpoint. It's a quiet quarter for PPL after the AD in June so we're not expecting material updates.

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July 26, 2022

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MISO Approves Tranche 1 Transmission Projects

Yesterday, the Midcontinent Independent System Operator (MISO) Board approved the Long-Range Transmission Planning Tranche 1 portfolio, which includes 18 projects in MISO's Midwest Subregion that totals $10.3 billion in investment to support system reliability. The assumption is that all projects will be in service by 2030, with some as early as 2028. Within our coverage universe, the projects identified on July 7th in Appendix A of the MISO Transmission Expansion Planning (MTEP21) Final Draft are located in AEE, NI, WEC and XEL's service territories, additional details by company within.

Next steps: MISO staff will determine and post the expected number of RFPs and whether it intends to stagger them by August 8th, then will post the schedule of the RFP releases on August 24th with the first RFP issued by September 23rd. Each of the RFPs will identify facilities eligible for the selected developer and states where they have the right of first refusal (ROFR). Separately, work on three more tranches is ongoing and MISO has indicated that an initial set of Tranche 2 projects also located at MISO North are scheduled for approval in the first quarter of 2023. Projects in Tranche 3 are located in MISO South, with approval scheduled for the fourth quarter of 2024, while projects identified in Tranche 4 are expected to improve transfer capability between MISO North and MISO South, with approval by the fourth quarter of 2025.

Ameren opportunities: Roughly $1.8 billion of the projects identified in the aforementioned MTEP21 Final Draft have listed Ameren as the transmission operator, including about $1,485 million in Illinois and ~$355 million in Missouri. Ameren has said it typically spends about 30% of MISO capex, which would have theoretically represented ~$3 billion of the Tranche 1 spending, so the preliminary award of $1.8 billion here would be less than that but we note that there are approximately $730 million of projects located in Missouri with a transmission operator "to be determined" which if AEE competes for and wins would put them closer to the ~$3 billion. We estimate the annual earnings contribution of the $1.8 billion projects identified for Ameren to be roughly $90 million, which would be ~7% of our 2024 EPS estimate of $4.65/share, though the projects are not expected to start going into service until at least 2028.

NiSource opportunities: Approximately $350 million of the projects identified in the aforementioned MTEP21 Final Draft have listed NiSource's NIPSCO subsidiary in Indiana as the transmission operator. NI has not indicated an amount that it was expecting to be rewarded. We estimate the earnings contribution of these projects to be roughly $17 million or ~1% of our 2024 EPS estimate of $1.73/share, though these projects are not expected to start going into service until at least 2028. Note that there are about $250 million of projects located in Indiana with a transmission operator "to be determined."

WEC opportunities: Approximately $800 million of the projects identified in the aforementioned MTEP21 Final Draft have listed ATC (American Transmission Company LLC) as the transmission operator, in which WEC has an approximately 60% equity ownership interest. WEC has not indicated an amount that it was expecting to be rewarded. We estimate the earnings contribution of these projects to be roughly $24 million or ~2% of our 2024 EPS estimate of $4.91/share, though these projects are not expected to start going into service until at least 2028.

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Xcel opportunities: Roughly $150 million of the projects identified in the aforementioned MTEP21 Final Draft have listed Xcel Energy as the transmission operator. As of the first quarter earnings call the company was expecting to win $1-2 billion out of the $10.4 billion of projects to be awarded by MISO in the first tranche of Phase 1 spending, we will look for an update on their second quarter earnings call on Thursday. We estimate annual earnings contribution of the $150 million projects identified for XEL to be roughly $7 million or ~0.3% of our 2024 EPS estimate of $3.60/share, though these projects are not expected to start going into service until at least 2028.

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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%

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Sell -the total forecasted return is expected to be less than 0%

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

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

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

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

Evercore Group:

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

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

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/or target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon; a stock in the model portfolio is removed.

Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.

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Evercore ISI rating (as of 07/26/2022)

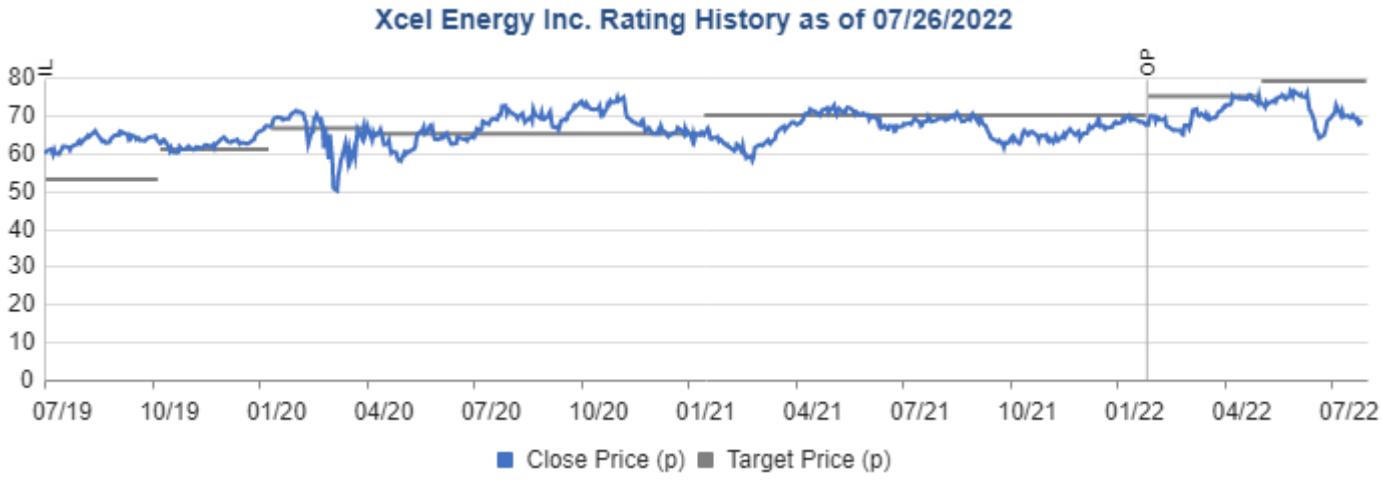
Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	523	62	Buy	89	17
Hold	285	34	Hold	25	9
Sell	14	2	Sell	1	7
Coverage Suspended	10	1	Coverage Suspended	2	20
Rating Suspended	7	1	Rating Suspended	2	29

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Price Charts

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Ratings Key

B	Buy	OP	Outperform	L	Long	CS	Coverage Suspended
H	Hold	IL	In Line	NP	No Position	RS	Rating Suspended
S	Sell	UP	Underperform	S	Short		

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EVERCORE ISI

Energy | Power & Utilities

August 14, 2022

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Q2 Earnings Scorecard

Utilities modestly outperformed this past week. Regulated utilities under our coverage finished the week up +3.7%, outperforming S&P500 +3.3% which was up for a fourth-straight week since April, driven by more support around the peak-inflation theme. Diversifieds were +3.3% higher, while IPPs performed the best up +7.7%. In terms of specific stocks, CEG was the best performer up +9.7% (top beneficiary of Nuclear PTC included in the reconciliation bill which passed the house on Friday), while D was the worst, up +0.3%. On an absolute basis, the group is now trading in line with 12-month pre COVID recession levels and 10% below the valuation peak (pg.13). NTM P/E relative to S&P 500 is 3% below the 12-month pre COVID recession levels and 9% below the valuation peak (pg.14). Versus Bond Yields, group valuation is 1% above 08/09 pre-recession peak (pg.15). Recession and geopolitical risks have increased the appeal for defensive characteristics of the group vs the market as evidenced by material outperformance YTD (pg. 2). As we have stated in our **Utilities deep dive note** published in late March here (Utes/S&P500 +2%/-7% since Mar. 30th), we continue to expect the group to outperform relatively in the near term.

Stock Selection. We prefer value over quality: AEP (top pick), D, ETR, FE, EXC, NI, PPL and SRE are Outperform-rated names within the regulated value bucket. Within diversified names, we view AES (top pick) as best risk/reward and are Outperform-rated on PEG. We are also Outperform-rated on AEE, CNP, DTE and XEL within quality.

Weekly feature (Q2 Earnings Scorecard): With Q2 results, ~86% (vs 75% in Q1 2022) of the utilities met or exceeded Q2 EPS expectations: 18 (or ~62%) companies beat estimates, seven posted in line results, while four missing. 24 out of 29 companies reaffirmed expectations for 2022, four raised guidance at midpoint (CNP, WEC, DTE, and SRE) and HE lowered. Finally of those with established long-term growth rates in our coverage universe, guidance was reiterated or unchanged, see pages 3-6. Inflation Reduction Act (IRA) has been a key discussion topic with utility leadership viewing the bill as a tailwind to provide customer benefits and help enable their clean energy transition. Most companies under coverage have indicated that their preliminary. analysis suggests a non-material cash flow hit from 15% minimum tax after offsets (i.e. PTC, ITC). We show company specific commentary related to Inflation Reduction Act on pages 7-8.

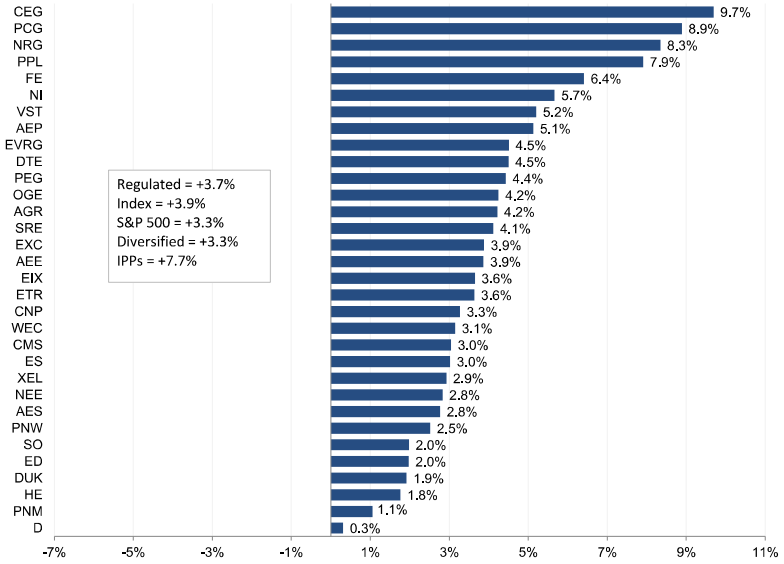
Inflation Reduction Act of 2022 update. On Friday, the House passed the Inflation Reduction Act, sending the bill to Biden's desk to be signed into law. As a reminder, the spending side, the bill includes $369b in energy provisions - extension and expansion of PTC and ITC for Wind, Solar, Storage and other technologies. AES (Top pick), NEE & CWEN positioned to benefit the most. The bill also proposes a PTC for Nuclear - CEG and PEG best positioned. The revenue components of the bill include a 15% minimum tax on book income which could be a cash flow headwind for some companies. We view this bill if passed as a net positive for the sector with a potential to boost rate base/earnings growth while improving ESG profiles of companies within our coverage.

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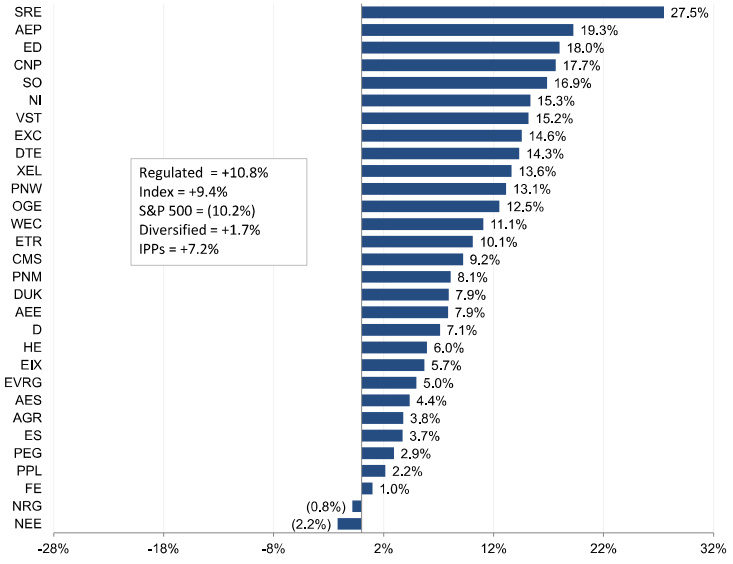
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Exhibit 1: Coverage Group Total Return Performance

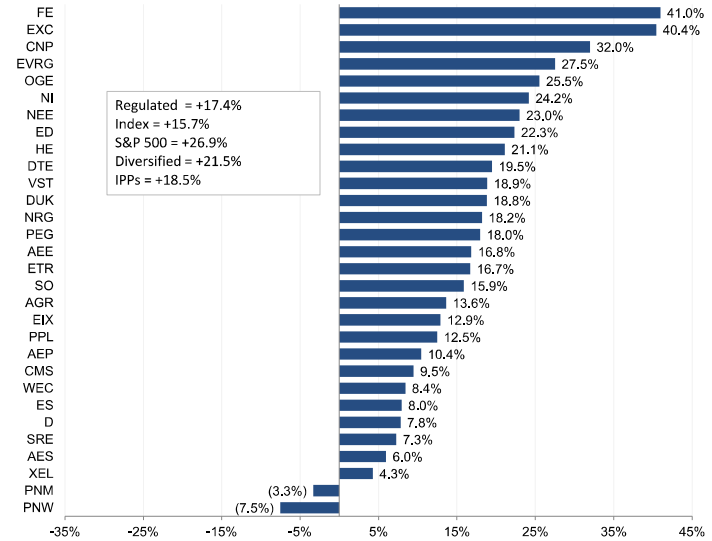
Prior Week



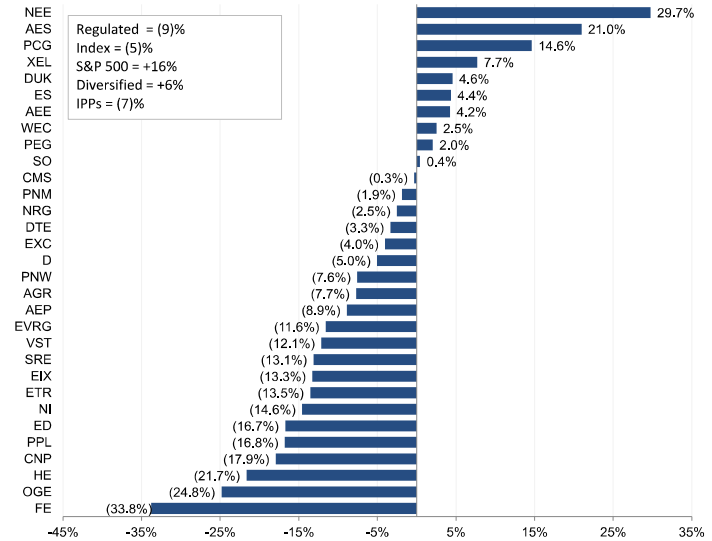
2022 YTD



2021



2020



Source: Evercore ISI, FactSet

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Weekly Feature: Second Quarter 2022 Earnings Highlights

- Below we rank our companies by relative stock price performance versus the UTY on each company's Q2 earnings day and list key highlights.

Ticker	Price Implication	Beat estimates	Missed estimates	In line with estimates	Raised 2022 guidance at midpoint	Reaffirmed 2022 guidance at midpoint	Reaffirmed long-term growth forecast	Other notable announcements
NRG	4.4%		✓			✓	NA	Q2 results were impacted by the May 9th fire at Unit 8 of the Parish coal-fired power plant in Texas.They are executing on the $1B share buyback program for 2022 with $405MM in buybacks executed and $595MM remaining..
EIX	2.7%	✓				✓	✓	During the quarter, SCE resolved $400MM of claims for 2017/2018 Wildfire/Mudslide Events and maintained its best estimate of potential losses of $7.9B; now 89% has been resolved or $7.0B of the estimated claims. Moody's and Fitch recently affirmed EIX's credit ratings of Baa3 and BBB-, respectively, and raised their outlooks to Positive from Stable.
PNW	1.3%	✓				✓	✓	Customer and load growth continue to be strong but slower rate than last quarter.
ETR	1.2%	✓				✓	✓	2022 EPS now expected in upper half of guidance range.
FE	0.5%			✓		✓	✓	Pension EPS headwind now $0.30 versus $0.20-0.30 most recently and $0.10 as of the Q1 call. First Energy is taking multiple steps to address the impact. FE said premium valuations of its businesses in the private sector give it "significant optionality to further improve the balance sheet and increase value" for shareholders.
CNP	0.4%	✓			✓		✓	Currently developing Houston regional master energy plan with incremental capital expected to be announced on Q3 earnings call.
NEE	0.3%	✓				✓	✓	2Q22 renewables origination rate faster than last quarter's. FPL commissioned the 1,200 MW (or $900MM) Dania Beach Clean Energy Center during Q2. FPL also placed in service the North Florida Resiliency Connection transmission line, which physically connects the FPL grid and the legacy Gulf Power grid.
CEG	0.1%	✓				✓	NA	Hedged percentages decreased for 2022 and increased for 2023. Gross margin guidance unchanged for 2022, increased for 2023. Announced agreements with Bank of America and PNC Bank to procure carbon-free energy and RECs to reduce their carbon footprints through Constellation's CORe retail power product.
AES	0.0%	✓				✓	✓	AES has already signed or been awarded 1.6 GW of new long-term contracts so far this year (vs 1.1GW as of Q1), and continues to target 4.5-5.5 GW in 2022. Company does not expect any material delays on 5.9 GW of backlog projects in the US as a result of supply chain issues. With expected growth of more than 75% in installed renewable capacity over the next four years, AES says it is well on its way to becoming a majority carbon free and majority US company by 2025.
WEC	-0.1%	✓			✓		✓	WI rate case filed on April 28, 2022 with order expected in Q4 2022. WEC initiated Q2 EPS guidance range of $0.80-$0.84.
ED	-0.1%	✓				✓	NA	Con Ed continues to pursue strategic alternatives for the CEBs that is expected to be announced this year. The Company's EPS growth forecast and financing plan currently assumes no sale of the CEBs.

Source: FactSet. Company reports, Evercore ISI

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Weekly Feature: Second Quarter 2022 Earnings Highlights (Contd)

- Below we rank our companies by relative stock price performance versus the UTY on each company's Q2 earnings day and list key highlights.

Ticker	Price Implication	Beat estimates	Missed estimates	In line with estimates	Raised 2022 guidance at midpoint	Reaffirmed 2022 guidance at midpoint	Reaffirmed long-term growth forecast	Other notable announcements
AEE	-0.2%		✓			✓	✓	Ten-year capex program increased to $48+ billion from $45+ billion previously. MISO projects assigned to Ameren totaling ~$1.8 billion. MoPSC Staff reviewing Ameren Missouri's plans to retire Rush Island; under no deadline to issue a final report. CCNs filed with MoPSC in July for two solar project acquisitions.
NI	-0.2%			✓		✓	✓	Settlement approved in NIPSCO gas rate case and settlement discussions in Ohio and Pennsylvania gas rate cases. Fall Investor Day expected in November (date TBD), focused on extending NiSource's growth plan.
SO	-0.2%	✓				✓	NA	Vogtle unit 3 and 4 in service now expected at latter end of of prior expectation. Cost increased modestly. Third quarter 2022 EPS guidance issued in line with Street.
AEP	-0.2%			✓		✓	✓	Kentucky asset sale still expected to close this summer, awaiting the Sale Transfer approval from the FERC. Unregulated renewable sales process will officially launch by early September. Proceeds will be invested in the regulated businesses. In May, AEP closed on the sale of five unregulated renewable development sites in the Midwest. Expects to finalize the sale of an additional solar development site in Ohio in the third quarter. Total load has now fully recovered and is in the expansion phase. It now exceeds pre-pandemic levels. Analyst Day still planned for October 4th in NYC.
EVRG	-0.5%	✓				✓	✓	IRP annual update in Missouri and Kansas. Missouri rate cases – next step is surrebuttal / true-up testminony on August 16th. Kansas rate case – preparing to file in April 2023
HE	-0.6%		✓			✓	✓	HE maintained its 2022 consolidated EPS outlook of $2.00-2.20 but is now guiding to the lower half of the expected utility contribution of $1.68-1.78. HE is lowering the top end of its three-year 2022-2024 program range, now expecting $1,050-1,250MM versus $1,050-1,300MM previously.
PEG	-0.7%			✓		✓	✓	Infrastructure Advancement Program filing approved on June 29th -$511mm in spending included in current capex. A decision in the offshore wind transmission investment proposals (PEG submitted nine bids in Sept. 2021) that have been submitted with the NJ BPU, which PEG has said could be $1-3B in total incremental investment over the back half of the decade, is still expected in Oct. 2022.
ES	-0.8%	✓				✓	✓	Narrowed 2022 adjusted EPS Guidance range from $4.00 - $4.17 to $4.04 - $4.14. Strategic review of offshore wind assets underway with a potential sale of all or part of its 50% interest in offshore wind joint venture with Ørsted. MA House and Senate approved climate related legislation on July 21. MA electric rate case decision date of December 1, 2022. Aquarion Connecticut formal rate review filing expected in August 2022. ~$130M in ATM equity issuance through July – The current financing plan has a total of $1.2B equity through 2026.

Source: FactSet. Company reports, Evercore ISI

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Weekly Feature: Second Quarter 2022 Earnings Highlights (Contd)

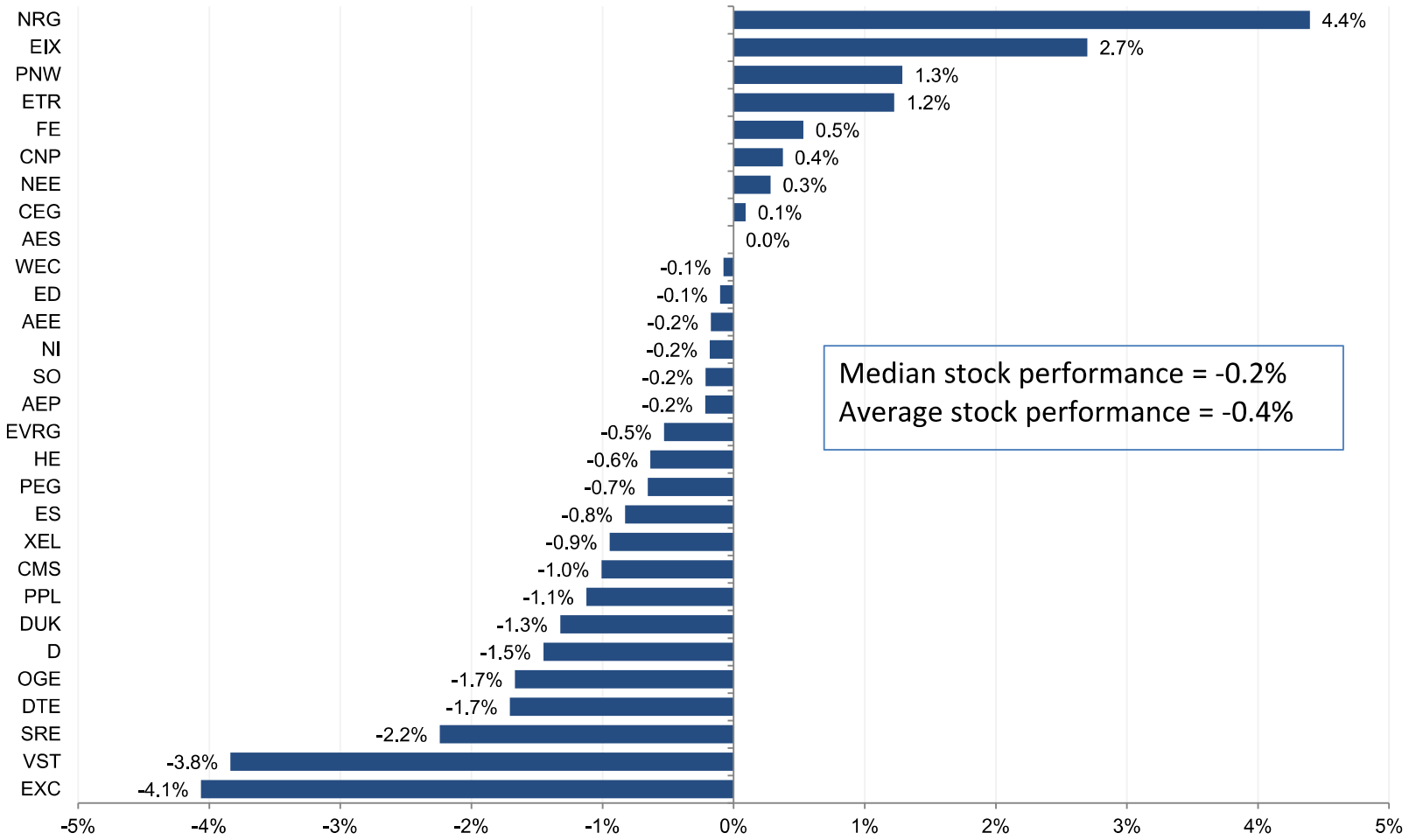
- Below we rank our companies by relative stock price performance versus the UTY on each company's Q2 earnings day and list key highlights.

Ticker	Price Implication	Beat estimates	Missed estimates	In line with estimates	Raised 2022 guidance at midpoint	Reaffirmed 2022 guidance at midpoint	Reaffirmed long-term growth forecast	Other notable announcements
XEL	-0.9%			✓		✓	NA	Colorado Electric Resource Plan approved. MISO Board approved Tranche 1 portfolio with Xcel Energy estimated investment of ~$1.2 billion in line with expectations of $1-2B. Development of Minnesota and Wisconsin electric vehicle plans to be filed later this quarter. MN Electric and Gas rate cases ongoing with a final decision expected in Q2 2023. Colorado gas RC filed in Jan, with a decision expected in 2H 2022. XEL is seeking the possibility to reach a settlement. ND gas RC settlement on $5MM dollars rate increase has been reached with final decisions expected in 2022 Q3.
CMS	-1.0%	✓				✓	✓	IRP settlement approved on June 23rd, 2022. Electric rate case filed on April 28 with final order expected in Q1 2023. Gas rate case settlement approved in July 2022.
PPL	-1.1%			✓		✓	✓	Maintained at least $150M of O&M savings target by 2025. Issued RFP for replacement generation in Kentucky.
DUK	-1.3%	✓				✓	✓	DUK Announced strategic review of Commercial Renewables business. Carbon Plan hearings scheduled to begin in mid-September. NC commission is required to approve it by December 31st. Full-year 2022 load trending above expectations. 2023 cost mitigation plan announced amid rising interest rates and inflation. ESG day still planned for October 4th
D	-1.5%	✓				✓	✓	Offshore wind project approved, but with a performance guarantee. Nuclear licenses renewal rider approved.
OGE	-1.7%	✓				✓	✓	2022 utility EPS now expected in top half of guidance range. Oklahoma rate case settlement in July
DTE	-1.7%		✓		✓		✓	Electric rate case final decision expected in October. Updated IRP to be filed in October.
SRE	-2.2%	✓			✓		✓	2022 EPS guidance updated – now expected at high end of range. Strong Momentum on various LNG projects
VST	-3.8%	✓				✓	NA	Vistra is now over 60% hedged for 2023 to 2025 (vs 50% as of Q1) providing increased confidence in Vistra's Ongoing Operations Adj. EBITDA mid point opportunity in the range of $3.5 billion -$3.7 billion from 2023 to 2025. Announced Additional $1.25 billion authorized for share repurchases, to begin in 2022 and expected to be completed by year end 2023.
EXC	-4.1%			✓		✓	✓	Provided update to equity issuance plans. In May, Delmarva Power filed a multi-year electric rate case in MD. PA – Gas and MD – Gas rate cases ongoing.
Count		18 out of 29	4 out of 29	7 out of 29	4 out of 29	25 out of 29	23 out of 29	

Source: FactSet. Company reports, Evercore ISI

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Weekly Feature: Price Performance Relative to UTY on Earnings Day



Source: FactSet. Company reports, Evercore ISI

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Weekly Feature: Company Remarks to Inflation Reduction Act

Company	Comments
AEE	When asked about the Inflation Reduction Act, Ameren stated there are several moving pieces but added it was excited about the potential tax credits, especially for wind and solar, and stated that it views the 15% AMT as having manageable cash flow impacts for the Company.
CEG	CEG spoke to significant benefits from the IRA Act of 2022. The Company highlighted the following benefits it would receive with passage of the Inflation Reduction Act (IRA), including: 1) the benefits of the zero emission nuclear production tax credit for the production from existing plants beginning in 2024 through 2032. The Company would qualify for the new tax nuclear tax credit up to $15/MWh as long as market revenues do not exceed $25MWh, in which case the credit is reduced. The credit can also offset CEG's tax obligation or can be monetized by transferring it to another taxpayer; and 2) the benefits of the new 10-year fully-refundable tax credit for the production of clean hydrogen. Constellation would qualify for a credit of $3.00/kg for hydrogen facilities under construction before December 31, 2032. The Company could claim both the nuclear PTC and hydrogen PTC.
CMS	Management is encouraged by the clean energy provisions in the proposed Inflation Reduction Act bill, Solar PTCs in particular and stated that since they are below the $1B pretax earnings marker they will not be impacted by the 15% minimum tax provision.
D	When asked about the reconciliation bill, D views it as a positive for company's Decarbonization efforts. For instance, management pointed to full PTC credit for wind lowering their offshore levelized cost of energy (LCOE) by $7 or 8%, which provides more headroom to the prudency criteria of $125/MWh. 15% AMT is not expected to have a meaningful impact on company financials as they are already paying cash taxes at a 5.25% federal cash tax rate. After offsets to the AMT including accelerated tax depreciation, they don't expect materially higher cash tax payments.
DTE	Management views the Inflation Reduction Act is a tailwind for renewables, the 15% alternative minimum tax (AMT) is not expected to have a material impact on company's cash flows as accelerated tax depreciation and general business tax credits will serve as offsets.
DUK	When asked, management stated that clean energy tax provisions in the Inflation Reduction Act is an enabler of clean energy transition, 15% AMT could be a cash flow headwind but they would also benefit from tax credits.
EVRG	Management views the Inflation Reduction Act is a tailwind for renewables and since EVRG does not expect to be at the $1B pre-tax threshold until second half of the decade the 15% AMT will not have an impact on results over the next few years.
HE	The Act through the renewable tax credits could help Hawaiian achieve and potentially accelerate its 100% renewable target by 2045. We estimate that HE is on track for roughly $230 million of consolidated pre-tax earnings, so it is far from qualifying for the 15% alternative minimum tax since it is well below the Act's $1 billion threshold.

Source: FactSet. Company reports, Evercore ISI

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Weekly Feature: Company Remarks to Inflation Reduction Act (Contd)

NI	Company noted that the 15% minimum tax provision in the Inflation reduction act will not impact them over the next few years as they won't reach the $1B pre-tax earnings threshold until the second half of the decade.
SO	If enacted, Southern views the proposed Inflation Reduction bill as positive and pointed to the benefits of the solar PTC; the Company does not expect the 15% minimum tax provision to materially impact its results.
VST	The Inflation Reduction Act if passed, just like industry peers would bolster Vistra's renewable (VST Zero) growth profile and management stated that the 15% minimum tax will not be impactful through the planning horizon given Uri related and other book losses.
WEC	Management stated that the Inflation Reduction Act would be beneficial from a customer bill standpoint and provide WEC with future incremental renewable investment opportunities. 15% AMT is a manageable cash flow headwind of roughly $20M-$30M per year, while the legislation is going to be a net positive to company's credit metrics driven by offsets like higher pace of investment and monetization of tax credits amongst other things.
XEL	Management stated that the energy provisions included in the Inflation Reduction Act of 2022 would provide substantial customer benefits and help enable their clean energy transition. Furthermore, they can more than offset the cash flow drag from 15% minimum tax using renewable/other tax credits.
AES	The Inflation Reduction Act could be a material tailwind for AES, with management stating it could result in EPS growth toward the high end of the targeted 7-9%. The Company said it does not expect to reach the $1 billion pre-tax income threshold over the next few years, so the 15% AMT would not have an impact on company financials through the planning period.
EXC	The stock is a material relative underperformer today (-3% vs utility peers +0.5%) on earlier than expected equity issuance of $500m in 2022 (we were modeling ~$250m) and $300m/yr cash flow hit if Inflation reduction act were to pass.
PEG	The Company would be one of the prime beneficiaries of a nuclear PTC included in the Inflation Reduction Bill. That along with ongoing offshore strategic review by Eversource (expected to be complete by year-end) will be inputs into the Company's long-term portfolio strategy as it relates to the nonregulated generation assets; as a reminder, the Ocean 1 offshore project FID is anticipated in 4Q22 or 1Q23.

Source: FactSet. Company reports, Evercore ISI

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Regulated Utility Valuation Goes To ~18.9x '24 EPS

Regulated Utilities

Ticker	Company Name	8/12/22 Price	ISI Rating	Shares Out	Market Cap	2022 Div Yld	2022 Payout	ISI EPS Estimate 2022	2023	2024	P/E Multiple 2022	2023	2024	Price to Book	Prem. to Group
WEC	WEC Energy Group	$105.64	In Line	316	33,414	2.7%	66%	4.38	4.55	4.91	24.1x	23.2x	**21.5x**	2.8x	14%
XEL	Xcel Energy Inc	$75.96	Outperform	534	40,582	2.6%	61%	3.19	3.39	3.60	23.8x	22.4x	**21.1x**	2.4x	12%
CMS	CMS Energy Corp	$69.67	In Line	291	20,267	2.7%	65%	2.86	3.14	3.34	24.4x	22.2x	**20.9x**	3.0x	11%
DTE	DTE Energy Co	$134.91	Outperform	205	27,613	2.6%	59%	6.00	6.23	6.53	22.5x	21.6x	**20.7x**	2.6x	10%
AEE	Ameren Corp	$94.83	Outperform	266	25,242	2.4%	57%	4.05	4.35	4.65	23.4x	21.8x	**20.4x**	2.2x	8%
CNP	CenterPoint Energy Inc	$32.50	Outperform	611	19,847	1.9%	46%	1.37	1.48	1.60	23.7x	22.0x	**20.4x**	2.5x	8%
ES	Eversource Energy	$93.11	In Line	351	32,655	2.8%	62%	4.12	4.35	4.60	22.6x	21.4x	**20.2x**	2.0x	7%
ED	Consolidated Edison Inc	$99.11	Underperform	363	35,976	3.2%	70%	4.50	4.75	5.00	22.0x	20.9x	**19.8x**	1.6x	5%
OGE	OGE Energy Corp	$41.96	In Line	200	8,409	4.0%	74%	2.29	2.18	2.16	18.3x	19.2x	**19.4x**	2.1x	3%
SO	Southern Company Inc	$78.12	In Line	1,095	85,523	3.5%	76%	3.55	3.85	4.10	22.0x	20.3x	**19.0x**	2.3x	1%
HE	Hawaiian Electric Industries, Inc	$43.27	In Line	111	4,796	3.2%	67%	2.10	2.21	2.32	20.6x	19.6x	**18.7x**	1.8x	-1%
AEP	American Electric Power Co Inc	$103.78	Outperform	521	54,030	3.0%	61%	5.00	5.30	5.65	20.8x	19.6x	**18.4x**	2.1x	-3%
NI	NiSource Inc	$31.14	Outperform	447	13,927	3.0%	63%	1.45	1.54	1.73	21.5x	20.2x	**18.0x**	2.8x	-5%
EXC	Exelon Corp	$46.17	Outperform	987	45,554	3.5%	71%	2.25	2.41	2.57	20.5x	19.2x	**18.0x**	1.3x	-5%
DUK	Duke Energy Corp	$110.25	In Line	778	85,803	3.6%	73%	5.45	5.75	6.15	20.2x	19.2x	**17.9x**	1.7x	-5%
PPL	PPL Corp	$30.29	Outperform	736	22,299	2.9%	65%	1.37	1.58	1.70	22.0x	19.1x	**17.8x**	1.5x	-5%
EVRG	Evergy	$70.89	In Line	230	16,319	3.1%	61%	3.55	3.75	4.00	20.0x	18.9x	**17.7x**	2.1x	-6%
D	Dominion Resources Inc	$82.83	Outperform	817	67,710	3.2%	65%	4.15	4.43	4.70	20.0x	18.7x	**17.6x**	2.3x	-7%
SRE	Sempra Energy	$166.37	Outperform	324	53,890	2.8%	55%	8.50	8.95	9.65	19.6x	18.6x	**17.2x**	1.9x	-9%
PNW	Pinnacle West Capital Corp	$77.32	Underperform	123	9,494	4.5%	87%	4.00	4.20	4.50	19.3x	18.4x	**17.2x**	1.4x	-9%
ETR	Entergy Corp	$121.01	Outperform	209	25,241	3.4%	65%	6.30	6.70	7.15	19.2x	18.1x	**16.9x**	1.9x	-10%
FE	FirstEnergy Corp	$40.83	Outperform	552	22,541	4.0%	68%	2.40	2.53	2.67	17.0x	16.1x	**15.3x**	2.5x	-19%
EIX	Edison International	$70.75	In Line	414	29,297	3.7%	58%	4.55	4.95	5.25	15.5x	14.3x	**13.5x**	1.2x	-29%
PCG	PG&E Corp	$12.13	Rating Suspended	529	6,417	0.0%	0%	4.30	4.65	4.95	2.8x	2.6x	**2.5x**	0.4x	-87%
Regulated Group Average (Excludes PCG for Div Values)						**3.1%**	**64.9%**				**20.2x**	**19.1x**	**17.9x**	**2.02x**	
Regulated Group Average (Excluding Stocks: PPL, EIX, and PCG)						3.1%	65.3%				21.2x	20.1x	18.9x	2.16x	
Regulated Group Max (Excludes PCG for Div Values)						4.5%	87.1%				24.4x	23.2x	21.5x	3.0x	
Regulated Group Min (Excludes PCG for Div Values)						1.9%	45.5%				2.8x	2.6x	2.5x	0.4x	

Diversified Utilities

Ticker	Company Name	8/12/22 Price	ISI Rating	Shares Out	Market Cap	2022 Div Yld	2022 Payout	ISI EPS Estimate 2022	2023	2024	P/E Multiple 2022	2023	2024	Price to Book	Prem. to Group
NEE	NextEra Energy, Inc.	$90.47	In Line	2,008	181,687	1.9%	58%	2.90	3.10	3.40	31.2x	29.2x	**26.6x**	4.2x	47%
PEG	Public Service Enterprise Group	$67.61	Outperform	504	34,075	3.1%	62%	3.45	3.40	3.85	19.6x	19.9x	**17.6x**	2.2x	-3%
AES	AES Corp	$24.89	Outperform	667	16,594	2.5%	39%	1.60	1.80	1.90	15.6x	13.9x	**13.1x**	4.1x	-27%
Diversified Group Average						**2.5%**	**53%**				**22.1x**	**21.0x**	**19.1x**	**3.5x**	
Diversified Group Max						3.1%	62%				31.2x	29.2x	26.6x	4.2x	
Diversified Group Min						1.9%	39%				15.6x	13.9x	13.1x	2.2x	

Updated as of 8/12/22

Source: FactSet, Evercore ISI Research

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Utilities are trading above our Case 1. Post COVID valuations should diverge towards Case 2 longer term.

- Our historic base case ("case 1") assumed an orderly transition to higher interest rates, with authorized ROEs falling to 9.25% from 9.75%, and 10- year Treasury yields rising over the next several years, resulting at the end in a **2.50%** spread between the return on equity and the calculated cost of equity.
  - When you look at the current valuation of 18.9x '24, above our "case 1" scenario of 17.5x, as described above it implies moderation in authorized ROEs and gradual increase in treasury yields.
- The perceived "best in class" earnings compounders and COVID-19 immune names (WEC, NEE, ES, XEL, CMS) trade a multiple that discounts both a more or less status quo authorized ROE regime and a longer runway for sustained rate base growth. That is "case 3".
- In our "case 4" scenario we assume authorized ROEs moderate and interest rates rise more rapidly, resulting in a more meaningful near-term reduction in profitability, along with a steeper decline in rate base growth, which drives utilities back to a P/E multiple that is closer to long-term historic averages.
- We set our target prices on "market-agnostic" basis using an anchor P/E multiple of ~18x '24 EPS so investors can better see where we see good relative value. Near term we could see some pressure on multiples if spreads widen, long term we see multiples diverging back towards Case 2 as the economy recovers.

DDM Model ROE and Cost of Equity Assumptions	Case 1 Base Case	Case 2 Rates Low Long Time	Case 3 Rates Low Long Time	Case 4 ROEs Fade Rates Rise
ROE (Year 1)	9.75%	9.75%	9.75%	9.75%
Annual ROE Change (+/-)	-0.10%	-0.10%	-0.10%	-0.10%
Final ROE	9.25%	9.25%	9.25%	9.25%
Years Until LT Cost of Equity Spread	5	5	5	5
Implied Annual Cost of Equity Change (+/-)	0.28%	0.21%	0.21%	0.33%
LT ROE / Cost of Equity Spread	2.50%	2.85%	2.85%	2.25%
LT Cost of Equity	6.75%	6.40%	6.40%	7.00%

DDM Model Growth Assumptions	Case 1 Base Case	Case 2 Base Case	Case 3 Higher Growth	Case 4 Lower Growth
RB Growth (Year 1-5)	5.50%	5.50%	6.50%	4.00%
RB Growth (Year 6-10)	3.50%	3.50%	5.50%	2.00%
RB Growth (Year 11+ and Terminal)	2.50%	2.50%	3.00%	1.25%
Terminal Value (Yes/No)	Yes	Yes	Yes	Yes
35 Year Average Payout Ratio - Implied	71.2%	71.2%	67.5%	82.6%
'24 P/E Multiple	**17.5x**	**19.5x**	**22.0x**	**15.0x**

Source: Evercore ISI Research

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Utilities Are 25% Expensive on '23 Yields Assuming Yields Remain Unchanged

Utility Valuation			10 YR	2.84%
8/12/22			Baa	5.16%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2022 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	2.30%	2.24%	29.1x	34.9%
	2.52%	2.39%	27.3x	26.3%
	2.74%	2.54%	25.6x	18.7%
	2.96%	2.70%	24.2x	11.9%
	3.18%	2.85%	22.9x	5.9%
Current Valuation	3.40%	3.00%	21.7x	0.5%
- 68% Confidence Interval	3.62%	3.16%	20.7x	-4.4%
	3.84%	3.31%	19.7x	-8.8%
	4.06%	3.46%	18.8x	-12.8%
	4.28%	3.62%	18.0x	-16.5%
	4.50%	3.77%	17.3x	-19.9%
	4.72%	3.92%	16.6x	-23.0%
	4.94%	4.08%	16.0x	-25.9%
Predicted Valuation	5.16%	4.23%	15.4x	-28.6%
	5.38%	4.38%	14.9x	-31.1%
	5.60%	4.53%	14.4x	-33.4%
	5.82%	4.69%	13.9x	-35.6%
	6.04%	4.84%	13.5x	-37.6%
	6.26%	4.99%	13.1x	-39.5%
+ 68% Confidence Interval	6.48%	5.15%	12.7x	-41.3%
	6.70%	5.30%	12.3x	-43.0%
	6.92%	5.45%	12.0x	-44.6%
	7.14%	5.61%	11.6x	-46.1%
	7.36%	5.76%	11.3x	-47.6%
	7.58%	5.91%	11.0x	-48.9%
+ 95% Confidence Interval	7.80%	6.06%	10.7x	-50.2%

Regulated utilities now look ~29% expensive on current yields

Utility Valuation			10 YR	2.84%
8/12/22			Baa	5.16%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2023 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	2.30%	2.24%	28.9x	42.0%
	2.52%	2.39%	27.1x	32.9%
	2.74%	2.54%	25.5x	24.9%
	2.96%	2.70%	24.0x	17.8%
	3.18%	2.85%	22.7x	11.5%
	3.40%	3.00%	21.6x	5.8%
- 68% Confidence Interval	3.62%	3.16%	20.5x	0.7%
	3.84%	3.31%	19.6x	-4.0%
	4.06%	3.46%	18.7x	-8.2%
	4.28%	3.62%	17.9x	-12.1%
	4.50%	3.77%	17.2x	-15.7%
	4.72%	3.92%	16.5x	-19.0%
	4.94%	4.08%	15.9x	-22.0%
Predicted Valuation	5.16%	4.23%	15.3x	-24.8%
	5.38%	4.38%	14.8x	-27.5%
	5.60%	4.53%	14.3x	-29.9%
	5.82%	4.69%	13.8x	-32.2%
	6.04%	4.84%	13.4x	-34.4%
	6.26%	4.99%	13.0x	-36.4%
+ 68% Confidence Interval	6.48%	5.15%	12.6x	-38.3%
	6.70%	5.30%	12.2x	-40.0%
	6.92%	5.45%	11.9x	-41.7%
	7.14%	5.61%	11.6x	-43.3%
	7.36%	5.76%	11.3x	-44.8%
	7.58%	5.91%	11.0x	-46.3%
+ 95% Confidence Interval	7.80%	6.06%	10.7x	-47.6%

If rates stay unchanged for the next 12 months, regulated utilities now 25% expensive

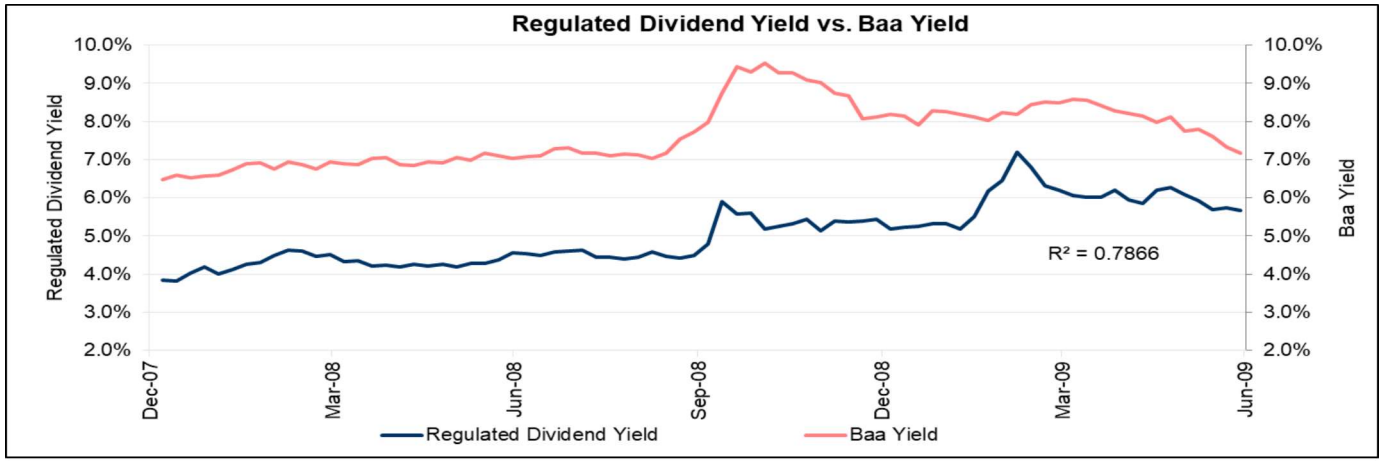
Updated as of 8/12/22

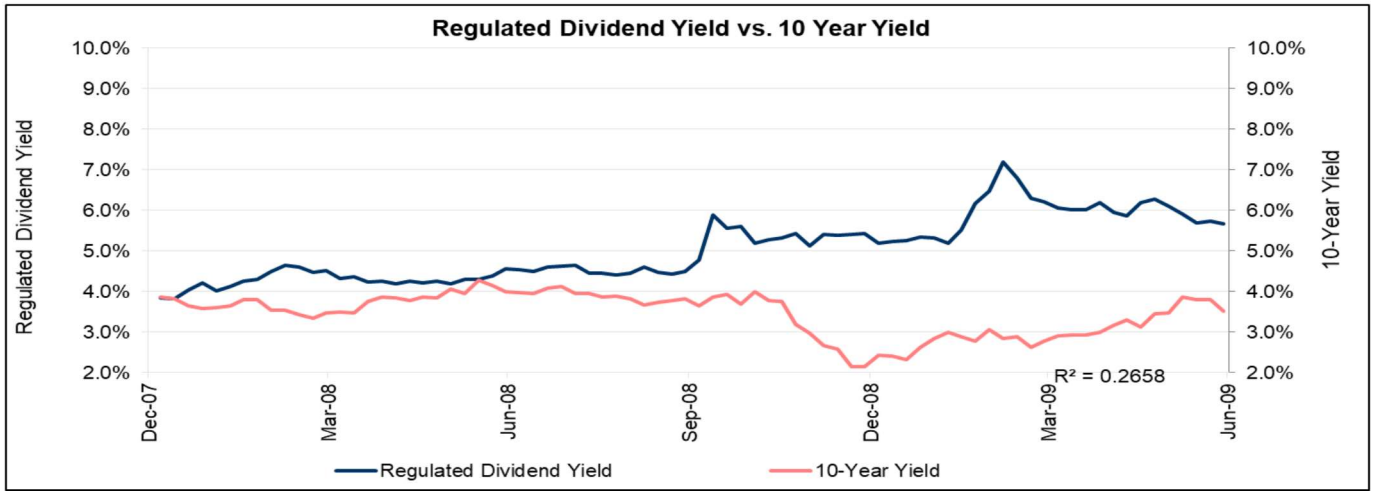
Source: FactSet, Evercore ISI Research

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Regulated Dividend Yields vs. 10Y UST and Baa Yields During '08/'09 Financial Crisis

- During the last recession, correlation between regulated dividend yield and Moody's Baa Yield was at ~79% vs. ~27% correlation for dividend yield and 10yr Treasury Yield.



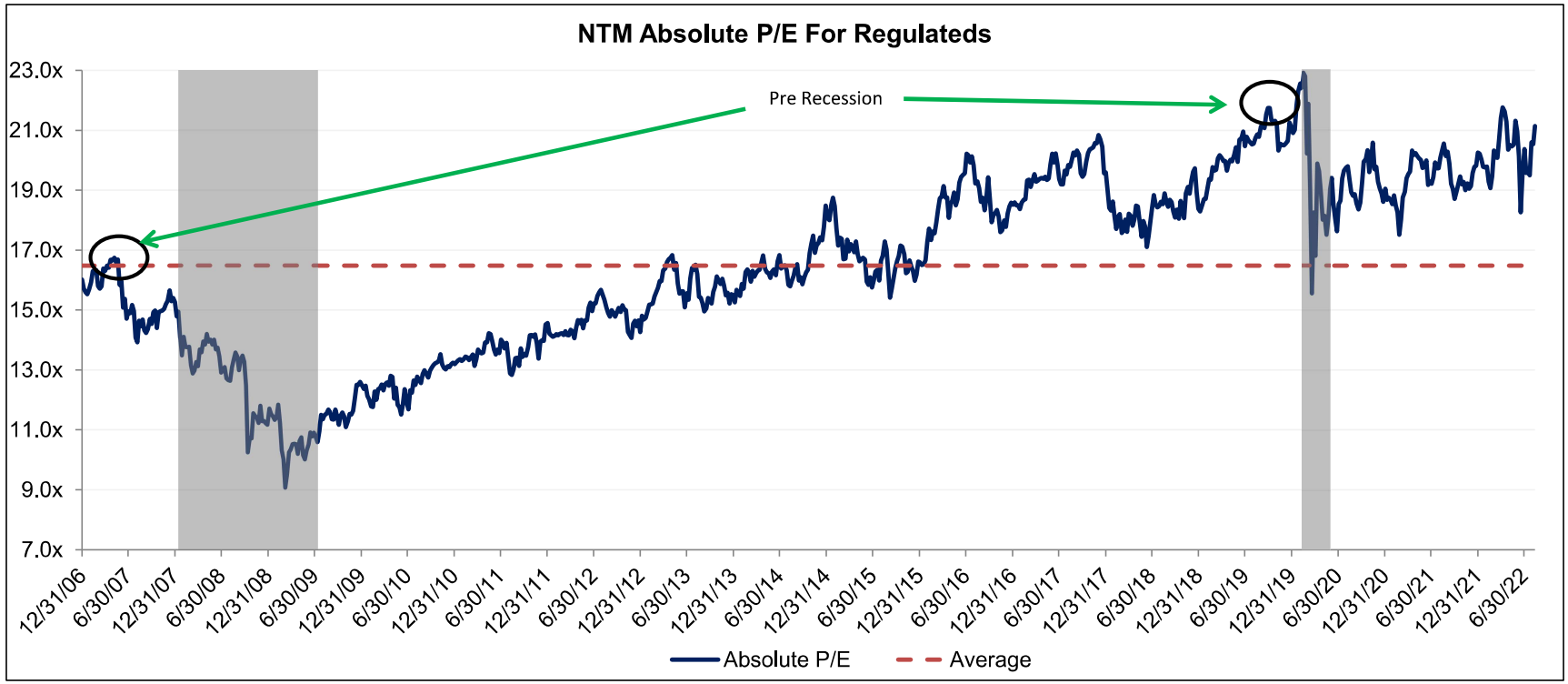


Source: FactSet, Evercore ISI Research

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Absolute Valuation In Line with Pre COVID recession levels & below peak

- Utes are trading in line with 12-month pre COVID recession levels on an absolute basis and 10% below the valuation peak.
- On an absolute basis, NTM PEs for Utes averaged ~15x 12mths leading up to the 08/09 recession peaking at ~17x, below where the group is trading currently.
- In the COVID recession however, absolute P/E for Utes averaged ~21x 12mths prior and peaked at 23x, which would be 10% upside from current levels at ~21x.



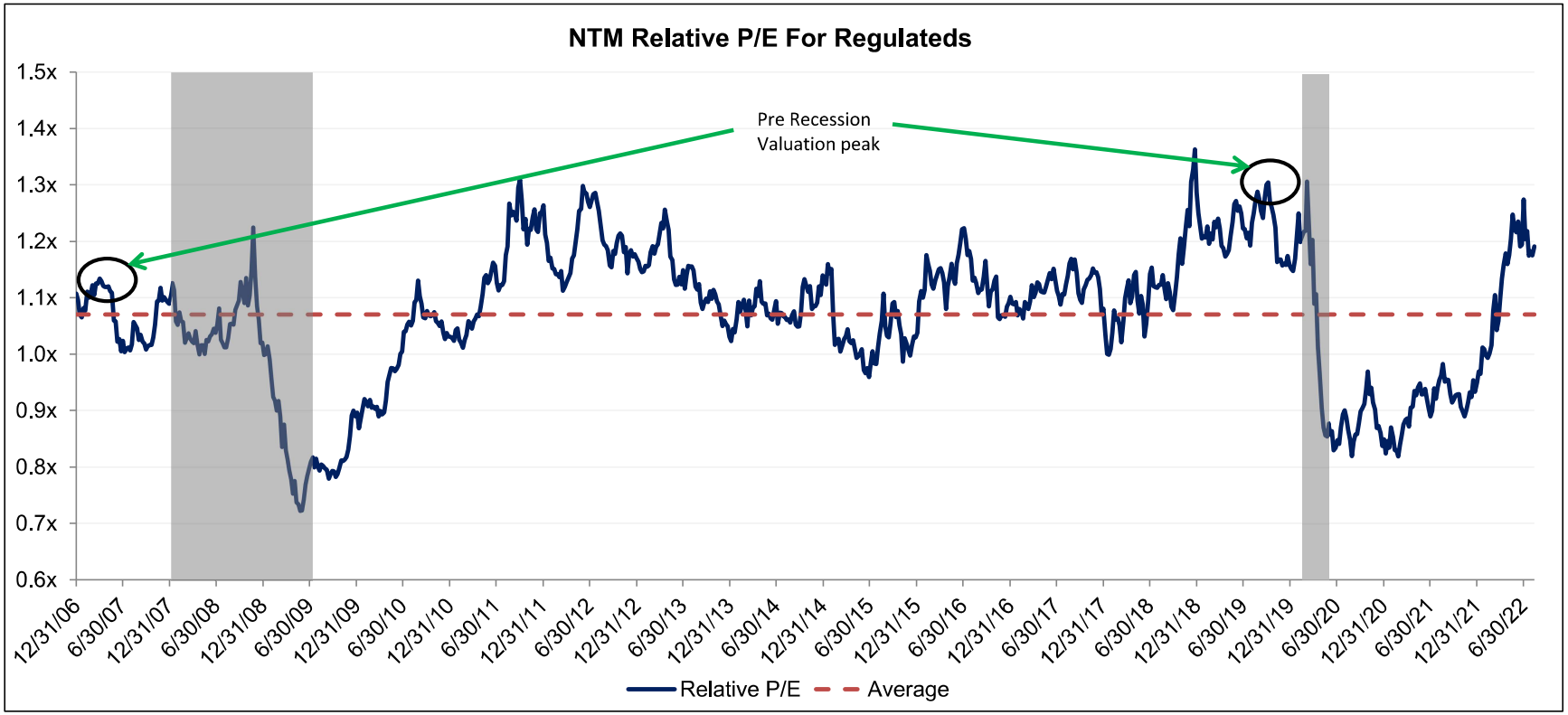
Updated as of 8/12/22

Source: FactSet, Evercore ISI Research

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Group's NTM P/E relative to S&P 500 is below Pre COVID recession levels & below peak

- NTM P/E relative to S&P 500 is 3% below the 12-month pre COVID recession levels and 9% below the valuation peak. NTM relative PEs for Utes averaged 1.07x 12mths leading up to the 08/09 recession peaking at 1.13x, below the 1.19x where the group is trading currently
- In the COVID recession however relative P/E for Utes averaged 1.22x 12mth prior and peaked at 1.30x which would be ~9% upside from current levels at 1.19x assuming S&P500 stays flat



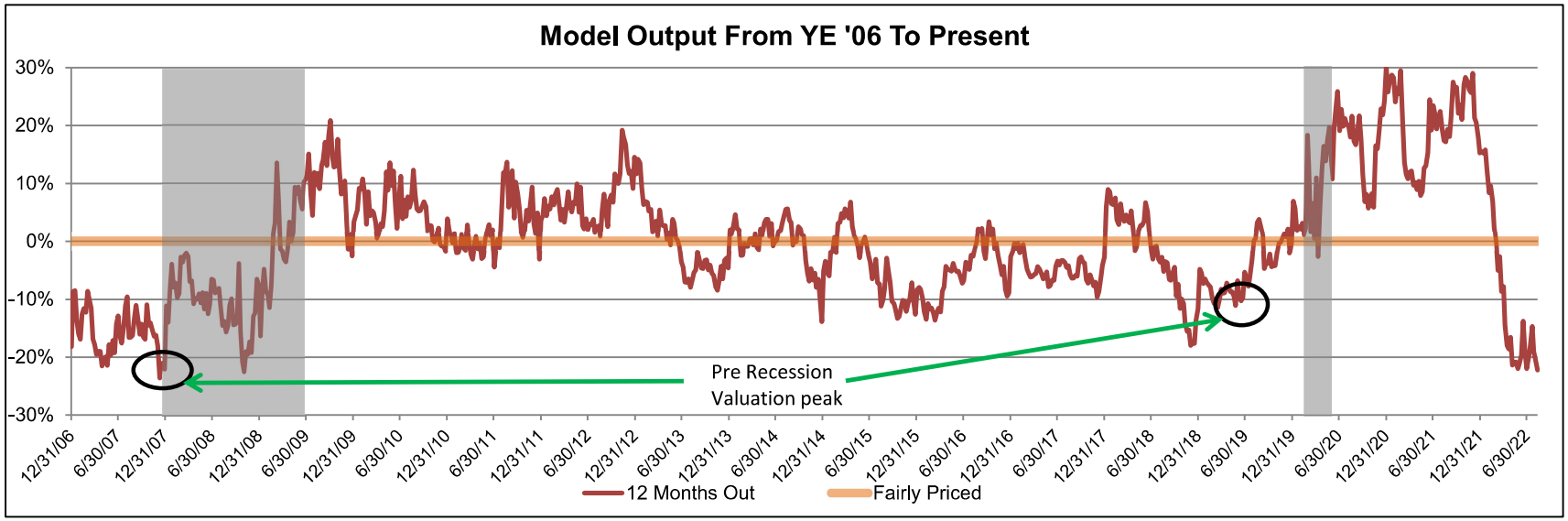
Updated as of 8/12/22

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Bond regression model output close to 08/09 pre-recession peak

- The group was 16% expensive on average when compared to Moody's Baa yield in our bond regression model 12mths prior to the 08/09 recession with group valuation peaking at 24%.
- Utes were 4% expensive on average in our bond regression model 12mths leading up to the COVID recession peaking at 12%.
- Prior peak suggests ~1% multiple contraction (assuming yields stay flat) considering bond model readings in 08 recession

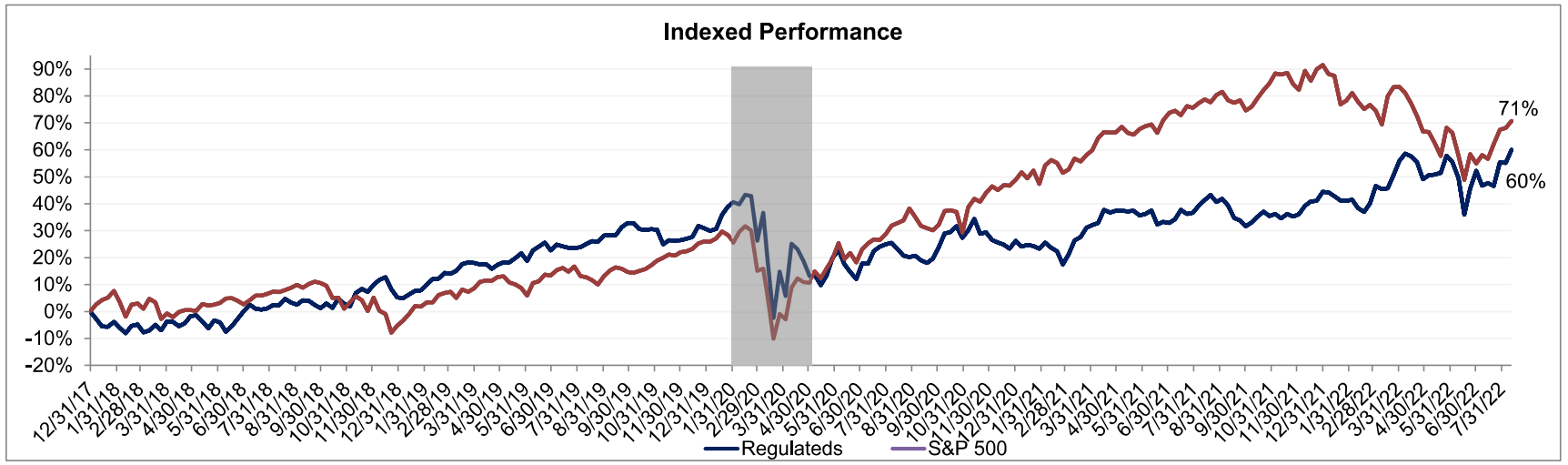


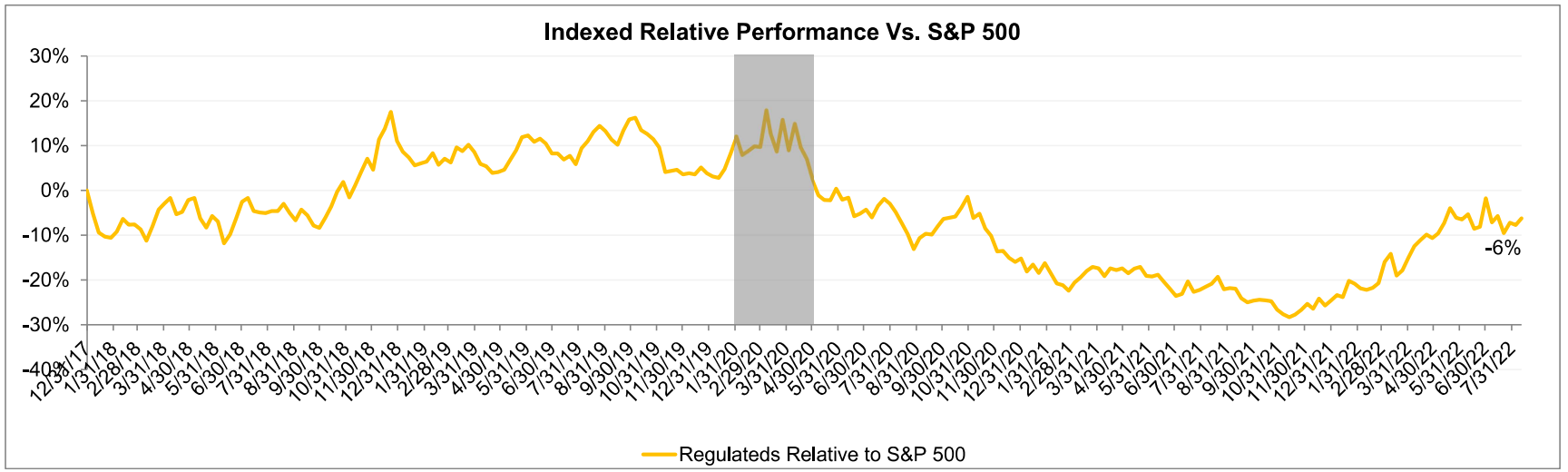
Updated as of 8/12/22

Source: FactSet, Evercore ISI Research

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Utility Stock Price Performance vs. SP500 From YE '17 To Present





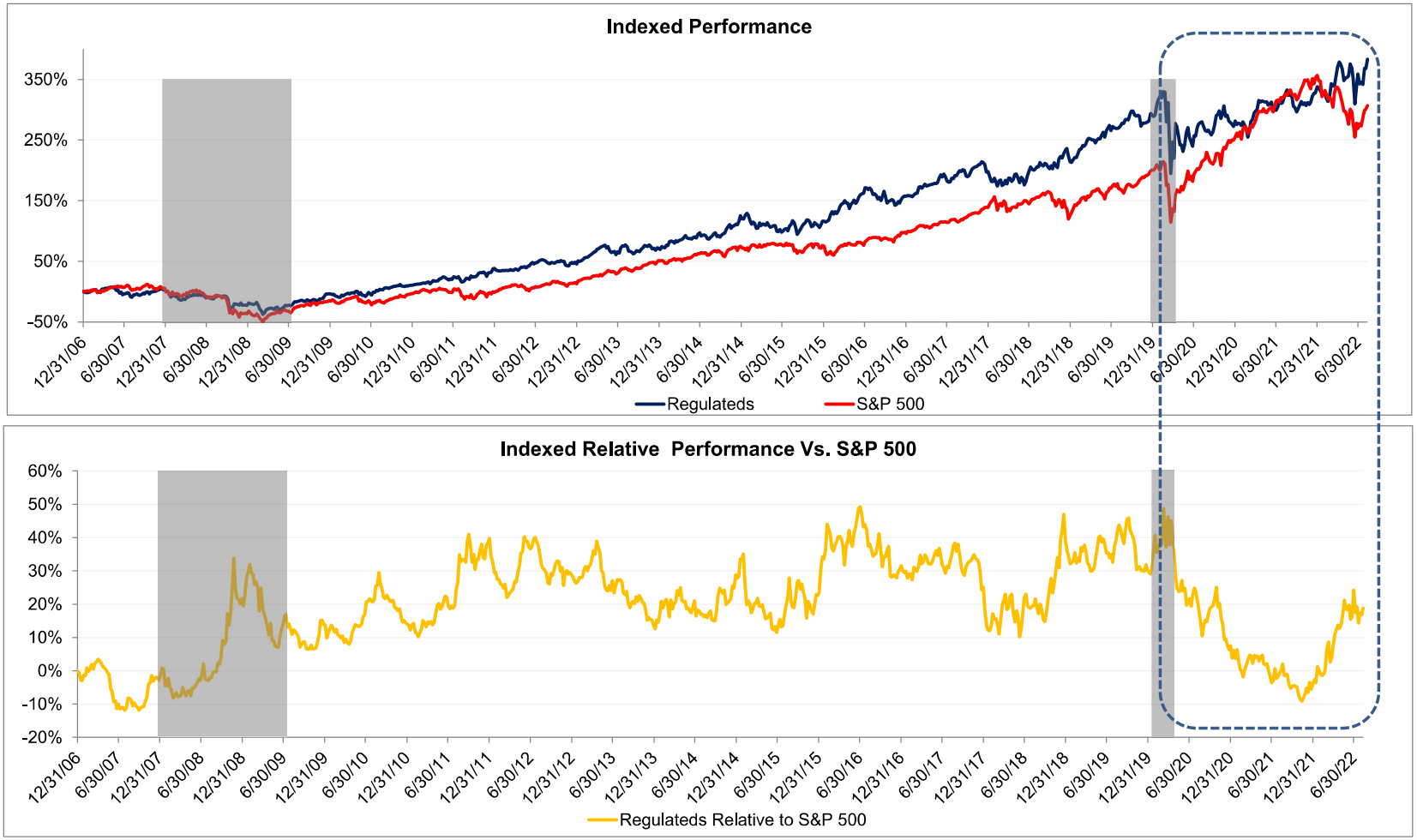
Updated as of 8/12/22, compounded return, 7-day intervals

Source: FactSet, Evercore ISI Research

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History Lesson: Utility Stock Price Performance vs. SP500 From 2006 To Present

- This shows the performance of regulated utilities vs. the SP500 from YE '06, through the recessions, until present.
- Assuming compounding returns and dividends reinvested, utilities are up ~383% vs. ~307% for the SP500 from YE '06 to present.



Updated as of 8/12/22

Source: FactSet, Evercore ISI Research

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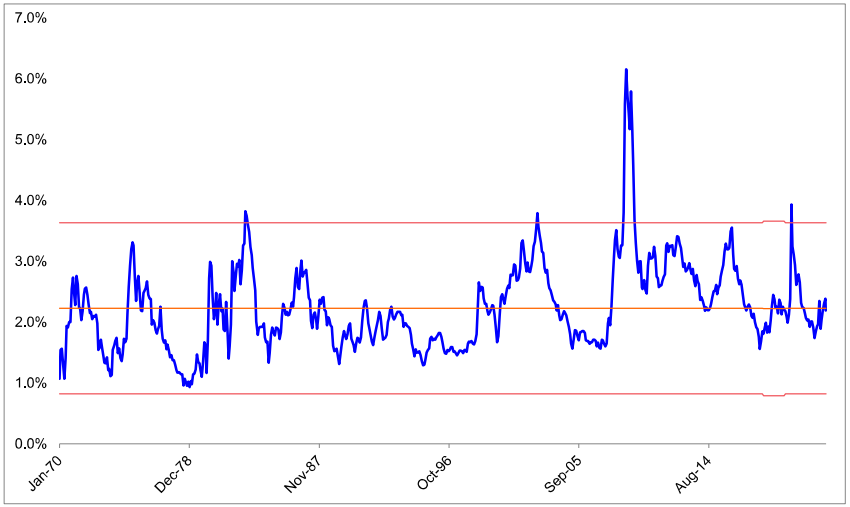
The Spread Between Corporates And Treasuries Is In Line with The Historical Average

- The spread between corporates and Treasuries has averaged 223bp since 1970.
- At the beginning of 2015 the 10-year was ~2.2% and corporates were 4.7%, a spread of 250bp.
- The wide spread between US Treasuries and corporates was the key factor that made utilities look fully priced in our bond model from October 2015 through early April 2016.
- Prior to COVID, that spread peaked last at 363bp on 2/16/16, with the 10-year yield at 1.74% and corporate bond yield average at 5.37%. On 3/23/20 during COVID, the spread peaked at ~431bp.
- The spread was 156bp on 1/31/18 and is currently at **222** bp.

Daily Moody's Baa / 10 Year Spread



Monthly Moody's BAA / 10 Year Spread



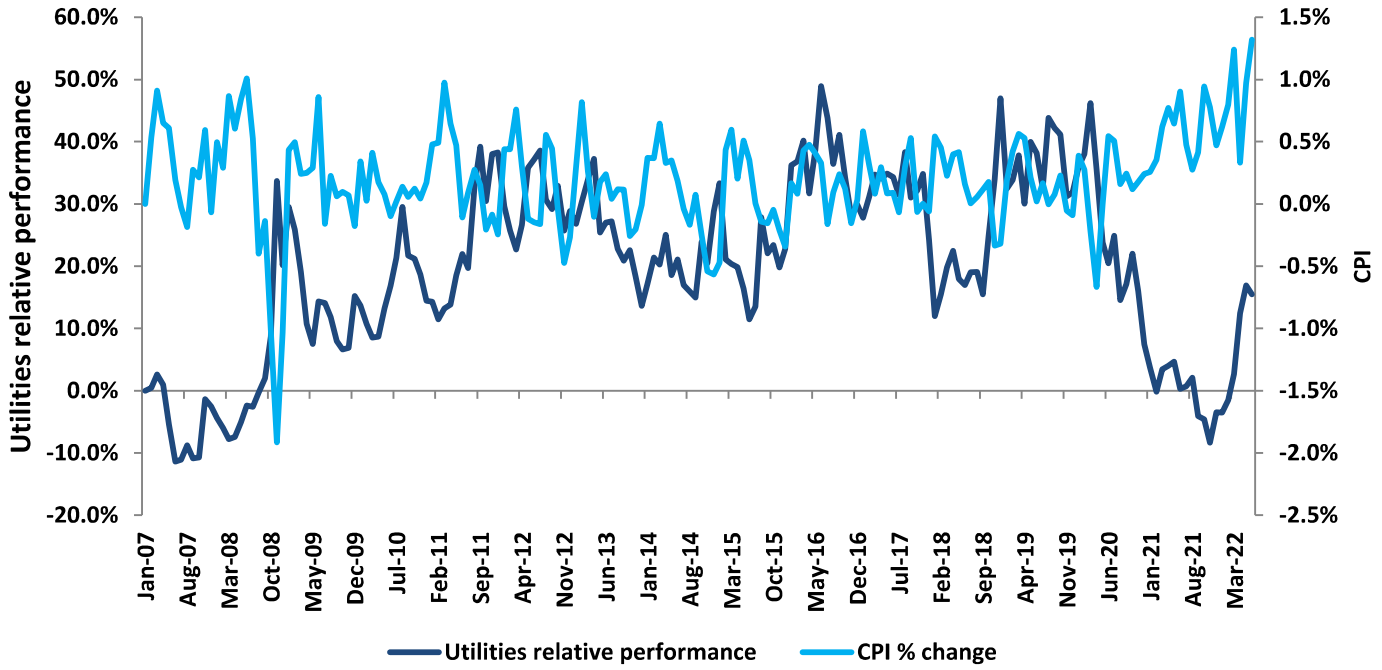
Updated as of 8/12/22

Source: FactSet, Evercore ISI Research

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Utilities vs. Inflation

- We plot the utilities relative performance to S&P 500 vs change in consumer price index (CPI) going back to 2007. The top five inflationary periods in our analysis saw an average of 3.5% increase in CPI and a 2.7% average underperformance by utilities. Three of the top five inflationary periods saw meaningful underperformance by utilities but two (first half of 2022 and first half of 2008) saw outperformance.



Top 5 inflationary periods				
	CPI % change	Uts Relative performance	Baa yield % change	10yr Treasury % Change
First half 2022	4.8%	19.0%	42.2%	69.7%
First half 2008	3.7%	2.0%	4.6%	12.8%
First half 2021	3.3%	-3.4%	14.8%	75.3%
First half 2007	2.9%	-11.4%	5.7%	5.9%
Second half 2021	2.9%	-7.2%	2.4%	0.0%
Average	**3.5%**	**-2.7%**	**9.4%**	**29.8%**

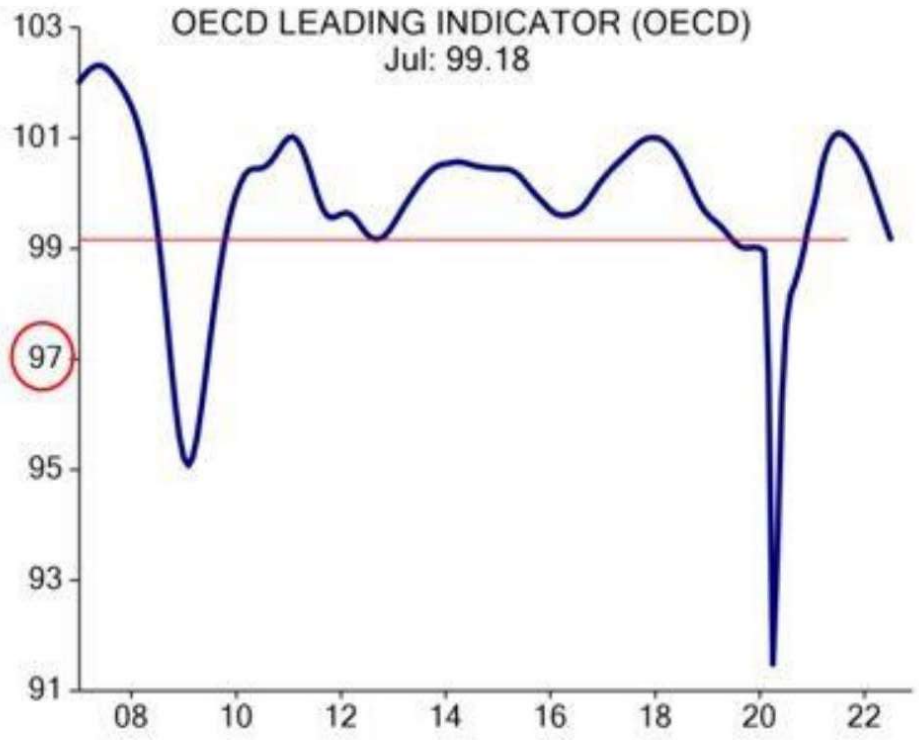
Updated as of 7/18/22

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Weekly Economic Chart: Reasons Inflation Slowing

- **Our Evercore ISI economist Ed Hyman published a report last week pointing out reasons inflation slowing.**
  1. Global economic slowdown.
  2. Plunge in money growth.
  3. Basis effects.
  4. Supply chain problems easing.
  5. Demand destruction.



OECD's global LEI is likely to decline to 97, as the global economic slowdown continues into 2023. This is likely to keep downward pressure on inflation.

Source: Evercore ISI Research

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

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

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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%

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Sell -the total forecasted return is expected to be less than 0%

On October 31, 2014, Evercore Partners acquired International Strategy & Investment Group LLC ("ISI Group") and ISI UK (the "Acquisition") and transferred Evercore Group's research, sales and trading businesses to ISI Group. On December 31, 2015, the combined research, sales and trading businesses were transferred back to Evercore Group in an internal reorganization. Since the Acquisition, the combined research, sales and trading businesses have operated under the global marketing brand name Evercore ISI.

ISI Group and ISI UK:

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

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

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

Evercore Group:

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

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

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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

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Evercore ISI rating (as of 08/14/2022)

Coverage Universe			Investment Banking Services I Past 12 Months		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	523	62	Buy	89	17
Hold	289	34	Hold	25	9
Sell	15	2	Sell	1	7
Coverage Suspended	10	1	Coverage Suspended	2	20
Rating Suspended	8	1	Rating Suspended	2	25

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Price Charts

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6 July 2022 | 4:59AM EDT

Americas Utilities

After outperformance, utilities still fine for defensive purposes; upgrading SRE from Neutral to Buy

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PM Summary

Utilities do not screen attractively for investors seeking outsized returns, but do offer a defensive alternative in this volatile market. Relative valuation versus the market does not appear overly compelling – we forecast just 6% total return on average across our utilities coverage — but the regulated business model likely shields utilities, relative to other sectors in the S&P, from major EPS negative revisions. We believe regulated utilities' earnings growth profile remains largely intact despite the current macro-economic environment, offering 5-8% EPS growth and 3-4% average dividend yield for an ~8-12% long-term or multi-year total return proposition as per our estimates. That said, the current sector P/E multiple of 19.1x reflects a 20%/25% premium to the S&P 500 on 2023 GSe/FactSet consensus EPS estimate, which screens elevated relative to historical relationship in a 3+% 10-year treasury yield environment that warrants a multiple more in-line or at a modest discount to the broader market. On an absolute basis, the multiple screens modestly above the 5-year average P/E of 18x but below the 21.6x peak multiple (in early 2020).

We recommend investors remain selective in gaining utility sector exposure while maintaining a balanced approach, acknowledging that increasing recession risk — and concerns that the S&P 500 could face downward earnings revisions — could support current utility valuations near-term. With this note, we roll forward our valuation year, now applying a 17x base utility P/E multiple on 2024E EPS (versus 18x P/E on 2023E prior), which screens modestly below Factset consensus S&P500 target P/E of ~18x.

In our coverage universe of Regulated Utilities and Diversified Utilities, we highlight Buy rated DTE (on CL), and XEL as premium defensive oriented business models we find attractive, while also recommending value oriented stocks like FE, PPL, ETR and PCG. Among Diversified Utilities, AES screens attractively as a sum of the parts story — and in this note, we upgrade large cap SRE from Neutral to Buy on attractive valuation, solid growth at its Texas/California utility and its exposure to potential LNG export capacity growth projects.

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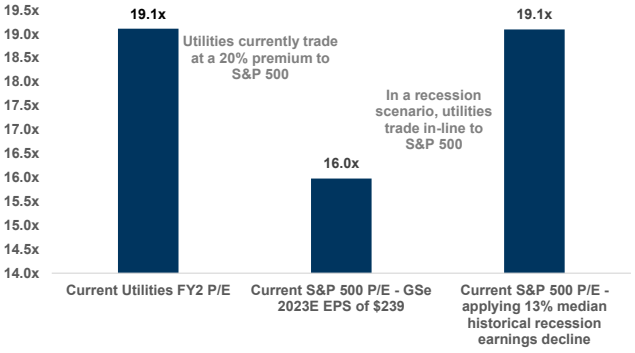
Exhibit 1: We upgrade SRE to Buy, adding to our Diversified Utilities recommendation
Ratings Grid

	Regulated Utilities	Diversified Utilities	IPPs
Buy	CMS, POR DTE*, EIX, ETR FE, NI, PCG WTRG, XEL, PPL	AES PEG SRE	NEP* NRG* CEG
Neutral	AEE, AWK DUK, ES, EXC EVRG, CNP WEC, ATO	NEE OGE	CWEN
Sell	AEP ED PNW, SO	AGR D	
Not Rated			

*On Americas Conviction List

Source: Goldman Sachs Global Investment Research

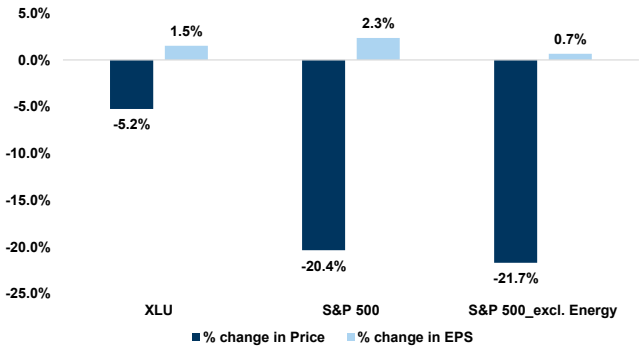
Exhibit 2: US utilities currently trade at a 20% premium to S&P 500, but trade relatively in-line to S&P 500 in a recessionary scenario...
Current utility P/E vs S&P 500 P/E at base case/recession scenario EPS for S&P 500



S&P 500 earnings estimate for 2023E: GSe base case EPS = $239; recession scenario EPS = $200 (13% median historical recession earnings revision applied to base case EPS)

Source: Goldman Sachs Global Investment Research

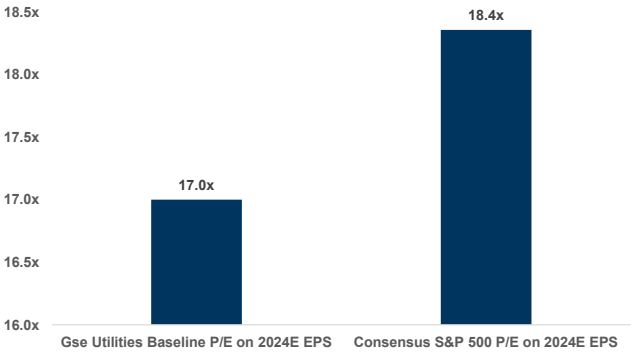
Exhibit 3: ...with YTD XLU outperformance potentially reflecting relative confidence in utility earnings power versus that for the broader market
Changes in Price of XLU and S&P 500 and respective consensus 2023 EPS estimates YTD



The % change in EPS represent 2023 estimates

Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 4: Our new 17x baseline P/E multiple - now on 2024E - reflects a 7% discount to consensus S&P P/E for 2024E



FactSet S&P 500 2022YE price target is 4,969.29; 2024E Earnings estimate is $270.69. These estimates are based on on the target prices of S&P 500 individual constituents. Data as of 6/29/2022

Source: FactSet, Goldman Sachs Global Investment Research

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Risk/reward for relative utility valuations skewed to the downside, but market earnings power remains key

Key Summary: While US utilities trade below their peak P/E multiples — almost 11% below these levels — the sector on a relative basis screens at a ~20% premium to the S&P 500 (on GSe) which we do not view as attractive. That said, we do see a 6% total return to our US utilities coverage universe and view utilities as an appropriate investment option to position defensively. We recommend a selective approach to investing in utilities.

US utility valuations screen elevated versus historical relationship with 10-year yields... US utilities have outperformed the S&P 500 by ~17% year-to-date, despite US 10-year treasury yields rising from 1.6% to 3+% during the period. Over the past 20 years during periods of 3-3.5% 10-year treasury yields, utilities have traded relatively in-line with the broader market, while at a relative discount at yields over 3.5% (Exhibit 5). We note the current 25% P/E premium (on FactSet Consensus) is near the top of the historical range, although absolute valuations at 19.1x/17.9x on 2023E/2024E stand relatively in-line with its 5-year average levels. In addition, since 2000, utilities have traded at a discount to the market in periods when dividend yields are lower than the 10-year treasury yield (Exhibit 7); utilities currently offer a 3.3% average dividend yield versus 10-year yield at 3.1%.

...although more justified on a real-yield basis... In our 2022 outlook note, we noted how real rates in recent history had better explanatory power, with utilities trading at a relative discount in periods of negative real rates. From this perspective, with real rates (as measured by 10-year TIPS) now positive at 0.7% (Exhibit 8), this relationship implies the current utility valuation premium as justified, although still screening as largely reflected with limited further upside.

...and in a flattening term structure environment. Since 2010, during periods of bear flattening yield curve (10yr minus 2yr yield spread), utilities have outperformed all other sectors in the S&P 500 except for the energy sector (Exhibit 10). This seems logical, given recession concerns warrant some level of flight-to-safety to a relatively stable and defensive sector like utilities. Given increasing recession risk driving the current market downturn, we believe utilities could still trade at a relative premium valuation near-term; that said, we see risk/reward skewed negatively at current levels.

Broader market earnings power could dictate future relative performance... Utilities' current 20% P/E premium is based on the 2023 S&P 500 EPS estimate of $239 (GSe). If realized, we expect utilities to underperform the broader market and see a relatively in-line multiple as warranted. However, in a recession scenario - hair-cutting the S&P 500 EPS estimate by the 13% median historical recession earnings revision (per our GS strategy team analysis) - utilities screen in-line to the S&P 500. **We see meaningful S&P 500 downward earnings revisions as the key risk to our cautious relative sector view.**

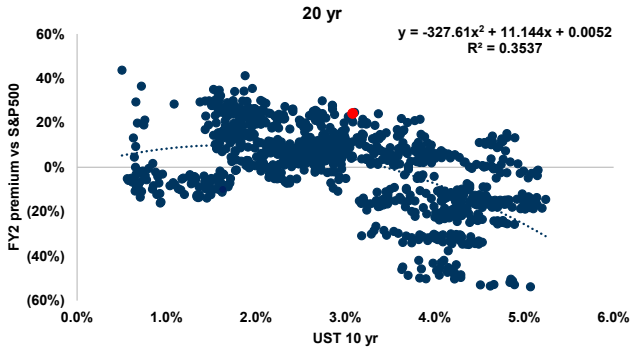
...given utilities earnings remain resilient. We continue to see utilities' earnings

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power as largely intact, with 5-8% EPS growth and 3-4% dividend yield offering 8-12% total return proposition per our estimates. For regulated utilities, which comprise the bulk of our coverage companies' earnings, higher costs - including fuel/purchased power and operational costs - represent either pass-through items or are periodically recovered via customer bills with no net income impact. That said, customer bill increases remain a key concern, which could elevate regulatory scrutiny over time as utilities look to recover its costs while also executing on its capital investments that drive earnings growth.

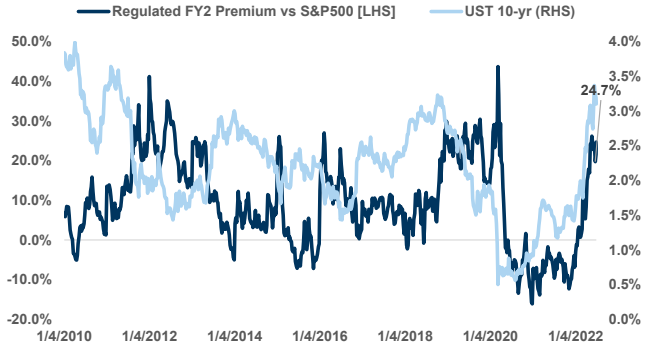
Remain selective and balanced in investing in utilities. With this macro backdrop, we see a balanced investing strategy between premium defensive utilities and dislocated value plays as appropriate. On the premium side, we recommend Buy-rated large-cap regulated utilities DTE Energy (DTE, on Conviction List) and Xcel Energy (XEL) for their consistent execution track record with above-average earnings growth. On the value side, we recommend Entergy (ETR), FirstEnergy (FE) and PPL Corp (PPL) for attractively valued regulated utility exposure, along with AES Corp (AES) for global clean energy exposure at a SOTP discount.

Exhibit 5: Current utility valuations screen elevated based on historical relationship in a 3-4% 10-year yield environment.
FY2 premium of utilities vs S&P 500 in different UST 10 year environments over the past 20 years



Source: FactSet, Goldman Sachs Global Investment Research

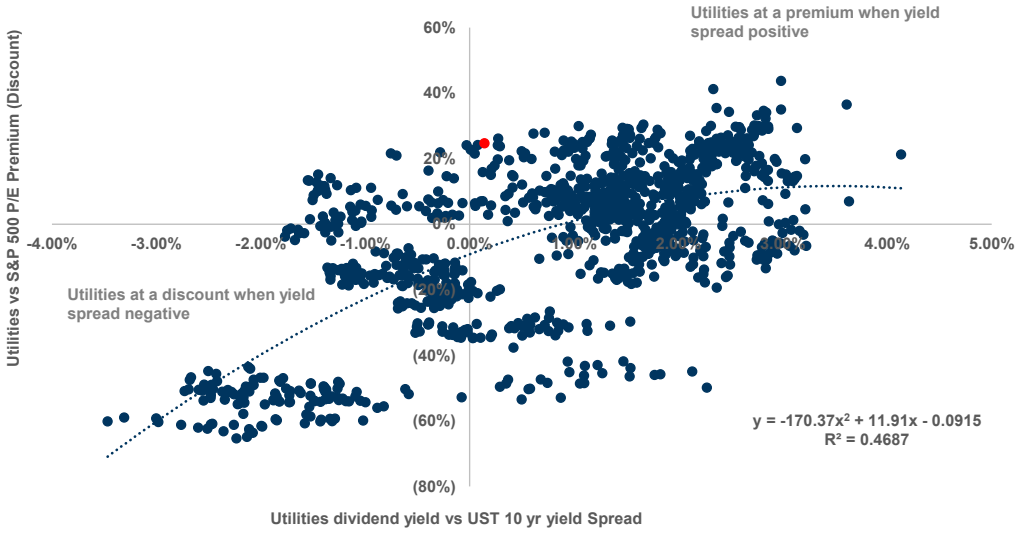
Exhibit 6: ...which presents relative downside risk for the sector at current premium valuation
FY2 Premium Regulated Utilities vs S&P 500 (LHS); UST 10 year inverted (RHS)



Source: FactSet, Goldman Sachs Global Investment Research

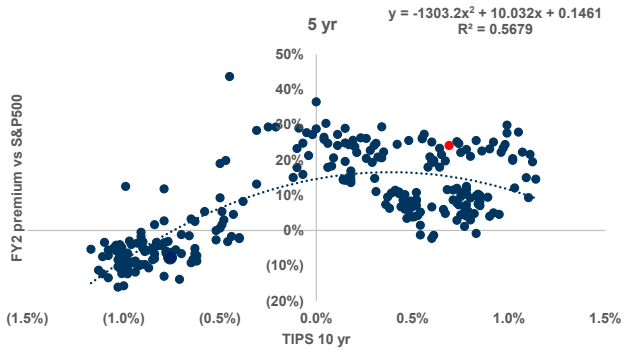
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Exhibit 7: When yield spread (Utilities FY2 dividend yield minus UST 10yr yield) is zero or negative, utilities have traded at a discount to S&P 500. When spread has been positive, utilities have traded at a premium to S&P 500. The current spread at just 0.2% indicates risk to current premium valuations.
Utilities vs S&P 500 P/E Premium (Discount) vs Utilities yield spread (Utilities FY2 dividend yield minus UST 10yr yield)



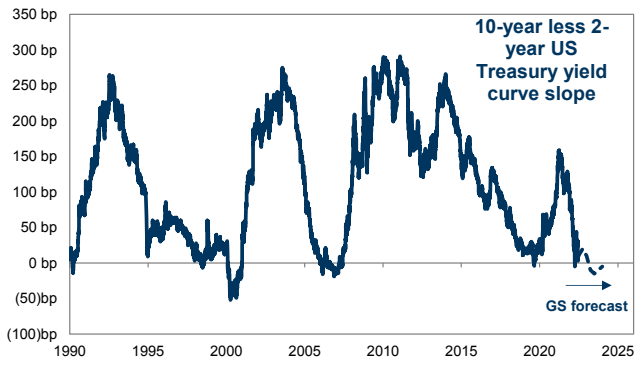
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 8: That said, the recent relationship with real rates paints a relatively different picture, somewhat justifying current valuations.
FY2 premium for utilities vs S&P 500 in various TIPS 10 yr environments, past 5 years



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 9: Our rates strategists expect the yield curve to continue to bear flatten through 2023, and even modestly invert...
Historical and GSe US treasury yield curve slope (10yr - 2yr)



Source: FRB, Goldman Sachs Global Investment Research

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Exhibit 10: ...which historically implies utilities outperformance vs. S&P 500

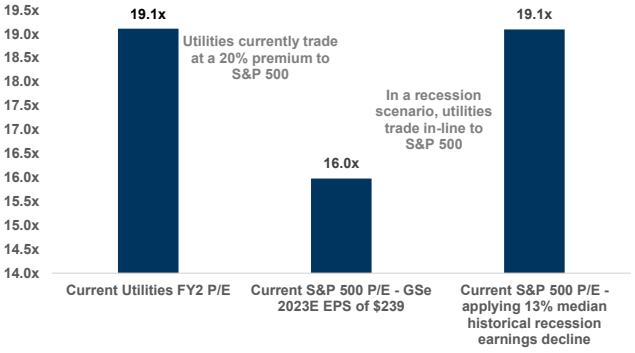
Sector returns when the yield curve is bear-flattening (2010-May 2022)

	Monthly returns in bear flattening		Hit
Sectors vs. S&P 500	**Median**	**Average**	**rate**
Energy	(0.5)pp	0.4 pp	48 %
Utilities	1.1	0.4	44
Health Care	0.1	0.3	48
Information Technology	(0.1)	0.3	57
Consumer Staples	0.3	0.3	55
Consumer Discretionary	0.5	0.1	60
Financials	0.2	(0.1)	47
Communication Services	(0.4)	(0.3)	49
Materials	(0.2)	(0.3)	51
Industrials	(0.1)	(0.3)	47
S&P 500	***0.8 %***	***0.8 %***	***75 %***

Source: Goldman Sachs Global Investment Research

Exhibit 11: We believe utilities' YTD outperformance embeds some risk of S&P 500 earnings revisions...

Current utility P/E vs S&P 500 P/E at base case/recession scenario EPS for S&P 500

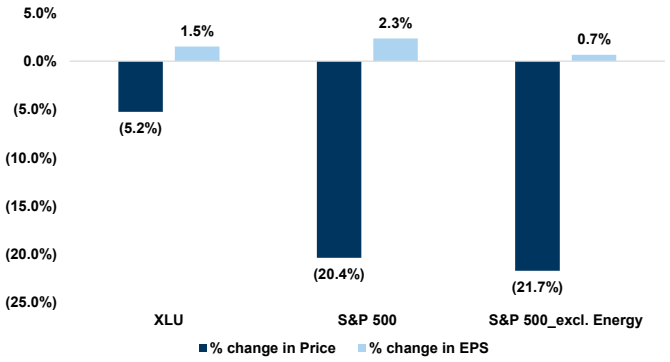


S&P 500 earnings estimate for 2023E: GSe base case EPS = $239; recession scenario EPS = $200 (13% median historical recession earnings revision applied to base case EPS)

Source: Goldman Sachs Global Investment Research

Exhibit 12: ...despite consensus estimates for the broader market actually modestly increasing YTD.

Changes in Price of XLU and S&P 500 and respective consensus 2023 EPS estimates YTD

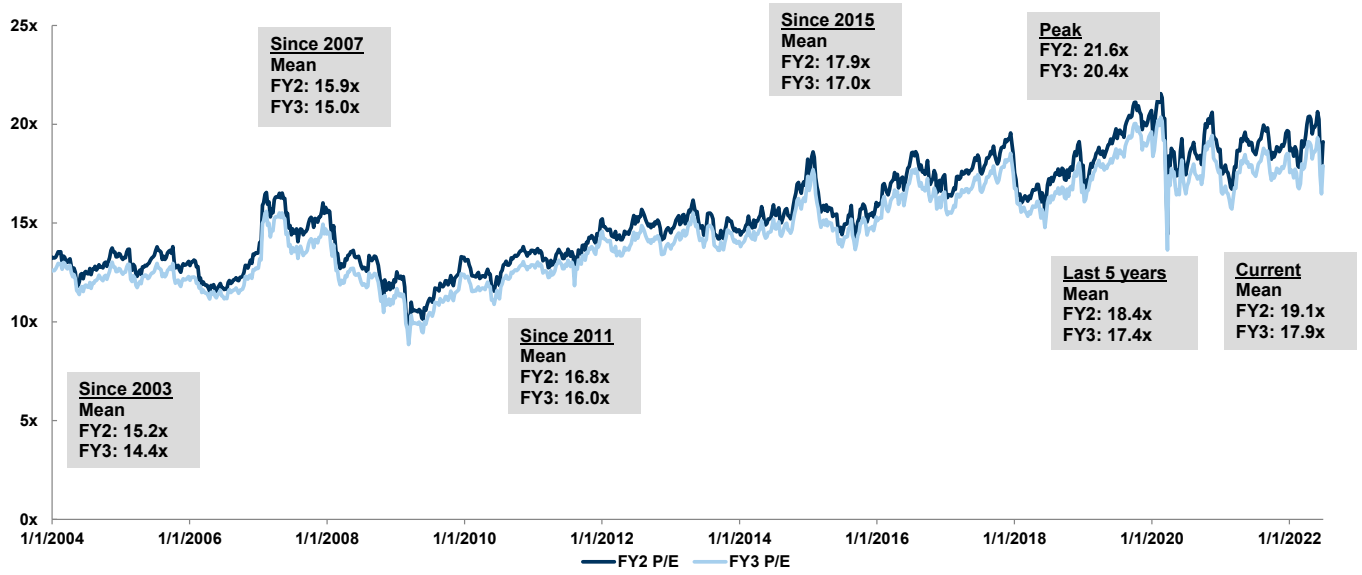


The % change in EPS represent 2023 estimates

Source: FactSet, Goldman Sachs Global Investment Research

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Exhibit 13: On an absolute P/E basis, utilities trade roughly 11% below prior peak and relatively close to its 5-year average
Market cap-weighted FY2 & FY3 Regulated Utilities' P/E



Source: FactSet, Goldman Sachs Global Investment Research

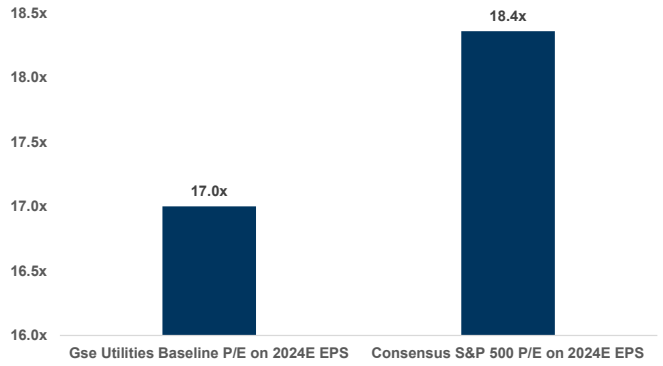
Rolling forward valuations to 2024E; see 6% total return to our coverage universe

We roll forward our coverage valuations, now utilizing 2024E EPS, while applying a 17x base P/E multiple for electric/gas utilities (versus 18x on 2023E EPS prior), below current FY3 trading P/E of 17.9x. While our GS strategy team has not yet forecasted target S&P 500 price and earnings for YE2023/2024E, we note our 17x base multiple screens as a modest discount to the FactSet consensus S&P 500 target P/E. For water utilities, we set a base P/E of 27x on 2024E, or a 10x premium to the electric/gas multiple, to continue reflecting our calculated fundamental advantages (and some scarcity factor) for water utility growth.

We see 6% total return to our coverage universe, with the highest total return for companies including PCG, EIX, and FE, and with negative total returns for companies including SO, AGR, and AEP.

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Exhibit 14: Our new 17x baseline P/E multiple - now on 2024E - reflects a 7% discount to consensus S&P P/E for 2024E



FactSet S&P 500 2022YE price target is 4,969.29; 2024E Earnings estimate is $270.69. These estimates are based on on the target prices of S&P 500 individual constituents. Data as of 6/29/2022

Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 15: We update Price Targets for all utilities in our coverage as we roll forward to 2024
Old vs New 12-month Price Targets

Company	Ticker	Rating	PT (Old)	PT (New)	Current Price	Dividend Yield	Total Return
PG&E	PCG	Buy	$15	$16	$10.2	0.0%	56.3%
Edison International	EIX	Buy	$76	$77	$63.8	4.4%	25.7%
FirstEnergy	FE	Buy	$46	$44	$39.3	4.0%	16.2%
Public Service Enterprise	PEG	Buy	$81	$74	$64.7	3.4%	17.8%
PPL Corp	PPL	Buy	$32	$32	$27.8	3.2%	18.5%
DTE Energy	DTE	Buy	$138	$143	$129.2	2.8%	13.2%
AES Corp	AES	Buy	$26	$25	$21.5	2.9%	18.4%
CMS Energy	CMS	Buy	$72	$75	$69.0	2.7%	11.0%
Essential Utilities	WTRG	Buy	$55	$52	$47.4	2.3%	12.0%
NiSource Inc.	NI	Buy	$31	$32	$30.1	3.1%	9.6%
Xcel	XEL	Buy	$76	$77	$72.6	2.7%	8.5%
Sempra Energy	SRE	Buy	$164	$167	$153.6	3.1%	11.8%
Portland General Electric	POR	Buy	$52	$52	$49.8	3.6%	7.5%
Entergy	ETR	Buy	$119	$119	$115.3	3.4%	6.9%
Evergy	EVRG	Neutral	$66	$69	$66.8	3.5%	6.5%
OGE Energy Corp	OGE	Neutral	$40	$40	$40.0	4.1%	4.0%
Exelon	EXC	Neutral	$44	$47	$46.1	2.9%	3.9%
Eversource Energy	ES	Neutral	$88	$89	$87.2	2.9%	5.3%
Ameren	AEE	Neutral	$92	$93	$92.2	2.6%	3.6%
Atmos	ATO	Neutral	$113	$116	$115.2	2.4%	2.9%
NextEra Energy	NEE	Neutral	$78	$83	$80.6	2.1%	4.7%
WEC Energy Group	WEC	Neutral	$100	$102	$102.6	2.8%	2.1%
CenterPoint Energy	CNP	Neutral	$30	$30	$30.5	2.3%	1.6%
American Water	AWK	Neutral	$168	$155	$153.4	1.7%	3.0%
Duke Energy	DUK	Neutral	$103	$105	$109.6	3.6%	(0.6)%
Dominion Energy	D	Sell	$75	$76	$81.2	3.3%	(3.2)%
Pinnacle West Capital	PNW	Sell	$67	$68	$74.7	4.6%	(5.0)%
Consolidated Edison	ED	Sell	$82	$85	$97.2	3.2%	(9.3)%
American Elec Power	AEP	Sell	$84	$80	$98.0	3.2%	(14.8)%
Avangrid, Inc.	AGR	Sell	$39	$38	$47.8	3.7%	(16.9)%
Southern Company	SO	Sell	$51	$53	$73.1	3.7%	(23.8)%

DTE is on the Americas Conviction List

Source: FactSet, Goldman Sachs Global Investment Research

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Exhibit 16: We update estimates for few other utilities in our coverage
EPS New vs Old & Drivers

Ticker	Price Target		2022			2023			2024			2025			Drivers
	New	Old	New	Old	vs Old	New	Old	vs Old	New	Old	vs Old	New	Old	vs Old	
AEP	$80	$84	$4.84	$4.91	-2%	$5.07	$5.27	-4%	$5.36	$5.60	-4%			--	updated for 10Q segment data and for various rate case & rate base assumptions
AES	$25	$26	$1.60	$1.59	0%	$1.76	$1.75	1%	$1.97	$1.96	1%	$2.11	$2.11	0%	updated FX and commodity prices
AGR	$38	$39	$1.89	$1.90	-1%	$1.98	$1.99	0%	$2.03	$2.03	0%			--	updated debt financing costs
DUK	$105	$103	$5.49	$5.48	0%	$5.63	$5.73	-2%	$6.18	$6.17	0%	$6.70	$6.70	0%	updated rate increase at OH/KY utilities
ETR	$119	$119	$6.52	$6.42	2%	$6.89	$7.00	-2%	$7.46	$7.36	1%			--	updated capital expenditure estimates and rate increases
NEE	$83	$78	$2.86	$2.79	2%	$2.95	$2.93	1%	$3.27	$3.21	2%	$3.60	$3.54	2%	updated cadence for O&M reductions, capex levels at FP&L and development of new renewables at NEER
PEG	$74	$81	$3.55	$3.55	0%	$3.65	$3.70	-1%	$3.94	$4.03	-2%			--	updated capacity revenues post PJM auction

Time frame for price targets is 12 months

Source: Goldman Sachs Global Investment Research

Upgrade SRE to Buy: Attractive SOTP story with leverage to LNG development growth and robust Texas electric demand

PM Summary

We upgrade Sempra Energy (SRE) from Neutral to Buy given (1) a more attractive valuation on a sum of the parts, after shares lagged peers in the past 2 months, (2) exposure – given multiple potential growth projects – to the major theme of LNG development, especially as we only give partial credit in our sum of the parts analysis to several growth projects, (3) solid demand growth in its Texas utility that could lead to potential rate base and earnings upside there, and (4) potential resolution by year-end of the California cost of capital docket given the schedule published by the CPUC stating a target year-end resolution could alleviate an overhang – we already embed an RoE reduction in estimates for three California utilities. We also note, in the near term, SRE maintains a solid FCF outlook and capital allocation could still come in above peer group levels in the coming years. We now see more than 11.8% total return potential to our revised $167/sh target price, which we derive via a sum of the parts analysis.

What changes in our views?

As with all utility stocks in our coverage, we roll forward valuation from 2023 to 2024 – a year where we see continued growth in the company's California and Texas utilities, with limited growth in that year for its non-regulated LNG and Mexico businesses. We capture some potential long term upside related to LNG development in the sum of the parts. We maintain our EPS estimates, so the bulk of our change comes in our target price update.

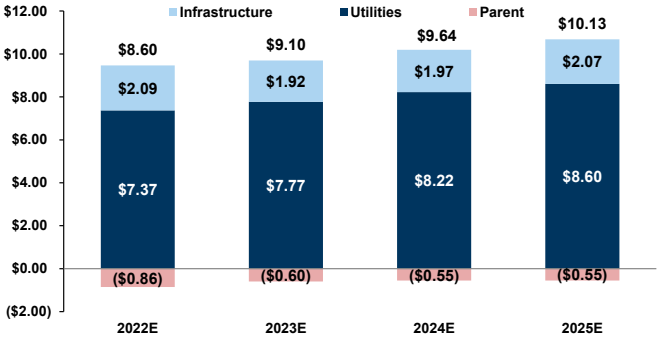
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Exhibit 17: We remain above consensus showing our optimism for SRE
GS v/s Consensus

	EPS Estimates		Difference
	GS	Cons	vs Cons
2022E	$8.60	$8.51	1%
2023E	$9.10	$8.96	1%
2024E	$9.64	$9.58	1%
2025E	$10.13	$10.12	0%

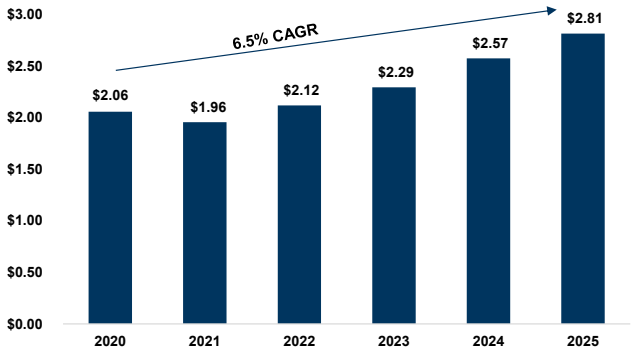
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 18: Steady growth in EPS year over year
EPS by year by segment ($ per share)



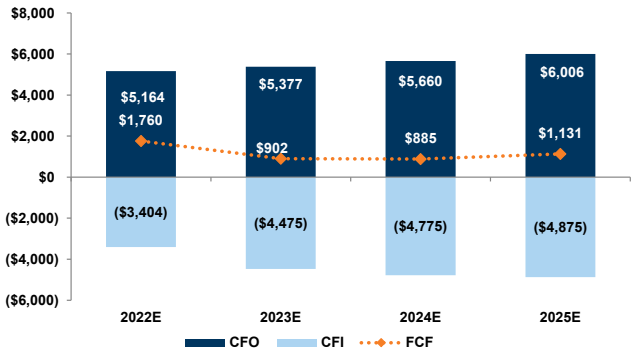
Source: Goldman Sachs Global Investment Research

Exhibit 19: We expect ONCOR's EPS to grow at a CAGR of 6.5% from 2020 to 2025
ONCOR EPS growth by year ($/share)



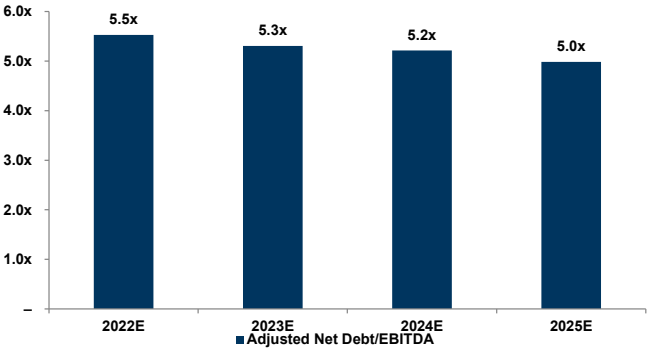
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 20: We expect SRE to generate healthy FCF going forward
FCF (CFO minus CFI by year)



Source: Goldman Sachs Global Investment Research

Exhibit 21: We expect SRE to bring down its debt over the years
Net Debt/EBITDA by year



Source: Goldman Sachs Global Investment Research

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Exhibit 22: Our 12-month SOTP PT bakes in some of the LNG infrastructure growth and the expected earnings from its regulated utilities
Sempra Sum of the Parts Analysis

Sempra Fundamental Sum-of-the-Parts								
Segment	2024 EPS	2024 EBITDA	P/E	EV	Net debt	Present value factor	Shares (mn)	Equity value/share
SDG&E	$3.04		16.0x					$49
SoCalGas	$2.60		16.0x					$42
Oncor	$2.57		19.0x					$49
Utilities								**$140**
Sempra Infrastructure Partners		$968		$11,137	($6,020)	1.00	303	$17
US LNG Expansion - Port Arthur	2030 run-rate -->	$770	15% probability	$8,855	($3,413)	1.84	303	$1
US LNG Expansion - Cameron	2026 run-rate -->	$660	75% probability	$7,590	($1,063)	1.33	303	$12
ECA Phase One	2025 run-rate -->	$193	100% probability	$2,214	($1,050)	1.23	303	$3
ECA Phase Two	2030 run-rate -->	$424	15% probability	$4,870	($2,310)	1.84	303	$1
Vista Pacifico	2030 run-rate -->	$385	25% probability	$4,428	($1,365)	1.84	303	$1
Infrastructure								**$35**
HoldCo	($0.55)		15.0x					($8)
SRE total								**$167**

Source: Goldman Sachs Global Investment Research

Exhibit 23: SRE trades at an attractive level compared to other large cap utilities
P/E Multiples by year for Large Cap Utilities

		P/E Multiples		
Large-Cap Utilities	Ticker	2022	2023	2024
Public Service Enterprise	PEG	18.2x	17.7x	16.4x
American Elec Power	AEP	20.3x	19.3x	18.3x
Duke Energy	DUK	20.0x	19.5x	17.7x
DTE Energy	DTE	21.2x	20.6x	19.0x
Consolidated Edison	ED	21.4x	20.1x	19.4x
Edison International	EIX	13.5x	12.5x	11.5x
Entergy	ETR	17.7x	16.7x	15.5x
Evergy	EVRG	18.5x	17.1x	15.5x
Eversource Energy	ES	21.1x	19.8x	18.6x
Exelon	EXC	21.1x	19.9x	17.8x
FirstEnergy	FE	16.1x	14.6x	13.4x
PG&E	PCG	9.3x	8.2x	7.5x
PPL Corp	PPL	17.8x	15.5x	14.7x
Southern Company	SO	21.1x	20.2x	17.9x
WEC Energy Group	WEC	23.4x	22.6x	21.2x
Xcel	XEL	22.8x	21.2x	19.8x
Sempra Energy	SRE	17.8x	16.9x	15.9x
Median		*20.0x*	*19.3x*	*17.7x*
Mean		*17.8x*	*16.9x*	*15.9x*

Source: Goldman Sachs Global Investment Research

Valuation appears compelling on a sum of the parts basis — and we note SRE screens attractively on a P/E multiple as well. We utilize a sum of the parts to value SRE, in order to incorporate (1) credit to various LNG growth projects or initiatives that may not impact EPS or EBITDA until 2025+, (2) recognize uncertainty exists on when each of these potential LNG projects may move forward, so giving partial, different credit for each of them on a probability weighted basis and (3) a premium multiple for SRE's high growth Texas utility franchise and a discount one for its California business, given continued – albeit modest relative to its California peers – wildfire and regulatory risks ahead. As LNG projects move forward in the permitting and contracting aspects, we recognize probabilities may change – presenting upside risk to our sum of the parts analysis. We also note that on P/E multiples, SRE trades at an attractive level – at P/E multiples of 16.9x/15.9x on 2023/2024 earnings versus the large cap median (excluding PCG/EIX given wildfire risks) at 19.8x on 2023 and 17.9x on 2024 earnings.

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...and yet we recognize risks still exist. For the regulated businesses in the US, we note the outstanding rate cases in both Texas and California present risks to revenues — with the Texas case likely getting resolved by year-end given rate cases generally take 180 days to resolve in Texas but the California one continuing well into 2023 given CPUC schedule. While we – as described earlier – already embed a lower authorized RoE for SRE's California utilities than the current authorized level, we recognize the ongoing Cost of Capital docket also presents risks to our view if the authorized RoE or equity ratio comes in below our expectation. Delays in LNG project development or in contracting present a risk to that part of the Sempra Infrastructure Partners (SIP) segment, while operating risk exists still (in terms of volumes or pricing) for the various assets (renewable, gas generation especially) in the Mexico portion of SIP.

...and what events should investors monitor from here?

We highlight a number of events investors should monitor in the coming 12 months, starting with the company's regulated utilities in TX and CA... SRE maintains an active regulatory calendar this year for its US utility businesses — with a rate case just filed at its Texas utility and two proceedings in California, with its cost of capital docket and its rate cases there. We expect resolution of the Texas rate case late this year – and in fact note that upside risk to our estimates could emerge if SRE gains approval for a higher authorized equity ratio in Texas, a level closer to 45%, as we still assume slightly lower in our forecasts. We note SRE's Texas business maintains one of the lower authorized equity ratios among utilities under coverage – a higher level authorized by the state utility regulators there could drive upside risk to EPS in 2023+. SRE's California utilities remain involved in the cost of capital mechanism proceeding in California, a docket we expect to get resolved in late 2022 or early 2023 – we assume that this results, in 2023+, in a reduced authorized RoE level, despite all 3 utilities there (PCG, EIX and SRE) noting in public filings that the wildfire related risks they bear warrant a higher, not a lower authorized RoE. While we recognize this risk remains, we note the RoEs in California already remain above those authorized for most utilities under coverage – and we assume a very small reduction (25-30 bps) in our forecasts. Finally, SRE's utilities in California just filed general rate case proceedings – we do not expect resolution of this until late 2023 or so, and given the need for new electric infrastructure for the state's clean energy and vehicle electrification efforts (EVs), we do not see material downside risk or see these cases as serving as an overhang on SRE's shares, especially given the state generally approved 85%-90%+ of the company's capital spend and rate base requests in prior cases.

...and development activities at the LNG business within Sempra Infrastructure Partners (SIP) could drive material growth post 2025 – with contract announcements and permitting authorizations key to monitor from here. Given the rise in global natural gas prices and the focus on energy supply sources over the past 1-2 years – especially after the Russia/Ukraine conflict started this year – SRE via its Sempra Infrastructure Partners (SIP) venture continues development of multiple different LNG projects. We already include the small expansion (2.5 mtpa) at the Costa Azul site in Mexico — which adds to earnings only starting in 2025, given a multi year construction timeline. We do not give full credit to the other projects, like the Cameron

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expansion (6-7 mtpa), the greenfield Port Arthur LNG (13.5 mtpa), the large scale Costa Azul expansion (12 mtpa), or the potential Vista Pacifico project (3-4 mtpa) – we only give partial or limited credit in our valuation analysis for these projects, given continued uncertainty on off-take contracting, permitting and project construction agreements. We see the Cameron LNG expansion as likely first in line owing to more commercial contracting and ownership agreements already announced relative to the other projects – with potential announcements of incremental contracts coming in the next 6+ months and with expected FERC approvals of the site design change in 1H2023, which could lead to a project FID in the next 9-12 months as per company guidance.

Key risks to our rating include:

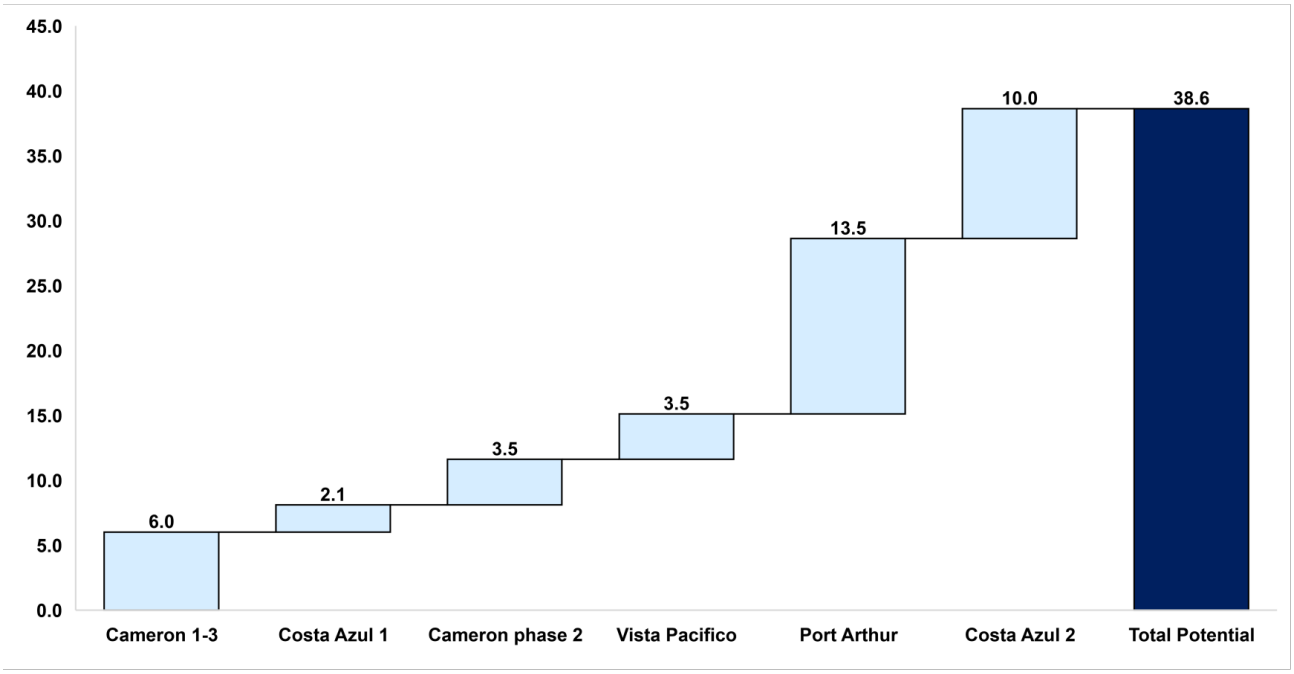
(1) Rate case and regulatory risk given ongoing cases in both CA and TX — and the cost of capital docket in CA — our CA forecasts already assume a 25-30 bps reduction to the authorized RoE but a greater reduction could present downside.

(2) Wildfires in Southern CA — we do not embed wildfire related costs in our forecasts but recognize this could, if one occurs in the San Diego area where SRE owns an electric utility business, impact cash flows.

(3) Failure to move ahead with LNG export growth projects due to permitting or contracting challenges — cancellations would weigh on our target price as we assume partial credit for these projects.

(4) Cost management — higher than expected O&M expenses driven by inflation or other factors would reduce earnings potentially.

Exhibit 24: 38.6 Mtpa of potential capacity that SIP could get leaves a lot of room for upside
Waterfall showing potential SIP capacity (mtpa)



Source: Company data, Goldman Sachs Global Investment Research

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Exhibit 25: Contracts announced this year

Contract announcements

Project announcements			
Project	**Date**	**Mtpa**	**Transaction**
Cameron Phase 2/Port Arthur	June 2022	1.4	SIP and INEOS Sign HOA for LNG Supply
Port Arthur	May 2022	2.25	SIP and RWE Sign HOA for U.S. LNG Supply
Cameron Phase 2/Port Arthur	May 2022	3	SIP and PGNiG advance N.A. LNG alliance
Cameron Phase 2	April 2022	6.75	SIP announces HOA with TotalEnergies, Mitsui, Mitsubishi and NYK
General	April 2022	-	SIP and KOGAS sign MOU to explore new infrastructure opportunities

Source: Company data, Goldman Sachs Global Investment Research

Price Target and Risks

Exhibit 26: Price Target Methodologies and Key Risks

Time frame for price targets is 12 months

Price Target Methodologies and Key Risks

Ticker	Price Target Methodology	Rating	Price Target (New)	Price Target (Old)	7/1/2022 Close	2022 DPS	Dividend Yield	Total Return (%)	Key Risks
Diversified Utilities									
PEG	SOTP 19x P/E on Regulated Utility and 7.5x EV/EBITDA on Carbon Free, Infrastructure and Other (CFIO)	Buy	$74	$81	$64.67	$2.17	3%	18%	**Downside:** 1) power prices, 2) power demand, 3) maintaining nuclear subsidies, 4) financing, and 5) cost management.
AES	SOTP 17x P/E on AES Ohio and Indiana, 13x EV/EBITDA on US non-reg. generation, AES' ownership of publicly traded equity market value of the South America SBU, 6x EV/EBITDA on MCAC SBU, 4x EV/EBITDA on Eurasia SBU and other investments using EV/SALES	Buy	$25	$26	$21.48	$0.63	2.9%	19%	**Downside**: 1) regulatory developments in OH and IN, 2) repricing of PPA contracts at expiry, 3) delayed timing of renewables and energy storage projects, 4) weather and hydrology conditions, and 5) expected growth for its AES Next Investments
AGR	SOTP 17x P/E on Regulated Utility and 10x EV/EBITDA on Renewables	Sell	$38	$39	$47.83	$1.76	3.7%	-17%	**Upside:** 1) AGR successfully wins its legal challenge in the NECEC project, improving earnings power, 2) AGR succeeds in acquiring PNM if it were to consider pursuing a rehearing request or other measures, 3) incremental O&M savings help offset other EPS headwinds, and 4) AGR's Vineyard Wind offshore wind project proceeds according to the latest schedule and budget
CNP	19x P/E on 2024 EPS	Neutral	$30	$30	$30.50	$0.69	2.3%	1%	**Upside:** 1) demand growth, 2) CNP's regulated utilities further increase capital opportunities, and 3) CNP further simplifies its portfolio via additional and accretive gas utility divestitures. **Downside:** 1) increased regulated expenses - including supply/labor costs - pressure customer bills, leading to regulatory overhang and 2) CNP's Indiana electric utility fails to secure any rate base utility-owned generation opportunities
D	SOTP - 17x PE on Regulated Utilities DEV & DESC, Gas LDC and Parent, 11.5x EV/EBITDA on Contracted Assets	Sell	$76	$75	$81.24	$2.67	3.3%	-3%	**Upside:** 1) utility regulation, 2) power demand and 3) project execution.
NEE	SOTP 22x P/E on Florida, 14x EV/EBITDA on NEER, 22x P/E on Parent, NEP LP value derived using NEE's share, NEP GP value derived from 7% Ke, 5% LT growth	Neutral	$83	$78	$80.56	$1.69	2.1%	5%	**Upside**: 1) demand growth, 2) renewable devlopment, 3) tax credit legislation and 4) operating cost management levels **Downside:** 1) power demand, 2) renewable development execution and financing, 3) Florida utility regulation
OGE	SOTP 17x P/E on 2024 EPS for Regulated Utility, 20% liquidity discount to OGE's stake in current ENBL market value	Neutral	$40	$40	$40.04	$1.66	4.1%	4%	**Upside**: 1) higher regulated capital spending driving upsized rate base growth and increased earnings growth profile, and 2) the company could be a target of a take-out. **Downside**: 1) OGE's utility jurisdiction experience moderating/decreasing customer and demand growth, and 2) unfavorable outcome in pending OK electric rate case
SRE	SOTP: using a 1x discount multiple of 16x 2024E EPS on the California utilities (SDG&E, SoCalGas), a 2x premium multiple of 19x on 2024E EPS on the Texas utilities (Oncor) , then an 11.5x EV/EBITDA multiple on Sempra Infrastructure Partners EBITDA --- and then, using an 11.5x EV/EBITDA multiple, probability weighted value for the various LNG growth projects (Port Arthur, Cameron, ECA Phase One and Two, and Vista Pacifico)	Buy	$167	$164	$153.56	$4.80	3.1%	12%	**Downside:** 1) wildfire related exposure, 2) utility regulation, 3) project execution, 4) litigation risk and financing, 5) potential further sell-downs of SIP, 6) higher rate base growth, 7) cost management
Diversified Utilities (median)							**3.2%**	**4.6%**	

Source: Goldman Sachs Global Investment Research

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Exhibit 27: Price Target Methodologies and Key Risks

Time frame for price targets is 12 months

Price Target Methodologies and Key Risks									
Ticker	Price Target Methodology	Rating	Price Target (New)	Price Target (Old)	7/1/2022 Close	2022 DPS	Dividend Yield	Total Return (%)	Key Risks
Regulated Utilities (Large-Cap)									
AEP	15x P/E on 2024 EPS	Sell	$80	$84	$97.95	3.16	3.2%	-15%	**Upside:** 1) demand, 2) financing, 3) cost management, and 4) rate base growth.
DUK	17x P/E on 2024 EPS	Neutral	$105	$103	$109.62	4.00	3.6%	-1%	**Upside:** 1) cost management & 2) future rate cases or proceedings in Carolinas/Midwest states DUK serves. **Downside:** 1) utility regulation, 2) cost management & 3) financing
DTE	21x P/E on 2024 EPS	Buy	$143	$138	$129.16	3.61	2.8%	14%	**Downside:** 1) unfavorable regulatory changes, 2) incentive returns & equity layers, 3) unfavorable legislation, & 4) customer demand & usage, & cost management.
ED	17x P/E on 2024 EPS	Sell	$85	$82	$97.24	3.16	3.2%	-9%	**Upside:** 1) NYPSC approves bulk of requested revenue/rate base increase at CECONY supporting an elevated earnings growth rate, 2) economic conditions in NYC from COVID-19 improve, & 3) ED executes an accretive monetization of the Clean Energy assets
EIX	14x P/E on 2024 EPS	Buy	$77	$76	$63.75	2.80	4.4%	25%	**Downside:** 1) wildfire risk, 2) litigation claims, and 3) regulatory risk.
ETR	16x P/E on 2024 EPS	Buy	$119	$119	$115.30	3.97	3.4%	7%	**Downside:** 1) utility regulation, 2) power demand, and 3) financing.
EVRG	16x P/E on 2024 EPS	Neutral	$69	$66	$66.81	2.33	3.5%	7%	**Upside:** 1) cost management. **Downside:** 1) Utility regulation, 2) power demand and 3) financing
ES	19x P/E on 2024 EPS	Neutral	$89	$88	$87.15	2.55	2.9%	5%	**Upside:** 1) improved offshore wind return forecasts, 2) reduced permitting/construction hurdles, 3) additional rate base investments. **downside:** 1) ineffective cost management, 2) slowing rate base growth, 3) utility regulatory environment
EXC	18x on 2024 EPS	Neutral	$47	$44	$46.07	1.35	2.9%	5%	**Upside:** 1) cost management. **Downside:** 1) Utility regulation, 2) power demand and 3) financing
FE	15x P/E on 2024 EPS	Buy	$44	$46	$39.33	1.56	4.0%	16%	**Downside:** 1) utility regulation, 2) power demand, and 3) financing.
PCG	50% weight each to (1) 13x P/E on 2024 EPS and, (2) DDM analysis on 35% dividend payout in 2025.	Buy	$16	$15	$10.24	0.00	0.0%	56%	**Downside:** 1) 2023 GRC proceeding, 2) general regulatory risk in CA, 3) wildfire related risk, 4) financing needs through both debt (including securitization) and equity issuance.
PPL	17x P/E on 2024 EPS	Buy	$32	$32	$27.76	0.88	3.2%	18%	**Downside:** 1) power demand in KY – a decrease in expected demand growth in Kentucky would negatively impact PPL earnings until future rate cases occur, 2) state utility regulation -- as negative regulatory outcomes would impact revenue set for PPL's regulated subsidiaries and 3) cost management – failure to reduce costs after successful completion of the Rhode Island acquisition could hamper earnings.
SO	13x P/E on 2024 EPS	Sell	$53	$51	$73.14	2.71	3.7%	-24%	**Upside**: 1) faster than expected completion of Vogtle Units 3 and 4, 2) greater than anticipated rate base growth, 3) financing, and 4) better than anticipated power demand or operating costs
WEC	21x P/E on 2024 EPS	Neutral	$102	$100	$102.58	2.91	2.8%	2%	1) utility regulation and rate cases, 2) power/gas demand in Wisconsin, & 3) rate base growth, renewable development, and the gas main replacement program in Northern Illinois.
XEL	21x P/E on 2024 EPS	Buy	$77	$76	$72.63	1.95	2.7%	9%	**Downside:** 1) Negative rate case outcomes, 2) XEL realizes less generation into rate base vs. PPA, impacting rate base growth & 3) PPA buyouts do not materialize, 4) Rising commodity prices
Regulated Utilities - Large Cap (median)							**3.2%**	**5.8%**	
Regulated Utilities - Large & Small Cap (median)							**3.1%**	**6.7%**	

DTE is on the Americas Conviction List

Source: Goldman Sachs Global Investment Research

Exhibit 28: Price Target Methodologies and Key Risks

Time frame for price targets is 12 months

Price Target Methodologies and Key Risks									
Ticker	Price Target Methodology	Rating	Price Target (New)	Price Target (Old)	7/1/2022 Close	2022 DPS	Dividend Yield	Total Return (%)	Key Risks
Regulated Utilities (Small-Cap)									
ATO	18x P/E on 2024 EPS	Neutral	$116	$113	$115.15	2.72	2.4%	3%	**Upside**: 1) demand growth, and 2) ATO reduces annual equity needs through creation of a holding company or via accretive gas utility divestitures, **Downside:** 1) sustained elevated gas fuel cost pressure customer bills 2) Texas regulatory environment turns negative, and 3) market sentiment on gas utility business turns more negative, impacting absolute and relative P/E multiples.
AWK	30x P/E on 2024 EPS	Neutral	$155	$168	$153.43	2.57	1.7%	3%	**Upside:** 1) cost management, 2) ESG fund flows. **Downside:** 1) water quality issues, 2) regulatory environment
AEE	20x P/E on 2024 EPS	Neutral	$93	$92	$92.19	2.39	2.6%	3%	**Upside:** 1) utility investments to accelerate rate base/earnings growth,2) cost management, 3) outcomes in the upcoming Missouri electric rate case, **Downside:** 1) 30-year Treasury yields, and 2) equity financing needs.
CMS	22x P/E on 2024 EPS	Buy	$75	$72	$69.03	1.84	2.7%	11%	**Downside:** 1) Michigan's regulatory environment turns negative, impacting CMS's ability to earn a healthy rate of return, and 2) CMS's ability to achieve consistent cost savings slows, reducing bill headroom for future investments.
NI	18.35x Blended multiple on 2024 EPS	Buy	$32	$31	$30.05	0.94	3.1%	10%	**Downside:** (1) NI continues to face additional solar development delays which potentially pressure earnings power, (2) unfavorable outcome in the outstanding and upcoming rate cases which lowers allowed returns, (3) NI fails to realize rate base additions and instead has more PPA generation, and (4) NI announces strategic initiatives that are dilutive to EPS.
PNW	15x P/E on 2024 EPS	Sell	$68	$67	$74.68	3.42	4.6%	-4%	**Upside:** 1) AZ commission authorizes a higher ROE in the 2022 rate case, 2) PNW receives approval for contemporaneous recovery/return of clean energy investments, 3) robust electric demand growth, & 4) constructive federal renewable tax policies reduce future equity needs.
POR	17x P/E on 2024 EPS	Buy	$52	$52	$49.82	1.81	3.6%	8%	**Downside:**□1) POR secures little to no owned clean generation in the current RFP, capping earnings growth upside, 2) Oregon utility commission disallows recovery of a significant portion of the 2020-2021 significant events (ice storm, wildfire, power costs), impacting the balance sheet and elevating future equity issuance needs, and 3) POR experiences meaningful cost inflation that impacts EPS and/or requires filing another rate case near-term to seek recovery.
WTRG	SOTP 29x P/E on 2024 water EPS, 18x P/E on 2024 gas EPS	Buy	$52	$55	$47.44	1.11	2.3%	12%	**Downside**: 1) PA regulation turns less constructive, which impacts earnings growth potential given the bulk of WTRG's earnings are derived from the state's water/gas operations, 2) water system acquisitions do not receive necessary approvals for completion, which could impact longer-term water rate base growth outlook, and 3) equity issuances are meaningfully higher than expected, which dilutes EPS power.
Regulated Utilities - Small Cap (median)							**2.6%**	**5.7%**	
Regulated Utilities - Large & Small Cap (median)							**3.1%**	**6.7%**	

Source: Goldman Sachs Global Investment Research

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NiSource Inc. (NI): First Take: Largely in-line 2Q2022, reiterates all guidance measures; Investor Day in November

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NiSource (NI, Buy) reported 2Q22 operating EPS of $0.12, in line with FactSet consensus of $0.12, just below GSe $0.13, and versus 1Q2021 EPS of $0.13. NI reiterated 2022 guidance of $1.42-$1.48 ($1.45 mid-point) versus GSe/consensus of $1.46/$1.45. NI continues to expect EPS to grow by 7% to 9% CAGR - with 2021 EPS of $1.37 as the base - through 2024 as well as 5% to 7% CAGR through 2023; our current estimates reflect an ~8.3% CAGR from 2021A-2024E.

Key takeaway: We view the results as largely neutral, although weather-normal electric demand fell YoY largely driven by lower industrial demand, on which we look for additional color on the earnings call. We remain constructive on NI reiterating its revised renewable in-service timing, as well as levers to offset potential EPS impact to maintain 2024 growth commitment. We note the announced November Investor Day remains a key catalyst for this stock, where we expect a comprehensive update to its strategy and growth plans.

Key takeaways from NI's release and slides include:

- **NI's 2Q22 slight miss versus GSe was largely driven by higher O&M, partly offset by better gross margins**. On the electric side, 2Q22 weather-adjusted sales growth decreased 3.4% YoY, driven by a 7.4% decrease in industrial load offset by a 2.9% increase in residential load. Overall customer count increased ~0.7% YoY, mainly driven by an increase in residential customers.
- **NI disclosed that its PA gas utility is engaging in settlement discussions** on its rate case, which requests $82.2mn revenue increase on gas pipelines replacement and safety measures. This should alleviate near-term regulatory uncertainty on its largest gas utility.
- **NI reiterated its financing plan, including no bulk equity needs through 2024.**

Key topics to monitor on NI's earnings call (11am ET) include: 1) update on the Ohio/PA gas rate case and what's embedded in the company's EPS growth guidance, 2) thoughts on various strategic considerations for the company longer-term, 3) color on YTD decline in weather-normal electric demand growth, especially in the industrial customer base, and 4) assumptions behind EPS growth trajectory through 2024.

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Our 12-month price target of $32 embeds assigned electric/gas utility P/E multiples (on 2024E) of 19x/18x, which represent ~10%/5% premiums to our 17x industry base multiple for regulated utilities. **Key downside risks** include: 1) NI continues to face additional solar development delays, which potentially pressure earnings power, 2) unfavorable outcome in the outstanding and upcoming rate cases, which lowers allowed returns (especially in OH), 3) NI fails to realize rate base additions and instead has more PPA generation, and 4) NI announces strategic initiatives that are dilutive to EPS.

NI	12m Price Target: **$32.00**	Price: **$30.10**	Upside: **6.3%**

Buy

Market cap: $12.2bn
Enterprise value: $24.9bn
3m ADTV: $130.9mn
United States
Americas Utilities
M&A Rank: 3

GS Forecast

	12/21	12/22E	12/23E	12/24E
Revenue ($ mn)	4,899.6	5,377.7	5,646.6	5,933.6
EBITDA ($ mn)	1,763.0	1,973.5	2,149.4	2,451.4
EBIT ($ mn)	1,014.6	1,177.8	1,266.1	1,473.9
EPS ($)	1.37	1.46	1.57	1.74
P/E (X)	18.0	20.6	19.1	17.3
EV/EBITDA (X)	12.1	12.6	12.3	12.0
FCF yield (%)	(6.4)	(7.9)	(11.9)	(5.0)
Dividend yield (%)	3.6	3.1	3.3	3.6
Net debt/EBITDA (X)	5.5	5.5	5.5	5.4

	3/22	6/22E	9/22E	12/22E
EPS ($)	0.75	0.13	0.15	0.43

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2 Aug 2022 close.

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Disclosure Appendix

Reg AC

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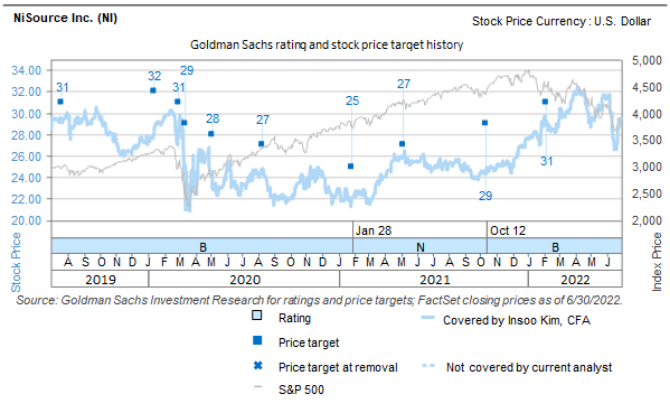
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To: Weisenburger \ Michael \ V
Subject: The Guggenheim Daily Transmission: DUK, NI, NEE, Policy, ED, ETR, FE, SO, SRE, Hydrogen, Nuclear - Guggenheim Securities, LLC
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Power & Utilities September 27, 2022

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DUK — Sale of commercial renewables business kicks off

NI — NiSource to host Investor Day event November 7 in NYC

NEE, DUK — Tropical Storm Ian closing in; prompts Florida governor to declare state of emergency

Policy — Carbon policy group links IRA's success to passage of permitting reforms; state AGs oppose

ED – NY Lawmakers request hearing on rising rates and electricity prices

ETR – ETR enters MOU to evaluate offshore wind development in LA

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SO — Hearings begin in Georgia Power's triennial rate case

DUK – Rising fuel costs could lead to higher utility bills in North Carolina

SRE – CPUC looking at alternatives to replace Aliso Canyon

Hydrogen – PEM manufacturer and rail company partner on fuel cell passenger train

Nuclear – Air Force issues microreactor RFP

DUK – Sale of commercial renewables business kicks off

- No preferred financial structure has been established in materials that were provided to investors, according to SparkSpread.
- Potential bidders so far include pension funds, private equity, and infrastructure investors, although some parties have apparently said that the portfolio size would keep them on the sidelines.
- More HERE.

Guggenheim takeaway: *Recall that our original note (link HERE) estimated 2023/2024 dilution of $0.04/$0.08 per share, respectively, based on an assumed 3.5% cost of HoldCo debt, but also included a sensitivity analysis table showing the change in accretion/dilution at different costs of avoided debt and different portfolio valuations on a $/kW basis. Then, as per our Daily (link HERE), following the HoldCo's $3.2bn debt issuance at a weighted average interest rate of 4.62% in August, we refined our view regarding the potential dilutive impact in 2023/2024 to ~$0.01/$0.03 per share, respectively.*

NI – NiSource to host Investor Day event November 7 in New York City

- NiSource (NYSE: NI) will hold an Investor Day event in New York City on Monday, Nov. 7, 2022, starting at noon EST and concluding at 3 p.m. NiSource's senior management plans to provide a detailed update, followed by additional in-person investor meetings at the Edison Electric Institute (EEI) Financial Conference from Sunday, Nov. 13 through Tuesday, Nov. 15.
- 3Q22 financial results will also be released before U.S. financial markets open on Nov. 7th.
- More HERE.

Guggenheim takeaway: *We expect an update on post-2024 growth and mgmt.'s plans for the company going forward, likely in the form of a full OpCo update, roll forward of the capital plan, and redefined trajectory, which sets NI perhaps on a growth rate in between its prior 5%-7% (through 2023) and 7%-9% (through 2024) CAGRs. As far as strategic initiatives, we continue to believe that* ***the company is not for sale, nor do we expect any LDC sales*** *given the opportunities around extracting efficiencies, O&M levers, and incremental growth at the OpCos. Much of this, including the longer-term growth plan roll forward would be largely in line with our conversation with new CEO Lloyd Yates earlier this year (****see our note HERE****).*

NEE/DUK – Tropical Storm Ian closing in; prompts Florida governor to declare state of emergency

- Tropical Storm Ian formed on Friday over the southern Caribbean and was forecast to intensify through Monday, potentially into a Category 4 storm.
- National Hurricane Center at the NOAA: Hurricane Ian
- More HERE, HERE.

Guggenheim takeaway: *Investors should recall that Florida is generally pretty supportive of its utilities given the frequency of occurrence of major storms. Utilities in the state have mechanisms in place which build up regulatory assets with funds to be used towards material storm restoration costs; alternatively, utilities can apply*

for expedited recovery of spending with the FPSC. At DUK, Hurricane Dorian resulted in ~$150m of costs despite the Category 5 hurricane not making landfall; DEF filed for recovery of incurred costs, as they are deemed recoverable under the FPSC's storm rule and Duke Energy Florida's OATT formula rates. In the case of NEE's FP&L, for example, Hurricane Irma was ~$1.375bn in costs, which would have drained the storm reserve, but the FPSC agreed to let the costs be offset by tax cuts from TCJA. More broadly, under the latest rate settlement, FPL Future storm restoration costs would be recoverable on an interim basis beginning 60 days from the filing of a cost recovery petition but capped at an amount that could produce a surcharge of no more than $4 for every 1,000 kWh of usage on residential bills during the first 12 months of cost recovery. Any additional costs would be eligible for recovery in subsequent years. If storm restoration costs exceed $800 million in any given calendar year, FPL may request an increase to the $4 surcharge to recover amounts above $400 million. In terms of stock performance, while there's always a headline impact to some extent, the stocks tend to recover once investors remember that the utilities generally do not have a history of taking losses due to a storm. For example, when Hurricane Irma hit in Sept. 2017, relative to the UTY, NEE traded down 200bps right ahead of the hurricane's peak ~Sept. 10, and then promptly returned to parity vs. the UTY.

Policy – Carbon policy group links IRA's success to passage of permitting reforms; state AGs oppose

- The lobbying group American Clean Power Association linked the two pieces of legislation in a lengthy OpEd late last week
- "Without permitting reform, such as the recently released proposal to speed up the process for energy projects, the United States runs the risk of falling 100 gigawatts short of this expected clean energy impact. Project delays from the current permitting system would result in 550 million metric tons of additional carbon emissions this decade — equivalent to the annual emissions of 88 coal-fired power plants — as clean energy projects would not come online timely enough to displace those emissions." - ACPA
- More HERE.
- A group of 18 state AGs have penned a letter to Senate leaders opposing the expansion of FERC authority.

Guggenheim takeaway: *Part of the lobbying process, although we share the group's view, based on long-running conversations with companies under coverage, that the permitting process remains the primary bottleneck to transmission expansion – not access to capital. Manchin's legislation continues to face significant pushback from both sides of the aisle and the media (e.g., WSJ Board HERE), with a potential procedural vote in the Senate coming as soon as today – stay tuned.*

ED – NY Lawmakers request hearing on rising rates and electricity prices

- Lawmakers are requesting a hearing to address rising energy prices in New York.
- The request specifically addressed Con Edison, from more than 50 state representatives.
- Con Edison has warned that customers in the city could see 22% bill increases and heating bills could rise by 32%.
- More Here.

Guggenheim takeaway: *The bill sensitivity issue continues to pop up in NY, especially as a geography with one of the highest retail rates nationally. CECONY is simultaneously in rate case settlement talks where the company is proposing double-digit base rate increases, which could be a tough negotiating position with price sensitive*

intervenors.

ETR – ETR enters MOU to evaluate offshore wind development in LA

- ETR and Diamond Generation Corp. (subsidiary of Mitsubishi MSBHF (OTCMKTS)) signed a memorandum of understanding on evaluation and development of offshore wind in Louisiana.
- "This is an important first step to possibly bring wind power to our Louisiana shores," said Phillip May, Entergy Louisiana president and CEO. "While there remains work to be done before that happens, we are excited by the opportunity to begin this process. We aspire to help our communities thrive for generations to come, and this marks yet another milestone in honoring that mission."
- More Here.

Guggenheim takeaway: *This is an early-stage venture for ETR, but highlights the nationwide push for decarbonization and available alternatives in different geographies. The Gulf coast has not been a leader in offshore wind but having the option value is good for ETR.*

FE ─ PUCO special counsel turns out to have multiple ties to HB 6

- Dinsmore & Shohl, which is headquartered in Cincinnati, is an outside law firm working with PUCO to respond to federal subpoenas and public records requests. The firm allegedly has multiple ties to the HB 6 law at the center of Ohio's ongoing corruption scandal.
- More HERE.

Guggenheim takeaway: *The saga continues. Recall that PUCO's investigations are paused until early 2023, following the federal trials taking place beginning in January 2023.* ***For recent takes from our call with John Somerhalder, see HERE.***

SO ─ Hearings begin in Georgia Power's triennial rate case

- Live webcast
- Docket #44280

Guggenheim takeaway: *We continue to expect a constructive outcome in Georgia Power's triennial rate case, likely after Thanksgiving, with new rates effective Jan. 1, 2023. Recall that we recently met with all 5 commissioners in GA, along with Georgia Power and Southern Company C-Suite.* ***For our latest takes on the regulatory climate in Georgia and how we're thinking about SO post-Vogtle construction, see our in-depth note (HERE) as well as our Georgia IRP post-decision flash note (HERE).***

DUK ─ Rising fuel costs could lead to higher utility bills in North Carolina

- The new fuel and renewable energy adoption rates were requested to go into effect Sept. 1, 2022, and the new energy efficiency and demand management rates would go into effect Jan. 1, 2023.
- DUK press release HERE.
- More HERE.

Guggenheim takeaway: *The article mentions that critics suggest that DUK should be pursuing more renewable energy sources, however, no mention of the enormous undertaking towards building out renewable energy in the form of the Carbon Plan is mentioned whatsoever.*

SRE – CPUC looking at alternatives to replace Aliso Canyon

- CPUC staff issued a proposal for Aliso Canyon replacement by using non-gas fired electricity generation and storage, building electrification, and energy efficiency.
- The associated ruling finds that Aliso Canyon is currently needed for SoCalGas to reliably meet energy demand in the Los Angeles basin, and therefore sufficient replacement resources must be available for the eventual elimination of Aliso Canyon's use.
- The replacement resources would need to be a mix of non-gas generation and aggressive load reduction: two percent of electric capacity or four percent of forecast peak gas demand.
- More Here.

Guggenheim takeaway: *This is not an earnings impact for SCG/SRE but highlights the steep pathway for decarbonization once you account for large resources being replaced. While the proposal includes energy efficiency, the sheer amount could be very tough since most of the high ROI efficiency improvements have already been implemented.*

Hydrogen ─ PEM manufacturer and rail company partner on fuel cell passenger train

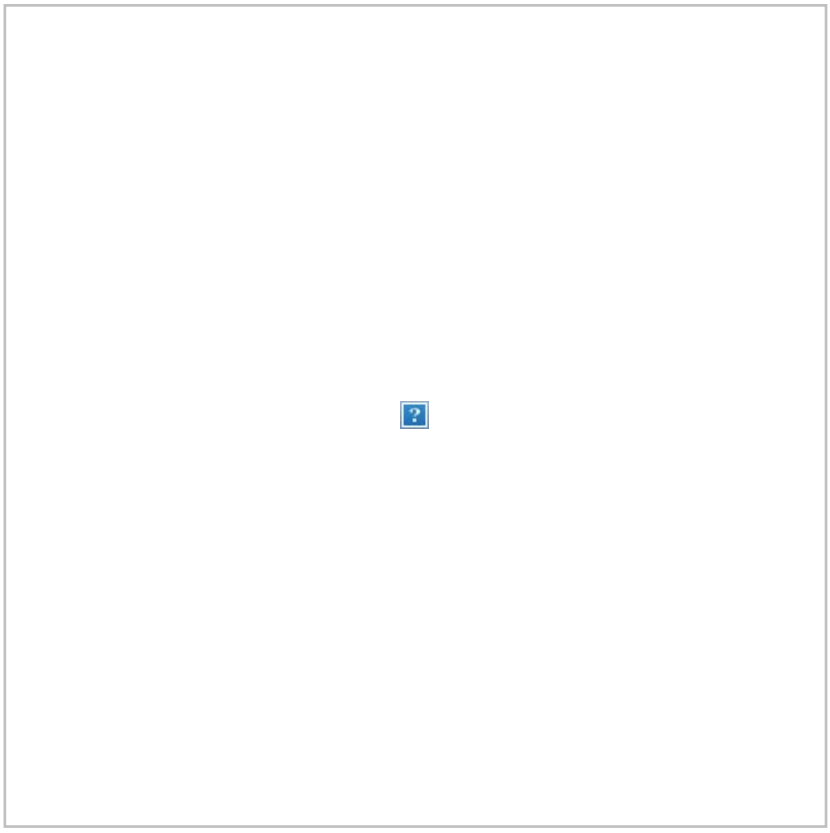
- "The contract to provide the hydrogen-powered train was awarded to Stadler by San Bernardino County Transportation Authority (SBCTA), with the option of additional trains in the future. The train is expected to be in service in San Bernardino, California in 2024 and will seat over 100 passengers." – release [SWX: SRAIL]
- More HERE.

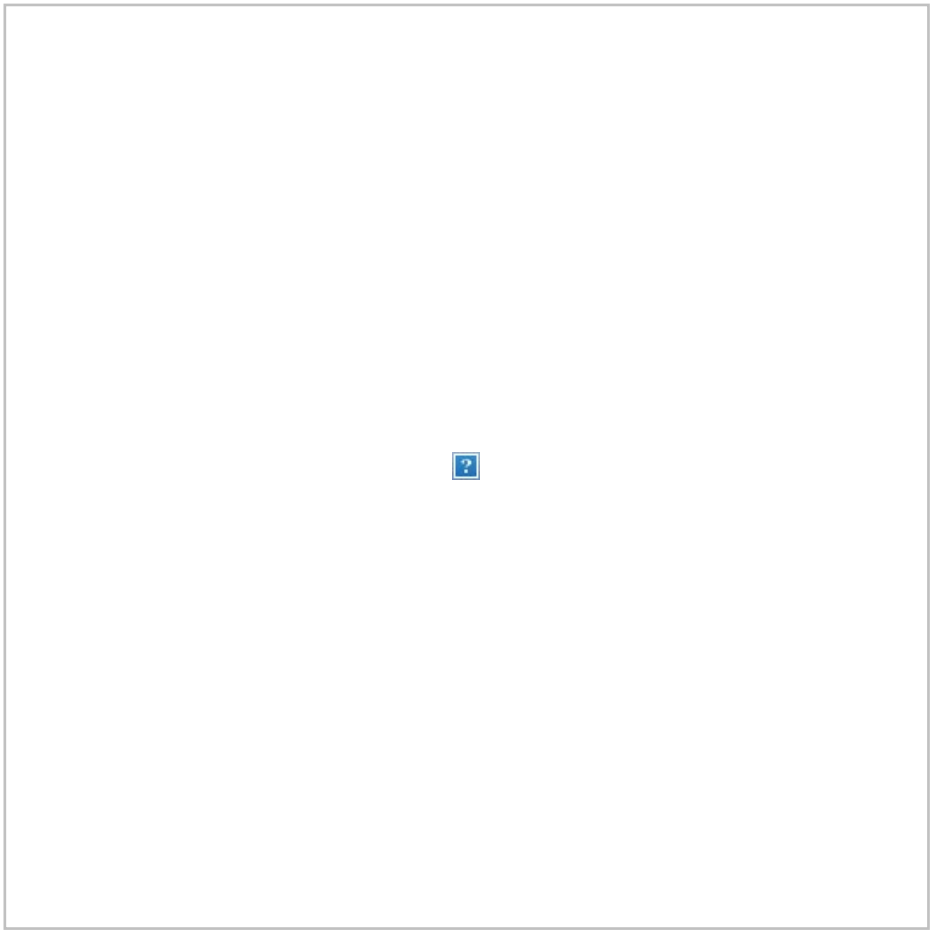
Guggenheim takeaway: *Another example of end users approaching commercialization, with transport a key area of focus in many of our utility conversations – not dissimilar to existing fuel cell mass transit efforts.*

Nuclear ─ Air Force issues microreactor RFP

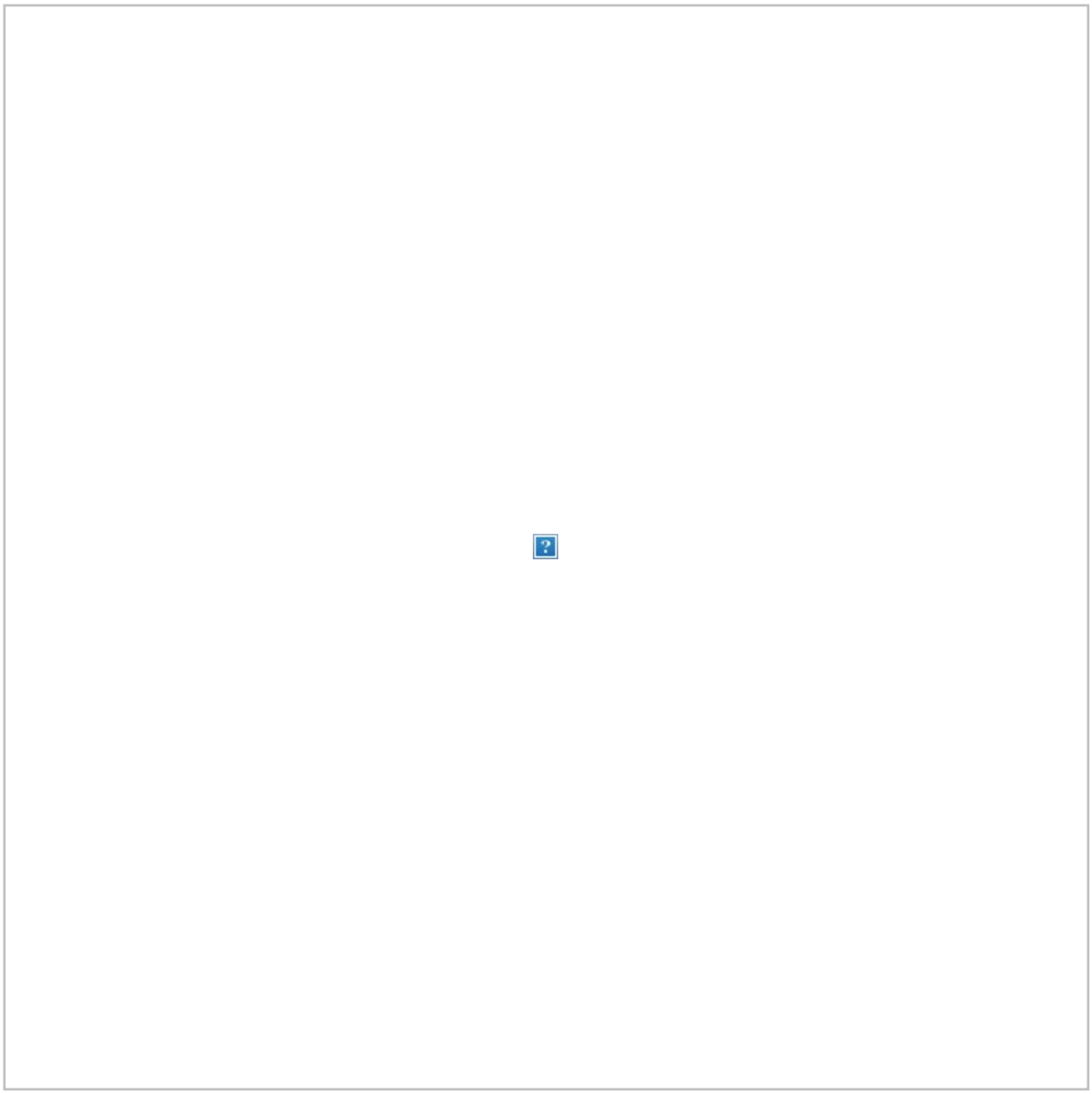
- "The Department of the Air Force, in partnership with the Defense Logistics Agency Energy, released a request for proposal for the Eielson Air Force Base Micro-Reactor Pilot Program today. This is an important first step toward developing the next-generation energy technology needed for energy resilience at Eielson Air Force Base and to inform future initiatives to power national security infrastructure" - release
- More HERE.

Guggenheim takeaway: *Minor FYI and as we expected – this RFP has been in the works for several years now, although we see the 2027 target as aggressive given the lack of commercial designs at the moment following the NRC's earlier rejection of a microreactor combined license application.*

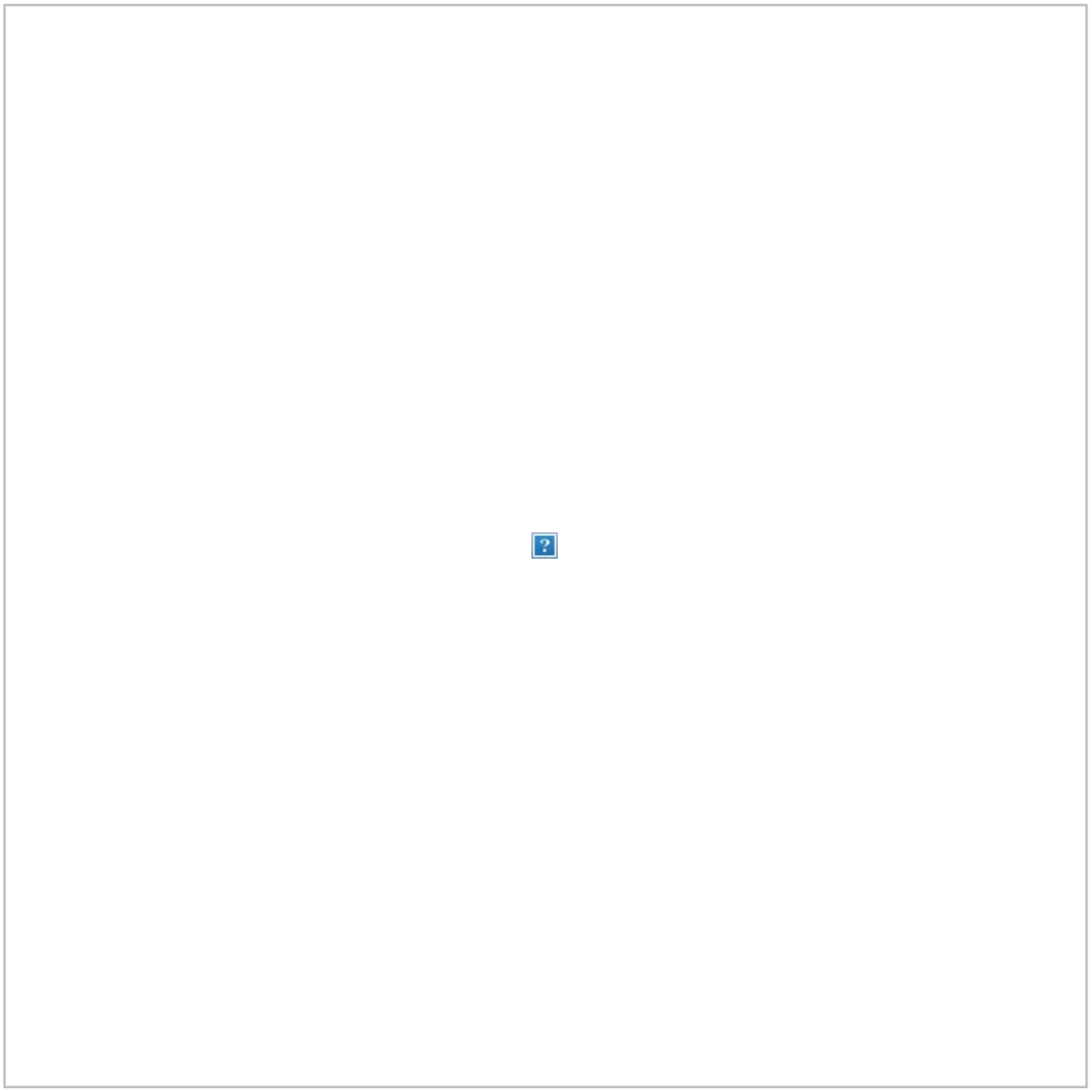




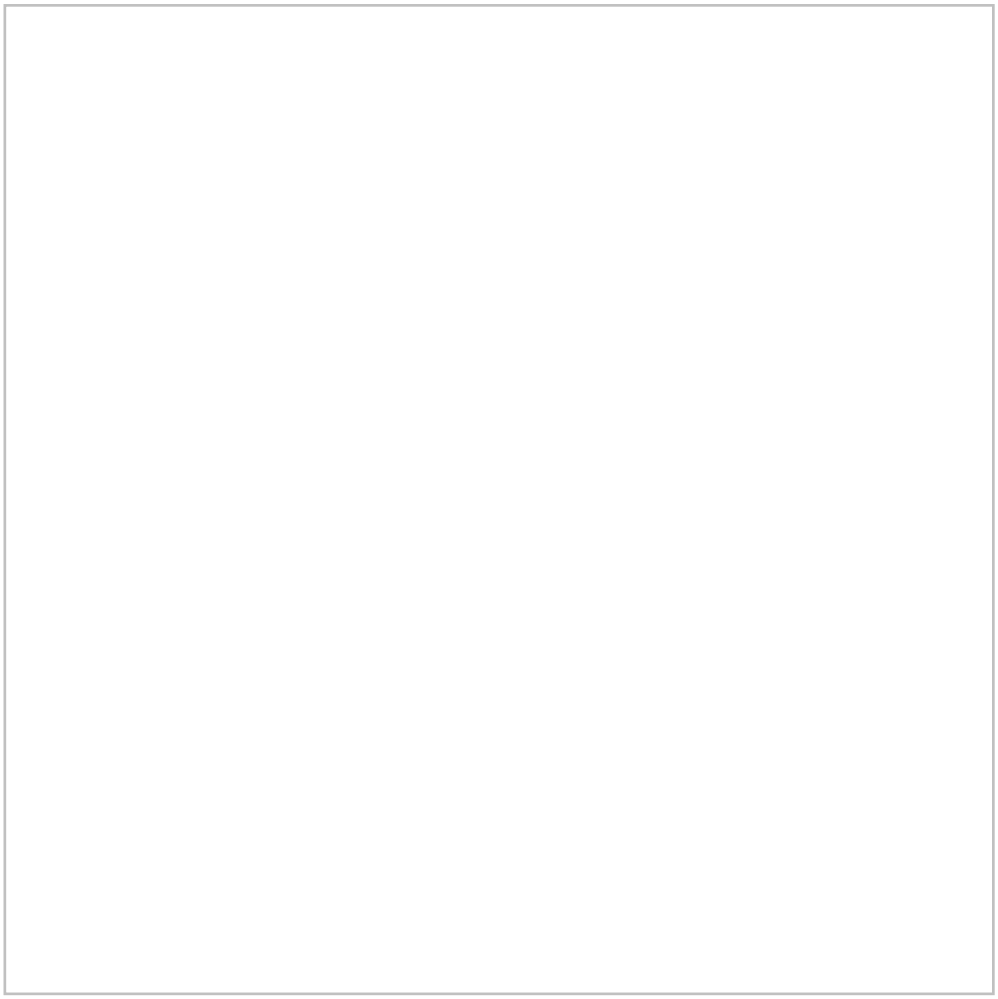
Guggenheim's Power & Utility Comp Sheet



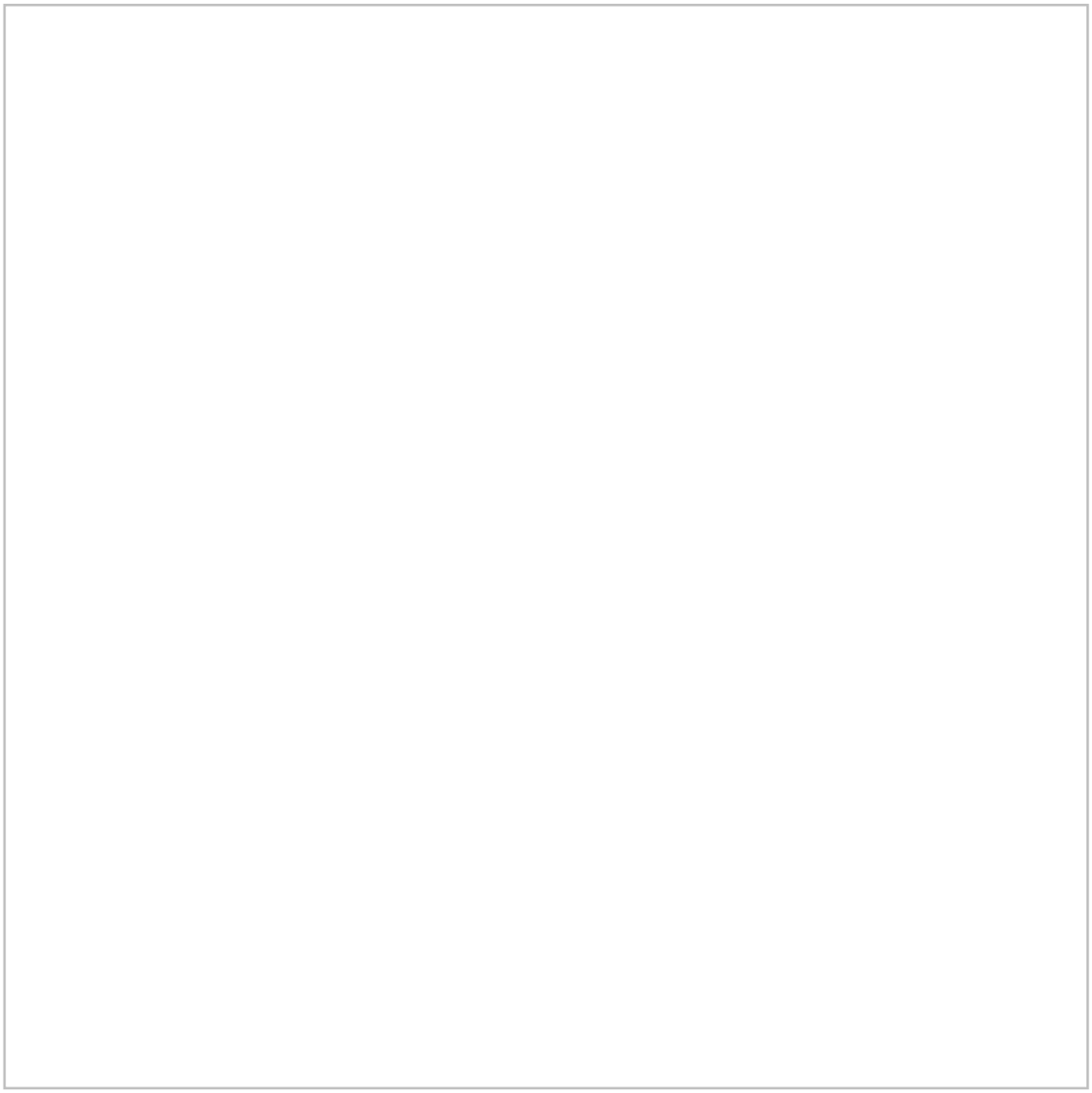
Share Price Performance (Year-to-Date, Three-Month, One-Month, & Five-Day Trailing)

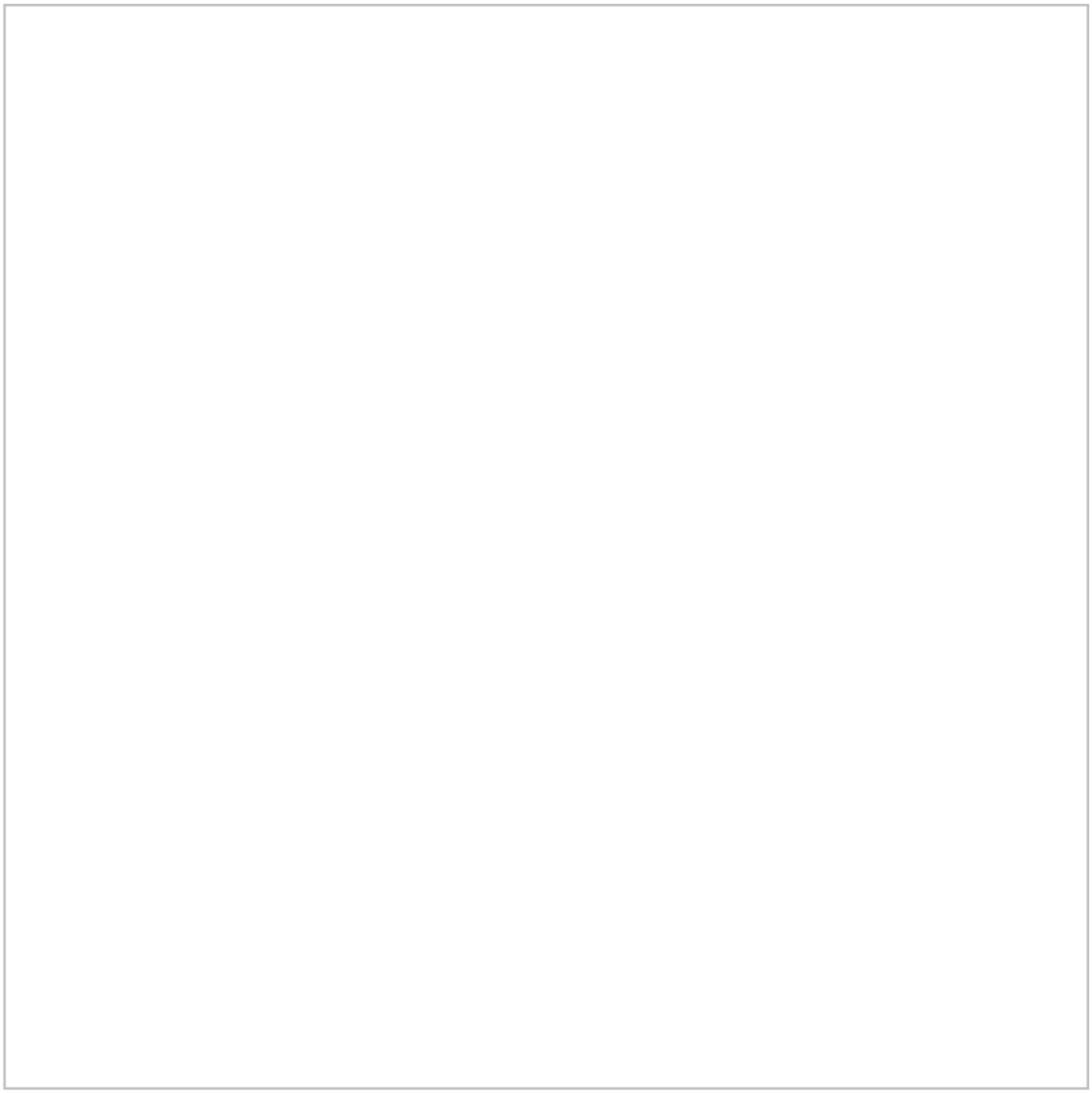


Guggenheim 2022 Client and Corporate Access Utility Events

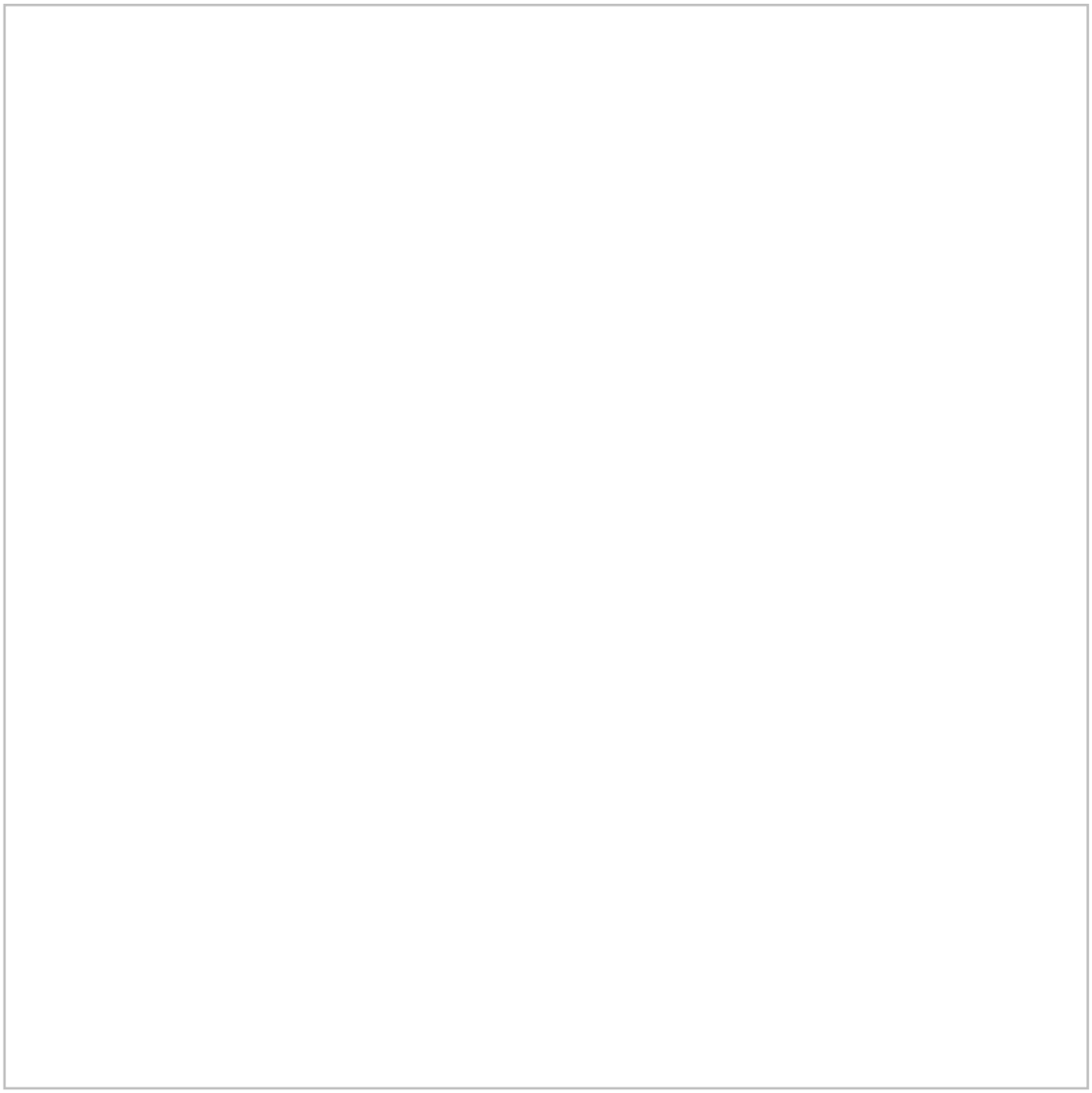


Generation and Mix

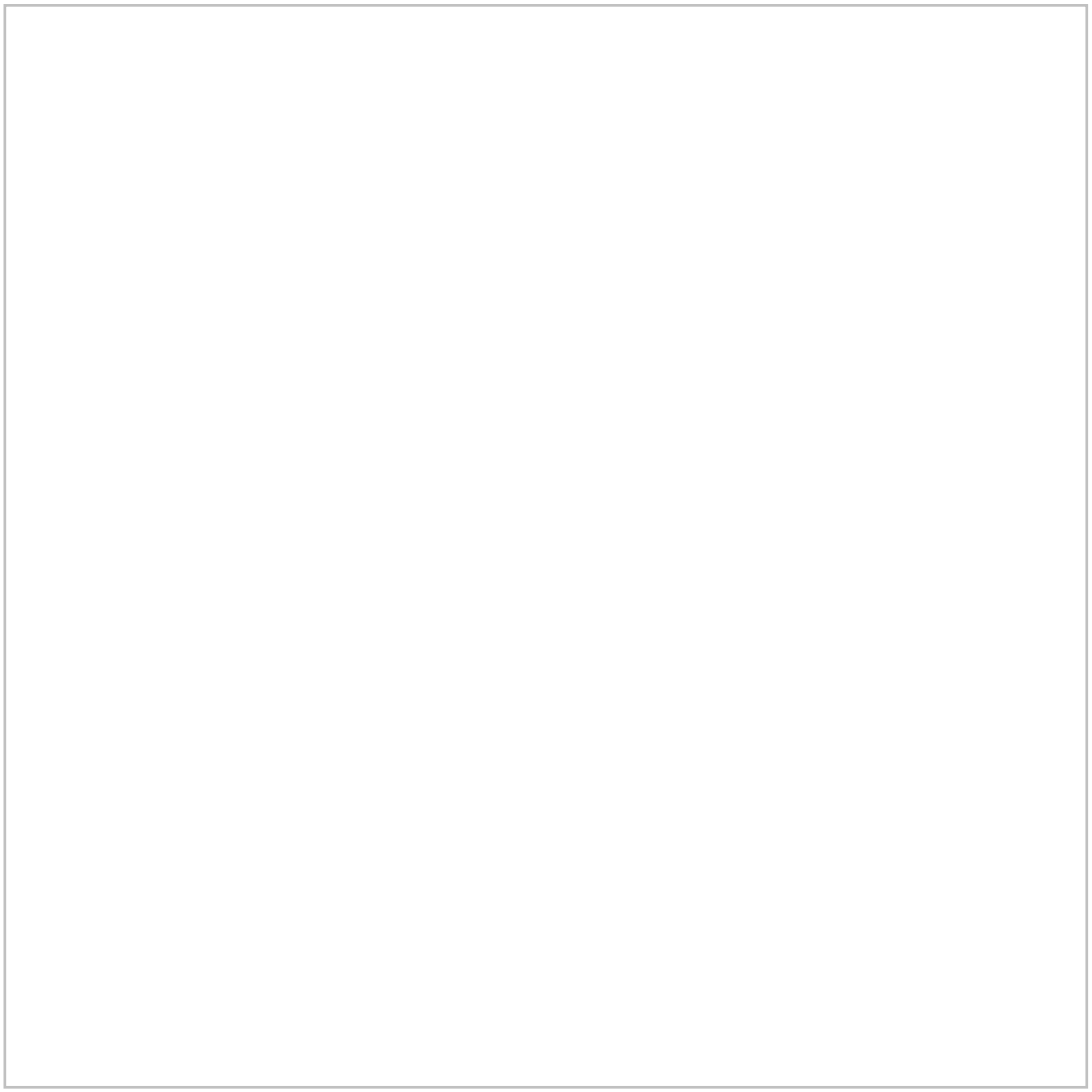




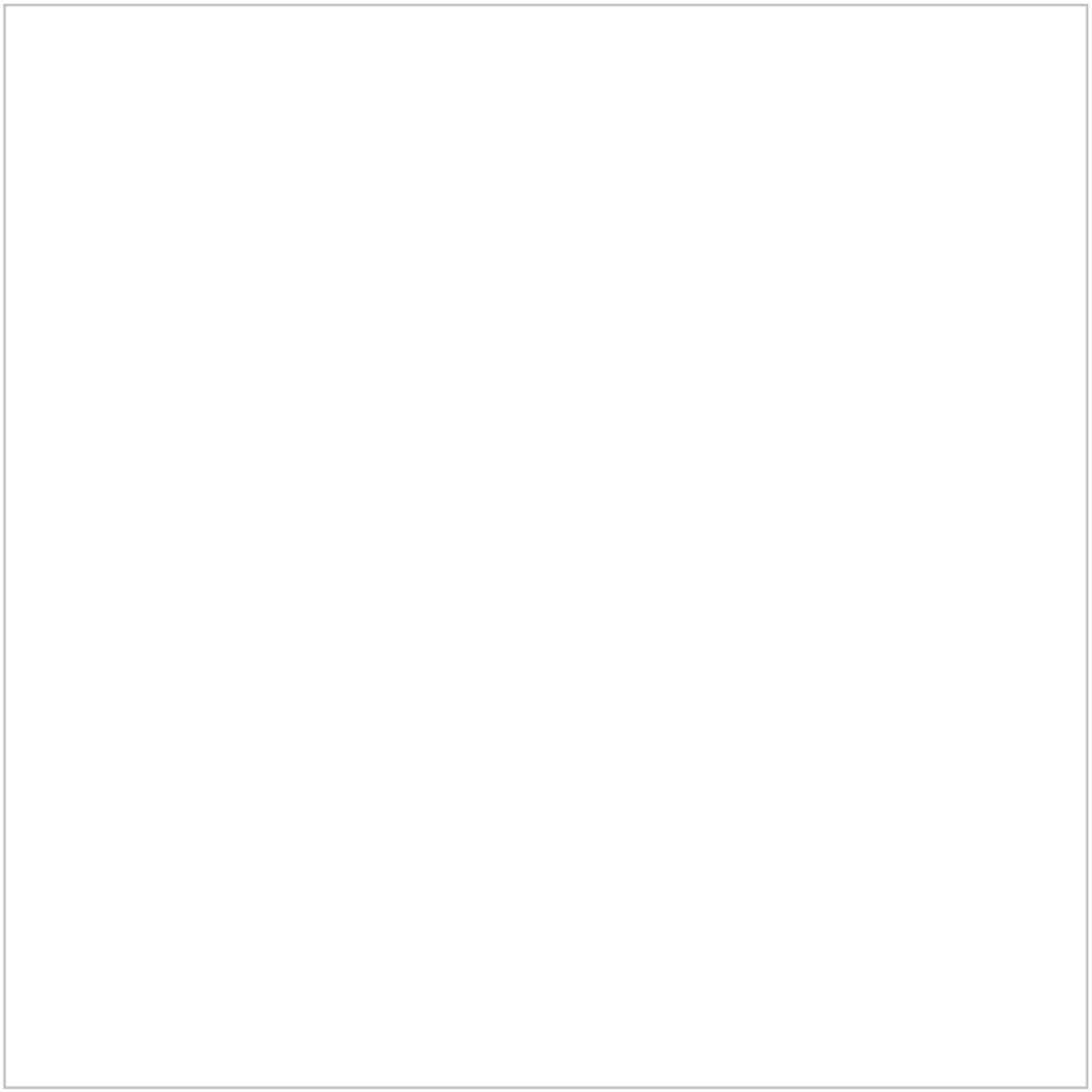
Weather



Peak Load



Regulatory Calendar



Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM, and Weekly Commentary

Key Research

- CEG: You Want a Unicorn, You Pay the Price – Raising TP to $121
- FE – CEO Change A Clearing Event? Almost…
- NEE NDR: Top IRA Idea - Runway Set for Takeoff; Fundamentals On NEER, FPL Start Spring-loading Growth; Raising TP to $108
- Policy: Existing Nuclear Comes In From the Cold
- SMR - NuScale: Initiating Coverage - Another Nuclear Renaissance? Yes Please…
- DTE – First NDR In a Post IRA World; DTE Stands to Gain on Capex Roll Forward and Strategic Value of

Vantage Business

- DUK: Damned If You Do, Damned If You Don't - Sale of Commercial Renewables Really Materially Dilutive? We Don't Think So – Some Misconceptions Out There
- Utilities — Life, Death… and Pension Expense?
- Mid-Summer Night's Dream – Utilities Sector Update: Individual Themes Playing Out, but We Continue to See Broader Support, Outperformance for Utilities Even as Fed Rates Get Factored In
- '22 Utilities Outlook: Sector Cheap, Fundamentals Strong but Get Ready for Another Bumpy Ride – Choose Your Picks Wisely
- SO GA Road Trip: Approaching the Apex the Southern Way… Cool, Calm, and Collected
- ES: Captain Nolan Charts a Course to Calmer Waters - Upgrading to BUY on Potential NT Catalysts, Valuation
- SO: Georgia Power Rate Case Filed; This Isn't Their First Rodeo
- PPL NDR: On the Road Again… Just Can't Wait to Get on the Road Again - Much Needed Face Time Helps Build Confidence
- PJM: Depressed 2023/24 BRA Results Not A Surprise
- ETR Analyst Day – Back in Step and Then Some: LT EPS Growth Set to 6-8%, Plan Reset to Solid Yet Conservative Trajectory; Maintain Buy, Estimates
- CMS – CEO/CFO Catch Up NDR; CMS Continues to Build on Premium Story With Transformed EPS Trajectory
- ES NDR: Landlubber? That's Fine with Us…
- NEE: Sunny Days Ahead for NEE; Analyst Day Steps Up EPS Growth Trajectory and Demonstrates Best in Class Positioning Across Business Lines
- LNT NDR: Solar Tariff Moratorium Defuses Key NT Overhang as Management Navigates a Busy Spring
- PCG: No Surprises Analyst Day Puts Together Winning Framework; Rebuilding Trust May Take Time, but Patience Gets Rewarded
- PNW: APS Rate Case Pushed Out to End of October
- PPL: Familiar Playbook Draws Mixed Investor Reaction
- EXC NDR: Getting Yourself Back Out There…
- Solar Tariff Touch Points: Quick Read
- AWK NDR: Reconstituted C-Suite Hits the Ground Running
- EVRG NDR: The Wichita Lineman Is Still on The Line…
- ED: CECONY GRC Testimony Posted; Solid Floor Set, Rate Base Mostly Intact; Upgrading to Neutral on Risks Subsiding
- AGA Day 2 Flash Recap
- AGA Day 1 Flash Recap
- CEG - The Stars Are Finally Aligned, Upgrading Constellation to a BUY
- CNP NDR: CNP Continues to Harmonize Capex Upside and Business Mix; Mgmt. Focused on Consistent 8% EPS Growth, but We See LT Plan Upside Potential
- Show Me the Money on Gas LDCs? Reality – Keeping Is More Valuable Than a Check for 2x Rate Base
- AEE NDR: Straightforward Updates Reinforce Premium Position; Gen Transition and Policy Work Continue
- ETR "In Person" NDR: Energy Intensive Industrial Customer Base and Heavy Storm Activity Dilutive to

Valuation? Let's Talk Accretion…

- Uranium Baseline: Russia-Ukraine Fallout
- D: C-Suite NDR – Political Noise Gone with the Wind
- SJI: So Long and Thanks for All the Memories; LDC M&A Gets Even Hotter
- WEC NDR: Decarbonization and Growth Remain on Track; ESG Focus Is Clear Throughout This Premium Utility's Plans
- PCG: Misconceptions Gone in a Flash Ahead of Our NY Meetings; PCG 8K Highlights 10% EPS CAGR Through 2026
- DUK: CEO NDR - Accelerating Growth Driven by Clean Energy Transformation with a Decade of Visibility and Earnings Upside… What's Not to Like?
- CEG: The Longest Half Life of Any IPP? We Like but We Wait - Policy Upside Remains TBD; Initiating Coverage with NEUTRAL
- SO: Georgia Power IRP filed; coal retirements on track for 80% shut down by 2028; Southern Power to provide majority of replacement capacity
- NI: CEO(s) Catch-Up: Incoming CEO Brings Experience and Existing NI Knowledge; Business and Strategic Reviews Underway; May Analyst Day Next Event
- Timely Regulatory Insights: Open Dialogue with CT, GA, and VA Commissioners – Two Way Better Than One Way
- PNW: C-Suite Meeting Highlights Path to Higher Rate Base Growth and Earnings; Alignment with a Cooperative Commission Remains Key to Execution
- AVA: Washington Multiyear Rate Case Filed; 11-Month Process Kicks Off in Pursuit of Earning Allowed Return in 2023
- EXC: Constellation Analyst Day Lays Out Clear Strategy and Key Details; Investor Comfort May Take Time
- EXC: RemainCo Details Largely in Line with Our Expectations
- EXC: Straightforward Spin? Constellation Details Much Appreciated, but Expectations Should Be Otherwise Grounded

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Ticker	Price	Rating
ALE	62.17	Neutral
AVA	42.96	Sell
CNP	31.70	Buy
ETR	115.11	Buy
EXC	45.83	Neutral
NI	30.10	Buy
NRG	37.28	Neutral
OGS	82.97	Neutral
PEG	65.15	Buy
PNW	73.77	Sell
PPL	29.10	Buy
WEC	103.65	Neutral

Power & Utilities August 3, 2022

The Guggenheim Daily Transmission: Pensions, WEC, PEG, CNP, OGS, PNW, PPL, ETR, NI, EXC, ALE, AVA, Policy, Uranium, IL/MISO, NRG/PJM

For details on our Guggenheim-hosted client Utility events including: our DTE NDR; POR NDR; NEE NDR; CEG NDR; WEC NDR; OGS NDR; and other events, scroll down…

Utilities — Life, Death… and Pension Expense? (see our note HERE)

WEC – 2Q22 Beat and Raise; Firing on All Cylinders (see note HERE)

PEG – 2Q in Line; Pension Impacts Cast a Cloud, but Nuclear and OSW Value Debate Continues (see note HERE)

CNP – 2Q EPS Beat; Optimization and Organic Growth Build on "Resiliency Now" Upside with Financing Flexibility (see note HERE)

OGS – Q2 Pension Plan Remeasurement Removes 2022 Overhang; Strong Regulatory and Operational Execution Continues (see note HERE)

PNW reports 2Q22 EPS of $1.45 vs. Gugg/consensus at $1.46/$1.31; maintained 2022 guidance of $3.90-$4.10 ($4.00 midpoint) vs. Gugg/consensus at $4.05/$4.01; maintained 5%-7% EPS CAGR through 2026 (based off of current 2022 guidance midpoint)

PPL – **PPL reports 2Q22 earnings**

ETR reported 2Q22 EPS of $1.78 vs. $1.37 consensus and our $1.43 estimate; 2022 EPS guidance reiterated and now in top half

NI reports 2Q22 net operating EPS of $0.12 vs Gugg/consensus at $0.15/$0.12; maintains 2022 guidance of $1.42-$1.48 ($1.45 midpoint) vs Gugg/consensus at $1.45/$1.45; reiterates 7%-9% 2021–2024 CAGR based on 2021's $1.37 actual, and 5%-7% growth through 2023

EXC – **EXC reports 2Q22 earnings**

ALE – **ALE reports 2Q22 earnings**

AVA reports 2Q22 EPS of $0.16 vs Gugg/consensus at $0.29/$0.16; maintained existing 2022 EPS range of $1.93-$2.13 (pointing to lower end), and compared to Gugg/consensus at $1.94/$1.95; reiterated 2023 EPS guidance of $2.42-$2.62 ($2.52 midpoint) vs Gugg/consensus at $2.47/$2.47

Policy – Inflation Reduction Act could see floor vote as soon as this week

AVA – Washington Public Counsel opposes rate increase requests by Avista Utilities

Uranium – Additional uranium producers point to restarts as secondary stockpiles dwindle

IL/MISO – IPA approves operating permit for new CCGT; draws pushback from ICJC

NRG/PJM – NRG files to deactivate additional PJM units

Provided for the exclusive use of Michael Weisenburger at NiSource on 03-Aug-2022 10:00 AM.

PNW reports 2Q22 EPS of $1.45 vs. Gugg/consensus at $1.46/$1.31; maintained 2022 guidance of $3.90-$4.10 ($4.00 midpoint) vs. Gugg/consensus at $4.05/$4.01; maintained 5%-7% EPS CAGR through 2026 (based off of current 2022 guidance midpoint)

- +$0.20 weather impact vs. normal in 2Q22
- No quantification of currently projected 2023 pension/OPEB drag; recall that our estimate stands at $0.38 (see our note HERE)
- Reiterated 1.5%-2.5% customer growth guidance through 2024
- Reiterated ~1.5%-2.5% weather-normalized retail electricity sales growth in 2022, and electric sales growth of 3.5%-4.5% through 2024
- Capex plan unchanged: $4.7bn for 2022-2026 reiterated; rate base guidance reiterated as well
- Still no plans to issue equity before conclusion of yet-to-be-filed next rate case
- 2019 GRC: Court of Appeals process remains ongoing **(**more **HERE)**
- Original 2022 guidance was $3.80-$4.00 ($3.90 midpoint); LT CAGR grows off higher 2022 guidance, not this figure, however
- Conference call will be at **11am ET: 888-506-0062 (PIN: 507998)**

PPL — PPL reports 2Q22 earnings

- PPL reported $0.30 vs. our $0.28 and Cons $0.29
- Reaffirmed guidance of $1.30-1.45 (partial year of RI) and 6-8% LT growth off proforma 2022 $1.40-1.55
- Provides color on O&M savings targets to '25 in deck (HERE)
- Call at 11am ET - 1-888-346-8683 code 0662630

ETR reported 2Q22 EPS of $1.78 vs. $1.37 consensus and our $1.43 estimate; 2022 EPS guidance reiterated and now in top half

- ETR reported 2Q22 EPS of $1.78 vs. $1.37 consensus and our $1.43 estimate.
- ETR recorded $$0.24 benefit vs. normal weather in 2Q and weather adjusted sales were 4.6% above the same quarter last year.
- ETR anticipates the benefits of sales volumes to be partially offset by flex spending increases, higher interest costs (-5c utility, -10c holdco)
- ETR now expects 2.9% annualized load growth vs. 2.0% prior.
- ETR reiterated 2022 EPS guidance of $6.15-6.45, and is now in the top end of the range.
- ETR LT EPS guidance reiterated.

NI reports 2Q22 net operating EPS of $0.12 vs Gugg/consensus at $0.15/$0.12; maintains 2022 guidance of $1.42-$1.48 ($1.45 midpoint) vs Gugg/consensus at $1.45/ $1.45; reiterates 7%-9% 2021–2024 CAGR based on 2021's $1.37 actual, and 5%-7% growth through 2023

- Reaffirmed 2024 EPS guidance with unchanged (2Q22 HERE, and 1Q22 HERE) slide 8 of presentation detailing EPS increments/decrements to **maintain 2024 EPS guidance** despite delayed solar in-service dates vs prior plans.
- NI continues to guide to $10bn in 2021–2024 capex, with ~$2bn for renewable projects expected, primarily between 2022–2024, with **any remainder expected in 2025** (*this is the same 2025 messaging as per 1Q22 call*)
- Reiterated rate base CAGR guidance of 10%–12% **for each of the company's businesses through 2024**.
- Reiterated coal retirement plans from 1Q22 call: Schahfer Generating Station Units 17 & 18 (the last two coal units) are now expected to retire by the end of 2025 vs 2023 previously. However, Michigan City Generating Station still expected to retire on schedule between 2026-2028.
- Maintained 2021–2024 financing plan and target of LT adjusted FFO/total debt of **~14%–15%**
- **2021 IRP update:** new RFP solicitation process expected to launch in August 2022
- Conference call will be held at **11:00am ET —** Dial-in: **(888) 330-2391...** Access code: **28323**

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EXC – EXC reports 2Q22 earnings

- EXC reported $0.44 vs. Gugg/Consensus $0.46
- Reaffirmed 20222 guidance of $2.18-2.23 (vs. Gugg $2.27)
- Results include $0.07 of drags at PHI ($0.05, net of higher distribution rates)
- Expects to issue $500mm in equity via ATM over remainder of year, or a block (a part of the previously-disclosed $1bn by '25)
- Call at 10am EST - registration HERE

ALE – ALE reports 2Q22 earnings

- ALE reported $0.67 vs. Gugg $0.64, Consensus $0.60
- Results included $0.07 of adjustments and $0.03 of fees tied to the purchase of NEE
- ALE reaffirmed 2022 guidance of $3.60-3.90 (vs. Gugg $3.75)
- Results included a drag at ACE from SPP congestion and 'extreme volatility' impacting the Caddo wind farm
- NEE has contributed ~$17mm in revenue since April
- Call at 10am EST – registration HERE

AVA reports 2Q22 EPS of $0.16 vs Gugg/consensus at $0.29/$0.16; maintained existing 2022 EPS range of $1.93-$2.13 (pointing to lower end), and compared to Gugg/consensus at $1.94/$1.95; reiterated 2023 EPS guidance of $2.42-$2.62 ($2.52 midpoint) vs Gugg/consensus at $2.47/$2.47

- "Other business" segment contribution to 2022 EPS guidance raised by $0.10
  - "Earnings at our other businesses increased due to net investment gains recognized during the period primarily due to fair value adjustments in certain equity investments, resulting in net unrealized gains." - AVA 2Q22 earnings release
- Avista Utilities' segment contribution to 2022 EPS guidance lowered by $0.10
  - "Earnings at Avista Utilities were lower than expected, primarily due to a write-off of the Dry Ash Disposal project at Colstrip as agreed upon in our 2022 Washington rate case settlement, as well as increased costs due to the impacts of rising interest rates and inflation." – AVA CEO
- Alaska Electric Light & Power filed a general rate case in July, as planned
- **Financing plans:**
  - **Debt:** $400m of LT debt issued in 1Q22, with no expectation of further issuances this year
  - **Equity:** AVA expects to issue $135m of equity in 2022 (vs $120m previously), including $60.8m issued during 1H22
- Conference call will be held at **10:30am ET —** Dial-ins use **personal PIN numbers**, generated by registering HERE

Policy – Inflation Reduction Act could see floor vote as soon as this week

- The timing data point from the Washington Post comes as Senator Sinema's stance remains unclear
- "We are on schedule to consider this bill later this week" - Senator Schumer
- More HERE

Guggenheim takeaway: *Interesting timing data point as Senator Sinema's views remain shrouded and Republicans continue to hammer on the legislation. As noted by the Washington Post, this will likely be a more protracted process given the intricacies of reconciliation and the ability for roadblocks to be thrown up in the process.*

AVA – Washington Public Counsel opposes rate increase requests by Avista Utilities

- "For Avista, the unit says the settlement provides rates over two years that are about $47 million too high for electric rates and $7 million too high for natural gas rates." - Washington Attorney General's office
- Public Counsel's announcement HERE

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- Rate case docket HERE

Guggenheim takeaway: *No surprise, as the Public Counsel always takes this stance. The question now is how much influence the Public Counsel's opinion will have in swaying the final order, given supportive legislation and a settlement involving all relevant parties other than the Public Counsel itself.*

Uranium ─ Additional uranium producers point to restarts as secondary stockpiles dwindle

- Additional operators are restarting mines according to attendees at the Digger & Dealers Mining Forum in Australia, with one CEO putting the forecasted annual deficit at 40mm lbs. in the coming years
- More HERE

Guggenheim takeaway: *Minor FYI.* ***See our deep dive uranium baseline note from 1Q HERE for more thoughts.***

IL/MISO ─ IPA approves operating permit for new CCGT; draws pushback from ICJC

- The 1.1GW CCGT would be operational in 2024 and have the ability to co fire varying levels of hydrogen
- Plant HERE
- More HERE

Guggenheim takeaway: *Interesting power data point following the passage of CEJA last year as MISO Zone 4 remains tight on capacity.*

NRG/PJM ─ NRG files to deactivate additional PJM units

- Joliet Units 6-8 represent 1.3GW of gas-fired ST capacity, with NRG requesting deactivation by 06/2023
- More HERE

Guggenheim takeaway: *Zero surprise given NRG's retirement actions following last year's BRA.*

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Equity Research | Corporate Access

DTE Energy Company (DTE)

Jerry Norcia, *Chief Executive Officer*

Barbara Tuckfield, *Director, Investor Relations*

Date

August 8 & 9, 2022
New York

Meeting Format

NDR - 1:1 Meetings, Group Meeting

Company Information

Market Cap: $25.7bn

DTE Energy Co. (DTE) operates as a diversified energy company, which engages in the development and management of energy-related businesses and services. It operates through the following segments: Electric, Gas, DTE Vantage, Energy Trading, and Corporate and Other. The Electric segment consists of generation, purchase, distribution, and sale of electricity to residential, commercial, and industrial customers in southeastern Michigan. The Gas segment is involved in the purchase, storage, transportation, distribution, and sale of natural gas to residential, commercial, and industrial customers throughout Michigan, and the sale of storage and transportation capacity. The DTE Vantage segment focuses on projects that deliver energy and utility-type products and services to industrial, commercial, and institutional customers, produce reduced emissions fuel, and sell electricity and pipeline-quality gas from renewable energy projects. The Energy Trading segment covers energy marketing and trading operations. The Corporate and Other segment composed of various holding company activities, holds certain non-utility debt, and holds certain investments, as well as funds supporting regional development and economic growth. The company was founded in January 1995 and is headquartered in Detroit, MI. (Source: FactSet)

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Equity Research | Corporate Access

Portland General Electric Co. (POR)

Jim Ajello, *Chief Financial Officer & Treasurer*
Jardon Jaramillo, *Sr. Director of Finance, Investor Relations and Risk Management*
Nick White, *Sr. Investor Relations Analyst*

Date
August 9 & 10, 2022
New York

Meeting Format
NDR - 1:1 Meetings, Group Meeting

Company Information
Market Cap: $4.27bn
Portland General Electric (POR) engages in the generation, wholesale purchase, transmission, distribution, and retail sale of electricity in the state of Oregon. The firm also sells electricity and natural gas in the wholesale market to utilities, brokers, and power marketers. It also serves residential, commercial, and non-residential customers. The company was founded by Edward L. Eastham and Parker F. Morey in 1888 and is headquartered in Portland, OR. (Source: FactSet)

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Equity Research | Corporate Access

NextEra Energy, Inc. (NEE)

Kirk Crews, *Chief Financial Officer*

Jessica Geoffroy, *Head of Investor Relations*

Date

August 30–September 1, 2022
West Coast

Meeting Format

NDR - 1:1 Meetings

Company Information

Market Cap: $155.02bn

NextEra Energy, Inc. (NEE) is an electric power and energy infrastructure company. It operates through the following segments: FPL and NEER. The FPL segment engages primarily in the generation, transmission, distribution, and sale of electric energy in Florida. The NEER segment produces electricity from clean and renewable sources, including wind and solar. It provides full energy and capacity requirements services, engages in power and gas marketing and trading activities, participates in natural gas production and pipeline infrastructure development, and owns a retail electricity provider. The company was founded in 1984 and is headquartered in Juno Beach, FL. (Source: FactSet)

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Equity Research | Corporate Access

Constellation Energy Corporation (CEG)

Joseph Dominguez, *Chief Executive Officer*
Dan Eggers, *Chief Financial Officer*
Emily Duncan, *Vice President, Investor Relations*

Dates & Locations
September 7 & 8 | New York
September 9 | Boston

Meeting Format
NDR - 1:1 Meetings, Group Meeting

Company Information
Market Cap: $31.66bn
Constellation Energy Corp (CEG) engages in the generation, supply, and marketing of clean energy electricity, and renewable energy products and solutions. It operates under the following geographical segments: Mid-Atlantic, Midwest, New York, Texas, and Other Power Regions Segment. The company is headquartered in Baltimore, MD. (Source: FactSet)

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Equity Research | Corporate Access

WEC Energy Group, Inc. (WEC)

Gale Klappa, *Executive Chairman*
Beth Straka, *Sr. Vice President – Corporate Communications and Investor Relations*

Dates & Locations

September 13 | Los Angeles
September 14 | Dallas

Meeting Format

NDR - 1:1 Meetings, Group Meeting

Company Information

Market Cap: $31.66bn

WEC Energy Group, Inc. (WEC) is a holding company, which engages in the generation and distribution of electricity and natural gas. It operates through the following segments: Wisconsin, Illinois, Other States, Electric Transmission, Non-Utility Energy Infrastructure and Corporate & Other. The Wisconsin segment refers to the electric and gas utility operations. The Illinois segment deals with natural gas utility and non-utility activities. The Other States segment pertains to natural gas operations of the firm's subsidiaries. The Electric Transmission segment holds interests in state regulatory commissions. The Non-Utility Energy Infrastructure segment includes Wisconsin Electric Power, which owns and leases generating facilities. The Corporate and Other segment refers to the firm's administrative and holding activities. The company was founded in 1981 and is headquartered in Milwaukee, WI. (Source: FactSet)

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Guggenheim's Power & Utility Comp Sheet

8/2/2022		Market	Guggenheim EPS Ests				Consensus				Δ vs Consensus (>$0.02)				Implied P/E Multiple				Prem/(Disc) vs Mid/Lg Cap Utes				'22–'25	NTM	Payout	Guggenheim		NTM Total	Consensus		NTM Total
	Price	Cap ($m)	2022E	2023E	2024E	2025E	2022E	2023E	2024E	2025E	2022E	2023E	2024E	2025E	2022E	2023E	2024E	2025E	2022E	2023E	2024E	2025E	EPS	Yield	Ratio	Rating	Target	Return	Rating	Target	Return
Small Cap Electric																														
ALE	$62.17	3,548	3.75	3.89	4.06	4.32	3.68	3.89	4.06	4.29	0.07	–	–	0.04	16.6x	16.0x	15.3x	14.4x	-20%	-18%	-15%	-15%	4.8%	4.3%	71%	Neutral	$65	9%	Neutral	$66	11%
AVA	$42.96	3,135	1.94	2.47	2.59	2.72	1.95	2.47	2.62	2.76	–	–	–	(0.03)	22.1x	17.4x	16.6x	15.8x	7%	-10%	-8%	-7%	11.9%	4.2%	93%	Sell	$34	-17%	Neutral	$43	3%
NWE	$54.48	3,059	3.30	3.57	3.88	4.05	3.30	3.54	3.69	3.96	–	0.03	0.19	0.09	16.5x	15.3x	14.0x	13.5x	-20%	-21%	-22%	-21%	7.1%	4.7%	77%	Neutral	$58	11%	Neutral	$61	17%
POR	$51.27	4,575	2.83	2.92	3.02	3.18	2.80	2.86	3.04	3.18	0.03	0.06	–	–	18.1x	17.6x	17.0x	16.1x	-12%	-9%	-6%	-5%	4.0%	3.6%	66%	Buy	$56	13%	Neutral	$53	6%
		14,318													**18.3x**	**16.5x**	**15.7x**	**14.9x**	**-11%**	**-15%**	**-13%**	**-12%**	**6.9%**	**4.2%**	**77%**						
Mid/Large Cap Electric																														
AEE	$92.53	23,881	4.04	4.32	4.64	4.95	4.07	4.37	4.66	4.94	(0.03)	(0.05)	–	–	22.9x	21.4x	19.9x	18.7x	11%	10%	10%	10%	7.0%	2.6%	61%	Buy	$99	10%	Buy	$96	6%
AEP	$98.46	50,582	5.00	5.30	5.64	6.00	4.99	5.29	5.62	5.99	–	–	–	–	19.7x	18.6x	17.5x	16.4x	-4%	-4%	-3%	-3%	6.3%	3.3%	65%	Buy	$109	14%	Buy	$105	10%
CMS	$68.90	19,994	2.88	3.14	3.41	3.64	2.88	3.13	3.41	3.67	–	–	–	–	23.9x	21.9x	20.2x	18.9x	16%	13%	12%	11%	8.1%	2.8%	67%	Neutral	$70	4%	Buy	$71	6%
CNP	$31.70	19,953	1.38	1.49	1.61	1.73	1.39	1.49	1.62	1.74	–	–	–	–	23.0x	21.3x	19.7x	18.3x	11%	10%	9%	8%	7.8%	2.3%	52%	Buy	$35	13%	Buy	$33	6%
D	$82.16	66,654	4.12	4.40	4.70	5.00	4.12	4.38	4.68	5.00	–	–	–	–	19.9x	18.7x	17.5x	16.4x	-3%	-4%	-3%	-3%	6.7%	3.4%	67%	Buy	$90	13%	Buy	$88	10%
DTE	$129.90	25,167	6.06	6.29	6.73	7.13	5.94	6.27	6.71	7.20	0.12	–	–	(0.07)	21.4x	20.7x	19.3x	18.2x	4%	7%	7%	7%	5.6%	2.9%	61%	Buy	$145	14%	Buy	$137	9%
DUK	$109.62	84,407	5.48	5.81	6.15	6.50	5.45	5.76	6.14	6.51	–	0.05	–	–	20.0x	18.9x	17.8x	16.9x	-3%	-3%	-1%	-1%	5.9%	3.7%	74%	Buy	$119	12%	Buy	$113	6%
ED	$98.05	34,739	4.51	4.89	5.18	5.38	4.50	4.84	5.12	5.42	–	0.05	0.06	(0.04)	21.7x	20.1x	18.9x	18.2x	6%	3%	5%	7%	6.1%	3.3%	71%	Neutral	$94	-1%	Sell	$86	-9%
EIX	$68.62	26,174	4.64	4.92	5.25	5.60	4.48	4.88	5.16	5.40	0.16	0.04	0.09	0.20	14.8x	13.9x	13.1x	12.3x	-28%	-28%	-28%	-28%	6.5%	4.2%	62%	Buy	$82	24%	Buy	$73	11%
ES	$90.24	31,122	4.10	4.42	4.75	5.11	4.10	4.37	4.69	5.06	–	0.05	0.06	0.05	22.0x	20.4x	19.0x	17.7x	7%	5%	5%	4%	7.6%	2.9%	64%	Buy	$97	10%	Neutral	$92	5%
ETR	$115.11	23,410	6.33	6.81	7.21	7.57	6.34	6.76	7.21	7.69	–	0.05	–	(0.12)	18.2x	16.9x	16.0x	15.2x	-12%	-13%	-12%	-11%	6.1%	3.7%	66%	Buy	$129	16%	Buy	$124	12%
EVRG	$68.00	15,605	3.52	3.77	4.02	4.30	3.55	3.78	4.05	4.24	(0.03)	–	–	0.06	19.3x	18.0x	16.9x	15.8x	-6%	-7%	-6%	-7%	6.9%	3.5%	69%	Buy	$77	17%	Buy	$71	8%
EXC	$45.83	44,920	2.27	2.41	2.58	2.82	2.26	2.41	2.59	2.79	–	–	–	–	20.2x	19.0x	17.8x	16.3x	-2%	-2%	-2%	-4%	7.5%	3.1%	63%	Neutral	$49	10%	Buy	$48	9%
FE	$39.68	22,673	2.40	2.57	2.75	2.95	2.41	2.53	2.72	2.86	–	0.04	0.03	0.09	16.5x	15.4x	14.4x	13.5x	-20%	-20%	-20%	-21%	7.1%	4.0%	66%	Neutral	$43	12%	Buy	$45	16%
LNT	$60.79	15,247	2.75	2.90	3.04	3.23	2.75	2.89	3.08	3.27	–	–	(0.04)	(0.04)	22.1x	21.0x	20.0x	18.8x	7%	8%	11%	11%	5.5%	2.9%	64%	Neutral	$60	2%	Neutral	$63	6%
OGE	$40.49	8,106	1.99	2.06	2.21	2.30	2.12	2.09	2.19	2.31	(0.13)	(0.03)	–	–	20.3x	19.7x	18.3x	17.6x	-1%	1%	1%	4%	4.9%	4.2%	85%	Buy	$43	10%	Buy	$41	5%
PCG	$11.02	21,904	1.11	1.24	1.34	1.45	1.09	1.22	1.34	1.45	–	–	–	–	9.9x	8.9x	8.2x	7.6x	-52%	-54%	-55%	-55%	9.3%	0.4%	4%	Buy	$19	73%	Buy	$16	45%
PEG	$65.15	32,501	3.56	3.73	4.18	4.55	3.47	3.60	3.96	4.23	0.09	0.13	0.22	0.32	18.3x	17.5x	15.6x	14.3x	-11%	-10%	-14%	-16%	8.5%	3.4%	63%	Buy	$75	19%	Buy	$73	15%
PNW	$73.77	8,336	4.05	4.25	4.50	4.75	4.01	4.19	4.49	4.72	0.04	0.06	–	–	18.2x	17.4x	16.4x	15.5x	-12%	-10%	-9%	-9%	5.5%	4.7%	86%	Sell	$60	-14%	Sell	$71	2%
PPL	$29.10	21,415	1.48	1.58	1.70	1.81	1.42	1.60	1.72	1.82	0.06	–	–	–	19.7x	18.4x	17.1x	16.1x	-5%	-5%	-5%	-5%	6.9%	3.2%	63%	Buy	$33	17%	Buy	$31	8%
SO	$75.93	80,678	3.60	3.80	4.15	4.40	3.58	3.79	4.12	4.42	–	–	–	–	21.1x	20.0x	18.3x	17.3x	2%	3%	1%	2%	6.9%	3.6%	76%	Buy	$80	9%	Neutral	$73	0%
WEC	$103.65	32,695	4.40	4.59	4.89	5.21	4.39	4.62	4.92	5.24	–	–	–	(0.03)	23.6x	22.6x	21.2x	19.9x	14%	16%	17%	17%	5.8%	2.9%	69%	Neutral	$104	3%	Neutral	$104	3%
Mid/Lg Cap (excl. EIX, PCG)															**20.6x**	**19.4x**	**18.1x**	**17.0x**					**6.6%**	**3.3%**	**68%**						
Regulated Electrics		**724,480**													**20.2x**	**18.9x**	**17.7x**	**16.7x**					**6.7%**	**3.5%**	**69%**						

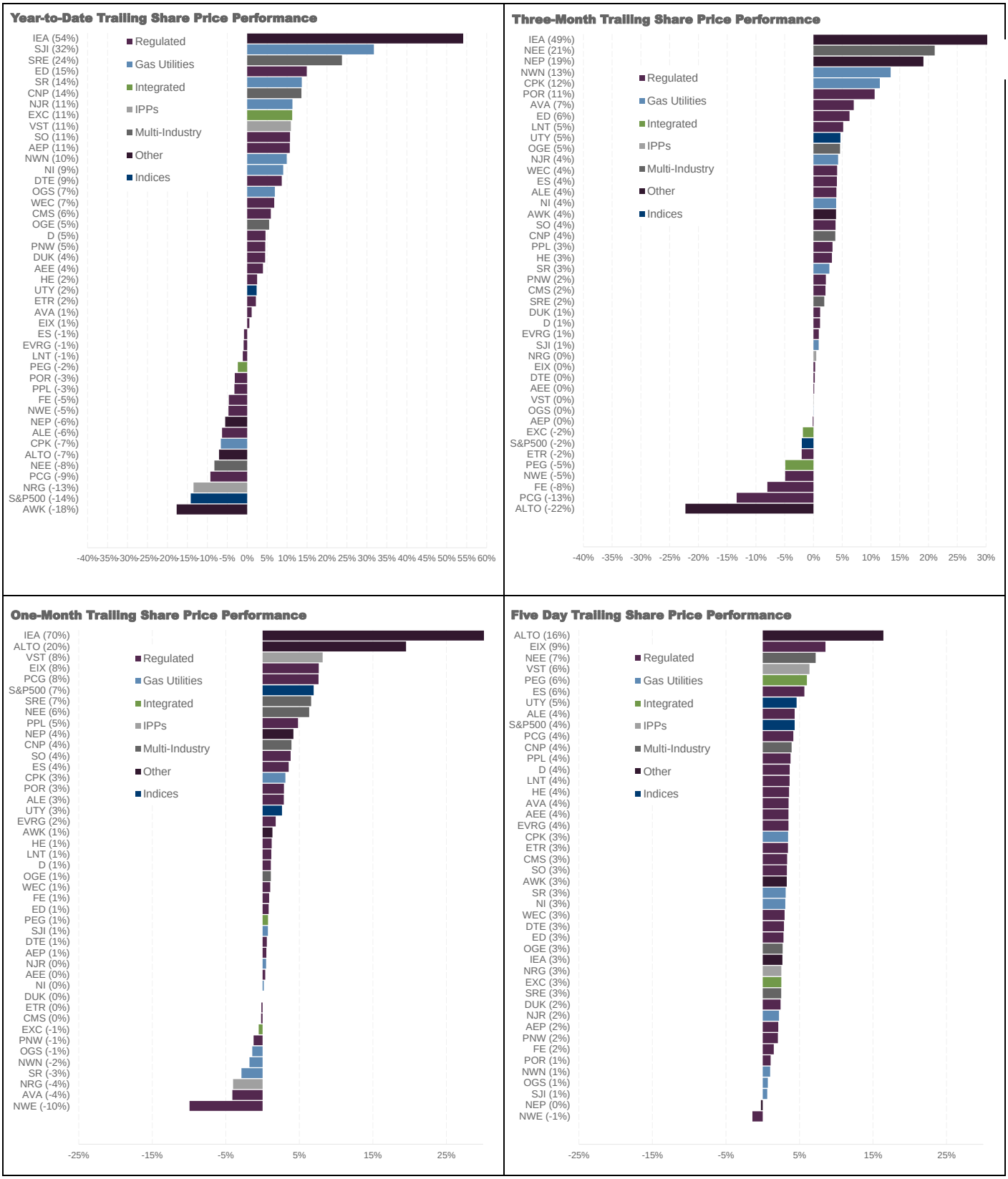
Diversified	Price	Market Cap ($m)	Guggenheim EPS Ests 2022E	2023E	2024E	2025E	Consensus 2022E	2023E	2024E	2025E	Δ vs Consensus (>$0.02) 2022E	2023E	2024E	2025E	Implied P/E multiple 2022E	2023E	2024E	2025E	Prem/(Disc) vs Mid/Lg Cap Utes 2022E	2023E	2024E	2025E	'22–'25 EPS	NTM Yield	Payout Ratio	Guggenheim Rating	Target	NTM Total Return	Consensus Rating	Target	NTM Total Return
HE	$42.53	4,654	2.21	2.41	2.47	2.69	2.15	2.29	2.38	2.56	0.06	0.12	0.09	0.13	19.2x	17.6x	17.2x	15.8x	-7%	-9%	-5%	-7%	6.8%	3.4%	65%	Neutral	$41	-0%	Neutral	$41	0%
NEE	$85.67	168,323	2.84	3.07	3.38	3.66	2.88	3.11	3.38	3.64	(0.04)	(0.04)	–	–	30.2x	27.9x	25.3x	23.4x	46%	44%	40%	38%	8.8%	2.1%	63%	Buy	$91	8%	Buy	$91	9%
SRE	$163.70	51,452	8.54	9.08	9.58	10.21	8.53	8.98	9.59	10.11	–	0.10	–	0.10	19.2x	18.0x	17.1x	16.0x	-7%	-7%	-6%	-6%	6.1%	2.9%	57%	Buy	$174	9%	Buy	$170	7%
		224,428													**22.9x**	**21.2x**	**19.9x**	**18.4x**	**11%**	**9%**	**10%**	**8%**	**7.2%**	**2.8%**	**62%**						
Gas LDCs																															
NI	$30.10	12,215	1.45	1.53	1.70	1.84	1.45	1.55	1.74	1.88	–	–	(0.04)	(0.04)	20.8x	19.7x	17.7x	16.4x	3%	4%	0%	-2%	8.3%	3.2%	67%	Buy	$32	10%	Buy	$32	9%
CPK	$136.17	2,414	5.13	5.55	5.93	6.32	5.11	5.57	5.89	6.24	–	–	0.04	0.08	26.5x	24.5x	23.0x	21.5x	31%	30%	30%	29%	7.2%	1.6%	43%	Neutral	$136	1%	Buy	$141	5%
NJR	$45.71	4,395	2.35	2.43	2.62	2.78	2.35	2.43	2.73	2.81	–	–	(0.11)	(0.03)	19.5x	18.8x	17.4x	16.4x	-4%	-1%	-1%	-1%	5.8%	3.4%	66%	Neutral	$41	-7%	Neutral	$46	5%
NWN	$53.61	1,836	2.56	2.73	2.83	2.97	2.52	2.69	2.80	2.99	0.04	0.04	0.03	–	20.9x	19.6x	18.9x	18.1x	4%	4%	7%	8%	5.1%	3.6%	76%	Neutral	$49	-5%	Buy	$55	6%
OGS	$82.97	4,492	4.08	4.38	4.65	5.00	4.08	4.36	4.63	4.99	–	–	–	–	20.3x	18.9x	17.8x	16.6x	1%	0%	1%	-0%	7.0%	3.1%	63%	Neutral	$86	7%	Buy	$89	10%
SJI	$34.41	4,212	1.71	1.82	1.94	2.05	1.69	1.78	1.86	1.83	–	0.04	0.08	0.22	20.1x	18.9x	17.7x	16.8x	-1%	-0%	0%	1%	6.2%	3.7%	74%	Neutral	$26	-21%	Neutral	$34	1%
SR	$74.13	3,864	3.84	4.27	4.91	5.03	3.90	4.38	4.65	4.88	(0.06)	(0.11)	0.26	0.15	19.3x	17.4x	15.1x	14.7x	-5%	-8%	-15%	-12%	9.4%	3.8%	74%	Neutral	$67	-6%	Neutral	$74	4%
		33,428													**21.1x**	**19.7x**	**18.2x**	**17.2x**	**4%**	**4%**	**3%**	**3%**	**7.0%**	**3.2%**	**66%**						
Regulated Water																															
AWK	$155.48	28,264	4.44	4.85	5.23	5.70	4.43	4.83	5.19	5.65	–	–	0.04	0.05	35.0x	32.1x	29.7x	27.3x	70%	65%	64%	60%	8.7%	1.7%	61%	Neutral	$155	1%	Neutral	$161	5%

IPPs	Price	Market Cap ($m)	Guggenheim EBITDA Ests 2022E	2023E	2024E	2025E	Consensus 2022E	2023E	2024E	2025E	Δ vs Consensus (>$20m) 2022E	2023E	2024E	2025E	Implied EV/EBITDA multiple 2022E	2023E	2024E	2025E	Enterprise Value 2022E	2023E	2024E	2025E	'22–'25 Growth	NTM Yield	Payout Ratio	Guggenheim Rating	Target	NTM Total Return	Consensus Rating	Target	NTM Total Return
CEG	$65.84	21,508	2,547	3,203	3,511	3,412	2,600	2,998	3,356	3,521	(53)	206	155	(109)	11.1x	8.3x	7.0x	6.7x	28,174	26,466	24,603	22,796	10.2%	0.9%	18%	Buy	$70	7%	Buy	$67	3%
NRG	$37.28	8,846	2,000	2,247	2,312	2,276	2,047	2,293	2,382	2,384	(48)	(46)	(70)	(108)	7.9x	6.8x	6.4x	5.9x	15,839	15,294	14,684	13,356	4.4%	3.9%	26%	Neutral	$43	19%	Buy	$44	21%
VST	$25.26	10,908	3,117	3,508	3,555	3,738	3,194	3,600	3,647	3,607	(77)	(93)	(92)	132	6.9x	6.0x	5.8x	5.3x	21,462	21,143	20,687	19,685	6.2%	3.0%	35%	Buy	$32	30%	Buy	$31	26%
Other																															
ALTO	$4.47	331	73	74	75	76	56	136	198	320	–	(62)	(123)	(243)									1.3%	–	–	Buy	$8	79%	Buy	$11	139%
IEA	$14.18	689	147	164	174	178	143	157	182	215	–	–	–	(37)									6.7%	–	–	Neutral	$14	-1%	Neutral	$14	-3%
NEP	$79.75	6,691	1,660	1,775	1,889	2,003	1,748	1,924	2,046	2,255	(88)	(149)	(157)	(252)									6.5%	4.0%	–	Buy	$85	11%	Buy	$86	12%

Source: Guggenheim Securities, LLC estimates, Bloomberg LP.

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Share Price Performance (Year-to-Date, Three-Month, One-Month, & Five-Day Trailing)



(1) Regulated utilities deliver power to end-use customers via regulated transmission & distribution (T&D) infrastructure; vertically integrated utilities with regulated or mostly contracted generation are also included.

(2) Local Gas Distribution Companies (LDCs), as well as diversified utilities with a business mix largely comprised of gas infrastructure and related activities (i.e., LDC franchises, interstate pipelines, and/or other gas midstream activities).

(3) Integrated utilities own and operate regulated T&D franchises, as well as un-regulated power generation with commodity exposure.

(4) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.

Source: Bloomberg, Guggenheim Securities, LLC estimates.

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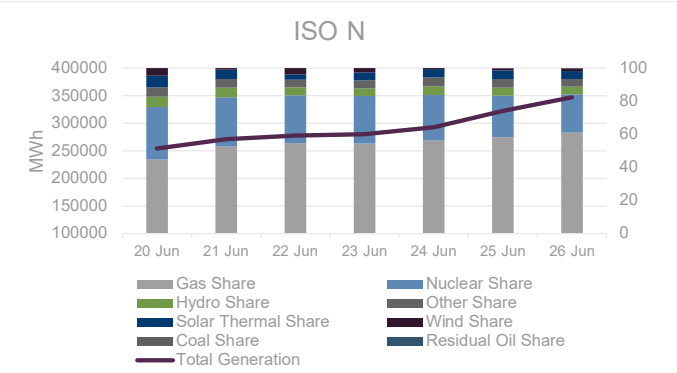
Guggenheim 2022 Client and Corporate Access Utility Events

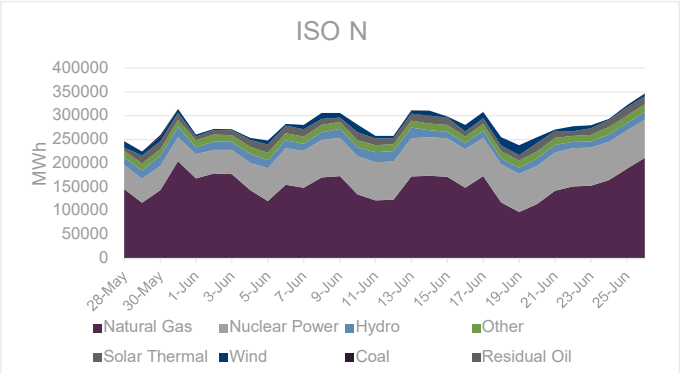
Ticker	Dates	Regions
PNW	1/24	Virtual
Quarterly Utility Roundtable	1/26	Virtual
Commissioners Meeting	1/26	Virtual
DUK	2/14	Virtual
WEC	2/16 & 2/18	Virtual
PCG	2/17	In Person at Guggenheim
D	2/23	Virtual
ETR	3/16–3/17	NYC and Boston
AEE	3/22	Virtual
NWE	3/24	Virtual
D	3/28	NYC Dinner
NJ Utilities Dinner	3/31	NJ Dinner
Quarterly Utility Roundtable	4/20	NYC Dinner
CNP	5/9–5/10	NYC
AGA Conference	5/17–5/18	Miami
EVRG	5/23–5/24	Virtual/Boston
AWK	5/26	New York
EXC	5/31-6/2	Midwest (5/31-6/1) & Texas (6/2)
LNT	6/6–6/7	NYC/Boston
ES	6/8	Virtual
SO	6/9–6/10	West Coast
PPL	6/13	NYC/Virtual
CMS	6/15	Virtual
OGE	6/29	NYC/Virtual
EIX	7/8	Boston
SO Meeting, Porsche racing, baseball, & GA PS	7/11–7/12	Atlanta
DTE	8/8–8/9	New York
POR	8/9–8/10	New York
NEE	8/30–9/2	West Coast
CEG	9/7–9/9	NY (9/7-8) & Boston (9/9)
WEC	9/13–9/14	LA (9/13) & Dallas (9/14)
OGS	9/27–9/28	New York

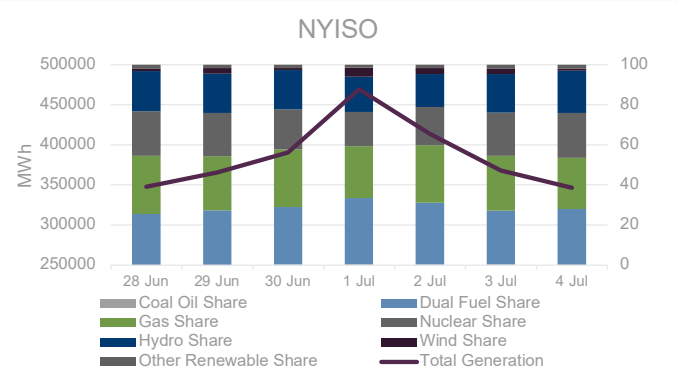
MORE TO BE ADDED…

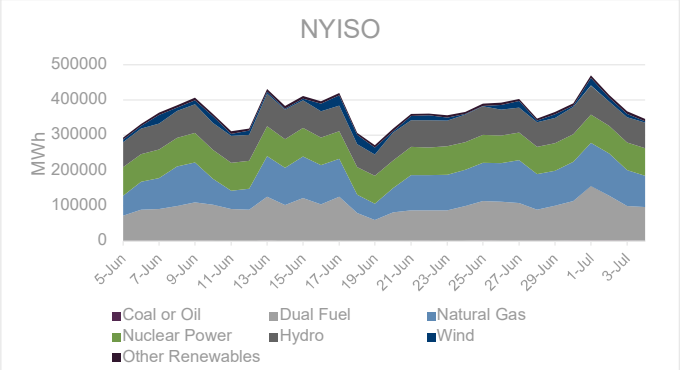
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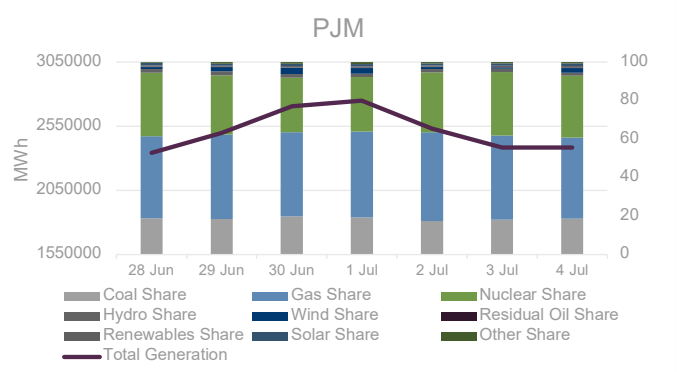
Generation and Mix

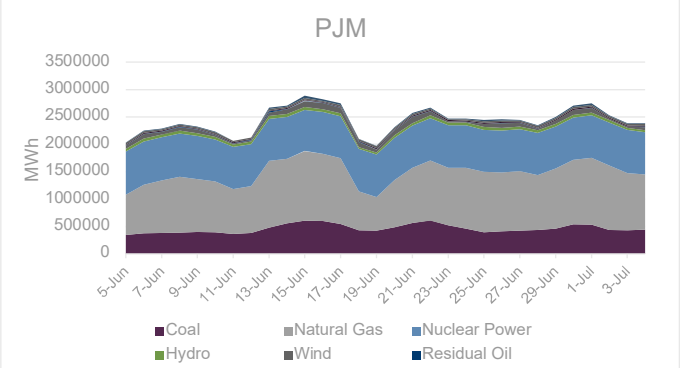


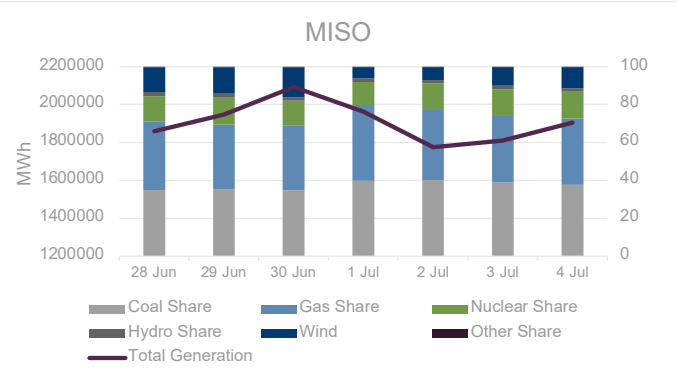


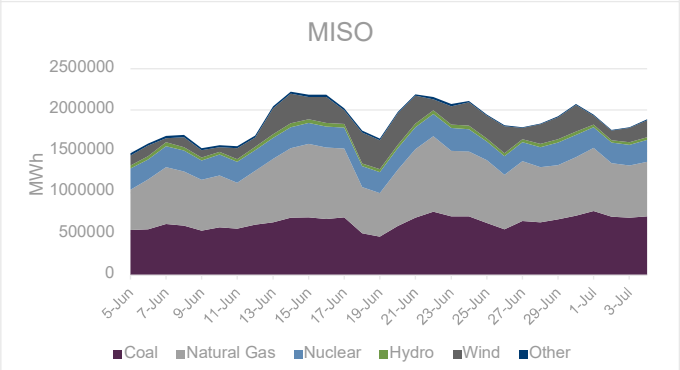






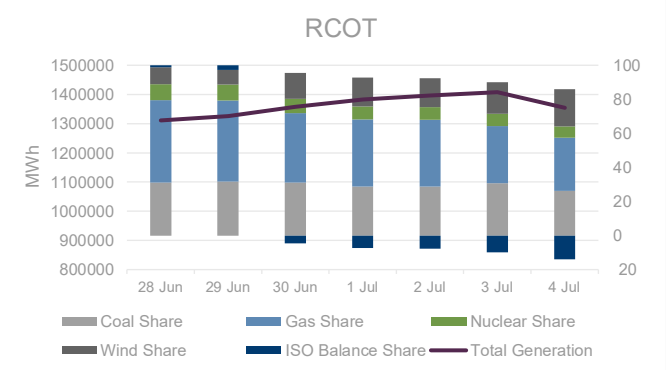


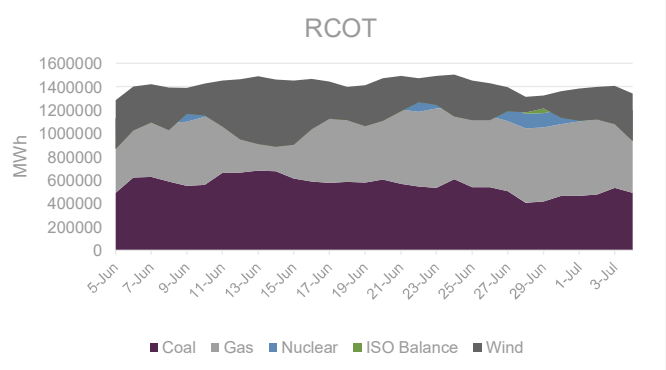


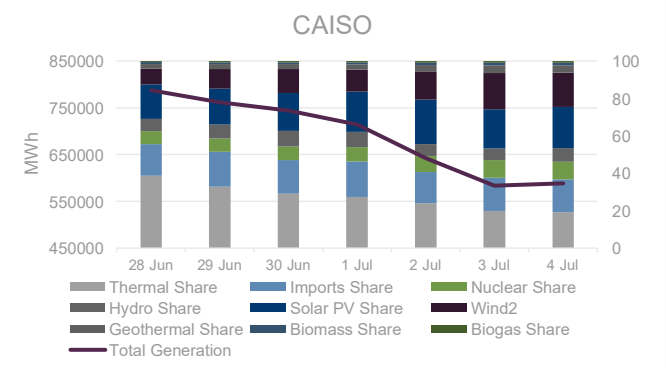


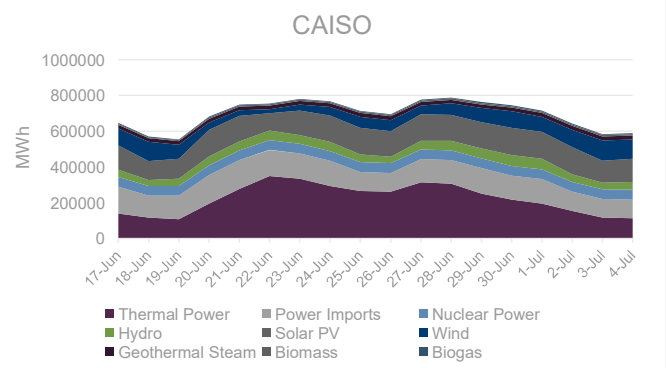
Source: S&P Global Platts, Guggenheim Securities, LLC.

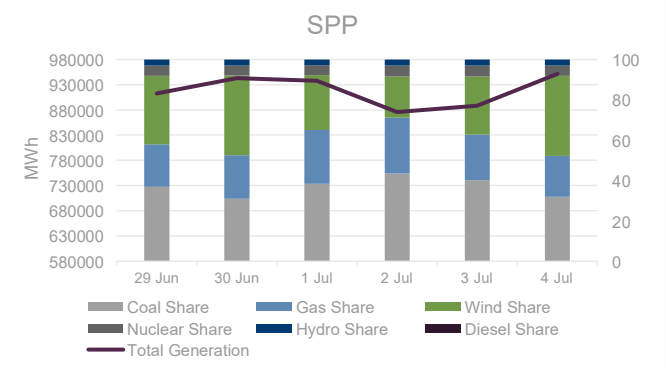
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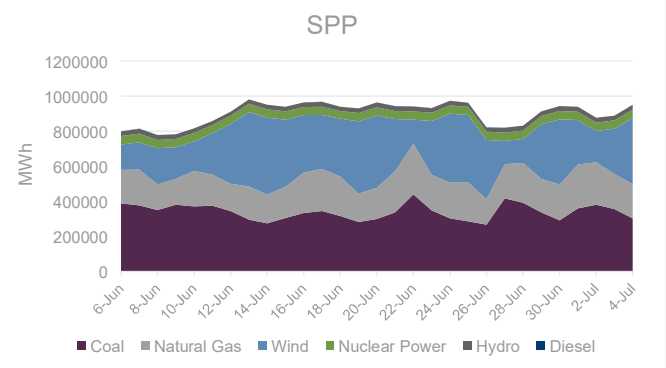








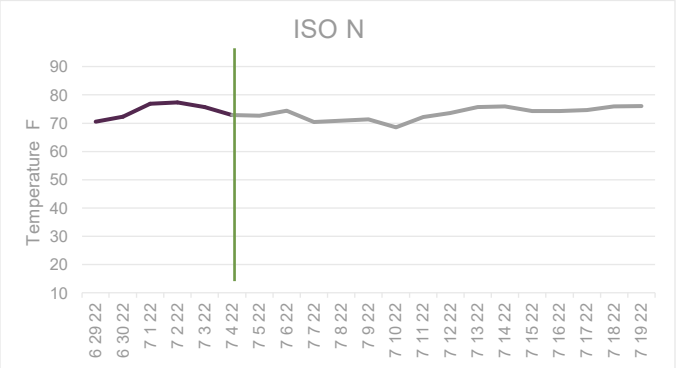


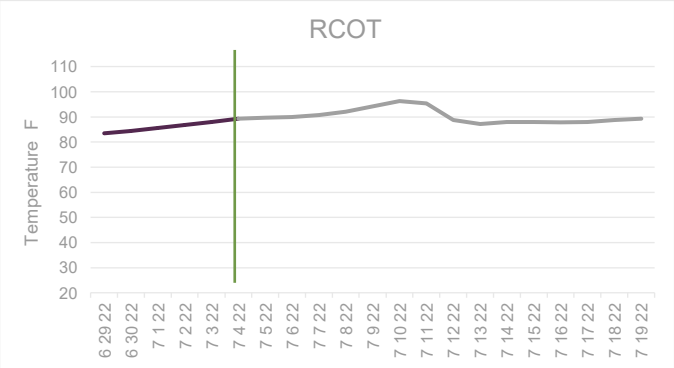


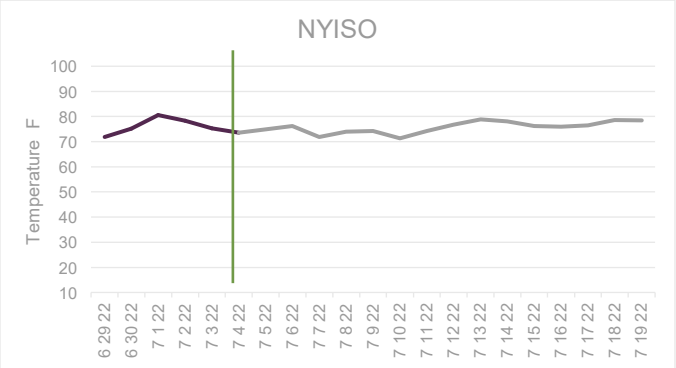
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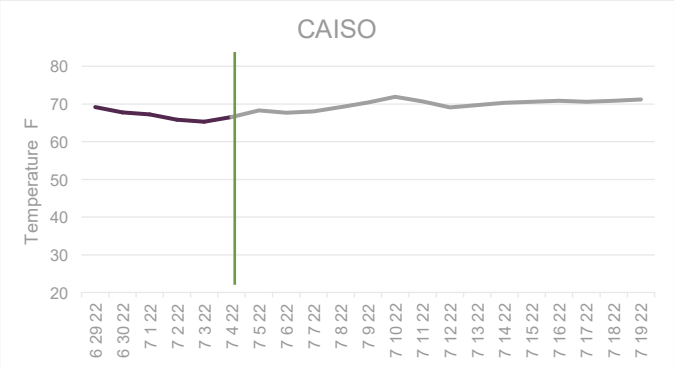
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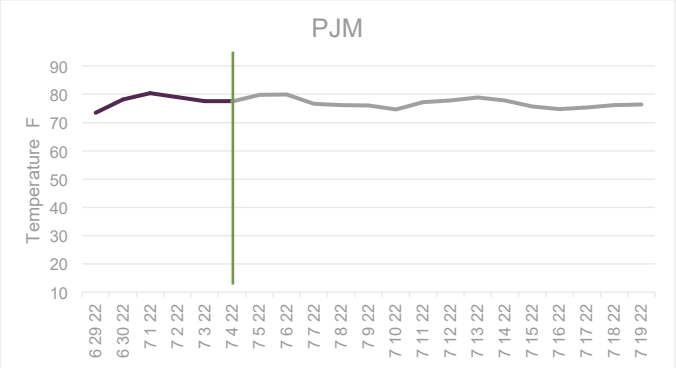
Weather

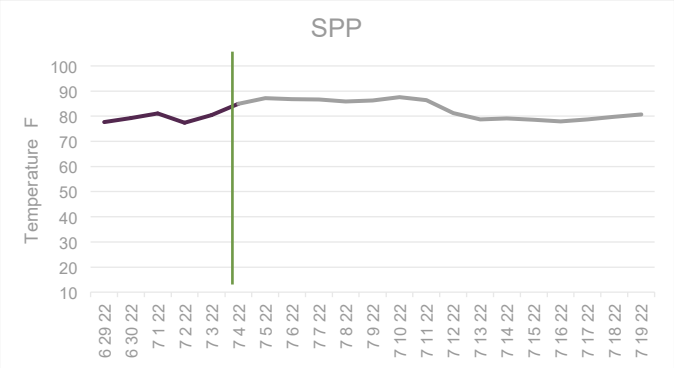














Source: S&P Global Platts, Guggenheim Securities, LLC.

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Regulatory Calendar

Power and Utilities: Coverage Calendar (7/6/2022 - 9/30/2022)

Date	State	Ticker	Utility/Event	Docket	Description
7/6/2022	NY	ED	Consolidated Edison Co. of NY	C-22-E-0064	Settlement discussions to commence in rate case
7/6/2022	NY	ED	Consolidated Edison Co. of NY	C-22-G-0065	Settlement discussions to commence in rate case
7/6/2022	PA	NI	Columbia Gas of Pennsylvania	D-R-2022-3031211	Rebuttal testimony due in rate case
7/7/2022-7/27/2022	MI	CMS	Consumers Energy Co.	C-U-21148	Commission decision expected
7/12/2022	MN	CNP	CenterPoint Energy Resources	D-G-008/GR-21-435	ALJ report due
7/12/2022	SC	DUK	Piedmont Natural Gas Co.	D-2022-89-G	Staff and intervenor testimony due by
7/12/2022-7/13/2022	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00006 (Rider E)	Hearings scheduled in Rider E update
7/13/2022	MO	EVRG	Evergy Metro Inc	C-ER-2022-0129	Rebuttal testimony due in rate proceeding
7/13/2022	MO	EVRG	Evergy Missouri West	C-ER-2022-0130	Rebuttal testimony due in rate proceeding
7/19/2022	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00033 (Rider CCR)	Staff to file testimony in Rider CCR update proceeding
7/20/2022	OR	NWN	Northwest Natural Gas Co.	D-UG-435	NW Natural surrebuttal testimony due
7/21/2022	IL	AEE	Ameren Illinois	D-22-0297	Company rebuttal testimony due in formula rate plan proceeding
7/21/2022	PA	EXC	PECO Energy Co	D-R-2022-3031113	Rebuttal testimony due in rate case
7/22/2022	CA	PCG	Pacific Gas and Electric Co.	A-21-06-021 (Track 2)	Company testimony due
7/22/2022	MA	ES	NSTAR Electric Co.	DPU 22-22	Briefing schedule to be established
7/25/2022	SC	DUK	Piedmont Natural Gas Co.	D-2022-89-G	Public hearing scheduled
7/26/2022	MI	DTE	DTE Electric Co.	C-U-20836	Briefs due in rate case
7/26/2022	SC	DUK	Piedmont Natural Gas Co.	D-2022-89-G	Company rebuttal testimony due by
7/27/2022	IL	EXC	Commonwealth Edison Co.	D-22-0302	Company rebuttal testimony due in formula rate plan proceeding
7/27/2022	MD	NI	Columbia Gas of Maryland Inc	C-9680	Intervening parties to file testimony in rate case
7/27/2022	VA	D	Virginia Electric & Power Co.	C- PUR-2022-00062(Rider RBB)	Intervening parties to file testimony in Rider RBB update proceeding
7/29/2022	VA	AEP	Appalachian Power Co.	C-PUR-2022-00001 (E-RAC)	Intervening parties to file testimony in ERAC proceeding
7/31/2022	VA	AEP	Appalachian Power Co.	C-PUR-2021-00236 (RAC-EE)	Decision expected in RAC-EE update proceeding
7/31/2022	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00142 (Rider OSW)	Decision likely in Rider OSW proceeding
7/31/2022	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00229 (Rider SNA)	Decision expected in Rider NSA proceeding
7/31/2022	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00238 (Rider US-2)	Decision expected in Rider US-2 update proceeding
8/1/2022-8/31/2022	MO	AEE	Union Electric Co.	C-ER-2022-0337	Electric rate case filing expected
8/1/2022	VA	D	Virginia Electric & Power Co.	C- PUR-2022-00062(Rider RBB)	Staff testimony due in Rider RBB proceeding
8/1/2022-8/31/2022	VA	D	Virginia Electric & Power Co.	C-PUR-2021-00247 (Rider DSM)	Decision likely in Rider DSM proceeding
8/1/2022-8/31/2022	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00006 (Rider E)	Hearing examiner's report may be isssued in Rider E update
8/1/2022-8/31/2022	WV	AEP	Appalachian Power Co.	C-22-0304-E-P	Decision possible in modified rate base cost recovery rider proceeding
8/2/2022	OR	NWN	Northwest Natural Gas Co.	D-UG-435	Hearing
8/2/2022-8/4/2022	PA	NI	Columbia Gas of Pennsylvania	D-R-2022-3031211	Hearings scheduled in rate case
8/2/2022	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00033 (Rider CCR)	Rebuttal testimony due in Rider CCR update proceeding
8/5/2022	SC	DUK	Piedmont Natural Gas Co.	D-2022-89-G	Staff and intervenor surrebuttal testimony due by
8/11/2022-8/12/2022	PA	EXC	PECO Energy Co	D-R-2022-3031113	Hearings scheduled in rate case
8/15/2022-8/26/2022	CA	PCG	Pacific Gas and Electric Co.	A-21-06-021 (Elec)	Evidentiary hearings scheduled
8/15/2022-8/26/2022	CA	PCG	Pacific Gas and Electric Co.	A-21-06-021 (Gas)	Evidentiary hearings scheduled
8/15/2022	DE	EXC	Delmarva Power & Light Co.	D-22-0002	Rebuttal testimony due in gas rate proceeding
8/15/2022	OR	NWN	Northwest Natural Gas Co.	D-UG-435	Opening briefs due
8/16/2022	MI	DTE	DTE Electric Co.	C-U-20836	Reply briefs due in rate case
8/17/2022	MD	NI	Columbia Gas of Maryland Inc	C-9680	Rebuttal testimony due in rate case
8/19/2022	MD	EXC	Delmarva Power & Light Co.	C-9681	Intervening parties to file testimony in rate case
8/22/2022	MO	EVRG	Evergy Metro Inc	C-ER-2022-0129	Settlement conference to be held in rate proceeding
8/22/2022	MO	EVRG	Evergy Missouri West	C-ER-2022-0130	Settlement conference to be held in rate proceeding
8/22/2022	OR	NWN	Northwest Natural Gas Co.	D-UG-435	Closing briefs due
8/22/2022-8/23/2022	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00033 (Rider CCR)	Hearing scheduled in Rider CCR update proceeding
8/23/2022	PA	NI	Columbia Gas of Pennsylvania	D-R-2022-3031211	Main briefs due in rate case
8/23/2022	VA	AEP	Appalachian Power Co.	C-PUR-2022-00001 (E-RAC)	SCC staff to file testimony in ERAC proceeding
8/24/2022	MI	CMS	Consumers Energy Co.	C-U-21224	Testimony due in electric rate case
8/26/2022	TX	SRE	Oncor Electric Delivery Co.	D-53601	Intervenor direct testimony due in rate proceeding
8/29/2022	MO	EVRG	Evergy Metro Inc	C-ER-2022-0129	Hearing to begin in rate proceeding
8/29/2022	MO	EVRG	Evergy Missouri West	C-ER-2022-0130	Hearing to begin in rate proceeding
9/1/2022-9/30/2022	IN	DUK	Duke Energy Indiana, LLC	Ca-44720-TDSIC-11	Decision possible in TDSIC proceeding
9/1/2022-9/30/2022	OK	OGE	Oklahoma Gas and Electric Co.	Ca-PUD202100164	Decision possible in rate proceeding
9/1/2022-9/30/2022	OK	OGS	Oklahoma Natural Gas Co	Ca-PUD202200023	Decision possible in PBR proceeding
9/1/2022-9/30/2022	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00006 (Rider E)	Final decision may be issued in Rider E update
9/1/2022-9/30/2022	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00033 (Rider CCR)	Hearing examiner's report may be issued in Rider CCR update proceeding
9/1/2022-9/30/2022	WV	AEP	Appalachian Power Co.	C-22-0393-E-ENEC	Decision possible in ENEC proceeding
9/2/2022	PA	NI	Columbia Gas of Pennsylvania	D-R-2022-3031211	Reply briefs due in rate case
9/2/2022	TX	SRE	Oncor Electric Delivery Co.	D-53601	Staff direct testimony due in rate proceeding
9/6/2022	VA	AEP	Appalachian Power Co.	C-PUR-2022-00001 (E-RAC)	Rebuttal testimony to be filed testimony in ERAC proceeding
9/7/2022	IL	AEE	Ameren Illinois	D-22-0297	Hearing to begin in formula rate plan proceeding
9/7/2022	PA	EXC	PECO Energy Co	D-R-2022-3031113	Main briefs due in rate case
9/7/2022-9/8/2022	VA	D	Virginia Electric & Power Co.	C- PUR-2022-00062(Rider RBB)	Hearing scheduled in Rider RBB case
9/12/2022-9/23/2022	MD	NI	Columbia Gas of Maryland Inc	C-9680	Hearings scheduled in rate case
9/14/2022	IL	EXC	Commonwealth Edison Co.	D-22-0302	Hearing to begin in formula rate plan proceeding
9/15/2022	CA	EIX	Southern California Edison Co.	A-19-08-013 (Track 3)	Proposed decision in electric rate case (Track 3) expected by
9/15/2022	MI	CMS	Consumers Energy Co.	C-U-21224	Rebuttal testimony due in electric rate case
9/16/2022	MI	DTE	DTE Electric Co.	C-U-20836	ALJ proposed decision target date
9/16/2022	TX	SRE	Oncor Electric Delivery Co.	D-53601	Company rebuttal testimony due in rate proceeding
9/19/2022	MD	EXC	Delmarva Power & Light Co.	C-9681	Rebuttal testimony due in rate case
9/19/2022	PA	EXC	PECO Energy Co	D-R-2022-3031113	Reply briefs due in rate case
9/20/2022-9/21/2022	VA	AEP	Appalachian Power Co.	C-PUR-2022-00001 (E-RAC)	Hearings scheduled in ERAC proceeding
9/23/2022	DE	EXC	Delmarva Power & Light Co.	D-22-0002	Second settlement conference to take place in gas rate proceeding
9/23/2022	DE	EXC	Delmarva Power & Light Co.	D-22-0002	Settlement conference to take place in gas rate proceeding
9/26/2022	TX	SRE	Oncor Electric Delivery Co.	D-53601	Hearing to begin in rate proceeding
9/27/2022-10/4/2022	MD	EXC	Delmarva Power & Light Co.	C-9681	Hearings scheduled in rate case
9/28/2022-10/4/2022	MI	CMS	Consumers Energy Co.	C-U-21224	Hearing scheduled in electric rate case
9/30/2022	VA	D	Virginia Electric & Power Co.	C- PUR-2022-00062(Rider RBB)	Hearing Examiner report may be issued in Rider RBB proceeding

Source: S&P Global Market Intelligence, Company Filings, Guggenheim Securities, LLC.

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Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM, and Weekly Commentary

Key Research

- **Utilities — Life, Death… and Pension Expense?**
- **Mid-Summer Night's Dream – Utilities Sector Update: Individual Themes Playing Out, but We Continue to See Broader Support, Outperformance for Utilities Even as Fed Rates Get Factored In**
- **'22 Utilities Outlook: Sector Cheap, Fundamentals Strong but Get Ready for Another Bumpy Ride – Choose Your Picks Wisely**
- SO GA Road Trip: Approaching the Apex the Southern Way… Cool, Calm, and Collected
- ES: Captain Nolan Charts a Course to Calmer Waters - Upgrading to BUY on Potential NT Catalysts, Valuation
- SO: Georgia Power Rate Case Filed; This Isn't Their First Rodeo
- PPL NDR: On the Road Again… Just Can't Wait to Get on the Road Again - Much Needed Face Time Helps Build Confidence
- PJM: Depressed 2023/24 BRA Results Not A Surprise
- ETR Analyst Day – Back in Step and Then Some: LT EPS Growth Set to 6-8%, Plan Reset to Solid Yet Conservative Trajectory; Maintain Buy, Estimates
- CMS – CEO/CFO Catch Up NDR; CMS Continues to Build on Premium Story With Transformed EPS Trajectory
- ES NDR: Landlubber? That's Fine with Us…
- NEE: Sunny Days Ahead for NEE; Analyst Day Steps Up EPS Growth Trajectory and Demonstrates Best in Class Positioning Across Business Lines
- LNT NDR: Solar Tariff Moratorium Defuses Key NT Overhang as Management Navigates a Busy Spring
- PCG: No Surprises Analyst Day Puts Together Winning Framework; Rebuilding Trust May Take Time, but Patience Gets Rewarded
- PNW: APS Rate Case Pushed Out to End of October
- PPL: Familiar Playbook Draws Mixed Investor Reaction
- EXC NDR: Getting Yourself Back Out There…
- Solar Tariff Touch Points: Quick Read
- AWK NDR: Reconstituted C-Suite Hits the Ground Running
- EVRG NDR: The Wichita Lineman Is Still on The Line…
- ED: CECONY GRC Testimony Posted; Solid Floor Set, Rate Base Mostly Intact; Upgrading to Neutral on Risks Subsiding
- AGA Day 2 Flash Recap
- AGA Day 1 Flash Recap
- CNP NDR: CNP Continues to Harmonize Capex Upside and Business Mix; Mgmt. Focused on Consistent 8% EPS Growth, but We See LT Plan Upside Potential
- Show Me the Money on Gas LDCs? Reality – Keeping Is More Valuable Than a Check for 2x Rate Base
- AEE NDR: Straightforward Updates Reinforce Premium Position; Gen Transition and Policy Work Continue
- ETR "In Person" NDR: Energy Intensive Industrial Customer Base and Heavy Storm Activity Dilutive to Valuation? Let's Talk Accretion…
- Uranium Baseline: Russia-Ukraine Fallout
- D: C-Suite NDR – Political Noise Gone with the Wind
- SJI: So Long and Thanks for All the Memories; LDC M&A Gets Even Hotter
- WEC NDR: Decarbonization and Growth Remain on Track; ESG Focus Is Clear Throughout This Premium Utility's Plans
- PCG: Misconceptions Gone in a Flash Ahead of Our NY Meetings; PCG 8K Highlights 10% EPS CAGR Through 2026
- DUK: CEO NDR - Accelerating Growth Driven by Clean Energy Transformation with a Decade of Visibility and Earnings Upside… What's Not to Like?
- CEG: The Longest Half Life of Any IPP? We Like but We Wait - Policy Upside Remains TBD; Initiating Coverage with NEUTRAL
- SO: Georgia Power IRP filed; coal retirements on track for 80% shut down by 2028; Southern Power to provide majority of replacement capacity

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- NI: CEO(s) Catch-Up: Incoming CEO Brings Experience and Existing NI Knowledge; Business and Strategic Reviews Underway; May Analyst Day Next Event
- Timely Regulatory Insights: Open Dialogue with CT, GA, and VA Commissioners – Two Way Better Than One Way
- PNW: C-Suite Meeting Highlights Path to Higher Rate Base Growth and Earnings; Alignment with a Cooperative Commission Remains Key to Execution
- AVA: Washington Multiyear Rate Case Filed; 11-Month Process Kicks Off in Pursuit of Earning Allowed Return in 2023
- EXC: Constellation Analyst Day Lays Out Clear Strategy and Key Details; Investor Comfort May Take Time
- EXC: RemainCo Details Largely in Line with Our Expectations
- EXC: Straightforward Spin? Constellation Details Much Appreciated, but Expectations Should Be Otherwise Grounded

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High Grade Coverage Report

A summary of credit analyst recommendations in the Utilities (HoldCo) Sector





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Changes in the Coverage Report

Rating changes in this Coverage Report

Ticker	Issuer	Sector	Previous Rating	New Rating
AES	DPL Inc.	Utilities (HoldCo)	OW	N

Terminations

Ticker	Issuer	Security
AES	AES Corp	3.3% '25
AES	AES Corp	1.375% '26
AES	AES Corp	2.450% '31

Companies

Issuer	Ticker	RTG
AES Corp	AES	OW
Ameren Corp	AEE	OW
American Electric Power (Holdco)	AEP	OW
Black Hills Corp	BKH	OW
Duquesne Light Holdings (Holdco)	DQE	OW
Entergy Corp (Holdco)	ETR	OW
Evergy Inc.	EVRG	OW
FirstEnergy Corp (Holdco)	FE	OW
FirstEnergy Transmission	FE	OW
IPALCO Enterprises	AES	OW
Puget Energy	PSD	OW
Sempra Energy (Holdco)	SRE	OW
American Water Works	AWK	N
Berkshire Hathaway Energy	BRKHEC	N
CenterPoint Energy (Holdco)	CNP	N
CMS Energy Corp (Holdco)	CMS	N
Dominion Energy (Holdco)	D	N
DPL Inc.	AES	N
DTE Energy Co (Holdco)	DTE	N
Duke Energy Corp (Holdco)	DUK	N
Eastern Energy Gas Holdings	BRKHEC	N
Edison International (Holdco)	EIX	N
Essential Utilities Inc	WTRG	N
Exelon Corp	EXC	N
ITC Holdings Corp (Holdco)	ITC	N
NiSource Inc (Holdco)	NI	N
PPL Corp (Holdco)	PPL	N
Progress Energy Inc.	DUK	N
Public Service Enterprise Group	PEG	N
Southern California Edison (1st Mtg)	EIX	N
Southern Co (Holdco)	SO	N
WEC Energy Group (Holdco)	WEC	N
NextEra Energy	NEE	UW
Xcel Energy Inc (Holdco)	XEL	UW

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Ticker	Issuer	Rating	ISIN	Moody's / S&P / Fitch	Benchmark Bond				5yr CDS Spread	J.P. Morgan View
					Issue	Price ($)	Yield (%)	Z Sprd		
Utilities (Holdco)										
AES	AES Corp	OW	US00130HCC79	Baa3/BBB-/BBB-	3.950% '30	90.0	5.52	**280**	215	We maintain our Overweight on AES Corp. The company has a very strong and diverse set of assets relative to other power generators. Most of AES' IPP operations are under long-term PPAs, providing cash flow visibility and stability. AES is now fully IG rated, following Moody's upgrade in May 2022, and is now committed to reach mid-BBB metrics, mainly through rapid growth of its renewable and US regulated utility footprint. The company is well-positioned to benefit from the surge in renewable development given its growing backlog. We continue to see AES as one of the strongest ESG transition stories within our coverage universe. Risks to our rating: large growth spending, power price volatility.
AEE	Ameren Corp	OW	US023608AJ15	Baa1/BBB/-	3.500% '31	93.4	4.44	**172**	NA	We maintain our Overweight on AEE Corp. We view the enactment of SB 564 in Missouri, which ultimately improves the state's regulatory framework for utilities, favorably for AEE, particularly, as more than ~50% of consolidated earnings are derived from its Missouri subsidiary. Additionally, AEE has historically exhibited strong credit metrics without significant regulatory lag. We believe the 10-year bonds remain attractive versus other regulated peers such as XEL and DUK and integrated NEE. Risks to our Overweight include the below-average MO operating environment and any adverse strategic decisions management could undertake.
AEP	American Electric Power (Holdco)	OW	US025537AN10	Baa2/BBB+/BBB	2.300% '30	86.7	4.37	**166**	50	We maintain our Overweight on AEP. We view AEP as a low-risk utility holding company that is underpinned by a geographically and regulatory diverse number of fully regulated utility operating companies. In addition, AEP benefits from a disciplined management team that over the last few years has worked to improve the holding company's underlying business risk by prioritizing the expansion of regulated earnings and the successful exit of its merchant generation. Risks to our Overweight include adverse regulatory decisions, elevated capital spending and accelerated deterioration of credit metrics.
BKH	Black Hills Corp	OW	US092113AT65	Baa2/BBB+/BBB+	2.500% '30	83.5	5.05	**233**	NA	We maintain our Overweight on Black Hills Corp. In our opinion, BKH has taken multiple steps over the last two years to de-risk its business and improve its financial profile. We consider BKH a fully regulated utility holding company as the company divested its remaining O&G assets in 2018. Additionally, BKH's business structure has been simplifying via consolidation of its utilities. Risks to our Overweight rating include increased debt issuance to fund its operations, any leveraging acquisition and regulatory outcomes in ERCOT.

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Ticker	Issuer	Rating	ISIN	Moody's / S&P / Fitch	Benchmark Bond				5yr CDS Spread	J.P. Morgan View
					Issue	Price ($)	Yield (%)	Z Sprd		
DQE	Duquesne Light Holdings (Holdco)	OW	US266233AJ47	Baa3/BBB-/-	2.775% '32	82.8	5.08	**235**	NA	We maintain our Overweight credit recommendation on Duquesne Light Holdings. DQE benefits from a supportive regulatory environment in Pennsylvania. The company is expected to pare down its unregulated exposure by winding down its energy supply and marketing businesses. Risks to our Overweight include DQE's status as a private company.
ETR	Entergy Corp (Holdco)	OW	US29364GAP81	Baa2/BBB/-	2.400% '31	82.7	4.80	**208**	NA	We maintain our Overweight on Entergy. In our opinion, ETR's credit is supported by the strength of its regulated franchise and robust credit metrics. We believe management is committed to maintaining a strong balance sheet across the complex and growing through ETR's regulated businesses, despite of recent headwinds including the ongoing LPSC complaint and storm cost securitizations. Additionally, management is expected to make further rationalization decisions on its unregulated portfolio, which should help its credit ratings and overall risk profile. Risks to our Overweight include high percentage of holdco debt, regulatory pushback on nuclear decommissioning, and deterioration in existing nuclear operations.
EVRG	Evergy Inc.	OW	US30034WAB28	Baa2/BBB+/-	2.900% '29	88.2	4.87	**216**	NA	We maintain our Overweight on Evergy. EVRG's credit is supported by relatively strong regulatory environments in Kansas and Missouri. Its credit metrics are expected to improve as it benefits from storm cost securitization and tax credits this year. On the other hand, following a March 2020 agreement with activist investor Elliott, EVRG discontinued its stock buyback plan and is committed to a five-year investment strategy that incorporates an accelerated decarbonization plan. While capital expenditure is expected to stay elevated in the coming years, successful execution of the plan is likely to improve its ESG profile and reduce cost in the long term, a credit positive. Risks to our OW include adverse regulatory decisions and larger than anticipated new issuance plans.
FE	FirstEnergy Corp (Holdco)	OW	US337932AC13	Ba1/BB+/BB+	7.375% '31	112.5	5.60	**287**	150	We maintain our Overweight on FirstEnergy Corp (FE). FE continues to be a low-risk, fully regulated transmission and distribution utility that is geographically diversified, with reasonable financial cushion to withstand the repercussions of their deferred prosecution agreement. The company has taken several steps to correct its governance issues. Separately, FE recently closed its partial stake sale of FET, with proceeds being allocated toward the company's recently announced $800mn tender offer, improving its credit metrics. We expect FE Holdco to have IG ratings from at least two of the three agencies by the end of 2022. Risks to the downside include a deterioration of regulatory relationships, the large capital spending plan and the company's ongoing coal exposure.

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FE	FirstEnergy Transmission	OW	US33767BAD10	Baa2/BB+/BB+	2.866% '28	88.4	5.03	**231**	150	We maintain our Overweight recommendation on FirstEnergy Transmission. We believe FET will be one of the primary focus areas for FE's new regulated growth strategy, especially as FE continues to grow its transmission business and the Biden administration makes transmission development a priority. Risks to our Overweight include FE failing to stabilize its credit story, resulting in a further ratings downgrade.
AES	IPALCO Enterprises	OW	US462613AN04	Baa3/BBB-/BBB	4.250% '30	93.7	5.22	**250**	215	We maintain our Overweight recommendation on IPALCO. IPALCO's primary subsidiary is the utility Indianapolis Power & Light, which operates in what we view as a credit supportive environment in Indiana. Additionally, we have a positive view on IPALCO's parent, AES Corp, and the S&P rating is linked due to consolidated methodology. Risks to our Overweight include an adverse regulatory environment and a change in AES Corp's financial strategy.
PSD	Puget Energy	OW	US745310AJ12	Baa3/BBB-/BBB	4.100% '30	93.7	5.04	**232**	NA	We maintain our Overweight credit recommendation on PSD. PSD stands to benefit from the recently passed SB 5295 in Washington, its primary jurisdiction, which requires utilities to file for multi-year rate plans (MYRPs), reducing regulatory lags. While we generally view the Washington Utilities and Transportation Commission (WUTC) as restrictive from a credit standpoint, given its unfavorable rate decisions in the past, this new law will likely improve the regulatory backdrop in the state. PSD filed MYRPs for both electric and gas rate increases earlier this year. Risks to our Overweight include an adverse outcome in future rate case proceeding in Washington, and any change to PSD's ownership consortium resulting in more aggressive financial policies.
SRE	Sempra Energy (Holdco)	OW	US816851BG34	Baa2/BBB/BBB+	3.400% '28	94.5	4.47	**175**	71	We maintain our Overweight rating on Sempra Energy. SRE is one of the remaining diversified utilities that has significant exposure to unregulated businesses, primarily through their majority ownership of Sempra Infrastructure Partners, which has exposure to Mexico Utilities and LNG operations. Regardless, we think Sempra will continue to focus on its regulated businesses in Texas and California which will reduce the amount of unregulated risk over time. Risks to our Overweight on Sempra include material leveraging at the holding company or increased unregulated business risk.

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AWK	Amerinca Water Works	N	US03040WAY12	Baa1/A/-	2.300% '31	86.7	4.10	**138**	NA	We maintain our Neutral rating on American Water Works. AWK has a strong credit profile, driven by its low-risk nature as a water and wastewater utility and its geographic diversity. We think the company is well-positioned as a defensive, low-risk credit relative to the broader regulated utilities sector. Our Neutral rating on the name is mostly predicated on relative value, as we don't expect AWK to trade materially tighter than some of the higher quality regulated utilities in the space. Risks to our rating include environmental risks associated with water sourcing, highly acquisitive growth strategies, and aggressive capital spending programs.
BRKHEC	Berkshire Hathaway Energy	N	US084659AV35	A3/A-/-	3.700% '30	97.1	4.13	**141**	NA	We maintain our Neutral on Berkshire Hathaway Energy Co, the holding company. BRKHEC is a highly regulated utility holding company with a strong financial profile due to its BRK parental ownership. The BRK ownership allows for BRKHEC to maintain a strong FCF profile (no dividend requirements). The strong financials are offset by management's acquisitive growth strategy, as highlighted by the company's recent acquisition of Dominion Energy Gas. Risks to the upside for our Neutral rating include deleverage with FCF and positive rate case outcomes. Risks to the downside for our Neutral rating include leveraging acquisitions and adverse rate outcomes.
CNP	CenterPoint Energy (Holdco)	N	US15189TBB26	Baa2/BBB/BBB	2.650% '31	85.5	4.66	**194**	NA	We maintain our Neutral rating on CNP. Over the last year, the company has executed well on its plan to exit from its ownership of ENBL. The credit is supported by its strong regulated subsidiaries, CEHE and CERC and remains on a steady path for rate base growth following its exit from unregulated businesses. Over the longer term, we anticipate CNP could utilize proceeds from its ENBL divestiture to help fund investments or capex. Risks to the upside and downside are dependent on its ownership of ENBL.
CMS	CMS Energy Corp (Holdco)	N	US125896BS82	Baa2/BBB/BBB	3.450% '27	96.5	4.19	**146**	NA	We maintain our Neutral on CMS Energy. We view CMS as a low-risk, highly regulated utility holding company operating solely in Michigan, an above-average regulatory jurisdiction. The Michigan regulatory environment has historically been credit supportive by authorizing above-average ROEs and faster rate case decisions relative to other states. Management has historically been comfortable with its current metrics, and, as such, we do not expect any de-leveraging. Risks to the downside include CMS's weak credit metrics and single-state concentration. Risks to the upside include the strong Michigan regulatory environment and above-average ratemaking treatment.

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D	Dominion Energy (Holdco)	N	US25746UDL08	Baa2/BBB/BBB+	2.250% '31	81.0	4.86	**213**	55	We maintain our Neutral on Dominion Energy. In our opinion, management has taken meaningful credit-supportive measures in order to maintain its current ratings profile, including the completion of its sale of midstream assets. However, our Neutral recommendation is predicated on actual de-leveraging at the parent balance sheet. Risks to the upside include accelerated deleveraging and regulatory developments. Risks to the downside include outstanding holdco debt and increasing exposure to natural gas generation.
AES	DPL Inc.	N	US233293AP46	Ba1/BB+/BB	4.350% '29	95.2	5.20	**248**	NA	We are downgrading DPL to Neutral from Overweight. DPL's primary subsidiary is the utility Dayton Power & Light, which operates in what we view as a developing regulatory environment in Ohio given the recent staff recommendation to freeze rates at AES Ohio, as well as a more cautious regulatory commission following the recent HB6 scandal. While uncertainty looms, management at AES still sees a strong economic case for investing in grid upgrades and growing its rate base. We still see DPL on the track of getting upgraded back to IG, following resolution of the rate case, but the timeline for an upgrade remains uncertain. Risks to the downside include any further averse regulatory developments on rate cases and declining credit metrics, risks to the upside include a positive development in AES Ohio's ongoing distribution rate case.
DTE	DTE Energy Co (Holdco)	N	US233331BC02	Baa2/BBB/BBB	3.400% '29	92.5	4.68	**197**	NA	We maintain our Neutral on DTE. In our opinion, DTE's business risk profile is underpinned by its historically disciplined management team and utility operations within a favorable regulatory jurisdiction. The company's recent spinoff of its Gas Storage & Pipeline (GSP) segment spinoff in 2021 further improved DTE's regulated business focus, although we believe there are more attractive utility holdco opportunities with similar underlying fundamentals to DTE. Upside risks to our Neutral include increased emphasis on DTE's regulated utility business and stronger regulatory outcomes. Downside risks to our rating include increased non-utility investments.

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DUK	Duke Energy Corp (Holdco)	N	US26441CBL81	Baa2/BBB/-	2.550% '31	83.3	4.88	**216**	NA	We maintain our Neutral recommendation on DUK following the company's resolution of some of its coal ash recovery issues in North Carolina and the recent sale of a partial ownership of its Indiana assets to GIC to fund the capital plan. We expect DUK to remain a core holding for investors, given the size of the consolidated utility, its fully regulated status, ESG focus and credit-supportive nature across its various regulatory environments. DUK holdco bonds currently trade behind other comparable peers. In our opinion, current levels of DUK are fair. Risks to our Neutral include deleveraging and positive rate case decisions, as well as any actions taken by activist investors, including recent Elliott involvement.
BRKHEC	Eastern Energy Gas Holdings	N	US257375AP04	Baa1/A/WD	3.000% '29	86.1	5.31	**259**	NA	We maintain our Neutral on Eastern Energy Gas Holdings. EEGH is a low-risk pipeline holding company, previously owned by Dominion Energy, and was sold to Berkshire Hathaway Energy in 2020. The company's pipelines are located in supply basins with strong geographic diversity. The majority of the company's earnings are generated by its FERC regulated interstate gas pipeline and storage segments, and the pipeline capacity is largely contracted. Management is also committed to reduce debt, further supporting its credit profile. Downside risks include adverse changes in regulatory environment, elevated capital spending.
EIX	Edison International (Holdco)	N	US281020AM97	Baa3/BBB-/BBB-	4.125% '28	94.6	5.19	**246**	NA	We maintain our Neutral on EIX. We believe California electric utilities remain susceptible to a disproportionate level of wildfire risk. The passage of the wildfire insurance fund provides a level of protection against persisting California wildfire risks, but a scenario still exists where a catastrophic fire could exhaust the insurance fund, in our view. Risks to our rating include continued legislation designed to socialize the costs of wildfire risk and the continued possibility of another catastrophic fire in any IOU's service territory that could exhaust the insurance fund.
WTRG	Essential Utilities Inc	N	US29670GAF90	Baa2/A-/-	2.400% '31	82.6	4.85	**213**	NA	We maintain our Neutral rating on WTRG. We acknowledge the low-risk characteristics of water utilities, but we also note that WTRG has a significant exposure to its regulated natural gas business. Nonetheless, the regulatory environment for water and gas is and will likely remain strong and supportive in WTRG's main jurisdiction Pennsylvania. Overall, we see limited opportunities for WTRG to tighten materially from current levels, relative to some of the higher quality regulated names such as XEL. Risks to our ratings include environmental risks associated with water sourcing, highly acquisitive growth strategies, and aggressive capital spending programs.

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EXC	Exelon Corp	N	US30161NBC48	Baa2/BBB/BBB	3.350% '32	90.6	4.54	**181**	45	We maintain our Neutral on EXC. Our Neutral on EXC continues to be predicated on relative value. EXC is now a pure-play regulated utility holding company after the completion of its ExGen spinoff earlier this year. The company is supported by strong regulatory environments across its jurisdictions, with nearly 100% of rate base growth in the next 4 years expected to be recovered through alternative recovery channels. Upside risks to our Neutral include expedited de-leveraging at the holdco, material improvement of credit metrics and increased focus on the regulated utility business. Downside to our Neutral includes regulatory developments.
ITC	ITC Holdings Corp (Holdco)	N	US465685AQ80	Baa2/BBB+/-	2.950% '30	88.8	4.61	**190**	NA	In our view, ITC has one of the lowest business risk profiles in the sector given its status as a transmission-only holding company. The low business risk profile is offset by its credit metrics, in our view, which are at the low end of its peer group of utility holding companies. Risks to our rating include upside from FERC's ROE complaints and downside from new parent Fortis.
NI	Nisource Inc (Holdco)	N	US65473PAJ49	Baa2/BBB+/BBB	3.600% '30	93.3	4.64	**192**	NA	We maintain our Neutral on NI. In our opinion, the NI management team has a well telegraphed track record toward credit supportiveness and commitment to IG ratings. The company's regulatory environment is also broadly supportive across its six jurisdictions, and NI benefits from regulatory riders for cost recovery, a credit positive. Risks to the upside and downside are driven by the company's ability to focus on growing its regulated business going forward.
PPL	PPL Corp (Holdco)	N	US69352PAQ63	Baa1/BBB+/-	4.125% '30	97.1	4.57	**185**	NA	We are Neutral PPL. PPL successfully transitioned to a fully regulated US utility holding company after completing the acquisition of NECO in May 2022, a credit positive. PPL's financial metrics have improved in the last two years as it sold off its utility business in the UK and used the proceeds to reduce debt and fund capex. Going forward, we expect PPL to maintain a relatively strong credit profile with stable cash flow generations, underpinned by supportive regulatory environment in PA, KY, and RI.
DUK	Progress Energy Inc.	N	US743263AG09	Baa1/BBB/WD	7.000% '31	112.2	5.32	**259**	NA	We maintain our Neutral rating on Progress Energy. Progress Energy is an intermediate holding company with fully regulated subsidiaries Duke Energy Florida and Duke Energy Progress. Progress Energy relies solely on the upstream dividends from its opcos to support its debt service. Credit metrics continue to be constrained by the large proportion of holding company debt and negative impact of hurricanes. Risks to the downside include additional new issuance at Progress Energy's operating companies and deterioration of regulatory relationships. Risks to the upside include accelerated debt reduction measures.

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PEG	Public Service Enterprise Group	N	US744573AU04	Baa2/BBB/-	2.450% '31	84.0	4.57	**184**	NA	We maintain our Neutral recommendation on Public Service Electric & Gas. PSE&G is a fully regulated utility operating in a favorable regulatory environment, and we think spreads fairly reflect its strength. Upside risks to our Neutral rating include stronger regulatory decisions, and downside risks include adverse regulatory decisions and its large capex program.
EIX	Southern California Edison (1st Mtg)	N	US842400GJ61	A3/A-/BBB+	3.650% '28	95.2	4.61	**188**	NA	As the principal subsidiary of EIX, Southern California Edison (SCE) generates essentially all the company's consolidated revenues. We think the level of cushion afforded to SoCal Ed's FMBs is adequate, in the event of a catastrophic fire event. We consider SoCal Ed FMBs priority over unsecured claims improves the likelihood of full recovery, in the event of an extreme downside scenario, which we currently do not anticipate. Risks to the upside and downside are largely tied to ongoing wildfire risk and the effectiveness of the wildfire fund established under AB1054.
SO	Southern Co (Holdco)	N	US842587DE49	Baa2/BBB/BBB+	3.700% '30	92.2	4.89	**217**	65	We maintain our Neutral on SO Corp. In our opinion, SO bonds trading behind other highly or fully regulated holding company peers is fair, given concerns around their ability to manage a large-scale construction project in a disciplined and cost-effective manner. Further, we believe SO's preservation of support from all three constituent groups (regulatory, political, and the ownership consortium) throughout the remaining construction period is a key component to its underlying credit risk. Our Neutral recommendation draws a balance between cost increases and heightened construction risk associated with Vogtle and with recent credit measures aimed at supporting the holding company. Risks to the upside and downside are largely tied to Vogtle construction.
WEC	WEC Energy Group (Holdco)	N	US92939UAE64	Baa1/BBB+/BBB+	1.800% '30	81.2	4.55	**184**	NA	We maintain our Neutral on WEC. WEC generally trades at the tight end of other high-quality fully-regulated holding companies, which we believe is appropriate given its credit metrics and low business risk profile. Risks to the upside and downside largely relate to regulatory outcomes and management's growth strategy.
NEE	NextEra Energy	UW	US65339KCJ79	Baa1/BBB+/A-	5.000% '32	103.1	4.60	**186**	85	We maintain our Underweight on NEE. While the management team continues to employ a disciplined approach toward its growth strategy and commitment to strong ratings, we believe current levels do not adequately reflect NEE's well-telegraphed excess balance sheet capacity and acquisition appetite. We believe NEE's anticipation of new issuance will weigh on spreads over the near term. Risks to our Underweight include the strong management team, increased regulated business mix, and overall de-emphasis of M&A strategy.

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XEL	Xcel Energy Inc (Holdco)	UW	US98388MAD92	Baa1/BBB+/BBB+	4.600% '32	99.5	4.66	**192**	NA	We maintain our Underweight on Xcel Energy. XEL is a fully regulated utility holding company. The company's credit strength is underpinned by its subsidiaries such as NSP-Minnesota and Public Service Co of Colorado. While the company's credit profile is expected to remain steady, we believe the company will continuously access the capital markets to fund its relatively large capex program. Risks to our Underweight on Xcel include strong credit metrics, disciplined regulatory growth, and solid regulatory decisions and approvals.

Source: J.P. Morgan and Bloomberg Finance L.P.
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North American Utilities

Model Updates: ATO, NI, NJR, SJI, SR, & SWX

We are updating our ATO, NI, NJR, SJI, SR, and SWX models to account for 2Q/F3Q earnings results. Please see changes below.

North American Utilities

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Equity Ratings and Price Targets

Company	Ticker	Mkt Cap ($ mn)	Price ($)	Rating Cur	Rating Prev	Price Target Cur	Price Target End Date	Price Target Prev	Price Target End Date
Atmos Energy	ATO US	15,314.07	114.55	OW	n/c	128.00	Dec-23	122.00	Dec-22
NiSource Inc.	NI US	12,009.12	29.55	OW	n/c	34.00	Dec-23	31.00	Dec-22
New Jersey Resources	NJR US	4,292.05	44.50	N	n/c	47.00	Dec-23	44.00	Dec-22
South Jersey Industries	SJI US	4,127.11	33.89	N	n/c	36.00	Dec-23	n/c	Dec-22
Spire Inc	SR US	3,560.92	69.01	N	n/c	74.00	Dec-23	72.00	Dec-22
Southwest Gas Holdings Inc.	SWX US	4,627.01	80.33	N	n/c	84.00	Dec-23	80.00	Dec-22

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. n/c = no change. All prices as of 02 Sep 22.

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Atmos Energy

Overweight

Company Data	
Shares O/S (mn)	134
52-week range ($)	122.96-85.80
Market cap ($ mn)	15,314.07
Exchange rate	1.00
Free float(%)	99.2%
3M - Avg daily vol (mn)	0.89
3M - Avg daily val ($ mn)	101.4
Volatility (90 Day)	21
Index	RUSSELL 2000
BBG BUY|HOLD|SELL	6|5|1

Atmos Energy Corp (ATO;ATO US)

Year-end Sep ($)	FY21A	FY22E (Prev)	FY22E (Curr)	FY23E (Prev)	FY23E (Curr)	FY24E (Prev)	FY24E (Curr)	FY25E
Revenue ($ mn)	3,407	4,155	4,205	4,660	4,860	4,890	5,089	5,338
Adj. EBITDA ($ mn)	1,381	1,494	1,483	1,765	1,769	1,970	1,974	2,199
EBITDA margin	40.5%	36.0%	35.3%	37.9%	36.4%	40.3%	38.8%	41.2%
Adj. net income ($ mn)	666	764	767	843	854	945	953	1,066
Adj. EPS ($)	5.13	5.56	5.57	5.91	5.95	6.35	6.37	6.85
BBG EPS ($)	5.11	-	5.54	-	5.95	-	6.38	-
Reported EPS ($)	5.13	5.56	5.57	5.91	5.95	6.35	6.37	6.85
DPS ($)	2.50	2.72	2.72	2.96	2.96	3.23	3.23	3.52
Dividend yield	2.2%	2.4%	2.4%	2.6%	2.6%	2.8%	2.8%	3.1%
Adj. P/E	22.3	20.6	20.6	19.4	19.2	18.1	18.0	16.7

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

NiSource Inc.

Overweight

Company Data	
Shares O/S (mn)	406
52-week range ($)	32.59-23.65
Market cap ($ mn)	12,009.12
Exchange rate	1.00
Free float(%)	99.6%
3M - Avg daily vol (mn)	3.86
3M - Avg daily val ($ mn)	113.2
Volatility (90 Day)	24
Index	S&P 500
BBG BUY|HOLD|SELL	12|4|0

NiSource Inc. (NI;NI US)

Year-end Dec ($)	FY21A	FY22E (Prev)	FY22E (Curr)	FY23E (Prev)	FY23E (Curr)	FY24E (Prev)	FY24E (Curr)	FY25E
Revenue ($ mn)	4,901	5,509	5,601	5,712	5,743	5,989	6,041	6,183
Adj. EBITDA ($ mn)	1,852	2,028	2,030	2,212	2,220	2,464	2,492	2,609
EBITDA margin	37.8%	36.8%	36.2%	38.7%	38.7%	41.2%	41.3%	42.2%
Adj. net income ($ mn)	571	643	638	698	695	833	847	899
Adj. EPS ($)	1.37	1.45	1.44	1.54	1.54	1.74	1.77	1.86
BBG EPS ($)	1.36	-	1.45	-	1.55	-	1.75	-
Reported EPS ($)	1.37	1.45	1.44	1.54	1.54	1.74	1.77	1.86
DPS ($)	0.88	0.94	0.94	1.00	1.00	1.06	1.06	1.12
Dividend yield	3.0%	3.2%	3.2%	3.4%	3.4%	3.6%	3.6%	3.8%
Adj. P/E	21.6	20.4	20.5	19.2	19.2	17.0	16.7	15.9

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

New Jersey Resources

Neutral

Company Data	
Shares O/S (mn)	96
52-week range ($)	47.50-34.41
Market cap ($ mn)	4,292.05
Exchange rate	1.00
Free float(%)	99.5%
3M - Avg daily vol (mn)	0.38
3M - Avg daily val ($ mn)	17.2
Volatility (90 Day)	24
Index	RUSSELL 2000
BBG BUY|HOLD|SELL	3|4|2

New Jersey Resources Corporation (NJR;NJR US)

Year-end Sep ($)	FY21A	FY22E (Prev)	FY22E (Curr)	FY23E (Prev)	FY23E (Curr)	FY24E (Prev)	FY24E (Curr)	FY25E
Revenue ($ mn)	2,157	2,589	2,743	2,574	2,725	2,622	2,786	2,816
Adj. EBITDA ($ mn)	400	492	530	471	508	513	563	586
EBITDA margin	18.5%	19.0%	19.3%	18.3%	18.6%	19.6%	20.2%	20.8%
Adj. net income ($ mn)	208	229	238	227	230	249	259	270
Adj. EPS ($)	2.16	2.38	2.47	2.37	2.39	2.59	2.69	2.80
BBG EPS ($)	2.16	-	2.45	-	2.47	-	2.74	-
Reported EPS ($)	2.16	2.38	2.47	2.37	2.39	2.59	2.69	2.80
DPS ($)	1.33	1.45	1.45	1.57	1.57	1.69	1.69	1.81
Dividend yield	3.0%	3.3%	3.3%	3.5%	3.5%	3.8%	3.8%	4.1%
Adj. P/E	20.6	18.7	18.0	18.8	18.6	17.2	16.5	15.9

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

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South Jersey Industries

Neutral

Company Data	
Shares O/S (mn)	122
52-week range ($)	35.32-20.75
Market cap ($ mn)	4,127.11
Exchange rate	1.00
Free float(%)	99.5%
3M - Avg daily vol (mn)	0.84
3M - Avg daily val ($ mn)	28.7
Volatility (90 Day)	10
Index	RUSSELL 2000
BBG BUY|HOLD|SELL	1|7|1

South Jersey Industries Inc. (SJI;SJI US)

Year-end Dec ($)	FY21A	FY22E (Prev)	FY22E (Curr)	FY23E (Prev)	FY23E (Curr)	FY24E (Prev)	FY24E (Curr)	FY25E
Revenue ($ mn)	1,992	2,207	2,380	2,289	2,498	2,341	2,552	2,600
Adj. EBITDA ($ mn)	485	571	514	671	665	722	718	764
EBITDA margin	24.4%	25.9%	21.6%	29.3%	26.6%	30.8%	28.1%	29.4%
Adj. net income ($ mn)	178	203	211	222	218	252	250	275
Adj. EPS ($)	1.61	1.65	1.73	1.76	1.76	1.81	1.82	1.92
BBG EPS ($)	1.63	-	1.71	-	1.79	-	1.87	-
Reported EPS ($)	1.61	1.65	1.73	1.76	1.76	1.81	1.82	1.92
DPS ($)	1.22	1.25	1.25	1.29	1.29	1.33	1.33	1.37
Dividend yield	3.6%	3.7%	3.7%	3.8%	3.8%	3.9%	3.9%	4.0%
Adj. P/E	21.0	20.5	19.6	19.2	19.3	18.7	18.6	17.7

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

Spire Inc

Neutral

Company Data	
Shares O/S (mn)	52
52-week range ($)	79.24-59.60
Market cap ($ mn)	3,560.92
Exchange rate	1.00
Free float(%)	97.0%
3M - Avg daily vol (mn)	0.28
3M - Avg daily val ($ mn)	20.4
Volatility (90 Day)	24
Index	RUSSELL 2000
BBG BUY|HOLD|SELL	1|9|0

Spire Inc (SR;SR US)

Year-end Sep ($)	FY21A	FY22E (Prev)	FY22E (Curr)	FY23E (Prev)	FY23E (Curr)	FY24E (Prev)	FY24E (Curr)	FY25E
Revenue ($ mn)	2,236	1,974	2,129	1,817	1,827	1,857	1,872	1,932
Adj. EBITDA ($ mn)	660	609	602	672	682	710	726	783
EBITDA margin	29.5%	30.9%	28.3%	37.0%	37.4%	38.2%	38.8%	40.5%
Adj. net income ($ mn)	251	206	204	231	233	250	254	281
Adj. EPS ($)	4.86	3.94	3.91	4.34	4.36	4.52	4.55	4.87
BBG EPS ($)	4.47	-	3.88	-	4.36	-	4.62	-
Reported EPS ($)	4.86	3.94	3.91	4.34	4.36	4.52	4.55	4.87
DPS ($)	2.60	2.74	2.74	2.88	2.88	3.02	3.02	3.17
Dividend yield	3.8%	4.0%	4.0%	4.2%	4.2%	4.4%	4.4%	4.6%
Adj. P/E	14.2	17.5	17.7	15.9	15.8	15.3	15.2	14.2

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

Southwest Gas Holdings Inc.

Neutral

Company Data	
Shares O/S (mn)	58
52-week range ($)	95.62-62.58
Market cap ($ mn)	4,627.01
Exchange rate	1.00
Free float(%)	96.3%
3M - Avg daily vol (mn)	0.47
3M - Avg daily val ($ mn)	38.9
Volatility (90 Day)	33
Index	RUSSELL 2000
BBG BUY|HOLD|SELL	3|3|0

Southwest Gas Holdings Inc. (SWX;SWX US)

Year-end Dec ($)	FY21A	FY22E (Prev)	FY22E (Curr)	FY23E (Prev)	FY23E (Curr)	FY24E (Prev)	FY24E (Curr)	FY25E
Revenue ($ mn)	3,680	4,609	4,782	4,874	5,071	5,115	5,316	5,584
Adj. EBITDA ($ mn)	737	1,068	999	1,170	1,169	1,224	1,229	1,293
EBITDA margin	20.0%	23.2%	20.9%	24.0%	23.1%	23.9%	23.1%	23.2%
Adj. net income ($ mn)	247	303	273	341	341	365	369	401
Adj. EPS ($)	4.17	4.59	4.15	4.92	4.91	5.09	5.11	5.36
BBG EPS ($)	4.07	-	4.29	-	4.84	-	5.05	-
Reported EPS ($)	3.39	4.44	3.66	4.92	4.91	5.09	5.11	5.36
DPS ($)	2.36	2.46	2.46	2.56	2.56	2.66	2.66	2.76
Dividend yield	2.9%	3.1%	3.1%	3.2%	3.2%	3.3%	3.3%	3.4%
Adj. P/E	19.3	17.5	19.3	16.3	16.4	15.8	15.7	15.0

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

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Investment Thesis, Valuation and Risks

Atmos Energy Corp *(Overweight; Price Target: $128.00)*

Investment Thesis

ATO remains a top-tier rate base and EPS growth story versus gas and electric utility peers, with one of the most conservatively managed balance sheets among our utility coverage. The company's ability to cut costs and/or use balance sheet capacity provides dry powder, in addition to strong customer growth providing tailwinds to growth between rate cases. We view the 6-8% LT EPS CAGR guided by management as comfortably achievable.

Valuation

We establish a Dec 2023 price target of $128/share (replaces prior Dec 2022 PT of $122). We base our valuation on our 2024 EPS estimate and a 20.1x P/E multiple, a premium to gas utility peers due to strong rate base growth visibility and transparent, low-lag regulatory mechanisms.

Risks to Rating and Price Target

- Regulated electric and gas utilities are subject to strict federal and state regulation, including determinations of allowed revenues. Any change to the existing ratemaking mechanisms, including a repeal of the mechanism itself, may cause future earnings to differ materially from our current expectations.
- Achievement of Atmos' long-term rate base and EPS CAGR targets is heavily dependent on robust capital investments, regulatory support, and favorable ratemaking mechanism. Any deferral of spending could put the company at risk of falling short of the LT rate base and earnings growth CAGR in any one year.
- Gas pipeline accidents in the industry have heightened the importance of pipeline safety and integrity management. These accidents can result in significant financial strains related to pipeline replacement, accident investigations, life and property claims, regulatory fines, and disallowances.
- Atmos is in the midst of a robust capital spending program, and any change in the company's operating environment and/or project cost overruns could require greater external equity funding, exposing investors to potential dilution risk in the future.

NiSource Inc. *(Overweight; Price Target: $34.00)*

Investment Thesis

With renewables driving ~20% of the five-year capital plan, NI's "green hue" stands unique among LDCs. Additionally, the company's potential portfolio optimization efforts could accelerate a relative re-weighting toward NI's electric operations should the company divest a smaller LDC jurisdiction to fund renewables investment. We remain constructive on NI's long-term outlook given its attractive growth, subject to manageable execution risk, and relative positioning vs. LDC peers.

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Valuation

We establish a December 2023 price target of $34/share (replaces prior Dec 2022 PT of $31). We base our price target on a sum-of-the-parts analysis using our 2024 electric and gas segment EPS forecasts. We value the gas and electric segments using 18.7x and 20.1x P/E multiples, respectively. This represents a premium to peers on account of NI's coal generation transition, incremental renewables investment, and above-average growth as a result.

Risk to Rating and Price Target

- Gas pipeline accidents in the industry have heightened the importance of pipeline safety and integrity management. These accidents can result in significant financial strains related to pipeline replacement, accident investigations, life and property claims, regulatory fines, and disallowances.
- Achievement of NiSource's long-term rate base and EPS CAGR targets is heavily dependent on robust capital investments, regulatory support, and favorable ratemaking mechanism. Any deferral of spending could put the company at risk of falling short of the LT rate base and earnings growth CAGR in any one year.
- Regulated electric and gas utilities are subject to federal and state regulations, including determinations of allowed revenues. Negative changes to the regulatory environments may cause future earnings to be materially lower than current expectations.

New Jersey Resources Corporation *(Neutral; Price Target: $47.00)*

Investment Thesis

Favorable green attributes differentiate NJR from natural gas LDC peers given decarbonizing utility investments and significant solar growth. However, the company's diversified energy model appears increasingly out of step with sector moves to streamline business mix around utility operations, and New Jersey energy policy creates both risks and opportunities for local LDCs. NJR's growth targets screen attractively versus LDC peer averages, and the company has made additional progress since its Nov 2020 analyst day to de-risk growth drivers in lowering plan equity needs and stabilizing future Energy Services contributions. We see current levels as fairly reflecting NJR's favorable green attributes, exposure to non-utility transportation & storage and energy services earnings, and NJ-specific energy transition risks.

Valuation

We establish a Dec 2023 price target of $47/share (replaces prior Dec 2022 PT of $44), using a 17.3x P/E multiple on our 2024 estimate. The multiple reflects a discount to natural gas LDC peers on account of 1) ongoing solar development risk while PJM and NJ market changes remain unresolved, 2) exposure to non-utility transportation & storage and energy services earnings, and 3) NJ-specific energy transition risks.

Risks to Rating and Price Target

- Robust capital investments, regulatory support, and favorable ratemaking mechanisms are significant drivers of NJR's long-term rate base and EPS CAGR

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targets. Any spending deferrals or negative regulatory outcomes could lower these growth rates.

- Changing state receptivity to continued natural gas system investment has the potential to meaningfully alter NJNG's capex opportunities. While we see current New Jersey policies as balanced, the state has demonstrated a commitment to clean energy that could lead to widespread electrification as a means to decarbonize its overall economy. Conversely, any NJ prioritization of RNG and hydrogen for future use of current gas infrastructure could expand both regulated and non-regulated growth opportunities.
- NJR's solar projects have faced delays that are lowering near-term segment investment. These investments are a core component of the company's long-term earnings growth outlook, and an inability to boost development activity could cause NJR to miss its growth targets.

South Jersey Industries Inc. *(Neutral; Price Target: $36.00)*

Investment Thesis

On 2/24, SJI announced its sale to Infrastructure Investments Fund (IIF). This $36/shr cash deal represents a +53% premium to SJI's 2/23 closing price. The company expects a 4Q transaction close, with NJ BPU approval representing the gating hurdle to final completion. For regulatory approvals, we note positive elements such as continued local management and headquarters, plus independence versus incorporation into a large multi-state utility. That said, we acknowledge the lack of recent comps for NJ regulatory approvals creates some uncertainty to the regulatory review.

Valuation

We establish a December 2023 price target of $36 (replaces prior Dec 2022 PT of $36). This target reflects the value of IIF's $36/shr cash deal to acquire SJI, announced on 2/24. Absent the NJ BPU denying regulatory approval of the transaction, for which the company anticipates a 4Q final order, we do not expect SJI's value to meaningfully deviate from the deal price over the long term.

Risks to Rating and Price Target

- Regulated electric and gas utilities are subject to strict federal and state regulation, including determinations of allowed revenues. Any change to the existing ratemaking mechanisms or capital disallowances may raise or lower utility rate base and earnings growth.
- On 2/24, SJI announced its sale to Infrastructure Investments Fund (IIF). This $36/shr cash deal represents a +53% premium to SJI's 2/23 closing price. Should the parties fail to secure necessary regulatory approvals to close the transaction, there could be meaningful downside if SJI returns to trading at more normalized levels.
- SJI has targeted various large utility and pipeline projects that have seen delays and cancellations. Successful execution on similar large projects going forward may drive higher earnings growth versus our current expectations.

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Spire Inc *(Neutral; Price Target: $74.00)*

Investment Thesis

We see SR's previous MO rate case outcome as disappointing, diverging from initial expectations for a smooth rate case process, reversing MO's improving regulatory backdrop, and ultimately reducing earnings power versus more balanced results. MO regulation remains inconsistent at best, with markedly different rate case decisions across utilities over the past several years, and Spire's latest order amplifies untenable regulatory instability, in our view. Given SR's remaining work in addressing case challenges and the STL Pipeline's uncertainty at FERC, we anticipate SR's current discount to persist absent full clarity across consolidated earnings power.

Valuation

We establish a December 2023 price target of $74/share (replaces prior Dec 2022 PT of $72). We base our price target on a P/E multiple of 16.2x applied to our 2024 EPS estimate. The multiple incorporates a discount to the gas utility peer group, reflecting MO regulatory risk.

Risks to Rating and Price Target

- Given the importance of capital spending levels to the company's adjusted net income, timely rate relief is a necessity for the company to continue to grow earnings. Any change to the regulatory environments may cause future earnings to materially differ from current expectations.
- Utilities are subject to federal and state regulation, including determination of allowed revenues. A meaningful change to the regulatory environment may cause future earnings to be lower than our current expectations.

Southwest Gas Holdings Inc. *(Neutral; Price Target: $84.00)*

Investment Thesis

Southwest Gas Holdings and large shareholder Carl Icahn reached a settlement in their conflict over the company's Questar Pipelines transaction and overall SWX strategy in the face of a perceived SOTP valuation discount, among other items. The company's subsequent strategic review update indicated that SWX is no longer pursuing potential total company and utility sale processes, pointing to more incremental action around separating Centuri and MountainWest. While we see these prospective sales as a positive step in unlocking value, the path to near-term upside appears less clear at this time as the company works through operational improvements at the utility.

Valuation

We establish a Dec 2023 price target of $84/shr (replaces prior Dec 2022 PT of $80), based on an SOTP valuation using our 2024 segment forecasts. Our price target includes $46 of value for SWX's natural gas distribution operations (inclusive of a partial parent drag allocation), utilizing a 15.5x P/E multiple. This multiple reflects a discount to gas utility peers on account of AZ regulatory risk and below average AZ ratemaking mechanics. Additionally, we include $12/shr and $24/shr of value for MountainWest and Centuri, respectively, based on in-line 11x and 8.9x EV/EBITDA

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multiples. Our SOTP also includes $2/shr of COLI value. We exclude COLI mark-to-market and future payouts from our 2023-2025 EPS estimates.

Our price target remains sensitive to the assumed EV/EBITDA multiple for Centuri. Here, a +/- 1x change drives a +/- $5 impact to total value per share.

Risks to Rating and Price Target

- Rates charged to the company's utility customers are set by separate state regulators in AZ, NV, and CA. Given the current elevated level of capital spending, consistent rulings and interim recovery riders remain instrumental in providing rate relief to drive earnings growth. Any meaningful positive or negative change to the regulatory framework in these jurisdictions may cause future earnings to differ materially from current expectations.
- SWX has guided that a portion of its three-year capex plan will be funded by incremental equity issuances. Equity timing and ultimate funding levels may cause future earnings per share to differ from current expectations.
- The company intends to separate its construction business. Potential paths include a tax-free spin and outright sale, and the ultimate method pursued could impact value to shareholders versus our assumptions and SWX's residual equity needs, as discussed above.

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Atmos Energy: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**2,821**	**3,407**	**4,205**	**4,860**	**5,089**
COGS	(659)	(1,033)	(1,689)	(2,079)	(2,079)
Gross profit	**2,162**	**2,375**	**2,516**	**2,782**	**3,011**
SG&A	(901)	(994)	**(1,033)**	**(1,012)**	**(1,036)**
Adj. EBITDA	**1,261**	**1,381**	**1,483**	**1,769**	**1,974**
D&A	(430)	(478)	(535)	(588)	(637)
Adj. EBIT	**831**	**903**	**948**	**1,181**	**1,337**
Net Interest	(84)	(84)	(104)	(129)	(162)
Adj. PBT	**747**	**819**	**845**	**1,052**	**1,175**
Tax	(145)	(154)	(77)	(198)	(222)
Minority Interest	-	-	-	-	-
Adj. Net Income	**580**	**666**	**767**	**854**	**953**
Reported EPS	4.72	5.13	5.57	5.95	6.37
Adj. EPS	**4.72**	**5.13**	**5.57**	**5.95**	**6.37**
DPS	**2.30**	**2.50**	**2.72**	**2.96**	**3.23**
Payout ratio	48.7%	48.8%	48.9%	49.8%	50.8%
Shares outstanding	123	130	138	143	150

Income Statement - Quarterly	1Q22A	2Q22A	3Q22A	4Q22E
Revenue	**1,013A**	**1,650A**	**816A**	**726**
COGS	(371)A	(871)A	(249)A	(197)
Gross profit	**642A**	**778A**	**567A**	**528**
SG&A	(229)A	(255)A	(265)A	(284)
Adj. EBITDA	**412A**	**524A**	**302A**	**245**
D&A	(128)A	(133)A	(134)A	(139)
Adj. EBIT	**285A**	**390A**	**168A**	**106**
Net Interest	(20)A	(29)A	(26)A	(29)
Adj. PBT	**265A**	**361A**	**142A**	**77**
Tax	(16)A	(36)A	(13)A	(12)
Minority Interest	-	-	-	-
Adj. Net Income	**249A**	**325A**	**129A**	**65**
Reported EPS	1.86A	2.37A	0.92A	0.46
Adj. EPS	**1.86A**	**2.37A**	**0.92A**	**0.46**
DPS	**0.68A**	**0.68A**	**0.68A**	**0.68**
Payout ratio	36.5%A	28.7%A	74.2%A	147.6%
Shares outstanding	134A	137A	140A	140

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	21	117	0	0	0
Accounts receivable	-	-	-	-	-
Other current assets	450	2,722	2,990	3,120	3,247
Current assets	**471**	**2,839**	**2,990**	**3,120**	**3,247**
PP&E	13,355	15,064	17,142	19,156	21,071
Other non current assets	1,532	1,706	1,827	1,867	1,907
Total assets	**15,359**	**19,609**	**21,959**	**24,143**	**26,226**
Short term borrowings	0	2,400	2,298	2,468	2,569
Payables	-	-	-	-	-
Other short term liabilities	782	1,110	1,058	1,058	1,058
Current liabilities	**782**	**3,510**	**3,356**	**3,526**	**3,626**
Long-term debt	4,532	4,930	5,984	6,671	7,261
Other long term liabilities	3,254	3,261	3,381	3,580	3,801
Total liabilities	**8,568**	**11,702**	**12,721**	**13,776**	**14,688**
Shareholders' equity	6,791	7,907	9,238	10,367	11,537
Minority interests	-	-	-	-	-
Total liabilities & equity	**15,359**	**19,609**	**21,959**	**24,143**	**26,226**
BVPS	**53.95**	**59.71**	**66.04**	**70.89**	**75.74**
y/y Growth	*12.0%*	*10.7%*	*10.6%*	*7.3%*	*6.9%*
Net debt/(cash)	4,511	7,214	8,282	9,139	9,829
Cash flow from operating activities	**1,038**	**(1,084)**	**1,099**	**1,470**	**1,644**
o/w Depreciation & amortization	430	478	535	588	637
o/w Changes in working capital	(134)	(2,379)	(230)	(130)	(128)
Cash flow from investing activities	**(1,926)**	**(1,964)**	**(2,439)**	**(2,602)**	**(2,552)**
o/w Capital expenditure	(1,936)	(1,970)	(2,451)	(2,602)	(2,552)
as % of sales	*68.6%*	*57.8%*	*58.3%*	*53.5%*	*50.1%*
Cash flow from financing activities	**884**	**3,144**	**1,126**	**1,201**	**1,117**
o/w Dividends paid	(282)	(324)	(374)	(424)	(483)
o/w Net debt issued/(repaid)	535	2,797	824	925	900
Net change in cash	**(4)**	**96**	**(214)**	**69**	**210**
Adj. Free cash flow to firm	**(830)**	**(2,986)**	**(1,257)**	**(1,027)**	**(776)**
y/y Growth	*28.9%*	*259.9%*	*(57.9%)*	*(18.3%)*	*(24.5%)*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	76.6%	69.7%	59.8%	57.2%	59.2%
EBITDA margin	44.7%	40.5%	35.3%	36.4%	38.8%
EBIT margin	29.5%	26.5%	22.6%	24.3%	26.3%
Net profit margin	20.6%	19.5%	18.2%	17.6%	18.7%
ROE	9.3%	9.1%	9.0%	8.7%	8.7%
ROA	4.0%	3.8%	3.7%	3.7%	3.8%
ROCE	6.4%	5.5%	5.3%	5.2%	5.3%
SG&A/Sales	31.9%	29.2%	24.6%	20.8%	20.4%
Net debt/equity	0.7	0.9	0.9	0.9	0.9
P/E (x)	24.2	22.3	20.6	19.2	18.0
P/BV (x)	2.1	1.9	1.7	1.6	1.5
EV/EBITDA (x)	12.2	13.5	13.7	12.3	11.6
Dividend Yield	2.0%	2.2%	2.4%	2.6%	2.8%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	14.9	16.5	14.3	13.7	12.1
Operating leverage	(371.3%)	41.4%	21.5%	157.5%	280.3%
Revenue y/y Growth	(2.8%)	20.8%	23.4%	15.6%	4.7%
EBITDA y/y Growth	10.1%	9.5%	7.4%	19.3%	11.6%
Tax rate	19.5%	18.8%	9.1%	18.8%	18.9%
Adj. Net Income y/y Growth	13.8%	14.7%	15.3%	11.3%	11.6%
EPS y/y Growth	8.8%	8.5%	8.6%	6.9%	7.0%
DPS y/y Growth	9.5%	8.7%	8.8%	9.0%	9.0%

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

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NiSource Inc.: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**4,697**	**4,901**	**5,601**	**5,743**	**6,041**
COGS	(1,109)	(1,392)	(1,812)	(1,760)	(1,760)
Gross profit	**3,587**	**3,509**	**3,789**	**3,984**	**4,281**
SG&A	(1,794)	(1,696)	**(1,779)**	**(1,764)**	**(1,789)**
Adj. EBITDA	**1,826**	**1,852**	**2,030**	**2,220**	**2,492**
D&A	(762)	(748)	(827)	(899)	(943)
Adj. EBIT	**1,064**	**1,104**	**1,203**	**1,321**	**1,549**
Net Interest	(371)	(341)	(345)	(403)	(429)
Adj. PBT	**693**	**763**	**858**	**918**	**1,120**
Tax	(127)	(132)	(165)	(176)	(225)
Minority Interest	(59)	(59)	(55)	(47)	(47)
Adj. Net Income	**508**	**571**	**638**	**695**	**847**
Reported EPS	1.32	1.37	1.44	1.54	1.77
Adj. EPS	**1.32**	**1.37**	**1.44**	**1.54**	**1.77**
DPS	**0.84**	**0.88**	**0.94**	**1.00**	**1.06**
Payout ratio	63.6%	64.3%	65.2%	64.7%	59.6%
Shares outstanding	384	417	443	451	478

Income Statement - Quarterly	1Q22A	2Q22A	3Q22E	4Q22E
Revenue	**1,870A**	**1,183A**	**1,017**	**1,531**
COGS	(707)A	(384)A	(222)	(500)
Gross profit	**1,164A**	**799A**	**795**	**1,032**
SG&A	(477)A	(446)A	(403)	(452)
Adj. EBITDA	**697A**	**362A**	**391**	**579**
D&A	(193)A	(209)A	(211)	(214)
Adj. EBIT	**505A**	**153A**	**180**	**365**
Net Interest	(84)A	(85)A	(87)	(89)
Adj. PBT	**421A**	**69A**	**93**	**276**
Tax	(74)A	(12)A	(18)	(62)
Minority Interest	(18)A	(3)A	(13)	(21)
Adj. Net Income	**329A**	**54A**	**62**	**193**
Reported EPS	0.74A	0.12A	0.14	0.43
Adj. EPS	**0.74A**	**0.12A**	**0.14**	**0.43**
DPS	**0.24A**	**0.24A**	**0.24**	**0.24**
Payout ratio	31.6%A	191.9%A	166.5%	54.3%
Shares outstanding	441A	440A	442	447

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	126	95	0	0	0
Accounts receivable	791	826	715	715	715
Other current assets	743	1,000	1,159	1,336	1,438
Current assets	**1,659**	**1,921**	**1,873**	**2,051**	**2,153**
PP&E	16,620	17,882	19,308	21,954	23,055
Other non current assets	3,762	4,354	4,390	4,390	4,390
Total assets	**22,041**	**24,157**	**25,572**	**28,395**	**29,598**
Short term borrowings	503	560	497	1,975	864
Payables	589	698	650	650	650
Other short term liabilities	1,187	1,488	1,772	1,772	1,772
Current liabilities	**2,279**	**2,746**	**2,920**	**4,398**	**3,287**
Long-term debt	9,220	9,183	9,983	10,833	11,683
Other long term liabilities	4,704	4,954	4,817	4,993	5,218
Total liabilities	**16,203**	**16,884**	**17,719**	**20,224**	**20,188**
Shareholders' equity	5,838	7,273	7,853	8,171	9,410
Minority interests	-	-	-	-	-
Total liabilities & equity	**22,041**	**24,157**	**25,572**	**28,395**	**29,598**
BVPS	**14.90**	**17.94**	**18.90**	**18.06**	**19.46**
y/y Growth	*(4.9%)*	*20.4%*	*5.3%*	*(4.5%)*	*7.8%*
Net debt/(cash)	9,597	9,649	10,479	12,808	12,547
Cash flow from operating activities	**1,104**	**1,218**	**1,606**	**1,592**	**1,913**
o/w Depreciation & amortization	726	748	827	899	943
o/w Changes in working capital	(249)	(260)	(52)	(177)	(102)
Cash flow from investing activities	**(879)**	**(2,205)**	**(2,173)**	**(3,544)**	**(2,044)**
o/w Capital expenditure	(1,758)	(1,838)	(2,139)	(3,544)	(2,044)
as % of sales	*37.4%*	*37.5%*	*38.2%*	*61.7%*	*33.8%*
Cash flow from financing activities	**(248)**	**956**	**530**	**474**	**1,242**
o/w Dividends paid	(322)	(400)	(412)	(425)	(510)
o/w Net debt issued/(repaid)	82	31	731	850	850
Net change in cash	**(23)**	**(31)**	**(37)**	**(1,478)**	**1,111**
Adj. Free cash flow to firm	**(351)**	**(338)**	**(254)**	**(1,626)**	**212**
y/y Growth	*(469.3%)*	*(3.7%)*	*(24.8%)*	*539.5%*	*(113.0%)*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	76.4%	71.6%	67.6%	69.4%	70.9%
EBITDA margin	38.9%	37.8%	36.2%	38.7%	41.3%
EBIT margin	22.6%	22.5%	21.5%	23.0%	25.6%
Net profit margin	10.8%	11.7%	11.4%	12.1%	14.0%
ROE	8.6%	8.7%	8.4%	8.7%	9.6%
ROA	2.3%	2.5%	2.6%	2.6%	2.9%
ROCE	5.6%	5.6%	5.5%	5.4%	5.8%
SG&A/Sales	38.2%	34.6%	31.8%	30.7%	29.6%
Net debt/equity	1.6	1.3	1.3	1.6	1.3
P/E (x)	22.4	21.6	20.5	19.2	16.7
P/BV (x)	2.0	1.6	1.6	1.6	1.5
EV/EBITDA (x)	9.1	9.2	8.8	9.4	8.5
Dividend Yield	2.8%	3.0%	3.2%	3.4%	3.6%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	4.9	5.4	5.9	5.5	5.8
Operating leverage	(22.1%)	87.0%	63.2%	386.6%	333.2%
Revenue y/y Growth	(9.4%)	4.3%	14.3%	2.5%	5.2%
EBITDA y/y Growth	3.8%	1.4%	9.6%	9.4%	12.2%
Tax rate	18.3%	17.4%	19.3%	19.2%	20.1%
Adj. Net Income y/y Growth	2.6%	12.6%	11.7%	8.9%	21.9%
EPS y/y Growth	(0.0%)	3.7%	5.3%	6.8%	15.1%
DPS y/y Growth	5.0%	4.8%	6.8%	6.0%	6.0%

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

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J.P.Morgan

New Jersey Resources: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**1,954**	**2,157**	**2,743**	**2,725**	**2,786**
COGS	(1,305)	(1,352)	(1,816)	(1,816)	(1,816)
Gross profit	**649**	**805**	**927**	**909**	**970**
SG&A	(278)	(367)	**(337)**	**(342)**	**(348)**
Adj. EBITDA	**336**	**400**	**530**	**508**	**563**
D&A	(120)	(111)	(128)	(147)	(164)
Adj. EBIT	**216**	**288**	**402**	**360**	**398**
Net Interest	(68)	(79)	(82)	(91)	(98)
Adj. PBT	**173**	**234**	**338**	**295**	**333**
Tax	7	(33)	(80)	(69)	(77)
Minority Interest	14	(83)	7	3	3
Adj. Net Income	**196**	**208**	**238**	**230**	**259**
Reported EPS	2.07	2.16	2.47	2.39	2.69
Adj. EPS	**2.07**	**2.16**	**2.47**	**2.39**	**2.69**
DPS	**1.25**	**1.33**	**1.45**	**1.57**	**1.69**
Payout ratio	60.4%	61.7%	58.6%	65.7%	62.8%
Shares outstanding	95	96	96	96	96

Income Statement - Quarterly	1Q22A	2Q22A	3Q22A	4Q22E
Revenue	**676A**	**912A**	**552A**	**603**
COGS	(403)A	(625)A	(393)A	(395)
Gross profit	**273A**	**287A**	**159A**	**208**
SG&A	(69)A	(86)A	(88)A	(94)
Adj. EBITDA	**187A**	**170A**	**63A**	**110**
D&A	(30)A	(31)A	(33)A	(33)
Adj. EBIT	**157A**	**139A**	**30A**	**76**
Net Interest	(19)A	(19)A	(21)A	(22)
Adj. PBT	**142A**	**124A**	**13A**	**60**
Tax	(31)A	(29)A	(4)A	(16)
Minority Interest	1A	1A	5A	1
Adj. Net Income	**66A**	**130A**	**(4)A**	**45**
Reported EPS	0.69A	1.36A	(0.04)A	0.47
Adj. EPS	**0.69A**	**1.36A**	**(0.04)A**	**0.47**
DPS	**0.36A**	**0.36A**	**0.36A**	**0.36**
Payout ratio	52.9%A	26.7%A	NMA	76.9%
Shares outstanding	96A	96A	96A	96

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	119	6	0	0	0
Accounts receivable	143	223	283	283	283
Other current assets	362	406	436	467	496
Current assets	**625**	**636**	**719**	**750**	**779**
PP&E	3,983	4,214	4,640	5,108	5,531
Other non current assets	962	873	879	698	464
Total assets	**5,570**	**5,722**	**6,238**	**6,556**	**6,775**
Short term borrowings	153	450	412	517	580
Payables	238	395	129	129	129
Other short term liabilities	143	206	445	445	445
Current liabilities	**534**	**1,051**	**986**	**1,092**	**1,155**
Long-term debt	2,259	2,162	2,555	2,620	2,602
Other long term liabilities	932	878	915	983	1,061
Total liabilities	**3,725**	**4,091**	**4,456**	**4,695**	**4,818**
Shareholders' equity	1,845	1,631	1,783	1,861	1,957
Minority interests	-	-	-	-	-
Total liabilities & equity	**5,570**	**5,722**	**6,238**	**6,556**	**6,775**
BVPS	**19.23**	**16.90**	**18.52**	**19.34**	**20.33**
y/y Growth	*11.5%*	*(12.1%)*	*9.6%*	*4.4%*	*5.1%*
Net debt/(cash)	2,293	2,606	2,966	3,137	3,183
Cash flow from operating activities	**213**	**391**	**324**	**415**	**471**
o/w Depreciation & amortization	120	111	128	147	164
o/w Changes in working capital	(8)	10	(104)	(31)	(29)
Cash flow from investing activities	**(994)**	**(622)**	**(568)**	**(615)**	**(588)**
o/w Capital expenditure	(470)	(625)	(574)	(615)	(588)
as % of sales	*24.1%*	*29.0%*	*20.9%*	*22.6%*	*21.1%*
Cash flow from financing activities	**896**	**118**	**222**	**169**	**156**
o/w Dividends paid	(118)	(117)	(131)	(152)	(163)
o/w Net debt issued/(repaid)	640	(18)	326	140	85
Net change in cash	**115**	**(113)**	**(23)**	**(31)**	**39**
Adj. Free cash flow to firm	**(192)**	**(166)**	**(188)**	**(129)**	**(42)**
y/y Growth	*(36.0%)*	*(13.3%)*	*13.2%*	*(31.3%)*	*(67.8%)*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	33.2%	37.3%	33.8%	33.3%	34.8%
EBITDA margin	17.2%	18.5%	19.3%	18.6%	20.2%
EBIT margin	11.1%	13.4%	14.6%	13.2%	14.3%
Net profit margin	10.0%	9.6%	8.7%	8.4%	9.3%
ROE	11.6%	12.0%	13.9%	12.6%	13.6%
ROA	3.9%	3.7%	4.0%	3.6%	3.9%
ROCE	5.6%	5.8%	6.8%	5.7%	6.0%
SG&A/Sales	14.2%	17.0%	12.3%	12.5%	12.5%
Net debt/equity	1.2	1.6	1.7	1.7	1.6
P/E (x)	21.5	20.6	18.0	18.6	16.5
P/BV (x)	2.3	2.6	2.4	2.3	2.2
EV/EBITDA (x)	17.1	15.3	12.2	13.1	11.9
Dividend Yield	2.8%	3.0%	3.3%	3.5%	3.8%
Sales/Assets (x)	0.4	0.4	0.5	0.4	0.4
Interest cover (x)	5.0	5.1	6.5	5.6	5.8
Operating leverage	(164.7%)	320.2%	144.6%	1551.5%	471.0%
Revenue y/y Growth	(24.6%)	10.4%	27.2%	(0.7%)	2.2%
EBITDA y/y Growth	36.9%	18.9%	32.6%	(4.2%)	10.8%
Tax rate	4.0%	14.2%	23.5%	23.2%	23.2%
Adj. Net Income y/y Growth	12.2%	5.8%	14.5%	(3.2%)	12.6%
EPS y/y Growth	5.6%	4.2%	14.7%	(3.4%)	12.6%
DPS y/y Growth	6.8%	6.4%	9.0%	8.3%	7.6%

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

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South Jersey Industries: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**1,541**	**1,992**	**2,380**	**2,498**	**2,552**
COGS	(859)	(1,245)	(1,615)	(1,627)	(1,627)
Gross profit	**682**	**747**	**765**	**871**	**925**
SG&A	(270)	(265)	**(245)**	**(214)**	**(215)**
Adj. EBITDA	**409**	**485**	**514**	**665**	**718**
D&A	(119)	(132)	(190)	(248)	(258)
Adj. EBIT	**290**	**354**	**324**	**417**	**460**
Net Interest	(119)	(127)	(129)	(135)	(136)
Adj. PBT	**172**	**227**	**195**	**282**	**324**
Tax	(23)	(47)	(30)	(64)	(74)
Minority Interest	8	(91)	1	0	0
Adj. Net Income	**163**	**178**	**211**	**218**	**250**
Reported EPS	1.68	1.61	1.73	1.76	1.82
Adj. EPS	**1.68**	**1.61**	**1.73**	**1.76**	**1.82**
DPS	**1.19**	**1.22**	**1.25**	**1.29**	**1.33**
Payout ratio	70.7%	75.5%	72.3%	73.2%	72.8%
Shares outstanding	97	110	122	124	137

Income Statement - Quarterly	1Q22A	2Q22A	3Q22E	4Q22E
Revenue	**825A**	**511A**	**401**	**643**
COGS	(508)A	(421)A	(290)	(396)
Gross profit	**316A**	**90A**	**111**	**247**
SG&A	(79)A	(63)A	(52)	(51)
Adj. EBITDA	**235A**	**25A**	**61**	**192**
D&A	(34)A	(34)A	(57)	(65)
Adj. EBIT	**201A**	**(9)A**	**4**	**127**
Net Interest	(32)A	(32)A	(32)	(33)
Adj. PBT	**170A**	**(41)A**	**(28)**	**94**
Tax	(41)A	22A	6	(17)
Minority Interest	0A	0A	0	0
Adj. Net Income	**149A**	**6A**	**(21)**	**77**
Reported EPS	1.25A	0.05A	(0.18)	0.63
Adj. EPS	**1.25A**	**0.05A**	**(0.18)**	**0.63**
DPS	**0.31A**	**0.31A**	**0.31**	**0.32**
Payout ratio	24.9%A	624.7%A	NM	51.0%
Shares outstanding	120A	122A	122	122

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	42	29	0	0	0
Accounts receivable	279	344	378	378	378
Other current assets	194	266	292	320	348
Current assets	**515**	**640**	**670**	**698**	**726**
PP&E	4,464	4,912	5,286	5,597	5,898
Other non current assets	1,710	1,757	1,847	1,868	1,889
Total assets	**6,689**	**7,309**	**7,803**	**8,163**	**8,513**
Short term borrowings	596	334	352	255	130
Payables	257	330	430	430	430
Other short term liabilities	311	292	568	568	324
Current liabilities	**1,164**	**956**	**1,350**	**1,254**	**884**
Long-term debt	2,776	3,189	3,101	3,345	3,498
Other long term liabilities	1,082	1,165	1,237	1,301	1,375
Total liabilities	**5,022**	**5,309**	**5,687**	**5,899**	**5,756**
Shareholders' equity	1,667	1,999	2,115	2,264	2,757
Minority interests	-	-	-	-	-
Total liabilities & equity	**6,689**	**7,309**	**7,803**	**8,163**	**8,513**
BVPS	**16.57**	**17.04**	**17.27**	**17.99**	**19.42**
y/y Growth	*7.5%*	*2.8%*	*1.4%*	*4.1%*	*8.0%*
Net debt/(cash)	3,331	3,494	3,452	3,600	3,627
Cash flow from operating activities	**311**	**273**	**497**	**502**	**554**
o/w Depreciation & amortization	171	212	190	248	258
o/w Changes in working capital	(29)	(81)	(28)	(28)	(28)
Cash flow from investing activities	**(508)**	**(645)**	**(607)**	**(559)**	**(559)**
o/w Capital expenditure	(486)	(532)	(555)	(559)	(559)
as % of sales	*31.6%*	*26.7%*	*23.3%*	*22.4%*	*21.9%*
Cash flow from financing activities	**210**	**360**	**63**	**153**	**131**
o/w Dividends paid	(115)	(133)	(113)	(160)	(182)
o/w Net debt issued/(repaid)	374	324	87	244	(91)
Net change in cash	**13**	**(12)**	**(47)**	**96**	**126**
Adj. Free cash flow to firm	**(72)**	**(158)**	**51**	**48**	**100**
y/y Growth	*(75.6%)*	*119.1%*	*(132.0%)*	*(5.7%)*	*108.9%*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	44.3%	37.5%	32.1%	34.9%	36.2%
EBITDA margin	26.5%	24.4%	21.6%	26.6%	28.1%
EBIT margin	18.8%	17.8%	13.6%	16.7%	18.0%
Net profit margin	10.6%	8.9%	8.9%	8.7%	9.8%
ROE	10.5%	9.7%	10.3%	10.0%	9.9%
ROA	2.5%	2.5%	2.8%	2.7%	3.0%
ROCE	5.4%	5.3%	4.9%	5.6%	5.8%
SG&A/Sales	17.5%	13.3%	10.3%	8.6%	8.4%
Net debt/equity	2.0	1.7	1.6	1.6	1.3
P/E (x)	20.2	21.0	19.6	19.3	18.6
P/BV (x)	2.0	2.0	2.0	1.9	1.7
EV/EBITDA (x)	14.5	13.3	13.1	10.4	9.9
Dividend Yield	3.5%	3.6%	3.7%	3.8%	3.9%
Sales/Assets (x)	0.2	0.3	0.3	0.3	0.3
Interest cover (x)	3.4	3.8	4.0	4.9	5.3
Operating leverage	(770.5%)	74.9%	(43.8%)	581.2%	472.6%
Revenue y/y Growth	(5.4%)	29.2%	19.5%	5.0%	2.1%
EBITDA y/y Growth	34.0%	18.7%	5.8%	29.6%	7.9%
Tax rate	13.2%	20.8%	15.2%	22.6%	22.8%
Adj. Net Income y/y Growth	58.2%	9.0%	18.8%	3.5%	14.4%
EPS y/y Growth	50.4%	(4.0%)	7.4%	1.5%	3.6%
DPS y/y Growth	2.6%	2.5%	2.6%	3.0%	3.0%

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

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Spire Inc: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**1,855**	**2,236**	**2,129**	**1,827**	**1,872**
COGS	(696)	(946)	(887)	(539)	(539)
Gross profit	**1,159**	**1,289**	**1,242**	**1,287**	**1,333**
SG&A	(756)	(629)	**(639)**	**(605)**	**(607)**
Adj. EBITDA	**404**	**660**	**602**	**682**	**726**
D&A	(197)	(213)	(237)	(249)	(258)
Adj. EBIT	**207**	**447**	**365**	**434**	**468**
Net Interest	(106)	(107)	(116)	(126)	(135)
Adj. PBT	**101**	**340**	**249**	**307**	**333**
Tax	(12)	(69)	(50)	(59)	(64)
Minority Interest	-	-	-	-	-
Adj. Net Income	**193**	**251**	**204**	**233**	**254**
Reported EPS	3.76	4.86	3.91	4.36	4.55
Adj. EPS	**3.76**	**4.86**	**3.91**	**4.36**	**4.55**
DPS	**2.49**	**2.60**	**2.74**	**2.88**	**3.02**
Payout ratio	66.2%	53.5%	70.1%	66.0%	66.5%
Shares outstanding	51	52	52	54	56

Income Statement - Quarterly	1Q22A	2Q22A	3Q22A	4Q22E
Revenue	**555A**	**881A**	**448A**	**245**
COGS	(249)A	(392)A	(203)A	(43)
Gross profit	**306A**	**489A**	**245A**	**202**
SG&A	(147)A	(188)A	(159)A	(146)
Adj. EBITDA	**160A**	**301A**	**86A**	**56**
D&A	(57)A	(59)A	(60)A	(61)
Adj. EBIT	**103A**	**242A**	**26A**	**(5)**
Net Interest	(29)A	(28)A	(29)A	(31)
Adj. PBT	**74A**	**214A**	**(4)A**	**(36)**
Tax	(18)A	(41)A	2A	7
Minority Interest	-	-	-	-
Adj. Net Income	**59A**	**177A**	**0A**	**(32)**
Reported EPS	1.14A	3.41A	0.01A	(0.61)
Adj. EPS	**1.14A**	**3.41A**	**0.01A**	**(0.61)**
DPS	**0.69A**	**0.69A**	**0.69A**	**0.69**
Payout ratio	60.2%A	20.1%A	9186.0%A	NM
Shares outstanding	52A	52A	52A	53

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	4	11	0	0	0
Accounts receivable	253	596	587	587	587
Other current assets	333	709	651	685	721
Current assets	**591**	**1,317**	**1,238**	**1,272**	**1,308**
PP&E	6,356	5,610	5,935	6,373	6,833
Other non current assets	1,295	2,430	2,663	2,668	2,672
Total assets	**8,241**	**9,356**	**9,836**	**10,313**	**10,813**
Short term borrowings	1,449	1,608	1,786	1,887	1,992
Payables	-	-	-	-	-
Other short term liabilities	0	0	0	0	0
Current liabilities	**1,449**	**1,608**	**1,786**	**1,887**	**1,992**
Long-term debt	2,424	2,939	3,279	3,439	3,424
Other long term liabilities	1,843	2,141	1,958	2,017	2,081
Total liabilities	**5,716**	**6,688**	**7,023**	**7,343**	**7,497**
Shareholders' equity	2,526	2,668	2,813	2,970	3,316
Minority interests	-	-	-	-	-
Total liabilities & equity	**8,241**	**9,356**	**9,836**	**10,313**	**10,813**
BVPS	**-**	**-**	**-**	**-**	**-**
y/y Growth	-	-	-	-	-
Net debt/(cash)	3,869	4,536	5,065	5,326	5,416
Cash flow from operating activities	**470**	**250**	**218**	**503**	**536**
o/w Depreciation & amortization	197	213	237	249	258
o/w Changes in working capital	18	(319)	(269)	(34)	(36)
Cash flow from investing activities	**(632)**	**(622)**	**(533)**	**(688)**	**(718)**
o/w Capital expenditure	(638)	(625)	(538)	(688)	(718)
as % of sales	*34.4%*	*27.9%*	*25.2%*	*37.6%*	*38.3%*
Cash flow from financing activities	**160**	**379**	**237**	**83**	**77**
o/w Dividends paid	(143)	(148)	(153)	(154)	(169)
o/w Net debt issued/(repaid)	268	538	321	160	(15)
Net change in cash	**(2)**	**7**	**(79)**	**(101)**	**(104)**
Adj. Free cash flow to firm	**(76)**	**(290)**	**(227)**	**(83)**	**(72)**
y/y Growth	*(73.3%)*	*281.6%*	*(21.8%)*	*(63.4%)*	*(12.6%)*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	62.5%	57.7%	58.3%	70.5%	71.2%
EBITDA margin	21.8%	29.5%	28.3%	37.4%	38.8%
EBIT margin	11.1%	20.0%	17.1%	23.7%	25.0%
Net profit margin	10.4%	11.2%	9.6%	12.8%	13.6%
ROE	7.6%	9.7%	7.4%	8.1%	8.1%
ROA	2.4%	2.9%	2.1%	2.3%	2.4%
ROCE	2.9%	5.2%	3.9%	4.3%	4.4%
SG&A/Sales	40.7%	28.2%	30.0%	33.1%	32.4%
Net debt/equity	1.5	1.7	1.8	1.8	1.6
P/E (x)	18.4	14.2	17.7	15.8	15.2
P/BV (x)	-	-	-	-	-
EV/EBITDA (x)	16.8	11.1	13.0	11.9	6.1
Dividend Yield	3.6%	3.8%	4.0%	4.2%	4.4%
Sales/Assets (x)	0.2	0.3	0.2	0.2	0.2
Interest cover (x)	3.8	6.2	5.2	5.4	5.4
Operating leverage	728.0%	568.0%	383.8%	(131.9%)	320.0%
Revenue y/y Growth	(5.0%)	20.5%	(4.8%)	(14.2%)	2.5%
EBITDA y/y Growth	(19.7%)	63.4%	(8.8%)	13.3%	6.4%
Tax rate	12.3%	20.1%	20.0%	19.2%	19.2%
Adj. Net Income y/y Growth	1.8%	30.2%	(18.8%)	14.5%	9.0%
EPS y/y Growth	0.9%	29.2%	(19.5%)	11.6%	4.2%
DPS y/y Growth	5.1%	4.4%	5.4%	5.0%	5.0%

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

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Southwest Gas Holdings Inc.: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**3,299**	**3,680**	**4,782**	**5,071**	**5,316**
COGS	(343)	(431)	(645)	(642)	(642)
Gross profit	**3,250**	**4,137**	**4,429**	**4,674**	**4,942**
SG&A	(2,208)	(2,512)	**(3,138)**	**(3,260)**	**(3,445)**
Adj. EBITDA	**748**	**737**	**999**	**1,169**	**1,229**
D&A	(332)	(371)	(469)	(486)	(502)
Adj. EBIT	**416**	**366**	**530**	**683**	**727**
Net Interest	(111)	(119)	(215)	(238)	(245)
Adj. PBT	**305**	**247**	**315**	**444**	**482**
Tax	(66)	(40)	(69)	(98)	(108)
Minority Interest	(7)	(6)	(4)	(6)	(6)
Adj. Net Income	**232**	**247**	**273**	**341**	**369**
Reported EPS	4.14	3.39	3.66	4.91	5.11
Adj. EPS	**4.14**	**4.17**	**4.15**	**4.91**	**5.11**
DPS	**2.26**	**2.36**	**2.46**	**2.56**	**2.66**
Payout ratio	54.4%	69.5%	67.0%	52.0%	52.0%
Shares outstanding	56	59	66	69	72

Income Statement - Quarterly	1Q22A	2Q22A	3Q22E	4Q22E
Revenue	**1,267A**	**1,146A**	**1,107**	**1,262**
COGS	(299)A	(148)A	(64)	(135)
Gross profit	**1,029A**	**1,071A**	**1,121**	**1,208**
SG&A	(676)A	(847)A	(818)	(796)
Adj. EBITDA	**292A**	**151A**	**225**	**331**
D&A	(123)A	(108)A	(117)	(121)
Adj. EBIT	**170A**	**43A**	**108**	**210**
Net Interest	(48)A	(53)A	(55)	(59)
Adj. PBT	**121A**	**(10)A**	**53**	**151**
Tax	(24)A	4A	(17)	(33)
Minority Interest	(1)A	(0)A	(1)	(1)
Adj. Net Income	**106A**	**16A**	**35**	**117**
Reported EPS	1.58A	(0.10)A	0.52	1.72
Adj. EPS	**1.74A**	**0.23A**	**0.52**	**1.72**
DPS	**0.60A**	**0.62A**	**0.62**	**0.62**
Payout ratio	37.6%A	NMA	119.7%	36.1%
Shares outstanding	61A	67A	67	68

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	83	223	0	0	0
Accounts receivable	522	707	751	751	751
Other current assets	265	685	699	745	791
Current assets	**871**	**1,615**	**1,450**	**1,496**	**1,542**
PP&E	6,176	7,594	7,966	8,400	8,817
Other non current assets	1,689	3,556	3,476	3,413	3,370
Total assets	**8,736**	**12,765**	**12,891**	**13,308**	**13,729**
Short term borrowings	147	2,206	1,504	1,585	1,673
Payables	231	353	307	307	307
Other short term liabilities	533	552	540	540	540
Current liabilities	**912**	**3,112**	**2,350**	**2,432**	**2,520**
Long-term debt	2,732	4,116	4,369	4,210	4,025
Other long term liabilities	2,251	2,387	2,452	2,550	2,658
Total liabilities	**5,895**	**9,615**	**9,172**	**9,192**	**9,203**
Shareholders' equity	2,841	3,151	3,719	4,116	4,526
Minority interests	0	0	0	0	0
Total liabilities & equity	**8,736**	**12,765**	**12,891**	**13,308**	**13,729**
BVPS	**50.66**	**53.17**	**56.52**	**59.28**	**62.72**
y/y Growth	*6.2%*	*5.0%*	*6.3%*	*4.9%*	*5.8%*
Net debt/(cash)	2,796	6,099	5,873	5,795	5,698
Cash flow from operating activities	**626**	**111**	**713**	**942**	**975**
o/w Depreciation & amortization	332	371	469	486	502
o/w Changes in working capital	99	(443)	(105)	(46)	(46)
Cash flow from investing activities	**(802)**	**(3,036)**	**(798)**	**(920)**	**(920)**
o/w Capital expenditure	(825)	(716)	(800)	(920)	(920)
as % of sales	*25.0%*	*19.4%*	*16.7%*	*18.1%*	*17.3%*
Cash flow from financing activities	**210**	**3,063**	**62**	**102**	**53**
o/w Dividends paid	(126)	(138)	(161)	(177)	(192)
o/w Net debt issued/(repaid)	306	1,208	328	46	11
Net change in cash	**34**	**139**	**(23)**	**124**	**108**
Adj. Free cash flow to firm	**(112)**	**(504)**	**80**	**208**	**245**
y/y Growth	*(68.2%)*	*351.8%*	*(116.0%)*	*158.8%*	*17.8%*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	98.5%	112.4%	92.6%	92.2%	93.0%
EBITDA margin	22.7%	20.0%	20.9%	23.1%	23.1%
EBIT margin	12.6%	9.9%	11.1%	13.5%	13.7%
Net profit margin	7.0%	6.7%	5.7%	6.7%	6.9%
ROE	8.6%	8.2%	8.0%	8.7%	8.5%
ROA	2.7%	2.3%	2.1%	2.6%	2.7%
ROCE	5.9%	4.0%	4.3%	5.5%	5.6%
SG&A/Sales	66.9%	68.3%	65.6%	64.3%	64.8%
Net debt/equity	1.0	1.9	1.6	1.4	1.3
P/E (x)	19.4	19.3	19.3	16.4	15.7
P/BV (x)	1.6	1.5	1.4	1.4	1.3
EV/EBITDA (x)	9.4	14.4	10.9	9.5	9.1
Dividend Yield	2.8%	2.9%	3.1%	3.2%	3.3%
Sales/Assets (x)	0.4	0.3	0.4	0.4	0.4
Interest cover (x)	6.7	6.2	4.6	4.9	5.0
Operating leverage	156.7%	(104.2%)	149.9%	476.0%	133.4%
Revenue y/y Growth	5.7%	11.6%	29.9%	6.0%	4.8%
EBITDA y/y Growth	9.2%	(1.5%)	35.6%	17.0%	5.1%
Tax rate	21.6%	16.1%	22.1%	22.1%	22.4%
Adj. Net Income y/y Growth	8.6%	6.2%	10.8%	24.7%	8.2%
EPS y/y Growth	5.2%	0.5%	(0.3%)	18.2%	4.1%
DPS y/y Growth	4.6%	4.4%	4.2%	4.1%	3.9%

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

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From: Richard W Sunderland
To: Weisenburger \ Michael \ V
Subject: North American Utilities : AGA Mini Forum Takeaways: Quick Updates Across the Natural Gas LDCs
Date: Monday, September 26, 2022 8:59:15 AM

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North America Equity Research

North American Utilities

AGA Mini Forum Takeaways: Quick Updates Across the Natural Gas LDCs

By Richard W Sunderland[AC], Jeremy Tonet, CFA, Brandon Travis, CFA, Aidan C Kelly

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Last week, we met with company management teams at the AGA Mini Forum and held update calls with the remainder of our natural gas LDC coverage. Common themes included rising customer bills into the upcoming heating season and the sector's ongoing valuation debate amid heightened interest in strategic actions. Full takeaways follow for ATO, NI, NJR, SJI, SR, and SWX.

- **Top company takeaways:** We note growing attention on **NI's** messaging into its November analyst day, both in how its business review could impact an outlook extension and potential framework to evaluate base system growth versus generation investment upside. **ATO** saw questions on higher gas prices and the TX securitization flowing through rates, but reiterated its line of sight to the strong underlying growth fundamentals driving the company's plan. **SR** emphasized key elements to testimony in its MO rate case that shape potential paths forward for a more favorable resolution and remains focused on reaching a settlement. There are no specific updates to **SWX's** ongoing MountainWest and Centuri processes, where the company's timeline suggests ~October announcements (as outlined in SWX's August update). We see the company biased towards sales for both, with Centuri's spin option reflecting a fallback plan should sale valuations land short of SWX's expectations. Potential Inflation Reduction Act impacts and higher natural gas prices were topical for **NJR**, although our attention remains on PJM's proposed interconnection queue revisions and NJ's progress in standing up the solar successor program, which are critical to recapturing development momentum at CEV. Finally, **SJI** continues to demonstrate confidence in the sale approval process and its targeted 4Q close, as work continues between the company and intervenors to reach a settlement agreement.
- **ATO:** ATO saw questions on higher gas prices and the TX securitization flowing through rates but reiterated its line of sight to the strong underlying growth fundamentals driving the company's plan. We expect the refreshed customer bill impact on ATO's traditional F4Q outlook update will show near-tern rate growth exceeding levels realized over the past decade, including a step-up for the initial increase covering the TX securitization charge (excluded from ATO's current bill outlook). The securitization process remains in its final stages, although ultimate timing remains at the discretion of the Texas Public Finance Authority.
- **NI:** We note growing attention on NI's messaging into its November analyst day, both in how its business review could impact an outlook extension and potential framework to evaluate base system growth versus generation investment upside. With no updates on the business review, potential outcomes remain broad between incremental plan tweaks, portfolio rotation, or a whole company sale. That said, significant discussion around NI's O&M opportunity

stood out in conversations, where extending the current NiSource Next program to more formal efforts at the opcos appears to be a minimum outcome of this process. Key questions remain the degree of capital acceleration off incremental bill headroom from cost controls, overall willingness to execute on portfolio rotation, and how these opportunities compare to NI's current growth outlook. For its upcoming November analyst day, we do not expect NI to anchor growth to the next round of IN generation investments, in a change from the company's current dual growth rates and plan period that revolve around its renewables buildout. Considerations appear broad across messaging options, including moving to an annual growth rate or extending formal EPS guidance beyond the prompt year.

- **NJR:** Potential Inflation Reduction Act impacts and higher natural gas prices were topical for **NJR**, although our attention remains on PJM's proposed interconnection queue revisions and NJ's progress in standing up the solar successor program, a key hurdle to recapturing development momentum at CEV. As highlighted in our recent downgrade to UW, renewables capital deployment remains critical to NJR's long-term earnings growth outlook, although SREC sales and strong performance across the company's other businesses have insulated earnings from any project delay impacts over the past two years. On commodity prices, NJR anticipates a ~16% customer bill increase this heating season from higher natural gas prices, inclusive of BGSS changes and other adjustments. The company sees itself as well positioned on hedging efforts and underlying service territory demographics relative to state and regional peers.
- **SJI:** SJI continues to demonstrate confidence in the sale approval process and its targeted 4Q close, as work continues between the company and intervenors to reach a settlement agreement. Nov 9, Dec 7, and Dec 21 BPU meetings all stand as plausible vote dates should SJI reach a settlement this fall. While difficult to discern the status of settlement discussions, we see no indication of a heated or politicized process and continue to expect favorable deal elements such as continued local management, the absence of a larger multi-state utility absorbing SJI, and SJI's position as a small gas utility in the state to benefit the path towards final regulatory approvals.
- **SR:** SR emphasized key elements to testimony in its MO rate case that shape potential paths forward for a more favorable resolution and remains focused on reaching a settlement. Commentary is consistent with our cautious optimism around SR's ability to press its position more consistently in the rate case docket, settlement prospects out of recent Staff testimony, and settlement overall as a viable path forward in the MO rate case, as outlined in our recent upgrade to OW. The next six weeks should inform efforts to narrow the list of disputed issues, although OPC remains a wildcard in prospects for a unanimous settlement to present to the commission versus a partial settlement with Staff.
- **SWX:** There are no specific updates to SWX's ongoing MountainWest and Centuri processes, where the company's timeline suggests ~October announcements (as outlined in SWX's August update; see our takeaways here and post-earnings takeaways here). We see the company biased towards sales for both, with Centuri's spin option reflecting a fallback plan should sale valuations land short of SWX's expectations. Separately, the company's executive search to replace retiring CFO Greg Peterson remains active and could yield an October announcement under language in the May retirement announcement. As such, we note some potential for MountainWest, Centuri, and permanent CFO updates all prior to SWX's 3Q earnings release in November.

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North American Utilities

2Q22 Previews: ATO, NI, NJR, SR, & SWX

- **ATO: TX securitization end in sight; await bill outlook into next heating season.** The TX securitization process continues to track a late August or September completion, with the Texas Public Financing Authority actively working towards actual debt issuance. When concluded, this process will result in ATO's recovery of $2bn in excess purchased gas costs from Winter Storm Uri, in a positive step forward (although the process is largely de-risked at this stage). Separately, we expect no material update on the customer bill outlook into next heating season, but flag this topic as a substantial focus with ATO currently working to procure gas. As discussed at AGA, management noted that customer bills are up ~14.5% YoY for the first six months, with the vast majority attributable to higher gas costs. On the quarter, we estimate F3Q earnings of $0.84 and 2022 EPS of $5.56 versus ATO's $5.50-5.60 range. We see some potential for management to directionally raise guidance to the upper half of this 2022 range.

- **NI: Spotlight on fall analyst day for solar and business review updates.** We expect some solar project commentary and minor rate case updates on the quarter, with the company's upcoming fall analyst day as a more likely forum for greater detail on solar impacts from the DoC investigation/tariff moratorium alongside a long-term outlook refresh. NI's solar message is evolving following the administration's recent steps to address industry challenges from the DoC. The company has subsequently emphasized greater flexibility to complete projects, with additional work remaining to fully account for DoC-driven timing impacts (particularly on 2023-2024 projects). We anticipate NI to largely reiterate this message and offer no new thoughts on the ongoing business review (tapped for completion by the analyst day, which will feature an update on the review outcome). Here, we continue to expect capex acceleration, cost cuts, and some smaller portfolio rotation as the base case outcome. On the quarter, we estimate 2Q22 earnings of $0.11 ($0.13 in 2Q21), although O&M timing could swing the quarter higher or lower following higher expenses than anticipated on 1Q (some timing factors impacted).

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Equity Ratings and Price Targets

Company	Ticker	Mkt Cap ($ mn)	Price ($)	Rating Cur	Rating Prev	Price Target Cur	Price Target End Date	Price Target Prev	Price Target End Date
Atmos Energy	ATO US	15,153.65	113.35	OW	n/c	122.00	Dec-22	126.00	n/c
NiSource Inc.	NI US	11,584.04	28.44	OW	n/c	31.00	Dec-22	33.00	n/c
New Jersey Resources	NJR US	4,165.70	43.19	N	n/c	44.00	Dec-22	46.00	n/c
Spire Inc	SR US	3,616.64	70.09	N	n/c	72.00	Dec-22	75.00	n/c
Southwest Gas Holdings Inc.	SWX US	4,902.91	85.12	N	n/c	80.00	Dec-22	86.00	n/c

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. n/c = no change. All prices as of 22 Jul 22.

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- **NJR: Solar debate continues, pending PJM and BPU actions.** PJM interconnection delays and an extended rulemaking process around the BPU's solar successor program are tracking for fall/winter updates, leaving little change to the solar backdrop and NJR's recent development headwinds. As a result, we expect attention on quarterly project progress following meaningful capex revisions last quarter (on F2Q: -45% cut to 2022 CEV capex; 2023-2024 CEV capex ranges also revised lower). While important to NJR's long-term growth outlook, near-term development pace has limited impacts on earnings for the next 12+ months. We expect NJR will emphasize this runway while it awaits work to accelerate PJM's interconnection process and stand up NJ's go forward solar subsidies. Separately, we estimate F3Q22 earnings -$0.01, in a seasonally low quarter, and 2022 EPS of $2.38 (2022 guidance of $2.30-2.40 after a +10c raise last quarter off Energy Services outperformance).

- **SR: MO rate case is quiet for now, with process set to heat up this fall.** Late August testimony marks a turning point in SR's MO rate case, allowing parties to begin settlement discussions as the company continues to seek expedited resolution of the proceeding. We expect no changes to SR's overall message on the case, where management has framed this filing as very straightforward given its proximity to last year's rate case, with streamlined testimony as a result and a likely narrower scope to contested issues versus SR's last filing. While we remain concerned over the PSC's history of inconsistent outcomes and risk to SR's revenue ask from the full range of drivers behind the 11% requested rate increase, we highlight constructive overall dialogue from our MO NARUC meeting last week. As a result, we look to August testimony to help define the scope of contested issues and overall settlement prospects. On the quarter, our F3Q22 estimate of $0.03 assumes some normalization of Marketing from last year's post-Uri loss. Our $3.94 2022 EPS estimate remains near the top end of SR's $3.75-3.95 guidance range.

- **SWX: 90 day spin update due ~8/4, overshadowing the quarter.** We await a formal Centuri spin/no spin decision from the company in advance of earnings, with this update tapped to arrive on or before 8/4 in accordance with terms from the SWX/Icahn settlement. Given market interest in SWX's sale process and prospective timing that puts the company into second rounds prior to a spin decision, this update could also feature greater detail around the process to date and factors underpinning SWX's ultimate Centuri decision. We continue to see the preferred path as a total company sale and look to this ~8/4 update as the next data point to potentially confirm this view, given a spin would create a two-year lookback/look forward period with tax consequences triggered by a utility sale. Under a no-spin scenario, a whole company sale announcement could land as early as September. Sentiment remains relatively aligned around an assumed sale, although questions of ultimate construction value and interest rate headwinds are topical of late. On the quarter, we estimate 2Q22 EPS of $0.55, inclusive of an assumed -11c COLI drag.

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Atmos Energy

Overweight

Company Data	
Shares O/S (mn)	134
52-week range ($)	122.96-85.80
Market cap ($ mn)	15,153.65
Exchange rate	1.00
Free float(%)	99.2%
3M - Avg daily vol (mn)	0.95
3M - Avg daily val ($ mn)	107.6
Volatility (90 Day)	22
Index	RUSSELL 2000
BBG BUY|HOLD|SELL	6|5|1

Atmos Energy Corp (ATO;ATO US)

Year-end Sep ($)	FY20A	FY21A	FY22E (Prev)	FY22E (Curr)	FY23E (Prev)	FY23E (Curr)	FY24E (Prev)	FY24E (Curr)
Revenue ($ mn)	2,821	3,407	4,155	4,155	4,660	4,660	4,890	4,890
Adj. EBITDA ($ mn)	1,261	1,381	1,494	1,494	1,765	1,765	1,970	1,970
EBITDA margin	44.7%	40.5%	36.0%	36.0%	37.9%	37.9%	40.3%	40.3%
Adj. net income ($ mn)	580	666	764	764	843	843	945	945
Adj. EPS ($)	4.72	5.13	5.56	5.56	5.91	5.91	6.36	6.35
BBG EPS ($)	4.71	5.11	-	5.54	-	5.92	-	6.39
Reported EPS ($)	4.72	5.13	5.56	5.56	5.91	5.91	6.36	6.35
DPS ($)	2.30	2.50	2.72	2.72	2.96	2.96	3.23	3.23
Dividend yield	2.0%	2.2%	2.4%	2.4%	2.6%	2.6%	2.9%	2.9%
Adj. P/E	24.0	22.1	20.4	20.4	19.2	19.2	17.8	17.9

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

NiSource Inc.

Overweight

Company Data	
Shares O/S (mn)	407
52-week range ($)	32.59-23.65
Market cap ($ mn)	11,584.04
Exchange rate	1.00
Free float(%)	99.4%
3M - Avg daily vol (mn)	4.63
3M - Avg daily val ($ mn)	136.2
Volatility (90 Day)	24
Index	S&P 500
BBG BUY|HOLD|SELL	11|3|0

NiSource Inc. (NI;NI US)

Year-end Dec ($)	FY20A	FY21A	FY22E (Prev)	FY22E (Curr)	FY23E (Prev)	FY23E (Curr)	FY24E (Prev)	FY24E (Curr)
Revenue ($ mn)	4,697	4,901	5,491	5,509	5,694	5,712	5,971	5,989
Adj. EBITDA ($ mn)	1,826	1,852	2,010	2,028	2,194	2,212	2,446	2,464
EBITDA margin	38.9%	37.8%	36.6%	36.8%	38.5%	38.7%	41.0%	41.2%
Adj. net income ($ mn)	508	571	643	643	698	698	833	833
Adj. EPS ($)	1.32	1.37	1.45	1.45	1.54	1.54	1.74	1.74
BBG EPS ($)	1.31	1.36	-	1.45	-	1.55	-	1.74
Reported EPS ($)	1.32	1.37	1.45	1.45	1.54	1.54	1.74	1.74
DPS ($)	0.84	0.88	0.94	0.94	1.00	1.00	1.06	1.06
Dividend yield	3.0%	3.1%	3.3%	3.3%	3.5%	3.5%	3.7%	3.7%
Adj. P/E	21.5	20.8	19.6	19.7	18.4	18.5	16.3	16.4

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

New Jersey Resources

Neutral

Company Data	
Shares O/S (mn)	96
52-week range ($)	47.50-34.41
Market cap ($ mn)	4,165.70
Exchange rate	1.00
Free float(%)	98.9%
3M - Avg daily vol (mn)	0.49
3M - Avg daily val ($ mn)	21.8
Volatility (90 Day)	25
Index	RUSSELL 2000
BBG BUY|HOLD|SELL	3|4|2

New Jersey Resources Corporation (NJR;NJR US)

Year-end Sep ($)	FY20A	FY21A	FY22E (Prev)	FY22E (Curr)	FY23E (Prev)	FY23E (Curr)	FY24E (Prev)	FY24E (Curr)
Revenue ($ mn)	1,954	2,157	2,586	2,589	2,574	2,574	2,622	2,622
Adj. EBITDA ($ mn)	336	400	490	492	471	471	513	513
EBITDA margin	17.2%	18.5%	18.9%	19.0%	18.3%	18.3%	19.6%	19.6%
Adj. net income ($ mn)	196	208	227	229	227	227	249	249
Adj. EPS ($)	2.07	2.16	2.36	2.38	2.37	2.37	2.59	2.59
BBG EPS ($)	2.08	2.16	-	2.35	-	2.43	-	2.73
Reported EPS ($)	2.07	2.16	2.36	2.38	2.37	2.37	2.59	2.59
DPS ($)	1.25	1.33	1.45	1.45	1.57	1.57	1.69	1.69
Dividend yield	2.9%	3.1%	3.4%	3.4%	3.6%	3.6%	3.9%	3.9%
Adj. P/E	20.9	20.0	18.3	18.1	18.3	18.2	16.7	16.7

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

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Spire Inc

Neutral

Company Data	
Shares O/S (mn)	52
52-week range ($)	79.24-59.60
Market cap ($ mn)	3,616.64
Exchange rate	1.00
Free float(%)	97.0%
3M - Avg daily vol (mn)	0.35
3M - Avg daily val ($ mn)	26.1
Volatility (90 Day)	23
Index	RUSSELL 2000
BBG BUY|HOLD|SELL	1|9|0

Spire Inc (SR;SR US)

Year-end Sep ($)	FY20A	FY21A	FY22E (Prev)	FY22E (Curr)	FY23E (Prev)	FY23E (Curr)	FY24E (Prev)	FY24E (Curr)
Revenue ($ mn)	1,855	2,236	1,974	1,974	1,817	1,817	1,857	1,857
Adj. EBITDA ($ mn)	404	660	609	609	672	672	710	710
EBITDA margin	21.8%	29.5%	30.9%	30.9%	37.0%	37.0%	38.2%	38.2%
Adj. net income ($ mn)	193	251	206	206	231	231	249	250
Adj. EPS ($)	3.76	4.86	3.94	3.94	4.35	4.34	4.53	4.52
BBG EPS ($)	3.74	4.47	-	3.89	-	4.38	-	4.66
Reported EPS ($)	3.76	4.86	3.94	3.94	4.35	4.34	4.53	4.52
DPS ($)	2.49	2.60	2.74	2.74	2.88	2.88	3.02	3.02
Dividend yield	3.6%	3.7%	3.9%	3.9%	4.1%	4.1%	4.3%	4.3%
Adj. P/E	18.6	14.4	17.8	17.8	16.1	16.1	15.5	15.5

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

Southwest Gas Holdings Inc.

Neutral

Company Data	
Shares O/S (mn)	58
52-week range ($)	95.62-62.58
Market cap ($ mn)	4,902.91
Exchange rate	1.00
Free float(%)	96.3%
3M - Avg daily vol (mn)	0.51
3M - Avg daily val ($ mn)	45.7
Volatility (90 Day)	25
Index	RUSSELL 2000
BBG BUY|HOLD|SELL	3|3|0

Southwest Gas Holdings Inc. (SWX;SWX US)

Year-end Dec ($)	FY20A	FY21A	FY22E (Prev)	FY22E (Curr)	FY23E (Prev)	FY23E (Curr)	FY24E (Prev)	FY24E (Curr)
Revenue ($ mn)	3,299	3,680	4,609	4,609	4,874	4,874	5,115	5,115
Adj. EBITDA ($ mn)	748	737	1,075	1,068	1,170	1,170	1,224	1,224
EBITDA margin	22.7%	20.0%	23.3%	23.2%	24.0%	24.0%	23.9%	23.9%
Adj. net income ($ mn)	232	247	310	303	341	341	365	365
Adj. EPS ($)	4.14	4.17	4.70	4.59	4.92	4.92	5.09	5.09
BBG EPS ($)	3.95	4.07	-	4.50	-	4.85	-	5.03
Reported EPS ($)	4.14	3.39	4.55	4.44	4.92	4.92	5.09	5.09
DPS ($)	2.26	2.36	2.46	2.46	2.56	2.56	2.66	2.66
Dividend yield	2.6%	2.8%	2.9%	2.9%	3.0%	3.0%	3.1%	3.1%
Adj. P/E	20.5	20.4	18.1	18.5	17.3	17.3	16.7	16.7

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

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Investment Thesis, Valuation and Risks

Atmos Energy Corp *(Overweight; Price Target: $122.00)*

Investment Thesis

ATO remains a top-tier rate base and EPS growth story versus gas and electric utility peers, with one of the most conservatively managed balance sheets among our utility coverage. The company's ability to cut costs and/or use balance sheet capacity provides dry powder, in addition to strong customer growth providing tailwinds to growth between rate cases. We view the 6-8% LT EPS CAGR guided by management as comfortably achievable.

Valuation

We lower our Dec 2022 price target to $122/share, from prior $126. We base our valuation on our 2023 EPS estimate and a 20.6x P/E multiple, a premium to gas utility peers due to strong rate base growth visibility and transparent, low-lag regulatory mechanisms. The lower price target is due to decreased peer average multiples.

Risks to Rating and Price Target

- Regulated electric and gas utilities are subject to strict federal and state regulation, including determinations of allowed revenues. Any change to the existing ratemaking mechanisms, including a repeal of the mechanism itself, may cause future earnings to differ materially from our current expectations.
- Achievement of Atmos' long-term rate base and EPS CAGR targets is heavily dependent on robust capital investments, regulatory support, and favorable ratemaking mechanism. Any deferral of spending could put the company at risk of falling short of the LT rate base and earnings growth CAGR in any one year.
- Gas pipeline accidents in the industry have heightened the importance of pipeline safety and integrity management. These accidents can result in significant financial strains related to pipeline replacement, accident investigations, life and property claims, regulatory fines, and disallowances.
- Atmos is in the midst of a robust capital spending program, and any change in the company's operating environment and or project cost overruns could require greater external equity funding, exposing investors to potential dilution risk in the future.

NiSource Inc. *(Overweight; Price Target: $31.00)*

Investment Thesis

With renewables driving ~20% of the five-year capital plan, NI's "green hue" stands unique among LDCs. Additionally, the company's potential portfolio optimization efforts could accelerate a relative re-weighting toward NI's electric operations should the company divest a smaller LDC jurisdiction to fund renewables investment. We remain constructive on NI's long-term outlook given its attractive growth, subject to manageable execution risk, and relative positioning vs. LDC peers.

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Valuation

We lower our December 2022 price target to $31/share, from prior $33. We base our price target on a sum-of-the-parts analysis using our 2023 electric and gas segment EPS forecasts. We value the gas and electric segments using 20.6x and 20.1x P/E multiples, respectively. This represents a premium to peers on account of NI's coal generation transition, incremental renewables investment, and above-average growth as a result. The lower price target is due to decreased peer average multiples.

Risk to Rating and Price Target

- Gas pipeline accidents in the industry have heightened the importance of pipeline safety and integrity management. These accidents can result in significant financial strains related to pipeline replacement, accident investigations, life and property claims, regulatory fines, and disallowances.
- Achievement of NiSource's long-term rate base and EPS CAGR targets is heavily dependent on robust capital investments, regulatory support, and favorable ratemaking mechanism. Any deferral of spending could put the company at risk of falling short of the LT rate base and earnings growth CAGR in any one year.
- Regulated electric and gas utilities are subject to federal and state regulations, including determinations of allowed revenues. Negative changes to the regulatory environments may cause future earnings to be materially lower than current expectations.

New Jersey Resources Corporation *(Neutral; Price Target: $44.00)*

Investment Thesis

Favorable green attributes differentiate NJR from natural gas LDC peers given decarbonizing utility investments and significant solar growth. However, the company's diversified energy model appears increasingly out of step with sector moves to streamline business mix around utility operations, and New Jersey energy policy creates both risks and opportunities for local LDCs. NJR's growth targets screen attractively versus LDC peer averages, and the company has made additional progress since its Nov 2020 analyst day to de-risk growth drivers in lowering plan equity needs and stabilizing future Energy Services contributions. We see current levels as fairly reflecting NJR's favorable green attributes, exposure to non-utility transportation & storage and energy services earnings, and NJ-specific energy transition risks.

Valuation

We lower our Dec 2022 price target to $44/share, from prior $46, using an 18.8x P/E multiple on our 2023 estimate. The multiple reflects a premium to natural gas LDC peers on account of NJR's favorable green attributes, partially offset by exposure to non-utility transportation & storage and energy services earnings as well as NJ-specific energy transition risks. The lower price target is due to decreased peer average multiples.

Risks to Rating and Price Target

- Robust capital investments, regulatory support, and favorable ratemaking mechanisms are significant drivers of NJR's long-term rate base and EPS CAGR

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targets. Any spending deferrals or negative regulatory outcomes could lower these growth rates.

- Changing state receptivity to continued natural gas system investment has the potential to meaningfully alter NJNG's capex opportunities. While we see current New Jersey policies as balanced, the state has demonstrated a commitment to clean energy that could lead to widespread electrification as a means to decarbonize its overall economy. Conversely, any NJ prioritization of RNG and hydrogen for future use of current gas infrastructure could expand both regulated and non-regulated growth opportunities.
- NJR's solar projects have faced delays that are lowering near-term segment investment. These investments are a core component of the company's long-term earnings growth outlook, and an inability to boost development activity could cause NJR to miss its growth targets.

Spire Inc *(Neutral; Price Target: $72.00)*

Investment Thesis

We see SR's MO rate case outcome as disappointing, diverging from initial expectations for a smooth rate case process, reversing MO's improving regulatory backdrop, and ultimately reducing earnings power versus more balanced results. MO regulation remains inconsistent at best, with markedly different rate case decisions across utilities over the past several years, and Spire's latest order amplifies untenable regulatory instability, in our view. Given SR's remaining work in addressing case challenges and the STL Pipeline's uncertainty at FERC, we anticipate SR's current discount to persist absent full clarity across consolidated earnings power.

Valuation

We lower our December 2022 price target to $72/share, from prior $75. We base our price target on a P/E multiple of 16.7x applied to our 2023 EPS estimate. The multiple incorporates a discount to the gas utility peer group, reflecting MO regulatory risk. The lower price target is due to decreased peer average multiples.

Risks to Rating and Price Target

- Given the importance of capital spending levels to the company's adjusted net income, timely rate relief is a necessity for the company to continue to grow earnings. Any change to the regulatory environments may cause future earnings to materially differ from current expectations.
- Utilities are subject to federal and state regulation, including determination of allowed revenues. A meaningful change to the regulatory environment may cause future earnings to be lower than our current expectations.

Southwest Gas Holdings Inc. *(Neutral; Price Target: $80.00)*

Investment Thesis

Southwest Gas Holdings and large shareholder Carl Icahn recently reached a settlement in their conflict over the company's Questar Pipelines transaction and

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overall SWX strategy in the face of a perceived SOTP valuation discount, among other items. With the company's announcement of a strategic review, including a potential whole company sale, other outcomes that previously appeared less realistic are increasingly gaining credibility. Given strong recent appetite for gas LDC assets, we see this review carrying meaningful prospects for a total company sale, although we acknowledge limited clarity into the process at this time. At current levels, we see the company embedding some optionality from a sale scenario.

Valuation

We lower our Dec 2022 price target to $80/shr, from prior $86, based on an SOTP valuation using our 2023 segment forecasts. Our price target includes $46 of value for SWX's natural gas distribution operations (inclusive of a partial parent drag allocation), utilizing a 15.9x P/E multiple. This multiple reflects a discount to gas utility peers on account of AZ regulatory risk and below average AZ ratemaking mechanics. Additionally, we include $12/shr and $21/shr of value for MountainWest and Centuri, respectively, based on in line 11x and 8.4x EV/EBITDA multiples. Our SOTP also includes $2/shr of COLI value. We exclude COLI mark-to-market and future payouts from our 2023-2024 EPS estimates. The lower price target is due to decreased peer average multiples.

This SOTP analysis values SWX on a standalone basis and does not incorporate potential upside under a sale scenario.

Our price target remains sensitive to the assumed EV/EBITDA multiple for Centuri. Here, a +/- 1x change drives a +/- $5 impact to total value per share.

Risks to Rating and Price Target

- Rates charged to the company's utility customers are set by separate state regulators in AZ, NV, and CA. Given the current elevated level of capital spending, consistent rulings and interim recovery riders remain instrumental in providing rate relief to drive earnings growth. Any meaningful positive or negative change to the regulatory framework in these jurisdictions may cause future earnings to differ materially from current expectations.
- SWX has guided that a portion of its three-year capex plan will be funded by incremental equity issuances. Equity timing and ultimate funding levels may cause future earnings per share to differ from current expectations.
- The company intends to separate its construction business. Potential paths include a tax-free spin and outright sale, and the ultimate method pursued could impact value to shareholders versus our assumptions and SWX's residual equity needs, as discussed above.

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Atmos Energy: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**2,821**	**3,407**	**4,155**	**4,660**	**4,890**
COGS	(659)	(1,033)	(1,642)	(1,890)	(1,890)
Gross profit	**2,162**	**2,375**	**2,513**	**2,770**	**2,999**
SG&A	(901)	(994)	**(1,019)**	**(1,006)**	**(1,029)**
Adj. EBITDA	**1,261**	**1,381**	**1,494**	**1,765**	**1,970**
D&A	(430)	(478)	(537)	(590)	(639)
Adj. EBIT	**831**	**903**	**957**	**1,175**	**1,331**
Net Interest	(84)	(84)	(101)	(136)	(167)
Adj. PBT	**747**	**819**	**855**	**1,039**	**1,164**
Tax	(145)	(154)	(91)	(195)	(220)
Minority Interest	-	-	-	-	-
Adj. Net Income	**580**	**666**	**764**	**843**	**945**
Reported EPS	4.72	5.13	5.56	5.91	6.35
Adj. EPS	**4.72**	**5.13**	**5.56**	**5.91**	**6.35**
DPS	**2.30**	**2.50**	**2.72**	**2.96**	**3.23**
Payout ratio	48.7%	48.8%	48.9%	50.1%	50.9%
Shares outstanding	123	130	137	143	149

Income Statement - Quarterly	1Q22A	2Q22A	3Q22E	4Q22E
Revenue	**1,013A**	**1,650A**	**765**	**727**
COGS	(371)A	(871)A	(202)	(197)
Gross profit	**642A**	**778A**	**563**	**529**
SG&A	(229)A	(255)A	(260)	(275)
Adj. EBITDA	**412A**	**524A**	**303**	**254**
D&A	(128)A	(133)A	(136)	(140)
Adj. EBIT	**285A**	**390A**	**167**	**115**
Net Interest	(20)A	(29)A	(25)	(28)
Adj. PBT	**265A**	**361A**	**142**	**87**
Tax	(16)A	(36)A	(25)	(14)
Minority Interest	-	-	-	-
Adj. Net Income	**249A**	**325A**	**118**	**73**
Reported EPS	1.86A	2.37A	0.84	0.52
Adj. EPS	**1.86A**	**2.37A**	**0.84**	**0.52**
DPS	**0.68A**	**0.68A**	**0.68**	**0.68**
Payout ratio	36.5%A	28.7%A	80.5%	130.8%
Shares outstanding	134A	137A	139	139

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	21	117	0	0	0
Accounts receivable	-	-	-	-	-
Other current assets	450	2,722	3,010	3,140	3,267
Current assets	**471**	**2,839**	**3,010**	**3,140**	**3,267**
PP&E	13,355	15,064	17,070	19,082	20,995
Other non current assets	1,532	1,706	1,677	1,717	1,757
Total assets	**15,359**	**19,609**	**21,757**	**23,939**	**26,019**
Short term borrowings	0	2,400	2,517	2,689	2,790
Payables	-	-	-	-	-
Other short term liabilities	782	1,110	1,007	1,007	1,007
Current liabilities	**782**	**3,510**	**3,524**	**3,696**	**3,797**
Long-term debt	4,532	4,930	5,888	6,580	7,175
Other long term liabilities	3,254	3,261	3,361	3,556	3,776
Total liabilities	**8,568**	**11,702**	**12,772**	**13,833**	**14,748**
Shareholders' equity	6,791	7,907	8,984	10,106	11,271
Minority interests	-	-	-	-	-
Total liabilities & equity	**15,359**	**19,609**	**21,757**	**23,939**	**26,019**
BVPS	**53.95**	**59.71**	**64.63**	**69.52**	**74.42**
y/y Growth	*12.0%*	*10.7%*	*8.2%*	*7.6%*	*7.1%*
Net debt/(cash)	4,511	7,214	8,404	9,269	9,966
Cash flow from operating activities	**1,038**	**(1,084)**	**1,063**	**1,459**	**1,635**
o/w Depreciation & amortization	430	478	537	590	639
o/w Changes in working capital	(134)	(2,379)	(281)	(130)	(128)
Cash flow from investing activities	**(1,926)**	**(1,964)**	**(2,443)**	**(2,602)**	**(2,552)**
o/w Capital expenditure	(1,936)	(1,970)	(2,451)	(2,602)	(2,552)
as % of sales	*68.6%*	*57.8%*	*59.0%*	*55.8%*	*52.2%*
Cash flow from financing activities	**884**	**3,144**	**1,268**	**1,203**	**1,120**
o/w Dividends paid	(282)	(324)	(373)	(422)	(480)
o/w Net debt issued/(repaid)	535	2,797	1,049	925	900
Net change in cash	**(4)**	**96**	**(112)**	**60**	**204**
Adj. Free cash flow to firm	**(830)**	**(2,986)**	**(1,298)**	**(1,033)**	**(781)**
y/y Growth	*28.9%*	*259.9%*	*(56.5%)*	*(20.4%)*	*(24.4%)*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	76.6%	69.7%	60.5%	59.4%	61.3%
EBITDA margin	44.7%	40.5%	36.0%	37.9%	40.3%
EBIT margin	29.5%	26.5%	23.0%	25.2%	27.2%
Net profit margin	20.6%	19.5%	18.4%	18.1%	19.3%
ROE	9.3%	9.1%	9.1%	8.8%	8.8%
ROA	4.0%	3.8%	3.7%	3.7%	3.8%
ROCE	6.4%	5.5%	5.2%	5.2%	5.3%
SG&A/Sales	31.9%	29.2%	24.5%	21.6%	21.1%
Net debt/equity	0.7	0.9	0.9	0.9	0.9
P/E (x)	24.0	22.1	20.4	19.2	17.9
P/BV (x)	2.1	1.9	1.8	1.6	1.5
EV/EBITDA (x)	12.2	13.5	13.6	12.3	11.7
Dividend Yield	2.0%	2.2%	2.4%	2.6%	2.9%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	14.9	16.5	14.7	13.0	11.8
Operating leverage	(371.3%)	41.4%	27.2%	187.1%	270.8%
Revenue y/y Growth	(2.8%)	20.8%	21.9%	12.2%	4.9%
EBITDA y/y Growth	10.1%	9.5%	8.2%	18.1%	11.6%
Tax rate	19.5%	18.8%	10.6%	18.8%	18.9%
Adj. Net Income y/y Growth	13.8%	14.7%	14.9%	10.3%	12.0%
EPS y/y Growth	8.8%	8.5%	8.5%	6.3%	7.3%
DPS y/y Growth	9.5%	8.7%	8.8%	9.0%	9.0%

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

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NiSource Inc.: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**4,697**	**4,901**	**5,509**	**5,712**	**5,989**
COGS	(1,109)	(1,392)	(1,742)	(1,760)	(1,760)
Gross profit	**3,587**	**3,509**	**3,768**	**3,952**	**4,229**
SG&A	(1,794)	(1,696)	**(1,751)**	**(1,740)**	**(1,765)**
Adj. EBITDA	**1,826**	**1,852**	**2,028**	**2,212**	**2,464**
D&A	(762)	(748)	(787)	(847)	(892)
Adj. EBIT	**1,064**	**1,104**	**1,241**	**1,365**	**1,572**
Net Interest	(371)	(341)	(352)	(417)	(445)
Adj. PBT	**693**	**763**	**889**	**948**	**1,127**
Tax	(127)	(132)	(172)	(182)	(225)
Minority Interest	(59)	(59)	(73)	(69)	(69)
Adj. Net Income	**508**	**571**	**643**	**698**	**833**
Reported EPS	1.32	1.37	1.45	1.54	1.74
Adj. EPS	**1.32**	**1.37**	**1.45**	**1.54**	**1.74**
DPS	**0.84**	**0.88**	**0.94**	**1.00**	**1.06**
Payout ratio	63.6%	64.3%	65.0%	64.7%	60.8%
Shares outstanding	384	417	445	453	480

Income Statement - Quarterly	1Q22A	2Q22E	3Q22E	4Q22E
Revenue	**1,870A**	**1,093**	**1,016**	**1,530**
COGS	(707)A	(313)	(222)	(500)
Gross profit	**1,164A**	**780**	**794**	**1,031**
SG&A	(477)A	(418)	(403)	(452)
Adj. EBITDA	**697A**	**362**	**390**	**578**
D&A	(193)A	(195)	(198)	(201)
Adj. EBIT	**505A**	**166**	**192**	**377**
Net Interest	(84)A	(86)	(90)	(93)
Adj. PBT	**421A**	**80**	**102**	**285**
Tax	(74)A	(15)	(20)	(63)
Minority Interest	(18)A	(18)	(18)	(18)
Adj. Net Income	**329A**	**47**	**64**	**203**
Reported EPS	0.74A	0.11	0.14	0.45
Adj. EPS	**0.74A**	**0.11**	**0.14**	**0.45**
DPS	**0.24A**	**0.24**	**0.24**	**0.24**
Payout ratio	31.6%A	220.8%	162.7%	52.0%
Shares outstanding	441A	443	446	449

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	126	95	0	0	0
Accounts receivable	791	826	961	961	961
Other current assets	743	1,000	872	1,049	1,151
Current assets	**1,659**	**1,921**	**1,833**	**2,010**	**2,113**
PP&E	16,620	17,882	19,359	22,056	23,208
Other non current assets	3,762	4,354	4,373	4,373	4,373
Total assets	**22,041**	**24,157**	**25,565**	**28,440**	**29,694**
Short term borrowings	503	560	723	2,245	1,200
Payables	589	698	629	629	629
Other short term liabilities	1,187	1,488	1,388	1,388	1,388
Current liabilities	**2,279**	**2,746**	**2,740**	**4,262**	**3,217**
Long-term debt	9,220	9,183	9,875	10,725	11,575
Other long term liabilities	4,704	4,954	5,158	5,339	5,565
Total liabilities	**16,203**	**16,884**	**17,773**	**20,326**	**20,357**
Shareholders' equity	5,838	7,273	7,792	8,113	9,337
Minority interests	-	-	-	-	-
Total liabilities & equity	**22,041**	**24,157**	**25,565**	**28,440**	**29,694**
BVPS	**14.90**	**17.94**	**18.75**	**17.86**	**19.23**
y/y Growth	*(4.9%)*	*20.4%*	*4.5%*	*(4.8%)*	*7.7%*
Net debt/(cash)	9,597	9,649	10,598	12,970	12,776
Cash flow from operating activities	**1,104**	**1,218**	**1,495**	**1,549**	**1,848**
o/w Depreciation & amortization	726	748	787	847	892
o/w Changes in working capital	(249)	(260)	(134)	(177)	(102)
Cash flow from investing activities	**(879)**	**(2,205)**	**(2,203)**	**(3,544)**	**(2,044)**
o/w Capital expenditure	(1,758)	(1,838)	(2,283)	(3,544)	(2,044)
as % of sales	*37.4%*	*37.5%*	*41.4%*	*62.1%*	*34.1%*
Cash flow from financing activities	**(248)**	**956**	**410**	**473**	**1,240**
o/w Dividends paid	(322)	(400)	(394)	(425)	(512)
o/w Net debt issued/(repaid)	82	31	590	850	850
Net change in cash	**(23)**	**(31)**	**(298)**	**(1,522)**	**1,044**
Adj. Free cash flow to firm	**(351)**	**(338)**	**(504)**	**(1,658)**	**161**
y/y Growth	*(469.3%)*	*(3.7%)*	*48.9%*	*229.1%*	*(109.7%)*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	76.4%	71.6%	68.4%	69.2%	70.6%
EBITDA margin	38.9%	37.8%	36.8%	38.7%	41.2%
EBIT margin	22.6%	22.5%	22.5%	23.9%	26.3%
Net profit margin	10.8%	11.7%	11.7%	12.2%	13.9%
ROE	8.6%	8.7%	8.5%	8.8%	9.5%
ROA	2.3%	2.5%	2.6%	2.6%	2.9%
ROCE	5.6%	5.6%	5.7%	5.6%	5.8%
SG&A/Sales	38.2%	34.6%	31.8%	30.5%	29.5%
Net debt/equity	1.6	1.3	1.4	1.6	1.4
P/E (x)	21.5	20.8	19.7	18.5	16.4
P/BV (x)	1.9	1.6	1.5	1.6	1.5
EV/EBITDA (x)	9.1	9.2	8.9	9.5	8.7
Dividend Yield	3.0%	3.1%	3.3%	3.5%	3.7%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	4.9	5.4	5.8	5.3	5.5
Operating leverage	(22.1%)	87.0%	100.1%	272.9%	312.4%
Revenue y/y Growth	(9.4%)	4.3%	12.4%	3.7%	4.9%
EBITDA y/y Growth	3.8%	1.4%	9.5%	9.1%	11.4%
Tax rate	18.3%	17.4%	19.4%	19.2%	20.0%
Adj. Net Income y/y Growth	2.6%	12.6%	12.6%	8.5%	19.4%
EPS y/y Growth	(0.0%)	3.7%	5.7%	6.5%	12.7%
DPS y/y Growth	5.0%	4.8%	6.8%	6.0%	6.0%

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

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New Jersey Resources: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**1,954**	**2,157**	**2,589**	**2,574**	**2,622**
COGS	(1,305)	(1,352)	(1,703)	(1,703)	(1,703)
Gross profit	**649**	**805**	**885**	**871**	**918**
SG&A	(278)	(367)	**(336)**	**(343)**	**(349)**
Adj. EBITDA	**336**	**400**	**492**	**471**	**513**
D&A	(120)	(111)	(127)	(141)	(156)
Adj. EBIT	**216**	**288**	**366**	**330**	**357**
Net Interest	(68)	(79)	(77)	(83)	(92)
Adj. PBT	**173**	**234**	**308**	**274**	**299**
Tax	7	(33)	(71)	(49)	(54)
Minority Interest	14	(83)	3	3	3
Adj. Net Income	**196**	**208**	**229**	**227**	**249**
Reported EPS	2.07	2.16	2.38	2.37	2.59
Adj. EPS	**2.07**	**2.16**	**2.38**	**2.37**	**2.59**
DPS	**1.25**	**1.33**	**1.45**	**1.57**	**1.69**
Payout ratio	60.4%	61.7%	60.9%	66.3%	65.3%
Shares outstanding	95	96	96	96	96

Income Statement - Quarterly	1Q22A	2Q22A	3Q22E	4Q22E
Revenue	**676A**	**912A**	**412**	**589**
COGS	(403)A	(625)A	(280)	(395)
Gross profit	**273A**	**287A**	**132**	**194**
SG&A	(69)A	(86)A	(84)	(98)
Adj. EBITDA	**187A**	**170A**	**42**	**92**
D&A	(30)A	(31)A	(32)	(33)
Adj. EBIT	**157A**	**139A**	**10**	**59**
Net Interest	(19)A	(19)A	(19)	(20)
Adj. PBT	**142A**	**124A**	**(3)**	**45**
Tax	(31)A	(29)A	1	(12)
Minority Interest	1A	1A	1	1
Adj. Net Income	**66A**	**130A**	**(1)**	**34**
Reported EPS	0.69A	1.36A	(0.01)	0.35
Adj. EPS	**0.69A**	**1.36A**	**(0.01)**	**0.35**
DPS	**0.36A**	**0.36A**	**0.36**	**0.36**
Payout ratio	52.9%A	26.7%A	NM	103.0%
Shares outstanding	96A	96A	96	96

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	119	6	0	0	0
Accounts receivable	143	223	330	330	330
Other current assets	362	406	227	257	287
Current assets	**625**	**636**	**556**	**587**	**616**
PP&E	3,983	4,214	4,664	5,137	5,567
Other non current assets	962	873	823	646	408
Total assets	**5,570**	**5,722**	**6,042**	**6,370**	**6,591**
Short term borrowings	153	450	465	597	690
Payables	238	395	123	123	123
Other short term liabilities	143	206	432	432	432
Current liabilities	**534**	**1,051**	**1,021**	**1,153**	**1,245**
Long-term debt	2,259	2,162	2,379	2,449	2,439
Other long term liabilities	932	878	895	945	999
Total liabilities	**3,725**	**4,091**	**4,295**	**4,547**	**4,683**
Shareholders' equity	1,845	1,631	1,747	1,823	1,908
Minority interests	-	-	-	-	-
Total liabilities & equity	**5,570**	**5,722**	**6,042**	**6,370**	**6,591**
BVPS	**19.23**	**16.90**	**18.18**	**18.97**	**19.86**
y/y Growth	*11.5%*	*(12.1%)*	*7.6%*	*4.3%*	*4.7%*
Net debt/(cash)	2,293	2,606	2,845	3,047	3,129
Cash flow from operating activities	**213**	**391**	**425**	**387**	**430**
o/w Depreciation & amortization	120	111	127	141	156
o/w Changes in working capital	(8)	10	60	(31)	(29)
Cash flow from investing activities	**(994)**	**(622)**	**(578)**	**(615)**	**(586)**
o/w Capital expenditure	(470)	(625)	(583)	(615)	(586)
as % of sales	*24.1%*	*29.0%*	*22.5%*	*23.9%*	*22.4%*
Cash flow from financing activities	**896**	**118**	**9**	**165**	**149**
o/w Dividends paid	(118)	(117)	(134)	(152)	(163)
o/w Net debt issued/(repaid)	640	(18)	150	140	75
Net change in cash	**115**	**(113)**	**(145)**	**(62)**	**(7)**
Adj. Free cash flow to firm	**(192)**	**(166)**	**(99)**	**(159)**	**(81)**
y/y Growth	*(36.0%)*	*(13.3%)*	*(40.6%)*	*61.0%*	*(49.0%)*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	33.2%	37.3%	34.2%	33.8%	35.0%
EBITDA margin	17.2%	18.5%	19.0%	18.3%	19.6%
EBIT margin	11.1%	13.4%	14.1%	12.8%	13.6%
Net profit margin	10.0%	9.6%	8.8%	8.8%	9.5%
ROE	11.6%	12.0%	13.5%	12.7%	13.3%
ROA	3.9%	3.7%	3.9%	3.7%	3.8%
ROCE	5.6%	5.8%	6.4%	5.7%	5.9%
SG&A/Sales	14.2%	17.0%	13.0%	13.3%	13.3%
Net debt/equity	1.2	1.6	1.6	1.7	1.6
P/E (x)	20.9	20.0	18.1	18.2	16.7
P/BV (x)	2.2	2.6	2.4	2.3	2.2
EV/EBITDA (x)	17.1	15.3	12.9	13.9	13.0
Dividend Yield	2.9%	3.1%	3.4%	3.6%	3.9%
Sales/Assets (x)	0.4	0.4	0.4	0.4	0.4
Interest cover (x)	5.0	5.1	6.4	5.7	5.6
Operating leverage	(164.7%)	320.2%	133.7%	1698.9%	429.8%
Revenue y/y Growth	(24.6%)	10.4%	20.0%	(0.6%)	1.8%
EBITDA y/y Growth	36.9%	18.9%	23.2%	(4.2%)	8.8%
Tax rate	4.0%	14.2%	23.0%	18.0%	18.0%
Adj. Net Income y/y Growth	12.2%	5.8%	10.1%	(0.6%)	9.4%
EPS y/y Growth	5.6%	4.2%	10.4%	(0.6%)	9.4%
DPS y/y Growth	6.8%	6.4%	9.0%	8.3%	7.6%

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

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Spire Inc: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**1,855**	**2,236**	**1,974**	**1,817**	**1,857**
COGS	(696)	(946)	(745)	(539)	(539)
Gross profit	**1,159**	**1,289**	**1,228**	**1,277**	**1,318**
SG&A	(756)	(629)	**(619)**	**(606)**	**(608)**
Adj. EBITDA	**404**	**660**	**609**	**672**	**710**
D&A	(197)	(213)	(235)	(245)	(254)
Adj. EBIT	**207**	**447**	**374**	**427**	**456**
Net Interest	(106)	(107)	(114)	(122)	(129)
Adj. PBT	**101**	**340**	**260**	**305**	**327**
Tax	(12)	(69)	(53)	(59)	(63)
Minority Interest	-	-	-	-	-
Adj. Net Income	**193**	**251**	**206**	**231**	**250**
Reported EPS	3.76	4.86	3.94	4.34	4.52
Adj. EPS	**3.76**	**4.86**	**3.94**	**4.34**	**4.52**
DPS	**2.49**	**2.60**	**2.74**	**2.88**	**3.02**
Payout ratio	66.2%	53.5%	69.5%	66.2%	66.8%
Shares outstanding	51	52	52	53	55

Income Statement - Quarterly	1Q22A	2Q22A	3Q22E	4Q22E
Revenue	**555A**	**881A**	**293**	**245**
COGS	(249)A	(392)A	(61)	(43)
Gross profit	**306A**	**489A**	**231**	**202**
SG&A	(147)A	(188)A	(137)	(147)
Adj. EBITDA	**160A**	**301A**	**94**	**55**
D&A	(57)A	(59)A	(59)	(60)
Adj. EBIT	**103A**	**242A**	**35**	**(5)**
Net Interest	(29)A	(28)A	(29)	(30)
Adj. PBT	**74A**	**214A**	**6**	**(35)**
Tax	(18)A	(41)A	(1)	7
Minority Interest	-	-	-	-
Adj. Net Income	**59A**	**177A**	**1**	**(32)**
Reported EPS	1.14A	3.41A	0.03	(0.60)
Adj. EPS	**1.14A**	**3.41A**	**0.03**	**(0.60)**
DPS	**0.69A**	**0.69A**	**0.69**	**0.69**
Payout ratio	60.2%A	20.1%A	2513.9%	NM
Shares outstanding	52A	52A	52	53

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	4	11	0	0	0
Accounts receivable	253	596	600	600	600
Other current assets	333	709	488	518	549
Current assets	**591**	**1,317**	**1,088**	**1,117**	**1,148**
PP&E	6,356	5,610	5,917	6,263	6,629
Other non current assets	1,295	2,430	2,548	2,552	2,556
Total assets	**8,241**	**9,356**	**9,553**	**9,931**	**10,333**
Short term borrowings	1,449	1,608	1,498	1,542	1,603
Payables	-	-	-	-	-
Other short term liabilities	0	0	0	0	0
Current liabilities	**1,449**	**1,608**	**1,498**	**1,542**	**1,603**
Long-term debt	2,424	2,939	3,319	3,479	3,464
Other long term liabilities	1,843	2,141	1,939	1,998	2,061
Total liabilities	**5,716**	**6,688**	**6,756**	**7,019**	**7,127**
Shareholders' equity	2,526	2,668	2,796	2,913	3,206
Minority interests	-	-	-	-	-
Total liabilities & equity	**8,241**	**9,356**	**9,553**	**9,931**	**10,333**
BVPS	**-**	**-**	**-**	**-**	**-**
y/y Growth	-	-	-	-	-
Net debt/(cash)	3,869	4,536	4,817	5,020	5,066
Cash flow from operating activities	**470**	**250**	**223**	**501**	**531**
o/w Depreciation & amortization	197	213	235	245	254
o/w Changes in working capital	18	(319)	(266)	(30)	(31)
Cash flow from investing activities	**(632)**	**(622)**	**(543)**	**(590)**	**(620)**
o/w Capital expenditure	(638)	(625)	(546)	(590)	(620)
as % of sales	*34.4%*	*27.9%*	*27.7%*	*32.5%*	*33.4%*
Cash flow from financing activities	**160**	**379**	**176**	**45**	**28**
o/w Dividends paid	(143)	(148)	(149)	(153)	(166)
o/w Net debt issued/(repaid)	268	538	259	160	(15)
Net change in cash	**(2)**	**7**	**(145)**	**(44)**	**(61)**
Adj. Free cash flow to firm	**(76)**	**(290)**	**(232)**	**10**	**15**
y/y Growth	*(73.3%)*	*281.6%*	*(19.8%)*	*(104.2%)*	*57.5%*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	62.5%	57.7%	62.2%	70.3%	71.0%
EBITDA margin	21.8%	29.5%	30.9%	37.0%	38.2%
EBIT margin	11.1%	20.0%	18.9%	23.5%	24.6%
Net profit margin	10.4%	11.2%	10.4%	12.7%	13.4%
ROE	7.6%	9.7%	7.5%	8.1%	8.2%
ROA	2.4%	2.9%	2.2%	2.4%	2.5%
ROCE	2.9%	5.2%	4.0%	4.4%	4.5%
SG&A/Sales	40.7%	28.2%	31.4%	33.3%	32.7%
Net debt/equity	1.5	1.7	1.7	1.7	1.6
P/E (x)	18.6	14.4	17.8	16.1	15.5
P/BV (x)	-	-	-	-	-
EV/EBITDA (x)	16.8	11.1	12.8	12.0	6.1
Dividend Yield	3.6%	3.7%	3.9%	4.1%	4.3%
Sales/Assets (x)	0.2	0.3	0.2	0.2	0.2
Interest cover (x)	3.8	6.2	5.3	5.5	5.5
Operating leverage	728.0%	568.0%	139.2%	(177.8%)	308.2%
Revenue y/y Growth	(5.0%)	20.5%	(11.7%)	(8.0%)	2.2%
EBITDA y/y Growth	(19.7%)	63.4%	(7.7%)	10.3%	5.7%
Tax rate	12.3%	20.1%	20.5%	19.2%	19.2%
Adj. Net Income y/y Growth	1.8%	30.2%	(18.1%)	12.5%	7.9%
EPS y/y Growth	0.9%	29.2%	(18.8%)	10.2%	4.1%
DPS y/y Growth	5.1%	4.4%	5.4%	5.0%	5.0%

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

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Southwest Gas Holdings Inc.: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**3,299**	**3,680**	**4,609**	**4,874**	**5,115**
COGS	(343)	(431)	(574)	(572)	(572)
Gross profit	**3,250**	**4,035**	**4,302**	**4,543**	**0**
SG&A	(2,208)	(2,512)	**(2,968)**	**(3,132)**	**(3,319)**
Adj. EBITDA	**748**	**737**	**1,068**	**1,170**	**1,224**
D&A	(332)	(371)	(474)	(492)	(508)
Adj. EBIT	**416**	**366**	**593**	**678**	**716**
Net Interest	(111)	(119)	(204)	(232)	(238)
Adj. PBT	**305**	**247**	**389**	**446**	**478**
Tax	(66)	(40)	(91)	(99)	(108)
Minority Interest	(7)	(6)	(5)	(6)	(6)
Adj. Net Income	**232**	**247**	**303**	**341**	**365**
Reported EPS	4.14	3.39	4.44	4.92	5.09
Adj. EPS	**4.14**	**4.17**	**4.59**	**4.92**	**5.09**
DPS	**2.26**	**2.36**	**2.46**	**2.56**	**2.66**
Payout ratio	54.4%	69.5%	55.3%	52.0%	52.2%
Shares outstanding	56	59	66	69	72

Income Statement - Quarterly	1Q22A	2Q22E	3Q22E	4Q22E
Revenue	**1,267A**	**1,012**	**1,087**	**1,243**
COGS	(299)A	(76)	(64)	(135)
Gross profit	**1,009A**	**1,003**	**1,102**	**1,188**
SG&A	(676)A	(718)	(798)	(775)
Adj. EBITDA	**292A**	**217**	**226**	**333**
D&A	(123)A	(113)	(117)	(122)
Adj. EBIT	**170A**	**104**	**109**	**211**
Net Interest	(48)A	(51)	(51)	(54)
Adj. PBT	**121A**	**53**	**58**	**157**
Tax	(24)A	(15)	(18)	(35)
Minority Interest	(1)A	(1)	(1)	(1)
Adj. Net Income	**106A**	**37**	**39**	**121**
Reported EPS	1.58A	0.55	0.57	1.78
Adj. EPS	**1.74A**	**0.55**	**0.57**	**1.78**
DPS	**0.60A**	**0.62**	**0.62**	**0.62**
Payout ratio	37.6%A	113.1%	108.3%	34.8%
Shares outstanding	61A	67	68	68

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	83	223	0	0	0
Accounts receivable	522	707	756	756	756
Other current assets	265	685	700	746	792
Current assets	**871**	**1,615**	**1,456**	**1,502**	**1,548**
PP&E	6,176	7,594	8,000	8,427	8,839
Other non current assets	1,689	3,556	3,490	3,427	3,384
Total assets	**8,736**	**12,765**	**12,946**	**13,357**	**13,772**
Short term borrowings	147	2,206	3,000	3,079	3,164
Payables	231	353	257	257	257
Other short term liabilities	533	552	609	609	609
Current liabilities	**912**	**3,112**	**3,865**	**3,944**	**4,029**
Long-term debt	2,732	4,116	2,779	2,614	2,428
Other long term liabilities	2,251	2,387	2,501	2,601	2,708
Total liabilities	**5,895**	**9,615**	**9,145**	**9,158**	**9,166**
Shareholders' equity	2,841	3,151	3,801	4,198	4,606
Minority interests	0	0	0	0	0
Total liabilities & equity	**8,736**	**12,765**	**12,946**	**13,357**	**13,772**
BVPS	**50.66**	**53.17**	**57.70**	**60.53**	**64.19**
y/y Growth	*6.2%*	*5.0%*	*8.5%*	*4.9%*	*6.0%*
Net debt/(cash)	2,796	6,099	5,779	5,693	5,592
Cash flow from operating activities	**626**	**111**	**815**	**950**	**977**
o/w Depreciation & amortization	332	371	474	492	508
o/w Changes in working capital	99	(443)	(98)	(46)	(46)
Cash flow from investing activities	**(802)**	**(3,036)**	**(840)**	**(920)**	**(920)**
o/w Capital expenditure	(825)	(716)	(849)	(920)	(920)
as % of sales	*25.0%*	*19.4%*	*18.4%*	*18.9%*	*18.0%*
Cash flow from financing activities	**210**	**3,063**	**(857)**	**92**	**49**
o/w Dividends paid	(126)	(138)	(162)	(177)	(191)
o/w Net debt issued/(repaid)	306	1,208	(640)	36	6
Net change in cash	**34**	**139**	**(883)**	**122**	**107**
Adj. Free cash flow to firm	**(112)**	**(504)**	**122**	**210**	**242**
y/y Growth	*(68.2%)*	*351.8%*	*(124.3%)*	*71.9%*	*14.8%*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	98.5%	109.6%	93.3%	93.2%	0.0%
EBITDA margin	22.7%	20.0%	23.2%	24.0%	23.9%
EBIT margin	12.6%	9.9%	12.9%	13.9%	14.0%
Net profit margin	7.0%	6.7%	6.6%	7.0%	7.1%
ROE	8.6%	8.2%	8.7%	8.5%	8.3%
ROA	2.7%	2.3%	2.4%	2.6%	2.7%
ROCE	5.9%	4.0%	4.8%	5.4%	5.5%
SG&A/Sales	66.9%	68.3%	64.4%	64.3%	64.9%
Net debt/equity	1.0	1.9	1.5	1.4	1.2
P/E (x)	20.5	20.4	18.5	17.3	16.7
P/BV (x)	1.7	1.6	1.5	1.4	1.3
EV/EBITDA (x)	9.4	14.4	10.1	9.4	9.0
Dividend Yield	2.6%	2.8%	2.9%	3.0%	3.1%
Sales/Assets (x)	0.4	0.3	0.4	0.4	0.4
Interest cover (x)	6.7	6.2	5.2	5.0	5.2
Operating leverage	156.7%	(104.2%)	246.0%	248.2%	112.5%
Revenue y/y Growth	5.7%	11.6%	25.2%	5.7%	4.9%
EBITDA y/y Growth	9.2%	(1.5%)	44.8%	9.6%	4.6%
Tax rate	21.6%	16.1%	23.4%	22.3%	22.5%
Adj. Net Income y/y Growth	8.6%	6.2%	22.6%	12.7%	7.0%
EPS y/y Growth	5.2%	0.5%	10.3%	7.0%	3.4%
DPS y/y Growth	4.6%	4.4%	4.2%	4.1%	3.9%

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

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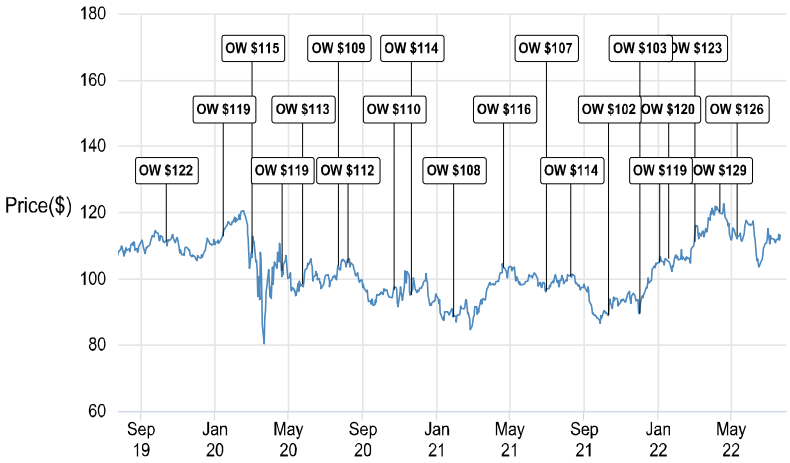
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Atmos Energy (ATO, ATO US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Dec 18, 2006. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
13-Oct-19	OW	111.36	122
15-Jan-20	OW	112.81	119
03-Mar-20	OW	107.89	115
21-Apr-20	OW	102.53	119
25-May-20	OW	98.33	113
23-Jul-20	OW	104.03	109
07-Aug-20	OW	104.70	112
23-Oct-20	OW	96.64	110
20-Nov-20	OW	95.10	114
29-Jan-21	OW	88.57	108
22-Apr-21	OW	103.39	116
30-Jun-21	OW	96.41	107
11-Aug-21	OW	100.89	114
12-Oct-21	OW	89.11	102
02-Dec-21	OW	89.43	103
04-Jan-22	OW	105.01	119
18-Jan-22	OW	106.05	120
03-Mar-22	OW	111.14	123
13-Apr-22	OW	120.20	129
11-May-22	OW	113.11	126

NiSource Inc. (NI, NI US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
01-Aug-19	OW	29.69	31
13-Oct-19	OW	29.14	32
15-Jan-20	OW	28.18	31
09-Apr-20	OW	25.47	29
01-Jul-20	OW	22.74	26
21-Sep-20	OW	21.98	25
23-Oct-20	OW	24.04	26
29-Jan-21	OW	22.17	25
22-Feb-21	OW	22.84	24
22-Apr-21	OW	26.03	28
31-Aug-21	OW	24.76	29
14-Oct-21	OW	24.69	28
04-Jan-22	OW	27.52	31
26-Jan-22	OW	27.14	30
03-Mar-22	OW	29.19	32
18-Apr-22	OW	31.75	34
11-May-22	OW	29.32	33

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New Jersey Resources (NJR, NJR US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Dec 15, 2006. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
03-May-21	N	41.95	43
06-Jun-21	N	43.67	45
26-Jul-21	N	39.28	41
20-Oct-21	N	37.60	40
07-Dec-21	N	39.70	41
04-Jan-22	N	40.87	44
31-Jan-22	N	39.92	43
03-Mar-22	N	43.53	46
13-Apr-22	N	45.71	48
11-May-22	N	43.85	46

Spire Inc (SR, SR US) Price Chart



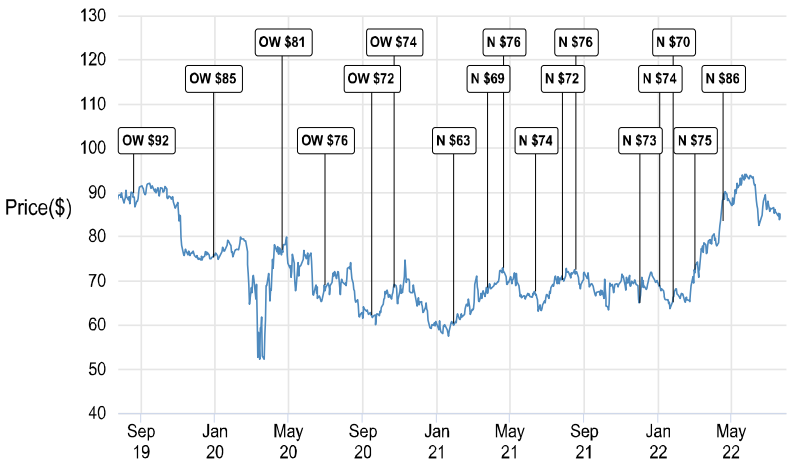
Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 20, 2013. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
30-Jul-19	UW	85.69	78
26-Nov-19	UW	76.93	69
17-Feb-20	UW	87.58	82
01-Jul-20	N	65.71	69
13-Sep-20	N	53.57	62
23-Oct-20	N	58.26	63
25-Nov-20	N	67.36	69
29-Jan-21	OW	60.46	67
17-Feb-21	OW	64.81	72
22-Apr-21	OW	77.38	82
02-Jun-21	OW	72.20	80
21-Jul-21	OW	71.00	78
12-Aug-21	OW	72.20	83
20-Oct-21	OW	63.22	76
16-Nov-21	N	63.61	70
07-Dec-21	N	63.86	67
04-Jan-22	N	65.23	71
03-Mar-22	N	67.13	73
18-Apr-22	N	75.49	76
11-May-22	N	74.45	75

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Southwest Gas Holdings Inc. (SWX, SWX US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Dec 15, 2006. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
20-Aug-19	OW	89.99	92
30-Dec-19	OW	75.24	85
22-Apr-20	OW	77.05	81
01-Jul-20	OW	69.05	76
16-Sep-20	OW	62.32	72
23-Oct-20	OW	68.53	74
29-Jan-21	N	60.33	63
26-Mar-21	N	68.51	69
22-Apr-21	N	72.96	76
14-Jun-21	N	67.67	74
27-Jul-21	N	70.26	72
18-Aug-21	N	72.63	76
02-Dec-21	N	64.99	73
04-Jan-22	N	68.83	74
26-Jan-22	N	65.18	70
03-Mar-22	N	72.59	75
18-Apr-22	N	83.50	86

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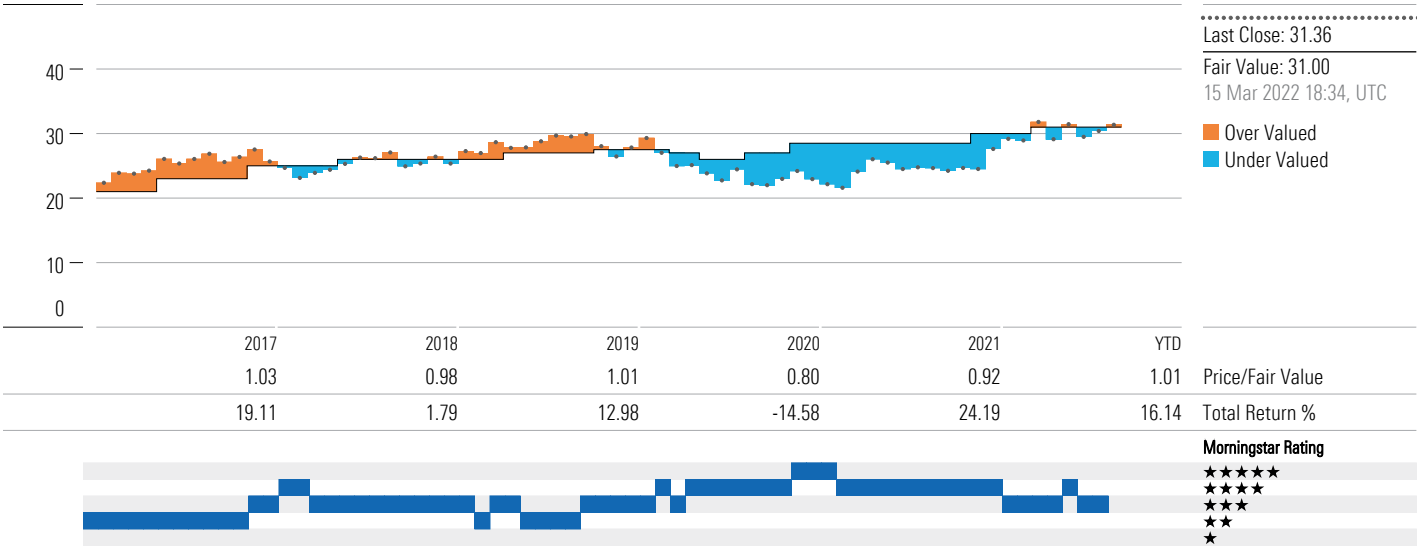
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NiSource Inc NI ★★★ 15 Aug 2022 21:21, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
31.36 USD 15 Aug 2022	31.00 USD 15 Mar 2022 18:34, UTC	1.01	12.73 USD Bil 15 Aug 2022	Narrow	Stable	Low	Standard	3 Aug 2022 05:00, UTC

Price vs. Fair Value



	2017	2018	2019	2020	2021	YTD
Price/Fair Value	1.03	0.98	1.01	0.80	0.92	1.01
Total Return %	19.11	1.79	12.98	-14.58	24.19	16.14

Total Return % as of 15 Aug 2022. Last Close as of 15 Aug 2022. Fair Value as of 15 Mar 2022 18:34, UTC.

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

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

Inflation Reduction Act: Increasing Our Confidence in Utilities' Long-Term Growth

Analyst Note Travis Miller, Strategist, 16 Aug 2022

Our initial analysis of the U.S. Inflation Reduction Act that President Joe Biden plans to sign on Aug. 16 has led us to reaffirm or make slight increases to our fair value estimates for U.S. utilities. We are reaffirming our moat and moat trend ratings.

Overall, the act gives us more confidence in our 5%-7% annual average long-term growth outlooks for most utilities. With most utilities yielding above 3%, we think utilities investors are well positioned to earn 7%-8% long-term annualized total returns even if valuation multiples compress, as we think they will. We consider the sector 13% overvalued on a median basis.

Utilities likely will not benefit directly from the act's clean energy tax credits since they will pass the savings to customers. However, utilities should benefit indirectly from lower regulatory risk as tax benefits offset bill increases related to their growth investments. Utilities with the largest share of renewable energy investments relative to their total investment budgets should have an easier time hitting their earnings growth targets without substantial customer bill increases.

Electric utilities should benefit from more electricity demand and infrastructure growth opportunities if the act speeds adoption of electric vehicles and building electrification, two areas that have been slow to decarbonize.

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NiSource Inc NI ★★★ 15 Aug 2022 21:21, UTC

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Sector
Utilities

Industry
Utilities - Regulated Gas

Business Description

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewable energy.

Partially offsetting those customer benefits is the act's 15% minimum tax, which we estimate will raise cash taxes for most mid- and large-cap utilities. Ultimately, utilities will recover these higher taxes by raising customer bills. Customers also might lose the long-term benefits from accelerated tax depreciation, especially for utilities with large growth investment plans. The act's tax on book income rather than taxable income might cause a slight near-term reduction in utilities' cash flow but should accelerate long-term earnings growth. We don't expect this tax change to have a material impact on our long-term valuations.

Business Strategy & Outlook Travis Miller, Strategist, 1 Jul 2022

After decades of deriving most of its income from natural gas distribution and midstream businesses, NiSource has transitioned to a more diversified earnings mix. About 60% of NiSource's operating income comes from its six natural gas distribution utilities and 40% from its electric utility in Indiana following the 2015 separation from Columbia Pipeline Group. The share of earnings from the electric business could jump if new CEO Lloyd Yates decides to divest some of NiSource's smaller gas utilities.

NiSource's utilities have constructive regulatory frameworks that allow it to collect a cash return of and a cash return on the bulk of its capital investments within 18 months. We expect NiSource to invest more than $8 billion over the next three years, including what could be $2 billion of renewable energy projects in Indiana, where NiSource enjoys favorable regulation.

That growth could extend even longer based on electric and gas system infrastructure improvement projects NiSource has identified. Replacing steel and cast-iron pipe with plastic at its natural gas distribution utilities is a key initiative along with investments across the business that reduce greenhouse gases. Almost all of these investments receive favorable regulatory treatment, allowing NiSource to earn near its regulatory allowed returns.

In October 2020, NiSource sold its Columbia Gas of Massachusetts utility and received $1.1 billion of proceeds that it used to strengthen the balance sheet and prepare for its planned infrastructure investments. The sale came nearly two years after a natural gas explosion on NiSource's Massachusetts system killed one person north of Boston. Insurance covered roughly half of the almost $2 billion of claims, penalties, and other expenses.

Earnings are set to rebound quickly from their low in 2020 when COVID-19 pandemic costs, lower energy use, the Massachusetts utility sale, and a large equity issuance weighed on earnings. We expect modest customer growth combined with NiSource's infrastructure growth investments to support 8% annual earnings growth and 6% annual dividend growth from 2022 to 2026.

Bulls Say Travis Miller, Strategist, 30 Jun 2022

- We expect the dividend to grow near 6% annually during the next few years before accelerating to keep

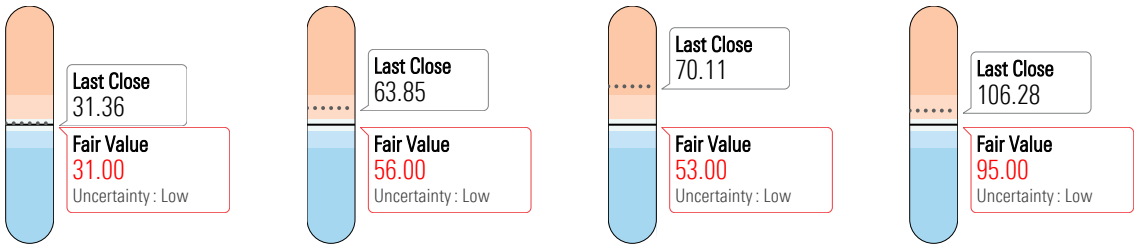
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Competitors



	NiSource Inc NI	Alliant Energy Corp LNT	CMS Energy Corp CMS	WEC Energy Group Inc WEC
Economic Moat	Narrow	Narrow	Narrow	Narrow
Moat Trend	Stable	Stable	Stable	Stable
Currency	USD	USD	USD	USD
Fair Value	31.00 15 Mar 2022 18:34, UTC	56.00 8 Aug 2022 21:05, UTC	53.00 4 May 2022 14:57, UTC	95.00 3 Aug 2022 04:18, UTC
1-Star Price	38.75	70.00	66.25	118.75
5-Star Price	24.80	44.80	42.40	76.00
Assessment	Fairly Valued 15 Aug 2022	Over Valued 15 Aug 2022	Significantly Over Valued 15 Aug 2022	Over Valued 16 Aug 2022
Morningstar Rating	★★★15 Aug 2022 21:21, UTC	★★15 Aug 2022 21:21, UTC	★15 Aug 2022 21:21, UTC	★★15 Aug 2022 21:21, UTC
Analyst	Travis Miller, Strategist	Andrew Bischof, Senior Equity Analyst	Travis Miller, Strategist	Andrew Bischof, Senior Equity Analyst
Capital Allocation	Standard	Standard	Standard	Exemplary
Price/Fair Value	1.01	1.14	1.32	1.12
Price/Sales	2.51	4.04	2.52	3.74
Price/Book	2.24	2.61	2.96	2.97
Price/Earning	20.50	23.05	26.56	24.60
Dividend Yield	2.95%	2.64%	2.59%	2.69%
Market Cap	12.73 Bil	16.02 Bil	20.35 Bil	33.52 Bil
52-Week Range	23.65—32.59	54.20—65.37	58.51—73.76	86.84—108.39
Investment Style	Mid Core	Mid Core	Mid Core	Mid Core

pace with earnings in 2024 and beyond.

- NiSource's growth plan will support Indiana policymakers' desire to cut the state's carbon emissions by replacing coal generation with renewable energy and energy storage.
- New legislation has improved the regulatory framework in Indiana for NiSource's electric and natural gas distribution utilities.

Bears Say Travis Miller, Strategist, 30 Jun 2022

- Industrial customers account for over half of NiSource's electric sales, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- Policies to reduce carbon emissions could be a long-term threat for NiSource's natural gas distribution business if policymakers in states it serves aim to reduce retail gas use.
- NiSource has issued nearly $3 billion of equity and preferred stock during the last four years, resulting in little earnings growth since 2018.

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Economic Moat Travis Miller, Strategist, 30 Jun 2022

Service territory monopolies and efficient scale advantages are the primary moat sources for NiSource's regulated gas and electric utilities. State and federal regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their infrastructure. In exchange for regulated utilities' service territory monopolies, state and federal regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

This implicit contract between regulators and capital providers should, on balance, allow NiSource's regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing.

NiSource derives roughly 60% of its operating earnings from its natural gas distribution utilities and 40% from its integrated electric business in Indiana. In all cases, state and federal regulators set customer rates that allow NiSource to recover its operating and capital costs.

NiSource has no direct commodity price risk that could weaken its moat. NiSource exited the no-moat retail energy supply business in 2010.

Fair Value and Profit Drivers Travis Miller, Strategist, 30 Jun 2022

Our fair value estimate is $31 per share.

We assume NiSource invests more than $8 billion in 2022-24, including $2 billion of investment in renewable energy projects in Indiana to replace its coal-fired power generation fleet by 2028. Investment in the gas distribution systems, primarily for pipeline replacement, should remain well above maintenance-level spending for several more years, resulting in earnings growth at all of its gas utilities. We expect investment at the gas utilities to slow beyond 2025 while growth investment at the electric utility continues.

In total, we expect 11% average annual rate base growth and 8% average annual earnings growth through 2025 when combining the planned electric and gas system investments. The key factor in our growth outlook is a favorable outcome in NiSource's planned 2023-24 electric rate case in Indiana. Renewable energy and gas distribution infrastructure investments also should support strong dividend growth, a better ESG profile, and lower risk for investors. We don't expect a material valuation impact from year-to-year policy-related shifts in investment, notably Indiana solar projects.

We use a 5.8% 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

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electric and natural gas distribution utilities operating in states that have constructive regulatory frameworks.

Risk and Uncertainty Travis Miller, Strategist, 30 Jun 2022

Regulatory risk remains the key uncertainty. However, NiSource's regulatory exposure is diversified with operations in six states and its federal-regulated electric transmission system. NiSource has reduced some of the regulatory uncertainty related to its planned natural gas distribution and electric utilities investments by securing preapprovals and favorable rate mechanisms that provide for automatic rate increases as the utility makes its infrastructure investments.

In 2020, NiSource announced it would eliminate all coal-fired generation from its power plant fleet by 2028, significantly reducing ESG risk. This transition will require signing power purchase agreements for renewable energy, building new solar and wind farms, and making modifications to its electric grid. There is a modest amount of execution risk to this dramatic transition away from coal generation.

Capital Allocation Travis Miller, Strategist, 30 Jun 2022

We assign NiSource a Standard capital allocation rating primarily due to management's work with regulators and policymakers to develop a growth plan based on clean energy, infrastructure modernization, and safety.

The CEO transition from Joe Hamrock to Lloyd Yates in February 2022 could bring some changes in NiSource's portfolio of companies. We expect any changes would aim to reduce NiSource's equity needs to fund renewable energy investments and take advantage of what we consider very attractive valuations for gas distribution utilities in recent market transactions. Yates has been a director at NiSource since 2020 and previously led Duke Energy's core Carolina operations, which are more than twice the size of NiSource.

Current and former management made two key capital allocation decisions in recent years that we think were favorable for shareholders and positioned the company to execute its current growth plan. The first move was forming Columbia Pipeline Partners and executing Columbia Pipeline Group's tax-free separation. The second move was selling Columbia Gas of Massachusetts to Eversource Energy in 2020 after regulators determined NiSource was responsible for a gas explosion north of Boston. Even though the incident had a negative effect on shareholder value, NiSource resolved the issues quickly and received an attractive price to exit a region that was farthest from its core Midwest utilities.

Hamrock championed NiSource's clean energy growth strategy after succeeding Bob Skaggs in mid-2015 when Skaggs, a 32-year NiSource veteran, chose to lead the newly formed Columbia Pipeline Group. Hamrock had started his career at American Electric Power and worked in NiSource's gas distribution business before becoming CEO. CFO Donald Brown joined NiSource in April 2015 after stints

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at UGI Utilities and Constellation Energy.

Analyst Notes Archive

NiSource's Growth Plan and Strategic Review On Track; Stock Offers Attractive Total Return Potential Travis Miller, Strategist, 3 Aug 2022

We are reaffirming our $31 per share fair value estimate for NiSource after the company reported earning $0.12 per share on an adjusted basis during the second quarter of 2022. Results remain on track to meet our full-year and long-term outlooks. We are reaffirming our narrow moat and stable moat trend ratings.

We think NiSource's combination of a 3.1% dividend yield, long runway of 7% annual growth, and potential incremental value from its current strategic review makes it among the most attractive utilities in our coverage. The stock trades at a 5% discount to our fair value estimate and a discount to other utilities with similar growth outlooks.

Management reaffirmed its $1.42 to $1.48 EPS guidance range for 2022, in line with our estimate. We continue to assume $8 billion of capital investment in 2022-24, including $2 billion of renewable energy investments. The timing of this capital investment might shift due to delays in renewable energy projects, but we don't expect that to have a material impact on NiSource's long-term growth trajectory. Potential delays don't impact our 2022 outlook.

CEO Lloyd Yates said he plans to announce the outcome of management's strategic review of NiSource's portfolio in November. This could include selling some of NiSource's six gas distribution companies, most likely its smaller gas utilities in Kentucky, Pennsylvania, and Maryland. Yates suggested they are receiving interest from private market infrastructure investors.

We expect NiSource to file a critical rate review proposal at its Indiana electric utility late this year with new rates effective in late 2023. The outcome of this proceeding will largely determine whether NiSource hits the high end or low end of management's 7%-9% annual average earnings growth range through 2024. With customer bills up as much as 20% this year due to higher energy costs, regulators might be hesitant to approve a large base rate increase that we expect NiSource will request.

Utilities Caught in the Middle of Investors' Recession and Inflation Fears Travis Miller, Strategist, 18 Jul 2022

We are reaffirming our fair value estimates and economic moat ratings for our U.S. utilities coverage after the U.S. Bureau of Labor Statistics reported 9.1% core inflation on July 14. We continue to consider inflation to be the largest threat to utilities' long-term returns and ability to pay robust, growing dividends.

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MORNINGSTAR®

NiSource Inc NI ★★★ 15 Aug 2022 21:21, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
31.36 USD 15 Aug 2022	31.00 USD 15 Mar 2022 18:34, UTC	1.01	12.73 USD Bil 15 Aug 2022	Narrow	Stable	Low	Standard	3 Aug 2022 05:00, UTC

Investors have flocked to utilities this year to protect against recession fears and geopolitical uncertainty. However, utilities' outperformance has papered over what we consider the sector's biggest long-term risk: inflation. After June's 8.6% inflation reading, the Morningstar US Utilities Index fell 9% in one week. Utilities moved little on last week's inflation reading, probably because investors already expected a high inflation number.

We expect utilities stocks to remain volatile as investors alternately fret a recession (positive for utilities) and inflation (negative for utilities). After the recent jump in interest rates, utilities' 3.2% dividend yield is nearly the same as the 10-year Treasury yield for the first time since 2008, a setback for income investors.

Renewable energy growth remains a long-term opportunity, but higher supply costs and uncertain federal policy could stall near-term growth, especially for solar. High fossil fuel costs have kept renewable energy competitive. Warm summer weather should boost utilities earnings this year, potentially helping some utilities offset inflation's impact. However, customer bill shock from higher gas and power prices could significantly increase regulatory risk next year, potentially putting some growth projects at risk.

We now consider the sector to be near fair value, down from 14% overvalued in early June. Ten utilities trade at or below our fair value estimates as of mid-July, the most since mid-2021. We think utilities that operate in constructive regulatory jurisdictions with support for infrastructure growth are the best positioned to mitigate the impacts of inflation.

Utility Selloff Now Has Sector Trading in Line With Our Fair Value Estimates Travis Miller, Strategist, 15 Jun 2022

We are reaffirming our fair value estimates and moat ratings for the U.S. utilities we cover after the median utility in our coverage now trades in line with our fair value estimate, after the Morningstar US Utilities Sector Index declined 12% since Wednesday, June 8.

We think the selloff was sparked in large part by the U.S. Bureau of Labor Statistics' Consumer Price Index reading last week, which reported inflation was at a four decade high for May. Utilities peaked at 17% overvalued as of late April, and were 13% overvalued as of June 8, as global uncertainty drove investors to U.S. utilities.

Up until last week, investors had largely ignored the risk of inflation, which we considered the largest threat to utilities' long-term returns. Utilities have historically significantly underperformed the S&P 500 in inflationary environments, as utilities have fixed revenue, high capital and labor costs, and large energy pass-through costs. With higher-than-expected inflation, the market has increased expectations for the Fed to expedite interest rate increases. The utilities sector median 3.3% dividend yield is now a

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mere 18 basis point discount to the 10-year U.S. Treasury, making utility dividends less attractive to income-focused investors. In early March, the dividend yield was a 150 basis point premium to the 10-year U.S. Treasury.

No utility was trading below our fair value estimate mid-last week. Now, nearly half our utility coverage trades at or below our fair value estimates and we now think there are opportunities for long-term utility investors. While there are a few utilities that trade at a larger discount to our fair values, we think long-term investors are best served focusing on utilities in constructive regulatory environments that are better positioned to address inflationary headwinds, with Dominion Energy, Entergy, NextEra Energy, and NiSource our top picks.

Utility Valuations Look Stretched Amid Highest Inflation in Four Decades Travis Miller, Strategist, 10 Jun 2022

We are reaffirming our fair value estimates and moat ratings for the U.S. utilities we cover after the U.S. Bureau of Labor Statistics' Consumer Price Index, or CPI, reported 8.6% inflation for May. We continue to consider inflation to be the largest threat to utilities' long-term returns and ability to pay robust, growing dividends.

Utilities trade at a median 10% premium to our fair value estimates. With utilities' market valuation multiples well above 20-year highs, we think the market is ignoring the potential for cuts in earnings growth and valuations by year-end if inflation remains above 3%.

Utilities are flat year to date compared with the S&P 500's 18% decline, but we think that outperformance will be short-lived. The Morningstar US Utilities Sector Index has underperformed the S&P 500 by 18 percentage points on average over two-year periods following months when the CPI rose more than 3% year over year. Core CPI was up 8.6% in May, a four-decade high, with electricity prices up 12% over the 12-month period based on U.S. Bureau of Labor Statistics data.

While all utilities will be affected by inflation, we think utilities that operate in constructive regulatory environments, in which utilities are allowed to adjust customer rates for higher costs and higher returns on investments, can better offset inflation and rising interest rates. We think Dominion Energy, Entergy, NextEra Energy, and NiSource are the best positioned among utility peers to mitigate the impacts of inflation.

Inflation hurts utilities' earnings and returns on capital because utilities generally have fixed revenue, high capital and labor costs, and large energy pass-through costs that raise customer bills without raising earnings. We estimate utilities' operating and core capital costs were more than 70% of net revenue on average in 2021. Rising costs make it critical that utilities receive timely rate adjustments, a particularly tough task when energy costs also are rising.

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Biden Pauses Potential Solar Tariffs; Utilities' Solar Growth Plans on Track as We Expected Travis Miller, Strategist, 6 Jun 2022

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities after the Biden administration announced it would not apply solar panel tariffs on East Asian countries for at least the next two years. Some utilities' management teams had suggested that potential tariffs resulting from a U.S. Department of Commerce anticircumvention investigation would slow their growth plans. We never thought the investigation would have a material impact on our long-term outlooks given the Biden administration's and most states' support for renewable energy. The Biden administration also announced plans to boost U.S. solar panel manufacturing, which will support solar growth.

Two of our top utilities picks, NextEra Energy and NiSource, were among those utilities whose stocks took the hardest hit because of the solar tariff fears. The management team of each firm said it was postponing a portion of its large solar growth plans because of tariff-related supply concerns. AES and Alliant Energy are among many other utilities that have made solar key parts of their growth plans.

NextEra's stock fell as much as 16% in the three weeks after management said that it might delay up to 2.8 gigawatts of a possible 15 GW solar project pipeline. The stock has since rebounded to near our $78 fair value estimate. We are reaffirming our 8% annual earnings growth outlook. NiSource's stock fell 11% in late April before management said $500 million of its planned solar investments could be delayed. The stock has since rebounded to near our $31 per share fair value estimate. We continue to assume NiSource invests $8 billion in 2022-24, including $2 billion on renewable energy, supporting our 7% annual earnings growth outlook.

Solar panel tariffs remain a risk pending the outcome of the DOC's investigation into whether Chinese manufacturers sidestepped tariffs by shipping panels through tariff-free Asian countries. We expect an initial DOC report this fall.

NiSource's Flexibility Supports Our Earnings Growth Outlook; Remains Top Utilities Pick Travis Miller, Strategist, 4 May 2022

We are reaffirming our $31 per share fair value estimate for NiSource after the company reported earning $0.75 per share on an adjusted basis during the first quarter of 2022. Results remain on track to meet our full-year and long-term outlooks. We are reaffirming our narrow moat and stable moat trend ratings.

We think NiSource's combination of a 3.3% dividend yield and potential for more than 7% annual growth makes it among the most attractive utilities in our coverage. The stock trades at a 5% discount to our fair value estimate and a discount to other utilities with similar growth outlooks.

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NiSource's diverse mix of businesses and growth projects should minimize any impact from potential delays of its planned solar projects and coal plant retirements due to federal policy uncertainties. We are not changing our $8 billion of capital investment forecast in 2022-24, including $2 billion of renewable energy investments, in line with management's plan. We estimate only about $500 million of solar investment could be delayed, and we expect NiSource can pull forward planned infrastructure investment to offset those delays. Potential delays don't impact our 2022 outlook. Management reaffirmed its $1.42 to $1.48 EPS guidance range for 2022, in line with our estimate.

We still expect NiSource to file a critical rate review proposal at its Indiana electric utility late this year with new rates effective in late 2023. The outcome of this proceeding will likely determine whether NiSource hits the high end or low end of management's 7%-9% annual average earnings growth range through 2024.

New CEO Lloyd Yates said he plans to announce the outcome of his strategic review of NiSource's portfolio this fall. This could include marketing some of NiSource's six gas distribution companies, given the relatively high market valuations of recent gas utilities deals. We think the most likely divestitures are NiSource's smaller gas utilities in Kentucky, Pennsylvania, and Maryland.

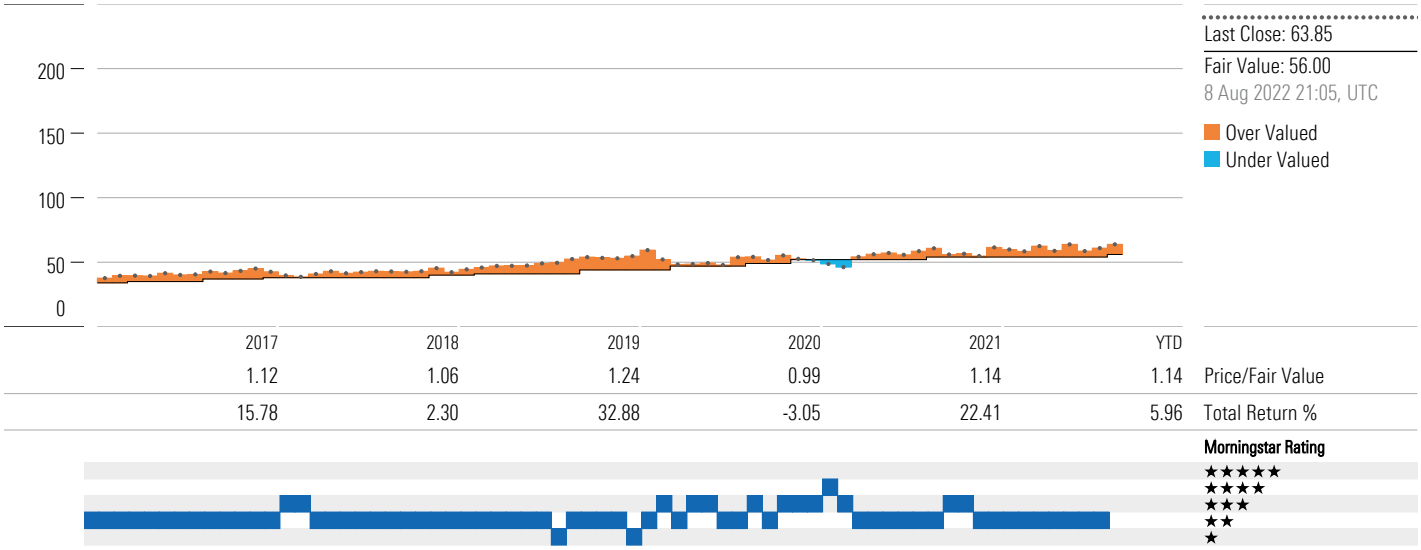
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Competitors Price vs. Fair Value

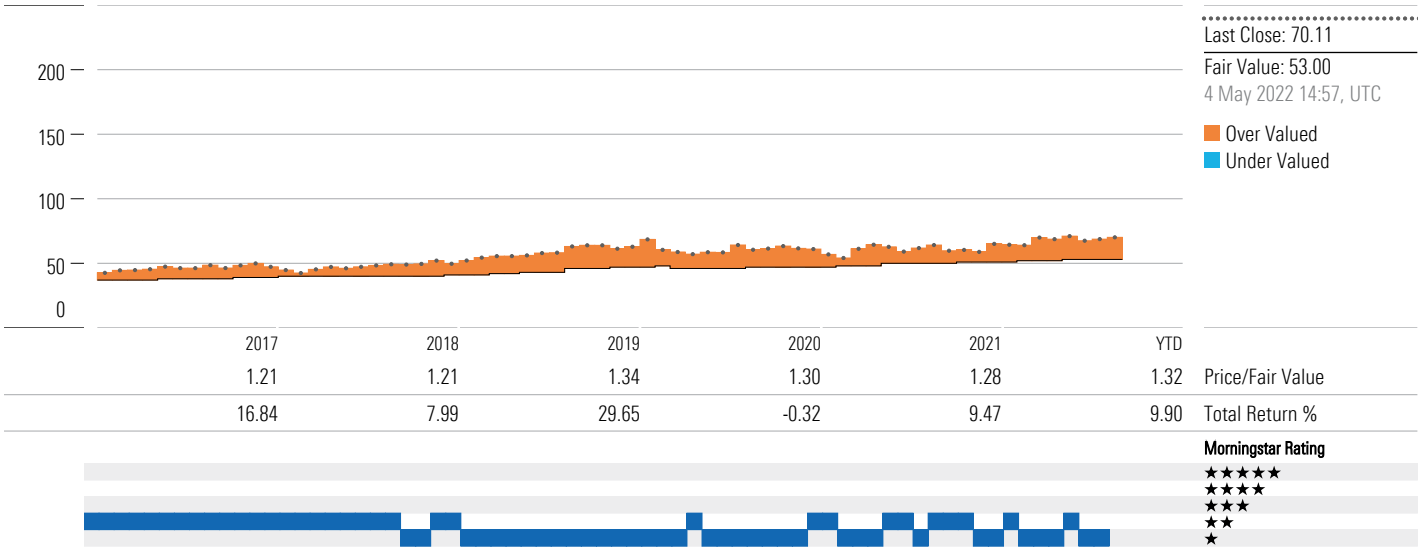
Alliant Energy Corp LNT



	2017	2018	2019	2020	2021	YTD	
	1.12	1.06	1.24	0.99	1.14	1.14	Price/Fair Value
	15.78	2.30	32.88	-3.05	22.41	5.96	Total Return %

Total Return % as of 15 Aug 2022. Last Close as of 15 Aug 2022. Fair Value as of 8 Aug 2022 21:05, UTC.

CMS Energy Corp CMS



	2017	2018	2019	2020	2021	YTD	
	1.21	1.21	1.34	1.30	1.28	1.32	Price/Fair Value
	16.84	7.99	29.65	-0.32	9.47	9.90	Total Return %

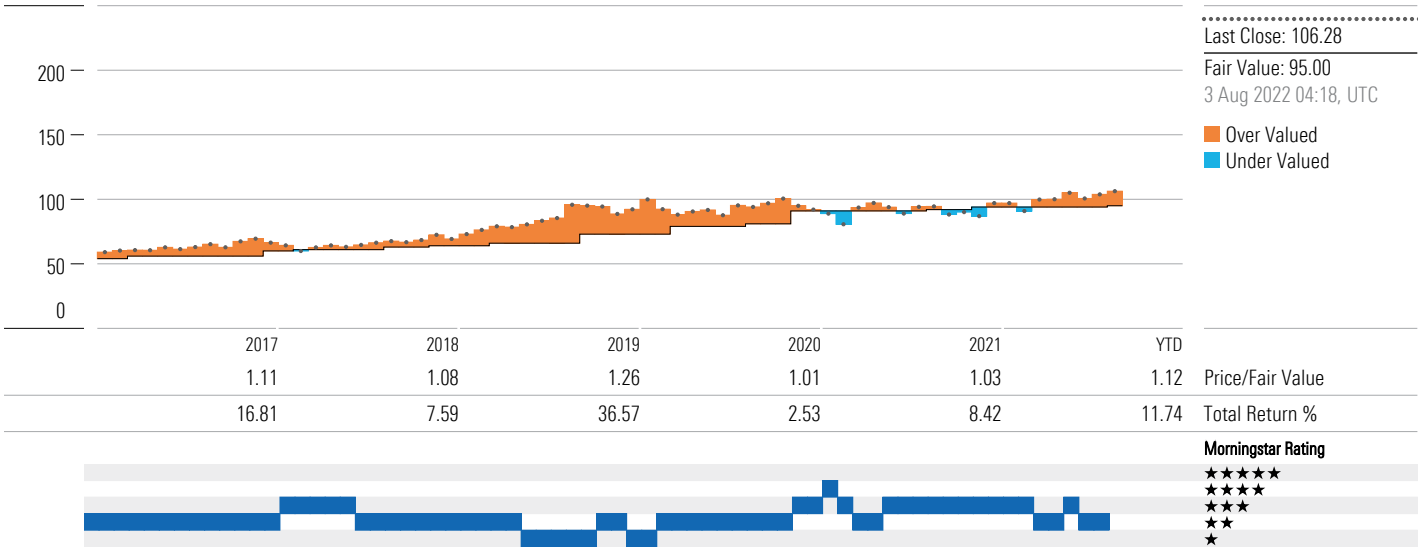
Total Return % as of 15 Aug 2022. Last Close as of 15 Aug 2022. Fair Value as of 4 May 2022 14:57, UTC.

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WEC Energy Group Inc WEC



	2017	2018	2019	2020	2021	YTD	
	1.11	1.08	1.26	1.01	1.03	1.12	Price/Fair Value
	16.81	7.59	36.57	2.53	8.42	11.74	Total Return %

Total Return % as of 15 Aug 2022. Last Close as of 15 Aug 2022. Fair Value as of 3 Aug 2022 04:18, UTC.

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15 Aug 2022	15 Mar 2022 18:34, UTC		15 Aug 2022					3 Aug 2022 05:00, UTC

Morningstar Historical Summary

Financials as of 30 Jun 2022

Fiscal Year, ends 31 Dec	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	TTM
Revenue (USD Mil)	5,031	4,625	5,272	4,652	4,493	4,875	5,115	5,209	4,682	4,900	3,057	5,425
Revenue Growth %	-12.5	-8.1	14.0	-11.8	-3.4	8.5	4.9	1.8	-10.1	4.7	20.7	16.8
EBITDA (USD Mil)	1,583	1,161	1,278	1,239	1,417	1,377	734	1,595	1,057	1,787	1,165	1,983
EBITDA Margin %	31.5	25.1	24.3	26.6	31.5	28.2	14.4	30.6	22.6	36.5	38.1	36.6
Operating Income (USD Mil)	1,004	699	792	802	865	927	126	1,305	961	1,015	639	1,070
Operating Margin %	20.0	15.1	15.0	17.2	19.3	19.0	2.5	25.1	20.5	20.7	20.9	19.7
Net Income (USD Mil)	416	532	530	287	332	129	-51	383	-18	585	494	723
Net Margin %	8.3	11.5	10.1	6.2	7.4	2.6	-1.3	6.3	-1.6	10.8	15.3	12.3
Diluted Shares Outstanding (Mil)	300	314	317	320	324	331	357	376	384	417	441	433
Diluted Earnings Per Share (USD)	1.39	1.70	1.67	0.90	1.02	0.39	-0.18	0.87	-0.19	1.27	1.06	1.53
Dividends Per Share (USD)	0.94	0.98	1.02	0.83	0.64	0.70	0.78	0.80	0.84	0.88	0.47	0.91

Valuation as of 29 Jul 2022

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Recent Qtr	TTM
Price/Sales	1.5	1.9	2.1	1.0	1.7	1.7	1.8	2.0	1.8	2.4	2.4	2.5
Price/Earnings	18.2	21.6	25.3	12.8	23.3	31.3	-87.7	22.6	-29.4	25.3	19.8	20.4
Price/Cash Flow	5.9	7.3	10.8	3.8	9.0	10.5	7.8	12.3	7.2	9.5	9.4	9.7
Dividend Yield %	3.78	2.98	2.4	4.25	2.89	2.73	3.08	2.87	3.66	3.19	3.09	3.04
Price/Book	1.4	1.8	2.2	1.6	1.9	2.0	2.0	2.1	2.0	2.3	2.1	2.2
EV/EBITDA	10.0	16.1	18.1	10.4	10.5	12.5	25.3	13.1	19.3	12.6	0.0	0.0

Operating Performance / Profitability as of 30 Jun 2022

Fiscal Year, ends 31 Dec	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	TTM
ROA %	2.0	2.4	2.2	1.4	1.8	0.7	-0.3	1.5	-0.3	2.3	1.9	2.8
ROE %	7.9	9.3	8.8	5.7	8.4	3.1	-1.4	6.6	-1.5	10.3	8.4	12.7
ROIC %	5.1	5.4	4.9	3.8	4.9	2.7	1.4	4.2	1.3	5.4	3.9	6.3
Asset Turnover	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.1	0.2

Financial Leverage

Fiscal Year, ends 31 Dec	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Recent Qtr	TTM
Debt/Capital %	55.1	56.3	56.9	60.8	59.8	63.5	55.3	56.8	61.6	56.9	56.9	—
Equity/Assets %	25.4	26.0	25.1	22.0	21.8	21.6	22.3	22.5	22.1	22.4	22.9	—
Total Debt/EBITDA	5.1	7.6	7.8	5.6	5.6	6.5	14.7	7.1	10.9	7.1	11.0	—
EBITDA/Interest Expense	4.0	3.2	3.5	3.3	4.0	3.8	2.0	4.3	2.9	5.4	6.9	6.0

Morningstar Analyst Historical/Forecast Summary as of 30 Jun 2022

Financials

Fiscal Year, ends 31 Dec	2020	2021	Estimates 2022	2023	2024
Revenue (USD Mil)	4,682	4,900	5,166	5,397	5,757
Revenue Growth %	-10.1	4.7	5.4	4.5	6.7
EBITDA (USD Mil)	1,277	1,755	1,945	2,141	2,470
EBITDA Margin %	27.3	35.8	37.7	39.7	42.9
Operating Income (USD Mil)	551	1,007	1,155	1,301	1,570
Operating Margin %	11.8	20.5	22.4	24.1	27.3
Net Income (USD Mil)	507	572	619	689	861
Net Margin %	10.8	11.7	12.0	12.8	15.0
Diluted Shares Outstanding (Mil)	384	417	434	444	449
Diluted Earnings Per Share(USD)	1.32	1.37	1.43	1.55	1.92
Dividends Per Share(USD)	0.84	0.83	0.94	1.00	1.06

Forward Valuation

	2020	2021	Estimates 2022	2023	2024
Price/Sales	1.9	2.3	2.5	2.4	2.2
Price/Earnings	17.4	20.2	21.9	20.2	16.3
Price/Cash Flow	-13.7	-18.0	-11.2	-7.2	-123.1
Dividend Yield %	3.66	3.01	3.00	3.19	3.38
Price/Book	—	—	—	—	—
EV/EBITDA	16.0	12.8	12.5	11.4	9.8

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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, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

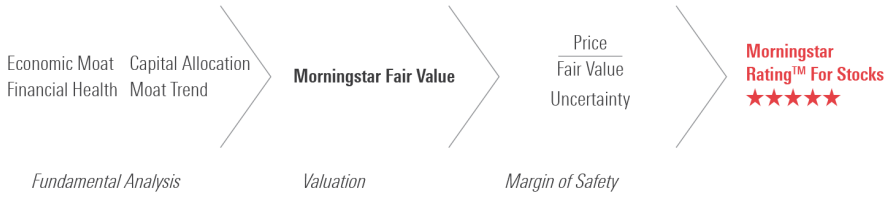
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to

Morningstar Equity Research Star Rating Methodology



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bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

4. Market Price

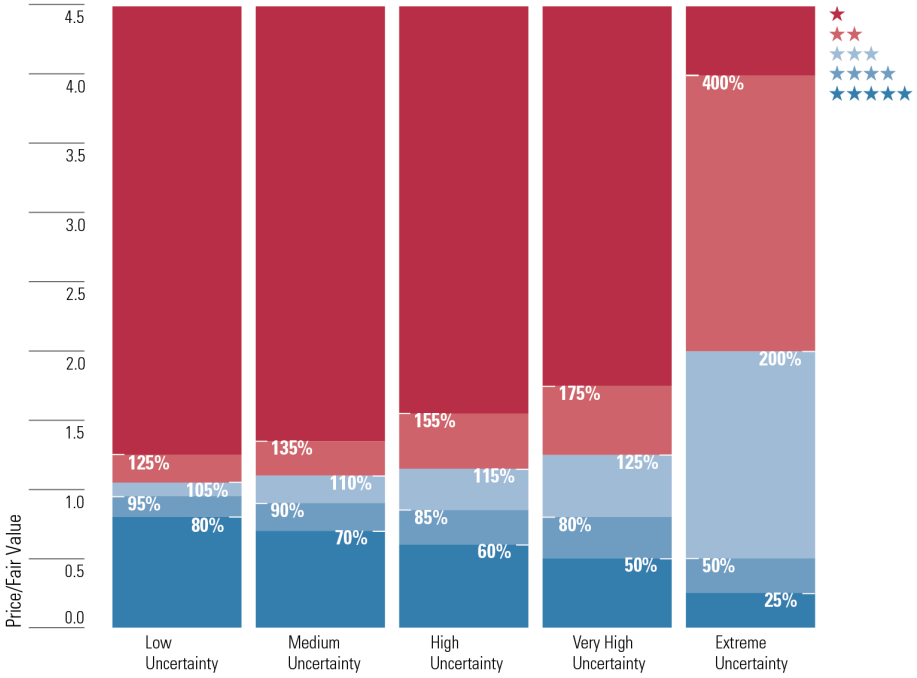
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thor ough and ongoing analysis, raise or lower their fair value estimates as warranted.

Morningstar Equity Research Star Rating Methodology



Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

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

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

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

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exem-

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plary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

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NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
29.49 USD	31.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

NiSource Securing Regulatory Support for Large Growth Plan

Travis Miller
Strategist
Morningstar

Business Strategy and Outlook 30 Jun 2022

After decades of deriving most of its income from natural gas distribution and midstream businesses, NiSource has transitioned to a more diversified earnings mix. About 60% of NiSource's operating income comes from its six natural gas distribution utilities and 40% from its electric utility in Indiana following the 2015 separation from Columbia Pipeline Group. The share of earnings from the electric business could jump if new CEO Lloyd Yates decides to divest some of NiSource's smaller gas utilities.

NiSource's utilities have constructive regulatory frameworks that allow it to collect a cash return of and a cash return on the bulk of its capital investments within 18 months. We expect NiSource to invest more than $8 billion over the next three years, including what could be $2 billion of renewable energy projects in Indiana, where NiSource enjoys favorable regulation.

That growth could extend even longer based on electric and gas system infrastructure improvement projects NiSource has identified. Replacing steel and cast-iron pipe with plastic at its natural gas distribution utilities is a key initiative along with investments across the business that reduce greenhouse gases. Almost all of these investments receive favorable regulatory treatment, allowing NiSource to earn near its regulatory allowed returns.

In October 2020, NiSource sold its Columbia Gas of Massachusetts utility and received $1.1 billion of proceeds that it used to strengthen the balance sheet and prepare for its planned infrastructure investments. The sale came nearly two years after a natural gas explosion on NiSource's Massachusetts system killed one person north of Boston. Insurance covered roughly half of the almost $2 billion of claims, penalties, and other expenses.

Earnings are set to rebound quickly from their low in 2020 when COVID-19 pandemic costs, lower energy use, the Massachusetts utility sale, and a large equity issuance weighed on earnings. We expect modest customer growth combined with NiSource's infrastructure growth investments to support 8% annual earnings growth and 6% annual dividend growth from 2022 to 2026.

Vital Statistics

Market Cap (USD Mil)	11,967
52-Week High (USD)	32.58
52-Week Low (USD)	23.65
52-Week Total Return %	24.1
YTD Total Return %	8.5
Last Fiscal Year End	31 Dec 2021
5-Yr Forward Revenue CAGR %	4.4
5-Yr Forward EPS CAGR %	7.6
Price/Fair Value	0.95

Valuation Summary and Forecasts

Fiscal Year:	2020	2021	*2022(E)*	*2023(E)*
Price/Earnings	17.4	20.2	*20.6*	*19.0*
EV/EBITDA	16.0	12.8	*11.9*	*10.8*
EV/EBIT	37.1	22.3	*20.0*	*17.8*
Free Cash Flow Yield %	-7.3	-5.5	*-9.5*	*-14.9*
Dividend Yield %	3.7	3.0	*3.2*	*3.4*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2020	2021	*2022(E)*	*2023(E)*
Revenue	4,682	4,900	*5,166*	*5,397*
Revenue YoY %	-10.1	4.7	*5.4*	*4.5*
EBIT	551	1,007	*1,155*	*1,301*
EBIT YoY %	-38.2	82.8	*14.7*	*12.6*
Net Income, Adjusted	507	572	*619*	*689*
Net Income YoY %	2.5	12.7	*8.3*	*11.3*
Diluted EPS	1.32	1.37	*1.43*	*1.55*
Diluted EPS YoY %	0.3	3.8	*4.2*	*8.9*
Free Cash Flow	457	-765	*-232*	*-1,461*
Free Cash Flow YoY %	-190.7	-267.4	*-69.7*	*529.5*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewable energy.

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Research as of 30 Jun 2022
Estimates as of 30 Jun 2022
Pricing data through 30 Jun 2022 00:00
Rating updated as of 30 Jun 2022 00:00

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.
Rating as of 01 Jun 2022 00:00

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

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NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
29.49 USD	31.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Morningstar Analysis

Fair Value & Profit Drivers 30 Jun 2022
Our fair value estimate is $31 per share.

We assume NiSource invests more than $8 billion in 2022-24, including $2 billion of investment in renewable energy projects in Indiana to replace its coal-fired power generation fleet by 2028. Investment in the gas distribution systems, primarily for pipeline replacement, should remain well above maintenance-level spending for several more years, resulting in earnings growth at all of its gas utilities. We expect investment at the gas utilities to slow beyond 2025 while growth investment at the electric utility continues.

In total, we expect 11% average annual rate base growth and 8% average annual earnings growth through 2025 when combining the planned electric and gas system investments. The key factor in our growth outlook is a favorable outcome in NiSource's planned 2023-24 electric rate case in Indiana. Renewable energy and gas distribution infrastructure investments also should support strong dividend growth, a better ESG profile, and lower risk for investors. We don't expect a material valuation impact from year-to-year policy-related shifts in investment, notably Indiana solar projects.

We use a 5.8% 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 constructive regulatory frameworks.

Scenario Analysis
Our bull and bear cases suggest a low uncertainty rating for NiSource. Our low uncertainty rating is due in large part to the favorable regulatory frameworks in the jurisdictions of NiSource's utility operations. In addition, we believe we have captured potential ESG risk in our base-case scenario.

If we assume capital expenditures are 25% lower 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 estimate similar upside impact in our bull case if NiSource secures more growth investment opportunities during the next five years.

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 NiSource's regulated gas and electric utilities. State and federal regulators typically grant regulated utilities exclusive rights to charge customers rates that allow the utilities to earn a fair return on and return of the capital they invest to build, operate, and maintain their infrastructure. In exchange for regulated utilities' service territory monopolies, state and federal regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

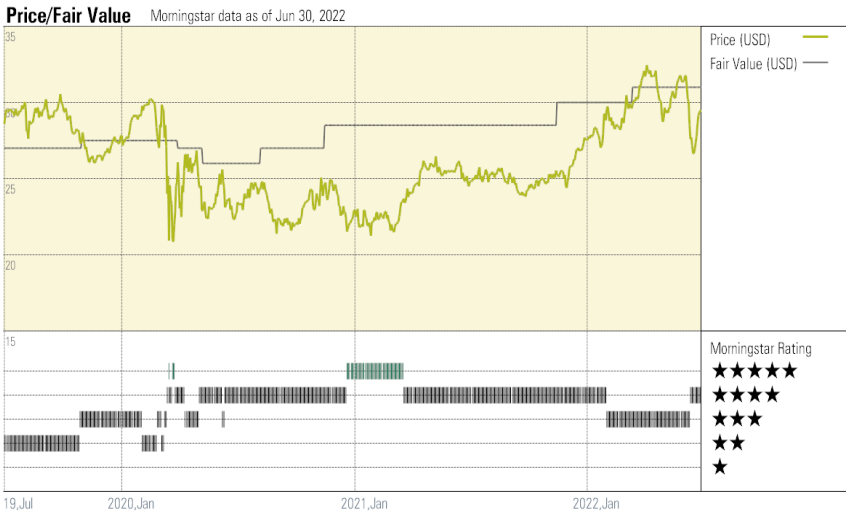
This implicit contract between regulators and capital providers should, on balance, allow NiSource's regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing.

NiSource derives roughly 60% of its operating earnings from its natural gas distribution utilities and 40% from its integrated electric business in Indiana. In all cases, state and federal regulators set customer rates that allow NiSource to recover its operating and capital costs.

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NiSource has no direct commodity price risk that could weaken its moat. NiSource exited the no-moat retail energy supply business in 2010.

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. We also believe the core Federal Energy Regulatory Commission and state cost-of-service regulatory frameworks will remain in place for the foreseeable future. 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 the dividend to grow near 6% annually during the next few years before accelerating to keep pace with earnings in 2024 and beyond.
- NiSource's growth plan will support Indiana policymakers' desire to cut the state's carbon emissions by replacing coal generation with renewable energy and energy storage.
- New legislation has improved the regulatory framework in Indiana for NiSource's electric and natural gas distribution utilities.

Bears Say

- Industrial customers account for over half of NiSource's electric sales, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- Policies to reduce carbon emissions could be a long-term threat for NiSource's natural gas distribution business if policymakers in states it serves aim to reduce retail gas use.
- NiSource has issued nearly $3 billion of equity and preferred stock during the last four years, resulting in little earnings growth since 2018.

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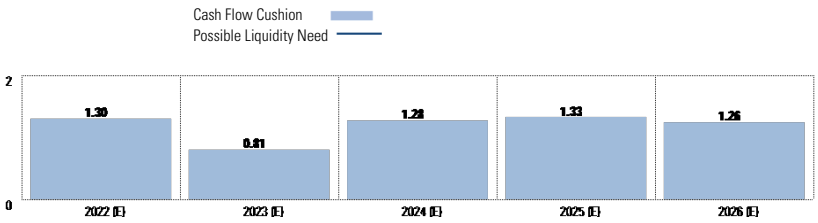
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Five Year Adjusted Cash Flow Forecast (USD Mil)

	2022(E)	2023(E)	2024(E)	2025(E)	2026(E)
Cash and Equivalents (beginning of period)	95	415	84	94	64
Adjusted Available Cash Flow	1,843	1,110	1,732	865	1,949
Total Cash Available before Debt Service	1,938	1,525	1,816	959	2,013
Principal Payments	-1,081	-1,428	-905	-178	-1,039
Interest Payments	-378	-421	-485	-514	-534
Other Cash Obligations and Commitments	-30	-30	-30	-30	-30
Total Cash Obligations and Commitments	-1,489	-1,879	-1,420	-722	-1,603

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	95	1.3
Sum of 5-Year Adjusted Free Cash Flow	7,498	105.4
Sum of Cash and 5-Year Cash Generation	7,593	106.8
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	7,593	106.8
Sum of 5-Year Cash Commitments	-7,113	—

Financial Strength

NiSource has issued a substantial amount of equity in the past few years in part to fund its large infrastructure growth projects and in part to cover liabilities arising from the Massachusetts gas explosion. This dilution and the sale of Columbia Gas of Massachusetts has kept earnings mostly flat since 2018.

The equity has strengthened NiSource's balance sheet going into the next two years of heavy growth investment. NiSource issued over $1 billion of common stock and $880 million of preferred stock in 2018 and 2019. The Massachusetts utility sale in 2020 raised $1.1 billion, and NiSource issued $862.5 million of convertible preferred equity units in early 2021. We expect NiSource will still need $600 million of new equity during the next three years to fund its planned growth investments and maintain its current capital structure.

NiSource's large renewable energy investment plan could allow it to raise more clean energy-related financing such as the green bond that it issued in June totaling $350 million with a 5% coupon.

NiSource has grown its dividend nearly 40% since the 2015 Columbia Pipeline Group spinoff despite a slight slowdown in the last few years. The board accelerated that growth for 2022 with a 7% increase, exceeding our expectations. We expect dividend growth to remain near 6% with a payout ratio around 60% for at least the next three years. This is in line with most of its peers.

Risk & Uncertainty

Regulatory risk remains the key uncertainty. However, NiSource's regulatory exposure is diversified with operations in six states and its federal-regulated electric transmission system. NiSource has reduced some of the regulatory uncertainty related to its planned natural gas

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distribution and electric utilities investments by securing preapprovals and favorable rate mechanisms that provide for automatic rate increases as the utility makes its infrastructure investments.

In 2020, NiSource announced it would eliminate all coal-fired generation from its power plant fleet by 2028, significantly reducing ESG risk. This transition will require signing power purchase agreements for renewable energy, building new solar and wind farms, and making modifications to its electric grid. There is a modest amount of execution risk to this dramatic transition away from coal generation.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MS. VIOLET G. SISTOVARIS	EVP & Chief Experience Officer	165,379	28 Feb 2022	—
MR. DONALD E. BROWN	EVP, CFO and Pres Corp Svcs	164,058	28 Feb 2022	—
MR. PABLO A. VEGAS	EVP, COO & President Utilities	120,026	28 Feb 2022	—
MS. EILEEN O'NEILL ODUM	EVP & Group CEO	97,086	24 Mar 2009	—
DR. ARISTIDES S. CANDRIS	Director,Director	60,816	25 May 2021	—
MR. LLOYD M YATES	Director,Director	54,106	28 Jan 2022	—
MR. SHAWN ANDERSON	SVP & Chief Strategy & Risk	51,433	28 Feb 2022	—

*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
Vanguard Total Stock Market Index Fund	2.92	0.03	117	30 Jun 2022
Vanguard US Total Market Shares ETF	2.92	0.03	117	30 Jun 2022
Vanguard Mid-Cap Index Fund	2.28	0.20	24	30 Jun 2022
Vanguard 500 Index Fund	2.11	0.04	58	30 Jun 2022
iShares Select Dividend ETF	2.10	1.16	7	30 Jun 2022
Concentrated Holders				
Beck Bode Income Growth	0.00	10.17	—	30 Jun 2022
HIS Horizon Select 15 Utility	0.00	8.21	—	30 Jun 2022
Miller/Howard â€“ Utilities Plus	0.00	5.16	—	30 Jun 2022
FT Dividend Edge 20	0.00	4.66	0	30 Jun 2022
IVZ Utility Income 2021-1	0.00	4.64	—	30 Jun 2022

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
T. Rowe Price Associates, Inc.	7.44	0.10	11,236	30 Jun 2022
T. Rowe Price	5.43	9.23	8,915	30 Jun 2022
BlackRock Advisors (UK) Ltd	3.12	0.11	8,807	30 Jun 2022
BlackRock Advisors (UK) Ltd	3.12	0.11	8,807	30 Jun 2022
Vanguard Group Inc	12.97	0.04	5,154	30 Jun 2022
Top 5 Sellers				
Barclays PLC	1.48	0.15	-11,589	30 Jun 2022
BlackRock Institutional Trust Company NA	—	—	-9,022	30 Jun 2022
Jackson National	—	—	-3,368	30 Jun 2022
Invesco Capital Management LLC	1.81	17.10	-2,765	30 Jun 2022
BlackRock Group Ltd.	—	—	-2,688	30 Jun 2022

Capital Allocation 30 Jun 2022

We assign NiSource a Standard capital allocation rating primarily due to management's work with regulators and policymakers to develop a growth plan based on clean energy, infrastructure modernization, and safety.

The CEO transition from Joe Hamrock to Lloyd Yates in February 2022 could bring some changes in NiSource's portfolio of companies. We expect any changes would aim to reduce NiSource's equity needs to fund renewable energy investments and take advantage of what we consider very attractive valuations for gas distribution utilities in recent market transactions. Yates has been a director at NiSource since 2020 and previously led Duke Energy's core Carolina operations, which are more than twice the size of NiSource.

Current and former management made two key capital allocation decisions in recent years that we think were favorable for shareholders and positioned the company to execute its current growth plan. The first move was forming Columbia Pipeline Partners and executing Columbia Pipeline Group's tax-free separation. The second move was selling Columbia Gas of Massachusetts to Eversource Energy in 2020 after regulators determined NiSource was responsible for a gas explosion north of Boston. Even though the incident had a negative effect on shareholder value, NiSource resolved the issues quickly and received an attractive price to exit a region that was farthest from its core Midwest utilities.

Hamrock championed NiSource's clean energy growth strategy after succeeding Bob Skaggs in mid-2015 when Skaggs, a 32-year NiSource veteran, chose to lead the newly formed Columbia Pipeline Group. Hamrock had started his career at American Electric Power and worked in NiSource's gas distribution business before becoming CEO. CFO Donald Brown joined NiSource in April 2015 after stints at UGI Utilities and Constellation Energy.

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Analyst Notes

Utility Selloff Now Has Sector Trading in Line With Our Fair Value Estimates 14 Jun 2022

We are reaffirming our fair value estimates and moat ratings for the U.S. utilities we cover after the median utility in our coverage now trades in line with our fair value estimate, after the Morningstar US Utilities Sector Index declined 12% since Wednesday, June 8.

We think the selloff was sparked in large part by the U.S. Bureau of Labor Statistics' Consumer Price Index reading last week, which reported inflation was at a four decade high for May. Utilities peaked at 17% overvalued as of late April, and were 13% overvalued as of June 8, as global uncertainty drove investors to U.S. utilities.

Up until last week, investors had largely ignored the risk of inflation, which we considered the largest threat to utilities' long-term returns. Utilities have historically significantly underperformed the S&P 500 in inflationary environments, as utilities have fixed revenue, high capital and labor costs, and large energy pass-through costs. With higher-than-expected inflation, the market has increased expectations for the Fed to expedite interest rate increases. The utilities sector median 3.3% dividend yield is now a mere 18 basis point discount to the 10-year U.S. Treasury, making utility dividends less attractive to income-focused investors. In early March, the dividend yield was a 150 basis point premium to the 10-year U.S. Treasury.

No utility was trading below our fair value estimate mid-last week. Now, nearly half our utility coverage trades at or below our fair value estimates and we now think there are opportunities for long-term utility investors. While there are a few utilities that trade at a larger discount to our fair values, we think long-term investors are best served focusing on utilities in constructive regulatory environments that are better positioned to address inflationary headwinds, with Dominion Energy, Entergy, NextEra Energy, and NiSource our top picks.

Dominion Energy has transitioned to a predominantly rate-regulated utility operating in highly constructive regulatory environments. The company's five-year $37 billion capital investment plan focusing on clean energy supports our 6.5% annual earnings growth forecast. Virginia is the company's most important subsidiary and has the most constructive regulation. Dominion expects 90% of its capital investment in the region will be eligible for rate riders, reducing regulatory risk in an inflationary environment.

We think Entergy has several advantages over its peers in an inflationary environment. The company's five southeast utilities should benefit from a jump in U.S. energy demand, constructive state regulation, and substantial opportunities for clean energy growth. More than 90% of Entergy's investments flow through customer rates with little regulatory lag. This minimizes the impact from inflation. We expect Entergy to invest $4 billion annually through 2025 to upgrade its expansive grid and replace coal generation with mostly solar. This supports our annual earnings growth estimate at the high end of management's 7%-9% target.

Constructive regulation in Florida supports industry-leading returns and growth for NextEra Energy. Florida's highly constructive rate-setting mechanisms support investment in the state. NextEra benefits from one of the highest allowed returns in the industry. The utility also has among the lowest electricity bills and highest customer growth across its peer group, helping protect itself in an inflationary environment. At the company's competitive renewable business, NextEra is well positioned to for the clean energy transition. A U.S. Department of Commerce anti-circumvention investigation regarding the import of solar panels from certain Asian countries had created uncertainty to the company's near-term development program; however, the Biden administration's recent decision to not apply solar

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Analyst Notes

panel tariffs for at least the next two years brings near-term clarity.

NiSource's transition from coal to renewable energy in Indiana along with regulatory support in the states where it operates natural gas systems should support more than $10 billion of investment over the next four years and 8% annual earnings growth, among the highest in the sector. We think this is an opportunity to buy a high-growth utility at a discount to recent market acquisitions involving similar natural gas distribution utilities. New CEO Lloyd Yates could shake up NiSource's portfolio to capitalize on those market valuations while boosting the share of earnings from its high-growth electric business.

For a more detailed analysis of how inflation affects utilities, see our latest reports, "Inflation Unraveling U.S. Utilities' Safety Net" and "Utility Regulation Critical To Manage Inflation Risk."

Utility Valuations Look Stretched Amid Highest Inflation in Four Decades 10 Jun 2022

We are reaffirming our fair value estimates and moat ratings for the U.S. utilities we cover after the U.S. Bureau of Labor Statistics' Consumer Price Index, or CPI, reported 8.6% inflation for May. We continue to consider inflation to be the largest threat to utilities' long-term returns and ability to pay robust, growing dividends.

Utilities trade at a median 10% premium to our fair value estimates. With utilities' market valuation multiples well above 20-year highs, we think the market is ignoring the potential for cuts in earnings growth and valuations by year-end if inflation remains above 3%.

Utilities are flat year to date compared with the S&P 500's 18% decline, but we think that outperformance will be short-lived. The Morningstar US Utilities Sector Index has underperformed the S&P 500 by 18 percentage points on average over two-year periods following months when the CPI rose more than 3% year over year. Core CPI was up 8.6% in May, a four-decade high, with electricity prices up 12% over the 12-month period based on U.S. Bureau of Labor Statistics data.

While all utilities will be affected by inflation, we think utilities that operate in constructive regulatory environments, in which utilities are allowed to adjust customer rates for higher costs and higher returns on investments, can better offset inflation and rising interest rates. We think Dominion Energy, Entergy, NextEra Energy, and NiSource are the best positioned among utility peers to mitigate the impacts of inflation.

Inflation hurts utilities' earnings and returns on capital because utilities generally have fixed revenue, high capital and labor costs, and large energy pass-through costs that raise customer bills without raising earnings. We estimate utilities' operating and core capital costs were more than 70% of net revenue on average in 2021. Rising costs make it critical that utilities receive timely rate adjustments, a particularly tough task when energy costs also are rising.

Low inflation and interest rates have helped most utilities increase earnings with only moderate customer bill impacts. Electric and gas utility bills have fallen from 2.2% of total household spending in 2008 to 1.6% in 2021. This is primarily due to mostly flat operating costs and lower interest costs offsetting a near doubling of capital investment during the last decade.

For a more detailed analysis of how inflation affects utilities, see our latest reports, "Inflation Unraveling U.S. Utilities' Safety Net" and "Utility Regulation Critical To Manage Inflation Risk."

Biden Pauses Potential Solar Tariffs; Utilities' Solar Growth Plans on Track as We Expected 06 Jun 2022

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NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
29.49 USD	31.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Analyst Notes

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities after the Biden administration announced it would not apply solar panel tariffs on East Asian countries for at least the next two years. Some utilities' management teams had suggested that potential tariffs resulting from a U.S. Department of Commerce anticircumvention investigation would slow their growth plans. We never thought the investigation would have a material impact on our long-term outlooks given the Biden administration's and most states' support for renewable energy. The Biden administration also announced plans to boost U.S. solar panel manufacturing, which will support solar growth.

Two of our top utilities picks, NextEra Energy and NiSource, were among those utilities whose stocks took the hardest hit because of the solar tariff fears. The management team of each firm said it was postponing a portion of its large solar growth plans because of tariff-related supply concerns. AES and Alliant Energy are among many other utilities that have made solar key parts of their growth plans.

NextEra's stock fell as much as 16% in the three weeks after management said that it might delay up to 2.8 gigawatts of a possible 15 GW solar project pipeline. The stock has since rebounded to near our $78 fair value estimate. We are reaffirming our 8% annual earnings growth outlook. NiSource's stock fell 11% in late April before management said $500 million of its planned solar investments could be delayed. The stock has since rebounded to near our $31 per share fair value estimate. We continue to assume NiSource invests $8 billion in 2022-24, including $2 billion on renewable energy, supporting our 7% annual earnings growth outlook.

Solar panel tariffs remain a risk pending the outcome of the DOC's investigation into whether Chinese manufacturers sidestepped tariffs by shipping panels through tariff-free Asian countries. We expect an initial DOC report this fall.

For more on our long-term solar growth outlook for U.S. utilities, see our report, "U.S. Utility-Scale Solar: Top Picks Hiding In Shadows." Our most recent utilities sector report, "Constructive Utility Regulation Critical to Reduce Inflation Risk," addresses key issues that we think will impact our top utilities picks, including NextEra Energy and NiSource.

NiSource's Flexibility Supports Our Earnings Growth Outlook; Remains Top Utilities Pick 04 May 2022

We are reaffirming our $31 per share fair value estimate for NiSource after the company reported earning $0.75 per share on an adjusted basis during the first quarter of 2022. Results remain on track to meet our full-year and long-term outlooks. We are reaffirming our narrow moat and stable moat trend ratings.

We think NiSource's combination of a 3.3% dividend yield and potential for more than 7% annual growth makes it among the most attractive utilities in our coverage. The stock trades at a 5% discount to our fair value estimate and a discount to other utilities with similar growth outlooks.

NiSource's diverse mix of businesses and growth projects should minimize any impact from potential delays of its planned solar projects and coal plant retirements due to federal policy uncertainties. We are not changing our $8 billion of capital investment forecast in 2022-24, including $2 billion of renewable energy investments, in line with management's plan. We estimate only about $500 million of solar investment could be delayed, and we expect NiSource can pull forward planned infrastructure investment to offset those delays. Potential delays don't impact our 2022 outlook. Management reaffirmed its $1.42 to $1.48 EPS guidance range for 2022, in line with our estimate.

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Analyst Notes

We still expect NiSource to file a critical rate review proposal at its Indiana electric utility late this year with new rates effective in late 2023. The outcome of this proceeding will likely determine whether NiSource hits the high end or low end of management's 7%-9% annual average earnings growth range through 2024.

New CEO Lloyd Yates said he plans to announce the outcome of his strategic review of NiSource's portfolio this fall. This could include marketing some of NiSource's six gas distribution companies, given the relatively high market valuations of recent gas utilities deals. We think the most likely divestitures are NiSource's smaller gas utilities in Kentucky, Pennsylvania, and Maryland.

Utilities Could Start to Feel Pressure From Inflation, Higher Energy Prices 09 Mar 2022

We are reaffirming our fair value estimates and moat ratings for the U.S. utilities we cover ahead of the U.S. Bureau of Labor Statistics' Consumer Price Index report March 10. We consider inflation to be the largest threat to utilities' long-term returns and ability to pay robust, growing dividends.

Utilities trade at a median 8% premium to our fair value estimates, which assume 2.3% long-term inflation. With utilities' market valuation multiples well above 20-year highs, we think the market is ignoring the potential for cuts in earnings growth and valuations by midyear if inflation remains above 3%.

Utilities are up 9% during the last two weeks, but we think that rally will be short-lived. The Morningstar US Utilities Index has underperformed the S&P 500 by 18 percentage points on average over two-year periods following months when the CPI rose more than 3% year over year. Core CPI was up 5.5% in December and 6.0% in January, the largest 12-month change since mid-1982, based on BLS data. A recent polling of economists estimate inflation near 8% for March, according to The Wall Street Journal.

Inflation hurts utilities' earnings and returns on capital because utilities generally have fixed revenue, high capital and labor costs, and large energy pass-through costs that raise customer bills without raising earnings. We estimate utilities' operating and core capital costs were more than 70% of net revenue on average in 2020. Rising costs make it critical that utilities receive timely rate adjustments, a particularly tough task when energy costs also are rising.

Low inflation and interest rates have helped most utilities increase earnings with only moderate customer bill impacts. Electric and gas utility bills have fallen from 2.2% of total household spending in 2008 to 1.6% in 2021. This is primarily due to mostly flat operating costs and lower interest costs offsetting a near doubling of capital investment during the last decade.

For a more detailed analysis of how inflation affects utilities, see our latest report, "Inflation Unraveling U.S. Utilities' Safety Net."

Utilities Top Pick NiSource Sets Up Pivotal Year With Regulatory, Strategic Reviews 23 Feb 2022

We are reaffirming our $30 per share fair value estimate for NiSource after the company reported earning $1.37 per share on an adjusted basis in 2021, in line with our estimate and management guidance. We are reaffirming our narrow moat and stable moat trend ratings.

We think NiSource's combination of a 3.4% dividend yield and potential for more than 7% annual growth makes it among the most attractive utilities in our coverage. The stock trades at a 5% discount to our fair value estimate and a discount to other utilities with similar growth outlooks.

New CEO Lloyd Yates signaled that he is considering selling

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Analyst Notes

some of NiSource's six gas distribution companies, a key strategic shift in response to what we consider rich valuations for recent gas utility sales. Any transactions at comparable valuations would represent at least a 30% premium to NiSource's current consolidated valuation, creating significant shareholder value.

Its smaller gas utilities in Kentucky, Pennsylvania, and Maryland are well positioned for potential sales after achieving constructive regulatory outcomes during the last three months. Gas distribution represents about 60% of NiSource's consolidated earnings. We expect any sales proceeds would go to increase its share of electric utility earnings and renewable energy investment.

This is a critical year for NiSource's Indiana electric utility, its largest and the one we think has the best long-term growth potential. NiSource plans to request an electric rate increase late this year effective in late 2023. The outcome of this request will likely determine whether NiSource hits the high end or low end of management's 7%-9% annual average earnings growth range through 2024.

Management reaffirmed its $1.42 to $1.48 EPS guidance range for 2022, in line with our estimate. We assume NiSource invests $2.5 billion of its $8 billion capital investment plan in renewable energy during the next three years.

NiSource CEO Hamrock to Retire; Stock Remains a Top Utilities Pick 27 Jan 2022

We are reaffirming our $30 per share fair value estimate for NiSource after CEO Joe Hamrock announced he plans to retire Feb. 14. Lloyd Yates, a NiSource director and former Duke Energy executive, is set to succeed Hamrock. We are reaffirming our narrow moat and stable moat trend ratings.

We suspect this succession plan has been in the works for at least a year since Yates left Duke and joined the NiSource board in 2020. Yates is two years older than Hamrock and has never worked for NiSource, two distinctions that make this transition plan different than most utilities' succession plans that favor long-tenured insiders.

NiSource's stock remains one of the most undervalued in our U.S. utilities coverage, trading at a 7% discount to our fair value estimate with a 4-star rating. On Jan. 26, the board approved a 7% dividend increase to $0.94 annualized, a bigger raise than we expected. This implies a 3.4% yield as of Jan. 27, higher than the utilities sector 3.2% median yield. We think NiSource's combination of yield and long-term growth is among the most attractive in the sector.

We consider Yates well prepared for the role after managing Duke's core Carolina operations, which are more two times as large as NiSource. Yates' immediate task is ensuring NiSource continues to achieve constructive regulatory outcomes, especially in its largest service territory, Indiana. We expect regulators to rule on NiSource's gas rate increase request later this year and an electric rate increase in 2023. Constructive outcomes in these cases are critical to support our 8% annual earnings growth forecast.

We expect Yates will continue Hamrock's clean energy growth strategy. We assume NiSource invests $3 billion of its $10 billion capital investment plan in renewable energy during the next four years, primarily at its Indiana electric utility. This will make it one of the fastest-growing utilities in our coverage.

NiSource Kicks Off 2022 Regulatory Year With Constructive Rulings in Kentucky, Pennsylvania 05 Jan 2022

We are reaffirming our $30 per share fair value estimate for

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NiSource after Kentucky regulators approved an $18.3 million, or 12%, increase in gas base rates, mostly in line with a settlement reached in October. We are also reaffirming our narrow moat and stable moat trend ratings.

The constructive outcome in Kentucky shortly after Pennsylvania regulators approved a $58.5 million, or 12%, gas rate increase is a good early indication of regulatory support as NiSource faces several critical regulatory tests this year. We expect regulators to sign off on large gas rate increases during the second half of the year in Ohio and Indiana to support NiSource's infrastructure investments. These rate increases support our 8% earnings growth forecast for 2022.

This also is a critical year for NiSource's Indiana electric utility, which we think has the best long-term growth potential. NiSource plans to file its request for electric rate increases in Indiana during 2022 with new rates effective in late 2023. The outcome of this request will likely determine whether NiSource hits the high end or low end of management's 7%-9% annual average earnings growth range through 2024.

We assume electric and gas systemwide customer growth and core investment support 5% earnings growth through 2024. We expect additional earnings growth to come from NiSource's potential $750 million of clean energy investments to replace retiring coal generation through 2028, particularly in Indiana. We also assume regulators approve $600 million of investment for NiSource with the rest of the generation secured through earnings-neutral power purchase agreements.

We expect dividend growth to stay near 5% in 2022-23 before a potential step-up in 2024, assuming constructive regulatory outcomes.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2019	2020	2021	Forecast 2022	Forecast 2023	5-Year Proj. CAGR
Revenue	*-1.4*	1.9	-10.1	4.7	*5.4*	*4.5*	*4.4*
EBIT	*100.6*	614.3	-38.2	82.8	*14.7*	*12.6*	*10.9*
EBITDA	*34.3*	122.0	-20.6	37.5	*10.8*	*10.1*	*9.3*
Net Income	*7.3*	6.8	2.5	12.7	*8.3*	*11.3*	*9.3*
Diluted EPS	*1.8*	1.2	0.3	3.8	*4.2*	*8.9*	*7.6*
Earnings Before Interest, after Tax	—	-417.7	10.7	10.8	*16.3*	*13.7*	*9.7*
Free Cash Flow	—	-65.5	-190.7	-267.4	*-69.7*	*529.5*	—

Profitability	3-Year Hist. Avg	2019	2020	2021	2022	2023	5-Year Proj. Avg
Operating Margin %	*16.5*	17.1	11.8	20.6	*22.4*	*24.1*	*25.9*
EBITDA Margin %	*31.3*	30.9	27.3	35.8	*37.7*	*39.7*	*41.9*
Net Margin %	*10.7*	9.5	10.8	11.7	*12.0*	*12.8*	*13.9*
Free Cash Flow Margin %	*-5.2*	-9.7	9.8	-15.6	*-4.5*	*-27.1*	*-0.8*
ROIC %	*3.7*	4.5	2.1	4.6	*4.9*	*5.1*	*5.2*
Adjusted ROIC %	*4.1*	4.9	2.3	5.0	*5.3*	*5.4*	*5.6*
Return on Assets %	*0.3*	0.1	-1.7	2.3	*2.5*	*2.6*	*2.8*
Return on Equity %	*1.2*	0.6	-7.5	10.3	*10.9*	*11.0*	*11.7*

Leverage	3-Year Hist. Avg	2019	2020	2021	2022	2023	5-Year Proj. Avg
Debt/Capital	*0.61*	0.62	0.63	0.59	*0.58*	*0.60*	*0.59*
Total Debt/EBITDA	*6.40*	6.00	7.63	5.58	*5.55*	*5.82*	*5.37*
EBITDA/Interest Expense	*4.28*	4.24	3.44	5.15	*5.15*	*5.09*	*5.11*

Valuation Summary and Forecasts

	2020	2021	2022(E)	2023(E)
Price/Fair Value	0.80	0.92	—	—
Price/Earnings	17.4	20.2	*20.6*	*19.0*
EV/EBITDA	16.0	12.8	*11.9*	*10.8*
EV/EBIT	37.1	22.3	*20.0*	*17.8*
Free Cash Flow Yield %	-7.3	-5.5	*-9.5*	*-14.9*
Dividend Yield %	3.7	3.0	*3.2*	*3.4*

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	5.8
Long-Run Tax Rate %	26.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	55.6
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	-229	-1.0	-0.52
Present Value Stage II	4,864	20.5	11.08
Present Value Stage III	19,128	80.5	43.57
Total Firm Value	**23,763**	**100.0**	**54.13**
Cash and Equivalents	95	—	0.22
Debt	0	—	-22.33
Preferred Stock	-1,547	—	-3.52
Other Adjustments	905	—	2.06
Equity Value	**13,414**	**—**	**30.56**
Projected Diluted Shares	439		
Fair Value per Share (USD)	**31.00**		

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	2019	2020	2021	Forecast 2022	Forecast 2023
Revenue	**5,209**	**4,682**	**4,900**	***5,166***	***5,397***
Cost of Goods Sold	1,535	1,109	1,392	*1,411*	*1,429*
Gross Profit	**3,674**	**3,572**	**3,507**	***3,755***	***3,968***
Selling, General & Administrative Expenses	1,355	1,586	1,456	*1,502*	*1,517*
Other Operating Expense (Income)	711	710	296	*308*	*309*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	717	726	748	*790*	*840*
Operating Income (ex charges)	**891**	**551**	**1,007**	***1,155***	***1,301***
Restructuring & Other Cash Charges	297	299	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**594**	**252**	**1,007**	***1,155***	***1,301***
Interest Expense	379	371	341	*378*	*421*
Interest Income	-5	-211	41	*30*	*10*
Pre-Tax Income	**210**	**-331**	**707**	***807***	***891***
Income Tax Expense	124	-17	118	*129*	*142*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	-3	-4	*-4*	*-4*
(Preferred Dividends)	-55	-55	-55	*-55*	*-55*
Net Income	**31**	**-372**	**530**	***619***	***689***
Weighted Average Diluted Shares Outstanding	376	384	417	*434*	*444*
Diluted Earnings Per Share	**0.08**	**-0.97**	**1.27**	***1.43***	***1.55***
Adjusted Net Income	495	507	572	*619*	*689*
Diluted Earnings Per Share (Adjusted)	**1.32**	**1.32**	**1.37**	***1.43***	***1.55***
Dividends Per Common Share	0.79	0.84	0.83	*0.94*	*1.00*
EBITDA	**1,311**	**978**	**1,755**	***1,945***	***2,141***
Adjusted EBITDA	**1,608**	**1,277**	**1,755**	***1,945***	***2,141***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2019	2020	2021	Forecast 2022	Forecast 2023
Cash and Equivalents	148	126	95	*415*	*84*
Investments	—	—	—	—	—
Accounts Receivable	857	791	826	*878*	*858*
Inventory	425	401	499	*502*	*470*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	424	341	502	*350*	*350*
Current Assets	**1,854**	**1,659**	**1,921**	***2,145***	***1,762***
Net Property Plant, and Equipment	16,912	16,620	17,882	*19,612*	*22,392*
Goodwill	1,486	1,486	1,486	*1,486*	*1,486*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	2,014	1,795	2,286	*1,800*	*1,800*
Long-Term Non-Operating Assets	394	481	582	*582*	*582*
Total Assets	**22,660**	**22,041**	**24,157**	***25,625***	***28,022***
Accounts Payable	666	589	698	*580*	*587*
Short-Term Debt	1,787	526	618	*618*	*1,068*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,293	1,164	1,430	*1,200*	*1,200*
Current Liabilities	**3,746**	**2,279**	**2,746**	***2,398***	***2,855***
Long-Term Debt	7,856	9,220	9,183	*10,183*	*11,383*
Deferred Tax Liabilities (Long-Term)	1,485	1,471	1,659	*1,800*	*1,970*
Other Long-Term Operating Liabilities	2,352	1,904	1,843	*2,000*	*2,000*
Long-Term Non-Operating Liabilities	1,234	1,329	1,452	*1,452*	*1,452*
Total Liabilities	**16,673**	**16,203**	**16,884**	***17,834***	***19,661***
Preferred Stock	880	880	1,547	*1,720*	*1,720*
Common Stock	4	4	4	*4*	*4*
Additional Paid-in Capital	6,666	6,890	7,204	*7,504*	*7,804*
Retained Earnings (Deficit)	-1,371	-1,765	-1,581	*-1,347*	*-1,078*
(Treasury Stock)	-100	-100	-100	*-100*	*-100*
Other Equity	-93	-157	-127	*-70*	*-70*
Shareholder's Equity	**5,987**	**5,752**	**6,947**	***7,712***	***8,281***
Minority Interest	—	86	326	*80*	*80*
Total Equity	**5,987**	**5,838**	**7,273**	***7,792***	***8,361***

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NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
29.49 USD	31.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2019	2020	2021	Forecast 2022	Forecast 2023
Net Income	383	-14	589	*678*	*748*
Depreciation	717	726	748	*790*	*840*
Amortization	—	—	—	—	—
Stock-Based Compensation	26	17	24	*25*	*25*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	118	-29	112	*141*	*170*
Other Non-Cash Adjustments	414	653	5	—	—
(Increase) Decrease in Accounts Receivable	188	-4	-40	*-52*	*20*
(Increase) Decrease in Inventory	-2	-2	-113	*-4*	*33*
Change in Other Short-Term Assets	-23	-236	-132	*152*	—
Increase (Decrease) in Accounts Payable	-300	-30	55	*-118*	*8*
Change in Other Short-Term Liabilities	62	22	-30	*-230*	—
Cash From Operations	**1,583**	**1,104**	**1,218**	***1,381***	***1,843***
(Capital Expenditures)	-1,802	-1,758	-1,838	*-2,520*	*-3,620*
Net (Acquisitions), Asset Sales, and Disposals	—	—	1	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-120	879	-368	*643*	—
Cash From Investing	**-1,922**	**-879**	**-2,205**	***-1,877***	***-3,620***
Common Stock Issuance (or Repurchase)	244	211	1,140	*300*	*300*
Common Stock (Dividends)	-299	-322	-345	*-385*	*-420*
Short-Term Debt Issuance (or Retirement)	-204	-1,270	57	—	*450*
Long-Term Debt Issuance (or Retirement)	681	1,106	-44	*1,000*	*1,200*
Other Financing Cash Flows	-56	27	150	*-156*	*-84*
Cash From Financing	**366**	**-248**	**957**	***759***	***1,445***
Exchange Rates, Discontinued Ops, etc. (net)	0	0	—	*57*	—
Net Change in Cash	**27**	**-23**	**-30**	***320***	***-331***

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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	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Xcel Energy Inc XEL USA	1.24	22.9	22.3	21.6	14.0	13.0	11.9	NM	NM	NM	—	—	—	2.7	3.1	2.9
WEC Energy Group Inc WEC USA	1.07	23.6	23.0	21.8	16.2	15.1	13.7	NM	NM	NM	—	—	—	3.7	3.7	3.6
CMS Energy Corp CMS USA	1.27	24.5	23.4	22.4	14.0	12.1	11.5	NM	NM	NM	—	—	—	2.6	2.7	2.6
Alliant Energy Corp LNT USA	1.09	23.4	21.4	20.4	15.7	14.5	13.8	NM	938.1	29.3	—	—	—	4.2	3.9	3.8
Average		23.6	22.5	21.6	15.0	13.7	12.7	—	938.1	29.3	—	—	—	3.3	3.4	3.2
NiSource Inc NI US	**0.95**	**20.2**	***20.6***	***19.0***	**12.8**	***11.9***	***10.8***	**NM**	***NM***	***NM***	**—**	**—**	**—**	**2.3**	***2.3***	***2.2***

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Xcel Energy Inc XEL USA	57,851 USD	3.8	4.5	4.7	3.8	4.5	4.7	10.6	10.8	10.6	2.9	2.9	2.9	2.7	2.7	2.9
WEC Energy Group Inc WEC USA	38,989 USD	5.0	6.7	6.7	5.6	7.5	7.4	12.0	12.2	12.3	3.4	3.4	3.4	2.8	2.9	3.1
CMS Energy Corp CMS USA	28,753 USD	5.3	5.7	5.6	5.3	5.7	5.6	22.7	12.7	12.4	4.6	2.9	2.8	2.7	2.7	2.9
Alliant Energy Corp LNT USA	18,553 USD	5.6	6.3	6.5	5.6	6.3	6.5	11.3	11.2	11.3	3.6	3.6	3.6	2.6	2.9	3.1
Average		4.9	5.8	5.9	5.1	6.0	6.1	14.2	11.7	11.7	3.6	3.2	3.2	2.7	2.8	3.0
NiSource Inc NI US	**24,157** USD	**4.6**	***4.9***	***5.1***	**5.0**	***5.3***	***5.4***	**10.3**	***10.9***	***11.0***	**2.3**	***2.5***	***2.6***	**3.0**	***3.2***	***3.4***

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Xcel Energy Inc XEL USA	13,431 USD	16.5	-6.7	4.5	4.1	12.3	11.9	6.1	7.3	3.2	-27.7	-86.7	-70.7	6.4	6.0	6.2
WEC Energy Group Inc WEC USA	8,316 USD	14.8	2.7	4.3	0.5	11.6	10.6	8.2	6.6	5.2	-66.4	163.9	-124.8	7.1	7.4	6.9
CMS Energy Corp CMS USA	7,329 USD	9.7	-2.1	3.5	-15.9	25.9	7.2	-0.8	8.8	4.3	-175.7	-140.9	239.4	6.8	5.8	6.0
Alliant Energy Corp LNT USA	3,669 USD	7.4	3.1	2.5	7.4	9.5	7.3	6.5	4.1	5.2	-128.1	-12.3	762.6	5.9	6.2	6.4
Average		12.1	-0.7	3.7	-1.0	14.8	9.3	5.0	6.7	4.5	-99.5	-19.0	201.6	6.6	6.4	6.4
NiSource Inc NI US	**4,900** USD	**4.7**	***5.4***	***4.5***	**82.8**	***14.7***	***12.6***	**3.8**	***4.2***	***8.9***	**-267.4**	***-69.7***	***529.5***	**4.8**	***6.8***	***6.4***

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
29.49 USD	31.00 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 %		
		2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Xcel Energy Inc XEL USA	1,598 USD	56.4	65.5	66.6	32.4	38.7	40.6	16.4	19.7	21.2	11.9	13.9	13.8	-15.3	-5.2	-6.7
WEC Energy Group Inc WEC USA	1,299 USD	60.2	62.2	62.9	33.5	36.5	38.4	20.6	22.4	23.8	15.6	16.2	16.3	-2.7	-7.9	-1.4
CMS Energy Corp CMS USA	767 USD	58.1	60.8	61.1	30.8	36.3	37.1	15.6	20.1	20.8	10.5	11.7	11.9	-3.5	-9.0	-22.0
Alliant Energy Corp LNT USA	659 USD	60.8	61.2	61.4	39.6	41.3	42.2	21.7	23.0	24.1	18.0	18.2	18.8	-16.0	0.4	13.0
Average		58.9	62.4	63.0	34.1	38.2	39.6	18.6	21.3	22.5	14.0	15.0	15.2	-9.4	-5.4	-4.3
NiSource Inc NI US	**572** USD	**71.6**	***72.7***	***73.5***	**35.8**	***37.7***	***39.7***	**20.6**	***22.4***	***24.1***	**11.7**	***12.0***	***12.8***	**-12.7**	***-22.0***	***-32.9***

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Xcel Energy Inc XEL USA	23,385 USD	149.8	152.3	153.5	60.0	60.4	60.6	5.3	5.5	5.6	5.4	5.2	5.1	3.7	3.6	3.6
WEC Energy Group Inc WEC USA	15,590 USD	140.3	148.4	150.7	58.4	59.7	60.1	5.9	6.0	6.0	5.6	5.5	5.4	3.5	3.6	3.6
CMS Energy Corp CMS USA	12,428 USD	187.4	189.3	196.6	65.2	65.4	66.3	4.5	5.7	5.5	5.5	5.1	5.5	4.3	4.3	4.2
Alliant Energy Corp LNT USA	7,883 USD	131.6	135.5	135.7	56.8	57.5	57.6	5.2	5.5	5.2	5.4	5.4	5.5	3.1	3.1	3.1
Average		152.3	156.4	159.1	60.1	60.8	61.2	5.2	5.7	5.6	5.5	5.3	5.4	3.7	3.7	3.6
NiSource Inc NI US	**9,802** USD	**141.1**	***140.1***	***150.4***	**58.5**	***58.3***	***60.1***	**5.1**	***5.2***	***5.1***	**5.6**	***5.6***	***5.8***	**3.5**	***3.3***	***3.4***

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Xcel Energy Inc XEL USA	38,540 USD	0.31	0.25	0.23	0.84	0.74	0.76	0.72	0.62	0.64	0.10	0.08	0.08	61.9	61.1	62.8
WEC Energy Group Inc WEC USA	31,745 USD	0.05	0.65	0.56	1.52	1.52	1.48	1.35	1.34	1.31	0.01	0.10	0.08	66.0	66.5	67.5
CMS Energy Corp CMS USA	19,584 USD	1.64	0.15	0.35	1.19	1.03	1.10	0.89	0.73	0.79	1.25	0.11	0.27	37.8	63.8	64.9
Alliant Energy Corp LNT USA	14,700 USD	0.16	0.66	2.83	0.52	0.61	0.90	0.40	0.49	0.78	0.03	0.15	0.67	61.3	62.5	63.3
Average		0.54	0.43	0.99	1.02	0.98	1.06	0.84	0.80	0.88	0.35	0.11	0.28	56.8	63.5	64.6
NiSource Inc NI US	**11,967** USD	**0.23**	***0.96***	***0.19***	**0.70**	***0.89***	***0.62***	**0.52**	***0.69***	***0.45***	**0.15**	***0.67***	***0.08***	**65.2**	***65.9***	***64.4***

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Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

Morningstar Research Methodology for Valuing Companies



2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.
Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to

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Research Methodology for Valuing Companies

assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

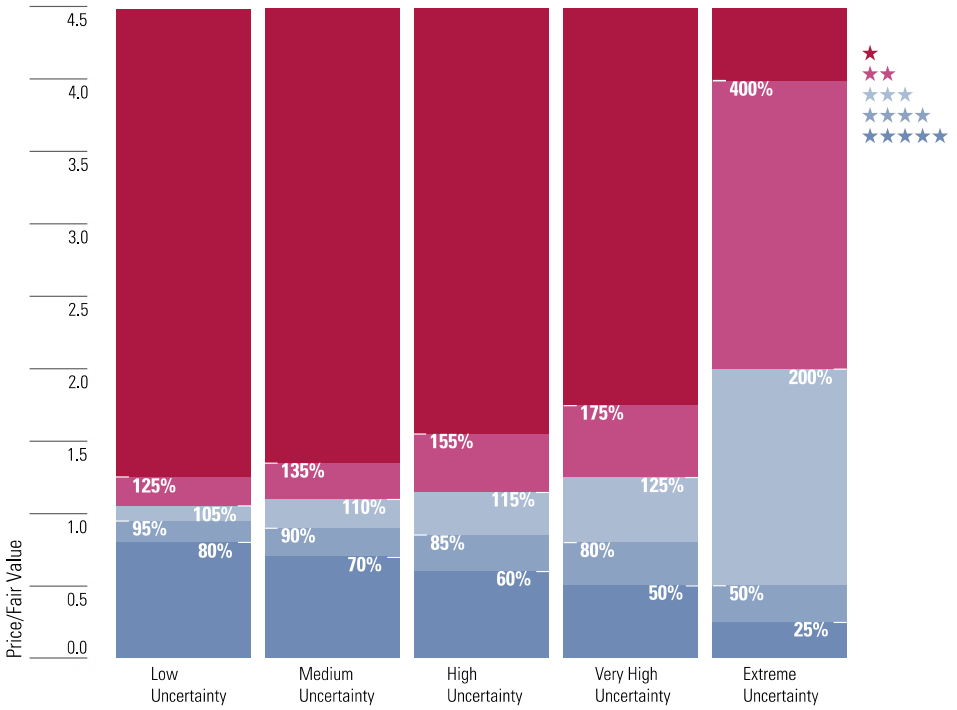
- Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

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

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

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

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

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Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environmental, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/.

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

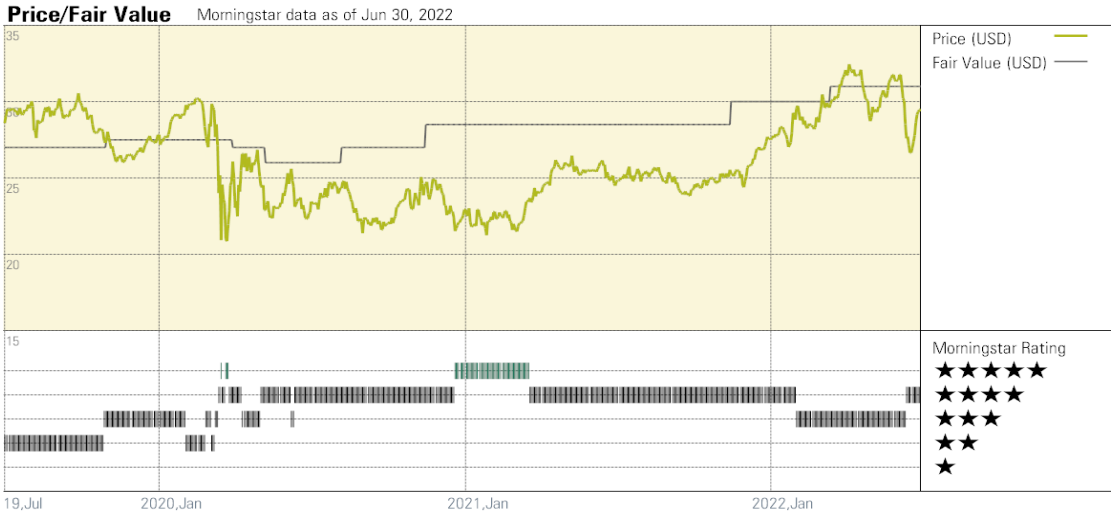
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29.49 USD	31.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	



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Utilities Caught in the Middle of Investors' Recession and Inflation Fears

Travis Miller
Strategist
Morningstar

Analyst Note 18 Jul 2022

We are reaffirming our fair value estimates and economic moat ratings for our U.S. utilities coverage after the U.S. Bureau of Labor Statistics reported 9.1% core inflation on July 14. We continue to consider inflation to be the largest threat to utilities' long-term returns and ability to pay robust, growing dividends.

Investors have flocked to utilities this year to protect against recession fears and geopolitical uncertainty. However, utilities' outperformance has papered over what we consider the sector's biggest long-term risk: inflation. After June's 8.6% inflation reading, the Morningstar US Utilities Index fell 9% in one week. Utilities moved little on last week's inflation reading, probably because investors already expected a high inflation number.

We expect utilities stocks to remain volatile as investors alternately fret a recession (positive for utilities) and inflation (negative for utilities). After the recent jump in interest rates, utilities' 3.2% dividend yield is nearly the same as the 10-year Treasury yield for the first time since 2008, a setback for income investors.

Renewable energy growth remains a long-term opportunity, but higher supply costs and uncertain federal policy could stall near-term growth, especially for solar. High fossil fuel costs have kept renewable energy competitive. Warm summer weather should boost utilities earnings this year, potentially helping some utilities offset inflation's impact. However, customer bill shock from higher gas and power prices could significantly increase regulatory risk next year, potentially putting some growth projects at risk.

We now consider the sector to be near fair value, down from 14% overvalued in early June. Ten utilities trade at or below our fair value estimates as of mid-July, the most since

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Research as of 18 Jul 2022
Estimates as of 30 Jun 2022
Pricing data through 15 Jul 2022 00:00
Rating updated as of 15 Jul 2022 00:00

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.
Rating as of 06 Jul 2022 00:00

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

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Vital Statistics

Market Cap (USD Mil)	11,679
52-Week High (USD)	32.58
52-Week Low (USD)	23.65
52-Week Total Return %	16.2
YTD Total Return %	5.9
Last Fiscal Year End	31 Dec 2021
5-Yr Forward Revenue CAGR %	4.4
5-Yr Forward EPS CAGR %	7.6
Price/Fair Value	0.93

Valuation Summary and Forecasts

Fiscal Year:	2020	2021	*2022(E)*	*2023(E)*
Price/Earnings	17.4	20.2	*20.1*	*18.6*
EV/EBITDA	16.0	12.8	*11.8*	*10.7*
EV/EBIT	37.1	22.3	*19.8*	*17.6*
Free Cash Flow Yield %	-7.3	-5.5	*-9.8*	*-15.2*
Dividend Yield %	3.7	3.0	*3.3*	*3.5*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2020	2021	*2022(E)*	*2023(E)*
Revenue	4,682	4,900	*5,166*	*5,397*
Revenue YoY %	-10.1	4.7	*5.4*	*4.5*
EBIT	551	1,007	*1,155*	*1,301*
EBIT YoY %	-38.2	82.8	*14.7*	*12.6*
Net Income, Adjusted	507	572	*619*	*689*
Net Income YoY %	2.5	12.7	*8.3*	*11.3*
Diluted EPS	1.32	1.37	*1.43*	*1.55*
Diluted EPS YoY %	0.3	3.8	*4.2*	*8.9*
Free Cash Flow	457	-765	*-232*	*-1,461*
Free Cash Flow YoY %	-190.7	-267.4	*-69.7*	*529.5*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewable energy.

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mid-2021. We think utilities that operate in constructive regulatory jurisdictions with support for infrastructure growth are the best positioned to mitigate the impacts of inflation.

For more on our outlook for the utilities sector, see our recent report, "Recession or Inflation? Utilities Caught In the Middle."

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2019	2020	2021	Forecast 2022	Forecast 2023	5-Year Proj. CAGR
Revenue	*-1.4*	1.9	-10.1	4.7	*5.4*	*4.5*	*4.4*
EBIT	*100.6*	614.3	-38.2	82.8	*14.7*	*12.6*	*10.9*
EBITDA	*34.3*	122.0	-20.6	37.5	*10.8*	*10.1*	*9.3*
Net Income	*7.3*	6.8	2.5	12.7	*8.3*	*11.3*	*9.3*
Diluted EPS	*1.8*	1.2	0.3	3.8	*4.2*	*8.9*	*7.6*
Earnings Before Interest, after Tax	—	-417.7	10.7	10.8	*16.3*	*13.7*	*9.7*
Free Cash Flow	—	-65.5	-190.7	-267.4	*-69.7*	*529.5*	—

Profitability	3-Year Hist. Avg	2019	2020	2021	2022	2023	5-Year Proj. Avg
Operating Margin %	*16.5*	17.1	11.8	20.6	*22.4*	*24.1*	*25.9*
EBITDA Margin %	*31.3*	30.9	27.3	35.8	*37.7*	*39.7*	*41.9*
Net Margin %	*10.7*	9.5	10.8	11.7	*12.0*	*12.8*	*13.9*
Free Cash Flow Margin %	*-5.2*	-9.7	9.8	-15.6	*-4.5*	*-27.1*	*-0.8*
ROIC %	*3.7*	4.5	2.1	4.6	*4.9*	*5.1*	*5.2*
Adjusted ROIC %	*4.1*	4.9	2.3	5.0	*5.3*	*5.4*	*5.6*
Return on Assets %	*0.3*	0.1	-1.7	2.3	*2.5*	*2.6*	*2.8*
Return on Equity %	*1.2*	0.6	-7.5	10.3	*10.9*	*11.0*	*11.7*

Leverage	3-Year Hist. Avg	2019	2020	2021	2022	2023	5-Year Proj. Avg
Debt/Capital	*0.61*	0.62	0.63	0.59	*0.58*	*0.60*	*0.59*
Total Debt/EBITDA	*6.40*	6.00	7.63	5.58	*5.55*	*5.82*	*5.37*
EBITDA/Interest Expense	*4.28*	4.24	3.44	5.15	*5.15*	*5.09*	*5.11*

Valuation Summary and Forecasts

	2020	2021	2022(E)	2023(E)
Price/Fair Value	0.80	0.92	—	—
Price/Earnings	17.4	20.2	*20.1*	*18.6*
EV/EBITDA	16.0	12.8	*11.8*	*10.7*
EV/EBIT	37.1	22.3	*19.8*	*17.6*
Free Cash Flow Yield %	-7.3	-5.5	*-9.8*	*-15.2*
Dividend Yield %	3.7	3.0	*3.3*	*3.5*

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	5.8
Long-Run Tax Rate %	26.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	55.6
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	-229	-1.0	-0.52
Present Value Stage II	4,864	20.5	11.08
Present Value Stage III	19,128	80.5	43.57
Total Firm Value	**23,763**	**100.0**	**54.13**
Cash and Equivalents	95	—	0.22
Debt	0	—	-22.33
Preferred Stock	-1,547	—	-3.52
Other Adjustments	905	—	2.06
Equity Value	**13,414**	**—**	**30.56**
Projected Diluted Shares	439		
Fair Value per Share (USD)	**31.00**		

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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NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
28.78 USD	31.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December	2019	2020	2021	Forecast 2022	Forecast 2023
Revenue	**5,209**	**4,682**	**4,900**	***5,166***	***5,397***
Cost of Goods Sold	1,535	1,109	1,392	*1,411*	*1,429*
Gross Profit	**3,674**	**3,572**	**3,507**	***3,755***	***3,968***
Selling, General & Administrative Expenses	1,355	1,586	1,456	*1,502*	*1,517*
Other Operating Expense (Income)	711	710	296	*308*	*309*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	717	726	748	*790*	*840*
Operating Income (ex charges)	**891**	**551**	**1,007**	***1,155***	***1,301***
Restructuring & Other Cash Charges	297	299	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**594**	**252**	**1,007**	***1,155***	***1,301***
Interest Expense	379	371	341	*378*	*421*
Interest Income	-5	-211	41	*30*	*10*
Pre-Tax Income	**210**	**-331**	**707**	***807***	***891***
Income Tax Expense	124	-17	118	*129*	*142*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	-3	-4	*-4*	*-4*
(Preferred Dividends)	-55	-55	-55	*-55*	*-55*
Net Income	**31**	**-372**	**530**	***619***	***689***
Weighted Average Diluted Shares Outstanding	376	384	417	*434*	*444*
Diluted Earnings Per Share	**0.08**	**-0.97**	**1.27**	***1.43***	***1.55***
Adjusted Net Income	495	507	572	*619*	*689*
Diluted Earnings Per Share (Adjusted)	**1.32**	**1.32**	**1.37**	***1.43***	***1.55***
Dividends Per Common Share	0.79	0.84	0.83	*0.94*	*1.00*
EBITDA	**1,311**	**978**	**1,755**	***1,945***	***2,141***
Adjusted EBITDA	**1,608**	**1,277**	**1,755**	***1,945***	***2,141***

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28.78 USD	31.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2019	2020	2021	*Forecast* 2022	*Forecast* 2023
Cash and Equivalents	148	126	95	*415*	*84*
Investments	—	—	—	—	—
Accounts Receivable	857	791	826	*878*	*858*
Inventory	425	401	499	*502*	*470*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	424	341	502	*350*	*350*
Current Assets	**1,854**	**1,659**	**1,921**	***2,145***	***1,762***
Net Property Plant, and Equipment	16,912	16,620	17,882	*19,612*	*22,392*
Goodwill	1,486	1,486	1,486	*1,486*	*1,486*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	2,014	1,795	2,286	*1,800*	*1,800*
Long-Term Non-Operating Assets	394	481	582	*582*	*582*
Total Assets	**22,660**	**22,041**	**24,157**	***25,625***	***28,022***
Accounts Payable	666	589	698	*580*	*587*
Short-Term Debt	1,787	526	618	*618*	*1,068*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,293	1,164	1,430	*1,200*	*1,200*
Current Liabilities	**3,746**	**2,279**	**2,746**	***2,398***	***2,855***
Long-Term Debt	7,856	9,220	9,183	*10,183*	*11,383*
Deferred Tax Liabilities (Long-Term)	1,485	1,471	1,659	*1,800*	*1,970*
Other Long-Term Operating Liabilities	2,352	1,904	1,843	*2,000*	*2,000*
Long-Term Non-Operating Liabilities	1,234	1,329	1,452	*1,452*	*1,452*
Total Liabilities	**16,673**	**16,203**	**16,884**	***17,834***	***19,661***
Preferred Stock	880	880	1,547	*1,720*	*1,720*
Common Stock	4	4	4	*4*	*4*
Additional Paid-in Capital	6,666	6,890	7,204	*7,504*	*7,804*
Retained Earnings (Deficit)	-1,371	-1,765	-1,581	*-1,347*	*-1,078*
(Treasury Stock)	-100	-100	-100	*-100*	*-100*
Other Equity	-93	-157	-127	*-70*	*-70*
Shareholder's Equity	**5,987**	**5,752**	**6,947**	***7,712***	***8,281***
Minority Interest	—	86	326	*80*	*80*
Total Equity	**5,987**	**5,838**	**7,273**	***7,792***	***8,361***

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
28.78 USD	31.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2019	2020	2021	Forecast 2022	Forecast 2023
Net Income	383	-14	589	*678*	*748*
Depreciation	717	726	748	*790*	*840*
Amortization	—	—	—	—	—
Stock-Based Compensation	26	17	24	*25*	*25*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	118	-29	112	*141*	*170*
Other Non-Cash Adjustments	414	653	5	—	—
(Increase) Decrease in Accounts Receivable	188	-4	-40	*-52*	*20*
(Increase) Decrease in Inventory	-2	-2	-113	*-4*	*33*
Change in Other Short-Term Assets	-23	-236	-132	*152*	—
Increase (Decrease) in Accounts Payable	-300	-30	55	*-118*	*8*
Change in Other Short-Term Liabilities	62	22	-30	*-230*	—
Cash From Operations	**1,583**	**1,104**	**1,218**	***1,381***	***1,843***
(Capital Expenditures)	-1,802	-1,758	-1,838	*-2,520*	*-3,620*
Net (Acquisitions), Asset Sales, and Disposals	—	—	1	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-120	879	-368	*643*	—
Cash From Investing	**-1,922**	**-879**	**-2,205**	***-1,877***	***-3,620***
Common Stock Issuance (or Repurchase)	244	211	1,140	*300*	*300*
Common Stock (Dividends)	-299	-322	-345	*-385*	*-420*
Short-Term Debt Issuance (or Retirement)	-204	-1,270	57	—	*450*
Long-Term Debt Issuance (or Retirement)	681	1,106	-44	*1,000*	*1,200*
Other Financing Cash Flows	-56	27	150	*-156*	*-84*
Cash From Financing	**366**	**-248**	**957**	***759***	***1,445***
Exchange Rates, Discontinued Ops, etc. (net)	0	0	—	*57*	—
Net Change in Cash	**27**	**-23**	**-30**	***320***	***-331***

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Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

Morningstar Research Methodology for Valuing Companies



2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.
Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to

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Research Methodology for Valuing Companies

assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

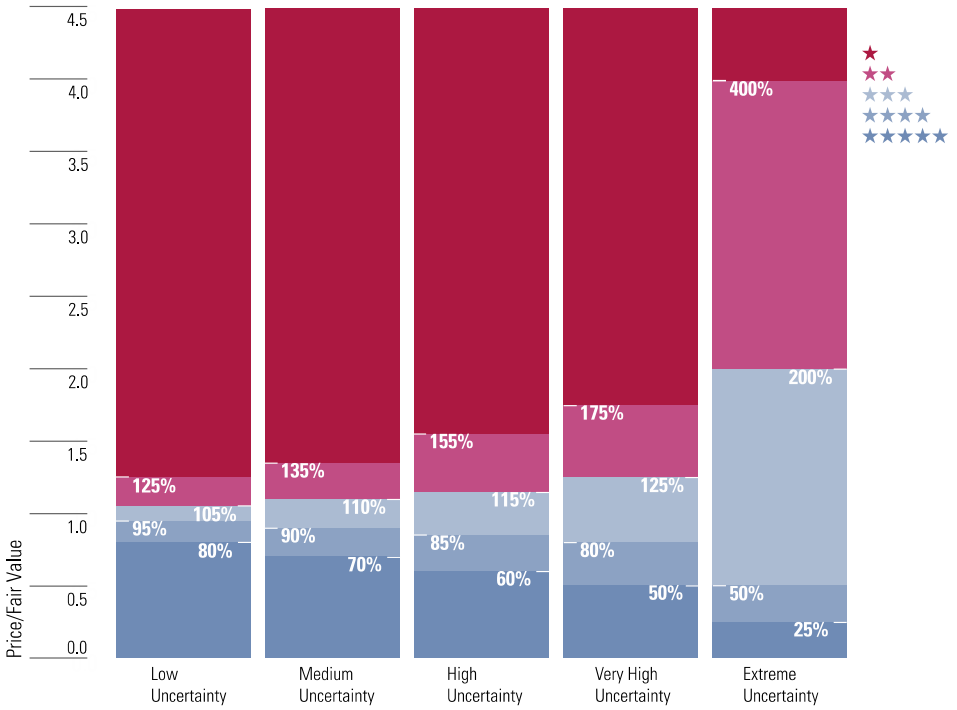
- Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

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

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

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

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

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Research Methodology for Valuing Companies

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Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

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Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/.

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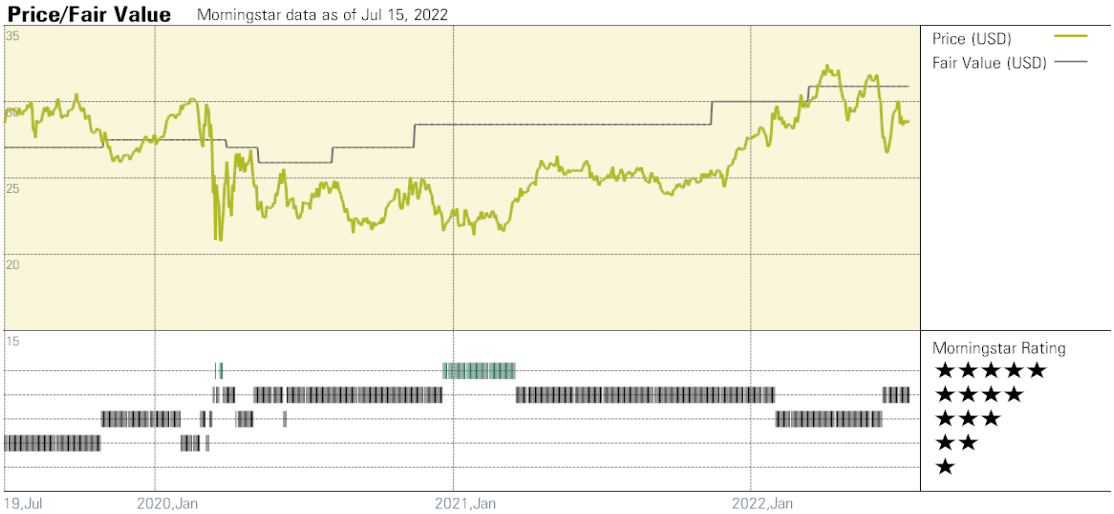
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NiSource Inc NI (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
28.78 USD	31.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	



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NiSource Must Secure Regulatory Support for Growth Projects

Updated Forecasts and Estimates from 24 Aug 2022

Travis Miller
Strategist
Morningstar

Business Strategy and Outlook 24 Aug 2022

NiSource continues to transition away from its roots in the natural gas distribution and midstream businesses to an increasing focus on electric infrastructure and renewable energy. About 60% of NiSource's operating income comes from its six natural gas distribution utilities and 40% from its electric utility in Indiana following the 2015 separation from Columbia Pipeline Group. The share of earnings from the electric business could jump if new CEO Lloyd Yates decides to divest some of NiSource's smaller gas utilities.

NiSource's utilities have constructive regulatory frameworks that allow it to collect a cash return of and a cash return on the bulk of its capital investments within 18 months. We expect NiSource to invest more than $8 billion over the next three years, including what could be $2 billion of renewable energy projects in Indiana, where NiSource enjoys favorable regulation.

That growth could extend even longer based on electric and gas system infrastructure improvement projects NiSource has identified. Replacing steel and cast-iron pipe with plastic at its natural gas distribution utilities is a key initiative along with investments across the business that reduce greenhouse gases. Almost all of these investments receive favorable regulatory treatment, allowing NiSource to earn near its regulatory allowed returns.

In October 2020, NiSource sold its Columbia Gas of Massachusetts utility and received $1.1 billion of proceeds that it used to strengthen the balance sheet and prepare for its planned infrastructure investments. The sale came nearly two years after a natural gas explosion on NiSource's Massachusetts system killed one person north of Boston. Insurance covered roughly half of the almost $2 billion of claims, penalties, and other expenses.

Earnings are set to rebound quickly from their low in 2020 when COVID-19 pandemic costs, lower energy use, the Massachusetts utility sale, and a large equity issuance weighed on earnings. We expect modest customer growth combined with NiSource's infrastructure growth investments to support 8% annual earnings

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Research as of 24 Aug 2022
Estimates as of 24 Aug 2022
Pricing data as of 24 Aug 2022 14:41
Rating updated as of 24 Aug 2022 14:56

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.
Rating as of 03 Aug 2022 00:00

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

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Vital Statistics

Market Cap (USD Mil)	12,491
52-Week High (USD)	32.58
52-Week Low (USD)	23.65
52-Week Total Return %	25.1
YTD Total Return %	14.0
Last Fiscal Year End	31 Dec 2021
5-Yr Forward Revenue CAGR %	4.6
5-Yr Forward EPS CAGR %	9.4
Price/Fair Value	0.97

Valuation Summary and Forecasts

Fiscal Year:	2020	2021	*2022(E)*	*2023(E)*
Price/Earnings	17.4	20.2	*21.1*	*19.9*
EV/EBITDA	16.0	12.8	*12.3*	*11.1*
EV/EBIT	37.1	22.3	*20.6*	*18.2*
Free Cash Flow Yield %	-7.3	-5.5	*-9.5*	*-13.2*
Dividend Yield %	3.7	3.0	*3.1*	*3.3*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2020	2021	*2022(E)*	*2023(E)*
Revenue	4,682	4,900	*5,180*	*5,419*
Revenue YoY %	-10.1	4.7	*5.7*	*4.6*
EBIT	551	1,007	*1,169*	*1,323*
EBIT YoY %	-38.2	82.8	*16.1*	*13.2*
Net Income, Adjusted	507	572	*633*	*685*
Net Income YoY %	2.5	12.7	*10.7*	*8.2*
Diluted EPS	1.32	1.37	*1.46*	*1.55*
Diluted EPS YoY %	0.3	3.8	*6.5*	*6.2*
Free Cash Flow	457	-765	*-284*	*-1,343*
Free Cash Flow YoY %	-190.7	-267.4	*-62.9*	*373.0*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewable energy.

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growth and 6% annual dividend growth from 2022 to 2026.

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Morningstar Analysis

Fair Value & Profit Drivers 24 Aug 2022
Our fair value estimate is $32 per share.

We assume NiSource invests nearly $9 billion in 2022-24, including $2 billion of investment in renewable energy projects in Indiana to replace its coal-fired power generation fleet by 2028. Investment in the gas distribution systems, primarily for pipeline replacement, should remain well above maintenance-level spending for several more years, resulting in earnings growth at all of its gas utilities. We expect investment at the gas utilities to slow beyond 2025 while growth investment at the electric utility continues.

In total, we expect 11% average annual rate base growth and 8% average annual earnings growth through 2025 when combining the planned electric and gas system investments. The key factor in our growth outlook is a favorable outcome in NiSource's planned 2023-24 electric rate case in Indiana.

Renewable energy and gas distribution infrastructure investments should support strong dividend growth, a better ESG profile, and lower risk for investors. We don't expect a material valuation impact from year-to-year policy-related shifts in investment, notably Indiana solar projects.

We use a 5.8% 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 constructive regulatory frameworks.

Scenario Analysis
Our bull and bear cases suggest a low uncertainty rating for NiSource. Our low uncertainty rating is due in large part to the favorable regulatory frameworks in the jurisdictions of NiSource's utility operations. In addition, we believe we have captured potential ESG risk in our base-case scenario.

If we assume capital expenditures are 25% lower 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 estimate similar upside impact in our bull case if NiSource secures more growth investment opportunities during the next five years.

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 NiSource's regulated gas and electric utilities. State and federal regulators grant regulated utilities like NiSource 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 networks. In exchange for regulated utilities' service territory monopolies, state and federal regulators set returns at levels that aim to minimize customer costs while offering fair returns for capital providers.

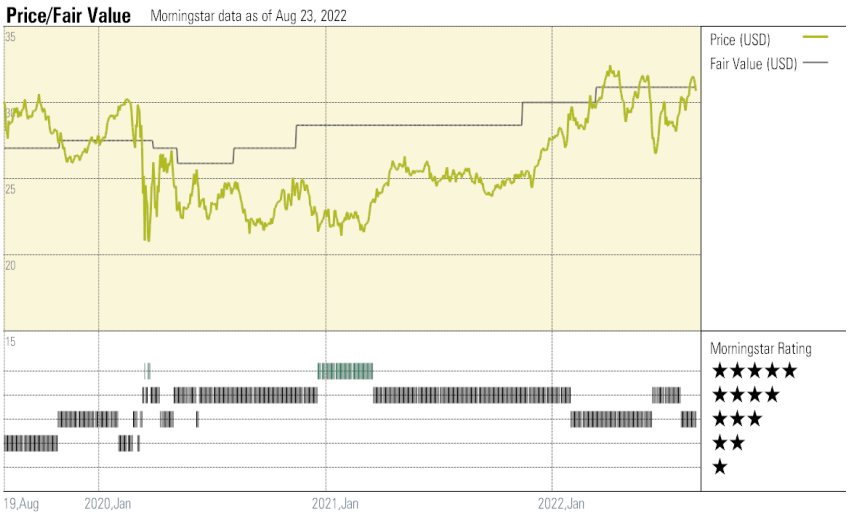
This implicit contract between regulators and capital providers should, on balance, allow NiSource's regulated utilities to achieve at least their costs of capital, though observable returns might vary in the short run based on demand trends, investment cycles, operating costs, and access to financing.

NiSource derives roughly 60% of its operating earnings from its natural gas distribution utilities and 40% from its integrated electric business in Indiana. In all cases, state and federal regulators set customer rates that allow NiSource to recover its operating and capital costs.

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Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
30.97 USD	32.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	



NiSource has no direct commodity price risk that could weaken its moat. NiSource exited the no-moat retail energy supply business in 2010.

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. We also believe the core Federal Energy Regulatory Commission and state cost-of-service regulatory frameworks will remain in place for the foreseeable future. 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 the dividend to grow near 6% annually during the next few years before accelerating to keep pace with earnings in 2024 and beyond.
- NiSource's growth plan will support Indiana policymakers' desire to cut the state's carbon emissions by replacing coal generation with renewable energy and energy storage.
- New legislation has improved the regulatory framework in Indiana for NiSource's electric and natural gas distribution utilities.

Bears Say

- Industrial customers account for over half of NiSource's electric sales, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- Policies to reduce carbon emissions could be a long-term threat for NiSource's natural gas distribution business if policymakers in states it serves aim to reduce retail gas use.
- NiSource has issued nearly $3 billion of equity and preferred stock during the last four years, resulting in little earnings growth since 2018.

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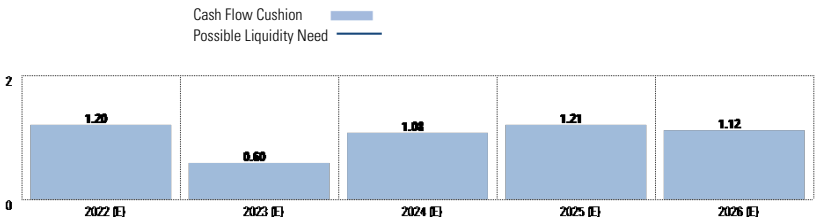
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Five Year Adjusted Cash Flow Forecast (USD Mil)

	2022(E)	2023(E)	2024(E)	2025(E)	2026(E)
Cash and Equivalents (beginning of period)	95	92	70	68	108
Adjusted Available Cash Flow	1,691	1,029	1,463	805	1,689
Total Cash Available before Debt Service	1,786	1,121	1,533	873	1,797
Principal Payments	-1,081	-1,428	-905	-178	-1,039
Interest Payments	-376	-415	-481	-514	-530
Other Cash Obligations and Commitments	-30	-30	-30	-30	-30
Total Cash Obligations and Commitments	-1,487	-1,873	-1,416	-722	-1,599

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	95	1.3
Sum of 5-Year Adjusted Free Cash Flow	6,679	94.1
Sum of Cash and 5-Year Cash Generation	6,774	95.5
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	6,774	95.5
Sum of 5-Year Cash Commitments	-7,097	—

Financial Strength

NiSource has issued a substantial amount of equity in the past few years in part to fund its large infrastructure growth projects and in part to cover liabilities arising from the Massachusetts gas explosion. This dilution and the sale of Columbia Gas of Massachusetts has kept earnings mostly flat since 2018.

The equity has strengthened NiSource's balance sheet going into the next phase of heavy growth investment. NiSource issued over $1 billion of common stock and $880 million of preferred stock in 2018 and 2019, raised $1.1 billion from the Massachusetts utility sale in 2020, and issued $862.5 million of convertible preferred equity units in early 2021. During the next three years, we expect NiSource will need to raise $600 million of new equity, issue $3 billion of new debt, and remarket the preferred units when they convert in 2023 to fund its planned growth investments.

NiSource's large renewable energy investment plan could allow it to raise more clean energy-related financing such as the green bond that it issued in June totaling $350 million with a 5% coupon.

NiSource has grown its dividend nearly 40% since the 2015 Columbia Pipeline Group spinoff despite a slight slowdown in the last few years. The board accelerated that growth for 2022 with a 7% increase, exceeding our expectations. We expect dividend growth to remain near 6% with a payout ratio around 60% for at least the next three years. This is in line with most of NiSource's peers.

Risk & Uncertainty

Regulatory risk remains the key uncertainty. However, NiSource's regulatory exposure is diversified with operations in six 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 customer rate increases as the utility makes its infrastructure investments.

In 2020, NiSource announced it would eliminate all coal-fired generation from its power plant fleet by 2028, significantly reducing ESG risk. This transition will require signing power purchase agreements for renewable energy, building new solar and wind farms, and making modifications to its electric grid. There is a modest amount of execution risk to this dramatic transition away from coal generation.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. DONALD E. BROWN	EVP, CFO and Pres Corp Svcs	164,058	28 Feb 2022	—
MR. PABLO A. VEGAS	EVP, COO & President Utilities	120,026	28 Feb 2022	—
MS. EILEEN O'NEILL ODUM	EVP & Group CEO	97,086	24 Mar 2009	—
DR. ARISTIDES S. CANDRIS	Director,Director	68,082	24 May 2022	—
MR. LLOYD M YATES	Director,Director	54,106	28 Jan 2022	—
MR. SHAWN ANDERSON	SVP & Chief Strategy & Risk	51,433	28 Feb 2022	—
MS. DEBORAH A. HENRETTA	Director,Director	49,424	24 May 2022	—

*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
Vanguard Total Stock Market Index Fund	2.94	0.03	2	31 Jul 2022
Vanguard US Total Market Shares ETF	2.92	0.03	117	31 Jul 2022
Vanguard Mid-Cap Index Fund	2.30	0.20	-26	31 Jul 2022
Vanguard 500 Index Fund	2.23	0.04	66	31 Jul 2022
iShares Select Dividend ETF	2.08	1.17	2	31 Jul 2022
Concentrated Holders				
Beck Bode Income Growth	0.00	10.17	—	31 Jul 2022
HIS Horizon Select 15 Utility	0.00	6.60	0	31 Jul 2022
Miller/Howard â€“ Utilities Plus	0.00	5.03	—	31 Jul 2022
FT Dividend Edge 20	0.00	4.66	0	31 Jul 2022
IVZ Utility Income 2021-1	0.00	4.54	—	31 Jul 2022

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
BlackRock Inc	13.21	—	13,782	31 Jul 2022
T. Rowe Price Associates, Inc.	7.43	0.10	11,236	31 Jul 2022
Vanguard Group Inc	12.96	0.04	5,154	31 Jul 2022
SSGA Funds Management Inc	4.96	7.37	2,569	31 Jul 2022
State Street Corporation	5.96	0.04	1,971	31 Jul 2022
Top 5 Sellers				
Barclays PLC	1.48	0.15	-11,589	31 Jul 2022
Jackson National	—	—	-3,368	31 Jul 2022
Invesco Capital Management LLC	1.90	16.82	-2,665	31 Jul 2022
BlackRock Advisors LLC	1.55	3.93	-2,628	31 Jul 2022
Amvescap Plc.	1.96	0.06	-2,198	31 Jul 2022

Capital Allocation 24 Aug 2022

We assign NiSource management a Standard capital allocation rating primarily due to its work with regulators and policymakers to develop a growth plan based on clean energy, infrastructure modernization, and safety.

The CEO transition from Joe Hamrock to Lloyd Yates in February 2022 could bring some changes in NiSource's portfolio of companies. We expect any changes would aim to reduce NiSource's equity needs to fund renewable energy investments and take advantage of what we consider very attractive valuations for gas distribution utilities in recent market transactions. Yates has been a director at NiSource since 2020 and previously led Duke Energy's core Carolina operations, which are more than twice the size of NiSource.

Current and former NiSource management made two key capital allocation decisions in recent years that we think were favorable for shareholders and positioned the company to execute its current growth plan. The first move was forming Columbia Pipeline Partners and executing Columbia Pipeline Group's tax-free separation. The second move was selling Columbia Gas of Massachusetts to Eversource Energy in 2020 after regulators determined NiSource was responsible for a gas explosion north of Boston. Even though the incident had a negative effect on shareholder value, NiSource resolved the issues quickly and received an attractive price to exit a region that was farthest from its core Midwest utilities.

Hamrock championed NiSource's clean energy growth strategy after succeeding Bob Skaggs in mid-2015 when Skaggs, a 32-year NiSource veteran, chose to lead the newly formed Columbia Pipeline Group. Hamrock had started his career at American Electric Power and worked in NiSource's gas distribution business before becoming CEO. CFO Donald Brown joined NiSource in April 2015 after stints at UGI Utilities and Constellation Energy.

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Analyst Notes

Inflation Reduction Act: Increasing Our Confidence in Utilities' Long-Term Growth 16 Aug 2022

Our initial analysis of the U.S. Inflation Reduction Act that President Joe Biden plans to sign on Aug. 16 has led us to reaffirm or make slight increases to our fair value estimates for U.S. utilities. We are reaffirming our moat and moat trend ratings.

Overall, the act gives us more confidence in our 5%-7% annual average long-term growth outlooks for most utilities. With most utilities yielding above 3%, we think utilities investors are well positioned to earn 7%-8% long-term annualized total returns even if valuation multiples compress, as we think they will. We consider the sector 13% overvalued on a median basis.

Utilities likely will not benefit directly from the act's clean energy tax credits since they will pass the savings to customers. However, utilities should benefit indirectly from lower regulatory risk as tax benefits offset bill increases related to their growth investments. Utilities with the largest share of renewable energy investments relative to their total investment budgets should have an easier time hitting their earnings growth targets without substantial customer bill increases.

Electric utilities should benefit from more electricity demand and infrastructure growth opportunities if the act speeds adoption of electric vehicles and building electrification, two areas that have been slow to decarbonize.

Partially offsetting those customer benefits is the act's 15% minimum tax, which we estimate will raise cash taxes for most mid- and large-cap utilities. Ultimately, utilities will recover these higher taxes by raising customer bills. Customers also might lose the long-term benefits from accelerated tax depreciation, especially for utilities with large growth investment plans. The act's tax on book income rather than taxable income might cause a slight near-term reduction in utilities' cash flow but should accelerate long-term earnings growth. We don't expect this tax change to have a material impact on our long-term valuations.

We think the act will only exceed its target 40% carbon emissions reduction from 2005 if tax incentives lead to more electric vehicle purchases, building electrification, and energy efficiency. We estimate the transportation, residential, commercial, and industrial sectors must reduce their emissions 14% by 2030 to meet the act's target. This will take a substantial acceleration of carbon emissions reductions for these sectors, which have cut their carbon emissions by only 12% during the last 15 years, according to the U.S. Environmental Protection Agency data.

The power generation sector, which primarily contains utilities, has already cut carbon emissions more than 40% since 2005. We estimate growth in wind and solar energy will result in a 64% reduction in power generation carbon emissions by 2030 based on utilities' investment plans, state policies, and corporate renewable energy demand. We think it's unlikely the act will result in any carbon emissions reductions in the power generation sector incremental to our forecast without more solar and wind manufacturing capacity and a faster regulatory process for project development.

NiSource's Growth Plan and Strategic Review On Track; Stock Offers Attractive Total Return Potential 03 Aug 2022

We are reaffirming our $31 per share fair value estimate for NiSource after the company reported earning $0.12 per share on an adjusted basis during the second quarter of 2022. Results remain on track to meet our full-year and long-term outlooks. We are reaffirming our narrow moat and stable moat trend ratings.

We think NiSource's combination of a 3.1% dividend yield, long runway of 7% annual growth, and potential

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Analyst Notes

incremental value from its current strategic review makes it among the most attractive utilities in our coverage. The stock trades at a 5% discount to our fair value estimate and a discount to other utilities with similar growth outlooks.

Management reaffirmed its $1.42 to $1.48 EPS guidance range for 2022, in line with our estimate. We continue to assume $8 billion of capital investment in 2022-24, including $2 billion of renewable energy investments. The timing of this capital investment might shift due to delays in renewable energy projects, but we don't expect that to have a material impact on NiSource's long-term growth trajectory. Potential delays don't impact our 2022 outlook.

CEO Lloyd Yates said he plans to announce the outcome of management's strategic review of NiSource's portfolio in November. This could include selling some of NiSource's six gas distribution companies, most likely its smaller gas utilities in Kentucky, Pennsylvania, and Maryland. Yates suggested they are receiving interest from private market infrastructure investors.

We expect NiSource to file a critical rate review proposal at its Indiana electric utility late this year with new rates effective in late 2023. The outcome of this proceeding will largely determine whether NiSource hits the high end or low end of management's 7%-9% annual average earnings growth range through 2024. With customer bills up as much as 20% this year due to higher energy costs, regulators might be hesitant to approve a large base rate increase that we expect NiSource will request.

Utilities Caught in the Middle of Investors' Recession and Inflation Fears 18 Jul 2022

We are reaffirming our fair value estimates and economic moat ratings for our U.S. utilities coverage after the U.S. Bureau of Labor Statistics reported 9.1% core inflation on July 14. We continue to consider inflation to be the largest threat to utilities' long-term returns and ability to pay robust, growing dividends.

Investors have flocked to utilities this year to protect against recession fears and geopolitical uncertainty. However, utilities' outperformance has papered over what we consider the sector's biggest long-term risk: inflation. After June's 8.6% inflation reading, the Morningstar US Utilities Index fell 9% in one week. Utilities moved little on last week's inflation reading, probably because investors already expected a high inflation number.

We expect utilities stocks to remain volatile as investors alternately fret a recession (positive for utilities) and inflation (negative for utilities). After the recent jump in interest rates, utilities' 3.2% dividend yield is nearly the same as the 10-year Treasury yield for the first time since 2008, a setback for income investors.

Renewable energy growth remains a long-term opportunity, but higher supply costs and uncertain federal policy could stall near-term growth, especially for solar. High fossil fuel costs have kept renewable energy competitive. Warm summer weather should boost utilities earnings this year, potentially helping some utilities offset inflation's impact. However, customer bill shock from higher gas and power prices could significantly increase regulatory risk next year, potentially putting some growth projects at risk.

We now consider the sector to be near fair value, down from 14% overvalued in early June. Ten utilities trade at or below our fair value estimates as of mid-July, the most since mid-2021. We think utilities that operate in constructive regulatory jurisdictions with support for infrastructure growth are the best positioned to mitigate the impacts of inflation.

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Analyst Notes

For more on our outlook for the utilities sector, see our recent report, "Recession or Inflation? Utilities Caught In the Middle."

Utility Selloff Now Has Sector Trading in Line With Our Fair Value Estimates 14 Jun 2022

We are reaffirming our fair value estimates and moat ratings for the U.S. utilities we cover after the median utility in our coverage now trades in line with our fair value estimate, after the Morningstar US Utilities Sector Index declined 12% since Wednesday, June 8.

We think the selloff was sparked in large part by the U.S. Bureau of Labor Statistics' Consumer Price Index reading last week, which reported inflation was at a four decade high for May. Utilities peaked at 17% overvalued as of late April, and were 13% overvalued as of June 8, as global uncertainty drove investors to U.S. utilities.

Up until last week, investors had largely ignored the risk of inflation, which we considered the largest threat to utilities' long-term returns. Utilities have historically significantly underperformed the S&P 500 in inflationary environments, as utilities have fixed revenue, high capital and labor costs, and large energy pass-through costs. With higher-than-expected inflation, the market has increased expectations for the Fed to expedite interest rate increases. The utilities sector median 3.3% dividend yield is now a mere 18 basis point discount to the 10-year U.S. Treasury, making utility dividends less attractive to income-focused investors. In early March, the dividend yield was a 150 basis point premium to the 10-year U.S. Treasury.

No utility was trading below our fair value estimate mid-last week. Now, nearly half our utility coverage trades at or below our fair value estimates and we now think there are opportunities for long-term utility investors. While there are a few utilities that trade at a larger discount to our fair values, we think long-term investors are best served focusing on utilities in constructive regulatory environments that are better positioned to address inflationary headwinds, with Dominion Energy, Entergy, NextEra Energy, and NiSource our top picks.

Dominion Energy has transitioned to a predominantly rate-regulated utility operating in highly constructive regulatory environments. The company's five-year $37 billion capital investment plan focusing on clean energy supports our 6.5% annual earnings growth forecast. Virginia is the company's most important subsidiary and has the most constructive regulation. Dominion expects 90% of its capital investment in the region will be eligible for rate riders, reducing regulatory risk in an inflationary environment.

We think Entergy has several advantages over its peers in an inflationary environment. The company's five southeast utilities should benefit from a jump in U.S. energy demand, constructive state regulation, and substantial opportunities for clean energy growth. More than 90% of Entergy's investments flow through customer rates with little regulatory lag. This minimizes the impact from inflation. We expect Entergy to invest $4 billion annually through 2025 to upgrade its expansive grid and replace coal generation with mostly solar. This supports our annual earnings growth estimate at the high end of management's 7%-9% target.

Constructive regulation in Florida supports industry-leading returns and growth for NextEra Energy. Florida's highly constructive rate-setting mechanisms support investment in the state. NextEra benefits from one of the highest allowed returns in the industry. The utility also has among the lowest electricity bills and highest customer growth across its peer group, helping protect itself in an inflationary environment. At the company's competitive renewable business, NextEra is well positioned to for the clean energy transition. A U.S. Department of Commerce anti-circumvention investigation regarding the import of solar

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NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
30.97 USD	32.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Analyst Notes

panels from certain Asian countries had created uncertainty to the company's near-term development program; however, the Biden administration's recent decision to not apply solar panel tariffs for at least the next two years brings near-term clarity.

NiSource's transition from coal to renewable energy in Indiana along with regulatory support in the states where it operates natural gas systems should support more than $10 billion of investment over the next four years and 8% annual earnings growth, among the highest in the sector. We think this is an opportunity to buy a high-growth utility at a discount to recent market acquisitions involving similar natural gas distribution utilities. New CEO Lloyd Yates could shake up NiSource's portfolio to capitalize on those market valuations while boosting the share of earnings from its high-growth electric business.

For a more detailed analysis of how inflation affects utilities, see our latest reports, "Inflation Unraveling U.S. Utilities' Safety Net" and "Utility Regulation Critical To Manage Inflation Risk."

Utility Valuations Look Stretched Amid Highest Inflation in Four Decades 10 Jun 2022

We are reaffirming our fair value estimates and moat ratings for the U.S. utilities we cover after the U.S. Bureau of Labor Statistics' Consumer Price Index, or CPI, reported 8.6% inflation for May. We continue to consider inflation to be the largest threat to utilities' long-term returns and ability to pay robust, growing dividends.

Utilities trade at a median 10% premium to our fair value estimates. With utilities' market valuation multiples well above 20-year highs, we think the market is ignoring the potential for cuts in earnings growth and valuations by year-end if inflation remains above 3%.

Utilities are flat year to date compared with the S&P 500's 18% decline, but we think that outperformance will be short-lived. The Morningstar US Utilities Sector Index has underperformed the S&P 500 by 18 percentage points on average over two-year periods following months when the CPI rose more than 3% year over year. Core CPI was up 8.6% in May, a four-decade high, with electricity prices up 12% over the 12-month period based on U.S. Bureau of Labor Statistics data.

While all utilities will be affected by inflation, we think utilities that operate in constructive regulatory environments, in which utilities are allowed to adjust customer rates for higher costs and higher returns on investments, can better offset inflation and rising interest rates. We think Dominion Energy, Entergy, NextEra Energy, and NiSource are the best positioned among utility peers to mitigate the impacts of inflation.

Inflation hurts utilities' earnings and returns on capital because utilities generally have fixed revenue, high capital and labor costs, and large energy pass-through costs that raise customer bills without raising earnings. We estimate utilities' operating and core capital costs were more than 70% of net revenue on average in 2021. Rising costs make it critical that utilities receive timely rate adjustments, a particularly tough task when energy costs also are rising.

Low inflation and interest rates have helped most utilities increase earnings with only moderate customer bill impacts. Electric and gas utility bills have fallen from 2.2% of total household spending in 2008 to 1.6% in 2021. This is primarily due to mostly flat operating costs and lower interest costs offsetting a near doubling of capital investment during the last decade.

For a more detailed analysis of how inflation affects utilities, see our latest reports, "Inflation Unraveling U.S. Utilities' Safety Net" and "Utility Regulation Critical To Manage

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Analyst Notes

Inflation Risk."

Biden Pauses Potential Solar Tariffs; Utilities' Solar Growth Plans on Track as We Expected 06 Jun 2022

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities after the Biden administration announced it would not apply solar panel tariffs on East Asian countries for at least the next two years. Some utilities' management teams had suggested that potential tariffs resulting from a U.S. Department of Commerce anticircumvention investigation would slow their growth plans. We never thought the investigation would have a material impact on our long-term outlooks given the Biden administration's and most states' support for renewable energy. The Biden administration also announced plans to boost U.S. solar panel manufacturing, which will support solar growth.

Two of our top utilities picks, NextEra Energy and NiSource, were among those utilities whose stocks took the hardest hit because of the solar tariff fears. The management team of each firm said it was postponing a portion of its large solar growth plans because of tariff-related supply concerns. AES and Alliant Energy are among many other utilities that have made solar key parts of their growth plans.

NextEra's stock fell as much as 16% in the three weeks after management said that it might delay up to 2.8 gigawatts of a possible 15 GW solar project pipeline. The stock has since rebounded to near our $78 fair value estimate. We are reaffirming our 8% annual earnings growth outlook. NiSource's stock fell 11% in late April before management said $500 million of its planned solar investments could be delayed. The stock has since rebounded to near our $31 per share fair value estimate. We continue to assume NiSource invests $8 billion in 2022-24, including $2 billion on renewable energy, supporting our 7% annual earnings growth outlook.

Solar panel tariffs remain a risk pending the outcome of the DOC's investigation into whether Chinese manufacturers sidestepped tariffs by shipping panels through tariff-free Asian countries. We expect an initial DOC report this fall.

For more on our long-term solar growth outlook for U.S. utilities, see our report, "U.S. Utility-Scale Solar: Top Picks Hiding In Shadows." Our most recent utilities sector report, "Constructive Utility Regulation Critical to Reduce Inflation Risk," addresses key issues that we think will impact our top utilities picks, including NextEra Energy and NiSource.

NiSource's Flexibility Supports Our Earnings Growth Outlook; Remains Top Utilities Pick 04 May 2022

We are reaffirming our $31 per share fair value estimate for NiSource after the company reported earning $0.75 per share on an adjusted basis during the first quarter of 2022. Results remain on track to meet our full-year and long-term outlooks. We are reaffirming our narrow moat and stable moat trend ratings.

We think NiSource's combination of a 3.3% dividend yield and potential for more than 7% annual growth makes it among the most attractive utilities in our coverage. The stock trades at a 5% discount to our fair value estimate and a discount to other utilities with similar growth outlooks.

NiSource's diverse mix of businesses and growth projects should minimize any impact from potential delays of its planned solar projects and coal plant retirements due to federal policy uncertainties. We are not changing our $8 billion of capital investment forecast in 2022-24, including $2 billion of renewable energy investments, in line with management's plan. We estimate only about $500 million of solar investment could be delayed, and we expect NiSource can pull forward planned infrastructure investment to offset those delays. Potential delays don't impact our 2022 outlook. Management reaffirmed its $1.42 to $1.48 EPS guidance range for 2022, in line with our

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Analyst Notes

estimate.

We still expect NiSource to file a critical rate review proposal at its Indiana electric utility late this year with new rates effective in late 2023. The outcome of this proceeding will likely determine whether NiSource hits the high end or low end of management's 7%-9% annual average earnings growth range through 2024.

New CEO Lloyd Yates said he plans to announce the outcome of his strategic review of NiSource's portfolio this fall. This could include marketing some of NiSource's six gas distribution companies, given the relatively high market valuations of recent gas utilities deals. We think the most likely divestitures are NiSource's smaller gas utilities in Kentucky, Pennsylvania, and Maryland.

Utilities Could Start to Feel Pressure From Inflation, Higher Energy Prices 09 Mar 2022

We are reaffirming our fair value estimates and moat ratings for the U.S. utilities we cover ahead of the U.S. Bureau of Labor Statistics' Consumer Price Index report March 10. We consider inflation to be the largest threat to utilities' long-term returns and ability to pay robust, growing dividends.

Utilities trade at a median 8% premium to our fair value estimates, which assume 2.3% long-term inflation. With utilities' market valuation multiples well above 20-year highs, we think the market is ignoring the potential for cuts in earnings growth and valuations by midyear if inflation remains above 3%.

Utilities are up 9% during the last two weeks, but we think that rally will be short-lived. The Morningstar US Utilities Index has underperformed the S&P 500 by 18 percentage points on average over two-year periods following months when the CPI rose more than 3% year over year. Core CPI was up 5.5% in December and 6.0% in January, the largest 12-month change since mid-1982, based on BLS data. A recent polling of economists estimate inflation near 8% for March, according to The Wall Street Journal.

Inflation hurts utilities' earnings and returns on capital because utilities generally have fixed revenue, high capital and labor costs, and large energy pass-through costs that raise customer bills without raising earnings. We estimate utilities' operating and core capital costs were more than 70% of net revenue on average in 2020. Rising costs make it critical that utilities receive timely rate adjustments, a particularly tough task when energy costs also are rising.

Low inflation and interest rates have helped most utilities increase earnings with only moderate customer bill impacts. Electric and gas utility bills have fallen from 2.2% of total household spending in 2008 to 1.6% in 2021. This is primarily due to mostly flat operating costs and lower interest costs offsetting a near doubling of capital investment during the last decade.

For a more detailed analysis of how inflation affects utilities, see our latest report, "Inflation Unraveling U.S. Utilities' Safety Net."

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

Growth (% YoY)	3-Year Hist. CAGR	2019	2020	2021	Forecast 2022	Forecast 2023	5-Year Proj. CAGR
Revenue	*-1.4*	1.9	-10.1	4.7	*5.7*	*4.6*	*4.6*
EBIT	*100.6*	614.3	-38.2	82.8	*16.1*	*13.2*	*12.2*
EBITDA	*34.3*	122.0	-20.6	37.5	*11.6*	*10.4*	*9.7*
Net Income	*7.3*	6.8	2.5	12.7	*10.7*	*8.2*	*11.0*
Diluted EPS	*1.8*	1.2	0.3	3.8	*6.5*	*6.2*	*9.4*
Earnings Before Interest, after Tax	—	-417.7	10.7	10.8	*17.5*	*14.2*	*11.0*
Free Cash Flow	—	-65.5	-190.7	-267.4	*-62.9*	*373.0*	—

Profitability	3-Year Hist. Avg	2019	2020	2021	2022	2023	5-Year Proj. Avg
Operating Margin %	*16.5*	17.1	11.8	20.6	*22.6*	*24.4*	*26.5*
EBITDA Margin %	*31.3*	30.9	27.3	35.8	*37.8*	*39.9*	*42.2*
Net Margin %	*10.7*	9.5	10.8	11.7	*12.2*	*12.6*	*14.1*
Free Cash Flow Margin %	*-5.2*	-9.7	9.8	-15.6	*-5.5*	*-24.8*	*-2.6*
ROIC %	*3.7*	4.5	2.1	4.6	*4.9*	*5.1*	*5.3*
Adjusted ROIC %	*4.1*	4.9	2.3	5.0	*5.3*	*5.5*	*5.6*
Return on Assets %	*0.3*	0.1	-1.7	2.3	*2.6*	*2.6*	*2.8*
Return on Equity %	*1.2*	0.6	-7.5	10.3	*11.1*	*11.0*	*12.0*

Leverage	3-Year Hist. Avg	2019	2020	2021	2022	2023	5-Year Proj. Avg
Debt/Capital	*0.61*	0.62	0.63	0.59	*0.59*	*0.57*	*0.58*
Total Debt/EBITDA	*6.40*	6.00	7.63	5.58	*5.46*	*5.46*	*5.20*
EBITDA/Interest Expense	*4.28*	4.24	3.44	5.15	*5.22*	*5.22*	*5.22*

Valuation Summary and Forecasts

	2020	2021	2022(E)	2023(E)
Price/Fair Value	0.80	0.92	—	—
Price/Earnings	17.4	20.2	*21.1*	*19.9*
EV/EBITDA	16.0	12.8	*12.3*	*11.1*
EV/EBIT	37.1	22.3	*20.6*	*18.2*
Free Cash Flow Yield %	-7.3	-5.5	*-9.5*	*-13.2*
Dividend Yield %	3.7	3.0	*3.1*	*3.3*

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	5.8
Long-Run Tax Rate %	26.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	62.5
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	-668	-2.8	-1.52
Present Value Stage II	4,343	18.2	9.89
Present Value Stage III	20,243	84.6	46.11
Total Firm Value	**23,918**	**100.0**	**54.48**
Cash and Equivalents	95	—	0.22
Debt	0	—	-22.33
Preferred Stock	-1,547	—	-3.52
Other Adjustments	897	—	2.04
Equity Value	**13,562**	**—**	**30.89**
Projected Diluted Shares	439		
Fair Value per Share (USD)	**32.00**		

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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NiSource Inc NI (NYSE) | ★★★

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30.97 USD	32.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December	2019	2020	2021	Forecast 2022	Forecast 2023
Revenue	**5,209**	**4,682**	**4,900**	***5,180***	***5,419***
Cost of Goods Sold	1,535	1,109	1,392	*1,411*	*1,429*
Gross Profit	**3,674**	**3,572**	**3,507**	***3,770***	***3,990***
Selling, General & Administrative Expenses	1,355	1,586	1,456	*1,502*	*1,517*
Other Operating Expense (Income)	711	710	296	*308*	*309*
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	717	726	748	*790*	*840*
Operating Income (ex charges)	**891**	**551**	**1,007**	***1,169***	***1,323***
Restructuring & Other Cash Charges	297	299	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**594**	**252**	**1,007**	***1,169***	***1,323***
Interest Expense	379	371	341	*376*	*415*
Interest Income	-5	-211	41	*30*	*10*
Pre-Tax Income	**210**	**-331**	**707**	***824***	***919***
Income Tax Expense	124	-17	118	*132*	*147*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	—	-3	-4	*-4*	*-4*
(Preferred Dividends)	-55	-55	-55	*-55*	*-83*
Net Income	**31**	**-372**	**530**	***633***	***685***
Weighted Average Diluted Shares Outstanding	376	384	417	*434*	*442*
Diluted Earnings Per Share	**0.08**	**-0.97**	**1.27**	***1.46***	***1.55***
Adjusted Net Income	495	507	572	*633*	*685*
Diluted Earnings Per Share (Adjusted)	**1.32**	**1.32**	**1.37**	***1.46***	***1.55***
Dividends Per Common Share	0.79	0.84	0.83	*0.94*	*1.00*
EBITDA	**1,311**	**978**	**1,755**	***1,959***	***2,163***
Adjusted EBITDA	**1,608**	**1,277**	**1,755**	***1,959***	***2,163***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December	2019	2020	2021	Forecast 2022	Forecast 2023
Cash and Equivalents	148	126	95	*92*	*70*
Investments	—	—	—	—	—
Accounts Receivable	857	791	826	*880*	*861*
Inventory	425	401	499	*502*	*470*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	424	341	502	*350*	*350*
Current Assets	**1,854**	**1,659**	**1,921**	***1,824***	***1,751***
Net Property Plant, and Equipment	16,912	16,620	17,882	*19,712*	*22,392*
Goodwill	1,486	1,486	1,486	*1,486*	*1,486*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	2,014	1,795	2,286	*1,800*	*1,800*
Long-Term Non-Operating Assets	394	481	582	*582*	*582*
Total Assets	**22,660**	**22,041**	**24,157**	***25,404***	***28,011***
Accounts Payable	666	589	698	*618*	*626*
Short-Term Debt	1,787	526	618	*618*	*618*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,293	1,164	1,430	*1,200*	*1,200*
Current Liabilities	**3,746**	**2,279**	**2,746**	***2,436***	***2,445***
Long-Term Debt	7,856	9,220	9,183	*10,083*	*11,183*
Deferred Tax Liabilities (Long-Term)	1,485	1,471	1,659	*1,800*	*1,970*
Other Long-Term Operating Liabilities	2,352	1,904	1,843	*2,000*	*2,000*
Long-Term Non-Operating Liabilities	1,234	1,329	1,452	*1,452*	*1,452*
Total Liabilities	**16,673**	**16,203**	**16,884**	***17,772***	***19,050***
Preferred Stock	880	880	1,547	*1,547*	*2,409*
Common Stock	4	4	4	*4*	*4*
Additional Paid-in Capital	6,666	6,890	7,204	*7,504*	*7,704*
Retained Earnings (Deficit)	-1,371	-1,765	-1,581	*-1,333*	*-1,067*
(Treasury Stock)	-100	-100	-100	*-100*	*-100*
Other Equity	-93	-157	-127	*-70*	*-70*
Shareholder's Equity	**5,987**	**5,752**	**6,947**	***7,552***	***8,880***
Minority Interest	—	86	326	*80*	*80*
Total Equity	**5,987**	**5,838**	**7,273**	***7,632***	***8,960***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	2019	2020	2021	Forecast 2022	Forecast 2023
Net Income	383	-14	589	*692*	*772*
Depreciation	717	726	748	*790*	*840*
Amortization	—	—	—	—	—
Stock-Based Compensation	26	17	24	*25*	*25*
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	118	-29	112	*141*	*170*
Other Non-Cash Adjustments	414	653	5	—	—
(Increase) Decrease in Accounts Receivable	188	-4	-40	*-54*	*19*
(Increase) Decrease in Inventory	-2	-2	-113	*-4*	*33*
Change in Other Short-Term Assets	-23	-236	-132	*152*	—
Increase (Decrease) in Accounts Payable	-300	-30	55	*-79*	*8*
Change in Other Short-Term Liabilities	62	22	-30	*-230*	—
Cash From Operations	**1,583**	**1,104**	**1,218**	***1,431***	***1,866***
(Capital Expenditures)	-1,802	-1,758	-1,838	*-2,620*	*-3,520*
Net (Acquisitions), Asset Sales, and Disposals	—	—	1	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	-120	879	-368	*643*	—
Cash From Investing	**-1,922**	**-879**	**-2,205**	***-1,977***	***-3,520***
Common Stock Issuance (or Repurchase)	244	211	1,140	*300*	*200*
Common Stock (Dividends)	-299	-322	-345	*-385*	*-419*
Short-Term Debt Issuance (or Retirement)	-204	-1,270	57	—	—
Long-Term Debt Issuance (or Retirement)	681	1,106	-44	*900*	*1,100*
Other Financing Cash Flows	-56	27	150	*-330*	*750*
Cash From Financing	**366**	**-248**	**957**	***485***	***1,631***
Exchange Rates, Discontinued Ops, etc. (net)	0	0	—	*57*	—
Net Change in Cash	**27**	**-23**	**-30**	***-3***	***-22***

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NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
30.97 USD	32.00 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.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Xcel Energy Inc XEL USA	1.32	22.9	23.7	22.9	14.0	13.6	12.4	NM	NM	NM	—	—	—	2.7	3.3	3.1
WEC Energy Group Inc WEC USA	1.12	23.6	24.1	22.7	16.2	15.7	14.3	NM	NM	NM	—	—	—	3.7	3.9	3.8
CMS Energy Corp CMS USA	1.31	24.5	23.7	21.9	14.0	12.4	11.6	NM	NM	NM	—	—	—	2.6	2.8	2.7
Alliant Energy Corp LNT USA	1.12	23.4	22.5	21.4	15.7	15.3	14.6	NM	524.0	30.5	—	—	—	4.2	4.2	4.1
Average		23.6	23.5	22.2	15.0	14.3	13.2	—	524.0	30.5	—	—	—	3.3	3.6	3.4
NiSource Inc NI US	**0.99**	**20.2**	***21.1***	***19.9***	**12.8**	***12.3***	***11.1***	**NM**	***NM***	***NM***	**—**	**—**	**—**	**2.3**	***2.4***	***2.3***

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Xcel Energy Inc XEL USA	57,851 USD	3.8	4.5	4.7	3.8	4.5	4.7	10.6	10.8	10.6	2.9	2.9	2.9	2.7	2.6	2.7
WEC Energy Group Inc WEC USA	38,989 USD	5.0	6.7	6.7	5.6	7.5	7.4	12.0	12.2	12.4	3.4	3.4	3.4	2.8	2.8	2.9
CMS Energy Corp CMS USA	28,753 USD	5.4	5.9	5.8	5.4	5.9	5.8	22.7	12.9	13.0	4.6	2.9	3.0	2.7	2.7	2.8
Alliant Energy Corp LNT USA	18,553 USD	5.6	6.3	6.5	5.6	6.3	6.5	11.3	11.4	11.5	3.6	3.7	3.7	2.6	2.7	2.9
Average		5.0	5.9	5.9	5.1	6.1	6.1	14.2	11.8	11.9	3.6	3.2	3.3	2.7	2.7	2.8
NiSource Inc NI US	**24,157** USD	**4.6**	***4.9***	***5.1***	**5.0**	***5.3***	***5.5***	**10.3**	***11.1***	***11.0***	**2.3**	***2.6***	***2.6***	**3.0**	***3.1***	***3.3***

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Xcel Energy Inc XEL USA	13,431 USD	16.5	-6.7	4.5	4.1	12.3	12.2	6.1	7.3	3.5	-27.7	-86.7	-73.1	6.4	6.0	6.2
WEC Energy Group Inc WEC USA	8,316 USD	14.8	2.7	4.3	0.5	11.6	10.6	8.2	7.2	5.8	-66.4	163.9	-124.8	7.1	7.4	6.9
CMS Energy Corp CMS USA	7,329 USD	9.7	-1.7	4.0	-15.9	27.4	9.6	-0.8	10.7	7.6	-175.7	-139.8	237.8	6.8	5.8	6.0
Alliant Energy Corp LNT USA	3,669 USD	7.4	3.1	2.5	7.4	9.5	7.3	6.5	6.3	5.0	-128.1	-12.3	762.6	5.9	6.2	6.4
Average		12.1	-0.7	3.8	-1.0	15.2	9.9	5.0	7.9	5.5	-99.5	-18.7	200.6	6.6	6.4	6.4
NiSource Inc NI US	**4,900** USD	**4.7**	***5.7***	***4.6***	**82.8**	***16.1***	***13.2***	**3.8**	***6.5***	***6.2***	**-267.4**	***-62.9***	***373.0***	**4.8**	***6.8***	***6.4***

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30.97 USD	32.00 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 %		
		2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Xcel Energy Inc XEL USA	1,598 USD	56.4	65.5	66.6	32.4	38.7	40.6	16.4	19.7	21.2	11.9	13.9	13.8	-15.3	-5.2	-6.7
WEC Energy Group Inc WEC USA	1,299 USD	60.2	62.2	62.9	33.5	36.5	38.4	20.6	22.4	23.8	15.6	16.3	16.5	-2.7	-7.8	-1.3
CMS Energy Corp CMS USA	767 USD	58.1	60.9	61.4	30.8	36.4	37.5	15.6	20.3	21.4	10.5	11.8	12.4	-3.5	-8.9	-21.3
Alliant Energy Corp LNT USA	659 USD	60.8	61.2	61.4	39.6	41.3	42.2	21.7	23.0	24.1	18.0	18.6	19.1	-16.0	0.8	13.3
Average		58.9	62.5	63.1	34.1	38.2	39.7	18.6	21.4	22.6	14.0	15.2	15.5	-9.4	-5.3	-4.0
NiSource Inc NI US	**572** USD	**71.6**	***72.8***	***73.6***	**35.8**	***37.8***	***39.9***	**20.6**	***22.6***	***24.4***	**11.7**	***12.2***	***12.6***	**-12.7**	***-23.0***	***-30.5***

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Xcel Energy Inc XEL USA	23,385 USD	149.8	152.3	153.5	60.0	60.4	60.6	5.3	5.5	5.6	5.4	5.2	5.0	3.7	3.6	3.6
WEC Energy Group Inc WEC USA	15,590 USD	140.3	148.3	150.4	58.4	59.7	60.1	5.9	6.0	6.0	5.6	5.5	5.4	3.5	3.6	3.6
CMS Energy Corp CMS USA	12,428 USD	187.4	188.9	195.1	65.2	65.4	66.1	4.5	5.7	5.6	5.5	5.0	5.4	4.3	4.3	4.2
Alliant Energy Corp LNT USA	7,883 USD	131.6	134.9	134.6	56.8	57.4	57.4	5.2	5.5	5.2	5.4	5.4	5.5	3.1	3.1	3.1
Average		152.3	156.1	158.4	60.1	60.7	61.1	5.2	5.7	5.6	5.5	5.3	5.3	3.7	3.7	3.6
NiSource Inc NI US	**9,802** USD	**141.1**	***141.7***	***132.9***	**58.5**	***58.6***	***57.1***	**5.1**	***5.2***	***5.2***	**5.6**	***5.5***	***5.5***	**3.5**	***3.4***	***3.2***

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)	2021	2022(E)	2023(E)
Xcel Energy Inc XEL USA	41,216 USD	0.31	0.25	0.23	0.84	0.74	0.77	0.72	0.62	0.64	0.10	0.08	0.08	61.9	61.1	62.7
WEC Energy Group Inc WEC USA	33,420 USD	0.05	0.68	0.64	1.52	1.52	1.48	1.35	1.34	1.31	0.01	0.10	0.09	66.0	66.1	66.8
CMS Energy Corp CMS USA	20,125 USD	1.64	0.18	0.52	1.19	1.04	1.13	0.89	0.74	0.82	1.25	0.14	0.40	37.8	62.7	61.8
Alliant Energy Corp LNT USA	15,758 USD	0.16	0.66	2.83	0.52	0.62	0.92	0.40	0.49	0.79	0.03	0.15	0.69	61.3	61.2	62.1
Average		0.54	0.44	1.06	1.02	0.98	1.08	0.84	0.80	0.89	0.35	0.12	0.32	56.8	62.8	63.4
NiSource Inc NI US	**12,491** USD	**0.23**	***0.21***	***0.16***	**0.70**	***0.75***	***0.72***	**0.52**	***0.54***	***0.52***	**0.15**	***0.15***	***0.11***	**65.2**	***64.5***	***64.6***

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Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

Morningstar Research Methodology for Valuing Companies



2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.
Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to

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Research Methodology for Valuing Companies

assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

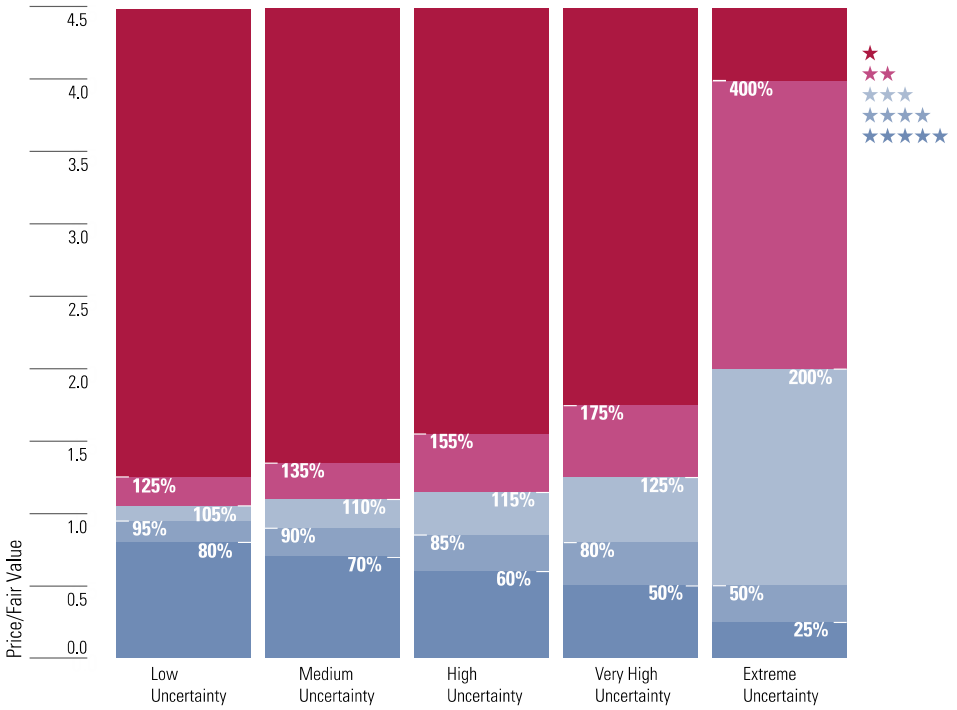
- Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

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

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

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

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

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Research Methodology for Valuing Companies

Other Definitions

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Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

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Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/.

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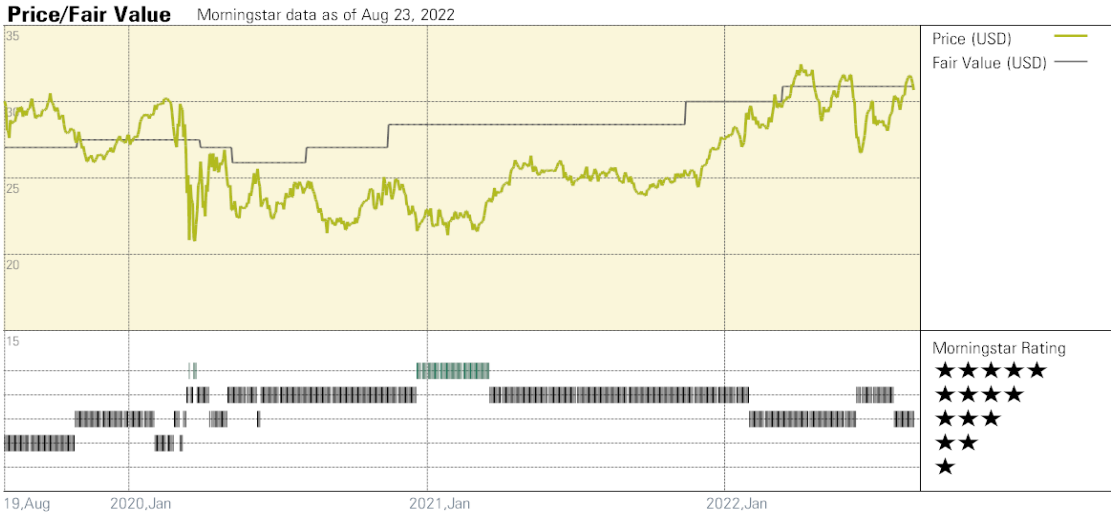
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NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Capital Allocation	Industry Group	ESG Risk Rating Assessment[1]
30.97 USD	32.00 USD	Low	Narrow	Stable	Standard	Utilities - Regulated	



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NiSource Inc NI (NYSE) | ★★★

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NiSource Inc NI (NYSE) | ★★★

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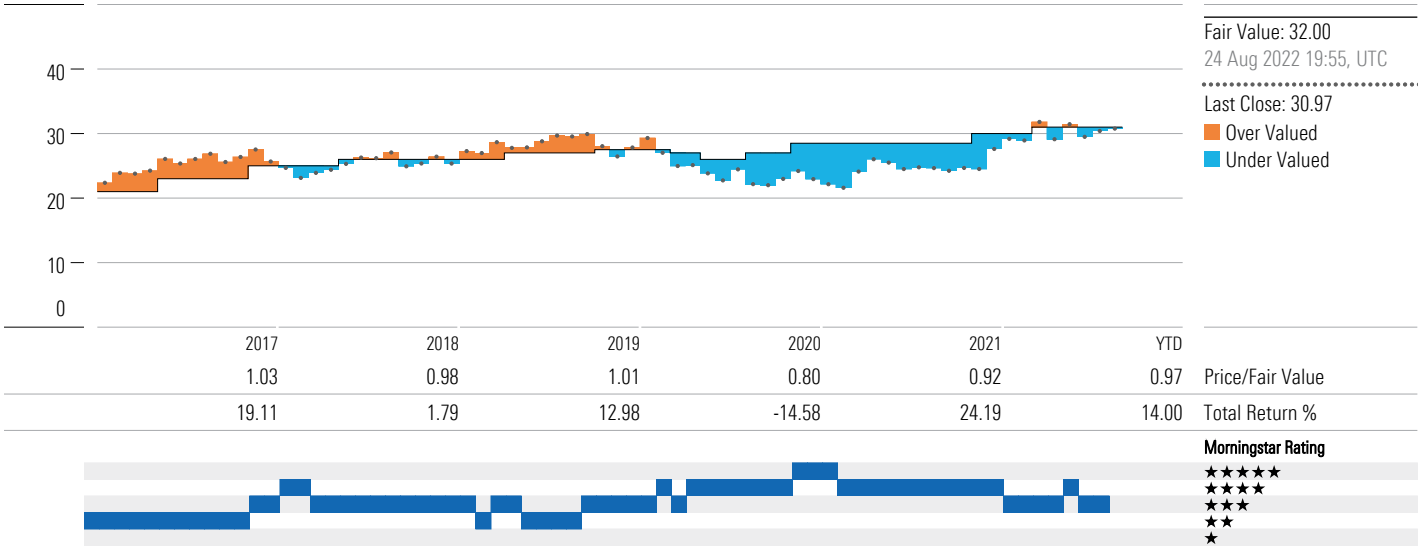
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NiSource Inc NI ★★★ 24 Aug 2022 19:56, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
30.97 USD 24 Aug 2022	32.00 USD 24 Aug 2022 19:55, UTC	0.97	12.49 USD Bil 23 Aug 2022	Narrow	Stable	Low	Standard	3 Aug 2022 05:00, UTC

Price vs. Fair Value



Total Return % as of 23 Aug 2022. Last Close as of 24 Aug 2022. Fair Value as of 24 Aug 2022 19:55, UTC.

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[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

NiSource Must Secure Regulatory Support for Growth Projects

Business Strategy & Outlook Travis Miller, Strategist, 24 Aug 2022

NiSource continues to transition away from its roots in the natural gas distribution and midstream businesses to an increasing focus on electric infrastructure and renewable energy. About 60% of NiSource's operating income comes from its six natural gas distribution utilities and 40% from its electric utility in Indiana following the 2015 separation from Columbia Pipeline Group. The share of earnings from the electric business could jump if new CEO Lloyd Yates decides to divest some of NiSource's smaller gas utilities.

NiSource's utilities have constructive regulatory frameworks that allow it to collect a cash return of and a cash return on the bulk of its capital investments within 18 months. We expect NiSource to invest more than $8 billion over the next three years, including what could be $2 billion of renewable energy projects in Indiana, where NiSource enjoys favorable regulation.

That growth could extend even longer based on electric and gas system infrastructure improvement projects NiSource has identified. Replacing steel and cast-iron pipe with plastic at its natural gas distribution utilities is a key initiative along with investments across the business that reduce greenhouse gases. Almost all of these investments receive favorable regulatory treatment, allowing NiSource to earn near its regulatory allowed returns.

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Sector
Utilities

Industry
Utilities - Regulated Gas

Business Description

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewable energy.

In October 2020, NiSource sold its Columbia Gas of Massachusetts utility and received $1.1 billion of proceeds that it used to strengthen the balance sheet and prepare for its planned infrastructure investments. The sale came nearly two years after a natural gas explosion on NiSource's Massachusetts system killed one person north of Boston. Insurance covered roughly half of the almost $2 billion of claims, penalties, and other expenses.

Earnings are set to rebound quickly from their low in 2020 when COVID-19 pandemic costs, lower energy use, the Massachusetts utility sale, and a large equity issuance weighed on earnings. We expect modest customer growth combined with NiSource's infrastructure growth investments to support 8% annual earnings growth and 6% annual dividend growth from 2022 to 2026.

Bulls Say Travis Miller, Strategist, 24 Aug 2022

- We expect the dividend to grow near 6% annually during the next few years before accelerating to keep pace with earnings in 2024 and beyond.
- NiSource's growth plan will support Indiana policymakers' desire to cut the state's carbon emissions by replacing coal generation with renewable energy and energy storage.
- New legislation has improved the regulatory framework in Indiana for NiSource's electric and natural gas distribution utilities.

Bears Say Travis Miller, Strategist, 24 Aug 2022

- Industrial customers account for over half of NiSource's electric sales, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- Policies to reduce carbon emissions could be a long-term threat for NiSource's natural gas distribution business if policymakers in states it serves aim to reduce retail gas use.
- NiSource has issued nearly $3 billion of equity and preferred stock during the last four years, resulting in little earnings growth since 2018.

Economic Moat Travis Miller, Strategist, 24 Aug 2022

Service territory monopolies and efficient scale advantages are the primary moat sources for NiSource's regulated gas and electric utilities. State and federal regulators grant regulated utilities like NiSource 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 networks. 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.

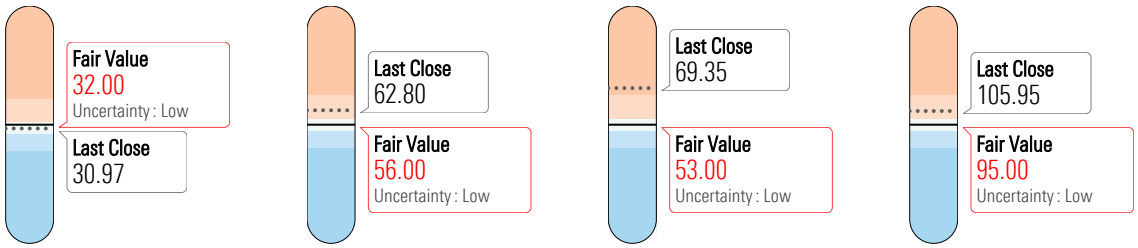
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NiSource Inc NI ★★★ 24 Aug 2022 19:56, UTC

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Competitors



	NiSource Inc NI	Alliant Energy Corp LNT	CMS Energy Corp CMS	WEC Energy Group Inc WEC
Economic Moat	Narrow	Narrow	Narrow	Narrow
Moat Trend	Stable	Stable	Stable	Stable
Currency	USD	USD	USD	USD
Fair Value	32.00 24 Aug 2022 19:55, UTC	56.00 8 Aug 2022 21:05, UTC	53.00 4 May 2022 14:57, UTC	95.00 3 Aug 2022 04:18, UTC
1-Star Price	40.00	70.00	66.25	118.75
5-Star Price	25.60	44.80	42.40	76.00
Assessment	Fairly Valued 23 Aug 2022	Over Valued 23 Aug 2022	Significantly Over Valued 23 Aug 2022	Over Valued 23 Aug 2022
Morningstar Rating	★★★24 Aug 2022 19:56, UTC	★★23 Aug 2022 21:17, UTC	★23 Aug 2022 21:17, UTC	★★23 Aug 2022 21:17, UTC
Analyst	Travis Miller, Strategist	Andrew Bischof, Senior Equity Analyst	Travis Miller, Strategist	Andrew Bischof, Senior Equity Analyst
Capital Allocation	Standard	Standard	Standard	Exemplary
Price/Fair Value	0.97	1.12	1.31	1.12
Price/Sales	2.46	3.98	2.50	3.73
Price/Book	2.20	2.57	2.93	2.96
Price/Earning	20.11	22.67	26.27	24.53
Dividend Yield	3.01%	2.68%	2.62%	2.70%
Market Cap	12.49 Bil	15.76 Bil	20.13 Bil	33.42 Bil
52-Week Range	23.65—32.59	54.20—65.37	58.51—73.76	86.84—108.39
Investment Style	Mid Core	Mid Core	Mid Core	Mid Core

NiSource derives roughly 60% of its operating earnings from its natural gas distribution utilities and 40% from its integrated electric business in Indiana. In all cases, state and federal regulators set customer rates that allow NiSource to recover its operating and capital costs.

NiSource has no direct commodity price risk that could weaken its moat. NiSource exited the no-moat retail energy supply business in 2010.

Fair Value and Profit Drivers Travis Miller, Strategist, 24 Aug 2022

Our fair value estimate is $32 per share.

We assume NiSource invests nearly $9 billion in 2022-24, including $2 billion of investment in renewable energy projects in Indiana to replace its coal-fired power generation fleet by 2028. Investment in the gas distribution systems, primarily for pipeline replacement, should remain well above

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NiSource Inc NI ★★★ 24 Aug 2022 19:56, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
30.97 USD 24 Aug 2022	32.00 USD 24 Aug 2022 19:55, UTC	0.97	12.49 USD Bil 23 Aug 2022	Narrow	Stable	Low	Standard	3 Aug 2022 05:00, UTC

maintenance-level spending for several more years, resulting in earnings growth at all of its gas utilities. We expect investment at the gas utilities to slow beyond 2025 while growth investment at the electric utility continues.

In total, we expect 11% average annual rate base growth and 8% average annual earnings growth through 2025 when combining the planned electric and gas system investments. The key factor in our growth outlook is a favorable outcome in NiSource's planned 2023-24 electric rate case in Indiana.

Renewable energy and gas distribution infrastructure investments should support strong dividend growth, a better ESG profile, and lower risk for investors. We don't expect a material valuation impact from year-to-year policy-related shifts in investment, notably Indiana solar projects.

We use a 5.8% 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 constructive regulatory frameworks.

Risk and Uncertainty Travis Miller, Strategist, 24 Aug 2022

Regulatory risk remains the key uncertainty. However, NiSource's regulatory exposure is diversified with operations in six states and its federal-regulated electric transmission system. NiSource has reduced some of the regulatory uncertainty related to its planned natural gas distribution and electric utilities investments by securing preapprovals and favorable rate mechanisms that provide for customer rate increases as the utility makes its infrastructure investments.

In 2020, NiSource announced it would eliminate all coal-fired generation from its power plant fleet by 2028, significantly reducing ESG risk. This transition will require signing power purchase agreements for renewable energy, building new solar and wind farms, and making modifications to its electric grid. There is a modest amount of execution risk to this dramatic transition away from coal generation.

Capital Allocation Travis Miller, Strategist, 24 Aug 2022

We assign NiSource management a Standard capital allocation rating primarily due to its work with regulators and policymakers to develop a growth plan based on clean energy, infrastructure modernization, and safety.

The CEO transition from Joe Hamrock to Lloyd Yates in February 2022 could bring some changes in NiSource's portfolio of companies. We expect any changes would aim to reduce NiSource's equity needs to fund renewable energy investments and take advantage of what we consider very attractive valuations for gas distribution utilities in recent market transactions. Yates has been a director at

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NiSource since 2020 and previously led Duke Energy's core Carolina operations, which are more than twice the size of NiSource.

Current and former NiSource management made two key capital allocation decisions in recent years that we think were favorable for shareholders and positioned the company to execute its current growth plan. The first move was forming Columbia Pipeline Partners and executing Columbia Pipeline Group's tax-free separation. The second move was selling Columbia Gas of Massachusetts to Eversource Energy in 2020 after regulators determined NiSource was responsible for a gas explosion north of Boston. Even though the incident had a negative effect on shareholder value, NiSource resolved the issues quickly and received an attractive price to exit a region that was farthest from its core Midwest utilities.

Hamrock championed NiSource's clean energy growth strategy after succeeding Bob Skaggs in mid-2015 when Skaggs, a 32-year NiSource veteran, chose to lead the newly formed Columbia Pipeline Group. Hamrock had started his career at American Electric Power and worked in NiSource's gas distribution business before becoming CEO. CFO Donald Brown joined NiSource in April 2015 after stints at UGI Utilities and Constellation Energy.

Analyst Notes Archive

Inflation Reduction Act: Increasing Our Confidence in Utilities' Long-Term Growth Travis Miller, Strategist, 16 Aug 2022

Our initial analysis of the U.S. Inflation Reduction Act that President Joe Biden plans to sign on Aug. 16 has led us to reaffirm or make slight increases to our fair value estimates for U.S. utilities. We are reaffirming our moat and moat trend ratings.

Overall, the act gives us more confidence in our 5%-7% annual average long-term growth outlooks for most utilities. With most utilities yielding above 3%, we think utilities investors are well positioned to earn 7%-8% long-term annualized total returns even if valuation multiples compress, as we think they will. We consider the sector 13% overvalued on a median basis.

Utilities likely will not benefit directly from the act's clean energy tax credits since they will pass the savings to customers. However, utilities should benefit indirectly from lower regulatory risk as tax benefits offset bill increases related to their growth investments. Utilities with the largest share of renewable energy investments relative to their total investment budgets should have an easier time hitting their earnings growth targets without substantial customer bill increases.

Electric utilities should benefit from more electricity demand and infrastructure growth opportunities if the act speeds adoption of electric vehicles and building electrification, two areas that have been slow to decarbonize.

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Partially offsetting those customer benefits is the act's 15% minimum tax, which we estimate will raise cash taxes for most mid- and large-cap utilities. Ultimately, utilities will recover these higher taxes by raising customer bills. Customers also might lose the long-term benefits from accelerated tax depreciation, especially for utilities with large growth investment plans. The act's tax on book income rather than taxable income might cause a slight near-term reduction in utilities' cash flow but should accelerate long-term earnings growth. We don't expect this tax change to have a material impact on our long-term valuations.

NiSource's Growth Plan and Strategic Review On Track; Stock Offers Attractive Total Return Potential Travis Miller, Strategist, 3 Aug 2022

We are reaffirming our $31 per share fair value estimate for NiSource after the company reported earning $0.12 per share on an adjusted basis during the second quarter of 2022. Results remain on track to meet our full-year and long-term outlooks. We are reaffirming our narrow moat and stable moat trend ratings.

We think NiSource's combination of a 3.1% dividend yield, long runway of 7% annual growth, and potential incremental value from its current strategic review makes it among the most attractive utilities in our coverage. The stock trades at a 5% discount to our fair value estimate and a discount to other utilities with similar growth outlooks.

Management reaffirmed its $1.42 to $1.48 EPS guidance range for 2022, in line with our estimate. We continue to assume $8 billion of capital investment in 2022-24, including $2 billion of renewable energy investments. The timing of this capital investment might shift due to delays in renewable energy projects, but we don't expect that to have a material impact on NiSource's long-term growth trajectory. Potential delays don't impact our 2022 outlook.

CEO Lloyd Yates said he plans to announce the outcome of management's strategic review of NiSource's portfolio in November. This could include selling some of NiSource's six gas distribution companies, most likely its smaller gas utilities in Kentucky, Pennsylvania, and Maryland. Yates suggested they are receiving interest from private market infrastructure investors.

We expect NiSource to file a critical rate review proposal at its Indiana electric utility late this year with new rates effective in late 2023. The outcome of this proceeding will largely determine whether NiSource hits the high end or low end of management's 7%-9% annual average earnings growth range through 2024. With customer bills up as much as 20% this year due to higher energy costs, regulators might be hesitant to approve a large base rate increase that we expect NiSource will request.

Utilities Caught in the Middle of Investors' Recession and Inflation Fears Travis Miller, Strategist, 18 Jul 2022

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NiSource Inc NI ★★★ 24 Aug 2022 19:56, UTC

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We are reaffirming our fair value estimates and economic moat ratings for our U.S. utilities coverage after the U.S. Bureau of Labor Statistics reported 9.1% core inflation on July 14. We continue to consider inflation to be the largest threat to utilities' long-term returns and ability to pay robust, growing dividends.

Investors have flocked to utilities this year to protect against recession fears and geopolitical uncertainty. However, utilities' outperformance has papered over what we consider the sector's biggest long-term risk: inflation. After June's 8.6% inflation reading, the Morningstar US Utilities Index fell 9% in one week. Utilities moved little on last week's inflation reading, probably because investors already expected a high inflation number.

We expect utilities stocks to remain volatile as investors alternately fret a recession (positive for utilities) and inflation (negative for utilities). After the recent jump in interest rates, utilities' 3.2% dividend yield is nearly the same as the 10-year Treasury yield for the first time since 2008, a setback for income investors.

Renewable energy growth remains a long-term opportunity, but higher supply costs and uncertain federal policy could stall near-term growth, especially for solar. High fossil fuel costs have kept renewable energy competitive. Warm summer weather should boost utilities earnings this year, potentially helping some utilities offset inflation's impact. However, customer bill shock from higher gas and power prices could significantly increase regulatory risk next year, potentially putting some growth projects at risk.

We now consider the sector to be near fair value, down from 14% overvalued in early June. Ten utilities trade at or below our fair value estimates as of mid-July, the most since mid-2021. We think utilities that operate in constructive regulatory jurisdictions with support for infrastructure growth are the best positioned to mitigate the impacts of inflation.

Utility Selloff Now Has Sector Trading in Line With Our Fair Value Estimates Travis Miller, Strategist, 15 Jun 2022

We are reaffirming our fair value estimates and moat ratings for the U.S. utilities we cover after the median utility in our coverage now trades in line with our fair value estimate, after the Morningstar US Utilities Sector Index declined 12% since Wednesday, June 8.

We think the selloff was sparked in large part by the U.S. Bureau of Labor Statistics' Consumer Price Index reading last week, which reported inflation was at a four decade high for May. Utilities peaked at 17% overvalued as of late April, and were 13% overvalued as of June 8, as global uncertainty drove investors to U.S. utilities.

Up until last week, investors had largely ignored the risk of inflation, which we considered the largest

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NiSource Inc NI ★★★ 24 Aug 2022 19:56, UTC

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threat to utilities' long-term returns. Utilities have historically significantly underperformed the S&P 500 in inflationary environments, as utilities have fixed revenue, high capital and labor costs, and large energy pass-through costs. With higher-than-expected inflation, the market has increased expectations for the Fed to expedite interest rate increases. The utilities sector median 3.3% dividend yield is now a mere 18 basis point discount to the 10-year U.S. Treasury, making utility dividends less attractive to income-focused investors. In early March, the dividend yield was a 150 basis point premium to the 10-year U.S. Treasury.

No utility was trading below our fair value estimate mid-last week. Now, nearly half our utility coverage trades at or below our fair value estimates and we now think there are opportunities for long-term utility investors. While there are a few utilities that trade at a larger discount to our fair values, we think long-term investors are best served focusing on utilities in constructive regulatory environments that are better positioned to address inflationary headwinds, with Dominion Energy, Entergy, NextEra Energy, and NiSource our top picks.

Utility Valuations Look Stretched Amid Highest Inflation in Four Decades Travis Miller, Strategist, 10 Jun 2022

We are reaffirming our fair value estimates and moat ratings for the U.S. utilities we cover after the U.S. Bureau of Labor Statistics' Consumer Price Index, or CPI, reported 8.6% inflation for May. We continue to consider inflation to be the largest threat to utilities' long-term returns and ability to pay robust, growing dividends.

Utilities trade at a median 10% premium to our fair value estimates. With utilities' market valuation multiples well above 20-year highs, we think the market is ignoring the potential for cuts in earnings growth and valuations by year-end if inflation remains above 3%.

Utilities are flat year to date compared with the S&P 500's 18% decline, but we think that outperformance will be short-lived. The Morningstar US Utilities Sector Index has underperformed the S&P 500 by 18 percentage points on average over two-year periods following months when the CPI rose more than 3% year over year. Core CPI was up 8.6% in May, a four-decade high, with electricity prices up 12% over the 12-month period based on U.S. Bureau of Labor Statistics data.

While all utilities will be affected by inflation, we think utilities that operate in constructive regulatory environments, in which utilities are allowed to adjust customer rates for higher costs and higher returns on investments, can better offset inflation and rising interest rates. We think Dominion Energy, Entergy, NextEra Energy, and NiSource are the best positioned among utility peers to mitigate the impacts of inflation.

Inflation hurts utilities' earnings and returns on capital because utilities generally have fixed revenue,

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high capital and labor costs, and large energy pass-through costs that raise customer bills without raising earnings. We estimate utilities' operating and core capital costs were more than 70% of net revenue on average in 2021. Rising costs make it critical that utilities receive timely rate adjustments, a particularly tough task when energy costs also are rising.

Biden Pauses Potential Solar Tariffs; Utilities' Solar Growth Plans on Track as We Expected Travis Miller, Strategist, 6 Jun 2022

We are reaffirming our fair value estimates, moat ratings, and moat trend ratings for all utilities after the Biden administration announced it would not apply solar panel tariffs on East Asian countries for at least the next two years. Some utilities' management teams had suggested that potential tariffs resulting from a U.S. Department of Commerce anticircumvention investigation would slow their growth plans. We never thought the investigation would have a material impact on our long-term outlooks given the Biden administration's and most states' support for renewable energy. The Biden administration also announced plans to boost U.S. solar panel manufacturing, which will support solar growth.

Two of our top utilities picks, NextEra Energy and NiSource, were among those utilities whose stocks took the hardest hit because of the solar tariff fears. The management team of each firm said it was postponing a portion of its large solar growth plans because of tariff-related supply concerns. AES and Alliant Energy are among many other utilities that have made solar key parts of their growth plans.

NextEra's stock fell as much as 16% in the three weeks after management said that it might delay up to 2.8 gigawatts of a possible 15 GW solar project pipeline. The stock has since rebounded to near our $78 fair value estimate. We are reaffirming our 8% annual earnings growth outlook. NiSource's stock fell 11% in late April before management said $500 million of its planned solar investments could be delayed. The stock has since rebounded to near our $31 per share fair value estimate. We continue to assume NiSource invests $8 billion in 2022-24, including $2 billion on renewable energy, supporting our 7% annual earnings growth outlook.

Solar panel tariffs remain a risk pending the outcome of the DOC's investigation into whether Chinese manufacturers sidestepped tariffs by shipping panels through tariff-free Asian countries. We expect an initial DOC report this fall.

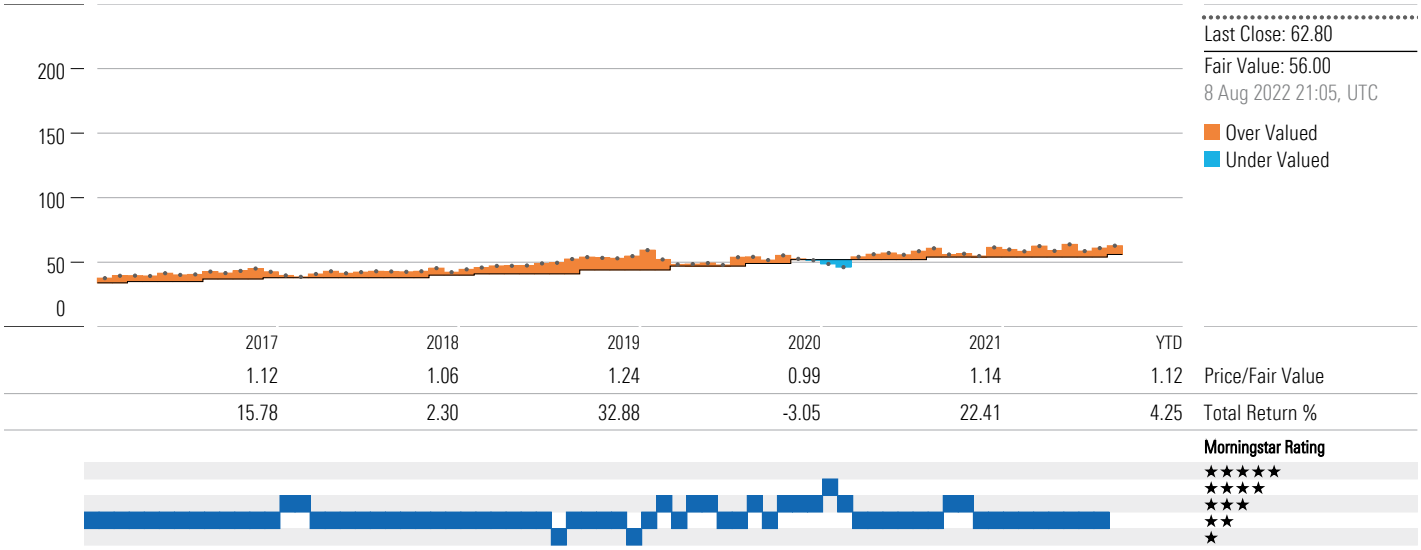
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Competitors Price vs. Fair Value

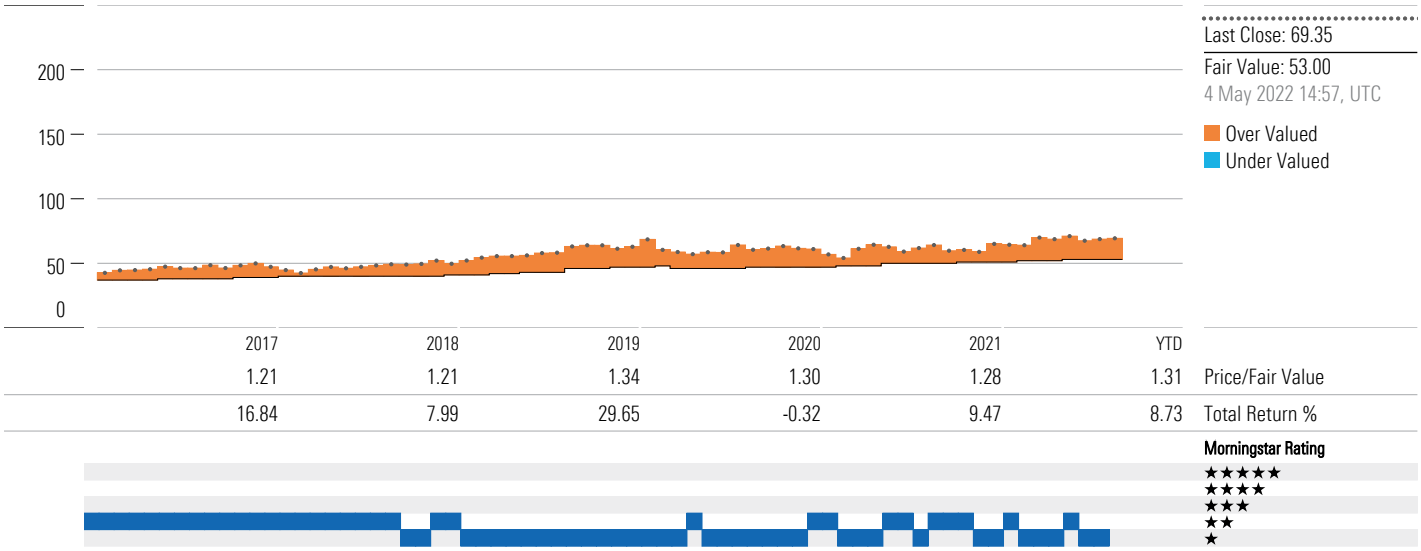
Alliant Energy Corp LNT



	2017	2018	2019	2020	2021	YTD	
	1.12	1.06	1.24	0.99	1.14	1.12	Price/Fair Value
	15.78	2.30	32.88	-3.05	22.41	4.25	Total Return %

Total Return % as of 23 Aug 2022. Last Close as of 23 Aug 2022. Fair Value as of 8 Aug 2022 21:05, UTC.

CMS Energy Corp CMS



	2017	2018	2019	2020	2021	YTD	
	1.21	1.21	1.34	1.30	1.28	1.31	Price/Fair Value
	16.84	7.99	29.65	-0.32	9.47	8.73	Total Return %

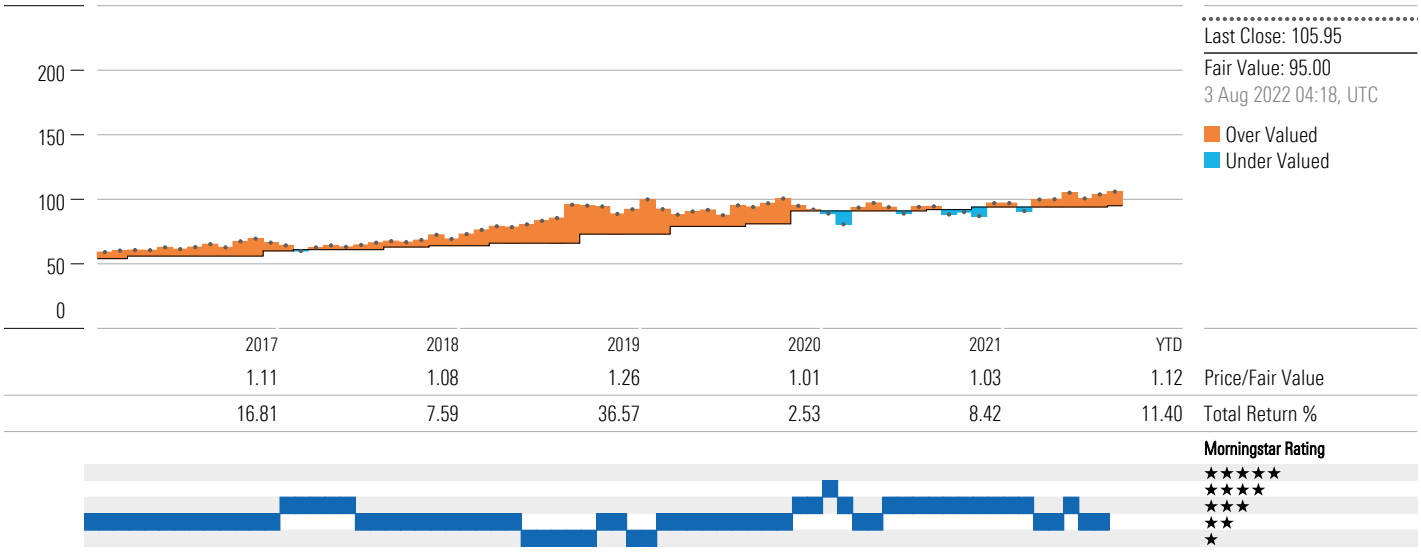
Total Return % as of 23 Aug 2022. Last Close as of 23 Aug 2022. Fair Value as of 4 May 2022 14:57, UTC.

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WEC Energy Group Inc WEC



	2017	2018	2019	2020	2021	YTD
Price/Fair Value	1.11	1.08	1.26	1.01	1.03	1.12
Total Return %	16.81	7.59	36.57	2.53	8.42	11.40

Total Return % as of 23 Aug 2022. Last Close as of 23 Aug 2022. Fair Value as of 3 Aug 2022 04:18, UTC.

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24 Aug 2022	24 Aug 2022 19:55, UTC		23 Aug 2022					3 Aug 2022 05:00, UTC

Morningstar Historical Summary

Financials as of 30 Jun 2022

Fiscal Year, ends 31 Dec	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	TTM
Revenue (USD Mil)	5,031	4,625	5,272	4,652	4,493	4,875	5,115	5,209	4,682	4,900	3,057	5,425
Revenue Growth %	-12.5	-8.1	14.0	-11.8	-3.4	8.5	4.9	1.8	-10.1	4.7	20.7	16.8
EBITDA (USD Mil)	1,583	1,161	1,278	1,239	1,417	1,377	734	1,595	1,057	1,787	1,165	1,983
EBITDA Margin %	31.5	25.1	24.3	26.6	31.5	28.2	14.4	30.6	22.6	36.5	38.1	36.6
Operating Income (USD Mil)	1,004	699	792	802	865	927	126	1,305	961	1,015	639	1,070
Operating Margin %	20.0	15.1	15.0	17.2	19.3	19.0	2.5	25.1	20.5	20.7	20.9	19.7
Net Income (USD Mil)	416	532	530	287	332	129	-51	383	-18	585	494	723
Net Margin %	8.3	11.5	10.1	6.2	7.4	2.6	-1.3	6.3	-1.6	10.8	15.3	12.3
Diluted Shares Outstanding (Mil)	300	314	317	320	324	331	357	376	384	417	441	433
Diluted Earnings Per Share (USD)	1.39	1.70	1.67	0.90	1.02	0.39	-0.18	0.87	-0.19	1.27	1.06	1.53
Dividends Per Share (USD)	0.94	0.98	1.02	0.83	0.64	0.70	0.78	0.80	0.84	0.88	0.47	0.91

Valuation as of 29 Jul 2022

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Recent Qtr	TTM
Price/Sales	1.5	1.9	2.1	1.0	1.7	1.7	1.8	2.0	1.8	2.4	2.4	2.5
Price/Earnings	18.2	21.6	25.3	12.8	23.3	31.3	-87.7	22.6	-29.4	25.3	19.8	20.4
Price/Cash Flow	5.9	7.3	10.8	3.8	9.0	10.5	7.8	12.3	7.2	9.5	9.4	9.7
Dividend Yield %	3.78	2.98	2.4	4.25	2.89	2.73	3.08	2.87	3.66	3.19	3.09	3.04
Price/Book	1.4	1.8	2.2	1.6	1.9	2.0	2.0	2.1	2.0	2.3	2.1	2.2
EV/EBITDA	10.0	16.1	18.1	10.4	10.5	12.5	25.3	13.1	19.3	12.6	0.0	0.0

Operating Performance / Profitability as of 30 Jun 2022

Fiscal Year, ends 31 Dec	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	TTM
ROA %	2.0	2.4	2.2	1.4	1.8	0.7	-0.3	1.5	-0.3	2.3	1.9	2.8
ROE %	7.9	9.3	8.8	5.7	8.4	3.1	-1.4	6.6	-1.5	10.3	8.4	12.7
ROIC %	5.1	5.4	4.9	3.8	4.9	2.7	1.4	4.2	1.3	5.4	3.9	6.3
Asset Turnover	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.1	0.2

Financial Leverage

Fiscal Year, ends 31 Dec	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Recent Qtr	TTM
Debt/Capital %	55.1	56.3	56.9	60.8	59.8	63.5	55.3	56.8	61.6	56.9	56.9	—
Equity/Assets %	25.4	26.0	25.1	22.0	21.8	21.6	22.3	22.5	22.1	22.4	22.9	—
Total Debt/EBITDA	5.1	7.6	7.8	5.6	5.6	6.5	14.7	7.1	10.9	7.1	11.0	—
EBITDA/Interest Expense	4.0	3.2	3.5	3.3	4.0	3.8	2.0	4.3	2.9	5.4	6.9	6.0

Morningstar Analyst Historical/Forecast Summary as of 30 Jun 2022

Financials

Fiscal Year, ends 31 Dec	2020	2021	Estimates 2022	2023	2024
Revenue (USD Mil)	4,682	4,900	5,166	5,397	5,757
Revenue Growth %	-10.1	4.7	5.4	4.5	6.7
EBITDA (USD Mil)	1,277	1,755	1,945	2,141	2,470
EBITDA Margin %	27.3	35.8	37.7	39.7	42.9
Operating Income (USD Mil)	551	1,007	1,155	1,301	1,570
Operating Margin %	11.8	20.5	22.4	24.1	27.3
Net Income (USD Mil)	507	572	619	689	861
Net Margin %	10.8	11.7	12.0	12.8	15.0
Diluted Shares Outstanding (Mil)	384	417	434	444	449
Diluted Earnings Per Share(USD)	1.32	1.37	1.43	1.55	1.92
Dividends Per Share(USD)	0.84	0.83	0.94	1.00	1.06

Forward Valuation

	2020	2021	Estimates 2022	2023	2024
Price/Sales	1.9	2.3	2.4	2.3	2.2
Price/Earnings	17.4	20.2	21.5	19.9	16.0
Price/Cash Flow	-13.7	-18.0	-11.0	-7.0	-120.7
Dividend Yield %	3.66	3.01	3.05	3.25	3.44
Price/Book	—	—	—	—	—
EV/EBITDA	16.0	12.8	12.4	11.2	9.7

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Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

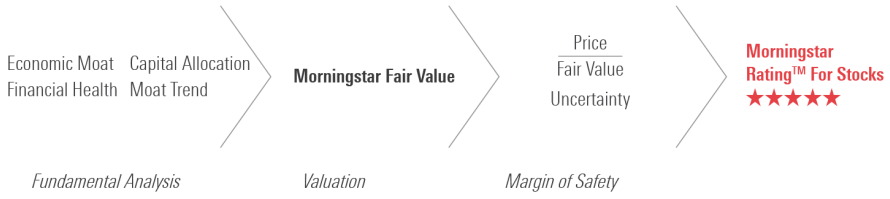
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to

Morningstar Equity Research Star Rating Methodology



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bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

4. Market Price

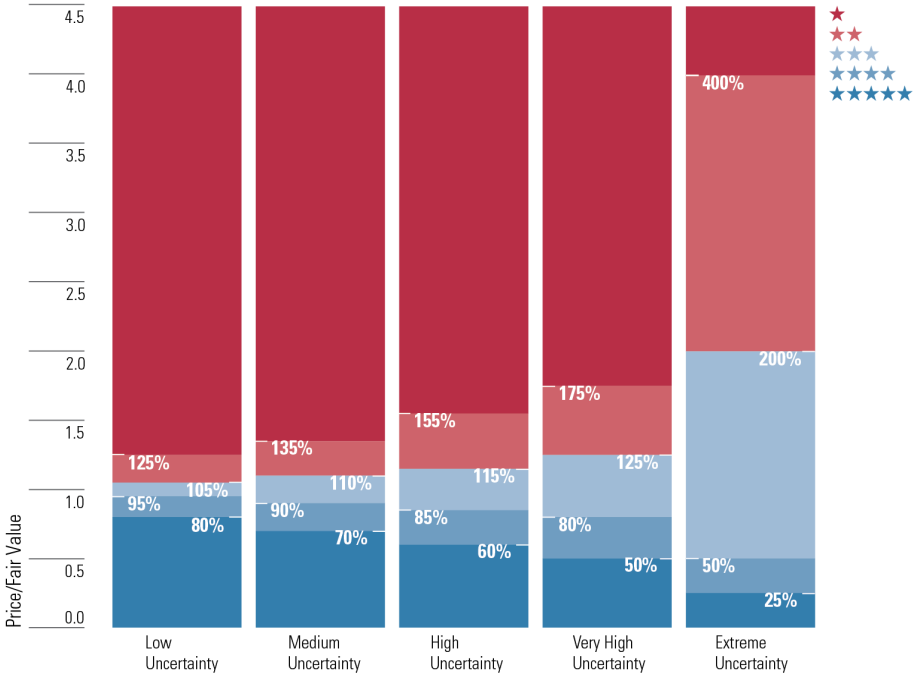
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close

Morningstar Equity Research Star Rating Methodology



tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

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

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

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

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exem-

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plary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

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Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

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NiSource Inc NI ★★★★ 26 Sep 2022 21:21, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
27.37 USD	32.00 USD	0.86	11.11 USD Bil	Narrow	Stable	Low	Standard	
26 Sep 2022	24 Aug 2022 19:55, UTC		26 Sep 2022					7 Sep 2022 05:00, UTC

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Business Description
Financials
Research Methodology for Valuing Companies

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

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

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

Raising U.S. Electricity Demand Growth Outlook, Reaffirming Utilities Fair Value Estimates

Analyst Note Travis Miller, Strategist, 27 Sep 2022

We are reaffirming our fair value estimates for U.S. utilities after raising our 10-year annual U.S. electricity demand growth forecast to 1.4%, up from 1.2% in our previous forecast two years ago. We also are reaffirming our economic moat and moat trend ratings for all U.S. utilities.

We believe the path to eliminate carbon emissions and meet environmental targets will lead to accelerating electricity demand growth and new infrastructure growth investment opportunities for utilities. We forecast 6%-8% annual earnings and dividend growth for most utilities through the decade to support electricity demand growth. With most utilities yielding above 3%, we think utilities investors are well positioned to earn 8%-9% long-term annualized total returns even if valuations compress, as we think they will. We consider the sector 5% overvalued on a median basis as of Sept. 27.

Our new electricity demand forecast is more bullish than most. We think other forecasts underestimate the speed and scale of the U.S. clean energy transition. With many regions already facing strained electric grids, electricity demand growth presents opportunities and challenges for utilities as they manage the surge of electric vehicles, Big Data, building electrification, and other mandates.

We expect electricity demand from electric vehicles will grow faster than any other new source of electricity demand in our forecast, climbing 15-fold by 2032. Data centers, already sizable electricity users, are the second-fastest-growing new source of electricity demand in our forecast. Building and industrial electrification represents upside to our forecast.

Financial Summary and Key Statistics

	Actual		Forecast	
	2020	2021	2022	2023
Revenue (USD Mil)	4,682	4,900	5,180	5,419
Revenue Growth %	-10.1	4.7	5.7	4.6
Operating Income	551	1,007	1,169	1,323
Operating Margin %	11.8	20.5	22.6	24.4
Adjusted EBITDA	1,277	1,755	1,959	2,163
Adjusted EBITDA Margin %	27.3	35.8	37.8	39.9
Earnings Per Share (Diluted) (USD)	-0.97	1.27	1.46	1.55
Adjusted Earnings Per Share (Diluted) (USD)	1.32	1.37	1.46	1.55
Adjusted EPS Growth %	0.3	3.8	6.5	6.2
Price/Earnings	17.4	20.2	18.7	17.7
Price/Book	—	—	—	—
EV/EBITDA	16.0	12.8	11.6	10.5
Free Cash Flow Yield %	-7.3	-5.5	-10.7	-14.9

Source: Morningstar Valuation Model. Data as of 24 Aug 2022.

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Sector

Utilities

Industry

Utilities - Regulated Gas

Business Description

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewable energy.

Energy efficiency gains will offset some of the core electricity demand growth that we forecast. We expect U.S. electricity intensity of the economy to fall 12% over our forecast period. Energy efficiency gains have held U.S. electricity demand mostly flat for the last decade.

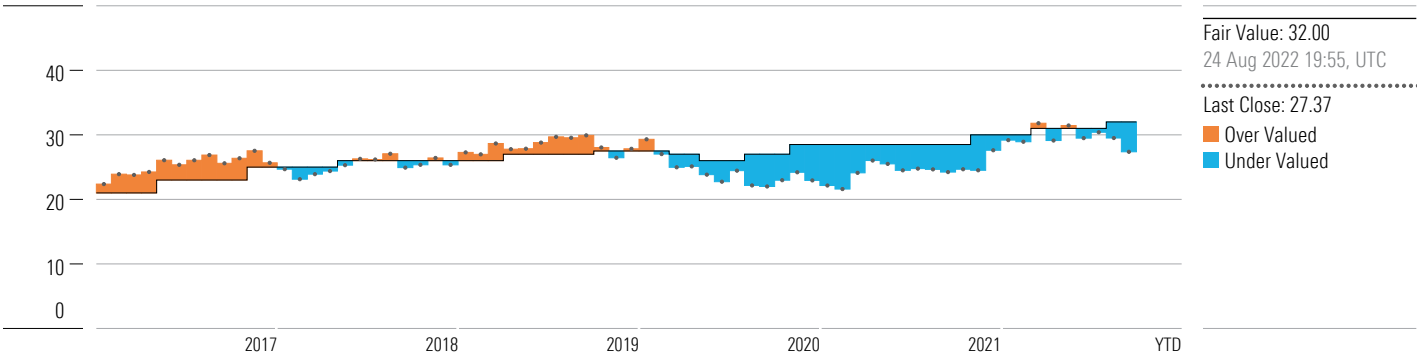
For more details on our electricity demand forecast, see our Utilities Observer, "Electrifying the U.S.: Utilities Control the Path to Decarbonization."

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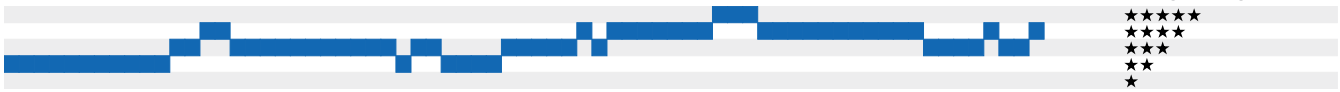
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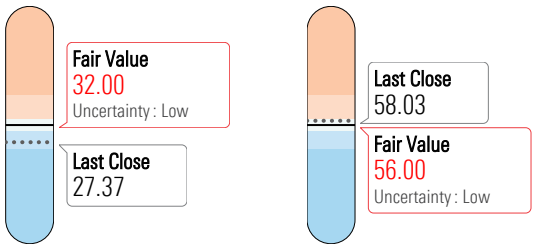
Price vs. Fair Value

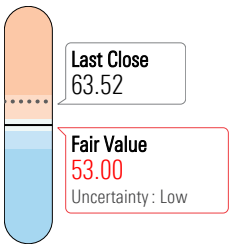


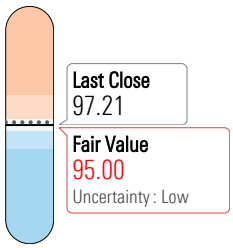
	2017	2018	2019	2020	2021	YTD	
	1.03	0.98	1.01	0.80	0.92	0.86	Price/Fair Value
	19.11	1.79	12.98	-14.58	24.19	1.68	Total Return %



Competitors







	NiSource Inc NI	Alliant Energy Corp LNT	CMS Energy Corp CMS	WEC Energy Group Inc WEC
Economic Moat	Narrow	Narrow	Narrow	Narrow
Moat Trend	Stable	Stable	Stable	Stable
Currency	USD	USD	USD	USD
Fair Value	32.00 24 Aug 2022 19:55, UTC	56.00 8 Aug 2022 21:05, UTC	53.00 4 May 2022 14:57, UTC	95.00 3 Aug 2022 04:18, UTC
1-Star Price	40.00	70.00	66.25	118.75
5-Star Price	25.60	44.80	42.40	76.00
Morningstar Rating	★★★★26 Sep 2022 21:21, UTC	★★26 Sep 2022 21:21, UTC	★★26 Sep 2022 21:21, UTC	★★26 Sep 2022 21:21, UTC
Analyst	Travis Miller, Strategist	Andrew Bischof, Senior Equity Analyst	Travis Miller, Strategist	Andrew Bischof, Senior Equity Analyst
Capital Allocation	Standard	Standard	Standard	Exemplary
Price/Fair Value	0.86	1.04	1.20	1.02
Price/Sales	2.19	3.67	2.29	3.42
Price/Book	1.96	2.37	2.68	2.72
Price/Earnings	17.89	20.95	24.06	22.50
Dividend Yield	3.38%	2.90%	2.86%	2.94%
Market Cap	11.11 Bil	14.56 Bil	18.43 Bil	30.66 Bil
52-Week Range	23.65—32.59	54.20—65.37	58.51—73.76	86.84—108.39
Investment Style	Mid Core	Mid Core	Mid Core	Mid Core

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Morningstar Valuation Model Summary

Financials as of 24 Aug 2022

Fiscal Year, ends 31 Dec	2019	2020	2021	2022	2023	2024	2025	2026
	Actual			Forecast				
Revenue (USD Mil)	5,209	4,682	4,900	5,180	5,419	5,792	5,994	6,141
Operating Income (USD Mil)	891	551	1,007	1,169	1,323	1,605	1,706	1,792
EBITDA (USD Mil)	1,311	978	1,755	1,959	2,163	2,505	2,676	2,792
Adjusted EBITDA (USD Mil)	1,608	1,277	1,755	1,959	2,163	2,505	2,676	2,792
Net Income (USD Mil)	31	-372	530	633	685	848	905	963
Adjusted Net Income (USD Mil)	495	507	572	633	685	848	905	963
Free Cash Flow To The Firm (USD Mil)	-504	457	-765	-284	-1,343	-206	501	761
Weighted Average Diluted Shares Outstanding (Mil)	376	384	417	434	442	446	447	449
Earnings Per Share (Diluted) (USD)	0.08	-0.97	1.27	1.46	1.55	1.90	2.02	2.15
Adjusted Earnings Per Share (Diluted) (USD)	1.32	1.32	1.37	1.46	1.55	1.90	2.02	2.15
Dividends Per Share (USD)	0.79	0.84	0.83	0.94	1.00	1.06	1.14	1.22

Margins & Returns as of 24 Aug 2022

	3 Year Avg	2019	2020	2021	2022	2023	2024	2025	2026	5 Year Avg
		Actual			Forecast					
Operating Margin %	16.5	17.1	11.8	20.5	22.6	24.4	27.7	28.5	29.2	26.5
EBITDA Margin %	—	25.2	20.9	35.8	37.8	39.9	43.3	44.7	45.5	—
Adjusted EBITDA Margin %	31.3	30.9	27.3	35.8	37.8	39.9	43.3	44.7	45.5	42.2
Net Margin %	1.2	0.6	-7.9	10.8	12.2	12.6	14.6	15.1	15.7	14.0
Adjusted Net Margin %	10.7	9.5	10.8	11.7	12.2	12.6	14.6	15.1	15.7	14.1
Free Cash Flow To The Firm Margin %	-5.2	-9.7	9.8	-15.6	-5.5	-24.8	-3.6	8.4	12.4	-2.6

Growth & Ratios as of 24 Aug 2022

	3 Year CAGR	2019	2020	2021	2022	2023	2024	2025	2026	5 Year CAGR
		Actual			Forecast					
Revenue Growth %	-1.4	1.8	-10.1	4.7	5.7	4.6	6.9	3.5	2.5	4.6
Operating Income Growth %	100.6	614.3	-38.2	82.8	16.1	13.2	21.3	6.3	5.0	12.2
EBITDA Growth %	0.0	—	—	—	—	—	—	—	—	0.0
Adjusted EBITDA Growth %	34.3	122.0	-20.6	37.5	11.6	10.4	15.8	6.8	4.3	9.7
Earnings Per Share Growth %	1.8	—	—	—	—	—	—	—	—	9.4
Adjusted Earnings Per Share Growth %	1.8	1.2	0.3	3.8	6.5	6.2	22.7	6.4	6.1	9.4

Valuation as of 24 Aug 2022

	2019	2020	2021	2022	2023	2024	2025	2026
	Actual			Forecast				
Price/Earnings	21.1	17.4	20.2	18.7	17.7	14.4	13.5	12.7
Price/Sales	2.0	1.9	2.3	2.1	2.1	1.9	1.9	1.8
Price/Book	—	—	—	—	—	—	—	—
Price/Cash Flow	-48.6	-13.7	-18.0	-9.3	-6.7	-19.4	103.8	31.4
EV/EBITDA	13.0	16.0	12.8	11.6	10.5	9.1	8.5	8.1
EV/EBIT	23.5	37.1	22.3	19.4	17.1	14.1	13.3	12.7
Dividend Yield %	2.8	3.7	3.0	3.4	3.7	3.9	4.2	4.5
Dividend Payout %	956.7	-86.5	65.2	64.5	64.6	55.8	56.4	56.9
Free Cash Flow Yield %	-2.1	-7.3	-5.5	-10.7	-14.9	-5.1	1.0	3.2

Operating Performance / Profitability as of 24 Aug 2022

Fiscal Year, ends 12-31-2021	2019	2020	2021	2022	2023	2024	2025	2026
	Actual			Forecast				
ROA %	0.1	-1.7	2.3	2.6	2.6	2.9	3.0	3.1
ROE %	0.6	-7.4	10.3	11.1	11.0	12.7	12.7	12.6
ROIC %	4.5	2.1	4.6	4.9	5.1	5.6	5.4	5.3

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Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Dec	2019	2020	2021	2022	2023	2024	2025	2026
Debt/Capital %	61.7	62.9	58.5	58.6	57.1	58.0	57.8	57.1
Assets/Equity	3.8	3.8	3.5	3.4	3.2	3.2	3.2	3.1
Net Debt/EBITDA	7.2	9.8	5.5	5.4	5.4	5.1	5.0	4.9
Total Debt/EBITDA	6.0	7.6	5.6	5.5	5.5	5.1	5.0	4.9
EBITDA/ Net Interest Expense	4.2	3.4	5.1	5.2	5.2	5.2	5.2	5.3

Forecast Revisions as of 24 Aug 2022	2022		2023		2024	
Prior data as of 30 Jun 2022	Current	Prior	Current	Prior	Current	Prior
Fair Value Estimate Change (Trading Currency)	32.00	31.00	—	—	—	—
Revenue (USD Mil)	5,180	5,166	5,419	5,397	5,792	5,757
Operating Income (USD Mil)	1,169	1,155	1,323	1,301	1,605	1,570
EBITDA (USD Mil)	1,959	1,945	2,163	2,141	2,505	2,470
Net Income (USD Mil)	633	619	685	689	848	861
Earnings Per Share (Diluted) (USD)	1.46	1.43	1.55	1.55	1.90	1.92
Adjusted Earnings Per Share (Diluted) (USD)	1.46	1.43	1.55	1.55	1.90	1.92
Dividends Per Share (USD)	0.94	0.94	1.00	1.00	1.06	1.06

Key Valuation Drivers as of 24 Aug 2022

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	5.8
Long-Run Tax Rate %	26.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	62.5
Perpetuity Year	15

Additional estimates and scenarios available for download at https://pitchbook.com/.

Discounted Cash Flow Valuation as of 24 Aug 2022

	USD Mil
Present Value Stage I	-668
Present Value Stage II	4,343
Present Value Stage III	20,243
Total Firm Value	**23,918**
Cash and Equivalents	95
Debt	-9,802
Other Adjustments	897
Equity Value	**13,562**
Projected Diluted Shares	439
Fair Value per Share (USD)	**32.00**

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Income Statement (USD)	Actual			Forecast				
Fiscal Year, ends 31 Dec	2019	2020	2021	2022	2023	2024	2025	2026
Revenue (Mil)	5,209	4,682	4,900	5,180	5,419	5,792	5,994	6,141
Cost of Goods Sold (Mil)	1,535	1,109	1,392	1,411	1,429	1,443	1,458	1,472
Gross Profit (Mil)	3,674	3,572	3,507	3,770	3,990	4,349	4,536	4,668
Selling, General, Administrative & Other Expenses (Mil)	1,355	1,586	1,456	1,502	1,517	1,532	1,548	1,563
Advertising & Marketing Expenses	—	—	—	—	—	—	—	—
Research & Development	—	—	—	—	—	—	—	—
Depreciation & Amortization (if reported separately) (Mil)	717	726	748	790	840	900	970	1,000
Adjusted Operating Income (Mil)	891	551	1,007	1,169	1,323	1,605	1,706	1,792
Financial Non-Cash (Gains)/Losses (Mil)	0	0	0	0	0	0	0	0
Irregular Cash (Gains)/Losses (Mil)	0	0	0	0	0	0	0	0
Operating Income (Mil)	594	252	1,007	1,169	1,323	1,605	1,706	1,792
Net Interest Expense (Mil)	0	0	0	0	0	0	0	0
Income Tax Expense (Mil)	124	-17	118	132	147	181	192	203
After-Tax Items (Mil)	0	0	0	0	0	0	0	0
(Minority Interest) (Mil)	0	-3	-4	-4	-4	-4	-4	-4
Net Income (Mil)	31	-372	530	633	685	848	905	963
Adjusted Net Income (Mil)	495	507	572	633	685	848	905	963
Weighted Average Diluted Shares Outstanding (Mil)	376	384	417	434	442	446	447	449
Diluted Earnings Per Share	0.08	-0.97	1.27	1.46	1.55	1.90	2.02	2.15
Diluted Adjusted Earnings Per Share	1.32	1.32	1.37	1.46	1.55	1.90	2.02	2.15
Dividends Per Common Share	0.79	0.84	0.83	0.94	1.00	1.06	1.14	1.22
EBITDA (Mil)	1,311	978	1,755	1,959	2,163	2,505	2,676	2,792
Adjusted EBITDA (Mil)	1,608	1,277	1,755	1,959	2,163	2,505	2,676	2,792

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NiSource Inc NI ★★★★ 26 Sep 2022 21:21, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
27.37 USD 26 Sep 2022	32.00 USD 24 Aug 2022 19:55, UTC	0.86	11.11 USD Bil 26 Sep 2022	Narrow	Stable	Low	Standard	7 Sep 2022 05:00, UTC

Key Cash Flow Items (USD)	**Actual**			**Forecast** as of 24 Aug				
Fiscal Year, ends 31 Dec	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Cash from Working Capital	—	—	—	—	—	—	—	—
(Capital Expenditures) (K)	-1,802,400	-1,758,100	-1,838,000	-2,620,000	-3,520,000	-2,620,000	-2,020,000	-1,820,000
Depreciation (K)	717,400	725,900	748,400	790,000	840,000	900,000	970,000	1,000,000
Amortization (K)	—	—	—	—	—	—	—	—
Net New (Investment), Organic (K)	**-1**	**0**	**-2**	**-1**	**-3**	**-2**	**-1**	**-1**
(Purchases)/Sales of Companies & Assets (K)	0	0	0	0	0	0	0	0
Net New (Investment), Total (K)	**-1**	**0**	**-2**	**-1**	**-3**	**-2**	**-1**	**-1**
Other Non-Cash Items, From Cash Flows (K)	0	1	0	0	0	0	0	0
Free Cash Flow to the Firm (K)	**-503,803**	**456,882**	**-764,964**	**-283,888**	**-1,342,843**	**-205,591**	**500,525**	**760,506**

Balance Sheet (USD)	**Actual**			**Forecast**				
Fiscal Year, ends 31 Dec	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Assets								
Cash and Equivalents (Mil)	148	126	95	92	70	68	108	156
Inventory (Mil)	425	401	499	502	470	475	479	484
Accounts Receivable (Mil)	857	791	826	880	861	873	903	925
Net Property, Plant and Equipment (Mil)	16,912	16,620	17,882	19,712	22,392	24,112	25,162	25,982
Goodwill (Mil)	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486
Other Intangibles (Mil)	0	0	0	0	0	0	0	0
Other Operating Assets (Mil)	0	0	0	0	0	0	0	0
Non-Operating Assets (Mil)	0	0	0	0	0	0	0	0
Total Assets (Mil)	**22,660**	**22,041**	**24,157**	**25,404**	**28,011**	**29,745**	**30,870**	**31,766**
Liabilities								
Accounts Payable (Mil)	666	589	698	618	626	633	639	645
Debt (Mil)	0	0	0	0	0	0	0	0
Other Operating Liabilities (Mil)	0	0	0	0	0	0	0	0
Non-Operating Liabilities (Mil)	0	0	0	0	0	0	0	0
Total Liabilities (Mil)	**16,673**	**16,203**	**16,884**	**17,772**	**19,050**	**20,337**	**20,993**	**21,399**
Equity								
Shareholders' Equity (Mil)	5,987	5,752	6,947	7,552	8,880	9,329	9,797	10,286
Minority Interest (Mil)	0	86	326	80	80	80	80	80
Total Equity (Mil)	**5,987**	**5,838**	**7,273**	**7,632**	**8,960**	**9,409**	**9,877**	**10,366**

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Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

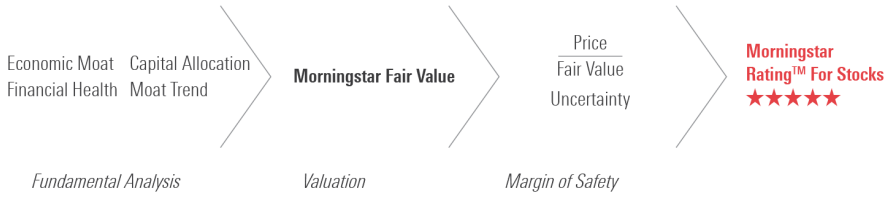
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to

Morningstar Equity Research Star Rating Methodology



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bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate. In cases where there is less than a 25% probability of an event, but where the event could result in a material decline in value, analysts may adjust the uncertainty rating to reflect the increased risk. Analysts may also make a fair value adjustment to reflect the impact of this event.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

4. Market Price

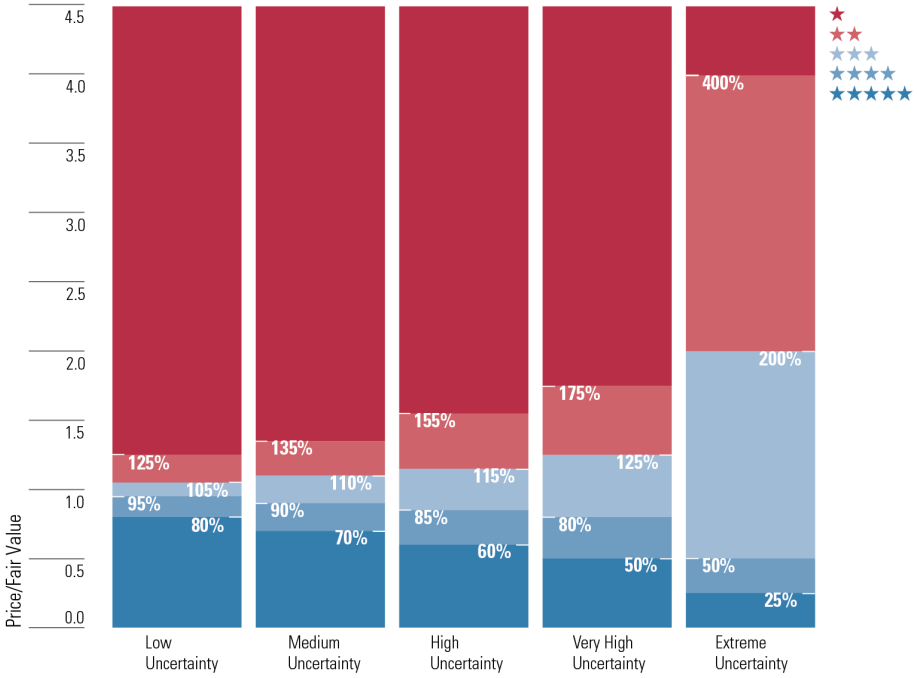
The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close

Morningstar Equity Research Star Rating Methodology



tabs on the companies they follow, and, based on thor ough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

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

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

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

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exem-

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plary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

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From: Steve Fleishman
To: Weisenburger \ Michael \ V
Subject: The Fleishman Daily 9/7/22 - PEG, EIX, PCG, NI, Weekly Mark, LNG
Date: Wednesday, September 7, 2022 9:05:38 AM

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September 7, 2022

THE FLEISHMAN DAILY 9/7/22

PEG, EIX, PCG, NI, Weekly Mark, LNG

The Fleishman Daily 9/7/22
Utilities: PEG, EIX, PCG, NI, Weekly Mark
Midstream: LNG

Utilities

PEG – Files for accounting mechanism that would smooth utility pension impact; promising
EIX – Fairview fire – 2 fatalities, 4,500 acres burned, evacuations ordered as 3,500 structures threatened and only 5% contained; utility files incident report
PCG – Utility raises requested rate increases in 2023-26 GRC, reflects inflation, federal tax law; large requests
NI – Details on PA settlement filed; $44.5M rate increase, silent on ROE/equity ratio
The Weekly Mark – A nuclear inflection point

Midstream

LNG – EPA denies emissions waiver for LNG's turbines; not a surprise but won't impact operations or financials; late day selloff unwarranted

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Utilities

PEG – Files for accounting mechanism that would smooth utility pension impact; promising

- On Friday, PS&EG filed a request at the New Jersey BPU – asking for authorization of an accounting order that would allow for smoothing of returns on pension trust assets – effective January 1 2023 (link)
- Specifically the requested order would allow PSE&G to:
  - "modify its calculation of net pension expense for rate-making purposes by utilizing a calculated value that recognizes changes in fair value in a systematic and rational manner that smooths returns on pension trust assets" (PSE&G is proposing a phased-in five-year method, which is more similar to most other utilities, rather than an all-in-one-year impact)
  - "record a regulatory asset or liability to account for the difference between pension expense determined using the smoothed, calculated market-related value and the fair value at year-end for purposes of determining the amortization of net gains of losses"
- The regulatory asset/liability would be included in net pension expense and submitted for cost recovery/return in future rate cases

This is a potential positive if approved, as it could address some of the pension headwind PEG faces. PEG has been a significant underperforming since the Q1 call, when the company was identified as exposed to pension downside without "smoothing of asset returns." Thus far, management has been hesitant to specifically talk to offsets. We had estimated a $0.30 headwind back in early-June when the market was down 14% YTD (down even more now), but assumed half of this could be offset in our official estimates. We always believed PEG would ultimately be able to true-up its pension costs in the late-2023 rate case filing, such that it could be back on track by 2025, but in the interim there appeared to be a material headwind. We were also encouraged by the AWK rate case settlement approved last month that allowed for a pension deferral for 2 years in between rate cases. The potential to address this issue ahead of the rate case would be a unexpected positive for PEG (this would address the majority of the issue for the regulated utility – on the Q2 call PEG said the pension impact was roughly 75-80% on the regulated side, though the filing says PSE&G accounts for 63% of liabilities).

EIX – Fairview fire – 2 fatalities, 4,500 acres burned, evacuations ordered as 3,500 structures threatened and only 5% contained; utility files incident report

- As of last night, the Fairview fire around Hemet, Riverside County had burned 4,500 acres, destroyed 7 structures, threatened 3,500 structures and caused 2 fatalities and one injury. The fire was 5% contained.
- The fire appears to be in a High Fire Risk Area. The cause remains under investigation.
- EIX filed an incident report related to the Fairview fire after it was reported on 9/5.
- EIX wrote then: "...Our information reflects circuit activity occurring close in time to the reported time of the fire [which was 3:37pm]. Our investigation is ongoing". Full report here. An incident report must be filed if it meets certain requirements (see here); it does not imply utility equipment caused the fire. An update filing (known as a 315 filing) must be made within 25 days after the initial incident report.

At this time, it is unclear whether the 12 kV circuit in the incident report had a covered conductor or was under a PSPS or fast curve setting.

The stock underperformed the UTY by 330bp yesterday. While EIX's role, if any, is unknown, the “circuit activity”, 2 fatalities, number of structures threatened and little current containment make the fire worth monitoring. EIX has its own insurance, and then AB 1054 wildfire fund if the fire worsens materially.

PCG – Utility raises requested rate increases in 2023-26 GRC, reflects inflation, federal tax law; large requests

- On 9/6, PCG filed updated testimony in its GRC, raising the annual requested rate increases by $835M to $1,090 depending on the year; below are the updated requests vs the previous request in March:
  - 2023: $3,961M (32.4% increase over 2022) vs $3,125M (25.6%)
  - 2024: $1,048M vs $1,018M
  - 2025: $860M vs $755M
  - 2026: $680M vs $561M
- The main drivers are capital cost and expense escalation due to inflation, less so federal tax law and guidance changes.
- Earlier this summer, intervenors filed testimony in PCG's 2023-26 GRC; the Cal Public Advocates Office's annual recommended rate increases/decreases are below:
  - 2023: $1,139M (9.3% increase over 2022)
  - 2024: $301M
  - 2025: -$55M
  - 2026: -$227M
- PCG’s updated rate base projections in yesterday’s filing rise by $5.4B in 2026 vs those in its March 2022 filing:
  - 2023: $50.9B vs $49.2B in March 2022 filing
  - 2024: $56.8B vs $53.8B
  - 2025: $62.5B vs $58.2B
  - 2026: $68.2B vs $62.8B

Inflation appears to be driving the notable uptick in PCG’s requested annual rate increases in the rate case. PCG's rate increase requests were already among the highest we've seen in recent/pending rate cases. In its investor presentations this year, PCG saw rate increases moderating over the long-term to 2-4%, net O&M reductions, load growth and other efficiencies. As we noted last week, the recent undergrounding legislation de-risks some of PCG’s long-term plan.

NI – Details on PA settlement filed; $44.5M rate increase, silent on ROE/equity ratio

- Yesterday, details of the settlement in NI’s PA rate case covering the revenue requirement were made public
- Parties agreed to a $44.5M rate increase; the revenue requirement was settled via “black box”, meaning that ROE and equity ratio were not specified

    - NI requested a $82.2M rate increase using a 11.20% ROE, 54.38% equity ratio and $2.958B rate base (test-year ending 12/31/23)
- For the purposes of calculating NI's distribution system improvement charge (DSIC), the ROE shall reflect the return in the PUC's most recent Quarterly Report on the Earnings of Jurisdictional Utilities (10.15%)
- New rates are proposed to go into effect on 12/17/22

While the settlement is silent on ROE/equity ratio, the agreed upon rate increase is over 50% of NI's initial ask which we believe is a solid outcome. Assuming the settlement is approved by the PUC, it should be sufficient to help NI execute on its 7-9% EPS CAGR through 2024. PA is NI's second largest gas LDC and accounts for ~15% of the company's entire rate base. The other key rate case pending is in OH, where settlement discussions have been ongoing for a couple months now.

The Weekly Mark – A nuclear inflection point
Click here to view our complete note
The nuclear plant shutdown trend is effectively over for now
Last week's passage of SB846 in California extended the life of the 2.2 GW Diablo Canyon nuclear plant until at least 2030. The votes were near unanimous, as the state is clearly taking reliability risks seriously. This follows last month's passage of the IRA which enacted a nuclear PTC to stabilize economics of the U.S. fleet.

Midstream

LNG – EPA denies emissions waiver for LNG's turbines; not a surprise but won't impact operations or financials; late day selloff unwarranted

- Yesterday afternoon the EPA announced that it had denied Cheniere an emissions waiver for its gas turbines that run the liquefaction units at Sabine Pass and Corpus Christi
- This means that its turbines (along with that 200 others) will have to comply with the National Emissions Standards for Hazardous Air Pollutants (NESHAP) with an effective date of September 5
- In response Cheniere indicated that while it disagreed with the waiver denial and there may be some expenditures, compliance with the regulations will not have a material impact on financials or operations

The stock fell about 2.5% when the news hit the tape around 3:15 yesterday but we think the selloff is unwarranted - Cheniere had previously indicated that it didn't think the rules would materially impact operations. Importantly, the EPA reaffirmed the process from here - operational and emissions tests will continue to determine the course of action to meet the emissions standards. Once that is established Cheniere will then work with the EPA on an implementation plan, which the company believes will likely occur during routine maintenance outages over time. Particularly with the geopolitical situation, we do not think that it is in the administration's interests to do anything to restrict LNG gas supplies to

Europe, which is going into the heating season with effectively no Russian natural gas supply.

Wolfe Events

September 7-8: PPL non-deal roadshow on West Coast
September 13-15: EXC non-deal roadshow on West Coast
September 28-30: Wolfe Utilities, Midstream, and Clean Energy Conference in NYC – register here
September 30: AEE non-deal roadshow in Boston
October 4-7: SRE non-deal roadshow in Europe

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Calendar

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WELLS FARGO

Industry Update — July 1, 2022

Utilities

UIPL: Week 25 Standings

Come for the Tables; Stay for the Punditry

Our Call

The UIPL had a strong week (S&P Utilities +3.4% vs. S&P 500 -0.3%) as the 10-year Treasury retreated and Chairman Powell flagged recession risk. Outside of macro, there was not a lot of action as the league wrapped up 1H and eases into the holiday weekend.

NI moved up 2 spots to #9 in Light. The company filed to delay hearings in the Columbia Gas of OH rate case (in focus, in light of a disappointing Staff rec) to 8/9 from 7/13 to allow more time for settlement discussions, which we generally view favorably.

POR got a boost to #21 in Power (from #22), helped by its addition to the S&P MidCap 400 index, though a subsequent competitor downgrade seemingly dampened the effect.

UIPL clubs continue to execute on **generation transition plans** with **AEE** announcing plans to acquire the 200 MW Huck Finn Solar project under a build-transfer agreement with EDF Renewables and **CNP** receiving approval to construct two gas CTs as part of the company's coal replacement plan. Both clubs moved up one spot this week and sit in the top half of the Power division.

Event names **SJI** (pending takeout) **and SWX** (strategic review) didn't participate in the action, as both just barely made it into the green.

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Tables 1 & 2: UIPL Performance - Power Division & Light Division
(Click on table to expand in HTML view)

Power Division

Rank	Prev.	Company	Ticker	Mkt Cap ($B)	One Week	YTD
1	1	South Jersey Industries, Inc.	SJI	4.2	0.2%	33.1%
2	2	Exelon Corp.	EXC	44.4	7.3%	11.8%
3	6	DTE Energy	DTE	24.6	5.3%	7.6%
4	5	CenterPoint Energy	CNP	18.6	4.7%	7.2%
5	3	Hydro One Ltd.	H-CA	16.1	2.8%	6.9%
6	7	Xcel Energy	XEL	38.5	5.2%	6.0%
7	4	Southern Company	SO	75.8	2.9%	6.0%
8	11	WEC Energy Group, Inc.	WEC	31.7	5.6%	5.3%
9	9	CMS Energy Corp.	CMS	19.6	5.3%	5.2%
10	8	Duke Energy	DUK	82.5	3.7%	4.2%
11	10	Dominion Energy, Inc.	D	66.3	3.4%	3.3%
12	13	Ameren Corp.	AEE	23.3	5.9%	2.8%
13	12	Fortis Inc.	FTS-CA	22.5	2.5%	1.5%
14	14	Emera Inc.	EMA-CA	12.3	0.9%	-2.5%
15	16	Evergy, Inc.	EVRG	15.0	4.5%	-3.2%
16	15	Alliant Energy Corp.	LNT	14.7	3.7%	-3.3%
17	18	Public Svc Enterprise Group	PEG	31.6	4.7%	-3.6%
18	17	Brookfield Infra. Partners LP	BIP	24.9	3.8%	-4.0%
19	19	Eversource Energy	ES	29.1	2.9%	-5.8%
20	20	FirstEnergy Corp.	FE	21.9	3.9%	-6.0%
21	22	Portland General Electric	POR	4.3	4.5%	-7.1%
22	21	NextEra Energy Partners LP	NEP	13.7	-0.9%	-10.3%
23	25	Chesapeake Utilities Corp.	CPK	2.3	7.2%	-10.4%
24	23	Essential Utilities	WTRG	12.0	2.2%	-13.6%
25	26	SJW Group	SJW	1.9	3.6%	-13.7%
26	24	NextEra Energy, Inc.	NEE	152.2	0.3%	-16.1%
27	28	American States Water	AWR	3.0	4.5%	-20.5%
28	27	American Water Works	AWK	27.0	2.9%	-20.6%
29	29	California Water Service	CWT	3.0	4.7%	-22.0%

Light Division

Rank	Prev.	Company	Ticker	Mkt Cap ($B)	One Week	YTD
1	1	Southwest Gas Corp.	SWX	5.8	0.4%	26.3%
2	2	Spire Inc.	SR	3.9	3.1%	16.2%
3	3	Sempra Energy	SRE	47.2	2.7%	14.4%
4	6	Consolidated Edison	ED	33.7	4.2%	13.5%
5	5	Northwest Natural Holding Co.	NWN	1.8	1.9%	11.1%
6	7	New Jersey Resources	NJR	4.3	4.4%	10.3%
7	8	American Electric Power	AEP	49.3	3.8%	9.6%
8	4	Constellation Energy Corp.	CEG	18.7	-2.4%	8.6%
9	11	NiSource Inc.	NI	12.0	6.0%	8.5%
10	10	Atmos Energy Corp.	ATO	15.6	4.7%	8.3%
11	9	PNM Resources	PNM	4.1	2.4%	6.3%
12	12	ONE Gas Inc.	OGS	4.4	3.8%	6.2%
13	14	Pinnacle West Capital Corp.	PNW	8.3	4.5%	6.1%
14	13	NorthWestern Corp.	NWE	3.2	3.5%	5.4%
15	15	Black Hills Corp.	BKH	4.7	3.7%	4.9%
16	16	OGE Energy	OGE	7.7	4.8%	2.6%
17	18	Entergy Corp.	ETR	22.9	6.4%	1.8%
18	19	Hawaiian Electric Industries	HE	4.5	4.9%	0.2%
19	17	Brookfield Renewable Partners LP	BEP	22.4	2.2%	-1.0%
20	20	Algonquin Power & Utes Corp.	AQN	9.1	0.7%	-4.8%
21	22	IDACORP, Inc.	IDA	5.4	5.0%	-5.2%
22	21	AVANGRID, Inc.	AGR	17.8	0.8%	-5.8%
23	24	Edison International	EIX	24.1	4.2%	-6.4%
24	23	PPL Corp.	PPL	20.0	2.0%	-8.3%
25	25	ALLETE Inc.	ALE	3.3	2.4%	-9.5%
26	26	Ørsted	ORSTED-DK	43.8	5.2%	-9.8%
27	27	UGI Corporation	UGI	8.1	0.1%	-14.3%
28	28	PG&E Corp.	PCG	19.8	1.9%	-17.8%

S&P 500 One Week and YTD were -0.3% & -20.6%, respectively. CEG performance begins as of the close on 2/2/22.

Source: FactSet and Wells Fargo Securities, LLC

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Acronyms:

CT – Combustion Turbine

MW – Megawatt

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Equity Research

WELLS FARGO

Industry Update — July 29, 2022

Utilities

UIPL: Week 29 Standings

Come for the Tables; Stay for the Punditry

Our Call

While we thought earnings and macro (Fed hikes rates 75 bps, GDP -0.9% in Q2) were going to rule the week, BBB rose from the ashes (again) under a new name, the Inflation Reduction Act. With Manchin on board, the legislation would seem to have a high likelihood of passage.

Most notably, in our view, is the inclusion of a **nuclear PTC**, which we think effectively puts a floor on power prices at ~$44/MWh beginning in 2024 and extending through 2032. Clearly positive for UIPL clubs **CEG (+19.3%),** which burst into the #3 spot in the Promotion Zone, & **PEG (+9.8%)**.

The package also extends and restores the **renewable PTC and ITC** and introduces an ITC for stand-alone storage. In 2025, the credits morph into a broader Clean Electricity Credit (can choose PTC or ITC), which extends until the later of 2032 or when the power sector emits 75% less carbon vs. '22 levels. This provides *significant visibility* to renewable developers and utilities.

On the renewable developer side, we highlight **NEE/NEP, BEP/BEPC, AGR, ØRSTED, AQN & ALE**. NEE (+7.2%) only moved up one spot to #25 in Power while NEP (+12.3%) had a nice 8 spot move to the middle of the pack at #15.

More broadly, the tax credits should help from an **affordability** standpoint, which bodes well for renewables in utility planning processes. Notable clubs with large renewable investment plans include **D, LNT, WEC, NI, CMS & XEL**.

In addition to nuclear, another new credit would be established for **hydrogen at $3/kg** (full credit for clean hydrogen). While it's early innings for the technology in the power/utility space, **NEE** seems to be leading the charge with other notable initiatives being advanced by **SRE & CEG**.

Transmission did not make the cut for ITC eligibility, but all was not lost as the **MISO approved $10.3B of Tranche 1 projects** this week. Notable participants in the early build-out include **AEE**, **FTS**, **XEL**, American Transmission Company (**WEC/LNT/ALE**), **ALE** & **NI** with Tranche 2 (additional upper MISO solutions) and Tranche 3 (MISO South), Tranche 4 (north-south links) still to come.

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Tables 1 & 2: UIPL Performance - Power Division & Light Division
(Click on table to expand in HTML view)

Power Division

Rank	Prev.	Company	Ticker	Mkt Cap ($B)	One Week	YTD
1	1	South Jersey Industries, Inc.	SJI	4.2	1.8%	34.1%
2	4	CenterPoint Energy	CNP	19.8	7.4%	14.2%
3	3	Exelon Corp.	EXC	45.4	7.0%	14.1%
4	5	Southern Company	SO	80.6	7.0%	12.8%
5	2	Hydro One Ltd.	H-CA	16.8	4.3%	11.3%
6	6	DTE Energy	DTE	25.0	6.3%	9.7%
7	7	Xcel Energy	XEL	39.3	6.7%	8.2%
8	8	WEC Energy Group, Inc.	WEC	32.5	7.0%	7.7%
9	10	CMS Energy Corp.	CMS	19.9	7.2%	6.8%
10	9	Duke Energy	DUK	83.9	5.2%	5.8%
11	12	Dominion Energy, Inc.	D	67.5	7.1%	5.2%
12	13	Ameren Corp.	AEE	23.8	6.7%	4.8%
13	11	Fortis Inc.	FTS-CA	22.4	2.5%	0.8%
14	17	Evergy, Inc.	EVRG	15.5	6.7%	0.3%
15	23	NextEra Energy Partners LP	NEP	15.3	12.3%	-0.1%
16	18	Alliant Energy Corp.	LNT	15.1	6.9%	-0.2%
17	22	Public Svc Enterprise Group	PEG	32.7	9.8%	-0.3%
18	16	Emera Inc.	EMA-CA	12.6	3.9%	-0.6%
19	14	Brookfield Infra. Partners LP	BIP	25.8	1.3%	-0.6%
20	15	Portland General Electric	POR	4.6	2.8%	-1.0%
21	20	Eversource Energy	ES	30.4	6.3%	-1.5%
22	19	FirstEnergy Corp.	FE	22.9	6.1%	-1.7%
23	21	Essential Utilities	WTRG	13.4	6.1%	-3.6%
24	24	Chesapeake Utilities Corp.	CPK	2.4	8.0%	-5.5%
25	26	NextEra Energy, Inc.	NEE	166.1	7.2%	-8.5%
26	25	SJW Group	SJW	2.0	4.0%	-9.7%
27	28	American States Water	AWR	3.2	6.8%	-14.8%
28	27	California Water Service	CWT	3.2	4.6%	-16.5%
29	29	American Water Works	AWK	28.3	6.6%	-17.0%

Light Division

Rank	Prev.	Company	Ticker	Mkt Cap ($B)	One Week	YTD
1	1	Southwest Gas Corp.	SWX	5.9	4.2%	27.3%
2	2	Sempra Energy	SRE	51.4	6.6%	25.5%
3	14	Constellation Energy Corp.	CEG	21.1	19.3%	22.6%
4	6	Consolidated Edison	ED	34.9	8.4%	17.5%
5	4	Spire Inc.	SR	3.9	6.9%	16.3%
6	3	Atmos Energy Corp.	ATO	16.7	6.5%	15.9%
7	7	New Jersey Resources	NJR	4.5	8.0%	14.8%
8	5	Northwest Natural Holding Co.	NWN	1.8	4.3%	13.2%
9	8	American Electric Power	AEP	50.1	5.2%	11.5%
10	12	NiSource Inc.	NI	12.1	7.4%	11.0%
11	10	ONE Gas Inc.	OGS	4.6	6.4%	11.0%
12	15	Black Hills Corp.	BKH	5.0	8.4%	10.1%
13	13	OGE Energy	OGE	8.1	5.8%	9.0%
14	11	PNM Resources	PNM	4.2	3.7%	7.8%
15	9	Brookfield Renewable Partners LP	BEP	24.3	2.5%	7.5%
16	16	Pinnacle West Capital Corp.	PNW	8.3	6.2%	6.9%
17	20	Ørsted	ORSTED-DK	48.9	7.6%	3.7%
18	19	Hawaiian Electric Industries	HE	4.6	7.1%	3.6%
19	17	Entergy Corp.	ETR	23.2	5.6%	3.0%
20	18	NorthWestern Corp.	NWE	3.0	3.2%	-0.1%
21	24	AVANGRID, Inc.	AGR	18.8	8.2%	-0.6%
22	22	IDACORP, Inc.	IDA	5.6	5.8%	-0.9%
23	21	Algonquin Power & Utes Corp.	AQN	9.4	4.7%	-1.3%
24	26	Edison International	EIX	25.0	7.8%	-2.0%
25	23	PPL Corp.	PPL	21.2	5.7%	-2.7%
26	25	UGI Corporation	UGI	9.0	4.2%	-5.1%
27	27	ALLETE Inc.	ALE	3.5	5.7%	-5.4%
28	28	PG&E Corp.	PCG	21.4	1.9%	-11.2%

S&P 500 One Week and YTD were 1.8% & -14.6%, respectively. CEG performance begins as of the close on 2/2/22.

Source: FactSet and Wells Fargo Securities, LLC

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Acronyms:

BBB – Build Back Better

ITC – Investment Tax Credit

MISO – Midcontinent Independent System Operator

MWh – Megawatt hour

PTC – Production Tax Credit

UIPL – Utility/Infrastructure Performance League

Ticker, Rating, Price (7/28/22)

CEG, Overweight, $64.59

PEG, Overweight, $65.44

Source: FactSet, Wells Fargo Securities, LLC

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Investment Thesis, Valuation and Risks

Constellation Energy Corporation (CEG)

Investment Thesis

Our Overweight rating reflects our view that CEG is uniquely positioned to capitalize on the long-term trend towards decarbonization. CEG is the largest nuclear owner in the U.S with ~20% market share. We consider nuclear to be an important part of the nation's future power generation mix, as the country trends toward net zero carbon by 2050. We have also been encouraged by growing policy support, as evidenced by subsidy regimes in several states (IL, NJ and NY). We do not think CEG's share price adequately reflects the potential long-term value of the nuclear fleet.

Target Price Valuation for CEG: $72.00

Our $72/sh price target is based on a DCF analysis and results in a EV/EBITDA multiple of ~6x our 25E open EBITDA of ~$4.3B. The analysis assumes (a) the nuclear fleet operates through 2050, (b) annual FCFF post '25 of $2.25B, and (3) a WACC of 6.5%

Risks to Our Price Target and Rating for CEG

Key risks include a material deterioration in power prices, lack of government support for nuclear going forward, and poor capital allocation decisions.

Public Service Enterprise Group Incorporated (PEG)

Investment Thesis

We rate shares Overweight. We believe PEG shares offer investors an attractive risk/reward proposition. Key features include (1) a premier utility with well-above average rate base & EPS growth prospects, (2) a carbon-free nuclear generation fleet that generates significant FCF and (3) a strong balance sheet, in our view, which provides the company with financial flexibility.

Target Price Valuation for PEG: $75.00

Our $75/sh price target is based on a sum-of-the-parts analysis consisting of (1) $64/sh for PSE&G/Enterprise/Other (19x our 24E EPS of $3.37) and (2) ~$11/sh for PSEG Power based on an EV/EBITDA multiple of 6-7x our 25E open EBITDA of ~$1B (and supported by a DCF analysis). The P/E multiple of 19x is in line with the '22 median multiple for a basket of high-quality utilities (AEE, CMS, ES, LNT, WEC & XEL) that we think are most comparable to PSE&G.

Risks to Our Price Target and Rating for PEG

Risks to our valuation include earnings sensitivity to commodity prices, operational risks, unfavorable regulatory/political developments particularly as it relates to PEG's nuclear fleet.

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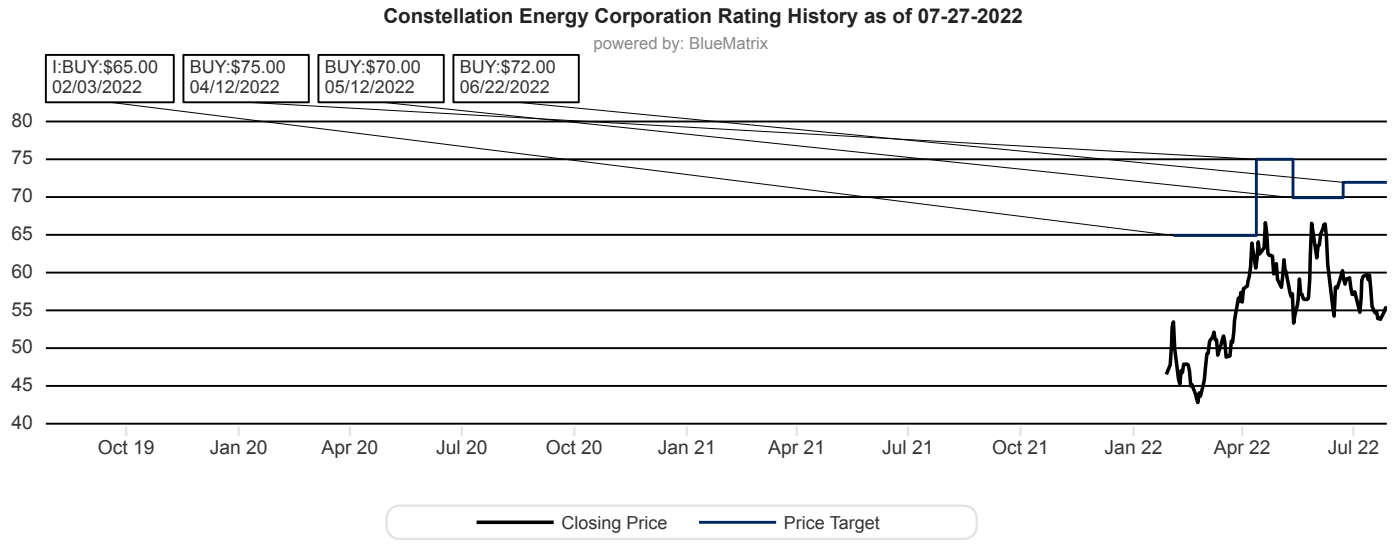
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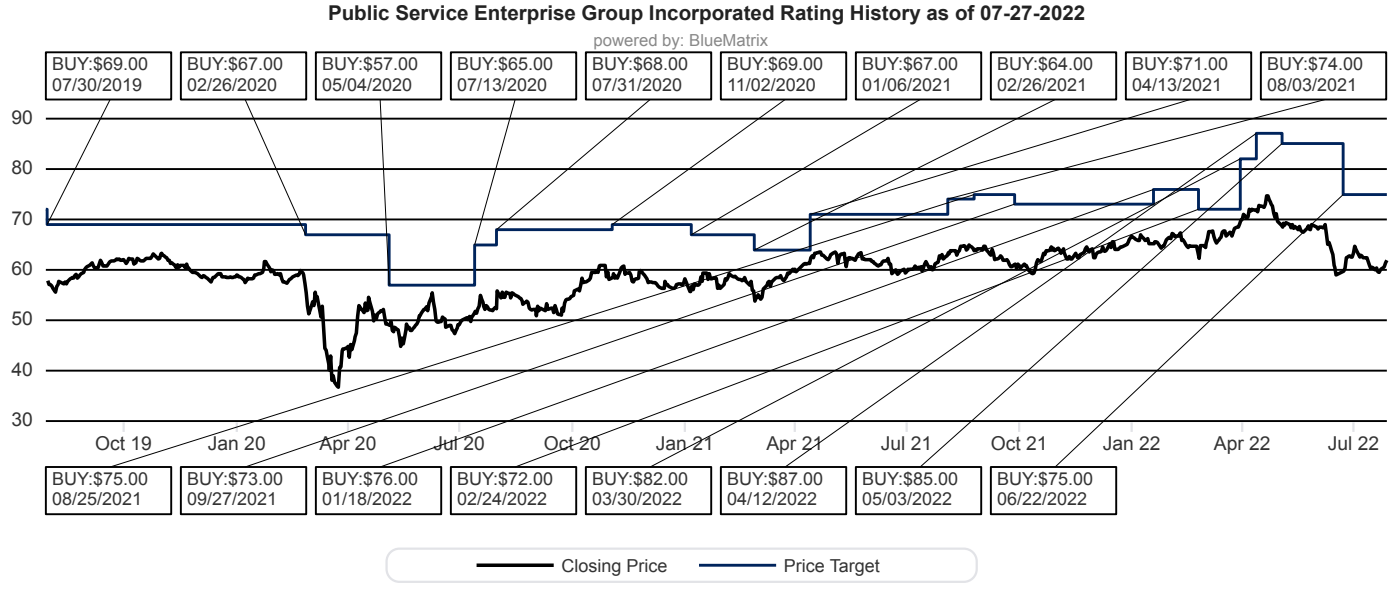
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Weisenburger \ Michael \ V

From: Steve Fleishman <utilities@wolferesearch.com>
Sent: Wednesday, August 17, 2022 9:03 AM
To: Weisenburger \ Michael \ V
Subject: The Fleishman Daily 8/17/22 - ERCOT/NI, PCG, PAA, NOVA, BE, STEM, FLNC

Categories: SellSide Notes

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August 17, 2022

THE FLEISHMAN DAILY 8/17/22
ERCOT/NI, PCG, PAA, NOVA, BE, STEM, FLNC

The Fleishman Daily 8/17/22
Utilities: ERCOT/NI, PCG
Midstream: PAA
Clean Energy: NOVA, BE, STEM, FLNC

Utilities

ERCOT/NI – Pablo Vegas leaving NI for ERCOT CEO position
PCG – Undergrounding bill amendments detailed, could get Assembly floor vote by 8/31

Midstream

PAA – Exploring 50 mbd frac capacity expansion at Fort Saskatchewan

Clean Energy

NOVA – Announces pricing of upsized convert offering, $500M at 2.625%
BE – Bloom prices equity offering at $26; including SK options, $650M total equity raised for future optionality

STEM – More insider stock sales; Angeleno Group sells 100K shares, CTO sells 60K
FLNC – New boss, lots of work to do

Wolfe Utility & Midstream Materials: Utility Comps, Utility Stock Charts, Midstream Comps, Midstream Stock Chart Comps, Valuation Charts, Models

Utilities

ERCOT/NI – Pablo Vegas leaving NI for ERCOT CEO position

- Yesterday, it was announced that NI's EVP and Group President, Pablo Vegas, would become the CEO of ERCO October 1
- Pablo had been working at NI and before that AEP within the utilities sector
- He will replace interim CEO of ERCOT, Brad Jones, who had been serving in that position since Spring 2021 whe Magness was fired in the Winter Storm Uri fallout

New leadership for ERCOT, as it looks to avoid any future instances similar to Uri. A big and challenging opportunity for reliability issues and political microscope at ERCOT, but not surprising after the management shifts at NI earlier this yea

PCG – Undergrounding bill amendments detailed, could get Assembly floor vote by 8/31

- Earlier this week, the latest amendments to an undergrounding bill were posted online, and the bill is on the CA reading file, meaning it could receive a floor vote before the legislative session ends 8/31.
- The amendments to SB 884 require large electric utilities to:
    - submit 10-year undergrounding plans that include projects located in tier 2 and tier 3 high fire risk distric
    - apply for available federal, state and other non-ratepayer moneys throughout the duration of the underg and use those moneys to reduce costs to ratepayers; the amendment removed language that would have recovery from ratepayers unless all non-ratepayer moneys were fully exhausted.
- The amendments also removed provisions that would have imposed new duties on local agencies.
- PCG previously submitted annual undergrounding miles through 2032 in its WMP, with 3,575 miles by 2026, fo miles/yr 2027-31 and 355 miles in 2032. PCG sees cost declining from the $4.2M/mile originally filed for 2022- 2022 and $2.5M by 2026.

We think the undergrounding legislation would de-risk PCG's plan and would be positive for the stock.

Midstream

PAA – Exploring 50 mbd frac capacity expansion at Fort Saskatchewan

- Plains Canada announced yesterday that they are exploring a 50 mbd expansion of C3+ fractionation capacity a Saskatchewan
- PAA currently fracs about 50-55 mbd at Fort Saskatchewan and 135 mbd across the Canadian business

This could be an interesting opportunity as management has highlighted the potential to grow the lucrative NGL busine adding 50 mbd of frac capacity would be meaningful. We'd be interested in how much of the purity NGL products from capacity would be sold under contracts versus exposed to short-term frac spreads.

Clean Energy

NOVA – Announces pricing of upsized convert offering, $500M at 2.625%

- Yesterday, NOVA announced the pricing of a $500M convertible senior note offering at 2.625%; NOVA also gra option to purchase an additional $100M of principal
  - The notes mature on Feb 15th, 2028, unless earlier converted/redeemed/repurchased
  - NOVA may redeem the notes after 8/20/25 if the common stock is at least 130% of the conversion price trading days during a consecutive 30-day period
- The initial conversion rate will be 29.2039 shares per $1K of principal (equivalent to an initial conversion price o $34.24/sh)
- NOVA expects net proceeds of $487.1M or $584.6 with the greenshoe; $40.4M will be used to pay to cost of a remainder will be used for general purposes
- The capped call will be subject to a cap initially equal to $46.10/sh

As we said yesterday, the timing/form of capital was a bit of a surprise and NOVA finished down over 11% on the news upsizing and assuming the greenshoe is allotted, NOVA will have net proceeds well in excess of the $300M of corporat intended to raise in early 2023. This should provide a nice buffer to help capitalize on accelerated growth opportunities

BE – Bloom prices equity offering at $26; including SK options, $650M total equity raised for future optionality

- Last night Bloom announced that it had priced its 13M share offering at $26 per share
- There remains a greenshoe of up to 1.95M shares
- The offering was 3% below yesterday's closing price and about 14% below Monday's close (pre offering annou

- On top of the $310M raised via SK ecoplant's option exercise this means total equity raised of about $650M plus from the shoe

We noted yesterday that the equity raise was unexpected particualrly so soon after the $310M raised from SK. The stoc yesterday – down 11% - highlighted the surprise from the market as well. Note that NOVA was down a similar amount issuance announced at that same time. That said, Bloom capitalized on the recent share price strength and momentum f Reduction Act to secure some optionality on future growth opportunities.

STEM – More insider stock sales; Angeleno Group sells 100K shares, CTO sells 60K

- Yesterday, two Form 4s were filed showing more insider stock sales at STEM
- Anil Tammineedi (Board Member) sold 100K shares ~$1.6M; the shares are beneficially owned by the Angeleno investor in STEM; Angeleno Group still owns 4.639M shares
    - Recall, last week the Angeleno Group filed a Form 144 to register 500K shares, indicating sales were for
- Larsh Johnson (Chief Technology Officer) then sold 60K shares for proceeds of ~$950K; Mr. Johnson still owns 1 directly and 41.6K shares indirectly

This follows several insider sales last week and is likely a function of capitalizing on the recent stock run up post IRA announcement/passage.

FLNC – New boss, lots of work to do

Click here to view our complete note

Q3 in-line, 2022 reaffirmed; backlog down on soft order intake. On 8/16, FLNC reported FQ3 revenue of $239M in-lin $229M. Gross margins saw QoQ improvement coming in at -2.1% vs -4.3%; adj GM was positive at 0.7% vs -3.3% in Q guidance of ~$1.1B was reaffirmed. Financial results were in-line, but orders across all three segments were weaker tha and backlog actually fell to $2.1B from $2.2B. The attach rate for service contracts was notably weak (26% in Q3). But 2022 being unusual from a seasonality perspective for orders and said that Q1 and Q2 were better than typical. There is be a catch up for service contracts in the coming quarters.

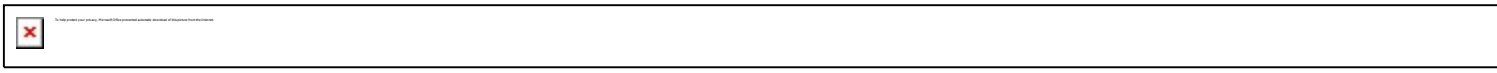
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September 28-30: Wolfe Utilities, Midstream, and Clean Energy Conference in NYC – register here
September 30: AEE non-deal roadshow in Boston

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From: Steve Fleishman
To: Weisenburger \ Michael \ V
Subject: The Fleishman Daily 9/20/22 - NI, DTE, OGE, Weekly Mark, Oil, Hydrogen, STEM
Date: Tuesday, September 20, 2022 9:05:08 AM

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September 20, 2022

THE FLEISHMAN DAILY 9/20/22

NI, DTE, OGE, Weekly Mark, Oil, Hydrogen, STEM

The Fleishman Daily 9/20/22
Utilities: NI, DTE, OGE, Weekly Mark
Midstream: Oil
Clean Energy: Hydrogen, STEM
WEBCAST: 2022 Power Supply Outlook, TOMORROW at 11:00am ET; register here

Utilities

NI – Files Indiana electric rate case; requesting $291.7M rate increase and 10.4% ROE
DTE – MI ALJ recommends $146M electric rate increase, 9.90% ROE, $20.5B rate base
OGE – APSC denies FRP extension upon capital structure re-hearing; poor datapoint for AR regulation
The Weekly Mark – Pretty in pink – nukes and hydrogen

Midstream

Oil – DOE announces SPR withdrawals to continue into November, but total amount appears unchanged

Clean Energy

Hydrogen – Seven Midwestern states announce hydrogen initiative; would build off existing

hydrogen/ammonia infrastructure
STEM – Announces partnership with InCharge, will offer complete solution for fleet charging

Wolfe Utility & Midstream Materials: Utility Comps, Utility Stock Charts, Midstream Comps, Midstream Stock Charts, Clean Energy Comps, Valuation Charts, Models

Utilities

NI – Files Indiana electric rate case; requesting $291.7M rate increase and 10.4% ROE

- Yesterday, NI filed a NIPSCO electric rate case requesting a $291.7M rate increase – a 19.09% increase vs present base rates
- The rate increase is premised on a 10.4% ROE; equity ratio and rate base requests aren't clear as witness testimony has yet to be filed in the docket
    - NIPSCO electric is currently allowed 9.75% ROE and 47.9% equity ratio
- It is proposed that the increase be phased in over two steps – first effective 9/1/23 (based on rate base as of 6/30/23) and the second effective 3/1/24 (based on rate base as of 12/31/23)
- NIPSCO is seeking a new semi-annual tracking mechanism to recover variable non-labor expenses associated with its coal-fired generation assets
    - Approval of this tracker would result in a separate rate increase in July 2024
- NIPSCO is also seeking the authority to implement a pension/OPEB balancing account to defer future differences between the actual amounts vs what is included in the revenue requirement in this case

This will be a big focus given the amount of renewable investment that is sought to be recovered in the case by the company. A timely and constructive outcome is a key piece of NI meeting its 7-9% EPS CAGR through 2024. All the renewable projects have approved CPCNs, so the cost/recovery of those investments shouldn't be too controversial. Though, it is possible there need to be updates to the costs given supply chain challenges and related inflationary impacts. Aside for the normal items, NIPSCO is also requesting a new tracker for variable non-labor coal costs as well as a deferral mechanism for pension/OPEB. The latter is particularly notable given the focus on pension costs across the sector due to the weak market performance YTD.

DTE – MI ALJ recommends $146M electric rate increase, 9.90% ROE, $20.5B rate base

- Yesterday, Michigan PSC ALJ filed testimony in DTE's electric rate case – recommending a $146M rate increase, 9.90% allowed ROE, and $20.5B rate base
- DTE originally requested – $388M (7.5%) rate increase, 10.25% allowed ROE, and $21.27B rate base
- Michigan PSC Staff previously filed – recommending a $143M rate increase, 9.60% allowed ROE, and $20.6B rate base
- DTE electric is currently allowed a 9.90% allowed ROE (50% equity) and its last approved rate increase and rate base were $188M ($351M original request) and $17.89B respectively

DTE gas was recently approved for a 9.90% allowed ROE (51% equity ratio)

- Rates are expected to go into effect in November 2022 and would be the first rate increase in 2.5 years

The ALJ recommendation seems relatively balanced, especially on ROE. As a reminder, DTE's electric business has been in a voluntary stayout keeping rates flat for ~2.5 years. DTE's most recent gas rate case outcome was balanced and we viewed the less constructive CMS electric case outcome in late-2021 as more on an anomaly, than broader concern with respect to Michigan regulation.

OGE – APSC denies FRP extension upon capital structure re-hearing; poor datapoint for AR regulation

- Yesterday, the APSC rejected OG&E's application for extension of its FRP Rider due to the limitations of the FRRA legislation.
- Recall, on 5/18, the APSC approved the extension of OG&E's FRP in AR for 5 years stipulating an unchanged 9.5% ROE, reduction in equity layer to 45% from 50%, and use of year-end rate base.
    - On 6/17, OG&E filed a petition for re-hearing, contending that the revision in its capital structure is not allowed under the FRRA since it is a "material change".
- Based on additional evidence, the APSC found that without a material change in OG&E's capital structure, adjusting the ROE within the statutorily-allowed limits (9.5% +/- 10bps) will not result in just and reasonable rates.
    - This would also violate the Commission's precedent that the ROE and the capital structure should be set in a congruent manner.

OGE believes that it has 2 filings remaining under its current FRP for historical test years Apr. 2021 – Mar. 2022 and Apr. 2022 – Mar. 2023, which would provide rate relief in AR in 2023 and 2024. Given the APSC's denial of its FRP extension, OG&E would have to file a rate case in AR in the next couple of years, where the company may elect to pursue another FRP. Alternatively, OG&E may choose to seek recovery through traditional rate cases given potential generation investments stemming from its pending RFPs. While AR is ~8% of OG&E's rate base, this datapoint reads negatively for regulation in the state, where equity ratios appear to be trending downwards. For reference, ETR AR is authorized 47% equity ratio (excluding $1.7B ADIT) and APSC Staff recently recommended 45% equity ratio in Black Hills' (not covered) ongoing rate case.

The Weekly Mark – Pretty in pink – nukes and hydrogen

Click here to view our complete note

The future of hydrogen from nuclear power looks promising

Hydrogen made using nuclear power, aka "pink hydrogen", is in the very early innings but appears promising. Like that used for green hydrogen, nuclear power is carbon free. The 2021 infrastructure bill requires at least one of the 6-10 DOE-funded hydrogen hubs to be pink hydrogen. There are also about 55 nuclear plants (92 units) in over half the states in the country, representing ~95 GW of capacity and ~780 TWh generation (~20% of total US generation). Pink hydrogen will likely begin around merchant nukes, over a dozen plants. CEG

is the largest nonutility nuclear owner, with 21 GW of nuclear capacity and a little over 170 TWh of annual nuclear generation. Over half of that is in IL, ~30% in MD/NJ/PA and ~15% in NY. Other owners of merchant nuclear have much less capacity/generation; they are Energy Harbor, PEG, Talen Energy, NRG, VST, D and NEE.

Midstream

Oil – DOE announces SPR withdrawals to continue into November, but total amount appears unchanged

- Reuters reported yesterday that the DOE will sell 10M bbls of oil in November, which is an extension from the initial plan to release 1M bpd over a six month period through October
- However, the total withdrawal of 180M bbls over the period appears unchanged

There's some pressure on the administration to continue SPR withdrawals into the November election and ahead of the implementation of the European ban of Russian crude in December. However, this announcement appears to only be a timing shift, which one could argue may be a bullish that the administration isn't taking more aggressive action (yet).

Clean Energy

Hydrogen – Seven Midwestern states announce hydrogen initiative; would build off existing hydrogen/ammonia infrastructure

- Yesterday governors of Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio and Wisconsin announced a MOU to partner on hydrogen, named the "M-H2 Coalition"
- The MOU cites the region's existing hydrogen and in particular ammonia infrastructure as well as large industrial and agricultural demand base coupled with significant wind resource
- The participants will evaluate the possibility of filing for one or more DOE-funded hydrogen hub grants

This is one of the largest post-IRA hydrogen initiative announcements that we're aware of. Clearly this MOU is very high level and will likely take years to fully develop. However it does underscore that the hydrogen incentives in the IRA as well as the 2021 infrastructure legislation are spurring deeper looks into hydrogen, a good sign. The Midwest continues to be a very logical region for broad hydrogen infrastructure: significant zero carbon energy resource with wind and nuclear, developed transportation networks and demand from industry and agriculture. There have been more localized hub proposals in the region, such as the Great Lakes Clean Hydrogen Coalition announced by Energy Harbor last week, so it will be interesting to see what specific hubs will be applying for the DOE grants this fall.

STEM – Announces partnership with InCharge, will offer complete solution for fleet charging

- This morning, STEM announced a partnership with InCharge – a company that

develops hardware, software and services designed/engineered specifically for commercial EV fleets
- Together, the companies will utilize STEM's Athena platform and InCharge's In-Control platform to develop a powerful software suite for commercial charging projects

We expect to learn more about this partnership at STEM's Analyst Day next week. STEM has previously talked to its fleet electrification offering in the context of a multi-billion-dollar TAM opportunity. Success in this market would also enhance margins at an even faster rate given that the EV offering collects 2x the revenue vs traditional battery software contracts.

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September 28-30: Wolfe Utilities, Midstream, and Clean Energy Conference in NYC – register here
September 30: AEE non-deal roadshow in Boston
October 4-7: SRE non-deal roadshow in Europe

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July 4, 2022

THE UTILITY TRADER

The best of times in the worst of markets

- **Utilities significantly outperform amidst worst first half for market since 1970**
  June's Analyst Day mania was a bust except for NEE, but utilities nonetheless extended their outperformance as the market took another leg down. The S&P 500 had its worst first half performance since 1970 falling over 20% while Utilities ended the first half down only 2%. Defensive sectors were long forgotten in the 2019-2021 bull market, but they are all outperforming this year with utilities just middle of the pack. Telecom and Pharma are actually up YTD (see Ex. 1) while Staples are down a little more than utilities as they have seen more inflationary pressures.

- **It's rare that utilities outperform in rising rate environments, presaging a recession?**
  On a relative basis, this has been a historic run for utilities following historic underperformance in 2019-2021. Utilities 1800bp outperformance in the first half is the second best in the last 40 years (2016 was just a touch better, see here). More interesting is that utilities have outperformed in a rising rate and inflationary environment. This only happened once before - in 1981 utilities beat the market despite rates rising over 100bps in the first half (see here). This presaged the 1982 recession and it's hard to not see the similarities to this time.

- **Utilities now at premiums, but where will market earnings and multiples settle out?**
  Utilities are now back toward the high end of their historic valuation ranges on a relative P/E and relative yield basis (link here). This makes us less constructive on the surface, but market earnings have not come down much yet and we think could see a reset lower this earnings season. Other than a few pension-exposed names, utility earnings are likely to hold up and we have seen several companies raising numbers and/or growth rates this year (NEE has done it twice). Thus, we think relative valuations are cheaper than they appear on the surface. Utilities have less economic and currency sensitivity than other sectors. Their big risk has been high fuel prices. These get passed through to customers but put pressure on the political/regulatory environment. Thus, the recent gas price pullback on the Freeport outage has been a relief.

- **What's worked in 1H? Energy plays, large regulateds, high quality and LDC exposure**
  Energy exposed names have led performance namely CEG and SRE. All the large regulateds are performing well – EXC, SO, DUK, D, AEP and ED. The latter two also benefitting from asset sales and EPS CAGR guide-ups. High-quality names are also outperforming – XEL, CMS, and WEC. Gas LDC exposed names such as NI and CNP are doing well. Finally, our DUTY portfolio of last year's worst performers is outperforming the UTY slightly (1.4%) led by SRE, XEL, and PNW.

- **What's not worked in 1H? Growth, solar, offshore wind, CA utes, pension risk**
  The QQQ of utilities – AWK and NEE – are still the worst performers this year given the market weakness. Solar names have not fully recovered yet from AD/CVD – NEE, AES, NEP. Offshore wind risk has hurt ES and AGR despite ES planned sale. CA utilities are again underperforming into fire season led by PCG. Those most at risk to pension hits have also been weak – FE, PEG.

Source for all exhibits in this report: FactSet, Wolfe Research; prices as of 6/30/22

Ex 1: 2022 Income Sectors Perf

Sector	2022 Performance
XLE Index	28.8%
WR IPP Index	8.4%
MLP Index (AMZ)	6.1%
S&P Telecom	4.1%
S&P Pharma	3.1%
S&P Utility	**(2.0%)**
S&P Consumer Staples	(6.8%)
WR YieldCo Index	(8.4%)
Wolfe GREEN Basket	**(9.5%)**
REIT Index (FNER)	(20.2%)
S&P 500	(20.6%)

Source: FactSet, Wolfe Research

Ex 2: 2022 Utilities Perf

Company	Ticker	YTD Perf
Top 10	**Top 10**	
Constellation Energy Corp	CEG	36.3%
Sempra	SRE	13.6%
Consolidated Ed	ED	11.5%
Exelon Corp.	EXC	10.0%
American Electric	AEP	7.8%
NiSource	NI	6.8%
DTE Energy	DTE	6.0%
CenterPoint	CNP	6.0%
PNM Resources	PNM	4.8%
Xcel Energy	XEL	4.5%
Bottom 10	**Bottom 10**	
FirstEnergy	FE	(7.7%)
Portland General	POR	(8.7%)
PPL Corp	PPL	(9.7%)
Atlantica Yield	AY	(9.8%)
NRG Energy	NRG	(11.4%)
NextEra Energy Partners	NEP	(12.1%)
AES Corp.	AES	(13.5%)
NextEra Energy	NEE	(17.0%)
PG&E Corp.	PCG	(17.8%)
American Water	AWK	(21.2%)

Source: FactSet, Wolfe Research

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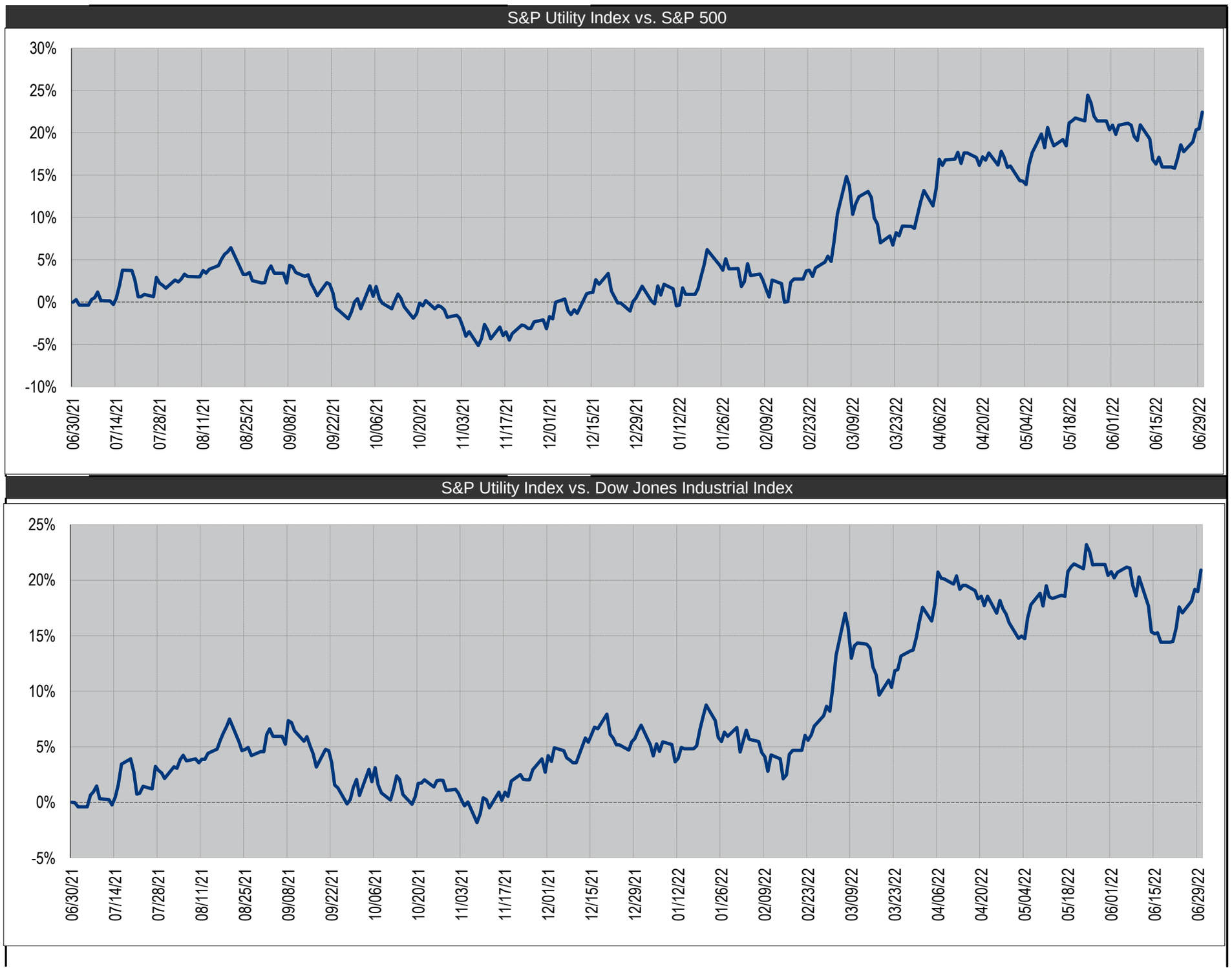
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S&P Utility Index vs Market

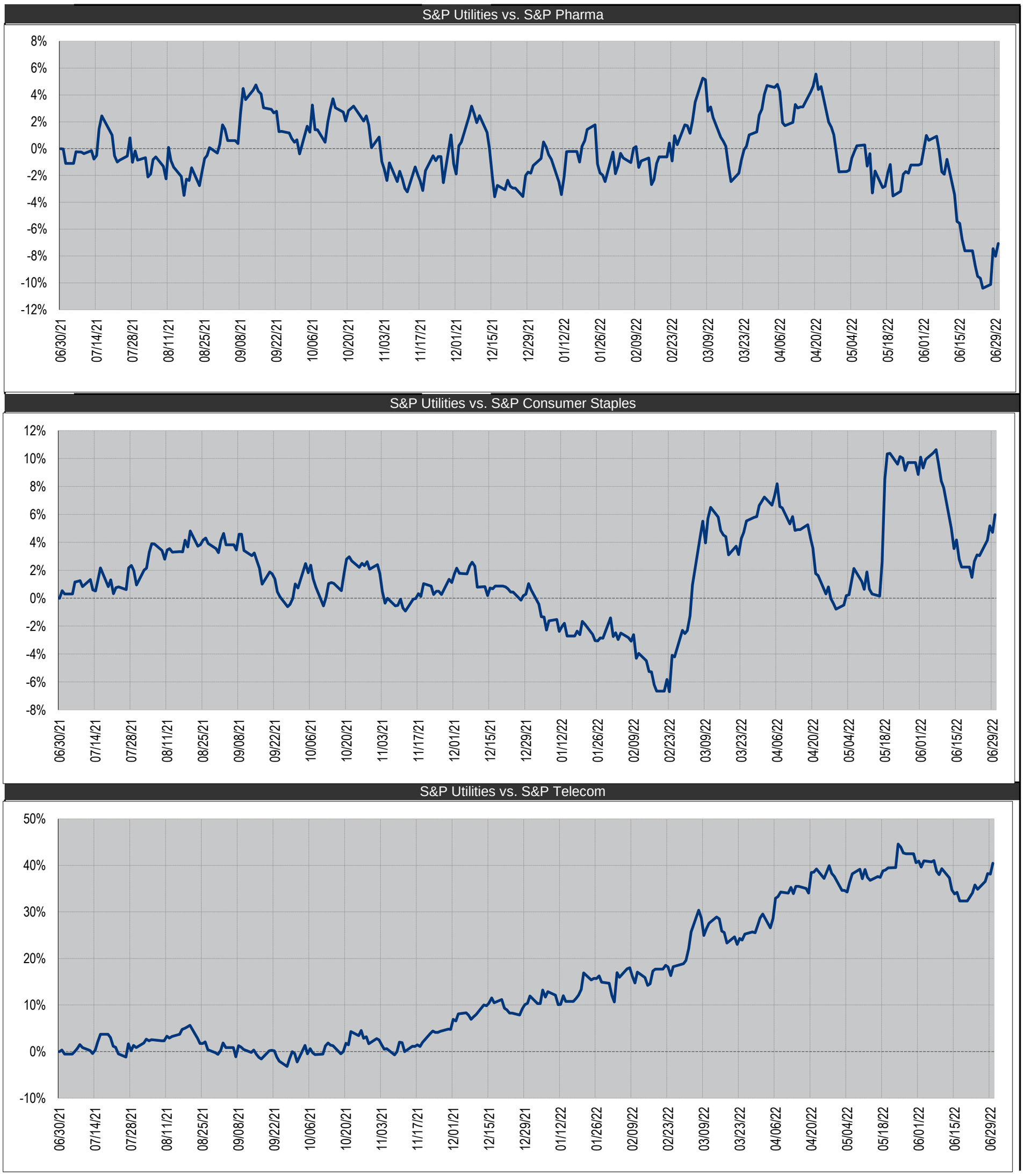
Utilities outperformed the S&P 500 by ~330bps in June and now lead the market by ~1,860bps as investors continued to flock to defensive sectors in an effort to safeguard against runaway inflation and other macroeconomic headwinds.



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Utilities vs Other Sectors

In June, Utilities (-5.1%) underperformed Consumer Staples (-2.9%), Telecom (-1.0%), and Pharma (-0.1%). With the Fed raising the federal funds rates by 75bps in the month, Interest rates spiking likely drove utility underperformance vs. other defensive sectors as utilities are viewed as bond proxies.

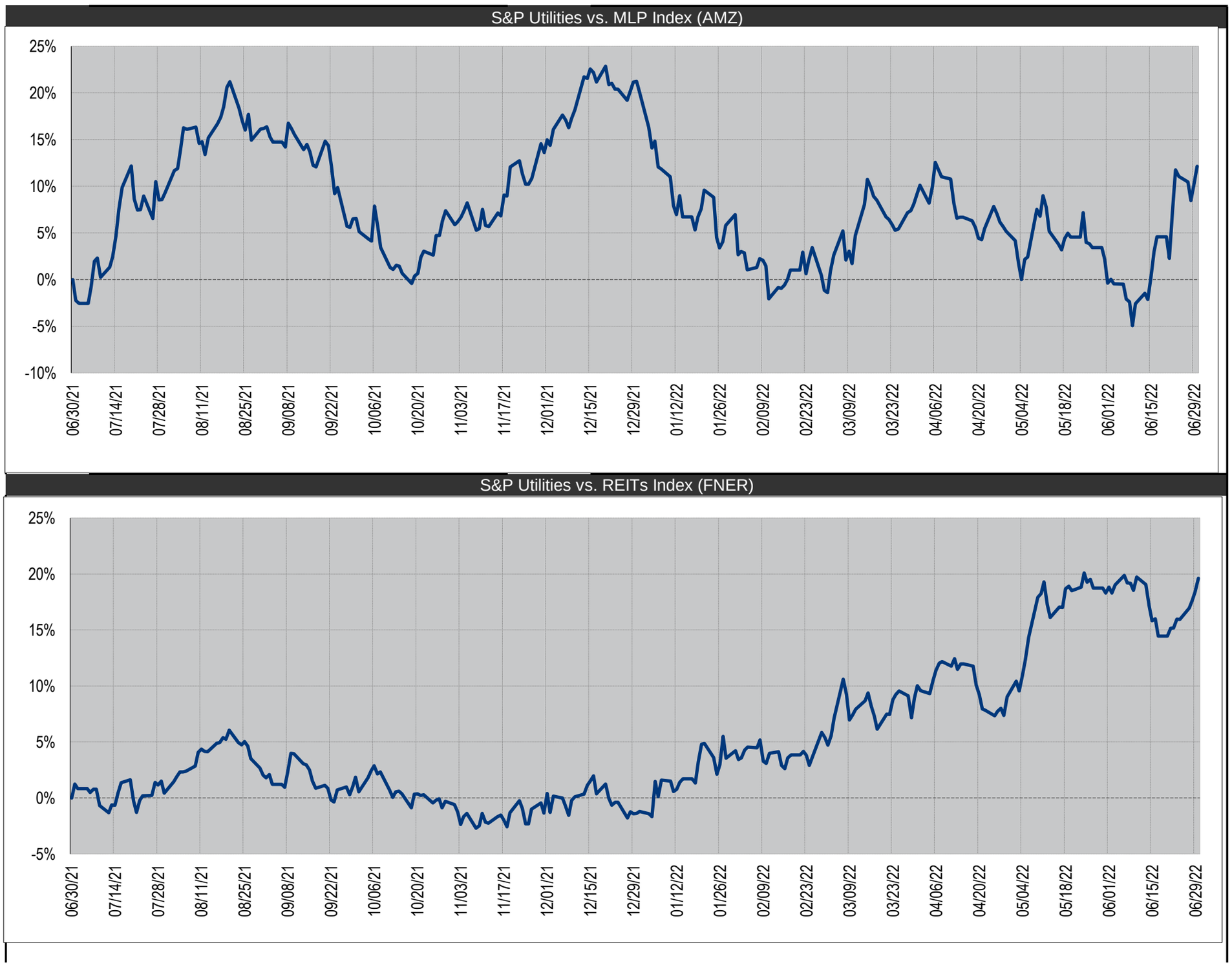


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Utilities vs Other Sectors continued

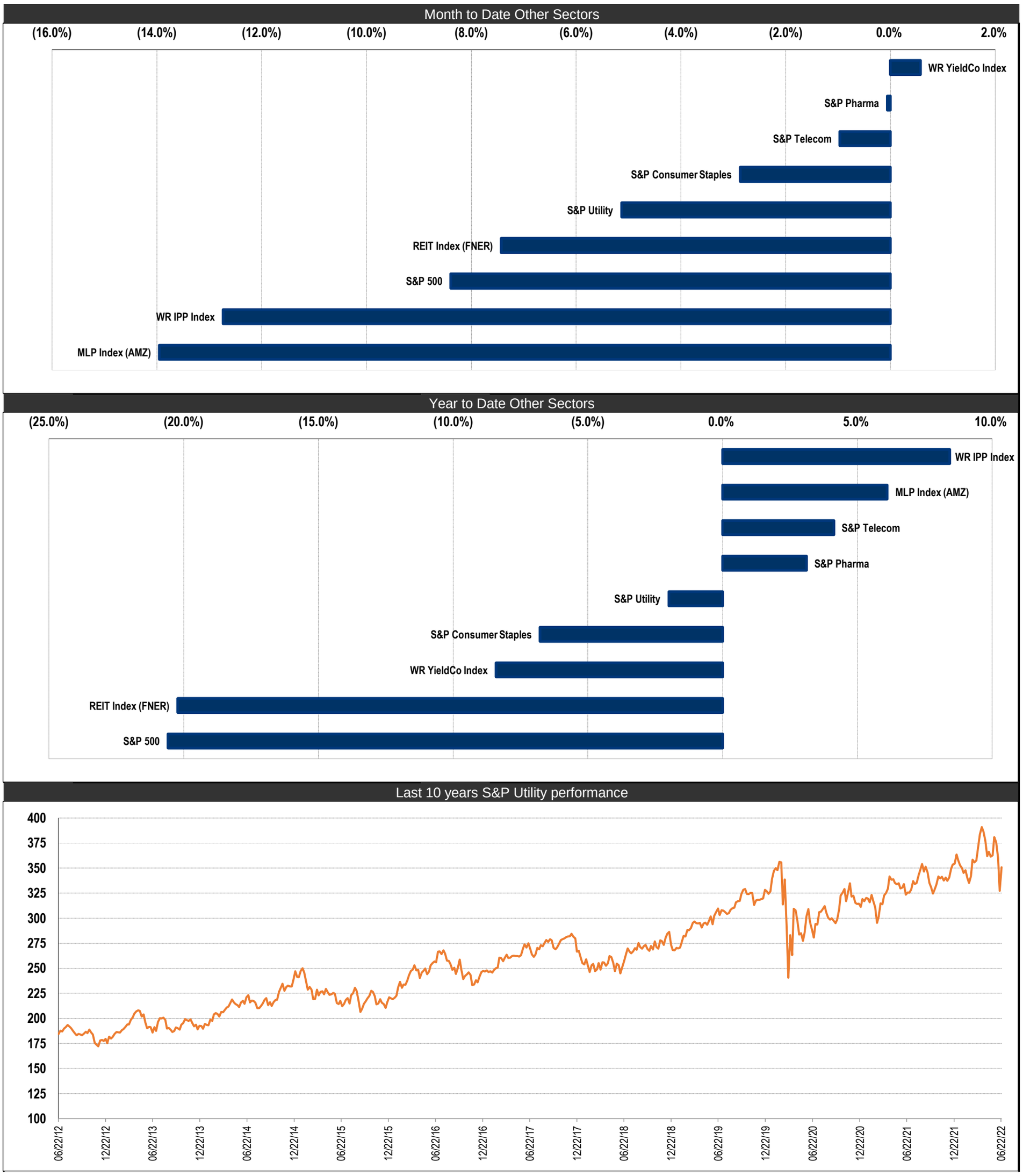
The MLP Index (AMZ) declined 14% in June, underperforming the S&P 500 by ~560bps, as WTI Crude Oil fell 8% in the month, while Henry Hub Natural Gas plummeted 34% due to the Freeport LNG facility explosion. That said, Midstream outperformed the broader energy sector (XLE), which declined 18% in June, and remains one of the best performing income sectors YTD. REITs (-7.4%) outperformed the S&P 500 (-8.4%) in the month, but remains the worst performing income sector YTD (-20.2%).



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Month to Date and Year to Date performance of income sectors

YieldCos led the way in June, rising 0.6%, as President Biden's 2-year delay on new solar tariffs removed the AD/CVD overhang. On the other hand, MLPs were the worst performer in the month, falling alongside the broader energy sector, due to weakness in the commodity trade. While Midstream, IPP, and REITs were at the bottom of the board for June, REITs, YieldCos, and Consumer Staples occupy bottom positions YTD. The defensive sectors (Consumer Staples, Utilities, and Pharma) have continued to hold up well against the downward spiral in the overall market.

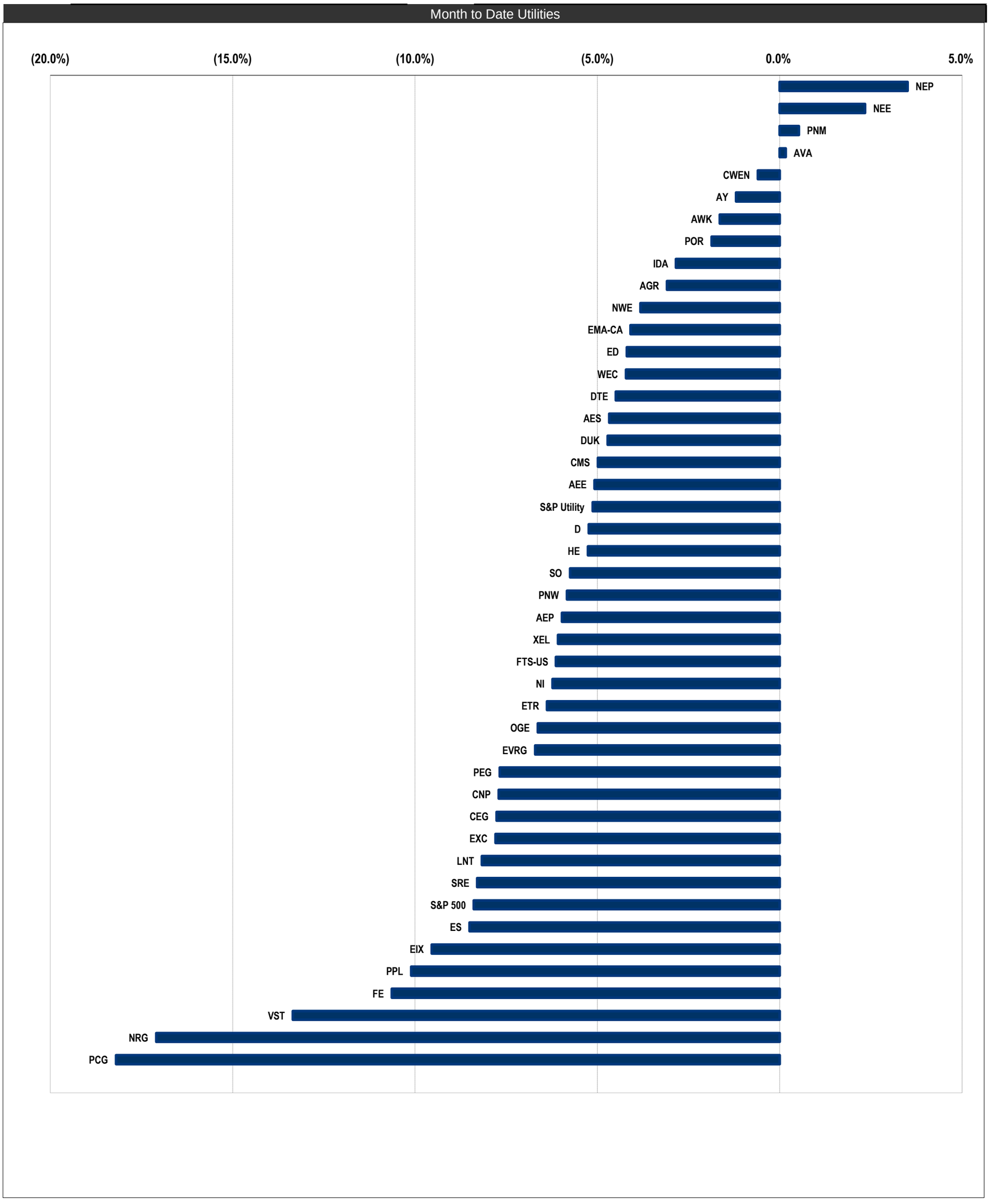


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Month to Date performance of Utilities Group

NEP and NEE were top performers in June following a bullish Analyst Day. NEE and NEP also benefitted from the resolution of the AD/CVD overhang, with President Biden postponing new solar tariffs for 2 years, as did CWEN. PCG stock nosedived as investors reacted negatively to CAL Fire's report finding that PCG's actions caused and exacerbated the Dixie fire, which blazed in July 2021. NRG and VST pulled back sharply on the severe decline in natural gas prices resulting from the safety incident at Freeport's LNG facility. Pension risk, which appears to be a significant earnings headwind, continued to weigh down on FE's stock.

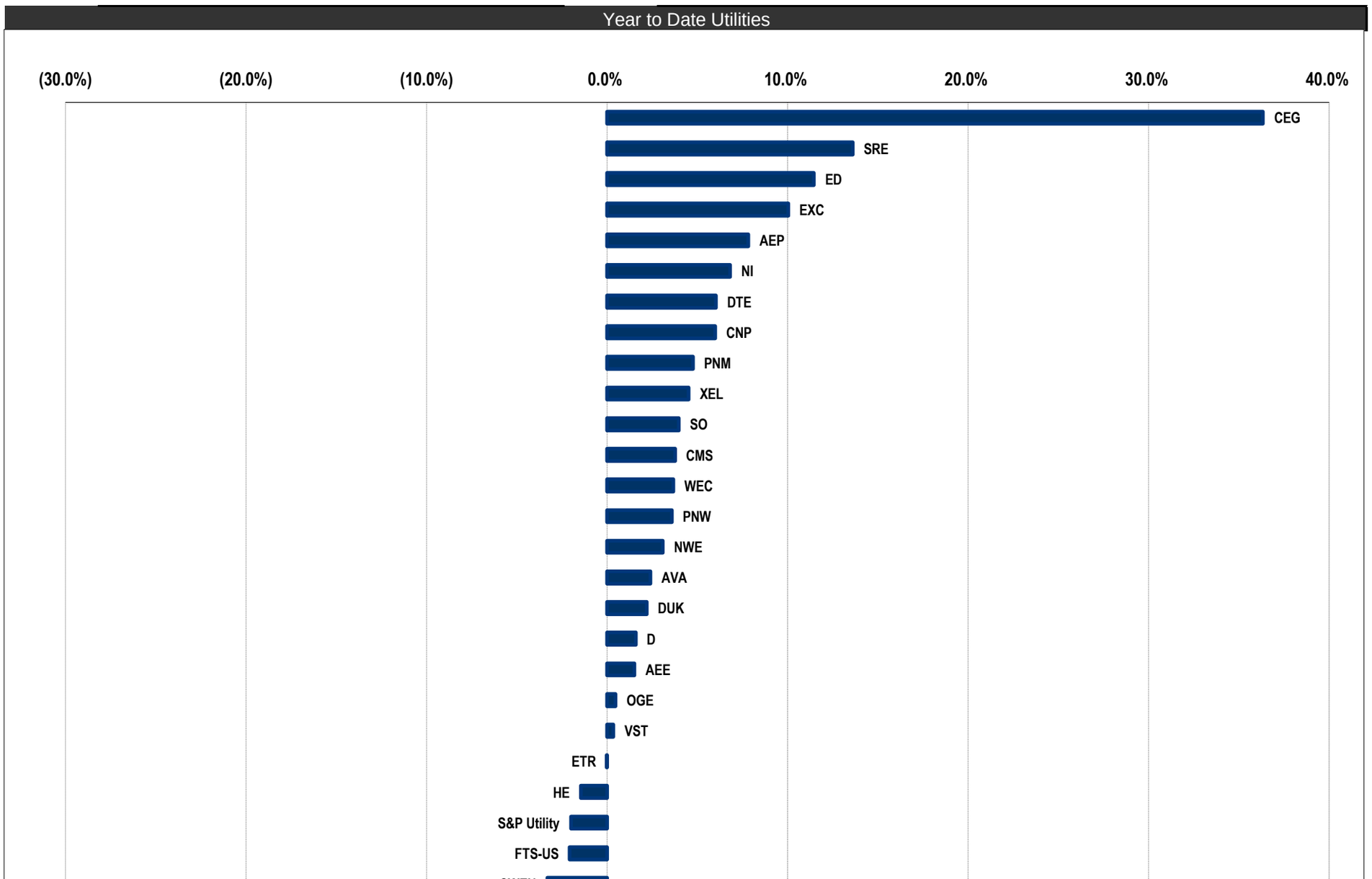


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Year to Date performance of Utilities Group

CEG remains the top performer YTD as investors look to play higher commodity prices and the carbon-free attributes of nuclear energy. SRE is next as it is one of the few companies with LNG export growth opportunities. ED and AEP are amongst the best performers YTD as both raised their L-T EPS growth rates and announced potential asset sales early this year. EXC continues to re-rate from business mix simplification after successfully spinning-off CEG. AWK, NEE, AES, and NEP remain bottom performers YTD due to the negative growth bias punishing ESG/GREEN leaders within the utility space. PCG's weakness can be attributed to fire risk overhang prevalent during the fire season in CA.

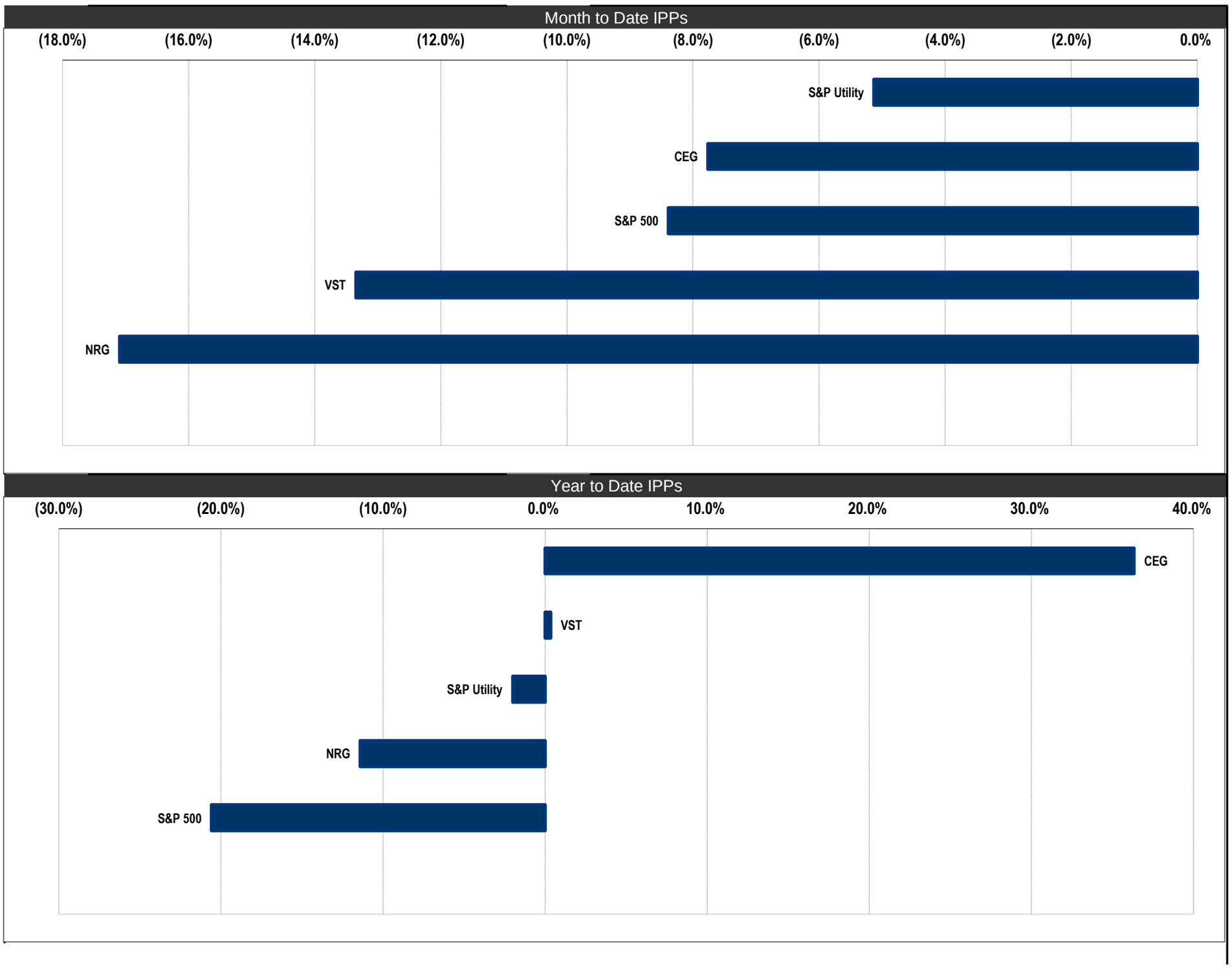


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Month to Date and Year to Date performance of IPPs

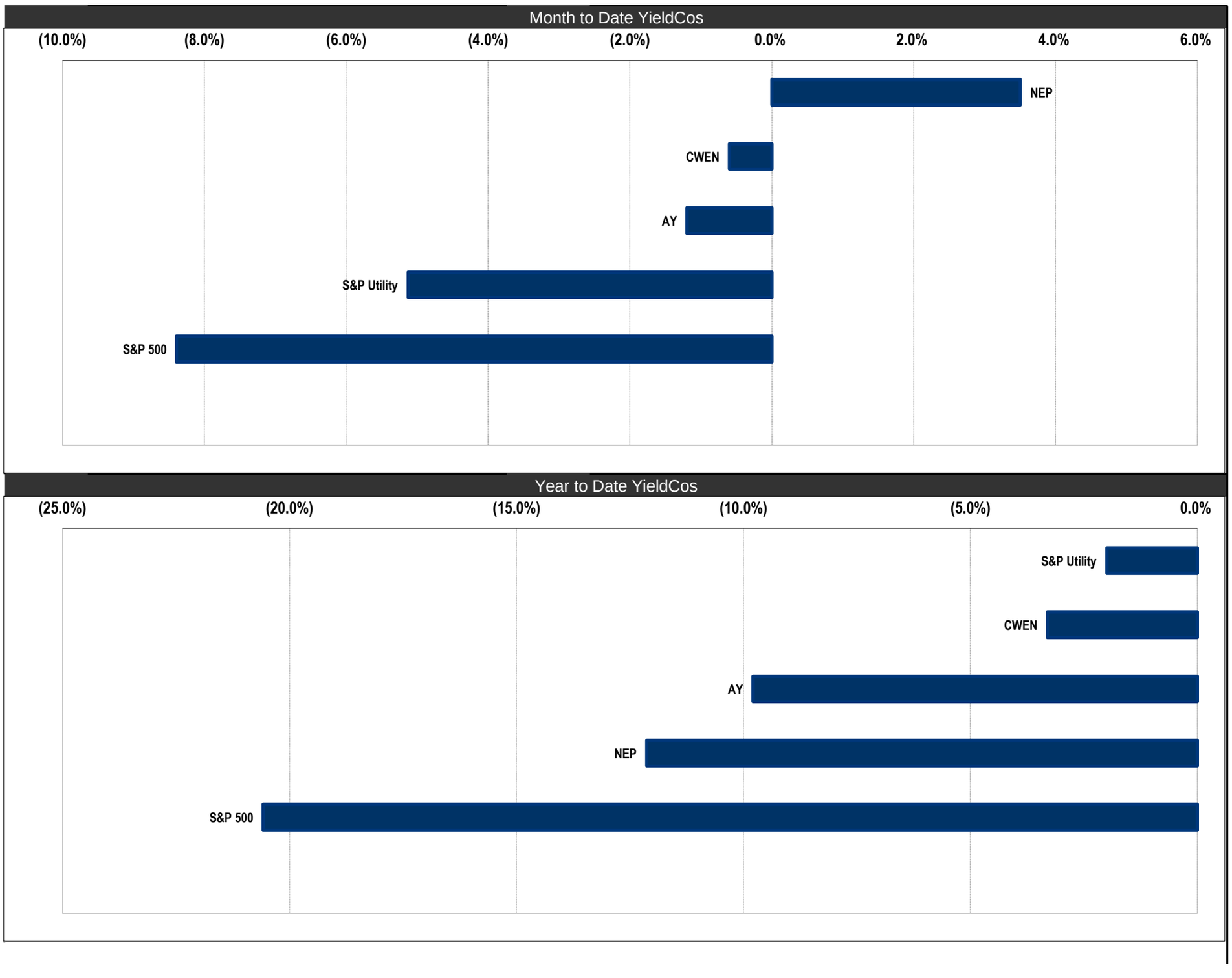
IPPs experienced a sharp sell-off due to the pullback in the commodity trade as front-month natural gas declined from over $8/MMBtu towards ~$6/MMBtu following the Freeport LNG outage. CEG remains the top performing IPP YTD, with VST slightly outperforming utilities on the year, while NRG continues to trail its peers due the company having less commodity exposure in this spiked commodity environment.



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Month to Date and Year to Date performance of YieldCos

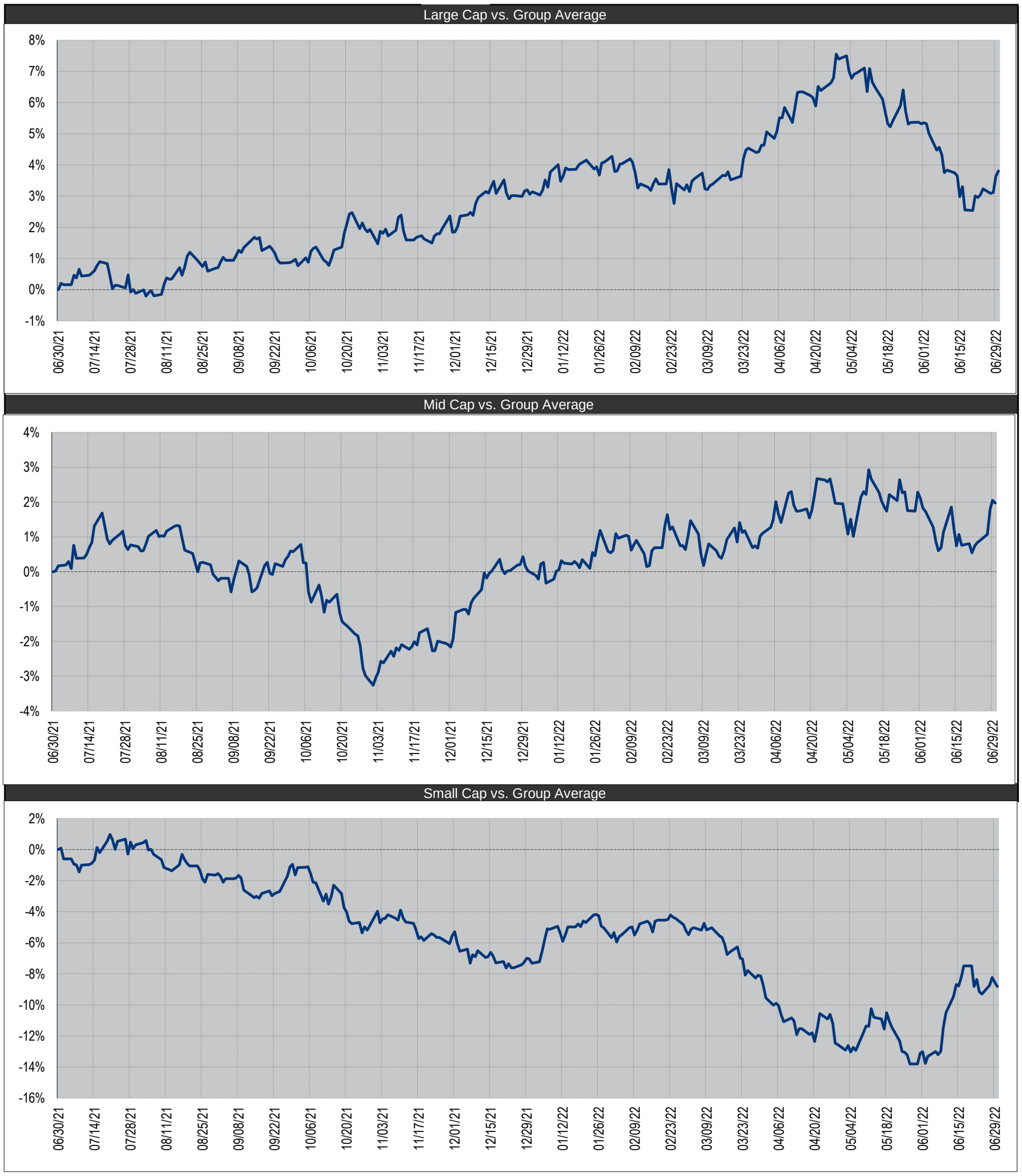
YieldCos traded substantially ahead of the S&P 500 as President Biden implemented a 2-year pause on new solar AD/CVD tariffs through an executive order. NEP, CWEN, and AY were amongst the best performers in the month, but all YieldCos are still performing negatively on the year, likely due to their inverse correlation with rising interest rates.



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Utilities Performance by Market Cap

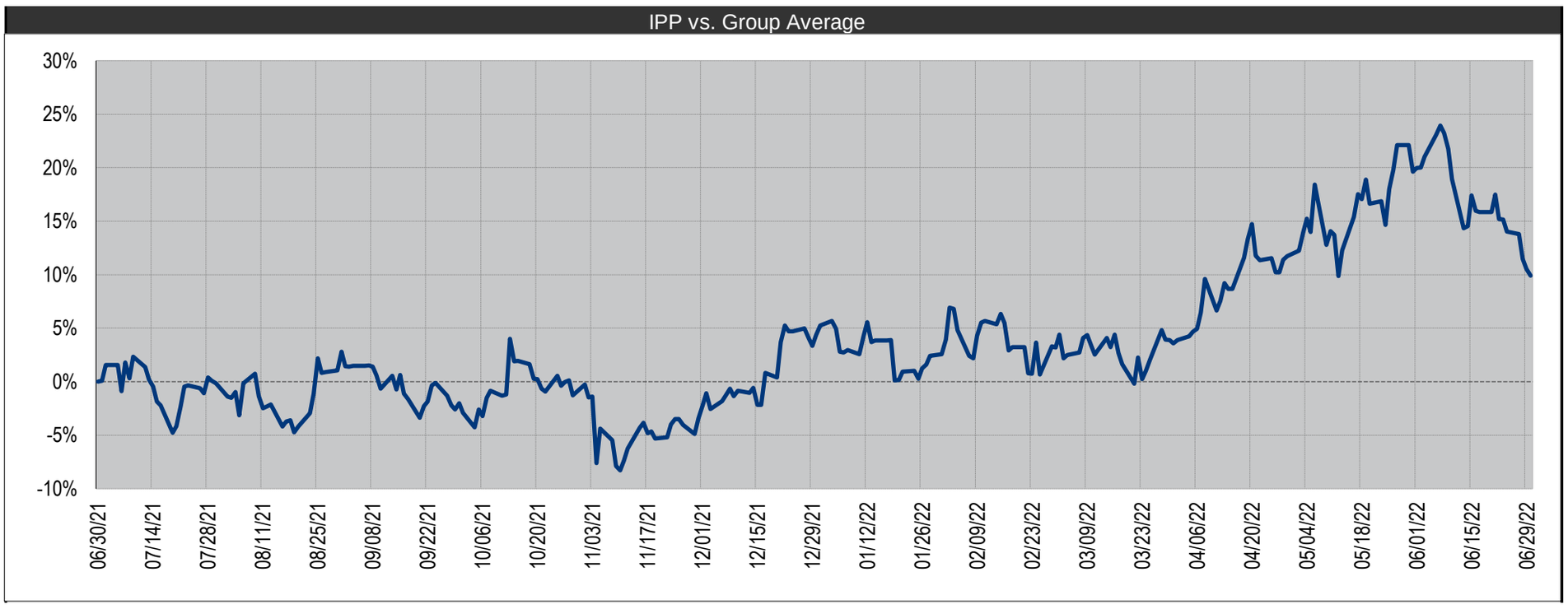
- Large caps underperformed the group average in June, led down by PCG (-18.2%) and FE (-10.6%).
- Mid caps slightly underperformed the group average in the month, led down by LNT (-8.2%) and CNP (-7.7%).
- Small caps considerably outperformed the group average in June, led up by PNM (+0.5%) and AVA (+0.2%).



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Utilities Performance by Segment

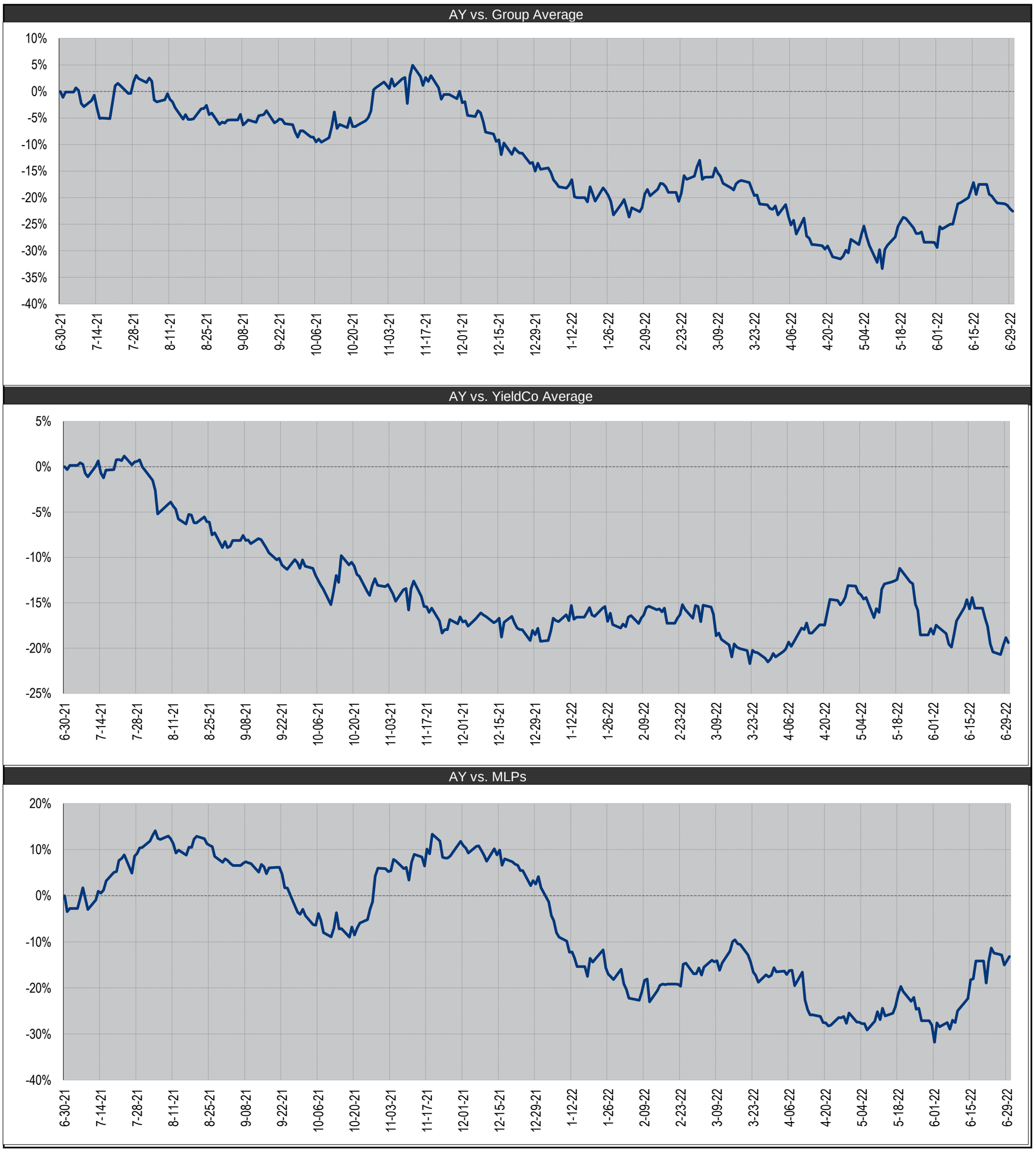
• IPPs significantly underperformed the group average in June, led down by NRG (-17.1%) and VST (-13.3%).



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Atlantica Yield (AY) $32.26, NR

Atlantica Sustainable Infrastructure was flattish in June on no notable news.

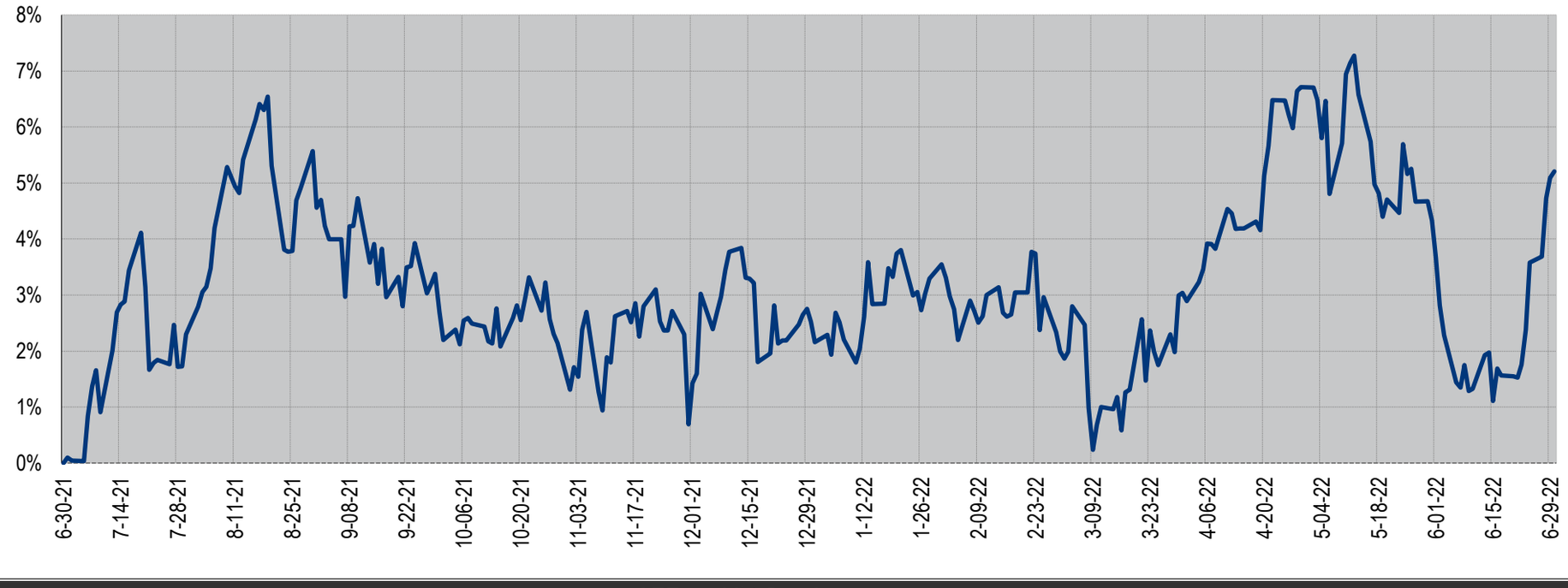


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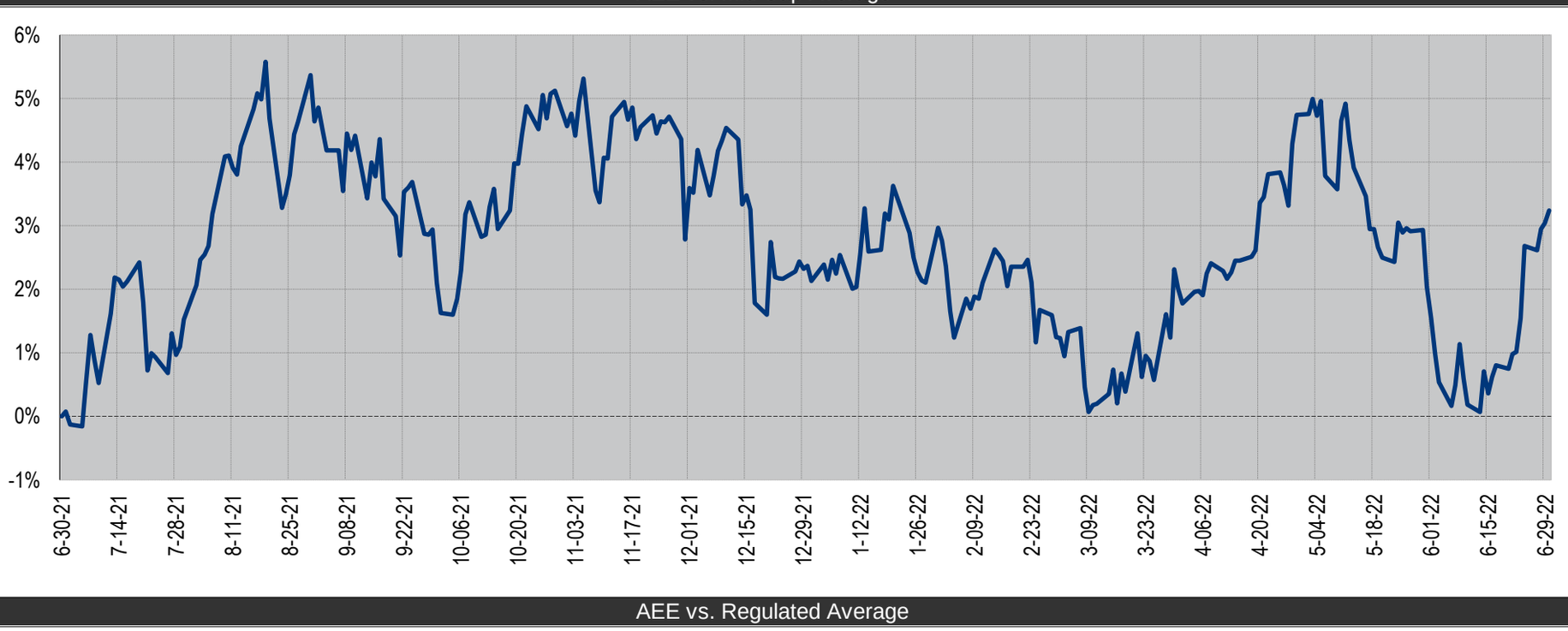
Ameren (AEE) $90.36, Outperform, $103 PT

The stock sharply fell in Jun relative to peers after hitting a 52-week relative high in mid-May but recovered to finish flat for the month after its updated IRP filing showed more future renewables/gas investments.

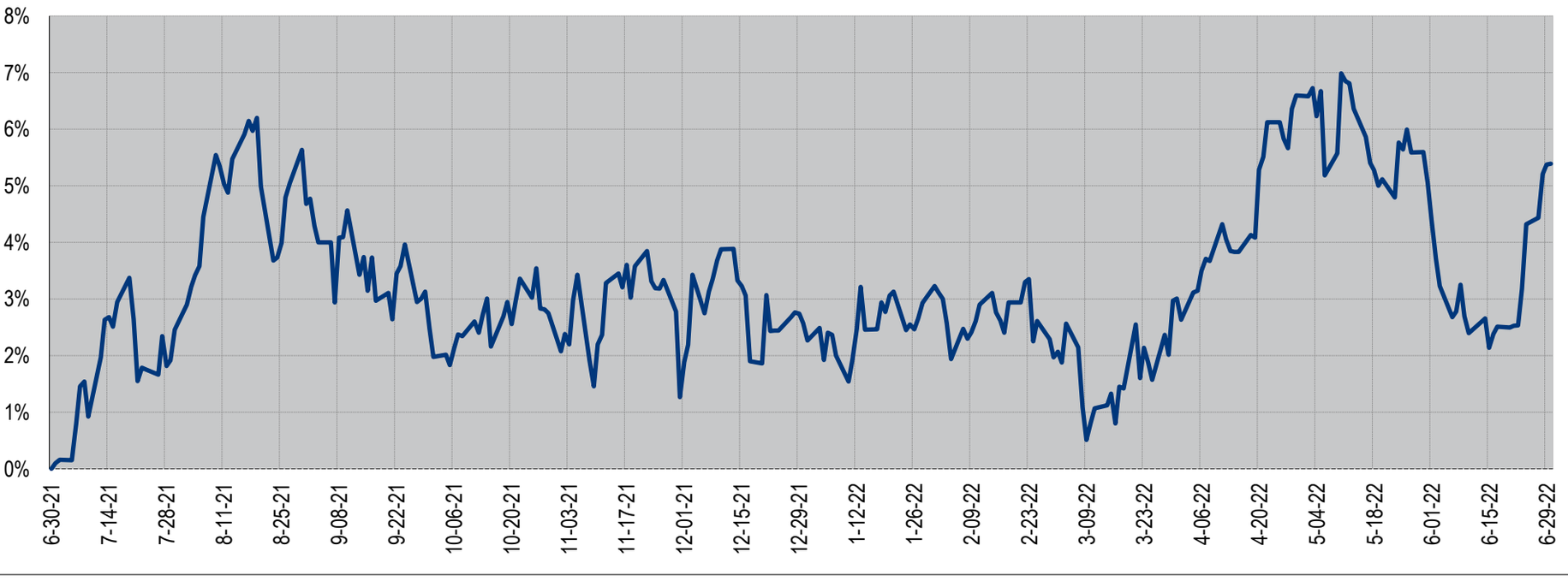
AEE vs. Group Average



AEE vs. Mid Cap Average



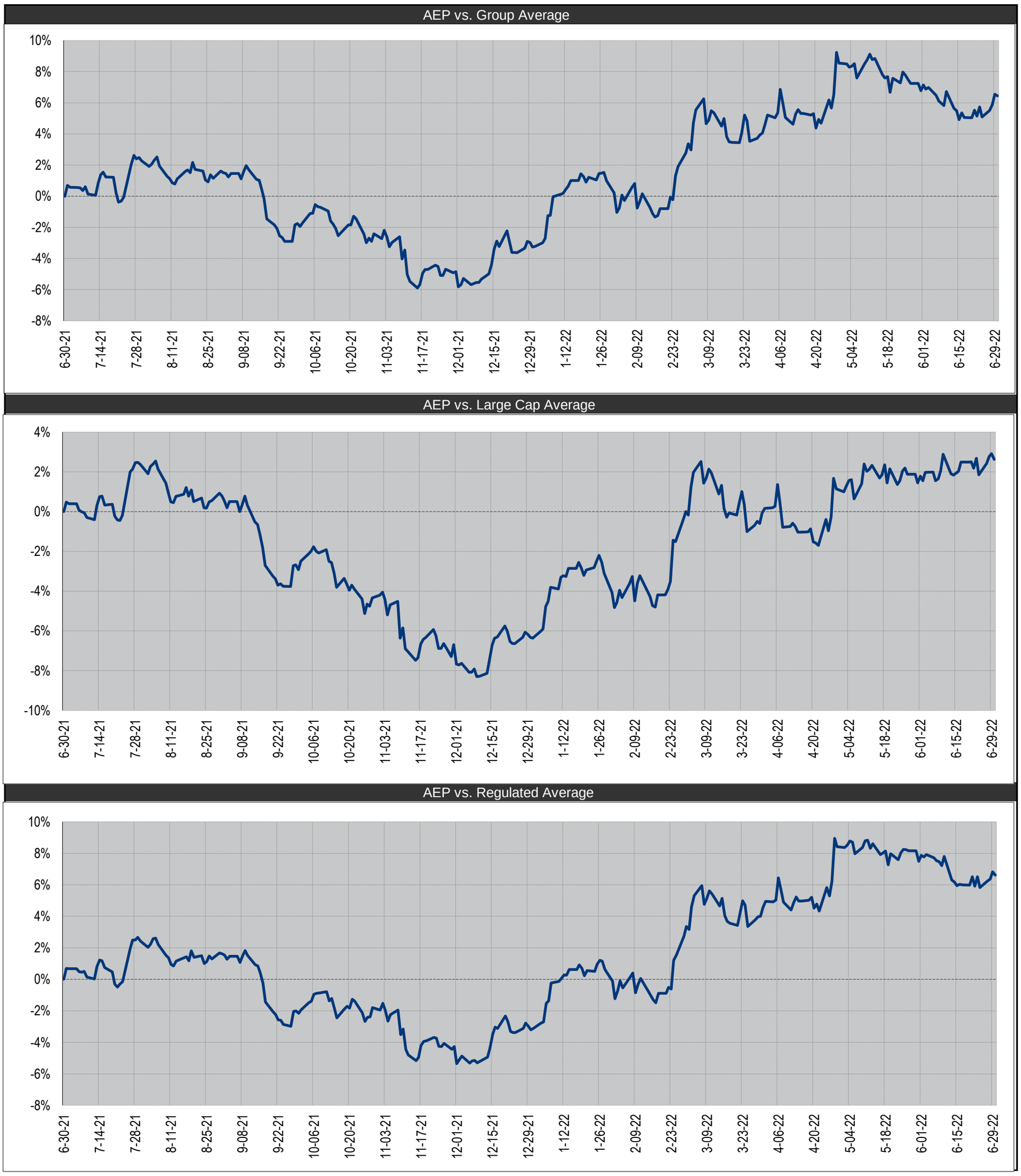
AEE vs. Regulated Average



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American Electric Power (AEP) $95.94, Peer Perform, $107 PT

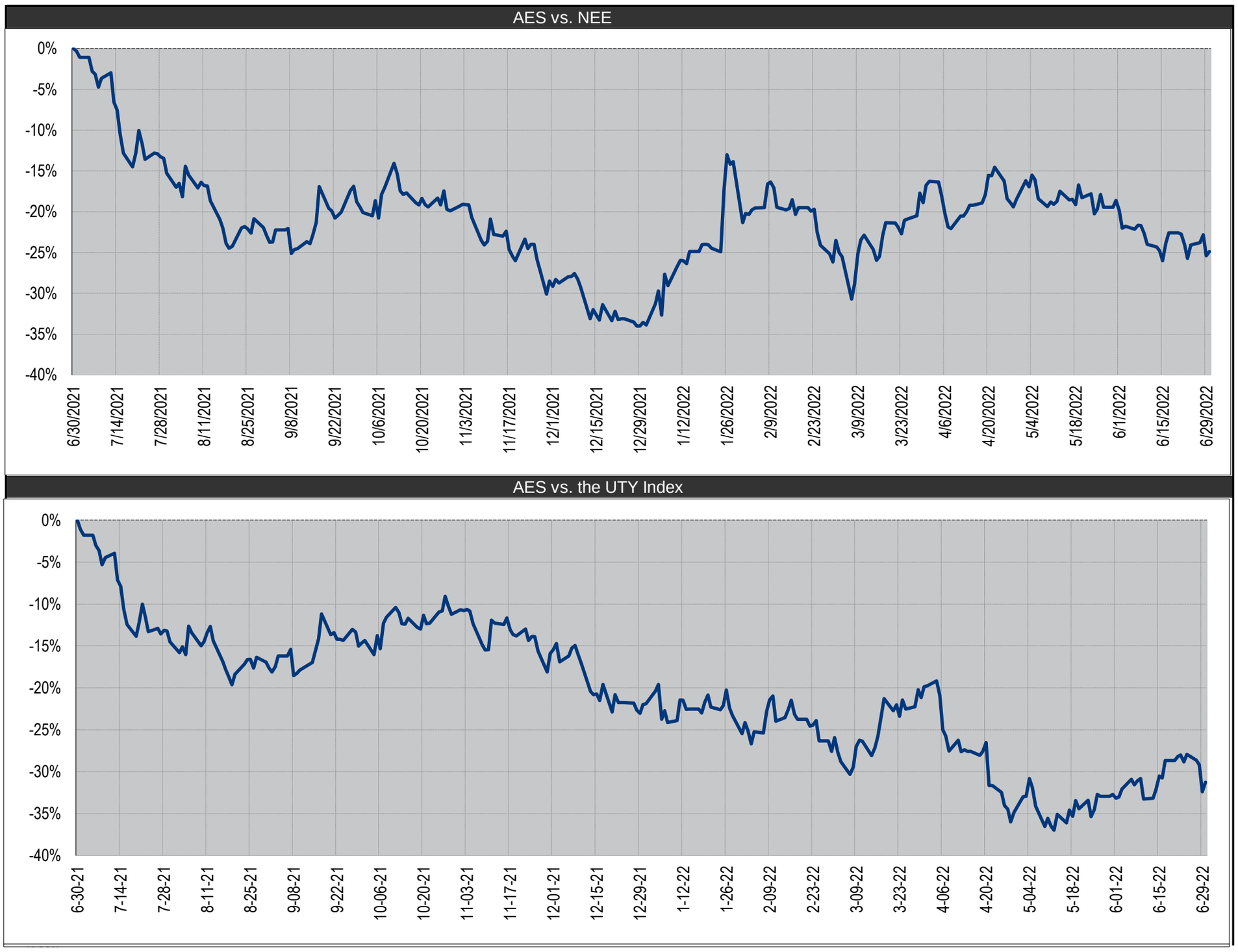
The stock modestly trailed peers on little news aside from some Midwest storm-related outages.



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AES Corporation (AES) $21.01, Outperform, $30 PT

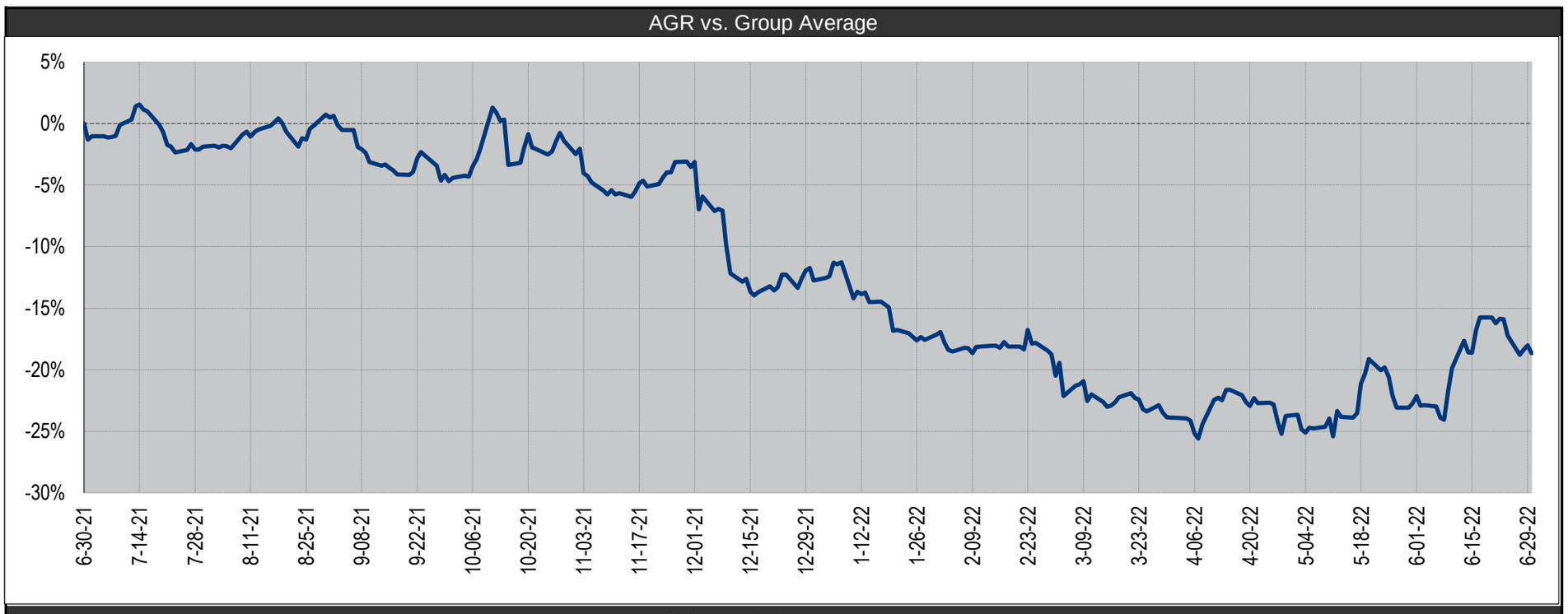
AES modestly outperformed the utilities index in June but is one of the worst performers through the 1H of 2022. During June, AES and several other renewable developers announced the formation of the US Solar Buyers Consortium in an effort to spur development of the solar supply chain within the US. We believe this was some evidence of the company's confidence that the Biden Administration's 24-month pause on any new tariffs would be sufficient to fix the global supply chain issues for solar.

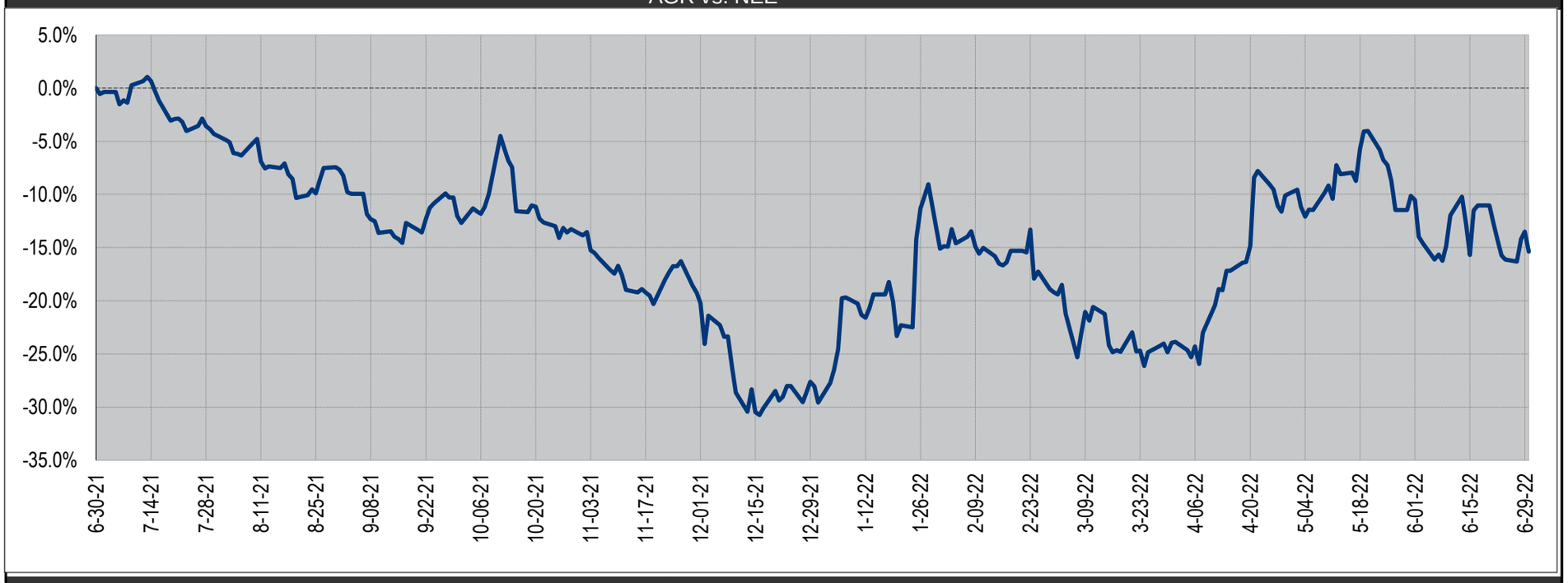


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Avangrid (AGR) $46.12, Underperform, $46 PT

The stock was one of the best performers in June, as all the renewables names bounced after President Biden took executive action to stop any new solar tariffs for 2 years – removing a big overhang sector (AGR's solar development plans are actually relatively modest in the scheme of the company). AGR is still underperforming on the year though.

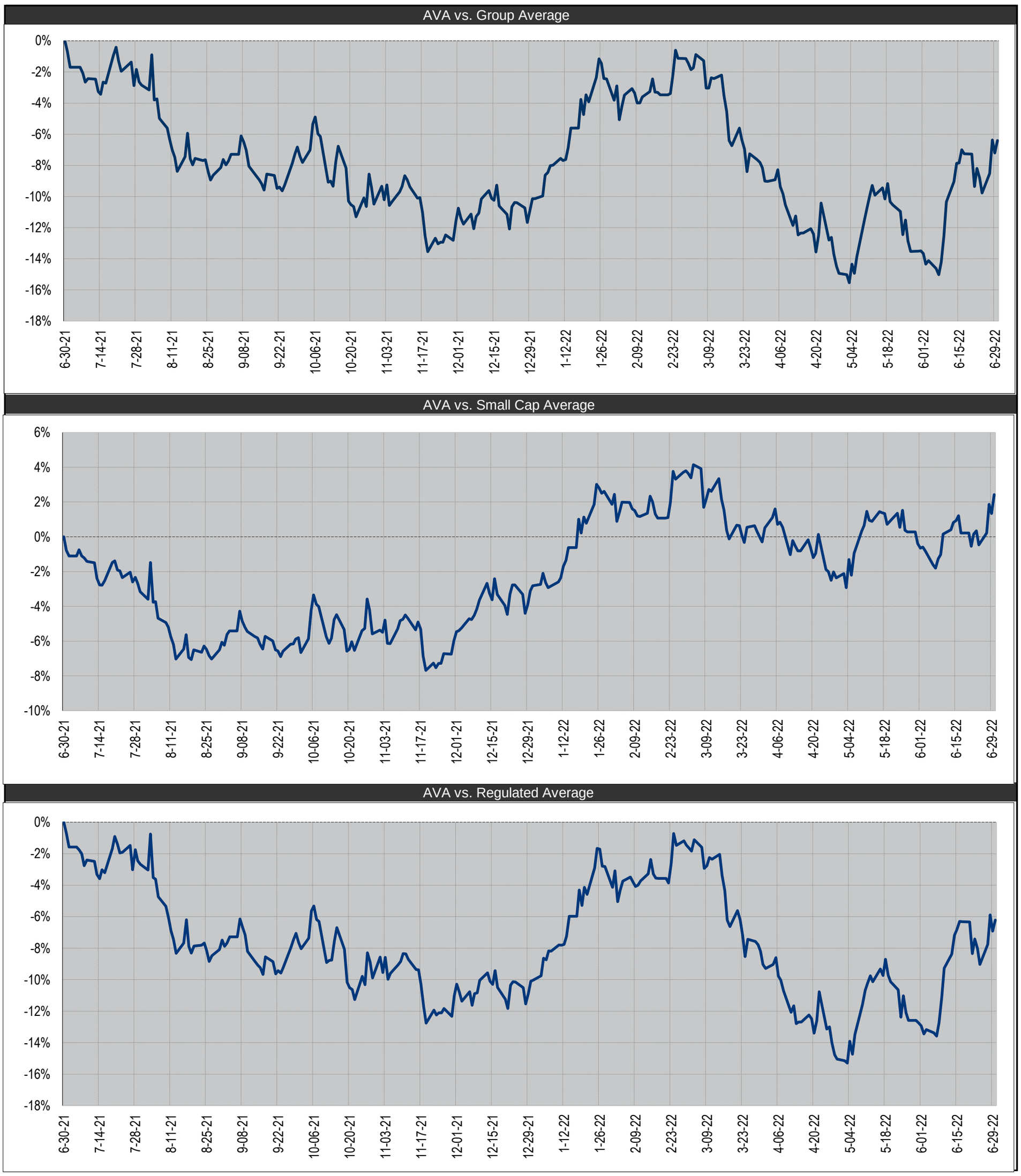






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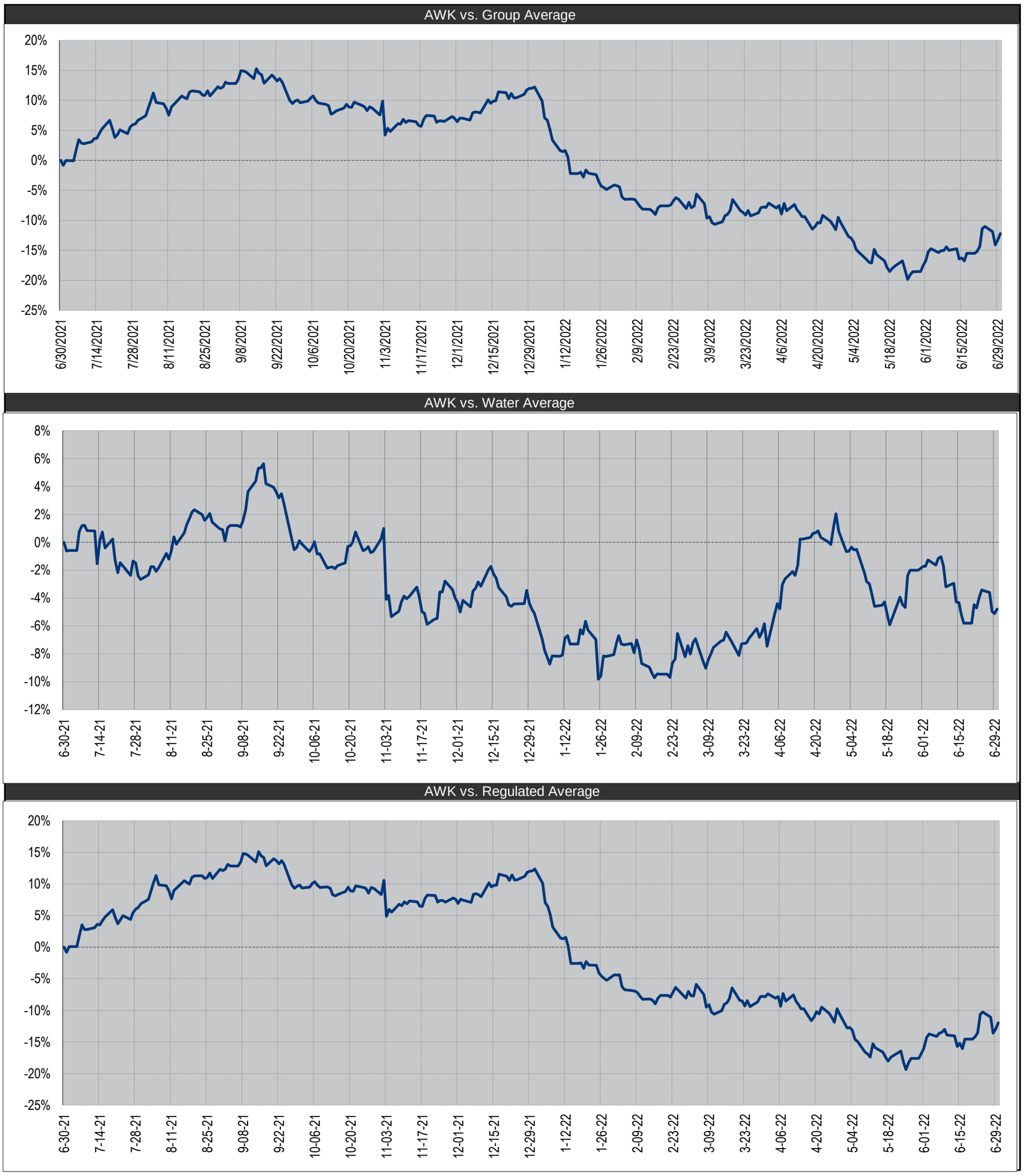
Avista Corporation (AVA) $43.51, NR



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American Water Works (AWK) $148.77, Peer Perform, $152 PT

AWK was amongst the best performers in June, and this coincided with NEE surging as both these stocks are considered the QQQ of utilities. At month-end, AWK's Military Services Group secured a ~$341M, 50-year contract for Naval Station Mayport, FL. That said, AWK remains the worst performer YTD due to the decline in high-growth, ESG leader stocks as the market turned risk off at the turn of the year.

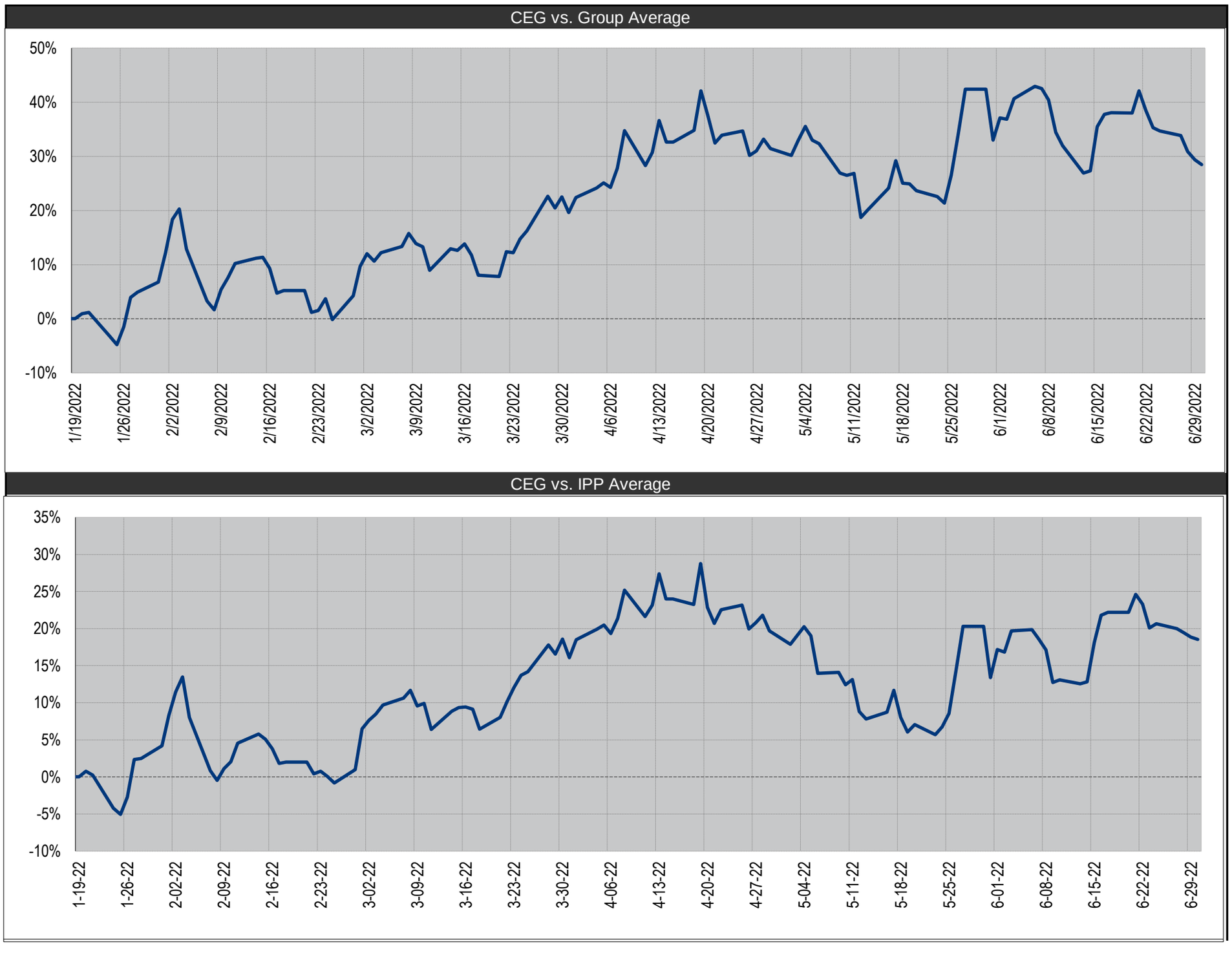


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Constellation Energy Corporation (CEG) $57.26, Outperform, $62 PT

CEG lagged our utility/power coverage in Jun but is the best performer by far YTD, given commodities boom and nuclear/carbon-free thematic.

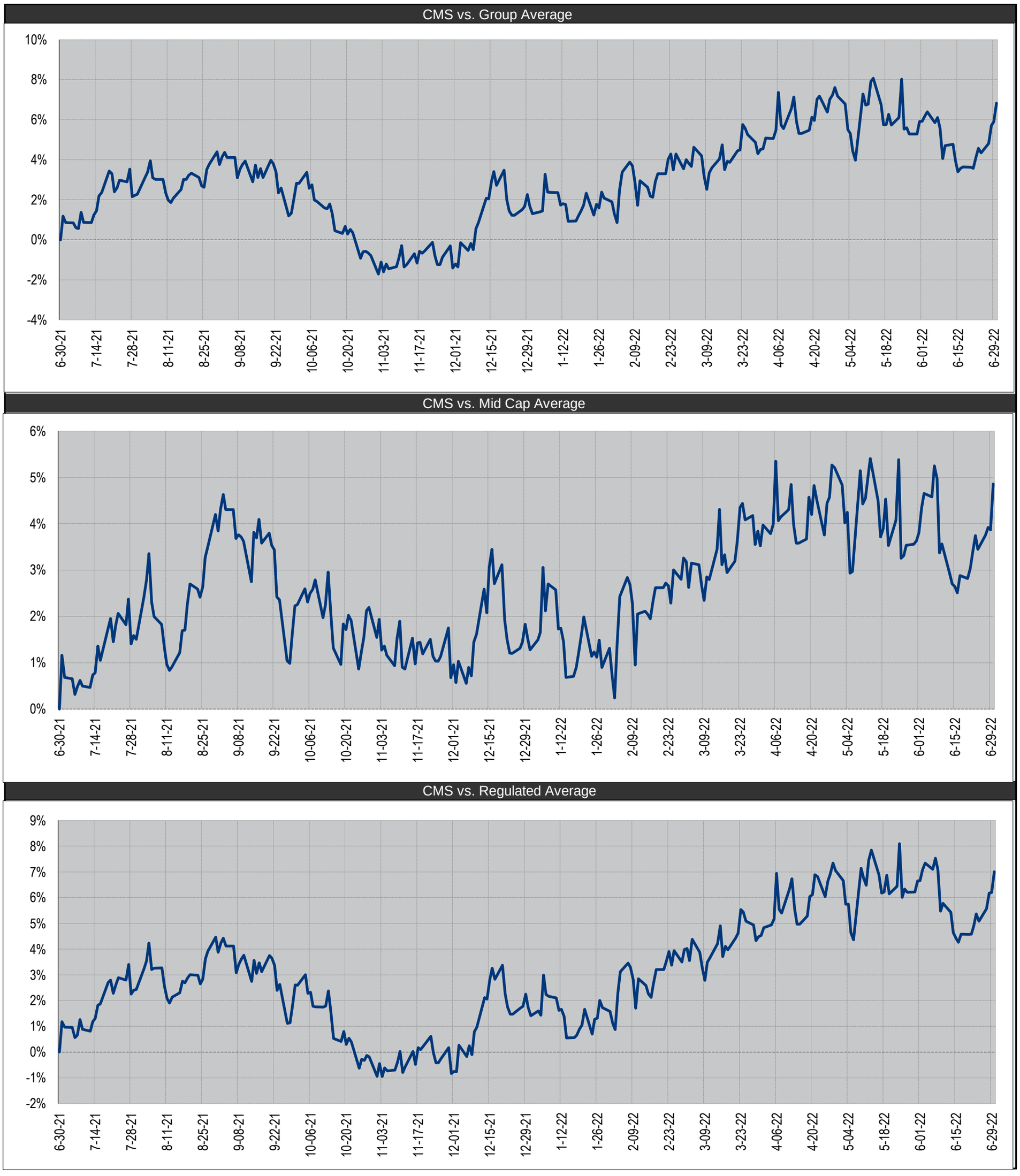


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CMS Energy (CMS) $67.50, Peer Perform, $70 PT

CMS traded in-line for June, despite reaching a gas rate case settlement and seeing its Integrated Resource Plan approved by the Michigan PSC. The stock is still outperforming on the year.

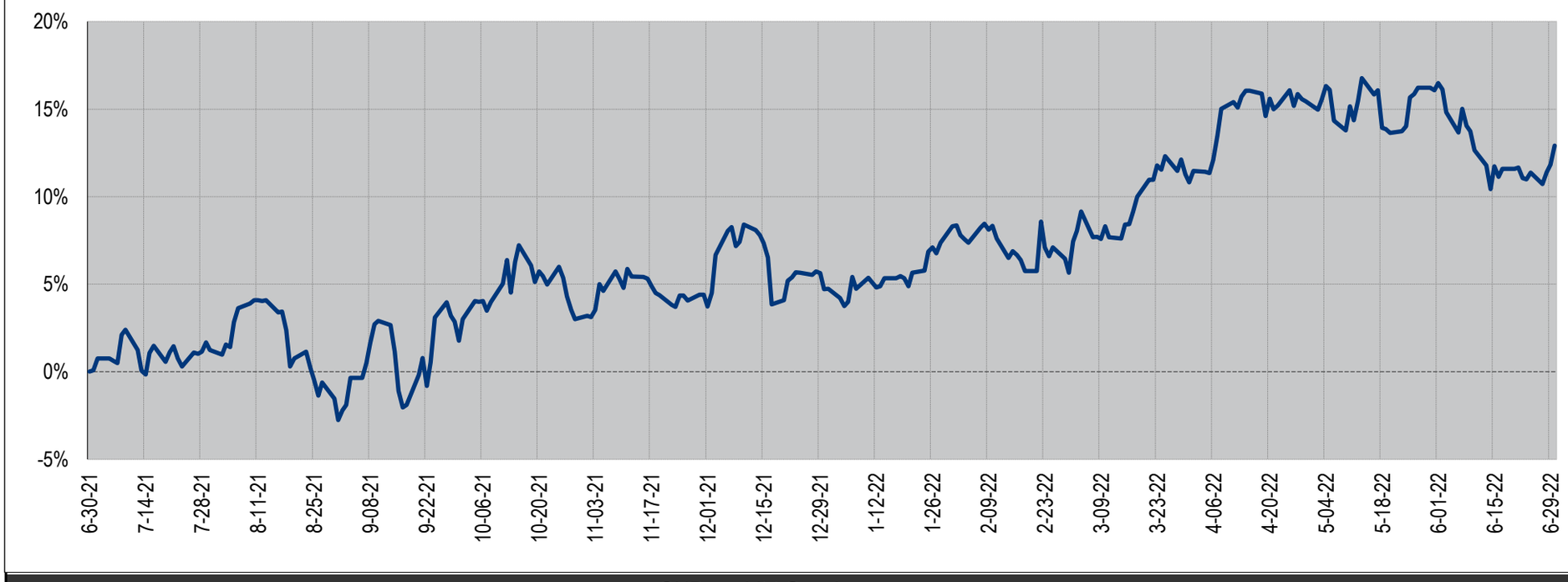


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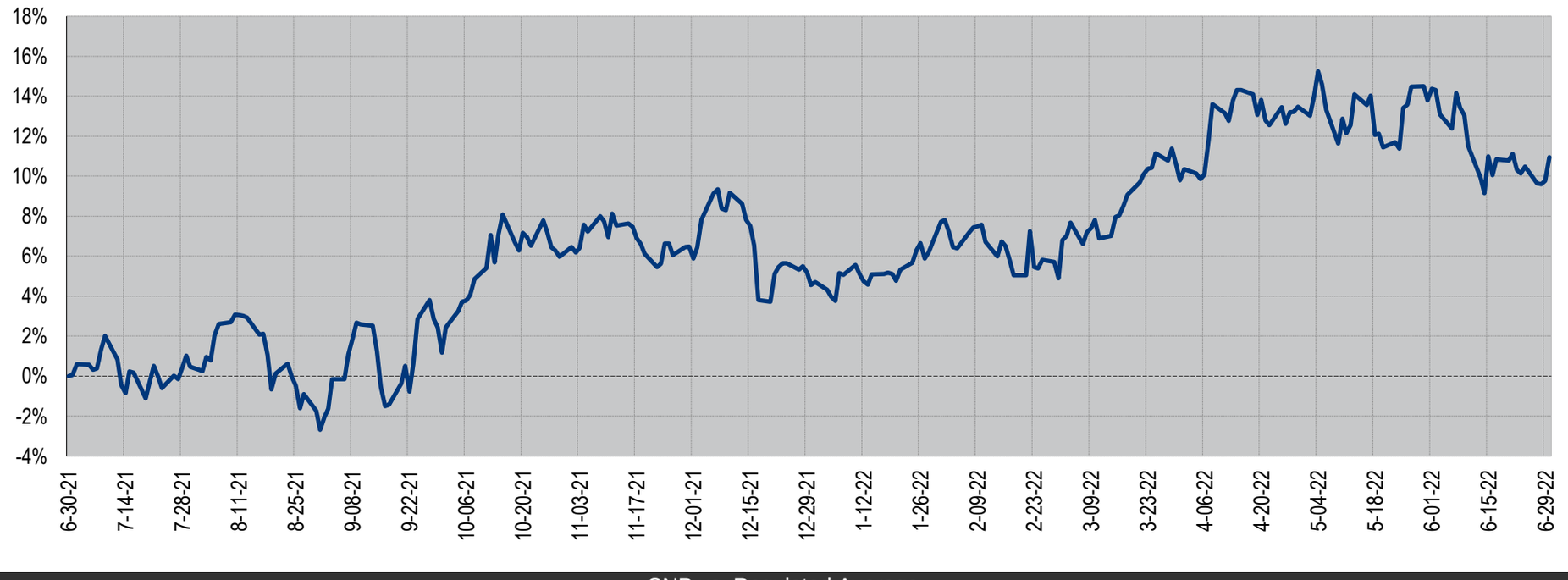
CenterPoint Energy (CNP) $29.58, Outperform, $34 PT

CNP underperformed the sector average in June, though is still a top-10 performer through the 1H of 2022. CNP filed a letter in June detailing that it had reached a settlement in principle in CEHE's DCRF filing in TX (covers everything but temporary generation investments). CNP also got approval of its gas CT CPCN's in Indiana from the IURC.

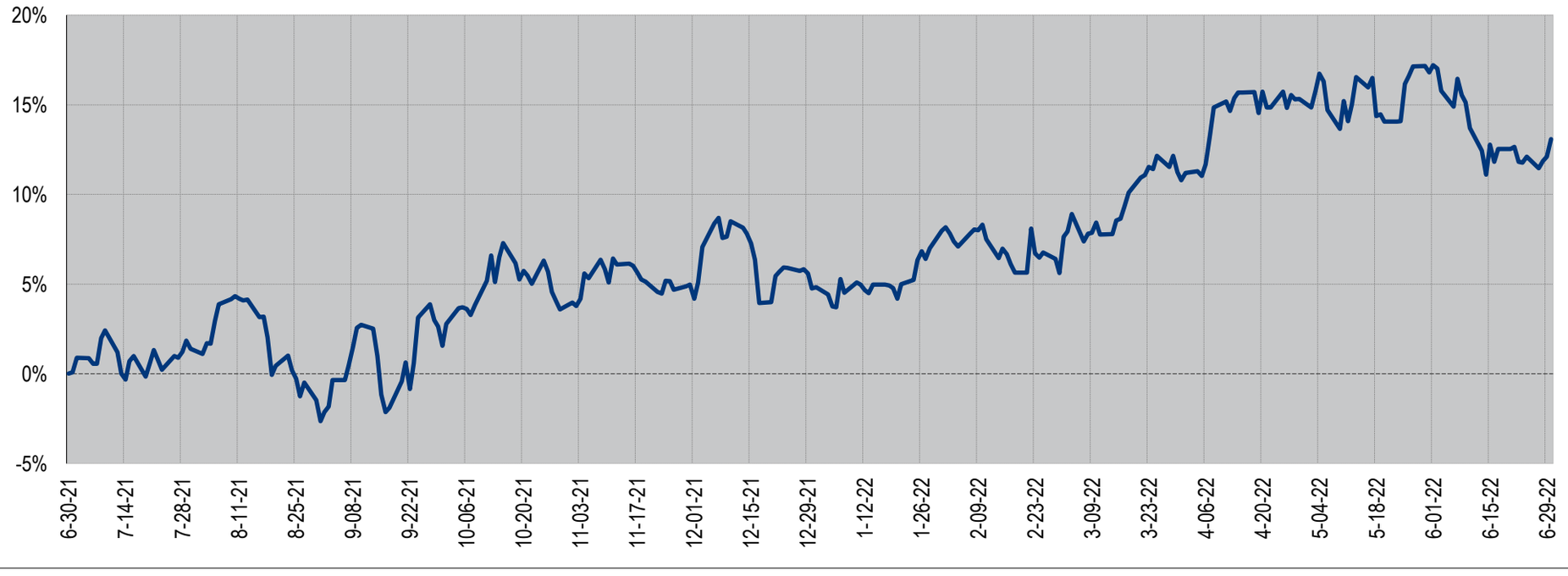
CNP vs. Group Average



CNP vs. Mid Cap Average



CNP vs. Regulated Average

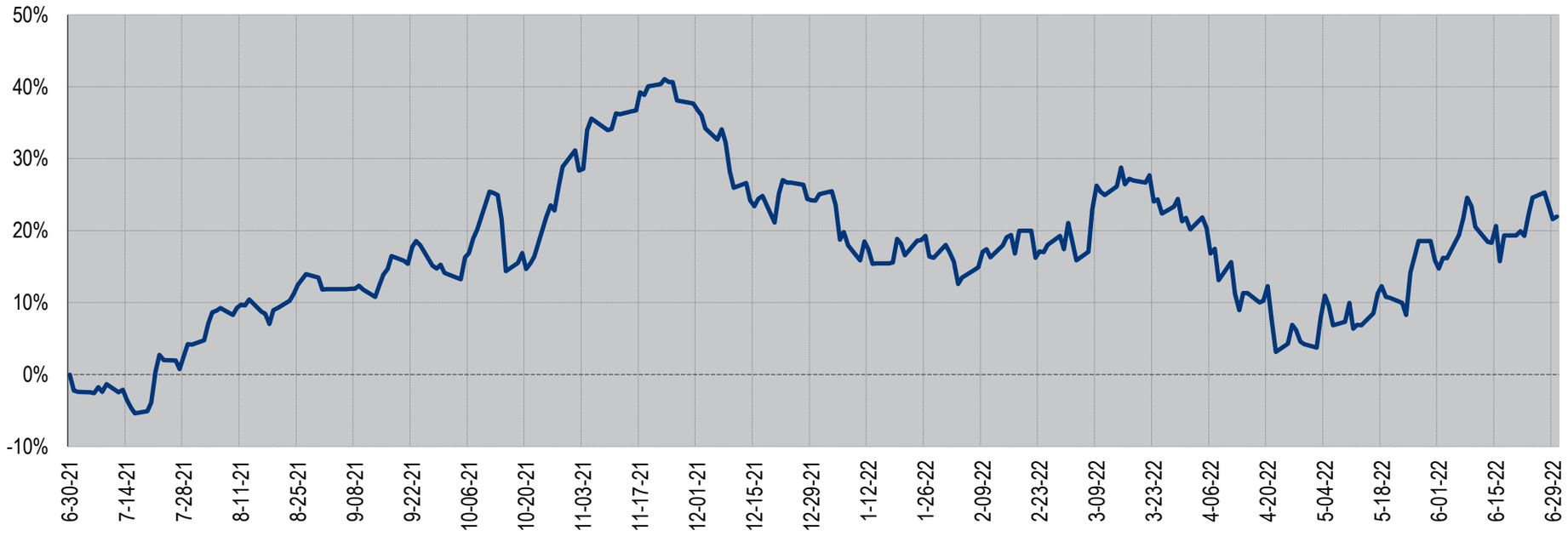


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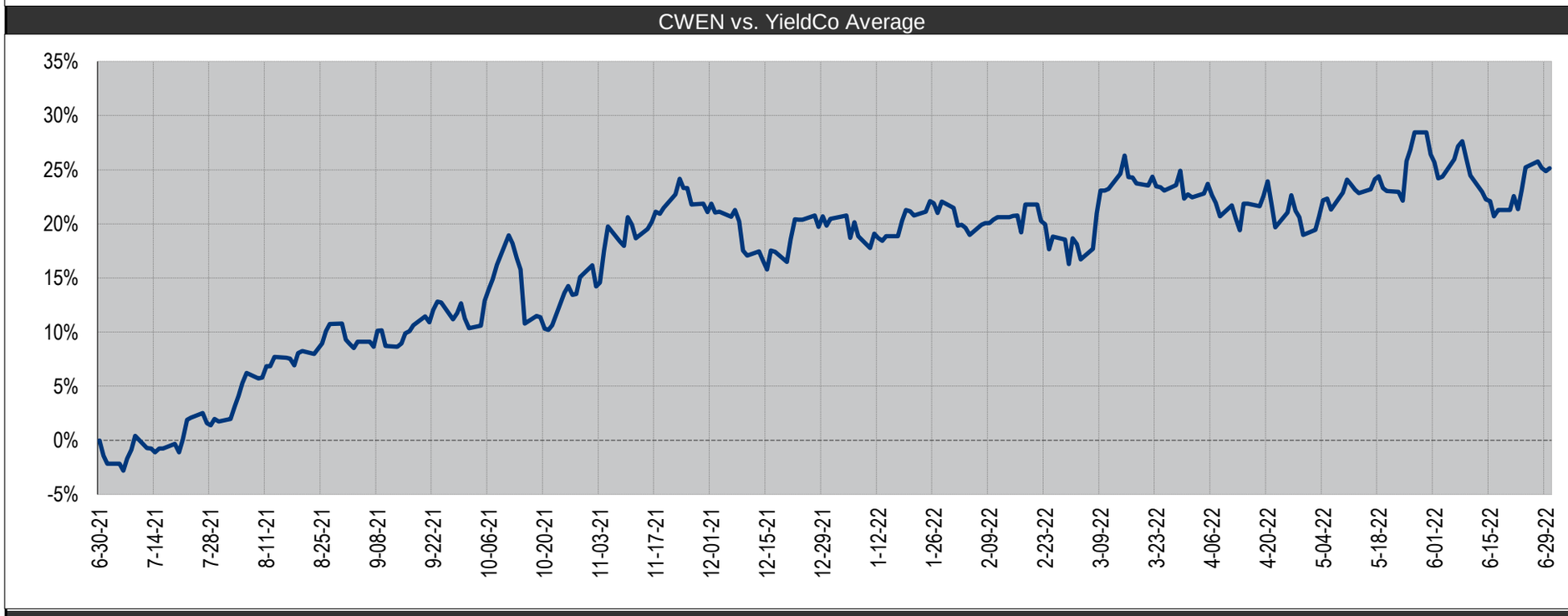
Clearway Energy (CWEN) $34.84, Outperform, $40 PT

Clearway was flattish in June, but is still the top performing YieldCo year-to-date. The company announced a modest sized third party acquisition during June which continued the progress toward redeploying excess thermal sale proceeds.

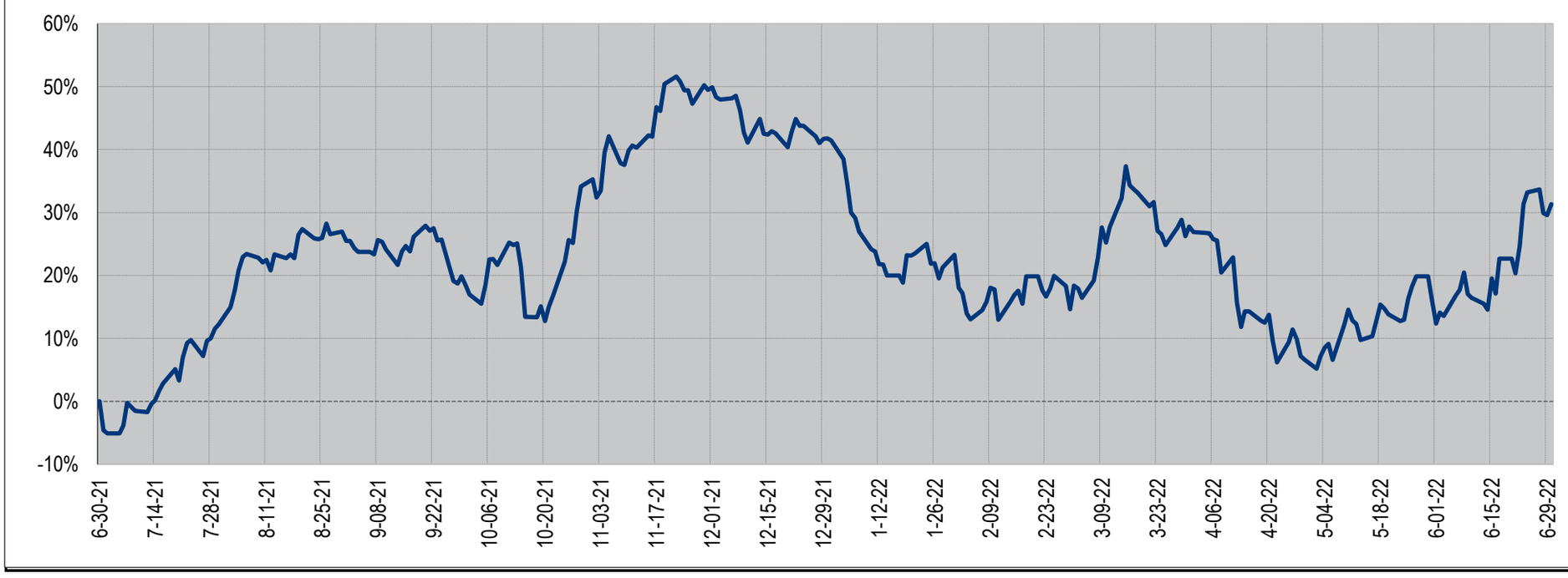
CWEN vs. Group Average



CWEN vs. YieldCo Average



CWEN vs. MLPs

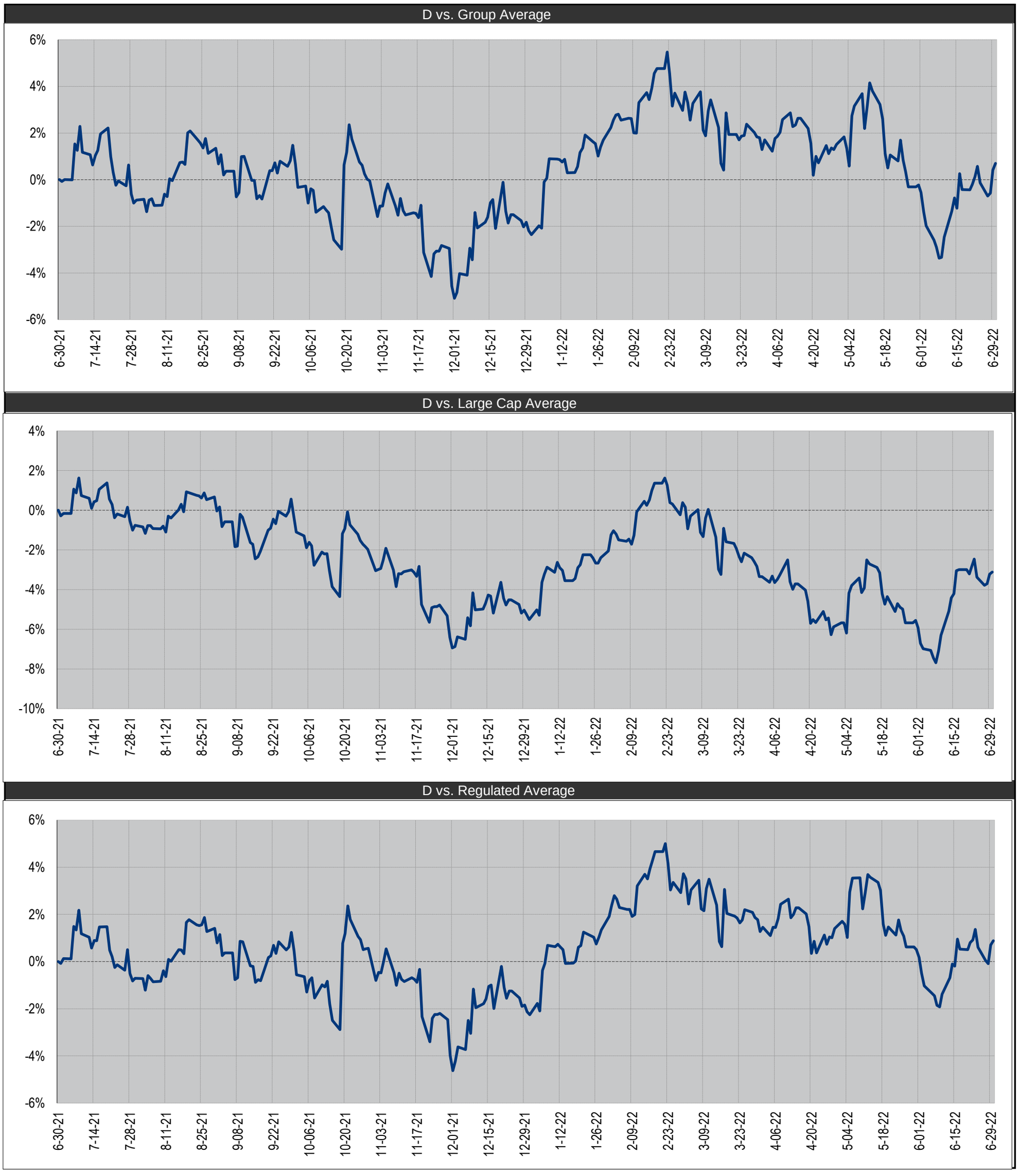


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Dominion Energy (D) $79.81, Outperform, $91 PT

D outperformed the utility average in June and is ~400bps ahead through the 1H of 2022. News on D was relatively quiet during June. However, the stock rallied nicely mid-month after falling near a 52-week low.

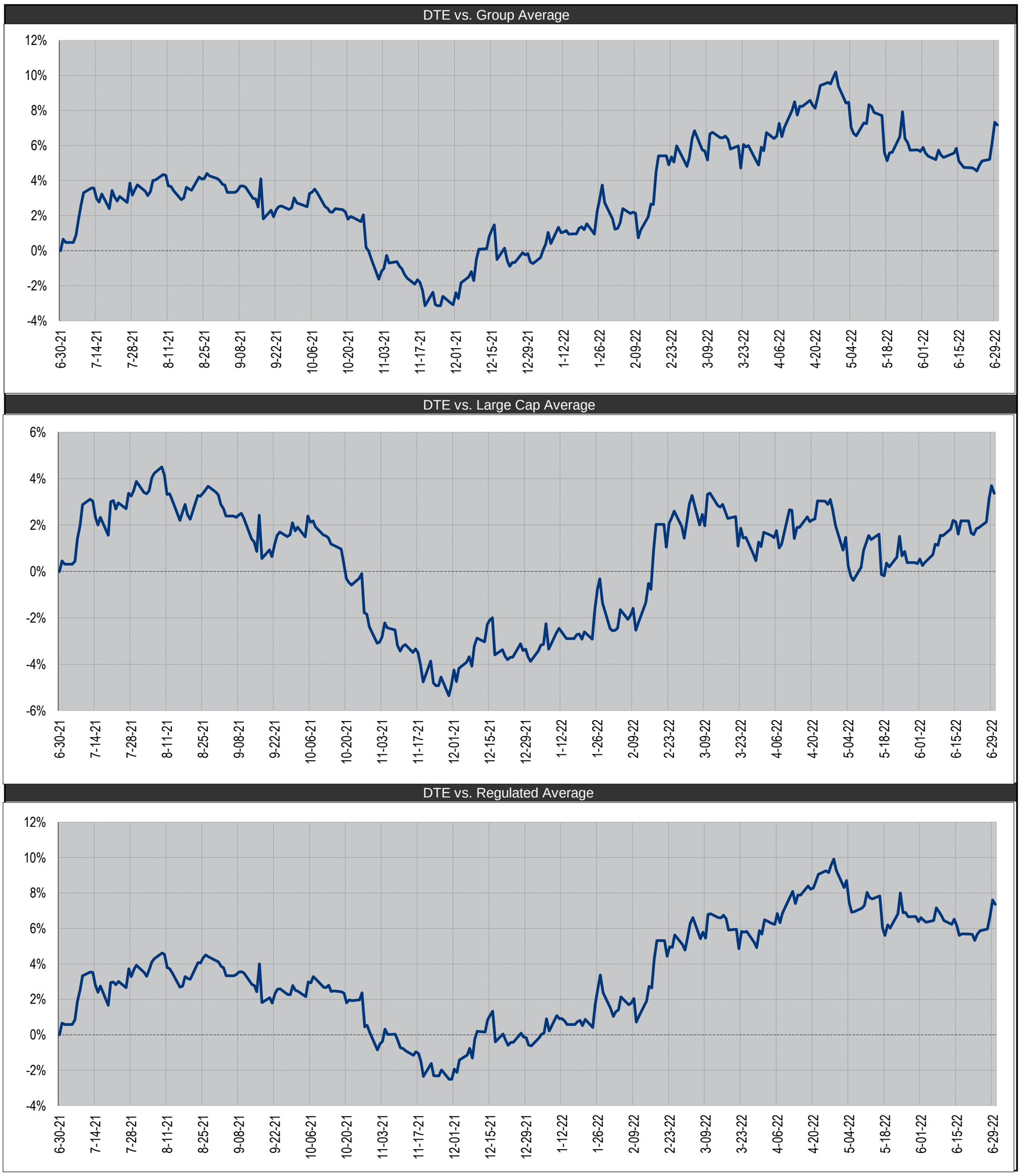


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DTE Energy (DTE) $126.75, Peer Perform, $136 PT

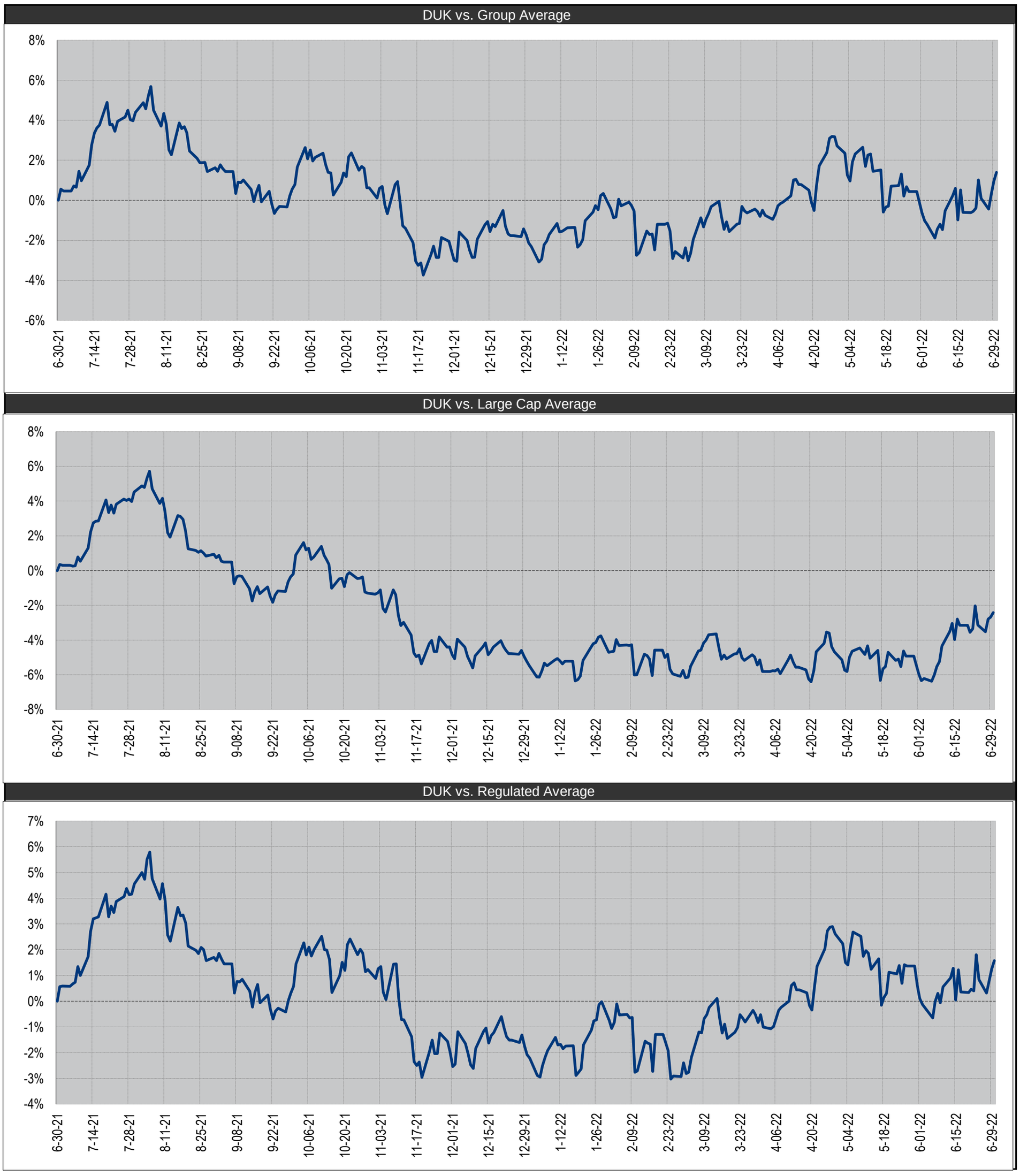
DTE traded in-line for the month on little news, but is still outperforming on the year.



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Duke Energy (DUK) $107.21, Peer Perform, $113 PT

The stock matched a 52-week low relative to large cap peers early in Jun, but ended the month breaking out of a long-term trading range on little news.

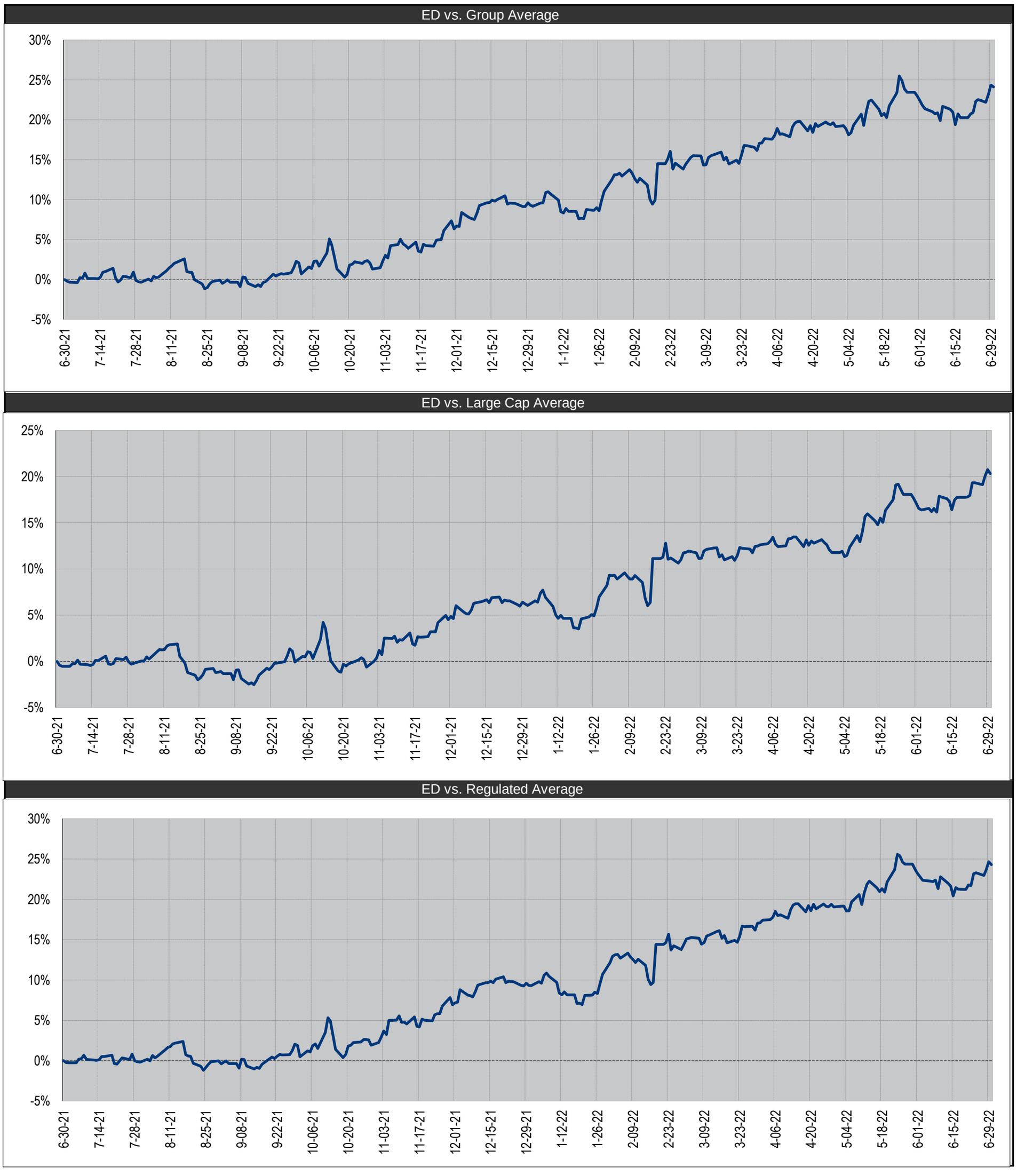


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Consolidated Edison (ED) $95.10, Peer Perform, $94 PT

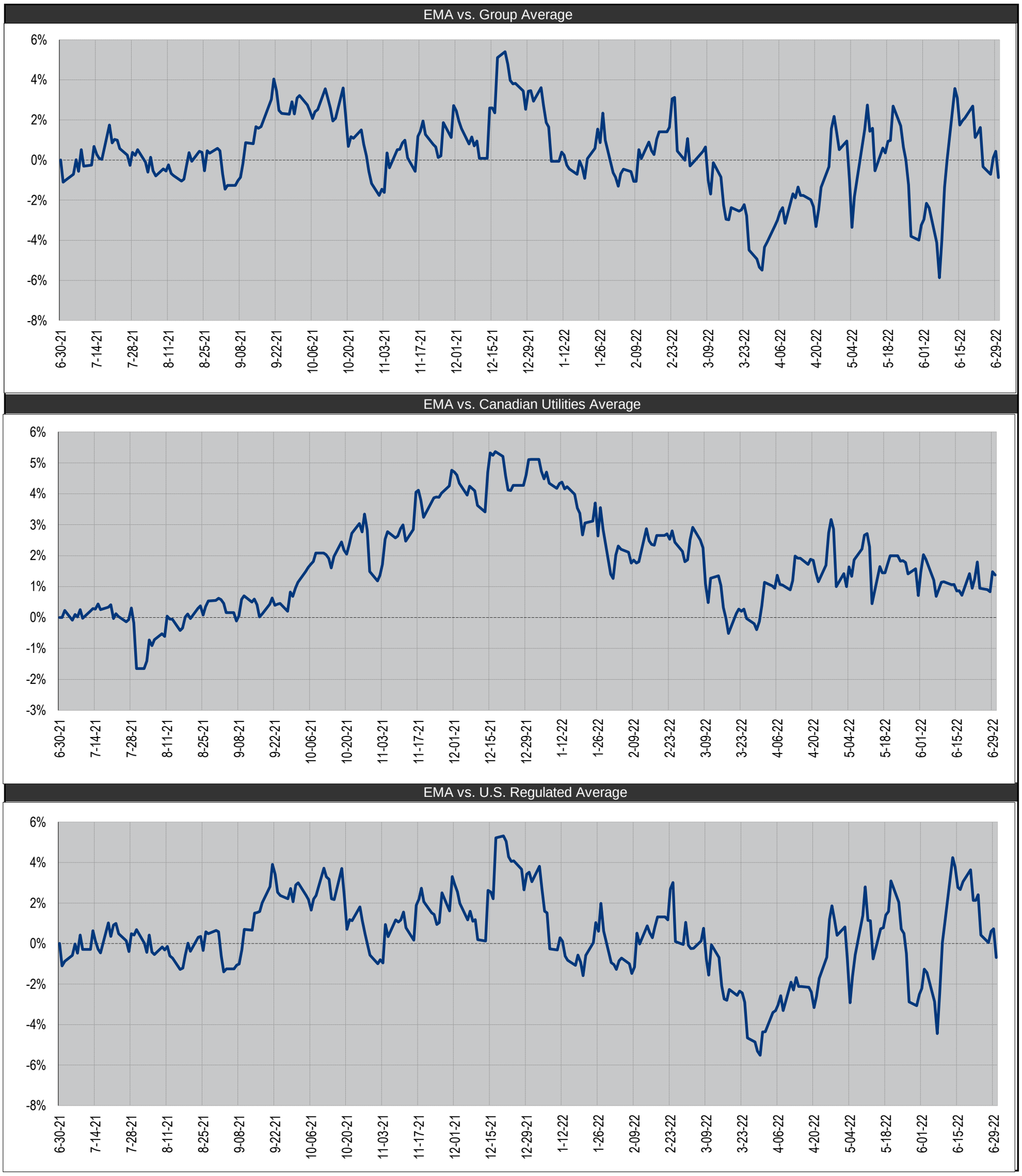
ED notably outperformed its large cap peers in June, breaking out to 1-year relative highs, after evidentiary hearings in CECONY's rate cases were postponed for a month as the company filed a notice of impending settlement negotiations, with the first meeting scheduled for July 6th. During the month, the NY PSC also approved the allotment of ~$166M to ED from $250M of NY's FY23 state budget to reduce low-income customer bills.



WOLFE RESEARCH

Emera (EMA) $60.30, Peer Perform, $65 PT

EMA outperformed the US utility average as well as its closest Canadian peer FTS in June but is still behind both YTD by about 250bps. Some initial intervenor testimony was filed for Nova Scotia Power's rate case during June where the ROE recommendation was quiet low as expected. Equity ratio was in-line with the current allowed and there were very little rate base disagreements.

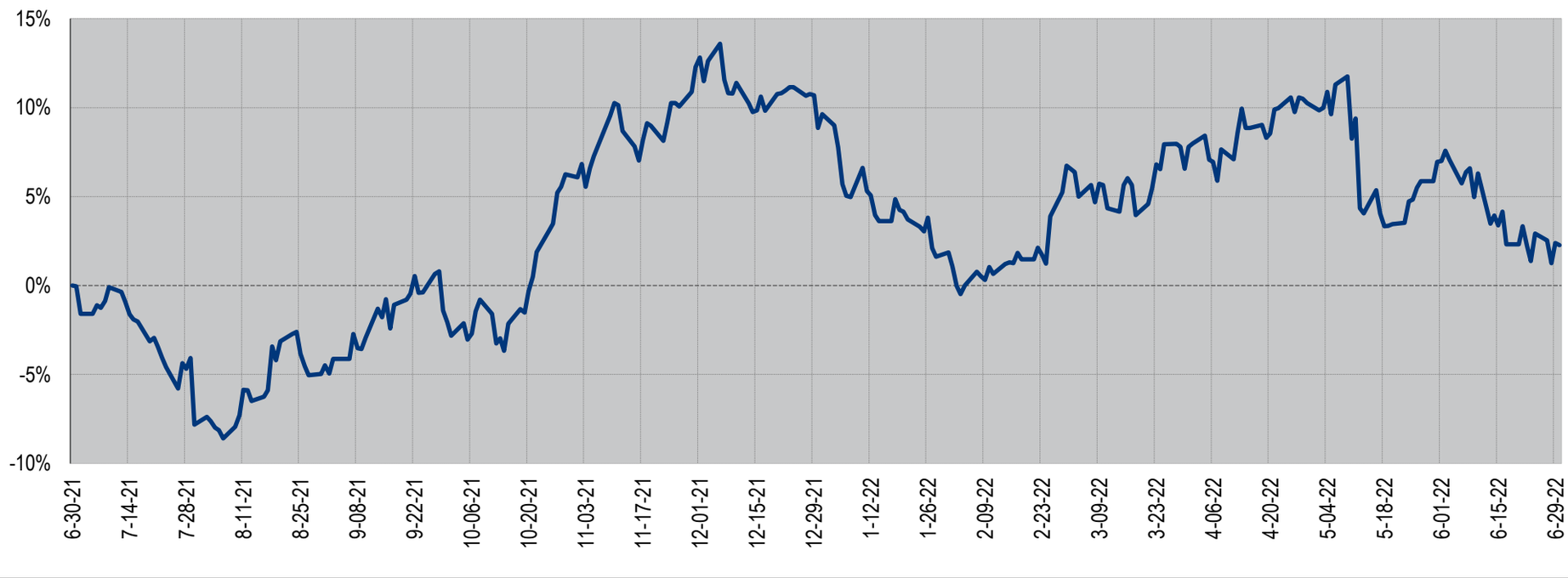


WOLFE RESEARCH

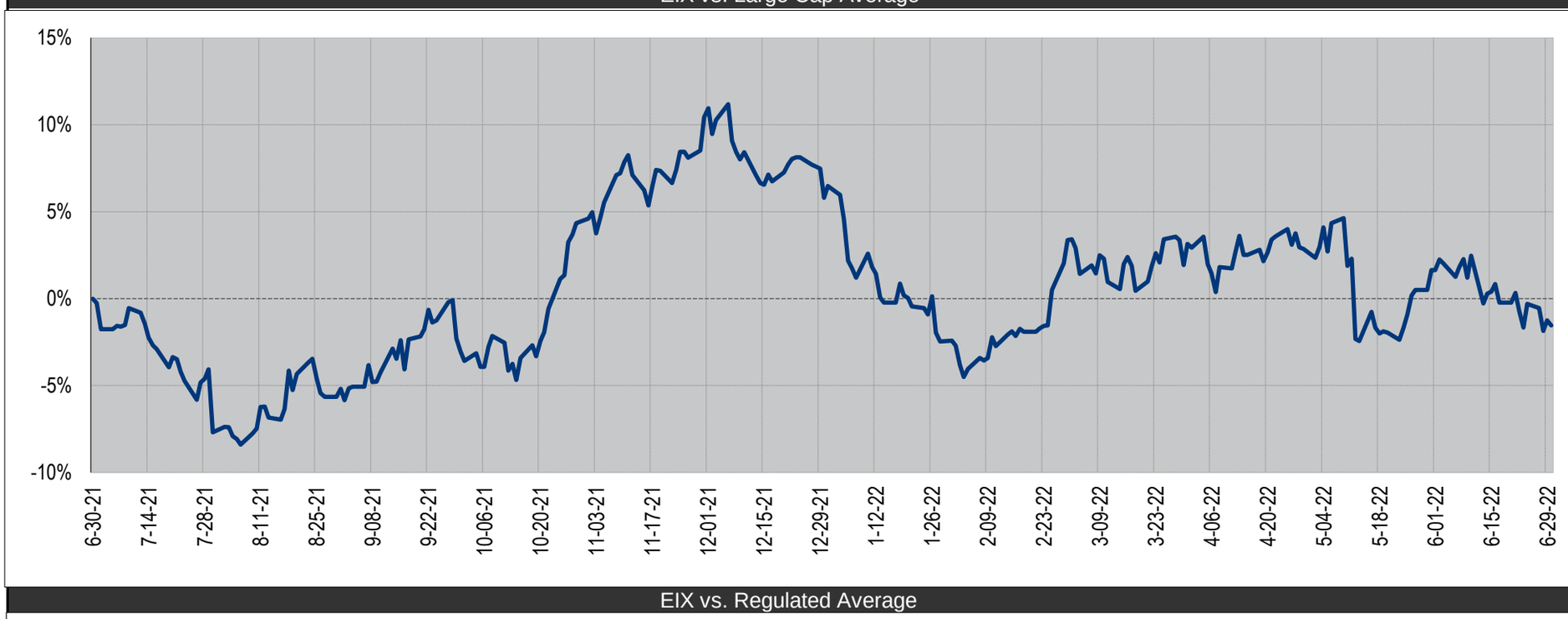
Edison International (EIX) $63.24, Outperform, $77 PT

The stock has lagged peers and is now back at Feb 2022 relative levels, possibly on wildfire risk and rising interest rates (low-cost wildfire-damage debt matures largely in 2023-24).

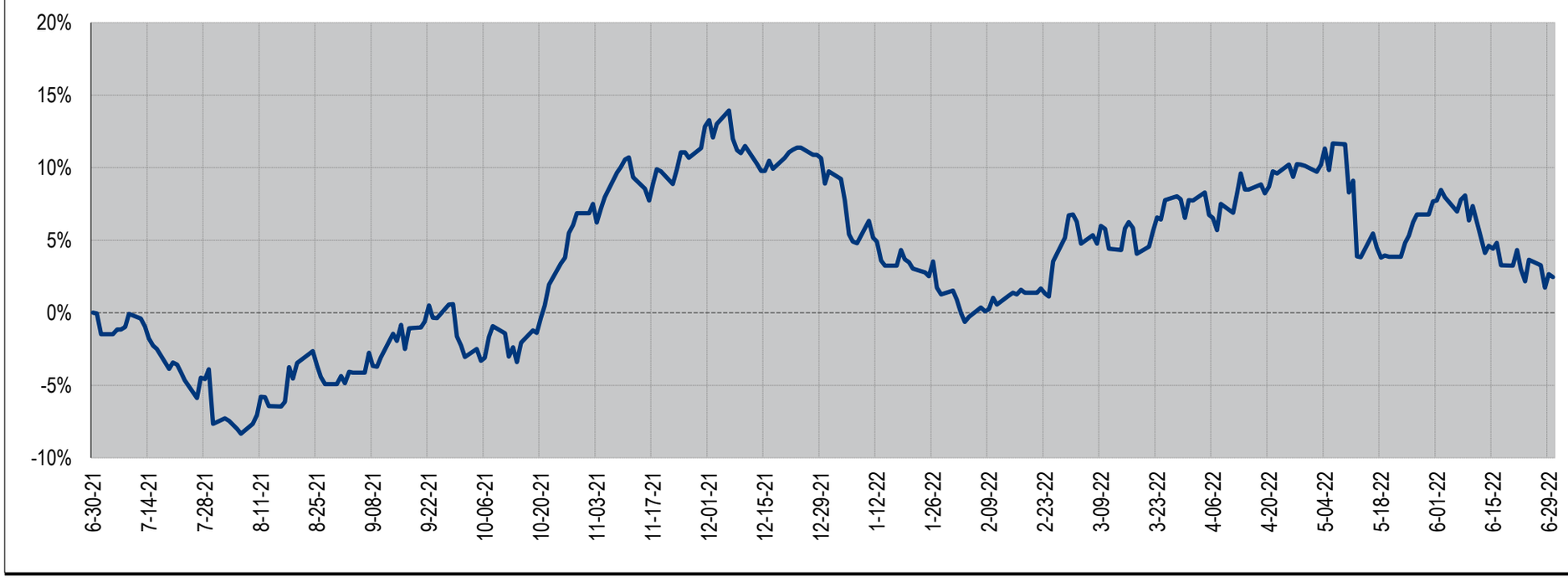
EIX vs. Group Average



EIX vs. Large Cap Average



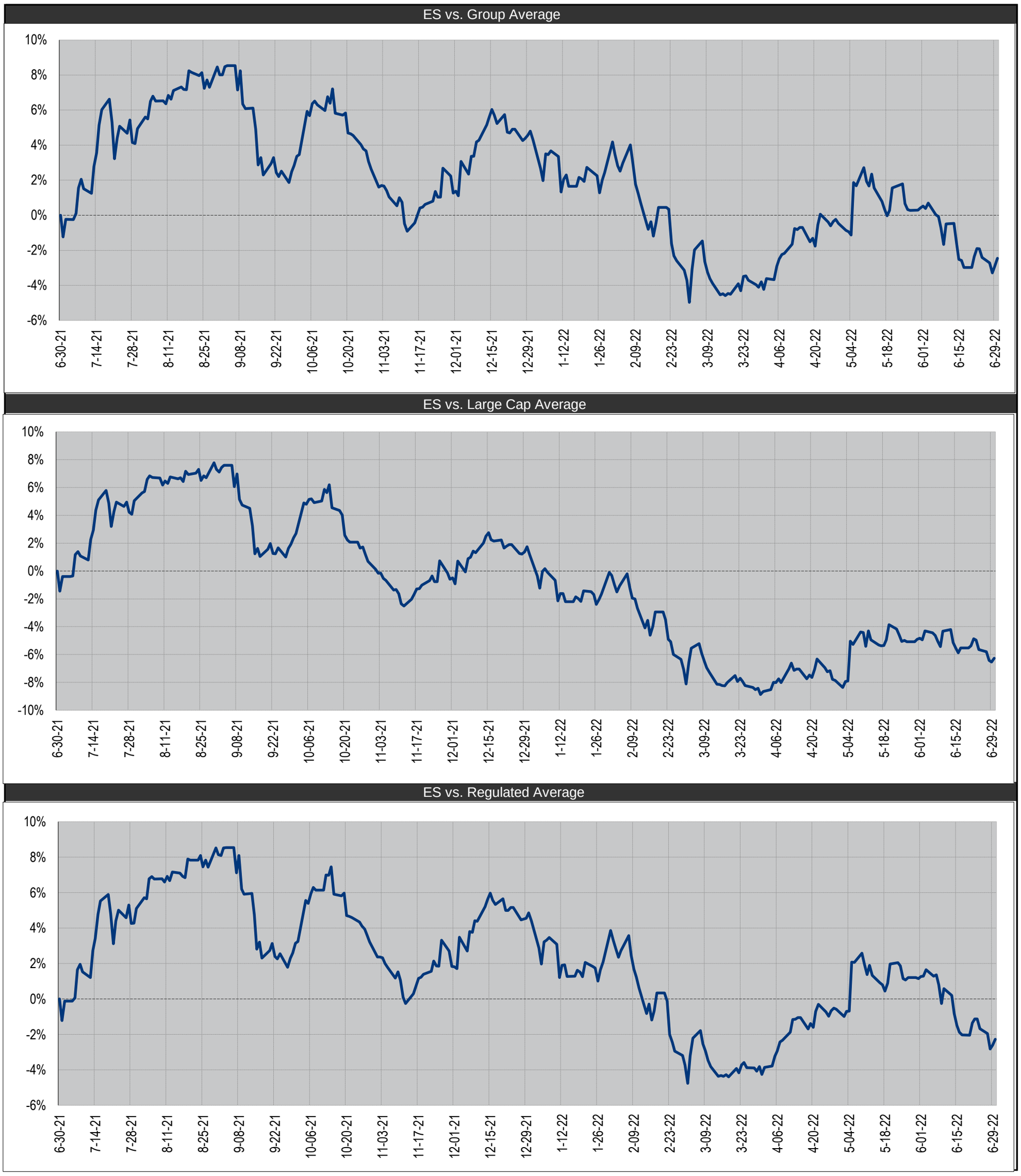
EIX vs. Regulated Average



WOLFE RESEARCH

Eversource Energy (ES) $84.47, Peer Perform, $95 PT

ES lagged peers, particularly regulateds, possibly on Moody's affirming rating but keeping a negative outlook and uncertainty over the sale of its stake in US offshore wind JV with Ørsted.

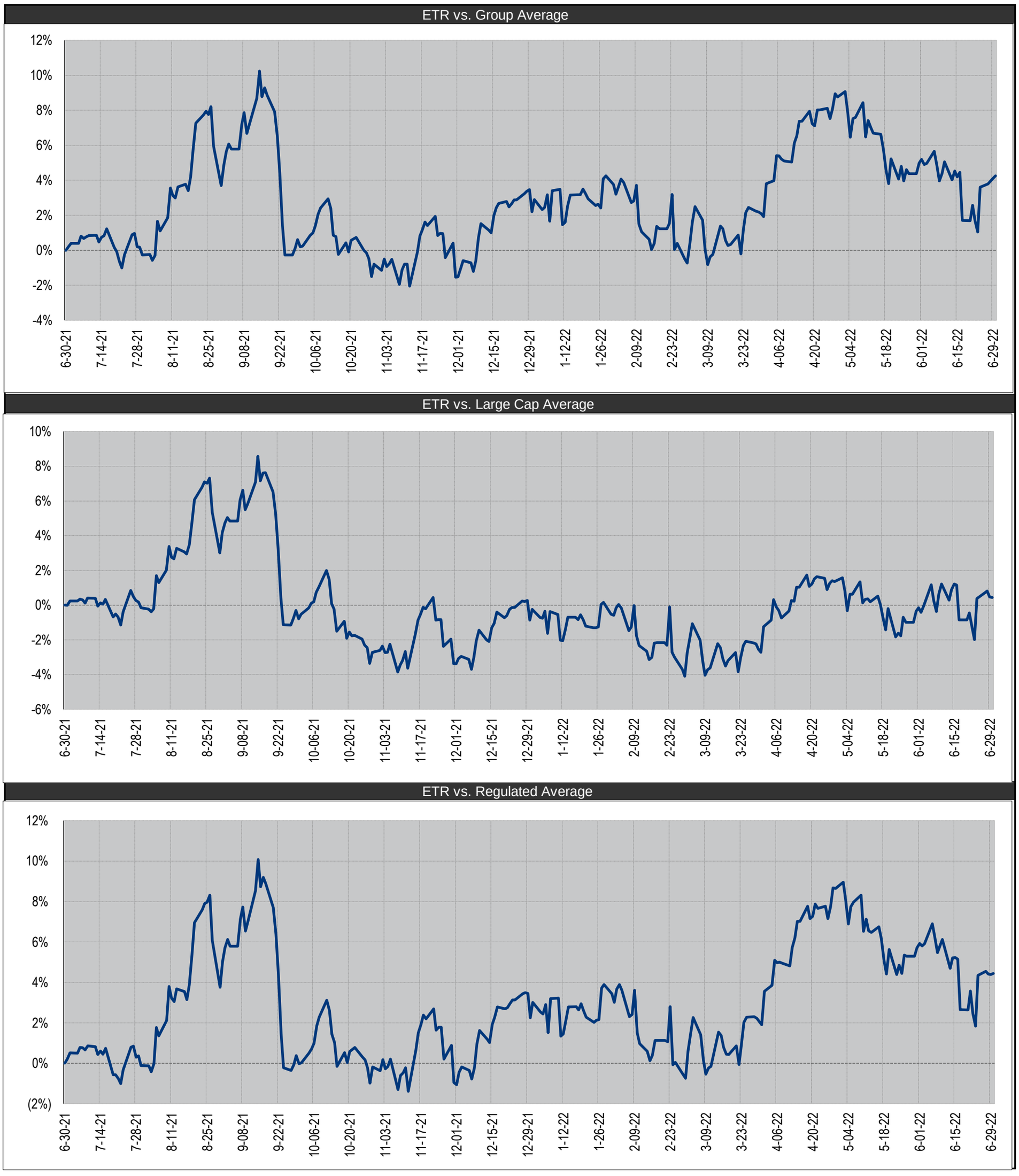


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WOLFE RESEARCH

Entergy (ETR) $112.64, Outperform, $126 PT

ETR slightly beat large cap peers but trailed regulated peers in Jun, declining versus both after the 6/16 Investor Day before regaining most of that underperformance by month end.

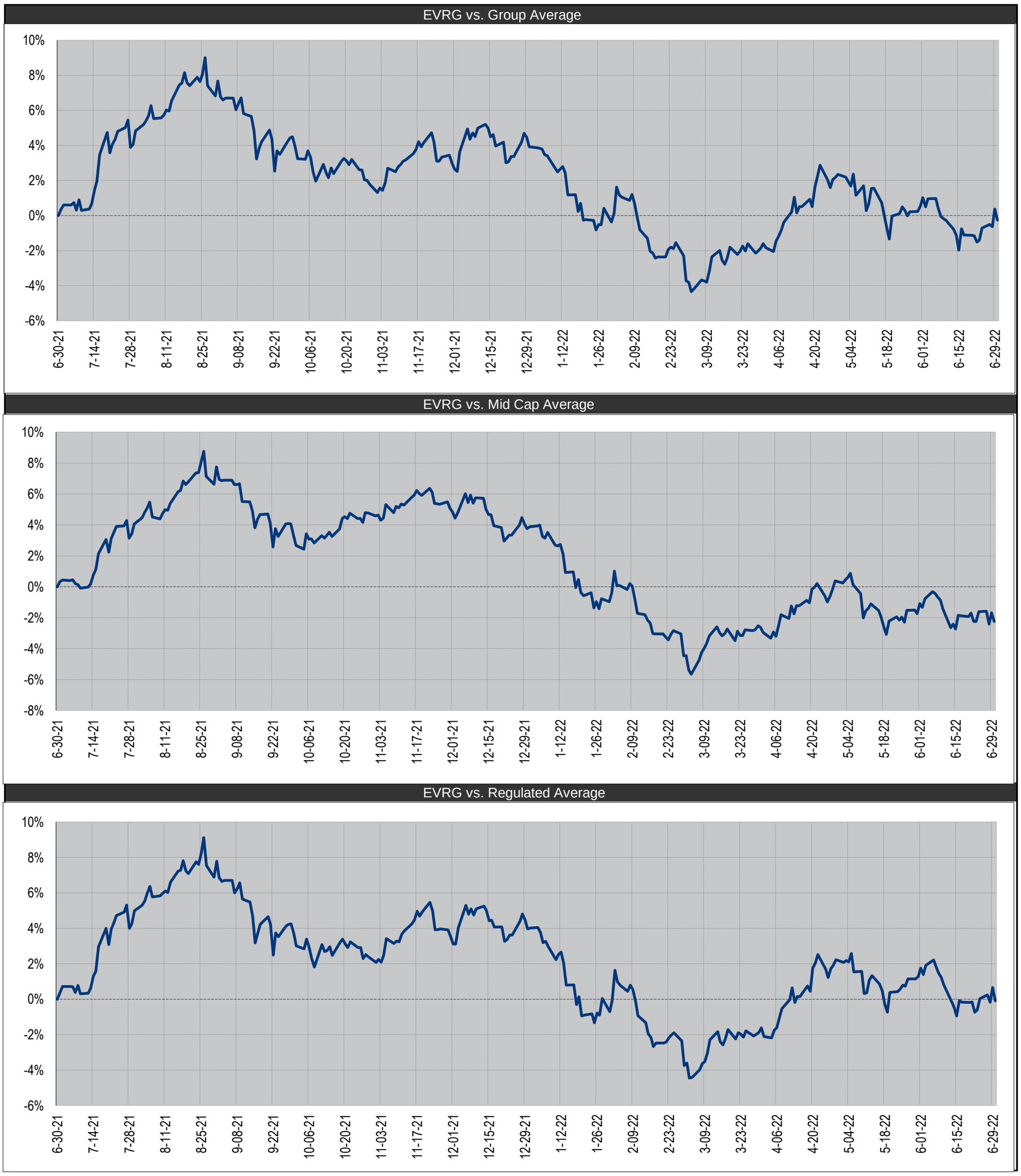


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WOLFE RESEARCH

Evergy (EVRG) $65.25, Outperform, $77 PT

EVRG underperformed in June, despite what we thought was a reasonable Missouri PSC Staff recommendation in its pending rate cases. EVRG filed its IRP update too, which showed some shifting toward wind and reduction in planned solar. The stock is also lagging on the year due to the rate case overhang.

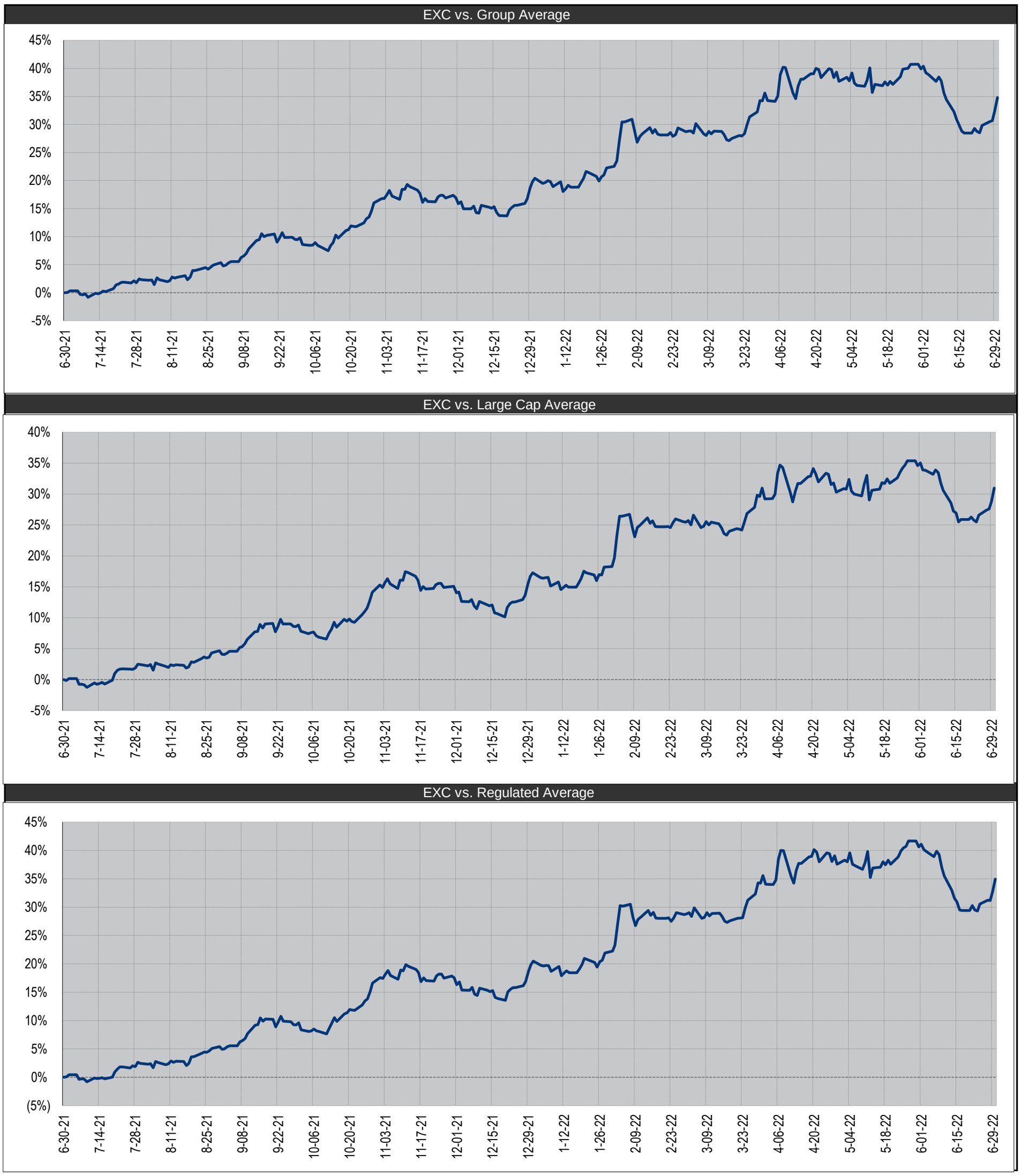


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WOLFE RESEARCH

Exelon (EXC) $45.32, Outperform, $50 PT

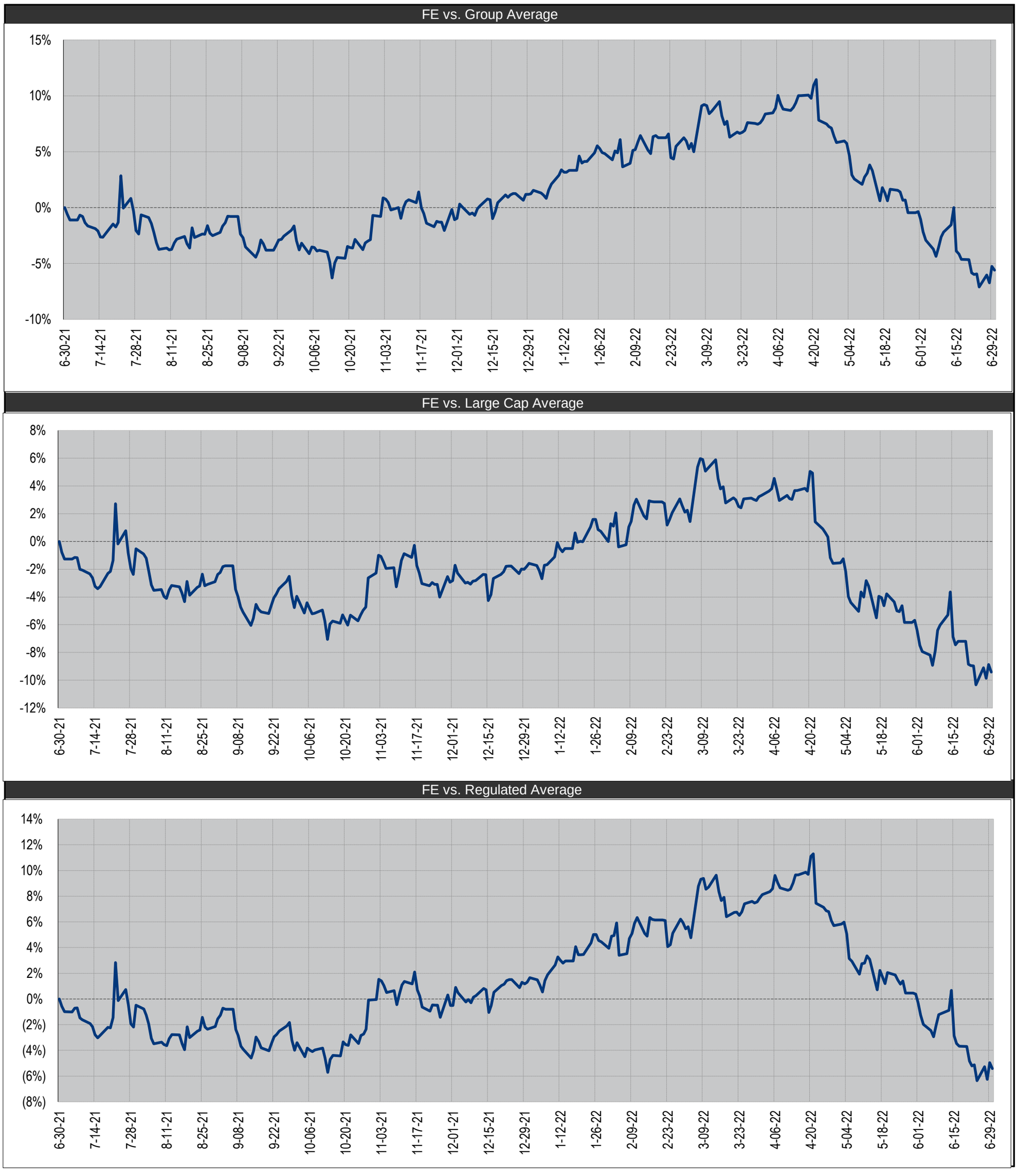
EXC finally took a breather in Jun after months of outperformance; by month end it had recovered more than half of the ~1000bp of underperformance in the first half of the month.



WOLFE RESEARCH

FirstEnergy (FE) $38.39, Outperform, $45 PT

FE continued to set fresh lows in June, alongside the broader market sell-off. This remains tied to pension risk, which is looking like a big earnings headwind given the decline in equities and fixed income.

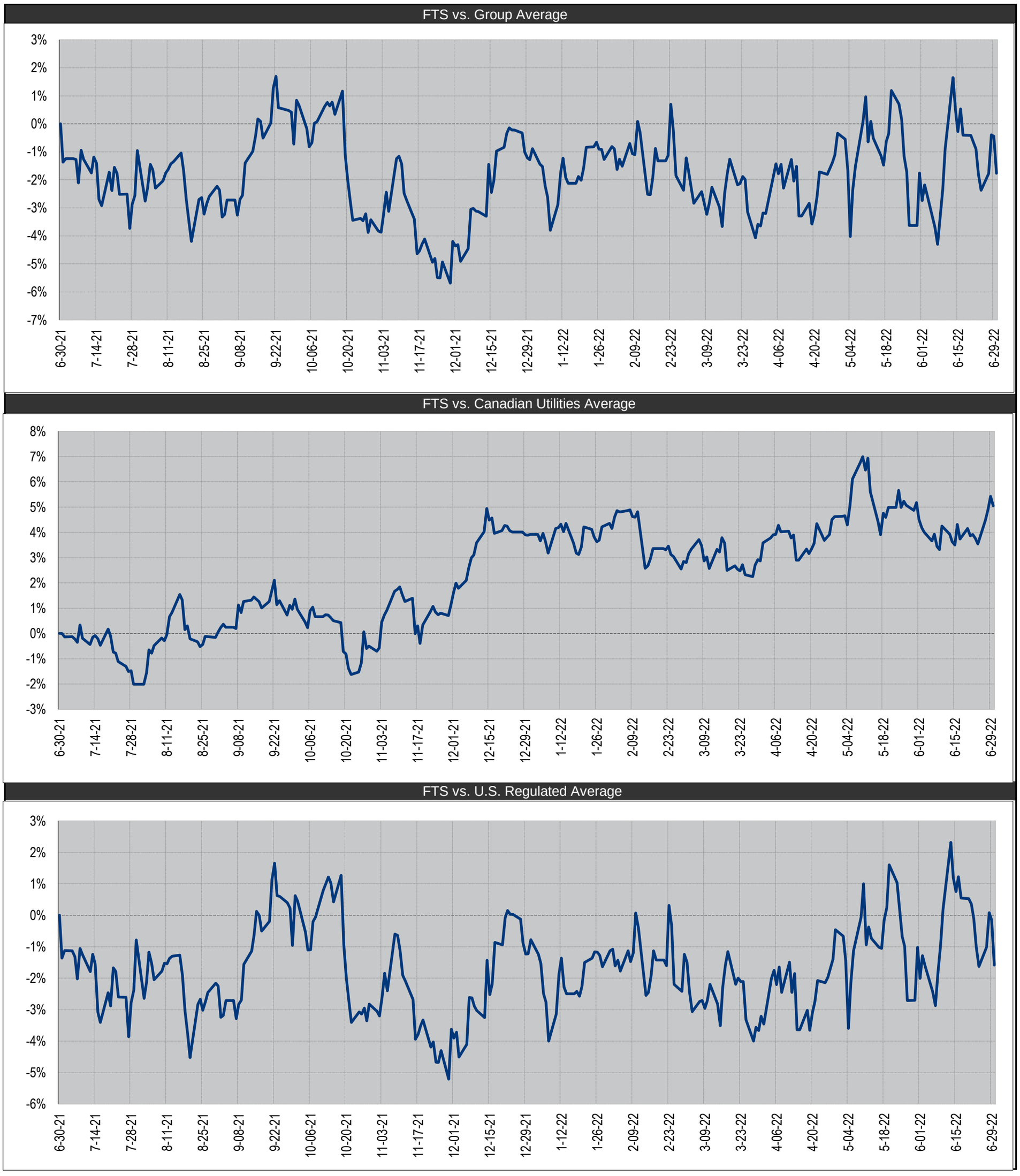


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WOLFE RESEARCH

Fortis (FTS) $47.27, Underperform, $47 PT

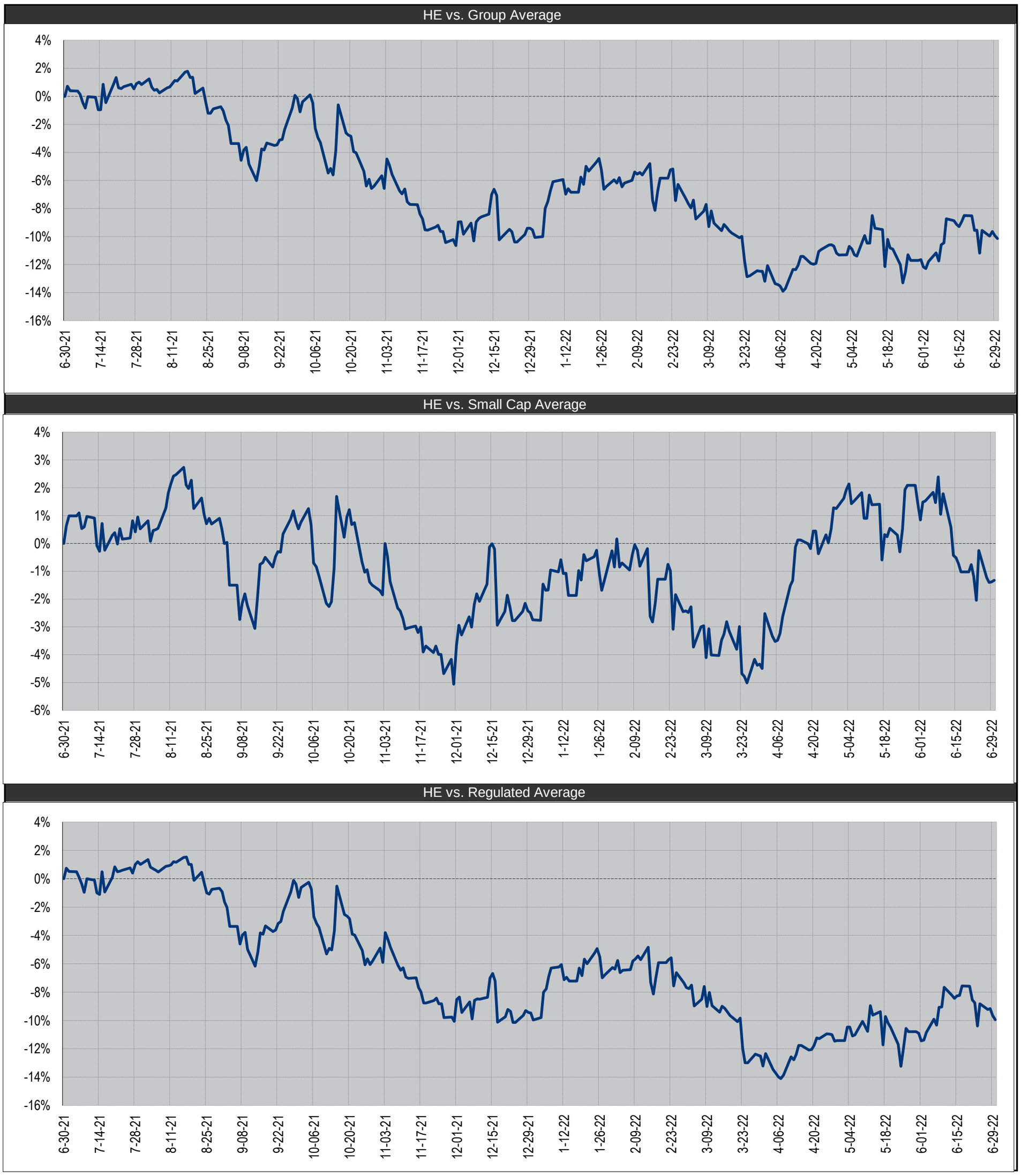
FTS saw choppy trading again in June – outperforming to start the month before mostly retracing that move. The stock is trading in-line with the group for the year too. FTS issued a response at FERC to the equity ratio complaint and also filed its TEP rate case in Arizona.



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WOLFE RESEARCH

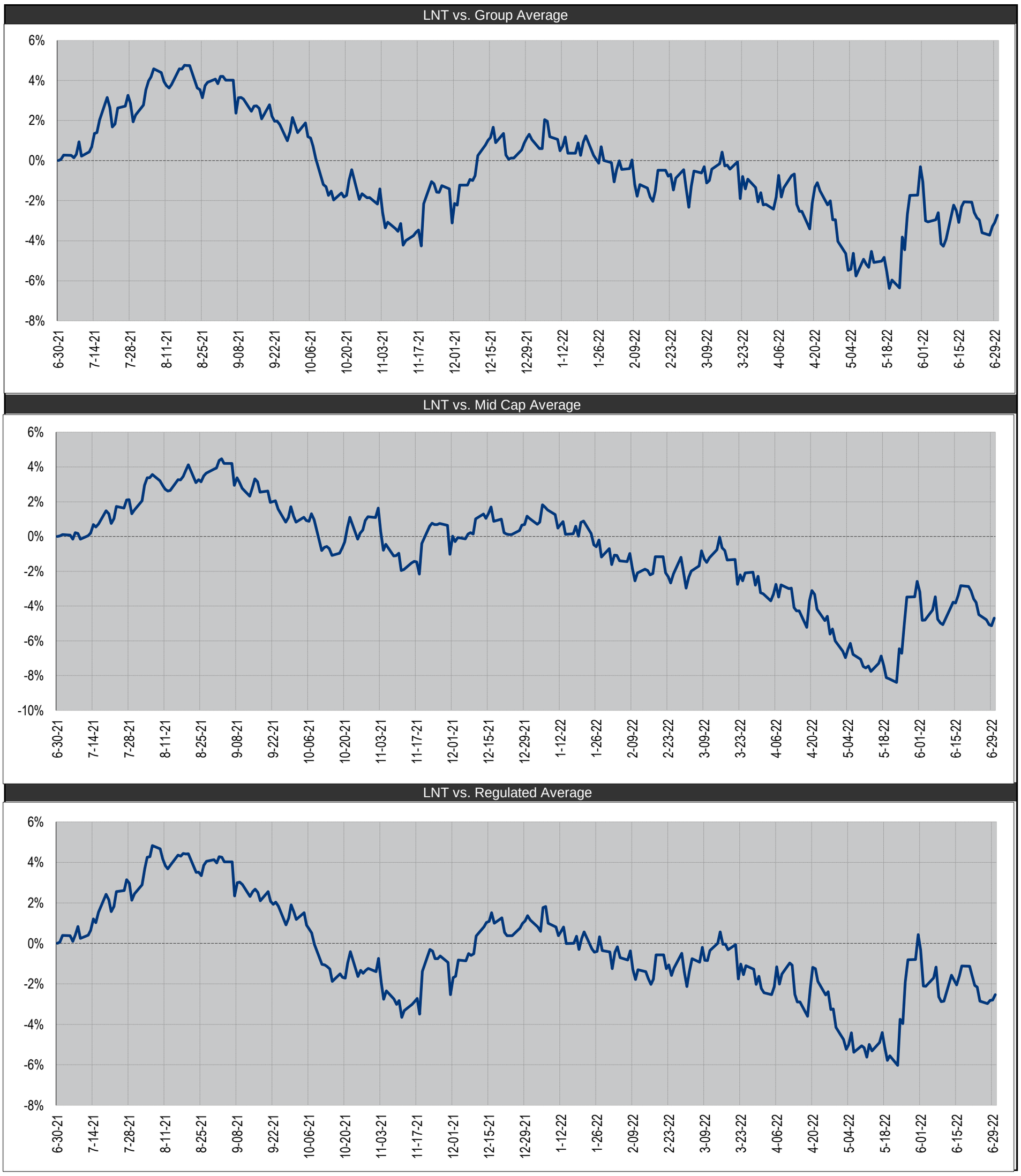
Hawaiian Electric (HE) $40.90, NR



WOLFE RESEARCH

Alliant Energy (LNT) $58.61, Outperform, $65 PT

LNT was one of the worst performers for the month, despite President Biden's 2-year pause on new solar tariffs that removes an overhang. LNT then said it was moving forward on its solar buildout (1.1 GWs in Wisconsin), while delaying the retirement timelines on its Edgewater/Columbia coal plants. LNT is underperforming on the year as well.

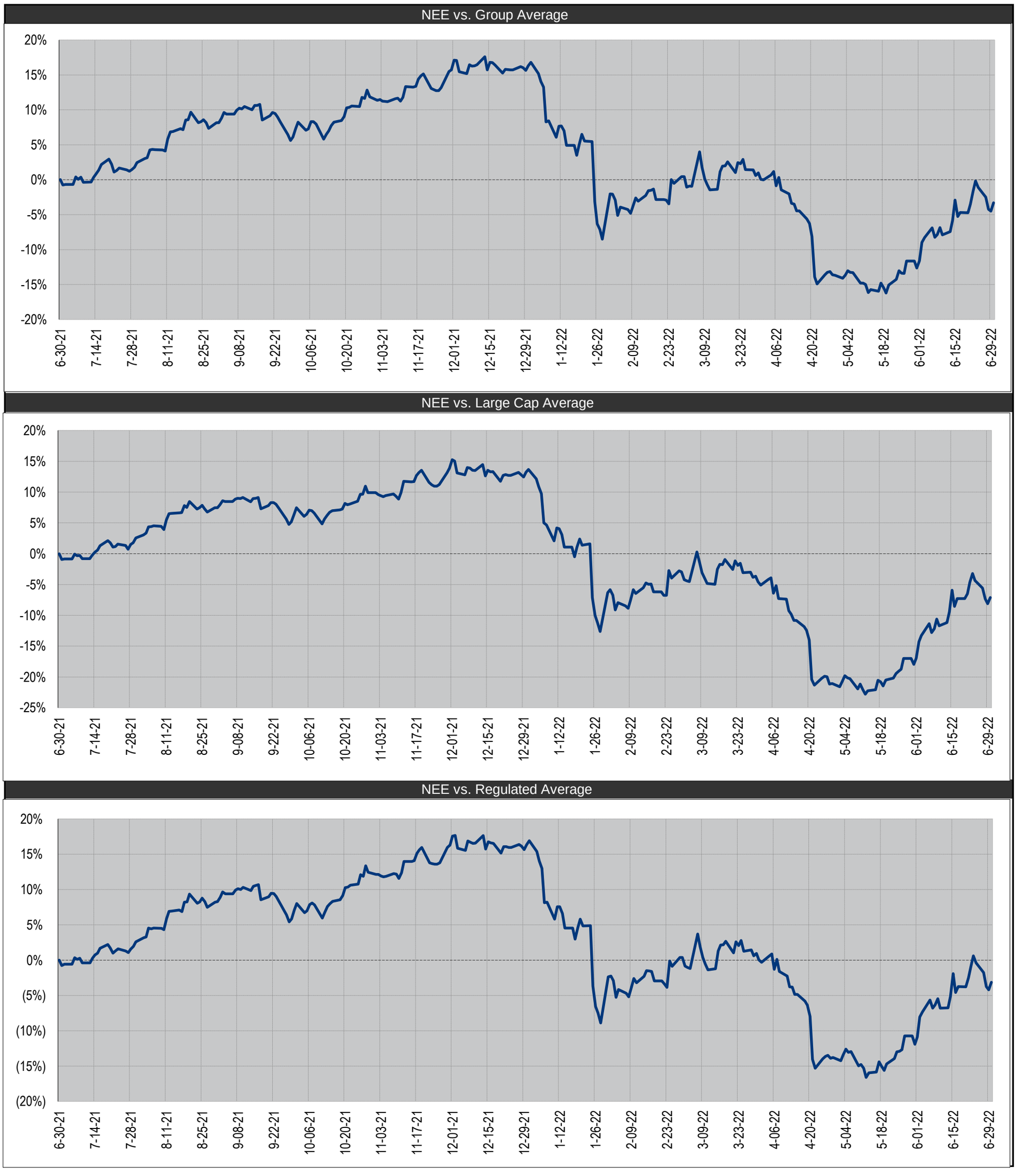


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WOLFE RESEARCH

NextEra Energy (NEE) $77.46, Outperform, $91 PT

NEE saw a huge bounce in June – the best performer in the sector behind only NEP. This started with President Biden's 2-year pause on new solar tariffs. The outperformance continued around NEE's Analyst Day – 2022-2023 guidance was raised $0.05, 2024-2025 guidance was raised $0.10, and the high-end of 6-8% EPS growth target was re-based off 2024. NEE also revised its renewables development targets upward and set a "Real Zero" emissions goal. After all that though, NEE is still one of the worst stocks in the sector on the year.



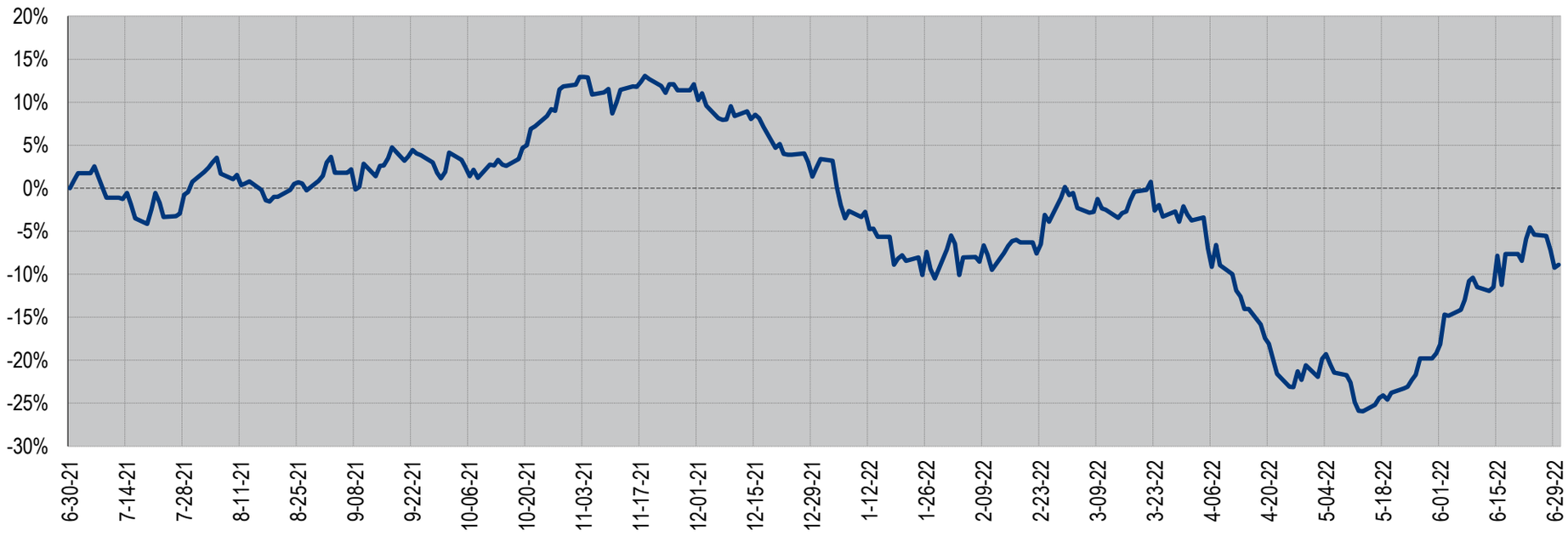
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WOLFE RESEARCH

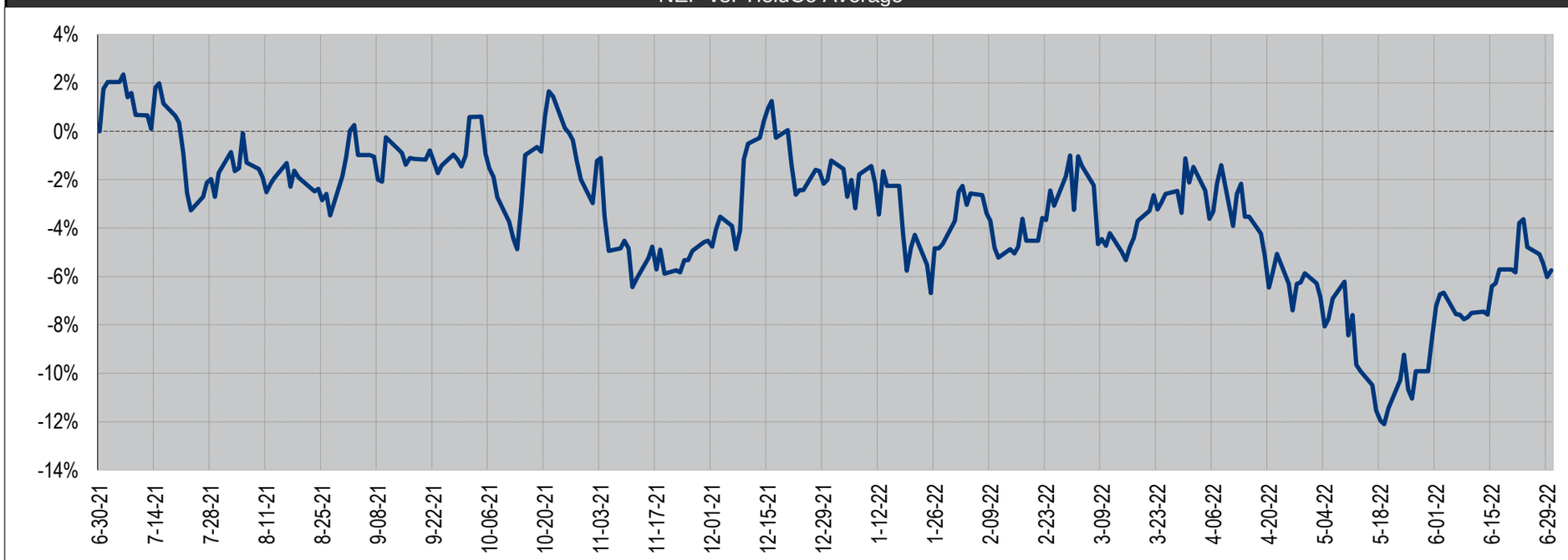
NextEra Energy Partners (NEP) $74.16, Outperform, $95 PT

NEP was the best performing stock in the sector in June. This started with President Biden's 2-year pause on new solar tariffs (though this uncertainty shouldn't have impacted NEP's operating portfolio to begin with). Then at the Analyst Day, NEP extended its 12-15% distribution growth target another year 2025, while the incentive distribution rights (IDRs) were revised to be held flat at $157M/year going forward. The stock is still one of the biggest underperformers in 2022 though.

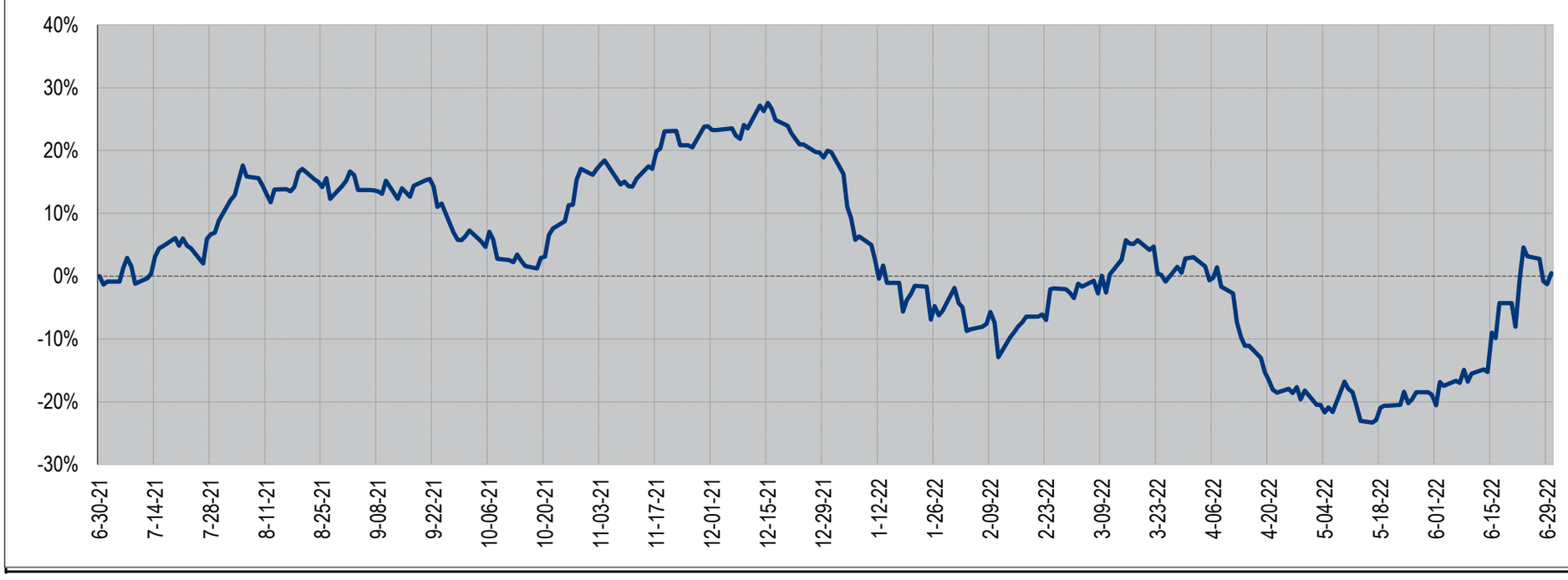
NEP vs. Group Average



NEP vs. YieldCo Average



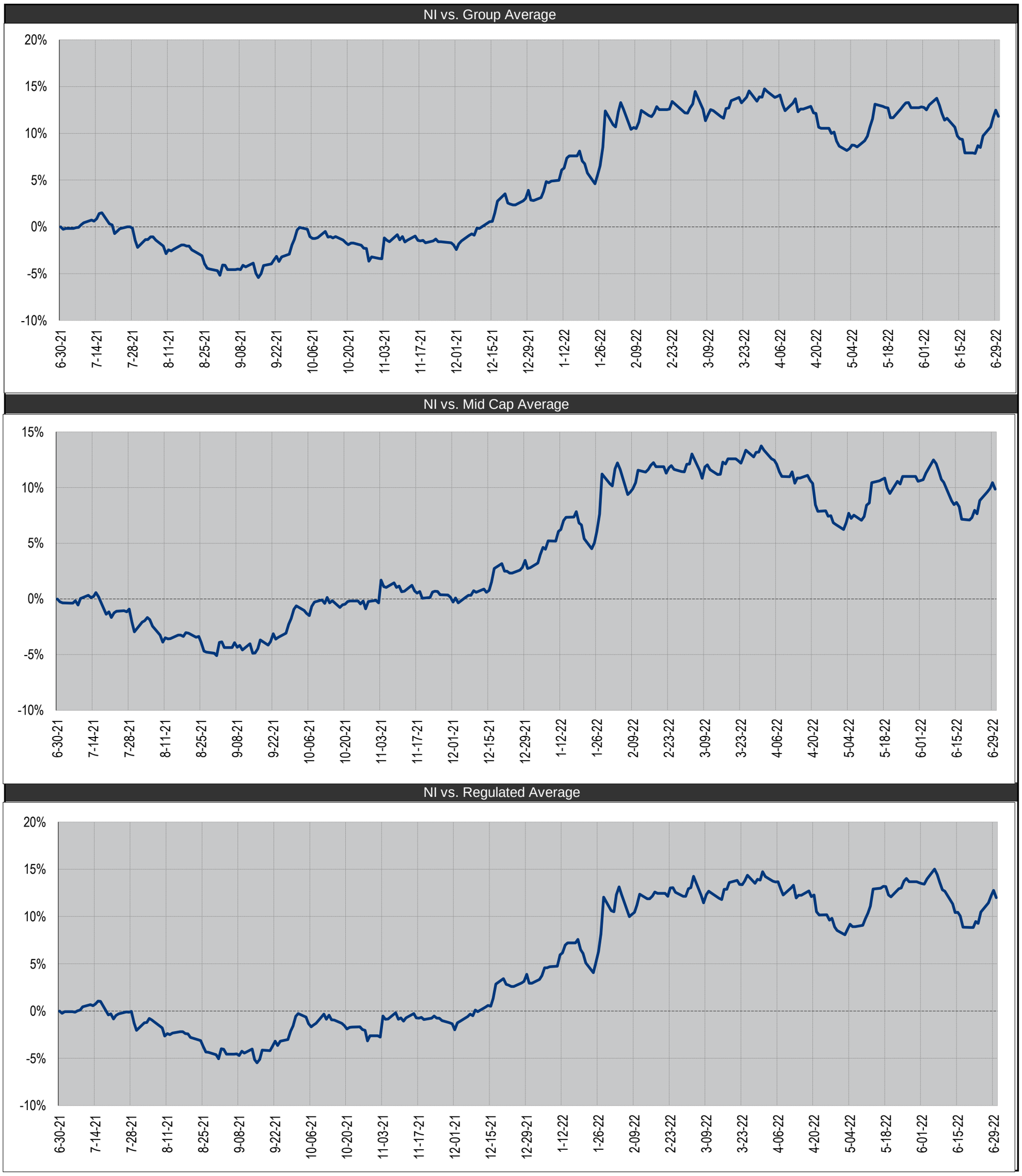
NEP vs. MLPs



WOLFE RESEARCH

NiSource (NI) $29.49, Outperform, $33 PT

NI underperformed the utilities index by 100bps in June but remains a top performer YTD. During the month, NI requested to delay the start of evidentiary hearings twice for its OH rate case. We viewed this positively as it likely means that settlement conversations are headed in the right direction.

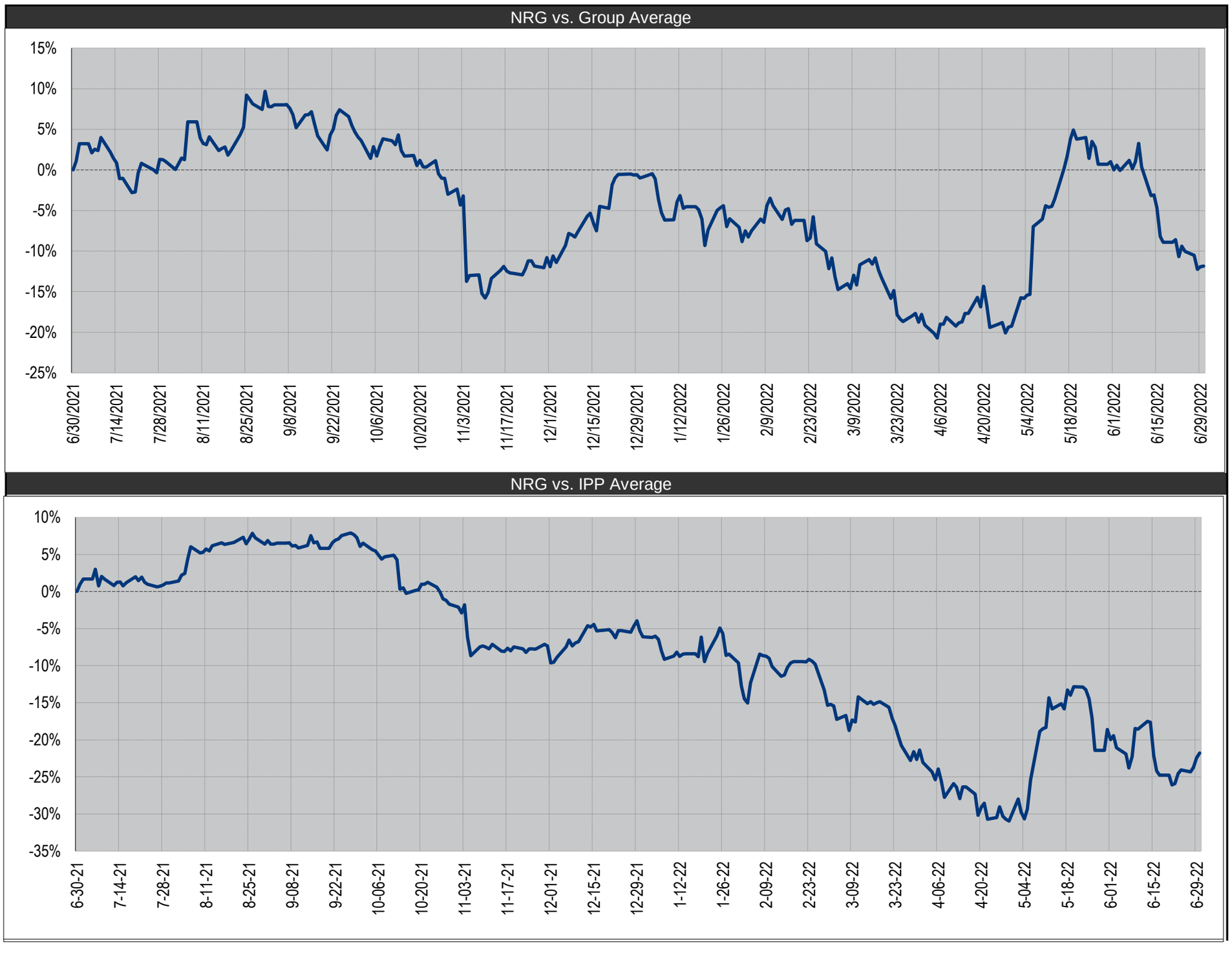


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WOLFE RESEARCH

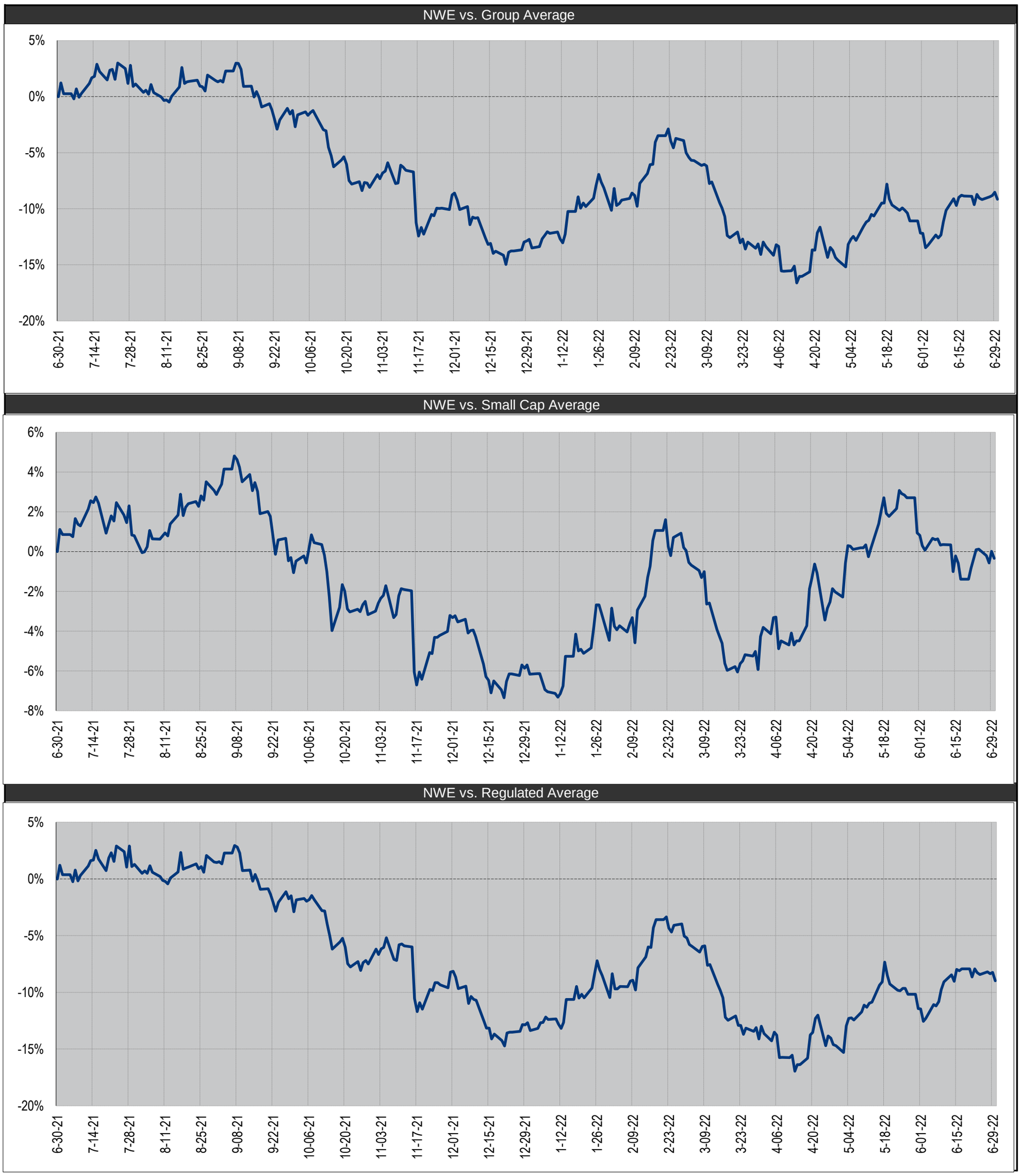
NRG Energy (NRG) $38.17, Peer Perform, $43 PT

NRG had a challenging June, giving back most of its gains from May when the stock broke out on a guidance reiteration and perhaps short covering. The stock has materially lagged peers VST and CEG year-to-date.



WOLFE RESEARCH

NorthWestern Corp (NWE) $58.93, NR

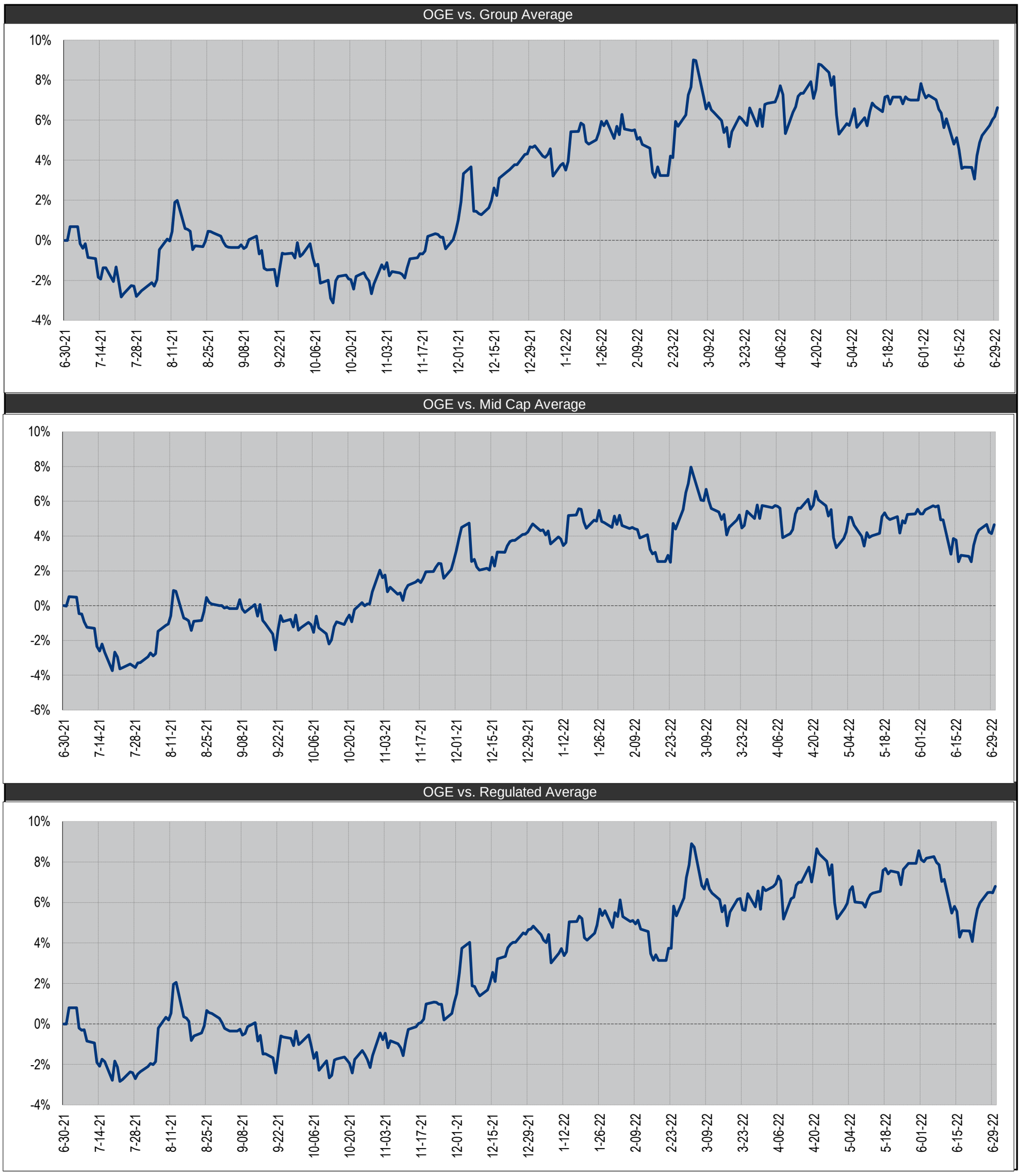


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WOLFE RESEARCH

OGE Energy (OGE) $38.56, Peer Perform, $42 PT

OGE modestly underperformed its mid cap and regulated utility peers in June likely due to complications in OG&E's pending OK rate case stemming from opposing intervenors filing a separate joint stipulation. However, at the month-end, all parties signed a constructive updated settlement agreement, which the ALJ recommended for approval. During the month, the ODFA also announced that it is issuing securitization bonds that would allow OG&E to recoup Winter Storm Uri costs.

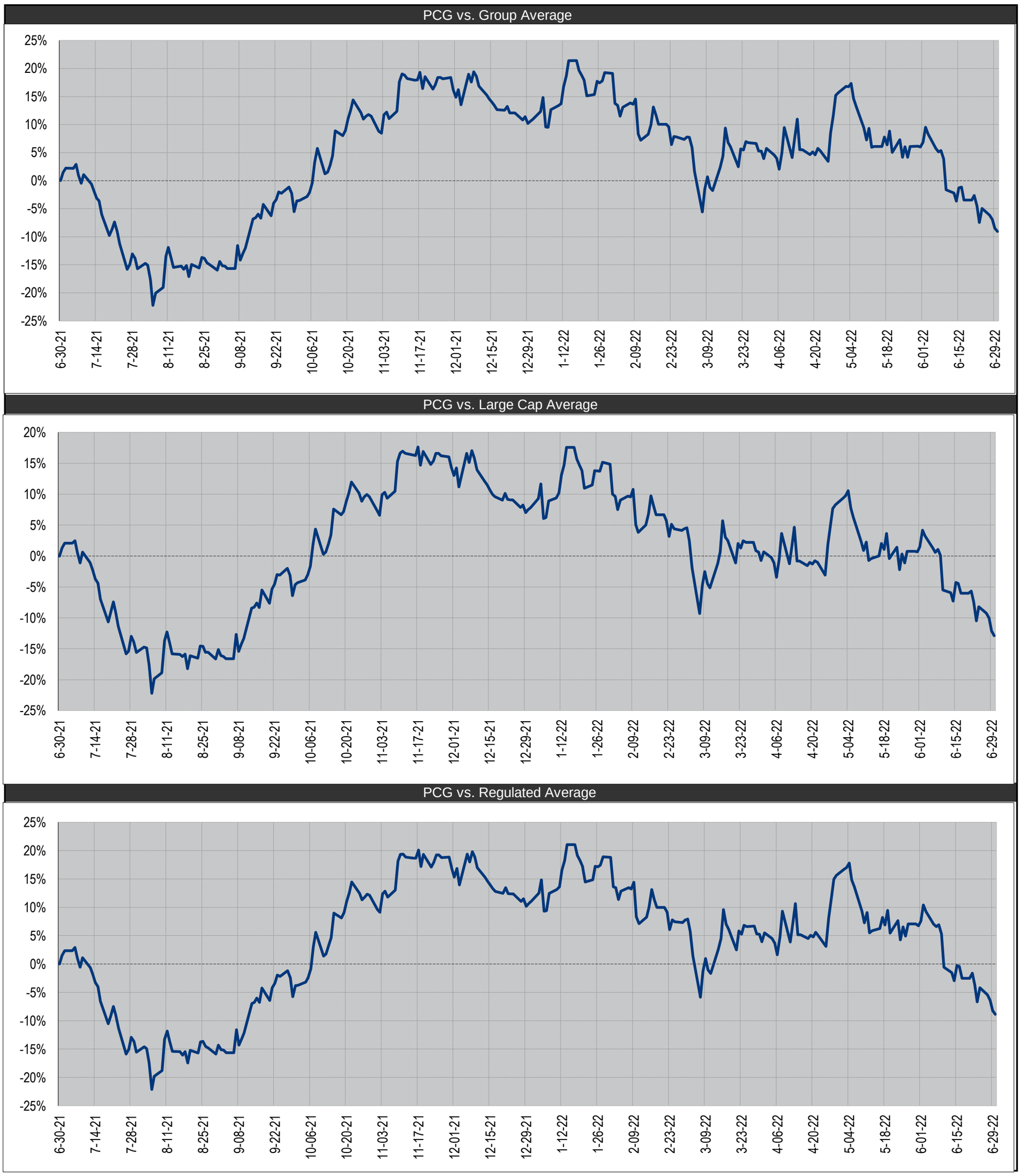


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WOLFE RESEARCH

PG&E Corporation (PCG) $9.98, Outperform, $17 PT

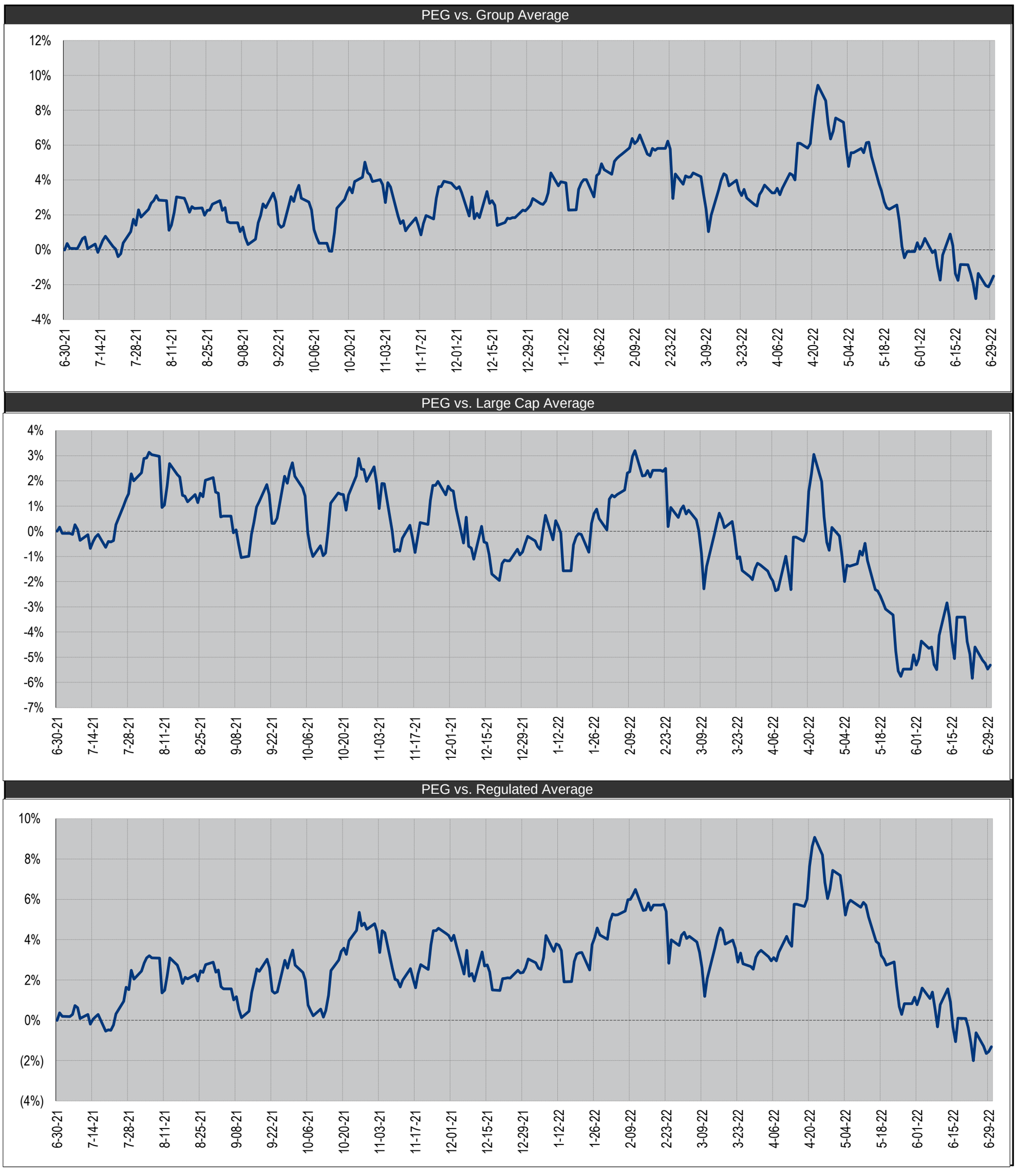
PCG sharply underperformed peers, possibly a number of issues including not being added to S&P 500 during rebalancing in early Jun, negative CAL Fire report on Dixie on the eve of PCG's Investor Day, a couple small fires that may have involved EPSS enabled lines, intervenor testimony in PCG's GRC, and FVT trustee resignation; PCG had good news on an amended undergrounding bill moving forward.



WOLFE RESEARCH

Public Service Enterprise Group (PEG) $63.28, Outperform, $73 PT

PEG underperformed in June, as attention remains entirely on its pension exposure, as PEG seems to have the most at risk in the sector after FE. PEG is underperforming on the year as well.

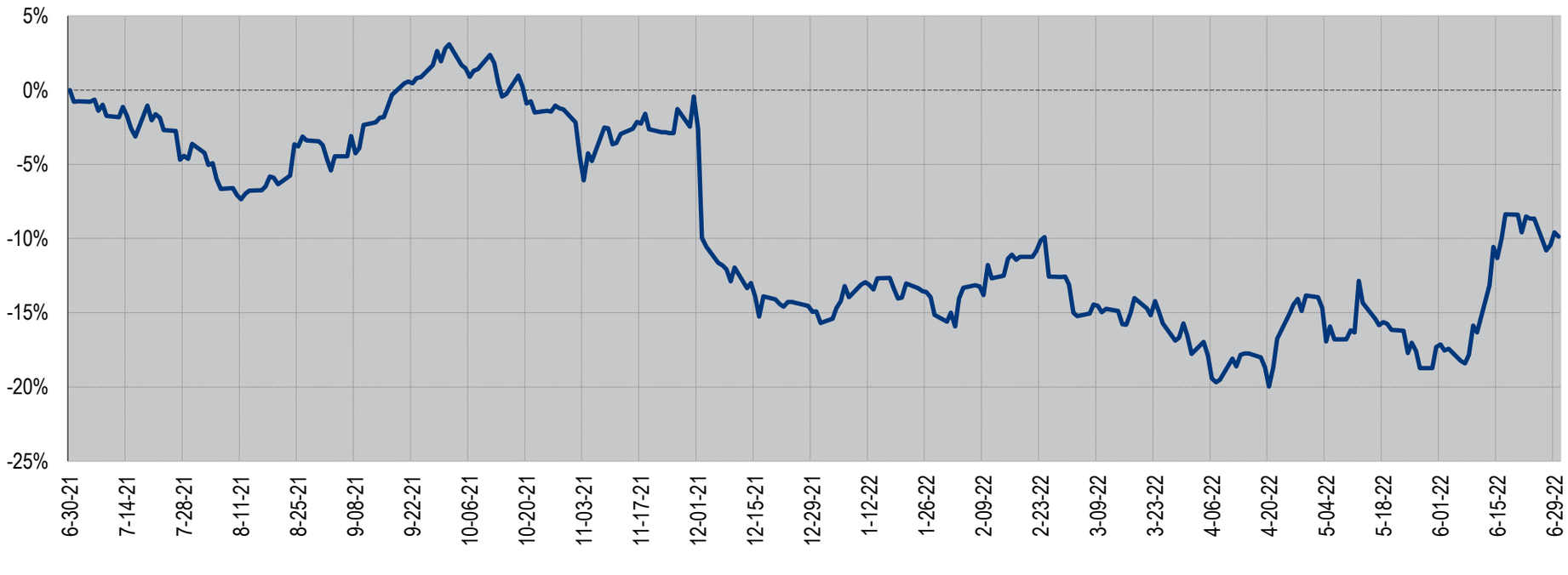


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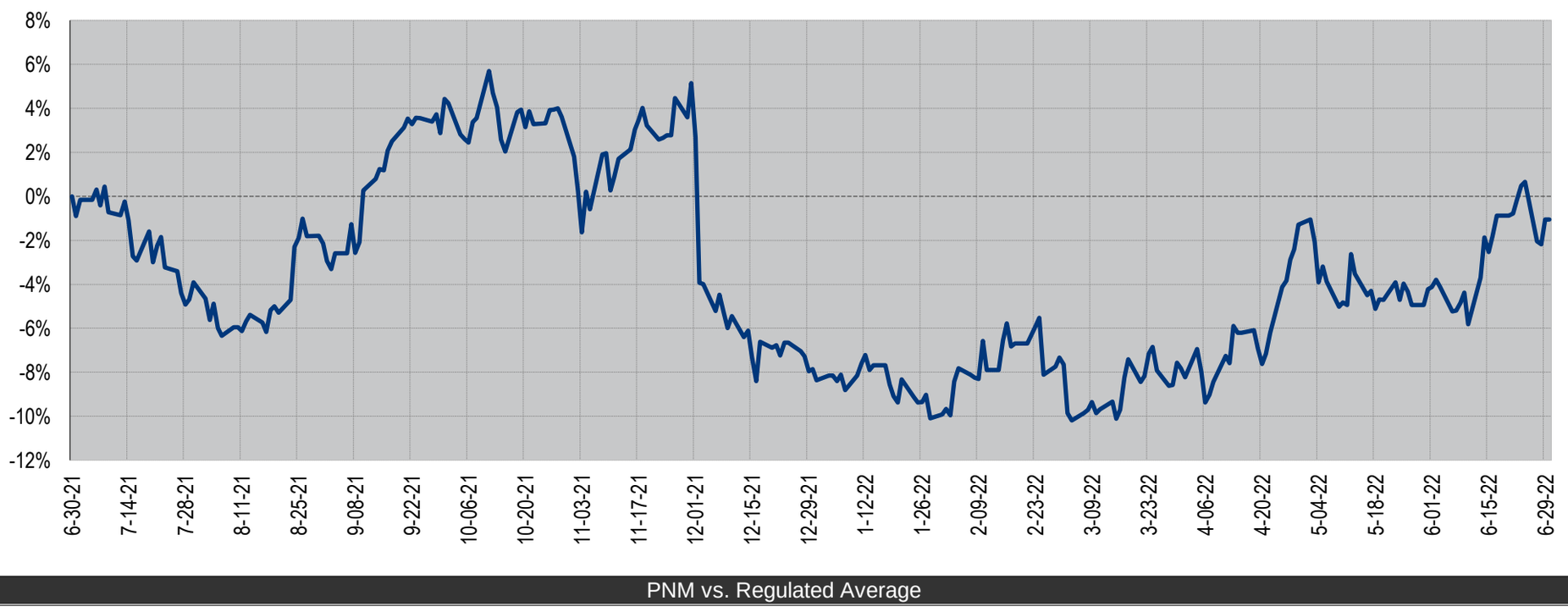
WOLFE RESEARCH

PNM Resources (PNM) $47.78, NR

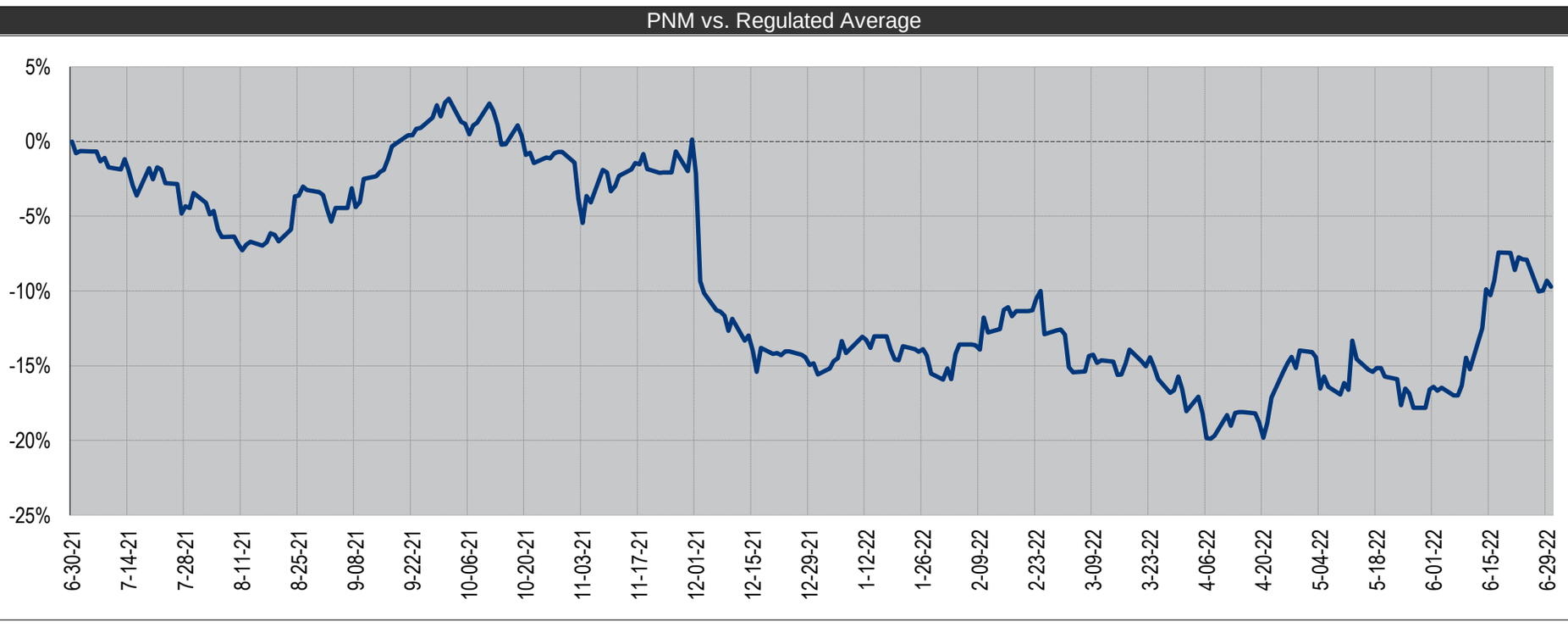
PNM vs. Group Average



PNM vs. Small Cap Average



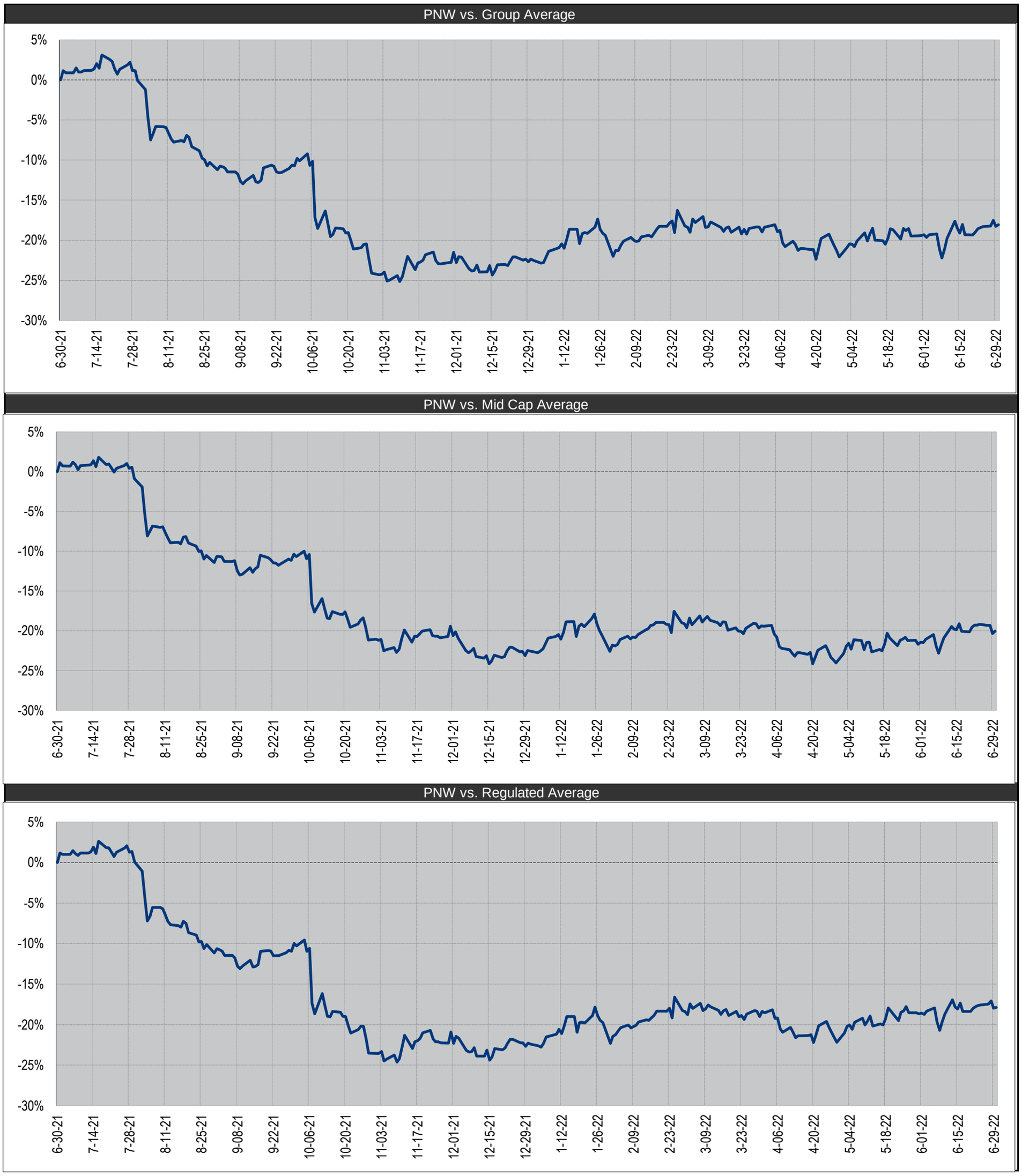
PNM vs. Regulated Average



WOLFE RESEARCH

Pinnacle West Capital (PNW) $73.12, Underperform, $73 PT

PNW modestly underperformed the sector average in June, though is still outperforming by ~550bps YTD. During June, PNW notified the ACC that it would delay the filing of its rate case until late-Oct in order to address several questions that were posed by the Chairwoman regarding cost of capital in its direct testimony. We think delaying the filing/test-year is actually beneficial for the company for a couple reasons – can now capture the 3 major projects that would've previously fallen out of the 12-mo post-test year plant window; can also better capture some of the more recent inflation and potential pension pressures.

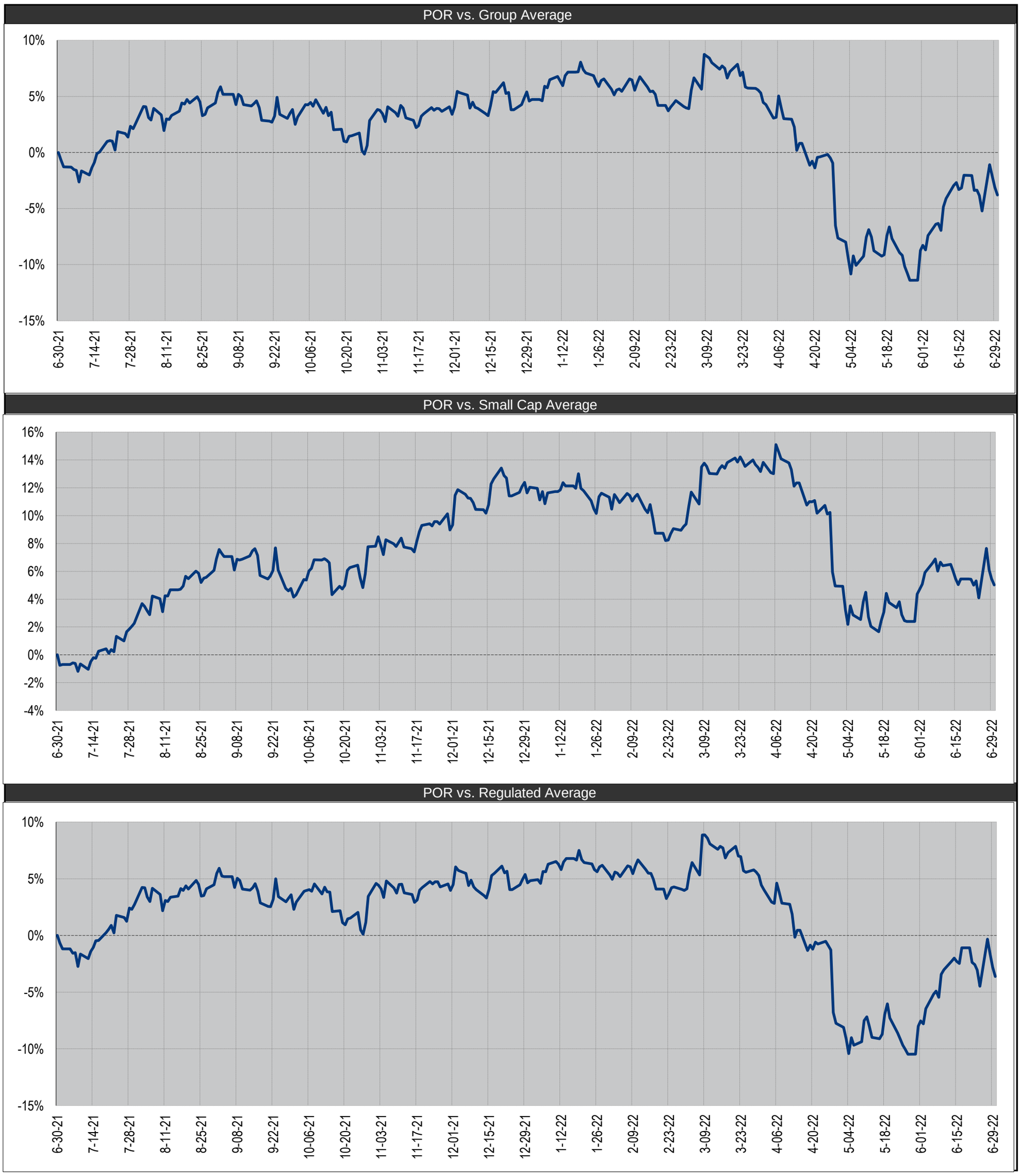


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WOLFE RESEARCH

Portland General (POR) $48.33, Peer Perform, $52 PT

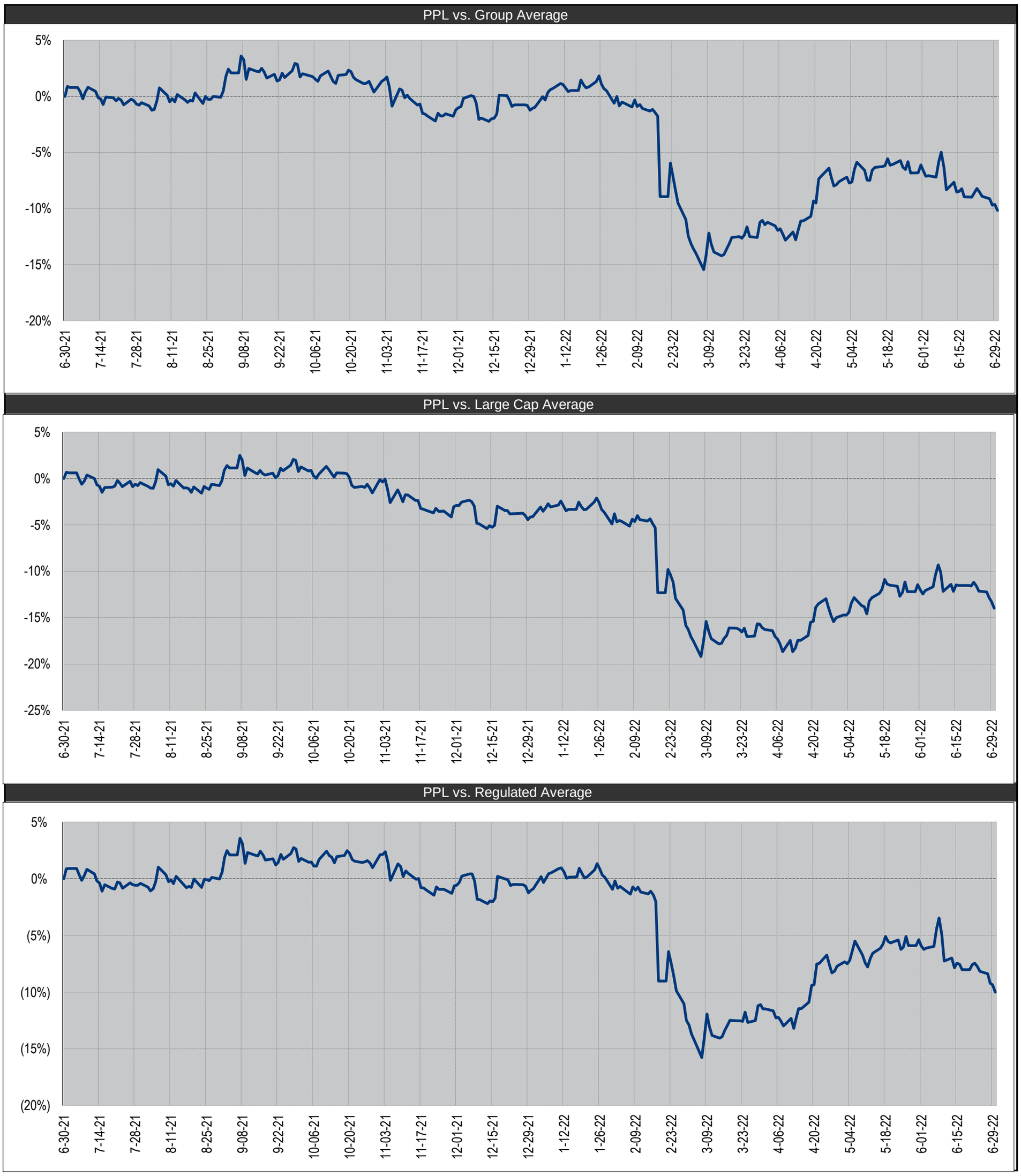
POR modestly outperformed its small cap peers in June as it was announced towards month-end that the company was set to join the S&P MidCap 400 Index.



WOLFE RESEARCH

PPL Corporation (PPL) $27.13, Outperform, $32 PT

PPL had a decent pop relative to peers before its long-awaited investor day for 6/9 but underperformed thereafter, as investors appeared focused on the low rate base growth.

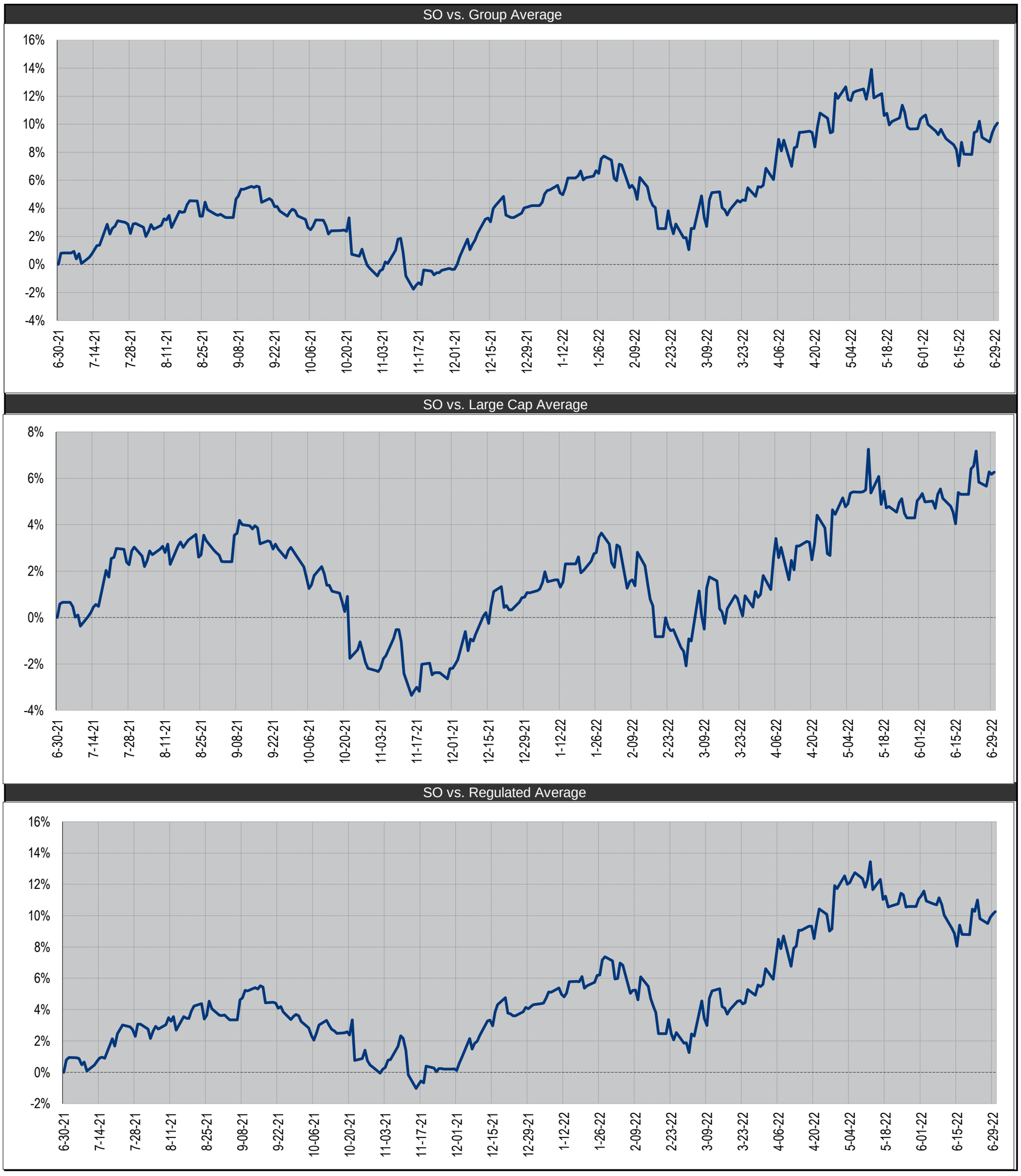


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WOLFE RESEARCH

Southern Company (SO) $71.31, Peer Perform, $75 PT

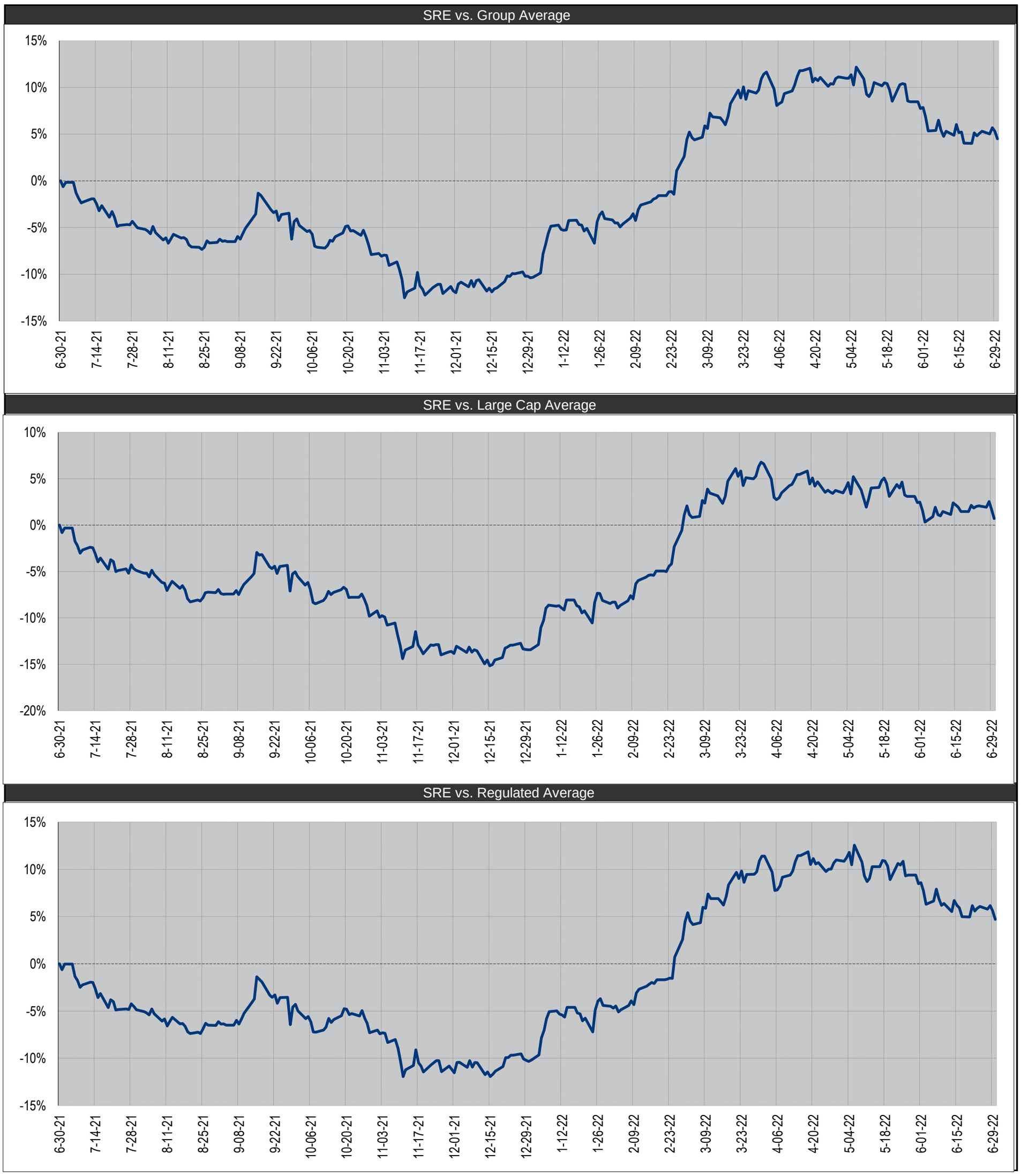
The stock outperformed in Jun, reaching its 52-week relative high to large cap peers from mid-May, as the GaPSC Staff testimony on Vogtle showed near alignment schedule.



WOLFE RESEARCH

Sempra Energy (SRE) $150.27, Outperform, $179 PT

Shares of Sempra fell a little over 8% in June, underperforming the 5% decline of the utility group overall. The company had a few positive LNG datapoints in the month with heads of agreements announced with INEOS, but given the AMZ's 14% decline in the period SRE's midstream operations may have been more of a drag on the stock.

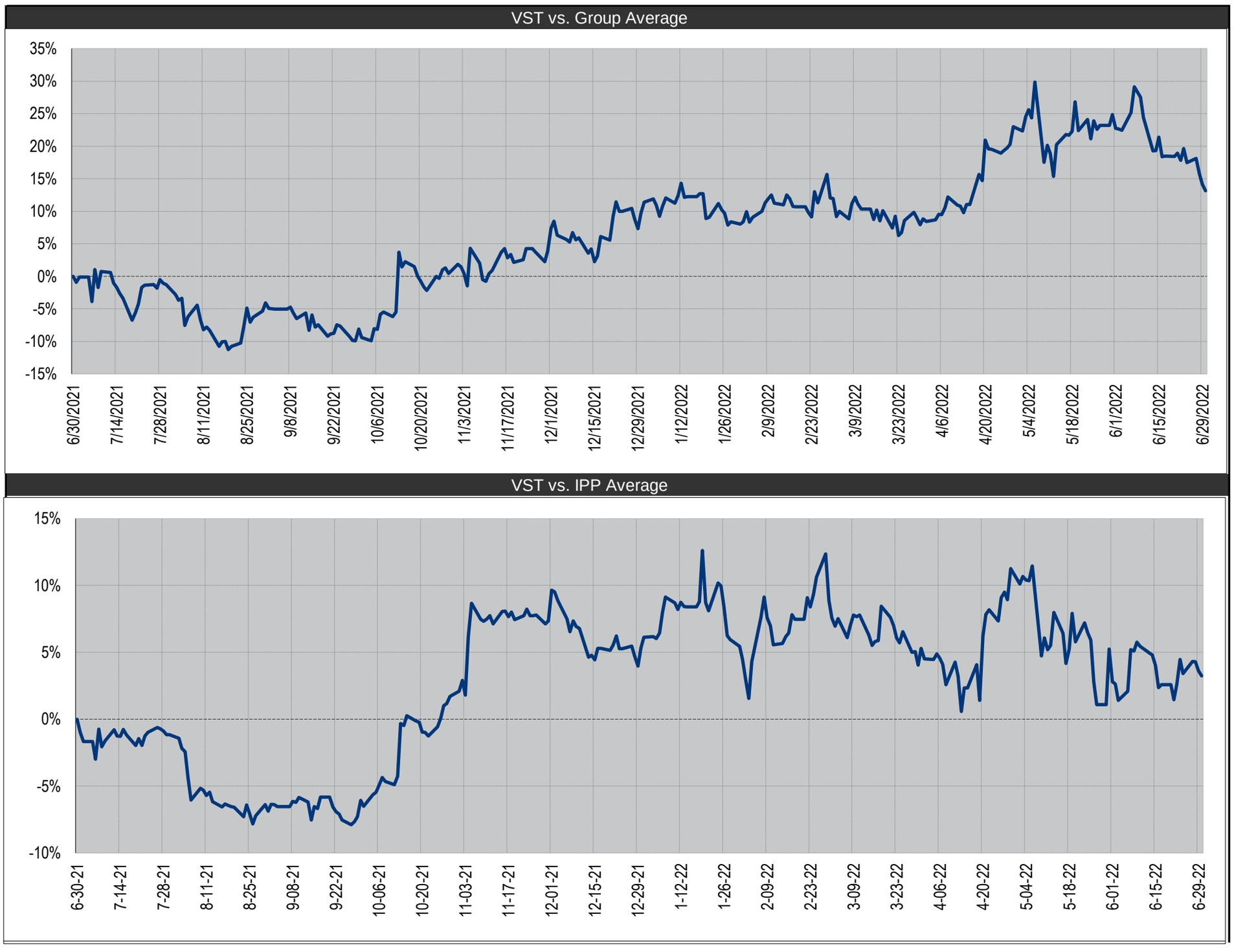


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WOLFE RESEARCH

Vistra Corporation (VST) $22.85, Outperform, $34 PT

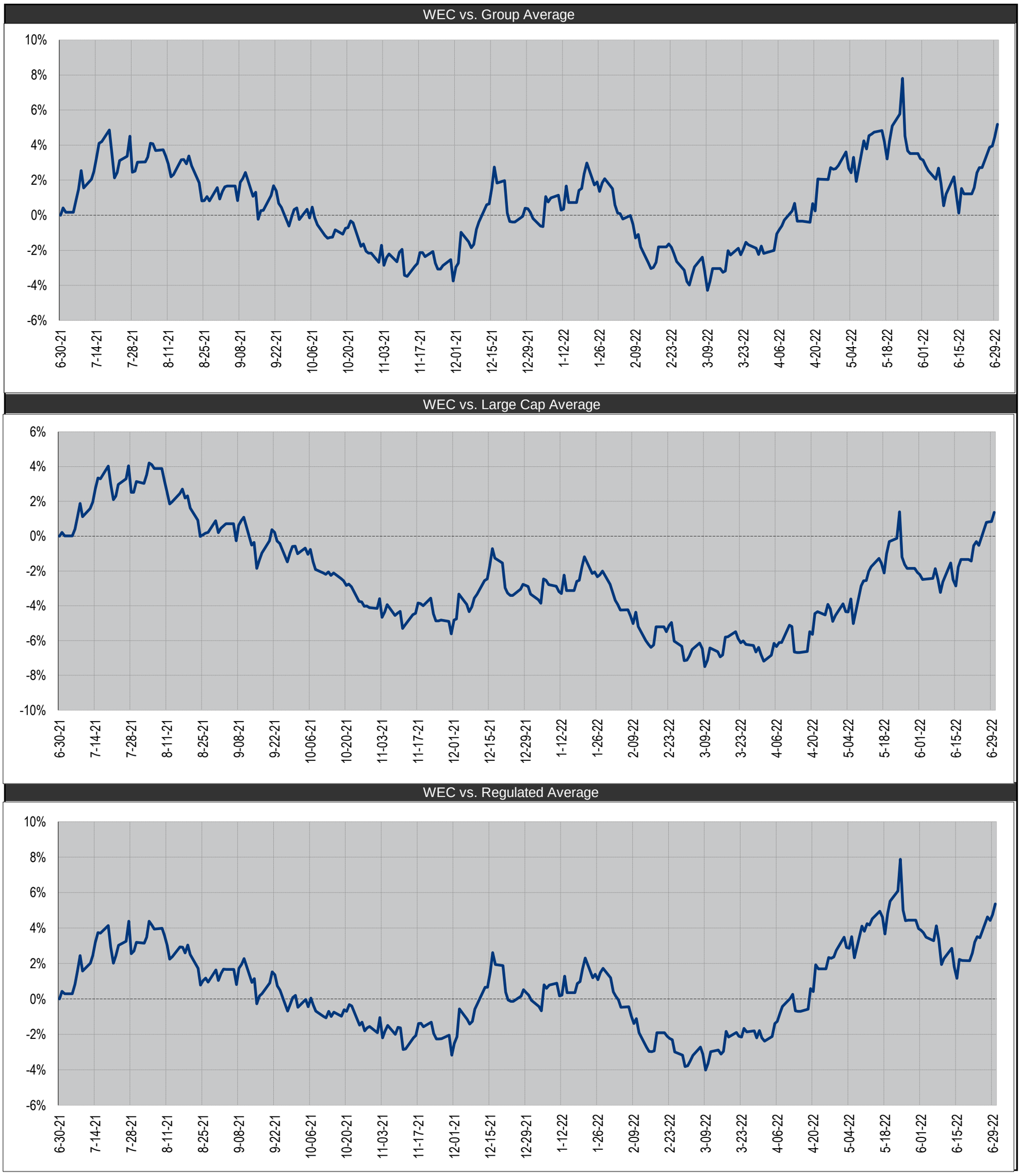
VST was one of the worst performers in the sector for June, falling alongside the broader energy sector. The commodities trade seemed to peter out some, as front-month natural gas declined from over $8 toward ~$6 after the Freeport LNG outage. That said, power forward remains elevated relative to when VST gave 2023-2025 guidance. VST also continues to see repeated insider share purchases from its executives and Board. VST is still outperforming utilities on the year, but only slightly.



WOLFE RESEARCH

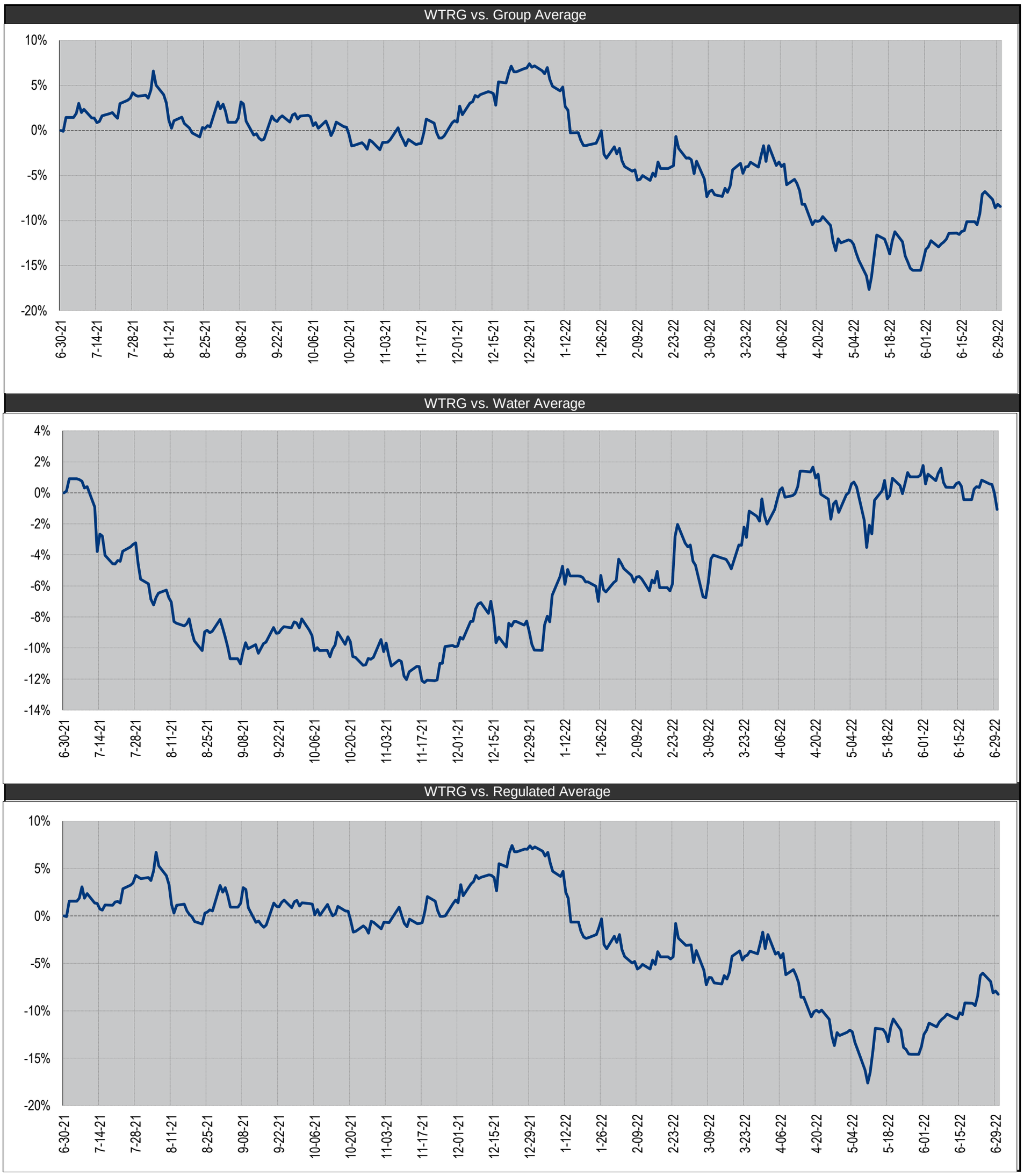
WEC Energy Group (WEC) $100.64, Peer Perform, $104 PT

WEC outperformed modestly in June and is also outperforming on the year. WEC quantified its MISO transmission opportunity as $800M and delayed 2 of its coal plant retirements.



WOLFE RESEARCH

Essential Utilities (WTRG) $45.85, NR

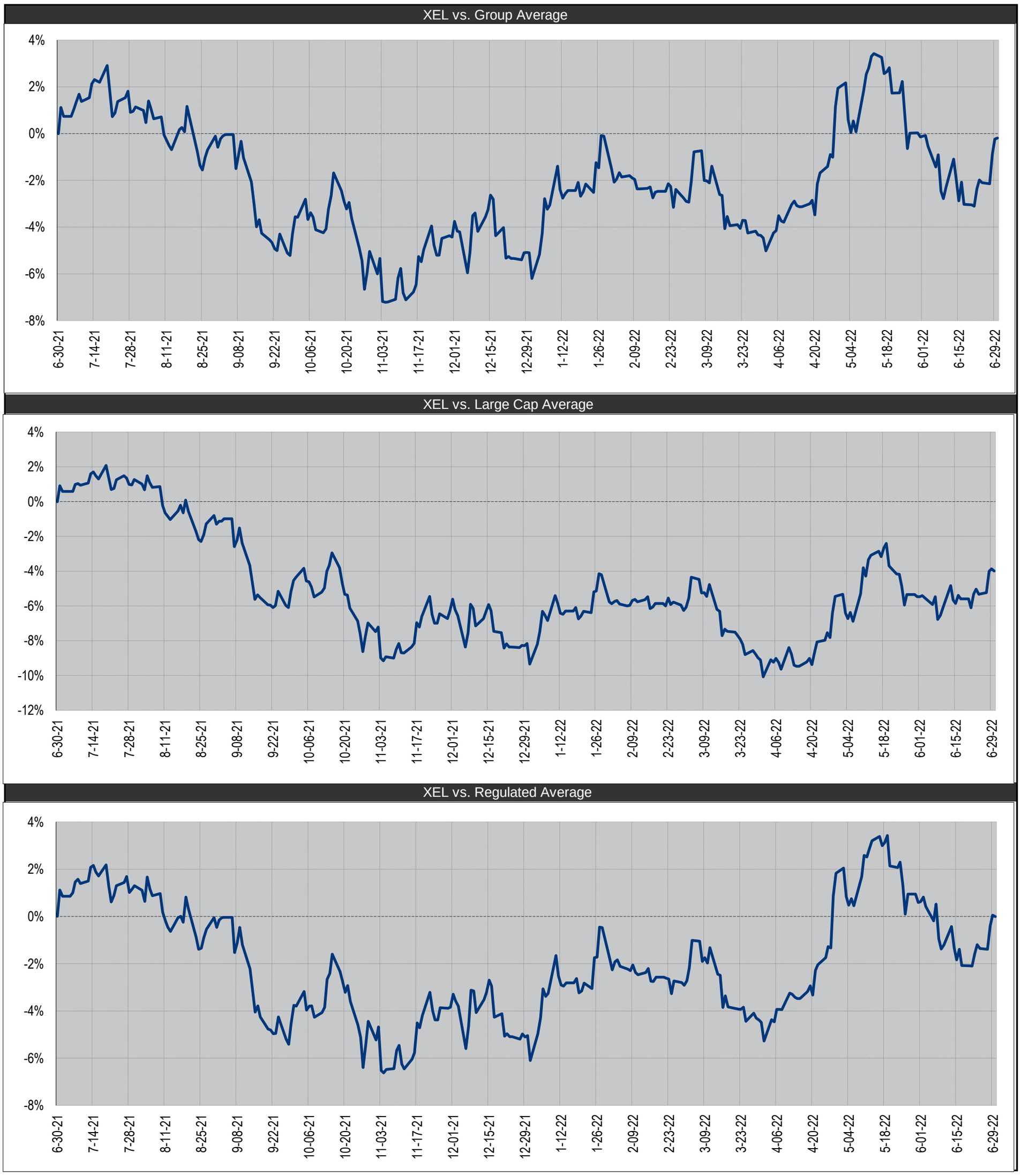


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WOLFE RESEARCH

Xcel Energy (XEL) $70.76, Peer Perform, $79 PT

XEL modestly underperformed the utilities index in June but is still 650bps ahead through the 1H of 2022. During June, the Colorado PUC approved XEL's IRP (add 4,000 MW of utility-scale renewables by 2030 and all coal gone by 2031) and also issued a final decision allowing near full recovery of XEL's incremental Winter Storm Uri costs ($500M vs the $508M request).



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Comparable Tables

Exhibit 3: Regulated Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2022E	P/E 2023E	P/E 2024E	P/E 2025E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
AES Corp.	AES	$21.01	668	$14,032	13.0x	11.8x	11.0x	10.0x	3.0%	5.0%	39%	6.4x	17%
Alliant Energy	LNT	$58.61	251	$14,700	21.3x	20.4x	19.1x	18.0x	2.9%	6.2%	62%	2.4x	43%
Ameren	AEE	90.36	258	23,333	22.1x	20.7x	19.1x	18.1x	2.6%	7.0%	58%	2.4x	41%
American Electric	AEP	95.94	514	49,269	19.2x	18.1x	17.1x	16.1x	3.3%	6.0%	63%	2.1x	39%
Avangrid	AGR	46.12	387	17,836	19.9x	22.1x	21.3x	N/A	3.8%	0.0%	76%	0.9x	69%
CenterPoint Energy	CNP	29.58	629	18,619	21.5x	20.0x	18.3x	17.1x	2.3%	8.0%	49%	2.0x	42%
CMS Energy	CMS	67.50	290	19,584	23.5x	21.5x	20.0x	18.6x	2.7%	5.7%	64%	3.0x	35%
Con Edison	ED	95.10	354	33,693	20.9x	19.9x	18.7x	17.9x	3.4%	3.0%	70%	1.7x	45%
Dominion	D	79.81	831	66,294	19.4x	18.1x	17.0x	15.8x	3.3%	6.0%	65%	2.5x	41%
DTE Energy	DTE	126.75	194	24,556	21.5x	20.4x	19.2x	17.9x	2.8%	7.0%	61%	2.8x	32%
Duke Energy	DUK	107.21	770	82,541	19.7x	18.8x	17.5x	16.5x	3.7%	2.0%	74%	1.7x	41%
Edison International	EIX	63.24	381	24,107	14.6x	13.5x	12.5x	11.6x	4.4%	5.7%	65%	2.0x	34%
Emera*	EMA	60.30	264	15,901	19.6x	18.3x	17.3x	16.4x	4.4%	3.9%	87%	1.8x	39%
Entergy	ETR	112.64	203	22,908	17.9x	16.7x	15.6x	14.6x	3.8%	6.0%	68%	2.0x	29%
Evergy	EVRG	65.25	229	14,973	18.4x	17.0x	16.2x	15.2x	3.6%	7.0%	66%	1.6x	44%
Eversource Energy	ES	84.47	345	29,132	20.5x	18.9x	17.3x	16.4x	3.0%	6.2%	62%	2.0x	42%
Exelon	EXC	45.32	980	44,423	19.9x	18.9x	17.6x	16.2x	3.0%	7.0%	59%	1.9x	37%
FirstEnergy	FE	38.39	571	21,918	15.8x	15.8x	14.6x	13.7x	4.1%	0.0%	64%	2.5x	27%
Fortis*	FTS	60.85	477	29,032	21.4x	20.0x	19.1x	18.5x	3.6%	6.0%	76%	1.6x	42%
NextEra Energy	NEE	77.46	1,964	152,170	27.1x	25.0x	22.9x	21.3x	2.2%	10.0%	59%	4.2x	38%
NiSource	NI	29.49	406	11,967	20.3x	19.3x	17.0x	N/A	3.2%	6.0%	65%	2.1x	40%
OGE Energy	OGE	38.56	200	7,720	18.7x	19.0x	17.9x	16.8x	4.3%	2.0%	80%	1.8x	45%
PG&E	PCG	9.98	1,987	19,835	9.2x	8.4x	7.6x	7.0x	0.0%	N/A	0%	0.9x	31%
Pinnacle West	PNW	73.12	113	8,263	18.3x	17.3x	16.2x	N/A	4.7%	2.5%	85%	1.4x	42%
Portland General	POR	48.33	89	4,312	18.8x	16.4x	15.8x	15.1x	3.7%	5.0%	69%	1.6x	43%
PPL Corp.	PPL	27.13	736	19,965	19.8x	17.0x	15.8x	15.1x	3.3%	6.5%	66%	1.4x	53%
PSEG	PEG	63.28	499	31,593	18.2x	17.7x	16.8x	N/A	3.4%	5.9%	62%	2.3x	41%
Sempra	SRE	150.27	314	47,231	17.6x	16.9x	15.7x	N/A	3.2%	8.0%	57%	1.9x	49%
Southern Company	SO	71.31	1,063	75,769	20.1x	19.0x	17.2x	16.0x	3.8%	3.8%	76%	2.7x	34%
WEC Energy Group	WEC	100.64	315	31,745	23.0x	21.9x	20.6x	19.3x	2.9%	7.4%	67%	2.8x	43%
Xcel Energy	XEL	70.76	545	38,540	22.4x	20.9x	19.7x	18.6x	2.7%	6.0%	61%	2.4x	39%
Average					**19.5x**	**18.4x**	**17.2x**	**16.1x**	**3.3%**	**5.4%**	**64%**	**2.2x**	**40%**
Average (ex EIX & PCG)					**20.0x**	**18.9x**	**17.6x**	**16.6x**	**3.3%**	**5.4%**	**66%**	**2.3x**	**40%**

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

Exhibit 4: YieldCo Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2022E	EV/EBITDA 2023E	EV/EBITDA 2024E	EV/EBITDA 2025E	Div Yield
Clearway Energy	CWEN	34.84	202	7,028	10.7x	11.4x	11.8x	N/A	4.1%
NextEra Energy Partners	NEP	74.16	177	13,147	10.2x	9.1x	8.7x	8.0x	4.0%
Atlantica Yield*	AY	32.26	114	3,681	10.8x	10.1x	9.7x	9.4x	5.5%
Average					**10.6x**	**10.2x**	**10.0x**	**8.7x**	**4.5%**

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

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Exhibit 5: IPP Comparables

Company		Current	Current	Mkt Cap	EV/EBITDA			Levered FCF Yield			Unlevered FCF Yield		
Name	Ticker	Price	Shares	($M)	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Constellation Energy Corp	CEG	57.26	327	18,705	10.1x	7.7x	6.9x	10.2%	8.5%	11.0%	8.1%	7.3%	8.9%
NRG Energy	NRG	38.17	237	9,057	7.3x	6.5x	6.0x	13.9%	20.0%	23.2%	10.5%	13.7%	14.8%
Vistra Corp	VST	22.85	432	9,867	6.4x	5.1x	5.0x	23.2%	26.2%	27.7%	13.5%	14.3%	14.5%
Average					**7.9x**	**6.4x**	**6.0x**	**15.8%**	**18.2%**	**20.6%**	**10.7%**	**11.7%**	**12.7%**

Source: Wolfe Utilities & Power Research

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Group Classifications

Group:

AEE	AEP	AES	AGR	ALE	AVA	AY	CMS	CNP	CWEN	D	DTE	DUK	ED	EIX
EMA	ES	ETR	EVRG	EXC	FE	FTS	HE	IDA	LNT	NEE	NEP	NI	NRG	NEW
OGE	PCG	PEG	PNM	PNW	POR	PPL	SO	SRE	VST	WEC	XEL			

Large Cap:

AEP	D	DTE	DUK	ED	EIX	ES	ETR	EXC	FE	NEE	PCG	PEG	PPL	SO
SRE	WEC	XEL												

Mid Cap:

AEE	CMS	CNP	EMA	EVRG	FTS	LNT	NI	PNW	OGE

Small Cap:

ALE	AVA	HE	IDA	NWE	PNM	POR

Regulated:

AEE	AEP	AES	AGR	ALE	AVA	CMS	CNP	D	DTE	DUK	ED	EIX	EMA	ES
ETR	EVRG	EXC	FE	FTS	HE	IDA	LNT	NEE	NI	NWE	OGE	PCG	PEG	PNM
PNW	POR	PPL	SO	SRE	WEC	XEL								

IPPs:

CEG	NRG	VST

YieldCos:

AY	NEP	CWEN

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WOLFE RESEARCH

July 4, 2022

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Weisenburger \ Michael \ V

From: Steve Fleishman <utilities@wolferesearch.com>
Sent: Wednesday, August 3, 2022 9:26 AM
To: Weisenburger \ Michael \ V
Subject: The Fleishman Daily 8/3/22 - NI, ETR, EXC, PNW, PPL, SWX, PNW/FTS, NRG, CNP, WEC, PEG, EPD, DTM, ETRN, MPLX, WMB, SEDG, CWEN

Categories: SellSide Notes

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August 3, 2022

THE FLEISHMAN DAILY 8/3/22

NI, ETR, EXC, PNW, PPL, SWX, PNW/FTS, NRG, CNP, WEC, PEG, EPD, DTM, ETRN, MPLX, WMB, SEDG, CWEN

The Fleishman Daily 8/3/22
Utilities: NI, ETR, EXC, PNW, PPL, SWX, PNW/FTS, NRG, CNP, WEC, PEG
Midstream: EPD, DTM, ETRN, MPLX, WMB
Clean Energy: SEDG, CWEN

Utilities

NI – Q2 in-line, 2022 guide reaffirmed; tariff pause adds more confidence on revised project timelines; Analyst Day in Nov. 'focused on extending growth plan'
ETR – 2Q22 beats, points to upper half of 2022 guidance but LT EPS growth affirmed; sales strong; positive
EXC – Q2 miss but 2022 guidance affirmed; $500M equity issuance now planned by YE22; net negative
PNW – Q2 beats; 2022 guidance and 5-7% EPS CAGR reaffirmed; pretty uneventful
PPL – Q2 in line, 2022 guidance and 6-8% EPS growth affirmed; in line
SWX – Decides not to pursue company sale in strategic review; negative datapoint for gas LDC M&A
PNW/FTS – ACC primary – Kevin Thompson and Nick Myers appear to be on the Republican ticket
NRG – Bloomberg reports 1,300 MW Joliet plant in PJM to shut
CNP – Making it look easy
WEC – Continuing the quick start
PEG – Plusses and minuses

Midstream

EPD – Big Q2 beat in commodity-sensitive businesses; Growth inflection continues with several incremental project announcements
DTM – Q2 tops consensus, running ahead of plan for 2022; announces 2nd LEAP expansion; positive
ETRN – Beat, raise, Manchin praise
MPLX – Sticking with the structure
WMB – Gas potential tops AMT worries

Clean Energy

SEDG – Q2 fell off the edge of glory; Euro troubles
CWEN – Accelerating growth, reducing risk

Quarterly data: Weather, Forward Prices, Spot Prices, Nuke Outages

Wolfe Utility & Midstream Materials: Utility Comps, Utility Stock Charts, Midstream Comps, Midstream Stock Charts, Clean Energy Comps, Valuation Charts, Models

Utilities

NI – Q2 in-line, 2022 guide reaffirmed; tariff pause adds more confidence on revised project timelines; Analyst Day in Nov. 'focused on extending growth plan'

- **Q2 in-line.** NI reported EPS of $0.12 which matched consensus (WRe $0.11)
- **2022 guidance reaffirmed.** Guidance range of $1.42-1.48 vs us/cons at $1.45
- **EPS growth targets reaffirmed.** 5-7% annual EPS growth through 2023, 7-9% CAGR through 2024 both of which are anchored off 2021A
- **Solar tariff pause adds more confidence/clarity on revised project timelines.** No changes to 6–18-month delay expectation for projects, mitigation plan to maintain growth commitments underway
- **Investor Day in November – 'focused on extending NiSource's growth plan'.**
- **Regulatory update.** NIPSCO gas settlement just approved ($72M rate increase, 9.85% ROE and 49.47% equity ratio); settlement discussions in OH and PA gas cases are ongoing

We expect a lot of questions on the call to be on the pending strategic review and upcoming Investor Day in November. From the release, it appears that most of the company's focus is on extending the growth outlook, which will include the next leg of generation investments (+ likely O&M optimization); a key question will be whether strategic actions are still on table. Commentary on the solar projects suggests more confidence in achieving the 7-9% CAGR through 2024 but it is unclear to what extent that project timelines may have moved forward, if at all, with the tariff pause in place.

ETR – 2Q22 beats, points to upper half of 2022 guidance but LT EPS growth affirmed; sales strong; positive

- **2Q22 strongly beats:** $1.78 vs consensus $1.40, WRe $1.32. The beat is largely driven by higher retail sales, including weather; YTD weather has contributed $0.32.
- **Points to top half of 2022 guidance; 2023-24 outlooks reaffirmed, as is ETR's target of 6-8% EPS growth off 2021 original guidance midpoint of $5.95:** Guidance vs consensus and WRe:
  - 2022: Top half of $6.15-6.45 vs $6.34 cons; $6.31 WRe
  - 2023: $6.55-6.85 vs $6.76; $6.73
  - 2024: $6.95-7.25 vs $7.21; $7.21
- **Remaining equity needs to be sourced through 2024 decline to $320M from $570M:** ETR sees $320M of remaining equity to be sourced through 2024, as the company completed some issuances through its ATM last quarter. ETR continues to target hitting its target of over 14% FFO/Debt by 2023. ETR's YTD22 avg shares outstanding was 204M; 2022 guidance assumes 207M avg shares outstanding; about $680M in forward equity sales through ETR's ATM have not yet settled.
- **Storm cost securitization:** ETR-LA filed to issue securitization bonds for the remaining storm costs of $2.6B; but $1B of that has already been approved in escrow this past May; Intervenor testimony due 9/16; a LaPSC decision expected in 4Q22.
- **2Q22 weather-adj sales +4.2%, with industrial remaining strong; FY22 growth now expected to be +2.9% v +2.0%**: For 2Q22, +4.2% total sales growth (Resi +0.2%, Comm +4.7%, Ind +6.6%). For FY22, ETR now sees about +2.9% sales growth vs +2.0% in April and +1.8% in Feb.

We view the results as positive and indicative of strong industrial sales growth, which supports ETR's outlook at the June analyst day. On the call, we expect questions around customer bill pressures, resiliency filings, and confidence on sales outlook. We anticipate questions on the SERI proceedings at FERC, particularly after the other regulators (AR, LA and NOLA) declined to join MS in settling.

EXC – Q2 miss but 2022 guidance affirmed; $500M equity issuance now planned by YE22; net negative

- **2Q22 miss**. $0.44 vs $0.48 consensus, $0.46 WRe. Included a -$0.03 vs 2Q21 for higher contracting costs partially due to timing maintenance and higher interest expense, and another -$0.01 for timing of taxes.
- **2022 guidance reaffirmed; 6-8% EPS growth rate through 2025 was unchanged.** EXC reaffirmed 2022 guidance at $2.18-2.32 vs $2.26 consensus vs $2.27 WRe.

- **Equity of $500M in 2022.** EXC is establishing a $1B ATM with the expectation of issuing $500M this year and the rest over 2023-25 period; EXC's LT outlook included $1B of equity through 2025.
- **TTM ROE below target range of 9-10% but expects to be within it by YE22**. Earned ROE through 2Q22 was 8.8% vs 8.9% through 1Q22. EXC pointed to timing of equity infusions and expects to be in 9-10% range by YE22.
- **FFO/Debt target still expected to average 13-14% in 2022-24; downgrade threshold 12%.** EXC is rated BBB/Baa2.

The results were a little negative. The Q2 miss could be from timing of maintenance costs and taxes. Although guidance was affirmed, the higher 30Y UST yield implied EXC could be doing better as ComEd's earnings directly benefits. However, the rates on EXC's ST debt has gone up faster and quicker, mitigating the benefit from the higher 30Y. The equity issuance is a little annoying, given it's $500M over five months. We anticipate questions on the equity announcement, the IL electric distribution multiyear rate case filing in Jan 2023, and the Inflation Reduction Act, particularly the impact from the corporate minimum tax.

<u>PNW – Q2 beats; 2022 guidance and 5-7% EPS CAGR reaffirmed; pretty uneventful</u>

- **Q2 beat.** PNW reported Q2 EPS of $1.45 – a beat vs consensus at $1.31 (WRe $1.20)
- **2022 guidance, 5-7% EPS CAGR both reaffirmed.** PNW still expects 2022 EPS range of $3.90-4.10 – vs us/cons $4.01
    - Drivers for 2022 guidance are unchanged; still expects W/A sales growth of 1.5-2.5%
- **Capex, financing plans both unchanged.** 2022-23E capex of 1.53B/yr., 2024E is $1.65B; no equity until after next rate case
- **2Q22 W/A sales growth of +3.2%.** Retail up 0.6%, C&I up 5.6%; total customer growth was 2.0%

The Q2 beat appears to be driven by weather, continued strong sales growth and a tax benefit. But PNW said results were in-line with expectations and the 2022 guide was reaffirmed. There were a couple slides added that talk to pension, but no sensitivities were provided to assess potential impacts to 2023; we will be looking for more here on the call. Otherwise the update looked pretty uneventful.

PPL – Q2 in line, 2022 guidance and 6-8% EPS growth affirmed; in line

- **2Q22 EPS in line**: $0.30 vs $0.29 consensus, $0.30 WRe.
- **2022 guidance affirmed**: $1.30-1.45 vs $1.42 consensus, $1.37 WRe. On pro forma basis, 2022 guidance is $1.40-1.55.
- **LT EPS growth reaffirmed**: 6-8% through 2025 off 2022 pro forma implies $1.69 in 2024 vs $1.72 consensus and $1.72 WRe.
- **O&M savings**: PPL began program to reduce O&M by $50-60M by 2023, $120-130M by 2024 and $150M by 2025.
- **2Q22 weather-adj sales growth**: PA saw +1.5% and KY +1.6%.
- **Coal/fleet transition opportunity**: PPL KY issued a RFP to replace older, coal-fired units in 2028; proposals due mid-Aug. PPL KY will make filings in 4Q22 or 1Q23. PPL projects coal capacity to fall from 4.7 GW to 3.7 GW by 2028 (2.7 by 2035, zero by 2050).

The results were in line. Not much new since PPL's June Investor Day. A little more color on O&M savings and fleet transition. We anticipate questions on the LT fleet transition opportunities in KY and grid mod in PA/RI.

SWX – Decides not to pursue company sale in strategic review; negative datapoint for gas LDC M&A

- This morning, SWX announced that it had determined the best path to maximize stockholder value is to conclude its strategic review process for the company

    - It will still pursue the process to sell its Centuri (infra) and MountainWest (pipeline) nonregulated subsidiaries
- Recall that Icahn has been heavily involved here – pushing for tender offers, Board/mgmt. turnover, and an outright sale

On the surface, this is a negative datapoint for gas LDC M&A which until now has been robust the last 12-18 months. However, some of this may be SWX states like AZ and NV that have been tougher regulatory environments and warmer weather states. This is also another case where activist-driven review processes have not led to a company sale like EVRG. Among our coverage, NI is the main read-through given Elliott's activist involvement and the focus on potential gas LDC sales as part of CEO Lloyd Yates' strategic review (see NI update above). Icahn is also involved in FE where further asset sales remain a potential and some investors have hoped for an eventual full sale.

<u>PNW/FTS – ACC primary – Kevin Thompson and Nick Myers appear to be on the Republican ticket</u>

- As of 8am ET, ~80% of the estimated vote had been counted in the primary race for the Arizona Corporation Commission (ACC)
    - Recall this is only to decide who appears on the Republican ticket as only two Democrats are running and qualify by default
- Kevin Thompson (320K votes) is in the lead, followed by Nick Myers (276K votes) and Kim Owens (245K votes)
- Mr. Thompson is currently serving his final term on the City Council in Mesa, AZ and previously was an employee at Southwest Gas
- Mr. Myers is currently a policy advisor to Commissioner Justin Olson
- Ms. Owens currently serves on the AZ Power Authority and previously spent time as a ratepayer advocate on the Salt River Project Council

While the vote count has yet to be finalized, it appears that the joint ticket of Thompson and Myers will represent Republicans in the fall election. A quick search on their websites suggests shared values for eliminating mandates and subsidies, keeping utility rates

low/fair and limiting the role that the Commission plays with respect to state policy decisions (i.e., just focus on setting just and reasonable rates). We continue to view the outcome of the ACC election in the fall as the most important event this year for PNW.

NRG – Bloomberg reports 1,300 MW Joliet plant in PJM to shut

- Bloomberg reports that NRG will close the 1,300 MW gas-fired Joliet plant in Illinois by June 2023 and had filed a deactivation request

The planned retirement of Joliet is new and incremental to the other PJM plants that NRG recently shut. After Joliet is retired, NRG would be down to just the Powerton coal plant in Illinois and various smaller peakers in the market. NRG already zeros out its PJM generation contribution from forward looking financial materials.

CNP – Making it look easy

Click here to view our complete note

Q2 beats and 2022 guide raised; growth targets re-based higher (again). CNP reported Q2 EPS of $0.31 which beat us/cons at $0.27. The beat was driven by $0.04 of favorable weather as well as a $0.02 tax benefit from the VUHI restructuring. 2022 guidance was raised to $1.37-1.39 from $1.36-1.38 on the back of strong customer growth and favorable weather. Given the tailwinds, CNP plans to pull forward some O&M in the 2H of 2022 to de-risk future years. CNP's annual EPS growth targets (8% through 2024 and the mid-to-high end of 6-8% thereafter through 2030) were reaffirmed off the new 2022 base, implying stronger earnings going forward.

WEC – Continuing the quick start

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Q2 EPS beat and 2022 guidance raise. WEC reported Q2 EPS of $0.91 – above consensus/us and $0.82-0.84 guidance. This was

up from $0.87 last year, with rate relief and energy infrastructure PTCs the primary drivers. Weather-normal electric sales growth is tracking close to plan, while gas sales have been impressive. After being the only company to raise guidance in Q1, WEC did it again and pointed to the top-end of $4.36-4.40 (from $4.34-4.38). WEC sees 6-7% EPS growth long-term.

PEG – Plusses and minuses

Click here to view our complete note

Pension has been a massive overhang. PEG has lagged by over 10% since the Q1 call, as investors turned their focus to next year's pension headwind as we previously discussed in detail (link). At this point, we believe the risk is well-reflected and the issue should ultimately be addressed by 2025 via next year's rate case filing. Mgmt talked at a high-level to potential offsets today, but has generally done itself little favors to allay fears. PEG reaffirmed the 5-7% EPS CAGR over 2022-2025, but will not commit to hitting that range in the interim.

Midstream

EPD – Big Q2 beat in commodity-sensitive businesses; Growth inflection continues with several incremental project announcements

- **Q2 beat by more than expected on big NGL processing and marketing results.** 2Q22 EBITDA of $2,418M came in 5% above our estimate and 7% above consensus.
    - The beat was driven by a blowout quarter in NGL processing (better than expected results at Navitas and underlying margins), and in NGL marketing which was up $49M QoQ in contrast to typical seasonality. NGL pipeline, export, and frac margins were below our forecasts despite strong volumes.
    - Petchem margin came in modestly better than our forecast. Octane had a blowout quarter on wide spreads, although propylene came in softer than we expected.
    - Crude margin was in line, and Gas segment margin was a little light
- **Two more processing plants and Shin Oak NGL expansion.** EPD announced they will add a 300 mmcf/d Mentone III plant by 1Q24, a 300 mmcf/d Midland 7 (Navitas) plant by 1Q24, and will expand the Shin Oak Permian NGL pipeline by 275 mbd with looping by 1H24

  - This is incremental to announcements at the spring Analyst Day of the Midland 6 and Mentone II plants which are both expected online in 2023, so EPD is effectively adding a plant each year in each of the Midland and Delaware basins.
- **Capex ticking up a little.** Growth capex was raised by $100M to $1.6B for this year. 2023 growth spend is now $1.9B for approved projects (up to $2.0B) vs. the $1.0B - $1.5B as of the April Analyst Day.

The big Q2 beat was driven by surprisingly high processing margins at Navitas and the legacy assets even with declining headline frac spreads, very high Q2 NGL marketing results, and a blowout in octane given high gasoline prices. This was partially offset by some softness in propylene and in frac margins. EPD is clearly back to growth mode with another 2 processing plants being added in the Permian in 2024 and a total of 4 processing plants now under construction at one time, while the Shin Oak NGL expansion will be used to move these expected incremental volumes. On the call, we'll be looking for more color on the growth outlook as well as whether management is now considering regular quarterly distribution increases instead of an annual approach.

DTM – Q2 tops consensus, running ahead of plan for 2022; announces 2nd LEAP expansion; positive

- **DTM reported Q2 EBITDA of $205M vs. $191M last year, beating our $196M estimate and consensus.** Growth was due to the Stonewall expansion, increased utilization on LEAP and Blue Union, and a supplier settlement
- **Running ahead of plan.** DTM reiterated 2022 guidance of $770-$810M but noted that YTD performance has been ahead of plan. 2023 early outlook of $810M-$850M was also reiterated
- **LEAP Phase 2 expansion.** DTM announced a 400 mmcf/d expansion of LEAP to go into service Q1-24, bringing total expansions of the pipeline to 700 mmcf/d and total capacity of LEAP to 1.7 Bcf/d
  - Expansion initial phase also added 500 mmcf/d of gathering
  - Phase 3 expansion negotiations are ongoing; potential LEAP incremental capacity could go to 3 Bcf/d with looping and additional compression

Overall this was a good update as volumes appear robust and there should be another step up in 2H as some expansions fully ramp. The second expansion of LEAP was good to see and the discussion of a third phase of expansion is encouraging. We continue to see DTM as very well positioned in the Haynesville, where the call on gas will be increasing as the next LNG wave builds out.

ETRN – Beat, raise, Manchin praise

Click here to view our complete note

Solid update. ETRN posted 2Q22 EBITDA that beat consensus by 5%, and raised its 2022 guidance in line with consensus. The stock spiked 13% on the day mostly in response to last night's news that Senator Manchin has secured a path forward for MVP as part of a broader deal on infrastructure permitting reform. MVP completion would provide a big boost to ETRN stock, but this is not a done deal. That said, we like the risk/reward skew for ETRN stock from here. Outperform.

MPLX – Sticking with the structure

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Sold quarter with volume bounce back. 2Q22 EBITDA came in 2% ahead of consensus. Volumes were nicely ahead of our forecast at L&S, as MPC's refineries ran at full utilization, and at G&P with bounce backs in the Utica and Southwest. FCF after distributions of $614M in Q2 was very high on good results as well as working capital benefits and small asset sales.

WMB – Gas potential tops AMT worries

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Gas position continues to benefit. Williams put up another strong quarter and a 2022 guidance boost, highlighting its leverage to the current gas-focused environment. Despite this the stock underperformed the sector by about 250 bp, which may have been due to comments on the potential minimum tax and not a lot of commitment to a buyback. We remain Peer Perform on WMB but we believe remains a high-quality gas play that has positioned itself well for the current environment.

Clean Energy

SEDG – Q2 fell off the edge of glory; Euro troubles

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Euro pressures. SEDG posted Q2 sales and a Q3 guide about in line with consensus, and talked to very strong demand with growing governmental support for solar. But gross margins came in light on Euro and Shanghai headwinds as SEDG continues to have more difficulty navigating supply chain disruptions. The stock had done well into the call on the heels of ENPH's strong print and the proposed Inflation Reduction Act, but the update missed the mark. We view SEDG as well-positioned to capitalize on the structural shift higher in L-T solar demand, particularly in Europe, C&I, and storage, at a growing discount. Outperform.

CWEN – Accelerating growth, reducing risk

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2022 tracking well. Q2 CAFD of $176M was in the upper half of the sensitivity range and EBITDA came in slightly above our forecast. Renewable resource was good again with both wind and solar at 103% of normal YTD and the key Alta Wind asset above plan, although there was an extended thermal plant outage. On the call, mgmt. indicated the fleet held up well in Texas during the July price spikes. Overall, CWEN reiterated 2022 guidance with the year well on track.

Wolfe Events

August 9: SO non-deal roadshow in Boston
September 13-15: EXC non-deal roadshow on West Coast
September 28-30: Wolfe Utilities, Midstream, and Clean Energy Conference in NYC – register here
September 30: AEE non-deal roadshow in Boston

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What happened?

On 7/25, the Midwest ISO Board of Directors voted to approve Tranche 1 of its Long Range Transmission Planning portfolio of projects. These investments support system reliability and represent $10.3 billion of capital expenditure. A regulated electric utility with a brownfield project in their territory likely will receive the project for development. Otherwise the projects are competitively bid. While approval today was largely expected, we see this as supportive of long term growth earnings for Ameren, Xcel, Nisource and WEC.

What's the impact by company?

We estimate potential brownfield investment for Ameren could be $1.5 billion to $2.0 billion, for Xcel Energy $1.2 billion, and for NI and WEC in the $500-$600 million range. The plan estimates project completion in the 2028-2030 timeframe. Companies would earn on the MISO ROE of 10.02%. For AEE this could imply $0.07/share per year for 5 years totaling $0.35/share. We expect this would help the company to extend and deliver in the upper half of the 6% to 8% EPS guidance growth rate through 2026.

What's next?

We expect company management teams to address the impact of today's announcement on their upcoming second quarter earnings conference calls. Xcel reports on 7/28, while Ameren reports on 8/5. In cases where projects are assigned to the companies, each company will engage in a certificate of need process in the relevant states the projects pass through. RFPs for competitively bid projects should be issued by the end of the third quarter.

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Figure 1: MISO Tranche 1 Project List

Project Number	Project Name	Geographic Location by Member System	In-Service Date	Project Gross Plant $000s
1	Jamestown - Ellendale	MDU, OTP, Local TO(s)	12/31/2028	$438,700,000
2	Big Stone South - Alexandria - Cassie's Crossing	Local TO(s)	6/1/2030	$573,500,000
3	Iron Range - Benton County - Cassie's Crossing	Local TO(s)	6/1/2030	$969,900,000
4	Wilmarth - North Rochester - Tremval	ATC, DPC, XEL, Local TO(s)	6/1/2028	$689,100,000
5	Tremval - Eau Clair - Jump River	ATC, XEL	6/1/2028	$504,500,000
6	Tremval - Rocky Run - Columbia	ATC, XEL	6/1/2029	$1,049,500,000
7	Webster - Franklin - Marshalltown - Morgan Valley	Local TO(s)	12/31/2028	$755,000,000
8	Beverly - Sub 92	Local TO(s)	12/31/2028	$231,000,000
9	Orient - Denny - Fairport	Local TO(s), To Be Determined	6/1/2030	$389,900,000
10	Denny - Zachary - Thomas Hill - Maywood	AmerenMO, To Be Determined	6/1/2030	$768,700,000
11	Maywood - Meredosia	AmerenIL, AmerenMO	6/1/2028	$300,800,000
12	Madison - Ottumwa - Skunk River	Local TO(s)	6/1/2029	$673,000,000
13	Skunk River - Ipava	AmerenIL, Local TO(s)	12/31/2029	$594,400,000
14	Ipava - Maple Ridge - Razewell - Brokaw - Paxton East	AmerenIL	6/1/2028	$571,700,000
15	Sidney - Paxson East - Filman South - Morrison Ditch	AmerenIL, NIPSCO	6/1/2029	$454,100,000
16	Morrison Ditch - reynolds - Burr Oak - Leeburg - Hiple	NIPSCO	6/1/2029	$260,900,000
17	Hiple - Duck Lake	Local TO(s), To Be Determined	6/1/2030	$696,200,000
18	Oneida - Nelson Rd.	Local TO(s)	12/31/2029	$403,400,000
			Total	$10,324,300,000

WEC Owns 60% of ATC and LNT owns 16% of ATC.

Source: Midwest ISO www.misoenergy.org, UBS Securities

Valuation Method and Risk Statement

Our valuation methodology for the North American Utilities group is price to earnings based. The adjustments applied fall into 7 categories. These are as follows: 1) Group Valuation Bias: Flowing from our valuation work comparing Baa corporate yields to group dividend yields and RU price to earnings ratios to those for the S&P 500, we incorporate a positive or negative adjustment to our group multiple representing the gap we calculate to the nearest 5%; 2) Growth Adjustment: We adjust our valuations based on the growth quartile each utility occupies. First quartile receives a 4% premium, second quartile a 2% premium, third quartile a 2% discount and fourth quartile a 4% discount; 3) Regulatory Adjustment: Our valuation adjustments for regulation are based on our proprietary Regulatory Rankings. First quartile jurisdictions receive 10%, second quartile 5%, third quartile -5% and fourth quartile -10%; 4) ESG: A potential 5% premium for a risk adjusted clean energy transition growth opportunity; 5) Earnings Consistency Adjustment: For companies that fall in the top quartile of % Time Beat/Meet, we include +4%; 6) Multi Utility Diversified Valuation: For multi utilities (those with more than 15% of unregulated earnings), we perform a sum-of-the-parts analysis applying business/region appropriate valuations to those diversified businesses; 7) One-off Adjustments: In special situations, we value risk on an issue-specific basis. Common areas where we apply such an adjustment include: large project construction risk, legal risk, and announced M&A completion risk. We identify the following risk factors: rising interest rates; regulatory and policy risks; operational risks; construction risks; cybersecurity risk to the transmission grid and/or customer data, and extreme weather events. We identify the following risk factors for the sector overall: rising interest rates; regulatory and policy risks; operational risks; construction risks; cybersecurity risk to the transmission grid and/or customer data, and extreme weather events.

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Sell	FSR is > 6% below the MRA.	9%	21%
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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 2022.
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NiSource Inc.

Columbia Gas PA Rate Settlements

Equities

Americas

Electric Utilities

12-month rating	**Neutral**
12m price target	**US$33.00**
Price (08 Sep 2022)	**US$30.24**

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

Trading data and key metrics

52-wk range	US$32.46-23.84
Market cap.	US$12.8b
Shares o/s	423m (COM)
Free float	99%
Avg. daily volume ('000)	1,265
Avg. daily value (m)	US$36.9
Common s/h equity (12/22E)	US$5.94b
P/BV (12/22E)	2.2x
Net debt to EBITDA (12/22E)	6.2x

EPS (UBS, diluted) (US$)

	12/22E	
	UBS	**Cons.**
Q1	0.75	0.75
Q2E	0.09	0.12
Q3E	0.12	0.13
Q4E	0.48	0.44
12/22E	1.45	1.45
12/23E	1.54	1.55
12/24E	1.66	1.73

What happened?

NI filed rate settlements in the Columbia Gas of Pennsylvania rate case and expects a final order and implementation of the rates in mid-December. The settlement calls for a $44 million annualized increase versus the company's $82 million initial request that was predicated on an 11.2% ROE and 54.4% equity ratio. The revenue settlement was unanimous and the rate design settlement was non-unanimous but includes the Bureau of Investigation of the PA PUC and the Office of Consumer Advocate. The settlement's revenue did not come with a derivation. However, for purposes of calculating the DSIC mechanism the ROE to be used is from the PA PUC's quarterly gas utility allowed ROE disclosures which is 10.15%. Link

How will investors respond?

Positively. Reaching a settlement is positive and avoids litigation. The company has settled cases in Pennsylvania before. We rate Pennsylvania a top quartile jurisdiction. US Utilities "Pricing Power Analysis and Regulatory Rankings". The outcome is consistent with NI's 7% to 9% EPS growth guidance.

Calendar

We expect an update on the company's announced strategic review at the Edison Electric conference or sooner and a final decision in the case is expected by December 17.

Valuation:

We maintain our $33 price target and Neutral rating.

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Highlights (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Revenues	5,184	4,697	4,900	5,208	5,448	5,644	5,813	5,980
EBIT (UBS)	1,047	1,031	1,046	1,163	1,276	1,402	1,497	1,591
Net earnings (UBS)	495	507	573	627	677	734	782	833
EPS (UBS, diluted) (US$)	1.32	1.32	1.37	1.45	1.54	1.66	1.75	1.85
DPS (net) (US$)	0.84	0.88	0.90	0.96	1.02	1.08	1.14	1.20
Net (debt) / cash	(10,374)	(10,501)	(11,253)	(12,379)	(14,576)	(15,173)	(15,677)	(16,090)
Profitability/valuation	**12/19**	**12/20**	**12/21**	**12/22E**	**12/23E**	**12/24E**	**12/25E**	**12/26E**
EBIT (UBS) margin %	20.2	22.0	21.3	22.3	23.4	24.8	25.8	26.6
ROIC (EBIT) %	7.9	7.5	7.4	7.5	7.2	7.3	7.4	7.6
EV/EBITDA (UBS core) x	10.6	9.9	10.4	11.3	10.9	10.6	10.1	9.6
P/E (UBS, diluted) x	21.2	18.6	17.9	20.9	19.7	18.3	17.3	16.4
Equity FCF (UBS) yield %	(1.6)	(6.0)	(6.2)	(8.0)	(14.5)	(1.7)	(0.7)	0.2
Dividend yield (net) %	3.0	3.6	3.6	3.2	3.4	3.6	3.8	4.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$ 30.24 on 08-Sep-2022

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NiSource Inc. (NI.N)

Income Statement (US$m)	12/19	12/20	12/21	12/22E	%ch	12/23E	%ch	12/24E	12/25E	12/26E
Revenues	**5,184**	**4,697**	**4,900**	**5,208**	*6.3*	**5,448**	*4.6*	**5,644**	**5,813**	**5,980**
Gross profit	3,649	3,587	3,507	3,816	*8.8*	4,056	*6.3*	4,252	4,421	4,588
EBITDA (UBS)	**1,764**	**1,794**	**1,794**	**1,990**	*10.9*	**2,211**	*11.1*	**2,399**	**2,554**	**2,707**
Depreciation & amortisation	(717)	(762)	(748)	(827)	*-10.4*	(936)	*-13.2*	(997)	(1,057)	(1,116)
EBIT (UBS)	**1,047**	**1,031**	**1,046**	**1,163**	*11.2*	**1,276**	*9.7*	**1,402**	**1,497**	**1,591**
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	(5)	29	41	0	-	0	-	0	0	0
Net interest	(379)	(371)	(341)	(356)	*-4.3*	(413)	*-16.0*	(461)	(495)	(527)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Pre-tax profit	**663**	**689**	**746**	**807**	*8.2*	**863**	*6.9*	**941**	**1,002**	**1,064**
Tax	(113)	(127)	(118)	(129)	*-9.2*	(134)	*-4.5*	(155)	(168)	(180)
Profit after tax	**550**	**563**	**628**	**679**	*8.1*	**728**	*7.3*	**786**	**833**	**884**
Preference dividends	(55)	(55)	(55)	(55)	*0.0*	(55)	*0.0*	(55)	(55)	(55)
Minorities	0	0	0	4	-	4	*0.0*	4	4	4
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**495**	**507**	**573**	**627**	*9.5*	**677**	*7.9*	**734**	**782**	**833**
Net earnings (UBS)	**495**	**507**	**573**	**627**	*9.5*	**677**	*7.9*	**734**	**782**	**833**
Tax rate (%)	17.0	18.4	15.8	15.9	*0.9*	15.6	*-2.2*	16.5	16.8	16.9

Per Share (US$)	12/19	12/20	12/21	12/22E	%ch	12/23E	%ch	12/24E	12/25E	12/26E
EPS (UBS, diluted)	1.32	1.32	1.37	1.45	*5.4*	1.54	*6.3*	1.66	1.75	1.85
EPS (local GAAP, diluted)	1.32	1.32	1.37	1.45	*5.4*	1.54	*6.3*	1.66	1.75	1.85
EPS (UBS, basic)	1.32	1.32	1.37	1.45	*5.4*	1.54	*6.3*	1.66	1.75	1.85
DPS (net) (US$)	0.84	0.88	0.90	0.96	*7.3*	1.02	*6.3*	1.08	1.14	1.20
Cash EPS (UBS, diluted) [1]	3.23	3.30	3.17	3.35	*5.9*	3.67	*9.3*	3.90	4.11	4.32
Book value per share	13.67	12.93	12.94	13.56	*4.8*	14.32	*5.6*	15.12	15.95	16.80
Average shares (diluted)	375	385	417	433	*3.9*	440	*1.5*	444	447	451

Balance Sheet (US$m)	12/19	12/20	12/21	12/22E	%ch	12/23E	%ch	12/24E	12/25E	12/26E
Cash and equivalents	148	126	95	61	*-35.6*	43	*-29.6*	51	70	82
Other current assets	1,706	1,534	1,826	1,837	*0.6*	1,837	*0.0*	1,837	1,837	1,837
Total current assets	**1,854**	**1,659**	**1,921**	**1,898**	*-1.2*	**1,880**	*-1.0*	**1,887**	**1,907**	**1,919**
Net tangible fixed assets	16,912	16,620	17,882	19,605	*9.6*	22,219	*13.3*	23,272	24,265	25,199
Net intangible fixed assets	1,716	1,738	1,809	1,809	*0.0*	1,809	*0.0*	1,809	1,809	1,809
Investments / other assets	2,178	2,024	2,546	2,696	*5.9*	2,846	*5.6*	2,996	3,146	3,296
Total assets	**22,660**	**22,041**	**24,157**	**26,007**	*7.7*	**28,753**	*10.6*	**29,964**	**31,126**	**32,222**
Trade payables & other ST liabilities	1,959	1,753	2,128	2,128	*0.0*	2,128	*0.0*	2,128	2,128	2,128
Short term debt	1,787	526	618	581	*-6.0*	581	*0.0*	1,836	586	1,560
Total current liabilities	**3,746**	**2,279**	**2,746**	**2,709**	*-1.4*	**2,709**	*0.0*	**3,964**	**2,714**	**3,688**
Long term debt	7,856	9,220	9,183	10,313	*12.3*	12,492	*21.1*	11,841	13,615	13,065
Other long term liabilities	5,071	4,704	5,280	5,172	*-2.0*	5,354	*3.5*	5,551	5,762	5,985
Preferred shares	880	880	1,547	1,547	*0.0*	1,547	*0.0*	1,547	1,547	1,547
Total liabilities (incl pref shares)	**17,553**	**17,083**	**18,756**	**19,740**	*5.2*	**22,101**	*12.0*	**22,903**	**23,637**	**24,285**
Common s/h equity	**5,107**	**4,958**	**5,401**	**5,942**	*10.0*	**6,328**	*6.5*	**6,736**	**7,164**	**7,612**
Minority interests	0	0	0	326	-	326	*0.0*	326	326	326
Total liabilities & equity	**22,660**	**22,040**	**24,157**	**26,007**	*7.7*	**28,754**	*10.6*	**29,964**	**31,127**	**32,223**

Cash Flow (US$m)	12/19	12/20	12/21	12/22E	%ch	12/23E	%ch	12/24E	12/25E	12/26E
Net income (before pref divs)	550	563	628	682	*8.7*	732	*7.3*	789	837	888
Depreciation & amortisation	717	762	748	827	*10.4*	936	*13.2*	997	1,057	1,116
Net change in working capital	(75)	(249)	(206)	20	-	31	*59.7*	48	60	74
Other operating	446	120	48	0	-	0	-	0	0	0
Operating cash flow	**1,638**	**1,196**	**1,218**	**1,529**	*25.5*	**1,699**	*11.2*	**1,834**	**1,955**	**2,078**
Tangible capital expenditure	(1,802)	(1,758)	(1,838)	(2,550)	*-38.7*	(3,550)	*-39.2*	(2,050)	(2,050)	(2,050)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) & disposals	0	0	0	0	-	0	-	0	0	0
Other investing	(120)	879	(367)	0	-	0	-	0	0	0
Investing cash flow	**(1,922)**	**(879)**	**(2,205)**	**(2,550)**	*-15.7*	**(3,550)**	*-39.2*	**(2,050)**	**(2,050)**	**(2,050)**
Equity dividends paid	(299)	(322)	(345)	(376)	*-9.0*	(406)	*-7.9*	(441)	(469)	(500)
Share issues / (buybacks)	244	211	1,140	290	*-74.6*	115	*-60.3*	115	115	115
Other financing	(74)	(219)	131	(55)	-	(55)	*0.0*	(55)	(55)	(55)
Change in debt & pref shares	494	82	31	1,129	*NM*	2,179	*93.0*	604	524	424
Financing cash flow	**366**	**(248)**	**956**	**988**	*3.3*	**1,833**	*85.6*	**223**	**115**	**(16)**
Cash flow inc/(dec) in cash	**82**	**69**	**(31)**	**(34)**	*-10.1*	**(18)**	*46.4*	**8**	**19**	**12**
FX / non cash items	(55)	(91)	0	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	**27**	**(23)**	**(31)**	**(34)**	*-10.1*	**(18)**	*46.4*	**8**	**19**	**12**

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.

NiSource Inc. (NI.N)

Valuation (x)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
P/E (local GAAP, diluted)	21.2	18.6	17.9	20.9	19.7	18.3	17.3	16.4
P/E (UBS, diluted)	21.2	18.6	17.9	20.9	19.7	18.3	17.3	16.4
P/CEPS	8.6	7.4	7.8	9.0	8.3	7.7	7.4	7.0
Equity FCF (UBS) yield %	(1.6)	(6.0)	(6.2)	(8.0)	(14.5)	(1.7)	(0.7)	0.2
Dividend yield (net) %	3.0	3.6	3.6	3.2	3.4	3.6	3.8	4.0
P/BV	2.0	1.9	1.9	2.2	2.1	2.0	1.9	1.8
EV/revenues (core)	3.6	3.8	3.8	4.3	4.4	4.5	4.4	4.4
EV/EBITDA (UBS core)	10.6	9.9	10.4	11.3	10.9	10.6	10.1	9.6
EV/EBIT (core)	17.9	17.2	17.9	19.4	18.9	18.1	17.2	16.4
EV/OpFCF (core)	10.6	9.9	10.4	11.3	10.9	10.6	10.1	9.6
EV/op. invested capital	1.4	1.3	1.3	1.5	1.4	1.3	1.3	1.2

Enterprise value (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Market cap.	10,416	9,340	10,029	12,788	12,788	12,788	12,788	12,788
Net debt (cash)	10,133	10,133	10,877	11,816	13,477	14,874	15,425	15,884
Buy out of minorities	0	0	0	326	326	326	326	326
Pension provisions/other	373	336	326	326	326	326	326	326
Total enterprise value	**20,922**	**19,809**	**21,231**	**25,256**	**26,917**	**28,314**	**28,865**	**29,323**
Non core assets	(2,178)	(2,024)	(2,546)	(2,696)	(2,846)	(2,996)	(3,146)	(3,296)
Core enterprise value	**18,745**	**17,785**	**18,686**	**22,560**	**24,071**	**25,318**	**25,719**	**26,028**

Growth (%)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Revenue	1.7	(9.4)	4.3	6.3	4.6	3.6	3.0	2.9
EBITDA (UBS)	14.7	1.7	0.0	10.9	11.1	8.5	6.5	6.0
EBIT (UBS)	11.1	(1.5)	1.4	11.2	9.7	9.9	6.8	6.3
EPS (UBS, diluted)	1.5	0.1	4.0	5.4	6.3	7.6	5.6	5.7
Net DPS	5.7	5.4	1.7	7.3	6.3	5.9	5.6	5.3

Margins & Profitability (%)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Gross profit margin	70.4	NM	71.6	73.3	74.4	NM	NM	NM
EBITDA margin	34.0	38.2	36.6	38.2	40.6	42.5	43.9	45.3
EBIT (UBS) margin	20.2	22.0	21.3	22.3	23.4	24.8	25.8	26.6
Net earnings (UBS) margin	9.5	10.8	11.7	12.0	12.4	13.0	13.5	13.9
ROIC (EBIT)	7.9	7.5	7.4	7.5	7.2	7.3	7.4	7.6
ROIC post tax	6.5	6.1	6.2	6.3	6.1	6.1	6.2	6.3
ROE (UBS)	9.9	10.1	11.1	11.1	11.0	11.2	11.3	11.3

Capital structure & Coverage (x)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Net debt / EBITDA	5.9	5.9	6.3	6.2	6.6	6.3	6.1	5.9
Net debt / total equity %	203.2	211.8	208.4	197.5	219.1	214.9	209.3	202.7
Net debt / (net debt + total equity) %	67.0	67.9	67.6	66.4	68.7	68.2	67.7	67.0
Net debt/EV %	48.4	52.7	51.2	46.8	50.1	52.5	53.4	54.2
Capex / depreciation %	NM	NM	NM	NM	NM	NM	193.9	183.7
Capex / revenue %	NM	NM	NM	NM	NM	NM	NM	NM
EBIT / net interest	2.8	2.8	3.1	3.3	3.1	3.0	3.0	3.0
Dividend cover (UBS)	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Div. payout ratio (UBS) %	63.2	66.6	65.2	66.3	66.3	65.3	65.2	65.0

Revenues by division (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Others	5,184	4,697	4,900	5,208	5,448	5,644	5,813	5,980
Total	**5,184**	**4,697**	**4,900**	**5,208**	**5,448**	**5,644**	**5,813**	**5,980**

EBIT (UBS) by division (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Others	1,047	1,031	1,046	1,163	1,276	1,402	1,497	1,591
Total	**1,047**	**1,031**	**1,046**	**1,163**	**1,276**	**1,402**	**1,497**	**1,591**

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

Forecast returns

Forecast price appreciation	+9.1%
Forecast dividend yield	3.3%
Forecast stock return	+12.4%
Market return assumption	8.5%
Forecast excess return	+3.9%

Company Description

NI is a fully regulated gas and electric utility serving customers in six states in the Midwest and Mid-Atlantic. NI is a gas distribution utility with 3.2 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NI is an integrated electric utility serving 0.5 million customers in Indiana. NI's mix of operating earnings is 60% gas and 40% electric.

Valuation Method and Risk Statement

Our valuation methodology for the group is price-to-earnings based. The adjustments applied fall into 7 categories. These are as follows: 1) Group Valuation Bias: Flowing from our valuation work comparing Baa corporate yields to group dividend yields and RU price to earnings ratios to those for the S&P 500, we incorporate a positive or negative adjustment to our group multiple representing the gap we calculate to the nearest 5%; 2) Growth Adjustment: We adjust our valuations based on the growth quartile each utility occupies. First quartile receives a 4% premium, second quartile a 2% premium, third quartile a 2% discount and fourth quartile a 4% discount; 3) Regulatory Adjustment: Our valuation adjustments for regulation are based on our proprietary Regulatory Rankings. First quartile jurisdictions receive 10%, second quartile 5%, third quartile -5% and fourth quartile -10%; 4) Clean Energy Growth: A potential 5% premium for a risk adjusted clean energy transition growth opportunity; 5) Earnings Consistency Adjustment: For companies that fall in the top quartile of % Time Beat/Meet, we include +4%; 6) Multi Utility Diversified Valuation: For multi utilities (those with more than 15% of unregulated earnings), we perform a sum-of the-parts analysis applying business/region appropriate valuations to those diversified businesses; 7) One-off Adjustments: In special situations, we value risk on an issue-specific basis. Common areas where we apply such an adjustment include: large project construction risk, legal risk, and announced M&A completion risk.

We identify the following risk factors: rising interest rates; regulatory and policy risks; operational risks; construction risks; cybersecurity risk to the transmission grid and/or customer data, and extreme weather events. We identify the following risk factors for the sector overall: rising interest rates; regulatory and policy risks; operational risks; construction risks; cybersecurity risk to the transmission grid and/or customer data, and extreme weather events.

Our $33 price target is a 12% premium to the Regulated Utility average P/E or 19.9x our $1.66 EPS estimate in 2024. The valuation includes +5% for overall group undervaluation, +5% for second quartile regulation, (2)% for third quartile EPS growth, and 4% for earnings reliability.

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UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	57%	32%
Neutral	FSR is between -6% and 6% of the MRA.	35%	26%
Sell	FSR is > 6% below the MRA.	9%	21%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2022.
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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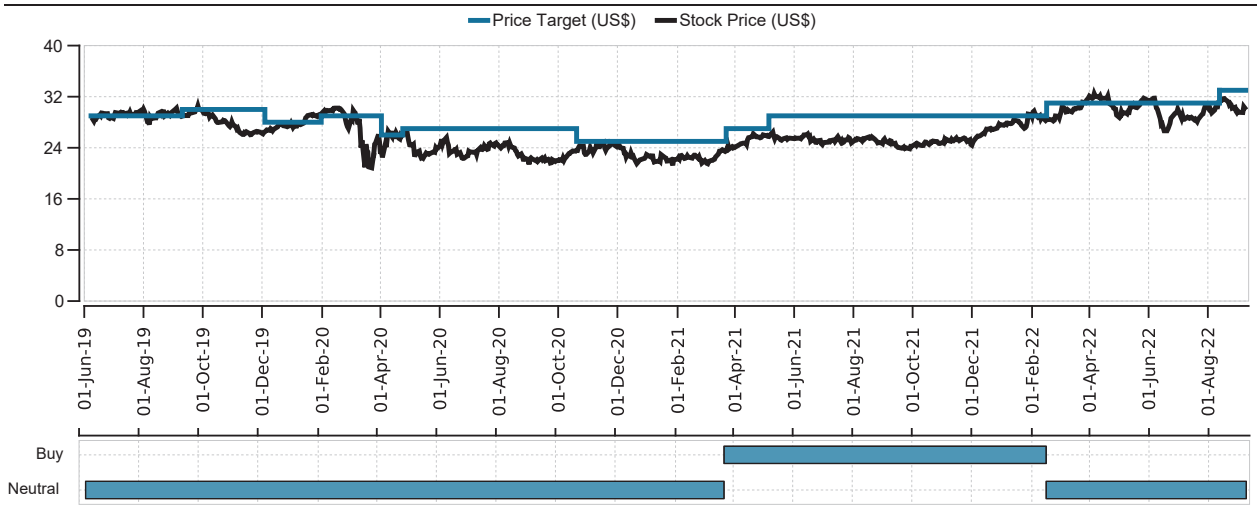
Company Disclosures

Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$30.24	08 Sep 2022

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
2019-06-07	28.54	29.00	Neutral
2019-09-09	28.91	30.00	Neutral
2019-12-03	26.41	28.00	Neutral
2020-01-30	29.10	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral

Date	Stock Price (US$)	Price Target (US$)	Rating
2020-10-19	23.47	25.00	Neutral
2021-03-22	23.42	27.00	Buy
2021-05-05	25.78	29.00	Buy
2022-02-15	28.26	31.00	Neutral
2022-08-12	31.14	33.00	Neutral

Source: UBS;as of 08-Sep-2022. All prices as of local market close. Ratings as of date shown.

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NiSource Inc.

NIPSCO Rate Case Filed; Strategic Review Results Upcoming

Equities

Americas

Electric Utilities

12-month rating	**Neutral**
12m price target	**US$33.00**
Price (20 Sep 2022)	**US$28.86**

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

Trading data and key metrics

52-wk range	US$32.46-23.84
Market cap.	US$12.2b
Shares o/s	423m (COM)
Free float	99%
Avg. daily volume ('000)	1,182
Avg. daily value (m)	US$34.8
Common s/h equity (12/22E)	US$5.94b
P/BV (12/22E)	2.1x
Net debt to EBITDA (12/22E)	6.2x

EPS (UBS, diluted) (US$)

	12/22E	
	UBS	**Cons.**
Q1	0.75	0.75
Q2E	0.09	0.12
Q3E	0.12	0.13
Q4E	0.48	0.44
12/22E	1.45	1.45
12/23E	1.54	1.55
12/24E	1.66	1.73

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What Happened?

On Monday, NI filed a general rate case for its electric utility business at NIPSCO. The company is seeking a 19.1% revenue increase, phased in over two stages in Sept. '23 and March '24. The bulk of the increase is driven by ~$2.0bn of rate base increases since the company last filed in late 2018. About 40% of rate base additions are comprised of four renewable energy facilities for which NIPSCO has already received a CPCN. The company is seeking a 10.4% ROE and ~50% equity on rate base of $5.9bn. The last authorized ROE and equity ratio were 9.75%/47.9%. The preliminary schedule calls for intervenor testimony 1/20/23, settlement filing window 2/27/23, hearings the week of 3/13/23 and a final order expected by 7/16/23.

Takeaways:

The revenue increase requested is substantial at over 19%. However, a large portion of the ask went through the CPCN process so stakeholders have previewed some of this request already. NI is also seeking a new rider for variable non-labor O&M associated with coal fired generation. This will allow the company to flow back O&M savings directly to customers as coal plants are retired over the balance of the decade. NIPSCO also seeks a approval of certain deferral mechanisms for pension and OPEM costs. This case is an important driver for NI's earnings growth over the next few years as NIPSCO's electric operations account for a third of the company's overall rate base.

Strategic Review Update Expected in Early November

Nisource will likely host an analyst day event in early November where they will update investors on the outcome of its strategic review. We believe a key focus will be improving visibility for earnings growth post 2024 and whether management sees inorganic opportunities longer term that are accretive to their base plan. As a reminder, 2024 does present a higher than normal yoy of growth given the renwables projects going into service. Nisource could look to provide near term earnings guidance for the next several years while also providing a longer term growth target, similar to what many peers in the industry do. Current guidance calls for 7-9% CAGR through 2024 off of 2021.

Valuation:

NI trades at a 3% discount to the group avg of 18.0x on '24E EPS. Our price target of $33 assumes NI can trade up to a 10% premium, which reflects +5% for the group being undervalued, +5% for top quartile regulatory jurisdictions, +4% for EPS guidance reliability and -4% for fourth quartile EPS growth.

Highlights (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Revenues	5,184	4,697	4,900	5,208	5,448	5,644	5,813	5,980
EBIT (UBS)	1,047	1,031	1,046	1,163	1,276	1,402	1,497	1,591
Net earnings (UBS)	495	507	573	627	677	734	782	833
EPS (UBS, diluted) (US$)	1.32	1.32	1.37	1.45	1.54	1.66	1.75	1.85
DPS (net) (US$)	0.84	0.88	0.90	0.96	1.02	1.08	1.14	1.20
Net (debt) / cash	(10,374)	(10,501)	(11,253)	(12,379)	(14,576)	(15,173)	(15,677)	(16,090)
Profitability/valuation	**12/19**	**12/20**	**12/21**	**12/22E**	**12/23E**	**12/24E**	**12/25E**	**12/26E**
EBIT (UBS) margin %	20.2	22.0	21.3	22.3	23.4	24.8	25.8	26.6
ROIC (EBIT) %	7.9	7.5	7.4	7.5	7.2	7.3	7.4	7.6
EV/EBITDA (UBS core) x	10.6	9.9	10.4	11.0	10.6	10.3	9.8	9.4
P/E (UBS, diluted) x	21.2	18.6	17.9	19.9	18.8	17.4	16.5	15.6
Equity FCF (UBS) yield %	(1.6)	(6.0)	(6.2)	(8.4)	(15.2)	(1.8)	(0.8)	0.2
Dividend yield (net) %	3.0	3.6	3.6	3.3	3.5	3.7	4.0	4.2

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$ 28.86 on 20-Sep-2022

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NiSource Inc. (NI.N)

Income Statement (US$m)	12/19	12/20	12/21	12/22E	%ch	12/23E	%ch	12/24E	12/25E	12/26E
Revenues	**5,184**	**4,697**	**4,900**	**5,208**	*6.3*	**5,448**	*4.6*	**5,644**	**5,813**	**5,980**
Gross profit	3,649	3,587	3,507	3,816	*8.8*	4,056	*6.3*	4,252	4,421	4,588
EBITDA (UBS)	**1,764**	**1,794**	**1,794**	**1,990**	*10.9*	**2,211**	*11.1*	**2,399**	**2,554**	**2,707**
Depreciation & amortisation	(717)	(762)	(748)	(827)	*-10.4*	(936)	*-13.2*	(997)	(1,057)	(1,116)
EBIT (UBS)	**1,047**	**1,031**	**1,046**	**1,163**	*11.2*	**1,276**	*9.7*	**1,402**	**1,497**	**1,591**
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	(5)	29	41	0	-	0	-	0	0	0
Net interest	(379)	(371)	(341)	(356)	*-4.3*	(413)	*-16.0*	(461)	(495)	(527)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Pre-tax profit	**663**	**689**	**746**	**807**	*8.2*	**863**	*6.9*	**941**	**1,002**	**1,064**
Tax	(113)	(127)	(118)	(129)	*-9.2*	(134)	*-4.5*	(155)	(168)	(180)
Profit after tax	**550**	**563**	**628**	**679**	*8.1*	**728**	*7.3*	**786**	**833**	**884**
Preference dividends	(55)	(55)	(55)	(55)	*0.0*	(55)	*0.0*	(55)	(55)	(55)
Minorities	0	0	0	4	-	4	*0.0*	4	4	4
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**495**	**507**	**573**	**627**	*9.5*	**677**	*7.9*	**734**	**782**	**833**
Net earnings (UBS)	**495**	**507**	**573**	**627**	*9.5*	**677**	*7.9*	**734**	**782**	**833**
Tax rate (%)	17.0	18.4	15.8	15.9	*0.9*	15.6	*-2.2*	16.5	16.8	16.9

Per Share (US$)	12/19	12/20	12/21	12/22E	%ch	12/23E	%ch	12/24E	12/25E	12/26E
EPS (UBS, diluted)	1.32	1.32	1.37	1.45	*5.4*	1.54	*6.3*	1.66	1.75	1.85
EPS (local GAAP, diluted)	1.32	1.32	1.37	1.45	*5.4*	1.54	*6.3*	1.66	1.75	1.85
EPS (UBS, basic)	1.32	1.32	1.37	1.45	*5.4*	1.54	*6.3*	1.66	1.75	1.85
DPS (net) (US$)	0.84	0.88	0.90	0.96	*7.3*	1.02	*6.3*	1.08	1.14	1.20
Cash EPS (UBS, diluted) [1]	3.23	3.30	3.17	3.35	*5.9*	3.67	*9.3*	3.90	4.11	4.32
Book value per share	13.67	12.93	12.94	13.56	*4.8*	14.32	*5.6*	15.12	15.95	16.80
Average shares (diluted)	375	385	417	433	*3.9*	440	*1.5*	444	447	451

Balance Sheet (US$m)	12/19	12/20	12/21	12/22E	%ch	12/23E	%ch	12/24E	12/25E	12/26E
Cash and equivalents	148	126	95	61	*-35.6*	43	*-29.6*	51	70	82
Other current assets	1,706	1,534	1,826	1,837	*0.6*	1,837	*0.0*	1,837	1,837	1,837
Total current assets	**1,854**	**1,659**	**1,921**	**1,898**	*-1.2*	**1,880**	*-1.0*	**1,887**	**1,907**	**1,919**
Net tangible fixed assets	16,912	16,620	17,882	19,605	*9.6*	22,219	*13.3*	23,272	24,265	25,199
Net intangible fixed assets	1,716	1,738	1,809	1,809	*0.0*	1,809	*0.0*	1,809	1,809	1,809
Investments / other assets	2,178	2,024	2,546	2,696	*5.9*	2,846	*5.6*	2,996	3,146	3,296
Total assets	**22,660**	**22,041**	**24,157**	**26,007**	*7.7*	**28,753**	*10.6*	**29,964**	**31,126**	**32,222**
Trade payables & other ST liabilities	1,959	1,753	2,128	2,128	*0.0*	2,128	*0.0*	2,128	2,128	2,128
Short term debt	1,787	526	618	581	*-6.0*	581	*0.0*	1,836	586	1,560
Total current liabilities	**3,746**	**2,279**	**2,746**	**2,709**	*-1.4*	**2,709**	*0.0*	**3,964**	**2,714**	**3,688**
Long term debt	7,856	9,220	9,183	10,313	*12.3*	12,492	*21.1*	11,841	13,615	13,065
Other long term liabilities	5,071	4,704	5,280	5,172	*-2.0*	5,354	*3.5*	5,551	5,762	5,985
Preferred shares	880	880	1,547	1,547	*0.0*	1,547	*0.0*	1,547	1,547	1,547
Total liabilities (incl pref shares)	**17,553**	**17,083**	**18,756**	**19,740**	*5.2*	**22,101**	*12.0*	**22,903**	**23,637**	**24,285**
Common s/h equity	**5,107**	**4,958**	**5,401**	**5,942**	*10.0*	**6,328**	*6.5*	**6,736**	**7,164**	**7,612**
Minority interests	0	0	0	326	-	326	*0.0*	326	326	326
Total liabilities & equity	**22,660**	**22,040**	**24,157**	**26,007**	*7.7*	**28,754**	*10.6*	**29,964**	**31,127**	**32,223**

Cash Flow (US$m)	12/19	12/20	12/21	12/22E	%ch	12/23E	%ch	12/24E	12/25E	12/26E
Net income (before pref divs)	550	563	628	682	*8.7*	732	*7.3*	789	837	888
Depreciation & amortisation	717	762	748	827	*10.4*	936	*13.2*	997	1,057	1,116
Net change in working capital	(75)	(249)	(206)	20	-	31	*59.7*	48	60	74
Other operating	446	120	48	0	-	0	-	0	0	0
Operating cash flow	**1,638**	**1,196**	**1,218**	**1,529**	*25.5*	**1,699**	*11.2*	**1,834**	**1,955**	**2,078**
Tangible capital expenditure	(1,802)	(1,758)	(1,838)	(2,550)	*-38.7*	(3,550)	*-39.2*	(2,050)	(2,050)	(2,050)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) & disposals	0	0	0	0	-	0	-	0	0	0
Other investing	(120)	879	(367)	0	-	0	-	0	0	0
Investing cash flow	**(1,922)**	**(879)**	**(2,205)**	**(2,550)**	*-15.7*	**(3,550)**	*-39.2*	**(2,050)**	**(2,050)**	**(2,050)**
Equity dividends paid	(299)	(322)	(345)	(376)	*-9.0*	(406)	*-7.9*	(441)	(469)	(500)
Share issues / (buybacks)	244	211	1,140	290	*-74.6*	115	*-60.3*	115	115	115
Other financing	(74)	(219)	131	(55)	-	(55)	*0.0*	(55)	(55)	(55)
Change in debt & pref shares	494	82	31	1,129	*NM*	2,179	*93.0*	604	524	424
Financing cash flow	**366**	**(248)**	**956**	**988**	*3.3*	**1,833**	*85.6*	**223**	**115**	**(16)**
Cash flow inc/(dec) in cash	**82**	**69**	**(31)**	**(34)**	*-10.1*	**(18)**	*46.4*	**8**	**19**	**12**
FX / non cash items	(55)	(91)	0	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	**27**	**(23)**	**(31)**	**(34)**	*-10.1*	**(18)**	*46.4*	**8**	**19**	**12**

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.

NiSource Inc. (NI.N)

Valuation (x)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
P/E (local GAAP, diluted)	21.2	18.6	17.9	19.9	18.8	17.4	16.5	15.6
P/E (UBS, diluted)	21.2	18.6	17.9	19.9	18.8	17.4	16.5	15.6
P/CEPS	8.6	7.4	7.8	8.6	7.9	7.4	7.0	6.7
Equity FCF (UBS) yield %	(1.6)	(6.0)	(6.2)	(8.4)	(15.2)	(1.8)	(0.8)	0.2
Dividend yield (net) %	3.0	3.6	3.6	3.3	3.5	3.7	4.0	4.2
P/BV	2.0	1.9	1.9	2.1	2.0	1.9	1.8	1.7
EV/revenues (core)	3.6	3.8	3.8	4.2	4.3	4.4	4.3	4.3
EV/EBITDA (UBS core)	10.6	9.9	10.4	11.0	10.6	10.3	9.8	9.4
EV/EBIT (core)	17.9	17.2	17.9	18.9	18.4	17.6	16.8	16.0
EV/OpFCF (core)	10.6	9.9	10.4	11.0	10.6	10.3	9.8	9.4
EV/op. invested capital	1.4	1.3	1.3	1.4	1.3	1.3	1.3	1.2

Enterprise value (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Market cap.	10,416	9,340	10,029	12,205	12,205	12,205	12,205	12,205
Net debt (cash)	10,133	10,133	10,877	11,816	13,477	14,874	15,425	15,884
Buy out of minorities	0	0	0	326	326	326	326	326
Pension provisions/other	373	336	326	326	326	326	326	326
Total enterprise value	**20,922**	**19,809**	**21,231**	**24,672**	**26,334**	**27,730**	**28,281**	**28,740**
Non core assets	(2,178)	(2,024)	(2,546)	(2,696)	(2,846)	(2,996)	(3,146)	(3,296)
Core enterprise value	**18,745**	**17,785**	**18,686**	**21,976**	**23,488**	**24,735**	**25,135**	**25,444**

Growth (%)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Revenue	1.7	(9.4)	4.3	6.3	4.6	3.6	3.0	2.9
EBITDA (UBS)	14.7	1.7	0.0	10.9	11.1	8.5	6.5	6.0
EBIT (UBS)	11.1	(1.5)	1.4	11.2	9.7	9.9	6.8	6.3
EPS (UBS, diluted)	1.5	0.1	4.0	5.4	6.3	7.6	5.6	5.7
Net DPS	5.7	5.4	1.7	7.3	6.3	5.9	5.6	5.3

Margins & Profitability (%)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Gross profit margin	70.4	NM	71.6	73.3	74.4	NM	NM	NM
EBITDA margin	34.0	38.2	36.6	38.2	40.6	42.5	43.9	45.3
EBIT (UBS) margin	20.2	22.0	21.3	22.3	23.4	24.8	25.8	26.6
Net earnings (UBS) margin	9.5	10.8	11.7	12.0	12.4	13.0	13.5	13.9
ROIC (EBIT)	7.9	7.5	7.4	7.5	7.2	7.3	7.4	7.6
ROIC post tax	6.5	6.1	6.2	6.3	6.1	6.1	6.2	6.3
ROE (UBS)	9.9	10.1	11.1	11.1	11.0	11.2	11.3	11.3

Capital structure & Coverage (x)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Net debt / EBITDA	5.9	5.9	6.3	6.2	6.6	6.3	6.1	5.9
Net debt / total equity %	203.2	211.8	208.4	197.5	219.1	214.9	209.3	202.7
Net debt / (net debt + total equity) %	67.0	67.9	67.6	66.4	68.7	68.2	67.7	67.0
Net debt/EV %	48.4	52.7	51.2	47.9	51.2	53.6	54.5	55.3
Capex / depreciation %	NM	NM	NM	NM	NM	NM	193.9	183.7
Capex / revenue %	NM	NM	NM	NM	NM	NM	NM	NM
EBIT / net interest	2.8	2.8	3.1	3.3	3.1	3.0	3.0	3.0
Dividend cover (UBS)	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Div. payout ratio (UBS) %	63.2	66.6	65.2	66.3	66.3	65.3	65.2	65.0

Revenues by division (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Others	5,184	4,697	4,900	5,208	5,448	5,644	5,813	5,980
Total	**5,184**	**4,697**	**4,900**	**5,208**	**5,448**	**5,644**	**5,813**	**5,980**

EBIT (UBS) by division (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Others	1,047	1,031	1,046	1,163	1,276	1,402	1,497	1,591
Total	**1,047**	**1,031**	**1,046**	**1,163**	**1,276**	**1,402**	**1,497**	**1,591**

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

Forecast returns

Forecast price appreciation	+14.3%
Forecast dividend yield	3.4%
Forecast stock return	+17.8%
Market return assumption	9.0%
Forecast excess return	+8.8%

Company Description

NI is a fully regulated gas and electric utility serving customers in six states in the Midwest and Mid-Atlantic. NI is a gas distribution utility with 3.2 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NI is an integrated electric utility serving 0.5 million customers in Indiana. NI's mix of operating earnings is 60% gas and 40% electric.

Valuation Method and Risk Statement

Our valuation methodology for the group inclulding NI is price-to-earnings based. The adjustments applied fall into 7 categories. These are as follows: 1) Group Valuation Bias: Flowing from our valuation work comparing Baa corporate yields to group dividend yields and RU price to earnings ratios to those for the S&P 500, we incorporate a positive or negative adjustment to our group multiple representing the gap we calculate to the nearest 5%; 2) Growth Adjustment: We adjust our valuations based on the growth quartile each utility occupies. First quartile receives a 4% premium, second quartile a 2% premium, third quartile a 2% discount and fourth quartile a 4% discount; 3) Regulatory Adjustment: Our valuation adjustments for regulation are based on our proprietary Regulatory Rankings. First quartile jurisdictions receive 10%, second quartile 5%, third quartile -5% and fourth quartile -10%; 4) Clean Energy Growth: A potential 5% premium for a risk adjusted clean energy transition growth opportunity; 5) Earnings consistency Adjustment: For companies that fall in the top quartile of % Time Beat/Meet, we include +4%; 6) Multi Utility Diversified Valuation: For multi utilities (those with more than 15% of unregulated earnings), we perform a sum-of the-parts analysis applying business/region appropriate valuations to those diversified businesses; 7) One-off Adjustments: In special situations, we value risk on an issue-specific basis. Common areas where we apply such an adjustment include: large project construction risk, legal risk, and announced M&A completion risk.

We identify the following risk factors: rising interest rates; regulatory and policy risks; operational risks; construction risks; cybersecurity risk to the transmission grid and/or customer data, and extreme weather events. We identify the following risk factors for the sector overall: rising interest rates; regulatory and policy risks; operational risks; construction risks; cybersecurity risk to the transmission grid and/or customer data, and extreme weather events.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	57%	32%
Neutral	FSR is between -6% and 6% of the MRA.	35%	26%
Sell	FSR is > 6% below the MRA.	9%	21%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2022.
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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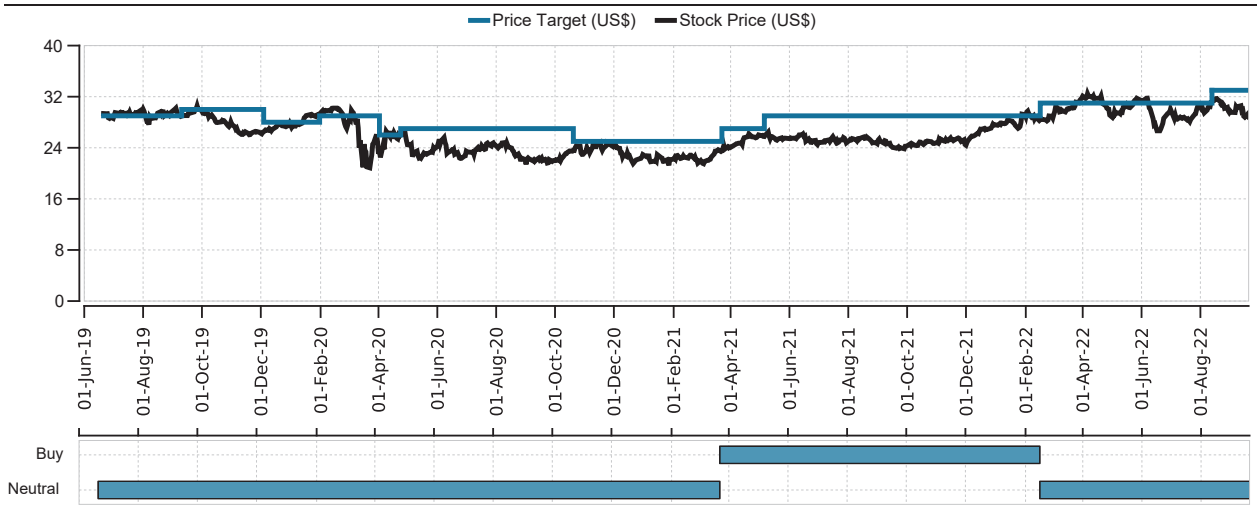
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Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$28.86	20 Sep 2022

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
2019-06-20	29.42	29.00	Neutral
2019-09-09	28.91	30.00	Neutral
2019-12-03	26.41	28.00	Neutral
2020-01-30	29.10	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral

Date	Stock Price (US$)	Price Target (US$)	Rating
2020-10-19	23.47	25.00	Neutral
2021-03-22	23.42	27.00	Buy
2021-05-05	25.78	29.00	Buy
2022-02-15	28.26	31.00	Neutral
2022-08-12	31.14	33.00	Neutral

Source: UBS;as of 20-Sep-2022. All prices as of local market close. Ratings as of date shown.

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UBS

First Read

NiSource Inc.

In-Line. 2Q'22 Adj. EPS $0.12 v. $0.12 Consensus

Q: How did the results compare vs expectations?

A: In-Line. 2Q'22 Adj. EPS of $0.12 v. $0.12 cons., $0.09 UBSe, and $0.13 in 2Q'21.

Q: What were the most noteworthy areas in the results?

A: Drivers of the results were higher customer revenues partially offset by higher costs of energy, O&M, and D&A, and higher share count.

Q: Has the company's outlook/guidance changed?

A: Reiterated guidance of $1.42 - $1.48 and 5%-7% eps growth in 2023 from 2022 and 7%-9% thru 2024 from a 2021 base year. Management also indicated a continued expectation of $2.4-$2.7Bln in 2022, and an expectation of $10Bln of capex and 10%-12% rate base growth from '21-24. Schahfer retirement is projected at the end of '25 with Michigan City between '26-'28. Scope 1 emissions reduction goal of 90% by '20 and 50% CH4 reduction by '25. Crossroads and Dunns Bridge Solar I are advancing to in-service in 1H'23. On rate cases, NIPSCO electric settlement has been approved, OH gas case hearings pushed to Oct to facilitate settlement discussions, PA gas engaging in settlement discussions, VA gas is progressing, and MD gas was filed on May 13.

Q: How would we expect investors to react?

A: Neutral on the In-Line. Waiting for the call for color on the Columbia Gas rate cases in MD, OH, PA, and VA, and the settlement in the NIPSCO natural gas case in IN. Investors will also be looking for an update and color on the Schahfer and Michigan City retirement timeline and solar projects and how that might impact capex timing and the electric rate case in IN. Further, investors will be looking for color on the progress and path of the ongoing strategic review, and any further color around an analyst day, now planned for November, and focused on extending the growth plan.

Key Metrics ($)

	Consensus estimates	UBS estimates	Actual	% diff vs. UBS
2Q'22 Adj. EPS	$0.12	$0.09	$0.12	+33.3%

Source: Factset, UBS Equity Research Estimates

Equities

Americas

Electric Utilities

12-month rating	**Neutral**
12m price target	**US$31.00**
Price (02 Aug 2022)	**US$30.10**

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

Trading data and key metrics

52-wk range	US$32.46-23.84
Market cap.	US$12.7b
Shares o/s	423m (COM)
Free float	99%
Avg. daily volume ('000)	1,441
Avg. daily value (m)	US$42.3
Common s/h equity (12/22E)	US$5.94b
P/BV (12/22E)	2.2x
Net debt to EBITDA (12/22E)	6.2x

EPS (UBS, diluted) (US$)

	12/22E	
	UBS	**Cons.**
Q1	0.75	0.75
Q2E	0.09	0.12
Q3E	0.12	0.13
Q4E	0.48	0.45
12/22E	1.45	1.45
12/23E	1.54	1.55
12/24E	1.66	1.73

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Highlights (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Revenues	5,184	4,697	4,900	5,208	5,448	5,644	5,813	5,980
EBIT (UBS)	1,047	1,031	1,046	1,163	1,276	1,402	1,497	1,591
Net earnings (UBS)	495	507	573	627	677	734	782	833
EPS (UBS, diluted) (US$)	1.32	1.32	1.37	1.45	1.54	1.66	1.75	1.85
DPS (net) (US$)	0.84	0.88	0.90	0.96	1.02	1.08	1.14	1.20
Net (debt) / cash	(10,374)	(10,501)	(11,253)	(12,379)	(14,576)	(15,173)	(15,677)	(16,090)
Profitability/valuation	**12/19**	**12/20**	**12/21**	**12/22E**	**12/23E**	**12/24E**	**12/25E**	**12/26E**
EBIT (UBS) margin %	20.2	22.0	21.3	22.3	23.4	24.8	25.8	26.6
ROIC (EBIT) %	7.9	7.5	7.4	7.5	7.2	7.3	7.4	7.6
EV/EBITDA (UBS core) x	10.6	9.9	10.4	11.3	10.9	10.5	10.0	9.6
P/E (UBS, diluted) x	21.2	18.6	17.9	20.8	19.6	18.2	17.2	16.3
Equity FCF (UBS) yield %	(1.6)	(6.0)	(6.2)	(8.0)	(14.5)	(1.7)	(0.7)	0.2
Dividend yield (net) %	3.0	3.6	3.6	3.2	3.4	3.6	3.8	4.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$ 30.10 on 02-Aug-2022

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Forecast returns

Forecast price appreciation	+3.0%
Forecast dividend yield	3.3%
Forecast stock return	+6.3%
Market return assumption	8.1%
Forecast excess return	-1.8%

Company Description

NI is a fully regulated gas and electric utility serving customers in six states in the Midwest and Mid-Atlantic. NI is a gas distribution utility with 3.2 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NI is an integrated electric utility serving 0.5 million customers in Indiana. NI's mix of operating earnings is 60% gas and 40% electric.

Valuation Method and Risk Statement

Our valuation methodology for the group is price-to-earnings based. The adjustments applied fall into 7 categories. These are as follows: 1) Group Valuation Bias: Flowing from our valuation work comparing Baa corporate yields to group dividend yields and RU price to earnings ratios to those for the S&P 500, we incorporate a positive or negative adjustment to our group multiple representing the gap we calculate to the nearest 5%; 2) Growth Adjustment: We adjust our valuations based on the growth quartile each utility occupies. First quartile receives a 4% premium, second quartile a 2% premium, third quartile a 2% discount and fourth quartile a 4% discount; 3) Regulatory Adjustment: Our valuation adjustments for regulation are based on our proprietary Regulatory Rankings. First quartile jurisdictions receive 10%, second quartile 5%, third quartile -5% and fourth quartile -10%; 4) ESG: A potential 5% premium for a risk adjusted clean energy transition growth opportunity; 5) Earnings Consistency Adjustment: For companies that fall in the top quartile of % Time Beat/ Meet, we include +4%; 6) Multi Utility Diversified Valuation: For multi utilities (those with more than 15% of unregulated earnings), we perform a sum-of the-parts analysis applying business/region appropriate valuations to those diversified businesses; 7) One-off Adjustments: In special situations, we value risk on an issue-specific basis. Common areas where we apply such an adjustment include: large project construction risk, legal risk, and announced M&A completion risk.

We identify the following risk factors: rising interest rates; regulatory and policy risks; operational risks; construction risks; cybersecurity risk to the transmission grid and/or customer data, and extreme weather events. We identify the following risk factors for the sector overall: rising interest rates; regulatory and policy risks; operational risks; construction risks; cybersecurity risk to the transmission grid and/or customer data, and extreme weather events.

Our $31 price target is a 12% premium to the Regulated Utility average P/E of 17.3x our $1.66 EPS estimate in 2024. The valuation includes +5% for overall group undervaluation, +5% for second quartile regulation, (2)% for third quartile EPS growth, and 4% for earnings reliability.

Company-specific risks include gas prices, methane leaks, coal effluent rules.

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Buy	FSR is > 6% above the MRA.	57%	32%
Neutral	FSR is between -6% and 6% of the MRA.	35%	26%
Sell	FSR is > 6% below the MRA.	9%	21%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2022.
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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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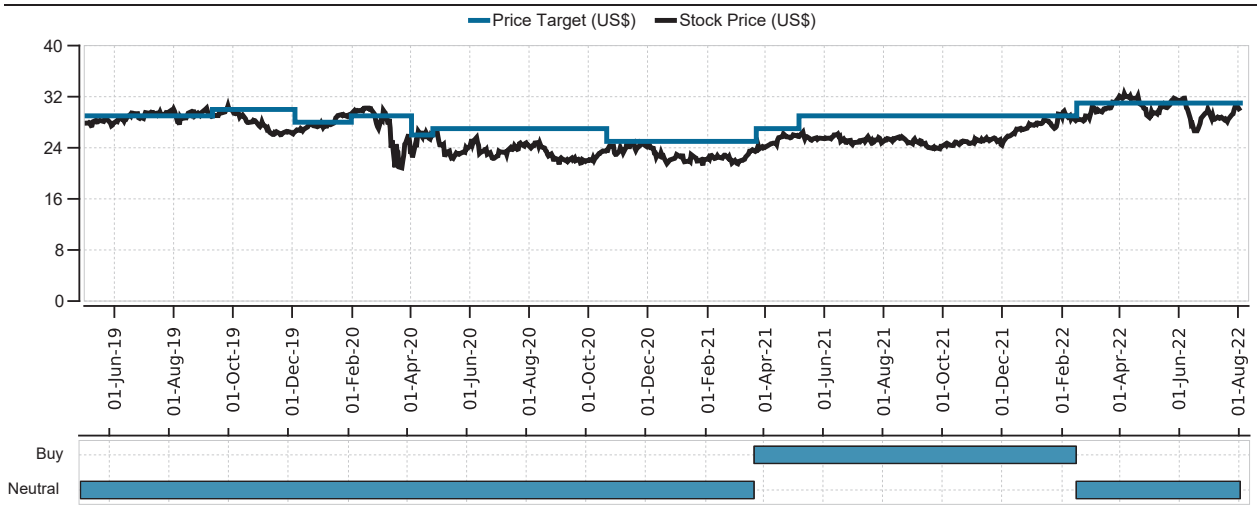
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Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$30.10	02 Aug 2022

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
2019-05-02	27.58	29.00	Neutral
2019-09-09	28.91	30.00	Neutral
2019-12-03	26.41	28.00	Neutral
2020-01-30	29.10	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral

Date	Stock Price (US$)	Price Target (US$)	Rating
2020-10-19	23.47	25.00	Neutral
2021-03-22	23.42	27.00	Buy
2021-05-05	25.78	29.00	Buy
2022-02-15	28.26	31.00	Neutral

Source: UBS;as of 02-Aug-2022. All prices as of local market close. Ratings as of date shown.

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NYSE: NI

NISOURCE INC

NiSource Inc. is an energy holding company whose subsidiaries are fully regulated natural gas and electric utility companies serving approximately 3.2 million natural gas customers and 500,000 electric customers in six states. NiSource's principal subsidiaries include NiSource Gas Distribution Group Inc., a natural gas distribution holding company, and NIPSCO, a regulated gas and electric company. NiSource derives substantially all of its revenues and earnings from the operating results of these rate-regulated utilities. The company has approximately 7,500 employees. NI shares are a component of the S&P 500.

Analyst's Notes

Analysis by David Coleman, November 28, 2022

ARGUS RATING: BUY

- Maintaining BUY
- The company is pursuing the sale of a minority stake in its NIPSCO utility in order to strengthen the balance sheet.
- NI shares have underperformed over the past quarter, falling 10% while the S&P 500 has fallen 1%. They have outperformed the broad market and the Utility industry ETF, IDU, over the past year but have underperformed over the past five years.
- Management has narrowed its 2022 adjusted EPS guidance to $1.44-$1.46 from $1.42-$1.48.
- We are lowering our 2022 EPS estimate.

INVESTMENT THESIS

Our rating on NiSource Inc. (NYSE: NI) is BUY based on valuation and historical earnings performance. Focusing on its regulated electric and gas utilities, NiSource recently completed a corporate restructuring that resulted in the spinoff of its nonregulated pipeline group. The company keeps a tight rein on operating expenses as well as capital spending. The shares trade above their historical five-year average for P/E and price/book, though the price/cash flow multiple remains below the historical average. Our target price is $34.

We note that NiSource could become a buyout target, as larger utilities and private equity firms pursue smaller utilities because of their stable earnings growth and above-average dividend yields. The company has also allocated significant capital to green energy generation.

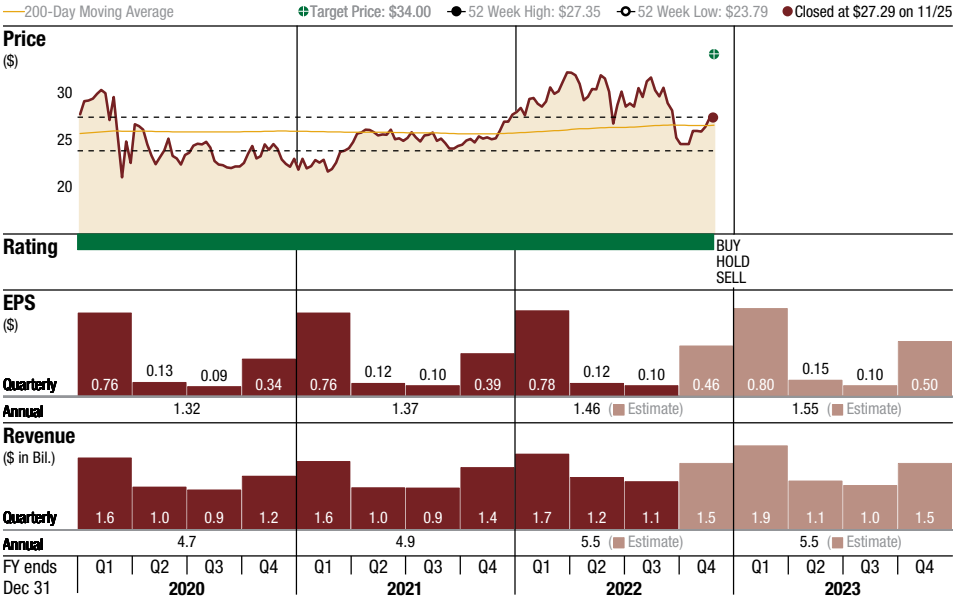
RECENT DEVELOPMENTS

NI shares have underperformed over the past quarter, falling 10% while the S&P 500 has fallen 1%. They have outperformed the broad market and the Utility industry ETF, IDU, over the past year but have underperformed over the past five years.

NiSource reported 3Q22 results on November 7. The company posted adjusted net

Market Data

Pricing reflects previous trading week's closing price.



Argus Recommendations

Twelve Month Rating	SELL	HOLD	**BUY**
Five Year Rating	SELL	HOLD	**BUY**
Sector Rating	Under Weight	**Market Weight**	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 71% Buy, 29% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	**$27.29**
Target Price	**$34.00**
52 Week Price Range	**$23.78 to $32.59**
Shares Outstanding	**406.13 Million**
Dividend	**$0.94**

Sector Overview

Sector	**Utility**
Sector Rating	**MARKET WEIGHT**
Total % of S&P 500 Market Cap.	**3.00%**

Financial Strength

Financial Strength Rating	**MEDIUM**
Debt/Capital Ratio	**57.5%**
Return on Equity	**10.6%**
Net Margin	**13.1%**
Payout Ratio	**0.64**
Current Ratio	**0.70**
Revenue	**$5.55 Billion**
After-Tax Income	**$725.50 Million**

Valuation

Current FY P/E	**18.69**
Prior FY P/E	**19.92**
Price/Sales	**2.00**
Price/Book	**1.96**
Book Value/Share	**$13.91**
Market Capitalization	**$11.08 Billion**

Forecasted Growth

1 Year EPS Growth Forecast	**6.57%**
5 Year EPS Growth Forecast	**4.00%**
1 Year Dividend Growth Forecast	**6.82%**

Risk

Beta	**0.74**
Institutional Ownership	**92.98%**

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Analyst's Notes...Continued

income of $44.6 million or $0.10 per share, compared to $47.1 million or $0.11 per share a year earlier. Revenue rose 24% year-over-year to $1.18 billion.

In 2021, the company reported adjusted net income of $571.2 million or $1.37 per share, compared to $507.5 million or $1.32 per share in 2020.

Along with the results, management narrowed its 2022 adjusted EPS guidance to $1.44-$1.46 from $1.42-$1.48. It also projected 2023 EPS of $1.50-$1.57. It continues to project capex of $2.4-$2.7 billion in 2022, $2.8-$3.1 billion in 2023, and a total of $15 billion in 2023-2027. The company expects to reduce greenhouse gas emissions by 90% by 2030 and to be coal-free by 2026-2028.

The company is pursuing the sale of a minority stake in its NIPSCO utility in order to strengthen the balance sheet.

EARNINGS & GROWTH ANALYSIS

NiSource has two segments: Gas Distribution Operations (51% of revenue) and Electric Operations (49%). In 3Q, Gas Distribution operating revenue rose 20.5% to $573.8 million, while Electric Operations revenue increased 9% to $507.9 million.

In the Electric Operations segment, on September 19, operating subsidiary Northern Indiana Public Service Co. (NIPSCO) filed it first electric case since 2018. The company is requesting $291.8 million to support renewable generation and associated transmission projects, grid modernization, and customer-centric improvements. The new rates would take effect in September 2023, with incremental new charges applied in 2024. The company has also begun construction on the Indiana Crossroads II Wind project, which is expected to enter service in 2023. The Indiana Crossroads Solar and Dunns Bridge Solar I projects are scheduled to enter service in the first half of 2023.

In Gas Distribution Operations, Columbia Gas of Ohio has obtained an annual revenue increase of $68.2 million, and NIPSCO has obtained a revenue increase of $71.8 million. Columbia Gas of Pennsylvania has filed a rate case for additional revenue of $82.2 million. Columbia Gas of Maryland has filed a rate case for $5.5 million on a $204.1 million rate base.

We are lowering our 2022 adjusted EPS estimate to $1.46 from $1.48. Our revised estimate is at the high end of management's guidance range and implies growth of 7%. We look for growth to continue in 2023 and are maintaining our adjusted EPS estimate of $1.55.

NiSource relies on its utility infrastructure programs for earnings and dividend growth. The company's regulated gas and electric segments are investing in pipelines and in electric transmission projects as well as in distribution modernization programs, and should continue to benefit from favorable regulation.

FINANCIAL STRENGTH & DIVIDENDS

NiSource has improved its balance sheet by selling noncore assets, recalibrating capital expenditures, and carefully managing

Growth & Valuation Analysis

GROWTH ANALYSIS

($ in Millions, except per share data)	2017	2018	2019	2020	2021
Revenue	4,875	5,115	5,209	4,682	4,900
COGS	3,120	4,114	2,890	2,695	2,848
Gross Profit	1,754	1,000	2,319	1,987	2,051
SG&A	—	—	—	—	—
R&D	—	—	—	—	—
Operating Income	927	126	1,305	961	1,015
Interest Expense	349	347	371	365	337
Pretax Income	443	-231	507	-31	707
Income Taxes	315	-180	124	-17	118
Tax Rate (%)	71	—	24	—	17
Net Income	129	-51	383	-18	585
Diluted Shares Outstanding	331	357	376	384	417
EPS	0.39	-0.18	0.87	-0.19	1.27
Dividend	0.70	0.78	0.80	0.84	0.88
GROWTH RATES (%)					
Revenue	7.7	5.5	1.2	-11.5	5.8
Operating Income	7.1	-86.4	936.7	-26.3	5.5
Net Income	-61.2	—	—	—	—
EPS	-61.8	—	—	—	—
Dividend	9.4	11.4	2.6	5.0	4.8
Sustainable Growth Rate	1.1		3.4	-2.6	1.9
VALUATION ANALYSIS					
Price: High	$27.76	$28.11	$30.67	$30.46	$27.85
Price: Low	$21.65	$22.44	$24.69	$19.56	$21.09
Price/Sales: High-Low	1.9 - 1.5	2.0 - 1.6	2.2 - 1.8	2.5 - 1.6	2.4 - 1.8
P/E: High-Low	71.2 - 55.5	— - —	35.3 - 28.4	— - —	21.9 - 16.6
Price/Cash Flow: High-Low	11.3 - 8.8	8.6 - 6.9	13.6 - 10.9	9.6 - 6.2	9.6 - 7.3

Financial & Risk Analysis

FINANCIAL STRENGTH	2019	2020	2021
Cash ($ in Millions)	139	117	84
Working Capital ($ in Millions)	-1,892	-620	-825
Current Ratio	0.49	0.73	0.70
LT Debt/Equity Ratio (%)	153.8	189.2	170.0
Total Debt/Equity Ratio (%)	188.8	200.0	181.5
RATIOS (%)			
Gross Profit Margin	44.5	42.4	41.9
Operating Margin	25.1	20.5	20.7
Net Margin	6.3	-1.6	10.8
Return On Assets	1.5	-0.3	2.3
Return On Equity	6.6	-1.5	10.3
RISK ANALYSIS			
Cash Cycle (days)	22.7	35.2	35.4
Cash Flow/Cap Ex	0.9	0.6	0.7
Oper. Income/Int. Exp. (ratio)	2.4	0.9	3.1
Payout Ratio	303.9	64.6	229.7

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Analyst's Notes...Continued

operating expenses and working capital.

Our financial strength rating on NiSource is Medium. The company receives average scores on our main financial strength criteria of debt levels, fixed-cost coverage, profitability, earnings quality, and cash generation. The company has investment-grade ratings from Moody's Baa2/stable, and Standard & Poor's BBB+/stable, both with a stable outlook.

The company had cash of $35.8 million on hand at the end of 3Q22 and net available liquidity of $919 million. Debt totaled $10.8 billion and accounted for 59.1% of total capitalization.

The company expects to make capital investments of approximately $15 billion through 2027.

NiSource pays an annualized dividend of $0.94 per share, for a yield of about 3.4%. We think the dividend is safe and likely to grow modestly over time. Our dividend payout estimates are $0.94 for 2022 and $1.00 for 2023.

MANAGEMENT & RISKS

Lloyd Yates succeeded Joseph Hamrock as the company's president and CEO on February 14, 2022. Donald E. Brown is the CFO. The chairman is Kevin T. Kabat, the former CEO of Fifth Third Bancorp. The COO is Pablo Vegas.

Management is committed to electric and gas service expansion strategies in the company's regulated service territories, and to the expansion of its gas transmission and storage business. We think the company's platform for a return to growth is solid, and are confident in management's ability to provide shareholders with increased value over the long term.

Key risks for stocks in our electric utility universe include fluctuations in interest rates and commodity prices, the effect of adverse weather on revenue, regulatory issues (especially involving construction cost recovery), and potential environmental and safety liabilities. In addition, the capital-intensive nature of the utility industry creates ongoing liquidity risk that must be actively managed by each company.

COMPANY DESCRIPTION

NiSource Inc. is an energy holding company whose subsidiaries are fully regulated natural gas and electric utility companies serving approximately 3.2 million natural gas customers and 500,000 electric customers in six states. NiSource's principal subsidiaries include NiSource Gas Distribution Group Inc., a natural gas distribution holding company, and NIPSCO, a regulated gas and electric company. NiSource derives substantially all of its revenues and earnings from the operating results of these rate-regulated utilities. The company has approximately 7,500 employees. NI shares are a component of the S&P 500.

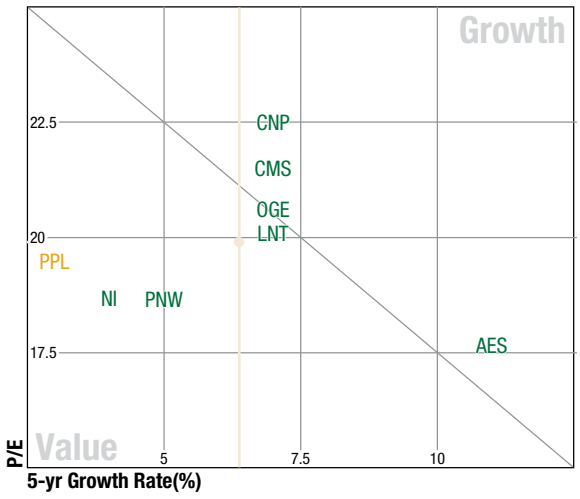
VALUATION

We think that NI shares are attractively valued at current prices near $27, below the midpoint of their 52-week range of $24-$33. On the fundamentals, the shares trade at 19-times our 2022 EPS estimate, above the average multiple of 18 for comparable electric

Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare NI versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how NI stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how NI might fit into or modify a diversified portfolio.**



Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
PPL	PPL Corp	21,523	3.0	19.5	9.9	10.7	HOLD
CNP	Centerpoint Energy Inc.	19,538	7.0	22.5	17.7	8.7	BUY
AES	AES Corp.	19,110	11.0	17.7	-2.2	8.0	BUY
CMS	CMS Energy Corporation	17,781	7.0	21.5	15.6	7.0	BUY
LNT	Alliant Energy Corp.	14,170	7.0	20.1	16.5	4.3	BUY
NI	Nisource Inc. (Holding Co.)	11,083	4.0	18.7	13.1	6.2	BUY
PNW	Pinnacle West Capital Corp.	8,655	5.0	18.7	13.0	-1.2	BUY
OGE	OGE Energy Corp.	8,004	7.0	20.6	28.8	8.2	BUY
Peer Average		**14,983**	**6.4**	**19.9**	**14.0**	**6.5**	



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Analyst's Notes...Continued

and gas utilities. They are also trading at a price/book multiple of 2.0, above the peer average of 1.9. The price/cash flow ratio is 8.4, below the peer average of 12. The dividend yield of about 3.4% is in line with the industry average. We are reiterating our BUY rating on NI with a 12-month target price of $34.

On November 28 at midday, BUY-rated NI traded at $27.20, down $0.09.

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About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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Power & Utilities

Hybrid Relative Value Refresh: Fall 2022

CORE

We refresh our best ideas in the Power & Utility hybrid universe, with a preference for hybrids of issuers with improving credit stories, or hybrids that have a greater likelihood of being called in a well-defined time frame.

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Trade Ideas

- **Sell:** VST 7.000% Perps, D 4.650% Perps or 4.350% Perps, DUK 4.875% Perps or 3.250% 2082s.
- **Buy:** EMACN 6.750% 2076s, SO 4.000% 2051s, CNP 6.125% Perps, NI 5.650% Perps

Utility Hybrids

Utility hybrids have remained relatively resilient in recent performance versus the most recent sell-off in equities, including utility equities (Figure 1). At the same time, utility hybrids have outperformed the IG Utility Index and IG Corps (Figure 2), supported by a number of hybrid securities that are now floating, as well as the callable nature of the space, plus coupon resets to floating rates. As we discussed in Hybrid Relative Value Refresh, 12 August 2022, given persistent macro headwinds, and our strategy view of a deteriorating spread environment, we have a general preference for hybrids that we think have an improving credit story, or those we view as having a greater likelihood of being called at the first call date (or, otherwise, a well defined timeline). Figure 3 shows one way to visualize extension risk in the space, though we also take into account whether companies continue to require hybrid capital, as well as loss of equity credit. For the full relative value matrix, please see Figure 5.

- **We are more cautious on hybrids that either do not have a well-defined time line to be called, and/or are unattractive versus the rest of the debt stack:** We recommend **selling the VST 7.000% Perps** (likely to be called on first call date, in our view, but unattractive versus front-end callable unsecured bonds), the **D 4.650% Perps or D 4.350% Perps** (credit overhang with large-scale offshore wind project; low resets make calls less likely), and the **DUK 4.875% Perps/ 3.250% 2082s** (likely stable credit quality; low resets make calls less likely).
- **We like hybrids with improving credit stories and/or a greater probability of being called in a well-defined timeframe:** We recommend **buying the Emera 6.750% 2076s** (longstanding commitment to improving credit metrics; these lose equity credit on the first

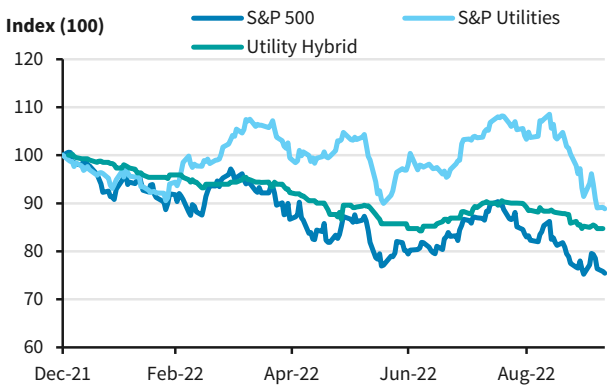
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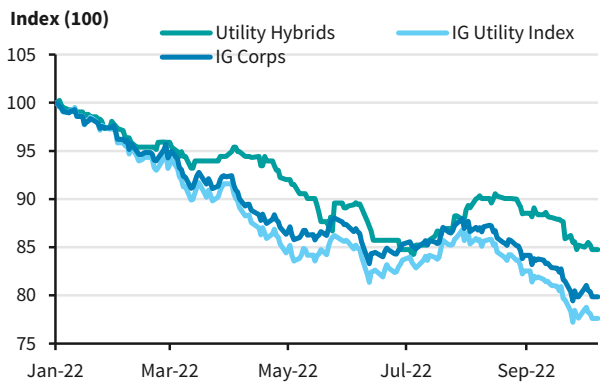
call date), the **SO 4.000% 2051** (improving credit trajectory approaching Vogtle completion, with likely rating upgrades in 2024; if not called in 2025, loses equity credit in 2031), the **CNP 6.125% Perps** (the underlying credit story has meaningfully stabilized since the time of issuance) and the **NI 5.650% Perps (**loss of credit credit on first call).

FIGURE 1. **Utility Equity Performance vs. S&P 500**



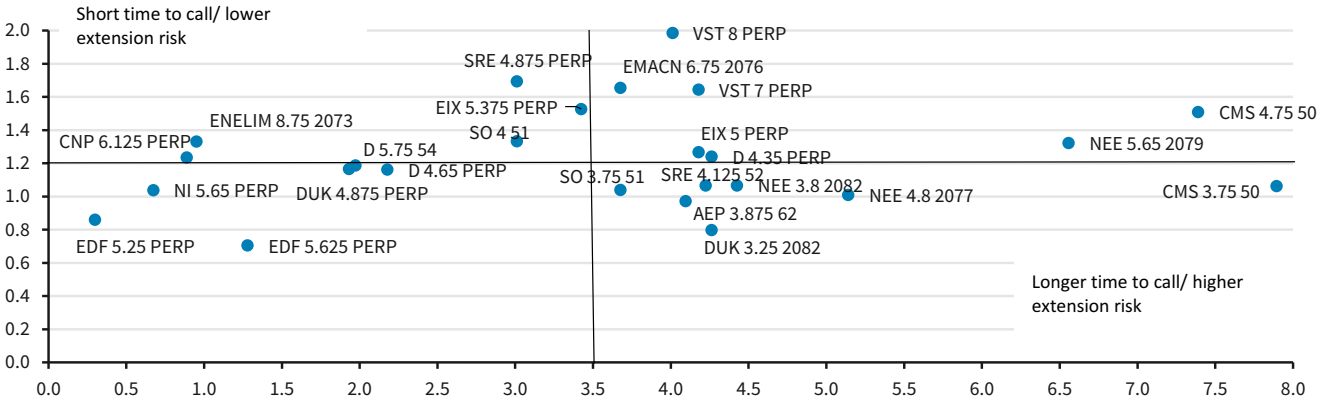
Source: Barclays Research

FIGURE 2. **Utility Hybrid Performance**



Source: Barclays Research

FIGURE 3. **Time to Call versus Extension Risk**



X-axis represents time to call (years); y-axis is ratio of floating reset spread to senior long spread, as a proxy for extension risk (a higher ratio implies lower extension risk).
Source: Bloomberg, Barclays Research

Best Ideas

Sell VST 7.0% PERP given less attractive valuations versus the VST unsecureds

- We view the VST Perps as less attractive than the VST unsecured bonds in the current environment; the VST 7.0% Perps offer ~10.5% yield to the December 2026 first call. However, the VST unsecureds offer attractive yields to early calls: for example, the VST 5.500% 2026s (the next unsecured maturity), quoted at $95, yields 11.6% to the September 2023 par call. The VST 5.625% 2027s quoted at $94.75, yields ~10% to the Feb 2024 par call.

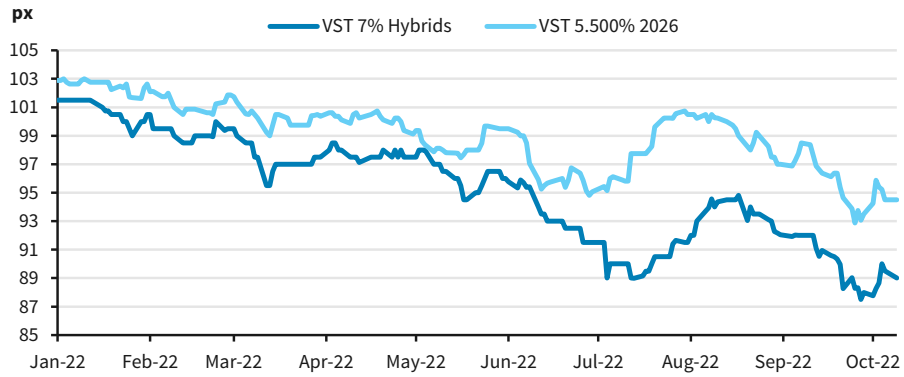
Based on management's initial 2022-26 capital allocation plan, we expect VST to continue deleveraging after paying down $2.5bn of debt in 2022 (by at least $1.5bn - see NRG versus VST: FAQs approaching 3Q Results, 6 October 2022). The deleveraging plan increases the likelihood of the VST front-end unsecured bonds being called ahead of maturity (i.e., before 2026/2027). Given the relatively high reset spread (+574bp), we would expect the company to call on the first

call date (December 2026), but the yield is less attractive than VST's unsecured notes to early calls.

We acknowledge that VST Perps do offer better downside protection against any hypothetical re-leveraging change of control, notably via a 500bp step-up should the company not exercise its right to redeem after a change of control trigger. That said, in the near term with elevated capital market volatility, we expect a go-private transaction with re-leveraging potential is unlikely given financing constraints.

In the event that the market moves wider, we see scope for the VST perps to underperform the unsecureds given their subordination, and a declining probability of first call. For example, our credit strategists call for HY spreads at 850-900bp in the near term, which would make the reset spread of 574bp look less expensive (see Expecting Much Wider Spreads, 25 July 2022).

FIGURE 4. **VST 7% hybrids have underperformed VST 5.500% 2026s YTD, which we expect to continue**



Source: Barclays Research

Sell D 4.650% Perps / D 4.350% Perps

- We think it is unlikely that Dominion would call the 4.650% / 4.350% Perps on their respective first call dates given relatively low hybrid reset spreads (their reset/ 30y senior spread ratio at 1.2x is about the average for the utility sector). We expect that Dominion will continue to rely on hybrid credit, and the notes do not lose equity credit on the first call date. The yield to perp at ~7.3% is also modestly less attractive versus the ~7.6% average for utility hybrids. The current yield on the securities (5.3%) is also unattractive versus the rest of the Dominion structure, in our view. The D holdco 30y current yield is 5.8%, while regulated opco Virginia Electric & Power Company 30y is at 5.5%.

Given a substantial capex plan, and management continuing to target credit metrics at the lower end of requirements for current ratings, we expect Dominion to continue to need equity credit from hybrids through the medium term. For example, Dominion LTM FFO/debt is within ~70bp of the Moody's (14%) downgrade trigger, and helps improve FFO/debt by ~60bp. Dominion's capex plan includes its $10bn offshore wind project. While we expect Dominion to work towards adjustments in the performance guarantee to allow for factors outside of the company's control (e.g., weather conditions), we nonetheless view the regulatory environment as weakened. The D Perps currently have two IG ratings (S&P and Fitch), and given the elevated upcoming construction risk, and weak credit metric positioning, we see scope to the downside for the Perp IG rating. The construction period for the offshore wind project (2023 to late 2026) is close to the time of the first call dates.

Sell DUK 4.875% Perp/ 3.250% 2082s

- We think it is unlikely that Duke would call the 4.875% Perps or the DUK 3.250% 2082s on their respective first call dates given relatively lower resets (at 0.8x-1.2x, at or below the average for the utility space). The current yield on the securities (~4.5-5.5%) is also unattractive versus the rest of the Duke structure, in our view. The DUK 30y current yield is ~6%, intermediate holdco Progress Energy 2039s (~6.4%) and secured opco 30y at 5.0%.

We expect Duke Energy to maintain credit metric stability, with clear evidence from the strategic review of the 3.5GW commercial renewables business that management is looking to be prudent about capex financing. Duke's elevated capex plan is aimed at supporting the energy transition, with $52bn of the $63bn current five-year plan allocated to T&D modernization ($33bn), Zero-Carbon Generation ($15bn) and hydrogen enabled natural gas generation ($4bn). The company targets FFO/debt of 14%, which is 100-200bp higher than the downgrade thresholds for Moody's and S&P, but which implies sustained relevance for hybrids (contributes to a 30bp improvement to FFO/debt). As the Duke Perps do not lose equity credit, and the 2082s only lose equity credit in 2062, the decision to call on the first call date is purely an economic one.

Buy EMACN 6.750% 2076s

- The Emera junior subs offer a 8.7% yield to the Jun-2026 call. We think there is a high likelihood of a call, both because the Emera hybrids lose equity credit at the first call date (due to a 100bp cumulative coupon step up in 2046) as well as the high reset (544bp). The reset/30y senior spread ratio is one of the highest in the utility hybrid universe at 1.7x. The hybrids offer an attractive current yield (7.2%) at ~100bp higher than the EMACN unsecured 2046s. We expect Emera to rely on hybrid capital in the longer term, as indicated in the medium-term financing plan.

We view Emera as having gradually improving credit metrics, with clear objectives to maintain IG ratings and FFO/debt above the 12% threshold at Moody's. The company has taken a large number of measures, including asset sales, to attempt to defend credit metrics since the TECO acquisition, though metrics have persistently disappointed. Incremental cash flow from Nova Scotia Power, as well as distributions from the Labrador Island Link transmission projects are expected to support credit metrics. The hybrids offer meaningful credit metric support, and we expect Emera to either explore refinancing hybrids or look to issue equity or utilize asset sales to be able to maintain Baa3 ratings.

Buy SO 4.000% 2051s

- The SO 4.000% 2051s offer a 8.10% yield to the October 2025 call, and a 7.7% call to Jan-2031, which is when the junior subs would lose equity credit at S&P, which we believe provides an incentive for the company to call the bonds in 2031. For comparison, the recently issued SO 5.700% 2032s unsecured holdco trades at ~6.0% maturity. The SO 4.000% 2051s have a reset of 373bp, with a reset/30y senior spread ratio slightly higher than average (1.3x).

We view Southern as being on a credit improvement pathway as it completes Vogtle Unit 3 (expected by end 1Q 2023) and Unit 4 (expected by end 4Q 2023). Completion of both units by 2023, and recovery of $7.3bn of the construction costs, would imply $700mn of cash flow benefit for Southern (~200bp FFO/debt improvement). With reduced construction risk (beginning with the completion of Unit 3), we expect positive outlooks and scope for a one-notch upgrade. A number of rate cases (including Georgia Power 2022, with a decision expected by the end of this year) and the fuel cost recovery case expected in Georgia next year should also help to de-risk the credit profile.

The Southern hybrids offer meaningful support to the credit metrics, with an average ~125bp uplift to FFO/debt at Moody's and S&P. We expect the hybrids will remain part of the long-term financing strategy even with a 200bp FFO/debt improvement from Vogtle completion as Southern targets higher ratings and increased capex on energy transition.

Views on other hybrids

- **Buy CNP 6.125% PERP:** The CNP 6.125% Perps trade at ~15% yield to call (September 2023). The $800mn perps were originally issued in 2018 to help fund the Vectren acquisition. We view Centerpoint's credit quality as well on a path to improvement, with FFO/debt targeted at 14-15% well above the rating agency downgrade thresholds at S&P (12%) and Moody's (13%). We think the Perps offer a modest FFO/debt benefit (~50bp) in the context of CNP's improved financial situation, and in our view, the hybrids no longer affect Centerpoint's ability to maintain current ratings. CNP management has historically indicated that they view their LDC businesses as 'pre-paid credit cards' and accordingly would utilize asset sales to support electric utility capex. This again suggests to us less need for hybrids in the cap structure.

- **Buy NI 5.650% PERP:** The NiSource 5.650% Perps offer a 19% yield to first call (June 2023), and despite the low reset spread (1.0x reset/30 year), we think there is a good chance that NiSource could call given the loss of equity credit (there is a cumulative 100bp step up in 2043). At current rates, the assumed coupon (284.3bp spread) would be ~7%. We think this would be unattractive for the company versus its senior unsecured bonds (30y at 6% yield).

Utility Hybrids Pricing Matrix

FIGURE 5. **Utility Hybrids Pricing Mix**

									Hybrid/Senior Spread Ratios			Hybrid Features	
SECURITY	Index Rating	Hybrid Next Call Date	Hybrid Reset (bp)	Price ($)	Yield to Call (%)	Yield to Maturity (%)	Hybrid Z-spd to call	Hybrid Z-sprd to Maturity	Reset/30y Snr Spread Ratio (x)	To Call	To Maturity	Replace	Loss of Equity Credit at S&P
AEP 3.875 62	BBB-	11/15/2026	268	76.3	11.3	7.6	733	394	1.0	4.9	1.4	No	2042
CMS 4.75 50	BB+	3/1/2030	412	85.5	7.3	7.7	360	399	1.5	1.7	1.5	No	2030
CMS 3.75 50	BB+	9/1/2030	290	72.8	8.6	7.6	487	389	1.1	2.3	1.4	No	2030
CNP 6.125 PERP	BB+	9/1/2023	327	93.0	14.8	7.0	1,042	380	1.2	10.7	1.4	No	n/a
D 5.75 54	BBB-	10/1/2024	306	94.3	9.0	6.8	465	326	1.2	4.9	1.3	No	2034
D 4.65 PERP	BB+	12/15/2024	299	87.8	11.1	7.3	685	377	1.2	7.2	1.5	No	n/a
D 4.35 PERP	BB+	1/15/2027	320	84.0	9.0	7.4	502	383	1.2	3.3	1.5	No	n/a
DUK 4.875 PERP	BB+	9/16/2024	339	89.3	11.2	7.6	687	407	1.2	11.1	1.4	No	n/a
DUK 3.25 2082	BBB-	1/15/2027	232	71.8	11.9	7.4	795	375	0.8	4.8	1.3	No	2062
EDF 5.25 PERP	BB	1/29/2023	371	93.5	28.9	7.5	2,576	428	0.9	n.a.	1.0	No	2023
EDF 5.625 PERP	BB	1/22/2024	304	89.0	15.4	6.9	1,099	384	0.7	8.4	0.9	No	2024
EIX Float PERP	BB+	11/14/2022	420	93.5	86.9	8.7	8,837	503	1.5	n.a.	1.8	No	n/a
EIX 5.375 PERP	BB	3/15/2026	470	83.3	11.4	9.2	736	555	1.5	3.1	1.8	No	n/a
EIX 5 PERP	BB	12/15/2026	390	79.8	11.2	8.5	724	517	1.3	3.1	1.7	Intent to	2027
EMACN 6.75 2076	BB	6/15/2026	544	94.0	8.7	8.7	466	546	1.7	2.6	1.7	Intent to	2026
ENELIM 8.75 2073	BBB-	9/24/2023	588	98.5	10.4	9.4	601	600	1.3	2.8	1.4	No	2023
NEE Float 10/1/66	BBB	11/14/2022	207	80.8	274.9	7.5	33,636	373	0.9	n.a.	1.6	RCC	2046
NEE Float 6/15/67	BBB	11/14/2022	213	82.3	248.4	7.4	29,731	365	0.9	n.a.	1.5	RCC	2047
NEE 3.8 2082	BBB	3/15/2027	255	77.3	10.3	7.2	641	363	1.1	4.4	1.5	No	2062
NEE 4.8 2077	BBB	12/1/2027	241	79.8	9.9	6.6	606	340	1.0	4.1	1.4	No	2057
NEE 5.65 2079	BBB	5/1/2029	316	86.3	8.4	6.9	464	371	1.3	2.5	1.6	No	2059
NI 5.65 PERP	BB+	6/15/2023	284	91.8	19.3	7.1	1,492	383	1.0	13.7	1.4	Intent to	2023
PPL Float 3/30/67	BBB	11/14/2022	267	83.8	225.4	7.9	26,500	417	1.1	n.a.	1.7	RCC	2047
SO Float 3/15/57	BBB-	11/14/2022	363	98.0	30.1	7.7	2,728	404	1.3	n.a.	1.4	No	2037
SO 4 51	BBB-	10/15/2025	373	88.3	8.5	7.7	438	402	1.3	2.9	1.4	No	2031
SO 3.75 51	BBB-	6/15/2026	292	80.8	10.2	7.5	614	384	1.0	4.1	1.4	No	2031
SRE 4.875 PERP	BB+	10/15/2025	455	91.5	8.1	8.2	398	463	1.7	3.1	1.7	No	n/a
SRE 4.125 52	BBB-	1/1/2027	287	77.8	10.8	7.8	688	410	1.1	4.1	1.5	No	2032
VST 8 PERP	B+	10/15/2026	693	92.5	10.3	10.6	634	691	2.0	1.9	2.0	No	n/a
VST 7 PERP	B+	12/15/2026	574	88.0	10.6	9.9	666	621	1.6	2.0	1.8	No	n/a
WEC Float 5/15/67	BBB-	11/14/2022	211	81.8	255.3	7.5	30,686	368	0.9	n.a.	1.5	RCC	2047
Median			316	86.3	11.1	7.6	687	394	1.2	3.7	1.5		

Source: Bloomberg, Barclays Research

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CNP 6 1/8 PERP (USD 94.25, 11-Oct-2022)

DOMINION ENERGY INC, A/CD/CE/D/E/J/K/L/M

D 4.35 PERP (USD 85.00, 11-Oct-2022)

D 4.65 PERP (USD 87.75, 11-Oct-2022)

DUKE ENERGY CORP, A/CD/CE/D/E/J/K/L/M

DUK 3 1/4 01/15/2082 (USD 73.00, 11-Oct-2022)

DUK 4 7/8 PERP (USD 90.00, 11-Oct-2022)

EMERA INC, CD/J

EMACN 6 3/4 06/15/2076 (USD 93.75, 11-Oct-2022)

NISOURCE INC, A/CD/CE/D/E/FA/J/K/L/M

NI 5.65 PERP (USD 92.00, 11-Oct-2022)

SOUTHERN CO/THE, A/CD/CE/D/E/J/K/L/M

SO 4 01/15/51 (USD 88.75, 11-Oct-2022)

VISTRA CORP, A/CD/CE/D/E/FA/J/K/L/M

VST 7 PERP (USD 88.25, 11-Oct-2022)

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Underweight (UW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be less than the six-month expected excess return of the relevant sector.

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BRCF2242

High Grade Utilities

NiSource (NI): Strategy Update Confirms Stable Credit Goals, Upgrade to Overweight

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Key Points: 1) NI completed its strategic review, after considering a large number of options, by selecting a minority stake sale in NIPSCO, 2) Target FFO/debt was raised to 14-16%, from 14-15%, 3) Net-Zero (Scope 1 and 2) target by 2040.

Trade Ideas

- Buy NI 1.700% 2031s/ NI 4.800% 2044s/ NI 4.375% 2047s
- Buy NI 5.650% Perp

Investment Summary

We upgrade NiSource (NI) to Overweight following its investor day/strategy update, providing clarity on the credit trajectory. While management confirmed exploring a number of options, including a sale of the company, the ultimate option selected was a minority stake sale at NIPSCO. NiSource maintained its credit ratings goals, and, positively, increased its FFO/debt target to 14-16% from 14-15%. The sale of a minority interest in NIPSCO ($6.9bn rate base, of which $4.9bn Electric and $2.0bn Natural Gas) is expected to support financing for a $15bn capital investment plan through 2023-27.

With NiSource requiring 13% FFO/debt to maintain Baa2 ratings at Moody's (17% for an upgrade) and 13% at S&P (16% for an upgrade), we see the strategic update as credit supportive through maintaining a robust cushion versus downgrade thresholds. While the minority stake sale is at NIPSCO, an opco with a greater rate base in Electric operations versus natural gas, we do not think it materially weakens NiSource's risk profile.

NiSource has underperformed YTD, but has been outperforming the Utility index over the last three months. We think NiSource has scope to sustain outperformance versus the Utility index as the strategic update improves visibility into credit metric targets and confirms rating goals.

FIGURE 1. **NiSource (NI) versus the Index**

Source: Bloomberg Fixed Income Indices

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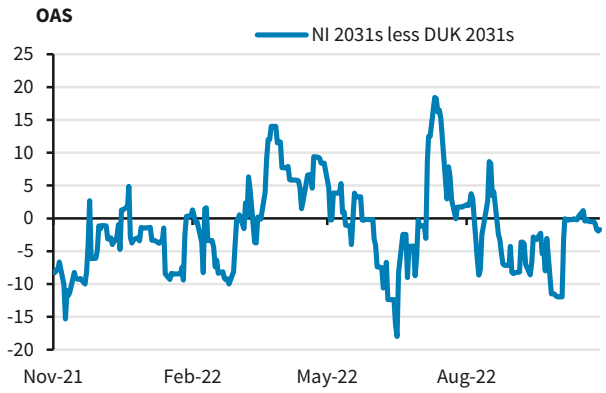
Issuer	Ticker	Amt Out ($mn)	Moody's	S&P	OAS	OASD	Excess Return 1Month	Excess Return 3Months	Excess Return YTD
Utility Index		549,338	A2/A3	A-/BBB+	154	8.8	43	(48)	(287)
Holdco & Other Custom Index		208,502	Baa1/Baa2	BBB+	154	7.1	24	(44)	(277)
NiSource Inc	NI	8,947	Baa2	BBB+	166	8.4	56	4	(336)

Relative Value

- **Buy NI 1.700% 2031s/ NI 4.800% 2044s/ NI 4.375% 2047s:** At 168bp, NiSource 2031s are at the wider-end of the mid-BBB holdcos (about flat to DUK 2031s and 15bp wide of D 2031s). We would expect NI 2031s to trade mostly tighter (5-10bp) versus DUK holdco given a higher FFO/debt target at NI (14-16% versus 14%). We also note that NiSource has a relatively more flat capital structure versus regular-way utilities (e.g, DUK with substantial amounts of opco debt). NI 2044s and 2047s at 175-195bp is also consistent with DUK levels, and wide of D levels. We also see scope for NI to trade modestly righter (~5-10bp).

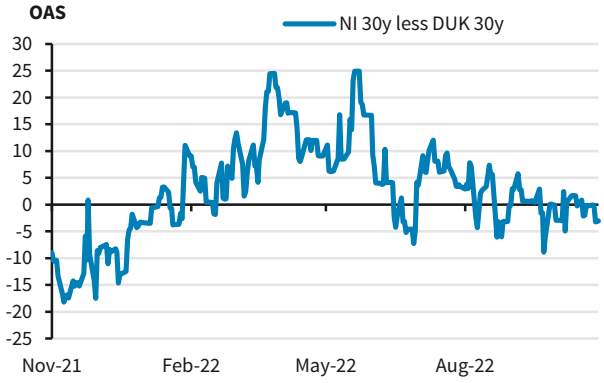
- **Buy NI 5.650% Perp:** Quoted at $93.25, the NI perps offer a 18% yield to the June 2023 call. The NI Perps lose equity credit at S&P on the June 2023 call date, given a 100bp coupon margin step up in 2043 (20 years after the call date).

FIGURE 2. **NI 2031s less DUK 2031s**



Source: Barclays Research

FIGURE 3. **NI 30y less DUK 30y**



Source: Barclays Research

3Q 22 Highlights and Key Drivers

- **3Q 22 results:** We calculate 3Q EBITDA at $360mn, +7.4% y/y, with higher revenue (+13.6% y/y) more than offsetting changes in cost of fuel (+59% y/y). Cash from operations ($129mn, -$107mn y/y) was weaker in the quarter given working capital. Accordingly, FCF in the quarter was weaker y/y, at -$572mn, also reflective of higher capex (+$111mn). We calculate FFO/debt at 14.2%. The company introduced 2023 EPS guidance of $1.50-1.57 (consensus $1.55).

- **NIPSCO Minority interest sale (up to 19.9%):** NiSource remains committed to its NIPSCO business, but believes that a minority interest sale will be an attractive way to finance growth. The combined rate base of NIPSCO Electric ($4.9bn) and Gas ($2.0bn) was $6.9bn in 2021. The blended equity layer at NIPSCO is 52%.

- **Outright sale/sale of natural gas LDCs considered but did not progress:** Having spoken to a lot of different stakeholders, NiSource did not receive a compelling offer for the entire company. The company noted that it saw lower valuations for natural gas LDCs versus NIPSCO electric + natural gas.

- **Financing Plan (2023-27):** With $18bn ($15bn capex, $3bn of dividend) of capital needs over 2023-27, and with $10bn of cash flow, and $6bn of debt + equity issuance (of which $5bn is debt), the company expects the minority interest sale to contribute the balance ($2bn).
- **Credit Metric Targets:** NiSource expects FFO/debt at 14-16% through the plan, compared to 13-14% at end FY22.
- **Generation mix at NIPSCO:** NiSource expects to retire coal by 2026-28, which supports the previously announced target for 90% reduction in GHG by 2030. The generation mix is expected to include 51% renewables in 2030 and 35% natural gas.
- **Net-Zero Target:** NiSource announced a net zero goal (Scope 1 + 2) by 2040. As it does not include Scope 3, NiSource's goal excludes decarbonization of the natural gas fuel transported. That said, NiSource did discuss hydrogen pilots (Columbia Gas of Pennsylvania), as well as renewable natural gas production.
- **Moderating Rate-Base Growth:** NiSource's 2021-24 expected rate case growth was 10-12% previously; for 2021-27 the company is targeting 8-10%. The company mentioned that higher natural gas prices was an influence in how fast it aims to target rate-base growth. 2023 capex was reset lower to $2.8-3.1bn from $3.4-3.7bn previously. NiSource now provides capex guidance through 2027, with 2024 capex raised to $3.0-3.3bn from $1.9-2.2bn previously. The distribution charge in the customer bill is expected to increase by less than 5.0% per year through 2023-27.

FIGURE 4. **NiSource ESG Score**

Company	Environmental	Social	Governance
NISOURCE INC			

Blocks represent an aggregated view of, E, S, and G factor scores, respectively, across third-party score providers (one block indicates a very low average score, five a very high average score). Icons show the dispersion of those scores (no bars indicates only one source provider, two bars indicate dispersion between providers, full bars indicate aligned scores). For more details on Barclays ESG Indicators, click here. Data as of 31 Oct 2022. ESG Indicators are published in the first half of each month and reflect the data as of the end of the previous month. Clients can access the latest ESG Indicators on Barclays Live. Source: Barclays Research, Sustainalytics, Vigeo Eiris, (V.E), an affiliate of Moody's.

Summary of Ratings

Bloomberg U.S. Credit Index

	Old	New
U.S. HG Electric Utilities	Overweight	Overweight
NISOURCE FINANCE CORP	Market Weight	**Overweight**

Source: Barclays Research

Analyst(s) Certification(s):
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Primary Issuers/Bonds
NISOURCE FINANCE CORP, Overweight, CD/D/E/J/K/L/M

Valuation Methodology: NiSource (NI) provided clarity on its credit trajectory. While management confirmed exploring a number of options, including a sale of the company, the ultimate option selected was a minority stake sale at NIPSCO. NiSource maintained its credit ratings goals, and, positively, increased its FFO/debt target to 14-16% from 14-15%. The sale of a minority interest in NIPSCO ($6.9bn rate base, of which $4.9bn electric and $2.0bn natural gas) is expected to support financing for a $15bn capital investment plan through 2023-27.

Risks that May Impede Achievement of the Rating: Risk to the downside include a strategic shift away from maintaining a sufficient credit metric versus requirements for its ratings

Representative Bond: NI 4.8 02/15/44 (USD 80.65, 03-Nov-2022)

Materially Mentioned Issuers/Bonds
NISOURCE INC, A/CD/CE/D/E/J/K/L/M

NI 1.7 02/15/31 (USD 73.33, 03-Nov-2022)

NI 4 3/8 05/15/47 (USD 75.73, 03-Nov-2022)

NI 4.8 02/15/44 (USD 80.65, 03-Nov-2022)

NI 5.65 PERP (USD 91.50, 03-Nov-2022)

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For sectors rated against the Bloomberg U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Pan-European High Yield Finance Index or the Bloomberg EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to exceed the six-month total return of the relevant index.

Market Weight (MW):
For sectors rated against the Bloomberg U.S. Credit Index, the Bloomberg Pan-European Credit Index, the Bloomberg EM Asia USD High Grade Credit Index or the Bloomberg EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to be in line with the six-month excess return of the relevant index.

For sectors rated against the Bloomberg U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Pan-European High Yield Finance Index or the Bloomberg EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be in line with the six-month total return of the relevant index.

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For sectors rated against the Bloomberg U.S. Credit Index, the Bloomberg Pan-European Credit Index, the Bloomberg EM Asia USD High Grade Credit Index or the Bloomberg EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to be less than the six-month excess return of the relevant index.

For sectors rated against the Bloomberg U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Pan-European High Yield Finance Index or the Bloomberg EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be less than the six-month total return of the relevant index.

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Overweight (OW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to exceed the six-month expected excess return of the relevant sector.

Market Weight (MW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be in line with the six-month expected excess return of the relevant sector.

Underweight (UW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be less than the six-month expected excess return of the relevant sector.

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Market Weight (MW): The analyst expects the six-month total return of the debt security subject to this rating to be in line with the six-month expected total return of the relevant sector.

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26% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 60% of issuers with this rating category are investment banking clients of the Firm; 85% of the issuers with this rating have received financial services from the Firm.

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Market Weight (MW):
The analyst expects the six-month excess return of the country's index eligible bonds to be in line with the six-month excess return of the Bloomberg EM USD Sovereign Index.

Underweight (UW):
The analyst expects the six-month excess return of the country's index eligible bonds to be less than the six-month excess return of the Bloomberg EM USD Sovereign Index.

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IN Fact

November 2, 2022 | 21:20 ET~

NiSource

BMO Capital Markets

NI-NYSE	Rating	Price: Nov-2	Target	Total Rtn
	Outperform	$25.62	$28.00	13%

Process of Elimination — NI's AD to Focus on Organic Growth & Cost Efficiencies

Bottom Line:

At a ~6% discount to the group and the stock's almost 9% underperformance since its June relative peak, we believe expectations are sufficiently low and create a favorable risk/return in NI shares heading into the company's analyst day next week. We believe most investors do not expect any major announcement attached to the company's strategic review. **As we eliminate these announcements from the narrative, we are left with an analyst day and the primary driver of relative performance a function of the extension and executability of the company's growth outlook.**

Key Points

Management has been clear it remains confident in the company's standalone prospects and sees opportunities to enhance an already robust opportunity set. However, the company also has a duty to "benchmark" its organic plan against various strategic scenarios to maximize shareholder value. Given its organic double-digit rate base growth, favorable recovery mechanisms, and manageable equity needs, we believe it is very unlikely to see the initiation of a process that could lead to the sale of the company. We do however expect management to retain the option to sell one of its smaller gas LDCs given the continued private demand for infrastructure assets to more efficiently finance future equity needs.

Instead, we expect the focus to be on the extension/drivers behind its five-year growth outlook. We also expect management to outline how it will drive additional efficiencies out of its cost structure as well as provide an update on the timing/costs related to its 2018 IRP projects and an update on its 2021 IRP. **Given the company's low-double-digit organic rate base growth, modest rate lag, and continued financing needs beyond 2024, we expect management to lay out a 6-8% long-term growth rate (math inside).**

We expect management to initiate a 2023 outlook of $1.51-1.57 in line with management's 5-7% guidance off 2021 EPS. We have lowered our 2022 estimate to $1.44 to reflect the delay in the CEOH gas case. Our 2023 estimate remains $1.54 as higher preferred interest costs are offset by the full-year impact of the CEOH case. Finally, our 2024 moves to $1.69 due to higher preferred interest expenses and timing of the annualized impact of the company's NIPSCO rate case. **Our revised forecast suggests an EPS CAGR through 2024 of 7.4%, in line with the bottom end of the company's 7-9% current guidance.**

Key Changes		
Estimates	**2022E**	**2023E**
EPS	$1.44	
Previous	*$1.46*	
EBIT	$1,318	$1,483
Previous	*$1,324*	*$1,482*

For disclosure statements, including the Analyst Certification, please refer to page(s) 8 to 11.

Utilities, Power & Renewables

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Company Data			in $
Dividend	$0.94	Shares O/S (mm)	406.0
Yield	3.7%	Market Cap (mm)	$10,400
P/BV	1.5x	Net Debt (mm)	$8,942

BMO Estimates				in $
(FY-Dec.)	2020A	2021A	2022E	2023E
EPS	$1.32	$1.37	$1.44↓	$1.54
DPS	$0.84	$0.88	$0.93	$0.99
EBIT	$1,064	$1,178	$1,318↓	$1,483↑
EBITDA	$1,789	$1,964	$2,137↓	$2,345

Consensus Estimates				
	2020A	2021A	2022E	2023E
EPS			$1.45	$1.54

Valuation				
	2020A	2021A	2022E	2023E
P/E	19.4x	18.8x	17.7x	16.7x
Div. Yield (%)	3.3%	3.4%	3.6%	3.9%

QTR. EPS	Q1	Q2	Q3	Q4
2020A	$0.76	$0.13	$0.09	$0.34
2021A	$0.73	$0.13	$0.11	$0.39
2022E	$0.75a	$0.12a	$0.09	$0.48
2023E	$0.93	$0.15	$0.11	$0.34

Our Thesis

We like several aspects of NI following the sale of Columbia Gas of Massachusetts and removal of the previously guided $500-700mm equity issuance overhang, which we believe meaningfully de-risked the story.

BMO Capital Markets

NiSource - Block Summary Model

Income Statement	2020A	2021A	2022E	2023E
Electric Operations	362	430	510	625
Gas Distribution	668	704	751	831
Coporate & Other	2	2	2	2
Consolidated EBIT	1,064	1,178	1,318	1,483
Depreciation & Amortization	726	786	819	862
EBITDA	1,789	1,964	2,137	2,345
Interest Expense	371	366	406	483
Income Tax	127	144	168	196
Income from continuing operations	508	572	648	705
Weighted Average Shares Outstanding	384	419	449	459
Diluted Operating EPS	$1.32	$1.37	$1.44	$1.54
Dividends per Share	$0.84	$0.88	$0.93	$0.99
Cash Flow Statement	**2020A**	**2021A**	**2022E**	**2023E**
Operating Cash Flow	1,681	1,426	1,542	1,624
Investing Cash Flow	(879)	(2,050)	(2,500)	(3,350)
Financing Cash Flow	(100)	587	906	1,709
Net Change in Cash Flow	701	(37)	(53)	(18)
EOP Cash on Balance Sheet	804	767	714	696
Common stock (net)	360	1,211	348	198
Net debt issued/(repaid)	82	(200)	1,032	2,020
Dividends paid	(323)	(369)	(419)	(454)
Balance Sheet	**2020A**	**2021A**	**2022E**	**2023E**
Common Equity	5,735	7,189	7,807	8,299
Preferred Equity	880	880	880	880
Total Debt	9,746	9,546	10,578	12,598
Enterprise Value	$20,351	$21,666	$23,176	$25,455
Common equity %	35.1%	40.8%	40.5%	38.1%
Preferred equity %	5.4%	5.0%	4.6%	4.0%
Total Debt %	59.6%	54.2%	54.9%	57.8%
Book Value per Share	$17.21	$19.25	$19.36	$19.98

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

Our target price is the product of a P/E-based sum of the parts. We utilize a regulated-group average multiple using 2024E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook.

Upside Scenario $32.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile.

Downside Scenario $21.00

Our downside scenario reflects a tightening monetary policy and a deceleration of the company's rate base growth.



Key Catalysts

Use of proceeds from CMA sale. Potential for further asset rotation.

Company Description

NiSource, Inc. is a regulated utility holding company, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states. Through its Columbia Gas and NIPSCO brands, it provides natural gas, electricity, and other products and services. The company was founded in 1987 and is headquartered in Merrillville, Indiana.

NI-NYSE Research
Glossary
Company Models

Process of Elimination – We Expect NI's Analyst Day to Focus on Executing Its Organic Growth Opportunities & Cost Efficiencies

Bottom Line: At a ~6% discount to the group and with the stock's almost 9% underperformance since its June relative peak, we believe expectations are sufficiently low which creates a favorable risk/return in NI shares heading into the company's analyst day next week. Over the course of the last several months we believe investors' expectations have come in materially regarding any major announcement attached to the company's strategic review. While we continue to believe it is highly unlikely that the company will announce its intent to pursue a process that would lead to the sale of the company, we do see the potential for management to leave open the option to sell one of its smaller gas LDCs as a means of more efficiently financing any future equity needs. However, we believe there is little to no expectation for an announcement on either front. **We maintain our Outperform rating on NI shares and our $28/share target price which reflects the current MTM of our peer group utility multiples used in our SOTP valuation framework.**

As we eliminate these announcements from the narrative, we are left with an analyst day and the primary driver of relative performance is likely a function of the extension and executability of the company's growth outlook (likely through 2027). We also expect an expanded discussion on how management expects to drive additional efficiencies out of its cost structure as well as an update on the timing and costs related to its 2018 IRP projects and an update on its 2021 IRP and associated renewable projects. Given the company's low-double-digit organic rate base growth, modest rate lag, and continued financing needs beyond 2024, we expect management to lay out a 6-8% long-term EPS growth rate. We also expect management to initiate its 2023 outlook which we expect to be in the $1.51-1.57/share range or consistent with management's 5-7% guidance off 2021 actual EPS. Finally, we also expect management to address the impact of the Inflation Reduction Act compared to its previous commentary that it does not expect any material near-term impact to its plan and the earnings thresholds. **In short, although expectations are extremely low, we believe the key to the company's successful re-rating from here is management's ability to lay out a highly executable growth outlook with visible growth drivers and one that is economically financeable.**

Refreshing 2022-2024 Forecast for Rate Case Timing and Preferred Interest

We are lowering our 2022 estimate modestly to $1.44 to reflect the delay in the implementation of the company's OH rate case. Our 2023 remains unchanged at $1.54 as slightly higher preferred interest costs are offset by the full-year impact of the company's OH rate cases. Finally, we lower our 2024 estimate to $1.69 due to higher preferred interest expense and timing of the annualized impact of the company's NIPSCO rate case. Our revised forecast suggests an EPS CAGR through 2024 of 7.4%, which is in line with the bottom end of the company's 7-9% current guidance.

Benchmarking Organic Plan Against Strategic Opportunities Likely Leads to Status Quo

We do not see any material changes from our 2Q22 note in our expectations for what key items management will provide updates to at its analyst day next week. Specifically, we anticipate management to address the following:

- **Present the outcome of its strategic review including "definitive announcements" of where management and the board of directors are taking the business.** To this latter point, CEO Lloyd Yates has been clear that the scope of the review included all strategic alternatives, including options at both the enterprise and asset level and other opportunities to optimize the existing business in terms of growth, cost structure, profile, and safety. In recent discussions management has been clear it remains confident in the company's standalone prospects and

sees opportunities to enhance an already robust opportunity set. However, the company also has a duty to "benchmark" its organic plan against various strategic scenarios to maximize shareholder value. Although we believe the company is likely to have gone through an in-depth review of all its strategic options, given its organic 10% rate base growth and favorable recovery mechanisms, we believe it is very unlikely there is an announcement of a process that would lead to the sale of the company. We however see a non-zero probability for management to leave open the option to sell one of its smaller gas LDCs give the continued private demand for infrastructure assets to more efficiently finance any future equity needs. **With smaller, subscale LDC OpCos including VA (~$1bn), MD (~$500mm), and KY (~$500mm) in the portfolio, we could see management rationalize one or more of these assets (especially if not performing) to meet forward equity needs or even retire higher coupon debt including calling its 2018 perpetual preferreds ($900mm in aggregate) which have a coupon reset (5YR Ts + 3.6%/2.8% spread) in June 2023/March 2024.**

- **An extension and the drivers behind its five-year growth outlook.** Given management's history we would anticipate a three-year extension of its financial expectations out to the 2027 timeframe. Outside of some potential supply chain-related changes in its renewable investment timing (2023), management is expected to update its long-term capital spending outlook, which has averaged $1.9-2.3bn over the last several years outside its renewable spend and has helped underpin low-double-digit rate base growth. **We expect to see a modest uptick in this cadence as the company extends its outlook, which should continue to support rate base in the 10% range (Exhibit 3).** With its financing plan in place through 2024 and covering its equity needs for its 2018 IRP projects, we expect the company's annual equity needs to be in the $300-350mm range before any financing associated with its 2021 IRP plan. This represents ~2.5% annual dilution, which when combined with some modest rate lag of 25-30 b/p, would suggest EPS growth in the 7% range before the addition of the impact of the company's 2021 IRP, which was ~$750mm when last updated to meet the Michigan City plant retirement in the 2026-2028 timeframe. **At this investment level we see the IRP adding roughly 1% to EPS on a fully financed, run rate basis in the ~2027 timeframe, which would support the high end of a 6-8% CAGR using 2023 as the base year.** Finally, management should also provide a comprehensive update on how it looks at driving additional O&M and other cost efficiencies out of the business in addition to its NI NEXT program. We would expect a comprehensive set of best practice initiatives to drive down A&G expenses including information technology-driven solutions to streamline its shared services model.

- **An update on the timing and costs related to its 2018 IRP projects as well as mitigation efforts and an update on the results of its 2021 IRP RFP.** On the 2Q22 call, management discussed that the DOC's delay on solar panel tariffs gave management more confidence and clarity on the revised project timelines. At that time the company believed its 2021-2024 capital program remains on track at the $10bn level and it continues to expect diluted NOEPS CAGR of 7-9% through 2024. With the analyst day we expect the company to provide investors with its updated thoughts on both the cost and timing of the ~$2bn in renewable investment related to the 2018 IRP, of which ~$1bn is expected in-service by 2023 and the other ~$1bn in-service in "2024+." Management's mitigation plan is to utilize various electric rate case options to provide flexibility that helps ensure the timely recovery of these investments as they come into service. It also includes other previously announced mitigation measures that management believes will help keep it on track to meet its 2024 outlook. Specifically, management sees ~9-10c of delay-related 2024 EPS offset by 4-5c of pulled forward capex, 3-4c of O&M offsets, and 1-2c of lower financing cost (Exhibit 1).

Exhibit 1: NiSource Initial 2024 Mitigation Plan

Delayed Renewable Investments • ~$1.0B in-service by 2023 • ~$1.0B in-service 2024+	($0.09 - $0.10)
Pulling Forward Tracked/Other Investments • ~$400-$500M Pulled into 2022/2023	+$0.04 - $0.05
O&M • Accelerating NiNEXT and operational excellence opportunities	+$0.03 - $0.04
Financing Cost • Less financing need with delayed projects	+$0.01 - $0.02
Total 2024 EPS Impact	$0.00

Source: BMO Capital Markets, Company Filings

Supporting the company's extension of its longer-term growth outlook are the investments identified in NIPSCO's all sources RFP of capacity resources including renewable generation projects and a targeted RFP for gas peaking units which was filed in August. The refresh of the company's recent RFP results is expected to provide a better market perspective on pricing and availability of resources in line with the preferred pathway outlined in the 2021 NIPSCO IRP. Plans to retire existing coal-fired generation were unchanged with the Schahfer Generation stations remaining two coal units expected to retire by the end of 2025 and the Michigan City Generation Station retiring between 2026 and 2028. As discussed above the preferred path outlines new generation investment that was last estimated to be up to $750mm. Given the RFP solicitation was to be concluded in the 3Q22 we expect some more definition around the technology solution, updated associated cost, and finally timing of the proposed investments.

Regulatory Updates. After many delays, earlier this week, CGOH filed a settlement in the company's Ohio gas rate case with numerous parties including the Staff of the Public Utilities Commission of Ohio, the Office of the Ohio Consumers' Counsel (OCC), Northeast Ohio Public Energy Council (NOPEC), Industrial Energy Users – Ohio (IEUO), Ohio Manufacturers' Association Energy Group (OMAEG), Kroger Co. (Kroger), the Ohio Schools Council (OSC), Interstate Gas Supply, Inc. (IGS), and the Retail Energy Supply Association (RESA). Overall the terms of the proposed settlement were roughly in line with our own modeling assumptions including a $68.1mm revenue deficiency based on a $3.505mm rate base, 50.6% equity layer, and 9.6% ROE. Overall the settlement is a modest improvement to the April Staff recommendation of a $46.3mm revenue deficiency and a $3.463mm rate base, 9.55% ROE, and 50.6% equity layer. Given the company had expected implementation of rates earlier in the year, our modest tweaks to our 2022 and 2023 estimates reflect this timing shift.

Exhibit 2: NiSource Inc. - Model Summary

NI Model Summary	2019	2020	2021	2022	2023	2024	5-Year
EPS By Segment							
Electric Operations	$0.76	$0.63	$0.72	$0.82	$1.01	$1.12	*15.7%*
Gas Distribution	$1.12	$1.17	$1.09	$1.13	$1.19	$1.26	*5.1%*
Corporate & Other	($0.56)	($0.48)	($0.44)	($0.50)	($0.67)	($0.69)	*15.7%*
Consolidated E.P.S.	**$1.32**	**$1.32**	**$1.37**	**$1.44**	**$1.54**	**$1.69**	***7.4%***
Dividend per share	**$0.80**	**$0.84**	**$0.88**	**$0.93**	**$0.99**	**$1.05**	*5%*
Payout Ratio total	60.8%	63.6%	64.4%	64.6%	64.4%	62.0%	
Dividend Yield	2.9%	2.9%	3.0%	3.2%	3.4%	3.6%	
Valuation Metrics							
Price to Earnings	21.2x	22.2x	21.5x	20.3x	19.1x	17.3x	
Price to Book Value	1.7x	1.7x	1.5x	1.5x	1.5x	1.4x	
Funding Sources							
Cash Flow from Operations	$1,750	$1,681	$1,426	$1,542	$1,624	$1,820	*0.8%*
Total Debt Financings	$750	$2,974	$0	$1,080	$1,800	$0	
Total Equity Financings	$34	$360	$1,211	$348	$198	$911	
Credit Metrics							
Total Debt/Capitlization	61%	60%	54%	55%	58%	54%	
FFO/Total Debt	14%	13%	15%	15%	13%	15%	
Regulated Operations Performance - Realized ROE							
NIPSCO Electric ROE	12.3%	9.5%	11.0%	12.1%	13.2%	14.3%	
Columbia Gas of Ohio ROE	9.4%	9.1%	9.5%	9.6%	9.3%	9.7%	
Columbia Gas of Pennsylvania ROE	9.4%	9.1%	9.5%	9.6%	9.3%	9.7%	
NIPSCO Gas ROE	9.4%	9.2%	9.5%	9.6%	9.3%	9.7%	
Columbia Gas of Virginia ROE	9.4%	9.1%	9.5%	9.6%	9.3%	9.7%	
Columbia Gas of Kentucky ROE	9.3%	9.0%	9.5%	9.5%	9.3%	9.6%	
Columbia Gas of Maryland ROE	9.7%	9.3%	9.4%	9.4%	9.2%	9.5%	

Source: BMO Capital Markets, Company Filings

Exhibit 3: NiSource Inc. - Key Assumptions

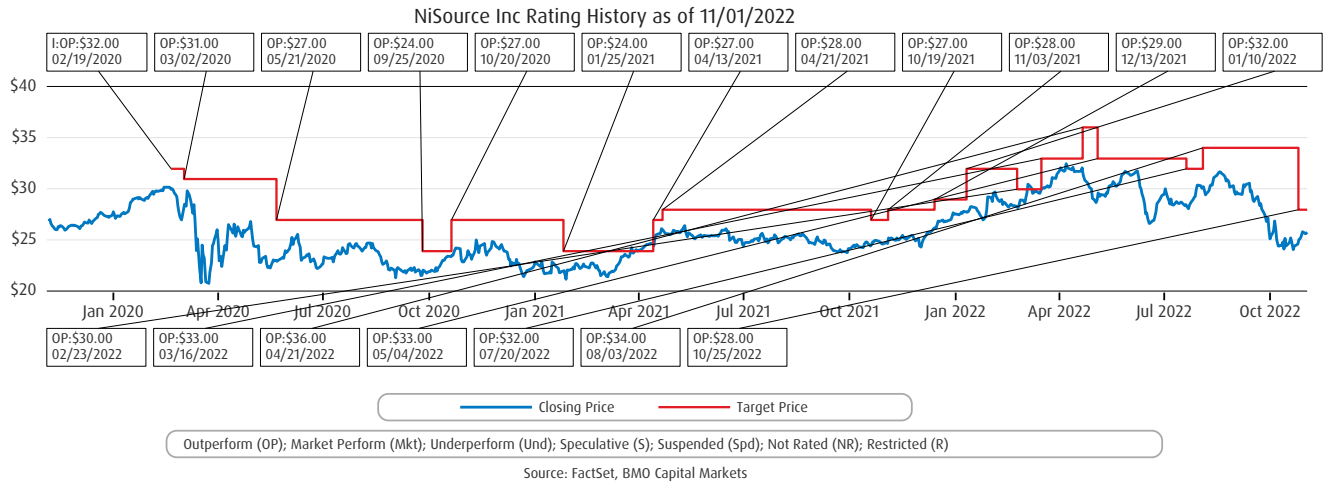
Key Model Assumptions	2019	2020	2021	2022	2023	2024	5-Year
Total Capital Expenditures by Segment							
Electric Operations	$469	$422	$650	$1,100	$1,650	$500	**$4,322**
Gas Distribution	$1,380	$1,267	$1,400	$1,400	$1,700	$1,500	**$7,267**
Consolidated Capital Expenditures	**$1,849**	**$1,689**	**$2,050**	**$2,500**	**$3,350**	**$2,000**	**$11,589**
YE Rate Base Estimates							
NIPSCO Electric	$4,866	$5,240	$5,747	$6,515	$7,814	$7,931	*10.3%*
Columbia Gas of Ohio	$3,106	$3,412	$3,803	$4,182	$4,674	$5,080	*10.3%*
Columbia Gas of Pennsylvania	$1,883	$2,069	$2,306	$2,536	$2,834	$3,081	*10.3%*
NIPSCO Gas	$1,660	$1,824	$2,033	$2,236	$2,499	$2,716	*10.3%*
Columbia Gas of Massachusetts	$1,098	$1,207	$0	$0	$0	$0	
Columbia Gas of Virginia	$789	$867	$966	$1,063	$1,188	$1,291	*10.3%*
Columbia Gas of Kentucky	$338	$371	$413	$454	$508	$552	*10.3%*
Columbia Gas of Maryland	$136	$150	$167	$184	$206	$224	*10.4%*
Total Rate Base	**$13,876**	**$15,138**	**$15,437**	**$17,171**	**$19,722**	**$20,874**	***10.6%***

Source: BMO Capital Markets, Company Filings

Exhibit 4: NiSource Inc. - SOTP Valuation

							BMO Low Case		BMO Base Case		BMO High Case	
Regulated, Corporate & Other	Valuation Metric	2024E EPS	Sector Comp	Sector Multiple	Prem/ (Discount)	Base Multiple	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)
Electric Operations	EPS	$1.10	Electric	16.0x	+5.0%	16.8x	13.5x	$15	16.8x	$19	18.8x	$21
Gas Distribution	EPS	$1.25	Natural Gas	16.4x	+5.0%	17.2x	13.9x	$17	17.2x	$21	19.2x	$24
Corporate & Other	EPS	($0.69)	Blend	17.0x	+0.0%	17.0x	17.0x	($12)	17.0x	($12)	19.0x	($13)
Utility & Parent Value		**$1.66**					12.3x	**$21**	17.0x	**$28**	19.0x	**$32**
Total NiSource Inc.								**$21**		**$28**		**$32**
Upside/(Downside)								(20%)		10%		23%
Current Yield								4%		4%		4%
Total Return								**(16%)**		**14%**		**27%**

Source: BMO Capital Markets, Company Filings



Source: FactSet, BMO Capital Markets

IMPORTANT DISCLOSURES

Analyst's Certification

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Disclosure 9B: BMO Capital Markets makes a market in NiSource Inc in United States.

Methodology and Risks to Target Price/Valuation for NiSource Inc (NI-NYSE)

Methodology: Our target price is the product of a P/E-based sum-of-the-parts (SOTP) analysis of the company's primary regulated operating companies. We utilize a regulated-group average multiple based on 2024E EPS as our initial basis for valuation and then make adjustments specific to each jurisdiction to reflect our current view of the fundamental outlook.

Risks: NI's regulated profile exposes the company to business risk including but not limited to federal and state regulatory risk, federal and state political risk, environmental policy, interest rate risk, access to capital markets, construction risk, changes in customer demand trends, changes in customer affordability, extreme weather, natural disaster, and equipment failure.

Distribution of Ratings (November 01, 2022)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	53.5 %	17.5 %	52.8 %	56.6 %	57.7 %	57.7%
Hold	Market Perform	44.7 %	17.9 %	44.9 %	42.0 %	40.5 %	37.5%
Sell	Underperform	1.8 %	22.2 %	2.2 %	1.2 %	1.8 %	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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~ As of April 1, 2019.

Ratings Key (as of October 2016)

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Spd = Suspended - Coverage and rating suspended until coverage is reinstated;
NR = No Rated - No rating at this time; and
R = Restricted - Dissemination of research is currently restricted.

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Prior BMO Capital Markets Rating System

(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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IN Fact

November 8, 2022 | 00:07 ET~

NiSource

NI-NYSE	Rating	Price: Nov-7	Target	Total Rtn
	Outperform	$24.37	$28.00	19%

Baby With the Bath Water - Derisking Growth Via Affordability & B/S Strength

Bottom Line:

NiSource announced the long-awaited outcome of its strategic review. We see the primary objective of the announcements today as alleviating stress on the balance sheet to support and derisk the long runway of investment opportunities, while aiming to reduce customer bill pressure by optimizing the company's cost structure. **NI now expects 8-10% annual rate base growth in an effort to preserve customer affordability and mitigate regulatory risk in their proposed plan, which will support long-term and sustainable, above average annual EPS growth of 6-8%. We maintain our Outperform rating.**

Key Points

Despite very low expectations and nearly an 8% underperformance from its June peak, we believe NI's 4% relative underperformance today was overdone. While we understand investors currently have an extremely low tolerance for even the smallest changes in growth expectations this earnings season, we believe the level of consternation around a modest 1.7% change in the company's implied 2024 EPS outlook, despite a material derisking of the foundation of the company's 6-8% growth outlook is likely missing the forest through the trees.

During 3Q earnings season it has been clear that the market is searching for derisked stories as macroeconomic, inflationary, and interest rate headwinds materialize. **Today's analyst day updates materially mitigated risk in the story** by right-sizing the company's rate base growth to better manage customer affordability, likely eliminating equity needs through the forecast period, and after completing the sale of the minority stake, the company will have at least 300 bps of cushion to their downgrade threshold, creating one of the strongest balance sheets in the group.

Even with these risk-mitigating efforts, NI is still committing to above average 6-8% annual EPS growth and 8-10% annual rate base growth. Despite the above average growth, NI trades at a meaningful discount of 8-9% to the electric group and ~10% to their gas LDC peers.

We maintain our Outperform rating on NI shares and our $28/share target price is unchanged as current MTM of our peer group utility multiples used in our SOTP valuation framework is offset by our estimate tweaks.

We have updated our 2022 EPS estimate to $1.45 from $1.44 and our 2024 EPS estimate to $1.67 from $1.69, but our 2023 estimate remains unchanged at $1.54.

Key Changes			
	Estimates	**2022E**	**2023E**
	EPS	$1.45	
	Previous	*$1.44*	
	EBIT	$1,323	$1,488
	Previous	*$1,318*	*$1,483*

For disclosure statements, including the Analyst Certification, please refer to page(s) 7 to 10.

BMO Capital Markets

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Company Data			in $
Dividend	$0.94	Shares O/S (mm)	406.0
Yield	3.9%	Market Cap (mm)	$9,893
P/BV	1.4x	Net Debt (mm)	$8,942

BMO Estimates				in $
(FY-Dec.)	2020A	2021A	2022E	2023E
EPS	$1.32	$1.37	$1.45↑	$1.54
DPS	$0.84	$0.88	$0.93	$0.99
EBIT	$1,064	$1,178	$1,323↑	$1,488↑
EBITDA	$1,789	$1,964	$2,142↑	$2,350↑

Consensus Estimates				
	2020A	2021A	2022E	2023E
EPS			$1.45	$1.54

Valuation				
	2020A	2021A	2022E	2023E
P/E	18.5x	17.8x	16.8x	15.8x
Div. Yield (%)	3.4%	3.6%	3.8%	4.1%

QTR. EPS	Q1	Q2	Q3	Q4
2020A	$0.76	$0.13	$0.09	$0.34
2021A	$0.73	$0.13	$0.11	$0.39
2022E	$0.75a	$0.12a	$0.10a	$0.48
2023E	$0.94	$0.15	$0.11	$0.34

Our Thesis

After the analyst day we believe NI has meaningfully derisked the story that promises investors above average EPS and rate base growth in favorable regulatory jurisdictions with what will be upon the completion of the NIPSCO minority stake sale, one of the stronger balance sheets in the sector.

NiSource - Block Summary Model

Income Statement	2020A	2021A	2022E	2023E
Electric Operations	362	430	515	630
Gas Distribution	668	704	751	831
Coporate & Other	2	2	2	2
Consolidated EBIT	1,064	1,178	1,323	1,488
Depreciation & Amortization	726	786	819	862
EBITDA	1,789	1,964	2,142	2,350
Interest Expense	371	366	406	483
Income Tax	127	144	169	197
Income from continuing operations	508	572	652	709
Weighted Average Shares Outstanding	384	419	449	459
Diluted Operating EPS	$1.32	$1.37	$1.45	$1.54
Dividends per Share	$0.84	$0.88	$0.93	$0.99
Cash Flow Statement	**2020A**	**2021A**	**2022E**	**2023E**
Operating Cash Flow	1,681	1,426	1,546	1,628
Investing Cash Flow	(879)	(2,050)	(2,500)	(3,350)
Financing Cash Flow	(100)	587	906	1,709
Net Change in Cash Flow	701	(37)	(49)	(14)
EOP Cash on Balance Sheet	804	767	718	704
Common stock (net)	360	1,211	348	198
Net debt issued/(repaid)	82	(200)	1,032	2,020
Dividends paid	(323)	(369)	(419)	(454)
Balance Sheet	**2020A**	**2021A**	**2022E**	**2023E**
Common Equity	5,735	7,189	7,811	8,307
Preferred Equity	880	880	880	880
Total Debt	9,746	9,546	10,578	12,598
Enterprise Value	$20,351	$21,666	$23,172	$25,447
Common equity %	35.1%	40.8%	40.5%	38.1%
Preferred equity %	5.4%	5.0%	4.6%	4.0%
Total Debt %	59.6%	54.2%	54.9%	57.8%
Book Value per Share	$17.21	$19.25	$19.37	$20.00

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

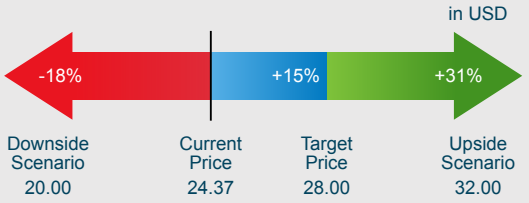
Our target price is the product of a P/E-based sum of the parts. We utilize a regulated-group average multiple using 2024E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook.

Upside Scenario $32.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile.

Downside Scenario $20.00

Our downside scenario reflects a tightening monetary policy and a deceleration of the company's rate base growth.



Key Catalysts

Use of proceeds from CMA sale. Potential for further asset rotation.

Company Description

NiSource, Inc. is a regulated utility holding company, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states. Through its Columbia Gas and NIPSCO brands, it provides natural gas, electricity, and other products and services. The company was founded in 1987 and is headquartered in Merrillville, Indiana.

NI-NYSE Research
Glossary
Company Models

Baby With the Bath Water: Derisking Growth Rate Via Customer Affordability/Cost-Effective Financing

Bottom Line: Despite very low expectations and nearly an 8% underperformance from its June peak, we believe NI's 4% relative underperformance today was overdone. While we understand investors currently have an extremely low tolerance for even the smallest changes in growth expectations this earnings season, we believe the level of consternation around a modest 1.7% change in the company's implied 2024 EPS outlook, despite a material derisking of the foundation of the company's 6-8% growth outlook is likely missing the forest through the trees.

During 3Q earnings season, it has been clear that the market is searching for derisked stories as macroeconomic, inflationary, and interest rate headwinds materialize. Today's investor day updates materially mitigated risk in the company's growth story by right-sizing its rate base growth to better manage customer affordability, likely eliminating all equity needs through 2027, and after completing the sale of a minority stake in NIPSCO, the company will have at least 300 bps of cushion to their downgrade threshold, creating one of the strongest balance sheets in the group. **Even with these risk-mitigating efforts, NI is still committing to above average 6-8% annual EPS growth, but still trades at a meaningful discount of 8-9% to the electric group and ~10% to gas LDC peers.**

We maintain our Outperform rating on NI shares. Our $28/share target price is unchanged as current MTM of our peer group utility multiples used in our SOTP valuation framework is offset by our modest estimate tweaks. **We have updated our 2022 EPS estimate to $1.45 from $1.44 and our 2024 EPS estimate to $1.67 from $1.69 (~1%). Our 2023 estimate remains unchanged at $1.54.**

A November to Remember – Thank You Mr. Volatility

NiSource announced the long-awaited outcome of its strategic review at investor day today. The strategic review identified the primary weaknesses facing the company as a constrained balance sheet, elevated cost profile, and older technology systems and management presented a path forward to addressing the weaknesses while preserving the company's regulatory strengths. **We see the primary objective of today's announcements: 1) as providing significant financial flexibility that can support and derisk the company's long runway of visible investment opportunities; and 2) importantly, modestly slowing the investment cadence and optimizing the company's cost structure to reduce customer bill pressure**.

To enhance the balance sheet, NiSource is planning to monetize up to a 19.9% minority stake in its NIPSCO subsidiary in a transaction similar to that announced by Duke Energy (DUK-NYSE, $92.23, Outperform) in January 2021. Management believes that given precedent transactions, a minority sale should be highly executable in Indiana and provide an economically attractive and tax-efficient financing alternative. Operationally, the minority stake sale will enable the company to maintain full operational control and retain the benefits of diversification and scale across the business, as opposed to a full subsidiary sale (i.e., LDC sale). **Furthermore, unlike the potential sale of an individual operating company, a minority stake sale should not have any dissynergies**. Historically management has relied on external capital markets financing to execute their growth plan, however, with current volatility and an elevated interest rate environment, **management believes the minority stake sale will minimize their cost of capital and future external capital markets needs which ultimately derisks future growth**. During Q&A, management reiterated that the strategic review covered all strategic outcomes including the potential sale of the company. Although management spoke with a significant number of parties, they indicated that to the extent they received an offer, none were more compelling relative to their organic plan.

On a Path to Create One of the Stronger Balance Sheets in the Sector

After the completion of the NIPSCO minority sale (2H23/YE23) which will be used to strengthen the balance sheet through debt paydown, NI believes it will be at the high end of its new 14-16% FFO/Debt target, which is above its previous 14-15% target and nearly 300 bps above its 13% downgrade threshold. **Management also expects that the minority stake sale would satisfy all equity needs through 2025 and all discrete equity needs through 2027.** Depending on the ultimate sale price, a modest ATM program may be required in 2025 and beyond to maintain the capital structure. Finally, depending on where the 5-year treasury rate is at the end of 2023, management could use the $865mm in proceeds from the remarketing of the convertible preferred stapled to the company's 2021 equity unit structure to retire the $900mn of variable-rate perpetual preferreds. Not only would this reduce the company's variable rate exposure, but it would also further strengthen the balance sheet as shares issued upon conversion would replace the 50% credit ascribed to the two outstanding perpetual preferred issuances.

The strengthened balance sheet underpins the new ~$15bn capital investment program through 2023-2027 as well as the ~$30bn of opportunities 2023-2032. The updated 2023-2027 capital plan showed a smoother trajectory of capital deployment compared to the 2021-2024 plan. 2023 capital expenditures declined to $2.8-3.1bn from $3.4-3.7bn and 2024 increased to $3.0-3.3bn from $1.9-2.3bn. 2025-2027 ranges were introduced at $3.1-3.4bn, $2.7-3bn, and $2.7-3bn, respectively, with the earlier years reflecting a significantly higher capex level due to the company's renewable investments. A portion of the change in the shape of the capital plan was previously telegraphed with expected renewable project delays, however, management also made an intentional choice to slow down their rate base growth. **The company now expects 8-10% annual rate base growth (10-12% previously) which should not only enhance customer affordability but also further mitigate regulatory risk in their proposed plan.**

Making Energy More Affordable

In terms of specific numbers for customer affordability, over the forecast period, the company expects total bills to increase less than 3% annually, on average with the distribution charge, specifically increasing less than 5% annually on average. On the commodity side, NI expects to continue to benefit from advantageous geography that provides competitive natural gas and a reduction in commodity exposure from completion of generation transition investments. **Additionally, the company plans to hold O&M flat through 2022-2027 as a key mitigant to offset inflationary pressures.** The O&M initiatives include streamlined business services as well as ~$1bn of investment in IT systems aimed at supporting field operations and improving productivity.

Derisking Capital Plan & Growth Rate Through Customer Affordability and Cost-Effective Streamlined Financing

We believe the product of the company's plan is to improve its financial flexibility and lower capital markets risk, and prioritizing customer affordability through a strategic moderation in rate base growth should lead to a more sustainable long-term annual EPS growth outlook. With today's update, management narrowed their 2022 guidance range to $1.44-1.46 compared to our $1.45 estimate and $1.45 consensus estimate, and initiated a 2023 range of $1.50-1.57 compared to $1.54 BMO/consensus estimates. At the mid-point, both ranges are consistent with the company's previous 5-7% growth outlook for 2022 and 2023. As a reminder, management's previous 7-9% growth range 2021-2024 included the sharp inflection in 2024 EPS power (~17-18c) that was driven by the contribution of the company's $2bn renewable investment associated with its 2018 IN IRP.

With today's update, management's commentary was careful to state that the company's updated long-term growth outlook is expected to be consistent with an annual 6-8% EPS growth rate using 2021 as its base. While our previous 2024 estimate of $1.69 would be largely consistent with 7% growth 2021-

2024, we believe management's commentary around an annual growth rate of 6-8% and the new cadence of capital deployment likely yields growth in 2024 in the 7-8% range, resulting in our new 2024 EPS estimate of $1.67. With both 2024 and 2025 representing above trend capital years, 2025 could be biased towards the upper half the range, but as the capital deployment settles into a steady run-rate in 2026 and beyond we would expect the company to be closer to the midpoint of their range which we view as largely consistent with the company's goal of creating sustainable long-term growth.

IRP Cost Update Highlights Supply-Chain and Inflationary Impacts on Renewables

The company remains on track with their Dunns I and Indiana Crossroads solar projects as their 2023 projects have only faced minor delays and are positioned well in the final stages of construction. The 2024 projects of Dunns II and Cavalry have both started construction and the 2025 projects of Fairbanks and Elliott are in commercial negotiations. **In the company's recent RFPs, they noted they were seeing solar bids up 25-50% on average and storage even higher at ~50-75%. These elevated prices are likely a factor of developers building additional margin into bids as well as some lingering supply chain effects.**

Exhibit 1: NiSource Inc. - Model Summary

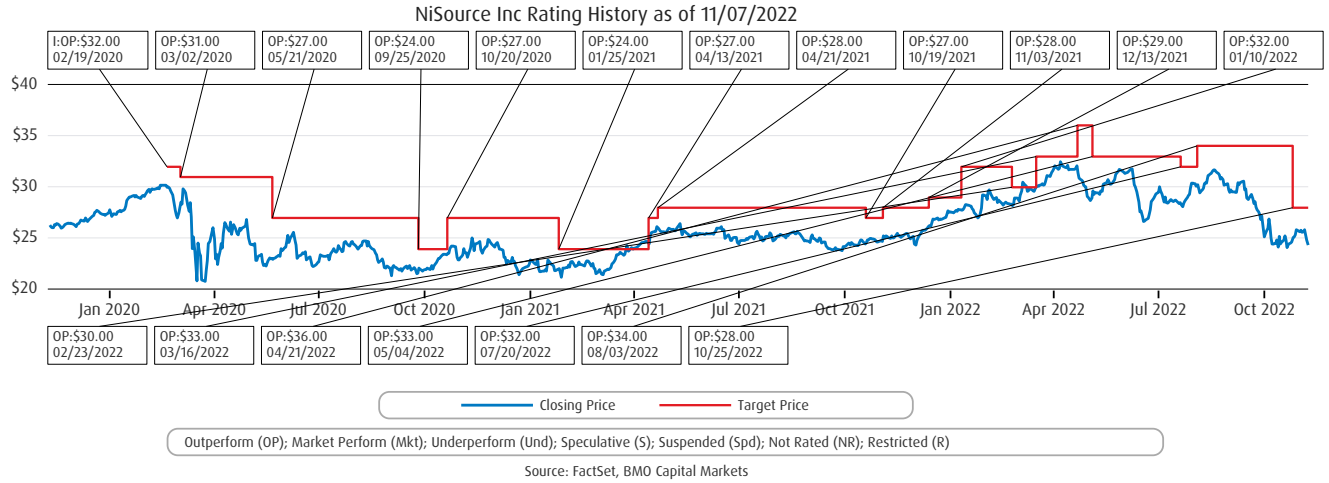
NI Model Summary	2019A	2020A	2021A	2022E	2023E	2024E	5-Year
EPS By Segment							
Electric Operations	$0.76	$0.63	$0.72	$0.83	$1.02	$1.11	*15.4%*
Gas Distribution	$1.12	$1.17	$1.09	$1.13	$1.19	$1.25	*4.8%*
Corporate & Other	($0.56)	($0.48)	($0.44)	($0.50)	($0.67)	($0.69)	*15.7%*
Consolidated E.P.S.	**$1.32**	**$1.32**	**$1.37**	**$1.45**	**$1.54**	**$1.67**	***7.0%***
Dividend per share	**$0.80**	**$0.84**	**$0.88**	**$0.93**	**$0.99**	**$1.05**	*5%*
Payout Ratio total	60.8%	63.6%	64.4%	64.2%	64.0%	62.6%	
Dividend Yield	2.9%	2.9%	3.0%	3.2%	3.4%	3.6%	
Valuation Metrics							
Price to Earnings	21.2x	22.2x	21.5x	20.2x	19.0x	17.5x	
Price to Book Value	1.7x	1.7x	1.5x	1.5x	1.5x	1.4x	
Funding Sources							
Cash Flow from Operations	$1,750	$1,681	$1,426	$1,546	$1,628	$1,811	*0.7%*
Total Debt Financings	$750	$2,974	$0	$1,080	$1,800	$0	
Total Equity Financings	$34	$360	$1,211	$348	$198	$911	
Credit Metrics							
Total Debt/Capitalization	61%	60%	54%	55%	58%	54%	
FFO/Total Debt	14%	13%	15%	15%	13%	15%	
Regulated Operations Performance - Realized ROE							
NIPSCO Electric ROE	12.3%	9.5%	11.0%	12.3%	13.3%	14.2%	
Columbia Gas of Ohio ROE	9.4%	9.1%	9.5%	9.6%	9.3%	9.6%	
Columbia Gas of Pennsylvania ROE	9.4%	9.1%	9.5%	9.6%	9.3%	9.6%	
NIPSCO Gas ROE	9.4%	9.2%	9.5%	9.6%	9.3%	9.6%	
Columbia Gas of Virginia ROE	9.4%	9.1%	9.5%	9.6%	9.3%	9.6%	
Columbia Gas of Kentucky ROE	9.3%	9.0%	9.5%	9.5%	9.3%	9.5%	
Columbia Gas of Maryland ROE	9.7%	9.3%	9.4%	9.4%	9.2%	9.4%	

Source: BMO Capital Markets, Company Filings

Exhibit 2: NiSource Inc. - SOTP Valuation

							BMO Low Case		BMO Base Case		BMO High Case	
Regulated, Corporate & Other	Valuation Metric	2024E EPS	Sector Comp	Sector Multiple	Prem/ (Discount)	Base Multiple	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)
Electric Operations	EPS	$1.11	Electric	15.9x	+5.0%	16.7x	13.4x	$15	16.7x	$19	18.7x	$21
Gas Distribution	EPS	$1.25	Natural Gas	16.2x	+5.0%	17.0x	13.7x	$17	17.0x	$21	19.0x	$24
Corporate & Other	EPS	($0.69)	Blend	16.9x	+0.0%	16.9x	16.9x	($12)	16.9x	($12)	18.9x	($13)
Utility & Parent Value		**$1.67**					12.2x	**$20**	16.9x	**$28**	18.9x	**$32**
Total NiSource Inc.								**$20**		**$28**		**$32**
Upside/(Downside)								(16%)		16%		30%
Current Yield								4%		4%		4%
Total Return								**(12%)**		**20%**		**33%**

Source: BMO Capital Markets, Company Filings



Source: FactSet, BMO Capital Markets

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Disclosure 9B: BMO Capital Markets makes a market in NiSource Inc in United States.

Methodology and Risks to Target Price/Valuation for NiSource Inc (NI-NYSE)

Methodology: Our target price is the product of a P/E-based sum-of-the-parts (SOTP) analysis of the company's primary regulated operating companies. We utilize a regulated-group average multiple based on 2024E EPS as our initial basis for valuation and then make adjustments specific to each jurisdiction to reflect our current view of the fundamental outlook.

Risks: NI's regulated profile exposes the company to business risk including but not limited to federal and state regulatory risk, federal and state political risk, environmental policy, interest rate risk, access to capital markets, construction risk, changes in customer demand trends, changes in customer affordability, extreme weather, natural disaster, and equipment failure.

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Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	53.3 %	18.0 %	53.3 %	56.5 %	58.7 %	57.7%
Hold	Market Perform	44.9 %	17.8 %	44.4 %	42.0 %	39.5 %	37.5%
Sell	Underperform	1.8 %	22.2 %	2.2 %	1.4 %	1.8 %	4.8%

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(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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IN Depth

October 25, 2022 | 02:03 ET~

Utilities, Power & Renewables

(Utilities) Lost That Loving Feeling... but I Feel the Need, the Need for Yield

Bottom Line:

Third-quarter earnings for our Utilities, Power & Renewables coverage kicks off this week with a flurry of reports this coming Thursday (DTE, AEP, CMS, XEL, SO) and Friday (NEE/NEP). While 3Q typically is the most important quarter given many managements generally wait until now to adjust their full-year guidance, provide next year's guidance, and/or update their LT capital plans/EPS/rate base growth outlooks, this quarter is going to carry even more emphasis as investors continue to climb a wall of worry related to forward outlooks. **Add a choppy macro environment (rates & gamma-fueled risk on/risk off) that is increasingly dominating the group's direction after losing its defensive bid (YTD performance & 4%+ yields). Although we are buckling down for a more prolonged period of volatility, within the sector we see this quarter as having the ability to help de-risk individual stories and hopefully put known headwinds in context, which can drive differentiated relative performance.**

Key Points

We believe investors' attention will be squarely on companies providing initial 2023 outlooks as well as those providing a more comprehensive update including 2023 guidance, updated/roll forward of their capital plans, and rate base growth as well as long-term EPS growth. **Specifically, we would expect the following updates: 1) 2022 guidance updates: AEE, D, ETR, LNT, PEG, SO, CEG, VST, XEL; 2) 2023 guidance initiations: CMS, DTE, LNT, NRG, XEL; and 3) Capital Plan/Rate Base/Growth Rate: CNP, DTE, LNT, NI, XEL, WEC.**

Despite the recent pullback, we believe investors remain less willing to increase their exposure to the group right now given higher 4%+ yields across a flattening yield curve, increased volatility in the sector ("aren't these stable monopolies?"), and the reversal of previous tailwinds for the sector (low gas prices/low interest rates). However, we believe the group's stable EPS and DPS profiles should ultimately trump current valuation concerns as over the short to intermediate term we see the fundamentals for the group comparing favorably to other sectors, especially in a recessionary environment. **Moreover, we believe that in this inflationary environment a premium should be placed on utilities as one of the few vehicles with the ability to grow the dividend near inflationary levels, and that sustainable dividend yield creates an attractive "real yield" that other sectors and fixed income cannot offer without increased principal risk.**

While the current macro backdrop is likely to inject additional volatility into the group, on a relative performance basis near term, we see this quarter as having the ability to help de-risk individual stories as investors are able to better quantify known headwinds. This should lead to more investable relative value opportunities within the sector. Although our bias is to pay up a bit and stick with larger-cap quality (management, regulatory, balance sheets) with diversified generation portfolios (nuclear, coal and renewables) through these turbulent times, we continue to advocate for the diversification benefit of our BMO Barbell approach as a quick reversal in market risk appetite could easily cause a sell-off in the highest quality/higher profile names in the sector. **On the high quality/compounder side, we recommend NEE, CMS and XEL. On the relative value/GARP side, we like AEP, ETR, and CEG.**

For disclosure statements, including the Analyst Certification, please refer to page(s) 66 to 69.

BMO Capital Markets

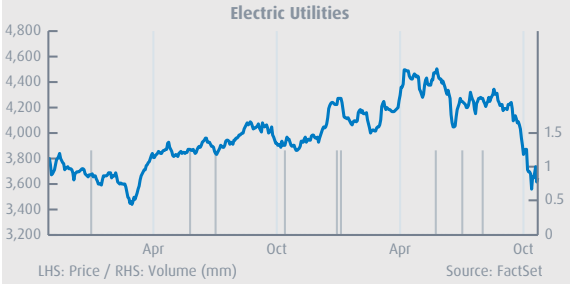
Utilities, Power & Renewables

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BMO Top 15 List

BMO Top 15 List Member

Dominion Energy (D-NYSE) - Income Stock
Entergy (ETR-NYSE) - Income Stock
NextEra Energy Partners LP (NEP-NYSE) - U.S. Small Cap Stock

Industry Research

Glossary

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3Q22 Sector Preview: This Is the Big One – Interest Rates & Inflationary Impacts on 2023 Outlooks & LT Growth in Focus

Third quarter earnings for our Utilities, Power & Renewables coverage kicks off this week with a flurry of reports this coming Thursday, including DTE, AEP, CMS, XEL, and SO as well as NEE/NEP on Friday. While 3Q typically is the most important quarter given many managements generally wait until now to adjust their full-year guidance, provide next year's guidance, and/or update their LT capital plans/EPS/rate base growth outlooks, this quarter is going to carry even more emphasis as investors continue to climb a wall of worry related to forward outlooks. The primary uncertainty is related to initial 2023 outlooks and general commentary on their growth outlooks given macro headwinds (interest rates and high gas prices) that had previously been a tailwind for the sector over the last decade and a half. **Specifically, we sense caution from investors on the 2023 outlooks for CMS, LNT, EXC and DUK, interest rate exposure at CNP, D, DUK and NI, and debates surrounding longer-term strategic updates including growth rates from NI and DTE.**

While the macro will continue dominate the group's direction, on a relative performance basis, we see this quarter as having the ability to help de-risk individual stories and hopefully put known headwinds in context. This should lead to more investable relative value opportunities within the sector. Although our bias is to pay up a bit and stick with larger-cap quality (management, regulatory, balance sheets) with diversified generation portfolios (nuclear, coal and renewables) through these turbulent times, we continue to advocate the diversification benefit of our BMO Barbell approach as a quick reversal in market risk appetite could easily cause a sell-off in the highest quality/higher profile names in the sector. **On the high quality/compounder side we recommend NEE, CMS and XEL. On the relative value/GARP side we like AEP, ETR and CEG.**

- **NextEra Energy** – *Given the regulatory visibility, high-quality management and the IRA's secular tailwind, we see NEE's growth outlook as secure in an uncertain market. Moreover, despite the potential for continued weakness in the sector we see NEE's renewable growth profile garnering sponsorship outside of traditional utility or defensive, safe haven-seeking investors.*
- **CMS Energy** – *CMS shares have de-rated over the last six months and are now only a 5% premium on our revised 2024 EPS estimate despite growing at the top of the company's 6-8% EPS CAGR. Given the potential headwinds facing the group, we see CMS as one of the best positioned names to execute against its financial outlook given its strong management, premium regulatory jurisdiction, and visible growth drivers and manageable financing needs.*
- **Xcel Energy** – *After a sharp sell-off we see XEL attractively valued as the company goes into the 3Q with the expectation of rolling forward the capital plan and growth rate and continue to execute on regulatory de-risking with additional renewables capital upside possibly to be realized throughout the first half of 2023.*
- **American Electric Power** – *We like the combination of AEP's attractive relative valuation, visible transmission & renewable growth programs, which underpins its 6-7% growth outlook and continued progress to not only economically reduce the company's external financing needs but also strengthen the balance sheet. With 2023 guidance already released we see AEP as de-risked.*
- **Entergy Corp.** – *With hurricane season subsiding and 2023 guidance already announced we see the potential for ETR to close some of the discount to peers. We continue see ETR's rate base and EPS growth as visible see the valuation discount as too steep for the growth it provides. We also see a potential positive catalyst should the company look to mitigate some or all of its forward equity needs though a minority interest sale of its non-Texas utility opco.*
- **Constellation Energy** – *CEG provides investors with a unique exposure to not only the largest carbon-free generator, but also the leverage to the expansion of this enviable position through organic and inorganic growth given its significant free cash flow and low financial leverage.*

Moreover, as one of the purest beneficiaries of the passage of the IRA legislation, CEG could continue to enjoy further multiple expansion as the inflation-adjusted PTC-related EBITDA floor garners a lower discount rate and EBITDA accelerates post 2027 as its IL CMC contracts roll off.

Prepare for Headline Noise in Quarterly Results – Focus on Outlooks

Outside of an "evolving" set of consensus estimates that could lead to some increased headline noise, we do not see a lot of quarters themselves as drivers of relative performance. In fact, our quarterly preview suggests a generally quiet setup for year-over-year quarterly comps with EPS up ~1% on average. Although we see roughly 70% of our universe as missing consensus estimates, our utility coverage is ~61%, and this is likely due to quarterly estimates continuing to be updated at our time of publishing. In fact, the interquartile range is only ~2% with 75% of the year-over-year negative comps at ~1% or less. **Places where we see our estimates still significantly different from consensus are CNP on the positive side (+5% but shoulder season) and NI (-16% another shoulder season), CMS (-11%), and SRE (-4%) on the negative side. In Exhibit 1 below, we outline our 3Q22 estimates, change in the Street's estimates over the last 4 weeks, and expected reporting date and call time.**

Exhibit 1: BMO Capital Markets and Consensus 3Q22 Estimates and Earnings Calendar

Company	BMO 3Q22 EPS	Consensus 3Q22 Estimates	Consensus Change Last 4W	Q-O-Q EPS Change	Company 2Q22 Guidance Range		3Q22 Reporting Date	Call Time
AEE	$1.73	$1.72	(1%)	+5%			11/4	10:00AM
AEP	$1.56	$1.57	+2%	+9%			10/27	9:00AM
CNP	$0.32	$0.31	(6%)	+29%			11/1	8:00AM
CMS	$0.50	$0.56	(18%)	(7%)			10/27	9:30AM
D	$1.06	$1.08	(4%)	(4%)	$0.98	$1.13	11/4	10:00AM
DTE	$1.55	$1.58	(4%)	(10%)			10/27	8:30AM
DUK	$1.83	$1.84	(2%)	(3%)			11/4	9:00AM
ES	$1.03	$1.04	(3%)	+1%			11/3	9:00AM
ETR	$2.65	$2.64	(1%)	+8%			11/2	11:00AM
EXC	$0.71	$0.70	+2%	+7%			11/3	10:00AM
LNT	$1.03	$1.02	+0%	+1%			11/8	10:00AM
NEE	$0.80	$0.80	+2%	+12%			10/28	9:00AM
NI	$0.09	$0.11	(14%)	(21%)			11/7	12:00PM
PEG	$0.83	$0.83	+1%	(15%)			10/31	11:00AM
SRE	$1.75	$1.82	(9%)	+3%			11/3	12:00PM
SO	$1.32	$1.33	+2%	+7%			10/27	1:00PM
WEC	$0.86	$0.86	(2%)	(7%)	$0.82	$0.84	11/1	2:00PM
XEL	$1.22	$1.22	(4%)	+8%			10/27	10:00AM
VST	$990	$1,087	+5%	(15%)			11/4	9:00AM
NRG	$440	$487	+7%	(43%)			TBD	TBD
CEG	$610	$626	(6%)	(30%)			11/8	9:00AM
NEP	$415	$441	(10%)	+24%			10/28	9:00AM
AY	$226	$233	(8%)	(2%)			TBD	TBD

Source: BMO Capital Markets, Bloomberg, Company Filings

As discussed above, we believe investors' attention will be on companies that are providing their 2023 outlooks as well as the handful of managements that provide a more comprehensive update, including 2023 full year guidance, update/roll forward their capital plans, update their underlying rate base growth as well as long-term EPS growth rates. In Exhibit 2 below, we list the primary updates we are expecting this earnings season and into the Edison Electric Institute Financial Conference in November. We discuss our outlook for each one of these events as well as any other potential fundamental updates in detail later in our preview. **Specifically, we would expect the following updates:**

- **2022 guidance updates - AEE, D, ETR, LNT, PEG, SO, CEG, VST, XEL**
- **2023 guidance initiations – CMS, DTE, LNT, NRG, XEL**
- **Capital Plan/Rate Base/Growth Rate – CNP, DTE, LNT, NI (analyst day), XEL, WEC**

Exhibit 2: Expected Updates for 3Q22 and at the Edison Electric Institute Financial Conference

Company	2022 Guidance Update	BMO Expectation	2023 Guidance Initiation/Update	BMO Expectation	Capital Plan/Rate Base Refresh	Growth Rate Update
AEE	✓	$4.00-4.10				
AEP						
CMS			✓	$3.07-3.11	✓	✓
CNP					✓	✓
D	✓	$4.00-4.20				
DTE			✓	$6.13-6.38	✓	✓
DUK						
ES						
ETR	✓	$6.30-6.50				
EXC						
LNT	✓	$2.76-2.83	✓	$2.75-2.99	✓	✓
NEE						
NEP						
NI			✓	$1.49-1.55	✓	✓
NRG			✓	$2,200-2,500		
PEG	✓	$3.40-3.55				
SO	✓	$3.65				
SRE						
VST	✓	$2,938-3,182				
XEL	✓	$3.14-3.18	✓	$3.32-3.42	✓	✓
WEC					✓	✓

Source: BMO Capital Markets, Bloomberg, Company Filings

Although we do not expect any material changes in full-year outlooks with this reporting season, we do expect some companies to tighten their full-year outlooks. As such we have taken the opportunity to refresh our models post our quarterly walks to update our estimates for a subsection of our coverage universe. **Although most are modest tweaks to our current forecasts, we would highlight that we have raised estimates for NEP, SRE, CEG, SO, ETR, and WEC. On the other side, we have lowered our numbers for CMS, CNP, XEL, and VST.**

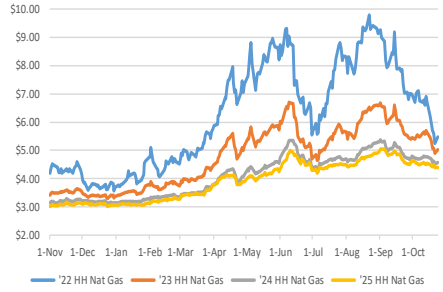
Exhibit 3: BMO Capital Markets FY Estimate Changes

	New Estimates				Previous Estimate				Percent Change			
Company	2022E	2023E	2024E	2025E	2022E	2023E	2024E	2025E	2022E	2023E	2024E	2025E
CNP	$1.38	$1.48	$1.60		$1.39	$1.49	$1.61		(1%)	(1%)	(1%)	
NEP	$1,735				$1,715				1%			
SRE	$8.67				$8.55				1%			
VST			$3,450				$3,650				(5%)	
CEG	$2,700	$3,304	$3,730	$4,211	$2,605	$3,287	$3,455	$4,003	4%	1%	8%	5%
CMS		$3.11	$3.37	$3.63		$3.16	$3.45	$3.70		(2%)	(2%)	(2%)
XEL	$3.16	$3.39	$3.62	$3.87	$3.18	$3.39	$3.66	$3.87	(1%)	0%	(1%)	0%
SO	$3.65				$3.55				3%			
ETR	$6.40				$6.36				1%			
WEC	$4.40				$4.38				0%			
DTE	$6.06	$6.25	$6.68	$7.15	$6.05	$6.21	$6.65	$7.12	0%	1%	0%	0%
DUK	$5.40	$5.72	$6.10	$6.50	$5.44	$5.77	$6.15	$6.55	(1%)	(1%)	(1%)	(1%)

Source: BMO Capital Markets, Bloomberg, Company Filings

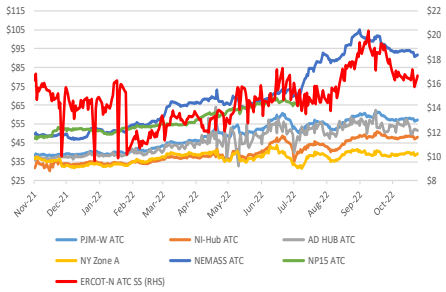
Independent Power – Hedging, Curves, and M&A in Focus

Exhibit 4: HH Forward Natural Gas



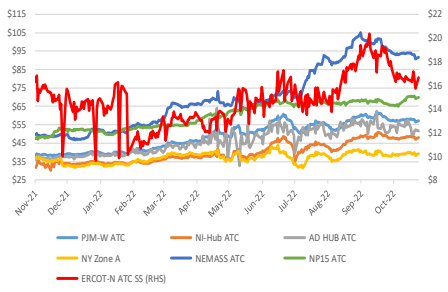
Source: BMO Capital Markets, Bloomberg

Exhibit 5: 2024 Forward ATC Power



Source: BMO Capital Markets, Bloomberg

Exhibit 6: 2025 Forward ATC Power



Source: BMO Capital Markets, Bloomberg

While 2023 power prices have moderated with the pullback in natural gas (Exhibit 4), 2024 and 2025 power prices have held in relatively well across most zones outside of New England given its higher sensitivity to gas (Exhibits 5 & 6). Moreover, management's ratable hedging programs should dampen the higher chop in 2023 while still allowing managements to further add financial or customer-related hedges opportunistically in 2024 and 2025 providing incremental stability to their cash flow outlooks and visibility to their capital return programs. For IPCs including VST and NRG, the pullback in commodities is not only beneficial to the cost to serve their mass market customers, but also should reduce their collateral posting requirements and their reliance on now higher cost liquidity facilities (outside of those that are commodity-linked). Between its investment-grade balance sheet and positive exposure to the Inflation Reduction Act of 2022 (PTC floor on its EBITDA/FCF), CEG continues differentiate itself from other merchant generators and should drive further multiple expansion outside of commodity trends. For NRG and VST, despite the moderation in forward gas prices we see the continued resiliency in power prices (Exhibits 5 & 6) as beneficial to the retail and wholesale businesses adding visibility to their capital return programs, which should lead to multiple expansion given their attractive mid-20% FCFY's. Although we expect the quarter to be quieter in nature, we would expect managements to update us on their hedging programs and VST to initiate its 2023 financial outlook. We would also expect an update on liquidity given the volatility in commodity prices as well as higher overall hedging levels in the 2022-2024 timeframes.

- **Constellation Energy (CEG, Outperform) – Overall, we expect the upcoming 3Q22 call to be mostly quiet; however, we do see the potential the company could point to the upper end of its 2022 range when incorporating our $611mm EBITDA 3Q22 estimate in our pro forma trailing-twelve month forecast.** As such, we are raising our 2022 EBITDA estimates to $2,700mm. We are also raising our 2023-2025 EBITDA estimates as we mark out commodity price assumptions to market. **On average, our 2023-2025 estimates move up ~5% to $3,304mm, $3,730mm and $4,211mm, respectively.**

  Despite its significant YTD outperformance, we continue to see in CEG shares as one of our top ideas and an anchor on the value/GAAP side of our BMO Barbell strategy. While we do not expect the company to provide its 2023 financial outlook until the 4Q22 call, management could provide its capital allocation strategy by as early as the end of the year. The company has outlined a wide range of capital allocation avenues providing it with significant flexibility to maximize shareholder value. These include: 1) preservation of its strong investment grade metrics, which provides it with a competitive advantage over its peers (collateral and financial flexibility); 2) continued dividend growth – 10% on a nominal cash basis; 3) the return of excess cash flow to shareholders including both stock buybacks and special dividends to retain maximum return flexibility; and 4) organic (repowering/life extensions, C&I green products and green hydrogen) and inorganic growth (nuclear acquisitions) that is consistent with the promotion of the company's clean profile.

While investor attention is largely focused on the potential acquisition of two discrete merchant nuclear packages including the Susquehanna Nuclear facility that is part of the Talen Energy bankruptcy as well as publicly traded Energy Harbor (ENGH, Not Rated), we believe the company still has significant potential to continue to re-rate even without a positive capital allocation announcement given the EBITDA and cash flow floor that the nuclear PTC provision of the recently passed IRA legislation. Given the visibility of roughly a $2,950mm EBITDA floor that not only escalates with inflation over the next 9 years (and is likely to be extended for another decade per precedent with other renewable tax credits), we believe investors will be able to bifurcate this stable cash flow stream and place a lower discount rate on these cash flows relative to the residual cyclical component of the company's EBITDA profile, which will be managed through the company's ratable hedging program or other economic hedging alternatives. Moreover, as the now below-market CMC hedges roll off in June of 2027 and are replaced by the IRA's PTC construct, CEGs EBITDA could expand by another $650mm ($12/MWh) on an annualized basis. **As such, we are raising our target price to $109 (26% total return potential) to reflect a lower discount rate on our PTC-related floor EBITDA.** Our SOTP framework continues to place an equally weighted on both our EV/EBITDA valuation and an our FCFY valuation methodologies. Our framework now ascribes a 10x/5.5x multiple to our PTC/Cyclical EBITDA and an 8%/20% FCFY to our PTC/Cyclical FCF per share estimates.

- **Vistra (VST, Outperform) - We are ~11% below the Street for 3Q22 at $990mm of EBITDA; however, like many consensus estimates across our coverage universe this quarter we believe there remains older/unadjusted forecasts in the mean outlook.** In addition to the absence of Winter Storm Uri self-help benefits (~$195mm) weather was milder overall for the quarter. July's warmer weather drove some incremental volumes and higher margins due to scarcity pricing, but August and September proved to be lackluster. This reduces the probability of the company hitting the top end of its $2,810-3,310mm financial guidance and management will likely narrow the full year guidance. That said, we believe the company will once again suggest the full-year results are tracking above the midpoint of the range ($3.060mm), which is in line with our own $3,140mm and consensus mean of $3,145mm. **While we expect the 3Q call to be relatively quiet in terms of new disclosures, we would expect management to initiate its 2023 outlook, which should remain consistent with its 2Q22 expectations that it sees an "ongoing operations adjusted EBITDA midpoint opportunity in the $3,500-3,700mm range 2023-2025."** Our own $3,528mm estimate is consistent with this range and is supported by the company's significant hedged position (~75%) in 2023. As of 2Q22 management saw its average hedge position 2023-2025 at ~60%, which is consistent with its ratable hedging program and implies a lower hedge percentage in 2024 and 2025. **Combined with the backwardation in natural gas in 2024 and 2025 and the associated impact on power prices, as we mark to market our estimates to the forward curves, we are lowering our 2024 estimate to $3,450mm. Our target price moves to $32 to reflect the revision in our 2024 EBITDA and FCF.** Given VST had already extended a significant component of its asset allocation strategy into 2023 with the August authorization of another $1,250mm share repurchase program through the end of 2023 we would not expect a meaningful update on its asset allocation outlook. **However, we would not be surprised to see the presentation of its asset allocation framework move to a per share basis to emphasize the impact a shrinking denominator has on its capital return program and further illustrate the cash return relative to its current stock price.** As of August 2, VST had bought back ~$1,600mm of its $2,000mm program authorized in 2021, and we anticipate management will provide an update on where its repurchase program stands as of the November 4 call.

- **NRG (NRG, Market Perform) – Our $440mm 3Q22 EBITDA estimate is roughly 17% below the current consensus estimate given what looks like a handful of stale estimates in the Street aggregate expectations. Even with this lower outlook we expect management to continue to**

point to the bottom end of its $1,950-2,250mm EBITDA and $1,140-1,440mm FCFbG guidance's. On its 2Q22 call management laid out several factors that it believes should allow the company to achieve a result that is within full-year 2022 financial objectives range including: 1) upside to synergies from Direct Energy; 2) pull forward of business interruption insurance proceeds; 3) strong operational performance from its fleet due to expanded spring outage maintenance plan and opportunistic maintenance outages to perform through these extreme and extended summer conditions; and 4) balanced hedging strategy that uses both own generation and third-party contracts to reduce supply costs. **Our 2022-2024 EBITDA/FCFbG forecast remains unchanged at $2.000bn/$1.22bn, $2.351mm/$1.598bn and $2.411bn/$1.690bn.** While 2022 was always characterized as a "staging year" due to due lingering to coal supply challenges, the residual impact of the Limestone outage, and the absence of contributions from its divested generation assets, 2022 found incremental challenges due to impact of the forced outage at the Parish 7 & 8 coal unit and the higher cost of the company's out-of-the money hedges. However, as the company prepares to provide investors with its 2023 financial guidance we see over a $350mm (~20%) improvement in cash flow generation driven by: 1) $100-125mm improvement at Direct Energy as COVID-related impacts reverse, the company achieves its $300mm run-rate synergy targets and growth investments begin to cash flow; 2) $135-150mm due to the absence of the Parish Unit 7 & 8 units partially offset by PJM-related divestitures; 3) the absence of $40-50mm coal-related impacts; and 4) moderation in ERCOT ancillary service costs and modest growth in retail margin growth. **In addition, while we expect a fairly quiet call including a higher-level asset allocation refresh, we continue to expect management's message to be consistent with its 15-20% FCFbG growth target and the company's previous capital return programs, which allocates at least 50% of its excess cash towards share repurchases and its commitment to grow the dividend at 7-9% annually on a per share basis. The remaining 50% will continue to be "opportunistic" but given the company current double digit FCFY yield, we would expect the company to be more aggressive in its buyback activity.**

Normal Weather for the Quarter

Cooling degree days for the second quarter showed a 1% increase year over year and were also 1% higher than normal though there was a wide dispersion across the various regions. While normally 3Q is one of the more impactful quarters for weather given the cooling load, comparable cooling degree days versus normal as well as year-over-year should make the effect relatively muted.

Exhibit 7: 3Q22 Regional Degree Days

Region	3Q 2021 Actual	3Q 2022 Actual	3Q Normal	3Q YoY	3Q vs Normal
New England	454	539	476	19%	13%
Middle Atlantic	604	634	586	5%	8%
East North Central	621	550	569	-11%	-3%
West North Central	720	700	652	-3%	7%
South Atlantic	1,153	1,115	1,176	-3%	-5%
East South Central	1,022	1,051	1,069	3%	-2%
West South Central	1,418	1,561	1,509	10%	3%
Mountain	834	865	910	4%	-5%
Pacific	663	711	650	7%	9%
National	**867**	**879**	**871**	**1%**	**1%**

Source: BMO Capital Markets, S&P Global Market Intelligence

Marking To Market Our Coverage Target Prices

As per usual, with our quarterly preview we have updated our target prices for our coverage universe to reflect the change in sector and subsector P/E multiples since our last updates in August and September. In Exhibit 8 below, we outline our revised target prices which reflect a 15.3x electric group multiple, 15.6x gas distribution group multiple, and a base power EV/EBITDA multiple of 5.0x, which we have maintained to reflect the strong commodity pricing environment (our best approximation of a mid-cycle multiple).

Exhibit 8: Mark-to-Market Target Price for BMO Utilities, Power & Renewables Universe

			2024 P/E Price Target		
Company (Regulated)	Ticker	Rating	New	Old	Chg.
Ameren Energy	AEE	OP	$85	$103	(17%)
American Electric Power	AEP	OP	$92	$99	(7%)
CMS Energy	CMS	OP	$62	$75	(17%)
Centerpoint Energy	CNP	OP	$30	$35	(14%)
Eversource Energy	ES	Mkt	$80	$98	(18%)
Entergy Corp.	ETR	OP	$111	$132	(16%)
Exelon Corp.	EXC	OP	$42	$41	2%
Alliant Energy	LNT	Mkt	$53	$59	(10%)
NiSource, Inc.	NI	OP	$28	$34	(18%)
WEC Energy Group	WEC	Mkt	$88	$93	(5%)
Xcel Energy	XEL	OP	$66	$71	(7%)
			Price Target		
Diversified	Ticker	Rating	New	Old	Chg.
Dominion Energy	D	OP	$72	$91	(21%)
DTE Energy	DTE	Mkt	$114	$136	(16%)
Duke Energy Corp	DUK	OP	$98	$108	(9%)
NextEra Energy	NEE	OP	$89	$100	(11%)
Public Service Ent. Grp	PEG	Mkt	$61	$76	(20%)
Sempra Energy	SRE	Mkt	$150	$169	(11%)
Southern Company	SO	Mkt	$67	$77	(13%)
			Price Target		
Power	Ticker	Rating	New	Old	Chg.
Constellation Energy	CEG	OP	$109	$76	43%
NRG Energy	NRG	Mkt	$44	$44	
Vistra Energy	VST	OP	$32	$35	(9%)
			Price Target		
YieldCo	Ticker	Rating	New	Old	Chg.
NextEra Energy Partners	NEP	OP	$83	$88	(6%)
Atlantica Sustainable Infrastructur	AY	Mkt	$28	$36	(22%)

Source: BMO Capital Markets, Company Filings

Interest Rates – So Hot Right Now – Interest Rates

As we look ahead into the end of the year and into 2023, we see the effects of rising interest rates becoming increasing impactful. **In an attempt to assess the impacts to our utilities coverage universe we looked at variable rate exposure as well as upcoming fixed coupon maturities.** In the table below (Exhibit 9), we summarize the impact of a 100 bps increase in variable rate coupons on 2023 EPS. **On average, we see the impact as creating a ~1% headwind in 2023 EPS.** However, notably this includes both HoldCo/unregulated and OpCo variable debt. To the extent that a utility is in a rate case or has annual true ups via a formula rate plan, the effect would be negligible, both of which should bias the impact downward. Furthermore, this exercise does not account for any interest rate hedging, which also would provide an offset. **Lastly, we find that directionally it provides a starting point for identifying who may have some obstacles to navigate in 2023 but note that the companies should have other mitigation**

tools at their disposal.

Exhibit 9: Variable Debt Interest Rate Exposure for BMO Utilities Universe

	Variable Debt Percentage		Effect of Interest Rate Change 100bps	
Ticker	Total Debt	Parent & Unregulated	% 23 EPS	EPS
LNT	7.9%	34.1%	0.7%	0.02
AEE	7.4%	27.6%	0.7%	0.03
AEP	11.7%	33.3%	1.2%	0.06
CMS	3.4%	0.0%	0.3%	0.01
CNP	18.4%	40.8%	2.2%	0.03
D	16.0%	34.7%	1.4%	0.06
DTE	10.0%	17.2%	1.1%	0.07
DUK	16.0%	33.7%	1.9%	0.11
ES	4.6%	9.9%	0.5%	0.02
ETR	8.9%	26.9%	1.3%	0.09
EXC	11.2%	30.4%	1.2%	0.03
NEE	31.0%	34.4%	2.3%	0.07
NI	5.7%	13.2%	0.6%	0.01
PEG	21.7%	52.4%	1.9%	0.07
SO	15.1%	13.4%	1.5%	0.06
SRE	9.4%	17.5%	0.6%	0.06
WEC	13.9%	34.4%	1.1%	0.05
XEL	0.7%	2.8%	0.1%	0.00

Source: BMO Capital Markets, FactSet, Company Filings

Looking out at the medium term, we also see interest rate risk associated with upcoming maturities. We note that the actual impact of interest is ultimately where interest rates are compared to what is embedded in the companies' plans. To attempt to quantify the potential impact we first look at the upcoming maturities through 2023. We then assume that debt is reissued between a 5.5% and 6.5% coupon and we calculate the incremental interest expense relative to the debt that is being returned. The summary table (Exhibit 10) below shows the cumulative EPS impact through 2026 assuming a 6% coupon. However, we note our analysis does account for the tenor of the new issuance, which given the shape of the yield curve at the time would affect the ultimate impact. We also note that the quantified EPS impact does include any mitigation efforts that should bias the actual impact downward, but as we stated with our variable rate analysis, we believe it highlights which companies will have to work a little bit harder in the face of rising rates. **In the back of the document behind our quarterly walks (Exhibits 104-145) we have pasted two charts for each company showing the break down between HoldCo and OpCo maturities through 2026 as well as the cumulative EPS impact assuming a refinancing rate between a 5.5% and 6.5% coupon.**

Exhibit 10: Cumulative EPS Impact of Refinancing Fixed Maturities at 6% Coupon

	2023E	2024E	2025E	2026E
AEE	$0.06	$0.11	$0.26	$0.35
AEP	$0.02	$0.09	$0.12	$0.14
CMS	$0.08	$0.12	$0.14	$0.17
CNP	$0.06	$0.08	$0.10	$0.14
D	$0.06	$0.10	$0.16	$0.22
DTE	$0.01	$0.16	$0.59	$0.68
DUK	$0.08	$0.10	$0.18	$0.25
ETR	$0.34	$0.58	$0.79	$1.02
ES	$0.10	$0.20	$0.33	$0.41
EXC	$0.02	$0.04	$0.08	$0.12
LNT	$0.03	$0.09	$0.11	$0.15
NEE	$0.05	$0.10	$0.21	$0.22
NI	$0.00	$0.00	$0.00	$0.10
PEG	$0.10	$0.17	$0.23	$0.29
SO	$0.07	$0.13	$0.15	$0.23
SRE	$0.03	$0.06	$0.13	$0.22
WEC	$0.10	$0.24	$0.31	$0.31
XEL	$0.09	$0.12	$0.15	$0.18

Source: BMO Capital Markets, FactSet, Company Filings

Significant Industry-Specific Topics & Company Updates

1) **Alliant Energy (LNT, Market Perform)** – Though we are expecting an in-line quarter for the company, LNT has one of the more comprehensive and positive updates coming into 3Q and the EEI conference. First, with stronger than expected weather-normalized sales and qualitative guidance the company provided on the 2Q22 call that they are tracking towards the upper half of the range, we would expect the company to narrow their 2022 guidance range and also raise the midpoint to be around the top of the original $2.67-2.81 range, possibly with a new range of $2.76-2.83. We also expect the company to introduce 2023 guidance. Normally we would expect a ~6% growth over the original 2022 guidance midpoint of $2.74, which would imply a midpoint of ~$2.90 for 2023. However, we believe that the early accretion from the additional capital expected to be deployed from eliminating tax equity partnerships for their solar projects could nudge that midpoint into the upper half of its LT 5-7% and see a range of $2.75-2.99, though it will ultimately depend on the timing of projects placed into service and the ultimate financing mix. The call also is likely to include the company's capital plan rolled forward to include 2026. As we discussed in our note, LNT has at least ~$1.3bn to add to its capital plan from the elimination of their tax equity partnerships. While the entirety of that amount may not be incremental to the plan, it still should provide a sizeable increase over the current $6.1bn 2022-2025 capital plan. Despite the upward pressure to capital spend we do not expect the company to alter its long-term 5-7% EPS growth rate, though we estimate the incremental capital could be up to ~4% accretive to 2025 EPS. The call should provide an update to the financing plan where we estimate the incremental ~$1.3bn of capital will need between ~$250mm and $550mm of incremental equity over the entirety of the program. In conjunction with the release of its factbook ahead of the EEI conference, we also expect the company to update its 13-month weighted average rate base estimates using 2021 as a base and extending through 2026. Our aforementioned note and scenario analysis suggested the incremental capital could drive ~6-7% rate base growth over the 2021-2025 time period.

2) **NextEra Energy (NEE, Outperform) –** Our $0.80 estimate is in line with the current consensus estimate and our 2022-2025 estimates remain unchanged. With the company's comprehensive longer-term update at its June analyst day and a positive September outlook for renewable cost and repowering opportunities post the passage of the Inflation Reduction act of 2022 (IRA), we would expect NEE's 3Q22 call to focus on the impact from Hurricane Ian including the total cost, impact to its infrastructure, and recovery provisions. The combination of the company's reserve amortization balance ($1.375bn at 2Q22), storm cost deferral mechanisms, and ability to recovery some costs via a real-time storm cost mechanism ($4/mo/household) will allow the company to earn its target 11.6% ROE through August with a step up to 11.8% in September per a recent FPSC order. Give the company's significant capital budget and a significantly higher interest rate environment we would anticipate questions on the company's forward interest rate exposure. As of 2Q22 its 2022 exposure at Corporate & Other and NEER was $0.005/share and $0.005-0.01/share for each 100 b/p change in the yield curve, respectively. We also expect investors to look to be updated on any UFLPA-related equipment delays and if there are any anticipated impacts on its forward development outlook. We continue to expect the White House's 24-month AD/CVD exemption to provide ample time for a ramp in domestic content, which should limit any material delays to the 2023 timeframe. Finally, given the passage of the IRA we would look for any new commentary from management on the cadence of contract announcements beyond 2023 including those associated with green hydrogen applications given the legislations $3/kg PTC.

3) **NextEra Energy Partners (NEP, Outperform)** – Although our 3Q22 EBITDA of $415mm is below the current consensus of $456mm, we are raising our 2022 EBITDA to $1,735mm (~1%) to reflect some modest tweaks to our forecast including the annualized impact of the company's 2021 acquisitions of over 2,300MW of new renewable projects. Overall, we expect a fairly quiet 3Q22 call given the company's June analyst day and the announcement of a flattening of its IDRs at $157mm beginning in 4Q22. However, per the company's September conference update we would expect investors' to look for some commentary on: 1) the company's outlook for future acquisition opportunities given the interplay between higher interest rates and improved cash flow given the provisions contained in the IRA; and 2) repowering opportunities related to the company's current 6.6GW wind (extension of and higher PTC through 2031) and 1.5GW solar (PTCs in lieu of previous ITCs post any tax-equity flips) portfolios including the ability to add storage prospectively.

4) **CenterPoint Energy (CNP, Outperform)** – Our $0.32 3Q22 estimate suggests CNP's full-year 2022 EPS coming in at the midpoint of its 2022 range of $1.37-1.39 after adjusting our 4Q22 outlook for slightly higher floating rate interest costs. As of 6/30/22, CNP had ~$2.8bn of floating rate debt of which $1.7bn of floating rate notes ($1.0bn 2023/$700mm 2024) that carry an indexed coupon of Libor/SOFR +50/65 b/p, respectively and $1.1bn of commercial paper relating to Winter Storm Uri. We assume with upcoming $1.186bn securitization order in Texas that the company will pay down its outstanding CP balance, but this could leave some pressure on 2023 and 2024 EPS due to the residual floating rate debt exposure before our expectation of any management mitigation. On the upside, management is set to discuss the incremental capital opportunity associated with its Houston "Resilient Now" plan, which is additive to its current 5-year/10-year plans of $19.3bn/$40bn+ programs. We believe consensus expectations have come in somewhat over the last several months and are now at the lower end of a $1-1.5bn range. While the company continues to expect to file its updated IN IRP in mid-2023, we do not expect the 3Q22 capital update to include any discrete capital for this upcoming filing. While we the gross impact of the company's floating rate exposure relative to its original guidance range would be in excess of 5% of our 2024 EPS, the company raised its 2022 EPS in August, which provides the base for its also reiterated 8% EPS growth

through 2024. We believe the exposure will likely be mitigated through a combination of cost control and higher capital opportunities. As such we have only modestly lowered our 2022-2024 EPS estimates to $1.38, $1.48 and $1.60, respectively or ~1% overall revision. We continue to see CNP's growth rate at ~8% level through 2024 with some upward pressure to its "upper end" of 6-8% beyond 2024 given the Resilient Now and IRP capital opportunities.

5) **Xcel Energy (XEL, Outperform)** – Based on our quarterly estimate and the progress made year-to-date, we see XEL at the very least narrowing its guidance range around the midpoint of their original $3.10-3.20 range. Furthermore, we expect the company to initiate 2023 guidance in the range of $3.32-3.42 compared to consensus estimates of $3.39. However, investors will likely be more focused on the capital plan refresh, long-term guidance reaffirmation, and rate base growth rates. First, we expect XEL to extend its 5-7% EPS annual growth rate another year through 2027. For the capital plan, XEL had already identified ~$1.5-2.5bn of incremental capital opportunities in the 2024-2026 timeframe beyond its current $26bn 2022-2026 base capital plan. We expect that the $0.5-1bn of incremental opportunities associated with transmission will be folded into the new plan. Not included in that total are the ~$1.2bn of Tranche 1 MISO opportunities. To the extent that the early portion of that spend falls in the 2023-2027 timeframe, we would expect it to be included in the plan. The other ~$1-1.5bn of identified incremental opportunities are associated with renewable investment associated with the Upper Midwest resource plans where the company is targeting a 50% ownership. Based on the timing of the RFPs we would not expect the renewables capital to be included in the base plan. Furthermore, despite the recent passage of the IRA, we do not expect management to formally change their target of owning 50% the incremental resources. However, we continue to see the benefits from the IRA having the potential to bias the ultimate ownership percentage upward in the finalized resource mix. Consistent with past practice, we would expect the company to provide a base case rate base CAGR 2022-2027 as well as an incremental case which should be approximately consistent with the current ~6.5% and ~7.3% respectively. We also are modestly tweaking our 2022-2024 estimates to $3.16, $3.39, and $3.62 from $3.18, $3.39, and $3.66 respectively. Our 2025 estimate remains unchanged at $3.87.

6) **Southern Company (SO, Market Perform) –** With extremely strong year-to-date results on a trailing twelve-month basis we see SO's 2022 EPS tracking towards $3.73 compared to the current $3.50-3.60 guidance range. We believe management will use the year-to-date cushion to de-risk 2023 EPS by pulling forward O&M spending. We expect SO to update its 2022 guidance on the 3Q call, consistent with its past practice. Management will likely point to being above the top end of their guidance range and provide a point estimate for the year. We estimate that the new point estimate will be ~$3.65. Our 2023-2025 estimates are unchanged at $3.80, $4.24, and $4.41 respectively. In conjunction with this expectation we are raising our 2022 EPS estimate to $3.65 from $3.55. In terms of other items for the call, we expect the updates to be relatively quiet with Vogtle Unit 3 having just started fuel load and staff testimony having just been provided in the GA Power rate case. SO's 2023 guidance and capital plan roll forward typically comes on the 4Q call.

7) **Entergy (ETR, Outperform)** – Similar to SO, ETR has been tracking well on the year and last quarter the company disclosed it was tracking towards the upper half of its $6.15-6.45 range. On a trailing twelve-month basis including our 3Q estimate we see EPS of $6.51. We expect the company to continue de-risking 2023 earning having already identify ~$0.35 of pulled forward O&M flex spending and it should be able to narrow and raise the midpoint of its guidance range. We believe that it could look to center a $0.20 range around a ~$6.40 midpoint for a new range of $6.30-6.50. We have nudged up our 2022 EPS accordingly to $6.40 from $6.36. Our 2023-2025 estimates remain unchanged at $6.72, $7.23, and $7.74

respectively. After the company's comprehensive analyst day in June we are not expecting any material updates on the 3Q call or at EEI, though at EEI the company will likely provide their preliminary look at 2023 drivers. We expect investors to be focused on any regulatory updates the company provides including the status of its LA resiliency filing and the pending SERI settlement with MS to the extent there are any developments.

8) **WEC Energy Group (WEC, Market Perform)** – Having already raised guidance twice this year, WEC appears well positioned yet again with our quarterly estimate tracking a few cents above the $0.82-0.84 guidance range. On a trailing twelve-month basis when adjusting for the $0.09 debt refinancing costs in 4Q22 and applying ~$0.08 for the run rate of the 2022 accounting order we see an EPS of $4.44. With another above trend quarter, we would expect management to continue taking advantage to pull forward costs and de-risk 2023. Management already pointed to the top end of the second upwardly revised range. If they do decide to adjust guidance, they could look to narrow and raise the midpoint of an already tight $0.04 range or simply provide a point estimate at the top of the range. As is customary with the company's 3Q call, WEC should provide investors with its initial look at the 2023-2027 capital plan. WEC's 2022-2026 capital plan totals $17.7bn, which was a $1.6bn over the prior plan. We would expect a similar increase on the roll-forward to continue underpinning 7% asset base growth and an extension of the 6-7% per year EPS growth rate. Other topics for the call will likely include the WI rate case settlement, supply chain updates for the company's battery storage projects, and any updated takeaways on the IRA. **WEC will likely initiate 2023 guidance in December with its dividend declaration as it has in past years. We have nudged our 2022 EPS estimate up to $4.40 from $4.38.**

9) **CMS Energy (CMS, Outperform) –** On the call we expect investors to be focused on the initial 2023 guidance range from the company. Consistent with past practice we expect CMS to base its range off the 2022 guidance midpoint of $2.87. Based on management expectations of being above the midpoint of the 6-8% EPS growth rate, we would expect the midpoint of the new guidance range to be approximately 7-8% above the $2.87 guidance midpoint, which results in a midpoint of approximately $3.09. Applying CMS's typical $0.04 guidance range results in our expectation of $3.07-3.11. While such a midpoint and range appear low compared to consensus estimates of $3.13, we emphasize that we see this as only the initial look. CMS has a history of rebasing off actuals on the year-end call, and with the company tracking to the upper end it should nudge up the range another penny or two. We also note that the Covert acquisition is part of the rate case request and while we continue to see Covert as additive to the 6-8% growth rate, we expect the company to make a fairly conservative assumption on the rate case outcome for the initial 2023 guidance range. **That being said, after reevaluating the finalized terms of the settlement and ultimate financing mix on the IRP we have tweaked our 2023-2025 estimates to $3.11, $3.37, and $3.63 from $3.16, $3.45, and $3.70 respectively.** On the 4Q call CMS is expected to roll forward its capital plan and include the associated IRP capital as well as extending its growth rate and rebasing 2023 guidance.

10) **Exelon Corporation (EXC, Outperform)** - We expect EXC to narrow and update its 2022 guidance range on the 3Q call consistent with practices though we do not expect a material change in the $2.25 midpoint. Investors will likely be more focused on any clarity the company can provide around 2023 guidance and the general shape of earnings throughout the forecast period. While some of the headwinds around 2023 (i.e., significant rate back-up in 2022, flattish y/y contribution at PECO, AMT-related mitigation and inflationary pressures) have been known for a while, in recent weeks investor concern around a weak 2023 guide have picked up. We believe the company is aware of these concerns and may look to address some of them on the call. While we do not expect them to give formal 2023 guidance, we do believe they could look to provide qualitative drivers to help investors better understand the growth

path. Furthermore, though the we see 2023 as the primary focus with some of the key factors for 2024 and 2025 taking shape such as the ComEd MYRP, BGE/PHI MYPs, and new rates at PECO the company may also look to provide some early drivers for the out years underpinning their LT growth objectives.

11) **Sempra Energy (SRE, Market Perform)** – Given our $1.75 3Q22 estimate and revised drivers into 4Q22, we are raising our 2022 estimate to $8.67 (+1.5%), which is consistent with the company's 2Q22 commentary that it would expect to be at the high end of its $8.10-8.70 guidance range. We would also expect management to reaffirm its 2023 outlook of $8.60-9.20 (Street & BMO at $9.05) with an update to the range coming on its 4Q22 call early next year. After a flurry of MOU and HOA announcements related to its LNG development program over the last several months, we expect the call to be relatively quiet in terms of significant updates. However, we would expect investors' attention to focus on several discrete areas of the story including: 1) any update to the conversion of its various non-binding agreements to SPA's and the related timing of an FID for Port Arthur 1 in 2023 given the announcement of a revised EPC contract with Bechtel last week; 2) contract progress on Port Arthur 2 given its increased origination activity; 3) confirmation of FID for Cameron Phase 2 in 2023 post the mid-2023 conclusion of the ongoing competitive EPC process; 4) thoughts on the staff recommendation in the Oncor GRC and the potential for settlement in the case. As per normal we should also get Oncor's normal Fall capital update; 5) an update on the company's share repurchase program, which as of 2Q22 stood at $476mn. While management continues to believe their stock is undervalued, we would expect management's capital allocation strategy to focus less on significant incremental repurchases especially as additional growth and regulated capital opportunities become more visible; and 6) active management of the company's exposure to LNG development and non-regulated growth to maintain credit quality, drive consistent EPS growth at the SIP and consolidated levels, and grow and diversify its SIP business to preserve strategic alternatives for the business over the next several years. We believe between the conditional % ownerships of each project and the 70% of SIP alone the company can mitigate this risk but also has the offramp of allowing its partners to take a bigger equity stake in each project, selling down an incremental portion of its 70% stake in SIP, and/or spinning out or IPO'ing a de-risked and larger/more diversified business.

12) **NiSource Inc. (NI, Outperform) –** Our $0.09 3Q22 "shoulder season" EPS estimate is roughly 16% below the current consensus estimate given what looks like an upward skew from a few stale estimates in the Street aggregate expectations. Even with this lower outlook we expect management to reiterate its full year 2022 guidance range of $1.42-1.48/share (BMO Research/Street at $1.46/$1.45). **We expect the quarter to be a non-event as investors focus on its Analyst Day later in the day on November 7. Over the last six months we have seen a significant change in investor's expectations into the event, which we believe has improved the risk/return in NI shares. NI shares not only trade at a 7-9% discount to the electric sector (and 14% to the high quality/high growth subsector) but also a 9% discount to its gas LDC peers. We believe expectations for not only the outright sale of the company are significantly lower, but we have also witnessed a material dampening in the expectation for a significant asset rotation program as well as extension of the "high end" of its 7-9% growth rate**.

While the company will need to outline not only an above average growth outlook (we believe 6-8%) given its current 7-9% outlook through 2024, management will also need to articulate a plan that is deemed to be executable on the financing, regulatory and cost management side. As we do a quick preview of the upcoming analyst day, we would highlight several key topics we expect management to address: 1) present the outcome of its strategic review including "definitive announcements" of where management and the board of directors is taking the business. This could still include a smaller asset rotation

announcement to help finance its growth beyond 2024; 2) Provide capital and rate base growth visibility out towards the 2028 timeframe as well as a higher-level financing plan to facilitate this growth. We expect a post 2024 growth rate in the 6-8% range, which is still in line with sector-leading outlooks; 3) introduction of the 2023 full-year guidance, which will be the new prompt year for the LT growth rate. We expect an initial range of $1.49-1.55/share; 4) driving incremental cost savings and synergies above its current NI NEXT program; and 5) regulatory updates on the results of its 2021 IRP RFP for all sources of capacity resources including renewable generation projects and a targeted RFP for gas peaking units as well as its OH gas rate case. **Our 2022-2024 estimates remain unchanged at $1.46, $1.54 and $1.72, respectively, but our target price moves to $28/share to reflect the current mark to market utility segment valuation multiples used in our sum-of-the-parts valuation framework.**

13) **DTE Energy (DTE, Market Perform) – Our $1.55 Operating EPS estimate for 3Q22 is slightly below the current consensus estimate of $1.58. However, based on our trailing-twelve month forecast we see DTE FY22 at the top end of its full year guidance range of $5.90-6.10 and would expect management to point to the upper end**. As part of our recent model refresh we have updated our full year 2022-2025 EPS estimates for DTE with our estimates moving up modestly to $6.06, $6.25, $6.68, and $7.15, respectively. We expect the 3Q22 call to be fairly straightforward with minimal updates as management is expected to provide its usual set of updates now at the annual EEI conference in mid-November. This will likely include: 1) a shift in its long-term growth rate from the current 5-7% to either 6-7% or potentially 6-8%. However, at only a 5% premium to the group and a history of hitting 7% EPS growth consistently we are not sure the headline matters; 2) initiation of its 2023 "early outlook" with an expected guidance range to be $6.13-6.38, implying a 7% growth off its original 2022 guidance midpoint of $5.84; 3) its 3-year financing plan – we expect the plan to include minimal equity issuances over the 2023-2025 period with about $150-300mn using ATM-like programs and to reiterate its FFO/Debt target of 16%; 4) roll forward its updated 5-year capex plan, which we expect to increase from its current $19.5bn over 2022-2026 to ~$21bn over 2023-2027. This would imply ~7% growth over the current capex plan with an upward bias from the November IRP; 4) details from the IRP filing in early November, which should encompass the benefits from the Inflation Reduction Act. We believe the Belle River plant whose retirement has already been accelerated to 2028 from 2030 could be converted to natural gas given the need to maintain dispatchable capacity. We also see the evaluation of an accelerated retirement of at least one of the Monroe Power Coal Plant units. Given the baseload reliability associated with the plant, we believe the acceleration of its retirement will likely come in waves and will include the addition of dispatchable natural as well as continuing to burn some coal to maintain voltage support. With this, management may also bring forward its goal to achieve net zero. As we marked-to-market our group average multiples used in our SOTP framework, our target price moves to $114. Our valuation implies an 11% premium reflecting the company's primarily regulated profile (96% in 2023), favorable single-state jurisdiction in Michigan, and above-average growth rate. Our target price continues to be based on a relative value framework that marks to market our base utility and non-utility segment valuation multiples incorporated in our sum-of-the-parts valuation.

14) **Duke Energy – (DUK, Outperform) - After nearly 8% underperformance from mid-July through early October, DUK shares which now yield over 4.5%, have been in relative holding pattern as investors await the company's 2023 outlook which will provide the new base that investors will use to project its 5-7% "regulated" EPS growth off of going forward**. While it is unclear if the company will provide this guidance on its upcoming 3Q call ahead of its normal more robust 4Q update, we believe an earlier quantification of what the cumulative impact of its commercial renewables sale, higher interest costs and inflationary pressures on 2023 and beyond "could" provide a de-risking event for the stock. What we would expect on the 3Q22

call is an update on the progress of its pending sale of its commercial renewable business and potentially an in increase in the company's $200mm in cost savings that it earmarked on the 2Q22 call as it looked to offset both interest rate and inflationary headwinds into 2023. Given the disposition of its Commercial Renewables business will be treated as discontinued operations and as result be removed from any 2023 outlook, this creates roughly a $0.20/share headwind that will likely only be partially mitigated by the proceeds of the sale given they are earmarked towards debt reduction. **We believe the building consensus estimate is for the net dilutive impact of the sale to be in the $0.10-0.15/share range. Importantly using the higher end of dilution expectations relative to our current forecast ($5.77-$0.15 = $5.62) and given the company has committed to its 5-7% regulated growth, we see DUK trading at ~2% discount to the group on 2024 & 2025 P/E**. Although the growth rate at the mid-point would be 6% per the new 2023 base, using the company's original 2021 midpoint of $5.15 as a base, the 5-year CAGR through 2026 would be in the 5.5% at the midpoint and 6% should management be able to reach the top end of its 5-7% EPS CAGR. Although on this lower growth rate we could see some arguing for a deeper discount (vs the 2% illustrative example above), we believe there is limited downside DUK shares at its current price especially given its 4.5% yield (5th highest in the group). Moreover, as the quantification of the net impact is revealed, we believe these likely de-risks the story moving forward which can allow investors to focus on its decarbonization-led growth. Furthermore, we do not see the need for any incremental equity to fund the company's current 5-year plan which when combined with reduced rate lag in North Carolina we believe provides a more visible path to company's growth outlook and improving carbon profile. **We have lowered our 2023-2025 EPS to $5.40, $5.72, $6.10 and $6.50, respectively to account for the impact of higher interest rates and inflationary pressures but we have not yet included pro-forma estimate for the net impact of the sale of the Commercial Renewables portfolio. As we marked-to-market our group average multiples used in our SOTP framework, our target price moves to $98/share**.

15) **Dominion Energy (D, Outperform)** – We expect Dominion to print a quarter in-line with its guidance range and with one quarter left in the year should allow management to narrow its guidance range. However, investors are likely to be focused on any incremental details heading into the fall. First, we note that recent industry reports stated that the company is considering a sale in part or all of the remaining 50% stake in Cove Point. With private market valuations still elevated and demand for LNG robust we would consider this a prudent move that could help the company alleviate their modest equity needs. Second, investors will also be looking for any updates on the timing for a decision on the CVOW re-hearing as well as an early look at upcoming legislative session and Senate elections.

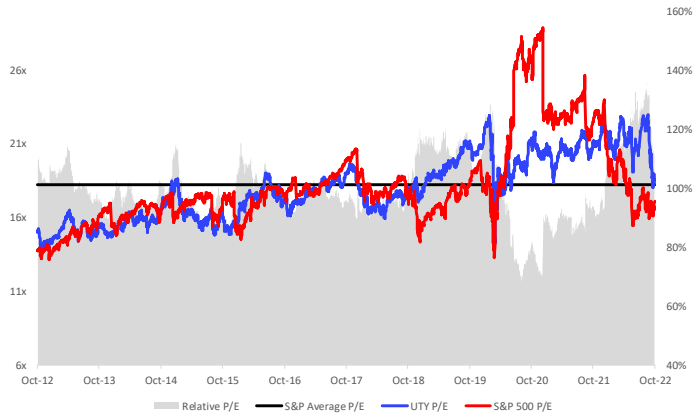
16) **Atlantic Yield (AY, Market Perform) -** We see a 3Q estimate of $226mm compared to $235mm at consensus. Our estimate drives a year-over-year reduction of ~2% where the primary contributor continues to be an FX headwind with the Euro. AY's typical practice is to not comment on or adjust its EBITDA guidance and as such we would not expect anything different; however, we note that the significant FX headwinds to date likely bias results downward. That being said, as a reminder AY is almost fully hedged from FX cash flow perspective and as such, its CAFD should not be affected, it is only an income statement item for the EBITDA. On the call, we do not expect any significant updates other than any progress AY has made on their development and acquisition equity investment goals.

Utilities, Power & Renewables: Still the Best Game in Town for Inflation-Resistant Growth & Income, but the Macro Is Now in Full Control

Despite what is likely to be a positive fundamental set up for the sector relative to the broader market with a flattish overall comp year over year and a more resilient growth outlook as we head into the economic and policy uncertainties into 2023, the group's overall direction remains uncertain. As yields continue to breach what some have called the psychological 4% mark across a now very flat yield curve, investors both dedicated and non-dedicated have struggled with the sector's investability especially in the near-term. After outperforming the broader index by nearly 23% relative through early September (10% of this coming after the introduction of the IRA legislation in late July alone), the sector has quickly retraced nearly 12% relative. We have seen similar booms and busts in the sector including but not limited to that witness in 2007-2008 around the great financial crisis, the early 2020 COVID rise and fall, and now the most recent roller coaster. In most instances the sector's performance is a direct function of investors seeking defensive exposure and in the most recent example the group likely "over earned" as there were fewer investment alternatives (TINA principal) as tight credit spreads and the Fed's normalization policy increased the principal risk in allocations to fixed income and utilities staples, healthcare and A&D were the only remaining outlets.

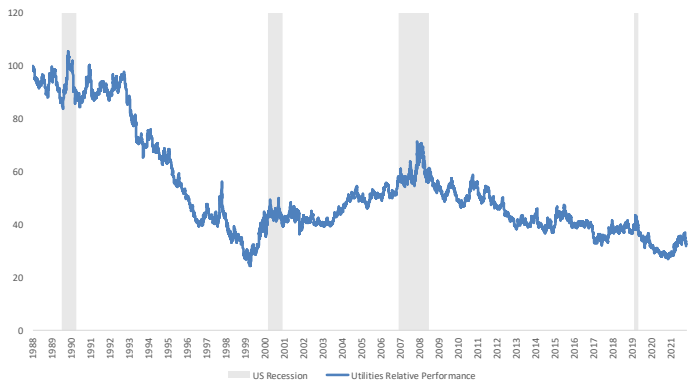
Despite the recent pullback, we believe investors remain less willing to increase their exposure to the group right now given higher 4%+ yields across a flattening yield curve, increased volatility in the sector ("aren't these stable monopolies?"), and the reversal of previous tailwinds for the sector (low gas prices/low interest rates). However, we believe the group's stable EPS and DPS profiles should ultimately trump current valuation concerns as over the short to intermediate term we see the fundamentals for the group comparing favorably to other sectors, especially in a recessionary environment (Exhibit 12). Simply put, utilities are well positioned to manage the higher costs and also still deliver steady earnings growth while other sectors will face a contracting earnings profile.

Exhibit 11: Relative Forward P/E – UTY vs S&P 500



Source: BMO Capital Markets, FactSet

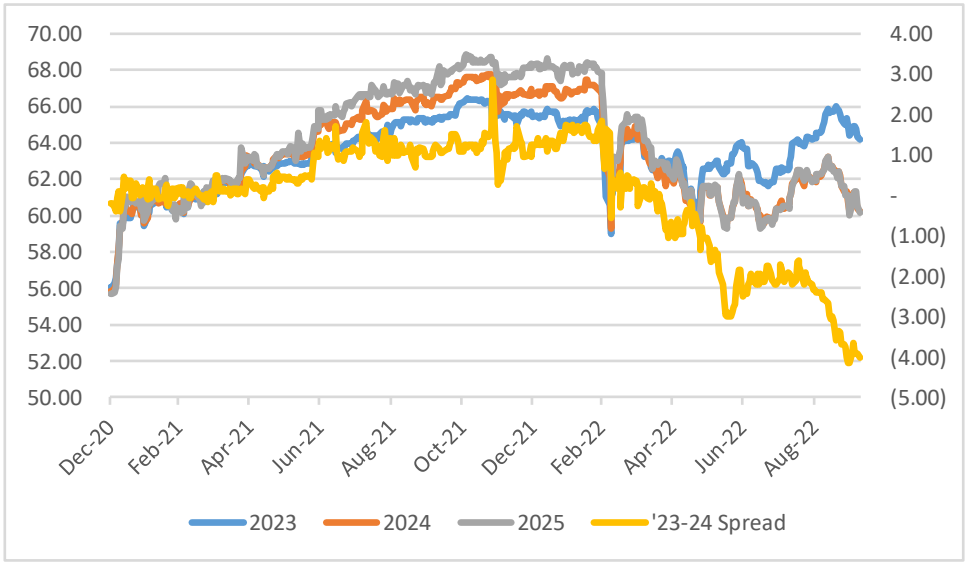
Exhibit 12: Utility Performance Around Recessionary Periods



Source: BMO Capital Markets, FactSet

As evidenced by Exhibit 13 below, S&P dividend futures suggesting 2024 DPS will be lower than 2023 (yellow line). We see this having negative implications as a leading indicator for both S&P earnings and the current P/E. Specifically it would suggest that EPS expectations are lower than the current consensus EPS (consensus still has 8% growth into 2023 and 9% into 2024), but it also suggests expectations are for the recession to show up until later in 2023 or into 2024. **And once again we believe this highlights the value of US utility dividends which we continue to expect to grow at 5-7% on average. This makes the group's 3.8% dividend yield look even more attractive on a longer-term basis as you are receiving a "real yield" of 3.8% which when coupled with the stability of its earnings growth we believe makes the group unique. We believe that in this inflationary environment a premium should be placed on utilities' ability to continue to grow the dividend and that sustainable dividend yield creates an attractive real yield opportunity that other sectors and fixed income cannot offer.**

Exhibit 13: S&P 500 Dividend Futures



Source: BMO Capital Markets, Bloomberg

In our 2022 outlook, we outlined our positive outlook on the utility sector. Our view was predicated on three primary fundamental drivers: 1) As we entered a period of normalization, investors' asset allocations were too narrow in breadth, the broader market was expensive at 21x next year's earnings and rising interest rates were likely to have a larger impact on the broader market relative to traditionally "interest rate sensitive" sectors including utilities. Moreover, we also thought the bond market no longer served as a safe harbor for investors and had principal risk given the Fed's policy normalization and historically tight credit spreads (Exhibit 18); 2) After over a cumulative 35% relative underperformance in 2022 and 2021, the sector was historically inexpensive on a price-to-earnings and yield spread basis (Exhibits 16 & 17); and 3) the utility sector's fundamentals continued to improve and offered investors an attractive 9-10% total return with 6.0% EPS growth and a growing 3.2% current yield which provided investors with an equity market return at only ~50% of the systematic risk.

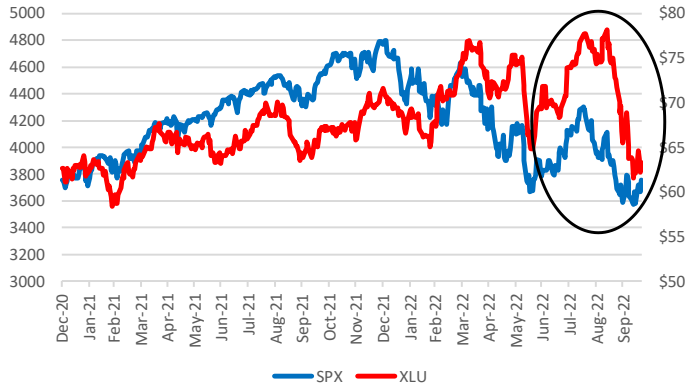
With the most recent pull back, year-to-date the sector has still outperformed the broader market by ~9%. As fears of a more pronounced hawkish pivot by the Federal Reserve and slowing growth/recession fears deepen, however, the relative outperformance is down materially from prior highs as broader macroeconomic fears likely drove investors out of their equities allocations. Outside of the inflation and war-related rally in commodities, which has driven the energy complex's solid outperformance, sector performance has been decidedly defensive within equities with utilities leading the way followed by Staples, A&D, Gold and Healthcare (Exhibit 14).

Exhibit 14: YTD 2022 Top & Bottom Sector Performance

Sector	YTD % Chg.	Sector	YTD % Chg.
E&P	+54%	HY Bonds	(17%)
Nat Gas	+50%	Financials	(18%)
MLPs	+33%	Materials	(20%)
WTI	+23%	Airlines	(21%)
Dollar	+17%	SPX	(21%)
A&D	(1%)	IG Bonds	(25%)
Insurers	(4%)	Transports	(26%)
Gold	(10%)	Large Growth	(29%)
Healthcare	(10%)	REITs	(30%)
Staples	(11%)	Retail	(35%)
Utilities	(12%)	Telco iShares	(35%)
Low Vol Portfolio	(14%)	ARKK	(62%)

Source: BMO Capital Markets, Bloomberg

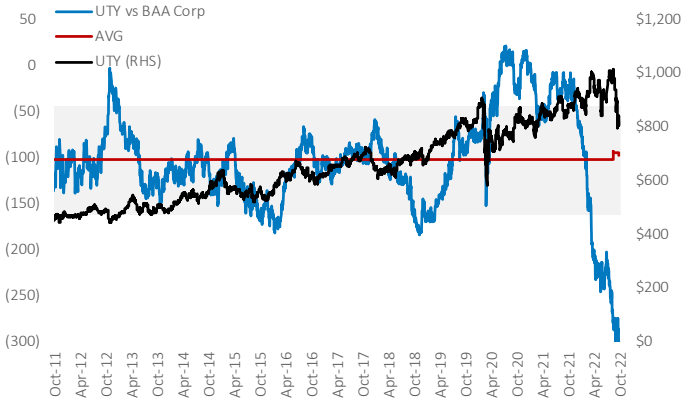
Exhibit 15: S&P 500 & XLU Price Performance



Source: BMO Capital Markets, Bloomberg

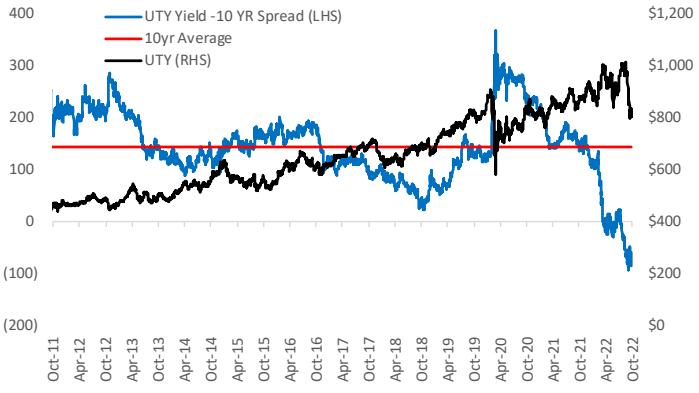
So what has changed in the last nine months? Actually, quite a lot. Earlier in the year we noted that after nearly a 20% pull back from the peak on a price basis, the market was trading more in line with its historic average P/E of ~16-17x due primarily by ~20% contraction in forward multiples. Both investment grade and high yield fixed income products have had one of the worst price performance periods in well over 100 years and credit spreads have significantly retreated from all time highs with high yield out 194 bps and investment grade wider by 74 bps. With the Fed's primary objective aimed at breaking the back of inflation (Exhibit 20) regardless of the impact on the economy we have seen a significant back-up in interest rates across the curve with 10-year breaching 4% and ever-increasing recessionary fears (Exhibits 21). With persistently higher natural gas prices, investment grade bond yields and now 30D and 90D commercial paper approaching the 4% market (Exhibit 17) many of the past tailwinds for the utility sector over the last decade and half have reversed and are now headwinds which has raised growth concerns for the sector.

Exhibit 16: Utility Yields vs Moody's BAA Bond Yields



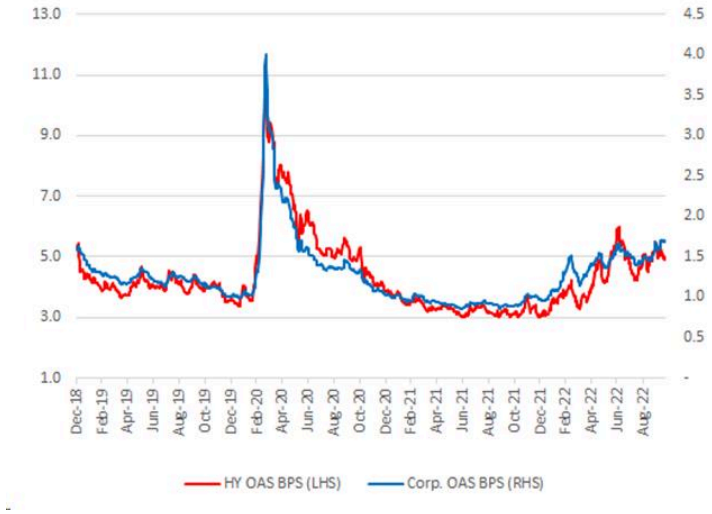
Source: BMO Capital Markets, FactSet

Exhibit 17: Utility Yields vs 10-Year Treasuries



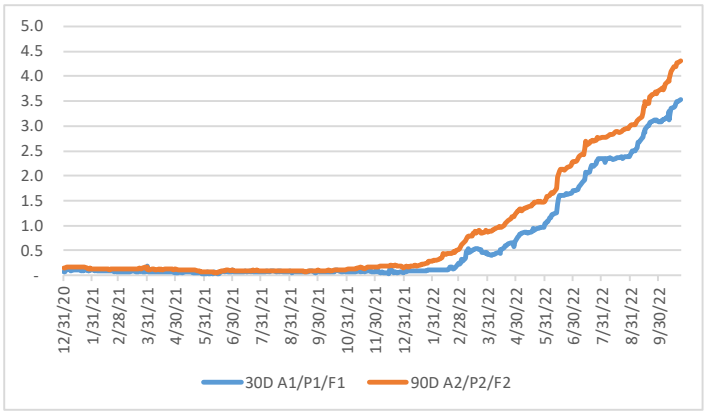
Source: BMO Capital Markets, FactSet

Exhibit 18: ICE/BAML OAS Investment Grade & High Yield Spreads



Source: BMO Capital Markets, Bloomberg

Exhibit 19: 30D & 90D Commercial Paper Rates



Source: BMO Capital Markets, Bloomberg

Remain Positive on Sector but Expect More Gradual Relative Outperformance

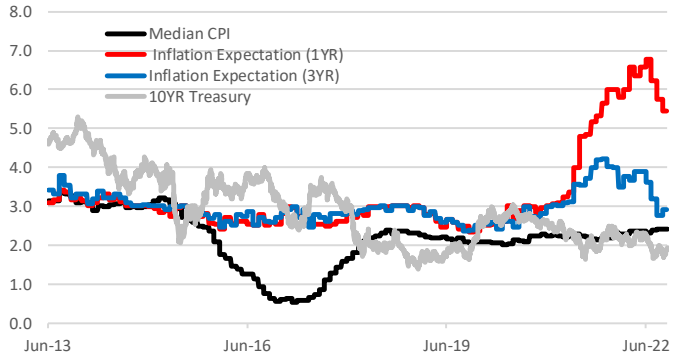
So how are we thinking about the sector now? We continue to be positive on the sector and see it as a core holding in investors' portfolios, especially over the medium and long term. Furthermore, after some of the more persistent near-term macroeconomic headwinds subside, we would expect the sector to continue to regain some of its relative outperformance to the broader market experienced earlier in the year as eventually we believe the positive secular tailwinds in absolute terms and relative terms against other sectors will be realized by investors.

Specifically, we believe the broader utility sector is well positioned to provide investors with a defensive safe harbor with a significantly better "rate of change" growth profile should the U.S. fall into a recession given their capital program is underpinned by the need to upgrade aging infrastructure, improve reliability, ensure energy security and advance state-mandated decarbonization goals. As can be seen in Exhibit 12, the sector has history of not only outperforming into recessionary periods, but the relative performance can continue for several months during the recession. Moreover, given the continued risk in fixed income outside of shorter-term duration offerings including U.S. Government bills, 2-3-year notes or inflation protected bonds we see the sector's "inflation-resistant income" (3.6% average yield growing at 5-7% annually) as unique relative to other income products and durable given the sector's mid-60% payout. Finally, we see the sector as one of the best and most stable ways to gain access to accretive decarbonization-related growth and one of the few sectors positioned to benefit from a growing awareness of the need for domestic energy security.

So where could we be wrong? Despite our own positive view on the sector's visible secular growth prospects, attractive and growing income stream and leading-edge decarbonization profile, the sector has clearly benefited this year from the "TINA" effect (there are no other alternatives). Given the risk in fixed income, the inflows year-to-date have primarily favored a very narrow defensive group including heath care, staples, utilities, and diversified dividend products. Should we see a moderation in core inflation measures and at the same time investors feel we are over the hump on the Fed's tightening cycle this could begin to thaw active managers' investment processes which have been frozen due to economic, policy and overall market volatility. Investors' willingness to look through this normalization cycle and begin to position for the other side of this tightening cycle and economic slowdown (which most liken to the 1990 recession) would likely cause utilities to be one of the primary sources of funds

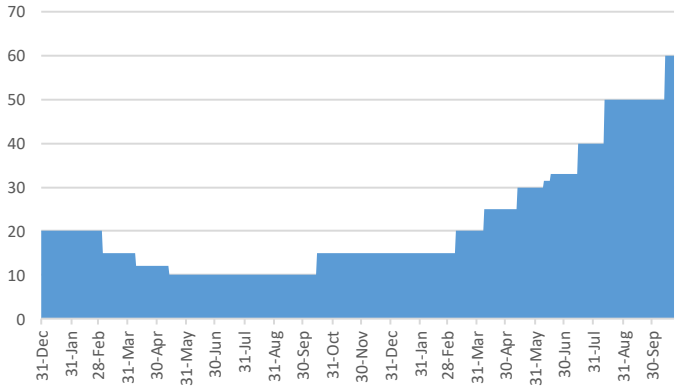
inside this rotation. While this is not our base case as we expect to see broader earnings revision over the one to two quarters and fixed income still remains at risk as the Fed's policy rate approaches 4% and recession risk pressures spreads, we acknowledge how quickly sentiment could turn. **Ultimately, we saw some pull back in the group during 3Q and it manifested in the highest quality and year-to-date winners becoming the primary underperformers, which only further emphasizes the importance of our BMO Barbell Portfolio Construction.**

Exhibit 20: Federal Reserve Inflation Outlook & Median CPI (%)



Source: BMO Capital Markets, Bloomberg

Exhibit 21: U.S. Recession Probability Forecast (%)



Source: BMO Capital Markets, Bloomberg

BMO Barbell Portfolio Construction & Updated Pecking Order

What are our updated ideas on positioning within the sector? Given the very abrupt snap back in relative valuation, a shrinking "inventory" of differentiated relative value within the sector, and increased macro risks, we believe investors must be increasingly selective in what they own in the space. As idiosyncratic risks grow within the sector due to macro factors (commodity inflation, supply chain constraints, interest rate risk) we continue to advocate our BMO Barbell approach to portfolio construction with a refreshed pecking that reflects both our near-term and intermediate term profile preferences.

While the current macro backdrop is likely to inject additional volatility in the group, on a relative performance basis near-term, we see this quarter as having the ability to help derisk individual stories as investors are able to better quantify known headwinds. This should lead to more investable relative value opportunities within the sector. Although our bias is to pay up a bit and stick with larger-cap quality (management, regulatory, balance sheets) with diversified generation portfolios (nuclear, coal and renewables) through these turbulent times, we continue to advocate for the diversification benefit of our BMO Barbell approach as a quick reversal in market risk appetite could easily cause a selloff in the highest quality/higher profile names in the sector.

- **On the "Quality/Compounder" side we recommend NEE, CMS, and XEL.**
- **On the "Value/GARP" side we continue to favor AEP, CEG and ETR.**

Individual Company Quarterly Outlooks

Alliant Energy

Exhibit 22: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	**$1.02**
Normal Weather 3Q21	($0.01)
Weather 3Q22	$0.01
Growth Due to Increasing Rate Base	$0.02
AFUDC	$0.02
D&A	($0.01)
IPL Preferred Dividend Redeemed	$0.01
Sales	$0.01
Timing Income Taxes	($0.01)
Interest Expense	($0.03)
3Q22E Operating Earnings	**$1.03**

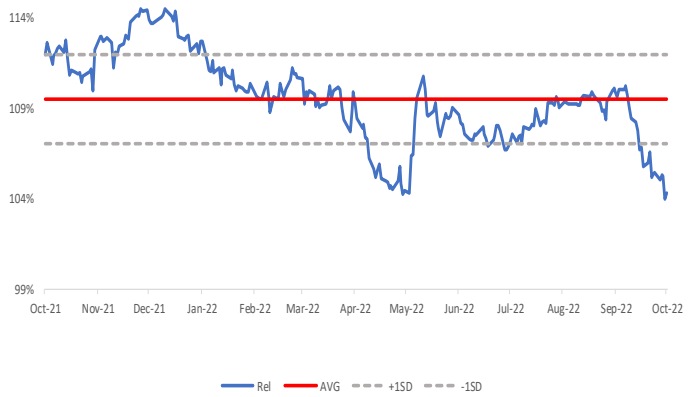
Source: BMO Capital Markets, Company Filings

Exhibit 23: BMO Earnings Preview Dashboard

	LNT	XLU
YTD Performance	(19.0%)	(11.6%)
1 Month Performance	(17.5%)	(13.1%)
1 Week Performance	1.7%	1.9%
P/E - 2024 BMO Estimates	16.1x	15.6x
Passive Ownership 9/30/2021	30.7%	
Passive Ownership 9/30/2022	30.3%	
4 Week Short Interest Change	(1 bp)	
Days to Cover	2.6	
Consensus 3Q22 Estimate	$1.02	
4 Week Estimate Change	0%	

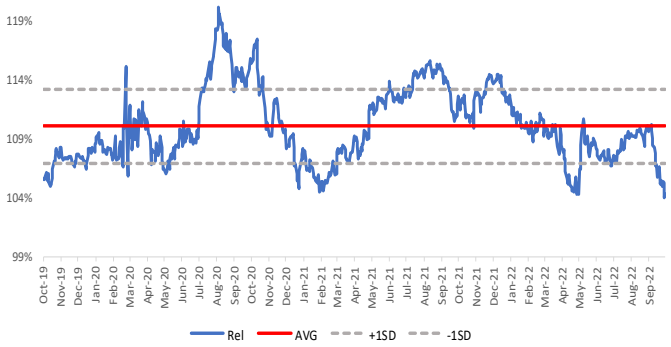
Source: BMO Capital Markets, FactSet

Exhibit 24: Relative Valuation FY-2 PE vs. Reg-All 1-YR



Source: BMO Capital Markets, FactSet

Exhibit 25: Relative Valuation FY-2 PE vs. Reg-All 3-YR



Source: BMO Capital Markets, FactSet

Ameren Energy

Exhibit 26: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	**$1.65**
Weather - 3Q21 vs Norm	($0.02)
Weather - 3Q22	$0.00
MO Rates	$0.09
Energy Efficiency	$0.01
AEE IL Higher ROE and Infrastructure Investments	$0.05
Transmission Rate Base Growth	$0.04
Higher Corporate Interest	($0.03)
O&M	($0.05)
Share dilution	($0.01)
3Q22E Operating Earnings	**$1.73**

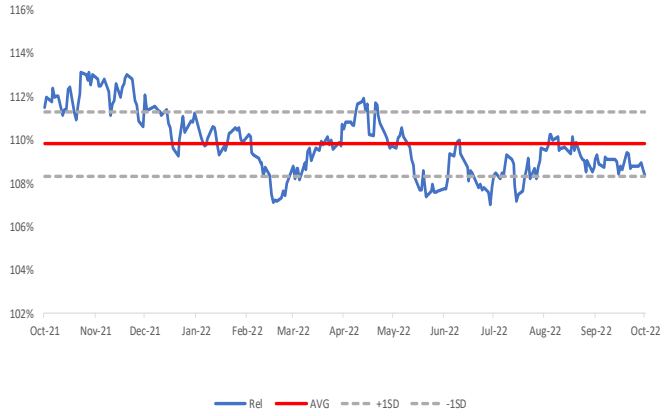
Source: BMO Capital Markets, Company Filings

Exhibit 27: BMO Earnings Preview Dashboard

	AEE	XLU
YTD Performance	(12.8%)	(11.6%)
1 Month Performance	(14.2%)	(13.1%)
1 Week Performance	1.7%	1.9%
P/E - 2024 BMO Estimates	16.8x	15.6x
Passive Ownership 9/30/2021	25.8%	
Passive Ownership 9/30/2022	27.6%	
4 Week Short Interest Change	(33 bp)	
Days to Cover	2.8	
Consensus 3Q22 Estimate	$1.72	
4 Week Estimate Change	(1%)	

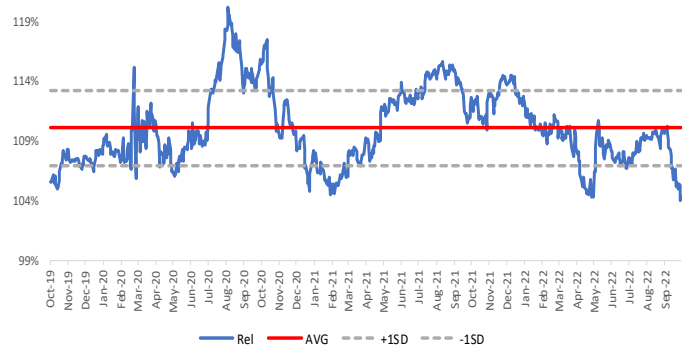
Source: BMO Capital Markets, FactSet

Exhibit 28: 1-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 29: 3-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

American Electric Power

Exhibit 30: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	**$1.43**
Normal Weather - (6c) VIU and +1c T&D	($0.05)
3Q22 Weather - QOQ	$0.05
Load Growth & Positive Mix	$0.03
VIU-Related Rate Relief (APCo, PSO, NSW, SWEPCO)	$0.06
T&D-related Rate Relief (AEP OH/DER, AEP TX/DCRF)	$0.04
Transmission HoldCo	$0.03
VIU - Depreciation and O&M (Rockport Lease)	($0.05)
T&D - Depreciation and O&M	($0.03)
Property Taxes	($0.01)
Transmission Revenue	$0.03
ChargePoint - Absense of 3Q21 Charge and Positive 3Q22 MTM	$0.04
Generation & Marketing - Retail	$0.01
Interest	($0.03)
3Q22E Operating Earnings	**$1.56**

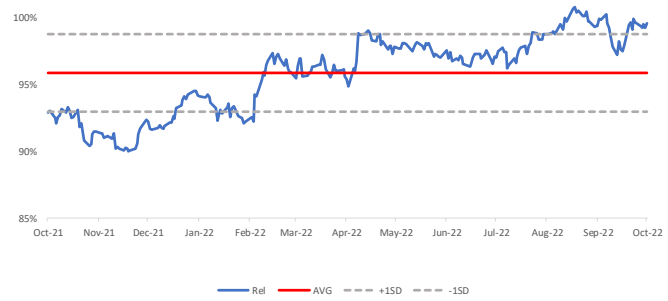
Source: BMO Capital Markets, Company Filings

Exhibit 31: BMO Earnings Preview Dashboard

	AEP	XLU
YTD Performance	(3.8%)	(11.6%)
1 Month Performance	(13.1%)	(13.1%)
1 Week Performance	2.5%	1.9%
P/E - 2024 BMO Estimates	15.3x	15.6x
Passive Ownership 9/30/2021	23.5%	
Passive Ownership 9/30/2022	25.7%	
4 Week Short Interest Change	(25 bp)	
Days to Cover	2.1	
Consensus 3Q22 Estimate	$1.57	
4 Week Estimate Change	2%	

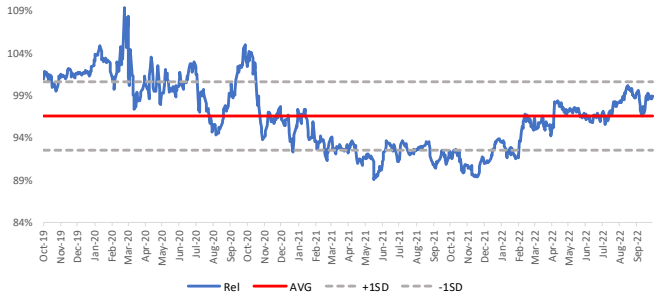
Source: BMO Capital Markets, FactSet

Exhibit 32: 1-YR Relative P/E vs Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 33: 3-YR Relative P/E vs Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Atlantica Sustainable Infrastructure

Exhibit 34: BMO 3Q22 Earnings Bridge

3Q21 Adjusted EBITDA	**$230**
Vento II Portfolio	$2
Coso Geothermal Plant	
Higher Spanish Electricity prices	$1
Smaller Acquisitions	$2
FX Drag	($11)
Transmission	$2
3Q22E Adjusted EBITDA	**$226**

Source: BMO Capital Markets, Company Filings

Exhibit 35: BMO Earnings Preview Dashboard

	AY	XLU
YTD Performance	(28.7%)	(11.6%)
1 Month Performance	(16.6%)	(13.1%)
1 Week Performance	1.8%	1.9%
Passive Ownership 9/30/2021	3.2%	
Passive Ownership 9/30/2022	3.6%	
4 Week Short Interest Change	77 bp	
Days to Cover	2.4	
Consensus 3Q22 Estimate	$0.34	
4 Week Estimate Change	(4%)	

Source: BMO Capital Markets, FactSet

CenterPoint Energy

Exhibit 36: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings - UP&O	**$0.25**
Normalized Weather - Electric	$0.02
3Q22 Weather - Electric	$0.02
Absense of Governance Change Charge	$0.04
Impact of AK and OK Gas LDC Monetizations	$0.02
Minnesota Final Rates	$0.01
DCRF Rates	$0.01
TCOS Rates	$0.01
CEHE Investment Growth & Rate Relief	$0.01
Indiana Electric Growth & Rate Relief	$0.01
Natural Gas Investment Growth/riders	$0.01
Total Corporate O&M	($0.01)
OPEX: D&A and Interest Expense	($0.01)
Parent - Income Taxes & Net Interest	($0.04)
Charge related to MN Gas Recovery	($0.02)
Convertible Share Dilution	($0.01)
3Q22E Operating Earnings - UP&O	**$0.32**

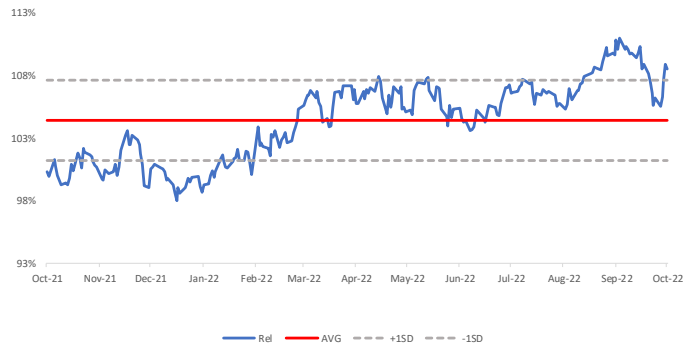
Source: BMO Capital Markets, Company Filings

Exhibit 37: BMO Earnings Preview Dashboard

	CNP	XLU
YTD Performance	(3.2%)	(11.6%)
1 Month Performance	(15.5%)	(13.1%)
1 Week Performance	4.4%	1.9%
P/E - 2024 BMO Estimates	16.9x	15.6x
Passive Ownership 9/30/2021	25.8%	
Passive Ownership 9/30/2022	28.4%	
4 Week Short Interest Change	35 bp	
Days to Cover	2.7	
Consensus 3Q22 Estimate	$0.31	
4 Week Estimate Change	(6%)	

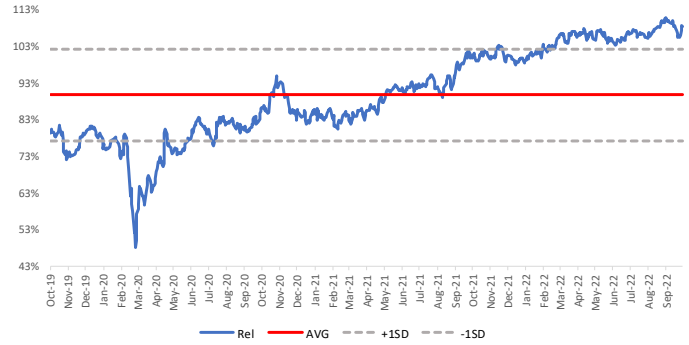
Source: BMO Capital Markets, FactSet

Exhibit 38: 1-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 39: 3-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

CMS Energy

Exhibit 40: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	**$0.54**
Normal Weather - Electric & Gas	($0.09)
Weather vs Normal - Higher CDDs	$0.00
Electric Residential & C&I Sales - Positive Mix	$0.01
Electric Rate Relief - December Order	$0.03
Other	$0.00
Higher D&A, Property Taxes	($0.07)
Customer Initiatives & Cost Management	($0.03)
3Q22 Storm Activity	($0.03)
Absense of Service Restoration Costs	$0.16
Enterprises	$0.00
Parent & Other	$0.00
Share dilution / Preferred Interest	($0.01)
3Q22E Operating Earnings	**$0.50**

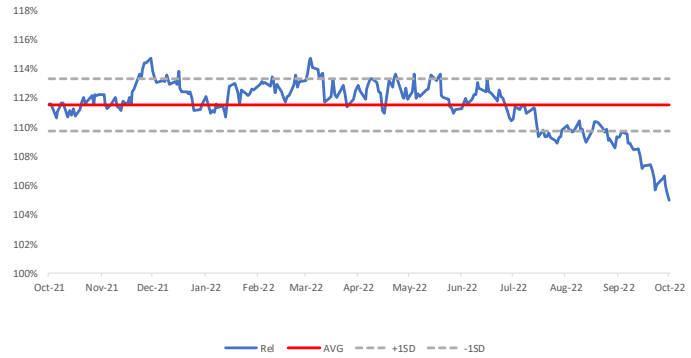
Source: BMO Capital Markets, Company Filings

Exhibit 41: BMO Earnings Preview Dashboard

	CMS	XLU
YTD Performance	(16.3%)	(11.6%)
1 Month Performance	(17.4%)	(13.1%)
1 Week Performance	0.7%	1.9%
P/E - 2024 BMO Estimates	15.8x	15.6x
Passive Ownership 9/30/2021	29.2%	
Passive Ownership 9/30/2022	30.7%	
4 Week Short Interest Change	8 bp	
Days to Cover	2.6	
Consensus 3Q22 Estimate	$0.56	
4 Week Estimate Change	(18%)	

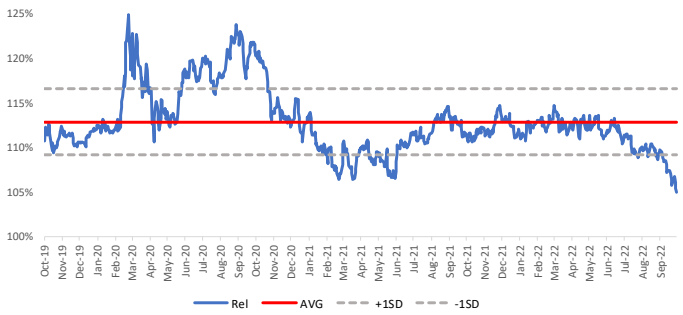
Source: BMO Capital Markets, FactSet

Exhibit 42: 1-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 43: 3-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Constellation Energy

Exhibit 44: BMO 3Q22 Earnings Bridge

3Q21 Operating Net Income	$426
Income Tax	$142
Depreciation & Amortization	$280
Interest Expense	$73
Decommissioning Related Activities & Equity Investments, Net	$24
Pension & OPEB Non-Service Costs	($25)
Separation Costs	$38
Absense of Winter Storm Uri Mitigation Efforts - Pre-Tax	($131)
CENG Acquistion & Associated Revenues	$54
Plant Outages - O&M/Gross Margin	($55)
Capacity Market Revenues	($120)
CMC Revenue - Illinois Nuclear Generation	($70)
Other	($13)
Non-Controlling Interest	($12)
3Q22E Operating EBITDA	**$610**

Source: BMO Capital Markets, Company Filings

Exhibit 45: BMO Earnings Preview Dashboard

	CEG	XLU
YTD Performance		(11.6%)
1 Month Performance	0.0%	(13.1%)
1 Week Performance	7.4%	1.9%
Passive Ownership 9/30/2021		
Passive Ownership 9/30/2022	27.5%	
4 Week Short Interest Change		
Days to Cover	1.4	
Consensus 3Q22 Estimate	$626	
4 Week Estimate Change		

Source: BMO Capital Markets, FactSet

Dominion Energy

Exhibit 46: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings		$1.11
Weather Norm 3Q21		$0.00
Weather 3Q22		$0.00
Sales		$0.02
Regulated Growth		$0.04
Millstone Outage		$0.00
Int Expense		($0.03)
Dilution		($0.03)
Other		$0.00
Taxes		($0.04)
3Q22E Operating Earnings		**$1.06**
Company 3Q22 Guidance	*0.98-1.13*	*$1.06*

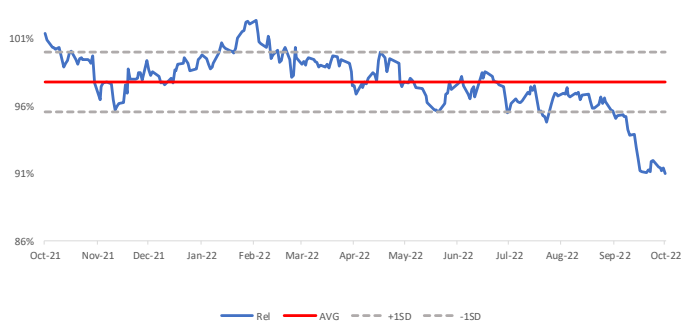
Source: BMO Capital Markets, Company Filings

Exhibit 47: BMO Earnings Preview Dashboard

	D	XLU
YTD Performance	(16.6%)	(11.6%)
1 Month Performance	(17.0%)	(13.1%)
1 Week Performance	1.9%	1.9%
P/E - 2024 BMO Estimates	14.1x	15.6x
Passive Ownership 9/30/2021	22.7%	
Passive Ownership 9/30/2022	23.6%	
4 Week Short Interest Change	18 bp	
Days to Cover	2.0	
Consensus 3Q22 Estimate	$1.08	
4 Week Estimate Change	(4%)	

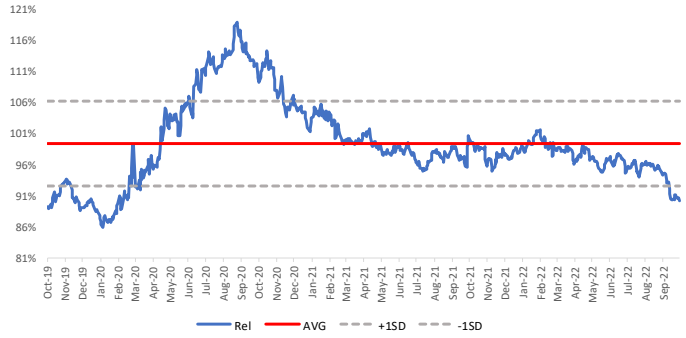
Source: BMO Capital Markets, FactSet

Exhibit 48: 1-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 49: 3-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

DTE Energy

Exhibit 50: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	**$1.72**
Weather Normal - Electric	($0.08)
Weather Normal - Gas	$0.01
3Q22 Weather - Electric	$0.01
3Q22 Weather - Gas	$0.01
2020 Electric COVID Refund Reversal	$0.03
Electric TCJA-related Accelerated ADIT	$0.13
Electric OPEX	($0.09)
DTE Gas Rate Relief - December 2021 Order	$0.03
Gas OPEX	($0.03)
Corporate & Other	$0.19
Energy Trading & Marketing	($0.13)
Vantage - RNG & Cogen Only | Reflects Roll off of REF Contribution	($0.25)
3Q22E Operating Earnings	**$1.55**

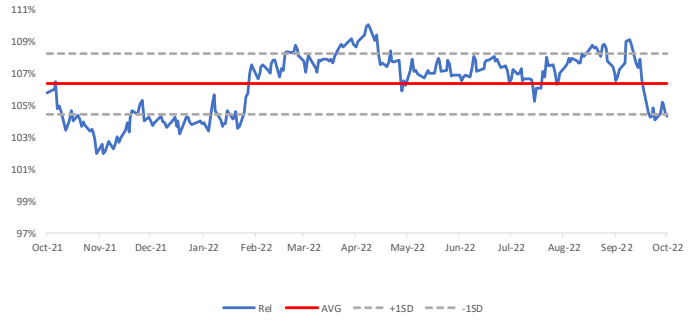
Source: BMO Capital Markets, Company Filings

Exhibit 51: BMO Earnings Preview Dashboard

	DTE	XLU
YTD Performance	(10.1%)	(11.6%)
1 Month Performance	(15.1%)	(13.1%)
1 Week Performance	2.8%	1.9%
P/E - 2024 BMO Estimates	16.2x	15.6x
Passive Ownership 9/30/2021	26.3%	
Passive Ownership 9/30/2022	27.5%	
4 Week Short Interest Change	7 bp	
Days to Cover	1.7	
Consensus 3Q22 Estimate	$1.58	
4 Week Estimate Change	(4%)	

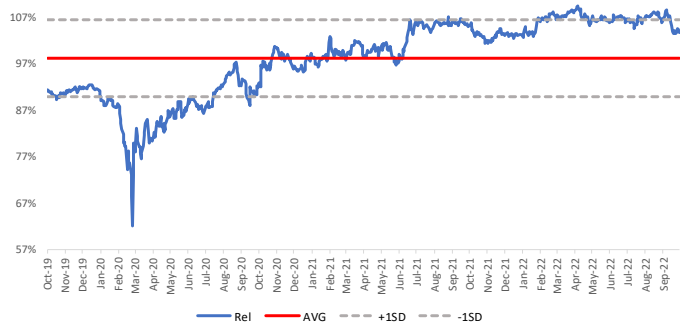
Source: BMO Capital Markets, FactSet

Exhibit 52: 1-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 53: 3-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Duke Energy

Exhibit 54: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	$1.88
Weather Normalized - From 3Q21	($0.05)
Weather and volumes 3Q21 vs 3Q22	$0.07
Load Growth	$0.04
Total O&M - Flat assumption outside planned outages	$0.05
FL MYRP & SOBRA Projects	$0.04
Midwest Riders	$0.03
AFUDC Equity	$0.02
Net Electric Interest Expense	($0.04)
Ohio & Indiana Storms	$0.00
Piedmont Rate Relief	$0.01
Piedmont Utility Riders/Customer Growth	$0.01
Piedmont Rate Lag	($0.02)
Commercial Renewables	($0.07)
Phase 1 Sale of Duke Energy Indiana	($0.02)
Electric Regulatory Lag, D&A, Property Taxes	($0.05)
Parent, Interst & Other	($0.08)
3Q22E Operating Earnings	**$1.83**

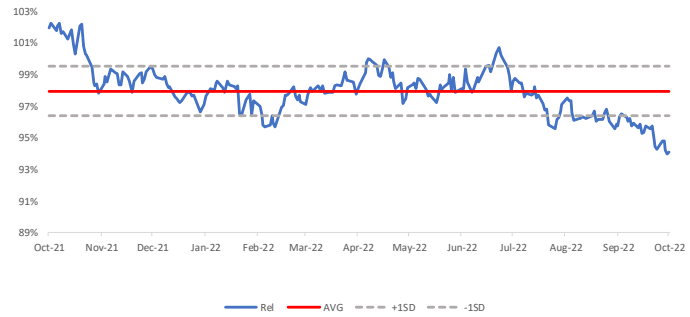
Source: BMO Capital Markets, Company Filings

Exhibit 55: BMO Earnings Preview Dashboard

	DUK	XLU
YTD Performance	(15.7%)	(11.6%)
1 Month Performance	(15.2%)	(13.1%)
1 Week Performance	1.9%	1.9%
P/E - 2024 BMO Estimates	14.4x	15.6x
Passive Ownership 9/30/2021	23.4%	
Passive Ownership 9/30/2022	24.6%	
4 Week Short Interest Change	(9 bp)	
Days to Cover	2.5	
Consensus 3Q22 Estimate	$1.84	
4 Week Estimate Change	(2%)	

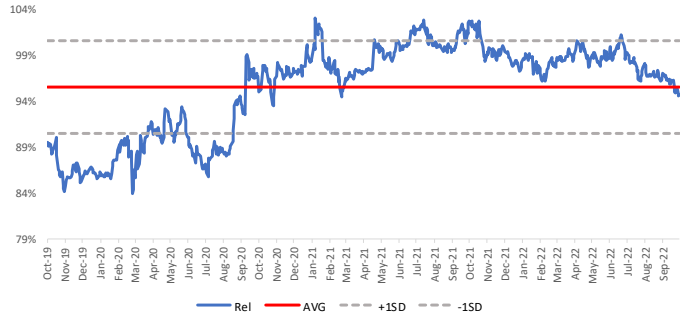
Source: BMO Capital Markets, FactSet

Exhibit 56: 1-YR Relative P/E Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 57: 3-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Entergy Corp

Exhibit 58: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	$2.45
Normalized Weather	$0.04
3Q22 Weather	$0.00
Volumes	$0.00
Utility Other O&M	($0.19)
D&A	($0.06)
Interest	($0.05)
MSS-4 ROE Reserve Adjustment	($0.02)
Regulatory Credit for E-MS	
Income Tax Items	($0.04)
Utility Taxes - Other Than Income (Ad Valorem)	($0.03)
Rate Relief - FRPs, Riders & Other	$0.30
Dilution	($0.02)
Ida	$0.25
3Q22E Operating Earnings	**$2.65**

Source: BMO Capital Markets, Company Filings

Exhibit 59: BMO Earnings Preview Dashboard

	ETR	XLU
YTD Performance	(9.2%)	(11.6%)
1 Month Performance	(9.6%)	(13.1%)
1 Week Performance	2.3%	1.9%
P/E - 2024 BMO Estimates	14.2x	15.6x
Passive Ownership 9/30/2021	27.5%	
Passive Ownership 9/30/2022	30.4%	
4 Week Short Interest Change	32 bp	
Days to Cover	4.1	
Consensus 3Q22 Estimate	$2.64	
4 Week Estimate Change	(1%)	

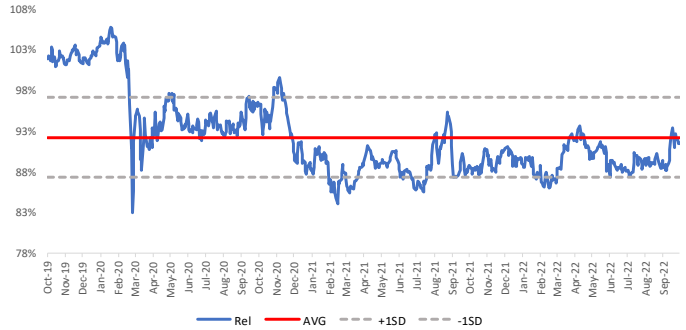
Source: BMO Capital Markets, FactSet

Exhibit 60: 1-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 61: 3-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Eversource Energy

Exhibit 62: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	$1.02
Gas incl. ES Gas of MA	$0.00
Electric Distribution (incl. Lower Pension Cost)	$0.05
Water	$0.00
Transmission	$0.03
D&A	($0.03)
Interest Expense	($0.05)
Storms	
Shares	($0.01)
3Q22E Operating Earnings	**$1.03**

Source: BMO Capital Markets, Company Filings

Exhibit 63: BMO Earnings Preview Dashboard

	ES	XLU
YTD Performance	(20.2%)	(11.6%)
1 Month Performance	(17.4%)	(13.1%)
1 Week Performance	0.0%	1.9%
P/E - 2024 BMO Estimates	15.5x	15.6x
Passive Ownership 9/30/2021	30.3%	
Passive Ownership 9/30/2022	32.7%	
4 Week Short Interest Change	7 bp	
Days to Cover	2.3	
Consensus 3Q22 Estimate	$1.04	
4 Week Estimate Change	(3%)	

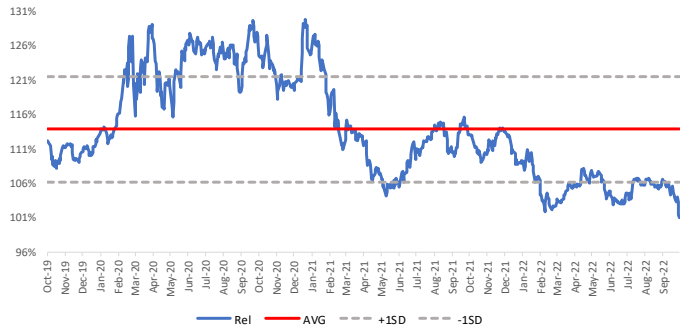
Source: BMO Capital Markets, FactSet

Exhibit 64: 1-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 65: 1-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exelon Corp

Exhibit 66: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	**$0.66**
Parent Taxes - Reversal from 3Q21	($0.04)
3Q21 Adjusted Operating Earnings	**$0.62**
Normalized Weather (PECO & PHI)	($0.01)
3Q22 Load & Weather (PECO & PHI)	$0.03
Utility Rates (PHI - MD & DC)	$0.01
Utility Rates (PECO - Electric)	$0.03
Utility Rates (PECO - Gas)	$0.01
Utility Rates (ComEd)	$0.01
ComEd ROE +100 b/p - Backend Weighted	$0.04
O&M Expense - $150mm for full year	$0.00
OPEX - D&A, Interest & Taxes	($0.03)
Parent Interest Expense	($0.03)
PECO Storm Cost Reversal	$0.03
3Q22E Operating Earnings	**$0.71**

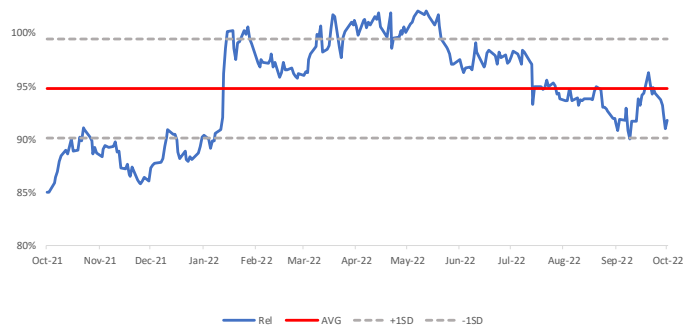
Source: BMO Capital Markets, Company Filings

Exhibit 67: BMO Earnings Preview Dashboard

	EXC	XLU
YTD Performance	(10.8%)	(11.6%)
1 Month Performance	(12.8%)	(13.1%)
1 Week Performance	0.4%	1.9%
P/E - 2024 BMO Estimates	14.2x	15.6x
Passive Ownership 9/30/2021	24.6%	
Passive Ownership 9/30/2022	25.0%	
4 Week Short Interest Change	(3 bp)	
Days to Cover	1.4	
Consensus 3Q22 Estimate	$0.70	
4 Week Estimate Change	2%	

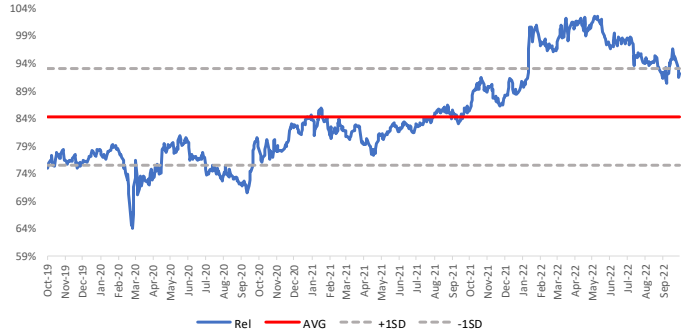
Source: BMO Capital Markets, FactSet

Exhibit 68: 1-YR Relative P/E Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 69: 3-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

NextEra Energy

Exhibit 70: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	**$0.71**
Merged Utilities	**$0.45**
New Investment/Growth Capital Employed	$0.06
Other, including share dilution	$0.01
Total Utilities	**$0.52**
NextEra Energy Resources	**$0.29**
NEER Wind Resource	$0.01
NEER New Investments, net of monetizations	$0.01
Existing Generation & Storage Assets	$0.00
Customer Supply & Trading	$0.01
Other, Net impact of taxes & interest	$0.02
Point Beach Outage (24 days)	($0.01)
Total NEER	**$0.33**
Corporate & Other	**($0.03)**
Share Dilution/Refinancing Activities, Net	($0.01)
Other. Net - Higher corporate debt	($0.02)
Total Corporate & Other	**($0.06)**
3Q22E Operating Earnings	**$0.80**

Source: BMO Capital Markets, Company Filings

Exhibit 71: BMO Earnings Preview Dashboard

	NEE	XLU
YTD Performance	(23.3%)	(11.6%)
1 Month Performance	(14.7%)	(13.1%)
1 Week Performance	(0.2%)	1.9%
P/E - 2024 BMO Estimates	21.6x	15.6x
Passive Ownership 9/30/2021	23.8%	
Passive Ownership 9/30/2022	24.3%	
4 Week Short Interest Change	(2 bp)	
Days to Cover	2.1	
Consensus 3Q22 Estimate	$0.80	
4 Week Estimate Change	2%	

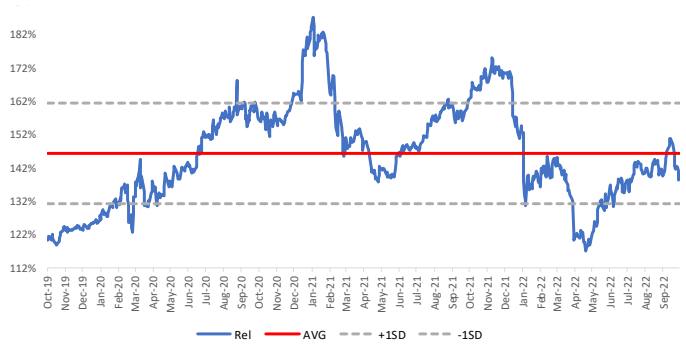
Source: BMO Capital Markets, FactSet

Exhibit 72: 1-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 73: 3-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

NextEra Energy Partners

Exhibit 74: BMO 3Q22 Earnings Bridge

	Adjusted EBITDA	CAFD
3Q21 Operating EBITDA & CAFD	**$334**	**$158**
New Projects - Annualized Contribution	97	$48
Wind Resource - 101% in 3Q21	($5)	($5)
Sale of gas pipeline	($5)	($1)
Higher Debt, Debt Amortization, CEPF Conversion, Tax Equity Timing		8
Incremental IDR Fees Paid to GP	($6)	($6)
3Q22E	**$415**	**$202**

Source: BMO Capital Markets, Company Filings

Exhibit 75: BMO Earnings Preview Dashboard

	NEP	XLU
YTD Performance	(17.9%)	(11.6%)
1 Month Performance	(14.7%)	(13.1%)
1 Week Performance	2.0%	1.9%
Passive Ownership 9/30/2021	1.7%	
Passive Ownership 9/30/2022	1.6%	
4 Week Short Interest Change	(91 bp)	
Days to Cover	7.5	
Consensus 3Q22 Estimate	$0.50	
4 Week Estimate Change	(2%)	

Source: BMO Capital Markets, FactSet

NiSource, Inc.

Exhibit 76: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	**$0.11**
Beginning Net Income	$47
Rate Relief/Riders (PA, KY, MD, OH, IN)	$35
Higher O&M	($26)
Higher D&A	($8)
Other Income - AFUDC, net of higher pension expense	($3)
Non-Controling Interest - Renewable Tax Equity	($6)
Other	$0
3Q22 Operating Net Income	**$39**
3Q22 Diluted Shares	443
3Q22E Operating Earnings	**$0.09**

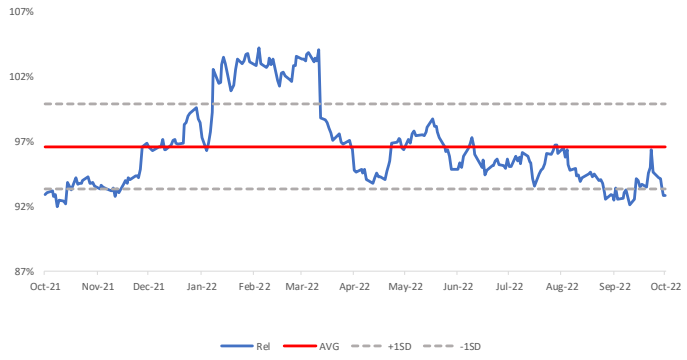
Source: BMO Capital Markets, Company Filings

Exhibit 77: BMO Earnings Preview Dashboard

	NI	XLU
YTD Performance	(11.3%)	(11.6%)
1 Month Performance	(13.8%)	(13.1%)
1 Week Performance	0.0%	1.9%
P/E - 2024 BMO Estimates	14.3x	15.6x
Passive Ownership 9/30/2021	29.6%	
Passive Ownership 9/30/2022	33.4%	
4 Week Short Interest Change	(13 bp)	
Days to Cover	2.6	
Consensus 3Q22 Estimate	$0.11	
4 Week Estimate Change	(14%)	

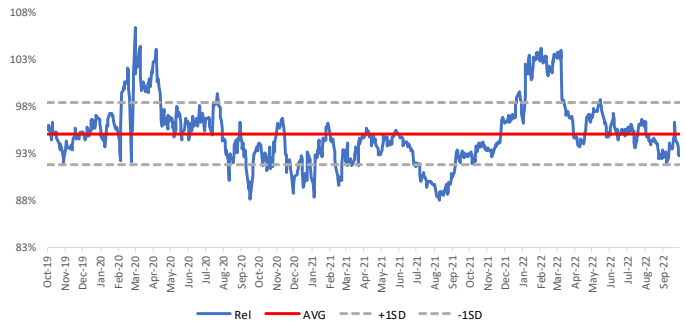
Source: BMO Capital Markets, FactSet

Exhibit 78: 1-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 79: 3-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

NRG Energy

Exhibit 80: BMO 3Q22 Earnings Bridge

3Q21 Consolidated EBITDA	**$767**
Texas Sub-Region	**$446**
Weather-related Volumes & Retail Margins	$10
Higher Peak Load Served in ERCOT - ~3-3.5TWhs	($47)
Parish 8 Outage - Began 5/9/22	($135)
Coal Supply	($15)
ERCOT Ancillary Costs	($47)
Subtotal	**$212**
East, West & Other Sub-Region	**$321**
Weather-related Volumes & Retail Margins	$22
North East Asset Sale 12/6/21	($50)
PJM Asset Closure - 6/1/22	($39)
Sale of Watson Plant - West	($10)
Capacity Revenues	($13)
Coal Supply	($10)
Subtotal	**$221**
Direct Energy Acquisition	
Assumed Transaction Synergies	$6
Retail Growth	$0
Subtotal	**$6**
3Q22E EBITDA	**$440**

Source: BMO Capital Markets, Company Filings

Exhibit 81: BMO Earnings Preview Dashboard

	NRG	XLU
YTD Performance	(1.7%)	(11.6%)
1 Month Performance	0.5%	(13.1%)
1 Week Performance	3.2%	1.9%
P/E - 2024 BMO Estimates	07.8x	15.6x
Passive Ownership 9/30/2021	29.3%	
Passive Ownership 9/30/2022	35.5%	
4 Week Short Interest Change	(12 bp)	
Days to Cover	6.4	
Consensus 3Q22 Estimate	$1.42	
4 Week Estimate Change	(22%)	

Source: BMO Capital Markets, FactSet

Public Service Enterprise Group

Exhibit 82: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	**$0.98**
PSE&G - Utility	**$0.77**
Normalized Weather	$0.00
Transmission	$0.02
Electric Margin/SIP	$0.02
O&M	($0.02)
D&A	($0.01)
Interest	($0.01)
Taxes and Other 3Q21	$0.02
Gas bad debt norm	$0.01
Pension & Opeb	$0.01
PSE&G - Utility	**$0.81**
Carbon Free Infra and Other	**$0.21**
Fossil Lost Revenue	($0.25)
O&M	$0.11
D&A & Interest Savings	$0.02
Solar Source Sale	
Normalized Taxes	$0.00
Recontracting	($0.04)
Parent Activity	($0.04)
Carbon Free Infra and Other	**$0.01**
Buyback	$0.01
3Q22E Operating Earnings	**$0.83**

Source: BMO Capital Markets, Company Filings

Exhibit 83: BMO Earnings Preview Dashboard

	PEG	XLU
YTD Performance	(18.6%)	(11.6%)
1 Month Performance	(15.8%)	(13.1%)
1 Week Performance	0.9%	1.9%
P/E - 2024 BMO Estimates	14.3x	15.6x
Passive Ownership 9/30/2021	25.2%	
Passive Ownership 9/30/2022	27.1%	
4 Week Short Interest Change	1 bp	
Days to Cover	2.3	
Consensus 3Q22 Estimate	$0.83	
4 Week Estimate Change	1%	

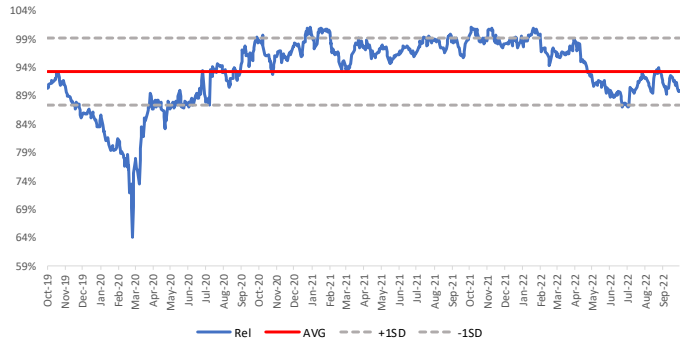
Source: BMO Capital Markets, FactSet

Exhibit 84: 1-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 85: 3-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Sempra Energy

Exhibit 86: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	**$1.70**
SDG&E	**$205**
Margins	$0
FERC Formulaic Rates	$0
Regulatory Tax True Up	$18
Subtotal	**$223**
SoCalGas	**$6**
Margins	$0
Higher financing costs	($4)
Regulatory Tax True Up	$0
Subtotal	**$2**
Sempra Texas	**$206**
Rate base & customer growth and January TCOS increase	$36
Weather	$10
Energy Effiencly	$0
Subtotal	**$251**
Sempra Energy Infrastructure Partners	**$225**
Combined Run Rate LNG & Mexico weighted for SIP ownership - 70%	($28)
Absense of maintenance revenues	($13)
LNG Optimization	($30)
Higher Development Costs	$0
Subtotal	**$155**
Parent & Other - Includes Higher ST Debt Impacts	**($80)**
Total Net Income	**$551**
Dividends for Series B Preferred Stock	$0
Adjusted Net Income	**$551**
Diluted Shares	**315**
3Q22E Operating Earnings	**$1.75**

Source: BMO Capital Markets, Company Filings

Exhibit 87: BMO Earnings Preview Dashboard

	SRE	XLU
YTD Performance	7.6%	(11.6%)
1 Month Performance	(14.4%)	(13.1%)
1 Week Performance	0.6%	1.9%
P/E - 2024 BMO Estimates	15.1x	15.6x
Passive Ownership 9/30/2021	23.9%	
Passive Ownership 9/30/2022	25.7%	
4 Week Short Interest Change	2 bp	
Days to Cover	1.9	
Consensus 3Q22 Estimate	$1.82	
4 Week Estimate Change	(9%)	

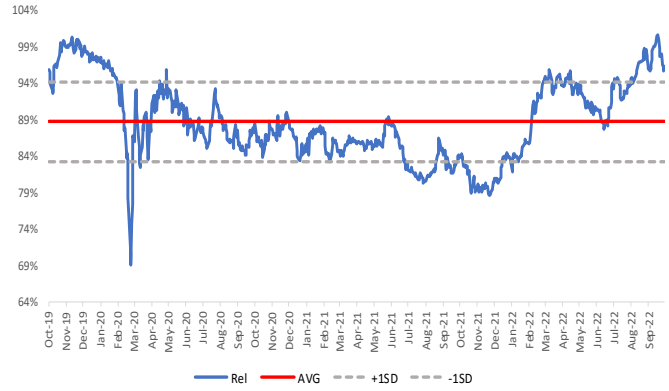
Source: BMO Capital Markets, FactSet

Exhibit 88: 1-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 89: 3-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Southern Company

Exhibit 90: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	$1.23
Normalized Weather 3Q21	$0.02
3Q22 Weather	
Usage	$0.20
OPEX - D&A, Interest & Taxes	($0.07)
Gas Operations	$0.00
Southern Power	$0.00
Parent & Other	($0.02)
Divested Assets	($0.01)
Shares	($0.03)
3Q22E Operating Earnings	**$1.32**
Company Guidance	*$1.32*

Source: BMO Capital Markets, Company Filings

Exhibit 91: BMO Earnings Preview Dashboard

	SO	XLU
YTD Performance	(5.9%)	(11.6%)
1 Month Performance	(15.3%)	(13.1%)
1 Week Performance	1.6%	1.9%
P/E - 2024 BMO Estimates	15.6x	15.6x
Passive Ownership 9/30/2021	22.7%	
Passive Ownership 9/30/2022	24.0%	
4 Week Short Interest Change	(10 bp)	
Days to Cover	2.5	
Consensus 3Q22 Estimate	$1.33	
4 Week Estimate Change	2%	

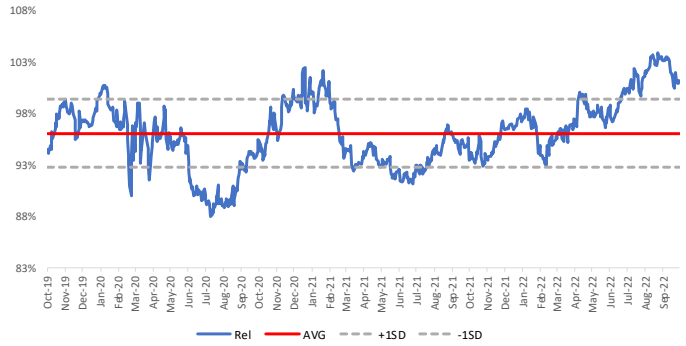
Source: BMO Capital Markets, FactSet

Exhibit 92: 1-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 93: 3-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Vistra Corp

Exhibit 94: BMO 3Q22 Earnings Bridge

3Q21 Operating EBITDA	**$1,167**
Wholesale Adjusted EBITDA	**$1,115**
Energy Margin - Higher volumes July/More Mild August-September	$30
Capacity Payments	$23
SG&A	($10)
Absense of Uri Self Help - Hedges/Generation O&M	($195)
Subtotal - Wholesale	**$964**
Retail Adjusted EBITDA	**$52**
Retail Margin - Higher 3Q22 Volumes	$15
NOPEC Customer Cost - 1 month	($3)
SG&A	($3)
C&I Bill Credits	($35)
Absense of Uri Self Help - Savings/Contract Optimization/Securitization	$0
Subtotal - Retail	**$27**
3Q22E Operating EBITDA	**$990**

Source: BMO Capital Markets, Company Filings

Exhibit 95: BMO Earnings Preview Dashboard

	VST	XLU
YTD Performance	(4.5%)	(11.6%)
1 Month Performance	(11.0%)	(13.1%)
1 Week Performance	1.5%	1.9%
P/E - 2024 BMO Estimates		15.6x
Passive Ownership 9/30/2021	18.1%	
Passive Ownership 9/30/2022	21.2%	
4 Week Short Interest Change	(3 bp)	
Days to Cover	2.3	
Consensus 3Q22 Estimate	$1.28	
4 Week Estimate Change	(16%)	

Source: BMO Capital Markets, FactSet

WEC Energy Group

Exhibit 96: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	$0.92
Normal Weather	($0.05)
Weather YoY	$0.02
Rates	$0.08
Infra	$0.01
D&A	($0.05)
Interest	($0.01)
O&M	($0.04)
Rabbi Trust Net Effect	($0.02)
3Q22E Operating Earnings	**$0.86**
Guidance	$0.82-0.84

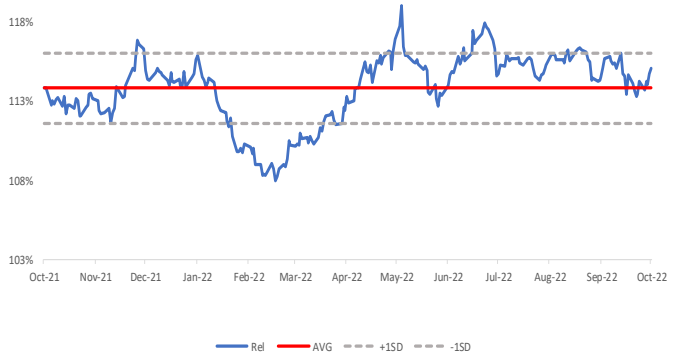
Source: BMO Capital Markets, Company Filings

Exhibit 97: BMO Earnings Preview Dashboard

	WEC	XLU
YTD Performance	(10.7%)	(11.6%)
1 Month Performance	(13.3%)	(13.1%)
1 Week Performance	2.8%	1.9%
P/E - 2024 BMO Estimates	17.7x	15.6x
Passive Ownership 9/30/2021	29.5%	
Passive Ownership 9/30/2022	31.8%	
4 Week Short Interest Change	(21 bp)	
Days to Cover	2.9	
Consensus 3Q22 Estimate	$0.86	
4 Week Estimate Change	(2%)	

Source: BMO Capital Markets, FactSet

Exhibit 98: 1-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Exhibit 99: 3-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

Xcel Energy

Exhibit 100: BMO 3Q22 Earnings Bridge

3Q21 Operating Earnings	$1.13
Weather Norm 3Q21	$0.00
Weather 3Q22	$0.00
AFUDC	$0.00
Prop Taxes	($0.01)
D&A	($0.07)
Riders	$0.02
O&M	($0.02)
Electric Margin (incl. PTCs/ETR)	$0.22
Gas Margin	$0.00
Increased Sales	$0.01
Interest	($0.01)
Share Dilution	($0.01)
MN Uri Dissallowance	($0.02)
Comanche Replacement Power	$0.00
3Q22E Operating Earnings	**$1.22**

Source: BMO Capital Markets, Company Filings

Exhibit 101: BMO Earnings Preview Dashboard

	XEL	XLU
YTD Performance	(10.0%)	(11.6%)
1 Month Performance	(16.0%)	(13.1%)
1 Week Performance	3.5%	1.9%
P/E - 2024 BMO Estimates	16.8x	15.6x
Passive Ownership 9/30/2021	26.9%	
Passive Ownership 9/30/2022	27.1%	
4 Week Short Interest Change	(15 bp)	
Days to Cover	1.8	
Consensus 3Q22 Estimate	$1.22	
4 Week Estimate Change	(4%)	

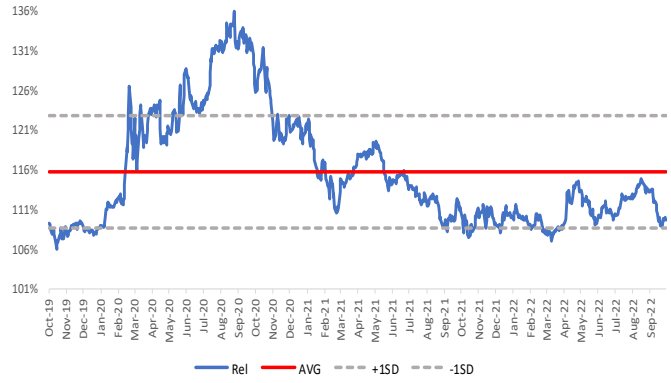
Source: BMO Capital Markets, FactSet

Exhibit 102: 1-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

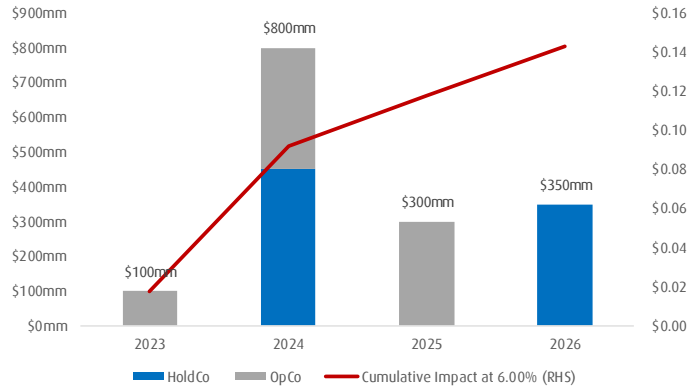
Exhibit 103: 3-YR Relative P/E vs. Regulated Universe (FY-2)



Source: BMO Capital Markets, FactSet

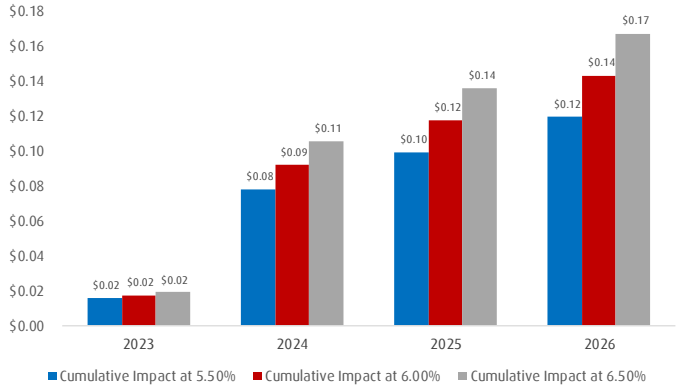
Fixed Rate Debt Maturities and Cumulative EPS Impact

Exhibit 104: AEE Long-Term Debt Maturities



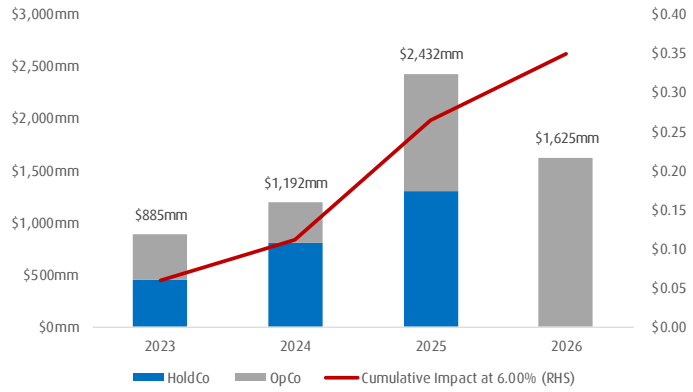
Source: BMO Capital Markets, FactSet

Exhibit 105: AEE Cumulative EPS Impact



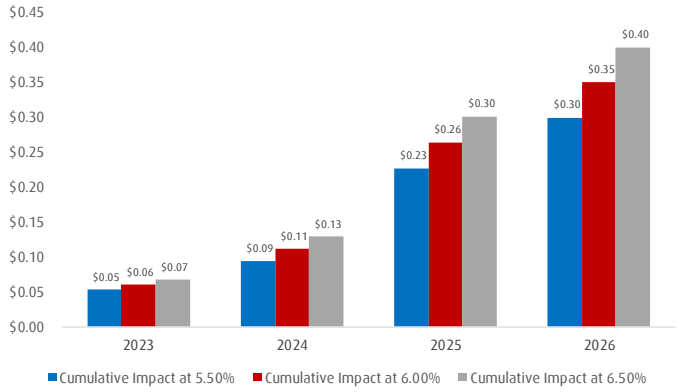
Source: BMO Capital Markets, FactSet

Exhibit 106: AEP Long-Term Debt Maturities



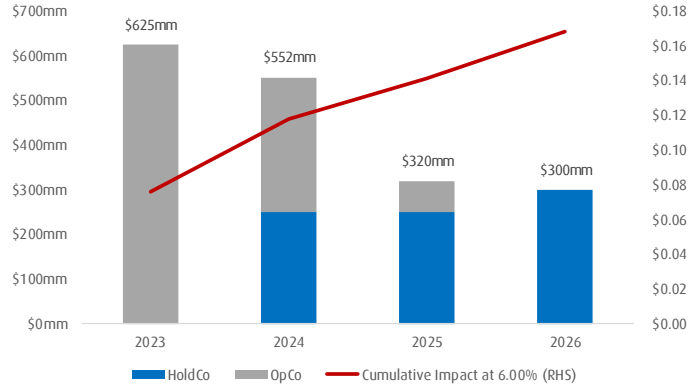
Source: BMO Capital Markets, FactSet

Exhibit 107: AEP Cumulative EPS Impact



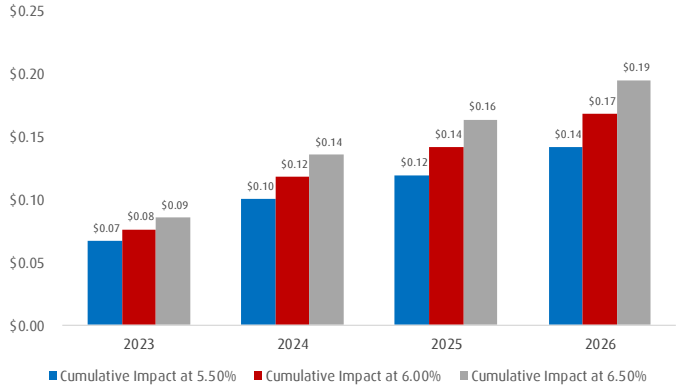
Source: BMO Capital Markets, FactSet

Exhibit 108: CMS Long-Term Debt Maturities



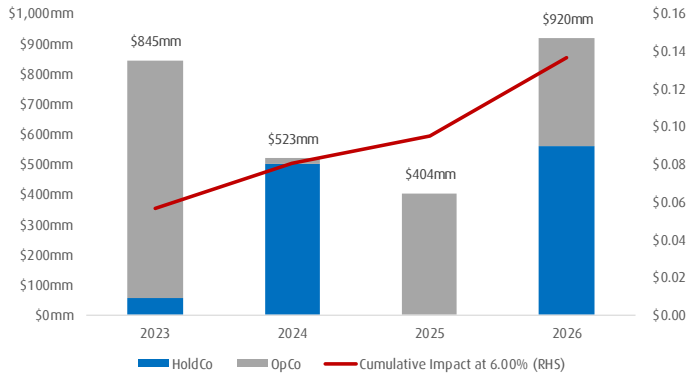
Source: BMO Capital Markets, FactSet

Exhibit 109: CMS Cumulative EPS Impact



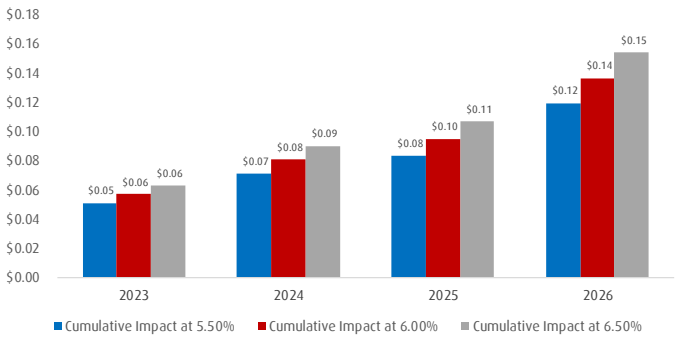
Source: BMO Capital Markets, FactSet

Exhibit 110: CNP Long-Term Debt Maturities



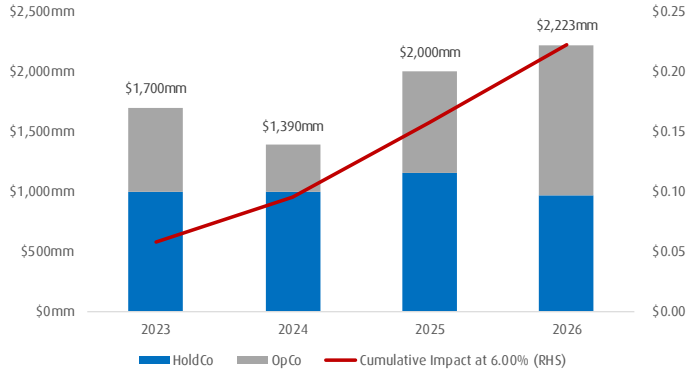
Source: BMO Capital Markets, FactSet

Exhibit 111: CNP Cumulative EPS Impact



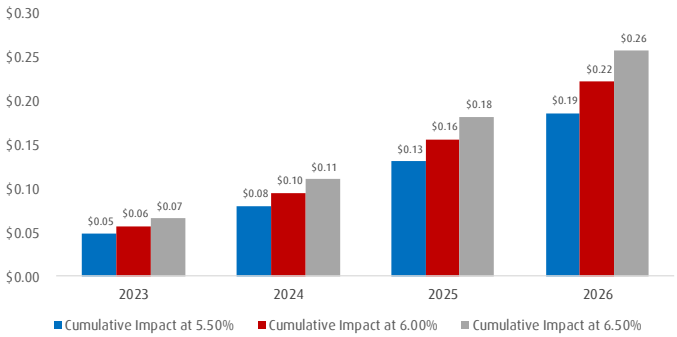
Source: BMO Capital Markets, FactSet

Exhibit 112: D Long-Term Debt Maturities



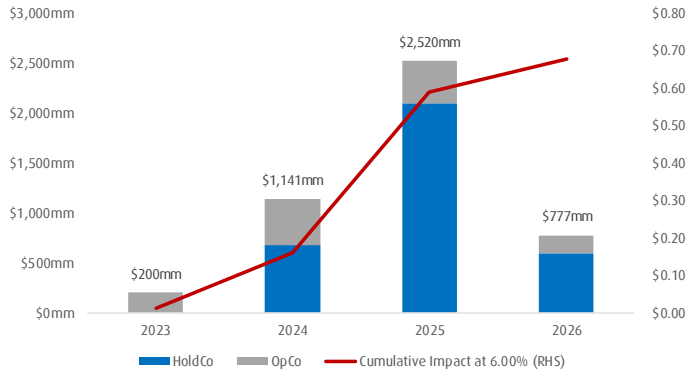
Source: BMO Capital Markets, FactSet

Exhibit 113: D Cumulative EPS Impact



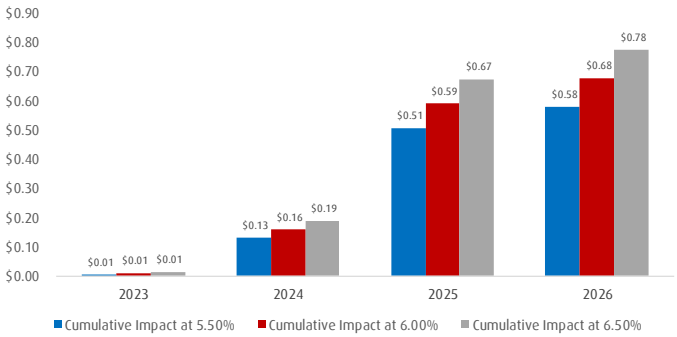
Source: BMO Capital Markets, FactSet

Exhibit 114: DTE Long-Term Debt Maturities



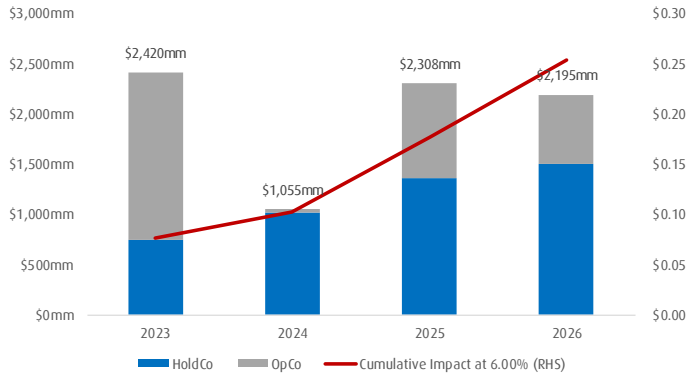
Source: BMO Capital Markets, FactSet

Exhibit 115: DTE Cumulative EPS Impact



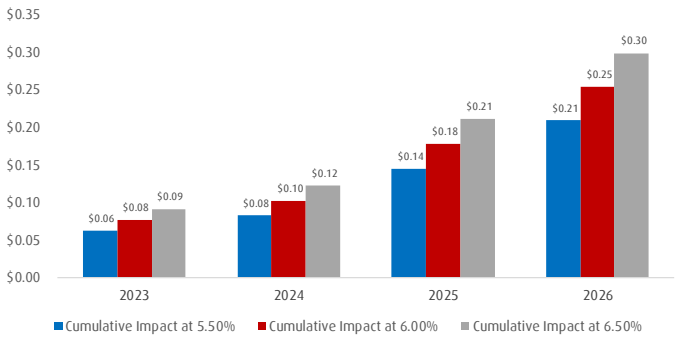
Source: BMO Capital Markets, FactSet

Exhibit 116: DUK Long-Term Debt Maturities



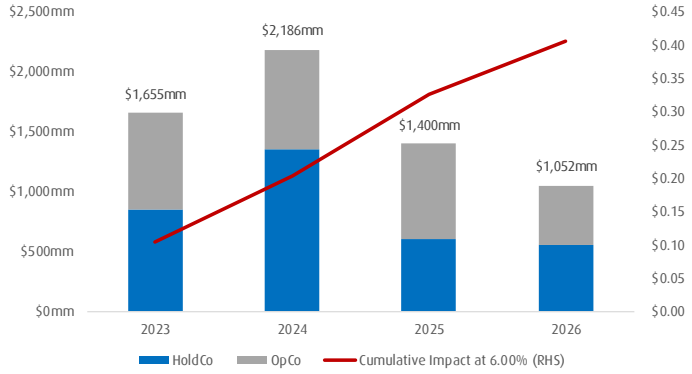
Source: BMO Capital Markets, FactSet

Exhibit 117: DUK Cumulative EPS Impact



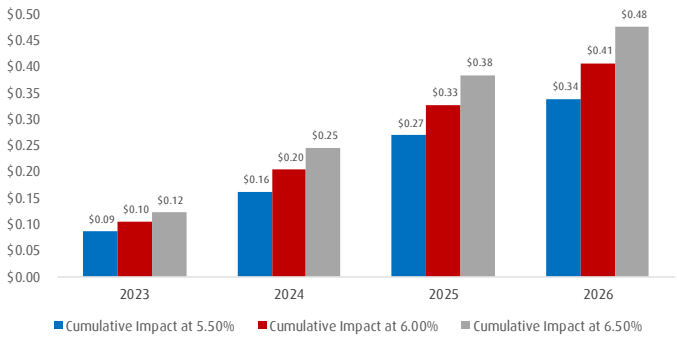
Source: BMO Capital Markets, FactSet

Exhibit 118: ES Long-Term Debt Maturities



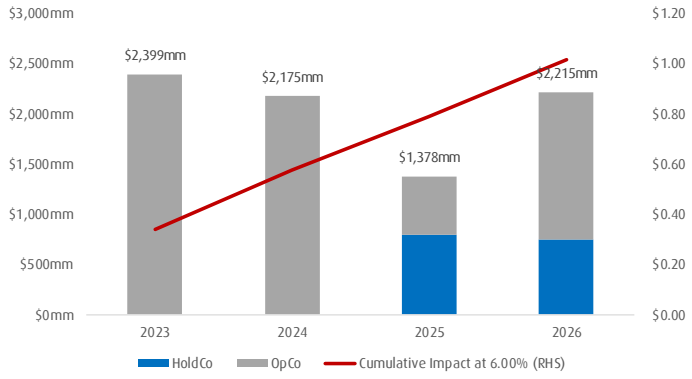
Source: BMO Capital Markets, FactSet

Exhibit 119: ES Cumulative EPS Impact



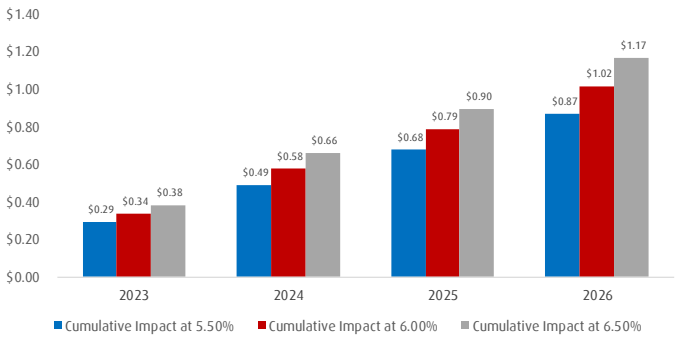
Source: BMO Capital Markets, FactSet

Exhibit 120: ETR Long-Term Debt Maturities



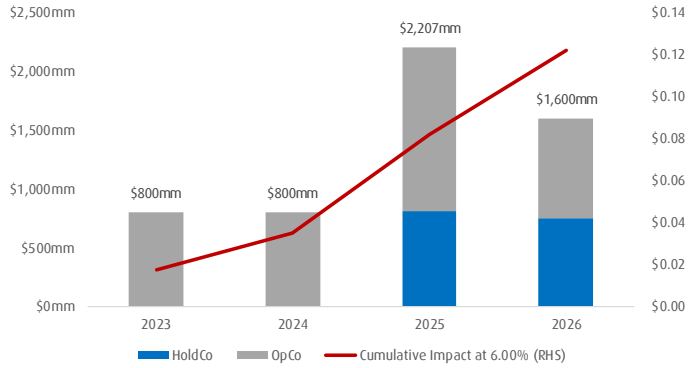
Source: BMO Capital Markets, FactSet

Exhibit 121: ETR Cumulative EPS Impact



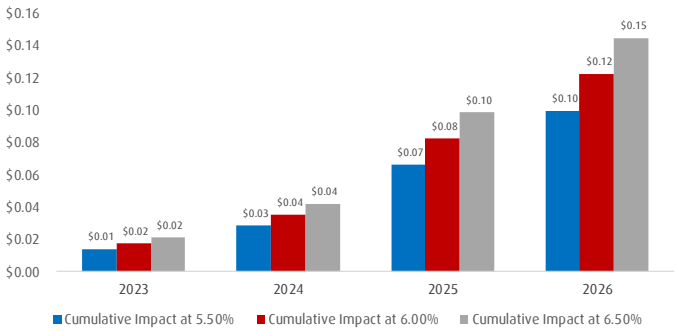
Source: BMO Capital Markets, FactSet

Exhibit 122: EXC Long-Term Debt Maturities



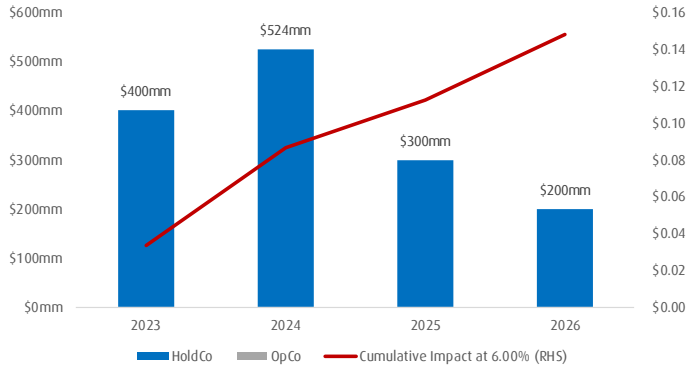
Source: BMO Capital Markets, FactSet

Exhibit 123: EXC Cumulative EPS Impact



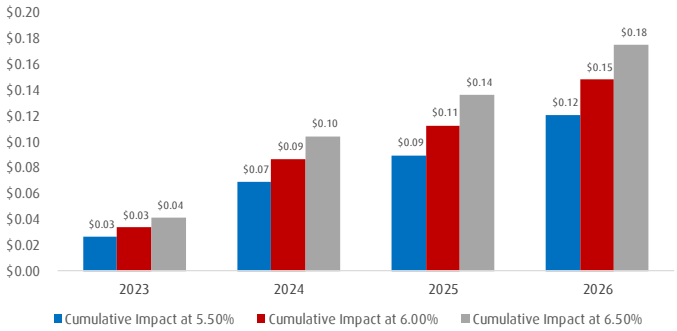
Source: BMO Capital Markets, FactSet

Exhibit 124: LNT Long-Term Debt Maturities



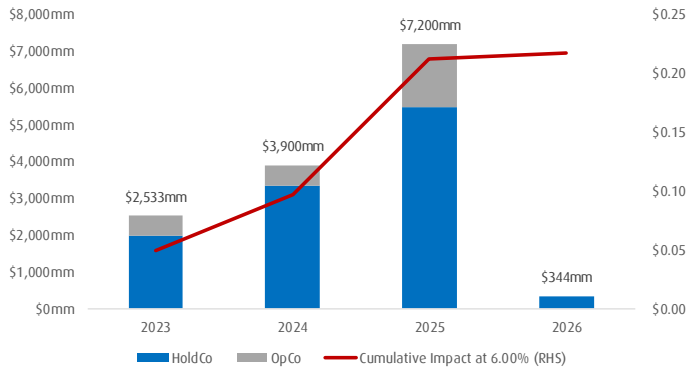
Source: BMO Capital Markets, FactSet

Exhibit 125: LNT Cumulative EPS Impact



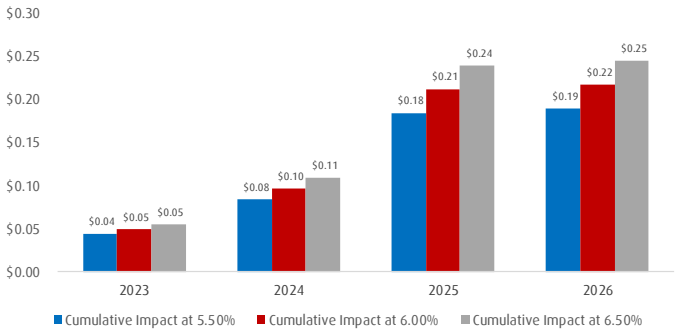
Source: BMO Capital Markets, FactSet

Exhibit 126: NEE Long-Term Debt Maturities



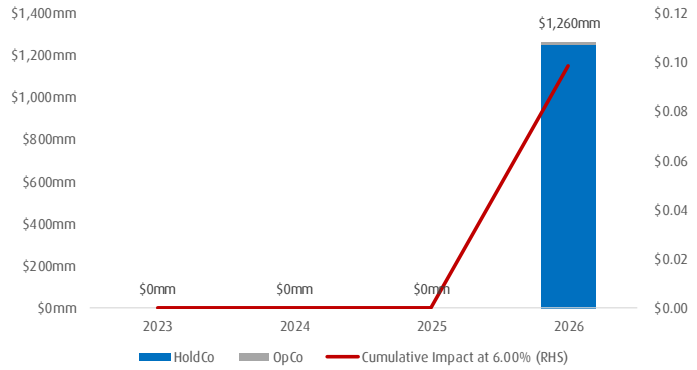
Source: BMO Capital Markets, FactSet

Exhibit 127: NEE Cumulative EPS Impact



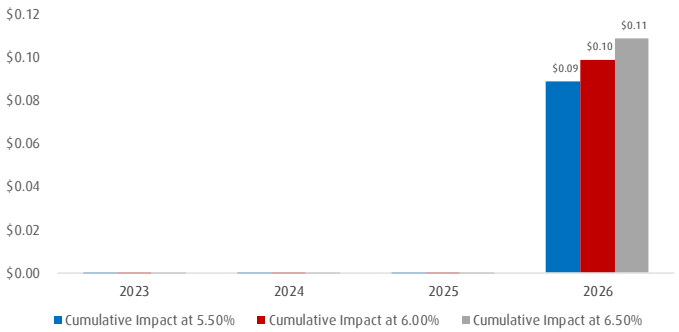
Source: BMO Capital Markets, FactSet

Exhibit 128: NI Long-Term Debt Maturities



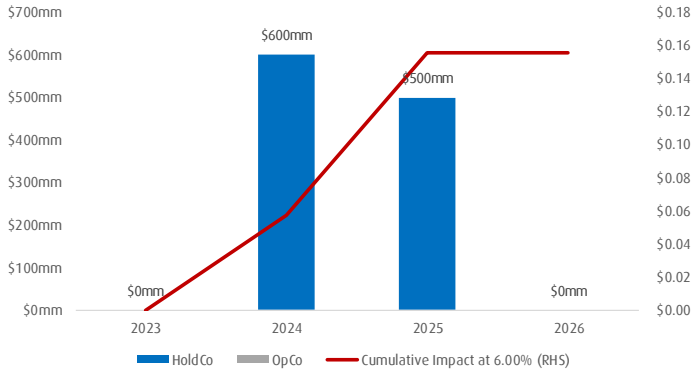
Source: BMO Capital Markets, FactSet

Exhibit 129: NI Cumulative EPS Impact



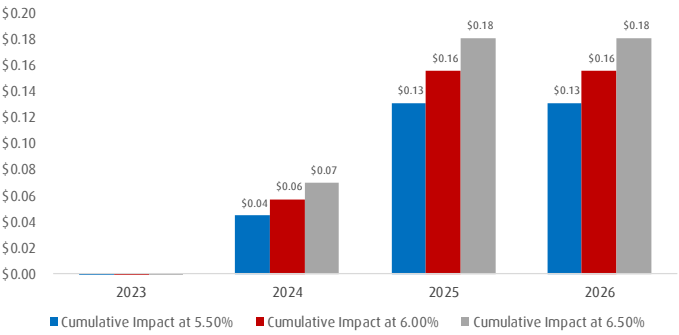
Source: BMO Capital Markets, FactSet

Exhibit 130: NRG Long-Term Debt Maturities



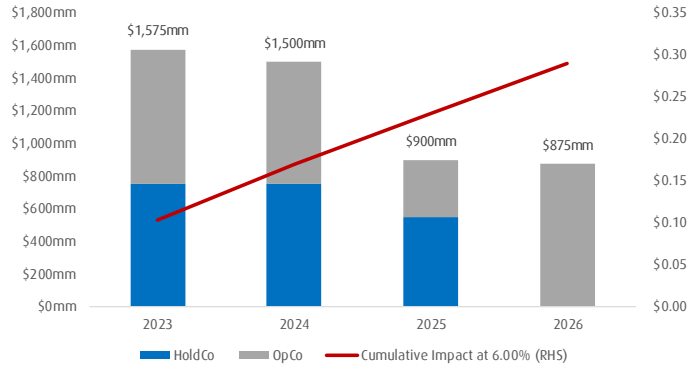
Source: BMO Capital Markets, FactSet

Exhibit 131: NRG Cumulative EPS Impact



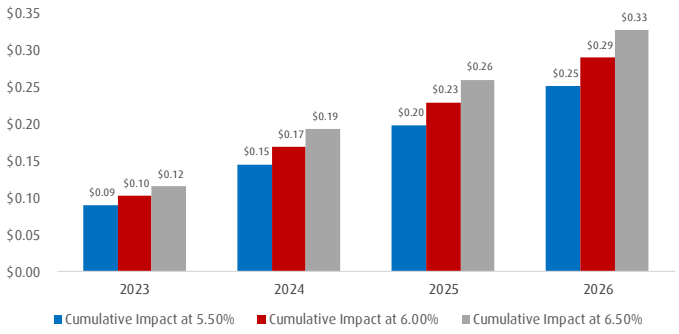
Source: BMO Capital Markets, FactSet

Exhibit 132: PEG Long-Term Debt Maturities



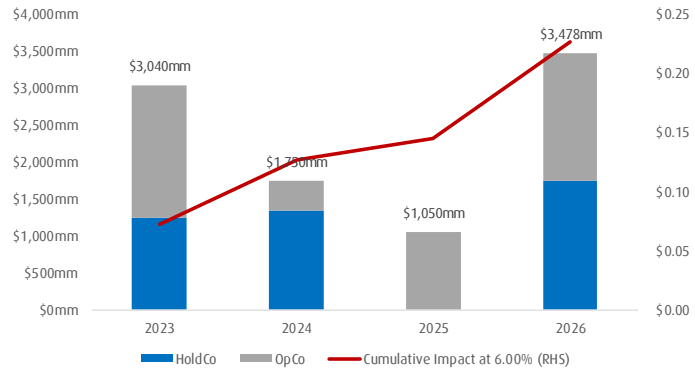
Source: BMO Capital Markets, FactSet

Exhibit 133: PEG Cumulative EPS Impact



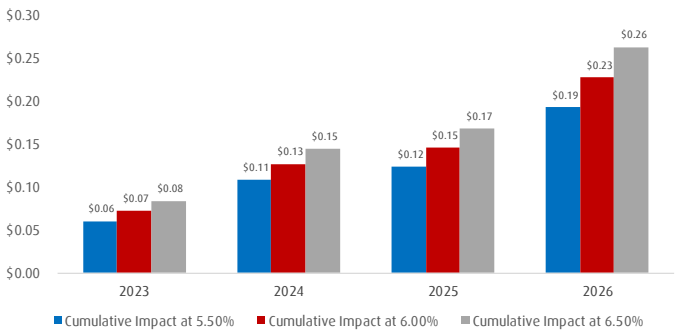
Source: BMO Capital Markets, FactSet

Exhibit 134: SO Long-Term Debt Maturities



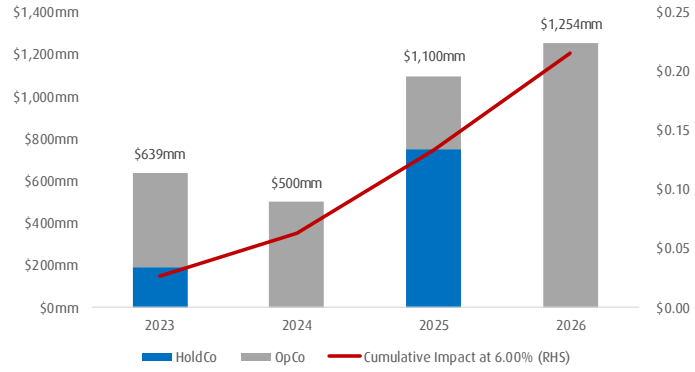
Source: BMO Capital Markets, FactSet

Exhibit 135: SO Cumulative EPS Impact



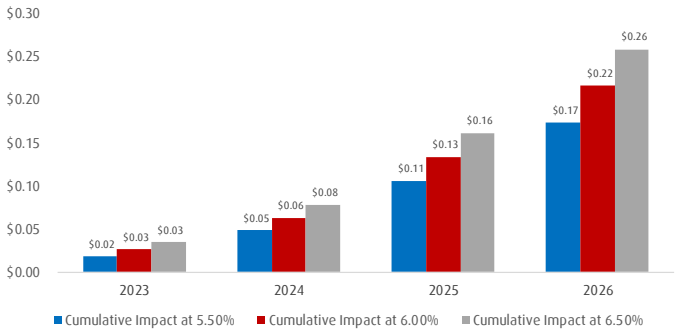
Source: BMO Capital Markets, FactSet

Exhibit 136: SRE Long-Term Debt Maturities



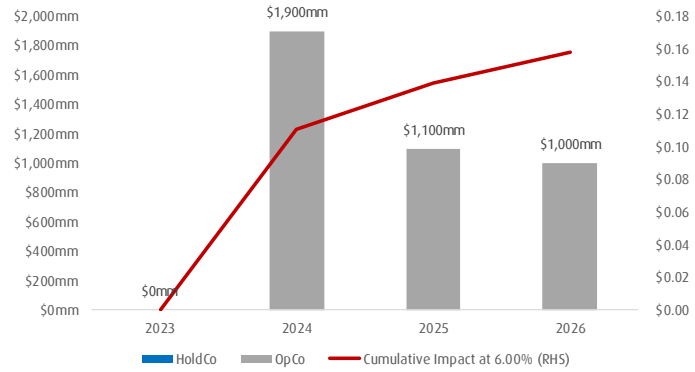
Source: BMO Capital Markets, FactSet

Exhibit 137: SRE Cumulative EPS Impact



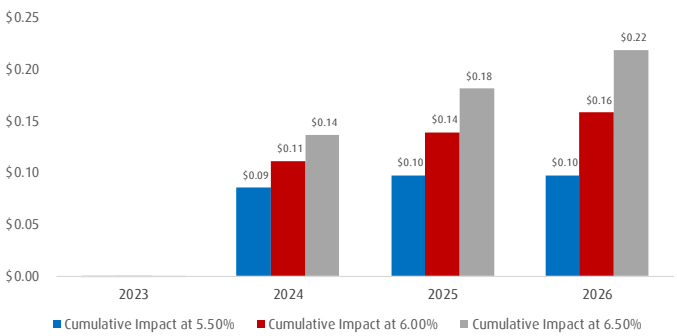
Source: BMO Capital Markets, FactSet

Exhibit 138: VST Long-Term Debt Maturities



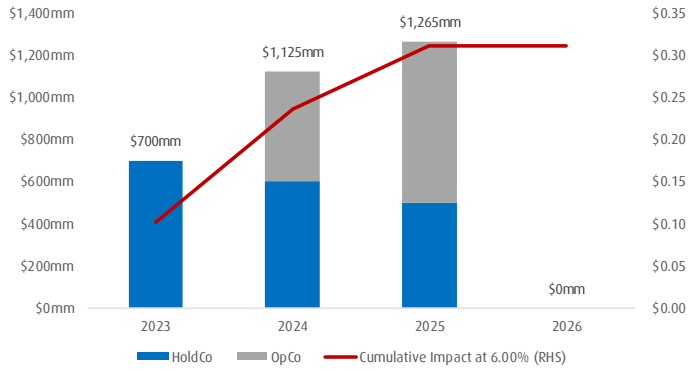
Source: BMO Capital Markets, FactSet

Exhibit 139: VST Cumulative EPS Impact



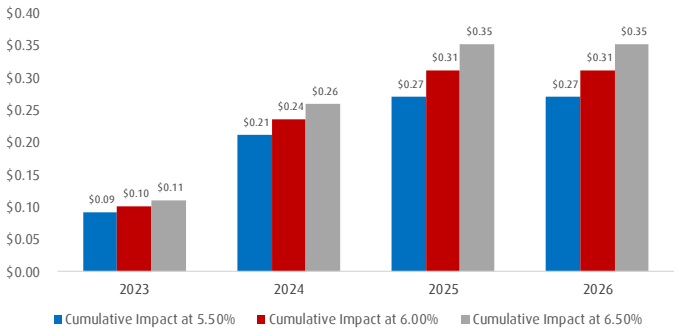
Source: BMO Capital Markets, FactSet

Exhibit 140: WEC Long-Term Debt Maturities



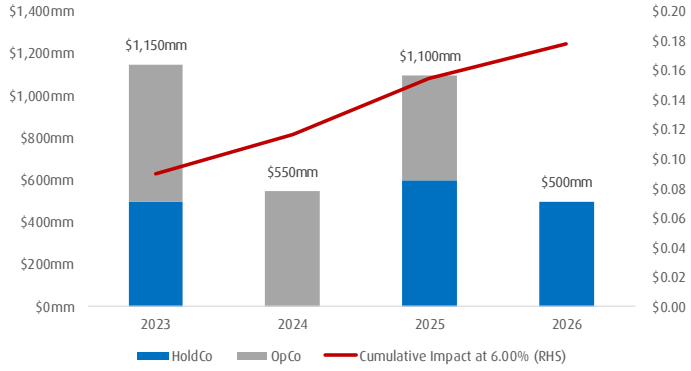
Source: BMO Capital Markets, FactSet

Exhibit 141: WEC Cumulative EPS Impact



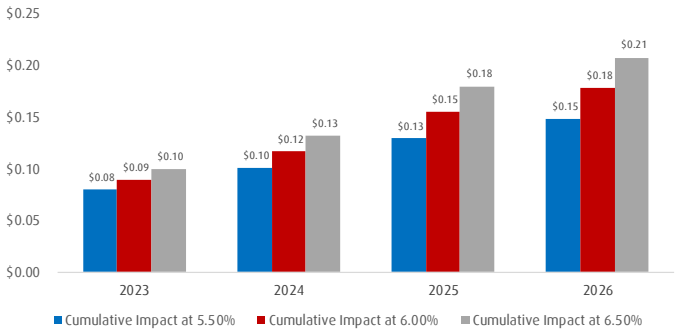
Source: BMO Capital Markets, FactSet

Exhibit 142: XEL Long-Term Debt Maturities



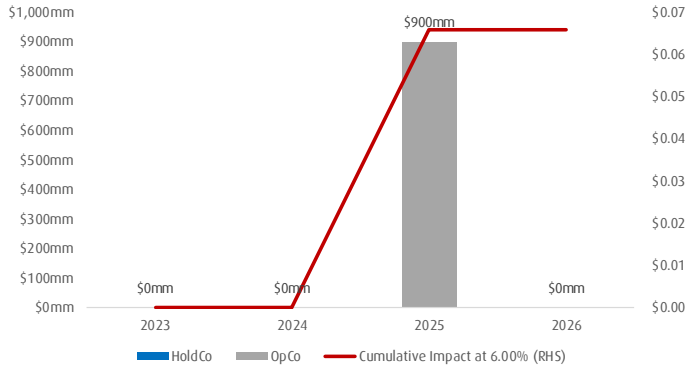
Source: BMO Capital Markets, FactSet

Exhibit 143: XEL Cumulative EPS Impact



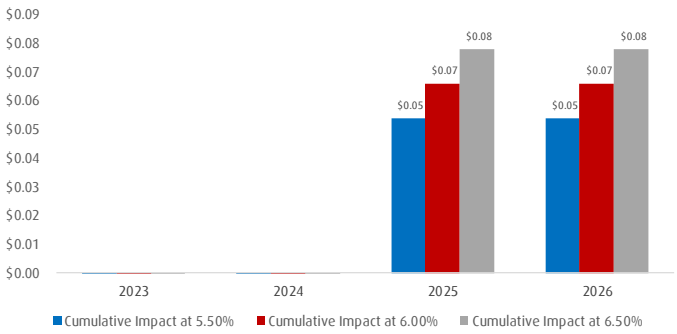
Source: BMO Capital Markets, FactSet

Exhibit 144: CEG Long-Term Debt Maturities



Source: BMO Capital Markets, FactSet

Exhibit 145: CEG Cumulative EPS Impact



Source: BMO Capital Markets, FactSet

Individual Company Model Summary

Exhibit 146: AEE Model Summary

Ameren Coporation (AEE)	2020A	2021A	2022E	2023E	2024E	2025E
EPS By Segment						
Ameren Illinois	$1.52	$1.65	$1.76	$1.89	$2.00	$2.16
Union Electric	$1.75	$2.01	$2.10	$2.24	$2.45	$2.63
Ameren Transmission Company of Illinois	$0.32	$0.30	$0.30	$0.29	$0.29	$0.28
Parent & Other	($0.09)	($0.12)	($0.09)	($0.09)	($0.10)	($0.10)
Consolidated E.P.S.	**$3.50**	**$3.84**	**$4.07**	**$4.34**	**$4.64**	**$4.97**
Dividend per share	**$2.00**	**$2.20**	**$2.36**	**$2.42**	**$2.62**	**$2.83**
Payout Ratio total	57.1%	57.2%	58.1%	55.9%	56.4%	56.8%
Dividend Yield	2.6%	2.8%	3.0%	3.1%	3.4%	3.6%
Valuation Metrics						
Price to Earnings	22.2x	20.2x	19.1x	17.9x	16.7x	15.6x
Price to Book Value	2.2x	2.3x	2.2x	2.1x	1.9x	1.8x
Funding Sources						
Cash Flow from Operations	$1,727	$1,661	$2,442	$2,585	$2,775	$2,941
Total Debt Financings, Net	$1,791	$2,044	$1,101	$1,110	$1,111	$1,035
Total Equity Financings, Net	$476	$308	$400	$400	$400	$400
Credit Metrics						
Total Debt/Capitlization	56%	58%	58%	58%	57%	57%
FFO/Total Debt	17%	16%	15%	15%	15%	15%
Forecast ROE's - Consolidated						
Ameren Illinois Electric	8.3%	9.1%	8.3%	9.1%	9.4%	9.9%
Ameren Illinois Gas	7.9%	7.5%	8.9%	8.1%	8.2%	8.4%
Ameren Illinois Transmission	13.8%	13.6%	13.4%	12.7%	12.1%	11.8%
Union Electric	9.3%	9.7%	9.4%	9.5%	9.9%	10.1%
Ameren Transmission Company of Illinois	9.3%	9.0%	9.0%	8.8%	8.9%	9.0%

Source: BMO Capital Markets, Company Reports

Exhibit 147: AEP Model Summary

AEP Model Summary	2018	2019	2020	2021	2022E	2023E	2024E	2025E
EPS By Segment								
Vertical Integrated Utilities	$2.00	$2.17	$2.21	$2.24	$2.36	$2.45	$2.55	$2.73
Transmission & Distribution Utilities	$1.05	$1.00	$1.02	$1.14	$1.17	$1.22	$1.31	$1.41
Transmission Co	$0.75	$1.05	$1.03	$1.23	$1.31	$1.41	$1.54	$1.70
AEP Energy Supply	$0.28	$0.30	$0.36	$0.37	$0.39	$0.44	$0.49	$0.53
Coporate & Other	($0.14)	($0.27)	($0.18)	($0.24)	($0.21)	($0.21)	($0.28)	($0.38)
Consolidated E.P.S.	**$3.95**	**$4.24**	**$4.44**	**$4.74**	**$5.02**	**$5.30**	**$5.62**	**$5.99**
Dividend per share	**$2.53**	**$2.71**	**$2.84**	**$3.00**	**$3.15**	**$3.30**	**$3.47**	**$3.64**
Payout Ratio total	64.1%	63.9%	64.0%	63.2%	62.7%	62.3%	61.8%	60.8%
Dividend Yield				3.5%	3.7%	3.9%	4.1%	4.3%
Valuation Metrics								
Price to Earnings	18.9x	22.3x	23.5x	22.0x	20.8x	19.7x	18.6x	17.4x
Price to Book Value	1.9x	2.3x	2.5x	2.3x	2.2x	2.0x	2.0x	1.9x
Funding Sources								
Cash Flow from Operations	$5,223	$4,270	$3,833	$5,090	$5,525	$5,915	$6,261	$6,650
Total Debt Financings	$5,217	$5,465	$3,927	$5,107	$5,010	$3,985	$2,940	$4,975
Total Equity Financings	$74	$65	$155	$595	$2,198	$952	$102	$100
Credit Metrics								
Total Debt/Capitlization	57%	60%	62%	62%	60%	59%	60%	60%
FFO/Total Debt	18%	15%	13%	14%	14%	15%	15%	14%
Regulated Operations Performance - Realized ROE								
Appalachian Power Company	9.9%	9.8%	8.3%	8.1%	8.2%	7.7%	7.7%	7.8%
Indiana Michigan Power Company	11.6%	11.0%	11.5%	11.9%	11.8%	11.8%	11.4%	11.7%
Public Service Company of Oklahoma	6.0%	9.6%	8.4%	8.2%	8.3%	8.3%	8.5%	8.8%
Southwestern Electric Power Company	6.0%	6.3%	7.2%	7.5%	7.9%	8.4%	8.8%	9.1%
Kentucky Power Company	9.0%	7.4%	5.4%	5.7%	5.7%	6.0%	5.9%	5.9%
Wheeling Power Company	13.8%	8.8%	10.2%	10.3%	9.8%	8.7%	7.4%	7.8%
Kingsport Power Company	7.4%	10.9%	6.2%	6.0%	6.1%	5.9%	6.1%	6.3%
AEP Generating Company	9.8%	8.5%	5.6%	12.9%	25.2%	27.6%	30.4%	38.4%
AEP Texas Company	7.4%	6.9%	6.1%	6.5%	6.3%	6.2%	6.1%	6.1%
AEP Ohio	13.2%	10.8%	8.6%	8.4%	8.4%	8.4%	8.5%	8.5%
AEP Transmission Holdco	9.1%	11.0%	9.1%	9.9%	10.1%	10.3%	10.4%	10.6%

Source: BMO Capital Markets, Company Reports

Exhibit 148: AY Model Summary

AY Model Summary	2019A	2020A	2021A	2022E	2023E	2024E	2025E
Segment Adjusted EBITDA							
Renewables	$604	$576	$603	$641	$663	$698	$735
Efficient Natural Gas & Heat	$109	$101	$100	$83	$103	$106	$108
Transmission Lines	$86	$87	$84	$88	$90	$92	$94
Water	$23	$32	$38	$39	$40	$41	$42
Adjusted EBITDA	$822	$796	$824	$852	$896	$936	$979
Cash Available for Distribution	$190	$201	$226	$239	$260	$281	$305
CAFD per Share	$1.88	$1.97	$2.03	$2.12	$2.27	$2.43	$2.62
DPS	$1.57	$1.66	$1.72	$1.78	$1.82	$1.94	$2.10
Dividend Yield	3.0%	6.5%	6.7%	7.0%	7.1%	7.6%	8.2%
Payout Ratio	83.4%	84.3%	84.4%	83.8%	80.1%	79.8%	80.2%
Enterprise Value	$7,887	$9,780	$9,664	$8,501	$8,453	$8,379	$8,291
EV/EBITDA				10.0x	9.4x	8.9x	8.5x
Funding Sources							
Cash Flow from Operations	$364	$438	$506	$515	$560	$603	$652
Total Debt Financings - Net	($244)	$159	($351)	($100)	($85)	($73)	($88)
Total Equity Financings	$30	$162	$189	$50	$50	$50	$0
Credit Metrics							
Corp Net Debt/CAFD pre Corp Debt Service		2.7x	3.5x	3.8x	3.8x	3.7x	3.8x

Source: BMO Capital Markets, Company Reports

Exhibit 149: CEG Model Summary

CEG Model Summary	2022E	2023E	2024E	2025E
Gross Margin				
Midwest	$3,154	$2,125	$1,895	$1,668
Mid-Atlantic	$3,170	$3,466	$3,054	$2,768
ERCOT	$282	$520	$373	$418
New York	$1,325	$1,019	$953	$1,041
New England	$64	$68	$29	$41
Other	$0	$164	$36	$207
Other Revenues	($200)	($175)	($175)	($175)
Direct Cost of Sales	($275)	($225)	($225)	($225)
Total Open Gross Margin	**$7,519**	**$6,963**	**$5,940**	**$5,744**
Contracted Revenues	$2,596	$3,151	$3,204	$3,204
Mark-to-Market of Hedges	($3,317)	($2,613)	($1,340)	($630)
Power New Business / To Go	$200	$350	$450	$450
Non-Power Margins Executed	$350	$150	$150	$150
Non-Power New Business / To Go	$100	$300	$350	$350
Total Gross Margin	**$7,448**	**$8,300**	**$8,755**	**$9,267**
Operating Expenses	$4,748	$4,996	$5,025	$5,057
EBITDA	**$2,700**	**$3,304**	**$3,730**	**$4,211**
Dividend per share	**$0.56**	**$0.68**	**$0.85**	**$1.14**
Dividend Growth		21%	26%	33%
Dividend Yield	1.1%	1.3%	1.6%	2.1%
FCF Per Share	**$3.53**	**$6.19**	**$9.34**	**$14.38**
Implied FCF/share growth		75.4%	50.9%	54.0%
Valuation Metrics				
EV/EBITDA	8.2x	6.2x	4.8x	3.7x
FCF Yield	6.7%	11.7%	17.6%	27.1%
Capital Return Assumed				
Total Shareholder Dividends	($180)	($198)	($218)	($240)
Share Buybacks	($250)	($1,400)	($1,900)	($2,200)
Debt Repayment - Net	($2,523)	$0	($15)	$0
Weighted Average Shares Outstanding	321	293	255	211
Credit Metrics				
Total Debt/Capitlization	24%	24%	25%	23%
FFO/Total Debt	63%	76%	87%	102%
EBITDA/Interest Expense	12.9x	15.7x	17.8x	20.1x
Net Debt/EBITDA	1.9x	1.5x	1.2x	1.0x

Source: BMO Capital Markets, Company Reports

Exhibit 150: CMS Model Summary

CMS Model Summary	2020A	2021A	2022E	2023E	2024E	2025E
EPS By Segment						
Consumers Energy	$2.84	$3.07	$3.31	$3.61	$3.97	$4.23
Enterprises, EnerBank, & Parent	($0.17)	($0.42)	($0.43)	($0.51)	($0.60)	($0.60)
Consolidated E.P.S.	**$2.67**	**$2.65**	**$2.88**	**$3.11**	**$3.37**	**$3.63**
Dividend per share	**$1.63**	**$1.74**	**$1.84**	**$1.98**	**$2.14**	**$2.31**
Payout Ratio total	61.1%	65.7%	63.8%	63.8%	63.5%	63.7%
Dividend Yield	3.3%	2.8%	3.4%	3.6%	3.9%	4.2%
Valuation Metrics						
Price to Earnings	22.9x	24.5x	22.6x	20.9x	19.3x	17.9x
Price to Book Value	2.9x	2.7x	2.6x	2.5x	2.4x	2.2x
Funding Sources						
Cash Flow from Operations	$1,276	$1,819	$2,084	$2,256	$2,461	$2,598
Total Debt Financings	$1,495	$100	$800	$1,575	$1,128	$765
Total Equity Financings	$253	$26	$0	$0	$0	$250
Credit Metrics						
Total Debt/Capitalization	71%	64%	65%	66%	67%	66%
FFO/Total Debt	18%	8%	18%	17%	17%	17%
Regulated Operations Performance - Realized ROE						
Consumers Energy Electric	10.0%	10.2%	10.0%	9.7%	10.0%	10.1%
Consumers Energy Gas	9.0%	9.5%	10.0%	9.7%	10.0%	10.1%

Source: BMO Capital Markets, Company Reports

Exhibit 151: CNP Model Summary

CNP Model Summary	2020	2021	2022E	2023E	2024E
EPS By Segment					
Electric Utility	$0.80	$0.84	$0.86	$0.98	$1.02
Gas Utility	$0.54	$0.62	$0.65	$0.64	$0.68
Parent/Other	$0.16	($0.19)	($0.12)	($0.13)	($0.09)
Consolidated E.P.S.	**$1.49**	**$1.27**	**$1.39**	**$1.49**	**$1.61**
Dividend per share	**$0.60**	**$0.65**	**$0.69**	**$0.75**	**$0.81**
Payout Ratio total	40.2%	51.2%	50.0%	50.4%	50.3%
Payout Ratio % of Regulated earnings	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Yield	2.6%	2.8%	3.0%	3.2%	3.5%
Valuation Metrics UP&O					
Price to Earnings	15.6x	18.3x	16.8x	15.6x	14.4x
Price to Book Value	1.5x	1.6x	1.6x	1.5x	1.4x
Funding Sources					
Cash Flow from Operations	$1,995	$1,070	$2,195	$3,333	$2,488
Total Debt Financings	($1,686)	$1,920	$823	$192	$1,467
Total Equity Financings	$672	$0	$25	$75	$75
Credit Metrics					
Total Debt/Capitlization	62%	64%	64%	63%	63%
FFO/Total Debt	14%	14%	14%	15%	14%
EBITDA/Interest Expense	3.8x	2.1x	4.1x	6.7x	4.9x
Regulated Operations Performance - Realized ROE					
CEHE	10.2%	11.0%	10.7%	11.1%	10.7%
Indiana Integrated Electric	10.7%	10.5%	10.6%	10.2%	9.5%
Gas Distribution (Combined)	8.3%	9.9%	10.6%	9.9%	9.4%

Source: BMO Capital Markets, Company Reports

Exhibit 152: D Model Summary

D Model Summary	2020A	2021A	2022E	2023E	2024E	2025E
EPS By Segment						
Virginia Electric & Power Co.	$2.28	$2.37	$2.64	$2.82	$3.04	$3.27
Dominion Southeast Energy Group	$0.51	$0.54	$0.64	$0.66	$0.71	$0.74
Gas Distribution	$0.67	$0.74	$0.83	$0.86	$0.94	$1.03
Contracted Assets	$0.48	$0.53	$0.49	$0.54	$0.55	$0.56
Parent & Other	($0.40)	($0.33)	($0.47)	($0.49)	($0.56)	($0.62)
Consolidated E.P.S.	**$3.54**	**$3.86**	**$4.12**	**$4.38**	**$4.69**	**$4.98**
Dividend per share	**$3.45**	**$2.52**	**$2.67**	**$2.83**	**$3.00**	**$3.18**
Payout Ratio total	97%	65%	65%	65%	64%	64%
Dividend Yield	4.2%	3.1%	3.3%	3.5%	3.7%	3.9%
Valuation Metrics						
Price to Earnings	23.0x	21.1x	19.7x	18.6x	17.4x	16.3x
Price to Book Value	2.6x	2.3x	2.1x	2.0x	1.9x	1.8x
Funding Sources						
Cash Flow from Operations	$5,227	$4,037	$6,838	$7,405	$8,007	$8,621
Total Debt Financings	$6,577	$6,400	$4,000	$6,700	$5,650	$6,000
Total Equity Financings	($2,921)	$192	$400	$800	$800	$800
Credit Metrics						
Total Debt/Capitlization	58%	58%	57%	58%	59%	59%
FFO/Total Debt	6%	15%	15%	15%	14%	14%
EBITDA/Interest Expense	3.6x	3.8x	3.6x	3.5x	3.4x	3.3x
Regulated Operations Performance - Realized ROE						
Virginia Electric & Power Co.	14%	13%	14%	13%	12%	12%
Dominion South Carolina	10%	11%	11%	12%	12%	12%
Dominion East Ohio	10%	10%	11%	12%	13%	15%
Hope Gas	16%	17%	20%			
Questar Gas	8%	8%	9%	9%	10%	11%
Public Service of North Carolina	11%	10%	11%	12%	14%	16%

Source: BMO Capital Markets, Company Reports

Exhibit 153: DTE Model Summary

DTE Electric (DTE)	2020A	2021A	2022E	2023E	2024E	2025E	5-Year Growth
EPS By Segment							
DTE Electric	$4.03	$4.46	$4.76	$4.77	$5.15	$5.58	**6.7%**
DTE Gas	$0.96	$1.10	$1.24	$1.28	$1.30	$1.36	**7.2%**
Power & Industrial Projects	$0.79	$0.91	$0.49	$0.54	$0.62	$0.70	**-2.3%**
Energy Trading	$0.20	$0.27	$0.18	$0.17	$0.18	$0.17	**-3.7%**
Parent & Other	($0.42)	($0.75)	($0.60)	($0.50)	($0.57)	($0.67)	**9.4%**
Consolidated E.P.S.	**$5.56**	**$5.99**	**$6.06**	**$6.25**	**$6.68**	**$7.15**	**5.2%**
Utility	89.8%	92.9%	98.9%	96.7%	96.6%	97.2%	
Non-Utility	10.2%	7.1%	1.1%	3.3%	3.4%	2.8%	
Dividend per share	**$4.05**	**$3.82**	**$3.54**	**$3.79**	**$4.05**	**$4.34**	**1.4%**
Payout Ratio total	73%	64%	58%	61%	61%	61%	
Dividend Yield	3.8%	3.6%	3.3%	3.5%	3.8%	4.0%	
Forecast ROE's - Consolidated							
DTE Electric	10.3%	10.5%	10.3%	10.4%	10.6%	10.8%	
DTE Gas	9.7%	10.0%	10.6%	10.6%	10.1%	10.0%	

Source: BMO Capital Markets, Company Reports

Exhibit 154: DUK Model Summary

Duke Energy (DUK)	2021A	2022E	2023E	2024E	2025E
EPS By Segment					
Duke Energy Carolinas	$1.87	$1.95	$2.06	$2.17	$2.29
Duke Energy Progress	$1.08	$1.18	$1.29	$1.42	$1.53
Duke Energy Florida	$1.12	$1.19	$1.25	$1.31	$1.39
Duke Energy Indiana	$0.62	$0.52	$0.55	$0.59	$0.63
Duke Energy Ohio Electric	$0.20	$0.21	$0.24	$0.26	$0.28
Electric Utilities & Infrastructure Eliminations/Adjustments	$0.14	$0.14	$0.14	$0.14	$0.14
Duke Energy Ohio Gas	$0.17	$0.17	$0.18	$0.18	$0.19
Piedmont Natural Gas	$0.40	$0.47	$0.55	$0.60	$0.66
Midstream/Eliminations/Adjustments	$0.01	$0.01	$0.01	$0.01	$0.01
Commercial Renewables	$0.34	$0.35	$0.34	$0.34	$0.33
Parent & Other	($0.71)	($0.79)	($0.88)	($0.90)	($0.95)
Consolidated E.P.S.	**$5.24**	**$5.40**	**$5.72**	**$6.10**	**$6.50**
Growth	*2.3%*	*3.2%*	*5.8%*	*6.8%*	*6.5%*
EPS by Segment Group					
Electric Utilities & Infrastructure	$5.03	$5.20	$5.53	$5.88	$6.27
Gas Utilities & Infrastructure	$0.58	$0.65	$0.73	$0.79	$0.85
Commercial Renewables	$0.34	$0.35	$0.34	$0.34	$0.33
Parent & Other	($0.71)	($0.79)	($0.88)	($0.90)	($0.95)
Consolidated E.P.S.	**$5.24**	**$5.40**	**$5.72**	**$6.10**	**$6.50**
Payout Metrics					
Dividend per share	**$3.91**	**$4.01**	**$4.11**	**$4.21**	**$4.31**
Payout Ratio total	75%	74%	72%	69%	66%
Dividend Yield	3.6%	3.7%	3.8%	3.9%	4.0%
Valuation Metrics					
Price to Earnings	20.8x	20.2x	19.1x	17.9x	16.8x
Price to Book Value	1.4x	1.4x	1.3x	1.3x	1.3x
Sources of Funds					
Cash Flow from Operations	$9,013	$9,593	$10,230	$10,897	$11,557
Total Debt Financings, Net	$3,540	$5,200	$4,328	$3,731	$3,621
Total Equity Financings, Net	$500	$500	$500	$500	$0
Credit Metrics					
Total Debt/Capitlization	56.8%	58.1%	58.9%	59.3%	59.8%
Parent Debt - % of Total	30.6%	31.7%	32.6%	32.8%	33.4%
FFO/Total Debt	14%	14%	14%	14%	14%
EBITDA/Interest Expense	4.8x	4.8x	4.8x	4.9x	4.9x

Source: BMO Capital Markets, Company Reports

Exhibit 155: ES Model Summary

Eversource Energy (ES)	2020A	2021A	2022E	2023E	2024E	2025E
EPS By Segment						
Connecticut Light & Power	$1.33	$1.40	$1.41	$1.45	$1.56	$1.64
Public Service of New Hampshire	$0.43	$0.44	$0.45	$0.50	$0.54	$0.58
NSTAR Electric	$1.30	$1.38	$1.45	$1.56	$1.66	$1.76
NSTAR Gas	$0.15	$0.21	$0.23	$0.29	$0.33	$0.37
Yankee Gas	$0.20	$0.22	$0.24	$0.26	$0.30	$0.33
EGMA		$0.17	$0.20	$0.24	$0.27	$0.31
Aquarion Water Company	$0.11	$0.11	$0.15	$0.16	$0.18	$0.19
Offshore Wind					$0.05	$0.12
Parent & Other W/O Offshore Wind	$0.01	($0.04)	($0.03)	($0.09)	($0.19)	($0.23)
Consolidated E.P.S.	**$3.55**	**$3.86**	**$4.10**	**$4.37**	**$4.69**	**$5.08**
Dividend per share	**$2.27**	**$2.41**	**$2.55**	**$2.70**	**$2.87**	**$3.04**
Payout Ratio total	63.9%	62.4%	62.2%	61.8%	61.1%	59.8%
Dividend Yield	2.6%	2.7%	2.9%	3.1%	3.2%	3.4%
EBITDA/Interest Expense	5.8x	5.7x	6.0x	6.0x	6.0x	6.1x
Forecast Consolidated ROE's						
Connecticut Light & Power	11.2%	10.9%	10.2%	10.0%	10.4%	10.5%
Public Service of New Hampshire	10.8%	10.0%	9.6%	9.8%	9.9%	10.0%
NSTAR Electric	11.4%	11.3%	11.0%	11.0%	11.0%	11.1%
NSTAR Gas	9.8%	11.2%	10.5%	10.9%	10.8%	11.0%
Yankee Gas	9.2%	9.1%	8.8%	8.7%	9.0%	9.2%
EGMA		9.9%	10.1%	10.4%	10.3%	10.8%
Aquarion Water Company	10.5%	6.6%	8.3%	8.4%	8.4%	8.4%

Source: BMO Capital Markets, Company Reports

Exhibit 156: ETR Model Summary

ETR Model Summary	2020A	2021A	2022E	2023E	2024E
EPS By Segment					
Arkansas	$1.19	$1.53	$1.55	$1.63	$1.78
Louisiana	$3.48	$3.12	$3.37	$3.54	$3.76
Mississippi	$0.68	$0.83	$0.87	$0.91	$0.97
New Orleans	$0.25	$0.16	$0.14	$0.18	$0.18
Texas	$1.05	$1.12	$1.23	$1.29	$1.41
System Resources	$0.49	$0.55	$0.47	$0.46	$0.42
Entergy Wholesale Commodities	($0.32)	($0.86)	$0.66	$0.00	$0.00
Parent and Other	($1.42)	($1.24)	($1.23)	($1.28)	($1.30)
Consolidated E.P.S.	**$5.34**	**$5.16**	**$7.06**	**$6.72**	**$7.23**
Segment EPS (actual/as reported) + BMO Forecast					
Utility	$7.08	$7.26	$7.63	$8.01	$8.53
Parent and Other	($1.42)	($1.24)	($1.23)	($1.28)	($1.30)
Utilty and Parent Non-Recurring adjustments	($1.57)	$0.00	$0.00	$0.00	$0.00
Ongoing E.P.S (Excludes EWC)	**$5.66**	**$6.02**	**$6.40**	**$6.72**	**$7.23**
Payout Metrics					
Dividends	**$3.74**	**$3.86**	**$4.09**	**$4.33**	**$4.59**
Payout Ratio total	70.1%	74.7%	57.9%	64.5%	63.6%
Payout Ratio % of Regulated earnings	66.1%	64.0%	63.9%	64.5%	63.6%
Dividend Yield	3.1%	3.2%	3.4%	3.6%	3.8%

Source: BMO Capital Markets, Company Reports

Exhibit 157: EXC Model Summary

EXC Model Summary	2020A	2021E	2022E	2023E	2024E	2025E
EPS By Segment						
EXC Gen	$1.44					
Com Ed	$0.66	$0.79	$0.85	$0.92	$0.98	$1.05
PECO	$0.47	$0.56	$0.59	$0.62	$0.68	$0.72
BGE	$0.37	$0.42	$0.44	$0.48	$0.52	$0.55
PHI	$0.52	$0.58	$0.64	$0.68	$0.77	$0.84
Parent & Other	($0.24)	($0.26)	($0.27)	($0.30)	($0.34)	($0.38)
Consolidated E.P.S.	**$3.22**	**$2.10**	**$2.24**	**$2.40**	**$2.60**	**$2.78**
Growth				7.0%	8.2%	7.2%
Dividend per share	**$1.53**	**$1.53**	**$1.35**	**$1.44**	**$1.53**	**$1.63**
Growth				6.5%	6.5%	6.5%
Implied Payout Ratio	47.6%	73.0%	60.2%	59.9%	59.0%	58.6%
Dividend Yield	4.2%	4.2%	3.7%	3.9%	4.2%	4.4%
Valuation Metrics						
Price to Earnings	12.9x	19.8x	18.5x	17.3x	16.0x	14.9x
Price to Book Value	1.2x	1.8x	1.7x	1.6x	1.6x	1.5x
Funding Sources						
Cash Flow from Operations	$4,235	$7,906	$5,419	$5,771	$6,154	$6,486
Total Debt Financings	$8,168	$3,075	$4,300	$3,275	$3,350	$3,110
Total Equity Financings	$45	$0	$500	$167	$167	$167
Credit Metrics						
Total Debt/Capitlization	55%	60%	59%	60%	61%	60%
FFO/Total Debt	21%	24%	15%	14%	15%	16%
EBITDA/Interest Expense	7.0x	6.3x	5.0x	5.0x	5.1x	5.1x
Exelon Target Metrics ('22-24 Average)			13-14%	13-14%	13-14%	13-14%
S&P/Moody's Downgrade Thresholds			12.0%	12.0%	12.0%	12.0%
Regulated Operations Performance - Realized ROE (1)						
ComEd	8.7%	9.6%	9.6%	9.8%	9.9%	10.2%
PECO	11.0%	11.8%	11.2%	11.0%	10.8%	10.6%
BGE	9.7%	10.2%	9.8%	9.9%	10.0%	9.9%
PHI	9.1%	9.4%	9.7%	9.6%	10.1%	10.2%

(1) Includes transmission-related earnings in realized ROE calculation

Source: BMO Capital Markets, Company Reports

Exhibit 158: LNT Model Summary

Alliant Energy (LNT)	2020A	2021A	2022E	2023E	2024E	2025E
EPS By Segment						
Interstate Power & Light	$1.30	$1.40	$1.47	$1.54	$1.58	$1.66
Wisconsin Power & Light	$1.00	$1.07	$1.13	$1.25	$1.41	$1.53
ATC	$0.14	$0.12	$0.13	$0.14	$0.14	$0.15
Parent & Other	($0.01)	$0.04	$0.02	($0.01)	($0.03)	($0.05)
Consolidated E.P.S.	**$2.43**	**$2.63**	**$2.76**	**$2.92**	**$3.10**	**$3.29**
	5.1%	8.1%	4.9%	6.1%	6.0%	6.2%
Dividend per share	**$1.52**	**$1.61**	**$1.71**	**$1.81**	**$1.92**	**$2.04**
Payout Ratio total	62%	61%	62%	62%	62%	62%
Dividend Yield	3.1%	3.2%	3.4%	3.6%	3.9%	4.1%
Valuation Metrics						
Price to Earnings	20.5	18.9	18.0	17.0	16.1	15.1
Price to Book Value	2.2	2.2	2.1	2.0	1.9	1.8
Funding Sources						
Cash Flow from Operations	$501	$582	$1,286	$1,353	$1,446	$1,519
Total Debt Financings, Net	$645	$718	$575	$626	$670	$449
Total Equity Financings, Net	$247	$28	$25	$25	$25	$25
Credit Metrics						
Total Debt/Capitlization	55%	57%	57%	58%	59%	58%
FFO/Total Debt		6%	15%	15%	15%	15%
Forecast ROE's - Consolidated						
Interstate Power & Light	10.6%	10.1%	10.1%	10.5%	10.5%	10.8%
Wisconsin Power & Light	11.1%	10.6%	10.4%	10.7%	10.4%	11.0%

Source: BMO Capital Markets, Company Reports

Exhibit 159: NEE Model Summary

NEE Model Summary	2020	2021	2022	2023	2024	2025
EPS By Segment						
Florida Power & Light	$1.34	$1.49	$1.59	$1.77	$1.98	$2.09
Gulf Power	$0.12	$0.14	$0.15	$0.17	$0.17	$0.19
NextEra Energy Resources	$0.99	$1.12	$1.36	$1.41	$1.50	$1.62
NEET	$0.03	$0.03	$0.06	$0.06	$0.06	$0.06
Corporate & Other	($0.18)	($0.23)	($0.29)	($0.30)	($0.30)	($0.31)
Consolidated E.P.S.	**$2.31**	**$2.55**	**$2.87**	**$3.11**	**$3.40**	**$3.65**
Dividend per share	**$1.40**	**$1.54**	**$1.70**	**$1.87**	**$2.06**	**$2.25**
Payout Ratio total	60.7%	60.5%	59.2%	60.1%	60.5%	61.8%
Dividend Yield	2.1%	2.3%	2.5%	2.8%	3.1%	3.4%
Valuation Metrics						
Price to Earnings	29.0x	26.3x	23.4x	21.5x	19.7x	18.4x
Price to Book Value	2.7x	2.6x	2.6x	2.5x	2.4x	2.3x
Funding Sources						
Cash Flow from Operations	$7,883	$8,405	$9,628	$10,292	$10,588	$11,185
Total Equity Financings	($92)	$100	$100	$100	$100	$100
Credit Metrics						
Total Debt/Capitlization	50%	52%	53%	52%	52%	52%
FFO/Total Debt	18%	17%	18%	19%	19%	19%
Regulated Operations Performance - Realized ROE						
Florida Power & Light	11.4%	11.4%	11.3%	11.7%	11.8%	11.7%
NextEra Energy Resources Performance						
Adj. EBITDA	$5,728	$5,845	$8,021	$8,399	$8,663	$9,097

Source: BMO Capital Markets, Company Reports

Exhibit 160: NEP Model Summary

NEP Model Summary	2019	2020	2021	2022	2023	2024	2025
Adjusted EBITDA	$1,104	$1,263	$1,360	$1,735	$1,876	$1,998	$2,148
Cash Available for Distribution	$366	$570	$584	$700	$750	$808	$858
Distribution to Unit Holders	**$2.04**	**$2.34**	**$2.69**	**$3.10**	**$3.56**	**$4.09**	**$4.71**
Distribution Yield	4%	4%	3%	4%	4%	5%	6%
Funding Sources							
Cash Flow from Operations	$346	$665	$184	$242	$233	$192	$153
Total Debt Financings	$3,380	$705	$440	$680	$680	$1,630	$1,325
Total Equity Financings	$1,765	$705	($262)	($333)	$0	($280)	$0
Credit Metrics							
Debt/EBITDA	3.8x	2.7x	2.9x	2.6x	2.7x	3.0x	3.1x

Source: BMO Capital Markets, Company Reports

Exhibit 161: NI Model Summary

NI Model Summary	2019	2020	2021	2022	2023	2024
EPS By Segment						
Electric Operations	$0.76	$0.63	$0.72	$0.82	$1.01	$1.15
Gas Distribution	$1.12	$1.17	$1.09	$1.14	$1.19	$1.24
Corporate & Other	($0.56)	($0.48)	($0.44)	($0.50)	($0.66)	($0.67)
Consolidated E.P.S.	**$1.32**	**$1.32**	**$1.37**	**$1.46**	**$1.54**	**$1.72**
Dividend per share	**$0.80**	**$0.84**	**$0.88**	**$0.93**	**$0.99**	**$1.05**
Payout Ratio total	60.8%	63.6%	64.4%	64.1%	64.2%	60.9%
Dividend Yield	2.9%	2.9%	3.0%	3.2%	3.4%	3.6%
Valuation Metrics						
Price to Earnings	21.2x	22.2x	21.5x	20.1x	19.0x	17.0x
Price to Book Value	1.7x	1.7x	1.5x	1.5x	1.5x	1.4x
Funding Sources						
Cash Flow from Operations	$1,750	$1,681	$1,426	$1,546	$1,623	$1,824
Total Debt Financings	$750	$2,974	$0	$1,080	$1,800	$0
Total Equity Financings	$34	$360	$1,211	$348	$198	$911
Credit Metrics						
Total Debt/Capitlization	61%	60%	54%	55%	58%	54%
FFO/Total Debt	14%	13%	15%	15%	13%	15%
Regulated Operations Performance - Realized ROE						
NIPSCO Electric ROE	12.3%	9.5%	11.0%	12.1%	13.2%	14.7%
Columbia Gas of Ohio ROE	9.4%	9.1%	9.5%	9.7%	9.3%	9.5%
Columbia Gas of Pennsylvania ROE	9.4%	9.1%	9.5%	9.7%	9.3%	9.5%
NIPSCO Gas ROE	9.4%	9.2%	9.5%	9.7%	9.3%	9.5%
Columbia Gas of Virginia ROE	9.4%	9.1%	9.5%	9.7%	9.3%	9.5%
Columbia Gas of Kentucky ROE	9.3%	9.0%	9.5%	9.6%	9.2%	9.4%
Columbia Gas of Maryland ROE	9.7%	9.3%	9.4%	9.5%	9.2%	9.3%

Source: BMO Capital Markets, Company Reports

Exhibit 162: NRG Model Summary

NRG Model Summary	2020A	2021A	2022E	2023E	2024E
EBITDA by Segment					
Wholesale	$1,013	$839	$499	$576	$557
Retail	$990	$1,075	$1,502	$1,775	$1,854
Consolidated	**$2,004**	**$1,914**	**$2,000**	**$2,351**	**$2,411**
Adj. FCF (NRG Basis)	$1,400	$1,472	$1,560	$1,913	$2,005
FCF Before Growth (NRG Basis)	$1,223	$1,137	$1,220	$1,598	$1,690
Dividend Per Share	**$1.20**	**$1.30**	**$1.40**	**$1.51**	**$1.63**
Implied Dividend Growth	900.0%	8.0%	8.0%	8.0%	8.0%
Dividend Yield	2.9%	3.2%	3.4%	3.7%	4.0%
FCF Per Share	**$4.97**	**$4.74**	**$5.37**	**$7.88**	**$9.50**
Implied FCF/share growth	11.3%	-4.5%	13.3%	46.6%	20.6%
FCF Yield	12.1%	11.6%	13.1%	19.2%	23.2%
Valuation Metrics					
EV/EBITDA	7.4x	9.0x	8.0x	6.2x	5.5x
FCF Yield	12.1%	11.6%	13.1%	19.2%	23.2%
Captital Return Assumed					
Total Shareholder Dividends	$295	$311	$318	$307	$290
Share Buybacks	$450	$60	$940	$1,000	$1,000
Debt Repayment	$0	$1,300	$0	$83	$600
Credit Metrics					
FFO/Total Debt	17.5%	26.4%	23.6%	27.4%	30.0%
EBITDA/Interest Expense	4.0x	5.6x	5.1x	5.7x	6.2x
Net Debt/EBITDA	2.5x	3.1x	3.3x	2.8x	2.7x
NRG Weighted Average Shares Outstanding	246	240	227	203	178

Source: BMO Capital Markets, Company Reports

Exhibit 163: PEG Model Summary

PEG Model Summary	2020A	2021A	2022E	2023E	2024E	2025E
EPS By Segment						
PSE&G	$2.62	$2.89	$3.04	$3.28	$3.50	$3.73
Power	$0.85	$0.80	$0.44	$0.45	$0.43	$0.43
Parent & Other	($0.03)	($0.03)	($0.05)	($0.06)	($0.07)	($0.08)
Consolidated E.P.S.	**$3.43**	**$3.65**	**$3.43**	**$3.67**	**$3.86**	**$4.08**
UP&O	**$2.58**	**$2.86**	**$2.98**	**$3.22**	**$3.43**	**$3.65**
Dividend per share	**$1.96**	**$2.04**	**$2.16**	**$2.29**	**$2.43**	**$2.57**
Payout Ratio total	57.1%	55.9%	63.0%	62.4%	62.9%	63.0%
Payout Ratio % of Regulated earnings	74.9%	70.6%	71.2%	69.9%	69.3%	68.9%
Dividend Yield	3.3%	3.8%	4.0%	4.2%	4.5%	4.7%
Valuation Metrics						
Price to Earnings	17.3x	14.9x	15.8x	14.8x	14.1x	13.3x
Price to Book Value	1.9x	1.6x	1.6x	1.5x	1.5x	1.4x
Funding Sources						
Cash Flow from Operations	$3,102	$3,131	$2,888	$3,075	$3,244	$3,428
Total Debt Financings	$2,450	$1,475	$2,510	$2,360	$2,620	$2,020
Total Equity Financings	$0	$0	($499)	$0	$0	$0
Credit Metrics						
Total Debt/Capitlization	51%	50%	51%	51%	53%	53%
FFO/Total Debt	20%	19%	17%	17%	16%	16%
EBITDA/Interest Expense	6.1x	6.0x	6.1x	6.0x	6.1x	6.1x
Regulated Operations Performance - Realized ROE						
PSE&G	11.8%	12.0%	11.1%	11.0%	11.0%	10.9%
PEG Power Performance						
Power Adj. EBITDA	$990	$976	$463	$468	$458	$463
Power CFO	$1,111	$924	$587	$599	$590	$594
Power FCF	$951	$824	$467	$474	$465	$469

Source: BMO Capital Markets, Company Reports

Exhibit 164: SO Model Summary

SO Model Summary	2020	2021	2022	2023	2024	2025
EPS By Segment						
Georgia Power	$1.71	$1.74	$1.87	$1.96	$2.18	$2.33
Alabama Power	$1.08	$1.16	$1.27	$1.30	$1.37	$1.42
Mississippi Power	$0.14	$0.15	$0.16	$0.16	$0.17	$0.18
Southern Co. Gas	$0.53	$0.56	$0.60	$0.63	$0.66	$0.70
Southern Power	$0.20	$0.25	$0.26	$0.28	$0.29	$0.31
Parent & Other	($0.43)	($0.46)	($0.51)	($0.53)	($0.53)	($0.53)
Consolidated E.P.S.	**$3.23**	**$3.39**	**$3.65**	**$3.80**	**$4.14**	**$4.41**
EPS By Segment Group						
Electric T&D	$2.93	$3.04	$3.30	$3.42	$3.72	$3.93
Gas LDC	$0.37	$0.39	$0.32	$0.36	$0.39	$0.42
Infrastructure and Marketing	$0.36	$0.42	$0.54	$0.54	$0.56	$0.59
Parent & Other	($0.43)	($0.46)	($0.51)	($0.53)	($0.53)	($0.53)
Consolidated E.P.S.	**$3.23**	**$3.39**	**$3.65**	**$3.80**	**$4.14**	**$4.41**
Payout Metrics						
Dividend per share	**$2.54**	**$2.62**	**$2.70**	**$2.78**	**$2.86**	**$2.95**
Payout Ratio total	78.7%	77.3%	73.9%	73.2%	69.2%	66.9%
Payout Ratio % of Regulated earnings	73.5%	72.7%	69.3%	68.6%	65.4%	63.7%
Dividend Yield	4.1%	4.3%	4.4%	4.5%	4.7%	4.8%

Source: BMO Capital Markets, Company Reports

Exhibit 165: SRE Model Summary

Sempra Energy (SRE) Model	2019A	2020A	2021A	2022E	2023E	2024E	2025E
EPS By Segment							
San Diego Gas & Electric	$2.72	$2.82	$2.62	$2.66	$2.80	$2.89	$2.99
Southern California Gas	$2.27	$2.52	$2.30	$2.43	$2.52	$2.75	$3.01
Texas Utilities	$1.87	$1.98	$1.97	$2.19	$2.36	$2.62	$2.85
South American Utilities	$0.00						
Sempra Mexico - IEnova	$0.90	$0.89	$0.96	$1.13	$1.14	$1.14	$1.13
Sempra LNG	($0.02)	$1.09	$1.60	$1.08	$1.13	$1.11	$1.10
Parent & Other	($1.86)	($1.58)	($1.02)	($0.82)	($0.89)	($0.96)	($0.98)
Discontinued Operations	$0.90	$0.32					
Consolidated E.P.S.	**$6.78**	**$8.03**	**$8.43**	**$8.67**	**$9.05**	**$9.55**	**$10.10**
Growth		*18.6%*	*4.9%*	*2.9%*	*4.4%*	*5.4%*	*5.8%*
Dividend per share	**$3.87**	**$4.18**	**$4.40**	**$4.58**	**$4.85**	**$5.15**	**$5.45**
Growth		*8.0%*	*5.3%*	*4.1%*	*6.0%*	*6.0%*	*6.0%*
Payout Ratio total	57.1%	52.0%	52.2%	52.8%	53.6%	53.9%	54.0%
Dividend Yield	2.7%	2.9%	3.1%	3.2%	3.4%	3.6%	3.8%
Funding Sources							
Cash Flow from Operations	$3,088	$2,591	$3,685	$3,771	$3,939	$4,102	$4,294
Total Debt Financings, Net	$1,285	($1,572)	$1,500	$2,387	$1,073	$1,460	$1,543
Total Equity Financings, Net	$1,804	($555)	$1,745	$100	$0	$0	$0
Credit Metrics							
Total Debt/Capitlization	54%	49%	51%	52%	51%	51%	50%
FFO/Total Debt	14%	14%	18%	17%	17%	17%	18%
EBITD/Interest Expense	3.0x	2.9x	3.2x	3.1x	3.1x	3.1x	3.1x
Forecast Consolidated ROE's							
San Diego Gas & Electric	15.1%	13.3%	12.3%	10.7%	10.5%	10.2%	10.2%
Southern California Gas	18.4%	17.3%	15.2%	13.9%	13.0%	13.1%	13.3%
Texas Utilities	10.9%	10.0%	9.8%	10.0%	9.7%	9.9%	10.1%

Source: BMO Capital Markets, Company Reports

Exhibit 166: VST Model Summary

VST Model Summary	2020	2021	2022	2023	2024
EBITDA					
Wholesale	$2,783	$1,159	$2,426	$2,599	$2,482
Retail	$983	$912	$799	$1,009	$1,054
Asset Closure	($81)	($130)	($85)	($80)	($85)
VST Adj EBITDA (Excludes asset Closure)	**$3,685**	**$1,941**	**$3,225**	**$3,608**	**$3,535**
VST EBITDA (Includes asset Closure)	**$3,685**	**$1,941**	**$3,140**	**$3,528**	**$3,450**
Adj. FCF (VST Basis)	$3,429	$1,265	$2,534	$2,981	$2,969
FCF Before Growth (VST Basis)	$2,501	$637	$1,867	$2,316	$2,304
Dividend Per Share	**$0.54**	**$0.60**	**$0.71**	**$0.82**	**$0.92**
Implied Dividend Growth	8.0%	11.1%	18.5%	15.3%	12.2%
Dividend Yield	2.5%	2.8%	3.3%	3.8%	4.2%
FCF Per Share	**$4.50**	**$1.48**	**$5.50**	**$7.20**	**$8.07**
Implied FCF/share growth	7.6%	-67.0%	270.4%	31.0%	12.0%
FCF Yield	20.7%	6.8%	25.3%	33.1%	37.1%
Valuation Metrics					
EV/EBITDA	5.3x	10.1x	5.6x	4.4x	3.9x
FCF Yield	20.7%	6.8%	25.3%	33.1%	37.1%
Captital Return Assumed					
Total Shareholder Dividends	($266)	($283)	($300)	($297)	($297)
Share Buybacks	$0	($461)	($1,720)	($1,000)	($1,000)
Debt Repayment	($1,008)	$0	($10)	($68)	($1,545)
Credit Metrics					
Net Det/EBITDA	2.5x	4.9x	2.9x	2.3x	1.9x
FFO/Total Debt	29.5%	12.1%	31.5%	39.9%	47.3%
EBITDA/Interest Expense	5.7x	2.4x	5.5x	6.5x	7.2x
Net Debt/Interest Expense	2.5x	6.0x	2.8x	2.2x	1.9x
VST Weighted Average Shares Outstanding	491	472	422	362	322

Source: BMO Capital Markets, Company Reports

Exhibit 167: WEC Model Summary

WEC Energy	2020A	2021A	2022E	2023E	2024E	2025E
EPS By Segment						
WE	$1.16	$1.21	$1.34	$1.39	$1.52	$1.68
WPS	$0.70	$0.73	$0.82	$0.82	$0.89	$0.98
WG	$0.26	$0.24	$0.27	$0.31	$0.33	$0.37
PGL	$0.59	$0.65	$0.67	$0.72	$0.75	$0.77
NSG	$0.05	$0.06	$0.06	$0.06	$0.06	$0.07
UMERC	$0.07	$0.06	$0.07	$0.07	$0.07	$0.06
MERC & MGU	$0.12	$0.11	$0.11	$0.11	$0.11	$0.10
Electric Transmission	$0.36	$0.34	$0.30	$0.32	$0.33	$0.34
Non-Utility Energy Infrastructure	$0.82	$0.88	$0.94	$1.02	$1.07	$1.12
Parent & Other	($0.34)	($0.16)	($0.19)	($0.19)	($0.20)	($0.22)
Consolidated E.P.S.	**$3.79**	**$4.11**	**$4.40**	**$4.62**	**$4.93**	**$5.26**
	5.9%	8.4%	7.1%	4.9%	6.8%	6.7%
Dividend per share	**$2.53**	**$2.71**	**$2.91**	**$3.10**	**$3.30**	**$3.52**
Payout Ratio total	67%	66%	66%	67%	67%	67%
Dividend Yield	2.9%	3.1%	3.4%	3.6%	3.8%	4.1%
Valuation Metrics						
Price to Earnings	22.9	21.1	19.7	18.8	17.6	16.5
Price to Book Value	2.6	2.5	2.4	2.3	2.2	2.1
Funding Sources						
Cash Flow from Operations	$2,196	$2,033	$2,758	$3,029	$3,193	$3,372
Total Debt Financings, Net	$1,553	$1,244	$1,815	$1,185	$1,030	$900
Total Equity Financings, Net	($55)	($17)	$0	$0	$0	$0
Credit Metrics						
Total Debt/Capitlization	58%	60%	61%	61%	61%	62%
FFO/Total Debt	15%	12%	14%	14%	14%	14%
Forecast ROE's - Consolidated						
WE	11%	11%	11%	10%	10%	11%
WPS	11%	11%	11%	10%	11%	11%
WG	10%	8%	9%	9%	9%	9%
PGL	11%	10%	9%	9%	9%	9%
NSG	11%	9%	8%	8%	8%	8%
UMERC	10%	9%	10%	10%	9%	9%
MERC & MGU	12%	10%	8%	8%	7%	6%

Source: BMO Capital Markets, Company Reports

Exhibit 168: XEL Model Summary

XEL Model Summary	2021A	2022E	2023E	2024E	2025E
EPS By Segment					
Northern States Power - MN	$1.12	$1.24	$1.33	$1.44	$1.55
Public Service Company of Colorado	$1.22	$1.33	$1.44	$1.54	$1.66
Southwestern Public Service Company	$0.59	$0.62	$0.65	$0.67	$0.70
Northern States Power - WI	$0.20	$0.21	$0.24	$0.27	$0.30
Equity Earnings of Unconsolidated Subsidiaries	$0.09	$0.09	$0.09	$0.09	$0.09
Parent & Other	($0.27)	($0.32)	($0.35)	($0.39)	($0.43)
Consolidated E.P.S.	**$2.96**	**$3.16**	**$3.39**	**$3.62**	**$3.87**
Dividend per share	**$1.83**	**$1.95**	**$2.07**	**$2.19**	**$2.32**
Payout Ratio total	61.8%	61.6%	61.0%	60.5%	60.0%
Dividend Yield	2.7%	2.9%	3.1%	3.2%	3.4%
Valuation Metrics					
Price to Earnings	22.9x	21.4x	20.0x	18.7x	17.5x
Price to Book Value	2.3x	2.2x	2.1x	2.0x	1.9x
Funding Sources					
Cash Flow from Operations	$2,147	$3,799	$4,060	$4,333	$4,620
Total Debt Financings	$3,131	$2,875	$3,040	$2,260	$3,130
Total Equity Financings	$130	$250	$250	$250	$250
Credit Metrics					
Total Debt/Capitlization	60%	60%	61%	61%	61%
FFO/Total Debt	10%	16%	15%	16%	15%

Source: BMO Capital Markets, Company Reports

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Hold	Market Perform	44.9 %	18.2 %	45.6 %	42.2 %	40.4 %	37.5%
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http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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California: CPUC approves unchanged 2022 Cost of Capital

The California Public Utilities Commission (CPUC) voted to adopted the alternative PD, approving an *unchanged* 2022 cost of capital which will keep 2022 return on equity (ROE) consistent with prior levels - 10.25% ROE for Pacific Gas and Electric (PGE – PG&E Corp [PCG] subsidiary), 10.30% ROE for Southern California Edison (SCE – Edison International [EIX] subsidiary), and 10.20% ROE for San Diego Gas and Electric (SDG&E – Sempra [SRE] subsidiary). California is one of the few states that separates the cost of capital from rate cases. The cost of capital mechanism (CCM) resets CA regulated utility ROEs if trailing average benchmark interest rates are +/-100bps a certain band level. Given low treasury rates in 2021 and 1H22, the CCM 'triggered' and warranted a downward revision in CA ROEs. However, the California utilities - PGE, SCE and SDG&E – filed with the CPUC to request a departure from CCM. The utilities argued the COVID-19 impacted CA utilities differently as compared to the proxy utilities group and overall financial markets, warranting a departure from CCM. See our latest recap on the CCM decision and the CA regulatory backdrop: US Utilities & IPPs: CA Regulatory: CPUC sides with utilities on initial 2022 CoC decision, 2023+ in focus 05 October 2022.

This update highlights the improving CA regulatory environment and represents a favorable leading indicator as the CPUC continues to work toward a solution to the 2023-2026 Cost of Capital proceedings for CA utilities. We see the decision to leave ROE's unchanged as most beneficial to PCG and EIX, given CA concentration. *We reiterate Buy on shares of PCG with the updates* over the past month solidifying *the company's above average earnings growth outlook, underpinned by 10%+ rate base growth which is enabled by the PCG's ambitious undergrounding plan. The more favorable CA regulatory backdrop is key for PCG as the company approaches resolution on its '23-'26 General Rate Case (GRC) after recently increasing GRC capex requests for inflation (details here: PG&E: Early stages of the re-rating, despite wildfire season. Constructive updates 14 September 2022). We maintain Underperform on shares of EIX. Despite the improving CA backdrop, we see the company's* adverse *exposure to* interest rates on wildfire-related and corporate borrowings. For example, last week SCE offered $1.5Bn debt at **~5.9%. This is higher than the 5.3% refinancing rate that management disclosed with 3Q22** and 3.99% weighted average commercial paper that will be repaid with the 2022G Series bonds. Details on rate exposure here: One Step Forward, Two Steps Back: Legacy Liabilities Increase Once Again 02 November 2022. *We reiterate Buy on shares of SRE. While this CA regulatory update is a positive catalyst, updates on LNG progress at Sempra Infrastructure Partners (SIP – SRE subsidiary) are the key driver of shares; the company's 3Q22 update further accelerated progress on LNG development.*

See ETR regulatory update on page 2.

07 November 2022

Equity
United States
Utilities

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PD: Proposed Decision
CCM: Cost of Capital Mechanism
ROE: Return on Equity

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ETR: ROEs in focus w/ intervenors & Staff testimony in TX

Intervenors have filed recommendations with the Public Utilities Commission of Texas (PUCT) for Entergy Corp (ETR) ongoing electric rate case in Texas. Recall, Entergy Texas Inc (ETI – ETR subsidiary) originally requested **10.8% return on equity** (ROE), which includes 30bps management performance premium, and **51.21% equity ratio**. This would result in $131.4Mn rate increase, +11.2% rate increase versus current levels. The ROE requested by ETI is materially higher than 9.35% average ROE approved in cases decided in the first nine months of 2022 for regulated utilities across the US. We note that the cost of debt reflected in ETI's request, 3.47% or ETI's 'actual cost of debt', is now below US 30Y treasuries.

We detail select intervenors' and PUCT Staff's recommendations below. The PUCT Staff recommendation is for a **9.45% ROE**, -135bps lower than ETI's request including +30bps performance adder, or -105bps lower than ETI's base request (10.5% ROE exc. the performance adder). *We view the ROE as the most controversial element of ETR TX's request, as suggested by Intervenor recommendations. The 9.45% Staff recommendation is a reasonable level and we continue to believe that a constructive outcome can be reached between the parties.* ***The recent El Paso Electric rate case decision in Texas had a 9.35% ROE with the latest Staff slightly higher. The 30bps performance-based adder requested by ETI remains a key factor to monitor, with all intervenors opposing the request.***

Exhibit 1: Summary of Intervenor Recommendations
We summarize the intervenor recommendations below, highlighting the PUCT Staff's recent proposal

	ETI Request	PUCT Staff	Cities	TIEC
Rate Increase ($Mn)	$131.40	$76.80	($9.90)	N/A
ROE (inc. any performance adders)	10.80%	9.45%	9%	9.40%
Equity Ratio	51.21%	51.21%	51.21	
Performance Based ROE adder?	Yes - 30bps	No	No	No

Source: BofA Global Research, S&P Capital IQ

BofA GLOBAL RESEARCH

A final decision is expected in May 2023, although the timeline may change depending on whether a settlement is reached. We reiterate Buy on shares of ETR given the company's favorable exposure to tax credits introduced in the Inflation Reduction Act (IRA), and commercial and industrial growth outlook driving earnings growth across ETR's service jurisdictions.

Further detailing PUCT Staff's recommendation

PUCT Staff's filing states that ETI's ROE request '*substantially exceeds the current market cost of capital for companies with investment risk similar to ETI*'. Additionally, Staff opposed the performance premium included in ETI's request, stating that the PUCT should reject ETI's '*extraordinary and uncommon*' request for a basis point adder to ROE. However, Staff suggests that the PUCT approve ETI's 'ring-fencing' request, consistent with recent intervenor recommendations and final PUC orders which approved 'ring-fencing' in TX rate cases, including Centerpoint Energy's (CNP) Houston Electric rate case, Sempra (SRE) Oncor electric rate case, and AEP Corp (AEP) Texas electric rate case. Lastly, Staff opposed ETI's proposed tariffs – the Transportation Electrification and Charging Infrastructure (TECI) rider and the Transportation Electrification and Charging Demand Adjustment (TECDA) rider - related to electric vehicles (EVs). Staff's recommendation cited that it was not appropriate for a vertically integrated utilities to own EV charging infrastructure, and the ownership of such facilities should be left to competitive providers.

NI: Joint stipulation filed in OH rate case; Revenue recommendation well-below request

NiSource (NI)'s Columbia Gas of Ohio subsidiary filed a joint stipulation before the Public Utilities Commission of Ohio (PUCO) in its first rate case in the jurisdiction in 13 years. The stipulation was submitted in agreement with Commission staff, the Ohio Consumers' Counsel, and a number of industrial, manufacturing, energy and commercial interest groups. While NI requested a revenue increase of $221M, the stipulation recommends a far lower sum of $68M, 30% of NI's initial request. The parties agreed to an equity ratio of 50.6%, in-line with NI's request, and recommend to the Committee a return on equity (ROE) of 9.6%. This ROE is lower than NI's request at 10.95%, and lower than the Committee's authorization in NI's previous Ohio rate case of 10.39% in 2008. The stipulation recommends a rate base of $3.51B vs NI's request of $3.56B.

While we do not view Ohio as an especially constructive jurisdiction versus other states, we are pleased by the agreement of the broad group of parties involved in the stipulation. We see the recommended ROEs as in-line with other rate cases, and while lower than NI's request, we view the figure as sufficient. That said, we flag the wide, negative gap between NI's requested revenue increase and the stipulation's recommendation as concerning. We note the settlement discussions have been ongoing for ~6+ months hence leading to a relatively lower rev vs the ask. Look for commentary on how this fits into what seems a still subdued EPS growth into '23 (lower end of 6-8%) prior to wider recovery in Indiana.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: Earnings first takes: CMS & SO cautious, AEP & XEL in line, DTE & PCG positive	Julien Dumoulin-Smith	27 October 2022
Edison International: One Step Forward, Two Steps Back: Legacy Liabilities Increase Once Again	Paul Zimbardo	02 November 2022
US Utilities & IPPs: Earnings Points: ED, AEE, EVRG 1st Takes & SRE Post-Call. The Deluge Continues.	Julien Dumoulin-Smith	04 November 2022
US Utilities & IPPs: California 3Q22: Dawn of a New Day for PCG and California Outlooks	Julien Dumoulin-Smith	18 October 2022
US Utilities & IPPs: CA Regulatory: CPUC sides with utilities on initial 2022 CoC decision, 2023+ in focus	Julien Dumoulin-Smith	05 October 2022
Entergy: IRA augments LT growth as near-term storm risk alleviates. Reit. Buy, $135 PO.	Paul Zimbardo	20 September 2022
US Utilities & IPPs: PowerPoints: ETR, GNRC, UGI/AEP Mgmt, PCG FVT, NEE/PCG Insurance, TELL, Power	Julien Dumoulin-Smith	02 November 2022

Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
EIX	EIX US	Edison Intl	US$ 59.03	B-3-7
ETR	ETR US	Entergy Corp.	US$ 110.72	B-1-7
NI	NI US	NiSource Inc	US$ 25.89	A-1-7
PCG	PCG US	PG&E Corp.	US$ 15.31	C-1-9
SRE	SRE US	Sempra Energy	US$ 154.83	B-1-7

Source: BofA Global Research

Price objective basis & risk

Edison International (EIX)

Our $52 PO is based on sum of the parts analysis with a peer 16.2x 2024 P/E grossed-up 5% for group growth. A -3x P/E discount is applied to the CPUC, as well as the Parent/Other segment, and -1x P/E discount to FERC jurisdictional utilities. The discount reflects below-average growth and regulatory considerations, albeit FERC risk profile is

less challenging than the CPUC. The negative wildfire adjustments are netted-out to reflect a probabilistic approach to the risk of shareholder funded wildfires and the ongoing contribution to the CA fund on an NPV basis.

Positive and negative risks are changes in: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) Edison Energy returns, 7) ability to deploy capital, 8) environmental, social, & governance [ESG] profile, and 9) wildfire liabilities for shareholders.

Entergy (ETR)
Our $135 Price Objective (PO) is based on a sum-of-the-parts analysis. The 2024E electric utilities average P/E of 17.8x (vs 17.3x previously) is grossed-up +5%, to 18.7x, to reflect capital appreciation across the sector. We apply in-line P/E multiples to the subsidiaries except for +2x Texas to reflect the constructive regulation environment and -1x New Orleans based upon historical contentious proceedings. We net out 50% of the parent HoldCo long-term debt and apply a P/E multiple to 50% of the interest expense.

Risks to achievement of our Price Objective is 1) changing rate-making mechanisms or unexpected regulatory outcomes, 2) earned return on equities by jurisdiction, 3) hurricanes and other weather events, 4) nuclear accidents, safety events, or other incidents, 5) interest rates fluctuations, 6) equity issuances relative to management's forecast and access to capital markets, 7) ability to deploy regulated capital expenditures, 8) pension fund performance and 9) costs and operational volumes at the wholesale commodity subsidiary.

NiSource Inc (NI)
Our $34 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2024 forward P/E multiples that are marked-to-market to the latest peer utility multiples of 16.9x for gas and 18.2x for electric with a 1.0x premium for the gas utilities and a 2.0x premium for the electric gas utilities given strong growth rates and incremental renewable buildout, with capex potentially beginning in '24-'26, but acknowledge industrial gen load migration risk. While there still could be some near-term headwinds for solar, we are confident in mgmt. ability to manage and mitigate the impacts.

We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, higher natural gas prices, and inability to execute on renewables additions.

PG&E Corporation (PCG)
Our PO of $16 reflects an in-line P/E versus the respective electric (15.4x) and gas (14.9x) peer P/E groups with both grossed-up by 5% to reflect capital appreciation across the sector) based on 2024E. The acute wildfire risk is incorporated separately via a scenario probability weighted at 100% assuming PCG hits the cap in 3-year increments. Lastly, we net out 50% weighting of HoldCo debt and add back 50% weighting of interest expense to derive our Price Objective.

Risks to achievement to estimates and Price Objective include: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) Fire Victim Trust moneitizations, 7) ability to deploy capital, and 8) environmental, social, & governance [ESG] profile.

Sempra Energy (SRE)
Our $160 PO is based on a sum of the parts valuation of 2024E earnings. The US utilities are valued using the electric (15.4x) and gas (14.9x) average P/E that we grossed-up +5% to account for sector growth. We apply a -2x discounted valuation to the California gas utility (SoCal Gas) for concerns about long-term use of natural gas. We apply a -1x discounted valuation to the California electric utility (SDG&E) to reflect the wildfire risk exposure. We apply a +2x premium to the TX utility (Oncor) for above average growth and high visibility into rider recovery. The Infrastructure segment (SIP) is valued at 12x EV/EBITDA, an implied premium to the Mexican market (5.5x) and select premium US midstream comparable (Williams and TC Energy at approximately 11x) on EV/EBITDA due to its long duration contracted cash flows. The parent drag is treated on a balanced blend of P/E and HoldCo debt and cash netting.

Risks to achievement to estimates and Price Objective include: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) LNG development, 7) ability to deploy capital, and 8) environmental, social, & governance [ESG] profile.

Analyst Certification

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

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Dominion Energy	D	D US	Paul Zimbardo
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Exelon	EXC	EXC US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA

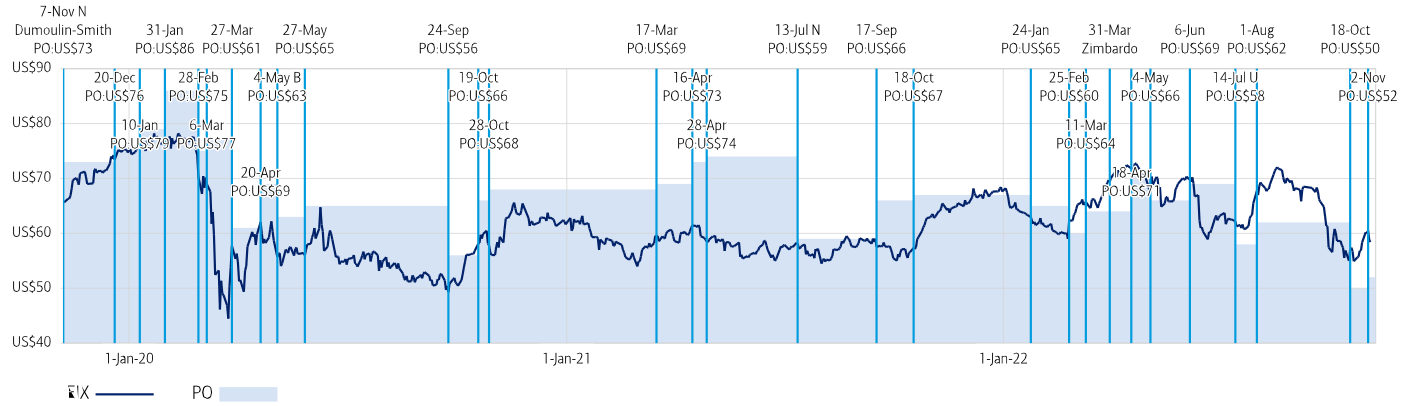
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Paul Zimbardo
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

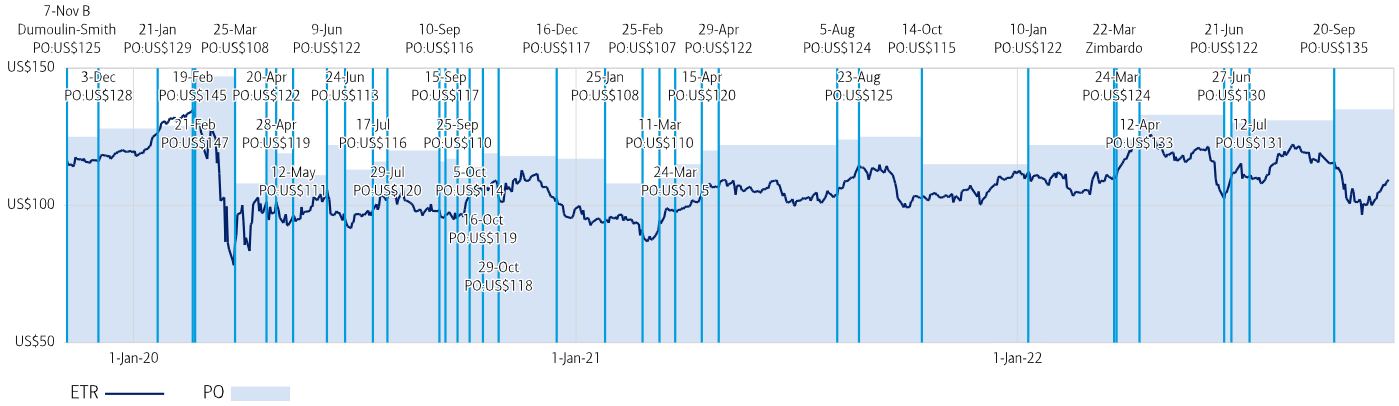
Edison Intl (EIX) Price Chart



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

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

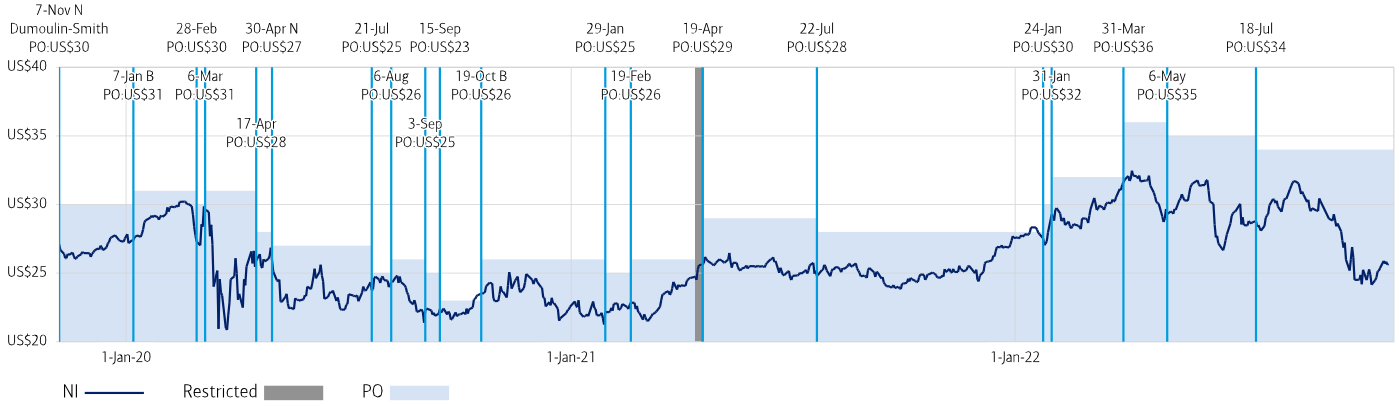
Entergy Corp. (ETR) Price Chart



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

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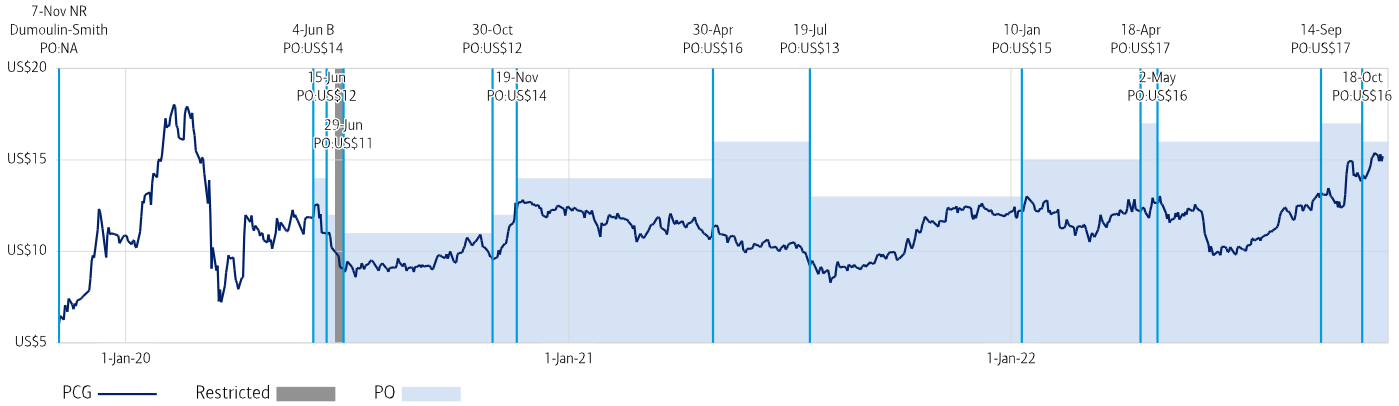
NiSource Inc (NI) Price Chart



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

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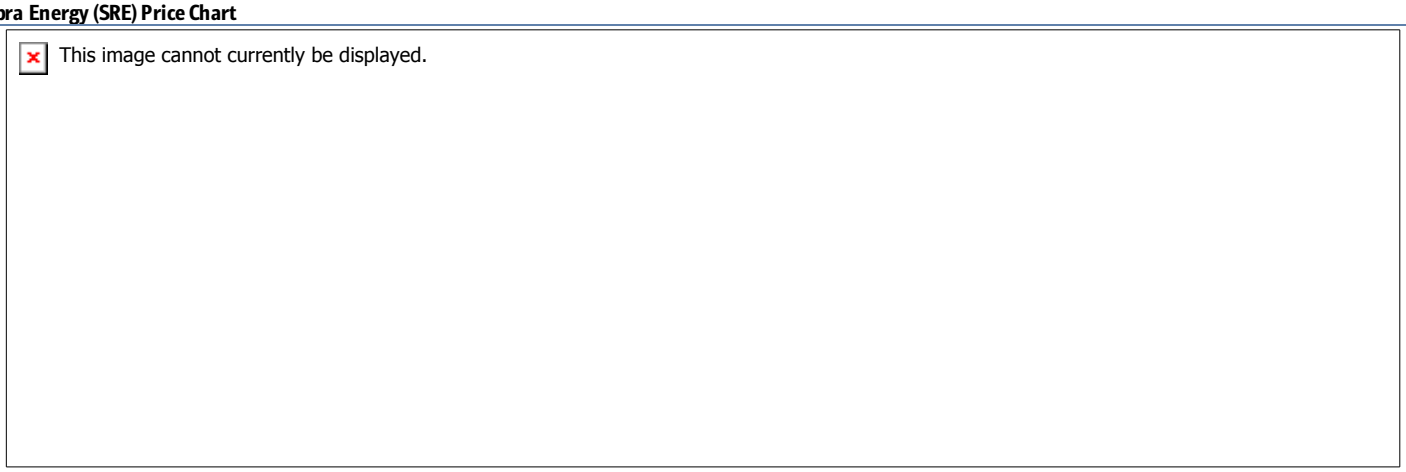
PG&E Corp. (PCG) Price Chart



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

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

Sempra Energy (SRE) Price Chart



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

Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	77	61.11%	Buy	63	81.82%
Hold	28	22.22%	Hold	21	75.00%
Sell	21	16.67%	Sell	11	52.38%

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	77	53.47%	Buy	54	70.13%
Hold	33	22.92%	Hold	26	78.79%
Sell	34	23.61%	Sell	22	64.71%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1839	53.46%	Buy	1071	58.24%
Hold	800	23.26%	Hold	498	62.25%
Sell	801	23.28%	Sell	379	47.32%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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NI: Trimming medium term CAGR – 6-8% throughout

NiSource (NI) announced that results from its business review which results in a moderation of the EPS CAGR to 6-8% annually 2021-2027, a slowing of the near-term from 7-9% 2021-2024 previously. The refreshed outlook includes an assumption of a tax efficient minority sale of its NIPSCO Indiana business, which is mix electric/gas (19.9% max). This would imply ~$2Bn+ equity value. Key is limited IURC input on stake sale process (vs earlier expectations of gas focus for sale in smaller states). The asset sale is designed to improve the balance sheet and guidance is designed to eliminate equity through 2025 with a "modest" at-the-market (ATM) plan in 2026+ as become a cash tax payer (sale displaces ~$750 Mn equity otherwise contemplated thru '25, likely <$200Mn in our view post '25). The balance sheet repair/strengthening is designed to improve FFO/Debt targets to 14-16% from 14-15%. No mgmt. changes; flat O&M is key too.

The slower pace of growth in the near-term is disappointing relative to our original expectations and we attribute the pivot to increasing bill affordability concerns. We anticipated a slow-down after 2024 with a 2021-2027 6-8% CAGR so the 'terminal' EPS is in-line with our expectations but the 2023-2024 are now notably slower than previous plans. Among investors we spoke to ahead of the Investor Day the general Consensus was that the growth profile would slow-down post-2024 but some anticipated an extension of the 7-9%, supported by a capital expenditure boost in the long-term post IRA. Despite the negative update, we maintain Buy on NI which is trading at a discount to comparable companies, particularly with its attractive mix of assets and above-average growth rate.

NRG: 3Q22 beats low bar & FY23 initiated above Street

NRG Energy (NRG) reported $452Mn 3Q22 adjusted EBITDA, sharply lower from $767Mn 3Q21 which management attributed 40% ($125Mn) to negative drivers since guidance was originally prepared. The quarter surpassed low expectations with Consensus -30% in the past month to $421Mn, consistent with $424Mn BofAe. As expected NRG narrowed the FY22 adjusted EBITDA guidance to $1,950-$2,050Mn which is based in part on non-recurring "opportunistic natural gas and power earnings". This is largely in-line with $1,982Mn Consensus and $1,955Mn BofAe. 2022 FCF before growth was cut to $950-$1,050Mn from $1,140-$1,440Mn due to higher working capital/collateral requirements, despite the new $221Mn Astoria sale. There is still $286Mn FCF to allocate for 2022 while $190Mn working capital was shifted to 2023 from 2022. ~$200Mn of share repurchases were executed since the 2Q22 update with $603Mn through 10/31/22.

NRG's 3Q22 update was mixed with 3Q better than our low expectations but FY22 FCF was cut. FY23 guidance was initiated better than expected which did not appear to have the contribution from growth investments. Customer count declined and we continue to be worried about attrition/margin erosion in NRG's business model of being less integrated than peers. Maintain Underperform on shares of NRG where we see better risk/return profiles from other independent power producers with market length. **See full report for more on NI OH settlement, NRG earnings, HE earnings, ETR capex upside, Offshore Wind, and CMS/DTE storm outages.**

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NRG: FY23 guidance above Street/BofA. Watch growth

FY23 guidance was initiated at $2,270-$2,470Mn adjusted EBITDA and $1,520-$1,720Mn FCF which management described as in-line with its 2021 Investor Day plan. Guidance midpoint is +2% above $2,321Mn BofA/$2,320Mn Consensus. The primary drivers are $220Mn recovery of 2022 "transitory items" and Direct Energy synergies/recovery of COVID. Despite $150Mn of growth/acquisitions in 2022 and another $240Mn planned in 2023, growth was not shown as a driver in FY23 adjusted EBITDA. FY23 capital available for allocation is $1.9Bn with a $600Mn repurchase plan, $300Mn dividend, and $330Mn growth with $628Mn currently uncommitted. Management described its retail performance as strong and supply performance as mixed. Home customer count declined ~2% QoQ to 5.5Mn as management 'balanced earnings with customer count'.

Customer count is a critical metric for NRG and other integrated power companies. Attrition could be elevated given the increasing power price backdrop. Peer Vistra noted that its Texas customer count increased in 3Q22 but overall customer count declined due to voluntary 'value accretive' market exits in certain regions.

HE: Strong bank performance offsets sluggish utility growth

Hawaiian Electric Industries (HE) reported 3Q22 EPS of $0.57 vs $0.54 BofAe and Street $0.56. The slight beat was driven in large part by higher than expected rate increases contributing +$0.06 to EPS vs. +$0.04 BofAe. The gains were offset by elevated O&M expense of -$0.02, increased interest expense of -$0.01, and higher D&A expense of -$0.01, each in-line with BofAe. American Savings Bank (ASB) reported higher net interest income of +$0.04, in-line with BofAe, while increases to credit loss provisions were negligible vs -$0.02 BofAe. Noninterest income was flat, vs. -$0.02 BofAe, while noninterest expense presented a -$0.02 drag vs. -$0.03 BofAe on increased compensation and benefit expense. Loan growth (9.3%) and deposit growth (1.1%) have each been strong YTD, resulting in a 3Q22 ROE of 15.1% vs 12.2% in 3Q21. *We maintain our Underperform rating on regulatory risk in the jurisdiction given that HE utility bills are already the highest in the US and we have less visibility into earnings growth. That said, given strong performance at ASB, we expect management to reaffirm its guidance range on the 3Q call, and feel confident in their ability to deliver on the target.*

ETR: Expect another strong capex update at EEI

Entergy Corp (ETR) is expected to update its 2023-2025 capex plans during Edison Electric Institute (EEI). We point to the company's 3Q22 10Q capex disclosure as a leading indicator of the EEI capex update. The 10Q cites '*Entergy is developing its capital investment plan for 2023 through 2025 and currently anticipates that the Utility will make approximately* ***$15.5 billion*** *in capital investments during that period.*' This compares with ~$15.135Bn implied by the company's June 2022 Analyst Day; Entergy cites $19Bn cumulative capex invested 2022 – 2025 and $13.355Bn invested 2022 - 2024. We outline the potential 2025 capex update below assuming 2023 and 2024 capex is unchanged from the prior capex update at ETR's Analyst Day. We note that the 2025 capex may be lower if ETR further increases 2023 and 2024 capex levels.

Exhibit 1: ETR Implied Capex Update
ETR's 3Q22 10Q cites approximately $15.5Bn capex spend 2023-2025 vs $15.135Bn implied at Analyst Day.

	Analyst Day	3Q22 10Q
2022	3,865	
2023	4,090	4,090
2024	5,400	5,400
2025	5,645	6,010
2022-2025	~19,000	
2023-2025	~15,135	15,500

Source: Company Filings, Bloomberg, & BofA Global Research

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The 10Q disclosure suggests ETR will further hike capex spend from $15.135Bn to $15.5Bn 2023-2025, implying another solid capex update after ETR already increased 2022-2024 capex during the June 2022 Analyst Day. This further strengthens ETR's growth outlook and represents a positive near-term catalyst for shares. *We maintain Buy on ETR with shares trading at a discount to the group despite the strong earnings growth outlook. ETR's growth outlook is further supported by commercial and industrial (C&I) growth across ETR's service regions and Inflation Reduction Act (IRA) incentives which enable capex growth without material impacts to customer bills.*

Offshore Wind: Cautionary data points continue to pile up

Inflationary equipment cost and financing cost pressures have continued to weigh on the economic viability and projected returns for offshore wind projects, prompting concerns over whether offshore wind development plans will ultimately materialize. While we have closely monitored Avangrid's (AGR) recent efforts to renegotiate the power purchase agreements (PPAs) for its offshore wind projects Park City Wind and Commonwealth Wind (details here: US Utilities & IPPs: PowerPoints: AGR Offshore Wind 31 October 2022), we note that Eversource (ES) stated that it does not plan to request higher compensation. The recent Orsted (Eversource partner) third quarter earnings call focused on project returns in a rising rate environment and uncertainties over the US project pipeline, specifically Orsted's ability to renegotiate PPAs. Orsted cited inflationary pressures have resulted in at least 300bps impact to the spread between internal rates of return (IRRs) and weighted average cost of capital (WACC) on already awarded and not yet final investment decision (FID) projects. Management indicated that the company continues to 'turn every stone' to preserve project economics, including 'securing more robust top lines' for pre-FID projects (i.e. renegotiating PPAs). Additionally, the company said that it will only proceed with FID on projects that are 'defensible'. In other words, management suggested that project FID may be contingent on successful PPA renegotiations or execution on mitigation efforts that strengthen project returns amid rising costs. This is similar to AGR management commentary that the company is unlikely to continue offshore wind project construction for Commonwealth and Park City Wind projects unless PPAs are renegotiated. *Orsted is among the largest and most experienced global offshore wind developer. Therefore, Orsted management's commentary on the challenges impacting offshore wind returns clearly indicates the severity of the inflationary impact to US offshore wind project returns.*

However, efforts to renegotiate PPAs have been met with skepticism from other offshore wind industry players. **Specifically, Eversource management recently said that it does not expect Avangrid will be successful on repricing its PPAs**. Management also said during its 3Q22 earnings call that the company does not plan to pursue PPA renegotiations for any of its offshore wind projects. We once again reiterate our cautionary view around successful PPA renegotiations. We note that political actors, including candidate for Massachusetts upcoming gubernatorial election, Attorney General Maura Healey, have publically stated that they do not support PPA renegotiations (details here: US Utilities & IPPs: 2022 Midterm Elections: What the changes mean for key utilities 02 November 2022). Additionally, regulatory counterparties have recommended approval of the existing AGR offshore wind PPAs, and we believe AGR efforts to further revise these PPAs will likely result in contentious and drawn out regulatory processes.

We maintain Underperform on shares of AGR where we forecast below-average EPS growth with above-average large project risk. The company is acutely exposed to inflationary headwinds given existing customer affordability concerns across AGR's service jurisdictions. We continue to forecast de-minimis value creation from AGR's offshore wind projects at current PPA levels will pressure AGR's long-term earnings growth outlook.

DTE/CMS: Windstorms spur latest outages; MPSC reliability compliance filings

Overnight windstorms in Michigan on November 5th downed almost 2,000 power lines and left over 100,000 customers without power, according to media reports. As of Sunday afternoon, Consumers Energy (CMS) reported almost 90,000 customers without power while DTE Energy (DTE) had approx. 20,000 customers without power. These numbers decreased to ~43,500 CMS customers and ~6,000 DTE customers without power as of Monday morning. Michigan storms have continued to impact DTE and CMS utility operations, with the most recent August 2022 storms in Michigan unfortunately resulting in loss of life and injury when minors came into contact with a downed utility wire.

As a result of system reliability issues prompted by severe storm activity in Michigan, the Michigan Public Service Commission (MPSC) ordered CMS and DTE to submit reports detailing compliance with the Commission's previous system reliability orders. DTE and CMS filed these compliance reports with the MPSC on November 4th and November 5th. The reports detail the challenges causing system reliability issues and outages, and address corrective actions each utility is taking in response to these issues. For example, DTE cites that it forecasts spending $239.5Mn on tree trimming O&M spend versus only $179.8Mn in 2021. Additionally, DTE cites $145Mn spend on the 4.8kV Hardening Program versus $69.3Mn spend in 2021, and $45Mn spend the Customer Excellence program. In 2022 versus $30Mn spend in 2021. We believe DTE's strong earnings year-to-date and relatively lower severe storm activity in 2022 versus 2021 has enabled elevated O&M spend. Similarly, CMS cites $94.4Mn forecasted line clearing (vegetation management) expense versus $73.9Mn in 2021. We continue to monitor MPSC's response to ongoing DTE and CMS reliability and mitigation efforts, and we note that the MPSC plans to hire an independent auditor to audit and oversee MI utility compliance with regulatory orders. *We maintain Buy on shares of DTE with the company trading at a discount to premium peers despite the improving earnings growth outlook. We maintain Neutral on shares of CMS with the company trading in-line with fair value considering lack of visibility into incremental positive share catalysts through year-end 2022.*

US Utilities & IPPs: Michigan Utilities 3Q22 Preview: Where do we stand ahead of 2023 updates? 19 October 2022

WTRG: 3Q beat indeed

3Q Adj EPS came in at $0.26 per share, a solid beat vs. BofAe estimate of $0.22 and the Street's $0.21. Beat was driven by recovery of higher purchased gas costs and customer growth/volume from its regulated water segment, but was partly offset by higher opex driven by inflationary pressures. Company reaffirms EPS guidance of $1.75-$1.80 for the year and we are the midpoint of the range ($1.77) as we think company continues to face political challenges in the states in which it operates. LT EPS growth of 5-7% reaffirmed in which we also remain at the midpoint of. We maintain Neutral rating.

In October, WTRG also entered into an at-the-market (ATM) equity sales agreement with an option to enter into forward equity sales worth up to $500mn of equity in which they plan to use for acquisitions and capex, although no shares have been sold by WTRG yet. Aqua Pennsylvania, a subsidiary, closed its acquisition East Whiteland Township, Chester County, adding approximately $54.4mn in rate base and 8,200 customer connections. Company states it remains on track to increase customers by 2-3% per year from acquisitions and organic customer growth.

Look for commentary on status of various acquisition efforts as key to signaling going forward view after solid continuation in year.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: Regulatory Updates: California Cost of Capital, ETR TX Intervenors, NI IN Deal	Julien Dumoulin-Smith	07 November 2022
Cheniere Energy Inc: A Wholesome Review of the Contract Book: Buy, PO to $187 & Tweak estimates	Julien Dumoulin-Smith	07 November 2022
Bloom Energy: 3Q22 Recap: We've been here before, FY guide leaves a steep climb; Buy on Dip	Julien Dumoulin-Smith	04 November 2022
US Electric Utilities & IPPs: EarningsPoints: DUK '23 guide, D biz review, PNM 3Q Takes	Julien Dumoulin-Smith	04 November 2022
Idacorp: Entering The Rate Case Zone: Downgrade to Neutral on Valuation	Paul Zimbardo	07 November 2022

Exhibit 2: Primary stocks mentioned in this report
Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
NI	NI US	NiSource Inc	US$ 25.89	A-1-7
NRG	NRG US	NRG Energy	US$ 44.35	B-3-7
HE	HE US	Hawaiian Electric	US$ 37.89	A-3-7
ETR	ETR US	Entergy Corp.	US$ 110.72	B-1-7
AGR	AGR US	Avangrid	US$ 40.56	A-3-7
DTE	DTE US	DTE Energy	US$ 112.39	A-1-7
CMS	CMS US	CMS Energy	US$ 57.03	A-2-7

Source: BofA Global Research estimates

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Price objective basis & risk

Avangrid (AGR)

Our $38 PO is based on an 2024E sum of the parts analysis. The core utilities are valued on by applying discounts to the base sector P/E of 15.7x/14.5x for electric/gas due to below average growth and regulatory jurisdictions. We apply an in-line multiple to the PNM Resources assets with the transaction pending. Both electric and gas peer P/Es are grossed up +5% to reflect capital appreciation across the sector. The renewables are valued at approximately 11x EV/EBITDA, consistent with peers while offshore wind is valued using discounted cash flows at a 12% discount rate. Future potential value

creation from the renewable development 'DevCo' is provided as well. Lastly parent/HoldCo financing negatives are ascribed.

Up/downside risks to achievement of the PO and estimates are 1) earned ROEs at the utilities, 2) utility capital expenditure forecasts, 3) regulatory/political/legislative outcomes, 4) equity needs, 5) offshore wind construction, 6) Iberdrola owns over 80% of AGR common stock, limiting float and presenting a potential for governance conflicts, despite the BoD being majority unaffiliated with Iberdrola. 7) natural disasters, 8) commodity and interest rate fluctuations, and 9) management changes.

CMS Energy (CMS)
Our PO of $58 is based on a SotP relying on 2024E forward P/E multiples for the utility business and a 2024E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 2.0x prem to the avg 24E regulated multiple P/E of 15.4x for the electric seg and of 14.9x for the gas seg, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as cont'd favorable regulatory environment, and finally historically proven ability to consistently perform at the high end of guidance range.

Both electric and gas peer P/E multiples are grossed up to 2022 by 5% to reflect capital appreciation across the sector.

For CMS' merchant business we apply a 4x EV/EBITDA multiple, in line with current market value of CMS' power plants. We value Dearborn Industrial Generation (DIG) on a DCF basis given the plant is expected to be sold to Consumers at the end of 2025, with our valuation reflecting the remaining cash flows.

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

DTE Energy (DTE)
We value DTE Energy at $120 using an SOTP approach. We value the utility segment on a 2024E forward P/E multiple basis and the non-utility segment on a 2024E forward EV/EBITDA multiple basis. For the utility segment we apply a 2x premium to both our regulated electric and gas utility peer multiples (of 15.4x and 14.9x, respectively). Both electric and gas peer P/E multiples are grossed up for a year to 2023 by 5% to reflect capital appreciation across the sector. We value the DTE Vantage segment on a multiple of 2024 EPS - the grossed-up electric multiple of 16.2x to account for the renewable natural gas (RNG) business. We assign an equity value of zero to the Equity Trading segment given potential for earnings volatility and opacity of the segment. We also reduce the equity value for estimated unallocated parent debt by applying a 15.9x multiple to both the interest expense and corporate overhead expenses at the parent. Risks to Price Objective: regulatory/political/legislative actions, realized returns from the unregulated Vantage segment, changes in equity needs, load growth/class mix, equity needs, weather/natural disasters, and interest rate fluctuations.

Entergy (ETR)
Our $135 Price Objective (PO) is based on a sum-of-the-parts analysis. The 2024E electric utilities average P/E of 17.8x (vs 17.3x previously) is grossed-up +5%, to 18.7x, to reflect capital appreciation across the sector. We apply in-line P/E multiples to the subsidiaries except for +2x Texas to reflect the constructive regulation environment and -1x New Orleans based upon historical contentious proceedings. We net out 50% of the parent HoldCo long-term debt and apply a P/E multiple to 50% of the interest expense.

Risks to achievement of our Price Objective is 1) changing rate-making mechanisms or

unexpected regulatory outcomes, 2) earned return on equities by jurisdiction, 3) hurricanes and other weather events, 4) nuclear accidents, safety events, or other incidents, 5) interest rates fluctuations, 6) equity issuances relative to management's forecast and access to capital markets, 7) ability to deploy regulated capital expenditures, 8) pension fund performance and 9) costs and operational volumes at the wholesale commodity subsidiary.

Hawaiian Electric Industries (HE)
Our PO of $33 for Hawaiian Electric Industries is based on a sum of the parts approach. We apply:

1) a 2025E forward P/E multiple which reflects a 1.0x discount to the electric utility peer multiple of 14.9x. We see this as justified given NT challenges, historical execution, and below average growth.

2) a 2023E forward price to book value of 1.32x in-line with SMID bank peers.

We then take into account parent drag.

Downside risks are reduced capital expenditures, inability to control costs leading to lower earned ROE, higher bank loss reserves, and reduced bank interest margin.

Upside risks are additional capital expenditures, ability to control O&M and earn a higher ROE, reduced bank loss reserves, and higher bank interest margin.

NiSource Inc (NI)
Our $34 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2024 forward P/E multiples that are marked-to-market to the latest peer utility multiples of 16.9x for gas and 18.2x for electric with a 1.0x premium for the gas utilities and a 2.0x premium for the electric gas utilities given strong growth rates and incremental renewable buildout, with capex potentially beginning in '24-'26, but acknowledge industrial gen load migration risk. While there still could be some near-term headwinds for solar, we are confident in mgmt. ability to manage and mitigate the impacts.

We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, higher natural gas prices, and inability to execute on renewables additions.

NRG Energy (NRG)
Our $38 Price Objective is based on 2024E sum-of-the-parts analysis. We apply a premium/discount to our 7.0x base EV/FCF multiple, which is premised on long-term historical industry trends, to each segment based on our views of the specific asset type and region. We discount the Generation segment to approximately 5x EV/EBITDA due to operational challenges experienced of late. Within Generation, we apply a 6x disc to ERCOT coal given supply chain challenges. We apply an approximate 6x multiple to Retail, at a premium to the base IPP multiple reflecting the opportunity set and challenges. The potential for additional cross-selling revenue is mitigated by concerns of core margin erosion and customer count declines. We assume approximately $2Bn share repurchases by YE-23.

Upside/Downside risks to the price objective are changes in: 1) commodities including gas, coal, nuclear fuel & power, 2) operating costs, 3) environmental costs and

regulation, 4) retail margins and customer counts, 5) natural disasters, 6) generation volume, 7) regulatory, legislative, and political changes, 8) customer acquisition costs, 9) retail competition, 10) pension and nuclear decommissioning trust assets/liabilities, and 11) interest rates.

Analyst Certification

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

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Dominion Energy	D	D US	Paul Zimbardo
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Exelon	EXC	EXC US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Paul Zimbardo
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	77	61.11%	Buy	63	81.82%
Hold	28	22.22%	Hold	21	75.00%
Sell	21	16.67%	Sell	11	52.38%

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	77	53.47%	Buy	54	70.13%
Hold	33	22.92%	Hold	26	78.79%
Sell	34	23.61%	Sell	22	64.71%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1839	53.46%	Buy	1071	58.24%
Hold	800	23.26%	Hold	498	62.25%
Sell	801	23.28%	Sell	379	47.32%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Price Charts for the securities referenced in this research report are available on the Price Charts website, or call 1-800-MERRILL to have them mailed.
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The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: Avangrid, CMS Energy, DTE Energy, Entergy, NiSource Inc, NRG Energy, Inc.
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Other Important Disclosures

BofAS together with its affiliates beneficially owns a net short position of 0.5% or more of the total issued share capital of this issuer. Ownership positions speak as of a date no more than three trading days prior to the date of this report: CMS Energy.
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The date and time of completion of the production of any recommendation in this report shall be the date and time of dissemination of this report as recorded in the report timestamp.

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Long awaited Analyst Day did disappoint a bit: we agree

NiSource's (NI) Investor Day was technically in-line with what we previewed: a full extension of 6-8% EPS CAGR off unchanged 2021 baseline through 2027. Embedded assumptions on equity/asset sale are front-end loaded which dampens previous plans for accelerated short-term growth through 2024, leading to a disappointing reaction. We appreciate caution in believing the 6-8% EPS CAGR when it is so back-weighted but that is to be expected with the equity 'prefunded' into 2023 nearly entirely. Mgmt failed to clearly communicate that 2024 remains on track to be within the 6-8% EPS CAGR at $1.63-1.73 ($1.68 midpoint vs earlier confusion of $1.63-1.66 depending on version of mgmt comments interpreted). We reduce our 2024 EPS to $1.67, down -8% but stress our 2027 EPS is largely unchanged implying a 7.8% EPS CAGR indeed at the high end of the overall range). We believe the pullback does represent an attractive entry point. We anticipate added volatility in the near-term as minority sale kicks off. We assume only $0.2Bn/yr of equity in 2026-2027. The cautious reaction to the Investor Day also arose from disappointment on strategic review. Macro factors played a large role but the near-term growth guidance is now slower than when the review initiated. Regardless, we see standalone plan as intact, coherent and offering sizable de-risking of inflationary narrative as cost cuts totaling $40-50mn/yr (-3%) offer flat O&M at $1.5Bn/yr

But our updated EPS and SOTP still yields a Buy case

We reduce our PO to $29 from $34 reflecting a roll forward to 2025E SOTP along with a 14.4x & 14.8x Gas/Electric multiple. *We still see a quite compelling Buy case even on our reduced estimates, seeing the affirmation of a 6-8% annual EPS growth of a 2021 base as uniquely positive*. Execution of the plan does indeed assume execution of a minority sale (~20%), which could yet take some time to materialize (we assume a ~20x multiple premised on slides or ~$2Bn). There is still modest risk on execution with customer bill pressures and we watch for regulatory/political (ex IURC) reactions to plans ahead. We stress low risk execution on the sale given peers AES & DUK have undertaken similar actions, with limited opposition. We anticipate interest rate moves will have outsized impact going forward given the knock-on effect to potential sale multiple to financial buyer. We reduce relative premiums: just +1x to NIPSCO Gas/Electric given sale & reduce other biz units to in-line.

Estimates (Dec) (US$)	2020A	2021A	2022E	2023E	2024E
EPS	1.32	1.37	1.44	1.54	1.67
GAAP EPS	1.33	1.27	1.44	1.54	1.67
EPS Change (YoY)	0%	3.8%	5.1%	6.9%	8.4%
Consensus EPS (Bloomberg)			1.45	1.55	1.72
DPS	0.88	0.94	0.99	1.05	1.12
Valuation (Dec)					
P/E	18.5x	17.8x	16.9x	15.8x	14.6x
GAAP P/E	18.3x	19.2x	16.9x	15.8x	14.6x
Dividend Yield	3.6%	3.8%	4.1%	4.3%	4.6%
EV / EBITDA*	15.4x	15.4x	13.2x	11.5x	10.2x
Free Cash Flow Yield*	-6.6%	-6.3%	-9.5%	-18.1%	-12.8%

* For full definitions of *iQmethod℠* measures, see page 9.

08 November 2022

Equity

Key Changes

(US$)	Previous	Current
Price Obj.	34.00	29.00
2024E EPS	1.75	1.67
2022E EBITDA (m)	2,094.4	2,047.6
2023E EBITDA (m)	2,316.6	2,352.0
2024E EBITDA (m)	2,535.3	2,660.4

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Stock Data

Price	24.82 USD
Price Objective	29.00 USD
Date Established	8-Nov-2022
Investment Opinion	A-1-7
52-Week Range	23.78 USD - 32.59 USD
Mrkt Val (mn) / Shares Out (mn)	10,080 USD / 406.1
Average Daily Value (mn)	135.64 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2022E)	10.8%
Net Dbt to Eqty (Dec-2021A)	133.5%
ESGMeter™	High

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IURC: Indiana Utility Regulatory Commission
SOTP: Sum of the parts
NIPSCO: Northern Indiana Public Service Company

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iQprofile℠ NiSource Inc

iQmethod℠ **– Bus Performance***

(US$ Millions)	2020A	2021A	2022E	2023E	2024E
Return on Capital Employed	4.1%	4.0%	4.2%	4.7%	5.0%
Return on Equity	10.2%	10.8%	10.8%	9.9%	10.2%
Operating Margin	22.0%	20.6%	22.3%	25.4%	28.2%
Free Cash Flow	(654)	(620)	(941)	(1,790)	(1,269)

iQmethod℠ **– Quality of Earnings***

(US$ Millions)	2020A	2021A	2022E	2023E	2024E
Cash Realization Ratio	2.2x	2.1x	2.5x	2.5x	2.1x
Asset Replacement Ratio	2.4x	2.5x	3.1x	4.1x	3.4x
Tax Rate	18.3%	16.8%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	167.4%	133.5%	141.0%	113.7%	112.0%
Interest Cover	2.8x	3.0x	3.6x	2.9x	3.3x

Income Statement Data (Dec)

(US$ Millions)	2020A	2021A	2022E	2023E	2024E
Sales	4,697	4,900	5,474	5,821	6,152
% Change	-9.8%	4.3%	11.7%	6.3%	5.7%
Gross Profit	3,587	3,507	3,837	4,160	4,465
% Change	-2.4%	-2.2%	9.4%	8.4%	7.4%
EBITDA	1,757	1,755	2,048	2,352	2,660
% Change	9.3%	-0.1%	16.7%	14.9%	13.1%
Net Interest & Other Income	(339)	(304)	(341)	(503)	(519)
Net Income (Adjusted)	**508**	**571**	**640**	**716**	**908**
% Change	**2.6%**	**12.6%**	**12.0%**	**11.9%**	**26.8%**

Free Cash Flow Data (Dec)

(US$ Millions)	2020A	2021A	2022E	2023E	2024E
Net Income from Cont Operations (GAAP)	511	530	640	716	908
Depreciation & Amortization	726	748	827	874	923
Change in Working Capital	(249)	(260)	0	0	0
Deferred Taxation Charge	(29)	112	148	184	51
Other Adjustments, Net	145	88	0	0	0
Capital Expenditure	(1,758)	(1,838)	(2,555)	(3,564)	(3,150)
Free Cash Flow	**-654**	**-620**	**-941**	**-1,790**	**-1,269**
% Change	**-198.5%**	**5.2%**	**-51.7%**	**-90.3%**	**29.1%**

Balance Sheet Data (Dec)

(US$ Millions)	2020A	2021A	2022E	2023E	2024E
Cash & Equivalents	117	95	95	95	95
Trade Receivables	825	925	925	925	925
Other Current Assets	718	901	901	901	901
Property, Plant & Equipment	16,620	17,882	19,610	22,301	24,528
Other Non-Current Assets	3,762	4,354	4,354	4,354	4,354
Total Assets	**22,041**	**24,157**	**25,885**	**28,576**	**30,803**
Short-Term Debt	526	618	695	717	785
Other Current Liabilities	1,753	2,128	2,128	2,128	2,128
Long-Term Debt	9,220	9,183	10,260	10,588	11,588
Other Non-Current Liabilities	4,704	4,954	5,102	5,287	5,338
Total Liabilities	**16,203**	**16,884**	**18,185**	**18,719**	**19,839**
Total Equity	**5,752**	**7,273**	**7,700**	**9,856**	**10,964**
Total Equity & Liabilities	**21,955**	**24,157**	**25,885**	**28,576**	**30,803**

* For full definitions of ***iQ***method℠ measures, see page 9.

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

We are Buy rated on NiSource (NI) which is premised on an above-average 6-8% EPS CAGR, improving balance sheet, opportunity for accretive asset sales, and decarbonization investment opportunity. The company's 2022 Investor Day update detailed annual growth within the 6-8% range (i.e. not only a CAGR) with a relatively smooth growth profile an advantage vs some peers with non-linear growth.

Stock Data

Average Daily Volume	5,464,975

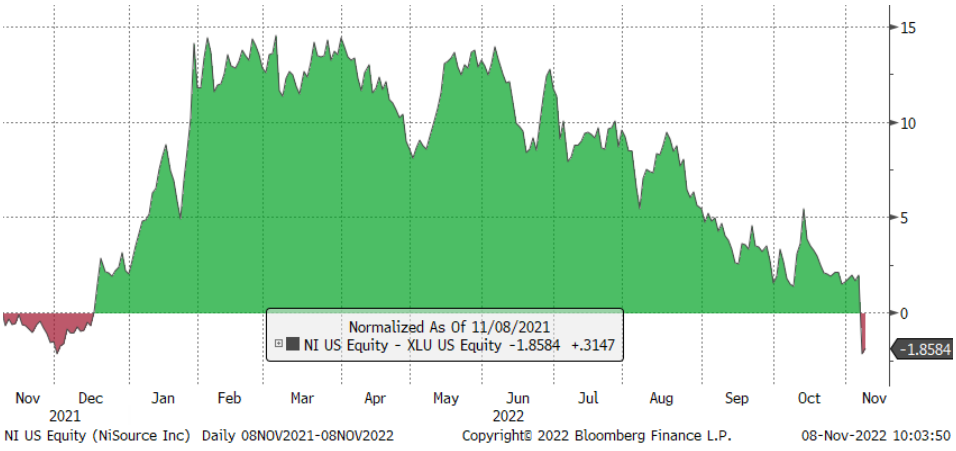
Quarterly Earnings Estimates

	2021	2022
Q1	0.77A	0.75A
Q2	0.13A	0.12E
Q3	0.11A	0.10E
Q4	1.10A	0.47E

What were the key debates today?

We provide our view on a few of the key debates raised around the November 7th New York Investor Day. We remain on balance overall positive on shares after the pullback. We appreciate it may yet take some time for investors to give credit for the new guidance given the softer growth at the front end of the plan. 2021-2022 and 2022-2023 are at the lower end of the annual trajectory which management readily acknowledges. We see shares as likely to be a bit more volatile than in the past given the need to find a minority buyer for its NIPSCO electric/gas business.

Exhibit 1: NiSource Equity (NI) Relative Performance vs Utility Peers (XLU)
NI has lagged TTM, giving back meaningful outperformance from earlier this year



Source: Bloomberg

BofA GLOBAL RESEARCH

- **Earnings:** Yes, the EPS CAGR vs annual growth debate was a bit opaque. Management seems to have intended to emphasize the growth rate implied off of 2021 through later periods in the plan, implying that 2024 was indeed a range of $1.63-1.73 rather than implying that the growth was directly off the 2023 baseline (1.65 - 7% off the $1.54 baseline). The guidance misss vs consensus EPS is principally on 2024 and 2025, unfortunate as they are the key valuation years employed by investors. The deviation vs our estimates is quite minimal in 2026-2027. Watch investors once again utilize a particular forward-looking valuation methodology here. Watch for clues on rate case cadence and capex cadence in these later periods to help affirm this six year 6-8% EPS growth outlook. *Inability to achieve the EPS growth in the early years adds to pressures on achieving guidance in the longer-term.*

- **Asset sale:** We see a 20x multiple as seemingly implied from the slides in the deck. We see that as an appropriate rough placeholder for the acquisition multiple of one of the highest growth electric/gas utilities across the utilities sector. This contrasts with the ~14x shares the combined entity trades off 2024 today, but reflects an appropriate starting point where other transactions have ranged into the ~30x ballpark. **On balance, we see more of an upside skew than downside skew to our initial placeholder.** While we read ~$200Mn/yr in further equity to enable the new higher balance sheet metrics, we stress that the sale outcome will dictate and back into 2026 and 2027 equity needs ($200 Mn is below the earlier placeholder assumption of $200-300Mn/yr in guide articulated). Moreover, tax planning and assumptions of becoming a fuller taxpayer in 2025+ also are a critical input assumption to watch.

- **Under-earning:** We have tweaked our expectations on 2024-2025 to reflect *less* lag than we had previously as management is likely to drive rate case and renewed O&M control to minimize lag further in relative 'best year' as new rates are in place. We assume some resumption of lag in future periods including ~100bp under-

earning at NIPSCO electric. This assumption remains essential to achieving the midpoint of 2024 implied EPS range. We could see lower end of the 2024 EPS range if management is less capable in rolling out cost framework or suffers from further delays that could shift timeline of the rate case within 2024. Watch under-earning piece in tandem with execution on cost savings effort – in both key OH & IN jurisdictions. Management appears confident can manage near-term plan in Ohio (just ~30% of total ask) to reasonable place. Low relative award and protracted settlement conversations would suggest likely greater pressures on achieving '23 EPS but that was not message conveyed with 2023 EPS guidance largely inline with what was expected.

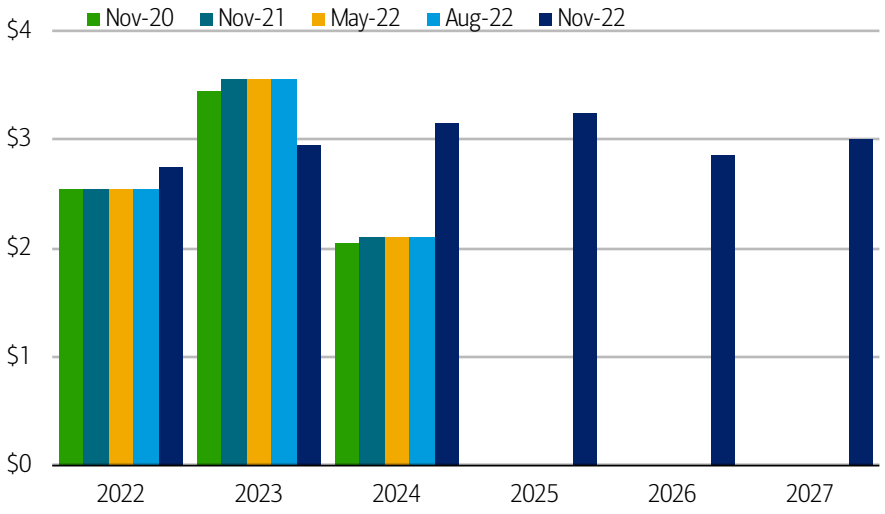
- **Reduction in ratebase:** We stress that NiSource's decision to pull-back on ratebase growth to minimize the impact on customers in the near-term (seemingly driving the reduction in outlook to 6-8% from prior, higher 7-9% EPS growth outlook) is potentially among the first of others who could very well pursue a similar action. To date we have not seen companies meaningful reduce or otherwise curtail spending in the short-term but we believe that stakeholder concerns could make this more of a trends.

- **Management:** After the extensive business review we do not expect further changes in the near-term. Mr Yates has moved to Columbus, OH and intends to stay on to lead the company despite earlier perceptions his tenure might be short-lived given the strategic transitions underway.

Changes in Capex Guidance: tracking the shift

Below we include changes in capex guidance midpoint since November 2020. Latest guidance reflets a sizable decrease in 2023 capex, but a significant jump in 2024 capex. The guidance also reflects slightly higher capex in 2022. Notably, NiSource was 1st of potentially multiple companies to cut rate base/capex growth due to bill considerations.

Exhibit 2: Changes in Capex Guidance ($Bn) = framing the evolution
Latest guidance lowered '23 expectation, increased '24 spending... spending trend moderated in near-term to help customers.. still elevated in the longer-term to enable 10%+ RAB growth.



Source: BofA Global Research, Company report

EPS Estimates

We maintain our 2022/2023 estimates, but reduce our 2024 EPS (to $1.67, down -8%). The embedded assumptions on equity raise and the previously front-end loaded growth in 2024 were muted. NiSource seems to have intended to emphasize the growth rate implied off a comparable 2021 base through later periods in the plan, implying that 2024 was indeed a range of $1.63-1.73 rather than implying that the growth was directly off the 2023 baseline (1.65 - 7% off the $1.54 baseline).

Note equity needs were seemingly described as being just $200 Mn/yr in 2026 and 2027 however total financing *implied and measured* in the slides would suggest closer to ~$800 Mn as its placeholder. We look for clarity on what is assumed: this is a key assumption that swings our estimates around the higher end of the EPS CAGR through 2027.

Exhibit 3: NiSource Adjusted EPS Estimates and Financial Snapshot
We maintain our '22/'23, but reduce our '24/'25 EPS

NI EPS Estimates		2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Gas		1.02	1.09	1.16	1.17	1.14	1.27	1.39	1.48
Electric		0.54	0.54	0.56	0.64	0.76	0.80	0.88	0.89
Parent/Other		-0.33	-0.27	-0.28	-0.27	-0.23	-0.23	-0.23	-0.23
BofA EPS		**1.32**	**1.37**	**1.44**	**1.54**	**1.67**	**1.84**	**2.04**	**2.15**
Previous EPS		1.32	1.37	1.44	1.54	1.75	1.89	2.03	2.12
				5.40%	6.85%				
Guidance / Implied			**1.36**	**1.44-1.46**	**1.50-1.57**	**1.63-1.73**			
Consensus		1.31	1.36	1.45	1.55	1.72	1.86	1.90	2.02
BofA '21-'27 EPS CAGR	7.8%								
Guidance '21-27 EPS CAGR	6-8%								
Consensus '21-'27 EPS CAGR	6.8%								
BofA '21-'24 EPS CAGR	6.9%								
Guidance '21-24 EPS CAGR	7-9%								
Consensus '21-'24 EPS CAGR	8.1%								
BofA '21-'23 EPS CAGR	6.1%								
Near Term Guidance '21-'23 EPS CAGR	5-7%								
Consensus '21-'23 EPS CAGR	6.8%								
Implied EPS Guidance by Yr given +7-9% EPS CAGR ('21-'24)	High End		1.36	1.48	1.62	1.76	1.92	2.09	2.28
	Mid-Point			1.47	1.59	1.71	1.85	2.00	2.16
	Low End			1.46	1.56	1.67	1.78	1.91	2.04
BofA DPS		**0.88**	**0.94**	**0.99**	**1.05**	**1.12**	**1.18**	**1.26**	**1.33**
Share Count (mn shares)		**384**	**417**	**443**	**464**	**543**	**546**	**552**	**559**

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Valuation: NI Valuation

We roll ahead our valuation by one year to a baseline of 2025E EPS. We MtM latest gas utility FY25E P/E multiple of 14.4x (previously 16.9x) and electric multiple of 14.8x (previously 18.2x). We reduce relative premiums: just +1x to NIPSCO Gas/Electric given sale & reduce other biz units to in-line with base peer P/E multiple. As a result, our SOTP PO now moved to $29 from $34. However, we still see a quite compelling Buy case even on our reduced EPS estimates, seeing the affirmation of a 6-8% EPS CAGR off a '21 base as a uniquely positive fact pattern.

Exhibit 4: NI SOTP Analysis
PO moved to $29 from $34 on roll forward, MTM, and reduce premium to peer multiple

NI SOTP Valuation

	Metric	P/E Multiple							
	2025E EPS	Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Gas			**14.4x**						
Group EPS '19-'23 CAGR - Gas			**5.00%**						
Gas Utilities			**15.1x**						
Columbia Gas of OH	$0.50	14.1x	15.1x	**0.0x**	15.1x	16.1x	$7.09	$7.59	$8.09
Columbia Gas of PA	$0.33	14.1x	15.1x	**0.0x**	15.1x	16.1x	$4.59	$4.92	$5.24
NIPSCO Gas	$0.25	15.1x	15.1x	**1.0x**	16.1x	17.1x	$3.82	$4.08	$4.33
Columbia Gas of VA	$0.11	14.1x	15.1x	**0.0x**	15.1x	16.1x	$1.54	$1.64	$1.75
Columbia Gas of KY	$0.06	14.1x	15.1x	**0.0x**	15.1x	16.1x	$0.79	$0.85	$0.90
Columbia Gas of MD	$0.03	14.1x	15.1x	**0.0x**	15.1x	16.1x	$0.39	$0.42	$0.45
Group Peer Multiple - Electric			**14.8x**						
Group EPS '18-'22 CAGR - Electric			**5.00%**						
Electric Utilities			**15.5x**						
NIPSCO Electric	$0.80	15.5x	15.5x	**1.0x**	16.5x	17.5x	$12.45	$13.25	$14.05
Total Utility	**$2.07**	*14.8x*			*15.8x*	*16.8x*	**$30.67**	**$32.74**	**$34.82**
-Parent EPS Drag (ex-Interest Expense)	-$0.10	14.8x	0.0x		15.4x	16.4x	-$1.49	-$1.56	-$1.66
Total EPS *(incl. debt drag)*	**$1.84**								
Midpoint of 7-9% EPS	*$1.85*								
Holdco Debt @Parent, *not* allocated to Utilities									
(50% Netting out parent debt + assumed converts)				-$1,600	50%		-$800	-$800	-$800
(50% P/E multiple on Interest Exp)				5.6%	50%		-$523	-$559	-$594
Grand Total Equity Value							**$26.75**	**$28.70**	**$30.61**
Shares Outstanding 2025E								546	
Total Equity Value							**$27.00**	**$29.00**	**$31.00**
Implied Consolidated P/E									
Current Price								$24.37	
Dividend Yield (2021E)								3.8%	
Total Potential Return								**22.8%**	

Source: BofA Global Research, company repost, Bloomberg

Price objective basis & risk

NiSource Inc (NI)
Our $29 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2025 forward P/E multiples that are marked-to-market to the latest peer utility multiples of 14.4x for gas and 14.8x for electric. We reduce relative premiums to +1x to NIPSCO Gas/Electric given sale & reduce other biz units to in-line with base peer P/E multiple. Latest capex guidance lowered '23 expectations, but moved up '24 spending. We highlight incremental renewable buildout opportunities, but acknowledge industrial gen load migration risk. While there still could be some near-term headwinds for solar, we are confident in mgmt. ability to manage and mitigate the impacts.

Consistent across our coverage universe, the base electric & gas peer P/E multiples are grossed up by +5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

Risks to our Price Objective are changes in 1) regulatory, political, and legislative outcomes, 2) customer count and load growth, 3) interest rates, 4) commodities, 5) natural disasters, 6) capital expenditures, 7) equity and asset sale needs.

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.

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Dominion Energy	D	D US	Paul Zimbardo
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Exelon	EXC	EXC US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Paul Zimbardo
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith

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Business Performance	**Numerator**	**Denominator**
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A

Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense

Valuation Toolkit	**Numerator**	**Denominator**
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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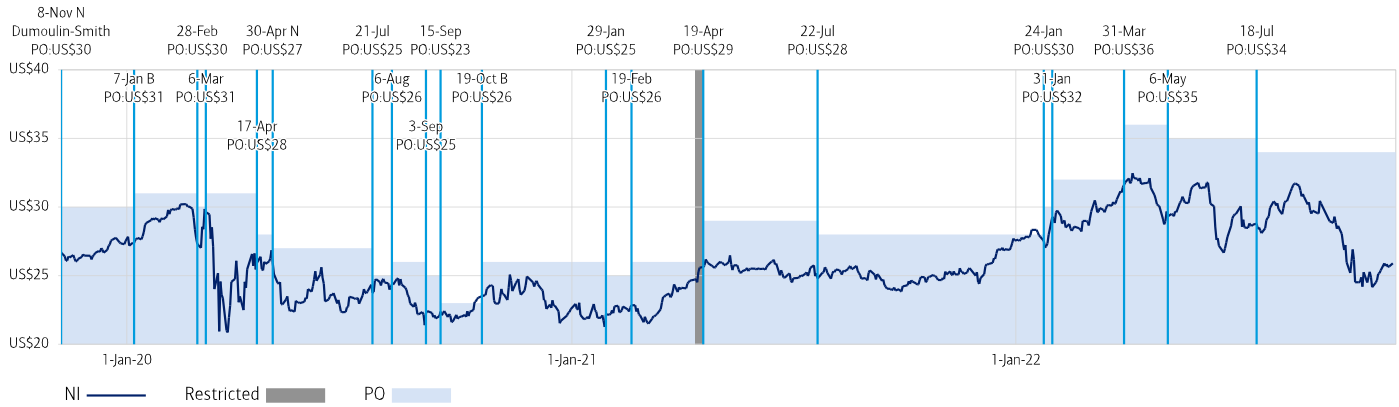
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Disclosures

Important Disclosures

NiSource Inc (NI) Price Chart



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

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

Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	77	61.11%	Buy	63	81.82%
Hold	28	22.22%	Hold	21	75.00%
Sell	21	16.67%	Sell	11	52.38%

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	77	53.47%	Buy	54	70.13%
Hold	33	22.92%	Hold	26	78.79%
Sell	34	23.61%	Sell	22	64.71%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1839	53.46%	Buy	1071	58.24%
Hold	800	23.26%	Hold	498	62.25%
Sell	801	23.28%	Sell	379	47.32%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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California: CPUC approves unchanged 2022 Cost of Capital

07 November 2022

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The California Public Utilities Commission (CPUC) voted to adopted the alternative PD, approving an *unchanged* 2022 cost of capital which will keep 2022 return on equity (ROE) consistent with prior levels - 10.25% ROE for Pacific Gas and Electric (PGE – PG&E Corp [PCG] subsidiary), 10.30% ROE for Southern California Edison (SCE – Edison International [EIX] subsidiary), and 10.20% ROE for San Diego Gas and Electric (SDG&E – Sempra [SRE] subsidiary). California is one of the few states that separates the cost of capital from rate cases. The cost of capital mechanism (CCM) resets CA regulated utility ROEs if trailing average benchmark interest rates are +/-100bps a certain band level. Given low treasury rates in 2021 and 1H22, the CCM 'triggered' and warranted a downward revision in CA ROEs. However, the California utilities - PGE, SCE and SDG&E – filed with the CPUC to request a departure from CCM. The utilities argued the COVID-19 impacted CA utilities differently as compared to the proxy utilities group and overall financial markets, warranting a departure from CCM. See our latest recap on the CCM decision and the CA regulatory backdrop: US Utilities & IPPs: CA Regulatory: CPUC sides with utilities on initial 2022 CoC decision, 2023+ in focus 05 October 2022.

This update highlights the improving CA regulatory environment and represents a favorable leading indicator as the CPUC continues to work toward a solution to the 2023-2026 Cost of Capital proceedings for CA utilities. We see the decision to leave ROE's unchanged as most beneficial to PCG and EIX, given CA concentration. *We reiterate Buy on shares of PCG with the updates* over the past month solidifying *the company's above average earnings growth outlook, underpinned by 10%+ rate base growth which is enabled by the PCG's ambitious undergrounding plan. The more favorable CA regulatory backdrop is key for PCG as the company approaches resolution on its '23-'26 General Rate Case (GRC) after recently increasing GRC capex requests for inflation (details here: PG&E: Early stages of the re-rating, despite wildfire season. Constructive updates 14 September 2022). We maintain Underperform on shares of EIX. Despite the improving CA backdrop, we see the company's* adverse *exposure to* interest rates on wildfire-related and corporate borrowings. For example, last week SCE offered $1.5Bn debt at **~5.9%. This is higher than the 5.3% refinancing rate that management disclosed with 3Q22** and 3.99% weighted average commercial paper that will be repaid with the 2022G Series bonds. Details on rate exposure here: One Step Forward, Two Steps Back: Legacy Liabilities Increase Once Again 02 November 2022. *We reiterate Buy on shares of SRE. While this CA regulatory update is a positive catalyst, updates on LNG progress at Sempra Infrastructure Partners (SIP – SRE subsidiary) are the key driver of shares; the company's 3Q22 update further accelerated progress on LNG development.*

See ETR regulatory update on page 2.

PD: Proposed Decision
CCM: Cost of Capital Mechanism
ROE: Return on Equity

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ETR: ROEs in focus w/ intervenors & Staff testimony in TX

Intervenors have filed recommendations with the Public Utilities Commission of Texas (PUCT) for Entergy Corp (ETR) ongoing electric rate case in Texas. Recall, Entergy Texas Inc (ETI – ETR subsidiary) originally requested **10.8% return on equity** (ROE), which includes 30bps management performance premium, and **51.21% equity ratio**. This would result in $131.4Mn rate increase, +11.2% rate increase versus current levels. The ROE requested by ETI is materially higher than 9.35% average ROE approved in cases decided in the first nine months of 2022 for regulated utilities across the US. We note that the cost of debt reflected in ETI's request, 3.47% or ETI's 'actual cost of debt', is now below US 30Y treasuries.

We detail select intervenors' and PUCT Staff's recommendations below. The PUCT Staff recommendation is for a **9.45% ROE**, -135bps lower than ETI's request including +30bps performance adder, or -105bps lower than ETI's base request (10.5% ROE exc. the performance adder). *We view the ROE as the most controversial element of ETR TX's request, as suggested by Intervenor recommendations. The 9.45% Staff recommendation is a reasonable level and we continue to believe that a constructive outcome can be reached between the parties.* ***The recent El Paso Electric rate case decision in Texas had a 9.35% ROE with the latest Staff slightly higher. The 30bps performance-based adder requested by ETI remains a key factor to monitor, with all intervenors opposing the request.***

Exhibit 1: Summary of Intervenor Recommendations
We summarize the intervenor recommendations below, highlighting the PUCT Staff's recent proposal

	ETI Request	PUCT Staff	Cities	TIEC
Rate Increase ($Mn)	$131.40	$76.80	($9.90)	N/A
ROE (inc. any performance adders)	10.80%	9.45%	9%	9.40%
Equity Ratio	51.21%	51.21%	51.21	
Performance Based ROE adder?	Yes - 30bps	No	No	No

Source: BofA Global Research, S&P Capital IQ

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A final decision is expected in May 2023, although the timeline may change depending on whether a settlement is reached. We reiterate Buy on shares of ETR given the company's favorable exposure to tax credits introduced in the Inflation Reduction Act (IRA), and commercial and industrial growth outlook driving earnings growth across ETR's service jurisdictions.

Further detailing PUCT Staff's recommendation

PUCT Staff's filing states that ETI's ROE request '*substantially exceeds the current market cost of capital for companies with investment risk similar to ETI*'. Additionally, Staff opposed the performance premium included in ETI's request, stating that the PUCT should reject ETI's '*extraordinary and uncommon*' request for a basis point adder to ROE. However, Staff suggests that the PUCT approve ETI's 'ring-fencing' request, consistent with recent intervenor recommendations and final PUC orders which approved 'ring-fencing' in TX rate cases, including Centerpoint Energy's (CNP) Houston Electric rate case, Sempra (SRE) Oncor electric rate case, and AEP Corp (AEP) Texas electric rate case. Lastly, Staff opposed ETI's proposed tariffs – the Transportation Electrification and Charging Infrastructure (TECI) rider and the Transportation Electrification and Charging Demand Adjustment (TECDA) rider - related to electric vehicles (EVs). Staff's recommendation cited that it was not appropriate for a vertically integrated utilities to own EV charging infrastructure, and the ownership of such facilities should be left to competitive providers.

NI: Joint stipulation filed in OH rate case; Revenue recommendation well-below request

NiSource (NI)'s Columbia Gas of Ohio subsidiary filed a joint stipulation before the Public Utilities Commission of Ohio (PUCO) in its first rate case in the jurisdiction in 13 years. The stipulation was submitted in agreement with Commission staff, the Ohio Consumers' Counsel, and a number of industrial, manufacturing, energy and commercial interest groups. While NI requested a revenue increase of $221M, the stipulation recommends a far lower sum of $68M, 30% of NI's initial request. The parties agreed to an equity ratio of 50.6%, in-line with NI's request, and recommend to the Committee a return on equity (ROE) of 9.6%. This ROE is lower than NI's request at 10.95%, and lower than the Committee's authorization in NI's previous Ohio rate case of 10.39% in 2008. The stipulation recommends a rate base of $3.51B vs NI's request of $3.56B.

While we do not view Ohio as an especially constructive jurisdiction versus other states, we are pleased by the agreement of the broad group of parties involved in the stipulation. We see the recommended ROEs as in-line with other rate cases, and while lower than NI's request, we view the figure as sufficient. That said, we flag the wide, negative gap between NI's requested revenue increase and the stipulation's recommendation as concerning. We note the settlement discussions have been ongoing for ~6+ months hence leading to a relatively lower rev vs the ask. Look for commentary on how this fits into what seems a still subdued EPS growth into '23 (lower end of 6-8%) prior to wider recovery in Indiana.

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Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: Earnings first takes: CMS & SO cautious, AEP & XEL in line, DTE & PCG positive	Julien Dumoulin-Smith	27 October 2022
Edison International: One Step Forward, Two Steps Back: Legacy Liabilities Increase Once Again	Paul Zimbardo	02 November 2022
US Utilities & IPPs: Earnings Points: ED, AEE, EVRG 1st Takes & SRE Post-Call. The Deluge Continues.	Julien Dumoulin-Smith	04 November 2022
US Utilities & IPPs: California 3Q22: Dawn of a New Day for PCG and California Outlooks	Julien Dumoulin-Smith	18 October 2022
US Utilities & IPPs: CA Regulatory: CPUC sides with utilities on initial 2022 CoC decision, 2023+ in focus	Julien Dumoulin-Smith	05 October 2022
Entergy: IRA augments LT growth as near-term storm risk alleviates. Reit. Buy, $135 PO.	Paul Zimbardo	20 September 2022
US Utilities & IPPs: PowerPoints: ETR, GNRC, UGI/AEP Mgmt, PCG FVT, NEE/PCG Insurance, TELL, Power	Julien Dumoulin-Smith	02 November 2022

Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
EIX	EIX US	Edison Intl	US$ 59.03	B-3-7
ETR	ETR US	Entergy Corp.	US$ 110.72	B-1-7
NI	NI US	NiSource Inc	US$ 25.89	A-1-7
PCG	PCG US	PG&E Corp.	US$ 15.31	C-1-9
SRE	SRE US	Sempra Energy	US$ 154.83	B-1-7

Source: BofA Global Research

Price objective basis & risk

Edison International (EIX)

Our $52 PO is based on sum of the parts analysis with a peer 16.2x 2024 P/E grossed-up 5% for group growth. A -3x P/E discount is applied to the CPUC, as well as the Parent/Other segment, and -1x P/E discount to FERC jurisdictional utilities. The discount reflects below-average growth and regulatory considerations, albeit FERC risk profile is

less challenging than the CPUC. The negative wildfire adjustments are netted-out to reflect a probabilistic approach to the risk of shareholder funded wildfires and the ongoing contribution to the CA fund on an NPV basis.

Positive and negative risks are changes in: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) Edison Energy returns, 7) ability to deploy capital, 8) environmental, social, & governance [ESG] profile, and 9) wildfire liabilities for shareholders.

Entergy (ETR)
Our $135 Price Objective (PO) is based on a sum-of-the-parts analysis. The 2024E electric utilities average P/E of 17.8x (vs 17.3x previously) is grossed-up +5%, to 18.7x, to reflect capital appreciation across the sector. We apply in-line P/E multiples to the subsidiaries except for +2x Texas to reflect the constructive regulation environment and -1x New Orleans based upon historical contentious proceedings. We net out 50% of the parent HoldCo long-term debt and apply a P/E multiple to 50% of the interest expense.

Risks to achievement of our Price Objective is 1) changing rate-making mechanisms or unexpected regulatory outcomes, 2) earned return on equities by jurisdiction, 3) hurricanes and other weather events, 4) nuclear accidents, safety events, or other incidents, 5) interest rates fluctuations, 6) equity issuances relative to management's forecast and access to capital markets, 7) ability to deploy regulated capital expenditures, 8) pension fund performance and 9) costs and operational volumes at the wholesale commodity subsidiary.

NiSource Inc (NI)
Our $34 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2024 forward P/E multiples that are marked-to-market to the latest peer utility multiples of 16.9x for gas and 18.2x for electric with a 1.0x premium for the gas utilities and a 2.0x premium for the electric gas utilities given strong growth rates and incremental renewable buildout, with capex potentially beginning in '24-'26, but acknowledge industrial gen load migration risk. While there still could be some near-term headwinds for solar, we are confident in mgmt. ability to manage and mitigate the impacts.

We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, higher natural gas prices, and inability to execute on renewables additions.

PG&E Corporation (PCG)
Our PO of $16 reflects an in-line P/E versus the respective electric (15.4x) and gas (14.9x) peer P/E groups with both grossed-up by 5% to reflect capital appreciation across the sector) based on 2024E. The acute wildfire risk is incorporated separately via a scenario probability weighted at 100% assuming PCG hits the cap in 3-year increments. Lastly, we net out 50% weighting of HoldCo debt and add back 50% weighting of interest expense to derive our Price Objective.

Risks to achievement to estimates and Price Objective include: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) Fire Victim Trust moneitizations, 7) ability to deploy capital, and 8) environmental, social, & governance [ESG] profile.

Sempra Energy (SRE)
Our $160 PO is based on a sum of the parts valuation of 2024E earnings. The US utilities are valued using the electric (15.4x) and gas (14.9x) average P/E that we grossed-up +5% to account for sector growth. We apply a -2x discounted valuation to the California gas utility (SoCal Gas) for concerns about long-term use of natural gas. We apply a -1x discounted valuation to the California electric utility (SDG&E) to reflect the wildfire risk exposure. We apply a +2x premium to the TX utility (Oncor) for above average growth and high visibility into rider recovery. The Infrastructure segment (SIP) is valued at 12x EV/EBITDA, an implied premium to the Mexican market (5.5x) and select premium US midstream comparable (Williams and TC Energy at approximately 11x) on EV/EBITDA due to its long duration contracted cash flows. The parent drag is treated on a balanced blend of P/E and HoldCo debt and cash netting.

Risks to achievement to estimates and Price Objective include: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) LNG development, 7) ability to deploy capital, and 8) environmental, social, & governance [ESG] profile.

Analyst Certification

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

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Dominion Energy	D	D US	Paul Zimbardo
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Exelon	EXC	EXC US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA

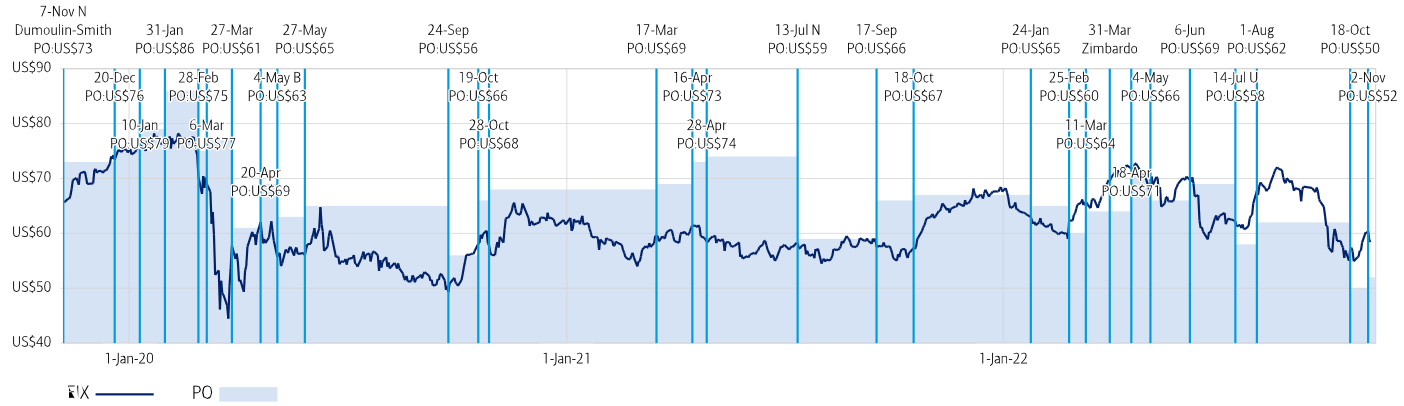
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Paul Zimbardo
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

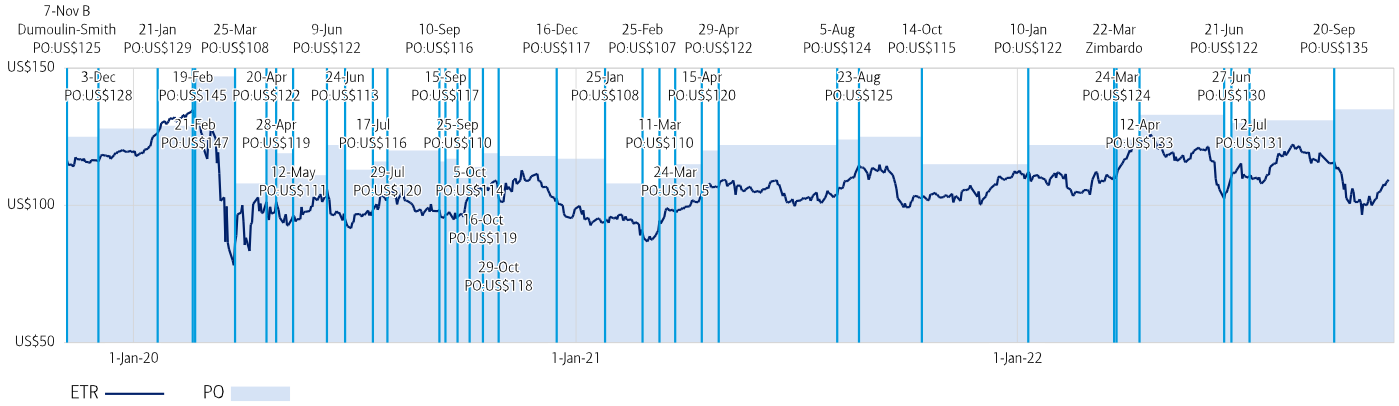
Edison Intl (EIX) Price Chart



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

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

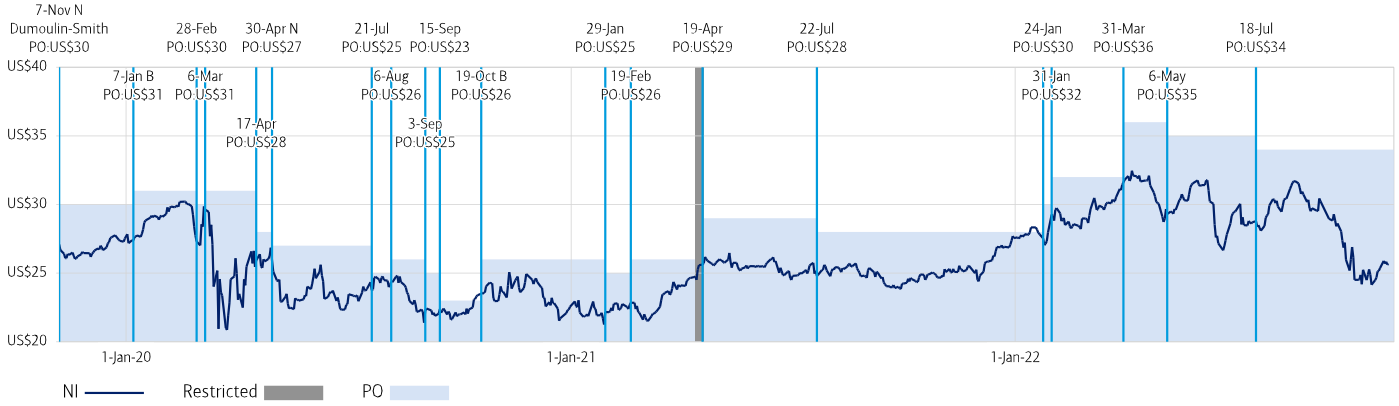
Entergy Corp. (ETR) Price Chart



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

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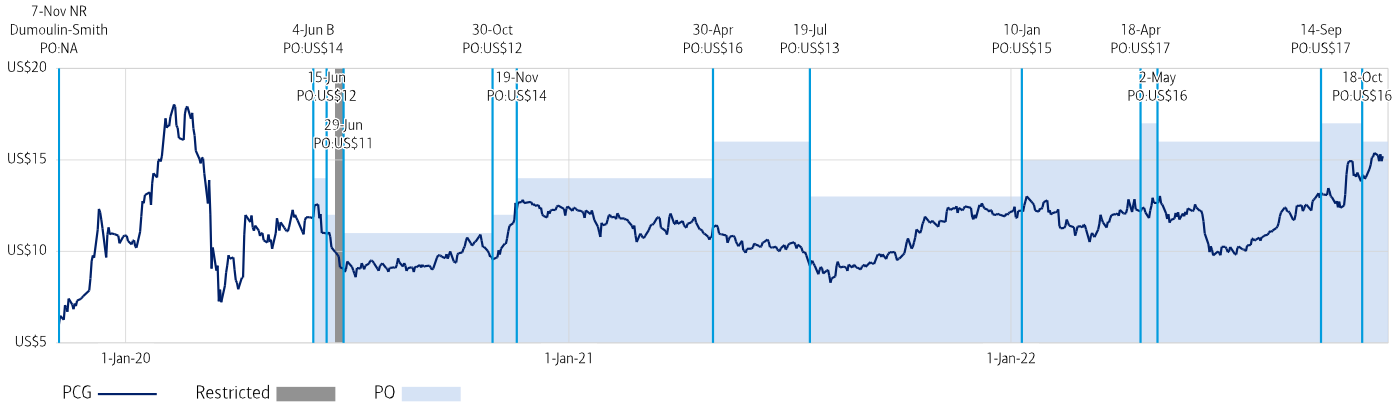
NiSource Inc (NI) Price Chart



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

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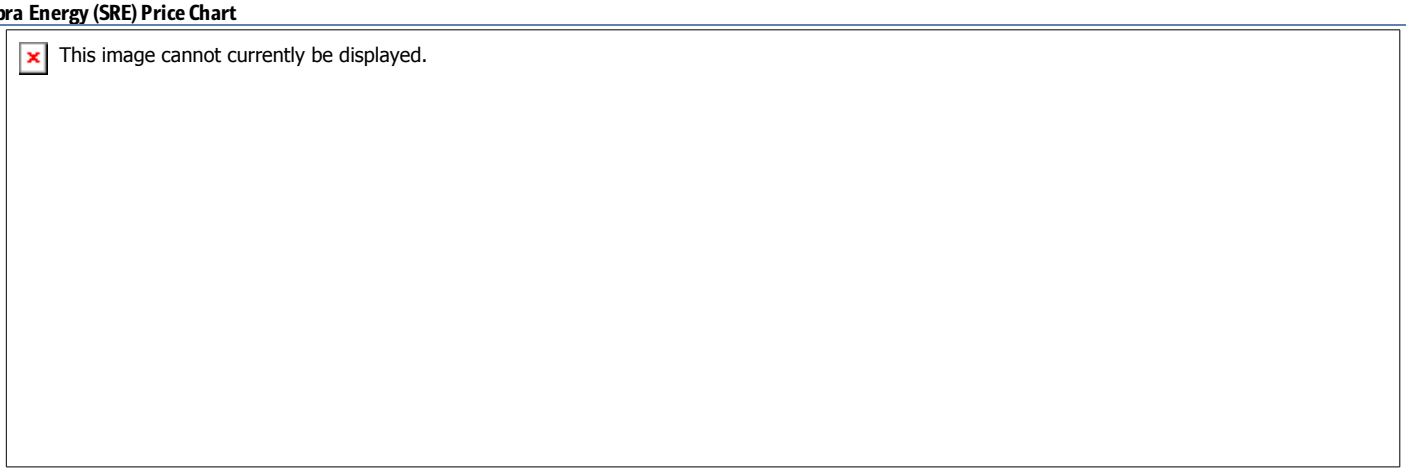
PG&E Corp. (PCG) Price Chart



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

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Sempra Energy (SRE) Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	77	61.11%	Buy	63	81.82%
Hold	28	22.22%	Hold	21	75.00%
Sell	21	16.67%	Sell	11	52.38%

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	77	53.47%	Buy	54	70.13%
Hold	33	22.92%	Hold	26	78.79%
Sell	34	23.61%	Sell	22	64.71%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1839	53.46%	Buy	1071	58.24%
Hold	800	23.26%	Hold	498	62.25%
Sell	801	23.28%	Sell	379	47.32%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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3Q Preview: Bull-Bear Debates Intensely Rage. Utilities Shelter from Rates Storm?

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Price Objective Change | 20 October 2022 | Equity | United States | Utilities

Key takeaways

- Utility sector has materially de-rated and Consensus 2023/2024 are intact, despite interest and inflationary headwinds.
- We examine the key debates on a name-by-name basis. Intense debates on names including DUK, CNP, PCG, ES, EXC, OGE, NEE, & NI
- Best positioned are ETR, PPL, DTE, NWE, NI, SRE, and CEG. More difficult setups for AWK, ES, and EIX. BKH FY23 flattish.

PO Changes:
AWK to $134 from $158
ALE to $53 from $63
EVRG to $64 from $68
WTRG to $44 from $52
ES to $76 from $88
PNW to $56 from $64
SO to $63 from $77
Details On Page 2.

IRA: Inflation Reduction Act
O&M: Operations and Maintenance

A unique earnings preview as we focus on debates

We provide our comprehensive thoughts on a company-by-company basis. Most utilities we cover are well positioned for FY22 despite growing cost pressures, but the key uncertainty is FY23+ guidance refreshes. For utilities, quarterly EPS generally is an afterthought, but we cannot recall a quarter in recent memory where the print is of as little consequence. As a result, we dedicate our preview to detailing the key investor debates. Critically, with so much uncertainty into earnings profiles, we provide our view of sentiment/positioning from our extensive investor calls, while caveating that this is a small sample size and may not be statistically significant or representative of all.

Who has 2023 risks? Who is 'safe'? The name of the game

The utilities sector is unique in having above-average earnings visibility for three-plus years due to well defined capital expenditures and rate base investment plans, but the crystal ball is the cloudiest as it has been in a decade. A myriad of factors have introduced certainty in 2022, but the breaking point for many has been the sharp rise in financing costs that were unlikely to be accounted for long-term guidances. This is in sharp contrast to the enactment of the Inflation Reduction Act, which should be net positive for the electric utilities sector, particularly the integrated utilities with renewable transformation stories. **Best positioned include ETR, PPL, DTE, NWE, NI, SRE, and CEG. Conversely, we see more challenging updates for AWK, ES, and EIX plus BKH, although we see BKH trading near fair value.**

LNT stands out with the company's FY23 EPS expectations subdued given lack of rate increases and a moderation of robust load growth in 2022. We interpret that the lower end of the 5-7% range in FY23 as likely before an upward inflection later in the cycle as solar rate base investments come on-line. See our full preview here. (https://rsch.baml.com/r?q=EgwYLWRBghCdZ4SUPMg4CA) Our investor conversations also point to sentiment around **XEL** becoming more cautious with some concern that Street estimates are too high on 2023, principally given a lower y/y step up in MN interim rates and limited latitude to control O&M as demonstrated so far in '22. We expect an initial guidance range of $3.30-3.40 in '23, see a breakdown of the trajectory here (https://rsch.baml.com/r?q=Uh2fORCSTBwnoCTxa9nM1g). Expect a relatively quiet update from **PNW** (no '23 guide), with its rate case filing in AZ likely dominating discussion; with few data points (highest regional CP) shares could be volatile around the early Nov election with 2 of 5 commission seats up for a vote, with a Republican sweep likely the best outcome for shares though the outcome is very much up in the air based on latest FiveThirtyEight polling as of Oct 19.

We have more confidence in companies that have 2023 guidance or provided recent financial refreshes such as AEP, PPL, and PCG. **WEC** remains a go-to defensive name. we expect another strong beat in Q3 which will allow mgmt. to pull ahead O&M and de-risk '23 rather than raise '22 guidance for a third time - recent de-rating only makes the entry point more attractive here: see details here (https://rsch.baml.com/r?q=syTtEWjygLO-Ad5TnQH08g).

Other key trends include IRA winners/losers, interest rates, pensions, equity needs/asset sales, fuel costs, rate cases, premium/value spreads, short interest, and overall EPS revisions.

Please see full report for details on bull/bear debates, themes, & much more.

Breaking down key changes. We update valuations of select companies to reflect the latest 15.4x electric, 14.9x natural gas, and 23.7x water. Overall the utilities sector has materially de-rated which we reflect in our latest suite of mark-to-market changes.

Exhibit 1: Summary of Changes in This Report
Price Objectives are declining across the board

			Prior					New					Delta vs Prior. (%)				Delta vs Consensus (%)			
Company	Ticker	Rating	PO	2022	2023	2024	2025	PO	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
American Water	AWK	Underperform	$158	4.45	4.74	5.18	5.64	**$134**	**4.44**	**4.73**	**5.14**	**5.55**	0%	0%	-1%	-2%	0%	-2%	-1%	-2%
Allete	ALE	Neutral	$63	3.75	4.01	4.30	4.54	**$53**	**3.75**	**4.01**	**4.30**	**4.54**	0%	0%	0%	0%	0%	2%	4%	3%
Evergy	EVRG	Neutral	$68	3.60	3.78	4.05	4.22	**$64**	**3.60**	**3.78**	**4.05**	**4.22**	0%	0%	0%	0%	1%	0%	0%	0%
Essential Utilities	WTRG	Neutral	$52	1.78	1.88	2.03	2.13	**$44**	**1.77**	**1.87**	**2.02**	**2.13**	-1%	-1%	0%	0%	-1%	-2%	-1%	-4%
Eversource	ES	Underperform	$88	4.12	4.48	4.77	5.00	**$76**	**4.13**	**4.36**	**4.69**	**4.95**	0%	-3%	-2%	-1%	1%	-1%	1%	-1%
Pinnacle West	PNW	Underperform	$64	3.96	4.14	4.32	4.62	**$56**	**3.96**	**4.14**	**4.32**	**4.62**	0%	0%	0%	0%	-2%	-1%	-3%	-2%
Southern Company	SO	Neutral	$77	3.74	3.83	4.16	4.41	**$63**	**3.74**	**3.83**	**4.16**	**4.41**	0%	0%	0%	0%	4%	1%	2%	0%

Source: Company Filings, Bloomberg, & BofA Global Research

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Important Names to Watch

In our view the best positioned companies for 3Q and EEI are Entergy (ETR), PPL Corp (PPL), DTE Energy (DTE), Northwestern Corp (NWE), NiSource (NI), Sempra (SRE), and Constellation Energy (CEG). *We maintain Buy ratings based on each company's attractive risk-adjusted return profiles, which we elaborate on in the full company sections.*

Entergy is a BofA quarterly top pick where we see a strong quarter with a FY22 guidance increase followed by EEI Conference discussion of how the company is an IRA and reshoring beneficiary. There are media articles daily discussing industrial energy demand destruction and corporate reshoring/decarbonization trends where Entergy's Gulf Coast footprint should take share. We preliminarily estimate that ETR has +5% capex upside from IRA through 2024 with greater upside in future years when Entergy has more renewables in the plan.

PPL released LT guidance in June 2022, so has a more realistic set of assumptions for interest rates, inflation, and other macro factors than many companies who have not refreshed in the past year. The IRA is set to accelerate Kentucky generation transformation capital investments sooner than we or management likely anticipated just a few months ago.

DTE Energy has previewed an accelerating growth profile for countless months, but the great reveal is finally upon us. Shares have lagged due to the highly telegraphed positive update from the integrated resource plan (IRP) and LT guidance but this management team has consistently outperformed even lofty expectations. The IRA benefit to rate base, industrial demand tailwinds, and continued large C&I interest in renewables are all incremental positives since DTE started discussing the upside to the long-term plan. Lastly the public datapoints for the value of renewable natural gas (RNG) investments is supportive of the Vantage profile too.

NorthWestern was recently double-upgraded to Buy based on the improving Montana regulatory backdrop which is both earnings and multiple accretive. It is unclear if management will address the favorable impacts of interim rates on FY22 at this point but expect management to be on the offensive with the narrative on how Montana has favorably evolved.

For **NiSource** we ultimately believe that the 2021+ EPS CAGR is extended and moderated to 6-8% from 7-9%. This reflects an existing profile intact (i.e. not calling for a negative reset in the interim) but simply a moderation from the 'hockey stick' growth into 2024. The entire strategic review and activism processes have been messy, and the November Analyst Day should be a clearing event to allow shares to return to trading more on the fundamental drivers and reflect the above-average profile.

Sempra 3Q is weak versus Consensus, but we anticipate a FY22 guidance increase and FY23 guidance should be comfortably maintained. The true upside for shares is further progress on the LNG development efforts and management strongly committed to providing a 3Q update.

Lastly, **Constellation Energy** is set to increase FY22 guidance and discuss the significant positive attributes from the IRA on the only large cap US pure-play nuclear power company. The more material capital allocation and FY23 guidance initiation positive updates are likely late calendar 2022 or 4Q22 call events but we still see a

favorable 3Q call ahead.

Conversely, we remain cautious on Eversource (ES), Edison International (EIX), and American Water (AWK). We maintain Underperform ratings based on the companies' weaker risk-adjusted total potential return, which are below average for the our coverage return, as we elaborate on in the full company sections.

Eversource has a 3Q miss and we lower our estimates to reflect reduced expectations on offshore wind proceeds as well as higher debt/equity financing costs in the plan. The more protracted asset sale timeline further dampens upside to FY23 redeployment of capital.

Edison International similarly has a 3Q miss and among the most downside to FY23 Consensus in our coverage universe. While many investors have focused on potential 1-2% 2023 misses across the sector, we are 6% below FY23 EIX Consensus, which would further call into question the achievability of the long-term guidance. There historically has been a seasonal preference of investors to buy California utilities after wildfire season (November).

American Water has a 3Q miss and we preliminarily see a 2023 guidance miss with BofA -2% below Consensus. AWK's 7-9% EPS growth profile includes 150-250bp of regulated acquisitions which could be less accretive than before with higher financing costs. Here AWK is uniquely adversely exposed. The previously highlighted pension negative earnings exposure for FY23 should largely be addressed but overall increasing O&M that is starting to manifest in 2H22 could further ding the outlook.

Neutral-rated Black Hills (BKH) was recently downgraded to Neutral due to projected minimal growth YoY in FY23 which could lead to an EPS CAGR rebasing or overall deterioration. The challenges of O&M and financing costs are most acute for small companies where we see potential for a myriad of firms to be impacted.

Two companies where we have positive long-term outlooks could have more challenging updates include PSEG (PEG) and Exelon (EXC).
PEG's 3Q update will leave clarity to be desired as management still has not quantified FY23 pension headwind and the company's 2022 has net pressures from higher financing costs without an offsetting benefit of warm weather.

We still see value in EXC and while FY23 is set to be a less robust growth year, we still anticipate growth with a stress tested +4% YoY improvement better than some bears who fear there is no growth YoY. Look for management to provide the building blocks to clear the overhang here. Finally, AMT (alternative minimum tax) and credit has been topical so we look for management to more forcefully state that it does not need incremental equity and sees path for a *de minimis* AMT cash flow impact

Key Themes

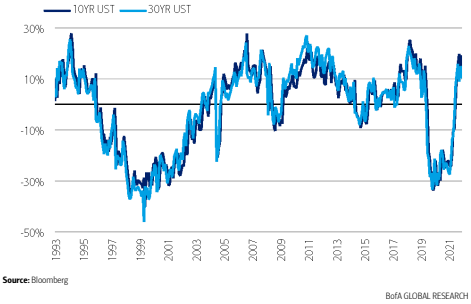
Inflation Reduction Act (IRA): Minimum tax bites and more
Exelon was one of the only utilities to quantify material minimum tax headwinds, but we expect other transmission & distribution (T&D) companies have similar challenges. For example we look for updates from FirstEnergy (FE), Edison International (EIX), and other potentially exposed companies. For EIX, the answer appears to be that management assumes that it can have customer recovery and defer impacts via regulatory memorandum accounts but overall the sector needs to provide more clarity.

On the positive side, almost every company owes the investment community a comprehensive update on capex, ratebase, and financing considerations from the Inflation Reduction Act renewables, nuclear, and hydro tax credits. This ranges from the small to substantial for companies, but expect this to be prominently on display for all companies. *Companies that are not prepared to provide crisp quantification could see underperformance based upon our investor conversations of expectations.*

Interest Rates - #1 Inbound Query in Recent Weeks (By Far)
The utility sector has sold off sharply since September 12 as investors have rapidly reassessed relative valuations, with the sector now trading at a ~20% premium to the 10Y and a ~10% premium to the 30Y UST based on our historical expected linear regression. While on its face this is a cautious data point, we highlight that relative over-valuation based on this metric has persisted for extended periods over the past two decades, including 2005-08, 2009-14, and 2017-2020, making this a far from unprecedented situation both directionally and in terms of magnitude. Relative valuation of the sector to rates has been the single most common topic of inbound queries in recent weeks as investors weigh the defensive characteristics off utilities in an increasingly risk-off market vs. relative valuation that suggests shares have further to fall to maintain historical relationships with rates. *Our preference for high-quality defensive utility shares recognizes near-term volatility as a driver, thus our preference for high-visibility stories with healthy balance sheets.*

See our latest analysis: Inflation & Utilities: Two Sides of the Same Coin? Utility Yields (https://rsch.baml.com/r?q=si!Sq5IQ7O3SxKTy5alpHQ)

Exhibit 2: Historical valuation based on regression relationship
Utilities screen as overvalued on both metrics, relationship has persisted in the past



Source: Bloomberg

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Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: Interest rate reality check: Which utilities are most exposed? End of cheap debt era (https://rsch.baml.com/r?q=C9wmi1fPFT9oWef8usClqA)	Julien Dumoulin-Smith	14 October 2022
US Electric Utilities & IPPs: Sun sets on low cost financing; who's most exposed to rising interest rates? (https://rsch.baml.com/r?q=Z8bTnVEjm53pIPwFMb!5Ug)	Julien Dumoulin-Smith	28 June 2022
CenterPoint Energy: Houston, We Have An Interest Rate Problem. Can Management Offset? (https://rsch.baml.com/r?q=GpDULpZgrsQnyQX6IAatYA)	Julien Dumoulin-Smith	11 October 2022
US Utilities & IPPs: California 3Q22: Dawn of a New Day for PCG and California Outlooks (https://rsch.baml.com/r?q=54GI5cZ5b2F4TUvxd117RA)	Julien Dumoulin-Smith	18 October 2022

Pensions: Still lingering and seemingly getting *worse*

Pensions: Still lingering and seemingly getting worse

The companies with the most acute adverse exposure to pension expense include FirstEnergy, PSE&G, Pinnacle West, Eversource, and to a far lesser degree American Water. To our understanding these companies do not use an average of year-end asset balances (i.e. smoothing multiple years) in their calculations but rather take a point estimate of year end.

We present the latest snapshots of unmitigated pension expense for PEG and FE. PEG has filed for an accounting order in New Jersey which could dampen the exposure by ~33%.

Exhibit 3: PEG Pension Analysis
Reiterate $0.18 impact to '23, excluding amortized benefit roll-off

Pension Analysis	FY22 E
Ticker	PEG US Equity
Pension Income	
YE21 Pension Assets	6,906
Expected Return (%)	497
YE22 Pension Assets - Expected	7,403
	(1,538)
YE22 Pension Assets - Actual	5,368
YE22 Pension Assets - Expected vs Actual	**2,035**
Expected Return FY23 (%)	7.2
Lower Pension Income (Pre-Tax)	147
Corridor Amortization Offset: Above 10%?	(61)
Lower Pension Income (Post-Tax)	**59**
EPS	**0.12**
Pension Expense - Underfunding	
YE21 Pension Obligation	7,240
Change in Discount Rate	(2,366)
YE22 Pension Obligation	4,874
Service & Interest Costs (Pre-Tax)	(49)
Service & Interest Costs (Post-Tax)	**(39)**
EPS	**(0.08)**
Pension Expense - Costs	
Higher Service & Interest Costs (Pre-Tax)	92
Higher Service & Interest Costs (Post-Tax)	**72**
EPS	**0.14**
Total	**92**
BofA NEGATIVE	**$0.18**
% 2023 Consensus EPS	5.2%

Source: Company Filings, Bloomberg, & BofA Global Research

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FirstEnergy committed to being able to offset the then estimate of ~$0.30 EPS drag from the 2Q22 call. We now estimate that has increased slightly to $0.34, a further headwind for the new CEO to content with.

Exhibit 4: FE Pension Analysis
Expect $0.34 impact to '23 versus $0.27 at the beginning of 2Q and $0.30 guidance

FirstEnergy (FE) Analysis	FY22 E
Pension Income	
YE21 Pension Assets	9,020
Expected Return	677
YE22 Pension Assets - Expected	9,697
Actual Return	(2,016)
YE22 Pension Assets - Actual	7,004
YE22 Pension Assets - Expected vs Actual	**2,692**
Expected Return FY23	7.50%
Lower Pension Income (Pre-Tax)	202
Lower Pension Income (Post-Tax)	**158**
EPS	**0.28**
Pension Expense - Underfunding	
YE21 Pension Obligation	11,479
Change in Discount Rate	(4,341)
YE22 Pension Obligation	7,138
Service & Interest Costs (Pre-Tax)	(123)
Service & Interest Costs (Post-Tax)	**(96)**
EPS	**(0.17)**
Pension Expense - Costs	
Higher Service & Interest Costs (Pre-Tax)	172
Higher Service & Interest Costs (Post-Tax)	**134**
EPS	**0.23**
Total Post Tax Expense	**195**
Guidance: $0.10 with ~571Mn Shares	
BofA NEGATIVE EPS	**$0.34**
Guidance: ~$0.30 for FY23 from 2Q22 Call	**$0.30**

Source: Company Filings, Bloomberg, & BofA Global Research

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Equity Needs: Utilities now "on sale" but not good for equity issuers

We expect LNT to provide a refreshed outlook for equity financing. Near-term we see need for an additional issuance of $178m in 2023, representing 40% of the portion that was previously allocated to tax equity investors - note we expect the equity funding portion to track with the 40-45% equity portion at the parent rather than at the utilities. Beyond 2023 we embed a baseline assumption that LNT will fund a similar proportion of incremental capital that had previously been allocated to tax equity with block equity for an additional incremental funding need of ~$270m across '24-25.

Portland General Electric (POR) is another company to watch due to the magnitude of equity needs, which now have a more negative impact on earnings due a lower assumed equity issuance price.

Conversely the companies that could execute buybacks, such as Consolidated Edison or Sempra, now have the opportunity to repurchase shares more accretively. To be clear we do not incorporate repurchase assumptions for either, but the weaker share prices could influence management decisions.

Asset Sales: Clearly value is declining from rates pressure.

Increasing debt and equity costs of capital are likely to negatively impact announced asset sale processes and could influence companies' plans to pursue similar avenues in the near future. The Consolidated Edison renewables asset sale datapoint at 11x was not that robust when considering it included a development company platform (i.e. value but no or negative EBITDA). Companies that have announced asset sales or strategic review plans include Avangrid, American Electric Power, Duke

Energy, Eversource Energy, NiSource, Southwest Gas Holdings, FirstEnergy Corp, PG&E Corp, MDU Resources, and AES Corp.

Another group of companies have either historically engaged in M&A or indicated that divestitures could be an avenue to raise capital. These include CenterPoint Energy, Dominion Energy, NextEra Energy, Southern Company, UGI Corp, and Sempra Energy.

Alternatively some management teams have stated an opportunistic focus on acquisitions as part of their capital allocation framework including Avangrid, Exelon, Vistra, NextEra/NextEra Energy Partners, American Water, Essential Utilities, MDU Resources, and PPL Corp.

We note that above is not intended to be a comprehensive list, but rather to capture the more relevant contours of a company's strategy or philosophy.

Fuel Costs & Recovery

The acutest of the acute customer bill inflationary pressures are purchased power & fuel costs. We have seen elevated regulatory scrutiny and delayed/extended corporate recovery in states such as Virginia, West Virginia, and Oklahoma, but we still believe this is the early days of scrutiny.

Rate Cases

PNW - We expect PNW to file its next Arizona rate case in late October. This will likely be one of the more closely watched rate case proceedings in 2023 given the highly punitive outcome of the last case and PNW's relative exposure in the state. In addition to a renewable investment rider, we expect PNW to request recovery of higher levels of pension expense, which will be a downside driver in '23 (our est -11c). Watch in-state peer Tucson Electric's case, which was filed several months earlier, as a key leading indicator, given similar outlines to both filings (ROE, renewable rider, consolidation of other mechanisms).

EVRG - EVRG has not made a Kansas rate case filing post-merger, though stakeholders have had the opportunity to articulate their positions in several dockets including Evergy's updated Capital Investment Plan (CIP) filing and annual Integrated Resource Plan (IRP) filings which saw annual updates earlier this year. On balance we expect that key interveners will remain focused on average retail rates in that state, though we note that the relative gap for industrial customers in the state has moderated of late given the sharp upward move in natural gas and Kansas' coal and renewables-heavy fuel mix. IRP and capital plan updates filed earlier this year saw staff and interveners express concern about EVRG's successive capex plans growing by $1B in each of the past two roll forwards. Specifically interveners and staff have called out Kansas-based transmission spending as potentially problematic, linking it to Kansas' significant levels of energy exports and thus not directly providing benefits to state ratepayers. We expect intervener pushback in the coming rate case to generally follow this line of reasoning as regional competitiveness has long been cited as an area where the state lags, driven in part by relatively high rates.

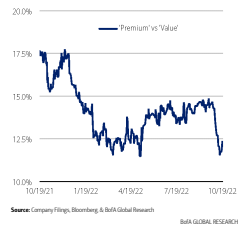
ED - Expect the latest Con Edison Company of New York (CECONY) rate case to be resolved later this fall, in line with the historical pattern of rate cases receiving a joint proposal late in the year with new rates effective Jan 1. We continue to see risks associated with the company incurring a haircut to the requested capital expenditure related to state decarbonization goals (see grid stability spend as less risky) as pressuring the long run CAGR, particularly as there are limited levers to rely on for cost reductions.

LNT - Management flagged a potential rate case filing in Iowa in 2023 which is earlier than previously planned - though Interstate Power & Light (IPL) has historically garnered constructive regulatory outcomes with the last rate case (2019) resulting in a 10% authorized ROE and 51% equity layer, nonetheless we flag this as a regulatory risk worth monitoring as LNT contemplates coming capital plan updates.

Premium vs Value vs Gas

Below we show the latest sub-sector trends where the high quality 'premium' utilities have de-rated to among their lowest premiums versus lower P/E 'value' utilities. Similarly gas utilities have sharply improved versus electrics. This dynamic is surprising as natural gas utilities have fewer incremental investment opportunities relative to electric generation companies. While natural gas bills are generally lower than electrics, the rate shock is more acute in colder climates, posing a risk of regulatory recovery.

Exhibit 5: High P/E vs Low P/E Regulated Utilities 2024 P/E Spread
Premium has de-rated. Will this continue? Defensive environment could lend some support to avoiding compression.



Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 6: Natural Gas Utilities 2024 P/E Discount vs Electrics
Conversely gas has nearly approached parity with electrics. *we think Gas Utilities overall aren't ideal risk-reward considering IRA backdrop.*



Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Short interest: Trending lower

Fundamental short interest in the utilities sector has moderately declined to an average of 2.27% from 2.37% with a median of 1.70%, down from 1.87%. The most concentrated shorts are PCG, ATO, and AGR versus the least concentrated are DUK, SRE, and NEE. The largest increases in short concentration are for Dominion +53% although still one of the lowest followed by FirstEnergy, New Jersey Resources, and Algonquin. The largest declines are for Portland General, NiSource, Fortis, American Electric Power, and Southern Company.

Exhibit 7: Short Interest Percent of Equity Float as of 6/30/22 & 10/19/22
Overall short interest has declined

SHORT_NAME	Company	6/30/22	10/19/22	% Change
PG&E CORP	PCG US Equity	5.42	5.15	-5%
ATMOS ENERGY	ATO US Equity	4.65	5.05	9%
AVANGRID INC	AGR US Equity	5.89	4.97	-16%
CAN UTILITIES-A	CU CN Equity	4.64	4.87	5%
SOUTH JERSEY IND	SJI US Equity	5.20	4.43	-15%
PNM RESOURCES	PNM US Equity	4.15	4.40	6%
SPIRE INC	SR US Equity	4.23	4.30	2%
BLACK HILLS CORP	BKH US Equity	4.13	4.12	0%
EMERA INC	EMA CN Equity	4.16	3.98	-4%
NEW JERSEY RES	NJR US Equity	3.25	3.87	19%
ALGONQUIN POWER	AQN US Equity	3.30	3.86	17%

MIDDLESEX WATER	MSEX US Equity	3.92	3.68	-6%
ONE GAS INC	OGS US Equity	3.61	3.23	-10%
HYDRO ONE LTD	H CN Equity	3.06	3.07	0%
PORTLAND GENERAL	POR US Equity	4.78	2.98	-38%
SOUTHWEST GAS HO	SWX US Equity	2.71	2.96	9%
NISOURCE INC	NI US Equity	4.30	2.73	-37%
AVISTA CORP	AVA US Equity	2.95	2.66	-10%
ENTERGY CORP	ETR US Equity	2.12	2.60	23%
ALLETE INC	ALE US Equity	3.13	2.43	-22%
SJW GROUP	SJW US Equity	1.30	1.52	16%
OGE ENERGY CORP	OGE US Equity	1.71	1.50	-12%
ESSENTIAL UTILIT	WTRG US Equity	1.29	1.48	15%
AMERICAN ELECTRI	AEP US Equity	1.78	1.35	-24%
FIRSTENERGY CORP	FE US Equity	1.02	1.32	30%
WEC ENERGY GROUP	WEC US Equity	1.55	1.30	-16%
EVERSOURCE ENERG	ES US Equity	1.20	1.26	5%
EXELON CORP	EXC US Equity	1.42	1.24	-12%
FORTIS INC	FTS US Equity	1.87	1.22	-35%
PUB SERV ENTERP	PEG US Equity	1.26	1.19	-6%
EVERGY INC	EVRG US Equity	1.02	1.19	17%
XCEL ENERGY INC	XEL US Equity	1.16	1.18	1%
HAWAIIAN ELEC	HE US Equity	1.53	1.11	-27%
AMERICAN WATER W	AWK US Equity	1.05	1.09	4%
DOMINION ENERGY	D US Equity	0.71	1.09	53%
SOUTHERN CO	SO US Equity	1.28	1.03	-20%
MGE ENERGY INC	MGEE US Equity	0.93	1.00	7%
NEXTERA ENERGY	NEE US Equity	1.05	0.99	-6%
SEMPRA ENERGY	SRE US Equity	1.11	0.94	-15%
DUKE ENERGY CORP	DUK US Equity	0.95	0.91	-4%

Source: Bloomberg

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2023 & 2024 Estimates: Consensus Shockingly intact

Surprisingly the overall utility industry 2023 and 2024 estimates are unchanged since June 30th despite the growing headwinds from inflation and interest expense. Notably four of the five companies with the most positive 2024 estimate revisions are all underperform rated: AGR +3%, AQN +2%, HE +2%, and EIX +2%. In contrast, the two companies with the most negative FY24 estimate revisions are OGE and NWE, each -2.2%.

Exhibit 8: FY23 Consensus Estimate Changes +/- 1% 6/30/22-10/19/22
Overall minimal earnings revisions

SHORT_NAME	Company	6/30	10/19	% Change
CAN UTILITIES-A	CU CN Equity	$2.24	$2.28	2.1%
HYDRO ONE LTD	H CN Equity	$1.70	$1.73	1.9%
AVANGRID INC	AGR US Equity	$2.24	$2.28	1.7%
NEXTERA ENERGY	NEE US Equity	$3.07	$3.11	1.3%
NEW JERSEY RES	NJR US Equity	$2.43	$2.46	1.2%
CENTERPOINT ENER	CNP US Equity	$1.49	$1.50	1.1%
NORTHWEST NATURA	NWN US Equity	$2.70	$2.67	-1.0%
CONS EDISON INC	ED US Equity	$4.85	$4.80	-1.1%
AVISTA CORP	AVA US Equity	$2.47	$2.45	-1.1%
PORTLAND GENERAL	POR US Equity	$2.86	$2.81	-1.9%
PUB SERV ENTERP	PEG US Equity	$3.65	$3.58	-2.1%
MDU RES GROUP	MDU US Equity	$2.25	$2.20	-2.2%
OGE ENERGY CORP	OGE US Equity	$2.11	$2.06	-2.3%
MIDDLESEX WATER	MSEX US Equity	$2.89	$2.71	-6.1%

Source: Bloomberg

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Exhibit 9: FY23 Consensus Estimate Changes +/- 1% 6/30/22-10/19/22
Wider spread of quarterly dispersion

SHORT_NAME	Company	6/30	10/19	% Change
AVISTA CORP	AVA US Equity	$0.14	$0.18	25%
BLACK HILLS CORP	BKH US Equity	$0.52	$0.64	22%
CAN UTILITIES-A	CU CN Equity	$0.34	$0.38	13%
CALIF WATER SRVC	CWT US Equity	$0.97	$1.04	8%
AVANGRID INC	AGR US Equity	$0.33	$0.35	6%
ALGONQUIN POWER	AQN US Equity	$0.17	$0.17	-5%
PUB SERV ENTERP	PEG US Equity	$0.87	$0.81	-6%
DOMINION ENERGY	D US Equity	$1.20	$1.13	-7%
EDISON INTL	EIX US Equity	$1.77	$1.63	-8%
WEC ENERGY GROUP	WEC US Equity	$0.95	$0.87	-9%
PORTLAND GENERAL	POR US Equity	$0.69	$0.62	-10%
SOUTHWEST GAS HO	SWX US Equity	$0.35	$0.31	-11%
UGI CORP	UGI US Equity	$0.13	$0.12	-11%
HAWAIIAN ELEC	HE US Equity	$0.60	$0.52	-13%
ALLETE INC	ALE US Equity	$0.84	$0.70	-17%
SJW GROUP	SJW US Equity	$0.92	$0.66	-28%
SPIRE INC	SR US Equity	$0.06	$0.02	-63%
UNITIL CORP	UTL US Equity	$0.08	$0.01	-88%

Source: Bloomberg

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Format:

On a company-by-company basis we provide (1) provide BofA views on the equity and key debates; (2) investor bull arguments; (3) investor bear arguments; and (4) view on sentiment and positioning with any nuances. *The bull/bear and sentiment thoughts are based on our extensive conversations with diverse investors including long-onlys and hedge funds with a variety of communities such as utility/power dedicated, generalist, energy, clean tech, energy transition, and more. We caveat that inherently these are based on a sampling approach and are not intended to be representative of all investors.*

Premium Utilities

The premium vs value spread has compressed, not surprising with the rise in interest rates which reduces the valuation for growth; however, we believe this is overly simplistic. Many of the premium utilities have long track records of meeting or exceeding their guidance ranges with relatively low-risk business plans. As a result, we see justification for the premia of these high-quality companies expanding relative to the broad utility index.

Ameren Corp. (AEE)

Ameren continues to screen well as an attractively valued premium utility stock with upside yet to be incorporated in the company's formal capital plan. We expect the Q3 update to be relatively modest with formal EPS and capex roll-forward traditionally coming on the Q4 call. Mgmt. has historically discussed next-year drivers at the Q3 update with O&M commentary in particular key to affirming confidence in the trajectory - note this is an area where Ameren's disclosure has lagged peers as mgmt. guides directionally lower with no additional detail, indicating little or no latitude, a contrast with other premium peers. Reiterate Buy on attractive valuation as shares have pulled back along with the rest of the premium utility group.

Bull Case: Long-run capital investment opportunity will be further crystallized over coming updates including 1) addition of MISO transmission capex into the latter portion of the coming plan (will roll to 2027) and 2) Missouri renewables likely on a subsequent update after permitting is secured. Improving visibility into 6-8% EPS trajectory makes this a premium name with upside.

Bear Case: Slow rollout of MISO transmission capex and uncertain timing of when MO renewables will be added to plan driven investors to seek opportunities with more near-term upside catalysts.

Sentiment/positioning: Generally owned and liked by investors as preferred way to gain exposure to MISO transmission theme. Less obvious consensus on regulatory setup (rate proceedings in MO and IL flagged as main risks in recent investor poll). Rush Island legal challenge and accelerated retirement date an open question mark

while legacy Callaway performance issues occasionally flagged as execution question marks.

US Electric Utilities & IPPs: Midwest Coal Generation: Parsing a series of resource updates (AEE, LNT, WEC) 24 June 2022 (https://rsch.baml.com/r?q=9hJymzYeL-jJr0SByCtXIA)

Alliant Energy Corp (LNT)

We continue to like the stock as a relative winner with renewable tailwinds and one of the more intact outlooks. Expect that mgmt. will address near-term challenges directly when setting next year's guidance range with sequential FY23 growth at just +2-3% on our updated estimate of $2.88 for 2023. The valuation premium has contracted to the lowest in 2022 (+4% vs the group) but LNT is a key Inflation Reduction Act (IRA) long-term beneficiary with the current FY23 turbulence just noise.

Bull Case: As the smallest capitalization premium utility ($12Bn vs $21Bn average ex-NextEra) with one of the greenest portfolios, LNT should trade at one of the largest premiums to peers. The profile strengthened with IRA

Bear Case: LNT's long-term EPS guidance of 5-7% with a target around the midpoint lags many utilities and requires extreme cost discipline to achieve.

Sentiment/positioning: Positioning has been very dynamic throughout 2022. Initially investors were justifiable concerned about the short-term outlook related to solar capex in the challenging macro backdrop (supply chain, investigations, etc.) which ultimately eased. Excitement returned after IRA which has given way to renewed questions about 2023 EPS due to cost pressures. Overall we would characterize LNT as a battleground stock.

Alliant Energy Corporation: 2023 and Q3 EPS preview: Long run intact but near-term pressures are real 13 October 2022 (https://rsch.baml.com/r?q=EgwYLWRBghCdZ4SUPMg4CA)

CenterPoint Energy Inc (CNP)

CenterPoint remains one of our preferred regulated utilities due to its leading growth rate (ex-PCG) and fairly conservative plan. We acknowledge that the outlook has diminished with CNP having one of the highest interest rate exposures in the sector due to the reliance on floating/variable rate borrowings. As a result we see new pressures on short- and long-term guidance but believe they are manageable with the growth profile largely intact. The incremental capital opportunities in Houston helps to firm up the profile.

Bull Case: Leading growth, upside to capital expenditures, no equity needs, mostly constructive regulatory jurisdictions, and beneficiary from IRA in Indiana. Although higher interest expense is a challenge, outlook is still solid and is a contrast to many peers.

Bear Case: The new management team only has short track record of performing here, albeit a strong one. The possibility and valuation for further asset sales has diminished while investor preference for natural gas utilities has eroded after the IRA added more investment opportunities for electric utilities. Modest downside to guidance/Consensus from interest rate headwinds

Sentiment/positioning: Mostly positive but less of a consensus long. Some investors have positioned short for a less constructive 3Q update.

CenterPoint Energy: Houston, We Have An Interest Rate Problem. Can Management Offset? 11 October 2022 (https://rsch.baml.com/r?q=GpDULpZgrsQnyQX6IAatYA)

CMS Energy Corporation (CMS)

CMS has underperformed the broader utilities sector since 2Q22 earnings where the company maintained FY22 earnings guidance despite 1H22 earnings outperformance. Nevertheless we reiterate Neutral with shares trading in-line with other premium names despite recent share weakness. While CMS is well positioned ahead for FY23 earnings guidance update expected during 3Q earnings, we do not see other positive catalysts through 2H22.

Bull Case: CMS is largely de-risked into FY23 with line-of-sight to 2023 earnings at the top-end of management's LT CAGR guide, CMS 2023 gas rate case settled, CMS electric rate case in late stages, and the Integrated Resource Plan already announced. This is favorable given investor shift to risk-off, defensive names.

Bear Case: The revival of MPSC reliability efforts following August 2022 storms increases regulatory risk ahead of key CMS electric rate cases. With CMS earnings almost entirely regulated by the MPSC, any signs of deterioration in the MI regulatory backdrop represents a risk to company LT growth outlook. Plus, recent share underperformance augments near-term equity dilution associated with the 1H23 Covert acquisition.

Sentiment/positioning: CMS has had been an investor favorite for multiple years as among the highest quality company given the track record. That halo that shares have enjoyed has dimmed following the decision to not reaffirm guidance early in covid, Enerbank surprise dilution, and overall lower visibility into earnings growth trajectory than prior years. This has manifested in the premium shrinking but CMS is still a +1x premium versus the overall group.

US Utilities & IPPs: Michigan Utilities 3Q22 Preview: Where do we stand ahead of 2023 updates? 19 October 2022 (https://rsch.baml.com/r?q=fwKsipC6hQPZ8RaiGnJ7DA)

DTE Energy Co. (DTE)

It is firmly consensus that DTE will increase its long-term EPS CAGR this Fall, either with EEI or 3Q earnings. This view is based on management commentary, upside from the forthcoming integrated resource plan (IRP), and the fact that DTE has grown 8%+ since 2020. A growing debate is whether management will rebase off the $5.84 original guidance midpoint or the $6.00 revised guidance midpoint. Historical precedent would support the former.

Bull Case: Among the strongest track records of EPS growth on a leading jurisdiction. While the EPS CAGR increases is a consensus expectation, bulls point out the favorable developments that have come in 2022 that could lead to further upside: IRA reducing the need for tax equity.

Bear Case: The core bear argument is that DTE should not trade at a large premium as earnings includes a fairly large amount of unregulated exposure (~10% of 2023 net income guidance ex-corporate/other). The value of the RNG business has eroded with increasing interest rates.

Sentiment/positioning: DTE has been a consensus long for most of 2022 which likely explains why the stock is -4% TTM. Positioning has skewed less long in recent weeks due to concerns about convertible hedging pressure but many we have spoken to plan to increase exposure ahead of EEI.

Eversource Energy (ES)

Reiterate underperform on Eversource despite the -10% underperformed YTD as we still believe that shares are trading at a premium valuation to the fundamentals. We believe that the three core legs of the bull argument are overly optimistic.

Bull Case: The optimistic view is that Eversource can sell its offshore wind business for a favorable valuation, deliver the full $3.0Bn of incremental capital that management has previewed, and have minimal/no equity financing needs. Success on these metrics can lead to ES offering an above-average EPS growth rate and returning to its historical premium to the group.

Bear Case: The combination of declining value for offshore assets (leases & development), equity needs for balance sheet improvement, and regulatory struggles in executing $3Bn of capex leads to a ~6% EPS CAGR, below average for the sector.

Sentiment/positioning: Eversource is a battleground name with dug-in bulls and bears. Sentiment has been deteriorating along with the macro backdrop as the rise in interest rates/decline in stock prices leads to a more challenged outlook.

Eversource Energy: Remain Cautious on Prospects Post-IRA: How much capex can the team deliver? 19 September 2022 (https://rsch.baml.com/r?q=nEfA6XFAVH4yRIAQA2BnXQ)

WEC Energy Group Inc. (WEC)

Reiterate Buy on shares of WEC as among our preferred defensive utility plays. Even after reducing our relative premiums applied to most of the company's WI-based utilities to 3.0x from 4.0x shares remain attractive following sell-off in premium names vs the rest of the group. Continue to prefer quality execution in supportive jurisdictions with shares of WEC screening as among the best in class.

Bull Case: WI outlook was de-risked following a settlement in rate case across all three electric and gas distribution utilities earlier this month with constructive outcome on revenue requirement and incrementally higher equity layer. Cost controls remain a key de-risking lever as well as we see '22 earnings strength likely creating additional latitude to pull ahead expenses where possible in Q4. Energy Infra segment still ahead of plan, could see additional solar generation opportunities identified following IRA legislation passage given historical preference for wind.

Bear Case: Natural gas distribution in Chicago (People's Gas) has rider rolling off at the end of 2023, leaving a question as to how mgmt. will manage lag - either via serial rate cases, or potentially multi-year plans though this would require legislation similar to that passed for electric utilities. Energy Infrastructure earnings growth likely set to moderate as the segment reaches 10% of consolidated earnings.

Sentiment/positioning: Feedback from our conversations with investors screens consistently positive on shares of WEC with the general theme being that now remains the time to 'pay up' for the highest-quality names. Intriguingly our latest survey suggests the buyside might be assuming a faster EPS inflection through 2025 than both our and Street estimates reflect ($5.22).

WEC Energy Group Inc: Among the best beats of Q2 with tax legislation upside 03 August 2022 (https://rsch.baml.com/r?q=ZiCud5dI4HxzalG5xbugsA)

Xcel Energy Inc. (XEL)

Reiterate Buy on shares of XEL given attractive valuation and our forecast for EPS growth compounding near the upper end of mgmt.'s 5-7% target range. We like the recent de-risk with testimony in the MN electric case pointing to ROE upside vs. XEL's allowed of 9.06%, among the lower authorized returns across premium utility names. Execution vs. regulatory priorities has been consistent through 2022 with key resource plan filings in both CO and MN with expectation for greater clarity on renewable opportunities in MN in particular yet to come, likely in the first half of 2023.

Bull Case: XEL remains a defensive premium utility with a strong track record of execution and constructive relationships in its key jurisdictions including MN, CO, and NM. Valuation is not demanding following the recent market volatility which saw XEL and other premiums underperform the broader utility group by several hundred basis points. With major rate cases largely resolved the regulatory outlook for 2023 is less challenging and offers good visibility. MISO tranche 1 upside should manifest in the latter part of the rolled-forward forecast too, with further runway ahead.

Bear Case: O&M latitude is limited with mgmt. increasing its 2022 expectations to point to 2% higher levels on a y/y basis, with expectations for further increases driven principally by inflationary factors. Investors view this with some caution as an indicator that XEL has comparatively less latitude to offset pressures than other premium utilities such as WEC or DTE.

Sentiment/positioning: Sentiment has deteriorated of late, though XEL remains a preferred long among investors. Offsetting its premium defensive characteristics is the concerns about O&M increases outlined in the bear case and ramifications for the company to compound growth at its target 5-7% long-run CAGR.

Xcel Energy Inc: 2023 and Q3 EPS preview: Trajectory on track for one of our favorite defensives 07 October 2022 (https://rsch.baml.com/r?q=Uh2fORCSTBwnoCTxa9nM1g)

Value Utilities

Value has positively re-rated versus premium by 200-300bp recently, not surprising given the rising rate dynamics which mathematically reduces the value of above average growth. While we generally still prefer the premium segment, we still see a robust opportunity set within the lower P/E class. Specifically, we highlight Entergy and PPL as two companies where we see strong FY22s and believe the long-term outlook has strengthened post-Inflation Reduction Act. The fairly conservative guidance plans have upside, a contrast to many companies in our coverage universe as well as the broad market.

American Electric Power, Inc (AEP)

Reiterate Buy on shares of AEP. Attractive valuation at present levels with an outlook that is de-risked at the margins given recent mgmt. refresh of long-run CAGR and 2023 guidance. We are closely watching the West Virginia and Virginia regulatory dynamics that pose risks but neither are likely large enough to derail the company's profile.

Bull Case: Contracted renewables sale comes in at attractive valuation despite largely wind portfolio and no DevCo (negative comps vs. ED at 11x EBITDA). AEP is comparably de-risked vs. peers who have not updated long-run CAGR or capital since 2021 having recently hosted an Analyst Day and refreshed the outlook in light of the current inflationary and higher rate environment.

Bear Case: Lack of tangible upside following the refresh, particularly as mgmt. talked down the opportunity to inflect beyond the 6-7% CAGR. Regulated renewables capital was a disappointment with just a modest step up despite presumed upside from IRA legislation.

Sentiment/positioning: Analyst Day was taken as a generally positive update although on the margins, and in the context of relatively low expectations. Shares are neither well owned nor shorted as reflected by valuation which has generally trended near the group average.

American Electric Power: Analyst Day Takeaways: Few surprises, but an increasingly de-risked outlook 05 October 2022 (https://rsch.baml.com/r?q=bcSIh1wN0BxavXWoht2ZVA)

Consolidated Edison (ED)

Reiterate Underperform on shares of ED. The contracted renewables sale announcement at 11x on 2023 EBITDA was a modest upside surprise vs. our and investor expectations for $6.3B enterprise value, with the final deal announcement at $6.8B. Nonetheless with the transaction now priced in attention shifts back to core fundamentals including the tough regulatory setup for the Con Ed Company of New York (CECONY) rate case which remains in settlement talks with commission staff and key parties. While a joint settlement proposal is not likely before early November, we continue to view the magnitude of the ask as challenging given the macro backdrop and inflationary pressures on ratepayers in particular.

Bull Case: A constructive CECONY rate case joint proposal delivers authorized ROE upside without reducing requested rate increase substantially. Use of proceeds for a stock buyback would also be well-received by investors after the company removed its 2022 equity issuance and pulled '23-24 guidance pending a formal update.

Bear Case: Rate case outcome that applies a haircut to the revenue requirement increase would be cautiously received - we see this as the more likely scenario given existing rate pressures on customers from increased fuel costs and potential need to socialize elevated levels of customer arrears. Unlike other utility peers ED has consistently messaged that the company has little slack to cut O&M substantially, thus we see inflationary pressures as directly impacting earned ROE.

Sentiment/positioning: Sentiment remains mixed with bulls seeing upside to EPS growth with renewables proceeds used to reduce equity needs, de-risking the long-run EPS CAGR. Bears remain focused on near-term risks around the rate case outcome given a) historical difficulty of the NY jurisdiction and b) current macro environment and rate pressures. Shares are one of the better performers YTD as investors have thus far shown enthusiasm for the business simplification strategy thought pending rate case outcome is now the next catalyst for shares in our view.

Dominion Energy (D)

Dominion is one of the worst performing companies recently due to the adverse updates around the offshore wind performance guarantee and Virginia Department of Energy's 2022 Energy Plan published. While Dominion has made progress working with stakeholders, Virginia remains an above-average risk for the company. Dominion has materially de-rated and we do not believe now is the time to capitulate but we now struggle to see shares trading at a premium to the group given average growth, large unregulated earnings mix, Virginia overearnings overhang, and emerging financing pressures. With that in mind, Dominion now trades at a 10% discount to the utility sector and we maintain Buy at this valuation. After our latest management meetings, we remain optimistic that management can find ways to revitalize consolidated growth to compensate shareholders for the above-average risk. Virginia is the clear investor focus between the DOE Energy Plan and Offshore Wind performance guarantee order but the opportunities to create shareholder value from the unregulated merchant business ('contracted assets') is underappreciated. The mark-to-market EPS from merchant Millstone earnings can help to mitigate higher financing costs in the long-term, a unique characteristic versus peers. We acknowledge that these are lower quality unregulated earnings but they would be offsetting similarly valued parent company financing expenses. If Dominion can find a way to raise capital in a more efficient way such as asset sales there is a path to improving the below average 6.5% EPS CAGR. In summary, the path ahead through 3Q/EEI Financial Conference, and January 2022 legislative session is rocky but we see more of the headwinds as priced in after the weakness.

Bull Case: Average growth with visible earnings growth via riders/trackers at a discounted valuation sums up the pitch.

Bear Case: The cautious case for shares relates to adverse legislation being enacted that restores the biennial rate reviews, returns the full extent of prudency determinations to the Virginia State Corporation Commission, and eliminates the overearnings offset mechanism with customer credit reinvestment offsets, etc.

Sentiment/positioning: Dominion has generally been viewed more cautiously by dedicated investors due to the historical Virginia earnings above allowed and guidance resets. Long only (and other) investors still discuss the dividend cut as well as less regulated earnings mix. As a consequence few investors we have spoken to have a high degree of conviction in a positive Dominion position.

Duke Energy (DUK)

Reiterate Buy on DUK following a particularly busy period during which the company hosted an ESG-oriented investor update as well as met with us for a conversation with management. We continue to see shares as attractively priced given the outlook and pending company simplification upon the sale of its contracted renewables business, with the recent 10-year capital plan increase on the margins serving to affirm the outlook for 5-7% regulated EPS growth at the RemainCo.

Bull Case: Given current valuation (0.5x discount to peers) bulls see shares as appropriately de-risked to compensate for a number of uncertainties including 1) coming EPS reset to account for the sale of the renewables business, 2) renewables valuation and ability to pay down holdco debt / reduce interest expense, 3) ability to execute on ambitious $200m O&M reduction plan in 2023+, 4) pending outcomes of North Carolina Carbon Plan proceedings as well as recently-filed NC rate case. While the story today includes an above-average number of moving pieces, prospectively the outlook is for a lower-volatility largely regulated business in generally supportive

jurisdictions with de-levering at the parent under way.

Bear Case: Bears remain focused on the unclear messaging around the renewables sale leading to yet another earnings CAGR reset as fundamentally undermining the case for DUK to compound EPS growth at its target CAGR. Commercial renewable assets are generally seen as lower-quality than ED's portfolio and therefore likely to garner a lower multiple (investors generally see 10-11x), with the sale ultimately dilutive even when accounting for parent de-levering as the principal use of proceeds. Updated capex plan at the ESG Day suggests limited upside from IRA as existing base capex plan had already assumed a carbon value.

Sentiment/positioning: In our investor conversations, Duke is one of the least preferred equities due to the expectation of downside to Street. On balance the most recent round of investor communications has addressed some lingering questions while leaving others - most notably deal proceeds and dilution - still open pending resolution likely in the first half of 2023.

Duke Energy: Meetings Recap: Yes, the Utility Outlook is Intact. Consolidated Set to "Reset"? 10 October 2022 (https://rsch.baml.com/r?q=v85bVrDsCqKUSR559sWSvA)

Entergy Corp. (ETR)

Shares have positively inflected in recent weeks and now trade at ~10% discount to the group versus approx. 12-14% throughout the summer. We attribute the recent rerating to a relatively quiet hurricane season in ETR's service regions, which peels back the storm overhang on shares.

Bull Case: ETR is at the precipice of earnings acceleration with C&I renewables growth augmented by Inflation Reduction Act (IRA) incentives and load growth in the Southeast. IRA tax credits, expected to accrue to customer in the regulated model, will improve customer affordability. Expect momentum coming out of a relatively quiet storm season, with a new CEO at the helm.

Bear Case: ETR's regulatory relationships remain subpar given ongoing System Energy Resources Inc (SERI) litigation and elevated customer affordability pressures augmenting regulatory risk in jurisdictions such as New Orleans. Elevated balance sheet risk given 2022-2024 equity need amid depressed share prices, and limited ability to flex debt given the already pressured FFO/debt ratio.

Sentiment/positioning: Entergy has been a hedge fund favorite for years but the support has weakened over the past year due to growing concerns about the balance sheet and storm exposure. The decline in ownership concentration is favorable as a common bear argument was that it was a crowded long.

Entergy: IRA augments LT growth as near-term storm risk alleviates. Reit. Buy, $135 PO. 20 September 2022 (https://rsch.baml.com/r?q=32HMKJQwNVDrQOSI7UpD!g)

FirstEnergy Corp. (FE)

First Energy shares have inflected from August lows following CEO, Steve Strah, retirement effective September 16th. Parallel to the announcement, the company signaled a potential EPS accretive minority transmission and distribution (T&D) divesture. The dual announcement surprised investors as our discussions from earlier this year indicated the majority did not expect changes to the executive team or additional FE M&A. We remain Neutral on shares of FE given the pension headwinds weighing on earnings growth and elevated uncertainty to the business outlook. With various updates including the new CEO, the potential T&D sale, and forthcoming Ohio rate cases still unknown, and pension headwinds representing a material overhang to long-term EPS CAGR, we see shares trading in line with fair value given the risk profile. We watch carefully the net accretion or dilution from the pending asset sale considering use of proceeds to paydown debt.

Bull Case: The CEO transition and potential divesture catalyzes a revival of company culture, with the decision to hire an external CEO another large step away from legacy HB6 litigation. While FY23 remains challenged, negative pension earnings impact is already appreciated by investors and incorporated in Consensus estimates, and therefore is imbedded in current valuation with any incremental offsets a positive catalyst. We look specifically towards the Nov 9th update at the NYSE as another potential date for a management update.

Bear Case: FE's 2024 Ohio rate case represents a risk to LT earnings with FE overearning in the jurisdiction. Combined with pension headwinds and IRA minimum tax provision, material risk to FY23+ earnings and balance sheet strength.

Sentiment/positioning: Sentiment is improving among investors who believe the CEO turnaround story and who increasingly view FE consolidation more likely than in the past with the company discussing asset sales. FE's transparency into the pension problem has been received favorably against other company's lack of quantifiable guidance on the pension earnings headwind (i.e. PEG).

FirstEnergy: Looking External For New Leadership: Is This an Inflection Point in the Outlook? 16 September 2022 (https://rsch.baml.com/r?q=RB932-msXzY6iGkMj4a3nQ)

Evergy, Inc (EVRG)

The current mgmt. team has assembled a strong track record since the current CEO David Campbell took over in January 2021. In the ensuing quarters EVRG has beaten Street expectations for EPS, reaffirmed and rolled forward its 6-8% long run growth CAGR, and achieved a partial settlement in its Missouri rate cases. Nonetheless we see tangible headwinds ahead as the coming Kansas rate proceeding appears to have a more challenging setup despite commission staff that we view as even-handed and not philosophically aligned with any specific outcome. Despite a strong run in the past 18 months we see the company as more likely to be playing defense with what promises to be a contentious Kansas rate case proceeding, customer rate pressures, and a gap between rate base growth targeted at 6% and EPS growth at 6-8%. Reiterate Neutral on balanced valuation.

Bull Case: Bulls point to a strong track record of execution as indicative that the company will continue to deliver both regulatory wins and strong earnings growth. EVRG could emerge a short-term relative winner as the company is not expected to issue EPS guidance until Q4 and could benefit from investors selling shares perceived to have disappointed in their 2023 outlooks presented at EEI.

Bear Case: It remains difficult to see a case for the stock re-rating in the near term ahead of its second major rate case filing expected in Kansas in early 2023. Street consensus, like BofA estimates, remains biased to the lower end of mgmt.'s 6-8% target range and it is difficult to see a path to the midpoint or upper end absent an inflection in capex, which we see as particularly challenged given vocal opposition from Kansas interveners and increasing scrutiny from the Kansas commission.

Sentiment/positioning: Sentiment has occulated with many investors staying away from the company without conviction into long-term earnings power given one of the

largest deltas between EPS and rate base guidances.

Evergy, Inc: Framing the latest regulatory debates in Kansas and beyond 28 Sept 2022 (https://rsch.baml.com/r?q=8EvoqAt2hMuR3aG7P5apDA)

Exelon Corp. (EXC)

*In our investor conversations recent months, it **was** nearly unanimous that many had lost conviction in management and the lack of a publicly articulated succession plan was an overhang. In fact both the bulls and bears had call Exelon "a 2023 story". A series of negatives have caused 10-15% underperformance from the June highs including minimum tax headwinds, unexpected block equity issuance, and seeming 2023 guidance headwinds. Despite all of this we maintain Buy as we still believe EXC can deliver 7-8% long-term EPS CAGR with a lower risk profile from reliance on riders/trackers, multi-year plans, and forward test years that reduce lag with the backdrop of better than average affordability.*

Bull Case: Premium assets in premium jurisdictions with premium growth should command a premium valuation. The only missing ingredient is premium stewardship to deliver the plan. Estimates are intact and could be conservative if Illinois earned returns are robust and the IRA headwind is lower than guided. Shares can return to the premium they briefly reached earlier in 2022.

Bear Case: T&D utilities are disadvantaged after the IRA enactment due to fewer investment opportunities which should lead to a de-rating. The bears vehemently believe that Exelon's management team justifies a discounted valuation based on historical challenges in achieving guidance and at times a confusing message. With apparent pressures 2023 and long-term guidance, it will be difficult for shares to materially re-rate positive. Lastly, EXC has a history of engaging in acquisitions. With this mix and track record of missing utility earnings guidance justifies a greater discount than the mid-single digit level that it trades at, plus risk to EPS.

Sentiment/positioning: Sentiment has steadily improved and EXC became a consensus long before the events of 2Q and Fall conference messaging that caused many to capitulate. Now we characterize the outlook as somewhat apathetic with low conviction amongst both bulls and bears.

US Utilities & IPPs: PowerPoints: EXC Management Transition 18 October 2022 (https://rsch.baml.com/r?q=0ViaGxlET3qqL8q-XBz5XA)

NiSource Inc. (NI)

The November Analyst Day detailing the outcome of the strategic review and pro-forma growth rate where the debate is whether the comparable growth rate (2021 base) will be extended at 7-9% or moderate lower. 2025+ annual capex would have to increase from $1.9-$2.3Bn in 2024 to $2.7-$3.0Bn to support an 8% EPS CAGR midpoint. This is not unrealistic given $2.6Bn 2022 and $3.6Bn 2023 in elevated generation spending years but we believe a YoY step increase in 2025 could be challenging given affordability considerations. Further increasing debt & equity financing costs add to uncertainty here. With that backdrop we see 7%+ EPS growth even a modest annual capex scenario of $2.3-$2.6Bn that should comfortably support 6-8% growth, one of the highest in the sector. Combined with a discounted valuation, we reiterate Buy. See both a nice long-term view with a catalyst rich outlook.

Bull Case: NI is cheap at ~1x P/E discount to electric peers in 2024-2025 while offering a premium growth rate. Expectations for the strategic review have moderated.

Bear Case: Without a concrete positive update from the strategic review and potentially slowing growth, shares deserve to trade at a larger discount.

Sentiment/positioning: NI was a clear consensus long around the initiation of the strategic review, but sentiment has clearly deteriorated in recent months and weeks. Still there is a vocal contingent of bullish investors. Short interest has declined to a one-year low although is still ~3% of float.

OGE Energy Corp (OGE)

We keep expectations appropriately subdued for a long-term EPS CAGR refresh so recently after the 4Q21 increase and with growing regulatory & affordability uncertainty. The upside for capital expenditures is clear and well known but we would not be surprised to see management dial-back distribution spending to tamp-down on bill inflation. 3Q call should deliver a strong FY22 guidance increase with management already pointing to the top-end of the range on the 2Q call before well above average weather occurred. Reiterate Buy with these favorable short- and long-term dynamics ahead.

Bull Case: While OGE may appear to be more expensive than peers on Consensus estimates for 2024, that does not capture the benefit of

Bear Case: OGE trades at a +2% premium on 2024 Consensus when the company has historically been a discounted valuation with below-average growth.

Sentiment/positioning: OGE has been an investor favorite from late 2021 through most of 2022 on the acceleration of growth but has seen a deterioration in sentiment when the stock reached a premium on 2024 Consensus estimates. Now the stock has turned into a debate name.

Pinnacle West Capital Co. (PNW)

Reiterate Underperform on shares of PNW. Shares continue to trade at only a modest discount to the broader utility group following the latest bout of volatility in the sector. We continue to see PNW as exposed to a consistent and elevated regulatory risk profile, particularly with a coming rate case filing. While concerns about the pension impact on earnings have subsided after reaching a peak during Q2, we continue to expect a drag on 2023 earnings though mgmt. is not likely to offer full-year EPS guidance given the pending rate case filing.

Bull Case: Near-term the stock could see short-term relief if Arizona Corporation Commission (ACC) elections skew favorably for Republicans, though we note that long-term outcomes at the commission are not necessarily dictated along party lines. One potential scenario for outperformance in the short term is linked to the fact that mgmt. is not likely to provide 2023 EPS guidance due to the upcoming rate case filing. With some investors expressing concern that companies offering 2023 guidance could disappoint expectations and underperform, PNW could emerge as a relative winner by not providing guidance.

Bear Case: Expect rate case data points to be limited for the balance of 2022 beyond the initial filing, which is expected in late October or early November. Overall outline of the filing is expected to follow in-state peer Fortis including a renewable generation rider and consolidation of existing rider mechanisms. With lack of intervener or staff testimony until later in '23 we do not see obvious upside catalysts for shares in the near term, outside of a potential short-term election-related move depending on the outcome.

Sentiment/positioning: Investors continue to view shares cautiously heading into a critical election cycle and ahead of another major rate case filing - the stock remains a consensus short.

Pinnacle West: Pension overhang outlook improves, but O&M a near-term drag 04 August 2022 (https://rsch.baml.com/r?q=-ElmJm!SuAADEqyemlLC6g)

PPL Corporation (PPL)

Our conviction in PPL has grown since our August upgrade with management appearing to have made fairly conservative assumptions and the ability to offset operating and financing cost pressures that are negatively impacting many in the industry. It is true that there are floating rate interest expense pressures in 2H22/23+ but it represents only $0.01-$0.02 (~1%), a magnitude that is able to offset. PPL provided its long-awaited multi-year guidance refresh in June when the 10Yr was 3.0-3.25%, approximately 100bp lower than current levels but far above the 1.5% when many peers set long-term guidance in November 2021.

Bull Case: Best-in-class track record of controlling O&M in Pennsylvania core utility can be applied in Kentucky during the planned stay-out and for the newly acquired Rhode Island businesses. De minimis regulatory proceedings conversely keeps shares out of the headlines and the crosshairs of potentially adversarial proceedings.

Bear Case: The 6-8% EPS growth profile is not sustainable with 3-4% rate base growth which is based upon one of the more aggressive O&M reduction trajectories in the sector. PPL also has floating rate interest rate exposure and without plans for a rate case, any inflationary pressures will be the responsibility of shareholders.

Sentiment/positioning: We observed initial minimal traction to our August upgrade but investors have become more receptive in recent weeks

PPL Corporation: Sun set to shine in Kentucky; upgrade to Buy after underperformance & IRA beneficiary 15 August 2022 (https://rsch.baml.com/r?q=MsZD4ItqkVERoLpnyLfUyQ)

Public Service Enterprise Group (PEG)

PEG shares have traded at a steep discount to the group (~10%) since the Street became aware of the 2023 pension earnings headwind in May 2022. Management's reluctance to quantify the earnings headwind or potential cost offsets exacerbated the pension overhang, leaving investors to assume the worst and sending shares lower. Investor concern over PEG's exposure to interest rates and inflationary O&M pressures have compounded pension-related FY23 earnings concerns of late, overshadowing positive macro updates including PEG's eligibility for lucrative IRA production tax credits (PTCs) on its existing nuclear portfolio. Nevertheless, we reiterate our Buy rating on shares of PEG, with the company continuing to trade at 'utility-only' value ($55/sh). We do not believe unregulated Power value is appropriately reflect in shares despite the most attractive backdrop for nuclear operations in years.

Bull Case: Valuation driven. PEG trades at steep discount to group given 2023 earnings risks, yet these risks are already well appreciated by investors and baked into expectations. At these levels, investors are getting an increasingly attractive nuclear profile essentially for 'free'. Additionally, PEG is a lead contender for the offshore wind transmission contract from the NJ BPU. This represents $1Bn+ incremental capex spend, a positive NT catalyst. Bulls acknowledge that a simplification transaction involving nuclear is unlikely to be near-term event but there is the upside optionality.

Bear Case: Shares are essentially 'stuck in the mud' until management addresses FY23 earnings guide or quantifies pension impact, and management has consistently reiterated that PEG will refrain from quantifying the magnitude of pension impact until after year-end 2022. This extends near-term uncertainty on FY23+ earnings outlook while continued market deterioration likely augments PEG's pension issue.

Sentiment/positioning: Investors still mostly on the sidelines until FY23 guidance given pension dynamic. Nevertheless, expect a relatively quiet 3Q / EEI update with the company unlikely to deliver 'bad news' during the new CEO Mr. Ralph LaRossa's inaugural earnings call.

Public Service Enterprise Group: Pension problem goes unsolved, but shares attractive w/ long-term upside. Reit Buy. 03 August 2022 (https://rsch.baml.com/r?q=hwDs9PbEWRU3Qqp6Z2wtkw)

Southern Company (SO)

Reiterate Neutral on Southern. Shares have held up well during the recent market volatility and have outperformed the XLU by ~5% YTD on constructive data points around Vogtle as well as the perceived 'flight to safety' for the defensive company. Fuel load was a critical milestone and investor attention is turning to ability to execute on the remaining deliverables for the upcoming months.

Bull Case: Bull case revolves around execution at Vogtle and lack of further delays, particularly with Unit 3 largely de-risked at present and focus now shifting to the construction schedule for Unit 4. Recent push back of the U4 schedule in particular represents a de-risk vs. previous relatively aggressive timeline. SO has traded at one of the largest premiums in the sector before Kemper and Vogtle large projects with bulls arguing that shares can return to that level.

Bear Case: Stock now screens as overvalued based on forecast growth rate following outperformance thus far in 2022. Core utility growth in the 4-5% range with Vogtle in-servicing step up in 2024 representing a one-time step change, otherwise growth is below peers.

Sentiment/positioning: Investors generally cautious on shares at the current valuation, generally reluctant to step in given large project execution risk and a meaningful level of regulatory risk given the pending Georgia Power rate case. Affordability and regulatory/political considerations are growing, a key debate point with delayed Public Service Commission election.

Southern Company: Trending Positively on Vogtle, ITAACs Filed; IRA Presents Upside; Succession? 01 August 2022 (https://rsch.baml.com/r?q=k9qtgdgFuMivi6DJLmDpRQ)

California Utilities

We preview the 3Q updates for the three large California investor-owned utilities: Edison International (EIX), PG&E Corp (PCG), and Sempra (SRE). It has been a volatile period for the companies. Since July 15 the California names have had robust relative performance which was led by the blistering pace of PCG +46% followed by solid strength in SRE +5% SRE with EIX roughly flat during the period. *We reiterate Buy on PCG/SRE and Underperform on EIX despite the relative performance with growth profile bifurcations.*

The outlook for all California investor-owned utilities has undoubtedly improved recently and in recent months. The California Public Utilities Commission 2022 cost of capital update was favorable for the utilities, see details: CPUC sides with utilities on initial 2022 CoC decision, 2023+ in focus.

US Utilities & IPPs: California 3Q22: Dawn of a New Day for PCG and California Outlooks 18 October 2022 (https://rsch.baml.com/r?q=54G!ScZ5b2F4TUvxd117RA)

Edison International (EIX)

We remain less constructive on EIX due to its relatively high adverse exposure to interest rates at the parent and utility for wildfire expenses. Compared with our July 14th downgrade report we estimate an incremental approximate 125bp increase in BofAe pro-forma financing costs to ~5.9% from ~4.6%. EIX stated it assumes 3.75% interest rates in its long-term plan. This drives (1) +$28Mn [$0.07 EPS] pro-forma parent company and (2) $21Mn [$0.05] wildfire claim utility after-tax interest expense by 2027.

We have focused primarily on debt but there is additional pressure from the parent preferred stock issued in 2021 which resets in 2026/2027. EIX has $1,250Mn Series A 5.375% and $750Bn Series B 5.0% preferred which resets to 5Yr US Treasury + 4.698% in 1H26 and +3.901% in 1H27, respectively. Based on current treasuries this implies a hefty 8-9% preferred and incremental $69Mn pre-tax interest expense. This is a $0.12 $0.13 further headwind by 2027 that notably begins just after the EPS guidance period which runs through 2025. Expect investor attention to shift to FY23 guidance where we are -8% below Consensus with only +2% YoY growth.

Bull Case: EIX now trades within 0.5x 2025 P/E of PCG using Consensus which is too tight of a spread due to PCG's higher risk profile. Potential recovery of legacy wildfire/mudslide charges would remove interest rate risk and improve the earnings outlook. The entire California complex is improving from utility investments and a more supportive CPUC backdrop.

Bear Case: EIX's LT guidance is unachievable due to interest rate exposure which is a substantial overhang on the stock. 3Q quarterly miss followed by FY23 headwinds will lead to rotation out of the name.

Sentiment/positioning: EIX has been a consensus short for some time but sentiment has improved as PCG re-rated and the company began to trade more at parity with PCG on Consensus. Many investors are still not comfortable owning the California utilities but more are willing to assume the above-average risk profile.

PG&E Corporation (PCG)

PCG has had among the most favorable set of updates in 2022: S&P 500 inclusion, general rate case rate base increase, undergrounding/nuclear legislation enactment, non-nuclear generation asset sale plans, wildfire mitigation plan draft approval, 2022 cost of capital support, and self-insurance settlement to name just a few. Despite the outperformance PCG still trades at a 30-35% discount to the utilities group. We agree that PCG has above average risk, but we believe that investors are being compensated for the risk profile with a 9-10% EPS CAGR, well above peers at ~6.6%. In contrast to many utilities and nearly all companies we see upside to long-term guidance, a counterintuitive defensive attribute for PCG.

Bull Case: The forthcoming end of wildfire season is another catalyst for shares which is already gathering momentum and interest from a broad pool of investors. Execution of the non-nuclear asset sale will give a positive valuation mark versus where shares trade and address tail concerns on equity needs.

Bear Case: Can the stock continue to outperform after surging +23% vs peers in the past month? Potential Fire Victim Trust (FVT) sales could limit further re-rating potential

Sentiment/positioning: PCG has been relatively thinly followed since the utility emerged from bankruptcy. Surprisingly non-dedicated investors have been buying throughout 2022 and the latest rally has been from traditional utility investors not wanting to miss out on the potential re-rating.

Sempra Energy (SRE)

After outperforming +20% YTD and ~7% from the July lows, there is certainly less relative upside but we still reiterate Buy with favorable catalysts ahead. 3Q22 should be a strong update as we expect FY22 guidance to increase and critically, an update on LNG development progress. Given the global gas shortage and the energy crisis in Europe, and with winter looming, we expect the LNG development and contracting environment will continue to support longer-dated LNG contracts at attractive project returns despite inflationary pressures.

Bull Case: LNG development tailwinds support (1) long-duration contracts with strong returns that are not yet reflected in current valuation (2) attractive valuation for any further LNG project equity sell-down. Plus, improving CA regulatory backdrop and load growth at Texas utility, Oncor, drives further upside to the earnings outlook.

Bear Case: Should SRE trade near a group multiple (14.6x 2024 vs peers at 14.9x) given the unregulated (Mexico & LNG) and California (SoCal Gas & San Diego Gas & Electric) exposure? Plus, recent outperformance suggests Street expectations largely baking in execution on timely LNG development. This is a potential risky position considering inflationary / supply chain pressures delaying energy projects to date.

Sentiment/positioning: SRE has evolved into a consensus long with short interest below 1% on average since 2Q22 earnings. Our conversations with investors indicate overwhelming focus on the LNG development platform over SRE's utilities businesses, with SRE key value proposition as a way to benefit from LNG tailwinds.

Diversified Utilities

Avangrid Inc. (AGR)

Shares have underperformed the broader utilities group -5% since the 2022 Investor Day in September. Thus, the potential $1.9Bn equity raise outlined during the Investor Day now represents 10-15% of AGR market cap given share declines. This is likely higher than that originally imbedded in management's plan, with shares trading ~$50 prior to the Investor Day. Yet despite recent underperformance, AGR continues to trade at ~5% premium to the broader utilities group (16.7x 2024E vs 15.8x). We reiterate Underperform based on our view that shares instead deserve to trade at a discount given AGR's larger unregulated mix, outstanding rate cases in historically challenged regulatory jurisdictions, legacy inability to achieve long-term guidance, and, critically, AGR's near-term equity need. While 3Q22 earnings should be relatively quiet following the Investor Day, rate cases across AGR's New York, Maine, and Connecticut subsidiaries, New England Clean Energy Connect (NECEC) litigation and PNM Resources (PNM) acquisition remain critical share catalysts to monitor.

Bull Case: More favorable regulatory outcomes, specifically in NY and Maine, may drive earnings growth beyond that embedded in management's 6-7% CAGR 2022-

2025 update. Additionally, upside to the company's renewable development activity, including Inflation Reduction Act (IRA) incentives and elevated power prices, is not reflected in Street forecasts.

Bear Case: Risks to 6-7% EPS CAGR which relies on timely renewable deployments, steady offshore returns, NECEC execution and PNM acquisition. The macro backdrop of rising rates and inflationary pressures elevates operational risk for the company's renewables development efforts. To date, inflationary headwinds have delayed AGR renewable deployments and pressured project returns, specifically offshore wind returns. Additionally, utilities in the Northeast are more exposed to 3Q/4Q affordability concerns given elevated natural gas prices in the region. This is particularly cautionary given AGR's outstanding rate cases across its largest utility subsidiaries in NY, CT and ME, and represents fundamental risk to earnings outlook.

Sentiment/positioning: Our discussions with investors suggest the majority remain cautious on shares of AGR following the '22 Investor Day. However, with the Investor day now in the rearview, we do not see clear NT share catalysts until regulatory outcomes or any meaningful update on NECEC or PNM materialize. We find most investors expect PNM acquisition to close, although many are more cautious on NECEC project execution.

Avangrid: Dissecting Investor Day EPS outlook: Identifying upside and pressure points 03 October 2022 (https://rsch.baml.com/r?q=L5b1WNXb250hHcnvW5cK7g)

Allete Inc. (ALE)

Reiterate our Neutral view on shares of Allete. We view risk reward as balanced given the low multiple vs. peers at which the stock trades along with ALE's unique risk profile. Rate base growth at the Minnesota utility along with exposure to a small number of industrial customers continue to screen cautiously, particularly with lack of staff and intervener support for a stabilization mechanism - see incremental ROE improvement upon resolution of the current case but still a substantial amount of lag in the 100-200 bps range as has historically been the pattern. New Energy solar platform critical to extending the ALLETE Clean Energy (ACE) growth rate but early days still in integrating the business, and we do not see the value creation as part of ALE just yet.

Bull Case: Bulls point to relative valuation which admittedly is stretched to the downside. While utility ROE certainly remains exposed to demand fluctuations from a core group of industrial customers, the underlying industries (taconite production and pulp & paper) have been resilient long-term and have served as reliable customers, if not fast-growing ones. Expect ROE fluctuations to smooth over time at the utility. Solar platform should be well-positioned to capture incremental benefits from IRA legislation as the deal was closed shortly before the bill was announced.

Bear Case: Despite a discounted valuation, it is not obvious where the upward inflection for shares will come in a generally defensive tape. Company guidance already reflects a healthy 15%+ growth rate for the renewables business plus corporate & other, making a further upward inflection unlikely. Despite large and growing renewables business, legacy businesses including a coal mine and carbon-intensive industrial customers keep ALE from consideration as an ESG name.

Sentiment/positioning: Investors have taken note of depressed valuation, though generally we do not consider ALE a consensus long. Sentiment still cautious reflecting view that now is not the time for a utility with outsized macro/recession risk as could manifest in a prolonged downturn for the steel/taconite industry.

Allete Inc: Utility uncertainty keeps a lid on positive renewables story 12 September 2022 (https://rsch.baml.com/r?q=bAcqsgfDbUOfaOLJBPNW!A)

NextEra Energy (NEE)

NEE is one of the clearest IRA beneficiaries as a leading renewables developer and its refreshed guidance is premised on a pre-IRA outlook where there is the potential for more material positive revisions. At a minimum there is visibility to maintaining a leading EPS CAGR for a longer duration. Consensus remains broadly below management's guidance already despite the company pointing to the top-end of the trajectory.

Bull Case: NEE is still -10% YTD versus the utilities index YTD, albeit it well off the lows, but with the material positive from IRA the stock should be outperforming the group. Potential for 4Q22 guidance update.

Bear Case: The more cautious stance of investors relates to macroeconomic considerations rather than company specifics with uncertainty about how the company's stock can perform as a growth equity in a higher rate environment. There are still lingering concerns around the Florida regulatory environment with negative media headlines related to political involvement.

Sentiment/positioning: After years of being a consensus long, positioning has dispersed with broad based bear and bull camps. Dedicated utility investors have been more positive recently with earnings visibility in a challenging economic backdrop and increasing opportunity set of renewables. More clean tech oriented investors have preferred higher beta pure play renewable companies than NEE.

MDU Resources Group Inc (MDU)

Maintain Neutral on shares of MDU given modestly positive total return implied by our sum of the parts valuation. The outlook remains relatively opaque for the stock as we continue to see inflationary pressures impacting margins, particularly in the macro-sensitive construction businesses - the key question remains whether mgmt. successfully reset investor expectations following a disappointing Q2 print. Expect the update on the pending spin of Knife River to be relatively limited too given relatively early days in that process as well.

Bull Case: Mgmt. of MDU has been touting higher-priced construction materials orders in the backlog as likely to start being realized in sales starting in the Q2-Q3 period, and with weather delaying some work earlier in the year the third quarter could provide an upside surprise. Activist involvement as announced in a filing after the company's Q2 report shows that investors remain interested in the sum of the parts story, and could sustain momentum in shares seen since the August announcement - MDU has outperformed the XLU by 16% since market close on Aug 3.

Bear Case: Bearish feedback has generally focused on remaining upside in the stock following outperformance, with sum of the parts starting to look expensive given mark to market for the latest peer multiples for gas, electric, pipeline, and construction. Execution has been a weak spot in recent quarters with mgmt. missing EPS for the past five quarters, with margins at the materials business the most commonly-cited factor. Given macro indicators including CPI prints and fuel prices it is not obvious that the pressures that have weighed on results in recent quarters have abated, though higher pricing should provide incremental relief.

Sentiment/positioning: Short interest in the stock remains modest compared to SMID peers at 1.6% of float. While the announcement of the Knife River spin and activist involvement following the Q2 print were well received by the market, we sense investor skepticism about further upside, particularly in an environment that has rapidly shifted to a macro focus and playing defense.

Southwest Gas Corp (SWX)

We maintain Buy on SWX where we still see a compelling sum-of-the-parts valuation which does not require overly optimistic assumptions to see a path for upside. The path to value creation has certainly become less clear in a rising interest rate environment but we believe that is appropriately reflected in shares.

Bull Case: The assets that are subject to strategic review should garner attractive premium valuations, particularly Centuri for a strategic acquirer. The incremental opportunity investment set for Mountain West is underappreciated and there are potential avenues to enhance earnings.

Bear Case: The valuation for the unregulated midstream (Mountain West) and construction services (Centuri) has declined with the rise in interest rates. Further many are now questioning the willingness of a strategic or private buyer to undertake such a large free cash flow negative acquisition. SWX's reliance on variable rate debt is a material negative in a rising rate environment

Sentiment/positioning: Short interest has steadily increased as the headwinds have mounted and candidly few investors we have spoken with agree with our Buy case.

Southwest Gas Holdings: Finding solace in the desert: valuation attractive, eyes on AZ & asset sales 22 September 2022 (https://rsch.baml.com/r?q=y!5QlD4p-Afn37nmaoMq3A)

Independent Power Producers (IPPs)

AES Corporation

Reiterate Buy as one of the best value opportunities and a key equity for clean energy exposure. Well on track to deliver on FY22, longer term tailwinds with AES an outsized beneficiary of IRA & numerous EPS upside angles. Some investors have questioned the adverse F/X and commodity headwinds but those are poised to flip to be a material positive in FY24+ based on the underlying fundamentals.

Bull Case: 'Mini NextEra' trading at a much lower valuation. IRA a significant positive for long-term earnings and there are still robust green blend-and-extend 2.0 potential avenues. While the non-US businesses of course do not benefit from IRA, the global footprint offers US investors are relatively lower risk avenue to invest in global renewables under a disciplined management team. AES' relationships with large industrials in key geographies gives it an advantage in decarbonization investments.

Bear Case: Fluence remains a drag on EPS, Dayton Power & Light has struggled and its credit metrics remain stubbornly weak, and there is still large project risk for many of the ventures. The company has had challenges in achieving its financial targets historically which limits the degree of investor confidence in the outlook.

Sentiment/positioning: Generally a consensus long among the dedicated investor community although there are many who shy away from the story given the complexity and overall difficulty to model the fragmented company. AES requires tracking of emerging markets, currencies, commodities, and other macro factors that are simply not in many investors' fields of expertise.

AES: 3Q22 preview: Limited pressures here; Why we're getting quite constructive 05 October 2022 (https://rsch.baml.com/r?q=zzqnmKeGfPTmV14dp1qYnw)

Constellation Energy (CEG)

We reiterate Buy on Constellation Energy (CEG) despite the outperformance and positive re-rating versus the broad market. The upcoming 3Q call will be relatively subdued with 2023 guidance initiation expected on the 4Q call and capital allocation likely late 2022 at the earliest. On the 3Q call we expect a FY22 guidance increase with $2.8Bn BofAe above the top-end of $2.35-$2.75Bn guidance range and $2.64Bn Consensus. Investors are eagerly watching for nuclear consolidation opportunities with particular attention on Talen Energy (TLN - Private) bankruptcy confirmation hearing set for December 15th.

Bull Case: Numerous angles but simply stated shares have upside to Consensus, opportunities to deliver share repurchases, and are unique exposed to the nuclear/hydrogen themes that support re-rating post Inflation Reduction Act.

Bear Case: Expectations are elevated for CEG and hydrogen opportunities are years away at the earliest. The immediate attention will be on CEG's plans to acquire other nuclear plants which could be a 'sell the news' event with attention turning to lack of buybacks (a contrast to NRG/VST), regulatory uncertainty, and execution issues.

Sentiment/positioning: Even before its official spin-off from Exelon in February 2022, Constellation has been a consensus long and investor favorite. After the latest spurt of outperformance some investors we have spoken to took further profits but most are still positive on shares. We have experienced the diversification of the shareholder base to include more generalist and retail investors who may be more willing to provide a premium valuation to the unique nuclear company.

Constellation Energy Corp: 3Q Preview: Setting the Stage For a Big 4Q Refresh. CEG Party Continues. 17 October 2022 (https://rsch.baml.com/r?q=RyMTbqnPmrjqnB!b2e1M-g)

NRG Energy Inc.

We acknowledge the bull case on shares that the 2023 guidance is intact (see link below) but we still struggle to see a long-term case to prefer NRG over Vistra or Constellation. NRG is challenged in this elevated power price environment as its power plants are generally older than Texas peers which introduced operational risks. The long-term plan is premised on an unproven retail growth strategy premised in part on cross-selling discretionary purchases into a weakening economy. The sharp rise in power prices could either pressure margins or volumes and management has stated it is willing to sacrifice returns to maintain customer relationships. We see 3Q as likely substantively weaker than expected, however '23 outlook framing in tandem will be key. Outlier datapoints on further monetization of generation assets remains a key element to watch: likely more fossil sales, albeit unclear if meaningfully accretive to the SOTP. Still don't see discussion on corporate strategy evolution as quite ripe yet towards consumer product direction.

Bull Case: The argument here relates to the short-term dynamics with even most of the bulls we speak to recognizing structural risks for the company. After a tumultuous period, management appears confident that it can return to its Analyst Day trajectory of free cash flow per share growth. NRG has one of the highest short interest (7% of float) that has remained elevated since May 2022 which is likely a large reason why the stock has performed so well. NRG still offers one of the higher FCF yields in the S&P 500 plus share repurchases which

Bear Case: At its core, most investors we speak to are cautious on NRG because it is 'short power' in the long-term. 2023 guidance has underappreciated risks around coal pricing, bad debts, inflation, and extended operational outages. Even if the guidance is in-line with Consensus, bears expect shorts to return to this name.

Sentiment/positioning: As mentioned above, NRG is one of the most shorted equities we track. In the past month conversations have gravitated to investor short covering and some shifting to net long to avoid a potential repeat squeeze on earnings.

NRG Energy: What's Next for 2023 & Beyond: Getting Back 'On Track' 30 September 2022 (https://rsch.baml.com/r?q=cGscJRcYOd4Rn3DJudJaAQ)

Vistra (VST)

We reiterate Buy with Vistra one of our top picks with the improving visibility into multiple years of premium free cash flow unique in the market. VST now has the potential to generate the majority of its market cap in FCF the next few years while also creating the Vistra Zero platform with no/minimal equity contributions.

Bull Case: The positive thesis involves some simplistic math that has resonated with many. Assuming VST can deliver ~$3.8Bn adjusted EBITDA over the next few years and a historical ~65% FCF conversion, that implies ~$2.5Bn FCF on a ~$9Bn market cap. This is a ~28% FCF yield before incorporating the benefits of the accrued cash flow. The second angle is Vistra Zero where management is targeting $500Mn EBITDA from $5Bn capital. The new IRA investment tax credits (ITCs) could lead to 40% savings with the remaining 60% potentially covered by project debt. As a result VST can generate an incremental $500Mn EBITDA or $250Mn FCF of premium solar/storage assets that are not reflected in the outlook. Assuming an 11x EBITDA multiple or 10% FCF yield would drive ~$2.5Bn value.

Bear Case: Vistra has traded at elevated free cash flow yields in the past because of questions about the terminal value and reliance on fossil assets that are viewed as ESG negative. Without a path to broadening the shareholder base, the stock lacks a positive re-rating catalyst and it is a well-owned, high beta name among hedge funds. The new CEO & CFO have been in their positions for less than six months and are lesser known to the financial community. VST has a history of acquisitions so there is a possibility that the free cash flow is dedicated to M&A rather than shareholder returns.

Sentiment/positioning: VST has been a staple long position for many hedge funds in recent years due to its attractive valuation and share repurchases but we have observed weakening of sentiment, despite improving fundamentals.

US Electric Utilities & IPPs: Texas Power Tour Takeaways 22 September 2022 (https://rsch.baml.com/r?q=R7CTDXshyMihOPd1O6UbWA)

Water Utilities

As an asset class the water utilities are in relatively decent position with both pros and cons. On the favorable side, water bills are subject to far less inflation compared to gas/electric due to a more stable commodity profile. The average water bill is lower as well which should lead to less contentious regulatory proceedings. The negatives are that ***(1)*** water utilities do not have material new investment opportunities following IRA like integrated electric utilities; and ***(2)*** a reliance on acquisitions for growth is a far more difficult proposition with the increase in cost of capital.

American Water (AWK)

Despite the -18% relative underperformance in 2022 we reiterate Underperform with the weaker FY23 projected and expected deterioration in the long-term growth profile. The accretion from the regulated acquisitions which are 150-250bp of the 7-9% EPS growth profile is diminished. Higher financing costs are particularly damaging to the profile for American Water due to the above-average rate base growth that leads to equity and debt issuances. The decline in the stock price from $150-$160 to $130-$135 leads to incremental dilution in 2023+. This contributes to a forecasted -2% miss on FY23 guidance forthcoming, along with overall higher O&M. While AWK has one of the best bond ladders in the sector with annual only one maturity per year across its entire curve; however, higher prospective assumed parent debt issuances dampens EPS across the sector and AWK is not immune from the trend.

Bull Case: Water utilities have far less commodity inflation than electric/gas with more visible earnings growth. The decline in relative premiums is overdone and the dependable growth rate company is as attractive as ever. Further the clean debt maturity profile leaves AWK among the best setup for a rising rate environment with no cliff refinancings to manage.

Bear Case: The value of pro-ESG companies has diminished with more and more companies offering robust ESG disclosures and metrics. As a high growth utility the rising interest rate environment is more negative for the premium growth companies like AWK at 7-9%. The operating and financing cost pressures are more negative for AWK whose growth profile is reliant on acquisitions.

Sentiment/positioning: Investor sentiment has steadily deteriorated but we have seen a decrease in the quantum of bearish calls as shares have meaningfully underperformed.

American Water Works: Diving deeper through the macro risks & water opportunity set ahead 09 August 2022 (https://rsch.baml.com/r?q=DMhIvpMvwCgIvEV6ruDOQw)

Essential Utilities (WTRG)

We maintain Neutral on shares of WTRG that are trading approximately at fair value. We recently downgraded following the company's hiccups in executing on regulated acquisitions but the profile is balance currently.

Bull Case: Sum of the parts valuation is attractive when including high quality water and gas comparable companies which represents a unique construct. The potential for strategic considerations to highlight value are latent too.

Bear Case: The flip side of the positive case is that some investors ascribe discounted conglomerate valuations for the utilities. Without a natural shareholder base the view is that shares can derate versus comparables.

Sentiment/positioning: We have observed little interest in shares with many believing that shares are trading close to fair value. Investors who are more negatively positioned on American Water often prefer Essential Utilities on the relative valuations. Overall investors tend to prefer either natural gas utilities at lower valuations or 'pay up' for the water exposure that AWK offers.

Essential Utilities: Waiting for the big acquisition splash: Downgrade to Neutral, upside less clear 09 September 2022 (https://rsch.baml.com/r?q=46Fi!cWmd3-yuuF3S9tbIw)

Exhibit 10: Stocks mentioned in this report
Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AEE	AEE US	Ameren Corp	US$ 78.56	A-1-7
LNT	LNT US	Alliant Energy Corp	US$ 50.35	A-1-7
CNP	CNP US	CenterPoint Energy	US$ 27	B-1-7
CMS	CMS US	CMS Energy	US$ 55.63	A-2-7
DTE	DTE US	DTE Energy	US$ 108.63	A-1-7
ES	ES US	Eversource Energy	US$ 74.5	A-3-7
WEC	WEC US	WEC Energy Group Inc	US$ 86.77	A-1-7
XEL	XEL US	Xcel Energy	US$ 61.1	A-1-7
AEP	AEP US	American Elec Power	US$ 85.9	A-1-7
ED	ED US	Consolidated Edison	US$ 84.54	A-3-7
D	D US	Dominion Energy	US$ 65.69	A-1-7
DUK	DUK US	Duke Energy	US$ 89.29	A-1-7
ETR	ETR US	Entergy Corp.	US$ 101.74	B-1-7
EVRG	EVRG US	Evergy	US$ 58.32	A-2-7
EXC	EXC US	Exelon Corp	US$ 36.85	B-1-7
NI	NI US	NiSource Inc	US$ 24.88	A-1-7
OGE	OGE US	OGE Energy Corp	US$ 34.82	B-1-7
PNW	PNW US	Pinnacle West Capit	US$ 64.05	B-3-7
PPL	PPL US	PPL Corp.	US$ 25.33	B-1-7
PEG	PEG US	Public Service	US$ 54.8	A-1-7
SO	SO US	Southern Company	US$ 64.69	A-2-7
EIX	EIX US	Edison Intl	US$ 56.74	B-3-7
PCG	PCG US	PG&E Corp.	US$ 13.96	C-1-9
SRE	SRE US	Sempra Energy	US$ 143.74	B-1-7
AGR	AGR US	Avangrid	US$ 39.67	A-3-7
ALE	ALE US	Allete Inc	US$ 51.53	A-2-7
NEE	NEE US	NextEra Energy	US$ 73.64	B-1-7
MDU	MDU US	MDU Resources	US$ 28.7	B-2-7
SWX	SWX US	Southwest Gas	US$ 71.75	B-1-7
AES	AES US	AES Corp	US$ 24.13	B-1-7
CEG	CEG US	Constellation Energy	US$ 85.69	C-1-7
NRG	NRG US	NRG Energy	US$ 41.96	B-3-7
VST	VST US	Vistra Energy	US$ 22.2	B-1-7
AWK	AWK US	American Water	US$ 134	B-3-7
WTRG	WTRG US	Essential Utilities	US$ 41.34	B-2-7

Source: BofA GlobalResearch

BofA GLOBAL RESEARCH

We present select valuation and estimate refreshes below.

Eversource Energy (ES)

FY22 Drivers: 2H22 declining YoY

We project 3Q22 EPS is flat YoY with 2H22 slightly declining due largely to incremental financing costs. In 1H22 ES adjusted EPS was +$0.22 to $2.16 versus FY22 guidance of +$0.21 growth at the midpoint. Consensus still models growth in the second half of the year which we believe is a bit overly optimistic due to the normal seasonality of the business. If not for higher financing costs, we believe that ES would have been at the top of the tightened FY22 $4.04-$4.14 guidance range although we are still in-line with Street ($4.12 BofA vs $4.11 Consensus)

Exhibit 11: Eversource (ES) FY22 Earnings Drivers
3Q22 -6% miss with Consensus ascribing growth vs a flat outlook

Eversource Earnings Drivers	FY22	2H22	3Q	4Q
2021 Adjusted EPS	**3.86**	**1.90**	**$1.02**	**$0.91**
Electric Distribution	0.10	0.02	0.01	0.01
Electric Transmission	0.13	0.04	0.02	0.02
Natural Gas Distribution	0.08	0.03	-	0.03
Water Distribution	0.01	-	-	-
Parent & Other	(0.05)	(0.05)	(0.02)	(0.03)
Dilution	(0.01)	(0.00)	(0.00)	(0.00)
2022 Adjusted EPS	**$4.12**	**$1.93**	**$1.02**	**$0.94**
Consensus	**$4.11**	**$1.99**	**$1.09**	**$0.89**
BofA Forecasted Beat/(Miss) vs Consensus	**0.3%**	**-2.7%**	**-6.4%**	**5.0%**
2022 Guidance Range	**4.04-4.14**			
BofA Forecasted Beat/(Miss) vs Guide	**1.2%**			

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Adjusted EPS Estimates

We moderate FY23+ estimates to reflect reduced sale proceeds for the offshore wind development assets/latter proceeds but more so to incorporate higher cost of capital for financing growth. Visibility into long-term capex has slightly improved with the Massachusetts Department of Public Utilities (DPU) 2022-2025 Grid Modernization Plan approval of $163Mn, although there are other key pieces needed to bridge the full +$3Bn incremental capex that management has discussed.

Exhibit 12: Eversource (ES) FY22 Financial Snapshot
Below average adjusted EPS growth projected in the long-term

Eversource EPS by Business	2021A	2022E	2023E	2024E	2025E	2026E	2027E	2022-2027 CAGR
CL&P: CT	1.38	1.35	1.32	1.37	1.38	1.39	1.41	1.0%
PSNH: NH	0.44	0.47	0.43	0.49	0.51	0.54	0.57	3.7%
WMECO + NSTAR: MA	1.38	1.42	1.66	1.75	1.86	1.98	2.09	8.1%
NSTAR Gas: MA	0.21	0.29	0.34	0.39	0.44	0.47	0.51	11.7%
Yankee Gas: CT	0.22	0.23	0.24	0.25	0.26	0.28	0.29	4.3%
CMA: MA	0.16	0.19	0.20	0.25	0.31	0.34	0.37	14.5%
Parent & Other	(0.02)	(0.00)	0.01	0.02	(0.00)	(0.00)	(0.01)	N/A
Aquarion	0.11	0.15	0.16	0.17	0.18	0.19	0.21	7.6%
ES Consolidated EPS	**$3.86**	**$4.13**	**$4.36**	**$4.69**	**$4.95**	**$5.19**	**$5.43**	**5.7%**
Guidance: 5-7% 2021A Base	**3.81-3.93**	**4.04-4.14**	4.31	4.57	4.85	5.14	5.45	6.0%
BofA vs. Guidance		**1.4%**	**1.1%**	**2.6%**	**2.1%**	**0.9%**		
Consensus	**3.85**	**4.11**	**4.39**	**4.64**	**5.02**	**5.36**	**5.52**	6.1%

BofA vs. Consensus		**0.4%**	**-0.6%**	**1.1%**	**-1.4%**	**-3.2%**		
BofA Change in Estimates		***0.2%***	***-2.7%***	***-1.7%***	***-1.0%***	***-1.0%***	***N/A***	
Dividend per Share	**2.41**	**2.55**	**2.71**	**2.87**	**3.04**	**3.23**	**3.42**	6.0%
Dividend Payout Ratio (%)	**62%**	**62%**	**62%**	**61%**	**61%**	**62%**	**63%**	

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Valuation: Reduce on MtM and earnings degradation

Our Eversource valuation is based on a 2024 sum-of-the-parts valuation. We lower our PO to $76 from $88 primarily to reflect the decline in the electric/gas/water peer multiples. We now apply 15.4x electric/14.9x natural gas/23.7x water which is down from 17.8x/16.3x/26.1x previously. The base P/E multiples are grossed-up +5% to reflect capital appreciation throughout the sector, consistent methodology in our coverage. We apply discounted valuations to the Connecticut utilities (CL&P and Yankee Gas) and premiums to the Massachusetts utilities to reflect the fundamental regulatory and growth differentiations of the jurisdictions. Approximately $1/sh of the decline is due to our reduced 2024 adjusted EPS forecast with the balance from the mark-to-market.

Exhibit 13: Eversource Sum of the Parts Valuation
Cautious return profile

All figures in USD millions except per share **Regulated Utilities**	**2024 NI**	**EPS**	**P/E Multiple** Peer	Prem/ Discount	Base	**Equity Value** **Base**
Relative Utility Group P/E Multiple						
Group Peer Multiple - Electric			**15.4x**			
Group EPS '18-'22 CAGR - Electric			**5.0%**			
Electric Utilities			**16.2x**			
CL&P	$494	$1.37	16.2x	**-2.0x**	14.2x	**$19.42**
PSNH	$176	$0.49	16.2x	**0.0x**	16.2x	**$7.89**
WMECO & NSTAR Electric	$632	$1.75	16.2x	**1.0x**	17.2x	**$30.09**
Group Peer Multiple - Gas			**14.9x**			
Group EPS '18-'22 CAGR - Gas			**5.0%**			
Gas Utilities			**15.6x**			
NSTAR Gas	$142	$0.39	15.6x	**1.0x**	16.6x	**$6.57**
Columbia Gas of MA	$90	$0.25	15.6x	**2.0x**	17.6x	**$4.39**
Yankee Gas	$90	$0.25	15.6x	**-2.0x**	13.6x	**$3.42**
Water			**23.7x**			
Aquarion - Water Utility	$60	$0.17	24.9x	**0.0x**	24.9x	**$4.15**
Parent & Other	$7	$0.02	15.2x	**-2.0x**	13.2x	**$0.25**
Total	**$1,691**	**$4.69**				**$76.17**
Shares outstanding						*360*
Total Equity Value Per Share						**$76.00**
Price as of close 10/18/2022						75.50
FY22 Dividend						2.55
Dividend Yield						3.4%
Total Potential Return						**4.0%**

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Eversource Energy: Remain Cautious on Prospects Post-IRA: How much capex can the team deliver? 19 September 2022 (https://rsch.baml.com/r?q=nEfA6XFAVH4yRIAQA2BnXQ)

American Water (AWK)

Adjusted EPS: FY22 intact but long-term moderated

1H22 adjusted EPS increased +$0.20 versus FY22 guidance midpoint forecasted growth of +$0.19 ($4.25 FY21 adjusted versus $4.39-$4.49 guidance). As a result 2H22 is expected to be approximately flat based upon disclosed headwinds. For example the divested assets, higher financing costs, and elevated O&M. We model a -4% miss in 3Q22 $1.47 vs $1.53 Consensus but a +5% beat in 4Q22 ($0.89 vs $0.84 Consensus) with the cadence of Street reversed.

Exhibit 14: AWK Financial Profile
Growth profile tilting below guidance

American Water Adjusted EPS	**2021A**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
Regulated Water EPS	**4.34**	**4.66**	**5.01**	**5.46**	**5.96**	**6.47**
Market Based EPS	0.40	0.13	0.14	0.15	0.16	0.17
Parent and Other EPS	(0.49)	(0.35)	(0.42)	(0.47)	(0.57)	(0.64)
AWK Adjusted EPS	**4.25**	**4.44**	**4.73**	**5.14**	**5.55**	**6.00**
Guidance: 7-9% CAGR	**4.18-4.28**	**4.39-4.49**	4.96	5.36	5.79	6.25
BofA vs Guidance Midpoint (%)		*0.1%*	*-4.6%*	*-4.1%*	*-4.0%*	*-4.0%*
Consensus	**4.24**	**4.44**	**4.82**	**5.19**	**5.64**	**6.08**
BofA vs Consensus (%)		*0.0%*	*-1.8%*	*-1.0%*	*-1.6%*	*-1.3%*
BofA Change in Estimates	*0.0%*	*-0.1%*	*-0.2%*	*-0.8%*	*-1.5%*	*N/A*
Dividend per Share	2.36	2.57	2.80	3.06	3.33	3.63
Dividend Payout Ratio (%): 55-60% Target	55.5%	57.9%	59.3%	59.5%	60.0%	60.5%

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

We have favorably reversed out most of the assumed $0.15-$0.20 adverse earnings headwind from pension due to enhanced visibility to recovery in key states of New Jersey and Pennsylvania.

Higher financing costs are particularly damaging to the profile for American Water due to the above-average rate base growth that leads to equity and debt issuances. The decline in the stock price from $150-$160 to $130-$135 leads to incremental dilution in 2023+. While AWK has one of the best bond ladders in the sector with

annual only one maturity per year across its entire curve; however, higher prospective assumed parent debt issuances dampens EPS across the sector and AWK is not immune from the trend.

Valuation: Reduction on the MtM but other moderation too

Our American Water valuation is based on a 2024 sum-of-the-parts valuation. We lower our PO to $134 from $158 primarily to reflect the decline in the water peer multiple to 23.7x from 26.9x. The base P/E multiples are grossed-up +7% to reflect above-average water capital appreciation throughout the sector, consistent methodology in our coverage. We reduce our P/E multiple to 1x from 2x for the largest utilities to capture the decline in the overall group base multiple and now the fact that growth has declined with the aforementioned financing pressures. Said differently, the accretion from the regulated acquisitions which are 150-250bp of the 7-9% EPS growth profile is diminished.

The +1x premium applied to the military segment has also been flattened to reflect a more normalized cadence of growth (5-6% BofAe growth rate)

Changes to the Price Objective are approximately:

- -$17/sh: Sector P/E contraction to 23.7x from 26.9x
- -$4/sh: Removing the 1x premium for NJ/PA/IL/MO/IN
- -$3/sh: Lowering 2024 EPS -1%, removing military 1x premium, and other

Exhibit 15: AWK Sum of the Parts Valuation
Among the lowest return potential in the sector

American Water SOTP	2024 EPS		P/E Multiple		Equity
Water Utilities Comp Universe		Peer	Prem/ Discount	Base	Base
AWK Earnings		**23.7x**			
Group EPS CAGR		**7.0%**			
Water Utilities		**25.4x**			
NJ	**$1.17**		**1.0x**	26.4x	$30.86
PA	**$1.33**		**1.0x**	26.4x	$35.10
IL	**$0.36**		**1.0x**	26.4x	$9.56
MO	**$0.52**		**1.0x**	26.4x	$13.69
IN	**$0.30**		**1.0x**	26.4x	$8.00
CA	**$0.20**		**-1.0x**	24.4x	$4.84
Other	**$1.57**		**0.0x**	25.4x	$39.84
Regulated Water EPS	$5.46				$141.89
Parent/Other Drag	**-$0.47**		**0.0x**	25.4x	-$11.90
Military Business	**$0.15**	**23.7x**	**0.0x**	23.7x	$3.51
Valuation	**$5.14**	***BofA Consolidated EPS***			**$134.00**
Current Price as of 10/18/22					*$134.77*
Dividend Yield					1.9%
Total Return					**1.34%**

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

American Water Works: Diving deeper through the macro risks & water opportunity set ahead 09 August 2022 (https://rsch.baml.com/r?q=DMhIvpMvwCglvEV6ruDOQw)

Essential Utilities (WTRG)

Slightly reducing estimates on model refresh

Exhibit 16: Essential Utilities EPS Estimates
Our estimates reflect midpoint of LT range

EPS Estimates	2021A	2022E	2023E	2024E	2025E
PA	$0.73	$0.83	$0.92	$0.98	$1.03
OH	$0.07	$0.08	$0.08	$0.09	$0.09
IL	$0.08	$0.08	$0.09	$0.09	$0.10
TX	$0.07	$0.08	$0.09	$0.09	$0.10
NC	$0.04	$0.05	$0.05	$0.05	$0.06
Other States	$0.07	$0.05	$0.03	$0.03	$0.04
Water Utility	**1.06**	**1.17**	**1.26**	**1.34**	**1.41**
Peoples Gas	**0.66**	**0.68**	**0.70**	**0.79**	**0.84**
Parent & Other	*-0.05*	*-0.07*	*-0.08*	*-0.11*	*-0.13*
EPS	**1.67**	**1.77**	**1.87**	**2.02**	**2.13**
YoY Growth	*6%*	*6%*	*6%*	*8%*	*5%*
Guidance	**1.64-1.69**	**1.75-1.80**			
Shares O/S	*258*	*263*	*263*	*263*	*263*
Three Year CAGR (off $1.67 in 2021)			***6%***	***7%***	***6%***
Guidance				**5-7%**	
Previous EPS	***$1.67***	***$1.78***	***$1.88***	***$2.03***	***$2.13***
Consensus	**1.67**	**1.78**	**1.91**	**2.05**	**2.22**
DPS	**1.04**	**1.11**	**1.19**	**1.27**	**1.36**
Payout Ratio	*62%*	*63%*	*63%*	*63%*	*64%*
Guidance		***60-65%***			
Share Count	**258**	**263**	**263**	**263**	**263**

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Our Essential Utilities valuation is based on a 2024 sum-of-the-parts valuation. We lower our PO to $44 from $52 primarily to reflect the decline in the water peer multiple to 23.7x from 26.9x. The base P/E multiples are grossed-up +7% to reflect above-average water capital appreciation throughout the sector, consistent methodology in our coverage. We remove the premium multiple we previously applied to the water utilities to reflect a growth profile that is similar to peers.

Exhibit 17: Essential Utilities Valuation
PO moves to $44 from $52 primarily on MTM

Water Utilities	2024 EPS		P/E Multiple		Equity Value
		Peer	Prem/Disc	Base	Base
Peer Water P/E		*23.7x*			
Group EPS CAGR		*7.0%*			
1-year forward group Water multiple		**25.4x**			
Water Utilities					
States	**2024E EPS ROE embedded**				
PA	$0.98	9.9%	**0.0x**	25.4x	$25
OH	$0.09	9.2%	**0.0x**	25.4x	$2

IL	$0.09	9.1%	0.0x	25.4x	$2
TX	$0.09	10.0%	0.0x	25.4x	$2
NC	$0.05	9.2%	0.0x	25.4x	$1
Other (including acquisitions)	$0.03	9.2%	0.0x	25.4x	$1
Water utilities total (ex-Peoples)	**$1.34**			*25.4x*	**$34**
Gas Utilities					
Peer Gas P/E		*14.9x*			
Group EPS CAGR		*5.0%*			
Peoples Gas Multiple		**15.6x**			
	2024E EPS	**ROE embedded**			
Peoples Gas	**$0.79**	11.9%	**1.0x**	**16.6x**	**$13**
Holdco/Other					
Parent	**($0.11)**		**0.0x**	**25.4x**	**($3)**
Price Objective					**$44.00**
Current Price					$41.75
Dividend Yield					2.7%
Total Potential Return					**8.05%**

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Essential Utilities: Waiting for the big acquisition splash: Downgrade to Neutral, upside less clear (https://rsch.baml.com/r?q=46FitcWmd3-yuuF3S9tblw)		09 September 2022
US Electric Utilities & IPPs: Power Points: EIA Electric Incident Report, PEG Pension, WTRG, LNG EPA (https://rsch.baml.com/r?q=KVASa1RmOh6E0dm877I2RQ)	Julien Dumoulin-Smith	07 September 2022
US Utilities & IPPs: Earnings Power Points: BKH, DUK, EVRG, MDU, OGE, ORA, SRE, & WTRG. More PPL (https://rsch.baml.com/r?q=xyfE6l6fTlyAtj9DxSRkJcw)	Julien Dumoulin-Smith	04 August 2022
US Utilities & IPPs: PowerPoints: SRE LNG & Upgrade, Power Scarcity/Texas, Inflation, WTRG M&A (https://rsch.baml.com/r?q=A1FLuHeRIwxyGS42LjNJUA)	Julien Dumoulin-Smith	14 July 2022
Essential Utilities: 2Q22 Preview: Larger & more plentiful muni opportunities continue to emerge (https://rsch.baml.com/r?q=AYNmE17uvbeo9yvysD5A7A)		13 July 2022

Evergy (EVRG)

Our forecast incorporates the latest reported actuals as well as our latest views following resolution of the majority of issues in the MO rate case and ahead of next year's Kansas filing. While the final ROE and equity from the MO case were not disclosed, we generally expect a continuation of a mid/high 9s ROE with our forecast embedding an earned ROE in the mid-9s to reflect some residual drag, though the property tax rider should reduce the levels of historical drag to some extent. We likewise expect that EVRG will close the under-earning gap in KS following the resolution of its next rate case filing in 2023 with some residual drag in future years.

Overall we see the low end of EVRG's 6-8% CAGR as achievable through 2025, with our $4.22 estimate in line with Street consensus and reflecting low 6s from the 2020 baseline. Given the solid track record that EVRG has put together of meeting quarterly numbers and reaffirming the long-run 6-8% target, we see a further affirmation and potential extension of this trajectory as critical to affirming the outlook, though these updates are likely not forthcoming until the Q4 call at the earliest.

Exhibit 18: EVRG estimates
EPS growth trending to the low end of 6-8% CAGR range

EPS Estimates by Subsidiary		2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Evergy Metro		$0.76	$1.06	$1.31	$1.36	$1.17	$1.20	$1.25	$1.30	$1.36
Evergy Missouri West		$0.35	$0.37	$0.69	$0.38	$0.55	$0.61	$0.66	$0.70	$0.73
Kansas Central		$1.58	$1.43	$0.99	$2.13	$1.81	$1.88	$2.03	$2.11	$2.24
Parent/Other		-$0.16	$0.02	$0.11	-$0.33	$0.07	$0.10	$0.12	$0.11	$0.11
Adjusted EPS		$2.54	$2.89	$3.10	$3.54	$3.60	$3.78	$4.05	$4.22	$4.45
Y/Y EPS Growth %			*13.9%*	*7.1%*	*14.2%*	*1.8%*	*5.1%*	*7.1%*	*4.0%*	*5.5%*
CAGR off 2019A				*7.1%*	*10.6%*	*7.6%*	*6.9%*	*7.0%*	*6.5%*	*6.3%*
CAGR off 2020A					*14.2%*	*7.8%*	*6.9%*	*6.9%*	*6.3%*	*6.2%*
CAGR off 2021 guide midpoint of $3.30						*9.1%*	*7.1%*	*7.1%*	*6.3%*	*6.1%*
Long Term EVRG Guidance					*3.50-3.60*	*3.43-3.63*		*3.87-4.25*	*4.17-4.49*	
Prior estimates		$2.54	$2.89	$3.10	$3.54	$3.60	$3.78	$4.05	$4.22	
Consensus (BBG)			$2.92	$3.04	$3.54	$3.56	$3.77	$4.04	$4.23	
EVRG EPS Guidance	CAGR '21-25									
Low	6.0%				$3.20	$3.50	$3.71	$3.93	$4.17	$4.42
Mid	7.0%				$3.30	$3.53	$3.78	$4.04	$4.33	$4.63
High	8.0%				$3.40	$3.56	$3.85	$4.16	$4.49	$4.85
Dividend										
DPS		$1.84	$1.95	$2.05	$2.18	$2.33	$2.47	$2.62	$2.79	$2.96
Dividend Payout		72.4%	67.4%	66.2%	61.5%	64.6%	65.3%	64.7%	66.1%	66.6%
Long Term EVRG Guidance								60-70%		

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

We mark-to-market our valuation to reflect the latest 24E peer multiple of 15.7x (previously 18.1). Applied to our updated 2024 EPS estimate, our PO moves to $64 from $68 and we reiterate our Neutral rating given balanced risk/reward at current levels. While there is a modestly positive level of upside on shares at this level we remain on the sidelines at this point given uncertain path to above the upper end of mgmt.'s long run EPS CAGR and coming Kansas rate case process. Reiterate Neutral given modest implied total return at this level.

Exhibit 19: EVRG Valuation
PO moves to $64 from $68 on MTM

	2024 EPS	P/E Multiple		
		Peer	Prem/ Discount	Base	
Group Peer Multiple - Electric		15.7x			
Group EPS CAGR - Electric		5.0%			
Grossed-up multiple		16.5x			
Evergy Metro	$1.25		0.0x	16.5x	$20.56
Evergy Missouri West	$0.66		0.0x	16.5x	$10.81
Evergy Kansas Central	$2.03		-1.0x	15.5x	$31.42
Parent & Other	$0.12		0.0x	16.5x	$2.01
EVRG Consolidated EPS	$4.05			*16.0x*	$64.80
	After-tax amount $m	$/sh	Probability		
Deferral of Sibley return + D&A	21	-$0.09	50%	16.5x	-$0.77

EVRG Price Objective	$64.0
Implied Return	1.7%
EVRG Standalone NTM Dividend Yield	3.7%
Total Return	5.4%

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Evergy, Inc: Framing the latest regulatory debates in Kansas and beyond (https://rsch.baml.com/r?q=8EvoqAt2hMuR3aG7P5apDA)	Julien Dumoulin-Smith	28 September 2022
Evergy, Inc: Can it join the ranks of Midwest premium utilities? (https://rsch.baml.com/r?q=h-pHccJTLq-mhTd7JGoayw)	Julien Dumoulin-Smith	14 September 2022
US Utilities & Clean Tech: PowerPoints: EVRG KS/MO, PEG Offshore, SRE LNG, Hydrogen BE/CEG/ENGH, FSLR (https://rsch.baml.com/r?q=teGyXgIleRnSwtOuWtq5IQ)	Julien Dumoulin-Smith	19 September 2022
US Electric Utilities & IPPs: Power Points: EVRG MO case, EXC MD testimony, NWN OR third stipulation (https://rsch.baml.com/r?q=cQEL8KSnh0X37kQYyGSNDw)	Julien Dumoulin-Smith	24 August 2022
US Electric Utilities & IPPs: Power Points: SO Nuclear, EVRG bills, XEL & ALE wind, EXC ICC, AES/FLNC, & More (https://rsch.baml.com/r?q=lg1pNIzlm634loIMjQEsww)	Julien Dumoulin-Smith	18 August 2022
US Utilities & IPPs: PowerPoints: MDU Shareholder, FTCI First Takes, EVRG Wind (https://rsch.baml.com/r?q=2iEwxA7s4vPdspjb5OU-Bg)	Julien Dumoulin-Smith	09 August 2022
US Utilities & IPPs: Earnings Power Points: BKH, DUK, EVRG, MDU, OGE, ORA, SRE, & WTRG. More PPL (https://rsch.baml.com/r?q=xyfE6l6fTyAtj9DxSRkJcw)	Julien Dumoulin-Smith	04 August 2022
US Utilities & IPPs: PowerPoints: FE OH Grid Mod, EVRG Wolf Creek Nuke Outage, & FERC Transmission (https://rsch.baml.com/r?q=Q0c4VqKt9r4snqP9BhUurg)	Julien Dumoulin-Smith	19 July 2022

Pinnacle West Capital (PNW)

Our updated estimates remain below Street consensus, and were last moved higher across the 2023-25 period following Q2 reflecting less punitive pension expense (from -36c in '23 previously to -11c) with further offsets beyond 2023 once the latest rate case provides incremental relief given the mid-year test year.

The ability to offset these impacts via cost cuts appears limited as PNW acknowledged on the earnings call that inflation is driving costs higher, and note that the forecast already embeds a declining O&M per MWh trajectory along with robust sales growth discussed above, making the setup all the more risky in our view from an execution standpoint. Upside risks to our estimates include potential for substantial weather-related earnings swings in the third quarter - note that PNW used this to capture significant O&M pull-ahead benefits in 2020.

Exhibit 20: PNW estimates
EPS growth rate is below 5% through 2025 reflecting pension weakness and lack of rate case recovery

	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Arizona Public Service	$5.19	$5.20	$5.74	$4.61	$4.56	$4.74	$5.04	$5.33
Corporate	($0.24)	($0.15)	($0.12)	($0.24)	($0.26)	($0.27)	($0.28)	($0.29)
Non-controlling interest	($0.17)	($0.17)	($0.15)	($0.15)	($0.15)	($0.14)	($0.14)	($0.14)
PNW EPS	$4.77	$4.87	$5.47	$3.96	$4.14	$4.32	$4.62	$4.91
Previous BofA estimate	$4.77	$4.87	$5.47	$3.96	$4.14	$4.32	$4.62	
EPS y/y % CAGR	5.2%	2.1%	12.2%	-27.6%	4.7%	4.3%	7.0%	6.3%
EPS % CAGR from 2022 (guide 5-7%)					4.7%	4.5%	5.3%	5.6%
EPS Guidance			5.25-5.35	3.90-4.10				
Consensus PNW EPS	$4.77	$5.06	$5.06	$4.02	$4.19	$4.47	$4.72	
EPS y/y % CAGR		6.1%	0.0%	-20.6%	4.2%	6.8%	5.5%	
EPS % CAGR from 2022 (guide 5-7%)					4.2%	5.5%	5.5%	

Source: BofA Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

We mark to market our model applying a peer multiple of 15.7x (prev 17.5x) to our new higher EPS forecast. Our PO moves to $56 from $64 as a result of the update. We reiterate our Underperform rating given negative implied total return - the reduction in our EPS forecast driven by pension impact is just the latest cautious data point, and we continue to see an elevated risk profile from PNW's coming rate case despite potential for partial rate relief on the pension side

Exhibit 21: PNW valuation
Reiterate Underperform with challenged outlook

Price Objective $56	
PNW Valuation: P/E Based on 2024 EPS	
Price Objective	
2024 EPS	$4.32
Group Peer Multiple - Electric	15.7x
Group EPS CAGR - Electric	5.00%
P/E Multiple - Utility Average	16.5x
Premium	-3.5x
Equity value - Utility	$56.14
Price objective	$56
2023 Dividend	$3.5
Dividend Yield	5.4%
Total Return (%)	-7.7%

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Pinnacle West: Pension overhang, outlook improves, but O&M a near-term drag (https://rsch.baml.com/r?q=-ElmJm!SuAADEqyemILC6g)	Julien Dumoulin-Smith	04 August 2022
US Electric Utilities & IPPs: Earnings First Takes: PNW beat, ETR top half, EXC miss, ALE beat, PPL, GNRC, AY (https://rsch.baml.com/r?q=25voh0CzCtKJLCdYs9H5Zg)	Julien Dumoulin-Smith	03 August 2022
Pinnacle West: Pension will be a drag in '23 & beyond too despite rate case; Underperform (https://rsch.baml.com/r?q=S8-j2pDXnbnYbbPpdxW5ug)	Julien Dumoulin-Smith	12 July 2022
US Utilities & IPPs: PowerPoints: Keep Buy on EXC & VST post pullback, Refreshing FE/PNW pensions (https://rsch.baml.com/r?q=hWvapCmZxlhQCwhloZgzYw)	Julien Dumoulin-Smith	06 July 2022

Southern Co (SO)

Our FY22 EPS estimate of $3.74 is modestly above Street estimates of $3.56 based on known and measurables to date. We forecast a large beat vs street for FY22 as we embed robust 1H22 actuals, known rate increases for FY22, and our view on O&M increasing through the back-half of the year as mgmt. pulls forward work. Additionally, we see O&M increasing based on inflation and a poor comparable YoY as SO moves toward more normal business operations post-pandemic and travel, workplace, and other expenses return. We include the convert in our '22 EPS estimates, but no equity thereafter as we do not assume incremental Vogtle costs above what mgmt. has guided to and reserved at this point. To the extent there are additional cost overruns for Vogtle, we would expect potentially more non-core asset sales rather than traditional equity.

Exhibit 22: SO EPS Estimates

We outline our EPS estimates below which remain relatively unchanged through the forecast period

EPS by Business

Subsidiary	2020A	2021E	2022E	2023E	2024E	2025E	2026E
Mississippi Power	0.14	0.15	0.19	0.18	0.18	0.19	0.19
Alabama Power	1.08	1.16	1.27	1.24	1.30	1.36	1.42
Georgia Power	1.72	1.73	1.86	1.94	2.08	2.18	2.28
Total Electric	**2.94**	**3.04**	**3.32**	**3.36**	**3.56**	**3.72**	**3.89**
Guidance	2.88	3.00	3.18				
YoY Growth	*5.9%*	*3.3%*	*9.1%*	*1.5%*	*5.9%*	*4.5%*	*4.6%*
Gas LDCs	0.39	0.40	0.44	0.50	0.55	0.60	0.64
Guidance	0.36	0.39	0.44				
SO Power	**0.22**	**0.25**	**0.23**	**0.24**	**0.25**	**0.26**	**0.26**
SoCo. Gas	**0.55**	**0.50**	**0.59**	**0.64**	**0.70**	**0.75**	**0.80**
Gas Midstream	0.09	0.08	0.08	0.08	0.08	0.08	0.08
Gas Retail (South Star)	0.05	0.06	0.06	0.07	0.07	0.08	0.08
Total Energy Infrastructure (SO Power + Midstream)	**0.37**	**0.39**	**0.37**	**0.38**	**0.40**	**0.42**	**0.42**
Guidance	0.37	0.40	0.34				
Other & Eliminations	(0.48)	(0.44)	(0.39)	(0.41)	(0.35)	(0.32)	(0.33)
Guidance - Parent Drag	(0.45)	(0.49)	(0.46)				
Consolidated	**3.23**	**3.39**	**3.74**	**3.83**	**4.16**	**4.41**	**4.63**
YoY Growth	*3.9%*	*4.9%*	*10.3%*	*2.5%*	*8.6%*	*6.1%*	*4.8%*
Guidance	*3.10-3.22*	*3.40*	*3.50-3.60*				
Previous estimate		***$3.39***	***$3.74***	***$3.83***	***$4.16***	***$4.41***	***$4.59***
Consensus	**3.20**	**3.39**	**3.59**	**3.80**	**4.08**	**4.41**	**4.64**

Source: BofA Global Research estimates, company report, Bloomberg

BofA GLOBAL RESEARCH

Our PO moves to $63 (from $77) based on a 2024E Sum-of-the-Parts with peer utility P/E multiples of 15.4x for electric (from 17.2x) and gas of 17.5x (from 16.7x). Across our coverage universe, we gross up the base multiple +5% to reflect forecasted capital appreciation across the sector. We continue to use an in-line multiple for Georgia Power given the risks with the rate case and election that could add some additional focus on costs. We continue to look for more details on the pending climate legislation's impact on Georgia Power's ability to own solar assets. Remember, we value Vogtle earnings at a 4x discount given the risks to costs and recovery.

Exhibit 23: SO Simplified SOTP
Our PO moves to $63 (from $77) based on our MtM

SO Simplified SOTP	EPS	P/E	Prem/Disc	$/Sh	Prior
State Regulated Electric	$3.56	15.8x	-2.5%	$56.16	$68.49
State Regulated Gas	$0.55	17.0x	6.3%	$9.40	$10.74
Southern Power	$0.25	14.2x	-12.4%	$3.51	$4.19
Gas Infrastructure/Marketing	$0.15	12.0x	-24.6%	$1.80	$2.16
Parent	-$0.35			-$7.87	-$8.56
Consolidated	**$4.16**			**$63**	**$77**
Dividend Yield				4.3%	
Total Return Potential				0.6%	

Source: BofA Global Research estimates, company report, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 24: SO Full SOTP
Breaking down the segment by segment value

Southern Company (SO)
All figures in $Mn except per share

	Metric	P/E Multiple					Equity Value		
	2024 EPS	Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Electric	-		**15.4x**	-	-	-	-	-	-
Group EPS '21-'24 CAGR - Electric	-		**5.00%**	-	-	-	-	-	-
	-		-	-	-	-	-	-	-
Electric Utilities			**16.2x**				-	-	-
Mississippi Power	$0.18	15.2x		**0.0x**	16.2x	17.2x	$2.76	$2.94	$3.12
Alabama Power	$1.30	15.2x		**0.0x**	16.2x	17.2x	$19.78	$21.08	$22.39
Georgia Power (ex-CWIP)	$1.72	15.2x		**0.0x**	16.2x	17.2x	$26.06	$27.78	$29.50
Nuclear CWIP Earnings	$0.36	11.2x		**-4.0x**	12.2x	13.2x	$4.00	$4.36	$4.72
Total Electric Utility Value	**$3.56**				*15.8x*		**$52.60**	**$56.16**	**$59.72**
Group Peer Multiple - Gas			**15.2x**						
Group EPS '21-'24 CAGR - Gas			**5.00%**						
Gas Utilities			**16.0x**						
Southern Gas Utilities	$0.55	16.0x	16.0x	**1.0x**	17.0x	18.0x	**$8.85**	**$9.40**	**$9.96**
Infrastructure	2024 EPS								
SO Power Core - Wind	**$0.12**	13.2x		**-2.0x**	14.2x	15.2x	$1.62	$1.74	$1.86
SO Power Core - Solar	**$0.01**	13.2x		**-2.0x**	14.2x	15.2x	$0.15	$0.16	$0.17
SO Power Core - Gas	**$0.10**	13.2x		**-2.0x**	14.2x	15.2x	$1.26	$1.35	$1.45
SO Power Core - Other	**$0.02**	13.2x		**-2.0x**	14.2x	15.2x	$0.24	$0.26	$0.28
SO Gas - Midstream	**$0.08**	13.0x		**-2.0x**	14.0x	15.0x	$1.00	$1.08	$1.16
SO Gas - Retail	**$0.07**	9.0x		**-6.0x**	10.0x	11.0x	$0.65	$0.72	$0.79
Net Infrastructure Equity							**$4.92**	**$5.32**	**$5.71**
Parent	2024 EPS		**15.9x**						
Parent & Other	-$0.35		15.9x	**0.0x**	15.9x		-$5.61	-$5.61	-$5.61
Add Back: Parent Interest Expense- 50% Weighted	$0.29		15.9x	**0.0x**	15.9x		$2.29	$2.29	$2.29
Parent Debt - 50% Weighted	$9,900						-$4.54	-$4.54	-$4.54
Parent & Other							**-$7.87**	**-$7.87**	**-$7.87**
Shares Outstanding							1,089		
Total Equity Value							**$58.00**	**$63.00**	**$68.00**
Stock Price								**$65.39**	
Upside/Downside								-3.65%	
DPS								$2.78	
NTM Div Yield								4.25%	
Total Return								**0.6%**	

Source: BofA Global Research estimates, company report, Bloomberg

BofA GLOBAL RESEARCH

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: PowerPoints: SO Vogtle, LNT Batteries, PEG/CEG NJ Capacity, AQN Asset Sale, ESG (https://rsch.baml.com/r?q=YOd6WRFBO0dqhjUabg89dg)	Julien Dumoulin-Smith	03 October 2022
US Utilities & IPPs: Power Points: ED & SRE Settlement Talks, PEG Capex, DUK SC, ETR Updates, & SO (https://rsch.baml.com/r?q=rcb2WK0chgekzaEkrNXN2A)	Julien Dumoulin-Smith	23 September 2022
US Alternative Energy: Tallying up solar manufacturing plans post IRA - So far, not so good for utility scale (https://rsch.baml.com/r?q=6DRroohm7ChAR3P2gsNO9A)	Julien Dumoulin-Smith	08 September 2022
US Electric Utilities & IPPs: PowerPoints: D OSW, SO rate case, CMS intervenors, XEL, LNG, CWEN & More (https://rsch.baml.com/r?q=3s3LB-	Julien Dumoulin-Smith	25 August 2022

US Electric Utilities & IPPs: Power Points: PECO Staff; APCo Triennial; SO GA; Sichuan Power; DPL & ComEd Reg. (https://rsch.baml.com/r?q=Z1EDsT0klWFdn6lu-ph1DA) Julien Dumoulin-Smith 22 August 2022
Southern Company: Trending Positively on Vogtle, ITAACs Filed; IRA Presents Upside; Succession? (https://rsch.baml.com/r?q=k9qtgdgFuMivi6DJLmDpRQ) Julien Dumoulin-Smith 01 August 2022
Southern Company: Strong 2Q as Load Continues to Beat; Vogtle Shifts Back to Point Estimates (https://rsch.baml.com/r?q=5xHITSHcUvULPHB1-K4qMA) Julien Dumoulin-Smith 28 July 2022

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Price Objective Basis & Risk

AES (AES)
Our price objective is $28 and is based on a sum of the parts analysis applying a blended valuation approach, the summation of 1) EV/EBITDA approach across global generation assets. We use an 8.0x base for US peer IPPs and apply a +6x premium for US distributed generation for further growth expectations, valuing them at 14x 24E EV/EBITDA. Meanwhile, we value the DevCo using a 10% discount on 4.5GW+ of annual renewables beyond '22 given market dynamics. In Asia, we apply various multiples based upon jurisdiction risk across the rest of the portfolio and overall investor appetite as reflected in local peer multiples. We use mark-to-market value of publicly listed LATAM subs as well as apply a P/E methodology for US regulated utilities using the peer multiple of 16.1x 24E. We also credit the company with Vietnam and its investment in Uplight.

Risks to our price objective and rating are: 1) regulatory, legislative, and political changes, 2) international currencies devaluing against the US dollar, 3) changes in value of Fluence (FLNC) subsidiary stock, 4) overall inability to execute on the renewables plan, 5) ability to control costs, 6) financing needs, and 7) tax policies.

Allete Inc (ALE)
Our $53 is based on a sum of the parts analysis

For regulated utilities (Minnesota Power, Superior Water Light & Power, and American Transmission Co) we apply an electric peer multiple of 15.4x grossed up by 5% to account for capital appreciation across the sector. For MP and SWL&P we apply a -2.0x discount to account for below-peer rate base growth of 5% and an elevated risk profile given exposure to large industrial electric customers. For ATC we apply a +4x premium consistent with other owners of ATC (LNT, MGEE, WEC) given upside potential and federal equity layer and ROE.

We value contracted wind on a DCF basis with WACC of 5.75%, for an implied EV/EBITDA valuation of 11.8x 2024E.

We value the wind development company (devco) based on estimated weighted avg MWs in development and assuming a 2.0x EBITDA development spread.

We value the New Energy solar devco using a 50-50 blended development multiple and 8x 2021 trailing EBITDA. We use this methodology as the asset was recently acquired by ALE, and we view the acquisition price as the appropriate latest mark of valuation.

We value the BNI coal mine asset at 7.0x 2024E EPS, in line with publicly-traded peers. We value the Corporate & Other segments at 7.0x 2024 EPS, reflecting modest visibility.

Risks: regulatory/legislative outcomes, capital expenditures vs guidance, taconite/industrial sales changes, returns on unregulated projects, interest rates and commodity price volatility, weather, and natural disasters.

Alliant Energy Corporation (LNT)
Our $57 PO is based on a sum of the parts analysis employing relative premium and discounts to the large cap regulated peer multiple of 14.9x 2024E P/E. We note that electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector. We apply a 2.0x P/E premium on IPL as we see the rate case overhang being resolved. We apply a 4.0x P/E premium on Wisconsin Power & Light Company reflecting 1) low risk investment nature of the state, 2) above average ROEs, 3) higher than average growth runway for investments, and 4) potential risks around solar deployment in both WI and IA. At ATC, we reflect a 4.0 x P/E premium on LNT's 16% share in the transmission company. Growth expectations for this segment are high, paired with above average ROEs that we believe face less downward pressure vs. regulated state distribution ROEs. We apply an in line multiple at the parent to account for the blend of numerous businesses some which benefit from long term stable PPAs via intercompany generation.

Risks to our Price Objective and rating are 1) Rate case outcomes, 2) further equity dilution beyond our estimates, 3) interest rate fluctuations, 4) natural disasters, and 5) inflation and ability to earn the allowed rate of return.

Ameren Corporation (AEE)
Our $96 price objective is predicated on a P/E based sum of the parts, valuing each business subsidiary relative to the 2024E ratebase weighted peer multiple of 17.3x for electric. We apply a 2.0x premium to peers at AEE Missouri to account for the improving prospects of capital spend, supplemented by a regulatory jurisdiction becoming more favorable - but lack of decoupling. We apply a 2.0x premium to peers at AEE Illinois to account for decoupling on the distribution business which aids in earnings predictability. The overall business is expected to grow at a more meaningful clip than that of peers - we see a 10% EPS CAGR at IL 2020-2024. At ATXI, we apply a 4.0x premium to peers to reflect the FERC ROEs. At the Parent, we assume 2.0x multiple premium reflecting average of the subs and given the healthy debt metrics with FFO/Debt at 17%+. Electric peer P/E multiple is grossed up for a year to 2022 by 5% to reflect capital appreciation across the sector.

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

American Electric Power (AEP)

Our price objective of $102 is based on SOTP analysis. We ascribe a peer forward FY24E P/E multiple (16.5x) with a 1.0x premium for its transmission and distribution utilities and transmission-only utilities segments and a 0x premium (in-line multiple) for all of the vertically integrated utilities. For the unregulated portion, we apply a 3.5x discount to the legacy energy supply and marketing business and an 8x premium to the contracted renewables business to reflect sale aspirations.Our valuation reflects that the Kentucky Power sale pending appears to be nearing close. We note that electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector.

Risks to achievement of the price objective are: 1) regulatory outcomes are less favorable than expected, which could result in reduced ROE, 2) large capital intensive projects are subject to delays or cost overruns, which can change the return profile, 3) natural disasters or catastrophic events can affect system reliability and are subject to regulatory cost recovery risk, 4) utilities are subject to interest rate risk to fund their business, which affects cost of capital, 5) uncertainty around announced asset divestitures versus guidance expectations, 6) volatility in volume of electric sales, 7) other adverse regulatory, political, or similar actions.

American Water Works (AWK)

Our PO for American Water Works is $134. We apply the water sector average 23.7x to American Water's 2024E earnings based on the water peer multiple and a 8.1% group EPS CAGR for '18-'23E. We think this multiple is justified as in our view AWK largely drives the peer multiple as the largest publicly traded water utility. We ascribe a 2x premium for NJ, PA, and IL given scope of acquisition opportunities. Also a -1x P/E for Cali utility.

Risks to achievement of the Price Objective (PO) and rating: 1) ability to execute capital and operating expenditures forecasts, 2) equity needs, 3) regulatory outcomes, 4) state and Federal legislative changes, 5) interest rate fluctuations, and 6) military operations.

Avangrid (AGR)

Our $38 PO is based on an 2024E sum of the parts analysis. The core utilities are valued on by applying discounts to the base sector P/E of 15.7x/14.5x for electric/gas due to below average growth and regulatory jurisdictions. We apply an in-line multiple to the PNM Resources assets with the transaction pending. Both electric and gas peer P/Es are grossed up +5% to reflect capital appreciation across the sector. The renewables are valued at approximately 11x EV/EBITDA, consistent with peers while offshore wind is valued using discounted cash flows at a 12% discount rate. Future potential value creation from the renewable development 'DevCo' is provided as well. Lastly parent/HoldCo financing negatives are ascribed.

Up/downside risks to achievement of the PO and estimates are 1) earned ROEs at the utilities, 2) utility capital expenditure forecasts, 3) regulatory/political/legislative outcomes, 4) equity needs, 5) offshore wind construction, 6) Iberdrola owns over 80% of AGR common stock, limiting float and presenting a potential for governance conflicts, despite the BoD being majority unaffiliated with Iberdrola. 7) natural disasters, 8) commodity and interest rate fluctuations, and 9) management changes.

Black Hills Corporation (BKH)

Our $66 valuation is based on a sum-of-the-parts analysis. We apply the peer average electric (14.8x) and natural gas (14.5x) 2024E P/E multiples. We gross-up +5% the base multiples across the coverage universe to reflect capital appreciation in the sector. We apply an in-line P/E multiple with neither a premium nor discount. Coal Mine: We apply an 8x peer EV/EBITDA multiple, which is in line with other PRB coal producers. Based on our view of the strength/maintainability of different coal plant output contracts, we apply a discount/prem multiple to that portion of the mine. IPP Assets: We use the recent sale price and '23 EV/EBITDA multiple for Pueblo Airport and Wygen I assets, respectively. Parent Expense, Debt, and Eliminations: We apply an average regulatory P/E multiple to this segments income. This captures some Interco revenues that are double counted as well as parent SG&A drag and debt.

Downside risks: inability to earn the authorized rate of return, unfavorable regulatory outcomes, reductions in capital expenditures forecasts, higher operating and financing costs, lower sales volumes, unfavorable political and legislative changes , higher interest rates, and natural disasters.

Upside risks: ability to earn above the authorized rate of return, favorable regulatory outcomes, higher capex deployment, lower operating and financing costs, higher sales volumes, favorable political and legislative changes , decrease in interest rates.

CenterPoint Energy (CNP)

Our CenterPoint Energy PO is $30 using a 2024E sum-of-the-parts methodology. We apply the 14.4x electric and 13.5x gas base multiples which we gross-up +5% across our coverage to reflect sector growth. We apply a 20% (3.0x) premium due to above-average growth and constructive jurisdictions.

Previously we utilizes a 2024E P/E sum-of-the-parts with 17.3x electric and 16.8x gas P/Es and a 25% (4.0x) premium.

Risks are 1) ability to deploy capital expenditures and earn the regulatory allowed rate of return, 2) regulatory/political/legislative actions, 3) changes in equity needs, 4) interest rates, 6) natural disasters, and 7) management changes.

CMS Energy (CMS)

Our PO of $58 is based on a SotP relying on 2024E forward P/E multiples for the utility business and a 2024E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 2.0x prem to the avg 24E regulated multiple P/E of 15.4x for the electric seg and of 14.9x for the gas seg, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as cont'd favorable regulatory environment, and finally historically proven ability to consistently perform at the high end of guidance range.

Both electric and gas peer P/E multiples are grossed up to 2022 by 5% to reflect capital appreciation across the sector.

For CMS' merchant business we apply a 4x EV/EBITDA multiple, in line with current market value of CMS' power plants. We value Dearborn Industrial Generation (DIG) on a DCF basis given the plant is expected to be sold to Consumers at the end of 2025, with our valuation reflecting the remaining cash flows.

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

Consolidated Edison (ED)

Our $84 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples 17.1x/16.7x for electric/gas respectively with a -2.0x disc. to Electric, Steam, & Gas to reflect Covid recovery overhang and Steam for lack of decoupling. Both electric and gas peer 2024 P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We further apply an EV/EBITDA approach on 2024E EBITDA to the CEB (renewables) business using a 12.0x multiple for both the legacy portfolio and the renewables portfolio seeing it as having higher quality returns.

Upside/Downside risks to achievement of the Price Objective and Rating are 1) earned regulatory returns, 2) capital expenditures, 3) regulatory/political/legislative changes, 4) interest rates, 5) natural disasters, 6) execution on unregulated projects, 7) Covid, 8) ability to complete the Mountain Valley Pipeline, and 9) raw materials costs and supply-chain delivery timelines.

Constellation Energy Corp (CEG)
Our $109 Price Objective is based on a 11.8% 2024E equity Free Cash Flow yield (FCF yield) on an unhedged/'open' basis. The 11.8% FCF yield represents the median of energy comparable peers.

Risks to achievement of the Price Objective and rating are: 1) changes in energy & capacity prices, 2) retail margins, renewals, win rate, & overall market share, 3) operating and capital costs, 4) capital allocation decisions including M&A, 5) nuclear incidents or accidents, 6) legislative and regulatory changes, 7) nuclear fuel costs & availability, 8) change in environmental standards for generation assets, 9) management turnover, 10) pension & nuclear decommissioning trust returns, 11) credit rating agency requirements, and 12) interest rates.

Dominion Energy (D)
We value Dominion Energy at $94 using a 2024E sum-of-the-parts analysis. For the utilities we apply the comparable electric (18.3x) and gas (16.9x) peer multiples which we gross-up by 5% to reflect capital appreciation across the sector. We apply premiums of 2x for Virginia and 2x for South Carolina electric utilities and +3x to the gas utilities in Ohio, Utah, North Carolina, and South Carolina. We apply discount adjustments to lower value utility sources in South Carolina (NND) and Utah (Wexpro) as well as the South Carolina bill credits.
Contracted assets are valued based on a 12.7x EV/EBITDA for renewables and discounted cash flow analyses for Cove Point and Millstone at the prevailing discount rates reflecting the risk characteristics. For remaining debt beyond that allocated to state utilities, we include a 50% weight towards a straight netting of leverage, with the remaining 50% using a P/E multiple on associated interest expense, in line with the methodology employed for diversified utilities with relatively higher levers of leverage

Risk to achievement of the Price Objective and Rating are 1) regulatory, legislative, and political actions, 2) ability to earn the regulatory allowed ROE, 3) capital markets and equity requirements, 4) changes to the capital expenditure forecast for both regulated & unregulated segments, 5) volatility in interest rates and pension returns, 6) changes in commodity prices, and 6) natural disasters.

DTE Energy (DTE)
We value DTE Energy at $120 using an SOTP approach. We value the utility segment on a 2024E forward P/E multiple basis and the non-utility segment on a 2024E forward EV/EBITDA multiple basis. For the utility segment we apply a 2x premium to both our regulated electric and gas utility peer multiples (of 15.4x and 14.9x, respectively). Both electric and gas peer P/E multiples are grossed up for a year to 2023 by 5% to reflect capital appreciation across the sector. We value the DTE Vantage segment on a multiple of 2024 EPS - the grossed-up electric multiple of 16.2x to account for the renewable natural gas (RNG) business. We assign an equity value of zero to the Equity Trading segment given potential for earnings volatility and opacity of the segment. We also reduce the equity value for estimated unallocated parent debt by applying a 15.9x multiple to both the interest expense and corporate overhead expenses at the parent. Risks to Price Objective: regulatory/political/legislative actions, realized returns from the unregulated Vantage segment, changes in equity needs, load growth/class mix, equity needs, weather/natural disasters, and interest rate fluctuations.

Duke Energy (DUK)
Our $110 PO is derived from a sum-of-the-parts valuation. We value the Electric and Gas utilities using peer 2024E P/E multiples. We apply a 4x multiple premium to Duke's operations in FL and 3x in IN to reflect more favorable regulatory environments (and potential generation opps in IN). We apply a 3x multiple to the Carolinas given upside to spending in improving regulatory construct combined with latest IRP & wider legislative reforms into 2021. We value the other regulated electric utilities at 15.7x and the gas utilities at peer group multiples of 14.5x 2024E P/E, respectively. Both electric and gas peer P/E multiples are grossed up by 5% for the groups CAGR to reflect capital appreciation across the sector. The commercial midstream, and transmission are valued on a 2024E EV/EBITDA basis. We use 9.0x multiples for midstream and transmission segments. We add the net present value of renewable segment using an 8% discount rate. We subtract out the impact of commercial debt, and add back for the renewable debt. Upside risks: constructive rate case results, higher capital expenditure additions vs our assumptions, lower interest rates. Downside risks: poor rate case results, operating errors, and negative changes in the regulatory environment, Macro risks: Increases in interest rates and decreases in equity market valuations.

Edison International (EIX)
Our $50 PO is based on sum of the parts analysis with a peer 15.4x 2024 P/E grossed-up 5% for group growth. A -3x P/E discount is applied to the CPUC, as well as the Parent/Other segment, and -1x P/E discount to FERC jurisdictional utilities. The discount reflects below-average growth and regulatory considerations, albeit FERC risk profile is less challenging than the CPUC. The negative wildfire adjustments are netted-out to reflect a probabilistic approach to the risk of shareholder funded wildfires and the ongoing contribution to the CA fund on an NPV basis.

Risks include changes in: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) Edison Energy returns, 7) ability to deploy capital, and 8) environmental, social, & governance [ESG] profile.

Entergy (ETR)
Our $135 Price Objective (PO) is based on a sum-of-the-parts analysis. The 2024E electric utilities average P/E of 17.8x (vs 17.3x previously) is grossed-up +5%, to 18.7x, to reflect capital appreciation across the sector. We apply in-line P/E multiples to the subsidiaries except for +2x Texas to reflect the constructive regulation environment and -1x New Orleans based upon historical contentious proceedings. We net out 50% of the parent HoldCo long-term debt and apply a P/E multiple to 50% of the interest expense.

Risks to achievement of our Price Objective is 1) changing rate-making mechanisms or unexpected regulatory outcomes, 2) earned return on equities by jurisdiction, 3) hurricanes and other weather events, 4) nuclear accidents, safety events, or other incidents, 5) interest rates fluctuations, 6) equity issuances relative to management's forecast and access to capital markets, 7) ability to deploy regulated capital expenditures, 8) pension fund performance and 9) costs and operational volumes at the wholesale commodity subsidiary.

Essential Utilities (WTRG)
Our price objective is $44 based on our sum of the parts methodology applying a 24E peer multiple to the water utility and gas utility, respectively and accounting for expected growth for each sector. These peer multiples are 23.7x and 14.9x. We apply a 1.0x premium to Peoples Gas given the organic growth opportunities. We net out parent drag with a blended multiple.

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

Risks to the upside are accretive acquisitions, constructive regulatory outcomes, and upward rerating of gas multiples

Evergy, Inc (EVRG)
Our $64 price objective for Evergy (EVRG) is based on sum of the parts valuation, applying an in-line utility peer 2024E P/E of 15.4x. The electric peer P/E multiple is grossed up for by one year by 5% to reflect capital appreciation across the sector. We further apply a -1.0x turn discount across the Kansas Central subsidiary based on our perception of a slightly more challenging regulation compared with the average utility due to concerns about bill pressure.

Downside risks to our price objective include adverse regulatory outcomes, inability to deploy capital expenditures consistent with guidance, operational performance issues including at the nuclear facility, and earning below the authorized rate of return.

Upside risks to our price objective include favorable regulatory outcomes in important proceedings, accretively deploying additional capital expenditures above guidance, higher than anticipated O&M benefits and merger synergies leading to a higher earned return on equity, and the ability to recover capital invested in retired coal assets.

Eversource Energy (ES)
Our sum of the parts based price objective of $76 uses P/E multiples on 2024E earnings. For electric utilities, we attribute a 1x premium NSTAR,in line multiple to PSNH, and a 2x discount for CL&P to peer 15.4x multiple 2024E, reflecting future potential positive revisions to capex and earnings and the latest challenges in CT. For gas, we apply a 1x premium to the peer 14.9x 2024E multiple, given capex upside particularly in MA and a 2x for Columbia Gas. We apply a 2x discount to Yankee Gas given the less favorable jurisdiction. Both electric and gas peer P/E multiples are grossed up by 5% to reflect 2024E capital appreciation across the sector. We value Aquarion at the 23.7x water multiple. We reflect ES's 50% ownership in Revolution and South Fork offshore wind sites on an NPV basis.

Upside and downside risks to our Price Objective are 1) regulatory/political/legislative changes, 2) capital expenditures forecasts, 3) ability to earn the regulatory allowed ROE, 4) offshore wind development, 5) natural disasters, 6) operational performance and gas incidents, and 7) recent M&A integration.

Exelon (EXC)
Our $55 PO is based on an sum of the parts valuation. Our base electric peer 2024 P/E multiple of 18.0x is grossed up for a year by 5% to reflect capital appreciation across the sector. We apply a 2x premium across EXC utilities ComEd, PECO, BGE, PHI given increasing comfort around the consolidated profile, above-average growth prospects and below average risks.

Risks to achievement of the rating and price objective include: 1) Adverse regulatory, political, and legislative outcomes, 2) inability to deploy the guided capital expenditures, 3) equity needs that differ from guidance, 4) storms and other natural disasters, 5) inability to control operating costs, 6) changes in effective tax rates, and 7) changes in credit rating agency metric requirements.

FirstEnergy (FE)
Our PO of $41 is based on a sum-of-the-parts valuation. Our multiples are driven by relative P/E premiums/discounts to the 2024E regulated peer multiple (17.4x). Electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector. As for premiums/discounts, we apply -2x discount to the distribution utilities to reflect rate review risk and the below-average balance sheet. We apply a +1x P/E premium to peers 2024E multiple to the Transmission business given potential for sale of a non-controlling stake. We subtract out the holding co debt given the high parent leverage.

Upside/downside risks are 1) unexpected regulatory outcomes, 2) ability to earn the allowed ROEs and/or other changes in regulatory earnings, 3) pension liabilities, 4) investigation revelations, 5) equity needs versus forecasts, 6) capital expenditures, 7) pension plan returns, discount rate changes, and interest/service costs associated with the plan.

MDU Resources Group, Inc. (MDU)
Our $30 PO is derived from SOTP. At the regulated electric and gas utilities, we use a P/E approach on our 2024 estimates and use peer multiples of 17.5x for electric and 16.8x for gas, respectively with a -1.0x discount for each reflecting the latest management capex guidance, we then gross this multiple by +5% to account for sectorwide EPS growth to derive a 12-month forward PO.
We value the Construction Materials business using a '23 EV/EBITDA estimate, applying a multiple of 9.0x based on an average of several publicly-traded peers in the cement, asphalt, and aggregates business.
We value the Construction Services business using a '23 EV/EBITDA estimate, applying a multiple of 9.4x based on an average of several publicly-traded specialty construction services peers. We also apply a -1.0x valuation discount reflecting the high level of competition in the space.
We value the Pipeline business using a '23 EV/EBITDA est., applying a multiple of 10.0x based on an average of several publicly-traded midstream peers. We also apply a -1.0x valuation discount reflecting uncertainty about growth at projects including North Bakken. We net out total parent drag and back out remaining non-regulated debt.
Upside risks are higher utility capex, improving margins at the construction business, and infrastructure stimulus.
Downside risks are a macro downturn pressuring construction margins, and rate case outcomes.

NextEra Energy (NEE)
Our $94 PO is derived using an SOTP approach, with the utilities and parent segment valued on a 2024E P/E basis, and the generation segment valued on a 2024E EV/EBITDA basis. In addition, we include NEE's ownership stake in NextEra Energy Partners (NEP) as well as the value of fixed fee IDR (DCF, at 6.7% disc rate). We assign 24E peer multiple of 18.0x for electric and 25.9x for water (grossed up by 5% and 7%, respectively, to reflect capital appreciation) with discount/premium to reflect the growth/risk profile of the businesses. We apply a 4x premium for FPL and Gulf. For NEER, we apply a

peer EV/EBITDA multiple of 12.2x, which we adjust depending on asset type. Give contracted renewables 4x premium given fuel type and contracted nature. We utilize a DCF of new renewable for projects beyond 2022. We value contracted nuclear on a DCF approach using a 7.5% discount rate. We apply a 1x premium multiple to pipelines, 1x discount to gas infrastructure and 1x discount for supply and trading given lower asset quality, a 1x premium for contracted gas peakers and 1x discount for merchant peakers (other), again based on asset quality.
Risks to achievement of PO and Rating are 1) regulatory outcomes, 2) weather & natural disasters, 3) commodity price changes, 4) fluctuations in stock prices for YieldCo NextEra Energy Partners, 5) renewable development margins.

NiSource Inc (NI)
Our $34 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2024 forward P/E multiples that are marked-to-market to the latest peer utility multiples of 16.9x for gas and 18.2x for electric with a 1.0x premium for the gas utilities and a 2.0x premium for the electric gas utilities given strong growth rates and incremental renewable buildout, with capex potentially beginning in '24-'26, but acknowledge industrial gen load migration risk. While there still could be some near-term headwinds for solar, we are confident in mgmt. ability to manage and mitigate the impacts.

We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, higher natural gas prices, and inability to execute on renewables additions.

NorthWestern Corporation (NWE)
Our $56 price objective is based 2024E price/earnings (P/E) methodology. We apply the electric utility sector P/E of 16.8x as a base then gross-up +5% to reflect capital appreciation across the sector. We apply a -2x discounted multiple to the 2024E peer multiple to historically challenged regulation, below-average rate base (4-5%) / EPS (3-6%) growth, and inflationary concerns.

Risks to our price objective are uncertainty from: 1) regulatory, political, and legislative outcomes, 2) ability to recover costs and earn the regulatory allowed return on equity [ROE], 3) differences in future equity needs, 4) capital expenditure forecasts, 5) commodity and interest rate changes, 6) natural disasters and wildfires, and 7) management changes.

NRG Energy (NRG)
Our $38 Price Objective is based on 2024E sum-of-the-parts analysis. We apply a premium/discount to our 7.0x base EV/FCF multiple, which is premised on long-term historical industry trends, to each segment based on our views of the specific asset type and region. We discount the Generation segment to approximately 5x EV/EBITDA due to operational challenges experienced of late. Within Generation, we apply a 6x disc to ERCOT coal given supply chain challenges. We apply an approximate 6x multiple to Retail, at a premium to the base IPP multiple reflecting the opportunity set and challenges. The potential for additional cross-selling revenue is mitigated by concerns of core margin erosion and customer count declines. We assume approximately $2Bn share repurchases by YE-23.

Upside/Downside risks to the price objective are changes in: 1) commodities including gas, coal, nuclear fuel & power, 2) operating costs, 3) environmental costs and regulation, 4) retail margins and customer counts, 5) natural disasters, 6) generation volume, 7) regulatory, legislative, and political changes, 8) customer acquisition costs, 9) retail competition, 10) pension and nuclear decommissioning trust assets/liabilities, and 11) interest rates.

OGE Energy Corp (OGE)
Our OGE PO is $44/share based on a sum of the parts. For the utility and holdco we apply the FY24 peer multiple of 18.0x. Electric peer P/E multiple is grossed up for a year to 2021 by 5% (based on average annual growth) to reflect capital appreciation across the sector. We apply a 1x premium for incremental growth not yet embedded in plan.

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

Upside risks are shifts towards a more favorable Oklahoma regulatory environment, which could ease OGEs ability to earn its authorized return in the jurisdiction and possibly increase capex plan as management views prospects in the state more positively. Improvements in value of ET share.

PG&E Corporation (PCG)
Our PO of $16 reflects an in-line P/E versus the respective electric (15.4x) and gas (14.9x) peer P/E groups with both grossed-up by 5% to reflect capital appreciation across the sector) based on 2024E. The acute wildfire risk is incorporated separately via a scenario probability weighted at 100% assuming PCG hits the cap in 3-year increments. Lastly, we net out 50% weighting of HoldCo debt and add back 50% weighting of interest expense to derive our Price Objective.

Risks to achievement to estimates and Price Objective include: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) Fire Victim Trust moneitizations, 7) ability to deploy capital, and 8) environmental, social, & governance [ESG] profile.

Pinnacle West (PNW)
Our price objective of $56 is based on a peer utility P/E multiple of 15.4x on our 2024E EPS of $4.32 with a -3.5x discount to account for future rate case risk, uncertain recovery of clean generation spend, resource adequacy concerns in the state, and general below-average regulatory environment in Arizona, PNW's sole jurisdiction. Electric and gas peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector.
Risks to the Price Objective and estimates are: 1) Regulatory relationships/outcomes, 2) load growth in territory vs expectations, 3) Riders and capital trackers implementation 4) weather and natural disasters, 5) interest rate risk changes cost of capital, 6) pension liabilities and asset returns, 7) equity needs relative to forecasts, 8) capital expenditures.

Portland General Electric Company (POR)

Our $54 price objective is based on our 2024E EPS estimate. We value shares based on a 2024E P/E methodology applying a 1x discount to the 2024 regulated utility PE multiple of 18.0x. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. While our PO is a 12-month forward projection, we use a 2024 multiple, which is reflective of a discount back to today.

Risks to estimates and the Price Objective are 1) regulatory decisions, 2) power costs in the Power Cost Adjustment Mechanism [PCAM], 3) wildfires and other natural disasters, 4) ability to deploy capital, 5) ability to control operation expenses, 6) interest rates, 7) load growth/contraction, 8) request for proposals, and 9) trading losses.

PPL Corporation (PPL)
Our $33 price objective is based on a sum of the parts methodology applying respective premium/discounts to the 2024E peer group multiple of 18.5x. Electric peer P/E multiple is grossed up by 5% to a target multiple of 19.4x to reflect capital appreciation across the sector.

Risks to the achievement of our Rating and Price Objective include: 1) Integration of Rhode Island assets, 2) regulatory/political/legislative changes, 3) capital markets, 4) ability to earn at or above the regulatory allowed return on equity, 5) cost control, 6) capital expenditures forecasts, 7) natural disasters/weather, 8) equity issuance/repurchase plans, and 9) corporate taxes.

Public Service Enterprise Group (PEG)
Our $69 PO is derived from our SOTP valuation. For the regulated utilities we utilize the electric (18.3x) and gas (17.6x) 2024E sector P/E multiples, which we then gross-up by 5% to reflect capital appreciation across the sector. We continue to apply a company-specific +1x premium to the group multiples thus derived to reflect the above-average growth and low-risk transmission & distribution (T&D) nature of PEG's operations.

Positive or negative risks to achievement of the Price Objective and Rating are: 1) regulatory/political/legislative outcomes, 2) changes in capital expenditures relative to forecasts, 3) nuclear incidents and natural disasters, 4) equity and capital markets needs, cost and timing adjustments for offshore wind developments, 5) ability to earn the regulated rate of return, and 6) interest rates.

Sempra Energy (SRE)
Our $160 PO is based on a sum of the parts valuation of 2024E earnings. The US utilities are valued using the electric (15.4x) and gas (14.9x) average P/E that we grossed-up +5% to account for sector growth. We apply a -2x discounted valuation to the California gas utility (SoCal Gas) for concerns about long-term use of natural gas. We apply a -1x discounted valuation to the California electric utility (SDG&E) to reflect the wildfire risk exposure. We apply a +2x premium to the TX utility (Oncor) for above average growth and high visibility into rider recovery. The Infrastructure segment (SIP) is valued at 12x EV/EBITDA, an implied premium to the Mexican market (5.5x) and select premium US midstream comparable (Williams and TC Energy at approximately 11x) on EV/EBITDA due to its long duration contracted cash flows. The parent drag is treated on a balanced blend of P/E and HoldCo debt and cash netting.

Risks to achievement to estimates and Price Objective include: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) LNG development, 7) ability to deploy capital, and 8) environmental, social, & governance [ESG] profile.

Southern Company (SO)
Our $63 PO is derived from a sum-of-the-parts analysis (SOTP). We use a P/E valuation approach on 2024 and use peer multiples of 15.4x for electric and 14.9x for gas, respectively (with dis/prem applied per asset depending on growth/risk): we then gross up these multiples by +5% to account for sector wide EPS growth to derive a 12-month forward PO. We subtract 50% of the 2024 parent interest expense multiple by an electric P/E peer multiple to reflect parent lev supporting the utilities. We net out total parent drag and add back the remaining parent interest expense with a 50% weighting.

Upside and downside risks are 1) Vogtle construction timing and costs, 2) regulatory and legislative outcomes, 3) ability to earn the allowed rate of return, 4) changes to the capital expenditure forecast, 5) nuclear incidents, weather, and natural disasters, 6) rate of customer growth, 7) O&M trends, 8) interest rates, 9) environmental policies and regulations.

Southwest Gas Holdings (SWX)
Our $87 PO is based on our 2024E Sum-of-the-parts (SOTP) analysis. We apply a 16.6x our 24E peer Gas LDC utility P/E to the utility EPS across the company's three major jurisdictions, which include Arizona, Nevada and California. We gross this peer multiple up by 5% to reflect capital appreciation across the sector.

For all of the utilities, we apply a 3x discount on Arizona and a 2x discount on California and Nevada. Additionally, we value the FERC regulated MountainWest and Great Basin Pipeline separately on a midstream peer group average FY24E EV/EBITDA multiple of 9.2x and net out associated debt. We apply a 1x discount on MountainWest to reflect lower growth opportunities vs peers. For the infrastructure services segment, we apply 8.8x FY24E EV/EBITDA multiple (based on peer consensus multiples), which is a 0.5x premium to the business' closest industrial comps given higher margins and a more stable customer base. Lastly, for parent debt in the Corp & Other segment, we net out 50/50 weighting for re-capitalization and add back 50% of parent interest expense.

Risks to achieving the Price Objective are 1) M&A, 2) activist shareholders, 3) infrastructure services performance, 4) construction margins, 5) regulatory outcomes, 6) ability to earn regulatory rates of return, 7) capital markets access, 8) rating agency actions.

Vistra Energy (VST)
Our $30 price objective is based on a 2024E SOTP valuation. We assign a discount/premium to the peer group EV/FCF multiple of 7.0x for each fuel within each geography, depending on our specific views for the asset type and market: We include the full $275mn of margin-enhancing initiatives as well as $200mn optimization benefits and the $275mn of synergies related to the DYN acquisition. We further capitalize our estimated income tax for the combined entity to reflect the higher tax burden than peers, and we include a $50mn NPV of TRA payments. We reflect Vistra Zero accretion at 12x EV/EBITDA, with '26 FCF discounted at 12% back to '23. We also reflect $500mn of ERCOT securitization proceeds (implied in net debt balance). Our average implied 24E EV/FCF multiple for the overall business is 4.8x based on our latest Mtm of commodities. We include impact from future bill credits from Uri storm & NPV of ERCOT uplifts, exclude Koch litigation.

Downside risks: 1) declining wholesale power & capacity prices, 2) competitive & regulatory change to retail businesses, principally in Texas, 3)

operational issues pertaining to running power assets including Nuclear asset in Texas.

Upside risks: 1) VST may improve its retail margins and retain customers, 2) VST may beat its margin enhancements initiatives, 3) VST may see a decrease in the price of key inputs such as natural gas and coal, and 4) VST may see an increase in wholesale power prices.

WEC Energy Group Inc (WEC)
Our $90 PO is based on 2024E SoTP, with a large cap electric group multiple of 15.1x and gas regulated multiple of 14.6x. Electric and gas peer P/E multiples are grossed up for a year to reflect capital appreciation across the sector. We apply a 3.0x premium to WEC's WI electric & gas subs for surety in earnings growth for the next two years following the Commission's recent settlement on above avg ROEs of 10%+. We apply a 3.0x premium to the gas utilities, except IL's Peoples Gas which is 2.0x, and North Shore Gas with the Gas System Modernization Program (GSMP) and capex forecasts de-risked following the ICC order. We ascribe a 4x premium vs. the group at ATC to account for steady earnings growth as well as above avg Federal ROE's. We give Power the Future (PTF) a 3.0x P/E premium as the ROE is set indefinitely on historical and new investments. We ascribe an in line multiple for the parent accounting for the interest expense which finances overall utility operations. We value Energy Infrastructure on a net present value basis using a WACC of 5.6%, in line with other renewable assets. We net out 50% of HoldCo debt from equity valuation and adjust to add back the parent drag on interest exp.

Risks to our PO are positive or negative changes in: 1) earned regulatory returns, 2) capital expenditures, 3) regulatory/political/legislative changes, 4) interest rates, 5) natural disasters, and 6) execution on unregulated projects.

Xcel Energy Inc (XEL)
Our PO is $69. We value Xcel Energy using a sum of the parts (SOTP) approach. Given the difference in geography, earnings strength, growth opportunity and risk profile, we divide the segments by subsidiary. We use 2024E forward P/E multiple of 15.5x to derive a value for the different business segments, including the parent segment. Electric peer P/E multiple is grossed up for a year to reflect capital appreciation across the sector. We apply a 3x premium to XEL subsidiaries in MN, CO, NM, and WI as both utilities present solid or improving regulatory treatment with tangible investment upside. We see this multiple as appropriate as the company has growth opportunities, resolving regulatory drag and resolving uncertainty around rate cases. We also add a discrete item reflecting upside from potential Direct Pay legislation, estimating the equity savings from 75-100 bps improvement in credit metrics and applying a probability weight of 50% to account for uncertainty. We also net back 50% of the parent interest expense and instead subtract out 50% of parent debt to more accurately reflect HoldCo leverage.

Risks to achievement of the Price Objective are interest rate changes, regulatory risk, such as lower authorized ROEs or less favorable riders/trackers for renewables and transmission, inability to deploy capital at guided levels, adverse legislation, execution delays, and weather/natural disasters.

Coverage Cluster

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Dominion Energy	D	D US	Paul Zimbardo
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Exelon	EXC	EXC US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Paul Zimbardo
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith

Analyst Certification

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

Disclosures

Special Disclosures

BofA Securities is currently acting as a financial advisor to Qatar Investment Authority in connection with its capital injection into RWE AG to support RWE AG's proposed acquisition of Con Edison Clean Energy Businesses Inc from Consolidated Edison Inc, which was announced on October 1, 2022.

Important Disclosures

Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships[R1]	Count	Percent
Buy	77	61.11%	Buy	63	81.82%
Hold	28	22.22%	Hold	21	75.00%
Sell	21	16.67%	Sell	11	52.38%

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships[R1]	Count	Percent

Buy	77	53.47%	Buy	54	70.13%
Hold	33	22.92%	Hold	26	78.79%
Sell	34	23.61%	Sell	22	64.71%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1839	53.46%	Buy	1071	58.24%
Hold	800	23.26%	Hold	498	62.25%
Sell	801	23.28%	Sell	379	47.32%

R1 Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster [R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

R2 Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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Utilities have pushed the envelope on growth

Following multiple long-term financial refreshes in 2022, we provide the latest snapshot of utility EPS and rate base growth guidances. We take the multi-year growth guidances provided by companies, noting that some companies use different starting points (2020-2022) and ending points (2024+). *We utilize company's guidance rather than BofA estimates to enhance comparability*. Over the long-term for regulated utilities, net income growth should align with the underlying rate base trajectory with positive and negative performance deltas related to whether a company is earning its allowed rate of return. Companies can grow consolidated EPS faster or slower than what core rate base would ordinarily predict due to financing costs and/or unregulated operations.

Can utilities outrun gravity? EPS Growth > RB Growth

PPL Corp (PPL) has the largest unfavorable delta between rate base growth (3-4%) and adjusted EPS (6-8%) which is a risk factor for the company. We expect PPL's growth to slow in the long-term but recently upgraded shares to Buy based on the view that there is an ability to add and pull-forward renewables capex in Kentucky. See details here: PPL: Sun set to shine in Kentucky: upgrade to Buy after underperf. & IRA beneficiary. Evergy (EVRG) is another company where 6-8% EPS growth outpaces rate base growth (5-6%). In fact EVRG's below-average pace of rate base growth versus peers is a point that the company emphasis with regulators to support its pursuit of additional rate base investments, albeit unsure if it improves meaningfully stil. *The average large cap US utility targets ~6.6% EPS and 7.2% rate base growth, excluding PCG and NEE.*

Financing drags presents an opportunity – and a risk

EPS growth lagging rate base growth presents an opportunity for companies who can find more efficient, lower-cost financing to minimize or otherwise 'close the gap'. Conversely, higher costs of capital in 2022 could lead to additional financing pressures for companies with outsized reliance on parent equity & debt financing. The utilities equity sector (XLU) has declined -8% YTD while the Moody's BAA Utility interest rate has climbed to 5.9% from 3.3%. Some companies have prudently entered interest rate and equity hedges to dampen the near-term impacts of higher weighted average cost of capital but this is an important factor to watch.

Companies where rate base growth outpaces EPS most significantly are CNP/NI (3pp), D (2.5pp), and EIX (2pp). In particular we highlight CNP, NI, and D who each have historically engaged in asset sales to address equity and other financing needs. We see an opportunity Dominion to engage in unregulated asset sales (Millstone or Cove Point) which could accelerate long-term EPS growth. Just last week Kinder Morgan (KMI) divested a 25.5% stake in its 20Yr contracted Elba LNG export facility at a guided 13x 2022 EV/EBITDA. Even without a monetization, Dominion's underappreciated interest rate hedging and upside to Millstone earnings should strengthen the long-term ~6.5% EPS CAGR versus peers. *We reiterate Buy on shares of D which offer a favorable risk/reward.*

Please see the full report for exhibits of rate base and EPS growth guidances.

03 October 2022

Equity
United States
Utilities

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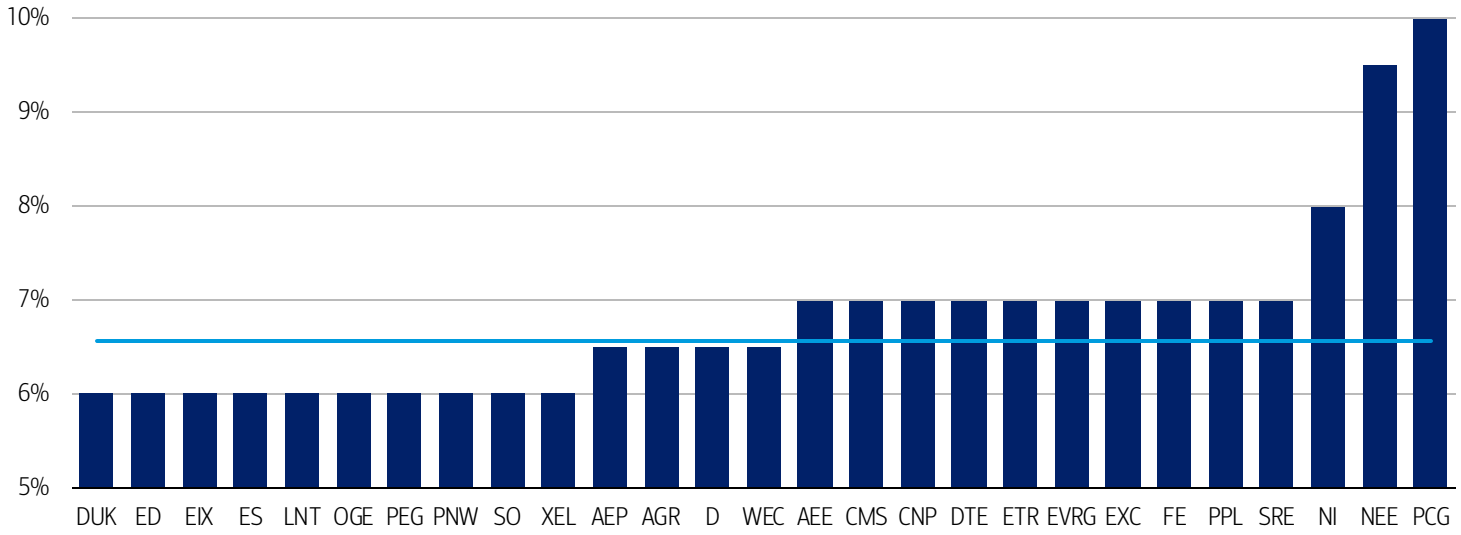
RB: Rate base
LNG: Liquefied Natural Gas

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The exhibits below are derived from company filings of EPS and rate base trajectories rather than BofA estimates to enhance comparability between earnings and rate base. Companies have revised their guidances and every effort was made to reflect the latest disclosures.

Of the 27 companies examined, 10 target EPS growth of 6% at the midpoint, 4 target 6.5% midpoint, 10 target 7%, and 3 aim to deliver 8% or higher.

Exhibit 1: Large Cap Electric Utility Adjusted EPS CAGR Guidances Midpoints*
The average large cap US utility guides to ~6.6% EPS CAGR, excluding NEE & PCG or 6.8% with those two companies.

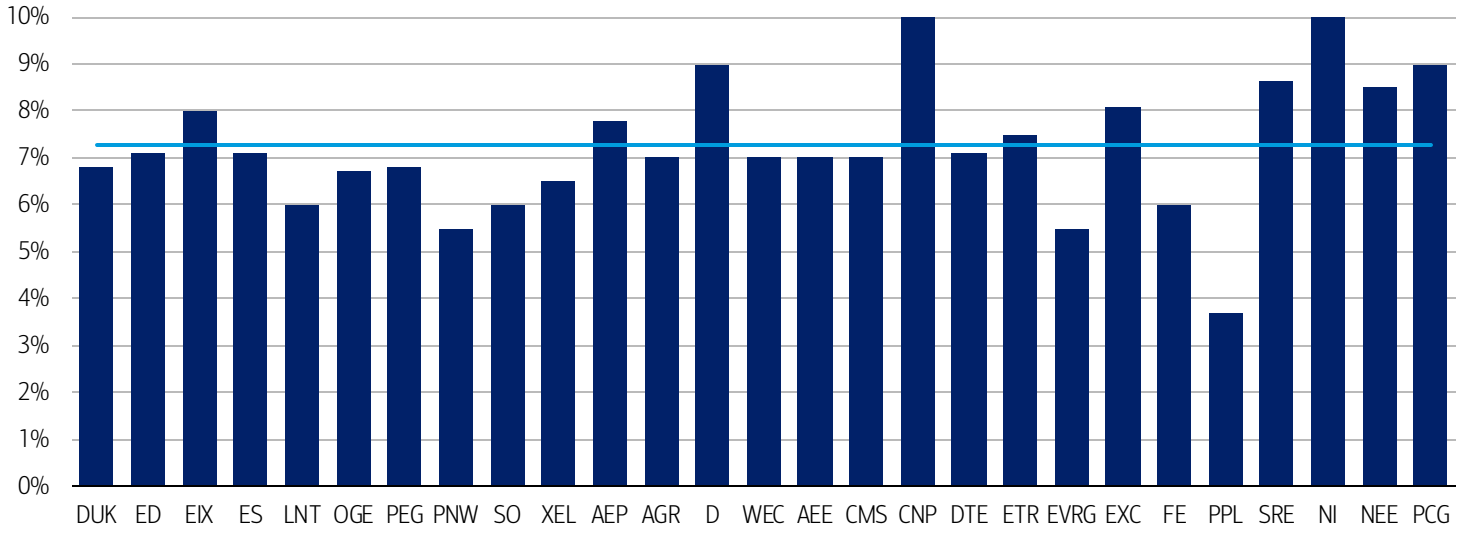


Source: Company Filings, Evergy, & BofA Global Research. *Note that companies provide different starting and ending years

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There is a much wider dispersion in rate base growth profiles with the average at 7.3% for the industry. While most utilities target EPS growth of 6-7%, rate base growth guidances range is clustered around 5-8% with more dispersion. CNP stands out constructively between below and above charts.

Exhibit 2: Large Cap Electric Utility Adjusted Rate Base CAGR Guidances Midpoints*
There is a wider spread between rate base growth profiles for companies

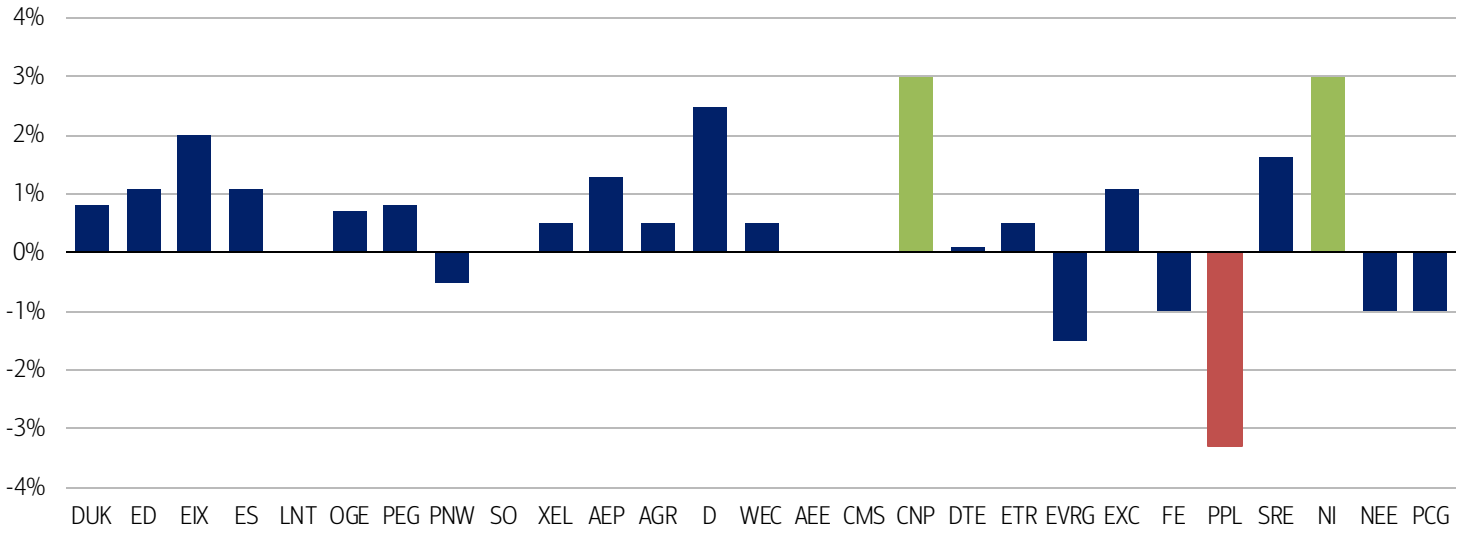


Source: Company Filings, Evergy, & BofA Global Research. *Note that companies provide different starting and ending years

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The next exhibit calculates the difference between rate base growth and EPS growth: positive numbers indicate rate base growth above EPS while negative represents EPS growing ahead of rate base.

Exhibit 3: Large Cap Electric Utility Adjusted Rate Base CAGR Less EPS CAGR Midpoint Guidances*
Deltas between earnings and rate base growth are key to focus on



Source: Company Filings, Evergy, & BofA Global Research. *Note that companies provide different starting and ending years

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Companies that have publicly stated they would evaluate asset sales include AEP, AGR, DUK, ES, FE, PCG, PEG are key to watch for implications on the long-term earnings profile. MDU Resources and Southwest Gas are two companies with more economically sensitive unregulated businesses that are undergoing broader reviews where value could differ widely. Similarly we pay closer attention to companies that have expressed that equity issuances are a financing source for the plan including but not limited to AGR, AVA, ES, D, EIX, EXC, ETR, and PCG.

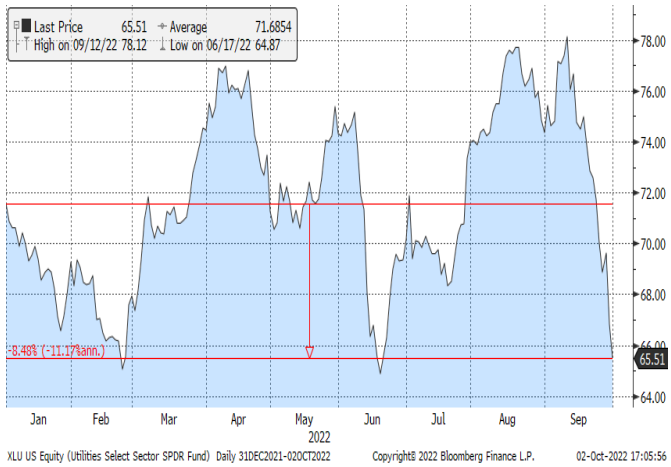
Exhibit 4: Moody's Bond Utility Baa Yield (%) YTD
Interest rates have materially increased in 2022 for all sectors



Source: Bloomberg

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Exhibit 5: Utilities Sector ETF Performance (XLU) YTD
Utilities have outperformed the broad S&P 500 but are still down YTD

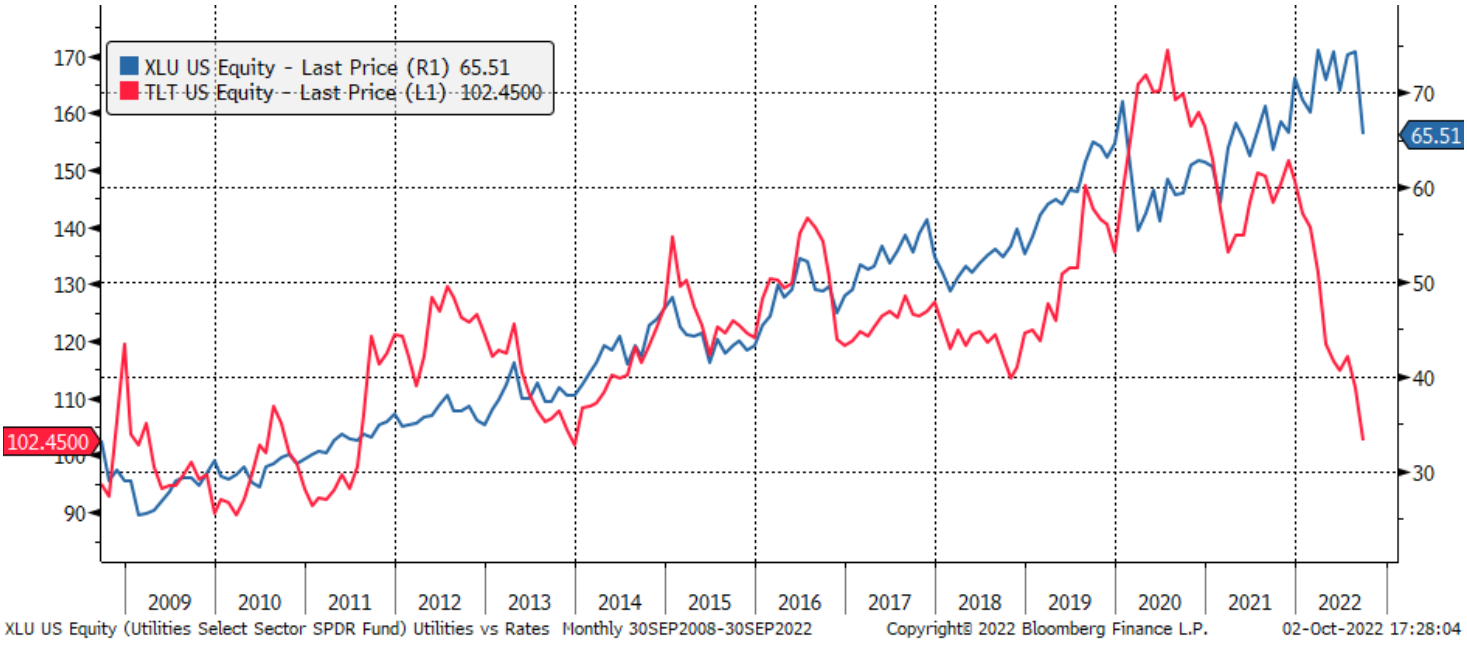


Source: Bloomberg

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Over a long period of time utilities generally performed in-line with high duration US government bonds but the relationship has broken down recently.

Exhibit 6: Utilities Sector ETF (XLU) & iShares 20+ Year Treasury Bond ETF (TLT) Performance
Utilities largely tracked bond performance (effectively inverse of interest rates) with some volatility from September 2008 until 2022.



Source: Bloomberg

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US Electric Utilities & IPPs: What's in a premium valuation?	Julien Dumoulin-Smith	27 July 2022

Exhibit 7: Stocks mentioned in this report
Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
D	D US	Dominion Energy	US$ 71.09	A-1-7
PPL	PPL US	PPL Corp.	US$ 26.06	B-1-7

Source: BofA Global Research

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Price objective basis & risk

Dominion Energy (D)

We value Dominion Energy at $94 using a 2024E sum-of-the-parts analysis. For the utilities we apply the comparable electric (18.3x) and gas (16.9x) peer multiples which we gross-up by 5% to reflect capital appreciation across the sector. We apply premiums of 2x for Virginia and 2x for South Carolina electric utilities and +3x to the gas utilities in Ohio, Utah, North Carolina, and South Carolina. We apply discount adjustments to lower value utility sources in South Carolina (NND) and Utah (Wexpro) as well as the South Carolina bill credits.

Contracted assets are valued based on a 12.7x EV/EBITDA for renewables and discounted cash flow analyses for Cove Point and Millstone at the prevailing discount rates reflecting the risk characteristics. For remaining debt beyond that allocated to state utilities, we include a 50% weight towards a straight netting of leverage, with the remaining 50% using a P/E multiple on associated interest expense, in line with the methodology employed for diversified utilities with relatively higher levers of leverage

Risk to achievement of the Price Objective and Rating are 1) regulatory, legislative, and political actions, 2) ability to earn the regulatory allowed ROE, 3) capital markets and equity requirements, 4) changes to the capital expenditure forecast for both regulated & unregulated segments, 5) volatility in interest rates and pension returns, 6) changes in commodity prices, and 6) natural disasters.

PPL Corporation (PPL)

Our $33 price objective is based on a sum of the parts methodology applying respective premium/discounts to the 2024E peer group multiple of 18.5x. Electric peer P/E multiple is grossed up by 5% to a target multiple of 19.4x to reflect capital appreciation across the sector.

Risks to the achievement of our Rating and Price Objective include: 1) Integration of Rhode Island assets, 2) regulatory/political/legislative changes, 3) capital markets, 4) ability to earn at or above the regulatory allowed return on equity, 5) cost control, 6) capital expenditures forecasts, 7) natural disasters/weather, 8) equity issuance/repurchase plans, and 9) corporate taxes.

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North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Dominion Energy	D	D US	Paul Zimbardo
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Exelon	EXC	EXC US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Ryan Greenwald
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA

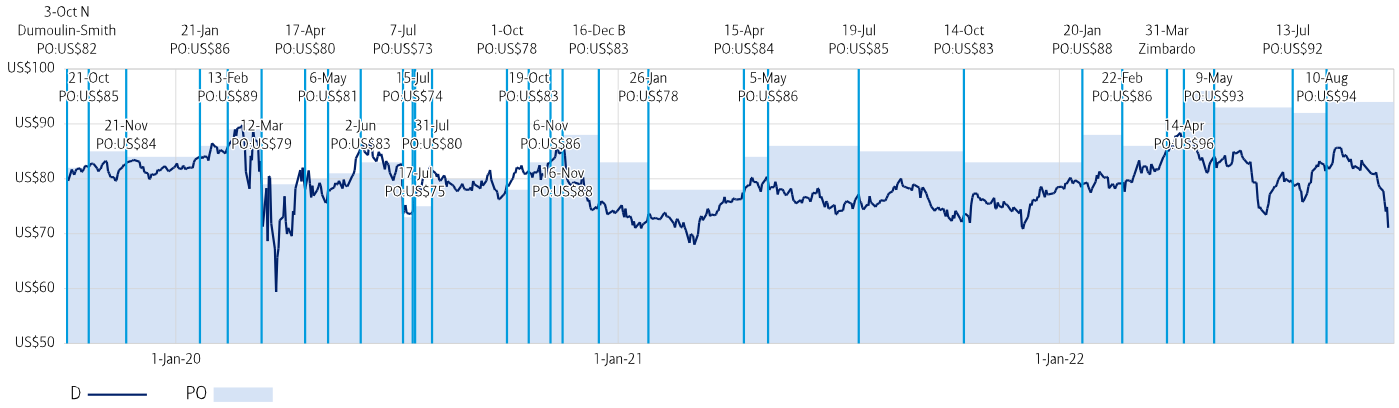
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Paul Zimbardo
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Ryan Greenwald
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith

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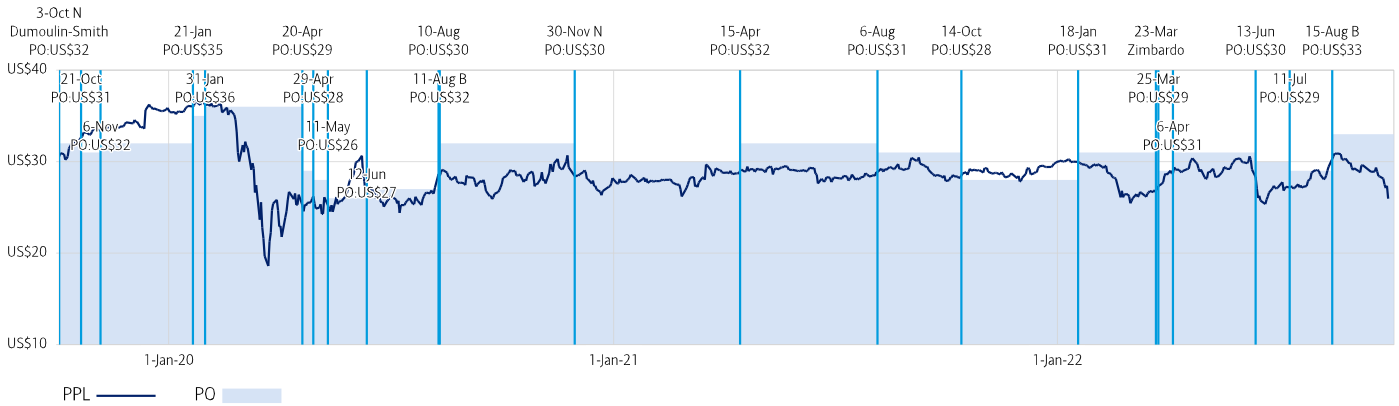
Dominion Energy (D) Price Chart



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

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

PPL Corp. (PPL) Price Chart



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

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

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	77	53.47%	Buy	54	70.13%
Hold	33	22.92%	Hold	26	78.79%
Sell	34	23.61%	Sell	22	64.71%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1839	53.46%	Buy	1071	58.24%
Hold	800	23.26%	Hold	498	62.25%
Sell	801	23.28%	Sell	379	47.32%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster [R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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A unique earnings preview as we focus on debates

We provide our comprehensive thoughts on a company-by-company basis. Most utilities we cover are well positioned for FY22 despite growing cost pressures, but the key uncertainty is FY23+ guidance refreshes. For utilities, quarterly EPS generally is an afterthought, but we cannot recall a quarter in recent memory where the print is of as little consequence. As a result, we dedicate our preview to detailing the key investor debates. Critically, with so much uncertainty into earnings profiles, we provide our view of sentiment/positioning from our extensive investor calls, while caveating that this is a small sample size and may not be statistically significant or representative of all.

Who has 2023 risks? Who is 'safe'? The name of the game

The utilities sector is unique in having above-average earnings visibility for three-plus years due to well defined capital expenditures and rate base investment plans, but the crystal ball is the cloudiest as it has been in a decade. A myriad of factors have introduced certainty in 2022, but the breaking point for many has been the sharp rise in financing costs that were unlikely to be accounted for long-term guidances. This is in sharp contrast to the enactment of the Inflation Reduction Act, which should be net positive for the electric utilities sector, particularly the integrated utilities with renewable transformation stories. **Best positioned include ETR, PPL, DTE, NWE, NI, SRE, and CEG. Conversely, we see more challenging updates for AWK, ES, and EIX plus BKH, although we see BKH trading near fair value.**

LNT stands out with the company's FY23 EPS expectations subdued given lack of rate increases and a moderation of robust load growth in 2022. We interpret that the lower end of the 5-7% range in FY23 as likely before an upward inflection later in the cycle as solar rate base investments come on-line. See our full preview here. Our investor conversations also point to sentiment around **XEL** becoming more cautious with some concern that Street estimates are too high on 2023, principally given a lower y/y step up in MN interim rates and limited latitude to control O&M as demonstrated so far in '22. We expect an initial guidance range of $3.30-3.40 in '23, see a breakdown of the trajectory here. Expect a relatively quiet update from **PNW** (no '23 guide), with its rate case filing in AZ likely dominating discussion; with few data points (highest regional CP) shares could be volatile around the early Nov election with 2 of 5 commission seats up for a vote, with a Republican sweep likely the best outcome for shares though the outcome is very much up in the air based on latest FiveThirtyEight polling as of Oct 19.

We have more confidence in companies that have 2023 guidance or provided recent financial refreshes such as AEP, PPL, and PCG. **WEC** remains a go-to defensive name. we expect another strong beat in Q3 which will allow mgmt. to pull ahead O&M and de-risk '23 rather than raise '22 guidance for a third time – recent de-rating only makes the entry point more attractive here: see details here.
Other key trends include IRA winners/losers, interest rates, pensions, equity needs/asset sales, fuel costs, rate cases, premium/value spreads, short interest, and overall EPS revisions.

Please see full report for details on bull/bear debates, themes, & much more.

20 October 2022

Equity
United States
Utilities

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PO Changes:
AWK to $134 from $158
ALE to $53 from $63
EVRG to $64 from $68
WTRG to $44 from $52
ES to $76 from $88
PNW to $56 from $64
SO to $63 from $77
Details On Page 2.

IRA: Inflation Reduction Act
O&M: Operations and Maintenance

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Breaking down key changes. We update valuations of select companies to reflect the latest 15.4x electric, 14.9x natural gas, and 23.7x water. Overall the utilities sector has materially de-rated which we reflect in our latest suite of mark-to-market changes.

Exhibit 1: Summary of Changes in This Report
Price Objectives are declining across the board

			Prior					New					Delta vs Prior. (%)				Delta vs Consensus (%)			
Company	Ticker	Rating	PO	2022	2023	2024	2025	PO	2022	2023	2024	2025	2022	2023	2024	2025	2022	2023	2024	2025
American Water	AWK	Underperform	$158	4.45	4.74	5.18	5.64	**$134**	**4.44**	**4.73**	**5.14**	**5.55**	0%	0%	-1%	-2%	0%	-2%	-1%	-2%
Allete	ALE	Neutral	$63	3.75	4.01	4.30	4.54	**$53**	**3.75**	**4.01**	**4.30**	**4.54**	0%	0%	0%	0%	0%	2%	4%	3%
Evergy	EVRG	Neutral	$68	3.60	3.78	4.05	4.22	**$64**	**3.60**	**3.78**	**4.05**	**4.22**	0%	0%	0%	0%	1%	0%	0%	0%
Essential Utilities	WTRG	Neutral	$52	1.78	1.88	2.03	2.13	**$44**	**1.77**	**1.87**	**2.02**	**2.13**	-1%	-1%	0%	0%	-1%	-2%	-1%	-4%
Eversource	ES	Underperform	$88	4.12	4.48	4.77	5.00	**$76**	**4.13**	**4.36**	**4.69**	**4.95**	0%	-3%	-2%	-1%	1%	-1%	1%	-1%
Pinnacle West	PNW	Underperform	$64	3.96	4.14	4.32	4.62	**$56**	**3.96**	**4.14**	**4.32**	**4.62**	0%	0%	0%	0%	-2%	-1%	-3%	-2%
Southern Company	SO	Neutral	$77	3.74	3.83	4.16	4.41	**$63**	**3.74**	**3.83**	**4.16**	**4.41**	0%	0%	0%	0%	4%	1%	2%	0%

Source: Company Filings, Bloomberg, & BofA Global Research

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Important Names to Watch

In our view the best positioned companies for 3Q and EEI are Entergy (ETR), PPL Corp (PPL), DTE Energy (DTE), Northwestern Corp (NWE), NiSource (NI), Sempra (SRE), and Constellation Energy (CEG). ***We maintain Buy ratings based on each company's attractive risk-adjusted return profiles, which we elaborate on in the full company sections.***

Entergy is a BofA quarterly top pick where we see a strong quarter with a FY22 guidance increase followed by EEI Conference discussion of how the company is an IRA and reshoring beneficiary. There are media articles daily discussing industrial energy demand destruction and corporate reshoring/decarbonization trends where Entergy's Gulf Coast footprint should take share. We preliminarily estimate that ETR has +5% capex upside from IRA through 2024 with greater upside in future years when Entergy has more renewables in the plan.

PPL released LT guidance in June 2022, so has a more realistic set of assumptions for interest rates, inflation, and other macro factors than many companies who have not refreshed in the past year. The IRA is set to accelerate Kentucky generation transformation capital investments sooner than we or management likely anticipated just a few months ago.

DTE Energy has previewed an accelerating growth profile for countless months, but the great reveal is finally upon us. Shares have lagged due to the highly telegraphed positive update from the integrated resource plan (IRP) and LT guidance but this management team has consistently outperformed even lofty expectations. The IRA benefit to rate base, industrial demand tailwinds, and continued large C&I interest in renewables are all incremental positives since DTE started discussing the upside to the long-term plan. Lastly the public datapoints for the value of renewable natural gas (RNG) investments is supportive of the Vantage profile too.

NorthWestern was recently double-upgraded to Buy based on the improving Montana regulatory backdrop which is both earnings and multiple accretive. It is unclear if management will address the favorable impacts of interim rates on FY22 at this point but expect management to be on the offensive with the narrative on how Montana has favorably evolved.

For **NiSource** we ultimately believe that the 2021+ EPS CAGR is extended and moderated to 6-8% from 7-9%. This reflects an existing profile intact (i.e. not calling for a negative reset in the interim) but simply a moderation from the 'hockey stick' growth into 2024. The entire strategic review and activism processes have been messy, and the November Analyst Day should be a clearing event to allow shares to return to trading more on the fundamental drivers and reflect the above-average profile.

Sempra 3Q is weak versus Consensus, but we anticipate a FY22 guidance increase and FY23 guidance should be comfortably maintained. The true upside for shares is further progress on the LNG development efforts and management strongly committed to providing a 3Q update.

Lastly, **Constellation Energy** is set to increase FY22 guidance and discuss the significant positive attributes from the IRA on the only large cap US pure-play nuclear power company. The more material capital allocation and FY23 guidance initiation positive updates are likely late calendar 2022 or 4Q22 call events but we still see a favorable 3Q call ahead.

Conversely, we remain cautious on Eversource (ES), Edison International (EIX), and American Water (AWK). We maintain Underperform ratings based on the companies' weaker risk-adjusted total potential return, which are below average for the our coverage return, as we elaborate on in the full company sections.
Eversource has a 3Q miss and we lower our estimates to reflect reduced expectations on offshore wind proceeds as well as higher debt/equity financing costs in the plan. The more protracted asset sale timeline further dampens upside to FY23 redeployment of capital.

Edison International similarly has a 3Q miss and among the most downside to FY23 Consensus in our coverage universe. While many investors have focused on potential 1-2% 2023 misses across the sector, we are 6% below FY23 EIX Consensus, which would further call into question the achievability of the long-term guidance. There historically has been a seasonal preference of investors to buy California utilities after wildfire season (November).

American Water has a 3Q miss and we preliminarily see a 2023 guidance miss with BofA -2% below Consensus. AWK's 7-9% EPS growth profile includes 150-250bp of regulated acquisitions which could be less accretive than before with higher financing costs. Here AWK is uniquely adversely exposed. The previously highlighted pension negative earnings exposure for FY23 should largely be addressed but overall increasing O&M that is starting to manifest in 2H22 could further ding the outlook.

Neutral-rated **Black Hills (BKH)** was recently downgraded to Neutral due to projected minimal growth YoY in FY23 which could lead to an EPS CAGR rebasing or overall deterioration. The challenges of O&M and financing costs are most acute for small companies where we see potential for a myriad of firms to be impacted.

Two companies where we have positive long-term outlooks could have more challenging updates include PSEG (PEG) and Exelon (EXC).
PEG's 3Q update will leave clarity to be desired as management still has not quantified FY23 pension headwind and the company's 2022 has net pressures from higher financing costs without an offsetting benefit of warm weather.

We still see value in EXC and while FY23 is set to be a less robust growth year, we still anticipate growth with a stress tested +4% YoY improvement better than some bears who fear there is no growth YoY. Look for management to provide the building blocks to clear the overhang here. Finally, AMT (alternative minimum tax) and credit has been topical so we look for management to more forcefully state that it does not need incremental equity and sees path for a *de minimis* AMT cash flow impact

Key Themes

Inflation Reduction Act (IRA): Minimum tax bites and more

Exelon was one of the only utilities to quantify material minimum tax headwinds, but we expect other transmission & distribution (T&D) companies have similar challenges. For example we look for updates from FirstEnergy (FE), Edison International (EIX), and other potentially exposed companies. For EIX, the answer appears to be that management assumes that it can have customer recovery and defer impacts via regulatory memorandum accounts but overall the sector needs to provide more clarity.

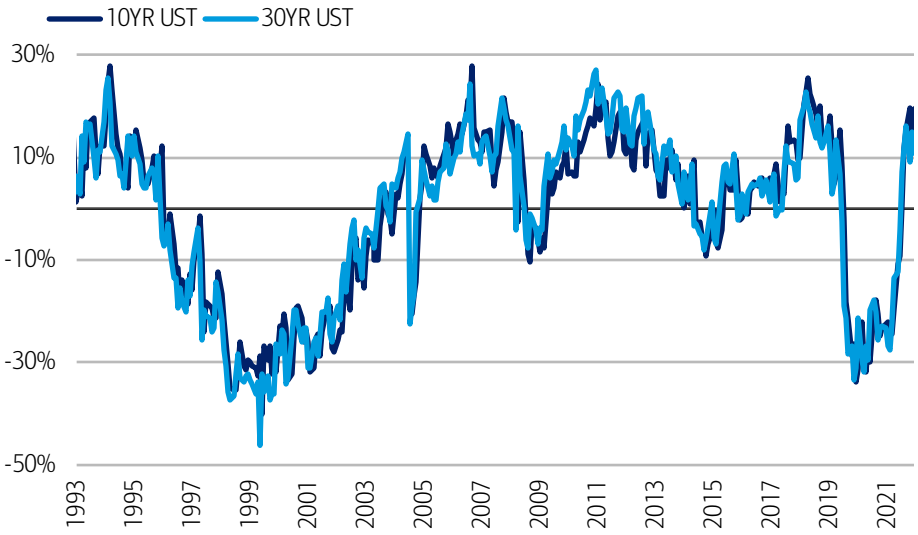
On the positive side, almost every company owes the investment community a comprehensive update on capex, ratebase, and financing considerations from the Inflation Reduction Act renewables, nuclear, and hydro tax credits. This ranges from the small to substantial for companies, but expect this to be prominently on display for all companies. *Companies that are not prepared to provide crisp quantification could see underperformance based upon our investor conversations of expectations.*

Interest Rates – #1 Inbound Query in Recent Weeks (By Far)

The utility sector has sold off sharply since September 12 as investors have rapidly reassessed relative valuations, with the sector now trading at a ~20% premium to the 10Y and a ~10% premium to the 30Y UST based on our historical expected linear regression. While on its face this is a cautious data point, we highlight that relative over-valuation based on this metric has persisted for extended periods over the past two decades, including 2005-08, 2009-14, and 2017-2020, making this a far from unprecedented situation both directionally and in terms of magnitude. Relative valuation of the sector to rates has been the single most common topic of inbound queries in recent weeks as investors weigh the defensive characteristics off utilities in an increasingly risk-off market vs. relative valuation that suggests shares have further to fall to maintain historical relationships with rates. *Our preference for high-quality defensive utility shares recognizes near-term volatility as a driver, thus our preference for high-visibility stories with healthy balance sheets.*

See our latest analysis: Inflation & Utilities: Two Sides of the Same Coin? Utility Yields

Exhibit 2: Historical valuation based on regression relationship
Utilities screen as overvalued on both metrics, relationship has persisted in the past



Source: Bloomberg

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BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: Interest rate reality check: Which utilities are most exposed? End of cheap debt era	Julien Dumoulin-Smith	14 October 2022
US Electric Utilities & IPPs: Sun sets on low cost financing: who's most exposed to rising interest rates?	Julien Dumoulin-Smith	28 June 2022
CenterPoint Energy: Houston, We Have An Interest Rate Problem. Can Management Offset?	Julien Dumoulin-Smith	11 October 2022
US Utilities & IPPs: California 3Q22: Dawn of a New Day for PCG and California Outlooks	Julien Dumoulin-Smith	18 October 2022

Pensions: Still lingering and seemingly getting *worse*

The companies with the most acute adverse exposure to pension expense include FirstEnergy, PSE&G, Pinnacle West, Eversource, and to a far lesser degree American Water. To our understanding these companies do not use an average of year-end asset balances (i.e. smoothing multiple years) in their calculations but rather take a point estimate of year end.

We present the latest snapshots of unmitigated pension expense for PEG and FE. PEG has filed for an accounting order in New Jersey which could dampen the exposure by ~33%.

Exhibit 3: PEG Pension Analysis
Reiterate $0.18 impact to '23, excluding amortized benefit roll-off

Pension Analysis	FY22 E
Ticker	PEG US Equity
Pension Income	
YE21 Pension Assets	6,906
Expected Return (%)	497
YE22 Pension Assets - Expected	7,403
	(1,538)
YE22 Pension Assets - Actual	5,368
YE22 Pension Assets - Expected vs Actual	**2,035**
Expected Return FY23 (%)	7.2
Lower Pension Income (Pre-Tax)	147
Corridor Amortization Offset: Above 10%?	(61)
Lower Pension Income (Post-Tax)	**59**
EPS	**0.12**
Pension Expense - Underfunding	
YE21 Pension Obligation	7,240
Change in Discount Rate	(2,366)
YE22 Pension Obligation	4,874
Service & Interest Costs (Pre-Tax)	(49)
Service & Interest Costs (Post-Tax)	**(39)**
EPS	**(0.08)**
Pension Expense - Costs	
Higher Service & Interest Costs (Pre-Tax)	92
Higher Service & Interest Costs (Post-Tax)	**72**
EPS	**0.14**
Total	**92**
BofA NEGATIVE	**$0.18**
% 2023 Consensus EPS	5.2%

Source: Company Filings, Bloomberg, & BofA Global Research

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FirstEnergy committed to being able to offset the then estimate of ~$0.30 EPS drag from the 2Q22 call. We now estimate that has increased slightly to $0.34, a further headwind for the new CEO to content with.

Exhibit 4: FE Pension Analysis
Expect $0.34 impact to '23 versus $0.27 at the beginning of 2Q and $0.30 guidance

FirstEnergy (FE) Analysis	FY22 E
Pension Income	
YE21 Pension Assets	9,020
Expected Return	677
YE22 Pension Assets - Expected	9,697
Actual Return	(2,016)
YE22 Pension Assets - Actual	7,004
YE22 Pension Assets - Expected vs Actual	**2,692**
Expected Return FY23	7.50%
Lower Pension Income (Pre-Tax)	202
Lower Pension Income (Post-Tax)	**158**
EPS	**0.28**
Pension Expense - Underfunding	
YE21 Pension Obligation	11,479
Change in Discount Rate	(4,341)
YE22 Pension Obligation	7,138
Service & Interest Costs (Pre-Tax)	(123)
Service & Interest Costs (Post-Tax)	**(96)**
EPS	**(0.17)**
Pension Expense - Costs	
Higher Service & Interest Costs (Pre-Tax)	172
Higher Service & Interest Costs (Post-Tax)	**134**
EPS	**0.23**
Total Post Tax Expense	**195**
Guidance: $0.10 with ~571Mn Shares	
BofA NEGATIVE EPS	**$0.34**
Guidance: ~$0.30 for FY23 from 2Q22 Call	**$0.30**

Source: Company Filings, Bloomberg, & BofA Global Research

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Equity Needs: Utilities now "on sale" but not good for equity issuers

We expect **LNT** to provide a refreshed outlook for equity financing. Near-term we see need for an additional issuance of $178m in 2023, representing 40% of the portion that was previously allocated to tax equity investors – note we expect the equity funding portion to track with the 40-45% equity portion at the parent rather than at the utilities. Beyond 2023 we embed a baseline assumption that LNT will fund a similar proportion of incremental capital that had previously been allocated to tax equity with block equity for an additional incremental funding need of ~$270m across '24-25.

Portland General Electric (POR) is another company to watch due to the magnitude of equity needs, which now have a more negative impact on earnings due a lower assumed equity issuance price.

Conversely the companies that could execute buybacks, such as Consolidated Edison or Sempra, now have the opportunity to repurchase shares more accretively. To be clear we do not incorporate repurchase assumptions for either, but the weaker share prices could influence management decisions.

Asset Sales: Clearly value is declining from rates pressure.

Increasing debt and equity costs of capital are likely to negatively impact announced asset sale processes and could influence companies' plans to pursue similar avenues in the near future. The Consolidated Edison renewables asset sale datapoint at 11x was not that robust when considering it included a development company platform (i.e. value but no or negative EBITDA). Companies that have announced asset sales or strategic review plans include Avangrid, American Electric Power, Duke Energy, Eversource Energy, NiSource, Southwest Gas Holdings, FirstEnergy Corp, PG&E Corp, MDU Resources, and AES Corp.

Another group of companies have either historically engaged in M&A or indicated that divestitures could be an avenue to raise capital. These include CenterPoint Energy, Dominion Energy, NextEra Energy, Southern Company, UGI Corp, and Sempra Energy.

Alternatively some management teams have stated an opportunistic focus on acquisitions as part of their capital allocation framework including Avangrid, Exelon, Vistra, NextEra/NextEra Energy Partners, American Water, Essential Utilities, MDU Resources, and PPL Corp.

We note that above is not intended to be a comprehensive list, but rather to capture the more relevant contours of a company's strategy or philosophy.

Fuel Costs & Recovery

The acutest of the acute customer bill inflationary pressures are purchased power & fuel costs. We have seen elevated regulatory scrutiny and delayed/extended corporate recovery in states such as Virginia, West Virginia, and Oklahoma, but we still believe this is the early days of scrutiny.

Rate Cases

PNW – We expect PNW to file its next Arizona rate case in late October. This will likely be one of the more closely watched rate case proceedings in 2023 given the highly punitive outcome of the last case and PNW's relative exposure in the state. In addition to a renewable investment rider, we expect PNW to request recovery of higher levels of pension expense, which will be a downside driver in '23 (our est -11c). Watch in-state peer Tucson Electric's case, which was filed several months earlier, as a key leading indicator, given similar outlines to both filings (ROE, renewable rider, consolidation of other mechanisms).

EVRG - EVRG has not made a Kansas rate case filing post-merger, though stakeholders have had the opportunity to articulate their positions in several dockets including Evergy's updated Capital Investment Plan (CIP) filing and annual Integrated Resource Plan (IRP) filings which saw annual updates earlier this year. On balance we expect that key interveners will remain focused on average retail rates in that state, though we note that the relative gap for industrial customers in the state has moderated of late given the sharp upward move in natural gas and Kansas' coal and renewables-heavy fuel mix. IRP and capital plan updates filed earlier this year saw staff and interveners express concern about EVRG's successive capex plans growing by $1B in each of the past two roll forwards. Specifically interveners and staff have called out Kansas-based transmission spending as potentially problematic, linking it to Kansas' significant levels of energy exports and thus not directly providing benefits to state ratepayers. We expect intervener pushback in the coming rate case to generally follow this line of reasoning as regional competitiveness has long been cited as an area where the state lags, driven in part by relatively high rates.

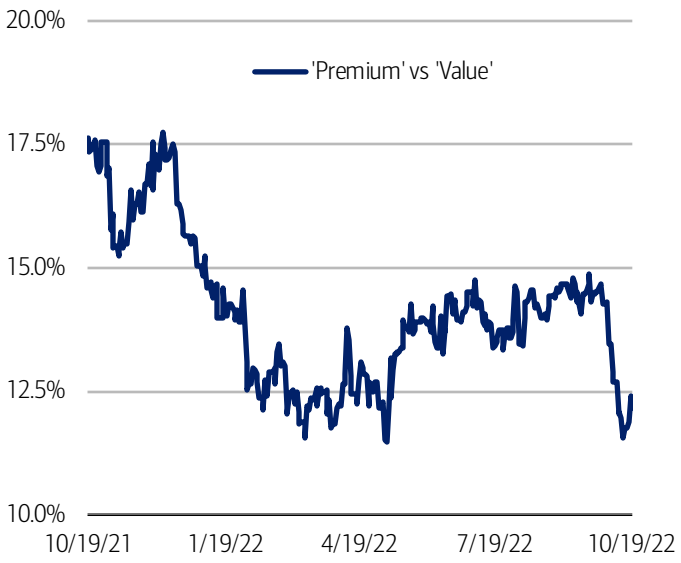
ED – Expect the latest Con Edison Company of New York (CECONY) rate case to be resolved later this fall, in line with the historical pattern of rate cases receiving a joint proposal late in the year with new rates effective Jan 1. We continue to see risks associated with the company incurring a haircut to the requested capital expenditure related to state decarbonization goals (see grid stability spend as less risky) as pressuring the long run CAGR, particularly as there are limited levers to rely on for cost reductions.

LNT - Management flagged a potential rate case filing in Iowa in 2023 which is earlier than previously planned – though Interstate Power & Light (IPL) has historically garnered constructive regulatory outcomes with the last rate case (2019) resulting in a 10% authorized ROE and 51% equity layer, nonetheless we flag this as a regulatory risk worth monitoring as LNT contemplates coming capital plan updates.

Premium vs Value vs Gas

Below we show the latest sub-sector trends where the high quality 'premium' utilities have de-rated to among their lowest premiums versus lower P/E 'value' utilities. Similarly gas utilities have sharply improved versus electrics. This dynamic is surprising as natural gas utilities have fewer incremental investment opportunities relative to electric generation companies. While natural gas bills are generally lower than electrics, the rate shock is more acute in colder climates, posing a risk of regulatory recovery.

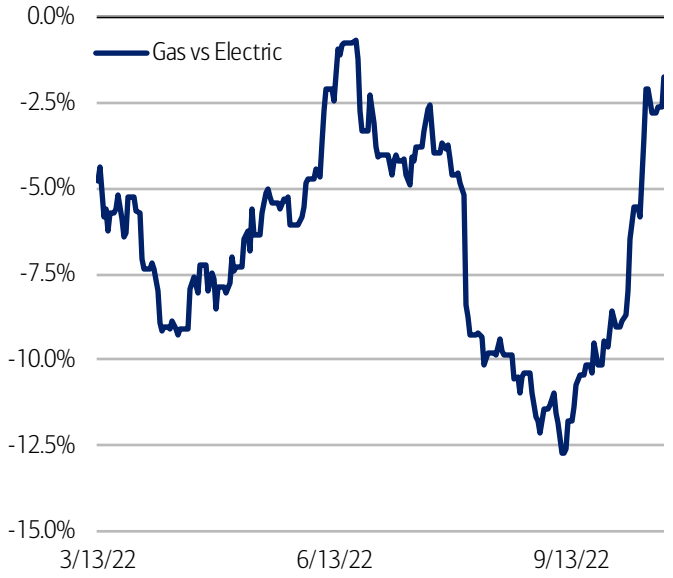
Exhibit 5: High P/E vs Low P/E Regulated Utilities 2024 P/E Spread
Premium has de-rated. Will this continue? Defensive environment could lend some support to avoiding compression.



Source: Company Filings, Bloomberg, & BofA Global Research

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Exhibit 6: Natural Gas Utilities 2024 P/E Discount vs Electrics
Conversely gas has nearly approached parity with electrics: *we think Gas Utilities overall aren't ideal risk-reward considering IRA backdrop.*



Source: Company Filings, Bloomberg, & BofA Global Research

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Short interest: Trending lower

Fundamental short interest in the utilities sector has moderately declined to an average of 2.27% from 2.37% with a median of 1.70%, down from 1.87%. The most concentrated shorts are PCG, ATO, and AGR versus the least concentrated are DUK, SRE, and NEE. The largest increases in short concentration are for Dominion +53% although still one of the lowest followed by FirstEnergy, New Jersey Resources, and Algonquin. The largest declines are for Portland General, NiSource, Fortis, American Electric Power, and Southern Company.

Exhibit 7: Short Interest Percent of Equity Float as of 6/30/22 & 10/19/22
Overall short interest has declined

SHORT_NAME	Company	6/30/22	10/19/22	% Change
PG&E CORP	PCG US Equity	5.42	5.15	-5%
ATMOS ENERGY	ATO US Equity	4.65	5.05	9%
AVANGRID INC	AGR US Equity	5.89	4.97	-16%
CAN UTILITIES-A	CU CN Equity	4.64	4.87	5%
SOUTH JERSEY IND	SJI US Equity	5.20	4.43	-15%
PNM RESOURCES	PNM US Equity	4.15	4.40	6%
SPIRE INC	SR US Equity	4.23	4.30	2%
BLACK HILLS CORP	BKH US Equity	4.13	4.12	0%
EMERA INC	EMA CN Equity	4.16	3.98	-4%
NEW JERSEY RES	NJR US Equity	3.25	3.87	19%
ALGONQUIN POWER	AQN US Equity	3.30	3.86	17%
MIDDLESEX WATER	MSEX US Equity	3.92	3.68	-6%
ONE GAS INC	OGS US Equity	3.61	3.23	-10%
HYDRO ONE LTD	H CN Equity	3.06	3.07	0%
PORTLAND GENERAL	POR US Equity	4.78	2.98	-38%

Exhibit 7: Short Interest Percent of Equity Float as of 6/30/22 & 10/19/22
Overall short interest has declined

SHORT_NAME	Company	6/30/22	10/19/22	% Change
SOUTHWEST GAS HO	SWX US Equity	2.71	2.96	9%
NISOURCE INC	NI US Equity	4.30	2.73	-37%
AVISTA CORP	AVA US Equity	2.95	2.66	-10%
ENTERGY CORP	ETR US Equity	2.12	2.60	23%
ALLETE INC	ALE US Equity	3.13	2.43	-22%
SJW GROUP	SJW US Equity	1.30	1.52	16%
OGE ENERGY CORP	OGE US Equity	1.71	1.50	-12%
ESSENTIAL UTILIT	WTRG US Equity	1.29	1.48	15%
AMERICAN ELECTRI	AEP US Equity	1.78	1.35	-24%
FIRSTENERGY CORP	FE US Equity	1.02	1.32	30%
WEC ENERGY GROUP	WEC US Equity	1.55	1.30	-16%
EVERSOURCE ENERG	ES US Equity	1.20	1.26	5%
EXELON CORP	EXC US Equity	1.42	1.24	-12%
FORTIS INC	FTS US Equity	1.87	1.22	-35%
PUB SERV ENTERP	PEG US Equity	1.26	1.19	-6%
EVERGY INC	EVRG US Equity	1.02	1.19	17%
XCEL ENERGY INC	XEL US Equity	1.16	1.18	1%
HAWAIIAN ELEC	HE US Equity	1.53	1.11	-27%
AMERICAN WATER W	AWK US Equity	1.05	1.09	4%
DOMINION ENERGY	D US Equity	0.71	1.09	53%
SOUTHERN CO	SO US Equity	1.28	1.03	-20%
MGE ENERGY INC	MGEE US Equity	0.93	1.00	7%
NEXTERA ENERGY	NEE US Equity	1.05	0.99	-6%
SEMPRA ENERGY	SRE US Equity	1.11	0.94	-15%
DUKE ENERGY CORP	DUK US Equity	0.95	0.91	-4%

Source: Bloomberg

BofA GLOBAL RESEARCH

2023 & 2024 Estimates: Consensus Shockingly intact

Surprisingly the overall utility industry 2023 and 2024 estimates are unchanged since June 30th despite the growing headwinds from inflation and interest expense. Notably four of the five companies with the most positive 2024 estimate revisions are all underperform rated: AGR +3%, AQN +2%, HE +2%, and EIX +2%. In contrast, the two companies with the most negative FY24 estimate revisions are OGE and NWE, each -2.2%.

Exhibit 8: FY23 Consensus Estimate Changes +/- 1% 6/30/22-10/19/22
Overall minimal earnings revisions

SHORT_NAME	Company	6/30	10/19	% Change
CAN UTILITIES-A	CU CN Equity	$2.24	$2.28	2.1%
HYDRO ONE LTD	H CN Equity	$1.70	$1.73	1.9%
AVANGRID INC	AGR US Equity	$2.24	$2.28	1.7%
NEXTERA ENERGY	NEE US Equity	$3.07	$3.11	1.3%
NEW JERSEY RES	NJR US Equity	$2.43	$2.46	1.2%
CENTERPOINT ENER	CNP US Equity	$1.49	$1.50	1.1%
NORTHWEST NATURA	NWN US Equity	$2.70	$2.67	-1.0%
CONS EDISON INC	ED US Equity	$4.85	$4.80	-1.1%
AVISTA CORP	AVA US Equity	$2.47	$2.45	-1.1%
PORTLAND GENERAL	POR US Equity	$2.86	$2.81	-1.9%
PUB SERV ENTERP	PEG US Equity	$3.65	$3.58	-2.1%
MDU RES GROUP	MDU US Equity	$2.25	$2.20	-2.2%
OGE ENERGY CORP	OGE US Equity	$2.11	$2.06	-2.3%
MIDDLESEX WATER	MSEX US Equity	$2.89	$2.71	-6.1%

Source: Bloomberg

BofA GLOBAL RESEARCH

Exhibit 9: FY23 Consensus Estimate Changes +/- 1% 6/30/22-10/19/22
Wider spread of quarterly dispersion

SHORT_NAME	Company	6/30	10/19	% Change
AVISTA CORP	AVA US Equity	$0.14	$0.18	25%
BLACK HILLS CORP	BKH US Equity	$0.52	$0.64	22%
CAN UTILITIES-A	CU CN Equity	$0.34	$0.38	13%
CALIF WATER SRVC	CWT US Equity	$0.97	$1.04	8%
AVANGRID INC	AGR US Equity	$0.33	$0.35	6%
ALGONQUIN POWER	AQN US Equity	$0.17	$0.17	-5%
PUB SERV ENTERP	PEG US Equity	$0.87	$0.81	-6%
DOMINION ENERGY	D US Equity	$1.20	$1.13	-7%
EDISON INTL	EIX US Equity	$1.77	$1.63	-8%
WEC ENERGY GROUP	WEC US Equity	$0.95	$0.87	-9%
PORTLAND GENERAL	POR US Equity	$0.69	$0.62	-10%
SOUTHWEST GAS HO	SWX US Equity	$0.35	$0.31	-11%
UGI CORP	UGI US Equity	$0.13	$0.12	-11%
HAWAIIAN ELEC	HE US Equity	$0.60	$0.52	-13%
ALLETE INC	ALE US Equity	$0.84	$0.70	-17%
SJW GROUP	SJW US Equity	$0.92	$0.66	-28%
SPIRE INC	SR US Equity	$0.06	$0.02	-63%
UNITIL CORP	UTL US Equity	$0.08	$0.01	-88%

Source: Bloomberg

BofA GLOBAL RESEARCH

Format:

On a company-by-company basis we provide (1) provide BofA views on the equity and key debates; (2) investor bull arguments; (3) investor bear arguments; and (4) view on sentiment and positioning with any nuances. *The bull/bear and sentiment thoughts are based on our extensive conversations with diverse investors including long-onlys and hedge funds with a variety of communities such as utility/power dedicated, generalist, energy, clean tech, energy transition, and more. We caveat that inherently these are based on a sampling approach and are not intended to be representative of all investors.*

Premium Utilities

The premium vs value spread has compressed, not surprising with the rise in interest rates which reduces the valuation for growth; however, we believe this is overly simplistic. Many of the premium utilities have long track records of meeting or exceeding their guidance ranges with relatively low-risk business plans. As a result, we see justification for the premia of these high-quality companies expanding relative to the broad utility index.

Ameren Corp. (AEE)

Ameren continues to screen well as an attractively valued premium utility stock with upside yet to be incorporated in the company's formal capital plan. We expect the Q3 update to be relatively modest with formal EPS and capex roll-forward traditionally coming on the Q4 call. Mgmt. has historically discussed next-year drivers at the Q3 update with O&M commentary in particular key to affirming confidence in the trajectory – note this is an area where Ameren's disclosure has lagged peers as mgmt. guides directionally lower with no additional detail, indicating little or no latitude, a contrast with other premium peers. Reiterate Buy on attractive valuation as shares have pulled back along with the rest of the premium utility group.

Bull Case: Long-run capital investment opportunity will be further crystallized over coming updates including 1) addition of MISO transmission capex into the latter portion of the coming plan (will roll to 2027) and 2) Missouri renewables likely on a subsequent update after permitting is secured. Improving visibility into 6-8% EPS trajectory makes this a premium name with upside.

Bear Case: Slow rollout of MISO transmission capex and uncertain timing of when MO renewables will be added to plan driven investors to seek opportunities with more near-term upside catalysts.

Sentiment/positioning: Generally owned and liked by investors as preferred way to gain exposure to MISO transmission theme. Less obvious consensus on regulatory setup (rate proceedings in MO and IL flagged as main risks in recent investor poll). Rush Island legal challenge and accelerated retirement date an open question mark while legacy Callaway performance issues occasionally flagged as execution question marks.

US Electric Utilities & IPPs: Midwest Coal Generation: Parsing a series of resource updates (AEE, LNT, WEC) 24 June 2022

Alliant Energy Corp (LNT)

We continue to like the stock as a relative winner with renewable tailwinds and one of the more intact outlooks. Expect that mgmt. will address near-term challenges directly when setting next year's guidance range with sequential FY23 growth at just +2-3% on our updated estimate of $2.88 for 2023. The valuation premium has contracted to the lowest in 2022 (+4% vs the group) but LNT is a key Inflation Reduction Act (IRA) long-term beneficiary with the current FY23 turbulence just noise.

Bull Case: As the smallest capitalization premium utility ($12Bn vs $21Bn average ex-NextEra) with one of the greenest portfolios, LNT should trade at one of the largest premiums to peers. The profile strengthened with IRA

Bear Case: LNT's long-term EPS guidance of 5-7% with a target around the midpoint lags many utilities and requires extreme cost discipline to achieve.

Sentiment/positioning: Positioning has been very dynamic throughout 2022. Initially investors were justifiable concerned about the short-term outlook related to solar capex in the challenging macro backdrop (supply chain, investigations, etc.) which ultimately eased. Excitement returned after IRA which has given way to renewed questions about 2023 EPS due to cost pressures. Overall we would characterize LNT as a battleground stock.

Alliant Energy Corporation: 2023 and Q3 EPS preview: Long run intact but near-term pressures are real 13 October 2022

CenterPoint Energy Inc (CNP)

CenterPoint remains one of our preferred regulated utilities due to its leading growth rate (ex-PCG) and fairly conservative plan. We acknowledge that the outlook has diminished with CNP having one of the highest interest rate exposures in the sector due to the reliance on floating/variable rate borrowings. As a result we see new pressures on short- and long-term guidance but believe they are manageable with the growth profile largely intact. The incremental capital opportunities in Houston helps to firm up the profile.

Bull Case: Leading growth, upside to capital expenditures, no equity needs, mostly constructive regulatory jurisdictions, and beneficiary from IRA in Indiana. Although higher interest expense is a challenge, outlook is still solid and is a contrast to many peers.

Bear Case: The new management team only has short track record of performing here, albeit a strong one. The possibility and valuation for further asset sales has diminished while investor preference for natural gas utilities has eroded after the IRA added more investment opportunities for electric utilities. Modest downside to guidance/Consensus from interest rate headwinds

Sentiment/positioning: Mostly positive but less of a consensus long. Some investors have positioned short for a less constructive 3Q update.

CenterPoint Energy: Houston, We Have An Interest Rate Problem. Can Management Offset? 11 October 2022

CMS Energy Corporation (CMS)

CMS has underperformed the broader utilities sector since 2Q22 earnings where the company maintained FY22 earnings guidance despite 1H22 earnings outperformance. Nevertheless we reiterate Neutral with shares trading in-line with other premium names despite recent share weakness. While CMS is well positioned ahead for FY23 earnings guidance update expected during 3Q earnings, we do not see other positive catalysts through 2H22.

Bull Case: CMS is largely de-risked into FY23 with line-of-sight to 2023 earnings at the top-end of management's LT CAGR guide, CMS 2023 gas rate case settled, CMS electric rate case in late stages, and the Integrated Resource Plan already announced. This is favorable given investor shift to risk-off, defensive names.

Bear Case: The revival of MPSC reliability efforts following August 2022 storms increases regulatory risk ahead of key CMS electric rate cases. With CMS earnings almost entirely regulated by the MPSC, any signs of deterioration in the MI regulatory backdrop represents a risk to company LT growth outlook. Plus, recent share underperformance augments near-term equity dilution associated with the 1H23 Covert acquisition.

Sentiment/positioning: CMS has had been an investor favorite for multiple years as among the highest quality company given the track record. That halo that shares have enjoyed has dimmed following the decision to not reaffirm guidance early in covid,

Enerbank surprise dilution, and overall lower visibility into earnings growth trajectory than prior years. This has manifested in the premium shrinking but CMS is still a +1x premium versus the overall group.

US Utilities & IPPs: Michigan Utilities 3Q22 Preview: Where do we stand ahead of 2023 updates? 19 October 2022

DTE Energy Co. (DTE)

It is firmly consensus that DTE will increase its long-term EPS CAGR this Fall, either with EEI or 3Q earnings. This view is based on management commentary, upside from the forthcoming integrated resource plan (IRP), and the fact that DTE has grown 8%+ since 2020. A growing debate is whether management will rebase off the $5.84 original guidance midpoint or the $6.00 revised guidance midpoint. Historical precedent would support the former.

Bull Case: Among the strongest track records of EPS growth on a leading jurisdiction. While the EPS CAGR increases is a consensus expectation, bulls point out the favorable developments that have come in 2022 that could lead to further upside: IRA reducing the need for tax equity.

Bear Case: The core bear argument is that DTE should not trade at a large premium as earnings includes a fairly large amount of unregulated exposure (~10% of 2023 net income guidance ex-corporate/other). The value of the RNG business has eroded with increasing interest rates.

Sentiment/positioning: DTE has been a consensus long for most of 2022 which likely explains why the stock is -4% TTM. Positioning has skewed less long in recent weeks due to concerns about convertible hedging pressure but many we have spoken to plan to increase exposure ahead of EEI.

Eversource Energy (ES)

Reiterate underperform on Eversource despite the -10% underperformed YTD as we still believe that shares are trading at a premium valuation to the fundamentals. We believe that the three core legs of the bull argument are overly optimistic.

Bull Case: The optimistic view is that Eversource can sell its offshore wind business for a favorable valuation, deliver the full $3.0Bn of incremental capital that management has previewed, and have minimal/no equity financing needs. Success on these metrics can lead to ES offering an above-average EPS growth rate and returning to its historical premium to the group.

Bear Case: The combination of declining value for offshore assets (leases & development), equity needs for balance sheet improvement, and regulatory struggles in executing $3Bn of capex leads to a ~6% EPS CAGR, below average for the sector.

Sentiment/positioning: Eversource is a battleground name with dug-in bulls and bears. Sentiment has been deteriorating along with the macro backdrop as the rise in interest rates/decline in stock prices leads to a more challenged outlook.

Eversource Energy: Remain Cautious on Prospects Post-IRA: How much capex can the team deliver? 19 September 2022

WEC Energy Group Inc. (WEC)

Reiterate Buy on shares of WEC as among our preferred defensive utility plays. Even after reducing our relative premiums applied to most of the company's WI-based utilities to 3.0x from 4.0x shares remain attractive following sell-off in premium names vs the rest of the group. Continue to prefer quality execution in supportive jurisdictions with shares of WEC screening as among the best in class.

Bull Case: WI outlook was de-risked following a settlement in rate case across all three electric and gas distribution utilities earlier this month with constructive outcome on

revenue requirement and incrementally higher equity layer. Cost controls remain a key de-risking lever as well as we see '22 earnings strength likely creating additional latitude to pull ahead expenses where possible in Q4. Energy Infra segment still ahead of plan, could see additional solar generation opportunities identified following IRA legislation passage given historical preference for wind.

Bear Case: Natural gas distribution in Chicago (People's Gas) has rider rolling off at the end of 2023, leaving a question as to how mgmt. will manage lag – either via serial rate cases, or potentially multi-year plans though this would require legislation similar to that passed for electric utilities. Energy Infrastructure earnings growth likely set to moderate as the segment reaches 10% of consolidated earnings.

Sentiment/positioning: Feedback from our conversations with investors screens consistently positive on shares of WEC with the general theme being that now remains the time to 'pay up' for the highest-quality names. Intriguingly our latest survey suggests the buyside might be assuming a faster EPS inflection through 2025 than both our and Street estimates reflect ($5.22).

WEC Energy Group Inc: Among the best beats of Q2 with tax legislation upside 03 August 2022

Xcel Energy Inc. (XEL)

Reiterate Buy on shares of XEL given attractive valuation and our forecast for EPS growth compounding near the upper end of mgmt.'s 5-7% target range. We like the recent de-risk with testimony in the MN electric case pointing to ROE upside vs. XEL's allowed of 9.06%, among the lower authorized returns across premium utility names. Execution vs. regulatory priorities has been consistent through 2022 with key resource plan filings in both CO and MN with expectation for greater clarity on renewable opportunities in MN in particular yet to come, likely in the first half of 2023.

Bull Case: XEL remains a defensive premium utility with a strong track record of execution and constructive relationships in its key jurisdictions including MN, CO, and NM. Valuation is not demanding following the recent market volatility which saw XEL and other premiums underperform the broader utility group by several hundred basis points. With major rate cases largely resolved the regulatory outlook for 2023 is less challenging and offers good visibility. MISO tranche 1 upside should manifest in the latter part of the rolled-forward forecast too, with further runway ahead.

Bear Case: O&M latitude is limited with mgmt. increasing its 2022 expectations to point to 2% higher levels on a y/y basis, with expectations for further increases driven principally by inflationary factors. Investors view this with some caution as an indicator that XEL has comparatively less latitude to offset pressures than other premium utilities such as WEC or DTE.

Sentiment/positioning: Sentiment has deteriorated of late, though XEL remains a preferred long among investors. Offsetting its premium defensive characteristics is the concerns about O&M increases outlined in the bear case and ramifications for the company to compound growth at its target 5-7% long-run CAGR.

Xcel Energy Inc: 2023 and Q3 EPS preview: Trajectory on track for one of our favorite defensives 07 October 2022

Value Utilities

Value has positively re-rated versus premium by 200-300bp recently, not surprising given the rising rate dynamics which mathematically reduces the value of above average growth. While we generally still prefer the premium segment, we still see a robust opportunity set within the lower P/E class. Specifically, we highlight Entergy and PPL as two companies where we see strong FY22s and believe the long-term outlook has strengthened post-Inflation Reduction Act. The fairly conservative guidance plans have upside, a contrast to many companies in our coverage universe as well as the broad market.

American Electric Power, Inc (AEP)

Reiterate Buy on shares of AEP. Attractive valuation at present levels with an outlook that is de-risked at the margins given recent mgmt. refresh of long-run CAGR and 2023 guidance. We are closely watching the West Virginia and Virginia regulatory dynamics that pose risks but neither are likely large enough to derail the company's profile.

Bull Case: Contracted renewables sale comes in at attractive valuation despite largely wind portfolio and no DevCo (negative comps vs. ED at 11x EBITDA). AEP is comparably de-risked vs. peers who have not updated long-run CAGR or capital since 2021 having recently hosted an Analyst Day and refreshed the outlook in light of the current inflationary and higher rate environment.

Bear Case: Lack of tangible upside following the refresh, particularly as mgmt. talked down the opportunity to inflect beyond the 6-7% CAGR. Regulated renewables capital was a disappointment with just a modest step up despite presumed upside from IRA legislation.

Sentiment/positioning: Analyst Day was taken as a generally positive update although on the margins, and in the context of relatively low expectations. Shares are neither well owned nor shorted as reflected by valuation which has generally trended near the group average.

American Electric Power: Analyst Day Takeaways: Few surprises, but an increasingly de-risked outlook 05 October 2022

Consolidated Edison (ED)

Reiterate Underperform on shares of ED. The contracted renewables sale announcement at 11x on 2023 EBITDA was a modest upside surprise vs. our and investor expectations for $6.3B enterprise value, with the final deal announcement at $6.8B. Nonetheless with the transaction now priced in attention shifts back to core fundamentals including the tough regulatory setup for the Con Ed Company of New York (CECONY) rate case which remains in settlement talks with commission staff and key parties. While a joint settlement proposal is not likely before early November, we continue to view the magnitude of the ask as challenging given the macro backdrop and inflationary pressures on ratepayers in particular.

Bull Case: A constructive CECONY rate case joint proposal delivers authorized ROE upside without reducing requested rate increase substantially. Use of proceeds for a stock buyback would also be well-received by investors after the company removed its 2022 equity issuance and pulled '23-24 guidance pending a formal update.

Bear Case: Rate case outcome that applies a haircut to the revenue requirement increase would be cautiously received – we see this as the more likely scenario given existing rate pressures on customers from increased fuel costs and potential need to socialize elevated levels of customer arrears. Unlike other utility peers ED has consistently messaged that the company has little slack to cut O&M substantially, thus we see inflationary pressures as directly impacting earned ROE.

Sentiment/positioning: Sentiment remains mixed with bulls seeing upside to EPS growth with renewables proceeds used to reduce equity needs, de-risking the long-run

EPS CAGR. Bears remain focused on near-term risks around the rate case outcome given a) historical difficulty of the NY jurisdiction and b) current macro environment and rate pressures. Shares are one of the better performers YTD as investors have thus far shown enthusiasm for the business simplification strategy thought pending rate case outcome is now the next catalyst for shares in our view.

Dominion Energy (D)

Dominion is one of the worst performing companies recently due to the adverse updates around the offshore wind performance guarantee and Virginia Department of Energy's 2022 Energy Plan published. While Dominion has made progress working with stakeholders, Virginia remains an above-average risk for the company. Dominion has materially de-rated and we do not believe now is the time to capitulate but we now struggle to see shares trading at a premium to the group given average growth, large unregulated earnings mix, Virginia overearnings overhang, and emerging financing pressures. With that in mind, Dominion now trades at a 10% discount to the utility sector and we maintain Buy at this valuation. After our latest management meetings, we remain optimistic that management can find ways to revitalize consolidated growth to compensate shareholders for the above-average risk. Virginia is the clear investor focus between the DOE Energy Plan and Offshore Wind performance guarantee order but the opportunities to create shareholder value from the unregulated merchant business ('contracted assets') is underappreciated. The mark-to-market EPS from merchant Millstone earnings can help to mitigate higher financing costs in the long-term, a unique characteristic versus peers. We acknowledge that these are lower quality unregulated earnings but they would be offsetting similarly valued parent company financing expenses. If Dominion can find a way to raise capital in a more efficient way such as asset sales there is a path to improving the below average 6.5% EPS CAGR. In summary, the path ahead through 3Q/EEI Financial Conference, and January 2022 legislative session is rocky but we see more of the headwinds as priced in after the weakness.

Bull Case: Average growth with visible earnings growth via riders/trackers at a discounted valuation sums up the pitch.

Bear Case: The cautious case for shares relates to adverse legislation being enacted that restores the biennial rate reviews, returns the full extent of prudency determinations to the Virginia State Corporation Commission, and eliminates the overearnings offset mechanism with customer credit reinvestment offsets, etc.

Sentiment/positioning: Dominion has generally been viewed more cautiously by dedicated investors due to the historical Virginia earnings above allowed and guidance resets. Long only (and other) investors still discuss the dividend cut as well as less regulated earnings mix. As a consequence few investors we have spoken to have a high degree of conviction in a positive Dominion position.

Duke Energy (DUK)

Reiterate Buy on DUK following a particularly busy period during which the company hosted an ESG-oriented investor update as well as met with us for a conversation with management. We continue to see shares as attractively priced given the outlook and pending company simplification upon the sale of its contracted renewables business, with the recent 10-year capital plan increase on the margins serving to affirm the outlook for 5-7% regulated EPS growth at the RemainCo.

Bull Case: Given current valuation (0.5x discount to peers) bulls see shares as appropriately de-risked to compensate for a number of uncertainties including 1) coming EPS reset to account for the sale of the renewables business, 2) renewables valuation and ability to pay down holdco debt / reduce interest expense, 3) ability to execute on ambitious $200m O&M reduction plan in 2023+, 4) pending outcomes of North Carolina Carbon Plan proceedings as well as recently-filed NC rate case. While the story today includes an above-average number of moving pieces, prospectively the outlook is for a lower-volatility largely regulated business in generally supportive jurisdictions with de-levering at the parent under way.

Bear Case: Bears remain focused on the unclear messaging around the renewables sale leading to yet another earnings CAGR reset as fundamentally undermining the case for DUK to compound EPS growth at its target CAGR. Commercial renewable assets are generally seen as lower-quality than ED's portfolio and therefore likely to garner a lower multiple (investors generally see 10-11x), with the sale ultimately dilutive even when accounting for parent de-levering as the principal use of proceeds. Updated capex plan at the ESG Day suggests limited upside from IRA as existing base capex plan had already assumed a carbon value.

Sentiment/positioning: In our investor conversations, Duke is one of the least preferred equities due to the expectation of downside to Street. On balance the most recent round of investor communications has addressed some lingering questions while leaving others – most notably deal proceeds and dilution – still open pending resolution likely in the first half of 2023.

Duke Energy: Meetings Recap: Yes, the Utility Outlook is Intact. Consolidated Set to "Reset"? 10 October 2022

Entergy Corp. (ETR)

Shares have positively inflected in recent weeks and now trade at ~10% discount to the group versus approx. 12-14% throughout the summer. We attribute the recent rerating to a relatively quiet hurricane season in ETR's service regions, which peels back the storm overhang on shares.

Bull Case: ETR is at the precipice of earnings acceleration with C&I renewables growth augmented by Inflation Reduction Act (IRA) incentives and load growth in the Southeast. IRA tax credits, expected to accrue to customer in the regulated model, will improve customer affordability. Expect momentum coming out of a relatively quiet storm season, with a new CEO at the helm.

Bear Case: ETR's regulatory relationships remain subpar given ongoing System Energy Resources Inc (SERI) litigation and elevated customer affordability pressures augmenting regulatory risk in jurisdictions such as New Orleans. Elevated balance sheet risk given 2022-2024 equity need amid depressed share prices, and limited ability to flex debt given the already pressured FFO/debt ratio.

Sentiment/positioning: Entergy has been a hedge fund favorite for years but the support has weakened over the past year due to growing concerns about the balance sheet and storm exposure. The decline in ownership concentration is favorable as a common bear argument was that it was a crowded long.

Entergy: IRA augments LT growth as near-term storm risk alleviates. Reit. Buy, $135 PO. 20 September 2022

FirstEnergy Corp. (FE)

First Energy shares have inflected from August lows following CEO, Steve Strah, retirement effective September 16th. Parallel to the announcement, the company signaled a potential EPS accretive minority transmission and distribution (T&D) divesture. The dual announcement surprised investors as our discussions from earlier this year indicated the majority did not expect changes to the executive team or additional FE M&A. We remain Neutral on shares of FE given the pension headwinds weighing on earnings growth and elevated uncertainty to the business outlook. With various updates including the new CEO, the potential T&D sale, and forthcoming Ohio rate cases still unknown, and pension headwinds representing a material overhang to long-term EPS CAGR, we see shares trading in line with fair value given the risk profile. We watch carefully the net accretion or dilution from the pending asset sale considering use of proceeds to paydown debt.

Bull Case: The CEO transition and potential divesture catalyzes a revival of company culture, with the decision to hire an external CEO another large step away from legacy HB6 litigation. While FY23 remains challenged, negative pension earnings impact is already appreciated by investors and incorporated in Consensus estimates, and therefore is imbedded in current valuation with any incremental offsets a positive catalyst. We look specifically towards the Nov 9th update at the NYSE as another potential date for a management update.

Bear Case: FE's 2024 Ohio rate case represents a risk to LT earnings with FE overearning in the jurisdiction. Combined with pension headwinds and IRA minimum tax provision, material risk to FY23+ earnings and balance sheet strength.

Sentiment/positioning: Sentiment is improving among investors who believe the CEO turnaround story and who increasingly view FE consolidation more likely than in the past with the company discussing asset sales. FE's transparency into the pension problem has been received favorably against other company's lack of quantifiable guidance on the pension earnings headwind (i.e. PEG).

FirstEnergy: Looking External For New Leadership: Is This an Inflection Point in the Outlook? 16 September 2022

Evergy, Inc (EVRG)

The current mgmt. team has assembled a strong track record since the current CEO David Campbell took over in January 2021. In the ensuing quarters EVRG has beaten Street expectations for EPS, reaffirmed and rolled forward its 6-8% long run growth CAGR, and achieved a partial settlement in its Missouri rate cases. Nonetheless we see tangible headwinds ahead as the coming Kansas rate proceeding appears to have a more challenging setup despite commission staff that we view as even-handed and not philosophically aligned with any specific outcome. Despite a strong run in the past 18 months we see the company as more likely to be playing defense with what promises to be a contentious Kansas rate case proceeding, customer rate pressures, and a gap between rate base growth targeted at 6% and EPS growth at 6-8%. Reiterate Neutral on balanced valuation.

Bull Case: Bulls point to a strong track record of execution as indicative that the company will continue to deliver both regulatory wins and strong earnings growth. EVRG could emerge a short-term relative winner as the company is not expected to issue EPS guidance until Q4 and could benefit from investors selling shares perceived to have disappointed in their 2023 outlooks presented at EEI.

Bear Case: It remains difficult to see a case for the stock re-rating in the near term ahead of its second major rate case filing expected in Kansas in early 2023. Street consensus, like BofA estimates, remains biased to the lower end of mgmt.'s 6-8% target range and it is difficult to see a path to the midpoint or upper end absent an inflection in capex, which we see as particularly challenged given vocal opposition from Kansas interveners and increasing scrutiny from the Kansas commission.

Sentiment/positioning: Sentiment has occulated with many investors staying away from the company without conviction into long-term earnings power given one of the largest deltas between EPS and rate base guidances.

Evergy, Inc: Framing the latest regulatory debates in Kansas and beyond 28 Sept 2022

Exelon Corp. (EXC)

*In our investor conversations recent months, it **was** nearly unanimous that many had lost conviction in management and the lack of a publicly articulated succession plan was an overhang. In fact both the bulls and bears had call Exelon "a 2023 story". A series of negatives have caused 10-15% underperformance from the June highs including minimum tax headwinds, unexpected block equity issuance, and seeming 2023 guidance headwinds. Despite all of this we maintain Buy as we still believe EXC can deliver 7-8% long-term EPS*

CAGR with a lower risk profile from reliance on riders/trackers, multi-year plans, and forward test years that reduce lag with the backdrop of better than average affordability.

Bull Case: Premium assets in premium jurisdictions with premium growth should command a premium valuation. The only missing ingredient is premium stewardship to deliver the plan. Estimates are intact and could be conservative if Illinois earned returns are robust and the IRA headwind is lower than guided. Shares can return to the premium they briefly reached earlier in 2022.

Bear Case: T&D utilities are disadvantaged after the IRA enactment due to fewer investment opportunities which should lead to a de-rating. The bears vehemently believe that Exelon's management team justifies a discounted valuation based on historical challenges in achieving guidance and at times a confusing message. With apparent pressures 2023 and long-term guidance, it will be difficult for shares to materially re-rate positive. Lastly, EXC has a history of engaging in acquisitions. With this mix and track record of missing utility earnings guidance justifies a greater discount than the mid-single digit level that it trades at, plus risk to EPS.

Sentiment/positioning: Sentiment has steadily improved and EXC became a consensus long before the events of 2Q and Fall conference messaging that caused many to capitulate. Now we characterize the outlook as somewhat apathetic with low conviction amongst both bulls and bears.

US Utilities & IPPs: PowerPoints: EXC Management Transition 18 October 2022

NiSource Inc. (NI)

The November Analyst Day detailing the outcome of the strategic review and pro-forma growth rate where the debate is whether the comparable growth rate (2021 base) will be extended at 7-9% or moderate lower. 2025+ annual capex would have to increase from $1.9-$2.3Bn in 2024 to $2.7-$3.0Bn to support an 8% EPS CAGR midpoint. This is not unrealistic given $2.6Bn 2022 and $3.6Bn 2023 in elevated generation spending years but we believe a YoY step increase in 2025 could be challenging given affordability considerations. Further increasing debt & equity financing costs add to uncertainty here. With that backdrop we see 7%+ EPS growth even a modest annual capex scenario of $2.3-$2.6Bn that should comfortably support 6-8% growth, one of the highest in the sector. Combined with a discounted valuation, we reiterate Buy. See both a nice long-term view with a catalyst rich outlook.

Bull Case: NI is cheap at ~1x P/E discount to electric peers in 2024-2025 while offering a premium growth rate. Expectations for the strategic review have moderated.

Bear Case: Without a concrete positive update from the strategic review and potentially slowing growth, shares deserve to trade at a larger discount.

Sentiment/positioning: NI was a clear consensus long around the initiation of the strategic review, but sentiment has clearly deteriorated in recent months and weeks. Still there is a vocal contingent of bullish investors. Short interest has declined to a one-year low although is still ~3% of float.

OGE Energy Corp (OGE)

We keep expectations appropriately subdued for a long-term EPS CAGR refresh so recently after the 4Q21 increase and with growing regulatory & affordability uncertainty. The upside for capital expenditures is clear and well known but we would not be surprised to see management dial-back distribution spending to tamp-down on bill inflation. 3Q call should deliver a strong FY22 guidance increase with management already pointing to the top-end of the range on the 2Q call before well above average weather occurred. Reiterate Buy with these favorable short- and long-term dynamics ahead.

Bull Case: While OGE may appear to be more expensive than peers on Consensus estimates for 2024, that does not capture the benefit of

Bear Case: OGE trades at a +2% premium on 2024 Consensus when the company has historically been a discounted valuation with below-average growth.

Sentiment/positioning: OGE has been an investor favorite from late 2021 through most of 2022 on the acceleration of growth but has seen a deterioration in sentiment when the stock reached a premium on 2024 Consensus estimates. Now the stock has turned into a debate name.

Pinnacle West Capital Co. (PNW)

Reiterate Underperform on shares of PNW. Shares continue to trade at only a modest discount to the broader utility group following the latest bout of volatility in the sector. We continue to see PNW as exposed to a consistent and elevated regulatory risk profile, particularly with a coming rate case filing. While concerns about the pension impact on earnings have subsided after reaching a peak during Q2, we continue to expect a drag on 2023 earnings though mgmt. is not likely to offer full-year EPS guidance given the pending rate case filing.

Bull Case: Near-term the stock could see short-term relief if Arizona Corporation Commission (ACC) elections skew favorably for Republicans, though we note that long-term outcomes at the commission are not necessarily dictated along party lines. One potential scenario for outperformance in the short term is linked to the fact that mgmt. is not likely to provide 2023 EPS guidance due to the upcoming rate case filing. With some investors expressing concern that companies offering 2023 guidance could disappoint expectations and underperform, PNW could emerge as a relative winner by not providing guidance.

Bear Case: Expect rate case data points to be limited for the balance of 2022 beyond the initial filing, which is expected in late October or early November. Overall outline of the filing is expected to follow in-state peer Fortis including a renewable generation rider and consolidation of existing rider mechanisms. With lack of intervener or staff testimony until later in '23 we do not see obvious upside catalysts for shares in the near term, outside of a potential short-term election-related move depending on the outcome.

Sentiment/positioning: Investors continue to view shares cautiously heading into a critical election cycle and ahead of another major rate case filing – the stock remains a consensus short.

Pinnacle West: Pension overhang outlook improves, but O&M a near-term drag 04 August 2022

PPL Corporation (PPL)

Our conviction in PPL has grown since our August upgrade with management appearing to have made fairly conservative assumptions and the ability to offset operating and financing cost pressures that are negatively impacting many in the industry. It is true that there are floating rate interest expense pressures in 2H22/23+ but it represents only $0.01-$0.02 (~1%), a magnitude that is able to offset. PPL provided its long-awaited multi-year guidance refresh in June when the 10Yr was 3.0-3.25%, approximately 100bp lower than current levels but far above the 1.5% when many peers set long-term guidance in November 2021.

Bull Case: Best-in-class track record of controlling O&M in Pennsylvania core utility can be applied in Kentucky during the planned stay-out and for the newly acquired Rhode Island businesses. De minimis regulatory proceedings conversely keeps shares out of the headlines and the crosshairs of potentially adversarial proceedings.

Bear Case: The 6-8% EPS growth profile is not sustainable with 3-4% rate base growth which is based upon one of the more aggressive O&M reduction trajectories in the sector. PPL also has floating rate interest rate exposure and without plans for a rate case, any inflationary pressures will be the responsibility of shareholders.

Sentiment/positioning: We observed initial minimal traction to our August upgrade but investors have become more receptive in recent weeks

PPL Corporation: Sun set to shine in Kentucky: upgrade to Buy after underperformance & IRA beneficiary 15 August 2022

Public Service Enterprise Group (PEG)

PEG shares have traded at a steep discount to the group (~10%) since the Street became aware of the 2023 pension earnings headwind in May 2022. Management's reluctance to quantify the earnings headwind or potential cost offsets exacerbated the pension overhang, leaving investors to assume the worst and sending shares lower. Investor concern over PEG's exposure to interest rates and inflationary O&M pressures have compounded pension-related FY23 earnings concerns of late, overshadowing positive macro updates including PEG's eligibility for lucrative IRA production tax credits (PTCs) on its existing nuclear portfolio. Nevertheless, we reiterate our Buy rating on shares of PEG, with the company continuing to trade at 'utility-only' value ($55/sh). We do not believe unregulated Power value is appropriately reflect in shares despite the most attractive backdrop for nuclear operations in years.

Bull Case: Valuation driven. PEG trades at steep discount to group given 2023 earnings risks, yet these risks are already well appreciated by investors and baked into expectations. At these levels, investors are getting an increasingly attractive nuclear profile essentially for 'free'. Additionally, PEG is a lead contender for the offshore wind transmission contract from the NJ BPU. This represents $1Bn+ incremental capex spend, a positive NT catalyst. Bulls acknowledge that a simplification transaction involving nuclear is unlikely to be near-term event but there is the upside optionality.

Bear Case: Shares are essentially 'stuck in the mud' until management addresses FY23 earnings guide or quantifies pension impact, and management has consistently reiterated that PEG will refrain from quantifying the magnitude of pension impact until after year-end 2022. This extends near-term uncertainty on FY23+ earnings outlook while continued market deterioration likely augments PEG's pension issue.

Sentiment/positioning: Investors still mostly on the sidelines until FY23 guidance given pension dynamic. Nevertheless, expect a relatively quiet 3Q / EEI update with the company unlikely to deliver 'bad news' during the new CEO Mr. Ralph LaRossa's inaugural earnings call.

Public Service Enterprise Group: Pension problem goes unsolved, but shares attractive w/ long-term upside. Reit Buy. 03 August 2022

Southern Company (SO)

Reiterate Neutral on Southern. Shares have held up well during the recent market volatility and have outperformed the XLU by ~5% YTD on constructive data points around Vogtle as well as the perceived 'flight to safety' for the defensive company. Fuel load was a critical milestone and investor attention is turning to ability to execute on the remaining deliverables for the upcoming months.

Bull Case: Bull case revolves around execution at Vogtle and lack of further delays, particularly with Unit 3 largely de-risked at present and focus now shifting to the construction schedule for Unit 4. Recent push back of the U4 schedule in particular represents a de-risk vs. previous relatively aggressive timeline. SO has traded at one of the largest premiums in the sector before Kemper and Vogtle large projects with bulls arguing that shares can return to that level.

Bear Case: Stock now screens as overvalued based on forecast growth rate following outperformance thus far in 2022. Core utility growth in the 4-5% range with Vogtle in-servicing step up in 2024 representing a one-time step change, otherwise growth is below peers.

Sentiment/positioning: Investors generally cautious on shares at the current valuation, generally reluctant to step in given large project execution risk and a meaningful level of regulatory risk given the pending Georgia Power rate case. Affordability and regulatory/political considerations are growing, a key debate point with delayed Public Service Commission election.

Southern Company: Trending Positively on Vogtle, ITAACs Filed; IRA Presents Upside; Succession? 01 August 2022

California Utilities

We preview the 3Q updates for the three large California investor-owned utilities: Edison International (EIX), PG&E Corp (PCG), and Sempra (SRE). It has been a volatile period for the companies. Since July 15 the California names have had robust relative performance which was led by the blistering pace of PCG +46% followed by solid strength in SRE +5% SRE with EIX roughly flat during the period. *We reiterate Buy on PCG/SRE and Underperform on EIX despite the relative performance with growth profile bifurcations.*

The outlook for all California investor-owned utilities has undoubtedly improved recently and in recent months. The California Public Utilities Commission 2022 cost of capital update was favorable for the utilities, see details: CPUC sides with utilities on initial 2022 CoC decision, 2023+ in focus.

US Utilities & IPPs: California 3Q22: Dawn of a New Day for PCG and California Outlooks 18 October 2022

Edison International (EIX)

We remain less constructive on EIX due to its relatively high adverse exposure to interest rates at the parent and utility for wildfire expenses. Compared with our July 14th downgrade report we estimate an incremental approximate 125bp increase in BofAe pro-forma financing costs to ~5.9% from ~4.6%. EIX stated it assumes 3.75% interest rates in its long-term plan. This drives (1) +$28Mn [$0.07 EPS] pro-forma parent company and (2) $21Mn [$0.05] wildfire claim utility after-tax interest expense by 2027.

We have focused primarily on debt but there is additional pressure from the parent preferred stock issued in 2021 which resets in 2026/2027. EIX has $1,250Mn Series A 5.375% and $750Bn Series B 5.0% preferred which resets to 5Yr US Treasury + 4.698% in 1H26 and +3.901% in 1H27, respectively. Based on current treasuries this implies a hefty 8-9% preferred and incremental $69Mn pre-tax interest expense. This is a $0.12 $0.13 further headwind by 2027 that notably begins just after the EPS guidance period which runs through 2025. Expect investor attention to shift to FY23 guidance where we are -8% below Consensus with only +2% YoY growth.

Bull Case: EIX now trades within 0.5x 2025 P/E of PCG using Consensus which is too tight of a spread due to PCG's higher risk profile. Potential recovery of legacy wildfire/mudslide charges would remove interest rate risk and improve the earnings outlook. The entire California complex is improving from utility investments and a more supportive CPUC backdrop.

Bear Case: EIX's LT guidance is unachievable due to interest rate exposure which is a substantial overhang on the stock. 3Q quarterly miss followed by FY23 headwinds will lead to rotation out of the name.

Sentiment/positioning: EIX has been a consensus short for some time but sentiment has improved as PCG re-rated and the company began to trade more at parity with PCG on Consensus. Many investors are still not comfortable owning the California utilities but more are willing to assume the above-average risk profile.

PG&E Corporation (PCG)

PCG has had among the most favorable set of updates in 2022: S&P 500 inclusion, general rate case rate base increase, undergrounding/nuclear legislation enactment, non-nuclear

generation asset sale plans, wildfire mitigation plan draft approval, 2022 cost of capital support, and self-insurance settlement to name just a few. Despite the outperformance PCG still trades at a 30-35% discount to the utilities group. We agree that PCG has above average risk, but we believe that investors are being compensated for the risk profile with a 9-10% EPS CAGR, well above peers at ~6.6%. In contrast to many utilities and nearly all companies we see upside to long-term guidance, a counterintuitive defensive attribute for PCG.

Bull Case: The forthcoming end of wildfire season is another catalyst for shares which is already gathering momentum and interest from a broad pool of investors. Execution of the non-nuclear asset sale will give a positive valuation mark versus where shares trade and address tail concerns on equity needs.

Bear Case: Can the stock continue to outperform after surging +23% vs peers in the past month? Potential Fire Victim Trust (FVT) sales could limit further re-rating potential

Sentiment/positioning: PCG has been relatively thinly followed since the utility emerged from bankruptcy. Surprisingly non-dedicated investors have been buying throughout 2022 and the latest rally has been from traditional utility investors not wanting to miss out on the potential re-rating.

Sempra Energy (SRE)

After outperforming +20% YTD and ~7% from the July lows, there is certainly less relative upside but we still reiterate Buy with favorable catalysts ahead. 3Q22 should be a strong update as we expect FY22 guidance to increase and critically, an update on LNG development progress. Given the global gas shortage and the energy crisis in Europe, and with winter looming, we expect the LNG development and contracting environment will continue to support longer-dated LNG contracts at attractive project returns despite inflationary pressures.

Bull Case: LNG development tailwinds support (1) long-duration contracts with strong returns that are not yet reflected in current valuation (2) attractive valuation for any further LNG project equity sell-down. Plus, improving CA regulatory backdrop and load growth at Texas utility, Oncor, drives further upside to the earnings outlook.

Bear Case: Should SRE trade near a group multiple (14.6x 2024 vs peers at 14.9x) given the unregulated (Mexico & LNG) and California (SoCal Gas & San Diego Gas & Electric) exposure? Plus, recent outperformance suggests Street expectations largely baking in execution on timely LNG development. This is a potential risky position considering inflationary / supply chain pressures delaying energy projects to date.

Sentiment/positioning: SRE has evolved into a consensus long with short interest below 1% on average since 2Q22 earnings. Our conversations with investors indicate overwhelming focus on the LNG development platform over SRE's utilities businesses, with SRE key value proposition as a way to benefit from LNG tailwinds.

Diversified Utilities

Avangrid Inc. (AGR)

Shares have underperformed the broader utilities group -5% since the 2022 Investor Day in September. Thus, the potential $1.9Bn equity raise outlined during the Investor Day now represents 10-15% of AGR market cap given share declines. This is likely higher than that originally imbedded in management's plan, with shares trading ~$50 prior to the Investor Day. Yet despite recent underperformance, AGR continues to trade at ~5% premium to the broader utilities group (16.7x 2024E vs 15.8x). We reiterate Underperform based on our view that shares instead deserve to trade at a discount given AGR's larger unregulated mix, outstanding rate cases in historically challenged regulatory jurisdictions, legacy inability to achieve long-term guidance, and, critically, AGR's near-term equity need. While 3Q22 earnings should be relatively quiet following the Investor Day, rate cases across AGR's New

York, Maine, and Connecticut subsidiaries, New England Clean Energy Connect (NECEC) litigation and PNM Resources (PNM) acquisition remain critical share catalysts to monitor.

Bull Case: More favorable regulatory outcomes, specifically in NY and Maine, may drive earnings growth beyond that embedded in management's 6-7% CAGR 2022-2025 update. Additionally, upside to the company's renewable development activity, including Inflation Reduction Act (IRA) incentives and elevated power prices, is not reflected in Street forecasts.

Bear Case: Risks to 6-7% EPS CAGR which relies on timely renewable deployments, steady offshore returns, NECEC execution and PNM acquisition. The macro backdrop of rising rates and inflationary pressures elevates operational risk for the company's renewables development efforts. To date, inflationary headwinds have delayed AGR renewable deployments and pressured project returns, specifically offshore wind returns. Additionally, utilities in the Northeast are more exposed to 3Q/4Q affordability concerns given elevated natural gas prices in the region. This is particularly cautionary given AGR's outstanding rate cases across its largest utility subsidiaries in NY, CT and ME, and represents fundamental risk to earnings outlook.

Sentiment/positioning: Our discussions with investors suggest the majority remain cautious on shares of AGR following the '22 Investor Day. However, with the Investor day now in the rearview, we do not see clear NT share catalysts until regulatory outcomes or any meaningful update on NECEC or PNM materialize. We find most investors expect PNM acquisition to close, although many are more cautious on NECEC project execution.

Avangrid: Dissecting Investor Day EPS outlook: Identifying upside and pressure points 03 October 2022

Allete Inc. (ALE)

Reiterate our Neutral view on shares of Allete. We view risk reward as balanced given the low multiple vs. peers at which the stock trades along with ALE's unique risk profile. Rate base growth at the Minnesota utility along with exposure to a small number of industrial customers continue to screen cautiously, particularly with lack of staff and intervener support for a stabilization mechanism – see incremental ROE improvement upon resolution of the current case but still a substantial amount of lag in the 100-200 bps range as has historically been the pattern. New Energy solar platform critical to extending the ALLETE Clean Energy (ACE) growth rate but early days still in integrating the business, and we do not see the value creation as part of ALE just yet.

Bull Case: Bulls point to relative valuation which admittedly is stretched to the downside. While utility ROE certainly remains exposed to demand fluctuations from a core group of industrial customers, the underlying industries (taconite production and pulp & paper) have been resilient long-term and have served as reliable customers, if not fast-growing ones. Expect ROE fluctuations to smooth over time at the utility. Solar platform should be well-positioned to capture incremental benefits from IRA legislation as the deal was closed shortly before the bill was announced.

Bear Case: Despite a discounted valuation, it is not obvious where the upward inflection for shares will come in a generally defensive tape. Company guidance already reflects a healthy 15%+ growth rate for the renewables business plus corporate & other, making a further upward inflection unlikely. Despite large and growing renewables business, legacy businesses including a coal mine and carbon-intensive industrial customers keep ALE from consideration as an ESG name.

Sentiment/positioning: Investors have taken note of depressed valuation, though generally we do not consider ALE a consensus long. Sentiment still cautious reflecting view that now is not the time for a utility with outsized macro/recession risk as could manifest in a prolonged downturn for the steel/taconite industry.

Allete Inc: Utility uncertainty keeps a lid on positive renewables story 12 September 2022

NextEra Energy (NEE)

NEE is one of the clearest IRA beneficiaries as a leading renewables developer and its refreshed guidance is premised on a pre-IRA outlook where there is the potential for more material positive revisions. At a minimum there is visibility to maintaining a leading EPS CAGR for a longer duration. Consensus remains broadly below management's guidance already despite the company pointing to the top-end of the trajectory.

Bull Case: NEE is still -10% YTD versus the utilities index YTD, albeit it well off the lows, but with the material positive from IRA the stock should be outperforming the group. Potential for 4Q22 guidance update.

Bear Case: The more cautious stance of investors relates to macroeconomic considerations rather than company specifics with uncertainty about how the company's stock can perform as a growth equity in a higher rate environment. There are still lingering concerns around the Florida regulatory environment with negative media headlines related to political involvement.

Sentiment/positioning: After years of being a consensus long, positioning has dispersed with broad based bear and bull camps. Dedicated utility investors have been more positive recently with earnings visibility in a challenging economic backdrop and increasing opportunity set of renewables. More clean tech oriented investors have preferred higher beta pure play renewable companies than NEE.

MDU Resources Group Inc (MDU)

Maintain Neutral on shares of MDU given modestly positive total return implied by our sum of the parts valuation. The outlook remains relatively opaque for the stock as we continue to see inflationary pressures impacting margins, particularly in the macro-sensitive construction businesses – the key question remains whether mgmt. successfully reset investor expectations following a disappointing Q2 print. Expect the update on the pending spin of Knife River to be relatively limited too given relatively early days in that process as well.

Bull Case: Mgmt. of MDU has been touting higher-priced construction materials orders in the backlog as likely to start being realized in sales starting in the Q2-Q3 period, and with weather delaying some work earlier in the year the third quarter could provide an upside surprise. Activist involvement as announced in a filing after the company's Q2 report shows that investors remain interested in the sum of the parts story, and could sustain momentum in shares seen since the August announcement – MDU has outperformed the XLU by 16% since market close on Aug 3.

Bear Case: Bearish feedback has generally focused on remaining upside in the stock following outperformance, with sum of the parts starting to look expensive given mark to market for the latest peer multiples for gas, electric, pipeline, and construction. Execution has been a weak spot in recent quarters with mgmt. missing EPS for the past five quarters, with margins at the materials business the most commonly-cited factor. Given macro indicators including CPI prints and fuel prices it is not obvious that the pressures that have weighed on results in recent quarters have abated, though higher pricing should provide incremental relief.

Sentiment/positioning: Short interest in the stock remains modest compared to SMID peers at 1.6% of float. While the announcement of the Knife River spin and activist involvement following the Q2 print were well received by the market, we sense investor skepticism about further upside, particularly in an environment that has rapidly shifted to a macro focus and playing defense.

Southwest Gas Corp (SWX)

We maintain Buy on SWX where we still see a compelling sum-of-the-parts valuation which does not require overly optimistic assumptions to see a path for upside. The path to value creation has certainly become less clear in a rising interest rate environment but we believe that is appropriately reflected in shares.

Bull Case: The assets that are subject to strategic review should garner attractive premium valuations, particularly Centuri for a strategic acquirer. The incremental opportunity investment set for Mountain West is underappreciated and there are potential avenues to enhance earnings.

Bear Case: The valuation for the unregulated midstream (Mountain West) and construction services (Centuri) has declined with the rise in interest rates. Further many are now questioning the willingness of a strategic or private buyer to undertake such a large free cash flow negative acquisition. SWX's reliance on variable rate debt is a material negative in a rising rate environment

Sentiment/positioning: Short interest has steadily increased as the headwinds have mounted and candidly few investors we have spoken with agree with our Buy case.

Southwest Gas Holdings: Finding solace in the desert: valuation attractive, eyes on AZ & asset sales 22 September 2022

Independent Power Producers (IPPs)

AES Corporation

Reiterate Buy as one of the best value opportunities and a key equity for clean energy exposure. Well on track to deliver on FY22, longer term tailwinds with AES an outsized beneficiary of IRA & numerous EPS upside angles. Some investors have questioned the adverse F/X and commodity headwinds but those are poised to flip to be a material positive in FY24+ based on the underlying fundamentals.

Bull Case: 'Mini NextEra' trading at a much lower valuation. IRA a significant positive for long-term earnings and there are still robust green blend-and-extend 2.0 potential avenues. While the non-US businesses of course do not benefit from IRA, the global footprint offers US investors are relatively lower risk avenue to invest in global renewables under a disciplined management team. AES' relationships with large industrials in key geographies gives it an advantage in decarbonization investments.

Bear Case: Fluence remains a drag on EPS, Dayton Power & Light has struggled and its credit metrics remain stubbornly weak, and there is still large project risk for many of the ventures. The company has had challenges in achieving its financial targets historically which limits the degree of investor confidence in the outlook.

Sentiment/positioning: Generally a consensus long among the dedicated investor community although there are many who shy away from the story given the complexity and overall difficulty to model the fragmented company. AES requires tracking of emerging markets, currencies, commodities, and other macro factors that are simply not in many investors' fields of expertise.

AES: 3Q22 preview: Limited pressures here; Why we're getting quite constructive 05 October 2022

Constellation Energy (CEG)

We reiterate Buy on Constellation Energy (CEG) despite the outperformance and positive re-rating versus the broad market. The upcoming 3Q call will be relatively subdued with 2023 guidance initiation expected on the 4Q call and capital allocation likely late 2022 at the earliest. On the 3Q call we expect a FY22 guidance increase with $2.8Bn BofAe above the top-end of $2.35-$2.75Bn guidance range and $2.64Bn Consensus. Investors are eagerly

watching for nuclear consolidation opportunities with particular attention on Talen Energy (TLN – Private) bankruptcy confirmation hearing set for December 15th.

Bull Case: Numerous angles but simply stated shares have upside to Consensus, opportunities to deliver share repurchases, and are unique exposed to the nuclear/hydrogen themes that support re-rating post Inflation Reduction Act.

Bear Case: Expectations are elevated for CEG and hydrogen opportunities are years away at the earliest. The immediate attention will be on CEG's plans to acquire other nuclear plants which could be a 'sell the news' event with attention turning to lack of buybacks (a contrast to NRG/VST), regulatory uncertainty, and execution issues.

Sentiment/positioning: Even before its official spin-off from Exelon in February 2022, Constellation has been a consensus long and investor favorite. After the latest spurt of outperformance some investors we have spoken to took further profits but most are still positive on shares. We have experienced the diversification of the shareholder base to include more generalist and retail investors who may be more willing to provide a premium valuation to the unique nuclear company.

Constellation Energy Corp: 3Q Preview: Setting the Stage For a Big 4Q Refresh. CEG Party Continues. 17 October 2022

NRG Energy Inc.

We acknowledge the bull case on shares that the 2023 guidance is intact (see link below) but we still struggle to see a long-term case to prefer NRG over Vistra or Constellation. NRG is challenged in this elevated power price environment as its power plants are generally older than Texas peers which introduced operational risks. The long-term plan is premised on an unproven retail growth strategy premised in part on cross-selling discretionary purchases into a weakening economy. The sharp rise in power prices could either pressure margins or volumes and management has stated it is willing to sacrifice returns to maintain customer relationships. We see 3Q as likely substantively weaker than expected, however '23 outlook framing in tandem will be key. Outlier datapoints on further monetization of generation assets remains a key element to watch: likely more fossil sales, albeit unclear if meaningfully accretive to the SOTP. Still don't see discussion on corporate strategy evolution as quite ripe yet towards consumer product direction.

Bull Case: The argument here relates to the short-term dynamics with even most of the bulls we speak to recognizing structural risks for the company. After a tumultuous period, management appears confident that it can return to its Analyst Day trajectory of free cash flow per share growth. NRG has one of the highest short interest (7% of float) that has remained elevated since May 2022 which is likely a large reason why the stock has performed so well. NRG still offers one of the higher FCF yields in the S&P 500 plus share repurchases which

Bear Case: At its core, most investors we speak to are cautious on NRG because it is 'short power' in the long-term. 2023 guidance has underappreciated risks around coal pricing, bad debts, inflation, and extended operational outages. Even if the guidance is in-line with Consensus, bears expect shorts to return to this name.

Sentiment/positioning: As mentioned above, NRG is one of the most shorted equities we track. In the past month conversations have gravitated to investor short covering and some shifting to net long to avoid a potential repeat squeeze on earnings.

NRG Energy: What's Next for 2023 & Beyond: Getting Back 'On Track' 30 September 2022

Vistra (VST)

We reiterate Buy with Vistra one of our top picks with the improving visibility into multiple years of premium free cash flow unique in the market. VST now has the potential to generate the majority of its market cap in FCF the next few years while also creating the Vistra Zero platform with no/minimal equity contributions.

Bull Case: The positive thesis involves some simplistic math that has resonated with many. Assuming VST can deliver ~$3.8Bn adjusted EBITDA over the next few years and a historical ~65% FCF conversion, that implies ~$2.5Bn FCF on a ~$9Bn market cap. This is a ~28% FCF yield before incorporating the benefits of the accrued cash flow. The second angle is Vistra Zero where management is targeting $500Mn EBITDA from $5Bn capital. The new IRA investment tax credits (ITCs) could lead to 40% savings with the remaining 60% potentially covered by project debt. As a result VST can generate an incremental $500Mn EBITDA or $250Mn FCF of premium solar/storage assets that are not reflected in the outlook. Assuming an 11x EBITDA multiple or 10% FCF yield would drive ~$2.5Bn value.

Bear Case: Vistra has traded at elevated free cash flow yields in the past because of questions about the terminal value and reliance on fossil assets that are viewed as ESG negative. Without a path to broadening the shareholder base, the stock lacks a positive re-rating catalyst and it is a well-owned, high beta name among hedge funds. The new CEO & CFO have been in their positions for less than six months and are lesser known to the financial community. VST has a history of acquisitions so there is a possibility that the free cash flow is dedicated to M&A rather than shareholder returns.

Sentiment/positioning: VST has been a staple long position for many hedge funds in recent years due to its attractive valuation and share repurchases but we have observed weakening of sentiment, despite improving fundamentals.

US Electric Utilities & IPPs: Texas Power Tour Takeaways 22 September 2022

Water Utilities

As an asset class the water utilities are in relatively decent position with both pros and cons. On the favorable side, water bills are subject to far less inflation compared to gas/electric due to a more stable commodity profile. The average water bill is lower as well which should lead to less contentious regulatory proceedings. The negatives are that ***(1)*** water utilities do not have material new investment opportunities following IRA like integrated electric utilities; and ***(2)*** a reliance on acquisitions for growth is a far more difficult proposition with the increase in cost of capital.

American Water (AWK)

Despite the -18% relative underperformance in 2022 we reiterate Underperform with the weaker FY23 projected and expected deterioration in the long-term growth profile. The accretion from the regulated acquisitions which are 150-250bp of the 7-9% EPS growth profile is diminished. Higher financing costs are particularly damaging to the profile for American Water due to the above-average rate base growth that leads to equity and debt issuances. The decline in the stock price from $150-$160 to $130-$135 leads to incremental dilution in 2023+. This contributes to a forecasted -2% miss on FY23 guidance forthcoming, along with overall higher O&M. While AWK has one of the best bond ladders in the sector with annual only one maturity per year across its entire curve; however, higher prospective assumed parent debt issuances dampens EPS across the sector and AWK is not immune from the trend.

Bull Case: Water utilities have far less commodity inflation than electric/gas with more visible earnings growth. The decline in relative premiums is overdone and the dependable growth rate company is as attractive as ever. Further the clean debt maturity profile leaves AWK among the best setup for a rising rate environment with no cliff refinancings to manage.

Bear Case: The value of pro-ESG companies has diminished with more and more companies offering robust ESG disclosures and metrics. As a high growth utility the rising interest rate environment is more negative for the premium growth companies like AWK at 7-9%. The operating and financing cost pressures are more negative for AWK whose growth profile is reliant on acquisitions.

Sentiment/positioning: Investor sentiment has steadily deteriorated but we have seen a decrease in the quantum of bearish calls as shares have meaningfully underperformed.

American Water Works: Diving deeper through the macro risks & water opportunity set ahead 09 August 2022

Essential Utilities (WTRG)

We maintain Neutral on shares of WTRG that are trading approximately at fair value. We recently downgraded following the company's hiccups in executing on regulated acquisitions but the profile is balance currently.

Bull Case: Sum of the parts valuation is attractive when including high quality water and gas comparable companies which represents a unique construct. The potential for strategic considerations to highlight value are latent too.

Bear Case: The flip side of the positive case is that some investors ascribe discounted conglomerate valuations for the utilities. Without a natural shareholder base the view is that shares can derate versus comparables.

Sentiment/positioning: We have observed little interest in shares with many believing that shares are trading close to fair value. Investors who are more negatively positioned on American Water often prefer Essential Utilities on the relative valuations. Overall investors tend to prefer either natural gas utilities at lower valuations or 'pay up' for the water exposure that AWK offers.

Essential Utilities: Waiting for the big acquisition splash: Downgrade to Neutral, upside less clear 09 September 2022

Exhibit 10: Stocks mentioned in this report
Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AEE	AEE US	Ameren Corp	US$ 78.56	A-1-7
LNT	LNT US	Alliant Energy Corp	US$ 50.35	A-1-7
CNP	CNP US	CenterPoint Energy	US$ 27	B-1-7
CMS	CMS US	CMS Energy	US$ 55.63	A-2-7
DTE	DTE US	DTE Energy	US$ 108.63	A-1-7
ES	ES US	Eversource Energy	US$ 74.5	A-3-7
WEC	WEC US	WEC Energy Group Inc	US$ 86.77	A-1-7
XEL	XEL US	Xcel Energy	US$ 61.1	A-1-7
AEP	AEP US	American Elec Power	US$ 85.9	A-1-7
ED	ED US	Consolidated Edison	US$ 84.54	A-3-7
D	D US	Dominion Energy	US$ 65.69	A-1-7
DUK	DUK US	Duke Energy	US$ 89.29	A-1-7
ETR	ETR US	Entergy Corp.	US$ 101.74	B-1-7
EVRG	EVRG US	Evergy	US$ 58.32	A-2-7
EXC	EXC US	Exelon Corp	US$ 36.85	B-1-7
NI	NI US	NiSource Inc	US$ 24.88	A-1-7
OGE	OGE US	OGE Energy Corp	US$ 34.82	B-1-7
PNW	PNW US	Pinnacle West Capit	US$ 64.05	B-3-7
PPL	PPL US	PPL Corp.	US$ 25.33	B-1-7
PEG	PEG US	Public Service	US$ 54.8	A-1-7
SO	SO US	Southern Company	US$ 64.69	A-2-7
EIX	EIX US	Edison Intl	US$ 56.74	B-3-7
PCG	PCG US	PG&E Corp.	US$ 13.96	C-1-9
SRE	SRE US	Sempra Energy	US$ 143.74	B-1-7
AGR	AGR US	Avangrid	US$ 39.67	A-3-7

Exhibit 10: Stocks mentioned in this report
Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ALE	ALE US	Allete Inc	US$ 51.53	A-2-7
NEE	NEE US	NextEra Energy	US$ 73.64	B-1-7
MDU	MDU US	MDU Resources	US$ 28.7	B-2-7
SWX	SWX US	Southwest Gas	US$ 71.75	B-1-7
AES	AES US	AES Corp	US$ 24.13	B-1-7
CEG	CEG US	Constellation Energy	US$ 85.69	C-1-7
NRG	NRG US	NRG Energy	US$ 41.96	B-3-7
VST	VST US	Vistra Energy	US$ 22.2	B-1-7
AWK	AWK US	American Water	US$ 134	B-3-7
WTRG	WTRG US	Essential Utilities	US$ 41.34	B-2-7

Source: BofA GlobalResearch

We present select valuation and estimate refreshes below.

Eversource Energy (ES)

FY22 Drivers: 2H22 declining YoY

We project 3Q22 EPS is flat YoY with 2H22 slightly declining due largely to incremental financing costs. In 1H22 ES adjusted EPS was +$0.22 to $2.16 versus FY22 guidance of +$0.21 growth at the midpoint. Consensus still models growth in the second half of the year which we believe is a bit overly optimistic due to the normal seasonality of the business. If not for higher financing costs, we believe that ES would have been at the top of the tightened FY22 $4.04-$4.14 guidance range although we are still in-line with Street ($4.12 BofA vs $4.11 Consensus)

Exhibit 11: Eversource (ES) FY22 Earnings Drivers
3Q22 -6% miss with Consensus ascribing growth vs a flat outlook

Eversource Earnings Drivers	FY22	2H22	3Q	4Q
2021 Adjusted EPS	3.86	1.90	$1.02	$0.91
Electric Distribution	0.10	0.02	0.01	0.01
Electric Transmission	0.13	0.04	0.02	0.02
Natural Gas Distribution	0.08	0.03	-	0.03
Water Distribution	0.01	-	-	-
Parent & Other	(0.05)	(0.05)	(0.02)	(0.03)
Dilution	(0.01)	(0.00)	(0.00)	(0.00)
2022 Adjusted EPS	$4.12	$1.93	$1.02	$0.94
Consensus	$4.11	$1.99	$1.09	$0.89
BofA Forecasted Beat/(Miss) vs Consensus	0.3%	-2.7%	-6.4%	5.0%
2022 Guidance Range	4.04-4.14			
BofA Forecasted Beat/(Miss) vs Guide	1.2%			

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Adjusted EPS Estimates

We moderate FY23+ estimates to reflect reduced sale proceeds for the offshore wind development assets/latter proceeds but more so to incorporate higher cost of capital for financing growth. Visibility into long-term capex has slightly improved with the Massachusetts Department of Public Utilities (DPU) 2022-2025 Grid Modernization Plan approval of $163Mn, although there are other key pieces needed to bridge the full +$3Bn incremental capex that management has discussed.

Exhibit 12: Eversource (ES) FY22 Financial Snapshot
Below average adjusted EPS growth projected in the long-term

Eversource EPS by Business	2021A	2022E	2023E	2024E	2025E	2026E	2027E	2022-2027 CAGR
CL&P: CT	1.38	1.35	1.32	1.37	1.38	1.39	1.41	1.0%
PSNH: NH	0.44	0.47	0.43	0.49	0.51	0.54	0.57	3.7%
WMECO + NSTAR: MA	1.38	1.42	1.66	1.75	1.86	1.98	2.09	8.1%
NSTAR Gas: MA	0.21	0.29	0.34	0.39	0.44	0.47	0.51	11.7%
Yankee Gas: CT	0.22	0.23	0.24	0.25	0.26	0.28	0.29	4.3%
CMA: MA	0.16	0.19	0.20	0.25	0.31	0.34	0.37	14.5%
Parent & Other	(0.02)	(0.00)	0.01	0.02	(0.00)	(0.00)	(0.01)	N/A
Aquarion	0.11	0.15	0.16	0.17	0.18	0.19	0.21	7.6%
ES Consolidated EPS	$3.86	$4.13	$4.36	$4.69	$4.95	$5.19	$5.43	5.7%
Guidance: 5-7% 2021A Base	3.81-3.93	4.04-4.14	4.31	4.57	4.85	5.14	5.45	6.0%
BofA vs. Guidance		1.4%	1.1%	2.6%	2.1%	0.9%		
Consensus	3.85	4.11	4.39	4.64	5.02	5.36	5.52	6.1%
BofA vs. Consensus		0.4%	-0.6%	1.1%	-1.4%	-3.2%		
BofA Change in Estimates		*0.2%*	*-2.7%*	*-1.7%*	*-1.0%*	*-1.0%*	*N/A*	
Dividend per Share	2.41	2.55	2.71	2.87	3.04	3.23	3.42	6.0%
Dividend Payout Ratio (%)	62%	62%	62%	61%	61%	62%	63%	

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Valuation: Reduce on MtM and earnings degradation

Our Eversource valuation is based on a 2024 sum-of-the-parts valuation. We lower our PO to $76 from $88 primarily to reflect the decline in the electric/gas/water peer multiples. We now apply 15.4x electric/14.9x natural gas/23.7x water which is down from 17.8x/16.3x/26.1x previously. The base P/E multiples are grossed-up +5% to reflect capital appreciation throughout the sector, consistent methodology in our coverage. We apply discounted valuations to the Connecticut utilities (CL&P and Yankee Gas) and premiums to the Massachusetts utilities to reflect the fundamental regulatory and growth differentiations of the jurisdictions. Approximately $1/sh of the decline is due to our reduced 2024 adjusted EPS forecast with the balance from the mark-to-market.

Exhibit 13: Eversource Sum of the Parts Valuation
Cautious return profile

All figures in USD millions except per share

Regulated Utilities	**2024 NI**	**EPS**	**P/E Multiple**			**Equity Value**
			Peer	Prem/ Discount	Base	**Base**
Relative Utility Group P/E Multiple						
Group Peer Multiple - Electric			**15.4x**			
Group EPS '18-'22 CAGR - Electric			**5.0%**			
Electric Utilities			**16.2x**			
CL&P	$494	$1.37	16.2x	**-2.0x**	14.2x	**$19.42**
PSNH	$176	$0.49	16.2x	**0.0x**	16.2x	**$7.89**
WMECO & NSTAR Electric	$632	$1.75	16.2x	**1.0x**	17.2x	**$30.09**
Group Peer Multiple - Gas			**14.9x**			
Group EPS '18-'22 CAGR - Gas			**5.0%**			
Gas Utilities			**15.6x**			
NSTAR Gas	$142	$0.39	15.6x	**1.0x**	16.6x	**$6.57**
Columbia Gas of MA	$90	$0.25	15.6x	**2.0x**	17.6x	**$4.39**
Yankee Gas	$90	$0.25	15.6x	**-2.0x**	13.6x	**$3.42**
Water			**23.7x**			
Aquarion - Water Utility	$60	$0.17	24.9x	**0.0x**	24.9x	**$4.15**
Parent & Other	$7	$0.02	15.2x	**-2.0x**	13.2x	**$0.25**
Total	**$1,691**	**$4.69**				**$76.17**
Shares outstanding						*360*
Total Equity Value Per Share						**$76.00**
Price as of close 10/18/2022						75.50
FY22 Dividend						2.55
Dividend Yield						3.4%
Total Potential Return						**4.0%**

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Eversource Energy: Remain Cautious on Prospects Post-IRA: How much capex can the team deliver? 19 September 2022

American Water (AWK)

Adjusted EPS: FY22 intact but long-term moderated

1H22 adjusted EPS increased +$0.20 versus FY22 guidance midpoint forecasted growth of +$0.19 ($4.25 FY21 adjusted versus $4.39-$4.49 guidance). As a result 2H22 is expected to be approximately flat based upon disclosed headwinds. For example the divested assets, higher financing costs, and elevated O&M. We model a -4% miss in 3Q22 $1.47 vs $1.53 Consensus but a +5% beat in 4Q22 ($0.89 vs $0.84 Consensus) with the cadence of Street reversed.

Exhibit 14: AWK Financial Profile
Growth profile tilting below guidance

American Water Adjusted EPS	2021A	2022E	2023E	2024E	2025E	2026E
Regulated Water EPS	**4.34**	**4.66**	**5.01**	**5.46**	**5.96**	**6.47**
Market Based EPS	0.40	0.13	0.14	0.15	0.16	0.17
Parent and Other EPS	(0.49)	(0.35)	(0.42)	(0.47)	(0.57)	(0.64)
AWK Adjusted EPS	**4.25**	**4.44**	**4.73**	**5.14**	**5.55**	**6.00**
Guidance: 7-9% CAGR	4.18-4.28	4.39-4.49	4.96	5.36	5.79	6.25
BofA vs Guidance Midpoint (%)		*0.1%*	*-4.6%*	*-4.1%*	*-4.0%*	*-4.0%*
Consensus	4.24	4.44	4.82	5.19	5.64	6.08
BofA vs Consensus (%)		*0.0%*	*-1.8%*	*-1.0%*	*-1.6%*	*-1.3%*
BofA Change in Estimates	*0.0%*	*-0.1%*	*-0.2%*	*-0.8%*	*-1.5%*	*N/A*
Dividend per Share	2.36	2.57	2.80	3.06	3.33	3.63
Dividend Payout Ratio (%): 55-60% Target	55.5%	57.9%	59.3%	59.5%	60.0%	60.5%

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

We have favorably reversed out most of the assumed $0.15-$0.20 adverse earnings headwind from pension due to enhanced visibility to recovery in key states of New Jersey and Pennsylvania.

Higher financing costs are particularly damaging to the profile for American Water due to the above-average rate base growth that leads to equity and debt issuances. The decline in the stock price from $150-$160 to $130-$135 leads to incremental dilution in 2023+. While AWK has one of the best bond ladders in the sector with annual only one maturity per year across its entire curve; however, higher prospective assumed parent debt issuances dampens EPS across the sector and AWK is not immune from the trend.

Valuation: Reduction on the MtM but other moderation too

Our American Water valuation is based on a 2024 sum-of-the-parts valuation. We lower our PO to $134 from $158 primarily to reflect the decline in the water peer multiple to 23.7x from 26.9x. The base P/E multiples are grossed-up +7% to reflect above-average water capital appreciation throughout the sector, consistent methodology in our coverage. We reduce our P/E multiple to 1x from 2x for the largest utilities to capture the decline in the overall group base multiple and now the fact that growth has declined with the aforementioned financing pressures. Said differently, the accretion from the regulated acquisitions which are 150-250bp of the 7-9% EPS growth profile is diminished.

The +1x premium applied to the military segment has also been flattened to reflect a more normalized cadence of growth (5-6% BofAe growth rate)

Changes to the Price Objective are approximately:

- -$17/sh: Sector P/E contraction to 23.7x from 26.9x
- -$4/sh: Removing the 1x premium for NJ/PA/IL/MO/IN
- -$3/sh: Lowering 2024 EPS -1%, removing military 1x premium, and other

Exhibit 15: AWK Sum of the Parts Valuation
Among the lowest return potential in the sector

American Water SOTP	2024 EPS	P/E Multiple			Equity
Water Utilities Comp Universe		Peer	Prem/ Discount	Base	Base
AWK Earnings		**23.7x**			
Group EPS CAGR		**7.0%**			
Water Utilities		**25.4x**			
NJ	$1.17		1.0x	26.4x	$30.86
PA	$1.33		1.0x	26.4x	$35.10
IL	$0.36		1.0x	26.4x	$9.56
MO	$0.52		1.0x	26.4x	$13.69
IN	$0.30		1.0x	26.4x	$8.00
CA	$0.20		-1.0x	24.4x	$4.84
Other	$1.57		0.0x	25.4x	$39.84
Regulated Water EPS	$5.46				$141.89
Parent/Other Drag	-$0.47		0.0x	25.4x	-$11.90
Military Business	$0.15	23.7x	0.0x	23.7x	$3.51
Valuation	$5.14	***BofA Consolidated EPS***			**$134.00**
Current Price as of 10/18/22					*$134.77*
Dividend Yield					1.9%
Total Return					**1.34%**

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

American Water Works: Diving deeper through the macro risks & water opportunity set ahead 09 August 2022

Essential Utilities (WTRG)

Slightly reducing estimates on model refresh

Exhibit 16: Essential Utilities EPS Estimates
Our estimates reflect midpoint of LT range

EPS Estimates	2021A	2022E	2023E	2024E	2025E
PA	$0.73	$0.83	$0.92	$0.98	$1.03
OH	$0.07	$0.08	$0.08	$0.09	$0.09
IL	$0.08	$0.08	$0.09	$0.09	$0.10
TX	$0.07	$0.08	$0.09	$0.09	$0.10
NC	$0.04	$0.05	$0.05	$0.05	$0.06
Other States	$0.07	$0.05	$0.03	$0.03	$0.04
Water Utility	**1.06**	**1.17**	**1.26**	**1.34**	**1.41**
Peoples Gas	**0.66**	**0.68**	**0.70**	**0.79**	**0.84**
Parent & Other	*-0.05*	*-0.07*	*-0.08*	*-0.11*	*-0.13*
EPS	**1.67**	**1.77**	**1.87**	**2.02**	**2.13**
YoY Growth	*6%*	*6%*	*6%*	*8%*	*5%*
Guidance	**1.64-1.69**	**1.75-1.80**			
Shares O/S	*258*	*263*	*263*	*263*	*263*
Three Year CAGR (off $1.67 in 2021)			**6%**	**7%**	**6%**
Guidance				**5-7%**	
Previous EPS	*$1.67*	*$1.78*	*$1.88*	*$2.03*	*$2.13*
Consensus	**1.67**	**1.78**	**1.91**	**2.05**	**2.22**
DPS	**1.04**	**1.11**	**1.19**	**1.27**	**1.36**
Payout Ratio	*62%*	*63%*	*63%*	*63%*	*64%*
Guidance		*60-65%*			
Share Count	**258**	**263**	**263**	**263**	**263**

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Our Essential Utilities valuation is based on a 2024 sum-of-the-parts valuation. We lower our PO to $44 from $52 primarily to reflect the decline in the water peer multiple to 23.7x from 26.9x. The base P/E multiples are grossed-up +7% to reflect above-average water capital appreciation throughout the sector, consistent methodology in our coverage. We remove the premium multiple we previously applied to the water utilities to reflect a growth profile that is similar to peers.

Exhibit 17: Essential Utilities Valuation
PO moves to $44 from $52 primarily on MTM

Water Utilities	2024 EPS		P/E Multiple		Equity Value
		Peer	Prem/Disc	Base	Base
Peer Water P/E		*23.7x*			
Group EPS CAGR		*7.0%*			
1-year forward group Water multiple		**25.4x**			
Water Utilities					
States	**2024E EPS**	**ROE embedded**			
PA	$0.98	9.9%	**0.0x**	25.4x	$25
OH	$0.09	9.2%	**0.0x**	25.4x	$2
IL	$0.09	9.1%	**0.0x**	25.4x	$2
TX	$0.09	10.0%	**0.0x**	25.4x	$2
NC	$0.05	9.2%	**0.0x**	25.4x	$1
Other (including acquisitions)	$0.03	9.2%	**0.0x**	25.4x	$1
Water utilities total (ex-Peoples)	**$1.34**			*25.4x*	**$34**
Gas Utilities					
Peer Gas P/E		*14.9x*			
Group EPS CAGR		*5.0%*			
Peoples Gas Multiple		**15.6x**			
	2024E EPS	**ROE embedded**			
Peoples Gas	**$0.79**	11.9%	**1.0x**	**16.6x**	**$13**
Holdco/Other					
Parent	**($0.11)**		**0.0x**	**25.4x**	**($3)**
Price Objective					**$44.00**
Current Price					$41.75
Dividend Yield					2.7%
Total Potential Return					**8.05%**

Source: Company Filings, Bloomberg, & BofA Global Research

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Title: Subtitle	Primary Author	Date Published
Essential Utilities: Waiting for the big acquisition splash: Downgrade to Neutral, upside less clear		09 September 2022
US Electric Utilities & IPPs: Power Points: EIA Electric Incident Report, PEG Pension, WTRG, LNG EPA	Julien Dumoulin-Smith	07 September 2022
US Utilities & IPPs: Earnings Power Points: BKH, DUK, EVRG, MDU, OGE, ORA, SRE, & WTRG. More PPL	Julien Dumoulin-Smith	04 August 2022
US Utilities & IPPs: PowerPoints: SRE LNG & Upgrade, Power Scarcity/Texas, Inflation, WTRG M&A	Julien Dumoulin-Smith	14 July 2022
Essential Utilities: 2Q22 Preview: Larger & more plentiful muni opportunities continue to emerge		13 July 2022

Evergy (EVRG)

Our forecast incorporates the latest reported actuals as well as our latest views following resolution of the majority of issues in the MO rate case and ahead of next year's Kansas filing. While the final ROE and equity from the MO case were not disclosed, we generally expect a continuation of a mid/high 9s ROE with our forecast embedding an earned ROE in the mid-9s to reflect some residual drag, though the property tax rider should reduce the levels of historical drag to some extent. We likewise expect that EVRG will close the under-earning gap in KS following the resolution of its next rate case filing in 2023 with some residual drag in future years.

Overall we see the low end of EVRG's 6-8% CAGR as achievable through 2025, with our $4.22 estimate in line with Street consensus and reflecting low 6s from the 2020 baseline. Given the solid track record that EVRG has put together of meeting quarterly numbers and reaffirming the long-run 6-8% target, we see a further affirmation and potential extension of this trajectory as critical to affirming the outlook, though these updates are likely not forthcoming until the Q4 call at the earliest.

Exhibit 18: EVRG estimates
EPS growth trending to the low end of 6-8% CAGR range

EPS Estimates by Subsidiary		2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Evergy Metro		$0.76	$1.06	$1.31	$1.36	$1.17	$1.20	$1.25	$1.30	$1.36
Evergy Missouri West		$0.35	$0.37	$0.69	$0.38	$0.55	$0.61	$0.66	$0.70	$0.73
Kansas Central		$1.58	$1.43	$0.99	$2.13	$1.81	$1.88	$2.03	$2.11	$2.24
Parent/Other		-$0.16	$0.02	$0.11	-$0.33	$0.07	$0.10	$0.12	$0.11	$0.11
Adjusted EPS		**$2.54**	**$2.89**	**$3.10**	**$3.54**	**$3.60**	**$3.78**	**$4.05**	**$4.22**	**$4.45**
Y/Y EPS Growth %			*13.9%*	*7.1%*	*14.2%*	*1.8%*	*5.1%*	*7.1%*	*4.0%*	*5.5%*
CAGR off 2019A				*7.1%*	*10.6%*	*7.6%*	*6.9%*	*7.0%*	*6.5%*	*6.3%*
CAGR off 2020A					*14.2%*	*7.8%*	*6.9%*	*6.9%*	*6.3%*	*6.2%*
CAGR off 2021 guide midpoint of $3.30						*9.1%*	*7.1%*	*7.1%*	*6.3%*	*6.1%*
Long Term EVRG Guidance					*3.50-3.60*	*3.43-3.63*		*3.87-4.25*	*4.17-4.49*	
Prior estimates		$2.54	$2.89	$3.10	$3.54	$3.60	$3.78	$4.05	$4.22	
Consensus (BBG)			$2.92	$3.04	$3.54	$3.56	$3.77	$4.04	$4.23	
EVRG EPS Guidance	**CAGR '21-25**									
Low	6.0%				$3.20	$3.50	$3.71	$3.93	$4.17	$4.42
Mid	7.0%				$3.30	$3.53	$3.78	$4.04	$4.33	$4.63
High	8.0%				$3.40	$3.56	$3.85	$4.16	$4.49	$4.85
Dividend										
DPS		$1.84	$1.95	$2.05	$2.18	$2.33	$2.47	$2.62	$2.79	$2.96
Dividend Payout		72.4%	67.4%	66.2%	61.5%	64.6%	65.3%	64.7%	66.1%	66.6%
Long Term EVRG Guidance								60-70%		

Source: Company Filings, Bloomberg, & BofA Global Research

We mark-to-market our valuation to reflect the latest 24E peer multiple of 15.7x (previously 18.1). Applied to our updated 2024 EPS estimate, our PO moves to $64 from $68 and we reiterate our Neutral rating given balanced risk/reward at current levels. While there is a modestly positive level of upside on shares at this level we remain on the sidelines at this point given uncertain path to above the upper end of mgmt.'s long run EPS CAGR and coming Kansas rate case process. Reiterate Neutral given modest implied total return at this level.

Exhibit 19: EVRG Valuation
PO moves to $64 from $68 on MTM

	2024 EPS		P/E Multiple		
		Peer	Prem/ Discount	Base	
Group Peer Multiple - Electric		15.7x			
Group EPS CAGR - Electric		5.0%			
Grossed-up multiple		16.5x			
Evergy Metro	$1.25		0.0x	16.5x	$20.56
Evergy Missouri West	$0.66		0.0x	16.5x	$10.81
Evergy Kansas Central	$2.03		-1.0x	15.5x	$31.42
Parent & Other	$0.12		0.0x	16.5x	$2.01
EVRG Consolidated EPS	$4.05			*16.0x*	$64.80
	After-tax amount $m	$/sh	Probability		
Deferral of Sibley return + D&A	21	-$0.09	50%	16.5x	-$0.77
EVRG Price Objective					**$64.0**
Implied Return					1.7%
EVRG Standalone NTM Dividend Yield					3.7%
Total Return					**5.4%**

Source: Company Filings, Bloomberg, & BofA Global Research

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Evergy, Inc: Framing the latest regulatory debates in Kansas and beyond	Julien Dumoulin-Smith	28 September 2022
Evergy, Inc: Can it join the ranks of Midwest premium utilities?	Julien Dumoulin-Smith	14 September 2022
US Utilities & Clean Tech: PowerPoints: EVRG KS/MO, PEG Offshore, SRE LNG, Hydrogen BE/CEG/ENGH, FSLR	Julien Dumoulin-Smith	19 September 2022
US Electric Utilities & IPPs: Power Points: EVRG MO case, EXC MD testimony, NWN OR third stipulation	Julien Dumoulin-Smith	24 August 2022
US Electric Utilities & IPPs: Power Points: SO Nuclear, EVRG bills, XEL & ALE wind, EXC ICC, AES/FLNC, & More	Julien Dumoulin-Smith	18 August 2022
US Utilities & IPPs: PowerPoints: MDU Shareholder, FTCI First Takes, EVRG Wind	Julien Dumoulin-Smith	09 August 2022
US Utilities & IPPs: Earnings Power Points: BKH, DUK, EVRG, MDU, OGE, ORA, SRE, & WTRG. More PPL	Julien Dumoulin-Smith	04 August 2022
US Utilities & IPPs: PowerPoints: FE OH Grid Mod, EVRG Wolf Creek Nuke Outage, & FERC Transmission	Julien Dumoulin-Smith	19 July 2022

Pinnacle West Capital (PNW)

Our updated estimates remain below Street consensus, and were last moved higher across the 2023-25 period following Q2 reflecting less punitive pension expense (from -

36c in '23 previously to -11c) with further offsets beyond 2023 once the latest rate case provides incremental relief given the mid-year test year.

The ability to offset these impacts via cost cuts appears limited as PNW acknowledged on the earnings call that inflation is driving costs higher, and note that the forecast already embeds a declining O&M per MWh trajectory along with robust sales growth discussed above, making the setup all the more risky in our view from an execution standpoint. Upside risks to our estimates include potential for substantial weather-related earnings swings in the third quarter - note that PNW used this to capture significant O&M pull-ahead benefits in 2020.

Exhibit 20: PNW estimates
EPS growth rate is below 5% through 2025 reflecting pension weakness and lack of rate case recovery

	2019	2020	2021	2022E	2023E	2024E	2025E	2026E
Arizona Public Service	$5.19	$5.20	$5.74	$4.61	$4.56	$4.74	$5.04	$5.33
Corporate	($0.24)	($0.15)	($0.12)	($0.24)	($0.26)	($0.27)	($0.28)	($0.29)
Non-controlling interest	($0.17)	($0.17)	($0.15)	($0.15)	($0.15)	($0.14)	($0.14)	($0.14)
PNW EPS	**$4.77**	**$4.87**	**$5.47**	**$3.96**	**$4.14**	**$4.32**	**$4.62**	**$4.91**
Previous BofA estimate	$4.77	$4.87	$5.47	$3.96	$4.14	$4.32	$4.62	
EPS y/y % CAGR	5.2%	2.1%	12.2%	-27.6%	4.7%	4.3%	7.0%	6.3%
EPS % CAGR from 2022 (guide 5-7%)					4.7%	4.5%	5.3%	5.6%
EPS Guidance			5.25-5.35	3.90-4.10				
Consensus PNW EPS	$4.77	$5.06	$5.06	$4.02	$4.19	$4.47	$4.72	
EPS y/y % CAGR		6.1%	0.0%	-20.6%	4.2%	6.8%	5.5%	
EPS % CAGR from 2022 (guide 5-7%)					4.2%	5.5%	5.5%	

Source: BofA Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

We mark to market our model applying a peer multiple of 15.7x (prev 17.5x) to our new higher EPS forecast. Our PO moves to $56 from $64 as a result of the update. We reiterate our Underperform rating given negative implied total return - the reduction in our EPS forecast driven by pension impact is just the latest cautious data point, and we continue to see an elevated risk profile from PNW's coming rate case despite potential for partial rate relief on the pension side

Exhibit 21: PNW valuation
Reiterate Underperform with challenged outlook

Price Objective $56	
PNW Valuation: P/E Based on 2024 EPS	
	Price Objective
2024 EPS	$4.32
Group Peer Multiple - Electric	15.7x
Group EPS CAGR - Electric	5.00%
P/E Multiple - Utility Average	16.5x
Premium	-3.5x
Equity value - Utility	$56.14
Price objective	**$56**
2023 Dividend	$3.5
Dividend Yield	5.4%
Total Return (%)	**-7.7%**

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Pinnacle West: Pension overhang outlook improves, but O&M a near-term drag	Julien Dumoulin-Smith	04 August 2022

US Electric Utilities & IPPs: Earnings First Takes: PNW beat, ETR top half, EXC miss, ALE beat, PPL, GNRC, AY	Julien Dumoulin-Smith	03 August 2022
Pinnacle West: Pension will be a drag in '23 & beyond too despite rate case; Underperform	Julien Dumoulin-Smith	12 July 2022
US Utilities & IPPs: PowerPoints: Keep Buy on EXC & VST post pullback. Refreshing FE/PNW pensions.	Julien Dumoulin-Smith	06 July 2022

Southern Co (SO)

Our FY22 EPS estimate of $3.74 is modestly above Street estimates of $3.56 based on known and measurables to date. We forecast a large beat vs street for FY22 as we embed robust 1H22 actuals, known rate increases for FY22, and our view on O&M increasing through the back-half of the year as mgmt. pulls forward work. Additionally, we see O&M increasing based on inflation and a poor comparable YoY as SO moves toward more normal business operations post-pandemic and travel, workplace, and other expenses return. We include the convert in our '22 EPS estimates, but no equity thereafter as we do not assume incremental Vogtle costs above what mgmt. has guided to and reserved at this point. To the extent there are additional cost overruns for Vogtle, we would expect potentially more non-core asset sales rather than traditional equity.

Exhibit 22: SO EPS Estimates
We outline our EPS estimates below which remain relatively unchanged through the forecast period

EPS by Business

Subsidiary	2020A	2021E	2022E	2023E	2024E	2025E	2026E
Mississippi Power	0.14	0.15	0.19	0.18	0.18	0.19	0.19
Alabama Power	1.08	1.16	1.27	1.24	1.30	1.36	1.42
Georgia Power	1.72	1.73	1.86	1.94	2.08	2.18	2.28
Total Electric	**2.94**	**3.04**	**3.32**	**3.36**	**3.56**	**3.72**	**3.89**
Guidance	2.88	3.00	3.18				
YoY Growth	*5.9%*	*3.3%*	*9.1%*	*1.5%*	*5.9%*	*4.5%*	*4.6%*
Gas LDCs	0.39	0.40	0.44	0.50	0.55	0.60	0.64
Guidance	0.36	0.39	0.44				
SO Power	**0.22**	**0.25**	**0.23**	**0.24**	**0.25**	**0.26**	**0.26**
SoCo. Gas	**0.55**	**0.50**	**0.59**	**0.64**	**0.70**	**0.75**	**0.80**
Gas Midstream	0.09	0.08	0.08	0.08	0.08	0.08	0.08
Gas Retail (South Star)	0.05	0.06	0.06	0.07	0.07	0.08	0.08
Total Energy Infrastructure (SO Power + Midstream)	**0.37**	**0.39**	**0.37**	**0.38**	**0.40**	**0.42**	**0.42**
Guidance	0.37	0.40	0.34				
Other & Eliminations	(0.48)	(0.44)	(0.39)	(0.41)	(0.35)	(0.32)	(0.33)
Guidance - Parent Drag	(0.45)	(0.49)	(0.46)				
Consolidated	**3.23**	**3.39**	**3.74**	**3.83**	**4.16**	**4.41**	**4.63**
YoY Growth	*3.9%*	*4.9%*	*10.3%*	*2.5%*	*8.6%*	*6.1%*	*4.8%*
Guidance	*3.10-3.22*	*3.40*	*3.50-3.60*				
Previous estimate		***$3.39***	***$3.74***	***$3.83***	***$4.16***	***$4.41***	***$4.59***
Consensus	**3.20**	**3.39**	**3.59**	**3.80**	**4.08**	**4.41**	**4.64**

Source: BofA Global Research estimates, company report, Bloomberg

BofA GLOBAL RESEARCH

Our PO moves to $63 (from $77) based on a 2024E Sum-of-the-Parts with peer utility P/E multiples of 15.4x for electric (from 17.2x) and gas of 17.5x (from 16.7x). Across our coverage universe, we gross up the base multiple +5% to reflect forecasted capital appreciation across the sector. We continue to use an in-line multiple for Georgia Power given the risks with the rate case and election that could add some additional focus on costs. We continue to look for more details on the pending climate legislation's impact

on Georgia Power's ability to own solar assets. Remember, we value Vogtle earnings at a 4x discount given the risks to costs and recovery.

Exhibit 23: SO Simplified SOTP
Our PO moves to $63 (from $77) based on our MtM

SO Simplified SOTP	EPS	P/E	Prem/Disc	$/Sh	Prior
State Regulated Electric	$3.56	15.8x	-2.5%	$56.16	$68.49
State Regulated Gas	$0.55	17.0x	6.3%	$9.40	$10.74
Southern Power	$0.25	14.2x	-12.4%	$3.51	$4.19
Gas Infrastructure/Marketing	$0.15	12.0x	-24.6%	$1.80	$2.16
Parent	-$0.35			-$7.87	-$8.56
Consolidated	**$4.16**			**$63**	**$77**
Dividend Yield				4.3%	
Total Return Potential				0.6%	

Source: BofA Global Research estimates, company report, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 24: SO Full SOTP
Breaking down the segment by segment value

Southern Company (SO)
All figures in $Mn except per share

	Metric	P/E Multiple					Equity Value		
	2024 EPS	Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Electric			15.4x						
Group EPS '21-'24 CAGR - Electric			5.00%						
Electric Utilities			16.2x						
Mississippi Power	$0.18	15.2x		0.0x	16.2x	17.2x	$2.76	$2.94	$3.12
Alabama Power	$1.30	15.2x		0.0x	16.2x	17.2x	$19.78	$21.08	$22.39
Georgia Power (ex-CWIP)	$1.72	15.2x		0.0x	16.2x	17.2x	$26.06	$27.78	$29.50
Nuclear CWIP Earnings	$0.36	11.2x		-4.0x	12.2x	13.2x	$4.00	$4.36	$4.72
Total Electric Utility Value	**$3.56**				*15.8x*		**$52.60**	**$56.16**	**$59.72**
Group Peer Multiple - Gas			15.2x						
Group EPS '21-'24 CAGR - Gas			5.00%						
Gas Utilities			16.0x						
Southern Gas Utilities	$0.55	16.0x	16.0x	1.0x	17.0x	18.0x	**$8.85**	**$9.40**	**$9.96**
Infrastructure	2024 EPS								
SO Power Core - Wind	**$0.12**	13.2x		-2.0x	14.2x	15.2x	$1.62	$1.74	$1.86
SO Power Core - Solar	**$0.01**	13.2x		-2.0x	14.2x	15.2x	$0.15	$0.16	$0.17
SO Power Core - Gas	**$0.10**	13.2x		-2.0x	14.2x	15.2x	$1.26	$1.35	$1.45
SO Power Core - Other	**$0.02**	13.2x		-2.0x	14.2x	15.2x	$0.24	$0.26	$0.28
SO Gas - Midstream	**$0.08**	13.0x		-2.0x	14.0x	15.0x	$1.00	$1.08	$1.16
SO Gas - Retail	**$0.07**	9.0x		-6.0x	10.0x	11.0x	$0.65	$0.72	$0.79
Net Infrastructure Equity							**$4.92**	**$5.32**	**$5.71**
Parent	2024 EPS		15.9x						
Parent & Other	-$0.35		15.9x	0.0x	15.9x		-$5.61	-$5.61	-$5.61
Add Back: Parent Interest Expense- 50% Weighted	$0.29		15.9x	0.0x	15.9x		$2.29	$2.29	$2.29
Parent Debt - 50% Weighted	$9,900						-$4.54	-$4.54	-$4.54
Parent & Other							**-$7.87**	**-$7.87**	**-$7.87**
Shares Outstanding								1,089	
Total Equity Value							**$58.00**	**$63.00**	**$68.00**
Stock Price								**$65.39**	

Exhibit 24: SO Full SOTP
Breaking down the segment by segment value

Southern Company (SO)	
Upside/Downside	-3.65%
DPS	$2.78
NTM Div Yield	4.25%
Total Return	**0.6%**

Source: BofA Global Research estimates, company report, Bloomberg

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: PowerPoints: SO Vogtle, LNT Batteries, PEG/CEG NJ Capacity, AQN Asset Sale, ESG	Julien Dumoulin-Smith	03 October 2022
US Utilities & IPPs: Power Points: ED & SRE Settlement Talks, PEG Capex, DUK SC, ETR Updates, & SO	Julien Dumoulin-Smith	23 September 2022
US Alternative Energy: Tallying up solar manufacturing plans post IRA – So far, not so good for utility scale	Julien Dumoulin-Smith	08 September 2022
US Electric Utilities & IPPs: PowerPoints: D OSW, SO rate case, CMS intervenors, XEL, LNG, CWEN & More	Julien Dumoulin-Smith	25 August 2022
US Electric Utilities & IPPs: Power Points: PECO Staff; APCo Triennial; SO GA; Sichuan Power; DPL & ComEd Reg.	Julien Dumoulin-Smith	22 August 2022
Southern Company: Trending Positively on Vogtle, ITAACs Filed; IRA Presents Upside; Succession?	Julien Dumoulin-Smith	01 August 2022
Southern Company: Strong 2Q as Load Continues to Beat; Vogtle Shifts Back to Point Estimates	Julien Dumoulin-Smith	28 July 2022

Price objective basis & risk

AES (AES)
Our price objective is $28 and is based on a sum of the parts analysis applying a blended valuation approach, the summation of 1) EV/EBITDA approach across global generation assets. We use an 8.0x base for US peer IPPs and apply a +6x premium for US distributed generation for further growth expectations, valuing them at 14x 24E EV/EBITDA. Meanwhile, we value the DevCo using a 10% discount on 4.5GW+ of annual renewables beyond '22 given market dynamics. In Asia, we apply various multiples based upon jurisdiction risk across the rest of the portfolio and overall investor appetite as reflected in local peer multiples. We use mark-to-market value of publicly listed LATAM subs as well as apply a P/E methodology for US regulated utilities using the peer multiple of 16.1x 24E. We also credit the company with Vietnam and its investment in Uplight.

Risks to our price objective and rating are: 1) regulatory, legislative, and political changes, 2) international currencies devaluing against the US dollar, 3) changes in value of Fluence (FLNC) subsidiary stock, 4) overall inability to execute on the renewables plan, 5) ability to control costs, 6) financing needs, and 7) tax policies.

Allete Inc (ALE)
Our $53 is based on a sum of the parts analysis

For regulated utilities (Minnesota Power, Superior Water Light & Power, and American Transmission Co) we apply an electric peer multiple of 15.4x grossed up by 5% to account for capital appreciation across the sector. For MP and SWL&P we apply a -2.0x discount to account for below-peer rate base growth of 5% and an elevated risk profile given exposure to large industrial electric customers. For ATC we apply a +4x premium consistent with other owners of ATC (LNT, MGEE, WEC) given upside potential and federal equity layer and ROE.

We value contracted wind on a DCF basis with WACC of 5.75%, for an implied EV/EBITDA valuation of 11.8x 2024E.

We value the wind development company (devco) based on estimated weighted avg MWs in development and assuming a 2.0x EBITDA development spread.

We value the New Energy solar devco using a 50-50 blended development multiple and 8x 2021 trailing EBITDA. We use this methodology as the asset was recently acquired by ALE, and we view the acquisition price as the appropriate latest mark of valuation.

We value the BNI coal mine asset at 7.0x 2024E EPS, in line with publicly-traded peers. We value the Corporate & Other segments at 7.0x 2024 EPS, reflecting modest visibility.

Risks: regulatory/legislative outcomes, capital expenditures vs guidance, taconite/industrial sales changes, returns on unregulated projects, interest rates and commodity price volatility, weather, and natural disasters.

Alliant Energy Corporation (LNT)
Our $57 PO is based on a sum of the parts analysis employing relative premium and discounts to the large cap regulated peer multiple of 14.9x 2024E P/E. We note that electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector. We apply a 2.0x P/E premium on IPL as we see the rate case overhang being resolved. We apply a 4.0x P/E premium on Wisconsin Power & Light Company reflecting 1) low risk investment nature of the state, 2) above average ROEs, 3) higher than average growth runway for investments, and 4) potential risks around solar deployment in both WI and IA. At ATC, we reflect a 4.0 x P/E premium on LNT's 16%

share in the transmission company. Growth expectations for this segment are high, paired with above average ROEs that we believe face less downward pressure vs. regulated state distribution ROEs. We apply an in line multiple at the parent to account for the blend of numerous businesses some which benefit from long term stable PPAs via intercompany generation.

Risks to our Price Objective and rating are 1) Rate case outcomes, 2) further equity dilution beyond our estimates, 3) interest rate fluctuations, 4) natural disasters, and 5) inflation and ability to earn the allowed rate of return.

Ameren Corporation (AEE)
Our $96 price objective is predicated on a P/E based sum of the parts, valuing each business subsidiary relative to the 2024E ratebase weighted peer multiple of 17.3x for electric. We apply a 2.0x premium to peers at AEE Missouri to account for the improving prospects of capital spend, supplemented by a regulatory jurisdiction becoming more favorable - but lack of decoupling. We apply a 2.0x premium to peers at AEE Illinois to account for decoupling on the distribution business which aids in earnings predictability. The overall business is expected to grow at a more meaningful clip than that of peers - we see a 10% EPS CAGR at IL 2020-2024. At ATXI, we apply a 4.0x premium to peers to reflect the FERC ROEs. At the Parent, we assume 2.0x multiple premium reflecting average of the subs and given the healthy debt metrics with FFO/Debt at 17%+. Electric peer P/E multiple is grossed up for a year to 2022 by 5% to reflect capital appreciation across the sector.

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

American Electric Power (AEP)
Our price objective of $102 is based on SOTP analysis. We ascribe a peer forward FY24E P/E multiple (16.5x) with a 1.0x premium for its transmission and distribution utilities and transmission-only utilities segments and a 0x premium (in-line multiple) for all of the vertically integrated utilities. For the unregulated portion, we apply a 3.5x discount to the legacy energy supply and marketing business and an 8x premium to the contracted renewables business to reflect sale aspirations.Our valuation reflects that the Kentucky Power sale pending appears to be nearing close. We note that electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector.

Risks to achievement of the price objective are: 1) regulatory outcomes are less favorable than expected, which could result in reduced ROE, 2) large capital intensive projects are subject to delays or cost overruns, which can change the return profile, 3) natural disasters or catastrophic events can affect system reliability and are subject to regulatory cost recovery risk, 4) utilities are subject to interest rate risk to fund their business, which affects cost of capital, 5) uncertainty around announced asset divestitures versus guidance expectations, 6) volatility in volume of electric sales, 7) other adverse regulatory, political, or similar actions.

American Water Works (AWK)
Our PO for American Water Works is $134. We apply the water sector average 23.7x to American Water's 2024E earnings based on the water peer multiple and a 8.1% group EPS CAGR for '18-'23E. We think this multiple is justified as in our view AWK largely drives the peer multiple as the largest publicly traded water utility. We ascribe a 2x premium for NJ, PA, and IL given scope of acquisition opportunities. Also a -1x P/E for Cali utility.

Risks to achievement of the Price Objective (PO) and rating: 1) ability to execute capital

and operating expenditures forecasts, 2) equity needs, 3) regulatory outcomes, 4) state and Federal legislative changes, 5) interest rate fluctuations, and 6) military operations.

Avangrid (AGR)
Our $38 PO is based on an 2024E sum of the parts analysis. The core utilities are valued on by applying discounts to the base sector P/E of 15.7x/14.5x for electric/gas due to below average growth and regulatory jurisdictions. We apply an in-line multiple to the PNM Resources assets with the transaction pending. Both electric and gas peer P/Es are grossed up +5% to reflect capital appreciation across the sector. The renewables are valued at approximately 11x EV/EBITDA, consistent with peers while offshore wind is valued using discounted cash flows at a 12% discount rate. Future potential value creation from the renewable development 'DevCo' is provided as well. Lastly parent/HoldCo financing negatives are ascribed.

Up/downside risks to achievement of the PO and estimates are 1) earned ROEs at the utilities, 2) utility capital expenditure forecasts, 3) regulatory/political/legislative outcomes, 4) equity needs, 5) offshore wind construction, 6) Iberdrola owns over 80% of AGR common stock, limiting float and presenting a potential for governance conflicts, despite the BoD being majority unaffiliated with Iberdrola. 7) natural disasters, 8) commodity and interest rate fluctuations, and 9) management changes.

Black Hills Corporation (BKH)
Our $66 valuation is based on a sum-of-the-parts analysis. We apply the peer average electric (14.8x) and natural gas (14.5x) 2024E P/E multiples. We gross-up +5% the base multiples across the coverage universe to reflect capital appreciation in the sector. We apply an in-line P/E multiple with neither a premium nor discount. Coal Mine: We apply an 8x peer EV/EBITDA multiple, which is in line with other PRB coal producers. Based on our view of the strength/maintainability of different coal plant output contracts, we apply a discount/prem multiple to that portion of the mine. IPP Assets: We use the recent sale price and '23 EV/EBITDA multiple for Pueblo Airport and Wygen I assets, respectively. Parent Expense, Debt, and Eliminations: We apply an average regulatory P/E multiple to this segments income. This captures some Interco revenues that are double counted as well as parent SG&A drag and debt.

Downside risks: inability to earn the authorized rate of return, unfavorable regulatory outcomes, reductions in capital expenditures forecasts, higher operating and financing costs, lower sales volumes, unfavorable political and legislative changes , higher interest rates, and natural disasters.

Upside risks: ability to earn above the authorized rate of return, favorable regulatory outcomes, higher capex deployment, lower operating and financing costs, higher sales volumes, favorable political and legislative changes , decrease in interest rates.

CenterPoint Energy (CNP)
Our CenterPoint Energy PO is $30 using a 2024E sum-of-the-parts methodology. We apply the 14.4x electric and 13.5x gas base multiples which we gross-up +5% across our coverage to reflect sector growth. We apply a 20% (3.0x) premium due to above-average growth and constructive jurisdictions.

Previously we utilizes a 2024E P/E sum-of-the-parts with 17.3x electric and 16.8x gas P/Es and a 25% (4.0x) premium.

Risks are 1) ability to deploy capital expenditures and earn the regulatory allowed rate of return, 2) regulatory/political/legislative actions, 3) changes in equity needs, 4) interest rates, 6) natural disasters, and 7) management changes.

CMS Energy (CMS)
Our PO of $58 is based on a SotP relying on 2024E forward P/E multiples for the utility business and a 2024E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 2.0x prem to the avg 24E regulated multiple P/E of 15.4x for the electric seg and of 14.9x for the gas seg, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as cont'd favorable regulatory environment, and finally historically proven ability to consistently perform at the high end of guidance range.

Both electric and gas peer P/E multiples are grossed up to 2022 by 5% to reflect capital appreciation across the sector.

For CMS' merchant business we apply a 4x EV/EBITDA multiple, in line with current market value of CMS' power plants. We value Dearborn Industrial Generation (DIG) on a DCF basis given the plant is expected to be sold to Consumers at the end of 2025, with our valuation reflecting the remaining cash flows.

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

Consolidated Edison (ED)
Our $84 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples 17.1x/16.7x for electric/gas respectively with a -2.0x disc. to Electric, Steam, & Gas to reflect Covid recovery overhang and Steam for lack of decoupling. Both electric and gas peer 2024 P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We further apply an EV/EBITDA approach on 2024E EBITDA to the CEB (renewables) business using a 12.0x multiple for both the legacy portfolio and the renewables portfolio seeing it as having higher quality returns.

Upside/Downside risks to achievement of the Price Objective and Rating are 1) earned regulatory returns, 2) capital expenditures, 3) regulatory/political/legislative changes, 4) interest rates, 5) natural disasters, 6) execution on unregulated projects, 7) Covid, 8) ability to complete the Mountain Valley Pipeline, and 9) raw materials costs and supply-chain delivery timelines.

Constellation Energy Corp (CEG)
Our $109 Price Objective is based on a 11.8% 2024E equity Free Cash Flow yield (FCF yield) on an unhedged/'open' basis. The 11.8% FCF yield represents the median of energy comparable peers.

Risks to achievement of the Price Objective and rating are: 1) changes in energy & capacity prices, 2) retail margins, renewals, win rate, & overall market share, 3) operating and capital costs, 4) capital allocation decisions including M&A, 5) nuclear incidents or accidents, 6) legislative and regulatory changes, 7) nuclear fuel costs & availability, 8) change in environmental standards for generation assets, 9) management turnover, 10) pension & nuclear decommissioning trust returns, 11) credit rating agency requirements, and 12) interest rates.

Dominion Energy (D)
We value Dominion Energy at $94 using a 2024E sum-of-the-parts analysis. For the utilities we apply the comparable electric (18.3x) and gas (16.9x) peer multiples which we gross-up by 5% to reflect capital appreciation across the sector. We apply premiums of 2x for Virginia and 2x for South Carolina electric utilities and +3x to the gas utilities in Ohio, Utah, North Carolina, and South Carolina. We apply discount adjustments to lower value utility sources in South Carolina (NND) and Utah (Wexpro) as well as the South Carolina bill credits.

Contracted assets are valued based on a 12.7x EV/EBITDA for renewables and discounted cash flow analyses for Cove Point and Millstone at the prevailing discount rates reflecting the risk characteristics. For remaining debt beyond that allocated to state utilities, we include a 50% weight towards a straight netting of leverage, with the remaining 50% using a P/E multiple on associated interest expense, in line with the methodology employed for diversified utilities with relatively higher levers of leverage

Risk to achievement of the Price Objective and Rating are 1) regulatory, legislative, and political actions, 2) ability to earn the regulatory allowed ROE, 3) capital markets and equity requirements, 4) changes to the capital expenditure forecast for both regulated & unregulated segments, 5) volatility in interest rates and pension returns, 6) changes in commodity prices, and 6) natural disasters.

DTE Energy (DTE)

We value DTE Energy at $120 using an SOTP approach. We value the utility segment on a 2024E forward P/E multiple basis and the non-utility segment on a 2024E forward EV/EBITDA multiple basis. For the utility segment we apply a 2x premium to both our regulated electric and gas utility peer multiples (of 15.4x and 14.9x, respectively). Both electric and gas peer P/E multiples are grossed up for a year to 2023 by 5% to reflect capital appreciation across the sector. We value the DTE Vantage segment on a multiple of 2024 EPS - the grossed-up electric multiple of 16.2x to account for the renewable natural gas (RNG) business. We assign an equity value of zero to the Equity Trading segment given potential for earnings volatility and opacity of the segment. We also reduce the equity value for estimated unallocated parent debt by applying a 15.9x multiple to both the interest expense and corporate overhead expenses at the parent. Risks to Price Objective: regulatory/political/legislative actions, realized returns from the unregulated Vantage segment, changes in equity needs, load growth/class mix, equity needs, weather/natural disasters, and interest rate fluctuations.

Duke Energy (DUK)

Our $110 PO is derived from a sum-of-the-parts valuation. We value the Electric and Gas utilities using peer 2024E P/E multiples. We apply a 4x multiple premium to Duke's operations in FL and 3x in IN to reflect more favorable regulatory environments (and potential generation opps in IN). We apply a 3x multiple to the Carolinas given upside to spending in improving regulatory construct combined with latest IRP & wider legislative reforms into 2021. We value the other regulated electric utilities at 15.7x and the gas utilities at peer group multiples of 14.5x 2024E P/E, respectively. Both electric and gas peer P/E multiples are grossed up by 5% for the groups CAGR to reflect capital appreciation across the sector. The commercial midstream, and transmission are valued on a 2024E EV/EBITDA basis. We use 9.0x multiples for midstream and transmission segments. We add the net present value of renewable segment using an 8% discount rate. We subtract out the impact of commercial debt, and add back for the renewable debt.
Upside risks: constructive rate case results, higher capital expenditure additions vs our assumptions, lower interest rates. Downside risks: poor rate case results, operating errors, and negative changes in the regulatory environment, Macro risks: Increases in interest rates and decreases in equity market valuations.

Edison International (EIX)

Our $50 PO is based on sum of the parts analysis with a peer 15.4x 2024 P/E grossed-up 5% for group growth. A -3x P/E discount is applied to the CPUC, as well as the Parent/Other segment, and -1x P/E discount to FERC jurisdictional utilities. The discount reflects below-average growth and regulatory considerations, albeit FERC risk profile is less challenging than the CPUC. The negative wildfire adjustments are netted-out to reflect a probabilistic approach to the risk of shareholder funded wildfires and the ongoing contribution to the CA fund on an NPV basis.

Risks include changes in: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) Edison Energy returns, 7) ability to deploy capital, and 8) environmental, social, & governance [ESG] profile.

Entergy (ETR)
Our $135 Price Objective (PO) is based on a sum-of-the-parts analysis. The 2024E electric utilities average P/E of 17.8x (vs 17.3x previously) is grossed-up +5%, to 18.7x, to reflect capital appreciation across the sector. We apply in-line P/E multiples to the subsidiaries except for +2x Texas to reflect the constructive regulation environment and -1x New Orleans based upon historical contentious proceedings. We net out 50% of the parent HoldCo long-term debt and apply a P/E multiple to 50% of the interest expense.

Risks to achievement of our Price Objective is 1) changing rate-making mechanisms or unexpected regulatory outcomes, 2) earned return on equities by jurisdiction, 3) hurricanes and other weather events, 4) nuclear accidents, safety events, or other incidents, 5) interest rates fluctuations, 6) equity issuances relative to management's forecast and access to capital markets, 7) ability to deploy regulated capital expenditures, 8) pension fund performance and 9) costs and operational volumes at the wholesale commodity subsidiary.

Essential Utilities (WTRG)
Our price objective is $44 based on our sum of the parts methodology applying a 24E peer multiple to the water utility and gas utility, respectively and accounting for expected growth for each sector. These peer multiples are 23.7x and 14.9x. We apply a 1.0x premium to Peoples Gas given the organic growth opportunities. We net out parent drag with a blended multiple.

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

Risks to the upside are accretive acquisitions, constructive regulatory outcomes, and upward rerating of gas multiples

Evergy, Inc (EVRG)
Our $64 price objective for Evergy (EVRG) is based on sum of the parts valuation, applying an in-line utility peer 2024E P/E of 15.4x. The electric peer P/E multiple is grossed up for by one year by 5% to reflect capital appreciation across the sector. We further apply a -1.0x turn discount across the Kansas Central subsidiary based on our perception of a slightly more challenging regulation compared with the average utility due to concerns about bill pressure.

Downside risks to our price objective include adverse regulatory outcomes, inability to deploy capital expenditures consistent with guidance, operational performance issues including at the nuclear facility, and earning below the authorized rate of return.

Upside risks to our price objective include favorable regulatory outcomes in important proceedings, accretively deploying additional capital expenditures above guidance, higher than anticipated O&M benefits and merger synergies leading to a higher earned return on equity, and the ability to recover capital invested in retired coal assets.

Eversource Energy (ES)
Our sum of the parts based price objective of $76 uses P/E multiples on 2024E earnings. For electric utilities, we attribute a 1x premium NSTAR,in line multiple to PSNH, and a 2x discount for CL&P to peer 15.4x multiple 2024E, reflecting future potential positive revisions to capex and earnings and the latest challenges in CT. For gas, we apply a 1x premium to the peer 14.9x 2024E multiple, given capex upside particularly in MA and a

2x for Columbia Gas. We apply a 2x discount to Yankee Gas given the less favorable jurisdiction. Both electric and gas peer P/E multiples are grossed up by 5% to reflect 2024E capital appreciation across the sector. We value Aquarion at the 23.7x water multiple. We reflect ES's 50% ownership in Revolution and South Fork offshore wind sites on an NPV basis.

Upside and downside risks to our Price Objective are 1) regulatory/political/legislative changes, 2) capital expenditures forecasts, 3) ability to earn the regulatory allowed ROE, 4) offshore wind development, 5) natural disasters, 6) operational performance and gas incidents, and 7) recent M&A integration.

Exelon (EXC)
Our $55 PO is based on an sum of the parts valuation. Our base electric peer 2024 P/E multiple of 18.0x is grossed up for a year by 5% to reflect capital appreciation across the sector. We apply a 2x premium across EXC utilities ComEd, PECO, BGE, PHI given increasing comfort around the consolidated profile, above-average growth prospects and below average risks.

Risks to achievement of the rating and price objective include: 1) Adverse regulatory, political, and legislative outcomes, 2) inability to deploy the guided capital expenditures, 3) equity needs that differ from guidance, 4) storms and other natural disasters, 5) inability to control operating costs, 6) changes in effective tax rates, and 7) changes in credit rating agency metric requirements.

FirstEnergy (FE)
Our PO of $41 is based on a sum-of-the-parts valuation. Our multiples are driven by relative P/E premiums/discounts to the 2024E regulated peer multiple (17.4x). Electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector. As for premiums/discounts, we apply -2x discount to the distribution utilities to reflect rate review risk and the below-average balance sheet. We apply a +1x P/E premium to peers 2024E multiple to the Transmission business given potential for sale of a non-controlling stake. We subtract out the holding co debt given the high parent leverage.

Upside/downside risks are 1) unexpected regulatory outcomes, 2) ability to earn the allowed ROEs and/or other changes in regulatory earnings, 3) pension liabilities, 4) investigation revelations, 5) equity needs versus forecasts, 6) capital expenditures, 7) pension plan returns, discount rate changes, and interest/service costs associated with the plan.

MDU Resources Group, Inc. (MDU)
Our $30 PO is derived from SOTP. At the regulated electric and gas utilities, we use a P/E approach on our 2024 estimates and use peer multiples of 17.5x for electric and 16.8x for gas, respectively with a -1.0x discount for each reflecting the latest management capex guidance, we then gross this multiple by +5% to account for sectorwide EPS growth to derive a 12-month forward PO.
We value the Construction Materials business using a '23 EV/EBITDA estimate, applying a multiple of 9.0x based on an average of several publicly-traded peers in the cement, asphalt, and aggregates business.
We value the Construction Services business using a '23 EV/EBITDA estimate, applying a multiple of 9.4x based on an average of several publicly-traded specialty construction services peers. We also apply a -1.0x valuation discount reflecting the high level of competition in the space.
We value the Pipeline business using a '23 EV/EBITDA est., applying a multiple of 10.0x based on an average of several publicly-traded midstream peers. We also apply a -1.0x valuation discount reflecting uncertainty about growth at projects including North Bakken. We net out total parent drag and back out remaining non-regulated debt.

Upside risks are higher utility capex, improving margins at the construction business, and infrastructure stimulus.
Downside risks are a macro downturn pressuring construction margins, and rate case outcomes.

NextEra Energy (NEE)
Our $94 PO is derived using an SOTP approach, with the utilities and parent segment valued on a 2024E P/E basis, and the generation segment valued on a 2024E EV/EBITDA basis. In addition, we include NEE's ownership stake in NextEra Energy Partners (NEP) as well as the value of fixed fee IDR (DCF, at 6.7% disc rate). We assign 24E peer multiple of 18.0x for electric and 25.9x for water (grossed up by 5% and 7%, respectively, to reflect capital appreciation) with discount/premium to reflect the growth/risk profile of the businesses. We apply a 4x premium for FPL and Gulf. For NEER, we apply a peer EV/EBITDA multiple of 12.2x, which we adjust depending on asset type. Give contracted renewables 4x premium given fuel type and contracted nature. We utilize a DCF of new renewable for projects beyond 2022. We value contracted nuclear on a DCF approach using a 7.5% discount rate. We apply a 1x premium multiple to pipelines, 1x discount to gas infrastructure and 1x discount for supply and trading given lower asset quality, a 1x premium for contracted gas peakers and 1x discount for merchant peakers (other), again based on asset quality.
Risks to achievement of PO and Rating are 1) regulatory outcomes, 2) weather & natural disasters, 3) commodity price changes, 4) fluctuations in stock prices for YieldCo NextEra Energy Partners, 5) renewable development margins.

NiSource Inc (NI)
Our $34 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2024 forward P/E multiples that are marked-to-market to the latest peer utility multiples of 16.9x for gas and 18.2x for electric with a 1.0x premium for the gas utilities and a 2.0x premium for the electric gas utilities given strong growth rates and incremental renewable buildout, with capex potentially beginning in '24-'26, but acknowledge industrial gen load migration risk. While there still could be some near-term headwinds for solar, we are confident in mgmt. ability to manage and mitigate the impacts.

We note that electric / gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We subtract the value of excess holding company debt at the parent not supporting the utility opcos.

Downside risks to our PO are a sustained period of economic weakness pressuring customer growth, interest rate increases, higher natural gas prices, and inability to execute on renewables additions.

NorthWestern Corporation (NWE)
Our $56 price objective is based 2024E price/earnings (P/E) methodology. We apply the electric utility sector P/E of 16.8x as a base then gross-up +5% to reflect capital appreciation across the sector. We apply a -2x discounted multiple to the 2024E peer multiple to historically challenged regulation, below-average rate base (4-5%) / EPS (3-6%) growth, and inflationary concerns.

Risks to our price objective are uncertainty from: 1) regulatory, political, and legislative outcomes, 2) ability to recover costs and earn the regulatory allowed return on equity [ROE], 3) differences in future equity needs, 4) capital expenditure forecasts, 5) commodity and interest rate changes, 6) natural disasters and wildfires, and 7) management changes.

NRG Energy (NRG)
Our $38 Price Objective is based on 2024E sum-of-the-parts analysis. We apply a premium/discount to our 7.0x base EV/FCF multiple, which is premised on long-term historical industry trends, to each segment based on our views of the specific asset type and region. We discount the Generation segment to approximately 5x EV/EBITDA due to operational challenges experienced of late. Within Generation, we apply a 6x disc to ERCOT coal given supply chain challenges. We apply an approximate 6x multiple to Retail, at a premium to the base IPP multiple reflecting the opportunity set and challenges. The potential for additional cross-selling revenue is mitigated by concerns of core margin erosion and customer count declines. We assume approximately $2Bn share repurchases by YE-23.

Upside/Downside risks to the price objective are changes in: 1) commodities including gas, coal, nuclear fuel & power, 2) operating costs, 3) environmental costs and regulation, 4) retail margins and customer counts, 5) natural disasters, 6) generation volume, 7) regulatory, legislative, and political changes, 8) customer acquisition costs, 9) retail competition, 10) pension and nuclear decommissioning trust assets/liabilities, and 11) interest rates.

OGE Energy Corp (OGE)
Our OGE PO is $44/share based on a sum of the parts. For the utility and holdco we apply the FY24 peer multiple of 18.0x. Electric peer P/E multiple is grossed up for a year to 2021 by 5% (based on average annual growth) to reflect capital appreciation across the sector. We apply a 1x premium for incremental growth not yet embedded in plan.

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

Upside risks are shifts towards a more favorable Oklahoma regulatory environment, which could ease OGEs ability to earn its authorized return in the jurisdiction and possibly increase capex plan as management views prospects in the state more positively. Improvements in value of ET share.

PG&E Corporation (PCG)
Our PO of $16 reflects an in-line P/E versus the respective electric (15.4x) and gas (14.9x) peer P/E groups with both grossed-up by 5% to reflect capital appreciation across the sector) based on 2024E. The acute wildfire risk is incorporated separately via a scenario probability weighted at 100% assuming PCG hits the cap in 3-year increments. Lastly, we net out 50% weighting of HoldCo debt and add back 50% weighting of interest expense to derive our Price Objective.

Risks to achievement to estimates and Price Objective include: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) Fire Victim Trust moneitizations, 7) ability to deploy capital, and 8) environmental, social, & governance [ESG] profile.

Pinnacle West (PNW)
Our price objective of $56 is based on a peer utility P/E multiple of 15.4x on our 2024E EPS of $4.32 with a -3.5x discount to account for future rate case risk, uncertain recovery of clean generation spend, resource adequacy concerns in the state, and general below-average regulatory environment in Arizona, PNW's sole jurisdiction. Electric and gas peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector.

Risks to the Price Objective and estimates are: 1) Regulatory relationships/outcomes, 2) load growth in territory vs expectations, 3) Riders and capital trackers implementation 4) weather and natural disasters, 5) interest rate risk changes cost of capital, 6) pension liabilities and asset returns, 7) equity needs relative to forecasts, 8) capital expenditures.

Portland General Electric Company (POR)
Our $54 price objective is based on our 2024E EPS estimate. We value shares based on a 2024E P/E methodology applying a 1x discount to the 2024 regulated utility PE multiple of 18.0x. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. While our PO is a 12-month forward projection, we use a 2024 multiple, which is reflective of a discount back to today.

Risks to estimates and the Price Objective are 1) regulatory decisions, 2) power costs in the Power Cost Adjustment Mechanism [PCAM], 3) wildfires and other natural disasters, 4) ability to deploy capital, 5) ability to control operation expenses, 6) interest rates, 7) load growth/contraction, 8) request for proposals, and 9) trading losses.

PPL Corporation (PPL)
Our $33 price objective is based on a sum of the parts methodology applying respective premium/discounts to the 2024E peer group multiple of 18.5x. Electric peer P/E multiple is grossed up by 5% to a target multiple of 19.4x to reflect capital appreciation across the sector.

Risks to the achievement of our Rating and Price Objective include: 1) Integration of Rhode Island assets, 2) regulatory/political/legislative changes, 3) capital markets, 4) ability to earn at or above the regulatory allowed return on equity, 5) cost control, 6) capital expenditures forecasts, 7) natural disasters/weather, 8) equity issuance/repurchase plans, and 9) corporate taxes.

Public Service Enterprise Group (PEG)
Our $69 PO is derived from our SOTP valuation. For the regulated utilities we utilize the electric (18.3x) and gas (17.6x) 2024E sector P/E multiples, which we then gross-up by 5% to reflect capital appreciation across the sector. We continue to apply a company-specific +1x premium to the group multiples thus derived to reflect the above-average growth and low-risk transmission & distribution (T&D) nature of PEG's operations.

Positive or negative risks to achievement of the Price Objective and Rating are: 1) regulatory/political/legislative outcomes, 2) changes in capital expenditures relative to forecasts, 3) nuclear incidents and natural disasters, 4) equity and capital markets needs, cost and timing adjustments for offshore wind developments, 5) ability to earn the regulated rate of return, and 6) interest rates.

Sempra Energy (SRE)
Our $160 PO is based on a sum of the parts valuation of 2024E earnings. The US utilities are valued using the electric (15.4x) and gas (14.9x) average P/E that we grossed-up +5% to account for sector growth. We apply a -2x discounted valuation to the California gas utility (SoCal Gas) for concerns about long-term use of natural gas. We apply a -1x discounted valuation to the California electric utility (SDG&E) to reflect the wildfire risk exposure. We apply a +2x premium to the TX utility (Oncor) for above average growth and high visibility into rider recovery. The Infrastructure segment (SIP) is valued at 12x EV/EBITDA, an implied premium to the Mexican market (5.5x) and select premium US midstream comparable (Williams and TC Energy at approximately 11x) on EV/EBITDA due to its long duration contracted cash flows. The parent drag is treated on a balanced blend of P/E and HoldCo debt and cash netting.

Risks to achievement to estimates and Price Objective include: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity

needs, 5) earned returns and operating costs, 6) LNG development, 7) ability to deploy capital, and 8) environmental, social, & governance [ESG] profile.

Southern Company (SO)
Our $63 PO is derived from a sum-of-the-parts analysis (SOTP). We use a P/E valuation approach on 2024 and use peer multiples of 15.4x for electric and 14.9x for gas, respectively (with dis/prem applied per asset depending on growth/risk): we then gross up these multiples by +5% to account for sector wide EPS growth to derive a 12-month forward PO. We subtract 50% of the 2024 parent interest expense multiple by an electric P/E peer multiple to reflect parent lev supporting the utilities. We net out total parent drag and add back the remaining parent interest expense with a 50% weighting.

Upside and downside risks are 1) Vogtle construction timing and costs, 2) regulatory and legislative outcomes, 3) ability to earn the allowed rate of return, 4) changes to the capital expenditure forecast, 5) nuclear incidents, weather, and natural disasters, 6) rate of customer growth, 7) O&M trends, 8) interest rates, 9) environmental policies and regulations.

Southwest Gas Holdings (SWX)
Our $87 PO is based on our 2024E Sum-of-the-parts (SOTP) analysis. We apply a 16.6x our 24E peer Gas LDC utility P/E to the utility EPS across the company's three major jurisdictions, which include Arizona, Nevada and California. We gross this peer multiple up by 5% to reflect capital appreciation across the sector.

For all of the utilities, we apply a 3x discount on Arizona and a 2x discount on California and Nevada. Additionally, we value the FERC regulated MountainWest and Great Basin Pipeline separately on a midstream peer group average FY24E EV/EBITDA multiple of 9.2x and net out associated debt. We apply a 1x discount on MountainWest to reflect lower growth opportunities vs peers. For the infrastructure services segment, we apply 8.8x FY24E EV/EBITDA multiple (based on peer consensus multiples), which is a 0.5x premium to the business' closest industrial comps given higher margins and a more stable customer base. Lastly, for parent debt in the Corp & Other segment, we net out 50/50 weighting for re-capitalization and add back 50% of parent interest expense.

Risks to achieving the Price Objective are 1) M&A, 2) activist shareholders, 3) infrastructure services performance, 4) construction margins, 5) regulatory outcomes, 6) ability to earn regulatory rates of return, 7) capital markets access, 8) rating agency actions.

Vistra Energy (VST)
Our $30 price objective is based on a 2024E SOTP valuation. We assign a discount/premium to the peer group EV/FCF multiple of 7.0x for each fuel within each geography, depending on our specific views for the asset type and market: We include the full $275mn of margin-enhancing initiatives as well as $200mn optimization benefits and the $275mn of synergies related to the DYN acquisition. We further capitalize our estimated income tax for the combined entity to reflect the higher tax burden than peers, and we include a $50mn NPV of TRA payments. We reflect Vistra Zero accretion at 12x EV/EBITDA, with '26 FCF discounted at 12% back to '23. We also reflect $500mn of ERCOT securitization proceeds (implied in net debt balance). Our average implied 24E EV/FCF multiple for the overall business is 4.8x based on our latest Mtm of commodities. We include impact from future bill credits from Uri storm & NPV of ERCOT uplifts, exclude Koch litigation.

Downside risks: 1) declining wholesale power & capacity prices, 2) competitive & regulatory change to retail businesses, principally in Texas, 3) operational issues pertaining to running power assets including Nuclear asset in Texas.

Upside risks: 1) VST may improve its retail margins and retain customers, 2) VST may beat its margin enhancements initiatives, 3) VST may see a decrease in the price of key inputs such as natural gas and coal, and 4) VST may see an increase in wholesale power prices.

WEC Energy Group Inc (WEC)
Our $90 PO is based on 2024E SoTP, with a large cap electric group multiple of 15.1x and gas regulated multiple of 14.6x. Electric and gas peer P/E multiples are grossed up for a year to reflect capital appreciation across the sector. We apply a 3.0x premium to WEC's WI electric & gas subs for surety in earnings growth for the next two years following the Commission's recent settlement on above avg ROEs of 10%+. We apply a 3.0x premium to the gas utilities, except IL's Peoples Gas which is 2.0x, and North Shore Gas with the Gas System Modernization Program (GSMP) and capex forecasts de-risked following the ICC order. We ascribe a 4x premium vs. the group at ATC to account for steady earnings growth as well as above avg Federal ROE's. We give Power the Future (PTF) a 3.0x P/E premium as the ROE is set indefinitely on historical and new investments. We ascribe an in line multiple for the parent accounting for the interest expense which finances overall utility operations. We value Energy Infrastructure on a net present value basis using a WACC of 5.6%, in line with other renewable assets. We net out 50% of HoldCo debt from equity valuation and adjust to add back the parent drag on interest exp.

Risks to our PO are positive or negative changes in: 1) earned regulatory returns, 2) capital expenditures, 3) regulatory/political/legislative changes, 4) interest rates, 5) natural disasters, and 6) execution on unregulated projects.

Xcel Energy Inc (XEL)
Our PO is $69. We value Xcel Energy using a sum of the parts (SOTP) approach. Given the difference in geography, earnings strength, growth opportunity and risk profile, we divide the segments by subsidiary. We use 2024E forward P/E multiple of 15.5x to derive a value for the different business segments, including the parent segment. Electric peer P/E multiple is grossed up for a year to reflect capital appreciation across the sector. We apply a 3x premium to XEL subsidiaries in MN, CO, NM, and WI as both utilities present solid or improving regulatory treatment with tangible investment upside. We see this multiple as appropriate as the company has growth opportunities, resolving regulatory drag and resolving uncertainty around rate cases. We also add a discrete item reflecting upside from potential Direct Pay legislation, estimating the equity savings from 75-100 bps improvement in credit metrics and applying a probability weight of 50% to account for uncertainty. We also net back 50% of the parent interest expense and instead subtract out 50% of parent debt to more accurately reflect HoldCo leverage.

Risks to achievement of the Price Objective are interest rate changes, regulatory risk, such as lower authorized ROEs or less favorable riders/trackers for renewables and transmission, inability to deploy capital at guided levels, adverse legislation, execution delays, and weather/natural disasters.

Analyst Certification

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

Special Disclosures

BofA Securities is currently acting as a financial advisor to Qatar Investment Authority in connection with its capital injection into RWE AG to support RWE AG's proposed acquisition of Con Edison Clean Energy Businesses Inc from Consolidated Edison Inc, which was announced on October 1, 2022.

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Dominion Energy	D	D US	Paul Zimbardo
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Exelon	EXC	EXC US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM				
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Paul Zimbardo
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith

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Important Disclosures

Equity Investment Rating Distribution: Energy Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	77	61.11%	Buy	63	81.82%
Hold	28	22.22%	Hold	21	75.00%
Sell	21	16.67%	Sell	11	52.38%

Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	77	53.47%	Buy	54	70.13%
Hold	33	22.92%	Hold	26	78.79%
Sell	34	23.61%	Sell	22	64.71%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1839	53.46%	Buy	1071	58.24%
Hold	800	23.26%	Hold	498	62.25%
Sell	801	23.28%	Sell	379	47.32%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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WEEKLY ANALYSIS

US Utilities: Week Ahead: Week 2 of 3Q EPS; NI OH Settlement; D OSW De-Risking; PCG FVT

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- **What we expect week of 10/31: NI:** The Columbia Gas of OH rate case is set for hearings Nov 1, and it appears Columbia expects a Stipulation to be filed by Nov 1 (I.e., today) which we generally view as a positive for **NI** given the OH rate case for long has been an overhang on shares. We also flag hearings on **OGE's** fuel filing is 11/3, which will be watched closely by investors given the $9.74 average increase to customer rates.
- **Key focus items for earnings this week:** The following companies are reporting earnings this week: **CNP / WEC / EIX** (11/1), **ETR** (11/2), **ES / OGE / EXC / PNW / SRE** (11/3), **DUK / EVRG / AES / AEE / D** (11/4). At **CNP** & **EIX**, we're watching commentary on interest expense headwind exposure. At **ES**, we watch for updates on the NSTAR electric GRC / OSW strategic review. At **SRE**, investors will be focused on Oncor given the pending rate case and Port Arthur given the recent EPC contract with Bechtel. At **EXC**, we're watching for improved messaging from management and confidence in the 6-8% LT EPS CAGR. At **D**, we see the update as especially timely given the recent OSW performance guarantee settlement struck with the AG and other parties into the weekend. See our 3Q 2022 Earnings Preview Slide Deck for key focus items by company.
- **Week in review:** The UTY outperformed the S&P 500 this past week, seeing a 660bp gain vs. a 400bp gain for the SPX. 10YR/30YR USTs ended the week -21bps/-20bps narrower. Large Caps (5.5%), Small Caps (5.6%), Diversified (6.1%) and LDCs (5.3%) all saw gains this past week. **Top performers:** NEE, EIX, AES, CEG, XEL, SRE, CNP, EVRG, PNW, CMS. **Bottom performers:** ATO, LNT, PCG, FE, AEP, ED, POR, AGR, PPL, SO. The last week was somewhat of a relief rally with treasuries tightening and Utilities seeing sharp underperformance through October. We flag **NEE** / **XEL** relative outperformance due to better-than-expected earnings prints; We further flag **CEG** reached a new all-time-high this past week.
- **D: OSW Performance Guarantee Settlement is Positive:** Late Friday (10/28) VEPCO, the AG, Appalachian Voices, Sierra Club & Walmart filed a second proposed stipulation and recommendation addressing the imposition of an operating performance guarantee. The settlement sets cost sharing percentages above $9.8Bn for the project including 100% customer funded at $9.8-10.3Bn, 50/50 Customers / Company at $10.3-11.3Bn and 100% Company at $11.3-13.7Bn. Shareholders essentially are funding a $2.9Bn increase in project costs if the OSW project were to exceed $13.7Bn, before D would return to the SCC for a regulatory determination (nothing prevents any party from arguing that construction costs in excess of $13.7 billion are reasonable and prudent). Recall 90% of the project costs will be fixed by 1Q23 vs. 75% today with current installed costs sitting at ~$10Bn as of 2Q22. D has underperformed significantly through the 3rd quarter due to the performance guarantee as well as the Governors VA Energy Plan. The recent settlement we're viewing positively as it addresses some of the more binary negatives to the stock (i.e. forgoing the OSW projects impact to D's financial plan). There is no statutory timeline for the docket but we expect an order by YE22.
- **PCG: CPUC announces fine for Zogg Wildfire:** On Oct. 26th the CPUC proposed fines of $155.4Mn for PCG for violations related to the '20 Zogg Wildfire. The company is currently reviewing the proposed order, and has 30 days to either agree to pay the fine upon CPUC adoption of a Final Order and complete corrective actions within 45 days of that, or to request a hearing. We would view any fine assoicated with the fire as manageable to PCG. It also represents a step forward in getting fire liability and associated payments behind the company as it invests in wildfire mitigation tactics such as increased vegetation management. PCG has until Nov. 25th to decide on next steps.
- **PPL: Transmission agreement to connect OSW in NE:** On Oct. 24th PPL and Elia Group, through their subsidiaries PPL Translink and WindGrid, announced an agreement to develop transmission to connect future New England OSW capacity to the onshore grid in the area. The two companies signed a memorandum of understanding, and plan to jointly respond to a request for information (RFI) issued by five states in the region (MA, CT, RI, ME and NH) related to transmission upgrades and changes needed to fully utilize the up to 30k MWof NE offshore capacity expected to be deployed by 2050. We view this as a positive for PPL given the increased capex opportunity presented by this project, with Elia Group having a strong track record for building-out OSW transmission across Europe. PPL has already invested over $9Bn in transmission in the US over the last decade.
- **PCG: Victims Fire Trust sells shares:** On Oct. 28th PCG's Victims Fire Trust sold 35Mn shares of PCG stock, following a sale of 35Mn shares in Oct. of this year. The Trust was put in place as a mechanism to compensate wildfire victims from incidences from 2015 to 2018. As of Oct. 28th the Trust has issued determination notices to 86% of claimants and has paid out over $5.36Bn. The selling shareholder dynamic for PCG is likely to remain absent of a wider coordinated deal with the FVT which we still see as low probability. We note at current stock price levels the risk of FVT blocks are elevated, though we note our investor dialogues on PCG have increased dramatically in the last 2 months. See our takeaway from 3Q PCG Earnings.
- **EXC: Pennsylvania PUC authorized PECO's rate increase:** On Oct. 11, ALJ recommended the PA PUC to adopt a settlement that would authorize PECO a $54.8 Mn, or 6.0%, gas rate increase. PECO initially requested an $82.1 Mn, or 9.1%, rate increase, premised upon a 10.95% ROE, 53.41% of equity layer on a $2.9 Bn rate base. An additional $7 Mn transfer to its rate base, which will be collected through PECO's DSIC, will see authorized base rate revenues to increase by $61.8 Mn, resetting the DSIC rider. The agreement called for PECO to refrain from further filing gas base rate case and a DSIC adjustment before Mar '24. The company will also accelerate its gas mapping program, revising its completion by 2032, and fund energy efficiency-related rebate programs for low-income customers. The rate outcome is consistent with our expectation and represents a larger portion of EXC's '22 rate filing execution. We look for more color regarding Delmarva's rate outcome during the 3Q call (Nov 3rd).
- **AES: IPL reached settlement with intervenors:** The unanimous settlement was reached on Oct. 25 regarding the unplanned outage of Eagle Valley CCGT that occurred between Apr '21 and Mar '22. The settlement resolved all issues related to fuel adjustment charge and all outage related costs. IPL also agreed not to recover $21 Mn of the $42 Mn in previously deferred costs and to credit an additional $7 Mn to customers in future rates. As a result, AES Indiana recorded a $27.8 Mn expense for the period ended Sep. 30th, 2022. The settlement agreement is subject to approval by the IN Utility Regulatory Commission. On regulatory execution, we are still waiting for OH (DPL) rate outcome by end of year and expect rate filing for IN (Jun '23).
- **PNW: APS filed rate case requesting $460 Mn revenue increase:** APS filed the long-waited rate case on Oct 28 and expect new rate to become effective by YE '23 (company assumes at least one year before final rate outcome). APS is filing for 10.25% ROE, 51.93% equity layer, with Jun '22 test year (including 12 months of post-Test Year plant to reflect used and useful projects that will be placed into service prior to Jul '23) and $10.5 Bn rate base. Recall APS's current rate structure that became effective Nov '21 includes punitive 8.7% ROE, 54.67% equity layer, $8.6 Bn rate base with test year ended Jun '19. We look for more color on rate filing strategy during the 3Q call (Nov 3rd) regarding cost recovery on new renewable, Palo Verde upgrades, rate affordability and potential pension offset. Overall, we're not surprised by the large increase given the adverse ruling APS experienced in 2021. The difference in equity layer is especially notable which we think could pressure wider expectations on earnings power.
- **ES: Request for Biden to declare emergency for fuel shortage in New England this winter:** ES CEO Joseph Nolan wrote a letter to President Biden on Oct 28, to start preparing emergency measures to prevent a potential wintertime natural gas shortage. FERC has warned that fuel availability in New England could be a primary concern given soaring demand in US gas globally and limited pipeline capacity in the region. ES also asked the White House to consider measurements under such emergency, including use of the Defense Production Act, and potentially waive of the Jones Act to help reduce shipping costs. We think the recent letter from management speaks to the wider pressures Northeast utilities (AGR, ED, ES) may face in fuel lines this coming winter.
- **CMS: MI retired nuclear plant faces potential restart:** Although very early-stage discussion, it is reported that Holtec was expected to decide by Jan '23 whether to reopen Michigan's Palisades plant (used to be owned by ETR) that shut down in May '22 due to economic viability reasons. We note that no US nuclear site has ever been restarted after shutting down, but flag MI governor Gretchen Whitmer's support for such initiative. To achieve the restart, sufficient labor and a new company to run this plant needs to be found, while FERC approval is also required. We continue to monitor any development on this front. Note on the CMS 3Q call mgmt. said they would be open to a new PPA, but it has to be much more competitive and more market-based than it has been historically, including a financial compensation mechanism on any PPA.
- **PEG / NEE / FE: NJBPU announced offshore transmission award:** We note that option 1A and 1B are adopted under the PJM SAA framework and approved capex opportunities are focused on onshore upgrades. FE's JCPL is the biggest winner, along with development partner MAOD, were awarded about $720 Mn capital investment to facilitate building this shared connection point for transmission from offshore to the mainland. Other utilities (EXC - $22 Mn, PEG - $40 Mn, PPL - $0.38 Mn) are also awarded for related system upgrade capex. FE see the award driving a capital investment opportunity and should start later half of the decade, which is a surprise positive. We currently don't see a regulatory agenda to move forward with offshore transmission wet award but note that the BPU order is in favor for a competitive process for generation owners to bid into the process to be eligible for ITC.

Weekly Performance (%)

Ticker	10/21/2022	10/28/2022	5 Day Change (%)
Large Cap Regulated			
AEE	77.6	82.3	6.1%
AEP	85.6	89.4	4.4%
AGR	39.4	40.9	3.8%
CMS	54.4	57.9	6.4%
D	65.5	69.4	5.9%
DTE	107.5	113.6	5.8%
DUK	88.5	94.0	6.3%
ED	84.9	88.5	4.2%
EIX	55.6	60.2	8.2%
ES	72.6	76.8	5.8%
ETR	102.3	107.7	5.3%
EVRG	58.2	62.0	6.5%
FE	36.4	38.1	4.6%
LNT	49.8	52.4	5.2%
PCG	14.5	15.3	5.2%
PNW	64.2	68.3	6.4%
PPL	25.7	26.5	3.2%
SO	64.5	66.3	2.9%
WEC	86.7	91.6	5.7%
XEL	60.9	65.4	7.3%
Average			**5.5%**

Diversified	10/21/2022	10/28/2022	
AES	24.5	26.5	8.1%
BKH	61.3	65.9	7.4%
CNP	27.0	28.8	6.7%
EXC	36.7	38.8	5.6%
MDU	28.6	28.7	0.2%
NEE	71.7	79.0	10.3%
OGE	35.0	36.9	5.5%
OTTR	64.6	68.7	6.3%
PEG	54.3	57.4	5.8%
SRE	142.3	152.4	7.1%
Average			**6.1%**

Utes Sector Performance	% Chg
Large Cap Regulated	5.5%
Diversified	6.1%
Small Cap	5.6%
LDC	5.3%
UTY	6.6%
SPX	4.0%

LDC	10/21/2022	10/28/2022	
SJI	34.4	34.9	1.5%
OGS	73.1	77.2	5.6%
NJR	42.1	45.3	7.6%
NI	24.5	25.9	5.7%
ATO	101.7	107.1	5.3%
SR	65.4	69.7	6.6%
SWX	70.4	73.9	5.0%
Average			**5.3%**

Small Cap	10/21/2022	10/28/2022	
ALE	52.3	57.1	9.1%
AVA	38.9	41.1	5.6%
BKH	61.3	65.9	7.4%
HE	35.9	37.9	5.4%
IDA	97.3	104.2	7.1%
NWE	52.2	53.4	2.4%
OTTR	64.6	68.7	6.3%
PNM	46.1	46.3	0.6%
POR	43.8	45.5	3.8%
UTL	49.0	53.3	8.7%
Average			**5.6%**

IPPs	10/21/2022	10/28/2022	
CEG	87.3	93.8	7.4%
NRG	42.4	44.7	5.5%
VST	21.8	23.0	5.7%
Average			**6.2%**

Rates	BPS
US GOV 10YR	(0.21)
US GOV 30YR	(0.20)

Top / Bottom Performers	
NEE	10.3%
EIX	8.2%
AES	8.1%
CEG	7.4%
XEL	7.3%
SRE	7.1%
CNP	6.7%
EVRG	6.5%
PNW	6.4%
CMS	6.4%
ATO	5.3%
LNT	5.2%
PCG	5.2%
FE	4.6%
AEP	4.4%
ED	4.2%
POR	3.8%
AGR	3.8%
PPL	3.2%
SO	2.9%

Source: Bloomberg

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Research Bulletin

US Utilities: NI Settlement in OH; ETR 3Q First Look; AEP CFO

ETR initial look slight pos on IRA credit update; NI Settlement De-risks OH

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- We provide a brief update on the NI settlement, ETR quarter, and AEP CFO announcement

- **NI: Settlement filed in OH for Columbia Gas rate case:** On Oct 31st parties in NI's OH rate case filed a settlement with a $3.5 Bn rate base, 9.6% ROE and 50.6% equity layer. Recall staff recommended $3.5 Bn rate base, 9.55% ROE and 50.6% equity, while the company originally asked for 10.95% ROE with similar equity layer and rate base. We notice that the large rev req difference between company asked ($220 Mn) vs. settlement ($68 Mn), is driven partially by the different view on current operating income (company view of $104 Mn vs. settlement's $194 Mn). We also note potential for a rate design change could be a driver for the diff as well, i.e. moving more recovery on to trackers and deferrals in the future. This rate case has been an overhang for shares since filed back in Jun '21. We have been modelling slightly higher equity layer (52%) and underearning (9.6%/9.3%, '22/'23 respectively) so we still see the outcome as overall in-line with our expectations, positively removing an overhang. Hearings are in ~two weeks and we're expecting new rates to be implemented in a timely manner. We believe the settlement is still within management's expectations for 2023 at the implied midpoint fir the current guidance plan (5-7% off $1.37 in 2021A). Recall mgmt is subject to update investors this coming Monday at the Analyst Day where we expect a 6-8% long term EPS CAGR. Overall, we view the settlement as positive for NI.

- **ETR (Small Pos):** ETR narrowed the 2022 EPS guidance range to $6.35 (CSe $6.25, Cons $6.38), and posted 3Q EPS of $2.84 vs. Cons $2.65 / CSe $2.60. The beat reflects higher weather driven sales volumes (+10c impact) partially offset by O&M, D&A and interest expense. ETR utilized flex spending in the quarter which helps de-risk FY23. ETR updated investors on balance sheet and credit impact from IRA in the slides, noting a neutral to slightly positive expectation to cash and credit. Slides note ETR does not expect to be subject to the CAMT until 2026. Solar PTC could also increase utility owned project potential where we're looking for more updates on ETR's refreshed capital plan coming at EEI. ETR further de-risked equity needs through 2024 with only $130Mn remaining to be sourced. Long term guidance metrics including the 6-8% LT EPS CAGR and guidance ranges for 2023-2025 were all reaffirmed. Overall, we view the update as slightly positive.

- **AEP CFO Update (Neutral):** AEP named Ann Kelly EVP and CFO: Kelly is currently VP of finance and CFO for AmeriGas Propane, a UGI subsidiary. The appointment is effective Nov 30th. Current CFO Julie Sloat will become CEO Jan 1st, '23. This largely addresses the leadership transition plan as current CEO Nick Akin is retiring by year end and Sloat will move out of the CFO seat. Kelly is not new to the industry with experience at UGI utilities, as well as EXC (PECO, GenCo). Overall, we see the update as Neutral to AEP.

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Valuation Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for AEP Inc (AEP.OQ)

Method: We value AEP using an SOTP methodology and our target price is $87. We apply the electric group's 16.4x P/E multiple to all subsidiaries while applying a 15% and 5% multiple premium to AEP TransCo and AEP Texas, reflecting formulaic/timely recovery in FERC jurisdictions and the relative constructive regulatory environment in Texas. For the unregulated power generation business, we apply a -15% discount given there's less earnings visibility and AEP is transitioning to a more regulated growth strategy. We currently have zero EPS contribution from Kentucky Power under a base-case assumption of a timely close of its sales transaction. We rate AEP Outperform as we expect the stock's total return to outperform peers over the next 12 months.

Risk: Risks to our Outperform rating and $87 target price include: (1) any non-constructive regulatory decision for renewable capital spending recovery; (2) untimely execution of the Kentucky sale or unfavorable valuation applied to contracted renewable sales; (3) aggressive coal retirement programs could increase stranded asset risk given AEP's vision to retire an additional 5GW of coal generation by 2028.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Entergy Corporation (ETR.N)

Method: Our target price Is $108: We value ETR on a P/E approach using the 2024E multiple of 14.9x on our 2024E EPS. This reflects a -3% discount to the electric utility peer multiple of 15.4x. We think ETR offers in above-average jurisdictions for growth, but ongoing hurricane costs can stress ETR's balance sheet. We see the currently constructive regulatory environment in ETR's service territories partially offsetting this negative. We do not ascribe any value to the stock for potential upside capex, or potential value accretive events such as an NCI sale. Overall, we still see ETR as attractive on this base-case discount approach. We rate ETR Outperform as we expect the stock's total return to outperform peers over the next 12 months.

Risk: Risks to achieving our Outperform rating and $108 target price include: Failure to obtain constructive outcomes in regulatory proceedings, failure to execute on the company's proposed securitizations, natural disasters, labor/inflationary pressures above management's current O&M trajectory. Climate change is a risk to the extent federal or state legislatures implement more restrictions on GHG emissions than expected, or if there are increased hurricanes in the Gulf Coast this season. A worse-than-contemplated hurricane season could inhibit ETR from reaching our target price.

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

Method: We value NI on a P/E approach that yields a $27 target price. Our base-case multiple of 16.1x is derived by taking the regulated electric and regulated gas group multiples and applying a weighted-average approach based on NI's rate base mix. We apply a 5% premium to this number to account for: (1) numerous tracking mechanisms in place to realize real-time return on capital; (2) new management, which is taking a refreshed view of the company's operating segments and pushing forward with a strategic review with the goal of creating value; and (3) potential upside to capex that isn't contemplated in our current EPS estimates. Our target price implied P/E multiple is in line to electrics and a premium to gas LDCs. We rate NI Neutral as we expect the stock's total return to be in line with peers over the next 12 months.

Risk: Risks to our Neutral rating and $27 target price include: Increased inflation above NI's cost-control ability, as well as headwinds delaying solar development via supply chain issues. Gas is a combustible molecule, and NI has a history of two separate high-profile explosions in the last 10 years, which could negatively affect the share price. Management also discussed buying and selling assets as part of its new strategy, and we think buying assets could weigh on NI's multiple. Climate change and increased scrutiny on GhG emissions is also a risk given ~70% of NI's rate base is coming from the gas distribution utility.

Companies Mentioned *(Price as of 01-Nov-2022)*

AEP Inc (AEP.OQ, $88.53)

Entergy Corporation (ETR.N, $108.32, OUTPERFORM, TP $108.0)

NiSource (NI.N, $25.83, NEUTRAL, TP $27.0)

Disclosure Appendix

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I, Nicholas Campanella, 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.

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3-Year Price and Rating History for AEP Inc (AEP.OQ)

AEP.OQ Date	Closing Price (US$)	Target Price (US$)	Rating
25-Apr-22	100.50	113.00	O *
18-Jul-22	93.37	103.00	
27-Jul-22	96.29	105.00	
07-Oct-22	82.99	95.00	
17-Oct-22	85.05	87.00	



** Asterisk signifies initiation or assumption of coverage.*

3-Year Price and Rating History for Entergy Corporation (ETR.N)

ETR.N Date	Closing Price (US$)	Target Price (US$)	Rating
25-Apr-22	122.24	136.00	O *
21-Jun-22	104.70	114.00	
18-Jul-22	109.27	124.00	
12-Sep-22	122.04	134.00	
12-Oct-22	96.58	108.00	



** Asterisk signifies initiation or assumption of coverage.*

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

NI.N Date	Closing Price (US$)	Target Price (US$)	Rating
01-Nov-19	27.65	29.00	N
17-Jan-20	29.04	30.00	
28-Feb-20	27.02	31.00	O
05-May-20	24.53	27.00	
20-Jul-20	23.75	26.00	
03-Nov-20	24.03	28.00	
13-Apr-21	24.51		R
14-Apr-21	24.51	28.00	O
16-Apr-21	25.62	29.00	
13-Jul-21	24.97		NC
25-Apr-22	30.58	32.00	N *
04-May-22	29.67	31.00	
18-Jul-22	28.39	30.00	
24-Oct-22	24.67	27.00	



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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

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This research report is authored by:

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From: Campanella, Nick
To: Weisenburger \ Michael \ V
Subject: NI: AD: Extending Premium Growth Path to '27; Upgrading to Outperform
Date: Wednesday, November 9, 2022 4:07:14 AM
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UPGRADE RATING

NI: AD: Extending Premium Growth Path to '27; Upgrading to Outperform

NOVEMBER 9, 2022
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We are upgrading NI to Outperform post the AD which we see as a de-risking catalyst for shares, removing uncertainties surrounding the strategic review, with a clearer path on asset sale and ultimately LT EPS growth rate execution. While NI's EPS and RAB growth rate are slightly lower than the prior plan, we view the renewed EPS growth rate (6-8% annual growth), 8-10% RAB growth, pair with projected BBB+ credit rating with 14-16% FFO/debt, as a reasonable proposal to get NI back to a premium utility multiple over time. NI has an inflation adjusted outlook extended through from '24 to '27 with a top quartile EPS growth trajectory that we view as more sustainable with more certainty than before. NI announced a minority sale of NIPSCO (up to 19.9%) to help cure balance sheet weakness, which we also view positively. This addresses block equity needs in the plan with only a limited ATM program assumed. Shares underperformed 369bps relative to XLU on the AD and are ~15% off relative YTD highs, which we see creating a favorable entry point as this transformation appears undervalued.

- **Moving forward to become a premium utility:** NI provided '23 guidance with a range of $1.50 - 1.57, consistent with previous 5-7% annual growth commitment. Mgmt. is shifting to YoY growth as opposed to CAGR when guiding EPS growth, providing similar midpoint for each year within the guidance horizon, while narrowing the upside/downside corridor in the near years. We acknowledge execution will be needed for NI to re-rate closer to premium utilities, but the plan appears quite achievable to us as we think NI's plan is conservative with CSe at the high end of the LT growth rate in '25 (CSe $1.85). NI's proposed top quartile EPS growth rate, de-risked RAB growth path, catalyst towards better quality balance sheet through NIPSCO transaction, along with current valuation dynamic (~10%/ 6% P/E discount to electrics/ gas, based on '25 EPS) warrants the OP.
- **Valuation, EPS Ests & Risks:** $27 TP is unchanged, reflecting similar peer group multiple compared to previous. Our 5% multiple premium assigned to NI remains in place, reflecting constructive cost recovery. EPS is revised for -3c/sh on '24 to $1.65, driven by higher capex offset by EPS dilution from NIPSCO sale. Risks: strategy execution, inflation, regulatory risk.
- **EPS LT growth rate update:** We noted prior to the AD, it was likely that company would target at least 6-8% EPS CAGR. Mgmt. guided down growth during AD, from previously 7-9% CAGR ('21-'24), to 6-8% annual growth rate ('21-'27), both based off '21 midpoint. Mgmt. indicated that customer affordability is front and center, and 6-8% seems like a more sustainable LT growth plan given higher interest rate and commodities price. We tend to agree with this seeing the plan as executable at the 7-9% EPS CAGR, but it unlikely the stock will trade much differently given 6-8% is already top quartile. What comes with the lower EPS growth rate is lower RAB growth, cut from 10-12% to 8-10%. NI's new guidance is a YoY approach, which is causing consensus to recalibrate slightly. However, we believe NI could be below the 7% midpoint in '24 while being above in '25 given dynamics of the NIPSCO renewable additions. Nonetheless we see this plan as highly achievable.
- **Capital plan update:** Mgmt. believes the generation investment that backs the previously guided 7-9% EPS CAGR is still in place, providing runway to hit the bottom of the 7-9% range, which can be applied to the new 6-8% and potentially putting earning at the high end of the updated range. Additionally, this acts as a counter to lost earning due to NIPSCO sale. Previous $10.1 Bn capital plan from '21-'24 is now extended to $15 Bn identified for '23-'27. Over the next decade, we can expect about $30 Bn investment opportunities at NI. Specifically, about $2.2 Bn is focusing on renewable generation through '25 (2 projects in service, 2/2 projects in service by 1H23/24, and two projects under negotiation), with additional $1 Bn in capacity focused capital expenditures. Our assumption on constructive recovery mechanisms in place remains the same.
- **Minority stake sale at NIPSCO to strengthen balance sheet:** Mgmt. thinks it's critical to strengthen the balance sheet given it's been historically drag to EPS, and the benefit from minor earning's dilution from minority sales outweighs dilution; we tend to agree. At current trading levels, we see asset sales as materially more accretive than issuing common equity, especially as NI trades close to 1.1x Rate Base on outyear metrics. With 19.9% minority sale proceeds of about $2.1 Bn in place, mgmt. sees no equity issuance until '25 and only ATM to maintain capital structure through '27. Redemption of $900 Mn of preferred equity is also baked into the current plan. We see NIPSCO contributing about 47% of operating earnings (37% from electric and 10% from gas), which equals to about '24 CSe EPS of $0.81, with implied ~27x P/E of for the minority sale. Some investors expressed disappointing surrounding the NIPSCO sale vs. LDC sales given NIPSCO is a high growth asset. We stress this is relatively in-line with rhetoric of late on gas LDC sale appetite which we believe is wanning. We believe there will be relatively high demand for the NIPSCO minority stake with a playbook already in place at the Indiana regulator to execute such a transaction.
- **Forecasting flat O&M amidst commodities inflation**: The company forecasts less than 3% annual average customer bill impact, partially due to O&M cost reduction initiative, which is supposed to keep O&M flat over the forecasting period ('22-'27). Mgmt is leaning on synergies from operations across six states and accelerating NINext, and operational excellence opportunities. To quantify the cost saving, it should be around $40-50 Mn per year, as guided by mgmt. and its already part of the forecast. Mgmt. also sees current NI's 3rd/4th quartile O&M efficiency could be moved up to 2nd/1st over the 5yr period. On commodities exposure, we note that company budgeted for $4.5-5.5/mmbtu gas price running forecast and any additional rise in gas price will need to be addressed.
- **Considerations of different scenarios going through portfolio optimization:** Mgmt. indicated they have explored numerous scenarios and every option on the table and decided it's better to have scale and not lose synergies they already possess. Although NIPSCO is the largest earning's driver for NI, mgmt. believes moving a multi-jurisdiction transaction across finish line would create higher regulatory risk, while benefit on balance sheet would be similar to minority sale of NIPSCO. In terms of selling the company outright, mgmt. doesn't think any offer would recognize the value of the company properly, thus didn't act on it. Another consideration is it's more tax efficient to run 19.9% minority sales process, compared to other asset targets or transaction percentages. Investors have raised question on why not sell LDC – we see DUK's DEI sale to GIC as a playbook, selling 19.9% at 1.5 EV/RAB and implied ~30x P/E.
- **Credit profile enhancement**: Mgmt. is now expecting 14-16% FFO/debt range post, pointing to high end post NIPSCO transaction. Recall previous target was 14-15% and S&P currently forecasts 13-14% throughout its outlook period.
- **Activist Angle**: While there have been several vocal activists on shares calling for a take-private and other value creative strategies for NI, we do see the recent analyst day clearing consensus on the range of outcomes surrounding the strategic review. We believe activist involvement likely remains as management executes on the plan; but this is not necessarily negative for the stock, rather provides a floor for further execution on the new 6-8% EPS CAGR.

Fundamental Dashboard

Company	NiSource
RIC	NI.N
Rating	**OUTPERFORM**
Price (November 8, 2022, USD)	24.93
Target Price (USD)	27.00

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NI Dashboard								
Nicholas Campanella +1 212 325 7505	**2019A**	**2020A**	**2021A**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
Consolidated EPS	**$1.32**	**$1.32**	**$1.37**	**$1.43**	**$1.53**	**$1.66**	**$1.84**	**$2.00**
Prior EPS			**$1.37**	**$1.43**	**$1.53**	**$1.68**	**$1.88**	**$2.05**
Change (%)			0.0%	-0.3%	0.1%	-1.4%	-1.6%	-2.4%
Consensus EPS				**$1.45**	**$1.55**	**$1.71**	**$1.86**	**$2.03**
Delta (%)				-1.2%	-1.3%	-3.3%	-0.6%	-1.5%
Shares Outstanding		384	417	444	464	489	491	493
DPS			$0.83	$0.94	$1.01	$1.08	$1.15	$1.23
DPS Growth (%)				13.63%	7.00%	7.00%	7.00%	7.00%
DPS Payout (%)				65.7%	65.9%	64.9%	62.4%	61.6%
Valuation Metrics					27	303		
P/E		18.9x	18.2x	17.4x	16.3x	15.0x	13.5x	12.5x
EV/RAB		1.4x	1.3x	1.3x	1.2x	1.2x	1.1x	1.1x
FFO		1,353	1,478	1,558	1,710	1,889	2,060	2,215
Net Debt		9,621	9,707	10,536	11,145	10,473	11,768	12,950
FFO/Debt (%)		14.1%	15.2%	14.8%	15.3%	18.0%	17.5%	17.1%
EBITDA		1,277	1,755	2,169	2,393	2,764	3,016	3,240
Net Debt		9,621	9,707	10,536	11,145	10,473	11,768	12,950
Net Debt / EBITDA		7.5x	5.5x	4.9x	4.7x	3.8x	3.9x	4.0x
Holdco Debt / Total Debt		33.8%	34.4%	34.0%	33.1%	33.4%	34.9%	35.0%
Consolidated Equity Layer (%)		37.5%	42.6%	42.5%	44.2%	44.2%	43.9%	44.1%
EPS Estimates By Sub								
Gas Distributions	$0.93	$0.05	$0.77	$1.21	$1.27	$1.42	$1.58	$1.68
Electric Operations	$0.58	$0.47	$0.50	$0.50	$0.54	$0.51	$0.56	$0.63
Parent	($0.19)	$0.80	$0.10	($0.28)	($0.28)	($0.28)	($0.30)	($0.31)
Consolidated	**$1.32**	**$1.32**	**$1.37**	**$1.43**	**$1.53**	**$1.66**	**$1.84**	**$2.00**
Guidance						**1.63-1.73**	**1.73-1.86**	**1.83-2.01**
Midpoint (6-8% annual growth starting '24)					**$1.54**	**$1.68**	**$1.80**	**$1.92**
Rate Base Metrics (YE)								
Gas Distribution	9,226	8,850	10,021	11,504	12,910	14,268	15,576	16,837
Electric Operations	4,700	4,800	5,200	5,382	5,662	5,099	6,245	6,902
Total Rate Base	**13,926**	**13,650**	**15,221**	**16,886**	**18,572**	**19,367**	**21,821**	**23,739**
Guidance YE			**14,900**					
		Grow @ 9%	**14,900**	**16,241**	**17,703**	**19,296**	**21,033**	**22,925**
CSe RAB CAGR off 2021				**13.3%**	**11.6%**	**9.1%**	**10.0%**	**9.8%**

Source: Bloomberg, CSe, Company Reports

Date of Production 09-Nov-2022 03:18:47 AM UTC Date of Dissemination: 09-Nov-2022 09:03:07 AM UTC

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From: Campanella, Nick
To: Weisenburger \ Michael \ V
Subject: NiSource (NI.N) : NI AD: 6-8% EPS growth "21-"27; Minority sale of NIPSCO announced; no equity until at least "25
Date: Monday, November 7, 2022 7:12:10 AM

USE CAUTION: This email was sent from an external source. Think before you click links or open attachments. If suspicious, please forward to security@nisource.com for review.

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OUR TAKE ON BREAKING NEWS

NiSource (NI.N)

NI AD: 6-8% EPS growth '21-'27; Minority sale of NIPSCO announced; no equity until at least '25

Our Take: Slight positive given wanning expectations into AD; $15Bn CapEx plan thru '27; LT EPS guide brackets consensus, midpoint inline w/CSe $1.68 in '24E. '23 Guidance $1.50-1.57 vs. BBG $1.55 / CSe $1.53

Date of Production: 07-Nov-2022 12:07:53 PM UTC Date of Dissemination: 07-Nov-2022 12:08:36 PM UTC

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EVERCORE ISI

Energy | Power & Utilities

October 23, 2022

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Gearing Up For Earnings Next Week

Utilities underperformed this past week. Regulated utilities under our coverage moved +2.3% higher, underperforming the S&P500 which was up +4.7%. Diversifieds finished 1.9% higher on the week, while IPPs were up +4.1%. In terms of specific stocks, CEG was the best performer, up +7.4%, while NEE was the worst within our coverage, down -0.2%. The group is now trading in line with the 15-year average multiple of 17x (NTM) and 24% below the 12-month pre-COVID recession levels (pg. 8). NTM P/E relative to S&P 500 is also now near the historical average and 14% below the 12-month pre-COVID recession levels (pg.9). Versus Bond Yields, group valuation remains elevated near 08/09 pre-recession peak (pg.10). Recession and geopolitical risks have increased the appeal for defensive characteristics of the group vs the market as evidenced by material outperformance YTD (pg. 2). As we have stated in our Recession read-through for Utilities deep dive note published in late March **here** (Utes/S&P500 -15%/-19% since Mar. 30th), we continue to see limited upside absolutely but expect the group to outperform **relatively** in the near term. Strong balance sheets supporting a ~4% dividend yield on average along with near term earnings predictability bode well for utilities stocks relative to the market as investors debate the odds of a recession.

Stock Selection. We prefer value over quality: AEP (top pick), D, ETR, FE, EXC, NI, PPL and SRE are Outperform-rated names within the regulated value bucket. Within diversified names, we view AES (top pick) as best risk/reward and are Outperform-rated on PEG. We are also Outperform-rated on AEE, CNP, DTE and XEL within quality.

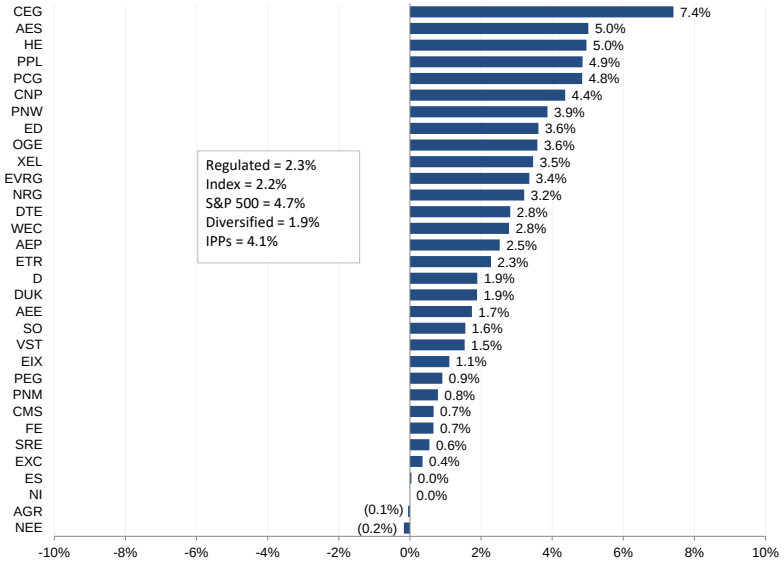
Weekly Feature: Q3 Preview – We expect roughly half of companies to meet or exceed consensus third quarter 2022 estimates, more importantly most should reaffirm FY 2022 EPS projections. Based on National Oceanic and Atmospheric Administration (NOAA) cooling degree day data, the weather in 3Q22 drove 2% higher degree days versus last year and 18% above normal, on average across the US. With favorable weather as a tailwind, we expect companies to continue to address rising interest costs, inflation concerns, supply chain constraints and how they are mitigating risks to costs and the timeline of large projects. In our preview note, we show parent/total, 2022-2023 debt maturities, and fixed/variable debt by company to help directionally gauge sensitivity to rising rates. Pension expense is a likely headwind for the majority of companies next year with most material implications for FE, PEG and PNW in our coverage universe. Based on our dialogue with company executives, customer bill increases going into winter months could range anywhere between high single digits to 30% driven by higher fuel costs, with gas utilities expected to be closer to the high end of that range. We see DTE, EVRG, OGE and SRE strongly positioned to deliver vs FY 22 expectations and/or de-risk '23. On the flip side we could see DUK and PEG pointing to lower half of the 2022 EPS guidance range.

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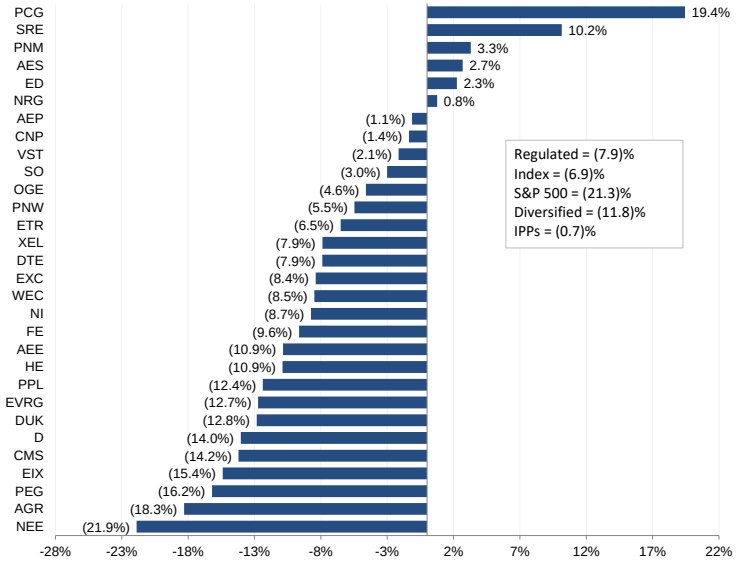
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Exhibit 1: Coverage Group Total Return Performance

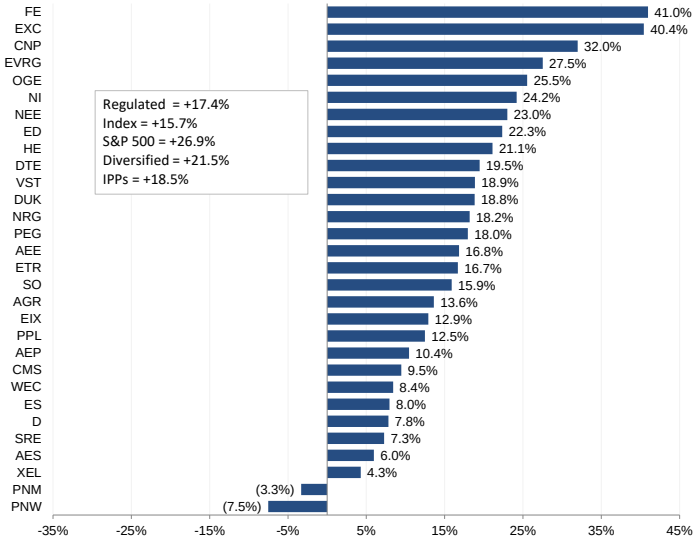
Prior Week



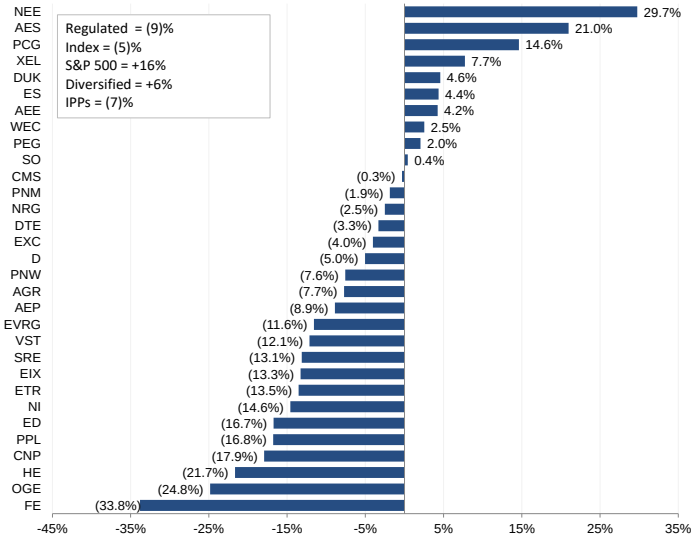
2022 YTD



2021



2020



Source: Evercore ISI, FactSet

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Weekly Feature: Q3 Estimates vs. Consensus and Positioning for Quarter

- **Q3 Preview – We expect roughly half of companies to meet or exceed consensus third quarter 2022 estimates, more importantly most should reaffirm FY 2022 EPS projections.** Based on National Oceanic and Atmospheric Administration (NOAA) cooling degree day data, the weather in 3Q22 drove 2% higher degree days versus last year and 18% above normal, on average across the US. With favorable weather as a tailwind, we expect companies to continue to address rising interest costs, inflation concerns, supply chain constraints and how they are mitigating risks to costs and the timeline of large projects. In our preview note, we show parent/total, 2022-2023 debt maturities, and fixed/variable debt by company to help directionally gauge sensitivity to rising rates. Pension expense is a likely headwind for majority of the companies next year with most material implications for FE, PEG and PNW in our coverage universe. Based on our dialogue with company executives, customer bill increases going into winter months could range anywhere between high single digits to 30% driven by higher fuel costs, with gas utilities expected to be closer to the high end of that range. We see DTE, EVRG, OGE and SRE strongly positioned to deliver vs FY 22 expectations and/or de-risk '23. On the flip side we could see DUK and PEG pointing to lower half of the 2022 EPS guidance range.

Q3'22 EPS Estimates vs. Consensus

Ticker	Evercore ISI	Consensus	% Diff	Positioning for Q3	
AES	0.54	0.52	3.9%	Neutral	
AEE	1.73	1.74	-0.4%	Neutral	
AEP	1.57	1.54	1.9%	Neutral	
CMS	0.51	0.66	-22.4%	Neutral	
CNP	0.32	0.32	-0.5%	Neutral	
D	1.06	1.11	-4.7%	Neutral	
DTE	1.57	1.70	-7.7%	Positive	✓
DUK	1.75	1.88	-6.8%	Cautious	✓
ED	1.50	1.46	2.9%	Neutral	
EIX	1.35	1.63	-17.1%	Neutral	
ES	1.04	1.08	-3.8%	Neutral	
ETR	2.65	2.65	0.1%	Neutral	
EVRG	1.95	1.85	5.4%	Positive	✓
EXC	0.70	0.69	0.9%	Neutral	
FE	0.82	0.78	5.4%	Neutral	
HE	0.51	0.52	-2.5%	Neutral	
NEE	0.82	0.79	3.8%	Neutral	
NI	0.09	0.12	-27.8%	Neutral	
OGE	1.23	1.10	11.9%	Neutral	
PEG	0.79	0.81	-2.9%	Cautious	✓
PNW	2.57	2.52	1.8%	Neutral	
PPL	0.45	0.43	4.4%	Neutral	
SO	1.32	1.33	-0.7%	Neutral	
SRE	1.80	1.78	1.2%	Positive	✓
WEC	0.85	0.87	-2.4%	Neutral	
XEL	1.19	1.25	-4.8%	Neutral	
Average			**-2.4%**		

Q3'22 EBITDA Estimates vs. Consensus ($mm)

Ticker	Evercore ISI	Consensus	% Diff	Positioning for Q3
CEG	600	601	-0.2%	Neutral
NRG	410	623	-34.2%	Neutral
VST	1050	1237	-15.1%	Neutral
Average			**-16.5%**	

Source: FactSet, Evercore ISI Research

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Regulated Utility Valuation Goes To ~15.4x '24 EPS

Regulated Utilities

Ticker	Company Name	10/21/22 Price	ISI Rating	Shares Out	Market Cap	2022 Div Yld	2022 Payout	ISI EPS Estimate 2022	ISI EPS Estimate 2023	ISI EPS Estimate 2024	P/E Multiple 2022	P/E Multiple 2023	P/E Multiple 2024	Price to Book	Prem. to Group
WEC	WEC Energy Group	$86.65	In Line	316	27,407	3.4%	66%	4.38	4.55	4.91	19.8x	19.0x	**17.7x**	2.3x	15%
ED	Consolidated Edison Inc	$84.87	Underperform	363	30,807	3.7%	70%	4.50	4.75	5.00	18.9x	17.9x	**17.0x**	1.4x	10%
XEL	Xcel Energy Inc	$60.90	Outperform	534	32,536	3.2%	61%	3.19	3.39	3.60	19.1x	18.0x	**16.9x**	1.9x	10%
CNP	CenterPoint Energy Inc	$27.01	Outperform	611	16,495	2.3%	45%	1.38	1.49	1.61	19.6x	18.1x	**16.7x**	2.1x	9%
AEE	Ameren Corp	$77.58	Outperform	266	20,651	3.0%	57%	4.05	4.35	4.65	19.2x	17.8x	**16.7x**	1.8x	8%
DTE	DTE Energy Co	$107.45	Outperform	205	21,992	3.3%	59%	6.00	6.23	6.53	17.9x	17.2x	**16.5x**	2.0x	7%
CMS	CMS Energy Corp	$54.43	In Line	291	15,833	3.4%	65%	2.86	3.14	3.34	19.0x	17.3x	**16.3x**	2.4x	6%
OGE	OGE Energy Corp	$34.97	In Line	200	7,008	4.8%	73%	2.32	2.18	2.16	15.1x	16.0x	**16.2x**	1.8x	5%
ES	Eversource Energy	$72.59	In Line	351	25,459	3.5%	62%	4.12	4.35	4.60	17.6x	16.7x	**15.8x**	1.5x	2%
SO	Southern Company Inc	$64.50	In Line	1,095	70,612	4.2%	76%	3.55	3.85	4.10	18.2x	16.8x	**15.7x**	1.9x	2%
AEP	American Electric Power Co Inc	$85.63	Outperform	521	44,580	3.6%	61%	5.00	5.30	5.65	17.1x	16.2x	**15.1x**	1.7x	-2%
PPL	PPL Corp	$25.69	Outperform	736	18,913	3.5%	65%	1.37	1.58	1.70	18.7x	16.2x	**15.1x**	1.3x	-2%
SRE	Sempra Energy	$142.28	Outperform	324	46,087	3.3%	54%	8.70	8.95	9.65	16.3x	15.9x	**14.7x**	1.6x	-4%
HE	Hawaiian Electric Industries, Inc	$35.93	In Line	111	3,983	3.9%	67%	2.10	2.30	2.45	17.1x	15.6x	**14.7x**	1.5x	-5%
EVRG	Evergy	$58.16	In Line	230	13,388	3.7%	61%	3.55	3.75	4.00	16.4x	15.5x	**14.5x**	1.7x	-6%
DUK	Duke Energy Corp	$88.46	In Line	778	68,844	4.5%	73%	5.45	5.75	6.15	16.2x	15.4x	**14.4x**	1.4x	-7%
EXC	Exelon Corp	$36.72	Outperform	987	36,230	4.4%	71%	2.25	2.41	2.57	16.3x	15.2x	**14.3x**	1.0x	-7%
ETR	Entergy Corp	$102.29	Outperform	209	21,337	4.0%	65%	6.30	6.70	7.15	16.2x	15.3x	**14.3x**	1.6x	-7%
PNW	Pinnacle West Capital Corp	$64.18	Underperform	123	7,880	5.4%	87%	4.00	4.20	4.50	16.0x	15.3x	**14.3x**	1.1x	-7%
NI	NiSource Inc	$24.49	Outperform	447	10,953	3.8%	63%	1.45	1.54	1.73	16.9x	15.9x	**14.2x**	2.2x	-8%
D	Dominion Resources Inc	$65.53	Outperform	817	53,568	4.1%	65%	4.15	4.43	4.70	15.8x	14.8x	**13.9x**	1.8x	-10%
FE	FirstEnergy Corp	$36.41	Outperform	552	20,101	4.4%	68%	2.40	2.53	2.67	15.2x	14.4x	**13.6x**	2.2x	-11%
PCG	PG&E Corp	$14.50	Rating Suspended	1,987	28,821	0.0%	0%	1.10	1.23	1.35	13.2x	11.8x	**10.7x**	1.3x	-30%
EIX	Edison International	$55.64	In Line	414	23,040	4.7%	58%	4.55	4.95	5.25	12.2x	11.2x	**10.6x**	0.9x	-31%
Regulated Group Average (Excludes PCG for Div Values)						**3.8%**	**64.9%**				**17.0x**	**16.0x**	**15.0x**	**1.69x**	
Regulated Group Average (Excluding Stocks: PPL, EIX, and PCG)						3.8%	65.2%				17.3x	16.4x	15.4x	1.76x	
Regulated Group Max (Excludes PCG for Div Values)						5.4%	87.1%				19.8x	19.0x	17.7x	2.4x	
Regulated Group Min (Excludes PCG for Div Values)						2.3%	45.3%				12.2x	11.2x	10.6x	0.9x	

Diversified Utilities

Ticker	Company Name	10/21/22 Price	ISI Rating	Shares Out	Market Cap	2022 Div Yld	2022 Payout	ISI EPS Estimate 2022	ISI EPS Estimate 2023	ISI EPS Estimate 2024	P/E Multiple 2022	P/E Multiple 2023	P/E Multiple 2024	Price to Book	Prem. to Group
NEE	NextEra Energy, Inc.	$71.65	In Line	2,008	143,892	2.4%	58%	2.90	3.10	3.40	24.7x	23.1x	**21.1x**	3.3x	39%
PEG	Public Service Enterprise Group	$54.30	Outperform	504	27,367	3.9%	62%	3.45	3.40	3.85	15.7x	16.0x	**14.1x**	1.8x	-7%
AES	AES Corp	$24.48	Outperform	667	16,321	2.6%	39%	1.60	1.80	1.90	15.3x	13.6x	**12.9x**	4.1x	-15%
Diversified Group Average						**2.9%**	**53%**				**18.6x**	**17.6x**	**16.0x**	**3.1x**	
Diversified Group Max						3.9%	62%				24.7x	23.1x	21.1x	4.1x	
Diversified Group Min						2.4%	39%				15.3x	13.6x	12.9x	1.8x	

Updated as of 10/21/22, Note – PCG estimates above reflect consensus view from FactSet

Source: FactSet, Evercore ISI Research

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Utilities are trading below our Case 1. Post COVID valuations should diverge towards Case 2 longer term.

- Our historic base case ("case 1") assumed an orderly transition to higher interest rates, with authorized ROEs falling to 9.25% from 9.75%, and 10- year Treasury yields rising over the next several years, resulting at the end in a **2.50%** spread between the return on equity and the calculated cost of equity.
  - When you look at the current valuation of 15.4x '24, below our "case 1" scenario of 17.5x, as described above it implies moderation in authorized ROEs and gradual increase in treasury yields.
- The perceived "best in class" earnings compounders and COVID-19 immune names (WEC, NEE, ES, XEL, CMS) trade a multiple that discounts both a more or less status quo authorized ROE regime and a longer runway for sustained rate base growth. That is "case 3".
- In our "case 4" scenario we assume authorized ROEs moderate and interest rates rise more rapidly, resulting in a more meaningful near-term reduction in profitability, along with a steeper decline in rate base growth, which drives utilities back to a P/E multiple that is closer to long-term historic averages.
- We set our target prices on "market-agnostic" basis using an anchor P/E multiple of ~18x '24 EPS so investors can better see where we see good relative value. Near term we could see some pressure on multiples if spreads widen, long term we see multiples diverging back towards Case 2 as the economy recovers.

	Case 1	Case 2	Case 3	Case 4
DDM Model ROE and Cost of Equity Assumptions	Base Case	Rates Low Long Time	Rates Low Long Time	ROEs Fade Rates Rise
ROE (Year 1)	9.75%	9.75%	9.75%	9.75%
Annual ROE Change (+/-)	-0.10%	-0.10%	-0.10%	-0.10%
Final ROE	9.25%	9.25%	9.25%	9.25%
Years Until LT Cost of Equity Spread	5	5	5	5
Implied Annual Cost of Equity Change (+/-)	0.28%	0.21%	0.21%	0.33%
LT ROE / Cost of Equity Spread	2.50%	2.85%	2.85%	2.25%
LT Cost of Equity	6.75%	6.40%	6.40%	7.00%

	Case 1	Case 2	Case 3	Case 4
DDM Model Growth Assumptions	Base Case	Base Case	Higher Growth	Lower Growth
RB Growth (Year 1-5)	5.50%	5.50%	6.50%	4.00%
RB Growth (Year 6-10)	3.50%	3.50%	5.50%	2.00%
RB Growth (Year 11+ and Terminal)	2.50%	2.50%	3.00%	1.25%
Terminal Value (Yes/No)	Yes	Yes	Yes	Yes
35 Year Average Payout Ratio - Implied	71.2%	71.2%	67.5%	82.6%
'24 P/E Multiple	**17.5x**	**19.5x**	**22.0x**	**15.0x**

Source: Evercore ISI Research

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Utilities Are 24% Expensive on '23 Yields Assuming Yields Remain Unchanged

Utility Valuation			10 YR	4.23%
10/21/22			Baa	6.48%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2022 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	3.62%	3.16%	20.7x	17.9%
	3.84%	3.31%	19.7x	12.5%
	4.06%	3.46%	18.8x	7.5%
Current Valuation	4.28%	3.62%	18.0x	3.0%
	4.50%	3.77%	17.3x	-1.2%
	4.72%	3.92%	16.6x	-5.1%
- 68% Confidence Interval	4.94%	4.07%	16.0x	-8.6%
	5.16%	4.23%	15.4x	-12.0%
	5.38%	4.38%	14.9x	-15.0%
	5.60%	4.53%	14.4x	-17.9%
	5.82%	4.69%	13.9x	-20.6%
	6.04%	4.84%	13.5x	-23.1%
	6.26%	4.99%	13.1x	-25.5%
Predicted Valuation	6.48%	5.15%	12.7x	-27.7%
	6.70%	5.30%	12.3x	-29.8%
	6.92%	5.45%	12.0x	-31.7%
	7.14%	5.61%	11.6x	-33.6%
	7.36%	5.76%	11.3x	-35.4%
	7.58%	5.91%	11.0x	-37.0%
+ 68% Confidence Interval	7.80%	6.06%	10.7x	-38.6%
	8.02%	6.22%	10.5x	-40.1%
	8.24%	6.37%	10.2x	-41.6%
	8.46%	6.52%	10.0x	-42.9%
	8.68%	6.68%	9.8x	-44.3%
	8.90%	6.83%	9.5x	-45.5%
+ 95% Confidence Interval	9.12%	6.98%	9.3x	-46.7%

Regulated utilities now look ~28% expensive on current yields

Utility Valuation			10 YR	4.23%
10/21/22			Baa	6.48%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2023 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	3.62%	3.16%	20.5x	24.1%
	3.84%	3.31%	19.6x	18.4%
	4.06%	3.46%	18.7x	13.2%
	4.28%	3.62%	17.9x	8.4%
	4.50%	3.77%	17.2x	4.0%
Current Valuation	4.72%	3.92%	16.5x	-0.1%
- 68% Confidence Interval	4.94%	4.07%	15.9x	-3.8%
	5.16%	4.23%	15.3x	-7.3%
	5.38%	4.38%	14.8x	-10.6%
	5.60%	4.53%	14.3x	-13.6%
	5.82%	4.69%	13.8x	-16.4%
	6.04%	4.84%	13.4x	-19.1%
	6.26%	4.99%	13.0x	-21.5%
Predicted Valuation	6.48%	5.15%	12.6x	-23.9%
	6.70%	5.30%	12.2x	-26.1%
	6.92%	5.45%	11.9x	-28.1%
	7.14%	5.61%	11.6x	-30.1%
	7.36%	5.76%	11.3x	-32.0%
	7.58%	5.91%	11.0x	-33.7%
+ 68% Confidence Interval	7.80%	6.06%	10.7x	-35.4%
	8.02%	6.22%	10.4x	-37.0%
	8.24%	6.37%	10.2x	-38.5%
	8.46%	6.52%	9.9x	-39.9%
	8.68%	6.68%	9.7x	-41.3%
	8.90%	6.83%	9.5x	-42.6%
+ 95% Confidence Interval	9.12%	6.98%	9.3x	-43.9%

If rates stay unchanged for the next 12 months, regulated utilities now ~24% expensive

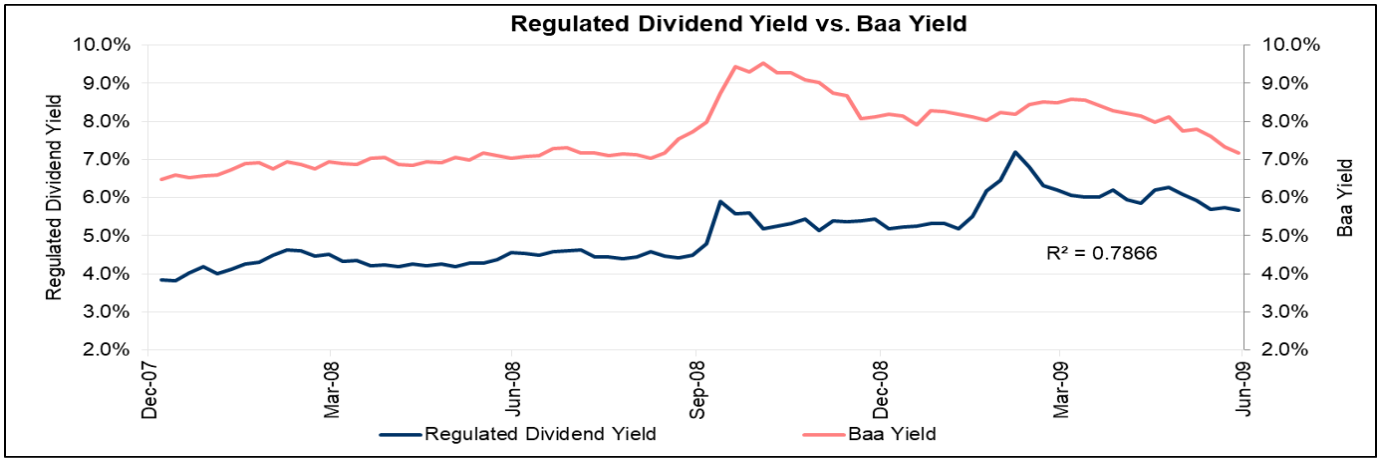
Updated as of 10/21/22

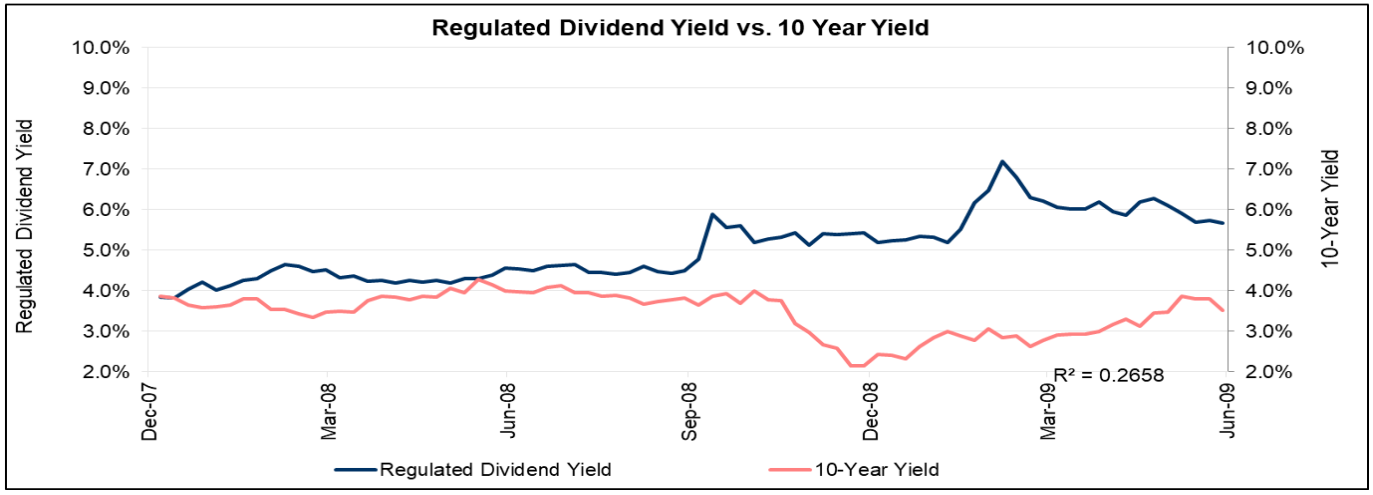
Source: FactSet, Evercore ISI Research

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Regulated Dividend Yields vs. 10Y UST and Baa Yields During '08/'09 Financial Crisis

- During the last recession, correlation between regulated dividend yield and Moody's Baa Yield was at ~79% vs. ~27% correlation for dividend yield and 10yr Treasury Yield.



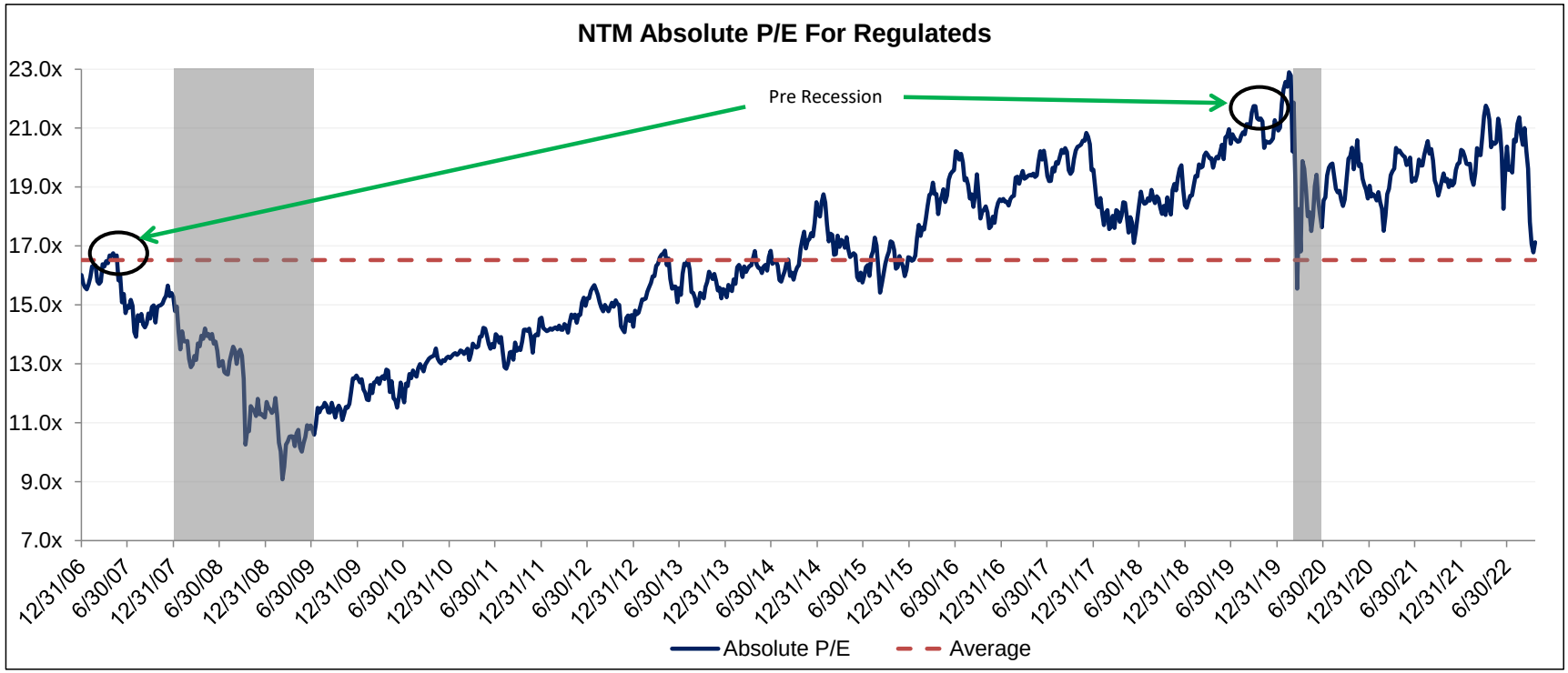


Source: FactSet, Evercore ISI Research

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Absolute valuation below pre-COVID recession levels & below peak

- Utes are trading 24% below 12-month pre COVID recession levels on an absolute basis and 35% below the valuation peak.
- On an absolute basis, NTM PEs for Utes averaged ~15x 12mths leading up to the 08/09 recession peaking at ~17x, in line with where the group is trading currently.
- In the COVID recession however, absolute P/E for Utes averaged ~21x 12mths prior and peaked at 23x, which would be 35% upside from current levels at ~17x.



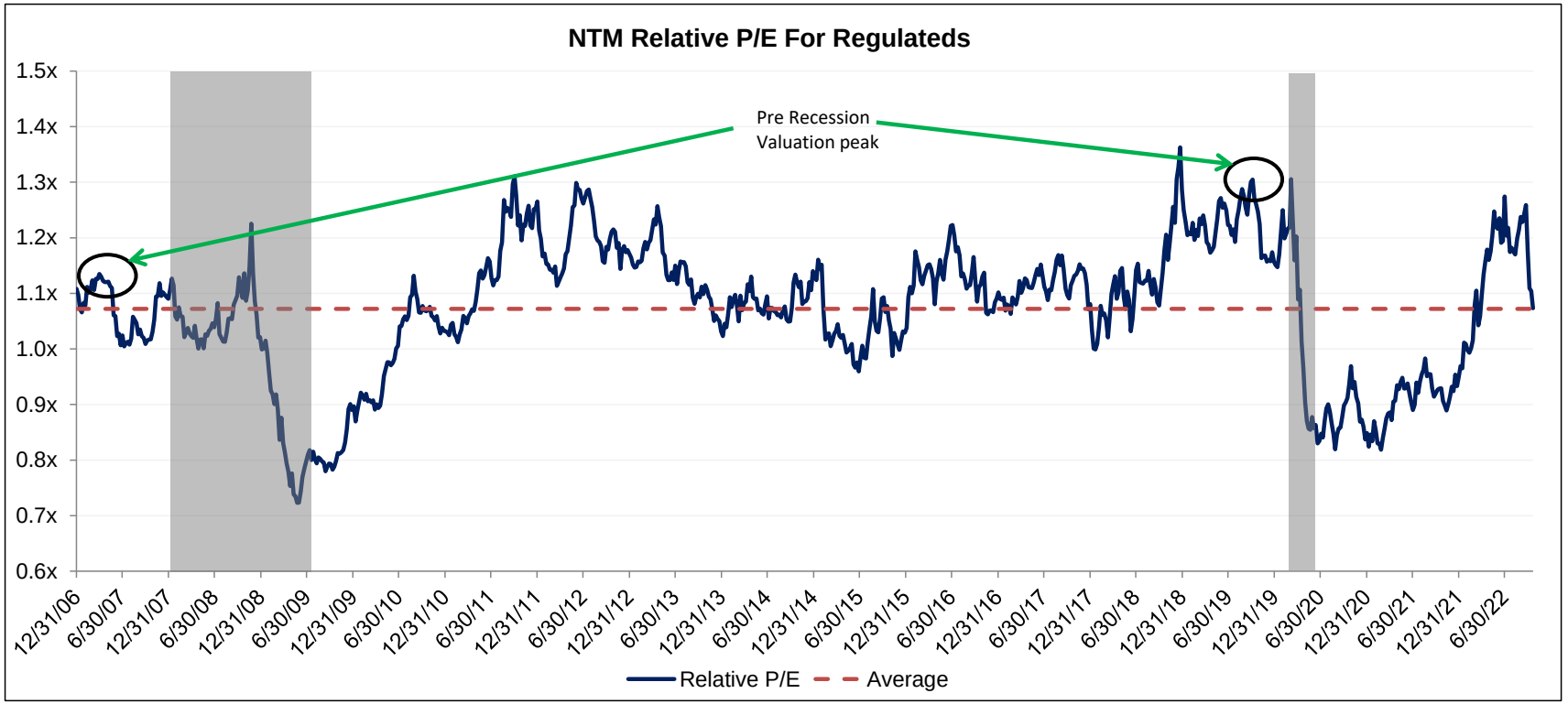
Updated as of 10/21/22

Source: FactSet, Evercore ISI Research

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Group's NTM P/E relative to S&P 500 is below Pre COVID recession levels & below peak

- NTM P/E relative to S&P 500 is 14% below the 12-month pre COVID recession levels and 21% below the valuation peak.
- NTM relative PEs for Utes averaged 1.07x 12mths leading up to the 08/09 recession peaking at 1.13x, 6% above the 1.07x where the group is trading currently
- In the COVID recession, relative P/E for Utes averaged 1.22x 12mth prior and peaked at 1.30x, which would be ~21% upside from current levels at 1.07x assuming S&P500 stays flat



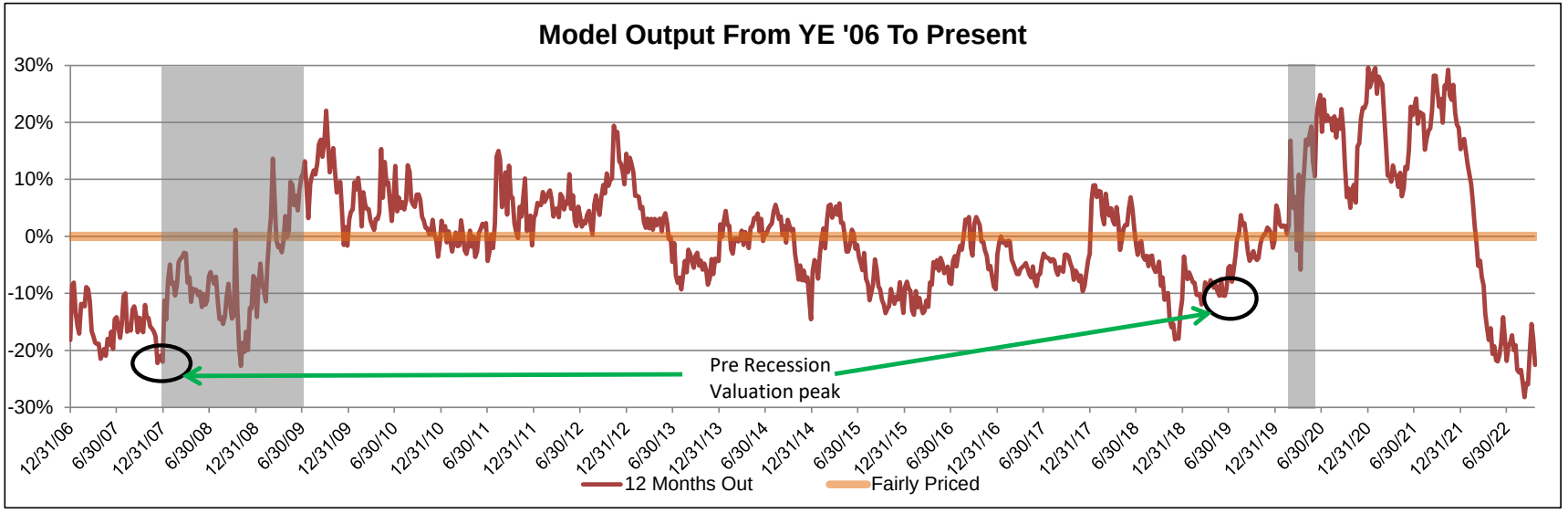
Updated as of 10/21/22

Source: FactSet, Evercore ISI Research

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Bond regression model output close to 08/09 pre-recession peak

- The group was 16% expensive on average when compared to Moody's Baa yield in our bond regression model 12mths prior to the 08/09 recession with group valuation peaking at 24%.
- Utes were 4% expensive on average in our bond regression model 12mths leading up to the COVID recession peaking at 12%.
- Utes are now 24% expensive in our bond model, close to 08/09 pre-recession peak.

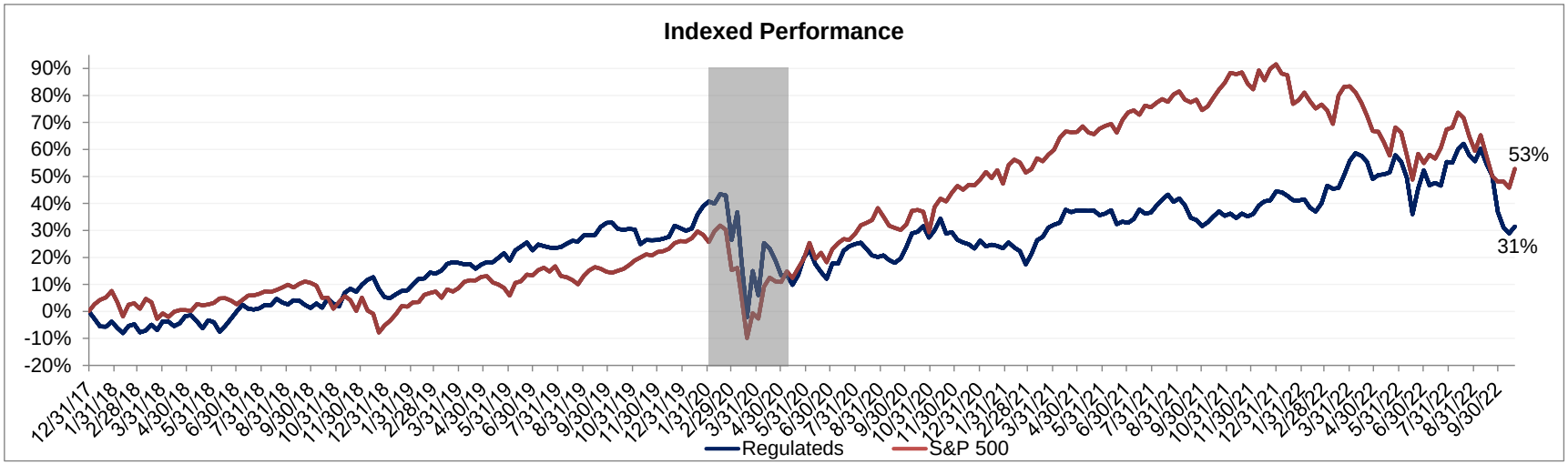


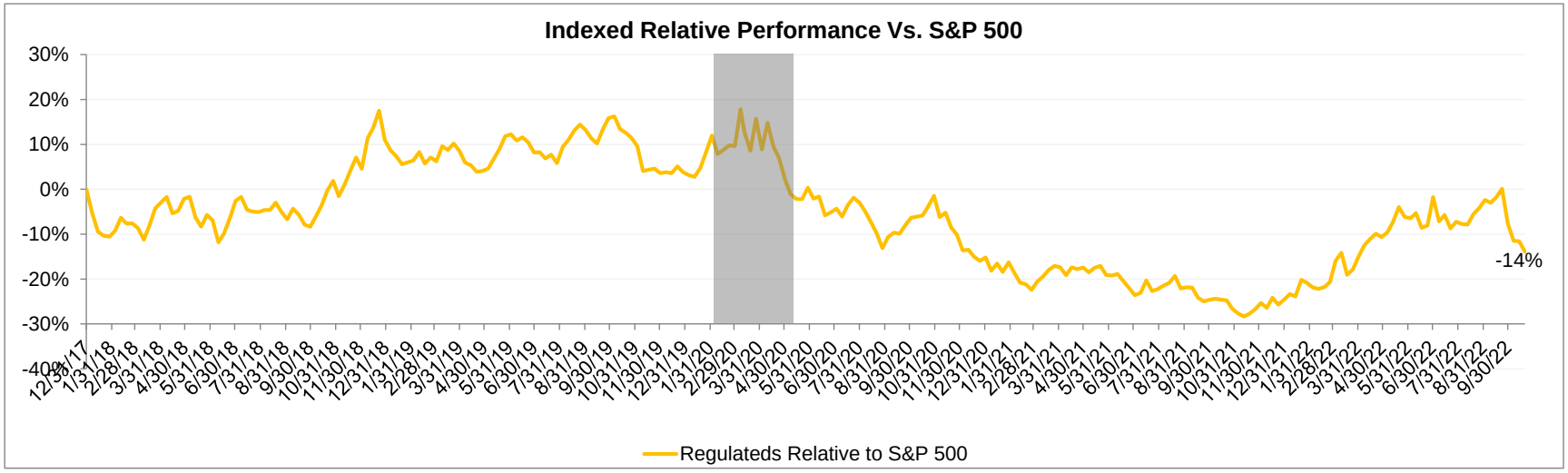
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Utility Stock Price Performance vs. SP500 From YE '17 To Present





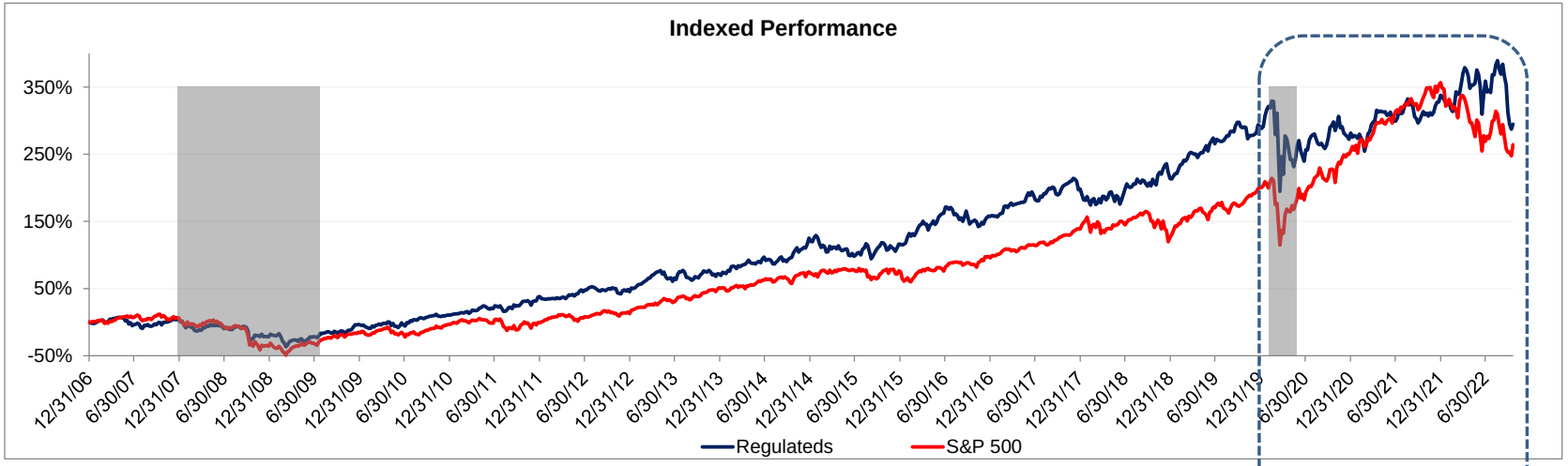
Updated as of 10/21/22, compounded return, 7-day intervals

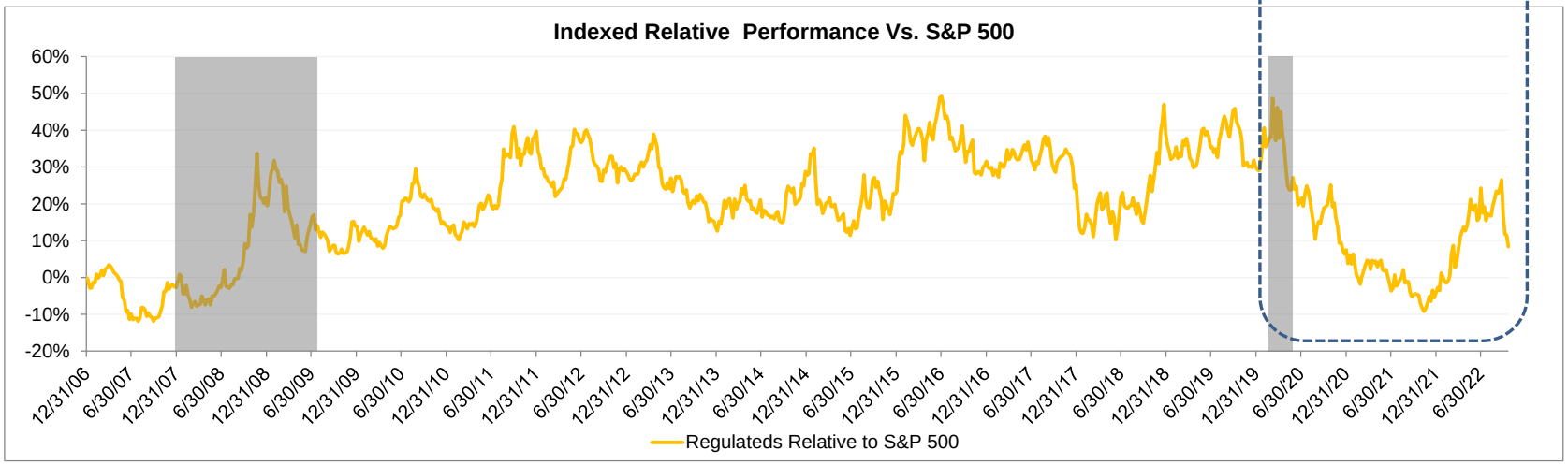
Source: FactSet, Evercore ISI Research

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History Lesson: Utility Stock Price Performance vs. SP500 From 2006 To Present

- This shows the performance of regulated utilities vs. the SP500 from YE '06, through the recessions, until present.
- Assuming compounding returns and dividends reinvested, utilities are up ~295% vs. ~264% for the SP500 from YE '06 to present.





Updated as of 10/21/22

Source: FactSet, Evercore ISI Research

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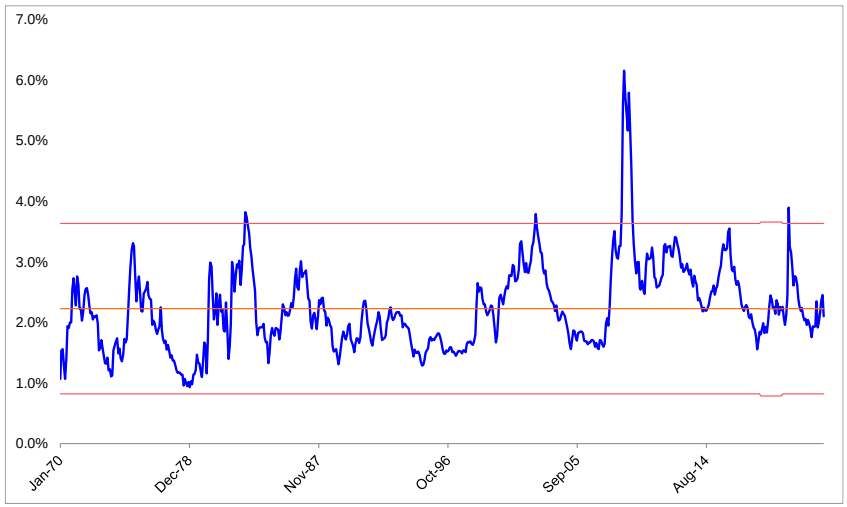
The Spread Between Corporates And Treasuries Is Above The Historical Average

- The spread between corporates and Treasuries has averaged 223bp since 1970.
- At the beginning of 2015, the 10-year was ~2.2% and corporates were 4.7%, a spread of 250bp.
- The wide spread between US Treasuries and corporates was the key factor that made utilities look fully priced in our bond model from October 2015 through early April 2016.
- Prior to COVID, that spread peaked last at 363bp on 2/16/16, with the 10-year yield at 1.74% and corporate bond yield average at 5.37%. On 3/23/20 during COVID, the spread peaked at ~431bp.
- The spread was 156bp on 1/31/18 and is currently at 226 bp.

Daily Moody's Baa / 10 Year Spread



Monthly Moody's BAA / 10 Year Spread



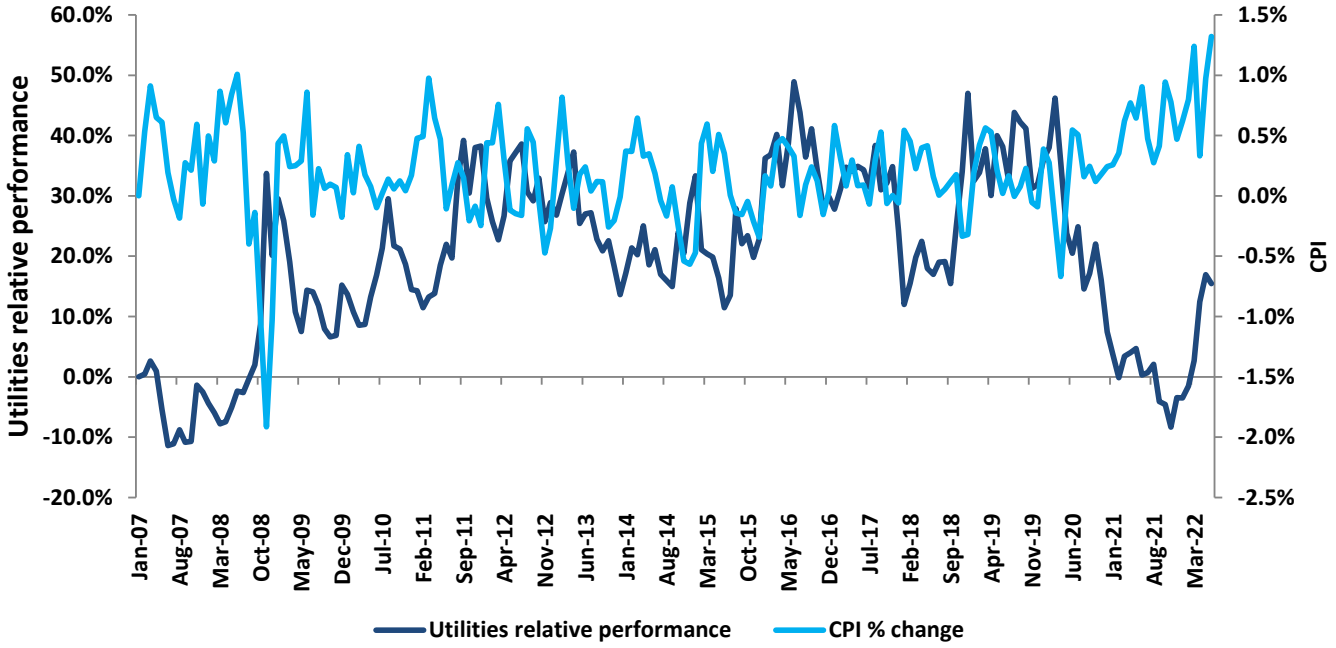
Updated as of 10/21/22

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Utilities vs. Inflation

- We plot the utilities relative performance to S&P 500 vs change in consumer price index (CPI) going back to 2007. The top five inflationary periods in our analysis saw an average of 3.5% increase in CPI and a 2.7% average underperformance by utilities. Three of the top five inflationary periods saw meaningful underperformance by utilities but two (first half of 2022 and first half of 2008) saw outperformance.



Top 5 inflationary periods				
	CPI % change	Uts Relative performance	Baa yield % change	10yr Treasury % Change
First half 2022	4.8%	19.0%	42.2%	69.7%
First half 2008	3.7%	2.0%	4.6%	12.8%
First half 2021	3.3%	-3.4%	14.8%	75.3%
First half 2007	2.9%	-11.4%	5.7%	5.9%
Second half 2021	2.9%	-7.2%	2.4%	0.0%
Average	**3.5%**	**-2.7%**	**9.4%**	**29.8%**

Updated as of 7/18/22

Source: FactSet, Evercore ISI Research

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Weekly Economic Chart: Inflation Likely To Slow Significantly

- **Our Evercore ISI economist Ed Hyman publishing a note last week discussing Financial Shock/Crisis Watch.** Ed said that a number of prices have already declined significantly, eg, container freight rates and used car prices. Housing is likely to weaken significantly from here in response to the surge in mortgage rates to over 7%. The economy is likely to be much weaker next year than this year (see the LEI). Money growth, after surging last year, is plunging this year. Money growth matters at extremes.



M2

A little over a year ago, money growth was approaching +30% y/y. Now it's approaching +1.5%.



LEADING INDICATOR

A year ago, the LEI was going up. Now it's going down.

Source: Evercore ISI Research

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Current Ratings Definition

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Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage sector.
In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's coverage sector.
Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's coverage sector.
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*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

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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%

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Sell -the total forecasted return is expected to be less than 0%

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

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

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

Evercore Group:

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

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

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

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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.
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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.

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Evercore ISI rating (as of 10/23/2022)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	523	62	Buy	89	17
Hold	289	34	Hold	25	9
Sell	15	2	Sell	1	7
Coverage Suspended	10	1	Coverage Suspended	2	20
Rating Suspended	8	1	Rating Suspended	2	25

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Price Charts

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EVERCORE ISI

Energy | Power & Utilities

November 07, 2022

NiSource Inc

NI | $24.18

Outperform | Target Price/Base Case: $27.00 (from $33.00)

Company Update

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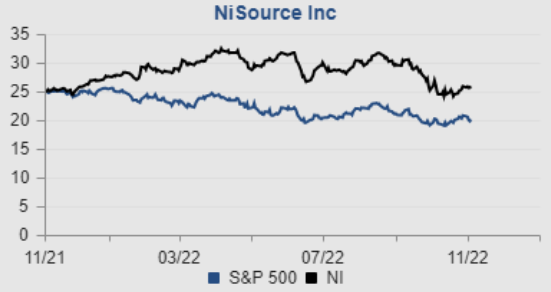
Company Statistics

Market Capitalization (M)	$9,893
Shares Outstanding (M)	406
Dividend	0.88
Dividend Yield	3.6%
Payout Ratio	60.7%
Expected Total Return	14.4%
Fiscal Year End	Dec

Earnings Summary

	2022E	2023E	2024E
EPS	**$1.45**	**$1.54**	**$1.65**
P/E	**16.8**	**15.8**	**14.8**
EPS vs Consensus	**0.3%**	**(0.2)%**	**(3.4)%**
Consensus EPS	**$1.45**	**$1.54**	**$1.71**
Consensus P/E	**16.9**	**15.8**	**14.3**

1 Year Price History



Source: FactSet

Highlights of 2022 Investor Day

Key Points:

- **NiSource's Q3 adjusted EPS was more/less in line with expectations**
- **2022 EPS guidance range was narrowed to $1.44-$1.46 from $1.42-$1.48**
- **The company initiated 2023 EPS guidance of $1.50-1.57, mid-pt in line with consensus of $1.54**
- **They now target 6-8% annual EPS growth from 2021-2027 versus 7-9% CAGR previously from 2021-2024**
    - **Implied 2024 EPS of $1.65 using 7% growth from 2023 guidance mid-pt was below our estimate/consensus of $1.73/$1.71 respectively**
- **Announced minority interest sale of NIPSCO (up to 19.9%) in a tax efficient transaction to strengthen the balance sheet, which is expected to be completed in second half of 2023.**
    - We estimate up to $2B in proceeds which is in line with company projections. We get to our ~$2B estimate using DUK Energy Indiana's 28x transaction multiple applied to our estimated 2022 earnings of ~$70M for NIPSCO (19.9% share of earnings).
    - Sale proceeds are projected to eliminated equity needs through 2025. In 2025+, expect modest ATM program to maintain credit metrics for growth investments (15% Equity + 85% Debt)
- **Issued $15B 2023-2027 capex plan vs prior plan of $10B from 2021-2024**
- **Targeting higher long-term FFO to debt of 14-16% post sale vs 14-15% previously**
- **Settlement filed in OH Rate Case**

Our Take: Near-term earnings outlook disappointing, long-term targets In Line with expectations. NiSource's implied 2024 EPS came in below street projections. The company however is taking steps to strengthen its balance sheet by pursuing a minority sale of NIPSCO and targeting a higher 14-16% FFO/Debt pro forma vs 14-15% previously. NI also extended its LT EPS growth target to 6-8% through 2027 which was in line with our expectations. Accounting for today's 6% move lower in the stock absolutely and 4% relatively, NI shares now trade at 8% discount vs peers and close to our bear case valuation. We remain outperform but are lowering our TP to $27 from $33 (now based on 16x target electric utility multiple vs 19x previously). See SOTP on page 3.

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Additional Details:

- **Q3 adjusted EPS was slightly below consensus and above our estimate**
  - 3Q22 adjusted EPS of $0.10
  - Consensus was $0.11 and our estimate also $0.09
  - 3Q21 was $0.11
- **2022 EPS guidance narrowed to $1.44-$1.46 from $1.42-$1.48**
  - Midpoint unchanged at $1.45, in line with consensus
- **Initiated 2023 EPS guidance of $1.50-1.57, in line with consensus of $1.54**
  - 2023 guidance incorporates OH rate case effective in early 2023 and NIPSCO minority sale in second half of 2023
- **Long-term EPS guidance updated**
  - NiSource expects to deliver annual NOEPS growth of 6-8% from 2021 through 2027, vs 7-9% CAGR from 2021 through 2024 previously off of 2021 actual of $1.37
  - O&M is expected to be flat from 2023 to 2027
- **Capex program updated**
  - $15B 2023-2027 capex plan vs prior plan of $10B from 2021-2024, with recovery programs such that 75% of investments begin earning in less than 18 months
  - $30B capex plan from 2023-2032, of which the largest share is to replace and modernize infrastructure in the gas side of the business
  - 2022 program remains $2.4B-$2.7B
  - 2023 plan decreases to $2.8B-$3.1B from $3.4B-3.7B
  - 2024 program increases to $3.0B-$3.3B from $1.9B-2.3B
- **2023-2027 financing plan issued**
  - Dividends and capital investments of $18B funded through cash from operations, minority interest sale, $4.5-$5.5B new debt and ATM in 2025+.
  - Targeting higher long-term FFO to debt of 14-16% vs 14-15% previously
- **Strategic Review**: NI announced minority interest sale of NIPSCO (up to 19.9%) in a tax efficient transaction to strengthen the balance sheet, which is expected to be completed in second half of 2023. We estimate up to $2B in cash proceeds. In addition to proposed minority interest sale, the review also identified opportunities to optimize NiSource's cost profile and approach to work. These opportunities will increase productivity through improved processes and technology while enhancing safety, customer service, employee experience, and will reduce the company's overall cost profile.
- **OH Rate Case Update**: On Oct 31st, 2022, Columbia Gas of Ohio filed a settlement representing a $68.2M revenue increase with 9.6% ROE, rates are expected to be implemented in early 2023. The company originally requested $221MM with ROE of 10.9%. The equity ratio request of ~51% was not disputed. NI currently has an allowed ROE of 10.4% and equity ratio of 51% in Ohio. Hearings are scheduled for Nov. 16, 2022 with a final order expected early next year.
- **IRA Implications**: Company noted that the 15% minimum tax provision in the Inflation reduction act will not impact them through 2025 as they won't reach the $1B pre-tax earnings threshold until the second half of the decade. Management is evaluating implications of the AMT beyond 2025.

Target Price: Maintaining our Outperform rating but lowering our target price to $27 from $33/share. Our 2022-2023 EPS estimates remain $1.45 and $1.54, while we are lowering our 2024 EPS estimate to $1.65 from $1.73. See our base case SOTP valuation of $27 on Exhibit 1. We apply a conservative 5% premium to our peer target 16x multiple (vs 19x previously) for the electric business, which we estimate will grow rate base by 8-10% through 2027 versus peers at 6-7%. Our base case for the LDCs applies an in line gas multiple, now of 16.3x 2024 EPS (versus 18.5x with the last update) as we mark to market comparable trading multiples. Our bear case in Exhibit 1 below derives $25/share valuation assuming NI can grow EPS at 6% using low end of 2023 guidance range of $1.50, while our bull case is $29/share assuming the company can grow at 8% using high end of 2023 guide of $1.57.

Exhibit 1: NiSource SOTP Valuation

Base

Base Case	'24 EPS	P/E	Val/Shr
Gas EPS	$1.16	16.3x	$18.98
Electric EPS	$0.76	16.8x	$12.81
Parent/Other	($0.27)	16.3x	($4.45)
Consolidated 2024 EPS	**$1.65**	16.3x	**$27.00**
ETR (including dividend)			14%

Bull

Bull Case	'24 EPS	P/E	Val/Shr
Gas EPS	$1.19	16.3x	$19.48
Electric EPS	$0.78	17.6x	$13.69
Parent/Other	($0.27)	17.1x	($4.65)
Consolidated 2024 EPS	**$1.70**	17.1x	**$29.00**
ETR (including dividend)			23%

Bear

Bear Case	'24 EPS	P/E	Val/Shr
Gas EPS	$1.13	15.5x	$17.48
Electric EPS	$0.74	16.0x	$11.91
Parent/Other	($0.27)	15.6x	($4.26)
Consolidated 2024 EPS	**$1.60**	15.6x	**$25.00**
ETR (including dividend)			6%

Source: Evercore ISI

Note: ETR based on closing price as of 11/7/22

VALUATION METHODOLOGY

To arrive at our price target we use a SOTP analysis.

RISKS

Risks to our thesis include an inability to deploy capital at the company's expected rate resulting in a lower rate base and regulatory pressure resulting in lower allowed ROEs

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2022-07-11)	Evercore ISI Target
AEE	Ameren Corp.	Outperform	$81.22	$86.00
AEP	American Electric Power	Outperform	$88.28	$92.00
AES	The AES Corporation	Outperform	$26.84	$28.00
AWK	American Water Works Company, Inc.	Outperform	$137.88	$170.00
AWR	American States Water Company	Underperform	$89.17	$70.00
CEG	Constellation Energy Corp	Outperform	$93.31	$79.00
CMS	CMS Energy Corp.	In Line	$56.63	$69.00
CNP	CenterPoint Energy, Inc.	Outperform	$27.93	$30.00
CWT	California Water Service Group	In Line	$60.42	$50.00
D	Dominion Energy, Inc	Outperform	$63.15	$78.00
DTE	DTE Energy Co.	Outperform	$110.82	$118.00
DUK	Duke Energy Corp.	In Line	$92.39	$92.00
ED	Consolidated Edison Inc.	Underperform	$87.82	$76.00
EIX	Edison International	In Line	$57.63	$63.00
ES	Eversource Energy	In Line	$74.98	$81.00
ETR	Entergy Corp.	Outperform	$108.69	$114.00
EVRG	Evergy	In Line	$61.23	$72.00
EXC	Exelon Corp.	Outperform	$36.64	$42.00
NEE	NextEra Energy Inc	In Line	$77.25	$90.00
NI	NiSource Inc	Outperform	$24.18	$27.00
NRG	NRG Energy Inc.	In Line	$45.38	$42.00
OGE	OGE Energy Corp	In Line	$36.70	$35.00
PCG	PG&E Corp.	Rating Suspended	$15.08	
PEG	Public Service Enterprise Group	Outperform	$57.22	$64.00
PPL	PPL Corp.	Outperform	$26.82	$32.00
SJW	SJW Group	In Line	$70.20	$67.00
SO	Southern Co.	In Line	$63.38	$62.00
SRE	Sempra Energy	Outperform	$150.17	$155.00
VST	Vistra Energy Corp	Outperform	$23.89	$31.00
WEC	WEC Energy Group, Inc.	In Line	$90.19	$90.00
WTRG	Essential Utilities Inc.	Outperform	$43.95	$44.00
XEL	Xcel Energy Inc.	Outperform	$65.39	$66.00

TIMESTAMP

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

Time of dissemination: November 07 2022 7:40 PM ET

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In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's coverage sector.
Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's coverage sector.
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Rating Suspended- Evercore ISI has suspended the rating and target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon.*

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

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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%

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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.

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

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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.

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Evercore ISI rating (as of 11/07/2022)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	506	61	Buy	69	14
Hold	288	35	Hold	20	7
Sell	15	2	Sell	0	0
Coverage Suspended	16	2	Coverage Suspended	4	25
Rating Suspended	8	1	Rating Suspended	1	13

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Price Charts



Ratings Key

B	Buy	OP	Outperform	L	Long	CS	Coverage Suspended
H	Hold	IL	In Line	NP	No Position	RS	Rating Suspended
S	Sell	UP	Underperform	S	Short		

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EVERCORE ISI

Flash Note | **Energy | Power & Utilities**

November 07, 2022

NiSource Inc

NI | $25.89

Outperform | Target Price/Base Case: $33.00

Company Update

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First Crack at 3Q22

We believe NiSource's 3Q22 earnings release has negative to neutral implications for the stock.

Key Takes:

- **NiSource reported Q3 adjusted EPS more or less in line with expectations**
- **2022 EPS guidance narrowed to $1.44-$1.46 from $1.42-$1.48**
- **Initiated 2023 EPS guidance of $1.50-1.57, mid-pt in line with consensus of $1.54**
- **They now target 6-8% annual EPS growth from 2021-2027 versus 7-9% CAGR previously from 2021-2024**
  - **Implied 2024 EPS of $1.66 using 7% growth from 2023 guidance mid-pt vs our estimate/consensus of $1.73/$1.71 respectively**
- **Announced minority interest sale of NIPSCO to strengthen the balance sheet**
  - Expected to minimize future external capital market needs when completed and is expected to remove all equity needs until at least 2025
  - In 2025+, expect modest ATM program to maintain credit metrics for growth investments (15% Equity + 85% Debt)
- **Issued $15B 2023-2027 capex plan vs $10B in the last 2021-2024 plan**
- **Settlement filed in OH Rate Case**
- **Announced a net zero goal with zero Scope 1 and 2 greenhouse gas emissions by 2040**

Additional Details:

- **Q3 adjusted EPS was slightly below consensus and above our estimate**
  - **3Q22 adjusted EPS of $0.10**
  - **Consensus was $0.11 and our estimate also $0.09**
  - **3Q21 was $0.11,**
- **2022 EPS guidance narrowed to $1.44-$1.46 from $1.42-$1.48**
  - **midpoint unchanged at $1.45, in line with consensus**
- **Initiated 2023 EPS guidance of $1.50-1.57, in line with consensus of $1.54**
  - 2021 through 2023 annual EPS growth expected to be 5-7%
- **Long-term EPS guidance updated**
  - **NiSource expects to deliver annual NOEPS growth 6-8% from 2021 through 2027, vs 7-9% from 2021 through 2024 previously off of 2021 actual of $1.37**
- **Capex program updated**
  - **$15B from 2023-2027 vs $10B from 2021-2024 in last plan**
  - **~75% of Capital Investments begin earning in less than 18 months**
  - **2022 program remains $2.4B-$2.7B**

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- **2023 plan decreases to $2.8B-$3.1B from $3.4B-3.7B**
- **2024 program increases to $3.0B-$3.3B from $1.9B-2.3B**

- **2023-2027 financing plan issued**
  - **Dividends and capital investments funded through cash from operations, minority interest sale, $4.5-$5.5B new debt and ATM in 2025+.**
  - **Targeting higher long-term FFO to debt of 14-16% vs 14-15%**
- **Strategic Review**: In addition to proposed minority interest sale, the review also identified opportunities to optimize NiSource's cost profile and approach to work. These opportunities will increase productivity through improved processes and technology while enhancing safety, customer service, employee experience, and will reduce the company's overall cost profile.
- **OH Rate Case Update**: On Oct 31st, 2022, Columbia Gas of Ohio filed settlement in October representing a $68.2M revenue increase with 9.6% ROE, rates are expected to be implemented in early 2023. The company requested $221MM with ROE of 10.9%. The equity ratio request of ~51% was not disputed. NI currently has an allowed ROE of 10.4% and equity ratio of 51% in Ohio. Hearing is scheduled for Nov. 16, 2022. Company previously stated it would be tough to get the final order and new rates before the end of the year, but they expect to be able to offset the delay through O&M discipline and other needs.

The Investor Day is today at 12 pm ET. https://www.nisource.com/InvestorDay2022. We will follow the call with a detailed note.

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VALUATION METHODOLOGY

To arrive at our price target we use a SOTP analysis.

RISKS

Risks to our thesis include an inability to deploy capital at the company's expected rate resulting in a lower rate base and regulatory pressure resulting in lower allowed ROEs

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TIMESTAMP

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

Time of dissemination: November 07 2022 10:00 AM ET

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Current Ratings Definition

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Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage sector.
In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's coverage sector.
Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's coverage sector.
Coverage Suspended- the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.*
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*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

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

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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%
Sell -the total forecasted return is expected to be less than 0%

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

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

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

Evercore Group:

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

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

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

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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%.
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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

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Evercore ISI rating (as of 07 November 2022)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	506	61	Buy	69	14
Hold	289	35	Hold	20	7
Sell	15	2	Sell	0	0
Coverage Suspended	16	2	Coverage Suspended	4	25
Rating Suspended	8	1	Rating Suspended	1	13

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Price Charts

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Ratings Key

B	Buy	OP	Outperform	L	Long	CS	Coverage Suspended
H	Hold	IL	In Line	NP	No Position	RS	Rating Suspended
S	Sell	UP	Underperform	S	Short		

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EVERCORE ISI

Energy | Power & Utilities

October 20, 2022

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Steady Eddie – Utilities Q3 2022 Preview

Utilities have significantly underperformed over the last month with our coverage universe -13% vs S&P500 -4% driven by a combination of elevated valuations (27% expensive as of 09/18 in our bond model, see page 6 of our weekly note here) and rising yields,10yr jumped from 3.45% to 4.01% over that time frame. After outperforming in the first and second quarters of this year, Utes struggled in the third quarter down -8.6% vs S&P 500 down -5.3%. As of this writing, on an absolute basis, the group is now trading in line with the 15-year average multiple of 17x (NTM) and 21% below the 12-month pre COVID recession levels (pg. 40). NTM P/E relative to S&P 500 is also now near the historical average and 9% below the 12-month pre COVID recession levels (pg. 41). Versus Bond Yields, group valuation remains elevated now at 23% expensive (pg. 39). Recession and geopolitical risks have increased the appeal for defensive characteristics of the group vs. the market as evidenced by material outperformance YTD (pg. 38). As we have stated in our Recession read through for Utilities deep dive note published in late March **here** (Utes/S&P500 -15%/-20% since Mar. 30th), we continue to see limited upside absolutely but expect the group to outperform **relatively** in the near term. Strong balance sheets supporting a ~4% dividend yield on average along with near term earnings predictability bode well for utilities stocks relative to the market as investors debate the odds of a recession. With Q3 earnings season starting next week, we expect most companies within our coverage universe to reaffirm FY 2022 EPS projections and LT growth targets.

Q3 2022 Preview (Steady Eddie) – We expect roughly half of companies to meet or exceed consensus third quarter 2022 estimates (see pg. 34), more importantly most should reaffirm FY 2022 EPS projections. Based on National Oceanic and Atmospheric Administration (NOAA) cooling degree day data, the weather in 3Q22 drove 2% higher degree days versus last year and 18% above normal, on average across the US. With favorable weather as a tailwind, we expect companies to continue to address rising interest costs, inflation concerns, supply chain constraints and how they are mitigating risks to costs and the timeline of large projects. On pages 31-33 of this report, we show parent/total, 2022-2023 debt maturities, and fixed/variable debt by company to help directionally gauge sensitivity to rising rates. Pension expense is a likely headwind for majority of the companies next year with most material implications for FE, PEG and PNW in our coverage universe. Based on our dialogue with company executive's customer bill increases going into winter months could range anywhere between high single digits to 30% driven by higher fuel costs with gas utilities expected to be closer to the high end of that range. We see, DTE, EVRG, OGE and SRE strongly positioned to deliver vs FY 22 expectations and/or de-risk '23. On the flip side we could see DUK and PEG pointing to lower half of the 2022 EPS guidance range.

Stock Selection. We prefer value over quality: AEP (top pick), D, ETR, FE, EXC, NI, PPL and SRE are Outperform-rated names within the regulated value bucket. Within diversified names, we view AES (top pick) as best risk/reward and are Outperform-rated on PEG. We are also Outperform-rated on AEE, CNP, DTE and XEL within quality.

Within, we include company-specific tear sheets with our / consensus third quarter 2022 EPS estimates along with discussion on key investor debates going into earnings.

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Outperform **TP $29**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year-over-year EPS to increase by +$0.04 to $0.54/share. Weather was likely not a factor during the quarter. In terms of positive YoY drivers, we expect AES to benefit from new renewable generation, higher LNG and utilities earnings, and AES Andes accretion. In terms of negative YoY drivers, we primarily expect lower earnings from AES Next, higher interest expense and share count dilution.

- **What to look for in the earnings report (Key debates/themes):**

  - **2022 & 2023 EPS Guidance Ranges:** We expect management to reaffirm (or narrow) its previously announced 2022 EPS guidance range of $1.55-$1.65. 2023 guidance range is expected to be announced on the year-end earnings call.
  - **Renewable PPAs**: AES has already signed or been awarded 2.1 GW (up from 1.6 GW as of the Q2 call) of new long-term contracts so far this year and continues to target 4.5-5.5 GW by year-end. Roughly 200 MW of projects that were expected to be brought online this year were moved to 2023 due to customer-driven modifications. Between 2022-2023, AES expects to bring online a total of 6.4 GW of renewable projects. The Company now has 10.9 GW (up from 10.5 GW as of Q2) under long-term PPAs through 2025. AES has also secured solar panels required for 2022 projects in-country earlier this year and despite industry-wide supply chain challenges does not anticipate any major delays to its US renewables backlog.
  - **Inflation Reduction Act legislation**: The Inflation Reduction Act could be a material tailwind for AES, with management stating it could result in EPS growth toward the high end of the targeted 7-9%. In addition to the benefits for renewables, the hydrogen components of the bill make it more attractive for AES to eventually pursue. The Company said it does not expect to reach the $1 billion pre-tax income threshold over the next few years, so the AMT would not have an impact on company financials through the planning period. AES has said it plans to update its expected impacts of the legislation on the Q4 call when it refreshes its guidance, PPA targets and capital allocation plan.
  - **Inflation and supply chain**: Addressing concerns around inflation impacting targeted returns (low teens in the US and high teens international) and demand outlook, management has pointed to their strategy of locking in prices/materials prior to negotiating a purchase price agreement such that their returns are protected. Despite seeing significant cost increases, AES said it has not seen any degradation in demand from their C&I customers, and to the contrary they see three major tailwinds: 1) More/less Inelastic C&I customer demand driven by ambitious sustainability goals, 2) Russia/Ukraine conflict emphasizing the need for local generation and 3) Higher commodity environment increasing the economic appeal of renewable assets.
  - **Ohio rate case update**. On March 4th, Staff for the Public Utilities Commission of Ohio recommended that the Commission freeze DPL's (Company's OH regulated subsidiary) rates, representing a reversal after hearings from its prior recommendation for a ~$65MM revenue increase from July 2021. The key driver of the Staff's change was an analytical investigation into DPL's costs, with the most notable item being DPL's $70MM Rate Stabilization Charge through 2024. We had been modeling $0.06-0.07 (or 3%) of EPS upside through 2024 for the rate case, an estimate that would be downside to our forecasts with a rate freeze before any cost mitigation that we see as manageable at the AES level despite a meaningful hit to the DPL utility. Recall in November 2020, AES filed for a $121MM revenue increase with a 10.5% ROE with a 53.87% equity ratio on a $796MM rate base with a May 2021 test year. The commission heard Oral arguments on the staff recommendation in May 2022 and a final commission ruling is expected soon. AES is pursuing a legal route to settle the issue and also filed a new ESP (Electric Security Plan).
  - **Asset sales**: AES currently has $500MM of asset sales proceeds in its plan for 2022 and none have been announced to date.
  - **Fixed versus floating rate debt:** Roughly 82% of AES' debt is fixed rate. Most of the floating rate debt is in Brazil, which the Company does not view as a material risk. The next debt maturities are in in 2025-2026, and they are the only maturities through the end of the decade.
  - **Customer bills**: AES' utility is 100% electric, so the higher gas prices would impact fuel & purchased power and certainly raise bills meaningfully but with a lower impact than that of a gas utility.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$1.44**	**$1.52**	**$0.21**	**$0.34**	**$0.54**	**$1.60**	**$1.80**	**$1.90**
Consensus					0.52	1.61	1.76	1.92
% diff.					*5%*	*-1%*	*2%*	*-1%*

Source: Evercore ISI, FactSet as of 10/18/22

Outperform **TP $102**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year-over-year EPS to increase +$0.08 to $1.73/share. Last year in 3Q21, weather was $0.02 favorable and this year in 3Q22 we expect it to be more modestly favorable (we estimate $0.03). In terms of positive YoY drivers in Missouri, Ameren should benefit from new Missouri electric rates effective late February 2022, plus higher investments in infrastructure and wind generation eligible for PISA and RESRAM. These benefits should be partially offset by higher O&M expense, a negative COLI impact due to lower market returns, and higher interest expense. In Ameren Transmission, the Company should see the higher earnings from increased average estimated rate base. In Illinois Electric, we expect increased contribution from higher estimated rate base and an increased 30-year Treasury rate. In Illinois Gas, AEE should benefit from higher QIP rider revenues, partially offset by increased O&M and a negative COLI impact due to lower market returns. At the parent, the Company will see some share dilution and higher interest expense.

- **What to look for in the earnings report (Key debates/themes):**

  - **2022 & 2023 EPS Guidance Ranges:** We expect management to reaffirm (or narrow) its previously announced 2022 EPS guidance range of $3.95-$4.15. Ameren typically provides forward year (2023 in this case) EPS drivers, but not numbered guidance until the Q4 call.
  - **MISO transmission planning update**: Ameren has been assigned $1.8B of the ~$10B of MISO approved Tranche 1 transmission projects and has stated that it expects to refine the scope, cost estimates and timeline for their completion over the remainder of 2022. In addition to the assigned projects, MISO approved $700MM of competitive projects that cross through AEE's Missouri territory, which provide additional potential capex opportunities for Ameren. The RFP process has begun, and the competitive bidding is expected to take 12-24 months. For projects assigned to AEE, the Company expects the capex to begin in 2025 with completion dates expected near the end of this decade (capex update expected on year-end call). Work on three additional MISO tranches has begun and MISO has indicated that an initial set of Tranche 2 projects also located at MISO North, is scheduled to be approved in the 1Q23. Projects included in Tranche 3 are expected to be located in MISO South, with approval scheduled in the 4Q24, while projects identified in Tranche 4 are expected to improve transfer capability between MISO North and MISO South, with approval scheduled for 4Q25.
  - **Missouri electric rate case filing**: On August 1st, Ameren filed a Missouri electric rate case, requesting a $316MM revenue increase with a 10.2% ROE and 51.9% equity ratio on a rate base of $11.6B with a test year ended March 31, 2022. The request asks for a continuation of the existing fuel adjustment clause (FAC) and the renewable energy standard rate adjustment mechanism (RESRAM). It also asks for recovery under a new property tax tracker in line with SB 745. Annual revenue increase drivers include higher investments made under the Smart Energy Plan, including increased cost of capital and depreciation; and higher net fuel expense due to reduced off system sales, driven by reduced operations at Rush Island. A PSC decision is expected by June 2023 for new rates effective by July 1, 2023. We estimate Missouri electric will contribute ~50% of the AEE's 2022 consolidated EPS.
  - **Inflation Reduction Act legislation:** Ameren has stated there are several moving pieces but added it was excited about the potential tax credits, especially for wind and solar, and stated that it views the AMT as having manageable cash flow impacts for the Company.
  - **Rush Island update**: In July 2022, in response to Ameren's notification to MISO of its intention to retire Rush Island, MISO issued its final attachment Y report designating the generating units at Rush Island as system support resources. MISO also concluded that certain mitigation measures, including transmission upgrades ($100-150MM), should occur to ensure reliability before the energy center is retired. Those transmission projects have been approved by MISO, and Ameren has started the design and procurement process associated with the upgrades which it expects to complete by late 2025. In the interim, until Rush Island can be retired, Ameren has proposed limiting operations at the plant which it has done since September 1st under the SSR designation. The District Court is under no obligation or deadline to issue a rule modifying its remedy order to reflect the MISO SSR designation or proposed interim operating parameters. The original March 31, 2024, compliance date remains in effect unless extended by the court. Ameren expects a decision in the near term.
  - **Illinois Performance Incentive Orders:** On September 27th, the Illinois commission granted Ameren Illinois electric distribution 24 +/- basis points (including 13 bps for reliability) for its performance-based electric distribution ROE incentives and penalties to be effective January 2024; this matched both the Staff's recommended and AEE's revised request for 24 +/- basis points, which compared to the Company's originally recommended 40 +/- basis points. The commission also adjusted the basis point allocation by category of performance. We estimate this order granting Ameren Illinois electric distribution 24 +/- basis points for its performance would contribute 2024 EPS of $0.02/share, or ~0.5% of our 2024 consolidated EPS forecast of $4.65/share. AEE has also said they have been assuming an unspecified range of outcomes in its 6-8% EPS CAGR forecast for 2022 through 2026. The Company has said that it plans to file for a Multi-Year Plan instead of a traditional rate case early next year. See our note here.

- **Positioning into Qtr: Neutral**.

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$2.31**	**$3.84**	**$0.97**	**$0.80**	**$1.73**	**$4.05**	**$4.35**	**$4.65**
Consensus					1.74	4.07	4.37	4.66
% diff.					*0%*	*-1%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 10/18/22

Outperform **TP $107**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year-over-year EPS to increase by $0.14 to $1.57/share. Weather is not expected to be a major YoY driver. Positive YoY drivers primarily include rate relief, higher retail C&I load, the benefit of the TCOS and DCRF riders in Texas, and a small contribution from North Central Wind. On the negative side, we expect transmission true-ups, higher depreciation and amortization, increased interest expense and higher property taxes. We also anticipate a negative impact from AEP's ownership of ChargePoint (CHPT) shares.

- **What to look for in the earnings report (Key debates/themes):**

  - **2022 & 2023 EPS Guidance Ranges:** The Company hosted an Analyst Day on Oct 4th and raised the low end of its 2022 operating EPS guidance range by $0.10 and now expects to deliver $4.97-5.07 versus $4.87-5.07 previously, a guidance increase that is up ~1% at the midpoint. AEP also issued 2023 operating EPS guidance of $5.19-5.39, which using the midpoint was in line with consensus/our estimate of $5.28/$5.30 respectively
  - **Quiet quarter following October 4th Analyst Day:** The Company also reaffirmed its annual operating earnings growth rate of 6-7% and its plan to grow its dividend in line with earnings with a 60-70% payout ratio. AEP rolled forward and raised its capital program to $40B for the 2023-2027 period, up roughly 5% from the prior $38B program for the 2022-2026 timeframe; this new plan is expected to drive a 7.6% rate base CAGR. With the new five-year capital program, AEP will allocate $25.8B (versus $24.8B for prior five-year period) towards transmission & distribution and $8.6B (up from previous plan for $8.2B) towards regulated renewables. 85% of the total $40B planned capex through 2027 is eligible for recovery through trackers/formula rates. Aided by strong load growth and cost management, AEP expects 4% average annual bill increase through the forecast period. The Company continues to target long-term FFO to debt of 14-15% in light of the book minimum tax beginning in 2023 under the Inflation Reduction Act and reaffirmed its 2023-2026 equity issuance plan of $100MM, $600MM, $700MM and $700MM, respectively, while introducing a 2027 planned equity issuance of an additional $700MM. AEP is also adjusted its near-term CO_2 emission reduction target from a 2000 to a 2005 baseline, upgrading its 80% reduction by 2030 target to include full Scope 1 emissions and accelerating its net-zero goal by five years to 2045. On Sept. 30th, AEP said that it expects to complete the sale of its Kentucky asset to Liberty in January 2023 pending FERC 203 approval due by Dec. 16th under a revised agreement with Algonquin (see our note for more details).
  - **Asset sales**: AEP stated that the sales process for its unregulated renewable assets began in August 2022 and is on track to close during 2Q23. In April, we had estimated the Company could fetch $1.5-2.0B in cash proceeds at a 13-15x EV/EBITDA multiple applied to $150MM of 2023 EBITDA less $375MM of debt, which could be lower now in the range of $1.2-$1.4B using ED's recent transaction announcement and peer yieldco trading multiples of 11-12x. In addition, AEP also announced that it will initiate a strategic review of its retail business as part of its ongoing strategy to de-risk the company; we estimate the Company could generate $220-$260MM in net proceeds at 7-8x our estimate for 2023 EBITDA of $32MM. We believe these planned asset sales along with incoming CEO Julie Sloat's focus on actively managing the portfolio could materially lower the Company's $2.8B in equity needs through 2027.
  - **Customer bills**: As mentioned above, AEP (which is all electric) has said that it expects 4% annual customer bill increases over its forecast period through 2027.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$4.44**	**$4.74**	**$1.22**	**$1.20**	**$1.57**	**$5.00**	**$5.30**	**$5.65**
Consensus					1.54	5.00	5.28	5.60
% diff.					*2%*	*0%*	*0%*	*1%*

Source: Evercore ISI, FactSet as of 10/18/22

CenterPoint Energy

Outperform **TP $33**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year-over-year EPS to decrease by -$0.01 to $0.32/share. We expect weather to contribute favorably in 3Q22 with cooling degree days 300 degrees above normal and 150 above the same period last year. In terms of other positive YoY drivers, we anticipate positive contributions from the DCRF and TCOS riders, plus increased gas rates, and higher usage. The primary negative YoY drivers are loss of midstream earnings from the sale, higher depreciation & amortization expense, and increased interest expense. Roughly $35 million of Minnesota Winter Storm Uri costs were disallowed but that may be backed out as a one-time item.

- **What to look for in the earnings report (Key debates/themes):**
  - **2022 & 2023 EPS Guidance Ranges:** We expect management to reaffirm its previously announced 2022 EPS guidance range of $1.37-$1.39. 2023 guidance range could be disclosed on the Q3 call. We note that CNP has high % of variable rate debt which could be a headwind to 2023 EPS before offsets.
  - **Master Energy Plan capex update**: CenterPoint has said it plans to update its ten-year (2021-2030) capex program of $40B+ with potential incremental capital beyond this program likely coming from the Texas "Master Energy Plan" in collaboration with the City of Houston. The Company will also likely issue an updated financing plan.
  - **Additional potential gas LDC asset sales**: CNP has said it would consider gas LDC asset sales if it needed to recycle capital into a potentially higher spending program driven by resiliency investment, update expected on the q3 call.
  - **Indiana IRP update**: CenterPoint received approval for projects totaling 460 MW gas combustion turbine, 400 MW of solar (including 100 MW of PPAs), and 335 MW of solar PPAs. The Company recently filed in July 2022 for approval of 130 MWs of owned Crosstrack solar generation; these projects will bring CenterPoint's total owned and contracted solar to over 800 MWs, which is tracking well against its IRP that calls for 700-1,000 MWs of solar and 300 MWs of wind. The Company anticipates filing for the remaining balance of generation needs later this year, which will include a project to be owned by its Indiana electric utility. Lastly, CenterPoint is planning to file its next IRP in mid-2023, which will provide guidance on CNP's remaining coal assets. As a foundation for this next IRP, the Company recently conducted an all-source RFP where it received nearly 100 proposals from several dozen participants, including wind, solar and battery storage that will help inform the process.
  - **Rate case update and Uri gas cost recovery**: The Minnesota commission recently approved a settlement in the gas rate case settlement for a $48.5MM revenue increase with an ROE of 9.39% and 51% equity ratio. That commission also recently disallowed $35MM of the total $345MM Winter Storm Uri gas costs to be recovered over the next ~4 years. CNP is disappointed in the $35MM Uri cost disallowance in Minnesota and may file for reconsideration. The Company does not plan to file any major rate cases until late 2023 across its jurisdictions. Houston Electric is required to be filed no later than 1Q24 where there could ask for a higher equity layer (vs 43% currently).
  - **Texas securitization**: In Texas, CNP anticipates the statewide securitization bonds to be issued in November 2022 (originally expected late summer 2022) after the election. The Company expects that this will provide a 100% recovery of the $1.1 billion of gas costs incurred during last year's winter storm as well as the carrying costs.
  - **Inflation Reduction Act benefits**: CenterPoint said it expects to see benefits through the acceleration of EVs in its Houston Electric and Indiana Electric service territories. The renewable tax credits will benefit the Indiana customers given that subsidiary is vertically integrated versus Houston Electric which is just a T&D utility. Regarding the alternative minimum tax, CenterPoint stated that there are unknowns but that it expects a modest cash flow headwind given that it currently pays close to 10% in cash taxes.
  - **Customer bills:** Given higher gas prices, CNP said it expects winter LDC bills to increase meaningfully and not surprisingly did not anticipate the electric business to be impacted nearly as much.
  - **Fixed versus variable debt:** We estimate CenterPoint to have a negative 2023 EPS impact from higher interest rates on variable debt of $0.06-0.07/share (~4% of consolidated EPS) before offsets. Floating rate debt is expected to total $1.7 billion post securitization proceeds from Storm Uri. The Company has a $700MM CERC maturity in March 2023 at a fixed rate of 70 basis points.

- **Positioning into Qtr: Neutral**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$1.40**	**$1.64**	**$0.47**	**$0.31**	**$0.32**	**$1.38**	**$1.49**	**$1.61**
Consensus					0.32	1.38	1.50	1.63
% diff.					*-1%*	*0%*	*-1%*	*-1%*

Source: Evercore ISI, FactSet as of 10/18/22

In Line **TP $69**
Analyst: Durgesh Chopra / Sharon Wang

- **Q3 EPS Bridge:** We project EPS to decrease $0.03 YoY to $0.51/share, an estimate that excludes EnerBank, which was sold to Regions Bank. Last year in 3Q21, the company saw $0.09 of favorable weather. This year in 3Q22, weather appears to be $0.01 favorable. We expect negative YoY result primarily due to increased property taxes, interest expense and D&A at the utility of $0.06, higher utility O&M of $0.04, partially offset by lower storm related costs and electric rate increase.

- **What to look for in the earnings report (Key debates/themes):**

  - **2022 & 2023 EPS Guidance Ranges:** We expect management to reaffirm its previously announced 2022 EPS guidance range of $2.85-$2.89. 2023 guidance range is expected on the third quarter call, we estimate a range of $3.08-$3.10 which is 7-8% using 2022 guidance mid-pt of $2.87.

  - **Rate Case Update.** On April 28th, 2022, Consumers Energy filed an electric rate case with rate increase request of $275 million, based on 10.25% ROE vs current 9.9%. In August, staff recommended a rate increase of $178 million predicated on an equity layer of 51.0% and a return on equity of 9.70%. ALJ recommendation is due on Dec 16, 2022, and final order is expected in Q1 2023.

  - **Financing Plan:** Given the cost in the current environment, the company is assessing alternative funding options other than hybrid securities for the acquisition of the Covert plant ($815m) in the first half of 2023, which includes using existing ATM equity issuance program. CMS pointed out that this would be accretive to the previously provided $0.03-$0.04 of EPS accretion related to the purchase of Covert, and further strengthen 6%-8% long-term adjusted EPS growth outlook. To fund the current 2022-2026 investment plan of $14.3B, CMS continues to project no equity through 2024 with up to $250MM per year in 2025 and 2026

  - **Storm Investigation:** The new storm investigation is continuation of the work last year. CMS will collaborate with the third party to be named by the commission over the next few months. They don't foresee this as punitive for CMS and/or other utilities serving the state rather Michigan regulators acknowledging climate change and extreme weather risks and monitoring progress on recommended actions last year to proactively prepare for future events.

  - **IRA Implications:** CMS is encouraged by the clean energy provisions in the Inflation Reduction Act, Solar PTCs in particular and stated that since they are below the $1B pretax earnings marker they will not be impacted by the 15% minimum tax provision.

- **Positioning into Qtr: Neutral**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$2.67**	**$2.65**	**$1.20**	**$0.53**	**$0.51**	**$2.86**	**$3.14**	**$3.34**
Consensus					0.66	2.88	3.13	3.40
% diff.					*-22%*	*-1%*	*0%*	*-2%*

Source: Evercore ISI and FactSet as of 10/18/22

conEdison

Underperform **TP $86**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year-over-year EPS to increase by +$0.09 to $1.50/share. The CECONY and O&R electric and gas businesses are decoupled and 3Q is not a heating season, so the impact of weather for the Steam segment is minimal. Positive YoY drivers primarily include revenue increases under the multi-year rate agreements in CECONY and O&R, as well as credit collection payments that resumed on September 1st, plus lower storm preparation costs. Negative YoY drivers include higher O&M, increased interest expense, higher depreciation & amortization, increased property taxes, loss of Stagecoach (sold) earnings, and share dilution.

- **What to look for in the earnings report (reminder that ED does not host a conference call):**
  - **2022 & 2023 EPS Guidance Ranges:** We expect management to reaffirm (or narrow) its previously announced 2022 EPS guidance range of $4.40-$4.60. 2023 guidance range is expected to be announced on the year-end earnings call.
  - **CECONY electric and gas rate case update:** Settlement discussions in the rate case began on July 6th and are unlikely to be announced until after the November election. We believe the Staff recommendation for both electric and gas was positive on the cost of capital side with a 48% equity layer and 8.8% ROE being same as the current levels while there were concerns that the equity ratio may be reduced. Expenses are the other large drivers in the difference between the revised revenue request and Staff's recommendation, with $450 million combined for electric (with $90 million due to depreciation which will not impact earnings), so $360 million needs to be negotiated. We believe this is where the risk lies. A high-level reconciliation between request and Staff is: on electric a $738 million difference in rate increase with: 1) ~$300 million from ROE and equity ratio, 2) ~$350 million is expenses (including $50 million in depreciation which shouldn't impact earnings), 3) $50 million rate base, and 4) $38 million other items. On the gas side, there is a $237 million difference in rate increase between the request and Staff driven by: 1) ~$100 million in ROE and equity layer, 2) ~$100 million in expenses (including $40 million depreciation which should not impact earnings), and 3) $37 million other items. Recall on January 28th, Con filed this CECONY electric and gas rate case that is a one-year 2023 proposal with 2024-2025 illustrations. ED requested a revenue increase of $1,199 million for electric and $503 million for gas in 2023, with illustrations for $853 million and $234 million in 2024 plus $608 million and $218 million for 2025, respectively. The request is based on a 10.0% ROE with a 50% equity ratio on a historical test year of 12-months ended September 30, 2021 for rates to be effective on January 1, 2023.
  - **CEB asset sale**: On October 1st, Con Edison announced an agreement to sell its unregulated renewal business to RWE for $6.8 billion. Accounting for ~$2.6 billion in total debt, the transaction translates into $4.2 billion in equity value, which is in line with the top end of our previously-estimated $3-4 billion range. After-tax proceeds of $3.9 billion will eliminate ED's need to issue "up to $850" million of equity this year and could further reduce equity needs beyond 2022 and / or pay down debt, fund future capex or buy back shares. Con Ed rescinded its guidance for "up to 750" million in aggregate equity issuance for 2023-2024, an amount that is likely to be updated with its third quarter 2022 earnings release or subsequently at the EEI Conference on November 13-15th. The transaction is subject to HSR approval and is expected to close in the first half of 2023. We view this announcement as a positive step for Con Ed, as it would transition the company to a fully regulated utility, thereby improving its risk profile with the creation of more steady earnings and cash flow growth, while also reducing its equity needs through 2024. With its next update to investors, we actually anticipate that the company will eliminate its equity issuance forecast entirely. The transaction is valued is 11x our 2023 EBITDA estimate of ~$600 million, a valuation in line with current peer yieldco trading multiples of 11-12x. Assuming ED deploys $3.9 billion in proceeds towards eliminating "up to" $1.6 billion in total equity needs through 2024 and directs the remaining $2.3 billion of proceeds towards investments, we estimate a modest ~1% earnings accretion to our 2024 EPS estimate and the same amount of value accretion (see our note) to our target price of $86/share.
  - **Incremental transmission projects**: In November 2020, Con Ed proposed transmission projects that are not currently included in its three-year capex program through 2024. The projects would total $4 billion in transmission cost and $1.3 billion in related distribution spending over ten years and are intended to enable NYS to meet its clean energy goals. One of the transmission projects is the Brooklyn Clean Energy Hub, which totals $1 billion and has an expected decision date soon. There is no set timeline for final decisions on the other proposed projects.
  - **Equity issuance plans**: As mentioned, after-tax proceeds of $3.9 billion for the sale of the CEBs eliminates Con Ed's need to issue "up to $850" million of equity this year and could further reduce equity needs beyond 2022 and / or pay down debt, fund future capex or buy back shares. Con Ed rescinded its guidance for "up to 750" million in aggregate equity issuance for 2023-2024, an amount that is likely to be updated with its third quarter 2022 earnings release or subsequently at the EEI Conference on November 13-15th.
  - **Proposal for NY Transco**: Con Ed has a pending filing in collaboration with the NY Power Authority for a transmission solution to bring offshore wind off Long Island. The amount of investment is not disclosed with details expected in fourth quarter this year.
  - **Customer bills:** Con Ed issued a press release stating that gas bills will increase 32% year over year from November 2022 to March 2023. For electric, ED projects a 22% increase.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$4.18**	**$4.39**	**$1.47**	**$0.64**	**$1.50**	**$4.50**	**$4.75**	**$5.00**
Consensus					1.46	4.51	4.82	5.08
% diff.					*3%*	*0%*	*-1%*	*-2%*

Source: Evercore ISI, FactSet as of 10/18/22

Outperform **TP $79**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project full 3Q22 adjusted EBITDA of $600 million for Constellation (roughly 25% of our annual EBIDTA estimate), which spun off from Exelon on February 2, 2022.

- **What to look for in the earnings report (Key debates/themes):**

  - **2022 & 2023 EBITDA Guidance Ranges:** We expect management to reaffirm (or narrow) its previously announced 2022 EBITDA guidance range of $2,350M-$2,750M. 2023 guidance range is expected to be announced on the year-end earnings call.
  - **Use of free cash flow**: Free cash flow for 2022-2023 of $1.8-2.2 billion (guidance) had been expected to be utilized for unidentified growth capital and/or return of capital to shareholders in the form of buybacks and special dividends. Constellation has said it sees opportunities to deploy capex at double digit IRR's in the area of nuclear plant acquisition, repowering existing fleet, producing clean hydrogen and growing their offering of sustainability products and services for their C&I customers. CEG had said it plans to provide more clarity on use of free cash flow before year-end, but that could now be delayed with its consideration of M&A given the Talon bankruptcy (~2 GW of nuclear), as well as other industry potential nuclear asset sales.
  - **Inflation Reduction Act**: Constellation highlighted the following benefits it would receive with passage of the Inflation Reduction Act (IRA), including: 1) the benefits of the zero-emission nuclear production tax credit for the production from existing plants beginning in 2024 through 2032. The Company would qualify for the new tax nuclear tax credit up to $15/MWh as long as market revenues do not exceed $25MWh, in which case the credit is reduced. The credit can also offset CEG's tax obligation or can be monetized by transferring it to another taxpayer; and 2) the benefits of the new 10-year fully-refundable tax credit for the production of clean hydrogen. Constellation would qualify for a credit of $3.00/kg for hydrogen facilities under construction before December 31, 2032. The Company could claim both the nuclear PTC and hydrogen PTC.
  - **Hedges update:** As of the second quarter call, 95-98% of total expected generation in 2022 was hedged. For 2023, 88-91% was hedged.
  - **Addressing nuclear fuel pricing and supply risks**: CEG has previously stated that they have hedging policies to mitigate price related risks and have secured fuel to run the plants for several years. The company is also working with various stakeholders to expand domestic production capabilities.

- **Positioning into Qtr: Neutral.**

Adj. EBITDA	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**866**	**603**	**600**	**2,550**	**3,100**	**3,200**
Consensus			601	2,630	3,126	3,394
% diff.			*0%*	*-3%*	*-1%*	*-6%*

Source: Evercore ISI, FactSet as of 10/18/22

Outperform **TP $90**
Analyst: Durgesh Chopra / Sharon Wang

- **Q3 EPS Bridge:** We project year over year EPS to decrease $0.05 to $1.06 driven by share dilution, taxes, and interest expense. Degree-day data in third quarter was overall close to last year across D's service territory.

- **What to look for in the earnings call (Key debates/themes):**
  - **2022 & 2023 EPS Guidance Ranges:** We expect management to reaffirm (or narrow) its previously announced 2022 EPS guidance range of $3.95-$4.25. 2023 guidance range is expected to be announced on the year-end earnings call.
  - **Offshore Wind Performance Guarantee:** On Aug 5th, Rider Offshore Wind was approved by the VA Commission, while including a performance guarantee provision. The order states that customers shall be held harmless for any shortfall in energy production below an annual net capacity factor of 42% as measured on a three-year rolling average. Management stated that they are extremely disappointed in the Commission's requirement of a performance guarantee, and this significantly increases the risk profile of the project. On August 22nd, 2022, the company filed a petition for limited reconsideration. D and intervenors have filed testimony, and the company filed reply briefs on September 29th. The commission rules between 30 - 60 days after the reply briefs. D said they are working with various stakeholders on a potential settlement.
  - **Data Center related transmission constraints in Northern Virginia:** Addressing the transmission bottlenecks related to data center demand in Loudoun County, Virginia, the company on its second quarter call stated that it is working on a variety of potential solutions to serve as much of this increased demand as possible including accelerating transmission projects. For 2022, they expect no impact to sales growth as recently connected data centers are continuing to ramp-up their demand from existing facilities. Beyond 2022, the company pointed to potentially lower sales growth due to the transmission capacity constraints which they expect to overcome by accelerating transmission projects (capex updated expected on the fourth quarter call). The overall financial impact is expected to be neutral.
  - **IRA Implications**: D views it as a positive for company's Decarbonization efforts. For instance, management pointed to full PTC credit for wind lowering their offshore levelized cost of energy (LCOE) by $7 or 8%, which provides more headroom to the prudency criteria of $125/MWh. 15% AMT is not expected to have a meaningful impact on company financials as they are already paying cash taxes at a 5.25% federal cash tax rate. After offsets to the AMT including accelerated tax depreciation, they don't expect materially higher cash tax payments.
  - **Utah RC:** On May 2nd, 2022, Dominion Energy Utah filed a general rate case which is required every three years, seeking an increase of $70.5M in gas rates driven by higher forecasted gas costs, with ROE of 10.3% (vs current 10.5%) and equity layer of 53.21% (vs current 55%). The rate increase also includes costs associated with the Company's new 15M-gallon liquified natural gas (LNG) facility. Discovery and initial testimony processes are underway. Hearings are scheduled to begin in October with a final decision expected by early 2023.
  - **Customer Bill Increase**: D said they are proactive with regulators around bill increases. In Virginia, they recommended a couple options for fuel, one of which was to defer the under recovery over three years and got approval, resulting in 7% Bill increase in July. In South Carolina. D recently filed for a 14% bill increase related to fuel and filed for a 10% increase related to fuel in Utah. North Carolina is expected to file for about 10 to 12% bill increase related to fuel.
- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$3.54**	**$3.86**	**$1.18**	**$0.77**	**$1.06**	**$4.15**	**$4.43**	**$4.70**
Consensus					1.11	4.11	4.37	4.68
% diff.					*-5%*	*1%*	*1%*	*0%*

Source: Evercore ISI, Capital IQ, Factset as of 10/18/22

DTE

Outperform **TP $140**
Analyst: Durgesh Chopra / Sharon Wang

- **Q3 EPS Bridge:** We project year-over-year EPS to decrease $0.15 to $1.57 /share. In terms of YoY drivers on electric side, DTE should see drag from a return to normal weather (-$0.08), typical D&A, property tax, and interest expense (-$0.10), partially offset by favorable weather this year ($0.03), amortization of voluntary refunds ($0.03), and tax cut jobs act amortization ($0.13). On the gas side, positive drivers include favorable weather this year ($0.01), and rate increase ($0.03). As per the company guidance, DTE should see decreased contribution from Vantage (-$0.25), lower energy trading earnings (-$0.13), and benefit of corporate segment ($0.19). DTE will provide 2023 guidance and the five-year capital plan update at EEI conference (vs Q3 call previously because of the IRP delay).

- **What to look for in the earnings report (Key debates/themes):**
  - **2022 & 2023 EPS Guidance Ranges:** We expect management to reaffirm (or narrow) its previously announced 2022 EPS guidance range of $5.90-$6.10. 2023 guidance range is expected to be announced at the EEI conference.
  - **Clean Vision Plan (IRP).** DTE is preparing to file an updated IRP in November (vs October previously due to layering IRA into assumptions) this year, which if approved could drive higher capex through the forecast period by 5-7GW renewables deployment. Some of the IRP investment could be incremental to current capex in the back end of five-year plan. The company is evaluating cessation of coal use earlier than 2040. On June 06, 2022, DTE announced that its Blue Water Energy Center, a 1,150MW combined-cycle natural gas-fired power plant that can run 24/7 has begun commercial operation. Furthermore, the Michigan commission recently approved CMS Energy's IRP settlement, which we see as a constructive for DTE as well.
  - **Electric Rate Case:** In staff's testimony filed on May 19th, the staff recommended a rate increase of $143mm, rate base of $20.6bn, 9.60% ROE and equity ratio of 50%. This compares to DTE's request of $388mm, rate base of $21.3bn, 10.25% ROE and equity ratio of 50%. The main drivers of delta between ask vs staff's recommendation are lower ROE $85mm, disallowed incentive compensation $50mm, rate base disallowances $35mm (timing related, prudency of the projects was not challenged), lower depreciation $35mm and other items. We view the staff's position as a constructive starting point for negotiations. ALJ's Proposal for Decision in September was a rate increase of $145.7mm, rate base of $20.5bn, ROE of 9.90%, and equity ratio of 50%. A final decision is expected on November 18th.
  - **Customer Bill Increase**: DTE said they would see $8 or 6.5% bill increase versus last year at the electric company and about $13 or 20% bill increase per month at the gas company.
  - **IRA Implications**: Management views the Inflation Reduction Act is a tailwind for renewables, the 15% alternative minimum tax (AMT) is not expected to have a material impact on company's cash flows as accelerated tax depreciation and general business tax credits will serve as offsets.
  - **Storm Investigation:** The new storm investigation is continuation of the work last year. CMS will collaborate with the third party to be named by the commission over the next few months. They don't foresee this as punitive for CMS and/or other utilities serving the state rather Michigan regulators acknowledging climate change and extreme weather risks and monitoring progress on recommended actions last year to proactively prepare for future events.
- **Positioning into Qtr: Positive.** Despite our below street 3Q22 estimate we expect DTE to reaffirm its 2022 EPS guidance range. DTE has been a relative underperformer over the past month (-15.4% vs peers -13%) we see reversal of the underperformance going into earnings/EEI backed by a strong 22, de-risked 2023 and potential raise to 5-7% long term targeted growth rate. We also note that company's IRP filing in November will highlight DTE's runway of capex/rate base growth opportunities which will bolster investor sentiment.

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$5.61**	**$5.99**	**$2.31**	**$0.88**	**$1.57**	**$6.00**	**$6.23**	**$6.53**
Consensus					1.70	6.02	6.27	6.71
% diff.					*-8%*	*0%*	*-1%*	*-3%*

Source: Evercore ISI, Factset as of 10/18/22

In Line **TP $109**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year-over-year EPS to decrease -$0.13 to $1.75. Last year in 3Q21, weather was $0.05 favorable, and this year in 3Q22 it is expected to be similarly favorable. In terms of positive YoY drivers, we expect rate cases and riders to contribute favorably, in addition to higher sales growth, an AFUDC equity benefit and a modest increase in gas utilities contribution. In terms of negative YoY drivers, we primarily anticipate increased depreciation and amortization, higher interest expense, lost earnings from Indiana minority interest sale, lower Commercial Renewables after a strong 2021, the negative impact of tax optimization, and reduced market equity returns for the executive benefit trust. We expect O&M to be relatively flat.

- **What to look for in the earnings report (Key debates/themes):**
  - **2022 & 2023 EPS Guidance Ranges:** We expect management to reaffirm (or narrow) its previously announced 2022 EPS guidance range of $5.30-$5.60, possibly pointing to the lower half. 2023 guidance range is expected to be announced on the year-end earnings call.
  - **Strategic Review of the Commercial Renewables Business**: Earlier this year, Duke announced a strategic review of its Commercial Renewables business which comprises of ~5.1 GW of wind and solar in operation (~3.5 GW net ownership, $150MM net income, $1B of project debt). We estimate DUK could fetch $3.5-4.5 billion in cash proceeds at a 13-15x EV/EBITDA multiple applied to our $360 million of EBITDA estimate less $1B of debt. Assuming $4B in debt paydown from sale proceeds at 4% we show modest EPS accretion (0.5%) when compared to our 2024E of $6.15. We note that our analysis does not incorporate tax attributes (unused tax credits) which currently carry a book equity value of ~$1B. The strategic review is expected to be completed late 2022 or early 2023.
  - **Carolinas rate cases**: On October 6th, DEP filed a rate case with the North Carolina commission that includes a Performance Based Regulation (PBR) Application which includes a Multi-Year Rate Plan (MYRP) and proposes rates for 3 years within the MYRP period. The rate case filing requests approval of a $236 million revenue increase with a 10.20% ROE and 53% equity layer and is based on a North Carolina retail rate base of $12.3 billion as of December 31, 2021, adjusted for known and measurable changes projected through April 30, 2023. The MYRP includes impacts of approximately $3.8 billion (NC retail allocation) of capital projects that are projected to go in service over the MYRP period. Hearings are expected to start in May 2023. Duke intends to implement temporary rates subject to refund June 1, 2023 for the historic base case increase and has requested the NCUC approve the requested permanent total Year 1 rates to be effective no later than October 1, 2023. Duke plans to file a DEC rate case in 1Q23.
  - **Carolinas Carbon Plan**: On May 16th, Duke filed a Carbon Plan that includes two paths to 70% carbon reduction via four portfolios that consider a mix of currently available and emerging technologies. The first path achieves the 70% target by 2030 and the second path offers three portfolios to achieve the 70% target by 2032 or 2034 through increased offshore wind and/ or small modular nuclear generation. Each portfolio has tradeoffs in the near term and long term with cost and execution considerations for regulators to consider. All four portfolios replace coal with a diverse mix of solar, storage, wind, small modular nuclear and gas. Public hearings are now complete with the North Carolina commission required to approve by December 31st. In South Carolina, Duke will file in 2023 for approval in the next comprehensive IRP. The Carbon Plan will be reviewed every two years and adjusted as needed.
  - **Inflation Reduction Act**: Management stated that clean energy tax provisions in the Inflation Reduction Act is an enabler of clean energy transition, and that the AMT could be a cash flow headwind but they would also benefit from tax credits.
  - **Indiana IRP filing**: In Indiana, following the filing of the IRP in December 2021, Duke issued a request for proposal for generation resources. A Commission Staff report is due this year, and DUK expects to file CPCNs by year-end 2022.
  - **Ohio electric rate case**: Duke filed an Ohio electric rate case in October 2021 that the Company has highlighted as a straightforward case. There are rider caps in Ohio and this case is primarily to get all the relevant capex into rates. In mid-May 2022, the Staff recommended a revenue increase range of $2-15 million (DUK requested $55 million), an ROE range of 8.84-9.85% (ask was 10.3%), and an equity ratio of 50.5% (request was also 50.5%) on a rate base of $2,036 million (ask was $2,069 million). DUK announced a settlement last month with a $22.5 million revenue required, ROE of 9.5% (current is 9.84%), and equity ratio of 50.5% (current 50.8%). A final order is expected late this year or early next year.
  - **Customer bills:** At the gas utilities, expect 30-50% higher bills. In the Carolinas increases are capped at 8-10%. Florida increases are expected to be in the 10-15% range.

- **Positioning into Qtr: Cautious.** **We expect management to reaffirm (or narrow) its previously announced 2022 EPS guidance range of $5.30-$5.60, possibly pointing to the lower half.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$5.12**	**$5.24**	**$1.30**	**$1.14**	**$1.75**	**$5.45**	**$5.75**	**$6.15**
Consensus					1.88	5.45	5.74	6.13
% diff.					*-7%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 10/18/22

EDISON INTERNATIONAL®

In Line **TP $71**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year-over-year EPS to decline -$0.34 to $1.35/share. Note that the rate case last year in 3Q21 contributed $0.35 of EPS. In terms of negative YoY drivers, we expect higher preferred dividend expense, increased depreciation & amortization, higher interest expense, increased O&M and higher property taxes.

- **What to look for in the earnings report (Key debates/themes):**
  - **2022 & 2023 EPS Guidance Ranges:** EIX sometimes updates its current-year (2022 in this case) EPS guidance ($4.40-$4.70) on its Q3 call. The Company typically issues its forward-year (2023) EPS guidance on its Q4 call.
  - **Cost of capital filings:** SCE is still awaiting resolution of whether the cost of capital (COC) trigger mechanism will operate for 2022. In the 2023-2025 COC proceeding, the procedural schedule calls for proposed decision to be issued in mid-Nov. 2022, which allows for final decision to be made by year-end 2022. Recall in April 2022, the Company filed an application to establish the 2023-2025 COC and reset the cost of capital mechanism for a three-year term. SCE requested an ROE of 10.53% and its currently authorized equity ratio of 52%
  - **2017/2018 Wildfire / Mudslide claims:** EIX updates its best estimate of losses every quarter. As of the second quarter 2022, the Company resolved $7.0 billion of the claims for the 2017/2018 Wildfire/Mudslide Events, or 89% of the estimated potential losses to $7.9 billion. SCE plans to make a cost recovery filing by late 2023 to seek recovery for prudently-incurred actual losses in excess of insurance, assuming relevant proceedings progress as expected. Note that the statute of limitation recently expired for the Woolsey fire which could impact company's total potential losses estimate .
  - **Equity needs:** EIX has said it still plans to issue, on average, $250 million of equity per year in 2022-2025, with plans to issue a higher-than-average $300-400 million amount this year of equity content securities. The Company noted that it has flexibility to defer its equity issuance originally planned for this year into 2023 if it feels that would be a better time to go to the market.
  - **Wildfire mitigation strategy:** EIX typically provides an update each quarter on its wildfire mitigation and PSPS measures taken to reduce risk of damage from catastrophic wildfires. As of the first quarter 2022, the Company estimated that it had reduced that risk by 65-70% relative to pre-2018 levels. EIX has stated that covered conductor is one of the most effective measures to reduce these risks. The Company has also been risk-prioritizing equipment inspections and vegetation management programs and has continued its advancement of situational awareness and weather forecasting capabilities. .
  - **Customer bills:** EIX just filed a trigger mechanism for purchased power. The Company expects 5-6% increases in customer bills.
  - **Corporate debt to total debt & fixed versus variable debt**: EIX corporate debt to total debt is 14%. The Company has $800 million of variable debt and a $600 million term loan (5% of total debt).

- **Positioning into Qtr: Neutral**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$4.52**	**$4.59**	**$1.07**	**$0.94**	**$1.35**	**$4.55**	**$4.95**	**$5.25**
Consensus					1.63	4.50	4.84	5.18
% diff.					*-17%*	*1%*	*2%*	*1%*

Source: Evercore ISI, FactSet as of 10/18/22



Outperform **TP $130**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year-over-year EPS to increase by $0.20 to $2.65/share. Last year in 3Q21, weather was $0.04 unfavorable, and it is expected to be mixed for the same period this year. In terms of positive YoY drivers, we primarily expect the benefits of rate relief and riders. In terms of negative YoY drivers, we primarily anticipate higher taxes other than income, increased O&M, higher interest expense, increased D&A, and a higher effective tax rate.

- **What to look for in the earnings report (Key debates/themes):**
  - **2022 & 2023 EPS Guidance Ranges:** ETR has already guided to 2022 EPS in top half of their previously announced guidance range of $6.15-$6.45. Guidance for 2023 has already been issued ($6.55-$6.85) but will be updated with Q4 results; we could see drivers around it at the EEI Conference in November 2022.
  - **Messaging from new leadership:** On August 17th, Entergy announced that CFO Andrew Marsh has been named CEO, effective November 1st, succeeding Leo Denault, who is retiring in 2023. Denault will continue as executive chairman until his retirement. Kimberly Fontan, the company's chief accounting officer, will succeed Marsh as CFO.
  - **Storm cost recovery:** In June 2022, Entergy Louisiana filed for recovery of the remaining $1.6 billion of Ida storm costs. Next steps include rebuttal testimony on 10/24/22 and hearings on 12/19/22 through 12/23/22. The target date to complete the securitization is by year-end 2022, assuming the parties reach a settlement in time for financing. Separately, Entergy New Orleans filed for storm escrow replenishment, seeking authorization to replenish reserves to $150 million utilizing securitization financing. Advisors' finding reports was made on 8/12/22 and the hearing officer certified the record on 8/30/22. Securitization is expected to be complete in 4Q22.
  - **Credit metrics:** ETR has recently delayed its expectation to reach Moody's >14% CFO pre-working capital to debt target ratio and S&P's 14-16% FFO to debt target by one year from 2022 to 2023. The credit agencies had been predicting that timeline for those metrics to be achieved all along.
  - **SERI settlement:** Should the retail regulators for Entergy Arkansas, Entergy Louisiana, and Entergy New Orleans elect to join the settlement, it is estimated that the total amount that SERI would refund would be $588 million (including Entergy Mississippi's portion). SERI had previously recorded a provision and associated liability of $38 million for elements of the applicable litigation. In the second quarter 2022, Entergy recorded a pre-tax regulatory charge of $551 million (approximately $413 million after tax), increasing the regulatory liability to $588 million, which consists of $235 million for the settlement with the Mississippi PSC and $353 million for potential future refunds to Entergy Arkansas, Entergy New Orleans and Entergy Louisiana. A $588 million total SERI settlement would temporarily negatively affect Entergy's cash flow to debt credit metrics. The timing and magnitude of the impact to cash flow would depend on the details of the total settlement. The long-term impact of debt financing of a $588 million System Energy settlement would not be expected to move Entergy's cash flow to debt metrics outside of targeted ranges.
  - **Inflation Reduction Act legislation:** Entergy said the law is still left to interpretation but that it preliminarily expects the Alternative Minimum tax to be cash flow neutral after the first year. ETR believes it would be eligible for production tax credits for its regulated nuclear assets because it participates in the wholesale power markets though ultimately it gets netted off in rates.
  - **Customer Bill:** Entergy is 100% electric and the Company expects 3-4% customer bill increases for every $1/MMBtu of higher gas prices. ETR is assuming a gas price of $4/MMBtu in its long-term plan.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$5.66**	**$6.02**	**$1.32**	**$1.78**	**$2.65**	**$6.30**	**$6.70**	**$7.15**
Consensus					2.65	6.36	6.75	7.20
% diff.					*0%*	*-1%*	*-1%*	*-1%*

Source: Evercore ISI, FactSet as of 10/18/22

EVERSOURCE

In Line **TP $91**
Analyst: Durgesh Chopra / Sharon Wang

- **Q3 EPS Bridge:** We project year-over-year EPS to increase by $0.02 to $1.04, driven by rate increase at NSTAR electric ($0.03), pension plan ($0.04), and electric transmission ($0.03), partially offset by higher depreciation and property taxes (-$0.03), debt interest expense (-$0.04), and share dilution (-$0.01).

- **What to look for in the earnings report (Key debates/themes):**
  - **2022 & 2023 EPS Guidance Ranges:** We expect management to reaffirm its previously announced 2022 EPS guidance range of $4.04-$4.14. 2023 guidance range is expected to be announced on the year-end earnings call
  - **Offshore Wind Strategic Review:** The strategic review of the offshore wind investment portfolio is underway, which could result in a potential sale of all or part of Eversource's 50% interest in offshore wind joint venture with Ørsted. ES is working closely with potential buyers. We estimate up to $4B in proceeds from the sale of Eversource's share of the joint venture. Sale proceeds would be used to fund incremental capex opportunities (AMI, onshore transmission, etc.) and/or reduce current financing needs. Eversource continues to target the completion of the review by the end of 2022.
  - **M&A Strategy**: Management stated that they have no interest in expanding their natural gas footprint through M&A. They could consider electric assets but that has a high threshold considering rate base/capex opportunities within their existing portfolio in Massachusetts, Connecticut, and New Hampshire. Eversource will opportunistically pursue water deals in neighboring states, the focus of which has been on municipally owned water systems.
  - **$3B Incremental Capex to Offset Offshore Earnings Loss:** By 2026, incremental investments required to replace the earnings contribution of offshore wind will be approximately $3B. This aligns with company's guidance in February, where wind business was expected to contribute ~$150 million in 2026, translating to $3B capex requirement from a regulated standpoint to offset the divestiture of offshore wind using a ~50% equity layer and 10% ROE. Eversource feels confident to reach this level of investment, as capital investment in AMI and interconnections is around $1.5B in total (not in current plan), and company also sees opportunities on the distribution and transmission system to upgrade infrastructure addressing the load expansion to bring in further renewable resources and to accommodate electrification.
  - **Additional Details on Offshore Wind**: During the review process, the company will continue execution of the three offshore wind projects and lead the onshore portion of the projects during citing and construction. Despite high costs due to global supply chain issues, the company has locked in 82% of the three project costs in July, higher than 80% in May. Offshore investment to date is $1.5B in July versus $1.3B in May. Projected in-service dates for the three projects are unchanged – late 2023 for South Fork Wind (130 MW), 2025 for Revolution Wind (704 MW), and late 2025 for Sunrise Wind (924 MW). In terms of capital investment, ES still estimates spending $900MM - $1B in 2022 and $3B - $3.6B in years 2023-2026 for their ownership share in the three projects.
  - **Regulatory Update.** ES has reached the end of its five-year stay out for NSTAR Electric Company in Massachusetts, and filed a rate case on January 14, 2022, proposing rate increase of $94M (updated from $89M in Q1), reflecting a ROE of 10.5% and an equity layer of 54% (updated from 53.8% in Q1). Final order is expected around late 2022/early 2023 Aquarion Connecticut rate case was filed on August 29, 2022, which is its first rate review in roughly 10 years. Revenue deficiency is $27.5M with 10.35% ROE and 53% Equity Layer. New rates will go into effect on March 15, 2023.
  - **Advanced Meter Infrastructure (AMI).** In CT, ES targets all customers on AMI during 2022-2026 with capital investment of approximately $475 million. Decision is expected in Q4 2022. In MA, ES's capital investment plan is approximately $575 million in years 2022-2027. Decision from DPU is still expected in Q4 2022. If approved, these investments would be incremental to company's current five-year capex plan to replace the earnings contribution of offshore wind.
  - **Financing Plan:** In terms of financing plan, Eversource expects equity issuance of $1.2 billion under ATM program through 2026, of which ~$140M was issued through July.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$3.64**	**$3.86**	**$1.30**	**$0.86**	**$1.04**	**$4.12**	**$4.35**	**$4.60**
Consensus					1.08	4.11	4.39	4.69
% diff.					*-4%*	*0%*	*-1%*	*-2%*

Source: Evercore ISI, Factset as of 10/18/22

In Line **TP $72**
Analyst: Durgesh Chopra / Sharon Wang

- **Q3 EPS Bridge:** we project year-over-year EPS to decrease by -$0.03 to $1.95/share. Weather last year in 3Q21 was $0.13 favorable and this year it is similar. Key negative YoY factors are higher depreciation & amortization and a lower non-regulated business earnings.

- **What to look for in the earnings report (Key debates/themes):**

  - **2022 & 2023 EPS Guidance Ranges:** We expect management to reaffirm its previously announced 2022 EPS guidance range of $3.43-$3.63,potentially tracking in the upper half . 2023 guidance range is expected to be announced on the year-end earnings call
  - **Missouri rate case filings**: On September 22nd, The Missouri Commission issued an order approving partial settlements awarding $25 million in revenue increase for Missouri Metro and $42.5 million increase for Missouri West. The only outstanding issue now is the recoverability of fuel costs over the cap which could result in a $0.03-$0.06 annual EPS headwind for EVRG starting in December 2022. We expect a Commission decision in the coming weeks.
  - **Kansas Rate Case**: Evergy is preparing to file Kansas Central and Kansas Metro rate cases in late April 2023. The Company expects a test year ending September 30, 2022, and the true-up date around June 30, 2023, with new rates becoming effective in December 2023.
  - **IRA Implications**: Management views the Inflation Reduction Act as a tailwind for renewables and since EVRG does not expect to be at the $1B pre-tax threshold until second half of the decade the 15% AMT will not have an impact on results over the next few years.
  - **Build Transfer Agreements and PPA buy-ins**: The Company continues to target at least one PPA buy-in (100-200 MW) combined with repowering this year. Evergy has previously stated that they are planning to execute on PPA buy-ins and that could provide incremental capex opportunities and earnings upside as PTCs expire with a total of 1.2 GW to expire in the 2022-2025 timeframe; we estimate up to ~$0.10 EPS upside (or ~3% of our 2024 estimate) assuming the MWs are rate based through rate cases and ~50% financed with equity.
  - **Annual update to IRP and update on pre-determination filing:** Evergy filed its annual update to its Missouri and Kansas IRP in June. The Company's preferred plan for the next decade is consistent with the resource plan laid out in last year's triennial IRP filing and the renewables development discussed during EVRG's Investor Day last September. The minor tweaks in the plan reflect updates to the sequencing of near-term investments. Specifically, Evergy shifted the 190 MW solar edition and the Lawrence 4 coal retirements to 2024, primarily due to the dynamic market conditions facing the solar supply chain and the benefits to customers of keeping Lawrence 4 online with current high natural gas prices. In 2026, Evergy shifted a planned solar project to wind and increased the capacity assumption for the project by 100 MWs. Beyond 2026, the Company slightly reduced megawatt assumptions for its solar projects, which on a net basis offset some upward pressures on pricing. Overall, by the end of 2032, Evergy's preferred plan now includes 3,500 MWs of renewable additions while also retiring nearly 2,000 MWs of coal. A pre-determination filing is likely to be made next year to accommodate the updated IRP plans for the Lawrence 4 retirement and the delay in the solar additions. The delay from 2023 would not have a meaningful impact on earnings expectations as the structure for new solar was expected to contribute <$0.01 to annual EPS in both 2024 and 2025.

- **Positioning into Qtr: Positive.** **Our above consensus estimate positions EVRG strongly to deliver 2022 EPS in the upper half of the guidance range and/or de-risk 2023**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2023E
EVR ISI	**$3.10**	**$3.54**	**$0.58**	**$0.86**	**$1.95**	**$3.55**	**$3.75**	**$4.00**
Consensus					1.85	3.56	3.79	4.04
% diff.					*5%*	*0%*	*-1%*	*-1%*

Source: Evercore ISI, Factset as of 10/18/22

Outperform **TP $50**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project 3Q22 adjusted EPS of $0.70 for Exelon (EXC has said it is historically about 32% of full-year earnings), which as a reminder is now a standalone utility that has been reporting as such for the second time since 1Q22 following its separation from GenCo in February 2022. We expect weather to be modestly favorable this year in 3Q22 and it was relatively neutral last year in 3Q21. However, weather is not a major driver of earnings for EXC given that roughly 75% of it is decoupled. In terms of the primary positive YoY drivers for the utility, we expect higher rates and the benefit in Illinois from the increased 30-year treasury rate and lower storm costs. We see the primary negative drivers for the quarter being higher O&M and increased interest expense at the parent.

- **What to look for in the earnings report (Key debates/themes):**
  - **2022 & 2023 EPS Guidance Ranges:** We expect management to reaffirm (or narrow) its previously announced 2022 EPS guidance range of $5.30-$5.60. EXC will discuss 2023 EPS drivers with official guidance expected on the year-end call.
  - **Management change**: Exelon has promoted Calvin G. Butler Jr. to the role of President and Chief Operating Officer and Jeanne Jones to Executive Vice President and CFO. Chris Crane, previously President and CEO, continues as Exelon's CEO. Jones succeeds Joe Nigro, who will serve as advisor to the CEO through March 31, 2023.
  - **Illinois Performance Incentive Order and planned rate case filling:** On September 27th, the Illinois commission granted ComEd electric distribution 32 +/- basis points for its performance-based electric distribution ROE incentives and penalties to be effective January 2024, which was lower than both the Staff's recommended 36 +/- basis points and the Company's unchanged request for 60 +/- basis points. The commission also adjusted the basis point allocation by category of performance. We estimate the order granting ComEd electric distribution 32 +/- basis points for its performance would contribute 2024 EPS of $0.03/share, or 1% of our 2024 consolidated EPS forecast of $2.57/share. EXC has said it has been assuming an unspecified range of outcomes in its 6-8% operating EPS growth forecast for 2021 through 2025. The Company has not said whether it would file for a traditional rate case or a Multi-Year Plan (note here). Specifically, Exelon has the option to establish new rates on either a traditional rate review using a future test year, or an investment and operating cost plan for a four-year period, to be submitted by January 20, 2023 to the Illinois commission for review and approval by year-end 2023 for rates effective the beginning of 2024 after the existing formula rate plan framework sunsets in 2023.
  - **Equity**: Exelon still expects to issue no more than $1B of equity through 2025 and has $425MM left to go. The Company is targeting a 2022-2024 average FFO to debt of 13-14% for S&P's current BBB rating, which has a downgrade threshold of 12%, and CFO (pre-WC) to debt of 13-14% for Moody's current Baa2 rating which has a downgrade threshold of 12%.
  - **PECO gas rate case**: PECO just filed a gas rate case on March 31st, requesting a $82MM revenue increase with a 10.95% ROE and 53.41% equity layer on a rate base of $2.9B. PECO's current allowed ROE is 10.24% and its equity ratio is 53.38%. Exelon reached a block box settlement for a $54.8MM revenue increase with a final order expected in Q4 for rates effective January 1st.
  - **Delmarva rate cases**: In Delaware, Exelon received a final order for a ~$13.4MM with a 9.6% ROE and 50% equity ratio, both in line with previously levels. In Maryland, EXC reached a partial settlement for a $29MM cumulative revenue increase over the 2023-2025 period with a 9.6% ROE (current is also 9.6%) and 50.5% equity ratio (not disclosed currently). A final decision is expected by year-end.
  - **ComEd annual distribution formula rate update**: On April 15, ComEd filed its final annual distribution formula rate update with the Illinois commission seeking a $199MM rate increase with a 7.85% ROE and 49.45% equity ratio on a rate base of $13,883MM with a January 1, 2022-December 31, 2021 test year. Commission Staff recommended a $220MM revenue increase in June 2022. Exelon is on track to have a final order by year-end 2022 for rates effective beginning 2023.
  - **Inflation Reduction Act legislation**: Exelon has said it expects a $200MM per year cash flow hit from the AMT provision in the law.

- **Positioning into Qtr: Neutral.**

Adj. EPS	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$0.64**	**$0.44**	**$0.70**	**$2.25**	**$2.41**	**$2.57**
Consensus			0.69	2.26	2.41	2.58
% diff.			*1%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 10/18/22

FirstEnergy

Outperform **TP $47**
Analyst: Michael Lonegan / Durgesh Chopra

- **Q3 EPS Bridge:** We project year-over-year EPS to be flat at $0.82/share, which is above the top end of company guidance of $0.70-0.80/share. Weather was modestly favorable last year in 3Q21 and is also expected be modestly favorable this year in 3Q22. In terms of negative YoY drivers, we expect the primary impacts to be accounting policy changes for vegetation management and corporate support, the Ohio prospective rate reduction, higher O&M expense and share dilution from the equity financing transaction in November 2021. In terms of positive YoY divers, we anticipate FirstEnergy to benefit from higher rates from Ohio grid modernization, plus Pennsylvania and transmission rate base growth, as well as lower interest expense and higher Signal Peak earnings.

- **What to look for in the earnings report (Key debates/themes):**
  - **2022 & 2023 EPS Guidance Ranges:** On September 15th, FirstEnergy announced along with its management transition that it now expects to deliver the upper half of its 2022 EPS guidance range of $2.30-2.50/share. 2023 guidance range is expected to be announced on the year-end earnings call
  - **Pension**: As of 2Q22, FirstEnergy stated its EPS pension headwind is now expected to be $0.30 beginning 2023. The new estimate reduces the non-cash benefit from the pension, from $0.40 to an estimated $0.10 per share benefit in 2023. First Energy believes the earnings impact associated with the pension will normalize over time. The Company has identified specific steps to address the potential pension headwind, including 1) Transitioning more investments to formula rates with real-time returns, while working to lower base operating expenses; 2) Accelerating future planned maintenance work into 2022, enabled by successful completion of $1B tender of FE Corp notes, higher-than-anticipated income from legacy, commodity-based investments and continued focus on FE Forward program. 3) Accelerating additional investments, 4) Optimizing financing plan; includes delaying $1B of planned debt financings from 2023 to future years, 5) Reducing corporate costs and real estate footprint, and 6) Anticipating benefits from continued improvements in customer arrears. FE is exploring proposed changes to rate treatment for the pension to moderate impacts of market volatility between rate cases. As of 2Q22, FirstEnergy's pension funded status was 84% and it has no expected cash contribution requirements through 2024.
  - **CEO search:** We think Steve Strah did a solid job as CEO: executing on numbers, significant compliance improvements, a high-value FET asset sale and balance sheet enhancements. Under his leadership, FE now expects to deliver the upper half of its 2022 EPS guidance range of $2.30-2.50. We think FE's high pension exposure has left investors with a legacy impression of a company that has historically had bottom-quartile earnings and dividend growth, weak earnings quality, and a poor balance sheet. Based on our conversations with investors, we believe the market will appreciate FE's search for an external candidate to run the ship. Change at FirstEnergy appears to be coming soon, with a new CEO expected to be announced by late 2022 or early 2023. FE has said it is looking to hire a proven leader with utility experience.
  - **Asset sales:** Also on September 15th, FirstEnergy issued a plan to accelerate balance sheet improvements with an EPS-accretive minority interest asset sale of a transmission or distribution asset as soon as year-end or early next year, which we think could fetch as high as 35-45x and 25-35x LTM P/E valuation, respectively. FE had previously said another transmission asset sale would be unlikely given significant tax leakage that could result, but the new Inflation Reduction Act legislation likely changes that thinking given its restriction of the use of NOLs. We think the right amount of proceeds to pay down as high as 7% coupon HoldCo debt could accelerate FirstEnergy's post-2023 mid-teens FFO to debt target into next year.
  - **Inflation Reduction Act (IRA) legislation and credit metrics**: Given that FE is almost entirely a electric T&D utility, the biggest impact of the legislation relates to the alternative minimum tax, for which the company expects a 20-40 basis point hit to FFO to debt. FirstEnergy continues to expect to be at 13% FFO to debt by 2023 and potentially even at 14-15% in the timeframe with the planned asset sale.
  - **Rate cases**: FE is preparing to file rate cases in Maryland and West Virginia in 2023, and likely New Jersey that same year, followed by Ohio in 2024 and potentially Pennsylvania in 2024 or 2025.
  - **Customer bills:** FE is 100% electric, and its subsidiaries hold auctions for non-shopping customers. The Company said that as auction product terms start to roll over, non-shopping residential prices may increase in the range of 7%-25% of total bill. The auction process is to procure generation for portions of non-shopping customers loads for 12–36-month timeframes, months in advance of delivery. In West Virginia, FirstEnergy received approval in May to increase the 2022 ENEC rate, which represented a ~9% increase to the average residential bill, to address increases in power and fuel prices from the prior ENEC update. In late August, FE filed for a subsequent increase of ~10% (beginning 1/1/23), which is pending PSC approval. The National Energy Assistance Directors Association recently estimated that one in six homes in the US are behind on their utility bills; FE said its utilities are seeing lower than average impacts vs. that report.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$2.39**	**$2.60**	**$0.60**	**$0.53**	**$0.82**	**$2.45**	**$2.53**	**$2.67**
Consensus					0.78	2.42	2.53	2.72
% diff.					*5%*	*1%*	*0%*	*-2%*

Source: Evercore ISI, FactSet as of 10/18/22

In Line **TP $40**
Analyst: Michael Lonegan / Durgesh Chopra

- **Q3 EPS Bridge:** We project year-over-year EPS to decrease -$0.07 to $0.51/share. We expect the primary negative YoY drivers to include potentially lower bank earnings driven by positive impacts of provisioning expense after a large release during the same period last year, plus the impacts of higher interest expense, increased O&M, higher depreciation, and increased property taxes. In terms of positive drivers, 2Q22 will reflect a full quarter of all of the PBR mechanisms that were implemented as of June 2021 and notably January 2022.

- **What to look for in the earnings report (Key debates/themes):**
  - **2022 EPS guidance**: With second quarter 2022 results, Hawaiian maintained its 2022 consolidated EPS outlook of $2.00-2.20/share but is now guiding to the lower half of the expected utility contribution of $1.68-1.78/share and still the upper half of bank guidance of $0.59-0.68/share while maintaining the HoldCo outlook of $0.28-0.30/share. For the utility, adjusted O&M is now expected to be higher than Annual Revenue Adjustment (ARA) allowed levels.
  - **Utility EPS growth and regulatory lag**: Hawaiian has said it continues to expect the utilities to grow EPS by 5% per year starting in 2022 through 2024, excluding any upside from Performance Incentive Mechanisms (PIMs), which are expected to materially improve regulatory lag, a persistent problem for the Company. In the second quarter 2022, the utility earned a LTM ROE of 8.2% versus an allowed ROE of 9.5%.
  - **Performance Incentive Mechanisms (PIMs)**: Hawaiian has stated that there is the potential for a moderate net penalty from PIMs this year due to: 1) maximum fuel cost risk sharing penalty expected given high fuel prices, 2) a heat rate performance benefit that is lower than previously expected, and 3) lower expected rewards from interconnection.
  - **Utility O&M**: Hawaiian expects higher O&M to continue this year with accelerated generating unit overhauls and maintenance to maintain reliability ahead of the AES plant retirement, as well as from increased cycling to accommodate intermittent renewables. The Company also sees higher bad debt expense due to high fuel oil costs. As mentioned above, O&M is expected to be modestly above ARA levels for this year.
  - **Hawaiian economy and American Savings Bank (ASB):** The strength of the Hawaiian economy has large implications for the bank; recall the utilities are decoupled. The University of Hawaii Economic Research recently published a report highlighting a potential US recession where Hawaii itself may not experience one because of an increase of international tourism (offsetting lower from the US) which has remained low. The University stated that is expects relatively strong government spending. With second quarter 2022 results, Hawaiian stated that its outlook for the bank included a stronger net interest margin (NIM) and a healthy loan pipeline across its portfolio with modest expense headwinds. The Company now sees larger and faster rate increases compared to its original expectations that are expected to drive NIM expansion. This year, ASB should see minimal benefit from PPP fees as they are nearly all recognized, as well as lower mortgage banking income due to the higher interest rates. The Company also expects higher noninterest expense due to elevated compensation and benefits expense (higher performance pay and a competitive market for talent).
  - **Oil price impact on customer bills**: While HE has aggressive renewable and decarbonization targets to be net-zero by 2040, currently about 50% of its generation is derived from conventional oil-fired steam units. While oil prices have come down since last quarter, they remain elevated and electric bills are significantly higher than have been in recent years, which as mentioned could potentially result in higher bad debt expense as well as drive a maximum penalty from HE's fuel cost risk sharing mechanism.
  - **Stage 2 and 3 RFPs**: Hawaiian has now filed 10 PPAs for solar and storage and two self-build storage application. The state's commission has now approved six PPAs and one standalone storage ESPPA under active development. The Stage 2 RFP has the potential to add 382 MW of solar and 2 GWh of storage by the end of 2023. Draft Stage 3 RFPs have been filed totaling 1605 GWh/yr of variable renewable dispatchable energy and 540-740 MW of renewable firm capacity.
  - **Inflation and supply chain:** We believe the smaller scale of HE's utilities likely subjects them to higher inflationary pressures and more supply chain challenges than most peers, which could delay more projects (i.e. capex) than the average utility.
  - **Capital program**: HE now anticipates that 2022 capex will be at the lower end of its $350- 400 million range due to headwinds from continuing supply chain disruptions, permitting delays and resource availability constraints.
  - **Inflation Reduction Act legislation**: The renewable tax credits could help Hawaiian achieve and potentially accelerate its 100% renewable target by 2045. We estimate that HE is on track for roughly $230 million of consolidated pre-tax earnings, so it is far from qualifying for the 15% alternative minimum tax since it is well below the Act's $1 billion threshold.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$1.81**	**$2.25**	**$0.63**	**$0.48**	**$0.51**	**$2.10**	**$2.30**	**$2.45**
Consensus					0.52	2.14	2.30	2.44
% diff.					*-3%*	*-2%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 10/18/22

In Line **TP $90**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We expect year-over-year EPS to grow +$0.07 to $0.82/share. We believe the primary YoY drivers will be new rates at Florida Power & Light (FPL) and Gulf Power. We believe the utilities will utilize part of its depreciation reserve ($200mm limit for 2022 with a balance of $1.37B) to earn an 11.6% ROE, towards the top end of its 9.8-11.8% allowed ROE band on rate base growth of 9%. In the Energy Resources segment, we do not anticipate much growth from new projects this quarter as NextEra said on its Q2 call that most would come in Q4 this year. Note that wind resource was 98% late year in 3Q21, and every 1% change has a $0.005-0.010 EPS impact.

- **What to look for in the earnings report (Key debates/themes):**
  - **2022 & 2023 EPS Guidance Ranges**: We expect reaffirmation of EPS guidance ranges discussed below.
  - **We expect a relatively quiet quarter given the recent 2022 Investor Day**: At its June 14th Investor Day, NextEra provided the following update: 1) Raised its adjusted EPS expectations by $0.05 in each of 2022 and 2023 to $2.80-2.90 and $2.98-3.13, respectively, and by $0.10 in 2024 to $3.23-3.43, while expecting to grow 2025 at 6-8% (to $3.45-3.70 from $3.35-3.60) off the increased 2024 adjusted EPS range. The Company said it will continue to be disappointed if it does not deliver results at or near the top end of its new adjusted EPS expectations range each year through 2025. This new forecast reflects 9.8% CAGR (vs. 9.0% previously) from 2021 to the high-end of the 2025 adjusted EPS range and is based on a ~$85-95B total capital program for 2022-2025; 2) The NEER renewable development expectations are now 27,700-36,900 MW for 2022-2025 vs. 22,675-30,000 MW for 2021-2024 previously, a greater than 20% increase; 3) NEE stated it was pleased with the two-year solar panel tariff exemption announcement on June 6th which helps them with procurement through 2024, gives their suppliers time to move manufacturing away from impacted countries and develop domestic manufacturing capabilities alongside. However, the company stated that delays in projects prior to the announcement puts 2 GW of the program this year at risk but NEE said it has mitigation measure in place to offset any impact; 4) The company announced a "Real Zero" goal that would eliminate Scope 1 & 2 emissions by 2045, through use of renewables and will not require the use of carbon offsets; 5) Earnings growth at FPL is expected to be driven by a 9% CAGR in regulatory capital employed for 2021-2025 on the back of a $32-34B capital program from 2022-2025; 6) Energy Resource anticipates investing $55-59B over the next four years, driving adjusted EBITDA growth of more than a 16% CAGR from 2021-2025 and adjusted earnings of 12% CAGR from 2021-2025; 7) NEE said it is going to approach financing in an opportunistic way with a goal of minimizing cost of capital; and lastly, 8) the company continues to expect 10% annual dividend per share growth through 2024, off of the 2022 base.
  - **Higher allowed ROE approved with increase in 30-year Treasury rate**: On October 4th, the Florida commission approved a higher allowed ROE band of 9.8-11.8%, versus the 9.7-10.7% previously that existed under the settlement agreement (rates became effective January 1st this year). Recall that the agreement had an adder that stipulated if the average 30-year Treasury rate increased 50 bps or more over a 6-month period, the authorized regulatory ROE would increase to a midpoint of 10.8% with a range of 9.8-11.8%; this higher allowed ROE does not result in an incremental base rate increase but applies for all other regulatory purposes.
  - **Inflation Reduction Act legislation**: NextEra has said it anticipates providing an update related to the benefits of the IRA legislation on the Q4 call. The company said the positive impact on its renewable development is likely to show up starting in 2025.
  - **Hurricane Ian costs**: We expect NEE to provide an update on the storm costs for Hurricane Ian (category 4). Recall that Hurricane Irma (category 5) in 2017 had storm costs totaling $1.3 billion. Florida has a strong precedent for granting utilities full recovery of storm costs. NextEra will defer the cost and record it as a regulatory asset, while utilizing the depreciation reserve, if needed.
  - **Customer bills:** NEE's regulated operations are nearly 100% electric (very small Florida City Gas and water), so its customer bills will be less impacted than gas utilities. The Company made a filing in Sept. 2022 to flag 10% under-recovery in fuel costs. It is evaluating bill impacts and may adjust rates to reflect the higher costs late this year or early next.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$2.31**	**$2.55**	**$0.74**	**$0.81**	**$0.82**	**$2.90**	**$3.10**	**$3.40**
Consensus					0.79	2.88	3.10	3.37
% diff.					*3%*	*1%*	*0%*	*1%*

Source: Evercore ISI, FactSet as of 10/18/22

Outperform **TP $33**
Analyst: Durgesh Chopra / Sharon Wang

- **Q3 EPS Bridge**: We project year-over-year EPS to decrease -$0.02 to $0.09. Recall that NiSource adjusts weather out of its non-GAAP EPS results. In terms of negative YoY drivers, we expect higher O&M, increased depreciation & amortization, reduced other income, and higher interest expense. We expect rate relief to be the primary positive driver.

- **What to look for in the earnings report (Key debates/themes):**

  - **2022 & 2023 EPS Guidance Ranges:** We expect management to reaffirm (or narrow) its previously announced 2022 EPS guidance range of $1.42-$1.48. EXC will discuss 2023 guidance, LT growth rate and an update on the strategic review is expected on the Nov 7th Analyst Day in NYC.

  - **Strategic Review**: NiSource has said it is deep into its strategic review and will provide details (potential announcements) by its November Analyst Day. New President & CEO Lloyd Yates has been saying that the Company will evaluate its full portfolio of assets. One of Yates' key priorities is to extend the Company's EPS CAGR outlook of 7-9% beyond 2024 (potentially through 2027). The Company's comprehensive review across its asset base is focused on earned ROEs, regulatory mechanisms and relationships, legislative relationships, and investment opportunities.

  - **OH Rate Case Update**: Columbia Gas of Ohio requested to reschedule hearings in its rate case for the fourth time to November 1st to facilitate continued settlement discussions. The company received a staff recommendation in that rate case in April 2022 with a revenue recommendation of $46MM (average) versus a $221MM request with the difference driven by the disallowance of $70MM of O&M expense and the delta between the ROE request of 10.9% versus Staff's range of 9-10%. The equity ratio request of ~51% was not disputed. NI currently has an allowed ROE of 10.4% and equity ratio of 51% in Ohio. Company stated it would be tough to get the final order and new rates before the end of the year, but they expect to be able to offset the delay through O&M discipline and other needs.

  - **Rate Cases**: NiSource reached a settlement of $45MM revenue increase in its Pennsylvania gas rate case, and ALJ put out a recommendation in October that the settlement be adopted. NI requested an initial revenue increase of $82.2MM with an 11.2% ROE and 54.38% equity ratio on $3.0B forecasted rate base with a 12/22 test year. NIPSCO filed electric rate case in mid-September for a revenue increase of $291.8 with a 10.4% ROE and a 53.2% equity layer. Separately, NI got to a settlement in Maryland gas rate case for $4.8MM revenue increase vs requested $5.5MM with a 10.95% ROE and 52.8% equity ratio on $204.1MM rate base with a 5/22 test year. An order is expected in 4Q22 for rates effective December 2022. NiSource also filed a Virginia gas rate case on April 29th, requesting $40.6MM net of the SAVE infrastructure tracker ($17.7MM) with a 10.75% ROE and 39.3% equity ratio on a rate base of $1.0B with a 12/21 test year. Hearing is scheduled for December. An order is expected in 1Q23 for proposed rates to be effective October 2022.

  - **IRA Implications**: Company noted that the 15% minimum tax provision in the Inflation reduction act will not impact them over the next few years as they won't reach the $1B pre-tax earnings threshold until the second half of the decade.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$1.32**	**$1.37**	**$0.75**	**$0.12**	**$0.09**	**$1.45**	**$1.54**	**$1.73**
Consensus					0.12	1.45	1.54	1.72
% diff.					*-100%*	*0%*	*0%*	*1%*

Source: Evercore ISI, FactSet as of 10/18/22

In Line **TP $42**
Analyst: Durgesh Chopra

- **Q3 EBITDA Bridge:** We project NRG's 3Q22 EBITDA to be $410MM, $357MM lower than 3Q21 adjusted EBITDA of $767MM. Positive YOY drivers include the Direct Energy acquisition more than offset by Parish unit outage, coal supply related headwinds, lower capacity revenues and previously announced asset sales.

- **What to look for in the earnings report (Key debates/themes):**
  - **2022 & 2023 EBITDA Guidance Ranges:** We expect NRG to continue to point towards the bottom end of its 2022 EBITDA guidance range of $1,950MM-$2,250MM. The 2023 guidance range is expected to be announced on the third quarter 2022 call, we project $2.3B in EBITDA next year.
  - **$1 Billion Share Repurchase Program.** In December 2021, NRG completed the previously announced 4.8GW asset sale and introduced a $1B share repurchase program through 2022. This is part of their $2.7B buyback plan through 2025 announced at their Analyst Day last year. As of the second quarter 2022 call, they had executed $405MM in share repurchases with $595MM remaining. Additional buybacks/2023 capital allocation plan is not expected until later this year following NRG's December 2022 Board meeting.
  - **Parish Unit 8 Fire.** On May 9th, a fire was reported at Unit 8 at the WA Parish coal-fired power plant in Texas. The fire tripped the 610MW unit offline as designed which translated into a $70MM headwind for the quarter and $200MM projected for the whole year. NRG is targeting to return the unit to service by the end of the second quarter of 2023.
  - **Limestone Unit 1 Outage**. On the second quarter earnings call last year, NRG reported a forced outage at their 890MW limestone Unit 1 coal plant in TX until year-end 2021 which was subsequently extended to April 2022 ($50MM EBITDA hit in 2022 included in guidance and our estimates). The plant was back online in May 2022.
  - **2022 capital allocation plan.** We will look for an update on the 2022 allocation plan. As of the second quarter 2022 call, including Storm Uri proceeds of ~$680MM, the company projected $2B in cash to be generated in 2022. $1.3B is allocated towards share buybacks and dividends. They have committed to $110MM in investments and another $100MM to increase minimal cash balance. $100M is earmarked from growth leaving $356MM yet to be assigned

- **Positioning into Qtr: Neutral.**

Adj. EBITDA	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$2,004**	**$2,423**	**$509**	**$358**	**$410**	**$1,950**	**$2,300**	**$2,350**
Consensus					$623	1,982	2,296	2,380
% diff.					*-34%*	*-2%*	*0%*	*-1%*

Source: Evercore ISI, FactSet as of 10/18/22

In Line **TP $41**
Analyst: Durgesh Chopra / Sharon Wang

- **Q3 EPS Bridge:** We project year-over-year utility (plus parent) EPS to increase +$0.11 to $1.23/share. The big positive driver year over year is weather which we estimate to be $0.10 benefit this year vs $0.03 last year. Note our full-year 2022-2023 EPS estimates of $2.29 and $2.18, respectively, include an ET contribution, while our 2Q22 forecast does not. We assume all ET ownership is sold by year-end 2023.

- **What to look for in the earnings report (Key debates/themes):**

  - **2022 & 2023 EPS Guidance Ranges:** On the second quarter 2022 call, OGE stated that it expects to deliver 2022 EPS in the top half of their $1.87-$1.97 guidance range. which we now think they could exceed due to strong third quarter. 2023 guidance range is expected to be announced on the year-end earnings call

  - **Oklahoma Rate Case**: Commission approved OGE's recent rate case settlement in mid-September, maintaining its ROE and capital structure at 9.5% and 53.3%, respectively, with the revenue increase of $30 million.

  - **Oklahoma Fuel Rate Case**: On Sep 29, 2022, Oklahoma Corporation Commission Staff initiated a proceeding regarding OGE's request to recover ~$450 million in higher fuel costs over 24 months. Hearings will start on Nov 3, 2022, and the commission will issue an order within seven days after the final hearing.

  - **Draft RFP for flexible resources:** OGE issued its planned RFP for flexible resources given the large capacity need over the next five years, which are defined as generation facilities with a minimum 30-year life that can start quickly and cycle multiple times per day. The minimum and maximum nameplate capacity per bid is 50 MW and 500 MW, respectively. The draft RFP requires capacity to be available no later than May 1, 2027. A copy of the 2022 flexible resource RFP can be found at this website. Next step is "Bid Due Date" on October 27, 2022. Complete Negotiations is expected on May 1, 2023.

  - **Energy Transfer unit planned exit**: OGE has been saying it plans to sell the "majority" of its Energy Transfer (ET) units this year, with a full planned exit in the near future. Starting from 95.4 million units, OGE has sold 73.3 million units or 77% of its ET units by the end of July at a 33% premium to where the units were trading at the close of the deal in Dec. 2021.

  - **Uri Proceeds**: Winter Storm Uri bond proceeds of $750MM in Oklahoma were received in July 2022. In Arkansas, the Company filed a request to recover $80MM of the Uri costs over ten years at a weighted average cost of capital. Hearings will be in early December.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$2.08**	**$2.36**	**$1.39**	**$0.36**	**$1.23**	**$2.32**	**$2.18**	**$2.16**
Consensus					1.10	2.04	2.07	2.17
% diff.					*12%*	*14%*	*5%*	*-1%*

Source: Evercore ISI, FactSet as of 10/18/22. Note our full-year 2022-2023 EPS estimates include an ET contribution, while our 3Q22 does not. We assume all ET ownership is sold by year-end 2023.

PINNACLE WEST CAPITAL CORPORATION

Underperform **TP $68**
Analyst: Michael Lonegan / Durgesh Chopra

- **Q3 EPS Bridge:** We project year-over-year EPS to decrease by -$0.43 to $2.57/share. Weather was unfavorable last year in 3Q21 but this year in 3Q22 we expect it to be modestly favorable. In terms of negative YoY drivers, we expect Pinnacle to see the impact of significantly lower rates, higher O&M expense, increased D&A, higher property taxes, increased interest expense, and a headwind from LFCR. In terms of positive YoY drivers, we primarily expect sales growth and higher AFUDC.

- **What to look for in the earnings report (Key debates/themes):**
  - **2022 and 2023 EPS guidance ranges:** We expect management to reaffirm (or update/narrow) its previously-announced 2022 EPS guidance range of $3.90 - $4.10. 2023 guidance range is expected to be announced after the resolution of next rate case (discussed below).
  - **Next rate case**: PNW plans to make a rate case filing by the end of October 2022. The filling will focus on investments to keep up with the strong growth story in Arizona. PNW will also look to simplify adjustor mechanisms and will request a clean energy rider again. Recall the rate case had been delayed from an original mid-year 2022 planned filing date due to requests for additional data from the Commission for the rate case, on topics that are seen as potentially supportive for the financial health of the utility. Pinnacle should also benefit now from using a June 30, 2022 test year instead of a December 31, 2021 test year.
  - **Reset story**: We expect the Company to continue to pitch a 2022 reset story for its stock after what it deems a unique rate case outcome in fall 2021. After a decline in 2022, EPS is forecasted to grow 5-7% CAGR through 2026 off 2022 levels, which we note is very dependent on the next rate case. The growth is expected to be back-end loaded with the first full expected year of new rates in 2024 from the next rate case. PNW has committed to deferring equity in its plan (now planning $400-500MM by 2024 after the next rate case) while being able to protect the balance sheet with strong load growth and flat O&M. We note the Company is now targeting a 16-18% FFO to debt metric. In November following the rate case outcome, Pinnacle West was downgraded by Moody's to Baa1 from its prior A3 rating and remains on a Negative outlook.
  - **Customer and sales growth**: the Arizona economy and its outlook have remained very strong. Quarterly customer growth was +2.0% YoY in the second quarter 2022 versus +2.2% in the first quarter and +1.5-2.5% annual guidance for this year. Weather-normalized load growth was +3.2% in the second quarter 2022 versus +4.4% in the first quarter and +1.5-2.5% annual guidance for 2022.
  - **O&M expense amid inflation**: Pinnacle West is targeting flat nominal O&M and declining O&M per kWh (with respect to 2021 levels) over its long-term plan, but inflation currently presents a significant challenge to this.
  - **Arizona rate case appeal**: PNW has an outstanding appeal for a prudency determination made on SCRs as well as reduction of ROE as penalty. Oral arguments are expected at the end of this year, with a final decision anticipated in early 2023.
  - **Positive developments with Arizona commission:** Pinnacle West's LFCR and PSA riders were approved without controversy this year, which is very different than the Company's experience last year with the Commission.
  - **Pension:** PNW does not have a pension tracker and there could be EPS headwinds in 2023. The Company's pension is currently moderately over-funded. Pinnacle has not made any voluntary contributions to its pension plan year-to-date in 2022. The minimum required contributions are zero and the Company does not expect to make any contributions in 2022, 2023 or 2024. With regard to contributions to its other postretirement benefit plan, PNW has also not made a contribution year-to-date and does not expect to make any in 2022, 2023 or 2024. We estimate a $0.33-0.53 potential EPS headwind next year based on YTD performance.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**4.87**	**5.47**	**0.15**	**1.45**	**2.57**	**4.00**	**4.20**	**4.50**
Consensus					2.52	4.01	4.19	4.48
% diff.					*2%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 10/18/22

Outperform **TP $32**
Analyst: Durgesh Chopra / Sharon Wang

- **Q3 EPS Bridge:** We project year-over-year ongoing EPS to increase by $0.09 from $0.36 to $0.45 driven by interest expense saving from debt retirement, new rate case in Kentucky, higher electric demand, and return on transmission investments, partially offset by higher D&A/other costs.

- **What to look for in the earnings report (Key debates/themes):**
  - 2022 & 2023 EPS Guidance Ranges: We expect management to reaffirm its previously announced 2022 EPS guidance range of $1.30-$1.45. 2023 guidance range is expected to be announced on the year-end earnings call
  - **Generation Capex Upside:** PPL's current capex plan through 2030 includes $1.5B in generation replacement capex, which may be pulled forward to the 2025-2027 timeframe. Earlier in the year, the company issued a request for proposal (RFP) to support energy and capacity needs ahead of expected 2028 coal-plant retirements (1GW) in KY. CPCN (Certificate of Public Convenience and Necessity) filling for generation replacement is expected around year end or early next year, which will likely have combined-cycle gas and renewables, mostly solar and storage, with a commission decision expected in six to nine months. EPA's Proposed "Good Neighbor" plan in February 2022 could expedite ~500MW of additional coal retirements by 2030. Combined with the onshore transmission capex upside, we estimate the $1.5B higher capex increases the company's 2021-2026 rate base CAGR from 4% to 5%, shrinking the rate base to EPS growth gap, which has been a key investor pushback. The estimated $1.5B in higher capex through 2026 would be $0.10 or 5% EPS upside to the implied 2026 EPS of $1.94. We get to our implied 2026E by applying a 7% CAGR (mid-pt. of 6-8% targeted EPS growth) on a 2022 normalized EPS starting point of $1.48.
  - **Transmission Capex Upside**: PPL sees potential to expedite transmission network upgrades primarily in RI and to some extent in PA, which could drive higher capex (amount undisclosed, we estimate up to $500m) and rate base growth over the 2024-2026 period. Furthermore, management highlighted $1B+ investment opportunities towards offshore transmission in 2026 and beyond, update to capex plans expected on the fourth quarter call.
  - **$150m Cost Savings Target**: Management expressed confidence in achieving its targeted $150m in O&M savings by 2025, which continues to be a conservative goal with only 40% ($80m) of the ~$200m attainable transmission & distribution (T&D) savings currently included in the plan.
  - **IRA Implications**: The solar PTC significantly improves project economics, and management sees it bolstering opportunities to own/rate base solar generation vs procuring through a purchase power agreement. The legislation's 15% AMT is not expected to have a significant cash flow impact on PPL's business, as the company is a cash taxpayer currently and the plan through 2025 calls for cash tax payment close to the 15% rate.
  - **Customer Bill Increase**: Just like peer utilities, PPL is facing cost pressures from elevated gas prices. Across the company's service territory, they expect customer bills to go up in the 5-30% range over the next few months. PPL is actively engaged with customer outreach on programs like flexible pay etc. In RI as part of the acquisition approval PPL committed to $50m in credits which would help offset a portion of the bill increase.

- **Positioning into Qtr: Neutral**.

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$2.40**	**$1.05**	**$0.41**	**$0.30**	**$0.45**	**$1.37**	**$1.58**	**$1.70**
Consensus					0.43	1.41	1.60	1.72
% diff.					*4%*	*-3%*	*-2%*	*-1%*

Source: Evercore ISI, Factset as of 10/18/22

PSEG
We make things work for you.

Outperform **TP $75**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year-over-year adjusted EPS to decrease by -0.19 to $0.79/share. We expect the lower EPS to be driven primarily by loss of earnings from the fossil sale, as well as by the impacts of lower transmission earnings from the FERC settlement, higher interest expense, reduced capacity revenues, and tax profiling.

- **What to look for in the earnings report (Key debates/themes):**

  - **2022 & 2023 EPS Guidance Ranges**: We expect management to reaffirm (or narrow) its previously announced 2022 EPS guidance range of $3.35-$3.55, possibly pointing to the lower half. The Company has said it does not plan to issue 2023 EPS guidance until there is more clarity on its pension impact. Remeasurement of the pension each year is as of December 31st.
  - **Pension**: PEG has not provided much color on potential pension impacts (we estimate $0.25-0.42 EPS headwind for 2023), just stressing that it would be remeasured at 12/31/22. The Company made a filing in September 2022 in New Jersey related to pension treatment that would not change how it accounts for pension but would enable PEG to overlay a regulatory mechanism. If approved by the NJ commission, PEG would book a regulatory asset or liability to capture the timing difference in amortization, which could partly mitigate the potential near-term pension headwind. This would only consider the amortization of the pension net actuarial gas on loss at PSE&G. The company asked for a decision by December 31st but there is no requirement on the Commission's part to act by then. As a reminder, 80% of PEG's pension is recoverable through future rate case, which the Company plans on filing in early 2024. PEG did emphasize that its pension remains well-funded at ~95% and does not require any cash contributions for the foreseeable future.
  - **Analyst Day**: PEG will host an Investor Conference in the first quarter of 2023 and the expectation is that it will issue 2023 and update its long-term EPS growth guidance then.
  - **Inflation Reduction Act legislation**: PEG is one of the prime beneficiaries of a nuclear PTC included in the Inflation Reduction Bill. The bill enacts a nuclear PTC for existing generation. PEG qualifies for the $15/MWh PTC, based on prevailing wage rules, which will scale between 100% if gross receipts are ~$25/MWh and phases out at ~$44/MWh (cap). The initial PTC and cap are subject to annual inflation adjustments. PEG is seeking US Treasury clarification on gross receipts definition (on which the phase out is based). The legislation also equalizes the PTC rate for offshore wind with the 30% ITC rate and improves tax credit monetization with transferability and expands the carryback period from one to three years. As it relates to the corporate minimum tax, PEG said it is continuing to analyze the impact on its business including additional future guidance that the US Treasury is expected to issue. The Company anticipates that the sale of its fossil portfolio could mitigate near-term applicability of the minimum tax.
  - **Offshore wind transmission:** PSEG submitted nine bids for New Jersey offshore wind transmission in September 2021 and a decision is expected soon on October 26, 2022. PEG has said it expects it could result in $1-3B in total incremental investment over the back half of the decade. At ~$1B in offshore wind investments, we estimate ~$0.10 annual EPS upside or 2% of consolidated 2025 guidance using a 6% CAGR through the forecast period.
  - **Skipjack 1 and 2**: PEG also has the option to have an ownership stake in Orsted's Skipjack 1 and 2 offshore wind projects (combined ~1GW, ~$4B total cost by our estimate) and they are hoping to make a final determination sometime this year or early next year.
  - **Ocean 1 offshore wind**: The Ocean 1 offshore project FID is anticipated in 4Q22 or 1Q23.
  - **Customer Bills**: They are projecting 25% increase on the gas side. On the electric side the commodity rate auction will determine rates for June – May 2023 time frame.

- **Positioning into Qtr: Cautious: We expect management to reaffirm (or narrow) its previously announced 2022 EPS guidance range of $3.35-$3.55, possibly pointing to the lower half.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$3.43**	**$3.65**	**$1.33**	**$0.64**	**$0.79**	**$3.45**	**$3.40**	**$3.85**
Consensus					0.81	3.47	3.58	3.96
% diff.					*-3%*	*-1%*	*-5%*	*-3%*

Source: Evercore ISI, FactSet as of 10/18/22

Sempra Energy®

Outperform **TP $171**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year-over-year EPS to increase +$0.10 to $1.80/share. We expect weather to be favorable this year. At SDG&E, we anticipate an increase from a step-up in FERC rate base. At SoCal gas, we expect a modest decrease due to higher interest expense. Sempra Texas should benefit from higher rate base and sales growth plus recovery under the TCOS and DCRF riders. We anticipate the Infrastructure business will contribute negatively YoY due to lower ownership share and higher O&M expense from signed contracts, plus the commodity environment, partially offset by the benefit of new projects. At the parent, we expect higher interest expense. Lastly, SRE will benefit from a lower share count due to its buybacks.

- **What to look for in the earnings report (Key debates/themes):**
  - **2022 and 2023 EPS guidance ranges**: On the second quarter 2022 call, Sempra stated that it expects to deliver the high end of its 2022 adjusted EPS guidance range of $8.10-8.70/share which we now think they could exceed due to strong third quarter. At that same time, the company maintained its 2023 EPS guidance of $8.60-9.20/share, which is likely to be updated with fourth quarter 2022 earnings.
  - **Strong momentum on various LNG projects** including: 1) Cameron LNG phase 2, which includes debottlenecking trains 1-3 for ~1Mtpa and then train 4 with projected nameplate capacity of ~6 Mtpa ($5-6B total cost by our estimate). It is expected to reach FID by summer 2023; 2) Port Arthur LNG phase 1 with long term offtake capacity of 10 Mtpa ($9- 10B total cost by our estimate). It is likely to reach FID sometime in 2023; and 3) Vista Pacífico LNG project, which is expected to be a midscale facility (~2-2.5 Mtpa) under development on Mexico's West Coast. We estimate ~$2B in total investment for likely a 2024 FID. In addition to the above, Sempra is pursuing additional LNG projects with a target total capacity of 25Mtpa. SRE will consider various alternatives to finance these projects including subsidiary and/or project level debt, selling project equity to owners and other interested parties.
  - **Texas and California rate cases**: Sempra has pending rate cases in Texas and California for new rates effective in 2023/2024 respectively. In Texas, the Hearing on the Merits concluded in early October 2022 and SRE continues to feel positive on a constructive outcome whether through a settlement or not given the strong story Oncor has to tell. In that case, Staff is recommending a net revenue increase of $21 million, a 9.3% ROE and a 40% equity layer versus Oncor's $251 million revenue increase request on a 10.3% ROE and 45% equity layer.
  - **California Cost of Capital application update**: In early October, for the 2022 COC application, the CPUC President Reynolds proposed keeping rates unchanged, while the ALJ proposed opening the proceeding up to phase 2 with a reevaluation; a final decision is expected by year-end 2022. For a 2023-2025 COC application, a final decision is also anticipated before year-end 2022.
  - **SoCal gas reaches settlement on investigation relating to Aliso Canyon gas leak**: On Oct. 11, 2022, SoCalGas reached a settlement with the Safety and Enforcement Division and California Public Advocates of the California commission to resolve the investigation regarding the Aliso Canyon gas leak. The settlement provides for financial penalties, certain costs that SoCalGas will reimburse, a violation of California Public Utilities Code section 451, and costs incurred by SoCalGas for which it will not seek recovery from ratepayers. The settlement agreement is subject to approval by the CPUC. As a result of entering into the settlement agreements with the fifth Developer Plaintiff and with SED and CalPA to resolve all aspects of the leak, Sempra expects to record a charge of $122MM, $101MM after tax, in 3Q22. As of Aug. 15, 2022, over 98% of the Individual Plaintiffs had agreed to participate and submitted releases, and SoCalGas paid $1.77B under the agreement on Aug. 30, 2022. As of Oct. 10, 2022, SoCalGas had either not received or not accepted as valid releases from approximately 390 Individual Plaintiffs, ~80% of whom had not been located or had failed to respond. The Individual Plaintiffs who do not participate in the settlement will be able to continue to pursue their claims.
  - **Customer bills**: Due to higher gas prices, Sempra's California winter bills could increase by 30%. On the electric side in both California and Texas, SRE does not expect anywhere near as high an impact from purchased power costs due to the fact that it procures mostly through fixed price PPAs.

- **Positioning into Qtr: Positive.** Strong Q3 positions SRE strong vs FY 22 expectations and/or de-risking '23. Building on the YTD momentum (SRE +12.5% vs peers -6.5%) we also expect SRE shares to benefit from continued progress on LNG projects.

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$8.03**	**$8.43**	**$2.91**	**$1.98**	**$1.80**	**$8.70**	**$8.95**	**$9.65**
Consensus					1.78	8.63	9.02	9.66
% diff.					*1%*	*1%*	*-1%*	*0%*

Source: Evercore ISI, FactSet as of 10/18/22

Southern Company

In Line **TP $69**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We project year-over-year EPS to increase +$0.09 to $1.32/share in line with company guidance of $1.32 for the quarter. Weather was modestly $0.02 unfavorable last year in 3Q21, and we expect it to be modestly favorable during the same period this year. In terms of positive YoY drivers, Southern should benefit primarily from new electric rates and higher sales growth at the utilities. For negative YoY drivers, we expect the Company to see higher O&M, increased interest expense, higher depreciation & amortization, increased taxes other than income, and share dilution.

- **What to look for in the earnings report (Key debates/themes):**
  - **2022 and 2023 EPS guidance update**: With Q2 results, Southern reaffirmed its 2022 EPS guidance of $3.50-3.60 while tracking well ahead of plan YTD; it said it plans to re-address this guidance on the Q3 call while saying it would be disappointed if it does not improve it within the range, but also signaling interest in de-risking the future and pulling forward O&M. The Company will issue 2023 EPS guidance in February 2023, along with a roll forward of capital plan and updates to its long-term EPS guidance.
  - **Vogtle:** On October 14th, Southern announced that nuclear fuel load had begun at Vogtle Unit 3 and that the unit is still projected to be in service in 1Q23. On September 29th, Georgia Power reached an agreement with the Municipal Electric Authority of Georgia (MEAG) to resolve its dispute with MEAG regarding the proper interpretation of the cost-sharing and tender provisions of the joint ownership agreements relating to Plant Vogtle Units 3 and 4. Under the terms of the agreement, MEAG will not exercise the tender option and will retain its full ownership interest in Plant Vogtle Units 3 and 4, Georgia Power will pay a portion of MEAG Power's costs of construction for Plant Vogtle Units 3 and 4 as such costs are incurred and with no further adjustment for force majeure costs, which payments will be in an aggregate amount of $76MM based on the current project capex forecast, and Georgia Power will pay 20% of MEAG's costs of construction with respect to any amounts above the current project capital cost forecast, with no further adjustment for force majeure costs. In addition, MEAG Power and Georgia Power agreed to dismiss the pending litigation described above, including Georgia Power's counterclaims. Based on the current project capex forecast, the Settlement will not require any additional charge to income by Georgia Power in 3Q22. The Settlement does not resolve the pending litigation with OPC and Dalton regarding the cost-sharing and tender provisions of the Vogtle Joint Ownership agreements. With respect to these disputes, based on the current project capex forecast, Georgia Power has remaining potential exposure of up to $165MM of further pre-tax charges to income. With Q2 results, Southern provided the update that Vogtle unit 3 is now expected to be in service in 1Q23 vs. "4Q22 through 1Q23" previously, and unit 4 is now anticipated to be in service in 4Q23 vs. "3Q23 through 4Q23" previously. Georgia Power's share of the cost estimate was increased $52MM to $10,453MM. Unit 3 and 4 remaining costs are $1,487MM. Unit 4 construction as of Q2 was 96% complete and is progressing in advance of cold hydro and hot functional testing
  - **Georgia rate case:** Southern filed a Georgia rate case on June 24th. Staff and Intervenor testimony is due on October 20th and hearings will be on November 8-10th with a final order is expected in December 2022 after the November 2022 election (terms effective Jan 2023) with the current existing commissioners to make the decision. SO has historically settled rate cases in Georgia. The Company asked for roughly $1B revenue increased based on a 11% ROE and 56% equity ratio.
  - **Incremental capex:** SO has identified up to $3B of potential incremental opportunities from Southern Power growth projects that could bring the five year capex plan to $44+ billion. Projects are primarily wind and storage-related and likely to include $250MM of spending this year, $500MM next year, and $750MM in each of 2024 through 2026.
  - **Inflation Reduction Act legislation:** Southern views the legislation as positive and pointed to the benefits of the solar PTC; the Company does not expect the 15% minimum tax provision to materially impact its results.
  - **Customer bills:** Through June 2022, Georgia Power had ~$1B of under recovered fuel. The Company will make a fuel filing in February 2023 to address this under-recovery and future rates on expectations for what fuel costs could be.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$3.25**	**$3.41**	**$0.97**	**$1.07**	**$1.32**	**$3.55**	**$3.85**	**$4.10**
Consensus		3.41			1.33	3.59	3.80	4.14
% diff.					*-1%*	*-1%*	*1%*	*-1%*

Source: Evercore ISI, FactSet as of 10/18/22

Outperform **TP $31**
Analyst: Durgesh Chopra

- **Q3 EBITDA Bridge:** We project VST's Q3 EBITDA to be $1,050MM, which is ~30% of our FY 2022 EBITDA estimate of $3,200MM. VST's Q3 contribution (pre-Uri) has historically been in the 30-35% range.

- **What to look for in the earnings report (Key debates/themes):**
  - **2022 & 2023 EBITDA Guidance Ranges:** We expect VST to reaffirm its previously announced 2022 EBITDA guidance range of $2,810-$3,310MM, still tracking above the mid-pt. They have been guiding to $3.5-3.7B in 2023-2025 timeframe which we expect to be reiterated on the call as well.
  - **NOPEC related headwind.** In September 2022, citing rising electric prices Ohio's retail energy provider Northeast Ohio Public Energy Council (NOPEC) moved its 550K customers form its own platform to their utility default service provider. We estimate ~$10MM EBITDA impact per month (~$40MM for 2022) assuming VST has to procure power to serve as the default service provider to roughly 1/3rd of NOPEC customers.
  - **Capital Allocation Update**: VST has executed ~$1.6B of the authorized $2B share repurchase program as of Aug 5, 2022 and announced additional $1.25B of share repurchases to begin in 2022 and expected to be completed by year end 2023.
  - **Inflation reduction act:** The Inflation Reduction Act just as for industry peers would bolster Vistra's renewable (VST Zero) growth profile. Management stated that the 15% minimum tax will not be impactful through the planning horizon given Uri related and other book losses.
  - **VST Zero**: As of the second quarter 2022 call, Vistra restored Phases I and II of the 400-megawatt Moss Landing Energy Storage Facility in CA to service at 98% of its maximum capacity in July. VST announced its 50MW Brightside Solar Facility was online in April 2022 in TX. The Company also announced in each of May and June 2022 that its 260MW DeCordova Energy Storage Facility and its 108MW Emerald Grove Solar Facility were online in TX. With these announcements, VST has over 1GW of renewable assets in operation versus their target of ~5 GWs by year-end 2026 with the ~$5B in development capital (generation $350-500MM EBITDA) funded by project debt and other financings ($3.5B), Vistra Zero project cash flow($0.5B), and $1B preferred stock offering proceeds

- **Positioning into Qtr: Neutral.**

Adj. EBITDA	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$3,685**	**$1,941**	**$547**	**$761**	**$1,050**	**$3,200**	**$3,500**	**$3,600**
Consensus					$1,237	3,177	3,617	3,597
% diff.					*-15%*	*1%*	*-3%*	*0%*

Source: Evercore ISI, FactSet as of 10/18/22

WEC Energy Group

In Line **TP $103**
Analyst: Durgesh Chopra / Sharon Wang

- **Q3 EPS Bridge:** We project year-over-year EPS to decrease $0.07 to $0.85 in Q3 2022 higher than company's $0.82-$0.84 guidance range driven by favorable weather.
- **What to look for in the earnings report (Key debates/themes):**
  - **2022 and 2023 EPS guidance ranges:** On the Q2 earnings call The company raised its 2022 EPS guidance to $4.36 - $4.40 from $4.34 - $4.38, assuming normal weather for the rest of the year and expect to be at the top end. Consistent with past practice 2023 guidance will be provided in early December following WEC's board meeting.
  - **WI Rate Case**: WEC reached a settlement in Wisconsin for a base revenue increase of $507mm, with a 53% equity ratio vs current 52.5%, earnings sharing mechanism unchanged from 2022, and an authorized ROE to be decided by the commission. Requested ROE was 10.00% for Wisconsin Electric & Wisconsin Public Service and 10.20% for Wisconsin Gas. Commission staff positions are 9.8% for all. Wisconsin Electric also seeks approval to securitize $100mm of the remaining book balance of older Oak Creek coal units by 2024. Commission approval is expected in December.
  - **Inflation Reduction Act Implications:** Management stated that the Inflation Reduction Act is beneficial from a customer bill standpoint and provides WEC with future incremental renewable investment opportunities. PTCs and ITCs will create bill headroom of mainly renewables and batteries investment for regulated customer. Additionally, the ability to choose PTCs for solar projects and to transfer tax credits provides more flexibility for future renewable investments, which would apply both at utility and at the infrastructure segment. Management also said IRA update to allow for accelerated depreciation basically eliminated the previously stated 15% minimum tax cash flow headwind of roughly $20M-$30M per year, thus the legislation is going to be positive to company's credit metrics driven by higher pace of investment and monetization of tax credits amongst other things.
  - **Capex update on the third quarter call.** Consistent with past practice we will look for an update to the capex plan and targeted 6-7% EPS growth on the third quarter call in early November with spending biased higher compared to the current $17.7B projected investment from 2022 through 2026. Management pointed to three areas of addition spending 1) MISO $900MM capex investment awarded to ATC (details within); 2) $700MM 10-year grid hardening program in WI; and 3) Additional renewable investments bolstered by the Inflation Reduction Act (IRA). The company also mentioned Electric Vehicle related distribution spending (expect to increase electric demand by 20-50bps in the next five years) and faster renewable transition as longer-dated capex upsides
  - **MISO Transmission Capex:** In July 2022, MISO awarded roughly $900 million investment opportunity out of the total $10.3 billion MISO transmission capex in the first tranche of Phase 1 projects to ATC (American Transmission Company LLC), in which WEC has an approximately 60% equity ownership interest. Investment in these projects is expected to start as early as 2027. We estimate the earnings contribution of these projects to be roughly $27 million or ~2% of our 2024 EPS estimate of $4.91/share, though these projects are not expected to start going into service until at least 2028.
- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$3.79**	**$4.11**	**$1.79**	**$0.87**	**$0.85**	**$4.38**	**$4.55**	**$4.91**
Consensus					0.87	4.39	4.61	4.90
% diff.					*-2%*	*0%*	*-1%*	*0%*

Source: Evercore ISI, FactSet as of 10/18/22

Outperform **TP $75**
Analyst: Durgesh Chopra / Sharon Wang

- **Q3 EPS Bridge:** We project year-over-year EPS to increase $0.06 to $1.19/share. Positive YoY drivers include higher electric sales volumes, and new rates in Minnesota, Colorado, Wisconsin, Taxes, and New Mexico. In terms of negative drivers, O&M and higher depreciation, interest expense, and property taxes will be a drag.

- **What to look for in the earnings report (Key debates/themes):**

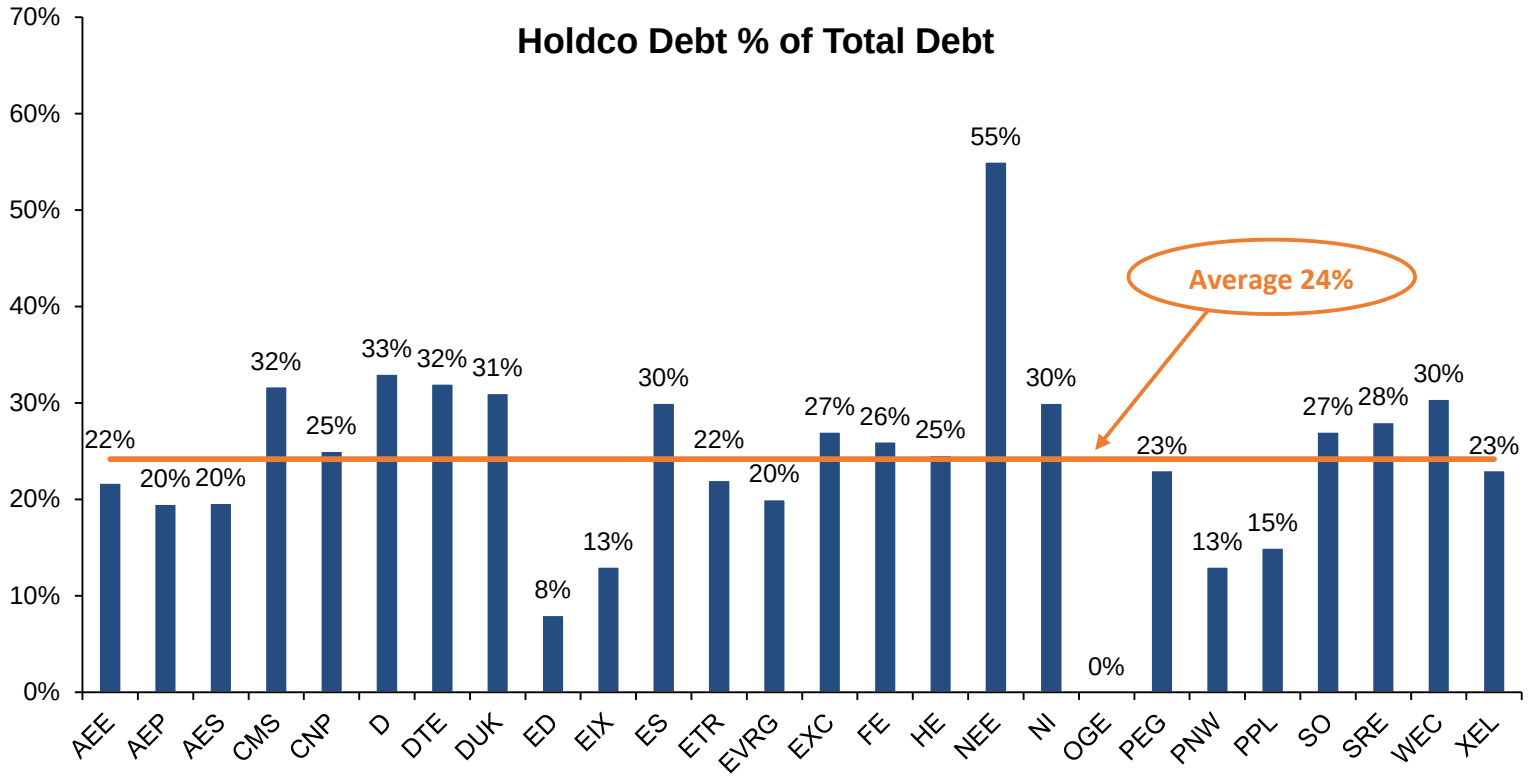
  - **2022 & 2023 EPS Guidance Ranges**: We expect management to reaffirm (or narrow) its previously announced 2022 EPS guidance range of $3.10-$3.20. 2023 guidance range is expected on the third quarter call, we estimate a range of $3.31-$3.37 which is 5-7% using 2022 guidance mid-pt of $3.15.
  - **MISO:** XEL estimates ~$1.2 billion investment opportunity out of the total $10.3 billion MISO transmission capex in the first tranche of Phase 1 projects awarded by MISO in July 2022, which could bolster LT earnings profile (2025+). There is also ~$1B spending that could be added through a competitive process. Certificates of need are required for the projects, and the process would be around 12 months. The total $30B spending in all of Phase 1 should be awarded over the next few years, which could mean potential for up to $5-$6 billion incremental investment for XEL, ~$0.25 annual EPS upside or 7% of our 24E.
  - **IRA Implications**: Management stated that the energy provisions included in the Inflation Reduction Act of 2022 would provide substantial customer benefits and help enable their clean energy transition. Furthermore, they can more than offset the cash flow drag from 15% minimum tax using renewable/other tax credits.
  - **Minnesota RC:** XEL recently reached a constructive settlement in the gas rate case for a $20.5MM revenue increase with an ROE of 9.57% and 52.5% equity ratio. The Minnesota commission decision is expected in the first quarter of 2023. XEL got first round of testimony in the electric case, which they feel is a good starting point, the company thinks they have a decent chance to reach a settlement.
  - **Colorado gas RC**. The company filed Colorado gas RC in January, with a decision expected later in October and rates effective in November 2022. Staff position was at 55% equity ratio/ 9% ROE, and UCA (Utility Customer Advocate) was at 51.5% equity layer/ 9% ROE, versus the current authorized ROE of 9.3% and equity layer of 55.5%. Both of interveners were using a historical test year while the company filed for forward test year. The Commission started the deliberations in September.
  - **ND gas case**. In September 2021, XEL filed an ND gas case requesting the rate increase of ~$7 million. The settlement on $5MM dollars rate increase has been reached with a 9.8% ROE and a 52.54% equity ratio. Final decision is expected in the 2022 Q3.
  - **Colorado Resource Plan:** In June 2022, Colorado Public Utilities Commission verbally approved a revised settlement, which will accelerate the retirement of the Comanche 3 (500 MW) coal unit by January 2031 (was 2070), with an expected carbon reduction of 85% and an 80% renewable mix by 2030. The CPUC deferred a decision on the method of cost recovery for the retiring coal units to a separate docket, which will consider accelerated depreciation, creation of regulatory assets and securitization. PSCo expects to file a recovery method docket in the fall. XEL is going to issue RFPs later this year, submit their recommended portfolios by mid-2023, and receive commission decisions in the second half of 2023.
  - **Customer Bill Increase**: Gas bills could be up around 25% vs prior year. XEL doesn't expect a material fuel driven increase on the electric side given their higher renewable generation mix.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22E	2022E	2023E	2024E
EVR ISI	**$2.79**	**$2.96**	**$0.70**	**$0.60**	**$1.19**	**$3.19**	**$3.39**	**$3.60**
Consensus					1.25	3.17	3.39	3.61
% diff.					*-5%*	*1%*	*0%*	*0%*

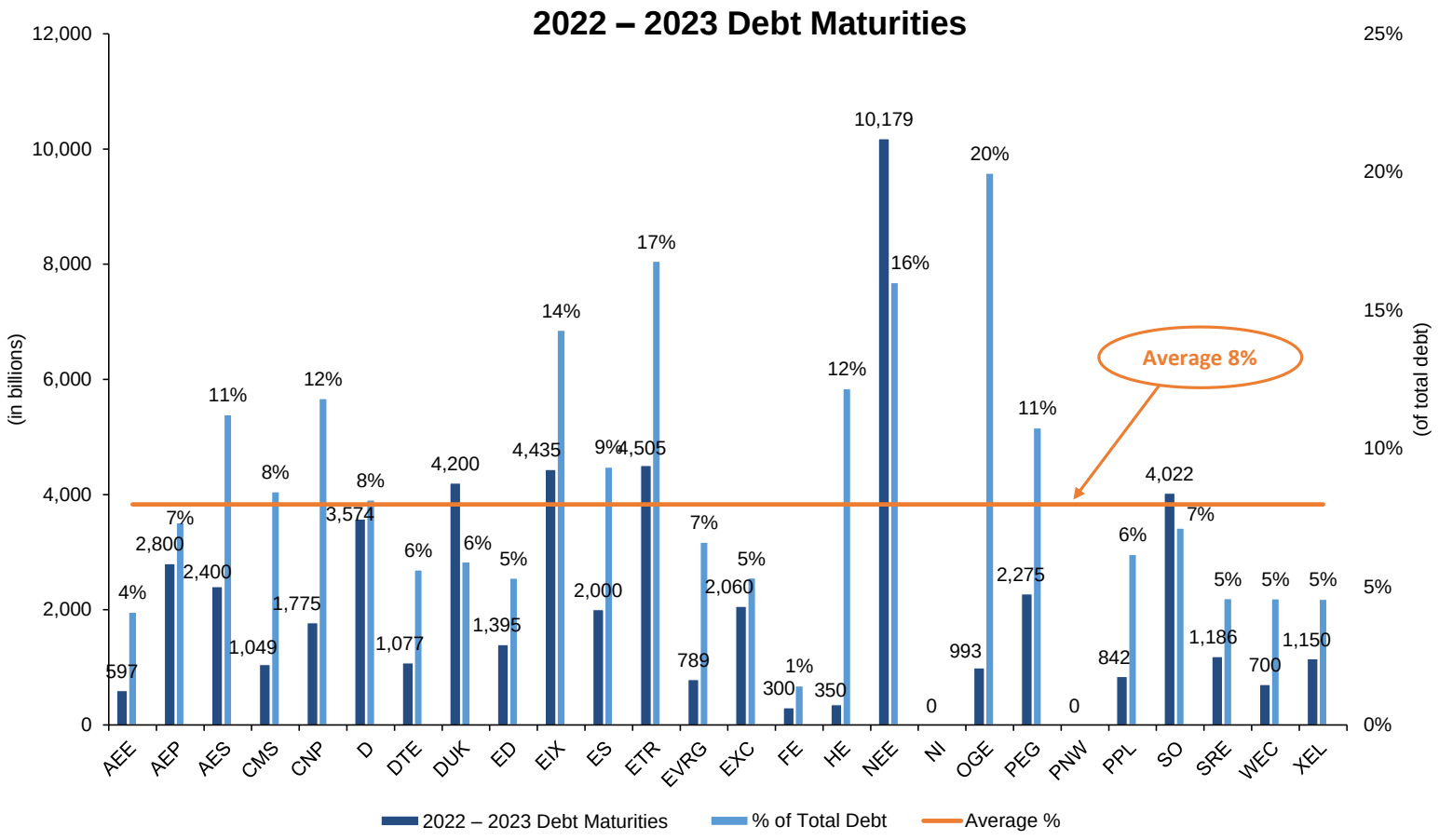
Source: Evercore ISI, FactSet as of 10/18/22

Holdco Debt / Total Debt



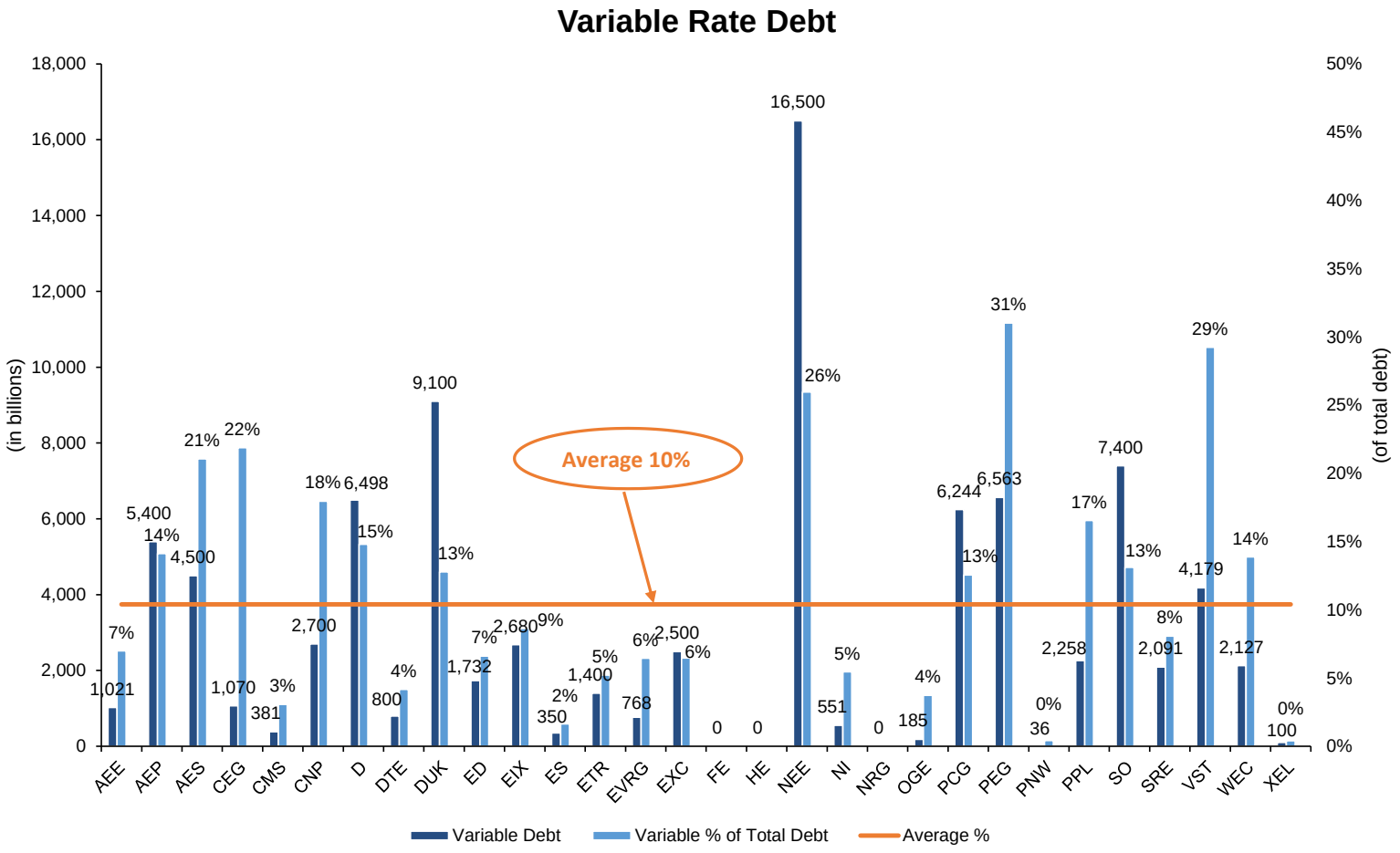
Source: Everocre ISI, Companies, FactSet, Moody's as of June 30, 2022

2022 – 2023 Debt Maturities



Source: Everocre ISI, Companies, Capital IQ as of June 30, 2022

Variable Rate Debt



Source: Everocre ISI, Companies, FactSet as of June 30, 2022

Q3 Estimates vs. Consensus and Positioning for Quarter

Q3'22 EPS Estimates vs. Consensus

Ticker	Evercore ISI	Consensus	% Diff	Positioning for Q3	
AES	0.54	0.52	3.9%	Neutral	
AEE	1.73	1.74	-0.4%	Neutral	
AEP	1.57	1.54	1.9%	Neutral	
CMS	0.51	0.66	-22.4%	Neutral	
CNP	0.32	0.32	-0.5%	Neutral	
D	1.06	1.11	-4.7%	Neutral	
DTE	1.57	1.70	-7.7%	Positive	✓
DUK	1.75	1.88	-6.8%	Cautious	✓
ED	1.50	1.46	2.9%	Neutral	
EIX	1.35	1.63	-17.1%	Neutral	
ES	1.04	1.08	-3.8%	Neutral	
ETR	2.65	2.65	0.1%	Neutral	
EVRG	1.95	1.85	5.4%	Positive	✓
EXC	0.70	0.69	0.9%	Neutral	
FE	0.82	0.78	5.4%	Neutral	
HE	0.51	0.52	-2.5%	Neutral	
NEE	0.82	0.79	3.8%	Neutral	
NI	0.09	0.12	-27.8%	Neutral	
OGE	1.23	1.10	11.9%	Neutral	
PEG	0.79	0.81	-2.9%	Cautious	✓
PNW	2.57	2.52	1.8%	Neutral	
PPL	0.45	0.43	4.4%	Neutral	
SO	1.32	1.33	-0.7%	Neutral	
SRE	1.80	1.78	1.2%	Positive	✓
WEC	0.85	0.87	-2.4%	Neutral	
XEL	1.19	1.25	-4.8%	Neutral	
Average			**-2.4%**		

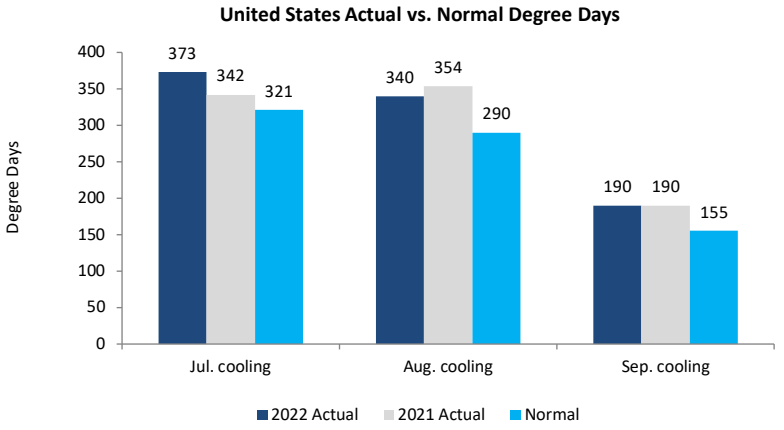
Q3'22 EBITDA Estimates vs. Consensus ($mm)

Ticker	Evercore ISI	Consensus	% Diff	Positioning for Q3
CEG	600	601	-0.2%	Neutral
NRG	410	623	-34.2%	Neutral
VST	1050	1237	-15.1%	Neutral
Average			**-16.5%**	

Source: Everocre ISI, FactSet. Consensus as of 10/18/22

US weather in 3Q 2022 was favorable for utilities versus the same period last year and as compared to normal.

- **US weather in 3Q 2022 was favorable for utilities versus the same period last year and as compared to normal**. Based on National Oceanic and Atmospheric Administration (NOAA) cooling degree day data, the weather in 3Q22 drove 2% higher degree days versus last year and 18% above normal, on average across the US. All regions except NE Central, NW Central, and South Atlantic were higher when compared to 3Q21 and all regions were above normal. The weather was the most favorable in the SW Central, SE Central, and South Atlantic regions. Based on our Q3 preview conversations with several companies to date, weather has also been communicated as favorable versus guidance (normal weather), but the impact does vary on a company-by-company basis versus the prior year.



	Q3 2022	Q3 2021	Norm	% change vs. year-ago	% change vs. norm
New England	550	467	348	18%	58%
Middle Atlantic	694	665	511	4%	36%
NE Central	564	639	502	-12%	12%
NW Central	744	761	650	-2%	14%
South Atlantic	1,155	1,180	1,077	-2%	7%
SE Central	1,080	1,056	997	2%	8%
SW Central	1,580	1,452	1,417	9%	12%
Mountain	925	899	810	3%	14%
Pacific	754	690	506	9%	49%
U.S.	903	886	766	2%	18%

Region	Jul cooling 2022 actual	Jul cooling 2021 actual	Jul cooling norm	% change vs. year-ago	% change vs. norm
New England	256	169	180	51%	42%
Middle Atlantic	312	274	247	14%	26%
NE Central	259	249	245	4%	6%
NW Central	335	305	308	10%	9%
South Atlantic	461	440	425	5%	8%
SE Central	469	407	412	15%	14%
SW Central	647	509	545	27%	19%
Mountain	394	390	341	1%	16%
Pacific	249	286	188	-13%	32%
United States	**373**	**342**	**321**	**9%**	**16%**

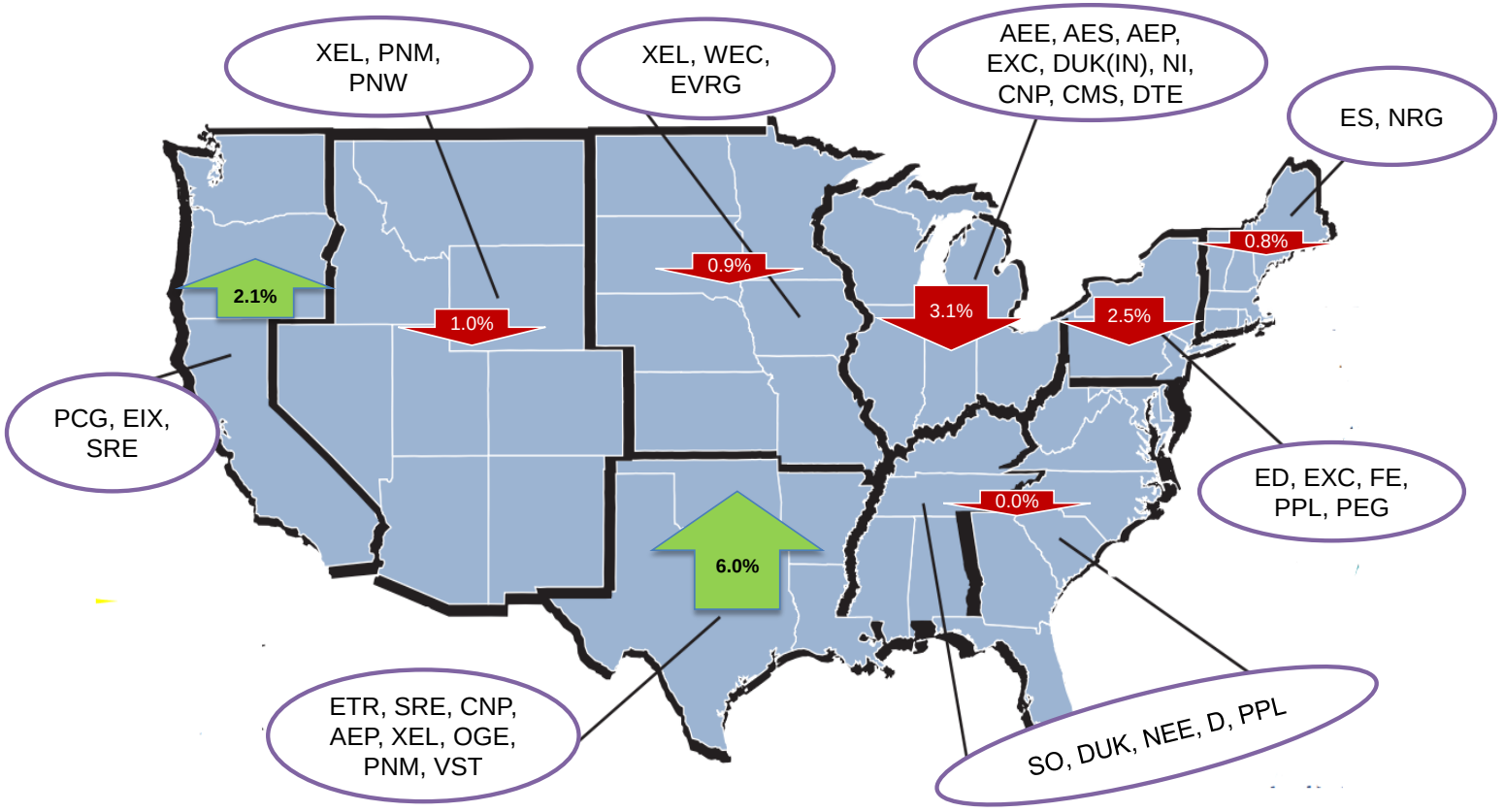
Region	Aug cooling 2022 actual	Aug cooling 2021 actual	Aug cooling norm	% change vs. year-ago	% change vs. norm
New England	262	243	146	8%	79%
Middle Atlantic	303	304	205	0%	48%
NE Central	213	290	197	-27%	8%
NW Central	278	308	255	-10%	9%
South Atlantic	421	452	393	-7%	7%
SE Central	387	420	376	-8%	3%
SW Central	553	548	527	1%	5%
Mountain	319	311	302	3%	6%
Pacific	298	254	193	17%	54%
United States	**340**	**354**	**290**	**-4%**	**17%**

Region	Sep cooling 2022 actual	Sep cooling 2021 actual	Sep cooling norm	% change vs. year-ago	% change vs. norm
New England	32	55	22	-42%	45%
Middle Atlantic	79	87	59	-9%	34%
NE Central	92	100	60	-8%	53%
NW Central	131	148	87	-11%	51%
South Atlantic	273	288	259	-5%	5%
SE Central	224	229	209	-2%	7%
SW Central	380	395	345	-4%	10%
Mountain	212	198	167	7%	27%
Pacific	207	150	125	38%	66%
United States	**190**	**190**	**155**	**0%**	**23%**

Source: NOAA, Evercore ISI Research

US Electricity Demand In Q3 2022 Was Up +0.5% YoY versus Q3 2021

- Based on EEI data, actual electric demand (not weather-normalized) was up +0.5% YoY on average across the US in the third quarter 2022. Regions were mixed, specifically, the South Central (+6.0%) was up the most, followed by Pacific region (+2.1%). Southeast (0.0%) was flat YoY. New England (-0.8%), West Central (-0.9%), Rocky Mountain (-1.0%), Mid-Atlantic (-2.5%), and Central Industrial (-3.1%) regions were in negative territory compared to the same period last year. Electricity demand could be a benefit or a headwind for pure-play electric utilities that have direct exposure to load (i.e. no decoupling mechanism).



Source: EEI, Evercore ISI Research

Regulated Utility Valuation Goes To ~15.7x '24 EPS

Regulated Utilities

Ticker	Company Name	10/18/22 Price	ISI Rating	Shares Out	Market Cap	2022 Div Yld	2022 Payout	ISI EPS Estimate 2022	2023	2024	P/E Multiple 2022	2023	2024	Price to Book	Prem. to Group
WEC	WEC Energy Group	$87.79	In Line	316	27,768	3.3%	66%	4.38	4.55	4.91	20.1x	19.3x	**17.9x**	2.3x	14%
XEL	Xcel Energy Inc	$61.62	Outperform	534	32,920	3.2%	61%	3.19	3.39	3.60	19.3x	18.2x	**17.1x**	1.9x	9%
AEE	Ameren Corp	$79.36	Outperform	266	21,124	2.9%	57%	4.05	4.35	4.65	19.6x	18.2x	**17.1x**	1.8x	9%
ED	Consolidated Edison Inc	$85.00	Underperform	363	30,854	3.7%	70%	4.50	4.75	5.00	18.9x	17.9x	**17.0x**	1.4x	8%
CMS	CMS Energy Corp	$56.56	In Line	291	16,453	3.3%	65%	2.86	3.14	3.34	19.8x	18.0x	**16.9x**	2.4x	8%
DTE	DTE Energy Co	$109.89	Outperform	205	22,492	3.2%	59%	6.00	6.23	6.53	18.3x	17.6x	**16.8x**	2.1x	7%
CNP	CenterPoint Energy Inc	$26.96	Outperform	611	16,464	2.3%	45%	1.38	1.49	1.61	19.6x	18.1x	**16.7x**	2.0x	7%
ES	Eversource Energy	$75.86	In Line	351	26,605	3.4%	62%	4.12	4.35	4.60	18.4x	17.4x	**16.5x**	1.6x	5%
OGE	OGE Energy Corp	$35.13	In Line	200	7,040	4.8%	73%	2.32	2.18	2.16	15.1x	16.1x	**16.2x**	1.8x	4%
SO	Southern Company Inc	$65.39	In Line	1,095	71,586	4.1%	76%	3.55	3.85	4.10	18.4x	17.0x	**15.9x**	2.0x	2%
AEP	American Electric Power Co Inc	$86.58	Outperform	521	45,075	3.5%	61%	5.00	5.30	5.65	17.3x	16.3x	**15.3x**	1.7x	-2%
SRE	Sempra Energy	$145.41	Outperform	324	47,101	3.2%	54%	8.70	8.95	9.65	16.7x	16.2x	**15.1x**	1.7x	-4%
PPL	PPL Corp	$25.39	Outperform	736	18,692	3.5%	65%	1.37	1.58	1.70	18.5x	16.0x	**15.0x**	1.3x	-5%
HE	Hawaiian Electric Industries, Inc	$36.23	In Line	111	4,016	3.9%	67%	2.10	2.30	2.45	17.3x	15.8x	**14.8x**	1.5x	-6%
DUK	Duke Energy Corp	$90.81	In Line	778	70,673	4.4%	73%	5.45	5.75	6.15	16.7x	15.8x	**14.8x**	1.4x	-6%
EVRG	Evergy	$58.85	In Line	230	13,547	3.7%	61%	3.55	3.75	4.00	16.6x	15.7x	**14.7x**	1.7x	-6%
EXC	Exelon Corp	$37.56	Outperform	987	37,059	4.3%	71%	2.25	2.41	2.57	16.7x	15.6x	**14.6x**	1.0x	-7%
NI	NiSource Inc	$25.27	Outperform	447	11,301	3.6%	63%	1.45	1.54	1.73	17.4x	16.4x	**14.6x**	2.3x	-7%
ETR	Entergy Corp	$103.44	Outperform	209	21,577	4.0%	65%	6.30	6.70	7.15	16.4x	15.4x	**14.5x**	1.7x	-8%
PNW	Pinnacle West Capital Corp	$64.41	Underperform	123	7,909	5.4%	87%	4.00	4.20	4.50	16.1x	15.3x	**14.3x**	1.1x	-9%
D	Dominion Resources Inc	$66.54	Outperform	817	54,394	4.0%	65%	4.15	4.43	4.70	16.0x	15.0x	**14.1x**	1.8x	-10%
FE	FirstEnergy Corp	$37.31	Outperform	552	20,598	4.3%	68%	2.40	2.53	2.67	15.5x	14.7x	**14.0x**	2.3x	-11%
EIX	Edison International	$57.42	In Line	414	23,777	4.6%	58%	4.55	4.95	5.25	12.6x	11.6x	**10.9x**	1.0x	-30%
PCG	PG&E Corp	$14.15	Rating Suspended	1,987	27,747	0.0%	0%	1.10	1.23	1.34	12.9x	11.4x	**10.6x**	1.3x	-33%
Regulated Group Average (Excludes PCG for Div Values)						**3.8%**	**64.9%**				**17.3x**	**16.2x**	**15.2x**	**1.72x**	
Regulated Group Average (Excluding Stocks: PPL, EIX, and PCG)						3.7%	65.2%				17.6x	16.7x	15.7x	1.79x	
Regulated Group Max (Excludes PCG for Div Values)						5.4%	87.1%				20.1x	19.3x	17.9x	2.4x	
Regulated Group Min (Excludes PCG for Div Values)						2.3%	45.3%				12.6x	11.4x	10.6x	1.0x	

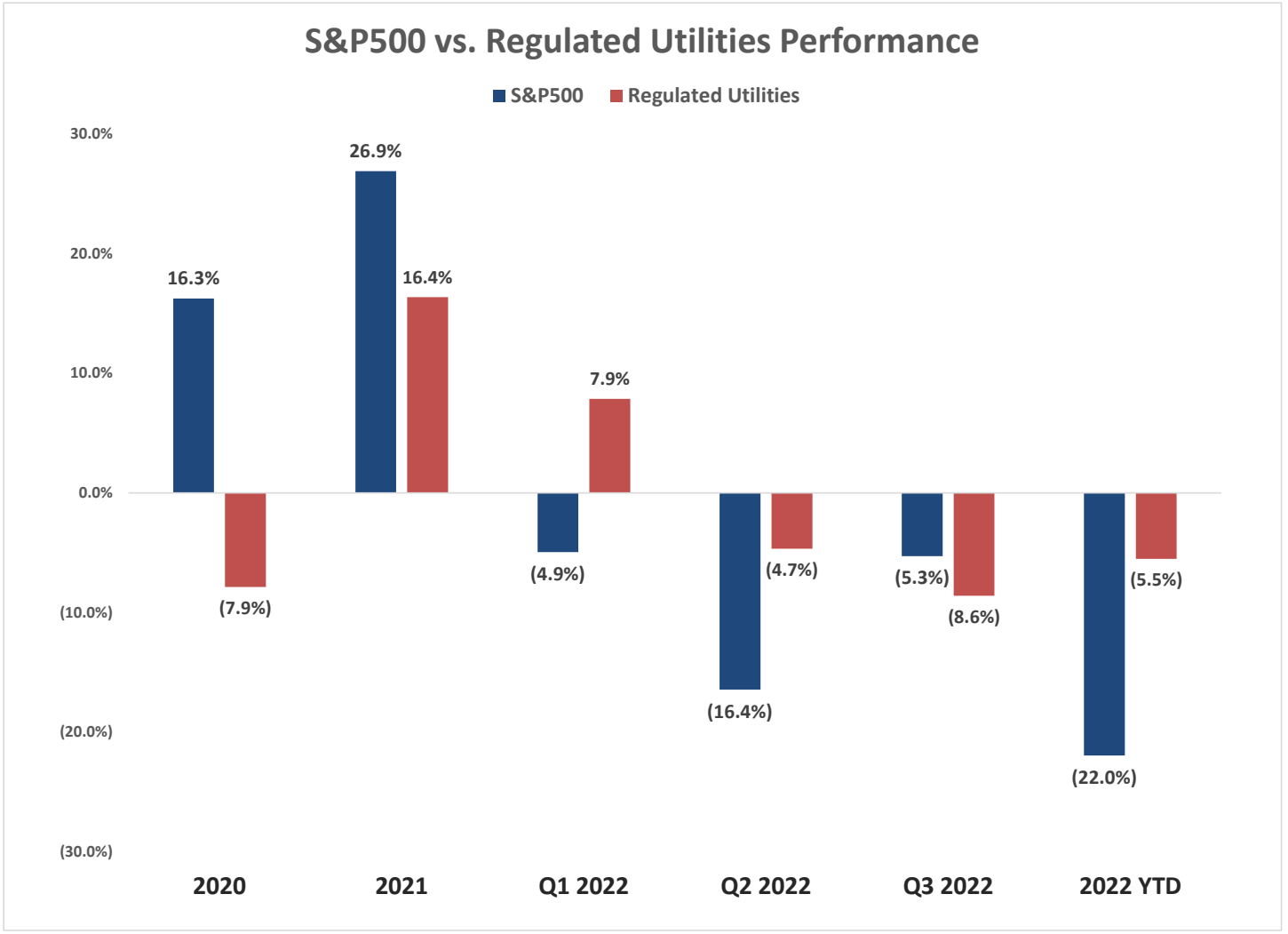
Diversified Utilities

Ticker	Company Name	10/18/22 Price	ISI Rating	Shares Out	Market Cap	2022 Div Yld	2022 Payout	ISI EPS Estimate 2022	2023	2024	P/E Multiple 2022	2023	2024	Price to Book	Prem. to Group
NEE	NextEra Energy, Inc.	$75.06	In Line	2,008	150,740	2.3%	58%	2.90	3.10	3.40	25.9x	24.2x	**22.1x**	3.5x	44%
PEG	Public Service Enterprise Group	$55.69	Outperform	504	28,068	3.8%	62%	3.45	3.40	3.85	16.1x	16.4x	**14.5x**	1.8x	-6%
AES	AES Corp	$24.40	Outperform	667	16,267	2.6%	39%	1.60	1.80	1.90	15.2x	13.6x	**12.8x**	4.1x	-16%
Diversified Group Average						**2.9%**	**53%**				**19.1x**	**18.1x**	**16.5x**	**3.1x**	
Diversified Group Max						3.8%	62%				25.9x	24.2x	22.1x	4.1x	
Diversified Group Min						2.3%	39%				15.2x	13.6x	12.8x	1.8x	

Updated as of 10/18/22, Note – PCG estimates above reflect consensus view from FactSet

Source: FactSet, Evercore ISI Research

Utes Underperformed in Q3 2022



Updated as of 10/18/22

Source: FactSet, Evercore ISI Research

EVERCORE ISI

Utilities Are 23% Expensive on '23 Yields Assuming Yields Remain Unchanged

Utility Valuation			10 YR	4.01%
10/18/22			Baa	6.30%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2022 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	3.44%	3.03%	21.5x	20.9%
	3.66%	3.18%	20.5x	15.1%
	3.88%	3.34%	19.5x	9.8%
	4.10%	3.49%	18.7x	5.0%
Current Valuation	4.32%	3.64%	17.9x	0.6%
	4.54%	3.80%	17.2x	-3.5%
- 68% Confidence Interval	4.76%	3.95%	16.5x	-7.2%
	4.98%	4.10%	15.9x	-10.7%
	5.20%	4.26%	15.3x	-13.9%
	5.42%	4.41%	14.8x	-16.9%
	5.64%	4.56%	14.3x	-19.7%
	5.86%	4.71%	13.8x	-22.3%
	6.08%	4.87%	13.4x	-24.7%
Predicted Valuation	6.30%	5.02%	13.0x	-27.0%
	6.52%	5.17%	12.6x	-29.2%
	6.74%	5.33%	12.2x	-31.2%
	6.96%	5.48%	11.9x	-33.1%
	7.18%	5.63%	11.6x	-35.0%
	7.40%	5.79%	11.3x	-36.7%
+ 68% Confidence Interval	7.62%	5.94%	11.0x	-38.3%
	7.84%	6.09%	10.7x	-39.9%
	8.06%	6.25%	10.4x	-41.3%
	8.28%	6.40%	10.2x	-42.7%
	8.50%	6.55%	10.0x	-44.1%
	8.72%	6.70%	9.7x	-45.4%
+ 95% Confidence Interval	8.94%	6.86%	9.5x	-46.6%

Regulated utilities now look 27% expensive on current yields

Utility Valuation			10 YR	4.01%
10/18/22			Baa	6.30%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2023 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	3.44%	3.03%	21.4x	27.3%
	3.66%	3.18%	20.4x	21.2%
	3.88%	3.34%	19.4x	15.6%
	4.10%	3.49%	18.6x	10.5%
	4.32%	3.64%	17.8x	5.9%
Current Valuation	4.54%	3.80%	17.1x	1.6%
- 68% Confidence Interval	4.76%	3.95%	16.4x	-2.3%
	4.98%	4.10%	15.8x	-6.0%
	5.20%	4.26%	15.2x	-9.3%
	5.42%	4.41%	14.7x	-12.5%
	5.64%	4.56%	14.2x	-15.4%
	5.86%	4.71%	13.8x	-18.2%
	6.08%	4.87%	13.3x	-20.7%
Predicted Valuation	6.30%	5.02%	12.9x	-23.2%
	6.52%	5.17%	12.5x	-25.4%
	6.74%	5.33%	12.2x	-27.6%
	6.96%	5.48%	11.8x	-29.6%
	7.18%	5.63%	11.5x	-31.5%
	7.40%	5.79%	11.2x	-33.3%
+ 68% Confidence Interval	7.62%	5.94%	10.9x	-35.0%
	7.84%	6.09%	10.6x	-36.7%
	8.06%	6.25%	10.4x	-38.2%
	8.28%	6.40%	10.1x	-39.7%
	8.50%	6.55%	9.9x	-41.1%
	8.72%	6.70%	9.7x	-42.5%
+ 95% Confidence Interval	8.94%	6.86%	9.5x	-43.7%

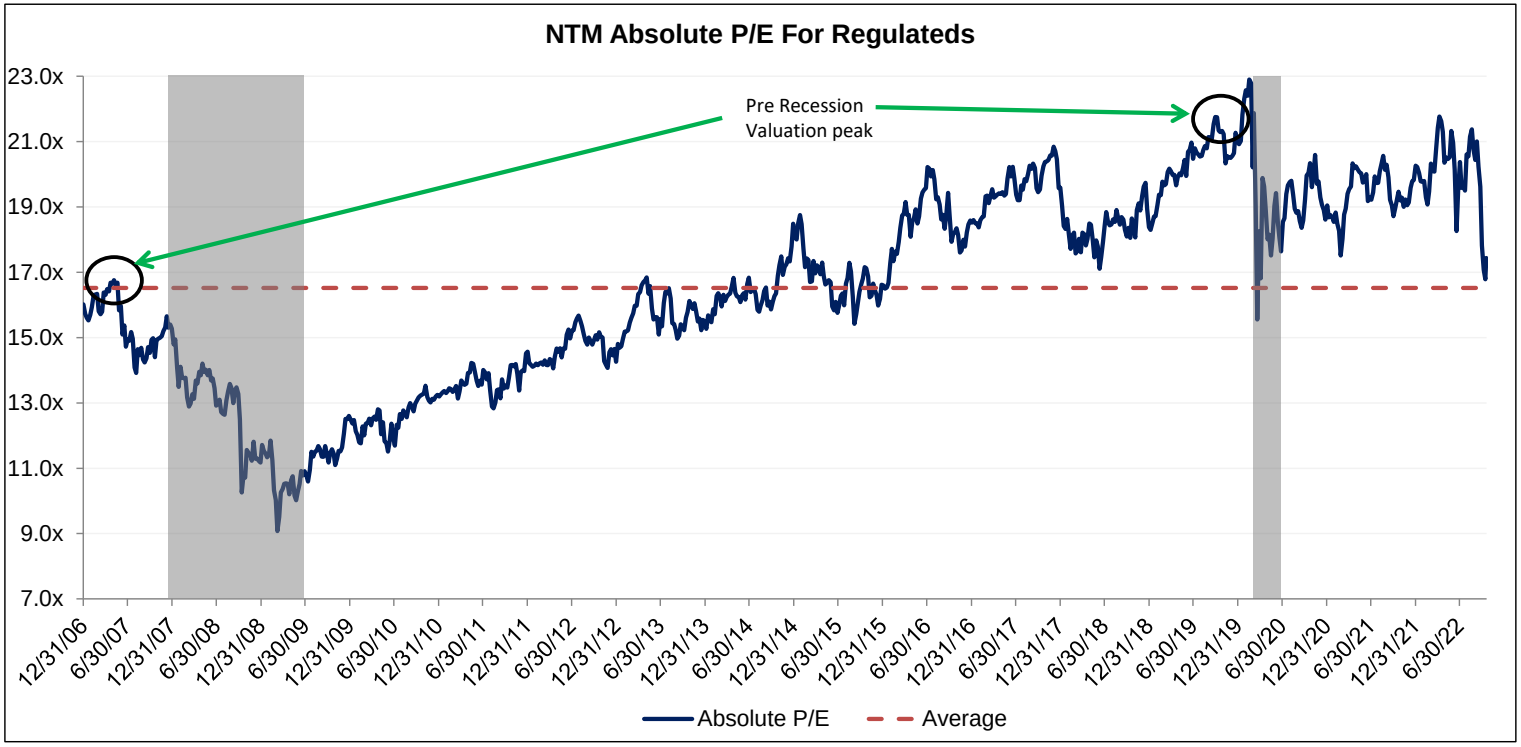
If rates stay unchanged for the next 12 months, regulated utilities now look ~23% expensive

Updated as of 10/18/22

Source: FactSet, Evercore ISI Research

Absolute Valuation below pre-COVID recession levels & below peak

- Utes are trading 21% below 12-month pre COVID recession levels on an absolute basis and 32% below the valuation peak.
- On an absolute basis, NTM PEs for Utes averaged ~15x 12mths leading up to the 08/09 recession peaking at ~17x, in line with where the group is trading currently.
- In the COVID recession however, absolute P/E for Utes averaged ~21x 12mths prior and peaked at 23x, which would be 32% upside from current levels at ~17.4x.

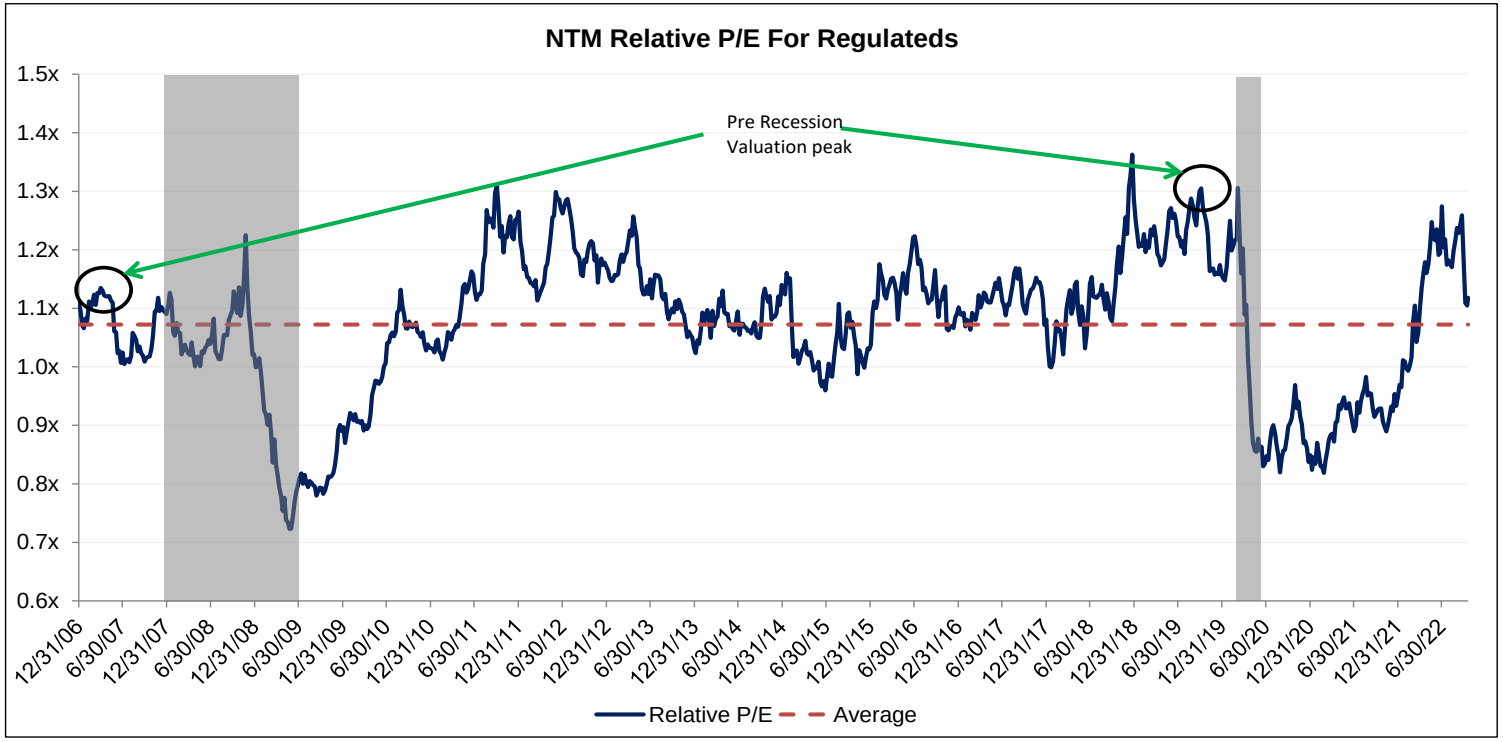


Updated as of 10/18/22

Source: FactSet, Evercore ISI Research

Group's NTM P/E relative to S&P 500 is below Pre COVID recession levels & below peak

- NTM P/E relative to S&P 500 is 9% below the 12-month pre COVID recession levels and 16% below the valuation peak.
- NTM relative PEs for Utes averaged 1.07x 12mths leading up to the 08/09 recession peaking at 1.13x, in line with 1.12x where the group is trading currently
- In the COVID recession, relative P/E for Utes averaged 1.22x 12mth prior and peaked at 1.30x, which would be ~16% upside from current levels at 1.12x assuming S&P500 stays flat

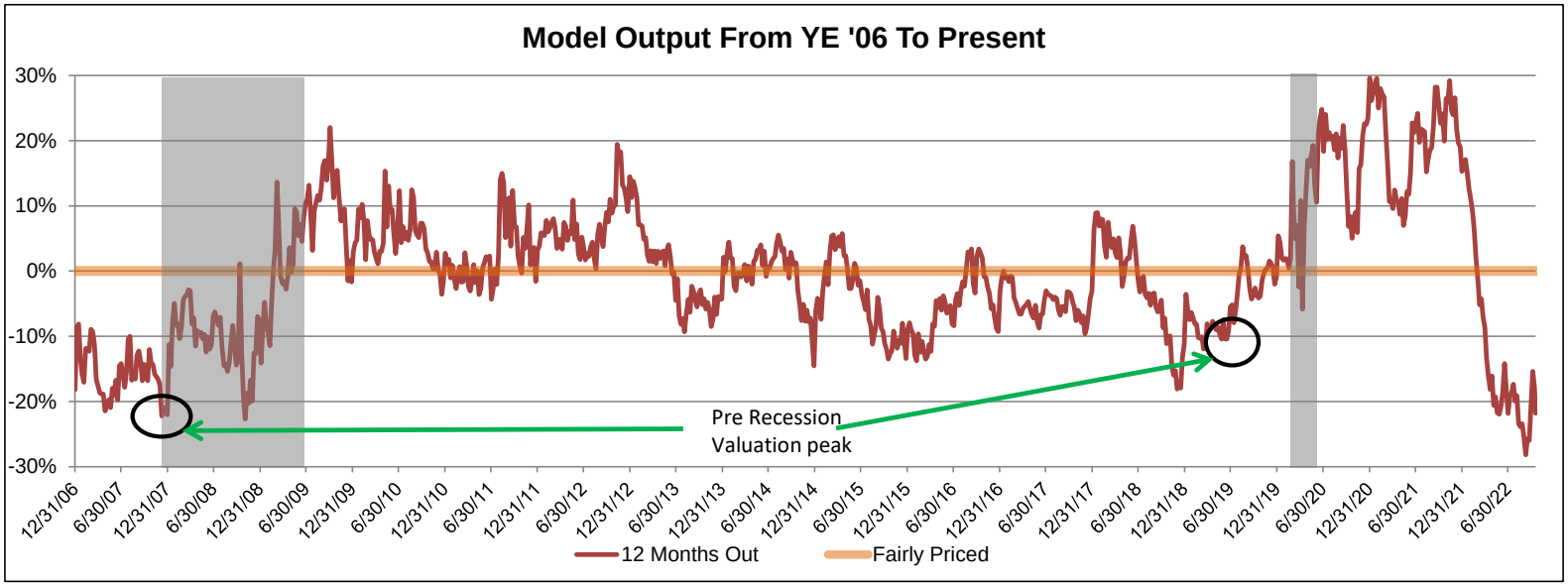


Updated as of 10/18/22

Source: FactSet, Evercore ISI Research

Bond regression model output close to 08/09 pre-recession peak

- The group was 16% expensive on average when compared to Moody's Baa yield in our bond regression model 12mths prior to the 08/09 recession with group valuation peaking at 24%.
- Utes were 4% expensive on average in our bond regression model 12mths leading up to the COVID recession peaking at 12%.
- Prior peak suggests ~1% multiple expansion (assuming yields stay flat) considering bond model readings in 08 recession.



Updated as of 10/18/22

Source: FactSet, Evercore ISI Research

TIMESTAMP

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

Time of dissemination: October 20 2022 6:49 AM ET

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

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Current Ratings Definition

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

Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage sector.
In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's coverage sector.
Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's coverage sector.
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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/or target price for this stock because there is not sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, a rating or target price. The previous rating and target price, if any, are no longer in effect for this company and should not be relied upon; a stock in the model portfolio is removed.

Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

Stocks assigned ratings under the alternative model portfolio-based coverage system cannot also be rated by Evercore ISI's Current Ratings definitions of Outperform, In Line and Underperform.

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Evercore ISI rating (as of 10/20/2022)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	519	63	Buy	75	14
Hold	280	34	Hold	24	9
Sell	16	2	Sell	0	0
Coverage Suspended	7	1	Coverage Suspended	3	43
Rating Suspended	7	1	Rating Suspended	1	14

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Price Charts

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Energy, Utilities & Mining Pulse: Investors Asking: What Earnings Events Will Likely Be Important and Why?

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It has been an eventful week for the Energy macro, particularly for Oil, with one of the more consequential OPEC+ meetings in modern history, providing support to both the commodity and equities. The pressure on Utilities has also been top of mind, with the 16% pullback in the XLU in the past month (or 10% vs. the S&P in a defensive tape), one of the larger draw downs in recent memory, as well. That said, investor conversations are shifting real-time from the macro back to the micro across Natural Resources, with earnings upon us. This week, each senior analyst team identifies a large cap and small/mid cap stock where we believe the earnings results/call will be important – and discuss why. Companies that come up included:

E&P (Mehta/Choudhary):

- **What is a LARGE CAP stock where earnings will likely be important and why? What do investors expect?** Following OPEC+ decision to cut production and resulting improvement in oil price sentiment, we expect the key area of focus for investors heading to 3Q earnings would be on 2023 outlook including production/capex guidance from producers. Among large cap E&Ps, investor focus would be likely on PXD's earnings given concerns around declining productivity and on inflationary pressures on capex. In particular, on declining productivity, PXD noted that due to its shift to full stack development (driving more wells targeting the Spraberry zone in the mix) has resulted in lower initial rates but also lower decline rates. Investors will look for PXD to meet/exceed consensus production outlook in 2022, and commentary around growth plans for 2023 while mitigating inflationary impact (a key headwind for US E&Ps) from tight services/labor markets. Lastly, investors will look for continued execution towards PXD's shareholder returns framework which calls for ~75% of FCF post base dividend to deployed towards variable dividends which implies high-single digit dividend yield.
- **What is a SMALL/MID CAP stock where earnings will likely be important and why? What do investors expect?** Among SMID E&Ps, we expect more investor focus on PDCE as the company has noted lower production guidance in 2H to reflect downtime in upstream/midstream operations in the DJ and delays in the Delaware. Updates on the easing of operation constraint would be in focus as the company has noted expectations for production to recover in exiting this year, and given PDCE's plans to grow production by 5%

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in 2023. Lastly, investor focus will be on the company's ability to mitigate inflationary pressure which is tracking 10%-20% higher yoy in 2023. Further updates on Colorado permitting and updates on public comment/commission hearing on Guanella Comprehensive Area Plan (CAP) will also remain a key focus for investors as it could further derisk the company's CO undeveloped inventory.

Energy Services (Mehta/Modak):

- **What is a LARGE CAP stock where earnings will likely be important and why? What do investors expect?** We view HAL earnings as likely important for 3Q22 to reset investor expectations around the strength in the company's US revenue and free cash flow potential as well as the exposure to the international markets rate of change. In particular given the current macro uncertainty around the next source of supply barrels for oil, HAL is best positioned to benefit. If international activity continues for spare capacity building and a revision towards a softer production cut as OPEC has expressed flexibility for, HAL's shares should benefit as we believe current prices do not reflect the value of international. On the other hand, if US activity ramps up to fill the gap, HAL should be the primary beneficiary. Investor expectations on HAL however have softened given the second derivative of the rig count change in the US has slowed down materially compared to 1H22.
- **What is a SMALL/MID CAP stock where earnings will likely be important and why? What do investors expect?** We view MTZ earnings as important given that the stock has meaningfully underperformed more recently following execution challenges. During 3Q22 earnings, we expec investor focus to be on margin progressions, supply chain and labor challenges, ability to pass costs to customers, re-contracting risk for better inflation protection terms and project execution risk. Investors will also be focused on guidance for 4Q22 and 2023, capital spending expectations from customers following IRA developments, and color around integration progress following several acquisitions made more recently.

Majors & Refining (Mehta/Davenport):

- **What is a LARGE CAP stock where earnings will likely be important and why? What do investors expect?** Among the large caps, investors have been highly focused on the quarter for Phillips 66, both as it relates to earnings execution as well as capital returns and the proposed DCP transaction. On earnings execution, investors seem to be constructive on the refining/marketing pieces of the business, but still concerned on Chemicals weakness. That said, capital returns remain top of mind. When the company announced the proposed DCP transaction, some investors queried if it would negatively impact the company's ability to return capital to shareholders, particularly after 2Q buybacks were essentially non-existent versus peers that repurchased significant amounts of stock during the quarter. Investors are also looking towards the November 9 Analyst Day for an update by the company on the DCP transaction.
- **What is a SMALL/MID CAP stock where earnings will likely be important and why? What do investors expect?**

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KOS reports earnings early November - where investors will be looking towards further updates around Tortue Phase 1 and particularly the sailaway date for the FPSO (previously anticipated by the end of this year). Certain investors see reduced risk to the timeline for Phase 1 since the FPSO vessel was returned to the quayside late September and no significant damage was identified. Additionally, we expect investors to be focused on any updates around Tortue Phase 2 during earnings, where a development decision for the project is expected before year-end and could provide further insight into contract pricing for the project (Tortue Phase 1 at ~9.5% slope to Brent), as well as project capacity (Tortue Phase 1 at 2.5 mtpa).

Metals & Mining (Chieng):

- **What is a LARGE CAP stock where earnings will likely be important and why? What do investors expect?** While the Q3 print itself will be less relevant (as the company pre-guided in mid-September), we expect focus on NUE will be high, given the company is the largest steel producer in the US, and investors are increasingly concerned around the demand outlook for steel across a broad range of end markets and the read-across for the broader steel equities. Expectations broadly are that non-residential construction demand remains strong (but that the second derivative may be softening at the edges), while we may be seeing early signs of improving autos demand. We believe investors expect to see cost pressure relief into the Q4 as high cost inventory is worked through, although margin pressure will likely persist as price realizations have already further eased from Q3 levels in the first week of the October.
- **What is a SMALL/MID CAP stock where earnings will likely be important and why? What do investors expect?** Investor interest in the downstream aluminum processors have picked up recent weeks, following ARNC's 2022 EBITDA guidance downgrade (on idiosyncratic operational issues and European exposure) and importantly, the read-across for CSTM. While CSTM has not provided guidance updates, given the company has substantial exposure to Europe (more than 40% of sales), investors have taken a more cautious approach to the stock into the quarterly result, reflecting uncertainty around European demand and power exposure. Those who remain optimistic view the lack of guidance update and robust power hedging strategy as reasons to lean more positively into the stock (although note some risk to volumes), particularly following a 30% pullback in the past 6 months.

Utilities (Lapides/Kim):

- **What is a LARGE CAP stock where earnings will likely be important and why? What do investors expect?** Among large cap stocks, investor focus will likely turn to Dominion Energy (D) given an initial order by its state regulator requiring performance guarantees – which D opposes – for its $10bn regulated offshore wind project. D already requested that its regulator reconsider this part of the order – but if a final ruling does not occur by 3Q2022 earnings, investors will likely await updates on how D plans to proceed if the performance guarantee remained in place. Some query whether D would consider delaying or cancelling this project given the performance guarantee would potentially create financial risk for D;

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others inquire about potential ways D could appeal this state utility regulation in either state or federal courts if a reversal does not happen – and what the timeline or process for this would look like.

- **What is a SMALL/MID CAP stock where earnings will likely be important and why? What do investors expect?** NiSource (NI) remains a big focus for investors ahead of its 3Q earnings/Analyst Day, as management plans to provide revised long-term earnings growth guidance as well as results of its strategic review process. Some expect the event to underwhelm with no material announcements, and some queried if a potential sale of one of its gas utilities would be announced (which NI stated as part of its considerations). Others see low expectations as already priced in given the stock's underperformance since June, and believe a combination of robust 5-year growth plan and intention to fund investments through future asset sales could re-energize shares from here.

Midstream (Lapides/Mackay):

- **What is a LARGE CAP stock where earnings will likely be important and why? What do investors expect?** With the macro backdrop softening, investor questions are increasing around more defensive stocks in midstream. MPLX is top of mind for many given its strong contract mix, clean balance sheet, improved counterpart risk (vs. 2020), and high distribution yield. That said, following mixed communication around capital returns on prior earnings calls this year has raised the importance of execution on 3Q22. Initial disclosures from MPLX suggest the buyback could be twice as high as we expected in the quarter, but forward messaging will be watched more. In our view, investors are generally positively inclined – particularly as a defensive play – but the capital return debate needs to be solidified for them.
- **What is a SMALL/MID CAP stock where earnings will likely be important and why? What do investors expect?** At 3Q2022, investors will look hard for detail on capital allocation potential – with a lot of focus on PAA here given asset sales that have driven an improvement in the balance sheet metrics. If 2023 guidance comes in near or above consensus views, and if PAA does not announce material new projects that would drive capital spend higher, investors may begin asking on this one whether an acceleration in unit buybacks could occur in 2023. Deleveraging remains key and some investors would rather PAA focus its cash deployment towards further debt paydown and a lower net debt/EBITDA target – others we talk to hope to get more of a balance in terms of debt paydown and unit buybacks ahead.

Clean Tech (Lee):

- **What is a LARGE CAP stock where earnings will likely be important and why? What do investors expect?** Investor focus on ENPH remains high as this bellwether is set to report first and has set the tone for the broader group in multiple instances over the past few earnings seasons. Importantly, the company has also executed quite well in recent times and expectations for another beat-and-raise appear to be running high into this print, though some concerns around growing EU exposure, and thus impact from FX headwinds, has crept into discussions of late while the recent pushout in

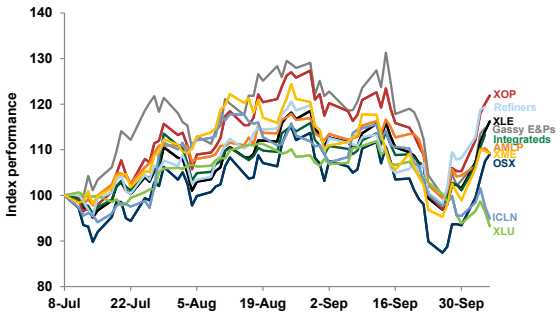
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CA's NEM 3.0 timing has been viewed as leaving an outstanding overhang on resi-exposed stocks through the next few months. Net/net, sentiment on the name still skews positive with the most meaningful pushback being around valuation and more difficult risk-reward in a high-multiple name in the current market backdrop.

- **What is a SMALL/MID CAP stock where earnings will likely be important and why? What do investors expect?** Investor inbounds on ARRY ahead of earnings have picked up as this remains one of the more highly debated names across our SMID-cap coverage. On the bear side, focus on FCF generation (or lack thereof) and an unproven margin recovery story remains high, though it wouldn't appear that expectations for a miss are all that high, based on our conversations. On the flipside, bulls continue to see more upside given somewhat improved execution and the potential for IRA tailwinds, as well as just generally less headwinds from policy and other macro factors that have weighed throughout 2022.

Editor's Choice Charts

Exhibit 1: Energy, Utilities & Mining sub-sector performance
Past 90 days (07/08/2022-10/06/2022)



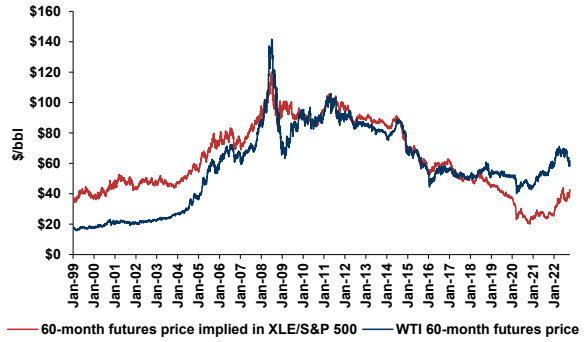
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 2: We have seen divergence in the XLE vs. two-year oil futures over the past three years after being closely aligned previously
Two-year WTI strip price implied by historical regressions of XLE/S&P 500 vs. WTI and actual two-year strip price, $/bbl



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 3: We have seen divergence in the XLE vs. five-year oil futures over the past three years after being closely aligned previously
Five-year WTI strip price implied by historical regressions of XLE/S&P 500 vs. WTI and actual five-year strip price, $/bbl

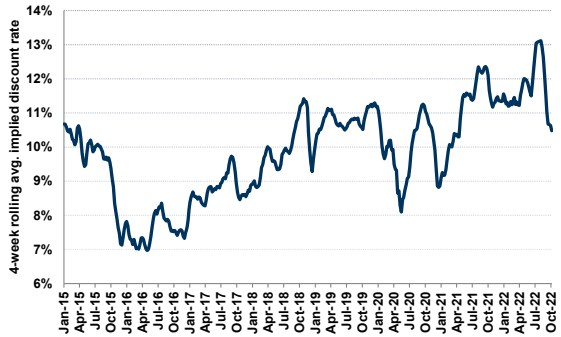


Source: FactSet, Goldman Sachs Global Investment Research

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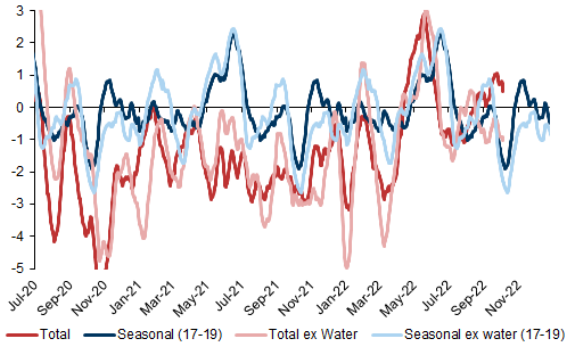
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Exhibit 4: After being largely rangebound during 1H22 and moving up during early 3Q22, we now see implied cost of capital moving lower
4-week rolling avg. of the implied discount rate for E&Ps based on five-year futures and our NAVs



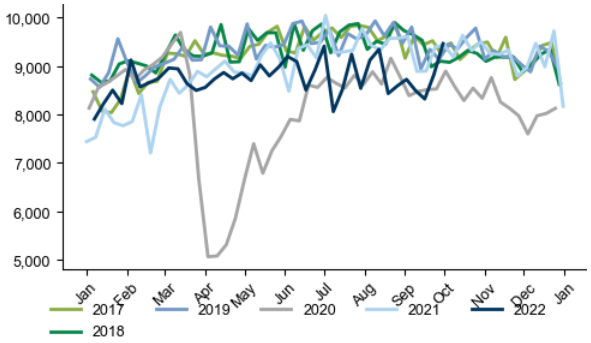
Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 5: The surpluses are returning to steep seasonal deficits, especially adjusting for oil on water
Rolling 4-week global observable inventory change vs. 2017-19 seasonal (mb/d, lighter colours are ex-oil on water).



Source: Kpler, IEA, JODI, EIA, PJK ARA, PAJ, Insights Global, Refinitiv, Oilchem, Goldman Sachs Global Investment Research

Exhibit 6: Gasoline demand has rebounded this week following weeks of underestimation, in our view
US motor gasoline product supplied, kb/d



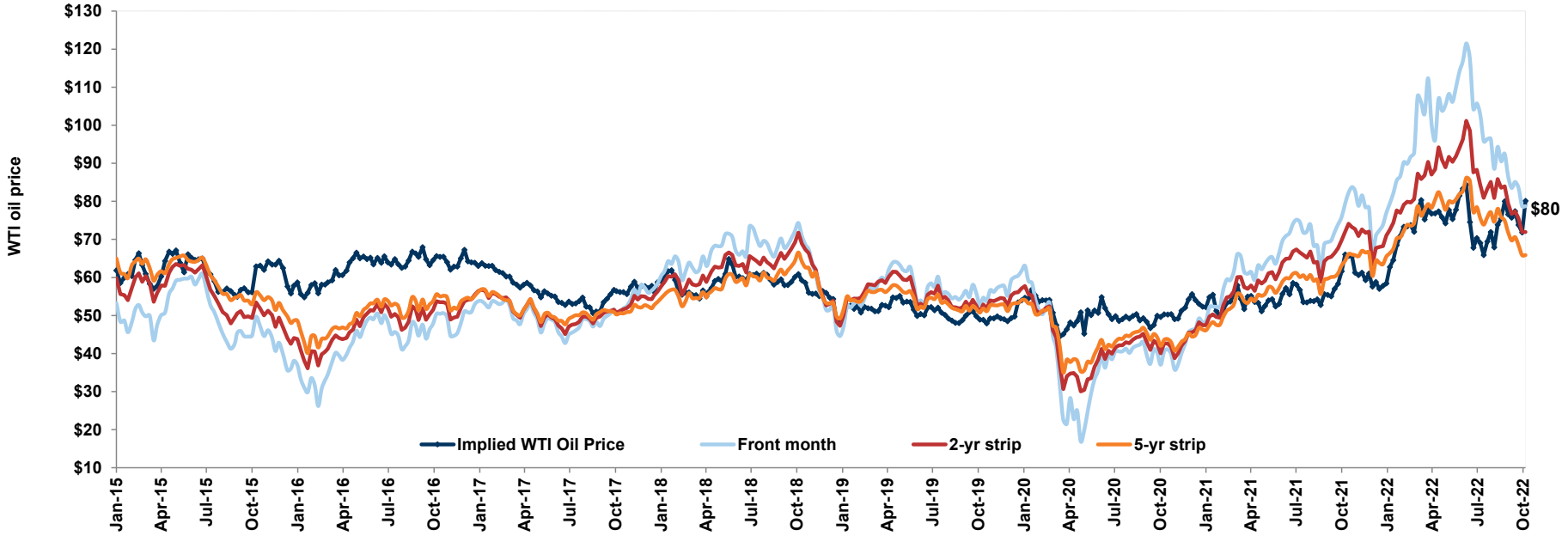
Source: EIA, Goldman Sachs Global Investment Research

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Sector in Context

Exhibit 7: Valuations of E&P stocks reflect WTI oil prices slightly above the five-year strip.
Historical WTI price implied in covered E&Ps net asset value and forward oil futures, $/bbl



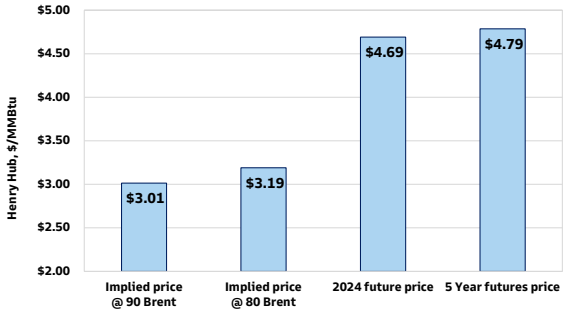
Source: FactSet, Goldman Sachs Global Investment Research

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Exhibit 8: We believe gassy E&Ps are pricing in a ~$3/MMBtu gas price at a ~10.7% discount rate vs. our mid-cycle view of $3.50/MMbtu, 2024 gas futures at ~$4.69/MMBtu and 5-year strip at ~$4.79/MMBtu

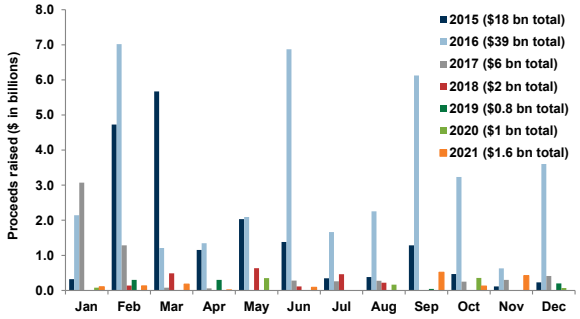
Henry Hub gas price implied by our DCF-analysis of covered gas producers, vs. 2024 Henry Hub gas futures and 5-year average gas futures



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 9: Upstream Equity Issuance – 2015 - 2021

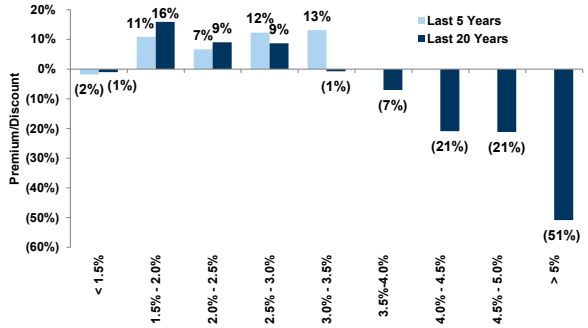
Proceeds raised as of November 2021 ($ bn)



Source: Goldman Sachs Global Investment Research, Bloomberg

Exhibit 10: Historically, Utilities trade at a P/E multiple premium to the S&P when the 10-year UST remains below ~3%, however the relationship weakens in times of negative real rates

Utility P/E multiple premium / discount to the S&P in different UST 10-year yield environments



Source: Company data, Goldman Sachs Global Investment Research

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Conversations we are having with investors

E&P – Neil Mehta & Umang Choudhary

Energy stocks are up this week — XLE up ~14% WTD (vs. +1% for S&P 500) — following OPEC+ decision to cut production by 2 mn bpd starting November (effective cut of ~1.2 mn bpd) owing to heightened macro concerns and to incentivize appropriate investment in oil and gas industry. This has driven bullish view on the oil equities as the oil market's buffers (stocks and spare capacity) remains low which will drive the need for higher oil prices to incentivize further spending towards supply growth or further demand destruction. Investor focus has been around how US E&Ps growth/spending outlook for 2023 – producers have highlighted service market constraints, uncertain macro environment (especially on demand), and lack of infrastructure (Permian pipeline constraints) as key considerations driving lower capital allocation towards growth. Another area of focus will be on capital spending for 2023, with the potential for further consensus capex increases due to inflationary pressure. Among large-caps, investors remain positive on execution for FANG/EOG, and are concerned on oil productivity for PXD. Among SMIDs, execution has been a concern for APA/PDCE following negative updates with 2Q results though upside from JKM linked LNG contract for APA, and derisking of CO inventory for PDCE. For MUR, investors are positive on debt reduction, and the potential for increased FCF towards capital returns though resource depth (outside the Montney) remains an area of concern. Sentiment around gassy E&Ps is weak given potential for negative commodity price revisions with higher gas supply and lack of material LNG export additions in 2023/24, however there remains upside risks heading into winter given coal inventories are low. Gas producers are now discounting low-$3/MMBtu Henry Hub gas price, well below the current gas futures. A key focus for investors will be on capital allocation towards growth from gas producers with 3Q earnings. NGLs prices have recently derated due to lower demand, however investors believe the sentiment for AR/RRC have bottomed which has driven relative outperformance vs. non-NGLs levered gas peers this week.

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Majors/Refining – Neil Mehta & Carly Davenport

Canada. This week, we hosted our annual Canada Energy Symposium in New York. During the event and in subsequent investor conversations, key focus areas from investors included (1) outlook for 2023 capital spending, (2) views on WTI-WCS differentials and pipeline egress, (3) trajectory for the Pathways project, and (4) company specific updates. On 2023 capital spending, the outlook for companies like SU, MEG.TO, and CVE surprised investors to the upside, though were more in line with our estimates. On WTI-WCS, the consensus view was that spreads will remain around the $20/bbl level until TransMountain expansion comes online, which most companies still viewed as a late 2023 event. On Pathways, MEG noted that more updates around the project should come following the October elections in Alberta. Finally on company specific updates, investors were focused on the CEO search at Suncor as well as the strategic review at retail, any updates on timing to restart the Toledo refinery at Cenovus and potential impacts on the proposed transaction with BP due to the fire, and the path forward to capital returns at IMO including if/when the company would consider another SIB or a dividend increase after the NCIB is exhausted. In our recent conversations, investor sentiment has been more constructive on SU and CNQ, more neutral on IMO.TO and MEG.TO, and more negative on CVE.

Early views on 3Q earnings. Investors conversations this week on refining have started to focus on the outlook for 3Q earnings. Broadly, investors still are constructive on the potential earnings and FCF power of the refiners given strength in 3Q margins, though we note that the narrative around demand concerns continues to play a significant role in conversations about willingness to own the equities here. PSX outperformed this week as consensus estimates start to move higher into the quarter, and investors have gotten more confident that refining and marketing strength could be an offset to weakness in the chemicals business. A key focus area will likely be the buyback level, based on our conversations, where investors have queried if the announced DCP transaction could prevent the company from leaning into repurchases this quarter. XOM's 8-K trading update largely surprised us and investors to the upside. As we have written in previous Pulse reports, many investors had turned tactically more positive on CVX vs. XOM given concerns around the near-term impact of weaker Chemicals and Refining margins. While those businesses came in broadly in line to slightly above our estimates in the 8K, positive impacts from the strong gas price environment more than offset it.

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Energy Services – Neil Mehta

BKR. Ahead of earnings, investors continue to express an interest in BKR, but are looking for improved earnings performance in Q3. While investors appreciate where BKR is positioned in the LNG market, they continue to be cautious given the company's past earnings misses which have affected investor confidence. Margin compression in BKR's Digital Solutions segment continues to be a theme of investor conversations given ongoing supply chain challenges. Following their Russia exit, OFS margins are also top of mind for investors as they evaluate their position in BKR going into earnings.

PWR. Amongst investors, there continues to be an appetite for exposure to energy transition following the IRA, and PWR continues to capture investor interest. Recent conversations have also highlighted the exposure PWR has to regulated utilities given more than 70% of their revenue is from utility customers. As such, investors have begun inquiring about expected capex spending from utility companies in the coming years. In the inflationary environment, investors also appreciate PWR's ability to pass through costs to customers given their shorter contract duration.

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MLPs/Pipelines – Michael Lapides & John Mackay

We are getting increasing inbounds from investors on NGL exposed stocks – ones like EPD, ET, TRGP and OKE especially – given softness in the NGL markets and weakness seen among chemicals companies, many of whom are customers of these midstream operators, that pre-released negatively in the past few weeks. Investors appear most concerned about OKE – given these trends and their ongoing outage of a MidCon fractionation facility – followed closely by EPD, with TRGP benefitting from the recently acquired Permian business that may partially offset NGL price headwinds and ET simply being more diversified given its large natural gas/oil pipeline segment. Most worry more on 3Q2022 results than on 2023 guidance — but recognize the broader commodity price pullback may hinder upside to 2023 consensus views.

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Utilities/IPPs - Michael Lapides & Insoo Kim, CFA

Do utilities now screen attractive? After another week of underperformance versus the S&P500, utility valuations garnered the most attention from investors with many querying whether this earnings resilient sector screens attractive heading into 3Q2022 earnings. Some investors do believe at least a modest overweight position is warranted given their view that downward estimate revisions are inevitable for the broader market, which would imply utilities screening more attractively than the current ~10% premium on consensus estimates. However, others remain wary of the near-4% 10-year treasury yields, which historically stands as a major roadblock to utilities achieving and sustaining premium valuation status.

PCG recent outperformance has investors asking what catalysts remain. PCG got added to the S&P500 and also made a state regulatory filing to seek approval regarding creating a separate subsidiary to own its non-nuclear generation assets - with, if the structure gets state approval, plans to seek minority stake investors in this subsidiary - a potential source of capital to fund future, higher rate base growth per the filing. Some bearish investors we talked to believe PCG now lacks catalysts and relative valuation appears less attractive here - and still warrants a discount given wildfire related risk remains. Others see PCG as trading at still an almost 30pct discount to peers - and that higher rate base growth could mean upside to EPS.

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Clean Technology – Brian Lee, CFA

We received numerous investor inbounds this week focused on the recent weakness in solar stocks, with investors particularly focused on weakness in residential solar stocks including RUN, NOVA, SPWR, ENPH and SEDG. Conversations with investors suggested that sentiment on the group is being negatively impacted by macro concerns on rates as well as weakness in the tech sector. In addition, we have seen heightened investor worry regarding the ongoing NEM 3.0 proceeding in California, especially as the CPUC lapsed a procedural deadline to issue an updated proposed decision last week. We expect regulatory uncertainty in California to be somewhat of an overhang on the group until more clarity is provided by the CPUC on the timing of an updated proposed decision. Among our coverage, we received the highest number of inbounds on ENPH, with questions focused on the company's high valuation relative to peers, residential solar growth both in the US and Europe, market share gain, and chip availability.

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Metals/Mining - Emily Chieng, CFA

Steel note and STLD upgrade/RS downgrade feedback: This week, we updated our steel price outlook into 2023 and while most investors agreed with the lowered steel price trajectory, we received more mixed feedback on the STLD upgrade. Investors who were positioned more positively on the name agreed with the strength of the Fabrication business and potential relative defensiveness of the stock given the increased level of integration. Those more negative however expected a faster collapse in margins towards normalized levels by end-2023, and therefore viewed the stock as fairly priced at current price levels. On RS, while most investors did not disagree with the downgrade, those positioned more positively viewed the stock as still being the most defensive in a steel downcycle.

Industrial metals back in focus ahead of earnings. By now, investors have accepted that Q3 earnings will be weak for the industrial metals complex, on the back of lower commodity prices, still-elevated energy and raw material costs and impacts to production. That said, we have recently fielded more inbounds on copper, following news on the ban of warranting of copper produced by UMMC (Ural Mining Metallurgical Company). While we note this is a logistical bottleneck and not an absolute supply loss, we see the likelihood of short-term dislocations that will ultimately resolve as trade flows are rerouted elsewhere. Among the equities, we still see modest preference for TECK over FCX, although note investors are more cautious around recent coal operational issues and QB2 ramp profile given recent readacross from Antofagasta and Anglo American.

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Energy & Utilities: Catalyst Tracker

Exhibit 11: Key Energy & Utilities non-earnings events in focus over the coming quarters

NON-EARNINGS ENERGY EVENTS IN FOCUS OVER THE COMING QUARTERS

Date	Stocks impacted	Event	Comment
Oct-22	**Metals**	LME Week	LME is hosting its annual gathering on October 24-28, 2022
Nov-22	**SLB**	Capital Markets Day	Schlumberger will host a Capital Markets Day in early November 2022
Nov-22	**NUE**	Analyst Day	Nucor will host an analyst day on November 8, 2022
Nov-22	**PSX**	Investor Day	Phillips 66 plans to host an Investor Day in New York on November 9, 2022
Nov-22	**ABX.TO**	Analyst Day	Barrick will host an analyst day on November 18, 2022
4Q2022	**SU**	Strategic Review	Suncor Energy plans to complete the strategic review of its Retail business in 4Q2022

Source: Company data, Goldman Sachs Global Investment Research

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Key GS Energy Research Reports

GS Energy Research for the Week

Natural Gas: Russian cuts to Italy unlikely to change Northwest European balances for now

The AES Corp. (AES): Earnings upside exists from IRA

Americas Utilities: Still positive on merchant nuclear

Canada Energy Symposium: Still Bullish Sub-Sector With Robust FCF Outweighing Near-Term Macro Risks

Phillips 66 (PSX): Updating 3Q estimates as Refining & Marketing strength offsets Chemicals weakness

Exxon Mobil Corp. (XOM): Solid 3Q Trading Update Much Better Than Our Recent Negative Revision; E&P Continues to Deliver

Underperformance vs Peers Unwarranted as HAL Could Benefit From Both International Inflection Or US Ramp in Response to OPEC Cut

3Q22 Preview: Middle distillates support healthy refining margins in 3Q amidst heightened regulatory uncertainty

Americas steel: Preview: Focusing on demand, shipments and margins

Kinetic Holdings (KNTK): Balancing Solid Growth vs. High 2023-24 Funding Needs - Initiate

OPEC+ takes on the West (very bullish)

At a crossroads; where do steel prices go from here?

Cheniere Energy (LNG | CQP): Global gas fundamentals remain strong, pricing drives upside to Street estimates

Americas Utilities: Friday Focus: Utility valuations more constructive after pullback - a look back into 2008

2022 Outlooks

Oil & Gas: Highlighting Key Investment Themes Underpinning Our Bullish Energy Equities View

Americas Utilities: Real rates, renewables, state regulation and customer bills in focus

Americas Metals & Mining: Five investment themes for the year ahead

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Americas Clean Technology: Solar: Less trade policy and supply chain risk, more battery storage growth

Americas Pipelines and MLPs: Improving FCF and capital allocation potential the key for 2022 midstream energy stocks

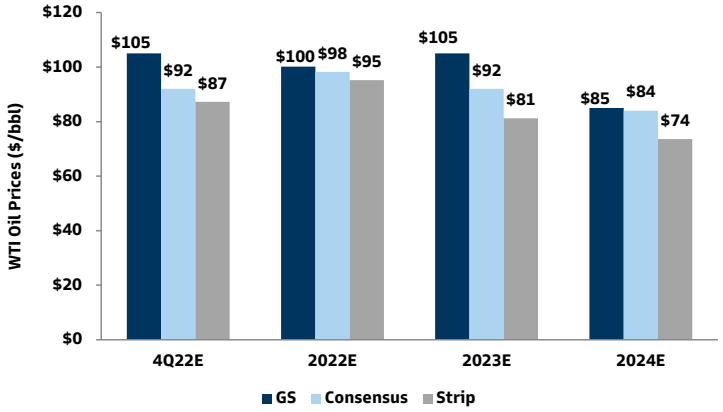
Oil: Long-term shortages require near-term surpluses

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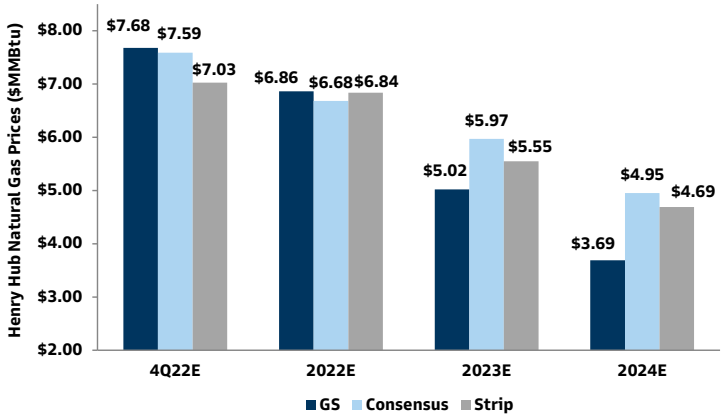
Commodities - Oil and Natural Gas strip

Exhibit 12: Oil: GS vs. consensus vs. strip
GS estimates vs consensus vs strip prices for WTI oil, $/bbl



Source: FactSet, Bloomberg, Goldman Sachs Global Investment Research

Exhibit 13: Natural gas: GS vs. consensus vs. strip
GS estimates vs consensus vs strip prices for natural gas, $/MMBtu

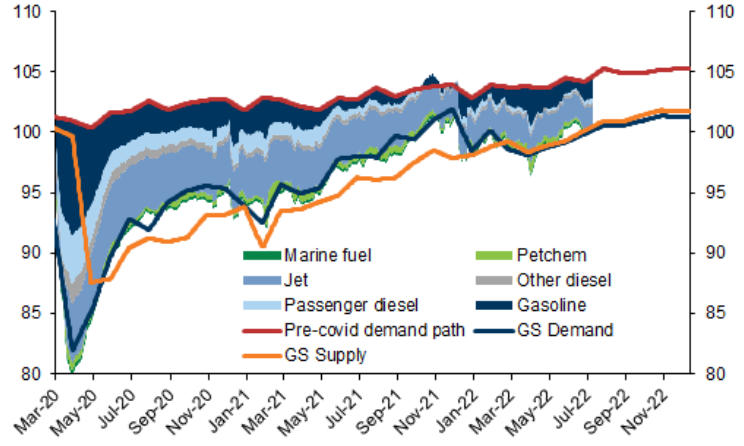


Source: FactSet, Bloomberg, Goldman Sachs Global Investment Research

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Exhibit 14: Mobility data implies demand surprised to upside in June led by China and has stayed near or above 100 mb/d in July

High frequency oil demand (areas measure shortfall from pre-covid trend) vs GS 6-Jun-22 Supply-Demand balances (mb/d)

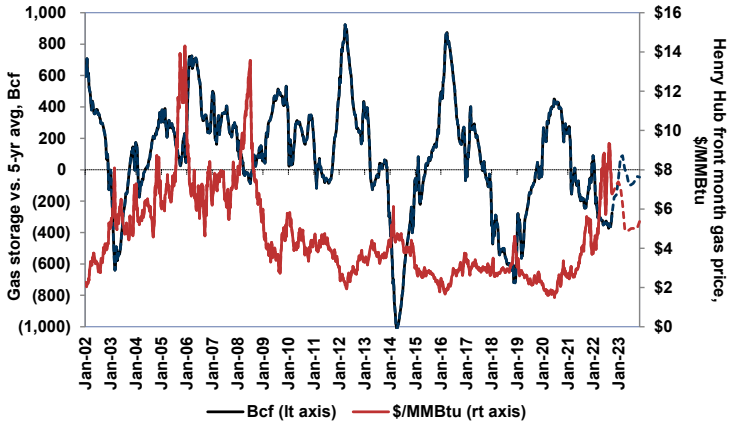


Google LLC \\\"Google COVID-19 Community Mobility Reports\\\". https://www.google.com/covid19/mobility/ Accessed: 02-Aug-22

Source: Google COVID-19 Community Mobility Reports, IEA, EIA, JODI, OAG, IIR, Reuters, Goldman Sachs Global Investment Research

Exhibit 15: Natural gas is now in deficit vs. the 5-year average; above-normal gas prices in 2022 should push inventories back to/slightly to normal levels

Natural gas storage vs. the five-year average (Bcf) vs. HH front-month natural gas price ($/MMBtu)



Source: EIA, Goldman Sachs Global Investment Research

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GS Hosted Energy Events

Exhibit 16: Global Energy Events hosted by GS



Calendar as of October 7, 2022

Events Are Invite Only - Please Contact Your Salesperson to Sign Up For Events

Conferences					
Date	**Event**	**Website**	**Sector**	**Meeting Type**	**City**
1/5-6	Goldman Sachs Global Energy & Clean Technology Conference		Energy	In-Person	Miami Beach (1/5-6)
Non-Deal Road Shows (Format: Virtual / In-Person)					
Date	**Event**	**Ticker**	**Sector**	**Meeting Type**	**Target Region**
10/5-6	Filo Mining Corp.	FIL CN	Energy	Hybrid	Virtual (10/5), NYC (10/6)
10/11	Kinetik Holdings Inc.	KNTK	Energy	In-Person	Boston (10/11)
10/17-19	De Nora SpA	DNR:IM	Energy - Europe	In-Person	New York (10/17) Chicago (10/18-19)
Field Trips (Format: Virtual / In-Person / Hybrid)					
Date	**Event**	**Ticker**	**Sector**		**Target Region**
10/11	Water Environment Federation Technical Exhibition & Conference□(WEFTEC)□	XYL, AQUA, FELE, MWA	Energy	In-Person	New Orleans (10/11)
10/13	Enviva Inc.	EVA	Energy	In-Person	Cary, NC (10/13)
11/13-15	2022 EEI Financial Conference		Energy	In-Person	Hollywood, FL (11/13-15)

Source: Goldman Sachs Global Investment Research

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GS Energy & Utilities Conviction List Names & Analyst Contributors

Exhibit 17: Summary of GS Energy & Utilities on Conviction List

	Ticker	Analyst	Stock price 10/6/2022
Oil/Metal price upside			
Pioneer Natural Resources	PXD	Mehta	$256.70
Schlumberger	SLB	Mehta	$42.49
Alcoa Corp.	AA	Chieng, CFA	$39.85
Freeport-McMoRan	FCX	Chieng, CFA	$29.82
Renewables (solar/RNG) expansion			
Solaredge Technologies	SEDG	Lee, CFA	$220.27
NextEra Energy Partners	NEP	Lapides	$74.26
DTE Energy	DTE	Kim, CFA	$110.71
Energy Infrastructure SOTP/FCF yield			
Phillips 66	PSX	Mehta	$93.36
Cheniere Energy	LNG	Lapides	$172.51
NRG Energy Inc.	NRG	Lapides	$41.10

Source: Goldman Sachs Global Investment Research, FactSet

Exhibit 18: Goldman Sachs Energy, Utilities & Mining team

Neil Mehta, Business Unit Leader

E&Ps	Intgd. Oils/Refiners	Energy Services	MLPs/Pipelines	Utilities/IPPs	Clean Energy	Metals/Mining
Neil Mehta (212) 357-4042 neil.mehta@gs.com Goldman, Sachs & Co.	**Neil Mehta** (212) 357-4042 neil.mehta@gs.com Goldman, Sachs & Co.	**Neil Mehta** (212) 357-4042 neil.mehta@gs.com Goldman, Sachs & Co.	**Michael Lapides** (212) 357-6307 michael.lapides@gs.com Goldman, Sachs & Co.	**Michael Lapides** (212) 357-6307 michael.lapides@gs.com Goldman, Sachs & Co.	**Brian Lee, CFA** (917) 343-3110 brian.k.lee@gs.com Goldman, Sachs & Co.	**Emily Chieng, CFA** (917) 343-5603 emily.chieng@gs.com Goldman, Sachs & Co.
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Anand Narayanan (212) 934-1319 anand.y.narayanan@gs.com Goldman, Sachs India SPL	**Nicolette Slusser** (917) 343-6554 nicolette.slusser@gs.com Goldman, Sachs & Co.		**Ritu Verma** (212) 934-8915 ritu.x.verma@gs.com Goldman, Sachs India SPL			

Source: Goldman Sachs Global Investment Research

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Disclosure Appendix

Reg AC

We, Neil Mehta, Michael Lapides, Brian Lee, CFA, Insoo Kim, CFA, John Mackay, Emily Chieng, CFA, Umang Choudhary, Carly Davenport and Ati Modak, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Growth is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

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Goldman Sachs Investment Research global Equity coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
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NiSource Inc. (NI): First Take: 2022/2023 guidance in-line; initiates 6-8% growth through 2027 and minority sale of IN utility

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NiSource (NI, Buy) reported 3Q22 operating EPS of $0.10, largely in-line with FactSet consensus of $0.11 but below GSe $0.15, and in-line with 3Q2021 EPS of $0.11. NI narrowed 2022 guidance to $1.44-$1.46 keeping the midpoint the same at $1.45 from an earlier range of $1.42-$1.48, in-line with GSe/consensus of $1.45/$1.45. NI initiated FY23 guidance of $1.50-$1.57 ($1.54 midpoint) in-line with the previous 5-7% growth commitment through 2023; this compares to consensus at $1.54 while the top-end is in-line with GS at $1.57. Also, with the results of its strategic review, NI issued new long-term operating EPS growth guidance of 6-8% from 2021 through 2027, versus 7-9% through 2021-2024, while announcing a minority sale of its Indiana utility NIPSCO that eliminates any equity needs through 2025.

Key takeaway: While 2022 and 2023 guidance screen in-line, we see the revised longer-term EPS growth rate as the key focus ahead of today's Analyst Day. We look for additional details on this outlook, including whether management still expects to achieve 7-9% growth through 2024 per prior plan and assumptions embedded (including NIPSCO minority sale plans).

Takeaways from the 3Q2022 release and supplemental slides include:

- **NI's 3Q22 miss versus GSe was largely driven by lower gross margin with weather being a headwind of $10.4mn versus normal.** On the electric side, 3Q22 weather-adjusted sales decreased 1.7% YoY, driven by 6.8% decrease in residential load and slight 0.22% decrease in industrial load. On the gas side, weather adjusted sales were mostly flat on YoY basis.
- **Regulatory updates -** On the electric side, NIPSCO recently filed a rate case requesting a ~$292mn rate increase to support renewable generation and transmission with new rates to take effect in September 2023. On the gas distribution segment, NI reported filing a settlement at Ohio for rate increase of $68.2mn and RoE of 9.6%, while proposing a settlement at the PA gas utility for a rate increase of $44.5mn.
- **NI extended growth plan to $15bn capex for 2021-2027 (from $10.6bn for 2021-2024) -** supporting 6-8% long term EPS growth. With plans to sell a minority stake in NIPSCO, the company sees no equity needs through 2025, then potential for a modest ATM program beyond to partially finance future

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growth.

Key topics to monitor on NI's earnings call and Analyst Day (12pm ET) include: 1) additional details on the revised and extended growth rate, including assumptions embedded in the new outlook, 2) timeline and magnitude of the minority stake sale at NIPSCO, 3) color on YTD decline in weather-normal electric demand growth, especially in the industrial customer base, and 4) update on the Ohio/PA gas rate case proposed settlement and what's embedded in the company's EPS growth guidance.

Our 12-month price target of $32 embeds assigned electric/gas utility P/E multiples (on 2024E) of 19x/18x, which represent ~10%/5% premiums to our 17x industry base multiple for regulated utilities. Key downside risks include: 1) NI continues to face additional solar development delays, which potentially pressure earnings power, 2) unfavorable outcome in the outstanding and upcoming rate cases, which lowers allowed returns (especially in OH), 3) NI fails to realize rate base additions and instead has more PPA generation, and 4) NI announces strategic initiatives that are dilutive to EPS.

NI	12m Price Target: **$32.00**	Price: **$25.89**	Upside: **23.6%**

Buy

Market cap: $10.5bn
Enterprise value: $23.0bn
3m ADTV: $111.3mn
United States
Americas Utilities
M&A Rank: 3

GS Forecast

	12/21	12/22E	12/23E	12/24E
Revenue ($ mn)	4,899.6	5,551.2	5,816.0	6,104.2
EBITDA ($ mn)	1,763.0	1,963.8	2,138.0	2,440.3
EBIT ($ mn)	1,014.6	1,156.6	1,254.7	1,462.8
EPS ($)	1.37	1.45	1.57	1.73
P/E (X)	18.0	17.9	16.5	15.0
EV/EBITDA (X)	12.1	11.7	11.4	11.1
FCF yield (%)	(6.4)	(7.0)	(13.9)	(5.9)
Dividend yield (%)	3.6	3.6	3.9	4.2
Net debt/EBITDA (X)	5.5	5.4	5.5	5.3

	6/22	9/22E	12/22E	3/23E
EPS ($)	0.12	0.15	0.43	0.93

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4 Nov 2022 close.

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Disclosure Appendix

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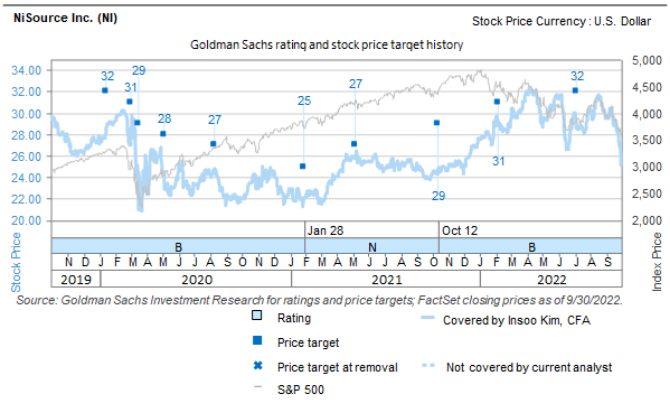
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Americas Utilities: Adjusting estimates for select utilities; focus on cost management, IRA impacts and other drivers

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Ahead of 3Q2022 earnings season, we adjust estimates for a handful of US utilities including: CMS Energy (CMS, Buy), DTE Energy (DTE, CL-Buy), Ameren Corp (AEE, Neutral), Eversource Energy (ES, Neutral), OGE Energy (OGE, Neutral), and Dominion Energy (D, Sell) - and highlight items to focus on going into earnings. Of the stocks mentioned in this report, we now expect 3Q2022 results for OGE to beat FactSet consensus, while our CMS and DTE estimates screen below expectations. Key topics to focus on this earnings season for US utilities include: 1) updated thoughts on impact from the Inflation Reduction Act (IRA), including on capital opportunities and balance sheet, 2) interest rate/refinancing exposure for holding company debt, 3) electric/gas demand growth trends including any signs of demand weakness given the current macro-economic backdrop and 4) key project execution and key regulatory events ahead.

As detailed in our prior note, we become more constructive on US utility valuations after recent underperformance, with an average of 19% total return potential across our coverage universe. We continue to recommend a balanced approach to investing in utilities - Buy-rated AES and NEP (on CL) for clean energy exposure, DTE (on CL) among defensive utilities, and FE, PEG, PCG and PPL for value oriented opportunities.

Exhibit 1: Our 3Q2022 D EPS estimate screens slightly above consensus, while CMS and DTE screen well below
EPS New vs Old vs Consensus, 3Q2022

	3Q22				
	GS New	GS Old	Cons	vs Old	GS vs Cons
AEE	$1.70	$1.75	$1.74	(3%)	(2%)
CMS	$0.55	$0.67	$0.66	(18%)	(17%)
D	$1.13	$1.29	$1.11	(12%)	2%
DTE	$1.60	$1.86	$1.70	(14%)	(6%)
ES	$1.07	$1.16	$1.08	(8%)	(1%)
OGE	$1.17	$1.13	$1.10	4%	6%

Source: FactSet, Goldman Sachs Global Investment Research

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Exhibit 2: We make modest changes to our annual EPS estimates for select utilities in our coverage
EPS New vs Old vs Consensus

Ticker	2022					2023					2024					2025				
	New	Old	Cons	vs Old	vs Cons	New	Old	Cons	vs Old	vs Cons	New	Old	Cons	vs Old	vs Cons	New	Old	Cons	vs Old	vs Cons
AEE	$4.04	$4.10	$4.07	-1%	-1%	$4.33	$4.36	$4.37	-1%	-1%	$4.63	$4.64	$4.66	0%	-1%			$4.98		
CMS	$2.88	$2.88	$2.88	0%	0%	$3.13	$3.13	$3.13	0%	0%	$3.40	$3.41	$3.40	0%	0%	$3.68	$3.69	$3.67	0%	0%
D	$4.13	$4.15	$4.11	0%	0%	$4.23	$4.24	$4.37	0%	-3%	$4.54	$4.56	$4.68	0%	-3%	$4.83	$4.84	$4.98	0%	-3%
DTE	$6.04	$6.03	$6.02	0%	0%	$6.27	$6.28	$6.27	0%	0%	$6.77	$6.79	$6.71	0%	1%			$7.22		
ES	$4.10	$4.15	$4.11	-1%	0%	$4.40	$4.43	$4.39	-1%	0%	$4.71	$4.74	$4.69	-1%	1%			$5.07		
OGE	$1.99	$1.97	$2.03	1%	-2%	$2.05	$2.05	$2.10	0%	-2%	$2.19	$2.19	$2.19	0%	0%			$2.30		

Source: FactSet, Goldman Sachs Global Investment Research

- **Ameren Corp (AEE, Neutral, $93 PT) - 3Q2022 EPS: $1.70 GSe vs $1.74 FactSet consensus** and 3Q2021 of $1.65. We adjust down our 3Q2022 EPS estimate from $1.75 to $1.70, reflecting higher expenses YoY partly from its surrender value of company-owned life insurance (COLI) - levered to equity market returns, and higher interest expense partially offset by higher ROE at the Ameren Illinois utility (given formula rates tied to 30-year treasury yields) and moderately positive weather versus normal. We also adjust our 2022-2024 EPS estimates to $4.04/$4.33/$4.63 from $4.10/$4.36/$4.64 prior, with the modest 2022-2024 changes also driven by higher operating costs assumptions partially offset by higher Illinois ROEs and modestly higher revenue increase estimate for the current MO electric rate case. Our 12-month price target of $93 remains unchanged. **Topics/items to monitor:** 1) updated thoughts on cash flow/balance sheet impact from the IRA law, 2) latest forecast of O&M growth CAGR expectations over next 2-3 years, and 3) net earnings sensitivity to equity market fluctuations from pension and company owned life insurance (COLI), higher financing costs, and higher Illinois ROEs.
- **CMS Energy (CMS, Buy, $75 PT) - 3Q2022 EPS: $0.55 GSe vs $0.63 FactSet consensus** and 3Q2021 of $0.54. We adjust down our 3Q2022 EPS estimate from $0.67 to $0.55, largely reflecting intra-year allocation of O&M expenses and revenue increase from the Michigan gas rate case. Our 2022/2023 EPS estimates remains unchanged at $2.88/$3.13, while we slightly lower our 2024/2025 estimates to $3.40/$3.68 from $3.41/$3.69 prior, primarily reflecting slightly higher financing cost assumptions and lower equity share price for our assumed 2025 equity issuance estimate of $250mn. **Topics/items to monitor:** 1) thoughts on the Michigan commission docket on storm response and reliability, including potential range of outcomes and impact to Consumers Energy, 2) latest update on electric rate case, including potential for reaching a settlement, and 3) updated view on longer-term EPS growth CAGR amidst the current operational/financing cost inflation environment.
- **DTE Energy (DTE, CL-Buy, $142 PT) - 3Q2022 EPS: $1.60 GSe vs $1.70 FactSet consensus** and 3Q2021 of $1.72. We adjust down our 3Q2022 EPS estimate from $1.86 to $1.60, largely reflecting intra-year timing of O&M expenses as well as timing of reversal of certain 2021 one-time tax items that impact 3Q and 4Q results

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(but largely neutral to annual earnings). Our 2022-2024 EPS estimates change modestly to $6.04/$6.27/$6.77 from $6.03/$6.28/$6.79 prior, with the slightly lower 2023/2024 estimates primarily driven by lower assumed share price for its modest annual equity program. Our 12-month price target of $142 (from $143 prior) is driven by our 2024 estimate change. **Topics/items to monitor (primarily at the November Edison Electric Institute conference):** 1) updated multi-year utility capital plan, including items from the updated Integrated Resource Plan (IRP) filing (expected early November), 2) updated EPS growth rate forecast (currently at 5-7%) based on updated capital plan, and 3) latest strategic thoughts on DTE Vantage segment, especially the renewable natural gas (RNG) assets.

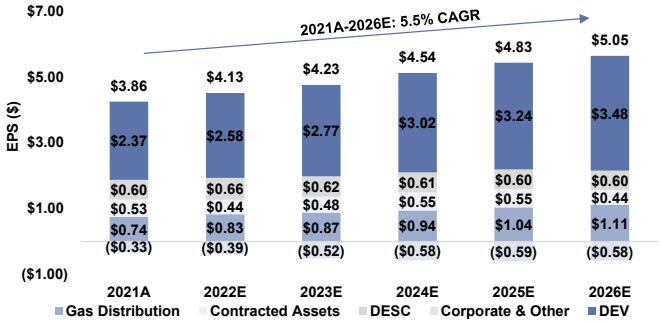
- **Eversource Energy (ES, Neutral, $90 PT) - 3Q2022 EPS: $1.07 GSe vs $1.08 FactSet consensus** and 3Q2021 of $1.02. We adjust down our 3Q2022 EPS estimate from $1.16 to $1.07, reflecting higher O&M expenses, intra-year rate increase allocation, and updated debt financing cost assumptions. We also adjust our 2022-2024 EPS estimates to $4.10/$4.40/$4.71 from $4.15/$4.43/$4.74 prior, with our 2022 estimate slightly above the mid-point of ES's $4.04-$4.14 guidance range. Our lower estimates reflect a combination of modestly higher O&M expenses, financing costs, and lower equity share prices for future equity issuance assumptions. Our 12-month price target of $90 remains unchanged. **Topics/items to monitor:** 1) latest expected timing of its strategic review completion process for its offshore wind ownership, 2) updated thoughts on utility capital upside opportunities, and 3) commentary on elevated operating and financing costs, and options to offset the impact.
- **Dominion Energy (D, Sell, $75/sh price target) - with 3Q2022 EPS forecast at $1.13 compared to FactSet consensus at $1.11** and company guidance at a range of $0.98 to $1.13. We revise estimates modestly to reflect changes in tax timing, O&M costs, commodity price expectations for D's Millstone nuclear plant and other items. We lower our 12 month target price from $75/sh to $72/sh to reflect a lower applied P/E multiple to D's regulated segment in Virginia - given the potential risk outstanding tied to the ongoing offshore wind related proceeding. We still include this $10bn project in our capital spend, rate base and earnings forecast going forward, as we believe recent clean energy legislation likely requires or mandates D to move forward with this - and for the state utility regulator to grant, as with all regulated major utility projects, cost recovery in addition to the return on capital. While we do not revise our forecasts related to the offshore wind project in Virginia, we reflect this ongoing risk in our applied P/E multiple on this segment. We see less upside potential to D's shares relative to peers and especially to Buy-rated stocks - but we note the recent relative underperformance, and risk / reward here appears a bit more compelling. However, we maintain our Sell rating as relative valuation still comes in below our sector average levels. We see a total return potential of 12% including a 4.0% dividend yield which compares to 19% average total return potential for our coverage. Key topics to monitor at 3Q2022 earnings include (1) the offshore wind related proceeding in Virginia and potential for resolution, (2) financing costs given higher interest rates and higher cost of capital, although we note D maintains material amounts of interest rate hedges that reduce the risk of higher

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interest expenses, (3) cost management efforts, and (4) the potential for upsizing renewable development plans given the Inflation Reduction Act.

- **OGE Energy (OGE, Neutral, $40 PT) - 3Q2022 EPS: $1.17 GSe vs $1.10 FactSet consensus** and 3Q2021 (utility/parent) of $1.12. We increase our 3Q2022 EPS estimate from $1.13 to $1.17 primarily to reflect very warm weather versus normal. Our 2022 EPS estimate increases to $1.99, modestly above management's guidance range of $1.87-$1.97 (noting OGE had already pointed to the upper half of the range as of 2Q2022 earnings). Our 2023/2024 EPS estimates remain unchanged, with modestly higher cost assumptions offset by pull-forward of O&M into 2022 given favorable weather. **Topics/items to monitor:** 1) latest thoughts on utility capital upside from the Oklahoma IRP/RFP process for clean generation, 2) update on the Arkansas fuel recovery and formula rate proceedings, and 3) commentary on electric demand trends in Oklahoma.

Exhibit 3: For D, we expect a 5.5% EPS CAGR from 2021-2026
EPS by segment



Source: Company data, Goldman Sachs Global Investment Research

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Exhibit 4: We lower our target multiple by 1x on DEV earnings to reflect potential risk related to offshore wind project and revise our PT to $72/sh.
D SOTP Valuation

VALUATION	2024E	High	Low
DEV EPS - 2024E ($/share)	**$3.02**	**$3.02**	**$3.02**
GS Regulated Utility Base Multiple	*17.0x*	*17.0x*	*17.0x*
Premium (Discount)	*-1.0x*	*1.0x*	*-2.0x*
Adjusted P/E	**16.0x**	**18.0x**	**15.0x**
DEV Utility Valuation ($/share)	**$48.3**	**$54.3**	**$45.3**
DESC EPS -2024E ($/share)	**$0.61**	**$0.61**	**$0.61**
GS Regulated Utility Base Multiple	*17.0x*	*17.0x*	*17.0x*
Premium (Discount)	*0.0x*	*1.0x*	*-1.0x*
Adjusted P/E	**17.0x**	**18.0x**	**16.0x**
DESC Utility Valuation ($/share)	**$10.3**	**$10.9**	**$9.7**
Dominion LDC EPS - 2023E/2024E ($/share)	**$0.94**	**$0.94**	**$0.94**
LDC P/E Multiple	*17.0x*	*18.0x*	*16.0x*
Dominion LDC Valuation ($/share)	**$16**	**$17**	**$15**
Contracted Assets EBITDA - 2023E/2024E ($ million)	$743	$743	$743
EV / EBITDA Multiple	*11.5x*	*12.5x*	*10.5x*
Contracted Assets Value ($ million)	**$8,540**	**$9,283**	**$7,798**
Net Debt (Contracted Assets) ($ million)	($2,612)	($2,612)	($2,612)
Corporate & Other EPS - 2023E/2024E ($/share)	($0.58)	($0.58)	($0.58)
GS Regulated Utility Base Multiple	*17.0x*	*18.0x*	*16.0x*
Corporate & Other Valuation ($/share)	($10)	($10)	($9)
D Valuation ($/share)	**$72**	**$80**	**$67**
Current Stock Price ($/share)	$67	$67	$67
Price Return Potential	*8.2%*	*20.2%*	*0.7%*
Dividend	*4.0%*	*4.0%*	*4.0%*
Total Return Potential	**12.2%**	**24.2%**	**4.7%**

Source: Goldman Sachs Global Investment Research

Valuation and Key Risks

Exhibit 5: Price Target Methodologies and Key Risks
Time frame for price targets is 12 months

Price Target Methodologies and Key Risks

Ticker	Price Target Methodology	Rating	Price Target	10/18/2022 Close	2022 DPS	Dividend Yield	Total Return (%)	Key Risks
AEE	20x P/E on 2024 EPS	Neutral	$93	$79.36	2.39	3.0%	20%	**Upside:** 1) utility investments to accelerate rate base/earnings growth,2) cost management, 3) outcomes in the upcoming Missouri electric rate case, **Downside:** 1) 30-year Treasury yields, and 2) equity financing needs.
CMS	22x P/E on 2024 EPS	Buy	$75	$56.56	1.84	3.3%	36%	**Downside:** 1) Michigan's regulatory environment turns negative, impacting CMS's ability to earn a healthy rate of return, and 2) CMS's ability to achieve consistent cost savings slows, reducing bill headroom for future investments.
D	SOTP: 16x on 2024 EPS for Regulated utility DEV & 17x for DESC, Gas LDC and Parent, 11.5x EV/EBITDA on Contracted Assets	Sell	$72	$66.54	2.67	4.0%	12%	**Upside:** 1) regulatory risk, 2) construction risk, 3) power demand risk and 4) equity financing risk.
DTE	21x P/E on 2024 EPS	Buy	$142	$109.89	$3.61	3.3%	33%	**Downside:** 1) unfavorable regulatory changes in the state of Michigan which could impact future rate case outcomes, 2) incentive returns and equity layers, 3) lower than expected capital additions in the upcoming long-term generation plan filing, and 4) moderating load growth.
ES	19x P/E on 2024 EPS	Neutral	$90	$75.86	2.55	3.4%	22%	**Downside:** 1) ineffective cost management, 2) slowing rate base growth, and 3) deterioration in utility regulatory environment **Upside:** 1) upsized utility investments, and 2) reduction in equity needs
OGE	SOTP 18x P/E on 2024 EPS for Regulated Utility, 20% liquidity discount to OGE's stake in current ET market value	Neutral	$40	$35.13	1.66	4.7%	19%	**Upside**: 1) higher regulated capital spending driving upsized rate base growth and increased earnings growth profile, and 2) the company could be a target of a take-out. **Downside**: 1) OGE's utility jurisdiction experience moderating/decreasing customer and demand growth, and 2) unfavorable outcome in pending OK electric rate case

DTE is on the Conviction List

Source: Goldman Sachs Global Investment Research

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We, Insoo Kim, CFA, Michael Lapides, John Miller, Shriya Dargan and Jaskaran Jaiya, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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2022 LCOE Analysis – LCOE Update Shows Rising Costs, But IRA Further Improves Solar/Wind Competitiveness; Gas Dominance Continues to Fade

Key Message: We are updating our thoughts on the levelized cost of energy (LCOE) for a variety of generation technologies. Most importantly, we see solar/wind LCOEs trending lower due to ITC/PTC extension now included in our scenarios, while increased fuel costs create a step up for combined cycle gas turbine (CCGT) and other fossil-based technologies; i.e., ***solar/wind technologies have become more competitive on a relative basis vs. CCGT/fossil alternatives. For 2022, we see utility-scale solar being 33% cheaper than CCGT alternatives and onshore wind being 44% cheaper than CCGT***. Solar and wind now present a deflationary opportunity for electric supply costs given the discount vs. CCGT LCOE, which supports the case for economic deployment of renewables across the US, especially with the backing of the IRA law. **We note that utilities, suppliers and consumers increasingly make commitments to procure a fixed cost renewable energy supply.** Coal generation continues to decline due to asset end of life, but existing nuclear assets have renewed stability under IRA, although **new build remains a low-probability event outside of small modular reactors (SMRs), which we now include in our analysis**. Companies with business mix incorporating renewables development (NEE, NEP, ALE) stand to benefit, but we also note that companies able to throttle regulated renewables capex (AEE, AEP, CMS, D, DTE, DUK, ETR, LNT, NI, POR, SO, and WEC) will likely see accretion to growth rates post an IRA world. Many other utilities find themselves in transition and beneficiaries of asset sales (i.e., renewables asset sales – AEP, DUK, ES, PCG, PEG), with a few sector constituents being slowed down by regional and policy limitations (NWE, PNW, PPL, OGE) as well as T&D Utilities with no generation exposure (**AWK, ED (post sale), EIX, ES (post sale), EXC, FE, HE, PCG, SRE, PEG (post sale)**.

Executive summary: We are updating our thoughts on the levelized cost of energy (LCOE) for a variety of generation technologies, which in aggregate reinforces our thoughts on the competitive position for renewables relative to conventional electric generation, despite an overall inflation in supply costs. While we do see some cost decrease for renewables (in favorable scenarios), the deflationary benefit in the median case shows solar/wind at a 30-40% discount relative to the CCGT LCOE.

Key takeaways are:

1. **Wind and solar are now at parity or better with conventional generation in both the low-cost and median scenarios, with a range of $21-72/MWh for wind and $23-69/MWh for solar.** Gas is no longer the lowest-cost option on average (with a $50-76/MWh LCOE range) due to a steep escalation in gas commodity costs in the near and long term as technology improvements have stagnated.
2. **Coal and nuclear continue to be challenged; SMR could be a long-term decarbonization option**. New coal and large-scale nuclear generation would struggle regardless of the political atmosphere and the existing coal fleet would feel pressure from highly competitive renewables and even gas, in our view. **New nuclear remains a challenging concept in the US, but SMRs show some long-term promise for decarbonization** as other baseload alternatives move to the wayside with several utilities seemingly more willing to adopt some type of SMR technology over longer-range capacity procurement plans as witnessed by several IRPs (i.e., DUK, AEE, SO).
3. **It's not all about economics!** Aggressive State policies remain a key support lever, and Federal policy consolidating around IRA will accelerate total deployment, in our view, building on the continued strength of industrial and residential election for renewable supply as well as supplier decarbonization commitments.
4. **Stock Implications:** The key utility sector **constituents standing to** benefit **in the current environment are those with renewables development businesses (i.e.,**

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NEE, NEP, ALE), vertically integrated utilities that have flexibility to spend on renewable resources, and a few with generation assets up for sale (AEP, DUK, ES, PCG, PEG). We also refresh our list of "transitioners" – companies that have started the clean energy transition and decarbonization for which the deflationary aspects of renewables and IRA policy create further justification for transition, such as AEE, AEP, CMS, D, DTE, DUK, ETR, LNT, NI, POR, SO, and WEC. **Utilities with no generation ownership** (**AWK, ED (post sale), EIX, ES (post sale), EXC, FE, HE, PCG, SRE, PEG (post sale)**), **facing policy / capacity reserve constraints would not stand to see incremental capex acceleration beyond current plans** (includes AVA, CNP, EVRG, NWE, PNW, PPL, and OGE).

5. **We now assume ITC/PTC in our renewables modeling including solar, wind and energy storage in perpetuity.** We also provide multiple special scenarios and sensitivities around solar and wind, including unsubsidized scenarios, energy storage scenarios and continued cost inflation scenarios. We additionally provide some thoughts on IRA related inputs and rules.

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PM SUMMARY

We see average renewable LCOE decreasing 15-25% vs. our prior analysis, making wind/solar competitive in more places across the US (31-44% cheaper than CCGT)

OUR KEY TAKEAWAYS

We are updating our thoughts on the levelized cost of energy (LCOE) for a variety of generation technologies, showing average LCOE increases in most fossil-fuel cases, and decreases in headline renewable (wind/solar) scenarios despite cost inflation and supply chain constraints. Renewable LCOEs now present a more compelling relative cost vs. CCGT compared our prior published LCOE update with a 30-40% discount in our median cases. The overall trend we are seeing is that wind/solar are getting cheaper while fossil fuel-driven resources become more expensive, while coal and nuclear remain uneconomical.

(1) Our biggest takeaway is that gas/fossil commodity increases have pushed CCGT LCOEs out of the definitive lowest-cost option (with a $50-76/MWh LCOE range), especially if LT curves hold firm or continue backwardation, **Wind and solar LCOEs have decreased in large part, driven by tax credit inclusion ($22-27/MWh LCOE improvement on median scenario). Solar/wind LCOEs are now above parity with CCGT at the base scenario level ($33/MWh for wind, $41/MWh for solar) vs. a parity in the lower half of the LCOE range in our prior analysis.**

Figure 1: 2022 LCOE Analysis Summary of Changes

Summary LCOE Changes (Median Case)				Renewables Advantage Vs. CCGT	
	2022 Guggenheim Median (Base) LCOE ($/MWh)	Prior (2020) Guggenheim Median (Base) LCOE ($/MWh)	Change (%)	2022 Advantage vs. Fossil CCGT	Prior (2020)
CCGT	$59	$41	43%		
Gas peaker	$104	$71	46%		
Coal	$103	$95	8%	-76%	
Coal Existing	$64	$45	42%	-9%	
Coal CCS	$182	$140	30%	-211%	
Nuclear	$107	$118	-9%	-83%	
SMR	$69			-18%	
Geothermal	$55	$33	69%	6%	20%
Wind (on-shore)	$33	$40	-18%	44%	2%
Wind (on-shore) + Storage	$47	$62	-25%	20%	
Wind (off-shore)	$102	$126	-19%	-74%	-207%
Solar PV	$41	$48	-15%	31%	-16%
Solar PV + Storage	$60	$76	-22%	-2%	-85%
Rooftop Solar	$128	$118	8%	-118%	-188%
CHP	$78	$120	-35%	-34%	-193%
Energy Storage	$104	$104	0%	-77%	-153%

Advantage vs. CCGT
Advantaged
Disadvantaged
Near-Neutral

Source: Guggenheim Securities, LLC estimates

Additionally, we provide some sensitivities below on the unsubsidized median LCOE for wind and solar. Wind PTCs provide a $27/MWh reduction to LCOE, with a potential repowering mid-lifecycle providing an incremental $8/MWh benefit to lower LCOE. A 20% capital cost inflation above our median scenario would result in a $10/MWh increase to LCOE and the Energy Storage adder is ~$14/MWh. Solar ITC provides a $22/MWh reduction to LCOE. A 20% capital cost inflation above our median scenario would result in a $7/MWh increase to LCOE and the Energy Storage adder is ~$19/MWh. ***See table below.***

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Figure 2: Wind/Solar LCOE Sensitivities

2022 Base scenario sensitivities	
	2022 Guggenheim LCOE / impact ($/MWh)
Wind	
Wind (on-shore) (unsubsidized)	$60
PTC impact under IRA	-$27
Benefits of repowering (10 yr)	-$8
Impact of 20% capital cost inflation	$10
Energy Storage Adder	$14
Solar	
Solar PV (unsibsidized)	$63
ITC impact under IRA	-$22
Impact of 20% capital cost inflation	$7
Energy Storage Adder	$19

Source: Guggenheim Securities LLC estimates

Reliability needs will require dispatchable resources in some cases. Overall, improving economics should be a net positive for wind/solar demand.

That said, we acknowledge the lack of capacity credit comparability between technologies, which could drive significant divergence in LT resource planning as renewables penetration rises. The change of wind and solar LCOE is also a function of an increase in overnight capital costs (wind), fixed and variable O&M updates, offset by inclusion of tax credit extensions as a result of IRA. **Based on this analysis, we continue to see a growing economically competitive position for renewables as a deflationary tool for developer and utility customers, but not all demand growth will be able to be addressed by solar/wind. While costs have increased in many instances (or haven't seen previously projected declines), energy storage combinations are likewise more competitive relative to gas plant economics** and, with the addition of ITCs, economics become even more compelling.

Existing coal still on decline, existing nuclear has support/extension from IRA, SMR remains unproven, but headline economics show opportunity.

(2) Coal and nuclear remain challenged, small modular reactors could be a LT decarbonization option; our economic analysis shows new coal generation would continue to struggle regardless of the political atmosphere and the existing coal fleet would feel pressure from competitive gas and renewables, leaving only fully depreciated assets viable on the margin. Coal costs have created uncertainty (no pricing on bilateral market, and marginal buyers likely represent export coal) for existing plants and potentially push assets to the end of life. **Economics wouldn't justify construction of new nuclear plants either;** however, unlike coal, existing nuclear generation enjoys policy support with the IRA nuclear PTC construct effectively setting a price floor support. New nuclear projects carry an expensive price tag, both from a capital and an O&M standpoint ($6,000+/kW capital and $100-130/MWh LCOE), in our view, making new nuclear commitments in the US prohibitively expensive. **An unproven but promising alternative is small modular nuclear reactors (now included in our analysis)**, although we note a lack of demonstrable and commercial projects creating a wide range of outcomes. For more SMR thoughts, see our notes here. **Finally, we likewise acknowledge the impact of capacity credit allocation being favorable for existing coal and nuclear plants, which could delay retirement or incentivize license extension.**

Policy and regional constraints will continue skewing wind/solar deployment, in our view.

(3) Renewable economics continue to improve, but we acknowledge that local policy, regulatory constructs, and corporate commitments still play major roles. Renewable economics vary regionally, and in many cases accelerated development is a function of policy and regulatory support in resource planning but is also now driven by voluntary commitments from utilities, large energy consumers, and even voluntary commitments from residential consumers (**i.e., green tariffs playing a major role in energy supply for utilities like ETR, with up to 17GW of solar deployment**). Regionally, South and Southwest US solar irradiation should enable further solar

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development, Rockies and Plains wind availability will likely continue to support on-shore wind, and coastal states (Eastern US and potentially the Pacific Shelf) will likely slowly push policy on off-shore wind despite unfavorable near-term economics such as in NE, NJ, and VA (but likely to improve with scale).

(4) Stock Implications: The key utility sector constituents standing to benefit from more compelling renewable economics are companies that have competitive renewables, which after the assets sales coming from AEP, DUK, etc, is essentially last of a kind within our +45 names under coverage outside of NEE/NEP, ALE, etc. Another beneficiary group is those that have embraced clean energy transition in a regulated construct or are able to toggle renewables capex for replacement energy needs (AEE, AEP, CMS, D, DTE, DUK, ETR, LNT, POR, NI, SO, WEC), which now covers a more material part of our coverage. On the flip side, we see less potential upside for utilities with inflexible capex plans or limited renewables exposure (AVA, CNP, EVRG, NWE, PNW, PPL and OGE) and T&D-only utilities (AWK, ED (post sale), EIX, ES (post sale), EXC, FE, HE, PCG, PEG (post sale), SRE). For more see the Leaders, Laggards and Transitioners section of this report.

STOCK TAKE 1 – NEE/NEP AND ALE BENEFIT FROM RENEWABLE DEVCOS

Stock Impacts: NEE/NEP could see gains on development activity pickup.

- **NEE/NEP is the top levered name in the IRA construct and a standout in our coverage in terms of leverage to renewable development,** which has planned and deployed regulated renewables in the FPL and Gulf Power utilities, as well as having a long-term contracted renewables generation business (NEER), supported by one of the best developer platforms among peers. **NEER has potential upsides from both IRA and increasingly attractive renewable economics, which include development queue expansion and repowering** (17GW existing resources; 20GW of backlog if ITC/PTC extends; similarly with NEP). **NEP will maintain optionality for NEER dropdowns, repowering, and third-party M&A and financing.** There is some debate with NEE investors on the cadence of demand due to tax credit expiration (i.e., safe harbor and prior in-service deadlines no longer apply and could shift near-term demand into outer years; we still see a net positive for demand LT). **FPL will also look at a more aggressive solar deployment target for 10 years (potentially double).** See more on the renewables-driven potential upsides and NEE thesis in our NDR note HERE.

- **ALE** invests in regulated and unregulated renewables across its various subsidiaries, with the **most immediate beneficiaries of LCOE improvements its unregulated subs ALLETE Clean Energy and New Energy Equity**. The former primarily invests in utility scale wind developments while the latter, acquired in 2Q22, has a ~2GW backlog of solar C&I projects across the US. Growth at the combination of these two segments is a key component of ALE's overall consolidated 5-7% growth, given slower growth at the core utility (4-5%). **ALE's primary regulated subsidiary, Minnesota Power, is currently engaged in a long-running IRP process that could see the company add ~400 MW of new wind and solar energy resources,** alongside a retirement of its Boswell Unit 3 (by 2030) and a potential repowering of Boswell Unit 4 by 2035. Clarity on the IRP process and the potential scale of the incremental clean generation need is not expected until later this year (per mgmt.).

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STOCK TAKE 2 – TRANSITION NAMES, LEVERED TO REGULATED RENEWABLES AND ABLE TO FLEX RENEWABLES CAPEX

Transitioning "cleaner": Companies starting to pivot more renewable: AEE, AEP, CMS, D, DTE, DUK, ETR, LNT, NI, SO, WEC.

There is also a wide list of names in the sector that are transitioning "cleaner," where renewable generation investments are becoming more pronounced in the business mix: AEE, AEP, CMS, D, DTE, DUK, ETR, LNT, NI, SO, and WEC. The key with this group is that now they can compete much better in terms of economics in their own RFPs vs. third-party developers, given passage of the IRA, which now includes transferability of tax credits, PTCs for solar, standalone tax credits for storage, etc.

- **AEE** invests in regulated solar and wind at its core MO subsidiary, with the utility releasing an updated IRP plan just a month before the IRA's passage. The plan details significant incremental additions of renewables and storage, including 2.8GW of renewables by 2030 ($4.3bn allocation as of June), alongside significant longer-dated additions across renewables, storage, and other generation. **See our note HERE for more specifics of the IRP update.** In our view, **AEE also remains an indirect beneficiary of the IRA and potential permitting reforms,** thanks to its geographic location in the heart of MISO, to the extent that improvements in project economics foster a concurrent need for incremental transmission.

- **AEP** targets an 80% reduction in carbon emissions (and a 47% reduction in coal capacity as a percent of total capacity) by 2030, and net zero carbon emissions by 2050. In support of its likelihood of achieving these ambitious goals, the company highlights that its long-term executive compensation includes ties to clean energy transition targets. For operational/capacity context, despite being only 13.1% of the 2021 rate base, coal-fired generation makes up 41% of AEP's net maximum capacity in 2022, while the company projects that only 19% of its capacity will come from coal by 2030. Achieving these targets would **reduce AEP's coal fleet from ~11,850 MW at the end of 2021 to ~6,500 MW by 2028 from existing planned retirements**. In contrast, hydro, wind, solar, and pumped storage constitute **23% of 2022 capacity, and management expects that figure to rise to 52% by 2030**. The company specifically stated in its slides that "*AEP's capital plan is based on current tax credit law. Any potential PTC/ITC extension could present upside to current plan.*" (**August 2022 slides**). Additionally, AEP is in the process of strategic review for the commercial renewables business, noted below in this report.

- **CMS has $2.8B of capital allocated to renewables in the current 5-year capex plan ($14.3B total), with a variety of potential upsides from the current IRP and IRA (like increased solar rate base in lieu of third-party tax equity), and management noted that outside of the current IRP, the company is continuously looking for opportunities around renewables cost curves.** The near-term step up from renewables and the IRP was well communicated since 1Q (step up for the Covert plant purchase; Voluntary Renewables Plan approval for resources not in plan).

- **D** invests in renewables across its regulated utility and its nonregulated subsidiaries, with a significant weighting to the former. Its current 5-year plan includes $2.9bn of contracted solar investment, alongside ~$19bn in regulated generation/storage. Importantly, D's regulated utilities *already* have significant ongoing wind and solar buildouts underway, thanks primarily to supportive state policies (e.g., the VCEA in VA). In our view, this means the latest changes under the IRA should be seen as *supportive* of customer bills vs. a step-change. For example, the company's ~2.6GW off-shore wind project's LCOE could see a $7 improvement under the IRA, per management. To that end the company already has a line of sight to another ~$41bn

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in decarbonizing spend through 2035, including a strong blend of storage, solar, and wind. We expect the IRA could impact the timing of some of this spend to the extent that it provides additional bill headroom in the company's modeling – allowing for potential pull-forwards.

- **DTE has a $3bn cleaner generation capex allocation (which stands to increase due to IRA impacts alone) and the company has already maxed out the voluntary renewables subscriptions (include a recent 650 MW commitment with Ford, ticker: F)**, **pointing to a sizeable step up with the upcoming October IRP.** DTE management is working on major decarbonization spending (including IRP and coal retirements) beyond the current forecast horizon; but potential **upsides will get layered in the medium term as well, in our view. Management noted that not all prospective IRP actions would be long term, as some items will roll in with the next planning cycle.**

- **DUK has ~$15bn (24%) of its current $63bn 5-year (2022–26) capital plan allocated to zero-carbon emission generation, in support of the company's proposed near-term resource additions; however, we expect higher capex ranges to be provided at the company's Oct. 4 ESG Day.** The current plan includes 3,100 MW of new solar (with 600 MW of paired storage), 1,000 MW of stand-alone battery storage, 600 MW of on-shore wind, 2,000 MW of hydrogen-capable natural gas, grid enhancements to support interconnection of new renewables and storage, and early development work for long lead-time resources for deployment in the early 2030s. **The company's long-awaited, legislatively mandated Carbon Plan is currently being ironed out with the NCUC, which must complete its rulemaking process by December 31, 2022**. In South Carolina, the company plans to provide updated planning assumptions with its 2023 comprehensive IRP. Three of DUK's proposed portfolios contain off-shore wind; for more on off-shore wind and the Carolina Long Bay lease area, **see our note HERE**. See additional thoughts on DUK's renewables sale below in this report.

- **ETR** invests in regulated solar generation deployment across its service territories with RFPs in TX, AR, and MS. **In terms of renewables deployment, management anticipates 7GW out of the larger 17GW target (recently increased from 11GW) to be completed by 2026**, with roughly half being ETR self-build (more in our analyst day note here). Out of the 7GW, 1500 MW are RFPs under negotiation, 2500 MW are RFPs announced but incomplete, with another 900 MW of unannounced RFPs, so there is strong visibility to the pipeline. **ETR also noted that the targets are conservative, both on total volume and ownership; as electrification takes off even more, the addressable market becomes bigger and sooner.**

- **LNT** stands to **benefit directly from transferability of credits under the IRA, with the company engaged in significant ongoing solar buildouts across its two jurisdictions (IA/WI).** As a result of the IRA, the company **recently filed to eliminate its use of tax equity in WI** in favor of a transition to full ownership (and full rate basing of the former tax equity financing). **While the company has not yet updated its capital plans to reflect IRA impacts, we expect it to do so this fall with EEI/3Q results.** The current Clean Energy Blueprints for the two jurisdictions are currently working to add 1.5GW of solar and ~375 of capacity/storage. **We expect these figures could be revised upward with the forthcoming roll-forward, with management currently targeting $7-9bn of spend in the 2026-30 window.** LNT has added significant clean energy resources in recent years, with the ongoing coal transition presenting potential incremental capacity addition opportunities, in our view. **See our recent NDR HERE for more**.

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- **NI continues to target a 90% reduction in Scope 1 GHG by 2030, inclusive of a 50% reduction in methane emissions by 2025, and expects to have retired 100% of its coal-fired generation assets by 2026–28 and replaced it primarily with renewable generation.** NI launched its two 2022 RFPS in Q3: **1) an all-source RFP for 300–600+ MW** of MISO Local Resource Zone 6 capacity resources; **2) a 370–450 MW gas peaking** resource to be constructed by an EPC/development partner at the current Schahfer site, and which **must be owned by NIPSCO** (consistent with the MISO generator replacement protocols). The utility expects to have definitive agreements signed with winning bidders of **both RFPs in 4Q22**. NI's **post-2024 plans** have not yet been provided and will be a key focus of its **November 2022 Analyst Day,** according to management. The company has cited uncertainties and disruptions caused by the U.S. Department of Commerce's AD/CVD investigation as resulting in the delay of ~$1.0bn of renewable generation projects in its current capital plan (through 2024) by 6-18 months, although the company also said that the current pause on tariffs adds more confidence/clarity to management's revised timelines.

- **POR** is under a state mandate to procure 100% clean energy by 2040, including interim targets of an 80% reduction by 2030 and 90% by 2035. To that end, the company has worked in recent years to pivot towards cleaner procurements, with its 2019 IRP yielding the first in what we expect to be a series of ongoing energy + capacity RFPs through the next decade. The 2021 RFP is approaching final selection, with management releasing the shortlist alongside 1Q22 results. The list features a large combination of PPA'd and hybrid PPA/company owned projects intended to serve both energy and capacity needs. **The company has the potential to own up to 350 MW of company-owned wind and 125 MW of company-owned storage across the shortlist,** including as a part of hybrid projects with third-party owned solar. Importantly, the company is already hard at work on its next IRP (2023), with the intention to tighten the IRP-RFP cycle in the coming years as it seeks to meet the aforementioned mandates. These opportunities are all completely incremental to the company's current capex plan and growth rate.

- **SO**'s investors should recall Georgia Power's long-term plan to add a total of 6,000 MW of additional renewable resources by 2035, effectively doubling its existing approved renewable portfolio. Meanwhile, based on its target reserve margins (TRM), and taking into account the resources approved by the APSC in Docket No. 32953 and Docket No. 33182, **Alabama Power projects sufficient long-term reserves to meet its obligations until the late 2020s**. **In July 2022, the GA PSC approved Georgia Power's 2022 IRP and delayed deciding on the timing of the retirement of Bowen 3 & 4's 1,760 MW of coal-fired generation to the utility's next triennial IRP in 2025.** While we aren't fully convinced that we will see a shutdown date be set even in the next IRP filing, current delay provides more time for SO to plan ahead for additional capacity, including, as **C-Suite highlighted during our July Georgia Road Trip**, a possible conversion to natural gas where they are seeing potential firm transmission opportunities for natural gas supplies. While the PSC supports open bidding processes as a general rule, some members of the commission have made clear their preference for utility-owned capacity for both utility-scale solar and in the case of more experimental technologies like energy storage where **reliability is of heightened concern**. Management's messaging prior to passage of the IRA was that it was simply not economically possible for Georgia Power to compete against non-regulated entities, and particularly with regards to solar projects. **The approved 2022 IRP calls for 2,100 MWac of new renewable energy resources**, to be procured via two separate RFPs. The first RFP is expected to be launched in 2023 and will target 1,050 MWac of renewable resources with proposed commercial

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operation dates in 2026/27. The second RFP is expected to be issued in 2025 (per mgmt.) and would seek an additional 1,050 MWac with targeted COD in 2028/29. For more, see our Georgia Road Trip recap note HERE, as well as our Georgia IRP post-decision flash note HERE. ***More detailed thoughts on SO's generation needs and plans are in the company section of this report.***

- **WEC**'s tight energy supply conditions in MISO, as well as supply chain issues that the company expects will likely delay commercial operation of the renewable energy projects intended to replace retiring coal-fired generation, led to WEC's previously announced delays to the planned retirements of its Oak Creek and Columbia units. Despite this, we still see WEC as a beneficiary of the extensions of zero emission tax credits and **expect ongoing renewables investments to feature in the company's 3Q22 5-year capital plan roll (with full details to be released at EEI, as usual)**. In particular, we note that even pre-IRA, WEC's 2022–26 5-year plan included $3.5bn of investment in **regulated renewables** in the form of 1,475 MW of solar, 816 MW of battery storage, and 82 MW of wind, resulting in a grand total of **2,373 MW of renewable resource additions** during the planning period.

STOCK TAKE 3 – UTILITY SELLERS OF GENERATION ASSETS – RENEWABLES, OFF-SHORE ASSETS, NUCLEAR, AND REGULATED ASSETS

Several utilities could see impacts in value of strategic transactions: AEP, DUK, ED, ES, and PEG.

There are multiple utilities seeking to sell unregulated renewable assets (including wind, solar and off-shore leases) which could see a constructive valuation outcome given private/infrastructure investors' desire to establish a renewable platform as well as improve development/repowering platforms, and nuclear assets becoming attractive for public and private sellers (AEP, DUK, ES, PEG and PCG). ED's recent sale surpassed our prior valuation estimates and sets a most recent marker for constructive asset valuations despite a turbulent debt/equity market. CED thoughts included in our note here.

- **AEP's Contracted Renewables auction kicked off in September, with up to 1,200 MW of wind and 165 MW of solar up for sale; a smaller portfolio transaction than peers but demand for renewables and IRA impacts could drive up value. Even pre-IRA, we estimated that the portfolio could attract a valuation in the range of $1,800-2,200/kW and could net AEP ~$1.1–1.6bn pretax**, with the after-tax proceeds likely not too different, given the company's expectation of being able to offset most of the applicable taxes with existing credits. Originally 1,600 MW in total, the company's 235 MW (50% stake) in the Flat Ridge 2 wind farm was removed in order to enhance the overall quality of the portfolio in hopes of attracting a better valuation. Flat Ridge 2 had been experiencing weak performance due to equipment issues and transmission congestion, with management deciding that repowering it wasn't worth the construction phase risk, and that doing so would have unnecessarily complicated the sale process. For more, see our note HERE.

- **DUK's Commercial Renewables sale is underway with potential bidders so far reportedly including pension funds, private equity, and infrastructure investors,** although some parties have apparently said that the portfolio size would keep them on the sidelines (see our Daily write-up HERE). We assume that the portfolio fetches ~$1,600/kW, or $4,579m after accounting for project-level debt, and assume no tax leakage as per management's comments on the 2Q22 call. Combined with an assumed weighted average avoided cost of HoldCo financing drag of ~3.5%, **we estimate $0.08/share of full-year EPS dilution from the sale (for more, see our note HERE).**

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- **ES is currently engaged in a sale process for its off-shore wind business, with an announcement due by year end…** The sale process for ES's interest in a JV for 3 projects and lease acreage (not a devco) **could see a halo benefit from the IRA in our view,** and become a readthrough to post-2025 OSW economics (e.g., accreting to the acreage value). **See our recent upgrade note HERE for more details on the process,** which we believe could result in proceeds of $2.6bn or more, before netting any debt on the projects. Using the recent NY Bight auction as a valuation midpoint, we believe the leases alone could be worth ~$650mm after full tax leakage. This process remains ongoing, with a YE closure target.

- **PEG stands to benefit from a nuclear and off-shore wind strategic alternative standpoint, as noted here and here.** PEG is contemplating FID on an equity joint venture for NJ's first off-shore project (Ocean Wind 1,100 MW backed by legislated renewable credits set at $98.10/MWh). Additionally, PEG continues to hold a similarly sized land interest in off-shore areas able to support projects in NJ and the Mid-Atlantic (DE/MD), with NJ recently signing an executive order increasing the current off-shore wind target to 11,000 MW by 2040. **Strategic alternatives for nuclear and off-shore wind (OSW) remain on the table with federal policy and competing OSW land lease and asset sales providing datapoints for consideration.** Management now has LT visibility on nuclear (IRA) to either recognize a higher value in the stock price or prompt a strategic review (per management). Additionally, as we noted in our reports linked above, private owners of nuclear assets (i.e., Energy Harbor, Talen) are also in the market to sell; we value PEG's nuclear assets on an NPV of ~$6.5B in EV. On the off-shore wind side of the CFIO business, PEG remains committed to working on Ocean Wind I and the transmission interconnection projects but acknowledged the similar process by ES as a valuation marker for the assets that could trigger a strategic process. The remaining land leases that PEG owns could likewise provide value upside, given the growing interest in OSW development either through the existing partnerships or another form of monetization.

- **PCG recently announced the formation and subsequent equity stake sale of non-nuclear assets. The Pacific Generation (new subsidiary) will hold largely hydro, pumped storage, energy storage, and solar assets in a regulated construct.** While California's deregulated market status limits value upside potential from these assets, we recognize the scarcity of the regulated assets and opportunities for PacGen to act as a backstop for state policy goals (energy storage in particular), i.e., renewables push makes assets valuable.

STOCK TAKE 4 – UTILITIES WITH NON-FLEXIBLE CAPEX PLANS, LIMITED EXPOSURE TO RENEWABLES OR LACK OF GENERATION (I.E., T&D) DO NOT STAND TO BENEFIT)

NWE, PNW, PPL, OGE don't see regulatory support or flexibility for clean energy investment; other T&D names don't have material generation ownership.

Utilities with less flexibility on renewables investments (driven by either needs for capacity vs. energy, state policy support, etc.) include NWE, PNW, PPL, and OGE and **to a lesser degree AVA, CNP, and EVRG**. In our view, these names are not currently positioned to see incremental investment opportunities on the same scale and pace as the names above, for reasons we detail below. Additionally, **we note several companies in our coverage that are primarily T&D utilities and/or do not have meaningful generation ownership** in either competitive or regulated constructs; these include AWK, ED (post sale), EIX, ES (post sale), EXC, FE, HE, PCG, SRE, and PEG (post sale).

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- **AVA** filed its IRP in Washington and Idaho on April 1, 2021, projecting adequate resources to meet customer demand through October 2026. The company's first long-term capacity deficit, net of energy efficiency, begins in October 2026 and grows to 247 MW by January 2027. Well before the proposal of the IRA, AVA's plan already consisted of new renewable energy, energy storage, demand response, energy efficiency, and upgrades to existing hydropower and biomass plants. **Given the well-defined IRP, there may be limited upside changes in the near term.**

- **AWK** is not an electric utility and as such is not a direct beneficiary of the key provisions of the IRA. **However, we see it as a tangential laggard in the overall group as a result of the legislation.** In our view, based on many of our investor conversations, AWK's premium to the group is in part built on its ESG credentials, and to the extent that the IRA catalyzes and accelerates decarbonization, we believe the ESG spread between the two may compress.

- **CNP's** Vectren Indiana subsidiary proposed up to **~1,000 MW of renewable generation in the IN IRP.** There have been some scheduling and scope changes to optimize around supply chain and cost issues, with few changes to the overall investment profile for CNP (~$1B of renewables capex allocation in the current 5-year plan). In TX, CNP remains just a wires business. **Strategically, management focus is more skewed to the traditional T&D utilities and LDCs that comprise a majority of the earning assets.**

- **EVRG** has historically procured renewables via PPAs, a strategy the current management team has sought to reverse in its latest IRP filings and via exploration of PPA buy-ins. **The company's latest update to the plan will see significant additions of solar from 2028 to 2032 (~450 MW/year), alongside ~1.25GW of wind additions from 2024 to 2027.** While most of this spend remains outside of the current planning window, it is driven by underlying asset fundamentals – namely a runway of coal plant retirements across MO and KS. As a result of this dynamic, **we do not expect significant changes in EVRG's NT generation capex plans; however, the company has shown in recent quarters that it is open to revisions around the margins (e.g., tweaks to the timing and scale of solar deployments).**

- **FE** received conditional approval in April 2022, from the West Virginia PSC for its plan to build 50 MW of utility-scale solar generation, so long as 85% of the output has been subscribed in advance of the start of construction. The company said on its 2Q22 call that it expects the first solar generation site to be in-service by year-end 2023, with the remaining four sites in-service by year-end 2025. **FE is otherwise a distribution and transmission business that lags peers as far as renewables upside potential.**

- **NWE's** existing fleet consists predominantly of 490 MW of hydro and 454 MW of wind, then 309 MW of "coal & other" (mostly Colstrip), 202 MW of natural gas-fired generation, and 17 MW of solar. However, the amount of **accredited capacity** (a resource's contribution to meet demand during peak energy usage by customers) varies significantly from these levels, with more than 90% of coal/natural gas megawatts counting as accredited capacity, while hydro gets credit for 60% of the total owned/PPA'd capacity, but **while only 13% of wind and 5% of solar megawatts are deemed to be accredited capacity** and are therefore able to be counted against NWE's overall capacity deficit in Montana.

- **PNW** projects that coal exits and expiring purchase contracts will create a **6,000 MW supply-demand gap by 2035** as peak capacity needs grow from ~8,000 MW in 2020

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closer to ~12,000 MW by 2035 and owned/LT PPA'ed capacity falls from more than 8,000 MW in 2020 to less than 6,000 MW by 2035. The company's existing plan is to reduce coal's weight in the utility's resource mix from 16% as of December 31, 2021, down to 0% by 2035.

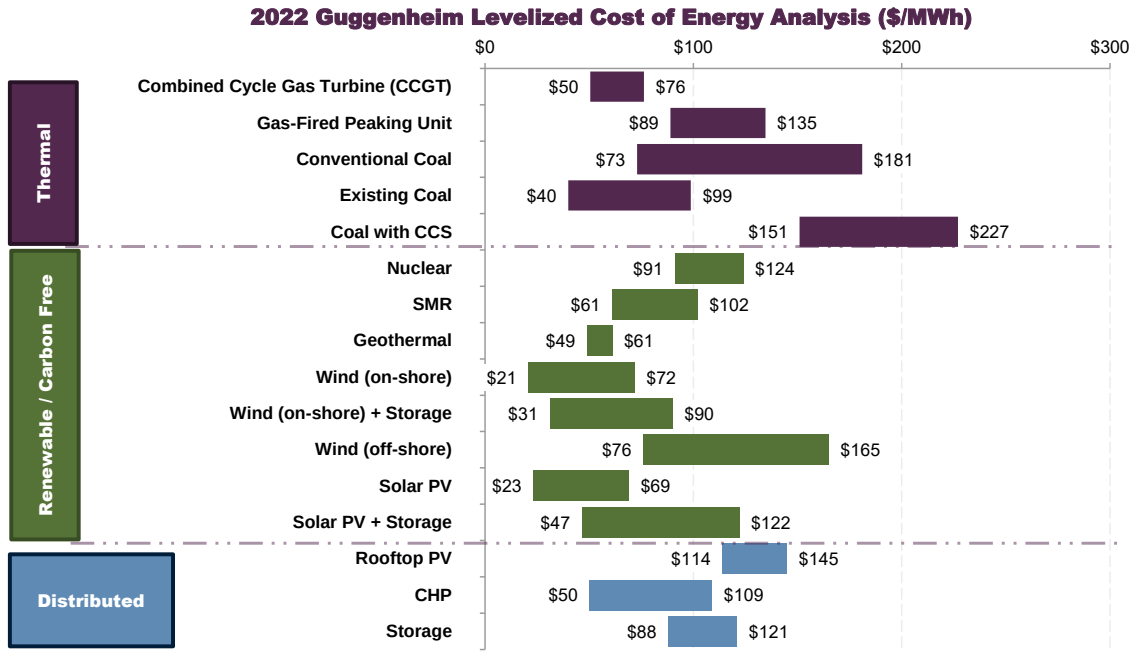
- **PPL** operates 2 T&D utilities (PA/RI) alongside one integrated utility **(KY), partially limiting the proportion of capex allocated to generation, and the associated optionality around renewables/storage**. The most recent IRP for the KY had a base case of ~2.3GW of renewables by 2036, which in our view may be conservative in light of the current gas price backdrop. The next IRP is scheduled to be filed in 2024, and we expect there could be a further expansion and pull-forward of the current plans. As the eventual retirement of coal capacity in KY will require firm capacity, management continues to explore potential CCGT additions (with hydrogen firing capability); see our **recent NDR note HERE** for more on the sequencing and opportunity set. Also, we note that the region has seen substantial interest in CCUS and 45Q harvesting (see our note HERE), which could augment planned CCGT additions in lieu of pure renewables/storage investment. For now, exposure to KY puts PPL at somewhat of a disadvantage as we think about renewables in the context of this analysis.

- **OGE is lagging peers in adding renewables, at least in part driven by near-term economics and need for capacity additions to address reserve margin needs (i.e., not a wind/solar solution).** OGE Integrated Resource Plan and associated RFPs could present a multi-track opportunity for potential upside to plan, but **renewables alternatives are only a small piece**. The 2 base RFPs resulting from the IRP were the 450 MW of solar for delivery in 2025/26 (i.e., 2024 capex start) and the flexible resource (i.e., CT) RFP for 500 MW by 2027 (2026 capex start).

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PM SUMMARY TABLES AND CHARTS

Figure 3 2022 LCOE model result ranges



Source: Guggenheim Securities, LLC estimates, EIA, company filings.

Fossil LCOE increases with gas/coal curves; solar/wind see benefits of IRA becoming more competitive.

From a high level, we see increases in median LCOE for fossil resources and decreases for solar/wind alternatives; IRA becomes a significant benefit for wind/solar from ITC/PTC extension and an increasingly competitive position for renewables vs. CCGT. The scenario ranges shown in the summary and comparison tables represent different geographies, developers, and operators. Major drivers for YoY changes include higher capital costs, higher fossil fuel costs, and O&M escalation, detailed below in this report. The major offsets for wind and solar technology scenarios are the implementation of ITC/PTC extensions, which result in a $22-27/MWh LCOE improvement in the median scenario.

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Figure 4 2022 LCOE model changes vs. prior (median/base case)

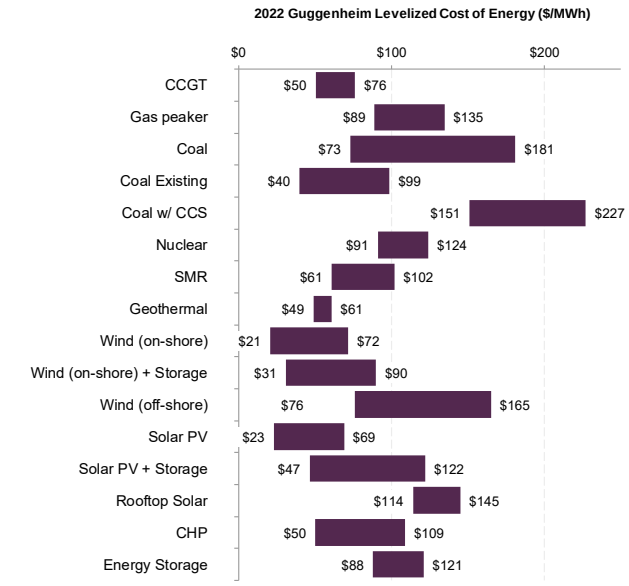
Summary LCOE Changes (Median Case)	2022 Guggenheim Median (Base) LCOE ($/MWh)	Prior (2020) Guggenheim Median (Base) LCOE ($/MWh)	Change (%)
CCGT	$59	$41	43%
Gas peaker	$104	$71	46%
Coal	$103	$95	8%
Coal Existing	$64	$45	42%
Coal CCS	$182	$140	30%
Nuclear	$107	$118	-9%
SMR	$69		
Geothermal	$55	$33	69%
Wind (on-shore)	$33	$40	-18%
Wind (on-shore) + Storage	$47	$62	-25%
Wind (off-shore)	$102	$126	-19%
Solar PV	$41	$48	-15%
Solar PV + Storage	$60	$76	-22%
Rooftop Solar	$128	$118	8%
CHP	$78	$120	-35%
Energy Storage	$104	$104	0%

Renewables Advantage Vs. CCGT	2022 Advantage vs. Fossil CCGT	Prior (2020)
CCGT		
Gas peaker		
Coal	-76%	
Coal Existing	-9%	
Coal CCS	-211%	
Nuclear	-83%	
SMR	-18%	
Geothermal	6%	20%
Wind (on-shore)	44%	2%
Wind (on-shore) + Storage	20%	
Wind (off-shore)	-74%	-207%
Solar PV	31%	-16%
Solar PV + Storage	-2%	-85%
Rooftop Solar	-118%	-188%
CHP	-34%	-193%
Energy Storage	-77%	-153%

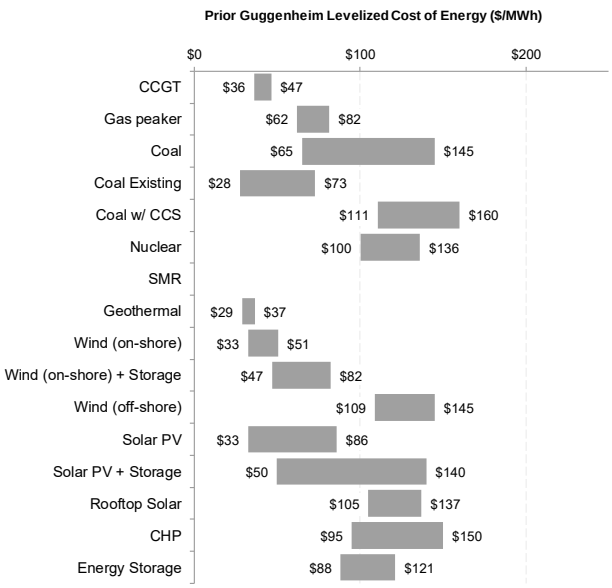
Advantage vs. CCGT
Advantaged
Disadvantaged
Near-Neutral

Source: Guggenheim Securities, LLC estimates

Figure 5 2022 LCOE model result range changes vs. prior



Source: Guggenheim Securities, LLC estimates, EIA, company filings.



Source: Guggenheim Securities, LLC estimates, EIA, company filings.

Continued on the next page…

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GUGGENHEIM POWER & UTILITIES COMP SHEET

9/29/2022		Market	Guggenheim EPS Ests				Implied P/E Multiple				Prem/(Disc) vs Mid/Lg Cap Utes				'22–'25	NTM	Payout	Guggenheim		NTM Total	Consensus		NTM Total
	Price	Cap ($m)	2022E	2023E	2024E	2025E	2022E	2023E	2024E	2025E	2022E	2023E	2024E	2025E	EPS	Yield	Ratio	Rating	Target	Return	Rating	Target	Return
Small Cap Electric																							
ALE	$51.21	2,923	3.75	3.91	4.14	4.43	13.7x	13.1x	12.4x	11.6x	-25%	-25%	-23%	-23%	5.7%	5.3%	72%	Neutral	$66	34%	Neutral	$64	30%
AVA	$38.57	2,815	1.94	2.47	2.59	2.72	19.8x	15.8x	14.7x	13.9x	8%	-9%	-10%	-9%	11.9%	4.7%	94%	Sell	$34	-7%	Neutral	$43	15%
NWE	$50.29	2,824	3.30	3.57	3.88	4.05	15.3x	14.3x	14.0x	12.7x	-17%	-17%	-14%	-16%	7.1%	5.1%	77%	Neutral	$58	20%	Buy	$60	25%
POR	$45.53	4,063	2.83	2.92	3.02	3.18	16.1x	16.2x	15.2x	14.2x	-12%	-6%	-7%	-6%	4.0%	4.1%	66%	Buy	$56	27%	Neutral	$53	21%
		12,624					**16.2x**	**14.8x**	**14.1x**	**13.1x**	**-12%**	**-14%**	**-13%**	**-14%**	**7.2%**	**4.8%**	**77%**						
Mid/Large Cap Electric																							
AEE	$82.49	21,290	4.04	4.32	4.64	4.95	20.2x	18.9x	17.7x	16.5x	10%	9%	9%	8%	7.0%	3.0%	61%	Buy	$99	23%	Buy	$99	22%
AEP	$89.07	45,758	5.00	5.30	5.64	6.00	17.9x	16.9x	15.9x	14.9x	-3%	-3%	-2%	-2%	6.3%	3.7%	66%	Buy	$109	26%	Buy	$107	24%
CMS	$59.73	17,333	2.88	3.14	3.41	3.64	20.7x	19.1x	17.9x	16.3x	13%	10%	10%	7%	8.1%	3.2%	67%	Neutral	$70	20%	Buy	$72	23%
CNP	$28.84	18,153	1.38	1.49	1.61	1.73	20.8x	19.2x	18.1x	16.6x	14%	11%	12%	9%	7.8%	2.5%	52%	Buy	$35	24%	Buy	$33	18%
D	$71.06	59,158	4.12	4.40	4.70	5.00	17.3x	16.3x	15.4x	14.2x	-6%	-6%	-5%	-6%	6.7%	3.9%	68%	Buy	$90	31%	Buy	$89	30%
DTE	$118.22	22,904	6.06	6.29	6.73	7.13	19.6x	18.9x	17.7x	16.5x	7%	9%	9%	9%	5.6%	3.2%	61%	Buy	$145	26%	Buy	$139	21%
DUK	$95.10	73,227	5.48	5.81	6.15	6.50	17.4x	16.5x	15.5x	14.6x	-5%	-5%	-4%	-4%	5.9%	4.3%	75%	Buy	$119	29%	Buy	$114	24%
ED	$87.66	31,083	4.51	4.85	5.16	5.47	19.5x	18.2x	17.2x	16.3x	6%	5%	6%	7%	6.6%	3.7%	72%	Neutral	$94	11%	Sell	$88	4%
EIX	$57.46	21,917	4.64	4.92	5.25	5.60	12.8x	11.8x	10.9x	10.5x	-30%	-32%	-33%	-31%	6.5%	5.0%	62%	Buy	$82	48%	Buy	$73	33%
ES	$79.58	27,570	4.10	4.42	4.75	5.11	19.4x	18.1x	17.1x	15.8x	6%	5%	6%	4%	7.6%	3.3%	65%	Buy	$97	25%	Neutral	$93	21%
ETR	$102.63	20,877	6.43	6.81	7.21	7.57	16.2x	15.2x	14.2x	13.3x	-12%	-12%	-13%	-12%	5.6%	4.1%	66%	Buy	$129	30%	Buy	$128	29%
EVRG	$60.49	13,881	3.56	3.77	4.02	4.30	17.0x	16.1x	15.0x	14.3x	-7%	-7%	-8%	-6%	6.5%	4.0%	68%	Buy	$77	31%	Buy	$71	21%
EXC	$37.75	37,439	2.27	2.41	2.58	2.82	16.7x	15.6x	14.6x	13.5x	-9%	-10%	-10%	-11%	7.5%	3.9%	64%	Neutral	$49	34%	Buy	$49	33%
FE	$37.18	21,244	2.40	2.57	2.75	2.95	15.4x	14.7x	13.6x	13.0x	-16%	-15%	-17%	-15%	7.1%	4.3%	66%	Neutral	$43	20%	Buy	$45	26%
LNT	$54.54	13,686	2.78	2.90	3.04	3.23	19.6x	18.7x	17.7x	16.6x	7%	8%	9%	10%	5.1%	3.3%	64%	Neutral	$60	13%	Buy	$65	22%
OGE	$37.42	7,492	1.99	2.06	2.21	2.30	17.6x	18.1x	17.3x	16.4x	-4%	5%	6%	8%	4.9%	4.5%	85%	Buy	$43	19%	Buy	$42	16%
PCG	$12.38	24,607	1.11	1.24	1.34	1.45	11.3x	10.1x	9.3x	8.6x	-38%	-42%	-43%	-43%	9.3%	0.7%	8%	Buy	$19	54%	Buy	$16	32%
PEG	$56.92	28,395	3.53	3.58	4.06	4.39	16.4x	15.9x	14.3x	13.2x	-11%	-8%	-12%	-13%	7.5%	3.9%	64%	Buy	$76	37%	Buy	$74	34%
PNW	$66.22	7,486	4.05	4.25	4.50	4.75	16.5x	15.8x	14.8x	14.0x	-10%	-9%	-9%	-8%	5.5%	5.3%	87%	Sell	$60	-4%	Sell	$72	13%
PPL	$25.95	19,104	1.39	1.58	1.70	1.81	18.4x	16.2x	15.3x	14.3x	0%	-6%	-6%	-6%	9.2%	3.6%	68%	Buy	$33	31%	Buy	$31	24%
SO	$69.38	73,718	3.60	3.80	4.15	4.40	19.3x	18.3x	17.0x	15.8x	5%	5%	5%	4%	6.9%	4.0%	77%	Buy	$80	19%	Neutral	$76	14%
WEC	$91.81	28,960	4.40	4.59	4.89	5.21	20.9x	19.9x	18.7x	17.6x	14%	15%	15%	16%	5.8%	3.3%	69%	Neutral	$104	17%	Neutral	$106	19%
Mid/Lg Cap (excl. EIX, PCG)							**18.3x**	**17.3x**	**16.2x**	**15.2x**					**6.7%**	**3.8%**	**68%**						
Regulated Electrics		**647,906**					**18.0x**	**16.9x**	**15.9x**	**14.8x**					**6.7%**	**3.9%**	**70%**						

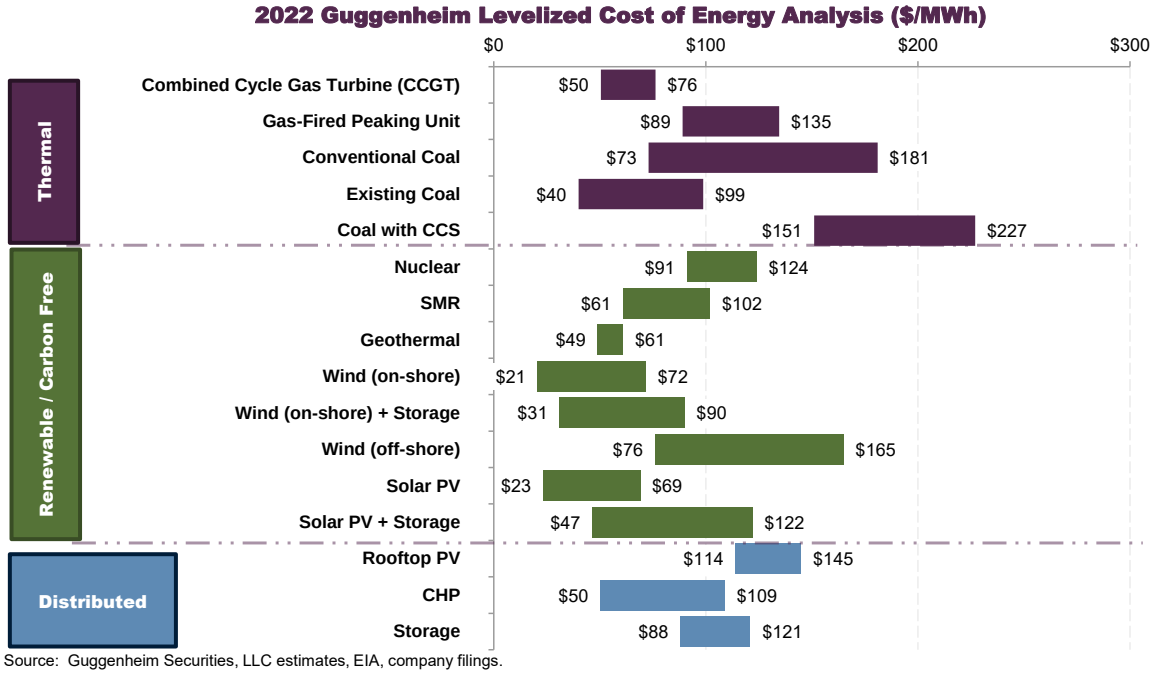
Diversified	Price	Market Cap ($m)	Guggenheim EPS Ests 2022E	2023E	2024E	2025E	Implied P/E multiple 2022E	2023E	2024E	2025E	Prem/(Disc) vs Mid/Lg Cap Utes 2022E	2023E	2024E	2025E	'22–'25 EPS	NTM Yield	Payout Ratio	Guggenheim Rating	Target	NTM Total Return	Consensus Rating	Target	NTM Total Return
HE	$35.44	3,880	2.21	2.41	2.47	2.69	16.6x	15.4x	14.6x	13.8x	-10%	-11%	-10%	-9%	6.8%	4.1%	65%	Neutral	$41	20%	Sell	$41	20%
NEE	$79.97	157,123	2.84	3.07	3.38	3.66	27.8x	25.7x	23.7x	21.9x	52%	48%	46%	44%	8.8%	2.3%	64%	Buy	$108	37%	Buy	$96	22%
SRE	$151.48	47,612	8.54	9.08	9.58	10.21	17.5x	16.8x	15.7x	14.9x	-4%	-3%	-4%	-2%	6.1%	3.2%	57%	Buy	$174	18%	Buy	$175	19%
		208,615					**20.7x**	**19.3x**	**18.0x**	**16.9x**	**13%**	**11%**	**11%**	**11%**	**7.2%**	**3.2%**	**62%**						
Gas LDCs																							
NI	$25.97	10,543	1.45	1.53	1.70	1.84	17.9x	16.7x	14.8x	13.7x	-1%	-1%	-7%	-8%	8.3%	3.8%	68%	Buy	$32	27%	Buy	$33	30%
CPK	$118.12	2,095	5.13	5.55	5.93	6.32	23.1x	21.3x	20.1x	18.9x	28%	26%	26%	27%	7.2%	1.9%	43%	Neutral	$136	17%	Buy	$141	21%
NJR	$39.71	3,821	2.45	2.43	2.64	2.81	16.2x	16.1x	14.6x	14.0x	-10%	-5%	-8%	-6%	4.7%	3.9%	64%	Neutral	$41	7%	Neutral	$46	19%
NWN	$44.91	1,538	2.56	2.73	2.83	2.98	17.8x	16.8x	16.3x	15.0x	-1%	-1%	3%	1%	5.2%	4.3%	76%	Neutral	$49	13%	Buy	$55	26%
OGS	$72.25	3,911	4.08	4.38	4.65	5.00	17.7x	16.5x	15.6x	14.5x	-1%	-3%	-2%	-2%	7.0%	3.6%	64%	Neutral	$86	23%	Buy	$88	26%
SJI	$33.57	4,111	1.71	1.82	1.94	2.05	19.4x	18.8x	17.9x	17.3x	8%	11%	13%	16%	6.2%	3.8%	74%	Neutral	$36	11%	Neutral	$36	11%
SR	$64.02	3,361	3.84	4.27	4.91	5.03	16.5x	14.6x	13.9x	13.1x	-8%	-14%	-12%	-11%	9.4%	4.5%	75%	Neutral	$67	9%	Neutral	$76	24%
		29,381					**18.4x**	**17.3x**	**16.2x**	**15.2x**	**2%**	**2%**	**2%**	**3%**	**6.9%**	**3.7%**	**66%**						
Regulated Water																							
AWK	$133.20	24,214	4.44	4.85	5.23	5.70	29.9x	27.6x	25.6x	23.6x	63%	59%	58%	55%	8.7%	2.1%	62%	Neutral	$155	18%	Neutral	$163	24%

IPPs	Price	Market Cap ($m)	Guggenheim EBITDA Ests 2022E	2023E	2024E	2025E	Implied EV/EBITDA multiple 2022E	2023E	2024E	2025E	Enterprise Value 2022E	2023E	2024E	2025E	'22–'25 Growth	NTM Yield	Payout Ratio	Guggenheim Rating	Target	NTM Total Return	Consensus Rating	Target	NTM Total Return
CEG	$83.04	27,126	2,605	3,269	3,424	3,675	11.9x	9.7x	8.3x	7.3x	31,713	30,332	28,754	27,021	12.2%	0.8%	19%	Buy	$121	47%	Buy	$90	9%
NRG	$39.18	9,213	2,008	2,247	2,312	2,276	8.1x	6.9x	6.3x	5.9x	16,198	15,654	15,043	13,715	4.3%	3.8%	30%	Neutral	$43	14%	Buy	$43	14%
VST	$21.38	8,902	3,117	3,508	3,555	3,738	6.2x	5.2x	5.2x	5.3x	19,456	19,136	18,681	17,679	6.2%	3.6%	30%	Buy	$32	53%	Buy	$32	52%
Other																							
ALTO	$3.72	276	59	74	75	76									9.0%	–	–	Buy	$11	196%	Buy	$12	214%
IEA	$13.61	662	147	164	174	178									6.7%	–	–	Neutral	$14	3%	Buy	$14	1%
NEP	$73.42	6,160	1,660	1,775	1,889	2,003									6.5%	4.5%	–	Buy	$85	20%	Buy	$87	23%
SMR	$12.35	525	(156)	(100)	(57)	8										–	–	Buy	$18	46%	Buy	$17	40%

Source: Guggenheim Securities, LLC estimates, Bloomberg LP.

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LCOE DEEP DIVE – RISING COSTS WEIGH ON ALL TECHNOLOGIES, BUT SOLAR/WIND ADVANTAGE GROWS



Source: Guggenheim Securities, LLC estimates, EIA, company filings.

LCOE ANALYSIS BY THE NUMBERS - IRA PUSHES THE LOW END LOWER FOR SOLAR/WIND, BUT EVEN MEDIAN CASES SHOW STRONG RELATIVE ECONOMICS

We see on-shore wind and solar reaching LCOE parity or even better economic vs. CCGT in the median scenarios.

The Number 1 takeaway for our LCOE refresh is that relative economics continue to improve for solar/wind. In our prior iteration, the technologies were near parity only in a low-cost scenario, but have now improved to being competitive around the median case. In our current view, states, energy buyers, and vertically integrated utilities with wind/solar resources can make an economic case for renewable transition and deflationary investments in renewables (new generation offsetting fuel costs and fossil investment).

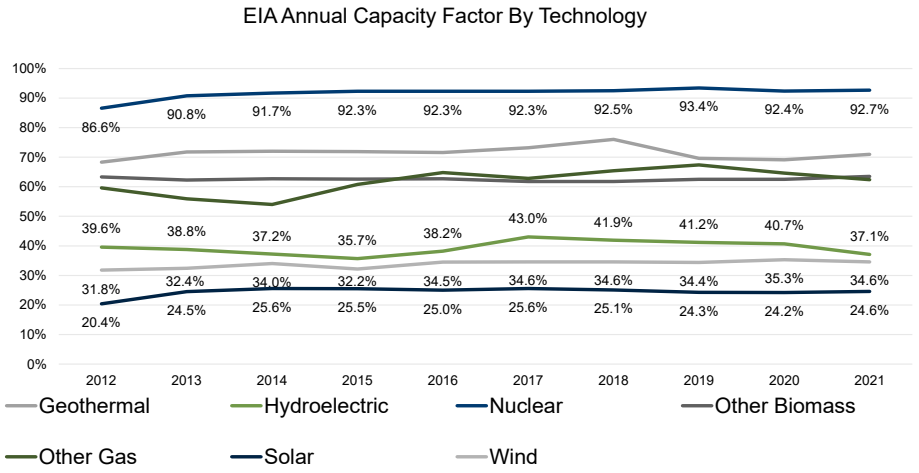
On median (base) scenario outcomes: On-shore wind ($33/MWh) and Utility Scale Solar ($41/MWh) are competitive vs. Existing Coal ($64/MWh) and CCGT ($59/MWh), especially in light of the IRA tax credit extension, which we now model as part of our base scenario (more on our assumptions later in this report). We remain cognizant of the regional variability of resources, which could skew relative economics significantly, as captured in our LCOE ranges. **The lowest solar and wind costs are achieved when individual projects capture the highest generation capacity factor with capital cost efficiencies** – i.e., high solar irradiation areas (the southern US) and high-wind areas (Rocky Mountain states and plains) and improved capital costs vs. most recent inflationary and median cost inputs. Historically, a key piece of the puzzle for energy transition in the absence of strong legislated policy was solar and wind resource abundance, which we see at a turning point as cost inflation and volatility hit the fossil part of the electric supply stack; **we see resource availability constraints easing vs. our prior views in 2020 (i.e., with tax credits, solar/wind is competitive in more places). The** northern Midwest (i.e., the Dakotas, Rocky Mountain states, Oklahoma, Kansas, and west Texas) leads with north of 40% CF on newer vintage projects. In solar, California, Nevada, New Mexico,

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Arizona, and west Texas lead on resource availability with capacity factors of ~30%, with the rest of the Southeast US in the high 20s.

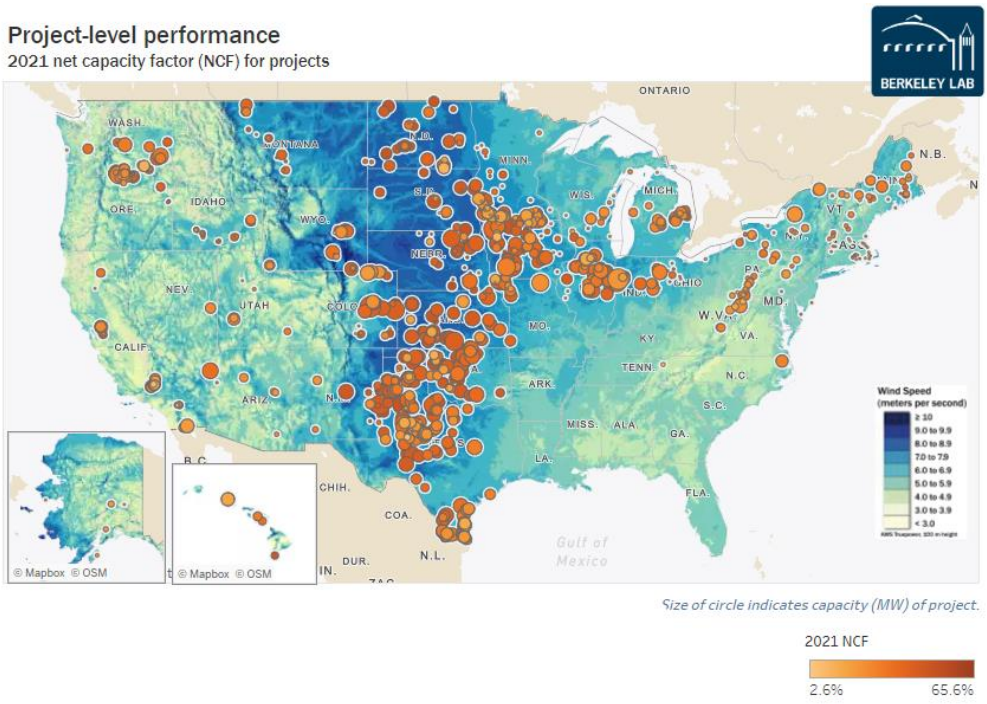
Capacity factors remains steady for wind/solar.

Figure 6 EIA Reported Average Annual Capacity Factor (US)



Best wind resource availability is located along Rocky Mountain states (in the 40%s).

Figure 7 Wind speed and project performance

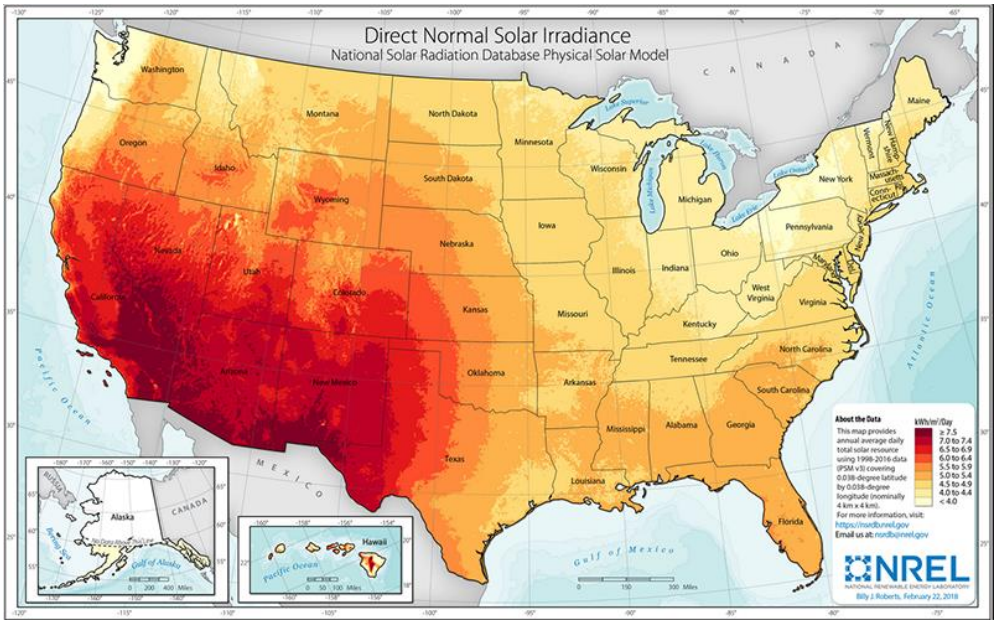


Source: Berkeley Lab

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Figure 8 US Solar irradiance

Best solar resource availability is located in Southwest US states (in the 30%s).



Source: NREL

EIA capital costs and fixed and variable O&M projections see inflation: ~10%+ for fossil.

Capital costs are another major contributor to LCOE across all technologies and this time to the inflationary side. While we anticipated a steady path down the cost curves for most technologies (excluding coal and nuclear), commodity and input cost inflation as well as geopolitical events have resulted in delays and increased overnight capital costs (and we note EIA assumed costs have risen likewise). **We have seen escalation for renewables and fossil capital costs** (EIA estimates for 2022 are 30% up for wind, ~11-12% CCGT, coal, GT, and other fossil technologies). Notable standouts were solar with tracking (0% increase), despite supply chain issues and materials inflation (although the EIA numbers were released before major new datapoints were being recorded). **We see the increase in capital costs as somewhat expected, but overall note that the GT option remains the cheapest cost capacity at ~$785/kW**, potentially suitable for reliability applications and addressing capacity credit considerations. Lastly, **O&M** saw broadly similar cost inflation for renewables and fossil generation (up ~5% across the board for wind, solar, CCGT, and other fossil generation). See the next page for capital and O&M cost comparisons.

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Figure 9 EIA Generation Input Cost Changes - Summary

2022 EIA assumption changes vs. 2020

Technology	Base overnight cost (2021$/kW)	Techno-logical optimism factorc	Total overnight cost (2021$/kW)	Variable O&M (2021 $/MWh)	Fixed O&M (2021$/ kW-y)	Heat rateg (Btu/kWh)
Ultra-supercritical coal (USC)	$413	0.00	$413	$0.23	$2.08	0
USC with 30% carbon capture and sequestration (CCS)	$506	-0.02	$444	$0.36	$2.77	0
USC with 90% CCS	$644	-0.01	$628	$0.56	$3.05	0
Combined-cycle—single-shaft	$122	0.00	$122	$0.13	$0.72	0
Combined-cycle—multi-shaft	$108	0.00	$108	$0.10	$0.62	0
Combined-cycle with 90% CCS	$266	0.00	$276	$0.29	$1.41	0
Internal combustion engine	$216	0.00	$216	$0.29	$1.80	0
Combustion turbine—aeroderivative	$124	0.00	$124	$0.24	$0.83	0
Combustion turbine—industrial frame	$75	0.00	$75	$0.23	$0.36	0
Fuel cells	-$32	-0.01	-$115	$0.03	$1.58	0
Nuclear—light water reactor	$679	0.00	$713	$0.12	$6.22	-18
Nuclear—small modular reactor						
Distributed generation—base	$176	0.00	$176	$0.44	$0.99	-23
Distributed generation—peak	$211	0.00	$211	$0.44	$0.99	-27
Battery storage	-$67	0.00	-$67	$0.00	$1.26	NA
Biomass	$444	-0.01	$421	$0.25	$6.43	0
Geothermal	$396	0.00	$396	$0.05	$29.93	-343
Conventional hydropower	$331	0.00	$331	$0.07	$2.15	NA
Winde	$399	0.00	$399	$0.00	$1.35	NA
Wind offshorei	$477	0.00	$595	$0.00	$5.62	NA
Solar thermali	$704	0.00	$704	$0.00	$4.36	NA
Solar photovoltaic (PV) with tracking[e, i, k]	-$4	0.00	-$4	$0.00	$0.78	NA
Solar PV with storage[i, k]	NA	NA	NA	NA	NA	NA

Source: EIA.gov

Cost inflation, commodities, and new inputs drive LCOEs $8-20/MWh higher, but ITC/PTC for wind/solar offset impacts fully.

Cost inflation hits all scenarios, but IRA tax credits provide offsets; CCGT dominance continues to fade on the steep rise in gas costs. The majority of our assumption changes (detailed later in this report) are focused on our capital cost expectations, fixed and variable O&M – all of which have driven LCOE outcomes higher across all technologies ($8-20/MWh higher, excluding ITC/PTC inclusion). **The net increase also includes a price deck update for fossil generation, and we note a ~100% or higher gas price increase on 2023-25 commodity strips.** In aggregate these changes materially improve solar and wind competitiveness vs. CCGT economics. ***See 2025 commodity curve highlights below and 2023-25 strip commentary below.***

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Commodity curve escalation shows steep increases (~100% higher YTD).

Figure 10 2025 Power/Gas Curve and Escalation Through 8/30/22 (priced 9/1/22)

2025	POWER PRICES $/MWH			GAS PRICES $/mmbtu		SPARK SPREADS $/MWH		
	Cal-2025			Cal-2025		Cal-2025		
9/1/2022	Peak	Off-Peak	Flat	Basis	$/mmbtu	Peak	Off-Peak	Flat
New England	92.0	73.4	82.7	4.54	9.57	25.0	6.4	15.7
Greater New York	89.8	67.8	78.8	0.62	5.65	50.2	28.2	39.2
Penn/Jersey/Maryland	69.1	47.9	58.5	0.23	5.26	32.3	11.1	21.7
Midwest	64.3	43.0	53.7	(0.23)	4.80	30.7	9.4	20.0
Illinois	64.7	43.9	54.3	0.11	5.14	28.7	8.0	18.3
Southeast/Gulf Coast	59.9	45.8	52.9	**5.03**	**5.03**	24.7	10.6	17.6
Texas	61.3	44.1	52.7	(0.11)	4.92	26.9	9.6	18.2
Desert Southwest *	68.2	65.2	66.9	(0.69)	4.34	37.8	34.8	36.5
So Cal *	55.6	64.8	59.6	0.41	5.44	17.5	26.7	21.4
North CA *	57.7	67.6	61.9	(0.10)	4.93	23.2	33.1	27.4
Pac Northwest *	77.3	53.9	67.2	(0.08)	4.95	42.7	19.2	32.6
US Average	**65.9**	**50.2**	**58.1**				**15.6**	**22.1**

Source: Guggenheim Securities LLC, Platts Curves

2025	POWER PRICES $/MWH			GAS PRICES $/mmbtu		SPARK SPREADS $/MWH		
	Cal-2025			Cal-2025		Cal-2025		
Change vs. 6/30/2020	Peak	Off-Peak	Flat	Basis	$/mmbtu	Peak	Off-Peak	Flat
New England	99%	92%	96%	146%	118%	61%	(14%)	37%
Greater New York	90%	88%	89%	10%	82%	96%	97%	96%
Penn/Jersey/Maryland	113%	89%	102%	350%	102%	126%	56%	102%
Midwest	116%	88%	104%	124%	96%	142%	64%	118%
Illinois	113%	89%	103%	(449%)	104%	125%	43%	100%
Southeast/Gulf Coast	100%	90%	96%	**97%**	**97%**	105%	70%	93%
Texas	104%	128%	113%	33%	100%	109%	357%	144%
Desert Southwest *	100%	180%	127%	46%	109%	93%	299%	145%
So Cal *	58%	105%	77%	475%	108%	4%	102%	40%
North CA *	67%	113%	86%	(61%)	116%	25%	110%	58%
Pac Northwest *	79%	96%	84%	(72%)	120%	56%	63%	57%
US Average	**101%**	**105%**	**102%**			**220%**	**456%**	**262%**

Source: Guggenheim Securities LLC, Platts Curves

Bilateral coal markets flash steep cost inflation, but market remains opaque.

Some color on coal commodity prices: Coal price surveys are mixed – PRB coal remains cheap (excluding transport); CAPP coal surveys continue to show inflation (potentially due to on-the-margin international sales). Our view is that coal remains a bilateral market domestically (i.e., no price transparency), and we don't anticipate for marginal coal power to be burning ~$8/mmbtu coal (i.e., $80/MWh coal cost + other variable non-fuel costs would imply coal plants are bleeding money).

Figure 11 Coal Price Survey History

Raw Coal Price (ex-Transport)				
Date	PRB (8800) $/ton	CAPP $/ton	PRB (8800) $/mbtu	CAPP $/mbtu
9/9/2022	16	193	0.92	7.72
4/8/2022	16	115	0.91	4.59
12/31/2021	30	95	1.70	3.81
1/8/2020	12	60	0.67	2.41

Source: Guggenheim Securities, LLC, Platts Survey

CCGT costs could remain competitive for geographies with gas access, while on-shore wind and solar are constrained by geographies and dispatchability even at the median in terms of economics, but many states and utilities have shown preference for the technology given the modular design, commoditized equipment, deployment and service contracts (i.e., low-risk option). That said, the emerging trend that has been highlighted through the industry has been the increased preference for "renewables +

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storage" in recent solicitations. **In our solar and wind plus storage scenarios, we see a ~$14-19/MWh incremental cost at the median scenario**, **which may be competitive with CCGT generation on the margin (i.e., whee there are no resiliency issues).**

Intermittent attributes of wind/solar present a comparability challenge.

Nuance of intermittency could distort near-term economic arguments; recent electric supply stress makes case for resiliency through CT/CCGT, but policy seeks solutions – we see a case for increased energy storage, hydrogen, and even SMR applications. There is an industry argument being made for reliability and resilience of conventional generation for sustaining peak loads on a multi-day basis and tail-risk scenarios such as widespread outages (i.e., the capacity credit issue highlighted earlier in this report). Several of the resiliency cases have played out nationally since our 2020 analysis, including extreme winter weather, prolonged heat waves, and other system-wide stress scenarios. **These scenarios and the resiliency argument defend our belief that the transition towards 100% national RPS (or a level in the 90%s) will be gradual and the 75% carbon reduction contemplated by the IRA will extend tax credits well beyond the 10-year minimum timeframe (i.e., reductions could take 20 years instead of 10), in our view.** NREL, among other research agencies, has highlighted that an 80% RPS by 2050 is feasible under assumptions of increased grid storage, new transmission, more responsive loads, and changes in power system operations supplemented by dispatchable resources (RE Futures). Under 2050 target RPS date assumptions, regulated dispatchable resources will still have a ~30-year life without becoming stranded assets.

ITC/PTC inclusion results in $22-27/MWh LCOE reduction; energy storage adds $14-19/MWh.

Expanding renewables scenarios – we analyze headline LCOE impacts of tax credits, stress test cost inflation, and energy storage; adding SMR as a baseload alternative. In the 2022 update, we are explicitly breaking out several important scenarios in solar and wind LCOE, including repowering for wind after 10 years, non-tax credit scenarios, energy storage combinations, and capex inflation sensitivity. We note the impacts of ITC/PTCs as the major driver for wind/solar competitive economics ($22-27/MWh reduction in LCOE), with a further benefit of wind repowering after 10 years, creating a strong case for deployment. Energy storage adders continue to create a debatable case for capacity firming vs. dispatchable resource, but that is currently the preferred way to firm up decarbonization (cost curves have been slow to come down due to Li and associated metals supply chains as well as demand pull from less price-sensitive end uses such as EVs).

Figure 12 2022 LCOE Analysis Sensitivities for Solar and Wind

2022 Base scenario sensitivities	
	2022 Guggenheim LCOE / impact ($/MWh)
Wind	
Wind (on-shore) (unsubsidized)	$60
PTC impact under IRA	-$27
Benefits of repowering (10 yr)	-$8
Impact of 20% capital cost inflation	$10
Energy Storage Adder	$14
Solar	
Solar PV (unsibsidized)	$63
ITC impact under IRA	-$22
Impact of 20% capital cost inflation	$7
Energy Storage Adder	$19

Source: Guggenheim Securities LLC estimates

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We are also adding an early-stage approximation for the SMR technology with an LCOE range outcome of $61-102/MWh). While the technology is not commercially applied domestically, the NRC has authorized its use and there are longer-term opportunities for deployment, i.e., while most technologies are based on 12-24 month deliverability, SMR would enter the fray in the 2029-30+ timeframe (more assumptions later in this report, more thoughts on our SMR Launch HERE).

INFLATION REDUCTION ACT (IRA) SUMMARY – FEDERAL POLICY BRINGS LOTS OF NUANCE ON ACHIEVABLE

IRA Summary: ITC/PTC rules, credit transferability, longevity could extend beyond 10-year period.

The IRA contains clean energy tax provisions introduced by Senator Manchin and Majority Leader Schumer, which set out to reduce greenhouse gas emissions in line with the goal of reducing greenhouse gas emissions 50-52% below 2005 levels by 2030, achieving a carbon pollution-free electricity sector by 2035, and achieving net-zero emissions by no later than 2050. Specific to renewable electricity generation, the IRA provides the potential for zero-emission projects to earn 100% ITC/PTCs through the later of 2032 or when greenhouse gas emissions for U.S. electric generation are reduced by 75% vs. 2022 levels. For example, this will allow new projects ***or repowerings*** to qualify for 10-year PTCs at the full inflation-adjusted rate through ***at least 2042***. Energy storage projects (including thermal) can now qualify for the ITC independent of connected generation facilities, as can several technologies which previously were not ITC-eligible. **Beginning in 2023, tax credits will now be able to be transferred to another party, reducing previous dependence on tax equity.** Tax-exempt entities are now eligible for "direct pay," allowing them to receive the tax credits despite the amounts naturally exceeding the amounts of federal taxes otherwise owing. Taxpaying entities will also be eligible for direct pay in the following, limited, specific circumstances: Section 45Q (credit for carbon capture and sequestration), Section 45V (clean hydrogen production credit), and Section 45X (advanced manufacturing production credit) for certain initial time periods.

Once Treasury guidance relating to the IRA's clean energy tax credits is issued (no timeline provided), projects beginning construction 60 days or more thereafter will be required to meet prevailing wage and apprenticeship requirements to qualify for the full ITC/PTC rate. For facilities placed in service beginning in 2025, to claim the full ITC/PTC rate, prevailing wage and apprenticeship requirements must be met. This means that laborers, mechanics, contractors, and subcontractors must be paid wages at least at prevailing rates (to be determined by the Secretary of Labor) during the construction, alteration, and repair of the facility and for either 5 years (ITC) or 10 years (PTC) thereafter. For projects beginning construction on or before December 31, 2022, 10% of the **total labor hours** must be performed by qualified apprentices, increasing to 12.5% in 2023 and finally 15% from January 1, 2024 onwards.

Additionally, projects that meet domestic content (e.g., steel, iron, manufactured products, etc.) requirements will become eligible for 10% ITC/PTC adders, meaning that an eligible project that meets prevailing wage and domestic content requirements would qualify for a 40% ITC, for example.

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Figure 13 Apprenticeship and Domestic Content Requirements

Apprenticeship Requirements	2022	2023	2024	2025	2026	2027	2028+
Total labor hours applicable to a project	10.0%	12.5%	15.0%	15%	15%	15%	15%

Domestic Content % for Construction Begi	2022	2023	2024	2025	2026	2027	2028+
All projects other than offshore wind		40%	40%	45%	50%	55%	55%
Offshore wind		20%	20%	27.5%	35%	45%	45%

Note: Domestic content refers to the % of a project attributable to components which are mined, produced, or manufactured in the United States.

Source: H.R. 5376 and Guggenheim Securities, LLC analysis

Finally, an incremental 10% PTC and up to 20% ITC adder will be available for qualifying projects in both low-income communities and "energy communities," including communities in which, after December 31, 1999, a coal mine or **after December 31, 2009, a coal-fired electric generating unit has been closed**.

SECTION 48: INVESTMENT TAX CREDIT (ITC)

Prevailing wage and apprenticeship attributes matter for full ITC credit.

The ITC was extended for projects that begin construction through 2024, with a base credit of 6% or a bonus credit of 30% of capital invested in qualified energy property being provided. To claim the higher 30% ITC rate, prevailing wage and apprenticeship requirements must be met (as described above). In addition to solar, wind, and combined heat and power (CHP) technologies, the credit is now available to energy storage projects (including thermal storage) of 5 kWh or greater, independent of associated generation facilities, as well as several previously unsupported technologies including linear generators (more HERE), microgrid controllers (more HERE), dynamic glass (more HERE), and biogas property (more HERE). Geothermal projects which begin construction through 2034 are eligible to claim the ITC as well.

Beginning in 2025, Section 48E, the Clean Electricity Investment Credit replaces the current ITC and is technology-neutral, provided that the project being placed in service generates greenhouse gas emissions of not more than zero.

Figure 14 Current ITC (assuming 75% GHG reduction by 2032) vs. pre-IRA ITC

Section 48 Investment Tax Credit	2022	2023	→	2032	2033	2034	2035	2036
Pre-IRA Investment Tax Credit	26%	22%		10%	10%	10%	10%	10%
Investment Tax Credit under the IRA								
Phaseout (assuming 75% GHG reduction by 2032)					*100%*	*75%*	*50%*	–
Base ITC	6%	6%		6%	6%	4.5%	3%	–
+ Adder if Labor Requirements met	24%	24%		24%	24%	18%	12%	–
= Base ITC if Labor Requirements met	30%	30%		30%	30%	23%	15%	–
+ Bonus if Domestic Content* satisfied		10%		10%	10%	7.5%	5%	–
+ Bonus if "Energy Community" site		10%		10%	10%	7.5%	5%	–
= Maximum Commercial ITC (>5 MWac)	**30%**	**50%**		**50%**	**50%**	**38%**	**25%**	**–**

*Note: Domestic content is defined beginning in 2023 as 100% American iron/steel and at least 40% American solar modules, inverters and electrical gear.

Source: H.R. 5376 and Guggenheim Securities, LLC analysis

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SECTION 45: PRODUCTION TAX CREDIT (PTC)

The PTC was extended through 2024 for existing qualifying technologies, reinstated for solar energy through 2024 (the ITC can still be claimed in lieu), and new PTCs were created through 2032 for hydrogen (section 45V) and existing nuclear energy (section 45U). Beginning in 2025, a new technology-neutral credit, "Clean Energy Production Tax Credit" (Section 45Y) will be available. Projects placed in service on or after January 1, 2022 may now qualify for the full credit amount, rather than a reduced phaseout amount; however, projects placed in service prior to January 1, 2022 will retain their historical phaseout-adjusted PTC amounts.

PTCs provide value for wind and big boost for hydrogen.

The base PTC of 0.3¢/kWh and full 100% PTC of 1.5¢/kWh (5x the base PTC) are subject to an IRS-determined Inflation Adjustment Factor which in 2022 stood at 1.7593x, resulting in a PTC of 2.6¢/kWh (the credit is rounded to the nearest multiple of 0.1 cent, or 0.05 cents in the case of the 0.3¢/kWh base PTC). **For hydrogen projects, the base PTC is set at $0.60/kg and bonus PTC of $3.00/kg, both indexed to inflation**, multiplied by the volume (in kilograms) of clean hydrogen produced by the taxpayer at a qualified facility during the taxable year. Any facility that meets the description of qualifying property under the clean electricity production credit shall be treated as five-year property under the General Depreciation System for purposes of Section 168 of the IRS Code.

Beginning in 2025, Section 45Y, the Clean Energy Production Tax Credit, replaces the current PTC and is technology-neutral, provided that the project being placed in service generates greenhouse gas emissions of not more than zero.

Figure 15 PTC under IRA (phaseout timing assumes 75% GHG reduction by 2032)

Section 45 Production Tax Credit	2022	2023	2032	2033	2034	2035	2036
Inflation Adjustment Factor (IRS-provided)	1.7593x	1.7945x	2.1446x	2.1875x	2.2312x	2.2758x	2.3214x
YoY change	4.2%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
PTC under the IRA (¢/kWh)							
Phaseout (assuming 75% GHG reduction by 2032)				*100%*	*75%*	*50%*	*–*
Base PTC	0.5	0.5	0.6	0.7	0.5	0.4	–
+ Adder if Labor Requirements met	2.1	2.2	2.6	2.6	2.0	1.4	–
= Base PTC if Labor Requirements met	2.6	2.7	3.2	3.3	2.6	1.7	–
+ Bonus if Domestic Content* satisfied		0.3	0.3	0.3	0.2	0.2	–
+ Bonus if "Energy Community" site		0.3	0.3	0.3	0.2	0.2	–
= Maximum PTC (ex-offshore wind)**		3.3	3.8	3.9	3.0	2.0	–

*Note: Domestic content is defined beginning in 2023 as 100% American iron/steel and at least 40% American solar modules, inverters and electrical gear.
**Note: Offshore wind qualifies for an additional 10% bonus.

Source: H.R. 5376 and Guggenheim Securities, LLC analysis

SECTION 6418: TRANSFER OF CREDITS

Tax credit transferability is a major boost for regulated utilities; BOT becomes more competitive, but the overall pie is also growing.

The IRA allows for some or all of the ITC, PTC, Section 45Y credit, and Section 48E credit to be transferred to another taxpayer under the newly created Section 6418. The election to transfer the credit must be made no later than the applicable filing date of the entity's tax return for that tax year, and once made is irrevocable. The transferee must pay for the credit in case, and the buyer may not deduct the amount paid for the credit or subsequently transfer it to another party. The cash payment received by the original generator of the credit will not be included in gross income, as it is intended to replace what otherwise would have been a reduction to the taxpayer's federal tax obligation.

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ENERGY STORAGE COST IMPROVEMENTS REMAIN SLOW; ITC CREATES SOME OPPORTUNITY – IN OUR VIEW, COMPETITIVE WITHIN THE DECADE

Energy storage is becoming a major factor in renewables development; we see costs at $14-19/MWh.

Storage – one of the puzzle pieces to fix renewables intermittency is progressing slower than anticipated down the cost curve. Our resulting scenarios show that storage is becoming increasingly competitive with dispatchable resources, as incremental capital costs are generally offset with lower O&M costs as compared to fossil resources (i.e., no moving pieces with energy storage). **We maintain a fairly conservative view of energy storage costs, as progress down the cost curve has been slow.** Most notably, energy storage costs remain elevated due to supply chain issues for lithium and associated metals, including headwinds from problem countries and labor issues. The majority of the marginal cost benefits have been chipped away by demand from the EV sector with less price elasticity (i.e., driving prices back up).

The solar/wind + storage "median cost" (base) scenario results in a $14-19/MWh impact on LCOE for wind and solar applications (i.e., energy storage adder).

From an absolute standpoint – the wind + storage low scenario results in a $47/MWh LCOE, while solar + storage results in a $60/MWh LCOE, both competitive with a CCGTs median scenario of ~$59/MWh. In many practical applications, renewables projects can reach efficient scale in the 100 MW range, while CCGTs require a more sizeable investment (manufacturer packages in the ~400 MW capacity range) and carry a commodity risk with exposure to fuel prices. We also point out the $14-19/MWh "low-cost" scenario energy storage adder is comparable to prior expectations from NEE, which previously saw the ES adder being $8-14/MWh, especially as potential cost curve declines have not materialized yet.

We assume a 4-hour battery for our analysis.

How much storage do renewables need to "firm up"? 4-8 hours remains the bogey, but not a panacea. It is difficult to pinpoint the duration of storage necessary to transition intermittent renewables into "near-firm" resources for each specific business case, but **we've found that many proposals are focused on a 4- to 8-hour duration; confirmed with the working assumptions for research institutions such as NREL and developers such as NEE that assume a base storage duration of 4 hours, but we acknowledge this will not resolve the capacity credit issue.** Our storage analysis assumes a 4-hour battery system coupled with solar and wind capacity, implemented as an increased capital cost (aligned with EIA assumptions).

While for the purposes of this report we take a rather static view of energy storage, we admit that the landscape is changing rapidly (before more recent challenges, storage saw 3–4 year halving of costs) on both raw material costs and developer efficiency, which is due to make energy storage paired projects more competitive as time goes on, relative to the limited cost improvements that have been seen with conventional fossil resources. Additionally, alternative chemistry developments continue to target the utility-scale space, although few can claim economic parity yet.

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NUCLEAR, COAL - SCREENS EXPENSIVE; DISTRIBUTED GENERATION AND OFF-SHORE WIND COULD FIND USE CASES AND POLICY SUPPORT

Nuclear, off-shore wind remain expensive, but see policy support.

What about the rest of the generation resources field? Distributed resources, nuclear, coal, and off-shore wind screen expensive, but policy pushes hard on off-shore wind and existing nuclear. The distributed technologies such as rooftop solar and combined heat and power (CHP) can make sense despite their relatively high levelized cost, as those resources would be located directly at the point of consumption (i.e., benefit vs. fully costed retail electric rate). Off-shore wind costs have come down, although not as dramatically as other emerging technologies, but overall **the current proposition is not economic but rather policy-oriented.** We see economic costs (ex-subsidies) around $76-165/MWh, vs. eastern US state solicitations coming in below $100, and as low as ~$60/MWh for the winning bid in the Mayflower project, which we suspect was bid below economics for strategic purposes (gain market share, platform buildout, future scale, learning curve, etc.). Lastly, looking at the conventional technologies with the least economic prospects – nuclear, coal, coal with CCS (carbon capture) – most technologies are unlikely to screen economically for any future projects with median costs north of $100/MWh and a risk profile that involves fuel costs, project deliverability, and environmental risks.

KEY INPUTS

Key cost of capital inputs: 10% equity return, 40/60 equity/debt capitalization.

Key common inputs are ROE, capital structure, and tax incentives extension; project specifics are dominated by capacity factor and capital cost. The underlying project capital structures in our analysis are ~10% equity IRR, 6% cost of debt, 40% equity/60% debt structure and tax incentive extension under the IRA (we see this as the median consensus return expectation, conservative project level financing and the tax credit extension effectively being perpetual). The biggest variables that change from project to project are capacity factor, total capital costs ($/kW), variable O&M ($/MWh), and fixed O&M ($/kW-year) as shown in Figure 16. Capacity factors are based on a range of sources for existing fossil utilization, irradiation levels for solar, wind analysis for wind speeds, etc. **Total capital costs are sensitized around adjusted 2022 EIA published overnight capital costs (2021 dollars), in most cases directly aligned.** Variable and fixed O&M is taken from the range of anticipated costs from EIA, as well as actual reported costs from S&P Global SNL, which is also sensitized using actual ranges. **Outside of commodity costs, impact on fossil generation, the changes to LCOE are driven by capital costs, fixed and variable O&M as shown below (delta vs. 2020 Guggenheim assumptions).**

Figure 16 Guggenheim assumptions comparison

Guggenheim Core Assumptions Changes						
Assumptions	Capital Costs ($/kw)	2023 Fuel cost ($/MMBtu)	Variable O&M ($/MWh)	Fixed O&M ($/kW-yr)	Fixed O&M ($/MWh levelized)	Capacity Factor
CCGT	108	3.83	0.10	2.38	0.50	-5%
Gas peaker	75	4.05	0.23	0.36	0.14	0%
Coal	200	2.98	0.49	(0.43)	(0.09)	0%
Coal Existing	-	2.95	-	-	-	0%
Coal CCS	644	2.98	4.39	(7.66)	(1.25)	0%
Nuke	378	0.46	0.12	6.22	0.79	0%
Geothermal	396	-	0.05	128.74	16.33	0%
Wind (off-shore)	477	-	-	5.62	1.43	0%
Wind (on-shore)	418	-	-	1.35	1.51	-5%
Wind (on-shore + ES)	(79)	-	(3.33)	19.05	7.28	-5%
Solar PV	27	-	-	5.97	3.49	-5%
Solar PV + ES*	(1,001)	-	(3.33)	23.67	11.57	-5%
CHP	(3,975)	-	2.50	2.50	0.36	0%
Battery	(67)	-	-	1.26	0.86	0%
Rooftop solar	-	-	-	-	-	0%

Source: Guggenheim Securities LLC, Platts Curves
* - includes impact of IRA / ITC eligibility

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COMMODITIES INFLATION IS MAKING A RELATIVE CASE FOR A STRONGER RENEWABLES DEPLOYMENT TRAJECTORY

Commodities inflation shows steep inflation from our prior analysis; 100%+ increase vs. our prior analysis.

Highlighting a prior point – inflation and volatility in the commodity markets make perhaps the most compelling argument for solar/wind deployment. Our prior LCOE report used midyear commodity marks from 6/30/2020 that were emblematic of what now seems like historic lows for power and gas; **we are now updating to 8/30/2022 commodity curves.** While 2021 commodity markets remained depressed due to the COVID-19 pandemic, supply/demand-driven suppression, geopolitical conflicts of 2022, macroeconomic resurgence, and a recent history of underinvestment in production, the supply/demand equation has shifted drastically. On a regional basis, power and gas prices have become extremely dispersed. Gas prices for 2024 ranged from $5 to $6/mmbtu, while New England is reaching above $12/mmbtu, with power being similarly spread out, ranging from $55/MWh to $99/MWh. ***See figures below for additional details on current market prices and relative change since our prior LCOE analysis curves (6/30/2022).***

Figure 17 Power and Gas Commodity Curves (Absolute)

2023	POWER PRICES $/MWH			GAS PRICES $/mmbtu		SPARK SPREADS $/MWH		
	Cal-2023			Cal-2023		Cal-2023		
9/1/2022	Peak	Off-Peak	Flat	Basis	$/mmbtu	Peak	Off-Peak	Flat
New England	138.3	116.0	127.1	8.49	15.18	32.0	9.7	20.8
Greater New York	116.1	89.0	102.5	1.78	8.47	56.8	29.7	43.3
Penn/Jersey/Maryland	97.9	71.9	84.9	1.37	8.06	41.5	15.5	28.5
Midwest	93.3	68.1	80.7	(0.25)	6.44	48.3	23.0	35.6
Illinois	95.1	69.1	82.1	0.02	6.71	48.1	22.1	35.1
Southeast/Gulf Coast	83.5	69.0	76.3	**6.69**	**6.69**	36.7	22.1	29.4
Texas	94.4	60.4	77.4	(0.11)	6.59	48.3	14.3	31.3
Desert Southwest *	102.7	77.6	91.9	(1.77)	4.93	68.2	43.1	57.4
So Cal *	87.4	77.9	83.3	0.47	7.16	37.2	27.7	33.1
North CA *	90.5	81.0	86.4	(0.08)	6.61	44.2	34.7	40.2
Pac Northwest *	116.3	65.4	94.4	(0.04)	6.66	69.7	18.8	47.8
US Average	**96.2**	**70.9**	**84.0**			**46.7**	**22.4**	**35.0**

2024	POWER PRICES $/MWH			GAS PRICES $/mmbtu		SPARK SPREADS $/MWH		
	Cal-2024			Cal-2024		Cal-2024		
9/1/2022	Peak	Off-Peak	Flat	Basis	$/mmbtu	Peak	Off-Peak	Flat
New England	106.8	90.4	98.6	7.29	12.65	18.2	1.9	10.0
Greater New York	101.2	76.6	88.9	0.81	6.17	58.1	33.5	45.8
Penn/Jersey/Maryland	73.9	50.9	62.4	0.59	5.95	32.2	9.3	20.8
Midwest	69.5	46.8	58.2	(0.25)	5.11	33.7	11.0	22.4
Illinois	69.9	47.6	58.7	0.05	5.41	32.1	9.7	20.9
Southeast/Gulf Coast	63.0	47.7	55.3	**5.36**	**5.36**	25.4	10.2	17.8
Texas	69.6	47.2	58.4	(0.16)	5.20	33.2	10.8	22.0
Desert Southwest *	79.6	64.5	73.1	(0.88)	4.48	48.3	33.1	41.8
So Cal *	66.2	64.2	65.3	0.36	5.72	26.1	24.2	25.3
North CA *	69.0	67.5	68.3	(0.13)	5.22	32.4	30.9	31.8
Pac Northwest *	88.8	53.4	73.6	(0.07)	5.29	51.8	16.4	36.6
US Average	**72.9**	**52.9**	**63.2**			**33.6**	**15.7**	**24.9**

2025	POWER PRICES $/MWH			GAS PRICES $/mmbtu		SPARK SPREADS $/MWH		
	Cal-2025			Cal-2025		Cal-2025		
9/1/2022	Peak	Off-Peak	Flat	Basis	$/mmbtu	Peak	Off-Peak	Flat
New England	92.0	73.4	82.7	4.54	9.57	25.0	6.4	15.7
Greater New York	89.8	67.8	78.8	0.62	5.65	50.2	28.2	39.2
Penn/Jersey/Maryland	69.1	47.9	58.5	0.23	5.26	32.3	11.1	21.7
Midwest	64.3	43.0	53.7	(0.23)	4.80	30.7	9.4	20.0
Illinois	64.7	43.9	54.3	0.11	5.14	28.7	8.0	18.3
Southeast/Gulf Coast	59.9	45.8	52.9	**5.03**	**5.03**	24.7	10.6	17.6
Texas	61.3	44.1	52.7	(0.11)	4.92	26.9	9.6	18.2
Desert Southwest *	68.2	65.2	66.9	(0.69)	4.34	37.8	34.8	36.5
So Cal *	55.6	64.8	59.6	0.41	5.44	17.5	26.7	21.4
North CA *	57.7	67.6	61.9	(0.10)	4.93	23.2	33.1	27.4
Pac Northwest *	77.3	53.9	67.2	(0.08)	4.95	42.7	19.2	32.6
US Average	**65.9**	**50.2**	**58.1**				**15.6**	**22.1**

Source: Guggenheim Securities LLC, Platts Curves

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Figure 18 Power and Gas Changes 2020-2022 (percentage change)

2023	POWER PRICES $/MWH			GAS PRICES $/mmbtu		SPARK SPREADS $/MWH		
	Cal-2023			Cal-2023		Cal-2023		
Change vs. 6/30/2020	Peak	Off-Peak	Flat	Basis	$/mmbtu	Peak	Off-Peak	Flat
New England	224%	229%	226%	366%	253%	153%	85%	133%
Greater New York	146%	145%	145%	162%	169%	125%	108%	119%
Penn/Jersey/Maryland	210%	194%	203%	1404%	214%	204%	139%	183%
Midwest	208%	192%	201%	72%	177%	245%	227%	239%
Illinois	229%	213%	222%	(135%)	178%	300%	328%	309%
Southeast/Gulf Coast	180%	189%	184%	**171%**	**171%**	192%	236%	207%
Texas	176%	206%	187%	12%	177%	175%	366%	204%
Desert Southwest *	182%	206%	190%	229%	155%	199%	264%	217%
So Cal *	142%	141%	142%	736%	183%	103%	89%	98%
North CA *	154%	148%	152%	(63%)	194%	122%	106%	116%
Pac Northwest *	171%	143%	162%	(87%)	203%	153%	63%	131%
US Average	**187%**	**188%**	**187%**			**174%**	**212%**	**185%**

2024	POWER PRICES $/MWH			GAS PRICES $/mmbtu		SPARK SPREADS $/MWH		
	Cal-2024			Cal-2024		Cal-2024		
Change vs. 6/30/2020	Peak	Off-Peak	Flat	Basis	$/mmbtu	Peak	Off-Peak	Flat
New England	139%	145%	142%	271%	183%	37%	(67%)	6%
Greater New York	109%	105%	107%	21%	94%	122%	122%	122%
Penn/Jersey/Maryland	133%	106%	121%	1108%	132%	133%	37%	101%
Midwest	132%	104%	120%	92%	114%	154%	76%	129%
Illinois	135%	110%	124%	(235%)	118%	158%	81%	135%
Southeast/Gulf Coast	112%	98%	106%	**113%**	**113%**	110%	58%	92%
Texas	114%	147%	126%	69%	115%	114%	392%	148%
Desert Southwest *	132%	164%	143%	86%	119%	140%	227%	164%
So Cal *	86%	100%	91%	290%	120%	50%	74%	59%
North CA *	98%	108%	102%	(44%)	130%	71%	87%	77%
Pac Northwest *	107%	97%	103%	(76%)	139%	89%	40%	77%
US Average	**121%**	**116%**	**118%**			**111%**	**135%**	**118%**

2025	POWER PRICES $/MWH			GAS PRICES $/mmbtu		SPARK SPREADS $/MWH		
	Cal-2025			Cal-2025		Cal-2025		
Change vs. 6/30/2020	Peak	Off-Peak	Flat	Basis	$/mmbtu	Peak	Off-Peak	Flat
New England	99%	92%	96%	146%	118%	61%	(14%)	37%
Greater New York	90%	88%	89%	10%	82%	96%	97%	96%
Penn/Jersey/Maryland	113%	89%	102%	350%	102%	126%	56%	102%
Midwest	116%	88%	104%	124%	96%	142%	64%	118%
Illinois	113%	89%	103%	(449%)	104%	125%	43%	100%
Southeast/Gulf Coast	100%	90%	96%	**97%**	**97%**	105%	70%	93%
Texas	104%	128%	113%	33%	100%	109%	357%	144%
Desert Southwest *	100%	180%	127%	46%	109%	93%	299%	145%
So Cal *	58%	105%	77%	475%	108%	4%	102%	40%
North CA *	67%	113%	86%	(61%)	116%	25%	110%	58%
Pac Northwest *	79%	96%	84%	(72%)	120%	56%	63%	57%
US Average	**101%**	**105%**	**102%**			**220%**	**456%**	**262%**

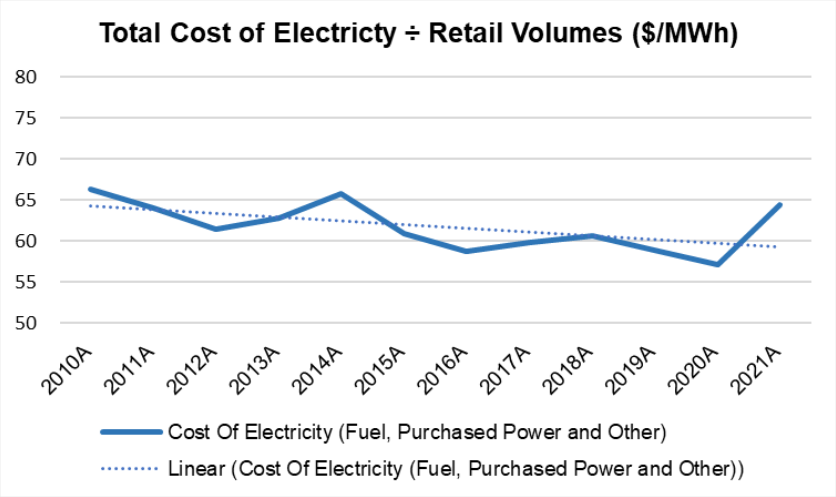
Source: Guggenheim Securities LLC, Platts Curves

We anticipate further inflation in fuel, purchase power, and generation costs for the sector; continuation from 2021 winter costs.

Fuel and purchase power for our Utilities coverage shows potential for significant escalation as commodity costs start getting layered into customer bills. Looking at the sweep of companies under our coverage, we note that the early stages of commodity cost impacts on fuel and purchased power were felt in 2021 due to extreme winter weather events, which broke the generally declining trend in cost of generation. The “Cost of Electricity” is the combined FERC reported fuel, purchased power and generation cost line items, which seeks to improve comparability between different integrated/nonintegrated utilities, but the composition for each individual OpCo can vary greatly depending on generation ownership, generation type, purchase power/PPA strategy, and other non-fuel generation costs. This is not a direct comparable to an LCOE, as it does not fully include items such as cost of capital (interest, returns) and asset depreciation, which may only be partially reflected in the total cost of electricity (i.e., no data on composition of purchased power). The discrepancy in reporting is most evident with deregulated market utilities with what we see as higher levels of pure market purchased power, with AEP, FE, and PPL in PJM states scoring in the $30s/MWh while integrated SPP and MISO states score in the $60-90/MWh range.

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Figure 19 Average Cost of Electricity per Retail Sale



**Average excludes certain outlier opcos (ED, EIX, PCG, SRE)*
Source: Guggenheim Securities LLC, FERC Form 1, S&P Cap IQ Pro

Overall, the trend over the last decade-plus has been downward, but 2021 extreme winter weather and gas costs show the beginning of an inflationary trend. **What this signifies in the grand scheme of things is an increasing need for deflationary investments for utilities and energy suppliers; as we have outlined in this report, given solar/wind fuel independence, renewables can provide a natural energy supply cost hedge.** ***See figure on the next page for a more granular view.***

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Figure 20 Utility OpCo Total Cost of Electricity per MWh

Total Cost of Electricty ÷ Retail Volumes ($/MWh)		2010A	2011A	2012A	2013A	2014A	2015A	2016A	2017A	2018A	2019A	2020A	2021A
Parent	**Regulated Electric Utility**												
AEE	Union Electric Company	$44	$50	$43	$50	$50	$54	$57	$58	$54	$51	$48	$54
AEE	Ameren Illinois Company	$36	$35	$31	$24	$25	$28	$27	$27	$25	$24	$25	$115
AEP	Kingsport Power Company	$59	$64	$65	$68	$70	$68	$67	$69	$70	$69	$79	$81
AEP	Public Service Company of Oklahoma	$52	$54	$47	$53	$59	$56	$49	$60	$64	$57	$49	$57
AEP	Southwestern Electric Power Company	$61	$63	$59	$68	$72	$65	$67	$67	$67	$64	$65	$109
AEP	Ohio Power Company	$80	$83	$98	$156	$142	$44	$37	$34	$38	$37	$38	$39
AEP	American Electric Power Company, Inc.	$78	$81	$82	$96	$107	$66	$63	$63	$66	$64	$60	$71
AEP	Kentucky Power Company	$76	$82	$68	$77	$92	$77	$74	$79	$72	$71	$67	$90
AEP	Appalachian Power Company	$81	$80	$75	$82	$66	$61	$61	$62	$66	$64	$61	$69
AEP	Wheeling Power Company	$39	$42	$46	$46	$41	$52	$54	$52	$53	$49	$45	$49
AEP	Indiana Michigan Power Company	$89	$87	$88	$93	$87	$83	$78	$78	$81	$81	$74	$80
ALE	Minnesota Power Enterprises, Inc.	$65	$59	$60	$64	$67	$71	$74	$74	$74	$70	$76	$92
ALE	Superior Water, Light and Power Company	$69	$60	$61	$64	$65	$68	$69	$73	$70	$66	$68	$85
LNT	Interstate Power and Light Company	$67	$69	$66	$73	$72	$71	$75	$74	$76	$78	$70	$67
LNT	Wisconsin Power and Light Company	$86	$81	$79	$73	$73	$75	$73	$72	$68	$66	$64	$71
AVA	Alaska Electric Light and Power Company	$55	$60	$55	$59	$52	$55	$54	$56	$60	$70	$61	$60
CNP	Southern Indiana Gas and Electric Company	$67	$70	$64	$67	$66	$63	$63	$69	$72	$78	$73	$80
CNP	Vectren Corporation	$67	$70	$64	$67	$66	$63	$63	$69	$72	$78	$73	$80
CMS	Consumers Energy Company	$76	$79	$79	$84	$88	$81	$79	$80	$82	$82	$81	$95
ED	Rockland Electric Company	$113	$101	$94	$90	$90	$95	$97	$93	$95	$100	$101	$109
ED	Orange and Rockland Utilities, Inc.	$93	$84	$71	$81	$92	$83	$73	$79	$79	$75	$75	$80
ED	Consolidated Edison Company of New York, Inc.	$103	$99	$96	$95	$100	$89	$84	$80	$81	$79	$82	$92
D	Virginia Electric and Power Company	$58	$56	$55	$52	$59	$53	$49	$41	$48	$62	$46	$44
D	Dominion Energy South Carolina, Inc.	$64	$66	$66	$63	$65	$58	$55	$57	$59	$54	$50	$63
D	SCANA Corporation	$71	$71	$74	$71	$72	$65	$61	$62	$65	$59	$56	$67
DTE	DTE Electric Company	$68	$72	$74	$72	$71	$69	$68	$68	$69	$67	$71	$75
DUK	Duke Energy Ohio, Inc.	$71	$65	$68	$64	$46	$29	$30	$30	$23	$26	$23	$24
DUK	Duke Energy Carolinas, LLC	$48	$50	$50	$50	$52	$50	$48	$48	$48	$45	$44	$42
DUK	Duke Energy Progress, LLC	$70	$67	$79	$76	$80	$80	$75	$69	$75	$76	$70	$72
DUK	Duke Energy Kentucky, Inc.	$62	$64	$62	$60	$69	$63	$60	$59	$62	$60	$58	$66
DUK	Duke Energy Indiana, LLC	$54	$58	$62	$63	$68	$59	$57	$61	$61	$61	$57	$64
DUK	Duke Energy Florida, LLC	$96	$89	$87	$83	$82	$73	$72	$72	$77	$72	$70	$81
EIX	Southern California Edison Company	$78	$90	$87	$97	$115	$86	$86	$89	$123	$104	$127	$133
ETR	Entergy New Orleans, LLC	$85	$82	$78	$85	$90	$75	$71	$80	$76	$72	$73	$90
ETR	Entergy Arkansas, LLC	$64	$65	$71	$73	$73	$80	$64	$68	$70	$66	$58	$62
ETR	Entergy Louisiana, LLC	$64	$61	$49	$60	$64	$53	$48	$52	$51	$48	$43	$58
ETR	Entergy Mississippi, LLC	$64	$68	$60	$74	$81	$71	$48	$58	$65	$63	$58	$61
ETR	Entergy Texas, Inc.	$80	$80	$73	$78	$79	$70	$61	$59	$55	$54	$53	$61
EVRG	Evergy Missouri West, Inc.	$56	$59	$54	$56	$63	$59	$59	$60	$62	$63	$57	$62
EVRG	Great Plains Energy Incorporated	$53	$59	$58	$61	$66	$62	$62	$65	$66	$63	$57	$65
EVRG	Evergy Metro, Inc.	$52	$59	$60	$64	$67	$64	$64	$67	$68	$62	$57	$67
EVRG	Evergy Kansas South, Inc.	$55	$62	$63	$68	$73	$65	$65	$62	$66	$58	$59	$64
EVRG	Evergy Kansas Central, Inc.	$65	$69	$70	$75	$80	$73	$71	$73	$77	$67	$64	$80
EVRG	Westar Energy (KPL)	$73	$72	$74	$79	$84	$79	$74	$80	$84	$72	$68	$88
ES	NSTAR Electric Company	$82	$82	$81	$90	$94	$96	$91	$86	$93	$89	$86	$89
ES	Public Service Company of New Hampshire	$90	$82	$79	$75	$78	$71	$64	$67	$74	$82	$80	$81
ES	The Connecticut Light and Power Company	$83	$73	$69	$67	$76	$78	$74	$75	$80	$91	$105	$106
EXC	Baltimore Gas and Electric Company	$64	$53	$53	$51	$53	$52	$55	$50	$48	$47	$48	$51
EXC	Potomac Electric Power Company	$55	$48	$43	$44	$45	$46	$48	$45	$49	$46	$47	$49
EXC	PECO Energy Company	$75	$57	$49	$43	$45	$43	$41	$39	$42	$40	$47	$46
EXC	Commonwealth Edison Company	$48	$49	$42	$30	$31	$33	$34	$36	$39	$37	$41	$42
EXC	Delmarva Power & Light Company	$74	$66	$62	$61	$61	$64	$68	$63	$60	$61	$64	$63
EXC	Atlantic City Electric Company	$112	$102	$98	$100	$104	$108	$108	$104	$106	$107	$111	$118
FE	The Cleveland Electric Illuminating Company	$32	$20	$20	$17	$22	$26	$27	$26	$23	$30	$32	$27
FE	Ohio Edison Company	$42	$36	$35	$31	$36	$38	$36	$32	$28	$33	$34	$29
FE	The Toledo Edison Company	$34	$30	$31	$28	$33	$36	$31	$25	$20	$24	$24	$21
FE	West Penn Power Company	$64	$44	$33	$26	$33	$35	$34	$35	$38	$32	$33	$32
FE	The Potomac Edison Company	$72	$67	$62	$55	$63	$57	$61	$63	$66	$60	$63	$60
FE	Monongahela Power Company	$75	$95	$90	$75	$110	$101	$103	$105	$106	$91	$85	$82
FE	Metropolitan Edison Company	$98	$59	$47	$35	$41	$39	$37	$33	$35	$35	$36	$32
FE	Pennsylvania Power Company	$40	$36	$32	$26	$32	$39	$38	$33	$33	$36	$35	$33
FE	Jersey Central Power & Light Company	$94	$84	$75	$63	$70	$65	$63	$60	$67	$67	$76	$62
FE	Pennsylvania Electric Company	$90	$51	$41	$35	$42	$39	$38	$35	$35	$37	$36	$29
NEE	Florida Power & Light Company	$63	$64	$59	$53	$56	$53	$44	$59	$43	$44	$38	$44
NI	Northern Indiana Public Service Company	$55	$57	$57	$60	$63	$60	$62	$66	$61	$62	$55	$58
OGE	Oklahoma Gas and Electric Company	$58	$58	$54	$56	$62	$54	$56	$58	$55	$50	$46	$100
PCG	Pacific Gas and Electric Company	$81	$86	$88	$96	$104	$102	$106	$97	$250	$271	$159	$183
PNW	Arizona Public Service Company	$72	$70	$68	$73	$76	$72	$71	$68	$74	$70	$64	$68
PPL	PPL Electric Utilities Corporation	$53	$37	$35	$33	$35	$36	$33	$32	$34	$34	$33	$36
PPL	Kentucky Utilities Company	$50	$51	$52	$51	$54	$53	$50	$51	$51	$48	$48	$51
PPL	Louisville Gas and Electric Company	$57	$62	$61	$62	$64	$59	$53	$54	$54	$54	$52	$55
PEG	Public Service Electric and Gas Company	$89	$81	$74	$69	$69	$70	$65	$59	$60	$63	$62	$64
SRE	Oncor Electric Delivery Company LLC	$9	$10	$11	$11	$13	$13	$14	$14	$15	$15	$16	$16
SRE	San Diego Gas & Electric Company	$153	$161	$168	$207	$194	$170	$168	$179	$195	$199	$214	$284
SO	Georgia Power Company	$66	$67	$57	$60	$65	$57	$55	$53	$53	$51	$49	$59
SO	Mississippi Power Company	$88	$86	$72	$81	$89	$74	$69	$72	$76	$73	$69	$83
SO	Alabama Power Company	$63	$59	$56	$57	$61	$57	$57	$60	$59	$60	$54	$62
WEC	Wisconsin Public Service Corporation	$83	$85	$85	$86	$82	$79	$73	$73	$70	$63	$59	$64
WEC	Upper Michigan Energy Resources Corporation								$93	$87	$48	$46	$64
WEC	Wisconsin Electric Power Company	$89	$92	$86	$95	$102	$94	$91	$93	$95	$95	$92	$95

Source: Guggenheim Securities LLC, FERC Form 1, S&P Cap IQ Pro

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DEEP DIVE INTO SOLAR AND WIND: GEOGRAPHIES, FACTORS, AND COST TRENDS

WIND

Capital Costs and O&M

Wind costs downward trend on pause; bigger turbines, better structures, turnkey contracts offset by inflation and NT supply chain issues.

We see a modest decline in the wind LCOE estimate range, largely due to implementation of tax credit extensions (IRA impact on ITC/PTC), offset with updates on current construction and equipment pricing as well as updated utilization and opex assumptions. In our updated model, rather than using backward looking statistics that do not reflect existing cost structures in the rapidly evolving renewable energy landscape, we use current cost estimates data points available from various industry participants (SNL, EIA, etc.).

While the cost of construction wind farms has been rising modestly, especially in light of supply chain and inflationary pressures, the efficiency gains have been slow, resulting in higher LCOE vs. our prior estimate excluding PTC extensions.

Our LCOE range of $21-72/MWh is competitive with efficient CCGTs on an energy only basis.

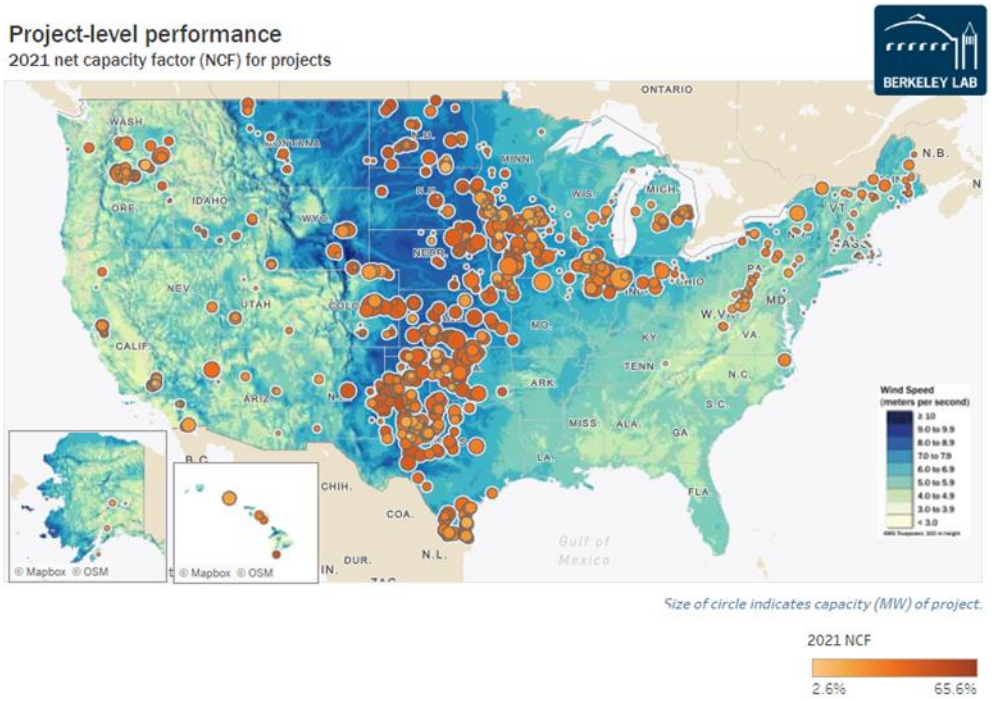
- **Despite prior efficiency gains, capital costs have risen noticeably.** We model a base $/kw of $1,718, an increase of $418 vs. our prior analysis and aligned with the 2021 EIA Energy Outlook.
- **As with solar, future gains will likely stem from removal of supply chain and commodity inflation overhangs (i.e., steel, copper, etc.).** Bigger turbines will likely allow for lower balance of plant. Lighter, longer blades will likely contribute to increased capacity. **O&M cost declines have been driven by innovation, but some general inflationary pressures have entered the fray.** Increased reliability of turbines has been the main contributor to decreased O&M costs in the long run, but advances in recent years are limited. Better data management and logistics have also allowed for lower maintenance costs. That said, general inflationary pressures have crept up and we have raised our input assumptions accordingly.

Capacity Factor

The Midwest remains the ideal location for new wind in terms of capacity factor, given wind factors in those states. The increase in efficiency of turbines has allowed for wind installations outside of the traditional states, but wind is still not as suitable as solar across the country.

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Figure 21 Wind Speed and Reported Capacity Factor (2021)



Source: NREL, Guggenheim Securities, LLC

SOLAR

Capital Cost and O&M

We see a modest decline in the solar LCOE estimate range as we update our estimate to incorporate ITC extensions as a result of the IRA, offset by current module and equipment pricing as well as updated utilization and opex assumptions. In our updated model, rather than using backward-looking statistics that do not reflect existing cost structures in the rapidly evolving renewable energy landscape, we use current cost estimates and data points available from various industry participants including SNL, EIA, etc.

Our analysis shows that the lower end of the $23-69/MWh LCOE range is competitive with efficient gas plants (CCGTs). The most significant factor that is driving our solar LCOE down is the ITC inclusion, but equipment costs and supply chain delays are creating uncertainty in the overall overnight capital costs.

Cost declines take a pause, but supply chain issues and tariff issues still unknown.

While directionally this is a departure from the long-term trend of decreasing capital costs, we anticipate normalization as suppliers work through diversification across multiple territories. We do not anticipate the US to be a material producer of solar panels in the medium term. The industry ramp-up could take 5-7 years and developers still need to debate the on-shore assembly for domestic content treatment (i.e., it could take some time for price normalization).

- **Capital costs have stayed near flat in the most recent updates from EIA.** We model a base $/kw of $1,327.

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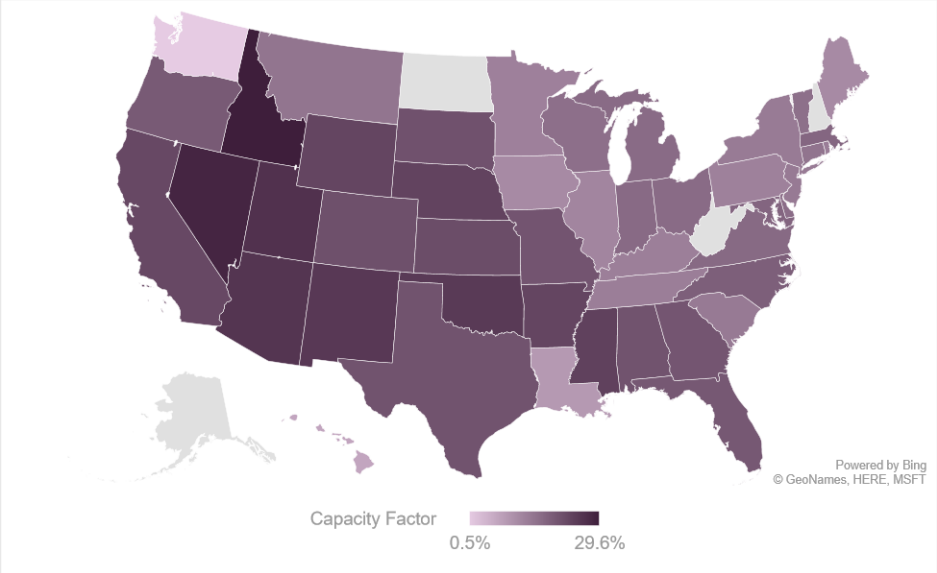
- **Future decreases in LCOE will likely be driven mainly by lower BOS costs.** While efficiency will likely continue to see modest gains, lower BOS costs will likely be the focus. Module producers are looking to increase wattage to decrease the total cost for inverters and balance of plant.
- **O&M cost declines have been driven by innovation, but our new assumption shows modest inflationary pressure.** Increased reliability of modules and inverters has been the main contributor to decreased O&M costs historically, but inflationary pressures are being included in most recent industry updates, and we align our inputs accordingly. Better data management and logistics have also allowed for lower maintenance costs.

Capacity Factor

Capacity factors are highest in the Southwest, given irradiation.

As stated above, capacity factor has the greatest impact to LCOE. The Southwest continues to be the leader in capacity factor as irradiation is higher in those states. Greater efficiency in panels has allowed for better capacity factor across geographies. Decreased costs of other innovations to the balance of the plant, such as single-axis and multi-axis tracking, are making solar more viable in higher-latitude areas. We are adjusting our median capacity factor to match the most recently disclosed net capacity factor nationally (i.e., capturing projects at all ends of the spectrum).

Figure 22 Solar Capacity Factor by State



Source: BNEF, Guggenheim Securities, LLC

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LEADERS, LAGGARDS, AND TRANSITIONERS… HOW CAN UTILITIES CAPITALIZE ON CLEAN ENERGY TRENDS?

Economic- and policy-related renewables deployment could boost utilities with development, contracted renewables businesses. NEE/NEP most levered.

We see several ways for utilities to lead on clean energy investment. With the results of our analysis, we see 3 ways to value potential upside: (1) net acceleration of renewables deployment will benefit developers (i.e., NEE/NEP), (2) vertically integrated utilities with accelerating decarbonization commitments and utilities with legacy asset retirements and load growth; in other words, utilities with the flexibility to shift more capex to renewable generation as economics become more compelling vs. prior to IRA passage when incumbent utilities had a more challenging time competing, given their tax status, etc., and (3) utilities with unregulated renewables transactions/strategic reviews.

Potential downside remains with a lack of potential upside opportunities (i.e., not necessarily a headwind). For the purposes of benefits from renewables competitive positioning, utilities with no generation ownership (i.e., pure wires ownership), LDCs and lack of policy-driven investments would see less potential upside from new capex.

(1) The key utility sector constituents standing to benefit from more compelling renewable economics are companies that have competitive renewables with NEE/NEP the clear leading beneficiary, alongside the much smaller devco at ALE.

- **NEE/NEP is a top IRA idea and a standout in our coverage in terms of leverage to renewable development** that has planned and deployed regulated renewables in the FPL and Gulf Power utilities, as well as having a long-term contracted renewables generation business (NEER), supported by one of the best developer platforms among peers. **NEER has potential upsides from IRA and increasingly attractive renewable economics, which include development queue expansion and repowering** (17GW existing resources; 20GW of backlog if ITC/PTC extends; similarly with NEP). **NEP will likely maintain growth upside options from NEER dropdowns, repowering and third-party M&A and financing.** There is some debate with NEE investors on the cadence of demand due to tax credit expiration (i.e., safe harbor and prior in-service deadlines no longer apply and could shift near-term demand into outer years; we still see a net positive for demand LT). **FPL will also look at a more aggressive solar deployment target for 10 years (potentially double).** FPL previously provided a 10-year site plan recommendation of ~9,500 MW of solar addictions and 3,200 MW of storage, largely in line with the "business as usual" planning scenario. Management noted that while the exact implications on deployment at FPL would need to get framed under new constructs, **the resource plan with tax credits and P50 winter load recommended 22,500 MW of solar and 3,100 MW of storage – more than double nameplate capacity** vs. the currently implemented recommendation. See more on the renewables-driven potential upsides and NEE thesis in our NDR note HERE.

- **ALE** invests in regulated and unregulated renewables across its various subsidiaries, with the **most immediate beneficiaries of LCOE improvements its unregulated subsidiaries ALLETE Clean Energy and New Energy Equity**. The former primarily invests in utility scale wind developments while the latter, acquired in 2Q22, has a ~2GW backlog of solar C&I projects across the US. Growth at the combination of these two segments is a key component of ALE's overall consolidated 5-7% growth, given slower growth at the core utility (4-5%). **ALE's primary regulated subsidiary, Minnesota Power, is currently engaged in a long-running IRP process that could see the company add ~400 MW of new wind and solar energy resources,** alongside a retirement of its Boswell Unit 3 (by 2030) and a potential repowering of Boswell Unit 4 by 2035. Clarity on the IRP process, and the potential scale of the incremental clean generation need, is not expected until later this year (per mgmt.).

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Integrated Leaders: PEG, DUK, LNT, WEC, CMS, DTE, ETR.

Tough to find more upside on wind/solar: NWE, OGE, PPL, FE, CNP.

(2) There is also a wide list of names in the sector that are transitioning "cleaner," where renewable generation investments are becoming more pronounced in the business mix: AEE, AEP, CMS, D, DTE, DUK, ETR, LNT, NI, POR, SO, and WEC.

- **AEE** invests in regulated solar and wind at its core MO subsidiary, with the utility releasing an updated IRP plan just a month before the IRA's passage. The plan details significant incremental additions of renewables and storage, including 2.8GW of renewables by 2030 ($4.3bn allocation as of June), alongside significant longer-dated additions across renewables, storage, and other generation. **See our note HERE for more specifics of the IRP update.** In our view, AEE also remains an indirect beneficiary of the IRA and potential permitting reforms thanks to its geographic location in the heart of MISO, to the extent that improvements in project economics foster a concurrent need for incremental transmission.

- **AEP targets an 80% reduction in carbon emissions (and a 47% reduction in coal capacity as a percent of total capacity by 2030, and net-zero carbon emissions by 2050.** In support of its likelihood of achieving these ambitious goals, the company highlights that its long-term executive compensation includes ties to clean energy transition targets. For operational/capacity context, despite being only 13.1% of the 2021 rate base, coal-fired generation makes up 41% of AEP's net maximum capacity in 2022, while the company projects that only 19% of its capacity will come from coal by 2030. Achieving these targets would **reduce AEP's coal fleet from ~11,850 MW at the end of 2021 to ~6,500 MW by 2028 from existing planned retirements**. In contrast, hydro, wind, solar, and pumped storage constitute **23% of 2022 capacity, and management expects that to rise to 52% by 2030**. The company's 2030 hydro, wind, solar and pumped capacity guidance figures include contracted renewable assets owned by the unregulated business, which was recently announced for sale; however, excluding this capacity would not materially change the 2030 projected capacity mix. The company has $8.2bn of regulated renewables in its current 5-year (2022–26) capital plan and sees a 16 GW regulated renewable opportunity by 2030; however, investors should be aware that this figure predates the IRA and that the company specifically states in its slides that "*AEP's capital plan is based on current tax credit law. Any potential PTC/ITC extension could present upside to current plan.*" (August 2022 slides). **AEP will be hosting an analyst day on October 4**. We **do not expect** much in the way of an update on the **contracted renewables sale process**, and while it is likely much too early for AEP to have had time to fully analyze and revise its capital plans between IRA passing and October 4, we still expect investor Q&A to focus on what potential upside to the current plan could look like and how it could impact the current 6-7% EPS growth trajectory. Additionally, management openly pointed to the analyst day as being likely to contain a **2022 guidance update**, introduction of the **2023 guidance range**, and a **roll-forward of the 5-year capital and financing plan through 2027**, all of which would be coming early vs. AEP's typical practice of unveiling those items with Q3 earnings.

- **CMS has $2.8B of capital allocated to renewables in the current 5-year capex plan ($14.3B total), with a variety of potential upsides from the current IRP and IRA (such as an increased solar rate base in lieu of third-party tax equity), and management noted that outside of the current IRP, the company is continuously looking for opportunities around renewables cost curves.** The near-term step up from renewables and the IRP was well communicated since 1Q (step up for the Covert plant purchase, voluntary renewables plan approval for resources not in plan). The IRP contemplates 4.5 GW of solar by 2030, ~8.0 GW by 2040, more than 0.5 GW of batteries by 2040 (75 MW beginning in 2024), ~0.8 GW

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pre-2025 (approved via RPS) and ~1.9G GW of customer programs such as DR, EE and CVR. In terms of advancing solar buildout as an inflation hedge, management is continuously assessing the cost curves and will look for opportunities when they are available, noting that the mechanisms for accelerated deployment are in place with the MPSC.

- **D** invests in renewables across its regulated utility and its nonregulated subsidiaries, with a significant weighting to the former. Its current 5-year plan includes $2.9bn of contracted solar investment, alongside ~$19bn in regulated generation/storage. Importantly, D's regulated utilities *already* have significant ongoing wind and solar buildouts underway, thanks primarily to supportive state policies (e.g., the VCEA in VA). In our view, this means the latest changes under the IRA should be seen as *supportive* of customer bills vs. a step-change. For example, the company's ~2.6GW off-shore wind project's LCOE could see a $7 improvement under the IRA, per management. To that end the company already has a line of sight to another ~$41bn in decarbonizing spend through 2035, including a strong blend of storage, solar, and wind. We expect the IRA could impact the timing of some of this spend to the extent it provides additional bill headroom in the company's modeling – allowing for potential pull-forwards.

- **DTE has a $3B cleaner generation capex allocation (which stands to increase due to IRA impacts alone) and the company has already maxed out the voluntary renewables subscriptions (include a recent 650 MW commitment with Ford, ticker: F)**, **pointing to a sizeable step up with the upcoming October IRP.** DTE management is working on major decarbonization spending (including IRP, coal retirements) beyond the current forecast horizon; but potential upsides will likely get layered in the medium term as well. Management noted that not all prospective IRP actions would be long term, as some items will roll in with the next planning cycle. Early in the plan, management sees potential for incremental investments in renewables and batteries and gas conversions at Belle River (first 5 years), with baseload needs becoming more prominent in the longer term. DTE also sees no need to defer coal retirements, since all previously retired capacity has been replaced with adequate baseload generation (mostly efficient gas). There remains potential upside for incremental IRP acceleration either in the tail end of the plan or sustaining the investment trajectory beyond 2026. DTE has already started stakeholder comment processes to ensure the best alignment of interests for all parties ahead of the IRP filing in October 2022.

- **DUK's $63bn 5-year (2022–26) capital plan contains ~$15bn, (a 24% allocation) to zero-carbon emission generation, in support of the company's proposed near-term resource additions**, including **3,100 MW of new solar (with 600 MW of paired storage), 1,000 MW of stand-alone battery storage, 600 MW of on-shore wind, 2,000 MW of hydrogen-capable natural gas**, grid enhancements to support interconnection of new renewables and storage, and early development work for long lead-time resources for deployment in the early 2030s. The company's long-awaited, legislatively mandated carbon plan is currently being ironed out with the NCUC, which **must complete its rulemaking process by December 31, 2022**. In South Carolina; the company plans to provide updated planning assumptions with its 2023 comprehensive IRP. Specific to the company's carbon plan in North Carolina, its DEC/DEP utilities proposed the following four portfolios, of which any or none could end up being ultimately chosen by the NCUC. **Three of DUK's proposed portfolios contain off-shore wind**; for more on off-shore wind and the Carolina Long Bay lease area, see our note HERE.

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- **Portfolio 1:** 70% by 2030: 800 MW off-shore wind by 2029 + new solar ramping to 1.8GW/year by year-end 2028 + 1.8GW battery storage + slightly accelerate retirement of 1.4 GW of coal.
- **Portfolio 2:** 70% by 2032: 800 MW off-shore wind by 2029 + another 800 MW off-shore wind by 2031 + slightly less aggressive solar and storage vs. Portfolio 1 + Roxboro Units 3-4 (the 1.4GW in Portfolio 1) don't have to retire until 2032. Less solar due to 2032 retirement instead of 2030 deadline for hitting 70% reduction.
- **Portfolio 3:** 70% by 2034: zero off-shore wind + 285 MW SMR deployed by 2032 + solar, on-shore wind, and pumped storage hydro + Roxboro Units 3-4 (1.4 GW move to 2034 retirement).
- **Portfolio 4:** 70% by 2034 with off-shore wind + SMRs: 285 MW SMR + 800 MW of off-shore wind added "in early 2030s" + solar, on-shore wind, battery, and pumped storage hydro capacity + Roxboro Units 3-4 (1.4 GW move to 2034 retirement).

- **ETR** invests in regulated solar generation deployment across its service territories with RFPs in TX, AR, and MS. **In terms of renewables deployment, management anticipates 7GW out of the larger 17GW target (recently increased from 11GW) to be completed by 2026**, with roughly half being ETR self-build (more in our analyst day note here). Out of the 7GW, 1500 MW are RFPs under negotiation, 2500 MW are RFPs announced but incomplete, and another 900 MW of unannounced RFPs, so there is strong visibility to the pipeline. **ETR also noted that the targets are conservative, both on total volume and ownership; as electrification takes off even more, the addressable market becomes bigger and sooner.**

- **LNT** stands to benefit directly from the transferability of credits under the IRA, with the company engaged in significant ongoing solar buildouts across its two jurisdictions (IA/WI). As a result of the IRA, the company recently filed to eliminate its use of tax equity in WI in favor of a transition to full ownership (and full rate basing of the former tax equity financing). **While the company has not yet updated its capital plans to reflect IRA impacts, we except it to do so this fall with EEI/3Q results.** The current Clean Energy Blueprints for the two jurisdictions are currently working to add 1.5GW of solar and ~375 of capacity/storage. ***We expect these figures could be revised upward with the forthcoming roll-forward, with management currently targeting $7-9bn of spend in the 2026-30 window.*** LNT has added significant clean energy resources in recent years, with the ongoing coal transition presenting potential incremental *capacity* addition opportunities, in our view. See our recent NDR HERE for more.

- **NI continues to target a 90% reduction in Scope 1 GHG by 2030, inclusive of a 50% reduction in methane emissions by 2025, and expects to have retired 100% of its coal-fired generation assets by 2026–28 and replaced it primarily with renewable generation.** The company has cited uncertainties and disruptions caused by the U.S. Department of Commerce's AD/CVD investigation as resulting in the delay of ~$1.0bn of renewable generation projects in its current capital plan (through 2024) by 6-18 months, although the company also said that the current pause on tariffs adds more confidence/clarity to management's revised timelines. NI has provided an illustrative capital plan accounting for these delays by shifting some of 2022's renewable capex and most of 2023's into 2024. Due to **~$1.0bn of projects not coming online until 2024+**, management expects an **EPS drag of ~$0.09–0.10**, for which the company has presented a **mitigation plan**. As with other utilities, NI will

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now be keeping some of its coal plants operating longer than originally planned in order to ensure customer reliability, with Schahfer Units 17 and 18 (722 MW combined) now expected to retire in 2025 vs. 2023 previously. NI launched its two 2022 RFPS in Q3: **1) an all-source RFP for 300–600+ MW** of MISO Local Resource Zone 6 capacity resources; **2) a 370–450 MW gas peaking** resource to be constructed by an EPC/development partner at the current Schahfer site, and which **must be owned by NIPSCO** (consistent with the MISO generator replacement protocols). The utility expects to have definitive agreements signed with winning bidders of **both RFPs in 4Q22**. NI's **post-2024 plans** have not yet been provided and will be a key focus of its **November 2022 analyst day,** according to management. We expect the replacement of Michigan City (455 MW) sometime in 2026–28 to feature as part of that plan and note that to the extent that future replacement RFP proposals make use of MISO's generator interconnection replacement process, the associated replacement capacity resource would also **have to be owned by NIPSCO**. We await further details regarding 2025+ capex, including new generation construction plans, at NI's upcoming analyst day.

- **POR** is under a state mandate to procure 100% clean energy by 2040, including interim targets of an 80% reduction by 2030 and 90% by 2035. To that end, the company has worked in recent years to pivot towards cleaner procurements, with its 2019 IRP yielding the first in what we expect to be a series of ongoing energy + capacity RFPs through the next decade. The 2021 RFP is approaching final selection, with management releasing the shortlist alongside 1Q22 results. The list features a large combination of PPA'd and hybrid PPA/company owned projects intended to serve energy and capacity needs. **The company has the potential to own up to 350 MW of company-owned wind and 125 MW of company-owned storage across the shortlist,** including as a part of hybrid projects with third-party owned solar. Importantly, the company is already hard at work on its next IRP (2023), with the intention to tighten the IRP-RFP cycle through the coming years as it seeks to meet the aforementioned mandates. These opportunities are all completely *incremental* to the company's current capex plan and growth rate.

- **SO's** Georgia Power utility saw its triennial IRP approved by the GA PSC in July 2022, including the commission's decision to delay making a decision on the timing of the retirement of Bowen 3 and 4's 1,760 MW of coal-fired generation to the utility's next triennial IRP in 2025. While we aren't fully convinced that we will see a shutdown date be set even in the next IRP filing, current delay provides more time for SO to plan ahead for additional capacity, including, as **C-Suite highlighted during our July Georgia road trip**, a possible conversion to natural gas where they are seeing potential firm transmission opportunities for natural gas supplies. **While the PSC supports an open bidding process, some members of the commission have made clear their preference for utility-owned capacity, particularly in the case of more experimental technologies such as energy storage, where reliability is of heightened concern. Management's messaging prior to passage of the IRA was that it was simply not economically possible for Georgia Power or other regulated utilities in the state to compete against non-regulated entities, particularly with regards to solar projects**. The approved 2022 IRP calls for 2,100 MWac of new renewable energy resources, to be procured via two separate RFPs. The first is expected to be launched in 2023 and will target 1,050 MWac of renewable resources with proposed commercial operation dates in 2026/27. The second RFP is expected to be issued in 2025 and would seek an additional 1,050 MWac with targeted COD in 2028/2029. **Investors should recall the company's long-term plan to add a total of 6,000 MW of additional renewable resources by 2035, effectively doubling its existing approved renewable**

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portfolio. For more, see our Georgia road trip recap note HERE, as well as our Georgia IRP post-decision flash note HERE. **Southern Power could see upside to its capital plan** as a result of the IRA's tax credit extensions, although management has yet to indicate bookends or simply how much available capital remains for Southern Power to invest in additional renewables; we expect an update on the 4Q22 call in early 2023. Alabama Power conducted its **2022 triennial IRP** (summary HERE), which included the utility's intention to cease coal combustion at **Plants Barry and Gaston by not later than December 31, 2028**. Based on its target reserve margins (TRMs) and taking into account the resources approved by the APSC in Docket No. 32953 and Docket No. 33182, **Alabama Power projects sufficient long-term reserves to meet its obligations until the late 2020s**.

- **WEC's** tight energy supply conditions in MISO, coupled with what management expects to be supply-chain driven delays to commercial operation dates of renewable energy projects, have led to (previously announced) delays to the planned retirements of its Oak Creek and Columbia units. Despite this, we still see WEC as a beneficiary of the extensions of zero emission tax credits and **expect ongoing renewables investments to feature in the company's 3Q22 5-year capital plan roll (with full details to be released at EEI as usual)**. In particular, we note that even pre-IRA, WEC's 2022–26 5-year plan included $3.5bn of investment in **regulated renewables** in the form of 1,475 MW of solar, 816 MW of battery storage, and 82 MW of wind, resulting in a grand total of **2,373 MW of renewable resource additions** during the planning period. Separately, the company's wind infrastructure investments continue to grow, with the **300 MW Thunderhead Wind Energy Center** expected to be placed **in service in 2H22**, and its **250 MW Sapphire Sky Wind Energy Center** projected to come online by **year-end 2022**. As a reminder, WEC typically rolls its five-year capital plan forward with its Q3 call, just ahead of EEI.

Renewables competitiveness/focus could make strategic transactions more valuable: AEP, DUK, ED, ES, PEG.

(3) There are multiple utilities seeking to sell unregulated renewable assets (including wind, solar and off-shore leases) which could see a constructive valuation outcome given private/infrastructure investors' desire to establish a renewable platform as well as improve development/repowering platforms and even for off-shore assets, nuclear, and regulated assets. Utilities with strategic reviews (ongoing or potential) are AEP, DUK, ES, PEG and PCG. ED's recent sale surpassed our prior valuation estimates and sets a most recent marker for constructive asset valuations despite a turbulent debt/equity market. CED thoughts included in our note here.**Net-net: IRA passage has inherently increased the value of existing assets that are available for sale.).**

- **AEP announced its intentions in February 2022 to sell all or a portion of the contracted renewables business in its competitive generation segment.** The sale process officially commenced in September 2022, on time with management's well-telegraphed messaging around timing (e.g., 2Q22 slides). Spanning 11 states, **we estimate that the portfolio could attract a valuation of $1,800–2,200/kW and could net AEP ~$1.1–1.6bn pretax**, with the after-tax proceeds likely not too different given the company's expectation of being able to offset most of the applicable taxes with existing credits. Only 1,365 MW of the segment's 1,600 MW of owned renewable generation projects are included in the sale efforts: **1,200 MW of wind and 165 MW of solar**, since the company's **235 MW (50%) stake in the Flat Ridge 2 wind farm was removed** in order to enhance overall portfolio quality in hopes of attracting a better valuation. Flat Ridge 2 had been experiencing weak performance due to equipment issues and transmission congestion, with management deciding that repowering it wasn't worth the construction phase risk,

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and that doing so would have unnecessarily complicated the sale process. The company opted for a writeoff instead, while noting that it is in talks with an interested party about purchasing AEP's stake in the wind farm and expects the transaction to close in 2H22. **For more, see our note** HERE.

Figure 23 Contracted Renewables sales proceeds and GAAP vs. tax basis

1,365 MW ← AEP Contracted Renewables portfolio for sale (1,200 MW wind & 165 MW solar)

$1,800/kW	$2,200/kW	× assumed $/kW values
2,457	3,003	= Transaction value (US$m)
(1,400)	(1,400)	– Less: GAAP equity
$ 1,057	$ 1,603	= GAAP pre-tax figure

*While the "very low tax basis" implies a large tax obligation, AEP has credits to offset.

Note: *as per our follow-up conversation with the company after the earnings call,* ***an anticipated transaction would involve the associated debt being assumed by the acquirer, along with project-level debt and tax equity.*** *The GAAP book value is unrelated to the projects' tax basis. While that tax basis is "very low" (per mgmt. and given the organic nature of the business) and would imply nearly full capital gains on the proceeds, the reality is that AEP has credits available which would shield a substantial portion if not all of the tax obligation which it would otherwise owe.*

Source: Bloomberg, Guggenheim Securities, LLC analysis

- **DUK's Commercial Renewables sale is underway, with potential bidders so far reportedly including pension funds, private equity, and infrastructure investors,** although some parties have apparently said that the portfolio size would keep them on the sidelines (see our Daily writeup HERE). We assume that the portfolio fetches ~$1,600/kW, or $4,579m after accounting for project-level debt, and assume no tax leakage as per management's comments on the 2Q22 call. Combined with an assumed weighted average avoided cost of holdco financing drag of ~3.5%, **we estimate $0.08/share of full-year EPS dilution from the sale (for more, see our note HERE).** Also, ***see below for our sensitivity analysis table*** showing the change in accretion/dilution at different costs of avoided debt and portfolio valuations on a $/kW basis. With the IRA's passage, we expect this business to **attract a higher valuation** and greater interest than it otherwise would have, given the timeline for PTC-qualified repowerings of existing portfolio assets being extended through at least 2032. The business operates ~5,100 MW of capacity across 22 states, and **DUK's net ownership stands at 3,554 MW**, consisting of: 23 wind facilities (1,959 MW owned), 178 solar projects (1,531 MW owned), 71 fuel cell locations (44 MW owned), and two battery storage facilities (20 MW owned).

Figure 24 Accretion/Dilution Sensitivity Analysis (full year without Commercials' results)

Cost of avoided debt (%) \ Transaction multiple ($/kW)	$1,200/kW	$1,300/kW	$1,400/kW	$1,500/kW	$1,600/kW	$1,700/kW	$1,800/kW	$1,900/kW	$2,000/kW
2.50%	($0.17)	($0.16)	($0.15)	($0.14)	($0.13)	($0.12)	($0.11)	($0.10)	($0.10)
2.75%	($0.16)	($0.15)	($0.14)	($0.13)	($0.12)	($0.11)	($0.10)	($0.09)	($0.08)
3.00%	($0.15)	($0.14)	($0.13)	($0.11)	($0.10)	($0.09)	($0.08)	($0.07)	($0.06)
3.25%	($0.14)	($0.13)	($0.11)	($0.10)	($0.09)	($0.08)	($0.07)	($0.06)	($0.05)
3.50%	($0.13)	($0.12)	($0.10)	($0.09)	**($0.08)**	($0.07)	($0.05)	($0.04)	($0.03)
3.75%	($0.12)	($0.11)	($0.09)	($0.08)	($0.07)	($0.05)	($0.04)	($0.03)	($0.01)
4.00%	($0.11)	($0.09)	($0.08)	($0.07)	($0.05)	($0.04)	($0.02)	($0.01)	$0.00
4.25%	($0.10)	($0.08)	($0.07)	($0.05)	($0.04)	($0.02)	($0.01)	$0.01	$0.02
4.50%	($0.09)	($0.07)	($0.06)	($0.04)	($0.03)	($0.01)	$0.00	$0.02	$0.04

Source: Guggenheim Securities, LLC analysis

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- **ES is currently engaged in a sale process for its off-shore wind business, with an announcement due by year end…** The sale process for ES's interest in a JV for 3 projects and lease acreage (not a devco) **could see a halo benefit from the IRA in our view,** and become a readthrough to post-2025 OSW economics (e.g., accreting to the acreage value). **See our recent upgrade note HERE for more details on the process,** which we **believe could result in proceeds of $2.6bn or more, before netting any debt on the projects**. Using the recent NY Bight auction as a valuation midpoint, **we believe the leases alone could be worth ~$650mm after full tax leakage.** This process remains ongoing, with a YE closure target.

- **PCG recently announced the formation and subsequent equity stake sale of non-nuclear assets. The Pacific Generation (new subsidiary) will hold largely hydro, pumped storage, energy storage, and solar assets in a regulated construct.** While California's deregulated market status limits potential value upside from these assets, we recognize the scarcity of the regulated assets and opportunities for PacGen to act as a backstop for state policy goals (energy storage in particular), i.e., renewables push makes assets valuable. **See our thoughts here.**

- **PEG stands to benefit from a nuclear and off-shore wind strategic alternative standpoint, as noted here and here.** PEG is contemplating FID on an equity joint venture for NJ's first off-shore project (Ocean Wind 1,100 MW backed by legislated renewable credits set at $98.10/MWh). Additionally, PEG continues to hold land interest in off-shore areas able to support projects in NJ and the Mid-Atlantic (DE/MD), with NJ recently signing an executive order increasing the current off-shore wind target to 11,000 MW by 2040. **Strategic alternatives for nuclear and off-shore wind (OSW) remain on the table with federal policy and competing OSW land lease and asset sales providing datapoints for consideration.** Management now has LT visibility on nuclear (IRA) to either recognize a higher value in the stock price or prompt a strategic review (per management) – as we noted in our nuclear note above, **we value PEG nuclear assets at ~$6.5B EV on a DCF/NPV basis.** On the off-shore wind side of the CFIO business, PEG remains committed to working on Ocean Wind I and the transmission interconnection projects but acknowledged the similar process by ES as a valuation marker for the assets that could trigger a strategic process. The remaining land leases that PEG owns could likewise provide potential value upside, given the growing interest in OSW development either through the existing partnerships or another form of monetization.

Less upside flexibility on wind/solar: NWE, OGE, PPL, FE, CNP, AVA, PNW, EVRG.

Utilities with less flexibility on renewables investments (driven by either needs for capacity vs. energy, state policy support, etc.) include NWE, PPL, and OGE and **to a lesser degree AVA, CNP, PNW and EVRG**, which do not stand to see incremental investment opportunities on this front. Additionally, **we note several companies in our coverage that have no meaningful generation ownership** in competitive or regulated constructs, including: **AWK, FE, EXC, HE, EIX, PCG, SRE, ES (post sale), ED (post sale), and PEG (post sale)**. Below is a sample set of laggard utilities mentioned in this paragraph.

- **AVA** filed its IRP in Washington and Idaho on April 1, 2021, projecting adequate resources to meet customer demand through October 2026. The company's first long-term capacity deficit, net of energy efficiency, begins in October 2026 and grows to 247 MW by January 2027. AVA's inclusion with other names that stand to see little benefit is directly driven by Washington's strong clean-energy legislation (which predated the IRA), and its completed IRP processes (described below). Well before proposal of the IRA, AVA's plan already consisted of new renewable energy, energy storage, demand response, energy efficiency, and upgrades to existing hydropower

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and biomass plants. The company's plan as currently laid out calls for new natural gas-fired peakers to meet the capacity shortfall in 2027, although there is a preference for long-term energy storage if the technology is available and cost-effective. AVA has a corporate clean electricity goal to provide customers with **100% net clean electricity by 2027**.

- **AWK** is not an electric utility and as such is not a direct beneficiary of key IRA provisions. **However, we see it as a tangential laggard in the overall group as a result of the legislation.** Based on many of our investor conversations, AWK's premium to the group is in part built on its ESG credentials, and to the extent that the IRA catalyzes and accelerates decarbonization, we believe the ESG spread between the two may compress.

- **CNP's** Vectren Indiana subsidiary proposed up to **~1,000 MW of renewable generation in the IN IRP.** There have been some scheduling and scope changes to optimize around supply chain and cost issues, with few changes to the overall investment profile for CNP (~$1B of renewables capex allocation in the current 5-year plan). In TX, CNP remains just a wires business. **Strategically, management focus is more skewed to the traditional T&D utilities and LDCs, which comprise a majority of the earning assets.**

- **EVRG** has historically procured renewables via PPAs, a strategy the current management team has sought to reverse in its latest IRP filings and via exploration of PPA buy-ins. **The company's latest update to the plan will see significant additions of solar in 2028-32 (~450 MW/year) alongside ~1.25GW of wind additions in 2024-27.** While most of this spending remains outside of the current planning window, it is driven by underlying asset fundamentals – namely a runway of coal plant retirements across MO and KS. As a result of this dynamic, **we do not expect significant changes in EVRG's NT generation capex plans; however, the company has shown in recent quarters that it is open to revisions around the margins** (e.g., tweaks to the timing and scale of solar deployments).

- **FE** has started to decarbonize, despite being an almost entirely wires-only business, as it has assets in states with coal exposure. In April 2022, the West Virginia PSC provided conditional approval for FE's plan to build 50 MW of utility-scale solar generation, so long as 85% of the output has been subscribed in advance of the start of construction. The company said on its 2Q22 call that it expects the first solar generation site to be in-service by year-end 2023, with the remaining four sites in-service by year-end 2025. **FE is otherwise a distribution and transmission business.**

- **NWE**'s existing fleet consists predominantly of 490 MW of hydro and 454 MW of wind, then 309 MW of "coal & other" (mostly Colstrip), 202 MW of natural gas-fired generation, and finally 17 MW of solar. However, the amount of **accredited capacity** (a resource's contribution to meet demand during peak energy usage by customers) varies significantly from these levels, with more than 90% of coal/natural gas megawatts counting as accredited capacity, while hydro gets credit for 60% of the total owned/PPA'ed capacity, **while only 13% of wind and 5% of solar megawatts are deemed to be accredited capacity** and therefore able to be counted against NWE's overall capacity deficit in Montana. The utility is currently constructing the Yellowstone County Reciprocating Internal Combustion Engine (RICE) generation facility for ~$275m with accredited capacity generation output of ~160 MW (more than 90%). Because of the magnitude of the reductions applied to renewable energy projects, the company estimates that building an equivalent 160 MW qualifying

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amount of renewables would cost $2.1–4.1bn, or ~8–15x NWE's investment in the Laurel RICE facility.

- **OGE is lagging peers in adding renewables, at least in part driven by near-term economics and a need for capacity additions to address reserve margin needs (i.e., not a wind/solar solution).** The OGE Integrated Resource Plan and associated RFPs could present a multi-track opportunity for potential upside to plan, but renewables alternatives are only a small piece. The 2 base RFPs resulting from the IRP were the 450 MW of solar for delivery in 2025/26 (i.e., 2024 capex start) and the flexible resource (i.e., CT) RFP for 500 MW by 2027 (2026 capex start). On top of the 2 existing RFPs, OGE is starting to post the draft RFP for comment on up to 1,500 MW of existing resources that could be used to backfill near-term generation needs and de-risk renewables supply chain issues (management said it would be open to minority equity ownership). Beyond the IRP process, the SPP (transmission organization) is currently proposing to raise reserve margins from 12% to 15%, which would result in another 200 MW of immediate resource needs for OGE.

- **PNW** projects that coal exits and expiring purchase contracts will create a **6,000 MW supply-demand gap by 2035**, as peak capacity needs grow from ~8,000 MW in 2020 closer to ~12,000 MW by 2035 and owned/LT PPA'ed capacity falls from more than 8,000 MW in 2020 to less than 6,000 MW by 2035. The company's existing plan is to reduce coal's weight in the utility's resource mix from 16% as of December 31, 2021, down to 0% by 2035. Gas would fall from 29% to 6–17%, nuclear from 25% to 16%, purchased power would rise from 5% to 11%, and renewable/DSM's weight in the resource mix would rise from 25% at YE21 to 56–67% by 2035. **While these figures come from the company's September 2022 (post-IRA) slide deck, they are unchanged from prior presentations.**

- **PPL** operates 2 T&D utilities (PA/RI) alongside one integrated utility (KY), partially limiting the proportion of capex allocated to generation, and the associated optionality around renewables/storage. We see this business mix contributing to PPL's laggard status, alongside what remains a comparatively slow trajectory to exit coal. **The most recent IRP for the KY had a base case of ~2.3GW of renewables by 2036,** which in our view may be conservative in light of the current gas price backdrop. The next IRP is scheduled to be filed in 2024, and we expect there could be a further expansion and pull-forward of the current plans. As the eventual retirement of coal capacity in KY will require firm capacity, management continues to explore potential CCGT additions (with hydrogen firing capability); see our recent NDR note HERE for more on the sequencing and opportunity set. Also, we note that the region has seen substantial interest in CCUS and 45Q harvesting (see our note HERE), which could augment planned CCGT additions in lieu of pure renewables/storage investment.

TECHNOLOGY SNAPSHOTS

Model snapshots are included at the end of this report. Next page is intentionally left blank.

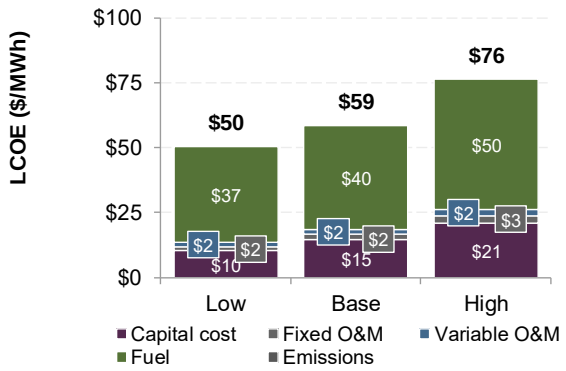
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TECHNOLOGY SNAPSHOT

COMBINED CYCLE (CCGT)

Combined Cycle Natural Gas Turbine (CCGT) LCOE Analysis



		Scenarios		
		Low	Base	High
Unit				
Capacity (MW)		1083	1083	1083
Capacity factor		75%	70%	65%
Heat rate (Btu/kWh)		6,179	6,370	7,644
Implied efficiency	*3,412*	*55%*	*54%*	*45%*
Heat rate degradation per yr		0.0%	0.0%	0.0%
Total Capital Costs ($/kW)		956	1,062	1,274
Total Capital Investment ($mm)		1,035	1,150	1,380
Fuel				
Price sensitivity in curves		(2.5%)	0.0%	2.5%
Fuel cost adder		-2.0%	0%	2.0%
Growth after curves		-2.0%	0%	2.0%
O&M				
Variable O&M ($/MWh)		1.57	1.96	2.35
Fixed O&M ($/kW-yr)		10.22	12.77	15.32
Escalation		1.0%	1.0%	1.0%

Source: Guggenheim Securities, LLC, company filings, EIA

Key takeaways

- Combustion turbine combined with a heat recovery boiler and steam turbine used for base load power generation
- High thermal efficiency and longer starting times
- Combination of high thermal efficiency and low natural gas prices has made CCGT the benchmark technology for new capacity additions from a cost and emission perspective

Cost

- $956-$1,274 per kW installed cost
- $50 - $76 per MWh LCOE

Performance

- **Size:** 1083 MW
- **Efficiency:** Approaching 80%; temperature determines thermal efficiency and is limited by materials available
- **Emissions:** ~120 lb of CO2 per mmbtu of fuel, cooling systems allow for high combustion temperatures and low NOx emissions
- **Ramping:** Intermediate

Other considerations

- Recent announcements claim thermal efficiencies approaching 55% (~6,200 Btu per kWh HHV net)
- Dramatic efficiency gains beyond this are not likely possible without hurting economics

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Combined Cycle Natural Gas Turbine (CCGT) IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		470	470	470	470	470	470	470	470	470	470	470	470	470	470	470	470	470	470	470	470	470
Fuel expense		(461)	(330)	(264)	(248)	(243)	(242)	(248)	(253)	(258)	(264)	(269)	(274)	(280)	(285)	(291)	(297)	(303)	(309)	(315)	(321)	(328)
Operating expense		(31)	(31)	(32)	(32)	(32)	(33)	(33)	(33)	(34)	(34)	(34)	(35)	(35)	(35)	(36)	(36)	(36)	(37)	(37)	(38)	(38)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		(22)	109	174	190	194	195	189	183	178	173	167	161	155	149	143	137	131	124	118	111	104
Margin		*-5%*	*23%*	*37%*	*40%*	*41%*	*42%*	*40%*	*39%*	*38%*	*37%*	*36%*	*34%*	*33%*	*32%*	*30%*	*29%*	*28%*	*26%*	*25%*	*24%*	*22%*
Levelized debt service		(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)
Depreciation		(52)	(100)	(92)	(85)	(79)	(73)	(67)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(31)
Earnings before taxes		(144)	(61)	12	35	45	52	51	51	46	41	35	29	23	17	11	5	(1)	(7)	(14)	(21)	3
Income taxes		34	11	(10)	(16)	(19)	(22)	(22)	(22)	(22)	(21)	(20)	(19)	(18)	(17)	(16)	(15)	(14)	(13)	(12)	(11)	(19)
Net income		**(110)**	**(50)**	**2**	**18**	**26**	**30**	**29**	**28**	**24**	**20**	**15**	**11**	**6**	**1**	**(5)**	**(10)**	**(15)**	**(21)**	**(26)**	**(32)**	**(16)**
+ Depreciation		52	100	92	85	79	73	67	62	62	62	62	62	62	62	62	62	62	62	62	62	31
CF to equity	(552)	**(59)**	**49**	**94**	**104**	**105**	**103**	**96**	**91**	**86**	**82**	**77**	**72**	**67**	**62**	**57**	**52**	**46**	**41**	**35**	**29**	**15**
IRR	**10%**																					

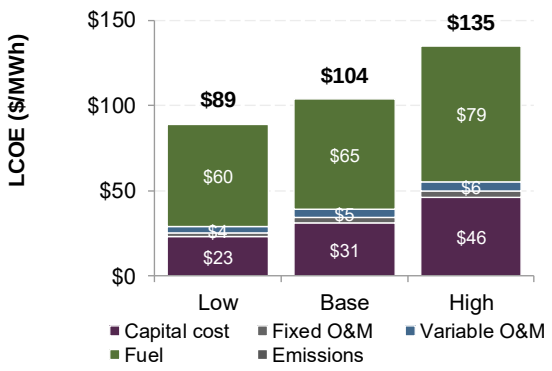
LEVELIZED COST OF ENERGY ANALYSIS

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Operations																						
Capacity (MW)		1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083
Capacity factor (%)		65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%	65%
Generation (GWh)		6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167
LCOE price ($/MWh)		76	76	76	76	76	76	76	76	76	76	76	76	76	76	76	76	76	76	76	76	76
Total revenues		**470**	**470**	**470**	**470**	**470**	**470**	**470**	**470**	**470**	**470**	**470**	**470**	**470**	**470**	**470**	**470**	**470**	**470**	**470**	**470**	**470**
Generation (GWh)		6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167	6,167
Heat rate (Btu/kWh)		7,644	7,644	7,644	7,644	7,644	7,644	7,644	7,644	7,644	7,644	7,644	7,644	7,644	7,644	7,644	7,644	7,644	7,644	7,644	7,644	7,644
Fuel cost ($/MMBtu)		9.78	7.00	5.60	5.26	5.16	5.14	5.27	5.38	5.48	5.59	5.70	5.82	5.94	6.05	6.18	6.30	6.42	6.55	6.68	6.82	6.95
Fuel cost ($MM)		**461**	**330**	**264**	**248**	**243**	**242**	**248**	**253**	**258**	**264**	**269**	**274**	**280**	**285**	**291**	**297**	**303**	**309**	**315**	**321**	**328**
Capacity (MW)		1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083	1,083
Fixed O&M ($/kW-yr)		15.32	15.48	15.63	15.79	15.95	16.11	16.27	16.43	16.59	16.76	16.93	17.10	17.27	17.44	17.61	17.79	17.97	18.15	18.33	18.51	18.70
Fixed O&M		**17**	**17**	**17**	**17**	**17**	**17**	**18**	**18**	**18**	**18**	**18**	**19**	**19**	**19**	**19**	**19**	**19**	**20**	**20**	**20**	**20**
Financing																						
Beginning debt balance		828	807	785	762	738	711	684	654	623	590	555	518	479	437	393	346	297	244	188	129	66
Principal payment		(21)	(22)	(23)	(25)	(26)	(28)	(29)	(31)	(33)	(35)	(37)	(39)	(42)	(44)	(47)	(50)	(53)	(56)	(59)	(63)	(66)
Ending debt balance		807	785	762	738	711	684	654	623	590	555	518	479	437	393	346	297	244	188	129	66	-
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(50)	(48)	(47)	(46)	(44)	(43)	(41)	(39)	(37)	(35)	(33)	(31)	(29)	(26)	(24)	(21)	(18)	(15)	(11)	(8)	(4)
Levelized debt service		*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*	*(70)*

Source: Guggenheim Securities, LLC, company filings, EIA

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Natural Gas Peaking Plant LCOE Analysis



		Scenarios		
		Low	Base	High
Unit				
Capacity (MW)		237	237	237
Capacity factor		33%	30%	28%
Heat rate (Btu/kWh)		9,410	9,905	11,886
Implied efficiency	*3,412*	*36%*	*34%*	*29%*
Heat rate degradation per yr		1.0%	1.0%	1.0%
Total Capital Costs ($/kW)		707	785	942
Total Capital Investment ($mm)		167	186	223
Fuel				
Price sensitivity		2.5%	2.5%	2.5%
Fuel cost adder		-2.0%	0%	2.0%
Growth after curves		0.0%	2%	4.0%
O&M				
Variable O&M ($/MWh)		3.77	4.71	5.65
Fixed O&M ($/kW-yr)		5.86	7.33	8.80
Escalation		1.0%	1.0%	1.0%

Source: Guggenheim Securities, LLC, company filings, EIA

Key takeaways

- Low capacity factor – Only intended to run during peak demand hours
- Low efficiency – Owners aren't likely to invest in efficiency improvements since the plants don't operate often
- Flexibility (i.e., quick ramp-up) and low natural gas prices support gas-fired combustion turbines as peaking units

Cost

- $707 - $942 per kW installed cost
- $89 - $135 per MWh LCOE

Performance

- **Size:** 237MW
- **Efficiency:** 36% - 39%
- **Emissions:** Conventional combustion turbines do not include controls for CO2, which is proportional to heat rate (inversely proportional to the efficiency); control may be accomplished through an SCR and an oxidization catalyst
- **Ramping:** Quick

Other considerations

- Low thermal efficiency but quick starting times
- Can change load quickly and back down economically during peak demand hours (highest energy prices)
- Flexibility has few substitutes but may be challenged by solar shaving peak demand or if battery storage becomes more economically feasible

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Natural Gas Peaking Plant IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		77	77	77	77	77	77	77	77	77	77	77	77	77	77	77	77	77	77	77	77	77
Fuel expense		(66)	(48)	(39)	(37)	(36)	(37)	(38)	(40)	(42)	(44)	(46)	(49)	(51)	(54)	(56)	(59)	(62)	(65)	(68)	(72)	(76)
Operating expense		(5)	(5)	(5)	(5)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		5	24	33	35	35	35	33	31	29	27	25	22	20	17	14	12	9	5	2	(2)	(5)
Margin		*7%*	*31%*	*42%*	*45%*	*45%*	*45%*	*43%*	*41%*	*38%*	*35%*	*32%*	*29%*	*26%*	*22%*	*19%*	*15%*	*11%*	*7%*	*3%*	*-2%*	*-7%*
Levelized debt service		(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
Depreciation		(8)	(16)	(15)	(14)	(13)	(12)	(11)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(5)
Earnings before taxes		(15)	(4)	6	9	11	11	11	10	8	6	3	1	(1)	(4)	(7)	(10)	(13)	(16)	(19)	(23)	(22)
Income taxes		3	0	(3)	(4)	(4)	(4)	(4)	(4)	(4)	(3)	(3)	(2)	(1)	(1)	(0)	0	1	2	3	3	3
Net income		**(12)**	**(4)**	**4**	**6**	**7**	**7**	**7**	**6**	**4**	**3**	**1**	**(1)**	**(3)**	**(5)**	**(7)**	**(9)**	**(12)**	**(14)**	**(17)**	**(19)**	**(19)**
+ Depreciation		8	16	15	14	13	12	11	10	10	10	10	10	10	10	10	10	10	10	10	10	5
CF to equity	(89)	**(3)**	**12**	**18**	**20**	**19**	**19**	**18**	**16**	**14**	**13**	**11**	**9**	**7**	**5**	**3**	**1**	**(2)**	**(4)**	**(7)**	**(9)**	**(14)**
IRR	**10%**																					

LEVELIZED COST OF ENERGY ANALYSIS

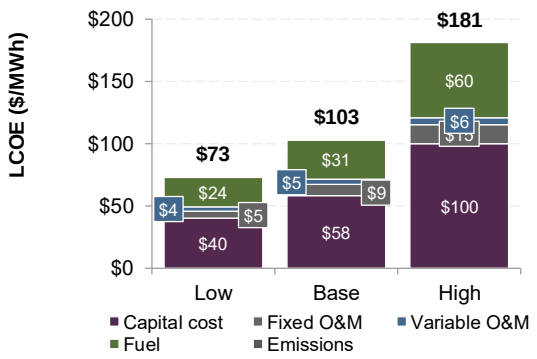
Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Operations																						
Capacity (MW)		237	237	237	237	237	237	237	237	237	237	237	237	237	237	237	237	237	237	237	237	237
Capacity factor (%)		28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%	28%
Generation (GWh)		571	571	571	571	571	571	571	571	571	571	571	571	571	571	571	571	571	571	571	571	571
LCOE price ($/MWh)		135	135	135	135	135	135	135	135	135	135	135	135	135	135	135	135	135	135	135	135	135
Total revenues		**77**	**77**	**77**	**77**	**77**	**77**	**77**	**77**	**77**	**77**	**77**	**77**	**77**	**77**	**77**	**77**	**77**	**77**	**77**	**77**	**77**
Generation (GWh)		571	571	571	571	571	571	571	571	571	571	571	571	571	571	571	571	571	571	571	571	571
Heat rate (Btu/kWh)		11,886	12,005	12,125	12,246	12,369	12,492	12,617	12,743	12,871	13,000	13,130	13,261	13,393	13,527	13,663	13,799	13,937	14,077	14,217	14,360	14,503
Fuel cost ($/MMBtu)		9.78	7.00	5.60	5.26	5.16	5.14	5.27	5.48	5.70	5.93	6.17	6.41	6.67	6.94	7.21	7.50	7.80	8.11	8.44	8.78	9.13
Fuel cost ($MM)		**66**	**48**	**39**	**37**	**36**	**37**	**38**	**40**	**42**	**44**	**46**	**49**	**51**	**54**	**56**	**59**	**62**	**65**	**68**	**72**	**76**
Capacity (MW)		237	237	237	237	237	237	237	237	237	237	237	237	237	237	237	237	237	237	237	237	237
Fixed O&M ($/kW-yr)		8.80	8.88	8.97	9.06	9.15	9.24	9.34	9.43	9.52	9.62	9.72	9.81	9.91	10.01	10.11	10.21	10.31	10.42	10.52	10.63	10.73
Fixed O&M		**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**3**	**3**
Financing																						
Beginning debt balance		134	131	127	123	119	115	111	106	101	95	90	84	77	71	64	56	48	39	30	21	11
Principal payment		(3)	(4)	(4)	(4)	(4)	(4)	(5)	(5)	(5)	(6)	(6)	(6)	(7)	(7)	(8)	(8)	(9)	(9)	(10)	(10)	(11)
Ending debt balance		131	127	123	119	115	111	106	101	95	90	84	77	71	64	56	48	39	30	21	11	(0)
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(8)	(8)	(8)	(7)	(7)	(7)	(7)	(6)	(6)	(6)	(5)	(5)	(5)	(4)	(4)	(3)	(3)	(2)	(2)	(1)	(1)
Levelized debt service		*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*	*(11)*

Source: Guggenheim Securities, LLC, company filings, EIA

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COAL (ST)

Coal LCOE Analysis



	Scenarios		
	Low	Base	High
Unit			
Capacity (MW)	650	650	650
Capacity factor	73%	56%	39%
Heat rate (Btu/kWh)	8,741	8,638	13,237
Implied efficiency 3,412	*39%*	*40%*	*26%*
Heat rate degradation per yr	0.5%	0.5%	0.5%
Total Capital Costs ($/kW)	2,250	2,500	3,000
Total Capital Investment ($mm)	1,463	1,625	1,950
Fuel			
Fuel price	60.00	80.00	100.00
Conversion to MMBtu	11,000	11,000	11,000
Fuel cost ($/MMBtu)	2.73	3.64	4.55
O&M			
Variable O&M ($/MWh)	3.77	4.71	5.65
Fixed O&M ($/kW-yr)	33.99	42.49	50.99
Escalation	1.0%	1.0%	1.0%

Source: Guggenheim Securities, LLC, company filings, EIA

Key takeaways

- Uses a gasifier to turn coal and other carbon based fuels into synthesized gas, resulting in lower emissions – but not enough to meet pending environmental regulation
- While coal without CCS would not meet pending environmental regulation, we model this technology to demonstrate coal economics in case environmental policy were to reverse

Cost

- $2,250-$3,000 per KW installed cost
- $73 - $181 per MWh LCOE

Performance

- **Size:** 650 MW
- **Efficiency:** ~40%
- **Emissions:** Gasifying lowers emissions, although at a cost, and not sufficient to meet environmental regulation
- **Ramping:** Longer

Other considerations

- Access to coal delivery by rail, truck, or barge is required
- Our fuel (coal) price assumption is for Central Appalachian coal; however, this can be sourced elsewhere and price should be adjusted to reflect delivery costs
- We assume heat content of 11,000 MMBtu/lb – this would range based on type of coal

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Coal IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		398	398	398	398	398	398	398	398	398	398	398	398	398	398	398	398	398	398	398	398	398
Fuel expense		(132)	(134)	(136)	(138)	(140)	(142)	(145)	(147)	(149)	(151)	(153)	(156)	(158)	(160)	(163)	(165)	(168)	(170)	(173)	(176)	(178)
Operating expense		(46)	(46)	(46)	(47)	(47)	(48)	(48)	(49)	(49)	(50)	(50)	(51)	(51)	(52)	(52)	(53)	(53)	(54)	(54)	(55)	(56)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		220	217	215	212	210	207	205	202	199	197	194	191	188	185	182	179	176	173	170	167	164
Margin		*55%*	*55%*	*54%*	*53%*	*53%*	*52%*	*51%*	*51%*	*50%*	*49%*	*49%*	*48%*	*47%*	*47%*	*46%*	*45%*	*44%*	*44%*	*43%*	*42%*	*41%*
Levelized debt service		(99)	(99)	(99)	(99)	(99)	(99)	(99)	(99)	(99)	(99)	(99)	(99)	(99)	(99)	(99)	(99)	(99)	(99)	(99)	(99)	(99)
Depreciation		(73)	(141)	(130)	(120)	(111)	(103)	(95)	(88)	(87)	(87)	(87)	(87)	(87)	(87)	(87)	(87)	(87)	(87)	(87)	(87)	(44)
Earnings before taxes		47	(23)	(15)	(7)	(1)	5	10	14	13	10	7	5	2	(1)	(4)	(7)	(10)	(13)	(16)	(19)	21
Income taxes		(21)	(2)	(5)	(7)	(10)	(12)	(14)	(16)	(16)	(16)	(16)	(16)	(17)	(17)	(17)	(17)	(18)	(18)	(18)	(19)	(31)
Net income		**26**	**(25)**	**(20)**	**(15)**	**(11)**	**(7)**	**(4)**	**(2)**	**(3)**	**(6)**	**(9)**	**(12)**	**(15)**	**(18)**	**(21)**	**(24)**	**(28)**	**(31)**	**(35)**	**(38)**	**(10)**
+ Depreciation		73	141	130	120	111	103	95	88	87	87	87	87	87	87	87	87	87	87	87	87	44
CF to equity	(780)	**99**	**116**	**111**	**105**	**101**	**96**	**91**	**87**	**84**	**81**	**78**	**75**	**72**	**69**	**66**	**63**	**59**	**56**	**52**	**49**	**33**
IRR	**9.9%**																					

LEVELIZED COST OF ENERGY ANALYSIS

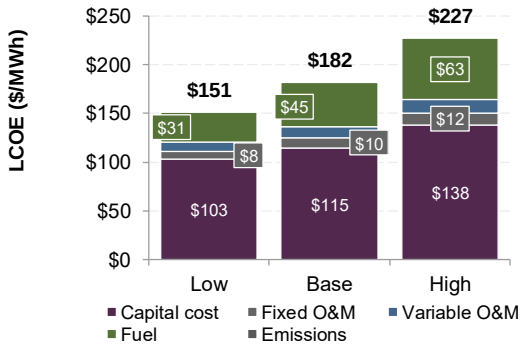
Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Operations																						
Capacity (MW)		650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650
Capacity factor (%)		39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%
Generation (GWh)		2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196
LCOE price ($/MWh)		181	181	181	181	181	181	181	181	181	181	181	181	181	181	181	181	181	181	181	181	181
Total revenues		**398**	**398**	**398**	**398**	**398**	**398**	**398**	**398**	**398**	**398**	**398**	**398**	**398**	**398**	**398**	**398**	**398**	**398**	**398**	**398**	**398**
Generation (GWh)		2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196	2,196
Heat rate (Btu/kWh)		13,237	13,303	13,369	13,436	13,503	13,571	13,639	13,707	13,776	13,844	13,914	13,983	14,053	14,123	14,194	14,265	14,336	14,408	14,480	14,552	14,625
Fuel cost ($/MMBtu)		4.55	4.59	4.64	4.68	4.73	4.78	4.83	4.87	4.92	4.97	5.02	5.07	5.12	5.17	5.22	5.28	5.33	5.38	5.44	5.49	5.55
Fuel cost ($MM)		**132**	**134**	**136**	**138**	**140**	**142**	**145**	**147**	**149**	**151**	**153**	**156**	**158**	**160**	**163**	**165**	**168**	**170**	**173**	**176**	**178**
Capacity (MW)		650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650
Fixed O&M ($/kW-yr)		50.99	51.50	52.01	52.53	53.06	53.59	54.12	54.67	55.21	55.76	56.32	56.89	57.45	58.03	58.61	59.20	59.79	60.39	60.99	61.60	62.22
Fixed O&M		**33**	**33**	**34**	**34**	**34**	**35**	**35**	**36**	**36**	**36**	**37**	**37**	**37**	**38**	**38**	**38**	**39**	**39**	**40**	**40**	**40**
Financing																						
Beginning debt balance		1,170	1,141	1,110	1,077	1,042	1,005	966	924	880	834	784	732	676	618	555	489	419	345	266	182	94
Principal payment		(29)	(31)	(33)	(35)	(37)	(39)	(41)	(44)	(47)	(49)	(52)	(56)	(59)	(62)	(66)	(70)	(74)	(79)	(84)	(89)	(94)
Ending debt balance		1,141	1,110	1,077	1,042	1,005	966	924	880	834	784	732	676	618	555	489	419	345	266	182	94	-
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(70)	(68)	(67)	(65)	(63)	(60)	(58)	(55)	(53)	(50)	(47)	(44)	(41)	(37)	(33)	(29)	(25)	(21)	(16)	(11)	(6)
Levelized debt service		*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*	*(99)*

Source: Guggenheim Securities, LLC, company filings, EIA

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COAL WITH CARBON CAPTURE (CCS)

Coal with Carbon Capture and Storage LCOE Analysis



		Scenarios		
		Low	Base	High
Unit				
Capacity (MW)		650	650	650
Capacity factor		70%	70%	70%
Heat rate (Btu/kWh)		11,256	12,507	13,758
Implied efficiency	*3,412*	*30%*	*27%*	*25%*
Heat rate degradation per yr		0.0%	0.0%	0.0%
Total Capital Costs ($/kW)		5,846	6,495	7,794
Total Capital Investment ($mm)		3,800	4,222	5,066
Fuel				
Fuel price		60.00	80.00	100.00
Conversion to MMBtu		11,000	11,000	11,000
Fuel cost ($/MMBtu)		2.73	3.64	4.55
O&M				
Variable O&M ($/MWh)		9.19	11.49	13.79
Fixed O&M ($/kW-yr)		49.87	62.34	74.81
Escalation		1.0%	1.0%	1.0%

Source: Guggenheim Securities, LLC, company filings, EIA

Key takeaways

- Uses a gasifier to turn coal and other carbon based fuels into synthesized gas, resulting in lower emissions
- CCS reduces emissions further, to an acceptable level, although puts the technology out of the money

Cost

- $5,845-$7,794 per KW installed cost
- $151 - $227 per MWh LCOE

Performance

- **Size:** 650 MW
- **Efficiency:** 28% - 34%
- **Emissions:** Carbon capture and storage required to meet emission standards, although consumes significant power production and hurts economics
- **Ramping:** Longer

Other considerations

- Access to coal delivery is required
- When a sequestration site is not near the facility, transportation for sequestration has the potential to materially affect the capital cost estimates
- Our fuel (coal) price assumption is for Central Appalachian coal; however, this can be sourced elsewhere and price should be adjusted to reflect delivery costs
- We assume heat content of 11,000 mmbtu/lb – this would range based on type of coal

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Coal with Carbon Capture and Storage IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		442	442	442	442	442	442	442	442	442	442	442	442	442	442	442	442	442	442	442	442	442
Fuel expense		(63)	(64)	(65)	(65)	(66)	(67)	(67)	(68)	(69)	(69)	(70)	(71)	(71)	(72)	(73)	(74)	(74)	(75)	(76)	(77)	(77)
Operating expense		(74)	(75)	(75)	(76)	(77)	(78)	(78)	(79)	(80)	(81)	(82)	(82)	(83)	(84)	(85)	(86)	(87)	(87)	(88)	(89)	(90)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		305	304	302	301	300	298	297	295	294	292	291	289	288	286	285	283	282	280	278	277	275
Margin		*69%*	*69%*	*68%*	*68%*	*68%*	*67%*	*67%*	*67%*	*66%*	*66%*	*66%*	*65%*	*65%*	*65%*	*64%*	*64%*	*64%*	*63%*	*63%*	*63%*	*62%*
Levelized debt service		(149)	(149)	(149)	(149)	(149)	(149)	(149)	(149)	(149)	(149)	(149)	(149)	(149)	(149)	(149)	(149)	(149)	(149)	(149)	(149)	(149)
Depreciation		(110)	(211)	(195)	(181)	(167)	(155)	(143)	(132)	(131)	(130)	(131)	(130)	(131)	(130)	(131)	(130)	(131)	(130)	(131)	(130)	(65)
Earnings before taxes		46	(56)	(42)	(29)	(17)	(6)	5	14	14	13	11	10	8	7	5	3	2	0	(1)	(3)	61
Income taxes		(25)	3	(2)	(6)	(11)	(15)	(18)	(22)	(23)	(24)	(25)	(25)	(26)	(27)	(28)	(30)	(31)	(32)	(34)	(35)	(55)
Net income		**22**	**(54)**	**(44)**	**(35)**	**(27)**	**(20)**	**(14)**	**(8)**	**(9)**	**(11)**	**(13)**	**(16)**	**(18)**	**(21)**	**(23)**	**(26)**	**(29)**	**(32)**	**(35)**	**(38)**	**6**
+ Depreciation		110	211	195	181	167	155	143	132	131	130	131	130	131	130	131	130	131	130	131	130	65
CF to equity	(1,170)	**131**	**157**	**151**	**145**	**140**	**135**	**129**	**124**	**122**	**119**	**117**	**115**	**112**	**110**	**107**	**104**	**101**	**98**	**95**	**92**	**71**
IRR	**10%**																					

LEVELIZED COST OF ENERGY ANALYSIS

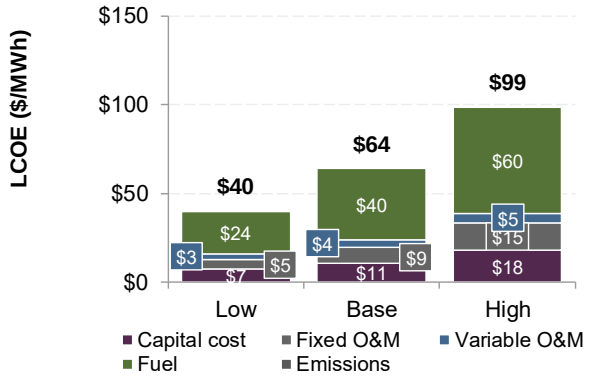
Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Operations																						
Capacity (MW)		650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650
Capacity factor (%)		70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
Generation (GWh)		3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986
LCOE price ($/MWh)		111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111
Total revenues		**442**	**442**	**442**	**442**	**442**	**442**	**442**	**442**	**442**	**442**	**442**	**442**	**442**	**442**	**442**	**442**	**442**	**442**	**442**	**442**	**442**
Generation (GWh)		3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986	3,986
Heat rate (Btu/kWh)		10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Fuel cost ($/MMBtu)		1.59	1.61	1.62	1.64	1.66	1.67	1.69	1.71	1.72	1.74	1.76	1.77	1.79	1.81	1.83	1.85	1.87	1.88	1.90	1.92	1.94
Fuel cost ($MM)		**63**	**64**	**65**	**65**	**66**	**67**	**67**	**68**	**69**	**69**	**70**	**71**	**71**	**72**	**73**	**74**	**74**	**75**	**76**	**77**	**77**
Capacity (MW)		650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650	650
Fixed O&M ($/kW-yr)		70.00	70.70	71.41	72.12	72.84	73.57	74.31	75.05	75.80	76.56	77.32	78.10	78.88	79.67	80.46	81.27	82.08	82.90	83.73	84.57	85.41
Fixed O&M		**46**	**46**	**46**	**47**	**47**	**48**	**48**	**49**	**49**	**50**	**50**	**51**	**51**	**52**	**52**	**53**	**53**	**54**	**54**	**55**	**56**
Financing																						
Beginning debt balance		1,755	1,711	1,665	1,615	1,563	1,508	1,449	1,387	1,321	1,251	1,177	1,098	1,015	926	833	734	628	517	399	274	141
Principal payment		(44)	(47)	(49)	(52)	(55)	(59)	(62)	(66)	(70)	(74)	(79)	(83)	(88)	(94)	(99)	(105)	(111)	(118)	(125)	(133)	(141)
Ending debt balance		1,711	1,665	1,615	1,563	1,508	1,449	1,387	1,321	1,251	1,177	1,098	1,015	926	833	734	628	517	399	274	141	(0)
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(105)	(103)	(100)	(97)	(94)	(90)	(87)	(83)	(79)	(75)	(71)	(66)	(61)	(56)	(50)	(44)	(38)	(31)	(24)	(16)	(8)
Levelized debt service		*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*	*(149)*

Source: Guggenheim Securities, LLC, company filings, EIA

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EXISTING COAL (SHORT RUN COAL COST)

Existing Coal LCOE Analysis



		Scenarios		
		Low	Base	High
Unit				
Capacity (MW)		500	500	500
Capacity factor		73%	56%	39%
Heat rate (Btu/kWh)		8,741	10,989	13,237
Implied efficiency	*3,412*	*39%*	*31%*	*26%*
Heat rate degradation per yr		0.5%	0.5%	0.5%
Total Capital Costs ($/kW)		360	400	480
Total Capital Investment ($mm)		180	200	240
Fuel				
Fuel price		60.00	80.00	100.00
Conversion to MMBtu		11,000	11,000	11,000
Fuel cost ($/MMBtu)		2.73	3.64	4.55
O&M				
Variable O&M ($/MWh)		3.37	4.22	5.06
Fixed O&M ($/kW-yr)		34.34	42.92	51.50
Escalation		1.0%	1.0%	1.0%

Source: Guggenheim Securities, LLC, company filings, EIA

Key takeaways

- Uses a gasifier to turn coal and other carbon based fuels into synthesized gas, resulting in lower emissions – but not enough to meet pending environmental regulation
- While coal without CCS would not meet pending environmental regulation, we model this technology to demonstrate coal economics in case environmental policy were to reverse

Cost

- $360-$480 per KW installed cost (or legacy acquisition cost)
- $40 - $99 per MWh LCOE

Performance

- **Size: 5**00 MW
- **Efficiency:** ~40%
- **Emissions:** Gasifying lowers emissions, although at a cost, and not sufficient to meet environmental regulation
- **Ramping:** Longer

Other considerations

- Access to coal delivery by rail, truck, or barge is required
- Our fuel (coal) price assumption is for Central Appalachian coal; however, this can be sourced elsewhere and price should be adjusted to reflect delivery costs
- We assume heat content of 11,000 MMBtu/lb – this would range based on type of coal

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Existing Coal IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		167	167	167	167	167	167	167	167	167	167	167	167	167	167	167	167	167	167	167	167	167
Fuel expense		(102)	(102)	(103)	(103)	(104)	(104)	(105)	(105)	(106)	(106)	(107)	(107)	(108)	(108)	(109)	(110)	(110)	(111)	(111)	(112)	(112)
Operating expense		(34)	(35)	(35)	(35)	(36)	(36)	(36)	(37)	(37)	(38)	(38)	(38)	(39)	(39)	(39)	(40)	(40)	(41)	(41)	(41)	(42)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		31	30	29	28	27	27	26	25	24	23	22	21	20	19	18	17	17	16	15	14	13
Margin		*19%*	*18%*	*17%*	*17%*	*16%*	*16%*	*15%*	*15%*	*14%*	*14%*	*13%*	*13%*	*12%*	*12%*	*11%*	*10%*	*10%*	*9%*	*9%*	*8%*	*8%*
Levelized debt service		(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)
Depreciation		(9)	(17)	(16)	(15)	(14)	(13)	(12)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(5)
Earnings before taxes		10	0	1	1	1	2	2	2	1	0	(1)	(2)	(3)	(4)	(5)	(5)	(6)	(7)	(8)	(9)	(5)
Income taxes		(4)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(0)	(2)
Net income		**6**	**(1)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(0)**	**(1)**	**(2)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(7)**
+ Depreciation		9	17	16	15	14	13	12	11	11	11	11	11	11	11	11	11	11	11	11	11	5
CF to equity	(96)	**15**	**17**	**16**	**15**	**14**	**13**	**12**	**11**	**10**	**9**	**8**	**8**	**7**	**6**	**5**	**4**	**4**	**3**	**2**	**1**	**(1)**
IRR	**9.9%**																					

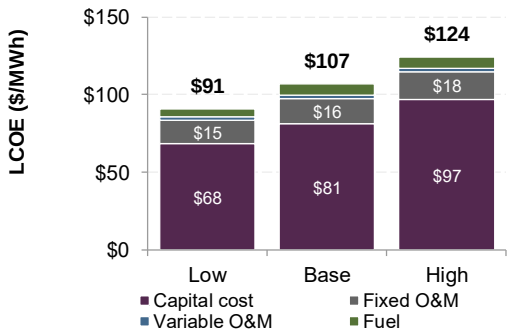
LEVELIZED COST OF ENERGY ANALYSIS

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Operations																						
Capacity (MW)		500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500
Capacity factor (%)		39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%
Generation (GWh)		1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690
LCOE price ($/MWh)		99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99
Total revenues		**167**	**167**	**167**	**167**	**167**	**167**	**167**	**167**	**167**	**167**	**167**	**167**	**167**	**167**	**167**	**167**	**167**	**167**	**167**	**167**	**167**
Generation (GWh)		1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690
Heat rate (Btu/kWh)		13,237	13,303	13,369	13,436	13,503	13,571	13,639	13,707	13,776	13,844	13,914	13,983	14,053	14,123	14,194	14,265	14,336	14,408	14,480	14,552	14,625
Fuel cost ($/MMBtu)		4.55	4.55	4.55	4.55	4.55	4.55	4.55	4.55	4.55	4.55	4.55	4.55	4.55	4.55	4.55	4.55	4.55	4.55	4.55	4.55	4.55
Fuel cost ($MM)		**102**	**102**	**103**	**103**	**104**	**104**	**105**	**105**	**106**	**106**	**107**	**107**	**108**	**108**	**109**	**110**	**110**	**111**	**111**	**112**	**112**
Capacity (MW)		500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500
Fixed O&M ($/kW-yr)		51.50	52.02	52.54	53.06	53.59	54.13	54.67	55.22	55.77	56.33	56.89	57.46	58.03	58.62	59.20	59.79	60.39	61.00	61.60	62.22	62.84
Fixed O&M		**26**	**26**	**26**	**27**	**27**	**27**	**27**	**28**	**28**	**28**	**28**	**29**	**29**	**29**	**30**	**30**	**30**	**30**	**31**	**31**	**31**
Financing																						
Beginning debt balance		144	140	137	133	128	124	119	114	108	103	97	90	83	76	68	60	52	42	33	22	12
Principal payment		(4)	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(6)	(6)	(6)	(7)	(7)	(8)	(8)	(9)	(9)	(10)	(10)	(11)	(12)
Ending debt balance		140	137	133	128	124	119	114	108	103	97	90	83	76	68	60	52	42	33	22	12	(0)
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(9)	(8)	(8)	(8)	(8)	(7)	(7)	(7)	(7)	(6)	(6)	(5)	(5)	(5)	(4)	(4)	(3)	(3)	(2)	(1)	(1)
Levelized debt service		*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*	*(12)*

Source: Guggenheim Securities, LLC, company filings, EIA

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Nuclear LCOE Analysis



	Scenarios		
	Low	Base	High
Unit			
Capacity (MW)	2,156	2,156	2,156
Capacity factor	93%	90%	87%
Heat rate (Btu/kWh)	9,921	10,443	10,965
Implied efficiency 3,412	*34%*	*33%*	*31%*
Heat rate degradation per yr	0.0%	0.0%	0.0%
Total Capital Costs ($/kW)	6,360	6,695	7,030
Total Capital Investment ($mm)	13,713	14,434	15,156
Fuel			
Fuel price	-	-	-
Conversion to MMBtu	-	-	-
Fuel cost ($/MMBtu)	0.63	0.70	0.77
O&M			
Variable O&M ($/MWh)	2.36	2.48	2.60
Fixed O&M ($/kW-yr)	120.98	127.35	133.72
Escalation	1.0%	1.0%	1.0%

Source: Guggenheim Securities, LLC, company filings, EIA

Key takeaways

- Used for base load power generation – Fission of uranium generates heat to create steam, which is directed to the steam turbine
- High capital costs and uncertainty around future costs associated with safety restrict the economics of new nuclear construction
- Our analysis does not include decommissioning costs or maintenance CapEx, both of which would materially increase LCOE

Cost

- $6,360-$7,030 per kW installed cost
- $91 - $124 per MWh LCOE

Performance

- **Size:** >2,000 MW
- **Capacity factor:** >85%
- **Emissions:** Power generation does not produce greenhouse gases, although concerns around containing spent nuclear fuel remain
- **Ramping:** Should operate continuously with planned outages for maintenance and fueling

Other considerations

- Federal and state environmental policy provide a lifeline for existing key nuclear plants
- Decommissioning costs would materially increase LCOE
- Maintenance CapEx could materially increase LCOE

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Nuclear IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		1,819	1,718	1,819	1,718	1,819	1,718	1,819	1,718	1,819	1,718	1,819	1,718	1,819	1,718	1,819	1,718	1,819	1,718	1,819	1,718	1,819
Fuel expense		(124)	(119)	(127)	(121)	(129)	(123)	(132)	(126)	(135)	(128)	(137)	(131)	(140)	(134)	(143)	(136)	(146)	(139)	(149)	(142)	(152)
Operating expense		(317)	(318)	(323)	(324)	(330)	(330)	(336)	(337)	(343)	(344)	(350)	(351)	(357)	(358)	(364)	(365)	(371)	(372)	(379)	(380)	(386)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		1,378	1,282	1,369	1,273	1,360	1,264	1,351	1,255	1,341	1,246	1,332	1,236	1,322	1,226	1,312	1,217	1,302	1,206	1,291	1,196	1,281
Margin		*76%*	*75%*	*75%*	*74%*	*75%*	*74%*	*74%*	*73%*	*74%*	*73%*	*73%*	*72%*	*73%*	*71%*	*72%*	*71%*	*72%*	*70%*	*71%*	*70%*	*70%*
Levelized debt service		(572)	(572)	(572)	(572)	(572)	(572)	(572)	(572)	(572)	(572)	(572)	(572)	(572)	(572)	(572)	(572)	(572)	(572)	(572)	(572)	(572)
Depreciation		(541)	(1,042)	(964)	(892)	(825)	(763)	(706)	(653)	(644)	(644)	(644)	(644)	(644)	(644)	(644)	(644)	(644)	(644)	(644)	(644)	(322)
Earnings before taxes		264	(332)	(167)	(191)	(37)	(71)	73	30	125	30	115	20	106	10	96	0	86	(10)	75	(20)	387
Income taxes		(87)	76	30	35	(8)	0	(40)	(30)	(57)	(32)	(57)	(33)	(58)	(33)	(59)	(34)	(60)	(36)	(61)	(38)	(152)
Net income		**178**	**(257)**	**(137)**	**(156)**	**(45)**	**(71)**	**33**	**0**	**68**	**(3)**	**58**	**(13)**	**48**	**(23)**	**37**	**(34)**	**26**	**(46)**	**14**	**(58)**	**235**
+ Depreciation		541	1,042	964	892	825	763	706	653	644	644	644	644	644	644	644	644	644	644	644	644	322
CF to equity	(5,774)	**719**	**785**	**826**	**736**	**780**	**692**	**738**	**653**	**712**	**641**	**702**	**631**	**692**	**621**	**681**	**610**	**670**	**598**	**658**	**586**	**557**
IRR	**11%**																					

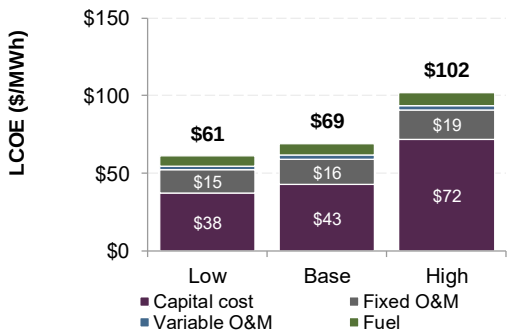
LEVELIZED COST OF ENERGY ANALYSIS

			Refuel		*Refuel*		*Refuel*		*Refuel*		*Refuel*		*Refuel*		*Refuel*		*Refuel*		*Refuel*		*Refuel*	
Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Operations																						
Capacity (MW)		2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156
Capacity factor (%)		90%	85%	90%	85%	90%	85%	90%	85%	90%	85%	90%	85%	90%	85%	90%	85%	90%	85%	90%	85%	90%
Generation (GWh)		16,998	16,054	16,998	16,054	16,998	16,054	16,998	16,054	16,998	16,054	16,998	16,054	16,998	16,054	16,998	16,054	16,998	16,054	16,998	16,054	16,998
LCOE price ($/MWh)		107	107	107	107	107	107	107	107	107	107	107	107	107	107	107	107	107	107	107	107	107
Total revenues		**1,819**	**1,718**	**1,819**	**1,718**	**1,819**	**1,718**	**1,819**	**1,718**	**1,819**	**1,718**	**1,819**	**1,718**	**1,819**	**1,718**	**1,819**	**1,718**	**1,819**	**1,718**	**1,819**	**1,718**	**1,819**
Generation (GWh)		16,998	16,054	16,998	16,054	16,998	16,054	16,998	16,054	16,998	16,054	16,998	16,054	16,998	16,054	16,998	16,054	16,998	16,054	16,998	16,054	16,998
Heat rate (Btu/kWh)		10,443	10,443	10,443	10,443	10,443	10,443	10,443	10,443	10,443	10,443	10,443	10,443	10,443	10,443	10,443	10,443	10,443	10,443	10,443	10,443	10,443
Fuel cost ($/MMBtu)		0.70	0.71	0.71	0.72	0.73	0.74	0.74	0.75	0.76	0.77	0.77	0.78	0.79	0.80	0.80	0.81	0.82	0.83	0.84	0.85	0.85
Fuel cost ($MM)		**124**	**119**	**127**	**121**	**129**	**123**	**132**	**126**	**135**	**128**	**137**	**131**	**140**	**134**	**143**	**136**	**146**	**139**	**149**	**142**	**152**
Capacity (MW)		2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156	2,156
Fixed O&M ($/kW-yr)		127.35	128.62	129.91	131.21	132.52	133.85	135.18	136.54	137.90	139.28	140.67	142.08	143.50	144.94	146.39	147.85	149.33	150.82	152.33	153.85	155.39
Fixed O&M		**275**	**277**	**280**	**283**	**286**	**289**	**291**	**294**	**297**	**300**	**303**	**306**	**309**	**312**	**316**	**319**	**322**	**325**	**328**	**332**	**335**
Financing																						
Beginning debt balance		8,661	8,608	8,553	8,494	8,431	8,365	8,295	8,220	8,141	8,058	7,969	7,875	7,775	7,670	7,558	7,439	7,314	7,180	7,039	6,889	6,730
Principal payment		(52)	(56)	(59)	(62)	(66)	(70)	(74)	(79)	(84)	(89)	(94)	(100)	(106)	(112)	(119)	(126)	(133)	(141)	(150)	(159)	(168)
Ending debt balance		8,608	8,553	8,494	8,431	8,365	8,295	8,220	8,141	8,058	7,969	7,875	7,775	7,670	7,558	7,439	7,314	7,180	7,039	6,889	6,730	6,562
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(520)	(516)	(513)	(510)	(506)	(502)	(498)	(493)	(488)	(483)	(478)	(473)	(467)	(460)	(453)	(446)	(439)	(431)	(422)	(413)	(404)
Levelized debt service		*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*	*(572)*

Source: Guggenheim Securities, LLC, company filings, EIA

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SMR LCOE Analysis



		Scenarios		
		Low	Base	High
Unit				
Capacity (MW)		308	308	308
Capacity factor		93%	90%	80%
Heat rate (Btu/kWh)		9,921	10,443	10,965
Implied efficiency	*3,412*	*34%*	*33%*	*31%*
Heat rate degradation per yr		0.0%	0.0%	0.0%
Total Capital Costs ($/kW)		3,240	3,600	5,400
Total Capital Investment ($mm)		998	1,109	1,663
Fuel				
Fuel price		-	-	-
Conversion to MMBtu		-	-	-
Fuel cost ($/MMBtu)		0.63	0.70	0.77
O&M				
Variable O&M ($/MWh)		2.36	2.48	2.60
Fixed O&M ($/kW-yr)		120.98	127.35	133.72
Escalation		1.0%	1.0%	1.0%

Source: Guggenheim Securities, LLC, company filings, EIA

Key takeaways

- Used for base load power generation – Fission of uranium generates heat to create steam, which is directed to the steam turbine
- A relatively lower cost than PWR nuclear with potential factory manufacturing and onsite assembly
- Our analysis estimates LCOE based on early indicator / industry targets despite no proof of underlying economics

Cost

- $3240-$5400 per kW installed cost
- $61 - $102 per MWh LCOE

Performance

- **Size:** 308 MW
- **Capacity factor:** >85%
- **Emissions:** Power generation does not produce greenhouse gases, although concern around containing spent nuclear fuel remain
- **Ramping:** Should operate continuously with planned outages for maintenance and fueling

Other considerations

- Decommissioning costs would materially increase LCOE
- Maintenance CapEx could materially increase LCOE

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SMR IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		220	206	220	206	220	206	220	206	220	206	220	206	220	206	220	206	220	206	220	206	220
Fuel expense		(18)	(17)	(19)	(18)	(19)	(18)	(19)	(18)	(20)	(19)	(20)	(19)	(21)	(19)	(21)	(20)	(21)	(20)	(22)	(21)	(22)
Operating expense		(47)	(47)	(48)	(48)	(49)	(49)	(50)	(50)	(51)	(51)	(52)	(52)	(53)	(53)	(54)	(54)	(55)	(55)	(56)	(56)	(57)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		155	142	154	141	152	140	151	138	150	137	148	136	147	134	145	133	144	131	142	130	141
Margin		*70%*	*69%*	*70%*	*68%*	*69%*	*68%*	*69%*	*67%*	*68%*	*66%*	*67%*	*66%*	*67%*	*65%*	*66%*	*64%*	*65%*	*64%*	*65%*	*63%*	*64%*
Levelized debt service		(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)
Depreciation		(62)	(120)	(111)	(103)	(95)	(88)	(81)	(75)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(37)
Earnings before taxes		27	(44)	(23)	(28)	(8)	(14)	4	(3)	10	(3)	8	(5)	7	(6)	5	(7)	4	(9)	2	(10)	38
Income taxes		(9)	10	4	6	0	2	(3)	(2)	(5)	(2)	(5)	(2)	(5)	(2)	(5)	(2)	(5)	(2)	(5)	(2)	(16)
Net income		**18**	**(34)**	**(19)**	**(22)**	**(8)**	**(13)**	**1**	**(5)**	**4**	**(5)**	**3**	**(6)**	**2**	**(8)**	**0**	**(9)**	**(1)**	**(11)**	**(3)**	**(13)**	**22**
+ Depreciation		62	120	111	103	95	88	81	75	74	74	74	74	74	74	74	74	74	74	74	74	37
CF to equity	(665)	**80**	**87**	**92**	**81**	**87**	**75**	**82**	**71**	**79**	**69**	**77**	**68**	**76**	**66**	**74**	**65**	**73**	**63**	**71**	**62**	**59**
IRR	**10%**																					

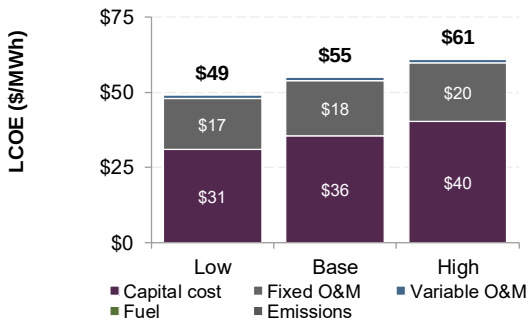
LEVELIZED COST OF ENERGY ANALYSIS

			Refuel		*Refuel*		*Refuel*		*Refuel*		*Refuel*		*Refuel*		*Refuel*		*Refuel*		*Refuel*		*Refuel*	
Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Operations																						
Capacity (MW)		308	308	308	308	308	308	308	308	308	308	308	308	308	308	308	308	308	308	308	308	308
Capacity factor (%)		80%	75%	80%	75%	80%	75%	80%	75%	80%	75%	80%	75%	80%	75%	80%	75%	80%	75%	80%	75%	80%
Generation (GWh)		2,158	2,024	2,158	2,024	2,158	2,024	2,158	2,024	2,158	2,024	2,158	2,024	2,158	2,024	2,158	2,024	2,158	2,024	2,158	2,024	2,158
LCOE price ($/MWh)		102	102	102	102	102	102	102	102	102	102	102	102	102	102	102	102	102	102	102	102	102
Total revenues		**220**	**206**	**220**	**206**	**220**	**206**	**220**	**206**	**220**	**206**	**220**	**206**	**220**	**206**	**220**	**206**	**220**	**206**	**220**	**206**	**220**
Generation (GWh)		2,158	2,024	2,158	2,024	2,158	2,024	2,158	2,024	2,158	2,024	2,158	2,024	2,158	2,024	2,158	2,024	2,158	2,024	2,158	2,024	2,158
Heat rate (Btu/kWh)		10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965	10,965
Fuel cost ($/MMBtu)		0.77	0.78	0.79	0.79	0.80	0.81	0.82	0.83	0.83	0.84	0.85	0.86	0.87	0.88	0.89	0.89	0.90	0.91	0.92	0.93	0.94
Fuel cost ($MM)		**18**	**17**	**19**	**18**	**19**	**18**	**19**	**18**	**20**	**19**	**20**	**19**	**21**	**19**	**21**	**20**	**21**	**20**	**22**	**21**	**22**
Capacity (MW)		308	308	308	308	308	308	308	308	308	308	308	308	308	308	308	308	308	308	308	308	308
Fixed O&M ($/kW-yr)		133.72	135.05	136.41	137.77	139.15	140.54	141.94	143.36	144.80	146.24	147.71	149.18	150.68	152.18	153.70	155.24	156.79	158.36	159.95	161.55	163.16
Fixed O&M		**41**	**42**	**42**	**42**	**43**	**43**	**44**	**44**	**45**	**45**	**45**	**46**	**46**	**47**	**47**	**48**	**48**	**49**	**49**	**50**	**50**
Financing																						
Beginning debt balance		998	992	985	979	971	964	956	947	938	928	918	907	896	884	871	857	843	827	811	794	776
Principal payment		(6)	(6)	(7)	(7)	(8)	(8)	(9)	(9)	(10)	(10)	(11)	(11)	(12)	(13)	(14)	(14)	(15)	(16)	(17)	(18)	(19)
Ending debt balance		992	985	979	971	964	956	947	938	928	918	907	896	884	871	857	843	827	811	794	776	756
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(60)	(60)	(59)	(59)	(58)	(58)	(57)	(57)	(56)	(56)	(55)	(54)	(54)	(53)	(52)	(51)	(51)	(50)	(49)	(48)	(47)
Levelized debt service		*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*	*(66)*

Source: Guggenheim Securities, LLC, company filings, EIA

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Geothermal LCOE Analysis



		Scenarios		
		Low	Base	High
Unit				
Capacity (MW)		50	50	50
Capacity factor		92%	90%	88%
Heat rate (Btu/kWh)		8,372	8,813	9,254
Implied efficiency	*3,412*	*41%*	*39%*	*37%*
Heat rate degradation per yr		0.0%	0.0%	0.0%
Total Capital Costs ($/kW)		2,768	3,076	3,384
Total Capital Investment ($mm)		138	154	169
Fuel				
Fuel price		-	-	-
Conversion to MMBtu		1.00	1.00	1.00
Fuel cost ($/MMBtu)		-	-	-
O&M				
Variable O&M ($/MWh)		1.15	1.21	1.27
Fixed O&M ($/kW-yr)		136.06	143.22	150.38
Escalation		0.0%	0.3%	0.5%

Source: Guggenheim Securities, LLC, company filings, EIA

Key takeaways

- Drilled wells provide geothermal heat to create steam, which passes through a steam turbine – base load power
- Make-up well drilling costs will increase as heat recovery from original wells decrease
- High thermal efficiency and starting time similar to fossil-generating systems

Cost

- $2,768-$3,384 per KW installed cost
- $49 - $61 per MWh LCOE

Performance

- **Size:** 50 MW
- **Capacity factor:** 88%-92%
- **Emissions:** Air emissions low, only steam. Wastewater is re-injected and recycles geothermal water. Solid material/sludges must be disposed
- **Ramping:** Equivalent to existing fossil-generating systems

Other considerations

- Seismic activity risk if water is injected for geothermal fracking to access “hotter rock”
- Decreasing heat recovery over time due to geothermal heat source losses

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Geothermal IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24	24
Fuel expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating expense		(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		16	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
Margin		*66%*	*66%*	*66%*	*65%*	*65%*	*65%*	*65%*	*65%*	*65%*	*64%*	*64%*	*64%*	*64%*	*64%*	*63%*	*63%*	*63%*	*63%*	*63%*	*63%*	*62%*
Levelized debt service		(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Depreciation		(34)	(54)	(32)	(19)	(19)	(10)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings before taxes		(27)	(47)	(26)	(13)	(13)	(3)	7	7	7	7	6	6	6	6	6	6	6	6	6	6	6
Income taxes		7	12	6	3	3	(0)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(4)	(4)	(4)	(4)
Net income		**(20)**	**(35)**	**(19)**	**(10)**	**(10)**	**(3)**	**4**	**4**	**4**	**4**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**2**	**2**	**2**
+ Depreciation		34	54	32	19	19	10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CF to equity	(68)	**14**	**19**	**13**	**9**	**9**	**7**	**4**	**4**	**4**	**4**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**2**	**2**	**2**
IRR	**10%**																					

LEVELIZED COST OF ENERGY ANALYSIS

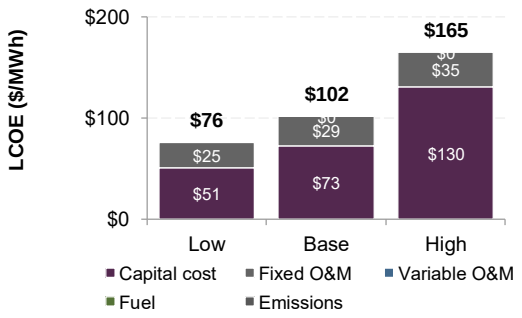
Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Operations																						
Capacity (MW)		50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
Capacity factor (%)		88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%
Generation (GWh)		385	385	385	385	385	385	385	385	385	385	385	385	385	385	385	385	385	385	385	385	385
LCOE price ($/MWh)		61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61
Total revenues		**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**	**24**
Generation (GWh)		385	385	385	385	385	385	385	385	385	385	385	385	385	385	385	385	385	385	385	385	385
Heat rate (Btu/kWh)		9,254	9,254	9,254	9,254	9,254	9,254	9,254	9,254	9,254	9,254	9,254	9,254	9,254	9,254	9,254	9,254	9,254	9,254	9,254	9,254	9,254
Fuel cost ($/MMBtu)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel cost ($MM)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capacity (MW)		50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
Fixed O&M ($/kW-yr)		150.38	151.13	151.89	152.65	153.41	154.18	154.95	155.72	156.50	157.29	158.07	158.86	159.66	160.45	161.26	162.06	162.87	163.69	164.51	165.33	166.16
Fixed O&M		**8**	**8**	**8**	**8**	**8**	**8**	**8**	**8**	**8**	**8**	**8**	**8**	**8**	**8**	**8**	**8**	**8**	**8**	**8**	**8**	**8**
Financing																						
Beginning debt balance		102	99	96	93	90	87	84	80	76	72	68	64	59	54	48	42	36	30	23	16	8
Principal payment		(3)	(3)	(3)	(3)	(3)	(3)	(4)	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(6)	(6)	(6)	(7)	(7)	(8)	(8)
Ending debt balance		99	96	93	90	87	84	80	76	72	68	64	59	54	48	42	36	30	23	16	8	0
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(6)	(6)	(6)	(6)	(5)	(5)	(5)	(5)	(5)	(4)	(4)	(4)	(4)	(3)	(3)	(3)	(2)	(2)	(1)	(1)	(0)
Levelized debt service		*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*

Source: Guggenheim Securities, LLC, company filings, EIA

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WIND (OFF-SHORE)

Wind (Off-shore) LCOE Analysis



		Scenarios		
		Low	Base	High
Unit				
Capacity (MW)		400	400	400
Capacity factor		50%	45%	40%
Heat rate (Btu/kWh)		-	-	-
Implied efficiency	*3,412*	*NA*	*NA*	*NA*
Heat rate degradation per yr		0.0%	0.0%	0.0%
Total Capital Costs ($/kW)		4,350	4,833	5,316
Total Capital Investment ($mm)		1,740	1,933	2,127
Fuel				
Fuel price		-	-	-
Conversion to MMBtu		1.00	1.00	1.00
Fuel cost ($/MMBtu)		-	-	-
O&M				
Variable O&M ($/MWh)		-	-	-
Fixed O&M ($/kW-yr)		109.40	115.16	120.92
Escalation		1.0%	1.0%	1.0%

Source: Guggenheim Securities, LLC, company filings, EIA

Key takeaways

- Wind resource assessment is more challenging than on-shore
- Electrical infrastructure challenges (estimated ~15% of total installed project costs) increases for projects further from shore

Cost

- $4350-$5316 per KW installed cost
- $76 - $165 per MWh LCOE

Performance

- **Size:** 400 MW
- **Capacity Factor:** 40-50%
- **Emissions:** NA
- **Ramping:** Difficult to objectively monitor given variability of wind speed

Other considerations

- Federal permitting hurdles high right now with many projects facing or at risk of delay
- Stronger wind speeds off-shore vs. on land may improve efficiency
- Ability to maintain off-shore facilities is challenging

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Wind (Off-shore) IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		231	231	231	231	231	231	231	231	231	231	231	231	231	231	231	231	231	231	231	231	231
Fuel expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating expense		(48)	(49)	(49)	(50)	(50)	(51)	(51)	(52)	(52)	(53)	(53)	(54)	(55)	(55)	(56)	(56)	(57)	(57)	(58)	(58)	(59)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		183	182	182	181	181	180	180	179	179	178	178	177	177	176	176	175	175	174	173	173	172
Margin		*79%*	*79%*	*79%*	*78%*	*78%*	*78%*	*78%*	*78%*	*77%*	*77%*	*77%*	*77%*	*76%*	*76%*	*76%*	*76%*	*75%*	*75%*	*75%*	*75%*	*74%*
Levelized debt service		(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)	(108)
Depreciation		(425)	(680)	(408)	(245)	(245)	(122)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings before taxes		(351)	(607)	(335)	(172)	(173)	(51)	71	71	70	70	69	69	68	68	67	67	66	66	65	64	64
Income taxes		94	164	89	44	44	10	(24)	(24)	(25)	(25)	(26)	(27)	(27)	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(36)
Net income		**(256)**	**(443)**	**(246)**	**(128)**	**(129)**	**(41)**	**48**	**47**	**46**	**44**	**43**	**42**	**41**	**40**	**38**	**37**	**35**	**34**	**32**	**30**	**28**
+ Depreciation		425	680	408	245	245	122	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CF to equity	(851)	**169**	**238**	**163**	**117**	**116**	**82**	**48**	**47**	**46**	**44**	**43**	**42**	**41**	**40**	**38**	**37**	**35**	**34**	**32**	**30**	**28**
IRR	**10%**																					

LEVELIZED COST OF ENERGY ANALYSIS

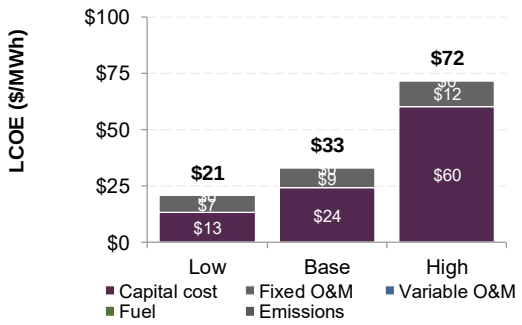
Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
		5.20	5.28	5.36	5.44	5.52	5.60	5.69	5.77	5.86	5.95	6.03	6.13	6.22	6.31	6.41	6.50	6.60	6.70	6.80	6.90	7.00
Operations																						
Capacity (MW)		400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400
Capacity factor (%)		40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Generation (GWh)		1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402
LCOE price ($/MWh)		165	165	165	165	165	165	165	165	165	165	165	165	165	165	165	165	165	165	165	165	165
Total revenues		**231**	**231**	**231**	**231**	**231**	**231**	**231**	**231**	**231**	**231**	**231**	**231**	**231**	**231**	**231**	**231**	**231**	**231**	**231**	**231**	**231**
Generation (GWh)		1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402	1,402
Heat rate (Btu/kWh)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel cost ($/MMBtu)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel cost ($MM)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capacity (MW)		400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400	400
Fixed O&M ($/kW-yr)		120.92	122.13	123.35	124.58	125.83	127.09	128.36	129.64	130.94	132.25	133.57	134.90	136.25	137.62	138.99	140.38	141.79	143.20	144.64	146.08	147.54
Fixed O&M		**48**	**49**	**49**	**50**	**50**	**51**	**51**	**52**	**52**	**53**	**53**	**54**	**55**	**55**	**56**	**56**	**57**	**57**	**58**	**58**	**59**
Financing																						
Beginning debt balance		1,276	1,244	1,210	1,174	1,136	1,096	1,053	1,008	960	909	855	798	738	674	605	533	457	376	290	199	102
Principal payment		(32)	(34)	(36)	(38)	(40)	(43)	(45)	(48)	(51)	(54)	(57)	(61)	(64)	(68)	(72)	(76)	(81)	(86)	(91)	(97)	(102)
Ending debt balance		1,244	1,210	1,174	1,136	1,096	1,053	1,008	960	909	855	798	738	674	605	533	457	376	290	199	102	(0)
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(77)	(75)	(73)	(70)	(68)	(66)	(63)	(60)	(58)	(55)	(51)	(48)	(44)	(40)	(36)	(32)	(27)	(23)	(17)	(12)	(6)
Levelized debt service		*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*	*(108)*

Source: Guggenheim Securities, LLC, company filings, EIA

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WIND (ON-SHORE)

Wind (On-shore) LCOE Analysis



		Scenarios		
		Low	Base	High
Unit				
Capacity (MW)		200	200	200
Capacity factor		40%	35%	30%
Heat rate (Btu/kWh)		-	-	-
Implied efficiency	*3,412*	*NA*	*NA*	*NA*
Heat rate degradation per yr		0.0%	0.0%	0.0%
Total Capital Costs ($/kW)		1,546	1,718	1,890
Total Capital Investment ($mm)		309	344	378
Repowering:				
Fuel				
Fuel price		-	-	-
Conversion to MMBtu		1.00	1.00	1.00
Fuel cost ($/MMBtu)		-	-	-
O&M				
Variable O&M ($/MWh)		-	-	-
Fixed O&M ($/kW-yr)		26.19	27.57	30.33
Escalation		1.0%	1.0%	1.0%

Source: Guggenheim Securities, LLC, company filings, EIA

Key takeaways

- Highest capacity factor generally during non-peak hours
- Intermittent generation requires baseload generation or batteries to balance variable performance
- Opportunities to develop projects that capture ideal conditions are geographically limited, which could result in significant transmission investment requirement

Cost

- $1,546-$1,890 per KW installed cost
- $21 - $72 per MWh LCOE

Performance

- **Size:** 200 MW
- **Capacity Factor:** 30-40%
- **Emissions:** Does not produce greenhouse gases
- **Ramping:** Difficult to objectively monitor given variability of wind speed

Other considerations

- Transportation and logistics restrictions limit turbine scaling (taller towers and larger wind turbines), which can generate greater wind power in low-moderate wind-speed regions
- Greater range of wind turbines are available to generate more power in more available, low-moderate wind-speed regions

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Wind (On-shore) IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
Fuel expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating expense		(5)	(5)	(5)	(5)	(5)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	8	8	8	8	8	8
Margin		*64%*	*64%*	*63%*	*63%*	*63%*	*62%*	*62%*	*61%*	*61%*	*61%*	*60%*	*60%*	*59%*	*59%*	*59%*	*58%*	*58%*	*57%*	*57%*	*56%*	*56%*
Levelized debt service		(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)	(16)
Depreciation		(62)	(99)	(59)	(36)	(36)	(18)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings before taxes		(68)	(105)	(66)	(42)	(42)	(25)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(8)	(8)
Income taxes		36	46	35	29	29	25	20	20	20	21	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)	(2)
Net income		**(33)**	**(60)**	**(31)**	**(13)**	**(13)**	**0**	**13**	**13**	**13**	**14**	**(7)**	**(8)**	**(8)**	**(8)**	**(8)**	**(8)**	**(9)**	**(9)**	**(9)**	**(9)**	**(10)**
+ Depreciation		62	99	59	36	36	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CF to equity	(124)	**29**	**39**	**29**	**22**	**23**	**18**	**13**	**13**	**13**	**14**	**(7)**	**(8)**	**(8)**	**(8)**	**(8)**	**(8)**	**(9)**	**(9)**	**(9)**	**(9)**	**(10)**
IRR **10.0%**		10.0%																				

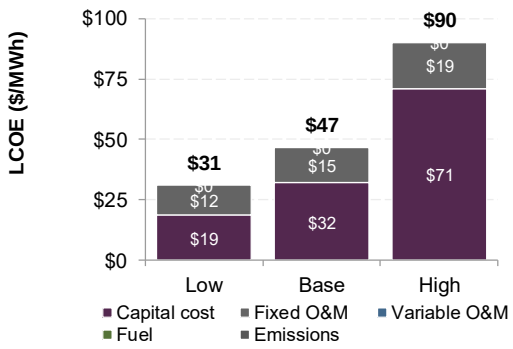
LEVELIZED COST OF ENERGY ANALYSIS

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
PTC		26.00	26.39	26.79	27.19	27.60	28.01	28.43	28.86	29.29	29.73											
Operations																						
Capacity (MW)		200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200
Capacity factor (%)		40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Generation (GWh)		701	701	701	701	701	701	701	701	701	701	701	701	701	701	701	701	701	701	701	701	701
LCOE price ($/MWh)		21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21
Total revenues		**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**
Generation (GWh)		701	701	701	701	701	701	701	701	701	701	701	701	701	701	701	701	701	701	701	701	701
Heat rate (Btu/kWh)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel cost ($/MMBtu)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel cost ($MM)		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Capacity (MW)		200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200
Fixed O&M ($/kW-yr)		26.19	26.45	26.72	26.99	27.25	27.53	27.80	28.08	28.36	28.65	28.93	29.22	29.51	29.81	30.11	30.41	30.71	31.02	31.33	31.64	31.96
Fixed O&M		**5**	**5**	**5**	**5**	**5**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**
Financing																						
Beginning debt balance		186	181	176	171	165	159	153	147	140	132	124	116	107	98	88	78	66	55	42	29	15
Principal payment		(5)	(5)	(5)	(6)	(6)	(6)	(7)	(7)	(7)	(8)	(8)	(9)	(9)	(10)	(10)	(11)	(12)	(12)	(13)	(14)	(15)
Ending debt balance		181	176	171	165	159	153	147	140	132	124	116	107	98	88	78	66	55	42	29	15	(0)
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(11)	(11)	(11)	(10)	(10)	(10)	(9)	(9)	(8)	(8)	(7)	(7)	(6)	(6)	(5)	(5)	(4)	(3)	(3)	(2)	(1)
Levelized debt service		*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*	*(16)*

Source: Guggenheim Securities, LLC, company filings, EIA

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Wind + Storage (On-shore) LCOE Analysis



		Scenarios		
		Low	Base	High
Unit				
Capacity (MW)		200	200	200
Capacity factor		40%	35%	30%
Heat rate (Btu/kWh)		-	-	-
Implied efficiency	*3,412*	*NA*	*NA*	*NA*
Heat rate degradation per yr		0.0%	0.0%	0.0%
Capital investment ($/kW)				
Wind Standalone		1,546	1,718	1,890
Energy Storage		202	253	303
Transmission				
Other				
Total Capital Costs ($/kW)		1,748	1,971	2,193
Total Capital Investment ($mm)		350	394	439
Fuel				
Fuel price		-	-	-
Conversion to MMBtu		1.00	1.00	1.00
Fuel cost ($/MMBtu)		-	-	-
O&M				
Variable O&M ($/MWh)		-	-	-
Fixed O&M ($/kW-yr)		43.01	45.27	49.80
Escalation		1.0%	1.0%	1.0%

Source: Guggenheim Securities, LLC, company filings, EIA

Key takeaways

- Highest capacity factor generally during non-peak hours
- Intermittent generation requires baseload generation or batteries to balance variable performance

Cost

- $1,748-$2,193 per KW installed cost for wind + storage (4hr assumed)
- $31 - $90 per MWh LCOE

Performance

- **Size:** 200 MW
- **Capacity Factor:** 30-40%
- **Emissions:** Does not produce greenhouse gases
- **Ramping:** Difficult to objectively monitor given variability of wind speed

Other considerations

- Greater range of wind turbines are available to generate more power in more available, low-moderate wind-speed regions
- Storage costs reductions will continue to be driven by advances in EV technology

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Wind + Storage (On-shore) IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47	47
Fuel expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating expense		(10)	(10)	(10)	(10)	(10)	(10)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(12)	(12)	(12)	(12)	(12)	(12)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		37	37	37	37	37	37	37	37	37	36	36	36	36	36	36	36	36	36	35	35	35
Margin		*79%*	*79%*	*79%*	*78%*	*78%*	*78%*	*78%*	*77%*	*77%*	*77%*	*77%*	*77%*	*76%*	*76%*	*76%*	*76%*	*75%*	*75%*	*75%*	*75%*	*74%*
Levelized debt service		(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)	(22)
Depreciation		(88)	(140)	(84)	(51)	(51)	(25)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings before taxes		(73)	(125)	(69)	(36)	(36)	(11)	14	14	14	14	14	14	14	14	13	13	13	13	13	13	13
Income taxes		21	35	20	11	10	3	(3)	(4)	(4)	(4)	(7)	(7)	(7)	(8)	(8)	(8)	(8)	(8)	(9)	(9)	(9)
Net income		**(52)**	**(90)**	**(50)**	**(25)**	**(25)**	**(7)**	**11**	**11**	**10**	**10**	**7**	**7**	**6**	**6**	**6**	**5**	**5**	**5**	**4**	**4**	**4**
+ Depreciation		88	140	84	51	51	25	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CF to equity	(175)	**36**	**50**	**35**	**25**	**25**	**18**	**11**	**11**	**10**	**10**	**7**	**7**	**6**	**6**	**6**	**5**	**5**	**5**	**4**	**4**	**4**
IRR	**10%**																					

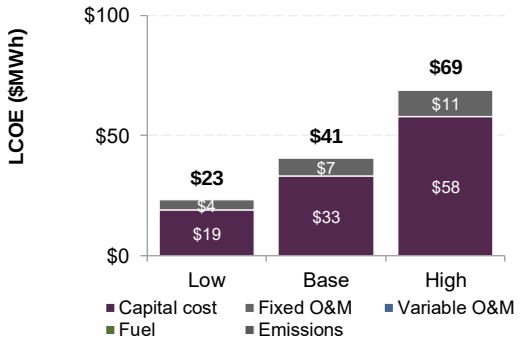
LEVELIZED COST OF ENERGY ANALYSIS

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
PTC		5.20	5.28	5.36	5.44	5.52	5.60	5.69	5.77	5.86	5.95											
Operations																						
Capacity (MW)		200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200
Capacity factor (%)		30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Generation (GWh)		526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526
LCOE price ($/MWh)		90	90	90	90	90	90	90	90	90	90	90	90	90	90	90	90	90	90	90	90	90
Total revenues		**47**	**47**	**47**	**47**	**47**	**47**	**47**	**47**	**47**	**47**	**47**	**47**	**47**	**47**	**47**	**47**	**47**	**47**	**47**	**47**	**47**
Generation (GWh)		526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526
Heat rate (Btu/kWh)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel cost ($/MMBtu)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel cost ($MM)		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Capacity (MW)		200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200
Fixed O&M ($/kW-yr)		49.80	50.29	50.80	51.31	51.82	52.34	52.86	53.39	53.92	54.46	55.01	55.56	56.11	56.67	57.24	57.81	58.39	58.97	59.56	60.16	60.76
Fixed O&M		**10**	**10**	**10**	**10**	**10**	**10**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**11**	**12**	**12**	**12**	**12**	**12**	**12**
Generation (GWh)		526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526	526
Variable O&M ($/MWh)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Variable O&M ($MM)		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financing																						
Beginning debt balance		263	257	250	242	234	226	217	208	198	188	176	165	152	139	125	110	94	78	60	41	21
Principal payment		(7)	(7)	(7)	(8)	(8)	(9)	(9)	(10)	(10)	(11)	(12)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
Ending debt balance		257	250	242	234	226	217	208	198	188	176	165	152	139	125	110	94	78	60	41	21	-
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(16)	(15)	(15)	(15)	(14)	(14)	(13)	(12)	(12)	(11)	(11)	(10)	(9)	(8)	(7)	(7)	(6)	(5)	(4)	(2)	(1)
Levelized debt service		*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*	*(22)*

Source: Guggenheim Securities, LLC, company filings, EIA

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Utility-Scale Solar PV LCOE Analysis



		Scenarios		
		Low	Base	High
Unit				
Capacity (MW)		150	150	150
Capacity factor		35%	25%	20%
Heat rate (Btu/kWh)		-	-	-
Implied efficiency	*3,412*	*NA*	*NA*	*NA*
Capacity factor degradation		0.25%	0.25%	0.25%
Total Capital Costs ($/kW)		637	796	1,115
Total Capital Investment ($mm)		96	119	167
Fuel				
Fuel price		-	-	-
Conversion to MMBtu		1.00	1.00	1.00
Fuel cost ($/MMBtu)		-	-	-
O&M				
Variable O&M ($/MWh)		-	-	-
Fixed O&M ($/kW-yr)		12.78	15.97	19.16
Escalation		0.0%	0.0%	0.0%

Source: Guggenheim Securities, LLC, company filings, EIA

Key takeaways

- Costs have come down substantially for solar modules, BoS, and installation
- Efficiency has increased to records closer to ~20-25%
- Solar competitive post tax credits

Cost

- $637-1,115/kW overnight capital costs (discounted by the net ITC assumption available post IRA)
- $23 - $69 per MWh LCOE

Performance

- **Size:** 150 MW
- **Project Capacity Factor:** 20% - 35%
- **Emissions:** Does not produce greenhouse gases.
- **Ramping:** N/A

Other considerations

- Concerns for a diverse generation mix will help solar growth as natural gas contribution increases
- Solar is a complement to natural gas – not a supplement

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Utility-Scale Solar PV IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		18	18	18	18	18	18	18	18	18	18	18	18	18	18	18	17	17	17	17	17	17
Fuel expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating expense		(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	14	14	14
Margin		*84%*	*84%*	*84%*	*84%*	*84%*	*84%*	*84%*	*84%*	*84%*	*84%*	*84%*	*84%*	*84%*	*84%*	*84%*	*84%*	*83%*	*83%*	*83%*	*83%*	*83%*
Levelized debt service		(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Depreciation		(33)	(54)	(32)	(19)	(19)	(10)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings before taxes		(27)	(47)	(25)	(13)	(13)	(3)	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Income taxes		7	12	6	3	3	(0)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(4)	(4)	(4)
Net income		**(20)**	**(35)**	**(19)**	**(10)**	**(10)**	**(3)**	**4**	**4**	**4**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**2**	**2**	**2**	**2**
+ Depreciation		33	54	32	19	19	10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CF to equity	(67)	**13**	**19**	**13**	**9**	**9**	**6**	**4**	**4**	**4**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**2**	**2**	**2**	**2**
IRR	**10%**																					

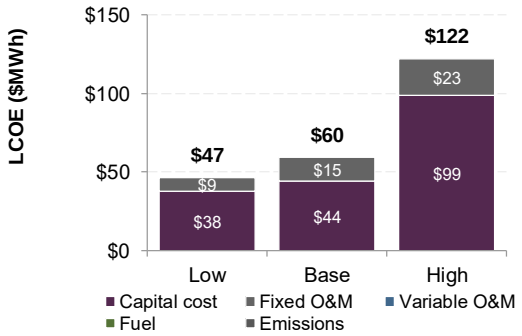
LEVELIZED COST OF ENERGY ANALYSIS

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Operations																						
Capacity (MW)		150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150
Capacity factor (%)		20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Generation (GWh)		263	262	261	261	260	260	259	258	258	257	256	256	255	254	254	253	252	252	251	251	250
LCOE price ($/MWh)		69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69
Total revenues		**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**17**	**17**	**17**	**17**	**17**	**17**
Generation (GWh)		263	262	261	261	260	260	259	258	258	257	256	256	255	254	254	253	252	252	251	251	250
Heat rate (Btu/kWh)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel cost ($/MMBtu)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel cost ($MM)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capacity (MW)		150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150
Fixed O&M ($/kW-yr)		19.16	19.16	19.16	19.16	19.16	19.16	19.16	19.16	19.16	19.16	19.16	19.16	19.16	19.16	19.16	19.16	19.16	19.16	19.16	19.16	19.16
Fixed O&M		**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**	**3**
Financing																						
Beginning debt balance		100	98	95	92	89	86	83	79	75	71	67	63	58	53	48	42	36	30	23	16	8
Principal payment		(3)	(3)	(3)	(3)	(3)	(3)	(4)	(4)	(4)	(4)	(4)	(5)	(5)	(5)	(6)	(6)	(6)	(7)	(7)	(8)	(8)
Ending debt balance		98	95	92	89	86	83	79	75	71	67	63	58	53	48	42	36	30	23	16	8	-
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(6)	(6)	(6)	(6)	(5)	(5)	(5)	(5)	(5)	(4)	(4)	(4)	(3)	(3)	(3)	(3)	(2)	(2)	(1)	(1)	(0)
Levelized debt service		*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*	*(9)*

Source: Guggenheim Securities, LLC, company filings, EIA

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Utility-Scale Solar (PV + Storage) LCOE Analysis



		Scenarios		
		Low	Base	High
Unit				
Capacity (MW)		150	150	150
Capacity factor		35%	25%	20%
Heat rate (Btu/kWh)		-	-	-
Implied efficiency	*3,412*	*NA*	*NA*	*NA*
Capacity factor degradation		0.25%	0.25%	0.25%
Capital investment ($/kW)				
Solar Standalone		1,062	796	1,592
Energy Storage		202	253	303
Total Capital Costs ($/kW)		1,264	1,049	1,896
Total Capital Investment ($mm)		190	157	284
Fuel				
Fuel price		-	-	-
Conversion to MMBtu		1.00	1.00	1.00
Fuel cost ($/MMBtu)		-	-	-
O&M				
Variable O&M ($/MWh)		-	-	-
Fixed O&M ($/kW-yr)		26.94	33.67	40.40
Escalation		0.0%	0.0%	0.0%

Key takeaways

- Costs have come down substantially for solar modules, BoS, and installation
- Storage beneficial to supply load during night, non-peak hours

Cost

- $1,264-$1,896 per kW installed cost for solar (net of ITC available post IRA)
- $47 - $122 per MWh LCOE

Performance

- **Size:** 150 MW
- **Project Capacity Factor:** 20% - 35%
- **Emissions:** Does not produce greenhouse gases
- **Ramping:** N/A

Other considerations

- Some companies surveyed have noted it is advantageous and economical to pair solar and storage in some areas
- Storage costs reductions will continue to be driven by advances in EV technology

Source: Guggenheim Securities, LLC, company filings, EIA

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Utility-Scale Solar (PV + Storage) IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		32	32	32	32	32	32	32	32	31	31	31	31	31	31	31	31	31	31	31	31	30
Fuel expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating expense		(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		26	26	26	26	26	26	26	25	25	25	25	25	25	25	25	25	25	25	25	25	24
Margin		*81%*	*81%*	*81%*	*81%*	*81%*	*81%*	*81%*	*81%*	*81%*	*81%*	*81%*	*81%*	*81%*	*80%*	*80%*	*80%*	*80%*	*80%*	*80%*	*80%*	*80%*
Levelized debt service		(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)
Depreciation		(57)	(91)	(55)	(33)	(33)	(16)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings before taxes		(45)	(80)	(43)	(21)	(22)	(5)	11	11	11	11	11	11	11	10	10	10	10	10	10	10	10
Income taxes		11	21	11	4	4	(0)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(6)	(6)	(6)	(6)	(6)	(6)
Net income		**(34)**	**(59)**	**(33)**	**(17)**	**(17)**	**(5)**	**6**	**6**	**6**	**6**	**6**	**6**	**5**	**5**	**5**	**5**	**4**	**4**	**4**	**4**	**3**
+ Depreciation		57	91	55	33	33	16	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CF to equity	(114)	**23**	**32**	**22**	**16**	**16**	**11**	**6**	**6**	**6**	**6**	**6**	**6**	**5**	**5**	**5**	**5**	**4**	**4**	**4**	**4**	**3**
IRR	**10%**																					

LEVELIZED COST OF ENERGY ANALYSIS

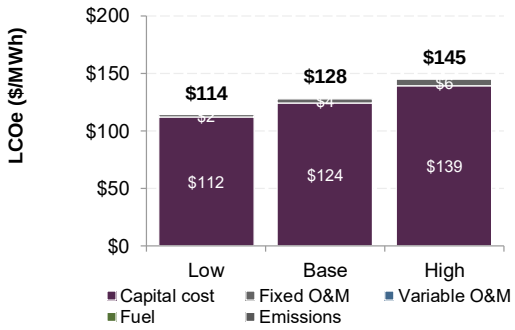
Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Operations																						
Capacity (MW)		150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150
Capacity factor (%)		20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Generation (GWh)		263	262	261	261	260	260	259	258	258	257	256	256	255	254	254	253	252	252	251	251	250
LCOE price ($/MWh)		122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122	122
Total revenues		**32**	**32**	**32**	**32**	**32**	**32**	**32**	**32**	**31**	**31**	**31**	**31**	**31**	**31**	**31**	**31**	**31**	**31**	**31**	**31**	**30**
Generation (GWh)		263	262	261	261	260	260	259	258	258	257	256	256	255	254	254	253	252	252	251	251	250
Heat rate (Btu/kWh)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel cost ($/MMBtu)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel cost ($MM)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capacity (MW)		150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150
Fixed O&M ($/kW-yr)		40.40	40.40	40.40	40.40	40.40	40.40	40.40	40.40	40.40	40.40	40.40	40.40	40.40	40.40	40.40	40.40	40.40	40.40	40.40	40.40	40.40
Fixed O&M		**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**	**6**
Generation (GWh)		263	262	261	261	260	260	259	258	258	257	256	256	255	254	254	253	252	252	251	251	250
Variable O&M ($/MWh)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financing																						
Beginning debt balance		171	166	162	157	152	147	141	135	128	122	114	107	99	90	81	71	61	50	39	27	14
Principal payment		(4)	(5)	(5)	(5)	(5)	(6)	(6)	(6)	(7)	(7)	(8)	(8)	(9)	(9)	(10)	(10)	(11)	(11)	(12)	(13)	(14)
Ending debt balance		166	162	157	152	147	141	135	128	122	114	107	99	90	81	71	61	50	39	27	14	0
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(10)	(10)	(10)	(9)	(9)	(9)	(8)	(8)	(8)	(7)	(7)	(6)	(6)	(5)	(5)	(4)	(4)	(3)	(2)	(2)	(1)
Levelized debt service		*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*	*(15)*

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Source: Guggenheim Securities, LLC, company filings, EIA

ROOFTOP SOLAR

Rooftop Solar LCOE Analysis



		Scenarios		
		Low	Base	High
Unit				
Capacity (MW)		0.06	0.06	0.06
Capacity factor		25%	23%	20%
Heat rate (Btu/kWh)		-	-	-
Implied efficiency	*3,412*	*NA*	*NA*	*NA*
Capacity factor degradation		0.1%	0.1%	0.1%
Total Capital Costs ($/kW)		2,700	2,700	2,700
Total Capital Investment ($mm)		0.16	0.16	0.16
Fuel				
Fuel price		-	-	-
Conversion to MMBtu		1.00	1.00	1.00
Fuel cost ($/MMBtu)		-	-	-
O&M				
Variable O&M ($/MWh)		-	-	-
Fixed O&M ($/kW-yr)		5.00	7.50	10.00
Escalation		1.0%	1.0%	1.0%

Source: Guggenheim Securities, LLC, company filings, EIA

Key takeaways

- Costs have come down substantially for solar modules and installation
- LCOE understates the competitiveness; customers would compare this to the retail rate their local utility charges, which is significantly higher than the wholesale rate

Cost

- $2,700 per KW installed cost
- $114 - $145 per MWh LCOE

Performance

- **Size:** 6 KW
- **Project Capacity Factor:** 20-25%
- **Emissions:** Does not produce greenhouse gases
- **Ramping:** N/A

Other considerations

- Not part of our analysis, but third-party leasing has become the most popular model – where the customer pays nothing upfront for their roof-top system

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Rooftop Solar IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.01	0.01	0.01	0.01
Fuel expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating expense		(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)	(0.00)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Margin		*0.96*	*0.96*	*0.96*	*0.96*	*0.96*	*0.96*	*0.96*	*0.96*	*0.96*	*0.96*	*0.96*	*0.96*	*0.96*	*0.95*	*0.95*	*0.95*	*0.95*	*0.95*	*0.95*	*0.95*	*0.95*
Levelized debt service		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Depreciation		(0.03)	(0.05)	(0.03)	(0.02)	(0.02)	(0.01)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings before taxes		(0.03)	(0.05)	(0.02)	(0.01)	(0.01)	(0.00)	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Income taxes		0.01	0.01	0.01	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)
Net income		**(0.02)**	**(0.03)**	**(0.02)**	**(0.01)**	**(0.01)**	**(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**
+ Depreciation		0.03	0.05	0.03	0.02	0.02	0.01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CF to equity	(0)	**0.01**	**0.02**	**0.01**	**0.01**	**0.01**	**0.01**	**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**
IRR	**10%**																					

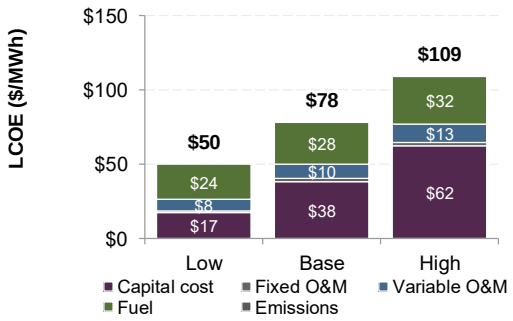
LEVELIZED COST OF ENERGY ANALYSIS

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Operations																						
Capacity (MW)		0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Capacity factor (%)		20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Generation (GWh)		0.11	0.11	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
LCOE price ($/MWh)		145	145	145	145	145	145	145	145	145	145	145	145	145	145	145	145	145	145	145	145	145
Total revenues		**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**	**0.01**	**0.01**	**0.01**	**0.01**
Generation (GWh)		0.11	0.11	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Heat rate (Btu/kWh)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel cost ($/MMBtu)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel cost ($MM)		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Capacity (MW)		0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06
Fixed O&M ($/kW-yr)		10	10	10	10	10	11	11	11	11	11	11	11	11	11	11	12	12	12	12	12	12
Fixed O&M		**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**	**0.001**
Financing																						
Beginning debt balance		0.10	0.09	0.09	0.09	0.09	0.08	0.08	0.08	0.07	0.07	0.07	0.06	0.06	0.05	0.05	0.04	0.03	0.03	0.02	0.02	0.01
Principal payment		(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)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Ending debt balance		0.09	0.09	0.09	0.09	0.08	0.08	0.08	0.07	0.07	0.07	0.06	0.06	0.05	0.05	0.04	0.03	0.03	0.02	0.02	0.01	(0.00)
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(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)
Levelized debt service		*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*	*(0.01)*

Source: Guggenheim Securities, LLC, company filings, EIA

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Combined Heat & Power (CHP) LCOE Analysis



		Scenarios		
		Low	Base	High
Unit				
Capacity (MW)		10	10	10
Capacity factor		85%	80%	75%
Heat rate (Btu/kWh)		6,000	7,000	8,000
Implied efficiency	*3,412*	*57%*	*49%*	*43%*
Heat rate degradation per yr		0.0%	0.0%	0.0%
Total Capital Costs ($/kW)		1,250	2,775	4,300
Total Capital Investment ($mm)		13	28	43
Fuel				
Fuel price		4.00	4.00	4.00
Conversion to MMBtu		1.00	1.00	1.00
Fuel cost ($/MMBtu)		4.00	4.00	4.00
O&M				
Variable O&M ($/MWh)		7.50	10.00	12.50
Fixed O&M ($/kW-yr)		10.00	12.50	15.00
Escalation		1.0%	1.0%	1.0%

Source: Guggenheim Securities, LLC, company filings, EIA

Key takeaways

- Customer-sited thermal generation (often micro-turbines or reciprocating engines) where waste heat is recycled for building's heat and hot water
- Ideal for industrial, hospital, and some large commercial buildings – facilities with balanced electrical and thermal load that could utilize the system around the clock

Cost

- $1,250-$4,300 per KW installed cost (range now includes DR and on-site solutions which have varied in operational effectiveness for energy purposes)
- $95 - $150 per MWh LCOE

Performance

- **Size:** <10 MW
- **Capacity Factor:** Target >85%, but not easily achievable
- **Emissions:** Waste heat is recycled, units are usually below reporting thresholds
- **Ramping:** N/A

Other considerations

- As is the case with solar, a wholesale LCOE underestimates competitiveness as the economics are based on retail rates
- Applications are limited – balanced thermal and electrical demand profiles are necessary for economics to materialize
- Real estate managers aren't in the business of managing power plants – making it difficult to realize targeted economics

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Combined Heat & Power (CHP) IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
Fuel expense		(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(3)	(3)	(3)
Operating expense		(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	3	3	3
Margin		*57%*	*57%*	*56%*	*56%*	*55%*	*55%*	*54%*	*54%*	*54%*	*53%*	*53%*	*52%*	*52%*	*51%*	*51%*	*50%*	*50%*	*49%*	*49%*	*48%*	*48%*
Levelized debt service		(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Depreciation		(9)	(14)	(8)	(5)	(5)	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings before taxes		(7)	(12)	(6)	(3)	(3)	(1)	2	2	2	2	2	2	2	1	1	1	1	1	1	1	1
Income taxes		2	3	2	1	1	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Net income		**(5)**	**(9)**	**(5)**	**(3)**	**(3)**	**(1)**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**0**	**0**	**0**	**0**
+ Depreciation		9	14	8	5	5	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CF to equity	(17)	**4**	**5**	**3**	**2**	**2**	**2**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**0**	**0**	**0**	**0**
IRR	**10%**																					

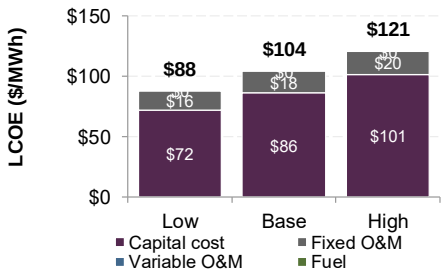
LEVELIZED COST OF ENERGY ANALYSIS

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Operations		-14.783																				
Capacity (MW)		10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Capacity factor (%)		75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Generation (GWh)		66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66
LCOE price ($/MWh)		109	109	109	109	109	109	109	109	109	109	109	109	109	109	109	109	109	109	109	109	109
Total revenues		**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**	**7**
Generation (GWh)		66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66
Heat rate (Btu/kWh)		8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Fuel cost ($/MMBtu)		4.00	4.04	4.08	4.12	4.16	4.20	4.25	4.29	4.33	4.37	4.42	4.46	4.51	4.55	4.60	4.64	4.69	4.74	4.78	4.83	4.88
Fuel cost ($MM)		**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**3**	**3**	**3**
Capacity (MW)		10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
Fixed O&M ($/kW-yr)		15.00	15.15	15.30	15.45	15.61	15.77	15.92	16.08	16.24	16.41	16.57	16.74	16.90	17.07	17.24	17.41	17.59	17.76	17.94	18.12	18.30
Fixed O&M		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Financing																						
Beginning debt balance		26	25	24	24	23	22	21	20	19	18	17	16	15	14	12	11	9	8	6	4	2
Principal payment		(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)
Ending debt balance		25	24	24	23	22	21	20	19	18	17	16	15	14	12	11	9	8	6	4	2	-
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(2)	(2)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(0)	(0)	(0)	(0)
Levelized debt service		*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*	*(2)*

Source: Guggenheim Securities, LLC, company filings, EIA

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Utility-Scale Energy Storage LCOE Analysis



	Scenarios		
	Low	Base	High
Unit			
Capacity (MW)	50	50	50
Capacity factor	17%	17%	16%
Heat rate (Btu/kWh)	-	-	-
Implied efficiency 3,412	*NA*	*NA*	*NA*
Capacity factor degradation	0.3%	0.5%	0.8%
Capital investment ($/kW)			
Equipment			
Construction			
Transmission			
Other			
Total Capital Costs ($/kW)	1,184	1,316	1,448
Total Capital Investment ($mm)	59	66	72
Fuel			
Fuel price	-	-	-
Conversion to MMBtu	-	-	-
Fuel cost ($/MMBtu)	-	-	-
O&M			
Variable O&M ($/MWh)	-	-	-
Fixed O&M ($/kW-yr)	24.66	25.96	27.26
Escalation	1.0%	1.0%	1.0%

Key takeaways

- Storage beneficial to supply load during night, non-peak hours
- The energy storage scenario is more illustrative at this point for standalone applications, while we anticipate pairing wind/solar to be much more economic.

Cost

- $1,184-$1,448 per kW installed cost for storage (derived from EIA data)
- $88 - $121 per MWh LCOE

Performance

- **Size:** 50 MW
- **Project Capacity Factor:** 17%
- **Emissions:** Does not produce greenhouse gases
- **Ramping:** N/A

Other considerations

- Some companies surveyed have noted it is advantageous and economical to pair solar and storage in some areas
- Storage costs reductions will continue to be driven by advances in EV technology

Source: Guggenheim Securities, LLC, company filings, EIA

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Utility-Scale Energy Storage IRR Calculation

Dollars in millions unless otherwise noted

SUMMARY FINANCIALS

Year		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Revenue		8.39	8.33	8.27	8.20	8.14	8.08	8.02	7.96	7.90	7.84	7.78	7.72	7.67	7.61	7.55	7.50	7.44	7.38	7.33	7.27	7.22
Fuel expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating expense		(1.36)	(1.38)	(1.39)	(1.40)	(1.42)	(1.43)	(1.45)	(1.46)	(1.48)	(1.49)	(1.51)	(1.52)	(1.54)	(1.55)	(1.57)	(1.58)	(1.60)	(1.61)	(1.63)	(1.65)	(1.66)
Emissions expense		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
EBITDA		7.03	6.95	6.88	6.80	6.72	6.65	6.57	6.50	6.43	6.35	6.28	6.20	6.13	6.06	5.99	5.91	5.84	5.77	5.70	5.63	5.56
Margin		*84%*	*83%*	*83%*	*83%*	*83%*	*82%*	*82%*	*82%*	*81%*	*81%*	*81%*	*80%*	*80%*	*80%*	*79%*	*79%*	*79%*	*78%*	*78%*	*77%*	*77%*
Levelized debt service		(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)	(3.69)
Depreciation		(14.48)	(23.16)	(13.90)	(8.34)	(8.34)	(4.17)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Earnings before taxes		(11.14)	(19.90)	(10.71)	(5.23)	(5.31)	(1.21)	2.88	2.81	2.73	2.66	2.59	2.51	2.44	2.37	2.29	2.22	2.15	2.08	2.01	1.93	1.86
Income taxes		2.75	5.12	2.59	1.08	1.07	(0.07)	(1.21)	(1.21)	(1.22)	(1.23)	(1.24)	(1.25)	(1.26)	(1.28)	(1.30)	(1.32)	(1.34)	(1.37)	(1.39)	(1.43)	(1.46)
Net income		**(8.39)**	**(14.78)**	**(8.12)**	**(4.15)**	**(4.23)**	**(1.28)**	**1.67**	**1.59**	**1.51**	**1.43**	**1.35**	**1.26**	**1.18**	**1.09**	**1.00**	**0.90**	**0.81**	**0.71**	**0.61**	**0.51**	**0.40**
+ Depreciation		14.48	23.16	13.90	8.34	8.34	4.17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CF to equity	(28.95)	**6.08**	**8.38**	**5.78**	**4.18**	**4.11**	**2.89**	**1.67**	**1.59**	**1.51**	**1.43**	**1.35**	**1.26**	**1.18**	**1.09**	**1.00**	**0.90**	**0.81**	**0.71**	**0.61**	**0.51**	**0.40**
IRR	**10%**																					

LEVELIZED COST OF ENERGY ANALYSIS

Year	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21
Operations																						
Capacity (MW)		50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Capacity factor (%)		16%	16%	16%	15%	15%	15%	15%	15%	15%	15%	15%	15%	14%	14%	14%	14%	14%	14%	14%	14%	14%
Generation (GWh)		69.35	68.83	68.31	67.80	67.29	66.79	66.29	65.79	65.30	64.81	64.32	63.84	63.36	62.88	62.41	61.94	61.48	61.02	60.56	60.11	59.66
LCOE price ($/MWh)		121	121	121	121	121	121	121	121	121	121	121	121	121	121	121	121	121	121	121	121	121
Total revenues		**8.39**	**8.33**	**8.27**	**8.20**	**8.14**	**8.08**	**8.02**	**7.96**	**7.90**	**7.84**	**7.78**	**7.72**	**7.67**	**7.61**	**7.55**	**7.50**	**7.44**	**7.38**	**7.33**	**7.27**	**7.22**
Generation (GWh)		69.35	68.83	68.31	67.80	67.29	66.79	66.29	65.79	65.30	64.81	64.32	63.84	63.36	62.88	62.41	61.94	61.48	61.02	60.56	60.11	59.66
Heat rate (Btu/kWh)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel cost ($/MMBtu)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fuel cost ($MM)		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Capacity (MW)		50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00
Fixed O&M ($/kW-yr)		27	28	28	28	28	29	29	29	30	30	30	30	31	31	31	32	32	32	33	33	33
Fixed O&M		**1.36**	**1.38**	**1.39**	**1.40**	**1.42**	**1.43**	**1.45**	**1.46**	**1.48**	**1.49**	**1.51**	**1.52**	**1.54**	**1.55**	**1.57**	**1.58**	**1.60**	**1.61**	**1.63**	**1.65**	**1.66**
Generation (GWh)		69.35	68.83	68.31	67.80	67.29	66.79	66.29	65.79	65.30	64.81	64.32	63.84	63.36	62.88	62.41	61.94	61.48	61.02	60.56	60.11	59.66
Variable O&M ($/MWh)		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Variable O&M ($MM)		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financing																						
Beginning debt balance		43.43	42.34	41.19	39.97	38.68	37.31	35.85	34.31	32.68	30.95	29.12	27.17	25.11	22.92	20.61	18.15	15.55	12.79	9.87	6.77	3.48
Principal payment		(1.09)	(1.15)	(1.22)	(1.29)	(1.37)	(1.45)	(1.54)	(1.63)	(1.73)	(1.83)	(1.94)	(2.06)	(2.19)	(2.32)	(2.46)	(2.60)	(2.76)	(2.92)	(3.10)	(3.29)	(3.48)
Ending debt balance		42.34	41.19	39.97	38.68	37.31	35.85	34.31	32.68	30.95	29.12	27.17	25.11	22.92	20.61	18.15	15.55	12.79	9.87	6.77	3.48	(0.00)
Interest rate		6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Interest expense		(2.61)	(2.54)	(2.47)	(2.40)	(2.32)	(2.24)	(2.15)	(2.06)	(1.96)	(1.86)	(1.75)	(1.63)	(1.51)	(1.38)	(1.24)	(1.09)	(0.93)	(0.77)	(0.59)	(0.41)	(0.21)
Levelized debt service		*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*	*(3.69)*

Source: Guggenheim Securities, LLC, company filings, EIA

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To: Weisenburger \ Michael \ V
Subject: The Guggenheim Daily Transmission: PCG, EIX/PCG/SRE, ETR, Nuclear/Policy, EVRG, POR, SO, PNW, NI, CNP, WEC, AVA - Guggenheim Securities, LLC

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Power & Utilities December 12, 2022

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PCG – Environmental stakeholders push back on expedited Diablo Canyon license extension

PCG – CPUC issued PD on self-insurance settlement, approval without modification

PCG – Stakeholders file reply briefs in the PG&E 2023 GRC; PG&E modifies request narrowing the bid-ask

EIX/PCG/SRE ─ PD for CA cost of capital proceeding on voting meeting agenda and set for deliberative meeting today

ETR – Challenger wins LPSC commission seat

Nuclear/Policy ─ Senate Committee advances International Nuclear Energy Act

EVRG ─ EVRG discloses additional information ahead of workshop

POR ─ November substation attacks leave region on edge

SO ─ Post hearing briefs and proposed orders filed for GRC

PCG ─ PG&E WMP decision ratification on voting meeting agenda for December 15, 2022

PNW ─ Amending procedural orders issued

PCG – Zogg fire rehearing proceeding receives approval to stay proceeding schedule for settlement discussions

NI – Ohio Consumers' Counsel also files in support of settlement

CNP – MN PUC rejects appeal on past winter cost recovery

ETR – LPSC files settlement comments in SERI complaint proceeding at FERC

WEC – WEC and MGE receive approval to acquire Darien Solar Farm

ETR ─ ETR files settlement update in ETR TX rate case

AVA – Avista signs 145 MW hydro deal

PCG – Environmental stakeholders push back on expedited Diablo Canyon license extension

- Environmental groups against nuclear sent letters to the NRC trying to block PG7E's expedited request for license extension for Diablo Canyon.
- In particular stakeholders pushed back on reviving the prior extension process from before PG&Es decommissioning decision.
- The DOE already approved a $1.1B loan guarantee for the necessary investments to keep the plant running.

- The $1.1B loan will help offset the existing $1.4B in state funding.
- More in media here.

Guggenheim takeaway:*Not surprising given the group. NRC process kicked off for Diablo Canyon license extensions. From an earnings perspective there could be a slight tailwind for PCG, but impacts would remain in the prior range of EPS / rate base guidance outcomes (more thoughts in our SB846 note* **here***). Overall, we believe PG&E actions on extending Diablo Canyon operations provide support to the state policy objectives, provides benefits to customers from carbon free generation at reduced costs and secures good will given no need for PG&E to keep the plant running under status quo.*

PCG – CPUC issued PD on self-insurance settlement, approval without modification

- CPUC issued a proposed decision approving without modification the PG&E settlement on wildfire self-insurance.
- The joint settlement reached earlier agrees on a path for self-insurance for PG&E due to rising third party costs.
- More specifically given PG&E's $707M third party costs for $900M of insurance, the parties found it more cost efficient to self-insure.
- The initial rate recovery amount for PG&E's CPUC-jurisdictional revenue requirement in 2023 shall be $400 million for self-insurance, a reduction of approximately $307 million from PG&E's proposed revenue requirement figure in its prepared testimony.
- In each year of the 2023 GRC cycle, PG&E would have a deductible of 5% of up to $1 billion of self-insurance costs.
- There is also a provision for increasing collections based on actual claims costs and stopping collections once $1B of self-insurance funding is achieved.
- Docket: A2106021

Guggenheim takeaway: *Wildfire insurance costs have increased significantly in recent years and PG&E's proposal for self-insurance is a good way to reduce overall customer costs. The mechanisms proposed in the settlement will have an opportunity to remove the $707M third party insurance costs entirely from the customer's bill over time. Intervenors have previously been focused on specific revenue reductions, including alternative insurance proposals, reduction in operating costs, reduction in capital programs including undergrounding, etc. The timing of the approval and PD comments would make the PD eligible for vote at the January 12, 2023 CPUC meeting, ahead of the wildfire insurance marketing timing for PG&E.*

PCG – Stakeholders file reply briefs in the PG&E 2023 GRC; PG&E modifies request narrowing the bid-ask

- Stakeholders and intervenors filed opening briefs on the PG&E 2023 general rate case (GRC).

- While intervenors continue to make the case for various reductions and administrative comments, PG&E filed updates that narrow the regulatory bid-ask including reductions in undergrounding mileage over the GRC term (maintaining the LT target).
- PG&E reply briefs proposed a reduction from 3,600 miles of undergrounding to 2,000, taking down capex over the GRC term related to undergrounding by $4B (in part implying a lower per mile cost over the long run).
- While the cost per mile metrics are reiterated, the miles not covered by the GRC are pushed into a lower per mile cost run rate (i.e., net customer savings benefit).
- PG&E keeps supporting the band of recoverability around the spending of 15%.
- Docket: A2106021

Guggenheim takeaway:*The filing is a slight deviation from prior PG&E regulatory approach (i.e., working to bridge the gap and incorporating intervenors' comments in testimony vs. working behind closed doors in settlement). We caught up with mgmt. over the weekend and there have been no incremental investor disclosures, implying no deviation from prior rate base and earnings guidance. We note that the current PCG financial plan guidance remains at a wide range for capex which accounts for the changes in GRC ask, undergrounding, etc. The longer term undergrounding plan is still to be filed (after CPUC workshops, which have not been held yet), but mgmt. anticipates it will be similar to prior goals (shifting capex vs. reduction in scale). Overall, the PG&E filing goes a long way to address stakeholder concerns and work the regulatory process towards consensus, which would be a constructive development, given the financial plan is reiterated. While the risk reduction attributed to undergrounding over the course of the GRC is lower, PG&E noted that other measures, including operational, maintain the risk reduction targets. Between the broader stakeholder support for undergoing, and legislative outcomes (noted HERE), there is a clear push to do more in CA, but we acknowledge the regulatory process bid-ask and intervenor scrutiny. More on our thesis here.*

EIX/PCG/SRE – PD for CA cost of capital proceeding on voting meeting agenda and set for deliberative meeting today

- The CA cost of capital proposed decision was on the voting meeting agenda for next Thursday (December 15, 2022) and the CPUC filed a late Friday notice of a rate setting deliberative meeting scheduled for Monday, December 12, 2022.
- The RDM includes the cost of capital proceedings, as well as NEM 3.0, SCG/SRE Angeles Link memo account
- Docket: A2204008 et al

Guggenheim takeaway: FYI. The RDM mechanism has been used by the CPUC for various purposes that ranged from discussion to alternate PD proposals in the past. For the cost of capital specifically, there is now an opportunity to add and alternate PD, although there has not been any indication one way or another except several prior ex-

parte filings from stakeholders. We have previously noted the negative impacts from the PD and the potential for a December 15, 2022 CPUC vote (see note HERE).

ETR – Challenger wins LPSC commission seat

- LPSC commissioner election challenger Davante Lewis (D) won the runoff election in LA, beating an 18 year incumbent commissioner Lambert Boissiere III.
- The new commissioner is affiliated with environmental political action and noted he is "unafraid to hold Entergy utilities accountable".
- More in media here.

Guggenheim takeaway: *FYI. We see most public commentary as political rhetoric and the LPSC has been historically balanced in regulatory process. If nothing else, the incoming commissioners comments point to an accelerated renewables transition.*

Nuclear/Policy ─ Senate Committee advances International Nuclear Energy Act

- The Senate Foreign Relations Committee passed the INEA, which intends to coordinate security and export strategies for US technology across the federal government
- "The *International Nuclear Energy Act* would: Support the establishment of an office to coordinate civil nuclear exports strategy; establish financing relationships; promote regulatory harmonization; enhance safeguards and security; promote standardization of licensing framework; and create a nuclear exports working group." - press release
- More HERE

Guggenheim takeaway: *While the legislation itself is not targeted towards a specific nuclear technology; we see it as yet another confirmation of bipartisan support for the resource. The move comes alongside efforts to harness US development agencies to finance US technology exports, which we see as an important point for SMR exports.*

EVRG ─ EVRG discloses additional information ahead of workshop

- The utility disclosed retail revenue requirement forecasts through 2026
- "Evergy is changing its designation of lines 1-7 of page 1 of the document from confidential to public. Although this information is forecasted information and is appropriately designated as confidential under the Commission's rules, Evergy is changing the designation in the interest of full transparency ahead of the capital plan workshop scheduled for next week" - EVRG
- More HERE

Guggenheim takeaway: *Minor FYI ahead of tomorrow's workshop.*

POR – November substation attacks leave region on edge

- A series of substation attacks have occurred across the region, damaging infrastructure and drawing the involvement of the FBI
- More HERE

Guggenheim takeaway: *Incidents like these remain a persistent issue for the industry – heightened by the most recent disruptions in NC.*

SO – Post hearing briefs and proposed orders filed

- Staff, Georgia Power, and numerous intervenors filed post hearing briefs filed along with multiple proposed orders.
- Staff continue to recommend a 9.45% ROE (vs currently authorized 10.50%) and lower equity layer of 51% once Vogtle Unit 4 is online, compared to the company's currently authorized 56% level.
- Docket 44280

Guggenheim takeaway: *Investors should recall that an order is expected at the Georgia PSC's December 20, 2022, meeting. We continue to expect the commission to support the utility's status quo ROE and equity layer.*

PCG – PG&E WMP decision ratification on voting meeting agenda for December 15, 2022

- Draft Resolution SPD-9 will be on the agenda at the December 15, 2022 Commission meeting.
- Draft Resolution SPD-9 ratifies the decision of the Office of Energy Infrastructure Safety to approve the 2022 Wildfire Mitigation Plan Update of Pacific Gas and Electric Company.
- The Commission may then vote on this draft resolution, or it may postpone a vote until a later meeting.

Guggenheim takeaway: *FYI. Important step in satisfying the regulatory and legal requirements for wildfire safety and regulations at PG&E.*

PNW – Amending procedural orders issued

- The deadline for APS to complete mailing/emailing and publication of the public notice is extended from January 16, 2023, to January 31, 2023.
- The intervention deadline has been extended from February 16, 2023, to March 3, 2023.
- The deadline for APS to file its certification of mailing and 27 publication is extended from February 16, 2023, to March 3, 2023.
- Docket E-01345A-22-0144

Guggenheim takeaway: *With two new commissioners, this case could be an opportunity for the company in terms of a new regulatory dynamic. We will be watching how other rate cases go in the first few months of 2023, to get a sense of how APS' case will go once it ramps up towards the middle of next year.*

PCG – Zogg fire rehearing proceeding receives approval to stay proceeding schedule for settlement discussions

- CPUC approved a joint motion by PG&E and SED on staying the procedural schedule on the appeal of Zogg fire penalties.
- The appeal disputes the $155M penalty issued by the SED.
- Docket: H2211015

Guggenheim takeaway: *FYI. Discussions could limit the negative impacts of the SED proposal.*

NI – Ohio Consumers' Counsel also files in support of settlement

- The Ohio Consumers' Counsel noted that parties engaged in negotiations for over five months to reach the settlement.
- The OCC also took the position that the settlement as a package benefits consumers and the public interest.
- Docket 21-637-GA-AIR

Guggenheim takeaway: *FYI. Another indication that the October 2022 settlement appears to be broadly supported.*

CNP – MN PUC rejects appeal on past winter cost recovery

- MN PUC rejected an appeal by utility companies including CNP on a decision to reduce recoverable fuel amounts from past winter costs.
- More in media here.

Guggenheim takeaway: *FYI. Minor item for CNP as the disputed amounts are below the threshold of significance for the financial plan.*

ETR – LPSC files settlement comments in SERI complaint proceeding at FERC

- LPSC filed comments in the SERI complaint proceedings disputing prior ETR comments and urging the commission support litigated process.

- LPSC claims the agency has not been in any recent active negotiations toward settlement, claiming ETR has failed to meaningfully engage.
- ETR previously noted that the company sees a path to settle the SERI proceedings in their entirety, and requested the commission hold off on making litigation comments.
- FERC Docket ER18-1182 (available through search). MS Settlement here.
- Docket: EL20-72 / EL18-152 (through FERC search). Partial settlement found under 20-72.

Guggenheim takeaway: *FYI on continuing process at FERC for the outstanding SERI issues. Some negative commentary late last week from the LPSC indicating no interest to narrow the bid ask to the point of settlement. The incremental partial settlement from last month however shows a willingness for parties to take issues off the table, although the scope of the incremental items is relatively minor relative to the MS settlement ($18m vs. a pro rated $588M), so there is still a long way to go to address all outstanding issues. We maintain our view that ETR conservatism and flex in plan can absorb the potential EPS impacts (i.e., financing the full $588M is within the range of the improved credit metric trajectory from analyst day). More thoughts on the analyst day* here.

WEC – WEC and MGEE receive approval to acquire Darien Solar Farm

- Wisconsin regulators approved the acquisition of the 250 MW solar installation, which will also contain a 75 MW battery facility.
- Wisconsin PSC project page

Guggenheim takeaway: *Investors should recall that back in March 2022, WEC & MGEE announced intentions to acquire the Darien Solar Farm at an estimated cost of $446m. The project is scheduled to reach COD by YE24.*

ETR – ETR files settlement update in ETR TX rate case

- ETR filed a settlement status comment in the TX rate case.
- The parties continue to work to reach a final settlement in this proceeding and develop settlement documents.
- The parties need additional time to complete these tasks and support continued abatement of the hearing on the merits.
- PUCT also adopted a December 16, 2022 date for intervenor briefing
- The current rate case request is $131M net of rider inclusions into base rates.
- The rate request is premised on $4.4B of rate case, 10.8% ROE and 51% Equity ratio.

- Docket: 53719.

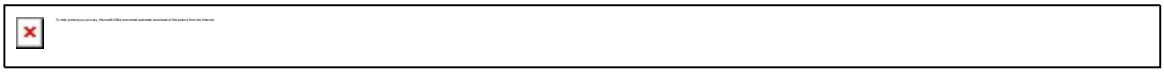
Guggenheim takeaway: *FYI. Process continues down the litigated path. Investors should monitor for potential reads to other filings in TX with peers.*

AVA – Avista signs 145 MW hydro deal

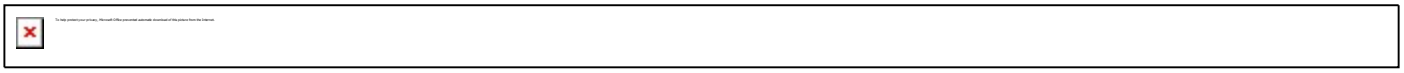
- The 23-year supply deal supports the company's goals of providing customers with 100% carbon neutral power by 2027, and 100% clean electricity by 2045.
- Company press release

Guggenheim takeaway: *Minor FYI.*

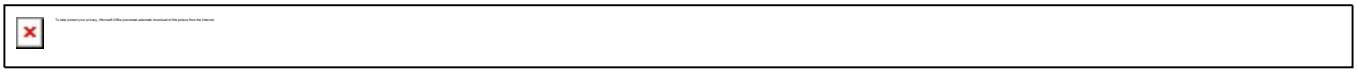
Guggenheim 2022 Client and Corporate Access Utility Events



Guggenheim Comp Sheet



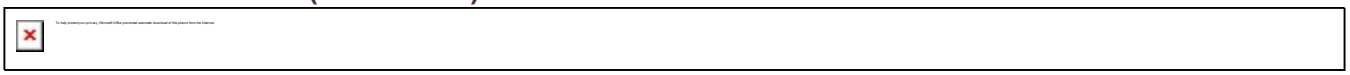
Share Price Performance (Year-to-Date, Three-Month, One-Month, & Five-Day Trailing)



Generation and Mix



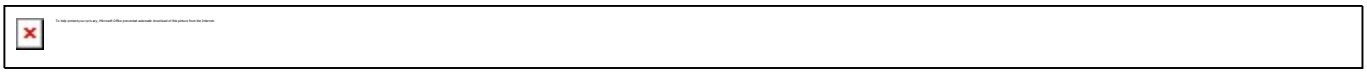
Generation and Mix (continued)



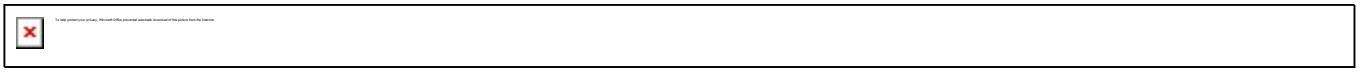
Weather



Peak Load



Regulatory Calendar



Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM, and Weekly Commentary

Key Research

- SR – What's In the Box? No One Knows – Limited Visibility Coupled With Arbitrary EPS Adjustments By Mgmt.; Cheap Valuation Keeps Us From D/g to Sell
- OGS – Macroeconomic Headwinds Claim Another Victim; Downgrade to SELL from NEUTRAL; Could Be Signal for Wide Valuation Dispersions in Our Space in '23
- EEI: Back at the Diplomat - What a Difference a Year Makes…
- Guggenheim EEI Takeaways - Day Three
- Guggenheim EEI Takeaways - Day Two
- Guggenheim EEI Takeaways - Day One
- Utility and IPP 3Q22 Model Sweep: Valuation and Estimate Adjustments
- DUK: Earnings Preview Focus – Rebasing 2023 for a "Clean" Slate Ahead of Q3 Announcement
- Canary in the Coal Mine or was Exelon an Unlucky One-Off? Q3 Earnings/EEI Could Provide Visibility
- EXC: Management Shuffle Surprises, but Follow-Up Call Helps Clear the Air
- AEP: Did They Mention Transmission? Analyst Day Better Than Expectations; Cemented Growth, and More Asset Sales Towards Simplification a Key Focus
- DUK ESG Day Recap: Bigger Capital Plan Supports Robust Growth While Mgmt. Continues to Defer Incremental Equity; November Rebase Not Draconian
- 2022 LCOE Analysis – LCOE Update Shows Rising Costs, But IRA Further Improves Solar/Wind Competitiveness; Gas Dominance Continues to Fade
- ED – CED Strategic Review Over; $6.8B Sale Announced with Proceeds Trending Ahead of Expectations
- PCG: Strategic PacGen Split and Equity Sale Further Build on Top Quartile Financial Plan; Headline Accretive, Fundamentally Supportive
- CEG: You Want a Unicorn, You Pay the Price – Raising PT to $121
- FE – CEO Change A Clearing Event? Almost…
- NEE NDR: Top IRA Idea - Runway Set for Takeoff; Fundamentals On NEER, FPL Start Spring-loading Growth; Raising TP to $108

- Policy: Existing Nuclear Comes In From the Cold
- SMR - NuScale: Initiating Coverage - Another Nuclear Renaissance? Yes Please…
- DTE – First NDR In a Post IRA World; DTE Stands to Gain on Capex Roll Forward and Strategic Value of Vantage Business
- DUK: Damned If You Do, Damned If You Don't - Sale of Commercial Renewables Really Materially Dilutive? We Don't Think So – Some Misconceptions Out There
- Utilities — Life, Death… and Pension Expense?
- Mid-Summer Night's Dream – Utilities Sector Update: Individual Themes Playing Out, but We Continue to See Broader Support, Outperformance for Utilities Even as Fed Rates Get Factored In
- '22 Utilities Outlook: Sector Cheap, Fundamentals Strong but Get Ready for Another Bumpy Ride – Choose Your Picks Wisely
- SO GA Road Trip: Approaching the Apex the Southern Way… Cool, Calm, and Collected
- ES: Captain Nolan Charts a Course to Calmer Waters - Upgrading to BUY on Potential NT Catalysts, Valuation
- SO: Georgia Power Rate Case Filed; This Isn't Their First Rodeo
- PPL NDR: On the Road Again… Just Can't Wait to Get on the Road Again - Much Needed Face Time Helps Build Confidence
- PJM: Depressed 2023/24 BRA Results Not A Surprise
- ETR Analyst Day – Back in Step and Then Some: LT EPS Growth Set to 6-8%, Plan Reset to Solid Yet Conservative Trajectory; Maintain Buy, Estimates
- CMS – CEO/CFO Catch Up NDR; CMS Continues to Build on Premium Story With Transformed EPS Trajectory
- ES NDR: Landlubber? That's Fine with Us…
- NEE: Sunny Days Ahead for NEE; Analyst Day Steps Up EPS Growth Trajectory and Demonstrates Best in Class Positioning Across Business Lines
- LNT NDR: Solar Tariff Moratorium Defuses Key NT Overhang as Management Navigates a Busy Spring
- PCG: No Surprises Analyst Day Puts Together Winning Framework; Rebuilding Trust May Take Time, but Patience Gets Rewarded
- PNW: APS Rate Case Pushed Out to End of October
- PPL: Familiar Playbook Draws Mixed Investor Reaction
- EXC NDR: Getting Yourself Back Out There…
- Solar Tariff Touch Points: Quick Read
- AWK NDR: Reconstituted C-Suite Hits the Ground Running
- EVRG NDR: The Wichita Lineman Is Still on The Line…

- ED: CECONY GRC Testimony Posted; Solid Floor Set, Rate Base Mostly Intact; Upgrading to Neutral on Risks Subsiding
- AGA Day 2 Flash Recap
- AGA Day 1 Flash Recap
- CEG - The Stars Are Finally Aligned, Upgrading Constellation to a BUY
- CNP NDR: CNP Continues to Harmonize Capex Upside and Business Mix; Mgmt. Focused on Consistent 8% EPS Growth, but We See LT Plan Upside Potential
- Show Me the Money on Gas LDCs? Reality – Keeping Is More Valuable Than a Check for 2x Rate Base
- AEE NDR: Straightforward Updates Reinforce Premium Position; Gen Transition and Policy Work Continue
- ETR “In Person” NDR: Energy Intensive Industrial Customer Base and Heavy Storm Activity Dilutive to Valuation? Let’s Talk Accretion…
- Uranium Baseline: Russia-Ukraine Fallout
- D: C-Suite NDR – Political Noise Gone with the Wind
- SJI: So Long and Thanks for All the Memories; LDC M&A Gets Even Hotter
- WEC NDR: Decarbonization and Growth Remain on Track; ESG Focus Is Clear Throughout This Premium Utility’s Plans
- PCG: Misconceptions Gone in a Flash Ahead of Our NY Meetings; PCG 8K Highlights 10% EPS CAGR Through 2026
- DUK: CEO NDR - Accelerating Growth Driven by Clean Energy Transformation with a Decade of Visibility and Earnings Upside… What’s Not to Like?
- CEG: The Longest Half Life of Any IPP? We Like but We Wait - Policy Upside Remains TBD; Initiating Coverage with NEUTRAL
- SO: Georgia Power IRP filed; coal retirements on track for 80% shut down by 2028; Southern Power to provide majority of replacement capacity
- NI: CEO(s) Catch-Up: Incoming CEO Brings Experience and Existing NI Knowledge; Business and Strategic Reviews Underway; May Analyst Day Next Event
- Timely Regulatory Insights: Open Dialogue with CT, GA, and VA Commissioners – Two Way Better Than One Way
- PNW: C-Suite Meeting Highlights Path to Higher Rate Base Growth and Earnings; Alignment with a Cooperative Commission Remains Key to Execution
- AVA: Washington Multiyear Rate Case Filed; 11-Month Process Kicks Off in Pursuit of Earning Allowed Return in 2023
- EXC: Constellation Analyst Day Lays Out Clear Strategy and Key Details; Investor Comfort May Take Time

- EXC: RemainCo Details Largely in Line with Our Expectations
- EXC: Straightforward Spin? Constellation Details Much Appreciated, but Expectations Should Be Otherwise Grounded

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Power & Utilities

October 24, 2022

Utility and IPP 3Q22: Valuation and Estimate Adjustments

Key Message: We are refreshing select estimates and PTs ahead of 3Q22 earnings to reflect any known and measurable year-over-year items, to adjust for seasonality, and to re-mark to the latest commodity curves. This note, which includes estimate changes, is a culmination of mgmt. calls with our covered companies over the past few weeks. In addition, our base regulated utility multiple declines from 19.5x to 16x as we rerun our underlying regression; see below.

Provided for the exclusive use of Michael Weisenburger at NiSource on 24-Oct-2022 10:03 AM.

UPDATING OUR BASELINE UTILITY VALUATION

We are updating our baseline utility valuation from 19.5x P/E on 2024E to 16x P/E, largely driven by a steep rise in interest rates and forward yield expectations. While we have acknowledged a recent breakdown in the correlation between utility valuation and interest rates (see our note here), we are maintaining our valuation methodology presented in the 2022 Utilities Outlook (see note here). In this update we are incorporating the forward yield outlook for corporate bonds of ~5% for 2024 to derive: our "base" target multiple for regulated utilities before full-year discount factor and company-specific discounts/premiums. The current 2024 corporate bond yield curve (~5%) implies a 2024 regulated P/E multiple of ~16x P/E but we acknowledge a transitory view of forward expectations (i.e., we expect expectations to continue shifting with Fed action), and we reset our baseline (i.e., average fair value) for utilities to 16x P/E on 2024E (down from 19.5x) accordingly.

BBB Yield (%)	2024E P/E Multiple	Multiple Premium / (Discount)	Implied Upside / (Downside)
4.0%	18.0x	2.0x	-11%
4.2%	17.6x	1.6x	-9%
4.4%	17.2x	1.2x	-7%
4.6%	16.8x	0.8x	-5%
4.8%	16.4x	0.4x	-2%
5.0%	**16.0x**		
5.2%	15.6x	-0.4x	3%
5.4%	15.2x	-0.8x	5%
5.6%	14.8x	-1.2x	8%
5.8%	14.4x	-1.6x	11%
6.0%	14.0x	-2.0x	14%
6.2%	13.6x	-2.4x	18%
6.4%	13.2x	-2.8x	21%
6.6%	12.8x	-3.2x	25%
6.8%	12.4x	-3.6x	29%
7.0%	12.0x	-4.0x	33%
7.2%	11.6x	-4.4x	38%

Slope	(2.0)	a
Intercept	26.1	b
'24 BBB Bond Yield (%)	5.00%	c
3Q Update 2024 P/E Multiple	**16.0x**	d = (a*c) + b

Our current expectation for the group incorporating recent bond yield projections

Source: Bloomberg LP, Guggneheim Estimates

Provided for the exclusive use of Michael Weisenburger at NiSource on 24-Oct-2022 10:03 AM.

ESTIMATES VS. CONSENSUS, SORTED BY Δ TO 2023 CONSENSUS (%)

Regulated Utilities	Rating	Price Target		Price	Est. Total Return			New Guggenheim Estimates (EPS)					Δ vs. Consensus (%)				
		New	Prior	(10.21.22)	SPA	Yield	TSR	3Q22	2022E	2023E	2024E	2025E	3Q22	'2022E	'2023E	'2024E	'2025E
HE	Neutral	$36	$41	$35.93	0%	1%	2%	0.53	2.18	2.43	2.48	2.70	2%	2%	6%	2%	3%
NWN	Neutral	$40	$49	$45.81	(13%)	4%	(8%)	(0.75)	2.56	2.73	2.83	2.98	2%	1%	2%	3%	(0%)
NWE	Neutral	$48	$58	$52.18	(8%)	5%	(3%)	0.55	3.30	3.57	3.88	4.05	(7%)	0%	2%	5%	3%
SJI	Neutral	$36	$36	$34.39	5%	4%	8%	(0.34)	1.71	1.82	1.94	2.05	78%	(1%)	2%	3%	4%
FE	Neutral	$34	$43	$36.41	(7%)	4%	(2%)	0.79	2.40	2.57	2.75	2.95	0%	(1%)	1%	1%	3%
AVA	Sell	$33	$34	$38.93	(15%)	5%	(11%)	0.18	1.94	2.47	2.59	2.72	(3%)	(0%)	1%	(1%)	(0%)
PNW	Sell	$54	$60	$64.18	(16%)	5%	(10%)	2.69	4.05	4.25	4.50	4.75	3%	1%	1%	0%	1%
POR	Buy	$48	$56	$43.79	10%	4%	14%	0.61	2.83	2.84	3.02	3.17	(1%)	1%	1%	1%	(0%)
ES	Buy	$82	$97	$72.59	13%	4%	17%	1.04	4.10	4.42	4.75	5.11	(1%)	(0%)	1%	1%	1%
AWK	Neutral	$138	$155	$132.76	4%	2%	6%	1.53	4.44	4.85	5.23	5.70	1%	0%	1%	1%	1%
D	Buy	$75	$90	$65.53	14%	4%	19%	1.06	4.12	4.40	4.70	5.00	(2%)	0%	1%	1%	0%
SRE	Buy	$165	$174	$142.28	16%	3%	19%	1.73	8.70	9.08	9.58	10.21	(5%)	1%	1%	(1%)	1%
NEE	Buy	$99	$108	$71.65	38%	6%	44%	0.81	2.90	3.12	3.42	3.73	1%	1%	1%	1%	3%
DTE	Buy	$122	$145	$107.45	14%	3%	17%	1.61	6.06	6.31	6.73	7.18	1%	1%	1%	0%	(1%)
PCG	Buy	$19	$19	$14.50	31%	0%	31%	0.26	1.11	1.24	1.36	1.49	4%	1%	1%	1%	2%
OGE	Buy	$38	$43	$34.97	9%	5%	14%	1.24	1.99	2.08	2.22	2.32	10%	(3%)	1%	2%	1%
AEP	Buy	$93	$109	$85.63	9%	4%	12%	1.57	5.00	5.30	5.64	6.00	0%	(0%)	0%	1%	0%
ETR	Buy	$117	$129	$102.29	14%	4%	18%	2.61	6.43	6.78	7.27	7.74	(1%)	1%	0%	1%	0%
CMS	Neutral	$57	$70	$54.43	5%	3%	8%	0.55	2.88	3.13	3.45	3.69	(5%)	0%	0%	2%	1%
LNT	Neutral	$50	$60	$49.76	0%	4%	4%	0.99	2.78	2.90	3.04	3.23	(3%)	0%	0%	(1%)	(1%)
PEG	Buy	$71	$76	$54.30	31%	4%	35%	0.82	3.50	3.58	4.06	4.39	(2%)	1%	0%	3%	2%
SO	Buy	$69	$80	$64.50	7%	4%	11%	1.34	3.60	3.80	4.15	4.40	0%	0%	0%	0%	(1%)
OGS	Neutral	$70	$86	$73.08	(4%)	4%	(1%)	0.40	4.08	4.38	4.65	5.00	(2%)	0%	(0%)	0%	0%
CNP	Buy	$30	$35	$27.01	11%	2%	13%	0.28	1.38	1.49	1.63	1.75	(10%)	(0%)	(0%)	1%	1%
ALE	Neutral	$53	$66	$52.34	1%	5%	6%	0.68	3.75	3.91	4.14	4.41	(9%)	0%	(0%)	1%	0%
NJR	Neutral	$40	$41	$42.08	(5%)	4%	(1%)	0.45	2.45	2.45	2.64	2.81	(1%)	0%	(0%)	(3%)	1%
WEC	Neutral	$95	$104	$86.65	10%	3%	13%	0.86	4.40	4.59	4.89	5.21	(1%)	0%	(0%)	(0%)	(0%)
EVRG	Buy	$64	$77	$58.16	10%	4%	14%	1.91	3.56	3.77	4.02	4.30	2%	(0%)	(0%)	(1%)	1%
AEE	Buy	$84	$99	$77.58	8%	3%	11%	1.71	4.04	4.32	4.64	4.95	(1%)	(1%)	(1%)	(0%)	(1%)
NI	Buy	$27	$32	$24.49	10%	4%	14%	0.10	1.45	1.53	1.70	1.84	(13%)	0%	(1%)	(1%)	(1%)
EIX	Buy	$66	$82	$55.64	19%	4%	23%	1.46	4.63	4.79	5.18	5.44	(4%)	3%	(1%)	(0%)	(1%)
CPK	Neutral	$120	$136	$119.38	1%	2%	2%	0.75	5.08	5.49	5.87	6.26	1%	(1%)	(1%)	(0%)	0%
DUK	Buy	$97	$119	$88.46	10%	5%	14%	1.85	5.45	5.65	6.05	6.50	(0%)	0%	(2%)	(1%)	0%
PPL	Buy	$27	$33	$25.69	5%	6%	12%	0.39	1.39	1.58	1.70	1.80	(9%)	(1%)	(2%)	(1%)	(1%)
SR	Neutral	$67	$67	$65.36	3%	4%	7%	(0.75)	3.84	4.27	4.91	5.03	14%	(1%)	(2%)	6%	2%
ED	Neutral	$82	$94	$84.87	(3%)	4%	0%	1.46	4.51	4.71	5.18	5.48	1%	(0%)	(2%)	1%	2%
EXC	Neutral	$40	$49	$36.72	9%	4%	13%	0.68	2.27	2.34	2.58	2.82	(3%)	1%	(3%)	-	1%

Source: Bloomberg market data (10.21.22), Guggenheim Securities, LLC estimates.

Provided for the exclusive use of Michael Weisenburger at NiSource on 24-Oct-2022 10:03 AM.

SUMMARY OF ESTIMATE CHANGES

Market pricing as of October 21, 2022

Regulated Electric Utilities		Rating	Price Target New	Price Target Prior	Price (10.21.22)	Est. Total Return SPA	Div	Yield	TSR	New Guggenheim Estimates (EPS) 3Q22	2022E	2023E	2024E	2025E	Prior Guggenheim Estimates (EPS) 3Q22	2022E	2023E	2024E	2025E
AEE	AEE-US	Buy	$84	$99	$77.58	8%	2.48	3%	11%	1.71	4.04	4.32	4.64	4.95	1.75	4.04	4.32	4.64	4.95
AEP	AEP-US	Buy	$93	$109	$85.63	9%	3.26	4%	12%	1.57	5.00	5.30	5.64	6.00	1.57	5.00	5.30	5.64	6.00
ALE	ALE-US	Neutral	$53	$66	$52.34	1%	2.72	5%	6%	0.68	3.75	3.91	4.14	4.41	0.89	3.75	3.91	4.14	4.43
AVA	AVA-US	Sell	$33	$34	$38.93	(15%)	1.76	5%	(11%)	0.18	1.94	2.47	2.59	2.72	0.12	1.94	2.47	2.59	2.72
CMS	CMS-US	Neutral	$57	$70	$54.43	5%	1.75	3%	8%	0.55	2.88	3.13	3.45	3.69	0.71	2.88	3.14	3.41	3.64
CNP	CNP-US	Buy	$30	$35	$27.01	11%	0.62	2%	13%	0.28	1.38	1.49	1.63	1.75	0.30	1.38	1.49	1.61	1.73
D	D-US	Buy	$75	$90	$65.53	14%	2.76	4%	19%	1.06	4.12	4.40	4.70	5.00	1.06	4.12	4.40	4.70	5.00
DTE	DTE-US	Buy	$122	$145	$107.45	14%	3.52	3%	17%	1.61	6.06	6.31	6.73	7.18	1.75	6.06	6.29	6.73	7.13
DUK	DUK-US	Buy	$97	$119	$88.46	10%	4.01	5%	14%	1.85	5.45	5.65	6.05	6.50	2.00	5.48	5.81	6.15	6.50
ED	ED-US	Neutral	$82	$94	$84.87	(3%)	3.12	4%	0%	1.46	4.51	4.71	5.18	5.48	1.21	4.51	4.85	5.16	5.47
EIX	EIX-US	Buy	$66	$82	$55.64	19%	2.44	4%	23%	1.46	4.63	4.79	5.18	5.44	1.72	4.64	4.92	5.25	5.60
ES	ES-US	Buy	$82	$97	$72.59	13%	2.63	4%	17%	1.04	4.10	4.42	4.75	5.11	1.11	4.10	4.42	4.75	5.11
ETR	ETR-US	Buy	$117	$129	$102.29	14%	3.68	4%	18%	2.61	6.43	6.78	7.27	7.74	2.54	6.43	6.81	7.21	7.57
EVRG	EVRG-US	Buy	$64	$77	$58.16	10%	2.37	4%	14%	1.91	3.56	3.77	4.02	4.30	1.77	3.56	3.77	4.02	4.30
EXC	EXC-US	Neutral	$40	$49	$36.72	9%	1.35	4%	13%	0.68	2.27	2.34	2.58	2.82	0.73	2.27	2.41	2.58	2.82
FE	FE-US	Neutral	$34	$43	$36.41	(7%)	1.57	4%	(2%)	0.79	2.40	2.57	2.75	2.95	0.79	2.40	2.57	2.75	2.95
HE	HE-US	Neutral	$36	$41	$35.93	0%	0.50	1%	2%	0.53	2.18	2.43	2.48	2.70	0.56	2.21	2.41	2.47	2.69
LNT	LNT-US	Neutral	$50	$60	$49.76	0%	1.81	4%	4%	0.99	2.78	2.90	3.04	3.23	0.92	2.78	2.90	3.04	3.23
NWE	NWE-US	Neutral	$48	$58	$52.18	(8%)	2.59	5%	(3%)	0.55	3.30	3.57	3.88	4.05	0.60	3.30	3.57	3.88	4.05
OGE	OGE-US	Buy	$38	$43	$34.97	9%	1.70	5%	14%	1.24	1.99	2.08	2.22	2.32	1.21	1.99	2.06	2.21	2.30
PCG	PCG-US	Buy	$19	$19	$14.50	31%	-	0%	31%	0.26	1.11	1.24	1.36	1.49	0.26	1.11	1.24	1.34	1.45
PNW	PNW-US	Sell	$54	$60	$64.18	(16%)	3.49	5%	(10%)	2.69	4.05	4.25	4.50	4.75	2.91	4.05	4.25	4.50	4.75
POR	POR-US	Buy	$48	$56	$43.79	10%	1.85	4%	14%	0.61	2.83	2.84	3.02	3.17	0.61	2.83	2.92	3.02	3.18
PPL	PPL-US	Buy	$27	$33	$25.69	5%	1.66	6%	12%	0.39	1.39	1.58	1.70	1.80	0.39	1.39	1.58	1.70	1.81
SO	SO-US	Buy	$69	$80	$64.50	7%	2.88	4%	11%	1.34	3.60	3.80	4.15	4.40	1.34	3.60	3.80	4.15	4.40
WEC	WEC-US	Neutral	$95	$104	$86.65	10%	3.01	3%	13%	0.86	4.40	4.59	4.89	5.21	0.86	4.40	4.59	4.89	5.21

Regulated Gas Utilities		Rating	Price Target New	Price Target Prior	Price (10.21.22)	Est. Total Return SPA	Div	Yield	TSR	New Guggenheim Estimates (EPS) 3Q22	2022E	2023E	2024E	2025E	Prior Guggenheim Estimates (EPS) 3Q21E	2022E	2023E	2024E	2025E
CPK	CPK-US	Neutral	$120	$136	$119.38	1%	1.80	2%	2%	0.75	5.08	5.49	5.87	6.26	0.81	5.13	5.55	5.93	6.32
NI	NI-US	Buy	$27	$32	$24.49	10%	0.97	4%	14%	0.10	1.45	1.53	1.70	1.84	0.10	1.45	1.53	1.70	1.84
NJR	NJR-US	Neutral	$40	$41	$42.08	(5%)	1.55	4%	(1%)	(0.04)	2.45	2.45	2.64	2.81	(0.04)	2.45	2.43	2.64	2.81
NWN	NWN-US	Neutral	$40	$49	$45.81	(13%)	1.92	4%	(8%)	(0.75)	2.56	2.73	2.83	2.98	(0.75)	2.56	2.73	2.83	2.98
OGS	OGS-US	Neutral	$70	$86	$73.08	(4%)	2.58	4%	(1%)	0.40	4.08	4.38	4.65	5.00	0.40	4.08	4.38	4.65	5.00
SJI	SJI-US	Neutral	$36	$36	$34.39	5%	1.27	4%	8%	NA	NA	NA	NA	NA	(0.34)	1.71	1.82	1.94	2.05
SR	SR-US	Neutral	$67	$67	$65.36	3%	2.82	4%	7%	NA	NA	NA	NA	NA	0.04	3.84	4.27	4.91	5.03

Integrated Utilities		Rating	Price Target New	Price Target Prior	Price (10.21.22)	Est. Total Return SPA	Div	Yield	TSR	New Guggenheim Estimates (EPS) 3Q22	2022E	2023E	2024E	2025E	Prior Guggenheim Estimates (EPS) 3Q21E	2022E	2023E	2024E	2025E
PEG	PEG-US	Buy	$71	$76	$54.30	31%	2.06	4%	35%	0.82	3.50	3.58	4.06	4.39	0.92	3.53	3.58	4.06	4.39

IPPs		Rating	Price Target New	Price Target Prior	Price (10.21.22)	Est. Total Return SPA	Div	Yield	TSR	New Guggenheim Estimates (EBITDA) 3Q22	2022E	2023E	2024E	2025E	Prior Guggenheim Estimates (EBITDA) 3Q21E	2022E	2023E	2024E	2025E
CEG	CEG-US	Buy	$121	$121	$87.28	39%	1.48	2%	40%	580	NA	NA	NA	NA	580	2,605	3,269	3,424	3,675
NRG	NRG-US	Neutral	$43	$43	$42.36	2%	1.46	3%	5%	410	1,950	2,287	2,309	2,274	656	2,008	2,247	2,312	2,276
VST	VST-US	Buy	$32	$32	$21.75	47%	0.60	3%	50%	1,025	3,126	3,505	3,608	3,797	1,386	3,117	3,508	3,555	3,738

Multi-Industry Utilities		Rating	Price Target New	Price Target Prior	Price (10.21.22)	Est. Total Return SPA	Div	Yield	TSR	New Guggenheim Estimates (EPS) 3Q22	2022E	2023E	2024E	2025E	Prior Guggenheim Estimates (EPS) 3Q21E	2022E	2023E	2024E	2025E
NEE	NEE-US	Buy	$99	$108	$71.65	38%	4.44	6%	44%	0.81	2.90	3.12	3.42	3.73	0.76	2.84	3.07	3.38	3.66
SRE	SRE-US	Buy	$165	$174	$142.28	16%	3.97	3%	19%	1.73	8.70	9.08	9.58	10.21	1.70	8.54	9.08	9.58	10.21

Other		Rating	Price Target New	Price Target Prior	Price (10.21.22)	Est. Total Return SPA	Div	Yield	TSR	New Guggenheim Estimates (EPS) 3Q22	2022E	2023E	2024E	2025E	Prior Guggenheim Estimates (EPS) 3Q21E	2022E	2023E	2024E	2025E
AWK	AWK-US	Neutral	$138	$155	$132.76	4%	2.69	2%	6%	1.53	4.44	4.85	5.23	5.70	1.53	4.44	4.85	5.23	5.70

Source: Bloomberg market data (10.21.22), Guggenheim Securities, LLC estimates.

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GUGGENHEIM'S POWER & UTILITY COMP SHEET

10/21/2022		Market	Guggenheim EPS Ests				Consensus				Δ vs Consensus (>$0.02)				Implied P/E Multiple				Prem/(Disc) vs Mid/Lg Cap Utes				'22-'25	NTM	Payout	Guggenheim		NTM Total	Consensus		NTM Total
	Price	Cap ($m)	2022E	2023E	2024E	2025E	2022E	2023E	2024E	2025E	2022E	2023E	2024E	2025E	2022E	2023E	2024E	2025E	2022E	2023E	2024E	2025E	EPS	Yield	Ratio	Rating	Target	Return	Rating	Target	Return
Small Cap Electric																															
ALE	$52.34	2,987	3.75	3.91	4.14	4.41	3.74	3.92	4.12	4.41	–	–	–	–	14.0x	13.3x	12.7x	11.9x	-19%	-19%	-17%	-17%	5.6%	5.2%	72%	Neutral	$53	6%	Neutral	$58	15%
AVA	$38.93	2,841	1.94	2.47	2.59	2.72	1.95	2.45	2.63	2.78	–	–	(0.04)	(0.06)	20.0x	15.9x	14.8x	14.0x	15%	-3%	-3%	-2%	11.9%	4.7%	94%	Sell	$33	-11%	Neutral	$40	7%
NWE	$52.18	2,930	3.30	3.57	3.88	4.05	3.28	3.51	3.59	3.96	–	0.06	0.29	0.09	15.9x	14.9x	14.5x	13.2x	-8%	-9%	-5%	-8%	7.1%	4.9%	78%	Neutral	$48	-3%	Buy	$58	16%
POR	$43.79	3,908	2.83	2.84	3.02	3.17	2.81	2.80	3.00	3.18	–	0.04	–	–	15.6x	15.6x	14.6x	13.8x	-10%	-5%	-5%	-4%	3.9%	4.3%	67%	Buy	$48	14%	Neutral	$51	21%
		12,666													**16.4x**	**14.9x**	**14.2x**	**13.2x**	**-6%**	**-9%**	**-8%**	**-8%**	**7.1%**	**4.8%**	**78%**						
Mid/Large Cap Electric																															
AEE	$77.58	20,044	4.04	4.32	4.64	4.95	4.07	4.36	4.65	5.00	–	(0.04)	–	(0.04)	19.1x	17.8x	16.7x	15.5x	10%	9%	9%	8%	7.0%	3.2%	61%	Buy	$84	11%	Buy	$92	22%
AEP	$85.63	43,991	5.00	5.30	5.64	6.00	5.00	5.28	5.62	6.00	–	–	–	–	17.1x	16.2x	15.2x	14.3x	-1%	-1%	-1%	-1%	6.3%	3.9%	66%	Buy	$93	12%	Buy	$101	21%
CMS	$54.43	15,795	2.88	3.13	3.45	3.69	2.88	3.12	3.39	3.65	–	–	0.06	0.04	18.9x	17.4x	16.1x	14.9x	9%	6%	5%	4%	8.6%	3.6%	68%	Neutral	$57	8%	Buy	$64	21%
CNP	$27.01	17,001	1.38	1.49	1.63	1.75	1.39	1.49	1.58	1.74	–	–	0.05	–	19.5x	18.1x	17.1x	15.5x	12%	10%	11%	8%	8.2%	2.7%	52%	Buy	$30	14%	Buy	$31	19%
D	$65.53	54,554	4.12	4.40	4.70	5.00	4.11	4.37	4.68	5.00	–	–	–	–	15.9x	15.0x	14.0x	13.1x	-8%	-9%	-9%	-9%	6.7%	4.3%	68%	Buy	$75	19%	Buy	$82	30%
DTE	$107.45	20,818	6.06	6.31	6.73	7.18	6.02	6.26	6.69	7.15	0.04	0.05	0.04	0.03	17.8x	17.2x	16.1x	15.0x	3%	5%	5%	5%	5.8%	3.5%	62%	Buy	$122	17%	Buy	$128	23%
DUK	$88.46	68,114	5.45	5.65	6.05	6.50	5.45	5.75	6.13	6.50	–	(0.10)	(0.08)	–	16.2x	15.4x	14.4x	13.6x	-6%	-6%	-6%	-5%	6.0%	4.7%	75%	Buy	$97	14%	Buy	$104	22%
ED	$84.87	30,093	4.51	4.71	5.18	5.48	4.51	4.81	5.12	5.39	–	(0.10)	0.06	0.09	18.8x	17.7x	16.6x	15.7x	8%	8%	8%	10%	6.7%	3.8%	72%	Neutral	$82	0%	Sell	$83	1%
EIX	$55.64	21,223	4.63	4.79	5.18	5.44	4.53	4.86	5.27	5.46	0.10	(0.07)	(0.09)	–	12.3x	11.4x	10.6x	10.2x	-29%	-30%	-31%	-29%	5.5%	5.2%	63%	Buy	$66	24%	Buy	$68	28%
ES	$72.59	25,148	4.10	4.42	4.75	5.11	4.10	4.38	4.64	5.02	–	0.04	0.11	0.09	17.7x	16.6x	15.7x	14.5x	2%	1%	2%	1%	7.6%	3.7%	65%	Buy	$82	17%	Buy	$87	23%
ETR	$102.29	20,808	6.43	6.78	7.27	7.74	6.35	6.78	7.27	7.69	0.08	–	–	0.05	16.1x	15.1x	14.1x	13.3x	-7%	-8%	-8%	-7%	6.4%	4.1%	66%	Buy	$117	19%	Buy	$121	22%
EVRG	$58.16	13,346	3.56	3.77	4.02	4.30	3.56	3.77	4.04	4.23	–	–	–	0.07	16.3x	15.4x	14.4x	13.7x	-6%	-6%	-6%	-4%	6.5%	4.2%	69%	Buy	$64	14%	Buy	$67	19%
EXC	$36.72	36,417	2.27	2.34	2.58	2.82	2.26	2.41	2.57	2.78	–	(0.07)	–	0.04	16.3x	15.2x	14.3x	13.2x	-6%	-7%	-7%	-8%	7.5%	4.0%	64%	Neutral	$40	13%	Buy	$45	27%
FE	$36.41	20,805	2.40	2.57	2.75	2.95	2.42	2.53	2.74	2.86	–	0.04	–	0.09	15.0x	14.4x	13.3x	12.7x	-13%	-12%	-13%	-11%	7.1%	4.4%	66%	Neutral	$34	-2%	Buy	$42	21%
LNT	$49.76	12,486	2.78	2.90	3.04	3.23	2.78	2.90	3.08	3.28	–	–	(0.04)	(0.05)	17.9x	17.2x	16.2x	15.2x	3%	5%	5%	6%	5.1%	3.6%	65%	Neutral	$50	4%	Neutral	$59	23%
OGE	$34.97	7,001	1.99	2.08	2.22	2.32	2.05	2.06	2.17	2.29	(0.06)	–	0.05	0.03	17.1x	17.0x	16.1x	15.3x	-2%	3%	5%	6%	5.2%	4.8%	85%	Buy	$38	14%	Buy	$40	18%
PCG	$14.50	28,821	1.11	1.24	1.36	1.49	1.10	1.23	1.35	1.44	–	–	–	0.05	13.2x	11.8x	10.8x	10.1x	-24%	-28%	-30%	-30%	10.3%	0.6%	8%	Buy	$19	32%	Buy	$16	11%
PEG	$54.30	27,088	3.50	3.58	4.06	4.39	3.47	3.58	3.99	4.33	–	–	0.07	0.06	15.6x	15.2x	13.6x	12.5x	-10%	-7%	-11%	-13%	7.8%	4.1%	64%	Buy	$71	35%	Buy	$70	33%
PNW	$64.18	7,255	4.05	4.25	4.50	4.75	4.03	4.20	4.49	4.72	–	0.05	–	–	15.9x	15.3x	14.3x	13.6x	-8%	-7%	-7%	-5%	5.5%	5.5%	86%	Sell	$54	-10%	Sell	$67	10%
PPL	$25.69	18,913	1.39	1.58	1.70	1.80	1.41	1.60	1.70	1.82	–	–	–	–	18.2x	16.0x	15.1x	14.1x	5%	-2%	-2%	-2%	9.0%	3.7%	68%	Buy	$27	9%	Buy	$29	18%
SO	$64.50	68,533	3.60	3.80	4.15	4.40	3.59	3.79	4.08	4.41	–	–	0.07	–	18.0x	17.0x	15.8x	14.6x	3%	4%	3%	2%	6.9%	4.3%	77%	Buy	$69	11%	Neutral	$70	13%
WEC	$86.65	27,332	4.40	4.59	4.89	5.21	4.39	4.61	4.90	5.23	–	–	–	–	19.7x	18.8x	17.7x	16.6x	14%	15%	15%	15%	5.8%	3.5%	69%	Neutral	$95	13%	Neutral	$96	15%
Mid/Lg Cap (excl. EIX, PCG)															**17.4x**	**16.4x**	**15.3x**	**14.4x**					**6.8%**	**4.0%**	**68%**						
Regulated Electrics		**618,253**													**17.2x**	**16.2x**	**15.1x**	**14.2x**					**6.8%**	**4.1%**	**70%**						

Diversified	Price	Market Cap ($m)	Guggenheim EPS Ests 2022E	2023E	2024E	2025E	Consensus 2022E	2023E	2024E	2025E	Δ vs Consensus (>$0.02) 2022E	2023E	2024E	2025E	Implied P/E multiple 2022E	2023E	2024E	2025E	Prem/(Disc) vs Mid/Lg Cap Utes 2022E	2023E	2024E	2025E	'22-'25 EPS	NTM Yield	Payout Ratio	Guggenheim Rating	Target	NTM Total Return	Consensus Rating	Target	NTM Total Return
HE	$35.93	3,933	2.18	2.43	2.48	2.70	2.14	2.30	2.42	2.57	0.04	0.13	0.06	0.13	16.8x	15.6x	14.8x	14.0x	-3%	-5%	-3%	-2%	7.4%	4.0%	67%	Neutral	$36	4%	Sell	$40	15%
NEE	$71.65	140,776	2.90	3.12	3.42	3.73	2.87	3.11	3.37	3.64	–	–	0.05	0.09	24.9x	23.1x	21.2x	19.7x	44%	41%	39%	37%	8.8%	2.6%	63%	Buy	$99	41%	Buy	$93	32%
SRE	$142.28	44,720	8.70	9.08	9.58	10.21	8.63	9.04	9.68	10.19	0.07	0.04	(0.10)	–	16.5x	15.7x	14.7x	14.0x	-5%	-4%	-4%	-3%	5.5%	3.4%	56%	Buy	$165	19%	Buy	$168	21%
		189,430													**19.4x**	**18.1x**	**16.9x**	**15.9x**	**12%**	**11%**	**10%**	**11%**	**7.2%**	**3.3%**	**62%**						
Gas LDCs																															
NI	$24.49	9,942	1.45	1.53	1.70	1.84	1.45	1.55	1.73	1.90	–	–	–	(0.06)	16.9x	15.8x	14.2x	12.9x	-2%	-2%	-6%	-9%	8.3%	4.0%	68%	Buy	$27	14%	Buy	$32	33%
CPK	$119.38	2,118	5.08	5.49	5.87	6.26	5.11	5.56	5.88	6.25	(0.03)	(0.06)	–	–	23.4x	21.5x	20.3x	19.1x	36%	33%	34%	35%	7.2%	1.9%	44%	Neutral	$120	2%	Buy	$139	19%
NJR	$42.08	4,049	2.45	2.45	2.64	2.81	2.46	2.46	2.73	2.84	–	–	(0.09)	–	17.1x	17.1x	15.4x	14.8x	-0%	6%	2%	5%	4.7%	3.7%	64%	Neutral	$40	-1%	Neutral	$45	10%
NWN	$45.81	1,569	2.56	2.73	2.83	2.98	2.53	2.67	2.74	3.00	0.03	0.06	0.09	–	18.1x	17.1x	16.7x	15.3x	5%	6%	10%	8%	5.2%	4.3%	76%	Neutral	$40	-8%	Buy	$54	21%
OGS	$73.08	3,956	4.08	4.38	4.65	5.00	4.08	4.38	4.64	4.99	–	–	–	–	17.9x	16.7x	15.8x	14.7x	4%	3%	4%	4%	7.0%	3.6%	64%	Neutral	$70	-1%	Buy	$84	18%
SJI	$34.39	4,212	1.71	1.82	1.94	2.05	1.72	1.79	1.88	1.94	–	–	0.06	0.11	20.0x	19.2x	18.3x	17.7x	16%	19%	21%	25%	6.2%	3.7%	74%	Neutral	$36	8%	Neutral	$36	8%
SR	$65.36	3,431	3.84	4.27	4.91	5.03	3.89	4.37	4.60	4.88	(0.05)	(0.10)	0.31	0.16	16.8x	15.0x	14.2x	13.4x	-2%	-7%	-6%	-5%	9.4%	4.4%	75%	Neutral	$67	7%	Neutral	$74	18%
		29,277													**18.6x**	**17.5x**	**16.4x**	**15.4x**	**8%**	**8%**	**8%**	**9%**	**6.9%**	**3.7%**	**67%**						
Regulated Water																															
AWK	$132.76	24,134	4.44	4.85	5.23	5.70	4.44	4.81	5.18	5.64	–	0.04	0.05	0.06	29.9x	27.6x	25.6x	23.5x	72%	68%	67%	64%	8.7%	2.1%	62%	Neutral	$138	6%	Buy	$155	19%

IPPs	Price	Market Cap ($m)	Guggenheim EBITDA Ests 2022E	2023E	2024E	2025E	Consensus 2022E	2023E	2024E	2025E	Δ vs Consensus (>$20m) 2022E	2023E	2024E	2025E	Implied EV/EBITDA multiple 2022E	2023E	2024E	2025E	Enterprise Value 2022E	2023E	2024E	2025E	'22-'25 Growth	NTM Yield	Payout Ratio	Guggenheim Rating	Target	NTM Total Return	Consensus Rating	Target	NTM Total Return
CEG	$87.28	28,511	2,605	3,269	3,424	3,675	2,645	3,108	3,462	3,661	(40)	161	(38)	–	12.5x	10.2x	8.7x	7.8x	33,098	31,717	30,139	28,406	12.2%	0.8%	20%	Buy	$121	39%	Buy	$93	7%
NRG	$42.36	9,961	1,950	2,287	2,309	2,274	1,988	2,246	2,366	2,339	(38)	41	(57)	(65)	8.5x	7.3x	6.7x	6.2x	16,946	16,401	15,791	14,463	5.3%	3.5%	32%	Neutral	$43	5%	Buy	$43	4%
VST	$21.75	9,056	3,126	3,505	3,608	3,797	3,146	3,685	3,536	3,280	(20)	(180)	72	517	6.6x	5.6x	5.8x	6.0x	20,725	20,693	20,481	19,729	6.7%	3.6%	28%	Buy	$32	51%	Buy	$32	49%
Other																															
ALTO	$4.17	309	59	74	75	76	54	167	255	305	–	(93)	(179)	(229)									9.0%	–	–	Buy	$11	164%	Buy	$12	180%
IEA	$13.72	667	147	164	174	178	145	165	N.A.	N.A.	–	–	–	–									6.7%	–	–	Neutral	$14	2%	Neutral	$14	2%
NEP	$69.33	5,817	1,660	1,775	1,889	2,003	1,777	1,996	2,163	2,317	(117)	(221)	(274)	(314)									6.5%	4.8%	–	Buy	$85	27%	Buy	$85	28%
SMR	$12.10	514	(156)	(100)	(57)	8	(146)	(85)	(54)	9	–	–	–	–										–	–	Buy	$18	49%	Buy	$17	43%

Source: Guggenheim Securities, LLC estimates, Bloomberg LP.

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	Company Updates	Valuation	Risks
AEE	▪ We are updating our 3Q22 estimate from $1.75 to $1.71 to account for known and measurable items year to date (through 3Q), including weather, cost run-rates, and revenue seasonality. ▪ We are maintaining our 2022-25 annual EPS estimates. ▪ We are updating our PT from $99 to $84.	▪ We are maintaining our BUY rating. ▪ We value AEE as a regulated utility, arriving at our $84 PT using our regulated group multiple of 16x, with a premium to reflect top-quartile growth opportunities, and applying to 2024 fundamentals. Our SOTP analysis for AEE essentially implies a ~19.2x multiple, in line with top-quartile growers. We value the company as a sum of the parts, and (1) we attribute a 3x premium on Ameren MO, reflecting potential upside capital opportunities, renewables, and an improving regulatory environment, (2) we assign a 1x premium to IL Electric and IL Gas, and (3) we assign a 5x premium on transmission for growth opportunities in MISO. We apply this to our 2024 EPS estimate of $4.64 and discount back to arrive at our $84 PT.	▪ Primary risks encompass traditional risk factors inherent with all utilities, including: (1) rate case risk, (2) capex outlook, and (3) interest rate changes above what we account for in our regression model. Company-specific risks include treasury yields deteriorating (IL) and further MISO congestion hampering new generation build.
AEP	▪ We are maintaining our 2022-25 EPS estimates. ▪ We are updating our PT to $93 from $109.	▪ We are maintaining our BUY rating. ▪ We utilize our regulated electric utilities multiple of 16.0x and apply a 1.5x premium for the constructive decarbonization path with incremental investments not currently in plan. We then apply this 17.5x multiple to our $5.64 2024 EPS estimate and discount back by 1 year to arrive at our $93 PT.	▪ Downside risks include ongoing renewable supply chain disruptions, delays to transmission buildout, and 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.
AVA	▪ We are updating our 3Q22 estimate to $0.18 from $0.12 to account for known and measurable items year to date (through 3Q), including cost run rates and revenue seasonality. ▪ We are maintaining our 2022-25 EPS estimates. ▪ We are updating our PT to $33 from $34.	▪ We are maintaining our SELL rating. ▪ We arrive at our $33 PT by applying our 16x regulated group target multiple (based on our regression model using the correlation between electric utility valuations and forward interest rate expectations), less a 2.5x discount for regulatory (rate case) risk to our 2024 EPS estimate of $2.59, and discount back 1 year.	▪ Upside risks include capital investments exceeding our modeling assumptions or interest rate changes below those reflected in our regression model.
ALE	▪ We are updating our 3Q22 estimate from $0.89 to $0.68 to account for known and measurable items year to date (through 3Q), including weather, cost run rates, and revenue seasonality. ▪ We are maintaining our 2022-25 EPS estimates. ▪ We are updating our PT from $66 to $53.	▪ We are maintaining our NEUTRAL rating. ▪ We value ALE using a sum-of-the-parts valuation. To the entire business excluding ACE, we take our regulated group multiple of 16x and apply a 2-turn and a half turn discount (to reflect ongoing uncertainty regarding growth), which is applied to our 2024 EPS (ex-ACE) estimate of $3.30 for an equity value of ~$45. We then apply our 16x premium less 2 and a half turns to our 2024 ACE EPS of $0.84 for an equity value of ~$11. The discounted combination of the 2 parts equals our $53 PT.	▪ 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.

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AWK	▪ We are maintaining our 2022-25 annual EPS estimates. ▪ We are updating our PT from $155 to $138.	▪ We are maintaining our NEUTRAL rating. ▪ Water utilities continue to be ascribed higher multiples vs. 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 perceived risk vs. electric/gas peers. Our $138 PT for AWK is predicated on our 2024 EPS estimate of $5.23 applied to an effective ~16x P/E multiple, which we believe captures the narrowing spread at which water utilities should trade vs. electric/gas counterparts. We derive our regulated utility group target multiple of 16x from our regression model, which uses the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years.	▪ Risks to achieving our PT for AWK mainly encompass traditional risk factors inherent with regulated utilities, including: (1) rate case risk - a lower/higher allowed ROE can impact our earned return assumptions, (2) lower/increased capex outlook, and (3) interest rate changes above or below what we account for in our regression model.
CMS	▪ We are updating our 3Q22 estimate from $0.71 to $0.55 to account for known and measurable items year to date (through 3Q), including weather and storm costs, cost run rates, and regulatory outcomes. ▪ We are updating our 2022-25 annual EPS estimates from $2.88, $3.14, $3.41, and $3.64 to $2.88, $3.13, $3.45, and $3.69, respectively. ▪ We are updating our PT from $70 to $57.	▪ We are maintaining our NEUTRAL rating. ▪ We arrive at our valuation utilizing an SOTP analysis based on an 16x P/E base regulated multiple (down from 19.5x due to interest rate impacts on our regression) and a 2x premium (up from 1x) for CMS's constructive regulatory environment, strong organic growth, and balance sheet position. Applying our target multiple to our 2024 EPS estimate of $3.41, discounted for 1 year to achieve our 12-month forward PT, results in a $57 PT.	▪ CMS risks mainly encompass traditional risk factors inherent with all electric utilities, including: (1) rate case risk, (2) lower/higher capex outlook, and (3) interest rate changes above/below what we account for in our regression model. Additional risk factors include: Executing and implementing the Michigan Energy law and commodity risk exposure through CMS' Enterprises segment - a decrease/increase in power prices and spark spreads can negatively/positively impact the merchant generation business.
CNP	▪ We are updating our 3Q22 estimate from $0.30 to $0.28 to account for known and measurable items year to date (through 3Q), including weather (above-normal CDDs), cost run rates, and timing of regulatory outcomes. ▪ We are updating our 2022-25 annual EPS estimates from $1.38, $1.49, $1.61, and $1.73 to $1.38, $1.49, 1.63, and $1.75, respectively ▪ We are updating our PT from $35 to $30.	▪ We are maintaining our BUY rating. ▪ Valuation: We arrive at our valuation utilizing an SOTP analysis comprising: we now use our base regulated multiple of 16x P/E (down from 19.5x due to interest rate impacts on our regression) and ascribe a 2x premium for CNP's constructive jurisdictions, sector-leading growth, and increasing visibility on incremental resiliency spending not in plan. This results in (1) ~$17/share (down from $20) for the regulated electric utilities; (2) ~$14/share (down from $17) for the gas utilities; and (3) -$1/share for corporate & other (we now fully allocate ET transaction proceeds, ~$3 prior). Note: segment valuations may not move due to rounding). Taking a sum of the business segments, discounted for 1 year to achieve our 12-month forward PT, we arrive at our $30 PT ($35 prior). .	▪ Outside of potential midstream volatility, risks 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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CPK	▪ We are updating our 3Q22 estimate from $0.81 to $0.75 to account for known and measurable items year to date (through 3Q), including weather, cost run rates, and revenue seasonality. ▪ We are updating our 2022-25 annual EPS estimates from $5.13, $5.55, 5.93, and $6.32 to $5.08, $5.49, 5.87, and $6.26, respectively. ▪ We are updating our PT from $136 to $120.	▪ We are maintaining our NEUTRAL rating. ▪ We value CPK as a sum of the parts. The regulated assets are largely gas T&D, with our estimated EPS contribution of $4.65 in 2024, to which we apply our 16x P/E (down from 19.5x due to interest rate impacts on our regression) target regulated P/E multiple and ascribe a 4x premium for incremental organic growth not represented in our EPS estimate (including 4-5% customer growth), resulting in an ~$93/share (down from $110/share) implied value, and 16x P/E to our 2024 parent EPS estimate, which results in an -$3/share implied value. We apply a 14.0x EV/EBITDA to the unregulated businesses' EBITDA and subtract our estimated unregulated debt allocation, which results in an ~$38/share implied value for 2024. For the parent/other segment, Taking the sum of the segments, we arrive at our $120 PT.	▪ Downside risks include: (1) unfavorable regulatory outcomes, (2) unfavorable interest rate changes, (3) delay in regulated capex deployment, and (4) unfavorable market conditions for propane and CNG services. Upside risks include: (1) additional capex opportunities, (2) higher organic growth from unregulated businesses, (3) accelerated customer natural gas conversion, and (4) favorable interest rate changes.
D	▪ We are maintaining our 2022-25 annual EPS estimates. ▪ We are updating our PT from $90 to $75.	▪ We are maintaining our BUY rating. ▪ We utilize our regulated electric utilities multiple of 16x plus a 1x premium for constructive regulatory environments and strong growth from clean energy investments and apply this multiple to our 2024 EPS estimate of $4.70 and discount back to arrive at our $75 valuation.	▪ Risks to our rating and PT 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.
ES	▪ We are updating our 3Q22 estimate from $1.11 to $1.04 to account for known and measurable items year to date (through 3Q), including weather, cost run rates, and revenue seasonality. ▪ We are maintaining our 2022-25 annual EPS estimates. ▪ We are updating our PT from $97 to $82.	▪ We are maintaining our BUY rating. ▪ We utilize our 16x regulated utility multiple, plus an additional 1-turn premium to account for incremental opportunities and our improved view of the business mix. We then apply it to our 2024 EPS estimate of $4.75 and discount back to arrive at our ~$76 12-month implied value for the regulated segment. We then use a discounted cash flow valuation for offshore wind that arrives at ~$6/share for a SOTP total PT of $82/share.	▪ Downside 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. Upside risks to our valuation include: (1) grid mod spending opportunity above what we assume, and (2) offshore wind RFP success above our expectations.
DTE	▪ We are updating our 3Q22 estimate from $1.75 to $1.61 to account for known and measurable items year to date (through 3Q), including storm costs and weather, cost run rates, and revenue seasonality. ▪ We are updating 2022-25 annual EPS estimates from $6.06, $6.29, $6.73, and $7.13 to $6.06, $6.31, $6.73, and $7.18. ▪ We are updating our PT from $145 to $122.	▪ We are maintaining our BUY rating. ▪ We arrive at our valuation utilizing an SOTP analysis based on a 16x P/E (down from 19.5x due to interest rate impacts on our regression) base regulated multiple and a 3.0x premium on the regulated utilities for incremental decarbonization investments not included in our 2024 EPS estimates. We apply the multiple to our $6.73 EPS estimate for 2024, discounted for 1 year to achieve our 12-month forward PT, resulting in a $122 PT.	▪ DTE downside risks 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, and (4) decline in allowed ROE.

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ED	▪ We are updating our 3Q22 estimate from $1.21 to $1.46 to account for known and measurable items year to date (through 3Q), including timing of regulatory recovery, cost run rates, and revenue seasonality. ▪ We are updating our 2022-25 annual EPS estimates from $4.51, $4.85, 5.16, and $5.47 to $4.51, $4.71, 5.18, and $5.48, respectively. ▪ We are updating our PT from $94 to $82.	▪ We are maintaining our NEUTRAL rating. ▪ We arrive at our valuation utilizing a 16x P/E (down from 19.5x due to interest rate impacts on our regression) and a 1x premium for flexibility of cash allocation after CED sale (up from 0x). We apply this multiple to our 2024E EPS, discounted for 1 year to achieve our 12-month forward PT of $82.	▪ Upside/downside risks mainly encompass traditional risk factors inherent with all electric utilities, including: (1) constructive/negative rate case and other regulatory outcomes, (2) higher/lower capex outlook, and (3) interest rate changes below/above what we account for in our regression model.
EIX	▪ We are updating our 3Q22 estimate from $1.72 to $1.46 to account for known and measurable items year to date (through 3Q), including regulatory outcomes, financing, cost run rates, and revenue seasonality. ▪ We are updating our 2022-25 annual EPS estimates from $4.64, $4.92, 5.25, and $5.6 to $4.63, $4.79, 5.18, and $5.44, respectively. ▪ We are updating our PT from $82 to $66.	▪ We are maintaining our BUY rating. ▪ We value EIX using an implied multiple based on a 16x P/E (down from 19.5x due to interest rate impacts on our regression) adjusted for our adverse view of legacy wildfire liability risk and regulatory risk with a -2.5x multiple discount (up from -3x). Applying our 13.5x all-in target multiple to 2024E EPS and discounted for 1 year to achieve our 12-month forward PT, we arrive at our $66 PT.	▪ Outside of exposure to the wildfires discussed, downside risks to our valuation mainly encompass traditional risk factors inherent with all electric utilities, including: (1) rate case/regulatory risk; (2) lower capex/disallowance risk; (3) interest rate changes above what we account for in our regression model; and (4) additional wildfire liability accruals not covered in our current valuation.
ETR	▪ We are updating our 3Q22 estimate from $2.54 to $2.61 to account for known and measurable items year to date (through 3Q), including hurricane drag, weather, regulatory outcomes, and cost run rates. ▪ We are updating our 2022-25 annual EPS estimates from $6.43, $6.81, $7.21, and $7.57 to $6.43, $6.78, $7.27, and $7.74, respectively. ▪ We are updating our PT from $129 to $117.	▪ We are maintaining our BUY rating. ▪ We arrive at our valuation utilizing a 16x P/E (down from 19.5x due to interest rate impacts on our regression) and a 1x premium for ETR's incremental organic growth opportunities across multiple jurisdictions including resiliency (up from 0x). Our PT of $117 is based on the target multiple applied to our 2024 $7.27 UP&O EPS estimate, discounted for 1 year to achieve our 12-month forward PT.	▪ ETR risks center around the 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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EVRG	▪ We are updating our 3Q22 estimate from $1.77 to $1.91 to account for known and measurable items year to date (through 3Q), including weather, cost run rates, and revenue seasonality. ▪ We are maintaining our 2022-25 EPS estimates. ▪ We are updating our PT from $77 to $64.	▪ We are maintaining our BUY rating. ▪ We apply our regulated utility group target multiple (16x) and a 1-turn premium to our 2024 estimated EPS of $4.02 and discount back a year to arrive at our $64 PT. Our 1-turn premium accounts for opportunities not embedded in our estimates (e.g., transmission) and our view that KS and MO are improving jurisdictions.	▪ The primary risks encompass traditional risk factors inherent with all utilities, including: (1) rate case risk, (2) capex outlook, and (3) interest rate changes above what we account for in our regression model. Company-specific risks include failure to execute on its share repurchase strategy and/or failure to realize merger synergies.
EXC	▪ We are updating our 3Q22 estimate from $0.73 to $0.68 to account for known and measurable items year to date (through 3Q), including weather, cost run rates, and revenue seasonality. ▪ We are updating our 2022-25 annual EPS estimates from $2.27, $2.41, $2.58, and $2.82 to $2.27, $2.34, $2.58, and $2.82, respectively. ▪ We are updating our PT from $49 to $40.	▪ We are maintaining our NEUTRAL rating. ▪ Our valuation is based on our 2024E EPS of $2.58 applied to a 16x regulated utility multiple, which is based on our regression model using the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years. To this 16x multiple, we continue to apply a 1-turn premium to each of EXC's subsidiaries for favorable recovery mechanisms (riders, MYPs) and underlying growth/incremental investment opportunities, except for ComEd. This blended 16.7x multiple, applied to our 2024E EPS and discounted back 1 year, equals our $40 PT. ▪ While there is ~13% upside from our current valuation, we remain neutral on EXC ahead of additional details on the impact of tax reform and potential readthrough to the capital/financing plans.	▪ EXC comprises regulated distribution and transmission assets, which face traditional risk factors and upside drivers inherent with all utilities, including: (1) positive/negative rate case outcomes above/below our expectations, (2) higher/lower capex outlooks, and (3) interest rate changes above/below what we account for in our regression model.
FE	▪ We are maintaining our 2022-25 EPS estimates. ▪ We are updating our PT to $34 from $43.	▪ We are maintaining our NEUTRAL rating. ▪ We use our regulated electric utilities multiple of 16x and apply a 3x discount due to FE's remaining legacy issues (i.e., ongoing audits, the SEC investigation, etc.). We then apply that 13x multiple to our $2.75 2024 EPS estimate and discount back by 1 year to arrive at our $34 TP.	▪ Beyond the potential penalties related to the ongoing audits and/or further fines stemming from the SEC's investigation, downside 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. Upside risks include: (1) improved regulatory constructs; (2) higher capex outlook; (3) if interest rates fall lower.

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HE	▪ We are updating our 3Q22 estimate from $0.56 to $0.53 to account for known and measurable items year to date (through 3Q), including cost run rates and revenue seasonality as well as interest rate impacts on the ASB bank. ▪ We are updating our 2022-25 annual EPS estimates from $2.21, $2.41, $2.47, and $2.69 to $2.18, $2.43, $2.48, and $2.7, respectively. ▪ We are updating our PT from $41 to $36.	▪ We are maintaining our NEUTRAL rating. ▪ We value HE as a sum of the parts. We value the regulated assets by applying our 16x P/E (down from 19.5x due to interest rate impacts on our regression) multiple for 2024 and ascribe a -1x discount for sector-lagging growth (down from 2x due to a relatively strong balance sheet). This results in a regulated asset implied value of $28 (down from $34/share). For ASB, we attribute a 1.9x median price-to-book ratio based on $4-9B community bank peers with a 0.1x discount (due to size). This results in an implied value of $14/share for ASB (offset by higher NIM). For the parent/other segment, we apply our 16x target regulated P/E multiple and 1x discount to our -$0.22 EPS estimate in 2024, which results in a -$3/share implied value. Taking the sum of the segments and discounting by 1 year, we arrive at our 12-month PT of $36.	▪ Upside risks include: (1) additional regulated capex opportunities and growth from unregulated investments, (2) constructive regulatory outcomes, (3) accelerated performance incentive mechanisms, (4) favorable interest rate changes, and (5) strategic/acquisition growth opportunities. Downside 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.
LNT	▪ We are updating our 3Q22 estimate from $0.92 to $0.99 to account for known and measurable items year to date (through 3Q), including weather, cost run rates, and revenue seasonality. ▪ We are maintaining our 2022-25 EPS estimates. ▪ We are updating our PT from $60 to $50.	▪ We are maintaining our NEUTRAL rating. ▪ We arrive at our $50 PT by applying our 16x regulated group target multiple, which is based on our regression model using the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years, plus a 1-and-a-half-turn premium to account for the aforementioned premium attributes, to our 2024 EPS estimate of $3.04 and discount back 1 year.	▪ 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 PT estimate include: (1) favorable regulatory settlements; (2) opportunities around ATC; and (3) higher capex outlook.
NEE	▪ We are updating our 3Q22 estimate from $0.76 to $0.81 to account for known and measurable items year to date (through 3Q), including regulatory outcomes at FPL, weather, cost run rates, and revenue seasonality. ▪ We are updating our 2022-25 annual EPS estimates from $2.84, $3.07, $3.38, and $3.66 to $2.90, $3.12, $3.42, and $3.73, respectively ▪ We are updating our PT from $108 to $99.	▪ We are maintaining our BUY rating. Our $99 PT comprises $40 (down from $49) for FPL (now inclusive of Gulf), and other costs based on a 16x P/E (down from 19.5x due to interest rate impacts on our regression) and a 3x P/E premium for the roll-forward of earnings now included in our forecast horizon, but we continue to see incremental growth items that are not currently reflected in our estimates; and $59 (down from $63) for NEER based on an 85% payout rate and a target ~4.0% yield (up from 3.5% as we account for benchmark yields). Taking the sum of the segments, discounted for 1 year to achieve our 12-month forward PT, we arrive at our $99 PT.	▪ Risks include the 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.

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NI	▪ We are maintaining our 2022-25 EPS estimates. ▪ We are updating our PT to $27 from $32.	▪ We are maintaining our BUY rating. ▪ We value NI as a regulated utility, arriving at our $27 PT using our regulated group multiple of 16x, with a premium to reflect top-quartile rate base growth through the forecast period, and applying to 2024 fundamentals. We value the company via SOTP, and (1) we attribute a 1.0x premium on NIPSCO, reflecting strong renewable-driven rate base growth, and (2) we assign the gas business a 3.0x premium (vs. our standard 2.0x discount applied to all LDCs broadly). Applied to our 2024 $1.70 EPS estimate and discounted back by 1 year, we arrive at our 12-month $27 PT.	▪ Risks to our valuation primarily include an underwhelming conclusion to NI's strategic review at its analyst day later this year, as well as traditional risk factors inherent with all regulated utilities, including: (1) rate case risk (albeit with heightened focus on the incorporation of renewables in 2H23), (2) potential for a lower capex outlook, and (3) interest rate changes above/below what we account for in our regression model.
NJR	▪ We are raising our FY23 estimate by $0.02 (now $2.45 vs. $2.43 prior), to reflect our expectation for the midpoint of FY23 guidance (to be announced on November 18). ▪ We are maintaining our 2022, 2024, and 2025 EPS estimates. ▪ We are updating our PT to $40 to $41.	▪ We are maintaining our NEUTRAL rating. ▪ We value NJR by applying our 16x regulated group target multiple (based on our regression model using the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years).	▪ Upside risks to our valuation include weather-driven strength and faster-than-expected non-regulated growth. Downside risks for NJR mainly encompass traditional risk factors inherent with all regulated utilities, including: (1) rate case risk, (2) higher capex outlook, and (3) interest rate changes above what we account for in our regression model.
NRG	▪ We are updating our 3Q22 EBITDA estimate from $656mm to $410mm to account for known and measurable items year to date (through 3Q), including weather, cost run rates, and revenue seasonality. ▪ We are updating our 2022-25 annual EBITDA estimates from $2008, $2247, $2312, and $2276 to $1950, $2287, $2309, and $2274, respectively.	▪ We are maintaining our NEUTRAL rating. ▪ We project unlevered free cash flows based on adjusted EBITDA, subtracting environmental and maintenance capex and cash taxes. We apply an NRG-specific 4.5x terminal multiple to 2028 cash flow and we discount at NRG's estimated WACC. Our estimates utilize September 2022 curves. We also incorporate our fair value estimates for NRG's future environmental liabilities and NOLs and subtract net debt of ~$6bn to arrive at our $43 PT.	▪ Commodity price risk: NRG is still somewhat of a long natural gas call in ERCOT, with gas the marginal price setter in PJM, MISO, ERCOT, NYISO, etc. Retail margins remain somewhat levered to gas volatility and could expand further in a backwardated commodity environment (potential upside) or contract (potential downside). NRG is primarily a retail operation in the eastern RTOs. ▪ 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.

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NWE	▪ We are updating our 3Q22 estimate from $0.60 to $0.55 to account for known and measurable items year to date, including transmission throughput assumptions, cost run rates, and revenue seasonality. ▪ We are maintaining our 2022-25 EPS estimates. ▪ We are updating our PT from $48 to $58.	▪ We are maintaining our NEUTRAL rating. ▪ We value NWE as a regulated utility, arriving at our $48 PT using our regulated group multiple of 16x, with a discount to reflect lower growth, and applying that multiple to 2024 fundamentals. We value the company as a sum of the parts and (1) attribute a 3x discount on the electric segment, reflecting a tough road ahead until the Laurel RICE unit is operational and less constructive jurisdictions and (2) utilize our regulated utility multiple of 16x, less a 2x LDC discount on the gas segment. We apply this to our 2024 EPS estimate of $3.88 to arrive at our $48 PT.	▪ Downside risks encompass traditional risk factors inherent with all utilities, including: (1) rate cases, (2) capex outlook, and (3) interest rate changes above what we account for in our regression model. Company-specific downside risks include a regression in the relationship with the MPSC and an inability to procure flexible energy supply. Upside risks include the company building more generation than we model and very constructive outcomes from regulatory proceedings.
NWN	▪ We are maintaining our 2022-25 EPS estimates. ▪ We are updating our PT from $49 to $40.	▪ We are maintaining our NEUTRAL rating. ▪ We value NWN as a regulated gas utility, arriving at our $40 PT by applying our regulated electric target P/E multiple of 16x to our 2024 EPS estimate of $2.83. Our valuation incorporates a 1x discount to reflect slightly lower growth prospects vs. LDC peers.	▪ Downside risks include: (1) unfavorable regulatory outcomes, (2) unfavorable interest rate changes, and (3) delay in regulated capex deployment. Upside risks include: (1) additional capex opportunities, (2) accelerated customer growth and natural gas conversion, (3) favorable interest rate changes, and (4) favorable regulatory outcomes reducing regulatory lag.
OGE	▪ We are updating our 3Q22 estimate from $1.21 to $1.24 to account for known and measurable items year to date (through 3Q), including weather (above-normal CDDs), regulatory outcomes, cost run rates, and revenue seasonality. ▪ We are updating our 2022-25 annual EPS estimates from $1.99, $2.06, 2.21, and $2.30 to $1.99, $2.08, 2.22, and $2.32, respectively. ▪ We are updating our PT from $43 to $38.	▪ We are maintaining our BUY rating. ▪ We arrive at our valuation utilizing an SOTP analysis, composed of: (1) ~$43/share for the regulated electric utility, using our base regulated multiple of a 16x P/E (down from 19.5x due to interest rate impacts on our regression) and a 1x premium for incremental generation growth and strong balance sheet (up from 0x) applied to our 2024 EPS estimate of $2.22 (midstream excluded), and (2) ~$3/share for value of ET units subject to redeployment. Adding the segments and discounted for 1 year to achieve our 12-month forward PT, we arrive at our $38 PT.	▪ Outside of noise around midstream ownership, downside risks mainly encompass traditional risk factors inherent with all electric utilities, including: (1) negative rate case outcomes (i.e., regulatory risk including AR); (2) lower capex outlook and ability to deploy; and (3) interest rate changes above what we account for in our regression model.
OGS	▪ We are maintaining our 2022-25 EPS estimates. ▪ We are updating our PT from $70 to $77.	▪ We are maintaining our NEUTRAL rating. ▪ We value OGS by applying our 16x regulated group target multiple, which is based on our regression model using the correlation between electric utility valuations and forward interest rate expectations over the past 30+ years, to our 2024 EPS estimate of $4.65 and discount back 1 year, arriving at a $70 PT.	▪ Downside risks include: (1) unfavorable regulatory outcomes, (2) unfavorable interest rate changes, and (3) delay in regulated capex deployment. Upside risks include: (1) additional capex opportunities, (2) accelerated customer growth and natural gas conversion, (3) favorable interest rate changes, and (4) favorable regulatory outcomes reducing regulatory lag.

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PCG	▪ We are maintaining our 3Q22 estimate of $0.26 as we account for known and measurable items year to date (through 3Q), including legislative outcomes, cost run rates, and revenue seasonality. ▪ We are updating our 2022-25 annual EPS estimates from $1.11, $1.24, $1.34, and $1.45 to $1.11, $1.24, 1.36, and $1.49, respectively. ▪ We are maintaining our $19 PT.	▪ We are maintaining our BUY rating. ▪ We value PCG using an implied multiple based on our base regulated electric multiple of 16x P/E (down from 19.5x due to interest rate impacts on our regression) adjusted for our adverse view of regulatory outcomes and future wildfire liability risk with a 1x discount, and an incremental 1x discount for regulatory uncertainty on upcoming proceedings (GRC, WMP, etc.) and remaining FVT technical headwinds. Applying our 14x all-in target multiple (vs. 15.5x prior) to our 2024 EPS estimate, discounted for 1 year to account for our 12-month PT, we arrive at our $19 PT (unchanged due to rounding).	▪ Outside of exposure to the wildfires discussed, downside risks to our valuation mainly encompass traditional risk factors inherent with all electric utilities, including: (1) rate case/regulatory risk; (2) lower capex/disallowance risk; (3) interest rate changes above what we account for in our regression model, and fines and penalties, including probation.
POR	▪ We are updating our 2022-25 annual EPS estimates from $2.83, $2.92, $3.02, and $3.18 to $2.83, $2.84, $3.02, and $3.17, respectively. ▪ We are updating our PT from $56 to $48.	▪ We are maintaining our BUY rating. ▪ We apply our electric target multiple of 16x, which is based on our regression model using the correlation between electric utility valuations and forward interest rate expectations, plus a 1-turn premium to account for opportunities not embedded in our current estimates (future RFPs and potential change in CAGR) to our 2024 EPS estimate of $4.40, and discount back 1 year to arrive at our $48 12-month PT.	▪ 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.
PPL	▪ We are maintaining our 2022-25 annual EPS estimates. ▪ We are updating our PT from $33 to $27.	▪ We are maintaining our BUY rating. ▪ We apply our regulated utility group target multiple of 16x, plus a 1-turn premium to reflect incremental opportunities (KY, IIJA, etc.), to our 2024 EPS estimate of $1.70 and discount back to arrive at our $27 12-month PT.	▪ Risks to our 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.
PEG	▪ We are updating our 3Q22 estimate from $0.92 to $0.82 to account for known and measurable items year to date (through 3Q), including cost run rates, regulatory and tax timing, commodity results net of hedges, and revenue seasonality. ▪ We are updating our 2022-25 annual EPS estimates from $3.53, $3.58, $4.06, and $4.39 to $3.50, $3.58, $4.06, and $4.39, respectively. ▪ We are updating our PT from $76 to $71.	▪ We are maintaining our BUY rating. ▪ Our $71 PT incorporates our SOTP analysis. We apply our base regulated multiple of 16x P/E (down from 19.5x due to interest rate impacts on our regression) and 2.0x premium (up from 1x) for incremental capital deployment and strong balance sheet position in light of rising interest rates. We apply the combined multiple to our 2024E utility EPS of $3.54, resulting in $64/share (down from $69), and $11 for holdco and PSEG Nuclear. PEG nuclear valuation still includes other EV adjustments including MtM. Taken in aggregate and discounted for 1 year to achieve our 12-month forward PT, we arrive at our $71 PT.	▪ Risks include: 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 could 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) future rate case risk, (2) lower capex outlook, (3) interest rate changes above what we account for in our regression model, and (4) decline in allowed ROE for investment programs in NJ (i.e., clean energy future).

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PNW	▪ We are updating our 3Q22 estimate to $2.69 from $2.91 to account for known and measurable items year to date (through 3Q), including weather, cost run rates, and revenue seasonality. ▪ We are maintaining our 2022-25 annual EPS estimates. ▪ We are updating our PT from $54 from $60.	▪ We are maintaining our SELL rating. ▪ We arrive at our $54 PT by applying our 16x regulated group target multiple, which is based on our regression model using the correlation between electric utility valuations and forward interest rate expectations, less a 3.25x discount to reflect the broader deterioration of the regulatory construct in AZ vs. the peer regulated group (in our view, now the least attractive jurisdiction from an investment standpoint), to our 2024 EPS estimate of $4.50, then discounting the result back by 1 year.	▪ Upside risks primarily consist of a better-than-expected regulatory treatment by the Arizona Corporation Commission in the rate case and/or a change in the makeup of the ACC Commissioners whereby a majority of the state's utility regulators are comprised of pro-business commissioners with a more thorough knowledge of fundamental utility ratemaking.
SRE	▪ We are updating our 3Q22 estimate from $1.70 to $1.73 to account for known and measurable items year to date (through 3Q), including weather, cost run rates, and revenue seasonality, as well as unregulated benefits of commodity prices on SIP and financing changes. ▪ We are updating our 2022-25 annual EPS estimates from $8.54, $9.08, $9.58, and $10.21 to $8.70, $9.08, $9.58, and $10.21, respectively. ▪ We are updating our PT from $174 to $165.	▪ We are maintaining our BUY rating. ▪ We derive our valuation through our SOTP analysis comprising: (1) ~$47/share (down from 53/share) for SDG&E when we apply our a 16x P/E (down from 19.5x due to interest rate impacts on our regression) and a 1x premium for strong growth to our 2024E; (2) ~$39/share (down from $44/share) value for SoCalGas utilizing our 16x regulated electric P/E multiple and a 1x premium for strong growth to our 2024E; (3) ~$48/share (down from $51/share) for Oncor, applying our 16x regulated multiple plus 3.0x premium (up from 1x) for incremental capital and growth fundamentals to our 2024E; (4) ~$50/share for SRE's ownership of SIP based on a 13x EBITDA multiple applied to our 2024E, net of attributed debt; (5) $0/share for development projects as we take a conservative stance on project FIDs; and (6) ~($16)/share for parent drag. Taking a sum of the segments and discounting for 1 year to reach our 12-month PT, we arrive at our $165 PT. (Note: segments' sum may not round to SOTP exactly.)	▪ Outside of exposure to the wildfires and potential delays around Cameron, 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, (4) LNG development risks; and (5) political risks in Mexico.
SO	▪ We are maintaining our 2022-25 EPS estimates. ▪ We are updating our PT to $69 from $80.	▪ We are maintaining our BUY rating. ▪ We arrive at our $69 PT by applying a 1.5x premium to our 16x regulated group target multiple, which is based on our regression model using the correlation between electric utility valuations and forward interest rate expectations, to our 2024 EPS estimate of $4.15, and discounting back 1 year.	▪ Apart from nuclear construction risks, downside risks mainly encompass traditional risk factors inherent with all electric and gas utilities, including: (1) rate case risk; (2) lower capex; and (3) interest rate changes above what we account for in our regression model.

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WEC	▪ We are maintaining our 2022-25 EPS estimates. ▪ We are updating our PT to $95 from $104.	▪ We are maintaining our NEUTRAL rating. ▪ We arrive at our $95 PT by applying our 16x regulated group target multiple, which is based on our regression model using the correlation between electric utility valuations and forward interest rate expectations, plus a 4.5-turn premium for WEC's superior regulatory environment and the positive economic outlook within its service territories as well as some growth opportunities not being reflected in our EPS forecasting and finally coupled with a "strong management team" adder, to our 2024 EPS estimate of $4.89, and discount back 1 year.	▪ Downside risks to our thesis 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 include: (1) constructive rate case outcomes (including favorable ROE/equity ratio decisions), (2) higher capex outlook (including development projects not currently in plan), and (3) interest rate changes below what we account for in our regression model.
VST	▪ We are updating our 3Q22 EBITDA estimate from $1386mm to $1025mm to account for known and measurable items year to date (through 3Q), including weather, cost run rates, revenue seasonality, and the absence of certain 2021 items (one-time storm self-help). ▪ We are updating our 2022-25 annual EBITDA estimates from $3117, $3508, $3555, and $3738 to $3126, $3505, $3608, and $3797, respectively.	▪ We are maintaining our BUY rating. ▪ We value IPPs, including VST, using an unlevered discounted cash flow methodology before accounting for growth capex from 2023 through the 2028 terminal year, at which point we apply an asset-weighted terminal multiple of 5.5x to derive a terminal value. We subtract net debt of ~$11.6bn to arrive at equity value of ~$14bn and our PT of $32/share. Our model is marked to September 2022 forward curves through our terminal year.	▪ Risks include: Commodity price risk: If natural gas prices fall, wholesale power prices will likely fall, limiting Power margins. VST is still inherently a long natural gas call, with gas the marginal price setter in ERCOT. 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: VST's fleet could experience unforced outages or other operational issues that are inherent risks of the power generation business.

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PRICE DECK – 9/30/22

9/29/2022	Cal-2022			Cal-2023			Cal-2024			Cal-2025			Cal-2026			Cal-2027			Cal-2028		
SPREAD SUMMARY $/MWH	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
Spark Spread (Natural Gas)	31.07	17.38	24.41	44.61	23.85	34.66	33.15	16.98	25.32	29.05	16.30	22.74	26.37	17.01	21.60	26.57	17.03	21.70	25.24	17.89	21.44
Dark Spread (Coal)	64.71	48.86	56.86	65.66	44.64	55.49	48.33	29.99	39.37	43.58	27.79	35.76	41.01	27.26	34.09	40.50	26.45	33.43	40.65	26.87	33.69
Quark Spread (Nuclear)	78.38	63.57	71.15	78.40	59.29	69.23	61.48	45.06	53.48	56.44	43.06	49.78	53.83	42.57	48.08	53.60	42.32	47.82	53.22	42.86	47.88

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

POWER PRICES $/MWH	Cal-2022			Cal-2023			Cal-2024			Cal-2025			Cal-2026			Cal-2027			Cal-2028		
	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	121.92	110.52	116.22	120.78	105.16	112.97	99.45	84.25	91.85	89.03	71.26	80.14	86.65	63.50	75.07	92.02	67.43	79.73	93.39	68.44	80.92
Greater New York	107.23	88.15	97.69	102.78	83.81	93.30	89.01	67.58	78.30	86.52	64.51	75.52	84.98	65.28	75.13	84.95	66.26	75.61	81.05	63.43	72.24
Penn/Jersey/Maryland	92.32	70.28	81.30	86.71	65.00	75.85	69.40	48.44	58.92	66.18	45.94	56.06	65.64	45.45	55.54	65.54	45.26	55.40	65.89	45.59	55.74
Midwest	89.12	68.07	78.59	83.03	62.15	72.59	65.45	44.78	55.11	62.12	42.03	52.07	61.01	41.22	51.11	61.02	40.80	50.91	63.32	41.14	52.23
Illinois	87.80	67.08	77.44	84.07	62.63	73.35	66.89	46.63	56.76	62.22	42.93	52.58	62.96	42.21	52.59	64.09	42.96	53.53	65.22	43.72	54.47
Southeast/Gulf Coast	79.54	68.65	74.09	75.01	62.85	68.93	60.48	46.81	53.65	58.07	44.91	51.49	58.87	45.41	52.14	58.36	44.48	51.42	57.50	45.08	51.29
Texas	69.66	53.03	61.35	73.76	48.28	61.02	59.39	41.66	50.53	55.63	39.72	47.68	51.17	38.96	45.06	49.27	36.15	42.71	48.01	39.04	43.53
Desert Southwest *	70.68	65.28	68.35	100.27	71.04	87.70	78.80	61.25	71.25	68.13	62.40	65.67	58.31	63.09	60.37	57.88	63.29	60.21	56.49	63.25	59.40
So Cal *	83.85	75.35	80.20	83.25	71.83	78.34	64.02	60.94	62.70	54.93	62.32	58.11	46.43	62.61	53.39	43.61	62.78	51.85	42.11	63.60	51.35
North CA *	90.83	79.70	86.04	87.44	75.09	82.13	67.26	63.94	65.83	57.44	67.11	61.60	47.95	64.31	54.98	46.07	64.88	54.16	44.75	65.39	53.63
Pac Northwest *	100.38	62.93	84.27	112.79	55.79	88.28	93.00	51.52	75.16	80.11	51.53	67.82	69.25	52.26	61.94	71.30	52.79	63.34	71.14	52.27	63.02
US Average	**84.62**	**67.75**	**76.44**	**86.15**	**63.58**	**75.41**	**69.07**	**50.13**	**59.95**	**63.87**	**48.25**	**56.21**	**60.80**	**47.91**	**54.34**	**60.61**	**47.49**	**54.03**	**60.51**	**48.06**	**54.25**

* 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.

GAS PRICES $/mmbtu	Cal-2022			Cal-2023			Cal-2024			Cal-2025			Cal-2026			Cal-2027			Cal-2028		
	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England		10.47	17.48		7.10	12.50		6.42	11.14		4.54	9.13		3.57	8.01		2.76	7.08		2.69	7.03
Greater New York		1.21	8.21		1.49	6.89		0.81	5.52		0.62	5.21		0.53	4.98		0.48	4.80		0.42	4.76
Penn/Jersey/Maryland		1.05	8.06		0.96	6.36		0.58	5.30		0.23	4.82		0.14	4.59		0.15	4.46		0.28	4.62
Midwest		-0.65	6.36		-0.30	5.10		-0.29	4.42		-0.28	4.31		-0.28	4.17		-0.29	4.02		-0.29	4.05
Illinois		-0.27	6.73		-0.02	5.39		0.01	4.72		0.05	4.64		0.08	4.53		0.11	4.42		0.11	4.45
Southeast/Gulf Coast		**7.01**	**7.01**		**5.40**	**5.40**		**4.71**	**4.71**		**4.59**	**4.59**		**4.45**	**4.45**		**4.31**	**4.31**		**4.34**	**4.34**
Texas		-0.57	6.44		-0.20	5.21		-0.27	4.44		-0.18	4.41		-0.12	4.33		-0.13	4.19		-0.11	4.23
Desert Southwest		-2.42	4.59		-2.01	3.39		-0.89	3.82		-0.69	3.90		-0.61	3.84		-0.63	3.69		-0.59	3.75
So Cal		0.58	7.59		0.39	5.79		0.33	5.05		0.41	5.00		0.37	4.82		0.35	4.66		0.35	4.69
North CA		0.11	7.11		-0.11	5.29		-0.14	4.57		-0.10	4.49		-0.08	4.37		-0.05	4.26		-0.06	4.28
Pac Northwest		0.11	7.12		-0.06	5.35		-0.09	4.62		-0.08	4.51		-0.08	4.37		-0.07	4.25		-0.07	4.27

SPARK SPREADS $/MWH	Cal-2022			Cal-2023			Cal-2024			Cal-2025			Cal-2026			Cal-2027			Cal-2028		
	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat	Peak	Off-Peak	Flat
New England	-0.41	-11.81	-6.11	33.27	17.65	25.46	21.50	6.30	13.90	25.13	7.37	16.25	30.55	7.40	18.97	42.50	17.91	30.20	44.16	19.20	31.68
Greater New York	49.73	30.65	40.19	54.53	35.57	45.05	50.37	28.94	39.66	50.05	28.05	39.05	50.11	30.41	40.26	51.38	32.69	42.04	47.75	30.14	38.95
Penn/Jersey/Maryland	35.89	13.85	24.87	42.19	20.48	31.33	32.33	11.37	21.85	32.45	12.21	22.33	33.49	13.30	23.40	34.31	14.03	24.17	33.57	13.28	23.42
Midwest	44.59	23.54	34.07	47.33	26.46	36.89	34.49	13.81	24.15	31.91	11.83	21.87	31.81	12.02	21.92	32.87	12.65	22.76	34.95	12.77	23.86
Illinois	40.67	19.95	30.31	46.37	24.93	35.65	33.84	13.58	23.71	29.74	10.45	20.10	31.27	10.52	20.90	33.14	12.01	22.57	34.08	12.58	23.33
Southeast/Gulf Coast	30.48	19.59	25.04	37.18	25.02	31.10	27.49	13.82	20.66	25.93	12.77	19.35	27.73	14.27	21.00	28.16	14.28	21.22	27.12	14.70	20.91
Texas	24.56	7.93	16.24	37.31	11.83	24.57	28.28	10.55	19.42	24.77	8.86	16.81	20.85	8.64	14.74	19.97	6.86	13.42	18.40	9.43	13.91
Desert Southwest	38.54	33.14	36.22	76.51	47.28	63.94	52.05	34.50	44.51	40.84	35.11	38.37	31.44	36.22	33.49	32.06	37.47	34.38	30.27	37.03	33.18
So Cal	30.74	22.24	27.09	42.70	31.29	37.79	28.69	25.61	27.36	19.95	27.33	23.12	12.71	28.88	19.66	10.96	30.13	19.20	9.27	30.76	18.51
North CA	41.03	29.90	36.24	50.38	38.03	45.07	35.26	31.94	33.84	26.03	35.70	30.18	17.38	33.74	24.41	16.23	35.05	24.32	14.79	35.43	23.67
Pac Northwest	50.52	13.08	34.42	75.36	18.36	50.85	60.66	19.18	42.82	48.53	19.95	36.24	38.66	21.67	31.36	41.59	23.08	33.63	41.23	22.36	33.12
	31.07	**17.38**	**24.41**	**44.61**	**23.85**	**34.66**	**33.15**	**16.98**	**25.32**	**29.05**	**16.30**	**22.74**	**26.37**	**17.01**	**21.60**	**26.57**	**17.03**	**21.70**	**25.24**	**17.89**	**21.44**

Source: Guggenheim Securities, Platts, ICE, Bentek Energy , NYMEX, ISO/RTO.

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NEUTRAL	111	32.27%	6	5.41%
SELL	5	1.45%	0	0.00%

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NiSource Inc.

2022 Investor Day - Strategic Review Concluded with Sale of Minority Stake in NIPSCO Announced

Neutral

Moody's:	Baa2	Outlook:	STABLE
S&P:	BBB+	Outlook:	STABLE
Fitch:	BBB	Outlook:	S

The above agency ratings are at the corporate level

Ticker
NI

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- **NI hosted its 2022 Investor Day on Monday.** Management shared details around its strategic business review launched in February. Notably, NI announced the sale of a minority stake in NIPSCO to strengthen its balance sheet. Long-term EPS guidance was updated to 6-8% for 2021-2027, up from 5-7%. Management also introduced a Net Zero by 2040 goal and a commitment to replace most of its retired coal plants with renewables. **The minority stake sale stands to reduce financing needs to fund its substantial capital investment. Management now targets FFO/Debt of 14-16%, up from 14-15%, a credit positive. Overall, we thought the Investor Day was modestly positive, as plenty of execution risk remains for the company to bolster its balance sheet, and there was some expectation for management to announce additional LDC sales.**
- **Announced minority stake sale in NIPSCO by YE23; Target FFO/Debt of 14-16%.** As a result of its business review, the company looks to sell up to a 19.9% minority stake in NIPSCO for a tax-efficient transaction by YE23. NI expects no equity needs until at least 2025 after the sale and will put in place an ATM equity program at that time to support current IG ratings. Notably, NI's FFO/Debt target was updated to 14-16% which should be achieved after the NIPSCO sale. For the 2023-27 period, NI expects a 15%/85% equity/debt ratio for incremental financing needs, as well as new debt issuance of ~$4.5bn-$5.5bn in the next five years.
- **New annual 6-8% NOEPS long-term growth plan and ~$15bn five-year capital plan.** Management announced a new annual 6-8% NOEPS long-term growth rate from 2021 to 2027, increased by 1% from the previous 5-7% annual target. NI identified ~$15bn of new investments for 2023-27, up from the last five-year plan of ~$10bn. ~$30bn of investment opportunities is expected over the next 10 years.
- **Narrowed FY22 and initiated FY23 guidance in-line with consensus.** FY22 adjusted EPS guidance was narrowed to $1.44-$1.46 from $1.42-$1.48, with midpoint unchanged at $1.45 matching Bloomberg consensus. Management also initiated FY23 adjusted EPS guidance of $1.50-$1.57, in-line with Bloomberg consensus of $1.54.
- **Focus on customer bills.** NiSource estimated annual customer bill increases to be <5% for 2023-27. The company aims to execute its substantial capital plan with manageable customer impact, thanks to its competitive natural gas supplies, a targeted flat annual O&M through 2027, continuing customer growth, and energy efficiency programs. During the Q&A, management noted that it could aim to improve customer affordability by slowing rate base growth.
- **Introduced Net Zero by 2040 goal.** The company announced a new Net Zero by 2040 goal and remains on track to reach 90% reduction in GHG emissions by 2030. NI expects to retire 100% of its coal plants by 2026-2028 and plans to invest ~$3bn of generation transition investments from 2018 through 2028 to replace its coal assets with renewables. ~$2.2bn was allocated to contracted projects through 2025, with ~$1bn of additional investments from 2025 to 2028.

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	Date	Action	Rating/Designation	Ticker/ISIN
Issuer	14 Sep 18	Downgrade	Neutral	NI
3.60% '30 *	01 Jul 22	Initiate	Neutral	US65473PAJ49
3.490% '27	01 Jul 22	Terminate	Not Covered	US65473QBE26
3.850% '23	17 Apr 17	Terminate	Not Covered	US65473QBA04
5.650% '45	19 May 17	Terminate	Not Covered	US65473QBD43
6.125% '22	19 May 17	Terminate	Not Covered	US65473QAV59

***Indicates representative/primary bond/instrument.**

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North American Utilities

Model Updates: AES & NI

We update both our AES and NI models to account for 3Q earnings results. Please see changes below.

North American Utilities

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Equity Ratings and Price Targets

Company	Ticker	Mkt Cap ($ mn)	Price	Rating Cur	Rating Prev	Price Target Cur	Price Target End Date	Price Target Prev	Price Target End Date
AES Corp.	AES US	18,962.85	28.34	OW	n/c	33.00	Dec-23	29.00	n/c
NiSource Inc.	NI US	11,285.73	27.77	OW	n/c	31.00	Dec-23	30.00	n/c

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. n/c = no change. All prices as of 08 Dec 22.

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Adj. EPS Estimate Changes

$		FY22E			FY23E		
Company	**BBG Ticker**	**Prev**	**Cur**	**Δ**	**Prev**	**Cur**	**Δ**
AES Corp.	AES US	1.61	1.65	0.03	1.76	1.74	(0.02)
NiSource Inc.	NI US	1.45	1.45	(0.00)	1.54	1.54	0.00

Source: Bloomberg Finance L.P., J.P. Morgan estimates.

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AES Corp. *(Overweight; Price Target: $33.00)*

Investment Thesis

AES has clear leverage to greater US renewables growth driven by environmental policy, tax incentives, and broader infrastructure investment. US growth-driven upside also facilitates a coal transition acceleration and re-weights AES's business mix toward target 50/50 US international split. Key takeaways from the company's last analyst day are 1) growth remains top tier and subject to greater transparency under the current five-year plan, 2) AES's business is increasingly US utilities and renewables-focused, 3) the company has significantly de-risked its overall financing plan, and 4) ESG leverage continues to improve under current coal transition and net zero targets. Overall, we remain positive on AES's underlying fundamentals and positioning within a peer group driven by secular tailwinds, and we see current plan elements, management's track record, and AES's broad renewables opportunity lending confidence to the company's long-term outlook.

Valuation

We increase our December 2023 price target to $33/share from $29/share on an equal weighting of a P/E and EV/EBITDA valuations, using a comparable group of the U.S. "hybrid" utilities and independent power producers. Our P/E valuation applies a 16.6x multiple to our 2024 EPS estimate, a discount to the hybrid peer average given the relative risk profile of AES's international exposure. The higher price target is due to increased peer average multiples.

Risks to Rating and Price Target

AES is exposed to several international business risks, including FX, changes in macroeconomic conditions, and local political risks. Any change to the underlying political and/or economic environments could cause earnings and cash flows to differ significantly from our expectations.

Regulated electric utilities and generation businesses are subject to federal and local state regulation, including determinations of allowed revenues. Positive or negative changes to regulatory environments may cause future earnings power to vary from our current expectations.

Fossil fuel-based generation assets could be subject to future emissions restrictions in any of the countries in which they operate. Any change to the regulatory framework regarding environmental compliance could require significant cash investments and/or could pressure future earnings.

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Investment Thesis, Valuation and Risks

NiSource Inc. *(Overweight; Price Target: $31.00)*

Investment Thesis

NiSource recently hosted its 2022 investor day, extending its financial plan through 2027 and providing a much anticipated update on conclusions from its business review. A planned 19.9% minority stake sale of NIPSCO dominated headlines, with management identifying this route out of the review to fund growth and alleviate balance sheet constraints in a tax-efficient manner. Headline 6-8% annual EPS growth screens attractively, with strong 8-10% annual rate base growth supporting this. Additionally, themes of balance sheet cushion under the new 14-16% long-term FFO/debt target and customer bill support through targeting flat O&M align well with premium qualities in the space. Overall, we acknowledge some initial investor frustration over this NIPSCO lever versus LDC asset rotation but see NI's approach as pragmatic and thematically consistent with recent minority stake sale trends across the group. Additionally, we see near-term tradeoffs relative to the company's prior 2024 outlook as reasonable against longer-term plan line of sight and greater financial flexibility, especially given designs for a variety of commodity price backdrops and positioning for future upside capital opportunities. We remain constructive on NI's long-term outlook and relative positioning vs. LDC peers.

Valuation

We increase our December 2023 price target to $31 from $30/share. We base our price target on a sum-of-the-parts analysis using our 2024 electric and gas segment EPS forecasts. We value the gas and electric segments using 18.6x and 18.9x P/E multiples, respectively. These represent premiums to peers' on account of NI's coal generation transition, incremental renewables investment, and above-average growth as a result. The higher price target is due to increased peer average multiples.

Risks to Rating and Price Target

Gas pipeline accidents in the industry have heightened the importance of pipeline safety and integrity management. These accidents can result in significant financial strains related to pipeline replacement, accident investigations, life and property claims, regulatory fines, and disallowances.

Achievement of NiSource's long-term rate base and EPS CAGR targets is heavily dependent on robust capital investments, regulatory support, and favorable ratemaking mechanism. Any deferral of spending could put the company at risk of falling short of the LT rate base and earnings growth CAGR in any one year.

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AES Corp.: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**9,660**	**11,141**	**12,507**	**12,737**	**13,111**
COGS	(5,899)	(7,374)	(8,722)	(8,722)	(8,722)
Gross profit	**3,761**	**3,767**	**3,785**	**4,015**	**4,389**
SG&A	(165)	(166)	**(213)**	**(45)**	**(45)**
Adj. EBITDA	**2,326**	**605**	**3,108**	**4,107**	**4,481**
D&A	(1,068)	(1,056)	(1,070)	(1,132)	(1,225)
Adj. EBIT	**1,258**	**(451)**	**2,039**	**2,975**	**3,256**
Net Interest	(770)	(613)	(718)	(708)	(732)
Adj. PBT	**488**	**(1,064)**	**1,321**	**2,268**	**2,524**
Tax	(216)	133	(268)	(399)	(445)
Minority Interest	(106)	542	(391)	(574)	(639)
Adj. Net Income	**965**	**1,070**	**1,170**	**1,236**	**1,366**
Reported EPS	0.06	(0.59)	0.84	1.73	1.95
Adj. EPS	**1.44**	**1.52**	**1.65**	**1.74**	**1.94**
DPS	**0.58**	**0.61**	**0.64**	**0.67**	**0.71**
Payout ratio	901.6%	NM	75.9%	38.8%	36.1%
Shares outstanding	668	703	710	711	705

Income Statement - Quarterly	1Q22A	2Q22A	3Q22A	4Q22E
Revenue	**2,852A**	**3,078A**	**3,627A**	**2,950**
COGS	(2,052)A	(2,251)A	(2,469)A	(1,950)
Gross profit	**800A**	**827A**	**1,158A**	**1,000**
SG&A	(52)A	(46)A	(51)A	(64)
Adj. EBITDA	**717A**	**288A**	**1,059A**	**1,044**
D&A	(270)A	(264)A	(266)A	(270)
Adj. EBIT	**447A**	**24A**	**793A**	**775**
Net Interest	(183)A	(184)A	(176)A	(175)
Adj. PBT	**264A**	**(160)A**	**617A**	**600**
Tax	(60)A	19A	(145)A	(82)
Minority Interest	(56)A	(43)A	(25)A	(267)
Adj. Net Income	**151A**	**240A**	**449A**	**330**
Reported EPS	0.16A	(0.25)A	0.59A	0.34
Adj. EPS	**0.21A**	**0.34A**	**0.63A**	**0.46**
DPS	**0.16A**	**0.16A**	**0.16A**	**0.17**
Payout ratio	97.6%A	NMA	26.7%A	48.7%
Shares outstanding	710A	710A	711A	711

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	1,827	1,484	500	500	500
Accounts receivable	1,300	1,418	1,787	1,787	1,787
Other current assets	2,287	2,454	3,835	3,985	4,154
Current assets	**5,414**	**5,356**	**6,122**	**6,272**	**6,441**
PP&E	22,826	19,906	21,489	23,355	25,503
Other non current assets	6,363	7,701	8,540	8,500	8,460
Total assets	**34,603**	**32,963**	**36,151**	**38,127**	**40,404**
Short term borrowings	1,430	1,367	2,007	2,025	2,025
Payables	1,156	1,153	1,688	1,688	1,688
Other short term liabilities	2,776	2,212	2,207	2,207	2,207
Current liabilities	**5,362**	**4,732**	**5,902**	**5,920**	**5,920**
Long-term debt	18,451	17,332	18,128	18,599	19,119
Other long term liabilities	6,070	7,157	7,100	7,230	6,423
Total liabilities	**29,883**	**29,221**	**31,130**	**31,749**	**31,462**
Shareholders' equity	2,634	1,973	2,702	3,485	5,410
Minority interests	2,086	1,769	2,319	2,893	3,532
Total liabilities & equity	**34,603**	**32,963**	**36,151**	**38,127**	**40,404**
BVPS	**3.96**	**2.96**	**4.05**	**5.22**	**7.70**
y/y Growth	*(12.3%)*	*(25.3%)*	*36.7%*	*29.0%*	*47.6%*
Net debt/(cash)	18,054	17,215	19,635	20,124	20,644
Cash flow from operating activities	**2,755**	**1,902**	**2,475**	**3,027**	**3,348**
o/w Depreciation & amortization	1,068	1,056	1,070	1,132	1,225
o/w Changes in working capital	290	(1,362)	(634)	(150)	(169)
Cash flow from investing activities	**(2,295)**	**(3,051)**	**(3,987)**	**(2,998)**	**(3,373)**
o/w Capital expenditure	(1,900)	(2,116)	(3,273)	(2,998)	(3,373)
as % of sales	*19.7%*	*19.0%*	*26.2%*	*23.5%*	*25.7%*
Cash flow from financing activities	**(78)**	**797**	**2,960**	**757**	**967**
o/w Dividends paid	(381)	(401)	(427)	(449)	(496)
o/w Net debt issued/(repaid)	538	(5)	3,610	1,275	1,463
Net change in cash	**255**	**(343)**	**1,311**	**786**	**942**
Adj. Free cash flow to firm	**1,284**	**476**	**(225)**	**612**	**578**
y/y Growth	*139.8%*	*(63.0%)*	*(147.4%)*	*(371.7%)*	*(5.5%)*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	38.9%	33.8%	30.3%	31.5%	33.5%
EBITDA margin	24.1%	5.4%	24.9%	32.2%	34.2%
EBIT margin	13.0%	(4.0%)	16.3%	23.4%	24.8%
Net profit margin	10.0%	9.6%	9.4%	9.7%	10.4%
ROE	34.3%	46.5%	50.1%	39.9%	30.7%
ROA	2.8%	3.2%	3.4%	3.3%	3.5%
ROCE	3.1%	(2.3%)	7.5%	10.4%	10.6%
SG&A/Sales	1.7%	1.5%	1.7%	0.4%	0.3%
Net debt/equity	3.8	4.6	3.9	3.2	2.3
P/E (x)	19.6	18.6	17.2	16.3	14.6
P/BV (x)	7.2	9.6	7.0	5.4	3.7
EV/EBITDA (x)	13.1	50.0	10.9	8.7	8.4
Dividend Yield	2.0%	2.2%	2.3%	2.4%	2.5%
Sales/Assets (x)	0.3	0.3	0.4	0.3	0.3
Interest cover (x)	3.0	1.0	4.3	5.8	6.1
Operating leverage	527.9%	(886.1%)	(4500.9%)	2498.2%	321.7%
Revenue y/y Growth	(5.2%)	15.3%	12.3%	1.8%	2.9%
EBITDA y/y Growth	(16.3%)	(74.0%)	413.8%	32.1%	9.1%
Tax rate	44.3%	(12.5%)	20.3%	17.6%	17.6%
Adj. Net Income y/y Growth	6.1%	10.9%	9.3%	5.6%	10.5%
EPS y/y Growth	6.0%	5.4%	8.2%	5.5%	11.4%
DPS y/y Growth	5.0%	5.0%	5.0%	5.0%	5.0%

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

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NiSource Inc.: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**4,697**	**4,901**	**5,688**	**5,725**	**5,995**
COGS	(1,109)	(1,392)	(1,921)	(1,760)	(1,760)
Gross profit	**3,587**	**3,509**	**3,767**	**3,965**	**4,235**
SG&A	(1,794)	(1,696)	**(1,774)**	**(1,782)**	**(1,808)**
Adj. EBITDA	**1,826**	**1,852**	**2,023**	**2,183**	**2,427**
D&A	(762)	(748)	(810)	(858)	(915)
Adj. EBIT	**1,064**	**1,104**	**1,212**	**1,325**	**1,512**
Net Interest	(371)	(341)	(356)	(408)	(413)
Adj. PBT	**693**	**763**	**856**	**917**	**1,099**
Tax	(127)	(132)	(162)	(172)	(219)
Minority Interest	(59)	(59)	(53)	(46)	(79)
Adj. Net Income	**508**	**571**	**641**	**699**	**800**
Reported EPS	1.32	1.37	1.45	1.54	1.66
Adj. EPS	**1.32**	**1.37**	**1.45**	**1.54**	**1.66**
DPS	**0.84**	**0.88**	**0.94**	**1.00**	**1.06**
Payout ratio	63.6%	64.3%	65.0%	64.6%	63.5%
Shares outstanding	384	417	443	453	481

Income Statement - Quarterly	1Q22A	2Q22A	3Q22A	4Q22E
Revenue	**1,870A**	**1,183A**	**1,079A**	**1,555**
COGS	(707)A	(384)A	(331)A	(500)
Gross profit	**1,164A**	**799A**	**748A**	**1,056**
SG&A	(477)A	(446)A	(399)A	(452)
Adj. EBITDA	**697A**	**362A**	**360A**	**603**
D&A	(193)A	(209)A	(203)A	(206)
Adj. EBIT	**505A**	**153A**	**157A**	**397**
Net Interest	(84)A	(85)A	(92)A	(96)
Adj. PBT	**421A**	**69A**	**65A**	**301**
Tax	(74)A	(12)A	(9)A	(67)
Minority Interest	(18)A	(3)A	(12)A	(21)
Adj. Net Income	**329A**	**54A**	**45A**	**214**
Reported EPS	0.74A	0.12A	0.10A	0.48
Adj. EPS	**0.74A**	**0.12A**	**0.10A**	**0.48**
DPS	**0.24A**	**0.24A**	**0.24A**	**0.24**
Payout ratio	31.6%A	191.9%A	233.6%A	49.3%
Shares outstanding	441A	440A	443A	448

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	126	95	0	23	0
Accounts receivable	791	826	587	587	587
Other current assets	743	1,000	1,594	1,741	1,899
Current assets	**1,659**	**1,921**	**2,181**	**2,351**	**2,486**
PP&E	16,620	17,882	19,396	21,488	23,723
Other non current assets	3,762	4,354	4,357	2,357	2,357
Total assets	**22,041**	**24,157**	**25,933**	**26,196**	**28,565**
Short term borrowings	503	560	968	0	1,051
Payables	589	698	667	667	667
Other short term liabilities	1,187	1,488	1,942	1,942	1,942
Current liabilities	**2,279**	**2,746**	**3,576**	**2,608**	**3,660**
Long-term debt	9,220	9,183	9,762	10,612	11,462
Other long term liabilities	4,704	4,954	4,705	4,877	5,097
Total liabilities	**16,203**	**16,884**	**18,044**	**18,098**	**20,219**
Shareholders' equity	5,838	7,273	7,890	8,098	8,347
Minority interests	-	-	-	-	-
Total liabilities & equity	**22,041**	**24,157**	**25,933**	**26,196**	**28,565**
BVPS	**14.90**	**17.94**	**18.95**	**17.87**	**17.16**
y/y Growth	*(4.9%)*	*20.4%*	*5.6%*	*(5.7%)*	*(3.9%)*
Net debt/(cash)	9,597	9,649	10,730	10,590	12,514
Cash flow from operating activities	**1,104**	**1,218**	**1,492**	**1,582**	**1,777**
o/w Depreciation & amortization	726	748	810	858	915
o/w Changes in working capital	(249)	(260)	(190)	(148)	(158)
Cash flow from investing activities	**(879)**	**(2,205)**	**(2,294)**	**(950)**	**(3,150)**
o/w Capital expenditure	(1,758)	(1,838)	(2,134)	(2,950)	(3,150)
as % of sales	*37.4%*	*37.5%*	*37.5%*	*51.5%*	*52.5%*
Cash flow from financing activities	**(248)**	**956**	**1,013**	**359**	**299**
o/w Dividends paid	(322)	(400)	(420)	(424)	(514)
o/w Net debt issued/(repaid)	82	31	1,220	850	850
Net change in cash	**(23)**	**(31)**	**211**	**991**	**(1,074)**
Adj. Free cash flow to firm	**(351)**	**(338)**	**(354)**	**(1,037)**	**(1,042)**
y/y Growth	*(469.3%)*	*(3.7%)*	*4.6%*	*193.2%*	*0.5%*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	76.4%	71.6%	66.2%	69.3%	70.7%
EBITDA margin	38.9%	37.8%	35.6%	38.1%	40.5%
EBIT margin	22.6%	22.5%	21.3%	23.1%	25.2%
Net profit margin	10.8%	11.7%	11.3%	12.2%	13.3%
ROE	8.6%	8.7%	8.5%	8.7%	9.7%
ROA	2.3%	2.5%	2.6%	2.7%	2.9%
ROCE	5.6%	5.6%	5.5%	5.8%	6.1%
SG&A/Sales	38.2%	34.6%	31.2%	31.1%	30.2%
Net debt/equity	1.6	1.3	1.4	1.3	1.5
P/E (x)	21.0	20.3	19.2	18.0	16.7
P/BV (x)	1.9	1.5	1.5	1.6	1.6
EV/EBITDA (x)	9.1	9.2	9.0	8.6	8.7
Dividend Yield	3.0%	3.2%	3.4%	3.6%	3.8%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	4.9	5.4	5.7	5.4	5.9
Operating leverage	(22.1%)	87.0%	61.3%	1423.4%	299.4%
Revenue y/y Growth	(9.4%)	4.3%	16.1%	0.7%	4.7%
EBITDA y/y Growth	3.8%	1.4%	9.2%	7.9%	11.2%
Tax rate	18.3%	17.4%	18.9%	18.8%	20.0%
Adj. Net Income y/y Growth	2.6%	12.6%	12.2%	9.1%	14.5%
EPS y/y Growth	(0.0%)	3.7%	5.6%	6.7%	7.9%
DPS y/y Growth	5.0%	4.8%	6.8%	6.0%	6.0%

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

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AES Corp. (AES, AES US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage May 25, 2001. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
15-Jan-20	OW	20.40	22
09-Apr-20	OW	14.13	18
01-Jun-20	OW	12.49	17
23-Jul-20	OW	15.60	18
15-Sep-20	OW	17.95	20
16-Oct-20	OW	19.86	22
22-Dec-20	OW	22.62	24
14-Jan-21	OW	26.88	30
05-Apr-21	OW	27.07	31
15-Jun-21	OW	25.74	30
30-Aug-21	OW	24.19	31
19-Oct-21	OW	23.85	30
07-Dec-21	OW	24.36	31
20-Mar-22	OW	23.69	30
18-Apr-22	OW	24.41	31
12-May-22	OW	19.96	29
25-Jul-22	OW	19.73	28
23-Aug-22	OW	24.97	30
19-Oct-22	OW	24.40	29

NiSource Inc. (NI, NI US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
15-Jan-20	OW	28.18	31
09-Apr-20	OW	25.47	29
01-Jul-20	OW	22.74	26
21-Sep-20	OW	21.98	25
23-Oct-20	OW	24.04	26
29-Jan-21	OW	22.17	25
22-Feb-21	OW	22.84	24
22-Apr-21	OW	26.03	28
31-Aug-21	OW	24.76	29
14-Oct-21	OW	24.69	28
04-Jan-22	OW	27.52	31
26-Jan-22	OW	27.14	30
03-Mar-22	OW	29.19	32
18-Apr-22	OW	31.75	34
11-May-22	OW	29.32	33
25-Jul-22	OW	28.44	31
05-Sep-22	OW	29.55	34
24-Oct-22	OW	24.49	30

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NiSource Inc.

You Say You Want a Revolution: 2022 Investor Day Plan Offers Evolution Instead, Plus a Minority Stake Sale Twist

Overweight

NI, NI US
Price (08 Nov 22):$24.93

North American Utilities

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This week, NiSource hosted its 2022 investor day, extending its financial plan through 2027 and providing a much anticipated update on conclusions from its business review. A planned 19.9% minority stake sale of NIPSCO dominated headlines and sparked significant debate, with management identifying this route out of the review to fund growth and alleviate balance sheet constraints in a tax-efficient manner. Headline 6-8% annual EPS growth matched expectations into the investor day, with strong 8-10% annual rate base growth supporting this. Additionally, themes of balance sheet cushion under the new 14-16% long-term FFO/debt target and customer bill support through targeting flat O&M align well with premium qualities in the space. Overall, we acknowledge some initial investor frustration over this NIPSCO lever versus LDC asset rotation but see NI's approach as pragmatic and thematically consistent with recent minority stake sale trends across the group. Pushback in the form of questioning plan aggressiveness, meaning should NI have targeted more impactful outcomes, screens as fair, as does criticism of lighter near-term growth, whether 2024 coming in below NI's prior outlook or 2023 growth below the new 6-8% target. However, we see these tradeoffs as reasonable against longer-term plan line of sight and greater financial flexibility, especially given designs for a variety of commodity price backdrops and positioning for future upside capital opportunities. When also framed against its valuation backdrop, where NI did not appear to be pricing in a more aggressive outcome, we see the initial weakness in reaction as overdone and remain positive on NI's outlook at current levels.

- **NIPSCO minority stake sale plan reignites the great debate.** Announced as a key outcome from NI's business review, the company expects to sell up to a 19.9% stake in NIPSCO, dominating headlines and sparking significant debate at the investor day. While tapping NIPSCO appears counterintuitive against a backdrop favoring gas LDC monetization for electric reinvestment (as touted by peer CNP), management outlined expected transaction multiple benefits from an electric asset skew, strategy efficiencies from a partial sale in avoiding tax leakage and corporate dis-synergies, and greater regulatory certainty around execution. We also expect a ten- or fifteen-year growth view favors this move given NIPSCO's discrete near-term generation transition investments versus a longer-term view of system investment opportunities, although electrification stands to potentially impact this. In consideration of these elements, we are unsurprised by the initial pushback NI received but expect sentiment to turn over time as the company executes its plan. Further, we suspect broader strategic questions have contributed to this initial reaction, namely the desire for a full electric/gas separation or whole company sale. Management's business review recap alluded to much of these broader questions while framing NI's analysis as supportive of the plan update offered

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this week. With NIPSCO's $6.9bn in 2021 electric and gas rate base, this sale implies a sizeable $2.1-2.7bn transaction at 1.5-2.0x rate base multiples, before considering NIPSCO's significant generation capex benefitting post-2021 growth. We expect relative deal size likely factored into the decision, in order to achieve NI's targeted balance sheet cushion post-close. The company's planned transaction launch is 1Q23, with a targeted 2H23 close.

- **A growth outlook for various environments.** In a simplification from its prior two earnings CAGRs, NI now targets 6-8% annual EPS growth (prior 7-9% CAGR; 5-7% near term) and 8-10% annual rate base growth (prior 10-12% CAGR) through 2027, emphasizing plan stability, predictability, and execution underpinning this new annual growth rate versus its prior CAGR. With 2021 remaining the growth base, this outlook implies a -2.8% reduction to 2024 earnings power relative to the prior plan, reflecting revised IN rate expectations to roll in new-generation investments. This appears to be largely timing, with prudent strategy alterations in consideration of the current commodity price backdrop plus expected NIPSCO transaction impacts. While a modest negative, we are unconcerned by these tradeoffs against longer-term plan line of sight (now 2027, through 2024 previously) and greater financial optionality, plus see flexibility around elevated commodity as a positive. Importantly on this front, NI now targets 14-16% FFO/debt, up from 14-15%, and no discrete plan equity beyond 2025+ ATM issuances to fund its ~$15bn 2023-27 capital program. We expect this balance sheet cushion will minimize perennial equity funding questions alongside NI's growth. While NI's latest disclosures imply ~$800-975mm in total ATM issuance for 2025-27, management commentary indicated ultimate needs will depend on the NIPSCO transaction, which could drive further plan upside.
- **No change to attractive generation opportunity and a long gas system investment runway.** NI's core plan remains familiar with steady gas system investments and continued execution of phase 1 and 2 of its IN generation transition to exit coal by 2026-28. In all, electric capex represents ~37% of five-year spend and should continue demanding broader company interest than a pure-play LDC. While the proposed NIPSCO transaction implies a lower electric exposure net to shareholders on a post-sale basis, we highlight the funding tradeoffs as positive to capitalize on public-private spreads and reduce plan financing risk. Ultimately, we see this plan as achievable in a variety of commodity price backdrops and positioning the company for future upside capital opportunities.
- **2023 guidance initiated in line; 2022 range narrowed.** Alongside the investor day, NI initiated 2023 EPS guidance of $1.50-1.57, consistent with the implied range under its prior 5-7% near-term growth target (although below the new 6-8%). Additionally, the company narrowed its 2022 range to $1.44-1.46, from $1.42-1.48.

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NiSource Inc. (NI, NI US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
15-Jan-20	OW	28.18	31
09-Apr-20	OW	25.47	29
01-Jul-20	OW	22.74	26
21-Sep-20	OW	21.98	25
23-Oct-20	OW	24.04	26
29-Jan-21	OW	22.17	25
22-Feb-21	OW	22.84	24
22-Apr-21	OW	26.03	28
31-Aug-21	OW	24.76	29
14-Oct-21	OW	24.69	28
04-Jan-22	OW	27.52	31
26-Jan-22	OW	27.14	30
03-Mar-22	OW	29.19	32
18-Apr-22	OW	31.75	34
11-May-22	OW	29.32	33
25-Jul-22	OW	28.44	31
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24-Oct-22	OW	24.49	30

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North American Utilities Weekly

Utilities Underperform; JPM's EEI Qbank; D & AQN Down; NI Investor Day; Earnings Previews & Reviews; Weekly Comps

- **Utilities lag market rebound.** Utilities (+1.5%) trailed the S&P 500 (+5.9%) in the tail end of earnings after decelerating October inflation data (7.7% US Core CPI) boosted investor sentiment for more macro-sensitive industries, leading to relative sector underperformance. Across the group, continued **D** weakness aligned with ongoing investor questions surrounding the company's strategic review and perceived limited ability to defend the stock in the near-term at EEI. **AQN** offered a similar situation in pulling its long-term outlook in response to interest rate pressure and capital markets volatility, leading to a significant selloff. Separately, we highlight some day one complaints on **NI's** investor day around 2023-2024 earnings relative to the company's old and new EPS growth targets, although valuation appears to screen attractively to investors out of the update. Among LDC earnings, we received questions on **ATO's** outperformance and highlight broad disappointment in **SWX's** lack of strategic announcements plus challenging construction services results. Into EEI, **PEG's** new 2023 guidance range ($3.35-3.55; JPMe/Street median $3.59/$3.57) drew negative reactions, although the treatment of PEG's now-quantified 25-30c pension drag estimate in consensus appears unclear. We largely expect the tone and takeaways from PEG's Sunday meetings to drive the stock reaction on Monday.
- **3Q22 earnings mostly exceed expectations.** With earnings almost completed, our utility coverage has delivered healthy results. So far, ~55% have beaten, ~27% landed in-line and ~18% have missed, when measured as +/-2% of the Street median adj EPS. NJR and SR round out earnings this week.
- **2022 Edison Electric Institute Conference: The JPM Question Bank**. The J.P. Morgan North American Utilities Research team will host meetings with 27 companies at the annual EEI conference Sunday through Tuesday next week. In order to facilitate meeting preparation, we have compiled a list of key questions for companies that we are meeting with at the conference, including: **AEE, AEP, AES, AGR, ALE, AWK, AQN, CMS, CNP, D, DTE, DUK, ED, EIX, ES, ETR, EXC, FE, FTS, NEE, NI, PCG, PEG, SO, SRE, WEC, XEL.**

Table 1: Weekly Dashboard

Total Return	1Wk	YTD
S&P Utilities	1.5%	-2.8%
Utility Coverage	1.0%	-1.5%
S&P 500	5.9%	-15.1%
REITs	6.2%	-22.0%
AMNA	1.7%	27.4%
AMZ	0.2%	34.7%
Commodity	**1Wk**	**Price**
WTI Crude Oil	-4.0%	$88.91
Henry Hub Gas	-7.2%	$5.94

Top & Bottom Performers			
1Wk		YTD	
ALE	9.8%	SJI	34.3%
AES	6.1%	PCG	21.6%
NEE	5.7%	SRE	19.5%
AWK	5.5%	AES	18.8%
AQN	-17.1%	AQN	-29.7%
D	-8.1%	AWK	-21.4%
SWX	-5.6%	D	-19.6%
PCG	-3.6%	AGR	-15.3%

Sector Performance			
SubSector		1Wk	YTD
Water		5.1%	-19.8%
Diversifieds		2.3%	-4.5%
LDCs		1.2%	6.6%
Regulated		1.1%	-0.9%
Canadians		-1.6%	-14.6%
	Yield	10Yr	Spread
S&P Utilities	3.08%	3.81%	-0.73%

Source: Bloomberg Finance L.P.

- **D: Strategic review clouds outlook; downgraded to Neutral**. In conjunction with 3Q earnings, Dominion launched a top to bottom business review that will focus on value-maximizing strategic business actions. Dominion's relative stock valuation and underperformance appear to have sparked the review, which will encompass alternatives to the current business mix and capital allocation, as well as regulatory options. On the regulatory side, D noted potential actions to assist customer bill pressures and provide greater predictability in state-regulated businesses. While a

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Key Reports:
US Utilities Deep-Dive, 9/29/20
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Regulatory Calendar

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strategic review that focused on divesting non-regulated and reaffirming prior long-term EPS guidance would have created more defined parameters to analyze D's future outlook, including actions to alleviate customer bill-pressure without definition clouds D's future outlook. As such, pending more clarity on the parameters and D's future outlook, we downgrade D to Neutral.

- **NI: You say you want a revolution: 2022 Investor Day plan offers evolution instead, plus a minority stake sale twist.** Last week, NiSource hosted its 2022 investor day, extending its financial plan through 2027 and providing a much anticipated update on conclusions from its business review. A planned 19.9% minority stake sale of NIPSCO dominated headlines and sparked significant debate, with management identifying this route out of the review to fund growth and alleviate balance sheet constraints in a tax-efficient manner. Headline 6-8% annual EPS growth matched expectations into the investor day, with strong 8-10% annual rate base growth supporting this. Additionally, themes of balance sheet cushion under the new 14-16% long-term FFO/debt target and customer bill support through targeting flat O&M align well with premium qualities in the space. Overall, we acknowledge some initial investor frustration over this NIPSCO lever versus LDC asset rotation but see NI's approach as pragmatic and thematically consistent with recent minority stake sale trends across the group. Pushback in the form of questioning plan aggressiveness, meaning whether should NI have targeted more impactful outcomes, screens as fair, as does criticism of lighter near-term growth, whether 2024 coming in below NI's prior outlook or 2023 growth below the new 6-8% target. However, we see these tradeoffs as reasonable against longer-term plan line of sight and greater financial flexibility, especially given designs for a variety of commodity price backdrops and positioning for future upside capital opportunities. When also framed against its valuation backdrop, where NI did not appear to be pricing in a more aggressive outcome, we see the initial weakness in reaction as overdone and remain positive on NI's outlook at current levels.
- **DTE raises LT CAGR to 6-8%, initiates 2023 guide, and increases capital plan.** Following last week's IRP filing, DTE released its EEI slide deck presentation after market close on Thursday. DTE lifted the long-term operating EPS CAGR to 6-8% from 5-7%, based off the $6.25 2023 guidance midpoint. DTE initiated its preliminary 2023 EPS outlook at 7% growth from the original 2022 guidance midpoint and also increased its 5-year capital plan by an incremental $3.5bn, now totaling $21.6bn. So far, we note positive investor feedback regarding the new CAGR, guidance, and Vantage growth, albeit largely matching previous expectations. Given the attention into this update, we sense investor relief heading into EEI with the update out.
- **News Flow: ED** reported the company expects to receive net after-tax proceeds of ~$3.6-3.8bn from its Clean Energy Business (CEB) sale to RWE. Aside from $1.05bn in debt repayments, ED intends to allocate the remaining ~$2.55-2.75bn between (1) investment in CECONY and O&R, and (2) establishing a share repurchase program. **AEP** reaffirmed 2022 guidance of $4.97-5.07 and 2023 guidance range of $5.19-5.39, after the market close on Friday heading into EEI. As part of its EEI update, AEP quantified renewables and energy storage capacity at 15,700 MW.

The Week Ahead in 3Q22 Earnings

Table 2: This Week's Earnings Schedule

Company	Ticker	Earnings Release Date	Conf. Call Date	Conf. Call Time (EST)	Dial-In	Passcode
Week of 11/14						
Spire Inc.	SR	11/16/2022	11/16/2022	10:00:00 AM	844-824-3832	TBD
New Jersey Resources	NJR	11/17/2022	11/17/2022	10:00:00 AM	TBD	TBD

Source: Bloomberg Finance L.P.

Published Thoughts into 3Q

- **NJR: Watching solar message and 2023-24 CEV capex while PJM and BPU processes drag on.** We continue to see NJR's solar development outlook as the primary fall/winter debate, with minimal progress on resolving PJM interconnection delays and finalizing the BPU's extended rulemaking process for NJ's solar successor program. As a result, risks include the potential to 1) further push out of CEV capex, 2) initiate a wide range to 2024 investment targets, and 3) create questions around the ability to regain near-term development momentum. While we see a path for NJR to start resolving these messaging issues once PJM addresses its current interconnection roadblocks in particular, uncertainty in FERC's process timing limits NJR's current options, in our view. Beyond solar, we anticipate a straightforward year-end update, plus new 2023 guidance and 2024 capex. On 2023, our $2.44 EPS estimate reflects 8% growth off the midpoint of NJR's original 2022 guidance (ex. Energy Services outperformance), consistent with the company 7-9% long-term growth target off a $2.20-2.30 2022 base. Among other updates, we expect NJR will address RNG and hydrogen as part of its utility capex update, winter customer rate increases for higher natural gas prices, and the timing of AMA contributions relative to NJR's growth rate.

- **SR: MO rate case stands to overshadow plan refresh**. Significant attention remains on SR's MO rate case progress and overall settlement prospects. While we anticipate no meaningful process updates at this critical juncture in the proceeding absent a settlement announcement prior to the company's earnings release, we expect case questions to loom over SR's update and plan refresh. Here, past practice indicates that SR is unlikely to offer 2023 guidance given the outstanding rate case. Instead, normal course year-end capex (2023-2027) and financing (2023-2025) refreshes should comprise the majority of SR's update. The company's $195mm storage expansion stands to increase 2023-2024 capex and financing needs, with continued ATM use remaining the likely avenue to address plan equity. Given the rate case timing and no 2023 guidance, this quarter screens as a less impactful event as a result. Separately, industry-wide customer bill pressure into this heating season has weighed on LDC sentiment and stands as a top theme across the group this earnings season. We look for SR to outline its supply and storage position and associated rate impacts, including STL Pipeline benefits (particularly in light of the ongoing FERC remand). On FY22 results, we estimate EPS of $3.91 versus SR's $3.75-3.95 guidance range.

Earnings Takeaways

- **ALE: $0.59 actual, $0.68 JPM and Street**. In a broadly positive update, ALE added ~$1bn in capex as part of its plan roll forward through 2027, significantly boosting the utility outlook with its new 8% rate base CAGR, up from prior 5%. Incremental transmission investments and baseline IRP solar and wind resource additions drove the uplift, consistent with management's recent enthusiasm for MN Power's growing grid and generation opportunities. The company's overall call message focused on multiple ways to win under the Inflation Reduction Act, contributing to both regulated and ACE/New Energy optionality. Additionally, ALE sees the IRA as cash flow and credit positive and expects financing benefits to include monetization of $45-50mm in tax credits. All in, these updates appear to be the start of a broader messaging trend at EEI and into the year-end update, where ALE could again raise capex.

- **AQN: $0.11 actual, $0.16 JPM, $0.16 Street**. In a challenging overall quarter, management outlined 3Q earnings and 2022 guidance headwinds, plus ongoing impacts from higher interest rates and capital markets volatility. As a result, AQN pulled its long term growth targets, opening up significant uncertainty until an anticipated early 2023 investor day update. We see AQN's sharp underperformance as warranted and expect concern to grow in advance of the company's intended plan update. Goals under evaluation are to reduce AQN's reliance on external equity and moderate the impact of rising interest rates, seemingly implying a meaningful pivot to asset sales after the company's long acquisition history. While the recent partial stake sale of four wind projects potentially serves as a blueprint, monetization scale must increase to fully offset external equity (JPMe ~$750mm/yr under AQN's prior long term outlook). This prospect, paired with additional interest rate-driven earnings headwinds, stands to challenge both EPS and dividend growth, which we see contributing to Friday's share price reaction.
- **ATO: $0.51 actual, $0.44 JPM and Street**. The company initiated 2023 EPS guidance of $5.90-6.10, ahead of the $5.94/$5.95 JPM/Street median estimates and representing +7% YoY growth at the midpoint off strong 2022 results. While segment net income guidance points to Pipeline & Storage upside versus our estimates, individual 2023 drivers remain largely consistent with expectations and previous ATO guidance. However, we highlight projected 4-7% O&M growth as higher than ATO's 3.0-3.5% annual inflation target and well above 2022's ~4.5% YoY O&M increase. Given broader inflation questions across the space, we expect some questions as to underlying drivers and expected medium-term trends to return to guided 3.0-3.5% annual growth, which management largely attributed to recent contractor renewals at higher levels. ATO refreshed its five-year plan for 2023-2027, offering no surprises in continued 6-8% annual EPS growth, an ~11-13% rate base CAGR, 50-60% target equity capitalization ratio, and other familiar elements that have regularly featured in the company's plans.
- **EMA: $0.76 actual, $0.74 JPM, $0.75 Street**. In its refreshed 2023-25 capital plan, EMA raised Tampa Electric/PGS capex +14% and lowered NSPI capex -37%, following through on its planned capital rotation in response to the Nova Scotia rate legislation. Total three-year spend remains at $8.4bn (both old and new plans assume a consistent $1.30 FX rate), although EMA no longer points to $1bn in incremental opportunities. Disclosures indicate that NSPI's outlook remains subject to change pending further impacts from the rate legislation. Directional changes match expectations into the update, although it remains unclear if this lower level of NSPI investment is consistent with the legislation's full impacts. EMA's projected 7.4% 2021-25 rate base CAGR is comparable to 7.9% under its prior 2020-24 outlook (both on an FX adjusted basis). We see few surprises here overall, including the removal of incremental opportunities that appeared to carry a high hurdle for advancement.
- **NI: $0.10 actual, $0.11 JPM, $0.10 Street**. NiSource hosted its 2022 investor day, extending its financial plan through 2027 and providing a much anticipated update on conclusions from its business review. A planned 19.9% minority stake sale of NIPSCO dominated headlines and sparked significant debate, with management identifying this route out of the review to fund growth and alleviate balance sheet constraints in a tax-efficient manner. Headline 6-8% annual EPS growth matched expectations into the investor day, with strong 8-10% annual rate base growth supporting this. Additionally, themes of balance sheet cushion under the new 14-16% long-term FFO/debt target and customer bill support through targeting flat O&M align well with premium qualities in the space.
- **SWX: ($0.05) actual, $0.28 JPM, $0.30 Street**. Despite investor hope for MountainWest and Centuri announcements in the lead up to earnings, SWX's report passed with no transaction announcements. Process updates were minimal, with management noting 1) SWX remains actively engaged, 2) processes are in later

stages, and 3) the company intends to make announcements upon conclusion. Progress appears slower than anticipated, and we no longer have guardrails from SWX on potential announcement timing. Significant attention remains on a Centuri sale versus spin, magnified by the current macro pressures on Centuri's business. Here, we have limited incremental insight beyond earnings datapoints and related commentary now firmly pressuring the 2023 outlook. We expect the construction debate will only grow in reaction to these developments, with arguments split between the downside risk of potentially selling at a low versus a longer path to realizing upside value under a construction spin.

Table 3: 3Q22 Earnings Table

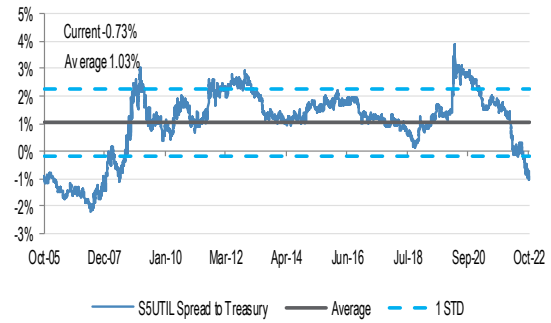
Company	Ticker	Rating	3Q22 Consensus EPS Est. Max	Min	Mean	Median	JPMe	JPMe vs. Median	Actual	Actual vs. Median	Actual vs. JPMe
Regulated											
Ameren Corporation	AEE	OW	$1.77	$1.70	$1.74	$1.73	$1.77	2%	$1.74	1%	-2%
American Electric Power	AEP	OW	$1.60	$1.50	$1.56	$1.56	$1.56	0%	$1.62	4%	4%
Allete Inc.	ALE	UW	$0.71	$0.53	$0.65	$0.68	$0.68	0%	$0.59	-13%	-13%
CMS Energy Corporation	CMS	OW	$0.62	$0.38	$0.52	$0.53	$0.62	18%	$0.56	7%	-10%
Dominion Energy Inc	D	N	$1.13	$1.06	$1.08	$1.07	$1.07	0%	$1.11	4%	4%
Duke Energy Corp.	DUK	N	$1.98	$1.75	$1.84	$1.84	$1.76	-4%	$1.78	-3%	1%
Consolidated Edison Inc.	ED	UW	$1.53	$1.37	$1.46	$1.46	$1.44	-1%	$1.63	12%	13%
Edison International	EIX	N	$1.91	$1.29	$1.52	$1.46	$1.29	-12%	$1.48	1%	15%
Eversource Energy	ES	N	$1.07	$1.00	$1.03	$1.03	$1.05	2%	$1.01	-2%	-4%
Entergy Corp.	ETR	OW	$2.81	$2.52	$2.66	$2.65	$2.74	4%	$2.84	7%	4%
FirstEnergy	FE	N	$0.83	$0.76	$0.79	$0.79	$0.76	-4%	$0.79	0%	4%
PG&E Corp.	PCG	N	$0.27	$0.23	$0.25	$0.25	$0.25	0%	$0.29	16%	16%
The Southern Company	SO	UW	$1.35	$1.32	$1.33	$1.34	$1.34	0%	$1.31	-2%	-2%
WEC Energy Group	WEC	N	$0.90	$0.83	$0.86	$0.86	$0.87	1%	$0.96	12%	10%
Xcel Energy	XEL	OW	$1.30	$1.15	$1.21	$1.19	$1.18	-1%	$1.18	-1%	0%
Diversified											
AES Corp.	AES	OW	$0.58	$0.50	$0.54	$0.54	$0.54	0%	$0.63	17%	17%
Avangrid, Inc	AGR	UW	$0.45	$0.30	$0.35	$0.33	$0.32	-3%	$0.31	-6%	-3%
CenterPoint Energy, Inc.	CNP	OW	$0.32	$0.25	$0.30	$0.31	$0.32	5%	$0.32	5%	0%
DTE Energy Company	DTE	N	$1.61	$1.47	$1.57	$1.57	$1.61	3%	$1.60	2%	-1%
Exelon Corp.	EXC	OW	$0.74	$0.64	$0.70	$0.71	$0.74	5%	$0.75	6%	1%
NextEra Energy Inc.	NEE	OW	$0.84	$0.77	$0.80	$0.80	$0.80	0%	$0.85	6%	6%
Public Service Enterprise Group	PEG	OW	$0.89	$0.79	$0.84	$0.83	$0.85	2%	$0.86	4%	1%
Sempra Energy	SRE	N	$1.97	$1.70	$1.79	$1.76	$1.89	7%	$1.97	12%	4%
LDCs											
Atmos Energy	ATO	OW	$0.46	$0.39	$0.43	$0.44	$0.44	0%	$0.51	16%	16%
New Jersey Resources	NJR	UW	$0.47	$0.45	$0.46	$0.46	$0.47	2%	N/A	N/A	N/A
NiSource Inc.	NI	OW	$0.15	$0.08	$0.10	$0.10	$0.11	10%	$0.10	0%	-9%
Southwest Gas Holdings Inc.	SWX	N	$0.41	$0.07	$0.26	$0.28	$0.30	9%	-$0.05	-118%	-117%
South Jersey Industries	SJI	N	-$0.10	-$0.34	-$0.20	-$0.18	-$0.18	0%	-$0.18	0%	0%
Spire Inc	SR	OW	-$0.61	-$0.72	-$0.66	-$0.65	-$0.61	-6%	N/A	N/A	N/A
Canadians											
Algonquin Power & Utilities Corp.	AQN	N	$0.18	$0.15	$0.17	$0.16	$0.16	0%	$0.11	-31%	-31%
Emera Inc.	EMA	N	$0.77	$0.72	$0.75	$0.75	$0.74	-1%	$0.76	1%	3%
Fortis Inc.	FTS	N	$0.71	$0.66	$0.68	$0.68	$0.68	0%	$0.71	4%	4%
Water											
American Water Works Company, Inc.	AWK	N	$1.63	$1.47	$1.51	$1.51	$1.49	-1%	$1.63	8%	9%
SJW Group	SJW	OW	$0.85	$0.55	$0.67	$0.64	$0.61	-4%	$0.82	29%	34%

Source: Bloomberg Finance L.P., J.P. Morgan estimates.

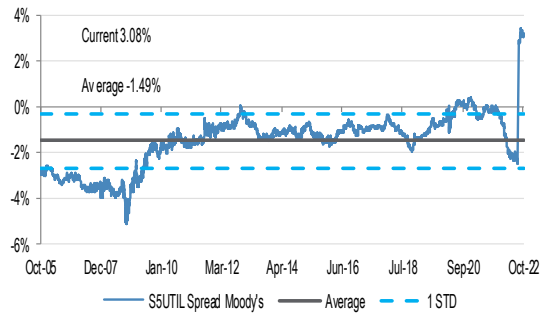
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Utility Valuation Snapshot

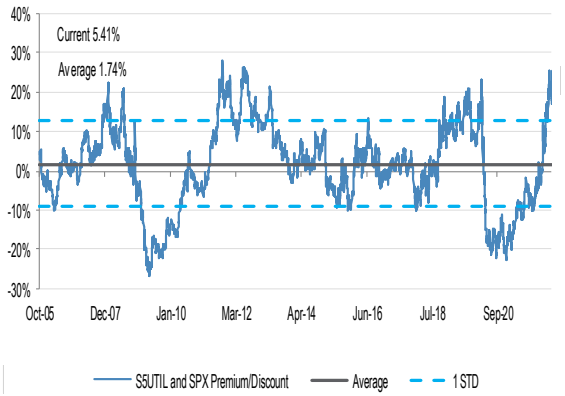
S&P Utilities Index Spread to 10-Year Treasury



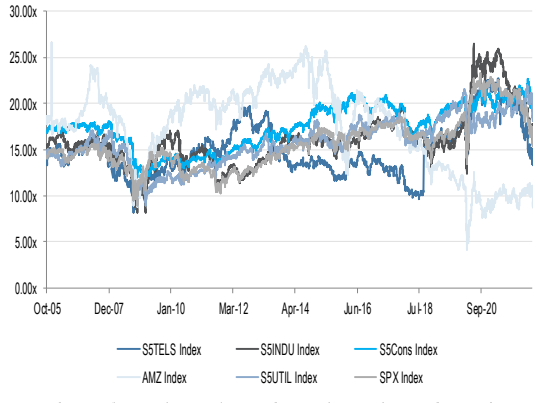
S&P Utilities Index Spread to Moody's Corporate BAA Bond Index



S&P Utilities Index and SPX Historical Premium/Discount on Forward P/E



Historical Forward P/Es by Sector



Source: Bloomberg Finance L.P.

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Growth Outlook

Company	Ticker	Rating	Lead Analyst	Mkt Cap ($ MM)	EV ($ MM)	Price Target	Price	Yield 2022E	Payout 2022E	Dividend Estimates: Annual Dividend 2022E	2023E	2024E	Growth Rates 22/'21	23/'22	'24/'23	Growth CAGR '21/'24	Current Yield Based on Annual Dividend: 2022	2023	2024	Total Return YE22
Regulated																				
Ameren Corporation	AEE	OW	Jeremy Tonet	$21,527	$36,602	$93.00	$83.32	2.8%	57%	2.36	2.51	2.68	7.3%	6.5%	6.5%	6.8%	2.8%	3.0%	3.2%	14.5%
American Electric Power	AEP	OW	Jeremy Tonet	$46,237	$84,076	$100.00	$89.98	3.7%	66%	3.30	3.54	3.75	9.9%	7.4%	6.0%	7.7%	3.7%	3.9%	4.2%	14.8%
Allete Inc.	ALE	UW	Richard Sunderland	$3,469	#N/A N/A	$65.00	$60.69	4.3%	70%	2.60	2.73	2.87	3.2%	5.0%	5.0%	4.4%	4.3%	4.5%	4.7%	11.4%
CMS Energy Corporation	CMS	OW	Jeremy Tonet	$16,956	$31,331	$68.00	$58.42	3.1%	63%	1.84	1.96	2.09	5.7%	6.5%	6.5%	6.2%	3.1%	3.4%	3.6%	19.5%
Dominion Energy Inc	D	N	Jeremy Tonet	$51,380	$96,303	$76.00	$61.66	4.3%	65%	2.67	2.83	3.00	6.0%	6.0%	6.0%	6.0%	4.3%	4.6%	4.9%	27.6%
Duke Energy Corp.	DUK	N	Jeremy Tonet	$73,281	$150,533	$105.00	$95.17	4.2%	73%	3.98	4.10	4.27	2.1%	3.0%	4.3%	3.1%	4.2%	4.3%	4.5%	14.5%
Consolidated Edison Inc.	ED	UW	Jeremy Tonet	$31,625	$57,681	$78.00	$89.12	3.5%	70%	3.16	3.27	3.38	1.9%	3.4%	3.4%	2.9%	3.5%	3.7%	3.8%	-8.9%
Edison International	EIX	N	Jeremy Tonet	$22,863	$58,370	$70.00	$59.87	4.7%	63%	2.80	2.97	3.15	5.7%	6.0%	6.0%	5.9%	4.7%	5.0%	5.3%	21.6%
Eversource Energy	ES	N	Jeremy Tonet	$27,199	$48,713	$89.00	$78.09	3.3%	62%	2.55	2.70	2.87	5.8%	6.0%	6.0%	5.9%	3.3%	3.5%	3.7%	17.2%
Entergy Corp.	ETR	OW	Jeremy Tonet	$22,511	$49,432	$126.00	$110.63	3.7%	64%	4.10	4.35	4.61	6.2%	6.0%	6.0%	6.1%	3.7%	3.9%	4.2%	17.6%
Exelon Corp.	EXC	OW	Jeremy Tonet	$38,788	$76,261	$45.00	$39.11	3.5%	59%	1.35	1.44	1.55	-11.8%	7.0%	7.0%	0.3%	3.5%	3.7%	4.0%	18.5%
FirstEnergy	FE	N	Jeremy Tonet	$21,704	$43,149	$40.00	$37.96	4.1%	64%	1.56	1.56	1.61	0.0%	0.0%	3.0%	1.0%	4.1%	4.1%	4.2%	9.5%
PG&E Corp.	PCG	N	Jeremy Tonet	$29,338	$81,186	$15.00	$14.76	0.0%	0%	0.00	0.20	0.40			100.0%		0.0%	1.4%	2.7%	1.6%
The Southern Company	SO	UW	Jeremy Tonet	$70,862	$129,982	$68.00	$65.09	4.1%	75%	2.70	2.78	2.86	3.1%	3.0%	3.0%	3.0%	4.1%	4.3%	4.4%	8.6%
WEC Energy Group	WEC	N	Jeremy Tonet	$29,383	$45,932	$98.00	$93.15	3.1%	66%	2.91	3.11	3.33	7.4%	7.0%	7.0%	7.1%	3.1%	3.3%	3.6%	8.3%
Xcel Energy	XEL	OW	Jeremy Tonet	$36,934	$62,143	$72.00	$67.49	2.9%	62%	1.95	2.09	2.23	6.6%	7.0%	7.0%	6.9%	2.9%	3.1%	3.3%	9.6%
Mean				**$34,004**	**$70,113**			**3.5%**	**61%**				**3.9%**	**5.3%**	**11.4%**	**4.9%**	**3.5%**	**3.7%**	**4.0%**	**12.9%**
Median				**$29,361**	**$58,370**			**3.6%**	**64%**				**5.7%**	**6.0%**	**6.0%**	**5.9%**	**3.6%**	**3.8%**	**4.1%**	**14.5%**
Mean - ex EIX, PCG				**$35,133**	**$70,164**			**3.6%**	**65%**				**5.0%**	**5.3%**	**5.5%**	**5.2%**	**3.6%**	**3.8%**	**4.0%**	**13.1%**
Median - ex EIX, PCG				**$30,504**	**$57,681**			**3.6%**	**65%**				**5.8%**	**6.0%**	**6.0%**	**6.0%**	**3.6%**	**3.8%**	**4.1%**	**14.5%**
Diversified																				
AES Corp.	AES	OW	Richard Sunderland	$18,756	$42,828	$29.00	$28.08	2.3%	40%	0.64	0.67	0.71	5.0%	5.0%	5.0%	5.0%	2.3%	2.4%	2.5%	5.6%
Avangrid, Inc	AGR	UW	Richard Sunderland	$15,890	$25,563	$39.00	$41.10	4.3%	72%	1.76	1.76	1.76	0.0%	0.0%	0.0%	0.0%	4.3%	4.3%	4.3%	-0.8%
CenterPoint Energy, Inc.	CNP	OW	Jeremy Tonet	$18,335	$34,669	$32.00	$29.13	2.4%	50%	0.69	0.74	0.80	6.6%	7.5%	7.5%	7.2%	2.4%	2.6%	2.7%	12.2%
DTE Energy Company	DTE	N	Jeremy Tonet	$22,137	$41,843	$123.00	$114.26	3.1%	59%	3.54	3.77	4.02	-13.2%	6.5%	6.5%	-0.5%	3.1%	3.3%	3.5%	10.7%
NextEra Energy Inc.	NEE	OW	Jeremy Tonet	$165,551	$235,985	$95.00	$83.31	2.0%	59%	1.70	1.87	2.02	10.4%	10.0%	8.0%	9.5%	2.0%	2.2%	2.4%	16.1%
Public Service Enterprise Group	PEG	OW	Jeremy Tonet	$29,084	$48,791	$67.00	$58.29	3.7%	62%	2.16	2.28	2.40	5.9%	5.5%	5.5%	5.6%	3.7%	3.9%	4.1%	18.6%
Sempra Energy	SRE	N	Jeremy Tonet	$48,612	$77,559	$153.00	$154.65	3.0%	51%	4.58	4.83	5.10	4.1%	5.5%	5.5%	5.0%	3.0%	3.1%	3.3%	1.9%
Mean (Regulated & Diversified)				**$37,497**	**$70,861**			**3.3%**	**60%**				**3.5%**	**5.4%**	**9.6%**	**4.8%**	**3.3%**	**3.5%**	**3.8%**	**11.7%**
Median (Regulated & Diversified)				**$29,084**	**$53,557**			**3.5%**	**63%**				**5.7%**	**6.0%**	**6.0%**	**5.8%**	**3.5%**	**3.7%**	**3.8%**	**12.2%**
LDCs																				
Atmos Energy	ATO	OW	Richard Sunderland	$15,485	$23,580	$115.00	$110.69	2.5%	49%	2.72	2.96	3.23	8.8%	9.0%	9.0%	8.9%	2.5%	2.7%	2.9%	6.4%
New Jersey Resources	NJR	UW	Richard Sunderland	$4,343	$7,283	$40.00	$45.13	3.2%	59%	1.45	1.56	1.67	9.0%	7.6%	7.1%	7.9%	3.2%	3.5%	3.7%	-8.2%
NiSource Inc.	NI	OW	Richard Sunderland	$10,482	$23,086	$30.00	$25.81	3.6%	65%	0.94	1.00	1.06	6.8%	6.0%	6.0%	6.3%	3.6%	3.9%	4.1%	19.9%
South Jersey Industries	SJI	N	Richard Sunderland	$4,182	$7,941	$36.00	$34.15	3.7%	72%	1.25	1.29	1.33	2.6%	3.0%	3.0%	2.9%	3.7%	3.8%	3.9%	9.1%
Spire Inc	SR	OW	Richard Sunderland	$3,703	$7,892	$75.00	$70.54	3.9%	70%	2.74	2.88	3.02	5.4%	5.0%	5.0%	5.1%	3.9%	4.1%	4.3%	10.2%
Southwest Gas Holdings Inc.	SWX	N	Richard Sunderland	$4,442	$10,670	$77.00	$66.45	3.7%	64%	2.46	2.56	2.66	4.2%	4.1%	3.9%	4.1%	3.7%	3.8%	4.0%	19.6%
Mean				**$7,106**	**$13,409**			**3.4%**	**63%**				**6.1%**	**5.8%**	**5.7%**	**5.9%**	**3.4%**	**3.6%**	**3.8%**	**9.5%**
Median				**$4,392**	**$9,305**			**3.7%**	**64%**				**6.1%**	**5.5%**	**5.5%**	**5.7%**	**3.7%**	**3.8%**	**3.9%**	**9.6%**
Canadians																				
Algonquin Power & Utilities Corp.	AQN	N	Richard Sunderland	$6,283	$15,795	$21.00	$9.30	7.6%	96%	0.70	0.74	0.79	7.9%	6.0%	6.0%	6.6%	7.6%	8.0%	8.5%	133.4%
Emera Inc.	EMA	N	Richard Sunderland	$13,937	#N/A N/A	$56.00	$51.96	5.2%	90%	2.68	2.78	2.89	3.9%	4.0%	4.0%	4.0%	5.2%	5.4%	5.6%	12.9%
Fortis Inc.	FTS	N	Richard Sunderland	$25,677	$57,804	$54.00	$53.46	4.1%	79%	2.17	2.29	2.43	5.9%	5.7%	6.0%	5.9%	4.1%	4.3%	4.5%	5.1%
Mean				**$15,299**	**$36,800**			**5.6%**	**88%**				**5.9%**	**5.2%**	**5.3%**	**5.5%**	**5.6%**	**5.9%**	**6.2%**	**50.5%**
Median				**$13,937**	**$36,800**			**5.2%**	**90%**				**5.9%**	**5.7%**	**6.0%**	**5.9%**	**5.2%**	**5.4%**	**5.6%**	**12.9%**
Water																				
American Water Works Company, Inc.	AWK	N	Richard Sunderland	$26,536	$38,355	$148.00	$145.94	1.8%	58%	2.57	2.80	3.05	8.9%	8.9%	9.0%	8.9%	1.8%	1.9%	2.1%	3.2%
SJW Group	SJW	OW	Richard Sunderland	$2,156	$3,800	$77.00	$71.12	2.0%	61%	1.44	1.52	1.60	5.9%	5.6%	5.3%	5.6%	2.0%	2.1%	2.2%	10.3%
Median				**$14,346**	**$21,078**			**1.9%**	**60%**				**7.4%**	**7.2%**	**7.1%**	**7.3%**	**1.9%**	**2.0%**	**2.2%**	**6.7%**
Yieldco																				
Nextera Energy Partners	NEP	N	Jeremy Tonet	$6,746	$20,509	$81.00	$77.96	3.9%	53%	3.07	3.44	3.87	13.9%	12.2%	12.4%	12.8%	3.9%	4.4%	5.0%	7.8%

Source: Bloomberg Finance L.P., J.P. Morgan estimates.

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J.P.Morgan

Valuation and Leverage Snapshot

Company	Ticker	Rating	Lead Analyst	EPS Forecast 2022E	EPS Forecast 2023E	EPS Forecast 2024E	P/E Multiple 2022E	P/E Multiple 2023E	P/E Multiple 2024E	P/E Multiple Prem/Disc (ex select names) 2022E	P/E Multiple Prem/Disc (ex select names) 2023E	P/E Multiple Prem/Disc (ex select names) 2024E	EPS Growth '22/'21	EPS Growth 23/'22	EPS Growth '24/'23	EV/EBITDA 2022E	EV/EBITDA 2023E	EV/EBITDA 2024E	FFO/Debt 2022E	FFO/Debt 2022E	FFO/Debt 2023E	Debt to Cap	Credit Rating Moody's	Credit Rating S&P
Regulated																								
Ameren Corporation	AEE	OW	Jeremy Tonet	4.15	4.47	4.65	20.1x	18.6x	17.9x	9.8%	7.8%	10.9%	7.9%	7.9%	3.9%	13.7x	11.9x	10.8x	18.6%	18.6%	18.2%	58%	Baa1	BBB+
American Electric Power	AEP	OW	Jeremy Tonet	5.02	5.31	5.64	17.9x	17.0x	16.0x	-2.1%	-1.8%	-1.2%	5.8%	5.8%	6.2%	13.1x	11.4x	10.6x	16.4%	16.4%	16.0%	62%	Baa2	A-
Allete Inc.	ALE	UW	Richard Sunderland	3.72	3.95	4.18	16.3x	15.4x	14.5x	-11.0%	-11.0%	-10.1%	15.5%	6.0%	5.8%				22.0%	22.0%	24.3%	40%	Baa1	BBB
CMS Energy Corporation	CMS	OW	Jeremy Tonet	2.90	3.12	3.38	20.1x	18.7x	17.3x	10.0%	8.5%	6.9%	9.4%	7.5%	8.5%	12.6x	12.1x	10.9x	15.7%	15.7%	15.5%	63%	Baa2	BBB+
Dominion Energy Inc	D	N	Jeremy Tonet	4.12	4.38	4.66	15.0x	14.1x	13.2x	-18.2%	-18.4%	-18.2%	6.6%	6.4%	6.5%	12.4x	14.7x	11.0x	14.5%	14.5%	14.7%	59%	Baa2	BBB+
Duke Energy Corp.	DUK	N	Jeremy Tonet	5.45	5.75	6.12	17.5x	16.5x	15.5x	-4.6%	-4.2%	-3.8%	4.1%	5.5%	6.4%	13.6x	12.4x	11.3x	13.9%	13.9%	14.6%	57%	Baa2	BBB+
Consolidated Edison Inc.	ED	UW	Jeremy Tonet	4.53	4.74	5.24	19.7x	18.8x	17.0x	7.5%	8.8%	5.2%	3.1%	4.8%	10.6%	13.4x	11.6x	11.4x	16.6%	16.6%	17.5%	56%	Baa2	A-
Edison International	EIX	N	Jeremy Tonet	4.48	4.80	5.02	13.4x	12.5x	11.9x	-27.0%	-27.8%	-26.2%	-2.3%	7.2%	4.6%	14.8x	11.2x	9.4x	9.0%	9.0%	16.1%	62%	Baa3	BBB
Eversource Energy	ES	N	Jeremy Tonet	4.13	4.38	4.65	18.9x	17.8x	16.8x	3.4%	3.1%	3.9%	6.9%	6.3%	6.0%	14.0x	11.7x	10.8x	14.2%	14.2%	15.7%	57%	Baa1	A-
Entergy Corp.	ETR	OW	Jeremy Tonet	6.36	6.75	7.20	17.4x	16.4x	15.4x	-5.0%	-5.0%	-4.9%	5.7%	6.1%	6.7%	12.7x	11.5x	10.7x	13.3%	13.3%	14.8%	70%	Baa2	BBB+
Exelon Corp.	EXC	OW	Jeremy Tonet	2.29	2.43	2.56	17.1x	16.1x	15.3x	-6.6%	-6.9%	-5.4%	10.0%	6.3%	5.1%	12.0x	10.5x	9.9x	15.9%	15.9%	13.7%	56%	Baa2	BBB+
FirstEnergy	FE	N	Jeremy Tonet	2.43	2.54	2.72	15.6x	14.9x	14.0x	-14.6%	-13.4%	-13.6%	-6.7%	4.6%	7.0%	10.4x	10.5x	10.1x	12.9%	12.9%	14.7%	74%	Ba1	BBB-
PG&E Corp.	PCG	N	Jeremy Tonet	1.10	1.23	1.33	13.4x	12.0x	11.1x	-26.8%	-30.8%	-31.1%	10.0%	12.0%	7.4%	14.1x	11.1x	8.9x	11.4%	11.4%	14.5%	69%	Ba2	BB-
The Southern Company	SO	UW	Jeremy Tonet	3.59	3.79	4.12	18.1x	17.2x	15.8x	-0.9%	-0.7%	-2.2%	5.1%	5.8%	8.5%	16.3x	12.8x	11.8x	14.8%	14.8%	16.5%	63%	Baa2	BBB+
WEC Energy Group	WEC	N	Jeremy Tonet	4.39	4.60	4.91	21.2x	20.2x	19.0x	15.9%	17.2%	17.3%	6.8%	4.9%	6.7%	15.1x	13.8x	13.1x	15.8%	15.8%	15.7%	58%	Baa1	A-
Xcel Energy	XEL	OW	Jeremy Tonet	3.17	3.37	3.62	21.3x	20.0x	18.6x	16.4%	16.0%	15.3%	7.1%	6.4%	7.4%	13.9x	12.6x	11.7x	16.5%	16.5%	16.2%	61%	Baa1	A-
Mean							**17.7x**	**16.6x**	**15.6x**				**5.9%**	**6.5%**	**6.7%**	**13.5x**	**12.0x**	**10.8x**	**15.1%**	**15.1%**	**16.2%**	**60%**		
Median							**17.7x**	**16.8x**	**15.7x**				**6.7%**	**6.2%**	**6.6%**	**13.6x**	**11.7x**	**10.8x**	**15.2%**	**15.2%**	**15.7%**	**60%**		
Mean - ex EIX, PCG							**18.3x**	**17.3x**	**16.2x**				**6.2%**	**6.0%**	**6.8%**	**13.3x**	**12.1x**	**11.1x**	**15.8%**	**15.8%**	**16.3%**	**60%**		
Median - ex EIX, PCG							**18.0x**	**17.1x**	**15.9x**				**6.7%**	**6.1%**	**6.6%**	**13.4x**	**11.9x**	**10.9x**	**15.8%**	**15.8%**	**15.7%**	**59%**		
Diversified																								
AES Corp.	AES	OW	Richard Sunderland	1.61	1.76	1.95	17.4x	16.0x	14.4x	-4.9%	-7.5%	-10.8%	5.9%	9.0%	10.8%	70.8x	13.1x	10.4x	13.9%	13.9%	16.0%	77%	Baa3	BBB-
Avangrid, Inc	AGR	UW	Richard Sunderland	2.43	2.22	2.33	16.9x	18.5x	17.6x	-7.8%	7.1%	9.2%	11.9%	-8.7%	4.8%	12.4x	12.3x	10.8x	21.0%	21.0%	20.2%	30%	Baa2	BBB+
CenterPoint Energy, Inc.	CNP	OW	Jeremy Tonet	1.39	1.49	1.61	21.0x	19.5x	18.1x	14.8%	12.9%	12.0%	-15.6%	7.8%	7.7%	13.2x	10.3x	10.5x	13.8%	13.8%	12.5%	64%	Baa2	BBB+
DTE Energy Company	DTE	N	Jeremy Tonet	6.05	6.21	6.58	18.9x	18.4x	17.4x	3.2%	6.6%	7.5%	1.1%	2.6%	5.9%	15.7x	13.1x	11.2x	14.2%	14.2%	15.0%	68%	Baa2	BBB+
NextEra Energy Inc.	NEE	OW	Jeremy Tonet	2.90	3.12	3.40	28.7x	26.7x	24.5x	56.9%	54.5%	51.4%	13.9%	7.7%	9.0%	28.2x	25.6x	14.9x	15.8%	15.8%	16.8%	55%	Baa1	A-
Public Service Enterprise Group	PEG	OW	Jeremy Tonet	3.48	3.59	3.95	16.8x	16.2x	14.8x	-8.4%	-6.0%	-8.7%	-4.9%	3.3%	9.9%	69.9x	18.7x	11.8x	14.0%	14.0%	17.5%	58%	Baa2	BBB+
Sempra Energy	SRE	N	Jeremy Tonet	8.98	8.94	9.60	17.2x	17.3x	16.1x	-6.0%	0.2%	-0.3%	6.6%	-0.5%	7.4%	24.2x	15.1x	14.0x	17.1%	17.1%	16.5%	48%	Baa2	BBB+
Mean (Regulated & Diversified)							**18.3x**	**17.3x**	**16.2x**				**5.0%**	**5.4%**	**7.1%**	**19.8x**	**13.1x**	**11.2x**	**15.3%**	**15.3%**	**16.2%**	**59%**		
Median (Regulated & Diversified)							**17.5x**	**17.2x**	**16.0x**				**6.6%**	**6.1%**	**6.7%**	**13.8x**	**12.2x**	**10.9x**	**14.8%**	**14.8%**	**16.0%**	**59%**		
LDCs																								
Atmos Energy	ATO	OW	Richard Sunderland	5.54	5.94	6.35	20.0x	18.6x	17.4x	7.9%	7.0%	8.6%	8.1%	7.2%	6.8%	17.1x	15.9x	13.4x	16.0%	16.0%	23.0%	46%	A1	A-
New Jersey Resources	NJR	UW	Richard Sunderland	2.47	2.44	2.70	18.2x	18.5x	16.7x	-1.5%	6.3%	4.3%	14.7%	-1.4%	10.5%	17.2x	13.3x	13.5x	14.4%	14.4%	14.4%	63%	#N/A N/A	#N/A N/A
NiSource Inc.	NI	OW	Richard Sunderland	1.45	1.54	1.76	17.8x	16.7x	14.7x	-3.7%	-3.8%	-8.7%	5.8%	6.5%	14.3%	12.5x	11.4x	10.4x	16.0%	16.0%	13.4%	57%	Baa2	BBB+
South Jersey Industries	SJI	N	Richard Sunderland	1.73	1.76	1.82	19.8x	19.4x	18.7x	6.7%	11.6%	16.8%	6.9%	1.7%	3.6%	16.4x	15.5x	11.9x	14.2%	14.2%	13.8%	64%	#N/A N/A	BBB *-
Spire Inc	SR	OW	Richard Sunderland	3.91	4.32	4.52	18.0x	16.3x	15.6x	-2.5%	-6.1%	-2.8%	-19.5%	10.4%	4.7%	12.0x	13.1x	11.6x	11.7%	11.7%	12.0%	58%	Baa2	A-
Southwest Gas Holdings Inc.	SWX	N	Richard Sunderland	3.86	4.49	5.06	17.2x	14.8x	13.1x	-6.9%	-15.0%	-18.2%	-7.4%	16.4%	12.7%	14.5x	11.0x	9.4x	13.4%	13.4%	16.2%	67%	Baa2	BBB- *
Mean							**18.5x**	**17.4x**	**16.1x**				**1.4%**	**6.8%**	**8.8%**	**14.9x**	**13.3x**	**11.7x**	**14.3%**	**14.3%**	**15.5%**	**59%**		
Median							**18.1x**	**17.6x**	**16.2x**				**6.4%**	**6.8%**	**8.7%**	**15.4x**	**13.2x**	**11.8x**	**14.3%**	**14.3%**	**14.1%**	**60%**		
Canadians																								
Algonquin Power & Utilities Corp.	AQN	N	Richard Sunderland	0.73	0.81	0.86	12.7x	11.5x	10.8x				3.4%	10.0%	7.0%	20.8x	16.6x	10.5x	6.6%	6.6%	11.3%	45%	#N/A N/A	BBB
Emera Inc.	EMA	N	Richard Sunderland	2.97	3.30	3.41	17.5x	15.8x	15.3x				5.5%	11.2%	3.3%				9.8%	9.8%	11.3%	62%	Baa3	BBB
Fortis Inc.	FTS	N	Richard Sunderland	2.75	3.04	3.16	19.4x	17.6x	16.9x				6.2%	10.5%	4.1%	13.9x	12.9x	11.8x	11.7%	11.7%	12.3%	55%	Baa3	A-
Mean							**16.6x**	**15.0x**	**14.3x**				**5.1%**	**10.6%**	**4.8%**	**17.4x**	**14.7x**	**11.2x**	**9.4%**	**9.4%**	**11.6%**	**54%**		
Median					**0.03**		**17.5x**	**15.8x**	**15.3x**				**5.5%**	**10.5%**	**4.1%**	**17.4x**	**14.7x**	**11.2x**	**9.8%**	**9.8%**	**11.3%**	**55%**		
Water																								
American Water Works Company, Inc.	AWK	N	Richard Sunderland	4.44	4.76	5.15	32.9x	30.7x	28.3x				4.7%	7.2%	8.2%	14.3x	18.5x	16.7x	11.3%	11.3%	12.2%	60%	Baa1	A
SJW Group	SJW	OW	Richard Sunderland	2.35	2.52	2.76	30.2x	28.3x	25.8x				15.7%	7.0%	9.5%	17.5x	15.4x	14.8x	11.2%	11.2%	11.5%	61%	#N/A N/A	A-
Median							**31.5x**	**29.5x**	**27.1x**				**10.2%**	**7.1%**	**8.8%**	**15.9x**	**17.0x**	**15.8x**	**11.3%**	**11.3%**	**11.9%**	**60%**		
Yieldco																								
Nextera Energy Partners	NEP	N	Jeremy Tonet	5.77	2.93	3.29	13.5x	26.6x	23.7x				225.0%	-49.2%	12.3%	39.3x	15.6x	9.9x				32%	Ba1	BB

Source: Bloomberg Finance L.P., Company reports, J.P. Morgan estimates

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Regulatory Calendar

Date	Event Type	Ticker	Jurisdiction	Company	Docket	Action or Status
1/1/2022-3/31/2022	RATE	EIX	CA	Southern California Edison Co.	A-19-08-013 (Track 3)	Proposed decision in electric rate case (Track 3)
1/1/2022-1/31/2022	RATE	AEP	IN	Indiana Michigan Power Co.	Ca-45576	Decision possible in rate proceeding
1/1/2022-1/31/2022	RATE	ATO	KY	Atmos Energy Corp.	C-2021-00214	Decision possible in rate proceeding
1/1/2022-1/17/2022	RATE	ES	MA	NSTAR Electric Co.		Electric rate case to be filed in early January
1/1/2022-3/31/2022	RATE	CMS	MI	Consumers Energy Co.		Company expected to file next electric rate case
1/1/2022-3/31/2022	RATE	DTE	MI	DTE Electric Co.		General electric rate case to be filed
1/1/2022-1/31/2022	RATE	AEE	MO	Union Electric Co.	C-ER-2021-0240	Decision possible in rate proceeding
1/1/2022-1/31/2022	RATE	AEE	MO	Union Electric Co.	C-GR-2021-0241	Decision possible in rate proceeding
1/1/2022-1/31/2022	RATE	XEL	NM	Southwestern Public Service Co	C-20-00238-UT	Final PRC decision expected in electric rate case
1/1/2022-1/31/2022	RATE	ED	NY	Consolidated Edison Co. of NY		Electric rate case expected to be filed in January 2022
1/1/2022-1/31/2022	RATE	AES	OH	AES Ohio	C-20-1651-EL-AIR	Decision possible in rate proceeding
1/1/2022-1/31/2022	RATE	XEL	TX	Southwestern Public Service Co	D-51802	ALJ Proposed Order may be issued in rate case (estimated by RRA)
1/5/2022	RATE	AQN	MO	Empire District Electric Co.	C-ER-2021-0312	Settlement conference to be held in rate proceeding
1/14/2022	RATE	EXC	DE	Delmarva Power & Light Co.	D-21-0978	Gas rate case expected to be filed with commission
1/18/2022-1/21/2022	RATE	AEP	LA	Southwestern Electric Power Co	D-U-35441	Hearing to be held in electric rate case
1/24/2022	RATE	AQN	MO	Empire District Gas Co.	C-GR-2021-0320	Staff and intervenor testimony on revenue requirement due in rate proceeding
2/28/2022	RATE	EXC	MD	Delmarva Power & Light Co.	C-9670	Law judge proposed order due in rate case
2/28/2022	RATE	AQN	MO	Empire District Gas Co.	C-GR-2021-0320	Settlement conference to be held in rate proceeding
3/1/2022-3/31/2022	RATE	XEL	TX	Southwestern Public Service Co	D-51802	Decision expected in rate case by the end of the first quarter
3/4/2022	RATE	AEP	AR	Southwestern Electric Power Co	D-21-070-U	Settlement or issues list due
3/15/2022	RATE	AEP	AR	Southwestern Electric Power Co	D-21-070-U	Hearing scheduled for rate proceeding
4/25/2022	RATE	AQN	MO	Empire District Gas Co.	C-GR-2021-0320	Hearing to begin in rate proceeding
5/1/2022	RATE	WEC	WI	Wisconsin Public Service Corp.		Company to file general rate case by
5/16/2022-5/31/2022	RATE	PCG	CA	Pacific Gas and Electric Co.	A-21-06-021 (Elec)	Evidentiary hearings scheduled
5/23/2022	RATE	AEP	AR	Southwestern Electric Power Co	D-21-070-U	Decision expected in rate proceeding
6/1/2022-6/30/2022	OTHR	SRE	TX	Oncor Electric Delivery Co.		Rate case filing expected -- extended from October 2021

Source: SNL, Regulatory Research Associates (RRA)

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Tiered Performance

Performance Rank - One Week					Performance Rank - One Month			
Top Performers		Bottom Performers			Top Performers		Bottom Performers	
Tier 1	Tier 2	Tier 3	Tier 4		Tier 1	Tier 2	Tier 3	Tier 4
ALE 10%	AEE 3%	AEP 1%	SRE 0%		ALE 23%	NEE 10%	DUK 6%	EIX 4%
AES 6%	WEC 3%	AGR 1%	NI 0%		SJW 17%	CNP 10%	CMS 6%	PCG 4%
NEE 6%	NEP 3%	ES 1%	ED -1%		AWK 15%	NEP 9%	PEG 6%	SO 2%
AWK 5%	CMS 2%	SJW 1%	SJI -1%		AES 14%	ED 9%	SRE 5%	SJI 1%
EXC 5%	CNP 2%	ETR 1%	PCG -4%		NJR 13%	ATO 8%	ES 5%	EMA -1%
ATO 4%	NJR 2%	PEG 1%	SWX -6%		XEL 13%	DTE 7%	NI 5%	SWX -2%
EMA 4%	DUK 2%	SO 0%	D -8%		SR 11%	AEP 7%	FE 4%	D -5%
SR 3%	DTE 2%	FTS 0%	AQN -17%		ETR 10%	AEE 7%	EXC 4%	AQN -15%
XEL 3%	EIX 1%	FE 0%			WEC 10%	FTS 6%	AGR 4%	
5%	**2%**	**1%**	**-5%**	**Total Return**	**14%**	**8%**	**5%**	**-2%**
35,906	**23,952**	**29,036**	**23,551**	**Market Capitalization**	**16,421**	**39,258**	**31,333**	**25,668**

Performance Rank - Three Months					Performance Rank - 2021 YTD			
Top Performers		Bottom Performers			Top Performers		Bottom Performers	
Tier 1	Tier 2	Tier 3	Tier 4		Tier 1	Tier 2	Tier 3	Tier 4
PCG 24%	SRE -5%	WEC -10%	EXC -14%		SJI 34%	AEP 5%	NI -3%	FTS -10%
AES 16%	AWK -6%	AEP -10%	ES -14%		PCG 22%	ETR 2%	NEP -4%	PEG -11%
SJW 9%	NEP -6%	AEE -11%	CMS -14%		SRE 19%	XEL 2%	AEE -5%	ES -12%
SJI 0%	ETR -6%	SWX -11%	NI -14%		AES 19%	SJW -1%	FE -5%	EMA -14%
NJR 0%	NEE -6%	PEG -12%	SO -16%		NJR 13%	WEC -1%	ALE -6%	AGR -15%
ALE -1%	CNP -8%	EIX -12%	AGR -17%		SR 11%	DTE -2%	DUK -7%	D -20%
ATO -3%	ED -9%	DUK -12%	D -24%		ATO 8%	SO -2%	CMS -8%	AWK -21%
SR -4%	XEL -9%	DTE -14%	AQN -32%		ED 7%	SWX -3%	EIX -9%	AQN -30%
FE -4%	FTS -10%	EMA -14%			CNP 6%	EXC -3%	NEE -9%	
4%	**-7%**	**-12%**	**-18%**	**Total Return**	**15%**	**0%**	**-6%**	**-17%**
11,460	**42,503**	**29,210**	**29,988**	**Market Capitalization**	**19,375**	**30,383**	**38,064**	**24,756**

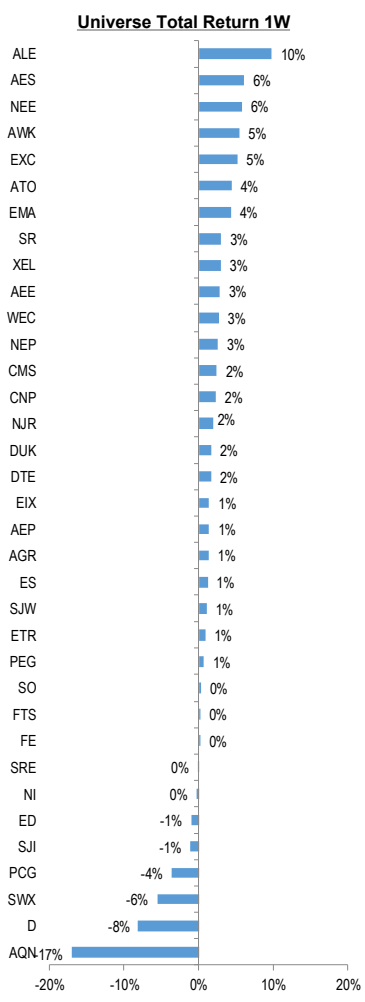
Source: Bloomberg Finance L.P., J.P. Morgan estimates.

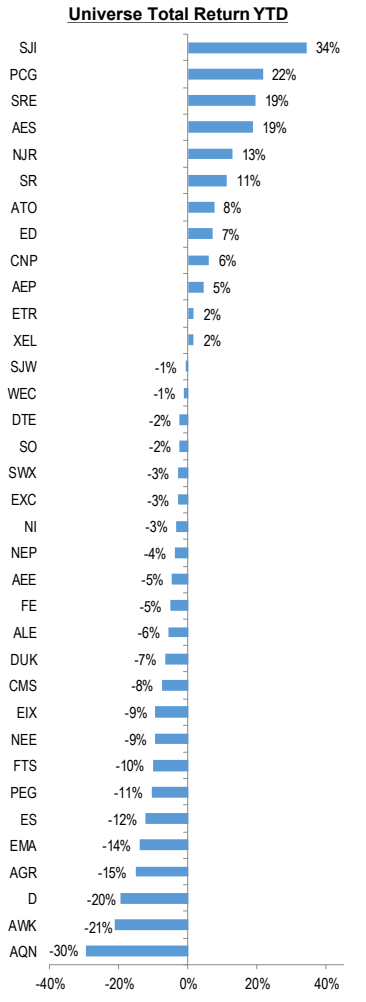
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Utilities Total Return Performance

		Total Return (%)				
Symbol	Unit Price	YTD	1W	1M	3M	1Y
Relevant Indexes						
UTY	$881.82	-4.0%	1.8%	7.0%	-9.9%	3.6%
S&P 500	$3,992.93	-15.1%	5.9%	11.4%	-4.7%	-12.8%
REITs	$744.42	-22.0%	6.2%	12.1%	-12.0%	-16.5%
Regulated						
AEE	$83.32	-4.6%	2.8%	7.0%	-10.8%	1.7%
AEP	$89.98	4.6%	1.4%	7.0%	-10.2%	12.6%
ALE	$60.69	-5.6%	9.8%	23.1%	-1.4%	-2.2%
CMS	$58.42	-7.6%	2.4%	6.3%	-14.3%	0.1%
D	$61.66	-19.6%	-8.1%	-4.9%	-24.0%	-15.1%
DUK	$95.17	-6.7%	1.7%	6.3%	-12.3%	-2.4%
ED	$89.12	7.2%	-1.0%	9.2%	-8.8%	19.1%
EIX	$59.87	-9.3%	1.4%	4.2%	-12.2%	-4.1%
ES	$78.09	-12.2%	1.2%	4.9%	-14.1%	-2.6%
ETR	$110.63	1.8%	0.9%	10.4%	-6.0%	12.3%
FE	$37.96	-5.1%	0.2%	4.4%	-4.3%	1.1%
PCG	$14.76	21.6%	-3.6%	3.8%	23.9%	19.5%
SO	$65.09	-2.4%	0.3%	2.3%	-15.7%	7.3%
WEC	$93.15	-1.1%	2.7%	10.2%	-10.0%	7.8%
XEL	$67.49	1.8%	3.0%	12.8%	-9.0%	9.3%
Diversifieds						
AES	$28.08	18.8%	6.1%	14.5%	16.0%	16.0%
AGR	$41.10	-15.3%	1.3%	4.2%	-16.7%	-15.6%
CNP	$29.13	6.2%	2.3%	9.5%	-8.2%	11.4%
DTE	$114.26	-2.4%	1.7%	7.5%	-13.7%	4.6%
EXC	$39.11	-2.9%	5.2%	4.4%	-13.8%	3.3%
NEE	$83.31	-9.3%	5.7%	9.6%	-6.4%	-0.4%
PEG	$58.29	-10.5%	0.7%	5.7%	-11.9%	-3.2%
SRE	$154.65	19.5%	-0.1%	5.2%	-5.0%	31.1%
LDCs						
ATO	$110.69	7.6%	4.4%	8.3%	-3.4%	19.8%
NJR	$45.13	12.8%	1.9%	13.1%	0.1%	19.8%
NI	$25.81	-3.4%	-0.3%	4.7%	-14.4%	6.3%
SWX	$66.45	-2.9%	-5.6%	-2.4%	-11.3%	-2.2%
SJI	$34.15	34.3%	-1.1%	0.9%	0.5%	49.5%
SR	$70.54	11.3%	3.0%	10.9%	-4.0%	16.6%
Canadians						
AQN	$12.35	-29.7%	-17.1%	-15.4%	-32.1%	-26.8%
EMA	$51.96	-13.9%	4.3%	-0.8%	-13.8%	-7.6%
FTS	$53.46	-10.0%	0.2%	6.4%	-9.9%	-2.1%
Water						
AWK	$145.94	-21.4%	5.5%	14.8%	-5.5%	-13.0%
SJW	$71.12	-0.7%	1.1%	16.6%	8.6%	1.1%
YieldCos						
NEP	$77.96	-3.9%	2.6%	9.5%	-5.9%	-4.5%



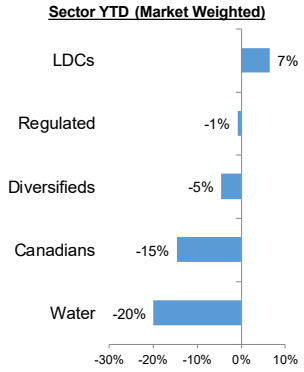


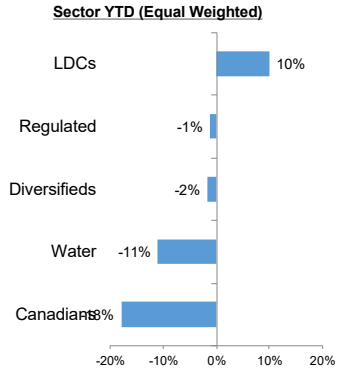
Source: Bloomberg Finance L.P., J.P. Morgan estimates.

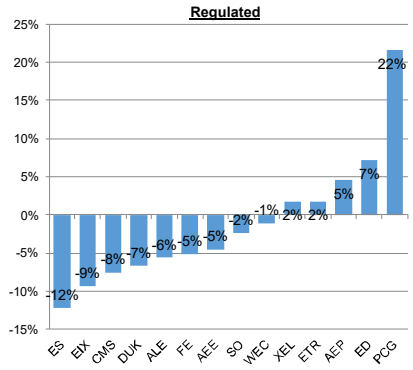
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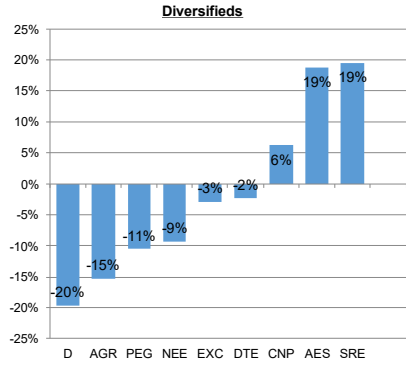
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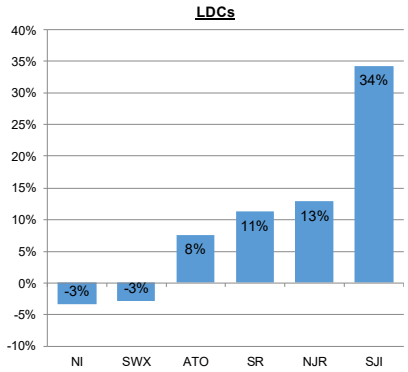
Year-to-Date Total Return Performance By Sector

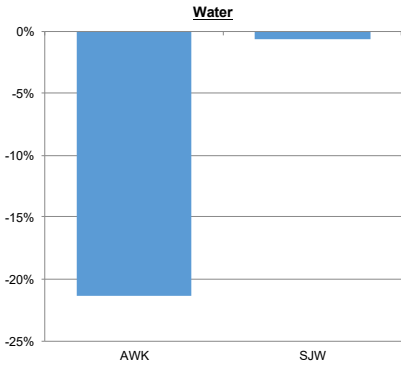


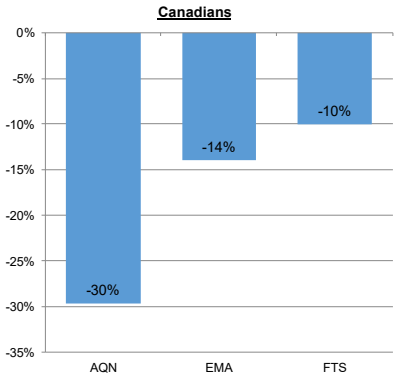












Source: Bloomberg Finance L.P.

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Trade Data & Relative Liquidity

			Trade Data					Liquidity Data						3M Avg Daily Volume Ranked	
Ticker	Price	Market Cap ($ Bn)	52-Week High	52-Week Low	% of 52 Week High	% of 52 Week Low	Insider Ownership (%)	Shares Float (mm)	% of Shares Floated	3M Avg Daily Volume ($ mm)	Short Int (shares, mm)	Short Int ($ mm)	Days to Cover - 3M Avg	Ticker	($ mm)
Regulated															
AEE	$83.32	21.5	$99.20	$73.28	84%	114%	0.4%	256.7	99%	122.3	4.8	415.1	3.4	NEE	635.4
AEP	$89.98	46.2	$105.60	$80.22	85%	112%	0.1%	513.3	100%	272.4	5.7	527.3	1.9	PCG	363.6
ALE	$60.69	3.5	$68.61	$47.77	88%	127%	0.4%	56.9	100%	18.2	1.2	67.1	3.7	EXC	324.7
CMS	$58.42	17.0	$73.76	$52.41	79%	111%	0.4%	289.0	100%	126.1	4.8	292.8	2.3	D	316.7
D	$61.66	51.4	$88.78	$59.67	69%	103%	0.2%	831.8	100%	316.7	8.0	569.5	1.8	DUK	287.6
DUK	$95.17	73.3	$116.33	$83.76	82%	114%	0.1%	768.8	100%	287.6	7.0	681.5	2.4	SO	282.4
ED	$89.12	31.6	$102.21	$76.42	87%	117%	0.1%	354.3	100%	144.4	7.8	709.2	4.9	AEP	272.4
EIX	$59.87	22.9	$73.32	$54.45	82%	110%	0.1%	381.6	100%	117.7	5.8	360.0	3.1	XEL	215.5
ES	$78.09	27.2	$94.63	$70.54	83%	111%	0.3%	344.8	99%	129.5	4.1	336.3	2.6	SRE	204.0
ETR	$110.63	22.5	$126.82	$94.94	87%	117%	0.4%	202.6	100%	124.9	5.9	648.2	5.2	PEG	178.7
FE	$37.96	21.7	$48.85	$35.32	78%	107%	0.1%	542.5	95%	148.1	6.5	253.7	1.7	DTE	178.2
PCG	$14.76	29.3	$15.61	$9.64	95%	153%	0.2%	1676.0	84%	363.6	128.8	1,738.9	4.8	FE	148.1
SO	$65.09	70.9	$80.57	$60.71	81%	107%	0.2%	1079.4	99%	282.4	10.0	707.9	2.5	FTS	146.5
WEC	$93.15	29.4	$108.39	$80.82	86%	115%	0.1%	315.0	100%	133.5	4.3	402.9	3.0	ED	144.4
XEL	$67.49	36.9	$77.66	$56.89	87%	119%	0.2%	546.1	100%	215.5	6.5	438.3	2.0	WEC	133.5
Diversifieds														ES	129.5
AES	$28.08	18.8	$28.57	$18.62	98%	151%	0.4%	654.1	98%	125.4	15.2	385.4	3.1	CMS	126.1
AGR	$41.10	15.9	$52.51	$37.64	78%	109%	0.0%	70.8	18%	32.3	3.8	170.1	5.3	CNP	125.5
CNP	$29.13	18.3	$33.50	$25.03	87%	116%	0.3%	627.2	100%	125.5	12.6	370.9	3.0	AES	125.4
DTE	$114.26	22.1	$140.23	$100.64	81%	114%	0.7%	169.6	88%	178.2	4.6	539.6	3.0	ETR	124.9
EXC	$39.11	38.8	$50.71	$35.19	77%	111%	0.1%	981.5	99%	324.7	13.4	541.8	1.7	AEE	122.3
NEE	$83.31	165.6	$93.73	$67.22	89%	124%	0.2%	1982.5	100%	635.4	16.9	1,372.8	2.2	EIX	117.7
PEG	$58.29	29.1	$75.61	$52.51	77%	111%	0.2%	498.0	100%	178.7	3.8	229.3	1.3	EMA	117.0
SRE	$154.65	48.6	$176.47	$119.56	88%	129%	0.0%	314.2	100%	204.0	2.6	406.4	2.0	AWK	116.5
LDCs														NI	115.8
ATO	$110.69	15.5	$122.96	$88.96	90%	124%	0.8%	138.8	99%	95.0	6.5	711.2	7.5	ATO	95.0
NJR	$45.13	4.3	$47.50	$36.77	95%	123%	0.6%	95.7	99%	20.8	4.5	193.2	9.3	AQN	65.1
NI	$25.81	10.5	$32.59	$23.78	79%	109%	0.4%	404.3	100%	115.8	11.3	302.3	2.6	SWX	41.7
SWX	$66.45	4.4	$95.62	$62.60	69%	106%	0.9%	64.4	96%	41.7	2.3	171.3	4.1	NEP	33.9
SJI	$34.15	4.2	$35.32	$23.14	97%	148%	0.5%	121.9	100%	26.9	5.4	184.2	6.8	AGR	32.3
SR	$70.54	3.7	$79.24	$59.60	89%	118%	0.9%	50.9	97%	18.7	2.1	144.1	7.7	SJI	26.9
Canadians														NJR	20.8
AQN	$12.35	8.3	$20.19	$12.27	61%	101%	0.3%	673.8	100%	65.1	13.2	206.6	3.2	SR	18.7
EMA	$51.96	13.9	$65.24	$48.61	80%	107%	0.1%	268.0	100%	117.0	8.8	482.5	4.1	ALE	18.2
FTS	$53.46	25.7	$65.27	$48.45	82%	110%	0.2%	477.2	99%	146.5	5.8	318.7	2.2	SJW	8.6
Water															
AWK	$145.94	26.5	$189.65	$122.77	77%	119%	0.2%	181.4	100%	116.5	2.9	415.1	3.6		
SJW	$71.12	2.2	$73.72	$55.74	96%	128%	11.7%	26.8	88%	8.6	0.5	30.2	3.5		
YieldCos															
NEP	$77.96	6.7	$88.80	$61.31	88%	127%	0.5%	86.1	100%	33.9	4.0	312.3	9.2		
Mean		**28.2**			**84%**	**118%**	**1%**	**458.5**	**96%**	**154.7**	**10.0**	**446.8**	**3.7**		
Median		**22.1**			**84%**	**114%**	**0%**	**344.8**	**100%**	**125.5**	**5.8**	**385.4**	**3.1**		

Source: Bloomberg Finance L.P.

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Consensus EPS Estimate Revisions

Entity Name	Ticker	4Q22E	-1W	-1Mn	-3Mn	-6Mn	-1Yr	2022E	-1W	-1Mn	-3Mn	-6Mn	-1Yr	2023E	-1W	-1Mn	-3Mn	-6Mn	-1Yr	2024E	-1W	-1Mn	-3Mn	-6Mn	-1Yr
Regulated																									
Ameren Corporation	AEE	$0.57	0.2%	-2.4%	-1.0%	7.0%	8.0%	$4.07	0.1%	0.0%	0.0%	0.2%	0.8%	$4.37	0.0%	0.2%	0.2%	0.0%	0.6%	$4.65	0.0%	0.1%	-0.5%	-0.2%	1.1%
American Electric Power	AEP	$0.99	-0.4%	-2.7%	-2.5%	-3.3%	-2.0%	$5.02	0.0%	0.4%	0.2%	0.6%	0.4%	$5.30	0.0%	0.3%	0.2%	0.2%	0.3%	$5.64	0.0%	0.4%	0.4%	0.1%	0.5%
Allete Inc.	ALE	$1.19	2.8%	6.4%	6.4%	14.8%	11.9%	$3.74	0.0%	0.0%	0.1%	1.9%	-2.8%	$3.94	0.3%	0.3%	-0.1%	2.6%	-1.8%	$4.13	0.4%	0.4%	0.0%	2.7%	-3.9%
CMS Energy Corp.	CMS	$0.63	0.3%	12.7%	17.4%	20.5%	-8.1%	$2.89	0.0%	0.1%	0.1%	0.3%	0.6%	$3.11	0.0%	-0.4%	-0.6%	-0.3%	-0.2%	$3.37	0.0%	0.8%	-0.8%	-0.4%	-0.4%
Dominion Energy Inc,	D	$1.06	0.5%	-1.9%	3.0%	11.1%	19.3%	$4.12	0.1%	0.1%	-0.1%	0.0%	-0.4%	$4.35	-0.2%	-0.4%	-0.5%	-1.0%	-0.6%	$4.68	-0.1%	-0.3%	0.0%	0.0%	0.3%
Duke Energy Corp.	DUK	$1.10	-1.3%	-0.8%	-2.1%	-1.2%	-6.8%	$5.37	-1.1%	-1.6%	-1.6%	-1.7%	-1.9%	$5.71	-0.3%	-0.7%	-0.8%	-1.1%	-1.3%	$6.09	-0.4%	-0.9%	-0.8%	-1.2%	-1.5%
Consolidated Edison Inc.	ED	$0.90	-1.2%	-4.1%	-4.4%	-6.6%	10.4%	$4.53	0.2%	0.3%	0.5%	0.8%	0.6%	$4.80	0.0%	-0.2%	-0.1%	-0.5%	1.8%	$5.10	-0.4%	0.1%	0.0%	0.2%	4.8%
Edison International	EIX	$1.05	4.4%	27.5%	30.5%	15.5%	2.6%	$4.59	0.5%	1.5%	2.0%	1.3%	-1.8%	$4.83	-0.2%	-0.7%	-0.7%	-0.2%	-3.1%	$5.14	-0.2%	-2.3%	-1.1%	-0.9%	-2.2%
Eversource Energy	ES	$0.94	0.0%	5.0%	4.2%	3.9%	-6.3%	$4.10	0.0%	-0.2%	-0.1%	-0.1%	0.0%	$4.38	0.0%	-0.2%	0.0%	0.3%	0.0%	$4.66	0.0%	0.4%	-0.3%	0.2%	0.0%
Entergy Corp.	ETR	$0.62	-2.4%	-31.2%	-26.6%	-36.3%	-14.9%	$6.36	0.1%	0.2%	0.1%	0.7%	0.6%	$6.77	0.0%	0.0%	0.1%	0.2%	0.4%	$7.27	0.0%	0.2%	0.7%	1.6%	2.0%
FirstEnergy Corp,	FE	$0.54	0.6%	4.3%	8.1%	15.1%	6.6%	$2.44	0.2%	0.9%	1.5%	1.4%	-3.7%	$2.52	-0.4%	-0.4%	-0.2%	-1.6%	-6.1%	$2.74	-0.1%	-0.2%	0.8%	-0.3%	-2.1%
PG&E Corp.	PCG	$0.29	0.0%	-5.0%	-3.4%	0.7%	0.4%	$1.10	0.0%	0.5%	0.5%	0.5%	-0.3%	$1.23	0.0%	-0.2%	1.2%	1.3%	-2.8%	$1.36	0.0%	1.3%	2.0%	2.3%	0.0%
The Southern Company	SO	$0.29	0.0%	1.0%	-17.7%	-29.6%	-33.6%	$3.59	0.0%	-0.1%	0.0%	1.0%	1.6%	$3.79	0.3%	-0.1%	-0.2%	-0.1%	-1.0%	$4.09	0.0%	0.0%	-1.1%	-0.6%	-2.0%
WEC Energy Group Inc.	WEC	$0.78	0.0%	-6.2%	-7.3%	-6.3%	-14.4%	$4.40	0.0%	0.1%	0.2%	1.2%	2.1%	$4.61	0.0%	0.1%	0.2%	0.6%	0.7%	$4.91	0.0%	0.2%	0.3%	0.5%	0.7%
Xcel Energy Inc.	XEL	$0.67	-1.5%	1.8%	3.3%	3.6%	42.3%	$3.17	0.0%	-0.1%	-0.1%	-0.1%	-0.2%	$3.38	0.0%	-0.3%	-0.5%	-0.5%	-0.6%	$3.60	0.0%	-0.2%	-0.6%	-0.4%	-0.7%
Diversifieds																									
AES Corp.	AES	$0.48	-5.7%	-11.7%	-6.5%	-5.9%	17.8%	$1.63	0.7%	1.2%	0.8%	0.4%	-1.0%	$1.76	-0.5%	-0.3%	-0.5%	-0.3%	0.0%	$1.91	-0.7%	-0.4%	-0.6%	-0.7%	-0.1%
Avangrid Inc.	AGR	$0.41	-1.9%	-3.8%	-4.0%	-15.3%	-34.0%	$2.31	1.3%	1.9%	2.3%	6.6%	-3.3%	$2.29	1.1%	0.4%	2.4%	5.1%	-8.7%	$2.36	-1.8%	-2.5%	0.3%	2.1%	-16.8%
Centerpoint Energy Inc.	CNP	$0.31	-0.3%	6.2%	5.8%	0.7%	8.1%	$1.39	0.0%	0.3%	0.2%	N/A	N/A	$1.49	-0.1%	-0.7%	-0.3%	0.4%	-1.1%	$1.58	-0.1%	-0.7%	-2.9%	-1.6%	-0.8%
DTE Energy Inc.	DTE	$1.24	-0.9%	4.7%	7.1%	17.6%	13.9%	$6.02	0.5%	-0.1%	0.1%	N/A	N/A	$6.27	0.0%	0.2%	-0.2%	0.0%	0.0%	$6.70	-0.1%	0.2%	-0.2%	0.1%	0.5%
Exelon Corp.	EXC	$0.46	-0.4%	-4.9%	-7.0%	-2.7%	-32.5%	$2.26	0.3%	-0.1%	0.1%	-0.2%	-29.7%	$2.37	-0.3%	-1.5%	-1.6%	-1.7%	-28.7%	$2.54	-0.4%	-1.4%	-1.9%	-2.3%	-27.2%
NextEra Energy Inc.	NEE	$0.48	-2.9%	-5.6%	-8.8%	-17.0%	-28.2%	$2.88	0.0%	0.2%	0.6%	N/A	N/A	$3.12	0.2%	0.4%	0.9%	3.2%	6.3%	$3.38	0.1%	0.3%	0.8%	4.2%	8.6%
Public Service Enterprise Group	PEG	$0.64	0.0%	-40.8%	-4.5%	-3.9%	-17.5%	$3.46	-0.1%	-0.3%	-0.3%	-0.5%	-0.2%	$3.55	-0.1%	-0.8%	-1.4%	-4.1%	-3.4%	$3.96	-0.2%	-0.6%	-0.6%	-2.1%	1.6%
Sempra Energy	SRE	$2.02	-0.5%	4.5%	1.1%	-3.0%	-6.5%	$8.74	0.3%	1.3%	1.9%	2.8%	3.3%	$9.03	-0.1%	-0.1%	0.6%	0.8%	1.3%	$9.65	-0.2%	-0.2%	0.6%	1.3%	2.9%
LDCs																									
Atmos Energy Corp.	ATO	$0.43	0.0%	-0.9%	-7.7%	-9.3%	-11.7%	$5.54	0.0%	-0.1%	-0.1%	0.3%	1.7%	$5.95	0.1%	0.0%	0.1%	0.6%	2.0%	$6.39	-0.1%	-0.1%	0.0%	0.3%	2.8%
New Jersey Resources	NJR	$0.46	0.0%	0.0%	20.1%	81.8%	165.9%	$2.49	0.0%	0.0%	1.8%	7.7%	9.8%	$2.47	0.0%	0.4%	0.9%	1.5%	2.3%	$2.73	0.0%	0.1%	-0.1%	0.6%	-9.2%
NiSource Inc.	NI	$0.48	0.6%	4.4%	3.0%	8.7%	12.8%	$1.45	0.1%	-0.1%	-0.1%	-0.2%	-0.2%	$1.55	-0.1%	-0.4%	-0.3%	-0.1%	0.7%	$1.71	-0.9%	-1.9%	-2.0%	-1.7%	-0.2%
Southwest Gas Holdings Inc.	SWX	$1.71	-3.4%	-4.3%	-5.0%	-1.8%	-1.7%	$4.00	-2.8%	-4.0%	-7.3%	-13.1%	-10.1%	$4.66	-2.5%	-3.9%	-4.0%	-5.7%	-2.1%	$4.88	-3.2%	-3.4%	-3.3%	-4.9%	2.1%
South Jersey Industries	SJI	$0.62	0.0%	-3.7%	-3.6%	-2.1%	6.0%	$1.70	0.0%	-1.4%	-0.5%	0.9%	1.8%	$1.78	0.0%	-0.4%	-0.4%	-0.1%	-0.8%	$1.88	0.0%	0.0%	0.1%	0.6%	0.7%
Spire Inc.	SR	($0.66)	0.0%	-0.9%	0.8%	16.0%	28.7%	$3.84	0.0%	-0.1%	-1.3%	-2.3%	-12.4%	$4.36	0.0%	0.0%	0.1%	-0.4%	-6.0%	$4.60	0.0%	-0.2%	-1.1%	-1.1%	-5.9%
Canadians																									
Algonquin Power & Utilities	AQN	$0.21	0.0%	-2.4%	-1.4%	-5.0%	-24.2%	$0.74	0.0%	-0.4%	-0.9%	-0.7%	-6.0%	$0.80	0.0%	0.0%	0.1%	-2.0%	-4.3%	$0.87	0.0%	-0.1%	-0.3%	0.2%	-4.2%
Emera Inc.	EMA	$0.73	0.0%	-0.4%	-1.1%	-1.6%	-7.2%	$2.96	0.0%	-1.0%	-1.1%	-2.5%	-3.8%	$3.25	0.0%	0.0%	-0.1%	0.1%	-0.6%	$3.38	0.0%	-1.4%	-0.5%	-0.8%	-1.7%
Fortis Inc.	FTS	$0.72	0.1%	0.4%	0.4%	0.4%	-2.7%	$2.76	0.0%	0.2%	0.1%	-1.0%	-3.9%	$2.97	-0.3%	0.3%	0.3%	0.0%	-2.5%	$3.12	-0.1%	0.3%	0.0%	0.3%	-2.8%
Water																									
American Water Works Co Inc.	AWK	$0.79	0.1%	-6.4%	-6.7%	-10.7%	-17.0%	$4.45	0.0%	0.3%	0.1%	-0.3%	-1.6%	$4.79	0.0%	-0.7%	-0.8%	-1.2%	-2.2%	$5.16	0.0%	-0.6%	-0.8%	-1.1%	-2.4%
SJW Group	SJW	$1.12	0.0%	-5.7%	15.9%	78.4%	66.4%	$2.48	1.1%	1.2%	5.4%	4.3%	2.2%	$2.54	0.0%	-0.8%	-0.3%	-0.9%	-1.6%	$2.74	0.0%	0.1%	0.4%	0.4%	0.0%
YieldCos																									
Nextera Energy Partners	NEP	$0.51	-6.2%	-1.3%	-2.3%	41.8%	-43.8%	$4.22	6.0%	9.9%	16.0%	93.1%	42.4%	$2.71	-1.9%	-3.7%	-0.1%	29.6%	6.8%	$3.00	-2.3%	0.0%	3.8%	19.8%	9.7%

Source: Bloomberg Finance L.P.

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North American Utilities

3Q22 Previews: ATO, NI, NJR, and SWX

Please find below our thoughts on ATO, NI, NJR, and SWX into the quarter.

- **ATO: Expect consistent growth and a business-as-usual plan roll-forward, although negative LDC sentiment has colored the backdrop.** ATO appears well positioned to maintain its 6-8% EPS and low-double-digit rate base growth rates, and we anticipate a business-as-usual plan roll-forward with familiar elements such as continued external equity to maintain a target 50-60% equity capitalization and recurring O&M growth. Our $5.94 2023 EPS estimate represents 7% growth from the midpoint of ATO's current $5.50-5.60 guidance range (JPMe 2022 $5.54), and we expect 2023 will benefit from ATO's YTD progress pricing forward equity to cover 2023 issuance, plus YoY interest expense tailwinds on $2.2bn of debt that ATO will retire with TX securitization proceeds. That said, overall natural gas LDC sentiment remains poor with the group facing its first heating season with elevated commodity prices flowing through customer bills. In our conversations, we have witnessed much of this negative sentiment focused on Atmos in anticipation of a materially higher customer bills outlook driving capex sustainability fears. In response to this, we expect management to emphasize the safety and reliability drivers that underpin system investment, prospective price normalization further out on the curve relative to recent spot prices, and various customer assistance efforts. As such, we highlight these dueling narratives as a key debate into ATO's quarter.
- **NI: All eyes on the analyst day update; debate is primarily around growth, with the market ascribing a lower probability to portfolio rotation or other larger moves out of the business review.** The range of potential updates at NI's upcoming analyst day remains broad given management has provided limited information on the ongoing business review. However, we see consensus coalescing around a growth-focused update across the company's current portfolio, with ~7% EPS growth representing the general base expectations in our recent investor conversations. While debates continue across an annual growth rate versus a CAGR, multi-year EPS guidance, and plan impacts from the

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Equity Ratings and Price Targets

Company	Ticker	Mkt Cap ($ mn)	Price	Rating Cur	Rating Prev	Price Target Cur	Price Target End Date	Price Target Prev	Price Target End Date
Atmos Energy	ATO US	13,601.52	101.74	OW	n/c	115.00	Dec-23	128.00	n/c
NiSource Inc.	NI US	9,952.74	24.49	OW	n/c	30.00	Dec-23	34.00	n/c
New Jersey Resources	NJR US	4,058.64	42.08	UW	n/c	40.00	Dec-23	46.00	n/c
Southwest Gas Holdings Inc.	SWX US	4,052.16	70.35	N	n/c	77.00	Dec-23	84.00	n/c

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. n/c = no change. All prices as of 21 Oct 22.

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next round of IN generation investment, investor hope for portfolio rotation appears to be subsiding in acknowledgement of execution and reinvestment hurdles, plus management's stated focus on O&M opportunities. That said, we expect asset sale questions to persist, particularly around smaller jurisdictions in NI's portfolio, given favorable value commentary from CNP and prospective stake sales at a number of utilities. Our $1.54 2023 EPS estimate is consistent with NI's current 5-7% near-term earnings CAGR and compares with a $1.52-1.55 implied range under 5-7% growth from the midpoint of NI's $1.42-1.48 2022 EPS guidance (JPMe $1.45). We also estimate 3Q EPS of $0.11, flat YoY.

- **NJR: Watching solar message and 2023-24 CEV capex while PJM and BPU processes drag on.** We continue to see NJR's solar development outlook as the primary fall/winter debate, with minimal progress on resolving PJM interconnection delays and finalizing the BPU's extended rulemaking process for NJ's solar successor program. As a result, risks include the potential to 1) further push out of CEV capex, 2) initiate a wide range to 2024 investment targets, and 3) create questions around the ability to regain near-term development momentum. While we see a path for NJR to start resolving these messaging issues once PJM addresses its current interconnection roadblocks in particular, uncertainty in FERC's process timing limits NJR's current options, in our view. Beyond solar, we anticipate a straightforward year-end update, plus new 2023 guidance and 2024 capex. On 2023, our $2.44 EPS estimate reflects 8% growth off the midpoint of NJR's original 2022 guidance (ex. Energy Services outperformance), consistent with the company 7-9% long-term growth target off a $2.20-2.30 2022 base. Among other updates, we expect NJR will address RNG and hydrogen as part of its utility capex update, winter customer rate increases for higher natural gas prices, and the timing of AMA contributions relative to NJR's growth rate.
- **SWX: Process timeline implies imminent announcements on MountainWest and Centuri; earnings headwinds set to continue.** August remains the last update on SWX's ongoing MountainWest and Centuri processes, for which the company's timeline suggests about October announcements (as outlined in this August update; see our takeaways here and post-2Q earnings takeaways here). As such, a narrow window remains should these processes yield sale announcements or other updates prior to SWX's November earnings release. Broader market volatility, higher interest rates, and recent earnings challenges, particularly at Centuri, all contribute to a challenging deal environment. However, we continue to see investor interest aligned around executing these sales. On the quarter, we estimate 3Q22 EPS of $0.30, inclusive of an assumed -3c COLI drag and continued Centuri headwinds consistent with fuel cost, supply chain, and other factors that impacted 2Q results. We now apply these headwinds to our 4Q and 2023 estimates as well.

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Adj. EPS Estimate Changes

$		FY22E			FY23E		
Company	**BBG Ticker**	**Prev**	**Cur**	**Δ**	**Prev**	**Cur**	**Δ**
Atmos Energy	ATO US	5.57	5.54	(0.02)	5.95	5.94	(0.01)
NiSource Inc.	NI US	1.44	1.45	0.01	1.54	1.54	0.00
New Jersey Resources	NJR US	2.47	2.47	-	2.39	2.44	0.05
Southwest Gas Holdings Inc.	SWX US	4.15	3.86	(0.30)	4.91	4.49	(0.42)

Source: Bloomberg Finance L.P., J.P. Morgan estimates.

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Investment Thesis, Valuation and Risks

Atmos Energy *(Overweight; Price Target: $115.00)*

Investment Thesis

ATO remains a top-tier rate base and EPS growth story versus gas and electric utility peers, with one of the most conservatively managed balance sheets among our utility coverage. The company's ability to cut costs and/or use balance sheet capacity provides dry powder, in addition to strong customer growth providing tailwinds to growth between rate cases. We view the 6-8% LT EPS CAGR guided by management as comfortably achievable.

Valuation

We lower our Dec 2023 price target to $115 from $128/share. We base our valuation on our 2024 EPS estimate and a 18.1x P/E multiple, a premium to gas utility peers due to strong rate base growth visibility and transparent, low-lag regulatory mechanisms. The lower price target is due to decreased peer average multiples.

Risks to Rating and Price Target

Regulated electric and gas utilities are subject to strict federal and state regulation, including determinations of allowed revenues. Any change to the existing ratemaking mechanisms, including a repeal of the mechanism itself, may cause future earnings to differ materially from our current expectations.

Achievement of Atmos's long-term rate base and EPS CAGR targets is heavily dependent on robust capital investments, regulatory support, and favorable ratemaking mechanism. Any deferral of spending could put the company at risk of falling short of the LT rate base and earnings growth CAGR in any one year.

Gas pipeline accidents in the industry have heightened the importance of pipeline safety and integrity management. These accidents can result in significant financial strains related to pipeline replacement, accident investigations, life and property claims, regulatory fines, and disallowances.

Atmos is in the midst of a robust capital spending program, and any change in the company's operating environment and/or project cost overruns could require greater external equity funding, exposing investors to potential dilution risk in the future.

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Investment Thesis, Valuation and Risks

NiSource Inc. *(Overweight; Price Target: $30.00)*

Investment Thesis

With renewables driving ~20% of the five-year capital plan, NI's "green hue" stands unique among LDCs. Additionally, the company's potential portfolio optimization efforts could accelerate a relative re-weighting toward NI's electric operations should the company divest a smaller LDC jurisdiction to fund renewables investment. We remain constructive on NI's long-term outlook given its attractive growth, subject to manageable execution risk, and relative positioning vs. LDC peers.

Valuation

We lower our December 2023 price target to $30 from $34/share. We base our price target on a sum-of-the-parts analysis using our 2024 electric and gas segment EPS forecasts. We value the gas and electric segments using 16.9x and 17.1x P/E multiples, respectively. This represents a premium to peers on account of NI's coal generation transition, incremental renewables investment, and above-average growth as a result. The lower price target is due to decreased peer average multiples.

Risks to Rating and Price Target

Gas pipeline accidents in the industry have heightened the importance of pipeline safety and integrity management. These accidents can result in significant financial strains related to pipeline replacement, accident investigations, life and property claims, regulatory fines, and disallowances.

Achievement of NiSource's long-term rate base and EPS CAGR targets is heavily dependent on robust capital investments, regulatory support, and favorable ratemaking mechanism. Any deferral of spending could put the company at risk of falling short of the LT rate base and earnings growth CAGR in any one year.

Regulated electric and gas utilities are subject to federal and state regulations, including determinations of allowed revenues. Negative changes to the regulatory environments may cause future earnings to be materially lower than current expectations.

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Investment Thesis, Valuation and Risks

New Jersey Resources *(Underweight; Price Target: $40.00)*

Investment Thesis

New Jersey Resources is facing a narrowing window to recapture CEV's solar development momentum in the face of PJM interconnection delays and an extended rulemaking process around the BPU's solar successor program. While SREC sales and strong performance across the company's other businesses have insulated earnings, renewables capital deployment remains critical to NJR's long-term earnings growth outlook. Here, we see risk of additional negative revisions CEV's capex and a pushout of segment spend. On this front, mounting delays also serve to further back-end load CEV's MW deployment, raising execution risk when development activity ultimately returns to prior levels. NJR's current valuation prices in little room for this execution risk, in our view, as CEV is increasingly the driver of earnings growth over NJR's plan. We maintain our Underweight rating as a result.

Valuation

We lower our Dec 2023 price target to $40/share, from $46, using a 14.8x P/E multiple on our 2024 estimate. The multiple reflects a discount to natural gas LDC peers on account of 1) ongoing solar development risk while PJM and NJ market changes remain unresolved, 2) exposure to non-utility transportation & storage and energy services earnings, and 3) NJ-specific energy transition risks. The lower price target is due to decreased peer average multiples.

Risks to Rating and Price Target

Robust capital investments, regulatory support, and favorable ratemaking mechanisms are significant drivers of NJR's long-term rate base and EPS CAGR targets. Any increases to regulated investment could raise these growth rates.

Changing state receptivity to continued natural gas system investment has the potential to meaningfully alter NJNG's capex opportunities. While we see current New Jersey policies as balanced, the state has demonstrated a commitment to clean energy that could lead to widespread electrification as a means to decarbonize its overall economy. Conversely, any NJ prioritization of RNG and hydrogen for future use of current gas infrastructure could expand both regulated and non-regulated growth opportunities.

NJR's solar projects have faced delays that are lowering near-term segment investment. These investments are a core component of the company's long-term earnings growth outlook, and an inability to boost development activity could cause NJR to miss its growth targets.

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Investment Thesis, Valuation and Risks

Southwest Gas Holdings Inc. *(Neutral; Price Target: $77.00)*

Investment Thesis

Southwest Gas Holdings and large shareholder Carl Icahn reached a settlement in their conflict over the company's Questar Pipelines transaction and overall SWX strategy in the face of a perceived SOTP valuation discount, among other items. The company's subsequent strategic review update indicated that SWX is no longer pursuing potential total company and utility sale processes, pointing to more incremental action around separating Centuri and MountainWest. While we see these prospective sales as a positive step in unlocking value, the path to near-term upside appears less clear at this time as the company works through operational improvements at the utility.

Valuation

We lower our Dec 2023 price target to $77/share from $84/share, based on an SOTP valuation using our 2024 segment forecasts. Our price target includes $41 of value for SWX's natural gas distribution operations (inclusive of a partial parent drag allocation), utilizing a 14.0x P/E multiple. This multiple reflects a discount to gas utility peers on account of AZ regulatory risk and below average AZ ratemaking mechanics. Additionally, we include $12/share and $22/share of value for MountainWest and Centuri, respectively, based on in-line 11.0x and 8.4x EV/EBITDA multiples. Our SOTP also includes $2/share of COLI value. We exclude COLI mark-to-market and future payouts from our 2023-25 EPS estimates. The lower price target is due to decreased peer average multiples.

Our price target remains sensitive to the assumed EV/EBITDA multiple for Centuri. Here, a +/- 1x change drives a +/- $5 impact to total value per share.

Risks to Rating and Price Target

Rates charged to the company's utility customers are set by separate state regulators in AZ, NV, and CA. Given the current elevated level of capital spending, consistent rulings and interim recovery riders remain instrumental in providing rate relief to drive earnings growth. Any meaningful positive or negative change to the regulatory framework in these jurisdictions may cause future earnings to differ materially from current expectations.

SWX has guided that a portion of its three-year capex plan will be funded by incremental equity issuances. Equity timing and ultimate funding levels may cause future earnings per share to differ from current expectations.

The company intends to separate its construction business. Potential paths include a tax-free spin and outright sale, and the ultimate method pursued could impact value to shareholders versus our assumptions and SWX's residual equity needs, as discussed above.

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Atmos Energy: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**2,821**	**3,407**	**4,205**	**4,846**	**5,063**
COGS	(659)	(1,033)	(1,689)	(2,079)	(2,079)
Gross profit	**2,162**	**2,375**	**2,516**	**2,768**	**2,985**
SG&A	(901)	(994)	**(1,033)**	**(1,012)**	**(1,036)**
Adj. EBITDA	**1,261**	**1,381**	**1,483**	**1,755**	**1,948**
D&A	(430)	(478)	(535)	(588)	(637)
Adj. EBIT	**831**	**903**	**948**	**1,167**	**1,311**
Net Interest	(84)	(84)	(108)	(117)	(138)
Adj. PBT	**747**	**819**	**840**	**1,050**	**1,173**
Tax	(145)	(154)	(76)	(198)	(222)
Minority Interest	-	-	-	-	-
Adj. Net Income	**580**	**666**	**764**	**852**	**951**
Reported EPS	4.72	5.13	5.54	5.94	6.35
Adj. EPS	**4.72**	**5.13**	**5.54**	**5.94**	**6.35**
DPS	**2.30**	**2.50**	**2.72**	**2.96**	**3.23**
Payout ratio	48.7%	48.8%	49.1%	49.9%	50.9%
Shares outstanding	123	130	138	143	150

Income Statement - Quarterly	1Q22A	2Q22A	3Q22A	4Q22E
Revenue	**1,013A**	**1,650A**	**816A**	**726**
COGS	(371)A	(871)A	(249)A	(197)
Gross profit	**642A**	**778A**	**567A**	**528**
SG&A	(229)A	(255)A	(265)A	(284)
Adj. EBITDA	**412A**	**524A**	**302A**	**245**
D&A	(128)A	(133)A	(134)A	(139)
Adj. EBIT	**285A**	**390A**	**168A**	**106**
Net Interest	(20)A	(29)A	(26)A	(33)
Adj. PBT	**265A**	**361A**	**142A**	**73**
Tax	(16)A	(36)A	(13)A	(11)
Minority Interest	-	-	-	-
Adj. Net Income	**249A**	**325A**	**129A**	**61**
Reported EPS	1.86A	2.37A	0.92A	0.44
Adj. EPS	**1.86A**	**2.37A**	**0.92A**	**0.44**
DPS	**0.68A**	**0.68A**	**0.68A**	**0.68**
Payout ratio	36.5%A	28.7%A	74.2%A	155.6%
Shares outstanding	134A	137A	140A	140

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	21	117	0	0	0
Accounts receivable	-	-	-	-	-
Other current assets	450	2,722	2,990	920	1,047
Current assets	**471**	**2,839**	**2,990**	**920**	**1,047**
PP&E	13,355	15,064	17,142	19,156	21,071
Other non current assets	1,532	1,706	1,827	1,867	1,907
Total assets	**15,359**	**19,609**	**21,959**	**21,943**	**24,026**
Short term borrowings	0	2,400	2,302	220	322
Payables	-	-	-	-	-
Other short term liabilities	782	1,110	1,058	1,058	1,058
Current liabilities	**782**	**3,510**	**3,360**	**1,278**	**1,379**
Long-term debt	4,532	4,930	5,984	6,724	7,315
Other long term liabilities	3,254	3,261	3,380	3,578	3,800
Total liabilities	**8,568**	**11,702**	**12,725**	**11,580**	**12,494**
Shareholders' equity	6,791	7,907	9,234	10,363	11,531
Minority interests	-	-	-	-	-
Total liabilities & equity	**15,359**	**19,609**	**21,959**	**21,943**	**24,026**
BVPS	**53.95**	**59.71**	**66.01**	**70.82**	**75.49**
y/y Growth	*12.0%*	*10.7%*	*10.6%*	*7.3%*	*6.6%*
Net debt/(cash)	4,511	7,214	8,287	6,944	7,637
Cash flow from operating activities	**1,038**	**(1,084)**	**1,095**	**1,468**	**1,642**
o/w Depreciation & amortization	430	478	535	588	637
o/w Changes in working capital	(134)	(2,379)	(230)	(130)	(128)
Cash flow from investing activities	**(1,926)**	**(1,964)**	**(2,439)**	**(2,602)**	**(2,552)**
o/w Capital expenditure	(1,936)	(1,970)	(2,451)	(2,602)	(2,552)
as % of sales	*68.6%*	*57.8%*	*58.3%*	*53.7%*	*50.4%*
Cash flow from financing activities	**884**	**3,144**	**1,126**	**1,202**	**1,117**
o/w Dividends paid	(282)	(324)	(374)	(424)	(483)
o/w Net debt issued/(repaid)	535	2,797	824	925	900
Net change in cash	**(4)**	**96**	**(218)**	**68**	**207**
Adj. Free cash flow to firm	**(830)**	**(2,986)**	**(1,258)**	**(1,039)**	**(797)**
y/y Growth	*28.9%*	*259.9%*	*(57.9%)*	*(17.4%)*	*(23.2%)*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	76.6%	69.7%	59.8%	57.1%	58.9%
EBITDA margin	44.7%	40.5%	35.3%	36.2%	38.5%
EBIT margin	29.5%	26.5%	22.6%	24.1%	25.9%
Net profit margin	20.6%	19.5%	18.2%	17.6%	18.8%
ROE	9.3%	9.1%	8.9%	8.7%	8.7%
ROA	4.0%	3.8%	3.7%	3.9%	4.1%
ROCE	6.4%	5.5%	5.3%	5.4%	5.8%
SG&A/Sales	31.9%	29.2%	24.6%	20.9%	20.5%
Net debt/equity	0.7	0.9	0.9	0.7	0.7
P/E (x)	21.5	19.8	18.4	17.1	16.0
P/BV (x)	1.9	1.7	1.5	1.4	1.3
EV/EBITDA (x)	12.2	13.5	13.7	11.1	10.7
Dividend Yield	2.3%	2.5%	2.7%	2.9%	3.2%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	14.9	16.5	13.7	15.0	14.1
Operating leverage	(371.3%)	41.4%	21.5%	151.2%	275.6%
Revenue y/y Growth	(2.8%)	20.8%	23.4%	15.3%	4.5%
EBITDA y/y Growth	10.1%	9.5%	7.4%	18.4%	11.0%
Tax rate	19.5%	18.8%	9.1%	18.9%	18.9%
Adj. Net Income y/y Growth	13.8%	14.7%	14.8%	11.6%	11.6%
EPS y/y Growth	8.8%	8.5%	8.1%	7.2%	6.8%
DPS y/y Growth	9.5%	8.7%	8.8%	9.0%	9.0%

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

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NiSource Inc.: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**4,697**	**4,901**	**5,605**	**5,747**	**6,045**
COGS	(1,109)	(1,392)	(1,812)	(1,760)	(1,760)
Gross profit	**3,587**	**3,509**	**3,793**	**3,988**	**4,285**
SG&A	(1,794)	(1,696)	**(1,779)**	**(1,764)**	**(1,789)**
Adj. EBITDA	**1,826**	**1,852**	**2,034**	**2,224**	**2,496**
D&A	(762)	(748)	(827)	(899)	(943)
Adj. EBIT	**1,064**	**1,104**	**1,207**	**1,325**	**1,553**
Net Interest	(371)	(341)	(345)	(403)	(429)
Adj. PBT	**693**	**763**	**862**	**922**	**1,124**
Tax	(127)	(132)	(166)	(177)	(226)
Minority Interest	(59)	(59)	(55)	(47)	(47)
Adj. Net Income	**508**	**571**	**641**	**698**	**850**
Reported EPS	1.32	1.37	1.45	1.54	1.76
Adj. EPS	**1.32**	**1.37**	**1.45**	**1.54**	**1.76**
DPS	**0.84**	**0.88**	**0.94**	**1.00**	**1.06**
Payout ratio	63.6%	64.3%	64.9%	64.6%	60.0%
Shares outstanding	384	417	443	453	483

Income Statement - Quarterly	1Q22A	2Q22A	3Q22E	4Q22E
Revenue	**1,870A**	**1,183A**	**997**	**1,555**
COGS	(707)A	(384)A	(222)	(500)
Gross profit	**1,164A**	**799A**	**775**	**1,056**
SG&A	(477)A	(446)A	(403)	(452)
Adj. EBITDA	**697A**	**362A**	**371**	**603**
D&A	(193)A	(209)A	(211)	(214)
Adj. EBIT	**505A**	**153A**	**160**	**389**
Net Interest	(84)A	(85)A	(87)	(90)
Adj. PBT	**421A**	**69A**	**73**	**300**
Tax	(74)A	(12)A	(13)	(67)
Minority Interest	(18)A	(3)A	(13)	(21)
Adj. Net Income	**329A**	**54A**	**47**	**211**
Reported EPS	0.74A	0.12A	0.11	0.47
Adj. EPS	**0.74A**	**0.12A**	**0.11**	**0.47**
DPS	**0.24A**	**0.24A**	**0.24**	**0.24**
Payout ratio	31.6%A	191.9%A	220.4%	49.7%
Shares outstanding	441A	440A	442	447

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	126	95	0	0	0
Accounts receivable	791	826	715	715	715
Other current assets	743	1,000	1,159	1,336	1,438
Current assets	**1,659**	**1,921**	**1,873**	**2,051**	**2,153**
PP&E	16,620	17,882	19,308	21,954	23,055
Other non current assets	3,762	4,354	4,390	4,390	4,390
Total assets	**22,041**	**24,157**	**25,572**	**28,395**	**29,598**
Short term borrowings	503	560	493	1,969	860
Payables	589	698	650	650	650
Other short term liabilities	1,187	1,488	1,772	1,772	1,772
Current liabilities	**2,279**	**2,746**	**2,916**	**4,392**	**3,282**
Long-term debt	9,220	9,183	9,983	10,833	11,683
Other long term liabilities	4,704	4,954	4,818	4,995	5,221
Total liabilities	**16,203**	**16,884**	**17,717**	**20,219**	**20,186**
Shareholders' equity	5,838	7,273	7,855	8,175	9,412
Minority interests	-	-	-	-	-
Total liabilities & equity	**22,041**	**24,157**	**25,572**	**28,395**	**29,598**
BVPS	**14.90**	**17.94**	**18.86**	**18.00**	**19.25**
y/y Growth	*(4.9%)*	*20.4%*	*5.1%*	*(4.6%)*	*7.0%*
Net debt/(cash)	9,597	9,649	10,476	12,802	12,542
Cash flow from operating activities	**1,104**	**1,218**	**1,610**	**1,596**	**1,917**
o/w Depreciation & amortization	726	748	827	899	943
o/w Changes in working capital	(249)	(260)	(52)	(177)	(102)
Cash flow from investing activities	**(879)**	**(2,205)**	**(2,173)**	**(3,544)**	**(2,044)**
o/w Capital expenditure	(1,758)	(1,838)	(2,139)	(3,544)	(2,044)
as % of sales	*37.4%*	*37.5%*	*38.2%*	*61.7%*	*33.8%*
Cash flow from financing activities	**(248)**	**956**	**530**	**472**	**1,237**
o/w Dividends paid	(322)	(400)	(413)	(426)	(516)
o/w Net debt issued/(repaid)	82	31	731	850	850
Net change in cash	**(23)**	**(31)**	**(33)**	**(1,476)**	**1,110**
Adj. Free cash flow to firm	**(351)**	**(338)**	**(250)**	**(1,622)**	**216**
y/y Growth	*(469.3%)*	*(3.7%)*	*(26.0%)*	*547.9%*	*(113.3%)*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	76.4%	71.6%	67.7%	69.4%	70.9%
EBITDA margin	38.9%	37.8%	36.3%	38.7%	41.3%
EBIT margin	22.6%	22.5%	21.5%	23.1%	25.7%
Net profit margin	10.8%	11.7%	11.4%	12.1%	14.1%
ROE	8.6%	8.7%	8.5%	8.7%	9.7%
ROA	2.3%	2.5%	2.6%	2.6%	2.9%
ROCE	5.6%	5.6%	5.5%	5.4%	5.8%
SG&A/Sales	38.2%	34.6%	31.7%	30.7%	29.6%
Net debt/equity	1.6	1.3	1.3	1.6	1.3
P/E (x)	18.5	17.9	16.9	15.9	13.9
P/BV (x)	1.6	1.4	1.3	1.4	1.3
EV/EBITDA (x)	9.1	9.2	8.8	9.4	8.5
Dividend Yield	3.4%	3.6%	3.8%	4.1%	4.3%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	4.9	5.4	5.9	5.5	5.8
Operating leverage	(22.1%)	87.0%	65.3%	385.6%	332.4%
Revenue y/y Growth	(9.4%)	4.3%	14.4%	2.5%	5.2%
EBITDA y/y Growth	3.8%	1.4%	9.8%	9.3%	12.2%
Tax rate	18.3%	17.4%	19.3%	19.2%	20.1%
Adj. Net Income y/y Growth	2.6%	12.6%	12.3%	8.8%	21.8%
EPS y/y Growth	(0.0%)	3.7%	5.8%	6.5%	14.3%
DPS y/y Growth	5.0%	4.8%	6.8%	6.0%	6.0%

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

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New Jersey Resources: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**1,954**	**2,157**	**2,743**	**2,731**	**2,786**
COGS	(1,305)	(1,352)	(1,816)	(1,816)	(1,816)
Gross profit	**649**	**805**	**927**	**915**	**970**
SG&A	(278)	(367)	**(337)**	**(342)**	**(348)**
Adj. EBITDA	**336**	**400**	**530**	**514**	**563**
D&A	(120)	(111)	(128)	(147)	(164)
Adj. EBIT	**216**	**288**	**402**	**366**	**398**
Net Interest	(68)	(79)	(82)	(91)	(97)
Adj. PBT	**173**	**234**	**338**	**302**	**334**
Tax	7	(33)	(80)	(70)	(77)
Minority Interest	14	(83)	7	3	3
Adj. Net Income	**196**	**208**	**238**	**235**	**259**
Reported EPS	2.07	2.16	2.47	2.44	2.70
Adj. EPS	**2.07**	**2.16**	**2.47**	**2.44**	**2.70**
DPS	**1.25**	**1.33**	**1.45**	**1.56**	**1.67**
Payout ratio	60.4%	61.7%	58.6%	64.0%	62.0%
Shares outstanding	95	96	96	96	96

Income Statement - Quarterly	1Q22A	2Q22A	3Q22A	4Q22E
Revenue	**676A**	**912A**	**552A**	**603**
COGS	(403)A	(625)A	(393)A	(395)
Gross profit	**273A**	**287A**	**159A**	**208**
SG&A	(69)A	(86)A	(88)A	(94)
Adj. EBITDA	**187A**	**170A**	**63A**	**110**
D&A	(30)A	(31)A	(33)A	(33)
Adj. EBIT	**157A**	**139A**	**30A**	**76**
Net Interest	(19)A	(19)A	(21)A	(22)
Adj. PBT	**142A**	**124A**	**13A**	**60**
Tax	(31)A	(29)A	(4)A	(16)
Minority Interest	1A	1A	5A	1
Adj. Net Income	**66A**	**130A**	**(4)A**	**45**
Reported EPS	0.69A	1.36A	(0.04)A	0.47
Adj. EPS	**0.69A**	**1.36A**	**(0.04)A**	**0.47**
DPS	**0.36A**	**0.36A**	**0.36A**	**0.36**
Payout ratio	52.9%A	26.7%A	NMA	76.9%
Shares outstanding	96A	96A	96A	96

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	119	6	0	0	0
Accounts receivable	143	223	283	283	283
Other current assets	362	406	436	467	496
Current assets	**625**	**636**	**719**	**750**	**779**
PP&E	3,983	4,214	4,640	5,108	5,531
Other non current assets	962	873	879	698	464
Total assets	**5,570**	**5,722**	**6,238**	**6,556**	**6,775**
Short term borrowings	153	450	412	511	572
Payables	238	395	129	129	129
Other short term liabilities	143	206	445	445	445
Current liabilities	**534**	**1,051**	**986**	**1,085**	**1,147**
Long-term debt	2,259	2,162	2,555	2,619	2,601
Other long term liabilities	932	878	915	985	1,062
Total liabilities	**3,725**	**4,091**	**4,456**	**4,689**	**4,810**
Shareholders' equity	1,845	1,631	1,783	1,867	1,965
Minority interests	-	-	-	-	-
Total liabilities & equity	**5,570**	**5,722**	**6,238**	**6,556**	**6,775**
BVPS	**19.23**	**16.90**	**18.52**	**19.40**	**20.41**
y/y Growth	*11.5%*	*(12.1%)*	*9.6%*	*4.7%*	*5.2%*
Net debt/(cash)	2,293	2,606	2,966	3,130	3,173
Cash flow from operating activities	**213**	**391**	**324**	**421**	**472**
o/w Depreciation & amortization	120	111	128	147	164
o/w Changes in working capital	(8)	10	(104)	(31)	(29)
Cash flow from investing activities	**(994)**	**(622)**	**(568)**	**(615)**	**(588)**
o/w Capital expenditure	(470)	(625)	(574)	(615)	(588)
as % of sales	*24.1%*	*29.0%*	*20.9%*	*22.5%*	*21.1%*
Cash flow from financing activities	**896**	**118**	**222**	**170**	**158**
o/w Dividends paid	(118)	(117)	(131)	(151)	(162)
o/w Net debt issued/(repaid)	640	(18)	326	140	85
Net change in cash	**115**	**(113)**	**(23)**	**(24)**	**42**
Adj. Free cash flow to firm	**(192)**	**(166)**	**(188)**	**(123)**	**(42)**
y/y Growth	*(36.0%)*	*(13.3%)*	*13.2%*	*(34.5%)*	*(66.3%)*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	33.2%	37.3%	33.8%	33.5%	34.8%
EBITDA margin	17.2%	18.5%	19.3%	18.8%	20.2%
EBIT margin	11.1%	13.4%	14.6%	13.4%	14.3%
Net profit margin	10.0%	9.6%	8.7%	8.6%	9.3%
ROE	11.6%	12.0%	13.9%	12.9%	13.5%
ROA	3.9%	3.7%	4.0%	3.7%	3.9%
ROCE	5.6%	5.8%	6.8%	5.8%	6.0%
SG&A/Sales	14.2%	17.0%	12.3%	12.5%	12.5%
Net debt/equity	1.2	1.6	1.7	1.7	1.6
P/E (x)	20.3	19.5	17.0	17.3	15.6
P/BV (x)	2.2	2.5	2.3	2.2	2.1
EV/EBITDA (x)	17.1	15.3	12.2	13.0	11.9
Dividend Yield	3.0%	3.2%	3.4%	3.7%	4.0%
Sales/Assets (x)	0.4	0.4	0.5	0.4	0.4
Interest cover (x)	5.0	5.1	6.5	5.6	5.8
Operating leverage	(164.7%)	320.2%	144.6%	1978.3%	433.5%
Revenue y/y Growth	(24.6%)	10.4%	27.2%	(0.4%)	2.0%
EBITDA y/y Growth	36.9%	18.9%	32.6%	(3.1%)	9.5%
Tax rate	4.0%	14.2%	23.5%	23.2%	23.2%
Adj. Net Income y/y Growth	12.2%	5.8%	14.5%	(1.3%)	10.5%
EPS y/y Growth	5.6%	4.2%	14.7%	(1.4%)	10.5%
DPS y/y Growth	6.8%	6.4%	9.0%	7.6%	7.1%

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

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Southwest Gas Holdings Inc.: Summary of Financials

Income Statement - Annual	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**3,299**	**3,680**	**4,758**	**5,033**	**5,317**
COGS	(343)	(431)	(645)	(642)	(642)
Gross profit	**3,250**	**4,113**	**4,391**	**4,675**	**4,943**
SG&A	(2,208)	(2,512)	**(3,140)**	**(3,260)**	**(3,445)**
Adj. EBITDA	**748**	**737**	**973**	**1,131**	**1,230**
D&A	(332)	(371)	(469)	(486)	(502)
Adj. EBIT	**416**	**366**	**504**	**645**	**728**
Net Interest	(111)	(119)	(216)	(239)	(246)
Adj. PBT	**305**	**247**	**288**	**405**	**482**
Tax	(66)	(40)	(63)	(87)	(108)
Minority Interest	(7)	(6)	(4)	(6)	(6)
Adj. Net Income	**232**	**247**	**254**	**313**	**369**
Reported EPS	4.14	3.39	3.37	4.49	5.06
Adj. EPS	**4.14**	**4.17**	**3.86**	**4.49**	**5.06**
DPS	**2.26**	**2.36**	**2.46**	**2.56**	**2.66**
Payout ratio	54.4%	69.5%	72.9%	56.9%	52.4%
Shares outstanding	56	59	66	70	73

Income Statement - Quarterly	1Q22A	2Q22A	3Q22E	4Q22E
Revenue	**1,267A**	**1,146A**	**1,090**	**1,255**
COGS	(299)A	(148)A	(64)	(135)
Gross profit	**1,017A**	**1,071A**	**1,103**	**1,200**
SG&A	(676)A	(847)A	(821)	(796)
Adj. EBITDA	**292A**	**151A**	**206**	**324**
D&A	(123)A	(108)A	(117)	(121)
Adj. EBIT	**170A**	**43A**	**89**	**203**
Net Interest	(48)A	(53)A	(55)	(59)
Adj. PBT	**121A**	**(10)A**	**33**	**144**
Tax	(24)A	4A	(12)	(31)
Minority Interest	(1)A	(0)A	(1)	(1)
Adj. Net Income	**106A**	**16A**	**20**	**112**
Reported EPS	1.58A	(0.10)A	0.30	1.65
Adj. EPS	**1.74A**	**0.23A**	**0.30**	**1.65**
DPS	**0.60A**	**0.62A**	**0.62**	**0.62**
Payout ratio	37.6%A	NMA	209.1%	37.6%
Shares outstanding	61A	67A	67	68

Balance Sheet & Cash Flow Statement	FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	83	223	0	0	0
Accounts receivable	522	707	751	751	751
Other current assets	265	685	699	745	791
Current assets	**871**	**1,615**	**1,450**	**1,496**	**1,542**
PP&E	6,176	7,594	7,966	8,400	8,817
Other non current assets	1,689	3,556	3,476	3,413	3,370
Total assets	**8,736**	**12,765**	**12,891**	**13,308**	**13,729**
Short term borrowings	147	2,206	1,504	1,591	1,685
Payables	231	353	307	307	307
Other short term liabilities	533	552	540	540	540
Current liabilities	**912**	**3,112**	**2,350**	**2,437**	**2,531**
Long-term debt	2,732	4,116	4,396	4,271	4,081
Other long term liabilities	2,251	2,387	2,445	2,532	2,640
Total liabilities	**5,895**	**9,615**	**9,192**	**9,240**	**9,253**
Shareholders' equity	2,841	3,151	3,700	4,068	4,476
Minority interests	0	0	0	0	0
Total liabilities & equity	**8,736**	**12,765**	**12,891**	**13,308**	**13,729**
BVPS	**50.66**	**53.17**	**56.22**	**58.36**	**61.46**
y/y Growth	*6.2%*	*5.0%*	*5.7%*	*3.8%*	*5.3%*
Net debt/(cash)	2,796	6,099	5,900	5,861	5,766
Cash flow from operating activities	**626**	**111**	**687**	**903**	**975**
o/w Depreciation & amortization	332	371	469	486	502
o/w Changes in working capital	99	(443)	(105)	(46)	(46)
Cash flow from investing activities	**(802)**	**(3,036)**	**(798)**	**(920)**	**(920)**
o/w Capital expenditure	(825)	(716)	(800)	(920)	(920)
as % of sales	*25.0%*	*19.4%*	*16.8%*	*18.3%*	*17.3%*
Cash flow from financing activities	**210**	**3,063**	**86**	**140**	**51**
o/w Dividends paid	(126)	(138)	(161)	(178)	(193)
o/w Net debt issued/(repaid)	306	1,208	352	85	11
Net change in cash	**34**	**139**	**(26)**	**124**	**106**
Adj. Free cash flow to firm	**(112)**	**(504)**	**55**	**171**	**246**
y/y Growth	*(68.2%)*	*351.8%*	*(110.9%)*	*212.1%*	*43.6%*

Ratio Analysis	FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	98.5%	111.8%	92.3%	92.9%	93.0%
EBITDA margin	22.7%	20.0%	20.4%	22.5%	23.1%
EBIT margin	12.6%	9.9%	10.6%	12.8%	13.7%
Net profit margin	7.0%	6.7%	5.3%	6.2%	6.9%
ROE	8.6%	8.2%	7.4%	8.1%	8.6%
ROA	2.7%	2.3%	2.0%	2.4%	2.7%
ROCE	5.9%	4.0%	4.1%	5.2%	5.6%
SG&A/Sales	66.9%	68.3%	66.0%	64.8%	64.8%
Net debt/equity	1.0	1.9	1.6	1.4	1.3
P/E (x)	17.0	16.9	18.2	15.7	13.9
P/BV (x)	1.4	1.3	1.3	1.2	1.1
EV/EBITDA (x)	9.4	14.4	11.2	9.9	9.2
Dividend Yield	3.2%	3.3%	3.5%	3.6%	3.8%
Sales/Assets (x)	0.4	0.3	0.4	0.4	0.4
Interest cover (x)	6.7	6.2	4.5	4.7	5.0
Operating leverage	156.7%	(104.2%)	128.7%	483.3%	229.0%
Revenue y/y Growth	5.7%	11.6%	29.3%	5.8%	5.6%
EBITDA y/y Growth	9.2%	(1.5%)	32.0%	16.2%	8.8%
Tax rate	21.6%	16.1%	21.7%	21.4%	22.4%
Adj. Net Income y/y Growth	8.6%	6.2%	2.9%	23.3%	17.8%
EPS y/y Growth	5.2%	0.5%	(7.4%)	16.4%	12.7%
DPS y/y Growth	4.6%	4.4%	4.2%	4.1%	3.9%

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

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Atmos Energy (ATO, ATO US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Dec 18, 2006. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
15-Jan-20	OW	112.81	119
03-Mar-20	OW	107.89	115
21-Apr-20	OW	102.53	119
25-May-20	OW	98.33	113
23-Jul-20	OW	104.03	109
07-Aug-20	OW	104.70	112
23-Oct-20	OW	96.64	110
20-Nov-20	OW	95.10	114
29-Jan-21	OW	88.57	108
22-Apr-21	OW	103.39	116
30-Jun-21	OW	96.41	107
11-Aug-21	OW	100.89	114
12-Oct-21	OW	89.11	102
02-Dec-21	OW	89.43	103
04-Jan-22	OW	105.01	119
18-Jan-22	OW	106.05	120
03-Mar-22	OW	111.14	123
13-Apr-22	OW	120.20	129
11-May-22	OW	113.11	126
25-Jul-22	OW	113.35	122
05-Sep-22	OW	114.55	128

NiSource Inc. (NI, NI US) Price Chart

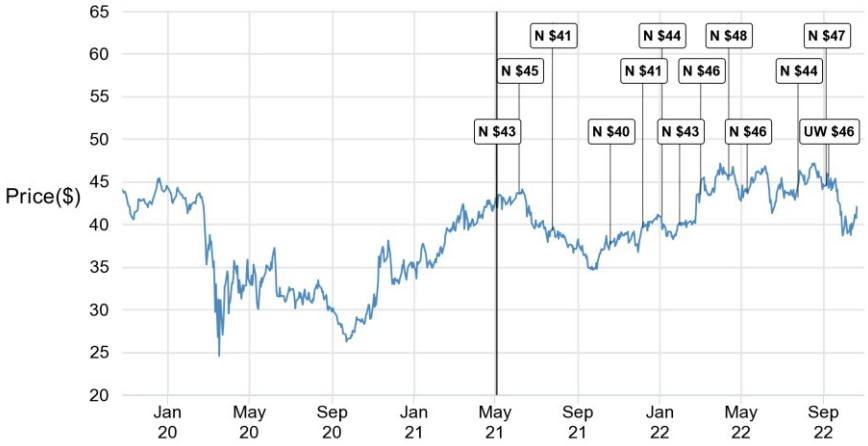


Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
15-Jan-20	OW	28.18	31
09-Apr-20	OW	25.47	29
01-Jul-20	OW	22.74	26
21-Sep-20	OW	21.98	25
23-Oct-20	OW	24.04	26
29-Jan-21	OW	22.17	25
22-Feb-21	OW	22.84	24
22-Apr-21	OW	26.03	28
31-Aug-21	OW	24.76	29
14-Oct-21	OW	24.69	28
04-Jan-22	OW	27.52	31
26-Jan-22	OW	27.14	30
03-Mar-22	OW	29.19	32
18-Apr-22	OW	31.75	34
11-May-22	OW	29.32	33
25-Jul-22	OW	28.44	31
05-Sep-22	OW	29.55	34

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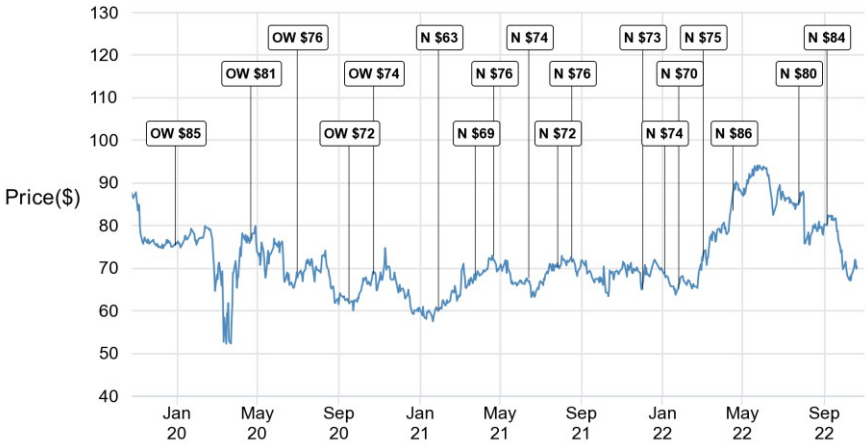
New Jersey Resources (NJR, NJR US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Dec 15, 2006. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
03-May-21	N	41.95	43
06-Jun-21	N	43.67	45
26-Jul-21	N	39.28	41
20-Oct-21	N	37.60	40
07-Dec-21	N	39.70	41
04-Jan-22	N	40.87	44
31-Jan-22	N	39.92	43
03-Mar-22	N	43.53	46
13-Apr-22	N	45.71	48
11-May-22	N	43.85	46
25-Jul-22	N	43.19	44
05-Sep-22	N	44.50	47
09-Sep-22	UW	45.64	46

Southwest Gas Holdings Inc. (SWX, SWX US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Dec 15, 2006. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
30-Dec-19	OW	75.24	85
22-Apr-20	OW	77.05	81
01-Jul-20	OW	69.05	76
16-Sep-20	OW	62.32	72
23-Oct-20	OW	68.53	74
29-Jan-21	N	60.33	63
26-Mar-21	N	68.51	69
22-Apr-21	N	72.96	76
14-Jun-21	N	67.67	74
27-Jul-21	N	70.26	72
18-Aug-21	N	72.63	76
02-Dec-21	N	64.99	73
04-Jan-22	N	68.83	74
26-Jan-22	N	65.18	70
03-Mar-22	N	72.59	75
18-Apr-22	N	83.50	86
25-Jul-22	N	85.12	80
05-Sep-22	N	80.33	84

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Completed 24 Oct 2022 11:03 AM EDT

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NiSource Inc NI ★★★★ 29 Sep 2022 21:19, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
25.97 USD	32.00 USD	0.81	10.54 USD Bil	Narrow	Stable	Low	Standard	
29 Sep 2022	24 Aug 2022 19:55, UTC		29 Sep 2022					7 Sep 2022 05:00, UTC

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Business Description
Financials
Research Methodology for Valuing Companies

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

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

NiSource Initiates Critical Electric Rate Review in Indiana

Analyst Note Travis Miller, Strategist, 30 Sep 2022

We are reaffirming our $32 fair value estimate for NiSource after the company initiated a long-anticipated electric rate review in Indiana. We are also reaffirming our narrow moat and stable moat trend ratings.

NiSource remains one of our top picks in the utilities sector in part because we think that Indiana utility rate regulation will remain constructive as the company executes its capital investment growth plan. The stock trades at a 19% discount to our fair value estimate as of Sept. 29, making it one of the cheapest U.S. utilities in our coverage. Its 3.6% dividend yield is in line with peers'.

Last week, NiSource requested a $218 million net revenue increase effective September 2023 along with other ratemaking changes that would improve cash recovery of operating and capital costs. NiSource's request includes a 10.4% allowed return on equity, which is about 100 basis points higher than other state regulators have allowed recently. We assume regulators approve $180 million of rate increases in two steps through 2024 based on NiSource's current 9.75% allowed ROE.

The outcome of this proceeding will largely determine whether NiSource hits the high end or low end of management's 7%-9% annual average earnings growth range through 2024. NiSource faces extra regulatory risk as customers face higher energy costs. This could make regulators hesitant to approve a large base rate increase.

We continue to assume NiSource invests $8 billion of capital in 2022-24, including $2 billion in renewable energy. We expect the company will be able to keep a similar level of growth investment beyond 2024, supporting our 8% average annual earnings growth forecast.

Financial Summary and Key Statistics

	Actual		Forecast	
	2020	2021	2022	2023
Revenue (USD Mil)	4,682	4,900	5,180	5,429
Revenue Growth %	-10.1	4.7	5.7	4.8
Operating Income (Mil)	551	1,007	1,169	1,333
Operating Margin %	11.8	20.5	22.6	24.6
Adjusted EBITDA (Mil)	1,277	1,755	1,959	2,173
Adjusted EBITDA Margin %	27.3	35.8	37.8	40.0
Earnings Per Share (Diluted) (USD)	-0.97	1.27	1.46	1.57
Adjusted Earnings Per Share (Diluted) (USD)	1.32	1.37	1.46	1.57
Adjusted EPS Growth %	0.3	3.8	6.5	7.5
Price/Earnings	17.4	20.2	17.8	16.5
Price/Book	1.5	1.7	1.5	1.3
EV/EBITDA	16.0	12.8	11.3	10.2
Free Cash Flow Yield %	-7.3	-5.5	-11.3	-15.6

Source: Morningstar Valuation Model. Data as of 30 Sep 2022.

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NiSource Inc NI ★★★★ 29 Sep 2022 21:19, UTC

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25.97 USD 29 Sep 2022	32.00 USD 24 Aug 2022 19:55, UTC	0.81	10.54 USD Bil 29 Sep 2022	Narrow	Stable	Low	Standard	7 Sep 2022 05:00, UTC

Sector

Utilities

Industry

Utilities - Regulated Gas

Business Description

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewable energy.

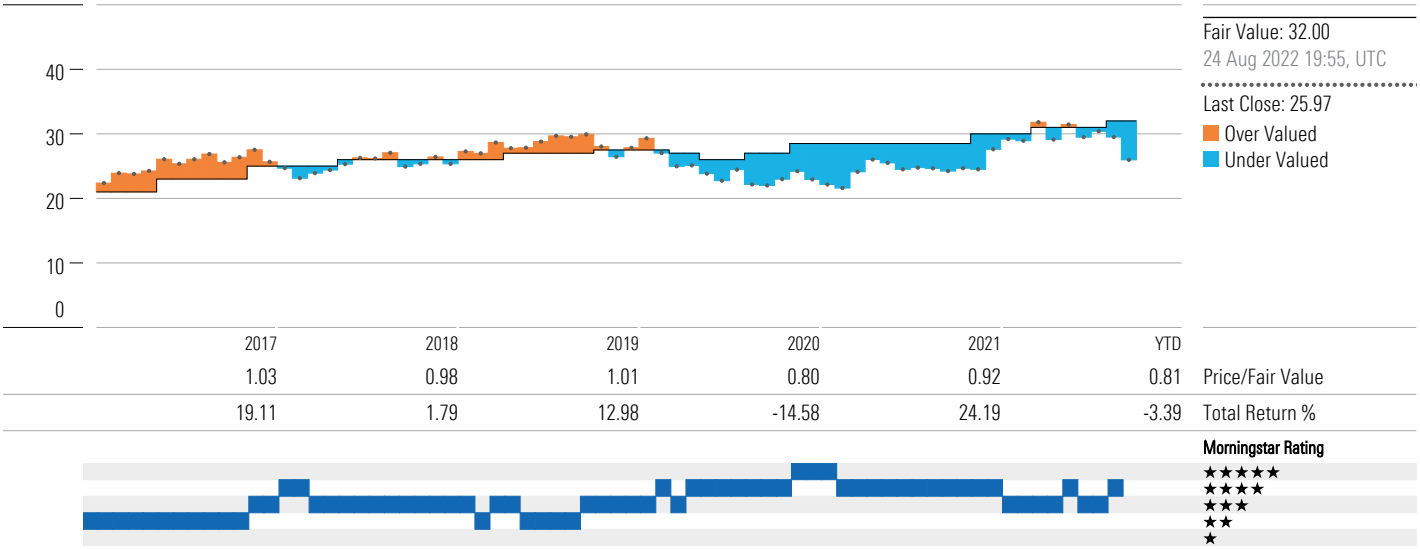
We also expect new CEO Lloyd Yates to announce the outcome of his strategic review, possibly at NiSource's investor day Nov. 7. The recent market drop and rise in interest rates could make it less likely that NiSource will divest its gas utilities. MI

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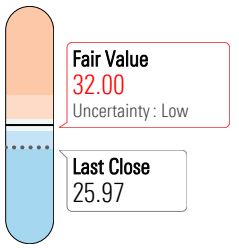
NiSource Inc NI ★★★★ 29 Sep 2022 21:19, UTC

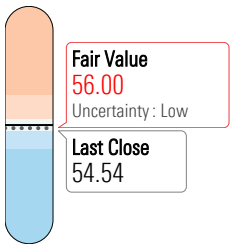
Price vs. Fair Value

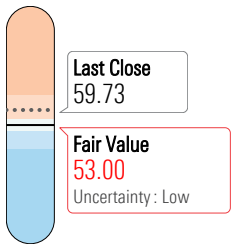


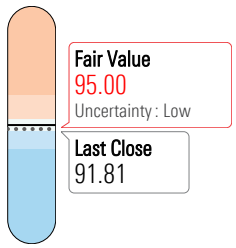
	2017	2018	2019	2020	2021	YTD	
	1.03	0.98	1.01	0.80	0.92	0.81	Price/Fair Value
	19.11	1.79	12.98	-14.58	24.19	-3.39	Total Return %

Competitors









	NiSource Inc NI	Alliant Energy Corp LNT	CMS Energy Corp CMS	WEC Energy Group Inc WEC
Economic Moat	Narrow	Narrow	Narrow	Narrow
Moat Trend	Stable	Stable	Stable	Stable
Currency	USD	USD	USD	USD
Fair Value	32.00 24 Aug 2022 19:55, UTC	56.00 8 Aug 2022 21:05, UTC	53.00 4 May 2022 14:57, UTC	95.00 3 Aug 2022 04:18, UTC
1-Star Price	40.00	70.00	66.25	118.75
5-Star Price	25.60	44.80	42.40	76.00
Morningstar Rating	★★★★29 Sep 2022 21:19, UTC	★★★29 Sep 2022 21:19, UTC	★★29 Sep 2022 21:19, UTC	★★★29 Sep 2022 21:19, UTC
Analyst	Travis Miller, Strategist	Andrew Bischof, Senior Equity Analyst	Travis Miller, Strategist	Andrew Bischof, Senior Equity Analyst
Capital Allocation	Standard	Standard	Standard	Exemplary
Price/Fair Value	0.81	0.97	1.13	0.97
Price/Sales	2.08	3.45	2.15	3.23
Price/Book	1.86	2.23	2.52	2.56
Price/Earnings	16.97	19.69	22.63	21.25
Dividend Yield	3.56%	3.09%	3.04%	3.12%
Market Cap	10.54 Bil	13.69 Bil	17.33 Bil	28.96 Bil
52-Week Range	24.02—32.59	54.20—65.37	58.81—73.76	86.84—108.39
Investment Style	Mid Core	Mid Core	Mid Core	Mid Core

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29 Sep 2022	24 Aug 2022 19:55, UTC		29 Sep 2022					7 Sep 2022 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 30 Sep 2022

Fiscal Year, ends 31 Dec	Actual 2019	2020	2021	Forecast 2022	2023	2024	2025	2026
Revenue (USD Mil)	5,209	4,682	4,900	5,180	5,429	5,747	5,993	6,139
Operating Income (USD Mil)	891	551	1,007	1,169	1,333	1,560	1,705	1,790
EBITDA (USD Mil)	1,311	978	1,755	1,959	2,173	2,460	2,675	2,790
Adjusted EBITDA (USD Mil)	1,608	1,277	1,755	1,959	2,173	2,460	2,675	2,790
Net Income (USD Mil)	31	-372	530	633	693	810	904	961
Adjusted Net Income (USD Mil)	495	507	572	633	693	810	904	961
Free Cash Flow To The Firm (USD Mil)	-504	457	-765	-284	-1,336	-235	493	759
Weighted Average Diluted Shares Outstanding (Mil)	376	384	417	434	442	446	447	449
Earnings Per Share (Diluted) (USD)	0.08	-0.97	1.27	1.46	1.57	1.82	2.02	2.14
Adjusted Earnings Per Share (Diluted) (USD)	1.32	1.32	1.37	1.46	1.57	1.82	2.02	2.14
Dividends Per Share (USD)	0.79	0.84	0.83	0.94	1.00	1.06	1.14	1.22

Margins & Returns as of 30 Sep 2022

	3 Year Avg	Actual 2019	2020	2021	Forecast 2022	2023	2024	2025	2026	5 Year Avg
Operating Margin %	16.5	17.1	11.8	20.5	22.6	24.6	27.2	28.4	29.2	26.4
EBITDA Margin %	—	25.2	20.9	35.8	37.8	40.0	42.8	44.6	45.4	—
Adjusted EBITDA Margin %	31.3	30.9	27.3	35.8	37.8	40.0	42.8	44.6	45.4	42.2
Net Margin %	1.2	0.6	-7.9	10.8	12.2	12.8	14.1	15.1	15.7	14.0
Adjusted Net Margin %	10.7	9.5	10.8	11.7	12.2	12.8	14.1	15.1	15.7	14.0
Free Cash Flow To The Firm Margin %	-5.2	-9.7	9.8	-15.6	-5.5	-24.6	-4.1	8.2	12.4	-2.7

Growth & Ratios as of 30 Sep 2022

	3 Year CAGR	Actual 2019	2020	2021	Forecast 2022	2023	2024	2025	2026	5 Year CAGR
Revenue Growth %	-1.4	1.8	-10.1	4.7	5.7	4.8	5.9	4.3	2.4	4.6
Operating Income Growth %	100.6	614.3	-38.2	82.8	16.1	14.0	17.0	9.3	4.9	12.2
EBITDA Growth %	0.0	—	—	—	—	—	—	—	—	0.0
Adjusted EBITDA Growth %	34.3	122.0	-20.6	37.5	11.6	10.9	13.2	8.8	4.3	9.7
Earnings Per Share Growth %	1.8	—	—	—	—	—	—	—	—	9.4
Adjusted Earnings Per Share Growth %	1.8	1.2	0.3	3.8	6.5	7.5	15.8	11.3	6.0	9.4

Valuation as of 30 Sep 2022

	Actual 2019	2020	2021	Forecast 2022	2023	2024	2025	2026
Price/Earnings	21.1	17.4	20.2	17.8	16.5	14.3	12.9	12.1
Price/Sales	2.0	1.9	2.3	2.0	1.9	1.8	1.8	1.7
Price/Book	1.7	1.5	1.7	1.5	1.3	1.2	1.2	1.1
Price/Cash Flow	-48.6	-13.7	-18.0	-8.9	-6.4	-17.5	105.9	30.0
EV/EBITDA	13.0	16.0	12.8	11.3	10.2	9.0	8.3	7.9
EV/EBIT	23.5	37.1	22.3	18.9	16.6	14.2	13.0	12.4
Dividend Yield %	2.8	3.7	3.0	3.6	3.9	4.1	4.4	4.7
Dividend Payout %	956.7	-86.5	65.2	64.5	63.8	58.4	56.4	57.0
Free Cash Flow Yield %	-2.1	-7.3	-5.5	-11.3	-15.6	-5.7	0.9	3.3

Operating Performance / Profitability as of 30 Sep 2022

Fiscal Year, ends 12-31-2021	Actual 2019	2020	2021	Forecast 2022	2023	2024	2025	2026
ROA %	0.1	-1.7	2.3	2.6	2.6	2.8	3.0	3.1
ROE %	0.6	-7.4	10.3	11.1	11.1	12.1	12.7	12.6
ROIC %	4.5	2.1	4.6	4.9	5.2	5.4	5.4	5.3

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29 Sep 2022	24 Aug 2022 19:55, UTC		29 Sep 2022					7 Sep 2022 05:00, UTC

Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Dec	2019	2020	2021	2022	2023	2024	2025	2026
Debt/Capital %	61.7	62.9	58.5	58.6	57.0	58.1	57.8	57.2
Assets/Equity	3.8	3.8	3.5	3.4	3.2	3.2	3.2	3.1
Net Debt/EBITDA	7.2	9.8	5.5	5.4	5.4	5.2	5.0	4.9
Total Debt/EBITDA	6.0	7.6	5.6	5.5	5.4	5.2	5.0	4.9
EBITDA/ Net Interest Expense	4.2	3.4	5.1	5.2	5.2	5.1	5.2	5.3

Forecast Revisions as of 30 Sep 2022	2022		2023		2024	
Prior data as of 24 Aug 2022	Current	Prior	Current	Prior	Current	Prior
Fair Value Estimate Change (Trading Currency)	32.00	32.00	—	—	—	—
Revenue (USD Mil)	5,180	5,180	5,429	5,419	5,747	5,792
Operating Income (USD Mil)	1,169	1,169	1,333	1,323	1,560	1,605
EBITDA (USD Mil)	1,959	1,959	2,173	2,163	2,460	2,505
Net Income (USD Mil)	633	633	693	685	810	848
Earnings Per Share (Diluted) (USD)	1.46	1.46	1.57	1.55	1.82	1.90
Adjusted Earnings Per Share (Diluted) (USD)	1.46	1.46	1.57	1.55	1.82	1.90
Dividends Per Share (USD)	0.94	0.94	1.00	1.00	1.06	1.06

Key Valuation Drivers as of 30 Sep 2022

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	5.8
Long-Run Tax Rate %	26.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	62.5
Perpetuity Year	15

Additional estimates and scenarios available for download at https://pitchbook.com/.

Discounted Cash Flow Valuation as of 30 Sep 2022

	USD Mil
Present Value Stage I	-694
Present Value Stage II	4,339
Present Value Stage III	20,222
Total Firm Value	**23,867**
Cash and Equivalents	95
Debt	-9,802
Other Adjustments	897
Equity Value	**13,511**
Projected Diluted Shares	439
Fair Value per Share (USD)	**32.00**

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NiSource Inc NI ★★★★ 29 Sep 2022 21:19, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
25.97 USD	32.00 USD	0.81	10.54 USD Bil	Narrow	Stable	Low	Standard	
29 Sep 2022	24 Aug 2022 19:55, UTC		29 Sep 2022					7 Sep 2022 05:00, UTC

Income Statement (USD)	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Revenue (Mil)	**5,209**	**4,682**	**4,900**	**5,180**	**5,429**	**5,747**	**5,993**	**6,139**
Cost of Goods Sold (Mil)	1,535	1,109	1,392	1,411	1,429	1,443	1,458	1,472
Gross Profit (Mil)	**3,674**	**3,572**	**3,507**	**3,770**	**4,000**	**4,304**	**4,535**	**4,667**
Selling, General, Administrative & Other Expenses (Mil)	1,355	1,586	1,456	1,502	1,517	1,532	1,548	1,563
Advertising & Marketing Expenses	—	—	—	—	—	—	—	—
Research & Development	—	—	—	—	—	—	—	—
Depreciation & Amortization (if reported separately) (Mil)	717	726	748	790	840	900	970	1,000
Adjusted Operating Income (Mil)	**891**	**551**	**1,007**	**1,169**	**1,333**	**1,560**	**1,705**	**1,790**
Financial Non-Cash (Gains)/Losses (Mil)	0	0	0	0	0	0	0	0
Irregular Cash (Gains)/Losses (Mil)	297	299	0	0	0	0	0	0
Operating Income (Mil)	**594**	**252**	**1,007**	**1,169**	**1,333**	**1,560**	**1,705**	**1,790**
Net Interest Expense (Mil)	384	582	300	346	405	471	504	520
Income Tax Expense (Mil)	124	-17	118	132	149	174	192	203
After-Tax Items (Mil)	-55	-55	-55	-55	-83	-101	-101	-101
(Minority Interest) (Mil)	0	-3	-4	-4	-4	-4	-4	-4
Net Income (Mil)	**31**	**-372**	**530**	**633**	**693**	**810**	**904**	**961**
Adjusted Net Income (Mil)	**495**	**507**	**572**	**633**	**693**	**810**	**904**	**961**
Weighted Average Diluted Shares Outstanding (Mil)	376	384	417	434	442	446	447	449
Diluted Earnings Per Share	**0.08**	**-0.97**	**1.27**	**1.46**	**1.57**	**1.82**	**2.02**	**2.14**
Diluted Adjusted Earnings Per Share	**1.32**	**1.32**	**1.37**	**1.46**	**1.57**	**1.82**	**2.02**	**2.14**
Dividends Per Common Share (USD)	0.79	0.84	0.83	0.94	1.00	1.06	1.14	1.22
EBITDA (Mil)	**1,311**	**978**	**1,755**	**1,959**	**2,173**	**2,460**	**2,675**	**2,790**
Adjusted EBITDA (Mil)	**1,608**	**1,277**	**1,755**	**1,959**	**2,173**	**2,460**	**2,675**	**2,790**

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29 Sep 2022	24 Aug 2022 19:55, UTC		29 Sep 2022					7 Sep 2022 05:00, UTC

Key Cash Flow Items (USD)	**Actual**			**Forecast** as of 30 Sep				
Fiscal Year, ends 31 Dec	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Cash from Working Capital (K)	178,400	-34,400	82,900	-216,189	57,888	-1,691	-35,537	-20,355
(Capital Expenditures) (K)	-1,802,400	-1,758,100	-1,838,000	-2,620,000	-3,520,000	-2,620,000	-2,020,000	-1,820,000
Depreciation (K)	717,400	725,900	748,400	790,000	840,000	900,000	970,000	1,000,000
Amortization (K)	—	—	—	—	—	—	—	—
Net New (Investment), Organic (K)	**-1,280,100**	**-402,300**	**-1,717,600**	**-1,402,789**	**-2,622,112**	**-1,721,691**	**-1,085,537**	**-840,355**
(Purchases)/Sales of Companies & Assets (K)	0	0	700	0	0	0	0	0
Net New (Investment), Total (K)	**-1,280,100**	**-402,300**	**-1,716,900**	**-1,402,789**	**-2,622,112**	**-1,721,691**	**-1,085,537**	**-840,355**
Other Non-Cash Items, From Cash Flows (K)	413,800	653,000	4,900	0	0	0	0	0
Free Cash Flow to the Firm (K)	**-503,803**	**456,882**	**-764,964**	**-283,888**	**-1,336,032**	**-235,021**	**493,078**	**759,006**

Balance Sheet (USD)	**Actual**			**Forecast**				
Fiscal Year, ends 31 Dec	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Assets								
Cash and Equivalents (Mil)	148	126	95	92	76	45	78	125
Inventory (Mil)	425	401	499	502	470	475	479	484
Accounts Receivable (Mil)	857	791	826	880	863	866	903	925
Net Property, Plant and Equipment (Mil)	16,912	16,620	17,882	19,712	22,392	24,112	25,162	25,982
Goodwill (Mil)	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486
Other Intangibles (Mil)	0	0	0	0	0	0	0	0
Other Operating Assets (Mil)	2,438	2,136	2,788	2,150	2,150	2,150	2,150	2,150
Non-Operating Assets (Mil)	394	481	582	582	582	582	582	582
Total Assets (Mil)	**22,660**	**22,041**	**24,157**	**25,404**	**28,019**	**29,716**	**30,840**	**31,734**
Liabilities								
Accounts Payable (Mil)	666	589	698	618	626	633	639	645
Debt (Mil)	9,643	9,746	9,802	10,702	11,802	12,902	13,402	13,702
Other Operating Liabilities (Mil)	5,131	4,539	4,932	5,000	5,170	5,350	5,500	5,600
Non-Operating Liabilities (Mil)	1,234	1,329	1,452	1,452	1,452	1,452	1,452	1,452
Total Liabilities (Mil)	**16,673**	**16,203**	**16,884**	**17,772**	**19,050**	**20,337**	**20,993**	**21,399**
Equity								
Shareholders' Equity (Mil)	5,987	5,752	6,947	7,552	8,889	9,299	9,767	10,255
Minority Interest (Mil)	0	86	326	80	80	80	80	80
Total Equity (Mil)	**5,987**	**5,838**	**7,273**	**7,632**	**8,969**	**9,379**	**9,847**	**10,335**

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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, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

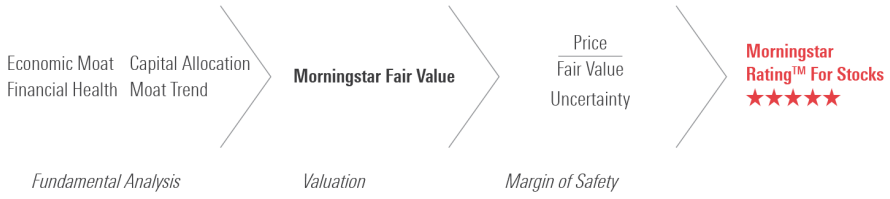
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is

Morningstar Equity Research Star Rating Methodology



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aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns.An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

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.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

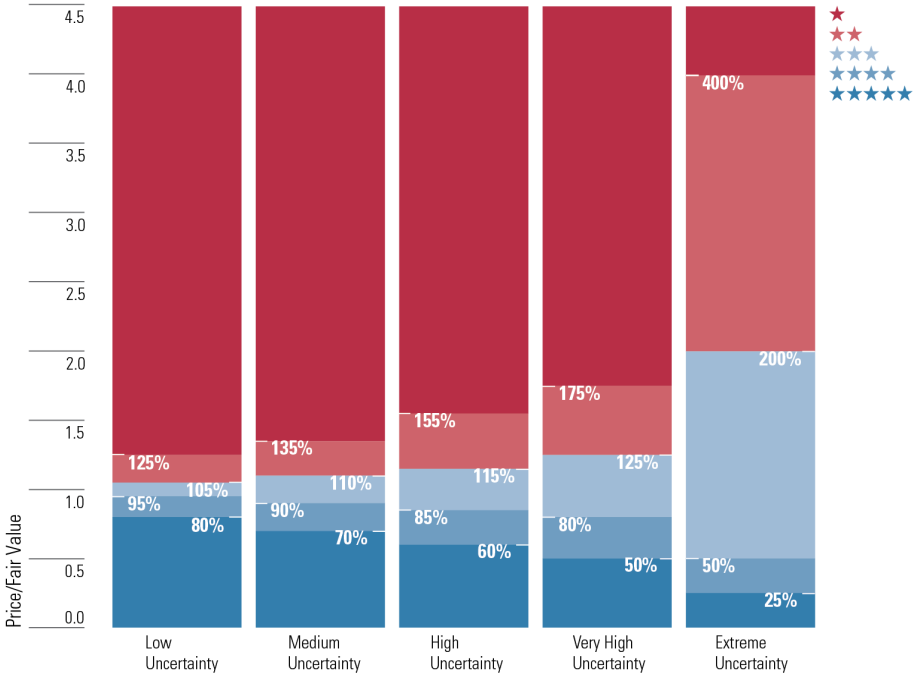
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. 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:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

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

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

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

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the

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quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

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Research Methodology for Valuing Companies

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NiSource Inc NI ★★★★★ 20 Oct 2022 07:15, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
24.88 USD	32.00 USD	0.78	10.10 USD Bil	Narrow	Stable	Low	Standard	
19 Oct 2022	24 Aug 2022 19:55, UTC		19 Oct 2022					5 Oct 2022 05:00, UTC

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[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

NiSource's Near-Term Growth Depends on Regulatory Outcomes in Ohio, Indiana

Analyst Note Travis Miller, Strategist, 20 Oct 2022

We are reaffirming our $32 fair value estimate, narrow moat, and stable moat trend ratings for NiSource after reviewing recent regulatory developments. NiSource remains one of our top utilities picks, trading at a 22% discount to our fair value estimate.

NiSource's regulatory risk will ramp up in 2023 and ultimately determine whether NiSource hits the high end or low end of management's 7%-9% annual average earnings growth range. We forecast 8% growth.

NiSource's largest utility, NIPSCO in Indiana, last month requested a $218 million electric rate increase with a decision likely next year. NiSource's second-largest utility, Columbia Gas of Ohio, last year requested a $221 million rate increase. Delayed hearings mean a decision this year is unlikely. The regulatory staff this summer proposed a rate increase between $35.2 million and $57.6 million.

Allowed returns on equity will be key in both cases. NiSource's 10.39% allowed ROE in Ohio and 9.75% allowed ROE in Indiana are above the sector average. We assume Ohio commissioners cut NiSource's allowed ROE to 10%, the high end of the regulatory staff's 9% to 10% proposed range but below NiSource's 11.5% request. We assume Indiana commissioners keep NiSource's electric allowed ROE at 9.75%, lower than its 10.4% request. Last year, Maryland regulators cut NiSource's allowed ROE to 9.65% from 10.85% and Kentucky regulators cut its allowed ROE to 9.35% from 10.3%, both in line with recent decisions for other utilities.

A critical issue in Ohio is the extension of its capital investment rate plans, which have helped NiSource avoid a

Financial Summary and Key Statistics

	Actual		Forecast	
	2020	2021	2022	2023
Revenue (USD Mil)	4,682	4,900	5,180	5,429
Revenue Growth %	-10.1	4.7	5.7	4.8
Operating Income (Mil)	551	1,007	1,169	1,333
Operating Margin %	11.8	20.5	22.6	24.6
Adjusted EBITDA (Mil)	1,277	1,755	1,959	2,173
Adjusted EBITDA Margin %	27.3	35.8	37.8	40.0
Earnings Per Share (Diluted) (USD)	-0.97	1.27	1.46	1.57
Adjusted Earnings Per Share (Diluted) (USD)	1.32	1.37	1.46	1.57
Adjusted EPS Growth %	0.3	3.8	6.5	7.5
Price/Earnings	17.4	20.2	17.0	15.8
Price/Book	1.5	1.7	1.4	1.2
EV/EBITDA	16.0	12.8	11.1	10.0
Free Cash Flow Yield %	-7.3	-5.5	-11.8	-16.3

Source: Morningstar Valuation Model. Data as of 30 Sep 2022.

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24.88 USD 19 Oct 2022	32.00 USD 24 Aug 2022 19:55, UTC	0.78	10.10 USD Bil 19 Oct 2022	Narrow	Stable	Low	Standard	5 Oct 2022 05:00, UTC

Sector

Utilities

Industry

Utilities - Regulated Gas

Business Description

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewable energy.

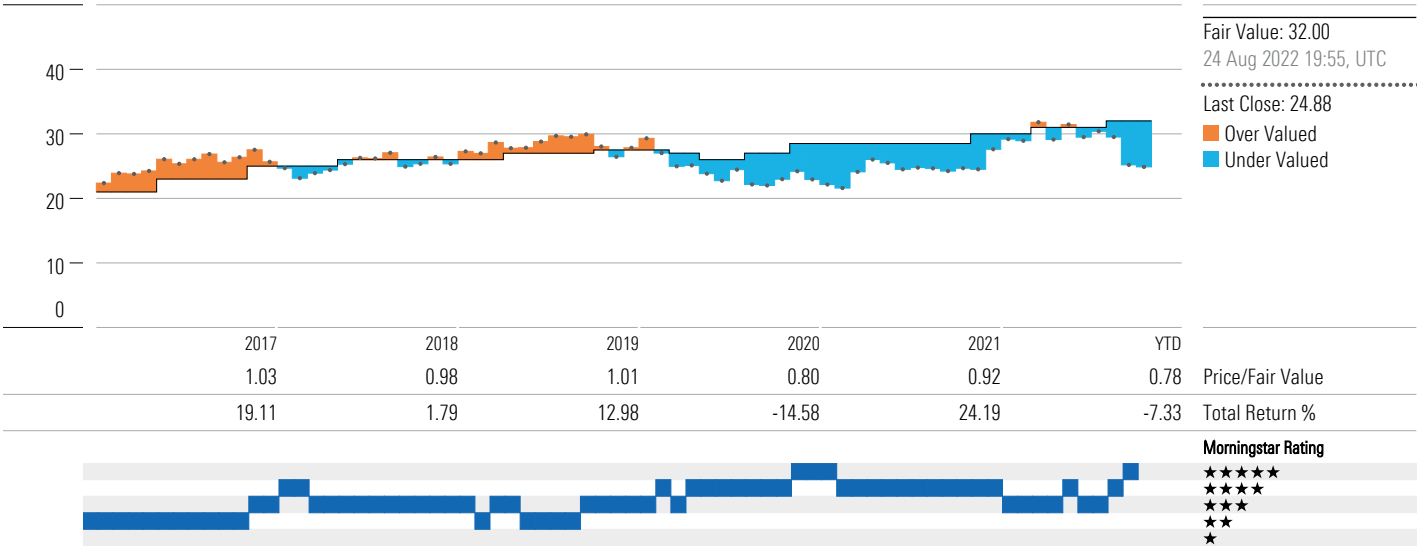
base rate review in Ohio since 2008. Similar rate plans at NiSource's other utilities are key to converting what we estimate will be $2 billion of annual growth investment into earnings growth beyond 2024. We think CEO Lloyd Yates will announce new growth opportunities and cost savings on Nov. 7. Gas utility divestures seem unlikely given the recent drop in utilities' valuations.

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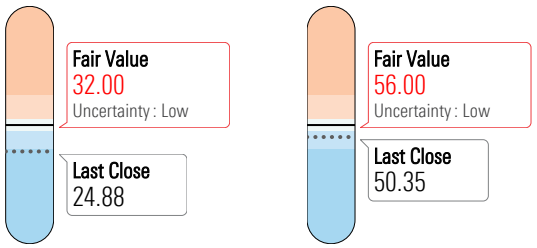
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Price vs. Fair Value



	2017	2018	2019	2020	2021	YTD	
	1.03	0.98	1.01	0.80	0.92	0.78	Price/Fair Value
	19.11	1.79	12.98	-14.58	24.19	-7.33	Total Return %

Competitors



	NiSource Inc NI	Alliant Energy Corp LNT	CMS Energy Corp CMS	WEC Energy Group Inc WEC
Economic Moat	Narrow	Narrow	Narrow	Narrow
Moat Trend	Stable	Stable	Stable	Stable
Currency	USD	USD	USD	USD
Fair Value	32.00 24 Aug 2022 19:55, UTC	56.00 8 Aug 2022 21:05, UTC	53.00 4 May 2022 14:57, UTC	95.00 3 Aug 2022 04:18, UTC
1-Star Price	40.00	70.00	66.25	118.75
5-Star Price	25.60	44.80	42.40	76.00
Assessment	Significantly Undervalued 19 Oct 2022	Under Valued 19 Oct 2022	Fairly Valued 19 Oct 2022	Under Valued 19 Oct 2022
Morningstar Rating	★★★★★ 20 Oct 2022 07:15, UTC	★★★★ 20 Oct 2022 07:15, UTC	★★★ 20 Oct 2022 07:15, UTC	★★★★ 20 Oct 2022 07:15, UTC
Analyst	Travis Miller, Strategist	Andrew Bischof, Senior Equity Analyst	Travis Miller, Strategist	Andrew Bischof, Senior Equity Analyst
Capital Allocation	Standard	Standard	Standard	Exemplary
Price/Fair Value	0.78	0.90	1.05	0.91
Price/Sales	1.99	3.19	2.00	3.05
Price/Book	1.78	2.06	2.35	2.42
Price/Earnings	16.26	18.18	21.07	20.09
Dividend Yield	3.72%	3.35%	3.26%	3.30%
Market Cap	10.10 Bil	12.63 Bil	16.14 Bil	27.37 Bil
52-Week Range	23.78—32.59	47.19—65.37	52.41—73.76	80.82—108.39
Investment Style	Mid Core	Mid Core	Mid Core	Mid Core

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19 Oct 2022	24 Aug 2022 19:55, UTC		19 Oct 2022					5 Oct 2022 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 30 Sep 2022

Fiscal Year, ends 31 Dec	Actual 2019	2020	2021	Forecast 2022	2023	2024	2025	2026
Revenue (USD Mil)	5,209	4,682	4,900	5,180	5,429	5,747	5,993	6,139
Operating Income (USD Mil)	891	551	1,007	1,169	1,333	1,560	1,705	1,790
EBITDA (USD Mil)	1,311	978	1,755	1,959	2,173	2,460	2,675	2,790
Adjusted EBITDA (USD Mil)	1,608	1,277	1,755	1,959	2,173	2,460	2,675	2,790
Net Income (USD Mil)	31	-372	530	633	693	810	904	961
Adjusted Net Income (USD Mil)	495	507	572	633	693	810	904	961
Free Cash Flow To The Firm (USD Mil)	-504	457	-765	-284	-1,336	-235	493	759
Weighted Average Diluted Shares Outstanding (Mil)	376	384	417	434	442	446	447	449
Earnings Per Share (Diluted) (USD)	0.08	-0.97	1.27	1.46	1.57	1.82	2.02	2.14
Adjusted Earnings Per Share (Diluted) (USD)	1.32	1.32	1.37	1.46	1.57	1.82	2.02	2.14
Dividends Per Share (USD)	0.79	0.84	0.83	0.94	1.00	1.06	1.14	1.22

Margins & Returns as of 30 Sep 2022

	3 Year Avg	Actual 2019	2020	2021	Forecast 2022	2023	2024	2025	2026	5 Year Avg
Operating Margin %	16.5	17.1	11.8	20.5	22.6	24.6	27.2	28.4	29.2	26.4
EBITDA Margin %	—	25.2	20.9	35.8	37.8	40.0	42.8	44.6	45.4	—
Adjusted EBITDA Margin %	31.3	30.9	27.3	35.8	37.8	40.0	42.8	44.6	45.4	42.2
Net Margin %	1.2	0.6	-7.9	10.8	12.2	12.8	14.1	15.1	15.7	14.0
Adjusted Net Margin %	10.7	9.5	10.8	11.7	12.2	12.8	14.1	15.1	15.7	14.0
Free Cash Flow To The Firm Margin %	-5.2	-9.7	9.8	-15.6	-5.5	-24.6	-4.1	8.2	12.4	-2.7

Growth & Ratios as of 30 Sep 2022

	3 Year CAGR	Actual 2019	2020	2021	Forecast 2022	2023	2024	2025	2026	5 Year CAGR
Revenue Growth %	-1.4	1.8	-10.1	4.7	5.7	4.8	5.9	4.3	2.4	4.6
Operating Income Growth %	100.6	614.3	-38.2	82.8	16.1	14.0	17.0	9.3	4.9	12.2
EBITDA Growth %	0.0	—	—	—	—	—	—	—	—	0.0
Adjusted EBITDA Growth %	34.3	122.0	-20.6	37.5	11.6	10.9	13.2	8.8	4.3	9.7
Earnings Per Share Growth %	1.8	—	—	—	—	—	—	—	—	9.4
Adjusted Earnings Per Share Growth %	1.8	1.2	0.3	3.8	6.5	7.5	15.8	11.3	6.0	9.4

Valuation as of 30 Sep 2022

	Actual 2019	2020	2021	Forecast 2022	2023	2024	2025	2026
Price/Earnings	21.1	17.4	20.2	17.0	15.8	13.7	12.3	11.6
Price/Sales	2.0	1.9	2.3	1.9	1.9	1.8	1.7	1.6
Price/Book	1.7	1.5	1.7	1.4	1.2	1.2	1.1	1.1
Price/Cash Flow	-48.6	-13.7	-18.0	-8.5	-6.1	-16.8	101.4	28.7
EV/EBITDA	13.0	16.0	12.8	11.1	10.0	8.8	8.1	7.8
EV/EBIT	23.5	37.1	22.3	18.5	16.3	13.9	12.7	12.1
Dividend Yield %	2.8	3.7	3.0	3.8	4.0	4.3	4.6	4.9
Dividend Payout %	956.7	-86.5	65.2	64.5	63.8	58.4	56.4	57.0
Free Cash Flow Yield %	-2.1	-7.3	-5.5	-11.8	-16.3	-5.9	1.0	3.5

Operating Performance / Profitability as of 30 Sep 2022

Fiscal Year, ends 31 Dec	Actual 2019	2020	2021	Forecast 2022	2023	2024	2025	2026
ROA %	0.1	-1.7	2.3	2.6	2.6	2.8	3.0	3.1
ROE %	0.6	-7.4	10.3	11.1	11.1	12.1	12.7	12.6
ROIC %	4.5	2.1	4.6	4.9	5.2	5.4	5.4	5.3

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Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Dec	2019	2020	2021	2022	2023	2024	2025	2026
Debt/Capital %	61.7	62.9	58.5	58.6	57.0	58.1	57.8	57.2
Assets/Equity	3.8	3.8	3.5	3.4	3.2	3.2	3.2	3.1
Net Debt/EBITDA	7.2	9.8	5.5	5.4	5.4	5.2	5.0	4.9
Total Debt/EBITDA	6.0	7.6	5.6	5.5	5.4	5.2	5.0	4.9
EBITDA/ Net Interest Expense	4.2	3.4	5.1	5.2	5.2	5.1	5.2	5.3

Forecast Revisions as of 30 Sep 2022	2022		2023		2024	
Prior data as of 24 Aug 2022	Current	Prior	Current	Prior	Current	Prior
Fair Value Estimate Change (Trading Currency)	32.00	32.00	—	—	—	—
Revenue (USD Mil)	5,180	5,180	5,429	5,419	5,747	5,792
Operating Income (USD Mil)	1,169	1,169	1,333	1,323	1,560	1,605
EBITDA (USD Mil)	1,959	1,959	2,173	2,163	2,460	2,505
Net Income (USD Mil)	633	633	693	685	810	848
Earnings Per Share (Diluted) (USD)	1.46	1.46	1.57	1.55	1.82	1.90
Adjusted Earnings Per Share (Diluted) (USD)	1.46	1.46	1.57	1.55	1.82	1.90
Dividends Per Share (USD)	0.94	0.94	1.00	1.00	1.06	1.06

Key Valuation Drivers as of 30 Sep 2022

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	5.8
Long-Run Tax Rate %	26.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	62.5
Perpetuity Year	15

Additional estimates and scenarios available for download at https://pitchbook.com/.

Discounted Cash Flow Valuation as of 30 Sep 2022

	USD Mil
Present Value Stage I	-694
Present Value Stage II	4,339
Present Value Stage III	20,222
Total Firm Value	**23,867**
Cash and Equivalents	95
Debt	-9,802
Other Adjustments	897
Equity Value	**13,511**
Projected Diluted Shares	439
Fair Value per Share (USD)	**32.00**

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NiSource Inc NI ★★★★★ 20 Oct 2022 07:15, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
24.88 USD	32.00 USD	0.78	10.10 USD Bil	Narrow	Stable	Low	Standard	
19 Oct 2022	24 Aug 2022 19:55, UTC		19 Oct 2022					5 Oct 2022 05:00, UTC

Income Statement (USD)	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Revenue (Mil)	**5,209**	**4,682**	**4,900**	**5,180**	**5,429**	**5,747**	**5,993**	**6,139**
Cost of Goods Sold (Mil)	1,535	1,109	1,392	1,411	1,429	1,443	1,458	1,472
Gross Profit (Mil)	**3,674**	**3,572**	**3,507**	**3,770**	**4,000**	**4,304**	**4,535**	**4,667**
Selling, General, Administrative & Other Expenses (Mil)	1,355	1,586	1,456	1,502	1,517	1,532	1,548	1,563
Advertising & Marketing Expenses	—	—	—	—	—	—	—	—
Research & Development	—	—	—	—	—	—	—	—
Depreciation & Amortization (if reported separately) (Mil)	717	726	748	790	840	900	970	1,000
Adjusted Operating Income (Mil)	**891**	**551**	**1,007**	**1,169**	**1,333**	**1,560**	**1,705**	**1,790**
Financial Non-Cash (Gains)/Losses (Mil)	0	0	0	0	0	0	0	0
Irregular Cash (Gains)/Losses (Mil)	297	299	0	0	0	0	0	0
Operating Income (Mil)	**594**	**252**	**1,007**	**1,169**	**1,333**	**1,560**	**1,705**	**1,790**
Net Interest Expense (Mil)	384	582	300	346	405	471	504	520
Income Tax Expense (Mil)	124	-17	118	132	149	174	192	203
After-Tax Items (Mil)	-55	-55	-55	-55	-83	-101	-101	-101
(Minority Interest) (Mil)	0	-3	-4	-4	-4	-4	-4	-4
Net Income (Mil)	**31**	**-372**	**530**	**633**	**693**	**810**	**904**	**961**
Adjusted Net Income (Mil)	**495**	**507**	**572**	**633**	**693**	**810**	**904**	**961**
Weighted Average Diluted Shares Outstanding (Mil)	376	384	417	434	442	446	447	449
Diluted Earnings Per Share	**0.08**	**-0.97**	**1.27**	**1.46**	**1.57**	**1.82**	**2.02**	**2.14**
Diluted Adjusted Earnings Per Share	**1.32**	**1.32**	**1.37**	**1.46**	**1.57**	**1.82**	**2.02**	**2.14**
Dividends Per Common Share (USD)	0.79	0.84	0.83	0.94	1.00	1.06	1.14	1.22
EBITDA (Mil)	**1,311**	**978**	**1,755**	**1,959**	**2,173**	**2,460**	**2,675**	**2,790**
Adjusted EBITDA (Mil)	**1,608**	**1,277**	**1,755**	**1,959**	**2,173**	**2,460**	**2,675**	**2,790**

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19 Oct 2022	24 Aug 2022 19:55, UTC		19 Oct 2022					5 Oct 2022 05:00, UTC

Key Cash Flow Items (USD)	**Actual**			**Forecast** as of 30 Sep				
Fiscal Year, ends 31 Dec	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Cash from Working Capital (K)	178,400	-34,400	82,900	-216,189	57,888	-1,691	-35,537	-20,355
(Capital Expenditures) (K)	-1,802,400	-1,758,100	-1,838,000	-2,620,000	-3,520,000	-2,620,000	-2,020,000	-1,820,000
Depreciation (K)	717,400	725,900	748,400	790,000	840,000	900,000	970,000	1,000,000
Amortization (K)	—	—	—	—	—	—	—	—
Net New (Investment), Organic (K)	**-1,280,100**	**-402,300**	**-1,717,600**	**-1,402,789**	**-2,622,112**	**-1,721,691**	**-1,085,537**	**-840,355**
(Purchases)/Sales of Companies & Assets (K)	0	0	700	0	0	0	0	0
Net New (Investment), Total (K)	**-1,280,100**	**-402,300**	**-1,716,900**	**-1,402,789**	**-2,622,112**	**-1,721,691**	**-1,085,537**	**-840,355**
Other Non-Cash Items, From Cash Flows (K)	413,800	653,000	4,900	0	0	0	0	0
Free Cash Flow to the Firm (K)	**-503,803**	**456,882**	**-764,964**	**-283,888**	**-1,336,032**	**-235,021**	**493,078**	**759,006**

Balance Sheet (USD)	**Actual**			**Forecast**				
Fiscal Year, ends 31 Dec	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Assets								
Cash and Equivalents (Mil)	148	126	95	92	76	45	78	125
Inventory (Mil)	425	401	499	502	470	475	479	484
Accounts Receivable (Mil)	857	791	826	880	863	866	903	925
Net Property, Plant and Equipment (Mil)	16,912	16,620	17,882	19,712	22,392	24,112	25,162	25,982
Goodwill (Mil)	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486
Other Intangibles (Mil)	0	0	0	0	0	0	0	0
Other Operating Assets (Mil)	2,438	2,136	2,788	2,150	2,150	2,150	2,150	2,150
Non-Operating Assets (Mil)	394	481	582	582	582	582	582	582
Total Assets (Mil)	**22,660**	**22,041**	**24,157**	**25,404**	**28,019**	**29,716**	**30,840**	**31,734**
Liabilities								
Accounts Payable (Mil)	666	589	698	618	626	633	639	645
Debt (Mil)	9,643	9,746	9,802	10,702	11,802	12,902	13,402	13,702
Other Operating Liabilities (Mil)	5,131	4,539	4,932	5,000	5,170	5,350	5,500	5,600
Non-Operating Liabilities (Mil)	1,234	1,329	1,452	1,452	1,452	1,452	1,452	1,452
Total Liabilities (Mil)	**16,673**	**16,203**	**16,884**	**17,772**	**19,050**	**20,337**	**20,993**	**21,399**
Equity								
Shareholders' Equity (Mil)	5,987	5,752	6,947	7,552	8,889	9,299	9,767	10,255
Minority Interest (Mil)	0	86	326	80	80	80	80	80
Total Equity (Mil)	**5,987**	**5,838**	**7,273**	**7,632**	**8,969**	**9,379**	**9,847**	**10,335**

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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, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

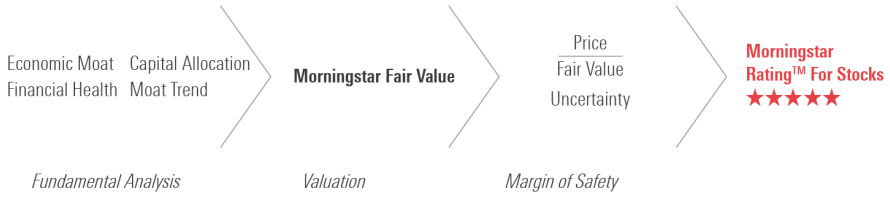
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is

Morningstar Equity Research Star Rating Methodology



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aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns.An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

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.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

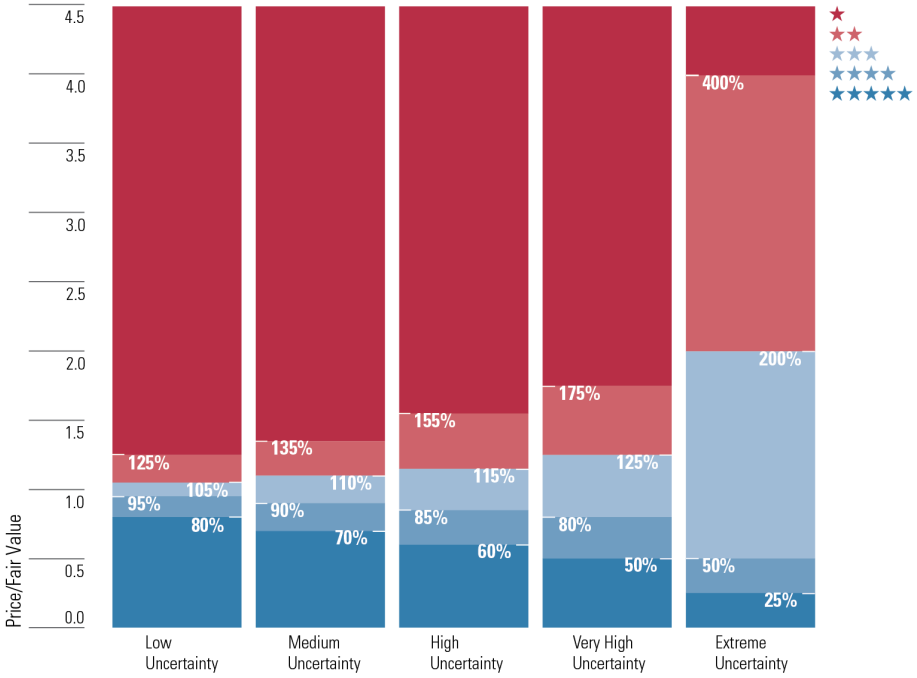
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. 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:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

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

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

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

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the

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quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

Risk Warning

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Research Methodology for Valuing Companies

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NiSource Inc NI ★★★★★ 4 Nov 2022 21:25, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
25.89 USD 4 Nov 2022	32.00 USD 24 Aug 2022 19:55, UTC	0.81	10.51 USD Bil 4 Nov 2022	Narrow	Stable	Low	Standard	2 Nov 2022 05:00, UTC

Travis Miller
Strategist
Morningstar
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Analyst Note (7 Nov 2022)
Business Description
Financials
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Reporting Currency: USD | Trading Currency: USD
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[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

No Surprises at NiSource's Investor Day; Still an Attractive Long-Term Investment

Analyst Note Travis Miller, Strategist, 7 Nov 2022

We are reaffirming our $32 fair value estimate after NiSource announced a strategic plan focused on strengthening the balance sheet, managing operating costs, and increasing capital investments, all in line with our expectations. We are reaffirming our narrow moat and stable moat trend ratings.

NiSource is one of our top utilities picks, trading at a 20% discount to our fair value estimate. Compared with other utilities, we think NiSource has more long-term investment opportunities relative to its size and better regulation. The stock's 3.6% dividend yield and above-average growth relative to its peers suggests total returns should top most utilities' during the next five years.

Management lowered its long-term annual earnings growth target to 6%-8% from 7%-9% but extended the timeframe to 2027 from 2024. We forecast 8% annual growth from 2021-26. We think management's extended timeframe is a net positive for investors even though it implies slightly lower 2023-24 earnings. The previous growth range largely reflected accelerated renewable energy investments and large rate increases in Indiana and Ohio in 2023-24. We think the new growth target better reflects NiSource's 10-year, $30 billion investment plan and opportunities for cost savings.

As we expected, NiSource announced no significant M&A activity. Throughout the year, CEO Lloyd Yates suggested the firm might sell one of its six gas utilities, but we thought that was unlikely as interest rates climbed and utilities' valuations sank. NiSource intends to sell 19.9% of its Indiana utility, NIPSCO, to strengthen the balance sheet and avoid large equity needs. We think NIPSCO is the most valuable part of NiSource's portfolio,

Financial Summary and Key Statistics

	Actual		Forecast	
	2020	2021	2022	2023
Revenue (USD Mil)	4,682	4,900	5,180	5,429
Revenue Growth %	-10.1	4.7	5.7	4.8
Operating Income (Mil)	551	1,007	1,169	1,333
Operating Margin %	11.8	20.5	22.6	24.6
Adjusted EBITDA (Mil)	1,277	1,755	1,959	2,173
Adjusted EBITDA Margin %	27.3	35.8	37.8	40.0
Earnings Per Share (Diluted) (USD)	-0.97	1.27	1.46	1.57
Adjusted Earnings Per Share (Diluted) (USD)	1.32	1.37	1.46	1.57
Adjusted EPS Growth %	0.3	3.8	6.5	7.5
Price/Earnings	17.4	20.2	17.7	16.5
Price/Book	1.5	1.7	1.5	1.3
EV/EBITDA	16.0	12.8	11.3	10.2
Free Cash Flow Yield %	-7.3	-5.5	-11.3	-15.7

Source: Morningstar Valuation Model. Data as of 30 Sep 2022.

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NiSource Inc NI ★★★★★ 4 Nov 2022 21:25, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
25.89 USD 4 Nov 2022	32.00 USD 24 Aug 2022 19:55, UTC	0.81	10.51 USD Bil 4 Nov 2022	Narrow	Stable	Low	Standard	2 Nov 2022 05:00, UTC

Sector

Utilities

Industry

Utilities - Regulated Gas

Business Description

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.5 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated electric utility also owns more than 3,000 megawatts of generation capacity, most of which is now coal-fired but is being replaced by natural gas and renewable energy.

but we expect any transaction will be too small to impact our fair value estimate.

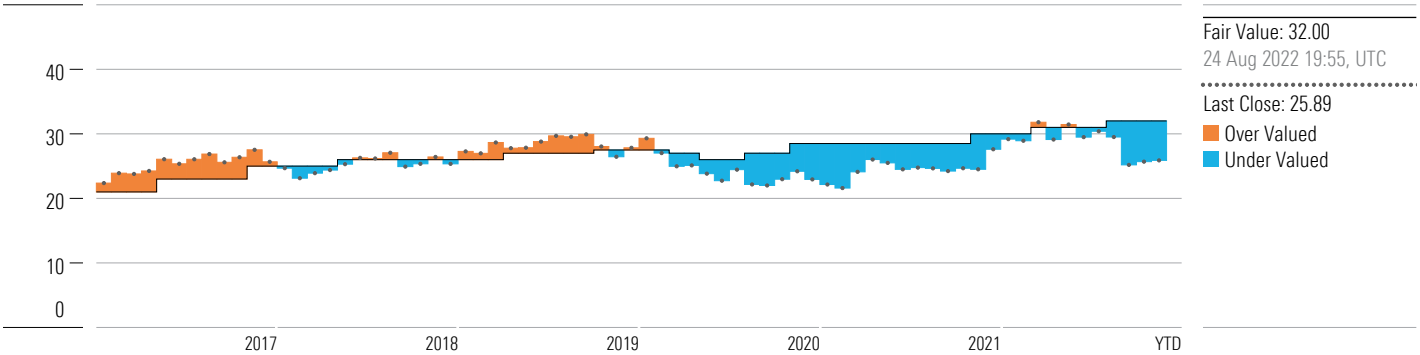
NiSource reported $0.10 of adjusted EPS in the third quarter and is on track to meet our full-year forecast. Our 2023 EPS estimate is in line with management's $1.50-$1.57 guidance.

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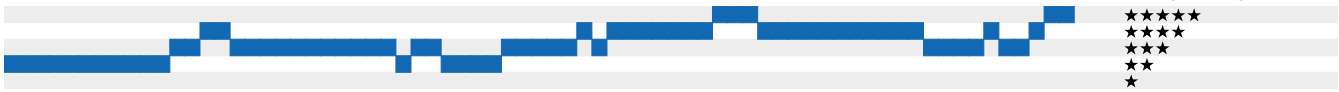
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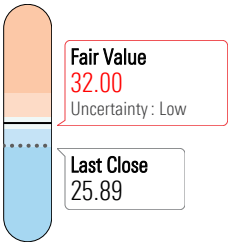
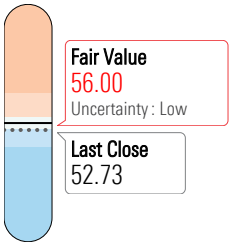
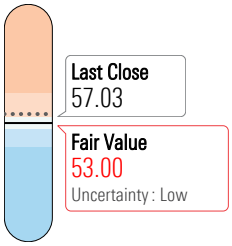
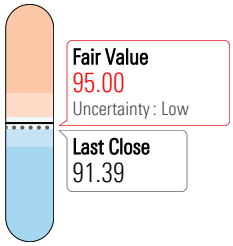
Price vs. Fair Value



	2017	2018	2019	2020	2021	YTD	
	1.03	0.98	1.01	0.80	0.92	0.81	Price/Fair Value
	19.11	1.79	12.98	-14.58	24.19	-2.83	Total Return %



Competitors

	NiSource Inc NI	Alliant Energy Corp LNT	CMS Energy Corp CMS	WEC Energy Group Inc WEC
				
Economic Moat	Narrow	Narrow	Narrow	Narrow
Moat Trend	Stable	Stable	Stable	Stable
Currency	USD	USD	USD	USD
Fair Value	32.00 24 Aug 2022 19:55, UTC	56.00 8 Aug 2022 21:05, UTC	53.00 4 May 2022 14:57, UTC	95.00 3 Aug 2022 04:18, UTC
1-Star Price	40.00	70.00	66.25	118.75
5-Star Price	25.60	44.80	42.40	76.00
Assessment	Significantly Undervalued 6 Nov 2022	Under Valued 6 Nov 2022	Over Valued 6 Nov 2022	Under Valued 6 Nov 2022
Morningstar Rating	★★★★★ 4 Nov 2022 21:25, UTC	★★★★ 4 Nov 2022 21:25, UTC	★★ 4 Nov 2022 21:25, UTC	★★★★ 4 Nov 2022 21:25, UTC
Analyst	Travis Miller, Strategist	Andrew Bischof, Senior Equity Analyst	Travis Miller, Strategist	Andrew Bischof, Senior Equity Analyst
Capital Allocation	Standard	Standard	Standard	Exemplary
Price/Fair Value	0.81	0.94	1.08	0.96
Price/Sales	2.07	3.34	1.98	3.13
Price/Book	1.85	2.16	2.47	2.54
Price/Earnings	16.92	19.04	21.44	20.96
Dividend Yield	3.63%	3.24%	3.23%	3.13%
Market Cap	10.51 Bil	13.23 Bil	16.55 Bil	28.83 Bil
52-Week Range	23.78—32.59	47.19—65.37	52.41—73.76	80.82—108.39
Investment Style	Mid Value	Mid Core	Mid Core	Mid Core

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4 Nov 2022	24 Aug 2022 19:55, UTC		4 Nov 2022					2 Nov 2022 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 30 Sep 2022

	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Revenue (USD Mil)	5,209	4,682	4,900	5,180	5,429	5,747	5,993	6,139
Operating Income (USD Mil)	891	551	1,007	1,169	1,333	1,560	1,705	1,790
EBITDA (USD Mil)	1,311	978	1,755	1,959	2,173	2,460	2,675	2,790
Adjusted EBITDA (USD Mil)	1,608	1,277	1,755	1,959	2,173	2,460	2,675	2,790
Net Income (USD Mil)	31	-372	530	633	693	810	904	961
Adjusted Net Income (USD Mil)	495	507	572	633	693	810	904	961
Free Cash Flow To The Firm (USD Mil)	-504	457	-765	-284	-1,336	-235	493	759
Weighted Average Diluted Shares Outstanding (Mil)	376	384	417	434	442	446	447	449
Earnings Per Share (Diluted) (USD)	0.08	-0.97	1.27	1.46	1.57	1.82	2.02	2.14
Adjusted Earnings Per Share (Diluted) (USD)	1.32	1.32	1.37	1.46	1.57	1.82	2.02	2.14
Dividends Per Share (USD)	0.79	0.84	0.83	0.94	1.00	1.06	1.14	1.22

Margins & Returns as of 30 Sep 2022

		Actual			Forecast					
	3 Year Avg	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**5 Year Avg**
Operating Margin %	16.5	17.1	11.8	20.5	22.6	24.6	27.2	28.4	29.2	26.4
EBITDA Margin %	—	25.2	20.9	35.8	37.8	40.0	42.8	44.6	45.4	—
Adjusted EBITDA Margin %	31.3	30.9	27.3	35.8	37.8	40.0	42.8	44.6	45.4	42.2
Net Margin %	1.2	0.6	-7.9	10.8	12.2	12.8	14.1	15.1	15.7	14.0
Adjusted Net Margin %	10.7	9.5	10.8	11.7	12.2	12.8	14.1	15.1	15.7	14.0
Free Cash Flow To The Firm Margin %	-5.2	-9.7	9.8	-15.6	-5.5	-24.6	-4.1	8.2	12.4	-2.7

Growth & Ratios as of 30 Sep 2022

		Actual			Forecast					
	3 Year CAGR	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**5 Year CAGR**
Revenue Growth %	-1.4	1.8	-10.1	4.7	5.7	4.8	5.9	4.3	2.4	4.6
Operating Income Growth %	100.6	614.3	-38.2	82.8	16.1	14.0	17.0	9.3	4.9	12.2
EBITDA Growth %	0.0	—	—	—	—	—	—	—	—	0.0
Adjusted EBITDA Growth %	34.3	122.0	-20.6	37.5	11.6	10.9	13.2	8.8	4.3	9.7
Earnings Per Share Growth %	1.8	—	—	—	—	—	—	—	—	9.4
Adjusted Earnings Per Share Growth %	1.8	1.2	0.3	3.8	6.5	7.5	15.8	11.3	6.0	9.4

Valuation as of 30 Sep 2022

	Actual			Forecast				
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Price/Earnings	21.1	17.4	20.2	17.7	16.5	14.2	12.8	12.1
Price/Sales	2.0	1.9	2.3	2.0	1.9	1.8	1.8	1.7
Price/Book	1.7	1.5	1.7	1.5	1.3	1.2	1.2	1.1
Price/Cash Flow	-48.6	-13.7	-18.0	-8.8	-6.4	-17.5	105.6	29.9
EV/EBITDA	13.0	16.0	12.8	11.3	10.2	9.0	8.3	7.9
EV/EBIT	23.5	37.1	22.3	18.9	16.6	14.2	13.0	12.3
Dividend Yield %	2.8	3.7	3.0	3.6	3.9	4.1	4.4	4.7
Dividend Payout %	956.7	-86.5	65.2	64.5	63.8	58.4	56.4	57.0
Free Cash Flow Yield %	-2.1	-7.3	-5.5	-11.3	-15.7	-5.7	1.0	3.4

Operating Performance / Profitability as of 30 Sep 2022

	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
ROA %	0.1	-1.7	2.3	2.6	2.6	2.8	3.0	3.1
ROE %	0.6	-7.4	10.3	11.1	11.1	12.1	12.7	12.6
ROIC %	4.5	2.1	4.6	4.9	5.2	5.4	5.4	5.3

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NiSource Inc NI ★★★★★ 4 Nov 2022 21:25, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
25.89 USD 4 Nov 2022	32.00 USD 24 Aug 2022 19:55, UTC	0.81	10.51 USD Bil 4 Nov 2022	Narrow	Stable	Low	Standard	2 Nov 2022 05:00, UTC

Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Dec	2019	2020	2021	2022	2023	2024	2025	2026
Debt/Capital %	61.7	62.9	58.5	58.6	57.0	58.1	57.8	57.2
Assets/Equity	3.8	3.8	3.5	3.4	3.2	3.2	3.2	3.1
Net Debt/EBITDA	7.2	9.8	5.5	5.4	5.4	5.2	5.0	4.9
Total Debt/EBITDA	6.0	7.6	5.6	5.5	5.4	5.2	5.0	4.9
EBITDA/ Net Interest Expense	4.2	3.4	5.1	5.2	5.2	5.1	5.2	5.3

Forecast Revisions as of 30 Sep 2022	2022		2023		2024	
Prior data as of 24 Aug 2022	Current	Prior	Current	Prior	Current	Prior
Fair Value Estimate Change (Trading Currency)	32.00	32.00	—	—	—	—
Revenue (USD Mil)	5,180	5,180	5,429	5,419	5,747	5,792
Operating Income (USD Mil)	1,169	1,169	1,333	1,323	1,560	1,605
EBITDA (USD Mil)	1,959	1,959	2,173	2,163	2,460	2,505
Net Income (USD Mil)	633	633	693	685	810	848
Earnings Per Share (Diluted) (USD)	1.46	1.46	1.57	1.55	1.82	1.90
Adjusted Earnings Per Share (Diluted) (USD)	1.46	1.46	1.57	1.55	1.82	1.90
Dividends Per Share (USD)	0.94	0.94	1.00	1.00	1.06	1.06

Key Valuation Drivers as of 30 Sep 2022

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.5
Weighted Average Cost of Capital %	5.8
Long-Run Tax Rate %	26.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	62.5
Perpetuity Year	15

Additional estimates and scenarios available for download at https://pitchbook.com/.

Discounted Cash Flow Valuation as of 30 Sep 2022

	USD Mil
Present Value Stage I	-694
Present Value Stage II	4,339
Present Value Stage III	20,222
Total Firm Value	**23,867**
Cash and Equivalents	95
Debt	-9,802
Other Adjustments	897
Equity Value	**13,511**
Projected Diluted Shares	439
Fair Value per Share (USD)	**32.00**

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Income Statement (USD)	Actual			Forecast				
Fiscal Year, ends 31 Dec	2019	2020	2021	2022	2023	2024	2025	2026
Revenue (Mil)	**5,209**	**4,682**	**4,900**	**5,180**	**5,429**	**5,747**	**5,993**	**6,139**
Cost of Goods Sold (Mil)	1,535	1,109	1,392	1,411	1,429	1,443	1,458	1,472
Gross Profit (Mil)	**3,674**	**3,572**	**3,507**	**3,770**	**4,000**	**4,304**	**4,535**	**4,667**
Selling, General, Administrative & Other Expenses (Mil)	1,355	1,586	1,456	1,502	1,517	1,532	1,548	1,563
Advertising & Marketing Expenses	—	—	—	—	—	—	—	—
Research & Development	—	—	—	—	—	—	—	—
Depreciation & Amortization (if reported separately) (Mil)	717	726	748	790	840	900	970	1,000
Adjusted Operating Income (Mil)	**891**	**551**	**1,007**	**1,169**	**1,333**	**1,560**	**1,705**	**1,790**
Financial Non-Cash (Gains)/Losses (Mil)	0	0	0	0	0	0	0	0
Irregular Cash (Gains)/Losses (Mil)	297	299	0	0	0	0	0	0
Operating Income (Mil)	**594**	**252**	**1,007**	**1,169**	**1,333**	**1,560**	**1,705**	**1,790**
Net Interest Expense (Mil)	384	582	300	346	405	471	504	520
Income Tax Expense (Mil)	124	-17	118	132	149	174	192	203
After-Tax Items (Mil)	-55	-55	-55	-55	-83	-101	-101	-101
(Minority Interest) (Mil)	0	-3	-4	-4	-4	-4	-4	-4
Net Income (Mil)	**31**	**-372**	**530**	**633**	**693**	**810**	**904**	**961**
Adjusted Net Income (Mil)	**495**	**507**	**572**	**633**	**693**	**810**	**904**	**961**
Weighted Average Diluted Shares Outstanding (Mil)	376	384	417	434	442	446	447	449
Diluted Earnings Per Share	**0.08**	**-0.97**	**1.27**	**1.46**	**1.57**	**1.82**	**2.02**	**2.14**
Diluted Adjusted Earnings Per Share	**1.32**	**1.32**	**1.37**	**1.46**	**1.57**	**1.82**	**2.02**	**2.14**
Dividends Per Common Share (USD)	0.79	0.84	0.83	0.94	1.00	1.06	1.14	1.22
EBITDA (Mil)	**1,311**	**978**	**1,755**	**1,959**	**2,173**	**2,460**	**2,675**	**2,790**
Adjusted EBITDA (Mil)	**1,608**	**1,277**	**1,755**	**1,959**	**2,173**	**2,460**	**2,675**	**2,790**

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4 Nov 2022	24 Aug 2022 19:55, UTC		4 Nov 2022					2 Nov 2022 05:00, UTC

Key Cash Flow Items (USD)	**Actual**			**Forecast** as of 30 Sep				
Fiscal Year, ends 31 Dec	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Cash from Working Capital (K)	178,400	-34,400	82,900	-216,189	57,888	-1,691	-35,537	-20,355
(Capital Expenditures) (K)	-1,802,400	-1,758,100	-1,838,000	-2,620,000	-3,520,000	-2,620,000	-2,020,000	-1,820,000
Depreciation (K)	717,400	725,900	748,400	790,000	840,000	900,000	970,000	1,000,000
Amortization (K)	—	—	—	—	—	—	—	—
Net New (Investment), Organic (K)	**-1,280,100**	**-402,300**	**-1,717,600**	**-1,402,789**	**-2,622,112**	**-1,721,691**	**-1,085,537**	**-840,355**
(Purchases)/Sales of Companies & Assets (K)	0	0	700	0	0	0	0	0
Net New (Investment), Total (K)	**-1,280,100**	**-402,300**	**-1,716,900**	**-1,402,789**	**-2,622,112**	**-1,721,691**	**-1,085,537**	**-840,355**
Other Non-Cash Items, From Cash Flows (K)	413,800	653,000	4,900	0	0	0	0	0
Free Cash Flow to the Firm (K)	**-503,803**	**456,882**	**-764,964**	**-283,888**	**-1,336,032**	**-235,021**	**493,078**	**759,006**

Balance Sheet (USD)	**Actual**			**Forecast**				
Fiscal Year, ends 31 Dec	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Assets								
Cash and Equivalents (Mil)	148	126	95	92	76	45	78	125
Inventory (Mil)	425	401	499	502	470	475	479	484
Accounts Receivable (Mil)	857	791	826	880	863	866	903	925
Net Property, Plant and Equipment (Mil)	16,912	16,620	17,882	19,712	22,392	24,112	25,162	25,982
Goodwill (Mil)	1,486	1,486	1,486	1,486	1,486	1,486	1,486	1,486
Other Intangibles (Mil)	0	0	0	0	0	0	0	0
Other Operating Assets (Mil)	2,438	2,136	2,788	2,150	2,150	2,150	2,150	2,150
Non-Operating Assets (Mil)	394	481	582	582	582	582	582	582
Total Assets (Mil)	**22,660**	**22,041**	**24,157**	**25,404**	**28,019**	**29,716**	**30,840**	**31,734**
Liabilities								
Accounts Payable (Mil)	666	589	698	618	626	633	639	645
Debt (Mil)	9,643	9,746	9,802	10,702	11,802	12,902	13,402	13,702
Other Operating Liabilities (Mil)	5,131	4,539	4,932	5,000	5,170	5,350	5,500	5,600
Non-Operating Liabilities (Mil)	1,234	1,329	1,452	1,452	1,452	1,452	1,452	1,452
Total Liabilities (Mil)	**16,673**	**16,203**	**16,884**	**17,772**	**19,050**	**20,337**	**20,993**	**21,399**
Equity								
Shareholders' Equity (Mil)	5,987	5,752	6,947	7,552	8,889	9,299	9,767	10,255
Minority Interest (Mil)	0	86	326	80	80	80	80	80
Total Equity (Mil)	**5,987**	**5,838**	**7,273**	**7,632**	**8,969**	**9,379**	**9,847**	**10,335**

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MORNINGSTAR®

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

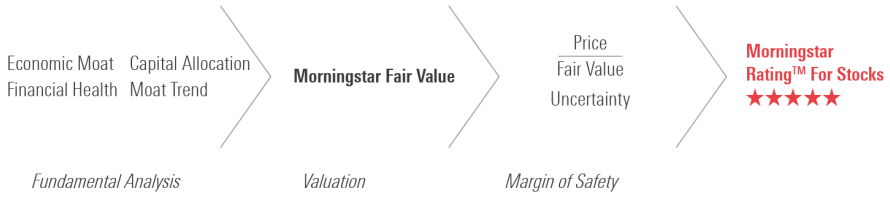
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is

Morningstar Equity Research Star Rating Methodology



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aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns.An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

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.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

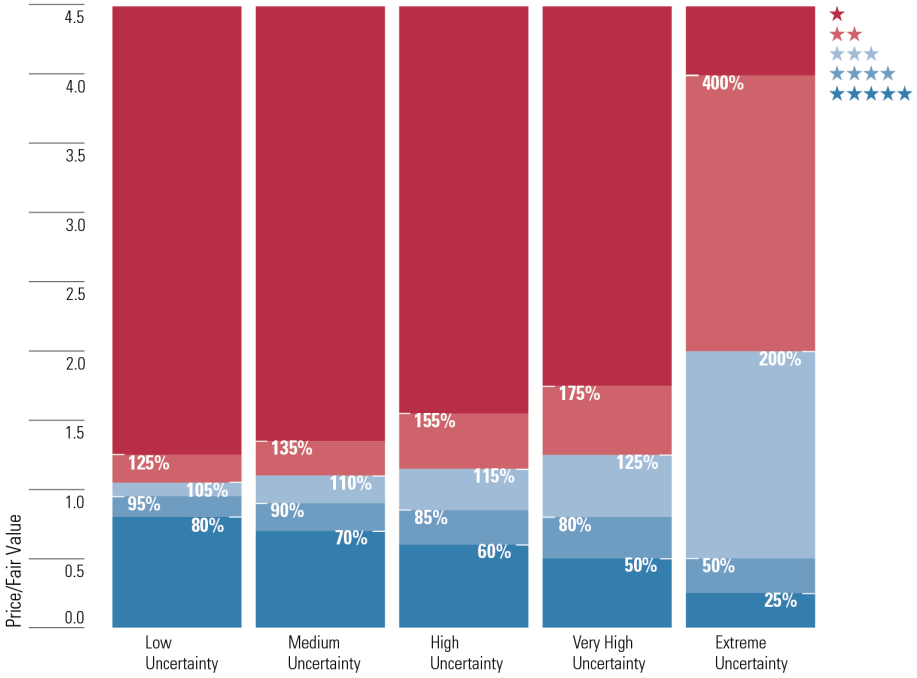
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. 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:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

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

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

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

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the

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quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

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First Read

NiSource Inc.

Settlement Reached in Ohio Gas Rate Case

Equities

Americas

Electric Utilities

12-month rating	**Neutral**
12m price target	**US$28.00**
Price (01 Nov 2022)	**US$25.83**

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

Trading data and key metrics

52-wk range	US$32.46-24.15
Market cap.	US$10.9b
Shares o/s	423m (COM)
Free float	99%
Avg. daily volume ('000)	1,236
Avg. daily value (m)	US$33.9
Common s/h equity (12/22E)	US$5.94b
P/BV (12/22E)	1.9x
Net debt to EBITDA (12/22E)	6.2x

EPS (UBS, diluted) (US$)

	12/22E	
	UBS	**Cons.**
Q1	0.75	0.75
Q2E	0.09	0.12
Q3E	0.09	0.12
Q4E	0.50	0.45
12/22E	1.45	1.45
12/23E	1.54	1.55
12/24E	1.66	1.73

What Happened?

This week, NiSource's subsidiary, Columbia Gas of Ohio, reached a settlement with parties in its natural gas distribution rate case. Signatories to the agreement include Commission Staff, Office of the Ohio Consumers' Counsel and several C&I customers and trade groups. The case was originally filed in June of 2021 and was the first general rate case for Columbia Gas of Ohio since 2008.

Details on the Settlement

The settlement calls for an 8% revenue increase or $68.2mm. This is premised on a 9.6% return on equity and a 50.6% equity ratio on rate base of 3.50bn. This compares to the company's ask of $221mm, 10.95% ROE, 50.6% equity and 3.56bn of rate base. The Staff's position had been 46.4mm of revenue increase, 9.55% ROE, 50.6% equity and 3.46bn of rate base. As part of the agreement, the company will be able to continue its Capital Expenditure Program (CEP) Rider and the Infrastructure Replacement Program (IRP) Rider with set rate caps that escalate each year. NI has preserved its right to pursue a PHMSA Capital rider. Columbia Gas of Ohio also agreed to file a rate on or before September 1, 2027 as part of the settlement. Overall, the settlement looks a bit light on revenue compared to the company's original ask, but the ROE and continuation of the riders is constructive.

What's Next?

Nisource will host an analyst day event on November 7th, where they will update investors on the outcome of its strategic review. We believe a key focus will be improving visibility for earnings growth post 2024 and whether management sees inorganic opportunities longer term that are accretive to their base plan. As a reminder, 2024 does present a higher than normal yoy of growth given the renwables projects going into service. Nisource could look to provide near term earnings guidance for the next several years while also providing a longer term growth target, similar to what many peers in the industry do. Current guidance calls for 7-9% CAGR through 2024 off of 2021.

Valuation:

We rate NiSource Neutral with a $28 target price.

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Highlights (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Revenues	5,184	4,697	4,900	5,208	5,448	5,644	5,813	5,980
EBIT (UBS)	1,047	1,031	1,046	1,163	1,276	1,402	1,497	1,591
Net earnings (UBS)	495	507	573	627	677	734	782	833
EPS (UBS, diluted) (US$)	1.32	1.32	1.37	1.45	1.54	1.66	1.75	1.85
DPS (net) (US$)	0.84	0.88	0.90	0.96	1.02	1.08	1.14	1.20
Net (debt) / cash	(10,374)	(10,501)	(11,253)	(12,379)	(14,576)	(15,173)	(15,677)	(16,090)
Profitability/valuation	**12/19**	**12/20**	**12/21**	**12/22E**	**12/23E**	**12/24E**	**12/25E**	**12/26E**
EBIT (UBS) margin %	20.2	22.0	21.3	22.3	23.4	24.8	25.8	26.6
ROIC (EBIT) %	7.9	7.5	7.4	7.5	7.2	7.3	7.4	7.6
EV/EBITDA (UBS core) x	10.6	9.9	10.4	10.4	10.0	9.8	9.3	8.9
P/E (UBS, diluted) x	21.2	18.6	17.9	17.8	16.8	15.6	14.8	14.0
Equity FCF (UBS) yield %	(1.6)	(6.0)	(6.2)	(9.4)	(16.9)	(2.0)	(0.9)	0.3
Dividend yield (net) %	3.0	3.6	3.6	3.7	3.9	4.2	4.4	4.6

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$ 25.83 on 01-Nov-2022

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Forecast returns

Forecast price appreciation	+8.4%
Forecast dividend yield	3.8%
Forecast stock return	+12.2%
Market return assumption	9.6%
Forecast excess return	+2.7%

Company Description

NI is a fully regulated gas and electric utility serving customers in six states in the Midwest and Mid-Atlantic. NI is a gas distribution utility with 3.2 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NI is an integrated electric utility serving 0.5 million customers in Indiana. NI's mix of operating earnings is 60% gas and 40% electric.

Valuation Method and Risk Statement

Our $28 price target is an 8% premium to the Regulated Utility average multiple or 16.9x our UBSe 2024 eps of $1.66. The premium is the sum of +5% for the group's undervaluation on a 12 month basis relative to Baa corporate bonds, -2% for third quartile EPS growth and 5% for second quartile regulation.

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.

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Buy	FSR is > 6% above the MRA.	56%	26%
Neutral	FSR is between -6% and 6% of the MRA.	35%	22%
Sell	FSR is > 6% below the MRA.	9%	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 30 September 2022.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
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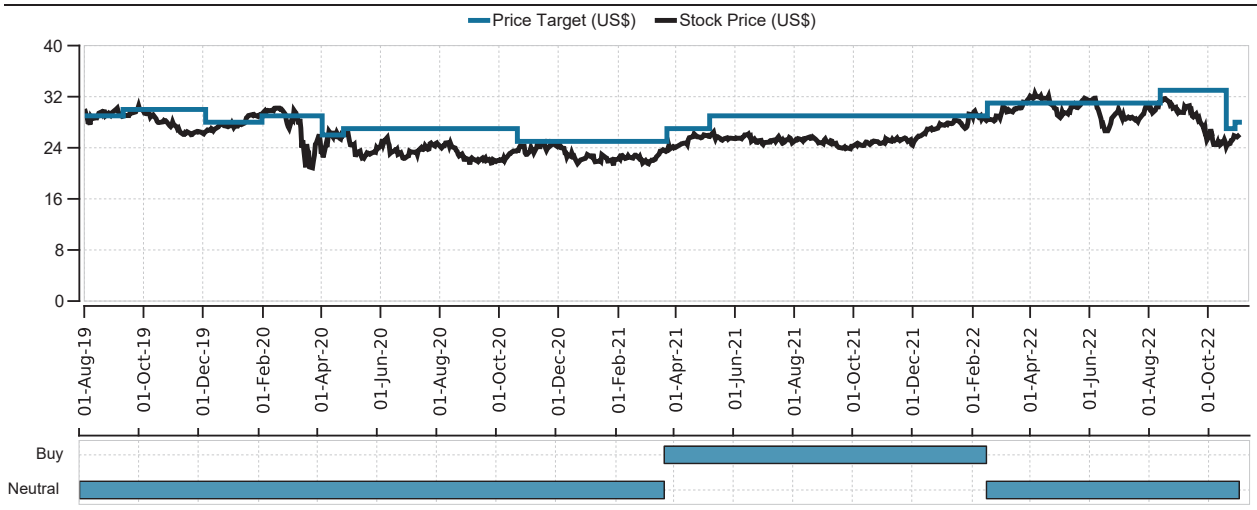
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Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$25.83	01 Nov 2022

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
2019-08-01	30.04	29.00	Neutral
2019-09-09	28.91	30.00	Neutral
2019-12-03	26.41	28.00	Neutral
2020-01-30	29.10	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral

Date	Stock Price (US$)	Price Target (US$)	Rating
2020-10-19	23.47	25.00	Neutral
2021-03-22	23.42	27.00	Buy
2021-05-05	25.78	29.00	Buy
2022-02-15	28.26	31.00	Neutral
2022-08-12	31.14	33.00	Neutral
2022-10-19	24.88	27.00	Neutral
2022-10-28	25.89	28.00	Neutral

Source: UBS;as of 01-Nov-2022. All prices as of local market close. Ratings as of date shown.

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UBS

First Read

NiSource Inc.

3Q Results; Analyst Day

Q: How did the results compare vs expectations?

A: NI reported $0.10/shr for Q3'22 vs consensus of $0.11/shr. It narrowed 2022 Operating EPS to $1.44-1.46 vs prior guidance $1.42-1.48; Initiated 2023 EPS of 1.50-1.57 vs Consensus of $1.54.

Q: What were the most noteworthy areas in the results?

A: Drivers of results were better weather, non-recurring impacts related to Greater Lawrence and plant retirement costs, and higher shares outstanding.

Q: Has the company's outlook/guidance changed?

A: As part of its Analyst Day update, NiSource updated the long-term growth rate to 6-8% through 2027 off of a 2021 base year. This extends but lowers vs. the prior growth rate of 7-9% through 2024. As part of the previously announced strategic review, the company announced its intention to sell a minority stake in its NIPSCo subsidiary. This sale will remove the need to issue equity until at least 2025, after which the company expects to utilize what they describe as a modest ATM program. The revised capital plan is $15bn for 2023-2027, while targeting a 14-16% FFO/Debt target. The company has also identified ways to optimize the cost profile and approach to work. Additionally, NI announced its intention of reaching net zero Scope 1 and 2 greenhouse gas emissions by 2040.

Q: How would we expect investors to react?

A: We await further details at today's Analyst Day which will begin today at 12pm EST. We believe initial reaction will be mixed with the positives being extension of a competitive growth rate of 6-8% through 2027, but perhaps some concerns around selling an interest in the best quality asset and skewing business mix further towards natural gas.

Key Metrics ($)

	Consensus estimates	UBS estimates	Actual	% diff vs. UBS
3Q'22 Adj. EPS	$0.11	$0.09	$0.10	+11.1%

Source: Factset, UBS Equity Research Estimates

Equities

Americas

Electric Utilities

12-month rating	**Neutral**
12m price target	**US$28.00**
Price (04 Nov 2022)	**US$25.89**

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

Trading data and key metrics

52-wk range	US$32.46-24.15
Market cap.	US$10.9b
Shares o/s	423m (COM)
Free float	99%
Avg. daily volume ('000)	1,266
Avg. daily value (m)	US$34.5
Common s/h equity (12/22E)	US$5.94b
P/BV (12/22E)	1.9x
Net debt to EBITDA (12/22E)	6.2x

EPS (UBS, diluted) (US$)

	12/22E	
	UBS	Cons.
Q1	0.75	0.75
Q2E	0.09	0.12
Q3E	0.09	0.11
Q4E	0.50	0.45
12/22E	1.45	1.45
12/23E	1.54	1.55
12/24E	1.66	1.73

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Highlights (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Revenues	5,184	4,697	4,900	5,208	5,448	5,644	5,813	5,980
EBIT (UBS)	1,047	1,031	1,046	1,163	1,276	1,402	1,497	1,591
Net earnings (UBS)	495	507	573	627	677	734	782	833
EPS (UBS, diluted) (US$)	1.32	1.32	1.37	1.45	1.54	1.66	1.75	1.85
DPS (net) (US$)	0.84	0.88	0.90	0.96	1.02	1.08	1.14	1.20
Net (debt) / cash	(10,374)	(10,501)	(11,253)	(12,379)	(14,576)	(15,173)	(15,677)	(16,090)
Profitability/valuation	**12/19**	**12/20**	**12/21**	**12/22E**	**12/23E**	**12/24E**	**12/25E**	**12/26E**
EBIT (UBS) margin %	20.2	22.0	21.3	22.3	23.4	24.8	25.8	26.6
ROIC (EBIT) %	7.9	7.5	7.4	7.5	7.2	7.3	7.4	7.6
EV/EBITDA (UBS core) x	10.6	9.9	10.4	10.4	10.1	9.8	9.3	8.9
P/E (UBS, diluted) x	21.2	18.6	17.9	17.9	16.8	15.6	14.8	14.0
Equity FCF (UBS) yield %	(1.6)	(6.0)	(6.2)	(9.3)	(16.9)	(2.0)	(0.9)	0.3
Dividend yield (net) %	3.0	3.6	3.6	3.7	3.9	4.2	4.4	4.6

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$ 25.89 on 04-Nov-2022

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Forecast returns

Forecast price appreciation	+8.1%
Forecast dividend yield	3.8%
Forecast stock return	+12.0%
Market return assumption	9.7%
Forecast excess return	+2.3%

Company Description

NI is a fully regulated gas and electric utility serving customers in six states in the Midwest and Mid-Atlantic. NI is a gas distribution utility with 3.2 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NI is an integrated electric utility serving 0.5 million customers in Indiana. NI's mix of operating earnings is 60% gas and 40% electric.

Valuation Method and Risk Statement

Our $28 price target is an 8% premium to the Regulated Utility average multiple or 16.9x our UBSe 2024 eps of $1.66. The premium is the sum of +5% for the group's undervaluation on a 12 month basis relative to Baa corporate bonds, -2% for third quartile EPS growth and 5% for second quartile regulation. 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
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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	56%	26%
Neutral	FSR is between -6% and 6% of the MRA.	35%	22%
Sell	FSR is > 6% below the MRA.	9%	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 30 September 2022.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
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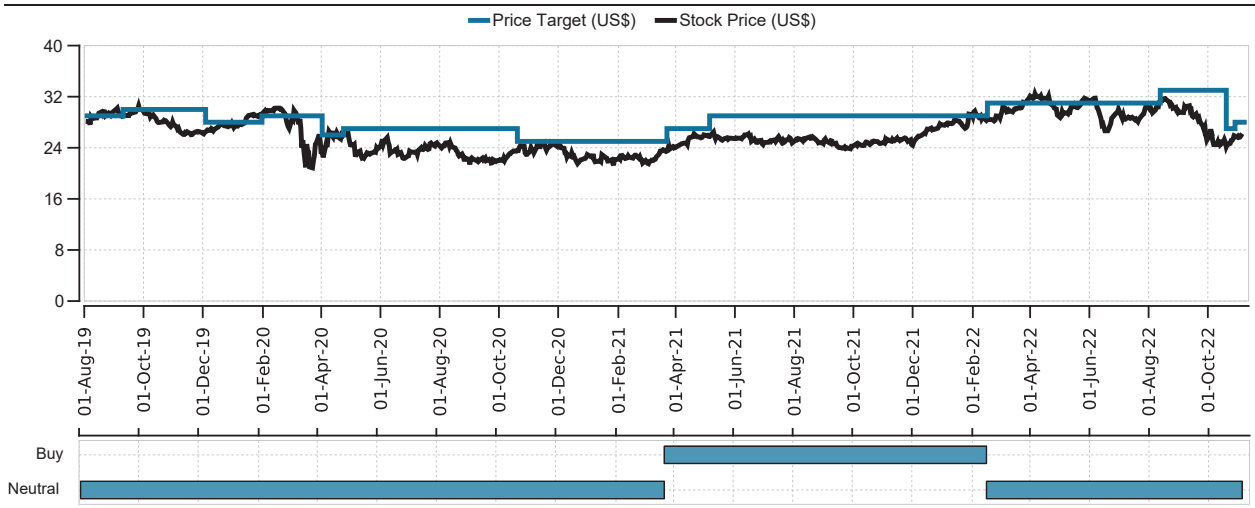
Company Disclosures

Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$25.89	04 Nov 2022

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
2019-08-02	29.71	29.00	Neutral
2019-09-09	28.91	30.00	Neutral
2019-12-03	26.41	28.00	Neutral
2020-01-30	29.10	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral

Date	Stock Price (US$)	Price Target (US$)	Rating
2020-10-19	23.47	25.00	Neutral
2021-03-22	23.42	27.00	Buy
2021-05-05	25.78	29.00	Buy
2022-02-15	28.26	31.00	Neutral
2022-08-12	31.14	33.00	Neutral
2022-10-19	24.88	27.00	Neutral
2022-10-28	25.89	28.00	Neutral

Source: UBS;as of 04-Nov-2022. All prices as of local market close. Ratings as of date shown.

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NiSource Inc.

Moderating Growth Outlook to Achieve Long-Term Goals

Equities

Americas

Electric Utilities

12-month rating	**Neutral**
12m price target	**US$28.00**
Price (07 Nov 2022)	**US$24.37**

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

Trading data and key metrics

52-wk range	US$32.46-24.15
Market cap.	US$10.9b
Shares o/s	423m (COM)
Free float	99%
Avg. daily volume ('000)	1,266
Avg. daily value (m)	US$34.5
Common s/h equity (12/22E)	US$5.94b
P/BV (12/22E)	1.9x
Net debt to EBITDA (12/22E)	6.2x

EPS (UBS, diluted) (US$)

	12/22E	
	UBS	**Cons.**
Q1	0.75	0.75
Q2E	0.09	0.12
Q3E	0.09	0.11
Q4E	0.50	0.45
12/22E	1.45	1.45
12/23E	1.54	1.55
12/24E	1.66	1.73

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Managing Customer Impacts Longer Term is Prudent

The key takeaway from today's NI Analyst Day is management's effort to de-risk the longer term outlook by moderating the rate base and earnings growth trajectory, reducing capital markets exposure by selling up to a 19.9% stake in NIPSCO and targeting low single digit impacts to customer bills annually. The stock underperformed the XLU by 396bps in a tough tape for utilities. While the implied earnings for 2024 came down 2-3% based on the revised earnings CAGR of 6-8% vs. prior of 7-9%, we think that management took prudent steps to reset the outlook and put a plan in place that is palatable for all key stakeholders moving forward.

Strategic Review Outcome

The company conducted an exhaustive review of strategic options including but not limited to an outright sale and divestiture of individual LDC assets. Ultimately, management decided the valuation wasn't sufficient and/or dis-synergies and tax leakage were too great to overcome. The decision to sell up to a 19.9% stake in NIPSCO represents the most efficient outcome in their view in terms of valuation, tax efficiency and limited disruption to ongoing operations. In the note, we lay out a a scenario analysis of potential sales outcomes. We believe given the growth profile for NIPSCO, it could transact at a better multiple than the 1.4x forward rate base that Duke Energy sold a slice of their Indiana utility for in early 2021 (see note on that here). NI says this minority sale will eliminate equity needs until 2025 and then modest ATM issuances, which we estimate could be $250mm/yr, thereafter. NI increased their targeted FFO/Debt range to 14-16% from 14-15% and expects to be at the high end of that coming out of the transaction.

Rate Base Slowing But Customer Impacts Look Manageable; Flat O&M outlook

The updated capex plan calls for $15.0bn over '23-'27, with a reduction upfront in '23, but higher amounts over the back-end. Overall, the rate base growth rate declined from prior guidance of 10-12% to 8-10%, in part to relieve pressure on customer bills. The total bill impact to customers over the forecast period is expected to be ~3% per year. This assumes natural gas prices in the range of $4.50-5.50/MMBtu, flat O&M (which assumes $40-50mm of cost reductions per year to offset inflation) and 50bps per year of customer growth.

Valuation:

We maintain our Neutral Rating and $28 price target.

Highlights (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Revenues	5,184	4,697	4,900	5,208	5,448	5,644	5,813	5,980
EBIT (UBS)	1,047	1,031	1,046	1,163	1,276	1,402	1,497	1,591
Net earnings (UBS)	495	507	573	627	677	734	782	833
EPS (UBS, diluted) (US$)	1.32	1.32	1.37	1.45	1.54	1.66	1.75	1.85
DPS (net) (US$)	0.84	0.88	0.90	0.96	1.02	1.08	1.14	1.20
Net (debt) / cash	(10,374)	(10,501)	(11,253)	(12,379)	(14,576)	(15,173)	(15,677)	(16,090)
Profitability/valuation	**12/19**	**12/20**	**12/21**	**12/22E**	**12/23E**	**12/24E**	**12/25E**	**12/26E**
EBIT (UBS) margin %	20.2	22.0	21.3	22.3	23.4	24.8	25.8	26.6
ROIC (EBIT) %	7.9	7.5	7.4	7.5	7.2	7.3	7.4	7.6
EV/EBITDA (UBS core) x	10.6	9.9	10.4	10.1	9.8	9.5	9.1	8.7
P/E (UBS, diluted) x	21.2	18.6	17.9	16.8	15.8	14.7	13.9	13.2
Equity FCF (UBS) yield %	(1.6)	(6.0)	(6.2)	(9.9)	(18.0)	(2.1)	(0.9)	0.3
Dividend yield (net) %	3.0	3.6	3.6	3.9	4.2	4.4	4.7	4.9

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$ 24.37 on 07-Nov-2022

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Earnings Guidance Update and NIPSCO Snapshot

In Figure 1, we show the implied earnings guidance changes from the prior guidance of 7-9% through 2024 off a 2021 base vs. the new guidance of 6-8% through 2027 off a 2021 base and shows UBS and consensus estimates. Management did indicate that 2024 could reach the low end of the previous range given the renewable generation resources that will be coming into service that year.

In Figure 2, we lay out a range of scenarios for a NIPSCO minority sale. There has been recent precedent for such transactions, including when Duke Energy sold a 19.9% stake in their Indiana utility to GIC in 2021. NiSource is targeting for the transaction to occur in 2023, with a full year impact in in 2024. All of NiSource's updated earnings and balance sheet guidance reflect the NIPSCO sale. Management believes the transaction will be tax efficient. We estimate they are targeting $1.75-$2.0bn of net proceeds in order to achieve the FFO/Debt, capex and equity plans they've put out in guidance. We think a minority stake of 19.9% is worth ~18c of EPS in 2023, before redeployment of proceeds.

Figure 1: NiSource Implied EPS Guidance

	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Old Guidance Midpoint 8% CAGR	$1.37	$1.48	$1.60	$1.73			
New Guidance Midpoint 7% CAGR	$1.37	$1.47	$1.57	$1.68	$1.80	$1.92	$2.06
UBS Estimates	$1.37	$1.45	$1.54	$1.66	$1.75		
Consensus Estimates	$1.37	$1.45	$1.54	$1.71	$1.81		

Source: Company Reports, UBS Estimates, FactSet

Figure 2: NIPSCO Minority Sale Scenario

Estimated YE'23 Elec Rate Base		$5,648
Estimated Avg '23 Gas Rate Base		$2,540
Estimated NipsCo YE '23 Rate Base		$8,188
Blended ROE		9.78%
Blended Equity Ratio		48.36%
Implied '23 Earnings Power		$387.30
Implied '23 EPS		$0.90
Est. Rate Base Stake Sold	19.90%	$1,629
Est. Initial EPS Impact		$0.18

Rate Base Mult.	EV/Rate Base	Implied 2023 P/E	Prem to 2023 P/E	Equity Proceeds
1.3x	$2,118.2	16.6x	-4.8%	$1,276.8
1.4x	$2,281.2	18.7x	7.4%	$1,439.7
1.5x	$2,444.1	20.8x	19.5%	$1,602.7
1.6x	$2,607.1	22.9x	31.7%	$1,765.6
1.7x	$2,770.0	25.0x	43.8%	$1,928.6
1.8x	$2,932.9	27.1x	56.0%	$2,091.5
1.9x	$3,095.9	29.3x	68.1%	$2,254.4
2.0x	$3,258.8	31.4x	80.3%	$2,417.4

Source: Company Reports, UBS Estimates

NiSource Inc. (NI.N)

Income Statement (US$m)	12/19	12/20	12/21	12/22E	%ch	12/23E	%ch	12/24E	12/25E	12/26E
Revenues	**5,184**	**4,697**	**4,900**	**5,208**	*6.3*	**5,448**	*4.6*	**5,644**	**5,813**	**5,980**
Gross profit	3,649	3,587	3,507	3,816	*8.8*	4,056	*6.3*	4,252	4,421	4,588
EBITDA (UBS)	**1,764**	**1,794**	**1,794**	**1,990**	*10.9*	**2,211**	*11.1*	**2,399**	**2,554**	**2,707**
Depreciation & amortisation	(717)	(762)	(748)	(827)	*-10.4*	(936)	*-13.2*	(997)	(1,057)	(1,116)
EBIT (UBS)	**1,047**	**1,031**	**1,046**	**1,163**	*11.2*	**1,276**	*9.7*	**1,402**	**1,497**	**1,591**
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	(5)	29	41	0	-	0	-	0	0	0
Net interest	(379)	(371)	(341)	(356)	*-4.3*	(413)	*-16.0*	(461)	(495)	(527)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Pre-tax profit	**663**	**689**	**746**	**807**	*8.2*	**863**	*6.9*	**941**	**1,002**	**1,064**
Tax	(113)	(127)	(118)	(129)	*-9.2*	(134)	*-4.5*	(155)	(168)	(180)
Profit after tax	**550**	**563**	**628**	**679**	*8.1*	**728**	*7.3*	**786**	**833**	**884**
Preference dividends	(55)	(55)	(55)	(55)	*0.0*	(55)	*0.0*	(55)	(55)	(55)
Minorities	0	0	0	4	-	4	*0.0*	4	4	4
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**495**	**507**	**573**	**627**	*9.5*	**677**	*7.9*	**734**	**782**	**833**
Net earnings (UBS)	**495**	**507**	**573**	**627**	*9.5*	**677**	*7.9*	**734**	**782**	**833**
Tax rate (%)	17.0	18.4	15.8	15.9	*0.9*	15.6	*-2.2*	16.5	16.8	16.9

Per Share (US$)	12/19	12/20	12/21	12/22E	%ch	12/23E	%ch	12/24E	12/25E	12/26E
EPS (UBS, diluted)	1.32	1.32	1.37	1.45	*5.4*	1.54	*6.3*	1.66	1.75	1.85
EPS (local GAAP, diluted)	1.32	1.32	1.37	1.45	*5.4*	1.54	*6.3*	1.66	1.75	1.85
EPS (UBS, basic)	1.32	1.32	1.37	1.45	*5.4*	1.54	*6.3*	1.66	1.75	1.85
DPS (net) (US$)	0.84	0.88	0.90	0.96	*7.3*	1.02	*6.3*	1.08	1.14	1.20
Cash EPS (UBS, diluted) [1]	3.23	3.30	3.17	3.35	*5.9*	3.67	*9.3*	3.90	4.11	4.32
Book value per share	13.67	12.93	12.77	13.56	*6.2*	14.32	*5.6*	15.12	15.95	16.80
Average shares (diluted)	375	385	417	433	*3.9*	440	*1.5*	444	447	451

Balance Sheet (US$m)	12/19	12/20	12/21	12/22E	%ch	12/23E	%ch	12/24E	12/25E	12/26E
Cash and equivalents	148	126	95	61	*-35.6*	43	*-29.6*	51	70	82
Other current assets	1,706	1,534	1,826	1,837	*0.6*	1,837	*0.0*	1,837	1,837	1,837
Total current assets	**1,854**	**1,659**	**1,921**	**1,898**	*-1.2*	**1,880**	*-1.0*	**1,887**	**1,907**	**1,919**
Net tangible fixed assets	16,912	16,620	17,882	19,605	*9.6*	22,219	*13.3*	23,272	24,265	25,199
Net intangible fixed assets	1,716	1,738	1,809	1,809	*0.0*	1,809	*0.0*	1,809	1,809	1,809
Investments / other assets	2,178	2,024	2,546	2,696	*5.9*	2,846	*5.6*	2,996	3,146	3,296
Total assets	**22,660**	**22,041**	**24,157**	**26,007**	*7.7*	**28,753**	*10.6*	**29,964**	**31,126**	**32,222**
Trade payables & other ST liabilities	1,959	1,753	2,128	2,128	*0.0*	2,128	*0.0*	2,128	2,128	2,128
Short term debt	1,787	526	618	581	*-6.0*	581	*0.0*	1,836	586	1,560
Total current liabilities	**3,746**	**2,279**	**2,746**	**2,709**	*-1.4*	**2,709**	*0.0*	**3,964**	**2,714**	**3,688**
Long term debt	7,856	9,220	9,183	10,313	*12.3*	12,492	*21.1*	11,841	13,615	13,065
Other long term liabilities	5,071	4,704	5,280	5,172	*-2.0*	5,354	*3.5*	5,551	5,762	5,985
Preferred shares	880	880	1,547	1,547	*0.0*	1,547	*0.0*	1,547	1,547	1,547
Total liabilities (incl pref shares)	**17,553**	**17,083**	**18,756**	**19,740**	*5.2*	**22,101**	*12.0*	**22,903**	**23,637**	**24,285**
Common s/h equity	**5,107**	**4,958**	**5,401**	**5,942**	*10.0*	**6,328**	*6.5*	**6,736**	**7,164**	**7,612**
Minority interests	0	0	0	326	-	326	*0.0*	326	326	326
Total liabilities & equity	**22,660**	**22,040**	**24,157**	**26,007**	*7.7*	**28,754**	*10.6*	**29,964**	**31,127**	**32,223**

Cash Flow (US$m)	12/19	12/20	12/21	12/22E	%ch	12/23E	%ch	12/24E	12/25E	12/26E
Net income (before pref divs)	550	563	628	682	*8.7*	732	*7.3*	789	837	888
Depreciation & amortisation	717	762	748	827	*10.4*	936	*13.2*	997	1,057	1,116
Net change in working capital	(75)	(249)	(206)	20	-	31	*59.7*	48	60	74
Other operating	446	120	48	0	-	0	-	0	0	0
Operating cash flow	**1,638**	**1,196**	**1,218**	**1,529**	*25.5*	**1,699**	*11.2*	**1,834**	**1,955**	**2,078**
Tangible capital expenditure	(1,802)	(1,758)	(1,838)	(2,550)	*-38.7*	(3,550)	*-39.2*	(2,050)	(2,050)	(2,050)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) & disposals	0	0	0	0	-	0	-	0	0	0
Other investing	(120)	879	(367)	0	-	0	-	0	0	0
Investing cash flow	**(1,922)**	**(879)**	**(2,205)**	**(2,550)**	*-15.7*	**(3,550)**	*-39.2*	**(2,050)**	**(2,050)**	**(2,050)**
Equity dividends paid	(299)	(322)	(345)	(376)	*-9.0*	(406)	*-7.9*	(441)	(469)	(500)
Share issues / (buybacks)	244	211	1,140	290	*-74.6*	115	*-60.3*	115	115	115
Other financing	(74)	(219)	131	(55)	-	(55)	*0.0*	(55)	(55)	(55)
Change in debt & pref shares	494	82	31	1,129	*NM*	2,179	*93.0*	604	524	424
Financing cash flow	**366**	**(248)**	**956**	**988**	*3.3*	**1,833**	*85.6*	**223**	**115**	**(16)**
Cash flow inc/(dec) in cash	**82**	**69**	**(31)**	**(34)**	*-10.1*	**(18)**	*46.4*	**8**	**19**	**12**
FX / non cash items	(55)	(91)	0	0	-	0	-	0	0	0
Balance sheet inc/(dec) in cash	**27**	**(23)**	**(31)**	**(34)**	*-10.1*	**(18)**	*46.4*	**8**	**19**	**12**

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.

NiSource Inc. (NI.N)

Valuation (x)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
P/E (local GAAP, diluted)	21.2	18.6	17.9	17.9	16.8	15.6	14.8	14.0
P/E (UBS, diluted)	21.2	18.6	17.9	17.9	16.8	15.6	14.8	14.0
P/CEPS	8.6	7.4	7.8	7.7	7.1	6.6	6.3	6.0
Equity FCF (UBS) yield %	(1.6)	(6.0)	(6.2)	(9.3)	(16.9)	(2.0)	(0.9)	0.3
Dividend yield (net) %	3.0	3.6	3.6	3.7	3.9	4.2	4.4	4.6
P/BV	2.0	1.9	1.9	1.9	1.8	1.7	1.6	1.5
EV/revenues (core)	3.6	3.8	3.8	4.0	4.1	4.2	4.1	4.0
EV/EBITDA (UBS core)	10.6	9.9	10.4	10.4	10.1	9.8	9.3	8.9
EV/EBIT (core)	17.9	17.2	17.9	17.8	17.4	16.8	16.0	15.2
EV/OpFCF (core)	10.6	9.9	10.4	10.4	10.1	9.8	9.3	8.9
EV/op. invested capital	1.4	1.3	1.3	1.3	1.3	1.2	1.2	1.2

Enterprise value (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Market cap.	10,416	9,340	10,029	10,949	10,949	10,949	10,949	10,949
Net debt (cash)	10,133	10,133	10,877	11,816	13,477	14,874	15,425	15,884
Buy out of minorities	0	0	0	326	326	326	326	326
Pension provisions/other	373	336	326	326	326	326	326	326
Total enterprise value	**20,922**	**19,809**	**21,231**	**23,416**	**25,078**	**26,474**	**27,025**	**27,484**
Non core assets	(2,178)	(2,024)	(2,546)	(2,696)	(2,846)	(2,996)	(3,146)	(3,296)
Core enterprise value	**18,745**	**17,785**	**18,686**	**20,720**	**22,232**	**23,479**	**23,879**	**24,188**

Growth (%)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Revenue	1.7	(9.4)	4.3	6.3	4.6	3.6	3.0	2.9
EBITDA (UBS)	14.7	1.7	0.0	10.9	11.1	8.5	6.5	6.0
EBIT (UBS)	11.1	(1.5)	1.4	11.2	9.7	9.9	6.8	6.3
EPS (UBS, diluted)	1.5	0.1	4.0	5.4	6.3	7.6	5.6	5.7
Net DPS	5.7	5.4	1.7	7.3	6.3	5.9	5.6	5.3

Margins & Profitability (%)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Gross profit margin	70.4	NM	71.6	73.3	74.4	NM	NM	NM
EBITDA margin	34.0	38.2	36.6	38.2	40.6	42.5	43.9	45.3
EBIT (UBS) margin	20.2	22.0	21.3	22.3	23.4	24.8	25.8	26.6
Net earnings (UBS) margin	9.5	10.8	11.7	12.0	12.4	13.0	13.5	13.9
ROIC (EBIT)	7.9	7.5	7.4	7.5	7.2	7.3	7.4	7.6
ROIC post tax	6.5	6.1	6.2	6.3	6.1	6.1	6.2	6.3
ROE (UBS)	9.9	10.1	11.1	11.1	11.0	11.2	11.3	11.3

Capital structure & Coverage (x)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Net debt / EBITDA	5.9	5.9	6.3	6.2	6.6	6.3	6.1	5.9
Net debt / total equity %	203.2	211.8	208.4	197.5	219.1	214.9	209.3	202.7
Net debt / (net debt + total equity) %	67.0	67.9	67.6	66.4	68.7	68.2	67.7	67.0
Net debt/EV %	48.4	52.7	51.2	50.5	53.7	56.2	57.1	57.8
Capex / depreciation %	NM	NM	NM	NM	NM	NM	193.9	183.7
Capex / revenue %	NM	NM	NM	NM	NM	NM	NM	NM
EBIT / net interest	2.8	2.8	3.1	3.3	3.1	3.0	3.0	3.0
Dividend cover (UBS)	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Div. payout ratio (UBS) %	63.2	66.6	65.2	66.3	66.3	65.3	65.2	65.0

Revenues by division (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Others	5,184	4,697	4,900	5,208	5,448	5,644	5,813	5,980
Total	**5,184**	**4,697**	**4,900**	**5,208**	**5,448**	**5,644**	**5,813**	**5,980**

EBIT (UBS) by division (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Others	1,047	1,031	1,046	1,163	1,276	1,402	1,497	1,591
Total	**1,047**	**1,031**	**1,046**	**1,163**	**1,276**	**1,402**	**1,497**	**1,591**

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

Forecast returns

Forecast price appreciation	+14.9%
Forecast dividend yield	4.1%
Forecast stock return	+19.0%
Market return assumption	9.7%
Forecast excess return	+9.3%

Company Description

NI is a fully regulated gas and electric utility serving customers in six states in the Midwest and Mid-Atlantic. NI is a gas distribution utility with 3.2 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NI is an integrated electric utility serving 0.5 million customers in Indiana. NI's mix of operating earnings is 60% gas and 40% electric.

Valuation Method and Risk Statement

Our $28 price target is an 8% premium to the Regulated Utility average multiple or 16.9x our UBSe 2024 eps of $1.66. The premium is the sum of +5% for the group's undervaluation on a 12 month basis relative to Baa corporate bonds, -2% for third quartile EPS growth and 5% for second quartile regulation.

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.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	56%	26%
Neutral	FSR is between -6% and 6% of the MRA.	35%	22%
Sell	FSR is > 6% below the MRA.	9%	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 30 September 2022.
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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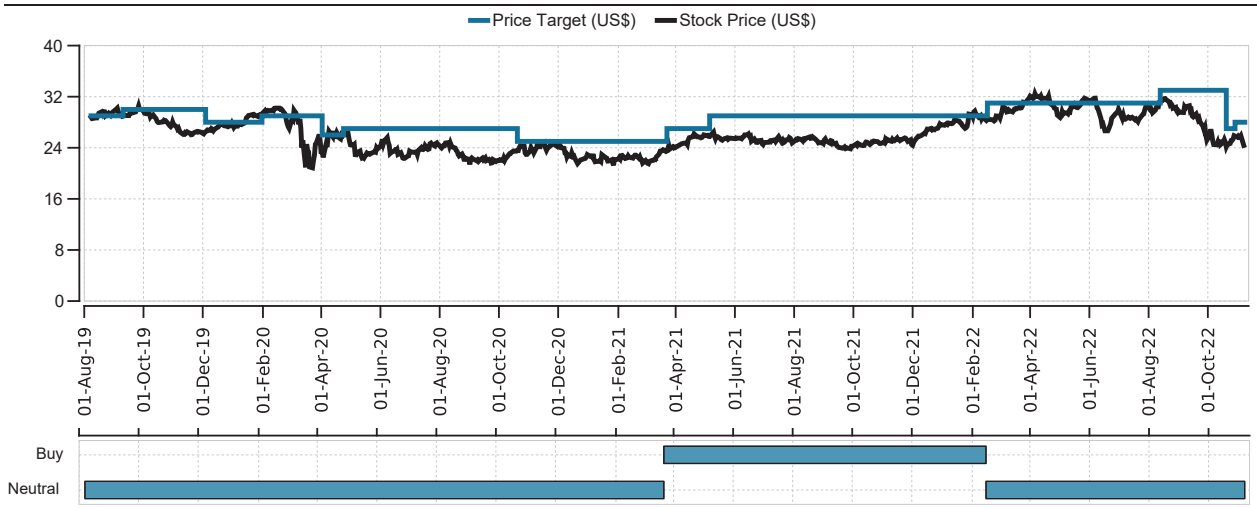
Company Disclosures

Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$24.37	07 Nov 2022

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
2019-08-07	27.63	29.00	Neutral
2019-09-09	28.91	30.00	Neutral
2019-12-03	26.41	28.00	Neutral
2020-01-30	29.10	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral

Date	Stock Price (US$)	Price Target (US$)	Rating
2020-10-19	23.47	25.00	Neutral
2021-03-22	23.42	27.00	Buy
2021-05-05	25.78	29.00	Buy
2022-02-15	28.26	31.00	Neutral
2022-08-12	31.14	33.00	Neutral
2022-10-19	24.88	27.00	Neutral
2022-10-28	25.89	28.00	Neutral

Source: UBS;as of 07-Nov-2022. All prices as of local market close. Ratings as of date shown.

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North America Power & Utilities

3Q 2022 Earnings Preview & Valuation Update

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Narrow The Focus After the Drawdown in Utilities; Price Target Updates

The UTY peaked on September 12 at 1,013.64, and since then has fallen 18.9% to closing levels on 10/17 of 822.65. This is versus the S&P 500 performance of (10.5)% over that same timeframe. We noted we believed valuations were at risk in an updated view of the sector Updated Valuation vs. Baa Corporate Bonds on September 26. Utility valuations relative to Baa Corporate Bond Yields have compressed from a peak of 24% overvalued on September 12, which is above 2 standard deviations to the mean, to ~17% overvalued, which is within 2 standard deviations to the mean. We believe overvalued conditions were maintained as the Fed raised rates from ~0% given the lack of an alternative for yield seeking capital. Further, utilities have been shown to outperform in rate hike cycles where the Fed does not hike more than ~300bps. However, with the yield curve inversion and 2-year bond yields ~4.5%, yield seeking capital has an alternative outlet. The Fed also seems poised to continue to raise interest rates beyond 300bp in total after September's CPI report. In this environment we believe there could still be near term pressure on valuations for the sector and would continue to recommend a narrow focus on secular growth or unique catalysts: CEG, NEE, and SRE, and an even greater focus on valuation and catalysts, where we like FE, PPL, and SO. Longer term the fundamentals of the sector remain positive on clean energy transition growth and relative predictability of earnings in 2023 and 2024 vis-à-vis the market generally in our view. Given the recent volatility in the sector we are updating our price targets to adjust for the lower average regulated utility multiple (detailed below).

Regulated Utilities

For regulated utilities we expect results on average to be 1.5% below consensus estimates. States with the best year on year weather were in New England and the Mid-Atlantic, with the least favorable weather in the South Atlantic and East North Central regions, although at -1% and -4% vs. 3Q 2021 we don't expect weather to be a significant drag on results anywhere. Louisiana was the least favorable weather state that impacted companies in our coverage universe, while Oklahoma had the most favorable weather for a non-decoupled utility. The largest projected beats versus consensus this quarter are EVRG, OGE, and PNW while the biggest projected misses are for CMS, DTE, EIX, ES, and XEL. Detailed drivers are discussed below.

Power

For power we expect that results will be in-line for CEG although down year on year to a clean 2Q '21 number that will be provided on the call. Drivers include inclusion of the CENG assets year on year, lower PJM capacity prices, non-recurrance of Winter Storm Uri cost saving initiative impacts from 2021, CMCs now in place in Illinois with set prices on those three nuclear units, and the shaping of retail contracts. We expect NRG and VST to both come in below current consensus estimates (NRG: $422 v. $625mln; VST: $965mln v. $1,289mln), although we expect consensus will move closer to our estimates by the time both companies report. We expect both companies to provide 2023 guidance ranges and an update for capital allocation going forward. Drivers for the lower expected results at NRG include continued coal supply constraints and Texas ancillary costs as well as the Parish Unit 8 outage. We expect 2023 guidance will be clean of most of these one-time 2022 impacts. For VST the lower than consensus results we expect are mainly driven by the timing of self-help benefits in 2021 post winter storm Uri that do not recur in 2022. We expect 2023E adjusted EBITDA guidance to be in the $2.3-$2.5Bln range for NRG and the $3.5-$3.7Bln range for VST.

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Figure 1: Electric Utilities Coverage Universe

Rating	Ticker	10/17/2022	Price Target	Total Return inc. Div. Yld	UBS 2020A EPS	UBS 2021A EPS	UBS 2022E EPS	UBS 2023E EPS	UBS 2024E EPS	2024 P/E Ratio	2024 Prem/ Disc	Current Dividend Yield	5 Yr EPS Growth	5 Yr DPS Growth	Regulatory Quartile
Buy	PEG	$55.27	$76	41%	$3.43	$3.65	$3.47	$3.63	$4.05	13.7x	(11%)	3.9%	7.7%	6.6%	2nd
Buy	CNP	$26.25	$33	28%	$1.44	$1.64	$1.38	$1.49	$1.64	16.0x	4%	2.6%	2.3%	8.0%	3rd
Buy	D	$65.28	$80	26%	$3.54	$3.86	$4.13	$4.39	$4.67	14.0x	(9%)	3.9%	6.1%	6.0%	2nd
Buy	SRE	$144.87	$178	26%	$8.03	$8.43	$8.57	$9.06	$9.80	14.8x	(4%)	3.0%	4.3%	7.0%	3rd
Buy	NEE	$73.65	$90	24%	$2.31	$2.55	$2.87	$3.10	$3.40	21.7x	41%	2.1%	9.0%	10.0%	1st
Buy	SO	$64.28	$77	24%	$3.25	$3.41	$3.60	$3.89	$4.21	15.3x	(1%)	4.1%	7.8%	2.9%	1st
Buy	AEP	$85.05	$100	21%	$4.46	$4.74	$4.97	$5.25	$5.64	15.1x	(2%)	3.7%	5.7%	7.0%	3rd
Buy	FE	$36.92	$43	21%	$2.38	$2.60	$2.38	$2.54	$2.80	13.2x	(14%)	4.2%	3.6%	4.5%	2nd
Buy	EMA	$53.74	$62	20%	$2.68	$2.81	$2.98	$3.35	$3.48	15.5x	1%	4.9%	5.5%	4.0%	1st
Buy	PCG	$14.16	$17	20%	$1.61	$1.08	$1.10	$1.23	$1.36	10.4x	(32%)	0.0%	8.6%	0.0%	3rd
Buy	AES	$23.88	$28	20%	$1.44	$1.52	$1.61	$1.74	$1.88	12.7x	(17%)	2.7%	7.7%	5.1%	1st
Buy	PPL	$24.89	$29	20%	$2.40	$1.05	$1.40	$1.56	$1.70	14.7x	(4%)	3.2%	12.8%	-6.5%	3rd
Buy	EXC	$37.10	$43	20%	$1.78	$2.08	$2.21	$2.36	$2.54	14.6x	(5%)	3.6%	8.0%	7.6%	3rd
Buy	OGE	$34.59	$39	18%	$2.03	$2.36	$2.09	$2.07	$2.18	15.8x	3%	4.8%	1.6%	3.0%	2nd
Neutral	DTE	$107.00	$119	15%	$5.62	$5.99	$5.94	$6.20	$6.64	16.1x	5%	3.3%	4.9%	4.3%	1st
Neutral	DUK	$89.10	$98	14%	$5.25	$5.24	$5.42	$5.74	$6.08	14.6x	(5%)	4.4%	5.5%	4.0%	2nd
Neutral	CMS	$55.36	$61	13%	$2.67	$2.65	$2.87	$3.12	$3.37	16.4x	7%	3.2%	8.2%	8.1%	1st
Neutral	EVRG	$57.27	$62	12%	$3.10	$3.58	$3.46	$3.71	$4.06	14.1x	(8%)	4.0%	5.7%	6.6%	4th
Neutral	AEE	$77.71	$85	12%	$3.50	$3.82	$4.08	$4.40	$4.75	16.3x	6%	2.8%	7.0%	6.0%	2nd
Neutral	NI	$24.89	$27	12%	$1.32	$1.37	$1.45	$1.54	$1.66	15.0x	(2%)	3.5%	6.1%	6.0%	2nd
Neutral	WEC	$85.65	$92	11%	$3.79	$4.11	$4.36	$4.63	$4.92	17.4x	13%	3.4%	6.3%	6.6%	1st
Neutral	LNT	$49.74	$53	10%	$2.43	$2.65	$2.74	$2.94	$3.13	15.9x	3%	3.4%	5.5%	6.0%	1st
Neutral	EIX	$57.12	$60	10%	$4.52	$4.59	$4.50	$4.96	$5.18	11.0x	(28%)	4.9%	5.1%	4.0%	3rd
Neutral	ETR	$101.32	$107	10%	$5.62	$6.02	$6.30	$6.71	$7.18	14.1x	(8%)	4.0%	6.4%	2.3%	4th
Neutral	ED	$83.02	$87	9%	$4.15	$4.39	$4.58	$4.85	$5.24	15.8x	3%	3.8%	6.1%	5.5%	4th
Neutral	ES	$73.87	$76	6%	$3.64	$3.86	$4.06	$4.32	$4.62	16.0x	4%	3.2%	7.0%	6.0%	4th
Neutral	XEL	$60.60	$62	5%	$2.79	$2.96	$3.15	$3.34	$3.55	17.1x	11%	3.0%	7.1%	6.0%	3rd
Sell	FTS	$51.45	$50	1%	$2.57	$2.59	$2.72	$2.95	$3.14	16.4x	7%	4.2%	6.3%	5.7%	3rd
Sell	PNW	$62.61	$60	1%	$5.10	$5.47	$4.00	$4.27	$4.54	13.8x	(10%)	5.4%	-1.3%	4.8%	4th

Source: FactSet, Company Reports, UBS Estimates

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Figure 2: Water Utility Coverage Universe

Rating	Ticker	10/17/2022	Price Target	Total Return inc. Div. Yld	UBS 2020A EPS	UBS 2021A EPS	UBS 2022E EPS	UBS 2023E EPS	UBS 2024E EPS	2024 P/E Ratio	2024 Prem/ Disc	Current Dividend Yield	5 Yr EPS Growth	5 Yr DPS Growth	Regulatory Quartile
Neutral	WTRG	$40.95	$45	13%	$1.58	$1.67	$1.79	$1.92	$2.05	19.9x	(19%)	2.8%	7.1%	7.0%	2nd
Neutral	AWK	$131.42	$130	1%	$3.63	$4.24	$4.43	$4.82	$5.10	25.8x	5%	2.0%	6.9%	10.0%	2nd
Water Utility Average										24.5x					

Source: FactSet, Company Reports, UBS Estimates

Figure 3: IPP Coverage Universe

Rating	Ticker	10/17/2022	Price Target	Total Return inc. Div. Yld	UBS 2019A EBITDA	UBS 2020A EBITDA	UBS 2021A EBITDA	UBS 2022E EBITDA	UBS 2023E EBITDA	2023 EV/ EBITDA Ratio	2023 Prem/ Disc	2022E Net Debt/ EBITDA	2022E FCF Yield
Buy	VST	$22.03	$35	61%	$3,325	$3,685	$1,931	$3,110	$3,553	5.0x	-20%	2.7x	25%
Neutral	NRG	$41.91	$42	1%	$1,776	$1,977	$2,404	$1,848	$2,342	7.4x	20%	4.5x	14%
MID-CYCLE MEDIAN										6.2x		3.6x	20%

Source: FactSet, Company Reports, UBS Estimates

Figure 4: 3Q'22E UBS Utility and Power EPS Estimates

US Companies in US$		Quarterly					Annual					
Company	Ticker	Scheduled Reporting Date	3Q'22E UBS	3Q'22E Consensus	UBS vs. Consensus	UBS Confidence Indicator[1]	3Q'21A Adjusted	2022E UBS	2022E Consensus	UBS vs. Consensus	Trailing 12 Month	2021A	2022E Guidance
ELECTRIC UTILITIES													
AES Corp	AES	4-Nov	$0.51E	$0.52	($0.01)		$0.50A	$1.61	$1.61	$0.00	$1.51	$1.52	$1.55-$1.65
Alliant Energy	LNT	7-Nov	$1.04E	$1.02	$0.02		$1.02A	$2.74	$2.77	($0.04)	$2.78	$2.65	$2.67-$2.81
Ameren Corp	AEE	4-Nov	$1.75E	$1.73	$0.02		$1.65A	$4.08	$4.08	$0.01	$4.00	$3.82	$3.95-$4.15
American Electric Power	AEP	27-Oct	$1.60E	$1.54	$0.06		$1.43A	$4.97	$5.00	($0.03)	$5.00	$4.74	$4.87-$5.07
Centerpoint Energy	CNP	1-Nov	$0.31E	$0.33	($0.02)		$0.25A	$1.38	$1.38	($0.00)	$1.78	$1.64	$1.37-$1.39
CMS Energy	CMS	27-Oct	$0.52E	$0.68	($0.16)		$0.54A	$2.87	$2.88	($0.01)	$2.72	$2.65	$2.85-$2.89
Consolidated Edison	ED	3-Nov	$1.48E	$1.47	$0.01		$1.41A	$4.58	$4.51	$0.07	$4.59	$4.39	$4.40-$4.60
Dominion Energy	D	4-Nov	$1.08E	$1.12	($0.04)		$1.11A	$4.13	$4.11	$0.01	$3.94	$3.86	$3.95-$4.25
DTE Energy	DTE	27-Oct	$1.47E	$1.66	($0.19)		$1.72A	$5.94	$6.02	($0.08)	$5.71	$5.62	$5.90-$6.10
Duke Energy	DUK	4-Nov	$1.87E	$1.87	($0.00)		$1.88A	$5.42	$5.45	($0.03)	$5.25	$5.24	$5.30-$5.60
Edison International	EIX	1-Nov	$1.35E	$1.71	($0.36)		$1.69A	$4.50	$4.49	$0.01	$4.52	$4.59	$4.40-$4.70
Emera Inc (C$)	EMA-TSE	11-Nov	$0.74E	$0.75	($0.01)		$0.68A	$2.98	$2.99	($0.02)	$2.89	$2.81	N/A
Entergy Corp	ETR	2-Nov	$2.69E	$2.67	$0.02		$2.45A	$6.30	$6.36	($0.06)	$6.54	$6.02	$6.15-$6.45
Evergy, Inc	EVRG	TBA	$1.94E	$1.86	$0.08		$1.98A	$3.46	$3.56	($0.10)	$3.54	$3.58	$3.43-$3.63
Eversource Energy	ES	2-Nov	$1.00E	$1.08	($0.08)		$1.02A	$4.06	$4.11	($0.04)	$4.03	$3.86	$4.04-$4.14
Exelon Corp	EXC	3-Nov	$0.69E	$0.69	$0.00		$0.78A	$2.21	$2.26	($0.05)	$2.19	$2.08	$2.18-$2.32
FirstEnergy Corp	FE	25-Oct	$0.79E	$0.78	$0.01		$0.82A	$2.38	$2.42	($0.04)	$2.43	$2.60	$2.30-$2.50
Fortis Inc (C$)	FTS-TSE	28-Oct	$0.68E	$0.69	($0.01)		$0.64A	$2.72	$2.75	($0.03)	$2.66	$2.59	N/A
NextEra Energy	NEE	28-Oct	$0.80E	$0.79	$0.01		$0.75A	$2.87	$2.88	($0.00)	$2.76	$2.55	$2.80-$2.90
NiSource Inc.	NI	7-Nov	$0.09E	$0.13	($0.04)		$0.11A	$1.45	$1.45	($0.00)	$0.09	$1.37	$1.42-$1.48
OGE Energy Corp (2)	OGE	3-Nov	$1.16E	$1.09	$0.07		$1.11A	$2.09	$2.04	$0.05	$2.13	$2.36	$1.87-$1.97
PG&E Corp	PCG	27-Oct	$0.25E	$0.24	$0.01		$0.23A	$1.10	$1.10	$0.00	$1.08	$1.08	$1.07-$1.13
Pinnacle West Capital Corporation	PNW	3-Nov	$2.71E	$2.53	$0.18		$3.00A	$4.00	$4.01	($0.01)	$4.55	$5.47	$3.90-$4.10
PPL Corporation	PPL	w/o 10/31	$0.40E	$0.43	($0.03)		$0.36A	$1.40	$1.41	($0.01)	$1.33	$2.40	$1.30-$1.45
Public Service Enterprise Group	PEG	31-Oct	$0.82E	$0.82	($0.00)		$0.98A	$3.47	$3.47	($0.01)	$3.48	$3.65	$3.35-$3.55
Sempra Energy	SRE	3-Nov	$1.97E	$1.99	($0.02)		$1.70A	$8.57	$8.63	($0.06)	$9.02	$8.43	$8.10-$8.70
Southern Company	SO	27-Oct	$1.34E	$1.30	$0.04		$1.23A	$3.60	$3.59	$0.00	$3.74	$3.41	$3.50-$3.60
WEC Energy Group	WEC	1-Nov	$0.85E	$0.86	($0.01)		$0.92A	$4.36	$4.39	($0.03)	$4.26	$4.11	$4.36-$4.40
Xcel Energy	XEL	27-Oct	$1.17E	$1.27	($0.10)		$1.13A	$3.15	$3.17	($0.02)	$3.05	$2.96	$3.10-$3.20
Average			**$1.14**	**$1.16**	**($0.02)**	**-1.6%**	**$1.14**	**$3.53**	**$3.55**	**($0.02)**	**$3.50**	**$3.52**	
WATER UTILITIES													
American Water Works Company	AWK	31-Oct	$1.51E	$1.53	($0.39)		$1.53A	$4.43	$4.44	($0.01)	$3.58	$4.25	$4.39-$4.49
Essential Utilities	WTRG	7-Nov	$0.26E	$0.22	$0.10		$0.20A	$1.79	$1.67	N/A	$1.33	$1.67	$1.75-$1.80
Average			**$0.89**	**$0.88**	**($0.15)**	**-16.8%**	**$0.87**	**$3.11**	**$3.06**	**($0.01)**	**$2.46**	**$2.96**	
IPPS - Adjusted EBITDA not EPS	**US$mlns**												
Constellation Energy	CEG	8-Nov	$550E	$553	($3)		$1,014	$2,638	$2,569	$69	N/A	$2,456	$2,350 - $2,750
NRG Energy	NRG	TBA	$422E	$625	($203)		$767	$2,157	$2,184	($27)	N/A	$2,423	$1,950 - $2,250
Vistra Energy	VST	4-Nov	$965E	$1,289	($324)		$1,177	$2,988	$3,122	($134)	N/A	$1,941	$2,810 - $3,310
Average			**$646**	**$822**	**($177)**	**-21.5%**	**$986**	**$2,594**	**$2,625**	**($31)**		**$2,273**	

1. UBS Confidence Indicator: Green = high confidence in estimate vs. consensus; Red = low confidence in estimate vs. consensus; Yellow = mid confidence in estimate vs. consensus
2. 2022 EPS guidance reflects OG&E and parent.

Source: FactSet, Company Reports, UBS Securities LLC Estimates

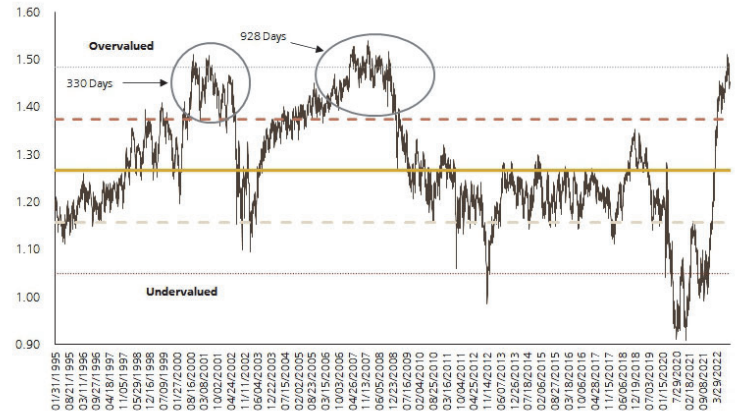
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Regulated Utilities 3Q'22 Preview

Narrow Focus After the Utility Drawdown

The UTY peaked on September 12 at 1,013.64, and since then has fallen 18.9% to closing levels on 10/17 of 822.65. This is versus the S&P 500 performance of (10.5)% over that same timeframe. We noted we believed valuations were at risk in an updated view of sector valuation vs. Baa Corporate Bonds: Updated Valuation vs. Baa Corporate Bonds on September 26. Utility valuations relative to Baa Corporate Bond Yields have compressed from a peak of 24% overvalued on September 12, which is above 2 standard deviations to the mean, to ~17% overvalued, which is within 2 standard deviations to the mean.

Figure 5: Regulated Utility Dividend Yield vs. Moody's Baa Corporate Bond Yields



Source: FactSet, UBS Equity Research Estimates

Utilities have managed long periods above one standard deviation overvalued to corporate bond yields, however this was just the Fed rate cut cycle following the tech crash, and during and following the Fed rate cut cycle during the great financial crisis. The 2022 period has been an anomaly in that it has occurred during a Fed rate hike cycle. We believe overvalued conditions were maintainable as the Fed raised rates from ~0% given the lack of an alternative for yield seeking capital. Further, utilities have been shown to outperform in rate hike cycles where the Fed does not hike more than ~300bps. However, with the yield curve inversion and 2-year bond yields ~4.5%, yield seeking capital has an alternative outlet. The Fed also seems poised to continue to raise interest rates beyond 300bp in total after September's CPI report.

Relative performance of the DJU peaked at ~15% versus the market in August 2022, and has now come back in to a relative outperformance of ~10%. On September 12, DJU absolute performance during the current rate hike cycle peaked at +17%, and performance relative to the S&P 500 peaked on September 12 at +23%. We believe as the Fed hikes rates from the 300-325bp baseline relative performance is more likely to begin to move more in-line with that during Fed hike cycles where the Fed raises beyond these levels. However, given significantly positive long term fundamentals based on the growth from the clean energy transition, the group may not revert to the minus double digit underperformance that has occurred historically.

Figure 6: DJU vs. S&P 500 Performance During Fed Rate Hike Cycles

Duration	Fed Rate Hike Cycles		Starting	Ending	Entire Hike Cycle			Last Hike to 12Mo After		
Months	Start Date	End Date	Rates	Rates	DJU	S&P500	Relative	DJU	S&P500	Relative
Underway	Mar-22	N/A	0.25	3.25	-6%	-16%	10%			
37	Dec-15	Dec-18	0.50	2.50	30%	23%	7%	20%	28%	-8%
24	Jun-04	Jun-06	1.25	5.25	48%	10%	38%	21%	21%	1%
9	Aug-99	May-00	5.25	6.50	4%	7%	-3%	18%	-14%	32%
12	Feb-94	Jan-95	3.25	6.00	-14%	-2%	-12%	19%	33%	-14%
22	Apr-87	Feb-89	6.75	9.75	-9%	2%	-11%	18%	12%	6%
14	May-83	Jul-84	9.56	11.63	-3%	-9%	6%	32%	30%	2%
10	Aug-80	May-81	10.00	20.00	-2%	8%	-10%	6%	-13%	19%
47	Apr-76	Feb-80	4.88	20.00	26%	11%	15%	-3%	10%	-13%
27	Mar-72	May-74	5.63	13.00	-34%	-17%	-17%	4%	2%	1%
			Commodity Driven Cycles '76-'80 I '04-'06							
		Average			4%	2%	2%	15%	12%	3%
		Avg. w/o Commodity Cycles			-4%	-1%	-6%	17%	11%	5%

Source: US Federal Reserve, FactSet, Capital IQ, UBS Equity Research Estimates

In this environment we believe there could still be near term pressure on valuations for the sector and would continue to recommend a narrow focus on secular growth or unique catalysts: CEG, NEE, and SRE, and an even greater focus on valuation and catalysts, where we like FE, PPL, and SO. Longer term the fundamentals of the sector remain positive on clean energy transition growth and relative predictability of earnings in 2023 and 2024 visa vie the market generally in our view.

Price Target Updates

As a result of the significant valuation compression of the utility sector overall discussed above we are updating several price targets in our coverage universe. We are adjusting our valuations for an update of the average regulated utility multiple as displayed in the table below. Full valuation methodologies and updated upside and downside methodologies are provided in a section at the back of the note after the discussion of earnings drivers for the quarter.

Figure 7: Price Target Updates for Change in Regulated Utility '24 P/E Multiple

Rating	Ticker	10/17/2022	Prior Price Target	Prior Utility Multiple	New Price Target	Utility Multiple
Buy	AEP	$85.05	$120	18.4x	$100	15.3x
Buy	D	$65.28	$96	18.4x	$80	15.3x
Buy	EXC	$37.10	$49	17.4x	$43	15.3x
Buy	FE	$36.92	$52	18.5x	$43	15.3x
Buy	NEE	$73.65	$109	18.5x	$90	15.3x
Buy	PPL	$24.89	$34	17.9x	$29	15.3x
Buy	SO	$64.28	$93	18.5x	$77	15.3x
Buy	SRE	$144.87	$204	17.5x	$178	15.3x
Buy	PEG	$55.27	$89	17.9x	$76	15.3x
Buy	EMA	$53.74	$74	18.3x	$62	15.3x
Buy	PCG	$14.16	$18	16.2x	$17	15.3x
Buy	AES	$23.88	$29	15.8x	$28	15.3x
Neutral	CMS	$55.36	$76	19.1x	$61	15.3x
Neutral	LNT	$49.74	$68	19.6x	$53	15.3x
Neutral	DUK	$89.10	$118	18.4x	$98	15.3x
Neutral	DTE	$107.00	$142	18.3x	$119	15.3x
Neutral	AEE	$77.71	$102	18.4x	$85	15.3x
Neutral	NI	$24.89	$33	18.7x	$27	15.3x
Neutral	EVRG	$57.27	$74	18.3x	$62	15.3x
Neutral	WEC	$85.65	$110	18.3x	$92	15.3x
Neutral	EIX	$57.12	$72	18.4x	$60	15.3x
Neutral	ETR	$101.32	$128	18.3x	$107	15.3x
Neutral	XEL	$60.60	$75	18.5x	$62	15.3x
Neutral	ES	$73.87	$89	17.9x	$76	15.3x
Neutral	ED	$83.02	$97	17.1x	$87	15.3x
Sell	FTS	$51.45	$59	18.1x	$50	15.3x
Sell	PNW	$62.61	$71	18.1x	$60	15.3x

Source: FactSet, UBS Equity Research Estimates

Valuation Methodology

Our valuation methodology for the group is price-to-earnings based. The adjustments applied fall into 7 categories. These are as follows: 1) Group Valuation Bias: Flowing from our valuation work comparing Baa corporate yields to group dividend yields and RU price to earnings ratios to those for the S&P 500, we incorporate a positive or negative adjustment to our group multiple representing the gap we calculate to the nearest 5%; 2) Growth Adjustment: We adjust our valuations based on the growth quartile each utility occupies. First quartile receives a 4% premium, second quartile a 2% premium, third quartile a 2% discount and fourth quartile a 4% discount; 3) Regulatory Adjustment: Our valuation adjustments for regulation are based on our proprietary Regulatory Rankings. First quartile jurisdictions receive 10%, second quartile 5%, third quartile -5% and fourth quartile -10%; 4) Clean Energy Transition: A potential 5% premium for a risk adjusted clean energy transition growth opportunity; 5) Earnings Consistency Adjustment: For companies that fall in the top quartile of % Time Beat/ Meet, we include +4%; 6) Multi Utility Diversified Valuation: For multi utilities (those with more than 15% of unregulated earnings), we perform a sum-of-the-parts analysis applying business/region appropriate valuations to those diversified businesses; 7) One-off Adjustments: In special situations, we value risk on an issue-specific basis. Common areas where we apply such an adjustment include: large project construction risk, legal risk, and announced M&A completion risk. We identify the following risk factors: rising interest rates; regulatory and policy risks; operational risks; construction risks; cybersecurity risk to the transmission grid and/or customer data, and extreme weather events.

In the context of our valuation update for the group we adjusted our 4% premium for EPS guidance reliability to the top third of performers on that metric rather than the top half, which we viewed as too inclusive. This lowered the valuation premium by 4% in the new valuation methodology versus the prior valuation methodology for CMS, LNT, NEE, and NI. We also lowered the wildfire discount for PCG to (25%) from (30%) given improved wildfire mitigation efforts.

Figure 8: Updated Valuation Matrix

Investment Opinion	Ticker	Overall Reg Group Premium Discount	Regulatory Quartile Premium Discount	Regulated EPS Growth Premium Discount	Clean Energy Growth	EPS Guidance Reliablity Adjustments	Specific Adjustments	Net Prem/Disc Regulated Valuation	Business Value
Buy	AES	5%	10%	2%				17%	$22
Neutral	LNT	5%	10%	(4%)				11%	$0
Neutral	AEE	5%	5%	2%		4%		16%	$0
Buy	AEP	5%	5%	(4%)	5%	4%		15%	$0
Neutral	CMS	5%	10%	4%				19%	$0
Buy	CNP	5%	(5%)	2%	5%	4%		11%	$0
Neutral	ED	5%	(10%)	(2%)	5%		10%	8%	$0
Buy	D	5%	5%	(4%)	5%			11%	$0
Neutral	DTE	5%	10%	(2%)		4%		17%	$0
Neutral	DUK	5%	5%	(4%)				6%	$0
Neutral	EIX	5%	(5%)	(2%)			(22%)	(24%)	$0
Buy	EMA	5%	10%	(4%)	5%			16%	$0
Neutral	ETR	5%	(10%)	2%				(3%)	$0
Neutral	ES	5%	(10%)	4%	5%			4%	$0
Neutral	EVRG	5%	(10%)	4%				(1%)	$0
Buy	EXC	5%	(5%)	4%	5%			9%	$0
Buy	FE	5%	5%	2%			(12%)	0%	$0
Sell	FTS	5%	(5%)	(2%)			5%	3%	$0
Buy	NEE	5%	10%	4%	5%			24%	$49
Neutral	NI	5%	5%	(4%)				6%	$0
Buy	OGE	5%	5%	(2%)	5%			13%	$0
Buy	PCG	5%	(5%)	4%			(25%)	(21%)	$0
Sell	PNW	5%	(10%)	(2%)			(8%)	(15%)	$0
Buy	PPL	5%	(5%)	4%		4%		8%	$0
Buy	PEG	5%	5%	4%	5%	4%		23%	$0
Buy	SRE	5%	(5%)	(2%)	5%	4%		7%	$53
Buy	SO	5%	10%	4%				19%	$0
Neutral	WEC	5%	10%	(2%)	5%	4%		22%	$0
Neutral	XEL	5%	(5%)	2%	5%	4%		11%	$0
Water									
Neutral	AWK		5%	2%				7%	$0
Neutral	WTRG		5%	2%				7%	$12

Source: UBS Equity Research Estimates

Figure 9: Prior Valuation Matrix

Investment Opinion	Ticker	Overall Reg Group Premium Discount	Regulatory Quartile Premium Discount	Regulated EPS Growth Premium Discount	Clean Energy Growth	EPS Guidance Reliablity Adjustments	Specific Adjustments	Net Prem/Disc Regulated Valuation	Business Value
Buy	AES	5%	10%	2%				17%	$24
Neutral	LNT	5%	10%	(4%)	5%	4%		20%	$0
Neutral	AEE	5%	5%	2%		4%		16%	$0
Buy	AEP	5%	5%	(4%)	5%	4%		15%	$0
Neutral	CMS	5%	10%	4%		4%		23%	$0
Buy	CNP	5%	(5%)	2%	5%	4%		11%	$0
Neutral	ED	5%	(10%)	(2%)	5%		10%	8%	$0
Buy	D	5%	5%	(4%)	5%			11%	$0
Neutral	DTE	5%	10%	(2%)		4%		17%	$0
Neutral	DUK	5%	5%	(4%)				6%	$0
Neutral	EIX	5%	(5%)	(2%)			(22%)	(24%)	$0
Buy	EMA	5%	10%	(4%)	5%			16%	$0
Neutral	ETR	5%	(10%)	2%				(3%)	$0
Neutral	ES	5%	(10%)	4%	5%			4%	$0
Neutral	EVRG	5%	(10%)	4%				(1%)	$0
Buy	EXC	5%	(5%)	4%	5%			9%	$0
Buy	FE	5%	5%	2%			(12%)	0%	$0
Sell	FTS	5%	(5%)	(2%)			5%	3%	$0
Buy	NEE	5%	10%	4%	5%	4%		28%	$51
Neutral	NI	5%	5%	(4%)		4%		10%	$0
Buy	OGE	5%	5%	(2%)	5%			13%	$0
Buy	PCG	5%	(5%)	4%			(30%)	(26%)	$0
Sell	PNW	5%	(10%)	(2%)			(8%)	(15%)	$0
Buy	PPL	5%	(5%)	4%		4%		8%	$0
Buy	PEG	5%	5%	4%	5%	4%		23%	$0
Buy	SRE	5%	(5%)	(2%)	5%	4%		7%	$53
Buy	SO	5%	10%	4%				19%	$0
Neutral	WEC	5%	10%	(2%)	5%	4%		22%	$0
Neutral	XEL	5%	(5%)	2%	5%	4%		11%	$0
Water									
Neutral	AWK		5%	2%				7%	$0
Neutral	WTRG		5%	2%				7%	$14

Source: Factset, UBS Equity Research Estimates

Key Calls this Quarter

We expect that several companies will update 2022 guidance and will likely point to the high end of the range or raise 2022 guidance after 3Q results. We anticipate this premised on a significant number of companies being above their half year run rates to guidance at 2Q and having a normal to better than normal weather quarter in 3Q. To some extent companies might pull forward O&M where they can to manage their 2023 growth rates.We expect several companies to issue 2023 guidance on the quarterly calls in line with their usual timing. These include LNT, AEP, CNP, EMA, FE, NI, PNW, PEG, WEC, and XEL. Of these, 2023 guidance for FE may be delayed given the management transition and the pension mark to market on 12/31; PNW might be delayed given the ongoing Arizona rate case, and WEC will likely be delayed until the ROE is determined in the Wisconsin rate case process in mid-December.

Alliant Energy. The company typically rolls forward cap-ex and EPS guidance. We also expect guidance on the potential inclusion of $1.3 billion of tax-equity in ratebase as noted in their slide deck.

CenterPoint Energy. The company is scheduled to give a comprehensive update on its capital plan, with the focal point for incremental capex opportunities being the Houston regional master energy plan. Currently, the five year capex plan calls for $19.3bn, while the 10-year plan is $40Bn+. This capital plan supports mid-to high end earnings growth of 6-8% annually through 2030. We believe the forthcoming update will strengthen and lengthen the EPS CAGR.

CMS Energy. With the third quarter report CMS typically rolls forward the EPS guidance from the midpoint of the current year, which is $2.87, which would imply $3.07 at the midpoint of 6% to 8% EPS growth guidance. The company is entering the later stages of the electric case after testimony, although settlement is possible. Electric GRC Proceeding on Track We also expect an update on the integrated resource plan implementation, equity needs and the Michigan storm audit and investment opportunity. Michigan PSC Orders Audit of DTE and CMS.

Dominion Energy. On the call investors will likely be focused on any updates on the pending re-hearing proceeding on the offshore wind project in Virginia. The company has filed for reconsideration on a performance guarantee that was included in the State Corporation Commission's final order in August. Dominion is seeking to have the language modified in order to be able to proceed with the project. Additional topics will likely be updates on the transmission constraint issue highlighted last call as well as managing through a higher interest rate and inflationary backdrop.

Duke Energy. We expect the company will provide 2023 earnings drivers which will be a focal point on the call. Investor concern has centered around the 2023 guidance and whether the current 5-7% EPS growth rate will be reset off a potentially lower base given the upfront dilution we expect from the sale of the Commercial Renewables business. Longer term, Duke added $10bn to its capex guidance at its ESG day earlier this month and outlined 7% rate base growth over the next decade. Duke recently filed rates cases in North Carolina and South Carolina seeking double digit rate increases. We expect customer bill pressure to be a topic of conversation as well.

FirstEnergy. We expect updates on the external CEO search and the transmission and distribution minority stake sale which are expected to take 3-6 months or late 2022/early 2023. We could also get an update on the Signal Peak hedging which prices off Newcastle coal.

Fortis Inc. We expect Fortis will release their updated five year capital plan in conjunction with their third quarter earnings release. The current capital plan is for C $20Bln for 2022-2026 which leads to ~6% rate base growth from 2021 levels of C $31.1Bln to C$41.6Bln by 2026. The updated capital plan will be from 2023-2027, and will at the least drop the C$3.9Bln 2022 year and add a ~C$4.4Bln year in 2027 as well as potentially increasing capex in '24+, approximating a C$21-C$22Bln plan, although we don't anticipate that the update will significantly alter the long term rate base growth projection of ~6%/year over the forecast period.

NiSource. The Analyst Day on November 7 should reveal the outcome of the company's strategic review. The outcomes may range from the status quo to selling LDC assets; we believe a sale of the company is a low probability. We also expect management to provide a full update of the earnings and rate base growth outlook and the capital expenditure and financing plans. The current plan calls for 7-9% EPS growth from '21-'24. We expect the new plan will roll out an earnings growth rate through at least 2026.

WEC Energy Group. We expect WEC to release an updated five year capital plan for '23-'27 in conjunction with their earnings release for the quarter. As a reminder the current capital plan of $17.7Bln results in 7% long term rate base growth to a '26 forecast of $35Bln and long term EPS growth of 6%-7% per year. WEC will also will likely provide long term rate base growth and earnings growth guidance. We, however, don't expect 2023 earnings per share and dividend guidance until after the ROE is determined in the Wisconsin rate case process, which is expected by mid-December.

Xcel Energy. We expect a roll-forward of earnings guidance to 2023, a regulatory update following the NSP Minnesota gas rate case settlement, and an update on the Inflation Reduction Act implications. A roll-forward of the company's 5% to 7% EPS growth rate would result in $3.34 in 2023, which is in line with our forecast. We view it as a net positive for the company. The extension of the production tax credit provides wind repowering opportunities.

Edison Electric Conference Preview

Consolidated Edison. The company deferred an update on guidance when they announced the sale of the Clean Energy Business. Release of 3Q results and the Edison Electric conference provide opportunities for more guidance on the use of the $4 billion of net proceeds. We looked at 4 possible scenarios and the one most potentially accretive to EPS was a 2 year redeployment of the money in $1.4 billion of stock buybacks, a $2.4 billion increase in CECONY cap-ex and the avoidance of equity for 2 years. This includes repayment of $850 million of short-term debt in lieu of equity. We calculated that would be $0.06/share accretive in 2024E. Clean Energy Business Sale Announced

DTE Energy. Following the third quarter report the company will likely file its integrated resource plan, give 2023 EPS guidance and provide 5 year cap-ex guidance from 2023-2027. The integrated resource plan could include a Belle River plant conversion from coal to gas, acceleration of the Monroe coal plant retirement and an update on MIGreen Power. We also expect more detail on DTE Vantage including renewable natural gas and the steel coking business.

Entergy. The company updated the longer term financial outlook this past June at its analyst day, but plans to give a refresh on the three year capital plan and Inflation Reduction Act impacts at EEI.

Essential Utilities. The company is working to complete the PA PUC approval process for the DELCORA wastewater purchase. A closing or clarity on the transaction would likely lead to a guidance update and financing plan. The transaction is considered in the company's 5% to 7% EPS growth rate although all of the details of the $277 million transaction are not yet clear. DELCORA has had a rate case in the last few years. We calculate the transaction is neutral to WTRG if financed with 50% equity and 50% debt.

Rate Cases

Figure 10: 2022 Rate Cases in Process

2022 Rate Cases Ongoing	Where	Subsidiary	Allowed ROE	Equity Ratio	Rate Base ($mlns)	Rate Increase	Date	Subsidiary % of Regulated EPS
AES Corp.	OH	The Dayton Power and Light Company	10.50%	53.9%	$796	$121	11/30/2020	29%
Ameren Corp.	IL	Ameren Illinois Company	7.85%	54.0%	$3,883	$85	4/14/2022	48%
Ameren Corp.	MO	Union Electric Company	10.20%	51.9%	$11,606	$316	8/1/2022	52%
CMS Energy	MI	Consumers Energy Co.-Electric	10.25%	51.1%	$13,739	$287	4/25/2022	100%
Consolidated Edison	NY	Consolidated Edison Co. of NY-Electric & Gas	10.00%	50.0%	$36,105	$1,440	1/28/2022	95%
DTE Energy	MI	DTE Electric Company	10.25%	39.6%	$21,235	$367	1/18/2022	80%
Duke Energy	NC	Duke Energy Progress	10.20%	53.0%	$12,304	$624	10/6/2022	20%
Duke Energy	SC	Duke Energy Progress	10.20%	53.0%	$1,948	$90	9/1/2022	20%
Emera Inc.	FL	Tampa Electric	10.20%	45.1%	$780	$91	8/26/2022	76%
Entergy	AR	Entergy Arkansas	9.65%	47.0%	$9,224	$79	7/7/2022	31%
Entergy	TX	Entergy Texas	10.80%	51.2%	$4,412	$131	7/1/2022	12%
Evergy	MO	Evergy Metro, Inc.	10.00%	51.2%	$3,153	$48	1/7/2022	32%
Evergy	MO	Evergy Missouri West	10.00%	51.8%	$2,485	$60	1/7/2022	15%
Eversource Energy	MA	NSTAR Electric Co.	10.50%	54.0%	$4,095	$95	1/14/2022	36%
Exelon	IL	Commonwealth Edison	7.85%	49.5%	$13,883	$223	4/15/2022	36%
Exelon	PA	PECO Energy	10.95%	53.4%	$2,884	$82	3/31/2022	24%
Fortis Inc.	AZ	Tucson Electric Power	10.25%	54.3%	$3,625	$234	6/17/2022	18%
NiSource	IN	Northern Indiana Public Service	10.40%	51.6%	$5,946	$292	9/19/2022	13%
NiSource	OH	Columbia Gas of Ohio, Inc.	10.95%	50.6%	$3,560	$221	6/30/2021	23%
NiSource	PA	Columbia Gas of Pennsylvania	11.20%	54.4%	$2,958	$81	3/18/2022	14%
PG&E Corp.	CA	Pacific Gas and Electric-Electric & Gas	10.25%	52.0%	$49,179	$5,461	6/30/2021	100%
Sempra	CA	San Diego Gas & Electric	10.20%	54.0%	$8,886	$446	5/16/2022	70%
Sempra	CA	So Cal Gas Company-Gas	10.20%	54.0%	$13,446	$1,739	5/16/2022	70%
Sempra	TX	Oncor Electric Delivery Company LLC	10.30%	45.0%	$18,816	$251	5/13/2022	30%
Southern Company	GA	Georgia Power Company	11.00%	56.0%	$24,018	$1,004	6/24/2022	37%
WEC Energy Group	WI	Wisconsin Electric Power-Electric	10.00%	53.0%	$5,690	$258	4/28/2022	73%
WEC Energy Group	WI	Wisconsin Electric Power-Gas	10.00%	53.0%	$1,083	$51	4/28/2022	73%
WEC Energy Group	WI	Wisconsin Gas LLC	10.20%	53.0%	$1,668	$60	4/28/2022	73%
WEC Energy Group	WI	Wisconsin Public Service-Electric	10.00%	53.0%	$3,357	$73	4/28/2022	73%
WEC Energy Group	WI	Wisconsin Public Service-Gas	10.00%	53.0%	$783	$30	4/28/2022	73%
Xcel Energy	CO	Public Service Co. of CO	10.25%	55.7%	$3,604	$202	1/24/2022	38%
Xcel Energy	MN	Northern States Power-Electric	10.20%	52.5%	$11,918	$677	10/25/2021	36%
Xcel Energy	MN	Northern States Power-Gas	10.50%	52.5%	$934	$36	11/1/2021	36%
Xcel Energy	SD	Northern States Power-Electric	10.75%	53.0%	$947	$86	6/30/2022	36%

Source: Company Reports, S&P Capital IQ Pro, UBS

Weather

3Q'22 degree days nationwide were 12% above normal and 4% above 3Q'21. The best comparisons were in the Northeast United States and the worst comparisons were in the East/North Central region and Southeast.

Figure 11: 3Q'22 Weather Conditions versus Normal and 3Q'21

Degree Day Comparison		
	vs Norm	vs 3Q'21
NEW ENGLAND	28%	21%
MIDDLE ATLANTIC	22%	9%
W S CENTRAL	11%	9%
PACIFIC	28%	6%
E S CENTRAL	9%	4%
W N CENTRAL	3%	3%
MOUNTAIN	-1%	2%
SOUTH ATLANTIC	7%	-1%
E N CENTRAL	6%	-4%
UNITED STATES	12%	4%

Degree Day Comparison			
	vs Norm	Rank	vs 3Q'21
NEW HAMPSHIRE	11%	19	34%
MASSACHUSETTS	27%	5	27%
NEW YORK	20%	9	17%
OKLAHOMA	15%	12	15%
MAINE	-1%	41	14%
CONNECTICUT	35%	2	14%
NEW JERSEY	32%	3	12%
RHODE ISLAND	43%	1	12%
TEXAS	13%	13	11%
TENNESSEE	11%	20	10%
COLORADO	6%	30	9%
CALIFORNIA	29%	4	8%
NEBRASKA	6%	28	8%
VERMONT	6%	26	7%
SOUTH CAROLINA	11%	21	6%
ARKANSAS	13%	15	5%
KANSAS	6%	27	4%
MISSOURI	8%	23	4%
ARIZONA	-6%	43	3%
NORTH CAROLINA	13%	14	2%
SOUTH DAKOTA	-1%	39	2%
WISCONSIN	-2%	42	2%
KENTUCKY	8%	24	2%
MARYLAND	21%	8	2%
GEORGIA	6%	31	2%
MISSISSIPPI	7%	25	1%

Degree Day Comparison			
	vs Norm	Rank	vs 3Q'21
NEVADA	0%	38	1%
DISTRCT COLUMBI	15%	11	1%
IOWA	4%	36	1%
ALABAMA	6%	29	0%
HAWAII	5%	35	0%
UTAH	5%	33	0%
MICHIGAN	-10%	46	-1%
WEST VIRGINIA	12%	16	-1%
NEW MEXICO	-14%	49	-2%
MINNESOTA	-14%	48	-2%
PENNSYLVANIA	21%	7	-3%
VIRGINIA	15%	10	-3%
FLORIDA	-1%	40	-4%
WYOMING	-16%	50	-4%
ILLINOIS	10%	22	-4%
DELAWARE	21%	6	-5%
INDIANA	6%	32	-5%
LOUISIANA	-7%	45	-6%
ALASKA	-12%	47	-7%
OREGON	12%	17	-7%
WASHINGTON	0%	37	-7%
NORTH DAKOTA	-7%	44	-7%
OHIO	12%	18	-8%
IDAHO	5%	34	-8%
MONTANA	-19%	51	-15%

Source: NOAA, UBS

Quarterly Earnings Estimate Details

Electric Utilities

AES Corp.

We expect AES will report 3Q'22E EPS of $0.52 versus the $0.52 consensus and $0.50 last year. The AES Andes ownership increased to 99% from 67%, which we estimate adds $0.015. Other drivers include -$0.03/share for interest expense which relates to $2 billion of increased debt. In general AES's earnings are weighted to the second half of the year. Increased renewable PPAs also adds to earnings and AES expects to sign 4,500-5,500 MW of PPAs this year following 5,000 MW last year. AES plans to provide 2023 EPS guidance when they report full year 2022 earnings.

Figure 12: AES 3Q'22E Earnings Drivers

Q3'21	$0.50
AES Andes 99% vs. 67% ownership	$0.02
PPAs	$0.04
LNG	$0.05
AES Next	-$0.02
Interest Expense	-$0.03
Tax Rate (25% to 28% vs. 17% in 3Q'21)	-$0.05
Other	$0.01
Q3'22 Estimate	$0.52

Source: Company Reports, UBS Estimates

Alliant Energy

We expect LNT will report 3Q'22E EPS of $1.04 versus the $1.02 consensus and $1.02 last year. The impact of weather year over year should be negligible. The company did experience a 1c tax timing benefit last year that is not expected to repeat. Year-over-year comparables for weather normal sales growth will get tougher in the second half of 2022 as compared to the first half, but we expect +2c this quarter. Currently, there is 200 MWs of solar in-service out of the estimated 325 MWs for 2022. The remaining 125 MWs expected to come in-service in Q4'22. AFUDC has been 2 cents per quarter and is expected to continue in Q3, tailing off in Q4 as units are put in-service. Similarly , the D&A was 1 cent drag per quarter and is expected to be the same case for Q3'22, ticking up in Q4 when assets come online. We expect +2c of incremental interest expense in the quarter.

On the call, we believe Alliant will update and likely raise the midpoint of 2022 guidance based on earlier comments about tracking to the upper-half of the $2.67-$2.81 EPS range. We believe the company will also introduce 2023 guidance which will include EPS, capex and financing. We expect the company to affirm its 5-7% EPS CAGR. A few considerations for 2023 guidance include higher debt and equity needs as the company pivots from previous plans to issue $600mm of tax equity to what we expect will be replaced with $350mm and $250mm of additional debt and equity, respectively. Pension costs may present a modest headwind for 2023, as IPL does not have a tracker for this expense, but does capitalize about 40% of the cost.

Figure 13: LNT 3Q'22E Earnings Drivers

3Q 2021	**$1.02**
WP&L rates	$0.02
Temp Normal Sales Grwoth	$0.02
AFUDC	$0.02
Depreciation	-$0.01
Interest expense-regulated	-$0.02
Weather	$0.00
Tax Timing Benefit in Q3'21	-$0.01
3Q 2022	**$ 1.04**

Source: Company Reports, UBS Estimates

Ameren Corp.

We expect AEE will report 3Q'22E EPS of $1.75 versus the $1.73 consensus and $1.65 last year. Higher rates in Missouri are the biggest driver year-over-year at +9c. The net effect of weather is +1c, while O&M was -3c based on our estimates. Rate base growth in Illinois and at Ameren Transmission are expected to add 8c in our estimation, which is an incremental benefit from higher 30 year Treasury rates (3.6% versus 2.1%) impacting the formula ROE at Ameren Illinois Electric Distribution. Higher corp and interest expense are estimated to be -6c .

On the call we expect the company to provide high level drivers for 2023 earnings. We also expect updates on Rush Island, where we expect the company will securitize Rush Island's remaining book value with the approval from the Missouri Public Service Commission. Ameren Missouri recently filed a general rate case on 8/1 and we expect that to be topic of discussion. Management should also address the impact of Illinois Commerce Commission's recent approval of six performance metrics on which a potential total of 24 bps ROE incentive could be achieved. AEE could file for a multi-year rate plan January 20, 2023.

Figure 14: AEE Q3'22E Earnings Drivers

Q3'21	**$ 1.65**
Ameren Missouri	
Weather to normal	-$0.02
Deviation from normal weather, other	$0.03
Rates/ROE	$0.09
Energy Efficiency	$0.01
Other O&M	-$0.03
Ameren Transmission rate base	$0.03
Ameren Illinois	
Ameren Illinois Elec Dist rate base	$0.02
Ameren Illinois Elec Dist ROE impact	$0.03
Parent & Other	
Corp Expense	-$0.03
Interest Expense	-$0.03
Q3'22 Estimate	**$ 1.75**

Source: Company Reports, UBS Estimates

American Electric Power

We expect AEP will report 3Q'22E EPS of $1.60 versus the $1.54 consensus and $1.43 last year. Weather appears to add a net 4c after with modestly more favorable weather

this year vs. last year. The quarter benefitted from rate cases and load growth at the Vertically Integrated Utilities. D&A and higher interest costs will be headwinds. The investment loss of -3c from last year should reverse and be modestly higher this quarter.

The company hosted an analyst day earlier this month so we expect new disclosures to be limited on the call. Questions will likely center around the progress on sales process for the contracted renewables assets, the search for a new CFO and load data in their service territories.

Figure 15: AEP Q3'22E Earnings Drivers

Q3'21	**$ 1.43**
Vertically Integrated	
Load Growth	$0.03
Rates	$0.14
Trans Revenue	$0.00
Weather to Normal	-$0.06
Weather	$0.10
O&M	-$0.04
Depreciation	-$0.05
Other/NCW	-$0.02
T&D Utilities	
Weather to Normal	$0.01
Weather	$0.01
Trans Revneue	$0.05
Other Rates	$0.00
O&M	-$0.04
Depreciation	-$0.03
Load	$0.01
AEP Trans Holdco	-$0.01
Gen & Marketing	$0.01
Corp & Other	$0.06
Q3'22 Estimate	**$ 1.60**

Source: Company Reports, UBS Estimates

CMS Energy

We expect CMS will report 3Q'22E EPS of $0.52 versus the $0.68 consensus and $0.54 last year. With the third quarter report CMS typically rolls forward the EPS guidance from the midpoint of the current year which is $2.87, which would imply $3.07 at the midpoint of 6% to 8% EPS growth guidance.

Adjusting from last year's result we add back $0.16/share of storm impact and subtract -$0.09/share of above normal weather. The gas rate case took effect on October 1 so that would add about $0.12/share to 4Q'22. We also factor in some positive weather that was offset by late August storm impact.

Figure 16: CMS 3Q'22E Earnings Drivers

Q3'21	$0.54
Weather to Normal	-$0.09
Weather	$0.02
Electric Rate Case	$0.02
Storms	$0.13
O&M and Reinvestment	-$0.03
Depreciation and other costs	-$0.07
Q3'22 Estimate	$0.52

Source: Company Reports, UBS Estimates

CenterPoint Energy

We forecast CenterPoint Energy will report 3Q '22E EPS of $0.31 versus $0.33 consensus and $0.25 in 3Q '21 for Utility & Corp only. Drivers for the quarter will likely be slight benefits from electric customer growth and TCOS rate recovery. As a reminder, the DCOS filing in Texas will impact mostly if not entirely the 4Q '22. There will be a modest benefit from weather and usage as cooling degree days were favorable year on year. We expect CNP will pull forward some future period O&M in the quarter and thus will be a modest headwind. The now dispossessed Arkansas and Oklahoma LDCs add 3c this quarter as they were a drag in 3Q'21. The company absorbed a 1x governance cost change last year that will not repeat, but we estimate the company will take a 3c hit for disallowance of $35mm of gas costs in MN related to last winter's weather event. CNP took a reserve in Q1 but did not disclose the amount and we expect them to book the difference in the reserve and actual amount this quarter following the MN regulator's decision.

On the call the company is scheduled to give a comprehensive update on its capital plan, with the focal point for incremental capex opportunities being the Houston regional master energy plan. Currently, the five year capex plan calls for $19.3bn, while the 10-year plan is $40Bn+. This capital plan supports mid-to high end earnings growth of 6-8% annually through 2030. We believe the forthcoming update will strengthen and lengthen the EPS CAGR.

Figure 17: CNP 3Q'22E Earnings Drivers

3Q 2021 Consolidated	**$**	**0.33**
3Q 2021 Midstream	$	(0.08)
3Q 2021 Utility & Corp Only	**$**	**0.25**
Impact for AR & OK LDC	$	0.03
Electric Customer Growth	$	0.01
Electric Rate Recovery	$	0.03
Electric Higher D&A, Prop. Taxes	$	(0.01)
Gas Rate Recovery	$	0.01
Electric Weather & Usage	$	0.03
Gas Weather & Usage	$	0.01
Electric O&M	$	(0.02)
MN Gas Cost Disallowance	$	(0.03)
Corp. Interest Expense	$	(0.03)
Absence of Goverance Change Cost	$	0.04
Increased shares outstanding	$	(0.01)
3Q 2022 Estimate	**$**	**0.31**

Source: Company Reports, UBS Estimates

Consolidated Edison

We estimate ED will report 3Q'22E EPS of $1.48 versus the $1.47 consensus and $1.41 last year. We assume that the biggest variances are the absence of uncollectibles and write-offs at CECONY and rate base growth. We also assume this is somewhat offset by inflation and higher non-fuel operations and maintenance expenses. ED announced the sale of the Clean Energy Business after close of third quarter results so we include that. Overall, we expect a more routine and improved result for ED.

Figure 18: ED 3Q'22E Earnings Drivers

Q3'21	$1.41
Higher Electric Rate Base	$0.02
Absence Uncollectibles and write-offs at CECONY	$0.05
Non-Fuel O&M	-$0.02
Healthcare	$0.01
Clean Energy Business $0.18 versus $0.18	$0.00
Con Edison Transmission $0.01 versus $0.00	$0.01
Q3'22 Estimate	$1.48

Source: Company Reports, UBS Estimates

Dominion Energy

We expect Dominion to report Q3'22E of $1.08 versus $1.12 consensus, a guidance mid-point of $1.05, and 2Q'21 results of $1.11. For the results for the quarter we expect positive drivers to be rate base and rider investment returns year over year, sales growth and modestly favorable weather. Offsetting these drivers are higher interest expense, timing related to taxes and share dilution.

On the call investors will likely be focused on any updates on the pending re-hearing proceeding on the offshore wind project in Virginia. The company has filed for reconsideration on a performance guarantee that was included in the State Corporation Commission's final order in August. Dominion is seeking to have the language modified in order to be able to proceed with the project. Additional topics will likely be updates on the transmission constraint issue highlighted last call as well as managing through a higher interest rate and inflationary backdrop.

Figure 19: Dominion Energy 3Q'22E Earnings Drivers

3Q 2021	**$**	**1.11**
Weather Impact	$	0.01
Interest Expense	$	(0.04)
Taxes - timing	$	(0.04)
Sales Growth	$	0.02
Rate Base Growth & Riders	$	0.05
O&M Timing & Other	$	-
Share Dilution	$	(0.03)
3Q 2022	**$**	**1.08**
Guidance	$0.98-$1.13	

Source: Company Reports, FactSet, UBS Estimates

DTE Energy

We expect DTE will report $1.47 in 3Q'22E versus the $1.66 consensus and $1.72 last year. DTE Electric should report slightly higher EPS due to a return to slightly above normal weather and lower corporate and other expenses based on full-year guidance. Our estimates for the remaining segments reflect a one-half impact after backing out 1H'22 results from full year guidance. Versus 3Q'21 this results in an EPS reduction for DTE Vantage and DTE Energy Trading and upside at Corporate and Other.

The company plans to file the next integrated resource plan in November after reporting third quarter earnings. We think the company will also provide an update on the 5 year plan.

Figure 20: DTE 3Q'22E Earnings Drivers

Q3'21	$1.72
DTE Electric weather to normal	-$0.08
DTE Electric weather	$0.10
DTE Electric O&M/other	-$0.10
DTE Electric deferred tax amorization	$0.12
DTE Electric recoverable expenses	-$0.10
DTE Gas weather to normal	$0.01
DTE Gas rates	$0.03
DTE Gas O&M	-$0.03
DTE Vantage ($0.13 versus $0.38)	-$0.25
DTE Energy Trading (-$0.07 versus $0.07)	-$0.14
Corp & Other (-$0.15 versus -$0.33)	$0.19
Q2'22 Estimate	$1.47

Source: Company Reports, UBS Estimates

Duke Energy

We expect Duke Energy to report $1.87 in 3Q'22E vs. $1.87 consensus estimate and $1.88 last year. The positive drivers include higher sales volumes, higher rider and rate revenues, AFDUC and net positive weather. These are offset by higher D&A, interest expense, and O&M. Additionally, the minority sale to GIC and lower Commercial Renewables contribution are headwinds year-over-year.

We expect the company will provide 2023 earnings drivers that will be a focal point on the call. Investor concern has centered around the 2023 guidance and whether the current 5-7% EPS growth rate will be reset off a potentially lower base given the upfront dilution we expect from the sale of the Commercial Renewables business. Longer term, Duke added $10bn to its capex guidance at its ESG day earlier this month and outlined

7% rate base growth over the next decade. Duke has recently filed rates cases in North Carolina and South Carolina seeking double digit rate increases. We expect customer bill pressure to be a topic of conversation as well.

Figure 21: Duke Energy Q'22E Earnings Drivers

3Q 2021	**$**	**1.88**
Electric Utilities & Infrastructure		
Volumes & Pricing	$	0.05
Weather Normalization From Q3'21	$	(0.05)
Weather in Quarter	$	0.07
Higher O&M	$	(0.01)
Riders & Other Retail Margin	$	0.09
Higher D&A	$	(0.05)
AFUDC	$	0.02
Interest Expense	$	(0.04)
GIC - Sale of minority stake	$	(0.02)
Gas Utilities & Infrastructure		
Rate Case Impacts	$	0.01
Riders & Other Retail Margin	$	0.01
Higher O&M	$	-
Higher D&A & Interest	$	(0.02)
Other		
Commercial Renewables	$	(0.03)
Higher Corp. Interest Expense & Other	$	(0.03)
3Q 2022	**$**	**1.87**

Source: Company Reports, FactSet, UBS Estimates

Edison International

We expect EIX will report 3Q'22E EPS of $1.35 versus the $1.71 consensus and $1.69 last year. Last year's quarter included a $0.35/share true-up for the electric rate case that will not recur. We expect $0.18/share of revenue for the remaining quarters of 2022 for the rate case. We also expect $0.03/share of growth from FERC transmission. Other drivers are regular and include depreciation, property taxes, financing and preferred dividends.

Figure 22: Edison International 3Q'22E Earnings Drivers

3Q'21	$1.69
California Jurisdictional Revenue	$0.18
FERC Transmission Revenue	$0.03
Absence California GRC Timing	-$0.35
Depreciation	-$0.10
Property Taxes	-$0.02
Net Financing and Other	-$0.05
Preferred Equity Dividends	-$0.03
3Q'22 Estimate	$1.35

Source: Company reports, UBS estimates

Emera Inc

We are expecting Emera Inc. to report 3Q '22E earnings of C$0.74 versus C$0.75 consensus estimates and 3Q'21 results of C$0.68. Drivers in the quarter will likely be the electric rate case with new rates effective for Tampa Electric on 1/1/22, slightly warmer weather year over year, and higher earnings at marketing & trading on natural

gas volatility. Offsetting these positive drivers will be share dilution related to the DRIP and ATM issuance program, lower results at other utilities given continuing recovery in the Caribbean and regulatory lag in Nova Scotia, a slight positive from FX, and slightly higher corporate expense on higher floating rate debt costs.

On the call we expect investors will be focused on management's perspective on the ongoing Nova Scotia rate case, and any developments around the Eastern Canada clean energy initiative, the potential for renewable incentives and tax credits from the Canadian Federal government, and the prospects and timing for another transmission line to mainland Canada for the import of hydroelectric power.

Figure 23: Emera 3Q'22E Adj. EPS Drivers (C$)

3Q 2021	**$**	**0.68**
Gas & Infrastructure	$	-
Florida Electric	$	0.09
Share Dilution	$	(0.02)
FX	$	0.01
Other Utilities	$	(0.01)
Mkt & Trading	$	0.01
LTIP Savings Non-Recurring	$	-
Corporate	$	(0.02)
3Q 2022	**$**	**0.74**

Source: Company Filings, UBS Estimates

Entergy Corp

We expect ETR will report 3Q'22E EPS of $2.69 versus the $2.67 consensus and $2.49 last year. Adjustments to normalize last year's result total $0.04/share to reflect absence of favorable weather. We assume weather had a mildly favorable impact on this year's result. Overall, we estimate that rate actions versus last year added $0.19/share. For other drivers, the impact of Hurricane Ida last year was a ~$0.25/shr impact to revenue and that should rebound, plus weather normal sales growth. Higher O&M reflects more wear and tear on the fleet from higher sales volumes plus support for customers.

The company is in the process of making grid resiliency filings in Louisiana, Texas and New Orleans. We expect updates on that on the investor call and on the Texas rate case, plus an update on potential for additional SERI litigation settlements.